

criteo.

UK Apparel ecommerce.

A perfect fit



United Kingdom: Q2 2017

Executive summary

The internet has brought about a massive transformation in global apparel retailing. With nearly one-quarter of UK sales in apparel and accessories now being made online according to Fung Global, and Amazon eyeing this highly lucrative category, 2017 will be a pivotal year for the industry.

In addition to the continuing shift to online of basics purchases like underwear and casual wear, there is growing acknowledgement of the omnichannel nature of apparel retailing. For Millennials and Gen Z, the internet has overtaken print media for the dissemination of trends largely due to YouTube and Instagram. Shoppers often do their

product research online before hitting the high streets to purchase in a store (“webrooming”). At the same time, merchants have taken advantage of the omnipresence of mobile devices and are making it easy for shoppers who see something they want in store to buy the product online and have it shipped (“showrooming”). Smart retailers are using new technologies from the internet of things to enable this behaviour. Bricks and clicks are no longer in competition, but are seen symbiotically. Marketers are winning by using shopper data to develop holistic profiles of their best customers and presenting them with merchandise to surprise, delight, and ultimately wear.



£45.55: the average cart value with an apparel item in Q3 of 2016.



£112.05 vs. £111.23: the average Handbag/Wallet purchases on desktop and mobile, respectively, in Q3 2016.



Gen Z is defining the omnichannel future of apparel with their **love of real world stores**, but preference for connecting with brands online.



For a big try event like Valentine’s Day, **“engagement rings”** is a top search term. During the summer months, it’s **“fascinators.”**



Using Sponsored Products can increase a brand’s share of the digital shelf. Across all campaigns Criteo reviewed in 2016, there was **+43% average change in share of category sales.**

Trends we're seeing in Apparel ecommerce

Bespoke is back. And it's not just menswear. Digital technologies make custom clothing a reality and shoppers are responding.

Try before you buy/subscription services.

My Little Box, Me, My Suit & Tie, ToppBox, and Golden Tote. Someone else takes the work out of choosing. It's all about personal shoppers on digital time and ease of returns if you just don't like it

Mobile commerce dominates. Fashion is about movement and being out in the world, and both shopping and research are increasingly shifting to mobile phones.

Curation & storytelling. In the mass of goods available, shoppers in this category want choices to be culled down into something manageable and understandable, or what used to be called "editorial vision." Sites like Luxefix, Yoox, ASOS

Marketplace and Glamorous create look books on their sites that tell lifestyle stories as they merchandise goods.

Chat bots reinforce online service. Talk to a robot and get all kinds of AI-driven advice. With both Facebook Messenger and What's App reaching the 1B user mark in 2016, it's worth a look – especially in the realm of fashion suggestions. Among the retailers working with them are Burberry and Tommy Hilfiger.

The service sector. Led by stores like Apple and upscale boutiques, well-trained personnel empowered to make product suggestions have become as important as they were when Selfridges were first launched the idea over a century ago. Sites that offer personal shopping assistance are replicating this online.

The expectation of discounting. The great danger of ecommerce: Shoppers can see what everyone else is charging. The on-site experience – including recommendations via Sponsored Product ads – can help to maintain margins.

Checking the Mirror – and it responds. The internet of things has the potential to further revolutionise sales of apparel. Like the orange coat on that big video screen? Use your phone to interact with it and, with one click, have it billed and shipped. In stores like Burberry and Ralph Lauren, eBay's magic mirrors are showing what the clothes look like in other sizes and colours – which can then be purchased with one tap.



Warby Parker offers in-store eye exams and expert staff to help shopping for glasses feel more like accessorizing.

Photo source: Scott Lachut: Warby Parker's Flagship Foray Into Physical Retail - PSFK

1

Category trends.

Omnichannel Apparel

Millennials are the generation that grew up online and they are larger in size than the Boomers. They may have started their apparel shopping with magazines like Elle, and Vogue, but they now are turning to sites like Very and Zalando and using YouTube videos for styling tips. For those 25 – 34, 51% of them say they make digital purchases several times a month.

