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# Boosting Roots with Analytics

Josef Singson arrived home from the University of Asia and the Pacific, where he was a fourth-year student of the Master of Science in Management program. Upon putting down his bag, he opened his email to read Zalora's<sup>i</sup> August 2016 performance report on the firm he had founded, Roots Est 2014. He was happy to see the upward trend in sales but was disturbed about the accompanying report on order cancellations and product returns.

## The Beginning of Roots

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Josef Singson started **Roots Est 2014** as a school project for one of his entrepreneurship classes in 2014. He decided to implement the business plan he had written, establishing Roots with the help of two friends. The three created a clothing brand to instill youth nationalism. The brand carried men's and women's apparel and accessories featuring minimalist designs and a comfortable fit.

### Products

The firm stayed fashion-forward and fresh by tapping young aspiring designers to create the designs. Since 2014, Roots had released six collections of T-shirts. Producing the T-shirts involved two stages. The first stage was sourcing the plain T-shirts from a local supplier in Binondo.<sup>ii</sup> The majority of these T-shirts were made of 100% cotton, polyester, or a cotton/polyester blend for versatility and comfort. The shirts

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<sup>i</sup> Zalora Philippines is the country's leading online fashion store.

<sup>ii</sup> Binondo is a district in Manila often referred to as Manila's Chinatown. It is the center of commerce and trade in Manila, where all types of businesses owned and run by Filipino-Chinese are located.

were also relatively inexpensive. The T-shirts usually came in three standard sizes: small, medium and large. Occasionally, larger sizes such as XL and XXL were provided. The second stage was the manufacturing of the final T-shirt by another local company in Binondo. All finished products were transported to Josef's residence in Alabang,<sup>iii</sup> where he kept his inventory. In addition to T-shirts, Roots added caps, shorts and bags in 2016 (**Figure 1**). The manufacturing of these products followed the same process as the T-shirts.

**Figure 1**  
**Example of Root's Products**



Source: Roots Est. 2014 Brochure

### Distribution

In June 2016, Roots consigned with Zalora Philippines to sell its products online.<sup>iv</sup> Zalora was an online platform where merchants could sell their products to the public over the internet.<sup>1</sup> An online buyer selected the item(s) that he/she wanted to buy and placed them in a cart. The buyer then entered his/her address and paid either via cash on delivery, online by credit card, or via Paypal.

Once the buyer completed a purchase transaction, Josef received a notification about it via the seller center (online website). He packaged the order and printed the needed documents, such as invoices, receipts, and delivery documents for pick up by a courier who brought the order to Zalora's warehouse/holding facility. From there, the order was sent to the customer. Zalora paid Roots Est 2014 on a monthly basis.

### Sales

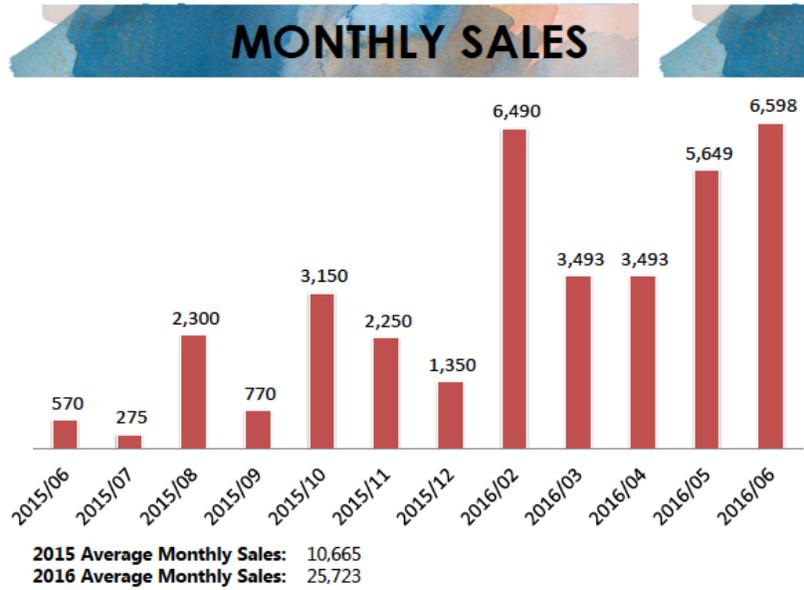
Since partnering with Zalora, Roots was experiencing a 141% increase in average total monthly sales.(**Figure 2**). Seasonality was evident in Roots' monthly sales. The male apparel category contributed 65% of the total sales (**Figure 3**). The best selling items among male customers were T-shirts, while women bought blouses and tunics the most (**Figure 4** and **Figure 5**).

