

European Ecommerce

COMPANIES: AMZN, ASC LN, FTCH, ZAL GR
NKE, PVH, LA REDOUTE S.A.

More Normal Weather Helps Sales

European ecommerce sales improved slightly qq during 4Q18, especially in Germany and France, though the U.K. outlook was undermined by concerns about the potential fallout from a hard Brexit.

- French and German sources upbeat about online growth in 2019; 2 of 3 U.K. sources cautious, all 3 concerned about Brexit; 4Q18 demand aided by more normal temperatures following hot weather in 3Q18
- ZAL GR's 4Q18 apparel/footwear sales met plan for 5 of 8 vendors, fell below for 3 (improvement vs. 3Q18); orders up yy for 6 of 7, flat for 1 (similar to October); beauty sales off to slow start
- AMZN's 4Q18 apparel/footwear sales met plan for all 3 German vendors, fell below for all 4 U.K., French vendors; orders up yy for 3, flat for 2 and down for 2 (slight deterioration vs. October)
- U.K. sources optimistic about ASC LN's VIP program, perceive student discount as key to attracting young demographic; French sources mostly positive about ASC LN, FTCH's Farfetch

KEY DATA

Anticipated Market Position in Apparel One Year from Now

(number of sources)

	AMAZON	ZALANDO
Stronger	2	3
Same	4	3
Weaker	2	2

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SOURCES & BACKGROUND

14 vendors, comprising 10 apparel, footwear and accessory sources in Germany (3), France (4) and the United Kingdom (3), and 4 cosmetics sources in the United Kingdom (2), France (1) and Germany (1)

REPEAT SOURCES 4 from OTR Global's October report

INTERVIEWS Nov. 22 through Dec. 19

See last page for Important Disclosures and Analyst Certification

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Ecommerce Growing, but U.K. Concerns Mount

Most Western European sources expect continued growth for online apparel, footwear and beauty sales, despite choppy results in 4Q18 and a deceleration in demand during 3Q18 because of warm weather.

All seven German and French apparel sources expect growth to continue for at least the next one to three years. One French apparel vendor said, “The market is still strong despite normal fluctuations. Black Friday sales were up over 60% for our own website and up double digits with partners.” Among U.K. sources, cosmetic suppliers remained optimistic, but two of three apparel suppliers had a cautious outlook for online sales because of recent weakness. Both said online sales had grown more promotional as competition increased and consumer confidence weakened. One said, “Demand isn’t where it was for online. Again, it’s because it’s been so strong for years — but also because consumer weakness in spending is starting to trickle in.”

Brexit: All five U.K. sources were very concerned about Brexit and the risks of a hard Brexit, in which the United Kingdom would give up full access to both the single market and the customs union; two expressed concern that the United Kingdom could be heading toward a recession because of that possibility. One third-party seller said, “Brexit is a major [concern] for us. If we go out without a deal, then I’m sure a recession is a definite outcome. In fact — and many brands agree with me — since Brexit, it’s been a struggle. Outside London and luxury, we’re all facing huge challenges, and we’re on the end of it where we cannot take much more.” Another said, “I’m very concerned about Brexit. We have expanded overseas more, and we’re doing well in the United States and have expanded into China and Australia. We think those countries will prove more popular than the U.K. because of all that is going on in politics. The weak GBP is an ongoing issue and a problem for everybody.”

Quotes

“Online is still going strongly. We do not expect to plateau for at least another year.” *French apparel vendor*

“There will still be growth next year, but there is also more competition, and some online platforms might be in trouble like my showroom that went bust this year.” *French apparel vendor*

“My opinion hasn’t changed compared with last time. I don’t think there will be any kind of plateau for the next three years at least.” *German apparel vendor*

“Online is plateauing for us now. I think the U.K. is in a bit of a plateau, and I hate to say it, but perhaps the first signs of a recession are coming in.” *U.K. apparel vendor*

Zalando Q4 Sales Improve Slightly

Zalando SE’s 4Q18 sales at least met plan for five of eight footwear and apparel vendors and fell below for three, an improvement compared with 3Q18, particularly among German sources, who met (two) or exceeded (one) plan. One German seller who is a member of Zalando’s Partner Program said, “Overall, 4Q was better than 3Q across all platforms, including our own online store.” Two French sources each met or fell below plan, and one who fell below plan blamed growing competition on the site. The U.K. source fell below plan during the quarter

Zalando’s promotional levels were up yy for three of seven vendors during 4Q18 and steady for four, compared with three of four citing increased levels in 3Q18. Sources said Zalando was prone

Sales Through Zalando vs. Plan
(number of mentions)

	3Q18	4Q18
Exceeded	-	1
Met	3	4
Fell below	2	3

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to discounts because its model is more weighted to buying product as opposed to making use of a marketplace. One French apparel vendor said, “Discounts in October were up to 70% on some items. This is calculated by an algorithm, and there’s nothing you can do about it.”

