



How Zalando has come into fashion

German e-tailer Zalando is one of Europe's fastest-growing retailers. In less than six years it has gone from online footwear start-up to a business that is challenging Asos. And now it has revealed an IPO. Gemma Goldfingle visits Berlin to find out more

Zalando co-founder Robert Gentz was quite emphatic. Speaking to a room full of journalists at the e-tailer's warehouse in east Berlin last week, a stone's throw from the remnants of the Wall, he told them: "We will answer all of your questions, apart from IPO, IPO, IPO."

However, that question was answered this week when Zalando revealed it will list on the Frankfurt Stock Exchange this year.

The retailer expects to offer between 10% and 11% of its shares and is tipped to be valued at as much as £3.2bn.

It seems like profitability was the final item on Zalando's checklist before launching its IPO. It notched up its first profit in its first half, posting an EBIT margin of 1.2% on a sales jump of 29.5% to €1.05bn (£833m), and is on course to hit €2bn (£1.6bn) revenue for the full year. By comparison, Asos's sales reached £482m in its first half.

Rubin Ritter, who sits on Zalando's management board, told the crowd in Berlin: "We're focused on the company and developing and driving and growing the business and getting better for the customer."

There is much going on at the e-tailer beyond the float. Zalando is undergoing a makeover as it vies to create the "best online fashion experience"

in the world, according to Gentz.

"This is what we get up for every day and this is what we strive for," he says of the ambitious target. "It's all about making it more convenient, fashionable, relevant and personalised. This is what we believe is the future of having the best online fashion experience. This is what we will deliver in the next couple of months."

Fashion destination

As part of what it calls a "new phase" of its development, Zalando wants to become more of a fashion destination. Until now, it has been building itself into the 'Amazon of fashion', offering more than 1,500 brands to a broad audience. However, according to its fashion buyer, the retailer is now more focused on bringing the "right product" to its site.

The changes will lead to Zalando reducing its SKU count, which currently stands at 150,000 products.

Gentz says Zalando will have more of a fast fashion focus. It has already attracted some of the world's top fashion brands including New Look, River Island and Hugo Boss, and staged another coup by bringing Sir Philip Green's Topshop to its site, a signing UK rival Asos has long coveted. Zalando will start selling Topshop products this month and Spanish fashion



"IT'S ALL ABOUT MAKING IT MORE CONVENIENT, FASHIONABLE, RELEVANT AND PERSONALISED"

Robert Gentz, Zalando



Above: Zalando's Rubin Ritter, David Schneider and Robert Gentz
Left: a still from Zalando's new TV advertising campaign

giant Mango is poised to follow suit.

The focus on fashionability will also extend to the look and feel of its website. According to one Zalando executive, its website has been "very German" in design, focusing on functionality. Now, the retailer wants to inject more inspiration into its offer, from product to the look and feel of the website and the technology features it offers.

"In September, when you enter the website you will see a complete new makeover of the website so it's more relevant, it's fresher, it's cleaner, it's a lot more inspirational," explains Gentz.

The retailer has invested a lot into product presentation and Gentz says products will become "more vivid" and more stylish.

To coincide with the transformation, Zalando is revamping its advertising.

Gentz says: "We are now entering into a new phase of brand communication... from being loud to being fashionable."

The retailer built its brand in its German homeland with a TV campaign valued at more than €85m (£67.4m) in 2010 by offering media companies an equity stake in its business in exchange for advertising slots.

That advertising was focused on establishing it as an ecommerce brand. Now its marketing will concentrate on setting out fashion credentials.

In its new advert, a parody of Apple's

iconic 1984 Super Bowl ad, a woman clad in bright clothes storms into a drab fashion show where models are dressed in sombre colours, armed with a Zalando box.

Gentz says the ad is about "fashion, style and expressing a personality".

The new brand communication extends to packaging, which has been toned down from an orange box to "fresher" black-and-white collateral.

Inspired by Asos?

Zalando seems to be taking a leaf out of Asos's book with its makeover.

It is not the first time Zalando has emulated another retailer. When it started life as a footwear retailer back in 2008, many touted it as a European imitation of Amazon-owned footwear site Zappos.com.

In fact, one early Zalando investor, controversial online incubator Rocket Internet, which is run by Germany's best-known venture capitalists the Samwer brothers, has long been accused of 'cloning' and aggressively expanding tech companies before they push overseas.

Last year, Rocket sold its direct stake in Zalando to its own shareholder, Swedish investment company Kinnevik.

However, Zalando intends to keep its offer wider than that of Asos.

The retailer's co-founder David Sch-



neider explains: "There are good companies out there targeting a certain niche, or targeting a specific target group – 20-year-old girls or whatever is it. What we're doing goes beyond that."

