CASE STUDY

Farfetch’s distribution strategy (r)evolution

Fulfilment by Farfetch

It was supposed to be another challenging day at Lionesa, Matosinhos (a business centre where Farfetch (FF) main offices are located in Portugal). This open space office is the home of different project teams that thrive to keep Farfetch one step ahead in the Luxury Fashion Market ecosystem. However, expectations were about to be surpassed one more time. José Neves, the founder and CEO since 2008, well-known by his daily new ideas, rushed energetically into the Board Meeting room that morning. He was eager to share his latest thoughts about the new challenge he wanted to address: a new idea of offering a fulfilment service by FF. Looking around the table, he knew that Elliot Jordan (CFO) and Andrew Robb (COO) would certainly challenge his new propositions that could have a significant impact on the current business model and company’s capabilities.

José Neves, instead of throwing the answers to the table, made his case by delivering the questions that led to the possible solutions he had in mind. How can we further improve our current service level? What is the key to faster growth in the luxury market? Are we addressing all customer segments efficiently? Shouldn’t we reconsider our current drop-shipping distribution strategy and start having advanced warehouses in pinpoint locations?

Before anyone answered, José asked Andrew to get together a project team with the assignment of analyzing Fulfilment by Farfetch advantages looking to partners growth and better service level with the possibility to scale-up premium services (evening deliveries for example). The objective was clear and simple, have the best of both worlds: marketplace and inventory control.

Company Background

Farfetch is an online retail platform for the global luxury fashion industry that operates a worldwide digital marketplace that seamlessly connects several independent boutiques, brands, retailers and consumers.

José Neves, a Portuguese entrepreneur, founded the company in 2008, establishing the headquarters in London. His vision was to create a single platform capable of addressing the complex demands of luxury sellers and consumers, connecting the luxury fashion ecosystem worldwide.
Farfetch operates a marketplace within a technology platform, and since the end of 2018, over 3,000 brands were available on Farfetch.com with diverse luxury retailers, from heritage brands to emerging designers.

Nowadays, the company ships to over 190 countries around the world. Farfetch was the first Portuguese unicorn startup (company at 1 billion dollar valuation), which since September 2018 went public on the New York Stock Exchange with an exceptional reception from the market. However, it was a challenging journey from its early start to that day.

The story of FF began in 2007. José Neves was in a luxury boutique in Paris when he had the idea of launching an online platform that allowed anyone buying clothes from landmark boutiques of cities like Paris, Milan, London or New York without having to leave the couch in their own homes.

A strong combination of the Internet and fashion was in FF’s DNA. Since the beginning, there was a deep understanding that to have these two factors together was inevitable. So, this unique online platform to gather the luxury segment was dominated by ideas such as originality, emotion, uniqueness, individuality and personality. As a result, on the 9th of October 2008, José Neves launched Farfetch.com with a team of 5 people around him.

The passion for fashion designers, the fashion world, as well as the worldwide reach of the business were strong motivations, especially against the adversities that faced both the company and the world in 2008. Farfetch was launched two weeks after US investment bank Lehman Brothers went bankrupt.

However, that was no time to give up. José Neves started the development of the platform with the money earned from Grey Matter and Swear, two companies that he already had.

The birth of the company in the middle of the last worldwide financial crisis is tagged in FF’s DNA because the difficulties of the financial market brought discipline and cost control, which still stands today.

**Becoming a Unicorn**

“Most people overestimate what they can do in one year and underestimate what they can do in ten years.” This Bill Gates’ sentence could be an inspirational quote to the FF’s achievements during the last few years. The journey was long and hard, but it was rewarding.

In 2010 the first investors arrived. Advent Venture Partners invested 4.5 million in the startup’s first investment round. According to an interview with José Neves in 2018 (Pimentel, 2018), Farfetch had in 2010 an annual turnover of around 15 million euros, some stores on the
platform and a winning team. These were good indicators about a new business capable of growing.

Between 2010 and 2015, FF had six new investment rounds totalling 394.5 million euros. In the last of these rounds, in 2015, the company has raised $86 million and became $1 billion unicorn. In that year, despite the $300 million in annual sales on its platform, overheads stay low for FF because it does not hold stock itself. In that year, José Neves was convinced not to add in-house inventory. All the cash raised would help fund the company’s global expansion. The funding round was led by DST, a Venture Capital firm that has previously invested in Twitter, Facebook, Xiaomi and more. Conde Nast and Vitruvian Partners, both previous investors, have both also returned.

