



2016: YEAR IN REVIEW

December 20, 2016

STYLE**SAGE**

2016 was...quite a year. Global tumult and the resulting currency fluctuations and damaged consumer confidence roughed up a retail industry that was already suffering from pre-existing conditions.

IS IT OVER YET?





> KEY THEMES

E-commerce continued to rule, though many retailers are still trying to wrap their brains around an effective omni-channel strategy. In the meantime, digital native brands continue to gain consumer traction across sectors.

Real estate was a oft-repeated topic of the year, as many retailers continued to see their margins dragged down by costly and less-trafficked physical retail spaces.

A theme carried over from 2015, a large swath of US retailers are still caught up in the mix of discounting and product that isn't resonating with consumers.

Many luxury brands faltered in 2016, with slowing growth from China and reduced travel sales resulting from global fears of terrorism.

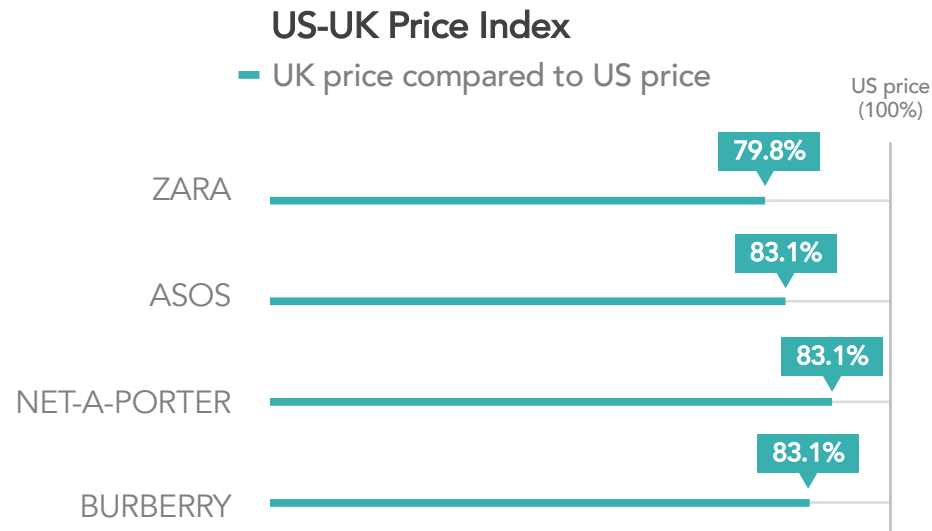
Despite an uncertain start to the new year, begin it the right way, armed with StyleSage's key 2016 insights.

ECONOMIC UNCERTAINTY + UNREST

It happened twice in 2016; voters in both the UK and US made it exceedingly clear they were not happy with the state of politics as usual. Leading up to and in the aftermath of Brexit and the US election, there were measurable impacts at the point-of-sale. Like it or not, this shifting ecosystem the new norm.



