



criteo.

Apparel trend report.

Reconciling the tech with the tactile

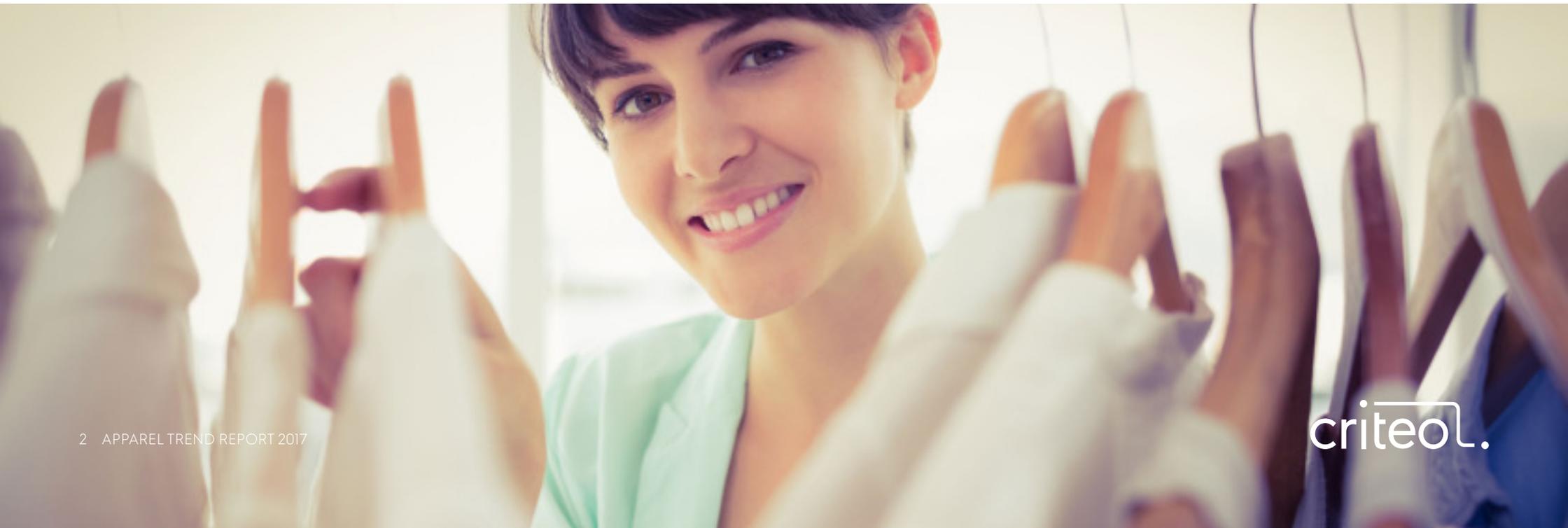
United States: Q2 2017

Executive summary

Apparel is a fast-growing ecommerce category with about **18% of all sales conducted online**. The internet has upended much of the way that consumers shop for fashion as well as the industry itself. Millennials and Gen Z are more likely to be getting their inspiration from an entirely new crop of style experts on both retail sites and through vlogging platforms like YouTube.

Apparel shoppers move seamlessly between online research and in store purchase as well as trying on in store and then stocking up online. Mobile phones are increasingly the conduit to the sale, with shoppers both researching and making purchases on the device everywhere from the comforts of home to retail environments where they can act on what they see.

In the hyper competitive, noisy marketing environment of apparel retail, brands are adjusting their tactics to drive increased attention to their products with ever more sophisticated connections between online and offline data. Marketing, just like the apparel trend towards personalization, is all about surprising and delighting shoppers with goods relevant to them.



Key Findings



\$95.21: The average cart with an apparel item in Q3 of 2016



\$33.91 vs \$30.08: Apparel items sold on mobile devices are larger than those on desktops



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



Showrooming: now considered a good thing as shoppers try what they like and click to ship from that retailer

1

Category Trends.

The Millennial Factor & Gen Z: Generations that grew up online live for style

Marketers of consumer packaged goods are well aware of the pig in the python of demographics: Millennials. This is the generation that grew up online and they are larger in size than the Boomers. They may have started their apparel purchasing with magazines like Marie Claire, In Style, Lucky and Vogue, but they now are turning to sites like Style Candy, Refinery 29 and using You Tube videos for styling tips.

