

# Akris: Competition in the High-End Fashion Industry

**Case study**

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This case was prepared by Professor Dr. Günter Müller-Stewens and Assistant Professor Dr. Markus Menz, Institute of Management, University of St. Gallen, Switzerland. Its objective is to illustrate how a firm gains and sustains a competitive advantage. It is intended to be used as a basis for class discussion rather than to illustrate the effective or ineffective handling of a management situation. Our information sources included interviews with Akris's management as well as publicly available corporate information (press releases, website of Akris AG) and press articles. We would like to thank Albert and Peter Kriemler of Akris for their support.

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In 1979, Albert Kriemler, a 19-year-old fresh high school graduate, traveled to New York for the first time. Exploring the streets of the Big Apple, he stopped to peer through the shop windows of Bergdorf Goodman, the city's most famous high-end luxury department store. Captivated by the display, he dreamed of one day showcasing his own fashion collection in this "fashion window of the world," which, nine years later, is what he did.

Today, Albert Kriemler is the only Swiss fashion designer whose collections successfully compete with the top segment of the international fashion industry. Akris is also the only Swiss fashion brand that has been elected as a member of the prestigious "Fédération Française de la Couture du Prêt-à-porter des Couturiers et des Créateurs de Mode." Akris is worn by many of the most famous celebrities, among them the US First Lady Michelle Obama, Former US Secretary of State Condoleezza Rice, Princess Charlene of Monaco, and Oscar-winning actress Nicole Kidman.

Together with his brother Peter, Albert Kriemler manages the fashion firm Akris, which was founded and is still based in St. Gallen, Switzerland. It took only a few years to develop the rather small firm in a remote location in the Eastern part of Switzerland into a globally acclaimed prêt-à-porter brand. Like the "haute couture" fashion segment, the prêt-à-porter segment relies on superior craftsmanship, but is also suitable for everyday wear, thus targeting a broader group of women than haute couture. Expanding its positioning, the company also started a less expensive designer sportswear line called Akris punto.

But what is the secret to such tremendous success in the highly competitive fashion industry? How was Akris able to claw its way to the top of the fashion industry? What competitive advantages did Akris gain over the past years? What are Akris's options for future development? What opportunities and threats does the company face? These and other related topics will be illustrated in this case study.

## **From a Pinafore Producer to a Globally Acclaimed Prêt-à-Porter Brand**

Today, Akris is a luxury consumer goods firm. The family-owned business, which is based in St. Gallen, produces and markets prêt-à-porter women's clothing. But this was not always the case; Akris has changed its game plan a few times since it was founded by Alice Kriemler-Schoch more than 90 years ago.

### **Milestones**

Up to the early 1980s, Akris was a local family business in the former textile center of St. Gallen, a city in the Eastern part of Switzerland with a population of 73,500. The Kriemler family who founded and still owns Akris has been living there for many generations. The third generation of owners systematically developed the firm, which was deeply rooted in its rich tradition, into one of the few globally visible prêt-à-porter brands. Retrospectively, not only the persistence and speed of this development is remarkable, but also the discretion with which it took place: the company did not market its products using celebrity customers, stage image campaigns, or deliberately provoke media attention.

1922: Alice Kriemler-Schoch founded the firm in St. Gallen with the seed capital of one sewing machine. She named the firm Akris, an acronym for A(lice)Kri(emler)S(choch). The business mainly manufactured pinafores.

1945: Under the new leadership of her son Max Kriemler, the firm developed from a pinafore producer into a couture firm. The brand Akris was subsequently expanded with various dress collections.

1970s: Max Kriemler established contacts in Paris, primarily because he wanted to produce fashion for couturiers, such as Hubert de Givenchy and Ted Lapidus. The textile connection between St. Gallen and Paris was already well established, as demonstrated by the daily direct train connections between these two cities during that time.

1980: At the age of 20, Albert Kriemler (born 1960), the son of Max and Ute Kriemler entered into the family business. He was planning on starting an internship at Givenchy in Paris, but when an important employee of his father suddenly died, Albert was asked to help out.

1982: Albert Kriemler took over responsibility for the Akris collections, although he was not formally educated as a fashion designer.

1987: Right after graduating in business administration and law from the University of St. Gallen, Albert's brother Peter Kriemler (born 1962) joined the family business. The brothers officially took over the management of the firm from Max Kriemler. Peter was responsible for management and technical functions, such as logistics and production, while Albert was responsible for design, creation, and marketing.

1980s: Akris had more than 200 employees and had built up revenues of about 50 million Swiss Francs. The fashion was produced at locations in St. Gallen, Zurich, Mendrisio/Ticino and – via a joint venture – in Romania. Owing to the economic downturn at the beginning of the decade, Akris focused on avoiding lay-offs and temporary employment rather than realizing ambitious fashion visions. Being aware of their firm's strategic positioning and focus on German-speaking Europe, the Kriemler brothers realized that Akris was too small and cost-intensive to survive. In addition, the Akris brand seemed to lack a clear image and expressiveness. Keeping their tradition in mind, they started systematically developing Akris into a new fashion brand with global reach. This development was facilitated by a then-recent fashion trend towards more understated clothes without too much obvious luxury.<sup>1</sup>

1988: After years of unsuccessful efforts to get in touch with Dawn Mello, the then-fashion director of the luxury department store Bergdorf Goodman in New York, the Kriemler brothers were at last able to present the Akris fashion to her during a meeting, after which she ordered five pieces of clothing.