**Business Units Expansion**

After 2015, FF made some new different moves. Besides the core marketplace managed by them, FF realized that it was time to reinforce its position in the world of fashion. Pursuing this strategy, FF has created different business units, expanding the core platform and positioning the company also as a service provider.

**Browns Stores**

FF acquired Browns on May 2015, a very well-known fashion boutique with two retail stores in London. This step enabled FF to understand the luxury fashion ecosystem in a boutique’s perspective, primarily focused on omnichannel growth strategy. With those physical stores, FF could test and develop new concepts and innovations in omnichannel retail technology, before rolling them out across the online platform’s full network.

**Farfetch Black & White**

This business unit operates independently and was built to provide white-label solutions for luxury fashion brands, helping them completely control all aspects of their e-commerce presence. Luxury brands make partnerships with FF, and this platform allows them to use tools and support for any of their e-commerce needs, such as international payments and logistics, customer service and omnichannel delivery such as click-and-collect or in-store returns. Among these different tools and services, brands can use global websites, apps or WeChat stores (top-rated in China, for instance). Luxury brands such as La Perla, Derek Lam, Manolo Blahnik or Thom Browne are Black & White users.
Farfetch Store of the Future

In April 2017, FF developed a concept to gather the online and offline world of luxury stores focused on a new Augmented Retail vision. Very interested in the reinvention of the consumer experience, this new Store of the Future aimed to improve retail enhancing interactions between consumers and sales associates, both in-store and online, providing a new experience and seamlessly connecting those worlds. This store was launched in Thom Browne’s flagship store in New York on March 2018.

IPO

Farfetch’s IPO was a huge success and represented a significant milestone in luxury fashion retail. On 21st September 2018, ten years later than the foundation of FF, José Neves could ring the bell in the New York Stock Exchange (NYSE) building.

According to Bloomberg, FF’s shares climbed as much as 53 per cent on their first day of trading. These impressive numbers were possible because the company and an existing stockholder sold 44.2 million shares at $20 each during the IPO, topping the marketed range of $17 to $19, to raise $885 million. In the first day of trading, the stock closed up 42 per cent to $28.45, giving the company a market value of $8.2 billion.

Luxury Fashion Market

Luxury Fashion Market and the shift to digital and online

The opportunity has been always there, but luxury brands and fashion boutiques were resistant to embrace the challenge of the digital era. Main reasons were pure fear of losing control of their brands and traditional retail business or simply because they did not have the necessary resources and know-how to set up a global e-commerce site. With the rise of new platforms, social media and blogs they are now adapting to the changing market and are becoming increasingly reliant on online channels, as declining foot traffic is impacting their ability to reach consumers through physical stores. As luxury consumers move online, data analytics is becoming increasingly important to understand tastes and consumer preferences and satisfy the new consumers that have new expectations and are continually connected.

This transition to digital creates an additional opportunity to lead and influence consumers as companies can learn from them at the same time. This feature changed the way how the luxury industry and consumers interact — moving from editorial content on the printed monthly fashion magazines to real-time social media channels of the world’s leading fashion bloggers,
influencers and celebrities. Digital is already informing 70% of consumers’ purchasing decisions. For luxury sellers, digital is fundamentally changing their route to market as well as their communications and engagement with their end consumers.

The online luxury shopping continued to accelerate in 2018, growing 22% to nearly €27 billion (Claudia D’Arpizio, 2019); in 2019 it represents 10% of all luxury sales. The Americas market made up 44% of online sales, but Asia is emerging as a new growth engine for luxury online, slightly ahead of Europe. This growth in the luxury market will continue at an annual rate of 3% to 5% through 2025, with the market for personal luxury goods reaching €320 billion to €365 billion. By 2025, the online channel will represent 25% of the market’s value, up from 10% today. Approximately half of all luxury purchases are enabled digitally as a result of new technologies along the value chain, such as virtual reality and mobile payments, and online interactions will influence nearly all luxury purchases.

