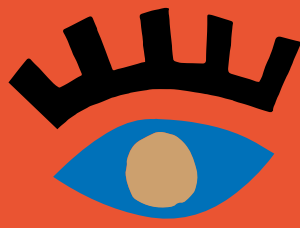


The State of Fashion 2020



McKinsey
& Company

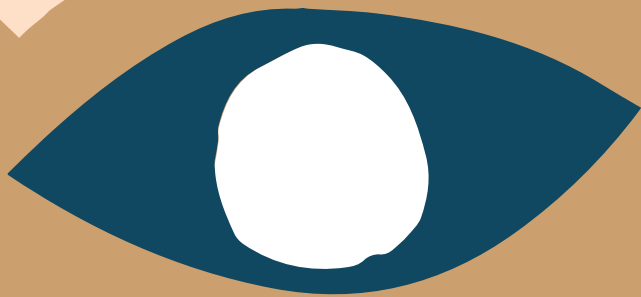
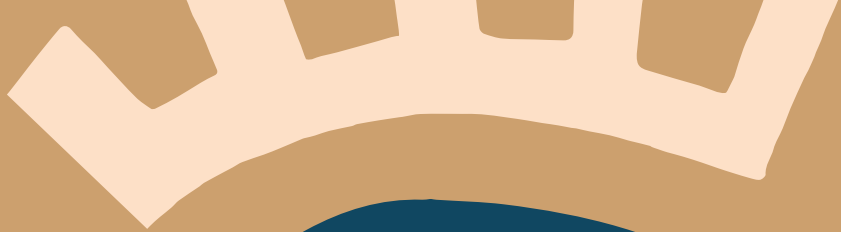
BOF



The State of Fashion 2020



McKinsey
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GLOBAL
ECONOMY

CONSUMER
SHIFTS

FASHION
SYSTEM

MGFI



FOREWORD

For the fourth year in a row, The Business of Fashion and McKinsey & Company have teamed up to bring our trademark rigour and evidence to debates within the global fashion industry and to provide an authoritative annual picture of The State of Fashion. This is now a knowledge base that we build on every year, identifying the key themes and business imperatives shaping the industry while tracking the ways in which fluctuations in the world economy feed through into fashion.

And this coming year — perhaps more so than any year since we started — will see fluctuations in abundance. Our first report was written in the aftermath of the Brexit vote and went to press the morning after Donald Trump had been elected president of the United States. The unfolding implications of both of these events continue to impact the fashion market.

The year ahead will open with the industry in a state of high nervousness and uncertainty, with most executives across fashion and the wider business world bracing for a slowdown in growth in the global economy. Because fashion is a global business with global supply chains, industry players are anxious about the impact of tariffs and trade disputes. And in terms of digitisation and sustainability, the fashion industry is still playing catch-up as the challenges in these areas become more complex. Facing these interlinked hurdles means that not everyone can win. The battle for resources and talent continues to make it ever tougher for many mid-sized and smaller brands to compete.

So how to navigate these choppy waters? Once again our global experts bring clarity to a fragmented landscape of categories and segments, countries and companies by establishing a common understanding of the forces at work in fashion. This report sets out how well we are performing and identifies the top priorities, both

business and creative, for 2020. Through BoF's extensive expertise in fashion strengthened by global industry networks, we thread McKinsey's international perspective and analytical rigour. We then bolster this with our survey of over 290 global fashion executives (more than ever before) and interviews with thought leaders and pioneers. The report also includes the fourth readout of our industry benchmark, the McKinsey Global Fashion Index (MGFI): its extensive database of companies allows us to analyse and compare the performance of individual companies against their peers, by category, segment or region. Four years in, this is growing to become an unrivalled resource.

Yet, while the coming year brings with it a lot of uncertainty, exciting opportunities remain for those who can make sense of the noise and drive innovation accordingly. Whatever your interest in the industry — from silent investor to concerned consumer — this report tells you all you need to know about the state of fashion in 2020.

— *Achim Berg & Imran Amed*



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As founder, editor-in-chief and chief executive of The Business of Fashion, Imran Amed is one of the fashion industry's leading writers, thinkers and commentators. Fascinated by the industry's potent blend of creativity and business, he began BoF as a blog in 2007, which has since grown into the pre-eminent global fashion industry resource serving a five-million-strong community from over 190 countries and territories. Previously, he was a consultant at McKinsey in London.



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In Troubled Times, Fortune Favours the Big and the Bold



Fashion leaders are not looking forward to 2020. The prevailing mood among respondents to our executive survey is one of anxiety and concern. In contrast to last year, when there were pockets of optimism in North America and within the luxury segment, we now see pessimism across all geographies and price points. To make matters more complicated, although we know that external shocks will continue, we don't know what form they will take.

Even without the economic headwinds, these would be challenging times. The McKinsey

Global Fashion Index (MGFI) forecasts that global fashion industry growth will slow further — down to 3 to 4 percent — slightly below predicted growth for 2019. Fashion players are under pressure to be digital-first and fully leverage new technologies, to improve diversity across their assortments and organisations and to address growing demand for the industry to face the sustainability agenda head-on.

Yet not all companies are created equal. Polarisation persists and the “Super Winners” — the top 20 players by economic profit — account

Executive Summary

for more than the combined economic profit of the entire industry. Not only are they highly value-creating and of immense scale, but they often pioneer innovation in the industry through their product ranges and interaction with consumers. They are also best positioned to attract the industry's limited resources and talent, while others risk getting left behind. A growing proportion of publicly traded fashion companies are actually "value destroyers" that rack-up negative economic profit. In a "winner takes all" market, the implications for laggards are troubling.

Successful companies will be the ones that make moves early, focus on boosting earnings over revenue growth, and work out how to improve productivity while ensuring operational and financial flexibility.

Volatility is here to stay, so fashion companies should take steps to become more resilient, build a profound understanding of the risks they face and consider strategic actions to minimise them. Successful companies will be the ones that make moves early, focus on boosting earnings over revenue growth, and work out how to improve productivity while ensuring operational and financial flexibility. Crucially, all this will require leaders who make quick decisions in an environment of great uncertainty.

The good news is that for companies that do display resilience and resolve, additional rewards are there for the taking beyond 2020. While China continues to present a lucrative opportunity for many global and local fashion players, some companies are at risk of becoming over-reliant on the market. We see further potential to explore markets beyond China, including India, Southeast Asia, the Middle East and Russia.

To better address consumer themes next year, fashion players should focus on clearly understanding how to best use new social media channels and functions, how to optimise their store networks and experience, and how to best deliver industry change toward greater sustainability. Both R&D and innovation will play vital roles in delivering short-term sustainability targets and in reinventing fashion's economic model for longer term transformation. Consumers and employees will continue to demand more from purpose-driven companies that champion their values — from climate change consciousness to diversity and inclusion.

Nonetheless, threats remain for incumbents across the industry who don't respond or adapt fast enough. Facilitated by e-commerce marketplaces linking them direct to global consumers, Asian players will intensify their competition with western brands through cross-border channels. Meanwhile, digital pure players that pioneer new business models may prove exciting as new paths to profitability emerge, but other tech players will begin to falter. And as industry-wide digitisation progresses, the need for reinvention has even reached showrooms and trade fairs.

While 2020 is not expected to be easy, it will be significantly more challenging for some companies than for others. Indeed, the year ahead will require fashion companies to deliver meaningful change across the value chain and on multiple fronts while mitigating risk and managing uncertainty. But, for the fortunate few, there will also be opportunities to capture.

The Glaring Gap Between the Best and the Rest

The fashion industry faces a worrying year ahead. The macroeconomic context is challenging, and players will find that their route to value creation is either unclear or it requires levels of investment that are hard to swallow. Digitisation remains critical, while players must address increasing consumer concerns over sustainability, if they want to secure their future.

Overall, the McKinsey Global Fashion Index predicts that the fashion industry will continue to grow at 3 to 4 percent in 2020, slightly slower than the 3.5 to 4.5 percent estimate for 2019 (see Exhibit 19). This slowdown will stem from consumers being increasingly cautious amid broader macroeconomic uncertainty, political upheaval across the globe and the continued threat of trade wars. This year has already been tough, and economic gains continue to flow to a select small group of players, while the middle is increasingly squeezed and the share of companies actively destroying value grows.

In North America, consumer sentiment is muted and tariffs — aided by the strengthening dollar — are impacting both imports and exports. Emerging Asia-Pacific markets are still relatively strong although growth is slowing: retail sales in the region have been falling short of expectations, and will continue to disappoint in 2020 as

consumer sentiment weakens. On the other side of the world, mature Europe continues to suffer from the general global economic malaise and ongoing uncertainty around Brexit. Growth in emerging Europe, Latin America, the Middle East and Africa is expected to remain stable overall with some brighter spots, such as Brazil and Nigeria — two of the most populous nations in the world that have rapidly expanding middle classes.

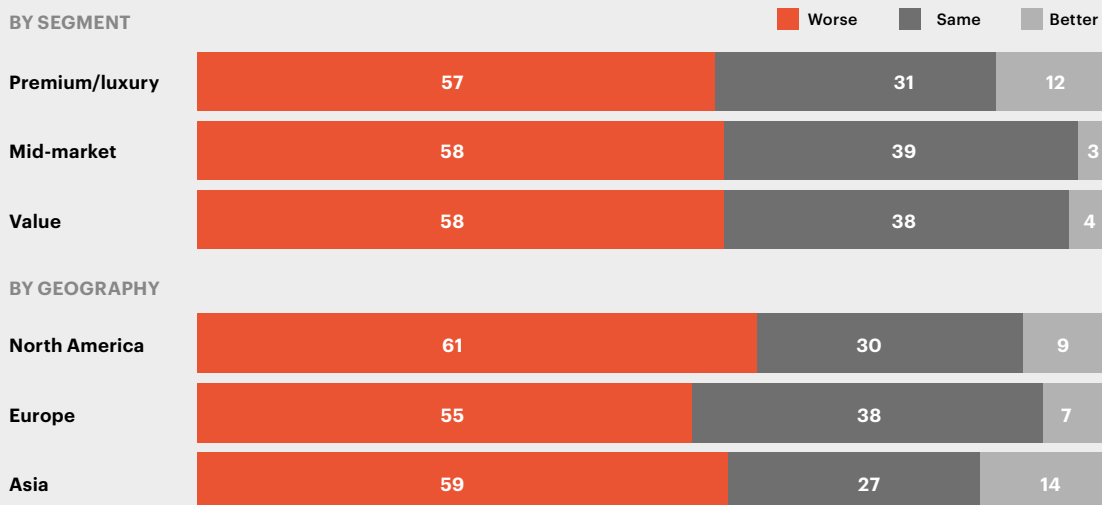
The most optimistic region is Asia, although, even here only 14 percent of executives expect an improvement in conditions.

Naturally, this uncertainty is reflected in our annual BoF-McKinsey senior executive survey. Strikingly, only 9 percent of respondents think conditions for the industry will improve next year, compared to 49 percent who said the same last year. “Challenging,” “uncertain” and “disruptive” were the most frequently used words to describe the industry compared to last year’s more neutral “changing,” “digital” and “fast.” Another divergence from previous years is that now pessimism holds broadly true regardless of region or segment, with more than half of respondents

Exhibit 1:

The majority of fashion executives across value segments and geographies foresee a slowdown in the industry in 2020

% OF FASHION EXECUTIVE RESPONDENTS, EXPECTATIONS FOR 2020 ECONOMIC CONDITIONS RELATIVE TO 2019

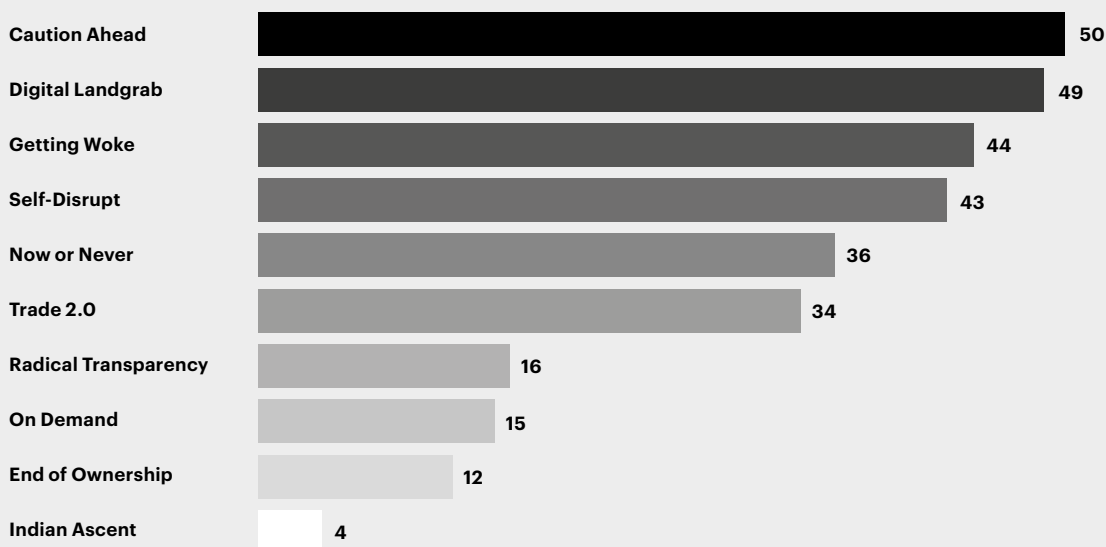


SOURCE: BOF-MCKINSEY STATE OF FASHION 2020 SURVEY

Exhibit 2:

The economic backdrop, the evolution of digital offerings and younger consumers' passion for causes are front of mind for executives

% OF RESPONDENTS THAT RATED EACH THEME AS ONE OF THE TOP THREE IMPACTING THEIR BUSINESS IN 2019



SOURCE: BOF-MCKINSEY STATE OF FASHION 2020 SURVEY

Industry Outlook

in every region predicting a deteriorating environment. The most optimistic region is Asia, although, even here only 14 percent of executives expect an improvement in conditions. And in luxury, where performance has been strong, there is still little hope of an upturn.

We also asked survey respondents three questions to probe what was at the top of their personal agenda: which of the themes predicted in last year's State of Fashion report were in the top three impacting their business today; what do they see as the biggest challenges facing the industry going forwards; and what do they consider to be the biggest opportunities for next year? Their answers reveal some consistent themes.

Perhaps unsurprisingly, concern about the global economy was both a key topic from last year's themes and ranked second and third in the challenges facing the industry next year. Beyond the economic context, the digitally-focused themes "Digital Landgrab" and "Now Or Never" both resonated most with global industry leaders — there is no doubt that digital remains at the forefront of executives' minds. The word itself was the fourth most popular to describe the industry, while digitisation was listed as one of the top three opportunities.

What is clear is that setting a course through the turbulence ahead, now more than ever, requires companies to be attuned to their environment and agile in their responses.

For the first time, sustainability topped the list of the biggest challenges facing the industry, and it was also named the biggest opportunity; the rise of Extinction Rebellion and the demonstrated ability of Greta Thunberg to mobilise her generation make this ever-more relevant.

While the sustainability-related theme, "End of Ownership," was seen by our respondents overall as less salient, we believe it may not yet have reached critical mass and will continue to rise in importance. Indeed, the theme is becoming increasingly dynamic as fashion players at the forefront experiment with opportunities to prolong the lifespan of clothes — we expect more to follow suit.

Last year we predicted a "unicorn" in this space — in fact, Rent the Runway and StockX both duly topped billion dollar valuations earlier this year, joining The RealReal, which in turn went public in 2019. The shift from a focus on generating value for shareholders to companies becoming purpose-led more broadly is reflected in the importance attached in part to last year's "Getting Woke" theme, which suggested that consumer demand for "wokewear" would have a major impact on fashion players.

Alongside sustainability and digitisation, the third major opportunity for the industry next year, as cited by our survey respondents, was innovation. No wonder then, given the investment needed to meet these challenges, that small and medium-sized players are particularly nervous about what lies ahead. This is particularly acute in luxury, where the world's biggest groups continue to increase their market share.

Our ten defining themes for 2020 are a sharp evolution from previous years, with the risks closer at hand and more severe. What is clear is that setting a course through the turbulence ahead, now more than ever, requires companies to be attuned to their environment and agile in their responses. While the winners at the top maintain their industry dominance, the rest will have to work even harder to keep pace.



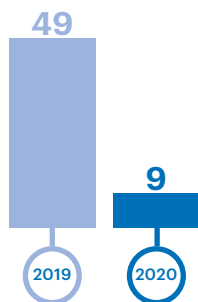
The State of

GLOBAL ECONOMY

01.

On High Alert

Continued caution is advised for the year ahead as mounting underlying turmoil could disrupt relations among both developed and emerging market economies. Indicators of recession risk are spurring companies across industries to build a resiliency playbook and plan for other macro risks such as geopolitical instability and the inflammation of trade tensions.



The percentage of survey respondents that expect global economic conditions to improve in the next year has fallen from 49 percent for 2019 to 9 percent for 2020

02.

Beyond China

China will continue to provide exciting opportunities and play a leading role in the global fashion industry, but the colossal market is proving harder to crack than brands anticipated. As some successful players become over-reliant on China and others struggle, companies should consider spreading their risk by expanding to other high-growth geographies.



2025 Forecast

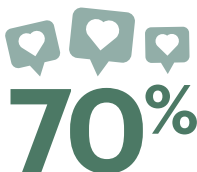
The population of consumers aged 30 or below in five identified exciting markets outside of China will grow to be more than double that of China by 2025

CONSUMER SHIFTS

03.

Next Gen Social

As traditional engagement models struggle on established social media platforms, fashion players will need to rethink their strategy and find ways to maximise their return on marketing spend. Attention-grabbing content will be key, deployed on the right platform for each market, using persuasive calls-to-action and, wherever possible, a seamless link to checkout.

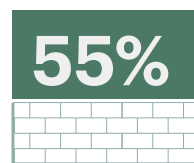


More than two-thirds of fashion players believe "increased exploration of spend on new media platforms vs. 'traditional' platforms" will be a top theme in the coming year

04.

In the Neighbourhood

Consumer demand for convenience and immediacy is prompting retailers to complement existing brick-and-mortar networks with smaller format stores that meet customers wherever they are and reduce friction in the customer journey. The winning formula will feature in-store experiences and localised assortments in neighbourhoods and suburbs beyond the main shopping thoroughfares.



More than half of fashion executives believe a "localised brick-and-mortar-experience" will be a top theme in the coming year

05.

Sustainability First

The global fashion industry is extremely energy-consuming, polluting and wasteful. Despite some modest progress, fashion hasn't yet taken its environmental responsibilities seriously enough. Next year, fashion players need to swap platitudes and promotional noise for meaningful action and regulatory compliance while facing up to consumer demand for transformational change.



Survey respondents stated that "sustainability" will be both the single biggest challenge and the single biggest opportunity for the industry in 2020

Fashion 2020

FASHION SYSTEM

06.

Materials Revolution

Fashion brands are exploring alternatives to today's standard materials, with key players focused on more sustainable substitutes that include recently rediscovered and re-engineered old favourites as well as high-tech materials that deliver on aesthetics and function. We expect R&D to increasingly focus on materials science for new fibres, textiles, finishes and other material innovations to be used at scale.

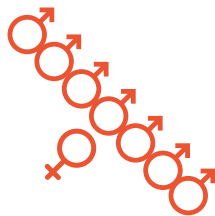


The percentage of respondents that think using innovative sustainable materials is important for their company

07.

Inclusive Culture

Consumers and employees are putting increasing pressure on fashion companies to become proactive advocates of diversity and inclusion. More companies will elevate diversity and inclusion as a higher priority, embed it across the organisation and hire dedicated leadership roles, but companies' initiatives will also come under increasing scrutiny in terms of sincerity and results.



Across fashion companies there are seven male chief executives for every one female chief executive

08.

Cross-Border Challengers

Established fashion brands and retailers will face growing competition from new Asian challengers, as manufacturers and SMEs step out of their traditional roles and sell directly to global consumers. Expect greater competition from hitherto unknown players in the Asian supply chain who design popular items to sell at affordable prices using cross-border e-commerce platforms.



Year-on-year growth in APAC cross-border B2C e-commerce transaction value is 37 percent

09.

Unconventional Conventions

Traditional trade shows must respond to the increase of direct-to-consumer activity, shorter fashion cycles and digitisation by embracing new roles and fine-tuning their target audience. In a bid to differentiate themselves — or even just to survive — more of these events will add B2C attractions or launch new services and experiences to improve relationships with their traditional B2B audience.



The trade show of the future will need to be highly digital, rethink its target audience and bring fresh trends and ideas from the industry to the forefront

10.

Digital Recalibration

Valuations of digital fashion players have reached dizzying levels and, despite a slew of high-profile IPOs and private firms achieving unicorn status, investor sentiment is taking a turn for the worse. Investor apprehension is growing over the path to profitability for some digital players, from online pure play retailers and marketplaces, to direct-to-consumer brands and other digital-first business models.



The average fashion-tech IPO of the past two years has seen a 27% decrease in its stock price since going public

GLOBAL ECONOMY



01. ON HIGH ALERT

Continued caution is advised for the year ahead as mounting underlying turmoil could disrupt relations among both developed and emerging market economies. Indicators of recession risk are spurring companies across industries to build a resiliency playbook and to plan for other macro risks such as geopolitical instability and the inflammation of trade tensions.

The global economy is under pressure, with political and geopolitical instability complicating the outlook for the global fashion industry in 2020. But this uncertainty is not limited to fashion. Executives from across industries are increasingly pessimistic, and central banks around the world are taking action and loosening monetary policy. Against this gloomy backdrop, the fashion industry is already facing major challenges, from sustainability issues to generational shifts, many of which require investment at a time when top-line revenues are potentially under threat. In 2020, fashion players will need to ensure they are suitably resilient — driving productivity gains while creating operational flexibility, digitising where most appropriate, divesting non-core assets to free up cash, and carefully monitoring and managing a wide range of risks.

Last year, we reported on the deteriorating outlook for the global economy. Since then, the situation has only worsened. No surprise then that 55 percent of respondents in the BoF-McKinsey annual executive survey expect conditions for the industry to worsen in the next year, up considerably from 42 percent last year. And of those 55 percent, half expect conditions to be “much” worse, compared to just a handful of respondents last year.

Trade tensions and Brexit continue to create significant uncertainty and are having a quantifiable impact on growth. The US-China trade war has led to billions of dollars of tariffs being imposed on imported goods between the two countries, with knock on implications around the globe. The IMF stated in July that reducing trade tensions and resolving uncertainty around trade agreements is a vital part of putting global growth on a stronger footing.¹

55 percent of respondents in the BoF-McKinsey annual executive survey expect conditions for the industry to worsen in the next year.

The overall numbers are bleak. The WTO more than halved its global trade volume growth forecast for 2019 to 1.2 percent and warned that the 2.7 percent growth it predicts for 2020 is still dependent on a return to “more normal trade relations.”²

Every region faces challenges. In Europe, the UK service sector contracted in September, while the annualised output of the German economy was the lowest in six years. Meanwhile, Chinese GDP growth slowed to 6 percent in the

third quarter of this year, and September's export figures were 3.2 percent lower than a year earlier, and nearly 22 percent lower to the US.³

In the US, service-sector growth hit a three-year low at the start of October and for the first time since the financial crisis, yields on short-term US bonds eclipsed long-term bond yields in August, a closely followed recession indicator, which suggested investors were scrambling for safer assets.

Japan's exports have been falling every month since the start of the year, Brazil's government halved its growth forecast for 2019 to just 0.8 percent in July, and India's economy is growing at its slowest pace in the past six years.

Faced with this synchronised global downturn, central banks from the US to Australia are cutting interest rates, and the European Central Bank announced its biggest stimulus package in three years. In China, the People's Bank cut its reserve requirement ratio (the amount cash lenders must retain on their balance sheets) for the third time this year in an attempt to stimulate growth.

Japan's exports have been falling every month since the start of the year, Brazil's government halved its growth forecast for 2019 to just 0.8 percent in July, and India's economy is growing at its slowest pace in the past six years.

Business leaders are understandably wary. In just six months, the number of executives who think the global economy will shrink has risen from less than half to over two-thirds. Three-quarters think global economic conditions are worse than six months ago and three-quarters rank trade conflicts as one of the biggest risks to global economic growth over the next year.⁴

These concerns are already affecting business decisions. In October, WTO Director-General Roberto Azevêdo said, "Trade conflicts heighten uncertainty, which is leading some businesses to delay... productivity-enhancing investments."⁵ In the UK, Bank of England research showed that uncertainty over leaving the EU has reduced capital spending on average by about 11 percent,⁶ while the number of companies including Brexit warnings in their annual report has more than doubled in the past six months.⁷

Political upheavals in regions from Asia to Latin America are adding to the uncertainty and pessimism. The long-running protests in Hong Kong have had a significant impact on the economy, with Greater China retail sales significantly missing estimates and tourism from mainland China down 42 percent. Elsewhere, tensions in the Middle East and attacks on oil plants are affecting oil prices, which can have a major ripple effect around the world.

The fashion industry must tackle these existential challenges at a time when it faces significant internal issues of its own. The drive for sustainability is pushing many to rethink business models and move towards more responsible business practices. Customers' demand for new and enhanced services is driving brands and retailers to invest heavily to meet these needs even at a time when more than half of fashion executives feel they do not sufficiently understand Generation Z — now the largest global customer cohort.

The strain is starting to show. In September, vacancies in US shopping malls hit an eight-year high, with Sears, Victoria's Secret and Charlotte Russe among the household names shutting outlets across the country. In the same month, Forever 21 joined a growing list of brick-and-mortar players who have filed for bankruptcy across different markets including Debenhams, the US arms of Roberto Cavalli and Diesel, and department store Barneys New York. Retail is the only sector in the US that has seen net job

01. On High Alert

losses over the past two years, while in the UK, high street store closures are the highest since monitoring began in 2010.⁸ In Europe, Moody's expects more than 40 percent of the retailers it rates to record lower profits in 2019 than in either of the previous two years.⁹ Even in China, clothing sales fell in April for the first time since 2009.¹⁰

Throughout the year ahead, fashion companies should remain on high alert. The most forward-thinking players will therefore develop a resilience playbook to ensure they are prepared.

Given the worrying outlook we expect fashion companies to take steps to become more resilient in 2020. The first step is to develop a deep understanding of the risks they face. These can be codified in a "risk register" that differentiates between day-to-day risks, external disruptions (e.g., supply-chain interruptions, trade disputes), and disruptive strategic risks (e.g., remaining relevant amid changing consumer preferences or competing with challengers using new business models). Both the impact, likelihood and prioritisation of these risks will vary over time, so the risk register needs to be a dynamic document.

There are also lessons to be learned from previous economic crises. McKinsey's analysis of companies that outperformed their peers during the last downturn showed that they made moves early and focused on earnings over revenue. By the time the downturn reached its 2009 trough, the EBITDA of these resilient players had risen by 10 percent, while their industry peers had lost nearly 15 percent.¹¹

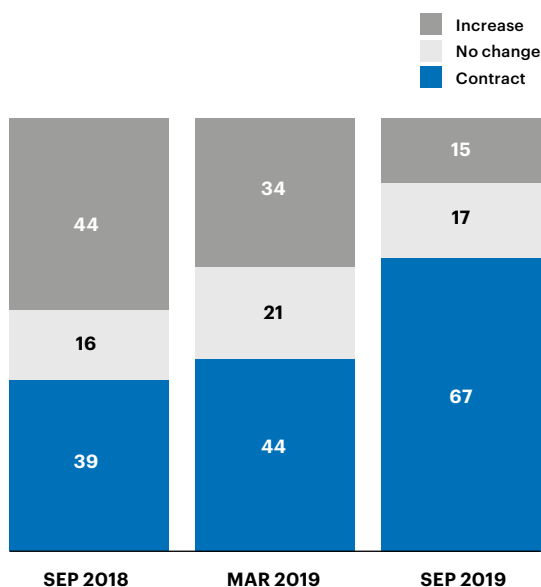
Throughout the year ahead, fashion companies should remain on high alert. The most forward-thinking players will therefore also develop a resilience playbook to ensure they are

prepared. This is likely to involve plans to boost productivity while ensuring operational flexibility (e.g., using variable contracts and more diverse supply sources), a clear approach to digitisation and a sharp focus on financial flexibility. This means divesting non-core and under-performing assets early so that the company has the cash on hand to make strategic investments as soon as the economic outlook improves — when their peers might be shedding assets. Crucially, all this will require enhanced leadership to be able to make quick decisions amid a high degree of uncertainty.