1989: Akris opened a showroom in Paris in order to communicate effectively with the most important stakeholders in the fashion industry.

1994: A bleak year for Akris as it was severely hit by the recession following the stock market rally. The revenues dropped and the production facilities needed to be downsized to between 240 and 250 employees. The Kriemler brothers were close to giving up.<sup>2</sup>

1995: The first global advertising campaign of the Akris brand was launched with the New York-based photographer Steven Klein and model Stella Tennant. The first Akris store opened in the Rue du Faubourg Saint Honoré in Paris. Akris continuously expanded its points of sale in the US and Canada at its partners Neiman Marcus, Bergdorf Goodman<sup>3</sup>, Saks Fifth Avenue, and Holt Renfrew.

1995: Akris launched the designer sportswear collection Akris punto, which is produced in Italy and Romania.

1997: Akris opened its first store in the US in Boston and first “store-in-store” at Bergdorf Goodman.

1999: Akris was the first Swiss fashion brand to be elected as a member of the prestigious “Fédération Française de la Couture du Prêt-à-porter des Couturiers et des Créateurs de Mode” by the federation’s 130 industry members. The members are not annually reelected, which allowed Akris to plan for the long run. As a member of the federation, Akris was also afforded the opportunity to present its collections to an international audience twice a year in spring and fall, which it did for the first time in 2004.

2004: Akris presents its fashion at the press défilé at the Carrousel du Louvre in Paris on one the four most important days of the ten-day fashion event for primarily French designers. The most relevant opinion leaders of the international fashion press were present at this event.

2007: The textile museum of St. Gallen held an exhibition entitled “Akris – Internationally acclaimed fashion from St. Gallen.”

2008: In the midst of the financial crisis, Bergdorf Goodman offered Akris fashion directly from the catwalk to selected customers in an intimate setting in a special three-day “Trunk Show.” This Akris fashion sale alone generated revenues of about 1 million US-\$.<sup>4</sup>

2009: Akris acquired the German handbag producer Comtesse, an 80-year-old family business with 35 employees after the former owners, Egana-Goldpfeil, filed for bankruptcy. Comtesse has extensive knowhow in processing horsehair as an exclusive material. The handbags retail for between 1,000 and 5,000 Euros. The acquisition may also help Akris enter Asian markets; handbags are often used as a first step to enter these markets.<sup>4</sup>

2011: Owing to the Swiss Franc’s strength against the Euro, Akris’s situation did not look very rosy from Swiss exporters’ perspective. Despite the tremendous success of the Akris brand, 2011 was one of the firm’s most difficult years in economic terms. Unlike the Swiss watch industry in which most competitors produce in Switzerland, Akris’s competitors are primarily located in other currency regions. Akris was forced to lay-off employees and had to relocate the production of certain goods from Ticino, Switzerland, to Romania, where the sportswear line Akris punto had already been produced.

At the end of 2011, Akris employed about 1,000 people. The still-privately owned firm does not disclose any financial or other detailed firm information. The media’s sales estimates vary widely, ranging from 50 to 350 million Swiss Francs. About 80 percent of the revenues are generated by wholesale clients, such as Bergdorf Goodman, and the rest

by own Akris stores. The Americas, Asia, and Europe each account for about a third of the company's sales volume. The case study's authors estimate that the firm's overall sales in 2011 were about 250 to 300 million Swiss Francs and that the operating income was at about 45 to 60 million Swiss Francs.

### **Akris's Location: St. Gallen**

Akris is still primarily manufactured at the same location where the firm was founded. The unspectacular headquarter is in the Felsenstrasse 40, close to the old town of St. Gallen; the same building the Kriemler brothers' grandmother bought in 1944. *"That we are located in St. Gallen is simply luck,"* comments Albert Kriemler, *"because our grandmother said she wanted to produce a pinafore collection and not just raise two sons. But from a historical perspective, Akris does not directly do that for which St. Gallen was actually famous – to produce laces and fabrics. We are in the next stage and produce fashion from fabrics."*<sup>5</sup>

Oftentimes, the Kriemler brothers are asked if and why St. Gallen is the right location for a brand that produces fashion for customers of Bergdorf Goodman in New York. But for Albert Kriemler, the firm's St. Gallen location is highly attractive and useful because of the contrasts it offers: *"To create fashion means switching between contrasts: between stimulation and relaxation, silence and stress. [...] Decisive for me are the opportunity to concentrate, the knowhow of skilled employees, the aura of friendliness and loyalty, a peaceful landscape, and the proximity to the people. [...] From a distance, many things become more explicit."*<sup>6</sup> In addition, Albert highlights the textile competence, which has been abundant in St. Gallen for more than a century: *"I am engaged in developing fabrics for twelve months a year. For this, St. Gallen is one of best places in the world because it has been an artisanal cluster for many centuries."*<sup>7</sup>

