

Gilt Groupe

Introduction

Rebecca Bloomwood, the main character of Sophie Kinsella's "Shopaholic" series, waited impatiently as she moved closer and closer to the front of the line. She ignored a text message from her boss, who was anxiously awaiting her outline for the next issue of *Successful Savings*. Her jaw dropped and her heart fluttered as she heard a woman shout out "Gucci for 50% off!" The guilt of sneaking out of work quickly disappeared. As another entrance opened, Rebecca rushed through the doors, pushing the large crowd of people out of her way. Surrounded by designer shoes, cashmere gloves, and luxury handbags, she was instantly drawn to a pair of discounted Gucci boots. She resisted the temptation and put the boots back, remembering the stack of credit card bills waiting for her at home. Instantly, another woman grabbed them, marveling at the find. Regretting her decision, Rebecca kindly asked for the boots back, but the woman refused. People were shoved, hair was pulled, and goods were knocked over as the two women proceeded to fight over the boots.¹

There must be some easier way to find amazing deals on designer brands. Must all women put themselves through the trouble of skipping work, enduring long lines, or fighting over items just to satisfy their heart's desire for designer merchandise? Flash sales websites were born to target this specific class of people, and have now grown into a very successful market.

Online Flash Sales Industry

In-store flash sales have long attracted hopeful shoppers. Buying a pricey designer item at a substantial discount is not only a benefit for the wallet, but a thrill for the purchaser. Getting great deals, however, has traditionally required patience and dedication. Some stores only admit shoppers by appointment, often at inconvenient times during work hours. Others have entry lines in which buyers must wait for hours. Inside the store, it is necessary to be aggressive and quick, snatching the best items before they are taken by someone else.

The online flash sales model was started in 2007 by the French company Vente Privee.²

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As countries all over the world were entering recessions, brands, especially luxury ones, had large overstocks of inventory. Online websites allowed them to unload these items and build brand familiarity. Formerly found only in posh boutiques, luxury goods became available to anyone on the internet. Customers from all parts of the country are able to take advantage of the offers, and residing in a city like New York is no longer necessary to be dressed in discounted designer apparel. The reliability of websites guarantees that the items are authentic and new. The luxurious portrayal of brands as well as the exclusivity of the sales ensures that brand value is not distorted. As a result, more premier fashion houses are willing to sell their items to such websites.

The culture of online flash sales has not changed much from that of in-store counterparts. Items are available in limited quantities for short periods of time, usually several days. Brands are announced in advance through mailing lists or on the website. The best items sell out quickly, so savvy shoppers are inclined to plan their schedules to be sure to shop in time. Moreover, making fast choices is still necessary. People continue to tell stories of items that expired from their shopping carts and were snatched away at the last minute.³ The excitement of purchasing a couture item at a sale price item has not waned, and speed and skill are still required to take advantage of the best offers.

Flash sale companies have experienced a large growth of traffic. The volume of visitors has quadrupled since 2009, and today such sites attract a total of over 40 million people per month, many of whom are from high-income households.⁴ In total, flash sales websites brought in \$1 billion in sales, and the number is expected to grow to \$6 billion by 2015. Customers frequently invite their friends and stay loyal to the company they like, making an average of four purchases a year.⁵ Costs depend on the specifics of the items being sold. In spite of growth, observers raise questions about the long-term viability of flash websites as improving financial conditions and cutbacks in production lead to a decrease in the amount of overstock items and increase the acquisition costs for flash retailers.

Gilt Groupe

History

Gilt Groupe was founded in 2007 by Alexis Maybank and Alexandra Wilkis Wilson, classmates at the Harvard School of Business.⁶ They were inspired by the sample sales they

attended in New York. “The sales create excitement, sometimes hysteria. So it seemed the perfect idea to bring to a national audience,” says Alexis. They leveraged existing relationships to bring designers on board, and were greatly assisted by Kevin Ryan, the former CEO of Double Click, who had deep industry knowledge and provided initial seed capital. The company launched with Zac Posen, whose emerging brand was starting to gain a lot of visibility.⁷

The founders frequently had to pitch to a mainly male audience when looking for funding. The venture capitalists did not always understand the fashion industry, but they were influenced by recent large valuations of other flash sales companies and did not want to miss opportunities in the field. When bringing brands on board, Gilt executives explained the benefits of internet sales and the advantages e-commerce would give to brands. Also, Gilt made significant efforts to recruit talented employees, who would hand-select the best items from recent collections. Gilt’s initial team was passionate about the designer fashion business and driven to execute successful strategies.⁷

