WWD

June 8, 2015

Ralph Lauren’s ‘Way Forward’ To Reinvention

By WWD Staff

The company aims to focus on its core brands, close stores and reduce headcount.

Ralph Lauren issued a mea culpa to Wall Street on Tuesday.

“Did we drop the ball? Did we make some things wrong? Absolutely. Am I happy about it? No, but I believe in this company,” he said during the company’s investor presentation, titled “The Way Forward.”

During the presentation, Stefan Larsson, the group’s new president and chief executive officer, outlined a series of initiatives aimed at getting the fashion house back on the growth path. These include speeding up the supply chain; focusing on the core collections of Ralph Lauren, Polo and Lauren; shuttering stores, and eliminating management layers that will result in job cuts of about 8 percent of the company’s workforce, or 1,000 people, this year.

“We are not rightsizing the organization because of cost reasons. We are rightsizing the organization to empower our doers. We are taking the amount of layers down from an average of nine to six. So there is no reason why we need more than six layers between me and the actual doer doing the work.” Larsson said.

“This is a multiyear journey. That means that we’ll going to have an evolution phase when we get this in place. Look at that as 2017, 2018. Then we’ll segue into sustainable profitable growth 2019-20. At the end of this four-year period, we aim at driving market share growth and having operating margins in the midteens,” he added.

Perhaps it was that longer timeframe that disappointed Wall Street. Shares of Ralph Lauren ended Tuesday’s trading session down 2.4 percent to close at $94.06 on the New York Stock Exchange. The shares have recovered somewhat from its earlier intraday low of $86.25.

Nonetheless, most analysts and industry observers applauded the new strategy. Craig Johnson, president of research and consulting firm Customer Growth Partners, said, “We’ve seen this movie before — an accessible luxury brand that lost sight of the key element of a luxury brand: the value of scarcity. Whether you are Coach or Kors or Ralph Lauren, once the brand overly expands its distribution to the point it becomes ubiquitous, it loses its exclusivity. And once a luxury brand is available in lesser forms — whether “Lauren by Ralph Lauren” or with made-for-outlet quality for the outlets — it risks diminishing the brand’s cachet. Larsson’s efforts to trim the sails and restore the ship to its true heritage and heading are spot-on.”

Larsson said although more resources will be devoted to focus on the group's three key brands — Ralph Lauren, Polo and Lauren

— which represent the majority of its brand strength, that doesn't mean the other labels in the company's portfolio will languish.

"For Club Monaco and our relatively other smaller brands, we will continue to support them with the appropriate resources and we will do that simultaneously," the ceo said.

Larsson said the change for the company's e-commerce platform is "well under way," with the planned changes and upgrade targeted for completion at the end of the current fiscal year. "That will really unlock our potential for creating a flagship experience and consumer functionality online. The platform will enable us to do what we need to do, which is to build an online flagship experience," he said.

But also what seems to be energizing for Larsson is the ability to work with the company's wholesale partners in a way that helps the Ralph Lauren brand and benefits its retail partners.

"We are looking forward to partner with our wholesale partners to execute our Way Forward plan together with them. They are ready and excited to partner to cut lead times and match demand to supply better, [as well as] how we are going to strengthen the assortment. They are on board — we had to hold them back," Larsson said, noting that the company wanted to move forward only after getting its operational model in place before engaging with its business partners.

Larsson said he believes in the strength of the wholesale channel, and that the company will be "working more closely with its partners. Our goal is to be absolutely the best partner so we can unlock some engines with them."

The company said fiscal 2017 restructuring activities will result in $180 million to $220 million of annualized expense savings. It expects to incur restructuring charges of up to $400 million as a result of the activities and up to a $150 million inventory charge associated with the reduction of inventory out of liquidation channels in line with the new plan.

For the first quarter of fiscal 2017, consolidated net revenues are likely to decline at the mid-single-digit rate, the group said. It also expects consolidated net revenues for fiscal 2017 to decline at a low-double-digit rate due to a "proactive pullback in inventory receipts, store closures, pricing harmonization and other quality of sale initiatives." Guidance for the quarter and full year exclude the restructuring and inventory charges connected with the restructuring activities.

In its restructuring, the company is fore-casting up to $445 million in savings from three general areas. The first is in creating a leaner, flatter organization, resulting in $240 million in expected savings, made up of $90 million in headcount-related savings from the 5 percent reduction in staff previously made last year and a $150 million in savings from restructuring this year that will include an 8 percent cut in full-time headcount, or about 1,000 jobs.

On the real estate side, the company closed 43 stores during fiscal-year 2016, with another 50-plus store closures expected during fiscal 2017. The total number of stores to be closed during fiscal 2017 is still being finalized. The store closures are expected to generate $70 million in cost savings.

"We have had an undisciplined retail expansion," the ceo said. "We have stores

in the portfolio today that we have decided to close because of two reasons: They don't strengthen the brand and they don't drive profitable sales."

Larsson's team has also identified an additional $135 million in cost savings from other expenses, such as driving operating costs out of the business. He said targeted selling, general and administrative categories can reduce costs by 14 percent year-over-year. Larsson said the company will develop best-in-class sourcing by strengthening the collaboration with its supplier base; developing fabric plat-forming and multistep buying, and focusing on innovation.

