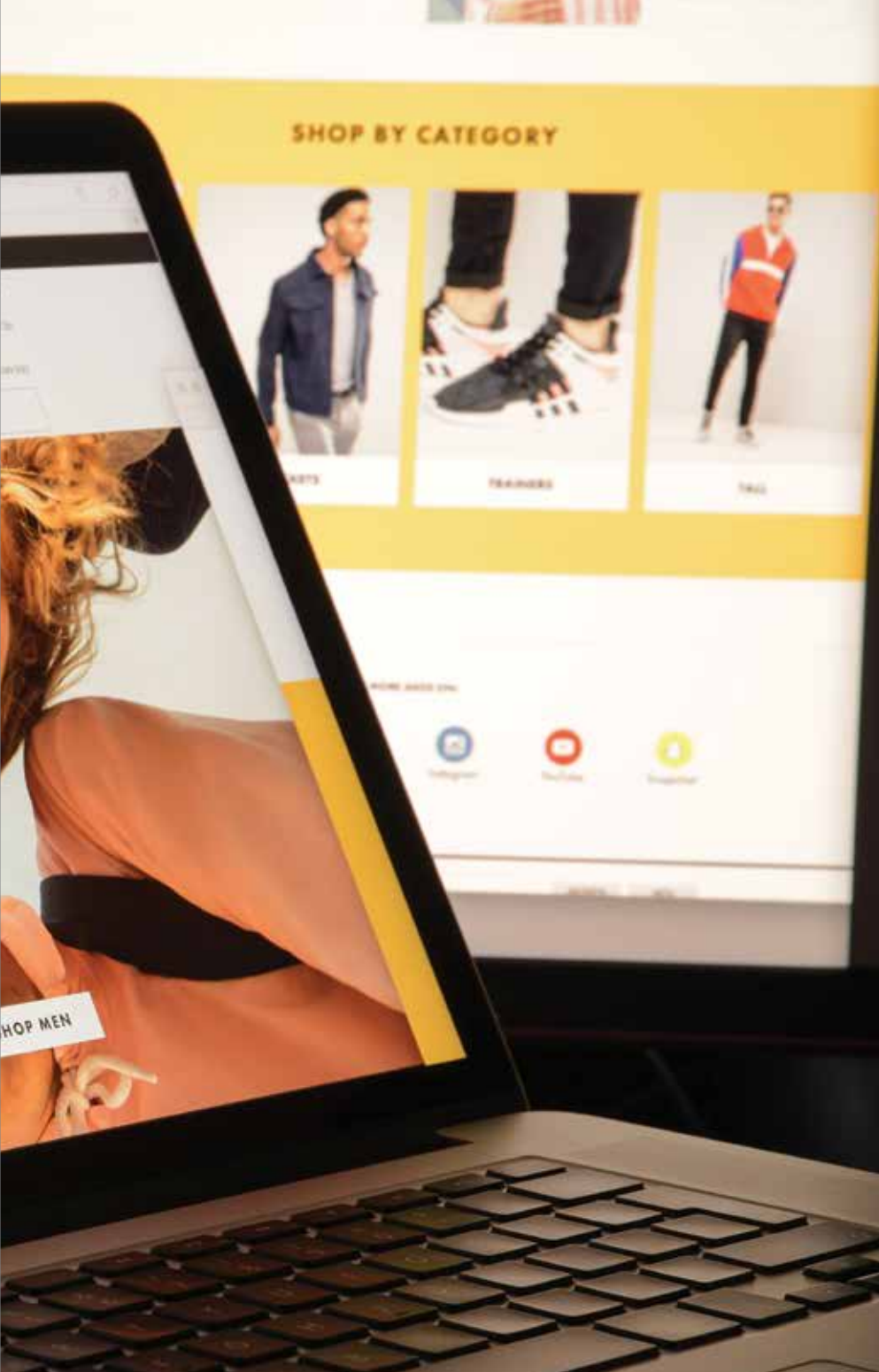


BUCKING THE PANDEMIC

Online businesses have grown during the disruptive last fifteen months. Though the period has been challenging for brick-and-mortar retail, it has provided significant growth opportunity to e-tailers. In case of online giant ASOS, the company's robust backend ensured that sales grew continuously.



