hitwise

THE US FASHION REPORT

Online Challenges & Tactics for Retailers and Brands

2018

INTRODUCTION

2018 has started with tough retail conditions.

Mass store closures and bankruptcies continue to claim household names, from Toys R Us, Bon-Ton to Claire's Accessories.

In the first four months of the year, announced store closures covered a staggering 77 million square feet, according to CoStar Group. This figure is well on track to surpass 2017's record of 105 million square feet.

A key factor behind the "retail apocalypse" is the accelerated growth of online retail. Propelled by pure players, traditional bricks-and-mortars are needing to adapt to the increasingly online consumer.

Many have done so and succeeded in the past year. In this report, Hitwise looks at what has happened in online fashion. We detail:

- Top fashion players and risers driving online growth
- Key challenges faced in 2018
- Recommendations and tactics to overcome these challenges.

THE US FASHION INDUSTRY

Total Online Visits

hitwise

For over twenty years, Hitwise has been a leading online measurement and audience targeting business.

With our unique digital insights and powerful modeling tools, clients are able to segment, reach and activate their prospective customers.

Sample size
8 M+ online panelists
3.5 M+ mobile devices

Data depth
500 M keywords monthly
60 K+ audience characteristics

Data frequency
Hourly insights
to yearly trends

WHAT'S INSIDE

PART ONE

THE PAST YEAR

ONLINE PERFORMANCE BY FASHION TIERS

FAST FASHION IS DRIVING GROWTH IN 2018

Each fashion tier has seen different levels of success over the past year.

The Fast Fashion Tier
Fast Fashion retailers and brands have broken away from other tiers since the start of the year. The segment saw 20%+ rises in online activity each month from March to June 2018, capitalizing on Spring and Summer seasons.

The Mid Tier
The Mid tier has followed a similar pattern to Fast Fashion, particularly in the second half of 2018. But a number of retailers have since struggled to keep this acceleration in 2018, seeing declining growth from January onwards.

The Premium & Luxury Tier
This tier saw impressive results in the second half of 2017, growing by 29% YoY (which was also the case in the UK). This included a 37% YoY rise in July and 24% YoY rise in November, potentially indicating seasonal shifts for this upper tier.

MONTHLY ONLINE VISITS

MONTHLY GROWTH YoY

LUXURY BRANDS SOARED OVER SECOND HALF OF 2017

The second half of 2017 saw top luxury houses reach impressive online results.

This included traditional heritage houses like Gucci and Louis Vuitton, and e-tailers like Matches Fashion and Farfetch.

How has Gucci grown by 108% YoY?

Bringing on a new creative director in 2015, Gucci has transformed its brand into a hip and digitally-focused leader.

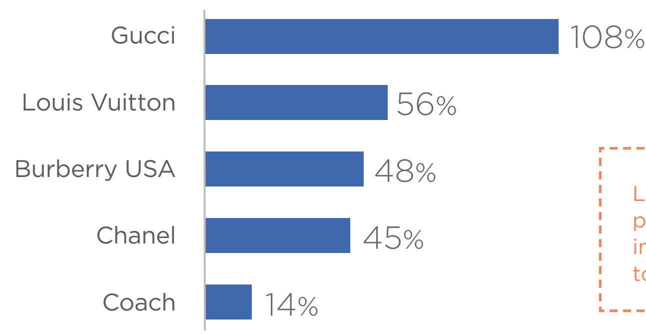
From hoodies and fanny packs, to collaborations with designers like Harlem tailor Dapper Dan, Gucci has successfully lured the luxury millennial.

Online channels have also evolved. Social has become key to Gucci's digital marketing strategy and collaboration with Dapper Dan, with traffic from Instagram rising by 55% in June YoY.