Despite a challenging 2018, orders placed during 4Q18 were up yy for six vendors, and flat for one U.K. vendor, similar to October. One French apparel vendor said, “Our Zalando orders are up and they’re higher compared with other platforms.” Six sources said Zalando gained share based on orders placed during 4Q18.

All three German apparel and footwear vendors expect Zalando to be in a stronger position one year from now, while three French sources expect the platform to be in a similar position. However, two U.K. sources (one working with Zalando, the other not) said Zalando could be challenged by price-driven websites like **Amazon.com Inc.** in the event of a substantial retail slowdown, which they both feared.

Quotes

“There were more discounts, especially in October — and it seems also in December. It’s [Zalando’s] right to do it, and we accept it’s mainly [the platform’s] response to tougher market conditions. We also put more items on sale on our website.” *German vendor for apparel*

“There are many shoe sites, but once customers got used to the simplicity of Zalando’s free delivery and free returns policy, they have little incentive to check out each competitor’s policies.” *German apparel vendor*

“We still had weak 4Q18 sell-through with Zalando as a result of a weak September. It caused very high discounts and then people waited for Black Friday promotions. In the end, you do not make your sales.” *French apparel vendor*

“Zalando is my favorite partner, with 12% of my online sales. Sales in 2018 were up 19% [yy] and orders are good. Zalando is gaining share compared with **La Redoute [S.A.]**.” *French apparel vendor*

“Zalando will probably be in the same spot for fashion and aspirational brands — ahead of Amazon because it has a nicer selection of items and higher fashion status.” *French apparel vendor*

“With Zalando, we’ve had a tough time this quarter. It’s not doing that well, and we don’t know why. It seems to have become very particular over how everything is shipped. It’s become hard work, and the constant [back and forth] makes for a slightly [fractured] relationship, which is really unnecessary.” *U.K. apparel vendor*

Zalando Beauty Category Not Shining Yet

Sales for Zalando’s beauty category, launched in May, have been slow so far. Sales during 4Q18 fell below expectations for all four beauty vendors, including two in the United Kingdom, mainly because of the relatively recent launch. However, despite the slow start, both U.K. sources said initial technical glitches were quickly addressed, and one German source plans to expand offerings with expectations of positive sales in 2019.

Quotes

“Amazon is a better platform for beauty so far. We have been on there for much longer. Zalando orders are not bad, but not as strong as we would have expected. I think it could do more to promote its beauty segment.” *German beauty supplier*

Zalando Orders Placed During 4Q18 YY

(number of mentions)

	3Q18	4Q18
Up	5	6
Flat	-	1
Down	-	-

4Q18 Share Gains/Losses in Footwear/Apparel

(number of mentions)

	GAINED	LOST
Zalando	6	-
Amazon	3	4

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“Sales have been hit and miss, but that’s to be expected with a new venture. We had issues with purchase orders, but it’s been great at improving things.” *U.K. vendor and supplier*

Vendors Resist Zalando’s Partner Program

Sources said Zalando has been pushing vendors to embrace its Partner Program, a model that lessens the platform’s ownership of inventory. All three French vendors were resistant to the changes to the current setup because of increased risk and IT costs. One said, “We will continue to sell our stocks and ship them to their warehouse. We cannot do the Partner Program, Marketplace or anything similar. For Marketplace, I think Zalando’s commission is about 12%, which is quite high — especially given high return levels, which adds to costs. As such, for midsized companies like us — with not super-high margins — we would not make any profit.” Another vendor said, “Zalando mentions a Marketplace relationship regularly, but I would need a bigger team to run this. I’m also reluctant because I would own the risks of allocating merchandise that doesn’t sell.” Another source said, “Zalando is asking us to change to its Partner Program, where it handles logistics for our product. We’d need to upgrade our IT system for this, and we’re not ready yet to handle all deliveries and returns ourselves.”

Zalando’s high return levels also remained problematic, with apparel rates above 50% in Germany and around 20% in France. One French vendor said, “Zalando is trying to curb return levels by asking us to populate the website with customers’ comments or ours about sizing and fitting to help customers choose the right size, but I do not think effects will be immediate.”

Amazon Q4 Sales Below Plan in France, U.K.

Amazon’s 4Q18 sales in Europe met plan for three of seven vendors but fell below for four, similar to 3Q18 overall. All three German sources met plan while all French and U.K. sources fell below plan. One French vendor said, “[Amazon has] tons of offerings, but in fashion, that doesn’t predict success and its team doesn’t know how to buy. It might work well with very large accounts such as **Nike [Inc.]** and **PVH [Corp.]** through global agreements, but for midsized companies, it doesn’t work.” One U.K. vendor said they pulled products because profitability was tenable with 15% fees. A second U.K. vendor said, “With Amazon, we just find everything difficult. There’s no professionalism. It’s a great platform if you’re a well-known brand; otherwise, most customers will never come across your product.”

