



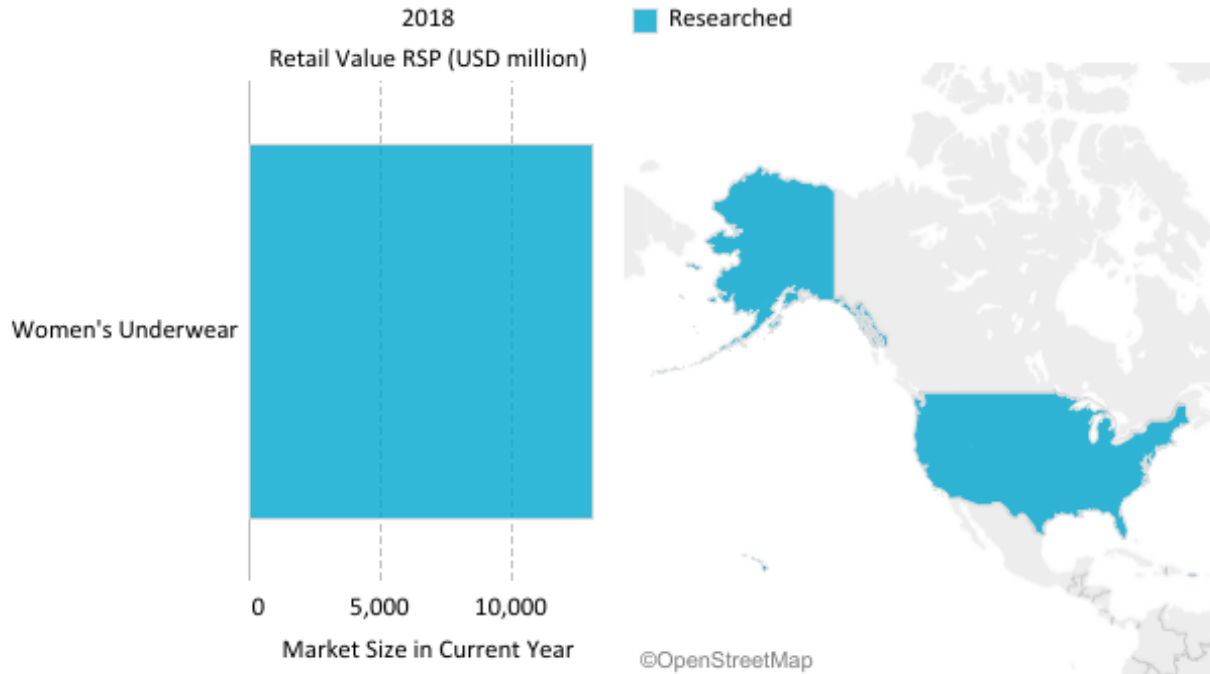
# Passport

## **FALLING ANGELS: VICTORIA'S SECRET STRUGGLES IN ITS HOME MARKET**

October 2019

# Scope

## Apparel and Footwear: US Women's Underwear in Context



All values expressed in this report are in US dollar terms, using a fixed 2018 exchange rate. 2018 figures are based on part-year estimates. All data are expressed in current terms; inflationary effects are included.

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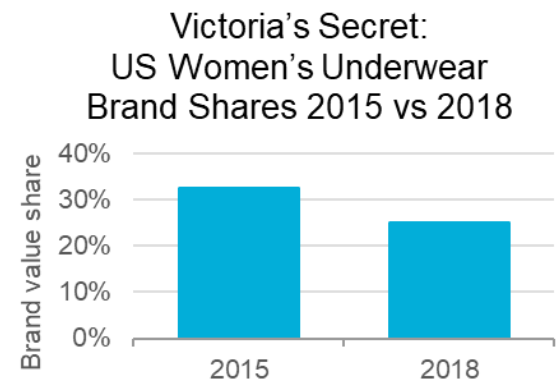
*Victoria's Secret is struggling, particularly in its core business of women's underwear. In addition to declining mall traffic and increasing competition from online players, changing consumer attitudes surrounding female empowerment and body positivity have been largely to blame for Victoria's Secret's falling sales. This report highlights Victoria's Secret's recent struggles as well as the brand's future plans and prospects.*

