Zalando upbeat despite tough Q1, polarised shoppers veer to value or quality

By Sandra Halliday - 5 May 2022

Fashion e-tail giant Zalando is the latest company to scale back its expectations for the current year after delivering a Q1 adjusted EBIT loss on Thursday. It also said shoppers are moving either upscale or towards value and away from the mid-market.

That loss added up to €51.8 million in the January to March quarter after an operating profit of €93.3 million a year ago. This corresponded to a margin of -2.4%, mainly due to reduced gross margin as a result of more promotional activities to attract customers and increased fulfilment costs.

And it expects sales for the year to grow at the bottom end of its 12% to 19% forecast. Adjusted EBIT should also sit at the lower end of its forecast range of €430 million to €510 million.

Not that its performance was exactly weak given what we’re hearing from its market peers and given the overall economic and other issues happening in the world at present.

So what exactly happened in Q1? The company said Gross Merchandise Volume (GMV) rose only 1% to €3.2 billion after Q1 a year ago was a particularly tough comparison period. Revenue fell by 1.5% to €2.2 billion, mainly due to the transition of the business to a platform model.

It said it has built deeper customer relationships by driving further adoption of its Plus loyalty programme and increasing customer engagement around its propositions in Beauty, Lounge, Designer and Pre-Owned.

Its active customers increased by 5.2% in Q1 (17% over 12 months) to nearly 49 million, and Zalando Plus memberships increased by 150%.
It saw strong growth in the share of its Partner Business that now makes up 32% of Fashion Store GMV. That came as thousands of international and local businesses used the platform to sell more of their fashion and beauty products, "meaning Zalando is well on track to reach its 2025 goal of having 50% of Fashion Store GMV generated by its Partner Business".

But despite the plus points, clearly Q1 was impacted by macroeconomic factors, following strong growth from last year.

“Rising inflation and increasing costs for households contributed to a more cautious consumer sentiment, while an eased pandemic environment prompted changes in consumer preferences,” it said.

Customers are now shopping for more seasonal and trend-based items. And the company is also seeing polarisation with shoppers either veering towards its high-end assortment or shifting from the mid-market towards entry prices.

While macroeconomic uncertainty continues, Zalando is managing its short-term challenges by “refining its offering to adjust to the changing spending patterns of its customers; improving order economics and implementing cost efficient solutions; and continuing to invest to provide best in-class customer experience, partner services and e-commerce capabilities”.

Co-CEO Robert Gentz said: “Our business fundamentals are strong, and we are taking steps to improve our results. We are managing Zalando for the long term and have always used our business agility and adaptability to successfully respond to short-term challenges and consumer demand to emerge better and stronger.”

And CFO Sandra Dembeck added: “We are flexible and well-equipped to steer Zalando through this volatile market environment. This includes making the necessary adjustments to improve our performance. At the same time we are continuing to invest through the cycle to drive long-term value. We are expanding our logistics network and advancing our platform to better serve our customers and partners, enable sustainable future growth and set us up for long-term success.”

In fact, in order to offer customers faster delivery times, Zalando is adding more fulfilment centres to further strengthen its logistics network. Construction has already begun in Frankfurt, Germany and Bydgoszcz, Poland, and most recently in France in the Paris region. Also, following successful market launches in six countries in 2021, Zalando will be launching in two new markets, Hungary and Romania, in May.

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