Exhibit 3:

Executives are becoming increasingly pessimistic about global economic growth

GLOBAL ECONOMIC GROWTH EXPECTATIONS FOR THE NEXT SIX MONTHS, % OF EXECUTIVE RESPONDENTS¹



¹RESPONDENTS WHO ANSWERED "DON'T KNOW" WERE REMOVED FROM SAMPLE. TOTALS MAY NOT ADD TO 100 DUE TO ROUNDING

SOURCE: ECONOMIC CONDITIONS SNAPSHOT, SEPTEMBER 2019, MCKINSEY GLOBAL SURVEY RESULTS



02. BEYOND CHINA

China will continue to provide exciting opportunities and play a leading role in the global fashion industry, but the colossal market is proving harder to crack than brands anticipated. As some successful players become over-reliant on China and others struggle, companies should consider spreading their risk by expanding to other high-growth geographies.

Fashion brands have long targeted China as an outstanding growth opportunity. And rightly so. Over the past 10 years, China accounted for 38 percent of global fashion industry growth across segments.¹² Since 2012 it has been responsible for an impressive 70 percent of expansion in the luxury segment, and we expect this dominance to continue out to 2025.

Indeed, some brands have been very successful in China. Luxury players such as LVMH and Gucci have already been in the market for years, having first opened stores in the 1990s.¹³ Both continue to see positive results; LVMH saw “unheard of growth rates” in 2019, while in February, Kering defied market concerns of a China slowdown in luxury, with Jean-Marc Duplaix, the group’s financial director, highlighting the “dynamic” sales from their Chinese clientele.¹⁴¹⁵ Other international brands also continue to perform well — Lululemon grew China revenues by 68 percent in the second quarter of 2019, while Nike and Uniqlo reported strong demand.¹⁶ Mass-market players have also prioritised China as a core part of their business models; China now accounts for 5 percent of H&M’s global revenues,¹⁷ while Inditex has over 600 stores across the country, making up over 8 percent of its store network.¹⁸

Still, not everyone has been so successful. Asos and New Look are recent examples among those to have retreated. Dolce & Gabbana and Burberry are among players that have been in the press due to advertising campaigns that mismatched the sentiment of Chinese consumers.

Some international mass-market brands have struggled to compete against established Chinese brick-and-mortar players, some of which have thousands of outlets. Physical retail still plays an important role — 85 percent of shoppers engage with both online and offline touchpoints, compared with 80 percent in 2017.¹⁹ Local Chinese high-street brands such as Urban Revivo and Peacebird have been growing at pace in the region, ramping up competition for foreign brands.

Physical retail still plays an important role — 85 percent of shoppers engage with both online and offline touchpoints, compared with 80 percent in 2017.

The bottom line? The path to success in China can be elusive. Nonetheless, despite a slowdown of economic growth, the official growth forecast of 6 percent to 6.5 percent for 2019 is still

among the highest of major global economies, and the region this year (2019) overtook the US as the largest fashion market in the world.²⁰ Consumer-driven consumption is still fast growing, in a country that adds absolute gross domestic product (GDP) equivalent to that of the entirety of Australia to its economy each year. Furthermore, as incomes rise, Chinese consumers show a strong propensity to trade up, which on the whole is good news for upmarket foreign brands. Yet, winning in China cannot be the sole focus, and it makes sense for brands to direct at least some of their attention toward other smaller, yet high growth markets.

India continues to present an exciting opportunity, as we highlighted in last year's report ("Indian Ascent"), particularly for price competitive players. While GDP growth this year has been somewhat weaker than expected, in part due to regulatory uncertainty, India is still projected to be the fastest-growing major economy, according to the IMF.²¹ The Indian clothing market will be worth \$53.7 billion in 2020, making it the sixth largest globally.²²

Indonesia is due to be the largest modest fashion market in the world.

Notwithstanding the market's challenges, international players from H&M to Adidas are engaging with India enthusiastically.²³ Internet retailing accounted for nearly 11 percent of the apparel market in 2018, double the proportion just three years prior, driven in part by increasing internet and smartphone penetration.^{24 25} In fact, India saw the strongest absolute growth globally in the number of internet users in the past year.²⁶ Social media use is expanding at around 25 percent annually, with nearly 70 percent of users active on Instagram. This is providing a platform to introduce consumers to fashion brands away from the dominant informal market.

Southeast Asia also provides significant opportunities; at nearly 270 million people,

Indonesia is the fourth largest country in the world by population.²⁷ Vietnam and the Philippines are seeing rapid GDP growth. Across Southeast Asia, the median age is just 29, against 37 in China, highlighting the potential for growth as large numbers of young people enter the workforce each year.²⁸ As in China, demand is being driven by digitally native consumers, excited by the possibility of creativity and self-expression. It is worth highlighting that these countries are highly diverse; some consumers in the Philippines have a high affinity for western fashion trends, while Indonesia is due to be the largest modest fashion market in the world. Given the wide spectrum of taste within each country and the differences in regulation between countries, each of these markets alone can lend themselves as part of a considered expansion strategy for success at scale. Equally, brands can explore a regional approach to establish a toehold and gain from the regional economy of scale.

Russia is an interesting proposition; distracted by headlines about geopolitics in recent years, the country's fashion sector has remained largely ignored by international fashion media. Yet Russia's clothing market is worth close to \$30 billion annually and is the ninth largest in the world, according to data from McKinsey FashionScope. Despite recent economic slowdown in the country, the luxury market is showing new signs of stabilisation. In 2018, LVMH, Dior and Tiffany all reported the highest sales in the region since 2014.²⁹ An increasingly budget-conscious middle class is creating new opportunities for price competitive players. Russians have embraced e-commerce too, which grew at an impressive 26 percent year-on-year in the first half of 2019.³⁰ The attractiveness of the country is also being boosted by growing numbers of Chinese tourists, who are expected to spend US \$1.1 billion in Russia in 2019.³¹

Elsewhere, Brazil has been overlooked by many in recent years, amid see-sawing economic growth in the world's sixth most populous

02. Beyond China

country.³² Still, McKinsey’s 2019 Global Sentiment Survey highlights increased confidence among Brazilian consumers. Tariffs are a challenge – Brazil has 23.3 percent tariffs for textiles, according to the World Trade Organisation, but there are still opportunities.³³ “More and more international brands are looking to enter Brazil,” says Christoph Barchewitz, co-chief executive of emerging markets e-commerce platform Global Fashion Group, which operates the Latin American fashion e-commerce site Dafiti. “We recently supported Ralph Lauren and Banana Republic launching [digitally] into the market, and are speaking to others.”

Finally, the Middle East still has potential, despite being an already well-established fashion market with a strong mall culture. While the Gulf countries are far smaller than China in terms of population size, the propensity of its shoppers to spend big is what gives the region an outsized role among international markets. In fact, the average consumer in the UAE and Saudi Arabia respectively spends over 6 times and 2 times as much on fashion as the average consumer in China.³⁴ Some 99 percent of the UAE population uses social media, underscoring the presence of a connected, aspirational population craving style inspiration and global fashion. The model in the Middle East is different given historical restrictions on foreign ownership: international fashion players habitually partner with established and tried-and-tested local players, the likes of whom have worked with brands from Louis Vuitton to H&M for years. These include Alshaya, Al Tayer and Chalhoub. One largely untapped opportunity for overseas brands to explore is how to better serve the region in terms of e-commerce, given many franchisees don’t own brands’ digital rights.

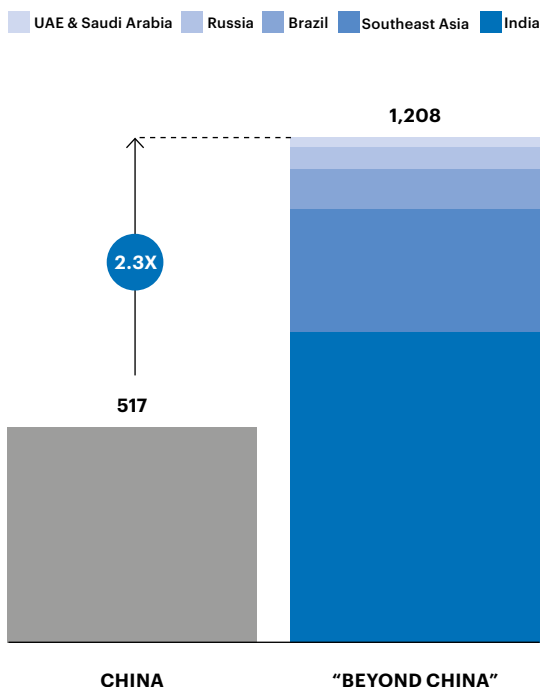
As fashion players continue to find the right formula for China, other international markets provide a rich seam of potential. That’s not to say that China’s fashion market is nearing saturation. Far from it. In 2020 we expect to see many

companies continuing to seize opportunities and grapple with complexities there. Those that get it right will prosper. But successful players and struggling players alike will do well to remember there are also opportunities elsewhere. As fashion players put themselves to test in these growth markets, they will have to strengthen their brands and upgrade their operations to be able to create value.

Exhibit 4:

There is a large market of young consumers “Beyond China,” more than double the size of that in China

POPULATION AGED 30 OR BELOW, MILLIONS
2025 FORECAST



SOURCE: UNITED NATIONS, POPULATION DIVISION, WORLD POPULATION PROSPECTS 2019

Southeast Asia: A Region of Nuanced Opportunity

The combined population of Southeast Asia is greater than that of the US. This exciting region, with a fast-growing apparel market, young consumer base and rapidly expanding e-commerce, presents a real opportunity for fashion players. While consumers in the region have enough in common to suggest that brands can develop a regional strategy that will produce results, there are also notable differences between countries, implying a tailored approach is required for success at scale.

by Aimee Kim, Ali Potia and Simon Wintels

Although luxury players continue to expand or operate in most of the largest cities in this diverse and dynamic region, there are other opportunities for fashion players beyond those serving the affluent of Southeast Asia. An emerging middle class experiencing rising levels of disposable income is developing a taste for fashion brands away from the informal market and it is this demographic that is set to drive growth in the region's \$50 billion apparel sector across the six core markets — Vietnam, the Philippines, Indonesia, Malaysia, Thailand and Singapore.³⁵

These markets are vibrant, increasingly driven by young digitally sophisticated consumers. Some 40 percent of the population is under the age of 25, compared with 28 percent in China and 30 percent in the US.³⁶ Internet penetration is 63 percent, compared with 57 percent in China, and social media use is growing fast; the number of social media users in the region grew from 360 million to 402 million in just a year.³⁷

With young people spending increasing amounts of time online, e-commerce is also growing, albeit from a relatively low base. Within the fashion sector, just 6 percent of 2018 retail spend in the region was via e-commerce, as

opposed to China's near-32 percent.³⁸ Still, the three largest e-commerce players in the region — Lazada, Shopee and Tokopedia — together saw their gross merchandise value multiply seven times between 2015 and 2018.³⁹ These players boast international brands from Adidas and Levi's, to The Body Shop and Maybelline, echoing Taobao's path in China.

Some 40 percent of the population is under the age of 25, compared with 28 percent in China and 30 percent in the US.

While there are similarities across these Southeast Asian markets that sit within the ASEAN trade bloc and thus operate on principles of intra-regional free trade, there are also significant differences, in part due to regulation and local tastes. Vietnam, for example, recently signed a new trade agreement (EVFTA) with the EU and boasts the highest levels of foreign direct investment in the region. Thailand is encouraging foreign investment with tax breaks, aiming to take advantage of the recent trade tensions between

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China and the US. On the other hand, regulatory difficulties do exist, with the Philippines, Thailand and Indonesia requiring by law for foreign entrants to enter through local partners unless they put down substantial capital investments. Meanwhile counterfeit fashion is prevalent, particularly in Indonesia where copyright laws, or lack thereof, remain a sizeable concern.

When it comes to e-commerce, some countries are ahead of others. Singapore is a more mature and slower growing e-commerce market, yet brick-and-mortar remain important for apparel retail and account for 91 percent of sales.⁴⁰ Digital payments are popular in Singapore and Malaysia, but less so in Indonesia and Vietnam, where a culture of cash-on-delivery continues to dominate.

Tastes in fashion vary between countries; Filipinos have a high affinity with western brands, are seeing a significant shift away from the “tiangge” culture of flea markets and bazaars towards international fast fashion brands, and are also partaking in the explosion of athleisure, while Thai consumers demonstrate curiosity for brands from both Europe and other Asian nations like Japan and Korea. Both Indonesia and Malaysia meanwhile, are predominantly Muslim countries and have their own distinct narratives in terms of modest fashion trends.

For success at scale, fashion players need to retain the flexibility to cater to local needs. That may mean being prepared to take tough decisions on where they are most likely to find traction and establishing a tailored strategy for each country.



A model showcases designs on the runway during Jakarta Fashion Week. Ulet Ifansasti/Getty Images

For international brands entering Southeast Asia, the challenge is both simple and complex. On one hand, for players that are trying to establish a toehold in the market, there is clearly great potential to roll out across the region, as free trade operates within the bloc and certain demographics share similar tastes across the countries in the region. On the other, for success at scale, fashion players need to retain the flexibility to cater to local needs. That may mean being prepared to take tough decisions on where they are most likely to find traction and establishing a tailored strategy for each country.

The authors of this article work within McKinsey and Company's Apparel, Fashion and Luxury group, serving a range of clients across Southeast Asia.

Russia: Signs of Resurgence in a Polarised Market

Slower economic growth provides a challenging backdrop for the Russian fashion sector, but players have seen success supporting price-conscious consumers, as well as high-spending tourists lured in by attractive prices and visitor-friendly policies. Since online channels are ultimately winning market share and new platforms continue to emerge in this highly dynamic space, a strong digital presence can be a route to success.

by Alex Sukharevsky, Denis Emelyantsev, Karl-Hendrik Magnus and Patrick Guggenberger

Although Russia — the world’s ninth largest apparel market — has started to show some signs of recovery, the economic slowdown that began in 2014 has significantly dampened spending and consumer confidence, which remains firmly in negative territory.⁴¹ Last year’s VAT increases coupled with five consecutive years of stagnating real incomes have added to the burden. But even in this challenging environment, there are opportunities for fashion players in certain categories.

The depreciating rouble has made Russia more attractive for fashion-seeking tourists, particularly from China.

Players who can compete on price represent one opportunity to appeal to consumers that continue to move down the price ladder, while those catering to the luxury market — especially foreign tourists — are another. The third lies in e-commerce, a sector that continues to grow rapidly and is seeing a great deal of change.

In 2019, Russia’s budget-conscious fashion consumers are increasingly looking for value

for money: 57 percent often shop around to get the best deals on their preferred labels. Less expensive retailers that can simultaneously deliver “fashionable” clothing are benefiting; international players such as H&M and Zara have long had a presence in Russia and continue to open stores. Domestic retailers such as Gloria Jeans, Detskyi Mir, Tvoe and Melon Fashion Group are also seizing the opportunity. Sales at Tvoe, for example, have shot up by 161 percent since the beginning of 2019, while Melon Fashion Group has outlined 24 percent growth plans, driven by new store openings, relocations and the expansion of existing sites along with an increase in online sales.

At the other end of the spectrum, several luxury brands saw their highest revenue in at least four years in 2018, including Chanel, Dior, Tiffany & Co and Bulgari.⁴² Russia’s luxury consumers have been spending more at home, while the depreciating rouble has made Russia more attractive for fashion-seeking tourists, particularly from China. Chinese tourists were up almost 25 percent in the first half of 2019 from the previous year and collectively, are expected to spend more than \$1.1 billion in total this year.⁴³ The Russian government has also introduced a series of targeted policies, from VAT refunds to relaxed visa requirements.

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Luxury retailers have moved to ensure their prices are competitive with those in Europe; in 2015, Tsum became the first retailer in Russia to actively move towards matching prices in Milan and Paris. It also offered Chinese-speaking sales staff and Chinese language in-store signage and in 2018, became the first major Russian retailer to accept WeChat Pay, making transactions even easier for Chinese customers.

The third opportunity in Russia stems from the strong growth and dynamism of e-commerce. Internet penetration in Russia is high and Russians spend an average of 6.5 hours a day on the internet. In 2018, online sales accounted for more than 10 percent of all apparel sales in the market, which represents double the 5 percent share seen just five years prior.⁴⁴ Online marketplaces capture the lion's share of online apparel sales and are expected to continue growing.

In 2018, online sales accounted for more than 10 percent of all apparel sales in the market, which represents double the 5 percent share seen just five years prior.

Multi-national companies like Alibaba's AliExpress and Global Fashion Group's Lamoda have done well, together with local players like Wildberries; in August, Wildberries.ru became Russia's largest clothing retailer, having grown revenue 79 percent year-on-year for the first six months of 2019. Other platforms by major groups like Sberbank-Yandex and USM have started to emerge, including the recently announced AliExpress Russia joint-venture — a tie-up between Russian internet giant Mail.ru, Russian telecom Megafon and China's Alibaba, with support from Russia's sovereign wealth fund.

These areas of growth suggest that opportunities do exist in the region, both for luxury

brands and for players who are price competitive. Delivering great value apparel with a high degree of fashionability will be an increasingly winning formula for many. Promotions are dominant; international players should explore pricing levers, either at a mass-level or by taking a more personalised approach through customer value maximisation (CVM). Luxury incumbents should further focus on building loyalty with core consumers as well as millennials to drive growth, in part through understanding the increasing importance of online as an information channel for consumers and, as such, developing their digital offering through online stores or partnering with online multi-brands.

Players who wish to enter Russia should think about their options. Foreign brands may want to start with a digital presence that introduces them to consumers before launching a physical presence, focusing on Moscow and St. Petersburg, which hold the lion's share of value in a logistically-challenging country that spans 11 time zones. Some players might instead choose to partner with a fast-growing local player, either a multi-brand brick-and-mortar retailer, or an online-only company. Brands may do well to build a local presence as part of a much larger strategy to serve the new generation of digitally connected and "global" Russian fashion consumers, with fewer language and information barriers than ever before.

The authors of this article work within McKinsey and Company's Apparel, Fashion and Luxury group, serving a range of clients across Russia.

The GCC: A Region in Transition

When it comes to shopping, Middle Eastern consumers are experienced and increasingly savvy. Retail is a favourite cultural pastime, and informed consumers can't get enough of luxury items, in-store experiences and the latest fashions. That said, the Gulf Cooperation Council markets are changing, amid shifting economic currents and the rise of digital. For brands this implies risks, but also opportunities.

by Nitasha Walia, Ahmed Youssef, Abdellah Iftahy and Martins Mellens

Annual fashion sales in the Middle East's Gulf Cooperation Council (GCC) markets amount to \$50 billion, reflecting the region's significant financial clout. Spending in some GCC countries is among the highest on a per capita basis globally, reaching approximately \$500 and \$1,600 per person in Saudi Arabia and the United Arab Emirates (UAE) respectively.⁴⁵ Dubai is the region's shopping capital, but other markets are maturing fast, with Saudi Arabia taking a place at the top table.

However, economic cycles in the GCC countries are closely tied to global commodity prices which brings challenges to the current climate. Oil prices are around 35 percent lower than they were in 2010-2014 — and economic growth is slowing. Meanwhile, lower rents are being offset by rising labour costs, including new visa and administrative fees, and reduced energy subsidies. Geopolitical events in the region pose a challenge too. The last few years saw a notable rise in business closures especially in the wholesale and retail sectors.

Despite its complications, the GCC presents significant opportunities for fashion players, many of which have operated successfully there for years. Dubai will continue to play an important

role as the region's window to the fashion world, supported by world-class malls offering a top-end customer experience. Tourism will continue to be an important revenue driver; the city's Expo 2020 is billed as the "World's Greatest Show," a glittering coming together of technology, art, food and creativity that is expected to attract at least 25 million visitors.

Spending in some countries is among the highest on a per capita basis globally, reaching approximately \$500 and \$1,600 per person in Saudi Arabia and the United Arab Emirates respectively.

Elsewhere, the fashion market in Saudi Arabia is going through some dynamic shifts. The kingdom is the biggest and most populous country in the region and is investing heavily in building a thriving cultural scene to attract locals and visitors alike. Mega-infrastructure products include Diriyah Gate, a 7.1-million-square-metre development, and The Red Sea Project,

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comprising of 14 luxury and hyper-luxury hotels. Attractions such as the Diriyah E-Prix will see Formula E racing (electric cars) on the streets of Riyadh. Winter at Tantora is a new music and arts festival founded in 2018, combining concerts and exhibitions with desert vistas, balloon flights and horse races. Women are now playing an increasingly active and important role in the workforce. Indeed, the recent relaxation of rules on women's dress have the potential to disrupt how women, both local and foreigners, consume fashion in Saudi Arabia. These developments should also encourage more local spending. Currently over 50 percent of Saudi spend on leisure and entertainment is outside the kingdom, with categories like luxury nearing 70 percent.

Middle Eastern consumers as a whole are also becoming increasingly connected. Internet penetration in the UAE and Saudi Arabia is at 99 and 89 percent respectively, compared to just 57 percent in China.⁴⁶ E-commerce, therefore, is fast becoming a table stake in the region. It is set to grow at around 40 percent a year over the next five years, increasing its penetration to 9 percent from the current 2; in some fashion categories in Saudi, it is already at 20 percent. Internet platforms are thriving, and international digital players including Yoox Net-a-Porter, Farfetch, Jollychic and Amazon are wooing the local consumer. Local players too, both omnichannel and pure players like Ounass, The Modist and Namshi have sprung up to capitalise on this trend.

Consumer attitudes too are changing, as they want more value, transparency and local content from fashion players. Middle Eastern fashion companies are raising their game, with designers, platforms, social media stars and local style trends starting to feature more in the global fashion narrative. The Middle East is starting to shift from being a historical importer of fashion trends to a nascent exporter. Following the success of Lebanese designers like Elie Saab and Rabih Kayrouz on the international stage, new



A model walks the runway at the Yousef Al-Jasmi show during Dubai Fashion Forward
Stuart C. Wilson/Getty Images for Fashion Forward

designers from GCC countries are making their mark; Kuwait's Yousef Aljasmi and Bahrain's Hala Kaiksow are names with growing international recognition and others are riding on their tailcoats.

Fashion players must think carefully about how best to play in the GCC. Partnerships will continue to play an important role in the form of franchise relationships, joint ventures or, in some cases, distribution-only models. Local family-owned businesses including Alhokair, Alshaya, Al Tayer, Azadea, Chalhoub, Saudi Jawahir Trading and Rubaiyat, among others, are the lynchpins of the local scene, and will play an important role in physical, and increasingly digital, retail. A winning e-commerce strategy, intimate knowledge of the consumer and cost excellence will be crucial.

No doubt, the GCC will continue to be an important fashion market, but brands that maximise performance across multiple channels and territories are most likely to outperform.

The authors of this article work within McKinsey and Company's Apparel, Fashion and Luxury group, serving a range of clients across the Middle East.

CONSUMER SHIFTS



03. NEXT GEN SOCIAL

As traditional engagement models struggle on established social media platforms, fashion players will need to rethink their strategy and find ways to maximise their return on marketing spend. Attention-grabbing content will be key, deployed on the right platform for each market, using persuasive calls-to-action and, wherever possible, a seamless link to checkout.

The collective reach of the social media giants is staggering. Facebook reported 2.5 billion monthly active users in September 2019, and both Instagram and WeChat have more than a billion users each. Yet, growth seems to be slowing and users are spending less time on some of the major platforms: in the US, average daily time on Facebook fell to 37 minutes a day from 41 minutes in 2017.⁴⁷

Stagnating enthusiasm has not stopped advertising rates and revenues rising at the big platforms. According to one report, the average digital ad cost has risen 12 percent in two years, but digital ad expenditure rose 42 percent,⁴⁸ helping analysts forecast Facebook's revenue in 2019 above \$69 billion at the time of writing,⁴⁹ up 70 percent from 2017 and equal to all print media ad spending.⁵⁰ However, visits to those advertisers on social media have risen only 11 percent.⁵¹

The challenge is that advertising overload might be hurting engagement. Global consumer-goods giant P&G discovered that people spent less than two seconds on average looking at its ads on mobile feeds — and that those ads appeared too often. Chief brand officer Marc Pritchard explained in the *Wall Street Journal*, “We’re trying to reduce the amount of times we reach the same person over and over again.”⁵²

The data suggests that it is time for brands to rethink their social media strategy. Specifically, they need to re-evaluate how to exploit existing platforms more effectively, capitalise on the rise of new platforms and understand how to generate direct sales through social platforms.

The typical route to reach a large audience on existing platforms such as Instagram is to either build followers organically or borrow followers using influencers — both these routes are starting to wobble. UK cosmetics company Lush realised that its organic newsfeed content reached only 6 percent of its online followers and became tired of fighting the platforms' own advertising algorithms. It decided to shut down its social media accounts to regain ownership of its communication by relying on brand-owned channels instead. While this may be an extreme step to take, it demonstrates the lengths that some brands are willing to go to try to overcome current challenges on social media.

While an incredible 86 percent of companies use influencer marketing,⁵³ the engagement rate for such sponsored posts on Instagram dropped from 4 percent in Q1 2016 to 2.4 percent in Q1 2019.⁵⁴ Facebook's and Twitter's numbers are even worse at 0.37 percent and 0.05 percent respectively.⁵⁵ The harsh reality is that it is increasingly hard to excite and inspire audiences

Consumer Shifts

who are overwhelmed and overstimulated. Going forward, a static image displaying a product with a model or influencer will no longer cut it. Industry executives believe that the top trend shaping the fashion industry within the next 12 months will be a rise in the importance of “storytelling” and marketing strategies that resemble media productions.⁵⁶

The harsh reality is that it is increasingly hard to excite and inspire audiences who are overwhelmed and overstimulated.

Arnold Ma, chief executive of creative digital agency Qumin, suggests players should move up the influencer funnel, partnering with individuals or other brands who truly live the lifestyle and can tell an authentic story, rather than blindly paying popular more generic influencers to promote their products.

Ralph Lauren adopted this approach when it worked with fashion publication *Highsnobiety* for its 50th anniversary. The published advertorial followed the impact the brand had on designers, collectors and the fashion industry from the Ivy League to the streets of Brooklyn.⁵⁷

Another tactic to grab consumers’ attention is to use social media to tap into the drop culture typically associated with streetwear labels. Consumers’ desire to be in the know and to have an exclusive product drives a large part of the purchase. Last year, for example, Burberry released a limited-edition Ricardo Tisci T-shirt available only on Instagram and WeChat for 24 hours. The company used the hype around this drop to release more limited-edition designs available on social media or exclusively in its London flagship store for just 24 hours.

As data shows, it is getting harder to stand out in established social media. Fashion players need to understand how to gain traction on newer platforms. 70 percent of fashion executives believe

that increased exploration of and spend on new media platforms versus more “traditional” platforms will be crucial to their companies. At the same time, executives are showing hesitation, and only 8 percent are choosing to increase spend on TikTok, the biggest emerging platform with more than 800 million downloads and a user base skewed under 30.

Creating convincing content is critical on a platform like TikTok: the landing page is a constant stream of short videos sourced globally and compiled by artificial intelligence.

This approach challenges the traditional view of the need to build an audience, but does require extremely high-quality content to stand out. Not that brands always need to create this content themselves. Uniqlo appealed to TikTok users to upload videos of themselves wearing their favourite item from the company’s UT line. The best videos appeared on monitors in Uniqlo stores around the world.

There are many other emerging social media networks, including those focused on gaming such as Fortnite or Tencent’s mobile game *Honour of Kings*, which have fast become integral to youth culture. Fortnite has more than 200 million users and is free to play, but made a sizeable chunk of its \$2.4 billion in revenue last year by selling avatar skins.⁵⁸ Nike was quick to see the potential and started selling branded skins on the platform. In China, brands such as Mac Cosmetics, L’Oréal and Hong Kong jeweller Chow Sang Sang have all partnered with *Honour of Kings*, which has more than 200 million registered players of whom more than half are female (and women mobile gamers are 79 percent more likely to make an in-app purchase).⁵⁹

Ultimately, all the content creation needs to lead to sales, and social commerce is growing fast. By 2023, it could account for a fifth of all online sales in China — a staggering \$166 billion.⁶⁰ Brands are cooperating with social-media messaging super-apps such as WeChat, livestreaming platforms such as Yizhibo and Kuaishou and

03. Next Gen Social

social-commerce platforms such as Xiaohongshu to introduce and sell products.