## Key findings

Lingerie empire continues losing share in the US	The US women's underwear market saw positive growth over 2015-2018, with value sales increasing by 9%. Despite this favourable growth, however, the market leader, Victoria's Secret, saw its value sales drop by 16% over 2015-2018, causing its market share in its core category to decrease from 32% to 25% in just three years.
Empowered female consumers reject Victoria's Secret's brand image	A major contributing factor to Victoria's Secret's decline has been changing attitudes among American women. An upsurge in feminism and body-positive messaging have led American women to prioritise brands and products that promote female empowerment. Some of the most successful advertising campaigns by Victoria's Secret's competitors have featured unedited photos and bodies of all shapes and sizes as women prefer more body-positive messaging. Many feel that Victoria's Secret's overtly sexy imagery is out of touch with today's consumers.
Inclusive newcomers increase competition for Victoria's Secret	The emergence of new competitors such as ThirdLove and American Eagle Outfitters's aerie has increased competition for Victoria's Secret. These new players utilise social media marketing to promote messages of empowerment and body positivity, appealing to today's inclusivity-minded consumers. In comparison, Victoria's Secret static, hyper-sexualised marketing campaigns have garnered backlash from consumers.
Can Victoria's Secret turn itself around?	The US women's underwear market expects healthy performance, growing by a CAGR of 2% over 2018-2023. If Victoria's Secret wants to continue taking a sizeable share in this market, it should make fundamental changes to its brand image and positioning. In order to do so, the brand will need to understand today's consumers' needs and wants and become more inclusive.

## Victoria's Secret struggles in its core business of women's underwear

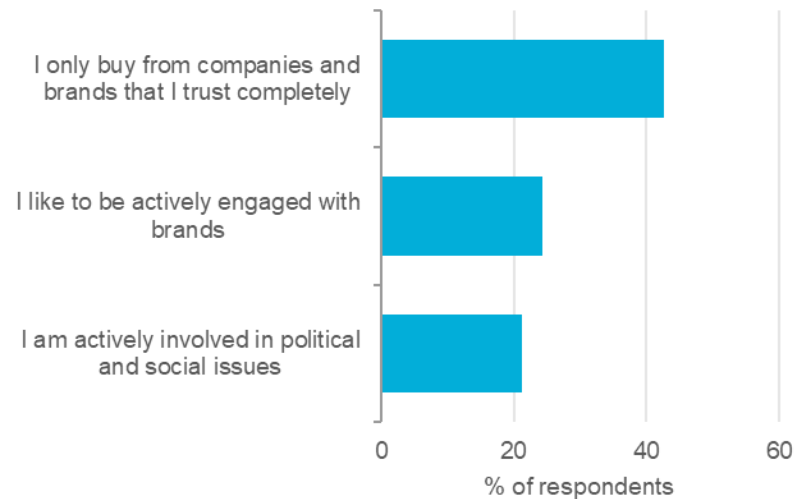
- Victoria's Secret is struggling, particularly in the women's underwear category in the US, its core market. The brand experienced a steep decline of USD1,502 million in the category over 2015-2018, causing its market share to drop from 32% to 25% in just three years.
- Victoria's Secret's massive decline has not been due to overall product market decline as the women's underwear category as a whole has performed well in the US, growing at a CAGR of 3% over 2015-2018. In 2015 alone, the category posted 7% value growth, the fastest rate over the last five years. The growth came as a result of strong sales of sports bras and the emerging lingerie trend of bralettes, defined as a bra that has no underwire or padding. Wanting comfort and a more natural look, young consumers prefer brands that have minimal padding and affordable prices. Meanwhile, Victoria's Secret has traditionally marketed highly-padded bras that prioritise aesthetics over comfort, failing to appeal to today's young female consumers.
- Victoria's Secret's struggles can also be attributed to the dramatically changing retail environment, with internet retailing growth accelerating since 2010. Victoria's Secret, which relies heavily on physical stores, has suffered as shopping centres and retail corridors have faced declining foot traffic as consumers migrate towards online shopping.
- Additionally, the rise of internet retailing brought increased competition for Victoria's Secret, with new digitally native players such as ThirdLove and True & Co better catering to modern consumers' priorities. These online retailers offer customers the convenience of free shipping and returns as well as the ability to find the perfect fit by using technology and data. This advancement allows consumers to forgo the awkward experience of being measured by store employees and having them find their size, in addition to reducing their need to visit physical retail stores to purchase lingerie in general.



