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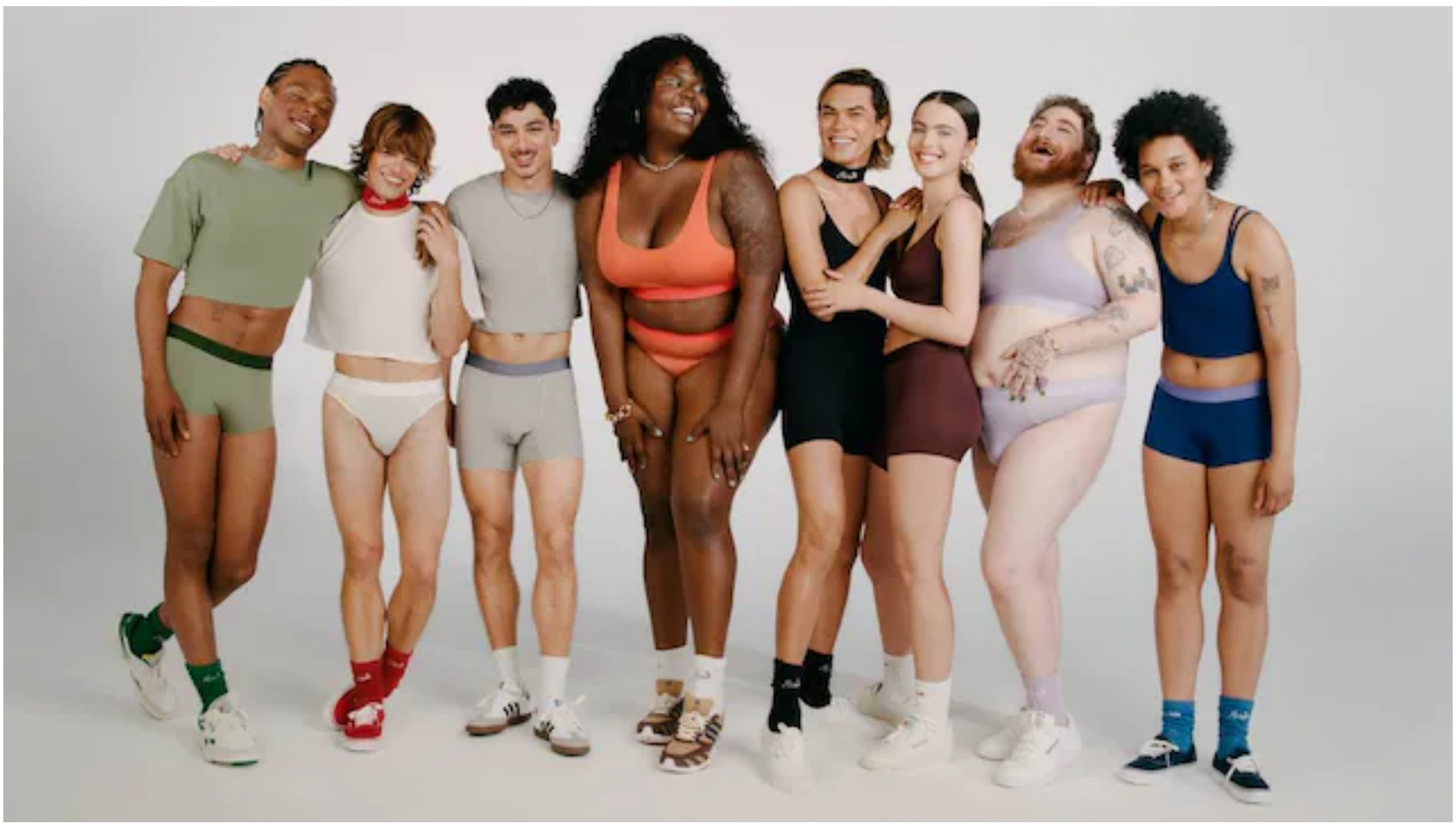
What Happened at Parade

The underwear start-up was once pegged as Gen-Z's answer to Victoria's Secret. But investors, executives and founder Cami Téllez couldn't agree on whether to prioritise growth or profitability. They ended up with the worst of both worlds.



Parade's playful and inclusive sex appeal made it feel like Gen-Z's answer to Victoria's Secret, making its exit to an obscure licensing firm all the more shocking. (Parade)

By **MALIQUE MORRIS**

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KEY INSIGHTS

- Parade was sold to Fruit of the Looms' parent company Ariela & Associates International, which came as a surprise to many who had watched the Gen-Z underwear start-ups meteoric rise.
- Parade had early goals to grow profitably, investors pushed for Parade to spend on advertising in order to acquire customers and take market share in the intimates sector.
- Since the second quarter of 2022, Parade has implemented cost-cutting measures and narrowed losses in the first half of 2023.

In December 2021, underwear start-up Parade opened its first store, a 2,300-square-foot holiday pop-up that brought its signature brightly-hued undergarments, a Gen-Z favourite, to New York's Soho neighbourhood.

Designed to maximise social media impressions rather than sales, the store had no dressing rooms. But it did have a "content room," with a selfie mirror and a claw machine filled with free branded merch.

