The State of Fashion 2025

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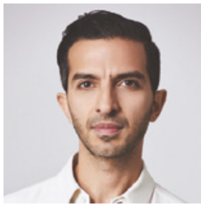

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EXECUTIVE SUMMARY

Challenges at Every Turn

Though hard to predict even in the best of times, the fashion industry is in for a particularly tumultuous and uncertain 2025. A long-feared cyclical slowdown has arrived. Consumers, scarred by the recent period of high inflation, are increasingly price sensitive. There is also the surprising rise of dupes, the acceleration of climate change and the continued reshuffling of global trade. Regional differences, which came into focus in 2024, will become even starker in the coming year.

In short, the negative environment predicted by many in the fashion industry this time a year ago has now manifested. There is still growth to be found, but economic uncertainty, geographic disparities as well as shifting customer behaviour and preferences mean seizing it will require navigating a maze of compounding challenges at every turn.

Consequently, 2025 is likely to be a time of reckoning for many brands. The upshot is that there is still opportunity to be found for brands that move nimbly and are quick to adapt to upheavals in a chaotic marketplace.

Sluggish Growth Continues

Judged purely by the topline, the fashion industry's outlook for 2025 appears to be a continuation of the sluggishness seen in 2024: revenue growth is expected to stabilise in the low single digits. While luxury has led in value creation in recent years, the McKinsey Global Fashion Index forecasts that in 2024, it is non-luxury that will drive the entirety of the increase in economic profit for the first time since 2010 (excluding Covid-19).

Fashion leaders polled in our annual BoF-McKinsey State of Fashion Executive Survey were just as pessimistic as last year. Just 20 percent expect improvements in consumer sentiment in 2025, while 39 percent see industry conditions worsening.

The geographic drivers of revenue and economic profit are also undergoing historic shifts. In particular, the industry will benefit from falling inflation and increased tourism in Europe, the resilience of high-net-worth individuals in the US and new growth engines in Asia to counteract uncertainty around consumer spending in China, which is still recovering from the pandemic. China will remain the region's centre of gravity, but as the country is buffeted by macroeconomic headwinds, brands will pivot focus to other Asian markets, most notably Japan, Korea and India.

Acting on Opportunities
To reach these consumers, executives told us they will localise their go-to-market models, broaden their price ranges and focus on brand positioning to capture the attention of shoppers who are increasingly prioritising value. This impulse is also driving expansion of the resale and off-price segments. Brands that do not wish to play in these categories must demonstrate to customers why their products are worth the premium price.

One way to achieve this is by improving the shopping experience. Consumers are returning to in-store shopping at pre-pandemic levels across much of the world, but retailers need to remind shoppers what they love about the in-store experience. That starts with well-trained staff who are empowered to assist and inspire customers.

In the shift back to physical retail, pure-play luxury marketplaces have struggled. This coming year may see mass online marketplaces experience similar disruption; most have seen their share prices plummet from pandemic highs and have struggled to find an answer to falling demand and rising customer acquisition costs.

Smart e-commerce players are focusing on new paths for product discovery. Shoppers who were once dazzled by the seemingly endless selection available at many online retailers now bemoan the difficulty of finding what they want. AI-powered curation, content and search can help customers discover brands and products more effectively — and feel more inclined to make a purchase.

Brands are also reevaluating which consumer cohorts to pursue. While the fashion industry has historically prioritised younger shoppers, the "Silver Generation" of over-50 customers is growing as a proportion of the overall population — and fashion spending. In 2025, brands will benefit from courting these oft-overlooked customers.

Not all brands are equally adept at making these pivots. Often, it is newer, "challenger" brands, unburdened by historic conceptions about products, stores and customers, that are coming out on top. This is especially true in the sportswear category, where incumbents are competing with a wave of smaller, but more innovative players that are rapidly capturing market share.

Next year, ongoing shifts in global trade must also be monitored and anticipated for their impact on sourcing. Retailers will accelerate their reconfiguration of supply chains to prioritise nearshoring and manufacturing in geopolitically aligned countries.

These supply chains will need to become more agile, with companies making efforts to reduce excess inventory and minimise the risk of shortfalls. Margin pressures, as well as pressures from governments around the world to reduce emissions and fashion waste, will drive advances in inventory management. New technology will aid these efforts.

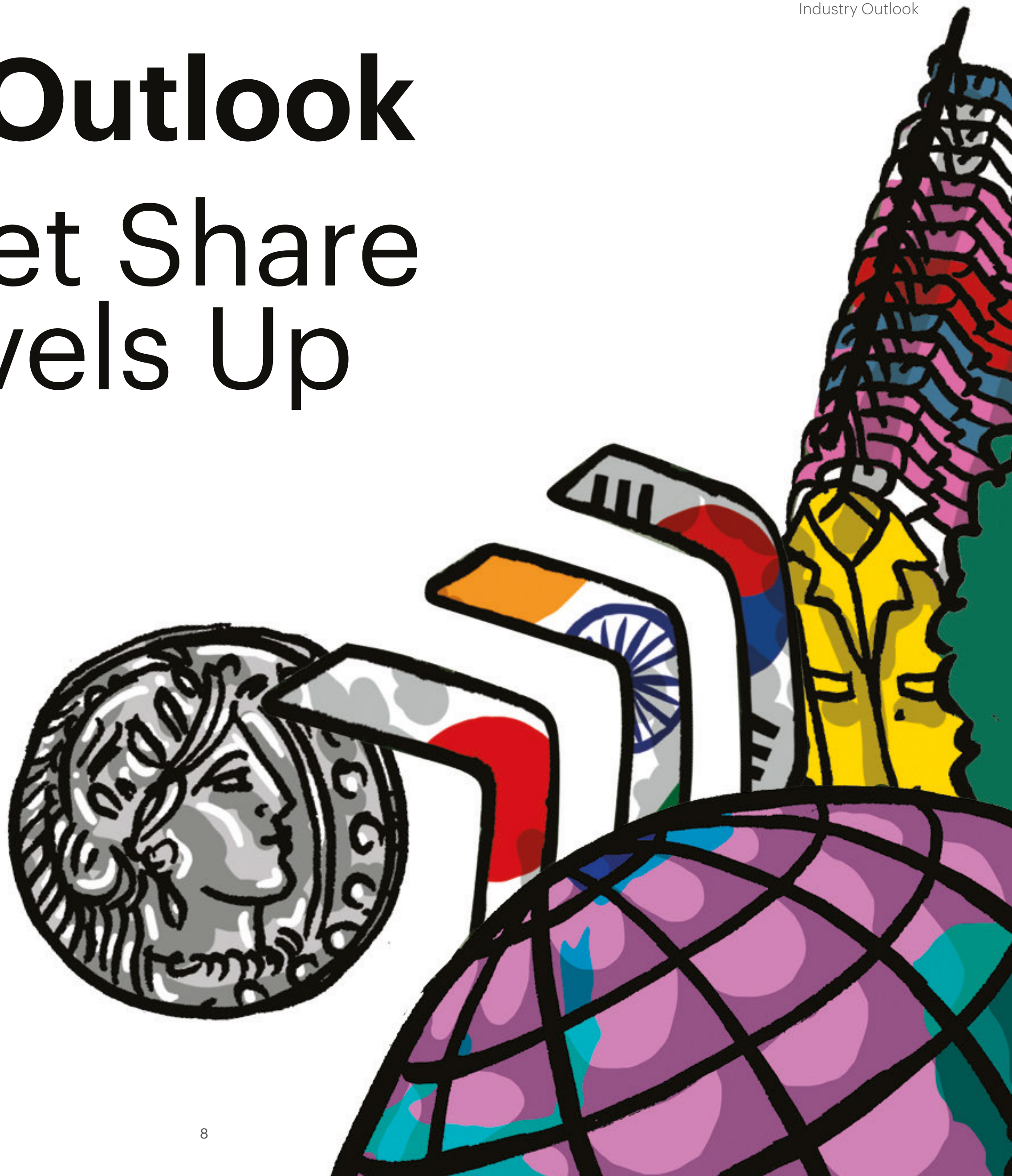
Finally, the climate crisis will remain a potent force across fashion supply chains and in driving consumer behaviour. Even though shoppers have proven less willing than hoped to pay extra for planet-friendly products, making the business case for sustainability less obvious to executives among other competing priorities, the mounting cost of climate change, and government action to combat it, mean sustainability must remain at the top of the agenda. Those who choose to approach sustainability with a long-term mindset even while battling short-term problems will be rewarded with more efficient business operations and a competitive advantage.

> **"The old playbook is now obsolete; the industry will need a new formula."**

Leaders who move quickly to identify the bright spots, whether they are geographic, demographic or technological, will be primed for success, but only if they're able to evolve. The old playbook is now obsolete; the industry will need a new formula for differentiation and growth.

Industry Outlook

The Market Share Game Levels Up



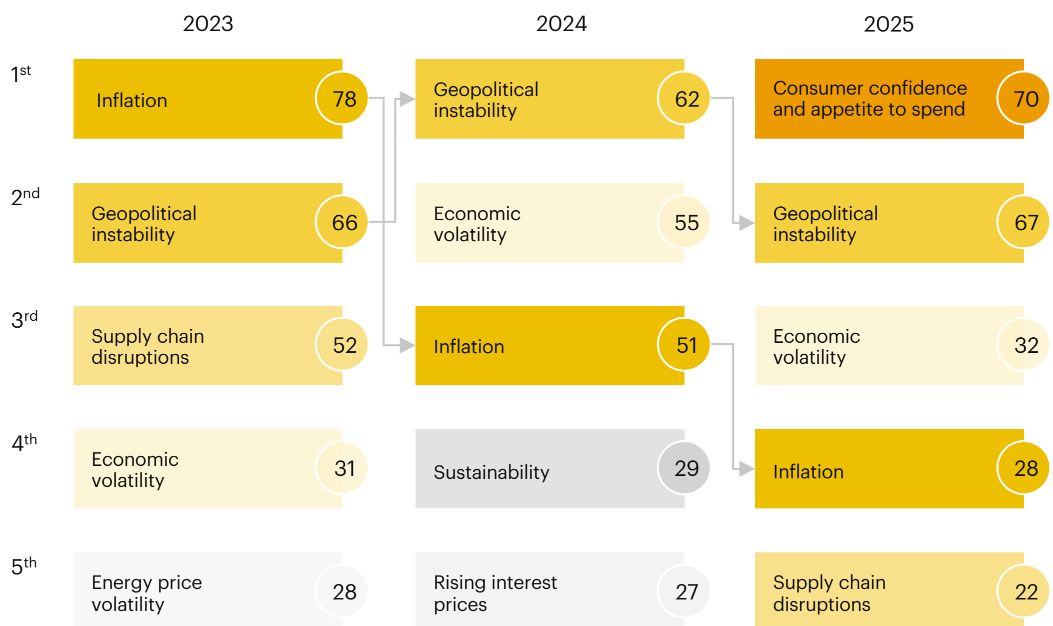
Uncertainty persists as executives enter 2025 with less optimism for the year ahead

For yet another year, the most common sentiment among fashion leaders for 2025 was "uncertainty," according to the BoF-McKinsey State of Fashion 2025 Executive Survey. Just 20 percent of respondents expect conditions to improve from 2024, 41 percent expect conditions to remain the same and 39 percent expect them to worsen.[1]

Like last year, there is a divide among executive expectations, but reasons for concern have changed:

- Fashion leaders are concerned about consumer sentiment, as the economic outlook remains in flux and sluggish across markets. Seven out of 10 fashion leaders cited consumer confidence as the top risk for 2025.[1]
- Executives remain concerned about how geopolitical instability and economic volatility will impact the fashion landscape in the year ahead.[1] Given changing dynamics and conflicts in the geopolitical landscape we expect these risks to stay top of mind.
- Meanwhile, inflation has been falling further down the list of executives' concerns. Around the world, central banks are lowering interest rates as inflation cools. In this year's survey, executives were nearly half as likely to cite inflation as a key risk compared last year.[1234]

Question: What aspects of the global economy do you expect will be the greatest risks to growth in the fashion industry in [year]? Select three
%



Source: BoF-McKinsey State of Fashion Executive Survey, 2023, 2024 and 2025

Fashion industry growth is expected to remain low, but increase slightly from 2024

Despite these continued challenges, McKinsey Fashion Growth Forecasts predicts the global fashion market to post low single-digit growth in 2025, reflecting a structural deceleration following the post-pandemic boom.[5] This deceleration, coupled with relatively muted consumer confidence, will force brands to prioritise capturing market share, rather than reaping the rewards of the outsized market growth of the last few years.

Retail sales year-on-year growth by geography and segment, %

Note: Growth rate forecasts are calculated on actuals converted to USD on fixed 2023 exchange rates. Estimates for China reflect macroeconomic context as of end of October 2024 and are highly volatile
Source: McKinsey Fashion Growth Forecasts 2025

The macroeconomic climate will continue to challenge growth across regions

	Non-luxury growth drivers	2025E Market growth[5]	Luxury growth drivers	2025E Market growth[5]
Europe 2025E GDP growth[6] +1.2%	• GDP growth is expected to increase slightly to 1.2 percent in 2025, as rising real wages are anticipated to boost consumption.[6] • Economic uncertainty and geopolitical concerns are keeping personal savings rates high, reaching a three-year peak in June 2024.[7] • Appetite to spend is ticking up slightly as disposable personal incomes rise[8,9] and inflation falls.[10] • Recovery across the continent will be mixed; sluggish growth is still expected in key economies such as Germany and the UK.[6]	+2-4%	• Domestic luxury demand is expected to be low, affected by consumer caution in Europe. • As of May 2024, tax-free shopping in continental Europe had recovered to 138 percent of pre-pandemic sales levels – although Chinese tourist spend was 59 percent of 2019 levels.[14] • Looking ahead, foreign arrivals to Europe are expected to grow by 8 percent per year from 2024 to 2026, expected to drive market growth.[15]	+1-3%
US 2025E GDP growth[6] +2.2%	• GDP growth is expected to slow slightly to 2.2 percent in 2025[6], while the Federal Reserve aims to continue rate cuts in 2025 to boost consumption.[11] • Consumer purchasing power is rising, buoyed by a strong stock market and property sector. In 2024, wage growth outpaced inflation, while the personal savings rate dipped below pre-pandemic levels at 6 percent.[8,12]	+3-4%	• Aspirational middle- and upper-class consumers' ability to spend on luxury is increasing as a result of decreasing inflation, higher disposable income and a strong real estate market.[12] • The growing ultra-high-net-worth individual (UHNWI) population is also driving demand: 8 percent growth in 2023 and an expected 5 percent compound annual growth rate (CAGR) from 2023 through 2028.[16]	+3-5%
China 2025E GDP growth[6] +4.5%	• China is experiencing a structural slowdown. While GDP growth is still outpacing global growth, it is expected to decelerate to 4.5 percent amid a property market crisis and record-high debt-to-GDP of 288 percent.[6,13] • In August 2024, consumer confidence fell to just above 2022 record lows.[9] It remains uncertain whether government measures will be sufficient to drive a meaningful boost in sentiment in 2025.	+2-4%	• Domestic luxury growth is expected to pick up slightly in late 2025 thanks to high savings rates (household savings rate at 32 percent), and the rise of new wealth centres, such as Shenzhen and Wuhan.[18] • Domestic growth will remain below historical levels due to a rebound in international travel and slower growth in UHNWIs (expected 8 percent CAGR from 2023 to 2028 vs 13 percent from 2019 to 2023).[16,17]	-3-0%

Fashion executives expect volume, rather than price, to drive modest growth in 2025

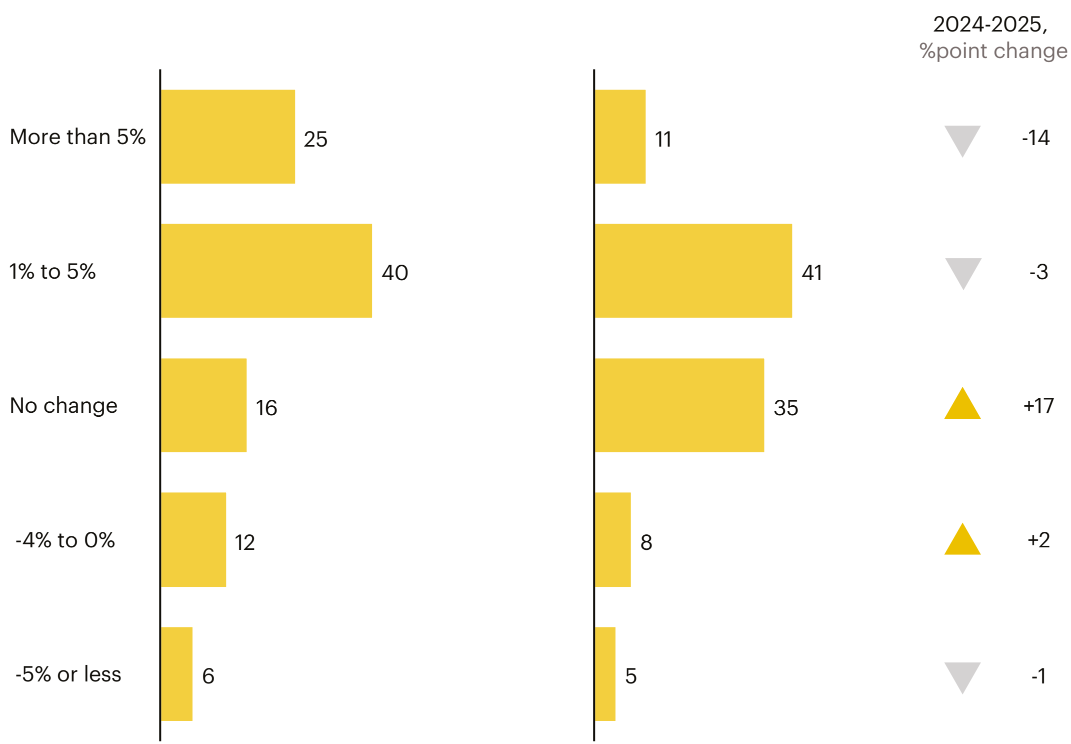
Executives are continuing to focus on sales growth in the year ahead. Nearly three out of four fashion leaders are prioritising sales growth over cost improvements, a slight uptick from the 2024 survey.[12]

However, the drivers of growth are shifting. In the last few years, volume growth has slowed, or even declined in regions such as the US and Asia-Pacific.[5] Now, in a reversal of recent years, leaders anticipate volumes, rather than price, will fuel growth.

- Compared to the prior year, the number of executives that expect to increase prices dropped 17 percentage points (%points).
- Nearly two thirds of executives expect volume growth in 2025, mostly in the low single digits.[12]
- Consumers are tired of price increases. This is particularly true for middle- or lower-income shoppers, who are more sensitive to price hikes.[19] As a result, brands anticipate having less pricing power, in line with executives' uncertainty over consumer appetite to spend.

Question: How much do you expect your like-for-like retail sales **volumes** on average across all products/categories to change next year, if at all?
%

Question: How much do you expect to increase / decrease your retail sales **prices** on average across all products/categories next year, if at all?
%



Source: BoF-McKinsey State of Fashion Executive Survey, 2024 and 2025

To capture market share, fashion executives are focusing on differentiation

In pursuit of differentiation: At the top of executives' priorities this year is finding ways to differentiate, whether through new designs, customer experiences or finding new customer niches.[1]

Localisation is one lever fashion brands are leveraging. Half of executives plan to localise their go-to-market model and value proposition, especially through pricing, fulfilment channels and assortment. This will help connect with customers in promising emerging markets for growth such as India.[1]

65 percent of executives also plan to alter their assortments to include a variety of options across price points.[1] In 2025, it will be important to appeal to a wide range of consumers to gain share while balancing tight control of inventory.

Reduced focus on cost improvements: While executives continue to prioritise advancements in AI and digital innovation, they are less focused on actively mitigating costs. Over 85 percent expect their cost of goods and selling, general and administrative costs to grow at a low single-digit rate.[1]

Sustainability takes a backseat: In the past two years, sustainability was a top opportunity for industry executives. This year, in an environment where growth may be constrained, the focus on sustainability has faded into the background, as executives prioritise other opportunities, such as differentiating their brands and offering new designs to capture market share.[1]

Question: What do you think will be the single biggest opportunity for the fashion industry in [year]?

New

	2024	2025
1st	Sustainability objectives and business integration	Differentiation in business strategy through brand positioning and product newness (New) 13% of respondents
2nd	Leveraging AI in business decisions and improving accuracy	Expanding use cases of AI and new features 9% of respondents
3rd	Innovation through technology and sustainability	Improving economics (e.g. lower inflation, higher disposable income) in select regions (e.g. US, India) 9% of respondents

Source: BoF-McKinsey State of Fashion Executive Survey, 2024 and 2025

The State of

GLOBAL ECONOMY

01.

Trade Reconfigured

Global trade is shifting as major economies diversify and source from countries where they have more political alignment. This will accelerate in the fashion industry in 2025 due to rising costs, evolving trade policies and sustainability targets. As a result, fashion brands are likely to double down on diversifying their sourcing footprint in Asia and lay the foundations for nearshoring.

x5

There has been a 5x increase in the number of trade barriers introduced since 2015, with ~3,000 restrictions imposed in 2023

02.

Asia's New Growth Engines

China's economic deceleration, changing consumer preferences and the return of international travel are making growth in the country highly challenging, leading international fashion brands to look to other Asian markets. India will be a focus, particularly for high-street players, while Japan's luxury boom is expected to continue into 2025, fuelled by strong international and domestic spend.

63%

63% of fashion executives believe APAC mature countries have promising growth prospects in 2025

CONSUMER SHIFTS

03.

Discovery Reinvented

Fashion shoppers are overwhelmed with choice, which negatively impacts their engagement and conversion rates with brands. However, a new era of brand and product discovery is on the horizon, underpinned by AI-powered curation across content and search.

50%

50% of fashion executives see consumer product discovery as the key use case for generative AI in 2025

04.

Silver Spenders

Fashion brands have typically focused on youth, but in 2025 they may struggle to grow sales from younger shoppers alone. The "Silver Generation" aged over 50 represents a growing population with a high share of global spend. Brands that engage these previously overlooked shoppers while creating inter-generational appeal will unlock incremental growth.

72%

72% of total US population wealth is accounted for by those aged over 55

05.

Value Shift

Macroeconomic pressures and rising prices have driven fashion shoppers to adopt cost-conscious behaviours. This is expected to persist, even as some economies begin showing signs of recovery. This dynamic is fuelling growth in segments with strong value-for-money perception, such as resale, off-price and dupes, among others. To capture customers' share of wallet, brands will need to prove their value.

70%

70% of consumers plan to continue shopping from outlets or off-price retailers in the next 12 months, even if they have more money to spend

Fashion 2025

FASHION SYSTEM

06.

The Human Side of Sales

Differentiating the in-store experience is key to reigniting demand for in-person shopping. Brands can achieve that by empowering their store associates to reach their full potential, as sales staff have a central and valuable role to play in connecting with customers. The benefits will be sizeable, since customer and employee experience are inextricably linked.

75%

75% of shoppers are likely to spend more after receiving high-quality service from store staff

07.

Marketplaces Disrupted

Following a tumultuous period for luxury e-commerce platforms, online non-luxury marketplaces are facing challenges of their own. Share prices have dropped as much as 98 percent since Covid-19 peaks due to existential business model challenges and disruptions. Non-luxury marketplaces globally must carve out a clear role in the fashion ecosystem to survive.

77%

The share price of online fashion marketplaces declined 77% on average between January 2021 and September 2024

08.

Sportswear Showdown

Challenger brands are forecast to generate over half of the sportswear segment's economic profit in 2024, up from 20 percent in 2020. This means the battle between challengers and incumbents in the growing sportswear market will likely intensify. To gain market share, brands will need to develop innovative products and use the right ambassadors and channels to activate unique brand stories.

57%

Challenger sportswear brands are expected to generate 57% of the segment's economic profit in 2024

09.

Inventory Excellence

Inventory remains a challenge for the industry with both excess stock and stocks-outs impacting brands. In 2025, margin pressures and sustainability regulation will place greater emphasis on end-to-end planning excellence, with brands increasingly adopting tech tools and adjusting their operating model to support agile supply chains.

2.5-5B

An estimated 2.5 billion to 5 billion items of excess stock were produced by the fashion industry in 2023, worth between $70 billion and $140 billion in sales

10.

The Sustainability Collective

Fragmentation and complexity across the fashion value chain, coupled with consumer reluctance to pay for sustainable products, are inherent barriers to reaching sustainability goals. But with decarbonisation efforts falling short of targets and the climate crisis accelerating, inaction is not an option. The fashion sector must act collectively to drive impact.

40%

40% of power in Bangladesh will be fuelled by renewable energy by 2041 thanks to collective energy initiatives

01. Trade Reconfigured

Container ships at a port. Golero/Getty Images.

01. Trade Reconfigured Global trade is shifting as major economies diversify and source from countries where they have more political alignment. This will accelerate in the fashion industry in 2025 due to rising costs, evolving trade policies and sustainability targets. As a result, fashion brands are likely to double down on diversifying their sourcing footprint in Asia and lay the foundations for nearshoring.

KEY INSIGHTS

- Trade barriers and supply disruptions have increased 5x since 2015, with around 3,000 trade restrictions imposed in 2023.
- US apparel and textile imports are diversifying away from China at the fastest rate since 2010, down 6 percentage points (%points) in 2023 vs 2019.
- The share of apparel manufacturing foreign direct investment into nearshoring regions has increased 20%points in the last five years for the US and 8%points for the EU.

EXECUTIVE PRIORITIES

- Regularly assess the sourcing footprint, leveraging analytics and detailed supplier data to identify priority regions for reconfiguration. Consider both net margin and cash benefits of nearshoring or diversification.
- Collaborate closely with suppliers by establishing strategic relationships, prioritising data transparency and co-investments to jointly build resilient and productive supply chains.
- Partner with industry stakeholders, such as regulators and manufacturers, engaging in collaborative planning and setting aligned targets to tackle sustainability goals at scale.

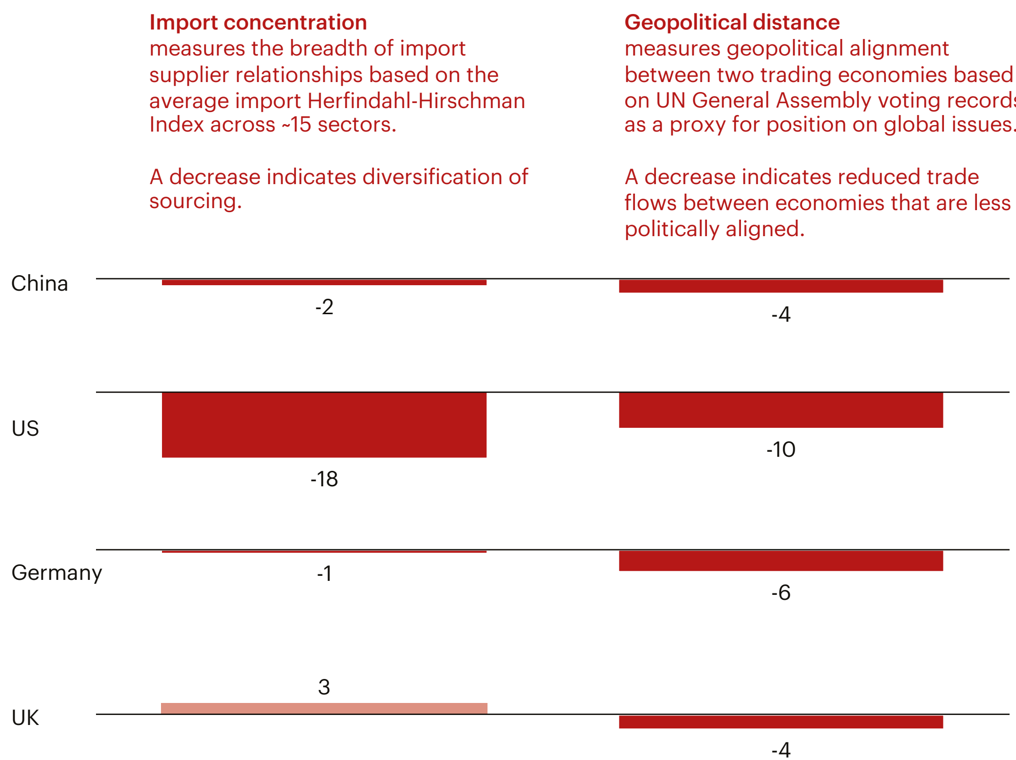
Global economies are diversifying sourcing and reducing the geopolitical distance of trade flows

Up until the early 2020s, global trade revolved around the relationship between the US and China. In recent years, geopolitical tensions and market shifts, coupled with a change in sourcing economics, have caused a shift in this dynamic, resulting in a "multi-polar" structure where more countries participate in global trade.

This push to diversify trade flows is happening across industries. Between 2017 and 2023, the share of total US imports from China fell by 5.8 percentage points, with imports in strategic industries such as electronics reducing by more than 20 percent in 2023.[1] In the same year, the EU cut the overall trade deficit with China by 27 percent to diversify supply chains in strategic industries such as electronics and chemicals.[2]

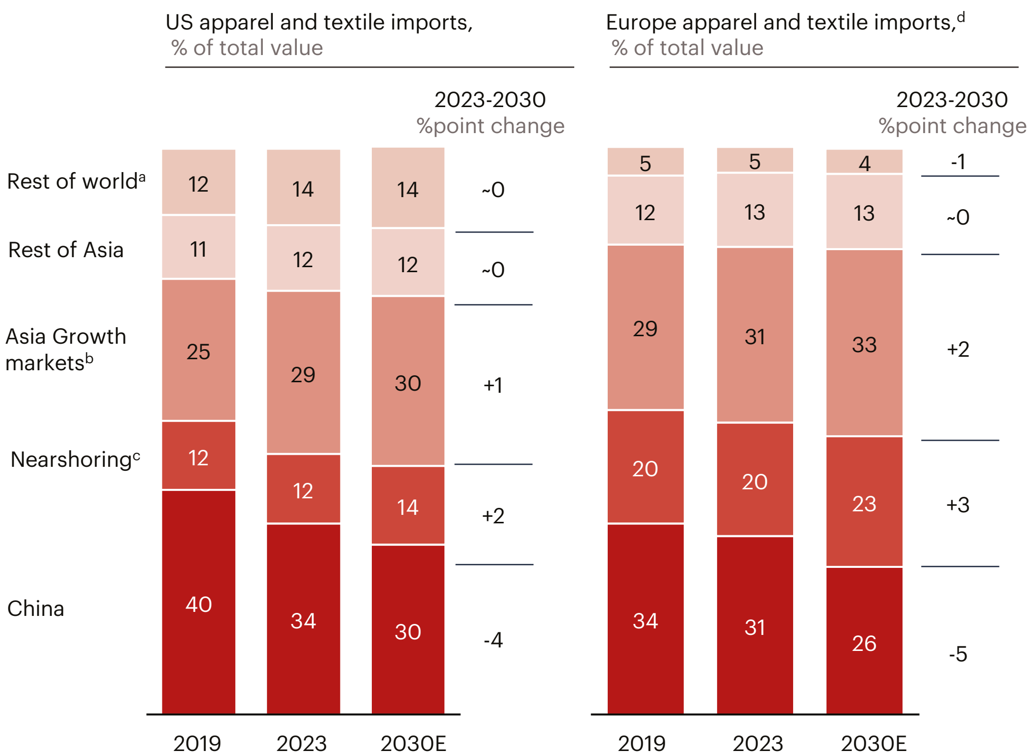
In parallel, other major economies are also reducing risk by trading with more geopolitically aligned countries. These economies, predominantly China, Germany, the UK and the US, have reduced the geopolitical distance of their trade by 4 to 10 percent in the last five years.[3]

Change in goods trade indicators, 2017-2023, %



Note: Based on latest available monthly data from national sources as of January 2024
Source: McKinsey Global Institute "Geopolitics and the Geometry of Global Trade", UN Comtrade; Destatis; US Census Bureau; Comex Stat; General Administration of Customs of the PRC; UK Department for Business & Trade; ASEANstats; IMF World Economic Outlook; CEPII; World Bank; Voeten (2017) and UN Digital Library; McKinsey Global Institute Analysis

Diversification of apparel and textiles sourcing will likely continue at pace in the years to come



a. RoW for the US includes: Africa, EU28, Middle East, Oceania, other Eastern Europe, other Western Europe. For the EU includes: Africa, North America, Latin America, Middle East, Oceania
b. Asia Growth Markets includes: India, Vietnam, Cambodia, Bangladesh
c. Nearshoring for the US includes: Mexico, Canada, Latin America. For the EU: North Africa, other Eastern Europe, other Western Europe
d. Includes Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK
Source: McKinsey Global Institute, World Trade Service

Establishing resilience

Players are increasingly diversifying their sourcing footprint to create supply chain resilience. The share of apparel and textiles coming from China decreased by 6 percentage points (%points) between 2019 and 2023 for the US and 3%points for the EU. The total value of imports from China declined by 5 percent on average per year during this period, compared to a less than 1 percent average yearly decline in the previous decade for the US.[4] Similarly, for the EU, the total value of imports declined by 2 percent on average per year, compared to a 1 percent average yearly decline in the previous decade.[4]

Diversification in Asia

Markets such as India, Vietnam and Bangladesh are expected to become key sourcing hubs for US and European apparel and textiles. Meanwhile, China is progressively losing cost-competitiveness due to rising labour costs, which increased by 38 percent from 2010 to 2021.[5]

Nearshoring

Nearshoring is expected to become an increasingly relevant sourcing strategy, with US and EU apparel and textile imports from nearshoring destinations expected to increase 2%points and 3%points respectively by 2030.[4]

Rising sourcing costs, tariffs and sustainability targets may accelerate sourcing diversification

>165%

increase in Asia-to-US shipping costs between Dec. 2023 and Feb. 2024 due to logistics disruptions[6]

The economic and geographic advantages of sourcing regions are shifting, with several emerging markets becoming more cost-competitive due to several factors.

Increasing labour costs in China are compromising manufacturer cost-competitiveness compared to other Southeast Asian countries such as Vietnam, where average hourly labour costs are less than half of those in China.[7]

Shipping costs have drastically increased across Asia-to-US shipping routes. There was a 165 percent increase in Asia-to-US east coast route container rates on Feb. 05, 2024, compared to two months prior.[6] Meanwhile, shipping prices across trade routes in the Middle East have increased 5x from December 2023 to February 2024.[8]

5x

increase in the number of trade restrictions since 2015, with ~3,000 imposed in 2023[9]

Mentions of "tariffs" and "trade policies" across apparel company reports and investor presentations have increased by more than 50 percent since 2020.[10]

As of May 2023, the EU is planning to impose import duties on goods under €150 ($164) from China, impacting an estimated 2.3 billion items per year.[11]

Southeast Asian countries are also restricting Chinese imports, with tariffs of up to 200 percent on imported textiles.[12]

The US is considering excluding Chinese imports from its *de minimis* import rule, where goods valued at less than $800 are duty free.[13]

63%

share of fashion brands that need to accelerate emission reduction efforts to reach 2030 targets[14]

Changes in country of production alone can heavily influence greenhouse gas emissions. There is wide emissions variance between suppliers, given more than 70 percent of fashion industry emissions come from upstream activities, primarily textile production.[14]

For example, Pakistan has half the emissions factor in fabric production than China, due to a lower share of coal-based energy production.[15]

As a result, some fashion companies have started to invest in the decarbonisation of their footprint, such as H&M's investment in Bangladesh Wind Power in 2024.[16]

Fashion brands will look to Asia growth markets such as India for manufacturing

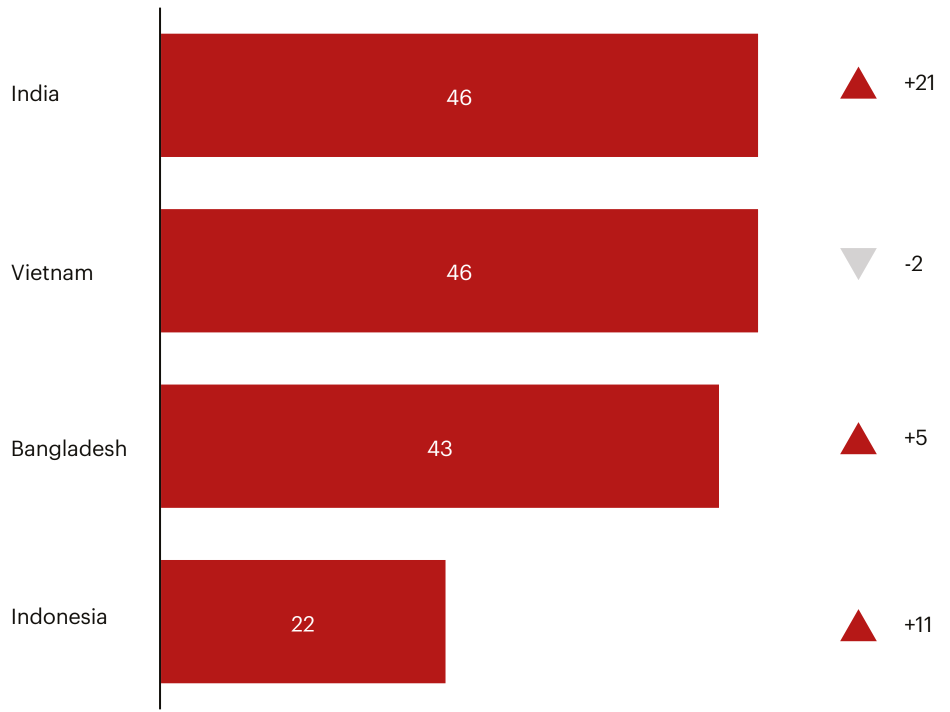
Fashion brands initially turned to Vietnam to reduce their dependency on China, with the value of apparel and textile exports from Vietnam increasing 35 percent between 2015 and 2020.[4] Now, other Asian countries such as India and Bangladesh are also hotspots. In the US, apparel and textile imports from these countries increased 3 percentage points (%points) and 2%points respectively between 2020 and 2023.[4] This trend is expected to continue as fashion executives rank Asia growth markets as their top sourcing hotspots for the next five years and regulatory incentives fuel manufacturer capability building in these countries.

India is expected to play a more prominent role. While challenges in production capabilities have impacted scale to date — India had the highest percentage of apparel products that failed quality standards in 2023 — these pressures may start to ease.[17] The Indian government has invested around $2.5 billion in Production-Linked-Incentives and reforms to Quality Control Orders, while foreign investment has increased 3x since 2019.[18,19,20]

Bangladesh, despite being a favoured sourcing location in recent years, has experienced increased political and climate disruptions, leading to brands shifting up to 40 percent of orders in the second half of 2024 to other markets in the region.[21]

Top-ranked sourcing hotspots for the next five years,
Share of apparel CPO respondents including country in top three, %

2019-2023
%point change



Source: McKinsey Apparel CPO Survey, 2023

Renewed interest in nearshoring is leading to increased capacity and improved capabilities

While mentions of nearshoring in corporate presentations increased 20-fold between 2018 and 2022,[3] the share of imports to Europe and the US from nearshoring countries has remained flat since 2019.[4] This is due to the limited manufacturing capacity and capabilities of local suppliers, with lower labour productivity meaning total landed cost remains higher than other regions — despite competitive labour rates, lower shipping costs and tariff advantages. However, these challenges are likely to be addressed going forward.

