



A perfect fit

The DNA of winning apparel brands



OC&C
Strategy consultants

uncommon sense

Introduction

The global market for apparel presents both challenge and opportunity. To be a winner, a brand must plot an ever more careful path. There is little scope to get it wrong.

On the one hand, global market growth has slowed, consumers are ever more demanding and the costs of operation continue to inflate. On the other, international borders and channels are blurring, allowing brands access to broader markets, whilst consumers are showing increasing loyalty to the brands they value and trust.

With these opposing forces, it is of no surprise that retailer and brand performance in the apparel market is increasingly polarised between the winners and losers. Against this backdrop, we unpick the DNA of the winners, and show how to identify and grow a winning apparel formula.

In the face of this pressure, apparel brands need to strike a delicate balance:

- Maintaining focus and balance between core categories and customer missions, whilst sympathetically unlocking growth from adjacent or under-exploited categories
- Investing to become fast, assertive and reactive, whilst delivering quality, fit and personalisation
- Driving focus and investment on existing loyal customers, whilst driving reach to access new customer segments
- Investing to unlock new channels and international markets, whilst driving nearer term reward where the brand is already established

THE APPAREL INDUSTRY IS UNDER PRESSURE



Competitive intensity is high

- **“Traditional” retailers are investing heavily** to stay relevant
- **New, disruptive “digital first” players are owning market niches**
- **A new breed of super-fast-fashion pureplays are changing definitions of ‘fast’** – both in range refresh and speed of delivery



The market and consumer landscape is tough

- **Market growth is sluggish**
- **Consumer demands are increasing;** inflating expectations of speed, convenience, price, quality and personalisation
- **Generation Z** bring different preferences, influences and demands on the industry



Increasing pressures on profitability and cash flow

- **Margins under pressure** from exchange rates & sourcing costs
- 5% wage inflation & faster fulfilment drive **rising costs to serve**
- **Cost of customer acquisition inflating** across all channels
- **Accelerating pace of model change is driving capital intensity** (5%+ pa increase in retailer tech spend)



THE DNA OF WINNING APPAREL BRANDS

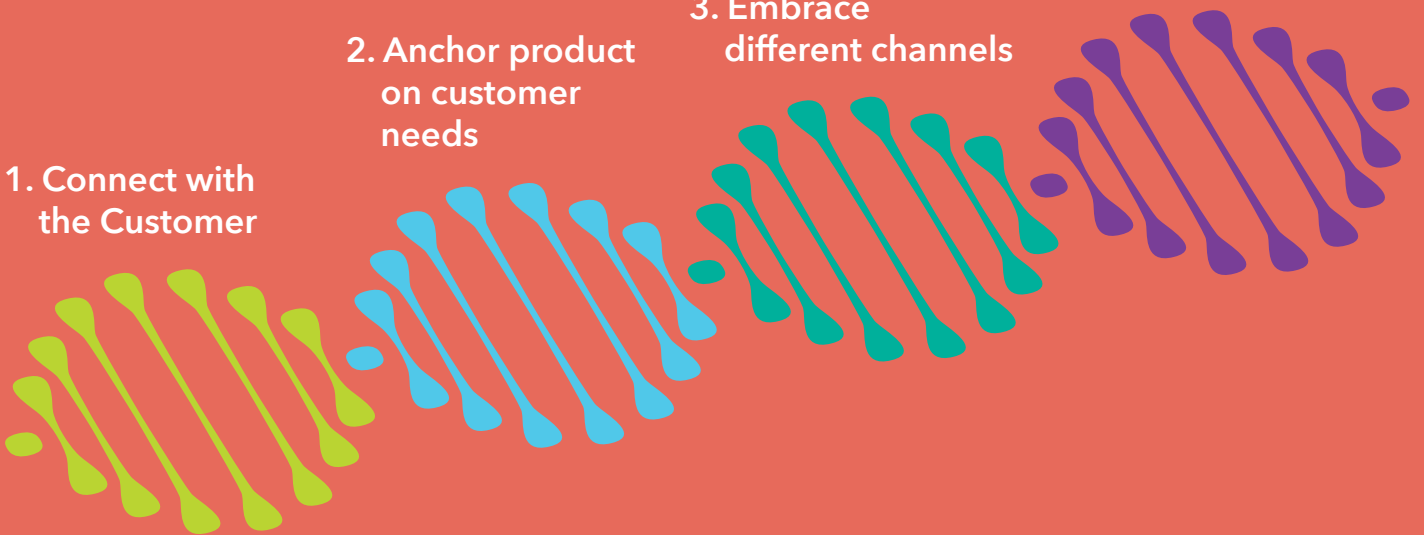
Faced with these tensions and an uncertain market, OC&C's DNA of Winning Apparel Brands is designed to help fashion players assess where they are on the four key dimensions of being a winning brand.

1. Connect with the Customer

2. Anchor product on customer needs

3. Embrace different channels

4. Travel intelligently



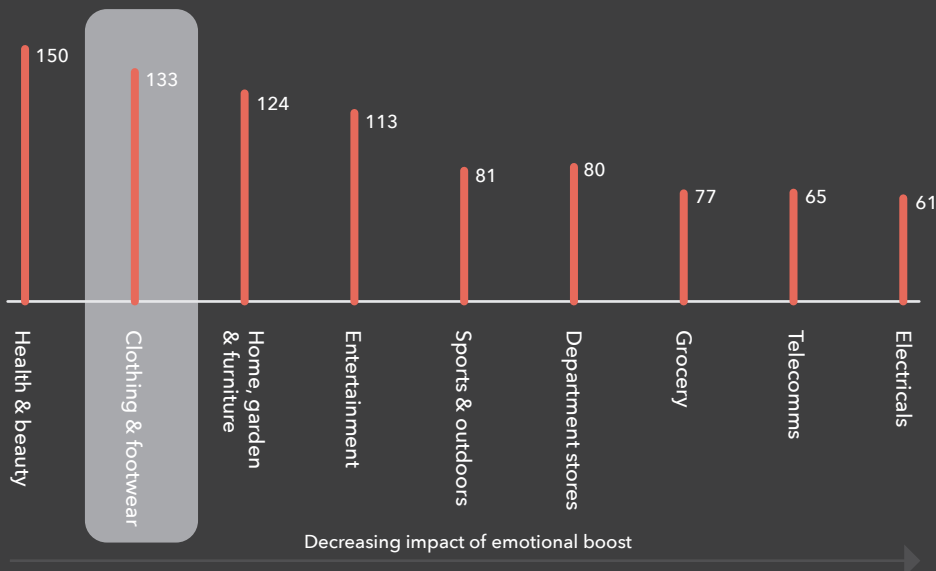
1. Connect with the customer



Shoppers are more loyal, and more active advocates of brands that stand for something that they feel an emotional connection with. Of course, rational factors such as quality, service and delivery options are important, but on their own, they won't take a brand to the top of the list. Brands that can tell an emotional story across their channels, with their products, can delight with their store environments, and can really engage with customers and their products to achieve an 'emotional boost' that takes their performance ahead of even the best 'rational' brands.

