

Online Verticals: Focused in Fashion

By RACHEL STRUGATZ

ONLINE VERTICAL RETAILING keeps mushrooming, with new entrants popping up and raising funding almost as fast as it takes to place an order on one of their sites.

Tuxedo- and suit-rental company The Black Tux and men's sneaker brand Greats just raised more funds to keep building their businesses, while outerwear company The Arrivals and Emily Weiss' line of beauty basics Glossier were among the buzziest introductions at the end of last year. They're just some of the e-tailers flocking into the space, aiming to cut out the middleman and copy the likes of eyeglass brand Warby Parker and men's wear label Bonobos.

There are still plenty of questions about how these new vertical online companies can expand without losing their focus, continue to acquire new customers and ultimately make money. Many of these new-school companies are taking an old-school tack and looking to open brick-and-mortar stores to help establish their brands. And many are also struggling with whether or not to take venture-capital money.

Even so, it almost seems as if there *isn't* a product category that hasn't been tapped by a specialist. Intimates, men's underwear, shaving products, boots, luxe basics and jewelry have also gotten the online vertical treatment. More are in the works. The forthcoming Bikiny will sell mix-and-match luxe swimwear separates for \$95.

Venture capitalist Scott Fried, a managing director at Bain Capital Ventures and early investor in Rent the Runway, said it's relatively simple to start a brand and reach a few consumers — but then it gets trickier. To reach a lot of consumers and scale in a meaningful way, it takes some sort of retail distribution, whether it's a freestanding door, a strategic wholesale partnership or a combination of the two, he said.

In theory, the direct-to-consumer approach for a brand makes the process of building a business easier than it's ever been.

Entrepreneurs can launch their idea online without having to cozy up to buyers at major retailers in hopes that they'll bite. In addition to cutting out the middleman, the brand also gets to keep the gross margin.

The online, direct-to-consumer route seems like a no-brainer — until initial buzz and traction taper off and brands find they have to work harder to acquire customers.

"The bad news is that they don't get foot traffic without paying for it," Friend said. "It's not clear to me, at the end of the day, if the economics are any better. The barriers for new brands being discovered by consumers has come down, but I'm not sure that the barriers to building a long-term, sustainable business as a brand are any lower than they've been."

While obstacles loom — and only the next few years will tell who succeeds and who doesn't — Friend said this highly focused, vertical version of online retail is not a fad. Brands come and go in every era; the difference is

An image from theblacktux.com.



now they have a quick and easy launchpad in the Internet.

Rajiv Lal, the Stanley Roth Sr. professor of retailing at Harvard Business School, agreed that the online space is a great channel of distribution for customer retention, but warned that it's not a substitute for customer acquisition efforts. How fast a brand can bring in new customers to cover fixed costs is the "million-dollar question," he said. And the answer depends on three factors: what category a brand is in, its marketing efforts and the costs of those marketing efforts.

In short, the success of online vertical retailers depends on customer acquisition.

Lal said it's still not clear how healthy most of these vertical online businesses are, since they're privately held. If some of the



PHOTO BY KYLE ERICKSEN

more well known digital names such as Gilt or Rent the Runway went public, it would be easier to understand the challenges and costs of acquiring a customer.

"If the customer loves you for X, and if you offer something in a different domain, they'll try it," Lal said. "You can expand how much money you make from a customer, but that doesn't solve the acquisition problem."

Major questions aside, it is clear the tide of online vertical players isn't going to ebb soon. Many see the trend as simply a continuation of the artisanal movement of the past.

"Historically, if you think of how we used to live, we went to specialists who were good at something [a hatmaker, a cob-

bler, etc.],” said Ketty Pucci-Sisti Maisonrouge, an adjunct professor at Columbia Business School. “When you had a master craftsman, his or her goal was to teach their children to keep doing this.”

Maisonrouge said she was in support of specialists who want to stay true to their craft — but warned that if becoming a massive retail entity and cashing out is the goal, a brand can only get so big by keeping a narrow focus.

Ryan Babenzien, founder and chief executive officer of Greats, which makes men's sneakers, said, “Good brands have the ability to go into other categories. It's safe to say that we'll first make smaller sizes in styles that women want.” After catering to women, he sees the brand getting into apparel and other complementary categories. “If you look at any footwear brand, they make clothes. When Nike launched as a running sneaker, they had one sneaker. I don't think they were sitting around thinking about what their eyewear would look like.”