ASOS

by **SANJAY BAKSHI**

ASOS Plc is an online retailer for fashion-loving 20-somethings around the world. Through its market-leading app, mobile and desktop web experience, available in ten languages and in over 200 markets, ASOS customers can shop a curated edit of 85,000 products, sourced from 850 of the best global and local third-party brands and its mix of fashion-led in-house labels—ASOS Design, ASOS Edition, ASOS 4,505, Collusion, Reclaimed Vintage, Topshop, Topman, Miss Selfridge and HIIT.

ASOS offers all its customers a seamless experience, with an ever-greater number of different payment methods and hundreds of local deliveries and returns options, including next-day delivery and same-day delivery, dispatched from state-of-the-art fulfilment centres in the UK, US and Germany.

THE ASOS MODEL

ASOS is a two-sided platform that relies on matching millions of its active shoppers with new clothing

SUSTAINABILITY FACT FILE

- 36 per cent of all fibres used in ASOS brands come from sustainable sources.
- 76 per cent of clothes sold on ASOS marketplace are vintage or pre-worn items, in line with its 2020 circular fashion commitments.
- ASOS became the first e-commerce brand to sign a labour rights agreement with global trade union IndustriALL.
- Animal products like cashmere, mohair, feathers, down, silk, bone, teeth, horn and shell are banned from ASOS websites.
- In 2018, ASOS launched a circular design pilot training programme in partnership with London

- College of Fashion's Centre for Sustainable Fashion.
- 100 per cent of ASOS design teams have gone through a series of workshops and discussions exploring concepts, case studies and practical applications of circular design.
- In October 2018, a pilot clothing recycling programme with ASOS employees was launched to test a possible customer offer.
- In March 2019, ASOS participated in the Ellen MacArthur #wearnext campaign in the city of New York, joining forces with the fashion industry to tackle waste together.



ASOS

items, earning its revenue through a 20 per cent commission on sales from third-party vendors, advertising on its platform, and product revenues from its private label sales.

ASOS collects shopper data and analyses it with machine learning to provide curated clothing recommendations to shoppers based on the sizing and style of their previous purchases. This data collection across various geographies allows the platform to become more personalised for shoppers, attracting a greater number and higher quality clothing labels to the platform. This network effect creates mutual value for the shoppers and vendors, providing a competitive advantage.

Equally, ASOS focuses heavily on offering a great customer experience, which is achieved through impressive customer support, next-day delivery, free returns, an effective loyalty programme, and the addition of new fashionable items on a weekly basis. By creating this strong brand loyalty, ASOS locks in its users and potentially increases the users' willingness to pay. ASOS differentiates itself from other fashion platforms in the cost efficiency of its warehouses through the implementation of smart inventory management and complete automation.

AUTOMATION IS THE KEY

ASOS runs global operations driven by strong technology infrastructure. Its market-leading app and website exhibit more localised and personalised shopping features allowing customers to shop on 12 fully localised sites, in 10 languages and 19 currencies.

FIGURE 1 The ASOS Sustainable Sourcing Pillars

Pillar →	1: Traceability of raw materials	2: Lowering the environmental impacts	3: Building a circular fashion future	4: Engaging customers on sustainability
Action plan →	By mapping the commodities to better understand and influence how they are sourced	By increasing the conversion from traditional materials and processes to lower-impact alternatives	By using circular principles to guide ASOS approach to product design, materials and manufacturing	By surfacing sustainable products and engaging content to customers through the ASOS shopping journey to educate and inspire them



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TABLE 1 Group business

(All figures in £m)	FY16	FY17	FY18	FY19	FY20
Total revenue	1,444.90	1,923.60	2,417.30	2,733.50	3,263.50
Cost of sales	722.70	965.30	1,180.20	1,399.20	1,716.10
Gross profit	722.20	958.30	1,237.10	1,334.30	1,547.40
Profit for the period	34.70	64.10	82.40	24.60	113.30
Markets in FY20	UK	EU	US	RoW	Total
Retail sales	1,175.90	1,005.30	401.90	587.90	3,171.00
Other incomes	38.2	24.9	13.4	16	92.5
Total	1,214.10	1,030.20	415.30	603.90	3,263.50

