

# STITCH FIX



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Stitch Fix is a publicly held company that offers an online personal styling service. Subscribers to Stitch Fix can use the service to receive curated outfits designed to match their personal preferences with the aid of a combination of data algorithms and Stitch Fix's team of stylists.

This Strategic Marketing Plan will answer the following question: **What new marketing initiatives can Stitch Fix develop to improve User Acquisition and User Retention?**

# Executive Summary

## Opportunities

- Market size of infants/baby apparel in US is around 6.9bn
- The infant/baby apparel subscription service space is largely fragmented and untapped

## Problems

- Unhappy or dissatisfied customers
- Low NPS mainly because of 39% detractors
- Dissatisfaction with the inaccuracy of initial Fix offerings

## Recommendations

1. Offer clothes for infants and babies that are aged 0–2 years
2. Offer a discount on clients' next shipment if they provide feedback about the fit, price, style and quality of items received
3. Show a preview board of items that may be included in a customer's Fix before paying for their first styling fee



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# The Subscription Box Industry

The Subscription Box Industry has skyrocketed in the past 10 years, with revenue growing from \$57M in 2011 to \$22.7B in 2021. That number is projected to grow to \$65B by 2021. This rise can be attributed to factors like (1) the pandemic forcing consumers to find ways to shop from home, (2) growth in the eCommerce industry, and (3) promotion from celebrities and influencers on social media.

## Three Types of Subscription Boxes:

- **Replenishment subscription:** Automate the purchase of goods (Blue Apron)
- **Curation subscription:** Personalized subscription experience (BirchBox)
- **Access subscription:** Extra perks and lower prices (Amazon Subscribe & Save)

Curation subscriptions like BirchBox and Stitch fix are the most

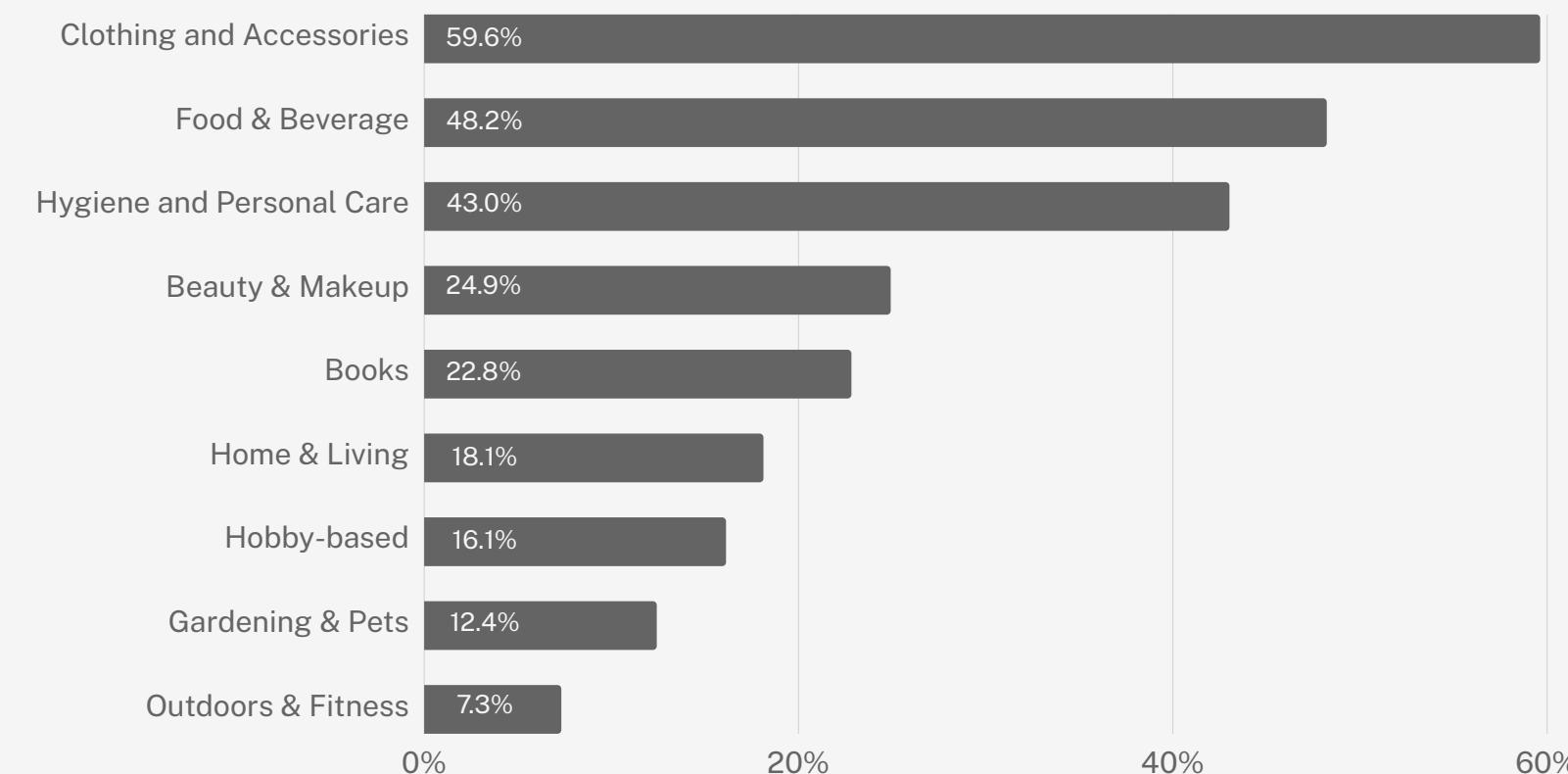
popular at 55%.

