Functional Strategies in Decentralized Corporations: Richemont’s Group HR Function

Case study
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In his office in Geneva, Thomas Lindemann is thinking aloud: “What’s next?” As he reflects on the development of the group HR function over the last decade or so, he cannot help but wonder what the future has in store. Having served as the group HR director since 2004 and as a member of the group management committee since 2005, he has significantly shaped Richemont’s “people business.” Thinking about the new challenges facing the Richemont’s group HR function, Thomas Lindemann recalls the group function’s development from 2000 onward – when the group HR function was first introduced – until this day.

A group company in the growing cyclical global luxury goods business

At Richemont, most people are proud of its very specific corporate culture, which the company’s brands influence greatly. Seven of its 19 brands – called “Maisons” – were founded more than 150 years ago. The oldest brand – Vacherin Constantin – was founded in 1755. Despite the company having about 28,000 employees (30% in Switzerland), it has managed to retain a small-business feel. The group’s culture is personal, cautious, and not adventurous. Luxury goods influence people’s emotions. If a brand is to evoke and influence these emotions, it needs to have its own characteristics. In line with many others, Thomas Lindemann therefore strongly believes that, if the company is to succeed, it is crucial for all its employees – especially those selling the products – to associate themselves very strongly with the emotion behind the brand.

The company’s employees have undoubtedly contributed to Richemont’s recent success. With sales of EUR 10.15 billion in the 2012/13 financial year and employees in 140 operating units around the globe, it is the second largest luxury goods company in the world after LVMH. There was a 14% increase in Richemont’s sales since the previous year (and a 9% increase on a constant basis). With a compounded annual growth rate (CAGR) 2002-13 of 9% the company grew far above the market (CAGR 2003-12: 5.8%). Compared to the previous fiscal year, the operating profit of EUR 2.426 billion increased by 18% and the operating profit margin reached 24%. The Rupert family’s investment vehicle, Compagnie Financière Rupert, is the Group’s controlling party. It has 50% of the voting rights and holds 9.1% of the company capital. Approximately 38% of the capital is in free float. At the end of the 2012/13 financial year, the equity amounted to a comfortable 70% and – true to its “cash is king” motto – Richemont’s cash flow from operations was EUR 1,944 billion.

The Richemont group’s 19 Maisons fall into four personal luxury goods sectors: jewelry, watches, writing instruments, and others (see exhibit 1). Richemont owns 100% of almost all of their Maisons. In 2012/13, the company realized 54% of its total sales in retail stores and 46% of sales in wholesale stores. The group runs about 1,500 boutiques, 1,014 of which it owns. The other points of sale are operated under franchise agreements. Today, Richemont is structured regionally. In 2012/13, the company’s regional sales breakdown was as follows: Europe 36% (2002-13 CAGR: 7%), Asia-Pacific 41% (2002-13 CAGR: 17%), Americas 14% (2002-13 CAGR: 7%), and Japan 9% (2002-13 CAGR: 2%). With its broadly diversified brand portfolio and international presence, Richemont is the global leader in the branded jewelry and haute horlogerie markets.

By selling watches, jewelry, fashion, etc., Richemont competes in the cyclical luxury goods industry. Contrary to the belief that the luxury goods industry is rather independent of economic cycles, economic recessions, currency fluctuations, and unsteady commodity prices (e.g., of platinum, gold, and diamonds), these factors can have a significant impact on the
profits of companies trading luxury goods worldwide. In order to buffer the impact of these cyclic effects and their exposure to currency fluctuations, luxury goods conglomerates such as Richemont, LVHM, and Kering (formerly PPR S.A.) have a diversified brand portfolio and a broad global presence. One of the lessons from the 2008/09 economic crisis was that the bigger, more global, and more diversified luxury goods companies with their “megabrands” were better off and managed their way through the recession more successfully. After the crisis, the global market for personal luxury recovered surprisingly fast with a 2009-12 compounded annual growth rate (CAGR) of 11.5%, reaching a new all-time record profit of EUR 212 billion in 2012. Despite the recent uncertainty, luxury market fundamentals are expected to remain strong in the long run. This is mainly because a growing customer base influences the market (see also exhibits 2-3).

Richemont aims at a balanced portfolio of brands, products, regions, and distribution channels (own boutiques, franchises, and third parties). The following statement describes Richemont’s corporate strategy: “[It is] the group’s strategy to allow each of the businesses in the portfolio the freedom to develop scenarios for growth and, once these are approved, to provide the resources and support that the Maisons require to implement their plans […] In accordance with the empowerment of the management teams at the Maisons, Richemont still has a decentralized management structure. However, group management plays a key role in setting group-wide policies, advising management of the operating entities, and monitoring their activities.”

Richemont’s group structure

Founded in 1988: The history of Richemont began with the spin-off of the non-South African assets of Rembrandt Group Limited of South Africa (now known as Remgro Limited) in September 1988. The new company was founded in Zug (Switzerland) and listed in Zurich and Johannesburg. Johann Rupert was appointed CEO. Since its formation 25 years ago, the Richemont share price reached a record high of CHF 80.50 on January 17, 2013 (see exhibit 4). This gave the company a value of about CHF 46 billion (EUR 38 billion). Today, the company is a heavyweight (approximately 4%) on the Swiss Market Index and is one of Europe’s top 50 companies.