SOURCE: ASOS; FY: Sep-Aug

TIMELINE

- **1999:** Two British men Nick Robertson and Quentin Griffiths, start fashion business copying trending styles and designs worn by popular celebrities.
- **2000:** Idea becomes success, ASOS—acronym for “As Seen On Screen”—is launched.
- **2001:** ASOS Plc Holdings admits to Alternative Investment Market (AIM) on London Stock Exchange.
- **2004:** Makes maiden profit; ASOS own label for women is introduced.
- **2005:** ASOS Beauty is launched; Buncefield Fuel Depot explosion closes business for 6 months.
- **2006:** First UK online store to launch catwalk.
- **2007:** ASOS magazine is launched; ASOS own label for men is introduced.
- **2008:** ASOS outlet is launched.
- **2009:** Designer store and ASOS Life is launched.
- **2010:** Achieves Carbon Neutral company status; ASOS Mobile is launched; ASOS sites get live for America as well as in German and French languages; ASOS marketplace is launched.
- **2011:** ASOS launches Facebook Shop, Fashion Finder, iPhone and iPad app; ASOS sites go live for Australia as well as in Italian and Spanish languages.
- **2012:** First international office opens in Sydney (Australia), followed by office in New York (US).
- **2013:** International offices open in Lille (France) and Berlin (Germany); ASOS sites get Russian and Chinese languages.
- **2014:** ASOS sponsors Mc Laren Formula One team’s entire season; ASOS’s main warehouse at Barnsley, UK expands to hold 20 million units; first warehouse outside UK opens in Berlin; mobile shopping apps launched for France and Germany.
- **2015:** ASOS associates with Copa Feel – one of UK’s most popular breast cancer awareness charities, adds reminder label for women to every bra sold on asos.com
- **2016:** ASOS renews commitment to provide formal wear and ceremony wear for the Paralympics GB team at both the Pyeong Chang 2018 Paralympic Winter Games and the Tokyo 2020 Paralympic Games
- **2017:** ASOS Instant – its same day delivery option, launched for London, Leeds and Manchester customers; a new virtual Gift Assistant is launched to make suggestions for customers shopping Christmas gifts in UK and France; ASOS and GLAAD - world’s leading LGBTQ media advocacy organisation, launch the Together Movement’s debut collection; introduces ‘Try Before You buy’ service powered by Klarna Pay Later



ASOS

- **2018:** ASOS becomes one of first fashion retailers in UK to launch on Google Assistant; opens ASOS Instant for Birmingham; joins forces with British High Commission to host modern slavery event in Mauritius; pilots a training programme on circular fashion for its designers, in partnership with London College of Fashion’s Centre for Sustainable Fashion (CSF); joins the ZDHC (Zero Discharge of Hazardous Chemicals) Roadmap to Zero Programme
- **2019:** ASOS announces a partnership with Life Is Beautiful Music and Arts festival in downtown Las Vegas; ASOS DESIGN collaborates with Disney to release a fashion collection celebrating the release of Disney’s *The Lion King*; the trial of See My Fit – an Augmented Reality (AR) tool developed in partnership with Israeli AR company Zeekit, is announced; signs the Ellen MacArthur Foundation’s New Plastics Economy Global Commitment
- **2020:** 80 new independent boutiques launched on ASOS Marketplace in April as sales and traffic grows during COVID-19 lockdown; launches first circular fashion collection following collaboration with Centre for Sustainable Fashion
- **2021:** ASOS launches extended Topshop and Topman range with targeted customer awareness campaign

ASOS has a global network of fulfilment and returns centres. Whether it is Atlanta-based 1 million sq ft of fulfilment centre with a 1.5 million customer capacity or Berlin Euro Hub with the capacity to handle 20 million units or the Barnsley returns centre receiving 1.5 orders per second—all use the latest automation to improve availability and stock efficiency. Additionally, its smart carrier software and best-in-class offering make rapid and convenient deliveries and returns possible in more countries.

