Overview of the 2017 NAFTA Apparel E-commerce Market

Apparel sales in the 2017 NAFTA apparel market, according to Trendex, totaled US$308.2 billion. The NAFTA total apparel market decreased by 1.6% in 2017 as the 3.1% increase in Mexico’s apparel sales was offset by a 2.0% decline in U.S. sales and a near similar 2.1% decline in Canadian apparel sales.

Not unexpectedly, the NAFTA apparel e-commerce markets continued during 2017 to grow at double digit rates. During 2017, apparel e-commerce sales in the three NAFTA markets increased 12.9% to US$70.8 billion. Apparel e-commerce sales during 2017 increased by 20.9% in Mexico, while apparel e-commerce sales in Canada and the United States increased 13.5% and 12.9% respectively.

In addition to the fact that all three NAFTA apparel e-commerce markets grew at double digit rates, the apparel e-commerce markets shared a number of similar developments including:

- Amazon was either the number one or two, apparel e-commerce retailer in each country
- Amazon drove the majority of the growth in each market
- The ten largest apparel e-commerce retailers in each country collectively grew at a faster rate than the remainder of the apparel e-commerce retailers in a country
- Luxury apparel e-commerce sales increased at a faster rate than that for all apparel e-commerce sales

- Continued on page 4

Readers Note
Unfortunately as there is no accepted single source of data on the NAFTA apparel e-commerce segment, Trendex has relied on 16 difference sources of information for this newsletter issue. In many cases the information from one source is not always consistent with another source. Trendex wants to make sure that our readers are aware that any inconsistencies in the information provided, is the result of other sources and not itself.
Yook “Understandably Caves” In Response To Pressure

Yook Net-a-Porter has been the world’s dominate online retailer of luxury apparel e-commerce since Yook and Net-A-Porter merged three years ago. During 2017, the retailer’s sales increased 11.8% in total and by 10.2% in North America. However by mid-last year, it was becoming obvious that the retailer’s market dominance had probably peaked. Success always attracts new competitors and in Yook’s case, it came from three different directions:

- LVMH Moet Hennessy Louis Vuitton, the largest luxury group launched in May 2017 its own website and mobile app, 24 Sevres
- Moda Operandi, a luxury online retailer based in the U.S. raised US$165 million in December 2017
- Farfetch, an online marketplace for 500 independent luxury boutiques and 200 brands began evaluating a public offering, which would provide necessary capital for further expansion

Recognizing that its dominance of online luxury e-commerce was under assault Yook Net-a-Porter, in January 2018, accepted a US$3.4 billion takeover bid from Swiss luxury group Compagnie Financiere Richemont.

Even though Yook Net-a-Porter had planned to double its business by 2020, it failed last year to keep up with the 24% increase in worldwide luxury sales.

Although, Richemont has said it will continue to operate Yook-Net-A-Porter as a separate business, there is little doubt the combination of the two companies should allow the new entity to take better advantage of the growth of online luxury sales, which are forecast to account for 25% of luxury apparel sales by 2025.

(By way of a surprising update: Yook Net-A-Porter’s total sales increased by only 0.5% in Q1 2018, while its North American sales decreased (~5.1%).

Lululemon: E-commerce Growth Accerates In Both the U.S. And Canada

After experiencing a surprising slowdown (13.0%) in 2016, lululemon’s e-commerce sales increased by a strong 27.3% in 2017. The retailer's total sales increased by 13.0% during the year. E-commerce accounted for 21.8% of the retailers 2017 sales, an increase from the 19.3% in 2016. Lululemon had an unusually strong Q4 2017 as a result of launching a new e-commerce platform. E-commerce sales during the quarter increased 44% vs. 23% a year earlier as a result of a 20% increase in site traffic, a 19% increase in conversions, and a 32% increase in e-mail visits. Thirty percent of lululemon’s new guests during the quarter were men.

E-commerce’s strong growth continued into 2018 as lululemon’s e-commerce sales increased by 62% during its first quarter of the new year. The company’s management attributed the enormous increase to its redesigned site, which made it easier for the consumer to shop.
Amazon Strengthens Its Nafta Position

It has been reported that in 2007, Jeff Bezos, CEO of Amazon, told his employees that “in order to be a US$200 billion company, we’ve got to learn how to sell clothes and food.” With that objective in mind, Amazon has become more successful that he could have imagined ten years later, in selling both products. In 2017, Amazon’s North American sales (excluding its cloud service) increased 33% to US$106 billion. Amazon’s food sales growth was due to its new delivery services and purchasing Whole Foods. The company’s apparel sales growth was due to its Prime Membership program, the introduction of a number of new private labels along with apparel related services.

To support its increasing sales Amazon has plans to open additional distribution centers in all three Nafta countries. One of the new distribution centers will open by the end of 2019 in Caledon, Ontario. It will be the retailer’s sixth facility in the Toronto area and ninth in Canada.

