

# WWD

Fashion. Beauty. Business.

## New Chief

Adrienne Lazarus, a 30-year industry veteran, has been named president of Madewell.  
Page 2

## Exiting Beauty?

Sources said Farfetch is pulling out of the category just over a year after entering the sector.  
Page 4

## Marc and Kim

Multihyphenate Kim Kardashian is the face of Marc Jacobs' fall 2023 global advertising campaign.  
Page 8



# Shrink for Impact

While size and scale have long equaled success for stores, more and more forward-thinking retailers are making the environmental case for staying small. With U.S. buildings alone accounting for 34 percent of the country's greenhouse gas emissions, rethinking one's footprint is, in many ways, a giant leap forward.

*For more, see pages 5 and 6.*



# Bye-bye Flagships? Tiny Stores Boast Big Eco-gains

Lower cost, cuter appeal, conscientious design:

The case for tiny stores is convincing. BY KALEY ROSHITSH

While size and scale have long been a marker of success for stores, more and more forward-thinking retailers are making the environmental case for staying small.

Mass merchants still often boast bigger is better, with many pledging to expand footprints after the pandemic. Since 1990, retail development in the U.S. has gobbled up roughly 500,000 acres, or 780 square miles, of land, which is more than half the size of Rhode Island. Big-box stores like Walmart or Target are, on average, 100,000 to 200,000 square feet, according to the Institute for Local Self Reliance. Some cities have even pushed back against the traffic influx of big-box stores, parking overload and strain on local businesses with store size cap limits. In extreme cases, like San Francisco's North Beach neighborhood, the limit on store size is 1,000 square feet to "preserve and maintain the district's small-scale, fine grain storefronts," per zoning ordinances. Thus, a store coming in at under 1,000 square feet is a substantial departure from today's norms even for, say, a designer flagship or independent boutique.

Given that buildings are a key component of creating a low-carbon future, the case for tiny stores is making ripples. Whether propelled by eco-values or sheer necessity, the tiny store may be here to stay (and not just as a pop-up).

## Service, Story First

Beauty brands from Aveda to The Ordinary have been shrinking their footprints without compromise to service. Even department stores such as Bloomingdale's (with its novel Bloomie's store) and Macy's count smaller-format stores as key to growth. Clothing brands like Reformation are dialing down stock keeping units, in theory, having trialed a less-is-more approach to merchandising by only stocking one of each item on the sales floor, relegating the

full-size run to the back room.

Indie boutique Toxyfree is an example of micro, eco-friendly stores taking shape. Laura Paulisich is cofounder of Toxyfree, a petite toxin-free and sustainable living retailer that sells fashion, accessories, beauty and more. The 300-square-foot permanent retail store is located in Stillwater, Minnesota, and boasts a range of eco credentials.

For one, the store earned a Gold Seal Green Business Award – which is a selective

award for businesses and change agents – and is an active member of organizations like Plastic Pollution Coalition, Eco-Packaging Alliance and Green America. Toxyfree uses only compostable tissue, paper products and tape. Any boxes and packaging are reusable.

"Our store may be tiny, but it is significantly sustainable," Paulisich said. "We've curated a selection of the most beautiful and healthy items for a stylish, toxin-free lifestyle. For instance, our vegetable-tanned leather bags not only are exquisitely crafted and safe to use, but they also come with a lifetime warranty. Customers can even trade their 'pre-loved' bags for a new one or receive a discount on their next purchase."

Beauty is also aiming to achieve a spa-like feel in a more petite format. Though the average salon size is roughly 1,500 square feet, Aveda's Shanghai Taikoo Li Qiantan retail store clocks in at under 645 square feet. It is billed as a sustainability-focused renewal space for body and mind. The format combines Aveda's vegan high-performance products with a high-touch, sensory head spa experience. The store

received the highly regarded Leadership in Energy and Environmental Design (LEED) Platinum Certification for Retail Interior Design and Construction.

Having opened last August, the location is already ripe with performance data. It reduced energy consumption by more than 18 percent compared to other Aveda stores, which the company said it has achieved by installing high-efficiency lighting and heating, ventilation and air conditioning, along with occupancy and dimming controls (meaning lower energy use and bills). Water consumption has been reduced by more than 45 percent, with leak sensor faucets to avoid water waste or dripping. All wood used in the store is Forest Stewardship Council-certified.

