

01.3 CORPORATE STRATEGY

01.3.1 ZALANDO'S PURPOSE IS TO REIMAGINE FASHION FOR THE GOOD OF ALL

Why reimagine fashion? With EUR 421bn in annual retail spend¹ and attractive gross profit margins, the European fashion industry² represents one of the largest and most attractive global consumer retail markets. In the last few years, we have seen the industry start to embrace the digital age as growth in online fashion sales significantly outperformed total fashion retail growth. While total fashion retail sales remained largely stable between 2011 and 2016, online sales grew from EUR 27bn in 2011 to EUR 51bn in 2016 and because it enables "always-on" consumer behaviors, it has become possible to bring together the fashion ecosystem: consumers, brands, retailers, manufacturers, stylists, content creators, logistics and service providers, and other future stakeholders. These connections will create better user experiences and ultimately result in new, more interesting, and more efficient ways to consume, produce fashion, or do business.

01.3.2 A RIPE OPPORTUNITY FOR US

With roots as a fashion retailer, Zalando has become Europe's leading online fashion destination. Our customer reach across 15 European countries – with around two billion visits per year³ – grants our consumers access to over 1,500 brands, for many of which we are their largest retail account. As a trusted partner, our online fashion competence is unmatched.

We rely on the following strengths to leverage our leading position in the European online fashion landscape.

OUR FOCUS ON THE FASHION CATEGORY AND THE EUROPEAN MARKET

Fashion is a complex vertical benefitting from the utmost focus of one powerful organization. Our focus on the needs of the fashion ecosystem enables us to design unique and compelling fashion experiences for consumers and to find industry-specific solutions for brand partners.

While leveraging our central core strengths – technology backbone, fulfillment network and supplier relations – we believe in building highly localized solutions for each of our 15 European markets in order to make Europe accessible for fashion brands and retailers. Our thorough understanding of local specificities will continue to be a core differentiator.



Further information
Background to the Group
p. 75

1) Source: Euromonitor International, 2015
2) Excluding Russia
3) Actual data for 2016, excluding off-Zalando properties (e.g. Zalou, Fleek, Movmnt, Zipcart)

OUR CLEAR VALUE PROPOSITION FOR CONSUMERS

Zalando is a well-loved fashion brand: A fashion companion that builds relationships with consumers beyond the transaction in new, fun, and inspiring ways:

- Offering an up-to-date, unique, and comprehensive assortment of in-season fashion merchandise
- Building the most fashion-competent destination via discovery and inspiration, catalog curation, as well as content and selection freshness
- Delivering an unmatched level of personalization
- Offering a smooth better-than-offline experience: The most convenient way to discover, checkout, pay, receive, and return fashion items

OUR VALUE PROPOSITION FOR FASHION BRANDS

Zalando is the industry's preferred technology partner. We support brands' transition to the digital age by:

- Providing an infrastructure that introduces business efficiencies for fashion brands and retailers – e.g. through more accurate sales forecasts, targeted advertising, and smart fulfillment services
- Providing a unique environment for suppliers to present themselves as a fashion brand through which they preserve their brand equity
- Offering unprecedented customer reach amounting to around two billion visits per year across 15 European markets

01.3.3 ZALANDO'S PLATFORM VISION

We believe we can best attain superior consumer experience standards – particularly in inspiration and selection – through a platform business model. We further envision the Zalando platform as an operating system for the fashion world, with multiple ways of integrating all sorts of fashion contributors and stakeholders, catering to their specific needs. It offers digital and infrastructure services such as analytics, advertising, and fulfillment.

Wholesale has been the foundation of our success to date and wholesale integration offers many advantages for the consumer experience – in particular, physically owning the merchandise ensures availability for crucial parts of the assortment. We will further innovate on more forms of merchandise integration, both within wholesale and through our partner program, thus complementing the classic wholesale integration.

We believe our partner program will improve selection breadth and depth, a key element of our customer proposition:

- Overall increased availability of styles and sizes
- Access to the most sought-after brands
- Integration of credible niche/specialty players with unique content and assortment
- Long tail and local inventory with volumes catering for the needs of specific fashion lovers

Beside brands in the partner program, our platform setup attracts more participants such as manufacturers, stylists, content creators, logistics, and service providers.



