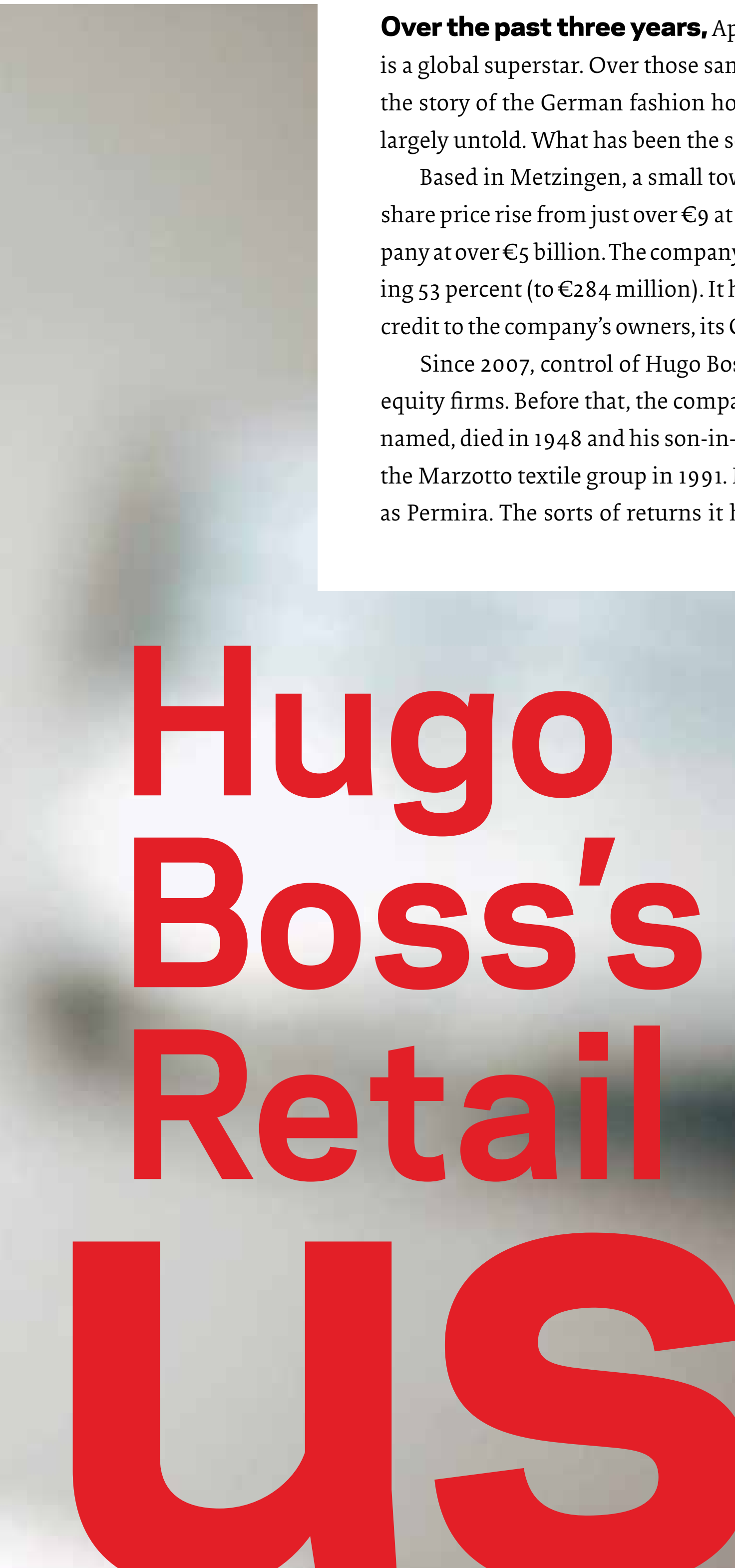
Claus-Dietrich Lahrs

Hugo Boss's Retail ush



By Tim Hindle

Over the past three years, Apple's share price has shot up by almost 500 percent, and the company is a global superstar. Over those same three years, Hugo Boss's share price has risen by 800 percent. Yet the story of the German fashion house, tucked away in a far corner of Baden-Württemberg, remains largely untold. What has been the secret of its success?

