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## Choosy

On a warm day in early September 2018, Choosy's CEO and Co-Founder Jessie Zeng entered her startup's conference room overlooking New York City's busy SoHo neighborhood. Zeng's data-driven fashion startup, Choosy, had officially launched two months earlier. It was hard for her to believe how far the business had come since the days when she ran it out of her apartment, overflowing with boxes and fashion items.

Choosy was a technology startup that used a machine learning-based algorithm to identify fashion styles trending on the photo-sharing social media platform Instagram. Inspired by these styles—typically designer pieces worn by celebrities and other fashion “influencers”—Choosy produced items with a similar design using a China-based supply chain. Choosy listed products for sale as part of biweekly “drops,” relying on its Instagram page and e-commerce website for distribution. Compared to the original designer pieces worn by celebrities, which often retailed for hundreds or thousands of dollars, Choosy priced most of its products between \$50 and \$100. **Exhibit 1** shows a Choosy product next to the Instagram photo that inspired it.

Choosy had raised more than \$5 million over the last year and now had more than 30 full-time employees in the United States and China. The company's U.S. office, where Zeng was based, spanned one and a half floors, including an open-office space and conference room, the latter of which adjoined a walk-in closet housing some of Choosy's latest styles. Upstairs, next to a small fridge offering rosé on tap and a pink neon sign reading “Now She Choosy,” floor-to-ceiling windows overlooked a small roof deck where Choosy staff conducted photo shoots of models wearing the company's latest designs.

Zeng was excited about Choosy's progress to date, but she and the rest of her team knew that the work ahead would involve some important decisions. Today, Zeng was meeting with her two co-founders, Chief Technology Officer Sharon Qian and Chief Operating Officer Mo Zhou, to discuss two topics. First, the co-founders had to reevaluate Choosy's product mix. Choosy's current value proposition was to offer unique, eye-catching designs inspired by those worn by celebrities. However, the team had come to realize that because these pieces were suited for special occasions rather than everyday wear, strong social media engagement surrounding a particular celebrity outfit did not always correlate to strong sales of apparel inspired by that outfit. Zeng wondered if Choosy should stay focused on its current market or expand its product mix to include more basic styles that could be

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worn every day, even if that meant straying from the company's original value proposition of algorithm-driven fashion.

The co-founders also needed to decide whether Choosy should change its shipping model and overall customer experience. Currently, Choosy shipped products from a manufacturing facility in China to a third-party logistics facility in Missouri, where products were picked, packed, and shipped to customers by a logistics partner under the supervision of Choosy's management team. By switching to a drop shipment model in which products were shipped directly to customers by Choosy's manufacturing partners in China, Choosy estimated they could cut total shipping costs from \$14 to \$7 per package. However, drop shipping products would give Choosy less control over its packaging and customer experience, and the company would lose the option to overnight/priority ship to customers. As the e-commerce landscape became increasingly competitive, shipping speeds were a factor in a consumer's buying decision.

Qian and Zhou joined Zeng in the conference room. After they sat down, Zeng said, "We started Choosy with an idea for commoditizing fashion. Now we have to decide what our values are. How can we balance making more money in the short term with building a long-term brand?"

## Fast Fashion Gets Faster

### *Apparel Manufacturing in China*

Women's apparel retailers traditionally released new clothing styles four to six times per year as part of seasonal collections, designing and ordering each collection several months in advance to maintain this schedule. However, in the early 2000s, "fast fashion" retailers such as H&M, Zara, and Forever 21 did away with the traditional model, instead ordering new clothing at least once a week.<sup>1</sup> After designs debuted on fashion runways, fast fashion retailers designed similar—in some cases, nearly identical—styles, to be sold at much lower price points than the original designer pieces. In the U.S., brand logos and textile prints were protected under copyright law, but clothing designs were not; for example, from 1984 to 2011, Forever 21 was sued dozens of times for copying textile patterns but settled the vast majority of cases out of court.<sup>2</sup>

Fast fashion retailers partnered with manufacturers that designed their operations to produce and ship items to stores within six weeks of receiving a design.<sup>3</sup> For years, China was a top choice for companies looking to manufacture products at a low cost; from 2000 to 2015, China's share of total global manufacturing output increased from 7% to 25%.<sup>4</sup> However, as labor costs in China rose, some companies began to move apparel manufacturing operations to other developing countries, such as Vietnam, Malaysia, and Thailand.<sup>5</sup> From 2014 to 2016, China's textiles and clothing exports decreased from \$236 billion to \$206 billion and its global textile and clothing market share by value dropped from 38.6% in 2015 to 35.8% in 2016.<sup>6</sup>

While apparel manufacturing in China became more costly, e-commerce as a market force in general—and Alibaba's consumer-to-consumer shopping marketplace Taobao in particular—started to put another kind of pressure on manufacturers. Launched in 2003, Taobao grew rapidly to include a massive network of China-based sellers who purchased branded products wholesale and sold them to followers at a markup.<sup>7</sup> Taobao's third-party sellers wanted to be able to purchase products in smaller batches than those typically ordered by large retailers. Zeng explained, "Taobao sellers created an ecosystem where first runs need to be low quantity to avoid inventory risks, and where everything needs to be really fast." In fiscal 2016, Taobao and related sites generated over 3 trillion yuan in transaction volume (\$462 billion)—more than the entire U.S. e-commerce market combined.<sup>8</sup>

In response to these trends, consulting firm BCG suggested in an industry report that fashion companies would need to embrace three supply chain characteristics: fast, flexible, and lean.<sup>9</sup> Agile, technology-driven apparel manufacturers sprang up throughout Guangzhou, China, the main hub of the Chinese apparel industry. Gerhard Flatz, managing director of leading manufacturer KTC, said, “It’s about becoming a boutique manufacturer. So instead of style quantities in the several thousands, we’re talking about a quantity of 20 pieces per style now.”<sup>10</sup> Rob Sinclair, COO of a division of Li & Fung, observed, “[Chinese manufacturers] are mitigating cost increases by doing things smarter and better. They have the technology, they have the will and then you have [ . . . ] China’s skills and its well-trained workforce.”<sup>11</sup> Choosy’s business model built upon this shift to just-in-time apparel manufacturing norms in China and around the world.