Amazon Fights Regional Players For Dominance in Europe

While Amazon has come to dominate the Nafta apparel e-commerce market, it has not been as successful to date, in Europe. Euromonitor reported that in 2017 Amazon was not the largest apparel/footwear e-commerce retailer in France, Germany and the U.K.

Leveraging Amazon’s Power

Coming under the heading of, “if you can’t beat them, join them”, a number of U.S. apparel retailers and brands have begun to leverage Amazon’s ubiquitous presence. The trend began in earnest last year when Nike agreed to sell a limited line of products on Amazon in exchange for Amazon limiting third party sellers of Nike products on its website. The announcement was followed by infants apparel brand, Carter’s, who first designed a special clothing line that was sold exclusively to Amazon’s Prime members on last year’s Prime Day,. Subsequently on June 2017, Carter’s started selling its Simply Joys brand collection only on Amazon. Last fall, Gildan began selling its men’s underwear on Amazon.

In May 2018, Chico’s began selling a limited line of its clothing and accessories on Amazon. If the initial results are favorable, Chico’s may start selling, a similar collection from its White House Black Market and Soma stores on Amazon.

This attempt to leverage Amazon makes sense, assuming that selling on Amazon does not negatively affect the consumer’s perception of an apparel brand/retailer.

Why Buy Apparel From Amazon?

A study conducted among U.S. Amazon apparel purchasers confirmed just how important the reason’s are for buying apparel from Amazon. Not surprisingly the most important reason was fast/free shipping, followed by low prices and convenience. Neither Amazon’s wide selection or the quality of its apparel were significant apparel purchase drivers. Of interest was that among all Amazon purchasers, low prices was more important than free/fast shipping. The study’s results, which were consistent with similar studies conducted in Canada and Mexico, confirmed that apparel retailers must find a more creative way to address shipping costs, perhaps by offering their own version of Prime to their loyalty card holders.

Update: Amazon’s best selling apparel items demonstrate its fate is cheap, practical products. The best selling men’s apparel product is a six pack of moisture control crew socks, while the best selling women’s product is its Daily Ritual private label $18 jersey.
Apparel E-commerce Only Retailers Continue To Morph

Two Canadian men’s retailers started out with the same simple business plan: sell men’s apparel exclusively on the internet. However since Frank + Oak (2012) and Indochino (2014) were founded both retailers business model have continued to evolve. The primary change in their business model (besides Frank + Oak adding women’s clothing) has involved opening their own brick and mortar stores to compliment their online presence. Vancouver based Indochino opened its first brick and mortar store in 2015, and currently operates 32 stores. Frank + Oak operates 21 stores, all in Canada.

Having stores serves a number of purposes for both retailers. In addition to better showcasing the complete range of their product offering the stores also serve to build consumer’s awareness. Additionally, they allow “styling consultants” to personalize product recommendations and provide fit assistance. To a large degree, both companies demonstrate the benefits of omni-channel retailing.

It would be safe to assume that both Canadian retailers have plans to further increase their store count and upgrade their capabilities. The process will be partially financed, by outside investors. In Frank + Oak’s case the retailer raised in February 2018, $20 million in funding from a syndicate led by Caisse de depot. Not to be “out funded”, Indochino revealed the same month that Mitsu and Co. had made an unspecified, but assumingly similar investment in the company.

Update: Shopify announced it will be opening its first retail outlet in “of all places”, LA, in 2020.

Overview of the Nafta Apparel E-commerce Market

- Delivery times became a competitive advantage
- At least in the U.S. and Canada, e-commerce only retailers continued to open brick and mortar locations

Lastly, each of the three Nafta apparel e-commerce markets are forecasted to increase in 2018 at a rate less than in 2017, nevertheless the growth in each Nafta country should be a much as five times that for each country’s total apparel market.

Apparel Box Subscription Market Gets Crowded

Subscription box services covering the gamut from cosmetics to pet food have caught on with time-pressed consumers. The largest apparel subscription service being Stitch Fix.

![Stitch Fix](image)

The trend seems to have also caught on with children’s clothing retailers, many of which are e-commerce only retailers. At last count there were at least six children’s clothing box subscription plans.

<table>
<thead>
<tr>
<th>U.S. Children’s Apparel Subscription Services</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>COMPANY</td>
<td></td>
</tr>
<tr>
<td>Old Navy</td>
<td>Age/Size Segment</td>
</tr>
<tr>
<td>Target</td>
<td>0-24 months</td>
</tr>
<tr>
<td>Kidbox</td>
<td>Newborn—size 14</td>
</tr>
<tr>
<td>Kidpik</td>
<td>Girls ages 4-16</td>
</tr>
<tr>
<td>Fabkids</td>
<td>Ages 2—14</td>
</tr>
<tr>
<td>Kidfixes</td>
<td>Size 2T—14</td>
</tr>
</tbody>
</table>

Which is probably 2-3 too many as evidenced by Baby Gap discontinuing its subscription service earlier this year, however in the end this idea makes sense for time-pressed mothers.

