Stella McCartney makes big 2020 loss, but recovery has begun

By Sandra Halliday - December 23, 2021

Sales at Stella McCartney fell to £28.4 million from £38.6 million as the pandemic weighed on its business last year, while sales excluding transactions with fellow group companies were down to £23.8 million from £26 million. Gross profit was £20.3 million, down from £26.7 million, but the company recorded a pre-tax loss that was bigger than its sales figure at £31.4 million. However, this narrowed from a loss of £33.4 million on that basis in 2019.
That was all revealed in the year's accounts that have just been filed at Companies House.

And it said that it was still being impacted by Covid-19 as the 2021 financial and calendar year started, but the recovery in sales has been in line with its expectations, although it didn't put any monetary figures on how trading has recovered during this year. Yet it did say that its yearly target for 2021 is to increase sales by 4% in euros year-on-year and to "significantly reduce" the operating loss.

The fall in revenue for 2020 was 26% compared to only a 9% fall in the previous year and the operating loss actually narrowed to £29 million from £32.4 million as the cost of sales declined. The net loss at the company was £30.4 million, down from a larger loss of £33.4 million in the previous year.

Yet it's hard to read too much into some of these figures given the big change the company has undergone in recent years, particularly as it cut its ties with Kering and moved to a link-up with LVMH. McCartney bought the half share of her business that Kering owned in 2018 and in the second half of 2019, she signed a deal with LVMH, although she retained majority ownership. But this came only a few months before the pandemic began, so some development would have been held up by the global health crisis.

However, the business used the crisis forced on it by the pandemic to improve its operations. The Covid onset during the first quarter provided the company with an opportunity to "accelerate its digital and physical transformation strategy". The immediate impact was a "significant increase" in digital sales. During the year, it placed a big focus on digital and also decided to exit its YNAP webstore partnership and migrate the business to Stella McCartney Italia SRL. That project went live in April this year. And it will have new technology for ERP going live in the middle of next year.

But it said that the outlook for 2021 remains "uncertain and very much dependent on the global health and economic context. Covid-19 has reinforced the need to actively work on local clienteling and finding new ways to serve the customers’ needs".

LEADERSHIP AND STRATEGY REFRESHED

2020 wasn't only a significant year because of the effects of the Covid crisis, it was also one in which the company made some major changes in leadership and laid the groundwork for future growth.

Following the arrival of its new CEO in the middle of 2019, last year the majority of leadership roles were also renewed with a new COO in July, a new marketing chief and sales director in October and a new CFO the month after.
The company said that this new team "defined a new strategy, centred around the will to recreate desirability for Brand and Product, and attracting a new generation of customers".

And it added that one "emblematic example of this new strategy was the launch in November 2020 of the A to Z campaign, which introduced iconic items, relayed by a fashion story, elevated assets and a 360 marketing plan".

During 2020, the brand also took a number of steps to put it "back on sustainable foundations". These included closing its menswear line; finalising its partnership with Simonetta for licensed kidswear — the first fruits of which are launching imminently; transforming the Ready to Wear supply chain "from a predominant Make model to a balanced Make/Buy model"; reducing directly operated store numbers, which in the UK meant closing its Fulham Road store while continuing to operate its Bond Street flagship and Bicester Village outlet; and getting costs under control.

And as it continued its link-ups with ISA and Adidas, it also started a new partnership with Thelios for eyewear.

Of course, as mentioned, there remain significant uncertainties. But at least the company doesn't see Brexit as a major problem for it. Less than 5% of its global revenue goes through its UK physical stores that are dependent on cross-border movement of goods to the UK. And the majority of its goods are of "preferential origin" — that is, made within the EU or UK. Most foreign revenue recorded by the company relates to royalties and profit share, which benefit from UK international tax treaties that are unlikely to be affected by the country's exit from the EU.