A highly fragmented supply market

Luxury fashion market is a large stable and resilient addressable market with fragmented supply, out of 20 of the largest luxury fashion brands by revenue, 19 are headquartered in Europe yet address a global demand. Family ownership and longstanding relationships characterize the luxury ecosystem, and luxury brands have traditionally maintained strict control over their product, distribution, marketing, and pricing. Larger luxury brands access demand by building expansive networks of directly operated stores and through department stores.

However, the result is often a mismatch between supply and demand, with either excess or redundant inventory or insufficient supply to match local demand. Emerging brands typically have no route to the global market, and their distribution limits their ability to finance and produce sufficient supply for each local market. They mostly rely on wholesale distribution through a network of independent fashion boutiques, and it is through the boutiques that emerging talent is discovered, new designers can flourish, and new brands emerge. As a result, luxury fashion inventory, from both large and smaller brands, is distributed across a highly fragmented network of luxury sellers.

The rise of the “Millennial mindset” among consumers and leverage of emerging markets

As shown in Exhibit 1 the current and expected growth of Millennial and Generation Z shoppers compared to other generations, the online shoppers of these two generations are expected to
become the core consumers by 2025, making 45% of total luxury fashion purchases by 2025. In 2017 they accounted for 85% of the growth in luxury fashion and were changing the way all consumers purchase luxury fashion products, including those from other generations, giving rise to a “Millennial mindset” among all consumers from all generations. Leading the shift from offline to online commerce, embracing technology as a means to seek new ideas and inspiration to meet their personality. They expect immediate access to new products, seamless consumer experience and rapid delivery at all times while transforming themselves into a unique way of being a part of a global movement.

According to FF internal surveys of June 30, 2018, on consumers age distribution compared to all luxury consumers conducted in March 2018 as depicted in Exhibit 2, over 50% of consumers are believed to be Millennials in a universe of 1,118,047 active consumers (more 321,750 than in the previous year). Two-thirds were female, being the average age of 36 years old with an average household income of $121,500. Farfetch proposition had to evolve and adapt following a comprehensive and data-driven approach to the needs of its consumer targets with a “Millennial mindset” delivering a platform that enables consumers to personalize and customize according to their inspiration from social media and direct channels.

Traditional consumers of the global luxury fashion market are mainly from Europe and the Americas with two-thirds and Japan with one third. Over the next decade, as shown in Exhibit 3, emerging markets such as China, the Middle East and Eastern Europe are expected to drive the demand increase in the global luxury fashion market. Following this trend by 2025, Chinese consumers will make up 46% of the global market (up from 33% in 2018), and they will make half of their purchases at home in China (up from 24% in 2017).

**Competition**

Neves believes that Farfetch does not have any direct competition with its Marketplace given by the positioning provided by its omnichannel strategy continuous development. Whose main objective is to be one step ahead of its more conservative competitors like Net-a-Porter or Luisa Via Roma that buy the stocks directly from the brands and own warehouses around the world. While FF acts only as a third party dealing with the shops with its inventory dispersed in boutiques around the world which is positive for warehouse and stock costs, orders are sent from one of those 400 boutiques in any part of the globe from three to six days.

One of the most established platforms in the luxury market is Net-a-Porter (NET-A-PORTER, n.d.). Launched in June 2000 has more than 800 of the world's most coveted designer brands including Gucci, Chloe, Balenciaga, Saint Laurent, Isabel Marant, Prada, and Stella
McCartney, and advertises itself as being the "the world's premier luxury fashion destination". Net-a-Porter positions solely on multichannel digital platform through multichannel its websites, shopping apps and the world of Porter, providing a seamless shopping experience across mobile, tablet and desktop. Net-a-Porter is also considered to offer high standard customer service. It provides express worldwide shipping to more than 170 countries (including same-day delivery to Manhattan, London and Hong Kong SAR of China, plus next-day delivery to the UK, US, Germany, France, Australia and Singapore), signature luxurious packaging, easy returns and multilingual Customer Care and Personal Shopping teams that are available 24/7, 365 days a year. Net-a-Porter is part of the Yoox Net-a-Porter Group, following the merger of Yoox Group and The Net-a-Porter Group in October 2015.