Further information in
the Zalando City Guide
zln.do/en-city-guide

Each will bring consumer benefits such as enhanced inspiration capabilities and convenience:

- Scalable personalization and more inspiring content, not limited to Zalando's stock inventory
- Additional options to access local inventory and fast delivery solutions

A platform approach will therefore help us deliver the following attributes valued by consumers, to scale and with the right cost structure – incremental selection and inspirational content, incremental delivery methods, incremental services and access to fashion expertise. We expect these attributes to trigger self-reinforcing growth momentum and further unlock Zalando's potential. An improved selection of merchandise and availability feeds the growth of our consumer reach – and vice versa. For brand partners, access to this unprecedented consumer reach presents a huge commercial opportunity that they can benefit from as they leverage our platform infrastructure.



Further information
Background to the Group
p. 75

01.3.4 OUR STRATEGIC INVESTMENT AREAS

OUR STRATEGIC INVESTMENT AREAS

→ 01



Zalando strategy



INVESTMENT IN OUR CONSUMER PROPOSITION

We will continue investing in four key consumer propositions to strengthen our positioning as the most fashion-competent destination.

**ASSORTMENT**

We invest in providing consumers with the largest in-season fashion selection and optimizing availability. We thereby succeed in advising consumers as their trusted navigator in the overwhelming, fast-changing world of fashion with inspiration and personalization.



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CONVENIENCE

We invest in enabling the easiest and most seamless transaction process by investing in our platform's delivery, payment, customer care, and return proposition.

BRAND

As a well-loved brand, we invest in building our brand equity to (a) facilitate consumer trust in our fashion competence and in the convenience and reliability of Zalando transactions and (b) build fashion credibility to brand partners as a prerequisite for brands distributing their merchandise on our platform.

MOBILE

As a mobile-first company, we invest in continued mobile site and app optimization to provide increasingly compelling content and user experiences that uniquely serve the mobile shopper. Today, mobile already represents 65.6% of our traffic and more than 50% of all orders.

INVESTMENT IN OUR SUPPLIER PROPOSITION

To maintain our position as our fashion suppliers' preferred e-commerce partner, we will continue investing in the following areas.

**WHOLESALE SOLUTIONS**

We invest in increasing wholesale supply chain efficiency through a more efficient data exchange, automated buying, more partner empowerment, and better overstock solutions.



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PARTNER PROGRAM

We invest in offering brands an alternative solution through which they own inventory and retain more control on pricing and assortment, with a long-term goal of reaching more than 20% enabled transactions.

DIGITAL SERVICES

We invest in facilitating interactions between suppliers and consumers through stock integration, demand generation, and content management.

FULFILLMENT SERVICES

We invest in building a fulfillment infrastructure-as-a-service and localized customer care solutions to simplify e-commerce operations for suppliers – both on and off our Zalando destinations.

SUPPORTING INFRASTRUCTURE INVESTMENTS

Our supporting infrastructure investments serve as the strong foundation on which we offer compelling consumer and supplier propositions.



TECHNOLOGY

Proprietary technology solutions form the backbone of Zalando and drive all workflows from purchasing to ordering processes and fulfillment. Today, Zalando Tech employs over 1,600 engineers across 7 technology hubs, with Berlin serving as our technology headquarters, Dortmund serving as our fashion platform hub, Dublin serving as our data insights hub, Hamburg serving as our advertising technology hub, and Erfurt and Mönchengladbach serving as our high-tech logistics hubs. In 2016, to complement these existing investments, we launched our own research lab, Zalando Research, to bring internal research scientists together to uncover advancements in data science, machine learning, and artificial intelligence and to explore their applications to fashion commerce.

OPERATIONS INFRASTRUCTURE

Our established infrastructure and accumulated expertise in warehousing, delivery, and customer care process and content production will remain fundamental to our wholesale business. In addition, opening up our operations infrastructure to brand partners through our fulfillment infrastructure-as-a-service offer will allow them to maintain or improve customer experience standards as they join our partner program – while retaining inventory control.



Further information in the
Zalando City Guide
zln.do/en-infrastructure

In the coming years, we will continue to be focused on growing our market share, leveraging the continued growth dynamics of linking consumer reach and connected inventory. For consumers, Zalando is, more than ever, the top-of-mind destination to seek fashion inspiration, advice, and to discover fashion products. Thanks to Zalando, consumers never fear missing out on a trend or a hot product, fashion is highly personalized to their tastes, and products get to them as fast and smoothly as possible.

Given the current speed of innovation in fashion technology, there is no doubt that our vision will evolve in the coming years. However, we are convinced that trends will remain a vector of self-expression: Inspiration, discoverability, and personalization are long-term needs. Based on those constants, we are comfortable in the choices we are making.