Focus on tobacco and luxury in 1999: 1999 was an important milestone in Richemont’s history. The largely diversified company decided to focus its portfolio of businesses on the tobacco and luxury goods industries. This was documented in the 1999/2000 fiscal year annual report: “Richemont is a Swiss luxury goods group managed with a view to the long-term development of successful international brands. In addition to its luxury goods businesses, Richemont also holds strategic investments in the tobacco industry and in direct retailing.” Nikolaus Senn, Chairman of Richemont at this time, commented: “Richemont is committed to maintaining and indeed developing its position as one of the world’s leading luxury goods companies.”

In addition, the then group CEO Johann Rupert stressed the group’s intention to put more emphasis on the exploration of the synergies between the related luxury brands: “The strength of Richemont lies in the ability to develop its existing brands successfully with an emphasis on each brand’s unique strengths, whilst taking advantage of group-wide expertise in areas such as procurement and distribution. The process of integrating local operating companies and shared service functions ... is being given further priority within the new management
structure.” He also pointed to the group’s large investments in modern IT infrastructure: “The group is also actively investigating how to use the Internet more effectively as an information medium for consumers and for business-to-business relationships.”

Norbert Platt, Richemont’s group CEO from 2004-2010, decided to set up the corporate headquarters in Geneva. He wanted the group’s relationship with the Maisons to be more proactive. Today, about 350 people work at the corporate headquarters in Geneva.

Establishing group HR in 2000: In line with setting up the new corporate headquarters, Richemont also established a corporate function for the HR (namely, group HR). Prior to that, the HR activities were totally decentralized. The HR was – from an organizational point of view – part of the group’s administration. In 2000, the group HR employed a few people to mainly deal with core compliance, thus satisfying the basic governance and reporting requirements. Each Maison still had its own HR department. This implies that there were many different tools and systems, as well as diverging business-related definitions, but almost no coordination or integration of the HR topics. For example, Maisons could headhunt for other Maisons’ employees; there was no collaboration or mutual trust. Moreover, owing to its size and impact on the group’s overall performance, Cartier dominated every group-wide platform. Today, group HR is part of Richemont’s central support services. It aims to be the Maisons’ business partner, providing them with expertise and support services. HR has subsequently become a crucial topic for Richemont. Today, a total of about 500 people work in the HR function, of whom about 15 work in the group HR.

Luxury focus in 2008: In October 2008, Richemont separated its luxury and non-luxury interests, largely spinning off the tobacco business (BAT) directly to the shareholders.

Group governance: More generally, the new group structure comprises two axes (see exhibit 5): the Maison axis and the group axis. In addition to these two axes, Richemont’s new group structure also comprises its board of directors and the group management committee: The board of directors is responsible for the group’s overall strategic direction and the appointment of senior management. In addition, it is responsible for establishing financial controls and appropriate procedures for the management of risk within the group, as well as the overall supervision of the business. The board of directors meets five times annually and is comprised of 15 members, who are principally non-executive directors. Further meetings on specific topics are held on an ad-hoc basis. The board of directors delegates the implementation of strategic policies to the executive management (group management committee).

Richemont’s group management committee is empowered to conduct day-to-day strategic and operational management tasks, including the financial management of the group. It is responsible for the management of the group’s underlying businesses and investments, and is at all times obliged to inform the board of directors of those businesses’ development. The executive committee is composed of the executive chairman, the group chief executive officer (group CEO), the group finance director, the functional heads (e.g., the functional head of the group HR), and the chief executive officers of certain leading Maisons.

Thomas Lindemann, the group HR director, is part of the group management committee and reports to the CEO. He has been an HR expert for many years. From 1989 to 1998, he held a variety of human resources and commercial roles at the Wella group, after which he became the HR director of Montblanc, one of Richemont’s “Maisons.” In 2002, he was appointed as
Richemont Northern Europe’s HR director. Since 2004, he has served as the group HR director and since 2005 as a member of the group management committee.

Today, the group HR has interfaces to the board of directors, to seven other central support service functions, to 19 Maisons, and four regions. There are 31 direct interfaces in total. Similar to other corporate functions centralized at the group level – such as market intelligence, marketing, IT, IP, real estate, logistics, and legal and finance –, group HR has counterparts in the Maisons and in the regional support platforms. The Maisons’ HR directors report to their CEO (direct reporting line), as well as to the group HR (dotted reporting line) while the regional HR directors report to their regional CEOs (direct reporting line) and to the group HR (dotted reporting line).

At the end of 2012, there was a surprise announcement that Johann Rupert (63), the majority stockholder and executive chairman of Richemont, would surrender his mandate as the group CEO to the two new co-CEOs Richard Lepeu (61), who had held the position of deputy CEO since April 2010, and Bernard Fornas (66), who had led the Cartier division for ten years until the end of 2012.

The Maison axis to protect the group’s heritage; the group axis to realize added value

Each Maison is managed as an independent entity. Richemont aims at giving the group’s business divisions the most entrepreneurial freedom possible. “It is crucial to adhere to and enhance a brand’s desirousness […] This is why the separate organization of the brands is so important.”

