

Point of view

The 3 As:

Aldi.

ASOS.

Apple.

The future of retail.

Overview

The 3 As

ASOS - investors' sweetheart for over a decade and a pioneer of online pure-play who has been able to deliver solid double-digit top line growth and enter new territories without much competition. Today, ASOS is the number one fashion destination for 20-somethings and a global fashion ecommerce phenomena.

In our 3 As series so far, we have seen how Aldi's low-cost, no-frills customer experience is delivered via unparalleled operational excellence. Today's consumers expect convenience, transparency and value for money, and Aldi delivers these via its differentiated business and operating models.

So why has ASOS made our retail winners' list? It is simple, yet hard to imitate. ASOS has created a personal platform for the 20-somethings who live, breathe, tweet, blog and post fashion. Over 800 brands and a global community under one roof has secured ASOS' position as the second most visited fashion website in the world. The start-up has departed from the online transactional business model to build their own business model that is sticky, social and successful.

Some claim that the fairy tale is over, referring to the £190m wiped from ASOS' value over the course of three recent profit warnings. However, the nearly nine million global customers who have shopped with ASOS in 2014 would argue the site has quite a few valuable lessons to share. This case study will show how unique and fascinating the ASOS journey has been.

“What’s exciting about fashion is the surprise element. People don’t know what they want. They just know when they see it.”

**Marc Jacobs
Fashion designer**

Introduction

A new business concept for a new millennium, ASOS (As Seen On Screen) was launched in the year 2000 in Nick Robertson's garage, where he and Quentin Griffiths launched the site in the aftermath of the dot-com bubble. The original intention was to sell products which appeared on TV and films, responding to the public's desire to emulate their celebrity idols. Robertson and Griffiths believed the business had to be online to reach large audiences, with a vast range and fast turnover of products. It was only when they hired their first fashion buyer from the Arcadia Group that they applied their business concept to fashion and ASOS soon became the place to go to buy fast fashion replicas of celebrity outfits.

ASOS' business has developed as technology has evolved and influenced consumer behaviour. In the early days of fashion ecommerce, shoppers were only just learning to trust online companies with their bank details whereas today consumers expect to be offered an edited range that is updated relentlessly. ASOS was one of the first UK retailers to understand how social media platforms can be used to enhance the brand; the ASOS business model has shifted from a transactional site to a shared community experience which blends product with content while monetising the community participation. Today ASOS aims to be nothing less than the world's number one fashion destination for 20-somethings.

Although some other online offerings such as Boohoo and Zalando might be snapping at their heels, ASOS still remains among the largest independent online pure-plays in the UK, with total sales of £770m (2012/2013) and is the second most visited fashion website on the planet with over 30 million unique visitors per month. On the other hand, looking at the bigger picture ASOS is still relatively small with a less than one percent market share in the UK (by value), where supermarket-fashion is on the rise (e.g. Asda's George around 5% and Tesco's F&F 3% market share) and traditional high-street brick-and-mortar retailers do not seem to be disappearing anytime soon (e.g. M&S 11% market share). However, ASOS is no doubt strongly positioned to be a significant fashion player in 2017, when the online fashion industry in the UK alone is expected to be valued at £7.5bn of the overall £46bn clothing and apparel market.

So what is it that has afforded ASOS this success? And what are the potential stumbling blocks that may hold it back?

“We are young fashion, on-line, on-mobile, on-social... Everything the 20-somethings are doing.”

**Nick Robertson
Founder & CEO,
ASOS**

The ASOS Business Model

Business Model – The rationale of how an organisation creates, delivers and captures value

The ASOS business model is an interesting mix of careful product curation and editorial content embraced by the global fashionista community. We will now examine how community, curation and content all contribute to the business model and value proposition of ASOS.



Fig. 1

Community

With nearly 3.5 million likes on Facebook alone, ASOS has become every true fashion lovers' friend. Add Twitter, Instagram, Pinterest and Google+ and you start to gauge the scale of ASOS' social media reach which, not surprisingly, is a 'built-in' feature of ASOS. They are social media transformers: agile, nimble and comfortable with fashion lovers doing much more than simple online transactions.

