



Stitch Fix

Your partner in Personal Style

Team 2: Abhinav Chandra ,Karrina Xie, Maanasa, Tejas Dhekane , Utsav Seth

www.stitchflix.com

STITCH FIX - SHOPPING THAT LEARNS YOU



MISSION:

Revolutionizing clothing discovery through tech and personalized styling to save time, enhance appearance, and refine personal style.

VISION:

Transforming the way people find what they love.



EXECUTIVE SUMMARY

- Growing concerns from competitors, customers, and innovations placing Stitch Fix into uncertain terrain regarding digital transformation
- Changing customer preferences and evolving competitive landscape are main uncertain factors impacting Stitch Fix's core business
- Stitch Fix attempting to leverage tech and partnerships for expansion, but efforts focus on maintaining rather than transforming core business
- Lack of long-term strategic vision translates to lack of transformation within the company
- Main transformation limitation is with the people - low morale, no vision, limited culture of innovation
- Issues rendering Stitch Fix incapable of competing with rivals like Amazon and Nordstrom
- Despite strengths in analytics, direct customer model, human + tech model, and experienced leadership...
- ...we do not recommend investing in Stitch Fix at this time due to prohibitors severely hindering their transformation capability





Growing Concerns from Competitors, Customers, and Innovations

		LOW Risk	MODERATE Risk	HIGH Risk
Stage 1 Circumstances	Customer loyalty		Value-driven retention challenge	
	Venture investment	Fundraising success, growing confidence		
Stage 2 Catalysts	Policy changes		Regulatory impact potential	
	Industry entrant activity		Competitive, disruptively unique	
	Customer habit shift		Retention vs preference volatility	
Stage 3 Impact	Business model innovation			Necessity for innovative adaptability.
	Profit margins		Robust growth, margins declining	