Other social media platforms have been progressively incorporating commercial functions. Pinterest has its catalogue, while Instagram has evolved its checkout and augmented reality functions, letting customers “try-on” Ray Ban glasses or Mac lipstick. A wide range of messenger apps use chatbots to generate direct sales rather than just serving as a customer service channel. Nowhere, however, is as advanced in social commerce as China.

One app that may offer us a glimpse into the future is Douyin, TikTok’s counterpart in China. Douyin, which is extremely popular with young people, has just launched a game-changing in-video search function through which users can zoom in on clothing, or other items in the video, and link through to related content and even directly purchase products — all from within the app. These are not videos that are actively selling or promoting products,

but rather regular user generated content — any post from anybody could become a potential sale.

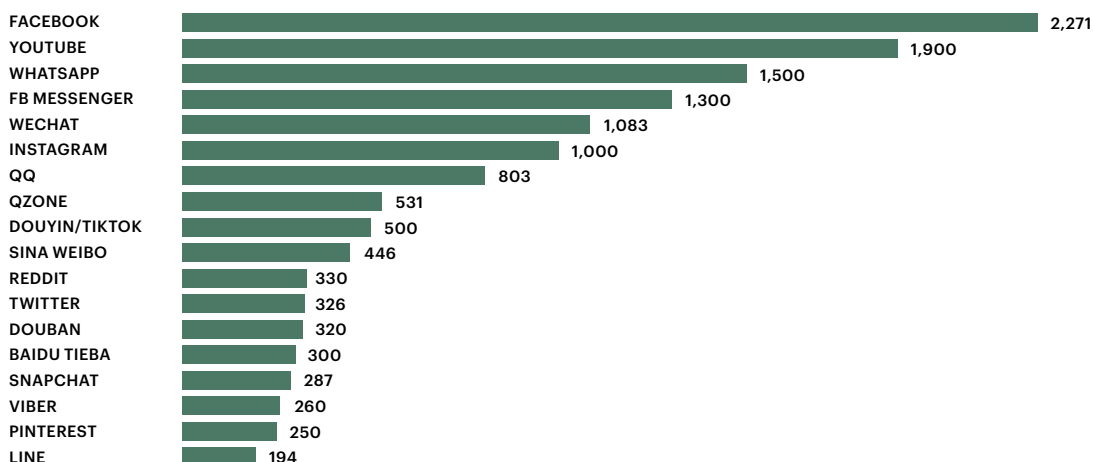
Overall, in light of consumers’ growing apathy — and sometimes antipathy — towards traditional social media advertising models, we expect fashion brands in 2020 to significantly re-evaluate their strategies in a quest for meaningful returns. This means having a deep understanding of which platforms and networks their target consumers are engaging with, both in terms of region and demographics. Brands will start to establish content creation as a discipline within their organisation, focusing on engaging and tailored content that can work across a range of channels. Brands must also be prepared to exploit the new sales-orientated functions of platforms, as well as develop chatbots in combination with messenger apps to generate more immediate online sales.

At the time of writing, TikTok was said to be under national security review in the United States.

Exhibit 5:

There are a number of global social platforms with hundreds of millions, if not billions, of users

TOP SOCIAL PLATFORMS GLOBALLY, BASED ON MONTHLY ACTIVE USERS, USER ACCOUNTS, OR UNIQUE VISITORS TO EACH PLATFORM, LATEST AS OF JANUARY 2019, MILLIONS



SOURCE: HOOTSUITE/WE ARE SOCIAL REPORTS. DATA UPDATED TO 25TH JANUARY 2019 [HTTPS://DATAREPORTAL.COM/REPORTS/DIGITAL-2019-GLOBAL-DIGITAL-OVERVIEW](https://datareportal.com/reports/digital-2019-global-digital-overview). EXCLUDES SKYPE AND LINKEDIN.



Want to See the Future of Social Media? Look to Asia.

Global fashion brands are still learning how to leverage powerful apps like WeChat and TikTok, but Asia's digital ecosystem has already hatched the next generation of social platforms. With hundreds of millions of users ready to be converted into consumers, brands need to invest now.

by Zoe Suen

It has become abundantly clear that the future of digital connectivity lies in Asia. Beyond the sheer number of “next-gen” social media platforms cropping up in Asia, it is the speed at which they evolve that stuns the average marketing executive. Dozens of dynamic networks mingle and collide in this region's vast, vibrant and increasingly tangled ecosystem where the variety on offer can overwhelm would-be partners and fashion brands alike.

Though tech hubs from Stockholm to Tel Aviv have been heralded the “next Silicon Valley,” the “social media industry in Asia is advanced and more competitive than [those in] other regions,” says Hiromi Yamaguchi, a Tokyo-based senior analyst at market research firm Euromonitor.

While growth on major social media platforms is slowing in western economies, the potential looks brighter in the east. GSMA Intelligence forecasts that in Asia Pacific the rate for unique mobile penetration will grow from 67 percent in 2017 to 73 percent by 2025 and that the region will account for just over half of new mobile subscribers globally by the same year.

The region's early rollout of 4G and then 5G networks and the mobile-first nature of consumer behaviour has long meant that Asia is a natural environment for social media to flourish. The result of these and other digital advancements is that Asia is now where the bulk of social innovation is happening — so much so that Silicon Valley's giants have begun to imitate their new eastern rivals.

Earlier this year, Facebook chief executive Mark Zuckerberg announced plans to reshape Facebook's social networking apps into a super-app, not unlike China's WeChat, South Korea's KakaoTalk, Indonesia's Gojek or Japan's Line. More recently, Google began moving toward the super-app model through its new Spot platform in India, which will allow businesses to create in-app experiences accessible through Google Pay (mirroring WeChat's mini programme function and Gojek's multi-service model).

These and other Asian behemoths have become an indispensable part of daily life across the continent, but global fashion players — many of which rely on young Asian shoppers to keep their businesses buoyant — have only begun to wake up to their potential.

A gap is widening between local Asian fashion players, typically fast and fluent in local platforms, and global fashion players, often slow to adapt and not as fluent as they need to be.

Greater Fluency and Earlier Adoption Is Needed

While mobile users in the west remain tethered to their Instagram, WhatsApp and Snapchat accounts, Asia's local social platforms continue to optimise and pioneer new functions

at a dizzying pace, preparing to usurp screen time from the global giants. The same can be said about the fashion companies trying to harness these “next-gen” social platforms.

A gap is widening between local Asian fashion players, typically fast and fluent in local platforms, and global fashion players, often slow to adapt and not as fluent as they need to be. So long as this gap remains, the former will have a marketing advantage over the latter. International fashion brands and retailers must move faster to keep up.

“People [in Asia] don’t hold onto legacy behaviours such as using Facebook or sticking with credit cards instead of mobile payment. When something new comes out, people welcome it with open arms.”

Tech experts and marketers are now marvelling at the astronomical rise of Chinese social video platform TikTok, which raked in 188 million downloads in 2019’s first quarter and continues to dominate global rankings, according to mobile app intelligence firm Sensor Tower. But global recognition of TikTok — and of its Beijing-based parent company ByteDance — came late.

Two years before the global fashion and beauty industry woke up to the popularity of TikTok, local Chinese brands recognised the opportunity of Douyin, TikTok’s sister app. Douyin was launched by ByteDance in 2016 and has since lured Chanel and Dior to build their own accounts. While not every brand can be an early adopter and not every platform is suitable for every brand, it is important to be nimble enough to deploy a dedicated social strategy for platforms when the time is right.

Thanks to the rapid economic development that took China by storm (and is now sweeping through India and Southeast Asian economies like

Vietnam), mobile users in these countries appear to be more receptive to the unfamiliar.

“People [in Asia] don’t hold onto legacy behaviours such as using Facebook or sticking with credit cards instead of mobile payment,” says Arnold Ma, founder and chief executive of Chinese digital marketing agency Qumin. “When something new comes out, people welcome it with open arms.”

This explains why tech currents increasingly flow from the east. “The west is just seeing successful examples and copying it,” Ma says. “They’re using Asia as a guinea pig.”

Staying on top of Asian social platform developments is not only important to better reach consumers in Asia. Brands can also apply learnings from social media trends in Asia to their business elsewhere, giving them an edge over competitors in non-Asian markets. So, what do Asia’s next-gen social media foretell?

Vertical Communities in the Era of Nichification

“Human beings don’t live their lives as one massive community on one platform. We’re specific about the activities we engage in,” wrote Kavin Bharti Mittal, the founder and chief executive of up-and-coming Indian messenger app Hike, in a blog post. In 2016, Hike raised \$175 million in funding from Tencent and Softbank.

“It would be the norm as these new social networks cater to a more verticalised audience,” Mittal continued, referring to “the rise of social niches” as the future of social media.

While not all up-and-coming platforms will become social media channels or advertising partners for fashion and beauty marketers, they help colour in a wider picture of how people will communicate, shop and seek entertainment.

Elijah Whaley, vice president of growth at Shanghai-based Acorn Digital, echoes that Asia’s successful next-gen platforms are catering to users’ “psychographic and demographic appeals.” He cites Bilibili, a Chinese short video platform that emerged almost a decade ago as a community

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for anime lovers and gamers, but since grew into a NASDAQ-listed company boasting over 110 million monthly active users (MAUs) watching videos on topics from gaming and e-sports to makeup and wardrobes.



A guest outside Off White, during Paris Fashion Week. Edward Berthelot/Getty Images

Though largely untapped by global brands, Bilibili's audience is predominantly Gen Z and the company recorded net revenues (from in-game purchases, live-stream transactions, advertising and e-commerce) of \$224 million for the second quarter of 2019 — a 50 percent year-on-year boost. Despite a “no advertisements” policy, it inked a deal with Alibaba's Taobao in 2019 to connect its creators with the e-commerce marketplace.

A platform more familiar to fashion and beauty marketers is Chinese social e-commerce unicorn Xiaohongshu, which caters to millennial women looking for beauty, fashion and lifestyle recommendations. Years before Instagram unlocked in-app purchasing, the Shanghai-based company set a precedent for successful e-commerce functionality within a social media, community-centric infrastructure, finding a seamless balance that global retailers and tech firms will probably try to replicate for years to come.

But in addition to its success as a social e-commerce hybrid, Xiaohongshu tailors its experience to users' various social niches. When a user responds well to content, be it lipstick swatches, Tokyo restaurant

recommendations or weight-lifting tutorials, their 'Explore' page adapts accordingly, and immediately.

By contrast, Instagram's 'Explore' page algorithm has been known to, as Refinery 29 described it, get “out of whack.”

Xiaohongshu recently found its male-centric equivalent in Chao, which allows users to join communities of interest from Star Wars to the brand Supreme. “Firms are creating products and aggregating communities with more in common with each other, and developing functionality specifically tailored to their needs,” Whaley says.

The list of increasingly specialised social apps goes on: while India's “interest-based community app” Helo specialises in viral news, Beijing-based social network Douban appeals to users interested in arts and culture (and could be an option for the likes of Chanel, which invests in global exhibitions and an arts and culture podcast).

South Korean app WeVerse — developed by the entertainment label behind global boy-band phenomenon BTS — allows K-Pop idols to communicate with their fans across the globe. Considering the clout of stars such as Gucci global ambassador Kai (of boy-band EXO), Jisoo and Chanel house ambassador Jennie Kim (of Blackpink), the platform has the potential to become an asset for luxury houses eyeing K-Pop's young audience.

Meanwhile, science-backed skincare companies could appeal to consumers by reaching out to key opinion leaders (KOLs) on knowledge-sharing platforms like Zhihu, the Chinese Quora clone-turned education and social community. According to iResearch, 80 percent of Zhihu's registered users have a bachelor's degree or above.

“You find a lot of sharing on social media but it's hard to know what to trust,” says Yash Mehta, Bengaluru-based tech columnist and contributor to *Tech in Asia*. “A platform where you know a person has a subject-matter expertise through a badging system is in great demand.”

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Even blogging and messaging apps are becoming more tailored to reflect IRL vertical communities and will provide brands with a unique opportunity to communicate with shoppers, take customer service to new heights and cultivate vertical communities with high engagement.

As Hike climbs the ranks in India, messaging app Telegram has drawn 300 million monthly users across Singapore, Thailand, the Philippines as well as parts of the Middle East and Eastern Europe, by allowing people to customise their messaging experiences. The encrypted app (a draw for increasingly privacy-minded users in some of these markets) also includes a platform for developers, allowing anyone to build specialised tools and integrate services. Where retailers are already using personal exchanges to build relationships with consumers over WeChat and WhatsApp, Telegram, while still quiet where global brands are concerned, could prove integral for Southeast Asia. British e-commerce site Asos has already set up its own channel.

Social apps that focus on dating and women's empowerment are also potentially lucrative marketing channels. Take Singapore-based Dayre, a female-only paid blogging app and network, that aims to foster "a safe space where women could come together to express themselves in whatever way they choose" — a community and ethos that could appeal to women-focused brands from Glossier to intimates brand ThirdLove.

Couples' messaging apps such as Japan's Pairs and South Korea's Between are also thriving, allowing users to communicate, share media and match their schedules — a channel with potential for luxury brands looking to market Valentine's Day campaigns and gifting-friendly items such as jewellery, accessories and perfume.

Customised Content Meets Cutting Edge Technology

Despite the move toward nichification, some big platforms that serve broader audiences will continue to perform well for fashion and beauty

brands, but only by investing in sophisticated new functions.

Live streams, for all the attention they have garnered, aren't losing steam. Singaporean Bigo Technology's live streaming and short video apps Likee Video and Bigo Live both ranked in Sensor Tower's top ten social media apps globally in August 2019. But users are spoilt for choice and the space is competitive.

Regionality is key to understanding how to spread a brand's marketing spend. According to SimilarWeb, Middle Eastern and Southeast Asian audiences are partial to Bigo Live, TikTok and Tango, while Livza is an Indian favourite and Japan loves Pococho Live. In China, YY.com, Inke, Huajiao and Yizhibo are just a few of the contenders, while giants like Alibaba's Taobao, Tencent's WeChat and Xiaohongshu have all optimised their apps with live stream functions of their own.

"A platform where you know a person has a subject-matter expertise through a badging system is in great demand."

Beauty brands in particular should pay attention to Asian live stream opportunities. Live stream influencer Li Jiaqi, also known as China's "Lipstick Prince," rose to fame for reportedly selling over 15,000 lipsticks in just 15 minutes on Taobao. But the medium is also being used by luxury houses, from live streaming runway shows and makeup demos (cue Burberry and Dior) to advertising and seeding products to influencers and celebrities. Such platforms may cater to a younger demographic, but users aren't afraid to spend. According to Sensor Tower, Douyin and TikTok grossed \$11.7 million through in-app sales of virtual coins in July 2019 alone.

One of Japan and South Korea's favourite apps, Snow was launched as a Snapchat dupe by Korean internet search giant Naver but has

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Chinese National Day in Beijing, China.
Photo by Guang Niu/Getty Images



since abandoned messaging functions to focus on helping users take flattering selfies and videos with an impressive array of augmented reality filters. Last year, Snow raised \$50 million from Softbank and Sequoia Capital China, and as of January 2019, James Mattone reported that Snow ranks among the top 100 apps for MAUs via Facebook logins, beating Netflix and ubiquitous US payments app Venmo.

Snow has already seen its share of fashion and beauty ads, but its augmented reality and facial recognition capabilities (the result of a partnership with Hong Kong-based AI unicorn SenseTime) will enable global brands to craft new online-of-fine experiences.

Artificial intelligence will become more integral to engagement. On Douyin (and TikTok, as well as rival apps like Xigua), users' home pages feature an AI-powered curation of content. "Rather than having a niche platform, I think all this content will live under the same platform, but everyone will have a different experience according to what they want," says Ma. "It will all be tailored to users."

In September, Douyin launched a game-changing in-video search function, allowing users to select a person or item of clothing and search for other posts containing them or buy the goods directly. "Brands need to be working toward how they can leverage the direction that social is moving to, and they need to be doing that now," Ma wrote online.

"This is merely the tip of the iceberg."

Super-Apps Morphing into Operating Systems

Though standalone apps will become more targeted, personalised and community-centric, super-apps won't stop being a valuable channel for engagement and sales.

Take WeChat, which in early 2019 announced that its daily active users had hit a staggering one billion. Growth is now slowing down, however, and some users are abandoning the super-app. Research firm Jiguang estimates that only 15 percent of people born after 2000 post daily on WeChat, as younger users dedicate more screen-time to platforms like Douyin (51 percent of the latter's user base was born after 1995).

Though some users may look elsewhere for their social media needs, Ma doesn't think WeChat will lose its dominance in China. Fortunately for parent company Tencent, the platform has morphed into something far greater than a social media tool.

"WeChat will never be irrelevant as a social operating system, with the utilities it provides such as mini programmes," he says, referring to the app-in-app function allowing users to access other platforms and perform transactions without leaving WeChat's interface — not unlike software such as Apple's iOS that grants a user the opportunity to run other applications.

"Brands need to be working toward how they can leverage the direction that social is moving to, and they need to be doing that now."

Louis Vuitton, Celine and Dior have all invested in e-commerce and gamified mini programmes of their own for the super-app, and Armani beauty this year launched an augmented reality virtual try-on shop that allowed users to try on lip colours without leaving their seat, or WeChat.

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“[WeChat is] more of a platform for other apps now,” Ma adds.

It is a similar positioning for Line, which in addition to 81 million MAUs in Japan has an avid user base in Thailand and Indonesia (amounting to 194 million globally) and counts Fendi and Dyptique as advertisers. Line users are likely to stick around for its range of services from mobile payments to navigation, if not the whole package. “Line has penetrated into every corner of Japanese lifestyle,” Euromonitor’s Yamaguchi says.

Yet fashion and luxury brands have so far been less willing to invest in ways to leverage super-apps like Line, South Korea’s KakaoTalk or Indonesia’s Gojek. Most have been focusing all their efforts to keep up with WeChat in China. China’s colossal size may be the justification, but that does not discount missed opportunities elsewhere using Asia’s other super-apps.

Despite the domination of super-apps, the rise of hyper-personalised platforms also presents fresh opportunities to reach an engaged and targeted audience. This is good news for brands, given the rising costs of acquiring and retaining consumers in competitive markets like China: the cost per thousand user views (CPM) of advertisements placed on Tmall has increased by an average of 60 percent since 2017, according to McKinsey’s ‘China Digital Consumer Trends in 2019’ report.

Either way, companies will be empowered to tailor their offerings and activations to their platform of choice, and each platform will acquire a stronger purpose. “Connect with your audience in different ways on different platforms, adapt your strategy [and] tactics to the user behaviours on various platforms and you will be rewarded for your effort,” advises Ma.

As ever, the caveat is for fashion players to ensure that any new platforms align with the brand’s DNA and objectives – and, wherever possible, to create content especially for that platform. For apps like Douyin, this means highly engaging content in a vertical short-video format.

“Don’t use recycled videos from other channels and previous campaigns because the type of video that works well is very different and unique to

“Connect with your audience in different ways on different platforms, adapt your strategy [and] tactics to the user behaviours on various platforms and you will be rewarded for your effort.”

Douyin,” Ma adds.

Though strategies will vary per platform, Whaley predicts that the brands who get the most out of “next-gen” social media will be the ones who see them through the eyes of everyday users. “Brands are always promoting or selling, and they forget that being on social media should be a social experience,” he warns.

Above all, crafting an engaging brand voice is what ties a digital presence together, especially on platforms that are new to brands. “Take a value-first approach to communication. Don’t miss the vision of being [genuine] communities,” Whaley adds.

Cutting-edge social platforms from Asia represent a lucrative opportunity in more ways than one, but for fashion and beauty players to cash in, they will need to remember to build trust and credibility on each platform.

04. IN THE NEIGHBOURHOOD

Consumer demand for convenience and immediacy is prompting retailers to complement existing brick-and-mortar networks with smaller format stores that meet customers where they are and reduce friction in the customer journey. The winning formula will feature in-store experiences and localised assortments in neighbourhoods and suburbs beyond the main shopping thoroughfares.

Today's consumers are used to getting what they want — when and where they want it. Convenience is key, and in terms of shopping that often means local in tandem with online shopping. Given that many people still like to touch, feel and try fashion items before they buy, the industry is well placed to benefit from this theme. We expect fashion retailers to ramp up their presence in neighbourhoods and new districts beyond traditional commercial zones, with stores that reflect the local community and focus on service and experience.

Consumers have become accustomed to immediate gratification and convenience and, superficially, online shopping fulfils that need. The wider context, however, is more complex. While e-commerce has raised customer expectations, only a third of consumers think shopping online is more convenient than going to a physical store⁶¹ and, according to an international study by Facebook, 85 percent of consumers cited convenience as the main reason to shop locally.⁶² In the fashion category, more than 70 percent of purchases are still made offline and online channels account for just 13 percent of luxury brand sales.⁶³ What this demonstrates is that physical stores do matter but they need to be convenient and meaningful for customers.

Broader consumer trends contribute to the growing desire to shop locally too. The decline in car ownership among younger urbanites means these consumers want and need more amenities on their doorstep. In food shopping, for example, consumers are swapping the weekly grocery shop for a series of small trips to local stores — in the UK these smaller trips now account for more than half of all baskets.⁶⁴

In the fashion category, more than 70 percent of purchases are still made offline.

Local shops also make returns much easier for consumers and from a retailer's perspective, the return rate for apparel is much lower for clothes bought in store than for those bought online (16 percent versus 25 percent respectively).⁶⁵

Consumer preference for local shopping is leading retailers to rethink their store network and to open in areas outside the traditional commercial centres. These may be more residential, but some are in smaller trendy commercial districts that are attracting start-ups and cultural institutions, and some may be in mixed-use retail complexes or even satellite cities.

Consumer Shifts

Examples already abound internationally. In the US, Nordstrom Local holds no inventory but provides styling services, fittings, alterations, as well as in-store pick up and return of both Nordstrom goods and those of rival retailers. Localisation is critical. According to Jamie Nordstrom, president of stores, “We want to drive engagement. The way you do that on the Upper East Side [of New York City] is different from the way you do that on Melrose in LA or downtown in [New York City’s] West Village.”⁶⁶

“The idea that people travel into the city... to shop has disappeared because they can do that online. Shopping has become much more local.”

In the UK, Anthropologie has announced plans to open stores in “neighbourhood” locations, with plans to more than double its number of stores by next year. These new stores are often considerably smaller than existing stores and each has its own look and feel based on its location. Peter Ruis, managing director of international, Anthropologie, told *Drapers* that “the idea that people travel into the city... to shop has disappeared because they can do that online. Shopping has become much more local.”⁶⁷

“Shopping local” has been gaining ground in emerging and frontier markets too. Pakistani fashion and lifestyle brand Khaadi has traditionally sold both ready-to-wear and unstitched fabrics in its large-scale stores. Recently, it opened specific fabric concept stores, catering to customers who want to create their own bespoke clothing. The new format stores are opening in areas outside the large shopping neighbourhoods in mid-sized cities, and enable Khaadi to compete directly with small, informal cloth shops.

Mixed-use developments are increasingly popular in many parts of the world.

In mall-friendly Dubai, Meraas has launched several projects that seek to create new “urban destinations,” combining residential units with retail, leisure and food. For example, right next to villas in the city’s Al Wasl area is the developer’s low-rise City Walk complex with boutiques at street level rather than enclosed in a mall.

In Bangkok, mixed-use developments are an increasingly popular solution to escalating land prices, with large-scale new projects including One Bangkok and The Icon Siam, to name a few.⁶⁸ Retailers taking space in these properties benefit from the steady footfall of both the buildings’ residents and their office workers.

Sometimes, going “local” means moving outside of downtown shopping districts as they become congested. And in multi-nodal Asian mega-cities that are more decentralised than those in Europe and the US, “it’s not [one] strong core and then suburban areas,” says Albert Chan, director of development, planning and design for real estate developer Shui On Land, which is working on the Ruihong Tiandi development in Shanghai’s regenerated northern district of Hongkou. “The people who live in a community [now] tend to live, work and play in that community.”⁶⁹

Malls are still very popular in these new areas — for example, in Shanghai’s Minhang District, the city’s second largest, 29 new malls opened in 2016 alone. These malls attract both domestic retailers and major international brands such as Nike, Sephora, Uniqlo and Calvin Klein who recognise that some of their customers no longer spend much time in the traditional central business district of a megacity like Shanghai.

Whatever the context of these new stores, simply replicating existing standard store formats is unlikely to excite increasingly demanding consumers. The more community-focused the store, the more ambitious it needs to be, in many cases delivering experiences more akin to flagship stores but at the micro level.

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Dr. Martens has established an experimental store in a nineteenth-century building in the heart of London's Camden Market. In addition to its full range of products, the store also offers exclusive limited-edition designs, features artwork commissioned by The Specials bass player Horace Panter, and a space for customers to personalise their Dr. Martens shoes (whether old or new).

American fashion designer Eileen Fisher chose to launch a hybrid retail store concept in Brooklyn as a nod to the unique character of the New York City borough. "Making Space" focuses on innovations, ideas and experiments, and has space dedicated to community engagement with workshops, movie screenings, gallery shows and neighbourhood events. Every fortnight a different artist-in-residence is featured, and the store also offers a mindfulness programme.

Some digitally native brands also find local neighbourhoods more appealing for their flagship stores. In the US, players such as Reformation, Everlane and Warby Parker have seen the value of being where customers live and offer a physical showroom rather than a full range of products. Absolute footfall is less important for these retailers as the bulk of their sales remain online.

Customers' growing desire for convenience and to shop close to home means that in 2020, we expect moving into the neighbourhood to be a core pillar of fashion retailers' omnichannel strategy. This means using a wide range of local store formats that complement both flagship locations and digital channels, and that can serve customers where they live both for sales and returns.

These smaller, more decentralised stores will focus on personalised service and use design, highly focused assortments and experiential elements to be locally relevant. Some may be pop-ups, some might be in new corners of established neighbourhoods, but all will seek to boost brand awareness and loyalty and will need to rely on highly efficient inventory management. Retailers will further explore the potential

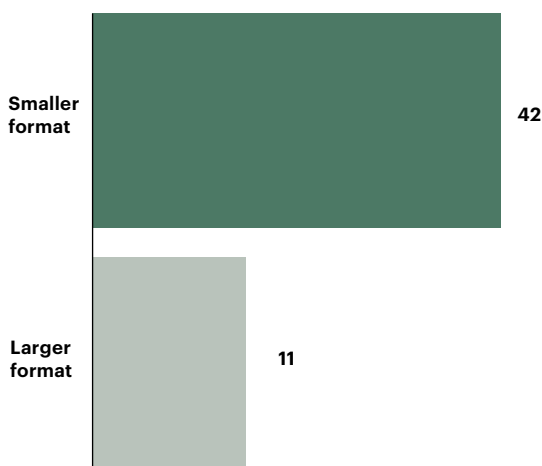
of artificial intelligence and machine learning to create tailored assortments for their local consumers.

In countries where urbanisation is still a prevailing demographic trend, fashion retailers are likely to take the opportunity to move into new retail space in smaller satellite cities and mixed-use residential complexes in the mega-city. Whatever the store format or brand aesthetic, the winning formula will be focused on maximising the use of these new spaces both for servicing and acquiring customers.

Exhibit 6:

Over 40 percent of survey respondents anticipate smaller format stores playing an increasingly important role next year

% OF RESPONDENTS ANTICIPATING THE CHANGE IN THE ROLE OF STORES NEXT YEAR



SOURCE: BOF-MCKINSEY STATE OF FASHION 2020 SURVEY

Pete Nordstrom

Co-President, Nordstrom Inc.



A fourth-generation member of the Nordstrom family, Pete Nordstrom is rolling out more of the American department store's smaller formats in a bid to optimise the omnichannel experience by reducing friction and harnessing the power of the local neighbourhood.

— *by Lauren Sherman*

Nordstrom co-president Pete Nordstrom started working at his family's downtown Seattle store as a stock boy when he was just 12 years old. By the time he turned 16, he was selling shoes out on the shop floor. Over the years, Nordstrom has become known as the concept guy, campaigning in the early 2000s to bring more avant-garde and cool young designers into the retailer's high-low fold, enlisting industry insiders like Jeffrey Kalinsky and Olivia Kim to modernise the operation.

Now, Nordstrom is embarking on his most challenging concept yet: opening a colossal full-price women's store on the island of Manhattan, the most competitive retail market in the US. Central to his New York strategy is the roll-out of smaller formats across the city in upmarket residential neighbourhoods like the West Village and the Upper East Side that will be virtually anchored by the new Midtown

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location. Not to be confused with Rack, the company's off-price chain, these smaller Nordstrom Local outlets don't hold inventory. Instead they are service hubs for online pickups and returns, alterations and personal styling.