When they have children of their own – and as the majority of them who are mums who work – convenience for apparel shopping becomes more important, especially in terms of basics for themselves and their families. Why buy the commodity purchases like t-shirts, socks and underwear anywhere else but online?

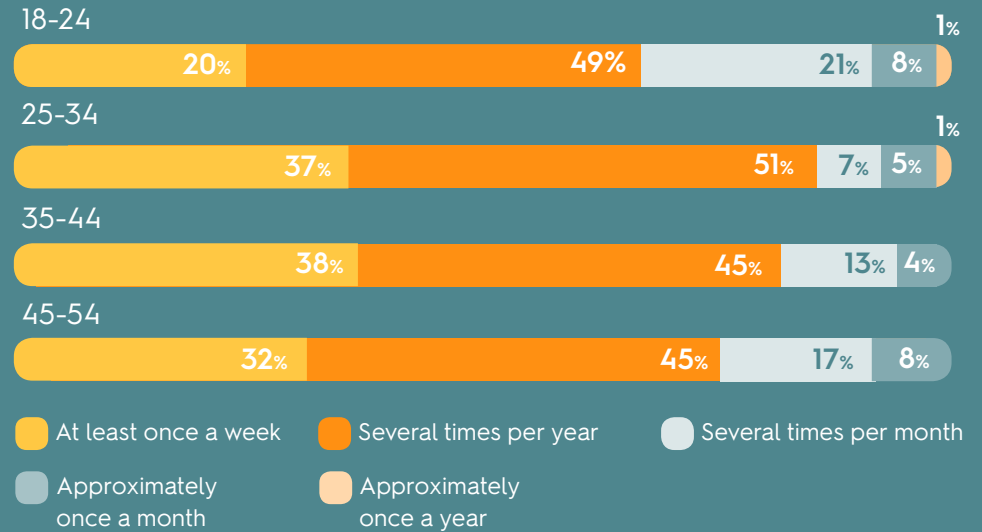
Generation Z loves in-store shopping

Teenagers have been calling the shots in respect to apparel purchases since the term “teenager” was first made popular. Teens continue to set the trends: 55% of Gen Z reports that they spend their own money on clothes, and 60% said they influence household apparel purchasing (Uniquely Generation Z, The NRF, IBM, January 2017).

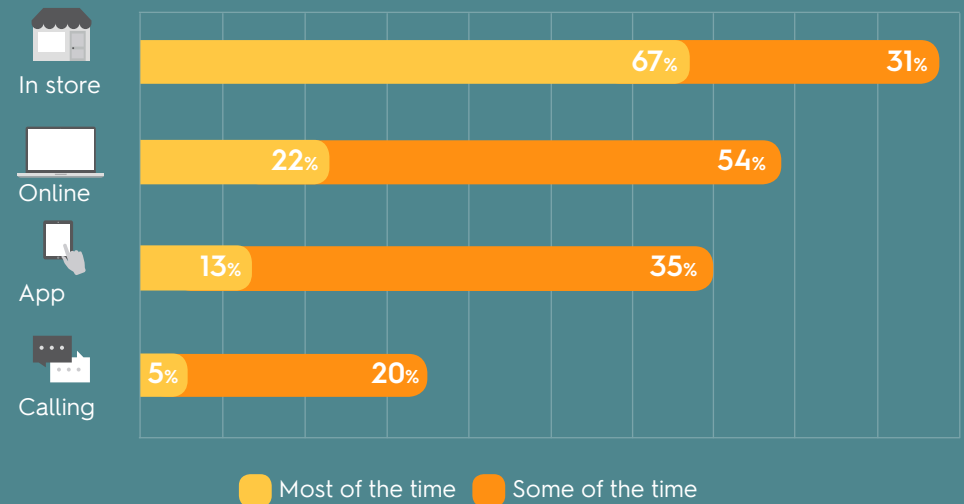
While they may have grown up with smartphones (the iPhone was first introduced in 2007), perhaps because of the overwhelming amount of media they take in, they value tactile experiences. While they make most of their purchases online, they prefer to shop in physical retailers.