Luisa Via Roma is another critical player in this business with a very different background when compared to Net-a-Porter, it was founded in Florence in the early 1930s, with the opening of the company's eponymous concept store on Via Roma and has gone online since the beginning of the digital revolution in 1999 (ROMA, n.d.). Nowadays, the company attributes 90% of total revenue to online sales. To this day it remains a 100% privately owned family business, with the founder's grandson, Andrea Panconesi acting as CEO and his daughter, Annagreta Panconesi as Creative Director. Luisa Via Roma positioning relies mainly on multichannel digital channels but keeps the image of a traditional physical store in Via Roma. The site offers a wide selection of clothing, shoes, bags, accessories, luxury home interiors and beauty, with products available for men, women and kids from the most prestigious designers such as Balenciaga, Vetements, Off-White, J.W. Anderson, Balmain, Dolce & Gabbana, Gucci, Saint Laurent, Valentino, Givenchy, Loewe, Jaquemus and more. All orders are shipped worldwide from the LuisaViaRoma headquarters in boxes that are prepared with maximum care and use the finest materials, from the signature shoe bags to the personalized ribbon. LuisaViaRoma.com had 1.5 million unique visitors access the site in 2008 and has grown to 53 million unique visitors in 2017. More than 15% of online sales are generated from the United States, followed by Germany, UK, Italy, China and France.

FF divides its indirect competitors in two primary categories: Technology enablement companies and luxury sellers. The first category includes players such as Shopify or Square, and White-label service providers, which offer end-to-end solutions and thus attracting sellers by enabling commerce. The second category includes online luxury retailers that buy and hold inventory and ship from a small number of centralized warehouses; Multichannel players, which are independent retailers that developed their online channel following the success of their physical retail operations; Niche multi-brand and streetwear sites; Luxury department stores; and Luxury brand stores.
Farfetch in 2018 as shown in Exhibit 4, had a 12% share of customers saying that it is “the first place I would consider”, has three times more share than Net-a-Porter (4%) but almost half of Luisa Via Roma share (23%). Nevertheless, these results show that there is great potential to meet in this highly competitive market and that is possible to innovate meeting customers’ expectations through technology and new solutions.

**Partners Management**

Over the past years, partners’ management in the luxury market became of even higher importance serving as a double strategy. Primarily to reinforce relationships with its partners as a strategy of defense, but also aiming to get leverage towards its main competitors and enabling its consumers access to unique and scarce inventory. As of June 30, 2018, FF partnered with 614 of the world’s leading luxury retailers and 375 brands including many of the most sought-after and prestigious names in the fashion industry like the multi-year global innovation partnership with CHANEL. Out of these 614 retailers, 98% have entered into an exclusive relationship.

Farfetch is committed to retain and improve these relationships, as part of its plan, it offers competitive benefits following a win-win innovative solution approach to different players involved, being boutiques, brands or department stores scattered around the globe. This policy follows three main drives: Global distribution and access; Attractive economic model and Data & Market insights (depicted in detail in Exhibit 7). Looking closer at one of the FF drives, attractive economic model as illustrated in the chart shown in Exhibit 5, the industry economics allow for significant margin for retailers after commissions and other payments to FF.

Being the Luxury Market a fast-changing and competitive marketplace, additional strategic benefits are offered by Farfetch to luxury brands:

- **Full control** - having in mind that brand positioning and visual representation are crucial to luxury brands. FF promotes engagement with a more widespread audience in a multi-brand ecosystem without abandoning control of the most critical aspects of their business, such as product pricing;

- **Dominant media partner** - through the use of brand adjacencies, superior content and access to a high-intent consumer base that is hard to reach effectively through traditional media, FF enhances a brand’s online visibility and exposure;

- **Marketplace innovation** - FF allows brands to outsource innovation to a partner who they trust and who understands the unique complexities and challenges of the luxury
industry via a modular, flexible infrastructure addresses the challenges of operating a
global, online business for brands;

All of them concurring to a culture of co-creation, agility, curation and customization having the
luxury customer in the centre.

**Network**

Farfetch operates in a large stable and resilient addressable market with fragmented supply
with global demand having to rely on wholesale distribution through a network of independent
fashion boutiques. Many of the boutiques that FF works with already have their e-commerce,
but many do not have the international reach to new markets and cross-sell seasonal products
all year round that FF provides. Farfetch main partners are mostly concentrated in Europe and
the United States and is rapidly expanding its network through partnerships to Asia and the
Middle East, which offer significant challenges in stock management, lead time and customer
satisfaction in a high demanding environment.