SUSTAINABILITY

As a part of its corporate responsibility, ASOS uses its global reach to create, promote and sell products that are more socially and environmentally responsible. It even goes the extra mile by engaging customers on sustainability.

It has a dedicated sustainable sourcing team that sits within ASOS’s responsible sourcing department and advises retail teams and suppliers on how to design, source and innovate to create more sustainable products. The team also helps to educate customers about sustainable products and encourages them to reduce their own environmental footprints.

In May 2017, ASOS signed the Global Fashion Agenda’s call to accelerate the transition to a circular fashion economy, committing the following to be accomplished by 2020:

- Train all its design teams on circular design techniques and best practices;
- Train all its relevant product teams on circular principles and best practices for packaging;
- Launch a garment collection

scheme and recycling programme for apparel for customers located in UK and Germany—two of its largest markets, engaging customers through social media on garment care, repair and recycle; and

- Publish external targets for increasing post-consumer recycled textile materials in its products while eradicating those that cannot be recycled.

From £1,445 million in FY16 to £3,263 million in FY20, ASOS Plc’s comprehensive revenues have grown at a CAGR of 23 per cent, gross profit at 21 per cent and net profit at 34 per cent. Retail sales contributed 97 per cent of this total revenue in FY20. The performance mirrored growing online fashion demand and increased shift to online shopping. The COVID-19

ASOS emerged a principled company when it returned the funds received under the government's furlough scheme and the Bank of England's Covid Corporate Financing Facility.



SHUTTERSTOCK / ANDREW STRIPES

pandemic only accelerated the trend.

The ASOS business operates under four key market regions: United Kingdom (UK), European Union (EU), United States (US) and Rest of World (RoW). Home market UK is the largest retail market for the group followed by the EU. Together, they constitute 69 per cent of group's total retail sales.

Since the company follows a financial year from September to August, the first half (Sep 19-Feb 20) of FY20 was usual business, the second half (Mar 20-Aug 20) was impacted by COVID-19 and the first half (Sep 20-Feb 21) of FY21 also continued under that phase. The first COVID-19 phase of H2 FY20 proved to be a learning phase whereas the second phase of H1, FY21 witnessed execution of progressive strategies.

GOING INTO FY20

ASOS began FY20 with a strong first half performance, before the outbreak of COVID-19 that had significant repercussions for the entire world, and of course for ASOS customers too. The group's foremost priority was to protect the health, safety and well-being of its employees. As soon as pandemic hit during H2 FY20 and lockdowns enforced, ASOS quickly redesigned its fulfilment centre operations, reduced their capacity

TABLE 2 Online performance (pre-pandemic)

	FY19	FY20	(+/-)
Active customers (millions)	20.30	23.40	15%
Average basket value (ABV) (£)	71.29	71.92	1%
Average units per basket	3.05	3.18	4%
Average selling price per unit (ASP) (£)	23.34	22.63	-3%
Average order frequency	3.56	3.43	-4%
Total orders (millions)	72.30	80.20	11%
Total visits (millions)	2,266.50	2,691.20	19%
Conversion	3.2%	3.0%	(-) 20 bps
Mobile device visits	81.90%	85.50%	360 bps

SOURCE: ASOS

TABLE 3 Market performance (FY19 vs FY20)

	UK	EU	US	RoW
Retail sales	18%	22%	18%	18%
Visits	17%	20%	19%	19%
Orders	10%	14%	9%	5%
Conversion	(-)30 bps	(-)20 bps	(-)20 bps	(-)20 bps
Average Billing Value (ABV)	-	(-)1%	(-)2%	12%
Active customers	7.1 mn (+11%)	9.2 mn (+18%)	3.2 mn (+14%)	3.9 mn (+18%)

SOURCE: ASOS

TABLE 4 ASOS H1 FY21 (£ million)

	H1 FY20	H1 FY21	(+/-)
Group revenue	1,596.80	1,975.90	24%
Retail sales	1,551.40	1,919.90	24%
Gross profit	750.00	890.00	19%
Gross margin	47%	45%	(-)200 bps

SOURCE: ASOS; H1: Sep-Feb



ASOS is a two-sided platform that relies on matching millions of its active shoppers with new clothing items, earning its revenue through a 20 per cent commission on sales from third-party vendors, advertising on its platform, and product revenues from its private label sales.

and headcount to make them COVID-secure and compliant with social-distancing guidelines. Working from home was adopted, wherever possible. Product shoots underwent significant change as models were asked to photograph themselves at home instead of using the e-tailers' studio space.