At the end of the 19<sup>th</sup> century, the St. Gallen textile industry boomed and people dreamed of St. Gallen becoming a major city. But the dream was shattered when the British pound devaluated during the First World War and the global economic crisis occurred. Only few local firms were able to survive these developments and renew themselves, some of which are now among the best global embroideries and fabric producers, for example, Forster Rohner, Jakob Schlaepfer, Bischoff Textil, and Union. Forster Rohner's clients include Yves Saint Laurent, Galliano, Prada, and Armani while Jakob Schlaepfer collaborates with international brands, such as Chanel, Dany Attrache, Emanuel Ungaro, and Louis Vuitton. Evidently, St. Gallen also hosts a community of skilled and creative people in the textile industry. But the location also means that firms operating from there are faced with relatively high costs of labor and a strong Swiss Franc.

### **The Fashion Industry and Akris**

2011 was a very good year for the luxury goods industry. Globally, the revenues increased by 10 percent to almost 200 billion US-\$. The fashion industry accounted for about a quarter of these sales. Thanks to China's economic growth, the business recovered surprisingly fast after the 2009 financial crisis, during which the revenues

dropped to 150 billion US-\$. Interestingly, the larger luxury goods firms were hit less hard by the financial crisis than their smaller rivals.<sup>8</sup>

The luxury goods industry is characterized by three types of firms: (1) small manufactories, (2) medium-sized industrial firms, and (3) large luxury goods conglomerates. Especially the latter have been on the rise over the past few of years. These firms offer multiple brands that either focus on one category of luxury products (e.g., the watch-maker Swatch) or that span multiple categories, such as watches, jewelry, and fashion (e.g., LVMH, PPR, and Richemont). While most of the small and medium-sized firms are privately owned, the large luxury goods conglomerates are typically listed, but even they are often controlled by a strong major shareholder. Recently, private equity firms have also become a more important investor group with regard to luxury goods firms.

### **Fashion as a Business: Characteristics and Trends**

Fashion is considered the most difficult business in the luxury goods industry mostly because of its seasonal nature: Firms have to sell each of their two annual collections within about four months, which distinguishes this segment from watches and leather goods. This implies a strong need to further develop and renew the firm's products. Also, unlike the automotive industry's premium segment with its potential to industrialize a mass product, the prêt-à-porter segment's scaling limits are much lower as it requires a substantial amount of craftsmanship.

Fashion firms are typically located in one of the fashion centers of the world, particularly in one of the four "fashion capitals" New York, London, Milan, and Paris. To gain credibility regarding the quality of fashion's design, the collections are presented at fashion shows. Of these, the Paris fashion show is the most important, because a jury of fashion professionals elects the designers that are allowed to present their collections. At other relevant fashion shows, for example, in Milan and London, however, fashion firms can buy themselves a slot to present their fashion.

To ensure sufficient brand awareness, large amounts are spent on marketing and advertising. The high margins for which the industry is known are primarily due to offshore production in Eastern Europe and Asia. Once a fashion firm has developed a strong brand, it often attempts to capitalize on it by selling accessories. Many large brands profit from licensing their brands to accessory producers, often enabling these firms to attract additional and broader target groups.

While most high-end fashion firms want to grow, they don't necessarily want to do so at the same pace. Growth is achieved by selling more products to more customers. But the more firms accomplish this, the less attractive these products become to their focal target group because the products become less rare and unique – especially when this development takes place in the firm's existing markets. Over the past few years, there has been a rapid increase in clients from the Middle and Far East, including customers from growing markets such as China, Brazil, Saudi Arabia, and Mongolia. The high-end fashion industry is faced with several specific challenges, some of which are outlined below:

- *Controlling of the costs*: Even in the high-end fashion industry there are certain limits to transferring increasing costs via the pricing of products to the customers. Exchange rate fluctuations may have a severe impact on the availability of strategic options and the margins.
- *Generational change and change in customer preferences*: Today, potential customers are significantly younger than in the past. This necessitates different marketing tools and advertising campaigns. Furthermore, the “new” customers are less loyal to a particular brand and are generally more demanding.
- *Making luxury accessible in new markets*: The internationalization of many high-end fashion brands has several implications that need to be carefully considered. The internationalization should not occur at the expense of existing customers’ perception of exclusiveness. It also requires the development of a truly global organization that enables the firm to enter new markets (e.g., supply chain processes, support services in the areas of human resources, sales, etc.). In addition, the internationalization inevitably leads to the questions of if and how the products need to be adapted to local customer preferences.
- *Digitalization of the business models*: It is becoming increasingly important for firms to develop an integrated online and offline customer experience of its products and services. High-end fashion firms need to be aware that online platforms are an increasingly important means to attract and inform potential customers. The English fashion brand Burberry, for example, shows a live stream of its fashion shows on Facebook. Firms in the high-end fashion industry need to follow this example and develop a convincing digital value proposition.

Overall, there is a trend towards consolidation in the high-end fashion industry. Large luxury goods conglomerates that aim at achieving a global competitive advantage by realizing synergies more often acquire traditional smaller brands.

