Executive Insights

Should Rental Be a Part of Your Apparel Brand's DTC Strategy?

As more apparel brands find success in direct-to-consumer (DTC) distribution, a convergence of trends — including online shopping, peer-to-peer secondhand marketplaces, and a broader ethos of sustainability and reuse — is prompting many to explore another promising channel. Online rental may not be an intuitive strategy for apparel brands. However, it's a logical extension of the same consumer rent versus buy mindset that launched Uber and other sharing-economy giants.

In this *Executive Insights*, we share what the data tells us about market demand and the economics of apparel rental. After that, we unpack the benefits that apparel rental can bring to consumers as well as brands. We wrap with key considerations for brands as they weigh an entry into the rental business, with a look at how they can facilitate the launch of a rental offering with minimal risk and investment.

A stylish turn on clothing rental

Once the domain of men's tuxedos, apparel rental got a new look with the 2009 launch of Rent the Runway. The digital-first startup made its mark by offering women the chance to rent designer dresses and accessories for special occasions. Since then, Rent the Runway has expanded to everyday items, from activewear to office attire, offering a fashion-forward take on the sharing economy.

This has paralleled the rising popularity of secondhand trading platforms, with online fashion marketplaces like Poshmark, thredUP and The RealReal aimed squarely at the "recommerce" trend. In 2020, Nordstrom tested a resale concept, See You Tomorrow. Walmart announced a partnership with thredUP the same year.

Apparel makers have taken notice and responded with rental offerings of their own. In 2019, Urban Outfitters Inc. introduced Nuuly, a monthly subscription rental business. Consumers who sign up for the service can borrow pieces from the company's namesake Urban Outfitters along with Anthropologie, Free People and other labels. Meanwhile, contemporary fashion group Vince Holding Corp. offers subscription-based rental services for its Vince and Rebecca Taylor brands. Ralph Lauren has also launched a similar offering.

Although the rental market for apparel remains nascent, younger demographics are showing interest in the model. Research from Bank of America reveals that a majority of millennials and Generation Z are open to using or likely to use a clothing rental

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system. This reflects an up-and-coming cohort that often values experiences more than things (see Figure 1).

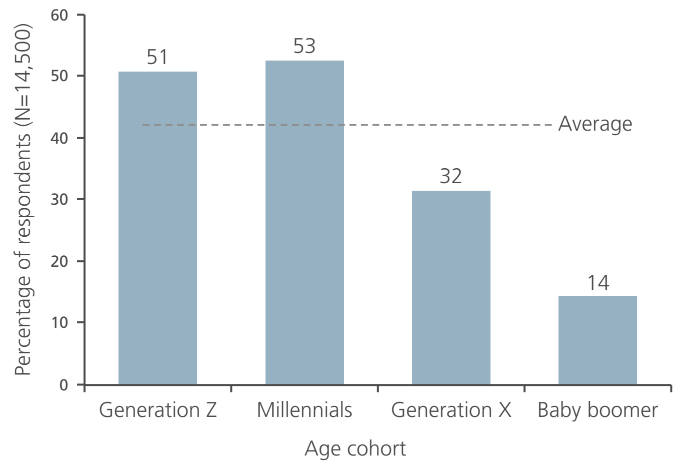
The naked truth about business benefits

The rental model's appeal reflects more than just attitudes toward ownership. For consumers, it also provides access to new brands or more styles from their current brands they might otherwise be unable to afford. Greater choice translates into the ability to build a larger or more versatile wardrobe while tapping into a more environmentally friendly way to try out the latest trends. Then there are the perks of online ordering, home delivery and dry cleaning at no additional charge.

For brands, a rental strategy can boost inventory monetization. For example, suppose a garment with a manufacturer's suggested retail price (MSRP) of $100 is available through a service where subscribers can borrow up to three garments a month. Assuming 50% utilization under a $95-per-month subscription plan, that garment would yield about $192 in subscription revenue over the course of a year.

Let's further suppose a "try before you buy" option allows consumers to purchase the same garment for 65% off MSRP after they've rented it. If the garment sells after just four months of renting, the company will realize the full MSRP (see Figure 2).