THE PREMIUM & LUXURY TIER

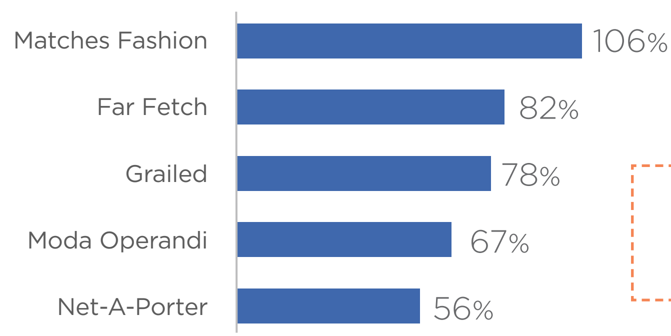
Fastest Risers in H2 2017

Visits to Luxury Brands YoY



Luxury brands, particularly Gucci, saw impressive growth toward the end of 2017.

Visits to Luxury Retailers YoY



Luxury retailers like Matches Fashion also grew by triple digits.

FAST FASHION SEES IMPRESSIVE GROWTH IN 2018

After a successful 2017, Fast Fashion brands continue to grow in 2018.

In particular, teen pure players, like Rotita, Shein and Modlily, have catapulted over the start of the year.

How have these e-tailers seen the incredible online rise?

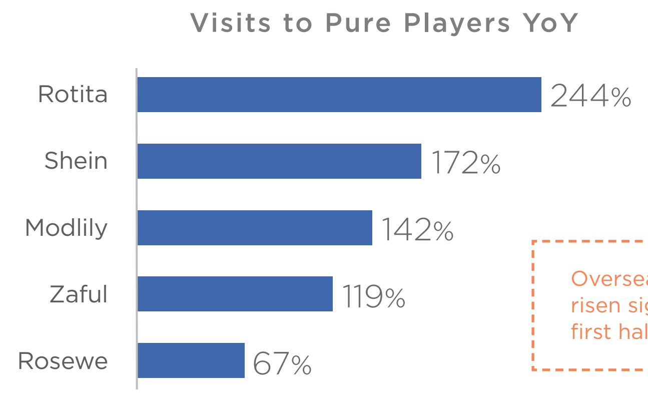
2018 has seen a significant push by overseas e-tailers to break into the US market. Many of these retailers, like Shein and Modlily, are based in Asia, offering the latest fashion trends at ultra-discounted prices.

Google has been a key growth channel, specifically, Google Shopping. These e-tailers have upped their spend, bidding on trending generic product searches, such as "plus size swimwear", "summer skirts", "fit and flare dresses" and "cheap bathing suits".

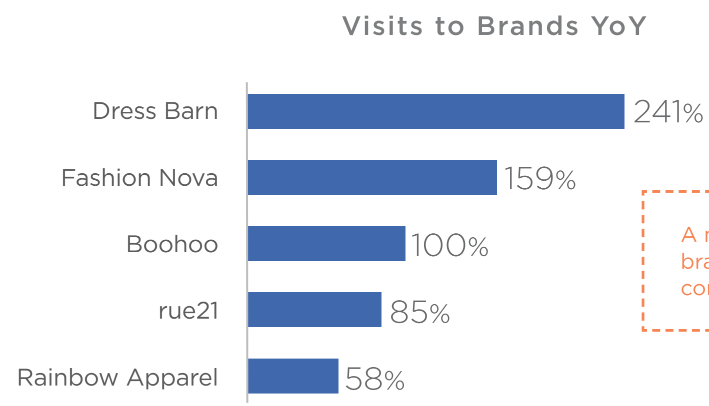
These tactics have helped drive new customers to their site, resulting in 100% visit growth YoY.

THE FAST FASHION TIER

Fastest Risers in H1 2018



Overseas e-tailers have risen significantly in the first half of 2018.



A number of fast fashion brands, like Dress Barn, continue to accelerate.

A NUMBER OF GLOBAL BRANDS HAVE STRUGGLED

But it's not all good news for fashion brands online. A number of global labels have had lackluster results over the first six months of the year.