## Subscription Box Customer Demographics:

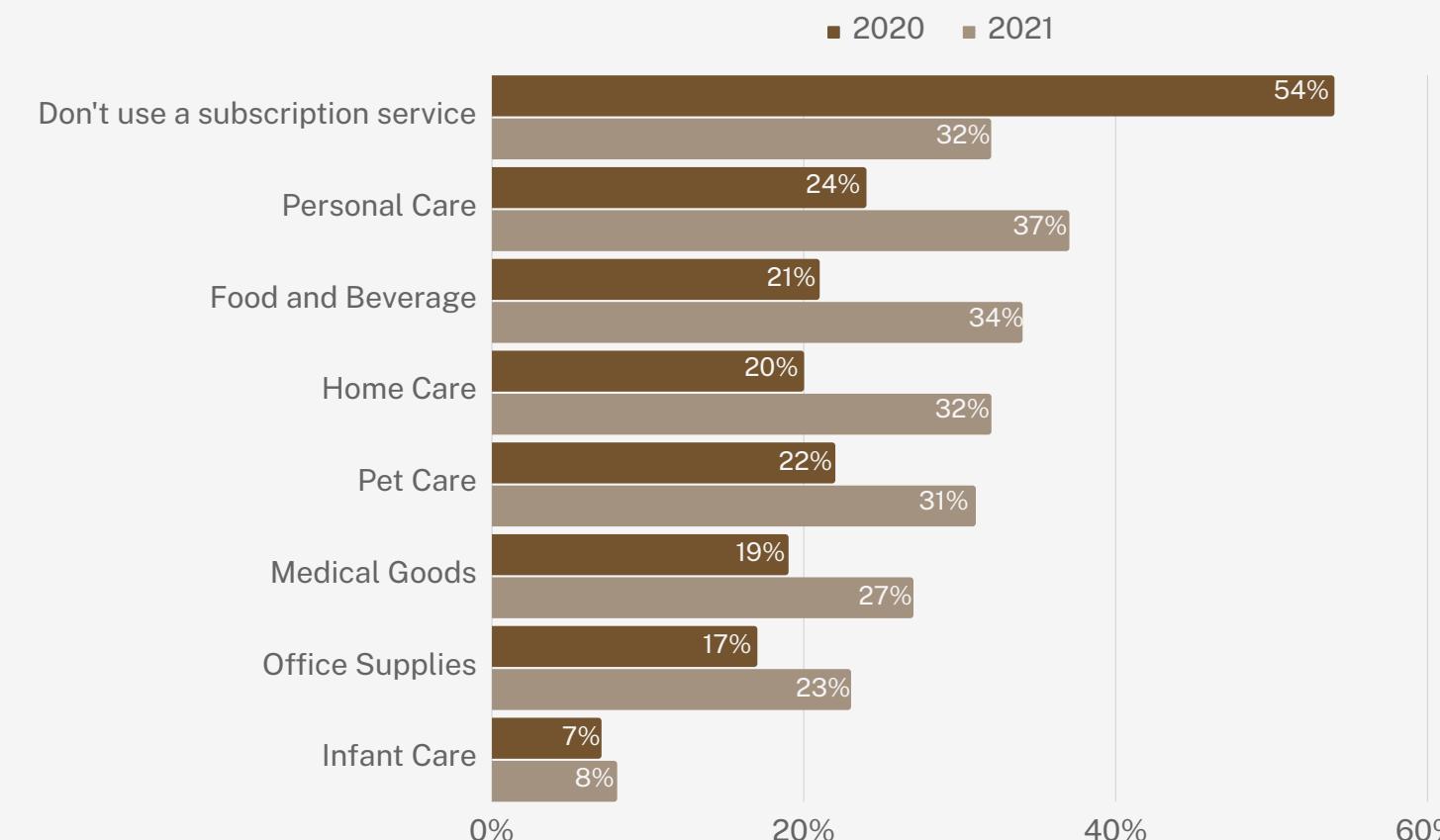
- Generally more popular among younger customers
- 31% of Millennials are subscribed
- 8% of Baby Boomers are subscribed
- Women make up 60% of subscription box customers
- Men tend to pay more in total for subscription boxes, and are more likely to have multiple subscriptions

Many subscription box companies have begun losing subscribers and have been forced to undergo layoffs, signaling that we could be looking at the public experience "Box Fatigue"

## What Products do people buy via box subscription?



What types of household staples do you purchase using a subscription? Choose all that apply.



# Competition

Stitch Fix mainly competes with other curated clothing subscription box firms on price and customization level. Other competition may come about via substitutes such as brick-and-mortar clothing stores, traditional online shopping and delivery, and in-store pick up services.

## Market Place Dynamics:

The Clothing delivery market segment can be divided into the following categories:

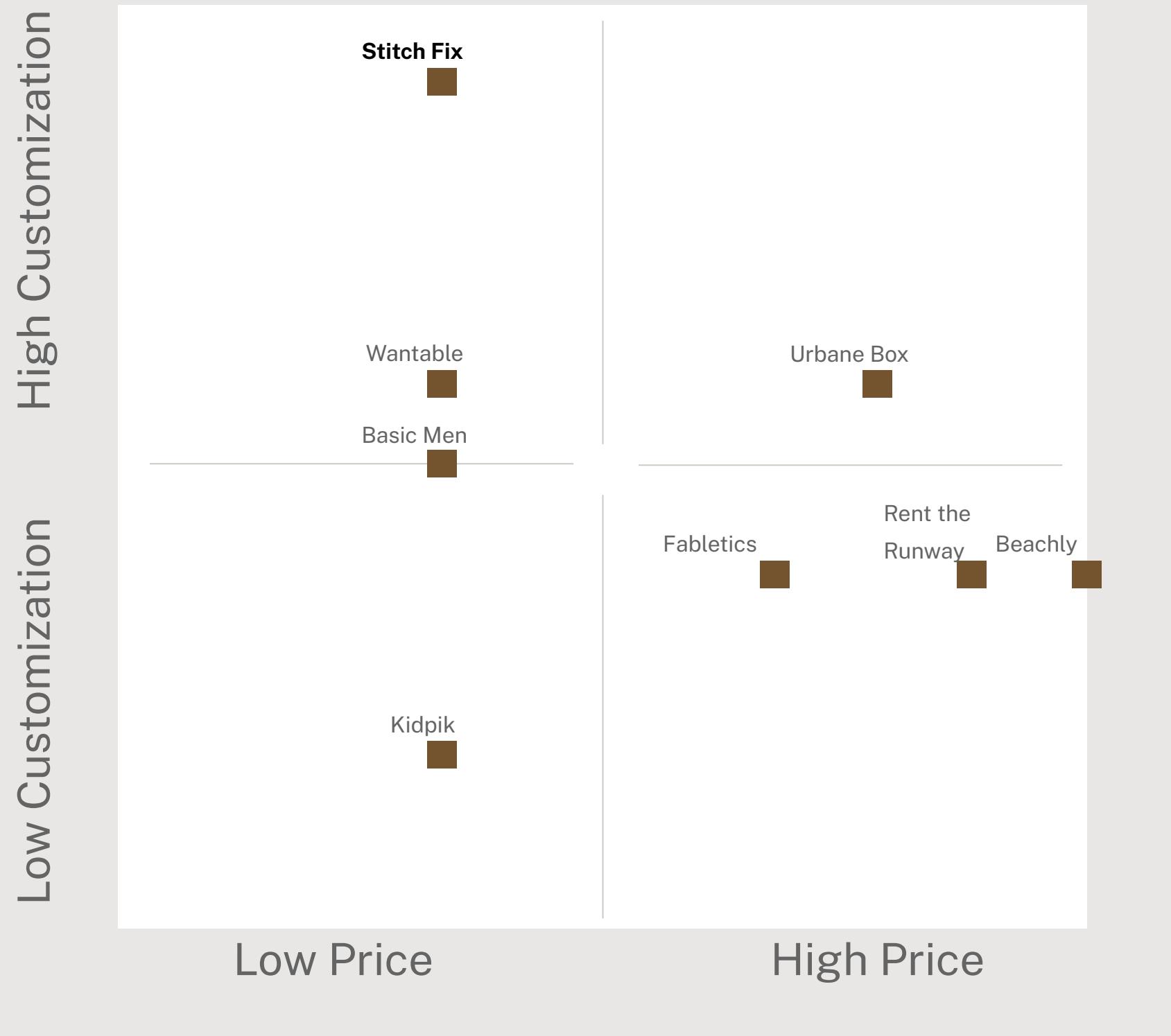
- Age/Gender
  - Male
  - Female
  - Kids
- Purpose
  - Professional
  - Casual
  - Vacation
  - Wedding
  - Other

## Assessment of Core Competencies:

- Ability to select a range of price points per item (\$25-\$500)
- Ability to have a stylist personalize clients' boxes
- Order boxes without a membership or subscription fee

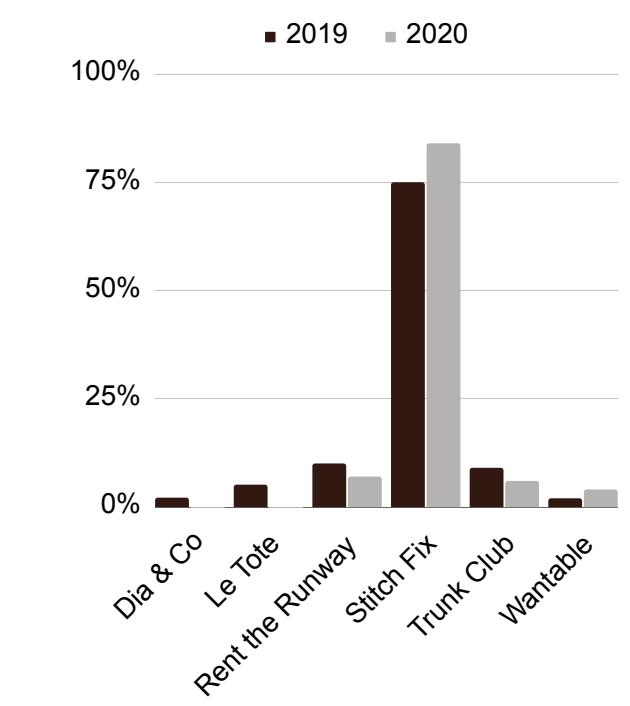
## Industry Profitability (Shop Your Looks)

- Stitch Fix specific
  - Annual Gross Profit = \$909M
  - Operating Cash Flow = \$55M



## Changes in Fashion Subscription Market Share Among Geographical Select Competitors

Between 2019 and 2020, Stitch Fix's market share among the six companies grew by 9%, leading to 12% relative share growth - the growth rate of market share. Wantable's relative share growth was 68% in the same time frame, more than any other company in the competitive set. Interestingly, Wantable is the only company in the competitive set that offers separate "style" and "active" plans, underscoring consumers' increased demand for athleisure and



# Value Chain



## Suppliers

Stitch Fix carries a constantly-rotating range of brands ranging from up-and-coming brands to more established and well-known brands. The company offers over 1,000 different brands, including some of their own brands like Goldray, 41 hawthorne, Market and Spruce, and more.



## Distribution

Stitch Fix has 8 distribution centers in the US and one in the UK. Stitch Fix uses FedEx and USPS to ship their products from the distribution centers to the customers front door



## Collaborators

Stitch Fix has collaborated with a variety of organizations and specific designers. For example, the "Elevate Collection" was a collaboration with 6 Black designers to help designers of color grow and scale their business in addition to providing access to Stitch Fix resources. It has also collaborated with Katie Sturino and Venus Williams on the themes of giving women of all sizes access to trendy and perfectly-fitted clothing and helping women tackle

# Customer

The Stitch Fix service begins with a personal style quiz for users that is largely indicative of the needs the firm is able to meet for its subscribers. By identifying these needs for consumers early on, Stitch Fix employees will be able to make more tailored styling decisions to leave customers more satisfied. Quiz Answers range from convenience ("Do my shopping for me," "Update my wardrobe,") to creativity and spontaneity ("A fun surprise," "Inspiration," and "transform my style")

[Take The Style Quiz](#) [?](#)