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<sup>iii</sup> Alabang is a barangay in Muntinlupa City, located in the south of Manila.

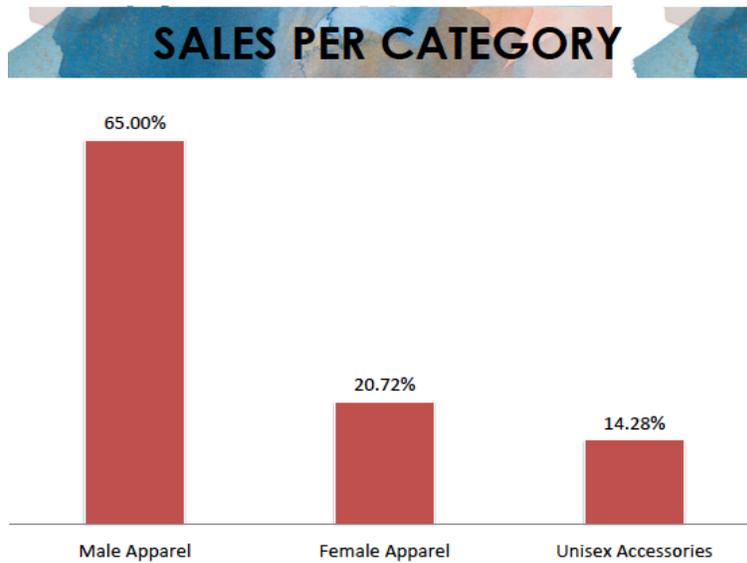
<sup>iv</sup> For the Terms and Conditions see <https://sellercenter.zalora.com.ph/conditions>

**Figure 2**  
**Roots Monthly Sales**



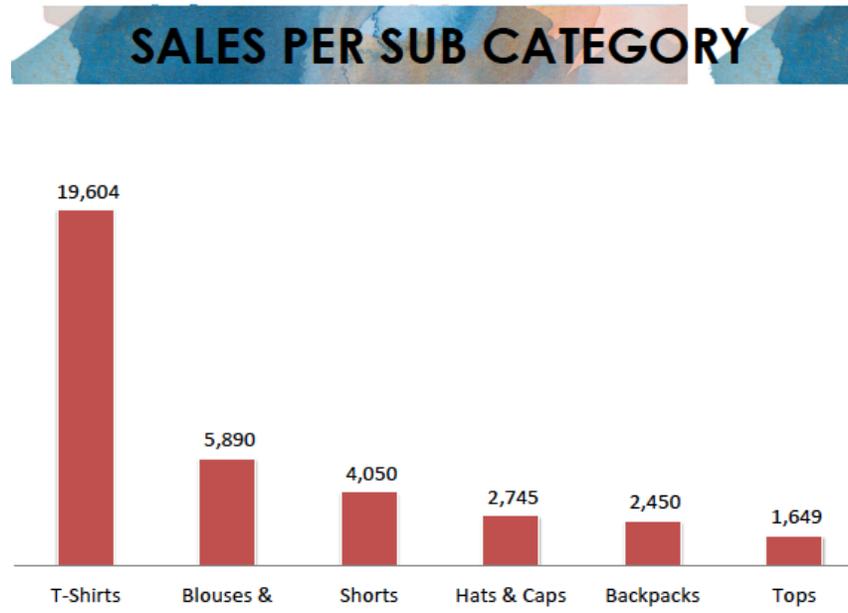
Source: Roots Est 2014 August 2016 Zalora Online Performance Report