With proof of concept from the three Local outlets he opened in Melrose, Brentwood and Downtown Los Angeles between 2017 and 2018, Nordstrom feels ready for New York. At a time when multi-brand retail is in major flux, the department store veteran seems confident in the new format as more Local stores are in the pipeline for both cities. Harnessing the convenience of local neighbourhoods to boost the omnichannel experience sounds sensible enough, but has Nordstrom really discovered the missing link in the fashion store network of the future?

could bring our services to people and connect the digital and the physical store world, that would increase engagement—and that would increase wallet share with customers. That, in fact, was exactly what happened in our LA store.

So you saw an uplift when you began opening the Nordstrom Locals?

Yes, what we saw first was when people engaged with it, we got quite a bit more spend, more wallet share from them. Then it was like, how can we get more people through? Ultimately, the way we're going to define success with this whole strategy is: can we gain market share? That's the outcome we're looking for and it's been just really in the last handful of months where we've moved the needle on that. We've got a fairly high degree of confidence that it will work in New York as well.

a chance to sell [customers] something else if they're returning it or changing it.

Are services at Nordstrom Local stores tailored to each location?

In New York, for example, one of the things we do on the Upper East Side is we've got this stroller cleaning thing. I have a little kid, so I get it. It turns out that's really popular and makes sense, particularly in New York where people are walking around all the time. I don't know if that would make as much sense [in our Melrose Avenue Local store] in LA, but it certainly has worked really well in New York. [Another example is] on Melrose, we have nail services. That's not unique to LA, but that's one that worked pretty well there.

Are there things that you have done in LA that have been particularly successful that you're bringing to New York?

People like... the ability to return or exchange an online purchase, that's a big one. One of the benefits [of] Local [is that] we take the friction out of the returns and the benefit to us is we get returns back faster. If you think about the transit time of mailing around returns, particularly of unworn goods, that's inventory for us and, if it's out in the mail system somewhere or on the road, it's inventory we can't sell. If it's going to come back, we want to get it back soon. If we make it convenient for people to return stuff, we get it back sooner and it enables us to be able to sell it.

Anything else?

The alterations [service] is a big one [because] people are

“Physical stores make for a better online experience rather than having to ship stuff back through the mail, [and it] creates trips to a physical store, so you get a chance to sell [customers] something else if they're returning it or changing it.”

BoF: What was the thinking behind your strategy for the smaller Nordstrom Local format?

To do it in one place [or] a couple places and if we get proof of concept, then we can learn fast [and] roll it out.

What did you learn after opening your first couple of Local outlets in LA?

What we found was that if we

In terms of Local stores and how they drive revenue online, can you tell us how that interplay actually works?

Our experience is if we add a physical store to a market that we're not in, the online business grows by 20, 25 percent... Physical stores make for a better online experience rather than having to ship stuff back through the mail, [and it] creates trips to a physical store, so you get

Executive Interview

buying a lot of stuff online and a fair amount of people require some kind of alteration. I think we're the largest employer of alterations tailoring people in the country, because we have them in every store. We also have them in the Locals. We provide that service for not only Nordstrom purchases but if they have stuff they bought from other places. We charge for that service and we're good at it.

Is it true that you allow customers to drop off returns of merchandise from other retailers too?

Yes, I think you'd have to look at it in the way that a UPS store [operates]. It's not that we're taking back [other retailers'] returns, it's just you've got to get this thing mailed [so] we'll do it [for you]. We've got all those carriers coming through that store every day and we'll act as an intermediary to facilitate your return.

We have a clothing take-back [service too]. If customers are cleaning out their closets and want us to donate the clothes, we do that. We're learning [and] we're nimble enough to try stuff and if it doesn't work, we try something else and empower our teams to come up with good ideas. It's been a pretty fun process [and] we feel like we have a good understanding of what we need to do with these Local outlets in New York.

How does your inventory management system work within the same city? For example, what happens when a customer bought something at one of your full department store locations like Nordstrom The Grove

or Nordstrom Rack in LA but then returns it to a smaller Nordstrom Local store in LA? Can you just move it across the city, or does it need to be processed through a central distribution centre?

It kind of depends. A lot of the stuff that we take, if we take it back in a Local, we don't keep the inventory there because we don't really have the inventory, but we would keep it probably in the [local market] ecosystem. The idea of all this is utilising our local, physical assets to be more than just a store, but actually, to be a facilitator of moving inventory around in an efficient way.

“We say, ‘embrace the brown box, embrace the bag’ because the customer is coming in and they need help and we’re there to provide it.”

I know you’ve recently opened your full-price women’s store in Manhattan. How do you envision this store interacting with and feeding off the Local stores in New York?

It's almost the perfect environment for those highly-concentrated areas where literally you can move stuff around with a van, and you can have stuff for customers in a matter of hours rather than days. It's just, again, the perfect marriage of physical assets and the digital online business, which [although] it's not unique to us, it's a compet-

itive advantage that we would have over a pure online [player] that doesn't have physical assets that they can utilise in this way. [It will also] make for a better customer experience.

‘The third place’ concept for retail has been around for decades. How do you feel about this in terms of both your small-format stores and your large-format stores? Do you want people spending extended periods of time there?

Yes, we're keenly aware of that concept. Our deal's a little bit different. I don't think we necessarily expect that people are just going to be hanging out at the store. However, there are reasons to be there and they're not just about buying a pair of shoes. For example, what we have in the women's store is seven different places where you can eat or drink. Some are bigger or smaller than others [but] food... is a great reason to be able to stick around and not have to leave.

How much of your thinking is about the practical solutions that retail can provide versus the fun or cool factor of the retail experience?

We've got a big culture around customer service and every good comment we get is [about] a customer who came to us with some kind of problem or situation [that] we solved for them. It's not like, 'I came in on the best day of my life and I was so happy, and I was going to buy a lipstick and I bought it. Thanks for selling me a lipstick.' It's like, 'Oh my God, I only had five minutes,' or, 'I forgot to pack my shoes and I'm in New York and I

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had to get some shoes at 10:00 at night and you guys picked up the phone, I was able to get them.'

Can you give an example?

When a customer walks into a store and they've got an old Nordstrom bag or a brown box or something, your first reaction as a sales person is 'I'm going to have to facilitate a return, but I'd rather be selling something.' We turn that around, we say, 'embrace the brown box, embrace the bag' because the customer is coming in and they need help and we're there to provide it. It creates a great opportunity to create a relationship, to create an experience for a customer that may or may not pay off in that moment but plants the seed that if I'm going to go to a store like this, Nordstrom is the best place to go because they've taken the friction out of it.

"If we're going to be a success in Manhattan, it's got to be more [than] just the nice new store in the neighbourhood. It's got to connect the digital and physical world."

'Embrace the brown box' — that's a good motto. How does your localisation strategy play out in terms of the wider company goals?

All this stuff is somewhat new. There's not a blueprint for this because our business has evolved and changed so

much, and the industry has [too, but] it's got to score on a lot of different levels. The greater New York City market is the biggest retail market in the country. We have Long Island or New Jersey and the surrounding areas, [but] if we're going to be a success in Manhattan, it's got to be more [than] just the nice new store in the neighbourhood. It's got to connect the digital and physical world. It's got to serve more broadly [and] because we have these Locals — these other places to interact with Nordstrom — it allows us to cover the whole island.

How does doing neighbourhood retail well in New York, for example, impact the picture nationwide?

If the only thing we do by opening a physical store there and connecting all the dots... is make the New York market our number one market, that's big. That's a lot. We can see what the size of the prize is; we know what we're trying to achieve. Currently, our number-one market is Los Angeles, just in terms of total revenue. But if we can fulfill the promise of what New York has to offer in terms of market size, then that will be a big lift to the top line of our business.

This interview has been edited and condensed.



Unlocking the Power of Stores

In an era defined by digital, it is all too easy to assume that physical stores are on the decline. Why invest vast sums of money on a store network, distribution and labour when your customers are increasingly shopping online? We believe that stores will continue to play an important role in the future. An evolution is required, as the modern store will need to adapt to shifting consumer behaviour and complement the increasingly digital nature of fashion retail.

by Jennifer Schmidt, Gerry Hough, Holly Briedis and Tyler Harris

Industry forecasts suggest that nearly 100 percent of growth in the US apparel market will be omnichannel sales in the next three years.⁷⁰ Moreover, four in five customers shopping in stores today browse the internet on their phones as they go. Forward-looking brands have bought into this reality and developed tailored digital propositions that complement and enhance their physical offerings. In September 2019, McKinsey opened an outlet in the Mall of America, the largest shopping centre in the US. The objective was simple: to test the effectiveness of new technologies in a live customer environment.

Here is a vision for how stores in the future might look. For the customer, cutting edge tools create an immersive experience and aid decision-making on interactive devices. Smart mirrors that use the latest in augmented reality help a customer see what they will look like wearing the product. Additionally, mobile capabilities provide real-time access to product details and reviews via near-field technology. For the store and its staff, technology also underpins a new norm of selling, operations and insight generation.

It will be possible to connect the full customer journey using RFID tags, traffic cameras and automated inventory management. This will

drive productivity while gathering rich customer pathing data that is compliant with personally identifiable information (PII) standards. These innovations can make a big difference to associate productivity and conversion — a client of visual-AI company Syte, for example, saw a 12 percent increase in basket size after installing mirrors combining AR-capability with technology-enabled recommendations. They stitched in-store behaviour and external data sources to provide targeted styling advice.



Customers using near-field communication (NFC) hotspots to access product information [without the need for app/downloads]

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A fully tech-driven in-store experience is currently the exception rather than the rule but early adopters have placed it high on the C-suite agenda. Even direct-to-consumer brands are believers in a tech-enabled physical environment. ThirdLove, a “body-positive clicks-to-bricks lingerie company,” recently opened a brick-and-mortar Manhattan outlet paired with a size-finding app.⁷¹ In the Mall of America store, the company is now exploring “the optimal level of interaction between shoppers and staff” for these new digitally integrated stores.⁷²

As industry participants consider the “store of the future,” the phrase alone can be evocative. Players at the cutting edge are increasingly exploring a realm of technologies that could one day become commonplace in the store. These range from consumer-facing displays with enhanced augmented reality applications that layer personalised pricing or even décor into your view, to operations-enabled devices like thermal imaging technology that automatically detects replenishment needs while determining patterns in customer movement through space.

Stores packed with cameras, sensors and data analytics seem like they may elicit negative reactions from consumers concerned about privacy. The truth is that most of today’s technology can be implemented in very compliant and engaging ways. This ultimately means that brands can build a closer relationship with customers and more efficient operations. These technologies help drive more personalised or localised assortments. Indeed, some retailers that

use omnichannel data to add local or trending displays to their stores understand, that many customers value shopping with a brand whose assortment feels authentic to their geography or neighbourhood. In the Mall of America store, Kendra Scott created a colour bar based on the highest selling jewellery gemstones in the mall’s surrounding metro area.

In a world of choice, customer loyalty drives economic advantage. In that context, technology can be a critical enabler of the knowledge, empathy and operational efficiency needed to create a winning edge with the customer. The key, as in any relationship, is to go beyond simple pieces of information (traffic or purchase data, for example) to a holistic, end-to-end view of the person at the time. While this may require substantial investment — and likely re-platforming of the tech stack to accommodate larger volumes of data — brands that opt not to engage may find themselves left outside the room as relationships become increasingly personalised. The good news is that companies can test ideas before fully jumping in via use cases, small-scale experiments and/or through leveraging dedicated test spaces.

Research shows that more than half of customers are likely to shop at a retailer that allows them to use a shared cart across channels. The shopping experience of the future — and one that includes the store as an ever-important channel — is high on both customers’ and retailers’ agendas.⁷³ Shoppers want to make informed choices and have the confidence that they are paying the best price, in any channel. Many of these capabilities, like all evolving technology, have become increasingly affordable and practical to implement. When executed effectively, this can turn stores into havens that make customers feel at home — or give customers the freedom to engage from home. Either way, it’s a win-win.

The authors are part of McKinsey and Company’s “The Modern Retail Collective” team, a fully technology-enabled store which opened inside Mall of America in September 2019. The store provides a dedicated and fully supported arena for retailers to test and measure how innovations resonate with consumers throughout an interconnected space.

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The global fashion industry is extremely energy-consuming, polluting and wasteful. Despite some modest progress, fashion hasn't yet taken its environmental responsibilities seriously enough. Next year, fashion players need to swap platitudes and promotional noise for meaningful action and regulatory compliance while facing up to consumer demand for transformational change.

When it comes to the environment, the fashion industry's record is well documented. Fashion accounts for 20 to 35 percent of microplastic flows into the ocean and outweighs the carbon footprint of international flights and shopping combined.^{74 75} It is no wonder, then, that campaigners who target the industry as part of Extinction Rebellion describe the industry's potential future impact as "catastrophic".⁷⁶

Demand for change is being led by the young. Activists such as 16-year-old Greta Thunberg attract global headlines, bringing forward a call to action to address environmental sustainability, adding to the lexicon on the subject by using "crisis" and "emergency" over "change" and "warming." Thunberg says, "It's 2019. Can we all now call it what it is: climate breakdown, climate crisis, climate emergency, ecological breakdown, ecological crisis and ecological emergency?" More than 7.6 million were inspired to participate in the Global Climate Strike in September.

In the fashion industry, scrutiny has been building. Environmental protests at London Fashion Week in September generated significant press. Commentators have been increasingly shedding light on the industry, from

the mainstream press to publications like Dana Thomas' *Fashionopolis: The Price of Fast Fashion and the Future of Clothes*.

These activist movements are making consumers increasingly aware of the environmental impact of fashion. Some 66 percent of respondents to a McKinsey US cohort survey (and 75 percent of millennial respondents) say they consider sustainability when making a luxury purchase.⁷⁷ Still, consumers do not always back words with actions. Only a minority are willing to pay more for sustainable products — only 31 percent of Gen-Z and just 12 percent of baby boomers.⁷⁸

"It's 2019. Can we all now call it what it is: climate breakdown, climate crisis, climate emergency, ecological breakdown, ecological crisis and ecological emergency?"

It is well-known that even consumers' stated willingness to vote with their wallets does not translate to the same degree in actual

05. Sustainability First

purchases of sustainable fashion. Closing this gap and changing consumer behaviour is made even more difficult because of a lack of clear information and tools for the consumer. Consumers are unsure what “sustainability” means or how to identify sustainable brands.⁷⁹ A survey of corporate representatives across over 100 European firms shows consumers are often swayed by misinformation or lack of information.⁸⁰ Still, as awareness has grown, so has the quest for knowledge. Internet searches for “sustainable fashion” tripled between 2016 and 2019.⁸¹

“Nothing is black and white, unfortunately... It’s huge shades of green, really. That makes it very difficult because it lends itself very easily to greenwashing and misunderstanding... that can be quite confusing for the consumer,” concedes Nina Marenzi, founder and director of The Sustainable Angle, an organisation that stages the London-based Future Fabrics Expo. Industrial, governmental and international bodies are increasingly on the front foot to close this gap for consumers. In early 2019, ten UN organisations launched the UN Alliance for Sustainable Fashion. In June, France, a global leader in luxury fashion, introduced a ban on the destruction of unsold fashion goods (to be implemented by 2023), with manufacturers and retailers obliged to donate, reuse or recycle. The move was the first of its kind in the world on a national level.

The German government in September unveiled the Green Button — the world’s first government sustainable textile label. The EU’s Circular Economy action plan, meanwhile, aims to ensure products can be repaired or recycled, with textiles as a key priority.

All this activity is having an impact in now bringing the environmental agenda to centre-stage. At the G7 summit in August, Kering chief executive François-Henri Pinault spearheaded French President Emmanuel Macron’s new Fashion Pact, aimed at reducing environmental impact. Mr Macron said roughly 150 brands had joined that weekend,

with a further hundred joining since then.^{82 83}

Brands are taking action on other fronts too. Many are making efforts to increase sustainable options for consumers, or even make it the new normal in the future. Zara this year pledged to use 100 percent sustainable fabrics by 2025, joining H&M which earlier committed to using 100 percent recycled or sustainable materials by 2030, among a host of broader sustainability commitments by the company.^{84 85} Adidas has committed to phasing out virgin polyester by 2024. LVMH announced its own series of commitments for the environment and biodiversity during Paris Fashion Week in September, including an Animal-based Raw Materials Sourcing Charter; the Charter among other initiatives specifies a target of 70 percent of the groups leather to be sourced in Leather Working Group (LWG) certified tanneries, up from 48 currently.

“Nothing is black and white, unfortunately... It’s huge shades of green, really. That makes it very difficult because it lends itself very easily to greenwashing and misunderstanding... that can be quite confusing for the consumer.”

There is also increasing response to consumer demand for newer business models which tackle overconsumption, such as rental and resale, as predicted in last year’s report (“End of Ownership”). We expect this will continue, admittedly still accounting for a low share of the total market in 2020.

Digitally native brands are taking different approaches. Everlane has committed to “radical transparency” through its supply chain. On its website it posts photographs of shop floors in its supplier factories, gives a voice to factory workers and shares price breakdowns.⁸⁶ Reformation

Consumer Shifts

made its first clothes exclusively from deadstock materials, and on its website runs the tagline “Being naked is the #1 most sustainable option — we’re #2.”

There is movement among e-commerce players too. Multi-brand retailer Asos and Global Fashion Group’s The Iconic earlier this year introduced search filters for recycled fabrics. Farfetch’s Conscious Edit targets sustainable products, and Zalando has expanded its sustainable offering.

“Being naked is the #1 most sustainable option — we’re #2.”

While the absolute number of mass market products made from sustainable materials remains low, there has been a five-fold increase over the past two years.⁸⁷ In some corners a materials revolution is under way, with recycled and lab-created textiles to the fore. [See next theme, Materials Revolution.]

“There is no sustainable material, per se, because for everything you need a resource,” says Marenzi. “It’s a matter of how [long] the resource can stay in the [user] cycle, with the least amount of impact [from] extracting and processing, with end-of-life then being as easy as possible — going back into the soil or being used again for another purpose.”

“It is very complex [but] having a much more vertical, integrated supply chain approach [means] you are in full control of your materials; the more vertical you are, the more you can mitigate [...] your impact on the oceans and climate and biodiversity.”

According to Lidewij (Li) Edelkoort, a trend forecaster and dean of hybrid studies at Parsons School of Design in New York, “material innovation is only one stitch in the complex rebirth of fashion. Slowing down, streamlining production and editing collections are the most important guidelines.”

A number of industry leaders have voiced their commitment to sustainable offerings across their product ranges, which will likely catalyse a virtuous circle of awareness, considered spending and progress. Mass-market players, meanwhile, are continuing to work on reducing prices of sustainable options which have traditionally been priced at a premium. This will help a broader range of consumers make more sustainable choices.⁸⁸

Despite all this activity, the industry has a long way to go before achieving transformative change. In fact, Global Fashion Agenda’s Pulse 2019 Update reveals progress slowed in the past year, with most of the industry still not engaged.⁸⁹ There remains a pervasive lack of consumer trust, amid accusations in some quarters of fashion industry greenwashing using sustainability as a marketing strategy without a significant positive impact on the environment.⁹⁰ One controversial activity is carbon offsetting, by which brands pay a third party to either capture carbon or avoid emitting, without reducing their own carbon footprint. While an important step in accelerating decarbonisation, the practice in isolation is viewed by some as an excuse to take the easy route.

While the absolute number of mass-market products made from sustainable materials remains low, there has been a five-fold increase over the past two years.

Regulators are set to push harder in 2020, and in some cases are already doing so. The UK’s Advertising Standards Authority (ASA) warned vegan fashion brand Matt & Nat over exaggeration of its use of recycled materials. The Norwegian Consumer Authority (CA) prompted H&M to more clearly communicate to consumers about the pollution it creates.^{91 92}

Looking ahead, we expect in 2020 to see regulators continuing to raise standards and

05. Sustainability First

impose new rules and consequences. In addition, we anticipate the media to increasingly take a role in better educating and encouraging the conscious consumer. Emboldened by these forces, better-informed and more confident consumers will seek out sustainable brands and develop their awareness. Apps like Good On You and Buycott are becoming a major part of the consumer's purchasing journey, and sources like the Sustainable Apparel Coalition's HIGG index, which allows fashion players to assess their own sustainability, will be available to consumers.⁹³

There remains a pervasive lack of consumer trust, amid accusations in some quarters of fashion industry greenwashing using sustainability as a marketing strategy without a significant positive impact on the environment.

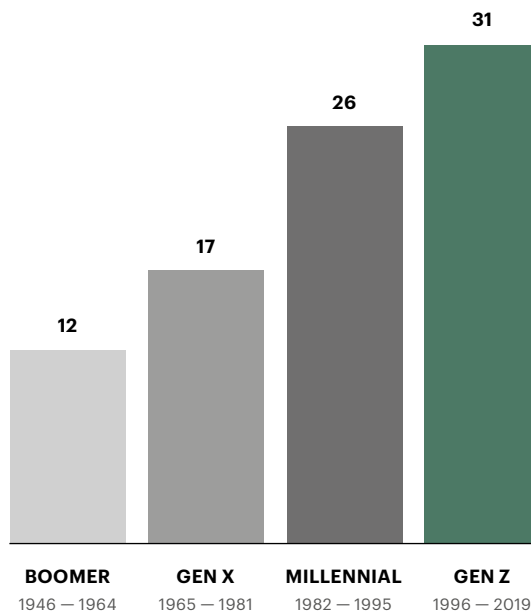
Finally, some imperatives for brands. Their primary focus should be on helping customers consume fewer resources. One area they can target is overproduction. Reduced supply, combined with an ambition to reduce discounting, can even have a positive impact on the bottom line. Fashion players should consider fresh ways to tackle transparency, both at point of sale and across other touchpoints, understanding the need both to educate and emotionally engage. While a revolutionary notion for some, brands at the forefront should also invest in the circular economy, breaking the link between production and revenue, back recycling and embrace sustainable materials and technologies. One of the most immediately important things they need to do is take action to track and reduce environmental impact, moving beyond transparency (one of our 2019 themes) to real action. That means setting

concrete (ambitious, but achievable) targets and publishing roadmaps so consumers and investors can hold them to account if targets are not met. This would be a strong step towards one day seeing collaborative sustainability roadmaps for the entire industry, providing clarity to the innovators and suppliers on the prerogatives for the future. None of these imperatives are easy, but taken together, they may finally tip the scale in favour of making more environmentally sustainable fashion a reality.

Exhibit 7:

Younger generations increasingly state that they will pay more for products that have the least negative impact on the environment

% OF US CONSUMERS IN 2019 WHO WOULD PAY MORE



SOURCE: MCKINSEY NEW AGE OF THE CONSUMER US SURVEY 2019

The Future of Upcycling: From Rags to Riches

As the fashion industry grapples with how to keep old clothes out of landfills, finding ways to scale long-standing upcycling initiatives offers one near-term solution.

by Sarah Kent and M.C. Nanda

For more than a year, designers at Patagonia have been working on a difficult problem: how to collect, sort and transform thousands of irreparable old clothes into desirable items while turning a profit.

In November 2019, Patagonia produced around 10,000 jackets, sweaters and bags upcycled from old garments for its ReCrafted line. While the price point for the products will vary, the brand is expecting to sell the garments at a level in line with new items — ranging from a small bag (\$27) to down jackets (\$327). ReCrafted debuted at the opening of the brand's Worn Wear store in Boulder, Colorado.

The project turbo-charges long-standing efforts by designers to upcycle old clothes and reduce the waste generated by the fashion industry. Historically, such projects have largely consisted of small-scale capsule collections because working with old garments is complex and difficult to scale.

“It’s really hard to work with old garments at various stages of use and break down,” says, Patagonia’s director of corporate development, Alex Kremer, who oversaw the ReCrafted project. “It takes a crazy amount longer; it’s a much more daunting process to see a pile of jackets and to make something out of them than out of a roll of fabric.”

If upcycling is a challenge for California-based Patagonia, which has a long-standing track record of operating at the forefront of efforts to clean up the fashion industry, then it will be

even more difficult for the average apparel brand. However, tackling the wider problem of waste in the context of a more circular system has become a priority for a growing number of fashion companies.

The focus reflects both the scale of the problem and the fact that tangible and measurable solutions are now possible. According to the Ellen MacArthur Foundation, the global fashion industry produces about 53 million tonnes of fibre every year. More than 70 percent of that ends up in landfills or on bonfires. Less than one percent is reused to make new clothes.

“It’s really hard to work with old garments at various stages of use and break down. It takes a crazy amount longer; it’s a much more daunting process to see a pile of jackets and to make something out of them than out of a roll of fabric.”

It’s an environmental impact issue that consumers can easily understand, and one that companies can demonstrate they are making progress to tackle. Though waste reduction is by no means simple, it can be easier to communicate than efforts to reduce emissions or tackle water use in obscure parts of the supply chain.

“Circularity is quite tangible,” says Sarah

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Needham, knowledge exchange manager at UAL, London College of Fashion's Centre for Sustainable Fashion. "Taking steps towards recycling and encouraging the circular economy is something [brands] can grab hold of and make concrete steps towards."

Still, more ambitious solutions and higher levels of investment are needed for waste reduction. Heading into 2020 fashion companies will need to leverage new technologies and grow consumer appetite for upcycled or recycled clothes.

According to the 2019 survey of apparel company chief procurement officers by McKinsey, increasing the use of recycled fibres is one of four innovation-led disruptions likely to become prevalent throughout the industry by 2025.

"Circularity is quite tangible, taking steps towards recycling and encouraging the circular economy is something [brands] can grab hold of and make concrete steps towards."

Signs of progress are on the horizon, with a slew of companies already making efforts to meet near-term targets like providing training in sustainable and circular design to employees. Elsewhere, new recycling technologies and new business models focused on digital rental and resale offer promising opportunities to extend the life of old clothes.

In spite of the growing momentum, the industry's efforts to tackle its waste problems are still at an early stage. Many of the solutions currently in the works don't go to the root of the problem: the need to make and consume less.

That makes efforts to enhance the long-standing practise of upcycling particular compelling in fashion's nascent war on waste. Reworking existing garments or fabrics doesn't

require virgin materials and, in most cases, it doesn't require cutting-edge technology either. At its simplest, upcycling represents relatively low-hanging fruit in fashion's quest to reduce its impact; huge amounts of waste are generated in the manufacturing process and reducing that can be relatively easy and bring significant economic benefits.

In spite of the growing momentum, the industry's efforts to tackle its waste problems are still at an early stage. Many of the solutions currently in the works don't go to the root of the problem: the need to make and consume less.

"It's a hierarchy," explains Michael Sadowski, research fellow at the World Resources Institute. "You start with what's in front of you and what's logistically and technically possible, and then go on to focus on the hard stuff."

Particularly for younger brands that want to operate in a more conscious manner, working with offcuts, or excess materials, is also financially compelling. "Throwing stuff away in a landfill, you're also throwing away money," says Jonathan Cohen, whose namesake brand is introducing a direct-to-consumer line of upcycled garments in December 2019, made from their own deadstock.

It's something bigger brands are looking at too. For instance, Burberry has partnered with luxury brand Elvis & Kresse to repurpose its leather offcuts into handbags and other accessories.

To be sure, scaling such efforts requires significant adjustments to the industry's traditional mode of operating, swapping out the freedom of choice provided by virgin materials for the creative challenge presented by limited volumes or quirks and imperfections in the fabric or offcuts available.



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“You just have to disconnect from a preconception of an existing supply chain model and really think creatively around what’s happening,” says Graeme Raeburn, performance director at London-based fashion brand Raeburn, which has built a business out of reworking surplus fabrics and garments.

There are logistical challenges too. Fashion’s sprawling and opaque supply chains mean that identifying and sourcing deadstock fabrics is not always straightforward. Often times material will sit in far-flung factories with little visibility on what is available. When Cohen made the decision to find ways to use his offcuts, he first had to take time tracing his supply chain and negotiating with his mills. “It was like starting the relationship all over again with your fabric mills,” says Cohen.

“I just can’t imagine that in 10 years or 20 years the flaws in this model will be acceptable to people as a whole.”

Industrial design studio and innovation consultancy Alexander Taylor is planning to launch a brand next year using leftover fabric sourced from a single manufacturer in China.