EMOTIONAL BOOST IS PARTICULARLY SIGNIFICANT IN APPAREL, HIGHLIGHTING THE IMPORTANCE OF BUILDING A STRONG CONNECTION WITH THE CUSTOMER BASE

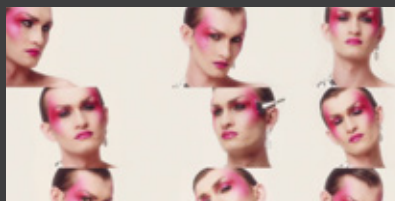
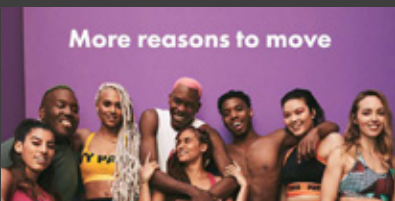
IMPORTANCE OF EMOTIONAL BOOST BY CATEGORY, 2018, AVERAGE = 100



Source: Retail Proposition Index, OC&C analysis

CASE STUDY

ASOS



- ASOS has developed an emotional connection with a community of young shoppers
 - Their guiding purpose is to give people the confidence to be who they want
- This emotional relationship has been built through a number of empowering campaigns such as:

- **'more reasons to move'** which aims to "empower customers whether they prefer running or raving"
- **'Endless ways to be you'** which gave shoppers the opportunity to experiment with their face and body as a means of self expression

Customers are becoming increasingly discerning and demanding. Couple this with inflating costs of acquiring new customers, and it has never been more important for brands to do everything in their power to excite, delight and retain core customers. The economics of maximising a high loyalty customer base as opposed to a broad base of casual users is much more attractive and sustainable long term.

'Good Brands' clearly stand for something that their target customer identifies with, whether that is an underlying value, lifestyle or passion. 'Better Brands' live and breathe what they stand for, reflecting it in everything they do; it is consumer-facing - in their image, service model and communication - but it is also part of their internal culture. The 'Best Brands' actively cultivate a community to reinforce their position.

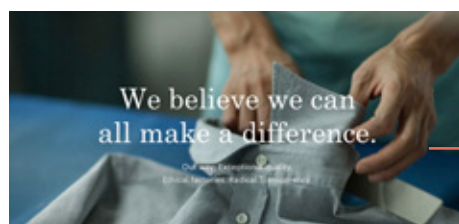
Establishing a sense of 'allegiance' to a brand and 'belonging' to a fashion community is instrumental to garnering trust, retaining shoppers and ultimately driving customer lifetime value.

Everlane have driven over 100% sales growth since 2016 through a ruthless commitment to an ethically conscious prestige shopper on a mission for high quality basics. From the narrow, clean and block-colour range, to the clinical showrooms, to the 'Radical Transparency' sourcing mission and brand tagline, the retailer is devoted to a clear point of view.

The 'Best Brands' actively cultivate a community to reinforce their position

CASE STUDY

EVERLANE ARE RUTHLESSLY DEVOTED TO ETHICALLY CONSCIOUS SHOPPERS ON BASICS MISSIONS



At Everlane, we want the right choice to be as easy as putting on a great T-shirt. That's why we partner with the best, ethical factories around the world. Source only the finest materials. And share those stories with you—down to the true cost of every product we make. It's a new way of doing things. We call it Radical Transparency.



Clear brand positioning founded on the notion of 'Radical Transparency' at open and honest pricepoints

Complete commitment to a defined assortment of basics products, with c.6 new lines dropping every month

Absolute transparency over the materials, labour, duties and transport costs associated with production

Transition from online only to multichannel in 2017, with a clean, pared down store aesthetic

Success indicators

**+100% sales growth
2016-2017
\$100m in 2017)**

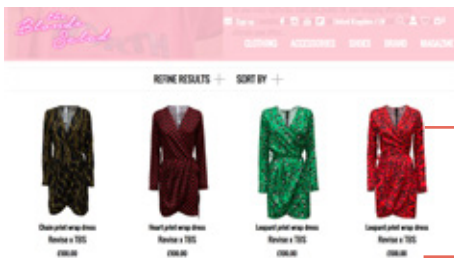
**Shipped product to
more than 1 million
customers**

**Opened 2 bricks &
mortar boutiques
in the last 12 months**

The rise of social media has given fashion brands a powerful platform to build and nurture active communities of like-minded shoppers. Chiara Ferragni's boutiques and website 'The Blonde Salad' started life as social communities, and have now been monetised through a mix of branded and own-brand apparel and accessories. The retailer has built an active and inclusive community of 14m followers, reaching >£15m sales in 2017.

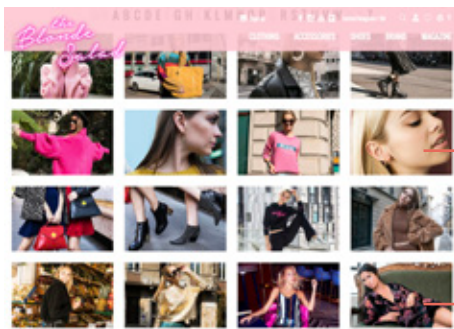
CASE STUDY

THE BLONDE SALAD HAS CREATED A TRIBE OF FASHION-FORWARD, RELIABLE, LIKE-MINDED SHOPPERS



Everything in The Blonde Salad range is designed, created and handpicked by Chiara and her team- mixing own brand product with 3rd party brands

The Chiara Ferragni seal of approval adds credibility to the design and quality of the product, whilst creating a 'club' of supporters



The tone of voice of text, videos and imagery is genuine, open and honest- engendering trust from fans and shoppers

The Blonde Salad rejects the use of formal models in favour of more relaxed and in-situ styling

Success indicators

14m Instagram followers

1m unique visitors a month

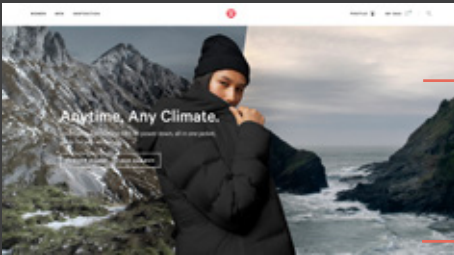
>\$15m revenue (2017)

Source: Press Research, OC&C analysis

In-store experiences can also be a very effective tool to engage customers. In South Korea, Lululemon extend their mission for a 'Healthy Mind & Body' into a broad swathe of in-store services and community events, and are rewarded with 30% of attendees making purchases.