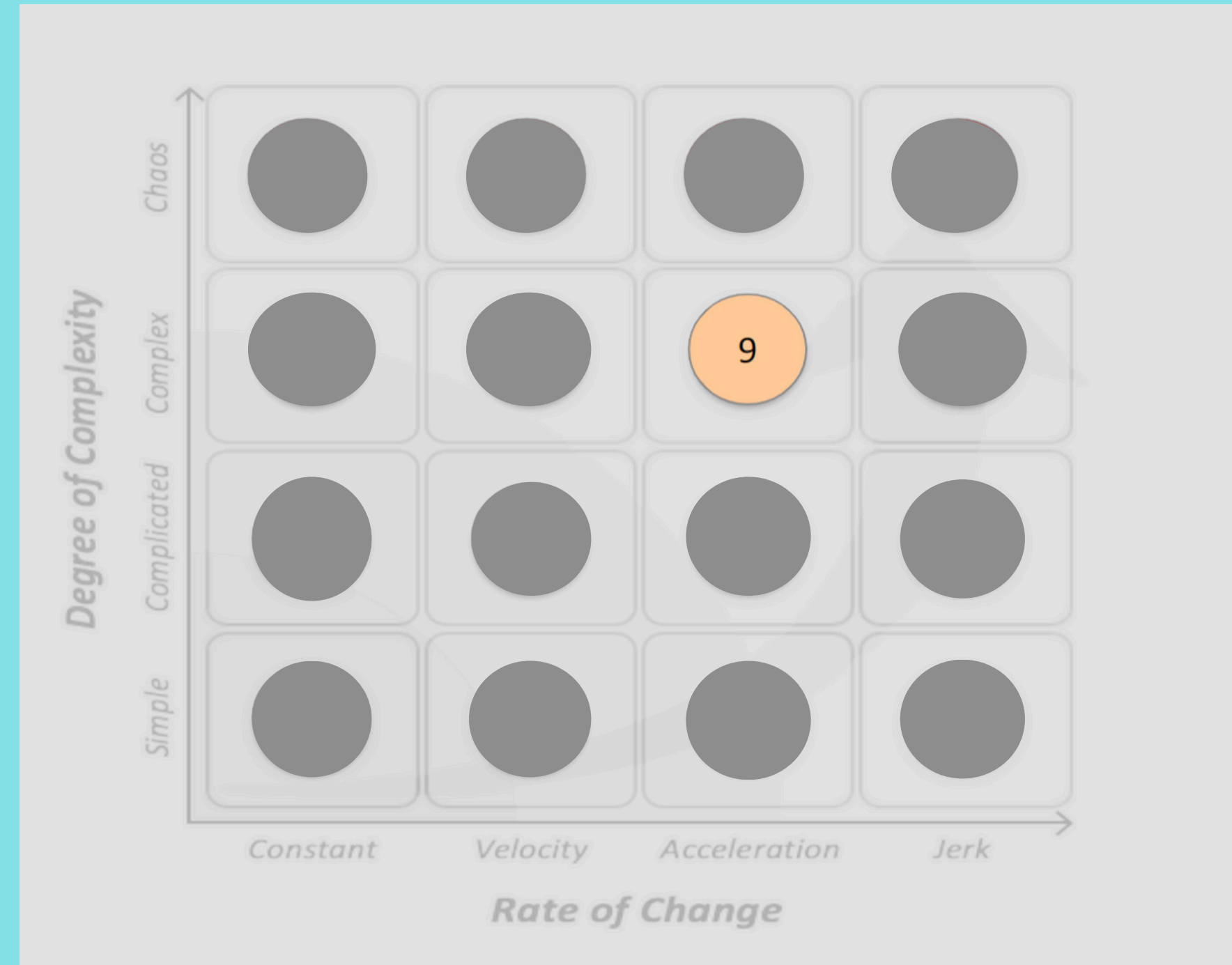




The Uncertain Terrain of Digital Transformation at Stitch Fix

Uncertainty Level : 9

- Complex Operational Environment:
 - Stitch Fix navigates a sophisticated market with **high personalization and data science** at the core of its business model.
 - Deals with intricate supply chains, diverse customer demographics, and a **rapidly evolving fashion industry**.
 -
- Acceleration in Market Dynamics:
 - Faces **fast-paced changes in consumer habits** and preferences, requiring quick adaptation and continuous innovation.
 - The presence of **Amazon and Nordstrom** in the fashion and personal styling market **catalyzes rapid evolution**, pushing Stitch Fix to **accelerate its digital transformation and service enhancement efforts**.



Customer preference changes and evolving landscape of competition are the most uncertain factors affecting Stitch Fix's core business



S

Societal

- Broad **appeal across demographics**, serving young moms to women in their sixties, indicating **societal alignment** with convenience and **personalized services**.
- Shift in societal trends towards **convenience and personalization in shopping**, contributing to the success of Stitch Fix's **data-driven, customer-centric model**.

P

Political

- **Regulatory changes, especially concerning data privacy**, could impact Stitch Fix's data-driven business model.
- **Changes in trade policies** that could **affect supply chains or labor laws** impacting operational costs

E

Environmental

- Stitch Fix's **business model could be influenced by environmental sustainability trends** in the fashion industry.
- Supply chain and inventory practices would need to **adapt to increasing consumer and regulatory demands for environmental accountability**.

E

Economical

- The company's net revenue, despite a **slowing growth rate**, shows **economic resilience**.
- **Volatility in share price** reflects investor sentiment and economic conditions, underlining the **need for agile economic strategies**.

D

Demographics

- Stitch Fix's client base spans from **young mothers to women in their sixties**, indicating a service that transcends generational demographic boundaries
- Stitch Fix needs to consider factors like the growing **influence of Gen Z's social and ethical values on fashion choices**.

C

Competition

- Stitch Fix competes with various companies, including **Nordstrom Trunk Club and Amazon Prime Wardrobe**, requiring it to constantly innovate and differentiate its service offerings
- The competitive landscape demands that Stitch Fix **not only compete on the quality of its personalized styling service but also on its technology platform's capability to deliver unique customer experiences**.

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Leveraging Tech and Partnerships for Expansions



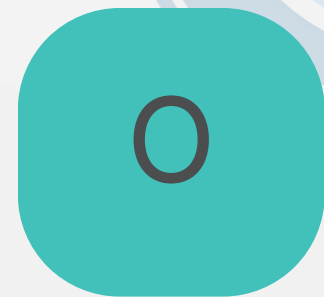
Drivers



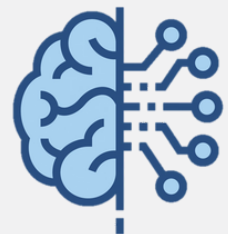
Established need for apparel personalization



Scalable Growth Through Efficient Last-Mile Delivery



Opportunities



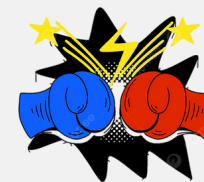
Innovative Algorithm Integration for Sector Expansion -Cosmetics



Strategic Partnerships for Fashion Industry Transformation:



Threats



Emerging Competitors Amazon Wardrobe and Beyond



Inventory-Intensive Operations and Overhead Risk



Strategic Response



Strategic Expansion for Market Growth - New Demographics



Fostering Brand Partnerships for Customer Engagement and loyalty.

