

# **Net-A-Porter.Com**

**Selling high end fashion online**

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**Nandini Taneja**

Net-a-Porter.com is an online retailer specializing in luxury fashion i.e. exclusive designer apparel and accessories. Natalie Massenet, the founder, is the epitome of the consumer that Net-a-Porter.com targets. An immensely successful businesswoman, sitting at her desk during her lunch break browsing the latest Marc Jacobs collection happens to chance upon some Jimmy Choo's that complement the dress. In the next ten minutes, this woman has purchased several thousand dollars worth of merchandise that will be at her doorstep tomorrow, packaged in the most decadent of boxes with layers of soft tissue and yards of silk ribbon.

To some people, the scene described above seems as impossible as it did ten years ago when Net-a-Porter had just launched. The central question that plagued Massenet's investors: who is going to buy a \$ 4000 handbag without even looking at it or holding it to experience its quality firsthand? The answer is blindingly obvious: a customer that has spent enough time in brick and mortar stores of these very same brands to be assured of their quality, a customer that is increasingly cash rich but time poor and does not have that time to spare today, and furthermore, a customer that knows that he can just return whatever does not meet his expectations, no questions asked.

This case study outlines the economic climate and initial challenges faced by the company when it launched ten years ago, its fast and continued growth due to a coherent strategy using extensive product differentiation and market diversification resulting in its current position as one of the top retailers for the luxury market and lastly, the challenges the company faces in the near future in the transition from being the first mover in the industry to a player in an increasingly competitive market. In addition, it suggests strategies that Net-a-Porter can adopt to stay ahead of the competition.

## Putting luxury online

The millennium was certainly not the best time to be starting a new online venture. The dotcom burst had severely affected investor faith in e-commerce and the general mood about internet ventures was pessimistic. In this economic climate, Natalie Massenet announced that not only was she launching an online store, but the store was going to sell the most exclusive, the most expensive and the most coveted of fashion.

There were two key challenges Massenet faced: convincing investors and designers that luxury goods would sell online and convincing customers to buy luxury goods online.

On the supplier side, the company roped in marquee brands such as Jimmy Choo and Anya Hindmarch to build up credibility and generate fast network effects. This was complemented by investors that believed in the concept and used their own reputation as a guarantee for other brands to start selling on the website.<sup>1</sup> Massenet used an initial bouquet of highly reputed brands as a primary mobilization strategy to help combat doubt and encourage participation by other brands. The firm broke even by 2004, and this short turnaround time for the website also generated immense supplier and investor confidence in Massenet's belief in the existence of a "cash rich, time poor"<sup>2</sup> consumer.

On the consumer side, the main focus was to create an online experience that was just as indulgent as the process of buying a luxury good in store. The company focused on convenience, choice and customer service to help meet the needs of the highly demanding luxury buyer.

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<sup>1</sup> Brodie, John. "A Winning Formula for Fashion Retail". CNNmoney.com. September 3, 2009, accessed March 8<sup>th</sup>, 2011. <[http://money.cnn.com/2009/09/02/technology/net\\_a\\_porter.fortune/](http://money.cnn.com/2009/09/02/technology/net_a_porter.fortune/)>

<sup>2</sup> Brodie, John. "A Winning Formula for Fashion Retail". CNNmoney.com. September 3, 2009, accessed March 8<sup>th</sup>, 2011. <[http://money.cnn.com/2009/09/02/technology/net\\_a\\_porter.fortune/](http://money.cnn.com/2009/09/02/technology/net_a_porter.fortune/)>

The concept of the website targets this customer's biggest constraint: time. For this customer, being able to access a high end departmental store unrestricted by geographical or time constraints was the ultimate in convenience. Not only could the busy successful businesswoman now shop when it was most convenient for her, she had access to personal shoppers and trend guidelines at any time of the day or night. The website also had detail oriented features such as multiple product views, extensive zoom options, videos of models walking in the clothes and a description of the product that made it that much easier to be confident in one's buying choices.

Coupled with an extremely efficient global delivery system, with the option of a 24 hour delivery service in London and New York, and a hassle free returns policy, Net-a-Porter created a win-win situation for the luxury shopper. The decadent packaging: signature black boxes and yards of pink ribbon was just the cherry on top.

