

## **Exchanges at Goldman Sachs**

### **Why Sustainability is a Fashion Staple**

**James Reinhart, CEO & Co-founder, thredUP**

**Karen Levin, Managing Director, Consumer Retail  
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**Allison Nathan:** One of the fastest growing sectors in the fashion and apparel industry has been the resale market, fueled by price and environmental concerns. So, what are the opportunities and challenges for retailers and investors? And how will the macro challenges facing today's consumers affect this sector?

**Karen Levin:** The conversation that's at the forefront, particularly of the young generation, but it's impacting all generations, is the impact of fashion on the planet.

**Allison Nathan:** I'm Allison Nathan. And this is Exchanges at Goldman Sachs.

[MUSIC INTRO]

**Allison Nathan:** To help explain how changing consumer preferences have boosted the popularity of shopping secondhand, I'm sitting down with Karen Levin, a managing director in the Consumer Retail Group in our Investment Banking division, and James Reinhart, CEO of thredUP, an online consignment and thrift store. James, Karen, welcome to the program.

**James Reinhart:** Thanks for having me.

**Karen Levin:** Thanks for having us.

**James Reinhart:** Good to be here.

**Allison Nathan:** By all accounts, secondhand style is booming. So, Karen, first, just give us a sense of the size of the resale fashion market. And what drivers have gotten us here?

**Karen Levin:** Absolutely. So, in 2021, the global secondhand apparel market was just shy of 100 billion. And if you think about where it's headed over the course of the next five years, it's expected to more than double. So, there's been a number of factors that are fueling this outsized growth. But two of the most salient ones for me have been technology and conscious consumerism.

And so, unpacking the technology component first, some of us will recall the days of thrift when it actually involved a physical store that you went into to be able to buy something secondhand. And so, pioneers like eBay at the time really unlocked the ability to have access to product that wasn't geographically close to you. That was really the depth of the innovation for a very long time. Until there was another wave of innovative companies, such as thredUP, that really brought technology innovation into the modern age. And they innovated the platforms. They innovated the curation of the assortment, all of the technology infrastructure that was in the backend to support and unlock and really bring a new generation of consumers to

the secondhand or the resale market. So, technology has been a huge factor in terms of the growth that we have seen recently, as well as the growth going forward.

And then conscientious consumerism. The conversation that's at the forefront, particularly of the young generation, but it's impacting all generations, is the impact of fashion on the planet. How can you minimize or reduce your impact? And so, resale is a very natural way to be able to, both, curate your own closet in a conscious way, as well as to make new purchases that are going to have less carbon impact, less waste, et cetera. So, two powerful factors.

**Allison Nathan:** And so, we're hearing a lot about sustainable fashion. And that's a key element of this secondhand resale market. Can you talk a little bit about what that encompasses?

**Karen Levin:** As I think about sustainable fashion, it's more of an umbrella in term that encompasses a lot, in addition to what you might think of as resale or rental. And

it's actually from creation through to disposal. When people talk about sustainable fashion, it can encompass the sourcing of the components to produce the product, the manufacturing practices that are used being clean or green. So, it doesn't just have to be a secondhand good. It could be a newly produced product when customers are thinking about participating in sustainable fashion.

**Allison Nathan:** Let's dig in a little bit more into the environmental benefits that you mentioned. On that point on sustainability, the fashion industry today accounts for a relatively large share of global carbon emissions. So, how much environmental benefit could secondhand fashion offer?

**Karen Levin:** There are very tangible ways you could think about secondhand extending the life of a product by physically delaying disposal into a landfill by having multiple cycles of different owners. And then there's a deferral or decrease in demand for new products by somebody opting to purchase resale fashion.

As you think about all of the resource usage for producing those new products, including the carbon footprint, you're eliminating that from the demand part of the equation. And the supply side will mirror that reduction in demand. So, as you continue to see more secondhand or resale purchasing, it can offset or reduce carbon footprint for products that never even get produced.