Amazon’s Apparel Branding Strategy

Amazon’s efforts to dominate the U.S. apparel market at the “10,000 foot level” consists of four objectives:

1. Dominate apparel commodity categories (e.g. Good Brief men’s underwear)
2. Leverage technology/delivery capabilities
3. Offer services including Prime Wardrobe
4. Develop a comprehensive brand offering

In the last year the tactical initiatives to support the second objective have begun to be put in place, as the retailer continually introduced new private label brand names. While the first two objectives have, for the most part, being attained, it will be the last two that could prove challenging for Amazon.

![Amazon Apparel Brand Offering](image)
**Overview (2017): U.S. Total E-commerce Market**

U.S. total e-commerce sales increased by 16.0% in 2017, the largest yearly increase since online sales increased by 17.5% in 2011. Total U.S. retail sales increased last year by 3.8%. E-commerce’s share of total retail sales increased in 2017 to 13.0% from 11.6% in 2016. E-commerce accounted for 49.4% of all retail sales growth in 2017 versus 41.6% a year earlier.

Driving the growth in many U.S. retailers e-commerce sales is BOPUS (Buy Online, Pick Up in Store). In 2017 BOPUS was offered by 85% of department stores, 75% of big box retailers, and 50% of apparel specialty stores.

Amazon, whose U.S. sales increased by 30.1% to U.S. $189.6 billion in 2017, accounted for 70.2% of the US$ 62.5 billion growth in e-commerce sales and 34.7% of the growth of total retail sales in 2017.

Update: U.S. total e-commerce sales increased by 14.1% during the first quarter of 2018. The growth rate was slightly less than the 14.8% rate during Q4 2017. M-commerce during Q1 2018 accounted for 41% of e-commerce orders and 23% of e-commerce revenue. M-commerce according to Salesforce, accounted for 43.6% of e-commerce site visits, while 47.0% came from desktop visits, and 9.4% from tablets.

**Prime Continues To Drive Amazon U.S. Sales**

Amazon’s most important competitive advantages in the e-commerce market is its Prime membership program and its Prime Day Event. As both are without peer, it is Amazon’s annual Prime Day, which increasingly seems to rival Black Friday in importance for retailers. The results for the fourth Prime Day, during July 2018, were nothing less than spectacular as during this year’s 36 hour event:

- Sales totaled US$4.2 billion, a 33% increase over last year
- Five million apparel items were sold, the majority of which were private label commodity products
- Prime members worldwide purchased in excess of 100 million units
- Marketplace sales “far exceeded” US$1 billion
- Offered/sold 50% more private label items than last year
- Web traffic surged nearly 50% when compared to a normal day

Amazon’s total e-commerce sales in the U.S. are expected to exceed US$258 billion in 2018, a 29% increase from a year earlier. Almost two thirds (68%) of the sales will represent third-party sellers on its marketplace, and the remaining 32% will be direct. While Amazon benefited from its Prime Day, so did other retailers like Target, who revealed that on July 17 it had its biggest online sales day this year. According to RetailMeNot, 54% of retailers staged their own one-day or ‘this week only’ events to compete with Prime Day.

The result was that those large retailers with sales over a billion dollars saw a 54% increase in their sales on Prime Day, but niche retailers (i.e. those whose annual sales are less than $5 million in annual revenue) recorded an 18% decrease in their sales. Amazon’s total e-commerce sales in the U.S. are expected to exceed US$258 billion in 2018, a 20% increase from a year earlier. Almost two thirds (68%) of Amazon’s sales will represent third-party sellers on its marketplace, and the remaining 32% will be direct. Recently, Joe Mimran of Joe Fresh fame, opined that in the future, Prime Day as an event, would exceed the importance in the U.S. of both Black Friday and Cyber Monday. From this publications perspective that forecast makes sense.

<table>
<thead>
<tr>
<th>U.S. Amazon.com* (US$ Billions)</th>
<th>Amazon share of E-commerce Market 2017 Ten Largest Retailers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Amazon</strong></td>
<td><strong>eBay</strong></td>
</tr>
<tr>
<td><strong>Walmart</strong></td>
<td><strong>Wayfair</strong></td>
</tr>
<tr>
<td><strong>Apple</strong></td>
<td><strong>Costco</strong></td>
</tr>
<tr>
<td><strong>Home Depot</strong></td>
<td><strong>QVC</strong></td>
</tr>
</tbody>
</table>

* Includes sales of Amazon’s own products and marketplace sellers.

Source: E-marketer
Overview of the 2017 U.S. Apparel E-commerce Market:

American consumers in 2017 continued to shift their apparel purchasing from brick and mortar retailers to the internet. After increasing by 13.0% in 2016, US apparel e-commerce increased by 11.5% in 2017 to US$68.0 billion. The growth rate, although less than the previous year, was nevertheless impressive given the fact that total U.S. apparel retail sales decreased 2.0% during 2017.

