



STITCH FIX

Where Should Stitch Fix Play and How Can It Win?

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The Goal – This presentation seeks to outline a strategy process and opportunities to aid in shaping Stitch Fix’s strategic direction.

The Objective

The objective of this presentation is to go through a strategy formulation process to help Stitch Fix to answer:

“Where should Stitch Fix play and how can it win?”

The intended output is to produce a few initiatives to help the company achieve meaningful and profitable growth.

The Intended Outcome

This is not intended to be a holistic, picture-perfect view of Stitch Fix’s strategic possibilities, as doing this alone with only publicly available information is limiting.

Instead, the intention of this presentation is to show that:

- 1** The strategy process leveraged in this presentation can be powerful when performed by a group of cross-functional stakeholders who can provide a collectively deep and diverse set of expertise.
- 2** The ideas provided in this presentation can serve as an inspiration and/or foundation for strategic possibilities for Stitch Fix to consider.

Presentation Overview – This presentation goes through a strategy process to develop initiatives to improve the business.

Strategic Initiatives Development Process

The Objective – Given its network effects and the state of personalized e-commerce, Stitch Fix should look to maximize items customers keep.

Understand Business Needs

Identify strategic objectives for the business and paths to value.

KEY COMPONENTS

- + Understand the underlying components giving the company a **competitive advantage**
- + Identify the **strategic objectives** for the company to best leverage this competitive advantage
- + Outline the **paths to value** realization

Persona-Based Approach – To better understand customer needs, we use personas to build empathy with illustrative characters.

Understand Customer Needs

Understand key customer “Jobs to Be Done” to identify opportunity areas.

KEY COMPONENTS

- + Build **personas** to represent customer segments
- + Develop **journey maps** to empathize with the persona emotional & social contexts and purchase psychology
- + Synthesize key **pain points** and associated **opportunity areas**

Opportunities – Stitch Fix has several opportunities to increase the number of items its customers keep.

Ideate Strategic Opportunities

Ideate opportunities that meet both business and customer needs.

KEY COMPONENTS

- + With an understanding of business and customer needs ideate **opportunities** at the intersection of the two

Prioritization Results – The highest ranked opportunities are clothing personalization, Stitch Fix as a service, eyewear, & Germany expansion.

Prioritize Opportunities

Prioritize top ideas for full evaluation as full diligence can be intensive.

KEY COMPONENTS

- + Develop a **prioritization framework** to score opportunities against their strategic importance, business value, cost, and complexity.
- + Rank opportunities to determine **candidates** for full evaluation

Evaluation Approach – The approach focuses on the essential questions without wasting more time, money, or resources than necessary.

Evaluate Candidates

Design and conduct tests to evaluate hypotheses that must be true for success.

KEY COMPONENTS

- + Develop **hypotheses** by asking “What must be true?”
- + **Rank** hypotheses in order of least to most likely to pass.
- + Design **tests** and define **success criteria** to evaluate the hypothesis.
- + **Test** hypotheses in rank order.

Key Takeaways – Stitch Fix wins by sticking to its core values but applying them in new ways and executing exceptionally well.

Execute Initiatives

Bring initiatives to life by iteratively building, testing, & learning.

KEY COMPONENTS

- + Envision the **future-state journey**
- + Design a **bite-sized release**.
- + Perform a **capability gap analysis**
- + Bring a **first iteration** to life.
- + **Iterate**, test, and learn

Presentation Output – Stitch Fix is in the pole position to disrupt apparel e-commerce but must continue to push forward in bold new ways.

Four initiatives can help take Stitch Fix to the next level.



Stitch Fix as a Service

Externalizing Stitch Fix's capabilities via a software-as-a-service offering

KEY POINTS

- Stitch Fix can externalize its personalization capabilities to meet customers wherever they shop.
- This opportunity presents a win-win-win for Stitch Fix, consumers, and apparel companies, who are shifting to D2C models.
- This not only de-risks Stitch Fix's reliance on its retailing channel, but also strengthens it

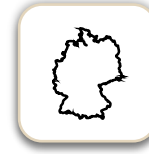


Sunglasses & Eyewear

Expanding merchandise to include eyewear as a new product category.

KEY POINTS

- Eyewear is a high-margin and logistics friendly product.
- Frame dimensions are both precisely quantifiable and important to the purchase decision.
- Like with clothing, eyewear is an opportunity to express yourself, aligning with Stitch Fix' brand purpose.
- To minimize complications, Stitch Fix should begin with sunglasses.



Germany Expansion

Expanding operations internationally into Germany.

KEY POINTS

- Because entering a new market is a lot of work, the opportunity must be right-sized for the investment — from both an effort and capital perspective.
- To evaluate international expansion opportunities, we assessed them on market opportunity & probability of success categories.
- Germany offered the most promising opportunity.



Clothing Personalization

Offering ultra-personalized clothing through an integrated value chain

KEY POINTS

- Trailblazing the second wave also sets Stitch Fix up well for the third wave of e-commerce: personalized clothing.
- Stitch Fix can rethink the design process to algorithmically calculate clothing dimensions and dynamically manufacture clothing with different specifications.
- Personalization enabled by an integrated value chain will help Stitch Fix both create and capture tremendous value.

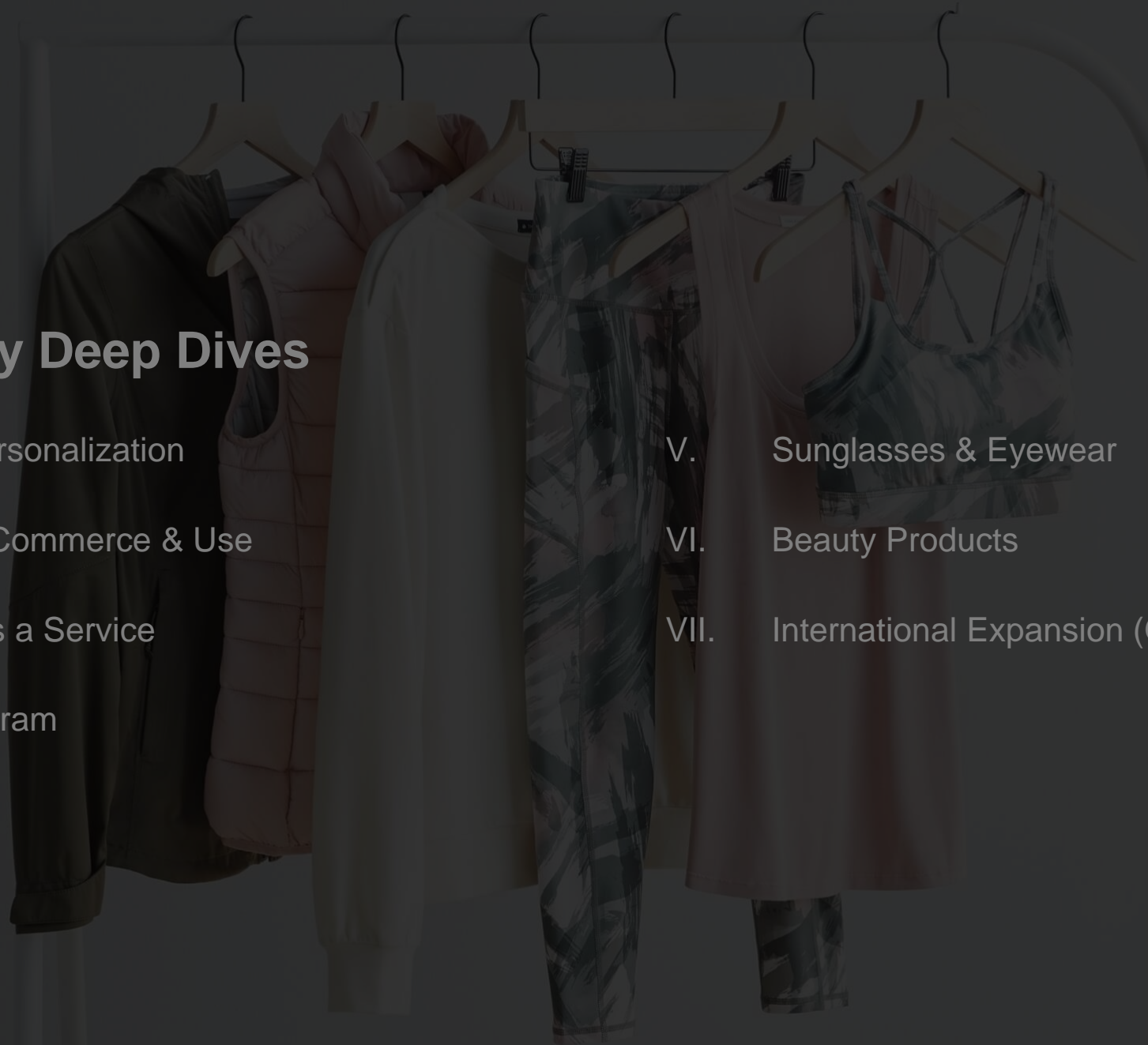
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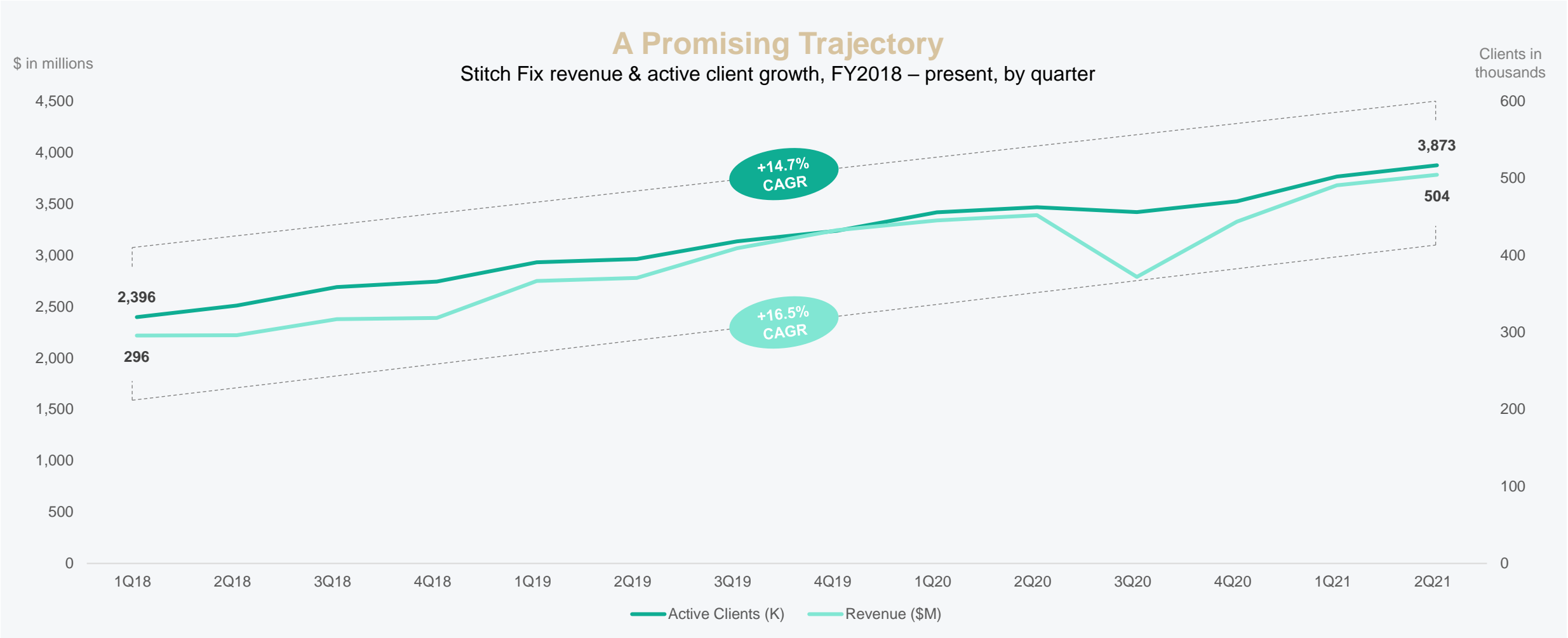
B. Opportunity Deep Dives

- I. Clothing Personalization
- II. Content to Commerce & Use
- III. Stitch Fix as a Service
- IV. Rental Program
- V. Sunglasses & Eyewear
- VI. Beauty Products
- VII. International Expansion (Germany)

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Stitch Fix's Success – Stitch Fix has seen success growing its business despite sector-wide apparel setbacks related to COVID-19.



Source:
Company data

E-Commerce Wave 2 – Stitch Fix’s success is owed to ushering in “Wave 2” of E-Commerce to apparel.

TRADITIONAL RETAILERS



Shopping experiences leave customers searching for needles in haystacks.

When you walk into an apparel store, you are presented with a number of items that are not relevant to you in any way. Whether it be the wrong size, a pattern you'd never wear, or a cut that doesn't suit you, there is a lot of “noise” in your path to finding items that you truly love.

Consumers are left to try to navigate through this noise.

E-COMMERCE WAVE 1



Low prices & convenience drive purchase decisions for items we know we want.

The primary focus of the first wave of E-commerce is simply to make everything available for purchase online. More convenient than shopping in-person, wave 1 e-commerce retailers have been stealing market share from traditional brick and mortar stores through comparably low prices.

This works well for commoditized goods or when customers already know what they are looking for.

E-COMMERCE WAVE 2

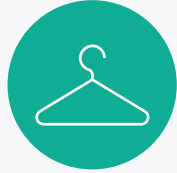


Shopping is a personalized, curated experience to help you find what you love.

However, for non-commoditized products (i.e., where price and convenience are not the primary drivers), there is an opportunity to provide a much more engaging customer experience.

Stitch Fix creates a shopping experience where every item on its “clothing rack” is not just your size, but also has the styles, fits, and fabrics that you will love.

Personalized Clothing Racks – Stitch Fix creates a personalized “clothing rack”, omitting poorly matching clothes & improving over time.



PHYSICAL CLOTHING RACK

Fixes

A Small, Stylized “Clothing Rack” Sent to Your Home

To begin, Stitch Fix’s “clothing rack” was small. The company sends you five items in a shipment they call a “fix” based on a style profile and a stylist's picks.

Simply, keep what you love, return what you don’t, and provide some feedback on what did and didn’t work with the items.



DIGITAL CLOTHING RACK

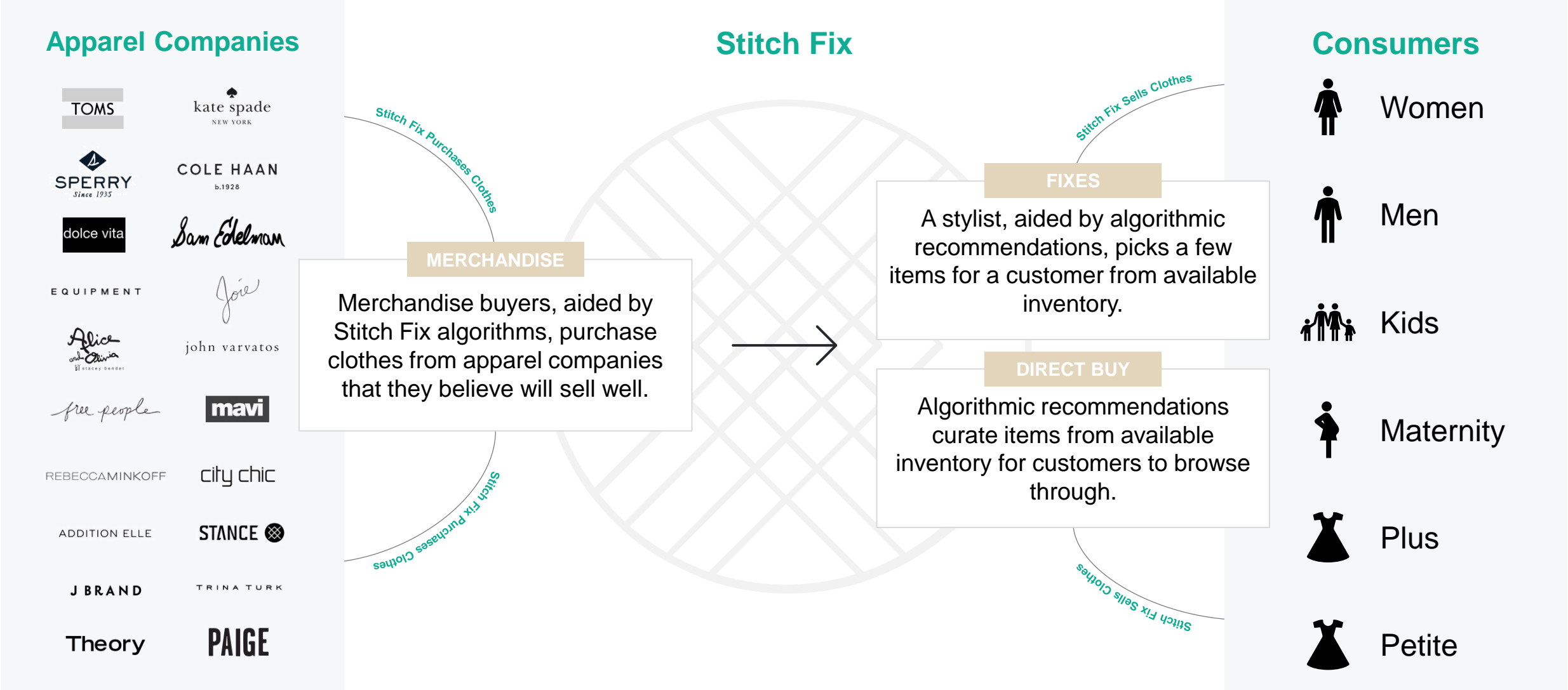
Direct Buy

A Larger, Curated Digital “Clothing Rack” For Online Browsing

Though a novel model, Stitch Fix has begun to expand its “clothing rack” beyond the Fix through an offering called Direct Buy.

Customers can browse through select, curated items with a high probability that they will love them.

How It Works – Stitch Fix makes money by purchasing clothes from apparel companies and selling them to customers.



Data Science in Apparel – Clothing data makes Stitch Fix both a better apparel curator and fashion designer.

Clothing is an opportune product to apply data science.

- 1 Behind the art of fashion lie quantifiable determinants of fit (i.e., modeling the geometry of the clothing) and style (i.e., patterns, colors, fabrics, etc.)
- 2 There are relatively quick feedback cycles as many customers purchase clothes multiple times per year.

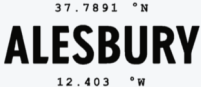
This data doesn't just help Stitch Fix curate better clothes, it can also help them create clothes.

In addition to selling clothes from third-parties like Bonobos or Kate Spade, Stitch Fix designs its own clothes through its 16 exclusive labels.

Its unique understanding of consumer tastes and preferences can help them produce better performing clothes.


FAIRLANE


NOMAD


37.7891 °N
ALESBURY
12.403 °W

PIXLEY

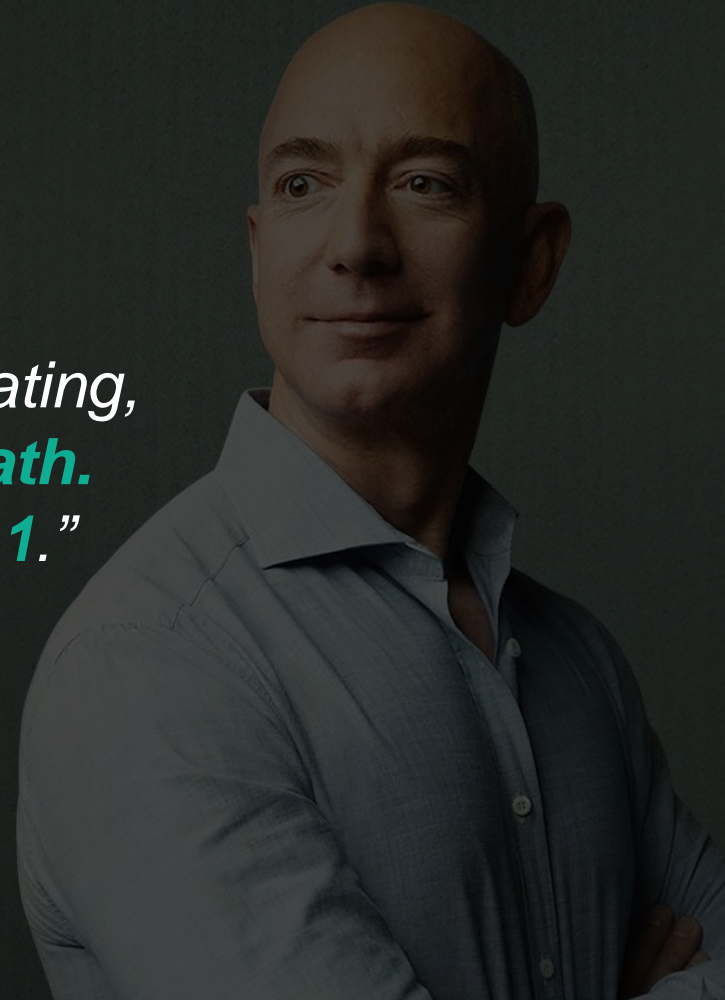
A-FRAME

Hawker Rye

It's Always Day 1 – Yet, despite success, Stitch Fix must continue to revise and build on its strategy to better serve customers.

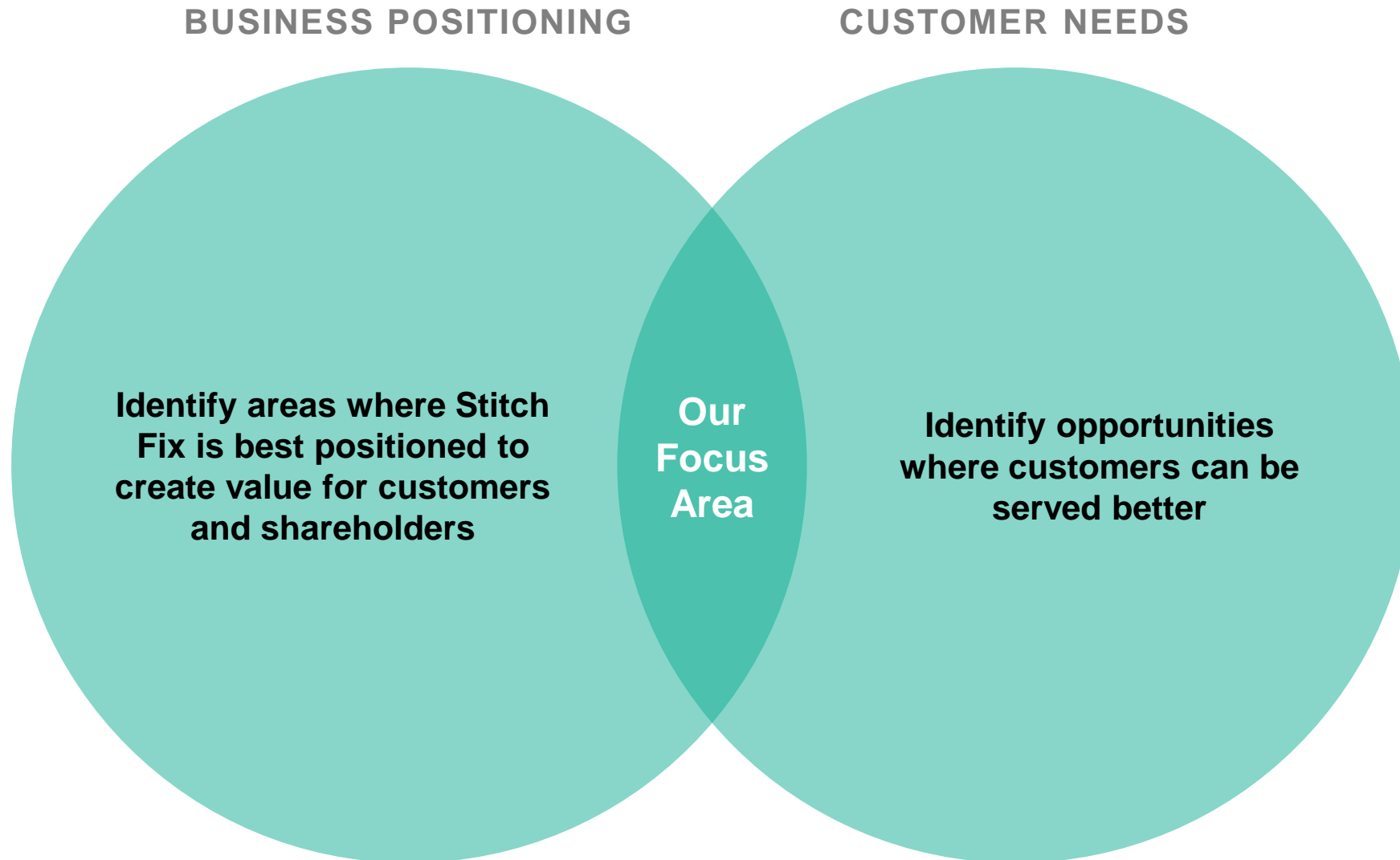
*“**Day 2 is stasis.** Followed by irrelevance. Followed by excruciating, painful decline. **Followed by death.** And that is why it is **always Day 1.**”*

Jeff Bezos



Source:
Jeff Bezos, 1997 Amazon Annual Letter to Shareholders

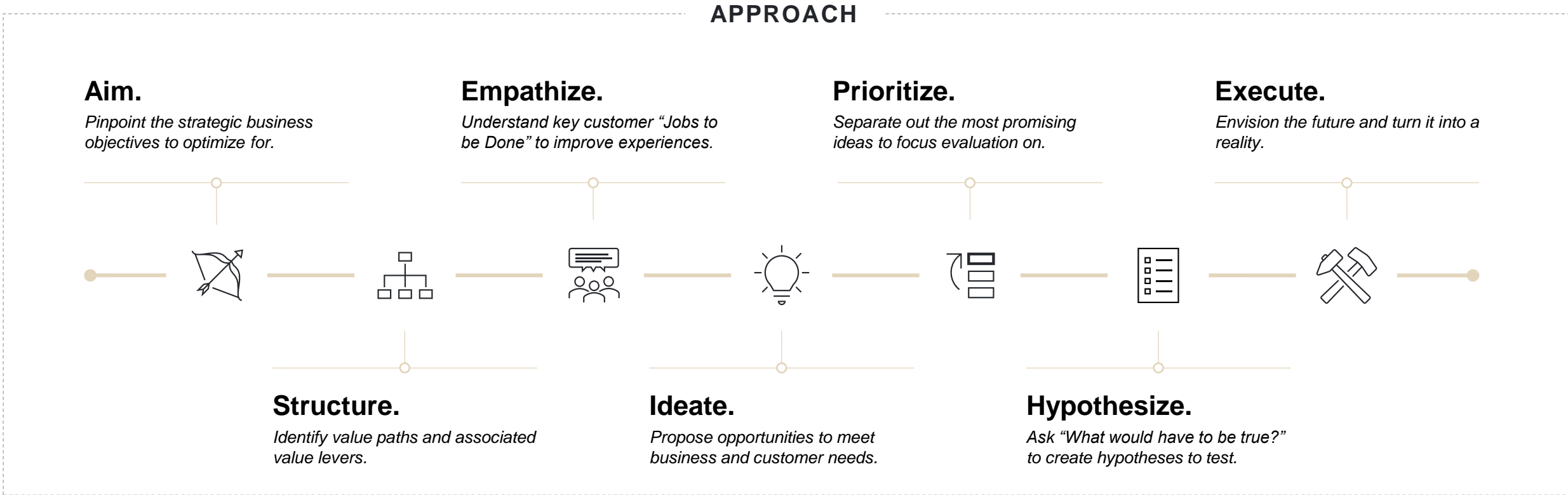
What Do We Do? – Stitch Fix must continue to identify opportunities to uniquely serve customers better.