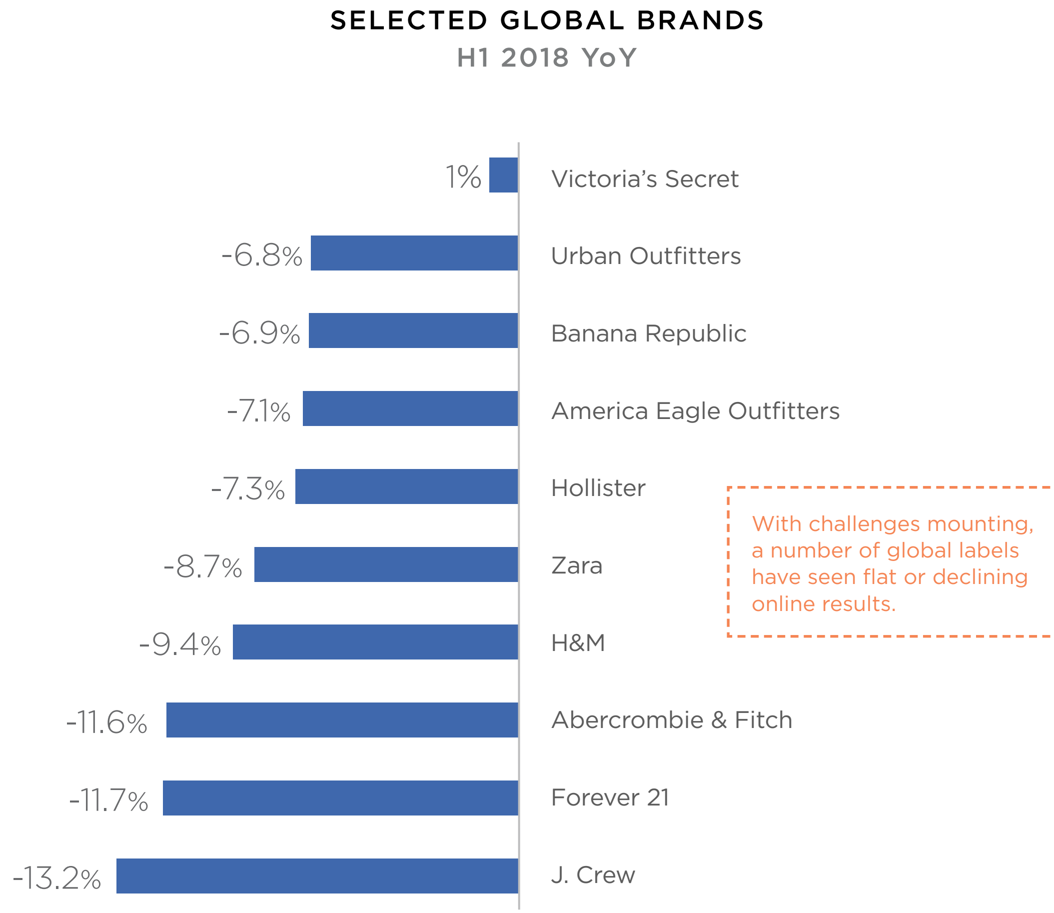
Top retail brands, like Victoria's Secret and Urban Outfitters, have seen flat online activity in 2018.

A number of home grown labels have also started the year with worrying performances. Abercrombie & Fitch, Forever 21 and J. Crew, announced mass store closures towards the end of 2017, and have yet to shift this spend from offline to online.

What does the past year's data tell us?

Some brands and tiers, particularly fast fashion and luxury, have accelerated. But not all fashion retailers and brands are seeing success online.

In the next chapter, we look at why this is the case.