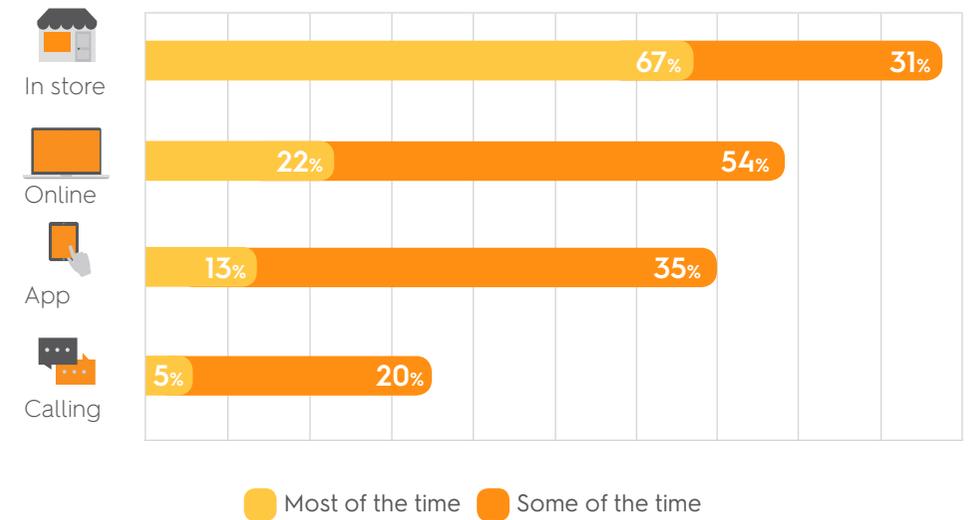
Generation Z loves tactile shopping in retail stores

Teenagers have been calling the shots in respect to apparel purchases since the term “teenager” was first made popular in the post-war James Dean era of the disaffected teenager. Teens continue to set the trends:

55% of Gen Z reports that they spend their own money on clothes and 60% say they influence household apparel purchasing (Uniquely Generation Z, The NRF, IBM, January 2017).

While they may have grown up with smartphones, perhaps because of the overwhelming amount of digital media they do take in, they value tactile experience. While they make most of their purchases online, they prefer to shop in physical retailers.

How Gen Z-ers prefer to purchase¹



2

Industry challenges & opportunities.

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: In a recent Forrester study that was conducted on behalf of UPS, it was found that 81% of customers want an easier way to return products they buy online.

Work-around: UPS got game again, and with return labels with flat rate packaging and new drop off points, it's not as much of a hassle.

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 and can use data for personalized content delivered through the web or email.

Challenge: Online is too limited in terms of the view of merchandise to really sell fashion.

Work-around: Sponsored Product ads are a way to ensure visibility in instances where a shopper is looking for clothing in specific categories and brands. Brands can use Criteo's cross-sell tools as a form of digital merchandising.

Challenge: Deep discounting becomes 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%.

Work-around: Offer close-up and 360-degree views of the clothing that give a better sense of the proportions. According to the comScore, 68% of online shoppers desire complimentary return shipping and a simplified return process 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.



of online shoppers desire **complimentary return shipping** and a **simplified return process**

3

Mobile: click & collect;
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.

One estimate of Holiday 2016 (from the International Center for Shopping Centers¹), was that one third of all online purchasers in the U.S. had used Click & Collect in 2015. A factor just as important was that 61% of those Click & Collectors had made an impulse purchase in store when they went to collect their goods. Macy's offered this option for Valentine's Day so that last-minute shoppers could exchange on the day itself.

Showrooming wins sales

In many product categories, including Apparel & Accessories, retailers initially flipped at the idea that someone was going to check out an item in a physical store and then buy it on Amazon. While this is still a possibility, more retailers have begun

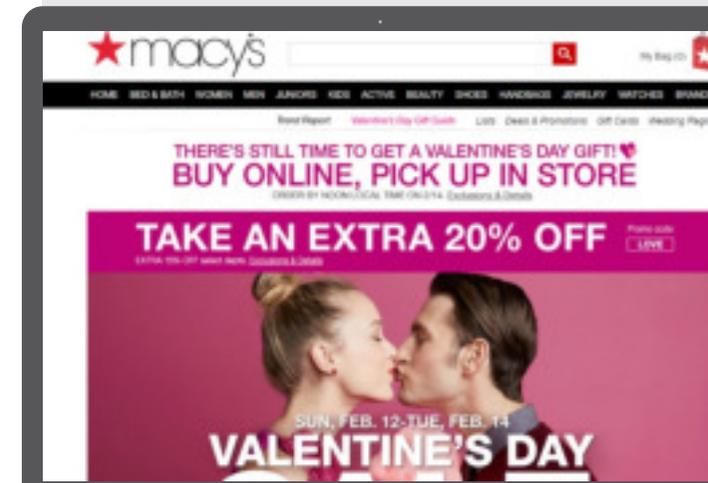
to embrace "Click & Ship" as a way to increase customer loyalty, better manage inventory and make smarter use of store personnel.

