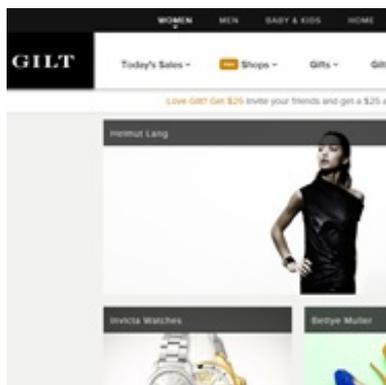


COMMERCE

## Gilt Groupe's woes may signify overall slump in flash-sale industry

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By KAYLA HUTZLER

Luxury flash-sale site Gilt Groupe's recent lay-offs and office closings are likely a result of overzealous growth but are also causing some experts to question the longevity of the flash-sale business model.

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**Luxury Daily**

Gilt Groupe has announced that two major executives will be leaving the company, along with a rumored 80-90 additional employees from the company's younger businesses, Gilt City and Gilt Taste. The question is, are the troubles at Gilt an indicator of the future of the flash-sales industry?

"I think one of the challenges for all flash Web sites is that they depend on discounting and, by nature, have lower margins than companies who sell full-price products," said Milton Pedraza, president of the Luxury Institute, New York. "There is always a pressure on profitability.

"And number two is that as the luxury industry has experienced significant growth in the past few years and the luxury industry has tightened its inventory management, there is less supplies for what seeds the Gilt machines such as excess inventory," he said.

Mr. Pedraza is not affiliated with Gilt Groupe, but agreed to comment as a third-party

expert.

## Shine's off

Gilt Groupe made a statement earlier this week that John Auerbach, president of the group's separate men's brand Park & Bond, and Nate Richardson, head of Gilt City, will soon be leaving their respective positions.

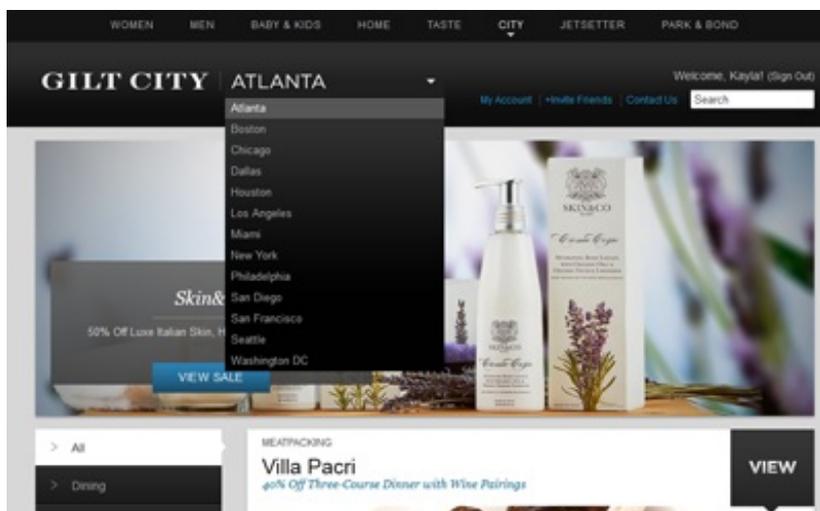
The flash-sales company said that neither man was laid-off but that they both happened to choose this time to leave the company, according to a statement made to New York Magazine's The Cut.

This announcement came only a day after rumors broke that Gilt Groupe would be laying off more than 100 of its 900 employees.

As of Monday at noon, a Gilt Groupe spokesperson stated to The Cut that the company had let go 80-90 employees, approximately 10 percent of its workforce, across its businesses. However, there were no more layoffs planned, per the company.

Gilt Groupe also closed six of its Gilt City offices including those in Philadelphia, San Diego, Houston, Seattle, Atlanta and Dallas. A central sales force will take over the work that was done in these offices.

"We have not been as successful in smaller markets and the resources they require take away from growing our core business," the company said in a statement to Women's Wear Daily.



