

Brioschi, Lodovico; Nitsch, Frauke

Article

"Using the power of technology to digitize a somewhat still very traditional industry"

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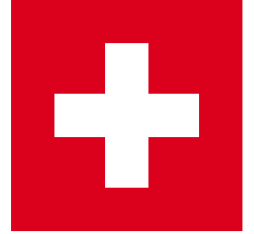
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**Lodovico Brioschi**

was born and raised in Lugano, Switzerland. He holds a B.A. from the University of St. Gallen and a Master of Science from the London School of Economics. After working for Credit Suisse, Credit Suisse Hedging Griffo and Roland Berger Strategy Consultants he Co-Founded AMARO in 2012 with Dominique Schweingruber and Roberto Thiele. At AMARO he is responsible for Finance, Legal, Planning, Manufacturing, Logistics and Customer Service.

lodovico.brioschi@amaro.com

„Using the power of technology to digitize a somewhat still very traditional industry“

In a retail world of contrasts with empty malls and thriving e-commerce, retailers are facing new challenges to fulfill customers' needs. In the interview, Lodovico Brioschi, COO and CFO at AMARO, a Brazilian online fashion brand, talks about the necessity of embracing new technologies and presents new opportunities for brick-and-mortar stores with his brand AMARO.

The interview was conducted by Frauke Nitsch, research associate and Ph.D. student at the Institute of Retail Management (IRM) at the University of St. Gallen (HSG)

What does disruption mean to you?

I think that the word disruption is often used in the wrong context. True disruptions are innovations to business models that completely change the rules of the game in an industry. What Spotify did to the music industry and Netflix to the TV industry serve as good examples. Amazon was an initial disruptor in the e-commerce industry, but most other online retailers who followed are not. In fashion, a true disruptor would allow their customer to print products at home instead of purchasing them in store (but we are still a bit far away from this scenario).

I see us at AMARO as building a very innovative business model but not a disruptive one. We are using the power of technology to digitize a somewhat still very traditional industry but we are not re-writing the rules of the industry.

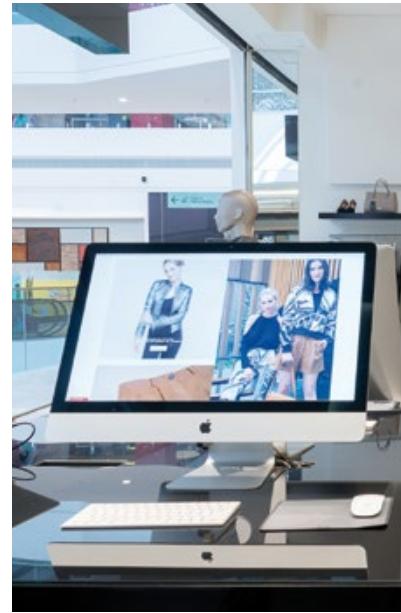
There is, however, one aspect where I believe AMARO can be considered disruptive, which is our approach to omni-channel distribution with the Guide Shops. This retail concept is still unique in Brazil and will impact not only how retailers see their physical stores (they will become locations to experience the brand rather than to merely sell products) but also how mall operators design their shopping centers and earn revenue and how consumers will shop.

What exactly is the concept of AMARO?

AMARO is a digitally native women's fashion brand that continuously launches the latest international trends at disruptive prices. AMARO was founded in Brazil in 2012 by Dominique Schweingruber, our CEO, Roberto Thiele, our CTO, and myself, with the goal to break the predominant



AMARO Guide Shop.



correlation between price and style prevalent in the Brazilian market. Through vertical integration and a direct-to-consumer approach, AMARO is able to constantly launch new products at affordable prices. We adopted an omni-channel approach to distribution, through our own online store, marketplaces and digitally immersive brick-and-mortar Guide Shops.

In today's digitalized world, customers shop more and more online. Why did you open a brick-and-mortar store?

The step towards opening physical locations was a necessary one in a market where online retail still represents only around 6 percent of total retail sales. In order to accelerate growth and bring more people online, we need to go where people shop (i.e. in the malls) and break the barriers that prevent them from purchasing fashion online. Our long-term vision is to build a Zara 2.0 with a full-stack technology and operations infrastructure, but without the inefficient and expensive brick-and-mortar stores.

Compared to Zara, what makes your so called „Guide Shops“ special?