## American women are drawn to inclusive brands

- In addition to slowing foot traffic, changing consumer attitudes surrounding female empowerment and body positivity has also been largely to blame for Victoria's Secret's falling women's underwear sales.
- According to Euromonitor International's 2019 Lifestyles Survey, 21% of American women are actively involved in political and social issues. Starting in 2017, a movement against sexual abuse and harassment began to spread across the US, especially after the hashtag #MeToo went viral. The rise of the #MeToo movement has empowered women to speak up about sexual assault and harassment and re-evaluate how women are portrayed in the media. This has also led many to change their purchasing behaviour.
- This empowerment also opened up the conversation around body positivity. American women are increasingly embracing their natural bodies, challenging entrenched standards of feminine beauty and appearance. This has caused trouble for Victoria's Secret as the overt sexuality of its marketing and products has fallen out of favour with many American women. The overtly sexy image promoted by Victoria's Secret's fashion show has been a main point of critique for the brand. Female consumers are more interested in brands that are inclusive, offering a range of different sizes that fit diverse body types. As the Lifestyles Survey revealed that nearly a quarter of American women like to be actively engaged with brands, it is important for brands to develop emotional connections with their target audience in order to build strong communities around their brands.

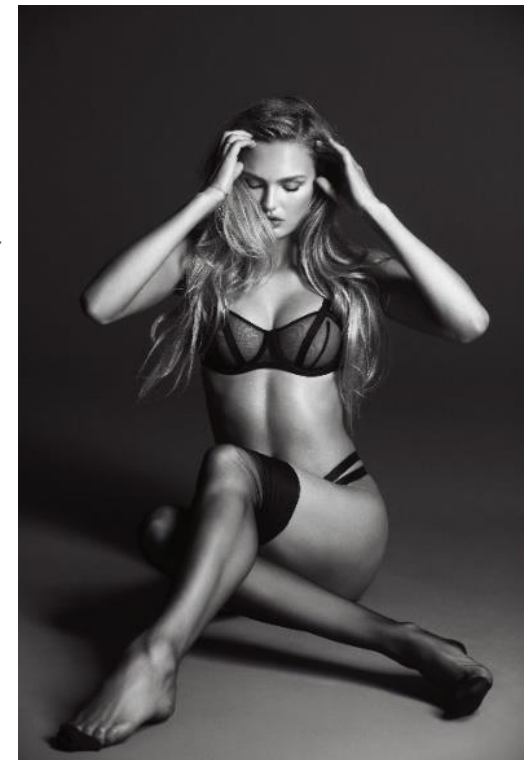
Do you strongly agree or agree with the following statement, among women 2019



Source: Euromonitor International's Lifestyles Survey, 2019

# Victoria's Secret grows more disconnected from today's consumers

- Despite changing consumer preferences amid a wave of desires for inclusivity and body positivity, Victoria's Secret has continued to focus on its same brand image and strict standards for women's appearance. The brand has continued to hire models only with a slender physique for its annual runway show, drawing widespread criticism for not featuring plus-size or transgender models.
- Furthermore, Ed Razek, the long-time chief marketing officer of L Brands, the parent company of Victoria's Secret, made headlines when he commented that the runway show is a fantasy and he doesn't think the brand should have transsexual models in the show during his interview with Vogue magazine in 2018. Razek later issued an apology for his insensitive remarks and eventually left the company in 2019. The news left consumers with a message that Victoria's Secret does not cater to many of their values. As a result, the Victoria's Secret Fashion Show posted its worst ratings in November 2018 since its beginning in 1995.
- Victoria's Secret has recently added another layer of controversy to the brand as its company investigates the relationship between the chairman and CEO of L Brands, Les Wexner, and Jeffrey Epstein, a financier and convicted sex offender. While Epstein was a long-time personal financial adviser to Wexner, Wexner and the company rushed to publicly distance themselves from Epstein when he was charged with sex trafficking crimes and arrested in July 2019. Epstein later died in an apparent suicide in his New York City jail cell. The negative media attention around the scandal hurt the company's reputation among customers and investors alike, especially as Victoria's Secret sells underwear to women, including teenagers.