PART TWO

KEY CHALLENGES

AMAZON, DISCOUNTING AND LOYALTY

CHALLENGE 1 – AMAZON’S AMBITIONS FOR FASHION

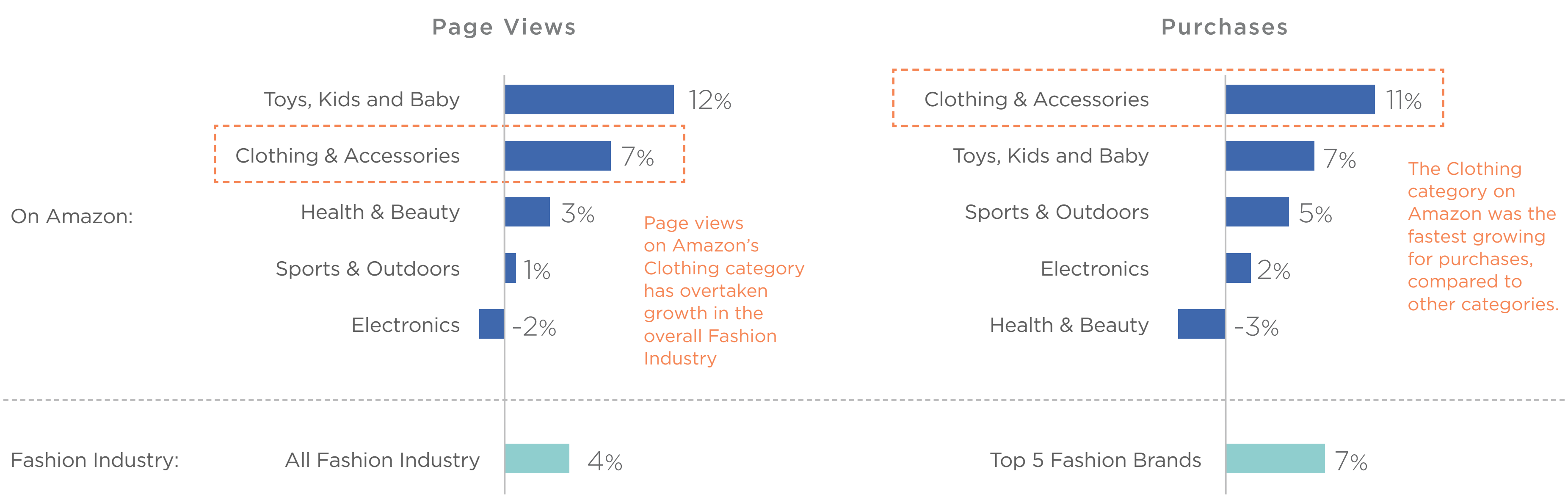
With over 70 private label brands (and growing) – how much of a threat is Amazon in fashion?

In the most recent quarter, page views and purchases on Amazon’s Clothing & Accessories category have outpaced the overall Fashion Industry online. Purchases for Clothing & Accessories also outgrew other Amazon categories, including Toys, Kids & Baby and Health & Beauty.

In the second quarter, page views on Amazon’s Clothing category also equated to 40% of all visits in the overall Fashion Industry. As a retailer or brand, **keep close watch of Amazon’s movements**. No doubt the ecommerce giant will ramp up discounting and promotional activity in this category as we approach peak period.

AMAZON FASHION CATEGORY VS. THE FASHION INDUSTRY

Q2 vs Q1 2018



CHALLENGE 2 – THE DISCOUNTING DILEMMA

Speaking of peak period, has discounting throughout the fourth quarter become a customer expectation?

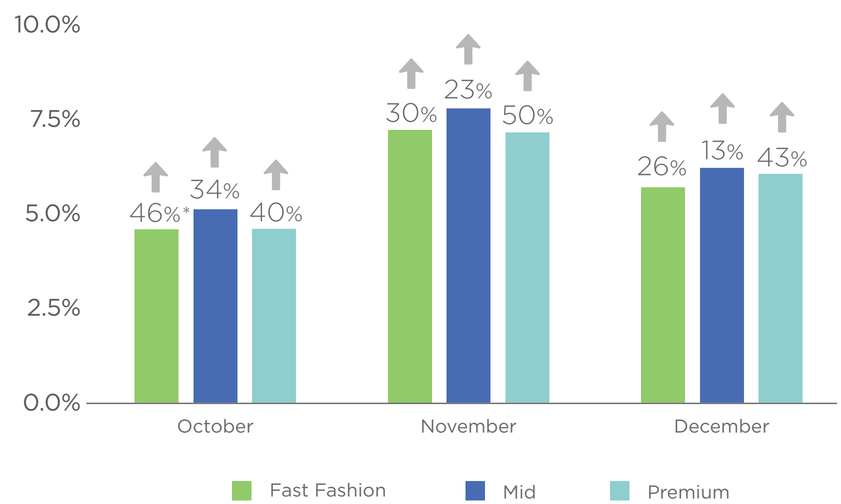
Let's see by looking at searches for discounts, promotions and sales over October to December.

