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Advance Notice of Case Study for
Unit 1: Business Structures,
Objectives and External Influences

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This paper may be opened on

Monday 21 November 2005

Information for Candidates

In preparing for the Case Study paper, candidates are advised to undertake general revision as well as detailed investigation of issues related to the Case Study.
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CONTEXT

Versace Group Aims To Add Substance To Style in 2004

Gianni Versace was born in Italy in 1946. In the early days, his mother supported the family with her small tailor-shop. There, Gianni learned everything about making clothes and soon he designed clothes himself, which were sold in his mother's shop. In 1978, Gianni opened his first boutique in Milan, selling other labels to complement his own collections. With the growing popularity of the Gianni Versace style, his boutiques started to spread across the globe.

The Versace fashion house was a family-run business, with Gianni Versace as director, owning a 50 per cent share. His sister Donatella in the role of vice-president, with responsibility for distribution, owned a 20 per cent share and his brother Santo held the remaining 30 per cent.

In 1985, The Versace Group added the ***Instante*** label to its fashion range. ***Instante*** is similar in style to the Versace couture range, but is targeted at a less affluent and younger market segment.

The introduction of the ***Versus*** collection to the New York designer shows in 1995 marked the beginning of an expansion of the North American business for the Versace Group. This move was accompanied by the opening of various new stores and shop-in-shops in the United States of America. By 1994 the Versace Group had 40 of its own shops around the world, with an additional number of exclusive Versace outlets run by a Japanese partner. The Versace Group's own shops achieved a multi-million dollar turnover in 1995, 53 per cent of which was achieved outside Italy.

In 1997, Gianni Versace was shot dead in Florida. Gianni's brother Santo was appointed the new Chief Executive Officer of the Versace Group. His sister Donatella became the new Head of Design. Donatella was already working in a creative position, designing for the ***Versus*** label. After Gianni's death the Versace family was quoted as saying, "business will continue as planned". However, although the Versace Group had been spending approximately 25 per cent of its annual turnover to promote its label since 1994, the growth in profits was slowing down. Santo Versace announced in 1997 that this promotion budget would be significantly reduced in order to cut costs.

Plans for the Versace Group to float on the stock market were interrupted by Gianni's death. The company intended to go public in mid-1998. Gianni Versace had started to reconstruct the company's organisation shortly before his death and had planned to offer up to 30 per cent of the shares in the company on the stock exchange. Despite his death, the management still held on to these plans. At the age of 11 years Donatella's daughter Allegra inherited Gianni's shareholding, with Donatella in effect controlling the majority of the company until Allegra became 18 years old in 2004.

In 2002, the Versace Group was still very much a family business. It started talks with potential investors but when they were not willing to pay the price for the shares that the Versace Group was asking, negotiations were halted. The failure to find a partner or to raise capital on the stock market made the Versace Group more vulnerable to economic changes. In 2003 sales dropped by 17.5 per cent.

Following the spring/summer Milan Fashion Show in 2004, the Versace Group announced its long awaited restructuring strategy. The plan aimed to improve the financial position through vigorous cost cutting in order to pave the way for future outside investment into the company. The first round of cost cutting began in the United States of America through reorganisation of the retail network, expansion of the franchising agreements, more efficient production and a widening of the product range. A decision the Versace Group faced was whether to retain ownership of all its stores or to franchise those in smaller cities. Evidence suggested that directly-owned stores were highly profitable during times of economic growth but were expensive to run in downturns because of the elevated costs.

Management consultants believed that the Versace Group needed to become more efficient and create a more stable financial position. Once it achieved these objectives the company would find it easier to attract outside investment and create the cash flow needed to compete around the world.

For the small family-run fashion houses who want to remain autonomous, generating enough earnings to keep their businesses competitive is the biggest challenge. Other Italian fashion houses, such as Gianfranco Ferrè, Fendi and shoe designer Sergio Rossi, have chosen to join larger groups rather than try to finance their businesses alone. Much of the profits growth of big groups, such as Gucci and the French LVMH (Louis Vuitton Moet Hennesy), had been achieved in this way. Newly acquired brands are restructured before being heavily promoted through the group's extensive global network. The designer retains a certain amount of creative independence in exchange for financial security.

Adapted from the following sources:

'Versace aims to add substance to style before luring investors',
***The Business*, 28/29 September 2003**

'A niece little earner', *Sunday Times*, 6 June 2004

www.unibw-muenchen.de/campus/WOW/v1041/hyper/versace.html

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