



The Business Case for Circularity at Reformation

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NYU STERN CSB/REFORMATION ANALYSIS HIGHLIGHTS BUSINESS VALUE CREATED BY THREDUP PARTNERSHIP ON CIRCULARITY

Reformation is a women's clothing brand and retailer whose aim is to "make effortless silhouettes that celebrate the feminine figure," and which uses sustainable materials, deadstock fabrics, and repurposed vintage clothing to ensure sustainability is at the core of their business. The company is committed to building a more circular, less wasteful global fashion system, and its four main pillars: "people, product, planet and progress."

One of the ways in which Reformation underscores its commitment to building a more circular global fashion system is through its partnership with resale brand thredUP, one of the largest online platforms for buying and selling second-hand apparel. By offering Reformation shopping credits to customers who successfully consign with thredUP, Reformation incentivizes its customers to keep clothing out of landfills and maximize the useful life of their stuff. "Our primary objective is to report sustainability impact (e.g., how many garments are reused or recycled and the environmental savings associated with that activity). That is really the "why" behind the [partnership] program," said Kathleen Talbot, Chief Sustainability Officer at Reformation.

THE BUSINESS CASE FOR SUSTAINABLE APPAREL

While many apparel companies prioritize sustainability investments, there is often a lack of knowledge as to how these investments help to drive financial performance. With funding from HSBC, the NYU Stern Center for Sustainable Business (NYU Stern CSB) recruited a group of apparel companies, including Reformation, to better understand and define the strategies that these businesses are using to achieve and monetize benefits stemming from sustainability efforts. The NYU Stern CSB [Return on Sustainability Investment \(ROSI\) framework](#) provided direction for these findings. "[W]e have the opportunity to evaluate the business case and positive unintended benefits through ROSI and report that to our program partner, internal teams, and other stakeholders. By reporting in clear financial terms, and providing proper accounting of the program, we can also inform program decisions. One of the other key takeaways for our team is that it drove broader internal stakeholder engagement. For us, getting Finance, Growth Marketing, and other executive leaders involved in the program analysis was good for alignment," said Kathleen.

BUILDING A SUCCESSFUL PARTNERSHIP

Reformation has been carbon, water, and waste neutral since 2015 – and is currently working to reduce its carbon footprint even further to achieve Climate Positive results that will benefit the environment while advancing its business activities¹. The brand's partnership with thredUP is one of several strategies aimed at delivering on these goals. The partnership offers Reformation shopping credit to customers who successfully consign items with thredUP. Not only does this credit increase brand exposure and garner new Reformation customers at almost no cost, it

¹ <https://www.thereformation.com/pages/climate-positive>

also aligns Reformation's brand with a program focused on strengthening circular economy practices in the fashion industry.

From a sustainability perspective, the partnership reduces textile waste, extends the life of individual garments, and encourages consumers to purchase their new clothing from a sustainability-oriented brand. On the business side, the partnership resulted in an increase in Reformation's profits and reduced costs related to customer acquisition and earned media.

ROSI METHODOLOGY HELPS REFORMATION IDENTIFY DIVERSE FINANCIAL BENEFITS

While the financial impacts of the partnership seemed fairly straightforward, the ROSI methodology helped Reformation uncover some intangible benefits derived from the partnership, realize efficient ways to monetize sustainability within their business model, and to structure data collection processes to capture relevant information.

The ROSI collaboration uncovered over **\$1.9 million in financial benefits** directly related to the partnership program in 2019. With relatively low overhead and upfront investment to put the partnership in place, profit represents more than 50% of these benefits, which have the potential to grow significantly if the program were to expand.

The Reformation/thredUP partnership also proved to be a low-cost opportunity for customer acquisition. As thredUP consignors opted into the Reformation shopping credit, the analysis identified more than **2,500 new customers** transferred to Reformation's customer base, with **almost no additional marketing cost**. Customers who consign through thredUP generally have a baseline awareness of and interest in circularity, which makes Reformation attractive to them as the company incorporates sustainability at its core.