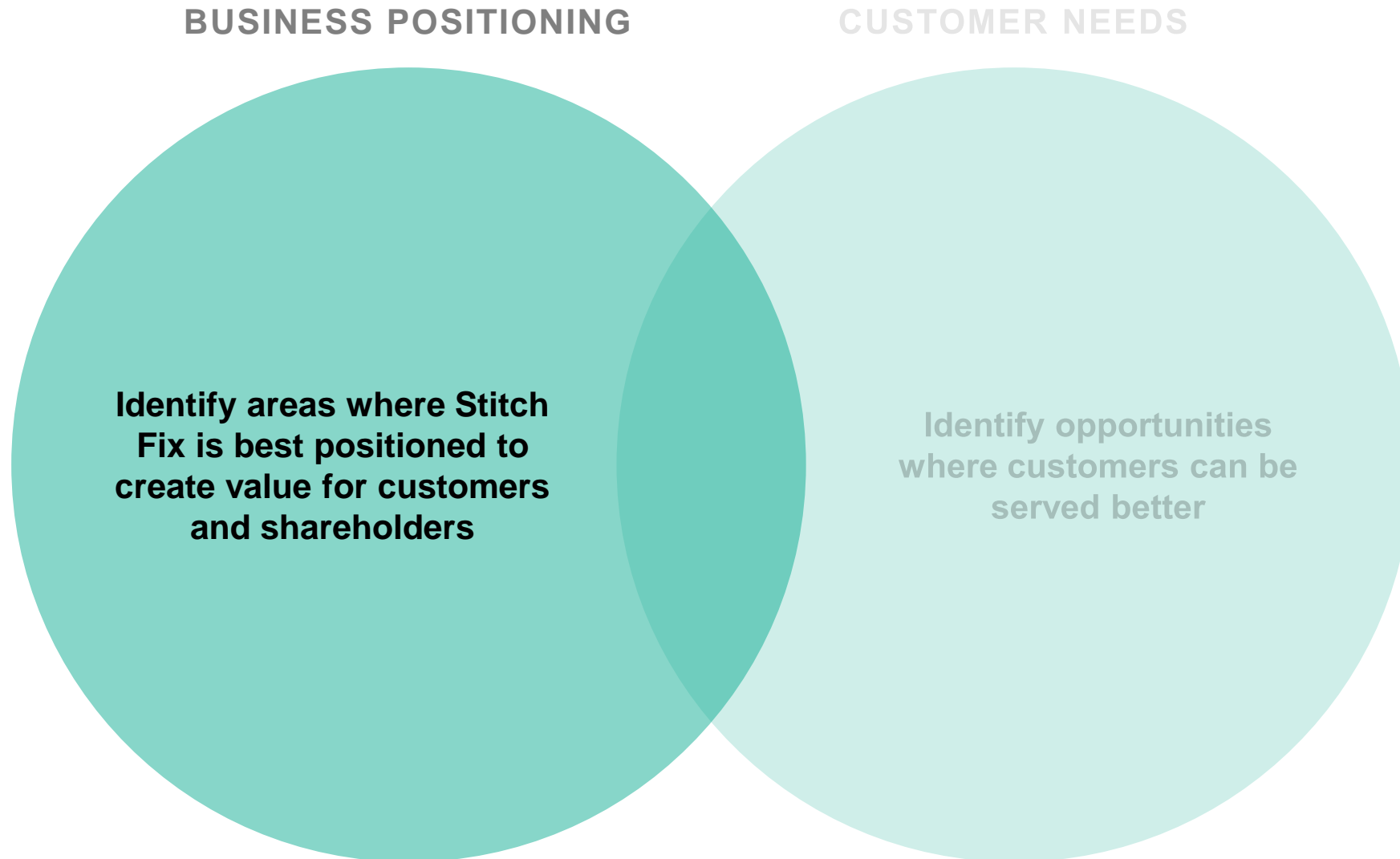
Approach – In this presentation we structure and prioritize strategies to help Stitch Fix serve customers better and build a stronger business.

OBJECTIVE

Identify unique opportunities for Stitch Fix to serve customers better and build a stronger business.

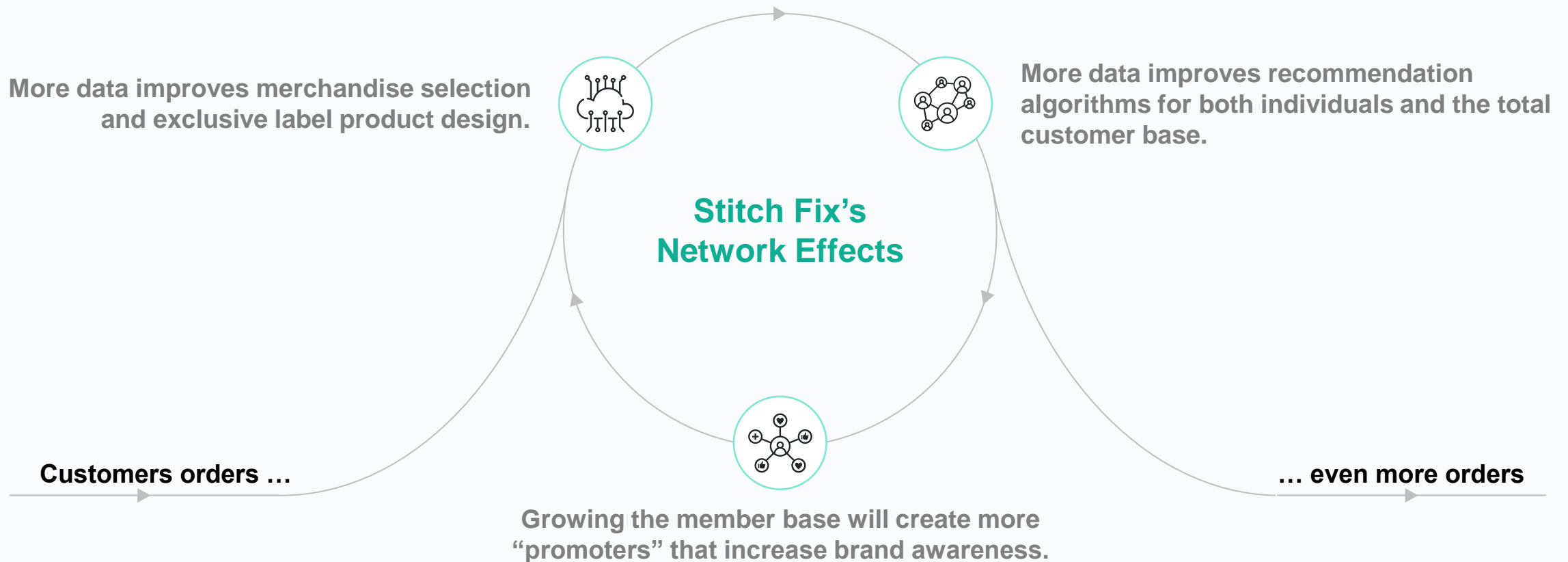


What Do We Do? – Stitch Fix must continue to identify opportunities to uniquely serve customers better.

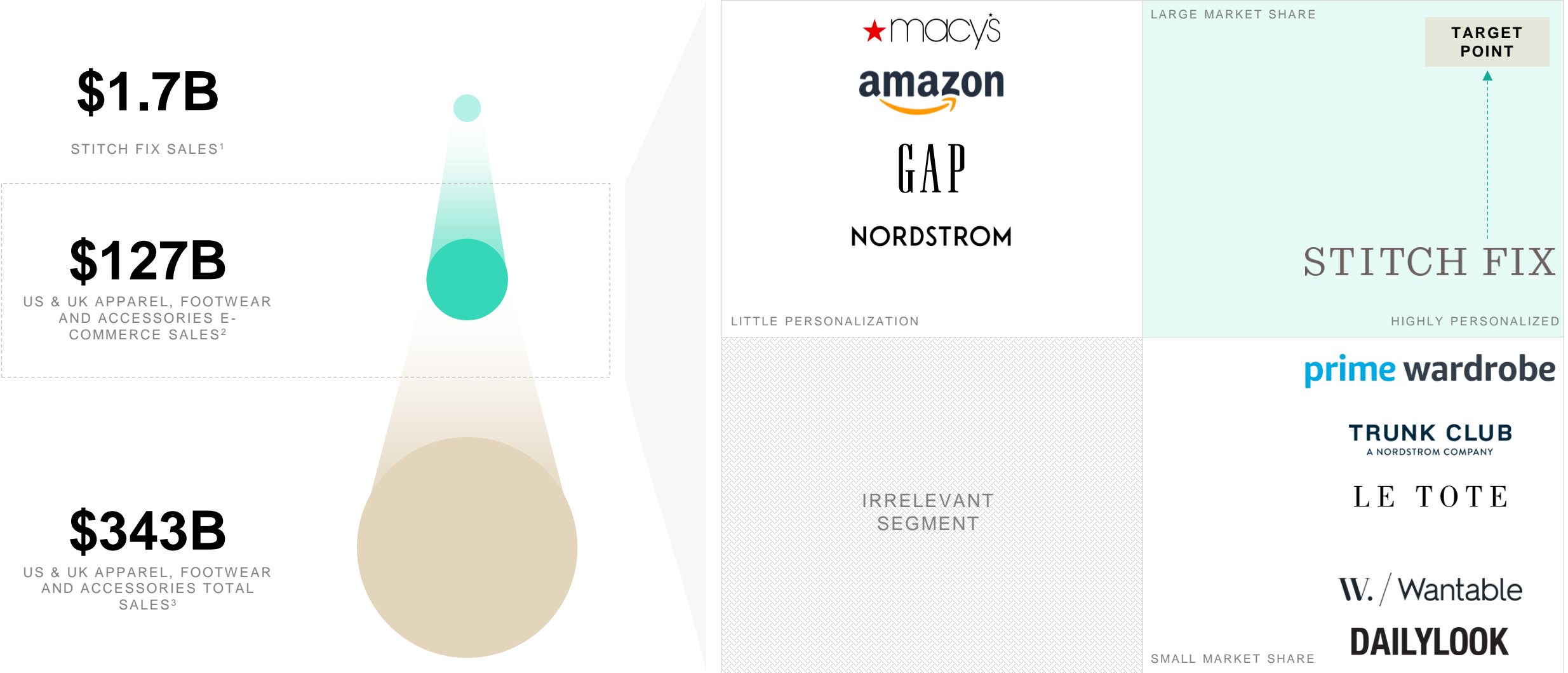


Stitch Fix's Network Effects – Each new customer order improves the company's ability to serve everyone.

As it increases its scale, Stitch Fix will be able to better serve customers, and competitors like Amazon and Nordstrom will find it increasingly difficult to offer as compelling a customer experience.



A Race to the Top – Stitch Fix’s has a leading position, but much of the market is still up for grabs, making growth a priority.



Notes:
¹ FY2020 revenue
² CY2020 industry sales
³ CY2020 industry sales

Sources:
¹ Company data, FY2020
² Euromonitor, 2021
³ Euromonitor, 2021

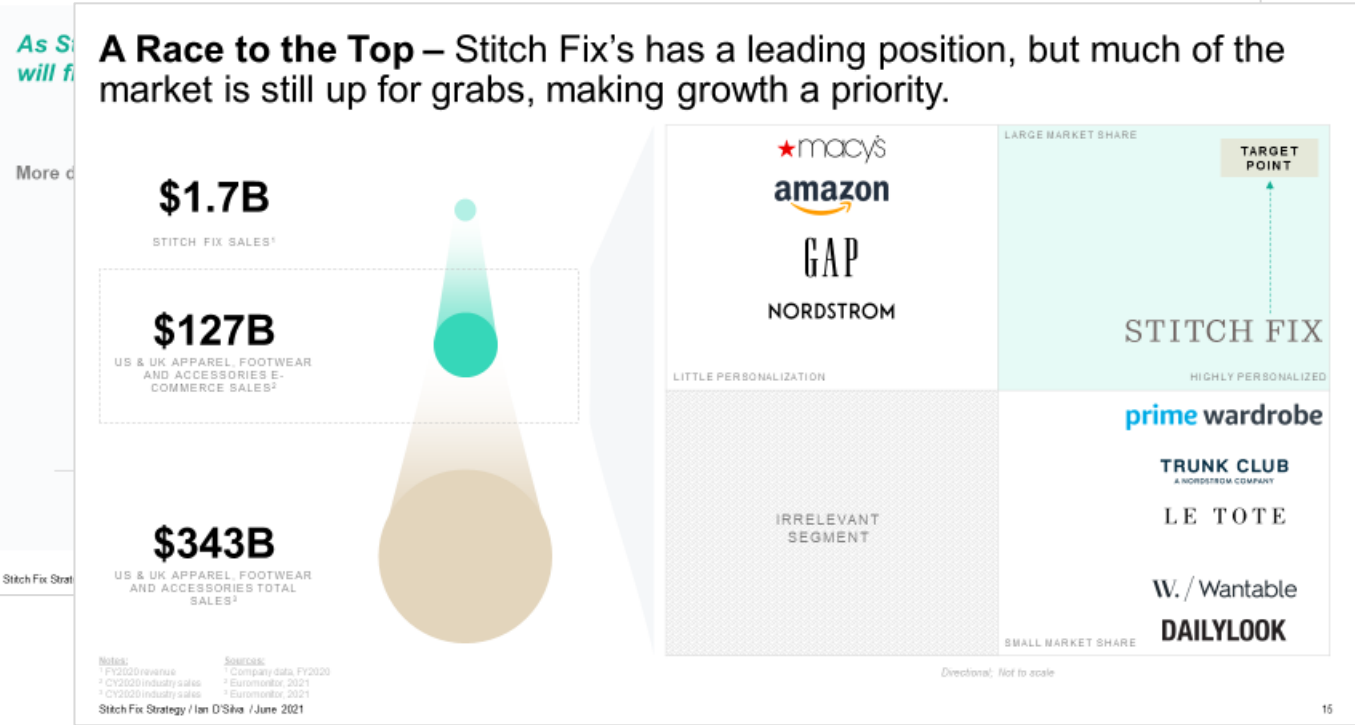
Stitch Fix Strategy / Ian D'Silva / June 2021

Directional; Not to scale

The Objective – Given its network effects and the state of personalized e-commerce, Stitch Fix should look to maximize items customers keep.

Stitch Fix's Network Effects – Each new customer order improves the company's ability to serve everyone.

A Race to the Top – Stitch Fix's has a leading position, but much of the market is still up for grabs, making growth a priority.



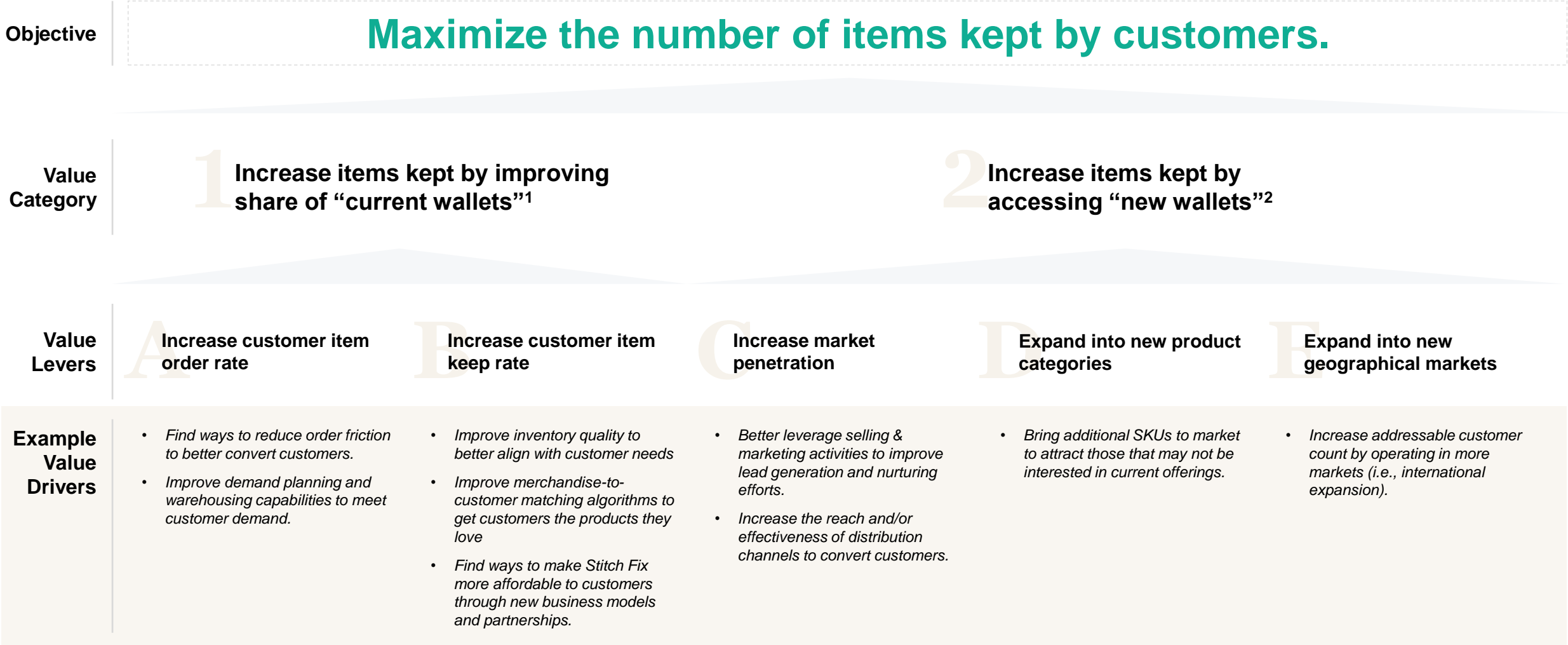
CUSTOMER NEED
This metric reflects a delightful customer experience that further drives the company's network effects.

OBJECTIVE

Maximize the number of items kept by customers.

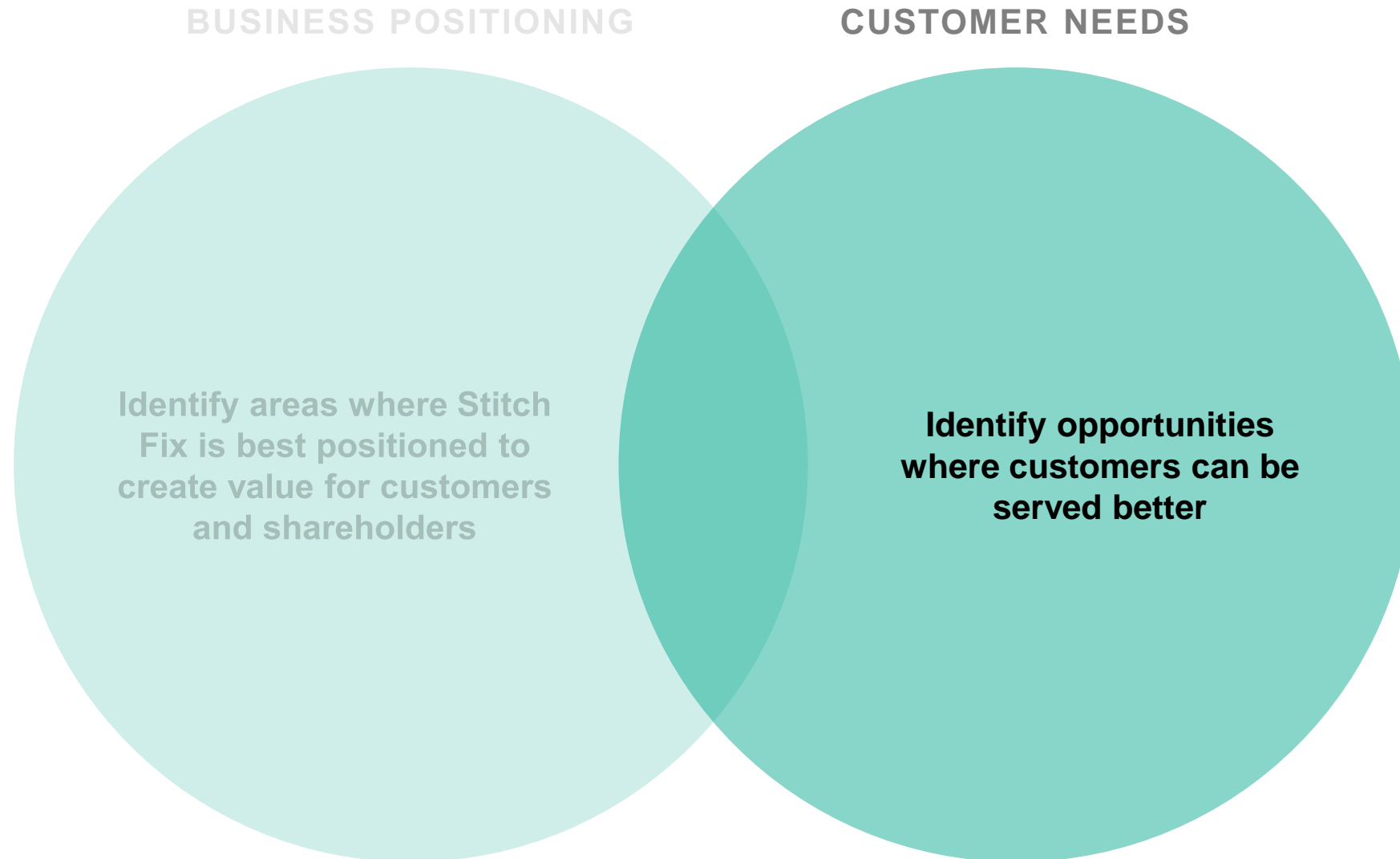
BUSINESS NEED
The magnitude of this metric reflects Stitch Fix's scale, which it needs to maximize its relative position in.

Paths to Value – Stitch Fix can achieve this objective by improving share of wallet with current customers and tapping into new customer wallets.



Notes:
¹ A current wallet is a construct representing a portion of a current customer’s spend that Stitch Fix is currently competing for (e.g., a consumer’s annual spend on athleisure apparel)
² A new wallet is a construct representing a categorical portion of a consumer’s spend that Stitch Fix is currently not accessing or competing for

What Do We Do? – Stitch Fix must continue to identify opportunities to uniquely serve customers better.



Persona-Based Approach – To better understand customer needs, we use personas to build empathy with illustrative characters.



THE MALL-GOING MOM

Ayesha

46, Female // Evanston, IL

“I love going weekend shopping with my girl friends when I can”

Ayesha loves shopping, but as she is getting older, she’s finding less and less time for it. Between work, her kid’s sports schedules, and keeping up with the latest Netflix and HBO shows, life seems to get in the way.

She has to be efficient with her time, so her friend group occasionally hangs out together by shopping. They head to the mall, spend a few hours shopping, followed by a nice meal together.

Ayesha likes to shop both at boutiques and department stores. Boutiques are hit or miss, but have the hidden gems, while department stores are bound to have something you like – if you have the patience.

ZARA J.CREW NORDSTROM Boutiques



THE RELUCTANT SHOPPER

Brandon

27, Male // Santa Cruz, CA

“I want to look good, but I’d rather do anything than shop”

Unlike Ayesha, Brandon hates shopping. He wants to look good and dress well but feels that his free time can be better spent doing other things like watching his favorite basketball team, playing video games, hanging out with friends, or surfing.

He finds shopping time consuming and often finds himself waiting until his wardrobe *really* needs a refresh before he does it. He’s tried online shopping, but its not much more convenient because being in between sizes results in having to deal with returning all those items. Often, it’s easier just to head to the store.

Ultimately, Brandon is looking for something that doesn’t take too much time or doesn’t make him have to think.

lululemon GAP UNIQLO Nike



THE STITCH FIX FANATIC

Carly

35, Female // New York, NY

“Stitch Fix knows me too well at this point.”

Carly loves nothing more than walking around New York City in awesome clothes that make her feel like the best version of herself.

In 2019, she discovered Stitch Fix and hasn’t looked back. As a loyal customer, the company has learned her style and fit so well that she truly can’t believe it.

While she is Stitch Fix’s biggest fan, she does do some traditional shopping because Stitch Fix doesn’t meet all her needs and isn’t great for all scenarios. Though, Carly does love to see that Stitch Fix is heading in a direction that allows her to utilize their offerings better with features like fix preview, style shuffler, and most of all, direct buy.

lululemon ZARA Madewell STITCH FIX

Note:

- These personas are not grounded in consumer research, but instead are made up by Ian to illustrate findings that might surface from consumer & journey-based work
- The three personas here are not meant to serve as an exhaustive representation of target or potential customers



Ayesha

THE MALL-GOING MOM

“

I love going weekend shopping with my girl friends when I can”

JOURNEY SCENARIO

Ayesha is spending the afternoon going shopping with her friends at the local mall.