ASOS' target customer wants to belong to a community that shares fashion tips constantly, is on trend, is willing to experiment with their look, and uses the online community to help them to look their best strutting in the latest fashion. By creating an integrated set of platforms, ASOS has been able to offer a 24/7 fashion lifestyle that is engaging, welcoming – and very sticky. All platforms direct traffic to the main site, which has become a living fashion co-creation space, which injects the ASOS value proposition across the globe from China to Russia and beyond. ASOS claims that nearly 40% of their official website page views are generated by social media, which shows it is an integral component of all stages of the customer journey, from awareness to purchasing and customer care.

There is, however, a serious growth challenge within the ASOS model. Their niche market is, well, very niche and relatively narrow. As sales have suffered due to weak demand in international markets, unexpectedly warm autumn weather, pricing uncertainties and currency fluctuations, ASOS might be left wondering whether this community is enough to support investors' ambitions. While they continue to influence and engage in making the ASOS value proposition unique, their competitors are also just one click away, relying on the same characteristics of low prices and fast deliveries. To grow, will ASOS stick to their core offering or broaden their proposition instead?

Curation

Today ASOS offers 75,000 lines, covering over 850 brands and combining high-street and luxury products, new and second-hand items. This would make even Vogue's editor-in-chief Anna Wintour's head spin, and that is exactly why ASOS has become so adept at product curation and editing, quietly removing ranges not fitting their proposition. They are brave with new initiatives but also know to remove them when they do not add value to the overall portfolio – look at Primark or the short-lived kids' line for example. Strong relationships with brands enable ASOS to vary the depths they buy and so keep the offer relevant and interesting day-to-day, while gathering relevant customer data on what is and is not working. As Nick Robertson puts it: "What ASOS has done is take what the UK is brilliant at, young fast fashion, and put all those brands together in one place, like putting a roof over Oxford Street, and then exploited it."

ASOS' ability to interpret fashion has moved on significantly from the early days when Robertson struggled with selling long, black leather jackets before theming them 'Matrix' and then seeing them fly off the garage shelf in no time. Today, ASOS has built a strong own-label range to complement their comprehensive brand offering for targeted customer segments – ranging from ASOS White for the less price-conscious customer to ASOS Curve, Maternity, Petite, Tall, and so forth, thus capturing a wide array of consumer tastes and budgets. Last year alone, ASOS' own brands were 53% of overall sales, proving that having a solid offer in their own product category is a cost-efficient way to respond to fast fashion trends due to shorter lead times in commissioning and distributing new private label designs.

Although the product handwriting for ASOS' lines is less recognisable when compared to retailers like Zara, they have been able to provide a trustworthy and current point of view to fashion through distinctive curation and having a strong opinion on trends. Furthermore, their skill in showing how items can be put together and personalised into an outfit are showcased through the ASOS model runway, where they dress models on-trend, usher them to the catwalk, photograph and film it, while providing a 'complete the look' functionality to encourage the customer to increase their basket size. This is supported by significant data insights into customers' preferences and shopping habits that provide information for in-house designers and buyers, as well as to stylists and bloggers.

Content

Whereas Vogue was the source for fashion advice and information in the 90s, today's fashionista turns to numerous blogs, Pinterest, Instagram, Tumblr – and now ASOS – for the latest insight into fashion through posts, competitions, games, news and feature articles. The combination of a great product and relevant content seems to be ASOS' winning recipe, advertised either through its own print magazine and daily editorials online or inspired by and co-created with the wider community of ASOS users, across all forms of social media platforms and the ASOS' Fashion Finder section. The intention behind celebrating this fashion lifestyle is to drive traffic to the main site and deepen brand engagement, encourage advocacy and loyalty, and ultimately boost sales.

ASOS.com is brave with its brand, giving the audience permission and encouragement to make their own mark (or even sell their own clothes!), all under the ASOS banner.

Today, the website rewards those community members who contribute the most; and these role models are rated and celebrated by their peers. However, the interplay between in-house editors, writers, bloggers and other community members is a carefully orchestrated performance where ASOS is in charge. While bloggers increase the credibility of the platform substantially, ASOS is the gatekeeper for what will take centre stage (keeping in mind that content comes before the product), making sure that the customer will love ASOS' suggestions.