Finally, the partnership generated earned media for Reformation, highlighting the company's commitment to sustainability through this new partnership. Coverage included a feature in Refinery29², a leading media and entertainment outlet focused on women with a global audience of over 249 million³; a mention in Elite Daily⁴, a digital magazine which boasts 70 million in monthly readers – primarily millennial women -- as the "coolest brand ever"; and an article in US Weekly⁵ that was distributed via print and digital to an audience of more than 50 million weekly consumers.

Methodology: Applying ROSI

Reformation provided NYU Stern CSB with data on cost, revenue, customer behavior, and associated media hits between 2018 and 2019. NYU Stern CSB then calculated Reformation's financial benefits from the program. Additional details on the benefits assessed are highlighted below, with corresponding calculations outlined in the Appendix section.

² <https://www.refinery29.com/en-us/2020/04/9662390/reformation-thredup-vintage-clothing-sale>

³ <https://corporate.r29.com/about#about-intro>

⁴ <https://www.elitedaily.com/p/reformation-x-thredups-clothing-recycling-program-is-incredible-for-the-earth-your-wallet-12119860>

⁵ <https://www.usmagazine.com/stylish/news/reformation-x-thredups-upcycle-clothing-recycling-program-details/>

Benefit 1: Profit generated from the partnership program

As previously highlighted, the Reformation/thredUP partnership encouraged customers to purchase apparel from Reformation, which increased Reformation's sales. Although there were associated costs, such as ongoing partnership maintenance, they were minimal and **led to a profit of \$1.0 million in 2019.**

Benefit 2: Incremental profit from new, loyal customer base

Given that the partnership attracted first-time customers for Reformation, many of them became loyal customers of the company and continued to purchase products throughout the year. The average spending per customer, after the shopping credit transaction, estimated to be \$275, **led to incremental profit of \$0.4 million in 2019 due to first-time customers that continued to shop at Reformation.**

Benefit 3: Reduction in customer acquisition costs

Similar to the above benefit which focused on the long-term value of new customers, this benefit explores the reduction in customer acquisition costs due to the attraction of new customers to the partnership program. Because new customers learn about Reformation organically by consigning items with thredUP, it allows Reformation to acquire new customers without additional marketing spend. Based on the ROSI analysis, this **led to a reduction in cost by \$0.1 million in 2019.**

Benefit 4: Increased earned media from partnership visibility

This partnership program brought significant media attention and visibility to Reformation. Therefore, rather than dedicate monetary resources to promote the company's collaboration with thredUP, Reformation was able to allocate finances elsewhere. **The monetary value associated with the unpaid earned media generated was \$0.4 million in 2019.**

Although several of these benefit estimates are minimal in comparison to the profit benefit estimates, they provide additional insight into the value of the partnership program and why Reformation should continue to collaborate on sustainability-aligned marketing efforts. Additionally, the company can consider collecting and monitoring these data points moving forward in order to further refine the monetization process and to inform decision-making for future partnerships.

CONCLUSION

Through its partnership with thredUP and insights uncovered by the ROSI methodology, Reformation was able to identify opportunities to increase profit and attract new customers, with relatively low up-front investments. These insights provide a foundation for Reformation to build even more robust partnerships in the future with similar values-aligned brands.

As apparel companies look to better position themselves in a growing landscape of mission-driven brands for millennial and Gen-Z audiences, strategic partnerships between complementary organizations provide a low-cost, high-growth option, when performed and

measured well. Through the implementation of the ROSI methodology, Reformation was able to identify outcomes generated from a new approach to offering shopping credit.

The ROSI analysis also helped Reformation uncover where it might strengthen and improve its data collection and tracking. The analysis required collaboration and data aggregation from multiple groups, namely the Digital Marketing & Analytics and Growth teams, and the process helped highlight where to improve these processes to ensure that the financial performance of its sustainability programs is being effectively monitored. “Reformation is deeply committed to transparency and sharing our learnings along the way so that collectively, our industry can make progress to more sustainable operations. Hopefully the case studies for both ROSI and the Resale-as-a-Service model will help others move sustainability forward in their organizations,” said Kathleen.