### *Influencer Marketing*

Designed to be used primarily on smartphones, Instagram was a popular social media platform that allowed users to share photos and apply filters that adjusted photos’ brightness, warmth, and contrast levels. Instagram users could “like” and comment on each other’s photos and “follow” other users so that those users’ photos appeared in their Instagram newsfeeds. Founded in 2010, Instagram’s user base had grown to 30 million by 2012, when it was acquired by Facebook for \$1 billion.<sup>12</sup> In June 2018, Instagram reached 1 billion users.<sup>13</sup> See **Exhibit 2** for worldwide Instagram user projections.

Instagram’s growing popularity was accompanied by the rise of social media “influencers,” or individuals with large numbers of social media followers, giving them the power to influence consumer behavior. Influencers’ follower counts ranged from tens of thousands to tens of millions. Some influencers were celebrities who had first risen to fame outside of social media through acting, singing, or modeling; for example, Instagram’s most-followed users included singer/actress Selena Gomez (144 million followers) and reality TV personality Kim Kardashian West (119 million followers).<sup>14</sup> Other influencers rose to fame predominantly or exclusively because of social media.

Influencers with dedicated followers operated like their own media platforms, with the power to market products and drive significant sales. For example, reality TV personality and model Kylie Jenner—also a member of the Kardashian clan, and one of Instagram’s most-followed users with 116 million followers<sup>15</sup>—leveraged her social media following to launch her own makeup brand at age 18, bringing in revenue of \$307 million in 2016.<sup>16</sup> Established retailers and brands could likewise leverage influencers’ power; for example, the influencer referral site RewardStyle drove 19% of Nordstrom’s mobile e-commerce traffic during August 2017.<sup>17</sup>

Fashion, beauty, and lifestyle brands often paid influencers to post Instagram photos or YouTube videos featuring their products, similar in concept to brands paying for advertising on television or in magazines. In one notorious example, the organizers of Fyre Festival, a Bahamas-based music festival, spent hundreds of thousands of dollars on influencer marketing—including \$250,000 for a single post from model Kendall Jenner—and were later unable to make payments for essential festival infrastructure and equipment.<sup>18</sup> Even lesser known influencers could command a large price tag; according to the *Financial Times*, a company might have to pay thousands of dollars for a sponsored post from an Instagram user with 100,000 followers.<sup>19</sup> See **Exhibit 3** for a summary of products purchased due to influencers’ posts.

### **From Citigroup to Co-Founders**

Zeng was born in the southern province of Hunan in China, where her uncle owned a large textile manufacturing company. She explained, “I grew up knowing the basics of production, sampling,

sizing, and so on.” Zeng spent most of her childhood in China and Argentina before moving to Washington, D.C. as a teenager.<sup>20</sup> After high school, she was accepted into Wellesley College and the Massachusetts Institute of Technology’s five-year double degree program for Economics and Urban Planning. In 2014, Zeng left school a year early to begin a sales and trading role at Citigroup (Citi).

At Citi, where Zeng specialized in electronic trading on foreign exchanges, the hours were often long, and her team did not get many holidays off. Zeng befriended her teammate Sharon Qian, noting, “Soon we were joined at the hip.” The pair also met Mo Zhou, who had joined a different Citi team at the same time.

With the little time not spent working on the trading floor, Zeng created a fashion blog as a hobby and began building a small following on Instagram. “It wasn’t really planned. In those days, it was easy to build a social media following organically,” she recalled. “My then-boyfriend was into photography, so we took all these nice photographs of me wearing different outfits, and when I posted them to Instagram, people started following me.”

In June 2015, she quit her job at Citi and moved to China, where she acted as an Entrepreneur-in-Residence at venture capital firm ZhenFund while also consulting to her uncle’s textile manufacturing company on the impact that e-commerce and fast fashion were having on the industry. She also continued posting to her Instagram and blog, eventually amassing about 30,000 Instagram followers and receiving opportunities to partner with well-known luxury brands by featuring them on her blog and Instagram page.<sup>21</sup>

In the summer of 2017, Zeng moved back to New York City, where she decided to start her own clothing company, Shop The Creative. After building a website using Shopify, Zeng found style inspiration by wandering the streets of New York City or browsing Instagram. After finding styles she liked, she ordered similar samples from wholesalers in China through an app she had worked on at ZhenFund. Based on how her followers responded to photos of herself modeling the samples, she would list the designs for sale on her website and submit orders for production. Zeng initially ran the business out of her apartment. “There was nowhere to sit. Every inch of space was covered with boxes and clothing,” she recalled.