So far, the ASOS business model and strategy has worked and the retailer has gained a strong position where it is able to push the same trends in every corner of the world. But the competition is intensifying, and not only from other online brands. The continued growth of grocers entering the apparel market and the existing players extending their value proposition beyond their traditional boundaries influences how customers perceive value and rate brands. For example, Next's Label, selling branded fashion online, and H&M's high-fashion designer collaborations, showcasing Alexander Wang this November, are great illustrations of how clever positioning of a brand – or a portfolio of brands – can engage a wider array of customers and provide additional sources of revenue.

As evidenced by ASOS' international success so far, their business model is compelling. However, as we have recently seen, currency fluctuations and variations in local market demand require constant attention to detail. Despite this, Nick Robertson sees a huge opportunity in China in particular to tap deeper into the global market.

ASOS Sales & Operating Profit 2010-13

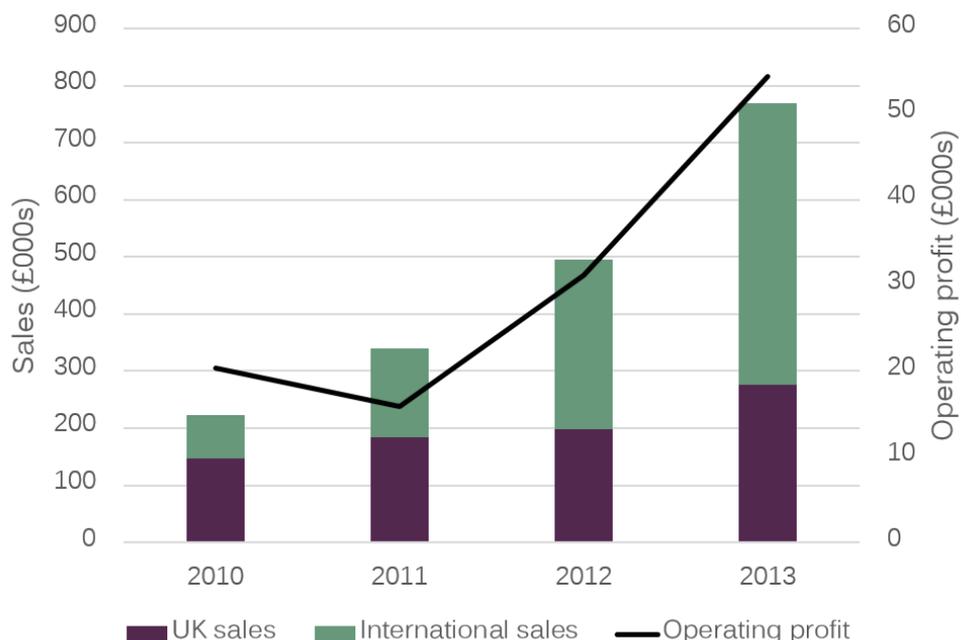


Fig. 2 NB. Year-end changed from March to August in 2012 therefore March-August 2013 is excluded. Figures for 2013 are unaudited figures.

The ASOS Operating Model

Operating Model - The definition of how a business organizes and governs assets and capabilities (e.g. people, processes, systems) to deliver the business strategy

The ASOS operating model brings the business model to life. We believe there are three concepts that underpin the way ASOS organises its activities: capability, collaboration and complexity.

Capability

Working for ASOS is an extension to one's lifestyle, where the employee leaves the ASOS head office in Camden only to Instagram, Tweet and blog about fashion at home. The day job is supported by the vast community of ASOS users who transcend the usual employee-customer boundary, working alongside the ASOS team to keep the proposition fresh. The ASOS operating model is community-centric, the next step in maturity from a customer-centric model. However, bringing the community into the operating model requires control mechanics so that bloggers, for example, do not roam too widely off-brand. ASOS appears to manage this aspect of its operating model with skill and does not seem worried if a blogger sports an ASOS jumpsuit alongside a Chanel 2.55 quilted flap bag.

Robertson has referred to his London base as "an amazing hotbed of young fast fashion" and employing these people who live for fashion must be great – at least as long as those employees are in sync with their fashion ecosystem. 'Growing up' while staying ahead of the curve and finding and exploiting the latest trends requires a careful approach to innovation and experimentation with an almost child-like appetite for everything new. The ability to renew this capability and to stay in touch with the target customer must be built-in whatever the level of organisational maturity.