### **The Positioning of Akris**

Akris is an independent couture house, of which only about a dozen still exist. Since the end of the 1980s, the firm has followed almost the same strategic direction, which is based on the belief that sustainable success in a business requires as much experience with the same activities as possible. The firm is still focused on female customers and predominantly produces women’s clothing. Akris targets women who want to dress elegantly, but who do not want to radically change their look every season. These include “[...] women who want to look attractive but not dramatic, [...]” rather than the “*ladies who lunch*.”<sup>9</sup>

The target group is not defined by age. “*The Akris-woman is not defined by her age or nationality, but by her attitude towards her attire,*” says Albert Kriemler, “[s]he is a woman who knows what she wants: perfectly manufactured and versatile clothes, to express her personality in a discreet way.”<sup>10</sup> The Akris design defined a “*new, modern and independent form of femininity. [...] The Akris philosophy includes: cultivated beauty, understatement, quality, simplicity, contemporary, discretion, and luxury that you feel but do not see at first glance.*”<sup>11</sup> Akris does not design fashion for a special occasion but for daily life: “*Akris’s business model is based on globalized urbaneness.*” The brand achieves an “*alchemy of local roots and internationalization.*”<sup>12</sup> Akris’s famous customers are, for example, Queen Rania of Jordan, US First Lady Michelle Obama,

Former US Secretary of State Condoleezza Rice, Princess Charlene of Monaco, Oscar-winning actress Nicole Kidman, Cecilia Bartoli, Sandra Bullock, Susan Sarandon, Margaret Thatcher, and several of the Kennedys. Allegedly, unlike many of its competitors, Akris does not pay celebrities to wear its clothes.

Almost 40 percent of the firm's revenues are generated in the US, which is the most difficult market for European designer brands to enter. Despite this difficulty, it is of crucial importance for all major fashion brands with international reach to compete in this market. The remainder of Akris's sales is distributed almost equally between Europe and Asia, and is likely to shift towards Asia in the near future. To be able to meet the very high quality requirements of the value creation process, Akris pursues a strategy of strong vertical integration. Even today, the production is primarily located in Switzerland. Akris is financed in a very conservative way and has a relatively low amount of debt, which means the firm is largely independent from financial institutions.

### The Designer and his Philosophy

Akris's success is attributable to several different aspects of which Albert Kriemler's design talent is among the most important. Peter Kriemler speaks highly of his brother's talent: "*Albert has the natural talent to create elegant dresses from precious fabrics, characterized by luxury that you feel but that isn't in your face.*"<sup>13</sup> But Albert Kriemler compares his work to that of an architect rather than an artist, because his creations have to fulfill a predefined purpose. Architects need a lot of creativity to create an extraordinary building, but at the same time it must have a certain level of functionality. Both architecture and fashion should respect the context in which they are embedded. Albert "builds" the clothes in which his customers can "live." Not surprisingly, one of his role models is the Viennese Bauhaus-architect Adolf Loos, whose works are a classic example of Modernism in the 1930s. Like Adolf Loos, whose work was inspired by materials, often the beauty of wood, Albert's creations are kindled by specific textiles.

Today, while they are in great demand,<sup>14</sup> top fashion designers are notorious for having "difficult" personalities. John Galliano from Dior, for example, was fired after making anti-Semitic statements. And, as the creatives, many of the top designers show little interest in their firm's business model and economic performance. Albert Kriemler has proven to be just the opposite. He is distinguished, humble, and uses differentiated, elegant language. He is passionate about high-quality fabrics, is technically accurate, and develops visionary designs. And even though he spends 180 days of the year travelling for work, he stays informed about the development of the business. Considering it part of his role as an entrepreneur, he analyzes sales figures, visits stores, and explains the collections to his sales staff.

At the age of 16, Albert would accompany his father when examining and purchasing fabrics. By the time he was in his early 20s, Albert assumed responsibility for 200 employees. His greatest challenge was to identify and develop his own style: "*In the 1980s, I did too many of the things that one was allegedly supposed to do in fashion during that time. We became really good and successful only when we started to do what we really feel and when we decided to continuously learn.*"<sup>15</sup> Today, Albert's fashion is elegant and simple: "*I think that contemporary dresses need to be simple because our life is so complex.*"<sup>16</sup> Indeed, Akris's fashion is not chichi, but esthetic, humble, and

particularly practical. He feels that the dress is supposed to support the woman and to emphasize her personality, not the other way around.<sup>17</sup> Albert's dresses unfold their effect only when they are worn.<sup>18</sup>

For Albert, it is of the utmost importance to be sensitive towards the fabrics, the customers, and the context: *"One is only able to absorb something if you are sensitive towards it. And only once you have absorbed it are you able to make a difference."*<sup>19</sup>

Albert Kriemler's fashion stems from his ability to find a balance between trends and design principles, and between experimentation and innovation and traditions. If he is to continue creating timeless fashion, Albert needs to continuously renew himself.<sup>20</sup> *"The creation of a new collection is successful, if the dresses are worn by different cultures and if the dresses are aligned with the rhythm of life of the contemporary woman – irrespective of her age and nationality."*<sup>21</sup>

Wherever he goes, Albert Kriemler is always seeking inspiration. His inspirations are sometimes more modern and sometimes more traditional. The challenge is to find a balance between the two, transferring past knowledge and ideas to the present.