CASE STUDY

IN-STORE EXPERIENCES HAVE BECOME INCREASINGLY IMPORTANT BOTH IN ENHANCING BRAND AND ATTRACTING NEW CUSTOMERS



The Lululemon brand is focussed on enabling guests to live happy, healthy and fun lives

Lululemon has recently opened a flagship store in South Korea where they now offering classes relating to a healthy mindset outside of exercise. They run sessions such as flower arrangement, gift wrapping and weaving as well as the usual yoga and boxing classes



The chosen classes are all brand enhancing and relate back to Lululemon's 'healthy body and mind' DNA whilst increasing customer engagement and encouraging regular store visits

Around 30% of class participants purchase clothing afterwards

Source: Lululemon, Retail News, OC&C analysis



Establishing a meaningful and enduring customer connection is critical. Apparel brands need to be asking themselves:

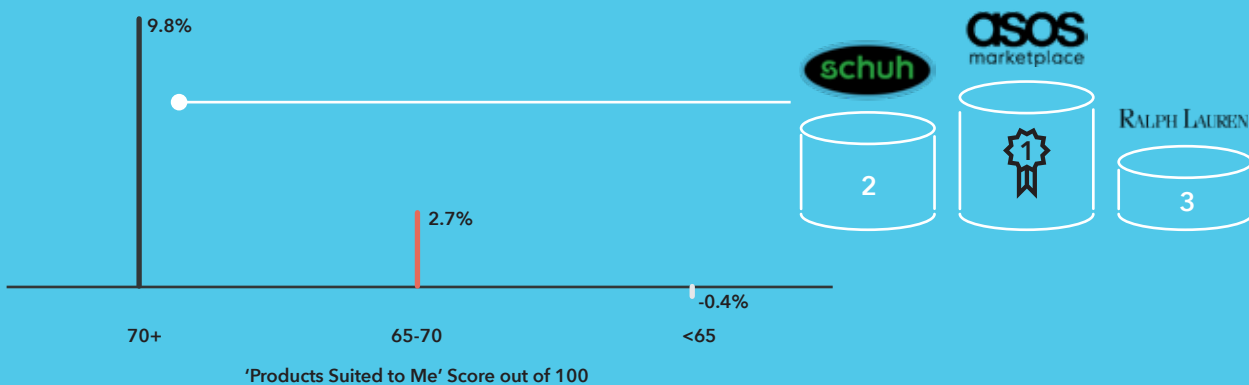
- How strong is our emotional connection with our customers and our people? Is it consistent across our longstanding loyal customers and those new to the brand?
- What are we doing in each of our channels to communicate what we stand for? Is it compelling and consistent? What more could we do?
- How are we engaging our customers in what we do, what we stand for and our target missions?

2. Anchor product on customer needs

The benefits of championing product and range are material. Those apparel brands who understand their customers' needs and achieve leading ratings of 'product suited to me' deliver a c.5%pt improvement in sales growth versus those with poorer ratings.

THOSE APPAREL RETAILERS WITH LEADING RATINGS OF 'PRODUCT SUITED TO ME', DELIVER A C.5% PT IMPROVEMENT IN SALES GROWTH

AVERAGE REVENUE GROWTH BY CONSUMER SCORE FOR 'PRODUCTS SUITED TO ME' (%)
LATEST AVAILABLE YEAR



Source: OC&C Proposition Index 2018, Capital IQ, OC&C analysis

Ultimately the right product for the customer is at the heart of successful brands. Setting a strategic, compelling and enduring product direction is founded on several key components- woven together by an obvious and robust link between a brand's products and target customer segments, and greatly supported by a rapid supply chain.



Critically brands need to be asking:

- Do we understand our market segments, and are we clear on where we want to play?
- Are we targeting sizeable and growing product segments that present sufficient headroom for our growth aspirations?
- Who are our competitor references, and are we clear on our sources of advantage?
- Do we have a clear value positioning, which is justified in the eyes of the consumer in terms of quality, style and innovation promise?
- Have we effectively translated the target market positioning into clear style, silhouette and colour guiderails that our buyers and designers can get behind?
- Are we continually dissecting how the target customer's style needs are addressed by our current ranges?
- Are our range structures, processes, critical paths and 'drop' regularity lined up with the brand and customer expectations?



‘**Good Brands**’ are clear on their customer and the missions for which they are relevant, while ‘**Better Brands**’ directly reflect customer needs in their product and range planning.

The ‘**Best Brands**’ not only reflect this in their planning but shorten their supply chain and use data to remove some of the guesswork



Winning apparel brands are sensitive to the ways their processes and critical paths support their brand position. For many brands, this is about achieving an accelerated supply chain - locking in an inherent advantage by creating the opportunity to 'test and learn' what product is most suited to their customers, and buying back into it to maximise potential in season.

Removing the need for multiple sign-offs, expediting certain product groups through the system and near-shoring portions of sourcing and production help brands drop product continuously and at pace. Technology helps enable the process - Urban Revivo champion PLM software to speed up production and allow closer and more efficient collaboration with suppliers.