To meet these challenges, Farfetch developed a fully integrated supply chain operation, from
content creation to the global fulfilment network integrating delivery partners from around the
world in a single efficient interface. This integrated approach and interactions among
consumers and luxury sellers on FF Marketplace generate strong network effects since all
players win when the range of choices available to consumers increases, brands, boutiques
and department stores.

Farfetch has invested significant resources in building and developing this network, and this
has created a significant competitive advantage and economies of scale. Luxury fashion
inventory is located across a highly fragmented network of luxury sellers. Fulfilment network is
based on a distributed inventory model, aggregating inventory from multiple stock points of
luxury sellers in real-time, giving FF to a great extent the capability to get shipments to
consumers quickly and efficiently, due to the proximity of the inventory to the consumer.

The number of products FF offered in its Marketplace reached 5.7 million as of May 2018 (as
depicted in Exhibit 6), and kept climbing until present day. It is a growing operation challenge
where innovation and digital marketing are brought together, employing a scientific approach.
Which is another massive differentiation from competitors in the distribution market like
Amazon, FF has an audience-focused rather than a channel-focused approach to both brand
and performance marketing in a single integrated program.
Incentives

The most relevant differentiating incentive in Farfetch supply chain operations would be the curation of supply, having over 3,200 different brands, 5.7 million stock units valued at $2.4 billion as of June 30, 2018, is no guarantee of success. Farfetch, marketplace aggregation model, is not a vertical one like other competitors on the field, allowing consumers to discover unique item that inventory-bearing retailers may not choose to stock. Ultimately, this factor has a definite impact on all FF partners that have the common goal to increase customer service level.

Partners also benefit from FF content creation, which is the first step of FF supply chain operations, this process includes styling, photographing, photo-editing and content management where teams of professional stylists, models and photographers create product images. FF also develops original content, including tailored merchandise descriptions, convenient size and fit information and detailed measurements information to provide the best consumer experience, maximize sales and minimize returns. They managed to build four strategically located production centres in Portugal (Guimarães), Brazil (São Paulo) and China (Hong Kong) and are capable of processing "465,000 products and producing approximately 2.4 million unique luxury images during 2017. Our largest production centre can process over 3,000 items per day at peak times."

Talking in numbers, partners seem to find Farfetch system of incentive-penalties very appealing because the majority do not get penalties but only incentives. Farfetch system’s primary goal is to improve customer service and not make any profit from this system. According to the company's internal unpublished information referring to the year of 2016 (Luciano, 2016) "Farfetch accepts products from boutiques generally starting from €80. Exceptions are made for items with a very deep stock or best-sellers. When Farfetch launches with a new boutique partner, it covers for the first three months the costs of sending the product to the studios in Portugal to be shot and uploaded on the website. The commission for shops is calculated as 26.8% of the net item price (price paid by the customer, excluding shipping costs and taxes). In addition to that, the boutique is responsible for the operating expenses of payment handling, fraud management, credit card fees (2.5% on the final transaction value), packaging (EUR 1.50 per box) and free returns (1.5% on the net item price)."

Following the same source: "Every single boutique partner follows the customer's country sales calendar that is the country where the order will be shipped to. Farfetch currently runs several promotions that shops have interest to follow, in order to stay competitive with other shops. The main promotions are: Seasonal mark-downs twice a year, the free shipping: from time to time, in order to boost sales; Extra20: the extra 20% on sale items usually runs at the
very end of the sale season, to push the remaining pieces; Click and Collect in 185 cities: customer ordering from one boutique can decide to have it shipped to a specific address or to collect in any Farfetch store nearby the customer: Same Day Delivery in 9 cities: orders placed by 10 am will be delivered within 6 pm the same day within the same city of the shop."

Farfetch provides more clarity on this topic on published information on the report F-1; As filed with the U.S. Securities and Exchange Commission on August 20, 2018 (Limited, 2018) that details the following: "In the year ended December 31, 2014, approximately 3.3% of our orders were unfulfilled as a result of insufficient stock. We then instituted a scheme of incentives and penalties for our retailers and brands, and in the year ended December 31, 2017, the percentage of unfulfilled orders dropped to approximately 1.4% [...] We have the global expertise to handle the complexity of a vast network of routes with about 4,000 shipping routes worldwide for the year ended December 31, 2017 [...] This allows us to coordinate seamless delivery of over 7,600 parcels per day on average during the year ended December 31, 2017, and we are continuing to scale our delivery services."

