The State of Fashion 2024

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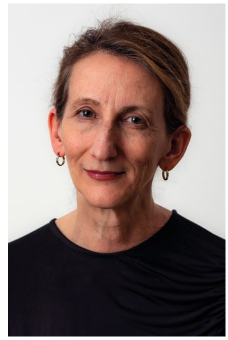

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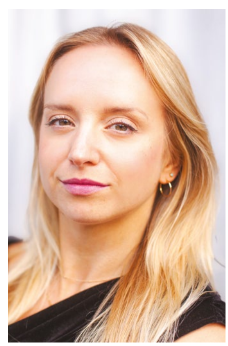

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EXECUTIVE SUMMARY

Riding Out the Storm

With clouds brewing on the horizon, recent years might provide a sense of how the fashion industry will ride out 2024.

The industry has shown its resilience in recent years, having achieved more than double the levels of economic profit in 2022 than in all years between 2010 and 2020 except for one, yet by 2023 the industry was facing challenges that were both persistent and deepening. On a regional basis, Europe and the US experienced slow growth throughout the year, while China's initially strong performance decelerated in the second half. Though the picture for luxury was more positive than the rest of the market in the first half of 2023, consumers' appetite to shop for fashion was diminishing across the board by the second half, leading to slowing sales and uneven performance. Even luxury began to feel the heat after a lengthy period of growth that benefitted the entire industry.

Looking to 2024, fashion leaders are anticipating further headwinds and are uncertain about prospects for the year ahead. Indeed, the word most often mentioned by executives in the BoF-McKinsey State of Fashion 2024 Executive Survey was "uncertainty." Consumer confidence will remain fragile, although for different reasons in key markets of the US, Europe and China. As a whole, the fashion industry is predicted to achieve year-on-year retail sales growth of between 2 percent and 4 percent in 2024.

Aside from economic challenges, one pressure point that cannot be ignored in the year ahead is the climate crisis. After numerous extreme weather events in 2023, leading companies are likely to bolster their resilience to climate impacts in 2024. Inaction is no longer an option: extreme climate events are already placing the lives and livelihoods of fashion workers in danger and could put at risk an estimated $65 billion of apparel exports by 2030.

How should fashion companies prepare? With cost-saving tactics mostly exhausted, the focus is expected to be on growing sales, underpinned by new pricing and promotion strategies, rather than volume increases — across the industry, net intent to raise prices is more than 50 percent, according to the BoF-McKinsey Executive Survey. Cost pressures are predicted to abate, with less than 20 percent of executives expecting the cost of goods sold and selling, general and administrative expenses to rise more than 5 percent.

In 2024, the industry is expected to bear the impact of fluctuations in demand that have punctuated the past few years. It is during such times that supply chains experience a "bullwhip effect," in which small sales variations cause high levels of volatility, leading to factory underutilisation, layoffs and delayed infrastructure investments. To navigate these challenges, fashion brands should consider investing in developing more transparent

Looking to 2024, fashion leaders are anticipating further headwinds and are uncertain about prospects for the year ahead.

and collaborative relationships with their suppliers.

Meanwhile, fashion supply chains could be under increased scrutiny amid incoming regulations on several fronts. This includes new sustainability rules in the European Union and the US, which will require brands and manufacturers to double down on initiatives aimed at cutting greenhouse gas emissions and waste, while building business models that protect and preserve natural resources. The fast-fashion industry, which has already been buffeted by a cohort of companies like Shein and Temu that are not only faster and cheaper but also fuelled by big marketing budgets, may be particularly pressured by these new regulations.

When seeking to identify growth levers, one area that respondents to the BoF-McKinsey Executive Survey said they are homing in on is generative AI, where there is significant potential in creativity-focused use cases in design and product development. Some 73 percent of executives expect to prioritise gen AI in 2024, but many may face a talent gap, given that just 5 percent said they are ready to make best use of the technology.

Marketing is another area of focus. After years of relying on performance marketing, brand marketing may increasingly take centre stage in the year ahead, with 71 percent of executives planning to spend more on brand marketing than in 2023 in a bid to cultivate emotional connections with customers. At the same time, brands may find consumers are more demanding when it comes to authenticity and relatability, leading to a shift towards influencers who are more quirky, vulnerable and less-polished. Forward-looking companies should consider leaning into this new wave of content creators to enhance their brand stories.

As consumers travel with renewed enthusiasm in the year ahead, fashion companies may need to revamp how they engage with consumers who are shopping abroad. For the first time since the Covid-19 pandemic, travel levels in 2024 are projected to exceed those in 2019. Chinese travel to overseas destinations is expected to reach between 70 percent and 100 percent of pre-pandemic levels in 2024. As these shoppers return, there is a growing desire for brand experiences and traditional shopping trips in both tourist destinations and second-tier cities. Alongside a return to travel, there is also a shift to spending more time outdoors, which will likely drive up demand for outdoor wear in 2024, further blurring the lines between functionality and style.

All told, executives are bracing for a strategically challenging year ahead. Fashion leaders need to plan carefully for a range of different scenarios, become better equipped to manage pricing and get ready to accelerate when the storm begins to clear.

INDUSTRY OUTLOOK

Destination Unknown

Fashion industry executives looking towards 2024 are on edge. The most prominent sentiment among fashion leaders is "uncertainty," according to the BoF-McKinsey State of Fashion 2024 Executive Survey.[1] Causes for concern include geopolitical events, weakened economies and the continuing impact of high interest rates. Yet executives also see some reason for optimism in specific markets and segments.

