

Business Management – Standard Level

To what extent are ASOS's free delivery and return policies sustainable?

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To what extent are ASOS's free delivery and return policies sustainable?

Introduction

ASOS is a British based global online fashion and beauty retailer, selling more than 75,000 branded and own-label products from centers in the UK, US, Europe and China to 240 countries on all seven continents.¹ ASOS offers “an effortless online shopping experience” with an “award-winning customer service team”, targeting 20-30 year olds.² Being founded in 2000³ it is now globally positioned sixth in apparel according to Comscore.⁴ The company's stated objective is “becoming the world's no. 1 fashion destination for 20-somethings”.⁵ It continues to achieve sales' growth, international retail sales having gone up 27% to £975.5m in 2014 from 2013.⁶ ASOS's revenues have grown at a mean average growth (CAGR) of 56% over the last six years.⁷ 61% of the total revenue was achieved by the continued global expansion and international retail sales.⁸

ASOS's unique selling point being “effortless online shopping”, shopping at ASOS includes free delivery and returns to all 240 countries.⁹ This service cost ASOS £147,303,000 in 2014, a 28% increase in distribution cost to 2013, despite introducing minimum purchase requirements for this service.¹⁰ Distribution costs being ASOS second greatest expense (second to administrative expenses), this severely impacts the profit after tax, amounting to merely £38.588m.¹¹

Due to the challenging trading environment and the China operation, profit before tax had decreased by 14% in August 2014 to August 2013.¹² Having faced difficulties due to a fire at their Barnsley warehouse, the strengthening pound, and challenging internal projects, 2014

¹ *ASOS Annual Report and Accounts 2014*, 4, December 16, 2014, accessed October 6, 2015, http://www.asosplc.com/-/media/Files/A/ASOS/results-archive/ASOS_Report_2014%20FINAL.pdf.

² *Ibid.*

³ Muz Ashraf and Harvard Business School to Open Forum, “ASOS: Competing in the Challenging E-commerce Space,” February 8, 2015, accessed September 30, 2015, <https://openforum.hbs.org/challenge/understand-digital-transformation-of-business/why-digital/asos-competing-in-the-challenging-e-commerce-space>.

⁴ *Ibid.*

⁵ *Ibid.*

⁶ *ASOS Annual Report and Accounts*, 2.

⁷ Ashraf and Harvard Business School to Open Forum, “ASOS: Competing in the Challenging E-commerce Space.”

⁸ *ASOS Annual Report and Accounts*, 2.

⁹ Nora Crotty, “ASOS'S NEW SHIPPING POLICY IS HERE TO RUIN YOUR WEEKEND,” *Fashionista* (blog), entry posted May 22, 2014, accessed September 30, 2015, <http://fashionista.com/2014/05/asos-shipping-fee>.

¹⁰ *Ibid.*; *ASOS Annual Report and Accounts*, 12.

¹¹ *ASOS Annual Report and Accounts*, 13.

¹² *Ibid.*

did not go as well as planned.¹³ Therefore ASOS is currently facing a large financial risk due to losses of profit. This risk is magnified by the distribution costs adding up to more than a fourth of ASOS' gross profit.¹⁴ The recent challenges along with the high costs of distribution make ASOS instable. Therefore it is worthwhile to investigate:

To what extent are ASOS's free delivery and return policies sustainable?

Methodology

This commentary will evaluate whether ASOS's free delivery and return policies are sustainable. It is based on the ASOS 2014 annual report and accounts and six articles, including two customer opinions on the change of shipping policy in Fashionista, an analysis of ASOS by Muz Ashraf, an online retail opportunities analysis by Saabira Chuadhuri, a Financial Times article on the strong pound and its effect on ASOS, and expert analyses of ASOS by the Guardian. The commentary will use the following business tools: the SWOT analysis, Liquidity, Profitability and Efficiency Ratios, and a customer and competition analysis.

¹³ ASOS Annual Report and Accounts, 3.; Kadhim Shubber, "Strong pound hits Asos's international sales," *Financial Times* (UK), December 9, 2014, accessed September 30, 2015, <http://www.ft.com/intl/cms/s/0/97aa8f44-7f75-11e4-86ee-00144feabdc0.html#axzz3nEpZmXvL>.

¹⁴ ASOS Annual Report and Accounts 2014, 53, December 16, 2014, accessed October 6, 2015, http://www.asosplc.com/~media/Files/A/ASOS/results-archive/ASOS_Report_2014%20FINAL.pdf.

SWOT Analysis for ASOS

Strengths	Weaknesses
<ul style="list-style-type: none"> • One of the first online retailers¹⁵ • “Pioneer in free worldwide deliveries”¹⁶ • “Unique customer proposition”¹⁷ • “Unique products”, “better prices”, and “assurance of quality”¹⁸ • Globally positioned 6th in apparel retail • “Apparel has a relatively high annual spend per customer”¹⁹ • “Own brand constitutes the majority of profits”²⁰ • Connecting with customers via social media²¹ daily fashion and lifestyle content, and free monthly ASOS magazine²² • Accommodates special needs like ASOS Petite, ASOS Tall, ASOS Curve and ASOS Maternity²³ • No expensive store real-estate²⁴ 	<ul style="list-style-type: none"> • “Robustness of the model”²⁵ (Risk Report on page 6) • Delivery speed and payment methods²⁶ • High distribution costs compared to ASOS profit • Focus on profitability: ASOS trades “off some growth to maintain profitability”²⁷ • Small profit after tax, but high expenses
Opportunities	Threats
<ul style="list-style-type: none"> • Implementing “zonal pricing” to offer different prices in different countries²⁸ • According to a new study the “UK, US, Chinese and German online retail market will double in size by 2018 to £645 billion”²⁹ • Mobile purchases³⁰ • Expansion to China³¹ 	<ul style="list-style-type: none"> • Impacts of a strong pound on international sales³² • “High competitive intensity” and limited customer loyalty³³ • Increasing shipping expenses³⁴ • Expansion to China