Data Fuels the Competitive Edge to Grow Core Business



1

Data Collections

- customer profile questionnaire (lifestyle, body type)
- 85% of customer provided feedback
- behaviors of what is kept and returned
- Pinterest boards
- Source of data: client, merchandise, feedback
- Analysis of data

Algorithms

- algorithms to match stylist (stylist availability and historical interaction)
- algorithm to determine how to fill order
- algorithm to determine clothing availability from vendor
- have over 100 machine learning algorithms

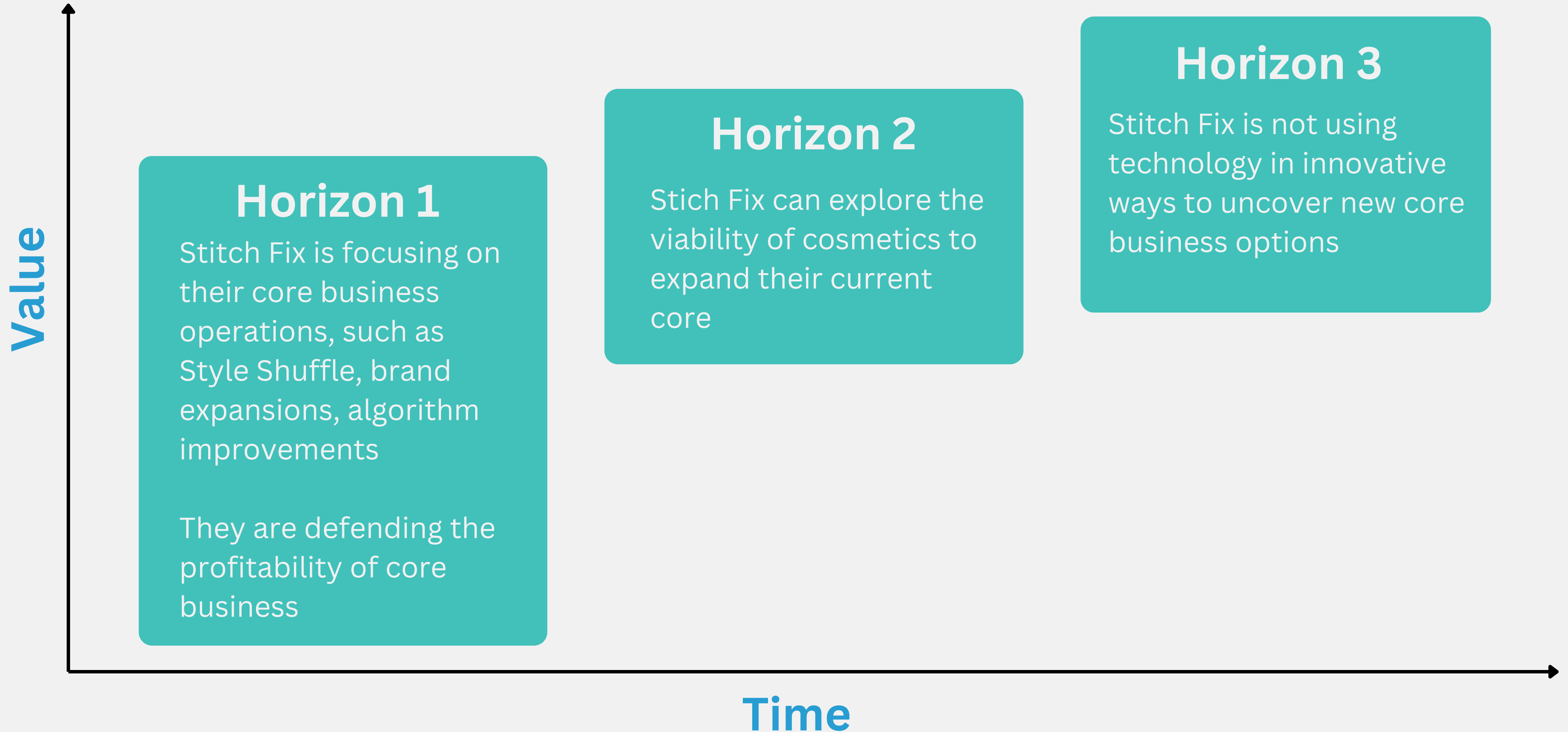
2

Current technology has only been used for **core business**, such as improving styles matching and customer experience

Limited use of tech to identify new business opportunities and to counter threats



Stitch Fix's Limited Vision





Stitch Fix's Lack of Transformation

Maintain

- Style Shuffle - swipe to identify outfit preferences
- Shop Your Looks - shop items around previously kept items