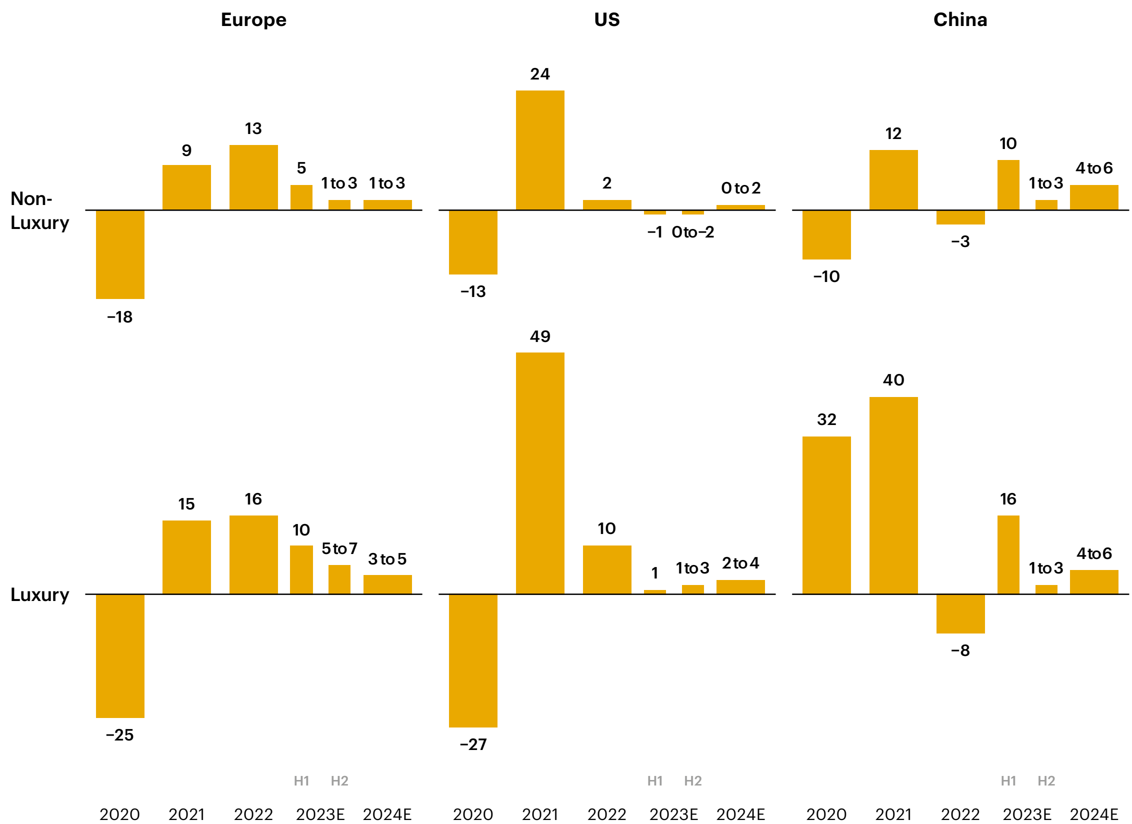
Looking ahead to 2024, 26 percent of respondents to the survey conducted in early September expected conditions to improve year on year, 37 percent expected conditions remain the same and 38 percent expected the situation to worsen, marking the biggest divide in executives' expectations for the year ahead since the inception of the BoF-McKinsey survey in 2017.[2] Yet the outbreak of the Israel-Hamas war in October underscores the uncertain environment, raising questions about whether a regional widening of the conflict could impact the global economy and have ramifications for the fashion industry.

Geopolitics continue to be a firm fixture on executive radars — 62 percent of respondents to the survey cited geopolitical instability as the top risk to growth, while economic volatility is cited

Exhibit 1

Slower but normalised growth is anticipated across regions in 2024

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



Note: Growth forecasts reflective of inflation; growth rates calculated on actuals expressed in local currencies

Source: McKinsey State of Fashion Forecasts; McKinsey Global Fashion Index

by 55 percent.

Inflation concerns appear to be diminishing. Among surveyed respondents, 51 percent cited inflation compared to 78 percent in the previous year's survey, perhaps an acknowledgement that central bank policies are starting to achieve their intended results, after inflation rates began rising to historic highs in the US and Europe in 2022.[3]

As for business performance, top-line year-on-year growth is expected to be lacklustre in 2024, at between 2 percent and 4 percent globally, according to the McKinsey Fashion Growth Forecasts. However, regional and country variations in both luxury and non-luxury segments will be evident.[4]

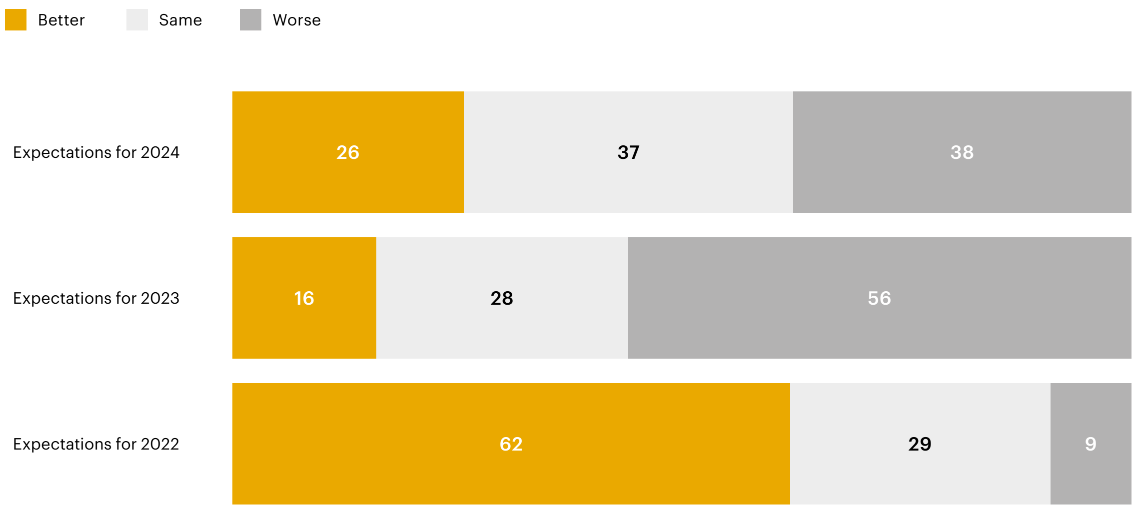
Non-Luxury's Steady Path

Overall, non-luxury retail sales growth is forecast to remain steady year on year in 2024 at between 2 percent and 4 percent. In Europe, non-luxury growth of between 1 percent and 3 percent is expected, after recording 5 percent in the first half of 2023 and 1 percent to 3 percent in the second half, due to slumping consumer confidence and declining household savings, among other factors.[5] When taking into account the forecasted high core inflation of around 3 percent to 4 percent, the growth outlook