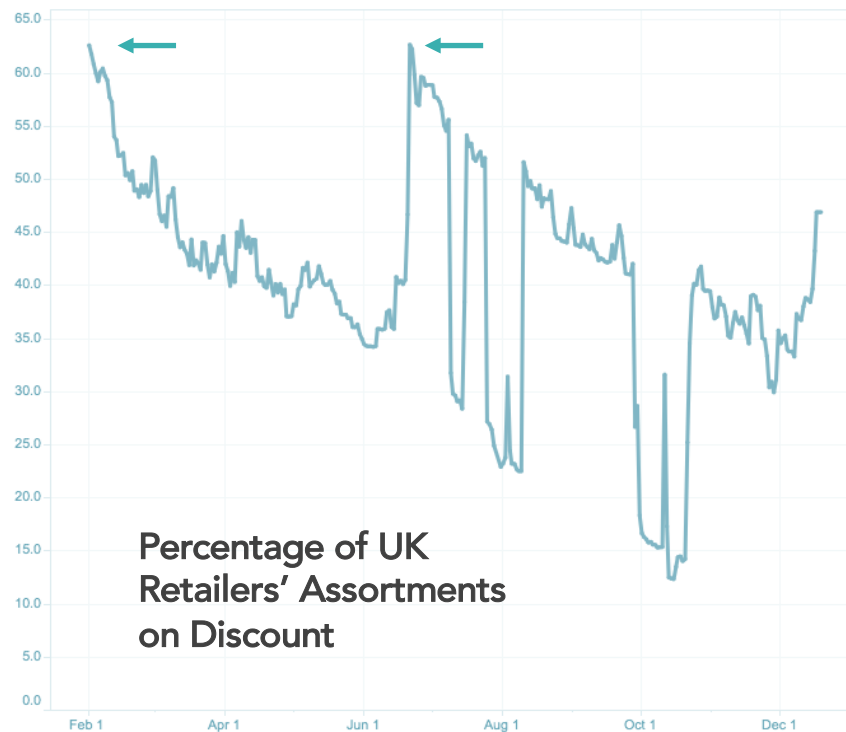
> ECONOMIC UNCERTAINTY + UNREST



WHAT WE SAW

When we matched exact items across retailers in the US + UK, we saw that prices for apparel and accessories in the UK are closing out 2016 at least 10% less than the US.

> ECONOMIC UNCERTAINTY + UNREST



WHAT WE SAW

There were heavier than normal discounts in the UK in February when the Brexit referendum was announced and also in the days surrounding the final vote in June.

DISCOUNTING: A TOUGH HABIT TO KICK

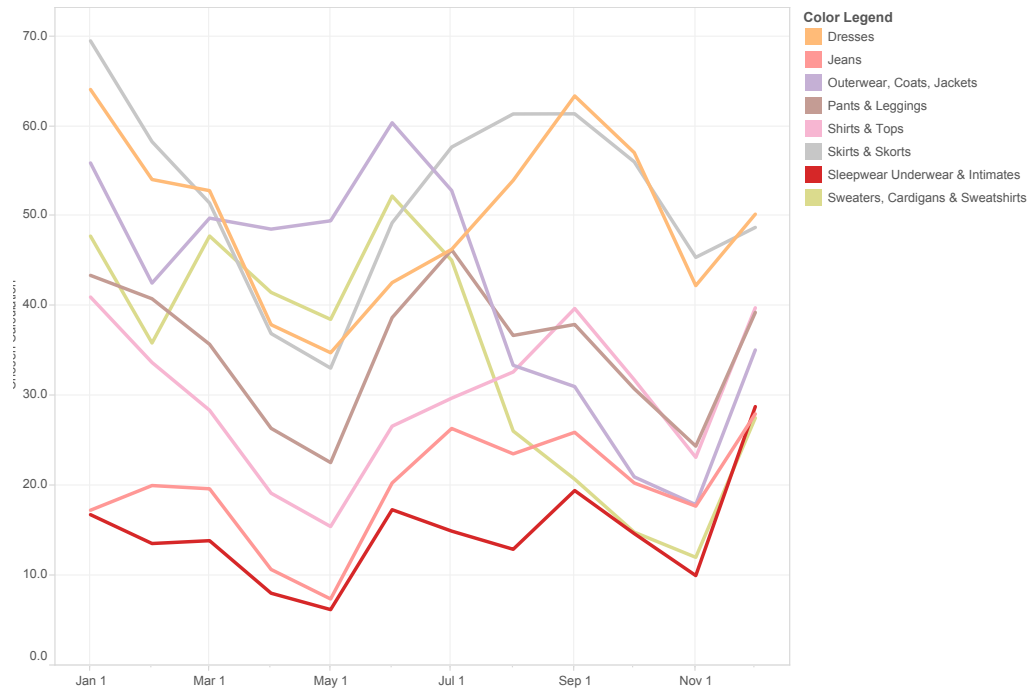
The downward discounting spiral...yep, we're still talking about this, because it's afflicting the bottom line of so many retailers in the United States.

Which retailers will be able to successfully put the brakes on this pattern? The end game isn't clear, but the fact that it's not a sustainable strategy is increasingly apparent.

Quicker response times to consumer trends, despite the inherent organizational complexity of making this shift, must be top priority in 2017.

> DISCOUNTING: A TOUGH HABIT TO KICK

Percentage of US Retailers' Assortments Discounted by Category



WHAT WE SAW

Amongst the cross-category discounting craze, the lesser discounted categories throughout the year were Intimates and Jeans.