The pop-up opened to lines around the block. Suddenly, a project Parade's management and investors had considered a marketing expense looked more like a potential money-maker. Parade's board urged the company to keep the store open at least long enough to recoup opening costs. The company shut the pop-up down for renovations for a week in February 2022, including installing a red velvet curtain in front of a selfie mirror as a makeshift dressing room.

When Parade closed the store permanently at the end of its lease in December 2022, it had broken even, according to a person familiar with the matter, though it was never a major driver of sales.

It was Parade's first, and last, standalone store. In March of this year, Parade would try physical retail again, this time through a partnership with Target that saw the brand's undergarments sold on the big-box retailer's website and in 400 locations across the US. But by then the company was running low on cash. Unable to raise more funding, it sold in August to Ariela & Associates International, best known as Fruit of the Loom's bra licence.

Parade's retail strategy is just one example of how duelling visions for the start-up caused it to squander some considerable advantages that once had the brand pegged as the Gen-Z successor to Victoria's Secret.

When it launched in 2019, Parade felt like a fresh proposition. It wasn't the only underwear start-up with marketing featuring models of varying body types and gender identities. But where brands like Savage X Fenty and ThirdLove targeted disillusioned Millennial Victoria's Secret customers, something about Parade's playful and inclusive sex appeal seemed uniquely calibrated to a younger audience. Many customers didn't just buy Parade's underwear; they joined a community of unpaid online evangelists.

Much of Parade's appeal was embodied in founder Cami Téllez, who drew up the business plan as a senior at Columbia University in 2018. Her vision for an inclusive intimates brand — the name Parade was meant to feel "celebratory, but also it's about collective action," she told Bloomberg — was irresistible to venture capital investors. Over the next five years, Téllez raised $56 million from a who's who of direct-to-consumer heavy hitters including Stripes and Maveron.

But as many **venture-backed, digitally-native fashion start-ups** have discovered, that funding often comes with expectations of explosive growth.

While the company had early goals to grow profitably, investors pushed for Parade to spend on advertising in order to acquire customers and take market share from Victoria's Secret, to which Parade's management team agreed, according to three people with direct knowledge of the matter. But by 2019, the days of being able to acquire customers through cheap ads on Instagram and Google were long gone. Parade burned through $21 million in 2022, against gross sales of $49 million, according to financial documents viewed by BoF.

In the past, Parade had little trouble replenishing its cash reserves with new funding rounds. By 2023, higher interest rates and the poor post-IPO performance of DTC brands like Allbirds had led many investors to steer clear of money losing start-ups. Parade's fire sale to an obscure licensing firm, along with Tellez's abrupt step-down as chief executive of the brand she founded, was not the exit many had expected.

"I'm very grateful to all of Parade's partners and I take full accountability for the investors' outcome. I'm incredibly proud of the brand and scale this incredible team achieved in under five years," Téllez said in a statement to BoF. "In retrospect, it's clear that the next generation of brands will be capitalised differently, and the era for market share-grabbing, fast-scaling startups is behind us."

Parade's story is a cautionary tale for how difficult it is to build a digitally-native apparel brand. A new generation of companies are trying to learn from their predecessors' mistakes; rather than growth at all costs, the conventional wisdom today is to drive sales through owned channels without overspending on ads, while simultaneously expanding into brick-and-mortar and wholesale to reach profitability. That means slower growth, but potentially a more realistic path than the one Parade attempted.

"You have all these different players ... [and] a super competitive market," said Bill Detwiler, managing partner at Fernbrook Capital Management, which invests in e-commerce brands. "It's a question of was there ever really any white space for a company to scale or was Parade ever only going to be a niche brand?"

Profits Versus Growth

When Parade launched in 2019, the DTC market was in transition. The established model, popularised by Millennial brands like Warby Parker and Glossier, of acquiring customers through cheap social media ads was being **challenged** by rising costs.

In Parade's early days, profitability was a major point of contention between Téllez and the company's board, made up of investors from Maveron and Stripes, according to two people familiar with the matter. In meetings, Téllez said she wanted to keep a lid on hiring and marketing spend. There were months when the company generated profits, one of the people said.

But Parade's biggest investors advocated a growth-first strategy, which had led to initial success at other start-ups they backed, including Everlane (Maveron) and Reformation (Stripes). The pandemic's e-commerce boom, which occurred as Parade was finding its footing, seemed to support the idea that growth could be bought.

Profitability, the thinking went, would come once the company took enough market share. Victoria's Secret was experiencing years-long sales declines as its hyper-sexy image became stale. Parade's multi-coloured genderless intimates seemed primed to capture those alienated customers.

But Parade wasn't Victoria Secret's only challenger. When it launched, the market was already crowded with DTC intimates brands, including ThirdLove, Adore Me, Cuup and Lively. Aerie, a brand owned by American Eagle, launched its first body positive lingerie campaign in 2014. Celebrity-backed brands like Savage x Fenty, Skims and Yitty, which launched in 2018, 2019 and 2022 respectively, had their own takes on the strategy.