Zeng was soon earning \$5,000 to \$10,000 per month from Shop The Creative. However, as she released more products, it was becoming more difficult and time-consuming for her to find enough style inspiration. She wondered whether there might be a way to automate the search process and knew just who might be able to help her figure it out.

What had started as a hobby was fast becoming a real business and Zeng was keen to convince Qian, who had recently left Citi, to join as her technical co-founder. “I asked if Sharon could write an algorithm to automate things, so I didn’t have to keep manually digging through Instagram all the time,” Zeng said. At first, Qian was hesitant; she was about to begin a PhD program in applied math at Harvard University and was initially unsure if she could join Shop The Creative while trying to keep up with her coursework. But Zeng was persistent. Soon, Qian was on board.

To automate the process of hunting for new styles, Qian turned to machine learning principles. Machine learning was a domain of computer science that used statistical techniques and algorithms to provide effective predictions or decisions. Using machine learning, computer programs could use data to improve their performance over time. To teach computer programs how to recognize certain patterns or detect certain relationships, programmers often used training data, or labeled datasets that contained examples of such patterns or relationships. For example, credit card companies had long

used machine learning techniques to detect fraudulent credit card transactions, helping reduce theft by flagging patterns of irregular behavior.

Qian and Zeng quickly realized that not every photo posted by influencers actually contained clothing; some, for example, only featured a celebrity's face. This prompted Qian to design an algorithm based on image classification models with over 7 million parameters (i.e., properties learned through training data). Starting in 2012, these image classification models became increasingly popular when modifications to convolutional neural network<sup>a</sup> architectures greatly improved their ability to recognize objects in images. These modified neural networks beat previous benchmarks when it came to the difficult task of identifying hundreds of different objects in images.

Qian trained the model to detect clothing in images by using 800,000 fashion images, each annotated with 1,000 descriptive attributes. After training the model, Qian designed a convolutional neural network that would review all photos posted by a curated group of high-impact Instagram users during a certain period of time (e.g., the past seven days) and extract those that had relevant clothing images. To create this group, Zeng and Qian looked for influencers who fell into three tiers. The first tier consisted of top influencers with more than 5 million followers, such as popular musical artist Rihanna or model Gigi Hadid. The second tier consisted of mid-tier influencers who had more than 500,000 followers and were particularly focused on fashion, while the third tier consisted of "micro-influencers" who had fewer than 500,000 followers and represented strong and active niche communities. Qian observed, "Our theory is that even though micro-influencers have a smaller reach, they might have a more devoted following with higher engagement rates."

Qian's algorithm used an internal scoring system that assigned each photo posted by these users a value between 0 and 100. To generate these values, the algorithm considered each photo's number of likes and comments and performed a basic sentiment analysis to assess whether comments were generally positive or negative. The sentiment analysis leveraged natural language processing capabilities written in the Python programming language, from an open source library called TextBlob, and could analyze comments for specific words and phrases that indicated whether users were interested in buying or wearing clothing pictured in the original photos. The algorithm's output was a list of the 12 photos that received the highest scores based on these factors.

Qian believed that she could continue to improve the algorithm as the team collected more data on consumer preferences. She suggested that the team could eventually use data about top-selling products to "close the loop" and train the algorithm to look for photos with styles similar to top-selling items. Furthermore, she could use data on products frequently purchased together to make basic product recommendations for customers. She theorized that the team might also eventually expand its product line by modifying the algorithm to search for photos featuring accessories or home décor items.

## Preparing for Launch Day

By September 2017, Qian had finished developing a basic algorithm, and that month, Zeng and Qian conducted a market test, designing four products inspired by clothing worn by supermodel sisters Gigi and Bella Hadid. The co-founders listed the products for sale on the Shopify website created by Zeng and direct-messaged Instagram users who had commented on photos of the original pieces to let them

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<sup>a</sup> Mimicking elements of human brains, neural networks were computing programs that consisted of layers of processing nodes—comparable to human neurons—that passed information to one another. Convolutional neural networks were designed specifically to address the challenges of image classification; each layer was trained to recognize curves, colors, and edges, and to associate specific combinations of those elements with specific objects, regardless of the image's size or the number of pixels.

know that Shop The Creative (soon renamed Choosy) was selling a similar style. Zeng reported that the initial run sold out within hours, and thousands of people signed up for a waiting list.<sup>22</sup> In just four days, the four stock-keeping units (SKUs) drove \$30,000 in sales. Given the strong customer response, the co-founders believed that they were on to something.

In November 2017, Zeng began reaching out to potential investors to gauge interest in Choosy's pre-seed and seed rounds. The following month, Choosy applied to and was accepted into New York City's Entrepreneurs Roundtable Accelerator (ERA), a startup accelerator program geared specifically toward technology companies. Each company accepted into ERA received \$100,000 in initial funding in exchange for 8% of common stock, and the four-month program culminated in Demo Day, when startup founders had a chance to pitch their businesses to investors.<sup>23</sup>

Upon acceptance into ERA, Choosy raised approximately \$350,000 in a pre-seed fundraising round in the form of a KISS (Keep It Simple Securities, a simple startup investment vehicle pioneered by 500 Startups) note with a cap of \$4 million and a discount of 20%. Investors saw potential in Choosy's business model and the size of the total addressable market—Choosy's team estimated that the entire fast fashion market was worth \$200 billion per year, \$80 billion of which was driven by e-commerce. See **Exhibit 4** for a summary of e-commerce apparel sales over time. With the pre-seed funding, Zeng traveled to China to begin hiring a team to oversee manufacturing. In January 2018, she returned to the U.S. for the start of the ERA program. See **Exhibit 5** for Choosy's summary of fashion economics and **Exhibit 6** for Choosy's roadmap as of February 2018.