### **A magazine with a 'buy now' option**

The key factor that sets Net-a-Porter apart from competitors such as bluefly.com and shopbop.com is its use of editorial content. The website is not just an online store, it is an extensive magazine. Massenet was focused on maximizing efficiency for the target cash rich, time poor consumer and combining the source of this customer's fashion news with the ability to purchase this fashion really made Net-a-Porter a success.<sup>3</sup>

The home page is not set up as a boutique or store; but instead it is a magazine spread, often including sneak peeks into famous fashion icons and celebrities closets, with a little icon at the bottom of the page that says "shop this look". This sums up Net-a-Porter's

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<sup>3</sup> Brodie, John. "A Winning Formula for Fashion Retail". CNNmoney.com. September 3, 2009, accessed March 8<sup>th</sup>, 2011. <[http://money.cnn.com/2009/09/02/technology/net\\_a\\_porter.fortune/](http://money.cnn.com/2009/09/02/technology/net_a_porter.fortune/)>

approach to selling luxury fashion. The customer previews what's in fashion right now, looks through a fashion celebrity's closet, reads the trend reports and then has access to the items she just read about within the same space. What's better than that? It shows up at your doorstep in the black box and pink ribbon now synonymous with Net-a-Porter within 24 hours, and if you don't like it, you can return it for free. This is the key that sets the company apart: the ability to provide people both information on what to buy, access to these goods and the lowest level of risk possible for an experience good.

### **Bigger Pond, More Sharks**

Being the first mover in the online luxury retail sector, Net-a-Porter tapped into a whole new market whose very existence skeptics had severely doubted in the past. After establishing this sector as both profitable and growing at an accelerated rate, Net-a-Porter now faces competition from several areas.

Its direct competitors are other luxury e-tail websites such as bluefly.com, shopbop.com and most importantly, e-commerce sites from established brick and mortar luxury department stores such as Barneys New York, Saks Fifth Avenue and Bloomingdale's. These stores are jumping on the internet bandwagon now that there is no longer a doubt that luxury goods sell online. With online sales of luxury goods expected to rise to 20% globally in this year alone, this market still only accounts for €4.2 billion of the €168 billion total value of the luxury sector.<sup>4</sup> The growing size of this market is attracting interest from companies such as Louis Vuitton Moët Hennessey as well as other luxury brands that had previously doubted that a market for luxury goods existed online. With a number of major brands set to break

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<sup>4</sup> Pfanner, Eric. "Luxury Brands Tailoring Approach to the Web". The New York Times online. November 21, 2010, accessed March 8<sup>th</sup>, 2011. < <http://www.nytimes.com/2010/11/22/style/22iht-fashion22.html>>

into the market Massenet uncovered, Net-a-Porter can expect fierce competition from many new entrants.

While Net-a-Porter retains its comparative advantage of combining the appeal of a fashion magazine with a store, it must address this changing market structure. The future growth plan for the company includes diversifying into new markets while increasing lock in for existing customers. Its main challenge lies in securing its reputation as the premier online destination for luxury fashion in a market that is beginning to see a lot of options.

### **A finger in every pie**

The company has been expanding and tapping into new markets not served by Net-a-Porter.com as part of its long term growth strategy. In 2008, coinciding with the global economic downturn, TheOutnet.com was launched. TheOutnet.com offers luxury fashion clothing specifically from past seasons at discounted rates. This stock does not simply come from what was previously the sale section at Net-a-Porter, but has also expanded to include an independent portfolio of brands.<sup>5</sup>

The creation of a separate brand has two effects: it allows Net-a-Porter to retain its exclusivity factor that is essential for luxury buyers and taps into an entirely new market. While the Net-a-Porter target customer has a high willingness to pay for the fickleness of fashion, TheOutnet customer comes from a different demographic. While it may seem counterintuitive that it offers a variety of designers, editorial content and excellent customer service similar to Net-a-Porter at heavily discounted prices, it can be better understood as versioning.

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<sup>5</sup> Interview with Stephanie Phair, Director, TheOutnet.com. The Business of Fashion.  
< <http://www.businessoffashion.com/2010/11/ceo-talk-stephanie-phair-director-theoutnet-com.html#more-17090>>

The creation of TheOutnet cleanly separates consumers based on their sensitivity to seasonal changes in fashion. Those customers that have an extremely inelastic price sensitivity and high demand for new fashion shop at Net-a-Porter. The fashion conscious but much more price elastic consumer who is less sensitive to changes in trends prefers to shop at the Outnet, especially because the website does not associate discount clothing with a poor shopping experience. It still retains the detail oriented approach to customer service that has come to be associated with Net-a-Porter.