Like any other retailer, ASOS requires strong capability in the buying and design space. Handling a vast array of partnerships and ranges requires strict focus and a rigid approach to range selection and an eye for trends and customer preferences. Interpreting the vast amount of data emerging across all platforms is where ASOS is known to collaborate with the London start-up scene, searching for solutions to not only handle 'big data' but to find causalities and commonalities amid discussion forums, blogs and opinions to create understanding and sentiment around trends. This real-time information is then used to inform product-related decisions like pricing and buying.

However, international success cannot be explained by data alone. The other area in which ASOS excels is an in-depth understanding of how to acquire and appeal to customers in local markets. From re-working the tone of the website, to understanding whether TV ads or city centre screens are the way to reach target customers, to researching cultural nuances, events and festivals in order to increase local engagement, ASOS successfully acquires customers via understanding consumer preferences and behaviour to the finest level of detail. The Chinese site is a great example of regional tailoring with over five times more images, a front page twice as long as any other home page and a chat service providing short yes/no answers instead of the lengthy conversations typical in the UK. The fact that ASOS has adapted to this regional variation as an 'ordinary' part of their operating model is clearly evidenced by the strong overseas sales that were 61% of overall sales in August 2014.

The ASOS 'Organogram'



Fig. 3

Collaboration

Although ASOS started by copying celebrity styles, it is bloggers, street-style photographers and other fashion fans – often called ‘fashion outsiders’ – who translate the latest trends into everyday looks and make them more accessible for everyone. Collaboration with bloggers has made the fashion more personal and generated a new type of relationship between ASOS and their customer. The blogger acts as the customer care representative, capturing the customer’s voice on a larger scale while reflecting the current fashion landscape through their own wardrobe.

ASOS has smartly collaborated with bloggers, and the ‘ASOS Stylists’ are online each day to help plain Janes to find their inner fashionista with the help of ASOS’ offering. The friendly ethos in the fashion community adds personalised stories to the product offering and so makes the ASOS value proposition more compelling. ASOS has become the expert in tying together the presentation, content and experience of seeing the actual product and creating the desire to buy it through blogger ‘mood board’ and ‘street style’ inserts. This might also be the reason behind ASOS shelving their loyalty card trial – in some sense, loyalty in ASOS terms is not measured by the amount of purchases but by the volume of participation. All in all, as the blogger industry continues to be revolutionised (and monetised) and with each blog soon allowing readers to purchase products featured on blogs and Instagram on the spot, the ASOS model will no doubt be among the first to benefit.

The ASOS collaboration extends beyond business-to-consumer relationships. Lately they have been exploring their ‘lifestyle’ branding, offering fashionable products outside the realm of apparel, yet within the content model they have created for fashion. One interesting initiative in this field was a recent campaign with a leading car brand, where consumers could digitally test drive a car whilst trying on different specifications and colour options, all in the ASOS microsite. While this is a departure from their traditional retailing activities, it does underline the possibilities that lie within the ASOS.com engine.

Another aspect of collaboration is the platform partnerships ASOS has in its portfolio. China has been a thrilling opportunity for ASOS and local partnerships are undoubtedly the right way to enter the market where sound advice and local insight is key. However, the China project has lately been showing signs of wear and tear, with one of the concerns being the partnership with Tmall, a marketplace created by the retail giant Alibaba, which provides its 231 million active shoppers access to Western products with a remarkable 43% margin. Alibaba has recently been accused of ‘daigou’ (importing and selling unlicensed or counterfeit goods from the West to the Chinese home market), which highlights the importance of brand and risk management and requires the ability to handle a significant amount of curve balls that might land from any direction possible.

ASOS Fast Facts

Customers

8.8 million

active customers at 31 August 2014

(ASOS.com)

Countries served

240 through

8 local sites

(ASOS.com)

Growth

185.4%

2007-2012

41.2%

2012-2017

(Fashion Retail 2014, Retail Week)

Mobile traffic

30% of sales

2012-2013

Employees

1,100

globally

(ASOS.com)

Complexity

The 20-somethings want it all – and they want it now. ASOS' response has been to place the customer and the community at the heart of the ASOS operating model, concentrating on customer lifetime value and overall participation. Complexity in the ASOS operating model is therefore driven by all the elements required to support this community-centric thinking. Managing complexity is a key value driver for ASOS – as well as a challenge.