¹⁵ Muz Ashraf and Harvard Business School to Open Forum, “ASOS: Competing in the Challenging E-commerce Space,” February 8, 2015, accessed September 30, 2015, <https://openforum.hbs.org/challenge/understand-digital-transformation-of-business/why-digital/asos-competing-in-the-challenging-e-commerce-space>.

¹⁶ Ibid.

¹⁷ Danny Selig, “ASOS: what the analysts say,” *the guardian* (UK), April 1, 2015, accessed September 30, 2015, <http://www.theguardian.com/business/2015/apr/01/asos-what-the-analysts-say>.

¹⁸ Saabira Chaudhuri, “Leading Countries in Online Retail Have Big Opportunities, Study Finds,” *Corporate Intelligence*, June 8, 2015, accessed September 30, 2015, <http://blogs.wsj.com/corporate-intelligence/2015/06/08/leading-countries-in-online-retail-have-big-opportunities-study-finds/>.

¹⁹ Ashraf and Harvard Business School to Open Forum, “ASOS: Competing in the Challenging E-commerce Space.”

²⁰ Ibid.

²¹ *ASOS Annual Report and Accounts 2014*, 3, December 16, 2014, accessed October 6, 2015, http://www.asosplc.com/~media/Files/A/ASOS/results-archive/ASOS_Report_2014%20FINAL.pdf.

²² *ASOS Annual Report and Accounts*, 4.

²³ *ASOS Annual Report and Accounts*, 6.

²⁴ Ashraf and Harvard Business School to Open Forum, “ASOS: Competing in the Challenging E-commerce Space.”

²⁵ Danny Selig, “ASOS: what the analysts,”

²⁶ Kadhim Shubber, “Strong pound hits Asos’s international sales,” *Financial Times* (UK), December 9, 2014, accessed September 30, 2015, <http://www.ft.com/intl/cms/s/0/97aa8f44-7f75-11e4-86cc-00144feabdc0.html#axzz3nEpZmXvL>, report 7

²⁷ Ashraf and Harvard Business School to Open Forum, “ASOS: Competing in the Challenging E-commerce Space.”

²⁸ Shubber, “Strong pound hits Asos’s,”

²⁹ Chaudhuri, “Leading Countries in Online,”

³⁰ Shubber, “Strong pound hits Asos’s,”

³¹ *ASOS Annual Report and Accounts*, 2.

³² Shubber, “Strong pound hits Asos’s,”

³³ Ashraf and Harvard Business School to Open Forum, “ASOS: Competing in the Challenging E-commerce Space.”

³⁴ Ibid.

Risk Report

ASOS faces a number of threats that may have a severe impact on the stability of the business. The most prominent are the impact of a strong pound on international sales, the high shipping expenses and the possibility that these might increase, and the great amount of competition in ecommerce due to limited customer loyalty. Considering that the business' yearly profit is strongly limited by the large distribution expense, ASOS is particularly vulnerable to these threats. This raises the question whether ASOS can sustainably afford the large distribution expenses. To assess this liquidity, efficiency, and profitability of the business need to be assessed.

Liquidity Ratios

The Current Ratio and the Acid-Test Ratio are used to illustrate the liquidity of a business and indicate whether ASOS is in a position to repay its current obligations (debts). They are calculated as follows:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

$$\text{Acid-Test (Quick) Ratio} = \frac{\text{Current Assets minus stock}}{\text{Current Liabilities}}$$

ASOS' current ratio is³⁵:

$$\frac{260,663,000}{185,539,000} = 1.40: 1$$

ASOS' acid test ratio is³⁶:

$$\frac{260,663,000 - 161,480,000}{185,539,000} = .53: 1$$

The liquidity ratios reveal that ASOS does not have the ideal liquidity. While they seem to have enough cash to potentially cover all current obligations, it assumes that the stock will be sold in its entirety. Without selling their stock, they will not be able to do so. However, having a very low acid test ratio for a company like ASOS in the retail business does not mean the company is in danger. Their business model is to sell stock and as such is inherently dependent on inventory. Unfortunately, rises in delivery costs might threaten the

³⁵ *ASOS Annual Report and Accounts 2014*, 55, December 16, 2014, accessed October 6, 2015, http://www.asosplc.com/~media/Files/A/ASOS/results-archive/ASOS_Report_2014%20FINAL.pdf.

³⁶ *ASOS Annual Report and Accounts 2014*, 55, December 16, 2014, accessed October 6, 2015, http://www.asosplc.com/~media/Files/A/ASOS/results-archive/ASOS_Report_2014%20FINAL.pdf.

sustainability of the business since a rise in delivery cost may indirectly disrupt the balance further. This could lead to liquidity issues that might not allow ASOS to continue sustaining their distribution policy.

Efficiency Ratios

The Return on Capital Employed (ROCE) can be used to determine how efficiently the business employs resources. It indicates how profit each pound of capital employed brings.