Simply understanding the volume and quality of materials available has proven a laborious process that involved combing through stacks of catalogues and physical swatches.

Upcycling complete garments is significantly more challenging than upcycling fabrics. To make it work, brands need to rethink the way they design clothes and roll out take-back schemes that give them access to post-consumer waste.

At American fashion brand Eileen Fisher, designers are already looking to rework the materials they use when making new garments to make it easier to keep clothes in play when they get to the end of their life. Fabrics that contain

a wide variety of fibres can complicate the life cycle of a garment. “That’s a problem that we take [to] the design team and say, ‘Well is there an alternative to this fabric?’ Do you know how can we simplify it?” says Shona Quinn, the brand’s sustainability leader.

In many ways companies like Patagonia are uniquely positioned to lead such efforts because of the years they have already spent working to reduce waste. The pioneering brand has a well-established take-back and resale programme already in place, providing the company with a sophisticated infrastructure to sort and process old clothes.

Even so, upcycling is far from simple. When you’re dealing with waste as your raw material, you have less control over what comes through the supply chain. A red jacket from twenty years ago might be a completely different shade from one produced two years ago, making it difficult to pair the two when constructing a new garment. Equally, while a roll of fabric can be cut to any shape the designer likes, there’s a limited amount that can be achieved with a size XS jacket.

Despite the many challenges, Patagonia still views upcycling as a model that others in the industry can follow — albeit one that will attract a limited number of followers. “I just can’t imagine that in 10 years or 20 years the flaws in this model will be acceptable to people as a whole,” says Vincent Stanley, Patagonia’s director of philosophy.

FASHION SYSTEM



06. MATERIALS REVOLUTION

Fashion brands are exploring alternatives to today's standard materials, with key players focused on more sustainable substitutes that include recently rediscovered and re-engineered old favourites as well as high-tech materials that deliver on aesthetics and function. We expect R&D will increasingly focus on materials science for new fibres, textiles, finishes and other material innovations to be used at scale.

In the past, fibre technology and materials science were confined to specialists, sports and outdoor players, and the margins of the fashion industry. But no longer. Some of fashion's biggest brands have joined the new "materials revolution," characterised by rising investment, radical experimentation and a growing commitment to sustainability.

Today's spirit of innovation is reflected in a growing lexicon of synthetic and re-engineered fibres. Bio-fabricated leather, biodegradable textiles, closed-loop recycling and e-textiles are buzzwords that are fast entering the manufacturing mainstream. Moreover, they are contributing to an enhanced design palette and a range of new commercial opportunities.⁹⁴

Companies around the world are set to file eight times as many fibre innovation patent applications in 2019 as they did in 2013, based on McKinsey analysis (see Exhibit 8). The sharp rise suggests fibre innovation is moving decisively from the margins to the mainstream. Industry insiders are also coming around to that view: 45 percent of apparel companies surveyed by McKinsey are looking to integrate more innovative bio-based materials⁹⁵ and over 67 percent of sourcing executives state that

the use of innovative sustainable materials will be important for their company.⁹⁶

Some broad areas of innovation are showing exceptional promise. Chip-containing fibres, for example, are gaining traction. Brands including New Balance, VF Corporation and 3M are experimenting with leather alternatives such as Piñatex, which is made of pineapple leaf fibres. These alternatives are attracting attention from companies including H&M, Hugo Boss and Chanel. Alongside these examples, a range of new ideas are being trialled that will push the envelope on both sustainability and functionality.

We see three key drivers of accelerating activity: shifting consumer sentiment (often reflecting rising environmental awareness), regulation in areas such as e-textiles and accelerating investment in research and development.

Consumers are prioritising the environment in the choices they make, and some people are willing to pay more for products that have less negative impact. Younger cohorts in particular hold strong beliefs, with a third of Generation Z (born after mid-1990s) in the US saying they will pay for sustainability compared to around one in 10 baby boomers.⁹⁷ When it comes

Fashion System

to innovation, consumers are also keen for their fashion choices to reflect their digitally enhanced lifestyles.

Secondly, lawmakers are working hard to ensure the fashion and textile industries comply with standards expected by consumers in other aspects of their lives. As discussed in Sustainability First, the EU's Circular Economy Package introduces ambitious targets for recycling waste, including textile waste.⁹⁸ The EU also finances research into textile recycling. Its Trash2Cash project involves 17 partners across 10 countries, aiming to find efficient ways to separate mixed fibres.⁹⁹

Finally, brands around the world are reacting to rising demand for low-impact alternatives that are functional or sustainable or both. Chinese manufacturer Huafu in March 2019 reported a sharp rise in requests for such alternatives from local brands over the previous year.

"There's a lot of clever companies that are starting to blend materials with [bast fibres like] hemp, or ramie, or [flax for] linen, for example," says Nina Marenzi, founder and director of The Sustainability Angle, an organisation that stages the London-based Future Fabrics Expo. "These are all blends that lend themselves really well and lower the [environmental] impact immediately."

Lidewij (Li) Edelkoort, a trend forecaster and dean of hybrid studies at Parsons School of Design in New York, believes that the reinvention of ancient fibres is one of the most promising innovations. "Japan is working on a smaller scale with local producers at the development of nettle, ramie and mulberry paper yarns. The ideal is to make compostable clothes," she says.

A rising number of companies, meanwhile, are working in collaboration with start-ups or peers. Acabada ProActiveWear and Devan Chemicals are partnering to create products from hemp, which requires less water and fewer chemicals than cotton.¹⁰⁰ Chanel in 2018 launched a new strategy to research and develop materials

and leather generated by agri-food industries. The company also invested in start-up Evolved By Nature, which is working on creating sustainable silk.¹⁰¹ Companies including Bolt Threads, Orange Fibre and Modern Meadow are developing pioneering biotechnologies that create less waste and use fewer natural resources.

"There [are] a lot of clever companies that are starting to blend materials with [bast fibres like] hemp, or ramie, or [flax for] linen, for example."

"Silks and cellulose will certainly become the biotech focus," predicts Edelkoort. "Hopefully this will become a staple of available high-tech materials in the future. However one needs to understand that clothes-making is a deep rooted tradition and hasn't changed much since the Bronze Age [so] developments [can] take an awful long time."

Elsewhere, she predicts that "the recent revolution of 3D printing on textiles will have a very big market for embellished textiles and will replace the 3D printing of clothes."

In the e-textiles area, researchers are using 3D printing to make materials that can harvest and store electricity as well as fulfil fashion demands.¹⁰² Japan's Xenoma has gone a step further, developing "e-skin" that monitors fitness and health with Printed Circuit Fabric (PCF) technology.¹⁰³ This kind of technology is likely to be the basis of the next generation of sportswear. The global smart-textile market is expected to grow from the current \$93 billion to \$475 billion by 2025 (including fashion, but also other industries, e.g., medical and military).¹⁰⁴ Google in September 2019 released its Cit-e backpack in collaboration with Saint Laurent. The pack's left strap contains a computer that connects with an app on the owner's

06. Materials Revolution

phone. Users can use simple hand motions to get news, weather or even a selfie.¹⁰⁵

Some companies are reinforcing direct investment with indirect strategies. H&M, for example, is partnering with HKRITA (Hong Kong Research Institute of Textiles and Apparel) to operate a pilot hydrothermal recycling plant in Hong Kong to recycle fibre blends.¹⁰⁶ Blends are the most common type of textile and remain largely unrecyclable, so the project represents a major innovation in the space. Several players are also supporting start-ups through awards programmes (e.g., H&M, Kering) and accelerators (e.g., Asics).

“Bigger luxury houses should have R&D and smaller brands should cooperate with them, profiting from their scale and finance. The amount of companies and start-ups is still small compared to the challenge [but] the field is too small for all the students dreaming to work in this direction. [That’s] why the homemade solutions with algae, mushrooms and fruit waste are so popular among young designers,” Edelkoort says.

In addition to updating regulation, some governments are playing a direct role in encouraging and funding research. The EU is set to offer €21 million (\$23.5 million) of funding to support sustainable bio-based textiles and circular business models.¹⁰⁷ The US Department of Defence-backed Fibres and Textiles Manufacturing Innovation Institute is researching new technologies to impregnate fibres and yarns with integrated circuits, LEDs, solar cells and other capabilities.¹⁰⁸

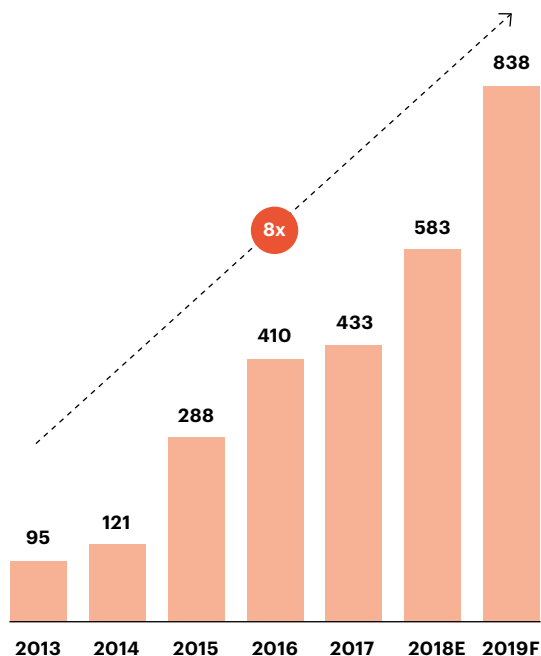
The materials revolution is bringing fundamental change both to the raw materials of the fashion industry and the way in which it operates. We expect over the coming year to see more collaboration between start-ups, fibre companies, manufacturers, fashion brands and retailers. Rather than single products or special lines, these innovations may increasingly play out across a company’s wider activities. Companies will build investment centres of excellence and

hire product technologists to ensure they remain at the cutting edge. We also expect more vertical integration, with retailers and brands expanding in-house roles for tasks formerly assigned to the supply chain. Finally, functionality will take centre stage, with fibre companies working even harder to reflect digitally enhanced lifestyles and changing consumer behaviours.

Exhibit 8:

Annual patent filings in textile innovation are projected to increase 8x from 2013 to 2019¹

GLOBAL FILINGS PER YEAR



¹BASED ON BIO-TEXTILE AND SMART-TEXTILE FILINGS; 2018 ESTIMATE AND 2019 FORECAST GIVEN LAG IN PATENT FILING DATA AVAILABILITY
SOURCE: MCKINSEY STRATEGY AND CORPORATE FINANCE (S&CF) GROWTH ANALYTICS, BASED ON PATENT DATA

Fashion's Biological Revolution

The fashion and beauty industries will benefit from a biological revolution that could transform value chains, change society and potentially mitigate pressure on the environment. As scientific breakthroughs unfold, we expect more partnerships between large brands and start-ups, deeper research, and increasing commercialisation of these ground-breaking innovations.

by Michael Chui, Matthias Evers, Alice Zheng, Anneke Maxi Pethö-Schramm and Maliha Khan

Several trends in science and technology are powering a biological revolution helping us improve our understanding of biological processes, and then engineer them. Driving this revolution are advances in omics, an umbrella term that covers the measurement of intracellular components such as DNA, RNA and proteins. With the ability to engineer these components comes the ability to edit human, plant and animal DNA in a basic biology lab. At the same time, interest is beginning to mount in studying the microbiome — microbes that live on and in the body that collectively have more genetic material than the human genome. Beyond omics and molecular technologies, the ability to “bioprint” structures with cells and grow animal or other cells in a petri dish continues to develop. In all these areas, there are potential uses in the fashion and beauty industry.

In the case of DNA sequencing, falling costs have been a game changer. The cost of sequencing the first human genome was almost \$3 billion; in 2019 it cost less than \$1,000, and that could be shaved to less than \$100 in a decade. No wonder annual venture capital for genomics has risen by a factor of 10 over the past decade to reach \$4 billion in 2018.

A new frontier for fashion textiles

Numerous smaller companies are now experimenting with aspects of the biological

revolution. California-based Genomatica and Mango Materials have engineered microbes to ferment renewable feedstocks and methane gas into biopolymers. The latter uses waste methane to produce PHA, a polymer that is then spun into thread. US-based Bolt Threads, Germany's AM Silk and Japanese textile research company Spiber have used fermentation techniques to engineer artificial silk proteins and fibres. Spiber first joined forces with The North Face in 2015 to develop a special Moon Parka prototype from artificial spider silk. The parka did not make it to market, but four years later the companies created a follow-up using a new textile (Qmonos) made of synthetic fermented proteins.¹⁰⁹ US-based Modern Meadow developed Zoa, a biological, lab-originated alternative to leather made from collagen protein.¹¹⁰ In 2018, Modern Meadow signed an agreement with Evonik, a chemical company specialising in microbial fermentation, with a view to moving into commercial production.

There is also significant innovation in the supply chain as companies use cutting-edge technology to create cleaner and more efficient processes. For instance, Algalife and Faber Futures use genetically-engineered microbes to produce environmentally-friendly dye. Faber Futures lab-engineered pigment producing bacteria (“coelicolor”) from which textiles take on rich blue, purple and red tones depending on the pH

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of the environment. Germany-based Algalife is doing similar work to engineer the DNA of algae to develop pigments and combat pollution caused by dyeing processes.

Omics and molecular technologies are also being used to help companies recycle end-of-life textiles. Los Angeles-based Ambercycle has genetically engineered microbes to digest polymers from old textiles and convert them into polymers that can be spun into yarns. The company, which says it is “building an ecosystem for closed loop textile production,” won a €250,000 (\$279,000) grant from the H&M Global Change Award in 2016. Currently, less than 1 percent of the material used to produce clothing is recycled into new apparel, an annual loss estimated at \$100 billion globally.¹¹¹ The production of textiles in a closed-loop system would mean that waste is fed back into the manufacturing process and that products themselves are biodegradable. While the impact is currently limited to a few companies, it holds great potential to limit some of the waste produced by the apparel industry in the future.

Going forwards, omics and molecular technologies could also play a role in smart textiles. A collaboration between MIT Media Lab and New Balance has made live bacteria that naturally react to moisture and produce a breathable “second skin” suit. US-based start-up Tandem Repeat is producing fibre based on squid genes. The genetic code in the material is focused on healing, enabling garments to repair themselves. The material also acts as glue, which minimises microfibrils shredding during washing and reduces the flow of microplastics into the oceans.

Biological beauty innovations

A recent innovation is direct-to-consumer microbiome and DNA testing for personal wellness and beauty insights. Based in Santa Clara, California, Viome offers at-home gut testing and analyses the human microbiome (consisting of hundreds of trillions of microorganisms) to

establish links between gut bacteria and skin conditions such as acne and eczema. San Diego-based Pathway Genomics provides direct-to-consumer DNA Tests for skin traits and procedure options such as response to sun exposure. Skincare brand Mother Dirt, a unit of AOBiome, is researching live probiotics products to restore essential skin bacteria. With the cost of microbe DNA sequencing falling, there is potential for improved and personalised products and services in this area. While not yet commercialised, gene editing techniques could make a mark in the beauty industry, enhancing interventions in areas such as hair loss and skin aging.

Major brands are expanding their activities in the beauty business, often through partnerships. In 2017, Johnson & Johnson invested in probiotic cosmetics specialist S-Biomedic. In 2019, L'Oréal announced a tie-up with San Francisco-based uBiome to research skin microbiome (uBiome filed for bankruptcy in September 2019 but this was not related to its scientific work).

Looking Ahead

While the pace of adoption of these innovative technologies over the next 30 years is heavily dependent on market factors, regulation and consumer acceptance, we expect more partnerships between large brands and start-ups, deeper research, and increasing commercialisation of these ground-breaking innovations. With rapid advances in science and new funding pouring in, developments in the biological revolution are exciting and worth tracking for the fashion and beauty industry. Companies that pride themselves in being at the forefront of innovation should ensure they take steps to remain at the cutting edge of this exciting research with huge future potential.

This work is part of a larger body of research on the biological revolution by the McKinsey Global Institute, due for publication in spring 2020. The McKinsey Global Institute is the business and economics research arm of McKinsey, whose mission is to help leaders in the commercial, public and social sectors develop a deeper understanding of the evolution of the global economy.

07. INCLUSIVE CULTURE

Consumers and employees are putting increasing pressure on fashion companies to become proactive advocates of diversity and inclusion, rather than being reactive laggards. More companies will elevate diversity and inclusion as a higher priority, embed it across the organisation and hire dedicated leadership roles, but their initiatives will also come under increasing scrutiny in terms of sincerity and results.

For many years, “diversity” in fashion meant occasionally putting a non-white face on a magazine cover. Diversity was often more about visual impact than being representative. Today, these token nods to diversity are beginning to give way to real inclusivity as the industry moves from eye-catching imagery towards meaningful change in the workforce. This is motivated by consumers demanding that companies’ values reflect their own, and by employees and stakeholders clamouring for change.

We expect companies will start to broadcast their diversity credentials loudly and proudly, with chief diversity and inclusion officers becoming the rule rather than the exception. Customers will keep a keen eye on whether these initiatives are style over substance, rewarding those who embed change throughout their organisations and calling out, shaming or boycotting those who don’t.

In consumer-facing aspects of the business, representation is finally improving. There were more than twice as many models of colour on the runways of the autumn 2019 fashion shows as there were for spring 2015 — up from 17 percent to almost 40 percent.¹¹² One powerful example was Gen-Z superstar Zendaya’s collaboration with

Tommy Hilfiger, which used only black models at its Paris launch — 59 of them, of different sizes and ages. Rihanna’s diverse show for her lingerie line Savage x Fenty was lauded by the industry as a riposte to competitor Victoria’s Secret long-projected homogeneous view of beauty. Capsule collections are also visibly embracing diversity: Asos has released three collaboration collections with GLAAD, giving the LGBTQ acceptance organisation 100 percent of profits.¹¹³

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In an industry that has often fallen back on “artistic licence” to justify its choice of homogeneous visual imagery, that is no longer an excuse that works. Consumers today increasingly express their disdain if diversity is not represented or considered. Victoria’s Secret’s long refusal, until recently, to use transgender models because,

07. Inclusive Culture

to quote the chief marketing officer “the show is a fantasy,” is one well-known example. Consumer backlash can be swift and brutal, often resulting in changes to corporate policies. After the PR crisis related to Gucci’s “blackface” jumper, for example, the brand invested \$10 million into a programme that aims to encourage internal diversity and inclusion.¹¹⁴

Almost two-thirds of consumers are self-proclaimed “belief-driven buyers” who will choose, switch, avoid or boycott a brand based on its stand on societal issues.

The impact of mistakes and misjudgements in this area is not just felt on social media. Almost two-thirds of consumers are self-proclaimed “belief-driven buyers” who will choose, switch, avoid or boycott a brand based on its stand on societal issues — a statistic that holds broadly true across markets as diverse as China, Brazil, the US and Germany.¹¹⁵ And it’s not just what they buy, it’s where they buy it: more than half of 21-to-27-year-olds in the US believe that retailers have a responsibility to address wider social issues with regards to diversity.¹¹⁶

Beyond its workforce, the ultimate visible expression of a company’s commitment to diversity and inclusion is its products. Challenger brands are already launching products that cater to underserved demographics, from adaptive fashion brands such as IZ Adaptive, to Good American, which offers jeans in a wide range of tailored sizes; from the growing number of modest clothing brands aimed at Muslim women to trans-friendly lingerie brands such as London-based Carmen Liu Lingerie.

Some incumbent brands are recognising that these companies are carving out profitable niches and are responding accordingly.

Anthropologie, for example, has launched Anthropologie in sizes from 00P to 26W, while Tommy Hilfiger launched a line of adaptive clothing for children with disabilities and later added adult apparel. With the adaptive-clothing market estimated to reach almost \$400 billion by 2026, more high-street brands are launching adaptive-clothing ranges, including Zappos and Target.¹¹⁷

If further motivation is needed, while society certainly expects greater representation of difference, there is also a strong economic case for diversity (which, as we’ll see later holds true within companies too). In the US, for example, the buying power of people of colour is growing significantly faster than that of the white population.¹¹⁸ The implication for fashion players is that sales rise significantly as more customers feel visibly represented and aligned to the brand in terms of shared values.

However, if companies are to parade their diversity credentials, they need to make sure they are genuine and deep-rooted. In other words, the fashion industry needs to live the message, not just parrot it. That means putting as much if not more focus on the internal organisation as on their models’ skin colour.

There is substantial room for improvement. A New York Times article recently called out Adidas, whose employees criticised the company for a lack of diversity when they realised that less than 5 percent of the workforce at its US headquarters identified as black. Nike is among others who have also now come under fire.¹¹⁹ “Examine fashion’s underlying power structure, what you find is male, cis-gendered whitewashing,” wrote Jason Campbell in an op-ed for *The Business of Fashion*. “Data is limited, but a close look at the executive committees at major fashion companies shows that they are packed with white men.”

Some companies are taking positive action. LVMH has pledged equal gender representation for executives by 2020, while Nordstrom claims it has

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achieved equal pay for employees of all genders and races and is close to approaching equal representation. Public announcements of such initiatives may seem self-aggrandising, but today's belief-driven customers look beyond the glossy imagery to decide if a brand's values match their own.

Some of the industry's most recognised players, such as Chanel, Gucci and H&M, have hired executives devoted to diversity to show their commitment, but employee training and full integration across functions still lags across the industry. A 2019 US fashion industry report revealed that only 56 percent of respondents said they had taken a professional class or workshop related to inclusion and diversity.¹²⁰

Making diversity the norm, rather than a special initiative, will ultimately have the biggest impact on corporate culture. Consider gender and ethnic representation in leadership positions. Women are overrepresented in the industry with more than two-thirds of fashion house employees being women in 2018, yet once you move up to the C-suite, this number drops to less than a third. This is still well above the global average of 14 percent, but parity seems a distant dream.¹²¹

“If industry leaders need motivation beyond the moral imperative and the positive impact on creativity, our research has built the business case for diversity. Diversity is correlated with superior company economic performance, a finding which is reinforced year-on-year.”

Similarly, there are only a handful of black creative directors, like Olivier Rousteing and Virgil Abloh, at the helm of high-profile luxury fashion houses, and there are scant few C-suite executives

of colour to be found anywhere in the industry. It is evident that while there is some progress across the industry, there remain bastions where progress is slow, particularly in creative leadership, decision-making and technical roles, from creative directors and business unit heads to chief operating officers and chief technology officers.

“If industry leaders need motivation beyond the moral imperative and the positive impact on creativity, our research has built the business case for diversity,” says Vivian Hunt DBE, managing partner for McKinsey in the UK and Ireland. “Diversity is correlated with superior company economic performance, a finding which is reinforced year-on-year.” Recent McKinsey research into the impact of diversity on organisations shows that companies ranked in the top quartile for gender diversity in their executive teams were 21 percent more likely to have above-average profitability than companies in the bottom quartile, but also 27 percent more likely to have industry-leading performance on longer-term value creation. For ethnic and racial diversity, top quartile companies were 33 percent more likely to outperform national industry peers.¹²² “Combining an inclusion and diversity strategy with the core imperatives of a business means that inclusive leadership really does lead to inclusive growth,” continues Hunt.

In 2020, visible expressions and public statements of diversity and inclusion will be more frequent, and companies will not be shy about sharing them. But they will also be vocal about their broader commitment to diversity and will be held to account by employees and customers. Fashion players should articulate their own business case for diversity while having a clear understanding of how much better diverse teams are across functions, from customer insight and product innovation, to marketing and digital. Chief diversity officers will become more common, better resourced and further empowered, laying out ambitious roadmaps for initiatives such as



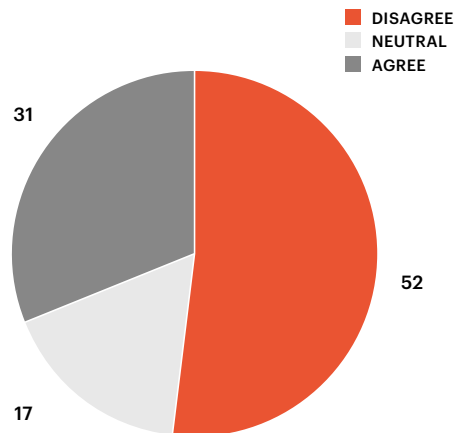
workforce training, strategies to improve diversity in key creative and corporate roles, and improving inclusion-related indicators.

The core business must own the diversity and inclusion agenda beyond the chief diversity officer, with inequality in the workforce addressed by efforts to de-bias recruitment and advancement processes, provide sponsorship and leadership development programmes for diverse talent, ensure the workplace caters for employees of all genders, races and abilities, and by promoting equal pay and opportunities. In a female-dominated industry, average representation will be insufficient as a target; businesses should use cascade targets to increase representation in specific areas of the business, with managers held to account while being supported in meeting these targets. Overall, companies should consider how to transform their organisations to create a truly inclusive culture for employees and consumers, eschewing a skin-deep veneer of change for profound and lasting reform.

Exhibit 9:

More than half of fashion employees do not think their current employer's leadership team is racially diverse

% OF RESPONDENTS TO "I WOULD CONSIDER MY CURRENT EMPLOYER'S LEADERSHIP TEAM AS RACIALLY DIVERSE"



SOURCE: BOF FASHION EMPLOYEE SURVEY 2019

Executive Interview

Annie Wu

Global Leader for Inclusion and Diversity,
H&M Group



H&M Group's Annie Wu reveals the challenges of delivering change after a crisis and the need for companies to streamline existing diversity and inclusion initiatives into a unified framework before tailoring the global strategy to each market region.

— *by Chavie Lieber*

After modest progress and some high-profile failures, the fashion industry has begun to realise that diversity and inclusion needs to be addressed at the C-level. Several companies have hired chief diversity officers, who handle internal matters like monitoring hiring practices and advancement while scrutinising public-facing representation across marketing and design.

Someone who can share first-hand experience on how diversity executives operate is Annie Wu, the first-ever global leader of diversity and inclusion at H&M Group. Wu was appointed to the position in early 2018 after H&M had a misstep of its own, receiving widespread criticism for choosing a young black model to pose in a “Coolest Monkey in the Jungle” sweatshirt. Her remit reflects the scale and complexity of the challenge ahead. Delivering real change through a unified strategy for eight different brands across a vast corporation that employs more than 120,000 people (FTE equivalent) and operates 4,900 stores across 73 international markets, is no easy feat.

07. Inclusive Culture

BoF: What have been the hard lessons you've had to learn?

The hardest one has been underestimating how hard change is, and especially change in people's behaviours. It's so easy to understand the topic, versus actually putting things into action. Having to change your behaviour is really, really hard for people. That's why I always say that this is a journey.

“You always have to get personal. When you're talking about diversity, it can get very high-level and fluffy. But everyone has experienced exclusion in their life.”

What have been the most effective ways you've been able to execute change?

You always have to get personal. When you're talking about diversity, it can get very high-level and fluffy. But everyone has experienced exclusion in their life. This role is a lot [about] influencing people and their mindsets, and so making it personal to them has worked really well. You also need to be super analytical and can get into those numbers. Until you really have facts in front of you, for a basis of decision-making, it's really hard to get the message through.

What is the group's overall diversity and inclusion strategy look like?

Our strategy has three pillars: people, business and community. For 'people'; we talk about everyone across our entire value chain, and that goes from suppliers [and] employees [to] our customers. 'Business' is how we actually form our teams and

what products we present to the customers, and 'community' is the impact that we have, or hope to have, in the communities that we operate in.

But how do you implement the strategy across such a large company?

It takes a lot of coordination between all the different functions. It's a lot of cross collaborative work. I try to

make sure the topic of inclusion and diversity is embedded in our processes, in our decision making, in everything that we're doing. [Previously], there were so many different programmes and initiatives and policies going on across the organisation. We had a global [HR] policy, we had different countries working on very different things that relate to inclusion and diversity. We also had our sustainability department; working on what [went] into their pillar of fair and equal [rights] for being an employer and how we work with our supply chain. [So] it's really pulling all of these things together and making it intentional with one voice.

What about delivering consistency in terms of deploying the strategy across the group's eight different brands?

What we've been doing this last year is meeting with each of the managing directors of all of our

brands and making sure that this strategy is embedded in the DNA of [each] brand, and also the goals that they're trying to achieve.

Does the H&M Group have a specific definition for how it sees diversity?

Our definition of diversity is that there is no definition of diversity. What diversity means to you [is] in your local context. If we're talking about a more homogeneous society, like Sweden, for example, then diversity is actually [focused more on] gender and not [as much] about race. Then you go to countries like South Africa, like the US, like the UK, where diversity is about race and ethnicity. So we try to cover as many of these perspectives as possible. There are lots of different definitions of diversity and we don't want to stick to just one specific one.