LOCATION

Evanston, IL



AGE

46 Years Old



SIZE

Medium-to-Large

PHASE

STORY

PAIN POINTS

OPPORTUNITIES

GETTING READY

HEADING TO THE MALL

THE BOUTIQUES

THE DEPARTMENT STORE

HEADING HOME

AT HOME

It's Saturday morning. Ayesha is sipping her morning coffee and chatting with her husband. Soon she'll have to start getting ready to spend the afternoon with her girl friends at the mall.

She's really excited – it's been getting really hard to get everyone together as schedules are so slammed with kids activities.

On the way to the mall, she calls her friend Debbie to determine where to meet.

They settle on the side of the mall with the boutiques – they figure they'll start there and try to strike gold before moving on to the department stores.

• Finding time for shopping is getting difficult

• N/A

The boutiques have the true gems but are so hit or miss. Though, Ayesha is feeling lucky today!

The first two boutiques they stop at yield nothing, but the third had some nice stuff! Ayesha tries on three items. Two don't fit too well, but the last one is to die for. It's a no brainer.

• Boutique stores are hit or miss, but can yield great results

The departments stores take a lot of time to find something – they have thousands of items. Ayesha doesn't mind too much because she can use some good "girl chat" time with her friends while sifting through the racks.

Her and her friends take turns trying on different pieces and showing each other. It's so much fun.

• Sifting through the clothing racks can be arduous (though alleviated by chatting with friends)

Before checking out, the sales associate, Jessica, asks if they want to look at anything else. She has been incredibly helpful, so they ask to head to the shoes department.

No one had intended on buying shoes, but she was so good they all did! She even convinced Debbie to get a handbag – it was a killer combo with her new dress and shoes!

• N/A

On the way out, the girls notice a new shop that just came up.

The store sells accessories. They decide to get matching bracelets to commemorate their friendship and because "why not?!"

• N/A

When she returns home her husband asks how her day was. After a brief recap, he mentions that he saw an ad for Stitch Fix and it could be a nice thing for her.

She has heard about it before but explains that she just really likes picking out her own clothes.

They decide to go to the mall next weekend instead.

• Prefers to pick and try on her own clothes
• Enjoys the social interaction that comes with shopping

• Making shopping an experience that is convenient without losing its social elements

• N/A

• Delivering the awesome "diamond in the rough finds" without the hassle

• Only show items that are in stock and would be a good fit

• Increase personalization of service
• Improve pairing of items that complement clothes

• Increase spontaneity in the shopping experience

• Help customers feel ownership over their own closet & that they search for their own clothes
• Making shopping a social experience

Areas that Stitch Fix does not yet solve for are **bolded**.



Brandon

THE RELUCTANT SHOPPER



"I want to look good, but I'd rather do anything than shop"

JOURNEY SCENARIO

Brandon heads to the mall to look for a replacement to his favorite t-shirt that is getting worn.



LOCATION

Santa Cruz, CA



AGE

24 Years Old



SIZE

Small-to-Medium

STAGE

STORY

GETTING READY

Brandon puts on his favorite shirt – the one he always gets compliments on. He looks in the mirror and a sad reality hits him: the shirt is pretty beaten up. It doesn't look as good as it used to.

It might be time to move on.

HEADING TO THE MALL

Brandon's buddy George is always dressed well. He texts him for advice on where to shop.

George lets him know that he likes Theory, Rag and Bone, and Lululemon for more casual stuff.

Brandon checks out those brands online – they're expensive!

Brandon heads to the mall hoping to find a few things that'll help him look good

SHOPPING

At the mall, Brandon starts with Lululemon – he has good results there. In the store he sees a shirt he really likes. To his dismay he doesn't find a small and the medium is too big. This is why he always has to order two sizes when shopping online.

After seeing that shirt, nothing else in the store looks quite as good.

HEADING HOME

Brandon heads home because he doesn't even recognize some of the other brands in the mall.

As he nears the exit, he notices Abercrombie & Fitch and J. Crew, laughs, and remembers when all he had to do was pick up a few outfits from those stores to be set in high school and college.

AT HOME

When he gets home, Brandon looks for the shirt he found online and orders it.

He also checks out Bonobos, another brand he's heard of for some new pants. He doesn't end up buying anything because he doesn't know if he will like the fit and doesn't want to deal with returns.

He hops on his phone and notices an advertisement for Stitch Fix. It seems interesting so he checks it out further. He doesn't end up engaging because he's a little skeptical it really adds much value, uncertain and nervous about what they would send, doesn't want to pay \$20 to try it, and doesn't want to deal with the hassle of returns.

PAIN POINTS

• Clothes don't last forever and replacing them is hard

• Finding a reliable sources for clothes can be challenging

• Price for well-known brands is expensive

• Trying new stores is a crapshoot
• Inventory challenges at stores lead to disappointment
• Being in between sizes can make shopping more challenging

• Trying new stores is a crapshoot
• No/few retailers can take care of Brandon's wardrobe

• Making an in-store trip just to end up ordering it online is frustrating
• Online ordering presents fit uncertainties
• Shipping returns are still a bit of a hassle

• Skepticism on Stitch Fix's value
• Uncertainty around what he will receive
• Turned off by the upfront fee
• Shipping returns are still a bit of a hassle

OPPORTUNITIES

Areas that Stitch Fix does not yet solve for are **bolded**.

• Offer ways to repurchase or buy lookalikes to one's favorite pieces of clothing when they get worn

• Recommend brands and styles to check out

• Suggest brands that have similar offerings without the premium price

• Instill trust in stores that there may be a good fit, despite not having shopped there before
• Only show items that are in stock and would be a good fit

• Instill trust in stores that there may be a good fit, despite not having shopped there before
• Offer the full breadth of a wardrobe

• Offer a way to show styles and demonstrate fit without going to a store

• Build brand trust and assurances with consumers
• Reduce order friction



Carly

THE STITCH FIX FANATIC

“

“Stitch Fix knows me too well at this point.”

JOURNEY SCENARIO

Carly is looking to use Stitch Fix to add some new spark to her wardrobe for her upcoming weekend trip.



LOCATION
New York, NY



AGE
32 Years Old



SIZE
Small

PHASE

STORY

PAIN POINTS

OPPORTUNITIES

PRE-FIX

ORDERING CLOTHES

SHOPPING HER LOOKS

FIX ARRIVES

CHECKOUT & RETURNS

Carly and her friends from work are planning a spontaneous trip to the Hamptons this weekend.

She's in but would love to get some cute outfits before she goes. Lots of photos will be taken – she wants to be looking her best!

Carly decides to order a fix. She's a little nervous because it needs to come by Friday – that's less than a week. She thinks about going to a store but would rather take her chances with Stitch Fix.

She includes in her note to her stylist that she has her Hamptons weekend trip coming up and would love some new pieces for it.

As much as she loves Stitch Fix, Carly recognizes that Stitch Fix is not the only retailer capable of providing her clothes she loves.

Thus, after ordering her fix, she browses the web for some items. She ends up buying clothes – both for her trip and in general – from Lululemon and Kate Spade.

While waiting for her fix to come, Carly continues to play Style Shuffle – as she does religiously each day – and shops her looks. She loves to just scroll through the clothes.

A lot of the clothes look awesome, but she's not really sure how they would fit into her wardrobe. This often just prevents her from making direct buys and keeping items.

The fix arrives in time, but just barely. She doesn't want to cut it close like that again – it was too stressful.

But she quickly forgets this when she opens the package – the clothes are perfect! The stylist killed it.

While the clothes are awesome, Carly questions how often she'll wear them back in NYC – it's a different “vibe”.

She keeps 4 out of her 5 items and returns the items at her local USPS mailbox.

She wonders if Stitch Fix will ever launch a service that picks the package up where its dropped off – right at her front door!

Off to the Hamptons, now!

On her trip, she gets so many compliments

She wishes Stitch Fix could do this for everything I need.

• N/A

• *It takes time for a fix to come, making it tough to shop in a pinch*

• *Stitch Fix does not necessarily carry all the clothes or brands that she loves*

• *Having a focus for a fix can miss opportunistic buying*

• *It can be hard to understand how to incorporate them into her wardrobe*

• *Sometimes clothes are worn for a temporary occasion*

• *Returning items isn't as easy as getting them delivered*

• *Stitch Fix doesn't carry all the items Carly needs*

• N/A

*Areas that Stitch Fix does not yet solve for are **bolded**.*

• **Decrease shipping times for when customers are in a pinch**

• **Increase catalog of brands carried**

• **Increase the opportunity to buy opportunistically beyond fixes**

• **Increase content of how items pair with her wardrobe and when to wear them**

• **Help customers dress for occasions, not just wardrobe building**

• **Increase convenience of returning items**

• **Expand offerings to new product categories**

Personas Key Findings – Different personas carry different pain points that present opportunity areas that Stitch Fix can help alleviate.



THE MALL-GOING MOM

Ayesha

46, Female // Evanston, IL

"I love going weekend shopping with my girl friends when I can."

JOB TO BE DONE

Ayesha needs a way to shop for clothes that she can fit into her busy schedule without losing an activity that she can use to spend some time with her friends.

KEY PAIN POINTS

- Finding time to shop is difficult
- Boutique shopping is hit or miss
- Sifting through dept. stores racks is arduous
- Likes to feel like she is picking her own clothes
- Doesn't want to give up the social aspect of shopping

KEY OPPORTUNITIES

- Increase convenience of shopping without losing the social components
- Increase spontaneity in shopping experiences
- Provide more ownership of one's closet and buying experiences
- Offer fantastic complementary item pairing



THE RELUCTANT SHOPPER

Brandon

27, Male // Santa Cruz, CA

"I want to look good, but I'd rather do anything than shop."

JOB TO BE DONE

Brandon needs a clothing partner that can provide him everything he needs to look his best, without having to try too hard and/or pay a premium to reduce uncertainty

KEY PAIN POINTS

- His favorite clothes don't last forever
- Finding reliable, trustworthy brands is a challenge – trying new stores brings significant uncertainty
- Filling a wardrobe requires many stores
- All the good brands are expensive
- Being in between sizes makes it tough to order online & returns are a hassle

KEY OPPORTUNITIES

- Be able to repurchase old clothes
- Instill trust in stores that there may be a good fit, despite not having shopped there before
- Offer a way to show styles and demonstrate fit without going to a store
- Offer the full breadth of a wardrobe
- Reduce order friction



THE STITCH FIX FANATIC

Carly

35, Female // New York, NY

"Stitch Fix knows me too well at this point."

JOB TO BE DONE

Carly needs a service that can provide her clothes for an occasion when time is short so she can be looking her best.

KEY PAIN POINTS

- Ordering a fix in a time pinch is difficult
- Stitch Fix doesn't carry all the brands or product categories that she needs
- It can be difficult to know how to best incorporate the items into her wardrobe
- Clothes are sometimes only worn for a one-time occasion

KEY OPPORTUNITIES

- Decrease shipping times for when customers are in a pinch
- Increase catalog of brands & products
- Expand content of how items pair with her wardrobe and when to wear them
- Help customers dress for occasions, not just wardrobe building

Note:

- These personas are not grounded in consumer research, but instead are made up by Ian to illustrate findings that might surface from consumer & journey-based work
- The three personas here are not meant to serve as an exhaustive representation of target or potential customers

Customer Needs Summary – The persona pain points present different opportunities for retailers to provide better customer experiences.

PAIN POINT AREAS

Traditional shopping experiences has its challenges.	PPA 1
Online shopping is convenient but has its own flaws.	PPA 2
Shopping is time consuming.	PPA 3
I need help figuring out what to wear and how to wear it.	PPA 4
Brands aren't serving me exactly what I need.	PPA 5
Stitch Fix isn't a silver bullet solution.	PPA 6

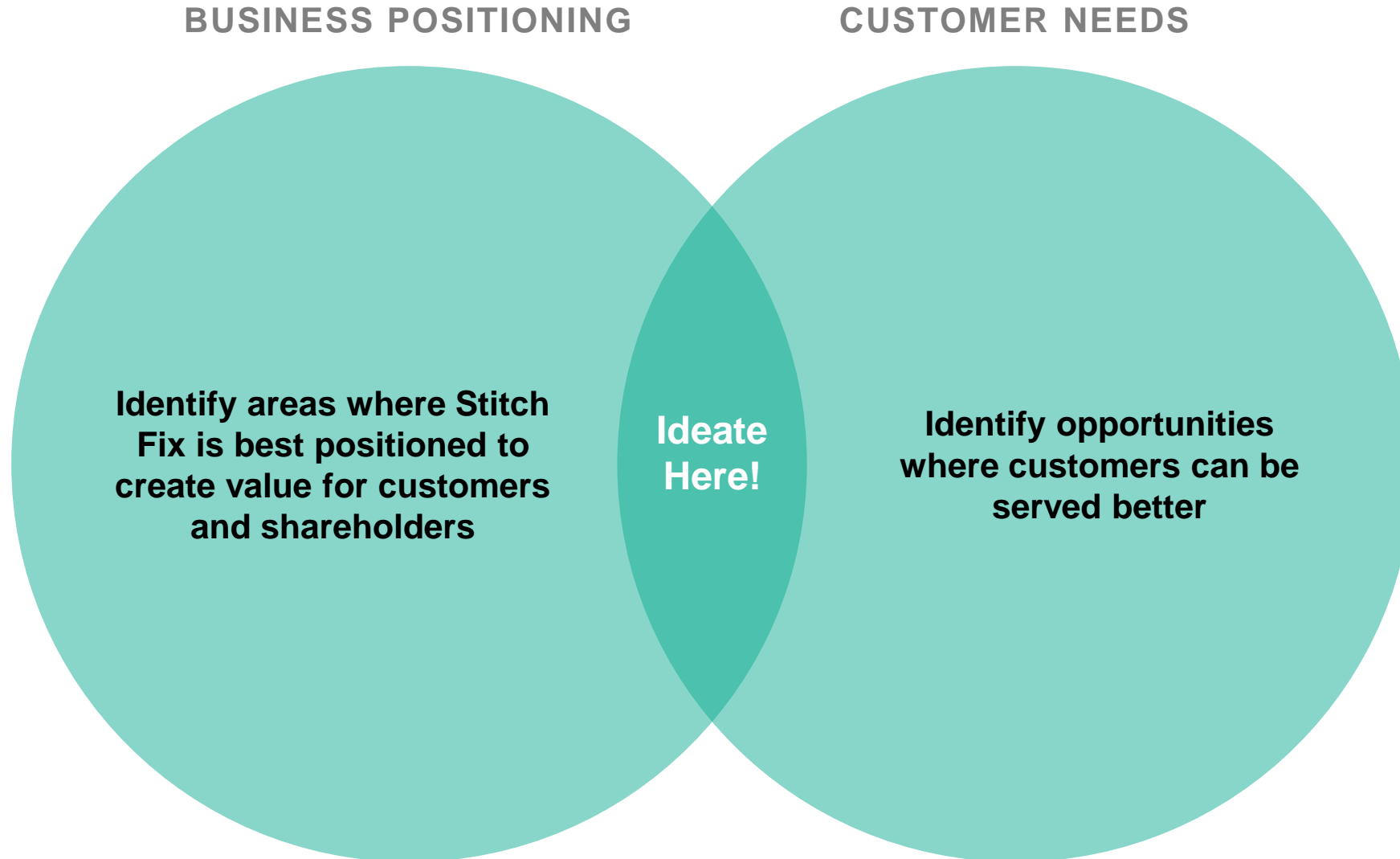
OPPORTUNITY AREAS

OA 1	Curate to increase buyer control & ownership of the experience.
OA 2	Help me expand & extend my wardrobe.
OA 3	Let me do more with you!
OA 4	Help facilitate an easier & smoother order experience.
OA 5	Establish and build trust in the shopping journey.

Note:

- Illustrative, non-comprehensive sample of all consumer pain points as personas are not grounded in consumer research
- Full pain point and opportunity analysis available in the appendix

What Do We Do? – Stitch Fix must continue to identify opportunities to uniquely serve customers better.



Opportunities – Stitch Fix has several opportunities to increase the number of items its customers keep.

ID	Opportunity	Description	Value Lever(s)	Customer Opportunity Area
1	Clothing Personalization	<i>Increase personalization through customized clothing & an integrated value chain.</i>	<ul style="list-style-type: none"> ▪ Increase keep rate 	<ul style="list-style-type: none"> ▪ Establish and build trust in the shopping journey
2	Content to Commerce & Use	<i>Leverage content to guide customers through “big hires” and “little hires”.</i>	<ul style="list-style-type: none"> ▪ Increase keep rate 	<ul style="list-style-type: none"> ▪ Curate to increase buyer control & ownership of the experience
3	Stitch Fix as a Service	<i>Externalize Stitch Fix’s capabilities via a software-as-a-service offering.</i>	<ul style="list-style-type: none"> ▪ Increase order rate ▪ Increase market penetration 	<ul style="list-style-type: none"> ▪ Establish and build trust in the shopping journey
4	Rental Program	<i>Meet a broader set of customer needs by offering rental service.</i>	<ul style="list-style-type: none"> ▪ Increase order rate ▪ Increase market penetration 	<ul style="list-style-type: none"> ▪ Help me expand & extend my wardrobe
5	Sunglasses & Eyewear	<i>Expand merchandise to include eyewear as a new product category.</i>	<ul style="list-style-type: none"> ▪ Expand into new product categories 	<ul style="list-style-type: none"> ▪ Let me do more with you
6	Beauty Products	<i>Expand merchandise to include beauty products as a new product category.</i>	<ul style="list-style-type: none"> ▪ Expand into new product categories 	<ul style="list-style-type: none"> ▪ Let me do more with you
7	International Expansion	<i>Expanding operations internationally into other countries like Germany.</i>	<ul style="list-style-type: none"> ▪ Expand into new geographical markets 	<ul style="list-style-type: none"> ▪ Let me do more with you

Note:

Full opportunity details are available in the “Opportunity Deep Dives” section

■ Current wallets focused
 ■ New wallets focused

Prioritization Approach – To maintain focus, Stitch Fix must prioritize these efforts according to their potential impact and anticipated feasibility.

Category	Criteria	Considerations	Low	Medium	High
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Stitch Fix's strategic direction ▪ Contribution to CF subscriber growth ▪ Improvement to competitive positioning 	<ul style="list-style-type: none"> ▪ Inconsistent with Stitch Fix strategy ▪ Minimal contribution to items kept by customers ▪ Minimal impact to competitive positioning 	<ul style="list-style-type: none"> ▪ Aligned with Stitch Fix strategy ▪ Moderate contribution to items kept by customers ▪ Improves competitive positioning 	<ul style="list-style-type: none"> ▪ Aligned with Stitch Fix strategy ▪ Significant contribution to items kept by customers ▪ Creates a competitive advantage
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	<ul style="list-style-type: none"> ▪ Minimal revenue impact ▪ Minimal CoR / OpEx efficiencies ▪ Minimal FCF efficiencies 	<ul style="list-style-type: none"> ▪ Moderate revenue impact ▪ Moderate CoR / OpEx efficiencies ▪ Moderate FCF efficiencies 	<ul style="list-style-type: none"> ▪ Significant revenue impact ▪ Significant CoR / OpEx efficiencies ▪ Significant FCF efficiencies
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	<ul style="list-style-type: none"> ▪ Does not require Stitch Fix to undertake R&D / IP accrual ▪ Implementation does not impede business continuity ▪ Implementation does not require new competencies 	<ul style="list-style-type: none"> ▪ Requires Stitch Fix to undertake some R&D / IP accrual ▪ Implementation causes minor disruption to business continuity ▪ Requires Stitch Fix to build some new minor competencies 	<ul style="list-style-type: none"> ▪ Requires Stitch Fix to undertake significant R&D / IP accrual ▪ Implementation causes a disruption to business continuity ▪ Requires Stitch Fix to build new major competencies
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	<ul style="list-style-type: none"> ▪ Requires minimal investment to implement 	<ul style="list-style-type: none"> ▪ Requires moderate investment to implement 	<ul style="list-style-type: none"> ▪ Requires significant investment to implement

Prioritization Results – The highest ranked opportunities are clothing personalization, Stitch Fix as a service, eyewear, & Germany expansion.

Prioritization Map



ID	Opportunity	Classification	Score	Rank
3	Stitch Fix as a Service	EVALUATE	4.16	1
5	Sunglasses & Eyewear	EVALUATE	4.00	2
7	International Expansion (Germany)	EVALUATE	3.91	3
1	Clothing Personalization	EVALUATE	3.81	4
6	Beauty Products	SAVE FOR LATER	3.72	5
2	Content to Commerce & Use	SAVE FOR LATER	3.69	6
4	Rental Program	SAVE FOR LATER	3.51	7

■ Current wallets focused ■ New wallets focused □ Selected for evaluation

Evaluation Criteria – Instead of speculating, we can “reverse-engineer” the logic to ask, “What must be true to pursue this opportunity?”.

OBJECTIVE

Identify conditions that must be true to successfully pursue this opportunity.

A. Industry Analysis	B. Customer Value Analysis	C. Business Model Analysis	D. Competitor Analysis
1. Segmentation <i>What must we believe about the size & attractiveness of the target segment?</i>	1. Channel Customer <i>What attributes must we believe the channel customer values?</i>	1. Capabilities <i>What capabilities must we have to deliver on this relative to competitors?</i>	1. Competitive Response <i>What must we believe competitor response to be?</i>
2. Structure <i>What must we believe about the target industry attractiveness?</i>	2. End-Consumer <i>What attributes must we believe the end-consumer values?</i>	2. Costs <i>What cost structure must we have to deliver on this relative to competitors?</i>	

Note:
Methodology adapted from *Playing to Win* by Roger Martin and A.G. Lafley

Evaluation Approach – The approach focuses on the essential questions without wasting more time, money, or resources than necessary.

Key Steps

- 1

Develop Hypotheses
Develop hypotheses against the “What must be true?” evaluation criteria.
- 2

Rank Likelihoods
With a list of hypotheses created, rank them in order of least to most likely to pass.
- 3

Design Tests
Design tests and define success criteria to evaluate the hypothesis.
- 4

Conduct Tests
Test hypotheses in rank order.
- 5

Continue, Refine, or Abort
If a hypothesis fails and the initiative cannot reconcile with the finding while maintaining value, there is no need to continue. Otherwise, continue to the next test.

Clothing Customization – What must be true in order to successfully pursue this opportunity?

German International Expansion – What must be true in order to successfully pursue this opportunity?

Eyewear – What must be true in order to successfully pursue this opportunity?

Stitch Fix as a Service – What must be true in order to successfully pursue this opportunity?

Category	ID	Hypothesis	Test	Rank ¹
Industry Analysis Segmentation	H1	A sufficiently large number of apparel companies would be willing to open their technology stack to a retailer's software solution.	Consumer Research	1*
Industry Analysis Structure	H2	Enterprise software sales would be growth & profitability accretive to Stitch Fix's business.	Financial Analysis	5
Customer Value Analysis Channel Customer	H3	Sharing inventory and customer data would not be a dealbreaker for companies.	Customer Research	2*
Customer Value Analysis End-Consumer	H4	Consumers would want style & fit personalization recommendations and feedback to be translatable between channels.	Consumer Research	4*
Business Model Analysis Capabilities	H5	Stitch Fix has the ability to develop a SaaS solution.	Fit-Gap Analysis	3*
Business Model Analysis Costs	H6	Stitch Fix can achieve cost parity or better relative to competitors to deliver this service.	Financial Analysis	6
Competitor Analysis Competitive Response	H7	Competitor barriers to compete are too high because of Stitch Fix's relationship with customer and unique access to data.	Competitive Analysis	7

Note: 1. Hypotheses are ranked in order of least to most likely to hold true, based on intuition. * These hypotheses will be tested.

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Full hypotheses development available in the appendix

Hypotheses Summary – Testing these key hypotheses will help validate the strategic initiative candidates as ones that are likely to be successful.



Stitch Fix as a Service

- Sharing inventory and customer data would not be a dealbreaker for companies.
- A sufficiently large number of apparel companies would be willing to open their technology stack to a retailer's software solution.
- Stitch Fix has the ability to develop an enterprise-grade SaaS solution.
- Consumers would want style & fit personalization recommendations and feedback to be translatable between channels.



Sunglasses & Eyewear

- Stitch Fix can develop merchandising partnerships with eyewear manufacturers to sell through its channel.
- Competitors will struggle to match Stitch Fix's matching algorithms & data science capabilities
- A sufficiently large number of people would want better personalization of eyewear based on their style and fit needs.



Germany Expansion

- Customer data from another country will help make meaningfully better algorithmic decisions in other countries (i.e., contribute to the company's data network effects).
- Consumers would be willing to purchase clothing through a direct-to-consumer channel and provide feedback.
- Stitch Fix can develop merchandising partnerships with clothing manufacturers to sell through its channel.
- All else equal, consumers would value a channel that helps them identify clothes that are going to fit them well.
- Regional competitors are not equipped with the data & analytics capabilities to successfully match Stitch Fix's personalization capabilities.