Therefore, the corporate-level focuses on a few integrative activities: “The group is managed with the objective of growing value for shareholders in the long-term, recognizing that the most important assets of the group – its brands – have almost all been in existence for over a century. […] The independence of the Maisons within the group is fundamental to the group's strategy for future growth.” This safeguards the Maisons’ heritage and promotes individual creativity, ensuring that each Maison remains distinctive and unique.

However, as part of the company’s new two-dimensional organizational structure, the Maisons had to give up part of their independence. Large Maisons, such as Cartier, could no longer dominate the group. However, the organizational structure still underlines the importance of the Maisons’ autonomy, as they formally act on the same level as the corporate units, which are both subordinate to the group management committee.

Every Maison has its own CEO, who reports to the group CEO. To keep the Maisons’ character unique, they are fully responsible for their DNA, which means they largely manage and run their business autonomously. This principle is applied in the following areas: product creation and development, manufacturing, distribution network (where and at which point of sales) and commercial sales, communication, as well as marketing/PR, and customer services. Each Maison’s manufacturing ability is its core competence and, due to the importance of customers’ in-store experience, the way in which the Maisons retail their products is of significant interest.

While the Maison axis represents the Maisons, the group axis embraces three group-level bodies, namely the strategic product & communication committee (SPCC), regional shared
service platforms (SSP), and central support services (CSS) (or group functions) such as legal, logistics, IT, human resources, real estate, and finance. Operating “behind the scenes,” these regional platforms and global functions support all Maisons, enabling them to focus on their strengths in design, creation, sales, and marketing. The costs of the regional platforms are fully allocated to the Maisons. The costs of central support services are partly allocated to the Maisons; the remaining amount is reported as corporate costs.

- **Strategic product & communication committee:** The SPCC guides the Maisons by verifying that their decisions on communication, products, and distribution are appropriate and consistent with Richemont’s identity and corporate strategy. The SPCC consists of about four people (the Chairman, CEO, etc.) and is responsible for validating new products and the new positioning strategies that the brands propose. The role of the SPCC, which has existed for several years, is that of a group strategy committee. It meets regularly with each of the brand companies’ management teams and is a key element in the liaison between the corporate headquarters and the Maisons. Led by the executive chairman and drawing on the expertise of senior executives and central functions, the SPCC is the principal mechanism through which Richemont ensures that new product development and marketing plans remain true to the spirit of each of the Maisons, thus reflecting the core values that have helped the businesses grow over time. The SPCC challenges operational managers’ strategies for controlling their Maison, emphasizing the need to retain an entrepreneurial approach that fits into the larger organization’s framework.

- **Central support services:** A crucial part of introducing a new corporate structure was to centralize certain functional activities through the central support services (CSS). The main idea was to centralize certain tasks to achieve a certain degree of standardization, efficiency, and harmonization with regard to business processes and systems used within the group. Typical group function activities have been: (a) the carrying out of an M&A transaction; (b) the development of IT systems and tools such as supply chain planning and management tool or solutions for e-commerce initiatives; (c) the implementation of global supply chain compliance across the network of regional distribution centers in logistics, as well as the development of tools to reduce cross-border delivery times; (d) deepening the partnership with certain suppliers to coordinate the purchase of certain materials to realize cost savings; and (e) supporting the Maisons with their acquisitions of boutiques and with major construction projects in the corporate real estate.

The CSS consist of specialist teams – like the group HR – that provide the Maisons with central services; these are mostly located in corporate functional teams at the corporate headquarters in Geneva. Each of the Maisons has a counterpart for each group function in order to facilitate cooperation between the different parties at the group and Maison levels. For example, except for the IT function, which is managed in a completely centralized manner, each Maison has an HR person in charge. Today, Richemont exercises central control and supports the Maisons by appointing specialized teams in various areas, including market intelligence, manufacturing and logistics services, intellectual property (IP), human resources (HR), real estate, information technology (IT), and legal and finance teams. These group functions seek to provide the businesses in the group with a high standard of service. Sharing expertise and drawing on best practices from elsewhere in the organization can be efficient and cost-effective.
While the Maisons are charged for some of these services, they do not pay for HR. The advantage is that they don’t have to seek external providers. Furthermore, they don’t have to share potential business-related insights with external firms. As part of the corporate costs, the central support services costs – which are not allocated to the Maisons – increased from EUR 132 million (3.6% of the group turnover) in the 2004/05 fiscal year to EUR 188 million in 2012/13 (1.9% of the group turnover) (2005-2013 CAGR: 4.5%).

- **Shared services platforms (formerly regional support platforms):** To improve the local services and to increase the group support functions’ efficiency, Norbert Platt, the previous CEO, introduced the regional support platforms (SSPs). Basically, the SSPs are regional distribution centers that support the Maisons’ local activities. Today, Richemont has four regional shared services platforms (Europe, which included the Middle East and Africa, Asia-Pacific, the Americas, and Japan) around the world with over 3,000 employees. Each of these regional group companies embraces a number of countries. The person responsible for a specific country reports to the regional CEO who, in turn, reports to the group CEO. The SSPs were set up to reduce the complexity of managing a global presence in multiple countries. Such support platforms, which are located within the same time zone of the countries they support and are familiar with each country’s characteristics and specialties, support doing business in different time zones across the globe. The SSPs provide the Maisons’ local activities, including their logistics, IT, HR, finance, general services, and after-sales services, with regional-specific support.