Financially, business was protected through additional financing to strengthen the balance sheet and position ASOS for long-term growth. Appropriate use of government support was made, but with a resolve of not taking undue advantage of funding support. As a result, ASOS emerged a principled company when it returned the funds received under the government's furlough scheme and the Bank of England's Covid Corporate Financing Facility, encouraged by strong financial results.

In terms of online KPIs, the ASOS active customer base increased from 20.3 million to 23.4 million during FY20 registering a 15 per cent y-o-y- growth, but the average basket value remained almost the same despite an 11 per cent growth in number of orders received and 19 per cent growth in total visits during FY20. Conversion was impacted too with drop of 20 bps with average selling price also declining by 3 per cent.

Driven by these KPIs, the group's total revenue for FY20 grew by 19 per cent while profit showed incredible growth of 361 per cent.

Market-wise, results were encouraging, improving upon FY19 performance of retail sales, site visits, received orders and customer base except conversion rate which dropped everywhere. The average billing value (ABV) delivered mixed results with the UK levelling the previous year, the EU and US remaining negative, and RoW growing double-digit positive. Among all markets, the EU retail sales grew highest at 22 per cent, registering an 18 per cent growth in active customer base which reached 9.2 million. The performance reflected an increased online shopping during lockdown times when retail stores were temporarily suspended. However, the ABV suffered as ASOS forte is outerwear products which experienced low demand amidst lockdowns.

ASOS H1, FY21

In H1 FY21, the group's total sales growth of 24 per cent reflected a strong performance throughout the period underpinned by excellent operational delivery. However, the gross margin dropped by 200 bps mainly driven

by increase in freight costs, foreign exchange movements and continued 'lockdown' category product mix. Nevertheless, the group's EBITDA margin went up 320 bps to 9.2 per cent.

At the operational level, the ASOS platform continued to strengthen by enhancing customer choice and product availability in the first half. It invested in pricing, especially in Europe, to improve customer offering. Flexible fulfilment plan was implemented and unified stock pool between the UK and US was deployed ahead of further roll-out across ASOS. The ASOS platform expanded after gaining 120 new brands, over 100 new delivery enhancements and 18,300 new 'click & collect' locations taking the total count to 166,000 locations worldwide. The company also continued uninterrupted with its global infrastructure development, commenced fit-outs on the Lichfield fulfilment centre, and US automation for H2 FY23. To deliver enhanced global retail planning and pricing capability and in order to provide essential foundation to its flexible fulfilment aspirations, the totally global retail (TGR) system was launched following a multi-year development programme and an extended period of parallel run.



ASOS

As a part of its corporate responsibility, ASOS even goes the extra mile by engaging customers on sustainability.

ASOS progressed strategically too, completing acquisition of the UK's Topshop brands with an investment of £266 million. The brands were launched for customers on February 22, 2021, within three weeks of completion of integration. Iconic brands Topshop, Topman, Miss Selfridge and HIIT also resonate well with ASOS's core consumer of 20-something fashion lovers. ASOS is confident that it can leverage its market-leading capabilities to grow these brands and achieve a double-digit return on the capital within one year.

By the end of H1 FY21, ASOS added 1.5 million new customers to its customer base over a six-month period. ASOS reported 24.9 million active customers compared to 22.3 million on February 29, 2020, of which 7.8 million were located in the UK (6.8 million in February 2020) and 17.1 million (15.5 million in February 2020) in international territories.