**Figure 3**  
**Roots Sales per Category**



Source: Roots Est 2014 August 2016 Zalora Online Performance Report

**Figure 4**  
Roots' Sales Per Fashion Category



Source: Roots Est 2014 August 2016 Zalora Online Performance Report

**Figure 5**  
Roots' Best-Selling Items

## BEST SELLING SKUS

- **Female Apparel**
- Blouses & Tunics
- RO462AA49LLAPH
- RE14 Academe Long Sleeved Top white,multi,navy
- 6 SKUs sold
- **Male Apparel**
- T-Shirts
- RO462AA58NWNPH
- Roots Est. 2014 Palette Shirt in White black,white,multi
- 9 SKUs sold
- **Unisex Accessories**
- Backpacks
- RO462AC03BCMPH
- RE14 Oceania Drawstring Bag in Navy Blue
- 4 SKUs sold

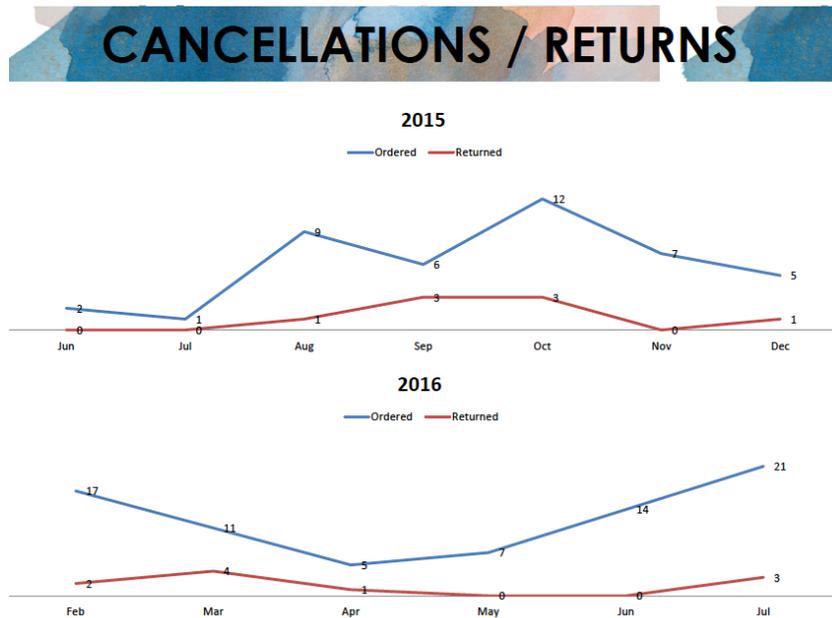


Source: Roots Est 2014 August 2016 Zalora Online Performance Report

**Cancellations and Returns**

The percentage of orders that were either cancelled or returned varied from 0 to 50% (**Figure 6**). Reasons for these cancellations or returns were not clear.

**Figure 6**  
**Roots’ Order Cancellations and Returns**



Source: Roots Est 2014 August 2016 Zalora Online Performance Report

**Philippine Online Fashion Industry**

Frost & Sullivan predicted a US\$25 billion e-commerce market by 2020 for the Southeast Asian region.<sup>2</sup> This tremendous opportunity was attributed to tremendous digital adoption. The region was home to 250 million smartphone users.<sup>3</sup> However, along with the opportunity were accompanying challenges: low bank account and credit card ownership hampered the ability of consumers to make online payments. In addition, the region suffered from poor logistics.<sup>4</sup>

