Facing the *Fashion Future*

Key structural trends fashion brands must act on now globally

OC&C
Strategy consultants

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Introduction

FASHION & APPAREL IS ONE OF THE FASTEST PACE INDUSTRIES, WITH TRENDS CONSTANTLY EVOLVING MAKING IT A TOUGH INDUSTRY TO SUCCEED IN.

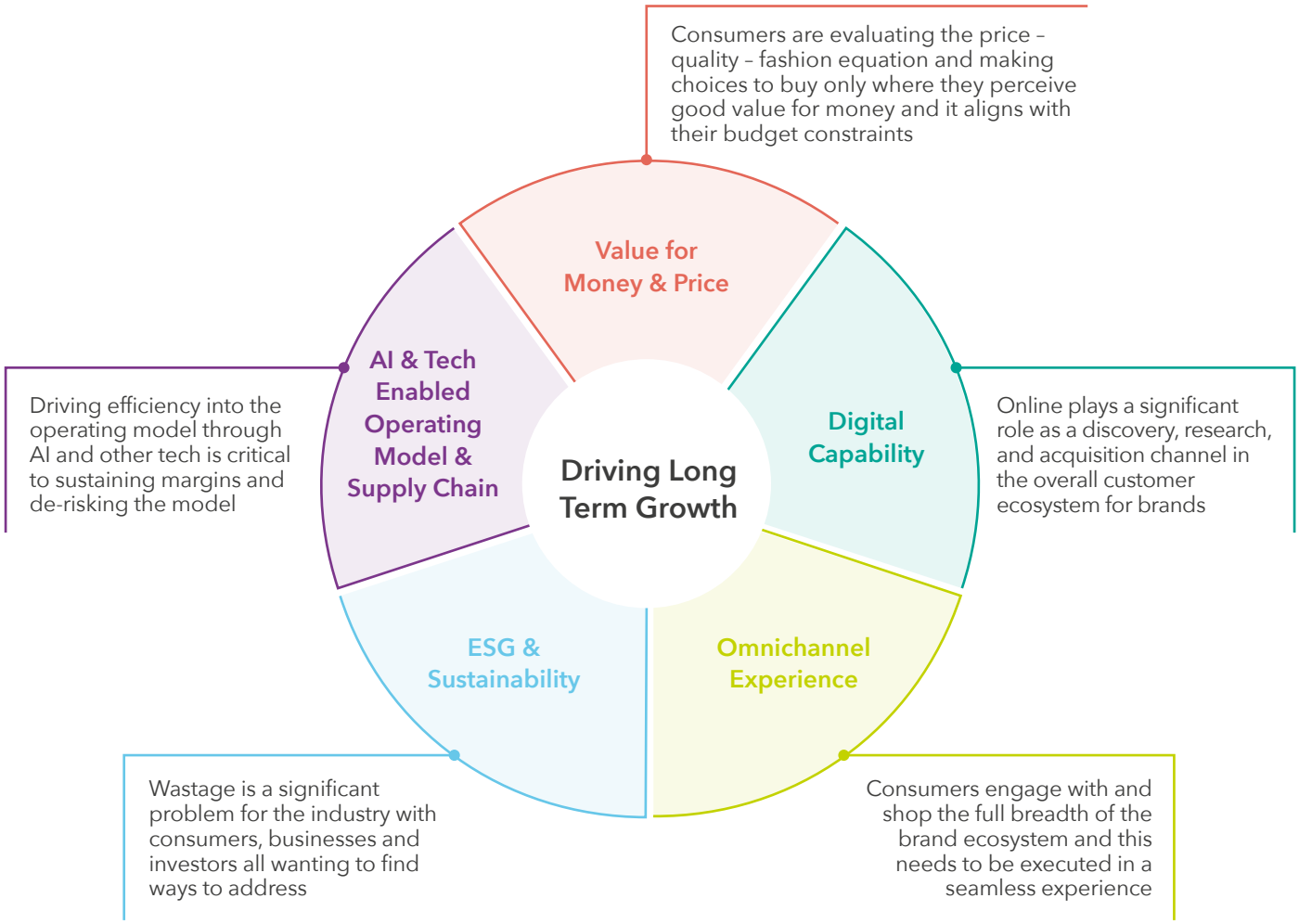
Managing the short-term trends, from the latest looks and styles to macroeconomic pressures, requires strong discipline and flexibility to adapt quickly across the operating model. The Brazilian and British offices of OC&C have joined forces to understand the pace of transformation going on in Latam, US and Europe, always having UK, the birthplace of the textile industry, as a reference.