In less than a year and a half, the direct-to-consumer footwear company has embraced its “Born in Brooklyn, Made in Italy” mantra and plans to run with it — now with the help of \$4 million in Series A funding. The latest round, led by Resolute Ventures, comes on the heels of a \$1.5 million seed round that closed in April. The budding brand saw sales of around \$1.2 million over the past six months, and Babenzien said it would generate \$6 million to \$8 million in sales this year.

Greats plans to double the size of its staff this year, move into bigger offices and find space for a fully realized store. Also in the works are the introduction of the brand's fifth and sixth silhouettes, each inspired by a classic running shoe. The “Rosen” comes out next week and will retail for \$49, and a more luxe, handmade in Italy version with leather accents will bow in March and retail closer to \$200. Greats also collaborated with Orley and Pyer Moss on the footwear for their upcoming Men's Fashion Week presentations, and a partnership with Mr Porter will launch in the spring.

Up to this point, Babenzien said press and word-of-mouth were the top two drivers of customer acquisition.

But as the company starts to scale and vie for a spot in the larger retail space, traditional marketing, both online and offline, will be key.

Here's a look at some of the other companies taking on the vertical online challenge in luxe basics, men's suits, fast-fashion and swimwear.

LUXE BASICS

For some of the other newcomers in the space, it's become less about creating the hottest, newest, latest item. E-tailers like Buck Mason and Industry Standard have decided to focus on delivering timeless, luxury basics to shoppers.

Erik Schnakenberg, cofounder and co-CEO of men's wear brand Buck Mason, said that his team doesn't let trends dictate design.

“Everything is relevant but doesn't have to be trendy. This is stylish but doesn't feel like it's ‘on trend,’” Schnakenberg said, adding that from a design perspective, fit is “spot-on” and silhouettes are clean and modern. T's on buckmason.com start at \$24, but-ton-down woven shirts retail for \$88 and trousers top out at \$135.

He and cofounder Sasha Koehn raised a seed round of \$300,000 from angel investors in October and are toying with the idea of raising a Series A later this year. The site launched in November and the pair opened their first retail store a month later, a 380-square-foot “Fit Studio” in Venice Beach, Calif.

“You learn more from 20 minutes on the sales floor than you do in 10 hours of crunching

numbers on Google Analytics,” Schnakenberg said.

Also waving the luxe-basics flag is eight-month-old e-tailer Industry Standard, which sells U.S.-made women's jeans.

The jeans come in six looks — a high- and a mid-rise that each come in black, white and dark blue — and retail from \$95 to \$105, about half of what designer jeans typically go for. All fabric comes from North Carolina, and production takes place in Los Angeles.

“The growth is a bit slower because I don't have an investor,” said Nicole Najafi, a former Balenciaga employee who founded the self-funded site. “I believe in companies growing organically. I know if I take on an investor, it would grow faster. I would like to grow it an old-school way.”

She also believes in wholesale and hopes to link with a retailer until the company reaches a size where she can open her own store.

Then there is Ayr, Bonobos' sister site that sells women's apparel, which is about to celebrate one year in business. Even though Bonobos founder and chief executive officer Andy Dunn called the \$2 million Ayr did in sales during its first year a “great start,” he's aware that only a “really tiny group of human beings know about this brand.”

Ayr.com began with denim as an anchor last February and rolled out woven shirts, sweaters, outerwear and more — essential pieces keeping in line with the “All Year Round” acronym that gives the brand its name. A Guideshop opened in the company's New York headquarters nine months ago, but Dunn still isn't ready to say if the retail model resonates as well with women as it does with men. Similar to Bonobos, Guideshops don't stock inventory; consumers order from the shop and product is mailed to them.

“It's a more social experience with women,” Dunn said. “Men come alone, and women come with friends or small groups. Thus far it's working.” He said it will take two to three up-and-running Guideshops to really test the model. “How will she react if she can't have [leave the store with] anything?” he asked.

Dunn projects Ayr will reach \$4 million in sales this year.

MEN'S SUITS

Vishaal Melwani, cofounder of Combatant Gentlemen, sees men's suiting as a vertical that has lots of room to grow online. Along with cofounder and cousin Mo Melwani, the two set out to



Modern Citizen's steel-toed slippers.



Denim e-tailer industrystandard.com.