November saw the largest volume of discount searches for each fashion tier, but year-on-year behavior has shifted. Fast Fashion and Mid tiers saw the largest rise in discount searches over October, at 46% and 34% respectively. The Premium tier also saw a substantial rise across each month in the quarter.

This data shows that customers are seeking and expect discounts beyond the traditional Christmas and Cyber Week sales. Retailers need to keep track of online activity, monitoring search (as an indication of customer expectation) and competitor promotions over peak period.

DISCOUNT SEARCHES BY FASHION TIER

Total Share & YoY Increase



* Data labels show the % difference in share of searches YoY.

CHALLENGE 3 - LOYALTY IN QUESTION

Customer loyalty – does it still exist?

With ecommerce growing, it's never been easier for customers to shop and compare across brands. The number of people visiting all top five sites across fashion tiers - shown below for Fast Fashion, Premium and Luxury - have all risen across peak period.

Understand where else your customers go and why. In the next chapter, we review tactics to overcome the loyalty issue, along with discounting and Amazon challenges.

VISITORS TO TOP FIVE FASHION SITES

Audience Size Growth YoY in Q4 2017

TOP FAST FASHION

↑165% in visitors of all five sites

- AMERICAN EAGLE
- OLD NAVY
- FOREVER 21
- H&M
- URBAN OUTFITTERS

TOP PREMIUM

↑106% in visitors of all five sites

- RALPH LAUREN
- TORY BURCH
- TOMMY HILFIGER
- LACOSTE
- J.Crew

TOP LUXURY

↑134% in visitors of all five sites

- GUCCI
- BURBERRY
- COACH
- LOUIS VUITTON
- CHANEL

PART THREE

RECOMMENDATIONS

DIGITAL TACTICS FOR RETAILERS AND BRANDS

THE BRANDS AND PRODUCTS DRIVING AMAZON'S GROWTH

As a competitor retailer or fashion brand, track Amazon's movements.

