
STRAIGHT FROM THE SOURCE

DIRECT-TO-CONSUMER SALES WILL FUEL U.S. APPAREL RETAIL THIS YEAR AND DENIM DOYENNES WANT IN.

BY LYNSAY MCGREGOR

When apparel e-tailer Everlane launched in 2011, the site sought to reinvent retail by offering wardrobe staples at realistic prices, touting “radical transparency” that revealed each piece’s production cost, where it was made and the markup, as well as how much it would go for at a comparable retailer. By shunning wholesale—and all the costs that went along with it—and selling directly to consumers via e-commerce, Everlane claimed it could keep prices low and quality high.

Six years later, Everlane offers everything from Italian leather shoes to cashmere sweaters in a neutral color palette that appeals to its discerning base of minimalist dressers. And it’s not the only direct-to-consumer label selling an uber-specific range of products to ever-picky shoppers: Eyewear brand Warby Parker popularized the business model and other notable players include Bonobos (menswear), Glossier (skincare and makeup) and Outdoor Voices (activewear).

Direct-to-consumer brands are also disrupting denim. Mott & Bow entered the fray in 2014, selling premium jeans for a “fair price” (read: \$96 to \$128). AYR popped up that year, too, with prices starting at \$175 for its range of Los Angeles-made denim. Prices for DSTLD jeans, manufactured in North America using sustainable materials and natural dyes where possible, top out at \$125.

“By focusing on direct-to-consumer, brands can forge closer relationships with customers, offer exceptional service that builds engagement and adapt quickly to changing conditions,” explained Robert Wright, founder of Warp + Weft, a new

denim brand slated to launch online in May.

Corey Epstein, co-founder and co-chief executive of DSTLD, furthered that sentiment. “We believe that customers are looking for a more authentic relationship with the brands they wear or the items they shop for,” Epstein said. “They’re looking for a story, a higher level of trust and transparency and the direct-to-consumer business model provides that. Customers are more and more educated on the idea of cost versus quality and they want to pay for quality but not overpay.”

Maggie Winter, AYR co-founder and CEO of AYR, agreed. “The power has shifted from distributors to customers,” she said. “Traditional institutions like print media and major department stores no longer control access. Now brands and consumers can be in constant contact. The entire playing field has changed.”

Indeed, direct-to-consumer brands are buzzing while specialty and department stores are struggling to stand out in a sea of sameness. Sales have been in a tailspin for years at Macy’s, J.C. Penney and Kohl’s, leading to bloated inventories and margin-killing markdowns. Even big names such as Ralph Lauren, Michael Kors and Coach have begun to jump ship in favor of their own direct-to-consumer strategy to avoid cheapening their brands.

And the trend looks like it will continue. According to Moody’s Investors Service, U.S. apparel sales will grow as much as 8 percent this year, buoyed by the burgeoning direct-to-consumer segment.



So what's in it for the shoppers? Online-born brands claim their customers appreciate cost transparency and want to know the story behind the products they buy. But it can't be as simple as a peek behind the curtain, given that off-price retail is also booming and surveys have shown that consumers aren't willing to pay more for sustainably produced goods.

Nonetheless, that's the message these brands are running with. "Know your factories. Know your costs. Always ask why," Everlane's website stresses, while a message on DSTLD's homepage declares, "We design and craft luxury-grade denim and essentials and refuse to work with department stores and retail middlemen, passing on the savings to you." Mott & Bow's site simply says, "Premium jeans. Fair price."

Most retailers use a 50 percent markup (the keystone method), doubling the wholesale price of a product to cover expenses and pad the profitability of sales. If a pair of premium jeans costs \$50 to produce, the retailer pays \$100 and a shopper is expected to shell out \$200.

But it's not just the general public that pays when a brand sells to a traditional retailer. In addition to settling for low margins, brands may get stuck with the bill for advertising, returns and markdowns, which can lead to cut corners in the supply chain by using cheap fabric and labor.

"The direct-to-consumer model cuts costs on the customer's side, not the production side," Epstein of DSTLD clarified. "So consumers are still getting a high quality garment without having to pay traditional retail markups found in brick-and-

mortar stores."

Though the LA brand doesn't break down the production cost of its products, it highlights how much a designer label might charge for a comparable item. For instance, DSTLD women's high-waisted ripped mom jeans in faded black are priced at \$85 versus \$225 for an equivalent style and quality of denim sold at a department or specialty store.

"We source our fabric at the same places traditional premium brands do, as well as cut and sew in all the same places. The main difference is our clothing goes from our factory, directly to you, with no third parties in between," Epstein added.

Similarly, AYR works with luxury textiles (sourced mainly from Italy) that it would never be able to produce affordably with a traditional markup. And yet the brand's customers still save an average of 50 percent.