In his presentation, Larsson said the company hired Millward Brown, a market research firm, to study the strength of the brand. It found that in men's luxury, the brand scored number one in power and number three in premium, in women's luxury, it scored number one in power and number seven in premium (after Louis Vuitton). In aspiration luxury, Polo scored number one in power and number one in premium, and the Lauren brand scored number one in power and number one in premium. He said the bottom line is the strength of the brand is incredible, but the business hasn't matched up to that strength.

Over the past year, the brand had 150 covers in national magazines, and 3,000 editorials. There were also 28 billion media impressions, and $500 million in established media value by editorial. "That's a sign of strength," Larsson said.

He also noted that the brand has elasticity, and everyone advised Lauren not to open another restaurant in New York City, but Lauren wanted to open "the right restaurant," with incredible service, which has been a very successful venture for the brand.

Along with not focusing enough on its core brand strength, the company failed to evolve the product, its marketing and shopping experience, Larsson admitted. The company will change its operating model to tighten lead times on the supply chain from the current 15 months down to nine months with an eight-week testing period. The aim is to shorten that even further to six months.

It also found that excess inventory was growing its outlet and off-price channels out of balance.

Rick Snyder of Miller Tabak & Co. said, "This is generally a life cycle that luxury brands seem to go through. They accumulate inventory in the channels and then they have to wring it out and start all over again. They're not the only ones. Cutting back in the wholesale channel, closing stores, these are all positive steps for the brand. Shortening lead times is a positive — it gives them the opportunity to work in the demand-base sys-tem, rather than just supplying merchandise and hoping it sells."

For spring 2017, the company will cut out unproductive styles, and will build out more icons. Examples of those for spring 2017 include the army jacket, tweed jacket, safari jacket, peacoat, duffle coat, oxford shirt, military shirt, cargo pants and Aran cable sweater.

In the women's business, 42 percent of the core products will comprise of the style icons, with 28 percent focused on seasonal fashion. The style icons will stay true to the brands' core DNA, with no markdown and a higher margin. The seasonal fashion will highlight the vision of the season, and include possible potential future icons.

In addition to expanding the role of brand president Valerie Hermann, the company has added three new hires to work on its Way Forward strategy: Halide Alagoz is the new head of global sourcing; Fredrik Hjalmers is head of global expansion, and Marcelle Par-rish is head of e-commerce North America.

The three new hires have an expertise on the fast-fashion side of merchandising. Alagoz has 18 years' experience heading up the global supply chain and sourcing initiatives at H&M; Hjalmers has seven years' experience in leading H&M's new market expansion, and Parrish has four years' experience as general manager of eBay Fashion. Larsson joined Ralph Lauren from Old Navy, but prior to that worked for 15 years at H&M.

"In these challenging times, I think the restructuring plans that Ralph Lauren and Stefan Larsson have laid out are all key steps to getting the company back on track," said Susan Sokol, founder and ceo of Sokol Consultancy. "I liked the fact that there was mention that the women's product would be evolving. I think this is an area of the business that has needed attention for some time. The women's clothing particularly has become too predictable on all fronts. While Ralph Lauren is a classic lifestyle brand, he is an American iconic designer. It's always essential to develop core classic business drivers, and there's also the highly important need to balance the classic with fresh and new designs each season."

Andrew Jassin, founder of Jassin Consulting Group, added, "I thing change is important and alterations in size of businesses at Ralph is important, but you can't economize your way to prosperity. That's the most important thing. There needs to be a change in how they sell their products and to whom they sell their products, and also, the product. I think the jury's out to a large degree on these changes.

"I was on the conference call earlier, and it was interesting," he added. "The words are appropriate. The question is the activities and the actions right now. It's still one of the greatest brands in the world. It's not that young people don't buy the brand, it's not that old people stopped buying the brand, business has changed so dramatically, and I think of all the brands that exist in luxury and in sub-luxury, the Ralph Lauren brand has the best opportunity to transition. I think over the next period of time is really how it gets done. There are so many things going on in retailing and wholesaling right now with the crazy election and that Asia's not growing the way it did grow, because of the brand's standard and the DNA, they'll fix it. It's not broken, it just has to change."

He said they need to do as much modern marketing as they can, but not necessarily change the advertising. "They have to change how they communicate the brand, because so many younger people buy differently and shop differently," he said. He noted that Lauren's son, David, knows about marketing, and the new president comes from a marketing-dominated company. "They'll hire the right people to get there. I think you always have to bring in new people at the expense of some of the old," said Jassin.

Dana Telsey of Telsey Advisory Group said while Larsson said on the call it likely won't be until 2019 that the business returns to growth, she expects to see guideposts along the way where certain goals — even small steps — are met to indicate progress in the right direction.

"I think the change Stefan Larsson was brought in to do he is now executing on, and he is [doing so] in collaboration with Ralph," said Telsey. "The iconic nature of the product and what they have to focus on, whether it's updating the channels or the methodology of the supply chain for the inventory, are needed and necessary. The plan is over-encompassing, so it will take some time [to complete]."