Exhibit 2

Uncertainty reigns as executives reveal no clear consensus on the outlook for 2024

Expectations for how fashion industry conditions will evolve in the year ahead compared to prior year,
% of respondents



Note: Numbers are rounded and may not add to 100

Source: BoF-McKinsey State of Fashion 2024 Executive Survey, BoF-McKinsey State of Fashion 2023 Executive Survey, BoF-McKinsey State of Fashion 2022 Executive Survey

is even more limited.[6]

In the US, non-luxury growth is forecast at 0 percent to 2 percent amid declining consumer sentiment.[7] Slightly slower increases in the rate of inflation — forecast at around 2 percent to 3 percent in 2024 — may result in mildly more positive growth. However, a "soft landing" is forecast if, as expected, the country avoids outright recession, helping inflation to get under control more quickly than in Europe.[8] E-commerce activity is expected to pick up after the post-pandemic slowdown in which consumers rebalanced spend towards in-store retail. Among survey respondents, 64 percent identified owned online channels as a more important growth driver than in the previous year.[9]

In China, non-luxury demand remains relatively weak compared to historical growth rates, reflecting economic uncertainty and subdued consumer confidence. Even so, growth is projected to outpace that of the US and Europe, at 4 percent to 6 percent. Positive factors include subdued inflation and the ongoing expansion of the middle class, which is underpinning demand for contemporary and premium fashion. Consumer sentiment shifts towards trading down are also bolstering the large mass-market segment. More opportunities within growth categories such as sportswear and outdoor wear will likely be supurred by government initiatives and shifting consumer preferences for healthier lifestyles and wellbeing.[10]

Luxury's Restraint

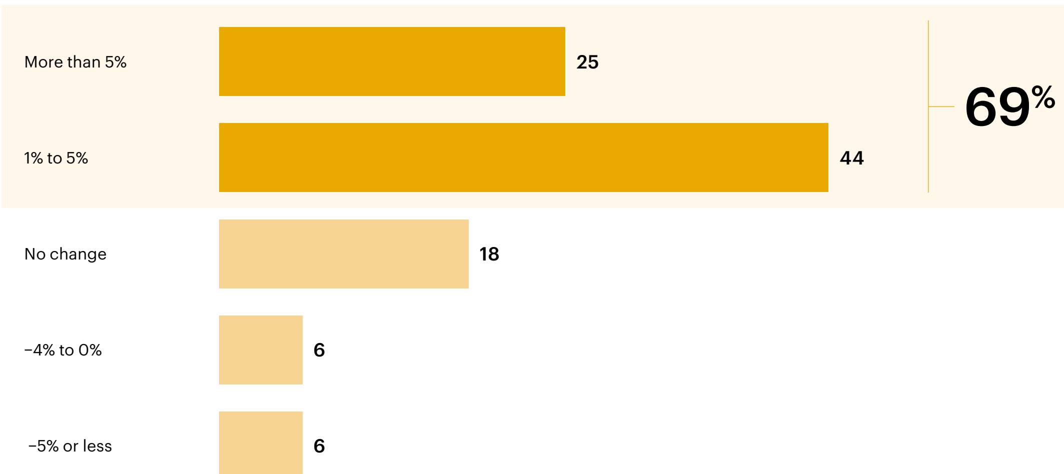
Luxury's global retail sales growth is forecast to slow to between 3 percent and 5 percent in 2024, from between 5 percent and 7 percent in 2023, as consumers restrain spending after a post-pandemic shopping surge.[11]

In Europe, year-on-year growth of between 3

Exhibit 3

Companies are planning price increases to combat continued inflation, with 25 percent of executives expecting increases of over 5 percent

Expected change in retail sales prices across all products/categories in 2024,
% of respondents



Note: Numbers are rounded and may not add to 100

Source: BoF-McKinsey State of Fashion 2024 Executive Survey

percent and 5 percent is predicted in 2024, compared to 10 percent in the first half of 2023 and 5 percent to 7 percent in the second half of the year. An anticipated rise in inbound tourism, boosted by Paris' hosting of the Olympic and Paralympic Summer Games, will likely be a growth driver, as will a pipeline of store openings in tier two and tier three cities across Europe.[12 13]

In the US, luxury is expected to grow at 2 percent to 4 percent year on year in 2024, compared to 1 percent in the first half of 2023 and between 1 percent and 3 percent in the second half. This would represent a return to the long-term pace, with slightly stronger sales driven by higher-end aspirational brands. However, the luxury boom of recent years is not likely be rekindled. Rather, stabilisation at a lower level is expected. A strong dollar against, for example, the euro may also lead to some spend shifting abroad.[14]

As for China, luxury growth of 4 percent to 6 percent is expected, compared to 16 percent in the first half of 2023, which dropped to between 1 percent and 3 percent in the second half. Though moving in the right direction, the projected growth rate in the year ahead stands in sharp contrast to 2020's 32 percent and 2021's 40 percent. Renewed uptake of international travel may dampen domestic demand, as affluent consumers resume shopping for luxury outside the country. However, it's worth noting that the size of China's luxury market remains almost double what it was in 2019.[15]

While the biggest fashion markets are seeing only tepid signs of renewed growth, others may be more compelling. When asked about the countries or regions they believe will be the most promising in the year ahead compared to 2023 in the survey conducted in September, executives cited the Middle East (51 percent net intent), India (39 percent net intent) and Asia Pacific (34 percent net intent). North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America and China recorded 8 percent and 3 percent respectively, while Western Europe was negative 11 percent.[16]

As for expanding physical footprints, the US, Middle East and Asia Pacific stand out as priorities, with executives reporting net intent of 44 percent, 45 percent and 45 percent respectively. North America is the biggest investment destination, with 48 percent of executives citing footprint expansion plans in the region, compared to 44 percent in Western Europe.[17]

Eyes on the Prize

In 2024, 71 percent of surveyed executives said they will focus on increasing sales, compared to 63 percent the previous year.[18] Achieving that growth will likely require laser-sharp attention on pricing and promotion strategies, with a large portion of investment directed to potential quick wins.