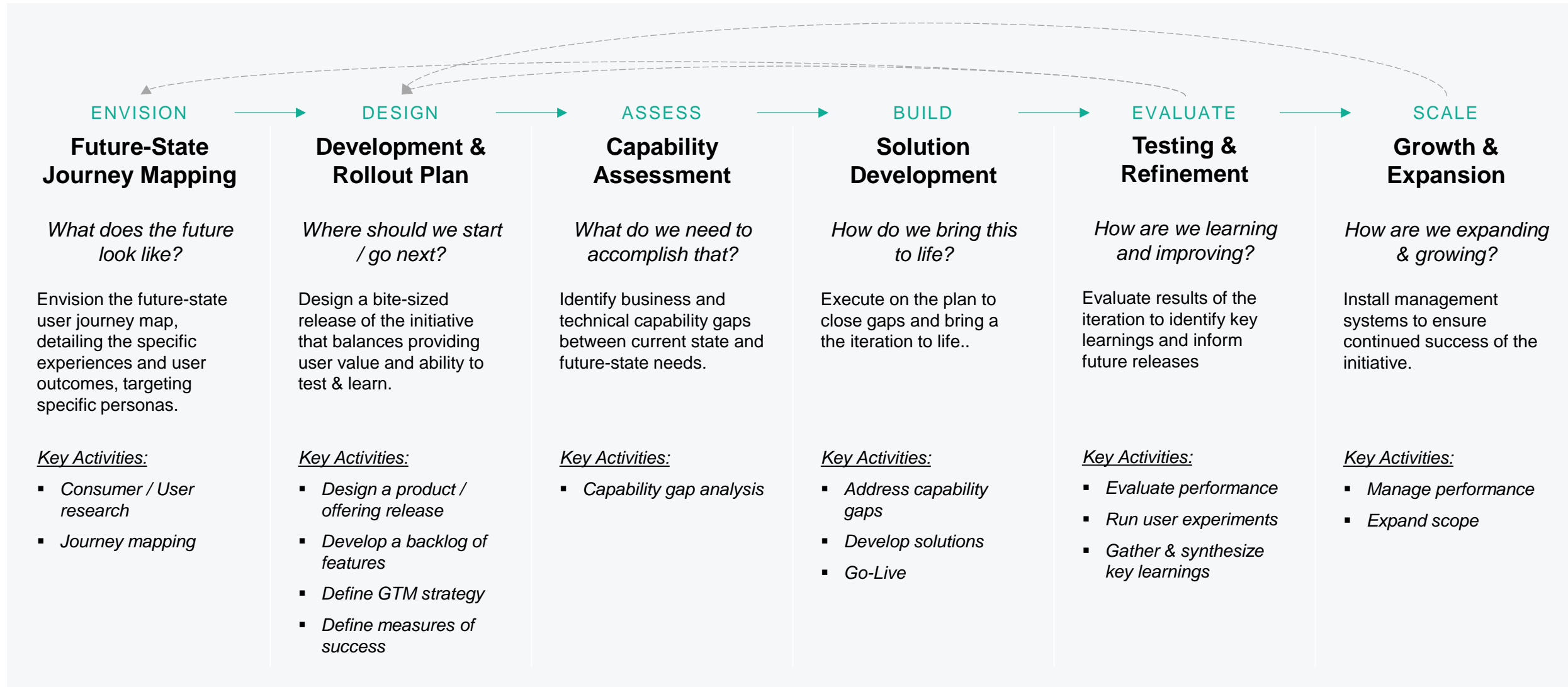


Clothing Personalization

- Stitch Fix has the capability to develop or integrate an innovative manufacturing process.
- Stitch Fix has the capability to create or integrate a clothing design platform.
- Integrating into the value chain to provide personalized products would be growth & profitability accretive at some level of personalization and an achievable level of scale.
- A sufficiently large number of people would purchase clothing from one company over another because of increased product personalization.
- All else equal, consumers would choose a more personalized clothing item than items that are available today.

Note:
Full hypotheses development available in the appendix

Next Steps – Stitch Fix must envision the future, understand its gaps, and iteratively build to go from validated concept to reality .



Key Takeaways – Stitch Fix wins by sticking to its core values but applying them in new ways and executing exceptionally well.

- Stitch Fix's priority should be **growth** to take advantage of and improve its **leadership position** and the scale economies and network effects that come with it.
- To grow, Stitch Fix can tap both **new** and **current wallets**.
- The most promising opportunities are the ones that **deepen** and **extend** Stitch Fix's **core competency** of helping people find the items they love in **new ways**.
- Data provides a competitive advantage, however, it's important to not develop an **over-reliance** on data. Inherently, data reflects the past and what customers think they want. Stitch Fix must ensure that data is used as a **component** of the puzzle, not the sole answer.
- Stitch Fix should view this as a **starting point** and be **nimble** enough to alter the strategy and roadmap as priorities and competitive landscapes **evolve**.
- Everything here merely sets the stage for **potential value creation** - without **exceptional execution**, these opportunities will not yield meaningful results.

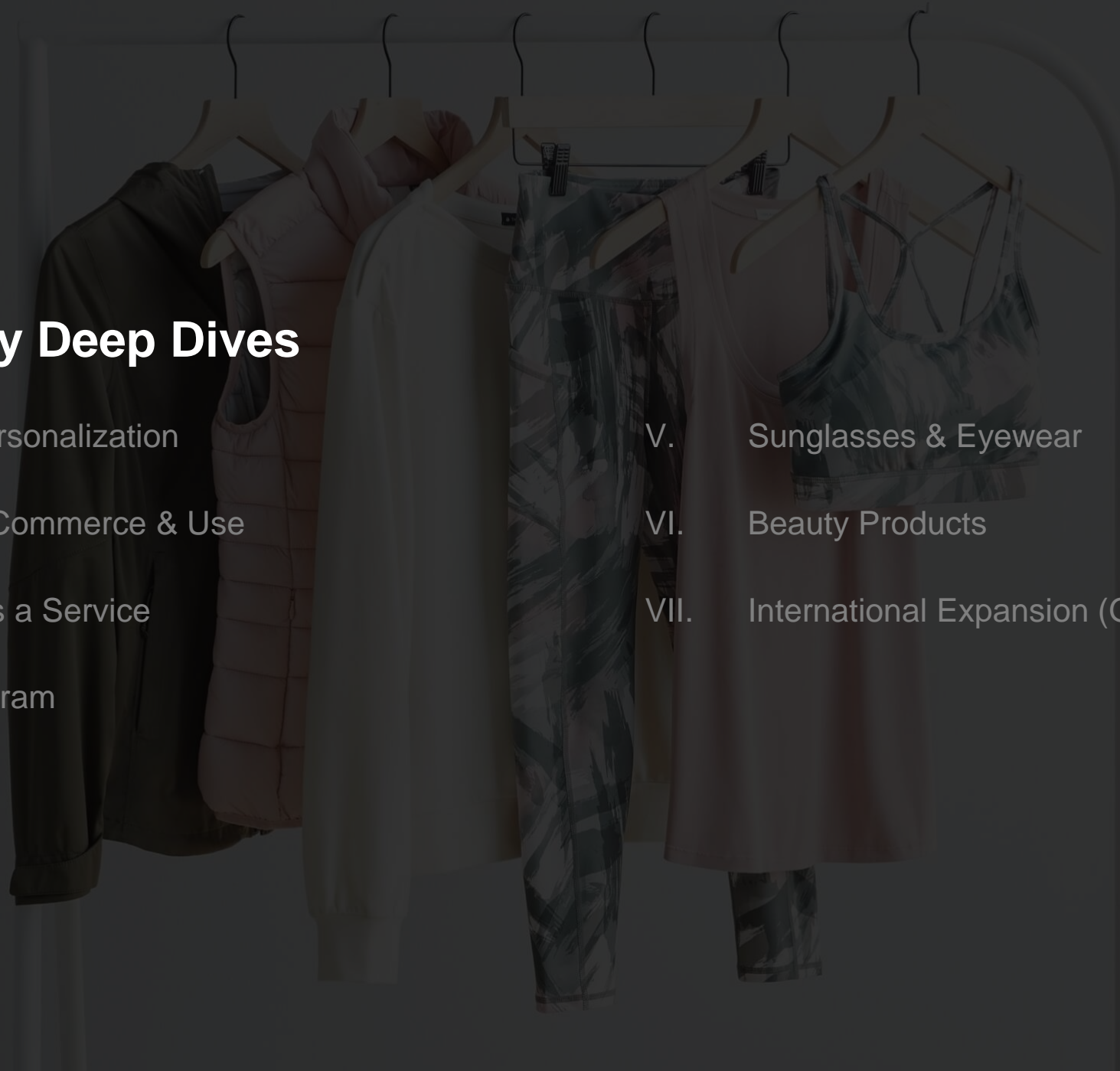
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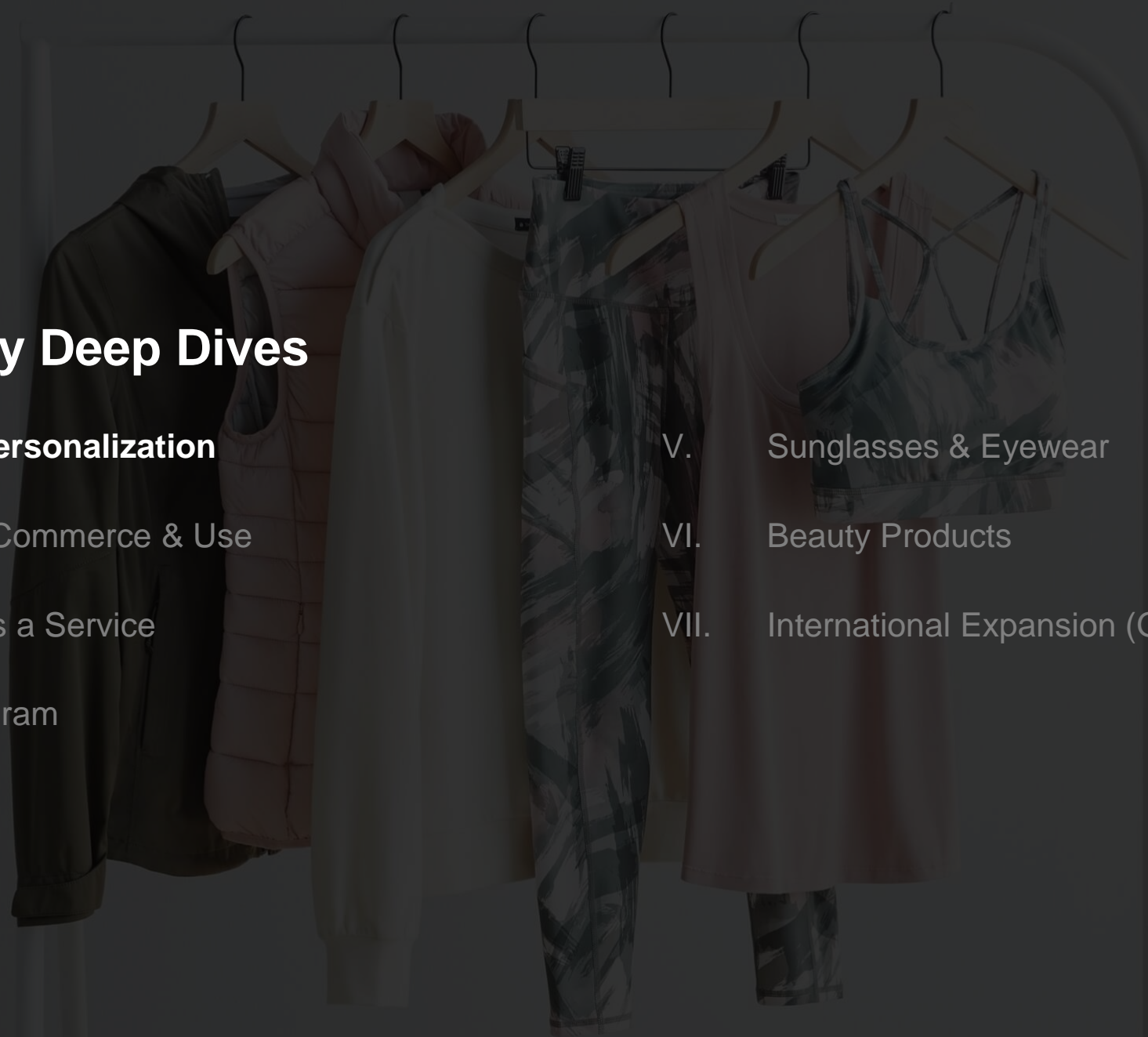
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E-Commerce Wave 3 – Trailblazing the second wave also sets Stitch Fix up well for the third wave of e-commerce: personalized clothing.

E-Commerce Wave 2 – Stitch Fix's success is owed to ushering "Wave 2" of E-Commerce to apparel.

TRADITIONAL RETAILERS



Shopping experiences leave customers searching for needles in haystacks.

When you walk into an apparel store, you are presented with a number of items that are not relevant to you in any way. Whether it be the wrong size, a pattern you'd never wear, or a cut that doesn't suit you, there is a lot of "noise" in your path to finding items that you truly love.

Consumers are left to try to navigate through this noise.

E-COMMERCE WAVE 1



Low prices & convenience drive purchase decisions for items we know we want.

The primary focus of the first wave of E-commerce is simply to make everything available for purchase online. More convenient than shopping in-person, wave 1 e-commerce retailers have been stealing market share from traditional brick and mortar stores through comparably low prices.

This works well for commoditized goods or when customers already know what they are looking for.

E-COMMERCE WAVE 2



Apparel shopping is a personalized, curated experience to find what you love.

However, for non-commoditized products (i.e., where price and convenience are not the primary drivers), there is an opportunity to provide a much more engaging customer experience.

Stitch Fix creates a shopping experience where every item on its "clothing rack" is not just your size, but also has the styles, fits, and fabrics that you will love.

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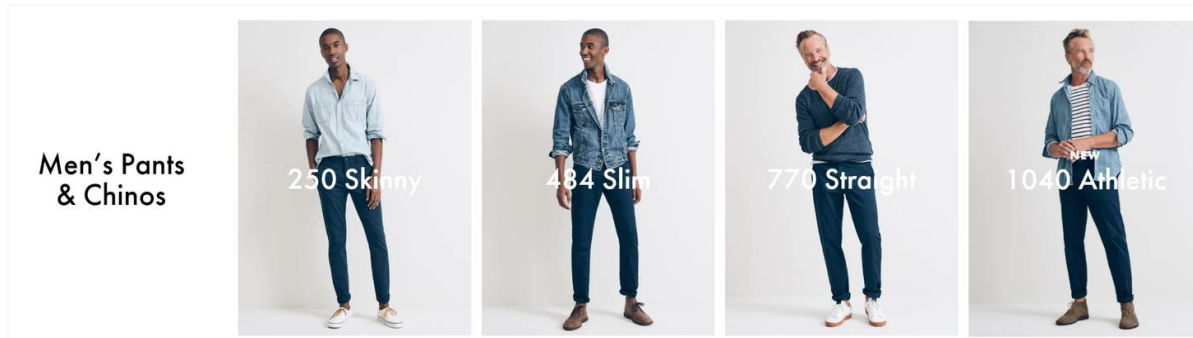
The Third Wave of E-Commerce

The third wave of e-commerce will not help you find goods and services well suited to you, but instead will **custom-build** them for you.

Its customer data and a tailored supply chain to produce customized pieces gives Stitch Fix a **vertically integrated value chain**. Barriers to effective entry and barriers to compete would be nearly insurmountable due to the innovation and scale required.

The Journey – The path to true personalization at scale will be slow, but it isn't a new trend.

Generalized Personalization



J. Crew men's pants style lines

Apparel sizes (i.e., a “medium” t-shirt or “size 6” pants) are a simple form of clothing personalization. Furthermore, brands offer lines that offer similar cuts, making it easier for you to identify clothing that fits your body type well.

The Challenge In Going Deeper

1

Lack of Individualized Data

With a lack of data at the individual customer level, clothing lines are created for segments of customers — someone that looks like you.

2

Slow, Unspecific Feedback Loops

Apparel companies have little feedback on what specifically is or isn't working with their clothes. New launches are educated guesses based on previous sales history.

Level Zero – To start, Stitch Fix simply needs to continue getting really good at matching customers with clothes.

Understanding Customer Needs

The most important part is to get really good at matching customers with clothes based on its “dimensions” — neck width, torso size, arm width, etc.

Stitch Fix is already getting better at this every day!



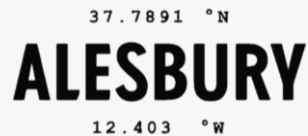
Level One – Then, Stitch Fix needs to use this ability to design clothes that customers will love.

A Few of Stitch Fix's Exclusive Labels



PIXLEY

A-FRAME



Hawker Rye

Designing Clothes

The next iteration of this would be to not just match customers with clothes, but actually **design** clothes that will match with customers.

For most apparel companies, the largest barrier to personalization is the availability of data. With a **granular understanding** of detailed clothing preferences beyond simplistic clothing sales, Stitch Fix can create clothing with a higher likelihood of meeting customer wants and needs.

Similarly, **Stitch Fix is already getting better at this every day with its exclusive brands.**

Level Two – Next, Stitch Fix can use software so designers can focus more on design creativity, leaving the rest to be solved algorithmically.

Focusing Designer Time on High-Value Activities

To increase personalization is to increase the **number of segments**. However, this adds additional design load as designers must account for a larger number of segments.

To solve for this, instead of a designer specifying exact dimensions, clothing dimensions become a more abstract part of the design process. Using a video game engine or other **3D CAD software** like CLO, the designer can simply envision how their clothes look should look.

This allows them to focus on the more **creative aspects** of design like how the item should fall on a body, how it reacts to movement, and how it looks in different lighting.



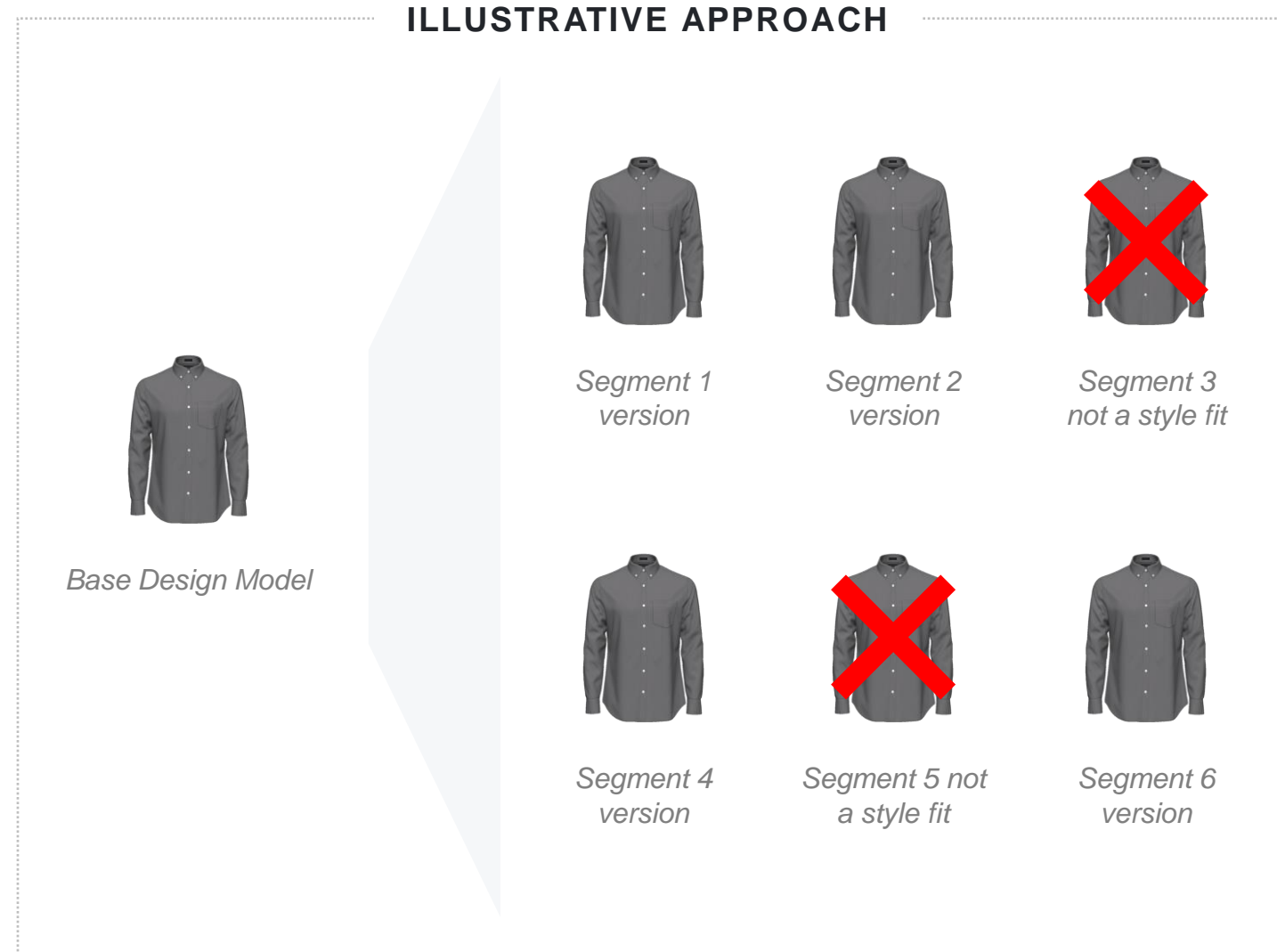
Example 3D Design Software by CLO

Level Two – Next, Stitch Fix can use software so designers can focus more on design creativity, leaving the rest to be solved algorithmically.

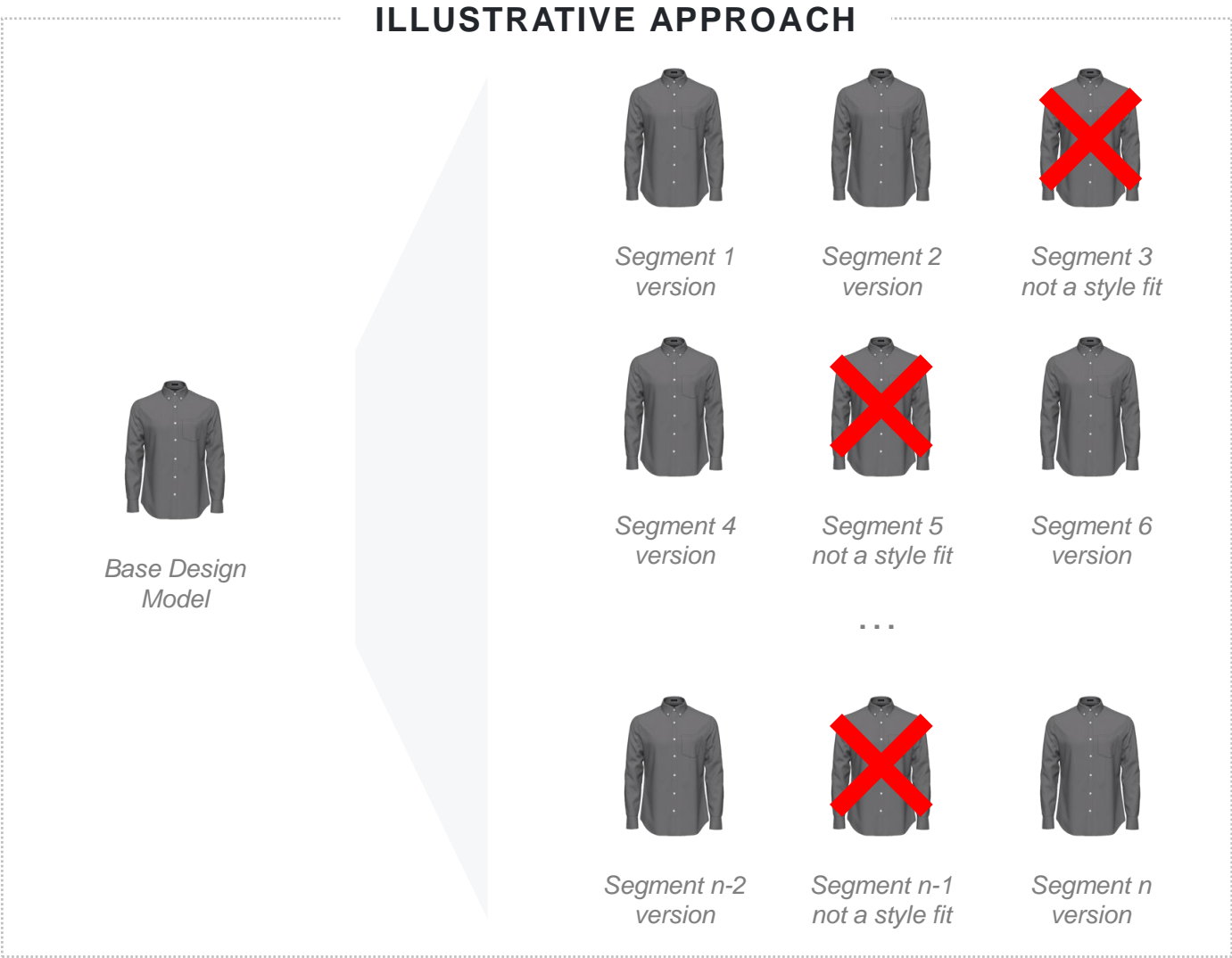
Algorithmic Sizing and Demand Forecasting

Then, **specific dimensions would be calculated algorithmically** for different customer segments, helping the designer focus on more valuable work.

Over time, the goal would be to increase the **granularity of the customer segments** and the **number of clothing dimensions to customize**.



Level Three – As the number of customer segments increases, it won't make as much sense to “hard code” the manufacturing process.