Gilt said that December 2011 was its most successful month and that the restructuring is aimed at supporting the long-term goal of turning a profit by the end of this year, according to Gilt.

Gilt Groupe was founded in 2007 as a flash-sales site for luxury designers such as Alexander McQueen and Louis Vuitton.

In the past five years, the company grew rapidly opening similarly-flash focused sales sites Gilt Taste, Gilt Man, Jetsetter and Gilt City.

The company opened its first full-priced retail site, Park & Bond, this past June ([see story](#)).

“While the company still seems to be keeping both of their new [business launches Park & Bond and Gilt City] going, I think that in time they may find they aren’t getting much return on their investment and shutter them both completely,” said Pam Danziger, president of Unity Marketing, Stephens, PA.

“This looks like an interim step unless they can figure out how to make these two very different businesses – daily deals and full priced menswear – work in the Internet space,” she said.

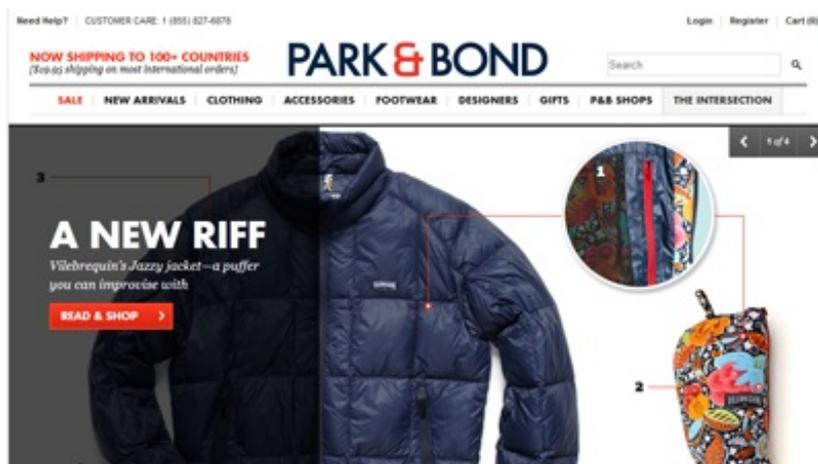
License to kill

To outsiders, it seemed as if the success was too good to be true, and apparently it was.

In fact, experts believe that this overly-rapid expansion into various industries could be the cause of some of Gilt’s current problems.

“I think the Gilt changes are a simple matter of a company whose eyes were bigger than its stomach,” Ms. Danziger said.

“They grew too fast [for example launching] the Gilt City daily site and the full-priced men's site Park & Bond and went outside of their core competencies and core markets into uncharted territory,” she said.



Another reason behind Gilt’s recent problems could be that it has always focused on discounting and not placed enough energy into creating a consumer experience and forming customer relationships.

Given that the main Web site sells mostly luxury items, Gilt should aim to provide luxury-quality service.

“I think that all of the flash-sale sites, unlike Net-A-Porter which has built itself on full price and service, but luxury flash-sale sites have ignored the service experience and have not created a customer culture,” Luxury Institute’s Mr. Pedraza said.

“They are very transactional but they have not created a long-term relationship based on a service component,” he said. “When you don’t do that and you have challenging times it is hard to reach out to consumers.”

In the future, Gilt should look to increase its customer culture and may want to consider a

sole full-priced business model such as the one it has for Park & Bond.

Indeed, flash-sale sites often catch on like rapid-fire but the fierce competition and purely transactional relationship with consumers are the ingredients for a short business lifecycle.

“Discounting business models are a race to the bottom because how do you differentiate yourself?” Mr. Pedraza said. “What happens when you can’t discount as much as the next guy? Consumers will abandon you.

“I think Gilt should try to do [only] full-priced business models [like it has for Park & Bond],” he said. “They have the right brand name, but it will take a while for consumers to think of Gilt has a fully-priced provider when they’ve built a business model on discounting.”

Final Take

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