Frequency with which UK digital buyers make digital purchases¹

By age · May 2015



How Gen Z-ers prefer to purchase²



Sources: ¹ emarketer.com/Article/Young-UK-Millennials-Among-Least-Frequent-Digital-Buyers/1013252?ecid=NL1002

² IBM/NRF, Uniquely Gen Z, January 2017



Mobile drives Click & Collect and Click & Ship

Smartphones are the remote controls of the lives of Millennials and Gen Z. They can't be tied to their laptops and for them, ordering on their phones and popping by the local store to smugly sail by those in line is becoming more and more the norm. According to a survey by JDA and Centiro, **over half of UK online shoppers** had used Click & Collect to buy online and pick up in store by the beginning of 2016.

Showrooming is a good thing

In many product categories, including apparel & accessories, retailers initially balked at the idea that someone was going to check out an item in a physical store and then use their phone to buy it online. While this is still a possibility, more retailers have begun to embrace Click & Ship as a way to increase customer loyalty, better manage inventory and make smarter use of store personnel.

Rather than checking backstocks and dealing with point of purchase, salespeople are freed up for customer service. The extended inventory exists in a fulfillment center, not a backroom to be manually inventoried quarterly – which further cuts into sales. Because the sale is made in a cashless, productless manner, there is less employee shrinkage as well.

2

Apparel challenges met with opportunity.

Calvin Klein Jeans

straight

MID RISE
SITS BELOW NATURAL WAIST
SLIM FIT THROUGH HIP AND THIGH
STRAIGHT LEG TO ANKLE

straight

MID RISE
SITS BELOW NATURAL WAIST
SLIM FIT THROUGH HIP AND THIGH
STRAIGHT LEG TO ANKLE

Clothing and accessories in their essence are tactile, personal goods.

And, when it comes to Apparel, there really is no “one size fits all.” Here are some of the challenges the industry is addressing:

Challenge: Online apparel buying is not as fun.

Work-around: Apparel sites add high-quality merchandising in the form of videos, curated collections and stories.

Challenge: Shoppers want to test merchandise on themselves before they buy.

Work-around: Customer reviews, photos and sizing statistics like “X% say “fits true to size” offer shoppers the ability to leverage their online peers to understand how it will fit

Challenge: The fashion industry is so ephemeral in terms of trends that online, with its algorithmic driven marketing, just doesn't fit

Work-around: Algorithms can prove surprisingly good at predicting interest for the sites that can use data for personalized content delivered through the web or email.

Challenge: Digital merchandising and space are too limited in terms of the view of merchandise to really sell fashion.

Work-around: Sponsored Products are a way to ensure visibility and display items during the shoppers journey. Brands can use Criteo's cross sell tools as a form of digital merchandising.

Challenge: Discounts become an expectation.

Work-around: Because digital has upended the whole supply chain of clothing manufacturing, brands can produce more limited quantities and then act on available sales info. Retailers can manage volumes so that they end up with fewer items on the sale rack.

Challenge: Return rates are high. Retail blog BoldMetrix notes that return rates are still around 28%.¹

Work-around: The biggest issue is fit and the lack of standardization. Sites now offer close-up and 360-degree views clothing. According to the comScore, **68% of online shoppers desire complimentary return shipping and a simplified return process²** to feel confident completing a

purchase. Software solutions like ReadyReturns put retailers in a position to offer their customers an automated online product returns system. This software integrates directly into the online store and provides a user-friendly return portal for customers and for retailers.

Challenge: Amazon has introduced new lines at various price ranges to tempt their growing base of customers.

Work-around: The UK has a longstanding tradition in apparel retailing and fashion brands that resonate with consumers. Amazon is not able to tell the kind of lifestyle stories that shoppers connect with in apparel. Amazon also does not have the retail footprint to showcase products in a way that bricks and clicks merchants in the UK can.

¹ Source: blog.fashionmetric.com/the-current-state-of-apparel-ecommerce-in-2016/

² comscore.com/Insights/Press-Releases/2015/3/Global-Study-Reveals-Online-Shoppers-Want-More-Flexibility

What are they searching for?