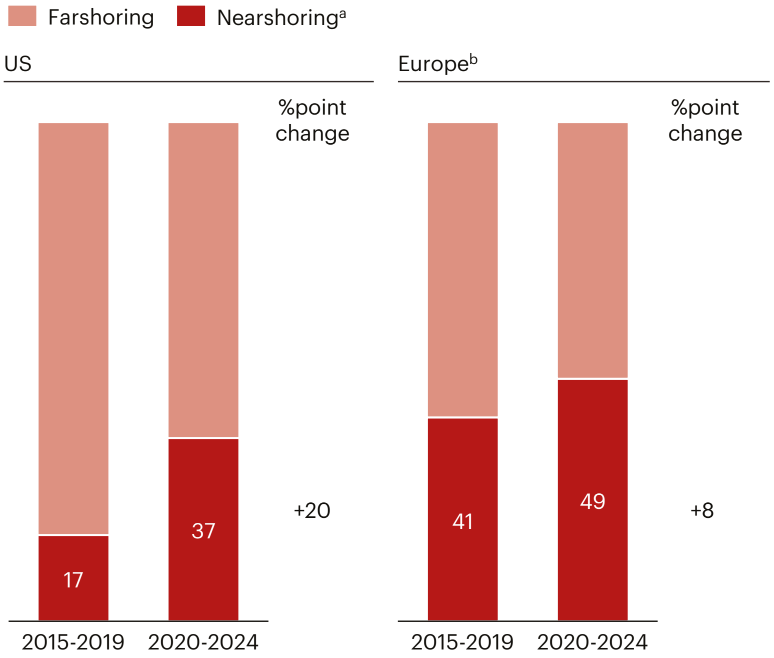
Capacity and capability building

- **Investments:** The share of apparel foreign direct investment into nearshoring manufacturing has increased by 20 percentage points (%points) for the US and 8%points for Europe in the last five years.[20]
- **Government incentives:** The Americas Act — a bipartisan bill in the US — if enacted would dedicate $14 billion to apparel subsidies and investments in nearshoring.[22] The EU Strategy for Sustainable Textiles laid out several initiatives to reduce environmental impact in 2023, which may be addressed through nearshoring.

Cost-competitiveness

- **Productivity:** Local manufacturers and Asian companies with facilities in Central America are investing in vertical integration of textile manufacturing and fabric supply to improve productivity, while China's shifting workforce demographics are causing its productivity advantage to slowly decline.
- **Speed to market:** As the pace of trend cycles accelerates, nearshoring could benefit company bottom lines by potentially leading to 3-5x faster lead times, higher net margins and lower inventory levels.[23 24]

Apparel and textile manufacturing foreign direct investments,
% of total



a. Nearshoring for the US includes: Latin America, North America. For the EU: North Africa, other Eastern Europe, other Western Europe
b. Includes: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK
Source: McKinsey Analysis, fDi Intelligence

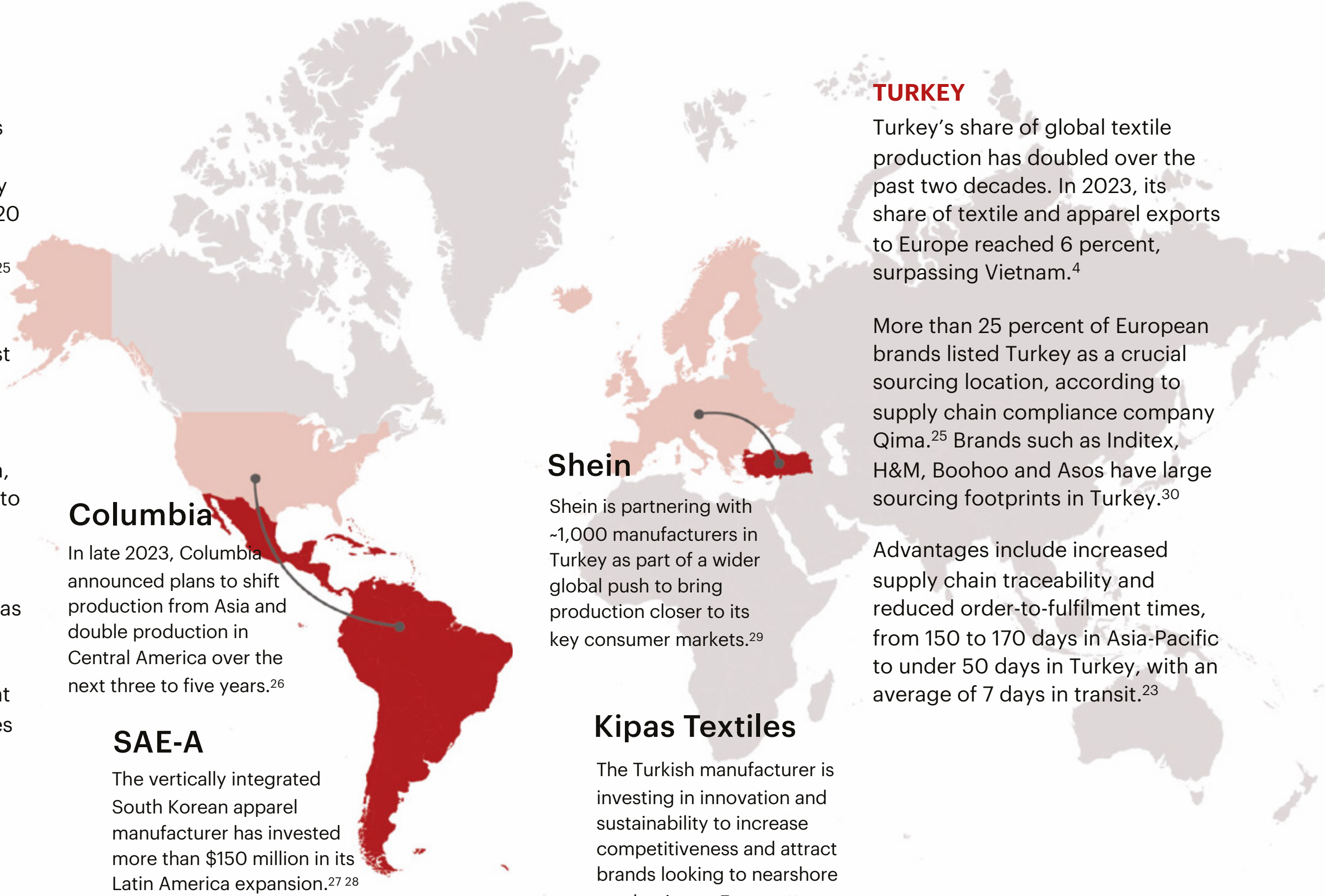
Latin America is emerging as a key nearshoring hub for the US, as is Turkey for Europe

LATIN AMERICA

65 percent of US fashion companies say they increased sourcing from USMCA members in 2023, especially Mexico — up from 40 percent in 2020 — owing to advantageous trade agreements for textiles and apparel[25] and increased US investments.[20]

Mexico-US shipping routes have cost and speed advantages compared to China, costing around $5,000 for a single container vs $18,000 and taking 5-10 days vs 60 days in China, the latter of which has doubled due to supply chain disruptions.[24]

The value of apparel and textile exports from Guatemala to the US has increased 10 percent from 2020 to 2023.[4] While manufacturing in the country costs around 5 to 10 percent more than in Vietnam, shipping times are around 3x faster.[26]



Columbia

In late 2023, Columbia announced plans to shift production from Asia and double production in Central America over the next three to five years.[26]

SAE-A

The vertically integrated South Korean apparel manufacturer has invested more than $150 million in its Latin America expansion.[27,28]

Shein

Shein is partnering with ~1,000 manufacturers in Turkey as part of a wider global push to bring production closer to its key consumer markets.[29]

Kipas Textiles

The Turkish manufacturer is investing in innovation and sustainability to increase competitiveness and attract brands looking to nearshore production to Europe.[23]

TURKEY

Turkey's share of global textile production has doubled over the past two decades. In 2023, its share of textile and apparel exports to Europe reached 6 percent, surpassing Vietnam.[4]

More than 25 percent of European brands listed Turkey as a crucial sourcing location, according to supply chain compliance company Qima.[25] Brands such as Inditex, H&M, Boohoo and Asos have large sourcing footprints in Turkey.[30]

Advantages include increased supply chain traceability and reduced order-to-fulfilment times, from 150 to 170 days in Asia-Pacific to under 50 days in Turkey, with an average of 7 days in transit.[23]

Flexible supply chains and close supplier relationships will be critical to success

EXECUTIVE PRIORITIES

Regularly assess and optimise sourcing footprint	Develop strategic relationships with manufacturers and suppliers	Shape trade flows with industry stakeholders
Regularly perform footprint assessments to identify priority regions for reconfiguration based on manufacturing costs and capabilities, considering potential supply chain disruptions that may impact both (e.g. conflicts, climate change). Leverage analytics to examine cost breakdowns, improve unit costs and conceive more competitive sourcing processes with both existing and new vendors. This may require detailed supplier information to model costs based on a range of inputs and trade agreements. Assess cost competitiveness on a net margin basis when making sourcing decisions, taking into account not just input costs but final margin and cash benefits from faster speed-to-market and increased supply chain flexibility. Develop an understanding of supply chain disruptions across the footprint, actively managing and minimising the implications on their operations, such as cost and speed-to-market.	Rethink the approach to manufacturers and suppliers, with an emphasis on developing long-term strategic partnerships to increase the efficiency and resilience of supply chains. Historically, fashion brands and suppliers have been more cautious in making joint investments compared to other industries, given the highly competitive nature of the apparel market. However, the increased disruption and volatility in brands' sourcing footprints requires more effective and closer collaboration to ensure efficient operations. Adopt digital solutions to enable efficiency and collaboration. To unlock the full value of these tools, fashion brands and manufacturers will need to not only embrace digital tools across their value chain, but also prioritise process redesign, data quality enhancement and the integration of planning systems to provide visibility for all parties across the value chain.	Proactively shape the future of apparel and textile trade flows by engaging manufacturers, regulators and sustainability bodies to align on industry targets and co-invest in decarbonisation projects at scale. Work closely with manufacturers and upstream suppliers to achieve sustainability goals and reduce apparel emissions. This remains a competitive imperative for suppliers and fashion brands are unable tackle these issues alone. Adopt a collaborative planning process to align on short- and long-term business objectives, mutual targets and strategic plans, which can formalise industry affiliations and arrangements. Multiple brands, suppliers and regulators can also partner to launch large-scale sourcing excellence programmes.

02. Asia's New Growth Engines

Dior show in Mumbai. Dior/Thomas Chéne/Gupta Niveditaa.

02. Asia's New Growth Engines China's economic deceleration, changing consumer preferences and the return of international travel are making growth in the country highly challenging, leading international fashion brands to look to other Asian markets. India will be a focus, particularly for high-street players, while Japan's luxury boom is expected to continue into 2025, fuelled by strong international and domestic spend.

KEY INSIGHTS

- Fashion executives are increasingly positive about Asian growth prospects outside of China, especially in India and mature APAC markets (e.g. Japan and Korea), for which executives show 54 percentage point positive net sentiment.
- India's strong growth is rendering it a key global fashion market, particularly in the mid-market segment, which is expected to grow around 12 to 17 percent in 2025 compared to the projected low single-digit growth of the global fashion market.
- Japan's luxury market grew 25 to 30 percent in the first half of 2024, driven by ongoing currency weakness and a surge in tourism. Tourism spend is expected to grow from $36 billion in 2023 to nearly $100 billion in 2030.

EXECUTIVE PRIORITIES

- Increase localisation of the go-to-market model to resonate with local consumer preferences and cultural norms, catering to nuances in each Asian market.
- Build regional omnichannel capabilities in both owned and third-party channels to meet the growing demands of shoppers and their rising purchasing power.

As China's sizeable GDP growth slows, so will its fashion market's growth

After years of impressive growth, China's economy is now worth $18 trillion[1] and its apparel market is the second largest in the world.[2] In 2025, the IMF projects China's economy will grow by 4.5 percent, outpacing global GDP growth of around 3 percent.[3]

While still higher than global GDP growth, China's projected growth rate reflects a deceleration from the previous decade, which averaged around 7 percent growth per year from 2013 to 2019. The economic slowdown is expected to continue in the medium term, with the IMF forecasting GDP growth to fall to 3.3 percent by 2029, due to aging consumers and slower productivity growth.[3]

The slowdown is affecting retail sales. Apparel sales increased only 1.3 percent in the first half of 2024 compared to the same period a year prior. This growth is about half that of 2019 levels (around 3 percent).[4]

Additionally, leading macroeconomic indicators of consumer spending point towards a muted 2025. Consumer confidence and residential property transactions have neared all-time lows,[2] while Chinese debt-to-GDP ratio increased to a historic high of 288 percent at the end of 2023.[5]

3 points

projected decrease in percentage points in China's annual GDP growth rate from 2019 to 2029 by the IMF[3]

36 points

decrease in Chinese consumer confidence index points from January 2022 to July 2024[4]

People walk outside in Shanghai. DuKai photographer/Getty Images.

This deceleration, coupled with changing consumer preferences, is challenging growth

In the non-luxury segment, domestic brands have been taking share

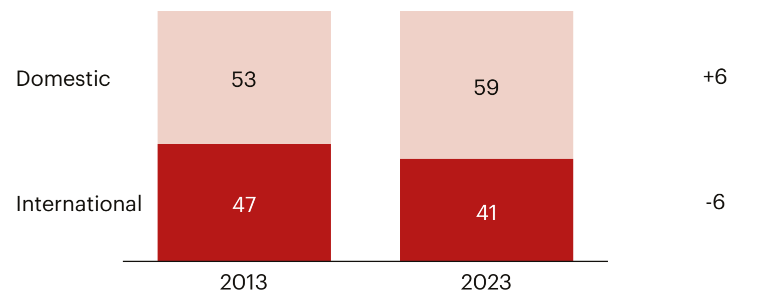
- Domestic brands grew their share versus international brands by 6 percentage points (%points) between 2013 and 2023.[6] As of 2023, over 50 percent of Chinese consumers preferred domestic brands, a 35%point increase from 2011.[7]
- Even market leaders such as Uniqlo have recently cited challenges in China, such as lower consumer appetite and a need for more localised products.[8]
- Foreign sports and outdoor brands continue to thrive while focusing on localisation and a strong association with quality. Lululemon and Amer Sports, owner of Arc'teryx, saw double-digit growth in China in the first quarter of 2024.[9 10 11]

In the luxury segment, consumer shifts are driving a slowdown

- Despite brands such as Prada Group and Hermès posting double-digit growth in Asia (excl. Japan) in the first half of 2024, China luxury growth slowed to an estimated negative 3 percent from 12 percent in 2023.[6 12 13]
- China's recent consumer and government condemnation of wealth flaunting, or "luxury shame," is driving demand for "quieter" and more affordable products, such small leather goods, while brands such as Ralph Lauren have a bullish outlook.[14 15 16]
- Government stimulus measures are expected to support luxury demand, but this may not translate to domestic sales. Chinese luxury spend abroad is projected to increase 12 to 17%points from 2023 to 2025,[17] though as of May 2024, spending by Chinese shoppers was still below 2019 levels in key luxury markets.[18]

Non-luxury apparel market in China, sales of top 20 domestic vs international brands,
%

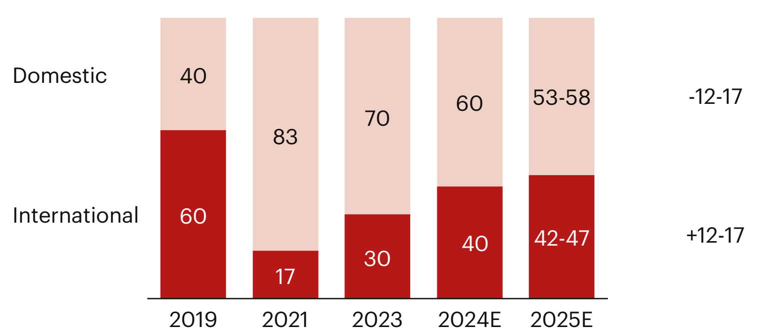
2013-2023,
%point change



Source: McKinsey analysis, September 2024

Chinese consumers' spend on personal luxury goods in mainland China domestic vs international,
%

2023-2025,
%point change



Source: McKinsey Global Institute, expert interviews, McKinsey analysis, September 2024

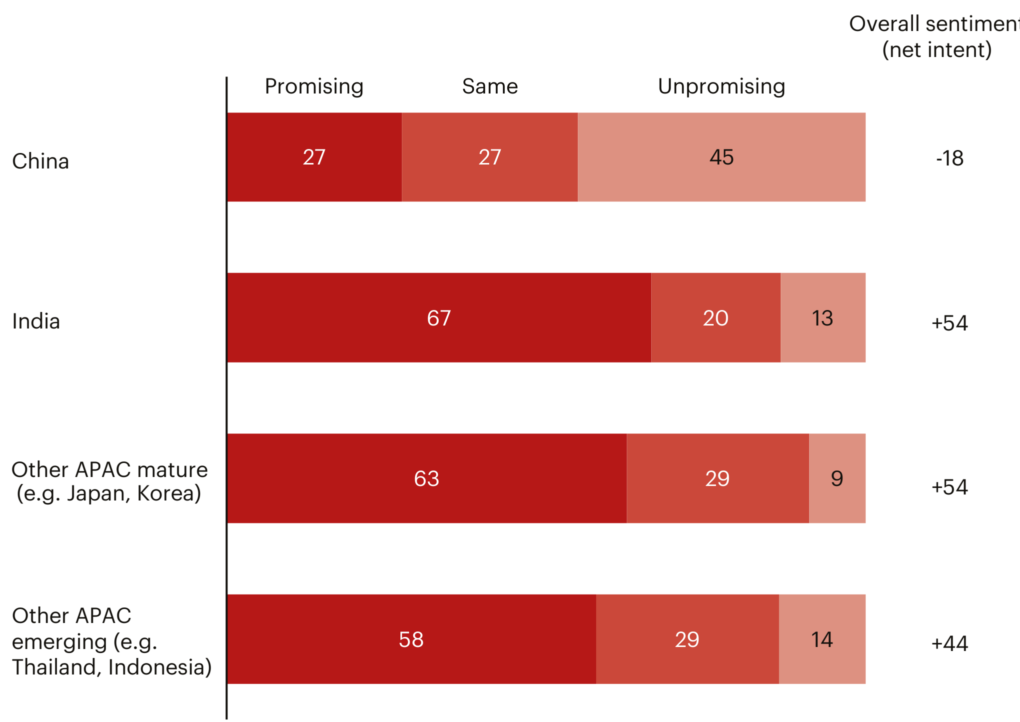
Fashion executives have a positive outlook for other Asian countries, particularly India and Japan

Fashion executive sentiment on Asia is overwhelmingly positive about growth prospects in India and both mature and emerging APAC countries. One in five respondents in the BoF-McKinsey State of Fashion 2025 Executive Survey mentioned India as a focus market for 2025.[19]

Among luxury executives, overall sentiment for mature APAC regions, such as Japan and Korea, is even higher (+63 percent), with one in four fashion executives mentioning Japan as a focus market in the year ahead.[19]

APAC emerging countries, such as Indonesia and Thailand, are also gaining prominence on the global fashion stage, due to growing fashion hubs like Bangkok and the rise of Southeast Asian global influencers.[20] While many of these emerging markets across Asia remain small in scale for now, executives are convinced of their growth prospects going forward. 58 percent of executives believe other APAC emerging regions will offer promising prospects in 2025.[19]

Fashion executive sentiment towards market growth prospects in 2025 vs 2024, %



Note: Overall sentiment calculated as % with positive sentiment minus % with negative sentiment
Source: BoF-McKinsey State of Fashion 2025 Executive Survey

India is poised to become a key fashion market due to a strong mid-market and potential in luxury

India is expected to become the fourth largest economy in 2025, growing at 7 percent year on year, outpacing all other economies.[21 22] This puts India on track to become the world's third-largest consumer market by 2027.[23]

Non-luxury: Strong growth is fuelled by the middle class and digitisation[24]

- There are 430 million people in India's middle class — greater than the middle classes of the US and Western Europe combined. It is expected to reach 1 billion by 2050, largely from tier-two and -three cities.[25]
- Indian fashion customers are increasingly trend-focused. Digitisation is accelerating this shift, as is the large share of young consumers in the country. People under the age of 35 make up 66 percent of India's population, amounting to over 808 million people.[26]

Luxury: High growth is fuelled by demographic and structural tailwinds[24]

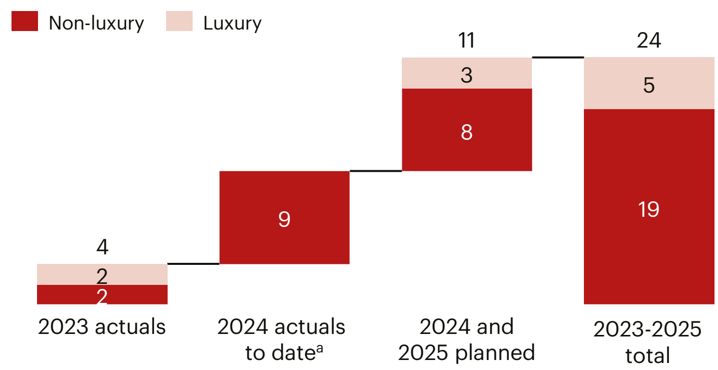
- India's population of ultra-high-net-worth individuals (UHNWI), with over $30 million in assets, is expected to grow 50 percent from 2023 to 2028, making it the fastest-growing UHNWI population in the world.[27]
- Aspirational customers, who make up about half of global luxury sales,[28] are expected to grow from 60 million in 2023 to 100 million in 2027.[29]
- As of October 2023, international purchases over INR 700,000 ($8,400) are taxed at 20 percent,[30] encouraging domestic spending.
- New luxury malls and department stores, such as the Jio World Plaza and Galeries Lafayette, are increasing luxury real estate in tier-one cities.[31]

Retail sales year-on-year growth by geography and segment, 2025E, %

Source: McKinsey Fashion Growth Forecasts 2025

Fashion brands looking to succeed in India need to consider its unique obstacles and nuances

Number of international brands that launched or plan to launch in India, 2023-2025



Sample fashion brands planning to expand in India, 2025

Mango	India is one of the top 10-15 markets in Mango's growth strategy. The brand has stated it plans to increase its store count in India from 110 to 120 in the coming years.[32]
Decathlon	Decathlon believes India is a "pivotal market." It plans to grow its store count in India from 110 to 190 and invest $111 million in the market over the next five years.[33]
Bulgari	Bulgari is planning to expand both its online and offline presence in India by growing its store count from 12 stores in 6 cities to more than 20 in more than 12 cities, plus a potential e-commerce partnership with retailer Ethos.[34]

a. Analysis until September 2024
Note: Non-exhaustive; includes planned launches in 2024 and 2025 that are yet to occur
Source: McKinsey analysis, September 2024

Key considerations for fashion brands entering India

Infrastructure challenges
High-quality retail real estate remains limited, especially in tier-two and tier-three cities, impacting physical expansion, especially for luxury brands. Last-mile delivery also remains difficult, requiring international companies to make significant investments to offer seamless customer experiences.

Partner selection and operating model
While brands such as Uniqlo have found success entering India on their own, finding the right local partner continues to be instrumental for international brands operating in India. A local partner can define the right operating model and go-to-market strategy, accounting for complex regional nuances.

Local consumer dynamics
Indian culture heavily influences fashion and can vary widely by region. Indian shoppers tend to spend more on jewellery (44 vs 13 percent global average) and less on apparel (40 vs 52 percent).[6] Local brands with expertise in traditional wear tend to dominate in apparel, increasingly so with the rise of local fast-fashion players. In 2023, nine of the top 20 apparel brands were domestic.[6] That said, increasing openness to Western silhouettes is making markets such as the sizeable wedding industry attractive to international brands.[35]

Regulatory requirements
Regulatory requirements, such as local sourcing rules, plus high regional taxes, continue to act as barriers in the market. However, some new policy changes for foreign brands allow 100 percent foreign direct investment in single-brand retail and selling via e-commerce prior to having physical locations.[36]

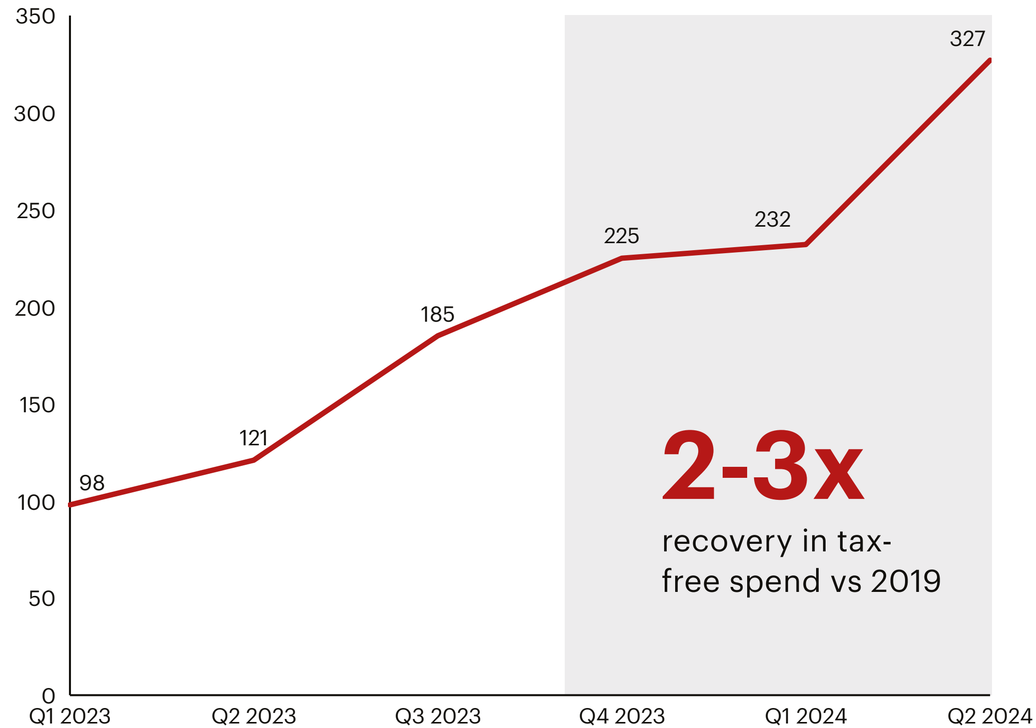
The yen's weakness made Japan a major international shopping destination in 2024

Japan's luxury fashion market, estimated at $20-25 billion at the end of 2023, was up 25 to 30 percent year on year at constant exchange rates for the first half of 2024.[24] Players including LVMH, Richemont and Hermès saw double-digit sales growth in the country, surpassing pre-pandemic levels.[12 37 38] Even fashion brands that saw overall sales decline during the second quarter of 2024, such as Kering (-11 percent) and Ferragamo (-13 percent), delivered healthy topline growth in Japan of around 27 percent and 10 percent, respectively.[39]

A core driver of this strength is the yen's depreciation, with the currency hitting a 38-year low against the dollar in July 2024.[40] This attracted luxury shoppers from around the world, fuelling record-high duty-free sales in department stores.[41]

Unlike other markets, Japan's tourism has made a complete recovery from the pandemic. The country had 17.7 million visitors in the first half of 2024, a 66 percent increase from 2023 and 7 percent from 2019,[42] with 25 percent from South Korea, 17 percent from China, 17 percent from Taiwan and 8 percent from the US.[43]

Recovery rate for tax-free shopping spend in Japan compared to 2019,[a]
%



a. Recovery rate defined as current period sales in store divided by 2019 sales in store, like-for-like
Source: Global Blue

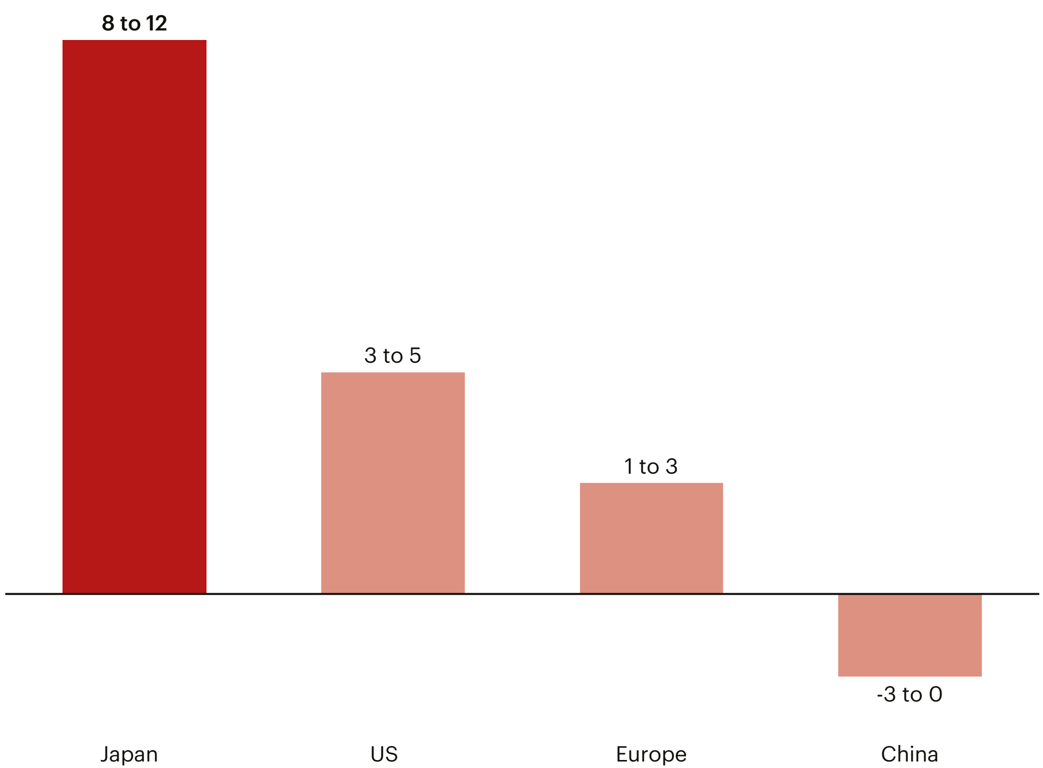
International and domestic luxury spend continue to propel the market in Japan

The Japanese luxury market is expected to grow between 8 and 12 percent in 2025, maintaining its position as a top luxury shopping destination in the years to come.[24] Brands such as Hermès are opening more stores in Japan after seeing double-digit growth, while emerging brands including Gemmyo, Ganni and Studio Nicholson opened their first stores in the country in the last year.[44]

In the near term, positive price dynamics will continue to fuel inbound tourism, though this trend will rely on the trajectory of the yen and the Bank of Japan's monetary policy. The Japan Tourism Agency expects annual tourism spend to reach around $100 billion by 2030,[45] far surpassing 2023's record of $36 billion.[46]

Domestic demand is also robust, with Japanese customers making up a significant portion of luxury sales.[47] The country remains one of the world's largest economies and is home to the second-largest number of UHNWIs in Asia, a group expected to grow by more than 12 percent from 2023 to 2028.[29]

Luxury fashion market year-on-year growth by geography, 2025E, %



Source: McKinsey Fashion Growth Forecasts 2025

A go-to-market fashion strategy that accounts for local nuances is crucial to success in Asia

EXECUTIVE PRIORITIES

Curate a localised go-to-market approach that resonates with customers and culture

Tailor international brand product portfolios and supply chains to better serve local markets, as fashion tastes and trend dynamics significantly differ between Asian and Western markets (and within Asian countries themselves):

- Cater to local consumer preferences by creating special collections, altering product dimensions and adjusting pricing architecture. However, brands will need to ensure that styles do not diverge too far from their international offerings, otherwise they risk diluting global brand image.
- Evaluate opportunities to localise elements of the supply chain to increase agility and speed-to-market to compete with local players. This will be particularly relevant in India, where local brands have strong market share. High apparel import taxes and difficulties in last-mile delivery can also be challenging for international brands without strong local capabilities.
- Adapt marketing messaging and partner with local influencers to reach consumers in relevant channels. To achieve the right balance between global and local elements, companies should consider building local teams in focus markets, particularly in branding, marketing and communications functions where strategies can vary considerably by region.

Develop strong omnichannel propositions, leveraging both owned and third-party channels

Invest in developing integrated in-store and online propositions, adjusting for nuances in Asian markets:

- In China, consider direct-to-consumer and owned online propositions. Owned online channels have gained significant traction since 2020 due to declining offline traffic and rising customer acquisition costs in e-commerce marketplaces. Additionally, Chinese consumers value shopping direct-to-consumer for the personalisation it can offer — 69 percent of Chinese consumers value personalisation, according to a McKinsey survey.[48]
- In India, partner with local online marketplaces. Limited real estate availability and last-mile logistics, especially in tier-two and -three cities, make partnering with local online marketplaces key to reaching consumers. E-commerce retailers like Flipkart-owned Myntra have become a key partner to international brands in India. H&M, for example, sells on the platform in India, while in all other markets it only sells through owned channels.
- In Japan, offer hyper-personalised retail services where appropriate. This approach is key to enticing local customers, particularly in luxury, where concierge-style strategies known as *gaisho* target VIP shoppers. Department store groups such as Daimaru Matsuzakaya report *gaisho* sales increased 7 percent in the first half of 2023 to account for nearly one third of all sales.[49]

Myntra: An Online Gateway to India's Fashion Market

Myntra's CEO Nandita Sinha is helping brands reach millions of India's young, aspirational and trend-conscious consumers with rising income levels. The mid-market fashion e-tailer is doubling down on creating influencer-led content, scaling its premium offerings and encouraging global brands to leverage the country's sourcing capabilities.

BY ARNIKA THAKUR

Brands are pulling out all the stops to capture millions of hyper-connected and trend-conscious Millennial and Gen-Z customers in India, a cohort that offers fashion companies an opportunity to explore newer growth markets in Asia. In the centre of it is fashion e-commerce giant Myntra. The mass-market and premium platform is an increasingly important online retail channel for global brands such as H&M, Mango and Ralph Lauren, as well as local players such as Masaba and Rohit Bal. Based in Bengaluru, the "Silicon Valley of India," the company uses artificial intelligence and other technologies to offer styling services and product recommendations. "[Indian] Gen-Zs are very, very conscious of global trends and they want to adopt [them] really fast," says Nandita Sinha, who became Myntra's chief executive in 2022 after more than eight years at parent Flipkart Group, a company owned by Walmart. By harnessing data-backed consumer insights, trialling social commerce and securing A-list Bollywood celebrity ambassadors, Sinha has helped Myntra attract more than 60 million monthly active users.

E-commerce platforms like Myntra are key to driving growth in India because they help brands overcome the shortage of suitable physical retail infrastructure in the market, she says. "We are just starting off. Only 12 percent of fashion in India is bought online …There are 75 million Gen-Z customers [in India] and we have 16 million of them on our platform, so we have a whole way to go."

But to win market share, partner brands must not assume consumers in India are monolithic, she advises. "It's important to have the right local partner to be able to navigate through the many Indias that exist."

What is it about India that makes it such an attractive growth engine for international fashion brands in 2025?
India continues to defy the odds of the global economy's growth rates. [India also has an aspirational] young customer base, which is growing, and they will continue to grow their consumption basket.

India is a unique country which has both sourcing as well as consumption capacity. So, this is where the value for international brands becomes extremely lucrative, where they can reach out to this large base of customers in a manner that taps into the supply potential of the country as well. There are three factors [that are driving growth for brands]: rising incomes, younger customers and internet penetration.

Where does Myntra fit into this growth picture?
E-commerce is an important vector of access for the country. [Myntra] continues to be the largest platform for international [fashion brands with] ... almost 60 million consumers coming to us every month. Six million of them come to us every day.

We [also] offer something called Myntra Marketing Services; when brands come to India, we help them build their brand in the country [through] joint marketing activities.

What is the proportion of traditional Indian and Indo-Western fusion wear sales on Myntra, compared to that of western wear, and what does this mean for international brands?
Traditional wear is bigger but western wear is fast-growing and it's leading in terms of growth in the womenswear segment. People are celebrating all Indian festivals, weddings have become grander, which is fuelling the consumption of traditional wear as a premium, celebratory category. Runway Icons, our premium [traditional] wear [online destination], grew almost 100 percent in 2023. But we are seeing growth in customers adopting western wear. [In terms of international brands], Mango did a special Diwali collection last year, where they used western silhouettes with elements of celebration ... That's where we are seeing this work.

How does Myntra plan to capitalise on the high-end fashion opportunity as international luxury brands seek to expand their presence in India?
Premiumisation will continue to grow and [there is] growth in consumption in the affluent and the upper-affluent class. What that means is that luxury and bridge-to-luxury brands are going to find a place in the market. We have an app-in-app — Myntra Luxe — where we partner with different brands, like The Collective (Aditya Birla Group's multi-brand luxury retail chain across in India), which are exclusively available on our platform.

Some of the big opportunities in the luxury market are in accessories, especially the watches category. Brands in that category, like Tissot, are growing. Luxury fragrances are growing at twice the pace of the normal market.

What kind of growth rates are other fashion segments seeing? Which categories are outperforming and why?
Footwear and accessories continue to grow ahead of the market. Apparel has seen a little post-Covid jump in consumption as people came back to the office and started travelling again. Things have stabilised a little bit, but we will see growth in that segment next year. The large driving force of that growth is going to come from Gen-Z customers, who are seeking new trends at affordable prices. Trend-forward merchandise ... is probably the fastest-growing market today in the country and platforms

"India is a unique country which has both sourcing as well as consumption capacity."

Jio World Mall in Mumbai, India. Shutterstock.

that build on that are going to be key in the next few years. Mass-premium and DTC brands are leading the growth for apparel. International brands continue to grow [faster] than the [overall] category, too.

What are some of the fashion shopping behaviours that define India's Gen-Z consumers?
Gen-Z consumers here are very different from Millennial shoppers, but they are not different from their international counterparts. Their purchase frequency is 30 to 40 percent more than their Millennial counterparts, which is what we see globally. Second, they are inspired by international trends.
Gen-Zs are moving away from traditional media and looking at influencers and styling. When you look at online catalogue images, Gen-Z's feedback is [they] want to see the full outfit [to see how to style the item being featured rather than just shots of that item]. Catalogues have to become inspiring rather than just about product images.

This is what we tapped into as we built FWD [Myntra's immersive shopping app-in-app]. We have something called Myntra Minis, [which features] short, snackable content, short styling and product videos. Almost 10 percent of our monthly active users are engaging with these, and they have higher retention and higher spend.

We are using image search very effectively for Gen-Z and we've also started what we call the Glam Clan, where we invite Myntra customers, who post reviews and photographs on our platform, to become influencers.

How are social commerce, short format videos and collaborations with micro-influencers helping you reach more young consumers, especially in smaller cities?
This year we have doubled down on [social media and collaborations with influencers]. We will create content with almost 40,000 micro-influencers as we go forward, which will help us reach tier-two, tier-three cities, the younger generation, etc. We will double down on reaching out to Gen-Z customers through FWD. Products like cargo pants, for example, which are topical and trendy, we'd see those blow up through FWD. Then we take them to our customers through micro-influencers. That's what we will continue to build on.

"For the size of the country, there are limited high-quality tier-one malls, which are expanding but not enough [compared to the] rate at which consumption is increasing."

What India-specific challenges and opportunities should brands be aware of as they enter the market?
Global fashion brands encounter challenges like limited retail infrastructure, high import duties and operational complexities in India.

For the size of the country, there are limited high-quality tier-one malls, which are expanding but not enough [compared to the] rate at which consumption is increasing. The second is supply: the more localised the supply the better it is for value delivery to the customer.

Third, India is many Indias [meaning it's a highly diverse market]. Fourth is brand building. There are brands which have an international legacy, some of that will rub off on India, but you continuously have to build on the brand.

Myntra is experimenting with AI-led product discovery and curation. How is this impacting conversion rates? What are some of the other technological innovations you've trialled?
If you look at the two big pillars of fashion experience, the first is inspiration — which is where social commerce comes into play. We do it through different formats, like influencer-led content, which is our content discovery piece. That has been a big success for us. We've seen almost six million consumers who interact with Myntra Minis.

The second piece is assistance. This is where things like MyFashionGPT (which enables users to discover related product options) come into play. Our AI-powered styling assistant My Stylist helps consumers style products they buy. Maya is our AI-driven, conversational, real-time commerce bot assistant. We've seen almost two million users interact with these. This is where we see higher conversions, higher revenue per user and higher return rates of these customers.