Once the ERA program began, things continued to move quickly, and Choosy started to receive strong interest in its upcoming seed round well in advance of Demo Day. "I had been pretty aggressive with my prior investor outreach during the pre-seed process," Zeng recalled, "and once we started hiring our team, the investors we had met with could tell we were serious. Plus, there was a sense that things would get really competitive after Demo Day."

In February 2018, Zeng and Qian received an opportunity to pitch Choosy to investors at venture capital firm New Enterprise Associates (NEA), which had recently closed a new \$3.3 billion fund and had seen a string of successes in the e-commerce market, such as Jet.com and Groupon. Zeng and Qian were excited about the meeting, but as they prepared, they soon ran into a roadblock: NEA expected them to present a financial model, but neither of them was well-versed in creating such models. Luckily, they knew someone who was.

The month before, Zeng had run into Zhou, her former Citi colleague. She learned that he had left Citi and gone into banking, but he was unsure about what would come next. The day before the pitch to NEA, Zeng reached out to Zhou to ask for his help. Zhou agreed to come by Choosy's office and help Zeng and Qian with the financial model. "And once I visited the office, I never left," he recalled. The group stayed up all night to work on the presentation, which they delivered the following day to the NEA partnership. It paid off: NEA agreed to lead Choosy's seed round.

In April 2018, Choosy closed on \$5.1 million in seed funding from NEA and a few other VC firms. One of the investors observed the reasoning behind the decision to invest in Choosy:

Choosy's business concept was still very raw, but it touched on a lot of timely themes we were interested in. With social media proliferation, consumers are providing endless feedback in real time, ultimately creating millions of data points that have never been available before. But despite the consumer clearly sharing what they want with the world, retailers and brands haven't really had a scalable way to absorb that information and leverage it to inform decisions. What was most interesting about Choosy was the idea of

building an algorithm around the consumer's voice and engagement, and leveraging that data to shape what a brand or retailer could offer—in real time.

The investor added, “Choosy's team also represented value-add across each of the three legs of the stool: One leg was the rapid manufacturing capability empowered by their vertically integrated supply chain. Another was their understanding of the customer demographics, especially with Jessie being an influencer herself. And the third leg was the analytics and machine learning expertise that Sharon brought through her background as an algorithmic trader.”

With its funding secured, Choosy began preparing for its upcoming launch in summer 2018. The co-founders had originally planned to market Choosy's products with side-by-side celebrity Instagram photos: in other words, Choosy's website might feature a photo of a model wearing one of its products next to the celebrity photo that had inspired the product. However, as they prepared for launch, they reconsidered this approach. In May 2018, the *Fashion Law* website speculated whether Choosy's use of such marketing techniques might run afoul of publicity laws, which “prevent[ed] the unauthorized commercial use of an individual's name and/or image in a commercial capacity.”<sup>24</sup> Rather than risk violating this law, Choosy's team decided not to market with side-by-side photos.

Choosy launched in July 2018, releasing 10 styles per week in standard and plus sizes. To support the launch, Choosy partnered with three influencers, each with 500,000 to 1 million Instagram followers, and brought them to Miami to participate in a photo shoot and promotional video. Choosy also did a subway marketing campaign in New York City, displaying advertisements in approximately one-third of all trains and stations for about one month—a strategy that Zeng felt had an even greater impact on early sales than the influencer campaign. Choosy did approximately \$25,000 in sales during its first week.

### **“From Your Feed to Your Door”**

In the U.S., Choosy had about 20 employees, including the three co-founders. The U.S. team handled product development, finance, technology, and marketing. The company also employed 15 people in China, including individuals dedicated to supply chain, production, price negotiation, sampling, and quality control. Choosy's head of supply chain had previously worked at China-based drop shipping company Gamiss and helped connect Choosy's team with agile manufacturers in China. See **Exhibit 7** for an overview of Choosy's supply chain.

Each day, Choosy's team reviewed the top Instagram photos of the past week—flagged by the company's algorithm—to decide which outfits to recreate. Zeng finalized the designs over a few days in conjunction with Choosy's designers; then, Choosy's product development team estimated the product's measurements to create a computer rendering of a potential reproduction. Next, the product development team submitted the renderings to Choosy's team in China, which created a pattern for each design, purchased the right fabric, and sewed two samples. The team in China sent one sample back to the U.S. to be used in photo shoots and the other sample to a manufacturer.

Choosy worked with roughly 20 manufacturers in total. The decision to enlist a specific manufacturer to produce a specific product depended on the manufacturer's skill working with certain fabrics (silks, knits, etc.) or creating particular styles, or it might depend on the manufacturer's capacity to take on work at a given point in time.

Once samples arrived in New York City, Choosy took photos of models wearing them and posted the photos to Choosy's website and Instagram account as part of biweekly product “drops.” After

finalizing designs and listing products for sale, Choosy returned to the comments posted on the photos that had served as inspiration for the latest drop. The company's algorithm searched for specific phrases that implied the user was interested in purchasing the pictured item, such as "Where can I buy that?" or "I need that dress." Choosy sent users who posted such comments an automated direct message informing them that Choosy was now selling a similar style. Choosy also used paid Instagram and Facebook advertisements to reach potential customers, using the Facebook Pixel platform to monitor the reach and impact of these advertisements.