Driving the 11.5% increase in U.S. apparel e-commerce sales last year were at a minimum four major factors:

- A consumer who increasingly prefers buying on the internet. A study published in February 2018 reported that 43.2% of American consumers prefer to buy online, while an additional 29.9% indicated that they prefer to purchase both online and in the store.
- Amazon’s increasing dominance of the online apparel market. In 2017, Amazon’s apparel/accessories sales increased by 26.3% to US$27.8 billion. Amazon’s growth can be attributed to four factors:
  - Prime Program
  - New apparel Private Labels
  - Prime Day
  - Expanded Marketplace
- Implementation of true omni-channel programs including those of Nordstrom, lululemon, and Macys. Increasingly consumers have picked up on the benefits of omni-channel retailing and are taking advantage of the flexibility that the approach offers.
- Growth in the apparel box subscription business

E-commerce Becomes Critical For U.S. Children’s Apparel Retailers

During the past three years, the US$50+ billion U.S. children’s apparel market has been affected by a number of trends:

- Declining birth rates
- Increasing market dominance by about a dozen retailers including mass retailers, such as Amazon, Walmart, Target, Kohls and specialty retailers, including Carters, Children's Place, Old Navy, Disney, and Gap/ Gap Kids
- Greater per capita spending on children’s apparel by women who are having their first child later in life and baby boomer grandparents
- Unhealthy price competition
- Children’s box subscription apparel services
- Introduction of new private label apparel brands (e.g. Cat + Jack)
- Fashions increasing role in the decision process as a result of an endless stream of Instagram and Pinterest accounts dedicated to looks, trends and fast fashion for kids
- Increasing e-commerce sales

The next 12 months will see two major developments: A vicious fight for the shares of previously owned by Toys R Us/ Babies R Us, and the slowly dying Gymboree.

Along with a significant increase in e-commerce sales. The fight for e-commerce retail sales growth should specifically involve five players: Amazon, Walmart, Target, Children’s Place, Carters and Old Navy. All six have deep pockets and demonstrated their commitment to the segment as exemplified by

- Amazon launching new kids private label brands, such as Spotted Zebra
- Walmart opening, in July 2018, a new online baby department, which will bring to 30,000 the number of children’s items offered on Walmart’s website
- Children’s Place’s multipart digital transformation strategy, which includes:
  - Investing US$50 million in e-commerce over the next three years
  - Adding a brand store on Amazon during 2018
  - Having a total omni-channel offering by the end of 2018
  - Opening a new e-commerce website with Tmall during the fourth quarter of 2018

As a result of these initiatives, Children’s Place is expecting its digital business to increase at a CAGR in the low 20% range by the end of 2020. The retailer, in addition expects to be generating 35% of sales from e-commerce by 2020. With number like this, its no wonder that U.S. children’s apparel retailers are embracing e-commerce.
HBC’s E-commerce Performance

HBC’s e-commerce performance in 2017 was underwhelming, and had to be a disappointment to the company’s management. In 2017, HBC’s comparable e-commerce growth was only 4.8%. The increase followed an 8.1% increase the previous year.

Without a doubt the conglomerate’s e-commerce growth was negatively effected by two developments. The first was the performance of Gilt, its flash site, which had been integrated into Saks Off-Price division. The second reason was attributable to the company’s misguided decision to cut costs by cutting back on the resources devoted to HBC’s online initiatives.

Recognizing its error, HBC reversed course at the end of 2017 by allocating more money to its e-commerce operation and six months later disposing of Gilt.

HBC’s Costly Failure Called “Gilt”

In early June 2018, HBC obviously had “enough”, and threw in the towel on its Gilt acquisition. In 2016, HBC purchased flash sale retailer Gilt for US$250 million. At the time, this publication had questioned the purchase, as there were indications that flash sites had peaked partially due to “consumer email fatigue”. Additionally, it was becoming obvious that the flash site model suffered from both “an unwieldy supply chain” and expensive returns.

When HBC originally purchased Gilt, it planned to operate it as a standalone website. Subsequently, as sales began to slip, it aligned the website with that of Sak’s Off-Fifth, with the intention of getting the website more exposure and allowing Gilt items to be retuned at Saks Off-Fifth stores. Subsequent “tinkering” with the website failed to produce the desired results.

In February 2018, HBC wrote down the value of the Gilt trade name by US$63 million. Subsequently HBC reported that its total e-commerce sales increased by only 4.8% during 2017, however if Gilt’s sales were excluded, HBC e-commerce sales would have increased by 11.9%.

In the end, HBC while receiving less than US$100 million from Kynetic, a holding company, should still be given high marks for attempting to grow its e-commerce sales. Fortunately for HBC, it overpaid for the Gilt acquisition, and the timing of the purchase was too late.

Target’s E-commerce Performance

Target, having abandoned its dream of developing a presence in Canada, made a strategic decision to run with the “Big Boys”. In this case, that meant Target was committing itself to matching Walmart’s and Amazon’s e-commerce growth. Part of the strategy involves offering a number of new private label brands which help differentiate Target’s apparel offering from its direct competitors.

During 2017, Target’s e-commerce sales increased 29.3% and accounted for 5.5% of the retailers sales compared to 4.4% a year earlier.