So your diversity goals vary by region?

Yes. Because we are present in so many different markets around the world, we want to make sure that this resonates with everybody in their own way. In India, for example, we want to really push women in leadership roles [so our] Indian teams are looking at their demographics and seeing how to [achieve this in their] succession planning for the coming years. In South Africa, we know that youth unemployment is super high in the cities [where] we have our stores [so] we really sought out and collaborate now with [relevant] organisations since we know that we can hire a lot of them in our store.

Can you elaborate more on why it's important to break this down regionally, as opposed to globally?

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At the end of the day, we want to reflect, respect and relate to our customers everywhere around the globe. In order to do that, we need to recognise the way that someone shops or even dresses and looks at clothing [can be] very different in South Korea compared to Sweden, compared to South Africa. If we don't have the knowledge of where those decisions are being made, then we need to find it, and have them live it. We need to understand culture, history and diversity around the world. The broader we would like our customer base to be, the broader our products also have to be.

How do diversity initiatives work in terms of designing the actual product?

We look into who are our designers [are], who makes up the teams that are designing these products, all the way from design to marketing to campaigns, to how we even set them up visually in our stores, either online or in store. It's really the make-up of the teams and looking at those demographics and baselines.

How can companies measure their progress on diversity?

That's a burning question for all of us. It's really hard to measure, especially on a global aggregate level. Gender and age, I would say, are probably the only demographics that we can aggregate globally, because local laws play a lot into it. In Sweden, [for example] you're actually not allowed to capture ethnicity and race, and now in Europe, with GDPR (the European Union's data privacy regulation), getting demographics is getting harder and harder.

So how does the H&M Group measure its progress?

We've put out some ambitions; one of them is 100 percent of our employees feel that they have an equal opportunity, and we hope to measure that through our employee engagement surveys. We're also working right now on community impact and perception. We're trying to see through our net promoter score our customers' perception of who we are. Net promoter scores are also very good at gauging where we stand in different markets.

But what are some concrete examples of company practices that ensure diverse hiring?

Externally, we need to look broader and beyond. It could be schools that our interns are coming from, to different places that we're placing ads. There's so many different ways that we can recruit from a broader pool than what we've been doing, because like any company, I think a lot comes from referrals, which is great, but we need to also make sure that we are bringing in people that will challenge us.

How else do you think the fashion industry could be more diverse?

We still have a long way to go; all the different aspects of diversity from body types, body shapes, to us bringing in more diversity from all over parts of the globe. Fashion is still very western driven.

You were born in Taiwan, moved to the US when you were six and grew up there. How did you land this role at the H&M Group?

I started in our New York office almost seven years ago, as a

labour employment attorney. I worked with a lot of labour and employment issues and then an opportunity came up for me to move to the Stockholm head office to work in our global HR department three years ago. I headed our group employee relations team, and that covered the inclusion and diversity piece worldwide. I assumed this position in January of last year.

What do you think it is about the fashion industry now that's finally galvanising change?

We understand that the customers want us to change. They want to see themselves when they go into a store. We used to tell the customer what they wanted. [Now] it's the customer telling us what they want, and we have to listen.

This interview has been edited and condensed.



08. CROSS-BORDER CHALLENGERS

Established fashion brands and retailers will face growing competition from new Asian challengers, as manufacturers and SMEs step out of their traditional roles and sell directly to global consumers. Expect greater competition from hitherto unknown players in the Asian supply chain who design popular items to sell at affordable prices using cross-border e-commerce platforms.

Asian apparel manufacturers have been in competition with their western counterparts for decades. As operational capabilities advanced across Asia, the first stage in their evolution was from simple “cut, trim and make” facilities to full package manufacturing. The centre of gravity soon shifted east as Asian producers gained a greater share of the global market.

The next phase saw some manufacturers move up the value chain to develop in-house design capabilities, while others started selling branded products of their own for the local market (OBM companies). However, Asian manufacturing is now ready for its final stage of metamorphosis, which will see some ambitious players compete in a whole new arena.

Empowered by the rise of e-commerce cross-border platforms, more Asian manufacturers and SMEs will be able to export their goods easily and affordably, directly to shoppers. This new generation of DTC (direct-to-consumer) original brand manufacturers (or OBMs) represents stiff competition for established fashion brands in the global mass market. In the basics and price-entry segment, a few have already started offering highly desirable products that create a buzz among fashion-conscious consumers. Take the Chinese

manufacturer Orolay which produced a winter coat that sold on Amazon for \$139. After going viral, the manufacturer made \$5 million of sales in one month, more than the company’s entire revenue for 2017.

When it comes to supplying global e-commerce platforms, China is the established leader. In the past three years, the share of Chinese sellers with more than \$1 million of revenues on Amazon rose from 23 percent to 45 percent — not surprising given that 70 percent of vendors on European Amazon websites are Chinese.¹²³ In 23 of 30 European countries, the number one non-domestic supplier of goods, based on most recent purchase, is China.¹²⁴ And we see the same kinds of numbers playing out in fashion.

A significant driver of the growth of Asian manufacturer and SME fashion is rising consumer demand. Some of today’s consumers are less precious about brand names, and price is a vital consideration for many, particularly younger shoppers. An article in *The Atlantic* put it succinctly: “Why buy a \$40 bikini made in America when you can buy a \$4 bikini directly from China? For that matter, why buy a \$20 bikini made in China but imported by a US company like the Gap when you can buy a \$4 bikini directly from China?”¹²⁵

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Manufacturers that choose to make the switch to DTC can take advantage of the scale available through e-commerce, its relatively low cost (compared with brand-owned websites and physical retail) and, to some extent, its synergy with social media marketing. In some cases, that puts them in direct competition with more established brands and retailers.

China has worked hard to support SME globalisation and DTC players, for example through the development of dedicated distribution hubs. Yiwu, in Zhejiang province, for example, is a megalithic centre for wholesale trading and, increasingly, e-commerce. Its International Trade City hosts around 70,000 shops and 10 million products under one roof.¹²⁶

Chinese manufacturer Orolay produced a winter coat that sold on Amazon for \$139. After going viral, the manufacturer made \$5 million of sales in one month, more than the company's entire revenue for 2017.

Another factor accelerating the cross-border trade is the sheer dynamism of China's e-commerce ecosystem. Alibaba in September 2019 acquired e-commerce platform NetEase Kaola in a deal worth \$2 billion. It plans to integrate Kaola with Tmall, consolidating China's second and third largest platforms to create the single biggest e-commerce provider.¹²⁷

Still, it's not only Chinese e-commerce players with international ambitions. E-commerce platforms across the region are attracting significant investment, enabling SMEs and manufacturers to access pan-Asian and, in the near future, global consumers directly. Alibaba and SoftBank in 2018 put more than a billion dollars into Tokopedia, Indonesia's largest online

marketplace.¹²⁸ Alibaba also acquired Singapore-based e-commerce platform Lazada, into which it has injected more than \$4 billion over the past three years.¹²⁹ Lazada, which has a presence in six Southeast Asian markets, has built logistics and cash-on-delivery networks from scratch.

"Our vision is to drive digital transformation in Southeast Asia," Lazada Group chief executive Pierre Poignant says. "We believe by giving [digital] access to SMEs, merchants and consumers, we can be a force for good in the region." Amazon, meanwhile, is working to expand its global selling programme across the region — for example to garment, footwear and leatherwear SMEs in Vietnam.

Investment has been accompanied by a push on infrastructure and logistics, funded by both private investors and governments. Indonesia's Bukalapak in May 2019 launched BukaGlobal, a unit created to help Indonesian entrepreneurs sell across the region.¹³⁰ The move is likely to be the first step in a wider international expansion. The company, along with fellow e-commerce giants Shopee and Tokopedia, has also partnered with the Jakarta government to accelerate the development of the capital's smart city project.¹³¹ Malaysia (working with Alibaba) has set up a Digital Free Trade Zone, aiming via logistics and a digital platform to unlock the e-commerce ecosystem for local SMEs.

Both Alibaba and Amazon continue to back SME vendors with lending programmes and payments solutions. Cross-border transactions are also getting easier. For example, Alipay and Adyen are partnering to facilitate payments outside the Chinese mainland for merchants trading on Alibaba.¹³²

The growing impact of Asian manufacturers and SMEs comes against the background of coordinated global efforts to build digital frameworks, as adherence by e-commerce platforms to global standards has been more challenging to oversee and enforce.¹³³ Some 76

08. Cross-Border Challengers

World Trade Organisation partners in early 2019 launched talks to develop a predictable, effective and safe online environment for cross-border e-commerce trade. China is bolstering consumer protection by making platforms more liable for defective or counterfeit goods.

“Platforms will make supply chains leaner and give consumers access to more products and suppliers.” says Poinant. “This will create a bigger pool and reduce prices, which in turn will lead to pressure on big brands.”

One platform that is paving the way in helping SMEs and manufacturers put pressure on established global fashion brands is Taobao, the world’s biggest e-commerce website owned by Alibaba. Taobao’s marketplace facilitates consumer-to-consumer sales, mainly in Chinese speaking regions, and has built a reputation as a proving ground for Chinese manufacturers-turned-designers and several successful brands (including Babyghost and Ms Min). While Taobao is still largely domestically focused, events such as the Taobao Maker Festival, which showcases leading designers and manufacturers, provide companies with a window of exposure to overseas markets.

With platforms supporting the growth of cross-border business and offering seamless logistics and education, there is sometimes little noticeable difference between selling domestically and internationally. Lazada provides how-to guides and free online and offline classes to SMEs looking to grow their businesses across borders. Its “Seller App” includes a “Business Advisor” tool that provides information about stock levels and product popularity.

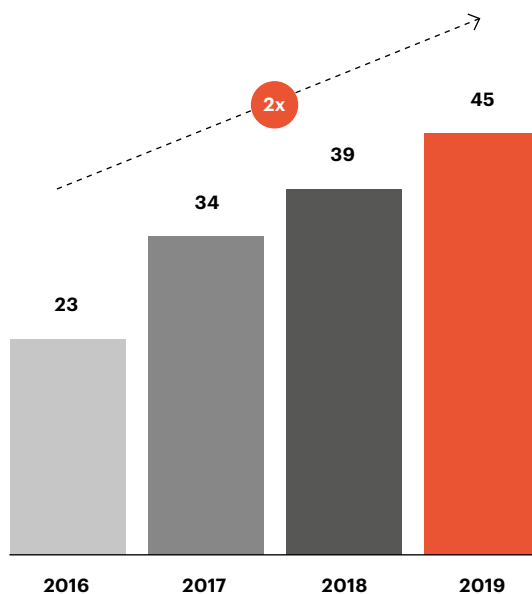
Looking ahead, we expect to see an acceleration of cross-border e-commerce from Asian players, as new platforms continue to emerge, and the trend accelerates in Asian countries beyond China. What does all this mean for established international brands? In short, they need to be on their mettle and ready to respond to new challengers. Over the coming year, we expect

relatively unknown companies and unbranded products from Asia to take a bigger share of the market across the region and globally as investments begin to pay off. To stay ahead of the game, international brands need to strengthen their value proposition. In particular, those competing neither on price nor on quality, must think strategically about expanding their online reach and becoming more competitive on pricing.

Exhibit 10:

In three years, the share of top sellers on Amazon Marketplace that are based in China has doubled

% OF SELLERS WITH OVER \$1 MILLION IN REVENUE ON AMAZON MARKETPLACE¹ THAT ARE BASED IN CHINA



¹ BASED ON AMAZON MARKETPLACE DATA IN THE UK, GERMANY, FRANCE, ITALY AND SPAIN ACROSS PRODUCT CATEGORIES. EQUIVALENT US DATA UNAVAILABLE

SOURCE: MARKETPLACE PULSE

Wang Mingqiang

General Manager, AliExpress



The leader of AliExpress explains how Alibaba Group's cross-border e-commerce platform plans to help affordable Asian brands compete globally and unlock opportunities for other fashion players in markets like Italy, Russia and the Middle East.

— *by Casey Hall*

It is easy to forget that cross-border e-commerce is a two-way street. Fashion industry leaders in the west are well versed in Alibaba platforms such as Tmall Global and Luxury Pavilion as these are the inbound channels that help big brands access the colossal Chinese market. A much less familiar platform, however, is Alibaba's outbound cross-border channel AliExpress.

As General Manager of AliExpress, Wang Mingqiang has been tasked with the aggressive expansion of Alibaba's hitherto quiet giant, which facilitates transactions for consumers in almost every country around the world. Wang is at the forefront of a move by the group to export the Chinese e-commerce ecosystem, including its vast network of manufacturers-turned-brands, SME suppliers and high-tech logistics solutions to the wider world. As it readies to go up against global competitors

08. Cross-Border Challengers

like Amazon, AliExpress has earmarked fashion as a key category. If industry leaders outside Asia have any doubt that Wang has global ambitions, they need only look to the platform's recent partnership with Milan Fashion Week as proof.

This enables them to sell locally and cross-border in eligible markets, where consumers are now able to shop a wider range of products and brands [and]... to provide new business opportunities for the fashion industry across geographies.

merchants to sell locally and globally, so international consumers are able to enjoy the same benefits and fun experience that Chinese consumers enjoy on Taobao.

Do the two big cross-border platforms within Alibaba – Tmall Global and AliExpress – ever work together?

We are all an integral part of Alibaba's globalisation strategy with different focuses and functions. For example, Tmall Global is to help international brands build their brand and reach consumers in China, whereas AliExpress helps Chinese and global brands and SMEs to sell outside of China. Aside from cross-border, Tmall's Luxury Pavilion provides an exclusive environment for high-end brands who want to reach Chinese consumers with a unique, personalised experience.

“Cross-border e-commerce makes it possible for companies to try different markets concurrently before they make further decisions to focus on certain potential markets.”

BoF: AliExpress held its Starry Night event at Milan Fashion Week in September 2019. Was this a way to stake your claim in the fashion establishment?

Our presence at Milan Fashion Week reflects AliExpress' interest in the fashion industry, which is a category with great potential. We really are dedicated to becoming a platform for worldwide merchants to benefit from fair and inclusive global trade.

The event was different from Tmall's China Cool project which supported two Chinese designers on the Milan runways, wasn't it? The AliExpress event featured a strong non-Chinese component, with Italian fashion brands from the platform featuring in a catwalk show alongside Chinese brand Mishow. Why?

Earlier this year (in 2019), we opened registration to merchants and SMEs in four pilot countries outside of China: Italy, Spain, Turkey and Russia.

So that move reflected the international expansion of your seller base beyond China, but your consumer base was already very international, wasn't it? Where do AliExpress sellers do the most business?

The top markets for AliExpress are Russia, the US, Spain, France, Brazil, Poland, the UK, Israel, Korea and the Middle East.

It seems to me that the AliExpress model brings to consumers outside of China the same things that those within China have enjoyed for a long time through other Alibaba platforms like Taobao. What are the advantages of this model for international consumers?

As part of Alibaba Group's ecosystem that spans smart payments, logistics and technology, AliExpress enables consumers from around the world to buy directly from manufacturers and distributors primarily in China. We're dedicated to becoming a platform for worldwide

How can companies overcome operational complexities that arise from concurrent online expansion in different markets?

AliExpress offers infrastructure support and services including payment, logistics, translation, digital marketing tools, etc. for companies to overcome [these] complexities. Cross-border e-commerce makes it possible for companies to try different markets concurrently before they make further decisions to focus on certain potential markets – based on direct engagement with consumers and digital analysis.

Cross-border e-commerce has empowered Asian fashion companies, most notably those in China, to directly

Executive Interview

reach global consumers. But how does it help them specifically compete on price and quality?

By being able to test new markets without heavily investing in the offline sales or marketing channels that are traditionally needed, companies are able to significantly reduce cost. It also allows them to respond to consumer needs faster so they can better adjust their manufacturing and supply chain strategies. [They can] get insights on consumer preferences at a much lower cost and with less risk. This also makes it easier for them to make adjustments on design, prices and to streamline operations, and to acquire sufficient knowledge before making further steps. This is significant for Asian fashion companies, especially those in China, as China is one of the world's fashion manufacturing centres.

Do you think global fashion brands in Europe and the US should be worried about facing greater competition from Asian and Chinese suppliers using cross-border platforms to sell directly to consumers overseas?

The market is big enough [for everyone] and [besides] consumers have different needs. Our job is to help brands and companies identify their consumers and markets to meet different demands.

How is AliExpress improving its synergies with social media marketing platforms in international markets beyond China?

Social media marketing is a very important tool for AliExpress

and we work closely with different partners and brands to streamline our resources and processes. For example, for the Milan Fashion Week event, we launched an online contest campaign, Take Me to Milan, that saw thousands of AliExpress fans from different countries participate, among whom more than 60 were chosen to attend the show in Milan.

Currently, the majority of AliExpress sellers in categories like clothing and footwear seem to be selling very low-priced products. Do you foresee a future where higher-priced fashion brands can take better advantage of AliExpress?

We already see higher-priced Chinese fashion brands interested in taking better advantage of AliExpress to expand in overseas markets. As part of Alibaba Group's ecosystem, we're also working with Tmall (Alibaba's B2C marketplace serving Chinese consumers) to help those higher-priced Chinese designer brands use AliExpress to reach consumers around the world.

Some counterfeit fashion brand merchandise still seems to appear on AliExpress. What are you doing to protect the IP of global fashion brands?

AliExpress takes intellectual property rights protection very seriously. As a third-party marketplace, we have strict regulations on sellers on our platform to respect third-party intellectual property rights and [we] monitor on a regular basis. When any irregularity is found, we will take actions ranging from taking

down product listings to closing [down a seller's] store.

Amazon remains the platform of choice for many shoppers in western markets like the US and Europe. How can AliExpress take market share from Amazon and other competitors?

Our main competitor is... ourselves. We work hard and focus first and foremost on our merchants to make sure they're empowered to leverage our digital platform in order to reach their audience and be successful.

This interview has been edited and condensed.



09. UNCONVENTIONAL CONVENTIONS

Traditional trade shows must respond to the increase of direct-to-consumer activity, shorter fashion cycles and digitisation by embracing new roles and fine-tuning their target audience. In a bid to differentiate themselves — or even just to survive — more of these events will add B2C attractions or launch new services and experiences to improve relationships with their traditional B2B audience.

Trade shows have long been at the heart of the brand-retailer relationship in fashion. They allowed retailers to buy the next season's clothes in one place in just a few days and were cost-effective for brands who could see all their retailers, and meet new ones, in one go. They also allowed fashion media and industry experts to stay on top of industry trends.

But as technology disintermediates the wholesale business, old buying models evolve, and the craving grows for experience over exchange, trade shows and showrooms are becoming less important for certain segments of the fashion industry. Some are struggling to stay relevant while others are being discontinued altogether.

Bread & Butter, for example, declared bankruptcy in 2014 and was subsequently bought by Zalando. Under new ownership, the biannual show for contemporary clothing opened its doors to the public, set up digitally enhanced urban environments, held concerts and engaged with celebrities. It was not enough, and the 2019 show was cancelled with no plans for its return.

While industry-wide data is hard to come by, US attendance numbers as collated by Trade Show Executive magazine at a number of shows such as Womenswear In Nevada and TransWorld's Jewelry Fashion & Accessories are showing signs of plateauing in recent years, as retailers pay less

attention to such large-scale events. Likewise, more than half of the brand and multi-brand retailer respondents to our 2019 survey agree that trade shows had little or no relevance to placing orders.¹³⁴

One challenge is that fashion seasons have shortened beyond the four seasons traditionally defined by luxury players. Pre-season orders are shifting towards open-to-buy models and, since retailers must keep their websites and windows fresh, this pace of output puts a huge creative and financial burden on brands for whom trade shows are simply not frequent enough.

In addition, digitisation has reduced the need for brands and retailers to physically come together. There are already several online fashion B2B platforms connecting the two parties, such as Ordre, Joor and eFashion Paris. While the very nature of fashion and its tactile properties means that B2B processes may never be completely absorbed by digital — in the same way that online retail still makes up just a fraction of offline retail — there is undoubtedly an impact. This is compounded by buying teams becoming more streamlined and thus being more selective about their travel plans as competition with online retailers has intensified.¹³⁵

“Are we about to see the complete demise of physical showrooms and tradeshow? No, we're not,” says Simon P. Lock, founder, chairman and chief executive of Ordre. “However, the industry is

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heading towards an omnichannel approach. While insignificant now, I believe in the next five years, 20 percent of B2B business will happen online.”

There is a third problem for trade shows today. Due in part to the value of harvesting customer data, brands increasingly prefer selling direct to consumers either online or through their own physical stores and select key accounts. As their dependency on distribution via a broad population of third-party retailers wanes, so does the need to invest in trade shows.

In response, major trade shows have already begun to rethink their purpose and focus more on the attendee experience. Trade show organisers are trying to reinvent the concept with new formats, fresh content, and by appealing to new audiences.

Pitti Uomo, one of the largest men’s clothing trade shows, is held every six months in Florence and attracts 30,000 visitors. In January, the organisers changed things up dramatically and transformed the 16th century fortress where the show is held into a vibrant city square that encouraged networking more than sales. There were street-food stalls, art installations and runway shows. Salvatore Ferragamo and Givenchy have even moved their menswear collection launches from fashion weeks to Pitti Uomo.

Even in China, where the B2B trade show concept itself is much newer,¹³⁶ players are striving to bring more to the table than traditional trade shows. As China’s largest fashion trade show,¹³⁷ Ontimeshow hosts panel talks and multi-media installations alongside creative showcases for Chinese brands.¹³⁸

Some trade shows have worked on integrating the digital component to improve the in-person attendee experience, streamline the wholesale order process and meaningfully reach buyers that can’t attend. For instance, the Magic show in Las Vegas offers a digital concierge service to connect with brands more efficiently.¹³⁹

“We are starting to see some technical innovation, but this needs to happen in a deeper way as buyers and exhibitors are becoming frustrated with the old-school system,” says Lock. “Where is

the technology that identifies a brand’s best buyers when they walk in the door? [Or the technology] that allows you to quickly and effectively place orders, even outside of the three-to-four days of the show? Those that don’t go online won’t be in business in 10 years’ time.”

Alongside these new formats, progressive trade show organisers are ensuring the content of their events is as fresh as the fashion. By focusing on industry issues as well as trends, they give retailers and industry insiders more reasons to attend. ISPO, which organises the world’s largest sportswear show, held a Digitize Summit this year, with a series of events on growth through digitisation.

Pure London, a semi-annual show that attracts 17,000 visitors, chose to emphasise sustainability issues. Its Power of One campaign aims to unite the fashion industry around the topic and it has partnered with the United Nations, actively promoting brands that are helping work towards key sustainable development goals such as ending poverty.

Perhaps the biggest change some trade shows are making is to stop being just about the brand-retailer trade. Opening up to end-consumers is one way to boost attendee numbers and reflects the growing trend for selling direct.

“It’s never just a communication between the parties [in the sense] of buying a collection and selling a collection,” says Stefano Martinetto, chief executive of Tomorrow London. “It’s about delivering experience for the end consumer, so there definitely needs to be attractive consumer experience.”

White Milano opened its doors to consumers in June 2018 with the White Street Market. It allowed certain streetwear and sportswear labels, along with a few niche fashion brands, to talk directly to both retailers and consumers. As White Milano chief executive, Brenda Bellei explained, “B2B remains essential, it is the focus of our business and always our primary concern. But B2C is a real opportunity for the brands.”

The concept of a trade show for the public has even led to entirely new events. Reference Berlin was a 24-hour fashion festival held in a

09. Unconventional Conventions

trendy Berlin neighbourhood in May. It attracted directional fashion labels, such as Martine Rose and Comme des Garçons, as well as more than 2,300 members of the public.¹⁴⁰

Textile and fibre trade shows further upstream are innovating too. Exhibitors at Blossom Première Vision, which saw both attendee and exhibitor numbers grow at its 7th edition of the show this year, used the opportunity to highlight their latest innovations, particularly in sustainability.¹⁴¹

Even with all this innovation, trade shows still face enormous challenges. MICAM, a biannual trade show that attracted 43,000 visitors to Milan in early 2018, tried a range of initiatives to help attendees and buyers better understand the industry, such as a partnership with trend forecasting agency WGSN, and a set of dedicated spaces with experiential features designed to promote co-learning and collaboration. Yet, despite this effort, visitor numbers declined; giving people what they want is not always enough.

“It’s opening a sort of winner-takes-all scenario... There will be a couple of companies left, and those couple of companies will be leveraging an increased number of services,” says Martinetto, underscoring that in the luxury sector the fate of the multi-brand showroom could mirror that of the trade show.

“If you have the size and if you have the ideas and if you have the finance available, probably there’s a chance for [a few] to survive. [But the showroom of the future] has to be experiential, it has to be curated, it has to be a museum of information. It’s certainly not just filled with candles, flowers and racks, because that [era] has gone for good,” he adds.

In 2020, we expect to continue to see a shift in the role of trade shows and showrooms. Integrating more sophisticated digital components will be crucial to reach a wider audience and enhance the experience for attendees both during and outside of the show period. More trade shows will consider tailoring and optimising their experience to a targeted audience rather than trying to appeal to everyone, while others will open their doors to end

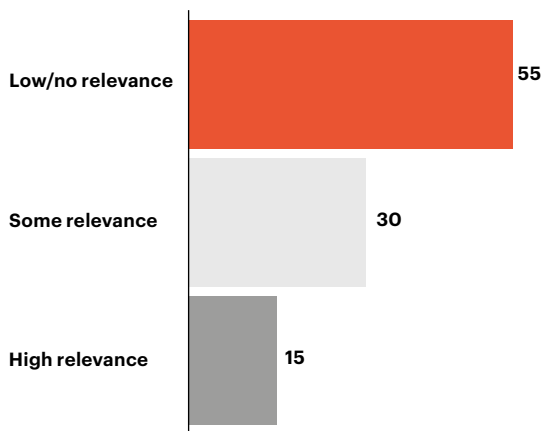
consumers. Those that fail to adapt sufficiently or who misjudge their new ideas may disappear from the calendar altogether. Fashion brand exhibitors need to adapt too. As shows become more targeted, exhibiting brands should become more careful and selective about which ones they join while upgrading their own booths in a much more engaging and digital way.

Trade shows and showrooms remain relevant for B2B relationships in the fashion industry. However, with the entire model of buying at trade shows under increased pressure and retailers picky about which ones they attend, we would expect a continued decline in overall attendance — only the most dynamic, exciting trade shows that add real value to all parties will likely survive in the long term.

Exhibit 11:

Brands and retailers are beginning to question the relevance of trade shows for buying and writing orders

% OF RESPONDING BRANDS AND MULTI-BRAND RETAILERS



SOURCE: BOF-MCKINSEY STATE OF FASHION 2020 SURVEY, ONLY INCLUDING BRAND OR MULTI-BRAND RETAILER RESPONDENTS

Raffaello Napoleone

Chief Executive, Pitti Immagine



The luxury veteran behind Pitti Immagine explains how the Italian trade show group will evolve in the face of threats to the B2B system and double down on the visitor experience with an ‘obsessive’ attention to detail.

— *by Robb Young*

The pressure is on fashion’s middlemen. As the original platform for designers and buyers to make deals, trade shows are now being squeezed by shorter fashion cycles, the rise of direct-to-consumer brands and the digitisation of B2B relationships. In response, trade show operators have either sharpened their focus or trialled add-ons in a bid to stay relevant. Some adopted new business models; others went bust.

While it’s clear that adaptability will be one of the main determiners of success or survival, there are different views on how bold trade show operators should be. Who better to weigh in on the debate than a 30-year veteran of one of world’s biggest fashion trade show groups? Pitti Immagine chief executive Raffaello Napoleone oversees a portfolio that includes Florence-based trade fairs Pitti Uomo (menswear), Pitti Bimbo (childrenswear), Pitti Filati (yarns

09. Unconventional Conventions

and knitwear) and Super in Milan. His advice? That incumbents like Pitti should pursue meticulous upgrades rather than dramatic change.

BoF: Given all the challenges that trade shows now face, what do you think the future holds? Some people are predicting a winner-takes-all scenario where only a few giant fashion trade shows will survive.

Do you want my serious answer or my funny answer? I'll give you the silly one first: as a giant [trade show], of course I hope that they're right and that this will be the future. OK, now for my serious answer: it depends. Because if you find the right content for the right market and you handle it well, then you can set up a small, niche trade fair that's doing something serious. Look at Kingpins in Amsterdam. It's a [specialist community-based trade] show with a very small number of denim fabric producers. It's the [leading B2B] appointment for that market niche, compared to the giant [generalist textile trade shows like] *Première Vision* or *Milano Unica*.