Technology & Statistics

Every day at noon eastern time, Gilt sends out an email with a listing of upcoming sales to its members. The number of subscribers has been growing exponentially, from 15,000 people in 2007 to a projected 5,000,000 by the end of 2011 (see Exhibit 1). All items are listed at 40-70% off retail price, and the website is visited by over 100,000 people in the hour after sale kickoff. In total, Gilt has over 1.2 million unique monthly visitors.⁸ The best deals sell out in a matter of minutes, and scarcity promotes loyal attention. Currently, Gilt has over 750 staff members, and works hard to ensure that new hires preserve the high standards. The company’s efforts have translated into growing revenues, from \$170 million in 2009 to an expected \$600 million in 2011 (Exhibit 2). Based on funding, Gilt’s valuation is currently around \$1 billion, even though it still hasn’t posted a profit. The company’s CEO anticipates that Gilt will become profitable by the end of 2013.⁹

Gilt has partnered with analytics services to ensure that the website experiences no downtime, especially during a flood of visitors. Nowadays, people expect technology to function flawlessly. If the service is not accessible or works with errors, sales may be permanently lost as visitors leave the website. Gilt utilizes sophisticated cloud testing to discover bottlenecks and to

validate the code. Such quality control is an important element leading to performance and customer satisfaction.¹⁰

Development

Currently, Gilt is expanding its reach by opening additional websites, both discount and full-price. One of the biggest developments is the creation of the menswear site Park & Bond, which offers carefully selected items and editorial content advising how to assemble new looks with different articles of clothing. Gilt has enlisted the help of journalists from magazines such as Esquire to provide relevant advice. The company is targeting underrepresented sectors of the population, such as wealthy men, who are greeted by women's advertisements in traditional stores. Park & Bond has the opportunity to challenge existing models and offer more specialized goods.¹¹

Gilt's expansion of offerings is an attempt to position itself as a universal destination of high-end goods at bargain and retail prices. In addition to women's apparel, it now sells furniture, gifts, children's clothing, travel purchases and daily deals. Customers from one site can select something from another as well based on their interests and needs. This variety motivates buyers to return and purchase more.

Future trends

Some observers believe Gilt's expansion will allow the company to become a leader in the market and to offer something for everyone. Others, however, think such changes indicate that the flash sales model is no longer bringing the anticipated returns and may be unsustainable in a growing economy. Designers have cut back production, and most excess inventory has already been disposed of. In addition, purchases of luxury goods at regular stores are increasing as people's financial positions improve. It has become much harder for flash sales websites to obtain the same brands that they used to during the economic recession. Instead, people are more likely to find labels they do not recognize at modest discounts. If websites are not able to secure inventory at appropriate prices, the model will break down. If they expand into other sectors, they risk not devoting enough resources to their core competency.¹²

Competitors

Vente Privee

Vente Privee pioneered the online flash sales model and inspired others to enter the industry. It was founded in 2001 by Jacques-Antoine Granjon, and is valued at up to \$3 billion today. One of the company's main advantages is the great relationship with fashion houses.¹³ It employs 120 people to negotiate with top brands, yielding inventory at low prices. The company has revenues of over \$1.1 billion and profits of over \$70 million. Over 70% of Vente Privee's sales come from France, and the firm has opened offices in other European countries to cultivate relationships with luxury companies and learn about the tastes of local consumers.¹⁴ In its home country, Vente Privee is the second most popular website, with over 1.8 million visitors each month.¹⁵

Just like Gilt Groupe, Vente Privee offers high-end goods for wealthy shoppers during limited-time sales. The company has been profitable largely because of early entry and less competition in the European market. In the United States, luxury goods can be found in brick-and-mortar malls, superstores like Macy's, discount stores like Nordstrom Rack, and online on websites such as eBay. Europe does not have such a broad variety of stores, and designer items are not commonly discounted. Vente Privee's reputation in Europe ensures that the site will continue to be popular.

RueLaLa

Similar to Gilt, RueLaLa is an invitation-only website where members can purchase high-end brands. Founder Ben Fischman believed that the way to success is to take an existing business model and make it better, and he saw room for improvement in the flash sales sector. The company was the first to create implement a limited storage time in the shopping cart, tackling the problem of item abandonment and motivating buyers to act quickly.¹⁶ Like other companies, RueLaLa offers a spectrum of deals on fashion, accessories, footwear, home, travel, wine, gourmet food, local services, and more. It has recently expanded its local deals service to several popular cities. The company maintains a blog with fashion news and suggested purchases. RueLaLa is an example of a competitor who quickly adopts the latest developments in the industry and builds upon general strategies and trends.