Yes, Macy's, JC Penney and Sears are rightly limiting their in-store inventory and reducing the size of their footprints. And, they are using those spaces more wisely. As the popular show "Mr. Selfridge" (father of the modern department store in the U.K.) showed, knowledgeable sales staff and beautiful displays that encourage touching the merchandise are a real draw.

Once that salesperson who knows what cut and color would look best on a client closes in on the sale, there is no shuffling about back-stock to find that item. 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, and the customer spends no time waiting in line, especially in a line where a manager has to be called as a product needs to be returned.



of Click & Collect shoppers in the US made impulse purchases in store

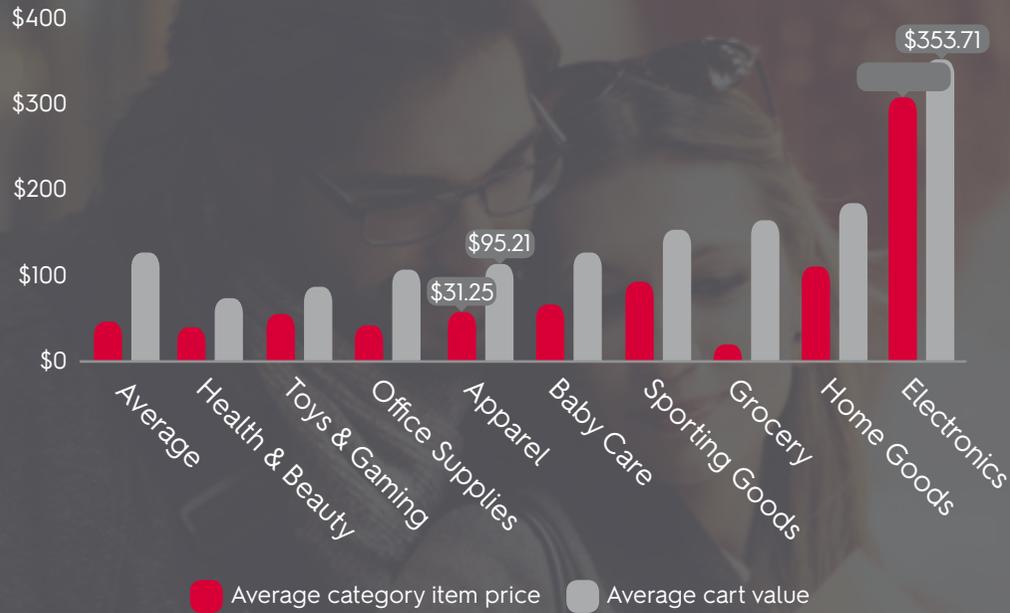


Macy's promoted its Click & Collect program on its homepage to entice last-minute Valentine's Day shoppers

4

Shopping carts close up: Q3 & holiday.

Q3 average item prices & cart values by category



Shoppers in the U.S. spend considerable amounts online when shopping for Apparel & Accessories. With so many complementary products possible, on average, more than three products are in every cart. In Q3 the average cart size was \$95.21, with an average unit price of \$31.25. Cart size is about average, with unit size 42% greater.

With younger consumers driving apparel purchasing, it's no surprise that a lot of the ecommerce transactions are taking place on mobile devices. Average item prices on mobile devices are now slightly higher than those on desktops: \$33.91 vs \$30.08.

Average item price by category: desktop vs. mobile

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

Holiday sees bigger cart values.

The peak in Holiday 2016 was Sunday, November 13, with the average cart adding up to \$126 with an average unit price of \$36. The next highest day was Sunday December 7.

The peaks on Sundays speak to the omni-channel nature of ecommerce. Likely, shoppers had seen clothes in store and then purchased them online because that was most convenient.

It's important to note that, in Apparel & Accessories, purchasing for the holidays goes on well into the new year, with returns, exchanges and purchasing with gift cards.

Holiday 2016 Apparel purchasing: Entire carts vs. individual items



5

Browsing: what are shoppers searching for?