- *Role models and vintages:* Albert's role models are the Spanish fashion designer Cristobal Balenciaga, who had a fashion store in Paris from 1937 to 1968, Yves Saint Laurent, who made fashion that was comfortable and supported women's personality, Giorgio Armani, Jil Sander, and American designer Bill Blass. Albert regularly purchases interesting or vintage dresses at auctions.
- *Historical textile archive:* Akris has a very extensive and well-maintained archive of textile materials and fabrics that covers decades of the firm's history. The archive includes countless fabric samples, which often serve as inspiration for new collections.
- *City walks:* Albert often walks around New York's and other major cities' up-market, trendy neighborhoods to observe potential customers and get a sense of the latest trends. Albert stays in contact with the people who sell Akris fashion to the end-customers, because he wants to maintain a good understanding of his customers' wants and needs. James J. Gold, CEO of Bergdorf Goodman, says: *"A successful collection is less about advertising than about the special relationship between our sales associates and our clients – that's what gets the product sold. The people at Akris have their ear to the sales floor."*<sup>22</sup>
- *Architects:* Among Albert's friends are the Swiss architects Herzog and de Meuron. He dedicated his fall collection of 2007 to them, which was inspired by their surface designs.
- *Artists:* Seeking inspiration, Albert regularly meets with contemporary artists. He used to meet with Scottish artist Ian Hamilton Finlay before he passed away and he is in contact with US American expressionist Frank Kleine, who inspired the Akris's fall/winter collection 2012 – a collection that plays around with "verticals." Albert also collaborated with the choreographer John Neumeier several times to create costumes for his ballet performances.

Despite these multiple sources of inspiration, Albert Kriemler's uniqueness and courage to have a distinctive style as a fashion designer contributes to Akris's success. Inspiration

and trends are primarily used to renew and improve the existing style. Besides securing a loyal clientele, Albert Kriemler has received many international awards for his fashion, for example, the Museum of Fine Arts' design award and his fashion typically receives very positive critiques by the most influential fashion magazines, such as *Women's Wear Daily*.

## The Value Creation Process

To be able to attract and please customers, every single aspect of the value creation process needs to be optimized. Every element needs to fit with the others and must be a consistent part of the entire process. Continuously improving the business and value creation processes ensures that these are difficult to imitate by competitors and that the firm stays agile and is able to address changing conditions in a timely manner. Peter Kriemler motivates this as follows: *"Twenty years ago we decided that control would be one of the most important parts of our strategy: controlling our shipments, our production, our research, our deliveries. It was an emotional decision as much as anything, and many people were not so happy originally because it took a long time to put in place, and was expensive. But it allows Albert to create whatever he wants."*<sup>23</sup> Hence, Akris aligned itself towards the needs of the firm's designer.

In the fashion business, every single aspect is critical – from the fabrics, design and creation of the clothing to the presentation of the final products. It is advantageous for Akris to have these processes performed internally for several reasons. For one, it enables the firm to offer the highest product quality possible. Moreover, Akris designs and produces the dresses at the same location. This close proximity ensures a high level of internal control. Similar to other luxury goods firms for which the quality of the fabrics and processing are decisive, for example Hermès and Louis Vuitton, Akris is characterized by a very high degree of vertical integration. Where necessary, Akris builds long-term external partnerships that are rooted in mutual respect, understanding, and trust. Operating in a cyclical industry, Akris believes that these partnerships are especially important in difficult times. Despite the firm's business philosophy of strong vertical integration, Akris is frequently faced with "make-or-buy" decisions: Which value creation activities should be under the firm's direct control? Which processes could be offshored to less cost-intensive countries?

At the heart of Akris's success is its capability to manage the entire process of producing and selling its fashion collections. The firm's value creation process follows a similar rhythm that is defined by the two main annual collections: three months of traveling and three months of creating the new collection. Twice a year, a new collection is shown at the défilé in Paris, which has a significant impact on the respective collection's success. The value creation process consists of the following activities: the selection and development of fabrics, designing and producing clothes, showcasing the collection at the défilé, as well as branding/marketing, logistics, and sales.

### (1) Selection and development of the fabrics

Many fashion designers' work is based on cultural or geographic inspiration. Albert Kriemler considers the fabric his point of departure when designing his creations. He begins the process by asking himself how the fabric would feel when worn as a dress: *"I*

do not search for a suitable fabric after I have designed a dress. The starting point is the fabric. The fabric is the medium of understated luxury that the woman who wears Akris feels.”<sup>24</sup> He uses the fabric to feel the concept and design of a new dress. The materials enable him to unfold his creativity: “Absolute quality of the materials and production is necessary, but not sufficient, to create a relevant collection. The collection needs to prove that it is aesthetic and functional in the woman’s daily life in different cultures. The collection must fit with her rhythm of life, working life, and requirements for mobility – and it must make a difference.”<sup>25</sup> Albert Kriemler is always searching for new interesting materials. He experiments with innovative fabrics that are either developed internally or with external partners and then produced by textile firms in St. Gallen.