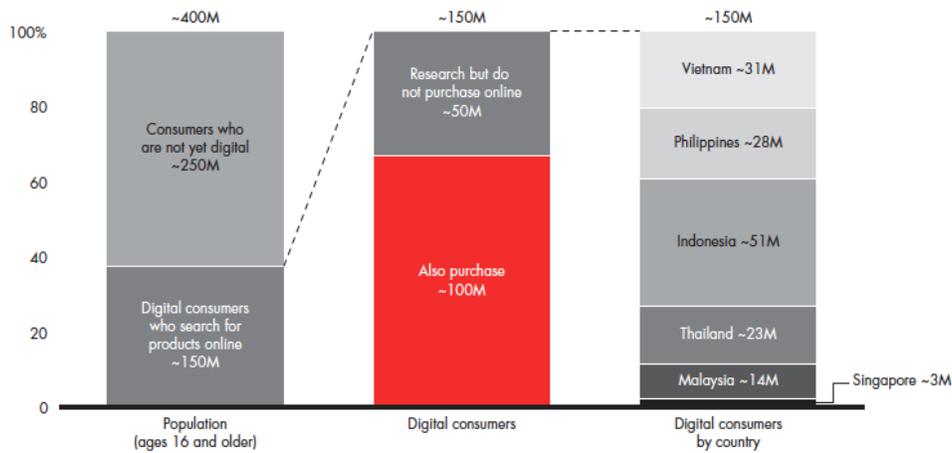
Bain & Company partnered with Google to survey more than 6,000 consumers in Singapore, Thailand, Malaysia, Indonesia, Philippines and Vietnam, asking the question: “Can Southeast Asia Live Up to it’s E-commerce Potential?” Despite the region’s huge prospects, the online marketplace in place was still very small (3% online retail penetration amounting to USD6 billion in sales). Only one in four consumers over the age of 16 had ever made online purchase (**Figure 7**).<sup>v</sup> In the Philippines specifically, 28 million digital consumers accessed digital platforms primarily through mobile devices<sup>vi</sup> (**Figure 8**). Market penetration was only 1.2%. Online purchases took place on a number of reputable platforms. In the Philippines, these key online platform players were Lazada, OLX, Zalora, Sulit, Metrodeal and Amazon (**Figure 9**). Filipinos tended to advocate more regional and local platforms rather than global ones (**Figure 10**) perhaps because local

v Of the 150 million digital consumers in consumers in Southeast Asia, 100 million (2/3) already shopped online.

vi In the Philippines, twenty-nine percent (29%) of digital consumes living in top cities accessed the digital platforms using mobile devices, while fifty percent (50%) of those living in other areas used mobile devices to purchase online.

platforms provided better-tailored experiences. For example, Lazada made use of motorbike fleets to deliver goods faster than the usual trucks. This translated to better delivery reliability.

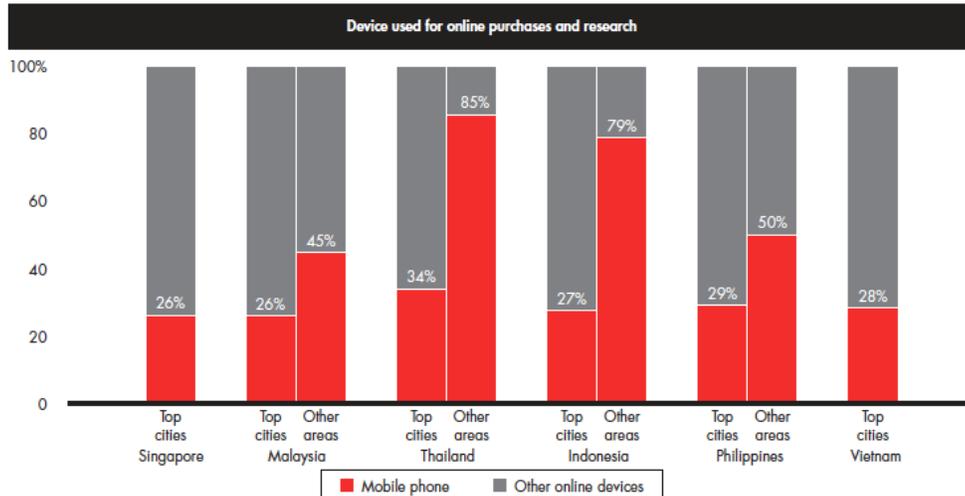
**Figure 7**  
**Digital Consumers in Southeast Asia**



Notes: We define digital consumers as those who are 16 years old or older and who researched products or services online in at least two categories; we define "also purchase online" as digital consumers who purchased products or services online in at least two categories  
Sources: Bain Southeast Asia Digital Consumer Survey, November 2015 (n=6,278); Bain analysis; Euromonitor

Source: Bain & Company. "Can Southeast Asia Live Up to its E-commerce Potential?" Accessed 10 October 2016. [http://www.bain.com/Images/BAIN\\_BRIEF\\_Can\\_Southeast\\_Asia\\_Live\\_Up\\_to\\_Ecommerce\\_potential.pdf](http://www.bain.com/Images/BAIN_BRIEF_Can_Southeast_Asia_Live_Up_to_Ecommerce_potential.pdf)