Dynamic Manufacturing

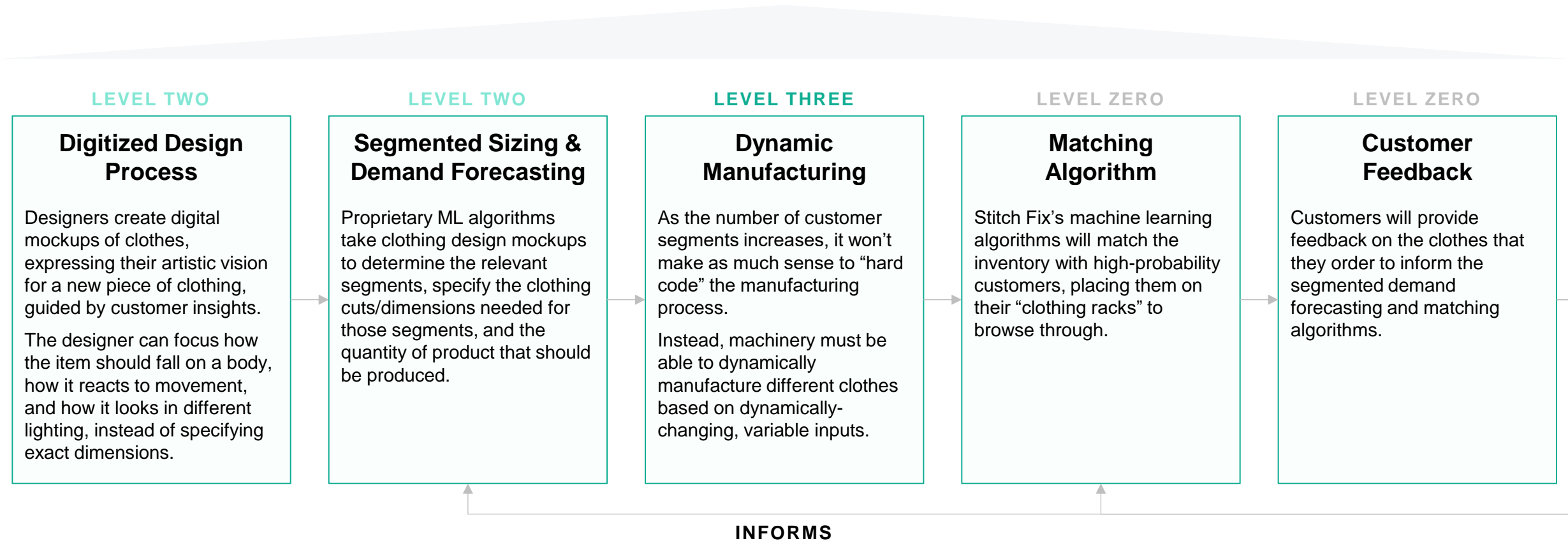
As the number of customer segments increases, it won't make as much sense to “hard code” the manufacturing process due to **frequently changing outputs**.

Instead of presetting the manufacturing equipment, it would be more efficient for the manufacturing equipment to be able to **dynamically manufacture different clothes** based on dynamically changing, variable inputs.

A Complete Value Chain – Personalization enabled by an integrated value chain will help Stitch Fix both create and capture tremendous value.

FULL VERTICAL INTEGRATION

Implementation of Level One, Level Two, and Level Three results in a fully integrated value chain that provides customers with an unparalleled degree of personalization potential.



Degree of Personalization – Stitch Fix can simply adjust personalization to the optimal level as it maintains a cost advantage at all levels.

At What Point Is Personalization Not Worth It?

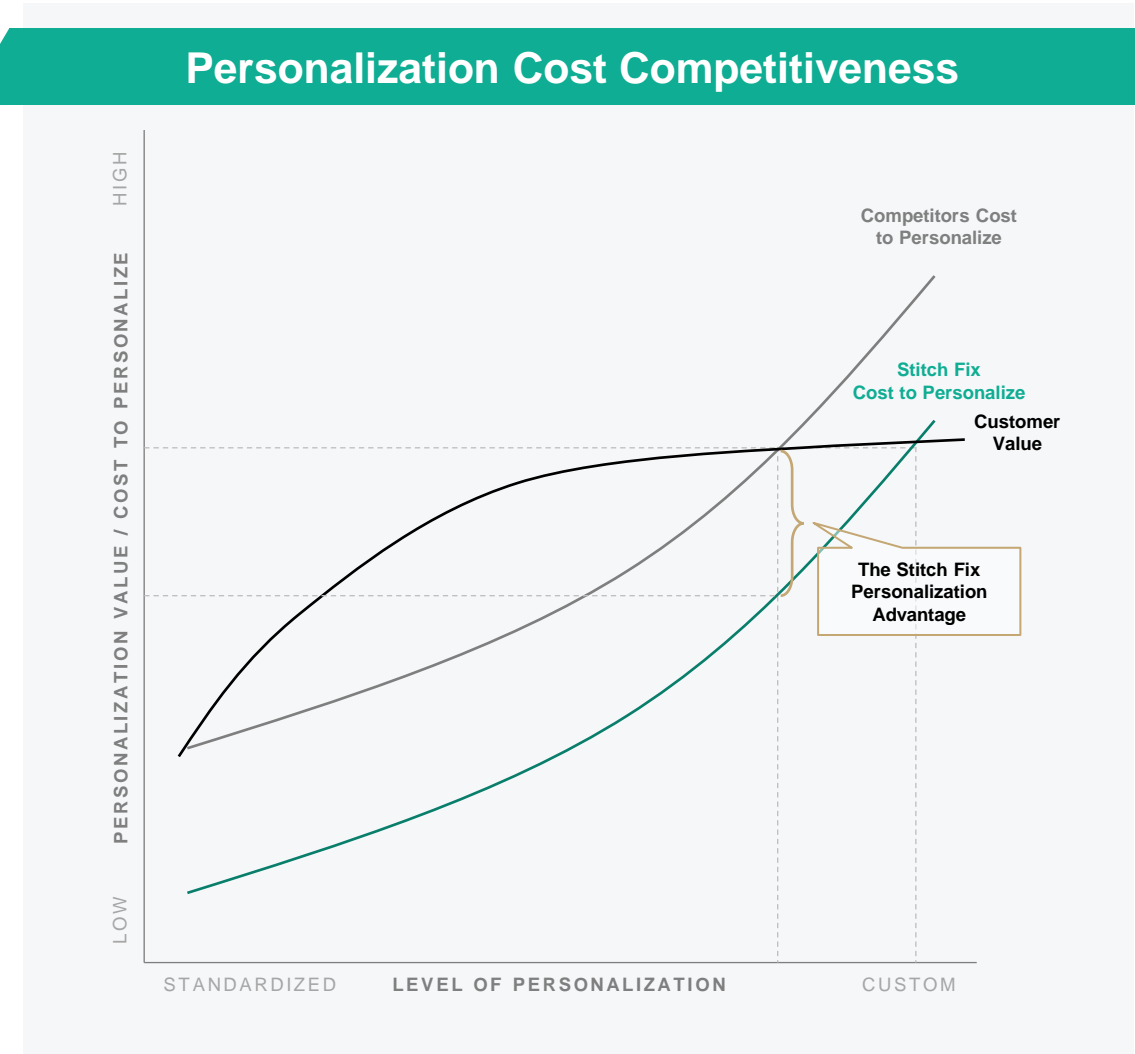
Customers value clothing that fits them well and will always prefer an item of clothing whose fit is more personalized to them, all else equal. However, the incremental **value** of personalization is **diminishing**, and the incremental **cost** of personalization is **increasing**.

The beauty of this opportunity is that Stitch Fix can dial the personalization up or down to the **optimal level** and **scale investments proportionally**. For example, if Level Three isn't needed, simply, don't do it!

Regardless of the ideal level of personalization, Stitch Fix's unique access to granular customer data enable it to always have a **cost advantage** against competitors, **all else equal**.

Note:

- Illustrative chart; not grounded in objective data
- This should not be confused with Stitch Fix having an **overall** cost advantage over competitors. This is just in the realm of personalization – a holistic view (i.e., considering logistics costs, etc.) will have different results.



Scoring – Stitch Fix can create tremendous value through personalization and the associated integrated value chain.

Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Stitch Fix's strategic direction ▪ Contribution to items kept by customers ▪ Improvement to competitive positioning 	5	<ul style="list-style-type: none"> ▪ Aligns with Stitch Fix's value proposition of uniquely helping people find items to wear that they will love ▪ Drives increase in items kept by customers through higher quality merchandise, lifting keep rates ▪ Increases defensibility due to value chain complexity & integration
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	4	<ul style="list-style-type: none"> ▪ Drives higher-margin, exclusive label sales ▪ Value chain integration increases capturable value
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	1	<ul style="list-style-type: none"> ▪ Requires significant R&D and new IP to deliver a design and dynamic manufacturing platform ▪ Expands the scope of Stitch Fix's business, adding complexity to operations
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	2	<ul style="list-style-type: none"> ▪ Requires funding for software development and hard asset purchases / leases and R&D investments ▪ This opportunity affords flexibility and incremental investment as business cases become clearer

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Big & Little Hires – Getting “little hires” is what develops a high-trust, purpose brand, providing customers with simplicity & clarity to solve a job.

THE JOB TO BE DONE

As outlined by Clayton Christensen, a helpful construct to think about business is consumers hiring a product or service to accomplish a specific job to be done.

A. There are two types of hires a customer makes

1

Big Hires

A customer deciding to **purchase** the product.

2

Little Hires

A consumer deciding to **use** the product.

B. Don't forget about the “little hires”

The moment a consumer brings a purchase into his or her home or business, that product is **still waiting to be hired again** – the “Little Hire”.

If a product really solves the job, there will be many moments of consumption. It will be hired **again and again**.

C. The reward for getting both hires right is a purpose brand.

Purpose brands become synonymous with the job, stopping a consumer from even considering looking for another option and command a price premium for this guidance.

Purpose brands provide remarkable **simplicity & clarity** for customers.

A Big Hires Focus – Stitch Fix does a great job with the big hire but could benefit from focusing more on the little hire.

The Often-Overlooked Little Hires

Stitch Fix does a fantastic job by curating the right selection of clothing, decreasing uncertainty from the purchase decision – the big hire.

However, Stitch Fix has an opportunity to improve how they guide customers on how and when to make the little hires. The company offers visual guidance through a couple instances of how to pair the item and they have a men's fashion blog, but **this visual advice is superficial**, and the blog is **not a particularly seamless experience**.



A Little Hires Focus – Little hires strengthen customer relationships, but Stitch Fix must extend beyond data science to get it right.

Stitch Fix can create better relationships with customers by guiding them through the little hires.



The Reward

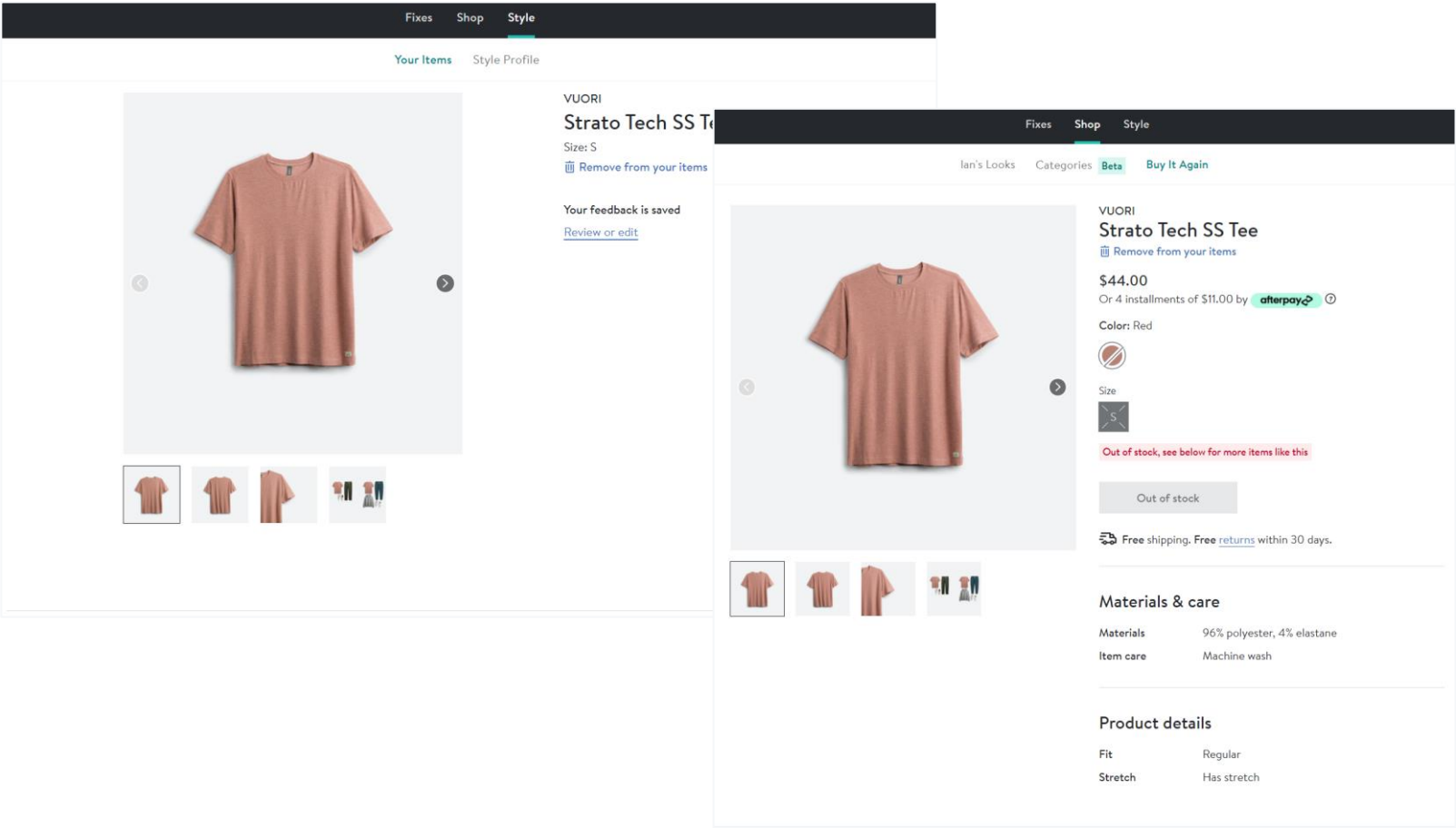
If done successfully, this will strengthen retention, improve long-term conversion, and adds yet another barrier to incumbents and other lurking competitors.



The Path

However, data science can only go so far in making recommendations. It doesn't have a great understanding of the social circumstances around choosing an item of clothing – it's better at making quantitative assessments.

Leveraging Content – Stitch Fix should leverage content to help provide more product context.



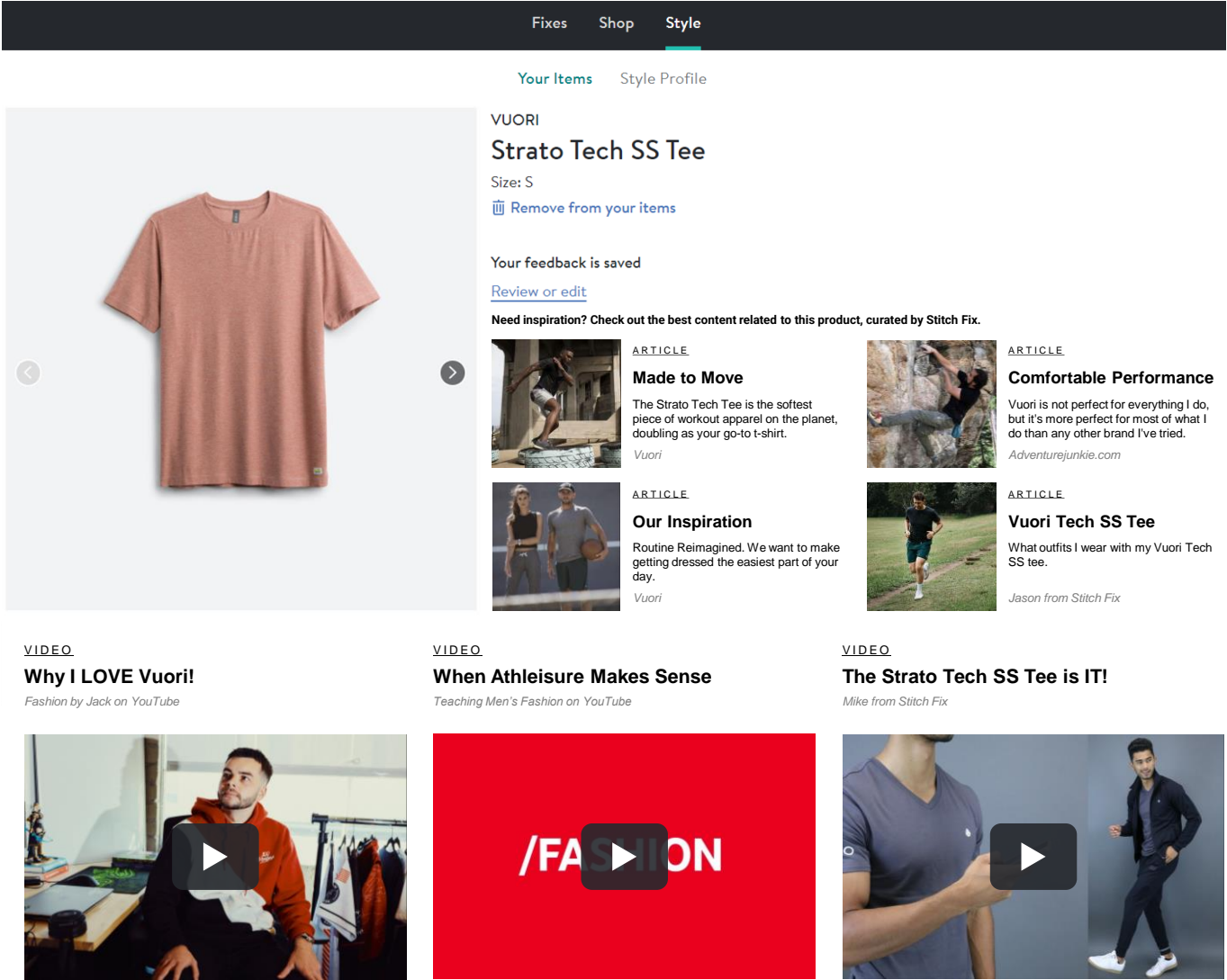
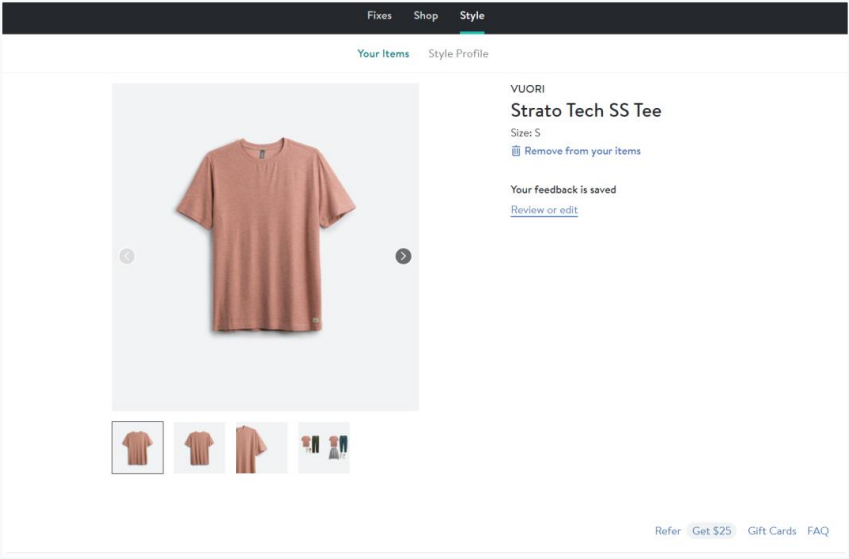
Currently, product and “Your Items” pages are barren. They neither tell a story about the product nor provide guidance on how it can be used.

Informative, Guiding Content

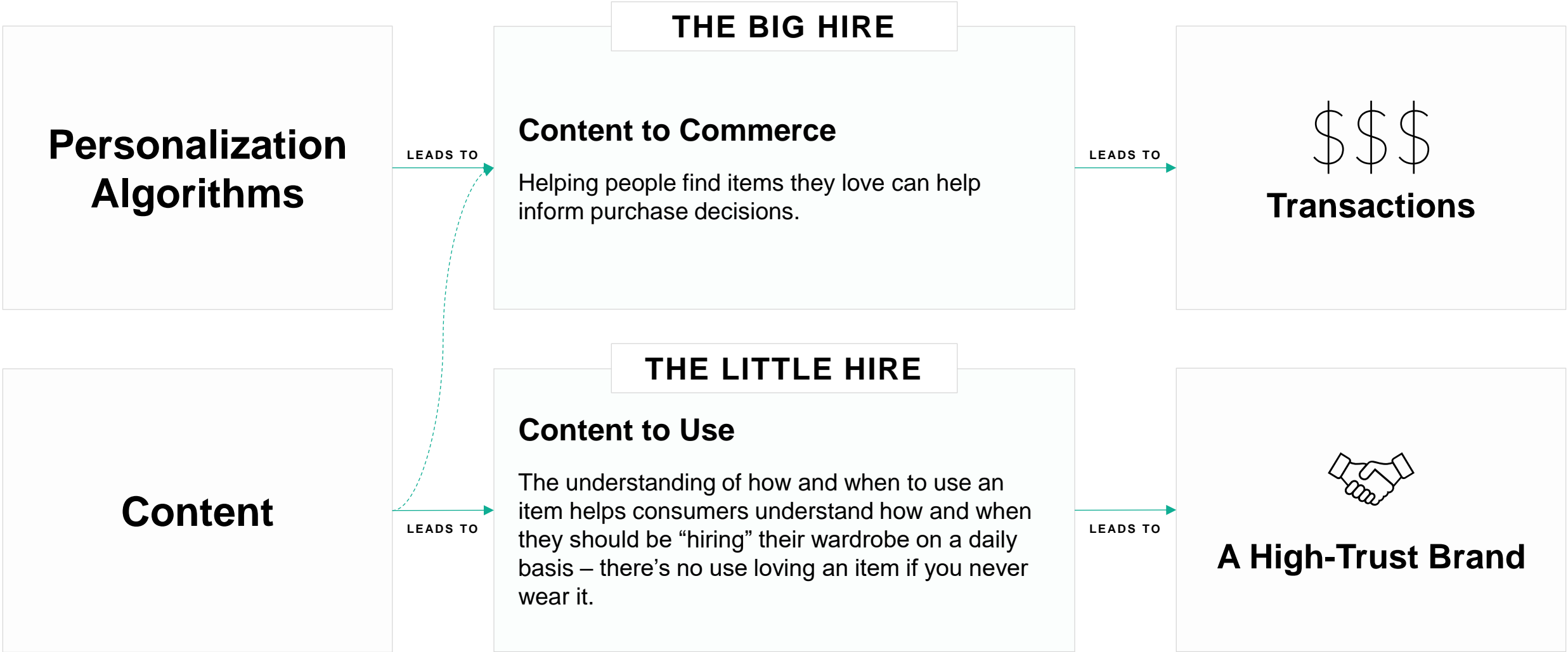
After purchase, customers are left to their own devices to incorporate the item into their wardrobe.

Providing product-relevant content can Stitch Fix provide **guidance** throughout the **entire lifecycle** of a product, building longer and more **meaningful customer relationships**.

Leveraging Content – Stitch Fix can link pieces of internal and external content on product pages to inform both big and little hires.



The Net Effect – Content will help Stitch Fix become a purpose brand by facilitating both upfront commerce and later use.



Scoring – Content would help Stitch Fix build a strong customer relationship, but the cost and complexity is relatively high.

Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Stitch Fix's strategic direction ▪ Contribution to items kept by customers ▪ Improvement to competitive positioning 	4	<ul style="list-style-type: none"> ▪ Increases Stitch Fix's ability to facilitate "big hires" and "little hires", resulting in the development of a purpose brand ▪ Increases items kept by customers through higher keep rates from better upfront guidance ▪ Increases barriers to compete
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	3	<ul style="list-style-type: none"> ▪ Increases sales through higher keep rates ▪ Decreases CoR through lower return rates
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	3	<ul style="list-style-type: none"> ▪ Requires building a strong media / content creation capability ▪ Requires building software to curate relevant third-party content
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	2	<ul style="list-style-type: none"> ▪ Requires hiring in-house content creators ▪ Software development investments are required

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The D2C Shift – Apparel companies have been looking to move away from distribution partners by taking a direct-to-consumer approach.

Direct-to-Consumer Shift

1

D2C is profitable

The first reason is simply that D2C business models are more profitable. There is one less middleman that needs to take a cut.

2

Ownership of the shopping journey

The second reason is that the company has more control over how its products and brands are presented to consumers.

For example, Nike stopped selling its products on Amazon, where it was just another shoe among millions of search results. It can't showcase its powerful everyday athlete story and how that's manifested in the product.

The D2C Impact – Interest in distributors is diminishing and Stitch Fix has extreme dependence on its one channel.

Direct-to-Consumer Impact

1 Distribution demand will wane sparking the demise of the undifferentiated

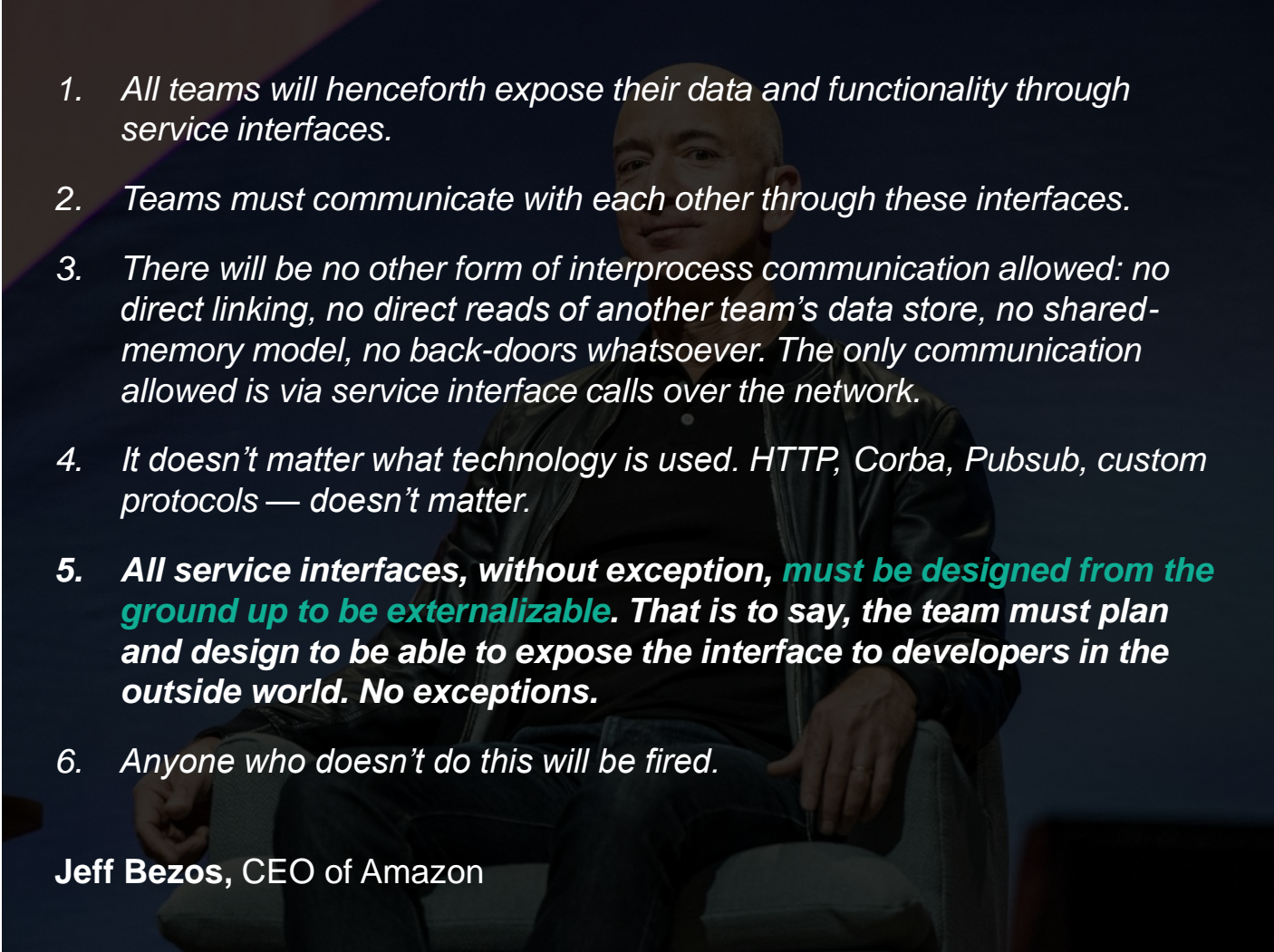
There will be brands that are not interested in selling to Stitch Fix, despite the innovative model. There is context like the brand/product story — e.g., Nike's everyone is an athlete positioning — that an aggregator like Stitch Fix does not portray that can help inform whether someone will love an item (or even cause them to love an item).