To succeed for the long term, brands need to also face into the longer-term trends in the industry and continue to evolve on a macro scale.

Many of the short-term trends are localised by region. For example, in Brazil the economy is growing strongly with consumer confidence higher, and inflation lower than the long-term average, while in the UK inflation remains almost double the long-term average, and GDP growth remains around c.0.5% restricting consumer confidence and spend. In the US, still lower consumer confidence is masked by relatively strong GDP growth of 2-3%.

However, to succeed for the long term, brands need to also face into the longer-term trends in the industry and continue to evolve on a macro scale, looking beyond managing just the short-term trends and pressures. We have identified five key structural trends which are shaping the industry globally.

FIVE LONG TERM TRENDS SHAPING APPAREL & FASHION



CASE STUDY

lululemon

Where brands can invest in developing against these longer-term trends as well as being disciplined in the short term, they are able to drive growth and are succeeding. Lululemon is a good example of a brand that has leant into all these long-term trends while, at the same time, being focussed on short term trends.

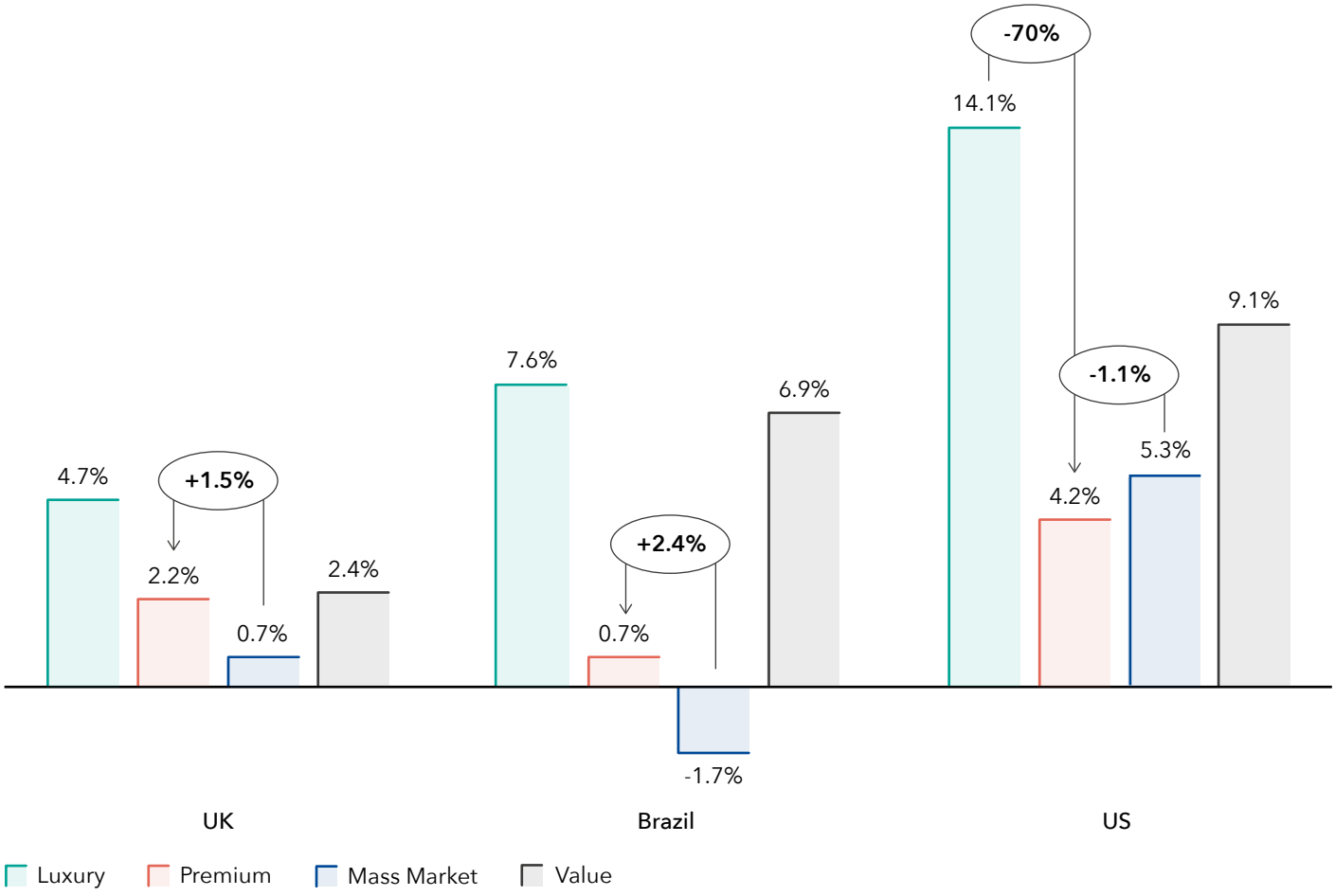
	Where brands can lean into these longer-term trends as well as manage short-term developments and challenges...	They are able to drive successful growth
1 PRICE & VALUE FOR MONEY	Strong VFM positioning – consumers choose durability and quality	Revenue Growth >25% 2022-23
2 DIGITAL CAPABILITY	Social media presence generating >30% EMV Apr19-20 through working with micro influencers and leveraging data in digital interactions	
3 OMNICHANNEL EXPERIENCE	Engaging store experience with community classes and workshops	
4 ESG & SECOND-HAND	Leaning into sustainability, with recycled and sustainably sourced fabrics, and repair/recycle/resell options for worn items	
5 AI & TECH ENABLED OPERATING MODEL & SUPPLY CHAIN	AI & machine learning to support data driven insights and personalised offers for customers	