Indeed, pricing strategies are likely to be particularly critical given weakening prospects for volume growth. Net intent to raise prices across the industry is 50 percent, with 69 percent of executives planning to lift prices, compared to 58 percent a year ago. Among the surveyed executives, 44 percent expect to raise prices by up to 5 percent, while 25 percent plan price increases of more than 5 percent.[19] Companies that succeed in driving growth through price rises will likely take a precise, carefully tailored approach.

Simultaneously, decision makers will likely keep a tight grip on costs and investments. However, the industry has already seen widespread cost cutting, suggesting the focus should be on stricter controls rather than cuts.

The good news is that executives expect cost pressure to abate, with just 18 percent of executives predicting their companies' cost of goods sold (COGS) to grow more than 5 percent next year and 19 percent expecting selling, general and administrative expense (SG&A) to rise more than 5 percent. This is in contrast to last year, when 55 percent expected COGS growth of more than 5 percent, and 40 percent expected SG&A growth of more than 5 percent. One reason is fading concern about inflation, with 12 percent and 18 percent of executives expecting COGS and SG&A respectively to remain steady, compared to 1 percent and 3 percent last year.[20] Additionally, the successful implementation of cost measures over the last couple of years have already absorbed many of the potential cuts.

Strategic Priorities

As climate change continues to gather pace, fashion executives remain focused on building more sustainable businesses. When identifying the biggest challenges and opportunities in the year ahead, some 12 percent cite sustainability as a principal opportunity for 2024, placing it at the top of the C-suite agenda. However, reflecting the scale of the task and rising regulatory pressure, 12 percent also name it as a top challenge.[21] Finding a balanced way to implement sustainability improvements and risk-reduction programmes with competitive advantages is likely to be a key challenge for fashion executives in 2024.

Another opportunity high on executives' agendas is an innovation that has been surrounded by buzz in 2023: artificial intelligence, and particularly generative AI.[22] Given its application across the fashion value chain and among functions, fashion companies are already starting to experiment cautiously. Those efforts are likely to continue in 2024, with a view to scaling use cases where there are demonstrable performance upsides.

As for consumers across markets, discretionary spend is likely to zero in on categories and brands on which they feel they can rely. Hard luxury goods — jewellery and watches — as well as leather goods are emerging as key categories, as more players enter the market and consumers seek to invest in pieces that will maintain or increase in value over time.[23] Meanwhile, focused brand-building may help companies stave off challenges across segments, with consumers gravitating towards brands with the greatest differentiation and brand storytelling.

In the face of an uncertain future marred by continued macroeconomic challenges, fashion executives may need to make bold decisions: leading players cannot allow an ambiguous outlook to cloud decision making when seeking to capture growth opportunities ahead.

Fashion shoppers in Europe. Shutterstock.

The State of

GLOBAL ECONOMY

01.

Fragmented Future

In 2024, the global economic outlook will likely continue to be unsettled. As new and ongoing financial, geopolitical and other challenges weigh heavily on consumer confidence, fashion markets in the US, Europe and China are facing differing headwinds, requiring suppliers, brands and retailers to bolster contingency planning, among other measures.

−16%

Consumers' net intent to spend on apparel is −16% across the US, Europe and China in Q4 2023

02.

Climate Urgency

The frequency and intensity of extreme weather-related events in 2023 mean the climate crisis has become even more visible, leaving the fashion value chain especially vulnerable. With climate risks worsening across continents, the fashion industry can't hold off any longer on building resilience into its supply chains and helping to abate emissions.

\$65bn

More than \$65 billion of apparel exports are at risk of being wiped out by climate events such as flooding and extreme heat

CONSUMER SHIFTS

03.

Vacation Mode

Consumers are gearing up for the biggest year of travel since before the pandemic. But a shift in values means travellers have a different set of expectations, even as shopping remains high on the agenda. Brands and retailers should consider refreshing distribution and category strategies to meet travellers wherever they are.

110%

In 2024, global travel volumes are projected to reach 110% of 2019 levels, the first year to exceed pre-pandemic levels

04.

The New Face of Influence

It's time for brand marketers to update their influencer playbooks. A new guard of creative personalities is gaining brands' attention, winning trust and fandom among key audiences. Working with these personalities in 2024 will require a different type of partnership, an emphasis on video and a willingness to relinquish a degree of creative control.

40%

More than 40% of consumers prefer fashion influencers who are relatable and authentic

05.

Outdoors Reinvented

Technical outdoor wear has been propelled by consumers' post-pandemic embrace of healthier lifestyles as well as "gorpcore," and is likely to accelerate even further in 2024. More outdoor brands will likely launch lifestyle collections while lifestyle brands embed technical elements into collections, further blurring the lines between functionality and style.

800%

Trade activity on resale platform StockX for Salomon, Arc'teryx and The North Face grew on average 800% in 2023 vs 2022

Fashion 2024

FASHION SYSTEM

06.

Gen AI's Creative Crossroad

After generative AI's breakout year in 2023, use cases are emerging across creative industries, including fashion. Capturing the value of this transformative technology in 2024 will require fashion players to look beyond automation and explore its potential to augment the work of human creatives.

73%

73% of fashion executives think gen AI is a 2024 priority for their companies, but only 5% believe they have the capabilities to fully leverage it

07.