This is the ROCE formula:

$$\text{ROCE} = \frac{\text{net profit before interest and tax}}{\text{capital employed}} \times 100$$

ASOS' ROCE is³⁷:

$$\frac{46,646,000}{194,424,000} \times 100 = 23.99\%$$

This ROCE indicates a relatively high efficiency. This might be, however, due to ASOS' large cash reserves of £74,340,000. Therefore ASOS is in a state that seems to be able to support the high distribution costs.

Profitability Ratios

The Gross Profit Margin is a profitability test that helps understand how well ASOS is currently doing. This is the formula used:

$$\text{Gross Profit Margin} = \frac{\text{gross profit}}{\text{sales revenue}} \times 100$$

$$\text{Net Profit Margin} = \frac{\text{Profit Before Interest and Taxes}}{\text{sales revenue}} \times 100$$

Table 1: ASOS Profitability Data³⁸

	Sales Revenue	% increase from prior year	Gross Profit	% Increase (decrease) from prior Year	Gross Profit Margin (%)	Profit Before Interest and Tax	% Increase (decrease) from prior Year	Net Profit Margin (%)
2012	552,9	---	282,9	---	51,1%	45,6	---	8,2%
2013	769,4	39,3%	398,6	41,0%	51,8%	54,5	19,5%	7,0%
2014	975,5	26,7%	485,0	21,6%	49,71%	46,6	(14,4%)	4,7%

³⁷ ASOS Annual Report and Accounts 2014, 55, December 16, 2014, accessed October 6, 2015, http://www.asosplc.com/~media/Files/A/ASOS/results-archive/ASOS_Report_2014%20FINAL.pdf.

³⁸ *Ibid*

Despite ASOS' improvements in sales and gross profit in absolute values and strong gross profit margins, the company has been experiencing a decrease in net profit margins. Net profit margins went down by 14,4% explained by the challenging trading environment plus costs related to investments in infrastructure and the Chinese operation, mainly warehousing and staff costs. ASOS financial performance is strong, suggesting that its delivery and return policies are sustainable. In fact, distribution costs increased by 15,1% despite an increase in total orders of 31% in 2014. This was largely due to the increase in the mix of lower-cost-shipments to the UK and the EU, as well as rate negotiations with carriers³⁹.

Customer and Competition Analysis

As well as needing to evaluate ASOS financial situation to determine whether its free delivery and return services are sustainable, it is also very important to analyze the market of ecommerce apparel retail. For many customers including Chantal Fernandez and Nora Crotty the "ease" of shopping at ASOS is that one can "order relatively cheap, trendy pieces without suffering any financial consequences for ordering and returning".⁴⁰ For such customers free delivery and returns are "arguably of the best things about shopping online at ASOS" and the introduction of minimum purchases necessary to obtain these had already enraged them.⁴¹ As a matter of fact customers of ecommerce have come "to expect free and fast deliveries".⁴² Fernandez argues that ASOS could lose to its competitors like Shopbop, Amazon, or Bloomingdale's that offer the same products at free distribution or lower shipping minimums.⁴³ This risk is enhanced due to the "ease of starting an e-commerce business" and the transparency of costs in the internet.⁴⁴ Due to low switching costs from one supplier to another customer loyalty is very limited in ecommerce. Therefore stopping or changing ASOS distribution policy completely could result in the loss of many customers. This entails that ASOS does not really have a choice but to keep their distribution policies at the state they are at, despite the large costs. This is also what the analyst Andrew Wade believes,

³⁹ ASOS Annual Report and Accounts 2014, 55, December 16, 2014, accessed October 6, 2015, http://www.asosplc.com/~media/Files/A/ASOS/results-archive/ASOS_Report_2014%20FINAL.pdf.

⁴⁰ Chantal Fernandez, "ASOS RAISES ITS FREE SHIPPING MINIMUM AGAIN," *Fashionista* (blog), entry posted December 19, 2014, accessed September 30, 2015, <http://fashionista.com/2014/12/asos-shipping-fee-again>.

⁴¹ Nora Crotty, "ASOS'S NEW SHIPPING POLICY IS HERE TO RUIN YOUR WEEKEND," *Fashionista* (blog), entry posted May 22, 2014, accessed September 30, 2015, <http://fashionista.com/2014/05/asos-shipping-fee>.

⁴² Muz Ashraf and Harvard Business School to Open Forum, "ASOS: Competing in the Challenging E-commerce Space," February 8, 2015, accessed September 30, 2015, <https://openforum.hbs.org/challenge/understand-digital-transformation-of-business/why-digital/asos-competing-in-the-challenging-e-commerce-space>.

⁴³ Fernandez, "ASOS RAISES ITS FREE," *Fashionista* (blog).

⁴⁴ Ashraf and Harvard Business School to Open Forum, "ASOS: Competing in the Challenging E-commerce Space."

claiming that “the company will have to continue to discount and offer free delivery charges and returns to maintain sales momentum”.⁴⁵

Conclusion

It does not appear like ASOS’ free delivery and return policies pose a serious threat to the business’ financial situation. Although the distribution costs do limit ASOS’ profit drastically, the ROCE and Gross Profit Margin clearly indicate that the business remains sustainable. Despite the many difficulties in 2014, ASOS appears to have overcome these threats. Since ASOS’ straightforward and free delivering procedure had revolutionized online shopping, the competition and customer expectations of ecommerce have increased. Since ASOS’ main competitors offer free shipping at lower minimums the business is forced to maintain their current distribution policies. Changes could cause reduced orders and dissatisfied customers. Since ASOS strives to “becoming the world’s no. 1 fashion destination for 20-somethings”, it does not have a choice but to continue issuing free delivery and returns. For the moment ASOS’ distribution policies are sustainable.