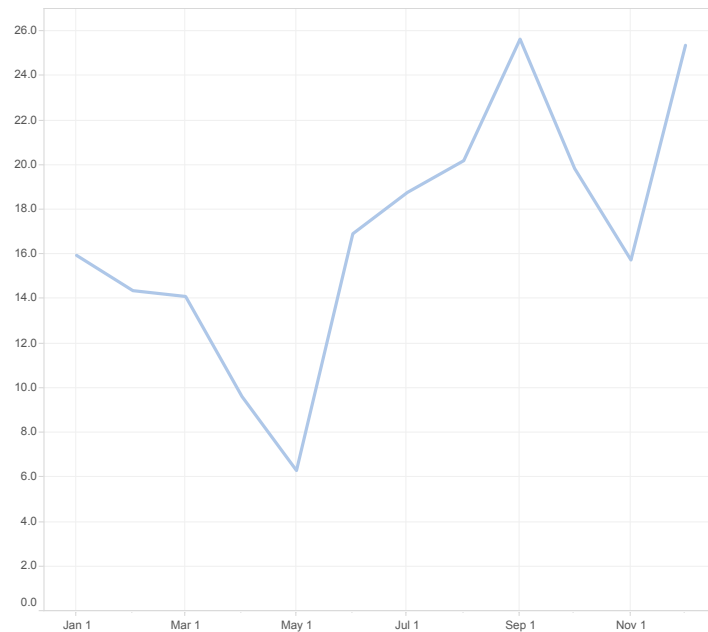
STILL MOVING: ACTIVWEAR + STREETWEAR

Casual dress codes continued to rule in 2016. And the Active trend extended further as we saw brands like Kith and Vetements take the activewear trend from runway to the street.

While growth is slated to continue into 2017, there are some signals that indicate there will be increasing downward price pressure for brands that offer up Activewear without clear differentiation.

> STILL MOVING: ACTIVEWEAR + STREETWEAR

Percentage of Activewear Assortments on Discount



WHAT WE SAW

Activewear categories saw the lowest average discount levels across apparel categories throughout 2016.

LEADING THE WAY: FAST FASHION

While they weren't the first to move into e-commerce, this sector has made up for lost time and continues to capture consumers' desire for immediacy on trends that originate from the runway and social media influencers.



> LEADING THE WAY: FAST FASHION



FAST FASHION

14-34% of fast fashion assortments were discounted throughout 2016

Monthly category sell-through rates were double that of NON-fast fashion retailers



FASHIONABLY LATE

48-65% of NON-fast fashion assortments were discounted throughout 2016

For the majority of the year, more than 50% of NON-fast fashion assortments were discounted



WHAT WE SAW

Fast fashion retailers had the lowest overall discount levels and highest sell-through.



LUXURY: CHANGE + THE NEW CREATIVE OPPORTUNITY

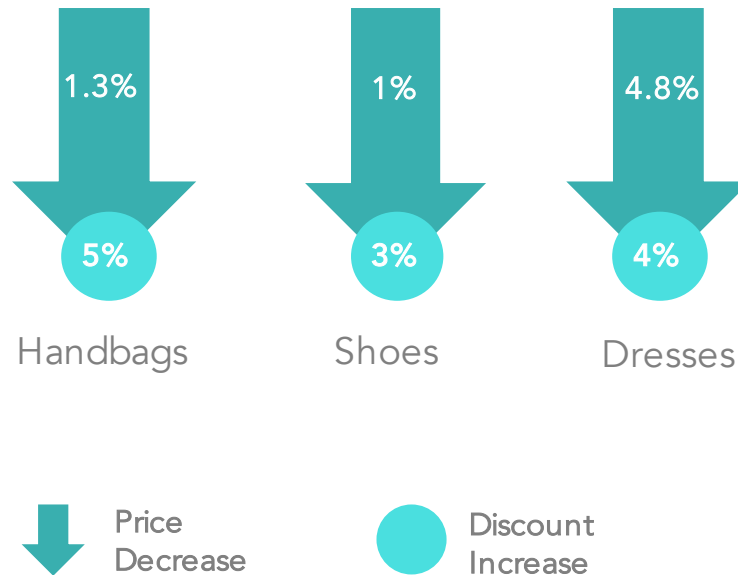
With Luxury sales expected to wrap up 2016 with 1% or less growth, there are some underlying shifts that the luxury industry needs to embrace, rather than fear.