Five Global Structural Trends Shaping the *Fashion & Apparel Industry*

Price & VFM

In most markets the value and premium/luxury segments of the market are growing faster than the mass market as consumers focus on low price and value for money. According to Global Data, 94% of UK consumers state that value for money is important to them when buying apparel, more than any other factor.

2015-23 APPAREL MARKET GROWTH CAGR BY GEO & PRICE POINT, %



Source: Global Data

The value equation is typically a trade-off between low price, quality, style or "fashionability". Also, durability and longevity are increasingly important as consumers look to reduce wastage. Brands who are clearly communicating on these points and who have the balance right – whether that is a focus on low prices such as Shein and Primark, or a clear premium positioning such as Reiss – are the ones who are succeeding.

For example: Reiss in the UK has delivered growth of over 25% in the last year; clothing is seen as classic, high quality, capsule items that will stand the test of time and are worth investing in, resulting in a strong position in the VFM equation.

Digital Capability

While most have now built transactional digital capabilities, online plays a significant role as a discovery, research, and acquisition channel in the overall customer ecosystem for brands. 60% of consumers start their apparel purchase journey online including websites, social media, and other digital touchpoints.

Attracting the right talent, creating the right budgets and supporting with the right technology to ensure the role of digital in brand and product discovery is maximised, is key to success.

For example: in Brazil, 45% of consumers purchased products on recommendations of influencers/celebrities in 2022. FARM Rio, a Brazilian apparel company that designs and produces colourful print garments inspired by local culture, frequently leverages influencers to drive sales, with local creatives offered incentives to promote products. Furthermore, FARM Rio has recently expanded into the US and is using sales data, geodemographic segmentations, and AI analysis of mobile phone data to find population clusters of appropriate lookalike customers to target for sales in the US.