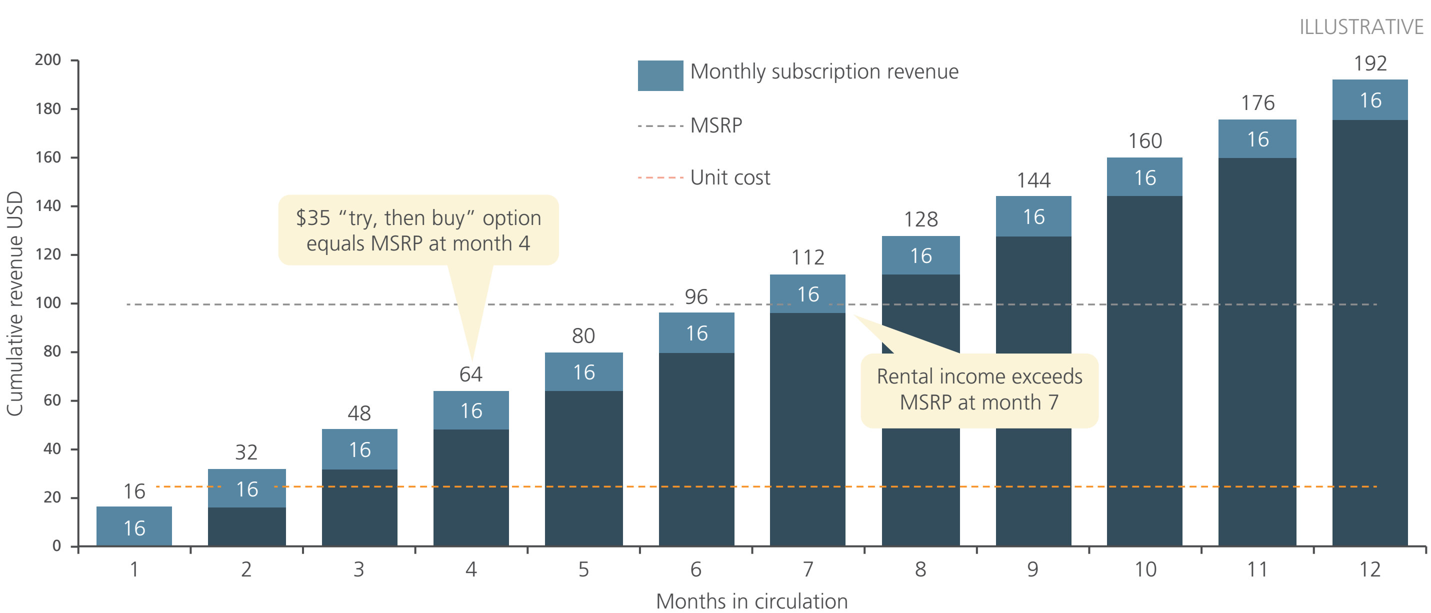
Figure 1
Interest in clothing rental by age group



Source: Bank of America Global Research "OK Zoomer" survey

A rental model can also drive customer acquisition. One concern for many brands is the potential for rentals to cannibalize sales on the retail side. However, about half of all rental service members are new or lapsed customers, and — due to the

Figure 2
Revenue per garment* by months in circulation



*Assumes a $95 three-garment-per-month rental subscription program operated at 50% utilization (i.e., six garments required to support each member renting three garments per month).
Source: CaaStle, L.E.K. research and analysis

model's novelty — online consumers are more likely to click on a rental ad versus a traditional ad. At one specialty retail company, rental ads recently returned 4.6 times their cost in ecommerce revenue alone, without even accounting for additional rental income (see Figure 3).

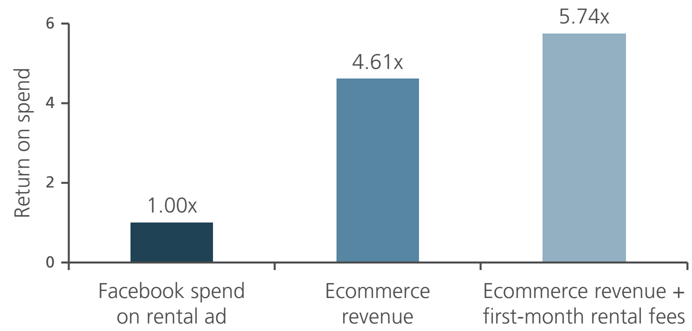
Still another benefit of apparel rental is the greater engagement it tends to bring as consumers habitually check the newest release of styles. That helps brands retain customers and expand their share of wallet. For instance, a mall brand with a 40% year-over-year retention rate among retail customers saw retention climb to 73% among its rental members (see Figure 4).