## (2) Design

After the suitable materials have been selected, designing the dress seems rather simple at a first glance. Albert Kriemler works like a sculptor with a model. Designs are not only developed with professional models, but also with women of different ages and sizes. It requires a lot of passion and patience to develop and finalize a design. A sketch or Polaroid documents every step of the design process, as this may be the best design draft.

In the design phase, Akris relies on a team of extraordinary designers and couturiers who have a pronounced sense of Akris’s quality and style. This requires many years of investment in educating the firm’s employees and in developing their capabilities. Because Akris has been growing rapidly the past couple of years and needs to deliver ten collections per year (including pre-collections, side collections, and the main défilé collections), it must be able to recruit and educate talented fashion professionals.

## (3) Production

The actual production of the dresses is considered the most important part of Akris’s value creation process. Albert Kriemler says: “The product comes to the fore. Certainly, marketing, PR, and advertising can be powerful. But if the product does not match the customer’s expectations, these tools do not have a strong effect.”<sup>26</sup> Put differently: “Ultimately, our dresses communicate what our brand actually stands for.”<sup>27</sup> The first step is cutting the fabrics. This step offers a certain degree of automation potential, but this is technologically demanding because the fabrics have become lighter and, thus, more difficult to process. The next step involves high-quality craftsmanship: “My brother Peter Kriemler and his employees have developed a sophisticated technical program for cutting the fabrics. But afterwards, we need manual work. We use technology but we should not forget what really matters: you need to be incomparable to succeed in a comparison. The difference lies in the manual work, which is nowadays only applied in the haute couture segment.”<sup>28</sup>

Albert Kriemler also emphasizes the importance of the “double-face” technique: “The most interesting material for modern, luxurious fashion is double-face, a fabric quality with two right hand sides. [...] This requires high-end craftsmanship. [...] Together with our innovative fabric suppliers, we developed this demanding wool fabric so that it has a new, feathery, and timely quality.”<sup>29</sup> This type of craftsmanship is consistent with Akris’s identity and quality standards. Over the past years, the firm has continuously expanded its portfolio of such fabrics. Among the other aspects that have become characteristic of Akris is its photo prints, which were shown in the summer collection 2008 with pictures of the Scottish artist Ian Hamilton Finlay. To ensure that the

demanding customers like the Akris collections, Albert Kriemler continuously communicates with Akris's tailors during the production process. One of the greatest challenges was and still is to cope with the firm's growth. How can the extremely high quality requirements be matched while increasing the production output? Because of the company's growth, Akris expanded its production facilities to Italy and Romania.

#### (4) Défilé

Twice a year, Akris presents its spring and fall collections at the Carrousel du Louvre in Paris. This event is extremely important for the perception of the Akris brand, as the industry's most influential people are in attendance, for example, Anna Wintour, editor-in-chief of the US edition of *Vogue*, Suzy Menkes from the *International Herald Tribune*, Sabine Nedelchev, editor-in-chief of *Elle*, as well as VIP customers and the purchasing directors of the world's large luxury department stores. The business press, for example, *The Wall Street Journal* and *Financial Times*, are also important to Akris as many of its potential customers are businesswomen. The online magazine *Style.com* has become very influential in the industry, primarily because of its reach and publication speed but also because articles remain online for at least six months.

The outcome of six months' of hard work is presented in just 13 minutes. Everything needs to be perfect in order to communicate the brand image and style to the audience. The success of the entire collection depends on this short presentation and, thus, has a significant impact on the future development of the brand.<sup>30</sup> Here, again, Akris tries to be authentic. As the designer, Albert prefers to remain in the background, only making a brief appearance during the show. The cocktail reception following the Akris fashion show also reflects the firm's values and style and can be described as an "*unconventional mixture of sausages from St. Gallen and champagne.*"<sup>31</sup>

#### (5) Branding/marketing

Having a strong brand is critical to success in the luxury goods industry. The brand, however, needs to be based on a fit between the firm's and the collection's history and the current products. The brand is the intangible and emotional part of the products and services. Because of the increasingly large number of brands in the luxury markets, it is critical for the target group to perceive the difference between the respective brand and other brands. To achieve this, some brands intensify their local marketing activities, for example, by hosting exclusive events.

Akris positions its brand as a "clean" brand. In the past, it was not necessary to maintain a large PR department, because Akris has always benefited from favorable attention by the fashion media and other opinion leaders in the industry. Compared to its competitors, Akris has a relatively small marketing budget. The firm invests in carefully selected, long-term partnerships. For example, it has been working in close collaboration with the New York-based photographer Steven Klein since 1994. His pictures are used in Akris's advertising campaigns and emphasize the brand's distinctive image.

#### (6) Logistics

The global logistics of Akris is one of the firm's main cost drivers and, therefore, requires regular efficiency and quality assessments. The company also needs to assess whether or not it would be more efficient to deliver goods directly from its various production facilities to the target countries. For this reason, Akris established a central,

5,000 square meter logistics center, including a warehouse and a sales and distribution department for international shipping.