Fast Fashion's Power Plays

Fast-fashion competition will likely become even fiercer in the year ahead. Challengers, led by Shein and Temu, are changing tactics around price, customer experience and speed. Success for disruptors and incumbents will likely hinge on their ability to adapt to evolving consumer preferences, while navigating regulations that may impact the industry.

40%

40% of US consumers have shopped at Shein or Temu in the last 12 months

08.

All Eyes on Brand

Brand marketing will likely be back in the limelight in the year ahead as the fashion industry confronts a shifting landscape in which performance marketing no longer reigns. Consumers' emotional connections to brands will likely be critical as fashion marketers reorientate their playbooks to emphasise long-term brand-building strategies.

71%

71% of fashion executives plan to increase brand marketing spend in 2024

09.

Sustainability Rules

The era of the fashion industry self-regulating sustainability is drawing to a close around the world. Across jurisdictions, new rules could have a widespread impact on both consumers and fashion players. Brands and manufacturers need to revamp business models to align with the changes ahead.

87%

87% of fashion executives think sustainability regulations will impact their businesses in 2024

10.

Bullwhip Snaps Back

Changes in consumer demand have resulted in the "bullwhip effect," where cuts to orders increase in magnitude at different parts of a supply chain, putting pressure on fashion's suppliers. Now, if supply is to keep pace with anticipated renewed demand, brands and retailers should consider focusing on transparency and bolstering strategic partnerships.

73%

73% of chief procurement officers cited demand volatility as a dynamic that may impact supplier relationships in the next five years

Global Economy

01. Fragmented Future
02. Climate Urgency

01. Fragmented Future

In 2024, the global economic outlook will likely continue to be unsettled. As new and ongoing financial, geopolitical and other challenges weigh heavily on consumer confidence, fashion markets in the US, Europe and China are facing differing headwinds, requiring suppliers, brands and retailers to bolster contingency planning, among other measures.

KEY INSIGHTS

- Global GDP growth is set to slow to 2.9 percent in 2024, down from 3 percent in 2023 and 3.5 percent in 2022.
- Consumer spending may be tempered in the year ahead. In the third quarter of 2023, net intent to purchase apparel was 7 percent in China, but negative 25 in the US and negative 29 in Europe.
- Emerging Asia provides potential growth spots, with India's investment activity, domestic demand and developing infrastructure making it a promising market for fashion.

Exhibit 4

Consumers in Europe and the US plan to reduce apparel spend, while China's is expected to rise

Net intent to spend on apparel over 3 months to end-December 2023, %

1 Europe includes respondents from France, Germany, Italy, Spain and the UK

Source: McKinsey ConsumerWise Global Sentiment Data

Consumers around the world might be mistaken if they believe 2024 will offer a chance to catch their collective breath after enduring a post-pandemic period of turbulence. Universally, slowing growth, new and continued geopolitical conflict, and consumer spending pressures are likely to define economic prospects. And as in previous times, the impacts will likely not be felt uniformly as market responses diverge.

As 2023 rolls towards its end, forecasters have readjusted their outlooks as the strains of high inflation and subsequent interest rate hikes showed few signs of falling closer to target levels. By October, the International Monetary Fund's forecast put global GDP growth at 2.9 percent in 2024, down from 3 percent in 2023 and 3.5 percent in 2022.[24] The IMF cites slowdowns in advanced economies as the primary culprit.

Inflation, still remaining high, will likely continue to be in the limelight. According to the IMF, the global headline inflation rate is set to fall to 5.8 percent in 2024, from 6.9 percent in 2023 and 8.7 percent in 2022.[25] Against this backdrop, officials at the US Federal Reserve Bank are among those at central banks who expect interest rates to remain "higher for longer."[26 27]

What will likely differentiate 2024 from the past few years is that consumers in key economies may be confronting different challenges from each other, thus creating additional complexity for fashion executives steering their companies through headwinds from region to region.

In Europe, the economic picture is gloomy, as it continues to struggle under the shadow of the war in Ukraine. By the second quarter of 2023, Europe's biggest economy, Germany, saw growth stagnate, and the risk of a second recession within a year is still hovering.[28 29] Meanwhile, in the UK, Europe's second-largest economy, growth was slow as the economy attempted to shrug off 2022's surge in inflation and adjust to 14 consecutive interest rate hikes.[30 31]

GDP growth in the euro zone is set to remain low, seeing only a tentative rise in 2024 — from 0.7 percent in 2023 to 1.2 percent in 2024, according to the IMF.[32] A monthly euro-zone survey by the European Commission found that consumer

A pedestrian on The Bund in Shanghai, China. Getty Images.

confidence hit a six-month low in September.[33] The euro zone's ongoing cost-of-living crisis is straining many households, alongside continued higher core inflation rates compared to the US.[34 35]

In the US, where Federal Reserve policies appear to have averted outright recession and achieved lower levels of inflation, growth prospects seem slightly brighter than those in Europe. However, GDP growth is expected to slow next year, from 2.1 percent down to 1.5 percent.[36]

Various events in the second half of 2023 underscored the fragility of consumer confidence in the country. For example, in October US policy makers lifted the three-year freeze on student-loan repayments,[37] leaving 37 percent of respondents to a Morgan Stanley survey anticipating that they would have to cut spending in order to make payments, while 34 percent said they would not be able to make payments at all.[38] Earlier in the year, credit card debt reached an all-time high of $1.03 trillion, according to central bank research, with high interest rates and financing charges also contributing to headwinds.[39]

In China, 2023 held different economic pressures. The economy moved into deflation, and an ongoing crisis in the property market — which drives 25 percent of China's economy — left apartment sales in August 47 percent below 2019 levels.[40 41] Major property companies are buckling under the weight of unsustainable debts and losses.[42] Youth unemployment has been high, hitting 20.8 percent in May (the latest date that China's National Bureau of Statistics published new figures).[43]

Chinese consumers have continued building up savings, while a return to spending has been slow.[44] At around 35 percent to 45 percent of GDP, China's gross savings rate has been historically high and, according to the World Bank, the country has the highest savings-to-GDP rate among large economies. Indicators suggest that in 2023, China's savings levels increased further, perhaps as households expanded their safety nets out of precaution.[45]

