

The Luxury Closet's Kunal Kapoor Wants To Tap Demand For Pre-owned Designer Items In The Middle East

Kunal Kapoor's company got its start thanks to an unwanted Burberry handbag. The tote was once owned by his sister, originally worth \$1,000—until Kapoor sold it for \$200 on her behalf through an online marketplace for pre-owned luxury goods he'd just set up in his Dubai apartment.

The Luxury Closet was then nothing more than “a horribly designed WordPress website,” as Kapoor remembers it. Yet, in a sign that people were willing to buy used designer products to get better deals, consumers flocked to his site.

Today, The Luxury Closet attracts 586,000 visitors per month on its website and app, who come to browse more than 22,000 items for sale, including handbags, clothes, and accessories from brands such as Chanel, Prada and Rolex. They range in condition from new to well-used, with prices as much as 70% lower than retail. Recently, an Elie Saab wedding gown was (sadly) on sale for \$6,329 (originally \$12,000) and a rare Breguet men's wristwatch was listed for \$93,109 (estimated retail price \$229,900).

Although Kapoor now sells never worn items too, pre-owned goods generate 80% of sales. “The only way to get these items is you go to Louis Vuitton and buy it at full price, or you come to The Luxury Closet,” says Kapoor. The seven-year-old company is not yet profitable, and Kapoor declines to reveal revenues. He competes with a handful of Dubai-based second-hand luxury retail companies, including Garderobe and Inseller.

The U.A.E. accounts for the majority of sales, but North America is surprisingly turning into The Luxury Closet's fastest-growing market, generating one-quarter of sales. Although online luxury resale businesses are mainstream in the U.S., Kapoor thinks The Luxury Closet stands out because of the quality of inventory he's digging up in the Gulf.

To grow the business, Kapoor is focused on attracting more sellers. Each month The Luxury Closets adds about \$5 million worth of items, but he wants to boost that number to \$9 million by next year. Supply is driven by wealthy Emiratis, with Dubai among the top cities in the world for luxury shopping, according to Deloitte's Global Powers of Luxury Goods 2018 report. But nearby Gulf markets also relish high-end fashion, resulting in plenty of luxury items piling up in closets. “There is a lot of high-quality inventory in the GCC sitting in closets that [The Luxury Closet] can unlock,” says Amjad Ahmad, founder and managing partner of Dubai VC firm Precinct Partners and an investor.

Online marketing campaigns have long been Kapoor's primary method of getting sellers, but he is now trying to incentivize them to bring in new ones, and plans to work with wardrobe consultants and fashion influencers.

Over the last year, he also started partnering with retailers to move their unsold or end-of-

season inventory through The Luxury Closet. He won't reveal which companies he's working with, citing non-disclosure agreements, but claims one is a "large luxury retailer in the region." Individual sellers will continue to provide the majority of inventory, but retailers could prove to be a reliable source of supply. "We want to work with all the resale retailers," says Kapoor.

It helps that Kapoor closed a third round of funding in July 2018, securing \$8.7 million from investors, including Middle East Venture Partners, Wamda Capital and Precinct Partners, among others. This brings total funds raised to \$18.7 million, making it one of the region's most funded startups.

"The company has plenty of room to grow regionally and internationally as we increase inventory exponentially in the coming years," says Ahmad. The capital will help Kapoor with his push to attract more sellers, and invest in a new facility in Dubai that can house 75,000 items, allowing him to triple the inventory he can store. The Luxury Closet has offices in Saudi Arabia and India too, but Kapoor doesn't plan to add operations in any new markets for the time being. "Our mission is to build this network of sellers," he says.

Originally from New Delhi, Kapoor got his start in the footwear business. His father ran a shoe manufacturing company, Rajshree Uptop Footwear, and he groomed Kapoor to join the business.

After studying computer science and economics at the University of Wisconsin-Madison, Kapoor returned home to work for the family business. He left after nearly six years to pursue an MBA at the INSEAD business school in France in 2007. As part of his program, he took a trip to China, where he visited the offices of Tudou.com, a Chinese video-sharing website founded by a fellow INSEAD graduate. The experience got Kapoor interested in potentially forming his own business one day. However, after finishing his degree he moved to Dubai in 2009 to work for Louis Vuitton as a sales manager at its boutique in The Mall of the Emirates.

He spotted an opportunity to launch The Luxury Closet, after the second-hand designer bag retailer Milan Station listed on Hong Kong's stock exchange and its initial public offering was oversubscribed. He felt a similar business could work in the U.A.E.

He suspected that wealthy Dubai residents were buying an excess of luxury apparel and accessories they hardly wore. He knew that luxury brands, such as Louis Vuitton, Hermes and Chanel, didn't discount, making it difficult for many shoppers to afford their products. Friends and family badgered him about scoring deals at Louis Vuitton.

He funded The Luxury Closet with \$50,000 of his own money. He initially focused only on selling handbags, following the example of Milan Station. The most difficult aspect of building the business has been managing inventory. "The selling part is extremely complicated," says Kapoor. Correctly authenticating and identifying products, which is necessary to accurately price them, takes time. The Luxury Closet gets items from more than 400 brands, and products can be up to 20 years-old.

The company got its first venture capital backing from Middle East Venture Partners in 2012. Kapoor says a major turning point came the following year, when he added additional product categories, starting with shoes, which led to an uptick in sales. Today, less than 50% of sales are handbags.

By 2014, The Luxury Closet had sold more than 1,000 items. He secured more funding over the coming years, including a \$7.8 million series B round in 2016. That helped Kapoor open

offices in Saudi Arabia and India.

New Delhi is now home to a number of operations, including customer service, pricing and merchandising teams. In Riyadh, he employs in-house couriers entrusted with delivering high-value items.

Yet, even as sales picked up for The Luxury Closet, Kapoor knew that not all customers browsing his site were willing to buy online exclusively. Roughly 30% of revenues in the U.A.E. are what Kapoor refers to as “click and collect,” meaning customers reserve the items online and then come to his office to inspect them before making a final decision. Looking to cater to those customers, Kapoor plans to open a new 3,000 square foot showroom by the end 2018. “This is what customers want,” says Kapoor.

Meanwhile, traditional retailers are eyeing online pre-owned marketplaces. Earlier this year, Swiss luxury goods group Richemont acquired Watchfinder, a U.K.-based online retailer of second-hand watches, for an undisclosed amount. That followed French retailer Galeries Lafayette’s 2016 acquisition of instantluxe.com, a Paris-based online marketplace for appraised second-hand products.

Kapoor says investors have expressed an interest in taking a majority stake in his company, but he wasn’t interested in giving up control. For now, he hopes The Luxury Closet is just scratching the surface of the market for used designer items. “The region has the best closets in the world,” says Kapoor.

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