Orders placed during 4Q18 were flat to up for five of seven vendors and down for two, a slight deterioration from October.

Two apparel sources expect Amazon to expand market share one year from now, though four anticipate it will remain stable and two expect a decline. Sources who expect stable or improving share expect Amazon to continue to benefit from high traffic, broad choice and Prime expansion, while sources who expect a decline said it will continue to struggle to be a leading platform for fashion and aspirational brands.

Quotes

“Amazon is working on efforts to boost Prime membership, and it’s driving sales.” *German vendor*

“Amazon is still disappointing. Some of our lingerie items were sold under swimming suits.” *French apparel vendor*

“I’m not sure about continuing to work with Amazon. Running the operations takes much longer compared with other platforms, but doesn’t work as well. It does very little and what it does is wrong; plus, its data is incomplete.” *French apparel vendor and third-party seller*

Sales Through Amazon vs. Plan

(number of mentions)

	3Q18	4Q18
Exceeded	-	-
Met	2	3
Fell below	3	4

Amazon Orders Placed During 4Q18 YY

(number of mentions)

	3Q18	4Q18
Up	3	3
Flat	-	2
Down	1	2

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“Amazon will get stronger. It’s the first choice for many people, especially with Prime. I dislike working with Amazon as a retailer — it’s brutal — but it’s too big for us to lose and it knows that.” *U.K. third-party seller*

“Amazon is incredibly strong, so I wouldn’t write it off. At the very least, I would anticipate [its share will] be unchanged.” *U.K. third-party seller*

Fees, Marketing Mostly Flat

Zalando’s and Amazon’s fees were flat yy during 4Q18 for most responding sources. Vendors’ 4Q18 spending on marketing on Zalando was up slightly yy for two sources and flat for five, while marketing spending with Amazon was up yy for one and flat for seven. A French vendor who is spending slightly more said, “We are spending a bit more with Zalando but not much. This is handled by its own agency that tells us returns are terrific, but obviously we will have to double check on this.”

Quotes

“In September, Zalando forced us to accept tougher sales conditions, and we had to accept an additional 5% rebate on our sales.” *French footwear vendor*

“I’m not spending any money on marketing. Brands are selling well as of now. Zalando also does its own promotions to boost sales, which is logical because after all, it’s the retailer and owns the inventory.” *French footwear vendor*

“Marketing costs for a campaign on Zalando start at €25,000 and their impact is difficult to measure, so we’re spending the same and may even reduce our spend in 2019.” *French apparel vendor*

ASOS, Farfetch Viewed Positively

Despite **ASOS PLC**’s recent profit warning, three U.K. sources spoke positively about the platform. Sources said ASOS is easy to work with, the platform is well designed and the VIP delivery option along with discounts for students are all advantages. French sources were also positive about the platform, even though none was working with it.

Farfetch Ltd. was viewed positively by two French sources. One apparel vendor said, “Farfetch offers a great customer experience. You really feel you are buying a luxury item. The process, delivery and overall experience are flawless. Also, multibrand traditional retailers are in decline because luxury brands are taking a direct approach.” Another French source said, “I’d like to work with Farfetch. We met twice in Paris and the team is very good. It’s very international, so this is my number target for 2019.”

Quotes on ASOS

“The market has been difficult, but ASOS is probably doing the best. Its delivery is great and for VIP members, you can order until 11 p.m. for free next-day delivery.” *U.K. apparel vendor*

“We were with ASOS for four years, but it got a new buyer in, and it swept the category. It was a real shame as we enjoyed working with it. The platform itself is great. It’s got good brands, a clear platform and a great delivery plan. It all worked well.” *U.K. apparel vendor and supplier*

“ASOS has launched beauty, which is a good thing. It’s done a good job with the category and we do well enough with them. Still, Zalando is better because offerings are more premium and in general, it’s a much better platform.” *U.K. cosmetics vendor and supplier*

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“ASOS is a hit because of its brands and VIP delivery. It’s a huge hit with students.” *U.K. cosmetics vendor and supplier*

“I don’t work with ASOS, but I tested it and it’s a great website: cheap, fast and simple. It also has the equivalent of Amazon Prime. However, it’s targeting a 15- to 25-year-old age group, which is not ours. It also has a reputation for copying your product, especially shoes, and delisting you.” *French apparel vendor*

“I can’t work with ASOS because it doesn’t offer children’s clothing, but all the feedback I hear is very positive. Surveys show it’s a very popular website. In fashion, it obtained the highest ranking amongst e-shoppers polled by FEVAD [the Federation of Ecommerce and Distance Selling], and Zalando was third.” *French apparel vendor*

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