Winning apparel brands are sensitive to the ways their processes and critical path support their brand position

CASE STUDY

URBAN REVIVO ARE LEVERAGING TECHNOLOGY AND PROCESSES TO TRUNCATE PRODUCT LEAD TIMES



Source: OC&C analysis

- Extensive use of Product Lifecycle Management (PLM) software
 - Preparation of raw materials in advance of production
 - Relatively narrow group of (c.100) suppliers trusted with high degree of self-authority
 - Complex timetabling to manage weekly cross-category launches
-
- 15-30 day lead time from concept to completion
 - Sampling time of 3-4 days
 - 20,000 new products per year
 - Weekly drops of newness into stores

Super fast fashion

"We launch more than 20,000 kinds of new products every year. We have a huge timetable and a super fast supply chain. To compare with a traditional fashion company, we launch new products every week. So, our suppliers, we require them to supply those products to us, within around 15 days to 30 days."

VP of Supply Chain, Urban Revivo

"Centric PLM has helped to speed time to market, cut costs and errors, and improve innovation. Take sampling, for example; our designers and merchandising team used to take about ten days for one collection. Now, with Centric's help, it takes three to four days."

CIO, Urban Revivo

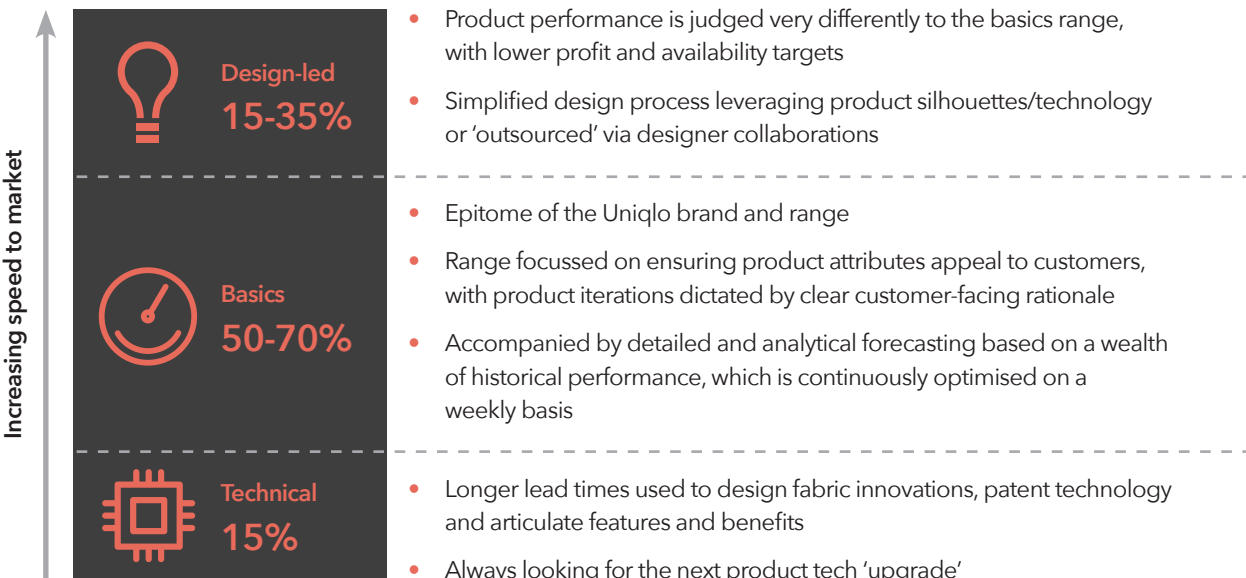
For other brands, 'speed' may not be core to the customer proposition, and may threaten to dilute the quality of products for customers. Uniqlo is a good example of an apparel player who flexes their critical paths and processes for three different 'tracks' of product. For the track of 'technical' product, the critical path is elongated to ensure the process allows for creating, patenting and pitching of innovative products to customers - a key point of differentiation for the brand suppliers.

CASE STUDY

UNIQLO FLEX THEIR PROCESS FOR DIFFERENT PRODUCTS IN THE RANGE, ACTIVELY SLOWING DOWN THEIR 'TECHNICAL' CRITICAL PATH TO ENSURE GENUINE PRODUCT INNOVATION

Clear Strategy reflected in the balance of product types

"Products made for all customers offering value for money above anything else, no desire to compete with very fashionable apparel retailers"

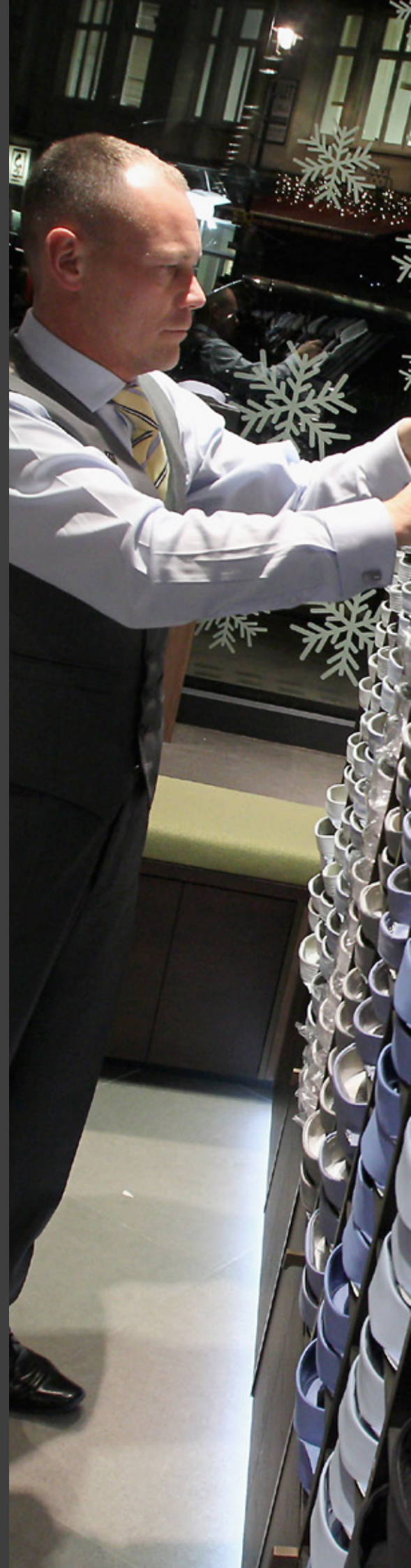


3. Embrace different channels

Channels play markedly different roles depending on geography, sub-category, customer segment and purchase journey dynamics. Understanding how your channel mix will help access new customers, enhance customer experience and drive incremental sales is key to achieving scale profitably. However, this isn't as simple as having a compelling online offering; it's about how you balance the mix of direct, third party and international platforms to maximise share within your target market in the most profitable way possible.