>

**First, what are the reasons you're excited to try Stitch Fix?**

- Having my own stylist
- Browse a curated shop
- Unique pieces
- A fun surprise
- Get seasonal looks
- Inspiration
- Update my wardrobe
- Find my best fit
- Transform my style
- Do my shopping for me

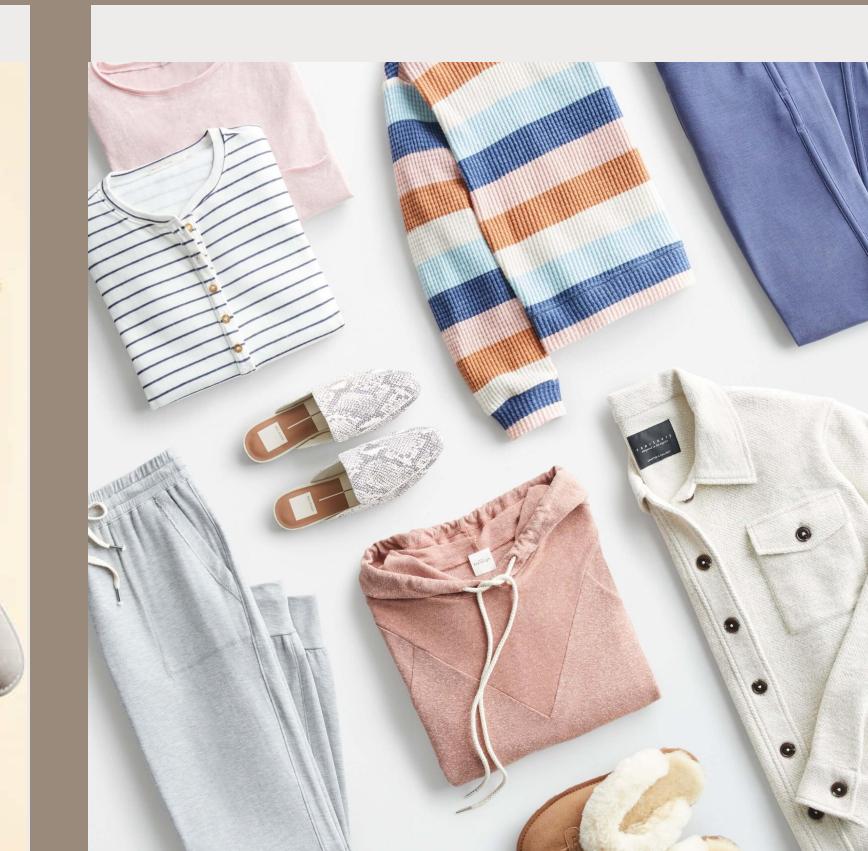
Beyond the initial style quiz, Stitch Fix segments its customer base into Men, Women, and Kids, and prioritizes specific needs for each segment on their website. Notably however, in all of these segments, Stitch Fix prioritizes it's messaging regarding utilizing its extensive array of options to deliver to customers their "perfect fit."



## Men

"We do the work. You get what fits"

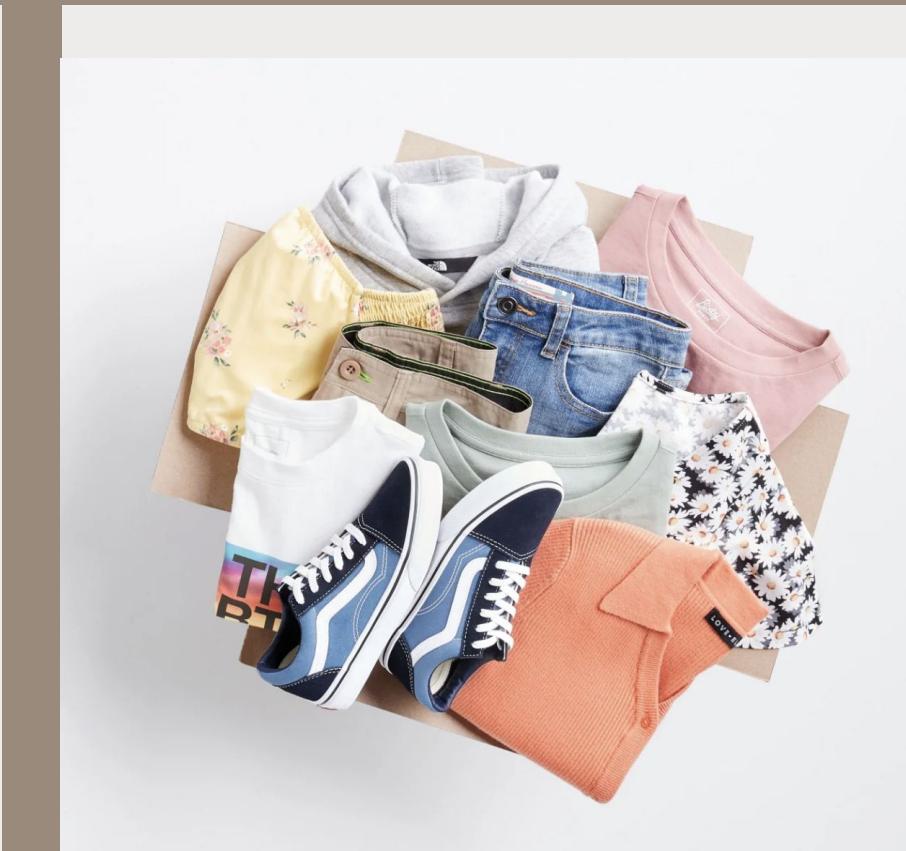
For the men's segment, Stitch Fix prioritizes the needs of finding stylish, well-fit clothes without needing to think too much about how individual pieces may match. It promises an easy process to keep it's customers looking stylish and up-to-date.



## Women

"Tell us what you like. We'll find what you love."

For the women's segment, Stitch Fix prioritizes the personalization aspect of their service. This is the only segment to highlight the role of the stylist team. and the emphasis is placed on building off of the users' own creativity to find



## Kids

"Style that fits every age."

