

# CASE STUDY: HOW DOES FOREVER 21 THRIVE ON E-COMMERCE WITH TMALL

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No western fashion retailer understands the value of **TMall** better than **Forever 21** does. It didn't make a headlong decision to plunge into China market by setting up a brick and mortar store but started online first.

Forever 21 opened its largest flagship store on Nanjing Road East, the busiest shopping street in Shanghai by the end of September in 2012, two months after it launched its first store in Beijing.

*Forever 21 Shanghai flagship store*

*Forever 21 Beijing flagship store*

It's worth mentioning that as early as December 2011, Forever 21 has already entered China's online market, its **official online store** and **TMall flagship store** launched at the same time, becoming the first two retail outlets in China and serving the purpose of raising its popularity among Chinese customers.

*Forever 21 official China online store*

*Forever 21 TMall online store*

With faster stock turnover than **ZARA**, lower retail price point and more experience in e-tailing, Forever 21 has come up with a marketing strategy that is more flexible and open-minded. Since then, the brand has done remarkably well from jumping into the market with a less well-known brand to generating high sales

today.

According to Jasmine, who works for e-commerce at Forever 21 China, most of its customers on the official China online site are loyal to the brand and a large percentage (of them) are returnees with relatively high level of recognition for and stickiness to the brand. On the other hand, its TMall store functions as a platform to attract new visitors and traffic, then convert these visitors into paying customers.

### **Well-prepared for TMall**

Forever 21 launched its China official site and TMall flagship store simultaneously in December 2011. The online stores got ahead of brick and mortar store because the company had planned well.

As a matter of fact, Forever has never lost sight of a physical presence and it had already chosen one shopping mall respectively in Beijing and Shanghai as flagship stores. Due to the sheer size of both stores, it took Forever 21 over two years to prepare for the grand opening. As for online store, the preparation was kickstarted in mid 2011 and it only took a few months to launch by replicating its much-matured online operations in the US, Japan and Korea.

Forever 21 has already started preparing for two large brick and mortar flagship stores with a large batch of stock ready for shipping to China, with its experience in running online stores in other markets and associated cost advantage, why not launch online store first as a warm-up for its physical stores?

Forever 21 has been using this strategy successfully to integrate online and offline channels for many years, its online store invoice telling customers the launch date of its offline store and physical store invoice informing customers of promotional events online.

Early entrants like **ZARA** and **H&M** might not need to pay too much attention to e-commerce, but with the booming e-commerce in China and Forever 21's ten years' experience in online retailing, online store comes as a logical choice.

### **Online exposure**

Like its online stores in the US and Korea, Forever 21's China official online store and TMall flagship store receive delivery of new stock five times a week with 50-60 new options for each delivery. Online retail prices are the same as physical stores but bigger discount rates are used for promotions due to higher return rate.

Forever 21's Asian e-commerce operation and technical center is based in Korea to coordinate logistics and stock level management for online business in China, Japan and Korea. It has a very efficient technical system to support Forever 21's fast fashion model with faster stock turnover, product matching, order processing and promotion to the market. To better integrate with TMall's system, Forever 21 works with a 3rd party supplier to run its flagship store and root out unauthorized distributors on Taobao.

The reason that Forever 21 paid such attention to TMall is because it recognized TMall's leading position in China e-commerce when still preparing for the official online store. Since both its online and offline channels were not yet ready and no large-scale promotion has been made for the brand, it would be difficult to promote a single brand even with the launch of its official online store. By taking advantage of TMall's exposure to huge number of users, Forever 21 aimed to gain large attention for its brand in a short period of time.

From day one, Forever 21 has made very high expectations for TMall with the same products, price level and promotions as on its official online store and planned to generate half of its turnover from TMall store. However, as TMall's requirement for unconditional seven days exchange and return goes against Forever 21's global policy of no exchange and return, it means only 4,000 options can be made available on TMall while its official online store has over 10,000. The good thing is, TMall has started to change this policy and it will be a matter of time before it expands to cover fashion products.

Nevertheless, its TMall store has not only maintained high growth rate but also exceeded Forever 21's expectation. Before the online business's launch in China, Forever 21's estimate was that less than 10% of the targeted customers have heard about the brand and most of whom are people having made trips overseas. Judging by the growth rate of customers on its official store and TMall store, the percentage is much higher than its previous estimate and continues to climb.

According to some analysis, Forever 21's online customers concentrate in 1st-tier cities like Beijing, Shanghai and Guangzhou. Online and offline sales seem to mirror each other, online sales in Guangzhou region (an area close to Hong Kong) topped the list when a flagship store opened in Hong Kong and online sales in Beijing topped when the flagship store opened in Beijing. Located on the busiest shopping streets in 1st-tier cities, these flagship stores have very strong influence over tourists from 2nd and 3rd-tier cities. Its official Weibo site indicates that consumers getting familiar with the brand normally go to Taobao to search for 'Forever 21'.