### (7) Sales

Akris pays special attention to the locations at which its products are sold: *“The collection itself is not sufficient. The location where the customer buys the dress is decisive for the perception of the sensitivity. [...] Here customers change clothes and undress their shoes. A certain feeling of “protection” and privacy is important. [...] While some may consider these aspects as tiny, ignoring them could lead to unconscious irritations. [...] Also the interior of the Akris stores is supposed to reflect what Akris stands for: cultivated beauty.”*<sup>32</sup>

Akris is currently available at about 500 points of sale. About 80 percent of the revenue is derived from department stores (“wholesale,” including store-in-stores), while 20 percent is from own Akris stores (“directly operated stores”).

- *Department stores (wholesale)*: The rise of the Akris brand began in luxury department stores in New York. These stores continue to be a very important distribution channel for the brand. Akris is one of Bergdorf Goodman’s best-selling designer brands. Here, and in about 50 other locations, Akris presents its fashion in store-in-stores. The firm has been working in close collaboration with other US department store chains, such as Neiman Marcus and Saks Fifth Avenue, for many years. Akris receives valuable feedback from these partners. Bergdorf Goodman, for example, suggested the creation of a pre-collection to bridge the long period between the two large main collections. This led to additional sales in November and had a signaling effect for the next season.
- *Flagship stores (retail)*: Today, Akris operates its own stores at many attractive locations. At the end of 2011, there were 15 own Akris stores, which are extremely important because they present the entire Akris collection, which department stores do not typically do due to space restrictions. Furthermore, flagship stores offer the opportunity to optimize interaction with customers via the architecture, interior design, and sales processes – without having competing brands directly next to the Akris display. The Kriemlers have developed these stores in close collaboration with the architects Ferruccio Robbiani and Christopher Sattler.
- *E-commerce*: The online store has become one of the most important sales channels for many fashion firms. Akris would like to build upon its strong brand and use this channel for remote regions without an Akris point of sale. For example, Akris has been experimenting with an online offering in the US since 2012, which includes a delivery service by an Akris tailor who, if necessary, customizes the purchased dress.

### **Preparing for the Future**

Over the past decades, Akris has been characterized by its focus on the long-term, which is particularly notable in the fast-paced high-end fashion industry. Entrepreneurial decisions are long-term oriented and the management aims at optimizing the value creation processes incrementally. The Kriemler brothers are aware that top designers’ creativity is not eternal. Albert Kriemler remarks: *“A couture-designer has 20, at most 25*

years, to be really good in his profession. My brother and I plan to stay on our own for the next ten years.”<sup>33</sup> Akris had its breakthrough in the 1990s. Therefore, the firm needs to be prepared for a future in which Albert Kriemler’s designs may no longer be desirable.

Another important issue that needs to be addressed is Akris’s growth. Should the firm diversify or stay focused on women’s clothing? *“Aside from eschewing skimpy styles and other high-fashion mainstays, Akris is unusual in that it sells no profit-boosting accessories, no namesake fragrances. By relying on a few key U.S. retail accounts, subtle marketing and just one brand, Akris tests the industry notion that multi-brand conglomerates are the best route to growth.”*<sup>34</sup> Akris took a first careful step towards diversifying its product offerings by acquiring the handbag brand Comtesse in 2009. Expanding the products may be required if Akris wants to grow further in Asia, where potential customers typically spend more money on brand accessories than on the fashion itself.

Finally, questions regarding the future ownership of Akris are likely to arise over the next few years. To date, Akris has received many acquisition requests. The Kriemler brothers could, for example, sell their business to a strategic investor, such as the fast growing luxury conglomerate LVMH, Richemont, or PPR, or (partly) to a financial investor to finance the future growth. When making the respective decisions it will also be critical to consider the entrepreneurial ethics and attitude of their family business. While the Kriemler brothers envision Akris to become more diversified in the distant future, they prefer not to comment on when and how this development could take place: *“You cannot push things. They have to happen naturally.”*<sup>35</sup>

## Assignment Questions

1. In which industry does Akris currently operate? What are Akris's core products?
2. What were the most important milestones in Akris's development up to now?
3. What factors are critical to the success of a firm in the high-end fashion industry ("prêt-à-porter-segment") in general? How can firms in this industry differentiate themselves from their competitors?
4.
  - a) Name the critical success factors that Akris possesses in the high-end fashion industry.
  - b) How does Akris differentiate itself from its competitors?
  - c) What are Akris's competitive advantages?
  - d) How did Akris gain these competitive advantages?
5. What opportunities and risks do you see for the future development of Akris? How would you deal with these opportunities and risks?
6. Please develop three potential growth strategies for Akris. One of the strategies should be based on Akris's status quo as an independent family-owned firm that produces women's fashion. Explain, justify, and evaluate each of your strategies. Which option would you favor? Why?