There are other core vectors where we use AI, like size and fit. That brings down our return rates and there's higher conversion [so it] really is a very hard-working example of how AI is helping business.

This interview has been edited and condensed.

03. Discovery Reinvented

Woman searching on a laptop. Izusek/Getty Images.

03. Discovery Reinvented Fashion shoppers are overwhelmed with choice, which negatively impacts their engagement and conversion rates with brands. However, a new era of brand and product discovery is on the horizon, underpinned by AI-powered curation across content and search.

KEY INSIGHTS

- 50 percent of fashion executives see product discovery as the key use case for generative AI in 2025.
- 82 percent of customers want AI to assist in reducing the time they spend researching what to buy.
- The latest AI model of GPT-4o from OpenAI is 15 to 20 percent more accurate than its predecessors, exhibiting fewer hallucinations.

EXECUTIVE PRIORITIES

- Build AI foundations, identifying relevant tech partners and infrastructure for AI deployment whilst ensuring product content is optimised for AI search.
- Prioritise use cases with the highest value, applying a test-and-learn approach to consistently deliver accurate results and enhance customer experience before scaling.
- Implement guidelines for internal teams on the appropriate use and communication of AI, ensuring model output retains brand tone of voice and values.

Choice paralysis is negatively impacting customer experience; brands are struggling to address it

74%

of customers report walking away from online purchases due to the volume of choice[1]

80%

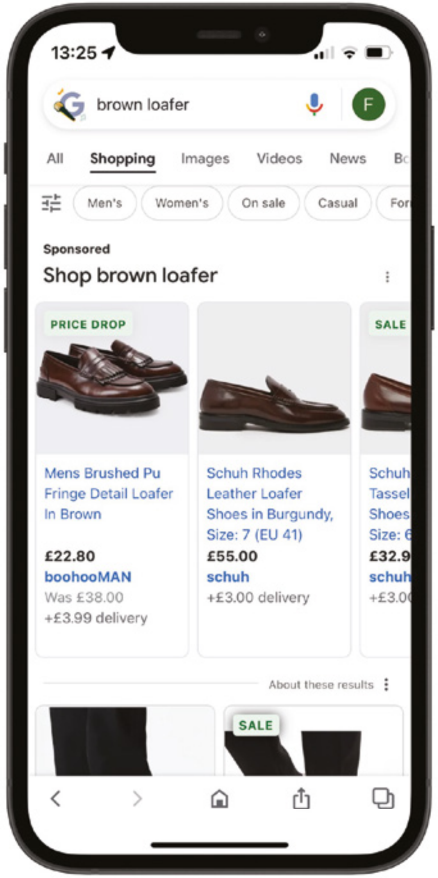
of customers say dissatisfaction with online search is a barrier to purchase[3]

The volume of choice is working against fashion brands, negatively affecting conversion as shoppers increasingly abandon carts.

In response, some retailers have reduced the size of their offering to increase relevancy and reduce choice paralysis. Asos, for example, announced it will offer fewer but more relevant brands to customers, reducing stock intake by 30 percent year on year in the first quarter of 2024, and is planning a further 16 percent reduction in stock by the end of 2024.[2]

Search remains the primary mode of online product discovery. 69 percent of customers state they go directly to a retailer's search bar when shopping online. However, 80 percent are dissatisfied with the search experience and leave the site as a result. 41 percent cite irrelevant results as a main barrier to shopping.[3]

Fashion brands are starting to address the challenges by using generative AI. While promising, these efforts are a work in progress. Revolve has reported significant increases in customer engagement from its experiments with generative AI-powered search. Kering, on the other hand, introduced Madeline, a ChatGPT-powered shopping assistant, in 2023 on KNXT, a site it uses to test digital innovations, only to later disable the feature.[4]



Google Shopping search. BoF team.

Reinventing product discovery will be a key focus area for fashion players in 2025

Generative AI use cases with the most potential in 2025, according to fashion executives,
%

Source: BoF-McKinsey State of Fashion 2025 Executive Survey

Customer product discovery and search is the top-ranked use case for generative AI in 2025, according to fashion executives.[5] This is thanks to:

Growing customer demand for AI-powered shopping experiences

79 percent of customers surveyed by Google say they would find it helpful for AI to understand their specific needs and recommend products. 82 percent say they want AI to reduce their time spent researching what to buy.[6] To address this, 84 percent of organisations say hyper-personalised experiences across customer touchpoints are a priority for the next 12 months.[3]

Increased competitiveness in quality and cost

Intense competition among technology players such as Google, Meta and OpenAI has driven significant improvements in model quality while decreasing their cost-to-deploy. Google DeepMind's latest AI model, Gemini, will offer AI overviews featuring refined recommendations, multi-step reasoning, planning and multi-modal capabilities. In October 2024, the company introduced a new shopping experience centred on AI features such as a personalised shopping feed and guides that summarise relevant product information.[7] Meta has also upgraded its open-source AI model, Llama 3.1, with monthly users increasing 10x from January to July 2024.[8]

Greater accuracy of AI tools

Competition has also driven accuracy improvements. For example, OpenAI's GPT-4o is 15 to 20 percent more accurate than previous models, generating fewer hallucinations across a range of tasks.[9] Similarly, start-ups such as Anthropic are entering the space with models such as Claude 3.5 Sonnet, demonstrating greater accuracy compared to incumbent models.[10]

Emerging commercial success stories

While experiments have produced mixed results, some brands have started to realise the impact of AI investments on product discovery and their bottom lines. Zalando credited an 18 percent year-on-year increase in profitability in the second quarter of 2024 in part to the roll-out of several generative AI features aimed at lowering costs and increasing customer engagement, including a ChatGPT-powered shopping assistant, personalised product recommendations and curated content.[11]

This new era will provide customers with increased curation across search and content

INDUSTRY SHIFTS EXPECTED IN 2025	FROM	TO	EXAMPLES
Emerging AI challengers offering new levels of curation in product search in fashion	A long, linear list of search results, ranked by a non-personalised algorithm	Contextual searches that recognise a shopper's intent, producing a refined list of highly personalised recommendations	Daydream Constructor
Tech-forward, multi-brand retailers investing in AI-driven personalised search and content	Non-personalised content and traditional search functionality that uses basic filters such as colour and size	"One-stop" shopping experience for product discovery, with real-time product recommendations and frictionless search	Zalando Alibaba
Social commerce redefining product discovery and purchase	Curated content based on previous interactions with products and brands, independent from the shopping journey	Integrated social commerce enabling end-to-end, on-platform journeys from discovery to checkout, with content driven by predictive models	TikTok Pinterest

Emerging AI challengers are redefining product search for the fashion industry

AI-POWERED SHOPPING PLATFORMS

>2,000

brands and retailers onboarded for **Daydream**'s pre-beta launch

Brands and retailers have recognised the power of optimising search to solve for consumers' increasingly contextual and colloquial search terms, leveraging natural language prompts to curate a shortlist of relevant options.

Daydream leverages generative AI, machine learning and computer vision to deliver highly personalised search results using natural language and image recognition with detailed product catalogues. Daydream has raised $50 million in seed funding and closed partnerships with brands such as Alo Yoga, Jimmy Choo and Dôen, among others, with the objective of launching a beta version in Autumn 2024.[12]

99%

of user images uploaded to **Capsule** in launch week matched with shoppable links

Consumers are using multiple modes of search, such as image recognition, to identify looks they want to shop. The likes of Google and Amazon leverage this technology, while new start-ups such as Y Combinator-backed Capsule are focusing on perfecting these alternative search methods for fashion discovery.

Capsule's on-demand product discovery platform includes a unique product index, based on over 20,000 scraped data points per day. The app works similarly to the music app Shazam, using computer vision and deep learning to identify similar styles to those uploaded by users.[13]

AI-POWERED DISCOVERY PARTNERS

20x

increase in return on investment for some brands when using **Constructor**'s AI product search[15]

Increased appetite among brands and retailers to enhance the online customer experience has sparked interest in AI partnerships with players such as Lily AI, Bloomreach, Vantage Discovery, Constructor and others.

Constructor's B2B platform enables brands and retailers to embed AI in product search. Valued at $550 million, it has tripled revenues since 2022.[14] Constructor partners with brands such as Under Armour and Birkenstock to deliver personalised search experiences and has powered more than 100 billion customer interactions in the first six months since launch.

Multi-brand retailers with vast product data are driving change in content curation

TAOBAO AND TMALL, ALIBABA GROUP

30%

improvement in click-through rate with personalised content on Wenwen

Alibaba set up a "digital tech" firm under its e-commerce unit TTG in August 2024.[16]

Search: Taobao and Tmall Group (TTG) introduced Wenwen, a large language model chatbot that provides personalised recommendations to consumer queries using multi-modal outputs such as text, image, video and audio, and is the first fully integrated AI e-commerce user application in China. Wenwen was used more than 1.5 billion times in one month during the 11.11 shopping festival in 2023.[17]

Content: The platform's curated content and personalised short inspiration videos has improved its click-through rate.

ZALANDO

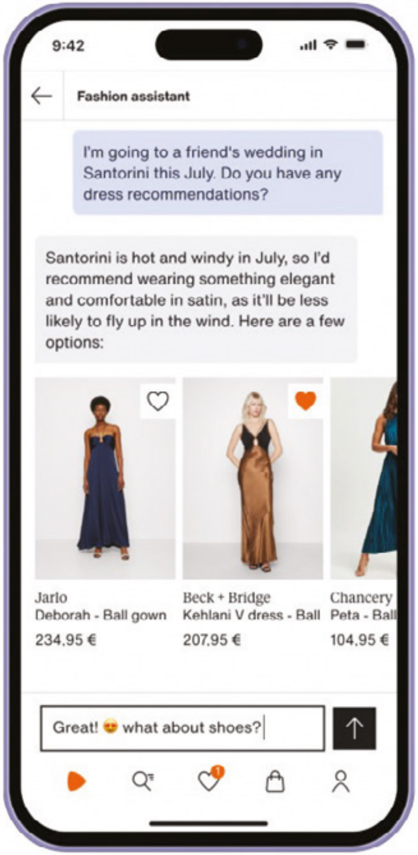
>7M

new users since Zalando acquired lifestyle publication Highsnobiety as part of its shift towards enhanced content curation[19]

Zalando is investing in generative AI to become a "one-stop" destination for customers, spanning both product discovery and inspiration as well as seamless search.

Search: Zalando's AI assistant, which leverages ChatGPT technology, has been used by over 500,000 customers since its launch in 2023. It leverages data from ongoing interactions with users to refine and improve output and accuracy over time.[18]

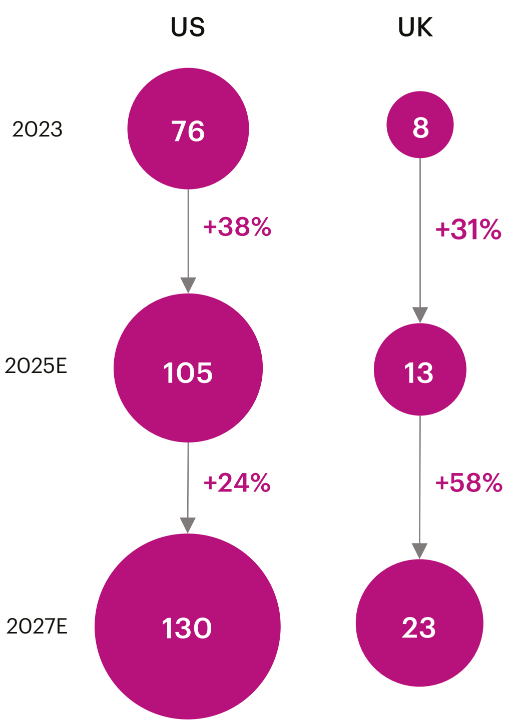
Content: Zalando Stories use generative AI to show curated content to users based on real-time data. Similarly, Trend Spotter, a B2B tool, identifies emerging trends on Zalando across six fashion capitals, enabling brands to create styles and content that resonate with real-time customer preferences.



Zalando fashion assistant on a smartphone. BoF team.

Social media will continue to change the way shoppers discover and purchase fashion

Social commerce market,
USD (billions)



Source: Statista, Euromonitor, McKinsey analysis

Brand discovery through social media is now equally as common as through search engines, with 38 percent and 37 percent of customers using the discovery methods, respectively.[20] While in-app shopping on social media is a core part of the e-commerce market in China — short video app Douyin has a 15 percent e-commerce market share and saw total transaction volume grow by 256 percent in 2023[21,22] — social commerce has yet to pick up pace in the US and Europe.

However, social media's growing role in discovery may finally unlock its potential in the West in 2025. The social commerce market in the US and UK is expected to almost double by 2027.[23] This is due to:

- **Predictive algorithms:** The TikTok algorithm is distinct in its focus on content discovery with the "For You" page predicting what users will enjoy based on their individual preferences, enabling them to explore new brands and products.
- **Content tools:** TikTok Shop has launched a suite of generative AI creative solutions for brands to produce quality content faster, enhancing commercial prospects for brands.[24]
- **Integrated shopping journeys:** TikTok Shop had 33 million users in the US in 2023, up 40 percent since 2022.[25] It is estimated that approximately 43 percent of users will purchase through the platform by 2027.[26] Following its launch on TikTok Shop, brand Princess Polly generated a 350 percent increase in purchase value and a 5x increase in purchase frequency through targeted search, with 60 percent of customers new to the brand.[27]

Pinterest credits its AI investments in in-app commerce for making the platform more shoppable, including features such as AI Collage, which enables shoppers to curate shoppable content. On Pinterest, posts with shoppable products are 300 percent more likely to generate engagement. It also plans to invest in a dynamic AI ad solution that will allow brands to optimise adverts in real time, prioritising users and products with the highest return.[28]

Fashion players should adopt a value-focused approach to AI-enabled discovery

EXECUTIVE PRIORITIES

Build AI foundations	Prioritise value and accuracy, then scale	Manage risks and ethics
Embed AI literacy in the hiring criteria for adjacent roles, such as in marketing functions, in relation to customer experience and brand perception. Upskill the existing workforce on the appropriate use of AI. Establish a technology backbone (including tech stack and infrastructure) that provides flexibility to adopt and scale search and discovery use cases. Identify relevant tech partners for cost-effective generative AI deployment or build in-house capabilities through acquisition. Ensure product data is optimised for AI search, identifying relevant product features and attributes, for both organic search and content-led discovery.	Apply a prioritisation framework to identify the discovery and search use cases with the highest value based on customer insights. Employ a test-and-learn approach, starting with use cases that perform specific tasks with consistently accurate results before scaling more broadly across a larger customer base or set of activities. Assess on an ongoing basis the trade-offs retailers may need to make between showing customers the most relevant products to improve conversion and monetising search results by allowing brands to sponsor listings.	Implement AI best practice frameworks to guide teams through the appropriate use and communication of AI in content and search to gain customer trust. Consistently monitor how AI models are developed and trained, incorporating broader data sets that consider all customers. Monitor search accuracy and model output through human validation and A/B testing to ensure resonance with customers. Balance changes with brand tone of voice, prioritising authenticity and avoiding rigid algorithm-driven outputs.

04. Silver Spenders

Jane Fonda on L'Oréal Paris runway. Kristy Sparow/Stringer/Getty Images.

04. Silver Spenders Fashion brands have typically focused on youth, but in 2025 they may struggle to grow sales from younger shoppers alone. The "Silver Generation" aged over 50 represents a growing population with a high share of global spend. Brands that engage these previously overlooked shoppers while creating inter-generational appeal will unlock incremental growth.

KEY INSIGHTS

- In 2025, people aged 50 and older will drive 48 percent of incremental growth in global spending.
- In China, the number of people over 50 will grow 5 percentage points from 2020 to 2025 to reach 38 percent of the total population.
- Those aged 55 and over in the US accounted for 72 percent of the population's wealth in 2024.

EXECUTIVE PRIORITIES

- Rethink the approach to traditional marketing segmentation, leveraging data insights to identify customer segments that share similar values.
- Assess the universal appeal of the product range, investing in technologies or materials that improve functionality or more versatile product designs with variations of core styles that appeal to different generations.
- Establish KPIs to ensure the long-term ROI of mature customers is considered across inter-generational marketing and channel strategies.

It will be increasingly difficult for fashion brands to drive growth from younger generations alone

Younger consumers are more financially squeezed than other cohorts

73%

of US Gen-Z consumers report changing spending habits because of increased prices[1]

More than half of Gen-Z consumers are worried about their financial situation in the year ahead.[2] In response, young shoppers in the US are changing their spending habits, including around 40 percent spending less on clothing.[1] In the UK, 70 percent of Gen-Z are prioritising affordability when buying clothes.[3]

Gen-Z also uses credit more than other generations. In the US, 15 percent of Gen-Z credit card users had maxed-out borrowing in the first quarter of 2024, more than any other generation.[4]

When it comes to apparel, Gen-Z is the least loyal consumer cohort

50%

of US Gen-Z consumers prefer to explore and shop new brands vs only 33 percent for those aged 50+[5]

Gen-Z consumers prefer to shop across multiple brands, often in search of the latest trends. On average, only 29 percent of their wardrobe is from the same brand, compared to 52 percent for those aged 50 and above.[5]

Younger shoppers in the US are 15 percentage points (%points) more likely to explore different brands compared to older generations. Similarly, Gen-Z in the US and China are both 9%points less likely to care about the brand of clothing they buy if they like the style.[5]

The share of Gen-Z consumers in the US and China who reported switching to cheaper fashion brands in the last 12 months was 10%points higher than older generations.[5]

Competition for younger shoppers' wallets will increase, despite existing saturation

80%

of Gen-Z consumers feel overwhelmed by their exposure to brands[6]

Young consumers feel overwhelmed by the volume of brands they are targeted by. 80 percent of Gen-Z shoppers say they feel they are exposed to more brands and adverts than any other generation.[6]

Yet Gen-Z and Millennials remain the prime focus for many fashion brands. In 2025, approximately 60 percent of fashion executives plan to double down on these consumer groups, which are twice as likely to be targeted than older generations; 29 percent of executives say they plan to target Gen-X and 14 percent say they plan to target Baby Boomers.[7]

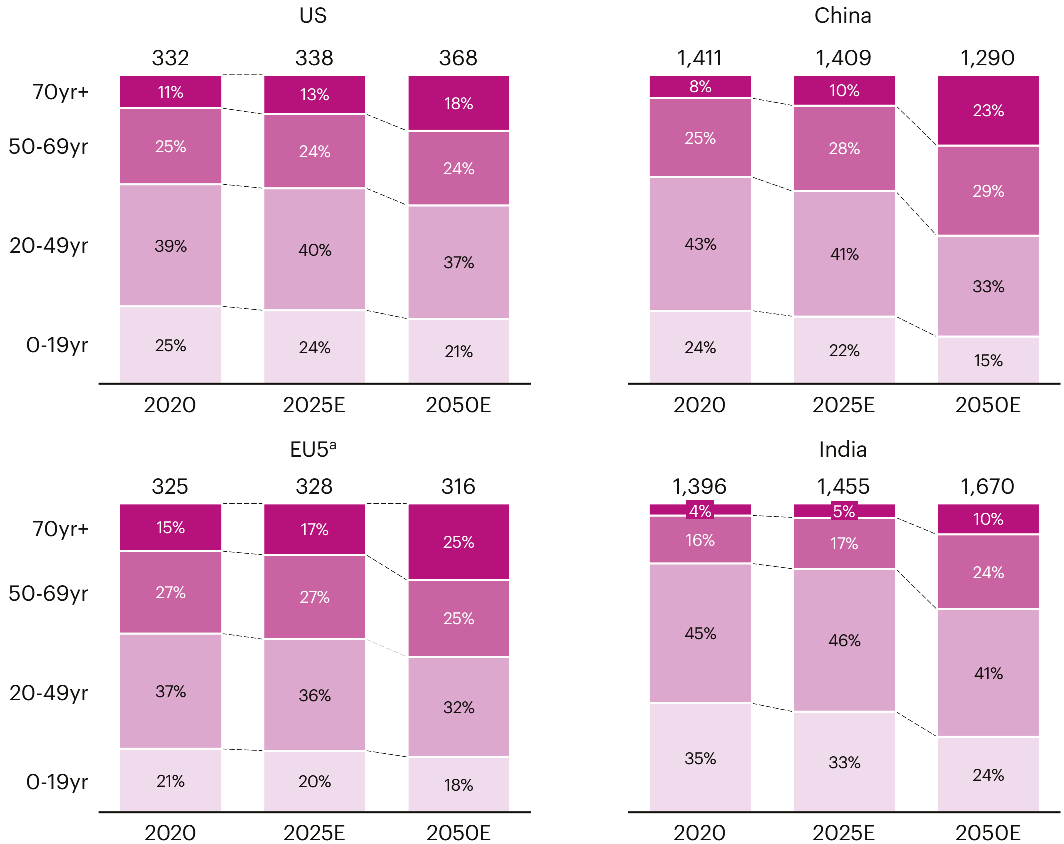
Meanwhile, there is a growing "Silver Generation" cohort of fashion customers

Longer life expectancies and declining birth rates are pushing the global population of people older than 50 to grow faster than any other cohort.[8] In 2020, the Silver Generation aged over 50 represented 25 percent of the global population. By 2050, they are set to represent more than a third.[9]

This trend is starker in advanced economies. In the US, the share of the population aged over 50 will reach 37 percent in 2025, growing to 42 percent by 2050. More than half of the population will be aged over 50 in China and in the EU5[a] by 2050.[9]

Even emerging markets with relatively young populations will see their older cohorts grow. In India, for example, consumers aged over 50 will grow from 20 percent in 2020 to 34 percent in 2050.[9]

Population by age cohort,
Millions



a. EU5 includes France, Germany, Italy, Spain and the UK
Source: World Bank Global Data Population estimates and projections

The Silver Generation is disproportionately wealthier and spends more on fashion

Greater share of wealth

Thanks to years of accumulated wealth and steady incomes, older generations have more disposable cash to splurge on fashion. Those aged 55 and over in the US accounted for 72 percent of wealth in early 2024 — and that share is increasing each year.[10] In the UK, the median total wealth belongs to those in their early 60s, whose wealth is almost 9x those in their early 30s.[11]

More resilience

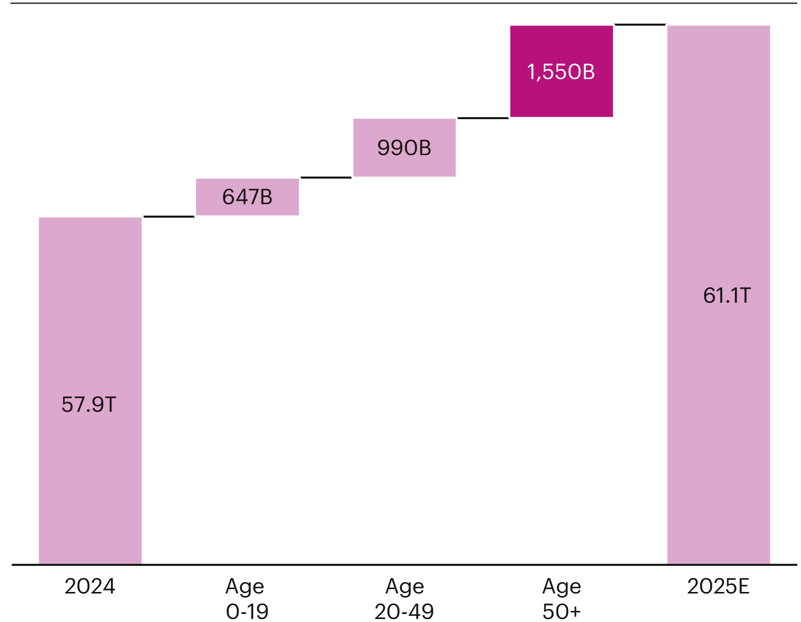
As a result, older generations tend to be more resilient during times of economic uncertainty. For example, less than 20 percent of Silver Generation customers in the US, EU5[a] and China say they tracked their spending in 2024, compared to more than 30 percent of Gen-Z.[12]

Higher spending

People aged 50 and above represented 38 percent of total global spend in 2024 and will drive 48 percent of global spending growth, 60 percent of growth in China and the US and 79 percent in the EU5 in 2025.[a] Even in emerging markets such as India that have relatively smaller older population shares, those aged over 50 will drive 30 percent of 2025 spending growth.[13]

- The Silver Generation represents a greater share of total fashion spend than younger shoppers, with those aged 59 and over representing 37 percent of 2023 retail apparel spend in the US compared to 23 percent for Millennials. Similarly, per capita spend on clothing was 21 percent higher for those aged 59 and over compared to Millennials and Gen-Z in the US in 2023.[14]
- This in part reflects the shifting attitudes of this cohort who increasingly defy age-related stereotypes. Half of women in their 50s saying they are now more style-conscious than when they were in their 20s.[15]

Total global incremental consumer spending in 2024 and 2025 by age, USD



	Age 0-19	Age 20-49	Age 50+
of total population	32%	42%	26%
of total spend	20%	31%	49%

a. EU5 includes France, Germany, Italy, Spain and the UK
Source: World Bank Data Lab Projections

Fashion brands need to address the needs of the Silver Generation in order to capture their spend

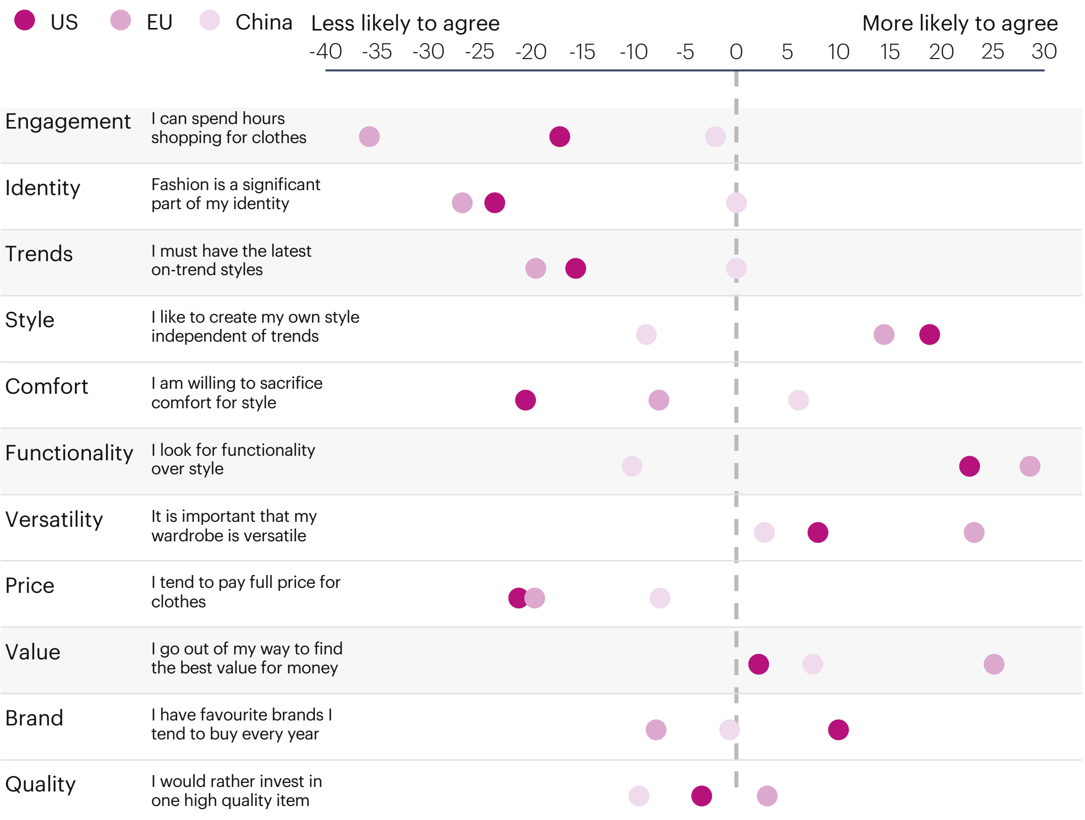
Experiences matter
Silver Generation customers spend less time shopping for clothes than the average shopper: 17 percentage points (%points) less in the US and 36%points less in the EU. Since they are engaged in activities like dining out and travel, brands that create out-of-home experiences are likely to capture their attention.[5]

They are not trend-driven
The Silver Generation cares about individual style but less about trends, 20%points and 16%points less than the average in the US and EU. As a result, they tend to be more brand loyal and shop from a smaller repertoire of brands.[5]

Functionality comes first
They prioritise functionality (23%points and 29%points above the average in the US and EU) and comfort (21%points and 8%points) over style. Brands with timeless designs and identities are therefore more likely to resonate with this cohort.[5]

Value is more important than price
The Silver Generation in the EU prioritises value 25%points above the average. They want versatile products that serve different occasions. Since they are not necessarily driven by trends, they are more likely to buy on discount or via off-price channels.[5]

Fashion preferences of Silver Generation consumers,
%point difference vs younger consumers[a]



a. Younger consumers are those under the age of 30
Source: BoF-McKinsey State of Fashion 2025 Consumer Survey

Knowing where and how the Silver Generation discovers and shops for fashion is crucial

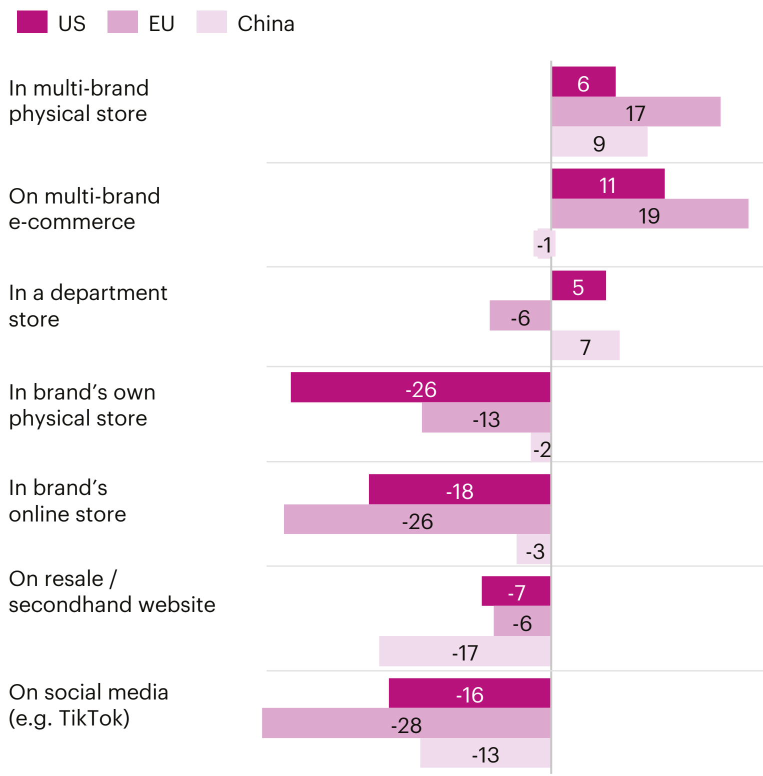
They are slower to embrace omnichannel
The Silver Generation is equally as likely to shop in store as online, but is less likely to embrace omnichannel shopping. Silver Generation shoppers in the US and EU are 15 percentage points (%points) and 14%points less likely to check product reviews online before visiting a store, respectively.[5] Brands should use a sufficient breadth of relevant marketing channels to reach them.

Stores are a key destination for discovery
The Silver Generation is 12%points and 25%points more likely to seek inspiration in store in the US and EU, respectively. They are independent shoppers and less likely to engage sales assistants. Brands that optimise retail space are likely to see increased conversion. Meanwhile, in China 47 percent of the cohort uses social media such as WeChat to discover fashion.[5]

Multi-brand retail is preferred
The Silver Generation has a clear preference for multi-brand retailers, 17%points above the average in the EU.[5] Fashion players should review their presence across retailers to expand their reach. Contrary to common perception, the Silver Generation is no more inclined to shop in department stores, except in China.

Resale is low on the agenda
In part driven by their lack of sentiment towards sustainability in fashion, the Silver Generation is 7 to 17%points less likely to engage with non-traditional fashion channels, such as resale. In the US, the cohort is 18%points less likely to buy brands with sustainability credentials than the average shopper.[5] This indicates brands should emphasise quality over other product attributes.

Fashion purchase channel preference,
%point difference vs younger consumers[a]



a. Younger consumers are those under the age of 30
Source: BoF-McKinsey State of Fashion 2025 Consumer Survey

Inter-generational appeal is achievable with branding, marketing and product assortment

New Balance advert. New Balance.

J.Crew catalogue image. Laura Jane Coulson/J.Crew.

Uniqlo store. Mike Kemp/Getty Images.

BRANDING

New Balance has undergone a multi-year brand transformation, reclaiming its "dad shoe" as a fashion-forward, inter-generational brand.

By reviving retro styles from the 70s, 80s and 90s, and collaborating with streetwear icons like Aimé Leon Dore, Joe Freshgoods and Salehe Bembury, as well as celebrities such as Jack Harlow, New Balance has successfully reasserted its relevance across generations.

These efforts have successfully attracted both Millennials and Gen-Z while retaining appeal among older generations through a focus on nostalgia. More than 40 percent of consumers across age groups from 18 to 55 and over favour the brand.[16 17 18]

MARKETING

After filing for bankruptcy in May 2020, J.Crew has turned around its brand by attracting a new generation of customers. As a result, J.Crew is expected to achieve record sales in 2024.[19]

J.Crew aims to offer a timeless, consistent assortment, usually only making small tweaks to core styles to stay relevant and broaden audience appeal. Its marketing highlights the longevity of products whilst showcasing their versatility, such as through "Design Try-On" videos on social media that appeal to a younger audience.

Responding to consumer demand, J.Crew relaunched its iconic physical catalogue in 2024 after seven years out of circulation, evoking nostalgia and showing that print can still work in fashion.[20] In the US, for example, those under the age of 30 are just as likely to source inspiration from magazines as those over the age of 50.[5]

PRODUCT ASSORTMENT

Uniqlo's LifeWear range is designed to incorporate functional, high-quality everyday pieces and have inter-generational appeal. Uniqlo reported a 17.8 percent revenue increase in May 2024, crediting LifeWear as a key pillar of international growth.[21]

Much of the collection is versatile by design: 90 percent of the current assortment has a simple design or minimal pattern, with "timeless" tones. Uniqlo differentiates its timeless classics by using technical features that provide functionality, such as its Heattech, Puffertech and Airism technologies.

Uniqlo has entered long-term partnerships with designers such as JW Anderson and Christophe Lemaire, and recently named Clare Waight Keller creative director, which helps it to gain relevance with a younger, fashion-forward demographic while retaining the same timeless, uncomplicated designs.[22 23]

Brands that tailor their marketing, channel and product strategies will be positioned to win

EXECUTIVE PRIORITIES

Rethink customer segmentation	Diversify the product portfolio	Define a data-driven channel strategy
Move away from age-defined customer segments. Leverage data to identify the values and preferences that unite customers across age groups and use this to inform marketing strategy and communications. Whilst the Silver Generation is broadly channel agnostic about whether they shop in store or online, brands with consistent value-based communications that show up across channels will likely stay front of mind.	Consider how the assortment appeals across generations. To create products with both younger and older shoppers in mind, brands might introduce more fluid variants of core lines. To attract older customers, they might focus on offering new technical features or innovative materials that cater to their unique preferences, such as comfort and functionality.	Adapt KPIs to ensure the long-term ROI of mature customers is considered when it comes to allocating marketing budgets and channel strategy. Once Silver Generation shoppers have bought from a brand, they tend to be more loyal, so brands might focus on measuring retention metrics for these shoppers rather than new customers acquired. Physical print remains key for marketing to the Silver Generation, as do meaningful in-store experiences, while social media channels such as Facebook and WeChat are more popular among customers aged over 50.

J.Crew: How to Build an 'Ageless' Brand

As the four-decade-old American retailer projects to hit record sales this year, CEO Libby Wadle unpacks how she and her design team were able to reverse its existential conundrum and win back core customers who had become alienated over the years.

BY CATHALEEN CHEN

When J.Crew emerged from bankruptcy in 2020, the American brand known for cable knit crewnecks and slim-fitting suits was at an existential crossroads.

After years of financial uncertainty, the company was finally solvent with a new owner. But from a customer perspective, the retailer was still on shaky ground. The fashion-forward Jenna Lyons, who served as J.Crew's creative director from 2008 to 2017, may have catapulted the brand into the fashion stratosphere but in doing so, alienated many loyal customers, who lamented what they perceived as declining quality and a trend-chasing mentality.

It was this identity crisis that Libby Wadle inherited when she was named CEO of J.Crew Group four years ago. Through a steady, balanced product strategy and savvy adaptation to post-pandemic consumer behaviour, Wadle, who had been with the company since 2004, has successfully turned the retailer around without drastically overhauling the business model or abandoning its preppy roots.

In 2024, J.Crew Group, which also owns Madewell, is projected to hit sales of $3 billion, a record high. Wadle unpacks how her team was able to pull it off — and the importance of never losing sight of the core customer.

You've been at the helm of J.Crew's turnaround for the past four years, what was your strategy going into it?
When I took the role, it was November 2020, it was certainly a tumultuous time. There was a lot to do, but I didn't have a laid-out strategy in place. I feel like there's been a lot of learning. There's been a lot of takeaways from our core customers, but also understanding about what it takes to meaningfully bring new people into the brand, and what that right mix really is for us.

We are clear on our mission today, which is about building a brand that really embodies multi-generational style, and continuing to evolve to meet the needs of all of those customers. I think we are at our best when we do that really well.

What major actions went into getting J.Crew into the shape that it is today?
The first order of business was making sure we felt really good about our creative direction. Having [womenswear head of design] Olympia [Gayot] newly onboard, and us really getting reacquainted with the brand together again, then bringing [menswear designer] Brendon [Babenzien] on shortly thereafter, that was really critical.

We really are at our best when we lead with great creative and we lead with great design. We're seeing momentum now when we release collections for both our new fashion but also our classics and our evolved classics.

The other real pillar for us is the experience. That touches our retail stores, it touches our digital experience. Then the catalogue, which we relaunched this fall.

What does J.Crew's customer makeup look like today?
Our core customer really puts style first, and they're fairly ageless in demographic. That said, many are in their 30s, 40s and 50s, and they've likely grown up with J.Crew. These are our best customers. They're our multi-generational customers and they're bringing their kids to the brand, too.

It's also very important not to get so blinded by doing exactly what the customer thinks they want. You also need to inspire and delight them, so that's where the creative component and the magic that we've been able to bring back really comes in. At the end of the day, we strive to create product that really is ageless and timeless.

Ten years ago, J.Crew really struggled with balancing a fashion-forward offering under Lyons while still serving its older customers who have shopped with the brand for years. How have you been able to address this issue of balance in assortment?
A primary issue that I'd observed coming in was really our need to get back to a creative and design-forward approach to the brand that also embraced our heritage and our classics, and really finding that sweet spot.

We are not a trendy brand. We are a brand that is ultimately rooted in heritage and classics. Some of those pieces are evolved, they feel modern, and some actually remain quite traditional. Balance is critical to making sure you're not alienating your core customer, and then you're exciting a newer customer who might come in.

So, we're seeing a lovely balance of people connecting and coming back into the brand, and then we're seeing a really nice rate of acquisition coming in under age 30. It's the balance of the product. It's the balance of the storytelling, and at the end of the day, you have to keep that core customer in mind.

"It's also very important not to get so blinded by doing exactly what the customer thinks they want. You also need to inspire and delight them."

J.Crew catalogue image. Theo Wenner/J.Crew.

What goes into the design process in maintaining that balance?
It's a constant dialogue we have here. 'Should we keep this item in? Should we move forward? How much should we tweak this bestselling style? How much should we let it go?' Luckily, we're sitting on a lot of great customer data and product-selling information. We talk a lot to our customers. We have a lot of access now to our customers, and through all of that, we really have found, I think, a really nice sweet spot of maintaining that balance.