Extend

- Internal Style, “Frankenstyle”, for client’s need
- Partnership with brands to expand styles and size
- Cosmetic expansion to adjacent business

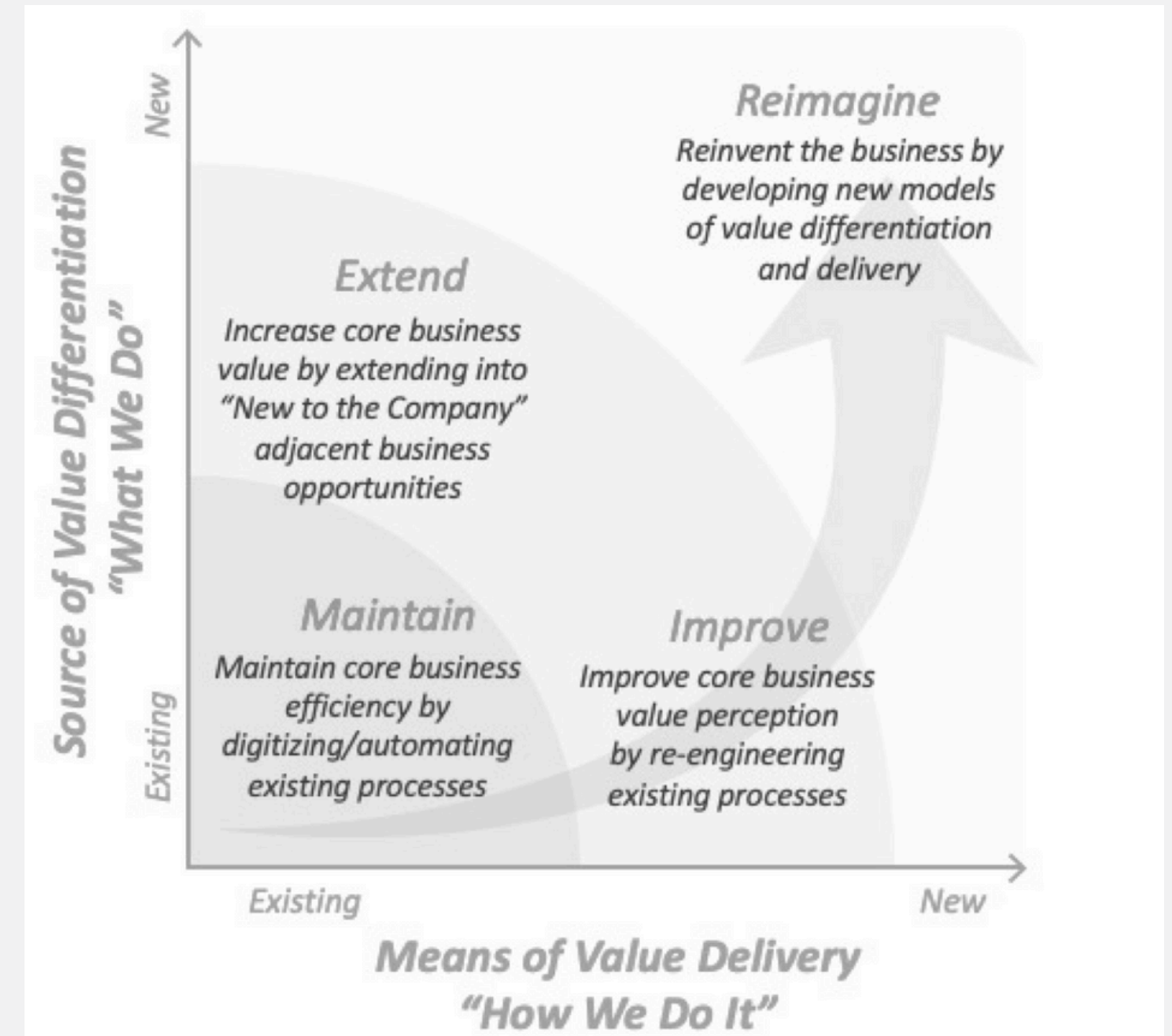
Improve

- Continuously creating new algorithms to improve business

Reimagine

- None

Stitch Fix’s is not going through Dual Transformation. Majority of their activities focuses on maintaining their core business





Stitch Fix's People Problem: Low Morale, No Vision and Culture of Innovation

PEOPLE

- 1. Low Employee Satisfaction, Stylists crave more autonomy
- 2. No Clear Transformation Vision in Leadership
- 3. No Culture of Innovation