We would like to thank our Reformation collaborators, specifically Kathleen Talbot, Carrie Freiman, and Jessica Ozella for their invaluable contributions to this project.

APPENDIX

Monetization Approach for Valuing the thredUP Partnership Program at Reformation

There were four main benefit categories that informed the monetization approach for valuing the partnership program, which included 1) profit generated for Reformation based upon the revenue and associated costs of the partnership 2) incremental profit generated from customer behavior and brand loyalty 3) reduction in customer acquisition costs due to increased exposure from the partnership, and 4) unpaid earned media generated due to increased visibility from the partnership program.

Profit Generated from the Partnership Program

For monetizing profit from the partnership program, there were two groups of variables: 1) revenue-related items and 2) cost-related items. The main source of revenue was generated from sales attributed to the shopping credit whereas the associated costs were items related to operational costs, booster cost, ongoing maintenance, and marketing cost (if applicable). To calculate the profit value, we subtracted costs from revenue. **This led to a 2019 estimate of \$1.0 million.**

CALCULATED: Profit from Partnership Program	2018	2019
Revenue Components		
Revenue from Partnership Program	\$ -	\$ -
Total Revenue	\$ -	\$ -
Cost Components		
Booster Cost Data	\$ -	\$ -
Operational Cost (Shipment & Warehouse)	\$ -	\$ -
Ongoing Maintenance	\$ -	\$ -
Marketing Cost	\$ -	\$ -
Total Cost	\$ -	\$ -
Profit from the Partnership Program	\$ -	\$ -

Incremental Profit from New, Loyal Customer Base

For monetizing the customer behavior following the use of their Reformation shopping credit, there were three key variables: 1) the number of customers attracted to Reformation for the first time who continue to be loyal customers 2) the Reformation profit margin, and 3) customer average spend. The three variables were multiplied together to calculate the incremental profit generated from a new, loyal customer base, which **resulted in \$0.4 million in 2019.**

CALCULATED: Incremental Profit from New, Loyal Customer Base	2018	2019
# of Customers who Purchase Reformation for the First Time through the Partnership and Continue to be Loyal Customers	-	-
Reformation Profit Margin	0%	0%
Average Spending per Customer	\$ -	\$ -
Increase in Profit from New Customer Base	\$ -	\$ -

Reduction in Customer Acquisition Costs

To understand the benefits of the partnership program via customer acquisition-related cost reductions, there were two key variables 1) the cost per customer acquisition and 2) the number of customers acquired through the partnership program. To calculate the annual reduction in customer acquisition costs, we multiplied the two variables together, which **resulted in \$0.1 million in 2019.**

CALCULATED: Reduction in Customer Acquisition Costs	2018	2019
Customer Acquisition Cost	\$ -	\$ -
# of Customers Acquired Through the Partnership Program	-	-
Annual Reduction in Customer Acquisition Costs	\$ -	\$ -

Increased Earned Media from Partnership Visibility

For monetizing the earned media generated due to the increased visibility from the Reformation/thredUP partnership, there were three key variables: 1) cost per media impression 2) brand value per media impression, and 3) number of media impressions generated from thredUP circularity programs. We added cost per media impression and brand value per media impression; we then multiplied that amount by the number of media impressions to calculate the avoided cost of earned media, **which was \$0.4 million in 2019.**

CALCULATED: Benefits of Unpaid Earned Media	2018	2019
Cost per Media Impression	\$ -	\$ -
Brand Value per Media Impression	\$ -	\$ -
Number of Media Impressions	-	-
Benefits of Unpaid Earned Media	\$ -	\$ -

Monetization Conclusion

After calculating the benefits and associated costs of the partnership, the monetization approach resulted in **\$2.3 million** in financial benefits from 2018 and 2019 combined, with **2019 generating \$1.9 million for the program's first full fiscal year**. This result illustrates the monetary and intangible value of the Reformation/thredUP partnership program to Reformation as it further expands the company's collaboration efforts on sustainability.