Update: During the first quarter of 2018, Target’s e-commerce sales increased 28% and accounted for 5.2% of sales vs. 4.2% a year earlier.

Walmart’s E-commerce Performance

Walmart’s investment in e-commerce began to pay real dividends in 2017 as the retailers e-commerce sales increased 44% after increasing 23.9% the previous year. The growth in Walmart’s U.S. e-commerce sales came as a result of a three part strategy, which included:

- Acquiring other e-commerce retailers (e.g. Bonobos)
- Expanding online food/grocery sales
- Emphasizing delivery options

It should be noted that Walmart’s U.S. management has never specifically commented on Walmart’s apparel e-commerce business.

Update: Walmart’s U.S. e-commerce sales increased by 33% in Q1 2018.
Urban Outfitters: Buys Into Installment E-commerce Purchasing

Urban Outfitter’s commitment to e-commerce is worth noting for two reasons. First, the commitment has obviously paid dividends, as the retailer’s e-commerce sales increased by 18.3% in 2016 and 13.2% in 2017 even though its brick and mortar sales decreased 4.2% and 3.9% respectively over the same two years.

Secondly, Urban Outfitters, this year became the first U.S. retailer to use Afterpay, an Australian based digital platform which allows the customer to purchase a product on an installment plan. The customer pays if four interest fee payments. Customer are charged an $8 late fee if the payment is not made within seven days. Afterpay assumes all non-payment risks on behalf of its retail customer. It has been reported that as a result of using Afterpay, retailer conversion rates around the world increased 20-30%. This new service is something that all apparel e-commerce retailers should evaluate.

Update: During the first quarter of 2018, e-commerce “accounted for half of the retailers sales compared to less than a quarter three years ago”.

Nordstrom: E-commerce’s Growth Continues In 2017

In addition to Amazon, Nordstrom continued in 2017 to be one of less than a dozen U.S. retailers that contributed significantly to apparel e-commerce’s growth in 2017. During last year, Nordstrom’s e-commerce sales totaled US$3.8 billion a 17.6% increase. E-commerce sales in Nordstrom.com increased 14.6% and accounted for 76% of Nordstrom’s e-commerce sales, while e-commerce sales in Nordstrom Rack/ Haute Look division increased 28.1%. During 2017, e-commerce accounted for 24.6% of Nordstrom’s total sales.

As Nordstrom’s e-commerce sales have grown analysts have increasingly questioned whether e-commerce is diluting the retailer’s profitability. In response, Nordstrom provided a chart at its 2018 Investors Day meeting.

“While gross margin profiles are probably similar for the different channels, operating costs change significantly between one channel and the other. One example is that the e-commerce channel doesn’t increase rent or payroll costs. If we consider the increasing focus on developing ship-from-store capabilities (which is already offered from 186 locations), we can see that even fulfillment costs can be significantly cut, which helps leverage operating margins further.”

<table>
<thead>
<tr>
<th>Company</th>
<th>E-commerce Sales (US$ billions)</th>
<th>E-commerce Growth %</th>
<th>E-commerce % of Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Walmart</td>
<td>$11.5</td>
<td>44.0%</td>
<td>23.0%</td>
</tr>
<tr>
<td>Macy’s</td>
<td>$7.7</td>
<td>11.0%</td>
<td>31.0%</td>
</tr>
<tr>
<td>Nordstrom</td>
<td>$3.8</td>
<td>17.6%</td>
<td>24.6%</td>
</tr>
<tr>
<td>Target</td>
<td>$3.8</td>
<td>29.3%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Kohl’s</td>
<td>$3.5</td>
<td>26.0%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Sears Holdings</td>
<td>$1.9</td>
<td>-3.0%</td>
<td>12.9%</td>
</tr>
<tr>
<td>Hudson Bay Co.</td>
<td>N.A.</td>
<td>4.8%</td>
<td>N.A.</td>
</tr>
<tr>
<td>J.C. Penney</td>
<td>$2.3</td>
<td>19.8%</td>
<td>18.0%</td>
</tr>
<tr>
<td>Neiman Marcus</td>
<td>$1.5</td>
<td>9.3%</td>
<td>31.3%</td>
</tr>
<tr>
<td>Dillard’s</td>
<td>$0.4</td>
<td>5.7%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Source: Company 10K’s

Updated: During Q1 2018 e-commerce accounted for 29% of Nordstrom sales, an increase from 25% a year earlier.
It is a given that the growth rate for U.S. apparel e-commerce sales will for sometime, outstrip the growth rate for the entire U.S. apparel market by a factor of 3-5 times. Much of the growth will be driven by apparel retailers adopting an omni-channel approach. Additionally, advances in technology will also contribute to e-commerce growth as it will allow retailers to:

- Ensure a more appropriate garment fit
- Recommend individual styles or grouping of products
- Create a virtual closet that allows a consumer to rent a product for a specific occasion
- Offer a box service providing a curated collection on a regular basis
- Leverage m-commerce and tablets

Lastly, expansion of Amazon apparel initiatives including growing the number of its private labels and its success in attracting better brands (e.g. Nike) to its site should also serve to drive growth in its apparel e-commerce sales. Cowen & Co is forecasting that Amazon’s apparel sales will increase by 38% to $39.8 billion in 2018, making apparel Amazon’s second largest merchandise category.