Sewing up a rental strategy

For all its advantages, the rental model can be complicated for a brand to pull off. Entering the rental business means developing a new customer interface and working out the logistics of shipping, returns and cleaning. There's also the question of how to manage inventory, including retirement of pieces, as needed.

To address these needs, some apparel brands are engaging white-label managed service providers to run their rental operations behind the scenes. These vendors help design the rental program and provide the website, distribution centers and inventory management system to support it at scale. They also take on shipping, receiving and cleaning. The services are rolled up into a turnkey solution that brands can use to address the rental market while keeping their risk and investment to a minimum.

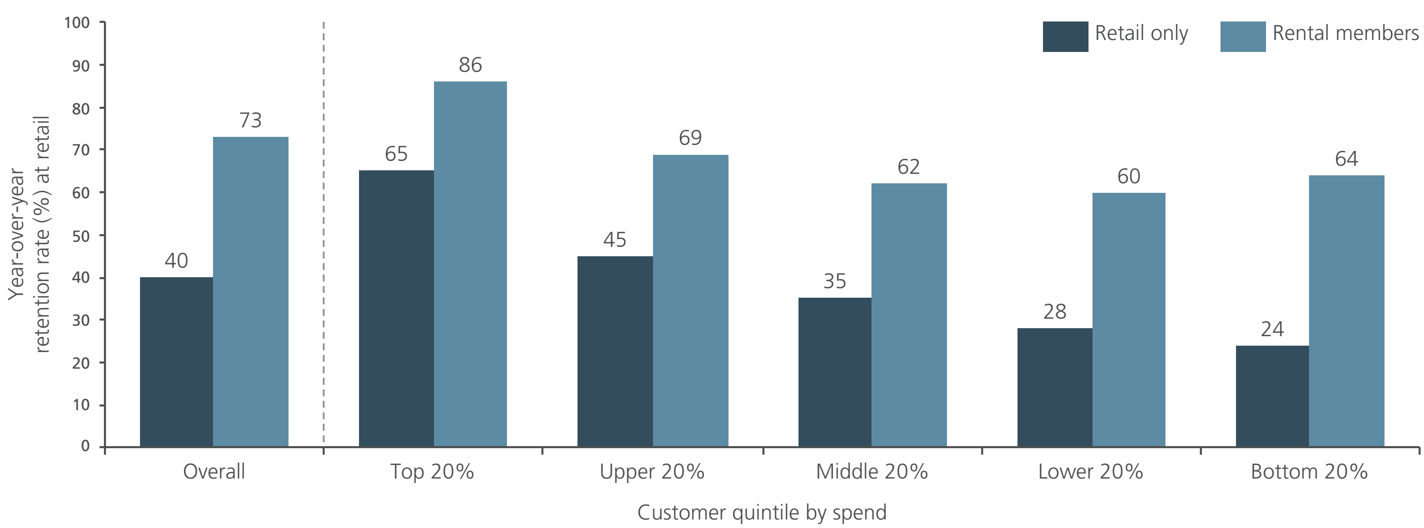
Figure 3
Total return on advertising spend for a specialty retailer



Source: CaaStle, L.E.K. research and analysis

For brands, a rental offering provides an opportunity to meet consumer needs in a new way. But the strategy also comes with its own set of considerations and complexities. Once an apparel brand validates that rental is an attractive DTC channel for its target consumer and brand goals, collaborating with an outsourcer who specializes in apparel rental operations can break down some of the barriers and open the door to new streams of revenue and profit. With that, many apparel brands may decide an online rental model is worth trying on for size.

Figure 4
Customer retention for a mall brand by customer type



Source: CaaStle, L.E.K. research and analysis

About the Authors

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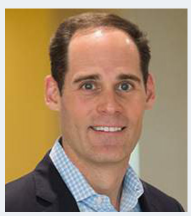

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