If we're delivering on a trend, for example, the barn jacket is trending today, and we had this incredible vintage version, which we did a release of and it sells out in minutes — incredible. But we also have in our offering a [new version] of the original barn jacket on our men's side and a waxed and cropped version on our women's side, too. So, having those iterations of what's heritage to us but delivering iterations in a way that feels really modern and relevant has really been the crux of our product formula.

How has J.Crew adapted its supply chain to meet the needs of its new design strategy?
As you know, we are not fast fashion. We do believe [in] allowing time for the creative process and the design process. We have a lot of Italian fabrics that we use that require quite a bit of lead time. We haven't tried to trim our calendar to adapt to a [faster] fashion cycle. That said, we do believe that there's opportunities that come up all the time.

What we have done over the past four years is really establish a faster cycle, a cycle that allows us to react to what's happening in our own business and react to what's happening out there in the world to become more dynamic. I think you have to be dynamic, even if you want to really protect the longer-term creative storytelling. I think it's very easy for a brand to swing the pendulum one way or the other. I think you just have to be nimble but, at the same time, you have to really be careful about maintaining the integrity of the product that you're delivering.

What is the role of distribution in reaching all your different segments of customers?
It's important to recognise where the different audiences are and meet them where they are. This means delivering on the store experience is going to feel different than something you're going to see on the website, which has become a channel of convenience. The store has really been about a celebration of the best of brand.

I think when you think about those two channels, they're actually switched in a way compared to 10 years ago, when people really did stop by the store to pick things up. Stores were the channel of convenience.

Today, with the ease and the convenience of the online shop, it just made a lot more sense for us to demonstrate the best of the brand in the stores, which is one of the most important platforms for us.

There are many different ways we can show up in the world and there's a moment to celebrate things differently on TikTok versus Instagram, for instance. Letting go a little bit more on certain platforms, where it just makes sense for people to feel more authentic and more organic, and then using other platforms for really being as inspirational and aspirational as we need to be.


Demi Moore in J.Crew advert. Max Farago/J.Crew.


J.Crew catalogue image. Theo Wenner/J.Crew.

Why bring back the catalogue now?
The loudest and the clearest feedback that we got from customers was, 'Please bring back the catalogue.' I knew when I started that we weren't ready, because I knew that the magic of the catalogue was really about the storytelling and really being able to stand behind the product, so I allowed us to really take our time.
We really don't think about it creatively when we're developing the catalogue, that this story is for a younger customer, or this story is for an older customer. It really does feel pretty ageless when you open that book.

Engagement around the brand that brings the catalogue and the store together has been, I would say, an unanticipated wonderful moment for us. It really connects all the parts of why people love this brand. The customer component obviously is really critical, and having the stores be so meaningful again, it's just so refreshing for those of us who've been in this business for a long time. I think it just really reiterates the importance of the physical connection and the excitement that people have for shopping in general, connecting with brands they love, and the importance of, not just great marketing, but actually delivering great product and great experience behind that marketing.

This interview has been edited and condensed.

05. Value Shift

Secondhand clothes rail. ArtMarie/Getty Images.

05. Value Shift Macroeconomic pressures and rising prices have driven fashion shoppers to adopt cost-conscious behaviours. This is expected to persist, even as some economies begin showing signs of recovery. This dynamic is fuelling growth in segments with strong value-for-money perception, such as resale, off-price and dupes, among others. To capture customers' share of wallet, brands will need to prove their value.

KEY INSIGHTS

- Fashion customers consistently adopt cost-conscious shopping behaviours, with 64 percent of US shoppers trading down in the third quarter of 2024.
- Over 70 percent of customers plan to purchase from outlets or off-price retailers in the next 12 months, even if their discretionary budget increased.
- Nearly one in three US adults say they intentionally bought a dupe of a premium or luxury product. Half say they bought it for cost savings, while 17 percent would continue to purchase dupes even if they could afford the original item.

EXECUTIVE PRIORITIES

- Identify a brand value proposition that resonates with customers based on their trade-down behaviour and definition of "value," by focusing on price or quality, for example.
- Emphasise value in brand communications to earn customers' trust and convince them a product is worth purchasing.
- Consider embedding value into the product proposition and channel strategy. Determine whether launching new value-orientated products, price points or channels, such as resale or outlets, would appeal to shoppers, while protecting core brand equity.

Fashion customers are looking to spend less and spend smarter

#1

risk cited by fashion executives in 2025 is consumer confidence and appetite to spend[1]

In 2022, consumer confidence indexes in the US, Eurozone and China hit their lowest levels since 2005, and confidence in China once again neared record lows in August 2024. Across markets, shopper uncertainty about macroeconomic conditions remains. In the first half of 2024, consumer confidence was about 10 to 30 points below 2019 averages across the Eurozone, US and China, though confidence levels in the Eurozone and US are ticking up slightly from 2023.[2]

Intent to spend on discretionary categories such as fashion remains low. Over 40 percent of shoppers in the US, UK and Germany are spending less on clothing, footwear and accessories than they did a year ago.[3]

>60%

of customers say they often try to save money on clothing, footwear and accessories[3]

Consumers are not only looking to spend less, but they are also trying to stretch their money further. Over 60 percent of consumers in the US and UK say they are attempting to save money on fashion “often” or “as much as possible.” In the US, this figure is as high as 75 percent.[3]

Shoppers across income levels are trading down, changing the type of product or quantity purchased in pursuit of better value, but their behaviour varies by segment. While value and mid-market shoppers tend to buy from outlets or off-price retailers (>33 percent) or search for the best price for an item (>31 percent), premium shoppers are more likely to leverage “buy now, pay later” services (16 percent) or use resale platforms to save (23 percent). Premium customers embrace certain trade-down behaviours even more than customers from other segments; a greater share say they have purchased a cheaper replica, or “dupe,” of the product they wanted compared to value and mid-market shoppers.[3]

Clothing sale. Mike Kemp/Getty Images.

Even as economies improve, value-orientated behaviours are likely to persist

Shoppers are not eager to increase their fashion budgets, even as economic prospects and consumer sentiment improve in some regions. Over 80 percent of shoppers plan to spend the same or less on clothing, footwear and accessories in 2025.[3]

An "inflation overhang," the idea that customers take time to adjust to higher prices, is not the only dynamic at play. Even customers with growing discretionary spend are prioritising experiences and travel over fashion. In the third quarter of 2024, the top category that US and European customers splurged on was eating out, followed by travel and buying groceries.[4]

The survey also revealed the stickiness of value-seeking shopper behaviour. When asked which categories they would spend on (e.g. groceries, clothing, activities) given higher discretionary spend, over 70 percent say they would continue certain trade-down behaviours in their fashion purchases.[3]

"Value" can take on different meanings. For some, it might mean shopping pre-owned or buying on sale, for others it might mean buying fewer, higher quality items.

Behaviours that customers would continue even if they had more money to spend, %

Source: BoF-McKinsey State of Fashion 2025 Consumer Survey

Affordability is propelling growth for off-price retailers and outlets

1.8x

off-price retailer revenue growth between 2023 and 2024 vs the broader market[5]

Off-price retailers have continued to grow revenues and improve profitability despite broader market turbulence, this year's McKinsey Global Fashion Index (MGFI) analysis shows. Traditional off-price retailers Burlington, Ross and TJX are expected to grow revenues by a weighted average of 4.6 percent in 2024, compared to a 2.6 percent average for publicly listed fashion companies. Ross and TJX were also among the MGFI Super Winners list, leading in industry economic profit in 2023.[5]

Outlet channels are also benefitting from this dynamic. In the first half of 2024, Zalando's business-to-consumer (B2C) channel profitability rose 1.4 percentage points year on year and revenue grew by 0.6 percent.[6] Meanwhile, e-commerce off-price brands are growing even faster, with players such as BestSecret growing 25 percent in the first quarter of 2024.[7]

A TJ Maxx store. Shutterstock.

TJX

"We're convinced that consumers will keep seeking value. We believe our strategy of trading across a broad range of income and age demographics differentiates us from other retailers."
Ernie Herrman, chief executive and president, August 21, 2024[8]

Ross

"Second quarter sales and earnings were above our expectations as our stronger value offerings resonated with our customers ... now more than ever, we believe price value is critical for [customers] when determining where to shop."
Michael Hartshorn, group president and chief operating officer, August 22, 2024[9]

Consumer search for value is driving wins in the resale market

41%

of consumers look to secondhand outlets when seeking apparel deals[10]

The resale market in the US grew 15x faster than the broader clothing retail sector in 2023. By 2025, secondhand sales will account for 10 percent of the global apparel market, and the segment is expected to grow at a 12 percent compound annual growth rate to reach $350 billion by 2028.[10]

The perception among consumers is that they get more value from resale purchases. 60 percent say shopping secondhand apparel gives them the most value for money.[10] In the non-luxury space, players such as ThredUp and Vinted broke even for the first time in 2023.[11 12] Vinted reports that 65 percent of its buyers prefer to buy fewer, more expensive items that last, rather than more, cheap fashion items.[13]

Some brands have recognised this growth opportunity and are developing their own resale capabilities.

Secondhand fashion customer. ThredUp.

Sandro

Sandro's resale programme drives customer loyalty by giving sellers either 70 percent of the resale value if they choose to be paid directly, or 100 percent of the resale value if they choose Sandro credit.[14]

Shein

Shein launched its own online peer-to-peer resale platform, Shein Exchange, in Europe in summer 2024 after seeing success in the US. In 2023, Shein Exchange gained over 4.2 million new users in the US.[15]

The pursuit of affordable alternatives has given rise to “dupe mania”

1 in 3

US adults say they intentionally bought a dupe of a premium or luxury product[16]

In a rebrand of what used to be regarded as taboo counterfeits, Gen-Z has popularised “dupes,” or duplicates of more expensive products. The phenomenon has grown beyond Gen-Z, however. Nearly one third of US adults say they intentionally bought a dupe of a premium or luxury product, and the #dupe hashtag on TikTok has nearly 6 billion views.[16 17]

Shoppers don’t just turn to dupes for one-off trends. Among UK shoppers, 11 percent say they buy a dupe at least once every few months. Half say they do so for the savings, but 17 percent consider dupes as great alternatives even if they could afford the original.[16]

Shein

Shein uses influencers who outwardly promote Shein products as dupes.

Lululemon

Lululemon hosted a pop-up where shoppers could swap out their dupe leggings for real ones — free of charge. The campaign paid off, as 50 percent of those who visited were new customers.[16]

Quince

Brands like Quince have been built on a “same, but cheaper” principle, producing replicas of luxury basics at affordable prices whilst maintaining quality. In 2023, Quince’s sales tripled, and the brand aims to triple sales again in 2024 to reach $1 billion.[18]

Lululemon leggings in store. Shutterstock.

Brands looking to differentiate will need to convince shoppers that they are worth the price

EXECUTIVE PRIORITIES

Identify value drivers	Communicate value	Integrate value into the channel and product strategy
Identify the "value proposition" that resonates with customers, whether rooted in quality or affordable prices. As "value" can take on different meanings, brands will need to identify which value-seeking behaviours drive their customers and tailor their strategies accordingly. Shopper surveys, social listening and analysis of customer relationship management data can all be effective ways to identify what shoppers care about in terms of value.	Convince consumers of the defined value proposition through effective brand communication. Create campaigns that highlight the craftsmanship and quality of products, the innovation behind them or competitive prices to justify a purchase to shoppers. Leverage non-traditional channels to meet consumers where they are — and where they will be receptive. Organic influencer content, shopper forums and social media platforms such as TikTok can all be powerful ways to influence consumers' brand perception.	Attract value-minded shoppers through alternative channels and differentiated products, while protecting core brand equity. Leverage owned outlets and resale platforms to attract entry-level shoppers who may one day buy at full price. Additionally, resale can give brands more control over the quality of their secondhand goods in circulation, with the bonus effect of increasing circularity. Consider "premiumisation" of select product lines to showcase value through quality of materials and durability.

Ralph Lauren: Selling a Dream at Every Price

The 57-year-old brand devoted recent years to pitching shoppers on the idea of "Ralph's World," a preppy wonderland that anyone can visit for the price of a polo shirt (or a linen suit, or a $100,000 watch). CEO Patrice Louvet explains why that's set up the brand for success even at a time when consumers are rebelling against higher prices.

BY BRIAN BASKIN

Plenty of brands talk about world building, but few are as committed to the concept as Ralph Lauren, which recently recreated its Polo Bar restaurant at a Hamptons estate to wine and dine guests attending its latest fashion show.

It was one of the showier bits of "Ralph's world," the all-encompassing concept that has served as the linchpin of a strategy to elevate the brand's image, allowing it to expand into high-margin categories such as outerwear and handbags while still selling plenty of polo shirts. The goal is to make sure that, however customers come into Ralph's world, they feel like they're getting good value for their investment.

Consumers appear to be on board: Ralph Lauren's stores are busy, even as the average price of the goods sold in them has risen over 70 percent since 2018. So are investors — the company's stock hit an all-time high in October 2024.

But the elevation project now faces its greatest test yet, as shoppers around the world demonstrate fatigue with spiralling prices and China's sluggish economy clouds the outlook for a once-promising market. As it navigates the turbulence, Ralph Lauren is doubling down on its storytelling and leaning into the core products that have given the brand its longevity.

So many brands have been raising prices and elevating their image. There's a sense in the market that there's perhaps a bit of fatigue with that among consumers. I'm curious if that's been your experience.
We've been on a multi-year journey regarding our brand elevation. Brand elevation means elevate the storytelling, elevate the product, elevate the shopping experience. The outcome is the ability to price.

We often get compared to a lot of the other companies in that we're [raising like-for-like prices]. I don't view us as taking pricing. I view us as driving elevation, making sure that the consumer value is there. Because for the pricing to stick, you need the consumer to feel like this is a good investment.

I think every consumer cares about value. Whether you're a billionaire or whether you're scraping by on $12 an hour, every consumer cares about value and making sure they're putting money into something that reflects what they care about.

When you talk about the value proposition, what does that look like for your top customers and for the customers who are more aspirational?

First, everyone is buying into a piece of the Ralph Lauren world. Whether you want to be a banker on Wall Street, whether you want to be a horseback rider in the Hamptons, whether you want to be a cowboy in Colorado, we create these movie sets. The products are the props. The consumers [are] the actors. That's true whether you're a VIC who spends $1 million with us in one pop to refurnish your entire house or whether you're going to one of our outlets and you're looking for a polo shirt.

Then we leverage the breadth of the portfolio that we have. What's pretty special is we sell $100,000 watches and you can have a pack of T-shirts. This range of product enables us to connect with all types of consumers. We'll appeal to the uber-rich and we'll appeal to people who will buy a piece of the dream, but they may not buy the $100,000 watch.

I think people intuitively understand how the $100,000 watch connects to [Ralph's] world. Tell me how that looks for the pack of T-shirts or the polo shirt.
As a consumer, I'm connecting with three things. I'm connecting with the storytelling. That touches everybody now. We have dramatically increased our marketing investment. It's now about 7 percent of total company revenue. It was 3.3 percent a few years back [in fiscal 2017]. We're using broad storytelling, like the timeless campaign we just did [titled "Ralph's New York"], and then we have more targeted marketing activities that go after different consumer groups.

The second is all the work that we do on the product and celebrating the product and making sure it's superior quality, making sure it's got timeless style, making sure it's something that you can wear in five years, or you can wear in 10 years.

Then the third area is the shopping experience. Often, people focus exclusively on stores. For us, the elevation applies to every single touchpoint the consumer has with our brand. So, whether that's our website, whether that's our outlets, whether that's the work we do with our wholesale partners, to make sure that they're getting this unique experience.

I think the combination of the three is what enables us to appeal to someone who just wants a polo shirt or someone who wants to refurnish their entire house.

"This range of product enables us to connect with all types of consumers. We'll appeal to the uber-rich and we'll appeal to people who will buy a piece of the dream."

Let's talk about the last show, the one in the Hamptons. How were you using that to reach your VICs, and then, also, for that larger world building?
We actually don't do fashion shows. Yes, we have models on the runway [but] we do brand-cultural moments, and we invite you into a movie. The movie in [September] was set in the Hamptons.

The shows I like the most are the ones that showcase the entire portfolio. So you have our luxury business collection, Purple Label, Polo, men's, women's and children's. Then, the way we activate the show is again through every single touchpoint. If you're a VIC, we'll give you the option to come and join us at the show. We might have in our stores a viewing of the show. We will leverage it on our social media platforms pretty actively.

The idea is to have a surround-sound marketing programme and to appeal to a broad group of both our current consumers and future consumers. What we're finding with these cultural moments is they appeal very broadly and they're an incredible way to recruit new consumers, which is the lifeblood of this company.

How have stores evolved over the course of this elevation project compared to say, five or six years ago?
First, you will now have the ability to walk into many more stores. That's been an important part of our elevation as we put more emphasis on direct-to-consumer.

There's been a lot of innovation in terms of the types of stores based on the city that we're in. We focus on [our] top-30 cities. Earlier this week, we opened a new store in Shenzhen. It's a really modern take on the Ralph Lauren experience, which fits nicely in Shenzhen. I don't know that we could do that on Madison Avenue.

We haven't renovated our flagships for many, many years. We believe in vintage, but there's a point where consumer experience shouldn't necessarily be vintage, so we just renovated our Chicago store. We added the coffee shop. Coffee has just been an incredible success, well beyond our wildest dreams. We're leveraging hospitality.

We are putting more emphasis on clienteling. In London, we just renovated an entire floor in our new Bond Street store, which now looks and feels like a Ralph Lauren apartment. That's where our VICs can come. They can spend the day there with their families.

Ralph's New York campaign. Lachlan Bailey/Ralph Lauren.

We're weaving technology in. You will have seen these endless-aisle screens where you can have access in our store to now the entire range. We want people to be able to tap into our full lifestyle. We don't just sell denim. We don't just sell handbags. You want to buy a sofa? We have a sofa. You want to buy a polo shirt? We have that too.

China's been a bit of a troubled market, especially for higher-end Western brands. Ralph Lauren has been more optimistic. What are you seeing there that others aren't?
China is a big opportunity for us short, mid, and long term, and we've got very good momentum there. We have a very focused strategy on the top-six cities, which I think is a differentiator versus some of the other players. Arguably, we are underdeveloped relative to other luxury brands, because China is about 8 percent of our [sales]. It used to be about 3 percent before Covid, so we're growing nicely, but others are 20 percent, 30 percent, 40 percent of their business, which also indicates the size of the opportunity for us.

On the product side, our most elevated products are what we're selling actually in China. We were talking value earlier. The consumer's clearly seeing the value in those more elevated products, so think beautiful linen suits, think wonderful cashmere turtlenecks. We're going to continue to lean into that.

This is a time where consumers, given the uncertainty and the anxiety — and there's a lot of that in China — are leaning into brands they know, products they trust, product categories they're familiar with. So many of our items are classics and what we call 'core.' Like 70 percent of our business is core, which you can get season on season, as opposed to fashion, where everything really changes from season to season. We're known for these icons [like the] cable knit sweater, polo shirt, Oxford shirt, tweed jacket, leather outerwear, and that's really resonating nicely with the consumer right now.

Is that [70 percent core, 30 percent fashion] a stable ratio?
We've actually made a significant change to lean much more into core. Some of our businesses used to be 20 percent core, 80 percent fashion. We've concluded that that's not our game. Our game is iconic products that consumers recognise, love [and] trust, year on year, generation on generation. We've leaned much more into that, including in the women's business, which is historically known to be much more fashion-driven.

Rather than look to change everything every season, there's so much to build on. There's so much of our core that consumers trust, that a number of consumers actually don't know yet.

Category expansion is a big tentpole of this strategy. How are you evaluating which categories to invest in next?
Because Ralph Lauren's such a broad lifestyle brand, it's actually challenging because there are so many things we could actually do. The filter we look at is how does it fit with the overall brand equity, the categories, and then it's size of prize, difficulty of the dive. We're close to a $7 billion company, on our way to 10, so we're looking for big building blocks.

Then, what are the capabilities or expertise required to be able to be credible because our mindset is if we're going to play in an area, it's not to participate; it's to win. We're not interested in being number 55 in a category. We want to be in a leadership position. That's been Ralph's philosophy from the get-go.

If you double-click on that, where you land is what we're driving now, which is women's apparel, outerwear, handbags. I think those are pretty evergreen given the size of the businesses. Right? If you ask me, "

'When do you think you've fully tapped into the potential of these three categories? Two years? Three years?' I'd tell you it's probably 10 plus. There are so many other things that come into this office in terms of, 'Could we do this? Could we do that?' and the answer is, 'Yes, later.'

Any final thoughts you wanted to add here?
I think there's a lot of negativity right now around the luxury space. Yes, some big [brands] are struggling, but there are companies winning, and if you look at what's driving that, it's the strength of the brand and the relevancy of the brand. It's the focus on core, recognisable, authentic, timeless products, and then it's a real attention to the shopping experience and really walking in the consumer's shoes in terms of what they're looking for. I'm optimistic about where this business is and where it can go. It's going to have ebbs and flows, but I think the negativism is probably overblown.

This interview has been edited and condensed.

06. The Human Side of Sales

Sales assistant and customer in a clothing store. Pixdeluxe/Getty Images.

06. The Human Side of Sales Differentiating the in-store experience is key to reigniting demand for in-person shopping. Brands can achieve that by empowering their store associates to reach their full potential, as sales staff have a central and valuable role to play in connecting with customers. The benefits will be sizeable, since customer and employee experience are inextricably linked.

KEY INSIGHTS

- Store associates can be a key differentiator in customer satisfaction across regions, according to the BoF-McKinsey State of Fashion 2025 Consumer Survey.
- 75 percent of shoppers are likely to spend more after receiving high-quality service from store personnel, indicating upsell and cross-sell opportunities.
- A 2024 study found that more than 20 percent of missed sales at a prominent US retailer were related to issues with store associates, such as suboptimal engagement or unavailability of staff.

EXECUTIVE PRIORITIES

- Enable store personnel with training and tools to change the way they interact with customers, reorientating focus towards product expertise and relationship-building, using new technologies to arm staff with analytical insights.
- Motivate in-store staff by broadening incentive structures beyond immediate, in-person sales goals to longer-term omnichannel customer development.
- Optimise processes via automation or digitisation in customer interactions where human touch is less valued, thereby freeing up store associates' time to focus on key conversion drivers.
- Evolve the store associate role to focus on career progression and the interpersonal aspects of the job, such as connecting with customers, which will help retain employees in today’s competitive hiring environment.

It will be imperative to maximise customer engagement amid slowing in-store sales in 2025

Now that the post-pandemic flurry of customers returning to stores has begun to cool, in-store sales growth is forecast to be around 1 to 2 percent on average across key markets in 2025, compared to the last few years of high single-digit to double-digit growth.[1]

This normalisation comes as store foot traffic is approaching pre-pandemic levels across regions.[2] Some markets like continental Europe anticipate surpassing their pre-pandemic offline market size in 2024.[1]

However, the role of the store has evolved globally. It is estimated that almost 70 percent of retail sales today are digitally influenced, making stores more of a destination for conversion and building brand loyalty than initial discovery.[2] 54 percent of apparel shoppers say they prefer to buy clothing in brick-and-mortar locations versus online.[3]

As store growth decelerates, retailers will need to further differentiate their store experience from the competition to convert customers in stores. While retailers have been focused on delivering digital innovations in store, in doing so they have deprioritised some of the basics that shoppers returned to stores for in the first place, such as the human side of sales.

75%

of shoppers in 2022 were likely to spend more after receiving high-quality service[4]

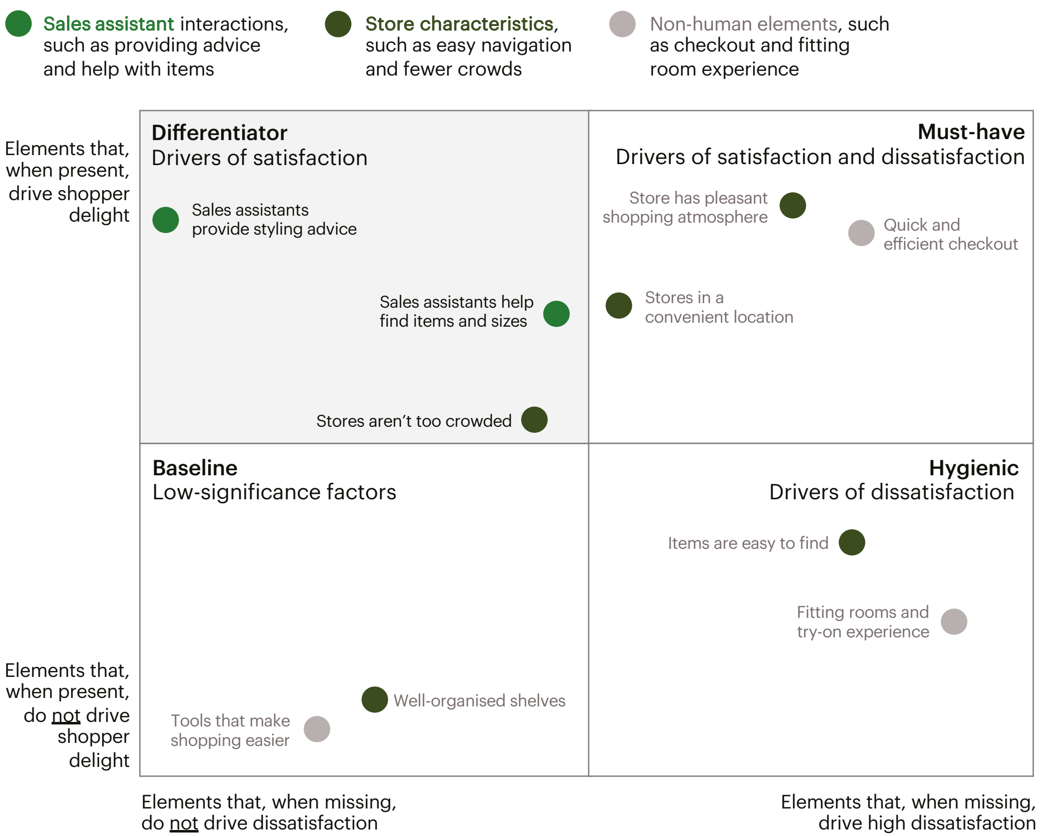
>20%

of missed in-store sales were related to issues with store staff, such as poor engagement or unavailability[5]

Women trying on clothes in a store. Tdub303/Getty Images.

Store associates are crucial in differentiating the store experience

Drivers of satisfaction and dissatisfaction in shopper store experience,
Ranked by relative importance



Must-have hygienic factors: Non-human elements of the shopping journey and store characteristics tend to be must-haves or hygienic factors.

These elements drive both high satisfaction when present and dissatisfaction when not present, but do not tend to differentiate the experience or increase sales.[6]

Differentiating factors: Human interactions such as interactions with store associates tend to be key differentiators of the in-store experience.

These boost shopper delight and are key drivers of conversion and loyalty, since these exchanges are only possible in stores.[6]

Human interactions are particularly important to aspirational and younger consumers. The former are up to 2x as likely to seek styling advice from staff compared to value and mid-market shoppers, and the latter are 1.5x as likely compared to shoppers over the age of 50.[6]

Note: Satisfaction indicates a high level of satisfaction (9-10 on a 10-point scale). Drivers of satisfaction and dissatisfaction are determined based on a correlation analysis of shopper net sentiment towards elements of in-store experience vs level of satisfaction
Source: BoF-McKinsey State of Fashion 2025 Consumer Survey

Solving human capital challenges is essential to retaining associates in today's labour market

>60%

of shoppers cite poorly trained or prepared staff as a cause of discontent with store experiences[7]

Shoppers are the least satisfied with human interactions in their store experiences, scoring as much as 25 percentage points (%points) below other aspects on average, including fitting rooms and checkout transactions and store atmosphere.[6]

Satisfaction with store staff is lower in the US, UK and Germany compared to China, where shoppers are around half as satisfied.[6]

While satisfaction is low across age groups, shoppers under the age of 30 show higher net satisfaction of 43 percent compared to 32 percent for those aged 50 and above. In contrast, older shoppers tend to be more delighted by the store atmosphere.[6]

1.2x

retail workers are 1.2x more likely to leave their jobs than the average US employee[8]

In 2023, 75 percent of global companies across industries reported operating without enough frontline employees.[9]

The labour shortage is particularly pronounced in retail. As of May 2024, there were 2.5 million more retail job vacancies than job seekers in the US. More than 44 percent of US retail workers are planning to leave their jobs within three to six months.[8]

This is also evident in the luxury sector, where some flagships in Paris reported operating with staff shortages of 20 percent in 2024. Industry leader LVMH forecasts it will need to recruit 22,000 new workers by the end of 2025, nearly two thirds being sales associates.[10]

$10k

up to $10k average estimated cost of losing a single retail frontline employee[8]

In the past few years, US retail wage growth has outpaced other sectors. Since the pandemic, retail hourly wages have increased by over 20 percent vs 11 percent in the private sector.[11]

Retail pay growth in the UK continues to outpace other sectors. In August, pay was up 9 percent year on year.[12] This was partially driven by the near 10 percent increase in the national living wage in April 2024, which impacted a significant portion of the frontline retail population.[13][14]

Rising workforce costs are making the industry's high turnover more costly. Losing a single frontline retail employee can cost a retailer $2,000 to $10,000 on average. Costs tend to be higher for managerial positions and more experienced employees. Multiplied by thousands of employees across multiple years, those costs can weigh on a retailer's bottom line.

Upskilling staff and investing in tech support tools will enable better customer interactions

UPSKILLING STORE STAFF

Upskilling and training store associates is the top priority for executives aiming to improve sales and customer engagement in stores in 2025.[15]

Professional development of store associates has long been a priority for retailers, given the young and inexperienced workforce (more than 30 percent of all first jobs in the US are in retail).[16] However, the focus on training is expected to increase in the year ahead.

As staff turnover continues to rise, retailers will need to increase the speed and cost-efficiency of training. Formats like AI-powered training and micro-learning, where content is broken into small chunks, will play an increasingly important role.

Training has a positive impact on employee satisfaction and retention. One large retailer that implemented college-level courses and skills certification found its employees were four times more likely to stay in their jobs.[8]

OPTIMISING CUSTOMER INTERACTIONS WITH TECH

More than half of fashion executives agree that the use of digital tools to facilitate omnichannel sales will be a key priority in the year ahead.[15]

As store associates shift to focus more on customer interactions, it will be important to arm them with the tools and knowledge to meaningfully engage with customers. New customer relationship management (CRM) enabled technologies can help store associates get real-time information about the customer they are interacting with to make for a better store experience.

Luxury and non-luxury brands alike have begun using technology to track engagement and connect with customers after they leave the store, while others are providing staff with data-backed, personalised customer recommendations for cross-sell and upsell opportunities in store.

Reiss

In 2024, Reiss partnered with AI-powered learning platform Thrive to boost employee development by enhancing the onboarding process, celebrating internal achievements and creating a collaborative learning environment.[17]

Aritzia

Aritzia has a “University” programme that includes onboarding for new hires and ongoing training for existing employees. This year, it reported providing >80,000 hours of formal training.[18]

Kering

Kering’s clienteling app, Luce, provides store associates with tailored product recommendations and personalised promotions for customers. The app has boosted the average order value by between 15 and 20 percent.[19]

Target

In August 2024, Target rolled out a generative AI-enabled tool called Store Companion at its >2,000 stores. The tool improves store associates' efficiency by providing live coaching and on-the-job answers to questions about processes.[20]

Employee incentives should reward customer lifetime value and reflect modern shopping habits

Creating staff incentives that prioritise customer interactions and relationship-building can increase both sales and employee satisfaction. When incentives align with the parts of work employees deem meaningful, they can feel more fulfilled and appreciated.

For any sort of incentive, the key performance indicators of staff success need to reflect new ways of working. Changes might include rewarding staff based on onboarding new loyalty members or driving omnichannel sales, such as digital sales ordered in store.

Revised incentives are required to reward customer lifetime value over individual transactions and better reflect modern shopping journeys. Browsing in store remains an influential channel for learning about products, yet as of 2021 only 31 percent of businesses measured the contribution of stores to digital sales, and vice versa.[21 22]

Frasers Group

Frasers Group hosts a festival for its employees every year and holds monthly peer-nominated awards for "champions" across divisions, where winners receive public recognition plus double pay for that month.[23]

Dior

Dior saw a 10 percent improvement in employee retention after launching a platform where staff could earn performance-based points redeemable for tailored experiences, such as luxury spa days and wine tastings.[25]

Nordstrom

Nordstrom associates can invite customers to receive "Style Board" emails where they can curate collections of products and still receive commission on those digital purchases. Even though it is not mandatory, the majority of employees use the feature.[24]

Nordstrom store assistant and customer. David Becker/Getty Images.

Store staff should be freed up to focus on customer-satisfaction drivers

DEPLOYING STORE STAFF INTELLIGENTLY

Retailers are increasingly adopting data-driven approaches to staff deployment, improving both how and where staff allocate their time.

Leading retailers are capturing data on transactions and footfall, including movements within store, to make better scheduling decisions.

Additionally, they are testing different approaches to understand where human capital is best deployed to drive incremental sales. For example, a US-based sportswear brand reworked its staff deployment model after learning that staff coverage of the fitting rooms was key to driving both sales and basket size through cross-selling and upselling.[26]

Aritzia

Store scheduling decisions are informed on a daily and weekly basis by traffic data, shopper-to-associate ratios and sales productivity expectations.[27]

Faherty

Faherty uses gig-style staffing during holidays and high-traffic times to support backend activities like steaming and stacking. Using the specialised gig platform Reflex, the company employs gig staffing for around 10 percent of hours per week.[28]

STREAMLINING MANUAL TASKS

Retailers can leverage technology to automate and streamline activities such as digital task management, ordering and production planning, which can free up employee time for more customer-centric activities.

Although the technology is not new, unlocking the full value of radio-frequency identifiers (RFID) in store operations should continue to be a priority for retailers in the year ahead. Correct implementation of RFID across inventory-related store processes can lead to a 10 to 15 percent reduction in associated labour hours.[29]

Additionally, brands are increasingly testing customer-facing RFID use cases that make the customer experience more seamless while freeing up store associate time. Though nascent, RFID self-checkout is set to expand in the coming year; Radar, a technology company that works with major apparel retailers such as American Eagle, plans to launch its RFID-powered checkout function in 2024.[30]

BJ's Wholesale

BJ's Wholesale automates inventory tasks by using Simbe Robotics' robot, Tally, which Simbe reports can reduce e-commerce fulfilment time and improve worker safety by automating tasks like manoeuvring large pallets.31

Uniqlo

Uniqlo's self-checkout, where shoppers drop items into an RFID-enabled basket, is used in 70 to 90 percent of transactions across markets and is credited with cutting transaction times in half.[30 32]

To improve employee experience, retailers should prioritise development and human interactions

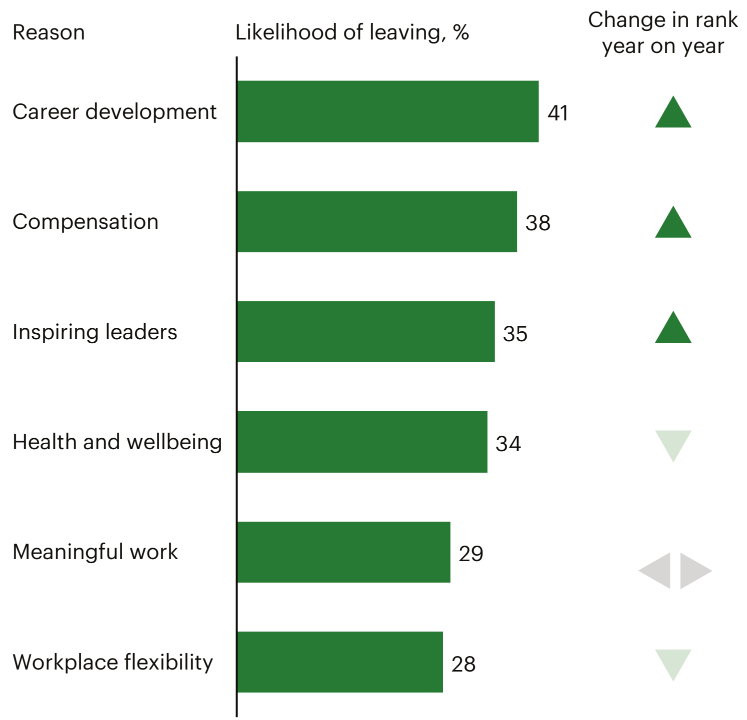
In retail, there are six main factors that impact employee retention. US employees plan to leave their jobs primarily due to concerns about career development, citing limited growth opportunities. Compensation issues rank second, influenced by macroeconomic pressures. Employees passionate about the industry, however, tend to cite these factors as reasons to stay, hence investments in career development and compensation can be a "win-win" for retailers looking to reduce the high costs of staff turnover.[8]

This underscores the importance of defining a company-specific target employee profile, whether that be career brand enthusiasts, retirees looking for a store discount or part-timers seeking flexibility.

Improved employee experience can make for more satisfied, tenured workforces and more satisfied customers, too. Companies with top-quartile employee experience are twice as likely to have top-quartile customer experience.[8]

Employees with high satisfaction tend to have a higher calibre of output as they typically are more tenured and make fewer errors on the job. Retail workers also value customer interactions, citing "relational" elements of the job as a key part of why they deem the work meaningful.[8]

Top reasons why retail employees plan to leave their jobs, 2023



Note: Survey question asked respondents who indicated they are at least "somewhat likely" to leave their current jobs in the next three to six months to choose the top three aspects of employee experience from a list of 12 that affect their plans to leave their current job
Source: US Great Attraction Survey April 2022 and May 2023

It will be crucial for retailers to develop an end-to-end employee value proposition

EXECUTIVE PRIORITIES

Enable staff with training and tools to improve customer interactions

Upskill store personnel by arming them with the knowledge and tools needed to improve customer satisfaction and engagement. This can include training them on relationship management and product expertise, as well as providing them with tools and real-time customer analytics to improve product recommendations.

Motivate store associates with broader incentive structures

Extend both hard and soft incentives to drive conversion and longer-term customer value, rewarding associates who drive future digital purchases in addition to immediate, in-person ones. Have corporate and in-store management champion the goals to illustrate how they are valued by the entire organisation.

Optimise processes to refocus store personnel on high-value activities

Automate and digitise select manual processes, such as merchandising and returns, to rework the role of store personnel in a way that drives customer conversion. Identify where to deploy sales associates versus automated or self-service options by analysing the key turning points in conversion that will maximise return on investment.

Retain employees with coaching and one-to-one interactions

Make changes to employee benefits to attract and retain high-quality store personnel, tailoring changes to the target employee and their motivations. In doing so, career development pathways will be essential in driving retention and brand buy-in. Leading retailers can achieve this by offering academy-style courses that fully immerse their associates.

Aritzia: Redefining Shopping One Store at a Time

Not so long ago, Aritzia was a little-known womenswear brand serving elevated workwear staples from a modest footprint of stores. CEO Jennifer Wong talks about how the retailer found itself in hypergrowth — and why excellence starts from within the company.

BY CATHALEEN CHEN

Well before the explosion of quiet luxury and #Corpcore on TikTok, Aritzia was an obscure Canadian retailer specialising in easy-to-style trousers and blazers for those in the know.

The company has consistently expanded since launching in Vancouver 40 years ago, but it wasn't until after the pandemic that its growth shifted into hyperdrive. Of course, a fashion cycle favouring minimalist wardrobe staples — Ariztia's bread-and-butter — helped fuel that acceleration. But it was chief executive Jennifer Wong's comprehensive retail strategy and career development programmes for employees that propelled the retailer to be on track to triple sales from fiscal 2021, becoming a bona fide powerhouse in the North American retail landscape.

Walk into any of Aritzia's 124 locations and fans will say there's just something about shopping at Aritzia that makes it irresistible. Wong is tight-lipped on the exact formula, but alludes to the importance of customer service, premium real estate and managing a tight product strategy.