To avoid excess inventory, the first run of each product was made to order. Each drop was available for three days before Choosy submitted initial orders for production. This was a marked contrast to fast-fashion retailers that produced runway-inspired looks in bulk and risked being left with large amounts of unsold inventory if a particular style did not resonate with consumers. If styles sold well, Choosy submitted additional production orders as needed.

Choosy offered free shipping on all orders over \$50, and since most of the company's products retailed for more than \$50, this meant that Choosy essentially paid shipping costs for all orders. Without shipping, Choosy's gross profit margin was approximately 80%; with shipping, it was approximately 60%.

Choosy's production and quality control process took approximately seven to ten days, and shipping usually took about two more weeks in total. It took about three business days for Choosy to ship products from manufacturing facilities in China to a third-party logistics facility in Missouri, which received, picked, and packed. Once that was complete, Choosy shipped packages from the Missouri facility to customers, adding another three to five business days to each item's total transit time. Choosy's return rate was around 15%, below the e-commerce standard of 20% to 30%.<sup>25</sup>

## Ironing out the Kinks

In the months after the initial launch, Choosy's co-founders worked quickly to address challenges and improve the company's operations and business model. For example, they soon reversed their position on the use of the celebrity side-by-side photos in their marketing; after extensive consultation with their legal team to understand the potential ramifications, Choosy began using side-by-side photos to market its products starting on August 16, 2018. (Refer to **Exhibit 1**.) "Being able to do that is key to our business model," Zeng contended. "Now we're not just recreating something that Kylie Jenner wore a week ago, we're actually able to tie our product to Kylie." Zhou added, "Before, I don't think all of our customers really got it. They just thought we were a cool brand making hip clothing. But when you help them make the connection that our products are directly inspired by influencers, they understand that we're not just another fashion company." When Choosy began using side-by-side celebrity photos, it cut customer acquisition costs significantly — from more than \$120 to about \$40.

Choosy's team had also reevaluated its plus-size offerings. Initially, Choosy had offered all of its styles in standard sizes (Choosy Straight) and plus sizes (Choosy Curved). However, they quickly learned that there were drawbacks to this approach. For one thing, Choosy's third-party manufacturers in China were not equipped to produce plus-sized styles, so Choosy had to order customized mannequins for sizes 12 through 20. Furthermore, if all styles were made available in extended sizing, Choosy's manufacturers could only produce 15 styles per week. Choosy's team decided to be more targeted about which styles were offered in plus sizes, allowing manufacturers to produce up to 40 styles per week.



The team also ran into challenges with Choosy's website design. See **Exhibit 8** for screenshots of Choosy's website as of September 2018. In order to focus its precious resources on the machine learning platform, Choosy outsourced its website's front-end design and back-end functions; Shopify was Choosy's e-commerce platform of choice, and a third-party consultant handled the front-end design. "In the beginning, we wanted our website design to be really unique and edgy," Zeng said, "and we accomplished that. The design is memorable." But the team soon found that the design, while visually memorable, was impractical and inflexible. Qian explained:

I think of our current website design as following the IKEA model. When you go into IKEA, the store is designed so that you have to walk through a maze of furniture to get to the specific item you came for, which forces you to look at every other item along the way. We have a similar design, where you're forced to scroll through a bunch of products before you find the one you want. But with IKEA, you have to put up with that design in order to be able to exit the store. With a website, all you have to do is close the browser. You can leave whenever you want.

Zhou added, "The problem wasn't as bad when we had fewer SKUs. But as we add SKUs, people have to click through more and more items to get to what they want. We realized we needed to switch to a more traditional design." Zeng reflected, "I was in a little over my head when we were first designing the website, and I wasn't thinking about the tradeoff between function and design. The overwhelming feedback we got was that it was confusing." She noted that while Choosy's website traffic was strong, its conversion was lower than the industry standard. In September 2018, Choosy began hiring an in-house web design team to redesign the website layout.

## The Next Challenges

Shortly after launch, Choosy's team reached out to about 800 past customers over the phone to ask them about their experiences with Choosy. Roughly 20% responded. The respondents were generally positive about their experiences with Choosy—when asked how likely they would be to recommend Choosy to friends, on a scale of 1 to 5, the average response was 4.4. Approximately 78% of respondents had heard of Choosy through Instagram. When Choosy asked respondents what they would like to change about Choosy, the top three suggestions were shorter shipping times (18%), a wider range of styles (10%), and more styles suitable for everyday wear (9%).

### *Finding the Right Product Mix*

The survey results had caused Choosy's co-founders to reflect on the company's product mix. Choosy was currently focused exclusively on "celebrity-inspired fashion": unique, eye-catching styles that mirrored designer pieces on celebrities' social media accounts. However, the co-founders had discovered that their original hypothesis—that high social media engagement around a certain celebrity look would lead to high sales of apparel inspired by that look—was not true in all cases. Given what they had observed in Choosy's first few months of operation, the co-founders estimated that the total addressable market for unique, celebrity-inspired styles was less than \$500 million.