In line with TikTok's latest fascination with head and scalp spas, the store's product assortment spans Aveda's Invati Advanced and Scalp Solutions collections, among other products and franchises. The store, even in its tiny size, also boasts a head spa room with 45-minute head spa services, described as a "facial for your scalp."

Jeweler Bario Neal's Philadelphia retail store comes in at the regal size of 750 square feet. The average leasable retail store in Philadelphia is about 5,190 square feet, per insights from real estate listing website LoopNet (or nearly seven times the size of Bario Neal's storefront, making it petite by comparison). Though the store is less about certifications, it has a secondhand appeal to match its handcrafted and ethically sourced rings, bands and fine jewelry.

"When choosing our partners to build out our retail spaces, it was important to us that the ideology of our jewelry – slow fashion, sustainability and ethically sourced materials – are also reflected in the showroom design and furnishings," said Bario Neal cofounder Page Neal. "As a result, we used eco-flooding of marmoleum material [a souped-up linoleum], efficient lighting and fixtures, [embraced the] utilization of salvaged materials, a water efficiency tank, and eco-friendly products like soaps, sanitizers and cleaning supplies. We also used local artisans to design and build our display cases and furniture, so that the two showrooms share a similar aesthetic and ethos. All of our chairs are vintage pieces that we have sourced from our favorite local thrift stores, in an effort for upcycling and circularity." ►





Ethical jeweler Bario Neal is open for business in Philadelphia with just under 750 square feet.

## Fewer Materials, Lower Carbon

The Information Technology and Innovation Foundation found that U.S. buildings alone (including electricity use) account for 34 percent of the country's greenhouse gas emissions. This is due to the constant purr of fossil-fueled machines, lights aglow and simply put, things like having the refrigerator (or A/C unit) running.

Climate change is affecting every inhabited region across the globe, and the crisis will intensify without major intervention. This is why governments and businesses are recognizing that carbon neutrality is essential for a livable future. And the built environment, and every building block within, plays a crucial part.

"Carbon neutrality is also the carbon in your products," said Greg Hale, cofounder and principal at The Catskills Project, which is a carbon-neutral living community in upstate New York.

Hale was formerly the director of energy efficiency finance for the Natural Resources Defense Council and is keen to see building logic transformed in both retail and residential design. The Catskills Project is one of the many architectural projects in upstate New York devoted to cleaner living and taking the emissions out of the built environment. This is achieved through passive home design — a certification (from Passive House International and its U.S. subsidiary) that denotes a new way for building that prioritizes orientation for climate zone

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(positioning a home to the sun so it stays cool in summer and warm in winter), air sealing, continuous insulation, elimination of thermal bridges and energy recovery ventilation system and low-VOC paints (meaning they emit fewer harmful gases upon drying).

Though not all the same, materials like steel, concrete and aluminum take a hefty toll on the environment.

Tiny store logic serves that less really is more. The Catskills Project's Hale said tiny homes (and stores) offer distinct advantages. "It's pretty straightforward. You need fewer materials [and] you have less space to heat and cool." ■

## ThredUp Q2 2023 Results Sees Revenue Bump

The reseller said it is on track for breakeven adjusted EBITDA margin by fourth-quarter 2023. BY KALEY ROSHITSH



Online shopping at ThredUp.C

**Tuesday**, online resale marketplace ThredUp released its second-quarter results, which exceeded guidance.

In the second quarter ended June 30, ThredUp had total revenue of \$82.7 million (up from \$76.4 million the year prior). The company reported 8 percent growth year-over-year. ThredUp's net loss narrowed to \$18.8 million compared to \$28.4 million for the second quarter of 2022.

"As we enter our third year as a public company, we're proud of our strong Q2 results," chief executive officer and ThredUp cofounder James Reinhart said in a press statement. "Our performance demonstrates both the management team's ability to forecast and manage the business amid a dynamic consumer environment as well as the sound strategy behind key company initiatives that have powered our growth and margin expansion."