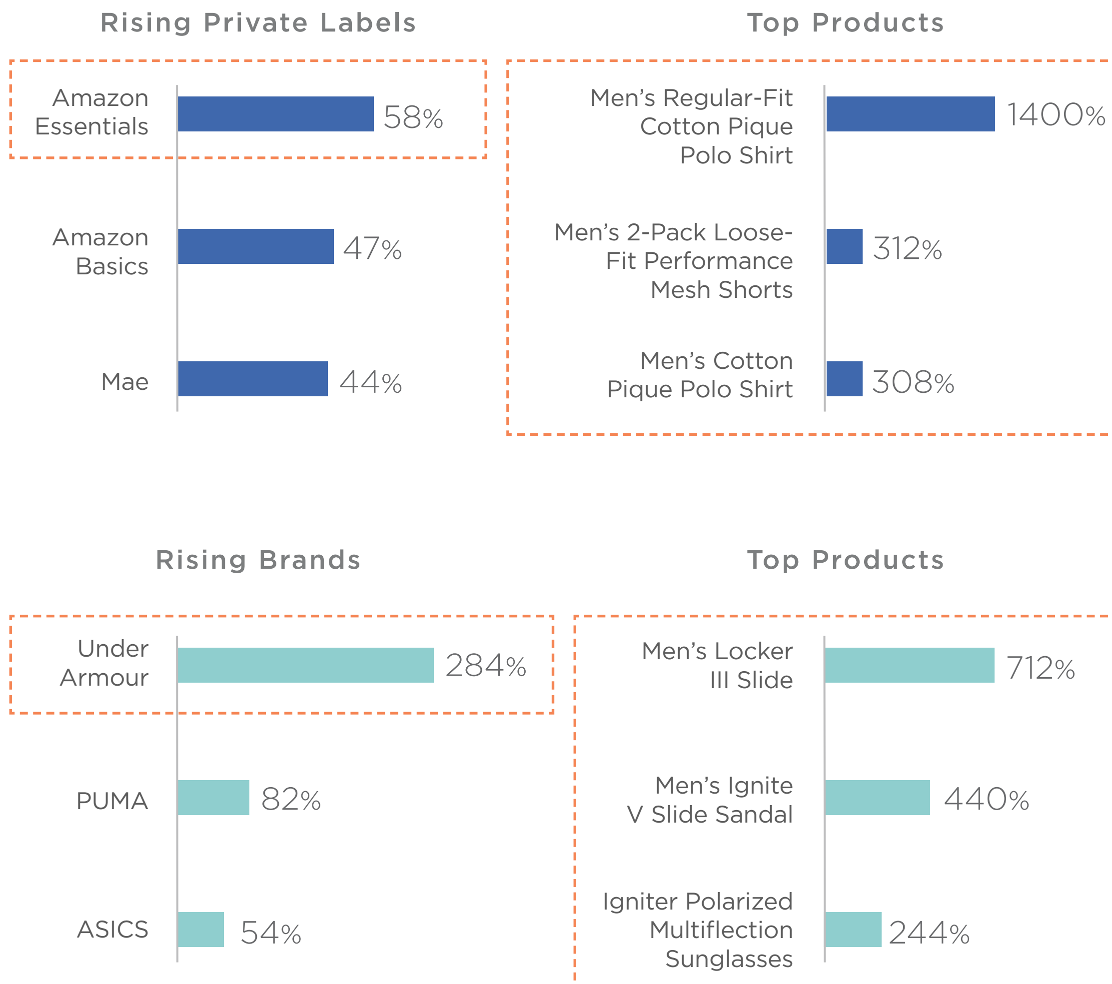
Identify the brands that are driving growth on Amazon's Clothing & Accessories category, zooming into specific products behind these rises.

For instance, in the second quarter, Amazon saw an uptake in its own private labels, Amazon Essentials, Amazon Basics and Mae, as well as sports brands like Under Amour, Puma and Asics. Zooming deeper, we can see that Men's polo shirts, mesh shorts, sandals and sunglasses drove these rises.

Armed with these insights, a **competitor retailer** could push equivalent products and labels on their own site. Identifying these trends, a **brand** selling on Amazon could also push their like-for-like products via promotions.

AMAZON – PRIVATE LABELS VS. BRANDS

Q2 vs Q1 Purchases



DIFFERENTIATE DISCOUNT SEEKERS & STANDARD SHOPPERS

To get ahead of peak period, brands need to differentiate their discount seeker from their regular customer.

The following chart shows this breakdown for J. Crew. In Q4, 15% of J. Crew's online visitors went on to make a purchase. Out of these purchasers, 10% had searched for J. Crew discount or sale over the fourth quarter.

J. Crew's discount seekers were more likely to use Google, Gmail and Reddit. Whereas, J. Crew's standard buyers were more likely to enter its site from Youtube and Pinterest.

How can J. Crew use these insights? To target the discount seeker (without cannibalizing their regular shopper), J. Crew could promote their sales periods on Reddit and via email offers.

J. Crew could also use Pinterest and Youtube to feature their latest collections, to continually engage with their regular shoppers.

J. CREW – VISITORS, PURCHASERS & DISCOUNT SEEKERS

Audience Size in Q4 2017

10% of J. Crew's purchasers actively searched for a J. Crew discount, sale or promotion in Q4.

UNDERSTAND WHERE ELSE YOUR CUSTOMERS GO

Finally, to protect your audience share, identify where else your customers go to and why.

This is detailed in the beside example for H&M.

In the month of July, H&M had a 31% visitor overlap with Forever 21, although this share had dropped by 8% YoY. H&M also had a 23% overlap with Urban Outfitters, but this share has grown by 10% YoY.