Only distributors with a unique value proposition — as Stitch Fix has — will survive.

2 Stitch Fix is dependent on its distribution channel

On the other hand, Stitch Fix, as a retailer, has just one channel — the Stitch Fix web/mobile app — resulting in extreme dependence on its success. Though it very well may be, there is no certainty that it will be successful in the long term.

A Lesson From Amazon – Amazon mandates that all internal tools must be built to be externalizable.

- 
1. *All teams will henceforth expose their data and functionality through service interfaces.*
 2. *Teams must communicate with each other through these interfaces.*
 3. *There will be no other form of interprocess communication allowed: no direct linking, no direct reads of another team's data store, no shared-memory model, no back-doors whatsoever. The only communication allowed is via service interface calls over the network.*
 4. *It doesn't matter what technology is used. HTTP, Corba, Pubsub, custom protocols — doesn't matter.*
 5. *All service interfaces, without exception, **must be designed from the ground up to be externalizable**. That is to say, the team must plan and design to be able to expose the interface to developers in the outside world. No exceptions.*
 6. *Anyone who doesn't do this will be fired.*

Jeff Bezos, CEO of Amazon

2002 Amazon Memo

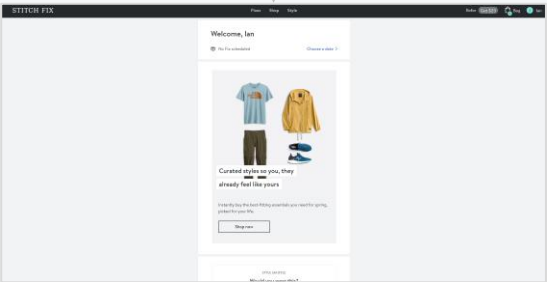
This has two ramifications:

- 1 it increases the quality standards of internal tool development - development teams must develop as if it's for a customer
- 2 if an internal tool is really phenomenal and others can benefit from it, the company can externalize it, and turn it into a revenue-generating tool.

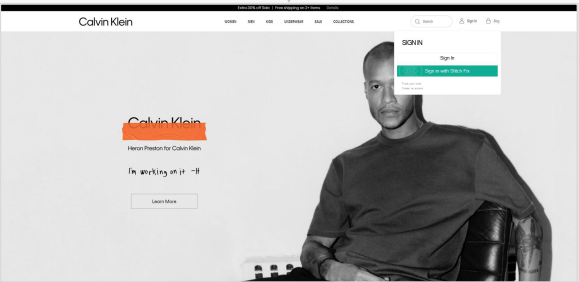
For Consumers – Consumers get interoperability of the best personalization algorithms across their favorite brands.

Consumers can access Stitch Fix's capabilities wherever they shop.

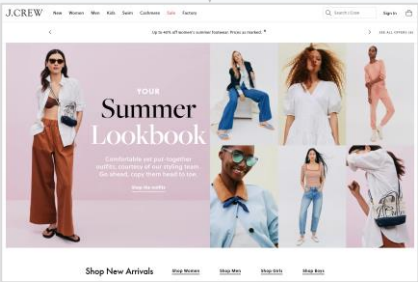
Stitch Fix's style and fit personalization capabilities



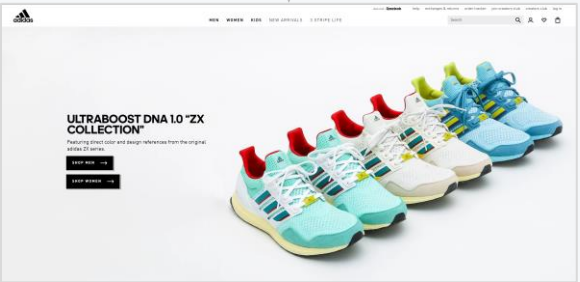
Stitch Fix



Calvin Klein



J. Crew



Adidas

For Apparel Companies – Stitch Fix can help companies build better relationships with customers and manage their business better.

1 Advanced Matching Algorithm APIs

When a customer comes to an apparel company's website and they log in, the company does not have enough information to make predictions on what the customer will like based on previous sales history, given that customer has likely only previously purchased a handful of items.

With Stitch Fix's recommendation algorithms rooted in granular customer data across several different brands, an apparel company can offer much stronger recommendations to customers based on a richer and more in-depth purchase satisfaction history.

2 Data & Insights Platform

In addition to matching customers with clothes that they will love, apparel companies can also benefit from an internally facing data & insights platform that provides precise customer feedback data on specific clothing to improve future product design. Currently, companies are effectively using sales data to inform design, which offers imprecise insights and slow feedback loops.

Furthermore, the granular customer preferences can also help apparel companies forecast demand for products to manage production and inventory stock.

For Stitch Fix – Sign in With Stitch Fix helps Stitch Fix meets consumers and customers where they want.

Sign in with Stitch Fix



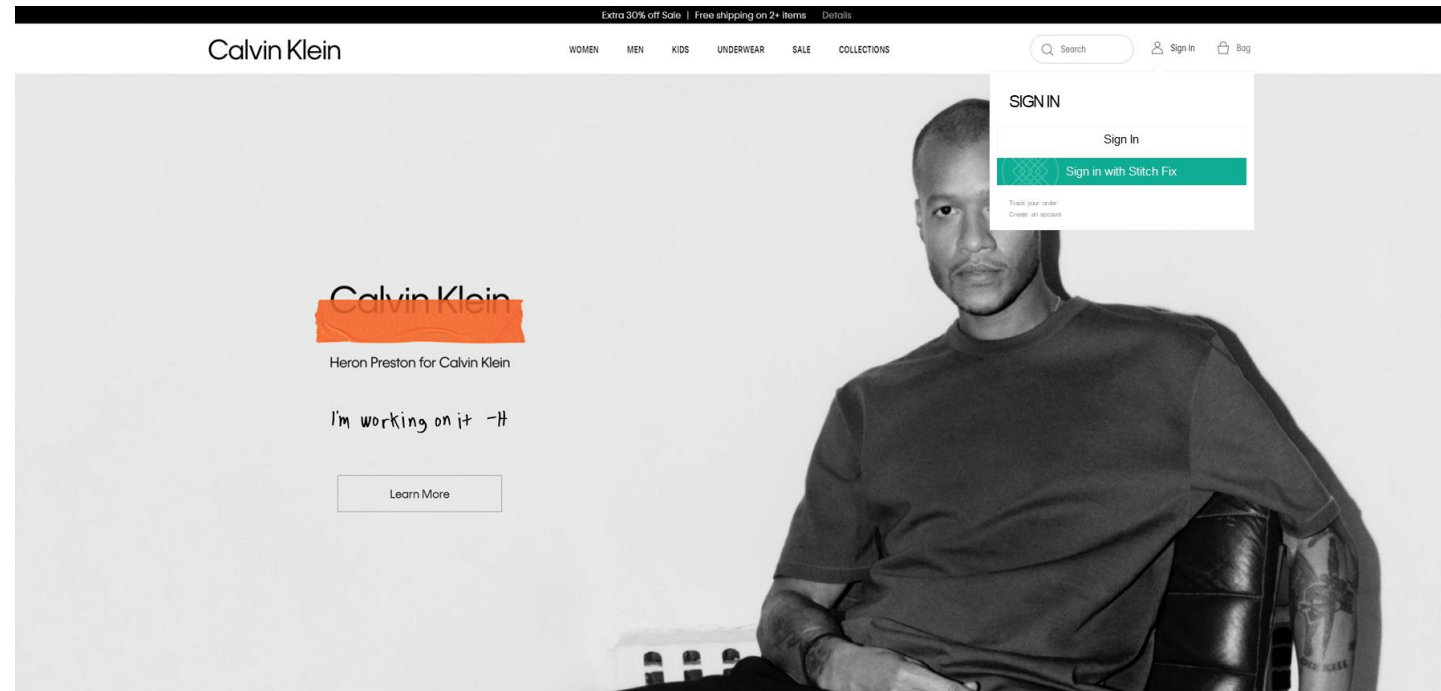
Strategic Purpose

- Meets customers where they want to shop
- De-risks reliance on Stitchfix.com
- Increases customer feedback data collection
- Increased brand exposure (i.e., “Intel Inside”- or “Pay with Affirm”- like branding)



Business Value

- High-margin revenue source via recurring SaaS revenue and/or a take-rate off of influenced GMV
- Capital efficient – offloads inventory risk



Sign in with Stitch Fix Concept

Cannibalization – Apparel companies are going to charge forward regardless of whether Stitch Fix wants to partner or not.


THE ELEPHANT IN THE ROOM

Will this cannibalize Stitch Fix's current business?

The guiding economics principles for apparel companies remain the same **regardless of what Stitch Fix does.**

- An apparel company will recognize that D2C will always be more profitable when considering its GTM strategy.
- If a retailer has a unique way to reach consumers, it will continue to leverage the differentiation of that that channel.

Should Stitch Fix not pursue an externalized SaaS offering, apparel companies will simply attempt to in-house the capability themselves.



*“Our OneNike marketplace strategy leads with Nike Digital in our own stores and embraces a small number of strategic partners who share our vision to provide a consistent premium shopping experience. **Connected data, inventory and membership** will give consumers greater access to the best of Nike with more speed and convenience than ever.”*

John Donahoe, Nike CEO

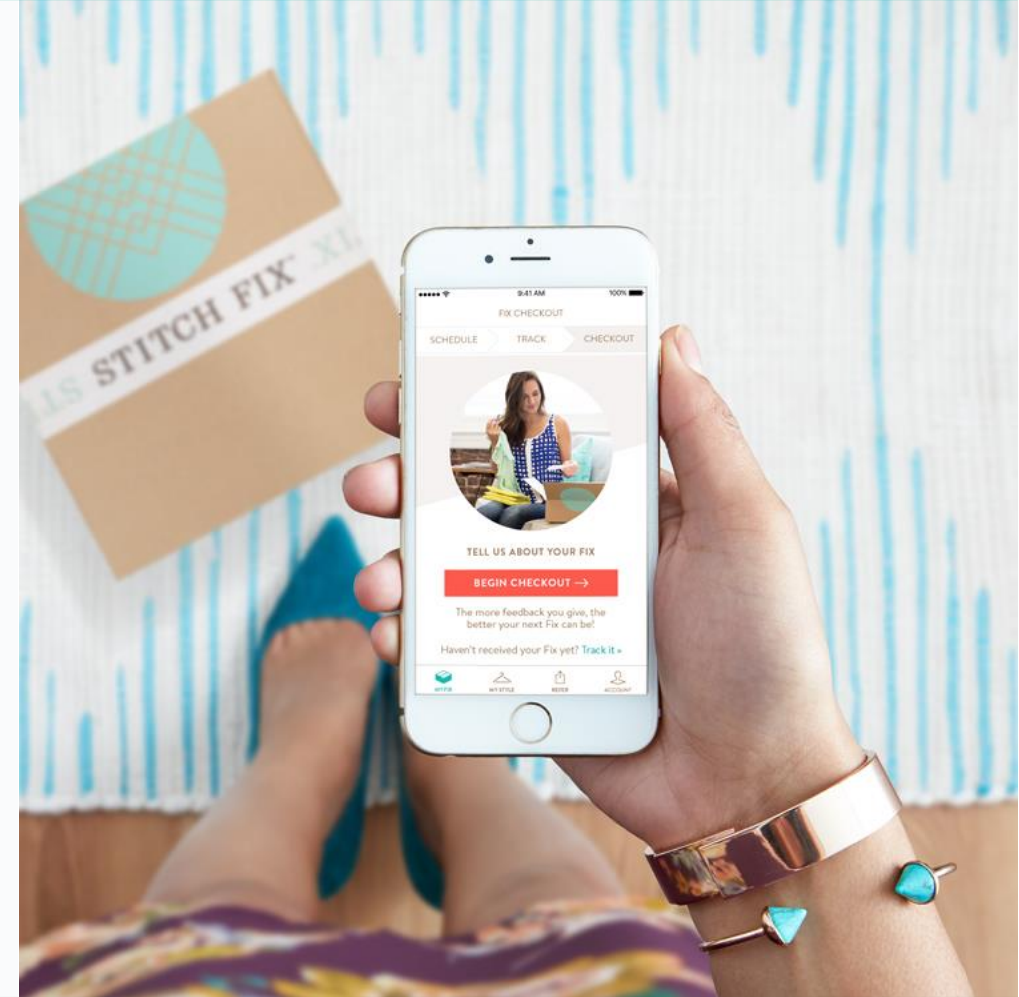
Stitch Fix can capture value by helping D2C companies in that process

The Stitch Fix App's Role – Smaller apparel companies & cross-brand shoppers will still value the app, now reinforced by Sign in with Stitch Fix.

Stitch Fix's distribution channel will still hold value for apparel companies, namely those that don't have the **brand power** to attract customers and **scale** to even think about building in-house data & analytics capabilities that the largest companies do.

Customers will continue to come to the Stitch Fix app to look for the clothes that they will love **across brands**, thanks to the relationship they have with Stitch Fix. Informing that experience with shopping that happens off of the app will only make that channel relationship stronger.

Such a service will make Stitch Fix both a **better channel** and a **stronger company**.



Scoring – Stitch Fix as a Service has the potential to be a game-changer by building the plumbing for the third wave of e-commerce.

Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Stitch Fix's strategic direction ▪ Contribution to items kept by customers ▪ Improvement to competitive positioning 	5	<ul style="list-style-type: none"> ▪ Aligns with Stitch Fix's value proposition of uniquely helping people find items to wear that they will love ▪ Drives increase in items kept by customers by meeting them in more places and provides an additional data stream ▪ Hedges against Stitch Fix's reliance on its own distribution channel's success, doubling down on data science as its competitive advantage ▪ Increased brand exposure (i.e., "Intel Inside"- or "Pay with Affirm"- like branding)
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	5	<ul style="list-style-type: none"> ▪ High-margin revenue source via recurring SaaS revenue and/or a take-rate off of influenced GMV ▪ Capital efficient, offloading inventory risk
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	2	<ul style="list-style-type: none"> ▪ Requires strong software development capabilities ▪ Based on a B2B business model, contrary to Stitch Fix's B2C focus (i.e., navigating B2B sales cycles, etc.) ▪ Requires integration with customer's legacy systems
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	3	<ul style="list-style-type: none"> ▪ Requires funding for software development

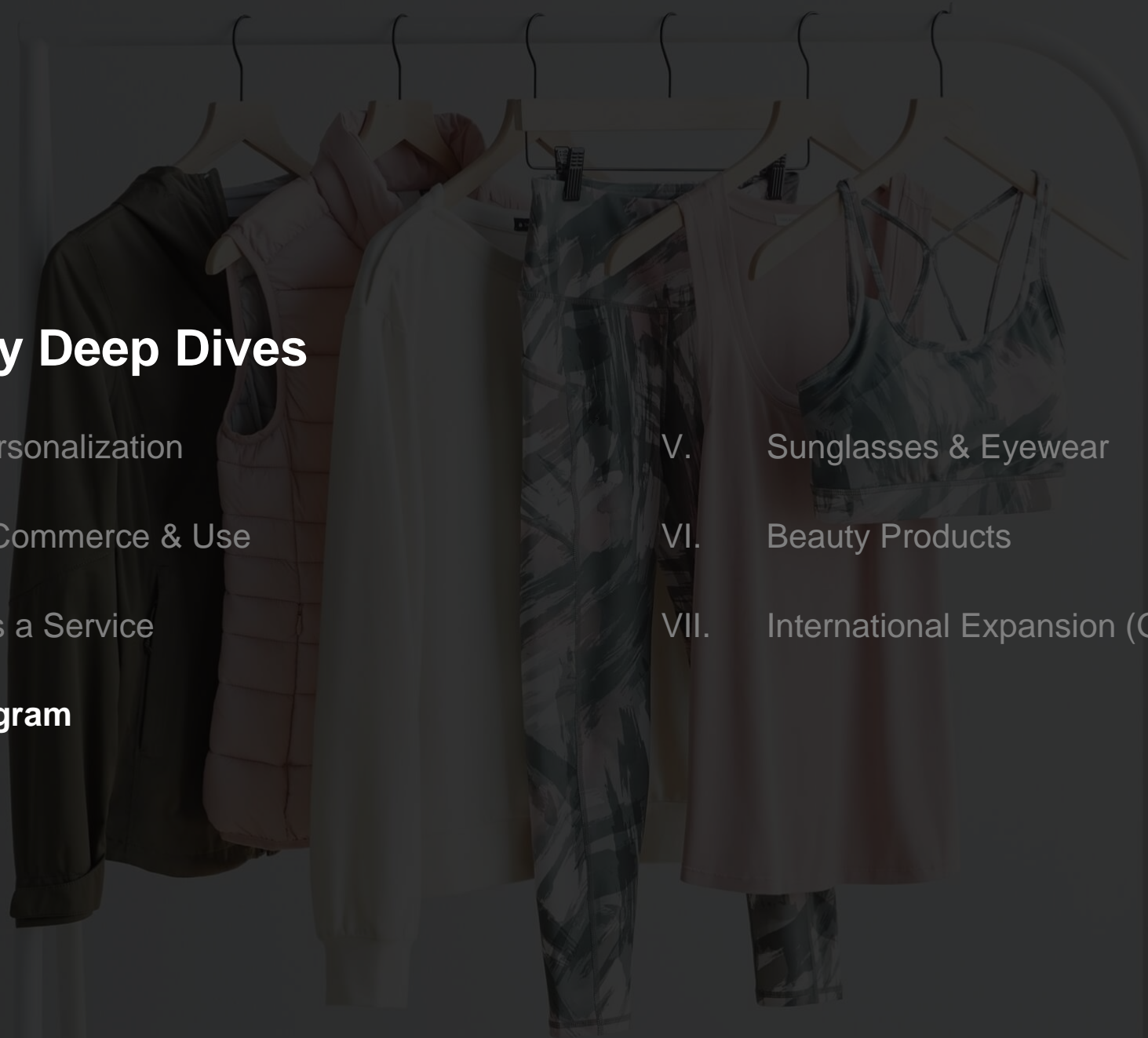
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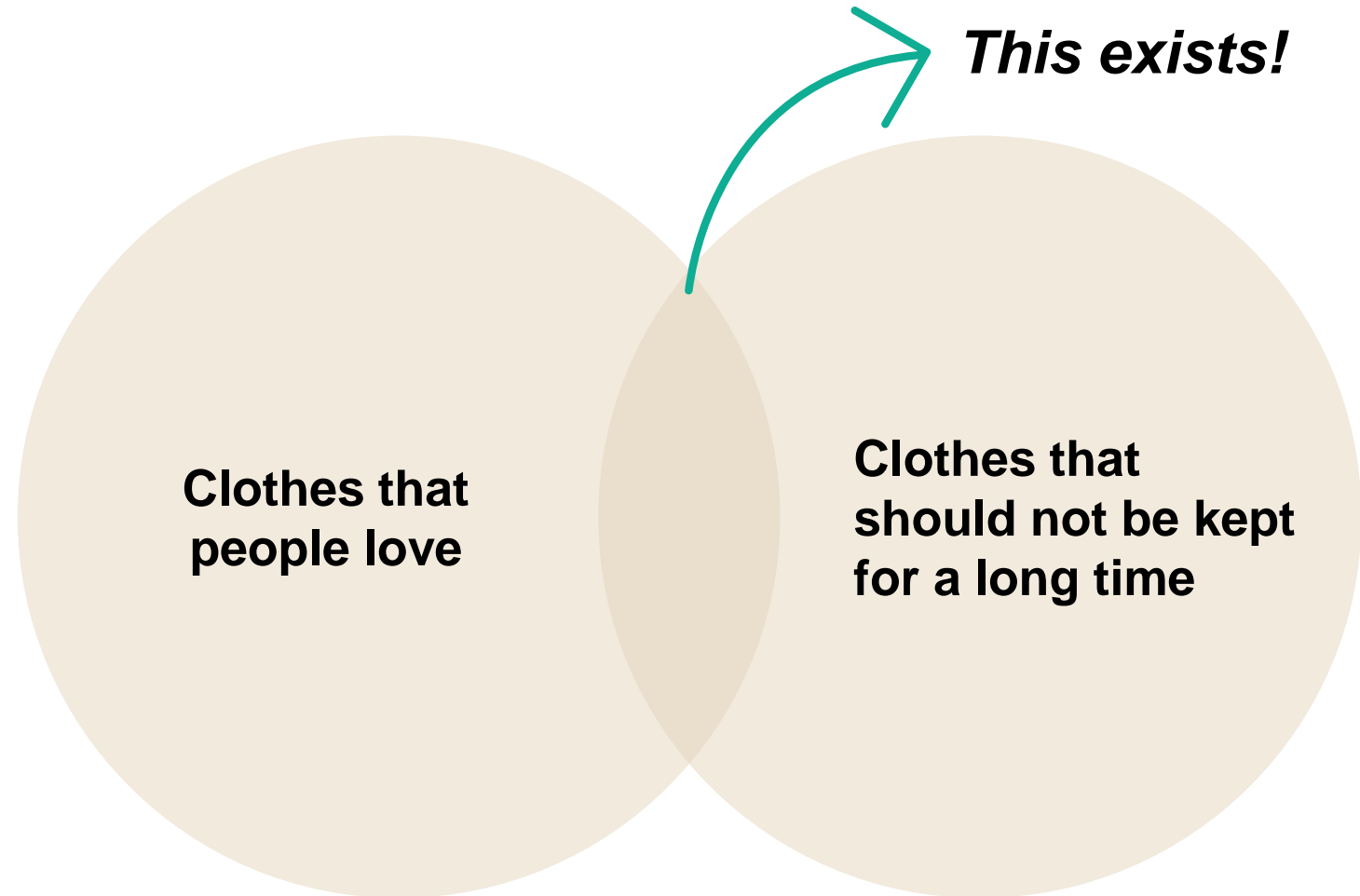
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A Different Scenario – Stitch Fix helps customers buy items that they love, but not all items make sense to purchase outright.

There are instances where a customer finds a piece of clothing that they love, but it doesn't make sense to purchase.

A primary use case for this intersection is an occasion - e.g., going to a black-tie event or going on a vacation with a climate different from where you live.



The Sharing Economy – The sharing economy creates value by increasing the usage of underutilized assets.



The economics of owning a tuxedo can turn out to be quite **expensive on a per-use basis** — it spends a lot of time sitting on a hanger yet is not very cheap!

Instead of having the tuxedo collect dust, the sharing economy passes the item around as different people need it, renting the item when an occasion arises.

Stitch Fix's Alignment – Stitch Fix's capabilities are well set up to provide an offering to meet this need.

1

Stitch Fix's Distribution model being set up for returns simplifies incorporating a rental service

2

Stitch Fix's high-trust commerce instills assurance that you are going to love the product— there is no need to spend a premium on a tailored item because Stitch Fix will find the perfect item for you.

Be Wary – Though Stitch Fix's distribution model is set up for the high velocity of a rental program, other challenges will surface.

10-28-14 | MOST CREATIVE PEOPLE

Inside Rent The Runway's Secret Dry-Cleaning Empire

The most important job at RTR is not engineering, web design, or marketing. It's dry cleaning, and these guys are the Navy Seals of stains.



1/14 Most people think of Rent the Runway—which rents designer dresses at a fraction of the retail price for women to wear to events—as an innovative fashion retailer powered by impressive technology. And it is.



BY REBECCA GREENFIELD 7 MINUTE READ

Additional measures are needed to provide high-trust experiences.

Stitch Fix's competitive advantage is providing **high-trust commerce** and a rental program provides a lot of opportunities to **tarnish trust**.

Items can come back with tears, stains, or smells from previous holders, and if it isn't resolved or removed from inventory, it can create a relationship-ruining experience. **Ensuring this doesn't happen is costly.**

Scoring – Rentals would help Stitch Fix meet a broader set of its customer needs but may be niche.

Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Stitch Fix's strategic direction ▪ Contribution to items kept by customers ▪ Improvement to competitive positioning 	3	<ul style="list-style-type: none"> ▪ Increases items kept by customers by meeting some of their more nuanced needs ▪ Expands Stitch Fix's ability to serve as a one-stop-shop for customers' clothing needs
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	2	<ul style="list-style-type: none"> ▪ Increases access to wallets of customers by meeting some of their more nuanced needs – i.e., occasions, vacations, etc.
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	3	<ul style="list-style-type: none"> ▪ Requires building new competencies to manage a rental lifecycle (e.g., dry cleaning, stitching, etc.) from clothing wear and tear ▪ Additional risk to tarnishing brand reputation from poor experiences
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	4	<ul style="list-style-type: none"> ▪ Requires logistics and distribution center investments

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Merchandise Expansion – New product categories must be additive to brand purpose & data science must provide a competitive advantage.

For a retailer, there are two essential strategic choices to make:



Merchandise Strategy for Stitch Fix

When evaluating potential product categories, it's important to consider how the product category improves its ability to offer a unique experience to customers.

To this end, new Stitch Fix categories should meet two fundamental criteria:



1 data science is a source of competitive advantage



2 offering the product is additive to the brand's purpose of helping people find items to express themselves that they will love

Eyewear Measurability – Eyewear is precisely quantifiable, so Stitch Fix can match customers with glasses that will fit them well.

From a data science perspective, frame dimensions are both precisely quantifiable and important to the purchase decision — they matter significantly in determining preference.



Source:
[RX-Safety](#)

Purpose Brand Fit – Eyewear shares many characteristics with clothing as an item to express yourself and feel your best.

Eyewear also aligns perfectly with the brand's purpose.

Like with clothing, eyewear is an **opportunity to express yourself** and a great product can help you feel like the **best version of yourself**.



Financially Attractive – Eyewear presents a financially attractive opportunity with high gross margins and logistics-friendly form factors.



Eyewear is also a financially attractive merchandise opportunity.



Gross Margins

Eyewear yields attractive gross margins



Logistics

Eyewear's smaller form-factor and lighter weights makes distribution and reverse-logistics more cost-effective than its clothing business given equal return rates.

Exclusive Labels – New product categories offers the opportunity to extend the range of the higher margin Stitch Fix exclusive labels as well.

Data Science in Apparel – Clothing data makes Stitch Fix both a better apparel curator and fashion designer.

Clothing is an opportune product to apply data science.

- 1 Behind the art of fashion lie quantifiable determinants of fit (i.e., modeling the geometry of the clothing) and style (i.e., patterns, colors, fabrics, etc.); and
- 2 There are relatively quick feedback cycles as many customers purchase clothes multiple times per year.

This data doesn't just help Stitch Fix curate better clothes, it can also help them create clothes.

In addition to selling clothes from third-parties like Bonobos or Kate Spade, Stitch Fix designs its own clothes through its 16 exclusive labels.

Its unique understanding of consumer tastes and preferences can help them produce better performing clothes.

FAIRLANE

Bixby

ALESBURY

PIXLEY

A-FRAME

Hawker Rye

Stitch Fix Strategy / Ian D'Silva / April 2021

5

Exclusive Labels

Additionally, having another product category with detailed and granular customer data presents an opportunity to **create new or extend existing exclusive labels**.

As with the clothing personalization opportunity, this could lead to more personalized product design for customers as well.

Start with Sunglasses – Sunglasses align better with the company's brand and are less complicated to sell.

Stitch Fix should start with sunglasses.

- Sunglasses are worn more for their **style and appearance** than their practicality, relative to functional eyewear, tying into Stitch Fix's brand purpose of helping people express themselves and be their best
- Sunglasses are purchased more **frequently** than functional eyewear, increase Stitch Fix's ability to provide a **personalized** experience powered by data science
- Sunglasses do not require prescription lenses, **decreasing complexity** associated with different lens requirements and regulatory requirements



AR Opportunity – Stitch Fix can begin to explore augmented reality as a way to try on items before purchase, given fewer privacy concerns.

Virtual Try-Ons

Glasses lend well to AR opportunities because of the **fewer privacy concerns** that come with facial scans vs. full-body scans.

Eyewear offers an opportunity to leverage AR as a new way for customers to interact with products, trying them out **before purchase**.

A successful implementation can **reduce costs** associated with returns and establish a **high-trust relationship**.



Warby Parker AR Try On

Hot Eyewear Brands – Hot eyewear brands like Warby Parker would not directly with Stitch Fix, as it is a retailer that sells many brands.

What about other hot brands?

Some might wonder whether there is a place for Stitch Fix in eyewear where trendy companies like Warby Parker and Zenni also call home.

While these companies are more established, **they would not be direct competitors** as Stitch Fix is a retailer. Warby Parker and Zenni produce their own sunglasses while Stitch Fix sells **many brands** – you can't buy Ray-Ban, Persol, or Gucci sunglasses on their sites.

This can give Stitch Fix an advantage as their ultimate goal is to help consumers find products they love, **regardless of who makes them.**

WARBY PARKER
eyewear

ZENNI®
Eyewear for Everyone

Scoring – Eyewear offers an attractive new SKU opportunity without significant investment risk.

Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Stitch Fix's strategic direction ▪ Contribution to items kept by customers ▪ Improvement to competitive positioning 	4	<ul style="list-style-type: none"> ▪ Aligns with Stitch Fix's value proposition of uniquely helping people find items to wear that they will love ▪ Data science is a source of competitive advantage ▪ Drives increase in items kept by customers through a new SKU
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	4	<ul style="list-style-type: none"> ▪ Eyewear yields attractive gross margins ▪ Eyewear's smaller form-factor and lighter weights make distribution and reverse-logistics more cost-effective than clothing, given equal return rates
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	4	<ul style="list-style-type: none"> ▪ Requires launch of a new SKU from a cold start ▪ Requires new manufacturer relationships ▪ Requires building a new competency for exclusive labels
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	4	<ul style="list-style-type: none"> ▪ Requires expanding inventory ▪ Increase in selling & marketing expense

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Merchandise Expansion – New product categories must be additive to brand purpose & data science must provide a competitive advantage.

For a retailer, there are two essential strategic choices to make:



Merchandise Strategy for Stitch Fix

When evaluating potential product categories, it's important to consider how the product category improves its ability to offer a unique experience to customers.

To this end, new Stitch Fix categories should meet two fundamental criteria:

1

data science is a source of competitive advantage

2

offering the product is additive to the brand's purpose of helping people find items to express themselves that they will love

Beauty Products' Measurability – Cosmetic characteristics can be quantified, so Stitch Fix can match customers with products right for them.

Measurable Products

Stitch Fix can characterize products beyond the simple filters that traditional e-commerce experiences provide to offer more personalized product recommendations.

With **makeup**, Stitch Fix can create a catalog of the precise color of makeup items to match them with nuanced customer preferences.

For **skincare**, Stitch Fix can leverage the ingredient list to help parse out which ingredients deliver results for individual customers.



Brand Purpose – Stitch Fix can extend the ways in which it helps people express themselves to be their very best.



A Brand Purpose Fit

Beauty products fit into Stitch Fix's purpose of helping people find things to express themselves that they love.

Empowered by data science, stylist-equivalents can help customers by offering **expert recommendations** to cater to their **unique needs**, leaving customers looking to Stitch Fix to **feel and be their very best**.

A Potential Catch – However, after discovery, Stitch Fix would be forced to compete with Wave 1 e-commerce companies at their own game.

Stitch Fix Won't Always Maintain a Competitive Advantage

Stitch Fix's competitive advantage best helps with item discovery. Customers may look to re-purchase the same products, which favors Wave 1 e-commerce companies who optimize for **price** and **convenience**.

A successful outcome for Stitch Fix could lead to a purchase cycle where is at a **competitive disadvantage**, limiting potential.

With clothing or eyewear, each new purchase tends to be **unique**, positioning Stitch Fix to be the best option time after time.



Scoring – Sunglasses & Eyewear offers an attractive new SKU opportunity without significant investment risk.

Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Stitch Fix's strategic direction ▪ Contribution to items kept by customers ▪ Improvement to competitive positioning 	3	<ul style="list-style-type: none"> ▪ Aligns with Stitch Fix's value proposition of uniquely helping people find items to wear that they will love ▪ Data science is a source of competitive advantage ▪ Drives increase in items kept by customers through a new SKU ▪ Stitch Fix is at a competitive disadvantage for non-discovery purchases
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	4	<ul style="list-style-type: none"> ▪ Beauty products yield attractive gross margins ▪ Beauty products small form factor and weight makes distribution and reverse-logistics more cost-effective than clothing, given equal return rates
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	3	<ul style="list-style-type: none"> ▪ Requires launch of a new SKU from a cold start ▪ Requires new data science competencies to expand beyond physical dimensions and styles to include nuanced beauty product characteristics ▪ Requires new manufacturer relationships ▪ Requires building a new competency for exclusive labels
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	4	<ul style="list-style-type: none"> ▪ Requires expanding inventory ▪ Increase in selling & marketing expense

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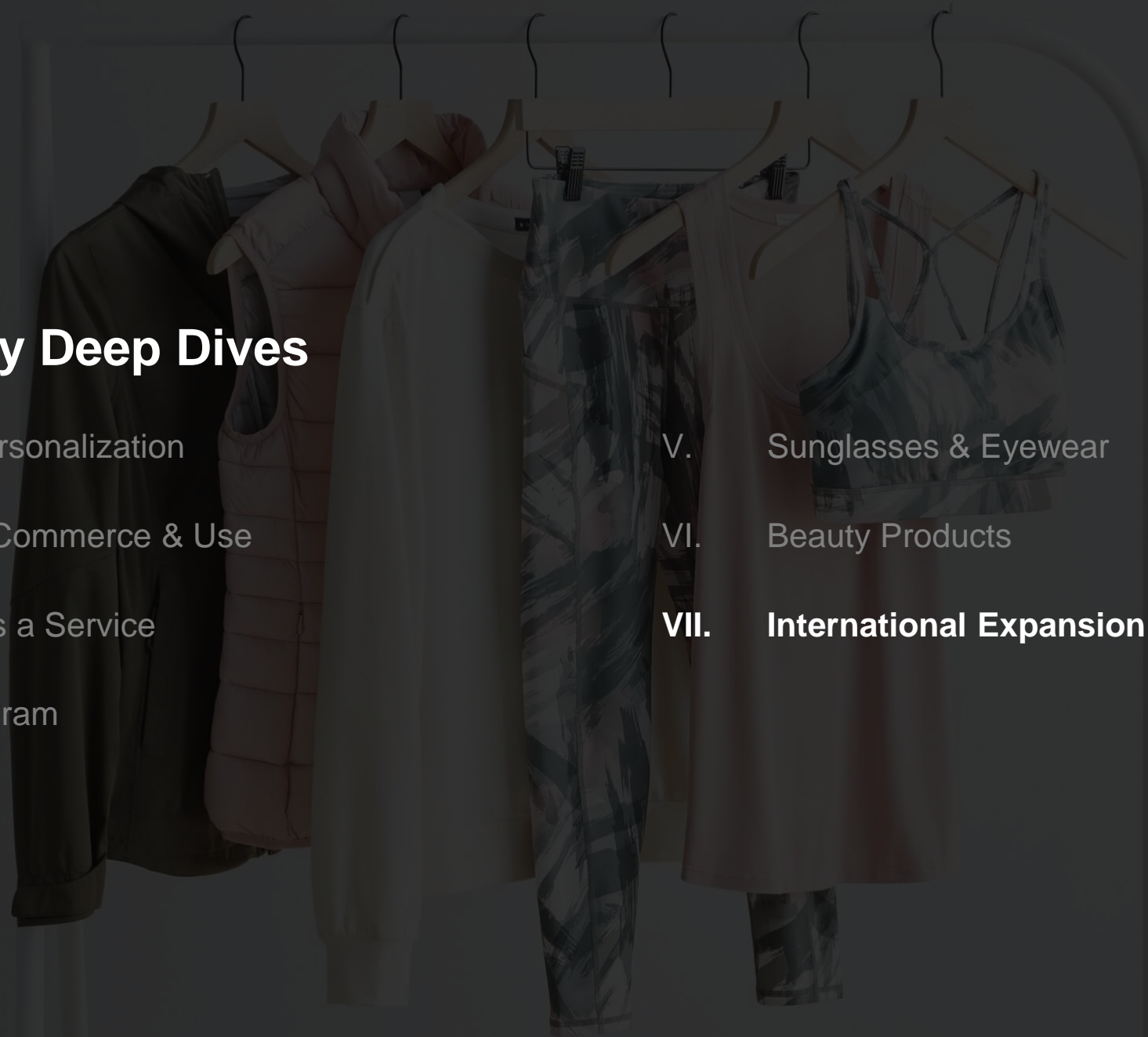
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V. Sunglasses & Eyewear

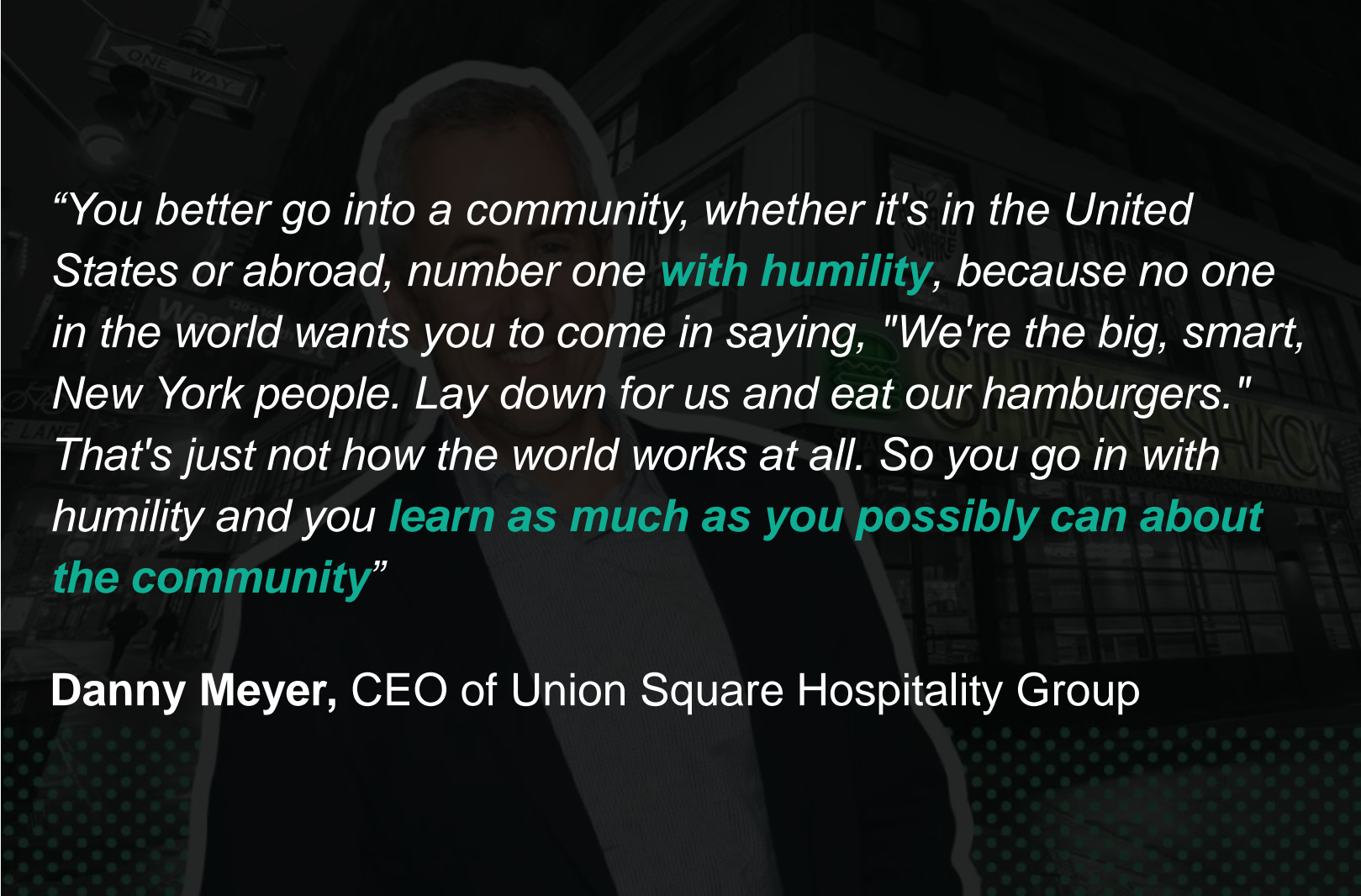
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A Lesson from Shake Shack – The last thing that the world wants is an American company telling them what to wear and how to wear it.



*“You better go into a community, whether it's in the United States or abroad, number one **with humility**, because no one in the world wants you to come in saying, “We're the big, smart, New York people. Lay down for us and eat our hamburgers.” That's just not how the world works at all. So you go in with humility and you **learn as much as you possibly can about the community**”*

Danny Meyer, CEO of Union Square Hospitality Group

International Expansion Approach – Stitch must find expansion opportunities where the investment is right-sized for the opportunity.

The Challenge

Entering new geographies is **challenging** and **time-intensive** to do successfully. The team will be faced with tackling a myriad of new challenges ranging from setting up a completely new value chain in the country to complying with a different set of laws and regulations.

To maximize the odds of success, it's crucial to **minimize the number of variables** that the team has to deal with.

The Need

Because entering a new market is a lot of work, the **opportunity must be right-sized for the investment** — from both an effort and capital perspective.

As such:

1. The market must offer a **large enough reward** to make the effort worth it.
2. The **probability** of successfully entering the market must be high enough to be able to **seize** the opportunity.

Expected Value – Put simply, Stitch Fix needs to find the country with the optimal expected value of expansion.

In other words, when evaluating potential opportunities for international expansion, you want to maximize your expected value:

$$\begin{array}{ccc} E[\textit{Entering a new Market}] & & \\ \text{Expected value of entering a new market} & & \\ & = & \\ \begin{array}{c} \textit{Market Opportunity Size} \\ \text{Size of the prize} \end{array} & \times & \begin{array}{c} P[\textit{Successfully entering the market}] \\ \text{Probability of successfully entering the market} \end{array} \end{array}$$

Approach – To evaluate international expansion opportunities, we will assess them on market opportunity & probability of success categories.

Category	Condition	Preferred Measure	Best Available Measure
Market Opportunity <i>What is the size of the prize?</i>	1 Consumers already are or are willing to spend money on the relevant category.	<ul style="list-style-type: none"> Apparel market size 	<ul style="list-style-type: none"> Apparel market size
	2 People value clothing as a way to express themselves.	<ul style="list-style-type: none"> Clothing spend as a share of wallet 	<ul style="list-style-type: none"> Apparel Spend-to-GDP Ratio
	3 People are willing to purchase clothing through digital channels.	<ul style="list-style-type: none"> Apparel e-commerce penetration 	<ul style="list-style-type: none"> Retail e-commerce penetration
Probability of Success <i>How easily can we lift + shift our proven, core-market ways of working and adapt to differences?</i>	4 The country has the logistics infrastructure to support Stitch Fix's logistics and reverse-logistics needs.	<ul style="list-style-type: none"> Logistics & infrastructure quality index 	<ul style="list-style-type: none"> World Bank Logistics Performance Index
	5 Stitch Fix's brand spirit will resonate with customers.	<ul style="list-style-type: none"> Purchase intent Global brand openness 	<ul style="list-style-type: none"> Cultural Similarity Index

Top 10 Countries – Germany proposes the most compelling international expansion opportunity for Stitch Fix.

Rank	Country	Apparel Market Size Rank <i>25% of Score</i>	Apparel Spend-to-GDP Ratio Rank <i>10% of Score</i>	Retail E-Commerce Penetration Rank <i>20% of Score</i>	Logistics Index Rank <i>10% of Score</i>	Cultural Similarity Index Rank <i>35% of Score</i>	Score <i>(Lower is better)</i>
1	Germany	4	12	6	1	4	4.9
2	Canada	11	14	9	11	1	7.4
3	France	8	16	8	7	5	7.7
4	China	1	5	1	13	17	8.2
5	Russia	7	3	5	20	12	9.3
6	Australia	17	20	7	9	2	9.3
7	Italy	9	10	11	10	9	9.6
8	Spain	12	11	10	8	8	9.7
9	Japan	3	17	13	2	15	10.5
10	Mexico	14	8	16	17	6	11.3

Note:
Source data available in the appendix

Scoring – Germany proposes a compelling opportunity to access new customers in a \$76B market but comes with the usual expansion risks.

Category	Criteria	Considerations	Score	Rationale
Impact (L1-H5) • 65% weighting	Strategic Importance (L1-H5) • 40% weighting	<ul style="list-style-type: none"> ▪ Enablement of Stitch Fix's strategic direction ▪ Contribution to items kept by customers ▪ Improvement to competitive positioning 	5	<ul style="list-style-type: none"> ▪ Aligns with Stitch Fix's value proposition of uniquely helping people find items to wear that they will love ▪ Drives increase in items kept by customers by meeting them in more places ▪ Access to new customers, improving the company's network effects
	Business Value (L1-H5) • 60% weighting	<ul style="list-style-type: none"> ▪ Revenue impact ▪ Cost of Revenue & OpEx efficiencies ▪ FCF (capex, working capital, etc.) efficiencies 	4	<ul style="list-style-type: none"> ▪ Increases sales by increasing addressable market ▪ Spreads fixed operational costs (i.e., algorithm/data science, exclusive brand design) over a larger user-base ▪ Access to a \$76B apparel market
Feasibility (L1-H5) • 35% weighting	Complexity (L5-H1) • 40% weighting	<ul style="list-style-type: none"> ▪ Amount of R&D / new IP required ▪ Disruption to business continuity ▪ Competencies needed to develop 	3	<ul style="list-style-type: none"> ▪ Requires launch of a new market from a cold start ▪ Requires new manufacturer relationships and a new logistics footprint ▪ Requires significant management time and resources to adapt to new market requirements
	Cost (L5-H1) • 60% weighting	<ul style="list-style-type: none"> ▪ Cost of implementation 	3	<ul style="list-style-type: none"> ▪ Requires logistics investments ▪ Investments needed to stand up and scale operations ▪ Involves exchange rate and other related international monetary risks



STITCH FIX

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Pain Point Analysis – Six pain point areas emerge, covering shopping experiences, constraints, brand performance, and Stitch Fix shortcomings.

PPA 1 Traditional shopping experiences has its challenges.

- PP A.2 Boutique stores are hit or miss, but can yield great results
- PP B.9 Trying new stores is a crapshoot
- PP B.1 Inventory challenges at stores lead to disappointment
- PP B.2 Being in between sizes can make shopping more challenging
- PP B.5 Making an in-store trip just to end up ordering it online is frustrating

PPA 2 Online shopping is convenient but has its own flaws.

- PP B.6 Online ordering presents fit uncertainties
- PP B.7 Shipping returns are still a bit of a hassle
- PP C.5 Returning items isn't as easy as getting them delivered

PPA 3 Shopping is time consuming.

- PP A.1 Finding time for shopping is getting difficult
- PP A.3 Sifting through the clothing racks can be arduous

PPA 4 I need help figuring out what to wear and how to wear it.

- PP B.6 Clothes don't last forever and replacing them is hard
- PP C.3 It can be hard to understand how to incorporate them into her wardrobe

PPA 5 Brands aren't serving me exactly what I need.

- PP B.7 Finding a reliable sources for clothes can be challenging
- PP B.8 Price for well-known brands is expensive
- PP B.4 No/few retailers can take care of Brandon's wardrobe
- PP C.4 Sometimes clothes are worn for a temporary occasion

PPA 6 Stitch Fix isn't a silver bullet solution.

- PP A.4 Prefers to pick and try on her own clothes
- PP A.5 Enjoys the social interaction that comes with shopping
- PP B.8 Skepticism on Stitch Fix's value
- PP B.9 Uncertainty around what he will receive
- PP B.10 Turned off by the upfront fee
- PP C.1 It takes time for a fix to come, making it tough to shop in a pinch
- PP C.2 Stitch Fix does not necessarily carry all the clothes or brands that she loves
- PP C.6 Stitch Fix doesn't carry all the items Carly needs

Note:

- A = Ayesha / B = Brandon / C = Carly
- Illustrative, non-comprehensive sample of all consumer pain points as personas are not grounded in consumer research

Opportunity Areas – The pain points offer areas of opportunity to provide better shopping experiences.

OA 1 Curate to increase buyer control & ownership of the experience

- Op. A.4 Increase personalization of service
- Op. A.6 Increase spontaneity in the shopping experience
- Op. A.7 Help customers feel ownership over their own closet & that they search for their own clothes
- Op. B.1 Offer ways to repurchase or buy lookalikes to one's favorite pieces of clothing when they get worn
- Op. C.3 Increase the opportunity to buy opportunistically beyond fixes

OA 2 Help me expand & extend my wardrobe

- Op. A.2 Delivering the awesome "diamond in the rough finds" without the hassle
- Op. A.5 Improve pairing of items that complement clothes
- Op. B.2 Recommend brands and styles to check out
- Op. B.3 Suggest brands that have similar offerings without the premium price
- Op. C.5 Help customers dress for occasions, not just wardrobe building
- Op. C.4 Increase content of how items pair with her wardrobe and when to wear them

OA 3 Let me do more with you!

- Op. C.2 Increase catalog of brands carried
- Op. C.7 Expand offerings to new product categories

OA 4 Help facilitate an easier & smoother order experience

- Op. A.3 Only show items that are in stock and would be a good fit
- Op. B.5 Only show items that are in stock and would be a good fit
- Op. B.8 Reduce order friction
- Op. C.1 Increase shipping times for when customers are in a pinch
- Op. C.6 Increase convenience of returning items

OA 5 Establish and build trust in the shopping journey

- Op. B.4 Instill trust in stores that there may be a good fit, despite not having shopped there before
- Op. B.7 Build brand trust and assurances with consumers
- Op. B.6 Offer a way to show styles and demonstrate fit without going to a store

Note:

- A = Ayesha / B = Brandon / C = Carly
- Illustrative, non-comprehensive sample of all consumer pain points as personas are not grounded in consumer research



Scoring Summary – Each initiative was independently scored for strategic importance, business value, complexity, and cost.