'Good Brands' trade on multiple channels broadening their customer reach and joining them up to give a consistently great customer experience. 'Better Brands' think beyond the transactional value, and understand the roles channels play in the customer journey. The 'Best Brands' are thinking creatively beyond traditional channels and considering strategic partnerships.

The financial reward of adopting a diverse and flexible channel strategy is material. Missguided has switched away from being an online pureplay and has used offline channels and media partnerships as thoughtful customer acquisition tools, boosting sales by c.40% in the process. Boux Avenue has developed its channel mix by partnering with a number of e-commerce platforms internationally including Next and Zalando, consequently experiencing over 30% online sales growth.





CASE STUDY

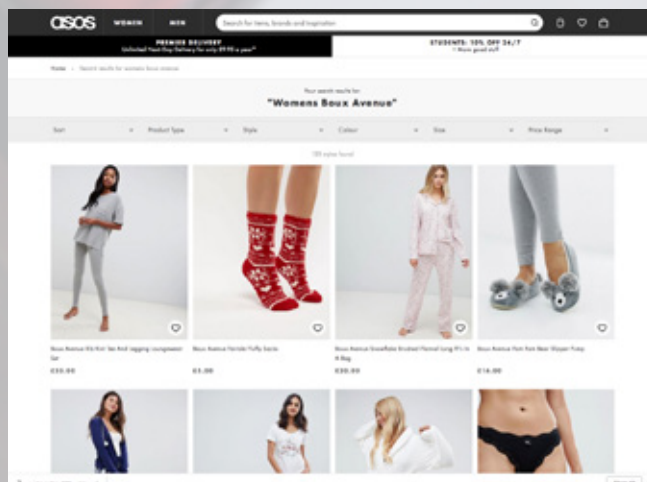
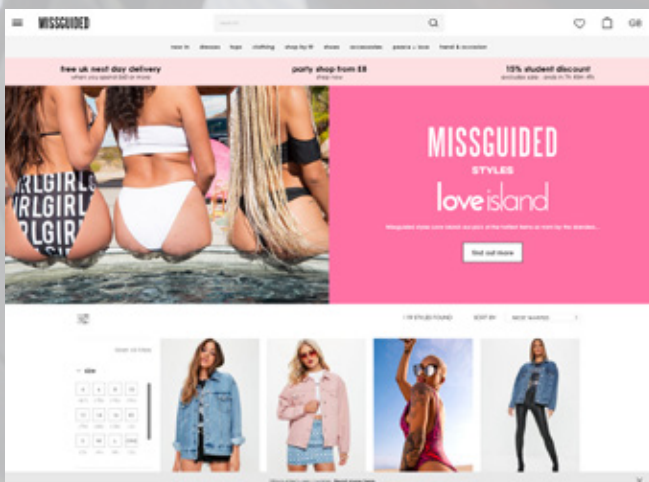
INCREASING THE NUMBER OF CHANNELS BOTH INCREASES BRAND LOYALTY AND ACCELERATES CONSUMER ONBOARDING WHICH DRIVE REVENUE GROWTH

Missguided

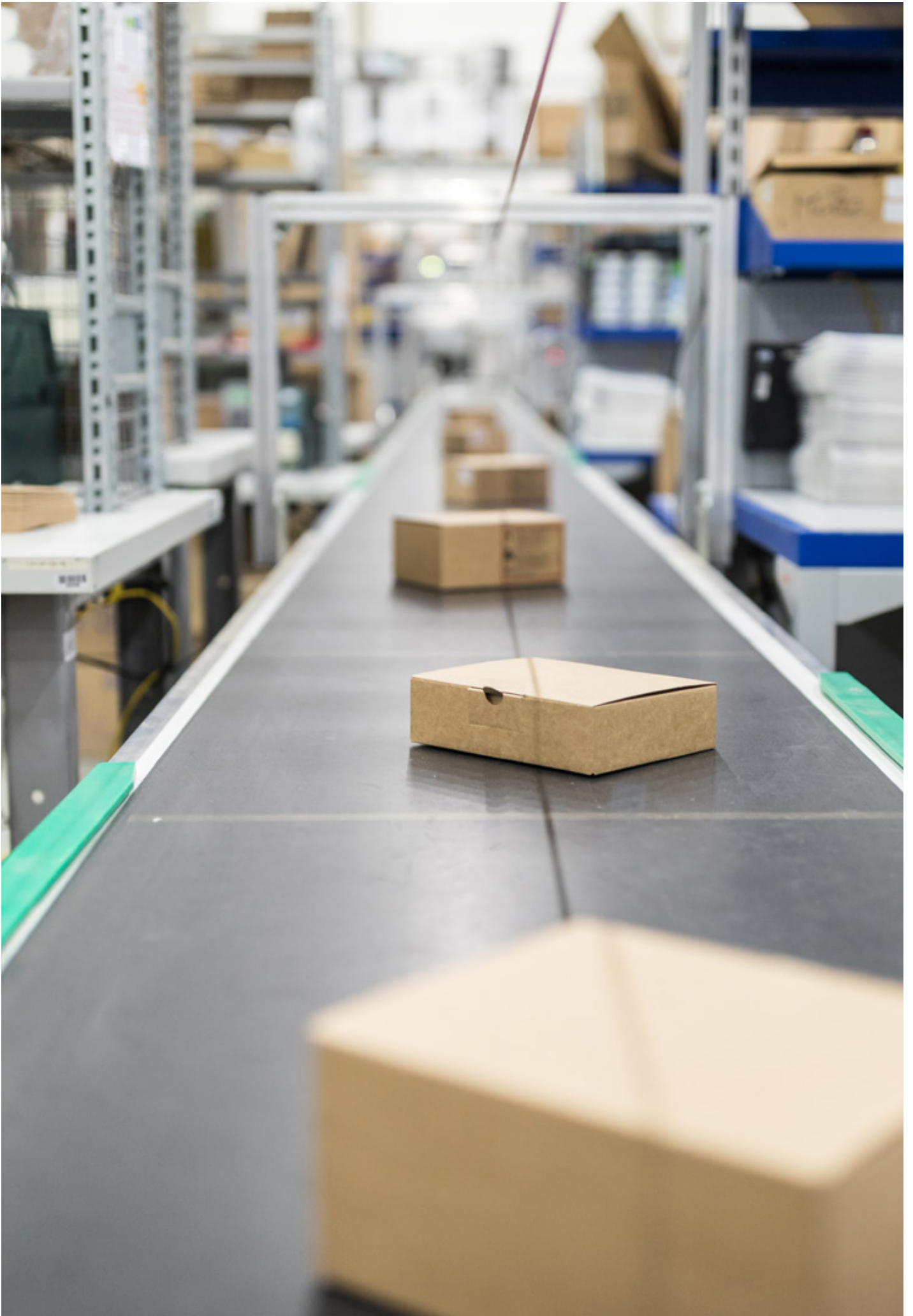
- Missguided has been named the second fastest growing UK retailer in 2018
- It has recently been expanding its channels outside of the online store and ASOS partnership
 - Missguided launched two stores in the south of England and set up Selfridges concessions in Manchester and Birmingham
 - They also developed a strategic partnership with Love Island, which boosted sales by 40% over the course of the 8 week programme