Totsy

Totsy was founded in 2009 as an invite or request-only website for parents, focusing on children's goods. Similar to other websites, it discounts products 40-70% and holds specific sales for several days. To build awareness of the brand, it partnered with other websites, such as the popular application and genealogy website FamilyBuilder.¹⁷ Moreover, it acquired bTrendie, a flash sales shopping community for moms, in order to take over existing clients and remove a competitor.¹⁸

Totsy differentiates itself by targeting a specific audience, and also by taking eco-friendly initiatives. In honor of a customer's first order, the company plants a tree in Peru. Totsy practices sustainability in its office by reducing packaging, recycling and monitoring its carbon footprint. The company explains that such actions, though not easy, are being undertaken for the future of the children. Such concern about the planet is likely to appeal to mothers, whose kids will grow up in a changing world.¹⁹

MyHabit

Created by Amazon, MyHabit is a private fashion sale site that offers up to 60% off selections from designer and boutique brands. It provides instant membership, free shipping and returns on U.S orders, and \$25 international shipping to more than 50 countries. MyHabit's strengths come from the reach and reputation of its parent company Amazon, which has ample resources to devote to promotion and technology. MyHabit greatly facilitates selection by including a 360 degree video that shows the fit and drape of the clothing on live models, as well as numerous merchandise photographs and editorial segments.²⁰ All merchandise is hand-picked and presented from different angles to help consumers make an informed choice and avoid disappointment due to bad fit or wrong style.

Gilt's Options

The online flash sales industry is very competitive, and Gilt risks never becoming profitable if it does not adjust to current trends and changing customer expectations. There are three different strategies that the firm can implement. Gilt can focus only on flash sales and devote all resources to finding the best bargains for merchandise, expand aggressively into selling full-priced luxury goods, or offer less expensive goods to appeal to more customers.

Focus only on flash sales

If Gilt devotes all its resources to finding the best bargains on designer merchandise, it may strengthen its reputation as a premier flash sales website. Gilt has already launched Gilt Man (men's designer clothing), Jetsetter (unique vacation deals), and Gilt Home (exclusive home goods).^{21 22 23} If Gilt continues to develop more flash sales websites for different types of luxury merchandise, it may create a one-stop platform for customers with various needs. This type of horizontal differentiation will make the website constantly appealing, whether for selecting an evening dress or the vacation of a lifetime. As a result, the company will lower the chances of its members shopping on competitor websites and maintain its customer base. By offering only luxury goods, Gilt will keep up its reputation of class and exclusivity, and can become a name synonymous with a top-notch online shopping experience. The company's large customer network and reputation would make brands more willing to partner with Gilt.

Nonetheless, adopting a strictly flash sales business strategy carries some risks. If sales fluctuate with the state of the economy, revenue will not be consistent. Gilt will constantly be dependent on suppliers, who understand the company's need for their goods. Many websites will be happy to take over the inventory, so Gilt does not have much bargaining power. The entry costs for the flash sales business are very low, and Gilt will have to adjust to new competitors. Customers are not locked in to the business, because registration on other websites is free. They can order from different services based on brand availability, and have no incentive to come back to Gilt if good brands are not represented. It will become crucial for the company to offer unique options to its members.

Expand into full-price merchandise

Another option to ensure that Gilt continues to grow is to expand into selling full-priced luxury goods. Gilt recently launched Park & Bond, a men's store that offers brands seen in upscale department stores as well as exclusive collections created just for the website.²⁴ Gilt is looking into opening full-price divisions for bridal wear, art, and pet supplies.²⁵ The company has the opportunity to move into more traditional retailing models and leverage its editorial strength as a competitive advantage. Gilt creates a reliable purchasing resource supplemented with fashion advice, increasing the likelihood that customers will buy more items and come back to the website for inspiration.

However, it is uncertain whether or not Gilt will be able to succeed in the full-priced market. This sector has much more competitors than flash sales websites, making it harder for a new entrant to generate large amounts of revenue. Instead of Gilt, customers may choose to order from all-purpose sites such as Amazon, direct brand online stores such as Banana Republic, specialized sites such as Zappos, and even auction and other customer-to-customer sale sites such as eBay or Craigslist. It is unclear if editorial articles will be sufficient to attract customers, and Gilt will have to deal with constant competitive pressure from a variety of firms. The company will need to stock more inventory, which could lead to losses if sales are less than expected. Moreover, moving away from the core flash sales strategy could create confusion about the company's future, and resources may not be flexible enough to be reallocated should expectations change.