Criteo's data on consumer searching on retail sites is indicative of larger apparel trends, and of course, seasonality. In Q3, an amalgam of summer and back to school, terms that make the top 50 include items for summer like bikinis, sunglasses and fascinators. Top fashion trends included: maxi dresses, wedges, shrugs, tankinis and jumpsuits. Top brands sought include Floosie, Wunderbra, Ted Baker, Spanx, and Levis. Judging from the brands sought and the categories searched, the apparel shoppers are likely to be female.

Among the most sought-after for Festive Season gifting was: earrings, watches, Fitbits, onesies (interestingly, an adult plus a baby trend), Ugg boots, Nike trainers, Apple watches and Calvin Klein.

Valentine's takes a trip into romance, with earrings, engagement rings (yes, they are now shopped for and purchased online), and chokers outpacing necklaces. Many forms of lingerie are sought after, and among the top terms searched are: basque, thong, chemise and knickers. Fragrances tied into designers were clearly hot gifts: Alien, Dior, Black Opium, Jimmy Choo and Marc Jacobs Daisy. Brands sought after for the day include Sloggi, Calvin Klein, Pour Moi, and Anne Summers (no telling whether this was knickers or some other personal items).

Top Apparel searches



Q3 2016



Festive Season 2016



Valentine's Day 2017





3

Shopping carts close up: Q3 & the Festive Season.



Shoppers in the UK spend considerable amounts online when shopping for Apparel & Accessories.

With so many complementary products possible, over three products on average are in every cart. In Q3, the average Apparel & Accessories basket size was £48.26 and the average unit cost was £20.13.
















Shoppers in the UK spend considerable amounts online when shopping for Apparel & Accessories. With so many complementary products possible, we found that there were over three products on average were in every cart. In Q3, the average Apparel & Accessories basket size was £48.26 and the average unit cost was £20.13.

Interestingly, the concern about consumers not buying as much on their phones as on desktop computers is proven wrong in the Criteo Sponsored Products Network data. The average apparel purchase is just as high on mobile as it is on desktop.

Average item price by category: desktop vs. mobile, Q3 2016

| Category |  Desktop price |  Mobile price |
|-----------------|---|--|
| Electronics | £308 | £289 |
| Home Goods | £93 | £91 |
| Sporting Goods | £85 | £98 |
| Baby Care | £73 | £29 |
| Toys & Gaming | £30 | £33 |
| Apparel | £30 | £33 |
| Office Supplies | £19 | £11 |
| Health & Beauty | £18 | £18 |
| Grocery | £4 | £3 |