Unlike the Men's and Women's segment, the Kid's segment targets parents rather than children themselves. As a result, we see the emphasis placed on back-to-school shopping and having access to well-fitting clothes that can change in size as a

# Customer

## Potential New Markets

With its emphasis on comfort, accessibility, personalization, and convenience, Stitch Fix is poised to take market share in the 0-2 years babies and infants category. The company already has a kids and maternity line, meaning that an offering of infant clothing could play a crucial liaison between maternity customer and a kids



## Net Promoter Score

Stitch Fix has a relatively low Net Promoter Score (NPS) of 13, with 52% promoters, 9% passives, and 39% detractors. That alarming 39% detractor rate, according to customer reviews, largely comes from first time users who were so unsatisfied with their initial Fix that it tainted their image of the company.

This result makes sense when considering that Stitch Fix's claim to fame is its promise of personalization. In order to improve its NPS, Stitch Fix needs to place greater emphasis on reducing churn rate after the first Fix and ensuring that those who do churn after the first Fix are not left with a poor impression of the Stitch Fix brand.



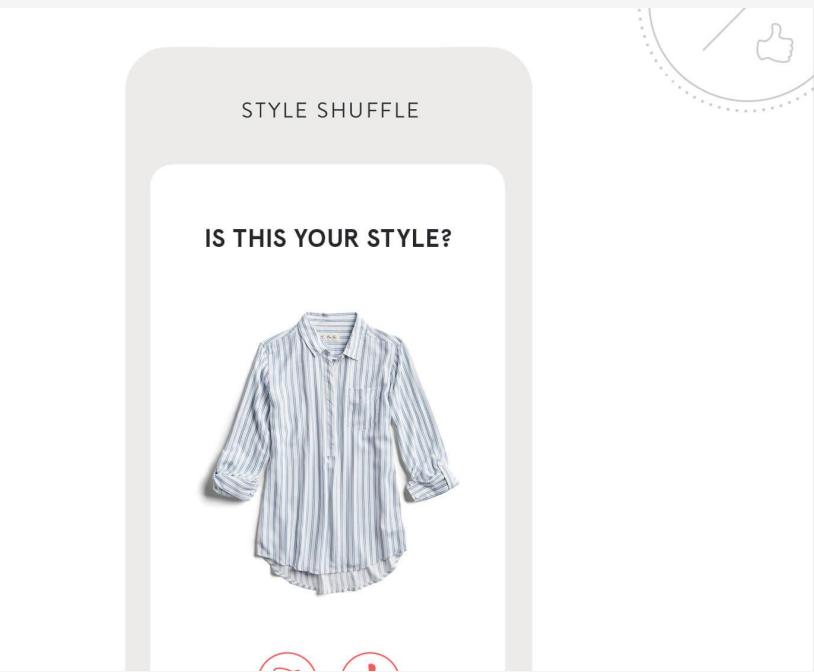
# About the Company

Founded in 2011, Stitch Fix is an online personal styling service operating in the U.S. and U.K. that sends regular shipments of clothing to its subscribers. It combines data science and human judgment to deliver apparel, shoes, and accessories personalized to clients' unique tastes, lifestyles and budget. In addition to selling boutique clothing, Stitch Fix also manufactures and distributes several private labels. As of July 31, 2021, Stitch Fix had approximately 4,165,000 active clients.

Clients engage with Stitch Fix by (1) receiving a personalized shipment of apparel informed by the company's algorithms and sent by a Stitch Fix stylist (a "Fix"); or (2) purchasing directly from their website or mobile app based on a personalized assortment of Proposed Recommendations ("Freestyle")

**"For men, women, and kids who want to look, feel, and be their best selves, Stitch Fix is an online personal styling service that delivers apparel, shoes, and accessories personalized to clients' unique tastes, needs, lifestyles, and budgets in a way that is convenient and fun while combining data science and human judgment."**

# Core Competencies



## Competitive Data Algorithms

- Rich data set and proprietary algorithms fuel business by enhancing client experience and driving business model efficiencies
- Client data provided directly and explicitly by client themselves (not inferred, scraped, or inferred from other sources)
- Focus = gathering merchandise data providing foundation for proprietary algorithms to predict purchase behavior, forecast demand, optimize inventory, and design new apparel

## Pairing Data Science with Human Judgment

- Drives better client experience and more powerful business model
- Data used by stylists to generate predictive recommendations to streamline curation process (Fix) and generate highly personalized items/outfit recommendations in near real-time (Freestyle)
- Expert stylists add layer of contextual human decision-making that help create the ultimate personalization experience

# Marketing Mix

## (1) Product

Online personal styling service developed to meet clients' unique tastes, needs, lifestyles, and budgets in a way that is convenient and fun

## (2) Price

Fix: \$20 styling fee credited toward any pieces kept by the client; 25% off clients' entire order when they keep all items in their Fix  
Freestyle: no styling fee (only sale of merchandise); Women's and Men's items range from \$25-\$500, Kids items start at \$10 each

## (3) Place

Clients purchase directly from Stitch Fix's website and mobile app

## (4) Promotion

Stitch Fix currently uses both digital and offline channels to attract new visitors to their website or app and convert them into clients. Their current marketing efforts include client referrals, affiliate programs, partnerships, TV display advertising, print, SEO optimization, radio, video, content, direct mail, social media, email, push notifications, and keyword search campaigns

## (5) People

Stitch Fix works with thousands of passionate Stylists from all over the US. They're trendsetters and fashion experts who are motivated to learn about clients' style and evolving needs in order to find their perfect pieces. As of 7/31/21, they had ~11,260 full-time and part-time employees.

