A perfect fit

The DNA of winning apparel brands

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

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<th>The market and consumer landscape is tough</th>
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<td>A new breed of super-fast-fashion pureplays are changing definitions of ‘fast’ – both in range refresh and speed of delivery</td>
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THE DNA OF WINNING APPAREL BRANDS

Faced with these tensions and an uncertain market, OC&Cs 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**

- **Health & beauty**: 150
- **Clothing & footwear**: 133
- **Home, garden & furniture**: 124
- **Entertainment**: 113
- **Sports & outdoors**: 81
- **Department stores**: 80
- **Grocery**: 77
- **Telecoms**: 65
- **Electricals**: 61

Decreasing impact of emotional boost

Source: Retail Proposition Index, OC&C analysis

**CASE STUDY**

**ASOS**

- **More reasons to move**
  - ‘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

- 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:
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.

**Case Study**

**EVERLANE ARE RUTHLESSLY DEVOTED TO ETHICALLY CONSCIOUS SHOPPERS ON BASICS MISSIONS**

- **We believe we can all make a difference.**

  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

*Source: OC&C analysis*
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 focused on enabling guests to live happy, healthy and fun lives.

Lululemon has recently opened a flagship store in South Korea where they now offer 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

<table>
<thead>
<tr>
<th>Score Range</th>
<th>Average Revenue Growth</th>
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<tbody>
<tr>
<td>&gt;70</td>
<td>9.8%</td>
</tr>
<tr>
<td>65-70</td>
<td>2.7%</td>
</tr>
<tr>
<td>&lt;65</td>
<td>-0.4%</td>
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</table>

‘Products Suited to Me’ Score out of 100

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

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.

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

• 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

Source: OC&C analysis

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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”

Design-led 15-35%

• Product performance is judged very differently to the basics range, with lower profit and availability targets
• Simplified design process leveraging product silhouettes/technology or ‘outsourced’ via designer collaborations

Basics 50-70%

• Epitome of the Uniqlo brand and range
• Range focussed on ensuring product attributes appeal to customers, with product iterations dictated by clear customer-facing rationale
• Accompanied by detailed and analytical forecasting based on a wealth of historical performance, which is continuously optimised on a weekly basis

Technical 15%

• Longer lead times used to design fabric innovations, patent technology and articulate features and benefits
• Always looking for the next product tech ‘upgrade’

CASE STUDY

Increasing speed to market

Source: OC&C analysis
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, Lipsy and Very.co.uk
- They have also set their sights on international expansion through partnerships with German platform Zalando and the US retailer Nordstrom

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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

1. Partner with a 3rd party retailer to ‘round out’ each other’s offerings
   - PEPPR & Co
   - Poundland

2. Create focussed white label ranges with a specialist player
   - Mothercare
   - Boots

3. Acquire an e-commerce pureplay to gain a route to younger shoppers
   - Walmart
   - Bonobos

4. Build wholesale relationships with e-commerce platforms and marketplaces
   - New Look
   - ASOS

5. Partner with a media platform to build the brand and offer a new channel
   - Love Island
   - Missguided

Source: Next Accounts, OC&C analysis

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?
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.

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

Phase 1: Wholesale
- Establish brand presence
- Drive awareness
- Rapid capital light rollout

Phase 2: e-commerce
- Enhance margin
- Showcase broader range
- Identify hotspots of local demand

Phase 3: Own Stores
- Tell brand story
- Extend into adjacent categories
- Better control price & execution
- Drive awareness

Phase 4: Multichannel
- Recruit customers for own channels
- Drive top-up shopping
- Improve fulfilment experience

Source: OC&C analysis

DrMartens.com

- Amazon
- Zalando
- TMALL

c.60% Revenue from outside of Europe

c.100 International standalone stores

12 Local language websites

c.1,200 Stockists in the US and Europe

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**

- 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

*Advertisements on WeChat Moment*  
*Customised WeChat storefront*  
*Interactive customisation service*  
*Connection to e-commerce site*  
*E-commerce site for purchase*

Source: OC&C analysis

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

1. Connect with the Customer
   - Good
     - Clearly stand for something that their target customer identifies with
   - Better
     - Reflect what they stand for in everything they do, internally and externally
   - Best
     - Actively cultivate a community to reinforce their position

2. Anchor product on customer needs
   - Good
     - Know their customer and missions
   - Better
     - Directly reflect customer needs in their product and range planning
   - Best
     - Shorten their supply chain and use data to remove guesswork

3. Embrace different channels
   - Good
     - Trade on multiple channels to broaden their reach
   - Better
     - Understand the role of different channels and leverage them accordingly
   - Best
     - Think beyond traditional channels to creative strategic partnerships

4. Travel intelligently
   - Good
     - Have a clear strategy aligned to their strengths
   - Better
     - Have a balanced footprint to minimise risk
   - Best
     - Actively use international experiences to keep the brand relevant
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