

Nasty Gal

Nasty Gal was an overnight retail sensation - based on used clothing. The founder, Sophia Amoruso (a high school dropout, by the way) was called "the Cinderella of tech," by the New York Times. In eight years she was able to build her business from selling vintage clothing online (via eBay) to becoming the "fastest growing retailer," per *Inc.* magazine, in 2012, when revenue reached \$100 million.

Here is the company's very short timeline....

2006 Amoruso opens a store on eBay selling vintage clothing she purchased at thrift stores or estate sales; "styling" it and photographing it herself. She carefully chose just 10 pieces a week and made sure that each was different so that customers did not have to make a choice – they either wanted it or not. The strategy ensured competitive bidding resulting in sales of \$1500 - \$2500 per week.

2008 Amoruso secures NastyGalVintage.com and begins to promote it in her eBay listings – getting her account shut down due to a violation of eBay rules that no web links can be included. Luckily she had 60,000 "friends" on MySpace and alerted them to her new website and business. She also hired her first full-time employee to help with packing and shipping, giving her more time for the creative side of the business.

2009 Realizing that demand exceeded the supply she could curate herself, Amoruso and her one employee attend a trade show in Las Vegas and convince two designers to sell their clothes through her site. This allowed her to have more inventory and more than one size / color in a particular style.

2010 Because of continued growth, the company moves in to its third location in as many years and hires support staff: shipping, product copywriter, an additional stylist, a part-time photographer, and an intern.
Sales growth is 700% over the previous year.

2011 Having, once again, outgrown its space, Amoruso decides to move the company closer to her vendors (LA) and again adds staff: Director of Human Resources, Controller, Manager of Fulfillment, Inventory Planner and Customer Care Manager.
At this point the company also installs phones! Prior to 2011 the only way to contact the company was through email.
The company has its first \$100,000 day; sales volume for the year is \$24 million – marking 11,000% growth over three years.

2012 Early in 2012 the company got its first infusion of investor money (Series A = \$9 million) quickly followed by another \$40 million (Series B) by August of that year. Ultimately, between 2012 and 2015 the company takes on \$65 million in debt from investors.
The company launches its own private-label brand, launches a lifestyle magazine (only to be included in customer orders) with Amoruso as editor-in-chief, grows to 110 employees and opens its own distribution facility in Kentucky.
Annual sales peak at \$100 million.

2013 Urban Outfitters looks to buy the company but ultimately no deal emerges.

The first brick and mortar store opens in LA.
The company collaborates with MAC Cosmetics on a line of lipstick and nail polish.
2014 Amoruso launches a book called #GirlBoss which chronicles her meteoric rise. She appears on numerous TV shows and begins a speaking tour to empower women. She creates GIRLBOSS Foundation to provide grants to women with creative projects.
Annual sales are \$85 million.

The company raises \$15 million from investors and takes on \$20 million in debt, via loans.
The second brick and mortar store opens in Santa Monica.
2015 The company rebalances its product mix so that 80% is its own, Nasty Gal, label.
Amoruso steps down as CEO and is replaced by Sheree Waterson, formerly of Lululemon.
Annual sales are \$77 million.

Amoruso is identified by Forbes' second annual list of America's Richest Self-Made Women to have an estimated net worth of \$280 million.
2016 The company is unable to secure additional financing. Nasty Gal files for bankruptcy protection.

In February of 2017 a U.S. Bankruptcy court approves the sale of Nasty Gal to British retailer, Boohoo for \$20 million. Amoruso must leave the Board of the company as part of the sale.
2017

Controversies:

- The company invested heavily in advertising – particularly targeted social media. The advertising was aimed at acquiring new customers in the Millennial to Gen Z age-bracket.
- In an effort to be conservative, the company only ordered small quantities of its private-label merchandise, which limited the number of factories it could work with and created higher margins than could be achieved if the merchandise were mass produced.
- Customers complained about the quality of the private label brand.
- Most retailers do not do their own distribution / fulfillment; instead they utilize the expertise of third-party logistics companies. Nasty Gal built its own fulfillment center.
- Four employees filed discrimination lawsuits in California claiming they were dismissed as a result of pregnancy.
- There are numerous unhappy employee reviews on Glassdoor complaining of a “toxic” work environment.

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Discussion Questions:

What risks were inherent right from the start?

What should have been the SWOT analysis in 2011?

What red flags did Amoruso miss?

What red flags did Nasty Gal investors miss?

Did the company grow responsibly?

Was selling the company a smart move?

Should Amoruso have stopped running the company at a certain point?

Was there another possible exit strategy?