Word count: 1481

⁴⁵ Danny Selig, "ASOS: what the analysts say" *The Guardian* (UK), April 1, 2015, accessed September 30, 2015, <http://www.theguardian.com/business/2015/apr/01/asos-what-the-analysts-say>.

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Supporting Documents:

APPENDIX N° 1

ASOS: Competing in the Challenging E-commerce Space⁴⁶

While e-commerce is a challenging sector in today's tech industry, ASOS has built a profitable enterprise and should continue to deliver strong growth driven by increasing e-commerce penetration.

Written by **Muz Ashraf**

Updated on 15:04, Feb 08, 2015

ASOS is an online apparel retailer that sells its own private-label ASOS brand (~50% of revenue) and 850 3rd party brands (~ 50% of revenue). ASOS targets the younger 20-30 year old demographic and has built a strong brand within this segment in a variety of geographies including the UK, Europe and Australia. The company's revenues have grown at a CAGR of 56% over the last six years, and ASOS is now the sixth largest apparel website in the world, outside of China, ranked by unique visitors.

I believe that e-commerce is one of the more challenging spaces in the tech industry. This is driven by a variety of factors:

- **High competitive intensity.** Given the relative ease of starting an e-commerce business and the near-perfect price transparency, the direct sales e-commerce sector is characterized by intense competition. Competitors not only include pure-play online retailers, such as Amazon, but also traditional brick-and-mortar retailers that are aggressively moving into e-commerce.
- **Significant buyer power.** Given the pricing transparency and the low switching costs that are inherent over the internet, consumers have great leverage before making buying decisions, particularly in commoditized segments. As such, internet retailers in segments such as electronics and general merchandise have to typically be price takers, or they risk losing market share. This also means that building consumer loyalty becomes critical in an online setting.
- **Distribution is getting increasingly complex and costly.** Compared to brick-and-mortar retailers e-commerce companies have the advantage of not having to spend on expensive store real-estate. However, a large extent of this advantage is being eaten away by increasing fulfillment and shipping expenses, particularly as consumers are coming to expect free and fast deliveries. This erodes some of the cost advantage that internet retailers have over physical retailers.

⁴⁶ Muz Ashraf and Harvard Business School to Open Forum, "ASOS: Competing in the Challenging E-commerce Space," February 8, 2015, accessed September 30, 2015, <https://openforum.hbs.org/challenge/understand-digital-transformation-of-business/why-digital/asos-competing-in-the-challenging-e-commerce-space>.

Ultimately, I believe that e-commerce is not a “winner takes all” market and will allow for multiple multi-billion dollar businesses over time. I believe that ASOS will be able to hold its own and become one of the winners in the apparel e-commerce space. ASOS’ growth will continue to from a variety of factors:

- **Apparel is one of the more attractive e-commerce categories.** Apparel has a relatively high annual spend per customer, gross margins are high and products are easy to package and ship. Competition is typically on factors other than price and the potential to form a loyal customer base exists. As a result, margins and returns are typically high.
- **First-mover advantage has enabled ASOS it to build a strong brand.** ASOS has been around since 2000 and its first mover advantage meant that it was easier to bring on board a variety of brands and establish itself as one of the online destinations for apparel. The wide range of ~850 brands keeps the ASOS offer highly relevant to its customers, encouraging the “discovery” aspect to online shopping and helps drive traffic. Additionally, gross margins for the own brand are ~10 percentage points higher than 3rd party brands, thus the own brand constitutes the majority of profits.
- **Strong customer proposition.** By continuously investing in its customers to provide a superior customer experience, including being a pioneer in free worldwide deliveries, ASOS was able to lower barriers to consumption. ASOS is now one the most frequented apparel sites in the world, ahead of the likes of Inditex and GAP.
- **Target demographic and congruent marketing.** One of the reasons for ASOS’ dramatic growth was its focus on the 20-30 year old demographic; this segment has been early adopters of e-commerce. In addition, by having celebrities be seen in trendy ASOS apparel and accessories, it was able to build a large pull for its brand. Furthermore, ASOS has been one of the better performers in its execution of social media marketing – its facebook, Instagram and pinterest pages have wide followings.
- **Focus on profitability.** Unlike many of its US-peers who take a “grow revenue at any cost approach”, ASOS has erred on the side of trading off some growth to maintaining profitability. The contrast with Amazon is clear, whereby Amazon has yet to turn in any decent levels of profitability despite being one of the oldest e-commerce companies. In contrast, ASOS has made each investment decision based on the marginal return of the next investment dollar.

In summary, I believe that while e-commerce is a challenging sector, ASOS has placed itself in one of the more attractive e-commerce categories and by pursuing a congruent strategy whereby it balances its target demographic, delivers a strong customer proposition and utilizes a smart marketing approach all while keeping one eye on its profitability has enabled ASOS to be one of the success stories in e-commerce. I believe that over time, with the headwinds of increasing e-commerce penetration, ASOS will continue to deliver profitable growth.

APPENDIX N° 2

ASOS RAISES ITS FREE SHIPPING MINIMUM AGAIN⁴⁷

Did you think we wouldn't notice?