Average Apparel unit price: Q3 2016

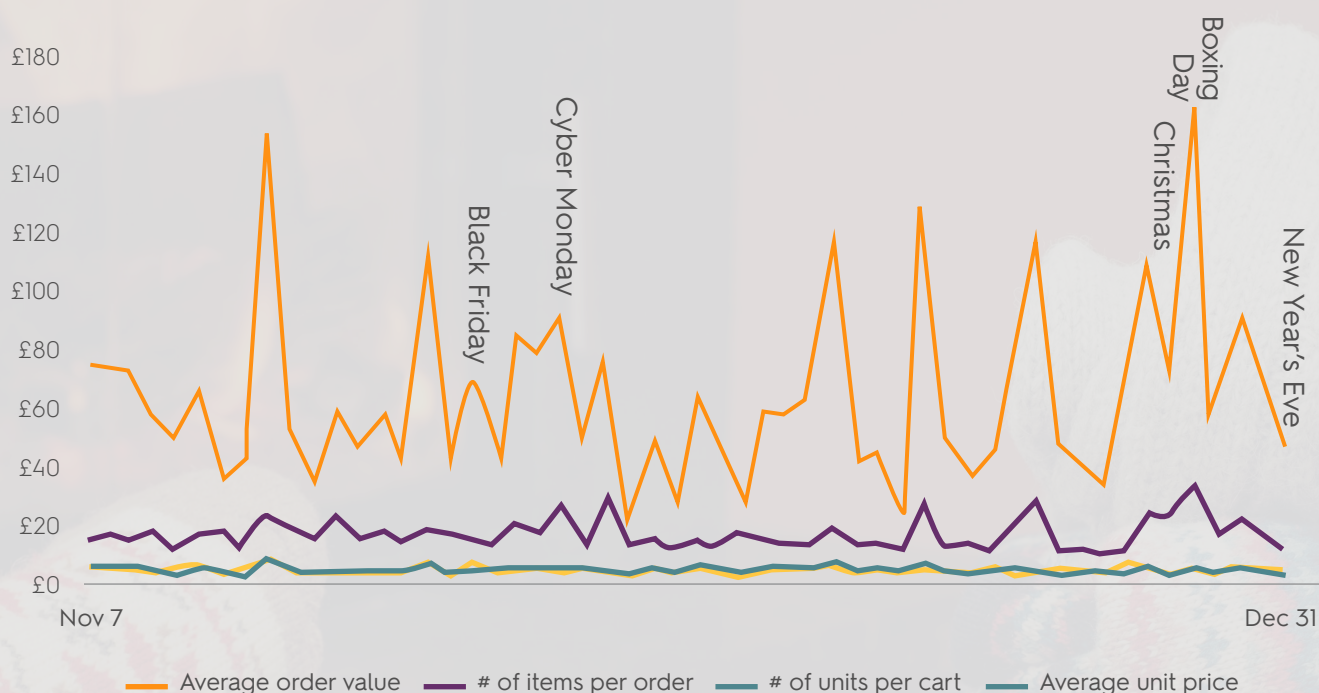
|  |  |  |  |  |
|---|--|--|--|--|
| Handbags & wallets | Jewellery | Accessories | Shoes | Clothing |
|  £112.05 |  £87.44 |  £47.65 |  £32.36 |  £23.95 |
|  £111.23 |  £84.28 |  £49.35 |  £31.97 |  £26.63 |

Source: Criteo Sponsored Products Network Data 2016

! Higher than desktop

The Festive Season is longer than ever

Apparel basket analysis: Festive Season 2016



Festive Season takeaways

The big takeaways from Festive Season 2016 were that while days like Black Friday and Cyber Monday still have huge impact, the season starts earlier than ever. When one of the big retailers triggers Black Friday early, as ASDA did, it ends up putting more shoppers in market overall. Ecommerce has changed the seasonality of retail and brands need to respond accordingly and be ready for a surge in shopping at all times.

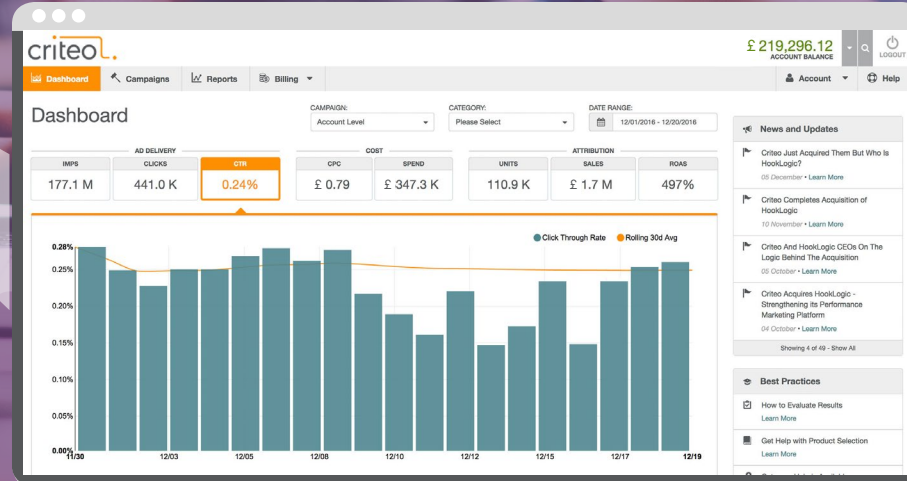
In the UK, there has always been the strong tradition of Boxing Day sales, and with online gift cards, that activity now goes on well into January.

What actions can brands take?

Brands should remain in-market with their ecommerce advertising as impulse purchases are more likely since the shopper isn't footing the bill themselves.

4

Ways to measure.