STRUCTURES

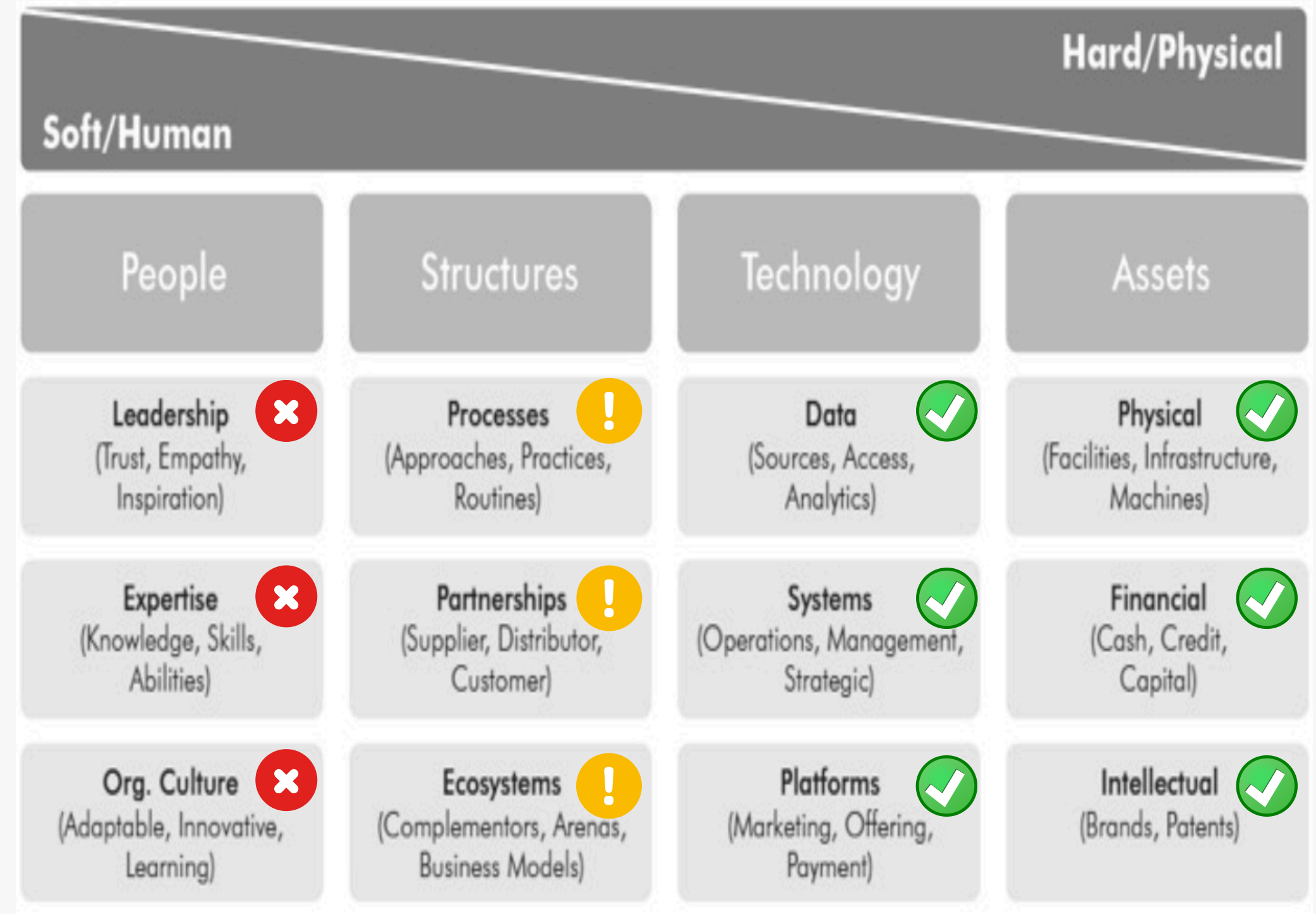
- 1. Established processes and routines for order fulfilments
- 2. Partnerships exist with fashion brands and distributors
- 3. Not good ecosystem with complementors or Arenas

TECHNOLOGY

- 1. Robust Machine learning algorithms to analyze various sources of customer data from initial sign up to feedback
- 2. Stable systems with networked warehouse connectivities
- 3. Adequate offerings through the internal brand, frankenstyle

ASSETS

- 1. Has physical assests of warehouses at multiple locations
- 2. Stitch Fix is declining in profits but has very low debts
- 3. Good ratio of assets to liabilities





Stitch Fix Not Ready to Compete with Amazon and Nordstrom

BUILD

Leveraging on predictive analytics to build new features, “Shop Your Looks” to retain loyal customers and “Extras” to expand into Cosmetics