So if it's not necessarily bad news for all small trade shows in the fashion industry, what traits will set apart those who make it and those who fall by the wayside?

It's a question of being credible. You have to find the right timing too, of course, and eventually [you'll have to broker] very special appointments between your exhibitors and buyers. But if you're adding value, then small trade shows can still work in the future, yes. We actually have a

very good example of this in our own portfolio. We have a small [gastronomy trade show] called *Taste* that started 15 years ago to help very small Italian food producers. I guess I'd summarise by saying long glory to the big trade shows and good [fortune for the best] of the rest.

It's not just the smaller players who should be concerned though, is it? Trade show giants like you can't rest on your laurels either. What are you planning to do differently at Pitti Uomo and your other fashion trade shows to stay ahead?

There are many projects we need to do. We are going more and more [down] the road of an independent, lifestyle experience. For example, we'd like to do something similar for our fashion fairs as we did at our *Fragranze* fair, where we recently had a retrospective exhibition of *Jean-Claude Ellena*, one the most important noses in the perfume world. We'd also like to have a stronger food service in the fortress (*Fortezza da Basso* venue) because we can offer a much more appealing and interesting Italian food experience for our visitors.

“The changes in the fashion distribution system are forcing everyone to be closer to the market, so we also have to approach every aspect [of the visitor experience] obsessively because we have to keep astonishing people.”

This sounds more like fine tuning the visitor experience than big strategic planning.

Doesn't Pitti need to make bolder changes, given all the changes happening in your sector?

This is not just about paninis. The changes in the fashion distribution system are forcing everyone to be closer to the market, so we also have to approach every aspect [of the visitor experience] obsessively because we have to keep astonishing people. We're trying to have an even closer relationship with our visitors and exhibitors; trying to be more useful for them; being in touch with them all throughout the year and not just during the show period.

So you don't intend to expand the B2B scope of Pitti to include some B2C services? You don't see a need or an opportunity to attract end-consumers as well as professionals?

Why? We saw what happened to *Bread & Butter*, the first trade show to open to the public and to the consumer. No, we have to be very, very [clear] with our positioning. B2C happens every day from 10am until 7pm at shops on shopping streets [like] *Via Montenapoleone*. I mean, what

can a B2B trade fair do better for consumers than the actual stores do? And how are we supposed to

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approach the consumer without letting them touch or buy? No, we don't trust this B2C approach for [trade fairs]. What we need to do is keep making the professional experience richer so that the professionals go home feeling like a real community.

But given the continued rise of DTC [direct-to-consumer] brands and e-commerce the wholesale fashion business is getting squeezed. Isn't it only logical that the traditional meeting places for wholesale players will also get squeezed?

It's true that there's a [rebalancing] of wholesale and multibrand [stores], but the ones that remain only get stronger and stronger.

So we need to have even stronger relationships with these stronger multibrands. E-commerce is actually helping because it's adding options. And as for the brands, there's room for both the [DTC] brands and the traditional designer brands in the market.

So you're not worried about DTC supplanting wholesale in the luxury sector?

No. Let me answer like this. You know, for a Ferrari you have to wait two years or a year-and-a-half. But you can buy a [Fiat] Cinquecento in just one week if you want. They're [both car companies] but they're different kinds of companies.

What about virtual trade shows or virtual showrooms? Do you think this is a realistic proposition for the fashion industry? Are they a gimmick or are they the future?

You can't go in just one direction. With our e-Pitti [service], we tried to give retailers both options. We have to push every

button [because] they're using more instruments than in the past. It's not change [that's the challenge], it's the speed of the change.

“People come because [they] can't afford to miss Pitti. That's the difference between Pitti and fashion week... Here at the fortress, it's a real community we've created.”

At the latest edition of Pitti Uomo in June 2019 you reported 30,000 visitors, including 18,500 buyers from almost 100 different countries. Which levers can you pull for growth in the year ahead?

One opportunity is the new multibrand networks. We're now starting to see better opportunities in China because there are more and more multibrand stores emerging. And [in addition to] the usual big markets in Europe and Asia, we're also excited about a few really high quality multibrand stores coming out of newer markets like the Philippines and Vietnam.

Curation is an overused word in the fashion industry, but Pitti Uomo's reputation really is built on curation. There's the guest nation system where you bring a whole country pavilion of menswear designers to the show and so many other initiatives. What's

next in terms of keeping Pitti's curation on point?

For the world's best menswear brands and designers to choose us to launch their products at our show, we need to offer them the best stage to do so. The same for visitors. That's how the Pitti “peacocks” started a few years ago [the phenomenon that saw dapper men flock to Pitti Uomo as a destination to be seen as well as do business]. You know, somebody asked us, “How did you launch the peacocks in Pitti?” Well, we didn't invest one euro in that actually.

What do you mean?

People come because [they] can't afford to miss Pitti. That's the difference between Pitti and fashion week... Here at the fortress, it's a real community we've created. We offer the market an opportunity to find something new [through] our curatorial approach. From small independent stores to big department stores, that's the value we add. We're not just selling square metres [to exhibitors], we're selling good ideas and good services to the whole market.

This interview has been edited and condensed.



10. DIGITAL RECALIBRATION

Valuations of digital fashion players have reached dizzying levels and, despite a slew of high-profile IPOs and private firms achieving unicorn status, investor sentiment is taking a turn for the worse. Investor apprehension is growing over the path to profitability for some digital players, from online pure play retailers and marketplaces, to direct-to-consumer brands and other digital-first business models.

Digital continues to be a major focus of the fashion industry. Brands are rightly obsessed by how to make digital pay, not just in respect of the customer interface, but across the organisation. Investors too have been pushing this shift — mentions of “digital” in leading brand earnings calls have risen 130 percent over the past four years.¹⁴² Against this background pure fashion-tech players have made hay, raising almost half the \$3.7 billion total from initial public offerings (IPOs) in fashion in 2018 to 2019, despite accounting for just 17 percent by number.

Appetite for digital has pushed fashion-tech valuations to stratospheric levels in the public and private markets. Pure online players often trade at an average enterprise value (EV)/sales ratio of above 2x, compared with 0.8x for the wider fashion sector.

Indeed, fashion-tech players are attracting a significant proportion of private equity (PE) and venture capital (VC) investment. While PE and VC investment in fashion peaked at nearly \$23 billion in 2017, the proportion of this investment going to fashion-tech players — from e-commerce platforms to direct-to-consumer (DTC) brands — reached highs of 57 percent this year, a marked increase from 28 percent just two years ago.¹⁴³

There is growing excitement around the fashion-tech unicorn (privately-held companies valued at more than \$1 billion) phenomenon, as StockX and Rent the Runway this year joined last year’s unicorns About You and Allbirds. Several DTC start-ups — including luggage company Away and beauty brands Glossier and Pat McGrath — reached billion-dollar valuations in their latest rounds of fundraising. Meanwhile, there has been an additional group of brands valued upwards of half a billion dollars, including resale marketplace ThredUp, sneaker retailer Goat, luxury fashion discovery platform Moda Operandi and online lingerie brand ThirdLove.

Pure fashion-tech players have made hay, raising almost half the \$3.7 billion total from initial public offerings (IPOs) in fashion in 2018 to 2019, despite accounting for just 17 percent by number.

With fashion-tech companies trading more in line with the technology segment than the fashion segment, and with equity markets still

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hovering near record highs, there is a reasonable basis for investors to take stock. The tech-dominated Nasdaq has climbed steadily for a decade but dipped in late 2018 and in 2019 and has traded flat, after recovering to beat its earlier highs. As IPOs continue apace, performance expectations are softening. In this year's class, only 24 percent of companies are expected to report positive net income in their first year on the market, making them the least profitable IPO class of any year since the peak of the tech boom in 1999, according to Goldman Sachs.¹⁴⁴

In this year's class, only 24 percent of companies are expected to report positive net income in their first year on the market, making them the least profitable IPO class of any year since the peak of the tech boom in 1999.

"Numerous companies have come public this year and not traded well... this typically marks the end of speculative behaviour," says Mike Wilson, chief investment officer and chief US equity strategist at Morgan Stanley.¹⁴⁵ "This change in investor behaviour may also mark the end of the frenzy for unicorn private companies that have great growth potential but are currently unprofitable and burn a large amount of cash every year, requiring ongoing financing."

Indeed, post-IPO, investors have often ended up disappointed. The Renaissance IPO Index gives investors exposure to companies that have been public in the US for two years or less, with tech players accounting for roughly half of the companies included. The index has faltered since August, having recovered from its large dip at the end of 2018. No wonder there are concerns that the market in some ways feels reminiscent of the lead-up to the dot-com boom of the early 2000s.

The affliction seen in the wider tech sector is also reflected in fashion, where many of the most recent class of IPOs have not traded well in secondary markets. An investor who invested \$100 in fashion-tech IPOs over the past two years would now have \$73 remaining.¹⁴⁶

It's not just public companies that have struggled recently. Beyond the high-profile WeWork saga, online fashion resale marketplace Poshmark in September delayed plans for an IPO until next year to "focus on boosting sales and improving its execution."¹⁴⁷ The company, whose investors include Menlo Ventures and Temasek, brings to light market caution as fashion-tech investors weigh up their exit strategies.

Some of the world's biggest companies that invested in fashion-tech players are showing signs of reviewing their digital strategies, at the expense of these pure play brands. Walmart in June announced plans to divest or restructure a number of e-commerce businesses, including Jet.com, an online start-up it acquired in 2016 for \$3.3 billion.¹⁴⁸ In October Walmart sold women's apparel player ModCloth to an investor group for an undisclosed price. It has also been cutting staff at digitally native menswear brand Bonobos.¹⁴⁹

"This change in investor behaviour may mark the end of the frenzy for unicorn private companies that have great growth potential but are currently unprofitable and burn a large amount of cash every year, requiring ongoing financing."

Experience from the past offers sobering lessons from investor exuberance in fashion-tech players, as several have fallen from dizzying heights. After raising \$40 million of funding in 2012, Nasty Gal filed for bankruptcy protection in 2016 and was sold to Boohoo for just \$40 million

10. Digital Recalibration

the following year, spurred in part by heavy investment in logistics and expensive customer acquisition. Gilt Groupe deviated from its core as it moved beyond apparel to travel sales and food, and expanded into Asia at the height of its popularity, while industry critiques also point to the slower uptake in flash-sales by consumers as was expected by investors.¹⁵⁰ It was acquired by Hudson's Bay Company for \$250 million in 2016 – a fraction of its \$1 billion valuation in 2011 – and since has been bought by competitor Rue La La, which just four years prior Gilt Groupe was said to be eyeing up as an acquisition.

An important performance differentiator will be data and analytics that can make life easier for customers and suppliers, and may be the key to outperformance in the longer term.

Nobody has a crystal ball when it comes to financial markets, but the story of 2019 has been that not all high-profile companies embracing e-commerce are guaranteed to prove a clear path to profitability. The same can be said for fashion-tech companies. As a result, we expect in 2020 that the fever around these companies will abate, both in public and private markets, as investors look for signs of real profitability potential, over just sales growth, before jumping in. We expect investors to develop a sharper appreciation of which companies are creating value and which are destroying it, and a more sober attitude to IPOs, leaving private equity companies to think more carefully about alternative exit opportunities for potential unicorns before jumping in – after all, how many buyers are there for a company worth more than a billion dollars?

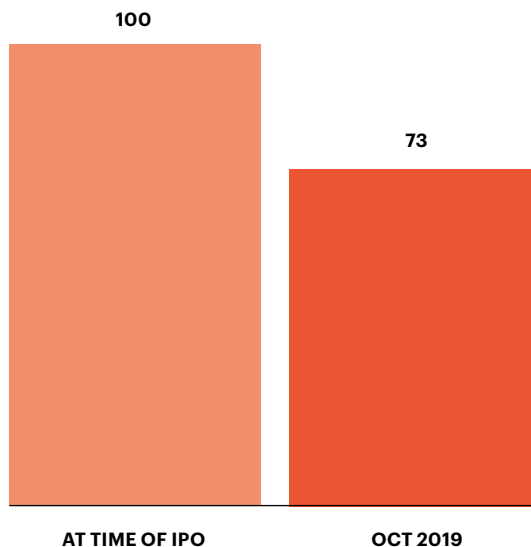
In response, digital fashion players need to evaluate their business models and look for levers to boost revenues profitably and ensure

they are clear about which elements of their business model will drive profit. For larger players, as highlighted in last year's report in "Digital Landgrab," companies that diversify their ecosystems to related and overlapping businesses will strengthen their leads over pure players who rely solely on retail margins and existing offerings. An important performance differentiator will be data and analytics that can make life easier for customers and suppliers, and may be the key to outperformance in the longer term.

Exhibit 12

If you invested \$100 across the fashion-tech IPOs of the past two years, you would now have \$73

DOLLAR VALUE OF INVESTMENT IN FASHION TECH IPO STOCKS, \$US



SOURCE: BASED ON STOCK PRICE DATA ON YAHOO FINANCE AS OF OCT 21ST. EURUSD RATES USED: JUL 2ND 1.1287, OCT 21ST 1.1152. INCLUDES IPOs IN NOV 2017 - OCT 19 - GLOBAL FASHION GROUP, THE REALREAL, JUMIA TECHNOLOGIES, RUHNN HOLDING, MOGU, REVOLVE, FARFETCH. ADIKA STYLE EXCLUDED DUE TO LIMITED LIQUIDITY

MCKINSEY GLOBAL FASHION INDEX



How a Group of High Performers Drive Value Creation in the Industry

The McKinsey Global Fashion Index gives a birds-eye view of the fashion industry, uniquely tracking financial development and value creation through economic profit. Spanning regions, price segments and product categories, the MGFI is comprised of public and private companies whose predominant revenue streams are from apparel, fashion and luxury.

In this edition of the McKinsey Global Fashion Index, we deepen our exploration of economic profit — a measure of value creation that looks at a company’s profit less its cost of capital, thus taking into account how much each company invested to generate its performance. First, we unpack historical economic profit composition and development across the industry before taking another look at who has now risen to the top as “Super Winners.” To understand what it takes to move through the ranks, we also explore companies lagging in economic profit. We then turn to the private side to spotlight some of the industry’s “Hidden Champions” before closing with our annual forecast for industry revenue growth by geography, value segment and product category.

The Evolution of the Industry

Economic profit has grown for the second year running, following consecutive years of decline from 2012 to 2016. Low single digit revenue growth in 2018 attributed little to this increase in economic profit. Instead, the 16 percent rise came largely from improved operating margins driven by successful cost cutting. The industry’s earnings before interest, taxes and amortisation

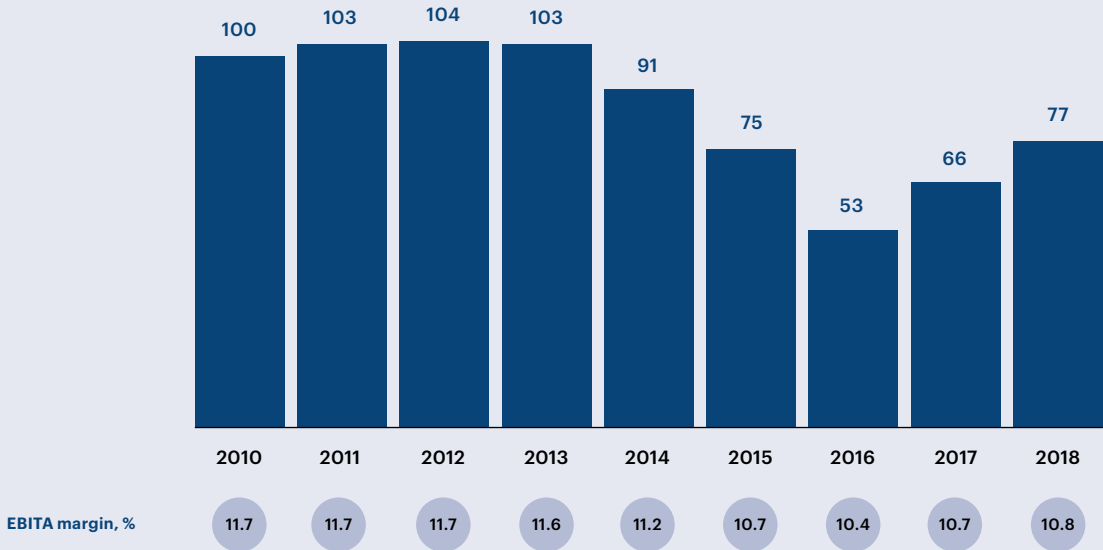
(EBITA) margins overall have remained relatively stable — hovering between 10.4 percent and 11.7 percent over this decade. However, even these slight fluctuations in EBITA margins have had a notable impact on the industry’s economic profit — and economic profit is particularly sensitive to margins given that EBITA is a core component in calculating a company’s return on invested capital. Mirroring the rise in economic profit since 2016, the industry’s EBITA margins have risen nearly half of a percentage point to 10.8 percent in 2018.

Examining the evolution of economic profit over time within price segments tells a more nuanced story. For some years now, the polarisation of the market has progressed, with both luxury and value and discount players gaining share with an increasing number of consumers choosing to make major “investment” purchases while otherwise opting for value. This is also reflected by total return to shareholders (TRS). Looking at TRS over the past three years by value segment, luxury and value clearly outperformed, delivering 22 percent and 14 percent respectively. Considering premium/bridge’s 1 percent and mid-market’s -2 percent during the same time frame, the bifurcation across price segments is evident.¹⁵¹

Exhibit 13:

Economic profit in the industry has continued to rise since 2016

TOTAL ECONOMIC PROFIT, INDEXED TO 2010 ECONOMIC PROFIT AS 100, %

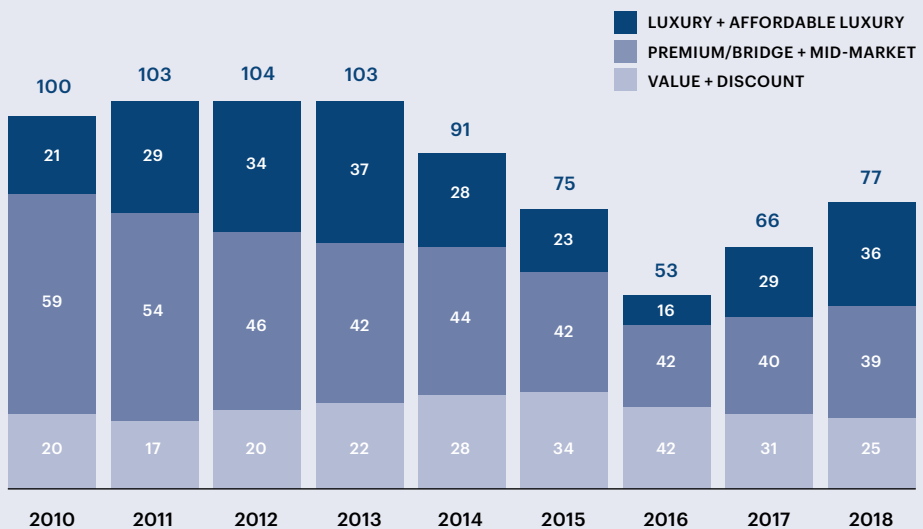


SOURCE: MCKINSEY GLOBAL FASHION INDEX (MGFI)

Exhibit 14:

Luxury has been driving the bulk of the rebound in the industry's economic profit

TOTAL ECONOMIC PROFIT, INDEXED TO 2010 ECONOMIC PROFIT AS 100, AND % BREAKDOWN BY VALUE SEGMENT



SOURCE: MCKINSEY GLOBAL FASHION INDEX (MGFI)

Unpacking the IFRS16 change

The International Financial Reporting Standards (IFRS) has made recent accounting standards changes to the treatment of leases, to increase transparency and ensure comparability on reported profitability between companies. This has driven some notable changes in the MGFI and subsequent economic profit analyses.

The new standard requires leases to be recognised as assets on the balance sheet, with corresponding depreciation and interest charges in the income statement. This change has particularly impacted the reporting of retailers, given their reliance on property leases. Both EBITA and invested capital are affected, lowering overall economic profit for most players in the MGFI.

The players most affected are those with a high number of leases, particularly fast-growing companies with expansion plans based on leasing new premises and established companies with long-dated leases on large properties. The change has shifted nearly 10 percent of players from being profitable to being loss-making in

terms of economic profit and has reduced the industry's total economic profit pool. This has made the contribution of the "value creators" disproportionately higher, leading to a starker winner-takes-all landscape. In this report, figures from previous years have been retroactively adjusted to enable year-on-year comparisons.

Although the IFRS16 change has had a significant impact on paper, retailers find operations themselves have been little affected. John Lewis Partnership, for example, explicitly stated that the new rule "does not change the underlying economics of our business and has no quantitative impact to cash flows." All major credit rating agencies have adjusted financial statements to capitalise operating leases for some time, with Moody's reporting that it didn't expect ratings downgrades as a result of the change. Furthermore, these IFRS16 changes have not led to notable revaluations in the stock market. Nonetheless, the change could accelerate a shift towards more flexible, short-term property leasing.

The squeezed premium/bridge and mid-market players drove nearly 80 percent of the absolute decline in industry economic profit between 2010 and 2016. During this time, their EBITA margins have been eroded by rising selling, general & administrative expenses (SG&A). The premium/bridge segment was dramatically compressed, with its share of overall industry economic profit falling from 15 percent in 2010 to just 2 percent in 2016.

In contrast, the luxury sectors have largely driven the industry's rebound over the last two years, accounting for almost 80 percent of the industry's economic profit growth. This is from both strong revenue growth and a 3 percent-point improvement in EBITA margins.

By 2018, luxury accounts for almost 40 percent of the industry's economic profit, more than doubling its share since 2016.

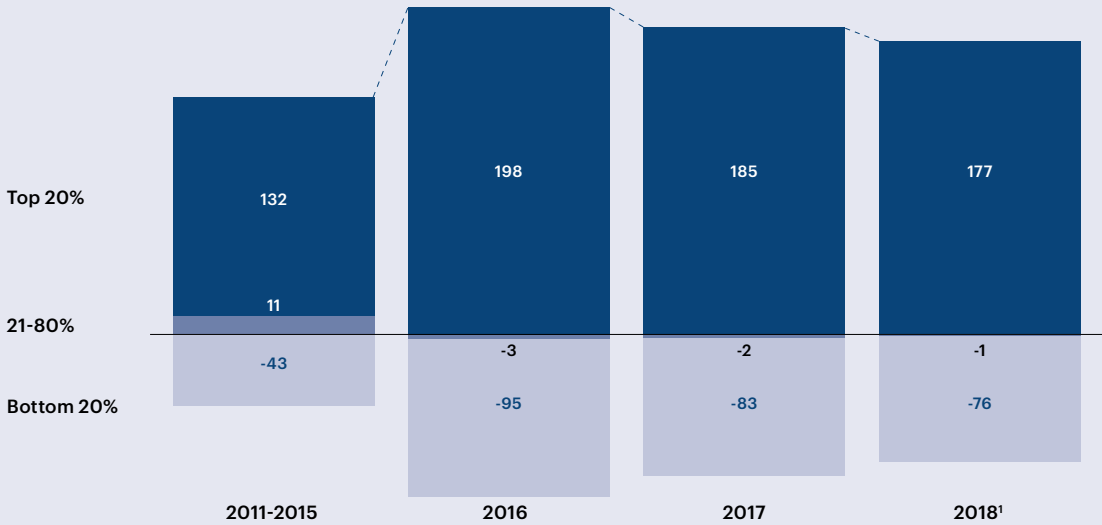
The economic profit perspective reveals that the market share gain of value and discount players masks some challenges faced by these segments. Value and discount players have seen their absolute profits shrink as increasing costs of goods sold (COGS) has outpaced their rapid revenue growth. Reacting to rising sourcing costs and increased markdowns, some of these players have upgraded their assortment planning capabilities by revising their end-to-end product development and sourcing processes to increase efficiency.

As discussed, the IFRS16 changes have created an even starker winner-takes-all industry

Exhibit 15:

The fashion industry remains a “winner-takes-all” market

FASHION COMPANIES’ CONTRIBUTION TO INDUSTRY ECONOMIC PROFIT BY RANKED QUINTILE, %



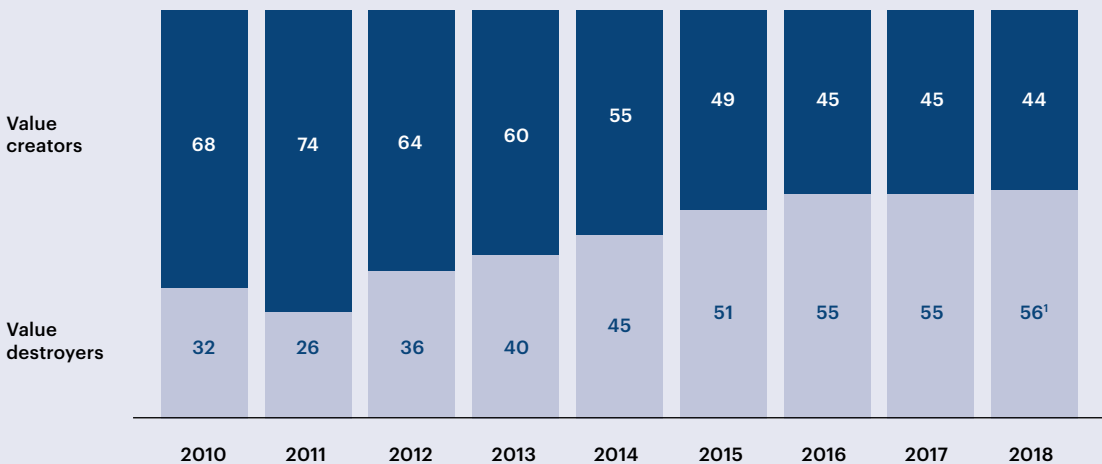
¹ IF CALCULATED USING PRE-IFRS16 NUMBERS, THE TOP QUINTILE IN 2018 WOULD HAVE CONTRIBUTED 137 PERCENT OF THE INDUSTRY’S ECONOMIC PROFIT WITH MIDDLE QUINTILES CONTRIBUTING 4 PERCENT AND THE BOTTOM QUINTILE CONTRIBUTING -41 PERCENT

SOURCE: MCKINSEY GLOBAL FASHION INDEX (MGFI)

Exhibit 16:

The proportion of value destroyers in the industry stands at over half, and is growing

VALUE CREATORS VS. VALUE DESTROYERS PER YEAR, %



¹ IF CALCULATED USING PRE-IFRS16 NUMBERS, THE PERCENTAGE OF VALUE DESTROYERS IN THE INDEX IN 2018 WOULD BE 48 PERCENT

SOURCE: MCKINSEY GLOBAL FASHION INDEX (MGFI)

McKinsey Global Fashion Index

by shifting about 10 percent of players from being profitable to being loss-making in terms of economic profit. This has led to further concentration of economic profit among the top quintile of players ranked by economic profit generation. In 2018, the top quintile contributed over 175 percent of the economic profit. The middle quintiles, however, have seen their contribution compressed from positive 11 percent earlier in the decade to -1 percent now. Over the last three years, these middle quintiles have also become net destroyers of value. In fact, the proportion of players that destroy value has grown steadily since 2011 causing the industry to move from being a value-creating majority to a value-destroying majority. The percent of value destroyers in the MGFI more than doubled between 2011 and 2018, from 26 percent to 56 percent respectively. The polarisation is even more pronounced when analyses show that it is the top 20 players who continue to carry the industry's value creation. These top 20 players — the “Super Winners” (see Exhibit 17) — account for 138 percent of the total industry's economic profit in 2018.

Among this year's Super Winners are players that stand apart thanks to their continuous innovation of both products and customer experience, their development of strong brand equity through community connections on issues that matter, and a notable focus on digital (apart from predominantly off-price retailers). With higher than average revenue growth, Super Winners also outperform on gross profit margin and capital efficiency compared to the rest of the industry. At 54 percent gross profit margin, Super Winners average 6 percentage points higher than the rest of the industry. Super Winners are also more capital efficient with 55 percent of invested capital as percent of sales compared to the rest of the industry's 66 percent.