Based in Metzingen, a small town some 20 miles south of Stuttgart, Hugo Boss has experienced a share price rise from just over €9 at the beginning of 2009 to over €80 earlier this year, valuing the company at over €5 billion. The company's sales rose by almost 20 percent in 2011 and net income by a staggering 53 percent (to €284 million). It has been a dazzling performance in a dull economic environment, a credit to the company's owners, its CEO and the radical change of strategic direction that they introduced.

Since 2007, control of Hugo Boss has been in the hands of Permira, one of Europe's leading private-equity firms. Before that, the company had a number of owners. The founder, for whom the company is named, died in 1948 and his son-in-law took over the business. It went public in 1985 and was bought by the Marzotto textile group in 1991. None of these owners, however, were as focused on the bottom line as Permira. The sorts of returns it has been getting in recent years have, for the most part, only been dreamed of elsewhere, even in the world of private equity.

At the helm during this period has been Claus-Dietrich Lahrs, a veteran fashion-industry professional. In 2008, Lahrs was lured from the managing director position at Christian Dior Couture in Paris back to the country of his birth. Tall and lanky with stylishly graying hair and an open smile that must have served him well during the years he worked in New York as president of Louis Vuitton North America, the boss of Hugo Boss is a perfect model for his own company's immaculately tailored suits and shirts.

Lahrs is also a good model for its sportswear, sold under the Boss Green label. A keen golfer, he was proud to sign Martin Kaymer as a sponsor last year when the 27-year-old German was briefly the world's No. 1 golfer. Lahrs is also enthusiastic about the firm's 30-year sponsorship of the McLaren Formula One racing team, the longest on the track. There is a

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McLaren racing car in the lobby of the company's headquarters in Metzingen, and there is another inside its shop on Sloane Square in London. Particularly valuable, he said, is the Hugo Boss name that appears on the chin straps of Jenson Button and Lewis Hamilton, McLaren's two drivers. They reach straight to Boss's core market.

It's all about the shops

The big strategic change that Lahrs has introduced at the company was to turn Hugo Boss from a brand (or, rather, a collection of brands) that was predominantly sold wholesale — that is, through other people's outlets, and through multi-brand department and franchise stores — into a brand that is sold predominantly through its "own name" retail stores. Four years ago, retail accounted for 25 percent of sales and wholesale for 75 percent; the aim is to move beyond 50 percent for retail by 2015, when it is projected that sales will have doubled to €3 billion.

For Hugo Boss, it's a drastic change that has implications throughout its business — for the fashion collections themselves, for the direction of future investment, and (not least of all) for the recruitment of a different type of person, one who is more attuned to understanding the unpredictability of the shopper. Being on the retail front line is different in many ways. For example, after the latest recession, in April and May 2009, the wholesale trade was still very pessimistic about consumer spending. But Boss was able to see from its own stores that things were getting better, that sales were picking up.

Lahrs is the first to admit that factors outside his control have played a big part in the company's success. As more price-sensitive retailers have fallen victim to consumers' belt-tightening and the encroachment of online shopping, luxury-goods firms have powered ahead. An authoritative report on the industry by Bain & Company, a Boston-based global consulting firm, determined that the personal luxury-goods market grew by more than 10 percent in real terms in 2010 and again in 2011. It is as if luxury-goods consumers have been living in a different economic space from everybody else.

Like Hugo Boss, many firms in the industry have, been going through a "strategic reorientation" from wholesale to retail. Direct-owned retail sales today account for nearly 30 percent of luxury sales worldwide. (See interview with Angel Martinez, chairman and CEO of Deckers Outdoor). "Top brands are now master retailers as well," said Claudia D'Arpizio, the Milan-based lead author of the Bain study.

Unbreakable China

The number of Hugo Boss's retail outlets has more than doubled in recent years, to 622 in 2011 from 249 in 2006. China, has played an important part in this effort. The thirst for luxury goods in China is proving to be more enduring and insatiable than almost anyone could have imagined. The market there has been growing at about 35 percent a year for the past few years, and almost as many new luxury-goods shops were opened in China in 2010 as in the whole of Europe. In 2011, China became Hugo Boss's third-biggest market.

But the new strategy is not just about the number of retail stores that can be chalked up. It is also about the quality of the experience that customers have when they turn up at those stores. That too is being changed. A flagship Hugo Boss

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store is to be opened on the Champs-Élysées in Paris this year, and it "will deliver a very warm, luxurious, feel-good atmosphere," Lahrs said.