6

Holiday: Lessons learned from an atypical year.

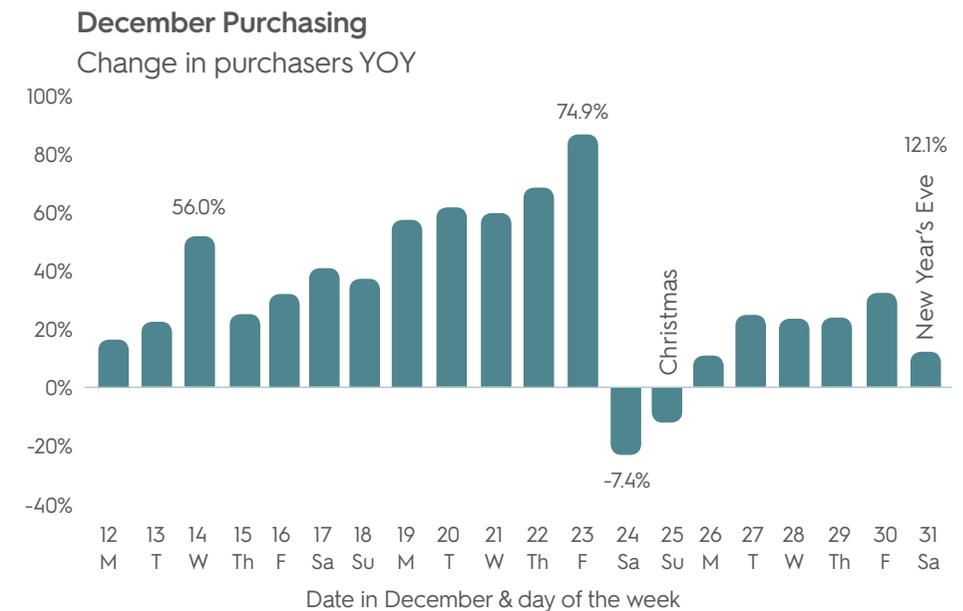
Walmart's early sales and shorter shipping windows change patterns.

For holiday, November was a volatile month. Would-be holiday shoppers took a break around election time. They came back to shopping the Friday after the election, which was also helped by being a Federal holiday. The other major development was Walmart's decision to launch Black Friday deals a full week early. Friday the 18th saw the biggest gain in shoppers year over year.

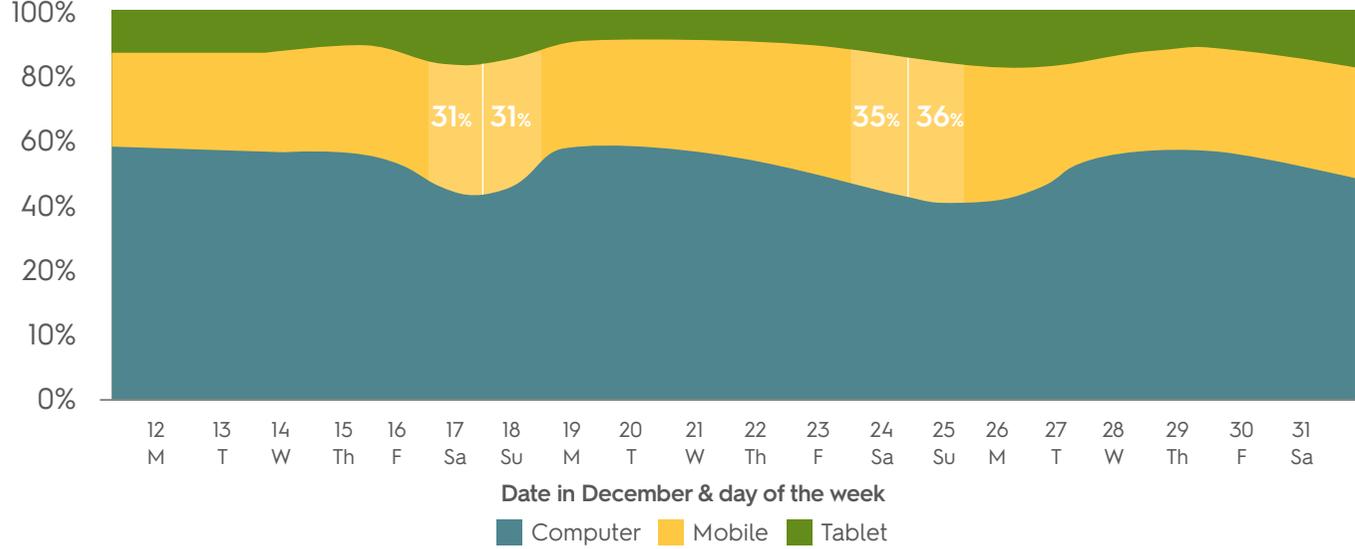
Cyber Monday, which was the biggest shopping day in the history of ecommerce, saw lower gains, but still increase double digits over the prior year. There seemed to be fewer deals specific to that Monday, as retailers

pushed discounts early to meet the rising number of holiday shoppers in market driven, by Amazon and Walmart.