## (6) Physical Evidence

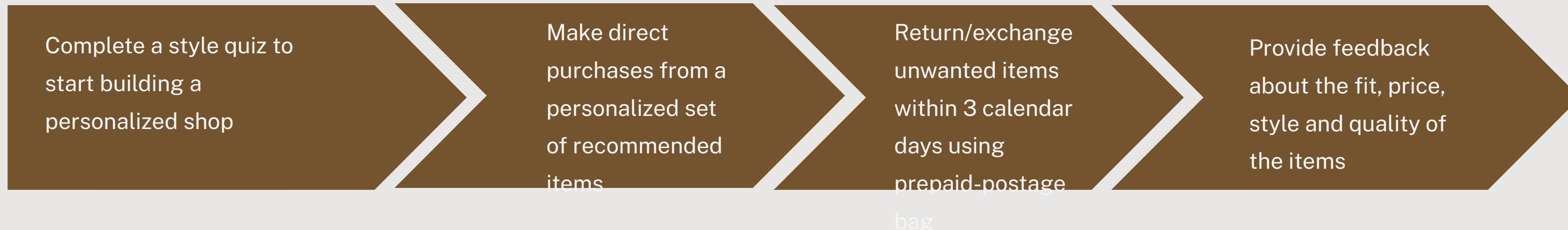
Website, Mobile App, Social Media

# Marketing Mix (cont.) - Process

## Fix



## Freestyle



# SWOT ANALYSIS

## Strengths

- Their own brand white-label
- Data science + human combination leads to positive results (algorithms are proprietary)
- High proportion of revenue comes from repeat purchases (existing clients)
- Majority market share of clothing box subscription industry

## Opportunities

- Subscription box revenue rapidly growing; Finding CAGR
- eCommerce wave
- Capture narrative/trends - minority designers, body positivity
- People becoming too busy to take time to shop for themselves

## Weakness

- Dead ends from customers who aren't willing to go through the extensive quiz process only to be met with a forced purchase before being able to properly access the website
- Low NPS
- Low Awareness
- Over reliance on existing clients (repeat purchases)
- High reliance on suppliers and/or partnerships
- Uncertainty of future customer preferences

## Threats

- Box fatigue
- FedEx, UPS, shipping supply chain issues
- Traditional Online Shopping
- Competitors' differentiation strategies
- Lesser kids per family, aging generations
- Reduced consumer discretionary spending due to difficult financial times
- Customer acquisition costs increasing



# Recommendations

# 1. Offer clothes for infants and babies that are aged 0–2 years

## **Objectives:**

- Increase user acquisition
- Increase market share of clothing industry for babies/infants
- Increase customer reliance on Stitch Fix
- Diversify product offerings

Customer pain point this recommendation addresses:

- Currently the smallest clothing size that Stitch Fix offers is for two-year-olds.
- Infants/babies in this age range are growing at a very rapid rate, requiring parents to order new clothes on a frequent basis.
- Parents who are currently using Stitch Fix may want to bundle their orders with a child aged 0-2, but currently do not have that option.

# 1. Offer clothes for infants and babies that are aged 0–2 years

## LTV Variables & Justifications:

- Styling fee: **\$5**
  - Discounted from the standard \$20 styling fee given age and lack of personalization required
- Monthly cost of clothes for infants/babies: **\$60**
  - Target monthly spend percentage on Stitch Fix: 50%
  - Target monthly spend on Stitch Fix: **\$30**
- Stitch Fix profit margin: **10%** (assumption)
- Monthly churn rate: **3%**
  - eCommerce subscription service average is 5%, we believe this would be lower due to the essential nature of these products
- Cost of capital: **6%**
  - Industry average for apparel companies

## LTV Calculation:

### Monthly Contribution:

Contribution from styling fee: \$5

Contribution from clothes:  $\$30 \times 10\% = \$3$

Total monthly contribution: \$8

### Calculation:

$LTV = \$8 \times (.97/.1+.06-.97) = \$86.22$

## Summary:

Despite this LTV seeming small, we still would recommend proceeding with adding these offerings for several reasons. First, we believe that we can capture parents with young children without spending additional money on advertising by targeting our existing customer base and through organic word of mouth. Additionally, these offerings would be very simple to add and deliver given our current supplier partnerships and business model. Also, we believe that parents who use Stitch Fix for their young children would be less likely to churn and stop ordering products for themselves given their overall reliance on the service. Lastly, this is just the LTV for children aged 0-2, but we believe that many of these users would stay on the service past the age of 2 and convert to our existing kid's subscription model, thus increasing their overall LTV even more.

# 1. Offer clothes for infants and babies that are aged 0–2 years

## Target Markets:

- Parents with young children who may, or may not, currently be using Stitch Fix themselves
- Subscribers who are currently utilizing Stitch Fix's maternity offerings

## Value Chain Strategy:

- New suppliers would not be required as Stitch Fix currently has partnerships with 1,000+ brands, many of which have clothes for infants/babies ages 0-2 years
- Stitch Fix can use their existing distribution channels to get these new products to consumers



1. Offer clothes for infants and babies that are aged 0–2 years

## Implementation Plan:

- We recommend adding these products to the site immediately
- Utilize existing Stitch Fix influencers with young children to begin promoting the new offerings
- Negotiate clothing deals with our existing suppliers

## Contingency Plan:

- Track revenue and cost of goods sold for these items separately from other clothing lines to monitor profitability
- Allow for 2 years for infant/baby line to reach profitability
- Given ease of implementation, products can be easily pulled at any time



## 2. Offer a discount on clients' next shipment if they provide feedback about the fit, price, style and quality of items received

### **Objectives:**

Although providing discounts will negatively impact Stitch Fix's profits in the short term, we believe that by further fueling its data set, the company will be able to offer stylings that will be more closely aligned with clients' preferences. Thus, in the medium to long term, Stitch Fix's revenues and profits will be increased by additional promoters (previously identified as passives/detractors), and an improvement on user retention rates.