**Allison Nathan:** James, maybe you can tell us a little bit about that research and what you've observed.

**James Reinhart:** Yeah, I think on the sustainability side, it's very clear that once the clothing is made, resale is, like, the best thing you can do to drive sustainability. Buying a secondhand product, typically use, like, 82 percent less resources across carbon. It uses a tenth of the amount of electricity. A tenth of the amount of water. So, it really is, once the produce these been made, resale is probably the best thing that a consumer can do.

I think as Karen said earlier, I think there's going to be this whole reinvention of the supply chain. It's probably going to take a decade or more. I think the same thing you're seeing in cars, for example. You've got to redo the batteries and the charging infrastructure. And I think apparel is similar. Like, you have to change the way you produce denim for it to be recycled and for it to hold up in resale context. You have to change the way you produce virgin cotton.

So, there's lots of stuff, I think, in the industry that needs to evolve. And our approach is to take it from the point of view of it has been made. And while we hope over time that retailers will make less, let's do the best that we can to recirculate as much as we can. And I think that's where the consumer's coming to us.

**Allison Nathan:** So, let's take a step back and, James, let's talk about your story. You founded thredUP. It's one of the largest secondhand retailers. Walk us through what pushed you to start it.

**James Reinhart:** Yeah, I think if you go back ten years ago to what was happening in the world at the time, I think as Karen talked about earlier, like, this technology change. But it was also we're only 12 years from the invention of the iPhone. And you had mobile, and you had the iPhone and consumer behavior changing everywhere. So, people were listening to Spotify. They were streaming Netflix. They were booking Ubers. They were staying in Airbnbs. And you had this whole consumer behavior change.

And at the time, I didn't think apparel would be immune to that. And you saw, definitely, like the growth of direct-to-consumer companies and many of them sustainable ones. And that was all well and good. But I thought that secondhand would not be any different in that way. Like, it would also undergo some structural change. And we've had thrift stores and Goodwills forever, it feels like. But there had been no real innovation.



And so, from my perspective, you had a real opportunity to reinvent how secondhand would happen on the internet. And you had eBay and Craigslist that were launched in the mid '90s. But they looked pretty much the same today. And they're big businesses. But change the way that consumers engage in these markets. And thredUP was founded to do that.

So, to make it very easy for you to clean out your closet. One of the friction points we saw with people is they hold onto stuff too long. And we used to joke, to clean out your closet, you'd have to find that time on a Saturday. Pile everything into a bag or a box. And then you take it from there to, like, your garage where it would spend another few months. And then it would get to your car. Your trunk. It would spend another month. And then, eventually, it would get to the point.

**Karen Levin:** Never experienced that.

**James Reinhart:** Yeah. And I think we tried to say, let's, go to the source. And so, we send you a clean out kit. It's like a bag. Holds a laundry basket worth of stuff. It sits in your closet. You fill it up. Prepaid label. We pick it up at your house. And voila.

So, it made it really easy for the sellers. And then for buyers, just really changing the browsing experience to make it feel like you were shopping on Nordstrom, or you were shopping on Amazon. And it was a nice, convenient, high-quality experience. And so, we thought that would bring secondhand into the modern era.

**Allison Nathan:** Are you one of these people who had a full closet? And that's what led-- like why fashion?

**James Reinhart:** I don't think I was ever-- I never thought about fashion, per se, as a career. And to be honest, I actually don't think about thredUP as a fashion company. We actually are more of an operations and logistics company that happens to sell used clothing. Because at,

like, the core, our DNA is operations. The founding story for me, actually, was I was a poor graduate student. I didn't have any money. And I went to sell my clothes at a local consignment store. And they wouldn't take them because they weren't luxury and "we don't take these brands."

And I thought that was just a broken system. And the real unlock for me was there was this J. Crew sweater that I handed them. This cashmere J. Crew sweater. And they're like, "Yeah, this is worth zero." I'm like, "This can't be worth zero. It's got to be worth 20 bucks. It's just not worth 20 bucks to you or to me in this very moment." And I thought there was a big disruption of value out there. And so, that was the genesis of how we got started.