ACQUIRE

No Acquisitions made

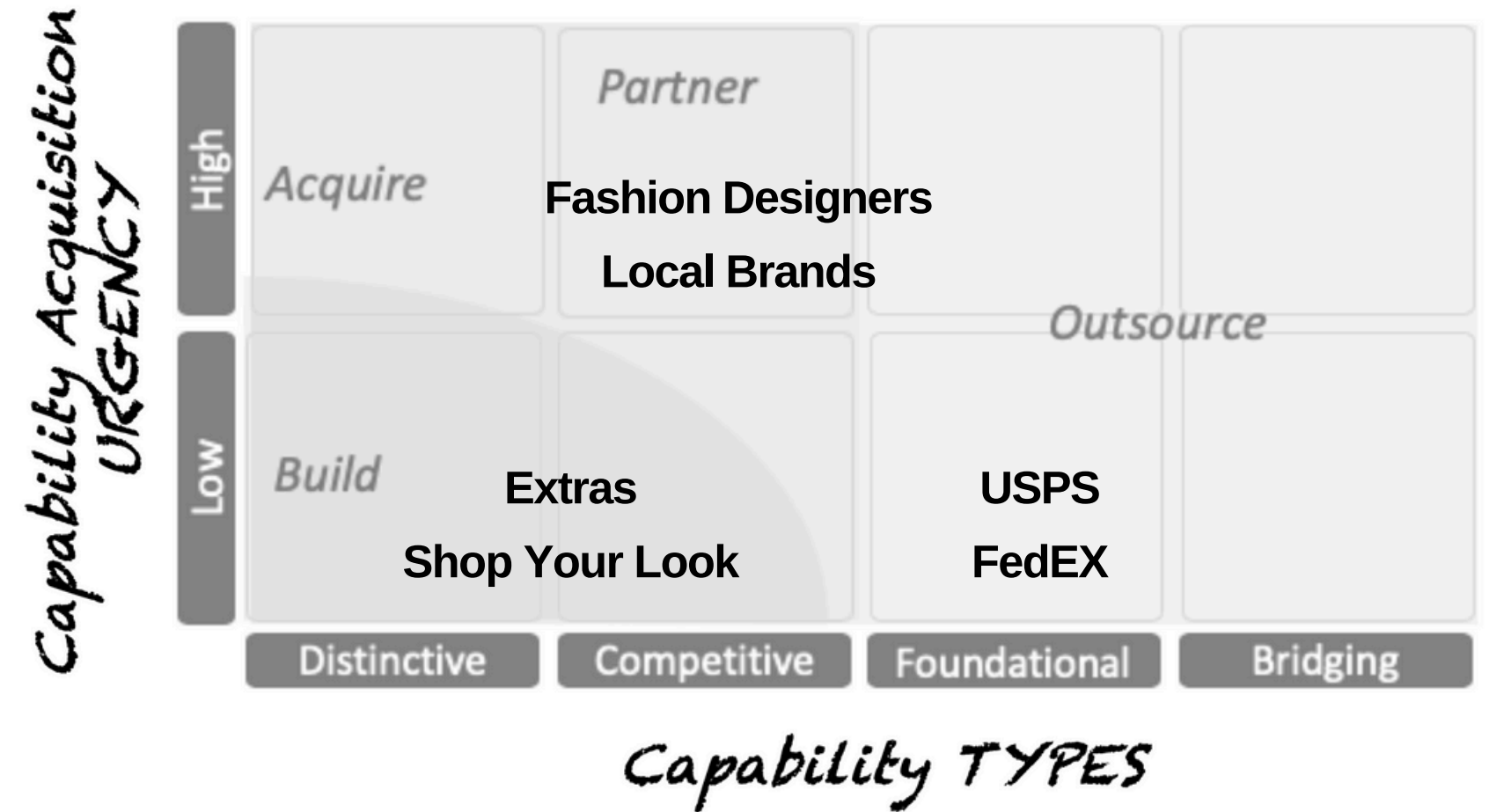
PARTNER

Partnered with regional clothing brands and fashion designers to offer exclusive styles

Teamed up with Goodwill to get rid of stagnant inventory and also allow customers donate used clothes for free shipping expenses

OUTSOURCE

Collaborated with FedEx and USPS for shipping and returns.



Stitch Fix's capability readiness to compete against rivals like Amazon and Nordstrom is currently lacking. It requires a concerted effort to stabilize its core operations by enhancing employee motivation, fostering innovation, and optimizing inventory management. Improving the connection between stylists and customers is paramount. Additionally, compared to competitors, Stitch Fix's supply chain needs enhancement for stability. To maintain a competitive advantage, Stitch Fix must utilize its resources to pivot its business model and explore innovative avenues for business reimagining.