Boux Avenue

- The lingerie brand increased sales through its online business by more than 30% in 2017
 - The sales increase was not only due to a focus on driving like-for-like sales on a newly redesigned website but also through developing new online retail partnerships
- Boux Avenue has recently partnered with UK retailers Next, ASOS, Littlewoods, Lippy and Very.co.uk
- They have also set their sights on international expansion through partnerships with German platform Zalando and the US retailer Nordstrom



Source: Retail Week, Brand Websites, OC&C analysis



Innovative apparel brands have developed partnerships that both improve channel mix, increase customer reach and optimise profitability. Leveraging third party platforms and partnerships allow brands to round out their reach and/or extend their category authority. It is becoming increasingly popular to look at platform capabilities as a path to growing sales. This can be done through selling products on a third party platform or launching a marketplace. An example of such a brand is Next which has stabilised challenging performance by developing a strong marketplace platform- attracting value and mid-market brands alike.

DEVELOPING AND IMPROVING A BRAND'S CHANNELS IS AN IMPORTANT MEANS OF REVENUE GROWTH

Examples of channel driven growth options



In order to fully and effectively embrace different channels, brands need to be assessing:

- Are we available across the channels of discovery, research and transaction most important to our target customers? If not, how do we get into these?
- What role do different channels play for customers? Does it vary for different customer missions? Are we optimising the experience for the customer journey?
- Do we have the right trading strategy to maximise the opportunity in each channel, including marketplaces and third party platforms?
- What are the strategic partnerships that could improve our offering, access new customers and round out our proposition platforms?

Source: Next Accounts, OC&C analysis

4. Travel intelligently

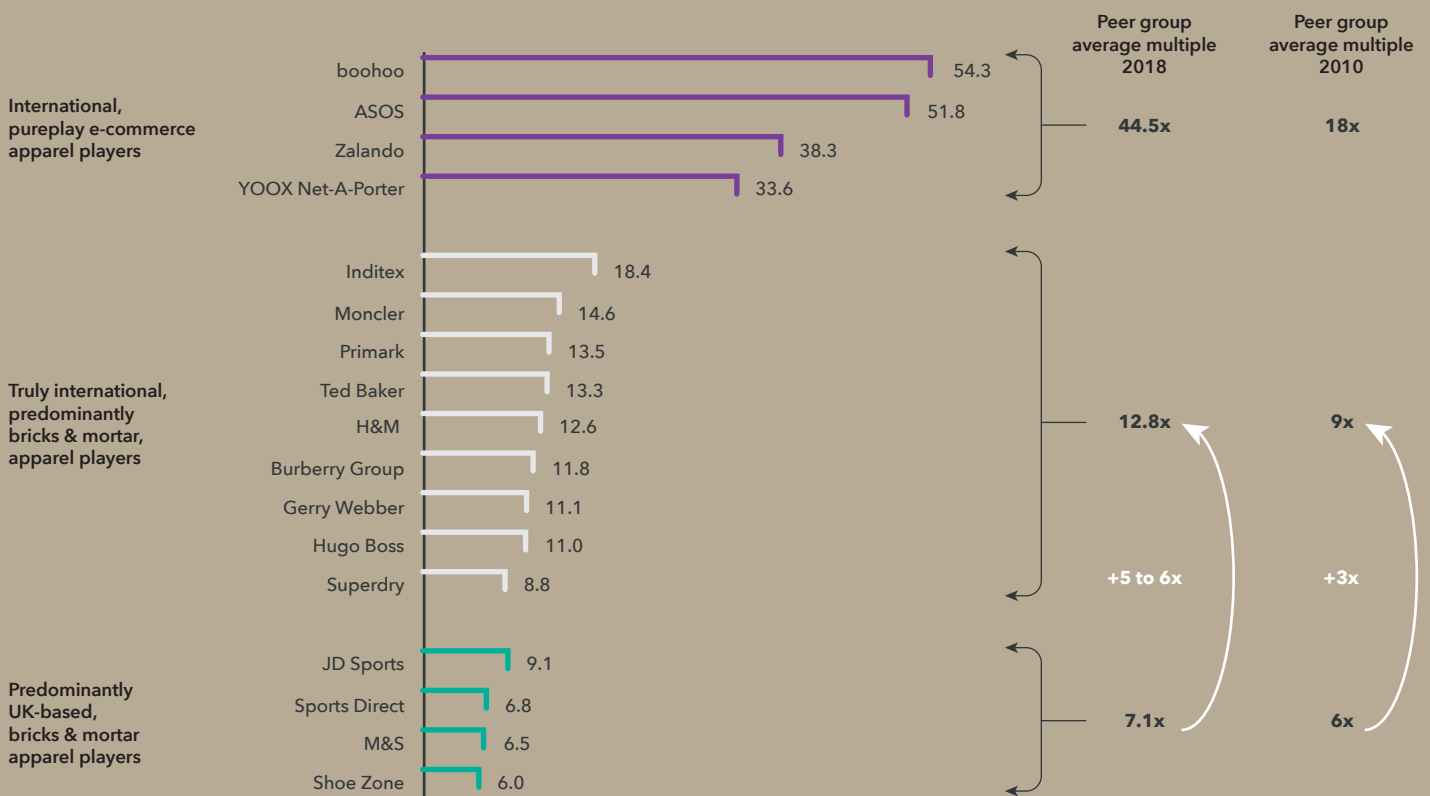
Brands that can travel internationally are driving most incremental sales, and can ultimately lead to significant improvement to enterprise value.