Typical activities include: (a) installing new IT tools to refine business processes to shorten delivery times across the region and to improve transport and delivery controls; (b) running regional logistics centers; (c) supporting the Maisons’ development of their customer contact centers and their separate and tailored e-commerce initiatives; (d) creating new subsidiaries and retail operations in fast-growing markets; (e) offering support with the real estate field; (f) founding institutions and supporting them to develop qualified craftsmen in the region to keep up with the growing demand for local after sales services; and (g) managing the Maisons’ marketing materials. Only rarely are they involved in developing new tools or designing processes. The SSPs are more often considered the “makers” and are, for example within HR – responsible for rather basic, commodity-type administrative tasks.

The Maisons have to work as independently as possible. Corporate functions only develop methodologies and services that require a group-wide standard. The Maisons remain responsible for topics that have an impact on a product’s character. Group functions, however, know how to set a common standard because they don’t think “brand,” they think “group” and act in the group’s best interests. Some processes and services can therefore be applied group-wide. Furthermore, because, for example, the group HR’s business only involves the management of HR, it has the financial means and necessary know-how to build a center of expertise.

“We cannot outperform our competitors by manufacturing”

**Group HR: towards a source of group value creation**

Setting up the group HR function was challenging. Each of the Maisons had its own processes and systems. In the beginning, the group HR thus had to answer questions such as: What should we do at the group level? Why? And how? Today, the group HR has to provide 28,000
employees with all relevant information, provide 1,800 executives with HR know-how, lead 500 HR experts, and coordinate 32 regions, 19 brands, and 140 operating units. How can a group HR function be realized in such a diverse context?

A great deal of “groundwork” was required at the very beginning. The management team’s first step in setting up the group HR function was to take care of the administrative and transactional part of HR – common ground and language had to be provided to standardize selected HR activities. Over time, it became possible for the group HR to create value for the group as a whole by, for example, attracting the talents needed to support the brands’ characteristics and providing its partners – the Maisons and the regions – with additional services.

A main task of the newly centralized function was, thus, to obtain group-wide standardized definitions for business terms; i.e. a common language had to be created. This was especially challenging for functions like HR, which could not rely on given standards and regulations, whereas it was much easier for legal and finance functions. Nevertheless, corporate standards only influence a Maison’s identity to a certain degree, because each brand has to represent and maintain a specific character in order to attract its designated customer base.

The future users were involved from the beginning of the function’s development to ensure that the new processes and tools were accepted in the Maisons and regions. Thomas Lindemann introduced the notion of “sparring,” which refers to HR concepts that are designated for group-wide use and which the group HR, the regions, and the Maisons co-develop.

Today, the group HR’s main responsibilities are to establish policies, to develop and conceive processes, and to provide strategic orientation and best practice guidance to other HR areas in terms of HR management. “Group HR’s main customers are the HR teams in the brands […] We’re trying to think a bit more in terms of business and less in terms of administration.”

All of the group HR activities are based on three principles:

1. **Guide:** All areas of HR within the group are, to a certain degree, directed;
2. **Delight:** The Maisons and the regions are provided with excellent tools;
3. **Make it easy:** It is easy to work with and handle these tools.

These principles apply to all areas of HR management (see exhibit 6). For example, the group HR is responsible for the basic compensation and benefits model, as well as for the talent management. This is because all employees of the group have to work under the same conditions. However, concepts and processes that deal with personnel development are designed and implemented locally because, for example, an Asian employee will respond differently to motivational concepts than a European employee. Furthermore, the group HR is responsible for the HR management systems. Additionally, the group HR regularly carries out benchmarks – group-wide and with external markets – that allow the identification of best practices. Based on this data, it is possible for the group HR to introduce, for example, compensation models that represent a specific standard and are suitable for all the Maisons. Nonetheless, each of the HR processes and concepts can be adapted locally, which is necessary to guarantee the RSPs’ autonomy with respect to local specificities, as well as the Maisons’ autonomy. To ensure they adhere to control mechanisms at the group level, the Maison HR directors have to report on their local actions to the group HR.
In addition to the topics covered by the areas of expertise (see exhibit 6), the group HR is also responsible for the strategic and financial planning of group-wide HR management. Members of the group HR and the Maison’s HR meet annually to discuss this topic. Moreover, whenever a new employee is appointed to a top management position – either at a Maison or at the corporate level –, the final decision is that of the group HR.

When talking about the group HR, Thomas Lindemann often uses two specific examples to illustrate how group HR works and what has been achieved over the years:

1. **Group HR areas of expertise: the ‘HR systems’ example**

The group HR’s mission is to harmonize the management of HR and become a real business partner for the Maisons and the RSPs. The group HR therefore launched a number of initiatives, each of which introduced a centralized tool that helps manage the administration part of HR efficiently. This involves, for example, the allocation of information and payroll management. The centralized tools help the group HR manage the group’s decentralized environment. They also serve as platforms to boost the collaboration between the group HR, Maison HR, and regional HR.