Trendex is estimating that after increasing by 11.5% in 2017, the U.S. apparel e-commerce market will increase in 2018 by 10.3% to US$75.8 billion. Interestingly, the U.S. total e-commerce market is forecasted to increase by 15.6% in 2018, thanks in large part to a disproportionate increase in food sales.
**Overview (2017): Canadian Total E-commerce Market**

Canadian total e-commerce sales during 2017 increased by 31% to C$15.6 billion, according to Statistics Canada. E-commerce accounted for 2.7% of retail sales vs 9.8% in the United States. The growth of e-commerce sales during 2017 in Canada was attributable to a number of factors, including:

- Amazon’s expansion in Canada, in large part due to its Prime service
- The specific investments that Canadian Tire, Loblaw, Walmart and Shopify made to expand their e-commerce sales
- The overall growth in e-commerce food sales resulting from a fierce battle among Canada’s largest food sellers for market dominance
- Strong increases in e-commerce sales by major apparel retailers including Reitmans, Simons and Harry Rosen
- A Canadian consumer, who increasingly feels more comfortable ordering online

Update: Canadian total e-commerce sales increased by 15.1% and accounted for 2.8% of retail sales during Q1 2018

**Overview (2017): Canadian Apparel E-commerce Market**

Although the Canadian retail apparel market decreased by 2.1% during 2017, apparel e-commerce sales increased by 13.8%. E-commerce sales of apparel in Canada during 2017 totaled US$2.27 billion according to Trendex. The growth in Canadian apparel e-commerce sales was driven by:

- Strong sales increases for domestic apparel specialty retailers e-commerce sales
- Increasing adoption/implementation of omni-channel retailing
- The maintenance of the low deminimis level
- Luxury apparel e-commerce sales growth driven in part by social media influences
- Increasing online purchases by millennials
- Above average growth for Amazon’s apparel sales

During 2017, the e-commerce only/other retail channel experienced the greatest growth, thanks to the strong performance of Amazon, Indochino and Frank + Oak.

### 2017 Canadian Apparel E-Commerce Market

<table>
<thead>
<tr>
<th>Retail Channel</th>
<th>Share</th>
<th>% Increase</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department Stores</td>
<td>7.9%</td>
<td>+2.1%</td>
<td>The Bay’s emphasis on omnichannel retailing was offset by Sears Canada’s closure</td>
</tr>
<tr>
<td>Apparel Specialty Stores</td>
<td>40.9%</td>
<td>+41.3%</td>
<td>Major chains including Harry Rosen, Reitmans, Le Chateau and Simons invested heavily to increase their e-commerce sales</td>
</tr>
<tr>
<td>Discount Stores</td>
<td>2.0%</td>
<td>+0.5%</td>
<td>Walmart and Giant Tiger are the only discount retailers selling apparel online.</td>
</tr>
<tr>
<td>Sporting Goods Stores</td>
<td>9.1%</td>
<td>+14.1%</td>
<td>FGL Sports, MEC and Sporting Life continued to ramp up their e-commerce capabilities to sell both performance and lifestyle apparel.</td>
</tr>
<tr>
<td>E-Commerce Only Retailers/ Other</td>
<td>40.9%</td>
<td>+40.7%</td>
<td>Amazon, Indochino and Frank + Oak were the dominant retailers in the channel.</td>
</tr>
</tbody>
</table>

Source: Trendex estimate
Walmart Canada’s E-commerce Focuses On Food And Delivery Options

In the end, most analysts believe that the fight for e-commerce dominance in Canada will come down to a two-way contest between Canadian Tire and Walmart Canada, with Loblaw coming in third. Because of its ubiquitous presence in Canada, Canadian Tire is touting its online presence, pick up in store service. It is also experimenting in Ottawa with home delivery of online orders.

Walmart Canada is taking a slightly different direction, as while it is offering a number of different delivery/pickup options it is focusing on food and grocery products, two merchandise categories, in which it does not compete with Canadian Tire, but with Loblaw. To enhance its fulfillment efforts, Walmart Canada will in 2021, be opening a warehouse in Surrey B.C. that will deliver produce and frozen food to 60 stores throughout the Province. The warehouse will be the retailers sixth in western Canada.

Carter’s Canada’s E-commerce Sales Increases 37.6% During 2017

The retailer, who operated 179 stores in Canada at the end of 2017, reported a 37.6% increase in its e-commerce sales, while comp sales in its stores decreased by 3.1%. E-commerce sales for Carters in the United States increased 21.6% during 2017.

