



SMARTER PERSPECTIVE: RETAIL INDUSTRY

Putting the Resale in Retail

By Kyle Sawyer

In this article, we take a look at the rapid growth in the resale segment of the retail apparel market and how factors including consumers' heightened focus on sustainability and retailers' desire to find a practical path to participation will shape the road ahead.

The retail apparel sector is getting a makeover. Secondhand clothing and accessories sales, also known as resale, is the fastest growing segment of the retail apparel market. The secondhand/resale segment accounts for almost nine percent of the current apparel market and is growing faster than all other categories, including ecommerce.

With a 15-20% annual growth rate expected over the next several years, the value of secondhand/resale transactions is expected to more than double to about \$82 billion, in the U.S. alone, by 2026 according to the ThredUp 2022 Annual Resale Report; and that number is \$218 billion globally. Remarkably, by 2031 the resale segment is projected to be 18% of the total market share, easily taking over fast fashion (the likes of Zara, H&M, Forever 21), which is expected to remain relatively flat at about 8% of the retail apparel market share.

U.S. Secondhand Market is Expected to More Than Double by 2026, Reaching \$82 Billion

Secondhand saw record growth in 2021 at 32%.



Source: GlobalData 2022 Market Sizing and Growth Estimates

Retail consumers are also evolving and there are clear reasons why they are shifting toward more secondhand purchases. Shoppers are increasingly asking tough questions about the poor quality and inherent waste of fast fashion. There is also growing concern about working conditions, sustainability, and environmental impacts. These concerns are not new per se, but the COVID pandemic seems to have accelerated and reinforced them. About a third of consumers surveyed by ThredUp in its report, said that when it comes to shopping for clothes, they care more about

three things than they did before the pandemic: wearing sustainable apparel; saving money on clothes; and clothing quality. All three dovetail with the basic tenets of the resale model.

Clearly, COVID has reshaped consumer buying habits, with many of us adjusting to buying almost anything from the comfort of our homes. But the pandemic has also fueled a wardrobe purging trend as well. Industry estimates put the number of underutilized clothing items in our homes at roughly 9 billion with over 35 billion items thrown away each year. After taking a closer look

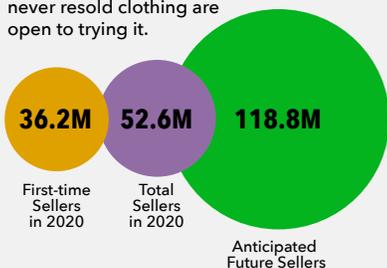
inside dressers and closets during the pandemic, many consumers took the opportunity to change things up and make money while doing so.

Fashion accounts for up to 10% of global carbon dioxide output—more than international flights and shipping combined, according to the United Nations Environment Programme. That sobering statistic, among others that tally the textile waste put in landfills annually, apparently now has consumers thinking more about finding a more sustainable way to dress themselves and their families. Selling, trading and donating have become part and parcel of closet rotation, which is a big shift from just donating or throwing away. Supply chain delays induced some consumers to explore secondhand options too, but the bulk of participation in the resale market appears to go beyond any acute supply shortages caused by the pandemic. And while donating helps keep items out of the landfill, resale has the added benefit of generating income.

Resale's Projected Growth is Driven by More Sellers Putting Great Product Into the Market

As it becomes easier to sell clothes online, more consumers are purging their closets.

76% of people who have never resold clothing are open to trying it.



Source: GlobalData 2021 Resale Consumer Survey

These new realities would seem to strongly suggest that there is a notable

opportunity right now for retailers to help shape the course of this rapidly growing market by more actively participating as buyers and resellers of consumers' used clothing, leveraging their substantial marketing budgets to promote their services and educate current and potential customers.

Even as COVID restrictions have eased and shoppers have the ability to flock to stores again, research firms watching retail trends point to the scalability of resale to support their predictions for continued rapid growth. By their own admission, consumers say secondhand shopping and selling are, in essence, a form of entertainment. This is particularly the case for Gen Z, Millennial and other shoppers who thrive on the thrill of finding the perfect piece, the one-of-a-kind high-quality item that has character, and derive enjoyment from selling a dress or a handbag to make room for something else in their closet. A mindset shift is also taking place, with resale consumers thinking more about purchases as investments, both financial and environmental. Sustainability and sustenance are clearly top of mind.

WHO ARE THE RESELLERS AND HOW ARE RETAILERS RESPONDING TO THE CHANGING LANDSCAPE?

Over the past couple of years, shopping on resale sites has been gaining momentum universally across all age groups, according to a report published by First Insight, Inc. with the Wharton Baker Retailing Center. It is also worth noting that this purchase and rental trend is not limited to Gen X (35% increase) or Gen Z (44% increase). Combined traction among Millennials and Baby Boomers is actually even greater (a 33% and 56% increase, respectively). Apparently, many are now also looking to retailers to step up and get more involved, with almost half of those surveyed by ThredUp indicating that they are more likely to shop with a brand that allows trade-ins. In the meantime, they are using

resale websites and social media to find, purchase and sell clothes and accessories.