Bikyni's landing page.

disrupt the moderately priced suit space, currently dominated by Men's Wearhouse and Jos. A. Bank. Combatant Gentlemen's differentiator is that the two want to put the focus on Millennial males, not the middle-aged man.

"Mo [and some friends] had just gotten out of business school and salaries weren't what they once were. When it came to dressing, they were forced to go to Men's Wearhouse," said Vishaal Melwani, also a third-generation tailor. "I didn't understand what the big problem was until they took me to one. It was like 1987 slapped you in the face."

In 2012, the cousins Melwani founded Combatant Gentlemen, with Zappos founder Tony Hsieh among the first investors. An all-wool suit on combatantgentlemen.com starts at \$160, and the brand has taken control of the supply chain, with a sheep farm in Italy where the wool is produced, cotton crops in India and production in China. Vishaal Melwani said production costs for one of their suits ranges from just \$24 to \$37. The company logged \$10 million in sales last year and expect to double that in 2015.

"For us, it's about a selective product expansion. If you look at Bonobos, it's pants and 30 styles. Our guy gets selection anxiety. We're keeping it simple. You'll never see Combatant Gentlemen doing a pink linen suit," Vishaal Melwani said.

Offering a different twist on the men's suiting and rental business model is The Black Tux, founded by Andrew Blackmon and Patrick Coyne in 2013. It has a similar target consumer as the Combatant Gentlemen, except the two have taken a very different approach to the category. Nothing is for sale at theblacktux.com; all suits and tuxedos are available for rental fees ranging from \$95 to \$120, considerably lower than the national chain average of about \$150 to over \$200. The company just raised \$10 million to expand its inventory and the number of styles it offers to consumers, and including angel investments and a seed round in 2013, the brand has raised \$15 million to date.

The Black Tux's revenue model is similar to that of Rent the Runway, but the men's brand produces all of its own styles instead of buying them from designers.

FAST-FASHION

Jessica Lee founded Modern Citizen in 2013 with private funding and a "small investment" from Forerunner Ventures, and is targeting career-minded women in their mid- to late 20s and 30s.

Looking at the market, Lee saw a slew of contemporary brands that addressed a more sophisticated, fashion-forward aesthetic, but not many in the fast-fashion space online. She wants to catch the consumer who had graduated from Forever 21 and H&M but isn't willing to pay department store prices.

"We're obviously in a fast-fashion price point, but we source our materials exactly the same way that most contemporary companies do," Lee said.

She set her focus on building her business instead of fund-raising.

"It's more patient capital," Lee said of her funding. "Businesses like this need more time for consumers to connect and engage with and figure out who they are. I follow VC firms closely and there's always an expiration date as to whether or not they will continue. The second you take funding, the clock starts and historically, looking at businesses that were built in the space — Nasty Gal and Mod Cloth — both of them had five years to figure it out before taking on venture funding."

SWIMWEAR

Bikyni's women's bathing suits will make their debut online this spring — where all swimsuits (one- and two-piece) retail for \$95. Bikyni.com will offer luxe mix-and-match swimwear separates that seek to address two issues in the market: body types that require different sizes on top and bottom (or almost every woman) and steep designer prices.

Bikyni, founded by Reformation alum Jude Al-Khalil, is expected to launch in March. The line wants to bridge high-end swimwear (think suits that range from \$150 to \$400) with the price point of Victoria's Secret or J. Crew.

"Swimwear is the most dreaded shopping experience for women," Al-Khalil said. "The in-store experience really sucks, but for one reason or another — this category hasn't seen a lot of innovation online."

The venture has already raised \$1 million in seed funding from Austin Hearst.

Wacoal Celebrates 30 Years

By LAUREN MCCARTHY

NEW YORK — Wacoal is turning the big 3-0. To celebrate the milestone, the intimate apparel brand is launching a yearlong program, titled "30 Years of Beauty."

"We really want to take the anniversary as an opportunity to explain Wacoal, a brand that was built on the foundation of making really high quality products that performed for women, that was beautiful and lasted a long time," said vice president of marketing Susan Malinowski. "We have built the brand steadily by making the best quality products and the most beautiful products. We're a brand that's all about putting the value right out there and creating a value proposition that women see and feel and enjoy."

The theme of beauty comes from a past marketing campaign that addressed bras as part of a woman's daily beauty routine. "Women tell us that they have a drawer full of bras, but they always pull out the Wacoal," Malinowski said. "Just like if you have a drawer full of makeup and there's that one lip gloss that you grab because it just works or that one eyebrow pencil, even though it's down to the nub, you still use it because it just works. That's what we are to them."