Today the global mass fast fashion online player has ten social networking sites; eight local language websites in the UK, USA, France, Germany, Spain, Italy, Australia, Russia and China; shipping to 240 countries and territories; six global offices; over 1,100 employees across these locations; 24-hour customer service; four warehouses and a returns centre; a tailored offer for different market maturities including service, product and content mixes; one print magazine; over 800 different brands; a significant number of partnerships to deal with; and accepts payments in 15 currencies... Click. Click. Click.

At first ASOS had a shipping and returns policy to die for. However, to run a successful global business Robertson soon realised the unsustainability of such a value proposition - and next day delivery in particular - especially when shipping to one of their favourite markets in the Southern Hemisphere: Australia. Therefore it is no surprise that ASOS is keen to tailor the service proposition for different markets, and the UK, for example, continues to be the 'pilot-market' that is treated with silk gloves: more discounts, rapid deliveries and overall a more seamless customer experience with a premier customer status available for only £10 (including unlimited next-day delivery, free returns, early access to sales, exclusive sales and free ASOS print magazine).

In Russia, Australia and China the service proposition is less developed, which is partly a result of their guiding principle to keep investment in tangible assets minimal, for example when it comes to depots.

However, not even ASOS can manage infinite complexity. An increasing number of consumers shop online and across multiple ecommerce sites. While spending more money, they have become accustomed to fast and often free services meaning more and more items get returned – in the apparel market returns are typically around 30%. In addition to warehouses in the UK, Germany, US and China, ASOS has set up a dedicated returns centre in Australia to deal with the complexity around returns. Some of the centres are 'ship-from-return' in order to provide the same service proposition globally, which is clearly a challenge for a geographical spread like ASOS has. However, fulfilling from both new stock and returns needs careful planning, effective systems and commercial acumen – maximising profitability while understanding some products are sold for as little as £3 and are therefore not viable to transport across continents.

Finally, for a business like ASOS, whose strength is to embrace complexity, the future could deliver some wonderful opportunities. One of them is the outlook for mobile traffic, which in 2012/2013 accounted for 30% of ASOS sales. As the mobile application keeps improving with tailored service propositions for every level of market maturity, it provides a great way to shop for 'on-the-move' global consumers. Managing this complexity to deliver what the customer wants while staying fresh and flexible is something that might keep Robertson up at night.

**“Nick has this way:
no matter how big,
we’re in start-up
mode. It’s a great
ethos”**

**Lord Waheed Alli
Former ASOS
Chairman**

What's next?

Today the world looks completely different to the view from Nick's garage in 2000. For over a decade, ASOS has enjoyed first mover advantage, and although the fashion industry – luxury fashion in particular – has been notoriously slow moving into the ecommerce space, competition in the online market place has never been as fierce as it is today. While the environment and infrastructure has become more complex, ASOS has evolved to become more of a lifestyle brand, promoting magazines, social media and even events. But the outlook for ASOS is not clear, particularly on the back of the aforementioned profit warnings and a 68% drop in share price. While the customer continues to be a 20-something, the business has – and is required to – mature, which poses the challenge of how to constantly rejuvenate the whole community in order to provide the world's number one fashion destination platform.

The scale of growth and complexity ASOS has been able to manage would make any CEO smile. The distinctive product offer paired with original content is something that no other retailer has been able to replicate. The secret lies in having so much more than just the clothes. The sticky platform with changing content, different feeds and daily edits establishes a community and gives shoppers a reason to return to it frequently. The customer intimacy ASOS provides through its bloggers and stylists is a lesson on customer and community centricity, the future of work blurring boundaries between employees and customers, co-creation, the power of stories to sell a brand, and the need to create retail 'theatre' to give customers a reason to shop with you.

ASOS is the cool kid on the block that has been quietly getting on with it, living hand-in-hand with their customers while delivering what they want via carefully managed chaos.

**“Is there someone
somewhere that can do
something for us that
we can't do ourselves?”**

**Nick Robertson
Founder & CEO, ASOS**



BOXWOOD

Talk to Boxwood.

Matt Clark | Partner

E matt.clark@kpmgboxwood.com

Paul Martin | Director

E paul.martin@kpmgboxwood.com

Anna Kuusela | Manager

E anna.kuusela@kpmgboxwood.com

15 Canada Square
London
E14 5GL
United Kingdom