Zalando sees sports and loungewear boom, but Q1 will be loss-making

By Sandra Halliday - April 16, 2020

Zalando had lots of news on Thursday, sharing details of what people are buying during the pandemic (comfort clothing and sportswear), its expected Q1 operating loss and initiatives to support its partners and cut costs.
While the firm remains busy and is a key destination during the international lockdown, it’s clearly been affected as consumers have reined-in their spending. It said its Q1 adjusted operating profit (EBIT) will actually be a loss of between €90 million and €100 million.

The company said that after strong growth in January and February, in March, it initially noticed “a significant decrease in customer demand as a consequence of social distancing measures that were taken across Europe”. In the three weeks from March 9, its Gross Merchandise Volume (GMV) fell 8% year-on-year. However, in the two weeks following March 30, GMV started to grow again compared to last year.

Its preliminary figures show GMV up between 13.1% and 14.3% to a range of €1.98 billion and €2 billion. Group revenues have risen between 10.1% and 11.6% to a range of €1.52 billion to 1.54 billion.

But that’s not enough to make a profit. That EBIT loss, which compares to an EBIT profit of €6.4 million a year ago, is due to the lower sales growth in the quarter and an “exceptional inventory write-down of €40 million as a result of the revised sales expectations for the current season”.

It means Zalando has made an announcement that we’re likely to hear from many brands and retailers in the months ahead as they face up to the fact that they have huge amounts of unsold and probably unsaleable stock.

Zalando also emphasised that it has access to a current cash position of around €1.03 billion, “which allows it to invest through-cycle even in this challenging time”.

Nonetheless, it has launched “a holistic savings effort”. Planned savings of €250 million in marketing and overheads, as well as reduced capex of around €100 million, “will ensure continued financial health and will enable the acceleration of strategic growth initiatives”. It also doesn’t require layoffs or state loans.

So what else did we hear on Thursday? The company said it aims to accelerate its platform business in 2020 and has introduced several new initiatives to support brands and retailers during the crisis.

These “will allow partners to connect more easily with the Zalando platform and to access the company’s growing customer base of 32 million active customers as of March 31 (+17%)”.

It’s offering immediate support to brands in the Partner Program by allowing them to connect more easily with the Zalando platform. Ideas include faster payout terms, fee reductions, and improvements to the visibility of small-to-mid-size partners in its shop. During Easter Weekend alone, Zalando partners sold more than a million items through the partner program, up more than 100% on the year.

Zalando is also to expand its offering to customers, adding textile face masks to its assortment in the next few weeks. All profits generated from the sales will be donated.

WHAT’S SELLING NOW

Importantly too, the company shared information on what locked-down consumers are buying — and it seems loungewear, skincare and sports products are key.

Year-on-year, customers are buying twice as many sweatshirts and sweatpants from certain brands. Popular choices are sweats from Adidas, Nike, Tommy Jeans and Even and Odd. Socks are “unexpectedly popular” with sales doubling since the pre-crisis period, not just for basics like sneaker socks from Nike and adidas, but also for colourful pairs from Happy Socks. We’ve heard from elsewhere that shoes are a tough sell at present, and Zalando said its “absolute bestseller in the foot department is house slippers”.

It has also received three times as many orders of skincare, nailcare, haircare, and beauty accessories year-on-year. Detox and wellness products, candles, face masks and hand soaps are popular too.

Demand for kids’ and babywear is growing steadily, especially for items like bodysuits. Additionally, it’s seen a
strong increase in sales of its sports category. Clothing and equipment for running and fitness training shows a particularly big lift. Yogawear sales have also spiked, doubling last year’s sales. “The share of existing customers that shop sports with us for the first time has also doubled compared to last year,” it said.

And in line with increasing demand in the sports category, it has unveiled its first ever remotely-produced marketing campaign, #TogetherIAmStrong, “inspiring customers to stay active at home”.

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