**SAP for HR:** This operational business transaction tool allows the administrative part of HR to be centrally managed (see exhibit 7). At Richemont, SAP software is used in the finance, IT, and HR departments.

SAP for HR has three main features: First, there is a group-wide “talent pool,” which aims at motivating the Maisons to engage in employee development and at offering them compelling career perspectives. HR managers can post open jobs. This helps employees find a new job within the group. It also allows, for example, other Maisons to headhunt employees in the group: “With our talent pool, we can situate the best people wherever they fit best.” Second, “SAP for HR” allows employees to manage personal data and administrative issues. Third, it allows HR managers to manage employees’ personal files. Only employees in management positions can see this last feature. The HR manager has the possibility to access the personal file, salary, and details of any member of his team.

**HR Intranet:** It mainly enables the group HR to share information with its counterparts in the Maisons and regions with “SAP for HR” as its database. Hence, an employee who, for example, manages his or her personal data will do this using the HR Intranet as a frontend.

The HR Intranet consists of two parts: The first is visible to all of the group’s employees, while the second is only visible to the 300 people working in corporate, regional, or Maison HR. The group HR uses the part that is visible to all the employees to make various announcements (e.g., introducing new managers), to communicate business releases, and to provide a directory, as well as information on the roles and responsibilities of HR (see exhibit 8). Furthermore, the tool serves as a center of knowledge where the group HR, for example, posts e-learning handbooks on time management and on cross-cultural and personal communication, as well as educational books for managers (e.g., on how to do recruitment interviews). Employees have an opportunity to create their own development path by adding their learning and information sources to their profile. Furthermore, it contains tips and quick guidelines; employees therefore do not have to consult external trainers. Overall, this fosters the creation of a learning organization.
The second section, which is only visible to HR employees, provides specific news updates, as well as detailed information on HR processes and policies. Furthermore, there is a local section – only visible to employees in a certain region – containing basically all the policies and forms, such as information on holiday dates, sick leave, deadlines, and specific dress codes. The decentralized content is mostly operational, and the local HR creates and maintains it.

The HR Intranet also offers HR employees the possibility to exchange experiences and subsequently help each other in all kinds of business situations. In doing so – and in addition to the function’s support and information function – a global HR community is built that helps the group HR shape a specific image of HR in the group. Hence, the HR Intranet is also an instrument of internal employer branding. In order to foster the communication between the group HR, Maison HR, and regional HR, the group HR recently introduced a Twitter application that is aimed at further enhancing the communication between the local HR communities. Therefore, HR directors are asked to tweet if they, for example, read a good book that the group HR provided. The main goal of this project is to strengthen the position and image of the group HR and to provide information.

2. Group HR’s responsibility for setting up and rolling out a methodology

In the group HR, one person is in charge of each area of expertise. Using his or her expertise, the group HR is responsible for setting up and rolling out methodologies. Five core processes have been defined: (1) recruitment, (2) performance management, (3) compensation, (4) training & development, and (5) succession planning. Each core process has a process owner who coordinates the RSP of a specific process.

For example, the following process defines the methodology of how to reward employees: the group HR defines the methodology of the “compensation process,” which includes basic instructions on how to reward the group’s employees. This process is updated annually in accordance with changes in the reference markets or economic indicators. Upon request, the group HR sets up a compensation benchmark or a retail survey to help the Maisons define their specific compensation policy.

Once the processes have been designed, it is the group HR’s responsibility to ensure that the implementation of HR management in a particular area is understood, adapted, and supported. The Maisons will then manage the process for all their employees, while the RSPs support the Maisons with their local implementation of the process. It is important to remember that a Maison’s HR director owns and is responsible for every HR process in a Maison business, although the group HR introduced it. In line with the implementation of the process, the group HR will deliver step-by-step handbooks and organize training days with the Maisons’ and regions’ HR teams: “We offered a two day-training for brands and regional HR directors. We began with a pilot group of brands’ HR directors. There we provided orientation and gave tips on how to undertake the implementation.” In order to ensure that the processes are understood and implemented, the group HR has defined three success factors. The methodology has to be (1) consistent, (2) clear, and (3) it needs to follow an integrated approach that can be applied group-wide.
What’s next?

While contemplating all these achievements, Thomas Lindemann also remembers that the group HR’s development demanded a great deal of groundwork. He remembers how he identified a number of areas in which he and his team built a solid framework, thus ensuring that the corporate HR function adds value. Owing to these “white spots,” as he calls them, the group’s high demand for administrative tools supported his mission. All the business processes, policies, and HR areas of expertise in the group – which means the Maisons and regions – had to be set up so that one function could manage the topics centrally. Despite all the achievements with respect to the group-level integration, Richemont still appears to have a strong need for further integration owing to the fast growth strategy the company adopted in 2009, the growing regional and business diversity, and the more competitive environment.