The co-founders considered the fact that 40% of Choosy's sales were from consumers living in New York and California, while it was proving hard to purchase and convert traffic for a comparable acquisition cost in other regions. They wondered whether customers in other geographic areas and age demographics might be more receptive to styles that they could wear during everyday situations like work or brunch. "Most of our pieces are very occasional, like what I'm wearing," Zeng explained, gesturing at her dress, a white shirt-dress inspired by one worn by Kim Kardashian West. "This dress

is one of our bestsellers. But I can't wear it that often because it's very distinct. People will remember, 'Oh, Jessie wore that dress on September 5<sup>th</sup>.'" Qian added, "We've been focusing on unique pieces, but it seems like a lot of the styles that are most interesting to our consumers are styles that they themselves could wear every day."

Plus, as Choosy scaled, it was harder to find enough unique styles. Zeng elaborated:

When we first tested our business model, we used five SKUs. Back then, it seemed really easy to find five unique designs from very recent Instagram photos. But now, we're selling 10, 20, or 30 SKUs per week, and we're realizing that there just aren't that many truly memorable pieces. Of the top 12 photos our algorithm flags each day, maybe one or two outfits are truly memorable. The rest are just Kylie Jenner wearing a plain black dress or something like that. But if that photo of Kylie Jenner gets a lot of interest, should we consider making a plain black dress even though it's not a unique style?

In addition to generating consumer interest, simpler styles were easier to produce. "When the styles are less complicated, more factories are able to produce them, so it gives us more flexibility when choosing manufacturers," Zeng explained. "Plus, the lead time for simpler styles would likely be under a week. Many of our current products have intricate details like beading or lace, so those take around two weeks on average."

But pivoting to everyday styles could have broad implications for Choosy's brand and business model, so the co-founders needed to think carefully about how to refine Choosy's product mix. They could stay the course and continue trying to build a brand in the niche market of unique, celebrity-inspired pieces. Alternatively, they could consider abandoning the celebrity-inspired angle and instead focus on selling trendy everyday styles while establishing Choosy as a fast fashion brand in the vein of Fashion Nova or Boohoo—giving the company access to a bigger market, albeit a competitive one already dominated by established fast fashion retailers.

The co-founders were well aware that shifting focus to everyday styles and building a fast fashion brand might distance Choosy from its original value proposition. Choosy's early market hypothesis was based around signaling consumer demand and intent. If Choosy figured out how to do that, the company could pursue any style and eventually build a platform that could tailor styles to the consumer in a personalized and timely manner. One of Choosy's investors observed, "There is a big business to be built in the direct-to-consumer fast fashion space, but I'm not sure this team wants to build that business. Choosy wants to go beyond that by taking a different approach to the business model and distribution channel opportunity that has emerged from the evolution of social networking and real-time consumer engagement."

The co-founders wondered if they could find a happy medium between the two product mix strategies, though they were not yet sure what that might look like. Qian, who was still balancing her Harvard PhD program with her work at Choosy, speculated, "When we weren't using the side-by-side photos, we needed to choose unique pieces so consumers would go, 'Oh, that reminds me of something a celebrity wore.' But using side-by-side photos, maybe we have more opportunity to make the same connection with everyday styles."

### *To Drop Ship, or Not to Drop Ship?*

Zeng, Qian, and Zhou also wondered whether Choosy should switch to a drop shipment model. Currently, Choosy instructed all of its Chinese manufacturing partners to ship to a central warehouse in Missouri, where a third-party logistics provider collected the items and packaged them in Choosy-

branded boxes along with Choosy inserts and messaging. In comparison, a drop shipment model would allow Choosy to save on shipping costs. Since 2011, the U.S. Postal Service had subsidized shipping for packages from China and Hong Kong.<sup>26</sup> Using this shipping option, the cost to ship an item from China to the U.S. could be lower than the cost to ship the same product within the U.S.; shipping returns back to China could be far more expensive than receiving the product.<sup>27</sup>

Several companies had already capitalized on this approach. Online fashion retailers Gamiss and SheIn, for example, offered products at very low prices by drop shipping items directly from manufacturers in China to consumers around the world. Using a similar drop shipment model, Choosy would reduce shipping costs from \$14 to \$7 per package. —and since Choosy’s existing manufacturers offered drop shipping for other clients, the company would not have to switch to new factories. “However, this method of shipment is far less reliable and has a higher rate of lost packages than working through the current third-party logistics facility,” Zeng noted.

The co-founders considered that product quality and customer experience for drop shipped items could vary significantly. “Since the goods aren’t coming from a retailer, they’re often packaged oddly,” an *Atlantic* writer wrote about one factory-to-consumer company. “Shoes come wrapped in bubble tape with no shoebox, electronics come without any English instructions.”<sup>28</sup> In some cases, products ordered via drop shipment were counterfeit versions of other goods and did not work as intended or look like the photos from the product listing. If customers were unhappy with what they received, customer service options were limited.<sup>29</sup> In a review for Gamiss, one disgruntled customer wrote, “Waited nearly 2 months to receive my order and they sent the wrong items. I contacted customer service again and was told it would be 3 DAYS before someone would be able to address my issue.”<sup>30</sup>

To test the benefits and drawbacks of a drop shipment model, the co-founders had ordered items from two popular factory-to-consumer companies, each with more than one million Instagram followers, and still had not received the items after two months. “The existing drop ship vendors have inconsistent quality and reliability,” Zeng said. “That’s definitely a risk for us, especially as it relates to our brand.” See **Exhibit 9** for a summary of e-commerce shoppers’ important shopping criteria.