STRENGTHS OF STITCH FIX'S TRANSFORMATION FOUNDATION

1

DATA AND ANALYTICS CAPABILITIES

Their algorithms drive personalized recommendations, inventory management, trend forecasting, etc. This gives them an edge over traditional retailers.

2

DIRECT-TO-CONSUMER MODEL

Stitch Fix's direct-to-consumer subscription model bypasses physical retail constraints and allows them to personalize at scale. This transformative business model is difficult for legacy retailers to replicate.

3

HUMAN-MACHINE PARTNERSHIP

Lake recognized the importance of combining data-driven algorithms with human stylists to provide a superior and more personal experience compared to pure e-commerce plays

4

LEADERSHIP AND CULTURE

Lake herself has instilled a strong data-oriented and innovative culture at Stitch Fix. She also recruited key talent like Eric Colson early on to build analytics capabilities.



KEY PROHIBITORS REGARDING STITCH FIX'S TRANSFORMATION EXECUTION

1

INVENTORY MANAGEMENT

Recent reports suggest Stitch Fix is facing challenges in offering attractive, on-trend inventory that meets customer demands consistently. Strengthening forecasting and procurement is critical.

2

HUMAN TOUCHPOINTS

While Stitch Fix touts stylists, the interactions seem limited to notes. Enhancing direct client-stylist relationships and communication could elevate the experience.

3

DATA FEEDBACK LOOP

There are HIGH concerns that the data/feedback loop is not as rich as it initially was, limiting the algorithms' effectiveness over time. Maintaining high response rates is important

4

SPEED AND AGILITY

Legacy brands are awakening to digital transformation. Stitch Fix needs to accelerate cycle times and decision-making to stay ahead of imitators and new competitors like Amazon.



KEY RISKS AND CONCERNS THAT SUCCUMB STITCH FIX'S TRANSFORMATION

01

INCREASING COMPETITION FROM DEEP-POCKETED PLAYERS LIKE AMAZON

02

RECENT INVENTORY AND MERCHANDISING ISSUES - INABILITY TO CONSISTENTLY OFFER ATTRACTIVE, ON-TREND INVENTORY THAT MEETS CUSTOMER DEMANDS

03

SIGNS THAT THE DATA/CUSTOMER FEEDBACK LOOP IS WEAKENING OVER TIME, LIMITING PERSONALIZATION ACCURACY

04

RELATIVELY UNDIFFERENTIATED "HUMAN" EXPERIENCE, WITH LIMITED DIRECT COMMUNICATION BETWEEN CUSTOMERS AND STYLISTS COMPARED TO COMPETITORS

05

LAGGING ORGANIZATIONAL AGILITY AND DECISION-MAKING SPEED, MAKING IT DIFFICULT TO STAY AHEAD OF DISRUPTORS .STAGNATING ACTIVE CUSTOMER GROWTH AND REVENUES AMIDST THE HEIGHTENED COMPETITION. STYLISTS ARE NOT BEING ALLOWED/LIMITED TO VOICE THEIR IDEAS

06

EXPENSIVE CUSTOMER ACQUISITION COSTS AND HIGH SG&A SPEND FOR THE SUBSCRIPTION MODEL

RECOMMENDATIONS



While Stitch Fix was an innovative pioneer, the competitive landscape is rapidly intensifying. Their position is being threatened by companies like Amazon that have immense resources and supply chain capabilities. Stitch Fix does not currently demonstrate the inventory intelligence, human relationship quality, speed, and value proposition required to fend off these rising threats successfully.

Until Stitch Fix can regain its footing on merchandising and inventory, demonstrate a truly differentiated human experience, increase organizational agility, and reignite customer growth, the risks of investing outweigh the potential rewards. The company seems to be drifting towards being a niche player rather than a disruptive market leader. Thus we recommend **GCI to NOT invest in Stitch Fix** until they reestablish their innovative edge and prove it can protect its position despite the new competitive forces.