The company continued its market diversification strategy with the launch of Mr Porter in 2011, the menswear equivalent to Net-a-Porter. The aim of this website is to serve a largely ignored sector of the luxury market and develop a revenue stream that is also less dependent on the cyclic nature of fashion.<sup>6</sup> While men are less likely to browse compared to women, reflected in lesser editorial content on the site, they are much more likely to be loyal to certain brands. If Mr Porter, being the first large scale player in this market is able to capture their loyalty, the company is looking at a significant increase in profits.

Rounding out its customer base and expanding to several different demographics ahead of the competition is a strategic move by Net-a-Porter to ensure long term profitability and sustaining its position in the online luxury market.

### **Staying one step ahead of the rest**

In order to continue to consolidate its position and establish itself not only as the pioneer but also as an influential player in the fast expanding online luxury retail market, Net-a-Porter must focus on increasing lock in for existing consumers to prevent them from

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<sup>6</sup> Imran, Ahmed. Natalie Massenet on the backstory behind Mr Porter. The Business of Fashion, June 1, 2010, accessed March 8<sup>th</sup>, 2011. < <http://www.businessoffashion.com/2010/06/bof-exclusive-natalie-massenet-on-the-backstory-behind-mr-porter.html>>

switching as alternatives become more available and on generating other product differentiation features to attract new shoppers.

One strategy is to capitalize on its first mover advantage and use the data it has collected over the past 10 years about its customers to heavily focus on increasing lock in for its existing shopper base. Being both a magazine and a store allows Net-a-Porter access to consumer preferences from two very informational sources. It can track the editorial content and purchases made by each shopper and use this to create a customized luxury shopping experience. Each customer would log in and see a homepage that showed editorial content that was relevant to their preferences as well as clothing and accessories that match their previous buying patterns. This customized homepage would serve as the starting point for the customized shopping experience, and can be complemented with a designated personal shopper that can assist the customer each time they are interested in buying something. The central focus of this strategy is to use the information Net-a-Porter has about its customers to create a shopping experience designed exclusively for them. A buyer that has access to a website that is custom designed to suit their exact preferences, coupled with excellent customer service and a choice of over 300 designers is unlikely to switch to any of the recent entrants in this market.

The second strategy focuses on drawing in new customers. Recent initiatives by Net-a-Porter have been geared towards reducing the time lag between when a collection is viewed at a fashion show and when the products actually become available for purchase. The standard fashion industry time lag is almost two months. However the recent blogging and digital frenzy in the industry means each designer's collection is photographed, talked about and analyzed online before it is ever available for purchase. This cyber media craze

has created a cycle where the clothes almost look stale by the time they actually become available in stores. Realizing the potential impact on sales this could have, Net-a-Porter has tied up with designers to create capsule collections exclusively for the website. In 2008, a collaboration with the revived brand Halston took this a step further. A limited number of two of its dresses were available for purchase on Net-a-Porter immediately after its fashion show.<sup>7</sup> A focus on developing such relationships with more of its brands and heavily emphasizing ways of reducing this time lag that is faced by the entire industry will create another extremely valued product differentiation factor for Net-a-Porter, generating interest from as yet untapped luxury buyers. If Net-a-Porter were able to provide significantly early access to collections, it would have a powerful comparative advantage in relation to its competitors.

### **What the future looks like**

In my opinion, with a strong coherent strategy in place that is already addressing market diversification, new revenue sources and increasing indispensability of the main site, the odds that Net-a-Porter will remain a big player in this market are high. Adding in features that are focused on increasing lock in is going to be the primary way it can compete with rivals that are just beginning to get involved in the online retail sector. In addition, its recent acquisition by Richemont<sup>8</sup>, the Swiss based luxury goods conglomerate allows it access to capital and new brands also held by the group, that further reduce the constraints it faces and increases the chances that Net-a-Porter will be around for a long time.

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<sup>7</sup> Brodie, John. "A Winning Formula for Fashion Retail". CNNmoney.com. September 3, 2009, accessed March 8<sup>th</sup>, 2011. <[http://money.cnn.com/2009/09/02/technology/net\\_a\\_porter.fortune/](http://money.cnn.com/2009/09/02/technology/net_a_porter.fortune/)>

<sup>8</sup> "Richemont seeks to buy UK's Net-a-Porter". Reuters. April 1<sup>st</sup>, 2010, accessed on March 8<sup>th</sup>, 2011. <<http://www.reuters.com/article/2010/04/01/richemont-idUSLDE63004020100401>>