There is a knock at the door: one of his team members has come to remind him of the upcoming group management committee meeting later that afternoon. He looks at the sheet in front of him and reads his hand-written notes: What are the group HR’s future challenges? Do we have room for improvement? If so, where? What does this comprise? How can the need for further integration be achieved without diluting the autonomy of the individual brands?
Exhibit 1: Richemont’s four luxury goods sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Numbers (2012/13)</th>
<th>Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Jewelry</td>
<td>51% of total sales</td>
<td>Cartier (founded in 1847) Van Cleef &amp; Arpels (1906)</td>
</tr>
<tr>
<td></td>
<td>CAGR 2002-13: 8%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>EBIT - margin: 34.9%</td>
<td></td>
</tr>
<tr>
<td>2. Watches</td>
<td>27% of total sales</td>
<td>A. Lange &amp; Söhne (1845) Baume &amp; Mercier (1830)</td>
</tr>
<tr>
<td></td>
<td>CAGR 2002-13: 12%</td>
<td>W. C. (1868)</td>
</tr>
<tr>
<td></td>
<td>EBIT - margin: 26.6%</td>
<td>Jaeger-LeCoultre (1833)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Officine Panerai (1860)</td>
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<td></td>
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<td>Piaget (1874)</td>
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<td></td>
<td></td>
<td>Roger Dubuis (1985)</td>
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<td></td>
<td></td>
<td>Vacheron Constantin (1755) and a joint venture with Ralph Lauren (2007)</td>
</tr>
<tr>
<td>3. Writing instruments/</td>
<td>8% of total sales</td>
<td>Montblanc (1906)</td>
</tr>
<tr>
<td>Montblanc Maison</td>
<td>CAGR 2002-13: 5%</td>
<td></td>
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<tr>
<td></td>
<td>EBIT - margin: 15.7%</td>
<td></td>
</tr>
<tr>
<td>4. Others (leather,</td>
<td>14% of total sales</td>
<td>Alaia (1983)</td>
</tr>
<tr>
<td>fashion, pipes,</td>
<td>CAGR 2002-13: 10%</td>
<td>Chloé (1952)</td>
</tr>
<tr>
<td>accessories, etc.)</td>
<td>EBIT - margin: 2.7%</td>
<td>Dunhill (1893)</td>
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<tr>
<td></td>
<td></td>
<td>James Purdey &amp; Sons (1814)</td>
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<td></td>
<td>Lancel (1876)</td>
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<tr>
<td></td>
<td></td>
<td>Shanghai Tang (1994)</td>
</tr>
</tbody>
</table>
### Exhibit 2: Richemont’s income statement