The Guide Shops are physical locations to experience the brand. It is a marketing platform for frequent events with influencers and customers. There is no inventory in Guide Shops. Only one try-on piece per SKU. With this approach, we are able to show more products. In the Guide Shops, customers can try the newest products, receive competent advice from our stylist and place an order on our website. Therefore, computers and tablets are available in the store. Today, one

out of three transactions are carried out via mobile devices. The products will then be delivered to the customer's home still on the same day. Guide Shops are also locations to pick up orders placed online or to do a return instead of going to the post office. These are locations in which we can have much deeper engagement with our customers than on the website and is a formidable channel to increase lifetime value and recurrence. They are our offline media platform. We notice that customers, who purchase both on- and offline, have a 40 percent higher lifetime value than online-only customers.

So what do you think the customers want nowadays?

The customer wants the latest fashion trends at affordable prices with maximum convenience. That is where AMARO comes into play. As an omni-channel, technology-enabled retailer, operating direct-to-consumers. Shopping at AMARO means maximum convenience for consumers: We are shipping very quickly anywhere in Brazil from our own distribution center in São Paulo. Same-day shipping to São Paulo and next-day to the largest cities for orders until 7pm makes us the fastest e-commerce Shop in Brazil.

How is your business model a disruptive model for the retail industry?

We are disrupting the industry with two important innovations: On the supply side, thanks to the use of technology and vertical integration, we can bring trends to the market very quickly, compared to traditional Brazilian brands. We launch monthly collections with a 12-week design, development, and manufacturing lead time compared to the quarterly coll-



Order station in the Guide Shop.

ections with one year lead time of traditional brands. Overall, we launch about 8500 new products per year. Frequent smaller collections not only allow us to have the latest trends, but are also a strategy to reduce inventory risk and decrease the need for markdowns.

We need 12 weeks to plan, design, develop and produce a collection. The manufacturing lead time per new style is around one month. The reproduction of already existing products takes less than 28 days. Many local retailers in Brazil cannot replenish their shelves in a timely manner since their products are imported. For an optimal product level, we are forecasting the demand with an algorithm.

On the distribution side, we have introduced a unique concept with a true omni-channel strategy and a seamless integration of the physical and online channels to Brazil. While traditional brands are still trying to figure out, how to integrate online and offline inventories or how to have unified communication campaigns, this integration is much easier for us, since we were born online and, subsequently, expanded offline. Furthermore, our physical stores carry no local inventory, making the expansion of our offline footprint more capital efficient than that of a traditional brand.

What were the biggest challenges for AMARO?

Building a business from scratch is never easy, anywhere in the world. However, in Brazil, there is an additional layer of complexity arising from the most complex fiscal and regulatory environment in the world and a byzantine labor law. Looking forward, the recession is nearly over and the local consumer is now more optimistic about the future. The future challenges are related to the ability to scale the AMARO

business model quickly in Brazil and abroad for the business to reach the required economies of scale. This will involve also growing the supply chain as fast as we grow sales, which can be quite challenging in Brazil.

How did you manage to establish your disruptive concept within your team?

With a lot of work, organization, and perseverance! We have been working relentlessly for five years now developing and building AMARO. We are very precise and analytical in any decision we take, striding often with the local approach, which allowed us to develop a company during the worst recession that Latin America has experienced. We also invest considerably in hiring the best talents in the market and investing heavily in technology (we have three times as many computer scientists as product designers) so that we can build the fashion brand of the future.

What chances does the digitization offer for the fashion industry?

Digitization is transforming the fashion manufacturing and retail industry. The internet allowed smaller brands to quickly grow without the need to develop an expensive physical footprint. The constant connectivity of the consumer is forcing retailers to rethink the whole journey, not only the experience at the point of sale but also the experience delivered before and after a sale. The internet is also providing manufacturers and brands alike with an unprecedented amount of data. An online retailer has much more information about a customer, her journey, the products she saw and purchased, those returned, etc. than a traditional retailer. By using this data smartly, modern retailers can, for example, complement traditional, creative, trend scouting with rational sales data across geographies and foresee trends. This allows in turn to better address consumer's needs, better plan the collections and the quantities to be produced.

Which new technologies impact the fashion industry most?

Looking at the fashion supply chain, technology is having a great impact to the way products are designed and developed. For example, with photo-realistic 3D prototyping a fashion retailer is able to reduce in half the number of physical prototypes developed and substantially decrease the time-to-market for new products. But this is only the beginning. Smart fabrics, connected apparel, 3D-printed designs are some of the applications of technology that we will for sure see in the next few years. +