Beginning in March, Wacoal will host a national sweepstakes consisting of a weekly giveaway of 30 bras. Through December, the brand will randomly select 30 winners per week from those who have registered on 30yearsofbeautygiveaway.com. Upon being selected, all winners will receive a digital gift card to be redeemed online.

To help customers select what bras to shop, Wacoal has tapped Zanna Roberts Rassi, Marie Claire's senior fashion editor, to host a series of online videos that highlight Wacoal's styles. Each month, Rassi will pick a "Bra of the Month" and supply wardrobe tips and styl-

ing tricks applicable with that particular style. "[Rassi] is a busy lady but such a warm and engaging woman with great knowledge about fashion," Malinowski said. "She aligns well with the brand because she understands women want to look their best. She knows the techniques, tricks and ways to make the most of what you have."

The brand will also release a special collection of both new and past popular styles done in anniversary-themed colors. For example, it's best-selling collection, Embrace Lace, will be offered in several new colors all enhanced with the shimmer of Lurex. The Embrace Lace collection will also be expanded to include a new no-wire bralette and matching garter. Wacoal will additionally introduce a new style group, called In Bloom, which features floral embroidering, metallic silver yarn on stretch mesh, and a teardrop pearl accent. All limited edition styles will carry a special anniversary hangtag.

Wacoal's ongoing relationship with Susan G. Komen will be reflected in the "30 Years of Beauty" theme through its Fit for the Cure program, which invites women for in-store bra fittings. No purchase is required to participate, and for each fitting, Wacoal donates two dollars to Susan G. Komen. An additional two dollars is donated for every bra and shapewear piece purchased, and customers receive a gift with purchase when spending \$80 or more. Beginning in February, the gift will be a special edition cosmetics case and set of cosmetic brushes.

By taking on this slate of anniversary initiatives, Wacoal sets its sights on a goal for the next 30 years: worldwide brand recognition. "Our goal is to increase brand awareness and become the kind of brand women think of first," Malinowski said. "We want to be a brand they discover on their own because they heard our message, and they're intrigued by our proposition and what we offer."



A look from the special collection.



FOX AND NORDSTROM PHOTO BY ANDREI JACKAMETS



Vivica A. Fox and Blake Nordstrom



Kristin Kramer and Ann Deal

Femmys Honors Intimates Industry Icons

By DAVID MOIN

ACTRESS VIVICA A. FOX adores intimate apparel and might be flaunting it this year.

Fox will be the brand ambassador for an intimate apparel concept called Curvy Studio, with the Los Angeles-based Curvy Couture the manufacturer, and Kohl's the likely retailer. Store officials couldn't be reached for comment.

"I love being a woman and celebrating my femininity," said Fox, who emceed the Femmy Awards at Cipriani 42nd Street Tuesday, and wore a seductive Jenny Packham gown. "I love all of you who make my curves show up so beautifully in all the right places."

Executives at the Femmys were talking up another deal, Nordstrom's relaunch of the Naked underwear line next month. "It will have an extended men's product line, Naked's first marketing campaign, and women's sleepwear and daywear," said Joel Primus, president and founder of Naked, who attended the Femmys along with Naked's chief executive officer Carole Hochman, a major investor in the business.

This year's Femmys went to nordstrom.com as retailer of the year; Macy's Merchandising Group as supplier of the year; Dana-Co. as manufacturer of the year; 3-D Intimate Apparel received the innovator of the year award, and Kristin Kramer, the executive vice president of design at Victoria's Secret accepted the lifetime achievement award.

Over 640 industry executives, media and celebrities attended the event, which raised more than \$600,000 for scholarships and was sponsored by The Underfashion Club. The top three winners of the student design contest were Samantha Burns, who received a \$5,000 scholarship and a trip to Paris Mode City provided by Eurovet and Curvexpo. Second place winner Jezebel Torres received \$4,000, and third place winner Consuelo Garcia received \$3,000. Other scholarship winners were Stephanie Schwarz, Kate Tobin, and Hilary Marie Baxter, each receiving \$1,000. "The Femmy Awards are an essential part of our ongoing efforts to raise funds to promote education, innovation and growth within the Intimate Apparel Industry," said Victor H. Vega, president of The Underfashion Club, the not-for-profit organization that supports the industry.