<table>
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</thead>
<tbody>
<tr>
<td>Sales (Mio. €) (March 31)</td>
<td>10159</td>
<td>8568</td>
<td>6892</td>
<td>5176</td>
<td>5418</td>
<td>5290</td>
<td>4827</td>
<td>4388</td>
<td>3671</td>
<td>3375</td>
<td>3651</td>
<td>3689</td>
<td>9.2%</td>
<td>13.6%</td>
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<tr>
<td>&gt; Retail</td>
<td>5440</td>
<td>4659</td>
<td>3869</td>
<td>2885</td>
<td>2604</td>
<td>2414</td>
<td>2009</td>
<td>1762</td>
<td>1509</td>
<td>1392</td>
<td>1496</td>
<td>1590</td>
<td>11.8%</td>
<td>17.4%</td>
<td>17.5%</td>
</tr>
<tr>
<td>&gt; Retail as % of sales</td>
<td>54%</td>
<td>53%</td>
<td>50%</td>
<td>46%</td>
<td>43%</td>
<td>46%</td>
<td>42%</td>
<td>41%</td>
<td>41%</td>
<td>41%</td>
<td>41%</td>
<td>41%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Wholesale</td>
<td>4710</td>
<td>4212</td>
<td>3423</td>
<td>2791</td>
<td>314</td>
<td>3076</td>
<td>2818</td>
<td>2546</td>
<td>2162</td>
<td>1983</td>
<td>2155</td>
<td>2270</td>
<td>6.9%</td>
<td>10.2%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>3631</td>
<td>3217</td>
<td>2498</td>
<td>1985</td>
<td>2001</td>
<td>1875</td>
<td>1753</td>
<td>1588</td>
<td>1415</td>
<td>1283</td>
<td>1357</td>
<td>1382</td>
<td>9.2%</td>
<td>12.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td>&gt; Cost of sales as % of sales</td>
<td>35%</td>
<td>36%</td>
<td>36%</td>
<td>38%</td>
<td>37%</td>
<td>35%</td>
<td>36%</td>
<td>38%</td>
<td>37%</td>
<td>39%</td>
<td>38%</td>
<td>37%</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Gross Profit</td>
<td>6519</td>
<td>5651</td>
<td>4394</td>
<td>3191</td>
<td>3417</td>
<td>3415</td>
<td>3374</td>
<td>2720</td>
<td>2266</td>
<td>2092</td>
<td>2284</td>
<td>2478</td>
<td>9.2%</td>
<td>14.2%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>64.2%</td>
<td>63.7%</td>
<td>63.6%</td>
<td>61.6%</td>
<td>63.1%</td>
<td>64.6%</td>
<td>63.7%</td>
<td>63.1%</td>
<td>61.5%</td>
<td>62.0%</td>
<td>62.6%</td>
<td>64.2%</td>
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</tr>
<tr>
<td>Net operating expenses</td>
<td>-4093</td>
<td>-3603</td>
<td>-3009</td>
<td>-2361</td>
<td>-2449</td>
<td>-2297</td>
<td>-2156</td>
<td>-1579</td>
<td>-1711</td>
<td>-1795</td>
<td>-2025</td>
<td>-1996</td>
<td>6.7%</td>
<td>11.0%</td>
<td>10.9%</td>
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<tr>
<td>Net operating expenses as % of sales</td>
<td>40%</td>
<td>41%</td>
<td>44%</td>
<td>46%</td>
<td>45%</td>
<td>43%</td>
<td>45%</td>
<td>48%</td>
<td>33%</td>
<td>33%</td>
<td>52%</td>
<td>52%</td>
<td>-2.2%</td>
<td>-2.2%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>2426</td>
<td>2084</td>
<td>1355</td>
<td>839</td>
<td>968</td>
<td>1118</td>
<td>916</td>
<td>741</td>
<td>485</td>
<td>298</td>
<td>259</td>
<td>482</td>
<td>15.8%</td>
<td>22.3%</td>
<td>18.5%</td>
</tr>
<tr>
<td>Operating Profit Margin</td>
<td>23.9%</td>
<td>23.1%</td>
<td>19.7%</td>
<td>16.0%</td>
<td>17.9%</td>
<td>21.1%</td>
<td>19.8%</td>
<td>17.2%</td>
<td>13.2%</td>
<td>8.8%</td>
<td>7.1%</td>
<td>12.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Net finance costs/income</td>
<td>-47</td>
<td>-235</td>
<td>-181</td>
<td>-137</td>
<td>-101</td>
<td>-40</td>
<td>-31</td>
<td>5</td>
<td>-48</td>
<td>-55</td>
<td>-49</td>
<td>0.2%</td>
<td>-0.3%</td>
<td>-237.7%</td>
<td></td>
</tr>
<tr>
<td>&gt; Share of post-tax profit of assoc. undertakings</td>
<td>-4</td>
<td>-9</td>
<td>101</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Profit before taxation</td>
<td>2375</td>
<td>1804</td>
<td>1275</td>
<td>697</td>
<td>870</td>
<td>1166</td>
<td>945</td>
<td>748</td>
<td>417</td>
<td>302</td>
<td>203</td>
<td>436</td>
<td>16.7%</td>
<td>23.6%</td>
<td>18.0%</td>
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<tr>
<td>Taxation</td>
<td>-370</td>
<td>-264</td>
<td>-196</td>
<td>-94</td>
<td>-133</td>
<td>-194</td>
<td>-159</td>
<td>-36</td>
<td>-56</td>
<td>-50</td>
<td>-107</td>
<td>245</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
</tr>
<tr>
<td>Profit from continuing operations</td>
<td>2005</td>
<td>1540</td>
<td>1079</td>
<td>603</td>
<td>737</td>
<td>972</td>
<td>790</td>
<td>610</td>
<td>340</td>
<td>238</td>
<td>153</td>
<td>329</td>
<td>17.9%</td>
<td>24.3%</td>
<td>18.5%</td>
</tr>
<tr>
<td>Profit from discontinued operations (1)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>339</td>
<td>592</td>
<td>539</td>
<td>486</td>
<td>472</td>
<td>422</td>
<td>489</td>
<td>-100%</td>
<td>-100%</td>
<td>-100%</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>2005</td>
<td>1540</td>
<td>1079</td>
<td>600</td>
<td>1087</td>
<td>1564</td>
<td>1229</td>
<td>1096</td>
<td>812</td>
<td>600</td>
<td>642</td>
<td>1208</td>
<td>12.0%</td>
<td>9.0%</td>
<td></td>
</tr>
<tr>
<td>Diluted earnings per share (€)</td>
<td>3.595</td>
<td>2.756</td>
<td>1.925</td>
<td>1.071</td>
<td>1.916</td>
<td>2.75</td>
<td>2.331</td>
<td>1.951</td>
<td>2.185</td>
<td>0.576</td>
<td>1.907</td>
<td>2.07</td>
<td>6.4%</td>
<td>9.1%</td>
<td></td>
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<tr>
<td>Cash generated from operations</td>
<td>1944</td>
<td>1798</td>
<td>1696</td>
<td>1464</td>
<td>819</td>
<td>968</td>
<td>970</td>
<td>774</td>
<td>481</td>
<td>561</td>
<td>286</td>
<td>19.0%</td>
<td>19.1%</td>
<td>14.1%</td>
<td></td>
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<tr>
<td>Corporate costs</td>
<td>207</td>
<td>93</td>
<td>161</td>
<td>186</td>
<td>140</td>
<td>158</td>
<td>144</td>
<td>169</td>
<td>145</td>
<td>170</td>
<td>178</td>
<td>178</td>
<td>4.5%</td>
<td>2.9%</td>
<td></td>
</tr>
<tr>
<td>&gt; Central support services (CSS)</td>
<td>188</td>
<td>170</td>
<td>159</td>
<td>147</td>
<td>139</td>
<td>146</td>
<td>137</td>
<td>154</td>
<td>132</td>
<td>145</td>
<td>132</td>
<td>132</td>
<td>4.5%</td>
<td>2.9%</td>
<td></td>
</tr>
<tr>
<td>&gt; CSS as % of sales</td>
<td>1.9</td>
<td>1.9</td>
<td>2.3</td>
<td>2.6</td>
<td>2.6</td>
<td>2.8</td>
<td>2.8</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
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</tr>
</tbody>
</table>

(1) Discontinued operations: The share of results from BAT to 20.10.08 and certain immaterial operations were included in continuing operations up to and including 31.03.07 under IFRS, but are presented above within discontinued operations for all periods for comparative purposes.