CHANTAL FERNANDEZ - DEC 19, 2014

We were **disappointed** when Asos ended its free shipping policy for U.S. customers in May, and that's **putting it mildly**. Customers had to spend at least \$25 in order to qualify for free delivery. But sometime in the last month, Asos raised its minimum purchase price to \$40. That a 160 percent increase, people.

Obviously, it is not uncommon to have to pay for shipping online. But **one of the joys of the British fast fashion site was the ease with which you could order relatively cheap, trendy pieces without suffering any financial consequences for ordering and returning**. Returns continue to be free, up to 28 days after receiving the order. When the \$25 minimum was in place, shipping for orders below that mark cost \$4. Now that fee is \$6.

That may not seem like a lot of money, but it can be a deterrent for those who, say, only want to order a single pair of sandals, many of which are priced below \$40, or a handful of inexpensive beauty products. In December, Asos **reported a sales decline** of 2 percent outside of its native UK, due to a **strong pound that raised prices internationally**. At that point, the company said it was working on a way to lower prices internationally. Raising the free shipping minimum is certainly one way to go about it -- the **company spent \$180 million on distribution last year, and it stands to make far less money (if not lose money altogether) on low-priced orders that are shipped and returned for free**. At the same time, the retailer could now lose out to competitors that do offer free shipping and returns, or at least lower **minimums, on the same products (like Amazon, Bloomingdale's and Shopbop, for example)**.

A request for comment from the company was not returned.

Update: Asos sent us the following statement on its new shipping policy.

ASOS has made some changes to the International free delivery service, detailed here . As we grow, we want to make sure we keep on giving the best service we can. We really want to carry on improving ASOS for you, and investing in the things that will make a difference. That's why we've had to make this tweak on minimum spends. Many of our customer orders total at above the minimum spend and so the majority will not be affected.

APPENDIX N° 3

Asos: what the analysts say⁴⁸

⁴⁷ Chantal Fernandez, "ASOS RAISES ITS FREE SHIPPING MINIMUM AGAIN," *Fashionista* (blog), entry posted December 19, 2014, accessed September 30, 2015, <http://fashionista.com/2014/12/asos-shipping-fee-again>.

As the online clothing retailer reports reduced profits after a series of warnings, have the investment experts' views on it changed?

Written by **Danny Selig**
Wednesday 1 April 2015

Online clothing retailer Asos has reported that profits have fallen by a tenth during the first half. This comes after three profit warnings for the company in 2014, although Asos's chief executive, Nick Robertson, has said he is confident in the outlook for the second half and believes full-year profit margin will be in line with expectations.

City analysts had the following to say:

Andrew Wade, Numis

We leave our forecasts unchanged, expecting sales growth to accelerate and gross margin to stabilise before returning to positive territory as the clearance activity and fire are annualised. However, given the positive reaction Asos has seen to the price investments made and the clear benefits to come in the second half from progress on warehousing, we see scope for upside which we would expect to be reinvested in the customer proposition, through pricing and delivery enhancements. While still early days in Asos's two-year repricing journey, and despite a strong recent run in the shares, we retain our positive stance, encouraged by the momentum being built and, fundamentally, Asos's unique customer proposition.

Freddie George, Cantor Fitzgerald

The company is now of a meaningful size with sales forecast at over £1.1bn in 2015, relatively strong cashflow and a state-of-the-art logistics infrastructure. We continue to have question marks, however, over the robustness of the model and believe the company will have to continue to discount and offer free delivery charges and returns to maintain sales momentum. We are also concerned about the valuation. After two profit warnings over the last year, forecasts for 2015 and 2016 have broadly halved so in relative terms the stock is almost back to being at an all-time high in terms of earnings multiples. We are retaining our sell recommendation and target price of 3,000p.

Keith Bowman, Hargreaves Lansdown

⁴⁸ Danny Selig, "ASOS: what the analysts say," *the guardian* (UK), April 1, 2015, accessed September 30, 2015, <http://www.theguardian.com/business/2015/apr/01/asos-what-the-analysts-say>.

In all, Asos remains an enticing but highly volatile and therefore higher risk investment. Ongoing global expansion, aided by current group investment, continues to be weighed against the now established difficulty of correctly valuing internet growth stocks. For now, and with sales growing potentially at the expense of profits, analyst consensus opinion currently points towards a hold.

Mark Photiades, Canaccord Genuity

Today's results were better than expectations. Management comments that it expects 2015 pretax profit to be in line with market expectations and we therefore do not expect any material changes today as further investment in price is expected in the second half. We continue to expect sales growth rates for the business to improve as the year progresses, as initiatives gain further traction and comparatives ease. Whilst the size of the longer-term prize remains significant and the route map to the next staging post of £2.5bn of sales looks achievable, execution of the plan remains key. We are encouraged that the anticipated sales progression is being achieved as hoped.

Alistair Davies, Investec

Interim results are ahead of expectations due to disciplined marketing spend and improved performance in delivery and third party income. Management has reaffirmed guidance for the year ahead and sales expectations are likely to be towards the upper end of the range, with second quarter trading momentum giving confidence this can be achieved (at least). Reflecting the positive momentum, we raise our forecasts by 2% and 5% this year and next. Long-term we continue to believe the shares are overvalued.

APPENDIX N° 4

Leading Countries in Online Retail Have Big Opportunities, Study Finds⁴⁹

Written by **Saabira Chaudhuri**
Last updated 10:13 am, Jun 8, 2015

The U.K., U.S., Chinese and German online retail markets will double in size by 2018 to £645 billion (\$985 billion) mainly because of an increase in mobile shopping, according to a new study.