What's the role of retail at Aritzia?
This is our 40th year in business, and we started out as a traditional retailer. If it could be in our blood, I feel like it's in our blood.

Retailing today is a lot different than it was in 1984 when we opened our first store, but many things have stayed the same. Clients still want exceptional experiences. They want interesting and beautiful products that they can wear, that they can trust.

The biggest change has been the store format. It went from roughly 1,500 square feet to around 10,000 square feet on average today, and we're looking forward to opening stores in the New York area that are even bigger than that. This creates a whole different dynamic, including being able to have cafes, and food and beverage.

How is Aritzia able to ensure a high level of customer service in its stores?
We have a world-class training programme. We believe in servicing so it's not just about selling. It's about making sure that we make a connection with the customer, and understand what it is they're looking for, and being able to showcase and offer whatever occasion they're shopping for, whatever their style preferences are.

The first thing to do is to connect and get a read. Once we're able to determine what the client is looking for, it starts off a relationship where the client then sees how beneficial it is to work with a style advisor. At the same time, if you get the 'I'm just browsing' response, I think that's obviously the cue, and thankfully, our style advisors are 'people' people. We really believe in a personalised relationship and so when you walk into our stores, it is highly personalised in that we are inspired by the luxury brands. Many of our style advisors have literal relationships with the client where the client comes back time and time again, seeking out the style advisor because they've established a relationship.

How does Aritzia approach visual merchandising and the power of in-store display?
It's about presenting our product in any given season in a way that we think is appealing to the customer walking in. We have client favourites interspersed among new items that we're introducing for the season, and I think the combination of the two inspires the client. We style the mannequins in a way to show different ways of wearing a single item. We can visually display on a mannequin many different ways to style a blazer, so it's dressed up a little bit or literally with a baseball cap.

What are other colourful components that go into crafting an in-store experience that people wouldn't necessarily think of?
The biggest differentiator for us is our locations. We position our stores in the best locations that we can possibly secure, whether it's SoHo, whether it's Fifth Avenue, whether it's the triple-A shopping centres we're in, and it's not just the shopping centres themselves. It's the actual location in those shopping centres.

Our stores are our number one marketing vehicle, making sure we are where the foot traffic is, and where the eyeballs are. That's probably one of the biggest differentiators, but once you're in the store, it's the people. We have amazing people that love what they do.

At the end of the day, there's an energy when you walk in, and that energy is created by the humans in the store. We have a tremendous team. Fifteen percent of our people have been with us for 10 years or longer.

"That's probably one of the biggest differentiators, but once you're in the store, it's the people. We have amazing people that love what they do."

Aritzia store interior. Aritzia.

Can you talk a little bit about the sales associate recruitment and retention process? You famously began your career as a style advisor, and you ended up where you are today.
Yes, I'm the perfect example of someone who started as a part-time style advisor, thought I'd go into banking and finance when I graduated from university, and here I am 37 years later as the CEO and very proud of my career here.

When I'm asked, why have you stayed at Aritzia for so long, there are three things. The first is, I've never had to go anywhere else for a career opportunity. Being at Aritzia where we're growing and we're doing new things, there are tonnes of opportunities. The second piece is I really do truly love the people I work with. They are exceptionally smart people that are intellectually stimulating when I come to work. They make me better. They keep the bar high. Then the third piece is it is very rewarding to be associated with a successful brand. It's rewarding to have a clear perspective personally, and when you're performing well, it's rewarding financially, too.

One of the things that we do is we attract amazing talent, people who are passionate about fashion, love working with our clients, strive for excellence, and share the same values for creativity. At the same time, we also really believe in promoting from within. You can have a career track here in many different ways. Creative product track, operations track, sales track, management track. There's a clear track that you can embark on, and once you're in, we like to think that that is the beginning of the pipeline for our talent and our leadership.

Would you say that that's the biggest benefit of cultivating retention and employee loyalty?
During Covid, we did not lay off or furlough a single employee due to Covid-19. At times, it was very stressful [around] how we were going to take care of our people and take care of our business, but we were able to do both. We continued to pay our people, every single one of them, during the pandemic while our stores were closed. What that allowed us to do was, when stores reopened, we had people already trained, ready to go and hitting the ground running. Coming out of Covid, retail got busy. There was a pent-up demand. So we weren't scrabbling, trying to hire people during a tight labour market.

What are Aritzia's retail expansion ambitions?
Right now, we're focused on the US. That's where growth is coming from. We open 10 to 12 stores a year, and then I would say four to five repositions a year. That means we might have an existing store that we can possibly reposition in that same location or expand in terms of square footage. We're opening in new markets. We're opening more stores in existing markets. We have 57 stores in the US now and we think that we can have close to 150 stores.

What do you think has been at the heart of Aritzia's meteoric growth over the past couple of years?
Our product, our product innovation and our ability to get it right. Then there's the store experience: the beautiful store design, the music we play, the cafes we have, the customer service we offer. It's the premier real estate locations that we have our stores in, and then it is the people we have in every single area of the business.

It's technology, it's operations acumen, it's our people practices in terms of recruitment and retention. It's all of the support infrastructure, people, process and technology that we've been able to evolve as we've grown, but also made sure that we invested in the infrastructure.

All those things are what differentiates Aritzia, and it's not any one of those things, but it's all of these things that come together and how we've been able to execute well over the years on all of it. When I say we want to be excellent at everything, that's really what's in our minds. It's our mindset.

This interview has been edited and condensed.


Aritzia campaign. Aritzia.

07. Marketplaces Disrupted

Woman purchasing clothes on a mobile app. Alistair Berg/Getty Images.

07. Marketplaces Disrupted Following a tumultuous period for luxury e-commerce platforms, online non-luxury marketplaces are facing challenges of their own. Share prices have dropped as much as 98 percent since Covid-19 peaks due to existential business model challenges and disruptions. Non-luxury marketplaces globally must carve out a clear role in the fashion ecosystem to survive.

KEY INSIGHTS

- Europe's online fashion marketplaces in the value and mid-market segments destroyed $700 million in economic profit (EP) in 2023. While losses may narrow to $400 million in 2024, most of these players remain value destroyers, generating negative EP — a sharp reversal from just four years ago.
- Though challenged by Shein and Temu, Amazon is defending its lead in the value segment in the US. In the mid-market and premium segments, department stores are maximising their omnichannel advantage and fashion pure-players are strengthening their value propositions.
- In China, social commerce and low-cost players have taken the market by storm: Monthly active app users of Douyin and Pinduoduo increased by 52 and 45 percent between June 2020 and June 2024, respectively.

EXECUTIVE PRIORITIES

- Make assortment a competitive advantage. Curate offerings to establish the platform as the destination of choice for customers, while also minimising assortment complexity.
- Maximise customer lifetime value by delivering a best-in-class user experience, from acquisition to purchase and retention.
- Improve profitability beyond the core business through business-to-business offerings and additional consumer revenue streams such as subscription models.
- Modernise the tech stack, designing a roadmap for the optimal customer experience, while facilitating systems integration with third parties such as new brands.
- Drive cost efficiency by using AI for core processes, both in the backend and frontend.

Online fashion marketplaces are facing existential business model challenges and disruptions

The economic model of marketplaces is in distress ...

Customers are more costly to acquire and less loyal

60%

increase in e-commerce customer acquisition costs from 2017 to 2022[1]

From July 2023 to June 2024, the cost of reaching 1,000 users on Meta rose by 24 percent while return on ad spend dropped 44 percent.[2]

The number of US apparel shoppers that are uncertain about which brands to choose when they start shopping increased by 30 percentage points from 2020 to 2022.[3]

Return rates continue to drag on profitability

20-30%

of online fashion purchases are returned, according to logistics experts[4]

Practices like "bracketing," where customers buy multiple sizes or styles and return most, are driving high return rates and increasing costs for retailers.[5]

Some retailers have introduced return fees, which customers may not be willing to pay. In the first 3 months of 2024, 48 percent of US shoppers abandoned carts due to unexpected fees.[6]

Production complexity is slowing speed-to-market

2-10k

new products added to Shein's platform daily[7]

The on-demand manufacturing model, used by Shein, has challenged marketplaces that have less-responsive product engines.

Shein introduces 2,000 to 10,000 new items daily, using real-time customer demand data to produce batches of 100 to 200 units. This cuts turnaround times to around 10 days compared to the 21-day norm.[7 8 9]

... while other disruptions add pressure

Customers want flexible, omnichannel experiences

-8 points

drop in percentage points in online fashion sales growth expected 2024 to 2026 vs pre-pandemic[10]

After the Covid-19 pandemic, consumers wanted to touch items and receive in-person service.[10]

As a result, retail foot traffic has increased globally, nearly reaching pre-pandemic levels. While online fashion will continue to grow faster than offline, its growth is expected to slow significantly.[11 12 13]

Necessary tech upgrades require investment

63%

of fashion executives plan to increase digital and technology investments in 2025[14]

Customer expectations demand players to invest beyond core functions and logistics. In 2023, 81 percent of consumers preferred personalised experiences.[15]

Many players still rely on outdated tech stacks. To tackle high costs and slow speed-to-market they will need comprehensive data and analytics roadmaps.[16]

The "first wave" of online marketplace players have struggled to sustain share price growth

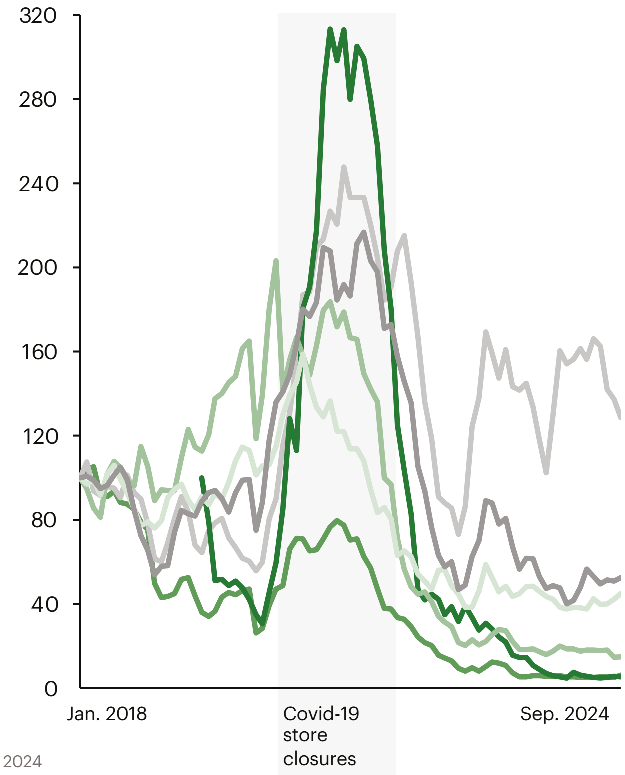
The "first wave" of pure online marketplaces, or players that entered the market and captured significant share before 2015, saw stock prices surge due to inflated valuations during the Covid-19 pandemic when physical stores were closed. However, renewed interest in physical stores and shifts in the competitive landscape have led to sharp declines since 2021, with many trading below their 2018 levels.[17]

Specialised fashion players have been the most exposed to the turmoil in the sector. Others operating across categories, such as Zalando (which expanded into lifestyle), have been able to manage the fluctuations of fashion demand better.

A few years ago, investors prioritised sales growth in e-commerce, but with rising capital costs, they are now focusing on profitability. Unprofitable businesses are no longer viable. The impact on struggling specialised fashion marketplaces is especially pronounced. Asos and Boohoo are among the UK's most shorted stocks; Boohoo is facing shareholder pressure to break up the business and sell its top brands.[18 19 20]

Monthly average share price development, 2018 – Sep. 2024,[a] indexed to Jan. 2018 = 100

Non-exhaustive



Growth of monthly averages, %

Jan. 2018 – Sep. 2024[a b]	Jan. 2021 – Sep. 2024[a]		
+29	-40	Boozt	Sweden
-47	-75	Zalando	Germany
-55	-65	Alibaba	China
-85	-92	Boohoo	United Kingdom
-94	-91	Asos	United Kingdom
-95	-98	Global Fashion Group	Emerging markets

a. Monthly average starting January 2, 2018 and ending September 25, 2024
b. Global Fashion Group indexed to 2 July 2019 when listed
Source: McKinsey Value Intelligence

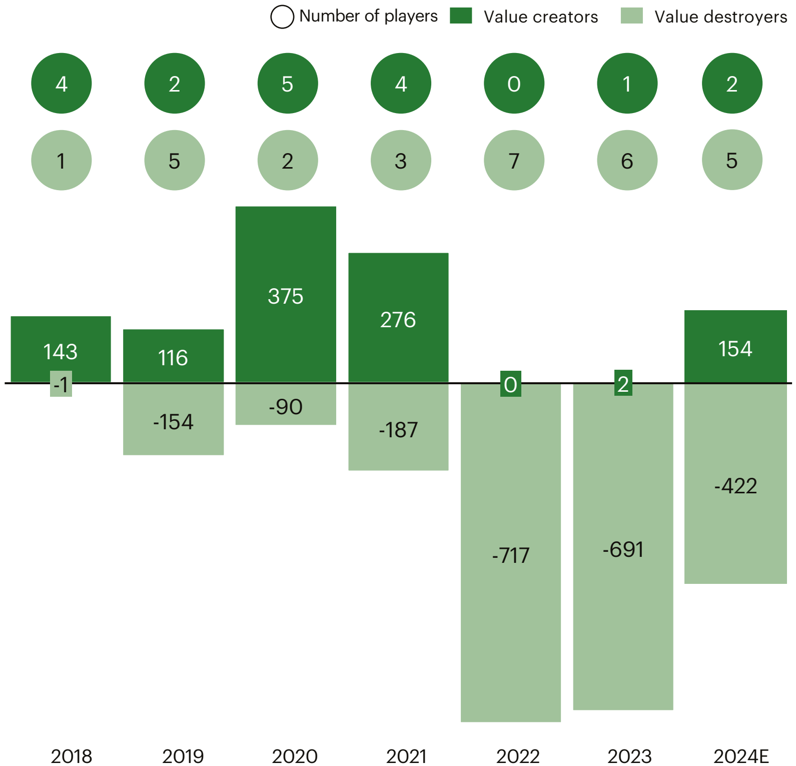
In Europe, online fashion marketplaces will need to evolve their business models

In Europe, "first wave" online fashion marketplaces are losing share to low-cost, high-growth players like Shein and Temu, as well as traditional retailers.[9]

According to the McKinsey Global Fashion Index, in 2023 online fashion marketplaces saw the largest value destruction since 2010, at $700 million. While this loss is expected to narrow, these companies are still struggling to evolve their business models. Four dynamics are expected to intensify in 2025:

- **Prioritising profitable orders:** Zalando raised its average order value to €60.40 ($65.60) in the first quarter of 2024, from €57.30 ($62.23) in 2023, through premiumisation and expansion into sportswear. Asos introduced a refund deduction for customers with a higher return frequency and returns below a certain basket size threshold.[22 23]
- **Exploring new value pools:** About You and Zalando have expanded their business-to-business operations in search of higher margins, creating distinct identities from their business-to-customer propositions to offer technology, marketing and logistics services to fashion brands.[24 25]
- **Building scale and potentially impacting the marketplace-brand power balance:** In luxury, Mytheresa acquired Yoox-Net-a-Porter in October 2024. This trend is likely to accelerate in non-luxury segments. For instance, Frasers Group has grown its stakes in Asos, Boohoo and N Brown.[26 27 28]
- **Leveraging generative AI:** 45 percent of fashion executives say marketing use cases for generative AI offer huge potential to drive value in 2025.[29]

Economic profit of European online fashion marketplaces, USD (millions)



a. Based on H1 actuals and H2 analyst consensus
Note: Companies include: Asos, About You, Boohoo, N Brown Group, Spartoo, Zalando, Boozt
Source: McKinsey Global Fashion Index

Amazon Fashion leads the US value segment; the mid and premium segments remain fragmented

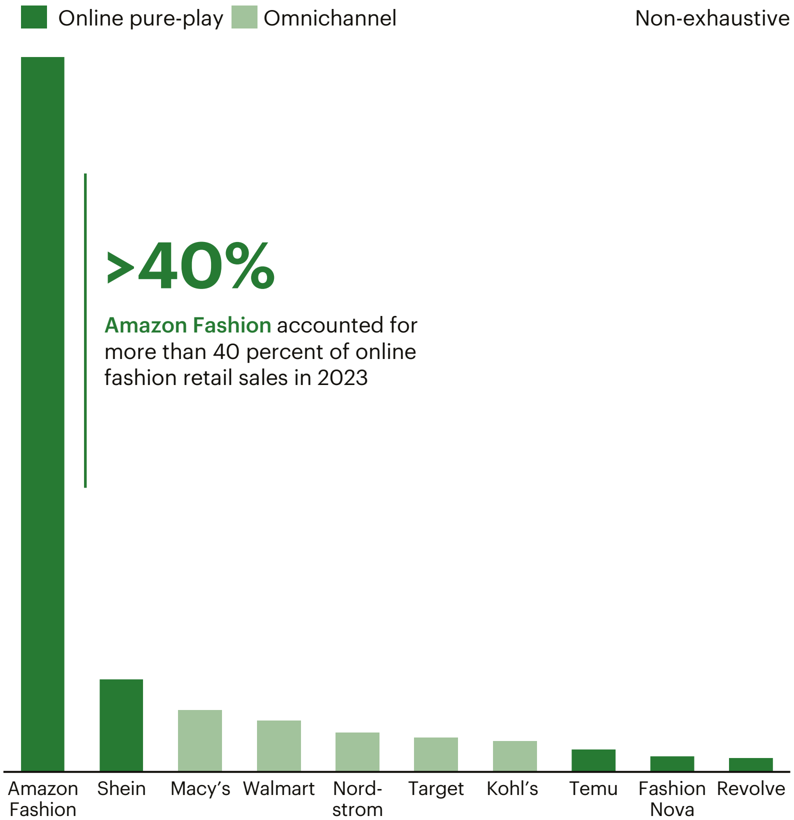
The primary online fashion marketplaces in the US include Amazon Fashion, Shein, Temu and large multi-brand retailers. Other fashion pure-players are smaller in scale and regionally concentrated.

Amazon Fashion leads the online fashion market in the US, driving more than 40 percent of total online fashion revenue in 2023.[30] While Shein and Temu pose a challenge (their monthly active users increased by 21 percent and 297 percent in 2023, respectively), Amazon is defending its lead by launching a low-cost marketplace for items under $20, offering delivery times of nine to 11 days.[31 32 33] Further potential developments could reinforce this value play:

- Lawmakers in the US are reviewing the *de minimis* threshold, which allows imports under $800 to be duty free. If removed, prices for around one third of Shein and Temu products could rise by up to 20 percent.[34]
- Potential limitations with TikTok's reach in the US could impact Shein and Temu. The Temu hashtag had 11 billion views in early 2023 and Shein is the top fashion brand on TikTok Shop as of mid-2024.[35 36 37]

In the mid-market and premium segments, department stores are seizing their omnichannel advantage and launching online third-party marketplaces.[38] Fashion pure-players are strengthening their high-end portfolios: Revolve has acquired luxury label Alexandre Vauthier, for example.[39] Amazon has also been solidifying its position in these segments with initiatives like the launch of Luxury Stores in 2020 and its investment in Saks Global in 2024.[40]

Selected marketplaces' share of US total online fashion revenue 2023, %



Source: McKinsey analysis

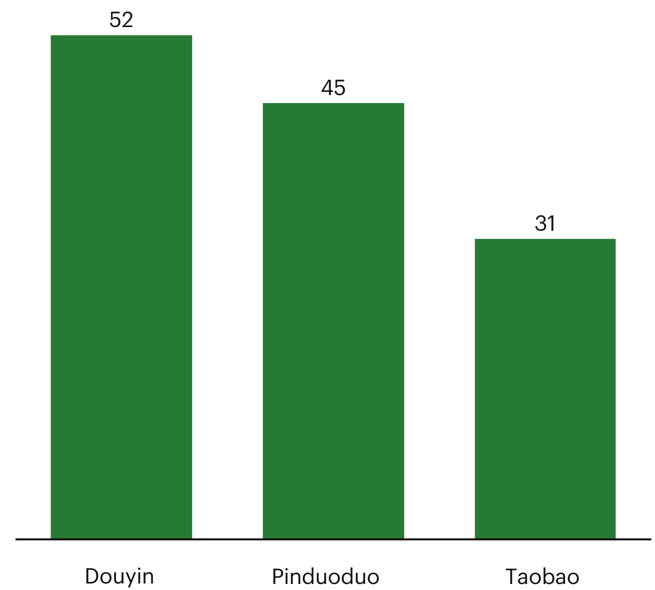
In China, managing social commerce profitability and the blend of branded vs value products is key

Social and live commerce are crucial for engagement and conversion in online fashion shopping in China. Traditional shelf-based platforms such as Alibaba's Tmall and Taobao face stiff competition from social platforms.[41 42]

In the last 12 months, 44 percent of Chinese consumers shopped for fashion on social platforms. More than half say they shop on Douyin for apparel.[43] Other rising platforms include value-focused Pinduoduo and the messaging platform WeChat, on which brands use mini-programmes and DTC brand accounts.[44 45] Given the proliferation of players, brands will need to balance distribution by:

- **Managing the profitability of social commerce with livestreamers:** 81 percent of consumers engaged in live commerce in 2023, and the market is projected to grow from 3 to 8 trillion RMB by 2026, with more traditional shelf-based players entering the space.[46 47] However, as economic growth slows, promotional activities become more costly. Livestreamers charge high fees and earn based on gross merchandise value, forcing merchants to compete on price and absorb discounts. Impulsive buying from livestreams also leads to high return rates.[48]
- **Balancing allocation of branded and value items:** Alibaba, once focused on branded quality products, is adopting a low-price strategy, but it must balance Tmall's branded offerings with Taobao's value products accessed via the same website, as branded sellers may be hesitant to list next to cheaper "dupes." Meanwhile, Pinduoduo is looking to attract brands, which may be wary of the platform's prior focus on unbranded and "outlet" items, as well as its cost-focused audience.[49]

Growth of monthly active users for major online platforms in fashion in China, June 2020 – June 2024,[a]
%



	Douyin	Pinduoduo	Taobao
Number of monthly active users, millions, June 2024	780	695	934

a. Total e-commerce users, not fashion-specific
Source: QuestMobile

Five actions will support the longevity of first-wave marketplaces

EXECUTIVE PRIORITIES

Make assortment a competitive advantage	Maximise customer lifetime value	Create new avenues for profitability
Prioritise customer insights to curate an assortment that is differentiated from competitors, thereby becoming the destination of choice. Work together with brands on exclusive capsule collections, colourways or collaborations. Minimise complexity and unproductive SKUs to drive efficiency in the assortment. Balance the rationalisation effort with maintaining sufficient breadth for scale.	Leverage owned marketing channels to drive traffic, invest in paid advertising to retarget existing customers, and personalise product recommendations and offers to boost average order value and frequency. Increase customer retention by clearly communicating loyalty benefits, such as early access to limited collections. Underpin this with top-tier customer service and customer relationship management technology.	Expand business-to-business services, such as offering consumer data analytics based on website traffic, marketing placement services and fulfilment solutions. Explore additional consumer revenue streams such as subscription models for delivery and financing offerings.

Modernise the tech stack and talent	Leverage AI to reduce operating costs
Create a clear data analytics plan that maximises the benefits of new technology, turning tech into a business enabler rather than just a cost centre. Build integration-ready, flexible IT infrastructure that can support new offerings beyond the core business. Invest in top tech talent to deliver the implementation.	Drive cost efficiencies by deploying AI across use cases. For example, use AI to create product descriptions, sizing charts and fit guidance to reduce return rates; optimise the logistics network; and automate demand planning and inventory management.

Mytheresa: Staying Ahead in Luxury E-Commerce

CEO Michael Kliger has turned the German e-tailer into a leader in online luxury — and one of the few to remain profitable amid a sector-wide slowdown. Ahead of a deal to acquire one of its biggest competitors, Yoox-Net-a-Porter, Kliger anticipates a more stable luxury e-commerce market in 2025.

BY MALIQUE MORRIS

Being a multi-brand luxury retailer online has never been harder. There are the high costs to acquire new customers, the ever-present problem of excess inventory and brands that prefer to sell on their own sites. A broader luxury slowdown has triggered a shakeout in the category, with Matches entering administration and Farfetch being acquired by Korean e-commerce giant Coupang in a fire sale.

Rather than attempting to compete on price or endless selection, survivors must prove they can offer shoppers an experience they can't get elsewhere. Mytheresa has emerged as a leading example of how to do this successfully. The German e-tailer has generated profitable growth by focusing on driving sales from its top-spending customers. Having hit on a winning formula, Mytheresa isn't done innovating. Even as its old rivals are diminished, there's always new e-commerce start-ups jockeying to establish themselves. To remain competitive in the long term, online retailers have to go beyond serving a niche, even an especially lucrative one like the top one percent. They also have to balance increasing customer loyalty — which helps grow profits — with a customer acquisition strategy that lets them widen their reach without losing money. That's why Mytheresa is acquiring one of its primary competitors, Yoox-Net-a-Porter, which carries more brands and has a larger customer base. (The deal is slated to close in 2025 pending regulatory approval.)

But for the company's chief executive, Michael Kliger, remaining resilient in luxury e-commerce goes beyond a play for consolidation. Kliger anticipates a slow but steady recovery in 2025 and identifies ways to retain a strong position in tough times, including tapping new markets, selling more full-priced products and proving to consumers and brand partners why multi-brand retail is still valuable.

The luxury slowdown came swiftly this year and hit luxury e-commerce particularly hard, contributing to the situations at Matches and Farfetch. When you look ahead to the next several months, what do you expect for the luxury e-commerce sector?
Looking forward, I expect continued stabilisation for the sector overall.

We had a very tough time, but also that produced some healthy reactions in terms of reduction. [The industry] reduced the amount of stock in the market.

I don't expect a V-shaped recovery, but I think stabilisation and continued progress. Nothing has changed for the rightful expectation that the share of digital luxury will continue to increase, and will definitely pass the 30 percent threshold in the next couple of years.

The downturn in China — an important market for luxury — has been tough for a number of players. How is Mytheresa navigating the situation there?
My expectation for continued stabilisation is really driven by Europe and the US. China will, in my expectation, not get worse; it will stabilise, but not improve much. But that's the time when you show that you're committed to the market. That's the time we do events, that's the time when we introduce a Chinese version of our name [Mei Lin Shi], when we hire the new local president of [greater China, Dede Chan Brignoli].

Are there any markets where you see emerging growth opportunities in luxury e-commerce?
If you want to look for opportunities, there's always three elements. One is you need economic growth. Second, a significant part of our business is womenswear. You need a country, a culture, where women are participating in the workforce. Any society where people travel more, where more people join the workforce, in any of those countries we see the uptick of e-commerce, because then shopping is not so much an attractive pastime anymore. Then, the last factor is, of course, regulatory permits.

India ticks the box: middle class, affluence, huge success story ... more women joining the workforce. Some African markets already tick all those three boxes. In some African markets you have excellent technological infrastructure, which sometimes people overlook.

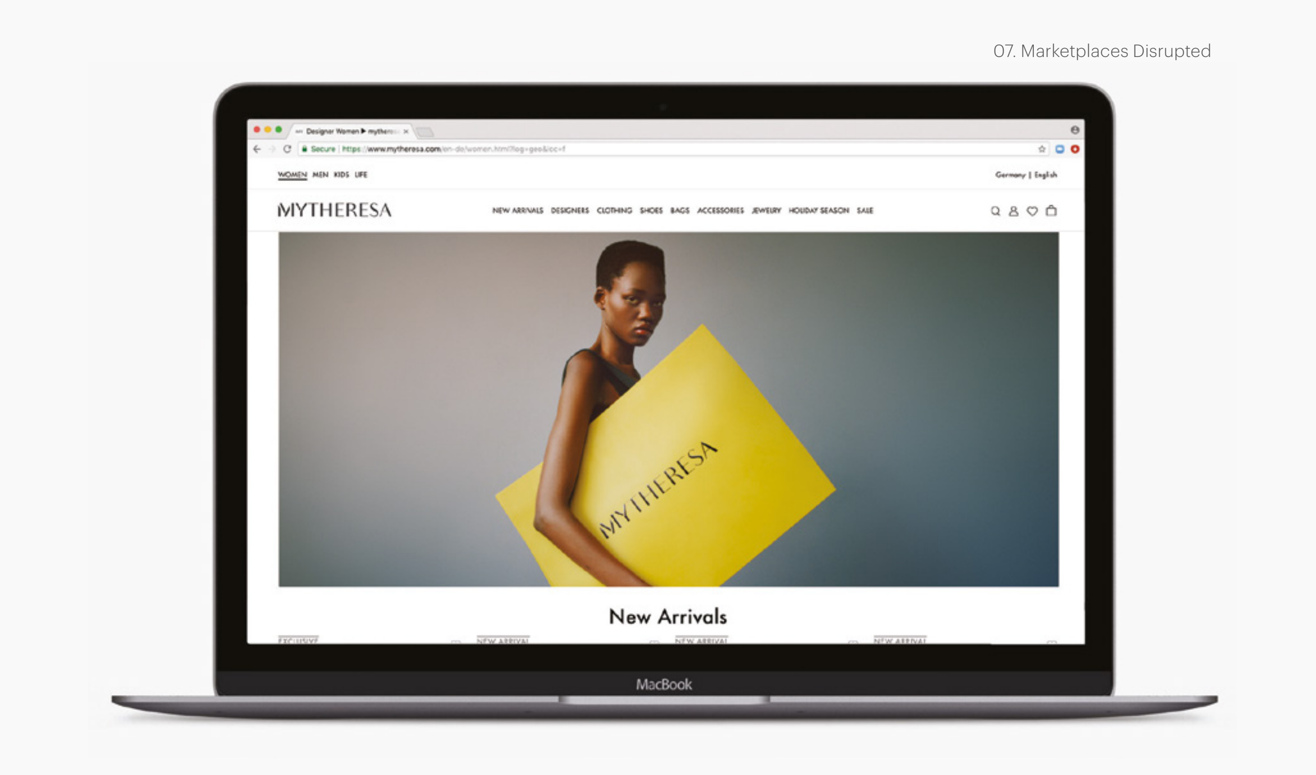
E-commerce is often thought of as a channel for consumers to research products and shop for convenience, while stores are where they go to enjoy a truly complete luxury experience. Is it possible to provide a true luxurious shopping experience being online only, and how do you go about doing that?
It is possible to create a luxurious experience online, but it's not a copycat of what the store can do.

What we can do is understand what the customer wants from us, and the customer wants inspiration.

I have a great quote from a customer. She said, 'I don't have the luxury to waste time.' Once the purchase has been decided, once the inspiration has succeeded, our luxury is it's efficient, it's fast. Our luxury is you don't have to worry, you don't have to drive to town.

You have to define luxury in the way the customer wants it.

"It is possible to create a luxurious experience online, but it's not a copycat of what the store can do. What we can do is understand what the customer wants from us."



Mytheresa webpage. Mytheresa.

In-person events for top customers are one of Mytheresa's primary sales drivers. But customer acquisition is still critical for online retailers to grow their businesses in the long term. How should luxury retailers balance catering to top clients with enticing new customers across income brackets?

We have a very clearly defined target of a wardrobe builder that spends a lot. To acquire more of those types of customers, we have really fine-tuned our digital marketing. The trick here is really to have powerful algorithms that give you predicted customer lifetime [value].

When we do our bigger events, we always give our clients a chance to bring a friend.

We are also hosting events with ambassadors ... in their houses, we partner with them, which often involves donation to their charity of choice. Then they invite 50, 60 of their friends, and the social sphere of a very good customer is potential for new good customers. The crucial point here is we try to find the customers again and again that fit our model.

Many online shoppers find products today not by going directly to a retailer's website but rather through social media and Google searches. When you do get a new customer who comes to the site through one of those side doors, how do you keep them coming back to your site and build their loyalty and lifetime value?

We try to generate good, high-quality traffic by where we advertise [and] with what we advertise. If you advertise for a $150 sneaker, and get clicks, you get different traffic than if you advertise for an $800 sneaker. These are all the choices you have to make to [determine] what type and quality of traffic you drive to your website.

Then it all depends how the first purchase goes. We know that the satisfaction score on the first purchase

was a big driver for loyalty, because if you don't have a good satisfaction, you don't get a chance for the second time.

Then as we enter the relationship, as we understand not only what they bought, but also what they looked at, then we can get better in providing relevant content in terms of product recommendations.

Clients which we acquired in 2015, that cohort, in terms of money, are still growing.

You've openly said that Mytheresa benefits from its competitors' struggles. But there are also smaller luxury e-tailers that are doing well and aiming to reach Mytheresa's level. How do you plan to stay ahead of the competition and maintain your dominant position in 2025? I can imagine Yoox-Net-a-Porter will help with this.
There are many good e-tailers, smaller ones, who do a fantastic job in curation and positioning. We have big respect for those, and that also keeps us awake. We should be on our toes.

With the Net-a-Porter [and] Mr Porter brand, we can stay highly relevant without diluting profiles. I don't need to dilute Mytheresa or dilute Net-a-Porter. I make them both as strong as possible.

This is a very big exercise to integrate Net-a-Porter, Mr Porter, to have Yoox, again, on a dedicated platform that really serves their needs. That's a big project. Mytheresa has proven that we are very good at big projects. We implemented our own technology. This was not done by outside consultants.

Operational excellence makes a difference, and I have big respect for the task, but also high confidence that we can do that.

The economy has forced retailers to ramp up discounting. Even if some companies are doing fewer markdowns, it's still more frequent than before. How can luxury e-tailers convince aspirational shoppers to buy more full-priced merchandise even in a time of economic uncertainty?
We need to ensure that there's more than just price. We cannot take the price away. We cannot say, 'No, you have to ignore price;' it's impossible.

You need to overcome this by providing excellent service. Yes, you can get it there at 10 percent, but we have the full trust. If something happens, we are [here] for you. Are you sure the other shop will do that for you? Are you sure it's the right product? You need to compensate for it.

Our strategy is not: they have minus-10, then we have also minus-10. That just doesn't make sense economically. So what additional emotional components can we do?

Mytheresa is known for being profitable in an industry where it can be difficult to turn a profit. Also, as a luxury retailer, customers expect a high level of service, from customer interactions to shipping, which comes with costs. How do you manage costs in a way that allows luxury e-commerce to be profitable?
If you want to serve that [luxury] customer, that's not cheap. They expect a lot, and you have to give it.

Focus on full-price selling. A high share of full-price selling allows you to spend more. Focus on more valuable pieces. A beautifully packaged product costs you the same amount whether there's a $50 product in there or a $1,000 product in there.

The third most-important item to make a profit is marketing cost. Make sure, to the best of your tools and algorithms, that you spend your marketing on valuable customers. If you spend a big amount of money but that customer is with you for the next five, six, 10 years, it was such a good deal.

For years now brands have been pulling back on their wholesale accounts to boost their direct-to-consumer channels. What value can online multi-brand retailers offer to shoppers and brands, and how can retailers retain brand partners in the long term?
The question we, as a retailer, have to answer [for brands] is: why should I share my margins?

Our hard push is we need to bring additional visibility; we need to bring additional customers; [and] we need to provide relevance.

If your only answer is, 'Well, I bring you traffic,' then your value-add is very thin.

Brands are more picky nowadays, because they have increased their retail effort, they have improved their DTC. In many aspects, they are reaching more people than they were able to reach 10 years ago. Wholesalers, retailers have to work harder.

This interview has been edited and condensed.

08. Sportswear Showdown

Tennis player Ben Shelton wearing On. Shi Tang/Getty Images.

08. Sportswear Showdown Challenger brands are forecast to generate over half of the sportswear segment's economic profit in 2024, up from 20 percent in 2020. This means the battle between challengers and incumbents in the growing sportswear market will likely intensify. To gain market share, brands will need to develop innovative products and use the right ambassadors and channels to activate unique brand stories.

KEY INSIGHTS

- In 2023, sportswear grew faster than the broader fashion market in key regions, by 2 to 3 percentage points (%points) in China, 5 to 6%points in the US and 2 to 3%points in Europe.
- Fast-growing challenger brands are now expected to make up 57 percent of the sportswear segment's economic profit, nearly tripling since 2020.
- Investors continue to be bullish on challenger sportswear brands, expecting their growth trajectory to be steeper than incumbents. Publicly traded challengers have seen significant share price gains from January through September 2024.

EXECUTIVE PRIORITIES

- Invest in product innovations, both in core franchises and when expanding into new categories. Product remains king.
- Double down on product marketing to convey the benefits of the innovations. It has become even more important to deliver sharp messages on specific product novelties to customers.
- Build partnerships with ambassadors at both macro and micro levels. Secure emerging athletes early, leverage celebrities for brand storytelling and tap into local communities for authenticity.
- Develop a clear distribution strategy with direct-to-consumer channels to drive engagement and storytelling, while strategically using retail channels to maximise reach and profitability.

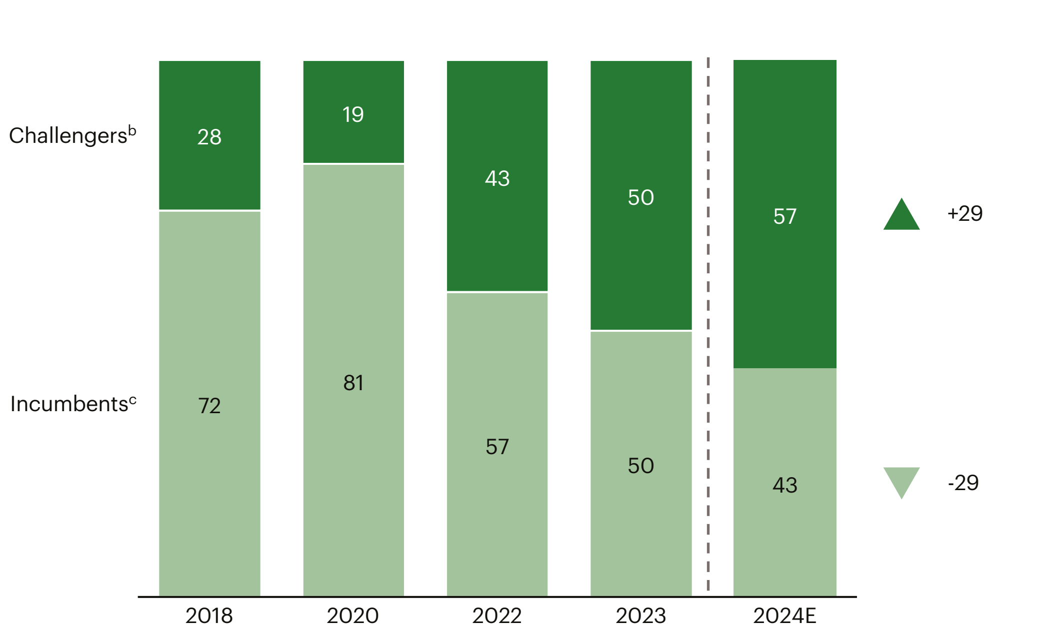
Challenger brands will generate the majority of economic profit in sportswear in 2024

In 2024, challenger sportswear players — such as Deckers (owner of Hoka) and Asics — are expected to create over 50 percent of the segment's value, surpassing incumbent sportswear brands known as the "Big Four" (Nike, Adidas, Puma and Under Armour) in economic profit for the first time, according to the McKinsey Global Fashion Index.