The reason for the switch to retail, he said, is "the absolute necessity for Hugo Boss to get closer to its consumers." He added, "Understanding them is the most important trend in the luxury industry." In its own outlets, the firm is in complete control of the environment that it creates. It is able to gather more information about its customers and to better understand how to maintain their interest in its brands.

To keep his customers interested, Lahrs has introduced more collections; there are now four a year instead of two, each of them with three different "themes." The company needs to "offer customers a continuous stream of incentives to visit our stores," he said. But that requires shifting new goods to more than 120 countries so that they can appear in all the firm's stores at more or less the same time.

The company's new strategy undoubtedly requires a quantum leap in distribution and warehousing, a shift to what it calls "consummate logistics." It's a big challenge for the information technology department, and Lahrs is spending lots of money upgrading systems and infrastructure.

But the company is not putting all its eggs in the retail basket. Its traditional wholesale business is still being nurtured, especially in Europe and the United States where it continues to be significant. The company has signed a new deal to sell its Boss Black label in 17 Neiman Marcus stores, which, Lahrs said, know how to "nurture the high end of the market."

Nor is the company ignoring the Internet, even though Bain reckons that only 3 percent of all luxury sales take place online. As *The Economist* put it recently, "few ladies who lunch buy their Christian Dior dresses online." But Hugo Boss expects an increasing number of premium-segment customers to buy clothes online, if not watches and jewelry, and it has plans to expand its online sales channels in the coming years.

In one key respect, Hugo Boss is unique: more than 80 percent of its sales are to men. Most famous fashion houses come into men's apparel as a follow-up to their efforts to sell to women. For Hugo Boss, it has been the other way around; its women's wear grew on top of its basic men's wear business. In the meanwhile, it became the biggest male fragrance brand in the world. But its shops need to feel good, first and foremost, to men and women.

It is a strong position to be in at the moment, for the men's luxury market is outperforming the women's in almost all categories. Bain said that it grew by 14 percent in 2011 compared with a mere 8 percent for women. Growth was particularly strong in China where men are more dedicated luxury consumers than they are in Europe.

Does it require different skills to sell to men? It certainly requires a different layout. Hugo Boss's shirts are laid in rows, pressed, folded and ready to be boxed. That's how men like to view them. Women, on the other hand, prefer to buy shirts off a rack, sifting through them and feeling their texture. Then again, men like to buy a "look," a complete outfit — belt, suit, shoes, shirt and all — from the same source; women prefer to shop around and put together their own look.

The Metzingen question

"Making an imprint on global tastes will continue to be the driving force behind our industry," Lahrs said. But can such an imprint continue to be manufactured in what is no more than a small town in Germany? Despite globalization, the fashion world revolves around Paris, Milan and New York. Those cities set the trend. Surely that's where you need to be to make an imprint on global tastes.

Lahrs argues that were he to move Hugo Boss's operation to either of those two European cities, it could not be to their center. With more than 2,000 employees at headquarters, it would have to be to located at a place outside the cities, which would not be far different from Metzingen. It takes him less time now to get into Stuttgart, with its airport, its opera house and its two international schools, than it did from the suburbs of Paris to the Champs-Élysées. And for the sporty Lahrs, two hours to the south is some of the best skiing in the Alps.

He maintains that being in Metzingen is no deterrent to recruitment. Already more than 30 different nationalities are employed within the company. Most of the senior executives spend half their time on the road.

Moreover, the new strategy demands a different set of skills among Hugo Boss's staff. Modern shopping centers are becoming more and more like entertainment centers. Increasingly, they are integral parts of covered shopping malls where there are restaurants and cinemas to compete with as well as a host of other luxury-goods vendors. They have to grab attention in a very "noisy" environment.

Traditionally, Hugo Boss's managers were expected to prove themselves by staying for a long time in a small number of posts. The wholesale trade likes to see the same faces year after year. But the careers of the company's new high-fliers will be built differently. The emphasis on retail will breed managers who are less tied to the home base.

Despite this, Lahrs said, there are "strong benefits in staying close to your roots." And Hugo Boss's roots run deep in Metzingen. Although the town has been transformed in recent years into one of Europe's busiest factory-outlet centers, Hugo Boss still stands at its center. The company's ultramodern headquarters and made-to-measure production facilities sit on the edges of the town, near the spot where the company was founded in 1924.

Tim Hindle is founder of the London-based business language consultancy Working Words. He was a contributor to *The Economist* for 25 years and was editor of *EuroBusiness* in the 1990s.