Canadian Luxury Apparel E-commerce Sales Increase 18.5% In 2017

Luxury apparel e-commerce sales in Canada during 2017 increased by 18.5% to C$128 million, even though total apparel sales decreased by 2.1%. Growth was driven by a number of factors. At least one of which was counterintuitive, given the increase in the number of luxury apparel stores both on Canada’s “high streets” and in malls, including Yorkdale. The increase served to raise the awareness of luxury apparel brands/retailers among millennials. Another reason was the increase in foreign tourists thanks to an undervalued Canadian dollar.

Canada’s Largest Apparel E-commerce Retailers in 2017

Determining Canada’s largest apparel e-commerce retailers is made difficult by the paucity of information that Canadian retailers publish on their e-commerce sales. Amazon’s position as the country’s largest apparel e-commerce retailer reflects its commitment to the Canadian market as evidenced by its three distribution centers, its Prime Day and Prime membership program. Of interest is the fact that Winners, even though it is Canada’s largest apparel retailer, is like other off-price retailers, who because it turns over its inventory so fast that offering e-commerce is not a realistic possibility.

To determine Canada’s ten largest apparel e-commerce retailers, Trendex made the following assumption about the retailers e-commerce sales during 2017, as a percent of its total apparel sales.

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* Canadian Yearbook only

Source: Trendex estimate

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* Canadian Yearbook only
E-commerce Sales Growth Slows In 2017
For Le Chateau And Reitmans

Reitmans (Canada) Ltd. and Le Chateau, two major Canadian apparel specialty chains have to some extend, staked their future on growing their e-commerce business. The growth of both Canadian apparel retailer’s e-commerce sales in 2017 reflected their emphasis on e-commerce. During 2017, Reitman’s comp store sales decreased 0.7%, while its e-commerce sales, which had increased by 50.7% in 2016, increased by 38.2% during 2017. Le Chateau, with 160 stores, reported an increase of 20.3% in its 2017 e-commerce sales, which was significantly better than the 2.5% decrease in the retailers comp store sales.

Canadian Apparel Retailers E-commerce Sales Growth Continues (Q1 2018)

Canadian apparel retailers, although “late to the game”, have in the past year continued to make significant progress in exploiting the potential of e-commerce. During the first quarter of 2018, Le Chateau and Reitmans (Canada’s) e-commerce sales increased respectively by 21.9% and 32.7%. LXRandCo, a Montreal accessories retailer recorded a 50% increase in its e-commerce sales.

Two other Canadian apparel companies; Canada Goose and Roots, while not detailing the growth in their e-commerce sales, called out their e-commerce sales as one of the reasons for their outstanding sales performance during the quarter.

<table>
<thead>
<tr>
<th>Canadian E-commerce Sales</th>
<th>Q1 2018</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Total Sales</td>
</tr>
<tr>
<td>Reitmans</td>
<td>N.C.</td>
</tr>
<tr>
<td>Le Chateau</td>
<td>-7.4%</td>
</tr>
<tr>
<td>LXRandCo</td>
<td>+62.3%</td>
</tr>
</tbody>
</table>

N.A. = Not Available

A Vintage Apparel Retailer’s E-commerce Sales Increase 88% In 2017

LXRandCo, a Montreal based retailer of vintage purses/accessories, reported that its total sales during 2017 increased by 69%. For the same period, the retailers e-commerce sales increased by 88%. Online sales during 2017, totaled C$2.2 million and accounted for 5.9% of the retailer’s sales, up from 5.4% a year earlier. The retailer is forecasting that its e-commerce business will outstrip its overall growth rate as a result of increased awareness in both the U.S. and Europe.

Forecast: Canadian Apparel E-commerce Market

It would seem obvious that the investment that Canadian apparel retailers are making to increase their e-commerce sales can be easily justified by Trendex’s forecast of the growth of Canadian apparel e-commerce sales. In 2018 apparel, e-commerce sales should increase by 13.2% and by 66.3% from 2017-2021.

Driving the growth will be a number of factors including:
- Increased sales by Amazon
- Large sales increases by at least five large apparel specialty chains
- Above average growth for luxury apparel sales

The only negative that could effect Canadian e-commerce sales in the future, besides a recession, would be in an upward revision of the deminimis level.
Overview of the 2017 Mexican Total E-commerce Market

The total Mexican e-commerce market increased in 2017 by 18.0% to an estimated US$8.5 billion dollars. By Trendex’s estimate the 106% increase in Amazon Mexico’s 2017 sales accounted for 20% of Mexican total e-commerce sales growth. Online sales in Mexico accounted for slightly over 3% of all Mexican retail sales.

Driving the growth in Mexico’s total e-commerce sales was a dozen major retailers. The three most important, of which, primarily were Amazon Mexico, Walmex and Mercado Libre.

During the second quarter of 2018, Walmex launched a new online grocery platform and currently is offering the service in 40 of Walmart Mexico stores.

Overview of the 2017 Mexican Apparel E-commerce Market

After increasing by almost forty percent in 2016, Trendex estimates that Mexican apparel e-commerce sales during 2017 increased by 20.9% to US$434 million.