Challengers have succeeded by growing revenue faster than incumbents while also expanding their profitability. Challengers are expected to have grown revenues 18 percent per year between 2020 and 2024E — 14 percentage points (%points) above incumbents — and improved profitability by 4%points over the period, while incumbents saw profitability decline 2.4%points.[1]

Privately owned challengers are also seeing exceptional growth globally, including New Balance, Vuori and Alo Yoga.[2]

Economic profit (EP) of publicly listed incumbent vs publicly listed challenger brands,[a] 2018-2024E, %



a. Economic profit (EP) is a measure defined as currency-adjusted Net Operating Profit Less Adjusted Taxes (NOPLAT) minus capital charge (WACC, multiplied by invested capital), reflecting the economic value created from operating activities and investments
b. Challengers, which include Deckers, Amer Sports, Wolverine, Fila, Lululemon, Skechers, Li Ning, On, Columbia Sportswear, Asics and Anta Sports, reached over 25 percent of market share in 2018. Amer Sports and On included from 2020, based on data being publicly available, having listed in 2024 and 2021 respectively vs rest of data set
c. Incumbents are classified as brands that generated over $5 billion in revenue in 2018, including Nike, Adidas, Puma and Under Armour. These brands, known as the "Big Four," had reached peak year-on-year growth before 2018, maintaining a strong presence across multiple categories at the time
Source: McKinsey Global Fashion Index

Challenger brands have aggressively taken market share by targeting niches and expanding reach

CHALLENGER BRAND PLAYBOOK

DELIVERING VISIBLE INNOVATION

In recent years, incumbents have been excessively reliant on incremental improvements to their performance technologies. These innovations are often less noticeable and garner less consumer attention.[3]

On the other hand, challenger brands have reimagined running footwear with visible innovations that deliver both performance and recognisable differentiation. Hoka's oversized midsoles offer unique cushioning and are easily identifiable, while On's CloudTec® soles use a distinct, pod-like design to provide runners with support.[3,4,5]

TARGETING SPECIALISED CATEGORIES

While incumbents focused on a broader set of sports categories, many challengers tailored offerings around smaller ones, targeting new customers and more niche sports.

Lululemon built its business to $6 billion in 2021 by addressing the athleticwear gap for women, which incumbents had failed to conquer.[6] Women's sales represented less than 25 percent of Nike's wholesale sales in fiscal 2023 and of Under Armour's total sales in 2023.[7,8] Meanwhile, Arc'teryx and Salomon have delivered on ambitious growth plans by focusing on outdoor sport communities with marketing that enticed casual sneaker customers.[9]

TAPPING INTO CULTURAL MARKETING

Challengers borrowed from incumbents' marketing playbooks, focusing on celebrities and culture. New Balance and Alo Yoga, for example, tapped high-profile celebrities such as Jack Harlow and Kendall Jenner.[10,11] While incumbents struggled with authenticity due to a wide fanbase, challengers conveyed greater authenticity with communities.

Vuori and Gymshark focused on grassroots marketing, building ties with Southern California yogis and the English gym scene, respectively, while Hoka engaged running clubs and partnered with cultural platforms such as Hypebeast and End.[12,13,14]

FILLING WHOLESALE WHITESPACE

In the late 2010s, incumbent brands such as Nike and Adidas began to actively shift distribution towards direct-to-consumer (DTC) channels, de-emphasising wholesale.[15,16]

While incumbent brands moved away from some wholesale partners, challenger brands moved into highly visited retailers, like Dick's Sporting Goods and JD Sports. Many challengers capitalised on the shift by pursuing wholesale-first strategies, driving 65 to 70 percent of sales.[17,18,19]

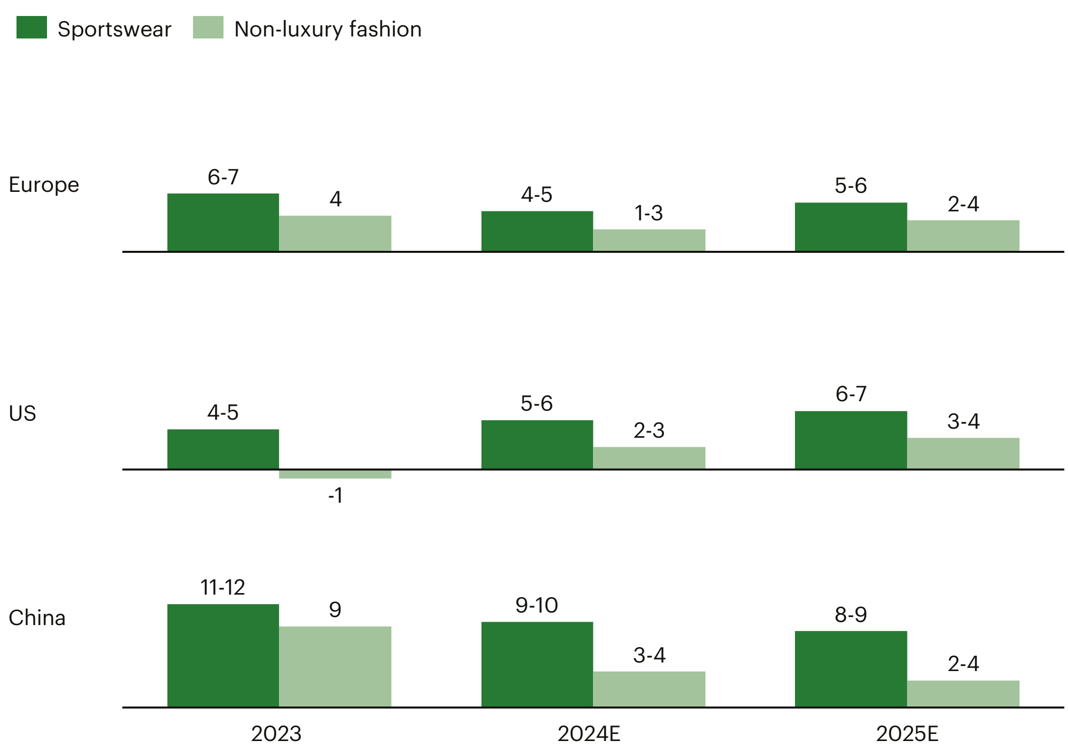
In 2025, sportswear is expected to continue to grow faster than fashion overall

In 2025, sportswear's growth is expected to continue to outpace the broader fashion market in key regions, by 5 to 6 percentage points (%points) in China, 3%points in the US and 2 to 3%points in Europe.[20]

As much as 90 percent of sportswear companies are predicting either steady or increased sales in the year ahead.[21] Key growth drivers include the increasingly blurred boundary between fashion and activewear, the prioritisation of health and wellbeing across age groups, and growing access to sports content and events:

- Two in three Millennial and Gen-Z customers wear athleisure multiple times per week.[22]
- 56 percent of Gen-Z customers consider fitness a very high priority, and older generations are becoming more active globally.[23][21]
- The global sports tourism sector is expected to grow by 18 percent by 2030.[24]

Year-on-year growth of retail sales, by region and segment, %



Note: The sportswear market includes sporting goods, athleisure and outdoor
Source: McKinsey State of Fashion forecasts

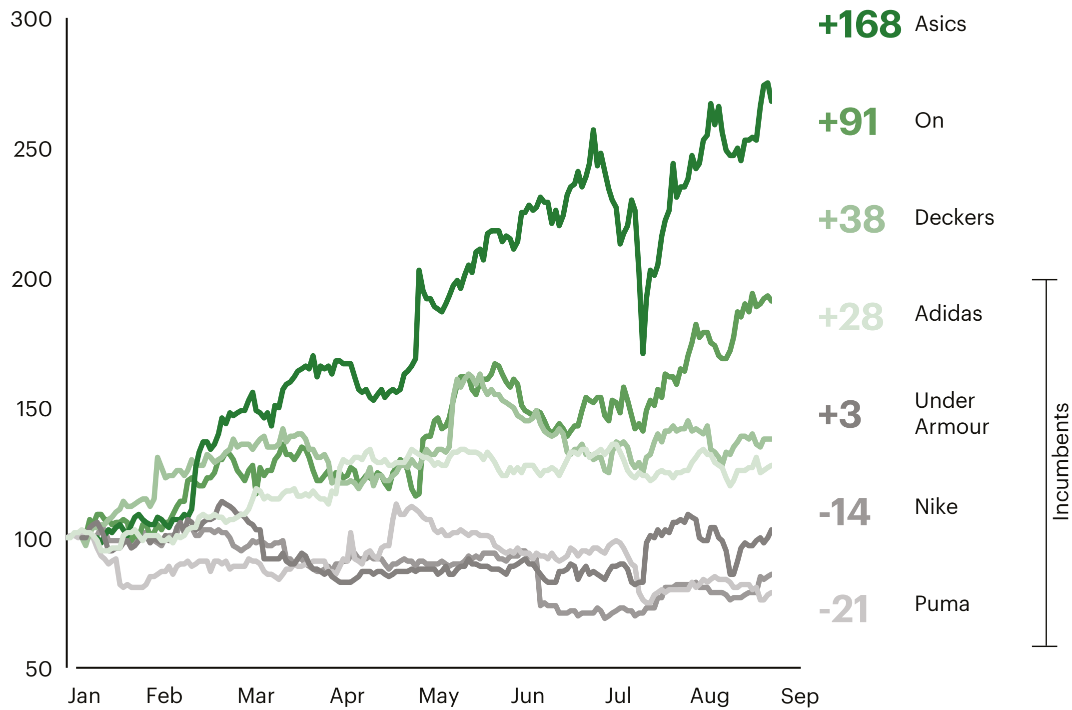
The battle to capture share of this market growth will intensify in 2025

Challengers have continued to see gains in their stock performance. From January to the end of September 2024, Asics' share price jumped 168 percent, On's rose 91 percent and Hoka-parent Deckers' was up 38 percent.[25]

Meanwhile, incumbents have seen a more negative development — except for Adidas, which regained momentum with the revival of its hit Samba sneaker. This reinforces the need for incumbents to refresh their strategies around product, marketing and channel.

Share price evolution of select sportswear players,
Jan. 4, 2024 – Sep. 25, 2024, indexed to Jan. 4, 2024 = 100

Growth Jan. 4 - Sep. 25 '24, %



Source: McKinsey Value Intelligence

To win share, brands will diversify their offerings, balancing reach and cultural credibility

Diversification is a common growth tactic and a core part of the incumbent playbook

However, challenger brands have also diversified in order to grow. In choosing how to diversify, brands must balance catering to sports that give them access to the largest customer bases (high participation rate), with those that drive the most cultural credibility (high number of fans following the sport).

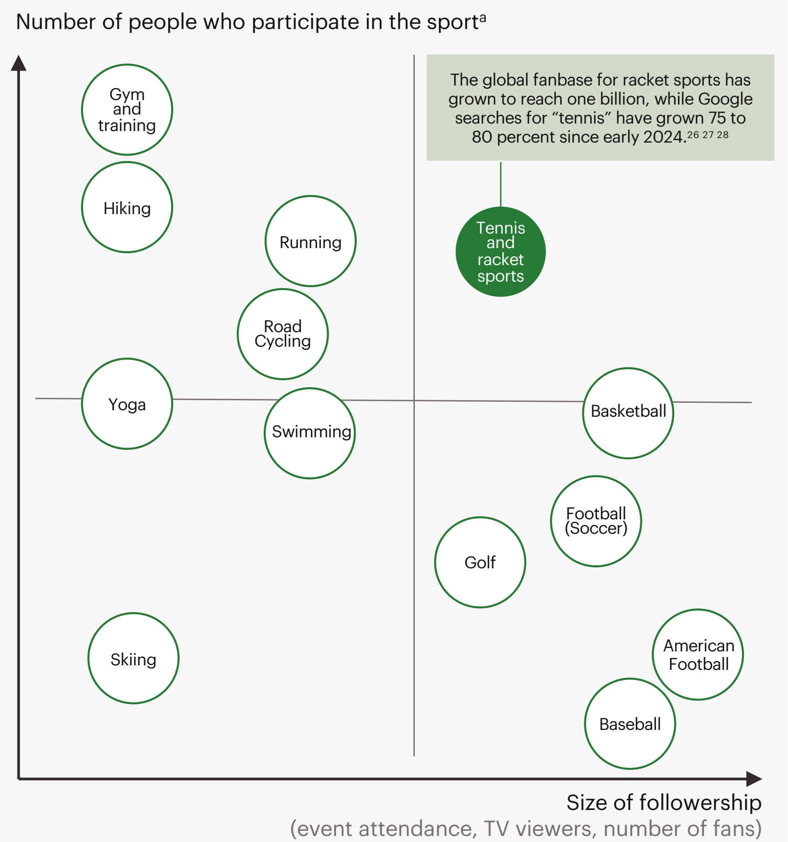
Performance and athleisure brands are going deeper into each other's territories

For example, Alo Yoga, known for athleisure, yoga and training gear, launched its first performance-focused running shoe in 2024, while On is expanding into categories such as training and tennis, aiming to double its share of apparel sales in three to five years.[29 30 31] Lululemon plans to double its men's business by 2026 compared to 2021, focusing on performance sports such as golf and tennis.[32]

Material and product innovations are crucial for brands to build credibility in sports categories

Fewer breakthrough innovations have emerged in recent years, with patent grants dropping 55 percent between the fourth quarter of 2021 and 2023.[33] While Nike has faced scrutiny about its innovation stream from retailers, it is the most active in terms of patents, filing the most patents (182) in the global sports industry in the fourth quarter of 2023.[33 34]

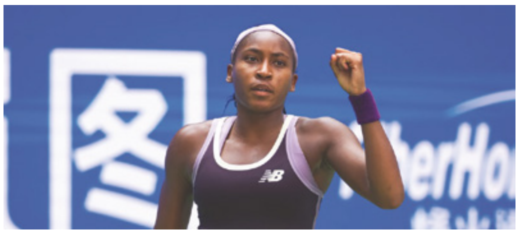
Total US estimated participation vs fanbase of select sports, 2025



a. US population over the age of 6
Source: SFIA "Topline participation" report 2024, McKinsey analysis

Players are expected to create authentic messaging amplified by ambassadors

LONG-TERM POTENTIAL OF ATHLETE SPONSORSHIP



Tennis player Coco Gauff. Robert Prange/Getty Images.

The sports sponsorship market is expected to grow from $63 billion in 2021 to $109 billion by 2030.[35]

Some athletes, especially younger stars, are opting to partner with smaller brands, as these contracts could offer more control over their image.[36] Despite lower rates, smaller brands have offered athletes creative control or equity stakes, as seen between Holo Footwear and NBA player Isaac Okoro.[37] This shift could encourage brands to offer more flexible deals to retain and attract talent.

Brands are recognising the long-term potential of emerging talent, supported by initiatives allowing college athletes to sign deals.[38] New Balance signed Coco Gauff six years ago and now she is one of the most marketable female athletes.[39] In 2022, Nike signed WNBA player Caitlin Clark, the No.1 WNBA draft in 2024.[40 41]

CELEBRITY ENDORSEMENT FOR BRAND STORYTELLING

Zendaya x On. On.

Looking ahead, challengers and incumbents will likely be more strategic about which celebrities they tap for partnerships, prioritising credible spokespeople over the ones who just have the largest followings.

In June 2024, Zendaya signed a multi-year collaboration with On, which the brand intended to drive meaningful storytelling around movement and wellbeing.[42]

During the same month, Puma named K-pop star Rosé, from the group Blackpink, as its long-term global ambassador. Rosé's style aligns with Puma's aesthetic, making her an ideal fit to redefine Puma's classic products and head up the "Rewrite the Classics" programme.[43 44]

CONVERGENCE OF SPORTS AND LOCAL CULTURE

Adidas store in China. Pedro Pardo/AFP/Getty Images.

As sports and culture continue to converge, incumbents and challengers may focus more on connecting with local audiences by incorporating cultural elements into their marketing.

During the 2024 Paris Olympics, New Balance collaborated with local artists such as Franck Pellegrino in its Marais store. New Balance also brought Joe Freshgoods' "From Prom to Paris" project to life through personal art exhibitions.[45]

Adidas is reconnecting with Chinese youth through its "In China, for China" strategy. This includes localisation through partnerships with the China Literature and Art Foundation to promote sports culture through the "Century Masters" programme, which aims to reach 10,000 schools annually. Adidas has also teamed up with Chinese actor Chen Xiao to promote its initiatives across China.[46]

Sportswear brands must strike the right balance between DTC and wholesale customer touchpoints

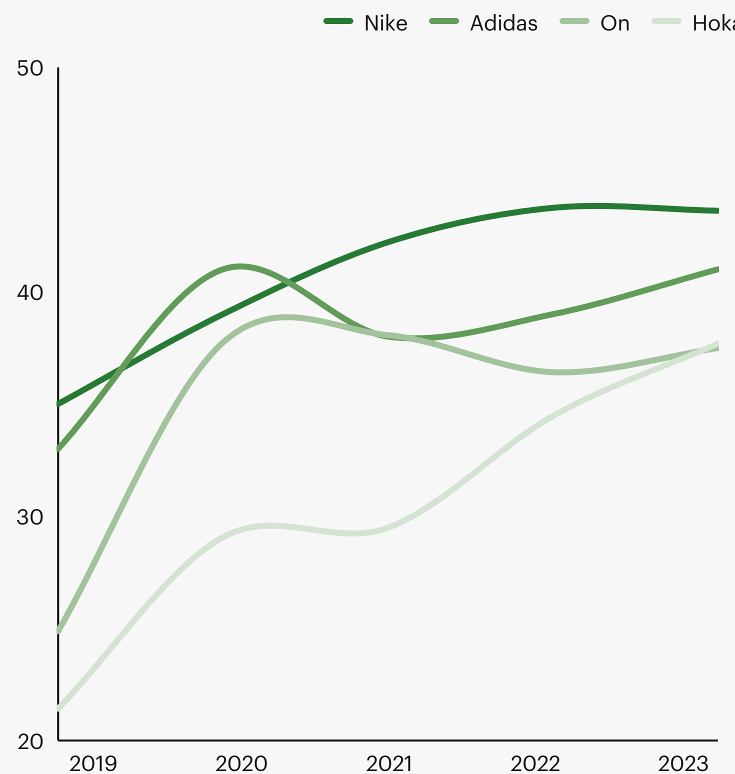
On and Hoka are planning to continue their expansion into direct-to-consumer (DTC).[47,48] Nike and Adidas, meanwhile, are renewing part of their focus on wholesale after shifting heavily towards DTC and experiencing missed sales targets and rising inventory levels.[49,50,51,52]

DTC will be used for customer experience and community building: Adidas is launching its new premium outlet format, "The Pulse," in the UK, designed for convenience and to easily adapt to high-demand products and new collections.[53,54] Hoka opened its first US flagship in New York in June 2024, which will also serve as an events space.[55]

Wholesale will be used to increase reach and brand presence: Brands are expected to prioritise high-traffic retailers or culturally relevant partners, such as Dick's Sporting Goods and End, and seek ways to integrate into their ecosystems, for example through offering exclusive deals to loyalty members.[56,57] Lululemon, which does 90 percent of sales through its own channels, partnered with Zalando to expand its distribution in Europe.[58]

Competition for shelf space is growing: Sportswear retailers are elevating stores and expanding to attract more traffic, while reducing their reliance on single brands. Sports Direct is planning to open 10 new flagship stores, while JD Sports acquired Finish Line and Hibbett in North America.[59,60,61] Foot Locker is expanding its product range in response to shifting consumer preferences towards a broader selection of brands, in line with its 2023 "Lace Up Plan," which includes an aspiration to reduce Nike's share of sales from 70 percent in 2023 to around 55 to 60 percent by 2026.[62]

Share of global DTC sales by brand, 2019-2023,
%



Source: McKinsey analysis, annual reports and press releases

Brands should prioritise product, marketing and distribution to gain share

EXECUTIVE PRIORITIES

Invest in innovation in the core product and beyond

Create breakthrough product innovations that are visible and marketable with rapid athlete-to-consumer pipelines.

Diversify into new categories by balancing reach and credibility, without losing sight of core offerings.

Reintroduce styles from core franchises by innovating archival designs and tapping into consumer trends.

Double down on marketing that conveys innovation benefits

Create compelling product marketing content that clearly conveys the innovation's benefits and newness, cutting through the noise with a simple, impactful message.

Execute targeted marketing strategies that make innovations visible through credible channels such as run club communities.

Build authentic partnerships at all levels

Secure emerging athlete collaborations early, with attractive and flexible contracts.

Refocus messaging on the brand’s roots with clear, authentic storytelling by working with celebrities that align to the brand’s narrative.

Tap into communities with local activations and events in key markets to gain credibility and generate excitement.

Develop a distribution strategy with distinct channel roles

Use direct-to-consumer channels to drive customer engagement and brand storytelling.

Engage in strategic retail partnerships to maximise reach and profitability. Ensure consistency across customer touchpoints by offering connected membership programmes between the brand and retailer.

New Balance: Disrupting the Sneaker Industry

As the brand races to $10 billion in sales, president and CEO Joe Preston opens up about what New Balance is doing that its rivals aren't, the company's unique approach to brand and athlete partnerships and how it plans to stay ahead in the innovation battle.

BY DANIEL-YAW MILLER

When thinking about challenger brands in the sneaker market, New Balance might not be the first name that comes to mind. The 117-year-old company predates upstarts like Swiss running brand On and Deckers-owned running label Hoka by more than a century.

But while the brand has historically kept relatively quiet compared to bigger names such as Nike, Adidas and Puma, even remaining privately owned, a radical transformation over the past decade has put it firmly in a cluster of fast-growing brands collectively taking market share from the industry's incumbents. In 2023, sales grew 23 percent versus the prior year to reach $6.5 billion. New Balance's goal is to increase that figure to $10 billion in the next few years.

To reach that target, president and chief executive officer Joe Preston, who joined the brand in 1995 and took over the top job in 2018, doesn't plan to change a thing.

The brand's aim in the year ahead is to stay on course and focus on what's been working. That includes managing distribution to ensure it isn't oversaturating the marketplace with any one style, maintaining close relationships with wholesale partners and retaining the company's laser-focused approach to picking the right brand partners — not just the most famous ones — be they athletes like Sydney McLaughlin-Levrone or designers like Teddy Santis.

What has New Balance been doing right that its competitors are not doing?
For us, it's all about controlling our destiny. That's all grounded in trying to make sure that we are close to the consumer, understanding how they want to shop, where they want to shop and when they want to shop, then also being finely attuned to the trends that are taking place out there and making sure that we are delivering products and experiences that put us at the intersection between sport and fashion, between sport and music. That's where, we believe, is great energy.

New Balance is far older than many of its competitors. Do you think of yourselves as a challenger brand?
Yes, we absolutely try to operate with that mindset. We are not as big as the two biggest players within the industry. [Therefore], we need to make sure we are operating in a way that's true to who we are but also disruptive in a way that upstart brands, challenger brands, can be.

Do you feel that being a private company has been helpful in that?
I definitely think in some areas it helps us. It allows us to take the longer view. A good example of that is US manufacturing. We're the only athletic brand that has factories here in the US: two in Massachusetts, and up in Maine we have [three] factories up there. We've just added a new one in New Hampshire. All of our competitors — most of them are public — have tried to do this in the past and have given up. We believe, for us, that it provides a great way to drive innovation. We've opened up a new manufacturing R&D centre here in Boston, about a mile from our headquarters.

Are there any other advantages to manufacturing some products domestically?
I think it absolutely helps us from a quality standpoint. We are making the shoes. [We're] designing the processes that go into making those shoes and that in and of itself drives stronger quality with the product that we're making with the contract manufacturers. I fundamentally believe that it's a real strength of our company as a result.

How much emphasis do you place on innovation?
We've made two significant investments: one on the manufacturing side, with the opening of a new manufacturing innovation centre; the second one is a product innovation centre that resides inside of our New Balance track, literally across the street from our global headquarters. That is all about delivering the best product to the best athletes in the world, who we're working individually with. [We're] also taking those insights and making sure we're driving innovation for the everyday athlete. Then we also want to make sure we are being innovative all across our company. We're trying to make sure that we are staying up to date, or ahead, in tech innovation that allows us to get closer to that consumer, allows us to spot trends earlier, [and] most importantly, to respond to those trends earlier in time to be meaningful.

How do you mine your archive to bring forward untapped retro products or innovative products based on retro designs?
We feel really fortunate [for] just the number of products that we have that were so grounded in innovation and performance at the time, so they're really authentic. That allows us to bring them back to life in a manner that remains interesting through colour and material, but really trying to stay true to what that product was. Our design teams are constantly

"Authenticity is a really powerful element of a brand's DNA ... That's a real differentiator that we have versus some of the other brands that are trying to challenge the two big brands."

British rapper and New Balance ambassador Dave. New Balance.

looking back at our catalogue to see if there's anything that would resonate with what's happening in today's environment. Some of those you see brought forward, and others are still there because the teams are waiting for a moment that aligns with some of the trends taking place around the globe.

Do you anticipate long-term interest in these retro styles?
I think authenticity is a really powerful element of a brand's DNA. As younger consumers come into the category who are trying to understand a brand, where they came from, what made them be who they are, I think that's always going to be important. Now it can ebb and flow on what's in style from a silhouette standpoint, but I think authenticity is a key. That's a real differentiator that we have versus some of the other brands that are trying to challenge the two big brands.

How do you determine the right amount of product to put into the market while also wanting to maximise sales and not leave money on the table?
There's an art and a science to it. There's a math equation you can do, and you also have to have a feel for the market. That is a combination of being able to have strong analytical teams [and] have people on your teams that understand the marketplace. I think that experience that we have within our marketplace management, whether it comes from merchandising or within the field, is a really important element.

The sneaker market is more competitive today than ever before. How do you see this dynamic playing out?
The marketplace has been disruptive for the past 15 years. For the first 10 of those, it was primarily around retail and the shift from consumers shopping solely in stores to shopping more online. Within our sector, because of the price points and because of the hands-on nature of the product, it allows for the opening of stores by brands. I think that combination of us being a retailer and a great partner to our wholesalers is helping to fuel our rise because we're able to present ourselves in the best way.

American rapper and New Balance ambassador Jack Harlow. New Balance.

"That combination of us being a retailer and a great partner to our wholesalers is helping to fuel our rise."

How do you strike the right balance between direct sales and wholesale?
We believe wholesale is a really important part of reaching the consumer. We pride ourselves on trying to be a good partner for our wholesale partners. We believe it's an integral part of our growth and the health of our brand and the health of the industry. At the same time, we also know that our focus on DTC allows us to present the brand in the best way, and we believe that combination is very powerful.

This year has seen a big convergence between the sports and fashion industries. What's New Balance's approach now when evaluating who to partner with?
The same as we approach any business relationship that we have: we're looking for individuals or companies that we believe share the same values as we do. I think the one thing that separates us from our competitors with our relationship with these athletes, or with someone in the fashion world, is the bespoke approach that we take. Our goal is to be a premium sports brand, and we want to make sure we align ourselves with partners that feel the same way. Then we take an individualised approach to not just the product development but the execution and how that comes to life. I think that combination has proven to be successful for us.

This interview has been edited and condensed.

09. Inventory Excellence

Woman working in a warehouse. Luis Alvarez/Getty Images.

09. Inventory Excellence Inventory remains a challenge for the industry with both excess stock and stocks-outs impacting brands. In 2025, margin pressures and sustainability regulation will place greater emphasis on end-to-end planning excellence, with brands increasingly adopting tech tools and adjusting their operating model to support agile supply chains.

KEY INSIGHTS

- The fashion industry produced between an estimated 2.5 billion and 5 billion items of excess stock in 2023, worth between $70 billion and $140 billion in sales.
- The average share of fashion brands' assortments on discount increased 5 percentage points in the first half of 2024 compared to the year prior.
- The Ecodesign for Sustainable Products Regulation will require brands in the EU to report on the management of excess stock in 2025 and will make it illegal to destroy unsold products in 2026.

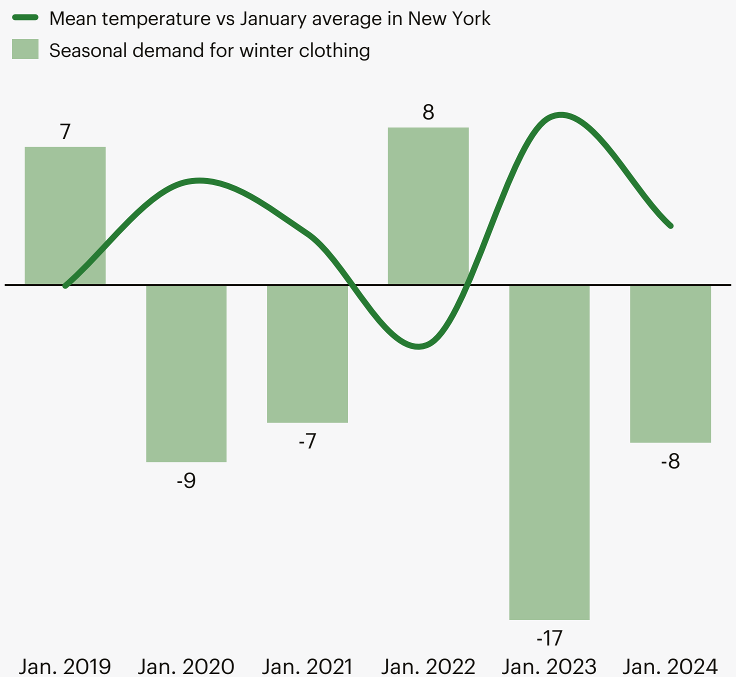
EXECUTIVE PRIORITIES

- Break down silos across the value chain, collaborating through fact-based root cause analysis and shifting the cultural mindset to foster cross-functional decision making.
- Incentivise inventory excellence across teams by aligning organisational KPIs and shifting to a dynamic approach to inventory management.
- Leverage technology-enabled tools that marry data between retail functions and are closer to the realities of demand, involving suppliers where possible.

Getting the fashion "inventory equation" right has become increasingly challenging

Mean temperature and seasonal demand, Jan. 2019 – Jan. 2024, %

Above average temperatures drag down consumer demand for winterwear, making it increasingly difficult for brands to sell-through seasonal stock.



Source: Planalytics

While inventory challenges are complex for most retail industries, the fashion industry faces distinct issues:

- **Rapid trend cycles:** The number of micro-trends has boomed, and trending styles fluctuate in search volume by up to 300 percent in just 12 months, making it hard for brands to predict demand.[1] The number of videos tagged #fashion on TikTok has increased 2.5x in the past three years.[2] Ultra-fast-fashion players such as Shein are also shortening speed-to-market times to as little as 15 days.[3]
- **Unpredictable seasonality:** Climate change is making it harder to predict weather conditions and correlating demand. Temperature fluctuations from the average make it difficult for brands to sell through stock. While global temperatures for 2024 are higher than any other on record, summer 2024 was the coldest in almost a decade in some European regions.[4,5]
- **Lengthy supply chains:** The complex routing of fashion goods across retailers, brands and manufacturers results in long lead times with limited flexibility. Similarly, the uptick in supply chain disruptions also poses a challenge for brands. Delays at the Suez Canal, for example, can extend lead times by 30 percent.[6]
- **Product and channel complexity:** Consumers are increasingly purchasing fashion items across a variety of channels, making it difficult for brands to provide multiple options for size and colour across a growing number of touchpoints, especially if not operating a single stock pool. One example is social commerce, through which a fifth of US customers have purchased clothing in the last 12 months.[7]

As a result, fashion brands continue to struggle with both excess stock and stock-outs

2.5-5B

of excess of garments produced by fashion brands in 2023

20%

average loss in brands' monthly profit due to inaccurate stock buying across sizes[12]

Excess stock in the fashion industry was estimated to be worth between $70 billion and $140 billion in sales value in 2023.[8]

In 2024, despite overall industry inventory levels remaining broadly flat, about one third of brands continued to struggle with inventory positions.[8]

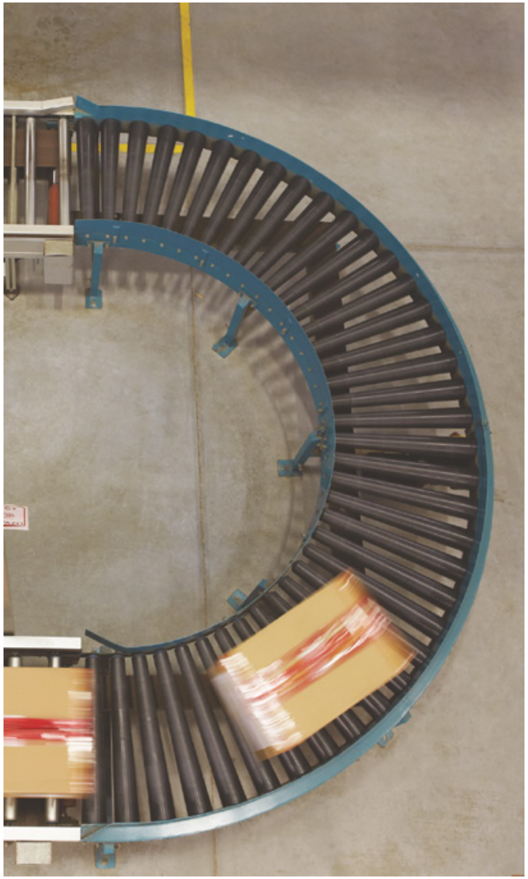
Luxury inventories rose 2 percentage points (%points) in the first half of 2024 compared to 2023.[8] LVMH and Kering recorded excess inventory of almost €5 billion ($5.4 billion) combined in 2023, with impaired inventory accounting for about 4 to 8 percent of total sales.[9]

Many brands resorted to profit-diluting tactics like discounting. In the US, the average proportion of discounted fashion items in the first half of 2024 rose 5%points year on year.[10] Nike said markdowns affected around 44 percent of its assortment on average in 2024, compared to just 19 percent in 2022.[11]

Stock-outs that span beyond a small proportion for brand-building purposes undoubtedly create missed revenue opportunities.

The root causes of stock-outs are more varied than ever and cut across functions, making them difficult to identify and address. These range from on-time-in-full issues due to vendor problems to inaccurate inventory forecasting.

Out-of-stock sizes ranks as the top complaint among shoppers. Inaccurate stock purchasing across sizes is estimated to result in profit loss of up to 20 percent on average.[12] For example, Lululemon attributed slower growth in the US in the first quarter of 2024 in part to insufficient inventory and stocks-outs in smaller women's sizes.[13]



Shipping parcels. Alistair Berg/Getty Images.

Managing inventory is key for brands to achieve profitability and address new regulation

A focus on profitability is pushing brands to optimise inventories

In 2025, brands will increasingly prioritise profitability amid flat sales volumes and increased markdowns. Given the strong correlation between inventory turnover and profitability, tightly managing inventory will be one lever they can pull. Meanwhile, higher warehousing costs created by limited capacity and high interest rates are also pushing brands to shift unsold inventory: warehousing costs increased 10 percent in 2023 compared to the year prior.[14]

Recent sustainability regulations are adding pressure

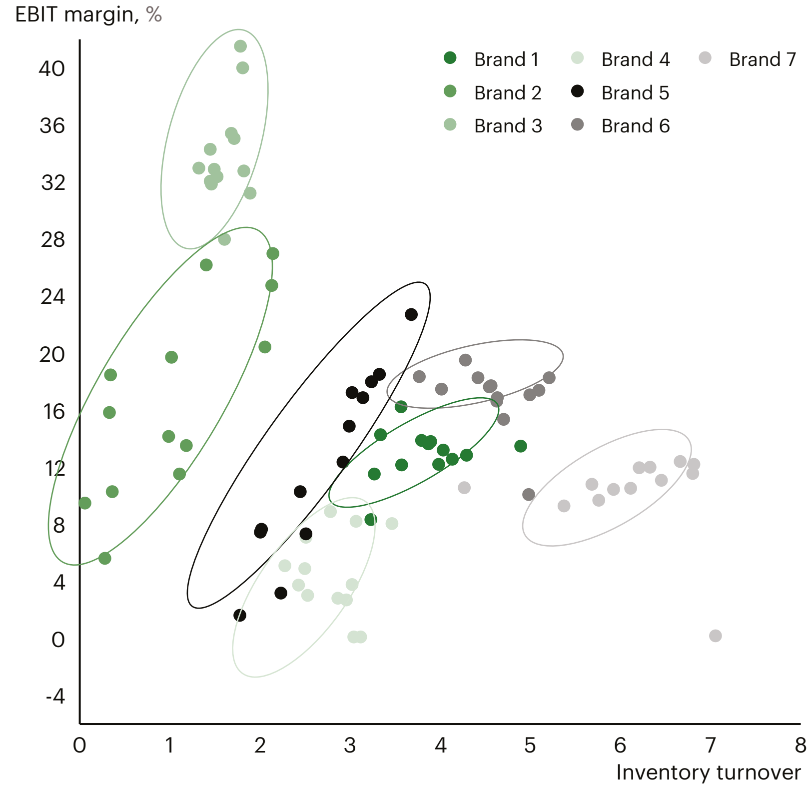
While over-stocking has been the preferred option to maximise sales, there are further sustainability considerations that may impact this strategy in 2025, including regulation and self-imposed emissions targets.

In July 2024, the EU approved the Ecodesign for Sustainable Products Regulation, which will require fashion companies in the EU to report on unsold textiles starting in 2025 and will make it illegal to destroy unsold products in early 2026.[15]

Similarly, in August 2024, California became the first US state to approve the Extended Producer Responsibility programme for textiles, requiring apparel players to submit a plan for collection, repair and recycling of goods by July 2030.[16]

With 60 percent of brands behind on sustainability targets, reducing over-production and cutting waste through cost-effective initiatives may place brands in the best position to achieve targets and maintain the bottom line.[7]

Inventory turnover vs profit margin, select publicly traded fashion brands, 2011-2023



Note: Includes select value, mid-market and affordable luxury brands
Source: S&P CapIQ data, McKinsey analysis

Fashion brands need to adopt proactive tactics to inventory management using tech-enabled tools

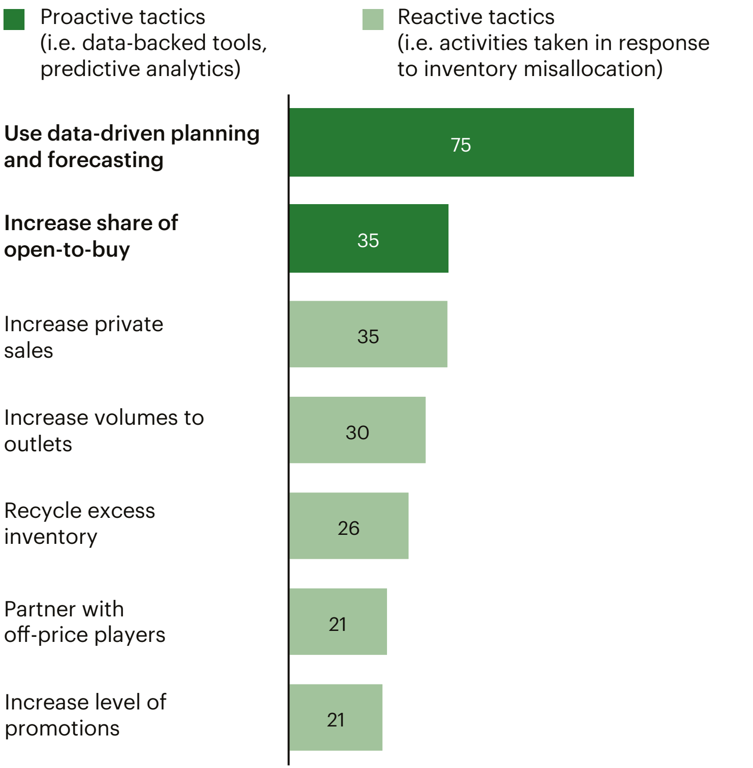
In search of a healthy bottom line and more sustainable business practices, companies are recognising the importance of a proactive approach to inventory optimisation:

- **Data-driven planning and forecasting tools:** 75 percent of fashion executives plan to prioritise data-driven tooling.[18] Brands are turning to advanced analytics platform providers such as o9, Nextail and Blue Yonder to automate processes from demand forecasting to allocation of inventory. These use cases have the potential to reduce inventory by 5 to 15 percent and to achieve a 15 to 25 percent improvement on stock-outs.[19] Kering reported a 20 percent improvement in the accuracy of its inventory forecasting with AI demand planning.[9]

- **Dynamic open-to-buy adjustments:** Increasing the share of in-season purchases helps brands control inventory levels. Other mechanisms such as "test and react" and "on demand" are also increasingly used by brands, enabling them to buy low quantities and test market reactions before reordering to reduce stock risk. In 2023, Asos announced its objective to scale "test and react" to 10 percent of its own-brand products.[20]

- **Network optimisation:** As supply chains become more complex, brands are looking to maximise efficiency in their network. Advanced analytics and digital twins can help model scenarios across channels. Hugo Boss plans to invest more than €150 million ($163 million) in digital intelligence by 2025 and reported inventory-to-sales ratios down 3.4 percentage points in the second quarter of 2024 compared to the same period a year prior.[21,22]

Fashion executives' top strategies for inventory optimisation in 2025, %



Source: BoF-McKinsey State of Fashion 2025 Executive Survey, affordable luxury and luxury companies only

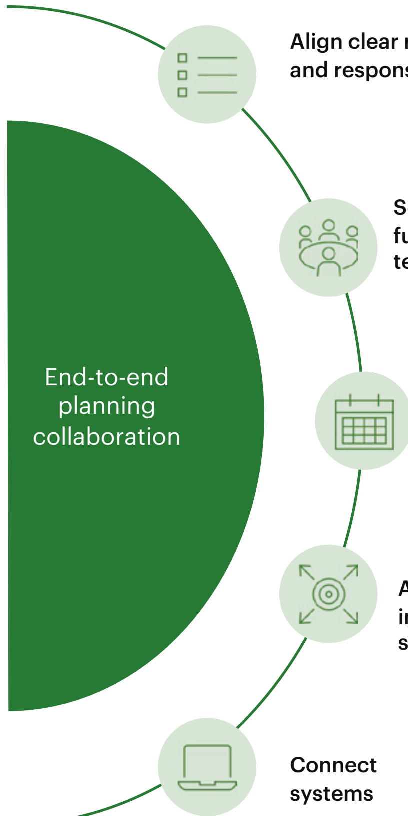
Achieving sustained impact will require end-to-end collaboration across the value chain

Traditionally, merchandising, sourcing, logistics and supply functions used isolated solutions to address inventory challenges. This has led to lost value due to inefficient handovers, opaque processes and limited data sharing across teams and channels.