"Our ethos is to architect smaller collections of well-made product that exist in our collection for a longer period of time, slowing down the seasonal approach to fashion," Creative Director Jac Cameron said. "Our price point truly reflects a fair value of quality. The more traditional wholesale mode is caught in a very strict selling and markdown cycle that churns through collections with a much faster approach to 'seasons.'"

In short: "The advantage of a direct-to-consumer model for shoppers is that they aren't paying more than they need to," explained Claudia Bae Kye, co-founder of American-made 1Denim and second generation to her family's denim factory in LA.

Digitally native brands can also react to their customers' demands much faster than a larger wholesale- or retail-driven brand.

As Warp + Weft's Wright pointed out, "Because direct-to-consumer brands don't have to adhere to the traditional wholesale calendar, it means they can respond quicker to consumer demands and trends. This ensures a fresh and constantly updated product assortment that is dictated by the consumer's needs and wants rather than those of a wholesale account."

In a way, direct-to-consumer could help address the seasonality issues that plague retailers and customers around the world. Likewise, it could be a cure to the fashion fatigue felt by shoppers whose Snapchat and Instagram feeds are flooded with photos of product months before it's available to buy. That's why San Francisco-based e-tailer Genuine People has a turnaround of less than two weeks, so new products hit the site on an almost daily basis.

Another plus: Brands are able to control their own narrative, creating a personal experience and aesthetic that can help cultivate a customer's emotional connection and influence buying decisions. "When you're one of 40 denim brands featured at a department store, there is no comparison to the level of knowledge the sales associate possesses compared to someone who actually works internally for a brand," Epstein said.

Additional advantages include access to customer information, increased levels of data and the ability to tailor product offerings accordingly. Not to mention, the decision to discount (or not) ►

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Mott & Bow

is up to the brand. After all, if consumers grow accustomed to seeing a particular name on the clearance rack, they will never pay full price for it.

"I've seen many brands become 'discount brands' because retailers would put them 'on sale' for most of the year. That's fine if that's the brand strategy, but we can imagine that's not always what the brands want," said 1Denim's Bae Kye.

Direct-to-consumer is not all sunshine and lollipops though. Starting a denim brand from scratch and selling without the support and name recognition of a big-box store in a prime location behind it is no walk in the park.

"Starting out, you have to work that much harder to reach your customer and know how to market your own product," said Mott & Bow Founder Alejandro Chahin.

"Definitely the biggest disadvantage is that you are really limited in your sales distribution as you are not relying on the thousands of retail stores and department stores; you are limited to your online store and however many brick-and-mortars you may have," said Elizabeth Bae, 1Denim co-founder. "In that way, you're not able to reach a larger part of the market as quickly as you may want."

That's why AYR has partnered with Nordstrom, selling both online and in 12 stores. The brand recently opened its first brick-and-mortar location in New York City's Soho neighborhood so customers can touch and feel the product and meet the team in person.

"As a digital brand we understand that you can never underestimate the importance of creating a

physical world to connect with the customer in real time," Cameron said. "These types of experiences help to build a loyal customer who will repeat purchase online."

But when a brand's own website is its only retail channel, anything less than a seamless shopping experience could lead to lost sales. "Disappointing customer service or a sub-optimal e-commerce site no longer flies in this hyper-competitive marketplace," Wright said.

Epstein agreed: "An area that is more difficult for brands is building a world-class experience from the ground up. You need to build your own customer service, your own tech stack and shopping platform, be great digital marketers—it's a lot more to handle!"

Returns present another problem. "You give customers the privilege to shop directly from their office or home and that comes with a price," noted Nave Avimor, co-founder of Genuine People. "From a business perspective, you may need to have a deep understanding of your merchandising strategy and constantly analyse your shoppers' behavior so that you'll know what works and what doesn't."

"Because of vanity sizing in clothing, it can be confusing for consumers to know their size," Chahin added, noting that Mott & Bow solves this dilemma by offering first-time buyers the option to add a second waist size to their order for free, including a prepaid label to return the pair that doesn't fit.

DSTLD encourages its customers to take advantage of its free shipping and returns policy

and recommends ordering more than one size or style to try on at home. Similarly, when 1Denim relaunched its website in March, the brand introduced a "Try Two Pairs" program.

"A shopper can choose both a size 25 and a size 26, pay for just one pair, try both on and return the pair that does not fit," Bae said. "We thought this would be a good solution to get people more open and receptive to purchasing denim online."

When all's said and done, however, the rules of retail are changing. Shoppers are no longer satisfied with impersonal super-sized stores chock-full of stuff, nor do they want to spend hours trawling their online equivalent. Direct selling, either online or in-store, simplifies the shopping experience by offering a curated selection of products, putting customer service at the center.

"It's a great time to be a shopper," Winter maintained. "Customers have total control. There is much more choice and the super-competitive landscape demands superior service. Expectations are high and, in the end, the customer wins." 🍷