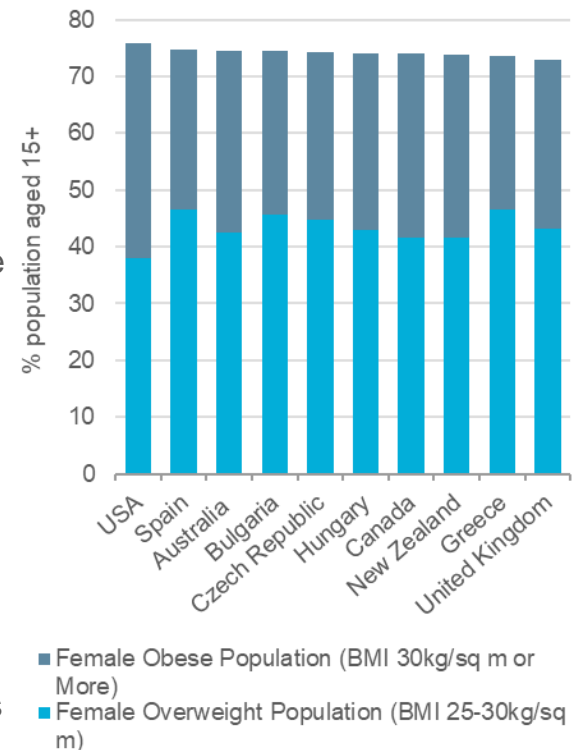


Source: Victoria's Secret

# Victoria's Secret ignores the new inclusivity norm

- Victoria's Secret has ignored the opportunity to rethink its size ranges and missed the opportunity to reach more consumers in doing so.
- The US has the world's largest obese and overweight population. In 2018, 76% of the US female population aged 18+ was considered overweight or obese. The plus-size clothing market is not new, with retailers such as Lane Bryant and Catherines having long specialised in plus-size clothing. What is new is that more consumers than ever before are embracing their real bodies and demanding clothing that best fits their unique shapes and sizes. New players such as Viva Voluptuous and Ashley Graham Collection have tapped into this strong demand and are dedicated to outfitting plus-size women, while Trusst Brands specialises in the D-plus cup market. The brand has developed a bra with patented bra support technology to improve comfort and fit, solving problems for plus-size women including breast weight and back pain which are often associated with bra fit.
- Consumers no longer want to have to limit their shopping destinations due to their size and expect more trend-driven clothing to be available to them. ThirdLove has accommodated such consumer preferences by offering half-cup sizing and extending its size offering. Other underwear start-ups have also focused on offering the perfect fit for any body. By ignoring the body-positive movement and failing to expand its size ranges, Victoria's Secret has missed out on a major growth opportunity.

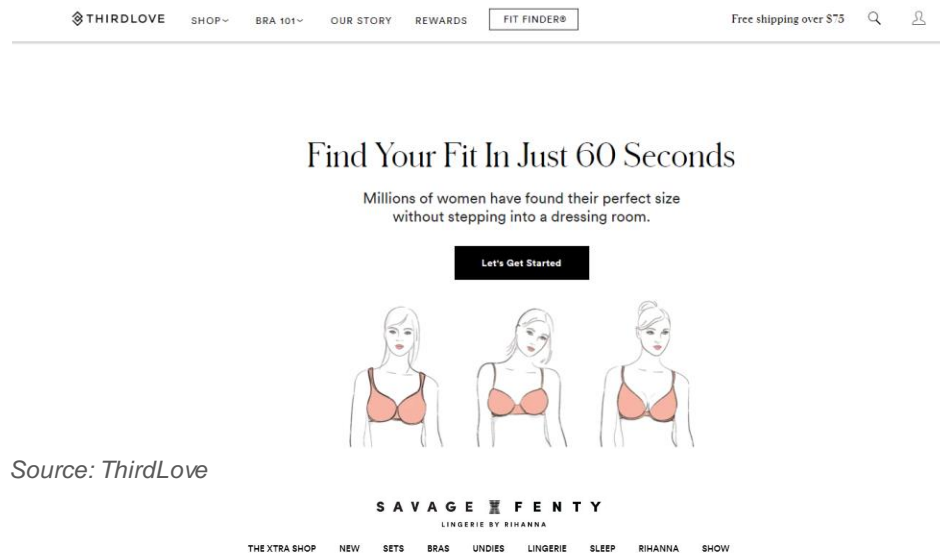
Female Aged 18+  
Overweight/Obese  
Populations in Key Markets  
2018