ANALYSING ASOS MARKETS

UK: During FY20, the UK market registered an 18 per cent growth with £1,175.9 million retail sales owing to increased customer engagement through presentation and social media

TABLE 5 Online performance (pandemic period)

Online performance	H1 FY20	H1 FY21	(+/-)
Active customers (millions)	22.30	24.90	12%
Average basket value (£)	73.44	71.23	-3%
Average units per basket	3.05	3.08	1%
Average selling price per unit (£)	24.12	23.10	-4%
Average order frequency	3.54	3.47	-2%
Total orders (millions)	41.10	47.10	15%
Total visits (millions)	1,332.20	1,585.10	19%
Conversion	3.1%	3.0%	(-10 bps)
Mobile device visits	85.20%	86.30%	110 bps

SOURCE: ASOS

TABLE 6 Analysing ASOS Markets

Market performance (H1 FY20 vs H1 FY21)	UK	EU	US	RoW
Retail sales	39%	19%	11%	11%
Visits	31%	15%	22%	10%
Orders	24%	12%	-	(-2)%
Conversion	(-30 bps)	-	(-60 bps)	(-20 bps)
ABV	5%	(-4%)	-	10%
Active customers	7.8 mn (+15%)	9.9 mn (+14%)	3.3 mn (+6%)	3.9 mn (+5%)

SOURCE: ASOS

connect and product improvement. The fiscal saw consistent growth despite reduction in demand for the 'going out' product ASOS is best known for. The home market not only enjoyed over 7 million active customers in the UK, but also saw over 30 per cent growth in premier subscriptions the same year. In H1 FY20 the ABV achieved good growth which was offset by lower ASP of the lockdown category mix in H2 FY20 resulting in a flat ABV.

During H1 FY21, retail sales grew by impressive 39 per cent to £800.4 million, capitalising on the market trends and expanding the reach and presence. Online sales grew strongly amidst closing of hospitality venues and physical retail stores for much of the first half. Available demand in the UK market was successfully captured through dynamic reshaping of customer offer, while continuing with flexible and agile trading during the period. High levels of brand awareness in the home market coupled with strong customer loyalty saw excellent growth across categories of face + body (+139 per cent), activewear (+121 per cent) and casualwear (+86 per cent), with the face + body mix share increasing by 300 bps. An additional 0.7 million new customers

were added to the platform. However, the number of Premier customers declined by 5 per cent due to reduced demand for ASOS's next day delivery offer. Deliberate purchasing for much of the first half was observed which enhanced profitability.

EU: EU retail sales growth for FY20 was 22 per cent. Customers were offered a much-improved stock pool with a greater choice and availability backed by a more dynamic trading. ASOS's Euro Hub warehouse automation, done in the previous year, helped in rebuilding customer momentum in FY20, yielding an 18 per cent growth in customer base. New customer acquisition was particularly strong in the second half, notably across territories with lower levels of online penetration, including Italy and France. 'Lockdown' product categories appealed to these new customers, increasing traffic growth by 20 per cent. Conversion fell by 20 bps due to a greater mix of mobile web visitors with lower initial conversion. Automation-enhanced delivery too supported regional performance. Cut off times were rolled out and next-day delivery in France and Germany worked with France, in particular, performing well during the lockdown. Encouraged by



ASOS' market-leading app and website exhibit more localised and personalised shopping features allowing customers to shop on 12 fully localised sites, in 10 languages and 19 currencies.

an affinity between the ASOS model and Europe's fashion focused 20-somethings, ASOS decided to target further improvements to continue enhancing its competitive positioning and customer offering which includes investment into localised pricing on ASOS Design.

Euro retail sales in H1 FY21 grew by 19 per cent with 14 per cent growth in customer base. But, COVID-19 restrictions continued to have an impact like the second half of the previous fiscal with closed physical retail stores and hospitality venues. France carried forward its strong growth and Germany showed good results when non-essential retail closed in the middle of H1 F21. Ireland grew bigger and became ASOS's third largest market in the EU. Spain declined y-o-y due to the COVID-19 impact on 20-something consumer and aggressive local competition. The ASOS Design pricing was realigned across Europe, sharpening overall consumer offering and relevance in number of markets.