Choosy’s co-founders feared that if they switched to a drop shipment model, Choosy would lose its brand’s “made in America” feel and would be unable to distinguish itself from other factory-to-consumer companies like Wish and SheIn. “Those companies don’t focus on their branding in the way that we do,” Zeng explained. “If a blogger buys something from Choosy, she might post an Instagram photo with the product and our branded packaging, which could drive sales for us. If she buys from a factory-to-consumer company, she probably wouldn’t do that because they don’t have nice packaging or a strong brand.” She noted that Instagram users regularly tagged Choosy in posts about products they had purchased, or in “unboxing” videos in which they opened packages from Choosy. Zhou added, “If you look at retail right now, personalization is really important. Being able to connect with your customer is the best way to defend your brand. Customer experience is the only thing that will differentiate you from someone else at the end of the day.”

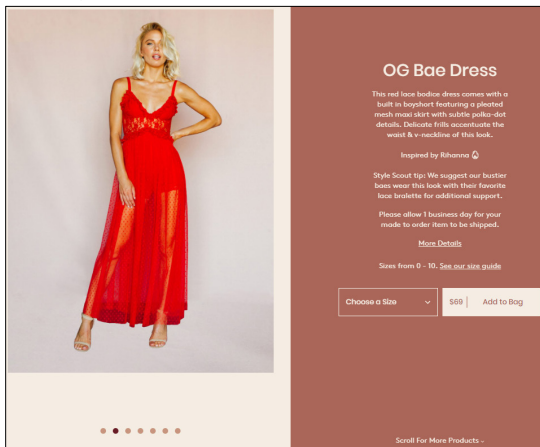
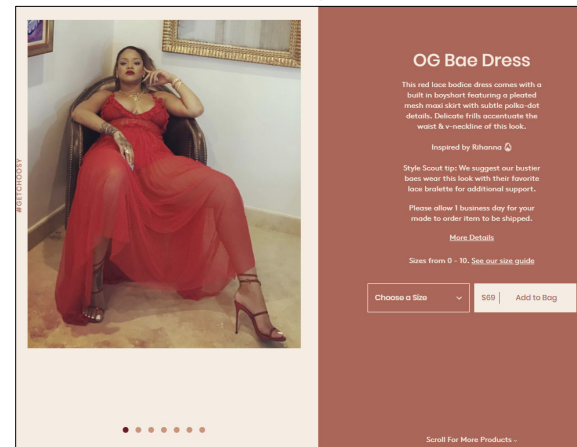
### *Testing the Waters*

As they discussed Choosy’s current challenges, the co-founders floated the idea of launching a prototype website that would test both variables simultaneously, selling more everyday styles with a drop shipment model. The test website would not feature the Choosy brand name and would be geared toward a broader customer base, including older customers and those who lived in less populated areas. “In an ideal world we wouldn’t be testing both at once,” Zhou conceded, “but testing both variables separately will take time, particularly given that setting up the drop ship model—done right—could take months.”

As they continued to discuss the plan, Zeng, Qian, and Zhou wondered: What was the right approach? Should Choosy expand its product mix to everyday styles or try to grow a more focused business in the celebrity-inspired fashion market? How much did consumers value price and shipping time relative to a good customer experience? How could Choosy continue to strengthen its brand and differentiate itself in the crowded women's apparel market? Should the company launch a new parallel brand and website in order to test some of these elements, or experiment directly using the Choosy brand and website? With her two co-founders looking over her shoulder, Zeng opened up her laptop and began outlining a game plan.

Choosy

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**Exhibit 1** Example of Original Instagram Inspiration and Choosy's Side-by-Side Marketing, 2018**Original Instagram Photo:****Choosy Product:****"Side-by-Side" Marketing:**

Source: @badgalriri, Instagram, December 26, 2017; and Choosy, <https://www.getchoosy.com/>; both accessed October 2018.

**Exhibit 2** Instagram User Projections, Worldwide, 2018-2022

	2018	2019	2020	2021	2022
<b>Users (millions)</b>	714.4	807.4	884.3	948.5	1,000.3
<b>% of population</b>	9.6	10.7	11.6	12.3	12.9

Source: "Instagram Users, Worldwide, 2018-2022," eMarketer, accessed October 2018.

**Exhibit 3** Purchases by U.S. Internet Users due to an Influencer's Social Media Post, April 2018

	Female	Male	Total
<b>Product (beauty products, clothing, electronics, etc.)</b>	25%	18%	22%
<b>Event (concert, show, music festival, etc.)</b>	15%	18%	17%
<b>Service (dining, photography, hairdressing, etc.)</b>	12%	12%	11%
<b>Travel (destination, hotel, attraction, etc.)</b>	11%	13%	12%
<b>None of the above</b>	38%	40%	39%

Source: "Product/Service Categories Purchased due to an Influencer's Social Media Post According to U.S. Internet Users, by Gender, April 2018," eMarketer, accessed October 2018.

Note: The above data was from an online survey of 1,571 internet users ages 13 and above.

**Exhibit 4** U.S. Apparel and Accessories Retail E-Commerce Sales, 2016-2021

	2016	2017	2018	2019	2020	2021
<b>Apparel/accessories e-commerce sales (\$ billions)</b>	73.0	84.6	97.5	112.0	128.0	145.8
<b>% change</b>	15.0	15.9	15.3	14.9	14.3	13.9

Source: "U.S. Apparel and Accessories Retail Ecommerce Sales, 2016-2021," eMarketer, accessed October 2018.