(2) Reporting changed in 2004/05 from SWISS GAAP ARR to IFRS

Sources: Richemont Annual Reports 2002-2013
### Exhibit 3: Shift in the industry’s regional focus

| Geographic Regions | Europe | Asia-Pacific | Japan | Americas | Sum | YoY
<table>
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</thead>
<tbody>
<tr>
<td><strong>Sales</strong> (&lt;br&gt; Mio. €)</td>
<td>CAGR 06-13 10% 24% 3% 8% 13%</td>
<td>CAGR 05-13 11% 24% 4% 10% 14%</td>
<td>CAGR 02-13 7% 17% 2% 7% 9%</td>
<td>2012/13 3'611 4'162 904 1473 10'150 14%</td>
<td>2011/12 3'098 3'684 833 1253 8'868 29%</td>
<td>2010/11 2'588 2'569 737 998 6'892 33%</td>
</tr>
<tr>
<td><strong>% of Sales</strong></td>
<td>2011/12 38% 42% 9% 14% 100%</td>
<td>2010/11 41% 34% 12% 14% 100%</td>
<td>2009/10 41% 34% 12% 14% 100%</td>
<td>2008/09 44% 27% 13% 16% 100%</td>
<td>2007/08 43% 24% 13% 19% 100%</td>
<td>2006/07 42% 22% 15% 20% 100%</td>
</tr>
</tbody>
</table>

Reporting changed in 2005 from SWISS GAAP ARR to IFRS

Sources: Richemont Annual Reports 2002-2013
Exhibit 4: Richemont share price over 25 years, including share splits and 2008 reorganization

Exhibit 5: Richemont’s group structure

Compagnie Financière Richemont SA

Management Committees

| Strategic Product & Communication Committee | Guide the Maisons by verifying that decisions on communication, products and distribution are appropriate and consistent with Maison’s identity & strategy |
| Shared Services Platforms (Regional Support Platforms) | Regional distribution centers provide world-class support to Maison’s local activities, including logistics, IT, human resources, finance, general services, and after-sales services |
| Central Support Services | In addition to Group’s role of formulating policies & processes, specialist teams provide support, including market intelligence, manufacturing, logistics services, intellectual property, HR, real estate, IT, legal & finance |

The Maisons

Each Maison within the Group’s portfolio is run as an independent entity. This safeguards each Maison’s heritage and allows individual creativity to flourish, ensuring that each Maison remains distinctive and unique.

- Preserving DNA
- Creation
- Product Development
- Manufacturing
- Distribution and Sales
- Communication / Marketing

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- Manufacturing
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Exhibit 6: Group HR’s areas of expertise

Exhibit 7: Illustrated framework “SAP for HR”
**Exhibit 8: Divided responsibilities (Source: Extract from Richemont HR Intranet)**

### Compensation process

| **Group HR** | Responsible for: all direct reports to the Board, in Brands, Regions & Central Functions  
Provide support with:  
- Defining a common methodology  
- Updating compensation reference markets  
- Undertaking or supporting any compensation project upon request |
| **Brand HR** | Responsible for: all Management of the Brand  
(with support of Regional HR for positions outside of the Brands’ HQ) |
| **Regional HR** | Responsible for: all Regional Shared Service population  
Provide support to: all Brands in the Region |

### Management by objectives process

| **Group HR** | Responsible for: all direct reports to the Board, in Brands, Regions & Central Functions |
| **Brand HR** | Responsible for: all Management of the Brand |
| **Regional HR** | Responsible for: all Regional Shared Service population  
Provide support to: all Brands in the Region |

### International mobility process

| **Group HR** | Define, implement and communicate Group assignment policy;  
Manage all international transfers |
| **Brand HR** | Responsible for: all Brand’s employees;  
Coordinate between employee, Group HR and Brand management |
| **Regional HR** | Responsible for: all Regional Shared Service population;  
Provide support to: any international transfer from or to their Region |
Core Readings


Additional Readings


References

1 If you are interested in the luxury goods industry, please refer to: Müller-Stewens, G. (2013): Das Geschäft mit Luxusgütern, Geschichte, Märkte, Management, Universität St. Gallen.
2 The Richemont business year ends on March 31.
4 This was first mentioned in the 2007/08 Annual Report.
5 Interview Richemont, 2010.
7 Interview Richemont, 2010.
8 Interview Richemont, 2010.
9 Interview Richemont, 2010.
10 Interview Richemont, 2010.