Source: Euromonitor International's Economics and Consumers data



# New competitors are capturing the attention of today's consumers



Source: ThirdLove



Source: Savage X Fenty

- In this new social and political climate, many new players are entering into the women's underwear market. Whereas before the #MeToo movement, it was almost impossible to compete with Victoria's Secret, brands such as ThirdLove and Rihanna's Savage X Fenty are able to capture consumers' attention. Fuelled by strong social media marketing campaigns, the messaging of these brands resonates well with modern consumers due to their focus on personalised fit and inclusive sizing. Another player, American Eagle Outfitters Inc, has benefited from the successful performance of its intimate apparel sub-brand, aerie. The brand's strong messaging encouraging women to feel comfortable in their own bodies appeals to today's young consumers who are increasingly receptive to messages of self-love and female empowerment.



## New players tout unique selling points

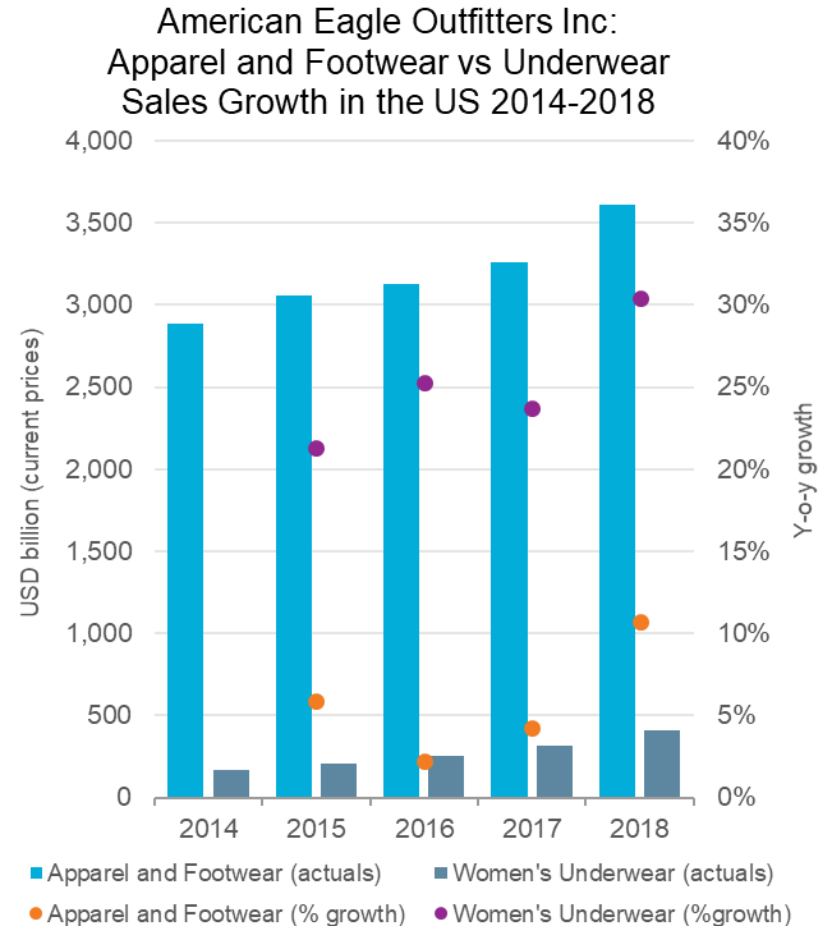
- With the women's underwear market seeing a shift in consumer taste, a number of smaller, niche players have introduced new concepts and disrupted Victoria's Secret's former stronghold on the market.
- Many of these players are committed to the current trends of size inclusivity and body positivity. Rihanna's Savage X Fenty promises size-inclusivity by offering fashion-forward items in a range of sizes. ThirdLove offers trademarked half-cup sizing (eg A ½, B ½) with a total of 78 bra sizes from 30-48, AA to I. The brand also offers a mobile app that enables users to measure their bra size at home. Lively recruits Lively customers (not models) for a fit guide which showcases the fit of its pieces, helping shoppers to have a realistic understanding of the bra's size and shape and find the right fit online.
- New players are also relying on technology as part of strategies to improve the overall shopping experience. Adore Me brought a subscription service to the women's underwear market, delivering a curated box to members' doors monthly.
- True & Co utilised its own data, collected via online questionnaires, to build a product recommendation algorithm that predicts bra sizes and styles for shoppers. True & Co is also active in smart engagement through social media. The brand incorporates customers' photos from Instagram onto its website if they use the hashtag #togetherweartrue. This helps the brand curate its social feed and connect with its customers.
- As women increasingly look towards digital platforms for fashion inspiration, these digital marketing campaigns are key to increasing brand awareness and building customer loyalty.