### **'Fast' vs. 'Fast'**

For fast fashion brand, the word 'fast' may mean very different things on TMall.

After running the official online store and TMall store in parallel for over six months, Forever 21 has already discovered an marked trend of acquisition of new customers on TMall store and retention of repeat customers on official store. According to Jasmine, TMall store often participates in Taobao's sales promotion and makes ad placement to attract new customers, as for customers visiting the official online store, they normally have higher level of recognition for the brand. However the two market segments are quite different with monthly overlap of less than 5%, which indicates relatively stable purchasing route on each

platform.

To compare a number of fast fashion brands, **Uniqlo** is very strong in the variety of fabric, **ZARA**'s advantage lies in design and **H&M** excels in shopfront layout, while Forever 21 is favored by many for its variety of accessories and delivery of hundreds of new options each day. However, accessories are not a large product line in TMall store due to its exchange and return policy.

The average price per item on TMall is RMB100 (USD16) lower than on its official store and the shipping rate also differs. In addition, Forever 21 runs a trademark 21% daily discount campaign on TMall to increase the stickiness of its customers.

Considering the work process of overseas brand, TMall always communicates with merchants its promotional plans in advance so Forever 21 can report to headquarters one week ahead of time. This is very important for Forever 21 because of the huge number of new customers acquired on TMall.

One problem associated with new customers is high return rate, which is two times as high as on the official site. This is caused by TMall's unconditional exchange and return policy and new customers' unfamiliarity of the brand.

For delivery, Forever 21 partners with two of the largest courier providers in China: Fedex and SF Express with free delivery for order over RMB200 (USD32).

Forever 21 places a strong emphasis on return rate. Most fast fashion brands rely on high turnover and low inventory level and it's normal to stock a few dozens for each option that has very short life cycle. Forever 21 makes delivery 5 times a week with over 50 options for each, however too frequent exchange and return may disrupt the operation, which is a major problem most fast fashion brands have to face.

Though the biggest problem for Forever 21 is the 'top-selling' phenomenon on TMall (some top-selling products can sell over 1,000 each month as compared with other products, which sells less than 100). Although TMall search has removed the weight for ranking based on product popularity, if Forever 21 has only 20 items for one option, it will quickly become 'out of stock' despite its high popularity. To deal with this problem, Forever 21 also stocks a few basic options with 1,000-2,000 for each as 'top-selling' products and sells out through out-of-season discount promotion.

For brands with low stock level, consumers seldom use product search but search for brand names directly to get access to the store. Uniqlo is considered the 'standard' brand among the 'non-standard', but Forever is a typical 'non-standard' brand that provides no special advantage in any single option. So it has to do more in user experience and marketing in order to create stickiness with consumers and generate more search for its brand name.

Another problem with fast fashion brand is stock management. Forever 21's TMall store is operated by a provider based in Beijing but the warehouse is located in Shanghai, this posed some difficulties to the customer service team because they couldn't see the products they were selling. Later on Forever 21 started to post samples regularly to customer service and provide training for the staff. Also its large number of SKU, product matching and fast update put a lot of pressure on customer service, inventory and after sales. Because TMall has very strict policy on short supply, Forever 21 has been very cautious in dealing with its online operation so no major problem occurred.

This is not the first time Forever 21 has entered China. As early as 2000, it opened its first brick and mortar store in Changshu, Jiangsu province in Eastern China. Although the business didn't take off, Forever 21 has certainly learned some good lessons from this experience.

### **Diversification**

According to Jasmine, although Forever has accumulated considerable experience in e-tailing, it will continue to put priority on official site and TMall store for its online business. It has no plan to expand to other platforms like **Jingdong** or **Dangdang** so as to keep uniform user experience, maintain brand image and the exclusiveness of its online store. From an operation point of view, it has large number of deliveries every day so it's not difficult to diversify its sales platform, but as other platforms are no where close to matching Forever 21's brand character, new product deliveries will still be on TMall.

### **In conclusion**

With the entry of brands like Uniqlo, GAP, ZARA, H&M and Forever 21 into China, Chinese consumers are no longer stranger to fast fashion. However their efforts to localize their operation are facing growing challenges like expanding from 1st tier cities of Beijing, Shanghai and Guangzhou to 2nd and 3rd tier cities, competing with local brands in smaller markets and attracting more customers to their physical stores in order to increase sales per square foot under high rental pressure.

The launch of TMall indicates a cut-off point for e-tailing in China, while early entrants like ZARA and H&M have made better use of brick and mortar stores, later entrants like GAP and Forever21 have done better by starting online and sending online customers offline.

For TMall, it's time to make itself ready for a huge swarm of Western fast fashion brands coming to its platform.

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