Omnichannel Experience

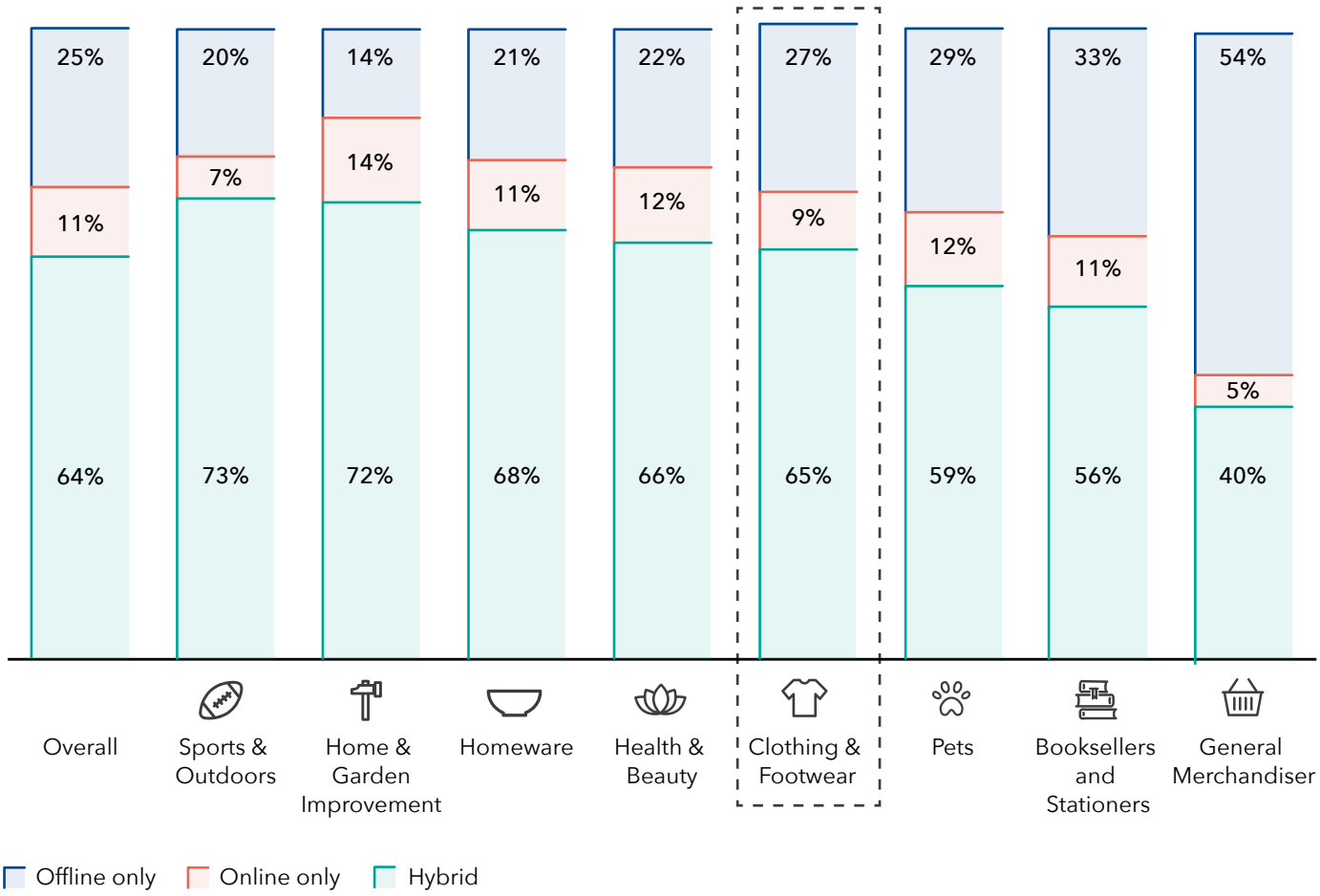
Shopping has become a multifaceted experience with truly hybrid online and offline customer journeys. 65% of customer journeys included multiple touch points and both online and offline channels for apparel in 2023.