**Allison Nathan:** One of the questions I just personally have about moving online is quality control. And I'm just curious to hear how you manage that. Because that is the different experience between going to the thrift store versus--

**James Reinhart:** Yeah. It's a key part of what we do everyday. There are a couple ways we do it. So, one is to the seller, the person sending us in stuff, we're very prescriptive around, like, what you should do. The number one thing to get your things accepted and resold is to wash them before you send them to us. So simple. And yet, it is the thing.

But then, once we get it, we have this rigorous 12-point inspection process where we look at everything about the item. And it can be for a whole plethora of quality reasons. Missing buttons or something has a stain on it or a tear or something.

And so, what we try and think about is what is the consumer going to expect on the buyer side? Like, when they get it in their order, are they going to think, oh, this is high quality? And we use that as the standard. And that means that we reject a lot of stuff.

**Allison Nathan:** And that's what gets you repeat customers.

**James Reinhart:** That's what gets us repeat customers.

**Allison Nathan:** So, let's talk a little bit about those customers in more detail, because, obviously, we talked about the younger generation wanting to engage in the sustainability trend. Who is actually buying? What does your customer base look like?

**James Reinhart:** Yeah, it's interesting. Every year, our average customer age gets a little younger. And when the business started, we were much more focused on older women, moms, kids. We have a big kids business. It's increasingly being dominated by twenty somethings right out of college or their first job because there's such great value in secondhand.

And so, the customer base, obviously it's 99.99 percent women because we don't do men's clothes. Which the irony

is not lost on me as a guy. I've not solved my own problem, yet.

And the way that I often describe the customer is it's a customer in transition. And so, what we find is it's like somebody who may be going to college or they're coming out of college. They're switching jobs. They're moving to Ohio, as Karen just did, right? There are all these things. Or they just had a kid. Or they're going to have a kid. So, all these various transition reasons are what drives people to buy secondhand.

**Allison Nathan:** So, the sustainability trend is, obviously, very top of mind for young consumers. But we also have this fast fashion trend. So, how does that factor into your business?

**James Reinhart:** Yeah. It's a very conflicted generation, right? I think it's young people, gen Z, millennials, they index on I want to do the right thing for climate, and I want to be more sustainable in my life. And yet, it's also the

generation that buys the most fast fashion product. And so, I think it's ultimately about them managing that balance of fashion as a way to show their uniqueness and their delight on a daily basis. Social media drives a lot of this.

And our hope is that sustainable fashion, secondhand for example, helps them scratch that itch of, like, fresh and new and cheap. But in a way that's more sustainable. But it's a really interesting trend to watch. I don't know, Karen, if you're seeing some of that in your world.

**Karen Levin:** Absolutely. It is interesting mental gymnastics, I think, because the two seem to be fundamentally, like, at odds with one another. There's a thesis where you could say, if I'm reselling my fast fashion after I wear it, then I can get comfortable with being a positive contributor to the cycle or elongating the life of that particular product. But yes, it's tricky.

**Allison Nathan:** So, if we think more broadly, we're obviously in a pretty difficult macro environment right now. We have rising interest rates. We have lots of inflation. Concerns about recession. So, if you think about your customer base, are those factors affecting them? Or actually is your business model a way to help consumers during this period?

**James Reinhart:** I mean, I think every apparel company today is being hit by the macro factor. It's a tough environment out there given coming off of a 2021 where things were just booming and to not have sort of inflation and recessionary fears and place.

I do think thredUP is probably weathering it better than some, specifically because thredUP, we didn't quite talk about it like this, but it's a marketplace. Every item is a snowflake, we talk about. So, you can change price and pay out.



So, I think we can weather this apparel storm probably a little bit better than the average company. But yeah, it's tough out there. And 60 percent of our customers make under \$100,000 a year. And so, it is something that's affecting them. And the American consumer is resilient. And I often tell people, people might sit out the apparel markets for three months or six months. We don't typically sit out apparel markets for one year, two years, three years. Like, we're Americans. We shop. Right? And people will be back. I think it's just a question of when and what kind of ferocity.