Brands can no longer expect supply or store teams to resolve out-of-stock inventory. Instead, they must break down silos, collaborating and connecting decisions on assortment stock level across the value chain and through omnichannel optimisation.

An end-to-end transformation is estimated to yield 10 to 15 percent cost savings in retail, whilst implementing individual solutions across functions typically yields only 5 to 10 percent.[23]

Five levers to enable end-to-end planning collaboration



Align clear roles and responsibilities

Revisit decision rights to empower buyers, planners and inventory managers to rationalise inventory

Set up cross-functional teams

Set up an "inventory strike team" for faster, fact-based inventory interventions

Outline required preparation by function for cross-functional synchronisation of planning

Establish a clear review cadence

Ensure inventory performance is reviewed regularly in hindsight sessions

Institute a regular cadence of forecast accuracy and planning process improvement sessions

Align incentive structure

Revamp KPIs and incentive structures to account for inventory productivity and full price sell-through

Align planning targets across functions and channels

Connect systems

Establish a central control tower to act as the single source of truth, with full transparency into inventory position by SKU, location and channel

Brands must reflect this change through an updated operating model and a mindset shift

EXECUTIVE PRIORITIES

Embed processes and a cultural mindset that breaks down silos	Widen accountability for inventory levels	Leverage technology-enabled tools
Collaborate across the value chain, instilling a partnership mentality, working from a single source of truth (known as a "platform approach") and connecting decision making across functions. This will enable fact-based inventory interventions supported by central leaders with weekly meetings. Secure endorsement from senior leaders with influence across the organisation who can remove barriers to collaboration and set an example for the wider business to follow. Establish a cadence for fact-based problem solving to jointly resolve service and inventory issues, for example through nearshoring order allocation.	Align on organisation-wide goals, establishing inventory KPIs such as carrying cost, turnover, tracking and sell-through with accountability that is shared across the business and endorsed by leadership. Focus on return on investment rather than simply reducing costs. Endorse a mindset shift from a static (i.e. six- to nine-month lead) to dynamic buying approach that is always on and involves the whole business. Instil cultural confidence in data tools to inform decision making.	Take a customer-centric approach to the use of generative AI, machine learning and advanced analytics tools to stay closer to the realities of demand and increase the accuracy of advanced planning and scheduling systems. Prioritise data transparency and marry the data between retail functions, integrating multiple systems. Understand and identify existing data handovers and potential translation issues between systems or teams. Involve suppliers and be open to sharing insights and data with manufacturers to improve end-to-end visibility on early indicators of disruption.

10. The Sustainability Collective

Wind turbines. Justin Paget/Getty Images.

10. The Sustainability Collective Fragmentation and complexity across the fashion value chain, coupled with consumer reluctance to pay for sustainable products, are inherent barriers to reaching sustainability goals. But with decarbonisation efforts falling short of targets and the climate crisis accelerating, inaction is not an option. The fashion sector must act collectively to drive impact.

KEY INSIGHTS

- 63 percent of brands are behind on their 2030 decarbonisation goals.
- Only 18 percent of fashion executives consider sustainability a top-three risk for growth in 2025, compared to 29 percent for 2024, despite acceleration of regulatory reform across the industry.
- Apparel consumption is projected to rise by 63 percent to 102 million tonnes by 2030. If the industry continues its current trajectory, by 2050 it would use more than one quarter of the world's carbon budget.

EXECUTIVE PRIORITIES

- Set a "dual mission" to commit to sustainability initiatives while also addressing profitability through collective industry action.
- Consolidate and support suppliers by reaching "critical mass" volumes and strengthening strategic relationships, aligning incentives to shared decarbonisation roadmaps.
- Partner with leading traceability and impact-measurement providers for granular data that creates visibility across the value chain and enables clear, attainable targets to be established.

Complexity, fragmentation and consumer sentiment are barriers to sustainability targets

PERCEIVED ECONOMIC AND OPERATIONAL COMPLEXITY

>$1 trillion

required investment in the global fashion supply chain to achieve decarbonisation

Decarbonisation of fashion's supply chain could cost $1 trillion, but it is likely more economically viable than executives think.[1] Yet factors mask this reality:

- 70 percent of fashion emissions occur upstream, yet suppliers struggle with the upfront costs of decarbonisation initiatives due to tight margins and high financing costs.[2]
- Cost-effective levers (e.g. energy efficiency) typically involve significant collaboration and shifts in business operations that can leave suppliers exposed to risks such as slower lead times and adjustments to order volumes.
- Competing business priorities are often prioritised over sustainability initiatives that are comparatively difficult to measure in terms of impact and return on investment.

FRAGMENTATION OF SUPPLIERS AND BRANDS

>60%

of global apparel production is conducted by small- and medium-sized suppliers

The fashion value chain spans thousands of players with limited integration. This restricts the impact of investment and makes charting an optimal, cost-effective path to decarbonisation inherently complex:

- There are over 300,000 fashion brands worldwide, each representing no more than 3 percent of total industry sales.[4]
- Meanwhile, approximately 60 percent of global apparel production is conducted by small- and medium-sized suppliers, who may struggle with uncertain volume commitments, and competing sustainability initiative requests from brands. Similarly, they often lack the credit and guarantors to secure funding.[3]

DISCONNECT BETWEEN CONSUMER ACTIONS AND VALUES

>50%

of UK consumers who state they avoid fast fashion have also purchased from a fast-fashion retailer in the last 12 months

There is an "action-intention" gap when it comes to consumers and sustainable fashion. While 46 percent of UK shoppers say they avoid buying fast fashion, more than half made a purchase at a fast-fashion retailer in the past year.[5]

- Consumers' willingness to pay a premium for sustainable goods remains unclear. In the US and UK, for example, 61 percent of consumers rank price as a more important consideration than sustainability in fashion purchases.[6]

This places the onus on brands to actively engage and educate consumers to ignite demand for sustainable products. With the exception of a handful of brands, the industry has yet to unlock a marketable, at-scale value proposition for sustainable fashion.

As a result, brands, suppliers and innovators are struggling to make progress

Brands are deprioritising sustainability and scaling back their commitments
63 percent remain behind on their sustainability commitments.[2] Yet only 18 percent of fashion executives rank sustainability as a top three risk to growth in 2025, compared to 29 percent for 2024.[7]

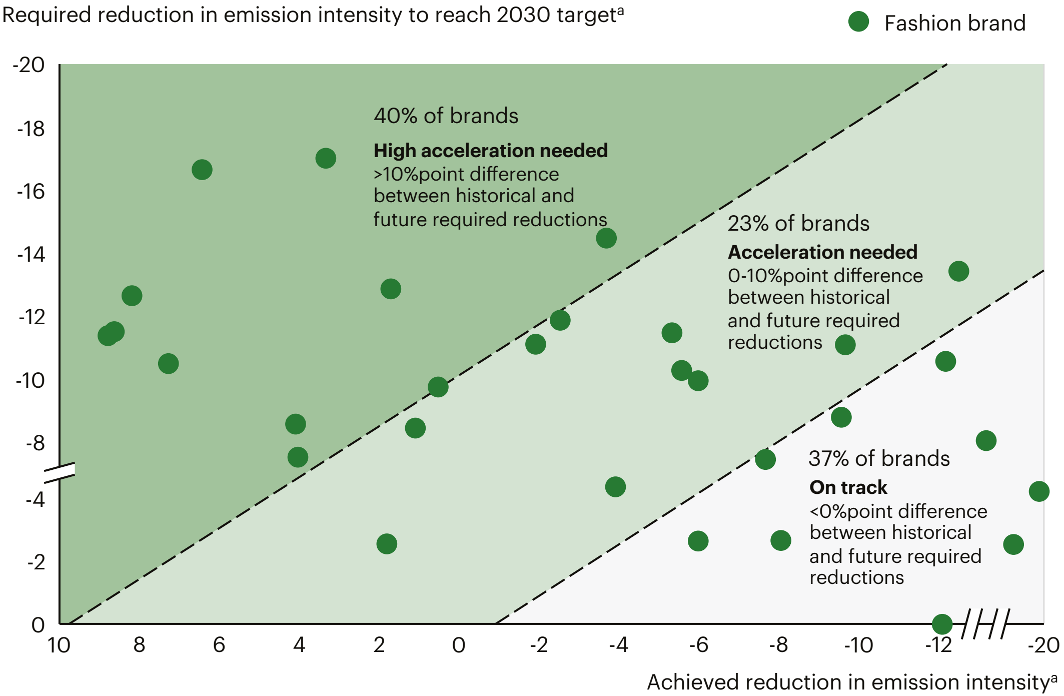
Many fashion brands are scaling back their commitments, for example by pushing back or dropping their net zero targets.[8]

Suppliers are also deprioritising sustainability
Over 40 suppliers have failed to meet commitments to set science-based sustainability targets, largely due to feasibility and high costs.[9]

Sustainable innovations are struggling to scale
Swedish textile recycler Renewcell filed for bankruptcy in February 2024. It has since been refinanced and renamed Circulose by Altor Equity Partners with a focus on scaling the compelling technology with new financing and support.[10 11] Similarly, Bolt Threads paused operations of its leather-alternative Mylo, backed by Stella McCartney and Adidas in June 2023.[12] Both reported difficulties securing sufficient financing and volumes required for scale.

Other sustainable material players, such as TomTex, are now seeking partnerships outside of fashion to secure larger order volumes.[13]

Yearly reduction in scope-three emission intensity across the fashion industry by brand, %



a. Measured in emissions per unit of activity by using revenue data. Future revenues are forecasted based on historic growth rate from 2017-2022. Companies with historically low growth rates (<3%) are assumed a growth rate of 3%, medium growth firms (<7%) are assumed a growth rate of 5% and companies with historically high growth rates (>7%) are assumed a growth rate of 7%
Note: Sample includes fashion brands and retailers in the CDP database with revenue >$1 billion. 25 companies have 2030 as the target year and the remaining five companies have the target year between 2028 and 2032
Source: Annual reports; sustainability reports; CDP reports; McKinsey Corporate Performance Analytics

Inaction is not an option. The fashion industry can focus on cost-effective decarbonisation

Brands must consider swift action

By 2030, global apparel consumption is projected to rise by 63 percent to 102 million tonnes. On this trajectory, by 2050 the apparel industry would represent more than one quarter of the world's carbon budget.[14] Similarly, regulation such as the EU Strategy for Sustainable and Circular Textiles signals a shift away from voluntary action, with potential financial penalties for non-compliance.

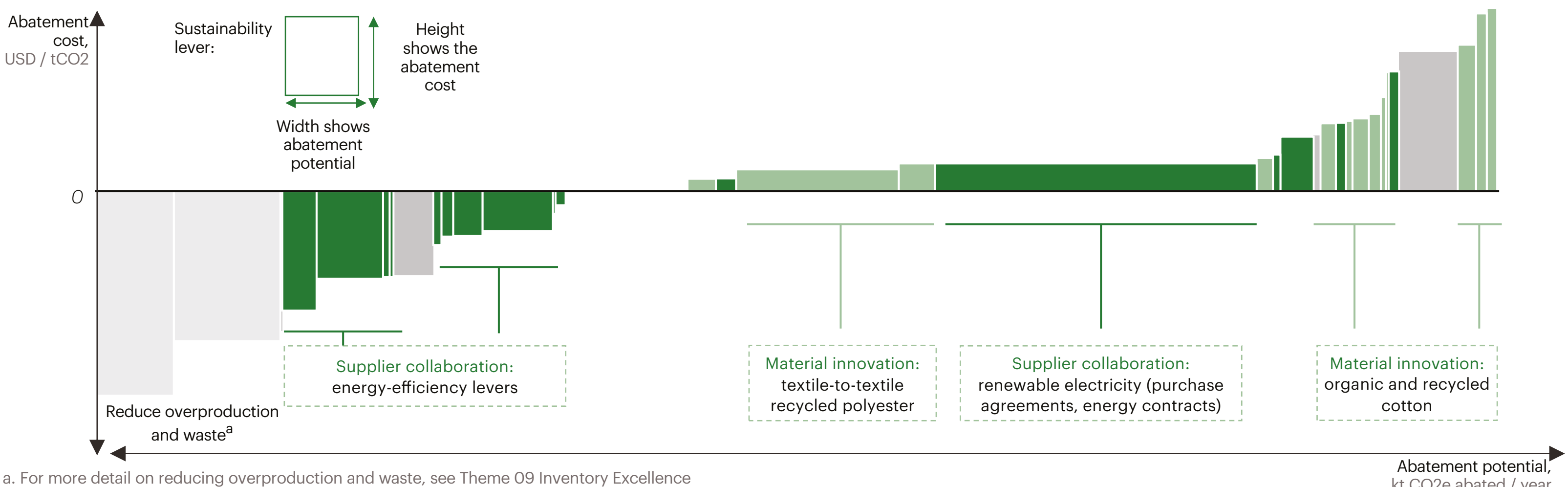
Brands must consider their role as value chain orchestrators, acting collectively to fast-track critical mass and scale while sharing costs and risks among players.

Brands can explore cost-effective decarbonisation

Contrary to common perception, implementing sustainability levers can drive cost-efficiencies and up to 50 percent of tier-two emission abatement can be cost neutral.[15]

Brands can achieve dual savings across emissions and costs. For example, collaborating with suppliers on low-cost energy efficiency levers can offset more expensive initiatives such as sustainable material innovation. Additionally, reducing waste and overproduction can be achieved through effective inventory management. For more detail, see theme 09 Inventory Excellence.

Marginal abatement cost curve (MACC) for large fashion players



a. For more detail on reducing overproduction and waste, see Theme 09 Inventory Excellence
Source: McKinsey analysis, expert interviews, research papers

Long-term brand-supplier collaboration is an integral part of reducing industry emissions

Tier-two production, the stage in which fabrics are produced and treated, accounts for between 45 and 65 percent of fashion's scope-three emissions.[16] Yet 75 percent of fashion brands fail to involve suppliers in their sustainability initiatives.[17] Driving decarbonisation is a long-term, complex process where the onus often falls on suppliers to fund and execute initiatives. While examples of collective action are emerging, more brands will need to participate to drive meaningful scale:

- **Consolidate and partner on strategic commitments:** Fashion brands can focus on fewer supplier relationships, consolidating sourcing to reach critical mass. Doing so helps brands influence and support their suppliers' sustainability and operational improvements. Brands should focus on their top 60 to 80 percent of supplier volumes, either in core or high-volume categories.

- **Embrace long-term commitments to suppliers:** To justify the upfront implementation cost and complexity of sustainable practices, brands should enter long-term strategic commitments with suppliers through volume offtakes, lead-time extensions and short-term price premiums.

- **Collectively address industry bottlenecks:** Brands can play an active role in reducing implementation barriers, such as engaging financial institutions to provide suppliers with interest-free loans or discounting future orders. Similarly, brands can collaborate with suppliers and policy makers to identify high-priority levers and educate suppliers on best practices related to energy efficiency, effective planning and partner collaboration.

H&M Group, Bestseller and CIP

H&M Group, Bestseller and Copenhagen Infrastructure Partners (CIP) announced plans to develop the first offshore wind project in Bangladesh to power manufacturers in the region with renewable energy. The project is forecast to cut emissions by around 725,000 tonnes annually and support the country in its goal of supplying 40 percent of the nation's power through renewable sources by 2041.[18]

Future Supplier Initiative

The Future Supplier Initiative, announced in June 2024, aims to bring down the cost of financing for decarbonisation projects by having brands help underwrite the debt their suppliers take on. This is facilitated by the Fashion Pact, in partnership with Apparel Impact Institute, Guidehouse and DBS Bank. The initiative aims to match projects with the highest potential for impact, identifying common factory units, interventions and costs, to enable a global and regional joint effort between fashion brands.[19]

PVH Corp.

PVH Corp. teamed up with Standard Chartered Bank and HSBC Bank USA to create a new financing programme for suppliers that exceed PVH's Human Rights and Environmental Supply Chain standards, offering favourable trade finance options and discounted financing to incentivise sustainability projects.[20 21]

Brands can create favourable conditions for sustainable-material innovators to scale

In recent years, several sustainable-material start-ups have emerged, demonstrating transformative technologies and clear value propositions. But few have succeeded in reaching scale and significantly reducing fashion's use of emissions-intensive materials.

Brands must de-risk the commercial prospects for new business building. Those that do so will not only accelerate emission abatement but also secure early-mover advantage through access to sustainable materials at lower prices than peers:

- **Place fewer, bolder investments:** Brands should take a more focused approach to backing material innovation, making larger investments that provide start-ups with the capital to scale operations and meet the capacities required for an industry transition.
- **De-risk the commercials:** To provide start-ups with the runway needed to scale and become cost-competitive, brands can offer funding options directly, through debt financing for example, or indirectly, signalling clear demand through off-take agreements and multi-year arrangements.
- **Build material-innovation muscle:** Brands must develop an in-house understanding of the technicalities and economics of adopting new materials. To do so, they must adjust business processes such as absorbing short-term increases in material costs and managing volumes through phased introduction.

H&M Group and Syre

H&M Group and Vargas Holding launched Syre, a new venture to scale textile-to-textile polyester recycling in March 2024.[22] Syre is backed by private equity and venture capital firms TPG Rise Climate, Giant Ventures and Norrsken, and closed a $100 million Series A funding round in May 2024.[23]
H&M secured an off-take agreement with Syre worth $600 million over a seven-year period, covering a significant share of H&M's long-term need for recycled polyester. The objective of this agreement is to rapidly scale the technology. Meanwhile, Syre announced plans to open two large recycling plants in Iberia and Vietnam as part of a broader plan to have 12 production plants at full speed worldwide by 2032.[23]

Inditex and Ambercycle

As part of its effort to reach 25 percent next-gen materials by 2030, Inditex announced a three-year partnership with Ambercycle to help scale its textile-to-textile recycled polyester. The partnership, announced in 2023, includes a purchase commitment whereby Inditex will purchase 70 percent of Ambercycle's production, supporting the company to scale and construct its first commercial factory, which is expected to start production in 2025.[24 25 26]

Brands can reignite progress if they focus on working with the broader fashion ecosystem

EXECUTIVE PRIORITIES

Commit to sustainability initiatives	Rethink long-term supplier contracts	Get granular on data
Adopt a "dual mission" addressing profitability and sustainability together while collaborating with stakeholders to commit to emission abatement initiatives. Brands and manufacturers can cost-effectively reduce their emissions through joint investments. Shift towards an action-oriented, collective model, sharing best practices on supplier decarbonisation and financing solutions that can meaningfully scale initiatives and reduce financial risk. Commit to commercialisation — the stage between development and widespread availability. This helps solutions avoid getting stuck sub-scale, while also capturing first-mover advantage and maximising potential.	Embed new processes for supplier sourcing, creating a collaborative model for working with tier-two suppliers. Ensure adherence to decarbonisation plans through aligned incentives and commercial contracts. Use marginal abatement cost curves (see page 125) to identify and prioritise sustainable initiatives in conjunction with suppliers. Consolidate suppliers to achieve critical mass without becoming overly reliant on any single supplier. Brands should independently select tier-one suppliers and work with suppliers to set stricter sustainability criteria for tier-two contracting with tier-one suppliers.	Partner with leading traceability and impact measurement providers and collaborate more closely with suppliers on data transparency. To set targets, suppliers need detailed data on their carbon emissions. Securing this data requires time, technology and know-how. Map the entire value chain — including tier-three suppliers, the first stage in the value chain that deals with raw material processing — to improve data visibility and quality. This work is critical for setting more attainable sustainability targets, prioritising and sequencing decarbonisation initiatives and measuring their impact.

McKinsey Global Fashion Index

High-street shoppers. Getty Images.

McKinsey Global Fashion Index The industry's economic profit continues to achieve record heights. However, market dynamics are changing. Whereas luxury players once led in value creation, non-luxury players are catching up. These shifts have made the gap between top- and bottom-performers the smallest it has been since 2011.

KEY INSIGHTS

- Economic profit (EP) grew 16 percent from 2022 to 2023 and is expected to reach record-high levels in 2024. That said, the 5 percent growth expected in 2024 is lower than the growth seen in 2023.
- While the luxury segment drove value creation in recent years, in 2024 EP for the segment is expected to fall for the first time since 2016 (excluding Covid-19) due to lower demand creating margin pressure.
- Following the shift in segment dynamics in 2023, in 2024 non-luxury is expected to generate more EP than any other segment since 2010 (excluding Covid-19) driven by efficient operations and customers trading down, with a 30-index point increase from 2023.
- Luxury margins are expected to drop 2 percentage points (%points) in 2024, while premium/bridge and mid-market segments are forecast to generate record-high margins.
- In the non-luxury segment, sportswear and mall brands show exceptional profitability and revenue growth, while pure online marketplaces are narrowing their EP losses.
- Between 2022 and 2024, the top 20 percent of players are expected to lose 13%points in value, while the bottom 20 percent gain 13%points, closing the gap between players.
- Luxury leads the Super Winners list, based on performance in the last full year. New entrants include Deckers, Mexican department store operator El Puerto de Liverpool and Moncler. Further reshuffling is expected by the end of 2024.

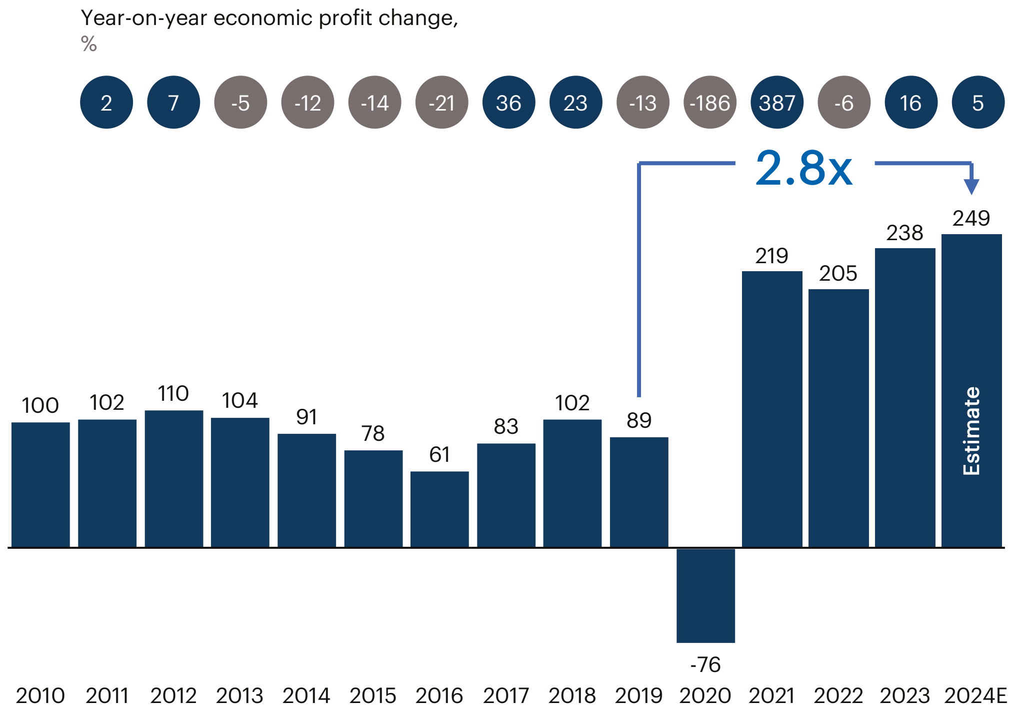
The industry is expected to post record economic profit in 2024

The McKinsey Global Fashion Index (MGFI) uses data from 400 public companies to track the fashion industry's most important segments, product categories and markets. It measures financial growth and value creation through economic profit (EP), calculated as the difference between a company's adjusted operating profit (minus taxes) and its cost of capital. EP also reflects value created over time, allowing the index to gauge how much a company invests to generate its results.

In recent years, companies have shifted their focus from topline growth to profitability, leading to significant margin improvements. As EP is highly sensitive to margin gains, which are twice as important as capital turns in shaping the EP trajectory, these margin improvements have resulted in disproportionate value creation.

In 2023, a 0.5 percentage point (%point) margin improvement and 4 percent revenue growth led to a 16 percent EP increase for the industry. The trend is expected to continue in 2024, with EP estimated to grow 5 percent, driven by a 0.2%point margin boost and 3 percent revenue growth. Additionally, given the improved capital intensity compared to 2019, EP is expected to stabilise at 2.8x pre-Covid levels.

Total economic profit (EP) development,
Index (2010=100)



a. Based on H1 actuals (for 65 percent of companies) and H2 analyst consensus
Source: McKinsey Global Fashion Index

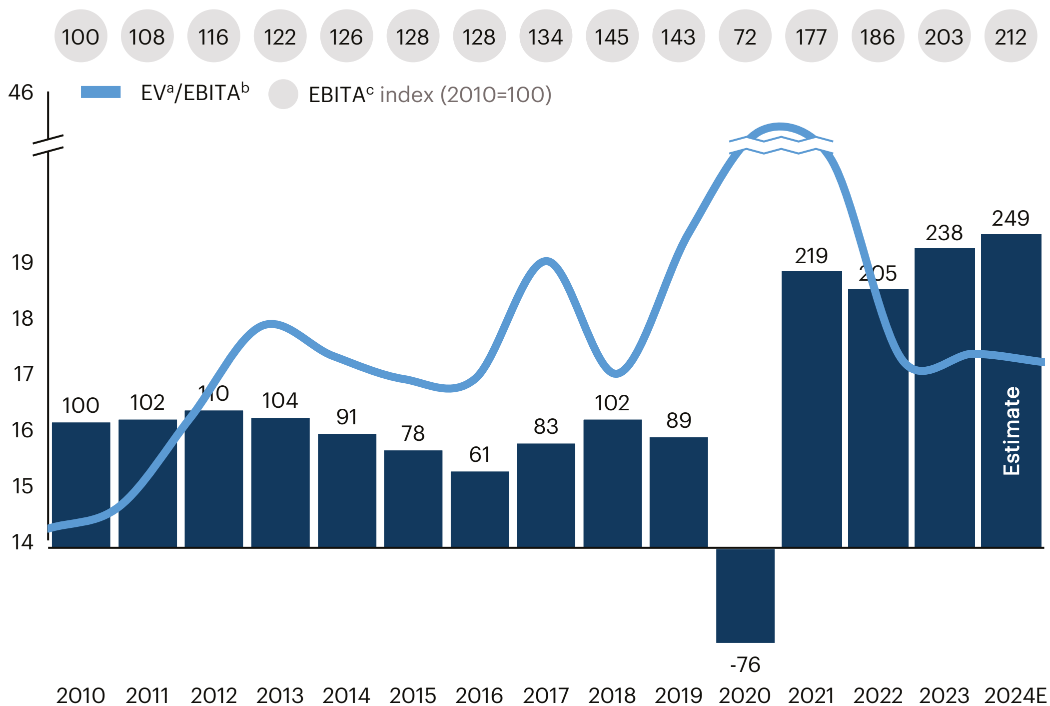
However, record-high EP is not enough to allay investor uncertainty which drives lower valuations

Profitability improvements that have driven record-high EP in the fashion industry have met investor expectations. However, the share of the valuation driven by future profit expectations has fallen, shedding light on investor uncertainty about the industry's future value creation opportunities.

To regain investor confidence, companies will need to create compelling strategies and brand narratives aligned with achieving sustainable growth.

Luxury has already started to show signs of this. After peaking in 2020, luxury enterprise value is trading slightly higher in 2024 than 2022 (with an enterprise value to EBITA ratio of 19.2 vs 18.0 in 2022),[d] due to current slower growth and anticipated future value. Non-luxury valuations continue to decline, reaching the lowest multiples since 2012 (15.9 in 2024 vs 16.8 in 2022).

Total economic profit (EP) development,
Index (2010=100)



a. Enterprise value (EV). 2024 value is for calendar year, the rest fiscal years of companies
b. EV/EBITA is a financial ratio that compares a company's enterprise value (EV) to its earnings before interest, taxes and amortisation (EBITA), used to evaluate a company's valuation and profitability
c. Earnings before interest, taxes and amortisation
d. Based on H1 actuals (for 65 percent of companies) and H2 analyst consensus
Note: Luxury includes luxury and affordable luxury, non-luxury includes premium/bridge, mid-market and value/discount segment
Source: McKinsey Global Fashion Index

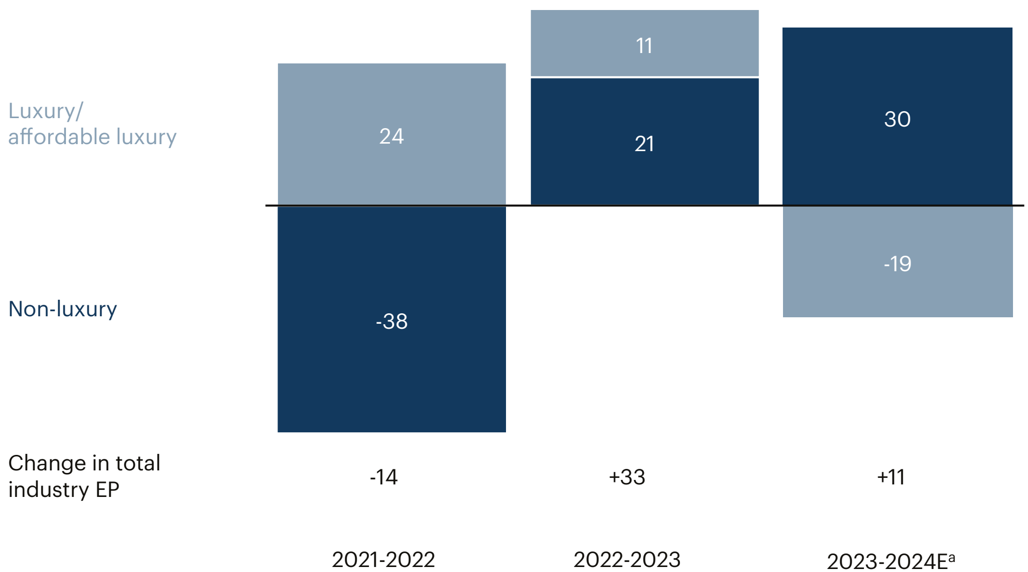
The non-luxury segment is expected to buoy EP, marking a shift in industry dynamics

Between 2021 and 2022, luxury alone contributed to the fashion industry's growth in economic profit. The segment achieved this growth in part due to price increases. Other segments dragged industry EP down.

In 2023, this dynamic began to change. Non-luxury drove the lion's share of value creation, while luxury only accounted for 11 points out of the total 33-point increase in the industry's EP index.

This shift is expected to continue in 2024. Luxury is expected to create less value than the previous year for the first time since 2016 (excluding Covid-19). Meanwhile, non-luxury is expected to contribute more value — an expected 30-index point increase in economic profit — than any segment since 2010 (excluding Covid-19).

Change in industry EP by value segment contribution, 2021-2024E,
Index (2010 industry EP=100)



a. Based on H1 actuals (for 65 percent of companies) and H2 analyst consensus
Note: Luxury includes luxury and affordable luxury, non-luxury includes premium/bridge, mid-market and value/discount segments
Source: McKinsey Global Fashion Index

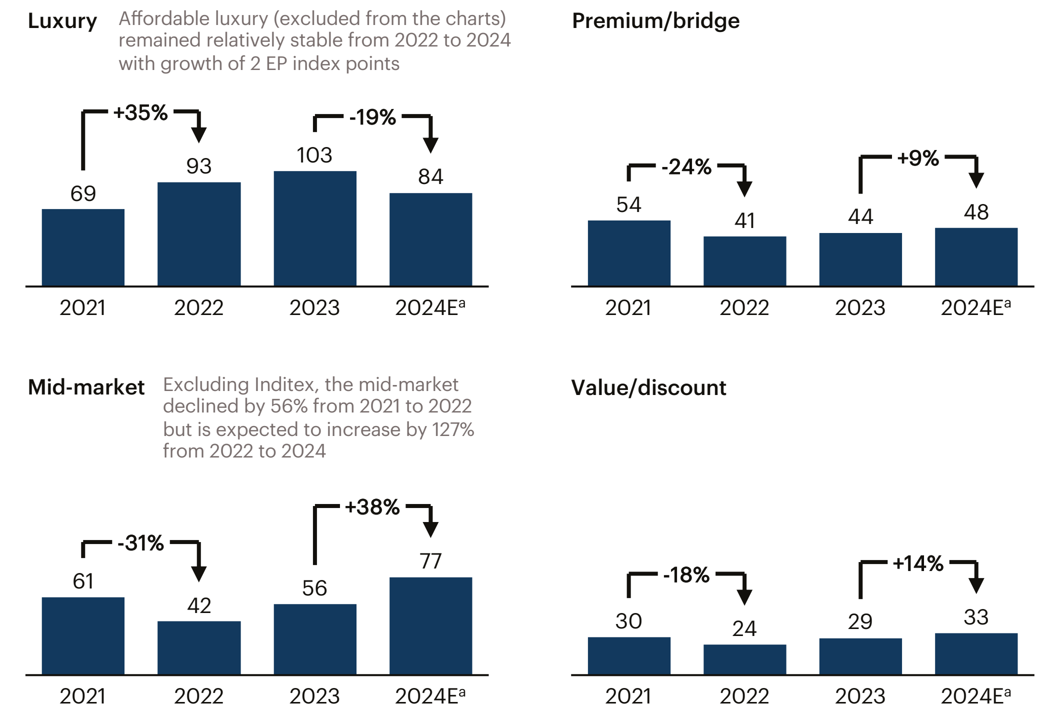
Consumer downtrading is driving non-luxury, while pricing and demand is challenging luxury

After years of raising prices, luxury players can no longer pull this lever without negatively impacting demand. Some players have opted for more promotions, which has compressed their margins. Overall, the segment also saw one of its key growth engines, mainland China, sputter, as consumer confidence in the region has dropped.

Fashion customers consistently adopt cost-conscious shopping behaviours, with 64 percent of US shoppers trading down in the third quarter of 2024. Over 70 percent of customers plan to purchase from outlets or off-price retailers in the next 12 months, even if their discretionary budget increased, according to the BoF-McKinsey State of Fashion 2025 Consumer Survey.

As non-luxury companies continue to focus on cost cutting and operational gains, profitability is expected to improve, particularly in the mid-market.

Total economic profit (EP) by value segment,
Index (2010 industry EP=100)



a. Based on H1 actuals (for 65 percent of companies) and H2 analyst consensus
Note: Examples of companies in each segment: luxury: LVMH, Hermès, Richemont; affordable luxury: Tapestry, Ralph Lauren, Hugo Boss; premium/bridge: Nike, Abercrombie & Fitch, Lululemon; mid-market: Inditex, Fast Retailing, Dick's Sporting Goods; value/discount: TJX and Ross Stores
Chart totals do not add up to total industry EP as the affordable luxury segment is excluded from the charts but included in the total industry EP
Source: McKinsey Global Fashion Index

Cost cuts and operational gains have raised non-luxury margins, while luxury margins declined

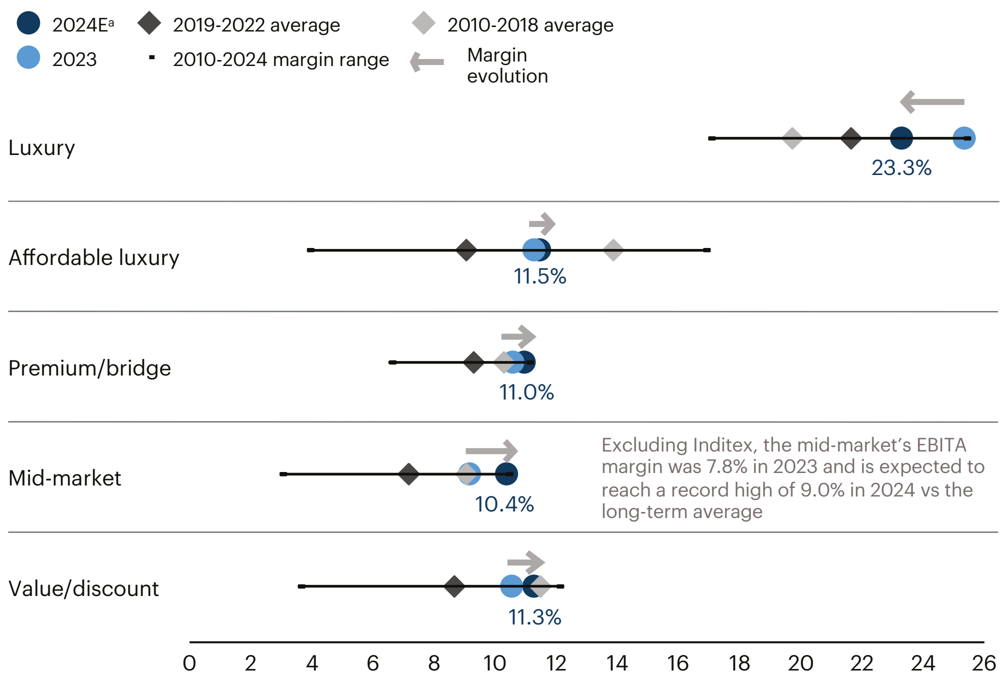
Luxury segment EBITA margins are expected to fall by 2 percentage points between 2023 and 2024. However, margins are expected to remain higher than other segments.

A focus on profitability has led non-luxury players to reduce costs and streamline inventories. This has allowed the premium/bridge and mid-market segments to reach record-high margins in 2023, with more growth expected in 2024.

- Inditex reduced its inventory by 7 percent in January 2024 compared to 2023, driven by robust operating performance and normalisation of supply chain conditions.[1]
- Levi Strauss & Co. identified $100 million in cost savings for 2024 from its productivity initiative "Project Fuel," focused on optimising the operating model and business processes.[2]
- Zalando grew its margins to 6.5 percent in the second quarter of 2024, in line with its adjusted EBIT margin goal of 6 to 8 percent by 2028, up from 3.5 percent in 2023.[3,4]

The affordable luxury and value/discount segments are expected to see margin growth, but margins will remain below their historical peaks.