Sponsored Products have impact not only on retail sites, but also on brand sites as consumers tend to shop across sites before making their ultimate decision. \

ROAS, Brand Store 360 & Brand Halo

In addition to distribution, attribution and measurement overall pose challenges as Apparel sales shift to online. Co-op budgets still often assume TV, newspapers or radio – but Millennials and Gen Z are no longer as influenced by those media channels.

While measurement techniques like reach and frequency are adequate in the world of TV, ecommerce media works by different metrics. A company like Criteo works with its retail partners to pool shopper data so that paid search ads bought based on response are extrapolated to actual sales (or **ROAS**): I spent \$10,000 to advertise underwear across the Criteo network and I sold 50,000 SKUs directly attributable to that buy.

It's a simple approach to the complex question of attribution, but it's easy, it works and, based on Criteo's ever-increasing global client base, it's a mode of buying that brands like.

In addition to ROAS, Criteo offers "share of digital shelf" metrics. An analysis of 180 campaigns in 2016 within the Criteo online retail network universe showed that, due to exposure to paid search:

- Across all campaigns, there was **+48% average change in share of category consideration**¹
- Across all campaigns there was **+43% average change in share of category sales**¹
- The lift varied by product category:
 - ▶ Apparel & Accessories had a **51% lift in share of consideration**; share of consideration for Health & Beauty increased 39%¹
 - ▶ Apparel & Accessories showed a **47% lift** in share of sales, while Health & Beauty showed a **36% sales lift**¹

¹Source: Criteo Sponsored Products Network Data 2017

Sponsored Products have impact not only on retail sites, but also on brand sites as consumers tend to shop across sites before making their ultimate decision. With appropriate tagging, the impact of paid search on retail sites can be extended to the brand sites that are so important to many Apparel & Accessories sites. This analysis is called **Brand Store 360** – and it is available now.

Marketers have long sought ways to determine what the brand halo effect is (ads focused on one brand that ultimately have a "rub off" or "halo" effect on related products). Criteo Sponsored Products now can measure that effect: a shopper was exposed to an ad for the new ultra-high-waist Mom jeans. The Boho top by that same manufacturer that was pictured with the jeans receives a sales lift due to **Brand Halo**.

5

Best practices.

TOP 10

Key takeaways for Apparel & Accessories brands



Image source: http://s23.postimg.org/dopumn55n/Main_Rebecca_Minkoff.jpg

Embrace in-store and online tech innovation. AR concepts as well as in store tech like the eBay magic mirrors deserve to be implemented now. Gen Z expects an experience and connecting tech with tactile is a winning combination.



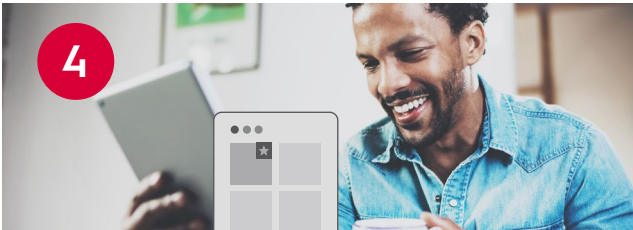
Image source: <http://cdn.skim.gs/images/zdoa5meplk38xaaiux9l/burberrys-christmas-advert-2016>

Explore the retail lifestyle. The retailers that are making it work in apparel are taking their cues from what Vogue has been doing for 125 years: telling a story visually to illustrate a trend and how to wear it. Burberry's "A Tale of Thomas Burberry"¹ is a compelling example with A-list stars.

¹Source: [youtube.com/watch?v=6D5IZtDCS5c](https://www.youtube.com/watch?v=6D5IZtDCS5c)



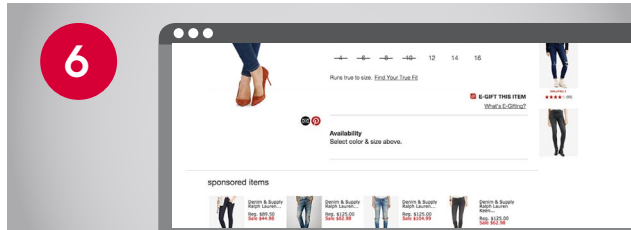
Personalise everything. The word “bespoke” is suddenly back – but this time it is about how an item of apparel is tailored through technology to be something unique and special, whether it is in the fit of the garment or other optional elements.