Supply Chain Management at Farfetch

Matching Supply and Demand

One significant advantage of the marketplace is the ability it provides to Farfetch algorithms to evaluate and monitor all the inventories of the partners in real-time (Abbafati, 2018). Ultimately, Farfetch marketplace works as a global warehouse without having a single item on stock by itself. This feature solves a critical issue of the fragmented market as customers do not further need to search on physical stores the availability of an item or search for it on every retailer website. However, that is just the first advantage, and the second comes when the consumer already knows that some particular retailer has the merchandise. If that is the case, Farfetch algorithm may find a boutique which also has the item but provides higher convenience or better price.

The convenience factor is one of the essential keys to Farfetch business model, which can be boosted using powerful add-in algorithms providing significant benefits to the complex supply and distribution chains. The increased capabilities provided by those algorithms to drive demand to a particular boutique may, at the same time, raise customer satisfaction and increase profitability to brands and, of course, Farfetch.

However, the key for the platform to succeed is, as like any social network platform, its ability to acquire and retain customers. Farfetch acquire consumers primarily through online channels especially by paid and organic search using for the effect the world's major search engines
such as Google, Yahoo and Bing. Still, paying just for publicity is not what Farfetch does. Instead, Farfetch prior uses its and third parties' data to make the most efficient targeted advertise maximizing its return on paid search.

Having achieved a broad base of customers and suppliers, Farfetch has evolved the way it drives demand. Enhancing the demand derives as well from the fact that the market is always fragmented. By nature, luxury is scarce as it is linked with exclusivity, therefore being a platform that finds a specific item and deliver it fast, is not enough. Nevertheless, Luxury consumers are self-aware and pursue exclusivity. So, what Farfetch does is to try to understand their preferences and styles and present them solutions of their liking using its Recommendation Engine.

The Recommendation Engine is a powerful tool used by Farfetch to drive demand. This engine uses strategies from look-alike algorithms or collaborative filtering options. One example is the use of the "New In Today" and "New In This Week" sections of the website, which show customers new items, assessing what consumers are viewing in the catalogue. Knowing their liking provide information about trends and helps Farfetch building customer segmentation.

Farfetch algorithms based matching supply and demand is ultimately the critical preposition value that it offers and it appears to be praised by customers and sellers alike. As of June 30, 2018, Farfetch had more than 335,000 SKUs from more than 3200 brands in its Marketplace and 2.3 million customers.

**Drop-shipping Model**

**Stocks**

Except for Browns, Farfetch has a non-inventory policy. Instead, Farfetch depends on its luxury sellers who pick and pack the merchandise in Farfetch-branded packaging and book the pick-up for delivering goods to the customer. To enhance efficiency and reduce costs delivery times, Farfetch has developed a process to prioritize effective fulfilment worldwide. This fulfilment process is one of the competitive advantages of Farfech which uses its full potential as tech powerhouse to integrate its platform, its luxury sellers and its distribution delivery carriers and achieve economies of scale, successfully reducing costs and delivery times. Exhibit 8 depicts Farfetch Boutique-to-Customer operations.

Having no inventory makes Farfetch less capital intensive and reduces significantly operational risk. However, as the vast majority of its merchandise is not proprietary or sold with exclusivity, Farfetch business depends heavily on its brands, platform and distribution competitive advantages. Ultimately, the luxury fashion fits well in Farfetch business model as items are
mostly customized or even unique. Some of the items even need extra customization, which leads to final interventions (impossible to do in general warehouses). The unique items are better if they are in a storefront in a luxury store than hiding in a box or a distant warehouse elsewhere.

**Distribution**

Being an online platform, Farfetch offers its customers several shipping possibilities. Choices to where to deliver are familiar with other online retailers enabling customers to choose the address and time of delivery or in alternative several convenient locations using the service ‘Click & Collect’ (if available).

Competing with physical retailers in a niche-market as luxury fashion, time to delivery is a crucial competitive factor for Farfetch. Acknowledging this, Farfetch offers some innovative services to shorten delivery times. In particular, to further enhance same-day deliveries already offered by other online retailers, Farfetch innovates in exclusive ways to deliver services like the F90, a recent new delivery service that “goes store to door” under 90 minutes, in partnership with Gucci.