Parade's investors would also tell Téllez and her execs that the company needed to focus on building a brand. However, this meant that Parade needed to spend money on publicity-generating initiatives, such as the pop-up.

Distribution was another area where Tellez and her investors struggled to align.

Buying intimates is an emotional purchase with sizing challenges best suited to in-person shopping. Wholesale was part of Téllez's original vision for Parade, and in the brand's early years, it would routinely survey customers to determine which retailers it should consider entering. (Target, an eventual partner, was most frequently cited.)

Parade's board, however, advised against going into big retailers early on, citing operational difficulties and fears that it could damage the brand's image, according to three people familiar with the discussions. Then it was still rare for DTC brands to enter wholesale: Allbirds didn't go into Nordstrom until 2022 and Glossier wouldn't enter Sephora until 2023.

By the time Parade started selling in Target in February 2023, the move looked more like a last-ditch effort for growth than a calculated play to expand distribution.

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The Limits of Community

Gross sales totalled $9 million in 2020. In 2021, Parade's board and management agreed that the company should aim to double that figure.

This required Parade to turn its community into a money-making machine.

Parade often boasted about its more than 75,000 members who shopped the brand frequently and encouraged their friends and family to do the same.

Early on, employees would search Instagram and TikTok for users who appeared to align with Parade's values and email them a link for free products and a promotion code to share.

The strategy was fairly successful. In the early days, revenue generated by Parade's community members could account for anywhere from 10 to 30 percent of annual sales. In the final quarter of 2022 and first quarter of 2023, Parade's community members brought in more revenue than paid ads.

But existing members could only do so much. Internal Parade data showed that within three to six months of being in the programme, community members were often no longer as effective in getting new people to shop.

Parade had to find more people to adopt into its tribe of loyal followers. It took out more ads on Facebook and Instagram, but spent much of its marketing budget that year on gifts to influencers.

By the end of 2021, the company generated $29 million in gross sales. But it had also spent 60 percent of its revenue on marketing, up from around 30 percent of revenue in 2020.

Intermittent Progress

Marketing wasn't the only reason profitability was out of reach.

Parade released new products twice a month, using the drops to keep loyal customers hooked and bring in new ones. But the strategy made it difficult to predict how much inventory it would need.

In fall 2021, for example, congestion at California's ports delayed a Black Friday shipment. Parade wouldn't receive those items until two weeks after the shopping holiday.

Parade's branding also made it difficult to raise prices in order to cover rising marketing and inventory costs.

From launch, Parade's average price has been just over $30 for bralettes and less than $20 for bottoms like briefs and thongs (Adore Me's bralettes cost over $40, and bottoms over $20). Parade would survey community members to test price increases. But they would often reject the notion of paying more.

Parade cut costs instead. Starting in the second quarter of 2022, for example, it began shooting multiple product campaigns at once, always in New York (previous campaigns were shot in Los Angeles and Miami).

Marketing spend fell to 40 percent of revenue in 2022, and 35 percent this year. Gross sales doubled again in 2022, to $49 million, according to financial documents viewed by BoF. EBITDA losses came down to $4.4 million in the second quarter of 2023, against revenue of $19 million in gross sales. In the same period a year earlier, losses were $5.6 million against $9.8 million in sales, according to those documents. Parade is still on track for a cash burn of around $14 million in 2023.

A Financial Reckoning

As early as February, Téllez, in need of more capital to keep the business running, began approaching both existing and potential new investors about another funding round, without success. Parade shifted focus to an outright sale. By the time it landed in the hands of Ariela & Associates International for an undisclosed sum, paying investors back was the first priority, and there was no remaining capital left for early employees with an equity stake in the company.

Under Ariela & Associates International, Téllez has transitioned to an advisor role and is no longer part of day-to-day operations. Several senior team members have stayed on, including chief revenue officer Jeremy Houghton, who joined in 2022.

Parade told **BoF in February** that it was on pace to reach $75 million in gross sales in 2023, which would represent a 53 percent year-over-year increase.

Moving forward, wholesale will be a major focus for the company. In July, Parade entered 100 more Target stores, after more than doubling sales forecasts for the first couple weeks of the partnership. The total footprint is expected to reach 900 locations in 2024. The brand will begin selling on Amazon next year.

Still, Parade's wholesale revenue accounted for just 5 percent of total sales in the first two quarters of 2023. While it's on track to hit its 2023 sales target, the brand remains unprofitable.

Parade's story is one of unfortunate timing. Launching at the tail-end of the growth-at-all-costs DTC boom, the company had comparatively little time to prove itself before the flow of venture capital all but shut off. But what happened to Parade is emblematic of what's happening in the DTC sector as a whole. What often makes these companies seem special — the ability to build community and generate glowing press — doesn't always translate to profitability.

"Building a big presence doesn't always equal building a great business," said Ari Bloom, founder and CEO at CPG brand developer A-Frame Brands. "Being able to convert community and engagement into purchases that are high margin and profitable is hard."

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ABOUT THE AUTHOR

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Malique Morris is Direct-to-Consumer Correspondent at The Business of Fashion. He is based in New York and covers digital-native brands and shifts in the online shopping industry.

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