Sell less expensive goods

In order to maintain its growth, Gilt can shift from selling luxury brands to less expensive goods aimed at middle class customers. With such vertical differentiation, Gilt will no longer be solely restricted to designer brands for inventory. Introducing cheaper goods will help grow the customer base since more people will be able to afford goods sold by the company. This could lead to an increase in sales and a safety cushion in terms of inventory, as more brands can be brought on board.

However, by expanding offerings Gilt may dilute its exclusivity and alienate wealthy customers. If high-income buyers do not see appealing brands, they can move to other websites. The lost revenue from these consumers may not be offset by the sale of less expensive items, as the profit margins for regular goods are likely to be less. Moving into new market segments could open new opportunities for Gilt and make the company more flexible, but it could also damage the reputation for luxury and exclusivity.

Conclusion

The flash sales model is a relatively new business, and time will show whether it's a sustainable model or a temporary fad. Gilt Groupe must deal with issues of market entry and inventory management to compete with other companies in the field. It must decide if the flash sales model should be supplanted with additional offerings through horizontal or vertical

differentiation. Possibly, the company can choose to move away from discounted sales into more traditional offerings. Gilt will need to evaluate the different options to determine which of them align more closely with the company's culture and future projections.

Exhibit 1- Email Subscribers²⁶

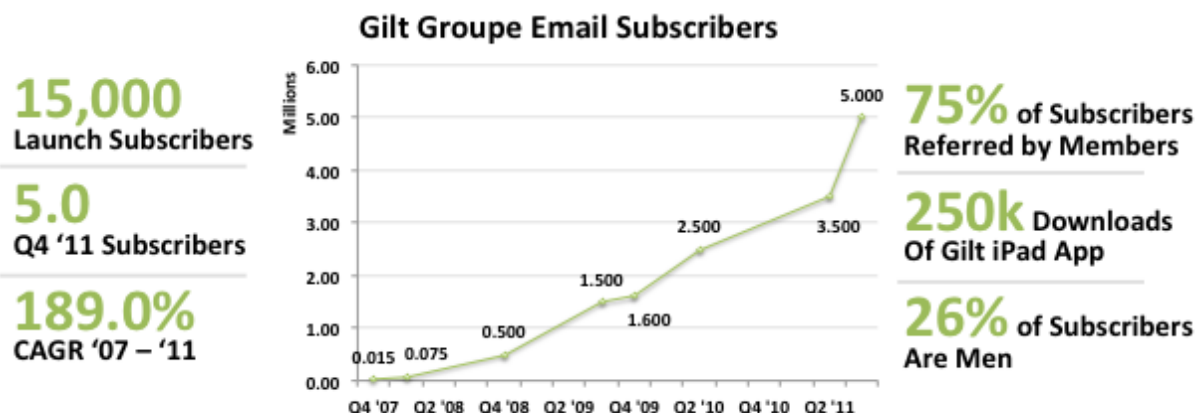


Exhibit 2- Gilt's Revenue²⁶

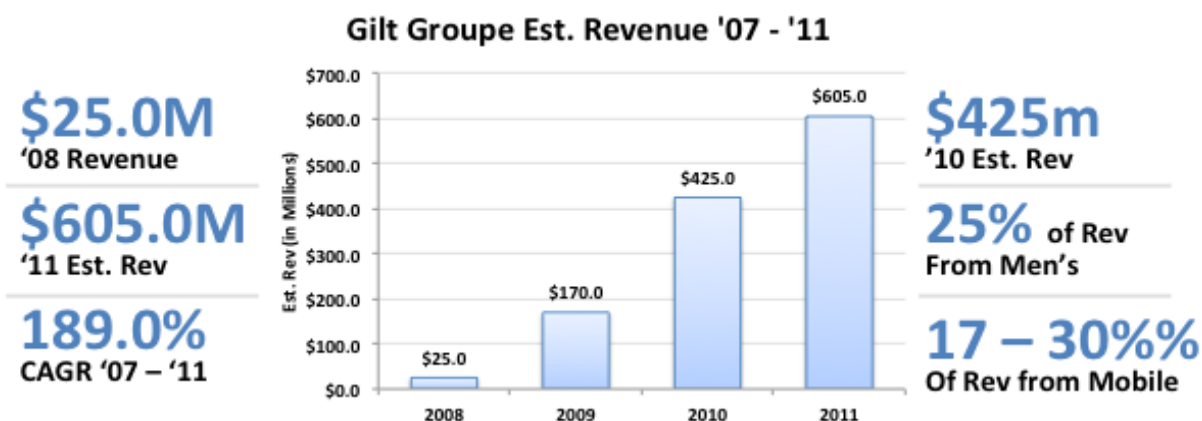


Exhibit 3- Shopper Statistics²⁶

Gilt Shopper Statistics

Male: 39%
Female: 61%

Customer Ages

<24: 19%
25 - 34: 30%
35 - 44: 22%
45 - 54: 17%
55+: 13%

Exhibit 4 - Sample Gilt Offerings²⁷

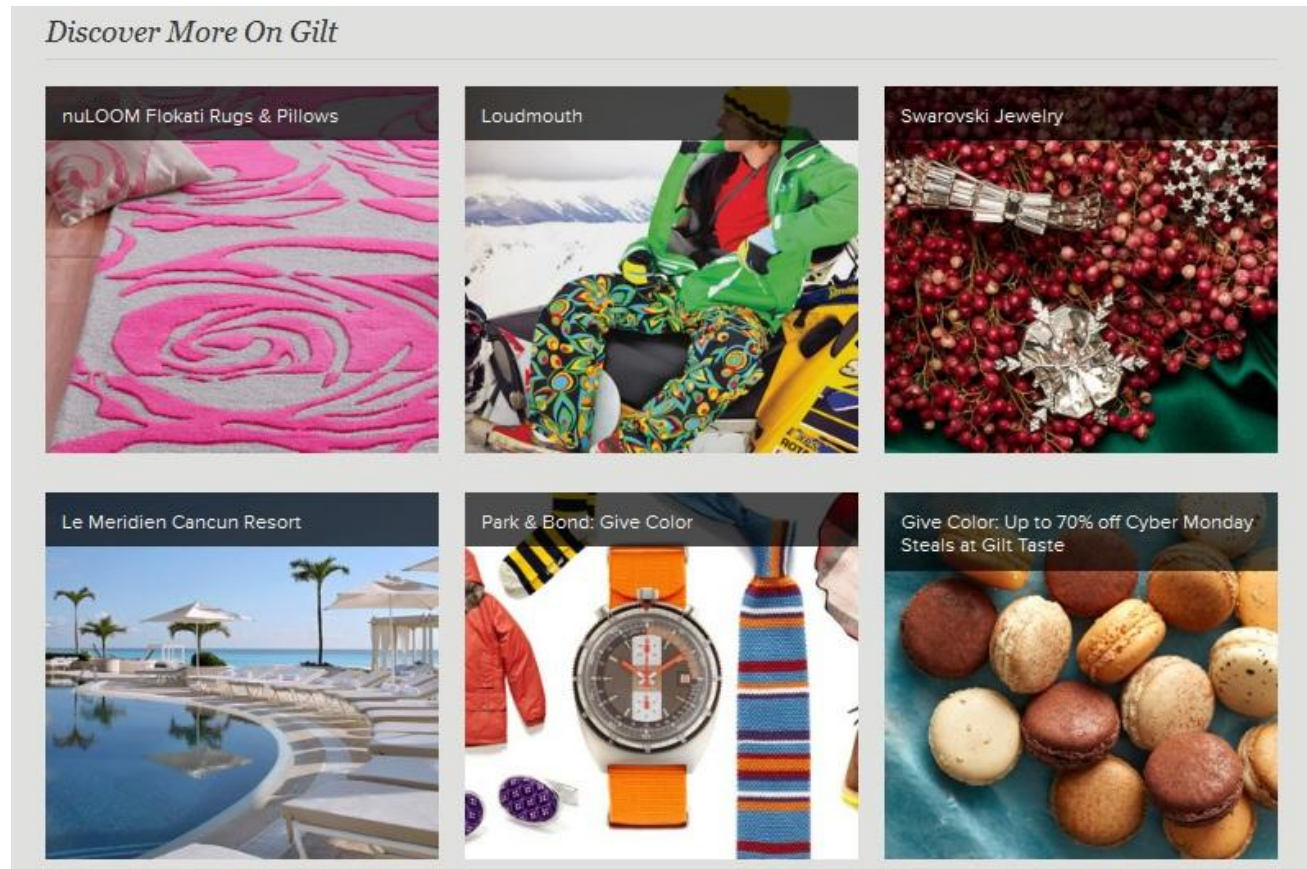


Exhibit 5 - Gilt Mobile²⁸



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Exhibit 6 - Product Packaging²⁹



Endnotes

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