Partnering with global distribution carriers are essential to offer an excellent and fast delivery service. For the everyday consumer, services from any carrier seems similar but, for Farfetch, choosing the right partners should be more carefully decided. Currently, Farfetch works mainly with two of the big three carriers: UPS and DHL. Delivering worldwide, DHL has an edge as is known as the largest logistics company and one of the fewest which delivers in sanctioned countries that are essential Farfetch markets. Despite its leading position worldwide, UPS has other advantages, mainly in local markets like the US, where DHL cannot make domestic flights. Exhibit 9 depicts an overview of the worlds three big distribution carriers.

Despite its successful and innovative fulfilment process, Farfetch remains slower to deliver than other premium services of other online platforms like Amazon (Amazon Prime) that has Two-Day delivery in some countries or even a more exclusive service like One-Day Shipping in the US or Same-Day Delivery in some metropolitan areas in the US. This recent offers could even put more pressure in Farfetch’s distribution strategy, at least in some specific markets. (Exhibit 10 depicts an approximation histogram of Farfetch time to delivery and a rough comparison to Amazon Prime).

The non-existence of inventory in a centralized warehouse makes worldwide distribution slower as carriers have to pick the merchandise at the original boutiques and then the item has to go through the entire carrier distribution chain. Meantime, same-day services like the
F90 can only be made in a limited number of cities (just ten) which make them residual considering Farfetch global market.

**Challenges ahead**

Andrew was already accustomed to this kind of challenges. Usually, José Neves tests his new ideas provoking his closest collaborators to brainstorm possible solutions and compare them with his own. This time, however, Andrew was challenged with a more significant dilemma: could Farfetch actual successfully business strategy be further enhanced? Alternatively, was this the time to raise this question and propose an even more radical shift?

Brainstorming, with his task force, Andrew faces two opposite currents of opinion. Some believe that for enhancing further growth, Farfetch needs to change its core business, balance less on high-tech and more as an operational company, somewhat like Amazon. In their opinion, Farfetch would gain if it enlarged its operations based on the establishment of a couple of strategically placed warehouses in specific geographies like the US and China. Despite significant CAPEX requirements, these team elements believe that this is an affordable pain which can be outweighed by increasing sales volume and larger margins.

On the other hand, the rest of the team is not so much optimistic about this idea. This prospect is found as a possible betrayal of an already successfully existing model which could yield a severe risk. They point out that beyond significant CAPEX requirements, Farfetch lacks the know-how to become an operational-based company quickly. Furthermore, what would FF gain in becoming more like Amazon? In this scenario, Farfetch would enter in a competition which could hardly endure with the current in-house capabilities and know-how. This different group would prefer a more prudent approach and maintain the current business growth strategy in the luxury market.

As the deadline approaches to present a robust solution to the CEO, Andrew's team were struggling to reach a consensus. However, Andrew knew that the best option did not reside in the most consensual solution but rather in the most sustainable approach to drive business growth in the upcoming years, both for Farfetch and its investors.
Bibliography & references


Exhibit 1 - Generation demographic shift

As new generations of global luxury consumers account for a larger share of spending, they are fundamentally changing the way luxury products are purchased. According to Bain, Millennial and Generation Z online shoppers accounted for approximately 85% of the growth in luxury fashion in 2017, and they are expected to make 45% of total luxury fashion purchases by 2025. In addition, the Millennial demographic expects immediate access to new products, seamless consumer experience and rapid delivery at all times. Their purchasing decisions are influenced by social media, peer reviews and influencer marketing rather than traditional fashion editorial. The graph below demonstrates the current and expected growth of Millennial and Generation Z shoppers compared to other generations.

Share of Global Personal Luxury Goods Sales Value by Age Demographic

Source: Bain & Company—“Luxury Goods Worldwide Market Study” (Fall/Winter 2017)

Source: United States Securities and Exchange Commission Form F-1
Exhibit 2 - Farfetch Age Distribution of Consumers vs. All Luxury Consumers

Age Distribution of Farfetch Consumers vs. All Luxury Consumers

Source: Company internal surveys.