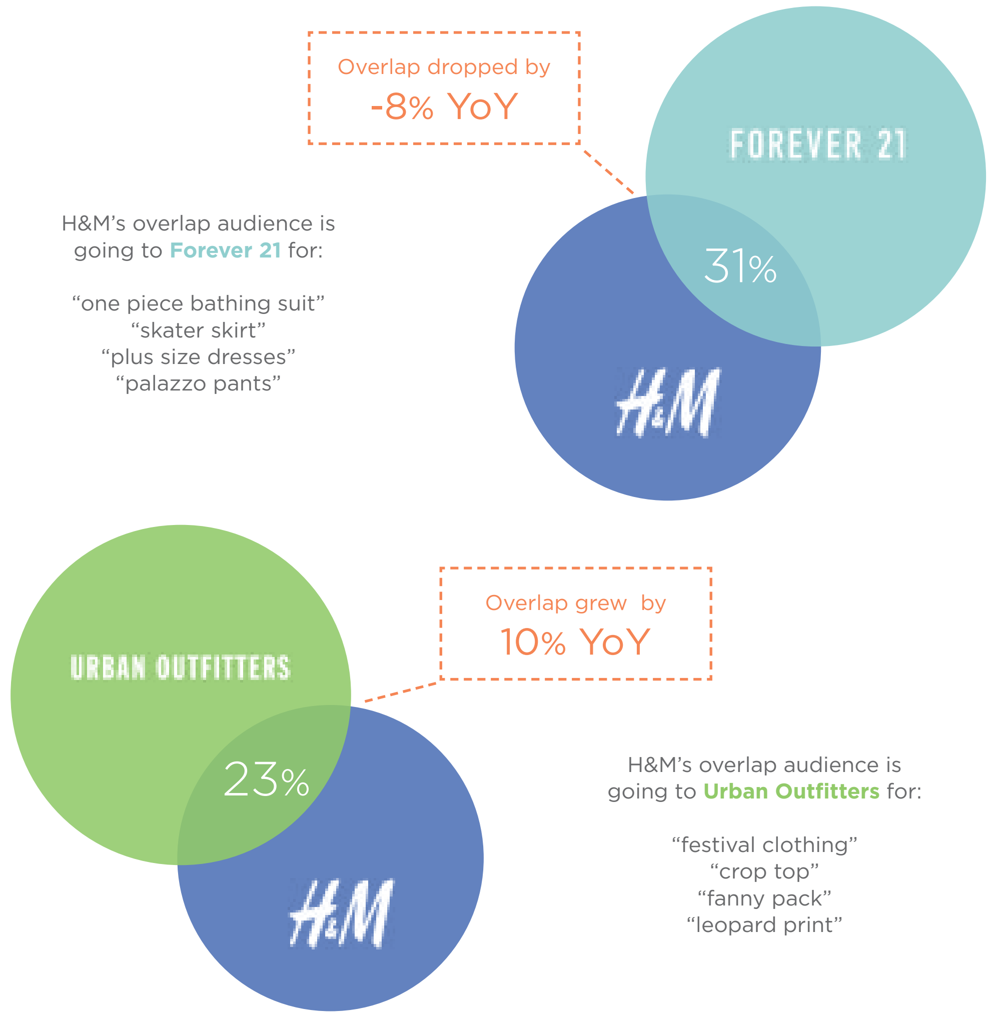
Through search analysis by segment, we can identify why H&M's overlap audience are going to competitor sites. This audience is H&M's overlap are searching for bathing suits, dresses and skirts on Forever 21, and visiting Urban Outfitters for festival clothing and leopard prints.

How can H&M use this information?

A quick tactic would involve re-targeting customers with selected product offers like festival clothing, or upping their PPC on these specific terms.
H&M could also feature items like skater skirts on product suggestions or check out pages, to upsell to existing customers.