'Good Brands' have a clear strategy which is aligned to their strengths, while 'Better Brands' have already achieved a balanced footprint which helps limit risk to any single market. However, the 'Best Brands' are actively using insight from international to continue to evolve their brands and keep them relevant.

Dr. Martens has used a phased and diversified channel strategy to, firstly, 'test bed' potential international markets- starting with a low risk and capital light wholesale-led distribution strategy, and transitioning to a standalone store where there is proven demand. Secondly, they have established a series of non-core channels (including Amazon and T-Mall) that either access incremental customer spend that can then be shifted to direct channels, or tap into different customer missions (e.g. replenishment of boot polish or laces). As a result, c.60% of revenue comes from outside of the EU, limiting their exposure to any one market.

BUILDING CONFIDENCE IN YOUR INTERNATIONAL STORY (AND CORE BRAND DEFENSIBILITY / STRENGTH) WILL BE CRITICAL TO DRIVING VALUATION MULTIPLE

Enterprise Value (last 12 months average) / EBITDA (latest results) - Selected listed European apparel players



International apparel businesses are valued at a substantially higher rating than domestic players - and that valuation premium has been increasing

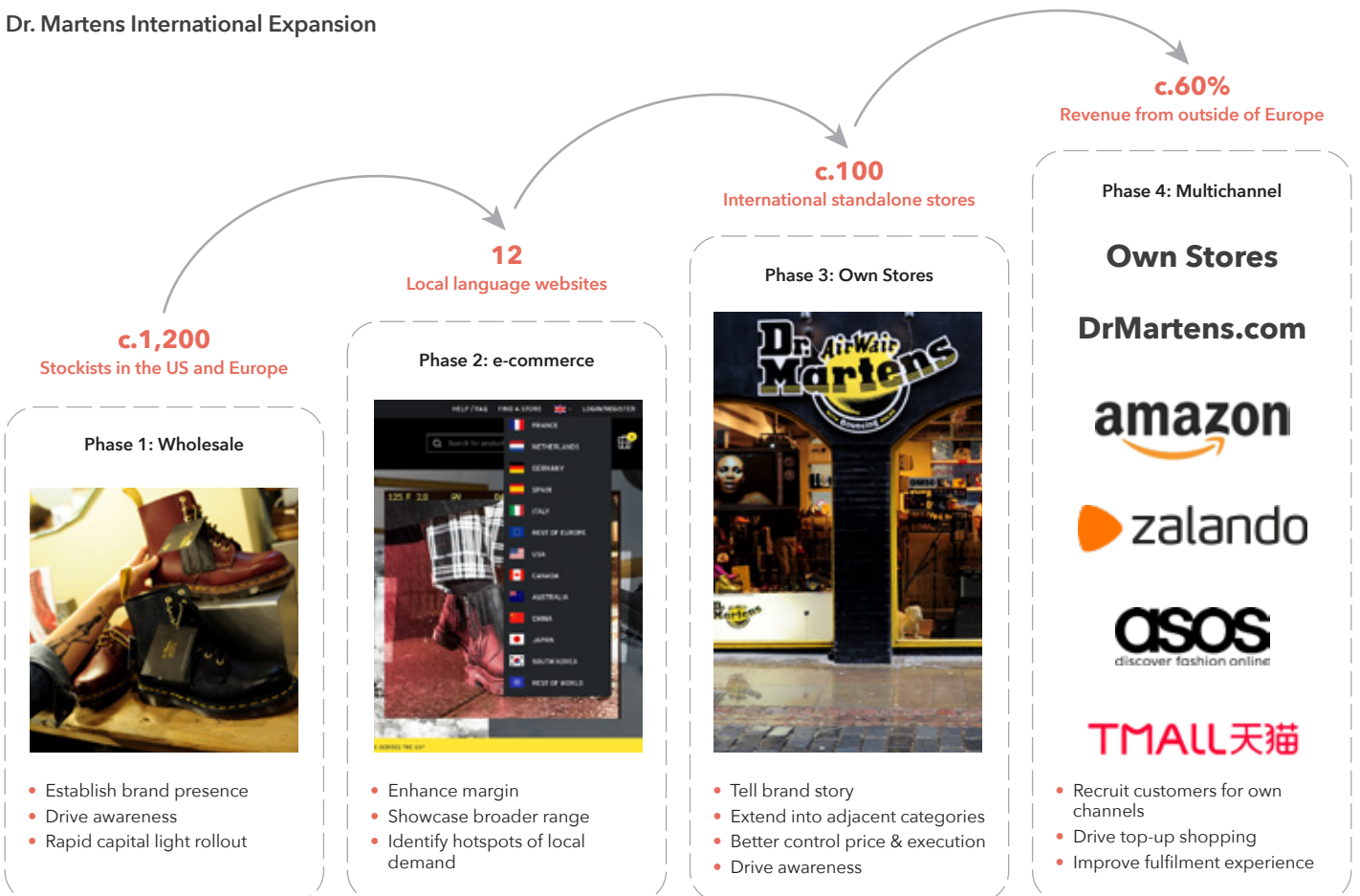
Source: Capital IQ, OC&C analysis



CASE STUDY

DR. MARTENS HAVE BEEN SUCCESSFUL IN OPTING FOR A PHASED APPROACH TO EXPANDING INTERNATIONALLY

Dr. Martens International Expansion



Source: OC&C analysis

Dior and Hermès are examples of luxury brands that have taken learnings from the early stages of new market entry to evolve their propositions and stay relevant to local markets. Trialling social selling pop-ups on China's WeChat platform tests product resonance and consumer purchase behaviour, informing assortment tweaks for the local market. In addition, the pop-ups pave an international expansion approach to be replicated in other Asian markets across Instagram, Facebook and other digital platforms and communities.