Consumers are valuing experiences over ownership. Subtlety and uniqueness are increasingly desirable amongst younger consumers.

Luxury has not historically embraced e-commerce as quickly as their potential target market has and needs to overcome internal barriers of thought and process to properly develop this channel.

> LUXURY: CHANGE + THE NEW CREATIVE OPPORTUNITY

YOY Average Price + Discount Shifts (US)



WHAT WE SAW

Average prices in key luxury categories are creeping downwards in 2016, while discount percentages are increasing.

COMING OR GOING? AFFORDABLE LUXURY

Affordable luxury is a market that is slated to grow 3-3.5% in the next year. Done right, it strikes the perfect balance of accessibility and exclusivity.

However, some of this market needs to re-examine their distribution strategies, as there has been erosion of brand value from wide availability and the discounting patterns of their distribution partners.

Nonetheless, we see untapped opportunity in this category, especially for emerging digital native brands who get the product and experience right for the millennial consumer.

> COMING OR GOING? AFFORDABLE LUXURY



Mansur Gavriel
\$691
99%



Michael Kors
\$255
53%



Coach
\$301
59%

Average Price
Percentage of the Assortment at Full Price



WHAT WE SAW

We examined three affordable luxury handbag brands side-by-side, and despite a price tag that was twice the others, the limited availability brand (Mansur Gavriel) was more likely to be selling out at full-price than its mass-distributed counterparts.



SEE NOW, BUY NOW

It's one of the most exciting industry pivots of the year. Designers including Tom Ford, Tommy Hilfiger, Burberry and Ralph Lauren have upended the traditional runway calendar by offering runway items immediately available to consumers. This is no small feat, considering the operational shifts it requires. It's the right move, however, for an industry that has oftentimes been out-of-synch with consumers needs.


DIGITAL NATIVE BRAND DISRUPTION CONTINUES

Every day there seems to be a new e-commerce brand emerging from out of nowhere. And well-established retailers have clearly illustrated their weaknesses, what with expensive physical retail footprints and lengthy product development cycles.

But the challenges go much deeper than that; what successful emerged + emerging digital native brands like Everlane, Modern Citizen, Cuyana, Outdoor Voices, and Warby Parker have in common are focused product categories and consistent and clear design stories. And some of them are moving (albeit conservatively) into physical retail locations.

However, not every brand that enters this space rides off into the sunset happily, as we've seen Nasty Gal, an early darling in this sector, filing for bankruptcy this year. It remains to be seen how many brands playing in this space are here to stay and whether the market is nearing saturation.

> DIGITAL NATIVE BRANDS DISRUPTION CONTINUES

	Categories	Taking on
EVERLANE	Apparel, Shoes Bags Accessories	Gap Banana Republic J. Crew Premium + Boutique Brands
WARBY PARKER	Glasses	Luxottica Designer Brands
CUYANA	Apparel Bags Accessories	Gap Banana Republic Uniqlo Premium + Boutique Brands
Outdoor Voices	Activewear Accessories	Lululemon Nike Adidas Under Armour
 THIRDLOVE	Intimates + Sleepwear	Victoria's Secret



CHINA: REALISTIC EXPECTATIONS+ LONG-TERM STRATEGY

Despite government stimulus, slowing economic growth in China has many an international brand worried about their future prospects in this market. In particular, China's share of the Luxury market has shrunk in 2016, impacted by currency fluctuations, crackdowns on corruption, and a more discriminating local consumer.

However, there are many bright spots, as key players like Alibaba and JD have seen 55% and 38% YOY growth in sales, respectively. And Single's Day, which broke records this year with \$17.8B in sales on Alibaba alone, is starting to emerge as a global phenomenon.

The size of its economy and healthy employment numbers indicate China will continue to move forward with force and most certainly on its own terms. The only way to keep a competitive edge in this market is to take a long-term and hyper-local approach.



MOVING FORWARD

A renewed focus on organizational efficiency and data-driven decision making across all key business functions is key to getting speed-to-market right in 2017.

StyleSage trend, assortment, and pricing insights help identify opportunities in your business and prepare you for today's tumultuous macro-and micro-level operating environment.

Contact us at hello@stylesage.co for more information.