Source: United States Securities and Exchange Commission Form F-1

Exhibit 3 - Share of Global Personal Luxury Goods Market by Nationality

Share of Global Personal Luxury Goods Market by Nationality

Source: Bain & Company—"Luxury Goods Worldwide (Fall-Winter 2017)", "The Millennial State of Mind"

Source: United States Securities and Exchange Commission Form F-1
Exhibit 4 - % saying [brand] is “the first place I would consider”

% saying [brand] is “the first place I would consider”

- Nordstrom: 78%
- Bloomingdale's: 69%
- Neiman Marcus: 52%
- LuisaViaRoma: 23%
- Farfetch: 12%
- Shopbop: 10%
- Matches: 6%
- Mr Porter: 6%
- Net-a-Porter: 4%

N.B. In all markets tested, local players (JD in China, Tsum in Russia) enjoyed significantly higher consideration than international competitors.

Source: Brand Tracker Jan 2018
*Low base size, results directional only

Source: Brand Tracker, Jan. 2018 (low base size, results directional only)
Exhibit 5 - Illustrative Industry Economics

Illustrative Industry Economics

Source: United States Securities and Exchange Commission Form F-1

Exhibit 6 - Farfetch stocks on its luxury marketplace as of May 2018

Farfetch stocks a huge number of items on its luxury marketplace

Exhibit 7 - Farfetch’s three main drives policy to retain and improve relationships with Partners

<table>
<thead>
<tr>
<th>Partners Management Policy</th>
<th>Description</th>
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<tbody>
<tr>
<td>3 main drives</td>
<td>FF states they are the only truly global luxury marketplace at scale and offer a fully managed suite of services to support our luxury sellers, from content creation to last-mile delivery and returns, transforming the addressable market for luxury sellers by enabling them to reach, from any physical location, over 2.3 million Marketplace consumers of luxury fashion in 190 countries.</td>
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<tr>
<td>1. Global distribution and access</td>
<td>Offering attractive economics to all luxury sellers, thus enabling them to grow their addressable market without diminishing economics. Luxury sellers can achieve incremental sales making their inventory available to a global audience, optimizing inventory without increasing their physical footprint.</td>
</tr>
<tr>
<td>2. Attractive economic model</td>
<td>The FF Marketplace model provides the company access to rich consumer data throughout the whole consumer journey. This data feeds its proprietary algorithms, generating critical insights that create value for our luxury sellers. Which allows them to offer more relevant products, improve inventory management and optimize their pricing strategies, enabling them to scale their businesses efficiently.</td>
</tr>
<tr>
<td>3. Data &amp; Market insights</td>
<td>FF buying experts, who have deep roots in the fashion ecosystem, work with all luxury sellers to provide tailored perspectives on industry trends, brand dynamics and new season launches.</td>
</tr>
</tbody>
</table>

Source: United States Securities and Exchange Commission Form F-1 (Adapted by the authors)

Exhibit 8 - Farfetch Global End-to-End Operations

Source: United States Securities and Exchange Commission Form F-1
**Exhibit 9 – Distribution Big Carriers**

**DHL**

DHL is an American-founded company that is now part of Deutsche Post. Altogether, Deutsche Post DHL is known to be the largest logistics company in the world. It is best acknowledged by its best stand in international shipping as is one of the fewest big carriers to delivery to sanctioned countries like North Korea. It delivers over 1.3 billion parcels per year.

As DHL is not an American company it is not permitted to make domestic flights between U.S. airports, therefore it need to contract those services to other carriers.

**UPS**

Founded in 1907, UPS is the oldest of the major carriers. With 2,500 facilities worldwide and with over 28,000 access points, UPS operates in 220 countries. In 2018, it delivered 5.2 billion parcels. It employs 481,000 people worldwide with 400,000 in the US alone.

**FedEx**

Founded in 1971, FedEx was the pioneer that introduced an overnight shipping service as well as a system capable of tracking packages and providing real-time location updates. Today FedEx has the largest freight aircraft fleet (670), and in the US alone FedEx has more than 50,000 locations to ship, pick up or drop off.

**Services Provided by the carriers**

All carriers provide an extensive range of shipping services including same day delivery both in both domestic and international markets. The table 1 displays an overview comparison of the three.
Table 1: Overview comparison between FedEx, UPS and DHL.

Source: Joelah James, at https://www.lateshipment.com/blog/overview-of-fedex-ups-and-dhl/

Exhibit 10 – Farfetch’s time to delivery

Approximation histogram depicting Farfetch time to delivery in number of days and a comparison with Amazon Prime service.