Customer pain point this recommendation addresses:

- After examining several customer reviews, it has come to our attention that some clients are unhappy because they are not satisfied with the shipments they are receiving, claiming that Stitch Fix “**doesn't really take into account all style ratings**” and/or that “**the company's algorithms are inaccurate**”, consequently impacting the company's NPS.
- If Stich Fix does not act to improve this score, disappointed customers (detractors) can ultimately damage the brand and impede growth through negative word-of-mouth.
- Unfortunately, when clients are unhappy with their shipments, they decide to stop the service, ignore the company's requests for feedback, and potentially become detractors.
- Given that one of Stitch Fix's core competencies relies on the use of data to better personalize clients' experiences, failure to receive feedback on clients' shipments directly impacts one of the company's key strengths.

Incentivizing the customers to provide this information will:

- (1) Provide additional information to fuel Stich Fix's data set and consequently improve future customer experiences
- (2) Improve user retention as clients will likely want to take advantage of the discount

2. Offer a discount on clients' next shipment if they provide feedback about the fit, price, style and quality of items received

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## Target Markets:

- Aimed equally to all of Stich Fix's targeted segments (women, men and kids across ages, sizes, tastes, geographies, and prices preferences)
- However, the underlying goal is to receive feedback from unhappy clients, since they are the ones who are least likely to provide it upon receiving a shipment they are not satisfied with

## Value Chain Strategy:

- Offering a discount for feedback after the shipment is received will be a part of Stich Fix's customer service activities
- The customer service department should work together with the data science specialists at the company to develop the most accurate and informative survey to better understand clients' comments, reactions and experiences in order to ultimately fuel its data set and offer more accurate stylings both to existing and future customers
- This post-sale activity offered by Stitch Fix will play an important role in developing customer loyalty

## 2. Offer a discount on clients' next shipment if they provide feedback about the fit, price, style and quality of items received

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### Implementation Plan:

- The company should take advantage of its technological infrastructure to identify those customers that (1) take too long to provide the requested feedback and that (2) fail to provide feedback completely
- Once identified, Stitch Fix should offer discounts specifically to those clients. This will avoid over-spending on customers that are glad and willing to provide feedback
- The discounts can be offered through the email with which clients are registered and sent as a “reminder” to provide feedback
- Internally, Stitch Fix’s customer service department should work closely with the data science specialists to develop the most accurate feedback survey form that will allow the company to better integrate its data set and ultimately improve its proprietary algorithms

### Contingency Plan:

- With the help of the data science department, Stitch Fix’s customer service department will be able to compare the number of clients that failed to provide feedback prior to offering the discount, with those that did not provide it even with the discount being offered. The expectation is that this number will decrease (i.e., that the number of clients providing feedback will increase) and that the company’s data set will be increased by additional information regarding clients’ preferences and opinions on the fit, price, style and quality of the items
- Ultimately, the goal is to receive as much feedback as possible in order to provide a more customer-centric experience and at the same time fuel the company’s data set. Should these numbers not improve after a period of at least six months, Stitch Fix should reevaluate the dollar value of the discount to determine if changes should be made

### 3. Show a preview board of items that may be included in a customer's Fix before paying for their first styling fee

#### **Objectives:**

- Improve user acquisition
- Improve NPS
- Remove purchase impediments

Customer pain points this recommendation addresses:

- After the initial style quiz, many customers feel that they are completely unaware about what will be in their first Fix and therefore decide to opt out and not start the service.
- Many customers are unhappy with their first Fix because they were shipped clothes they did not like and felt they did not have a say in what was being shipped.
- As customers feel they have more control and knowledge about what may be in their fix through this new story board feature, this will improve overall user acquisition and improve the NPS as more customers have better experiences on the platform.

3. Show a preview board of items that may be included in a customer's Fix before paying for their first styling fee

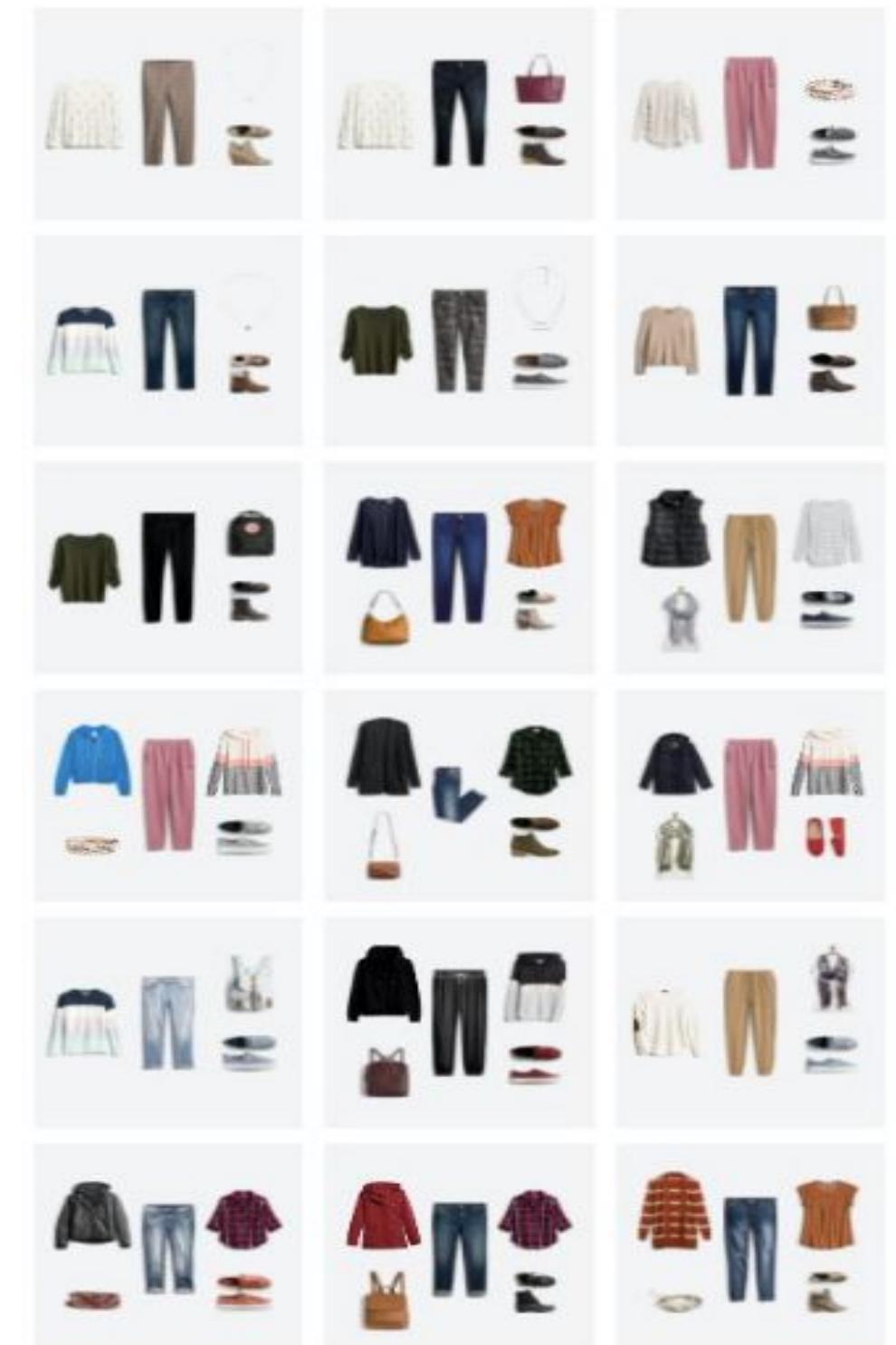
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## Target Markets:

- Aimed equally to all of Stitch Fix's targeted segments (women, men, and kids across ages, sizes, tastes, geographies, and prices preferences)

## Value Chain Strategy:

- This recommendation would require a change and update to the company's website
- Much of the value chain will remain largely unchanged with this recommendation



3. Show a preview board of items that may be included in a customer's Fix before paying for their first styling fee

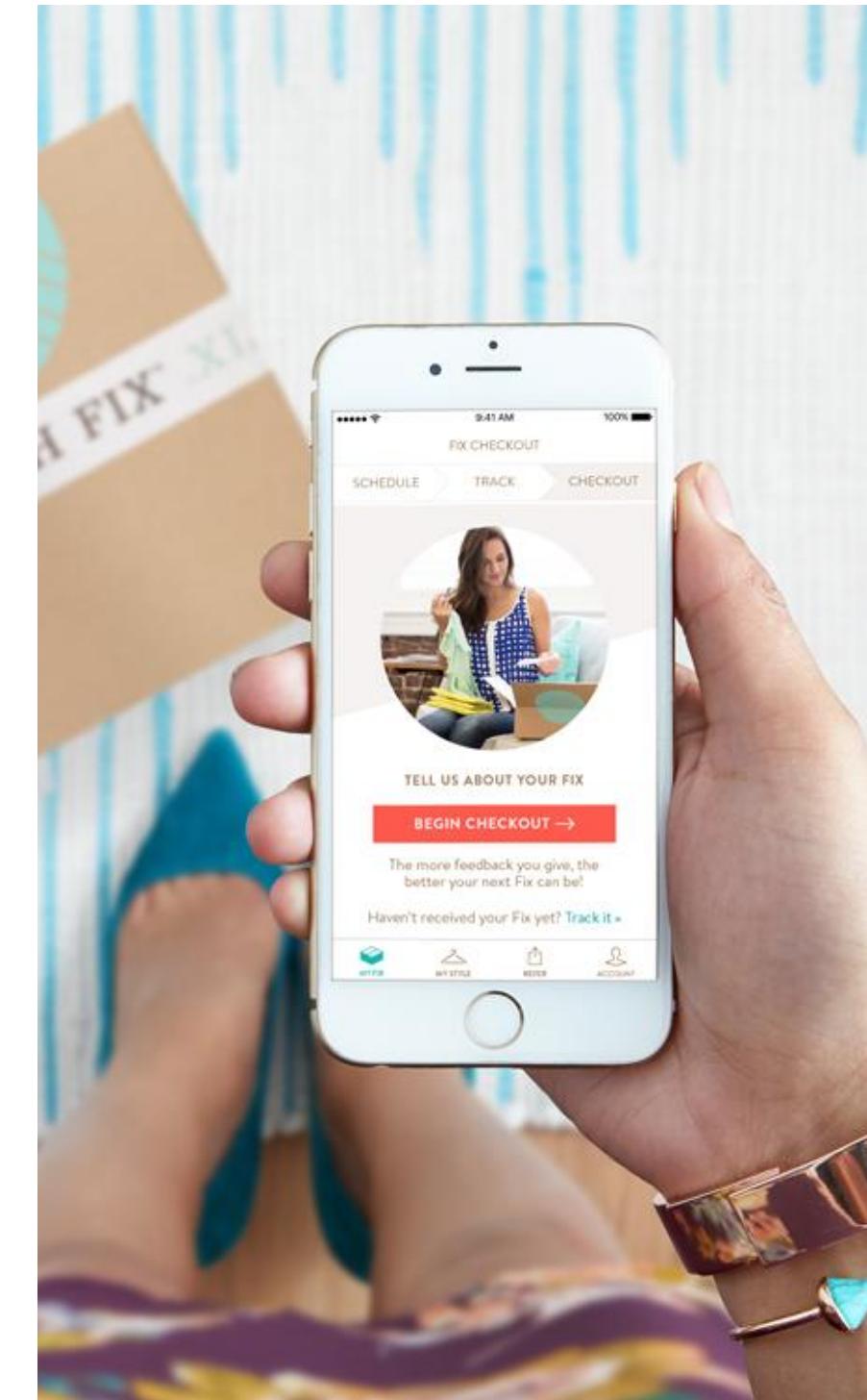
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## Implementation Plan:

- The company should immediately start work with its web engineers to add this new feature to the platform
- The company should plan to roll out this new feature once technological feasibility is discovered

## Contingency Plan:

- Initial A/B testing to measure click through rates to determine if more users are subscribing to the service with the story board vs without the story board
- If our customers were to react negatively to this new change, we will immediately remove this feature from the website interface



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