**Allison Nathan:** And if anything, I think at some point it's a place where, potentially, people who are struggling financially could come to you. Instead of buying new, you buy secondhand and get high quality secondhand. So, I just wonder if, over time, you're going to see a shift in that direction.

**Karen Levin:** A tailwind of people trading in to secondhand as an alternative to where they might have shopped otherwise. Absolutely.

Yeah, I think relative to the broader fashion industry, various obvious headwinds, including inflation and fears about recessions. But one of the ways to combat that is to think about stretching your dollar, maybe, further. And so, secondhand or resale is a way for consumers to think about doing that.

**James Reinhart:** Well, and one of the interesting things is that right now, because apparel retailers are sitting on so much inventory, there's real price compression across the apparel-- like everything's on sale. And I think a lot of retailers have come out publicly and said, "Hey, we're going to get rid of this stuff. We're going to wash through it."

And so, what you see is compression between secondhand prices and traditional apparel prices in the near term. A year from now, that won't be true, right? Because we know

apparel, new apparel prices are going to reset to where they were coming out of the pandemic. And that's, I think, to Karen's point, the real spot where all of the sudden thredUP will be in position to, like, really create a lot of value. Which is harder today in this sort of price compression environment that we're seeing across apparel.

**Allison Nathan:** And given your focus on operations, logistics, and all the technology that you've employed, how did that play out in terms of the pandemic and managing a lot of the shocks that came along with that?

**James Reinhart:** Yeah. The pandemic. It was tough because we do employ thousands of associates across our distribution centers. So, we were navigating through it.

But I think, like, what we figured out very quickly is that our facilities were laid out, actually, to do social distancing. And we were able to process goods the same way we processed them pre pandemic. What we did not anticipate, although you could argue we probably should have, is that

everybody sitting at home was ready to clean out their closets. And so, we had this massive surge of supply of people sending us stuff. And so, at one point in the pandemic, it was taking close to 20 weeks, five months, to process your bag. And it's not because we weren't working super hard in our facilities. But we just couldn't scale up fast enough. So, that part was certainly challenging. But I think we've been able to navigate through it.

**Karen Levin:** And the scale at which you're operating is already, like, tremendous. The logistical jigsaw puzzle, to put it plainly, of being able to do this at scale is something that, as we had an opportunity to partner with the folks at thredUP through the course of the IPO and see the infrastructure that we built, was just truly so impressive and such a competitive moat in terms of anybody being able to replicate that because it's really differentiated.

**Allison Nathan:** Do you have some numbers on that, James? Like, how many bags would you review?

**James Reinhart:** Yeah. I think on the numbers, I mean, we're processing 100 - 150,000 unique items every day. We're coming up on 150 million items processed. 35,000 brands. Hundreds of categories. So, it's a pretty big operation.

And I think what speaks to some of the competencies is as we start to work with brands and retailers now, they come to us, and many people say, "Well, why don't brands do resale themselves?" And all it takes is for us to kind of walk them through the process or take them through one of our facilities. And they're like, "Man, we don't want to go anywhere near this," because it's an entirely new supply chain complexity around dealing with individual, unique items. And I think we've purpose built that to do secondhand.

**Allison Nathan:** So, Karen mentioned the importance of brands in this sector. So, maybe you can talk a little bit more about that and the role it could play, and any other trends as really shaping the industry going forward.

**James Reinhart:** Yeah. I think the past ten years has been dominated by the third-party firms like a thredUP doing resale for the consumer. And I think that we'll play a big role for decades to come. But I also think that brand will start to realize that this is where the customer is going in wanting to shop secondhand. And it's, honestly, a way to meet their sustainability and circulatory goals.

And so, my thesis is that over the next ten years you'll really see a lot of brands do this. And what we want to do is be the provider that helps them do that effectively in a scalable way. Because what I worry about is a brand that says they're doing resale and they're really just doing it for the PR benefit. What we can't have is, like, a sort of greenwashing moment. We really need brands to do this at scale. We power Walmart's resale experience. And these are brands that are really staying by this commitment of circularity. And I give them a lot of credit for that. And so, that's where I see the next few years going.