In contrast, savings pots have dwindled in both the US and Europe. An unusual amount of excess in savings was built up in these regions during the Covid-19 pandemic, but analysis now suggests that these are likely to run out by the end of 2023, after consumers returned to shopping more freely following the lifting of pandemic lockdowns. The subsequent toughening of the economic climate in 2023 has also meant that it is difficult for consumers to replenish their savings, and even as savings remain reasonably high in absolute terms, inflation is causing them to devalue. This bodes ill for discretionary spending in 2024, after recent years of relatively buoyant consumption.[46 47] Pressure on household budgets is likely to prompt a decline in discretionary spend. In the third quarter of 2023, net intent to purchase apparel was negative 25 in the US and negative 29 in Europe, according to a McKinsey survey.[48]

Rays of Light

Still, there are certain country-level reasons for some degree of optimism. This is the case with China, even if the base case is for muted demand and slow GDP growth, from 5 percent in 2023 to 4.2 percent in 2023, according to IMF forecasts. The volume of imports expanded 1 percent year on year in the first half of 2023 (compared with a decline of 6.4 percent in the same period in 2022), indicating a tentative rise in domestic demand.[49 50]

Consumer spending plans in China appear to be marginally more positive than in the US and Europe, with a 7 percent net intent to purchase apparel as well as jewellery, and 8 percent for footwear, McKinsey research shows. Meanwhile, 69 percent of consumers are planning to splurge on shopping.[51] However, even if cautious, optimism for the country should be tempered, as the overall outlook may be disappointing — forecasts for shopping and travel have remained dampened in recent months,[52] and growth is still well below historical levels.

Emerging Asia provides potential, too. For example, in India, consumer confidence reached a four-year high in September 2023, while India-based executives are more optimistic than western peers, with 85 percent of respondents to a McKinsey global survey saying that conditions have improved in the six months to August.[53] India's bellwether manufacturing Purchasing Managers Index (PMI) hit a 31-month high in May and the services PMI reached a 13-year high in July. GDP growth stood at 6.9 percent in fiscal 2023.[54] Strong investment activity, consistent domestic demand and a policy-maker push to invest in infrastructure buoyed the rapid growth. This rate will likely moderate in 2024 but remains strong with forecasted GDP growth of 6.3 percent.[55]

The impact of 2024's mixed outlook will be felt by fashion businesses across the value chain. Brands and retailers will likely need to confront a further wave of low consumer demand in some key markets, while suppliers may feel the amplified effects of this dampened demand even more as it echoes along the supply chain, leading to underutilised capacity. Revenue growth in this environment is likely to be driven by price rather than volume, and businesses will need to plan price increases with care and precision to avoid alienating cash-strapped consumers.

Universally, slowing growth, new and continued geopolitical conflict, and consumer spending pressures are likely to define economic prospects.

To build greater resilience across value chains in 2024, fashion decision makers can focus on contingency planning, ensuring that scenarios take into account high levels of uncertainty and the range of regionalised consumer demand shifts. Scenarios for each region will need to factor in increasingly divergent underlying factors. Meanwhile, strong inventory management is likely to remain a priority, continuing successful cost management programmes implemented in post-pandemic times.

Meanwhile, suppliers can expect an increasingly competitive landscape. Manufacturing sector price wars are a possibility as weak consumer demand puts pressure on orders and leads to excess capacity in some supply chains. Suppliers may want to work to build deeper, collaborative relationships with brands to reduce exposure to price competitiveness, while ensuring they retain tight control of costs in the year ahead.

IN-DEPTH

The Tumultuous Path to an Exit

By Sara Hudson, Pamela Brown, Leila Le Merle and Simona Kulakauskaitė

The fashion industry has struggled to attract investment over recent years, amid inconsistent performance and increasing polarisation. In this challenging environment, fashion businesses seeking funding should have solid performance fundamentals demonstrating sustainable profitability, clear brand equity and a path to value creation. Finally, market timing will be critical.

Private equity (PE) firms looking to exit their fashion industry assets in 2024 may find they have some difficult choices to make. Against a backdrop of public market volatility, finding an attractive route to exit has been challenging, to such an extent that future deal-making may provide less-than-ideal returns and raise questions about the long-term value creation opportunities across parts of the fashion industry.

The significant shift in fashion's financial market performance had, in fact, already started in 2018. Apparel, fashion and luxury (AF&L) companies generally tracked benchmark indexes closely up until then, after which industry performance began to diverge. While luxury companies outperformed the MSCI World Index by 14 percentage points in the five years to October 2023, non-luxury has underperformed the same index by 3 percentage points.[56]

A similar scenario has been playing out in the private realm, with PE investors becoming increasingly cautious about non-luxury fashion categories, with deal volume stagnating over the last decade (except for 2021 which was a record PE deal year) even when "dry powder" — that is, capital available for investment — grew in the PE industry overall.[57] In early 2023 amid an overall downward trajectory in the broader PE space, PE activity in AF&L ground to a halt due to pressure on discretionary consumer categories, high valuations and difficulties obtaining debt financing.[58]

PE firms are likely to continue to see more limited exit options.[59] On one side, strategic buyers have not made many investments in the past few years, given their caution around adding further complexity to their portfolios, and have focused instead on optimising their existing operations.[60] PVH Corp and VF Corp, for example, last acquired targets in 2018 and 2020, respectively. On the other side, few PE-backed brands can reach the scale that an initial public offering requires. This then means attracting another PE investor, but they will likely be confronting the same concerns about the industry's long-term value creation as the public market.

An increasingly important priority for investors is to minimise exposure to the "fashion risk" inherent in brands that rely on actively shaping or getting fashion trends right.[61] Naturally, these brands see swings in popularity over time, which makes it difficult to assess their value at any point in time, encouraging investors towards brands with iconic, timeless designs and a credible, compelling brand story. Even if investors are able to identify the brands with staying power, the added challenge of how to underwrite the intangible value — that is the value of the brand — adds complexity and risk to the deal-making process.