Some of the most established websites for apparel and accessory resale like ThredUp, Poshmark, Depop and The RealReal are carving out their own niches. According to peer-to-peer social e-commerce company Depop, about 90% of its users are under 26 years old and over \$1 billion has been made by the Depop community to date. The ease of uploading items for sale on Poshmark is a selling point, as is its seamless connectivity with social media. On the RealReal site, luxury goods are authenticated before they are uploaded, and the seller's commission increases considerably as the price of the items increases. Needless to say, there is a very wide range of resale activity happening online and at all price points. And even though sites like eBay have been selling used items including apparel for a while, it is still early in the evolution of the apparel resale trade.

Luxury resale is a popular way to acquire hard to find, one of a kind, and limited-edition items. Nearly half of the luxury resale market is in jewelry and watches, with handbags and shoes comprising about a third. Buyers are finding the luxury brands offline and online, and a number of nimble sellers are offering to pick-up, store, authenticate, deliver and repair items. Because of the prices people are willing to pay, the luxury end of the resale market is poised for rapid growth.



Source: Verified Market Research



Not all brands, however, embrace the resale trend. Some fear erosion of new product sales, while others are overwhelmed by the logistics. Resale proponents argue, however, that today's happy secondhand purchaser has a good chance of becoming tomorrow's loyal new product purchaser. In other words, the secondhand purchase might be an on-ramp to the otherwise inaccessible (i.e., too expensive) brand initially, but potentially the starting point for a mutually beneficial long-term relationship.

While a majority of luxury consumers are interested in new products and want special access to new releases, the purchasing motivations of many younger luxury purchasers are in line with the resale proposition, and their buying power is only going to rise. The quagmire for brands right now is largely whether or not to engage overtly in the secondhand space. Thus far, most have chosen not to do so and, as a result, many of their brands actively exchange hands on secondhand marketplaces beyond their current purview.

Outside the luxury space, there is a mixed bag of retailers embracing different aspects of resale. In the ThredUp survey, 74% of retail executives said that their company has or is open to offering a resale option, while 52% indicated resale will be an important part of their business within five years. The earliest adopter, at least of reuse, has been Patagonia. The company has a well-known policy of encouraging customers to send in clothes to be repaired and ultimately re-worn and has been participating in the circular economy for years.

Understandably, the logistics of building the infrastructure to handle repairs, buy-backs and resale are daunting for many retailers, but there are a couple giving it a go. In 2020, Levi's launched its "SecondHand" initiative, a buy-back and resale program for secondhand jeans and jackets. Lululemon is also currently

offering its own "Like New" program in select stores across both California and Texas. Neither company has signaled what is in store for the future of these programs, but both continue to commit resources and tout the environmental benefits of their individual efforts.

While the ground-up approach seems overwhelming to many retailers, another option is to partner with an existing resale platform or marketplace and use their channel to move resale volume. Not surprisingly, this is the preferred approach of the majority of executives surveyed in the ThredUp Report, with 60% indicating that partnering is the best approach to getting into resale versus 28% favoring a build it on their own from scratch approach. At present in the market, Madewell has a partnership with ThredUp that includes a popup store that sells only second-hand Madewell clothing. There are also dedicated sourcing companies like LXR that are experiencing success bringing secondhand products directly to the retailer for placement in its physical stores or online marketplace.

CONCLUSIONS

It will take a lot of experimentation to find the right fit, but retailers should be thinking about the stockpile of garments and accessories sitting dormant in closets and dressers all over the country. There is clearly money to be made and customer loyalty to be gained through involvement in the sale of many of those items. To date, secondhand apparel makes up less than one percent of the total apparel volume sold by retailers who have launched resale shops and platforms. Even with the range of players in the space already, there is significant untapped potential to support consumers on both the buying and selling sides of the secondhand transaction.

Any stigmas or negative perceptions that may have been associated with secondhand shopping in the past are quickly eroding in the current

environment. Consumers are telling manufacturers and retailers that they want sustainability and quality built into their apparel and accessories, and they want the flexibility to purchase in one place, return somewhere else, and maybe one day resell with the retailer's help.

While the fashion industry is known for its creativity, it is not particularly revered for its environmental record and consumers/interest groups are likely to demand that it does better in the near future. There is room for improvement throughout the entire lifecycle of a garment. Perhaps investing in the resale market would be one of the best opportunities for manufacturers and retailers to team up and have a positive and lasting impact. Whoever leads the innovation that ultimately makes shopping for and selling secondhand apparel as seamless as possible certainly stands to gain. The environmental benefits are already built in.

Hilco's valuation team possesses extensive knowledge in all things apparel and accessories and has completed engagements in the emerging and more specialized areas of rental, secondhand, and vintage. As this corner of the market is sure to grow in the coming months and years, we encourage retailers/resellers and lenders with portfolio exposure in these areas to leverage our team's expertise in the space to better understand value and risk, as well as potential disposition strategies and channels. We are here to help.

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