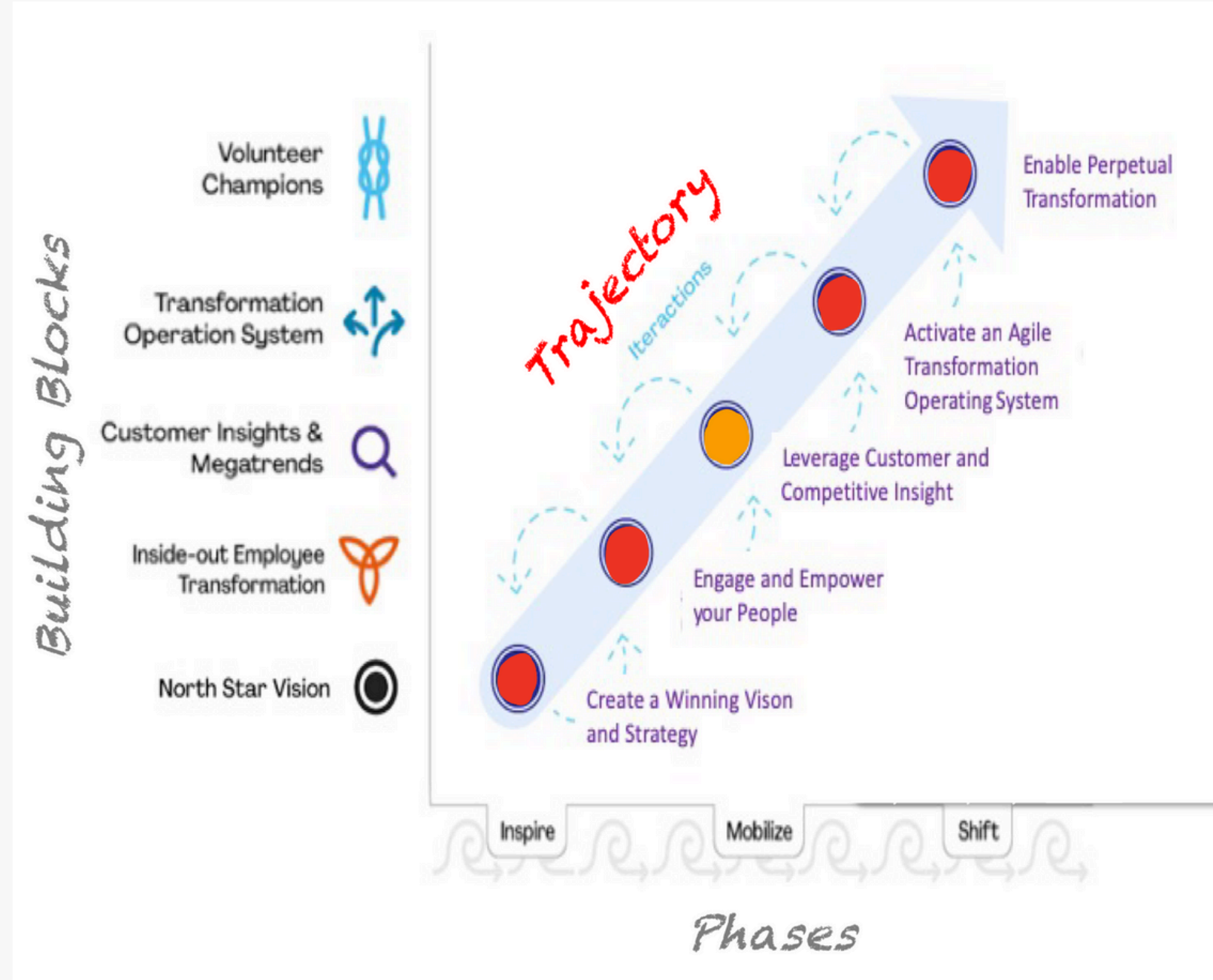


APPENDIX

APPENDIX :Stitch Fix's Transformation Touchstones



<p>yes ○</p>	<p>no ⊗</p>	<p>⊗ MY VISION AND STRATEGY ARE CRISPLY ARTICULATED Your transformation cannot deliver strategic targets if the strategy is not clearly defined and placed in the context of an inspiring vision.</p>
<p>○</p>	<p>⊗</p>	<p>⊗ MY TRANSFORMATION IS AUTHORED AND DRIVEN BY MY EMPLOYEES Transformations driven internally, by leaders, managers and your front line, not by consultants are more likely to deliver their targets.</p>
<p>○</p>	<p>⊗</p>	<p>⊗ MY TRANSFORMATION IS SHAPED BY CUSTOMER NEEDS AND TRENDS A deep understanding of your customer and the trends that impact them should shape every change you undertake and should be embedded throughout the organization.</p>
<p>○</p>	<p>⊗</p>	<p>⊗ MY TRANSFORMATION TEAM IS AGILE AND FLAT The operating model during transformation needs to support rapid, effective and bold decision making without hierarchy or silos.</p>
<p>○</p>	<p>⊗</p>	<p>⊗ MY EMPLOYEES WILL BE TRANSFORMED DURING THE CHANGE Your Volunteer Champions will consist of thought leaders from across your organization, at every level who will help drive and advocate for the transformation.</p>





THANK YOU!