This year's top three companies by economic profit — Nike, Inditex and LVMH — are also the most inspiring, according to industry executives that responded to *The Business of*

Fashion and McKinsey's annual State of Fashion survey. Praise was given to Inditex's fast and flexible business model that helps it innovate quickly in response to new trends; LVMH was lauded for its ability to stay true to its core while simultaneously reinventing itself; while respondents recognised Nike's drive for innovation across products, categories and business models, along with its ability to connect and build a community with its consumers.

In this year's top 20 Super Winners, there are three new entrants — Anta Sports, Heilan Home (HLA Corporation) and Lululemon. They have leapfrogged past several of last year's winners, including Michael Kors and Gap. These new players' performance and rise through the ranks is reflective of the strength of the sportswear and athleisure category and Chinese companies. Strong revenue growth in sportswear, in line with last year's forecast outperformance, has propelled category players upwards in the MGFI. Chinese players rising up the MGFI reinforce the story of shifting attitudes in favour of local brands by Chinese consumers, as local heroes increasingly compete with international high-street brands in areas such as value for money, innovation in design and quality, and customer service.¹⁵²

Luxury players also experienced healthy revenue growth. Notable in luxury is Kering's particularly impressive rise through the ranks, driven by Gucci's double-digit year-on-year sales growth, and high performance in Asia-Pacific markets such as Japan. US companies meanwhile benefitted from the large corporate tax cuts. Several top players whose economic profit fell, such as Richemont and H&M, have in fact been investing heavily with the aim of securing their long-term future.

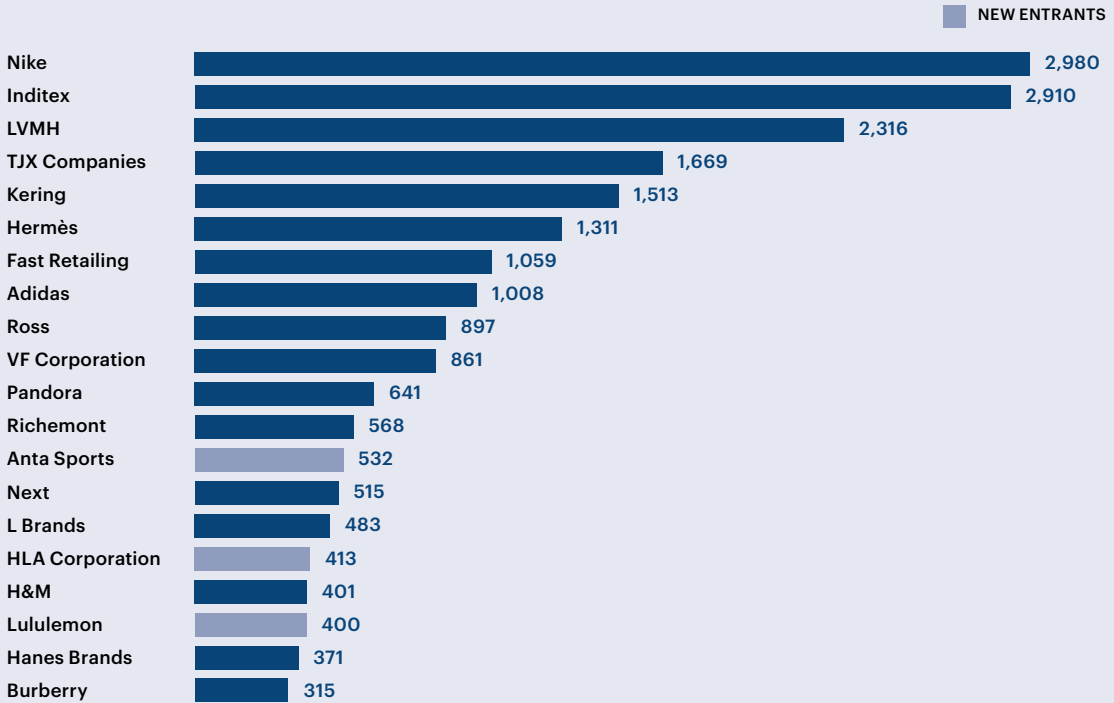
Changing fortunes

Looking at companies across the MGFI over the past five years and building on McKinsey analysis as per an earlier op-ed in *The Business of*

Exhibit 17:

This year's top 20 players and thus "Super Winners"

TOP 20 PLAYERS 2018, BY ECONOMIC PROFIT, \$US MILLION

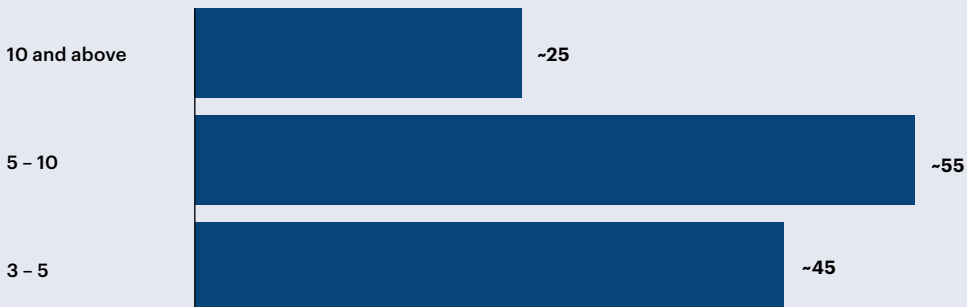


SOURCE: MCKINSEY GLOBAL FASHION INDEX (MGFI)

Exhibit 18:

The largest "Hidden Champions" in the industry collectively generate over \$125 billion in revenues

CUMULATIVE REVENUE FROM PRIVATE COMPANIES GENERATING OVER \$3BN IN REVENUE PER YEAR, SPLIT BY REVENUE BAND BASED ON 2018 ESTIMATED REVENUES, \$US BILLION



SOURCE: MCKINSEY GLOBAL FASHION INDEX (MGFI)

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Fashion,¹⁵³ it is apparent that there is low mobility across performance clusters. It is a challenge to join players ranked in the top quintile. These top performers have strong staying power as two-thirds of the top quintile class of 2013 maintained their position in 2018. Their sustained outperformance has been driven in part by decisive moves aligned with industry trends, expansion into growth segments and the thoughtful reallocation of resources across the portfolio.

For players in the middle quintiles, the odds of achieving top performance and moving up into the top quintile is quite slim. In fact, 75 percent of this middle range remain where they are and close to 15 percent even slip into the bottom quintile.

Encouragingly, the highest mobility is within the bottom quintile. More than 60 percent of players ranked in the bottom quintile in 2013 have moved out of this laggard group, with 7 percent even rocketing up into the top quintile, while we estimate bankruptcy rates in this quintile to be just 3 percent over the five-year period.

A significant factor in likelihood of rank improvement is capital efficiency. While many across the industry are investing to grow, top climbers have been able to reduce invested capital as a percentage of sales by 8 percentage points compared to a 17 percentage point increase in those who have dropped the most in ranking. These top climbers have strengthened their value propositions and made efforts to align strategically both on the consumer-facing side with brand-building, pricing, product/design and experience as well operationally to boost efficiency along the value chain. Financially, these efforts improve both revenue growth and bottom-line efficiency.

Companies stuck in the bottom fit into one of three archetypes. Department stores account for 40 percent of the bottom companies ranked by economic profit, either because they are struggling to modernise their format to compete with fast fashion and e-commerce, or because they operate in saturated markets. The second archetype is brands that have seen revenues collapse as they

have fallen out of favour with consumers. The final category is fast-growing digital start-ups such as Farfetch, Global Fashion Group and Jumia — which are still investing heavily in their pursuit of rapid growth at the expense of profits. If successful, these players have the highest chance to leave the low performance cluster. However, as investors are becoming increasingly impatient with digital players that have yet to prove a path to profitability (see Digital Recalibration), we may see some of these companies change course.

Hidden Champions

The Super Winners are all public companies as the economic profit analysis is based on public data. However, there are several private companies that would undoubtedly qualify to join that group. This analysis includes fashion subsidiaries of public non-apparel parent companies but excludes private companies that don't earn most of their revenues from fashion. While a more fragmented group, private companies also wield considerable power and influence in the fashion industry. Collectively, combined revenue estimates of private players generating more than \$1 billion revenue in 2018 are equivalent to about a third of the total revenues of the 20 Super Winners. Most of this is pooled among the private companies generating more than \$3 billion in sales. Family-owned businesses account for more than 65 percent of these Hidden Champions.

Among these private players are Hidden Champions, many of which are players that successfully dominate their category, each with a strong sense of self. Some of these players have achieved strong global brand recognition, while others are less well known. One of these Hidden Champions is Chanel, a well-regarded symbol of status and luxury with estimated revenues in excess of \$10 billion. Almost 110 years-old and in its third generation of family ownership,¹⁵⁴ Chanel has mastered its categories from high-end iconic offerings such as its quilted handbags to aspirational entry products such as lipsticks.¹⁵⁵ Also

benefiting from high brand perception, Rolex is one of the few large independent and private luxury watch brands remaining, known for their timeless designs and commitment to precision.

At the opposite end of the price spectrum, Primark leads in discount fashion by offering stylish assortments at low prices in high-street locations. What Primark shares with its luxury Hidden Champion peers is a clear customer value proposition. For Primark, it goes beyond price to offering consumers the satisfaction of finding a great value-for-money deal in a shopping environment catering to its target group. In the last decade, Primark's expansion drive has put many traditional discount and value apparel retailers under pressure and triggered some to renew their format. Commitment to this core value proposition has enabled efficiently strong alignment in operations and strategy. This commitment includes a focus on brick-and-mortar only, a decision requiring Primark to look for ways to renew the experience value of its stores to attract younger customers despite online-first shopping habits. Primark and its peers will need to respond to the increased importance of sustainability among consumers going forward.

High expansion drive is also one of the characteristics of Decathlon, one of the world's largest sporting goods retailers globally known for exceptional private label offerings across a comprehensive set of categories. Their strong private labels are also ultra-segmented and becoming more sophisticated to match rising consumer expectations. Decathlon's value segment play in the sporting and outdoor space enables the brand to capture a wider pool of fashion consumers looking at sportswear as both fashion and activewear.¹⁵⁶

Another vertically integrated player is Deichmann, a clear leader in Europe for value footwear and unbeatable in Germany in this segment. With continued global and format expansion, Deichmann is a third-generation family enterprise. Family-ownership is cited by the

company to be one of its factors for success, saying the "concept of a gradual, controlled growth as a family-run business is still the right way forward" for the company.¹⁵⁷ Today, Deichmann holds a strong dedication to serving consumers and is exploring digitisation and format rejuvenation.

Among companies earning between \$3 and \$5 billion in annual sales, Swarovski stands out with its strong global brand awareness. Historically a leader in crystals and crystal products, Swarovski has made its own play into premium and luxury consumer segments through Atelier Swarovski and designer collaborations. Growing as a respected fashion jeweller with its recognisable swan symbol, the time when this fifth-generation crystal company was just known for its collectibles are long gone. This growth has been additive, with Swarovski remaining a strong supplier to both the fashion industry and entertainment industry — partnering with costume, jewellery and set designers to maintain a strong Hollywood presence.¹⁵⁸

Of a similar size, Bestseller stands out as a house of independent brands. Among its broad portfolio, Bestseller's main brands — Vero Moda, Jack & Jones and Only — compete with fast fashion players. To do so, these brands are prioritising refreshed retail formats, digitisation and revision of product assortment in their strategies. In parallel, Bestseller as a group has made improvements in operating processes and inventory management such as implementing the use of RFID.¹⁵⁹

As a category, footwear tends to be one of the more fragmented with category leaders found among smaller players delivering revenues between \$1 billion and \$3 billion. Almost 200 years old and selling more than 50 million pairs of shoes each year,¹⁶⁰ Clarks is one of these footwear category leaders. Building on a historical archive of more than 22,000 styles, Clarks maintains its leading presence in the category by continuing to push product innovation with enduring style and comfort.¹⁶¹ Another footwear Hidden Champion is Bata Shoes, a vertically-integrated shoe player

McKinsey Global Fashion Index

based in Switzerland that has built up a leading position in several key emerging and frontier markets around the world like India, Bangladesh and Chile.

Operating privately has given many companies more freedom than they might have had in public hands and this flexibility has helped sustain success. Chanel, for example, has repeatedly insisted that the company is not, and will not, be for sale, with Philippe Blondiaux, the company's chief financial officer, reconfirming to *The Business of Fashion* “for the hundredth time this year”, that “Chanel is not for sale, Chanel is not preparing for an IPO.” Blondiaux notes that the company's investments, including more than \$2 billion over 12 months in sustaining creativity and innovation, are meant to maintain Chanel's independence.¹⁶² Tory Burch similarly believes that private operations enable the company to deliver on its plans, letting company leaders focus on running the business instead of worrying about the volatility of the stock price or public scrutiny.¹⁶³ Nonetheless, the group of Hidden Champions also undoubtedly includes players that are value destructive, given a more limited investor base that perhaps is more forgiving of a negative cost of capital.

All in all, while the public companies steal a lot of the industry spotlight, hidden champions prove that a great deal of the industry's value sits elsewhere.

Looking Ahead — Apprehension Amid Uncertainty

After a strong year in terms of economic profit growth, the forecast fashion industry revenue growth for 2020 is 3 to 4 percent, down from the 3.5 to 4.5 percent growth predicted for 2019. The global outlook for consumer spending is being depressed by rising trade tensions, political uncertainty and economic concerns as central banks take action.

In North America, slowing consumer spending amid an ongoing tariff war poses a

concern, especially given inevitable election-year uncertainty. Emerging Asia-Pacific markets will still be relatively strong, but retail sales in China are already falling short of expectations. Mature Europe will continue to suffer from a wider economic malaise and Brexit uncertainty, while growth in emerging Europe, Latin America, and the Middle East and Africa is expected to remain stable overall, with some brighter spots, such as Brazil and Nigeria.

Stronger price point polarisation is seen in consumer purchasing behaviour in mature Asia-Pacific and China. This will lead to continued resilience in both the luxury and the value and discount segments, while further squeezing the middle market.

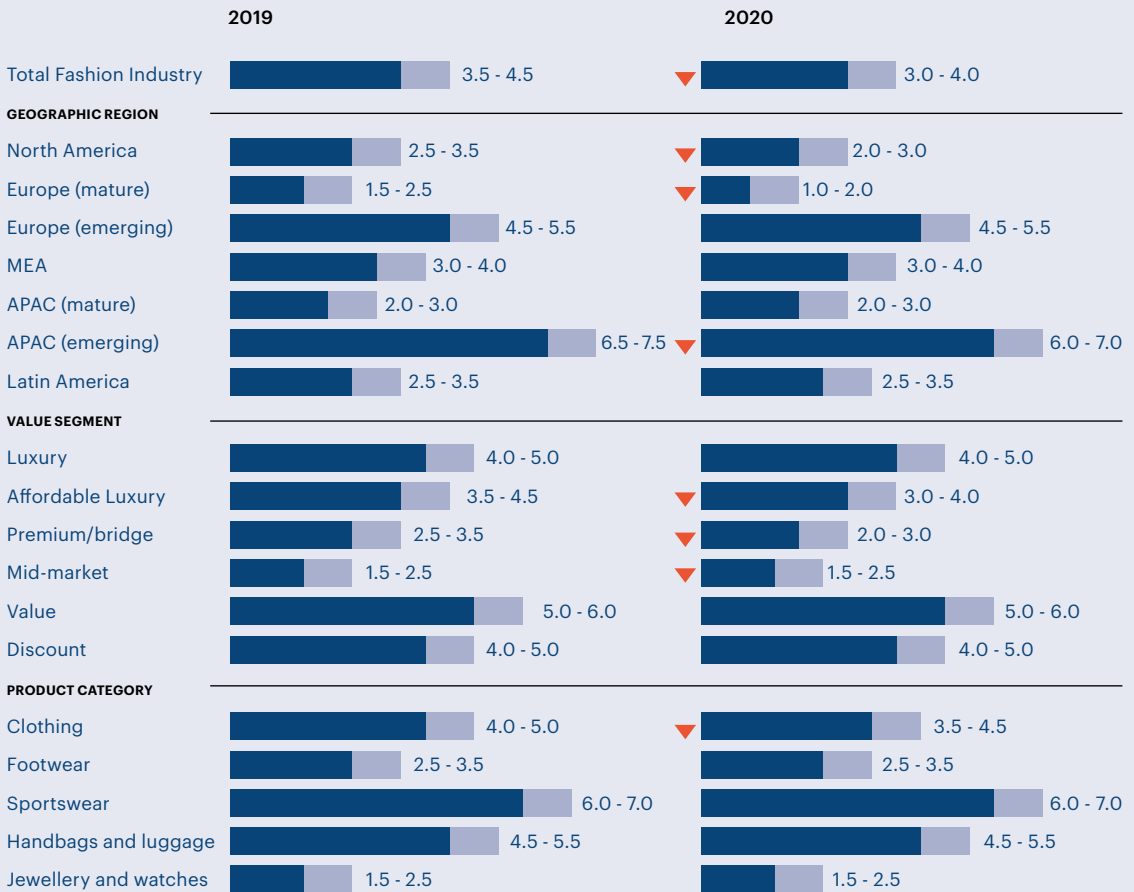
While clothing's downtick is in line with the lower industry forecast as consumers choose to buy less overall and explore alternatives such as rentals, sportswear is anticipated to maintain the highest growth rate at 6 to 7 percent. The success of sportswear powerhouse brands such as Nike, Adidas and Lululemon will be supported by the emergence of a range of smaller niche players and the rise of outdoor and active brands. Growth in jewellery and watches will remain low, but handbags and luggage will continue to perform well as luxury brands capitalise on the growth in tourism from regions such as mature Asia-Pacific, China and the Middle East.

Although this growth forecast shows only an incremental slowdown in overall industry growth in 2020, as highlighted in *On High Alert*, geopolitical and trade tensions alongside intrinsic industry challenges are leading to heightened anxiety and wariness in fashion for the year ahead.

Exhibit 19:

Fashion industry sales growth by region, category, and segment, 2019-2020

YEAR-ON-YEAR GROWTH, %



SOURCE: MCKINSEY GLOBAL FASHION INDEX (MGFI)



GLOSSARY

APAC (emerging)

American Samoa, Bangladesh, Bhutan, Brunei, Cambodia, China, Fiji, French Polynesia, Guam, India, Indonesia, Kiribati, Laos, Macau, Malaysia, Mongolia, Myanmar, Nauru, Nepal, New Caledonia, North Korea, Papua New Guinea, Philippines, Samoa, Solomon Islands, Sri Lanka, Thailand, Tonga, Tuvalu, Vanuatu, Vietnam.

APAC (mature)

Australia, Japan, New Zealand, Singapore, South Korea.

Artificial intelligence

The theory and development of computer systems able to perform tasks that normally require human intelligence, such as visual perception, speech recognition, decision making and translation between languages.

Baby boomers

Demographic cohort born circa 1946–1964, following the “Silent Generation.”

Biodegradable

Material capable of being decomposed naturally by bacteria when discarded as waste.

Biofabrication

The production of biologic products, typically textiles in the fashion industry context, from raw materials such as living cells, molecules, extracellular matrices and biomaterials.

BoF-McKinsey State of Fashion 2020 Survey

Proprietary joint survey by The Business of Fashion and McKinsey. It asks international fashion executives and experts to rate their business sentiment, investment plans, and industry trends. 291 respondents participated in the State of Fashion Survey for the State of Fashion 2019 report between August and September 2019.

Capital efficiency

A measure of profitability, used to assess how effective a company is at turning capital into financial performance.

Closed-loop recycling

A recycling process where post-consumer waste is collected and used to manufacture new products. The quality of materials are at the similar levels and are cycled into the same application or applications that require similar quality.

COGS

An income statement item stating the total costs used to create a product or service, which has been sold.

EBITA

An income statement item that deducts amortisation from earnings before interest and taxes (EBIT). An alternative measure of income a firm makes from its core operations.

EBITA margin

A measurement of a company's EBITA as a percentage of its total revenue.

Economic profit

A measure of value creation that looks at a company's profit less its cost of capital, thus taking into account how much each company invested to generate its performance. A company creates value when its operating profit exceeds the dollar cost of capital. Economic Profit is defined as Net Operating Profit, less Adjusted Taxes (NOPLAT) minus Capital Charge (WACC multiplied by Invested Capital).

Engagement rate (social media)

On social media, the average ratio of likes and comments to total followers.

E-textiles

Fabrics that contain digital components and electronics. They are most typically used to enhance aesthetics or performance.

Europe (emerging)

Albania, Andorra, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Kosovo, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey, Ukraine.

Europe (mature)

Austria, Belgium, Denmark, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom.

EV/sales

Enterprise value to sales compares a company's enterprise value to its annual sales. It is typically used as a metric that quantifies the purchasing cost of a company's sales. Enterprise value accounts for market capitalisation, debt, and cash.

GCC

Gulf Cooperation Council countries — a political and economic alliance of six Middle Eastern countries, namely Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain and Oman.

Generation X

Demographic cohort born circa 1965–1981, following the Baby Boomers.

Generation Z

Demographic cohort born circa 1996–2019, following the millennial generation.

International Financial Reporting Standards (IFRS)

Accounting standards used to establish standardisation of reporting across international boundaries. It is required in over 140 jurisdictions, including the EU, however not in some major economies such as the United States.

Latin America

Anguilla, Antigua, Argentina, Aruba, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, British Virgin Islands, Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Curacao, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique,

Mexico, Nicaragua, Panama, Paraguay, Peru, Sint Maarten, Suriname, St Kitts, St Lucia, St Vincent and the Grenadines, Trinidad and Tobago, Uruguay, Venezuela.

LBGTQ

Lesbian, gay, bisexual, transgender, queer, questioning.

Machine learning

A form of artificial intelligence that automates analytical model building, enabling systems to “learn” with minimal human intervention.

McKinsey Global Fashion Index

Proprietary and copyrighted McKinsey tool that provides a global and holistic industry benchmark for the entire fashion industry. The MGFI was first created for The State of Fashion 2017 to track the industry performance through three key variables: sales, operating profit and economic profit. MGFI is composed of an extensive list of public and private companies spanning across market segments, product categories and geographies. The analysis of public companies is built with data from McKinsey Corporate Performance Analytics.

MEA

Afghanistan, Algeria, Angola, Bahrain, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Democratic Republic of Congo, Djibouti, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Iran, Iraq, Israel, Ivory Coast, Jordan, Kazakhstan, Kenya, Kuwait, Kyrgyzstan, Lebanon, Lesotho, Liberia, Libya, Madagascar, Malawi, Maldives, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Oman, Pakistan, Qatar, Réunion, Rwanda, Sao Tomé e Príncipe, Saudi Arabia, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Swaziland, Syria, Tajikistan, Tanzania, Togo, Tunisia, Turkmenistan, Uganda, United Arab Emirates, Uzbekistan, Yemen, Zambia, Zimbabwe.

Microplastics

Very small pieces of plastic, typically less than 5mm in length, that pollute the environment. Can often be contributed by the shedding of synthetic textiles during usage. Their environmental harm is caused by their slow degradation, which occurs over hundreds if not thousands of years.

Millennials (Generation Y/Gen Y)

Demographic cohort born circa 1982–1995. Are also commonly referred to as Generation Y (this name is based on Generation X, the generation that preceded them).

North America

Canada, Puerto Rico, United States of America.

Price segments

As definitions of market segments often vary across sources, all companies in the MGFI are categorised based on a Sales Price Index, providing a range of prices for a standard basket of products within each segment and home market — thereby relying only on a quantitative

INFOGRAPHICS

measure, whereby companies in each segment price their items similarly.

Return rate

Rate of product returns.

SG&A

An income statement item stating all costs not directly tied to making a product or service.

SME

Small and medium enterprises.

Super Winners

The top 20 fashion players by economic profit. In 2018, they collectively contributed 138 percent of the fashion industry's economic profit.

TRS

A measure of stock performance, factoring in capital gains and dividends to show total return to shareholders. It is expressed as an annualised percentage.

Value creator

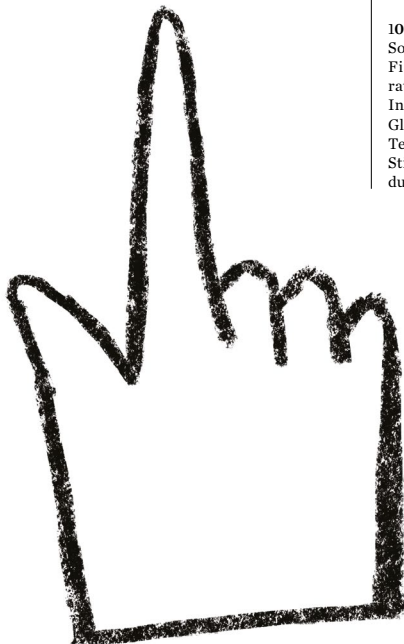
A company generating positive economic profit.

Value destroyer

A company generating negative economic profit.

Value segment

Segmentation by price of the fashion markets and participating companies used in the McKinsey Global Fashion Index and the BoF-McKinsey State of Fashion Survey. The companies are categorised in 6 segments, which are based on a price index (not price perception) across a wide basket of goods and geographies. The segments comprise from lowest to highest price segment: Discount, Value, Mid-market, Premium/Bridge, Affordable Luxury, Luxury.



The State of Fashion 2020 infographics:

1. On High Alert

Source: BoF-McKinsey State of Fashion 2020 Survey, The Business of Fashion and McKinsey & Company, September 2019

2. Beyond China

Source: United Nations, Population Division, World Population Prospects 2019. Includes India, Southeast Asia, Brazil, Russia, UAE and Saudi Arabia

3. Next Gen Social

Source: BoF-McKinsey State of Fashion 2020 Survey, The Business of Fashion and McKinsey & Company, September 2019

4. In the Neighbourhood

Source: BoF-McKinsey State of Fashion 2020 Survey, The Business of Fashion and McKinsey & Company, September 2019

5. Sustainability First

Source: BoF-McKinsey State of Fashion 2020 Survey, The Business of Fashion and McKinsey & Company, September 2019

6. Materials Revolution

Source: BoF-McKinsey State of Fashion 2020 Survey, The Business of Fashion and McKinsey & Company, September 2019

7. Inclusive Culture

Source: McKinsey analysis based on data for over 300 public fashion companies in our McKinsey Global Fashion Index (MGFI)

8. Cross-Border Challengers

Source: "Winning at Cross-Border eCommerce: Growth, Trends, Opportunities and Strategy in 2019", eTail and Vinculum, May 2019

9. Unconventional Conventions

Source: Expert interviews

10. Digital Recalibration

Source: Based on stock price data on Yahoo Finance as of Oct 21st close. EURUSD rates used: Jul 2nd 1.1287, Oct 21st 1.1152. Includes IPOs during Nov 2017 – Oct 2019: Global Fashion Group, The RealReal, Jumia Technologies, Ruhnn Holding, Mogu, Revolve, Stitch Fix and Farfetch. Adika Style excluded due to limited liquidity

Infographics:

Exhibit 1-2. Industry Outlook

Source: BoF-McKinsey State of Fashion 2020 Survey

Exhibit 3. On High Alert

Source: "Economic Conditions Snapshot, September 2019: McKinsey Global Survey results", McKinsey, September 2019, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/economic-conditions-snapshot-september-2019-mckinsey-global-survey-results>

Exhibit 4. Beyond China

Source: United Nations, Population Division, World Population Prospects 2019

Exhibit 5. Next Gen Social

Source: "The Global State of Digital in 2019 Report", Hootsuite/ We are Social 2019, January 2019, <https://hootsuite.com/pages/digital-in-2019#accordion-115547>

Exhibit 6. In the Neighbourhood

Source: BoF-McKinsey State of Fashion 2020 Survey, The Business of Fashion and McKinsey & Company, September 2019

Exhibit 7. Sustainability First

Source: McKinsey 2019 US consumer cohort survey

Exhibit 8. Materials Revolution

Source: McKinsey S&CF insights, Growth Analytics

Exhibit 9. Inclusive Culture

Source: The Business of Fashion employee survey 2019, n = 1,801

Exhibit 10. Cross-Border Challengers

Source: "Marketplaces year in review 2018", Marketplace Pulse, <https://www.marketplacepulse.com/marketplaces-year-in-review-2018>. 2019 data obtained directly from Marketplace Pulse

Exhibit 11. Unconventional Conventions

Source: BoF-McKinsey State of Fashion 2020 Survey, The Business of Fashion and McKinsey & Company, September 2019

Exhibit 12. Digital Recalibration

Source: Total mentions of "digital", "online" and "e-commerce" in earnings call transcripts for top 10 players by economic profit in MGFI

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