But I don't think resale is a fad. I think it's a structural change in the way consumers shop. Karen and I have talked about it. It's very akin to off price. There are companies like TJ Maxx, Burlington, Ross. They sell discounted goods from traditional retailers at low prices. Where it was just a structurally new way that consumers shopped. And people forget, we're 40 years into off price. So, what does resale look like 30 years from now? And I think it's a massive part of what consumers do.

**Allison Nathan:** Karen, what are you seeing from your side in terms of this trend towards brands embracing resale?

**Karen Levin:** It's certainly a much bigger topic of conversation because as they're seeing where the consumer is going, they want to, both, participate from an economic perspective, as well as have some control in terms of how their brands are being engaged with in the resale market.

The challenge, as James was suggesting, is the logistics of how to make that work within their own infrastructure. In the early days of this evolution, a lot of brands will certainly opt to bring in a partner like a thredUP as they continue to explore, because of the massive investment that would be required or the risk taking to be executing this on their own. But it'll be interesting to watch whether or not folks try and focus more on this from an internal perspective over time, or continue to opt and say, look, having a partner who's got expertise in this area is going to be the most economical decision for my organization to get the benefits of it at a cost-effective methodology.

**Allison Nathan:** What do you think the consumer retail space will look like in 20 years and how large a role secondhand fashion will play?

**James Reinhart:** I just think shopping secondhand and reselling your clothes on thredUP or some platform that hasn't even been invented yet will just be part of what



people do. So, the same way that we recycle generally in our lives, I think clothing will be part of that.

And I think our mission, our vision, right, is to inspire people to think secondhand first. So, what I'm hoping is that whether it's 20 years from now, hopefully it's sooner, but it might take 20 years, is that consumer mindset is, like, hey, I want a new dress. Or I need a new coat. Or I need a pair of boots. And they think, let me just see if I can find them secondhand first.

And we may not be able to serve you at every moment, every time. But I think if that's the mindset, then the world's going to be in a much better place than it is today.

**Allison Nathan:** And by the way, I do think that's happening now, as you said and as you've observed. I'm a forty something. I have a friend who basically everyday is showing me what she bought resale online. So, look, it's catching on from my observation.

**Karen Levin:** Yeah. And a point of pride. Like, the mindset and the conversation has shifted so much. Even in my own household, like, when you think about on the supply side of, okay, what am I going to do with these goods that no longer fit me or my child or they need to find a new home? Like, there's a guilt factor of disposing of them. These should go to somebody else. And it's a spectrum of, okay, maybe there's a way to monetize this thing that has some value to get some residual benefit from it.

And so, I think that mentality, because of this dialogue around sustainability, as I said, infiltrating in all generations, not just the young people, is going to change the way we behave. And if, on the supply side, it's changing my behavior, I think it will, over time, be more top of mind as they think about purchasing as well.

**James Reinhart:** Yeah. I think if you think of all these consumer experiences from electric cars to Impossible Foods and, like, Beyond Meat. Ten or 15 years ago, it would have seemed, like, crazy. Like, "You bought an

electric car? What are you going to do?" And now it's the default experience. And I think California just announced, like, no more gas cars in 2035. Which is a bit bold.

I think so many of these experiences that we look at today as new and novel, ten years from now, we'll be like, "Of course. Can you imagine a world where you didn't recycle your clothing? What? There was a time when you put it in the trash, and it went in the landfill?" Like, "Oh yeah. Yeah, dad, that was a time."

I just think it's sometimes hard to see that when you're so close to it. But when you zoom out, it's almost obvious, like, what the future will be.

**Allison Nathan:** James, Karen, thank you so much for joining us today.

**James Reinhart:** Thanks for having me.

**Karen Levin:** Thank you.

**Allison Nathan:** Thanks for joining us this Thursday, September 8th, for another episode of Exchanges at Goldman Sachs. If you enjoyed this show, we hope you follow on your platform of choice and tune in next week for another episode. Make sure to share and leave a comment on Apple Podcasts, Spotify, Stitcher, Google, or wherever you listen to your podcasts.

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