US: In FY20, US retail sales grew by 18 per cent (16 per cent in constant currency) including 25 per cent growth in H1 FY20. The growth was supported by better stock availability at the e-tailer's Atlanta warehouse that drove

stronger order growth and conversion. The US customer base grew by 14 per cent to 3.2 million, including 0.3 million customers added in the first half, while site visits grew by 19 per cent. Going forward, performance slowed down in H2 FY20 because of the divergent approach to lockdown restrictions in the US and the higher mix of 'occasionwear' ASOS has in US market. The period also saw increased marketing spend and a positive customer response to the launch of customer acquisition initiatives including increased student discount activity. Overall, the US exhibited a significant reduction in consumer demand. The recovery in the market did not come through at the same speed as in other markets. US 20-something consumers did not benefit from the same support measures for financial security as European consumers did, and the US consumer lifestyle normalisation pace also remained behind Europe. The situation became more challenging when the US stock pool suffered due to reduction in available airfreight, disrupting local stock availability.

In H1 FY21, retail sales and customer base in the US delivered respective growth of 11 per cent and 6 per cent,

primarily driven by growth in casual wear and sneakers categories. The stock profile improved supported by the roll-out of flexible fulfilment in the US to drive additional stock availability from Barnsley warehouse. ASOS also gained momentum with traffic levels increasing in tandem with the easing of lockdown in several states. Announcement of the Topshop brands acquisition by ASOS increased site visits, confirming the strong connect these brands have with US consumers.

RoW: RoW retail sales grew by 18 per cent (18 per cent in constant currency too) in FY20, driven by strong growth in Russia, Australia and the Middle East. Performance was a result of more targeted promotional activity and a quicker return towards a more normalised product mix in the wake of COVID-19. Increased participation in Black Friday and a great response to Ramzan events in the Middle East made all the difference. Increased air freight costs in H2 FY20 prompted ASOS to take suitable action to protect the basket size. The efforts paid off, increasing the number of items per basket which culminated into 12 per cent increase in ABV as customers placed larger and more considered

In 2016, ASOS partnered with British Paralympic Association and designed formal attire for many of the athletes participating in Rio 2016 Olympic Games.



ASOS

orders, reducing conversion. Active customer growth of 18 per cent was driven by strong new customer acquisition. The COVID-19 impact in H2 FY20 was managed through changes in delivery thresholds and by balancing basket profitability and customer experience. In terms of specific markets, Australia grew at over 20 per cent despite the disruption from bush fires and fulfilment challenges arising due to air freight restrictions. The Middle East region also performed well with Saudi Arabia growing over 50 per cent, supported by a more locally relevant promotional calendar as well as successful strong activity through Ramzan. Despite constrained performance in Russia driven by a challenging promotional environment, the ASOS active customer base grew by 28 per cent, which remained higher than its sales growth.

In H1 FY21, RoW retail sales grew by 11 per cent, customer base by 5 per cent, average basket value by 10 per cent and average basket size by 15 per cent, largely driven by the increase in ASOS

delivery thresholds. Sales in Russia declined as the market weakened and the environment became increasingly competitive and price sensitive. Although Australia faced air travel disruptions leading to long lead times for delivery in consequence of reduced flights to the region, the Australian market continued to grow. The Middle East region performed well too with Israel posting strong growth rates in excess of 60 per cent.

OUTLOOK AHEAD

Online businesses have grown immensely during the disruptive last fifteen months or so. Though the period has been challenging for brick-and-mortar retail, it has provided significant growth opportunity to e-tailers. The shift to online retail as a result of the pandemic has increased consumer confidence in online shopping. Though a portion of consumer demand is expected to move back to stores whenever restrictions will be eased throughout major markets, the online penetration is expected to remain

structurally higher than pre-COVID levels. To capitalise on this opportunity, ASOS is increasing investment to support the global growth opportunity, accelerating investment in infrastructure, while investing in pricing, particularly in Europe, to enhance its long-term customer perception and competitiveness. ASOS is also aware of the uncertainty across some of its markets, especially the threat of renewed lockdown restrictions and their economic impact on its core 20-something consumer.

Still, ASOS is hopeful of the second half of FY21 to be cash generative, driven by underlying performance and continued discipline in capital expenditure. The company remains focused on its vision to become the number one destination for fashion-loving 20-somethings. It is also confident that ASOS Brands and the ASOS platform, backed by its global warehouse and technology capabilities will continue to support its ability to offer the customers more and more of the products they love. **FF**