A joint up ecosystem and experience across all these customer touch points is important. This demands not only the appropriate infrastructure, such as a comprehensive customer overview, a unified stock perspective, and efficient data architecture, but also entails fostering cross-functional collaborations within the organization. Implementing streamlined processes is key to ensuring a cohesive brand experience and customer service.

For example: US activewear brand Nike is at the forefront of an integrated and engaging omnichannel experience, with numerous features in store linking the physical with the digital. Customers can use the Nike app to scan products and check stock availability, and access exclusive content in the store, giving Nike access to a wealth of data about products customers have scanned. The instore experience is engaging, with some flagship stores containing running treadmills and basketball courts of which the use can be recorded and accessed on the app and shared to social media after customers' visits. The app will remember shoes tried on and data about the customer for their next visit, to give them personalised recommendations.

CUSTOMER JOURNEY, BY TYPE & INDUSTRY

Global 2023, (% of Journeys by Channel Used Across All Customer Journey Stages)



Source: OC&C Retail Proposition Index 2023

Wastage is a significant problem for the industry with consumers, businesses and investors all wanting to find ways to address the 15–45 billion items per annum that are produced but go unused or unsold.

ESG & Second-Hand

Wastage is a significant problem for the industry with consumers, businesses and investors all wanting to find ways to address the 15-45 billion items per annum that are produced but go unused or unsold. Volumes are beginning to stabilise around the globe, particularly in Western Markets; e.g., in the US, where a boost from a strong Covid recovery is already stagnating, and in the UK where volume has only just recovered from Covid.

Leaning into this challenge involves evolving operating models to reduce the amount of product produced. This includes better demand forecasting, pre-order models and resale and rental models, as well as finding ways to reduce the impact of garments that are produced through innovation in the supply chain and manufacturing processes.

For example: Osklen is a Brazilian apparel brand committing to the philosophy "as sustainable as possible, as soon as possible". With this it aims to constantly reduce its impact on the planet. It now uses sustainable materials such as pirarucu fish leather (sourced from small local farms) and wood from demolished buildings to produce its products, reducing waste and energy required.

For example: US based brand Firebird sells sustainable childrenswear, made with organic materials that are "built to last". They have a second hand "pass it on" platform to aid parents to sell on the clothing their children outgrow at reduced prices for credit towards next purchases, incentivising further brand loyalty and reduced environmental impact.

AI and Tech Enabled Operating Model & Supply Chain

The complexity of multiple touch points, channels, geographies etc is driving costs into businesses which, alongside an increase in raw material and production costs, is eroding margins across the industry.

Better use of data, tools, technology and AI through the operating model is improving efficiency and enabling greater flexibility, e.g., in supply chain, which is critical to sustainable margins for the future.

For example: PVH (parent of Tommy Hilfiger and Calvin Klein) is using AI to cut down on overproduction through predictive demand sensing tools, and using nearshoring to make production more agile, sustainable, and insulated from macro geopolitical risk.

Interrogate for impact; *key questions for apparel brands*

AGAINST THIS BACKDROP, IT IS CRITICAL FOR FASHION & APPAREL BRANDS TO NOT ONLY BE DISCIPLINED IN MANAGING THE SHORT-TERM TRADING AND ENVIRONMENT, BUT TO ALSO INVEST IN FACING INTO THE FASHION FUTURE AND THE LONGER-TERM STRUCTURAL TRENDS.

Having clear answers to the following questions is a good starting point:

#1 Do we have the right value positioning and equation across price – quality – style / fashion to resonate with consumers?

#2 Have we optimised our digital touch points to ensure we are engaging and acquiring the right customers into our overall ecosystem?

#3 Where are the pain points in our omnichannel journey and how can these be resolved?

#4 How do we reduce our production volumes and impact, while continuing to grow?

#5 What are the pain points and opportunities across the operating model with the biggest opportunity to achieve efficiency through AI and technology?

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