**Exhibit 5** Fashion Economics

	Couture (Designer)	Ready to Wear	Mass Market	Fast Fashion	Choosy
<b>Seasons</b>	3	4	6	24	200
<b>Lead time</b>	1 year	6 months	3 months	2 weeks	3 days
<b>Gross margin</b>	70%	60%	60%	55%	60%

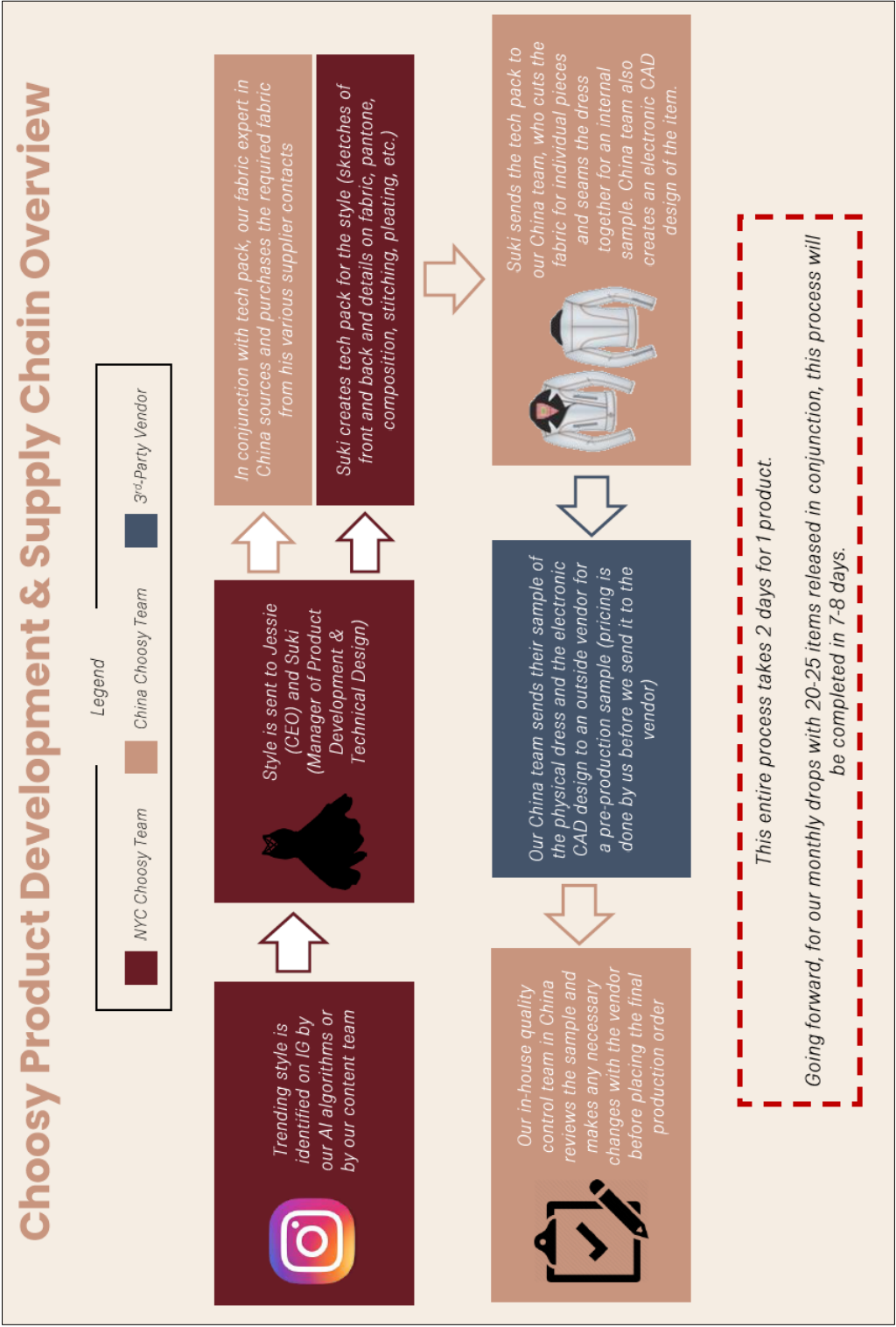
Source: Company documents.

**Exhibit 6** Choosy Roadmap from February 2018 Investor Deck

	Phase I (2017)	Phase II (2018)	Phase III (2019)	Phase IV (2020-2022)
<b>Technology</b>	Algorithms to target followers of top Instagram influencers	Product newsfeed & AI to autonomously run social ads	Ability to build custom product profile for every active user on social media	AI to autonomously predict and target consumer buying intent
<b>Supply Chain</b>	Manufacturing partners to produce women's apparel in 3 days	Real-time production; expansion into beauty-home décor	Increase supply chain capacity per partner and QC standards	Expansion to international markets
<b>Monthly Revenue</b>	N/A	\$10M	\$30M	\$100M

Source: Company documents.

Exhibit 7 Choosy's Supply Chain, 2018



Source: Company documents.

Exhibit 8 Choosy's Website, September 2018



Source: Choosy, <https://www.getchoosy.com/>, accessed September 2018.

Exhibit 9 Important Criteria When Buying Fashion Online, 2017

High product quality	70%
Wide product range	53%
Availability of brand products	50%
Fast shipping	44%
Good price-performance ratio	40%
Information about the exact delivery time	28%
Other	3%
Don't know	1%

Source: "U.S. online shoppers: important criteria when buying fashion online 2017," via Statista, accessed October 2018.

Note: The above data was from an online survey of 814 internet users ages 18 and above.



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