

RETAIL

## Is this the end of wholesale?

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*During the lockdown, many brands are relying on their DTC channels to maintain client relationships and sell products. Does this mean the end for wholesale? Image credit: XanderZhou*

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At the start of April, visitors to the [Net-A-Porter](#) site were greeted with a redirection notice explaining they had closed their warehouses and were delivering only to its Asia-Pacific territories.

One of the world's largest luxury retailers who promised their luxury clientele they could order by lunch and have a dress by the evening would not be accepting orders or delivering. For the thousands of brands stocked under the retail conglomerate, this signaled a code red for their wholesale commitments.

Prior to the outbreak of **COVID-19**, the wholesale model between retailers and brands was under deep scrutiny. Now with trade halted, marketing budgets slashed, activations and events cancelled, fashion has had to face the reality that no one is open and, therefore, sales are down. Way down.

As [McKinsey](#) foresees a global market contraction of up to 39 percent percent in the luxury sector, is it possible for the wholesale method survive?

Due to the ongoing COVID-19 crisis, the impact of this unprecedented lockdown has swept across retailers, brands and consumers: when a customer halts their spending, the retailer is faced with an overload of outdated product and desperately attempts to avoid a bloated inventory. Brands are left with cancelled orders, rejected deliveries, overheads from manufacturers and a freeze on income.

Aside from the current crisis, the industry had already reached a point where change was needed.

Ever since [Generation X](#) was replaced by the new, hyper-aware [millennial consumers](#), cultivating loyalty became problematic.

Pressure on retailers to usurp its competitors has resulted in a macro focus on brand exclusivity agreements, price sensitivities, implementation of luxury experiences and leadership in reputation.

The downside of this has resulted in a number of often-unattainable requirements for brands that can make logistics and operations unworkable.

From requiring exclusivity to heavy discounts, these embargoes can heavily impact a young designer's ability to grow alongside their retailers.

Now, in light of this domino effect, there could not be a better time to review the responsibilities and roles for retailers to move forward with a business model of the future.

Retail needs to take responsibility

The continuous seasonal crunch for newness has created the need for the latest product. The issue here seems to be retailers' assumption that newness must equate to quarterly collections.

Catherine McFarland, women's account executive at the U.S. agency Fourmarketing Archetype believes that one of the main flaws in the wholesale method is the focus on quantity, which trumps quality for retailers, designers and wholesalers.

"We, they, them are always asking for more," Ms. McFarland said. "More offerings, more partnership, more work, more money less focus on quality partnership, offerings, work, all of which would quantify the worth behind money made and spent."

McFarland further adds that "retailers are lacking accountability for why their business is failing."

The executive outlines some top-line changes that could be implemented, including a restructuring of markdown schedules for a longer shelf life and intentional, thoughtful and purposeful buying based on what your store and its customers stand for in this era.

This also applies to wholesaling, which she notes should be based on "lasting and growing partnerships."

"Less inventory, store training and marketing: If a brand a retailer buys is not doing well, why not give it a little love and attention?" Ms. McFarland said.

As brands focus more on their own direct-to-consumer capabilities, stores globally have to up their game when it comes to promoting brands.

Shine, the luxury boutique in Hong Kong, is feeling this pressure, with its merchandising director, Gary Wong, agreeing.

"We just have to work harder to make up the sales," Mr. Wong said.

"We are providing more selling materials to staff to attract those loyal customers who are staying home during this pandemic situation," he said.

How brands are bypassing wholesale

In recent years, brands have come to realize the necessity to cultivate a direct-to-consumer channel, take personal orders and sell online, with the *Harvard Business Review* analyzing the democracy of tools that the Internet offers brands to start and scale these businesses.

A recent *McKinsey* report emphasized the crucial role e-commerce will play for brands.

As smaller brands look to lead on the sales of their own production, they can see in real time what works and react accordingly.

Alve Lagercrantz, cofounder of Shanghai brand Sirloin, explained how his brand is adapting: "For us it's been really interesting to start to get this first-hand customer response. We also think that in times like this it's reassuring for us to have our own platforms that we can control and not solely rely on wholesale."

Brands across the board may look to eschew the wholesale model entirely. The founder of womenswear line Carcel, Veronica D'Souza, also noticed the flaws in the wholesale model, too.

"When working with retail, they need an order that has a sell-through guarantee of 60 percent to be happy," Ms. D'Souza said. "So the whole business model is based on a minimum 40 percent discounted value. It is flawed."

If moving into a completely controlled **DTC model** expects too much inventory investment, a focus on a prepayment system with customers placing orders for the new season is an opportunity for brands to investigate.

Footwear designer Dorateymur is doing just this: predicting customers will be happy to respect the lead time of luxury brands so long as their loyalty to the company is solid.

"We lost control of our product and had very little communication with our consumer," the designer said. "For this reason, we decided to introduce pre-order on our Webshop rather than predicting and risking a warehouse pile-up. In this way, we only produce if there is demand."

Personal orders are also offering much needed cash flow, explained Danxia Liu, cofounder of the menswear Chinese brand, Danshan, in light of its drop in autumn/winter 2020 wholesale revenue.

"What has saved the brand is the steady increase in personal orders," Ms. Liu said.

Can there be a harmonious future for retail and DTC?

While many brands are benefiting by excluding wholesale entirely, there is an argument for focusing sales channels on both retailers and DTC.

Brands need to be aware of the power and the necessity of an even balance across both.

*The Harvard Business Review* explored the scalability of DTC, enumerating how a sure-fire business approach has become harder to capitalize on in terms of competition, the costs of distribution ownership and even the re-evaluation of the DTC model itself.

What retailers offer brands is a platform that allows the customer to discover, and an opportunity for the designer to exhibit products, both in-store and online.

While it has never been easier for a customer to connect with a brand, it has also never been harder to make your brand voice be heard.

Online marketing has garnered skyrocketing real estate value, as retailers perceive the importance their Web site editorials, newsletters and Instagram channels will play in promoting the brands they stock.

Online marketplace platforms that have the cachet across the globe allow for small brands to build a sales channel through a trusted and leading marketplace.

From **Tmall** and Secoo to **Farfetch**, the growth of these digital e-concession models will only rise further as an omnichannel opportunity for brands.

Farfetch's founder, Jos Nevez, is confident of this increase, stating in his April 2020 market update: "One of the biggest changes I foresee is the behavioral shift to online purchasing continuing as shoppers remain hesitant to visit stores. On the supply-side, I expect the current situation will result in an overhaul of distribution channels with brands increasingly focused on digital e-concession models."

To attract customers, a store needs to be a trustworthy resource for a loyal-less generation. In so doing, it can focus on growing the brands they choose to support.

Xander Zhou, the Netherlands-based Chinese menswear designer who shows at **London Fashion Week**, echoes this: "My impression is that B2C will play an increasingly important role in the future of the fashion industry. It offers opportunities to enhance customer service, and it enables brands to get a better, first-hand view of their customers' preferences. This development will also lead to an upgrade of multi brand stores."

While the means for a reconfiguration of the wholesale model might not be as forthcoming, new alternatives have taken flight in this time of lockdown.

Perhaps Parisian footwear and bag designer Amlie Pichard puts it best: "Small-scale changes are always easier than global ones especially when big brands are running the world. That's the reason I'm an advocate for staying small, free and wild."

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