Source: Lively stores in Chicago, IL

## aerie became a remarkable growth engine for American Eagle Outfitters

- American Eagle Outfitters's sub-brand aerie posted 25% compound annual growth in the US over 2014-2018, eclipsing the CAGR of the overall US women's underwear of 4% over the same period.
- aerie's social media campaigns have been key to its growth. The #aerieREAL campaign, which began in 2014, promotes body positivity by featuring models of different ethnicities, ages and sizes and using unretouched images in its ads. In 2018, aerie expanded the campaign to feature women with chronic illnesses, visible disabilities, surgery scars and other conditions.
- In order to further accelerate the growth of aerie, American Eagle Outfitters plans to open 35-40 aerie stores and 25-35 side-by-side stores connected to AE-brand stores in North America in 2019. While operating multiple channels, the company will improve its omnichannel capabilities to offer a seamless shopping experience. Also, the company continues to use various software tools to get deeper insights into consumers' shopping behaviours and trying to improve overall consumer experience.



Source: Euromonitor International's Apparel and Footwear data

# Can Victoria's Secret turn around its struggling lingerie business? (1)

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A more inclusive brand

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New leadership team

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Close connections to customers

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Strategic product assortment

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- The US women's underwear category expects healthy performance, growing by a CAGR of 2% over 2018-2023. Victoria's Secret still represented 25% value share in the women's underwear category in 2018. Other players individually accounted for less than 5% value share, demonstrating Victoria's Secret's category dominance.
- If Victoria's Secret wants to continue taking a sizeable share in this category - either to increase or maintain its existing market share - it should make some fundamental changes to its brand image and positioning. This process involves having a better understanding of the needs and wants of its customers, and refining the way it communicates its brand to consumers. To achieve this, the brand needs to renew its marketing strategy, refresh its product offering, and develop a stronger omnichannel retail strategy.
- The brand appears to have learned from its recent struggles, and has welcomed John Mehas, the former President of Tory Burch as its new CEO, to begin to employ new tactics.

## Can Victoria's Secret turn around its struggling lingerie business? (2)

- In the era of #MeToo, Victoria's Secret's upcoming plan must involve rebranding. This is not going to be an easy task for a brand that has continually insisted upon reinforcing its strong brand image through overtly sexy marketing over the years. The brand will need to make a major change in its brand positioning and promote more comfortable and size-inclusive offerings in order to meet the values and needs of today's female consumers.
- The company has already made some progress. After the controversial CMO of L Brands, Ed Razek retired, the brand hired its first transgender model, Valentina Sampaio. The executives also commented that it would not broadcast its Fall 2019 fashion show on TV for the first time and will rethink its approach to future shows. Also, Victoria's Secret has begun to revise and refresh its product offering. As part of this, the brand recently brought back swimwear. Swimwear was previously a successful business for Victoria's Secret as the line generated over USD500 million in sales in 2015 before the brand exited the category. Furthermore, Victoria's Secret will close some of its underperforming stores to fight the increasing pressure of declining foot traffic and competition from new players.
- Outside its core underwear category, Victoria's Secret generates an additional USD2.7 billion in sales in the US from products such as nightwear, loungewear and beauty and personal care. The brand managed to maintain its sales growth in beauty and personal care, while it struggled in underwear sales in recent years. Therefore, the improvement of its merchandise assortment in beauty and personal care, along with a strengthened focus of its core underwear business, can be another revenue stream for Victoria's Secret.
- It will take some time for Victoria's Secret to see the results of its restructuring efforts. However, Victoria's Secret is not the only apparel retailer that has needed to undergo a rebranding in recent years. A significant number of apparel retailers have faced similar pressures and worked to regain their lost market share. For example, Abercrombie & Fitch has executed a rebranding strategy and recently marked its second consecutive full year of sales growth in FY2018, after struggling with falling sales over FY2012-2016. Victoria's Secret will need to work a step-by-step process in order to rebuild the brand over time.



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