When you look at growth in those who purchased online, you can visually see the change in shipping policies, that were also driven by Amazon and their two-day shipping with Prime. Men are typically more last-minute shoppers than women are. The fact that many of the retailers in the Criteo Retail Network (Walmart, Target, Best Buy, Toys R Us) truncated their shipping windows, you see how it increased sales right up to Christmas Eve.



Share of conversions by device



The other notable trend that emerged in Holiday 2016 was that shoppers became increasingly comfortable not just shopping on their mobile phones, but purchasing on them.

During the weekends in December, mobile phone purchases encompassed nearly a third of all purchases. Tablets, which were embraced in the fashion world for their larger screens, are increasingly marginalized as devices for young children and older adults for streaming media.



7

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 its clients "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

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 the "brand halo."

8

Best practices.



- **Embrace in-store and online tech innovation.** Your customers likely will not be viewing your products with VR goggles in the next few years, but AR experiences, as well as in store tech available now like the eBay magic mirrors, deserve to be implemented now. Gen Z expects an experience and moshing tech with in-store experience is a winning combination.
- **Explore your retail lifestyle.** The retailers that are making it work in apparel are telling a brand story that their shoppers are embracing: Consider Madewell and, with its all-American approach to casual using iconic American looks, Shinola and their nostalgic connection between watches and no-tech bikes. The best of the new crop of retailers all treat their site like a combination of a store and Vogue: they tell stories related to a lifestyle that the products fit into. It's just an update on apparel merchandising 101 and done with the same kind of beautiful photography and trends explanation that once existed in print fashion magazines.
- **Personalization breaks through.** Whether it's the customer service that Nordstrom was built on (with its hand-written notes to tell clients when something came in) or the ability to monogram or emboss, it may be mass

manufactured, but we like to think that someone we know came in contact with it. 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 embossed initials.

- **Add coffee and stir.** Stores once typically all had "tea rooms" and served food as a way to keep people there or acting as a meeting place for family and friends where the profit margin was good and no discounting was needed. Now, many smart retailers are dipping their toes back into food services with coffee. Why send them off to the food court if you can keep them in store with a spiced chai latte?
- **Product sampling isn't just for foods and Health & Beauty items.** With subscription boxes like Pop Sugar and Bespoke Post, you can get your brand into the hands of shoppers. Brand should cultivate these sampling programs that work especially well for accessories. Brands like Bauble Bar launched this way.

// Ecommerce has fundamentally changed apparel retail marketing. Brands need to adopt an “always-on” strategy. //

- **Use Sponsored Products to drive awareness and sales.** Criteo’s Sponsored Products, which are relevant to the purchaser and multiple-SKU categories like Apparel & Accessories, reach shoppers at the point of need.
- **Cross-Sell for impulse purchasing.** It’s all about the merchandising and with the limited product display opportunities posed for online, use Criteo’s Cross Sell tools to show what shirt goes with what jeans and what earring and sandals look great 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 drive immediate product sales with the added benefit of popping rankings overall.
- **Experience the incremental lift of Sponsored Products.** During the time period of this report, Criteo’s 180 share shift campaign analyses comparing pre- and post-campaign product sales by category found that Criteo Sponsored Products increased share of consideration by 48% on average and share of sales by 43%.
- **Develop an always-on strategy for ecommerce media.** Ecommerce has fundamentally changed retailing seasonality. Holiday 2016 saw a drawn-out season with purchasing of big ticket items even earlier than in past years – and a big post-Christmas bump due to gift cards. Make sure your brand budget is able to cover not just traditional retail seasons like Holiday and Spring, but carry you through the year.
- **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.

Incremental lift with Criteo Sponsored Products

↑ +48%

Share of consideration

↑ +43%

Share of sales

About Criteo

Criteo (NASDAQ: CRTO) delivers personalized 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