Driving the 2017 market’s growth were new retailers, including Amazon offering e-commerce, existing apparel e-commerce retailers upgrading their e-commerce offering, and Mexican consumers becoming increasingly comfortable with ordering apparel online.

During 2017, e-commerce accounted for 1.9% of Mexican retail apparel sales. Women’s apparel accounted for 50% of apparel e-commerce sales, while men’s and children’s apparel accounted for 41% and 9% respectively.

During the year, apparel specialty stores and department stores accounted for almost 70% of Mexican apparel e-commerce sales.

Additionally, Walmex launched earlier this year, its first omnichannel event called Hot Days. During the event, Walmex’s online sales doubled with the greatest growth occurring in apparel, beverages and electronics.

Lastly, during the first half of 2018, Walmex added more than 300 sellers to its marketplace. It ended the first half of 2018 with 540 active sellers on its website: walmart.com.mx

However, Mexican apparel specialty stores and department stores lost share during 2017 to the “all other” outlet channel, which included Amazon, Privalia and Mercado Libre. While Liverpool lost share during 2017, it remained one of the country’s largest apparel e-commerce retailer. All the other department stores lost share with the exception of Coppel.

Mercado Libre Mexico

Mercado Libre Mexico, a division of the Buenos Aires based internet retailer reported that its sales in 2017 were US$87 million and accounted for 6.2% of its parent company’s sales. According to Trendex’s Mexican Monitor, Mercado Libre was the sixth largest Mexican apparel e-commerce retailer with a share of 4.7% during 2017.

Update: During the first quarter of 2018, Mercado Libre’s total Mexican sales increased 89.2%
Overview of the 2017 Mexican Apparel E-commerce Market (Continued)

From a merchandise category standpoint, pants during 2017 was the most important women’s e-commerce merchandise category, as it accounted for 43.0% of women’s apparel e-commerce sales. Tops (19.1%) and dress apparel (16.5%) were the next most important categories. E-commerce had its greatest share of hosiery/socks (2.6%) and dress apparel (2.3%). In the men’s apparel market, pants (42.7%) and sports apparel (22.5%) were the most important e-commerce categories. E-commerce had its greatest market shares in the men’s market in sports apparel (3.2%) and tops (2.3%).

Forecast: Mexican Apparel E-commerce Market

A forecast of the growth of the Mexican apparel e-commerce market must, of necessity, factor in a number of not always easily quantifiable variables, including:

- Growth in Mexico’s GDP
- The rate at which Mexican consumers become increasingly comfortable with buying apparel online
- Mexican apparel retailers (e.g. Liverpool) implementation of omnichannel retailing
- The specific growth of Amazon Mexico
- The date for Suburbia to begin offering e-commerce during either 2018 or 2019
- Growth of the Mexican middle class
- Banks willingness to allow debit cards to be used for e-commerce purchases
- The increase in consumer ownership/usage of credit cards
- The level of online payment fraud and bank’s attitude toward correcting e-commerce fraud

Having assigned all of the variables a weight, Trendex is forecasting that the Mexican apparel e-commerce market will increase by 17.1% in 2018 and by 65.5% from 2017-2021.
IT SHOULD BE NOTED:

United States:

Gildan Activewear announced at the end of April 2018, that it was expanding the ability to purchase American Apparel online, to more than 200 countries. The iconic fashion brand was acquired by Gildan in 2017. Gildan’s total e-commerce sales increased 100% in its Q2 2018.

Sears Holdings monthly online sales revenue during the period August 2017—May 2018 averaged about 17% of Macy’s sales. Kohl’s’ monthly order volume was 10 times larger than Sears during that period, according to Edison Trends.

Ann Taylor Factory Outlet and Loft Outlet launched their first e-commerce sites at the end of June 2018. Both sites will sell the exact same products that can be found in their own stores.

Real/Real, a major player in the luxury online resale market, recently raised US$288 million in a new round of equity financing. The funds will go toward expanding both the luxury reseller’s brick and mortar footprint and its distribution centers.

Mexico:

Liverpool’s e-commerce sales increased 67.7% in Q1 2018. E-commerce accounted for 3.1% of Liverpool’s retail sales. The number of visits to Liverpool.com.mx more than doubled during the first quarter of 2018.

Falabella acquired e-commerce retailer Linio at the outset of August 2018 for US$138 million.

Canada:

RYU hired netamorphosis from NYC in July 2017 to facilitate and maximize the company’s digital and e-commerce business worldwide. As a result, RYU will be relaunching its website during the third quarter of 2018.

Canada Goose is teaming up this fall with the Alibaba Group to tap into rising consumer demand in China. The company will set up a regional head office in Shanghai and open two retail stores along with a regional partner in Beijing and Hong Kong. For its Chinese e-commerce operations, the company is tying up with Tmall, Alibaba Group’s online marketplace.

Roots having historically had a third-party vendor handle its e-commerce business, will be opening a new C$16 million distribution centre mid-2019 that will service both its retail and growing e-commerce business.