Kors looks to $8bn status as Versace, Choo, sneakers and logo product point to rosy future

By Sandra Halliday – 8 November 2018

Michael Kors may have seen its share price falling sharply on Wednesday as its sales missed analysts’ expectations, but the message from the company’s top team was (almost) all positive as it looked to a time when it will be an $8bn group.

And even some of the negatives - such as it not having enough Kors logo product to meet demand - were actually a reflection of a strong consumer environment for its brands.

On a conference call after the results announcement, Kors chairman and CEO John Idol admitted that challenges remain but he was upbeat and especially so about its massive Versace buy that should complete soon.

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But while they’ve built a powerful brand, Idol is expecting much more in the future. He added that he’s “confident that we can grow this brand from approximately $850m in revenue in 2018 to $2bn” and said Kors has “identified a five-step plan to achieve this goal.”

That means building on Versace's luxury runway momentum, starting with the recently announced New York Show on December 2; enhancing the brand’s “powerful and iconic marketing, adding significantly to the company's spend next year”; increasing its global retail footprint with around 30 new stores next year; accelerating e-commerce and omnichannel development; and expanding the accessories and footwear business with “exciting new products that Donatella and her team have already created, that will be introduced for fall of next year.”

The company also has big plans for both Jimmy Choo and Michael Kors. It continues to believe Choo can achieve its $1bn revenue target having grown its store base to over 200 from 150 when it acquired the business a year ago. “We see a clear runway to achieve 250 stores globally with an emphasis on Asia,” he explained. “And we maintain our strategic focus on building out the fashion active category. Our strategy to expand accessories penetration remains on track with a plan to accelerate the pace of new collections in the next calendar year.”

And the firm’s original Michael Kors brand? Idol said that the “focus on innovation has greatly improved and our newness across all product categories is resonating. We have significantly deepened our brand engagement capitalising on Michael's leading social media presence, [and] we have enhanced our customer experience by expanding omnichannel capabilities and are moving forward on our store renovation program.” He thinks the Kors unit is on track to achieve $5bn in revenues.

PRODUCT POWER
The company saw particular success for a number of products in the last quarter with the Michael Kors Bancroft bags doing well and the crimson tartan Bancroft satchel that featured in the autumn marketing campaign being a bestseller.

In the Michael line, the new Whitney group, which was featured in the autumn campaign, also became a topseller, while consumers responded particularly well to the company’s new crochet pattern. Its special edition Whitney collaboration with brand ambassador Yang Mi also saw strong sales and helped drive awareness in China.

The Michael Kors logo was also a key driver of growth, particularly in shoulderbags and backpacks and it saw higher sell-throughs in this category.

The new Michael Kors Access smartwatch offer has also been popular and its range of tech features has been appealing enough to hit bestseller status.

“Overall, we remain pleased with the growth trajectory in our smartwatch category,” Idol said, adding that the new fine jewellery line “has been well received by consumers and it is expected to be a strong performing category during the holiday season.”

Importantly too, the first ever MK Go sport capsule collection has seen several pieces selling out. The second collection launched last month with an athletic-wear street style inspiration. It carries the new Kors signature logo and the company is seeing “the same strong sell-throughs.”

JIMMY CHOO

Jimmy Choo had a good quarter for footwear but saw a weaker handbag performance “as we continue to transition to our new accessories platform,” Idol said, adding that “in accessories, we continue to transition to new fashion groups as this category remains a focus for our future growth.”

The company introduced the Marianne bag for the autumn season, and heading into Holiday, it’s “excited” about the launch of the Helia collection. And the strength in Jimmy Choo’s autumn collection was supported by a marketing campaign starring supermodels Joan Smalls, Lily Aldridge and Rosie Huntington-Whiteley. “This campaign achieved an incredible 22m views and helped expand Jimmy Choo’s Instagram followers from 8m to approximately 9m followers,” Idol said.

Also during the quarter, it appointed Jimmy Choo’s inaugural Asian brand ambassador, Song Qian (aka Vicoria), a Chinese celebrity. The announcement post on Weibo achieved over 230m views, “significantly outperforming our expectations.”

And during the latest quarter, Idol added that the company opened 13 net new Jimmy Choo stores “and continues to see a strong runway to expand our presence, particularly in Asia. E-commerce also remained a key focus for Jimmy Choo, and our investments in technology help drive double-digit growth in the quarter.”

HEADWINDS

But not everything was perfect. Jimmy Choo made an operating loss during the period (although the company didn’t seem to be worried by that at this stage), and it also said that Europe was a challenge for its star Michael Kors brand during the last three months.

CFO/COO Thomas Edwards explained the dip in European total sales and comparable sales by saying the firm has a “strategy in the region to reduce inventories and increase full-price sell-throughs.”
But its 7% overall licensing revenue decline couldn't be so easily shrugged off as, despite the continued growth of Access smartwatches and the “successful introduction” of its new slim fashion watches and jewellery, “this was not yet large enough to offset the overall declines in fashion watches.”

And there were also some negatives as the company resorted to higher markdowns on certain seasonal fashion products in the Americas.

As mentioned earlier, it also struggled to meet demand for some products that could have sold more. Edwards said the “signature logo design sold well and resonated with consumers, but our inventory levels were lower than needed to meet consumer demand. We are working diligently to increase inventory in our logo offerings.”

Idol also admitted that “we had anticipated that we could really achieve our sales goals with less inventory [but] the logo category has really taken off much greater than we had anticipated.”

He said that “logo product for us accounts for 20% to 25% of sales and we actually think that's going to climb.”

And talking of appealing product, he also highlighted the Versace brand’s “very strong sneaker business,” which is a huge benefit at the moment. The firm is “doing everything we can to stay in stock on [the Chain Reaction sneaker] right now.”

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