U.K. retailers, according to the study, have a huge opportunity abroad to grow, with Britain being the most popular online overseas destination for German shoppers, and the second-most popular for Chinese and American shoppers.

When shopping online for British goods, Chinese and German shoppers spend more than domestic shoppers, spending on average 2.7 and 1.7 times as much in each transaction.

Chinese shoppers purchase from U.K. retailers online almost as frequently as domestic shoppers, according to the study. People are motivated to shop online internationally to get unique products they can't find in their own country, followed by better prices and an assurance of quality.

Anita Balchandani, head of U.K. retail at OC&C, said most U.K. retailers offer shoppers just the basics, like offering international delivery. Companies that are doing more are seeing results, she said. One example is ASOS ASC.LN +1.82% PLC, which has adopted zonal pricing and uses local warehouses to support returns. The company delivers about 25% of global orders from its U.S. warehouse and about the same amount from its German hub. Searches for ASOS from overseas have grown faster than for any other U.K. retailer, according to the study.

U.K. retailers could make up to 60% more if they did things like respond to local customer preferences, it added.

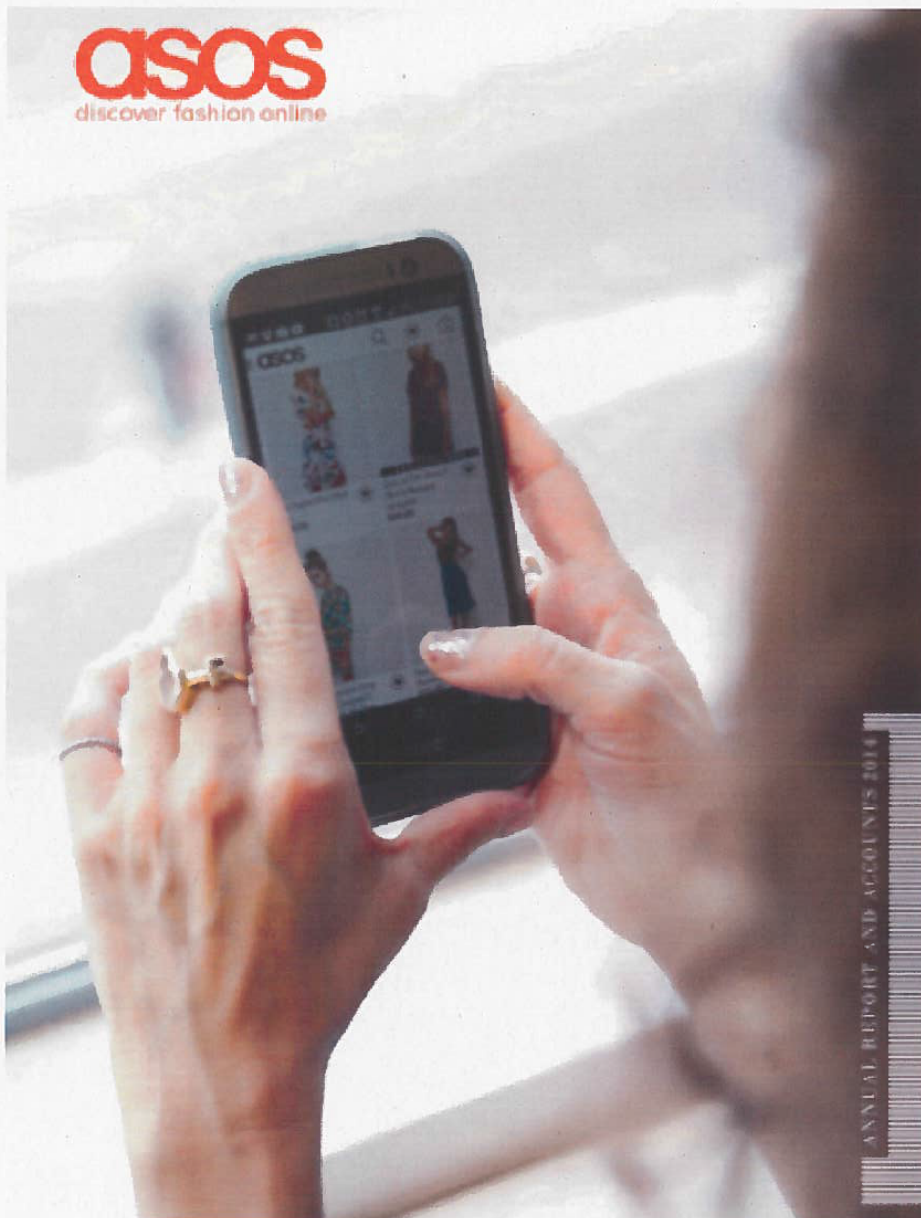
The numbers also showed that U.K. consumers are more likely to buy things using their smartphones than their counterparts in other countries. According to data from Paypal, 59% of online transactions are being made via mobile in the U.K., compared with 45% and 24% in the U.S. and Germany.

⁴⁹ Saabira Chaudhuri, "Leading Countries in Online Retail Have Big Opportunities, Study Finds," *Corporate Intelligence*, June 8, 2015, accessed September 30, 2015, <http://blogs.wsj.com/corporate-intelligence/2015/06/08/leading-countries-in-online-retail-have-big-opportunities-study-finds/>.