Use Sponsored Products to drive awareness and sales. Criteo’s Sponsored Products, which are relevant to the purchaser and to what they are searching for, reach apparel shoppers at the point of need and desire.



Cross-sell for impulse purchasing. It’s all about the merchandising and with the limited product display opportunities online, Criteo’s cross-sell tools to show what shirt goes with what jeans or what earrings and sandals work with that outfit.

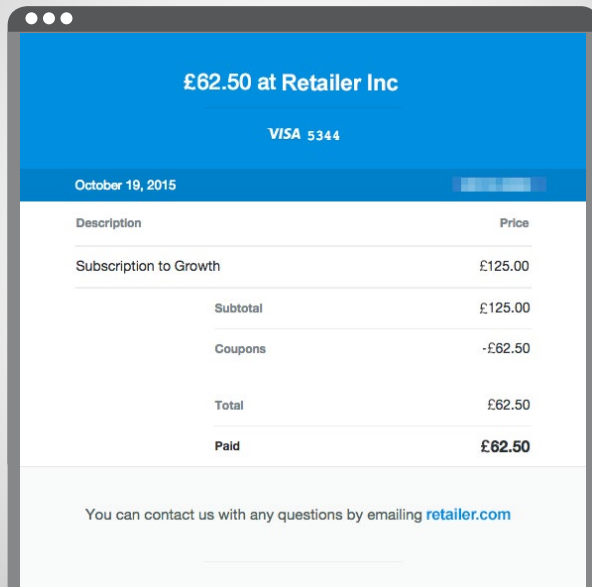


Use Paid Search to help increase organic rankings. The more sales a product has, the higher its rank in organic search. What’s the most significant driver of organic search? Paid search: it’s proven to both drive immediate product sales with the added benefit of popping rankings overall.



Develop an always-on strategy for ecommerce media. Ecommerce has fundamentally changed retailing seasonality. Festive Season 2016 reflected those changes: a drawn out season with purchasing of big ticket items even earlier than in past years, but also a big post-Christmas bump due to gift cards. Make sure your brand budget is able to cover not just traditional retail seasons like Festive Season and Spring, but carry you through the year.

8



| £62.50 at Retailer Inc | |
|------------------------|---------|
| VISA 5344 | |
| October 19, 2015 | |
| Description | Price |
| Subscription to Growth | £125.00 |
| Subtotal | £125.00 |
| Coupons | -£62.50 |
| Total | £62.50 |
| Paid | £62.50 |

You can contact us with any questions by emailing retailer.com

Ditch the print receipts in favor of digital ones. There is no more effective way to build up your customer email database by getting access through transmission of receipts. It's a technique that consumers are increasingly expecting, and can be used to connect offline shopper data sets to online ones for retargeting online based on offline purchasing patterns.

9



Retailers should amortise audiences through Sponsored Product ads.

One of the reasons Amazon can afford to keep their prices low is the media revenue they generate from sponsored listings and banner inventory. Use ecommerce media to reach them at the point of need.

10



Recognise the potential threat of Amazon in apparel, and meet them head on.

Amazon envies what Bricks & Clicks retailers have: strong retail footprints and established relationships with consumers. Brands should reinforce their value and brand stories. Retailers should take note: two-day, one-day or same-day shipping; easy, no-questions-asked returns; superior real person, live customer service... and just possibly, embrace the omnichannel future.

About Criteo

Criteo (NASDAQ: CRTO) delivers personalised performance marketing at an extensive scale. Measuring return on post-click sales, Criteo makes ROI transparent and easy to measure. Criteo has over 2,200 employees in 30 offices across the Americas, EMEA and Asia-Pacific, serving 13,000 advertisers worldwide and with direct relationships with 17,500 publishers. For more information, please visit criteo.com.

Criteo ads reach over 1.2 billion unique Internet users (comScore, January 2016).

This and future whitepapers may be found at:

www.criteo.com/resources