



Special Report

Fossil finds there's more to success than the weak dollar



Retail expansion plans mean Fossil will open between 80 and 85 new stores in the course of 2008, all based on the full-price accessories concept.

CREDIT: FOSSIL.

FOSSIL FINDS THERE'S MORE TO SUCCESS THAN THE WEAK DOLLAR



Towards the end of 2007, Texas-based accessories brand Fossil announced impressive third-quarter results.

With leathersgoods, and especially women's handbags, making an increasing contribution to the company's success—in addition to the watches and jewellery that it's best known for—Fossil's sales for the first nine months of 2007 reached \$969.9 million, a rise of 17.8% on the first nine months of the previous year.

From this, the company achieved a gross profit-margin of almost \$500 million, a 20.9% increase on the 2006 figure.

Most pleasing of all for the management team were the advances Fossil has made in the non-US market. Sales in Europe increased by 28% and across the rest of the international market the rise was even greater, 49.4%.

It's no secret that the high-end accessories market is one of the strongpoints of the global leather industry at the moment, with most of the top luxury brands announcing healthy growth. LVMH, for example, announced 14% growth in its fashion and leathersgoods division for this same nine-month period. Richemont posted 11% growth for the first five months of 2007.

Fossil wouldn't claim to be in quite the same bracket as these two luxury brands, but, according to some observers, it does have one distinct advantage over LVMH, Richemont and all other Europe-based brands.

If the luxury goods market has been a bright spot for leather, the weak dollar has been a constant and lengthening shadow over it for 12 months or more. Companies aiming to sell their products in the US market, still, by far, the biggest economy in the world, have seen their retail prices there shoot up without the companies themselves gaining any benefit.

More than that, dependent as the US is on imports—exports are growing faster than imports (14.8% against 5%), but the trade deficit is still \$60 billion—retailers and brands are reluctant to put prices up for fear of losing market share. The market is competitive, even at the high end, and no brand can afford to run the risk of pricing itself out of the picture.

However, the equal and opposite reaction here is that US companies, without raising their prices and without improving their service levels or the quality of their products, can improve their financial results by virtue of earning more dollars than ever before for each sale

outside the US.

The senior management team at Fossil is adamant that this is not the explanation of its recent success. They insist that improved product quality, accurate interpretation on their part of consumer demand, and overall business improvement are far greater contributing factors.

Chief executive, Kosta Kartsois, makes the point immediately that it is its non-US business that is pushing Fossil on. He says: "While we have experienced moderate growth in our US operations, we continue to reap the benefit of our global business platform, as we experience strong growth in Europe and other parts of the world. It is this that has allowed us to exceed our financial expectations."

He points out that "international" (non-US) sales were up by 25% in the third quarter of 2007 "excluding currency impact". In Europe, the increase was 18% "in local currencies". So he is at pains to make it clear that these improvements have come about independently of the dollar's dive to record lows against the euro, the yen, sterling and most other currencies. Currency ups and downs have improved his company's financial situation, without question, but he adds this almost as an afterthought. ►



Autumn and winter handbag collections use much more leather, and have won a more favourable response from the buying public.

CREDIT: FOSSIL



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Fossil is still best known for watches and jewellery, but leathersgoods are becoming an increasingly important part of its product range.

For Mr Kartsois, two of the most significant growth-areas have been eastern Europe and the Middle East. Fossil shipments to these two parts of the world went up by 65%. "Our international business is our most profitable segment," the chief executive continues, "so we will remain focused on international expansion, especially given that the market is vast."

The company sells its products in department stores, specialty retail stores, and specialty watch and jewellery outlets in more than 90 countries worldwide. This network includes 22 company-owned overseas sales subsidiaries and 56 independent distributors. It also has more than 200 retail stores of its own and an e-commerce presence that is growing. Kosta Kartsois is particularly enthusiastic about a new e-business venture the company launched in Germany in the autumn of 2007.

Even at the time of announcing the third-quarter results, in November, Fossil said its intention was to open 19 more stores before the end of 2007. In the course of 2008, it will open between 80 and 85 new outlets, concentrating on what it describes as "the full-price accessories concept".

Global awareness

Chief operating officer, Mike Barnes, describes Fossil's overseas results as "a terrific performance", with an overall sales increase of 32.3% for the third quarter if you do include the favourable changes in currency value. He points to successful joint-ventures such as one with Emporio Armani as a more important factor. Also, he feels concepts such as shop-in-shop have worked well, particularly in Asia. Both have been good weapons in the quest to raise awareness around the world of the Fossil brand.

There is a presence, through a distributor, in China. At the moment, it's worth \$1.3 million a year, which seems like a small sum, but Mr Barnes is certain that quick growth will follow. "We're really only just beginning to build awareness of the brand in China," he says, "and we've also just opened a subsidiary in India. Everyone has seen that there are significant retail developments taking place there."

Closer to home, a move in 2006 to set up a subsidiary business in Mexico has exceeded expectations, with "non-watch" sales building up all the time; handbags, belts and other elements of the range now account for almost 25% of total sales for Fossil south of the border.

Turning to the domestic market, Mr Barnes says the retail environment in the US has been "uneasy", resulting in "tightening inventories" at many of Fossil's retail customers, which include big names such as Niemann Marcus, DKNY, Nordstrom and Burberry.

Nevertheless, even domestically, the company recorded a 12.3% increase in shipment of products in the third quarter. In the women's handbags product line there was an increase of 18%, which came as good news after "a difficult spring" for handbag sales. Mr Barnes puts the springtime problems down, principally, to inaccurate interpretation on the types of fabric-mix women wanted in their warmer-weather bags.

"As we moved into the fall-winter season, leather became a much higher component of our handbag assortment," he explains, "and we're seeing better results in many of the new groups we've introduced." Leather has helped Fossil add value to its product-range. And, although average unit prices have increased by more than 20%, the buying public has responded favourably.

A new collection of "premium-priced" handbags, known collectively as Fossil 54, is one of the recent highlights. Mr Barnes explains that the line launched during 2007 in 50 department stores in the US, as well as across the company's own retail network. It has enjoyed strong initial success and, according to the chief operating officer, will have a much larger presence in the longer term.

Given Fossil's recent success overseas, this means a global presence for the bags, no matter what happens to the value of the dollar. 