EBITA margin by value segment, %



a. Based on H1 actuals (for 65 percent of companies) and H2 analyst consensus
Source: McKinsey Global Fashion Index

23 percent of luxury players expect to generate more EP in 2024, driven by revenue gains

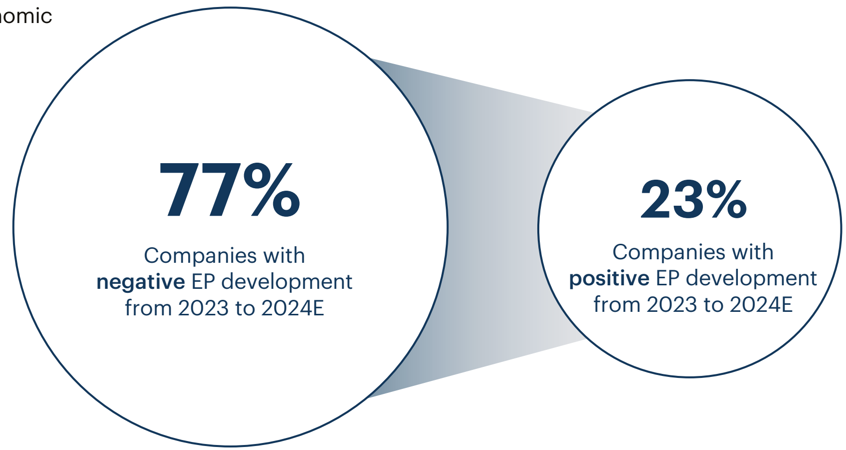
In 2024, the luxury segment started to navigate challenges and uncertainties as the post-pandemic spending surge slowed.

Companies responsible for 77 percent of the segment's economic profit are projected to experience negative EP growth from 2023 to 2024, due to plateauing revenues and reduced EBITA margins for some of the groups' brands.

The companies responsible for the other 23 percent of segment profit will see positive EP growth, though this growth is only 7 percent year on year, not nearly enough to offset the segment's EP losses. This smaller group is growing EP by increasing revenues, but margins remain flat. Because EP is more sensitive to margin improvements than revenue growth, this means overall EP growth will be modest.

Luxury companies split by estimated EP development, 2023 vs 2024E[a b]

Companies' total share of luxury economic profit, 2023



	Negative EP development	Positive EP development
EP development	↓ -26%	↑ 7%
Percentage point change in EBITA margin	↓ -2	– 0
Revenue growth	↑ 1%	↑ 8%

a. Based on H1 actuals (for 65 percent of companies) and H2 analyst consensus
b. McKinsey Global Fashion Index analyses group performance, not brand performance
Source: McKinsey Global Fashion Index

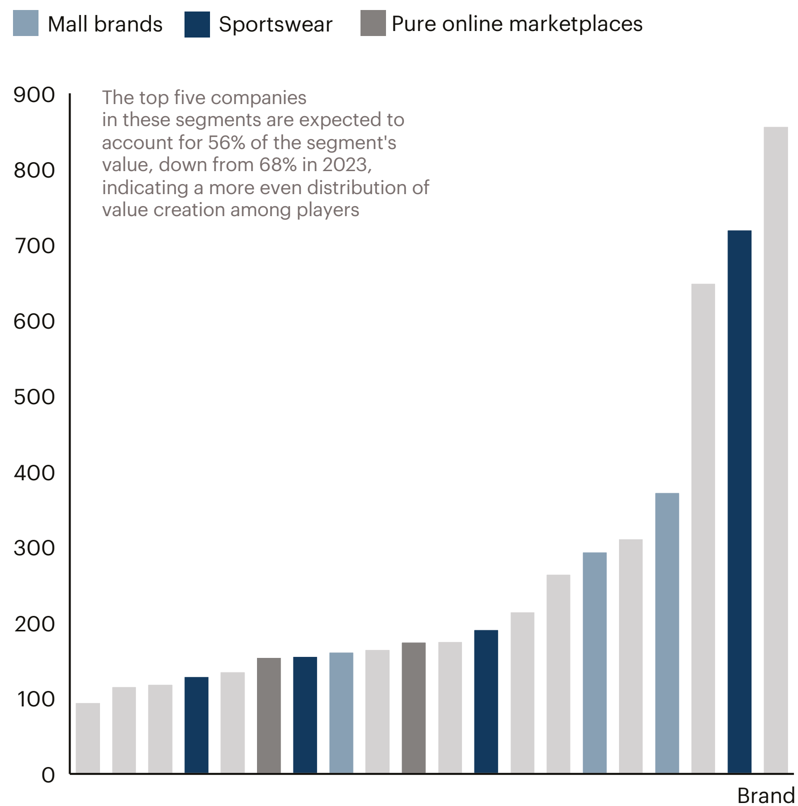
In non-luxury, value creation will be more evenly distributed across the segment

In 2024, the premium/bridge, mid-market and value/discount segments are expected to dial up value creation by focusing on profitability. As consumers continue to trade down, these players' revenues are expected to increase as well.

Segment "Super Winners" such as Inditex, Fast Retailing and TJX have seen continuous EP growth for the last five years and are expected to continue driving a large share of EP. However, other players in the segment are also expected to improve their performance, contributing to more evenly distributed value creation across the segment:

- **Mall Brands** such as Abercrombie & Fitch, American Eagle and Gap are starting to see the outcome of their transformation efforts, which are expected to positively impact their EP trajectory in 2024.
- **Sportswear** challengers such as Hoka (owned by Deckers) and Salomon (owned by Amer Sports) are outperforming incumbents such as Nike and Adidas in EP and are expected to account for more than half of the sportswear segment's EP for the first time in 2024.
- **Pure online marketplaces** have faced market disruptions and experienced their largest value loss since 2010, with $700 million destroyed in 2023. However, a focus on profitability has started to show early improvements in EP growth, with the destroyed value expected to decrease to $400 million in 2024.[a]

EP change, 2023 vs 2024E,[b] top 20 premium/bridge, mid-market and value/discount companies, USD (millions)



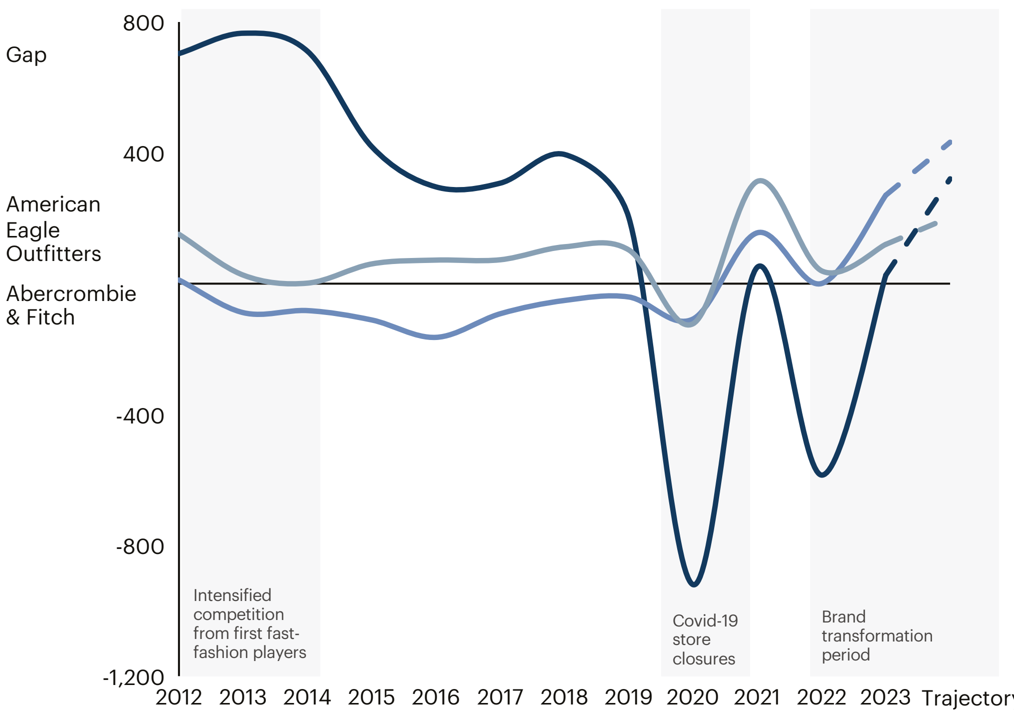
a. Includes European players only
b. Based on H1 actuals (for 65 percent of companies) and H2 analyst consensus
Source: McKinsey Global Fashion Index

Mall brand turnarounds are expected to be one of the EP growth drivers in the non-luxury segment

After facing Covid-19 store closures and competition, surviving mall brands have undergone brand transformations in a bid to generate robust profitability. Their performance in the last year has sparked investor confidence. From January 2023 to September 2024, these brands ranked among the top 50 brands by average total shareholder return out of approximately 400 publicly listed companies in the fashion value segment.

- **Gap is revamping its image under new leadership** by offering trendier, higher-quality and better-fitting products. Old Navy's success is also contributing to the company's positive trajectory.[5]
- **American Eagle Outfitters is regaining momentum** with streamlined operations, a focus on Millennial customers and vertical integration of the supply chain. Three-year targets are $5.7-6 billion in revenue (up from $5.3 billion in fiscal 2023), at a 10 percent margin (up from 7 percent).[6 7 8]
- **Abercrombie & Fitch is targeting a broader audience from Gen-Z to Millennials** with improved quality and inclusive marketing. The company achieved annual net sales growth of 21 percent in the second quarter of 2024 and met its operating profit goal of 15.5 percent.[9 10]

Economic profit development and trajectory for select brands, 2012-2023, USD (millions)



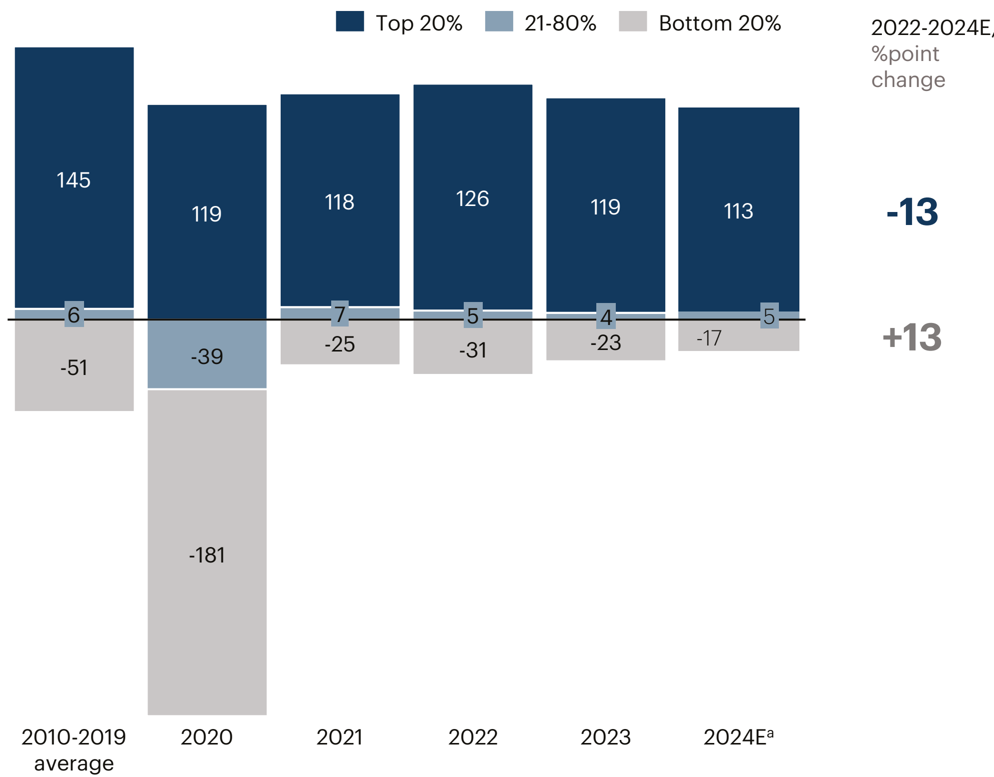
Note: Trajectory based on company statements and Q1/Q2 2024 results
Source: McKinsey Global Fashion Index, company statements and Q1/Q2 2024 results

The gap between top- and bottom-performing brands is the smallest it has been since 2011

Bottom performers are destroying less value than previous years — in some cases, they are even becoming value creators. At the same time, top performers, especially in luxury, are experiencing EP declines.

- The contribution to EP by the top 20 percent of companies is expected to decrease by 13 percentage points(%points) from 2022 to 2024. Luxury accounts for most of this drop.
- The contribution to EP by the bottom 20 percent of companies is expected to increase by 13%points, largely driven by the success of the premium/bridge and mid-market segments.

Fashion companies' contribution to industry economic profit by ranked quintile, %



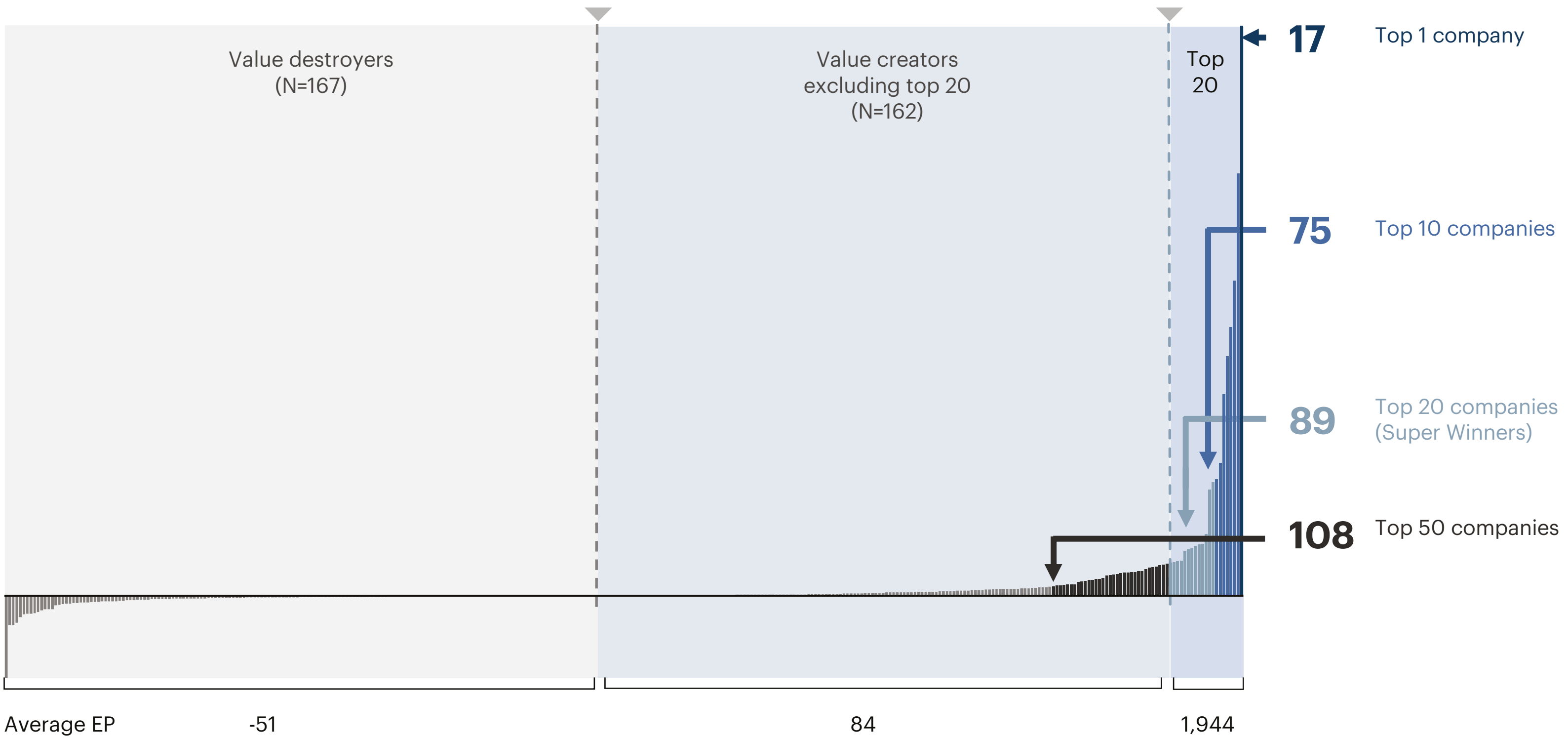
a. Based on H1 actuals (for 65 percent of companies) and H2 analyst consensus
Source: McKinsey Global Fashion Index

BoF McKinsey & Company

However, top-performing companies are still expected to create most of the industry's value

Economic profit (EP) power curve, 2024E,[a]
USD (millions)

EP contribution,
%



a. Based on H1 actuals (for 65 percent of companies) and H2 analyst consensus
Source: McKinsey Global Fashion Index

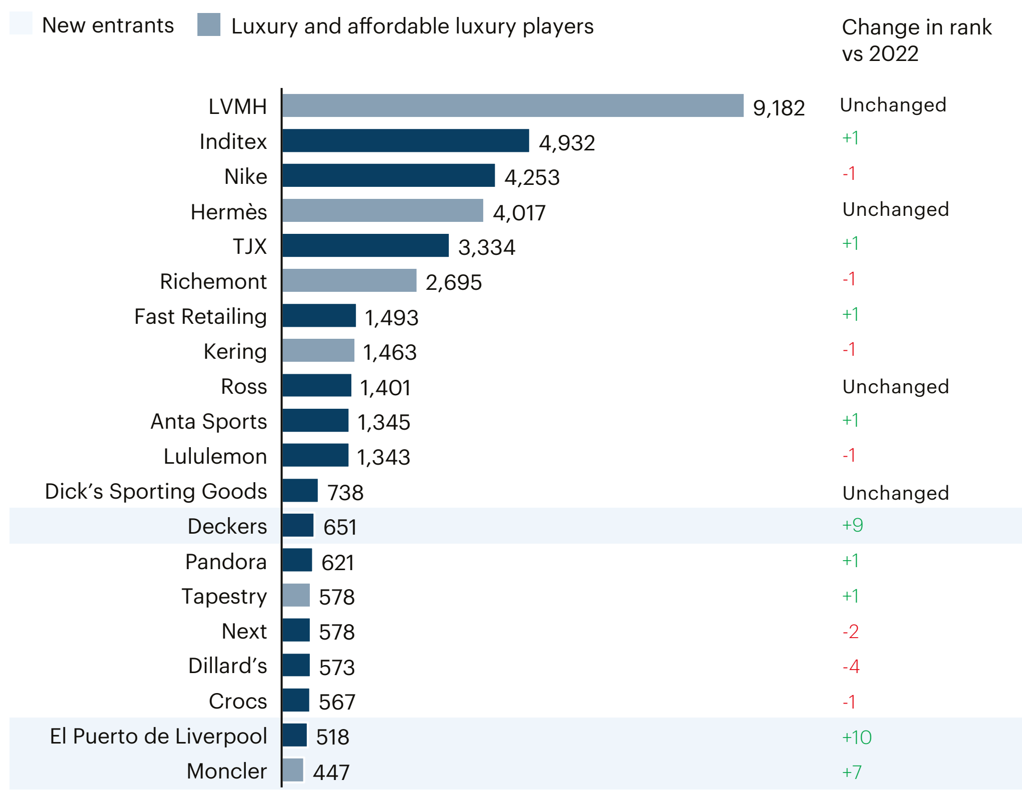
Luxury tops the Super Winners list, while sportswear and department stores shift places

The latest full-year 2023 list of Super Winners shows that luxury players drove most of the economic profit (EP) in 2023. LVMH drove just as much EP as the next two players combined. A reshuffling among sportswear brands and department stores brought new entrants to the list while ousting others.

- In the luxury segment, Moncler entered the list for the first time. LVMH hit record EP levels in 2023 and represented 22 percent of the industry's total value.
- In sportswear, Deckers, parent of challenger brand Hoka, made its debut, while Nike and Lululemon dropped by one place each. JD Sports fell out of the top 20 for the first time since 2019.
- US department store Dillard's dropped four spots and Macy's fell off the list. Meanwhile, Mexican department store El Puerto de Liverpool entered the list, becoming the first-ever Latin American company to be featured.

In 2024, further reshuffling is expected as premium and mid-market brands gain traction, sportswear challengers keep growing and dominant luxury players continue to struggle.

Top 20 players by economic profit, 2023,
USD (millions)



Source: McKinsey Global Fashion Index

L Catterton: Finding Value in a Tough Market

Nikhil Thukral, managing partner at the LVMH-affiliated private equity fund, talks about the ingredients of winning companies, the dynamics challenging fashion's incumbents and how economic shifts are shaping investor strategies.

BY MARC BAIN

How consumers spend their money is a topic Nikhil Thukral and L Catterton watch closely.

The large, consumer-focused private equity fund, which has close ties to LVMH and where Thukral serves as managing partner, regularly tracks nearly 100,000 shoppers online as well as data such as brand awareness and loyalty metrics to determine how well its portfolio companies and their competitors are resonating with shoppers. The information helps L Catterton understand whether customers will keep returning to a brand, despite any economic ups and downs and swings in the market.

What the firm is looking for is long-term value. Among the fashion names in L Catterton's expansive stable, which ranges from hospitality to consumer-packaged goods, are Birkenstock, which went public in 2023, and fast-growing labels such as Ganni. To Thukral, value doesn't just mean brands with top-line growth but also a clear identity and pricing power that can drive margins and profitability.

These qualities are set to play a major role in separating leading companies from laggards in 2025, perhaps especially in luxury, where a slowdown is weighing on the sector. At the same time, competition outside of luxury is only growing fiercer as categories such as sportswear see a rise in challenger brands putting pressure on incumbents. With central banks once again cutting interest rates, investors will have opportunities — if they know where to look.

Over the past few years, we've seen changes in what investors prioritise in companies. Profitability has become more important, for example. What will brands need to prove to investors in 2025 to win their backing?
I will tell you our perspective: First and foremost, it's not that you need to be profitable, it's that you need to have a very strong profit formula in the business. We look at that in terms of gross margin. You need to be able to understand 'why does the business command that gross margin and can it continue to do that?' In other words, does the brand have pricing power, and if so, why and how.

The opposite is the watchout. How much of the brand proposition is sold on discount? Through what outlets are you selling it? As an investor, it's not just looking at profitability and EBITDA. It's looking at the resonance of this brand.

What characterises winning fashion companies?
'Fashion' is a loaded term, because it can imply a degree of following trends, and trends can be very difficult to call. What wins in fashion in particular is a clear understanding of your consumer, who you're targeting and why you're targeting them, where you fit into their world and what [you are] offering them.

Second, the ability to be able to define and be true to your DNA. There are great brands in fashion who are building a beautiful product, but that product isn't necessarily tied into the DNA of the brand, so consumers have a difficult time identifying how this fits in with what you are about.

Luxury had been fashion's big value creator, but it slipped this year. Do you believe that's purely due to macroeconomic factors, or is the consumer's view of luxury changing?
Depending on which cohort, there may be an indexing of spend that goes more towards experiences rather than product. In other cases, the dynamic is different. China is going through its first period of [its growth rate] and demand decreasing. As that's happening, the Chinese consumer is doing exactly what every other consumer does — they think about their balance sheet, and they are deferring whatever they can.
At the end of the day, luxury has a fundamental place in existence. For millennia, people have thought about their place in society based on what high-badge products do in terms of conferring that. The basic need we don't think goes away.

In sportswear we've seen the rise of challenger brands successfully chipping away at the dominance of incumbents. Is that unique to sportswear, or is that something you see happening in other categories?
You see it happening in other categories as well. In my opinion, it's lent itself well to sportswear because there's so much usage and the category was rising, so it's not atypical that, when you have that happen and you've got a few concentrated players, you'll have new propositions arise, because the juice is worth the squeeze. There's a market opportunity. In other categories where you haven't seen that happen, it's more because, rightly, people are asking, 'Is the effort worth it? Is there enough tailwind in those subcategories?' If we were to look across other spaces, luxury and non-luxury, certainly at beauty and personal care, you'll see similar trends.

Do you have a sense of what's allowing challenger brands to compete against the incumbents?
Today, cohorts of consumers are consuming media from such fractionalised sources that you've got these tribes that emerge, and we live

"For millennia, people have thought about their place in society based on what high-badge products do in terms of conferring that. The basic need we don't think goes away."

in a world where technology has enabled brands to find and activate these tribes in a cost-efficient fashion, in digital in particular. So you can build a brand cost-effectively, there's a virality to the brand because you've got endorsements from existing customers and you can expand the brand to a level amongst these tribes in ways you couldn't before. What On has done against Nike in that space is a good example. It still has relatively low awareness but very strong traction amongst a particular consumer [demographic].

With banks now cutting interest rates, how do you expect that will change investor strategies?
Any time there are rate movements, it has the propensity to create a mispricing of risk. Sometimes a rise in rates can create opportunity, because businesses that otherwise are sound businesses end up becoming under-priced relative to their long-term potential. The converse is also true. As rates come down, the biggest risk we see is a tendency to paint everything with the same brush. Separating what's truly unique and differentiated from what is otherwise a rising tide and category, that's where the science comes in. We would look at this rate environment and say, generally, that's going to be good for investment. The watchout is you've got to be able to separate the wheat from the chaff.

Do you think we'll ever go back to the days of valuations like we saw with, say, Allbirds again, or are those days over?
I think the nature of what drove valuations is different. You were talking about a cohort, many of them going public with growth but not a business model or inherent profit formula that was enduring. Those days are gone. I think what it's going to turn to is, 'Okay, what's the nature of the business? What kind of profitability do you have? And can we believe that profitability is going to be sustainable?' That's, I think, where we see value move towards.


On advert. On.

Given the current market environment and the backlog of overdue exits, how do you see exit strategies playing out in the year ahead?
It's dynamic. On the positive side, there is a much more rational set of expectations between buyers and sellers now than three, four years ago. If you're a seller, you've been through some existential risk, including the pandemic, and maybe the world that you had and the valuations you had will never come back. You're more inclined to say, 'We should de-risk, when we can, at something reasonable.' That allows you to be able to transact between buyer and seller.

We also see more strategic activity. For the right brands, there will always be interest. In time, you will see financial sponsors come back into this category as well. There needs to be more category health, more predictable demand and you need to have more market participants here. But it will come back.

When you look to 2025, what are the big themes in consumer behaviour shaping the firm's investment strategy?
You have to know which segment, which price band, are you talking about, because they behave quite differently. We tend to focus on the top 30 to 40 percent of US households. That's where the disposable income is created. You contrast that with Asia, where you've got a rising middle class powering the consumer economy.

We will also continue to think very carefully around 'who is the consumer, where does this brand fit in, what's the emotional connection the brand has?' We're looking for things that are more than just functional in terms of why consumers buy. Everything has got to be supported by some sort of secular growth driver. We're not trying to time the economic cycle.

Are there any trends or shifts you think are under-appreciated by the market?
All cohorts of consumers, both older and younger, are increasingly valuing experiences over traditional asset accumulation. This is particularly true for the luxury consumer. We think about luxury travel, we've seen a lot of secular growth in those categories.

Two, I think as you're building brands today, the days of business models that were monolithic around trying to scale in digital and single-channel, increasingly we're seeing the need for distribution, omnichannel growth and development. Wholesalers are great partners and distributors. They help build awareness. They valorise your brand for you. We're coming back again to that world. There are parts of luxury that haven't needed to do that, because they already control the distribution. But we think for younger brands, as they grow and scale, particularly in luxury, you're going to need to get comfortable having a broader channel strategy.

This interview has been edited and condensed.

"All cohorts of consumers, both older and younger, are increasingly valuing experiences over traditional asset accumulation."

GLOSSARY

Action-intention gap
Disparity between an individual's expressed intentions and their actual behaviour or actions.

Analytics roadmap
A plan that outlines the implementation process for how an organisation will effectively manage, analyse, and use data to achieve its business goals.

APAC
Asia-Pacific, a geographical region that includes countries in East Asia, Southeast Asia and Oceania.

Artificial intelligence (AI)
Computer systems performing tasks by mimicking the problem-solving and decision-making capabilities of humans, often used to process large amounts of data for predictive purposes.

Average order value (AOV)
The average amount spent each time a customer places an order on a website or mobile app.

BoF-McKinsey State of Fashion 2025 Consumer Survey
A proprietary annual joint survey from The Business of Fashion and McKinsey polling consumers from the US, UK, France and China to understand consumer sentiment, purchase behaviour and brand attitudes. For the 2025 survey, 1,959 respondents took part between August and October 2024.

BoF-McKinsey State of Fashion 2025 Executive Survey
A proprietary annual joint survey from The Business of Fashion and McKinsey polling international fashion executives and experts about their business sentiment, investment plans and industry trends. For the 2025 survey, 345 respondents took part between August and October 2024.

Brand marketing
Marketing focused on top-of-funnel conversion, based on long-term strategies that involve continuously promoting a brand's story, identity and reputation through, for example, in-person events or ad campaigns.

Carbon budget
The total allowable amount of carbon dioxide emissions that can be released into the atmosphere over a specific period while ensuring that global temperature rise stays within a designated limit.

Capability building (manufacturing)
The process of enhancing manufacturing techniques, automation, production methods and quality control. It involves developing the capacity to meet production demands, enhance product quality and reduce costs.

Consumer sentiment
A measurement of how optimistic consumers feel about their finances, the economy and purchasing.

Cost-competitiveness
The ability to produce goods at a lower cost than competitors while maintaining acceptable quality and profitability.

Cost of goods sold (COGS)
An income statement item reporting the total costs of creating a product or service that has been sold.

Covid-19
Coronavirus disease 2019 is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 and was classified as a pandemic by the World Health Organisation on March 11, 2020.

Critical mass (manufacturing)
The minimum level of production volume or capability necessary for a manufacturing operation to become economically viable and efficient.

Customer acquisition cost (CAC)
A measure of how much an organisation spends to acquire new customers.

Decarbonisation
The reduction or elimination of carbon dioxide emissions from a process, such as textile manufacturing, through low-carbon power sources.

De minimis tax
A law set by national tax officials that sets a minimum value of imported goods before certain custom duties and tax rates are applied.

Direct-to-consumer (DTC)
Selling products directly to the end consumer instead of through third-party retailers, wholesalers and so on.

Discretionary goods
Goods that consumers deem are not essential, such as travel, dining out or entertainment, as well as fashion and beauty items, including apparel, footwear and accessories.

Diversification of sourcing
The practice of procuring goods, services, materials, or components from a wide range of suppliers rather than relying on a single or limited group of sources.

Dual mission
The ambition of both reducing total product emissions and improving business profitability.

Dupe
A product that closely resembles or imitates another, usually more expensive or well-known item.

EBIT
An income statement item that stands for earnings before interest and tax expenses.

EBITA
An income statement item that is arrived at by deducting amortisation from earnings before interest and taxes, which is an alternative measure of income a company makes from its core operations.

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

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

Ecodesign for Sustainable Products Regulation
A legislative framework introduced by the European Union aimed at promoting the design and production of sustainable products by setting minimum environmental performance standards throughout the product lifecycle.

Economic profit (EP)
A measure defined as currency-adjusted Net Operating Profit Less Adjusted Taxes (NOPLAT) minus capital charge (Weighted Average Cost of Capital, or WACC, multiplied by invested capital). Economic Profit reflects the economic value created by a company's operating activities and investments.

EV/EBITA
A financial ratio that compares a company's enterprise value (EV) to its earnings before interest, taxes and amortisation (EBITA), used to evaluate a company's valuation and profitability.

EU Strategy for Sustainable and Circular Textiles
The overarching textiles vision of the European Union to achieve full product circularity by 2030, which includes over several specific directives targeting different points of the value chain.

Extended Producer Responsibility (EPR)
An environmental policy approach that holds producers responsible for end-of-life consequences of their goods.

Foreign direct investment (FDI)
When a company from one country invests directly in business operations or assets in another country, typically by establishing ownership of foreign companies, factories or properties.

Gaisho
Hyper-personalised luxury shopping services in Japan.

Generation-Z (Gen-Z)
The demographic cohort born circa 1996–2012, following the Millennial generation.

Generative AI
A type of artificial intelligence that describes machine learning algorithms capable of generating text, images or other forms of media. Generative AI can be viewed as a sub-branch within deep learning, which is a sub-field in artificial intelligence.

Geopolitical distance
Measurement of geopolitical alignment between two trading economies, based on UN General Assembly voting records as a proxy for their position on global issues. A decrease indicates reduced trade flows between economies that are less politically aligned.

Gig-style staffing
A flexible work arrangement where businesses hire workers for short-term, project-based tasks instead of employing them full time.

Greenhouse gas emissions
Greenhouse gases vented to the earth's atmosphere as a result of human activity; includes carbon dioxide and equivalents that can cause climate change.

Gross domestic profit (GDP)
As a measure of economic health, it is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

Gross merchandise value (GMV)
Also known as gross merchandise volume, this metric is the total value of sales generated or facilitated by a company, including through customer-to-customer or peer-to-peer platforms. GMV is calculated before accrued expenses (such as costs associated with advertising and marketing, delivery costs, discounts and returns) are deducted.

Hallucinations (AI)
Instances where an AI model generates responses that are incorrect or not based on real data.

Import concentration
Measurement of the breadth of import supplier relationships based on the average import Herfindahl-Hirschman Index across ~15 sectors. A decrease indicates diversification of sourcing.

Inventory turnover
Financial metric calculated by dividing COGS by the average inventory during that period, indicating the efficiency of inventory management and sales performance.

Key opinion leader (KOL)
Influential professionals in their respective fields who have the ability to sway public opinion about matters, products or services.

K-pop
Short for popular music in South Korea.

Last-mile delivery
The final step in the e-commerce logistics process, where goods are transported from a distribution centre to the end-consumer.

Large language model (LLM)
Machine learning models that can comprehend and generate human language text. LLMs are trained on large amounts of data and learn from pattern recognition across a variety of tasks.

Luxury shame
Cultural phenomenon wherein individuals are wary of flaunting their luxury purchases for fear of social backlash.

Marginal abatement cost curve (MACC)
A tool to help compare the cost and environmental impact of various sustainability initiatives. The height of each initiative indicates the abatement cost (e.g. USD / tCO2).

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

Millennials
The demographic cohort born circa 1982 to 1995, also referred to as Generation-Y (based on Generation-X, the preceding generation).

Mini programme
Small apps that run within the WeChat app, allowing users to access a variety of functions without installing or downloading anything.

Multi-modal capabilities (AI)
The ability of AI systems to process and integrate information from different types of data, such as text, images, audio and video, enabling responses to inputs from various formats and enhancing overall understanding and interaction with users or tasks.

Multi-polar structure
Refers to a global system where multiple economies participate in global trade flows.

Natural language processing (NLP)
A sub-field of artificial intelligence used to analyse and understand human language, and perform tasks such as sentiment analysis, entity recognition and language translation. Large language models support NLP capabilities, powering use cases like document management, chatbots and virtual assistants.

Nearshoring
The practice of a business moving its activities or manufacturing to a geographic location that is closer to the end consumer market.

Net sentiment
Survey metric calculated as the percent of respondents with positive sentiment minus the percent of respondents with negative sentiment.

Off-price channel
A trading format based on discount pricing. Off-price retailers or retailers operating off-price channels are typically independent of manufacturers and buy large volumes of branded goods directly from them. The model relies on the purchase of overproduced, or excess, branded goods at a lower price.

On-demand manufacturing
A production system where products are made to order, in the quantities required, and when they are needed. This is in contrast to traditional manufacturing, where large quantities of products are produced in advance and stored in warehouses.

Open-source AI
Artificial intelligence systems whose source code is made publicly available, allowing anyone to inspect, modify and distribute the software.

Open-to-buy
An inventory planning strategy that brands and retailers use to calculate the budget available for purchasing new inventory.

Personal savings rate
The percentage of someone's income that is saved.

Price segment (company)
The company segmentation based on a Sales Price Index, which provides a range of prices for a standard basket of products within each segment and company's home market. The companies in the McKinsey Global Fashion Index and the BoF-McKinsey State of Fashion Survey are categorised in six segments, which are based on a price index across a wide basket of goods and geographies. The segments comprise (from lowest to highest price segment): value/discount, mid-market, premium/bridge, affordable luxury and luxury.

Price segment (consumers)
Consumer segmentation as per the BoF-McKinsey State of Fashion 2025 Consumer Survey, based on spend on clothing in the last 12 months defining four segments: value (<$500), Moderate ($500-999), Premium ($1,000 - $2,449) and Aspirational (>$2,500).

Premiumisation
The strategy of enhancing a product's quality, features or branding to position it as a higher-end or luxury offering.

Production-Linked-Incentives
Government programmes designed to boost domestic manufacturing by offering financial incentives to companies based on their production output.

Quality Control Orders
Government-mandated regulations that establish standards and requirements for the production, import and sale of a specific goods to ensure they meet quality and safety standards.

Radio-frequency identification (RFID)
A wireless system of tags that uses radio waves to identify and track an object, e.g. when tracking items along a supply chain.

Reshoring
The practice of returning the production and manufacturing of goods to the company's original country.

Scope-three emissions
Indirect emissions that occur in the value chain, both upstream and downstream, that are not produced by the company or brand itself.

Shelf-based e-commerce
E-commerce where products are presented on "digital shelves" on a website or app with detailed information, high-resolution images and customer reviews. Customers browse products, add them to their cart and check out. Compare social commerce where customers buy based on social interactions and influencers.

Silver generation
The demographic cohort aged 50 years and over, which includes Baby Boomers and Generation X.

Social commerce
When customers purchase goods or services within a social media app. It leverages social interactions, user-generated content and influencers to drive sales, making the shopping experience more engaging and personalised.

Speed-to-market
The ability of a brand or retailer to quickly design, produce and deliver new clothing collections or trends to consumers, minimising the time from concept to product availability.

Super Winners
The top 20 fashion players by economic profit (based on economic profit for 2023) according to The State of Fashion.

Sustainability
Within a business context, sustainability refers to businesses making decisions in terms of environmental, social, human and corporate governance impact for the long term and relates to how a company's products and services contribute to sustainable development.

Tech stack
Collection of technologies and tools used to develop and deploy a software application or system (a website, for example).

The Americas Act
Bipartisan bill in the United States Congress aimed at enhancing co-operation and development across the Americas by promoting trade, investment and sustainable growth in the region.

Tier-one, -two and -three cities in India
As defined by the Reserve Bank of India (RBI), tier-one cities have a population of 100,000 or more, tier-two cities from 50,000 to 99,999 and tier-three cities from 20,000 to 49,999.

Tier-two suppliers
The stage in which fabrics are produced and the source of resources and materials for tier-one suppliers. For example, a fabric mill that produces cotton fabric for a factory that assembles T-shirts for a brand.

Total landed cost
The complete cost of a product including the purchase price, shipping fees, custom duties, taxes, insurance and any other associated costs incurred during the transportation and delivery process.

Traceability
The ability to identify and monitor the history, distribution, location and application of materials, parts and finished goods to understand the sustainability practices relating to a product.

Trade-down behaviours
Changing shopping patterns, such as the type or quantity of purchases, in pursuit of better value and prices.

Ultra-high-net-worth individual (UHNWI)
An individual with investable assets in excess of $30 million.

Use case
A targeted application to a specific business challenge that produces one or more measurable outcomes. For example, in marketing, generative AI could be used to generate creative content such as personalised emails.

UK national living wage
The minimum hourly pay that workers 21 years of age and above are entitled to.

United States-Mexico-Canada Agreement (USMCA)
Trade agreement between the United States, Mexico and Canada aimed at enhancing trade and economic co-operation.

Value creator
A company that creates value generates positive economic profit — that is, its operating profit exceeds its dollar cost of capital (profit above 0).

Value destroyer
A company that destroys value generates negative economic profit — that is, its dollar cost of capital exceeds its operating profit (profit below 0).

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