APPENDIX N° 5

APPENDIX N° 5 (only pages consulted)

ASOS Annual Report and Accounts 2014⁴⁹



⁴⁹ *ASOS Annual Report and Accounts 2014*. December 16, 2014. Accessed October 6, 2015.
http://www.asosplc.com/~media/Files/A/ASOS/results-archive/ASOS_Report_2014%20FINAL.pdf.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

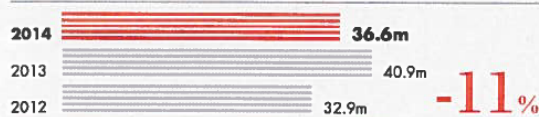
- **Retail sales up 27% (UK retail sales up 35%, International retail sales up 22%)**
- **Continued global expansion – International retail sales are 61% of total**
- **8.8m active customers¹ as at 31 August 2014 (31 August 2013: 7.1m)**
- **Improved technology platforms especially local language mobile sites – mobile accounts for over 45% of traffic**
- **Profit before tax of £46.9m, down 14% on prior year due to a challenging trading environment plus costs related to investments in our infrastructure and our China operation**



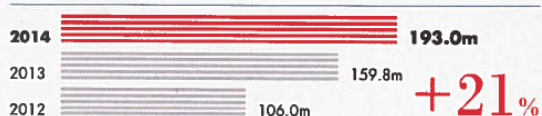
REVENUE (£)



GROSS PROFIT (£)

PROFIT AFTER TAX² (£)OPERATING PROFIT² (£)DILUTED EPS² (p)

NET ASSETS (£)



All 2012 comparatives are unaudited, following a change of financial year end.

1 Defined as having shopped in the last twelve months.

2 Underlying, excluding exceptional items.

CHAIRMAN'S STATEMENT



Brian McBride
Chairman

My first Chairman's Statement, in last year's Annual Report, was easy to write – there is always a lot to talk about in a good year. My statement this year has needed rather more reflection, since the year did not pan out as any of us at ASOS wanted, as you can read about in detail in the performance section overleaf. In the last year, we faced unexpected events outside our control, like the fire at our Barnsley warehouse and the strengthening pound; and some challenging internal projects, including working our way through the IT engineering needed to update our systems. All these combined to hamper our financial performance.

However, such issues are nothing new in the corporate world, especially for a business growing as quickly as ASOS. Most importantly, I am confident that the management team is dealing with these events effectively, and the business as a whole is coming through stronger and better prepared for the next exciting chapter in our history.

Employees

One thing that never falters is the hard work and commitment of ASOS employees – they have coped incredibly well with this year's events. In particular, the team effort to re-open our virtual doors within 48 hours of the warehouse fire was awe-inspiring. On behalf of the Board, I would like to thank all our employees for everything they have done – they remain the key to getting us where we aim to be. I'm also really pleased that Hilary Riva and Rita Clifton joined the Board in the last year. With their strong backgrounds in retail and marketing, they have already brought new insight and expertise to the Board table, and their contributions will be very valuable to ASOS. I'd also like to thank Peter Williams and Mary Turner for their advice and assistance throughout their time with ASOS. They have both been an important part of making ASOS the company it is today.

Strategy

Our aims have not changed: our objective is still to be the world's no.1 fashion destination for 20-somethings. None of the events of the year suggest our aims are wrong – whether that means focusing on the customer, exploiting the global reach of the internet, or operating a highly efficient retail business. Our attention remains fixed on reaching that prize and making our customers happy, whether they are in the UK, Australia, Russia, China or anywhere else in the world.

Customer proposition

ASOS will therefore continue to focus on delivering an outstanding customer proposition and service, whilst searching for new ways to connect with our customers, particularly via social media. Our UK sales growth demonstrates the strength and relevance of our product offering, our customer engagement and our delivery options. We have continued to replicate those UK success factors internationally, although sterling's strength masked those developments during the year. There are plenty more opportunities for ASOS to build on that in all our territories.

Investment

The past year's events have increased our determination to invest appropriately. The opportunities open to us remain plentiful. But realising those opportunities requires us to have appropriate infrastructure in place, which is why we have continued to step up our investment programme, even though it suppressed our profitability. It is also why we continue to believe it is in the Company's best interests to reinvest our cash, rather than pay dividends.

The year ahead

I said last year that I have an enviable role, with a unique opportunity in an incredible business. I am in no doubt that this remains the case. I'm proud to stand shoulder to shoulder with everyone at ASOS as we continue to drive the business towards its goal of becoming the world's no.1 fashion destination for 20-somethings.

Brian McBride
Chairman

OUR BUSINESS MODEL

ASOS is a global fashion destination for 20-somethings. From style advice, stories and inspiration, to more than 75,000 styles available to buy with unbeatable service, ASOS is a true home for fashion lovers.

ENGAGEMENT

Through publishing relevant content, a constant social media dialogue and our curated 'edits', we've developed an emotional connection and earned credibility with 20-something fashion-lovers around the world. We publish daily fashion and lifestyle content, and the monthly ASOS magazine is sent for free to around 500,000 customers. Our Premier membership is hugely popular.

SERVICE

We strive to offer an effortless online shopping experience from the moment a visitor arrives at ASOS.com, whatever device they are using and country they come from. Every stage of the shopping journey matters to us – from how customers discover products to the variety of payment methods, and from the speed of delivery to the ease of returns. Our award-winning customer service team helps with any questions along the way.