ID	Opportunity	Strategic Importance	Business Value	Impact	Complexity	Cost	Feasibility	Score
1	Clothing Personalization	5	5	5.0	1	2	2.0	3.81
2	Content to Commerce & Use	4	3	3.4	3	3	3.0	3.26
3	Stitch Fix as a Service	5	5	5.0	2	3	2.6	4.16
4	Rental Program	3	2	2.4	3	4	3.6	2.82
5	Sunglasses & Eyewear	4	4	4.0	4	4	4.0	4.00
6	Beauty Products	3	4	3.6	3	4	3.6	3.60
7	International Expansion (Germany)	5	4	4.4	3	3	3.0	3.91

■ Current wallets focused ■ New wallets focused



Stitch Fix as a Service – What must be true in order to successfully pursue this opportunity?

Category	ID	Hypothesis	Test	Rank ¹
Industry Analysis Segmentation	H1	A sufficiently large number of apparel companies would be willing to open their technology stack to a retailer's software solution.	Consumer Research	2*
Industry Analysis Structure	H2	Enterprise software sales would be growth & profitability accretive to Stitch Fix's business.	Financial Analysis	5
Customer Value Analysis Channel Customer	H3	Sharing inventory and customer data would not be a dealbreaker for companies.	Customer Research	1*
Customer Value Analysis End-Consumer	H4	Consumers would want style & fit personalization recommendations and feedback to be translatable between channels.	Consumer Research	4*
Business Model Analysis Capabilities	H5	Stitch Fix has the ability to develop an enterprise-grade SaaS solution.	Fit-Gap Analysis	3*
Business Model Analysis Costs	H6	Stitch Fix can achieve cost parity or better relative to competitors to deliver this service.	Financial Analysis	6
Competitor Analysis Competitive Response	H7	Competitor barriers to compete are too high because of Stitch Fix's relationship with customer and unique access to data.	Competitive Analysis	7

Note:

¹ Hypotheses ranked in order of least-to-most likely to hold true, based on intuition

* These hypotheses will be tested at a minimum

Sunglasses & Eyewear – What must be true in order to successfully pursue this opportunity?

Category	ID	Hypothesis	Test	Rank ¹
Industry Analysis Segmentation	H1	A sufficiently large number of people would want better personalization of eyewear based on their style and fit needs.	Consumer Research	3*
Industry Analysis Structure	H2	Sunglasses & eyewear would be growth & profitability accretive to Stitch Fix's business.	Financial Analysis	5
Customer Value Analysis Channel Customer	H3	N/A – Stitch Fix sells direct-to-consumer.	N/A	N/A
Customer Value Analysis End-Consumer	H4	All else equal, consumers would value a channel that helps them identify which glasses are going to fit them well.	Consumer Research	4
Business Model Analysis Capabilities	H5	Stitch Fix can develop merchandising partnerships with eyewear manufacturers to sell through its channel.	Vendor Interviews	1*
Business Model Analysis Costs	H6	Stitch Fix can achieve cost parity or better relative to competitors to deliver this service.	Financial Analysis	6
Competitor Analysis Competitive Response	H7	Competitors will struggle to match Stitch Fix's matching algorithms & data science capabilities	Competitive Analysis	2*

Note:

¹ Hypotheses ranked in order of least-to-most likely to hold true, based on intuition

* These hypotheses will be tested at a minimum

Germany International Expansion – What must be true in order to successfully pursue this opportunity?

Category	ID	Hypothesis	Test	Rank ¹
Industry Analysis Segmentation	H1	A sufficiently large number of people would purchase clothing from one company over another because of increased product personalization.	Consumer Research	5
Industry Analysis Structure	H2	The German clothing industry is structured similarly or more favorably than that of the U.S. (i.e., modest barriers to entry and competition) as to not erode margin.	Market Analysis	7
Customer Value Analysis Channel Customer	H3	N/A – Stitch Fix sells direct-to-consumer	N/A	N/A
Customer Value Analysis End-Consumer	H4	All else equal, consumers would value a channel that helps them identify clothes that are going to fit them well.	Consumer Research	4*
Business Model Analysis Capabilities	H5	Stitch Fix can develop merchandising partnerships with clothing manufacturers to sell through its channel.	Vendor Interviews	3*
	H6	Customer data from another country will help make meaningfully better algorithmic decisions in other countries (i.e., contribute to the company's data network effects).	Data Analysis	1*
	H7	Consumers would be willing to purchase clothing through a direct-to-consumer channel and provide feedback.	Consumer Research	2*
Business Model Analysis Costs	H8	Stitch Fix can achieve cost parity or better relative to competitors and its United States operations to deliver this service.	Financial Analysis	6
Competitor Analysis Competitive Response	H9	Regional competitors are not equipped with the data & analytics capabilities to successfully match Stitch Fix's personalization capabilities.	Competitive Analysis	5*

Note:

¹ Hypotheses ranked in order of least-to-most likely to hold true, based on intuition

* These hypotheses will be tested at a minimum

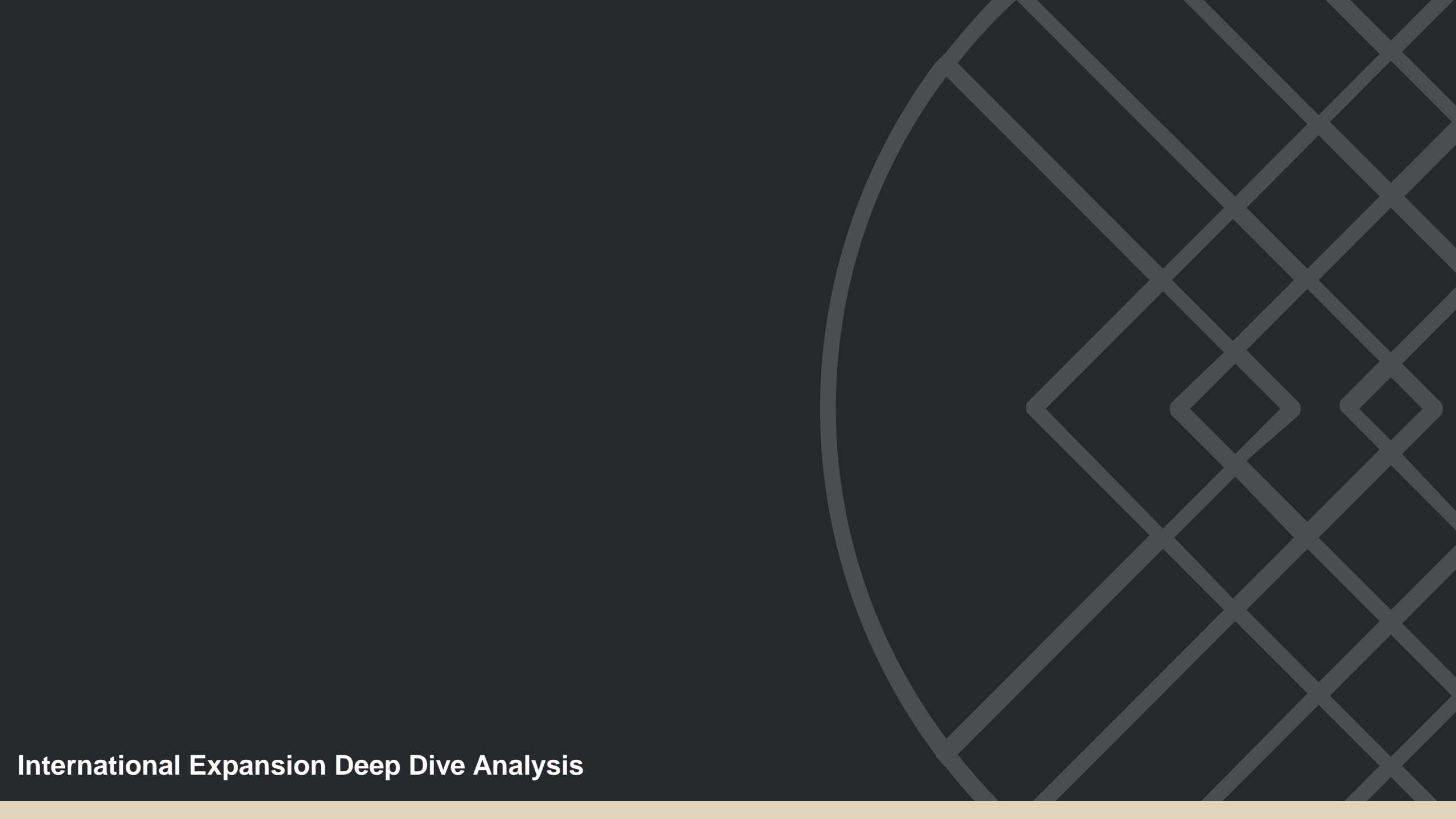
Clothing Personalization – What must be true in order to successfully pursue this opportunity?

Category	ID	Hypothesis	Test Type	Rank ¹
Industry Analysis Segmentation	H1	A sufficiently large number of people would purchase clothing from one company over another because of increased product personalization.	Consumer Research	4*
Industry Analysis Structure	H2	Integrating into the value chain to provide personalized products would be growth & profitability accretive at some level of personalization and an achievable level of scale.	Demand Modelling	3*
Customer Value Analysis Channel Customer	H3	N/A – Stitch Fix sells direct-to-consumer.	N/A	N/A
Customer Value Analysis End-Consumer	H4	All else equal, consumers would choose a more personalized clothing item than items that are available today.	Consumer Research	5*
Business Model Analysis Capabilities	H5	Stitch Fix has the capability to create or integrate a clothing design platform.	Expert Interviews	2*
	H6	Stitch Fix has the capability to develop or integrate an innovative manufacturing process.	Expert Interviews	1*
Business Model Analysis Costs	H7	Stitch Fix can achieve cost parity or better relative to competitors to deliver this service.	Financial Analysis	6
Competitor Analysis Competitive Response	H8	Competitors will not pursue initiatives that will undermine Stitch Fix's value proposition.	Competitive Analysis	7

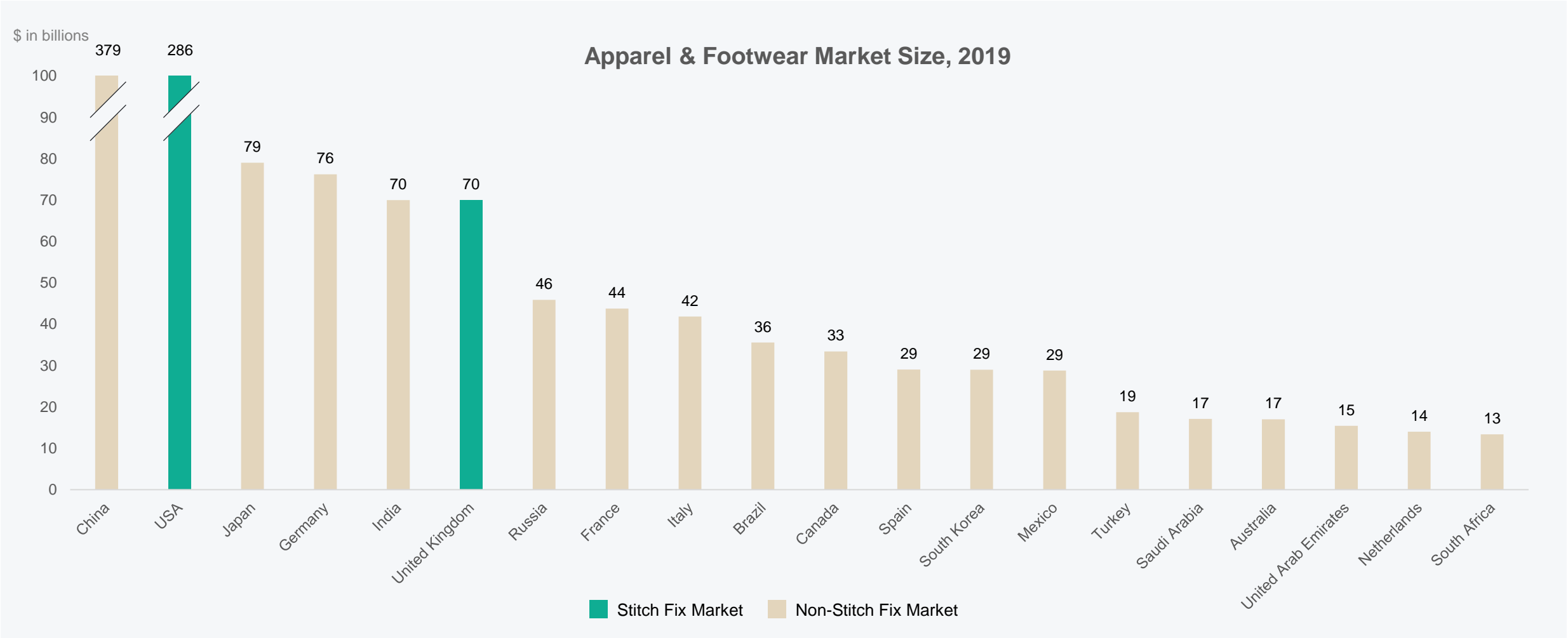
Note:

¹ Hypotheses ranked in order of least-to-most likely to hold true, based on intuition

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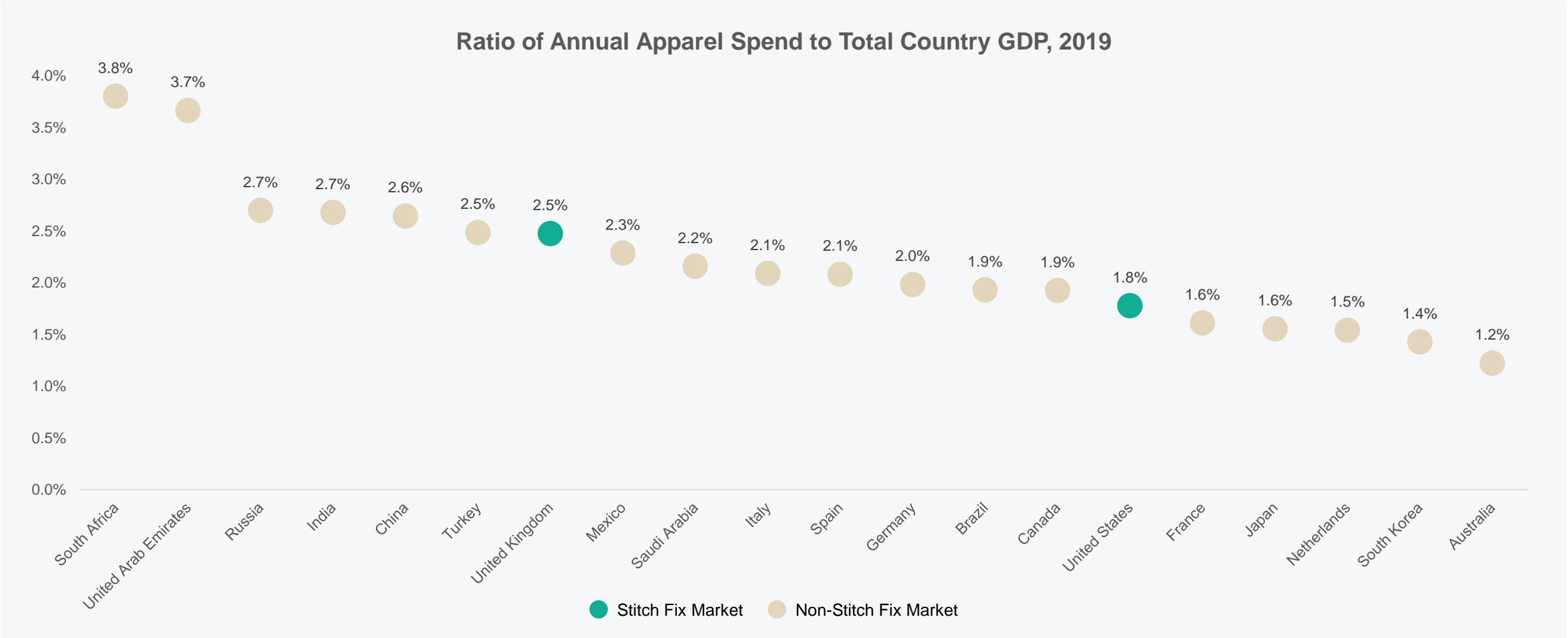


Apparel Market Size – Though overshadowed by the United States and China, 12 other countries exhibit market sizes in excess of \$25B.



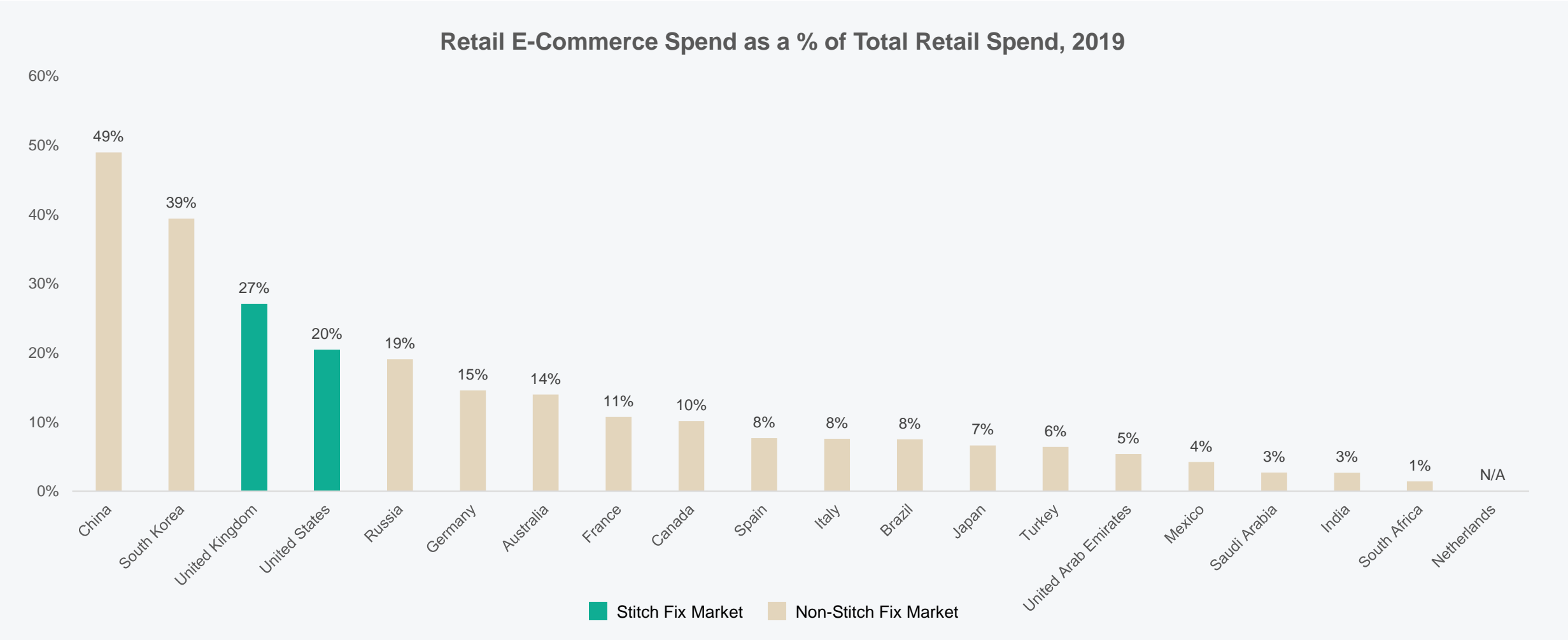
Source:
Euromonitor, 2019

Apparel-to-GDP Ratio – Several countries spend a larger proportion of GDP on apparel than the United States.



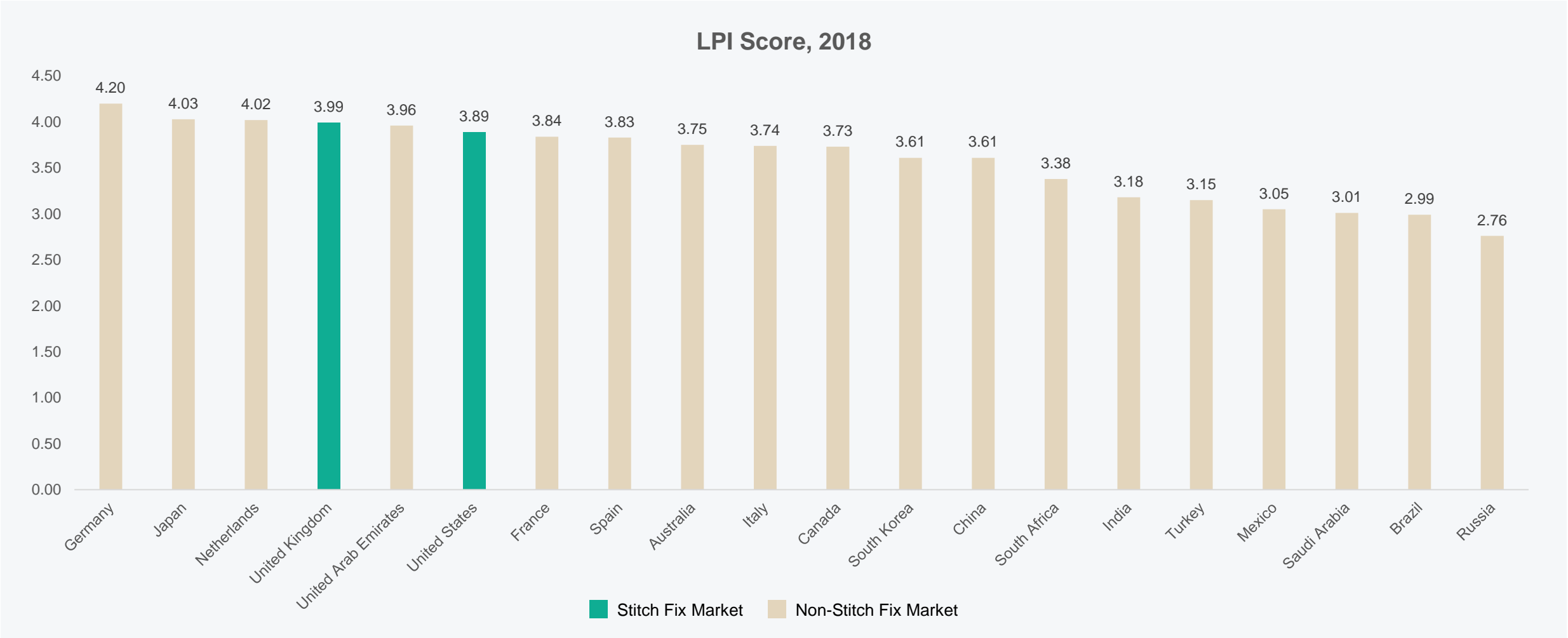
Source:
Euromonitor, 2019

E-commerce Penetration – Only China and South Korea exceed Stitch Fix’s current market e-commerce penetration.



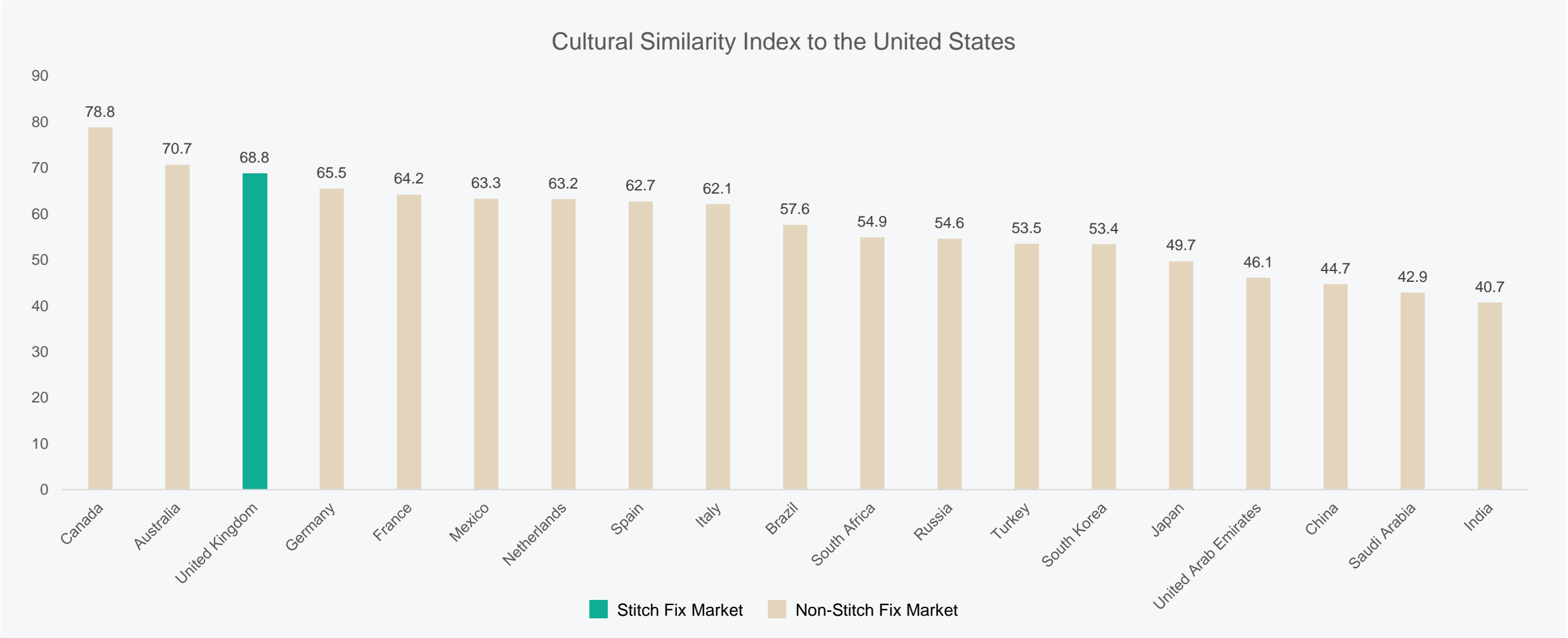
Source:
Euromonitor, 2019

Logistics Infrastructure – The Logistics Performance Index indicates the logistics “friendliness” of countries.



Source:
The World Bank, 2018

Cultural Similarity Index – The Cultural Similarity Index shows countries like the United States, posing fewer cultural barriers for expansion.



Source:
Cultural Similarity Index by Jeff M. Jones, 2020