

# FLASHFASH

**Mergers & acquisition**  
**Retail**

**Medium difficulty**  
**Interviewer-led case**

FlashFash discusses an acquisition opportunity in the fashion retail industry.

The case covers all dimensions of the case interview scorecard equally.

**A video of this case is available in the Interview Prep Course.**

## Problem definition

Our client is FlashFash, a US multinational apparel company with \$25b revenue. The company owns some of the best-known mid-market brands. It sells 70% of its products through its network of corporate-owned stores, and 30% through multi-brand retail chains.

FlashFash operates a unique business model: instead of committing a large percentage of production for the next fashion season, it commits a small amount and uses customer feedback and an efficient production network to replenish stores with new products weekly. New styles take as little as 15 days to go from design to production.

As part of its growth strategy, FlashFash is considering the acquisition of LaMode, the leading independent online retailer of luxury brands, which accounts for 3% of all online apparel sales in North America. LaMode's business model involves curating products from the best brands to present a unique collection of over 30,000 items. LaMode has recently launched its own fashion brand, which already accounts for 5% of its revenue.

**The CEO of FlashFash has asked us: Should they acquire LaMode?**

**Question 1 (Structuring)**

**How would you structure your approach to the problem?**

**Additional information**

If asked or if the candidate goes off-track, share that the client goal's is to accelerate the growth of FlashFash, in a way that creates values for its shareholders.

**Possible answer**

1. *Value and growth potential of LaMode?*
  - a. *Growth of online apparel market*
  - b. *Market share of LaMode*
  - c. *Costs*
2. *Can FlashFash use LaMode to boost sales and reduce costs?*
  - a. *Revenue synergies*
  - b. *Cost synergies*
3. *Does FlashFash have the capability to execute?*

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**Question 2 (Numeracy)**

The client believes that there is an opportunity for LaMode to realise a third of its global sales in Asia within five years, as the apparel market in Asia is expected to double and the share of purchases made online to triple over this period.

**What share of the Asia online apparel market would LaMode need to reach to capture this opportunity?**

**Additional information**

Let the candidate ask for the following information, but share it even if the candidate does not ask:

- The global sales of LaMode are \$2b, and are expected to triple over the next 5 years
- The size of the online apparel market in Asia today is \$8b

**Possible answer**

*Market share of LaMode in Asia in 5 years =  
Sales of LaMode in Asia in 5 years / Size of the online apparel market in Asia in 5 years*

*Sales of LaMode in Asia in 5 years =  
Sales of LaMode globally in 5 years / 3 =  
3 \* Sales of LaMode globally today / 3 =  
Sales of LaMode globally today = \$2b*

*Size of the online apparel market in Asia in 5 years =  
Size of the online apparel market in Asia today \* 2 \* 3 =  
\$8b \* 2 \* 3 = \$48b*

*Market share of LaMode in Asia in 5 years = \$2b / \$48b = ~4.2%*

*The client's expectations imply that LaMode would capture 4.2% of the online apparel market in Asia in 5 years. This seems extremely ambitious, given that LaMode's current share of its core market, where they are well established, is just 3%.*

*At this stage, it does not look like FlashFash should acquire LaMode on the basis of its current growth plans in Asia.*

**Question 3** (Judgement and insights)

The client would like you to look at synergies. We have compiled this exhibit with information about both our client and the target. (share Exhibit 1)

**Let me know your thoughts on whether there are potential synergies that seem appealing, based on this information.**

**Additional information**

If asked, share that transaction costs include cost of order fulfillment, customer service, payment processing, returns.

**Possible answer**

*Key observations:*

- *There is an opportunity to use the international experience of FlashFash outside of North America to accelerate LaMode's international growth*
- *In absolute terms, FlashFash does more sales online than LaMode ( $22\% * \$25b = \$5b > \$2b$ ) so FlashFash should not gain online expertise from this acquisition*
- *LaMode is clearly more premium with an average purchase 5 times higher, so cross-selling opportunities will be limited*
- *LaMode cannot distribute FlashFash profitably. LaMode's transaction cost (\$48) is higher than the margin on FlashFash products [ $(100\% - 46\%) * \$78 = \$42$ ]*
- *FlashFash might be able to help LaMode decrease its cost of goods sold with regard to own brand, but this is a small cost category*

*Overall this is a weak case in terms of synergies. There is little opportunity to cross sell products given the difference in the types of clients these companies serve, and FlashFash does not have online expertise to gain from LaMode. The only meaningful synergy we could identify relate to the international expansion of LaMode.*

*This is confirming that LaMode is not a good acquisition target for us.*

**Exhibit 1**

Global Sales, \$m	FlashFash	LaMode
<b>Total</b>	<b>25,400</b>	<b>2,014</b>
North America	9,500	1,802
Europe	8,600	212
Asia	5,000	0
Rest of world	2,300	0
<i>Annual growth</i>	<i>4.20%</i>	<i>31.30%</i>

Online presence	FlashFash	LaMode
% Sales online	22%	100%

Transactions	FlashFash	LaMode
Average purchase	\$78	\$413
Cost of goods sold	46%	72%
Transaction cost	\$6	\$48

Own brand, \$M	FlashFash	LaMode
Total sales	25,400	104
Cost of goods sold	11,684	63
Annual growth	4.20%	123.40%

**Question 4 (Creativity)**

**Beyond potential synergies with FlashFash, what ideas do you have to accelerate the organic growth of LaMode?**

**Possible answer**

1. *Selling other product types*

- a. *Jewelry*
- b. *Cosmetics*
- c. *Sports gear*
- d. *Furniture*
- e. *Data*

2. *Selling offline*

- a. *Own store*
- b. *Independent stores*

3. *Selling indirectly*

- a. *To other brands*
- b. *To third party distributors*

4. *Selling to other market segments: mid-market*

5. *Expanding to other geographies*

- a. *Asia-Pacific*
- b. *Europe*
- c. *Latin America*
- d. *Middle East and Africa*

*Overall there are a lot of opportunities to expand LaMode beyond the current scope of its business and accelerate its growth.*

**Question 5** (Synthesis)

**Overall, what would you recommend to the client?**

**Possible answer**

*You have asked us whether FlashFlash should acquire LaMode.*

*In our view, this does not look like the best acquisition target:*

- *Your brands are not a good fit with LaMode's positioning*
- *LaMode's economics mean that they could not sell FlashFlash' products profitably*
- *Their five-year growth target implies capturing 4% of the Asia online apparel market, which is above their share of the core US market*

*Over the next two weeks, we would like to scan the market to suggest alternative targets, possibly with a strong presence in Asia*

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Want to see a candidate nail FlashFlash?

Watch our model interview featuring former McKinsey consultants, in the Interview Prep Course