Last month, ThredUp released its annual impact report detailing environmental gains and nuance in the aftermarket. The business is seeing continued traction with more users opting for closet cleanout. The reseller reported half-a-million clean-out kits ordered to date via its resale as a service, or RaaS, partnerships. Per its annual

report, the company also proudly noted it has processed 172.3 million items to date. And earlier this year, ThredUp put its stake in the ground for a long-term resale outlook by joining the Long-Term Stock Exchange, a subsidiary of LTSE Group. The dual listing was meant to be a signal of the reseller's environment, social and corporate governance aims and how it is reframing financial growth.

ThredUp's plan is to reach an adjusted earnings before interest, taxes, depreciation and amortization loss breakeven in the fourth quarter of 2023, which the company said it is still on track for. Adjusted EBITDA loss was \$5 million for the second quarter of 2023, compared to \$13.5 million a year prior.

To achieve this breakeven, the reseller plans to lower costs across technology and customer acquisition. ThredUp noted improvements in its clean-out service and "thrift guarantee" returns incentive that coaxes customers into credits for low-cost items (those not worth the restocking effort). The thrift guarantee is a commitment to eliminate any source of friction for newcomer thrifters. It's really more a "thrift promise," per an interview with Reinhart, or a "unifying force" that is unique to ThredUp. He noted there is a "positive adoption" to consignment in Europe too. Betting on the strength of the resale market, ThredUp predicts a rise in revenue to land in the range of \$325 million to \$329 million for the full fiscal year 2023.

Today, ThredUp counts 1.7 million active buyers and orders of 1.8 million, representing a decrease of 0.8 percent for buyers and an increase of 5 percent for orders, over the comparable quarter last year.

## The RealReal's 'Reset' Aims for Smaller but More Profitable Business

The company detailed its second-quarter results, which follow a series of changes to help get it back on track. BY KALEY ROSHITSH

**The RealReal Inc.** has seen a lag as it implements its higher-margin inventory turnaround strategy under a new chief executive officer.

For the second quarter ended June 30, The RealReal's net losses totaled \$41.3 million compared to \$53.2 million in the same period a year ago. This compares to \$82.5 million in net losses in the first quarter, including a \$36.4 million restructuring charge. Total revenue decreased 15 percent to \$131 million from \$154 million a year earlier.

For the second quarter, the company's adjusted losses before interest, taxes, depreciation and amortization narrowed to \$22.3 million compared to \$28.8 million (or 18.7 percent of total revenue) in the same period a year earlier.

Upon taking helm as CEO of The RealReal in February, John Koryl implemented a series of changes to help get the company back on track, including cutting about 230 jobs and closing two flagships, in San Francisco and Chicago. Its focus now is on the right product mix.

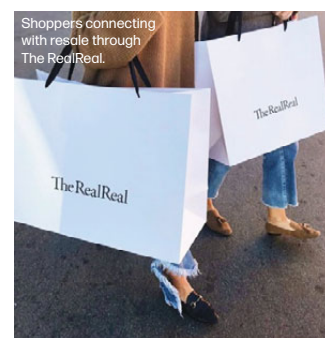
"During the second quarter, we continued to transition away from company-owned inventory and consigned items that sell for under \$100, which are not profitable for The RealReal," Koryl explained in a press statement. "These actions resulted in higher average order value, a higher gross margin rate, reduced company-owned inventory, and a smaller adjusted EBITDA loss compared to the prior year. We view the shift to a higher gross margin rate as a structural change to our business model. Therefore, we believe

the changes implemented in 2023 will reset the company to a slightly smaller but more profitable business. With this new margin structure, we expect to return to profitable top-line growth next year and we continue to project that we are on track to achieve adjusted EBITDA profitability on a full-year basis in 2024."

The company maintained its belief that its higher-value "strategic shift" in inventory will pay off. This runs the gamut of changes, from a 2022 policy update to consignor commission rates, to the recent trial of on-site advertising, as a way to convert billions of website impressions. Analysts are watching how the company takes to the changes.

With a focus on high-margin consignment pieces, The RealReal's gross merchandise volume decreased 7 percent to \$423 million (down from \$454 million). That being said, active buyers increased 11 percent to 985,000 (up from 889,000 a year earlier). Average order value was \$537 (up 10 percent from \$486).

Shares of The RealReal closed at \$2.17 per share per data from Yahoo Finance.



Shoppers connecting with resale through The RealReal.