Where we do it

2014
International growth **+22%**

UK
Retail sales £372.2m **+35%**

US
Retail sales £92.3m **+19%**

EU
Retail sales £256.4m **+44%**

RoW
Retail sales £234.4m **+5%**

We ship to **240** countries and territories

Nine ASOS.com local country sites: UK, France, Germany, Italy, Spain, Australia, US, Russia and China

Global positioning according to Comscore

Our ranking in the Retail – Apparel category for monthly visitors aged 15-34 (August 2014)

- #1 Australia
- #43 China
- #6 France
- #8 Germany
- #8 Italy
- #7 Russia
- #10 Spain
- #1 UK
- #6 US
- #6 Worldwide



HOW WE DELIVERED VALUE THIS YEAR

Strategy

We're making good progress towards our ambition to be the world's no.1 fashion destination for 20-somethings through our strategy, which comprises three core pillars.

Most engaging experience: we strive to be the one-stop destination for fashion lovers through producing and publishing regular, relevant fashion content; our huge selection of products; optimised and innovative multi-device e-commerce platforms; and our award-winning delivery experience.

- Further improved mobile and tablet experiences – these now account for over 45% of visits
- Launched #AsSeenOnMe feature to allow customers to post images of themselves wearing items directly onto product pages
- Cut-off time for UK next-day delivery extended to 10pm and introduced Sunday next day delivery within the UK
- Launched new Tall range to join our highly popular ASOS own-label ranges including Petite, Curve and Maternity
- New personal stylist feature allowing customers to receive style advice direct from fashion experts

Key performance indicators



924,553 (+20%) **Total visits** ('000)

8,848 (+25%) **Total active customers**¹ ('000)

2.86 (+5%) **Average order frequency**

20bps increase in **conversion**²

1 As at 31 August 2014, defined as having shopped in the last twelve months.
2 Total orders divided by total visits.

OUR PERFORMANCE continued

Year to 31 August 2014	Group total	UK	US	EU	RoW	International total
Gross profit (£'000)	485,007	176,024	53,947	133,087	121,949	308,983
Growth	22%	29%	16%	46%	(2%)	18%
Retail gross margin	48.7%	44.2%	56.5%	50.7%	50.5%	51.5%
Growth	(210bps)	(190bps)	(140bps)	70bps	(430bps)	(200bps)
Gross margin	49.7%	45.9%	57.3%	51.3%	51.2%	52.2%
Growth	(210bps)	(190bps)	(140bps)	70bps	(420bps)	(200bps)

Gross profitability

Retail gross margin decreased by 210bps compared with last year, to 48.7% (2013: 50.8%). This was driven by an increase in the mix of UK and EU sales, which generate lower retail margins, and a decline in our full-price sales mix following discounting to offset adverse currency movements. Additionally, disruption following the Barnsley fire led to increased clearance activity. Despite additional discounting, retail margin increased in the EU as customers chose higher margin ranges within our full-price offer. Gross margin (including third-party revenues and delivery receipts) decreased by 210bps to 49.7% (2013: 51.8%).

Operating expenses

This year has been a period of significant investment in our infrastructure and customer proposition ahead of future sales growth. As a result, operating expenses increased by 28% to £441.4m and the operating costs to sales ratio increased by 60bps. This excludes incremental costs incurred as a result of the Barnsley fire, which are netted against the related insurance reimbursements in a separate line item titled 'net other income'.

£'000	Year to 31 August 2014	Year to 31 August 2013	Change
Distribution costs	(147,303)	(115,172)	(28%)
Payroll and staff costs	(82,074)	(75,587)	(9%)
Warehousing	(75,756)	(44,302)	(71%)
Marketing	(56,007)	(40,934)	(37%)
Production	(4,723)	(4,360)	(8%)
Technology costs	(15,136)	(10,225)	(48%)
Other operating costs	(45,051)	(40,061)	(12%)
Depreciation and amortisation	(15,361)	(13,484)	(14%)
Total operating costs	(441,411)	(344,125)	(28%)
Operating cost ratio (% of sales)	45.3%	44.7%	(60bps)

Warehousing costs increased by 200bps to 7.8% of sales as a result of additional running costs at our Barnsley warehouse whilst we carried out infrastructural investments to increase its capacity, as well as investment in our warehouses in Europe, China and the US. We expect this temporary increase in running costs to ease during the new financial year.

Marketing costs increased by 40bps to 5.7% of sales, driven by increased spend on digital marketing activities as we continued to focus on driving awareness and growing our market share in our strategic territories where our customer proposition is more developed.

IT costs increased by 30bps to 1.6% of sales as a result of increased traffic across our expanded range of global platforms.

Distribution costs increased by 10bps to 15.1% of sales despite an increase in total orders of 31% during the year, largely due to the increase in the mix of lower-cost shipments to the UK and EU, as well as negotiation of more favourable rates with certain carriers.

Staff costs decreased by 140bps to 8.4% of sales as the Group's total headcount increase of 34% during the year was partly offset by a reversal of cumulative charges related to share-based payment awards which are no longer expected to vest under the relevant performance conditions.

Other operating costs decreased by 60bps to 4.6% of sales due to a tighter focus on controlling costs related to travel, entertaining and occupancy costs.

We incurred net losses of £8.6m related to our activities in China during the year. The related operating costs are included within total operating costs and largely relate to warehousing and staff costs.

Net other income

The fire in our Barnsley warehouse resulted in extensive stock damage as well as lost trade as our website was taken offline for two days during the recovery process. We have recovered the costs of stock loss and other incremental costs from our insurance providers during the year, along with a portion of business interruption losses. The remainder of the business interruption claim is ongoing.