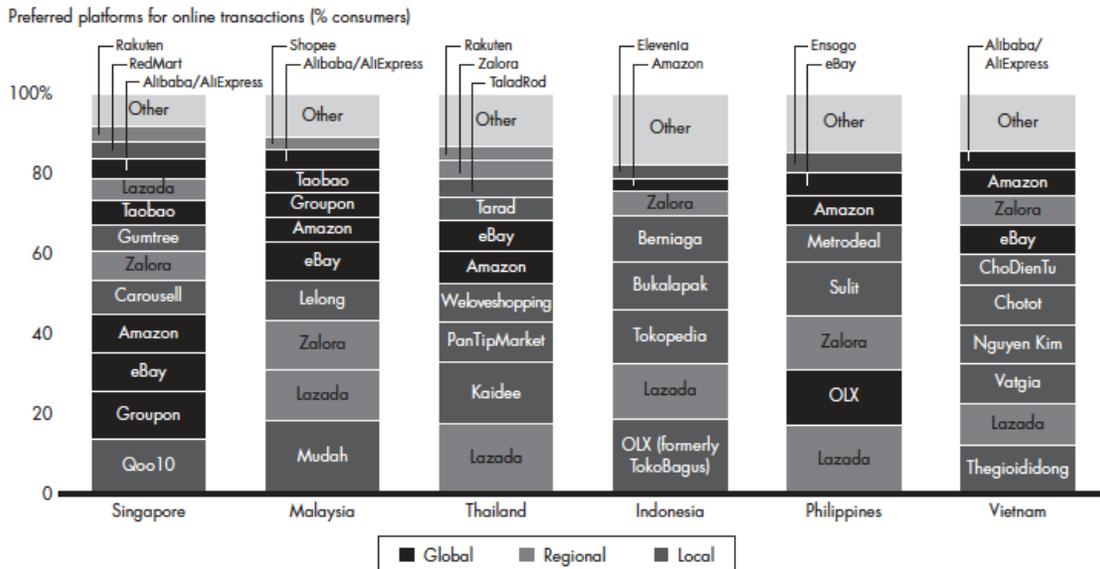
**Figure 8**  
**Devices used for Online Purchases and Research by Top Cities and Other Areas**



Sources: Bain Southeast Asia Digital Consumer Survey, November 2015 (n=6,278); Bain analysis

Source: Bain & Company. "Can Southeast Asia Live Up to its E-commerce Potential?" Accessed 10 October 2016. [http://www.bain.com/Images/BAIN\\_BRIEF\\_Can\\_Southeast\\_Asia\\_Live\\_Up\\_to\\_Ecommerce\\_potential.pdf](http://www.bain.com/Images/BAIN_BRIEF_Can_Southeast_Asia_Live_Up_to_Ecommerce_potential.pdf)

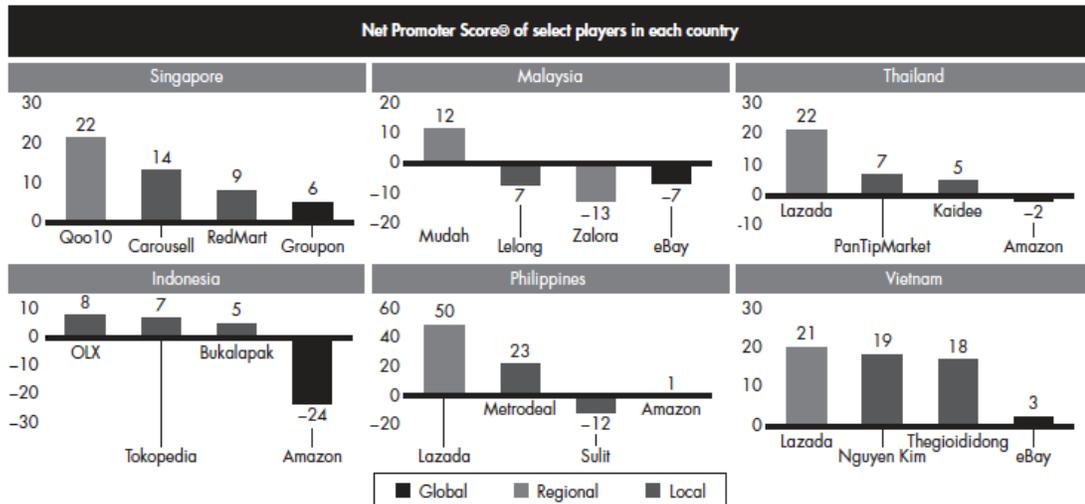
**Figure 9**  
Preferred Platforms for Online Transactions



