ONLINE LUXURY FASHION – MARKET SIZING

Introduction

This is a case study based on a real case that OC&C worked on in 2007, sizing the potential of the online luxury fashion market in China. This case study requires sound numerical skills, the ability to come up with some sensible estimates, some awareness of consumer behaviour and online knowledge. Excellent candidates differentiate themselves by the quality of the answer, the logic and methodology in estimating the parameters used in the calculation and some understanding of the China e-commerce market.

Case Background

Our client is a leading high-end fashion retailer in Asia. OC&C have been approached to help them think about their online strategy in Asia Pacific, with particular focus on the business opportunities in China.

Your specific task on this case is to scale the opportunity – i.e. how big is the current market size of online luxury fashion in China and how many potential buyers currently exist in the market.

Market estimation methodology

First question: how would you estimate the market for online high-end fashion?

The good candidate explains that the market for online high-end fashion is driven by the size of the overall high-end fashion market, the number of internet users in China (i.e. the internet penetration rate), the likelihood of internet users buying fashion online, and the share of their online spending as a percent of total spending on high-end fashion.

The excellent candidate points out in addition to the above that we need to consider the impact of Chinese people buying high-end fashion abroad while they are travelling. We also need to consider worries on counterfeit goods by Chinese consumers and the lack of trust between buyers and sellers online would require adjusting the online model from the West to fit the unique market situation in China.

Market estimation

Second question: given that the addressable high-end fashion market for our client in China is €400 million, how much do you think the market for online high-end fashion is worth?

We provide you with some data points to work out the market size, but you also need to figure out what are the missing links and how to make reasonable estimates or assumptions on such missing information. Good candidates will work through the logic piece by piece, whilst the excellent candidates will lay out methodology and information required upfront and then work through them systematically. Fundamentally however we need to work out a ratio to split up the existing market into online and offline portion by making assumptions on the online purchase behaviour.

The good candidate thinks about the internet penetration rate among high-end fashion shoppers in China (data point provided here that the overall internet penetration in China is around 12%) and estimates how many of them would shop online for fashion. Next, estimate the share of online spending as a percent of total spending on fashion. Finally multiply all these parameters with the addressable market size for our client to get the answer for the market for online high-end fashion in China.

The excellent candidate does not just guess those numbers, but can justify where those

numbers come from by drawing reference to statistics, surveys, government data or derive a rational approach for the estimation. For example, when estimating the internet penetration rate among high-end fashion shoppers, the excellent candidate contemplates the proportion of people in urban centres likely to be the target for high-end fashion, uses urban statistics, adjusted for the high-end segment of the population to come up with an estimate on internet penetration for high-end consumers. The candidate should also raise the issue on how the existing state of e-commerce infrastructure, such as online payment, credit card availability, online security, delivery, counterfeit, etc, would affect the online shopping behaviour and create potential hurdles for online shopping.

Sub-issue: key hurdles for online purchase

Third question: What are the key hurdles for online purchase of high-end fashion in China?

The good candidate considers obvious factors that counterfeit products, poor online payment system, unreliable delivery system, etc.
The excellent candidate also identify more subtle issues such as young age profile of internet users, lack of credible or branded online retailers, lack of consumer protection, low credit card penetration and usage, etc.

In all of these calculations and discussions, there is an expectation that the candidate will be able to calculate the numbers correctly. This does not mean that if you make a mistake you have failed, but that you can identify when you have made mistakes (execute that all important sanity check) and ultimately arrive at a sensible and correct answer. There is also an expectation that where you are forced to make estimates they are vaguely sensible!

Conclusion

The final task

in the market sizing question is to calculate the number of potential buyers in China. To estimate the number of potential buyers in China, you need to come up with an estimate on the average purchase value per customer and divide the market size by that number.

In the majority of cases the interview will finish at this stage –both interviewer and interviewee being generally exhausted and out of time. For exceptional candidates, who have managed to get through the case quickly, we then go on to contemplate what are the key value propositions that our client need to have to successfully establish an online business in China.

Additional question

Fourth question: If our client decided to enter the China market, what are the points of differentiation our client need to build in order to succeed in the market?

The excellent candidate is very unlikely to get all of the items below but should be able to generate some interesting and non-obvious issues for discussion, like:

- Build a credible brand name by advertising on target media, such as magazines or internet websites for high-end consumers and leverage presence of physical stores to emphasize that it is a credible real business, not just a virtual store online.

- Provide special product selection, an edited offer with unique brands, unique merchandise or latest products that customers cannot find elsewhere.

- Offer a risk free shopping environment to customers by providing free exchange and return.

- Provide loyalty programme and superb customer service to increase repeated purchase.

- Provide user generated content and community features in the website to enhance stickiness of the website.