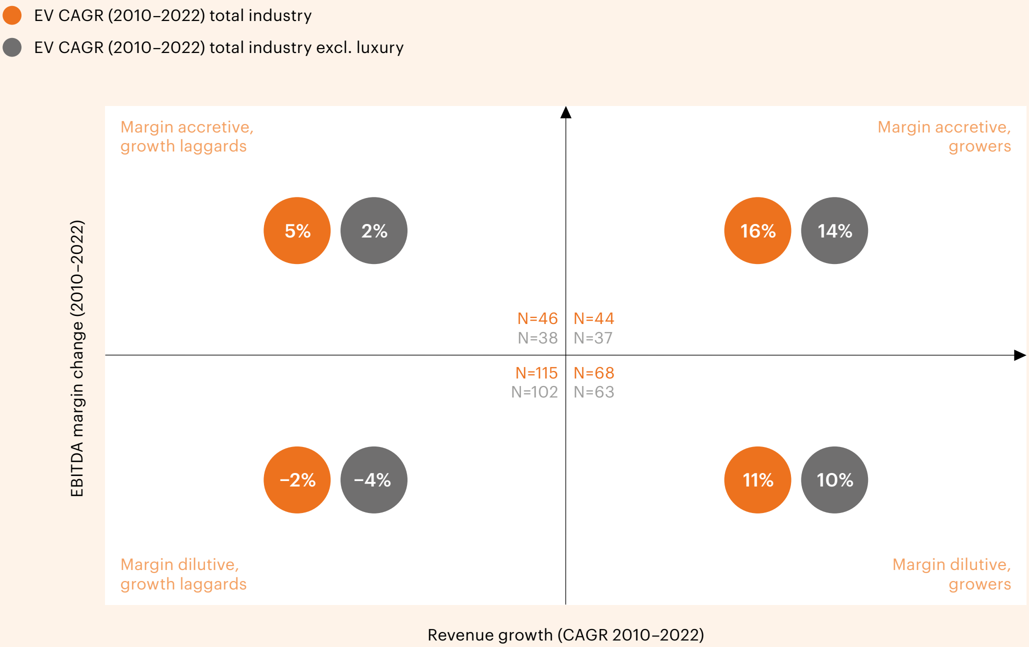
PE players have long homed in on luxury targets,

The New York Stock Exchange. Shutterstock.

Exhibit 5

Market values are higher for companies with strong revenue and profit growth

Enterprise value (EV) growth and underlying drivers,
Sector aggregate growth (5.5%)



Source: McKinsey Global Fashion Index

for example the sale in August 2023 of luxury womenswear brand Zimmermann to PE firm Advent International. However, large luxury houses and other strategic suitors are equally attracted to these assets and are typically also active bidders when brands come onto the market.

PE firms are also not singularly focused on luxury — sportswear, footwear, wellness, outdoor, modern jewellery and intimates are on their radars too.[62] Also in demand are B2B players further down the value chain that allow PE investors to gain exposure to the fashion industry indirectly (without assuming fashion risk). Transactions in this space include Permira's acquisition of luxury contract manufacturer Gruppo Florence in late 2022 and San Quirico's 75 percent purchase of Minerva Hub, a metallic components and leather producer for luxury companies, in 2023.[63]

Looking to Divest

Across the PE industry, there is a growing backlog of deals that have exceeded their typical holding periods and need a sale to realise returns for investors. However, about half of the assets that are at or near the end of their holding periods are in segments which investors are increasingly wary of. Fashion-focused women's apparel currently makes up 12 percent of this cohort in EMEA and poses a significant amount of trend-related risk.[64] A number of potential deals in this category have stalled in 2023, including Giuseppe Zanotti (L Catterton), Sezane (General Atlantic), Isabel Marant (Montefiore Investment) and Ganni (L Catterton).[65]

In the current economic climate, PE investors are also likely to be cautious about department stores and other "third-party" retailer assets (e.g. online and offline retailers that primarily sell goods from other brands), amid increasing macroeconomic headwinds and narrow profit margins. Third-party retail accounts for 36 percent of assets held (offline 24 percent and online 12 percent).[66]

All told, PE firms' choice may come down to

Exhibit 6

Around half of fashion assets that private equity investors may want to offload soon are brands, which can pose trend-related risks

Distribution of assets acquired by private equity investors in EMEA in 2020 or earlier,
%, total = 111 assets

1 Includes specialist players in lingerie, suiting and other clothing

Source: McKinsey Analysis, PE fund websites

delaying exit or compromising on price. But PE firms could also decide to sell to brand management groups, some of which have started making acquisitions. Authentic Brands Group, which bought Reebok in 2022, as well as WHP and Blue Star Alliance, are among such acquirers specialising in turning around distressed assets. However, the prices on offer are not always going to be attractive.

The Public Market View

If investors cannot sell into private markets, they may look to the public markets for their exit. Since the 1980s, there were on average two to four AF&L IPOs in Europe and North America every year. The number of AF&L IPOs spiked in 2019 as well as 2021, with 25 IPOs over those two years, and have included brands such as Zegna, Allbirds, Dr Martens as well as luxury marketplace The RealReal.[67]

But the performance of newly listed AF&L stocks has generally been challenging. Since 2018, the stock price of newly floated AF&L companies has dropped an average of 40 percent one year after listing, according to data from McKinsey Corporate Performance Analytics.[68] Exceptions include USWE (IPO in 2021), Revolve (2019) and Levi Strauss (2018).

As of the third quarter of 2023, the stock prices of nearly all AF&L companies that had IPOs in 2021 were below their listing prices. An outlier is On, whose share price has turned a corner and is now trading close to its listing value. Another exception from 2021's IPO group is Zegna, whose shares at the end of September 2023 were up 13 percent.[69]

Several factors have contributed to the outperformance of Zegna and On. One is the strength of the brand story. The heritage of craftmanship of Zegna, born in wool mills in Italy and deeply rooted in its local environment, aligned with consumers' desire for high-quality fabrics. Furthermore, Zegna moved away from a reliance on formalwear towards classic but "quiet" collections in time for the quiet luxury boom in recent years.

