Amid Brick-and-Mortar Travails, a Tipping Point for Amazon in Apparel

By NICK WINGFIELD, APRIL 30, 2017

SEATTLE — If future anthropologists want to study the rubble of early-21st-century retail, a good place to start will be what Amazon.com did to apparel shopping in the few years before and after 2017.

The outlook for physical retailers is grim, the sector roiled by store closings, layoffs and bankruptcies. This year, Amazon will surpass Macy’s, which last year announced it would shut 100 stores, to become the largest seller of apparel in America, by several analysts’ estimates.

It is looking at ways to keep expanding, too. Amazon is exploring the possibility of selling custom-fit clothing, tailored to the more precise measurements of customers, and it has considered acquiring clothing manufacturers to further expand its presence in the category.

If there are tipping points in retail — moments when shopping behavior swings decisively in one direction — there’s a strong case to be made that apparel is reaching one now, with broad implications for jobs, malls and shopping districts.

Detailing Amazon’s Custom-Clothing Patent

Amazon now has an intriguing patent for an “on demand” clothing manufacturing system that can pump out custom-made suits, dresses and other apparel.
Those moments often occur around the time that online shopping reaches about 20 percent of total national retail spending in a category, the research firm L2 has concluded after studying the evolution of e-commerce. Online clothing and accessory shopping’s share of retail hit 21 percent last year, according to estimates by Cowen and Company, a stock research firm.

“I do think this year is the year apparel e-commerce takes off,” said Cooper Smith, an analyst at L2.

Apparel has been something of an e-commerce laggard. In years gone by, buying clothing over the internet was only for the fearless, with most shoppers unwilling to take the risk that a dress or a pair of shoes would fit poorly or look terrible on them.

It took time, but shopping habits for clothing are shifting profoundly.

Amazon’s solution was to improve clothing selection, pour money into photography to give internet shoppers a better representation of garments and offer free returns on most apparel so customers could order untroubled by the thought of sending items back.

Pia Arthur, an Amazon spokeswoman, declined to comment for this article.

Amazon is by far the biggest beneficiary of e-commerce growth, accounting for 43 cents of every dollar spent online in the nation last year, estimated Slice Intelligence, a company that measures online shopping.
But there’s little chance Amazon will come to have in apparel the crushing dominance it has established in, say, books, because of the way clothing sales are fragmented among so many retailers. Amazon accounts for half the country’s consumer book market on a unit basis, according to the Codex Group, a book market research firm.

Last year, the company’s gross merchandise apparel sales — Amazon’s direct sales of clothing plus the commission it collects on sales by independent merchants on its site — were $22 billion, or 6.6 percent of the market, Cowen estimated. By 2021, the firm has forecast, Amazon will account for just over 16 percent of apparel sales.

“We look at it as winner take most,” said John Blackledge, an analyst at Cowen. “That’s their game.”

Still, Amazon faces hurdles in its apparel business. Some apparel makers have been frustrated by the prevalence of counterfeit versions of their products on Amazon, peddled by independent merchants.

Last year, Birkenstock, the sandal maker, stopped selling its footwear directly to Amazon, becoming one of the biggest brands to cease doing business with the retailer. Since then, Birkenstock has warmed somewhat to Amazon, allowing authorized independent sellers to continue to sell its products on the site.

“We have seen improvements on the Amazon marketplace addressing our core issues of unauthorized sellers and counterfeit goods,” said Dania Shiblaq, a spokeswoman for Birkenstock USA, adding that the company still does not directly sell to Amazon.
The idea of buying clothing without first trying it on is still a deal breaker for many shoppers, even with the security of free returns. Amazon executives look at such hurdles as “friction,” which they are constantly seeking to eliminate.

“Anytime you make something simpler and lower friction, you get more of it,” Jeffrey P. Bezos, the company’s chief executive and founder, wrote in a letter to shareholders in 2007, after the company made getting a book nearly instantaneous with the original Kindle.

One idea Amazon is considering to lubricate apparel shopping: custom-fit clothing. The company’s apparel team is exploring the possibility of offering “on-demand” clothing that would be made only after a customer submitted an order, using the customer’s precise measurements, according to a person briefed on the discussions who asked for anonymity because they were confidential.

The group has described its intentions as “five-day custom” in an internal presentation, the source said. In April, Amazon received a patent for on-demand apparel manufacturing, though that is no guarantee it will pursue the plan.

If it works, the plan could make shoppers happier by delivering clothing that looks better on them, while also addressing the ruinous consequences that returns can have on the profits of internet apparel retailers. It’s not uncommon for shoppers to order three sizes of a shirt or dress and send back two.

About 35 percent of all apparel orders are returned, said Stefan Weitz, chief product and strategy officer for Radial, a company that runs e-commerce operations for other brands and retailers.

“That has huge impact on customer experience and satisfaction and also on that retailer’s P and L,” said Drew Green, chief executive of Indochino, an internet retailer of custom-fit suits, referring to profit and loss statements. Mr. Green said fewer than 1 percent of Indochino’s orders were returned.

Amazon could use its growing private-label apparel business as the springboard for any custom-fit clothing it starts. It already sells cashmere sweaters, dresses and men’s suits under brands like Buttoned Down, Lark & Ro and Paris Sunday.
Amazon has also considered acquisitions to increase its apparel manufacturing expertise. According to the person with knowledge of discussions within the company’s apparel group, Amazon has considered buying Indochino. This person also said it had mulled a bid for American Apparel during its bankruptcy auction, which Reuters first reported in January. (A Canadian apparel company, Gildan Activewear, won the auction.)

Mr. Green declined to comment about whether Amazon had made an offer for Indochino.

There’s still the matter of how Amazon would get a customer’s precise measurements. Indochino’s answer has been to coach customers to do the measurements themselves, and to open showrooms where Indochino employees can do the measurements for them. (Its 13th store opened on Friday.)

Amazon has developed a camera and scanning software designed to automatically determine customers’ measurements and upload them to their accounts, according to the person familiar with Amazon’s apparel talks, who saw an early prototype of the device.

The source said the device resembled a camera product that Amazon announced last week, Echo Look, the latest in a line of gadgets powered by the company’s Alexa intelligent assistant.

Amazon has described the device as a kind of digital fashion adviser, allowing people to upload photographs of themselves to get style recommendations through a combination of software algorithms and human fashion specialists. The company declined to say whether the device would be updated in the future to capture clothing sizes for customers.