Sources: Bain Southeast Asia Digital Consumer Survey, November 2015 (n=6,278); Bain analysis

Source: Bain & Company. "Can Southeast Asia Live Up to it's E-commerce Potential?" Accessed 10 October 2016. [http://www.bain.com/Images/BAIN\\_BRIEF\\_Can\\_Southeast\\_Asia\\_Live\\_Up\\_to\\_Ecommerce\\_potential.pdf](http://www.bain.com/Images/BAIN_BRIEF_Can_Southeast_Asia_Live_Up_to_Ecommerce_potential.pdf)

**Figure 10**  
Net Promoter Score of Select Digital Platforms



Notes: The Net Promoter Score is calculated by subtracting the percentage of detractors (those with a score of zero to 6) from the percentage of promoters (those with a score of 9 or 10); comparisons between countries are not intended or relevant; Net Promoter Score is a registered trademark of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

Sources: Bain Southeast Asia Digital Consumer Survey, November 2015 (n=6,278); Bain analysis

Source: Bain & Company. "Can Southeast Asia Live Up to it's E-commerce Potential?" Accessed 10 October 2016. [http://www.bain.com/Images/BAIN\\_BRIEF\\_Can\\_Southeast\\_Asia\\_Live\\_Up\\_to\\_Ecommerce\\_potential.pdf](http://www.bain.com/Images/BAIN_BRIEF_Can_Southeast_Asia_Live_Up_to_Ecommerce_potential.pdf)

## Conclusion

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Assessing his goals for Roots, Josef decided that in addition to sustaining his company's sales growth and reducing order cancellation and returns, he would like to implement the recommendations that Zalora had suggested for pricing and inventory. Specifically:

1. Pricing Strategy
  - a. Bundle items priced below Php 299<sup>vii</sup> (USD6)
  - b. 75% of total catalog should be priced above Php500 (USD10)
2. Inventory Management
  - a. Stock level per SKU should be at least 5-12 pieces
  - b. Check and update stocks regularly

Having friends who specialized in Business Analytics, Josef had often heard them talk about the usefulness of analytical tools for business situations. He began to wonder how analytics might be able to help him sustain his sales growth, reduce order cancellations/returns, and implement Zalora's pricing and inventory management recommendations.

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<sup>vii</sup> The Forex rate of 1 USD=48.71 PHP as of November 7, 2016 has been used in this and all subsequent USD/PHP conversions <http://www.xe.com/currencyconverter/convert/?From=USD&To=PHP>

## Endnotes

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<sup>1</sup> Zalora Homepage, [www.zalora.com.ph](http://www.zalora.com.ph) Accessed 10 October 2016.

<sup>2</sup> Frost & Sullivan. "Southeast Asia's E-Commerce market to surpass US\$25 billion by 2020 despite market challenges, finds Frost & Sullivan." Accessed 10 October 2016.

<<http://ww2.frost.com/news/press-releases/southeast-asias-e-commerce-market-surpass-us25-billion-2020-despite-market-challenges-finds-frost-sullivan/>>

<sup>3</sup> Bain & Company. "Can Southeast Asia Live Up to it's E-commerce Potential?". Accessed 10 October 2016.

<[http://www.bain.com/Images/BAIN\\_BRIEF\\_Can\\_Southeast\\_Asia\\_Live\\_Up\\_to\\_Ecommerce\\_potential.pdf](http://www.bain.com/Images/BAIN_BRIEF_Can_Southeast_Asia_Live_Up_to_Ecommerce_potential.pdf)>

<sup>4</sup> Frost & Sullivan. "Southeast Asia's E-Commerce market to surpass US\$25 billion by 2020 despite market challenges, finds Frost & Sullivan." Accessed 10 October 2016.

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