H&M'S COMPETITOR OVERLAP

July 2018 YoY



SUMMARY

A number of challenges are top of mind for fashion retailers and brands in 2018. These include:

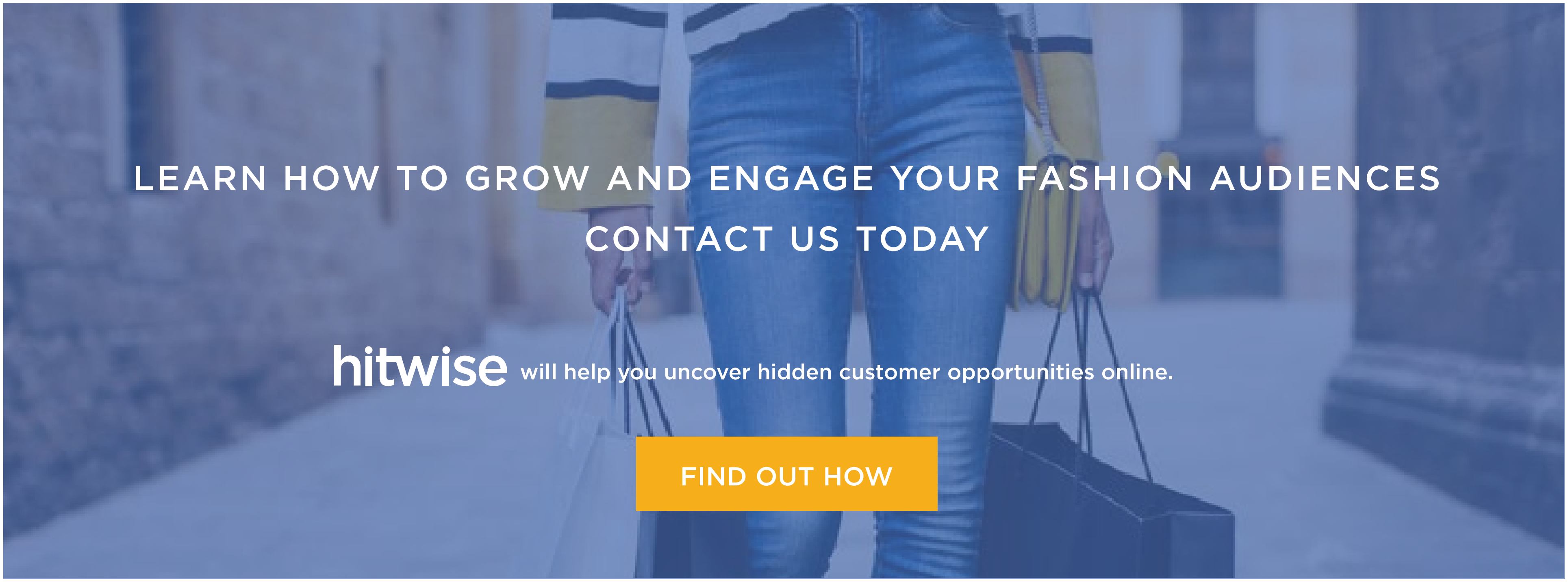
- **Amazon's Ambitions:** Page views and purchases are growing, with the most recent quarter seeing substantial leaps in Amazon's private fashion labels as well as top sporting brands.

- **The Discounting Dilemma:** Customers are searching and expecting discounts earlier in the year.

- **Loyalty in Question:** Customers are shopping around on multiple sites, making "exclusive" customers a rarity.

But certain brands like Gucci and Shein are finding success online.

The key lies in understanding your customers – where else do they go online, what are their brand and product interests, what proportion are searching for discounts, and devising digital tactics to acquire and grow them.



METHODOLOGY

Sources by Page

Page 2-7: Hitwise. Fashion Industry = Custom list of top 150 Fast Fashion, Mid and Premium Tier Fashion Brands and Retailers.

Page 9: Hitwise. Hitwise, Retailer Analytics for Page Views & Purchases, Q2 v Q1 2018. Top 5 Fashion = includes transactions selected top brands - Nordstorm, Victoria's Secret, Macys, LL Bean and Old Navy.

Page 14: Hitwise. Retailer Analytics – brands and products in Amazon's Clothing, Shoes & Jewelry category.

Page 15: Hitwise. Visitors / Purchasers = people who visited or purchased on J Crew's site. Discount Purchasers = people who searched for a discount, sale or promotion before entering J Crew's site, and made a purchase. Period = 13 weeks ending December 30, 2017.