"We want to be the starting point. Every time you think about fashion, the first thing that comes to mind should be Zalando."

Zalando's UK plans

Despite Zalando's rapid growth, it has yet to make the same waves in the UK as the tsunami it has created in Continental Europe.

In fact, around 60% of its sales still originate from Germany, Austria and Switzerland.

Schneider admits that despite trading in the UK since 2011, this country has not been a big focus. "The UK has not been our home turf and in the past we have not concentrated on that market," he says.

"We have concentrated on Continental Europe, building the best offer."

However, he insists the UK is doing well and the signs are that it is starting to ramp up its offer here. It recently launched its flash Sales site Zalando Lounge in the UK.

Martin Newman, chief executive of ecommerce consultancy Practicology, says Zalando bosses would be wrong not to target the UK market.

"The UK is the most advanced market in the world in terms of percentage of online sales. They'll be looking at it as a big opportunity to grow," he says.

However, the ecommerce director of

one fashion retailer believes Zalando has struggled to gain traction here, perhaps because of the dominance of Asos.

"They have spent money but it's a notoriously difficult market," he says.

Newman says that Zalando could be hindered from taking Asos's crown in the UK because its delivery times did not stack up when compared with market leaders here.

However, Zalando has recently launched express one-day delivery in the UK, one of the first markets in which it has rolled out the service. The initiative could signal that it is ready to tackle the UK and Asos.

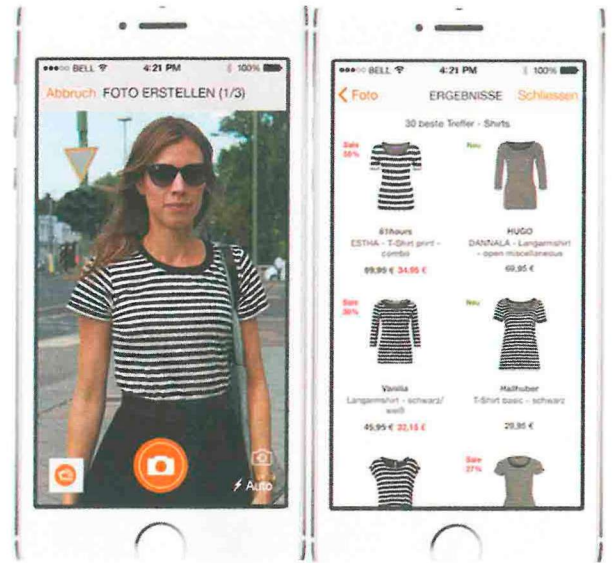
However, Schneider insists that the business is "complementary" to Asos, with which it shares a common shareholder in Bestseller founder Anders Holch Povlsen.

"Asos has a clear target group and a strong UK focus so we are complementary to that. We have a Continental Europe focus and a way broader approach," says Schneider.

However, in words that may send shivers down Asos founder Nick Robertson's spine, Schneider says that might not always be the case: "In the future, we'll see. With Zalando, we never say we don't do something."

"Of course, the UK is a big fashion market. Everything we talk about, everything we're improving, will also play into improving markets such as the UK."

Asos may soon face a rival competing for both UK shoppers and investors.



Above: Zalando has introduced image-recognition technology on its app

"EVERY TIME YOU THINK ABOUT FASHION, THE FIRST THING THAT COMES TO MIND SHOULD BE ZALANDO"

David Schneider, Zalando

ZALANDO'S INNOVATION

Technology is one of Zalando's great strengths, according to one UK rival. Zalando intends to use that technological expertise to ensure its vast selection is relevant to individual shoppers and like many UK retailers is focusing on personalisation.

The e-tailer has launched its 'fashion feet' function, creating a tailored experience for consumers based on browsing and purchasing history.

Gentz says: "You will see your own way of discovering Zalando and getting the product that you might be interested in. In the long run people can say it is 'my personal fashion destination'."

Zalando is unafraid to innovate and constantly tests new functions at its in-house user experience lab (pictured left), which has been operational for two and a half years.

Last month it launched image recognition technology that will soon be rolled out to the UK version of its app. That means, for example, that if shoppers spot someone wearing a dress they like on the Tube, they can take a picture with their phone and the app will direct them to the same or a similar item on the Zalando website.

Gentz says the technology, supplied by Cortexica, already brings extra sales.

The innovation feeds into Zalando's focus on mobile. Already 40% of its traffic comes from mobile devices and Gentz says that is growing rapidly.

"We're very serious about providing the best experience we can think of in a cross-device setting," he says.

The retailer recently rolled out the apps to all 15 countries in which it operates and is now thinking about what else it can do to capitalise on m-commerce.