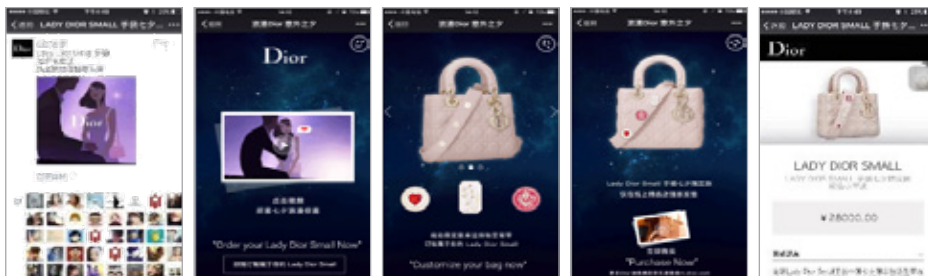
CASE STUDY

SOME OF THE PIONEER LUXURY BRANDS HAVE STARTED TO EXPLORE AND TRIAL OMNICHANNEL E-COMMERCE WITH WECHAT BEFORE LOOKING INTERNATIONALLY

WeChat pop-ups lead luxury omnichannel strategy

Dior's Pop-up Store on WeChat

ChristianDior



Advertisements on WeChat Moment

Customised WeChat storefront

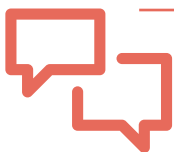
Interactive customisation service

Connection to e-commerce site

E-commerce site for purchase

Source: OC&C analysis

- Launched a WeChat Pop-up store in 2016 during the Qixi Festival – Dior was the **first luxury brand to sell luxury bags on WeChat**
- Achieved **huge success**, in which the special-edition Lady Dior handbags were **sold out in less than 1 day, generating RMB 5.6mn sales and 600k+ views**
- Since their successful partnership with WeChat their focus has been on seamless **omnichannel retail and online growth**
- Dior launched **Instagram channels** to promote its products to target demographics and a **Facebook chatbot 'Dior Insider'** to promote new products
- LVMH launched a **multibrand e-commerce site**



In being 'intelligent' about how brands travel internationally, apparel players need to ask themselves:

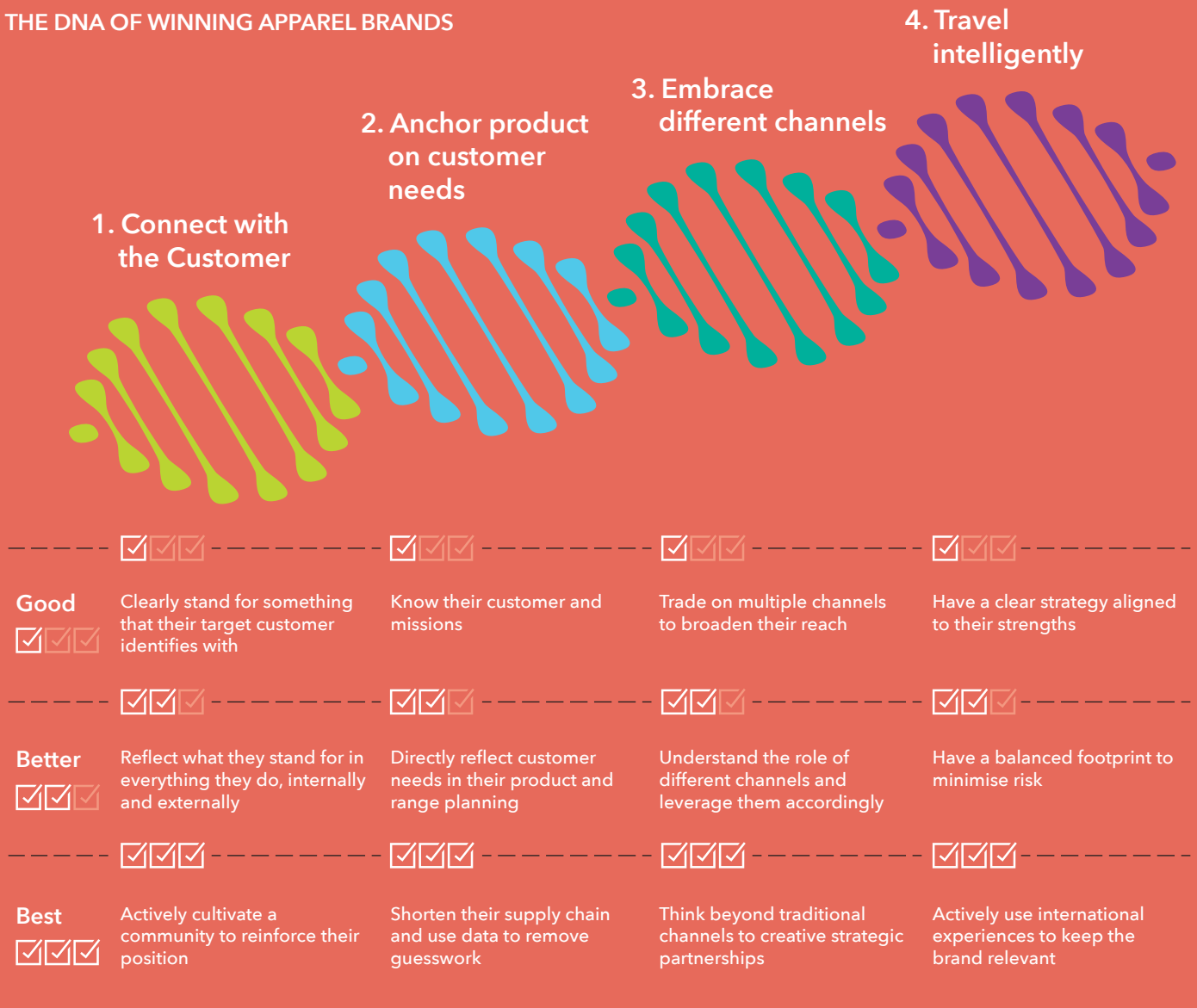
- What channels are right for which market? How do we access these effectively?
- What is our 'test and learn' approach? How can we rapidly assess local demand and traction?
- How will we adapt and evolve our approach across the international estate?
- What can we learn from our international markets to enhance our core proposition to customers?

The apparel DNA health check

To trade successfully and navigate the challenges of the sector, apparel brands need to take a bold stance on each of the aspects of the winning 'Apparel DNA' and learn from those who are not only 'Good' but pushing the boundaries to be the 'Best'

- The dedication with which all aspects of the business, internal and external, reinforce what the brand stands for
- The clarity of customer needs and how this is translated directly into product and ranges
- The ability to leverage other retailers alongside owned channels to maximise share of wallet and profitability
- The intelligent way to internationalise

THE DNA OF WINNING APPAREL BRANDS



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