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## Endnotes

- <sup>1</sup> Cf. Stäubli, R. (2006): Erfolg des Einfachen, in: Doswald, C. (Eds., 2006): 90-92.
- <sup>2</sup> Cf. Ammann, R. (2004): Der Wert der Schönheit, in: brand eins, No. 8, 26-32.
- <sup>3</sup> Since 1987, Bergdorf Goodman is part of the Neiman Marcus Group, which is owned by private equity firms TPG Capital and Warburg Pincus.
- <sup>4</sup> For example, Hermès offers its customers relatively less expensive scarfs and ties to experience the brand.
- <sup>5</sup> Skupin, B. (2012): Interview Albert Kriemler, <http://www.vogue.de/people-parties/designer/interview-albert-kriemler> (accessed on 02/07/2012).
- <sup>6</sup> Kriemler, A. (2006): Sensibilität. Der Stoff ist das Medium, in: Doswald (Eds., 2006), 11-15: 12.
- <sup>7</sup> Kriemler, A. (2006): Sensibilität. Der Stoff ist das Medium, in: Doswald (Eds., 2006), 11-15: 1.
- <sup>8</sup> Cf. Bain & Company (2011), Luxury Goods Worldwide Market Study, 10th Edition.
- <sup>9</sup> Griese, I. (2006): Eleganz aus dem Bauch heraus, in: Doswald, C. (Eds., 2006): 86-87: 86
- <sup>10</sup> Cf. Ammann, R. (2004): Der Wert der Schönheit, in: brand eins, No. 8, 26-32.
- <sup>11</sup> Doswald, C. (Eds., 2006): Akris, JRP Ringier: 7.
- <sup>12</sup> Binswanger, D. (2008): Am Anfang war der Stoff, in: Das Magazin, No. 46, 18-29: 26.
- <sup>13</sup> Stäubli, R. (2006): Erfolg des Einfachen, in: Doswald, C. (Eds., 2006): 90-92: 90.
- <sup>14</sup> There were rumors that the designer Marc Jacobs (Louis Vuitton) negotiated with Dior in 2011 for an annual salary of 8-10 million US-\$.
- <sup>15</sup> Kriemler, A. (2006): Sensibilität. Der Stoff ist das Medium, in: Doswald (Eds., 2006), 11-15: 15.
- <sup>16</sup> Kalt, G. (2008): Swiss house on a roll, in: Financial Times, Beilage "How to spend it", 09/20/2008, 6-10: 8.
- <sup>17</sup> Stäubli, R. (2006): Erfolg des Einfachen, in: Doswald, C. (Eds., 2006): 90-92: 90.
- <sup>18</sup> Griese, I. (2006): Eleganz aus dem Bauch heraus, in: Doswald, C. (Eds., 2006): 86-87: 87.
- <sup>19</sup> Kriemler, A. (2006): Sensibilität. Der Stoff ist das Medium, in: Doswald (Eds., 2006), 11-15: 15.
- <sup>20</sup> Binswanger, D. (2008): Am Anfang war der Stoff, in: Das Magazin, No. 46, 18-29: 28.
- <sup>21</sup> Kriemler, A. (2006): Sensibilität. Der Stoff ist das Medium, in: Doswald (Eds., 2006), 11-15: 15.
- <sup>22</sup> Rohwedder, C. (2006): A Swiss Brand Excels by Breaking Fashion's Rules, in: Doswald, C. (Eds., 2006): 89.
- <sup>23</sup> Kalt, G. (2008): Swiss house on a roll, in: Financial Times, Beilage "How to spend it", 09/20/2008, 6-10: 10.
- <sup>24</sup> Kriemler, A. (2006): Sensibilität. Der Stoff ist das Medium, in: Doswald (Eds., 2006), 11-15: 12/13.
- <sup>25</sup> Kriemler, A. (2006): Sensibilität. Der Stoff ist das Medium, in: Doswald (Eds., 2006), 11-15: 11.
- <sup>26</sup> Kriemler, A. (2006): Sensibilität. Der Stoff ist das Medium, in: Doswald (Eds., 2006), 11-15: 12.
- <sup>27</sup> Binswanger, D. (2008): Am Anfang war der Stoff, in: Das Magazin, No. 46, 18-29: 18.
- <sup>28</sup> Kriemler, A. (2006): Sensibilität. Der Stoff ist das Medium, in: Doswald (Eds., 2006), 11-15: 13.
- <sup>29</sup> Kriemler, A. (2006): Sensibilität. Der Stoff ist das Medium, in: Doswald (Eds., 2006), 11-15: 14.
- <sup>30</sup> Cf. Doswald, C. (Eds., 2006): Akris, JRP Ringier: 31.
- <sup>31</sup> Binswanger, D. (2008): Am Anfang war der Stoff, in: Das Magazin, No. 46, 18-29: 27.
- <sup>32</sup> Kriemler, A. (2006): Sensibilität. Der Stoff ist das Medium, in: Doswald (Eds., 2006), 11-15: 14.
- <sup>33</sup> Stäubli, R. (2006): Erfolg des Einfachen, in: Doswald, C. (Eds., 2006): 90-92: 92.
- <sup>34</sup> Rohwedder (2006), 89.
- <sup>35</sup> Albert Kriemler in Kalt, G. (2008): Swiss house on a roll, in: Financial Times, Beilage "How to spend it", 09/20/2008, 6-10: 10.