Investors also reward consistent and strong top-line growth.[70] On grew revenue more than 60 percent in both 2021 and 2022, driven by its highly innovative solutions and design that appeal to a broad group of customers looking for comfort. Zegna's revenue grew 27 percent and 16 percent in those two years.[71] Another factor is that strong performers sit within in-demand categories like luxury and sportswear. Luxury now makes up close to half of the industry's total economic profit, having increased its economic profit 3.5 times from 2018 to 2022. Sportswear's (including sports footwear) economic profit grew 1.7 times from 2018 to 2022, despite a 17 percent drop in 2022.[72]

A McKinsey Global Fashion Index analysis in 2023 of publicly listed AF&L enterprise value between 2013 and 2023 suggests that while profitable growth is most attractive to investors, revenue growth is generally more heavily rewarded than margin accretion. Margin accretive companies that grew revenue above the industry average saw a 11 percentage points uplift in enterprise value growth, compared to margin accretive companies that grew below the industry average. In contrast, companies that grew revenue above the industry average only saw a 5 percentage points uplift if they were margin accretive compared to those that grew revenue but were margin dilutive.

Signs of Revival

Towards the end of 2023, there were many rumours of large IPOs for AF&L players, including Shein[73] and Skims,[74] raising expectations for a return of deal activity. One of the highest profile IPOs of 2023 was Birkenstock, whose target valuation set multiples at 18 times EBITDA. Despite very healthy margins of 35 percent EBITDA, this valuation would put Birkenstock at a similar or even higher multiple to LVMH (15 times EBITDA for the current year), and the same multiple as Nike, which has lower margins.[75] Other shoe brands, such as Crocs and Dr Martens, are trading at six to seven times EBITDA. Despite the wave of brand hype generated by the “Barbie” movie (in which the shoe had a cameo) and strong performance fundamentals, Birkenstock stock declined in value in the first week of trading. This was due to investor concerns over how long Birkenstock can sustain its growth trajectory[76] — to date driven by demand for comfort “home shoes” during the pandemic and made cool by high-end designer collaborations with Dior, Manolo Blahnik, Jil Sander and Proenza Schouler.

For successful flotations, firms are expected to meet several requirements, including a compelling equity story, sustained revenue and margin growth, ability to scale, and resilience amid category tailwinds. Of course, even these may not guarantee success. Consistent performance in meeting (and exceeding) investor expectations is critical to share price performance.

When deciding when to IPO, owners should closely monitor consumer trends and public perceptions, as well as the performance of recently listed companies. In addition, PE owners listing their portfolio companies will need to consider the impact of retaining a meaningful stake post IPO.[77] By doing so, they expose themselves to share price volatility due to company performance, as well as broader market moves.

A public market revival is typically a precursor of PE deal-making and the funds with fashion specialisms are likely to move first. Non-fashion specialists are likely to remain on the sidelines for longer. Still, there are nascent signs of a more general shift in sentiment, with $1.2 billion of PE “dry powder” putting pressure on funds to begin investing again.[78] Meanwhile, investment committees will look to the green shoots of M&A recovery, reflecting slightly better macroeconomic fundamentals in some markets and valuations starting to decline to more transactable levels.[79]

For successful flotations, firms are expected to have a compelling equity story, sustained revenue and margin growth, ability to scale, and resilience amid category tailwinds.

One thing is certain: given the volume of assets held by PE players, there is likely to be a queue for the exit when markets pick up, potentially creating a bottleneck. Within PE, aversion to fashion risk and concerns about discretionary categories are likely to remain significant barriers. Alongside market timing, value creation will likely remain a key priority for 2024. Owners should consider focusing on brand health, topline growth and commercial excellence (including getting pricing and promotions right), while also optimising sourcing, rethinking categories, and considering new occasions and channels. For those approaching exit, continuing to invest and not starving the assets is likely to be key, while at the same time hoping for consumer sentiment and discretionary spending to turn around.

02. Climate Urgency

The frequency and intensity of extreme weather-related events in 2023 mean the climate crisis has become even more visible, leaving the fashion value chain especially vulnerable. With climate risks worsening across continents, the fashion industry can't hold off any longer on building resilience into its supply chains and helping to abate emissions.

KEY INSIGHTS

- Fashion is responsible for between 3 percent and 8 percent of total greenhouse gas emissions.
- By 2030, extreme weather events could jeopardise $65 billion worth of apparel exports and eliminate nearly one million jobs in four economies that are among the most central to the global fashion industry.
- Fashion executives said other challenges such as economic uncertainty, geopolitical tensions and inflation will vie for their attention ahead of climate risk in 2024.

Monsoon rains in Hue, Vietnam. Sergi Reboredo/Getty Images.

For many fashion businesses, addressing climate-related risks is often a priority that is eclipsed by other challenges they deem more urgent or imminent. However, due to the geographic footprint and structure of fashion's supply chains, it is especially vulnerable to extreme and increasing climate volatility. In 2024, a mindset shift is needed across the industry to acknowledge that maintaining the status quo is no longer an option and climate risk cannot be viewed as a long-term project to be tackled further down the line. The past year has provided ample examples of why climate de-risking needs immediate action given fashion value chains' exposure to extreme weather conditions around the world.[80] De-risking will not be the sole responsibility of manufacturers — brands will also need to revisit their supplier standards and invest to ensure they are sufficiently addressing new climate-related dimensions.

Globally, 2023 will likely be remembered as a year of climate-related disasters, and the frequency of these disasters is only expected to increase due to climate change.[81] Soaring temperatures around the world will make 2023 one of — if not the — hottest years on record, which scientists say is the result of both El Niño weather patterns and global warming.[82][83] Sweltering temperatures, wildfires, torrential rain and flash floods have devasted communities around the world, leaving behind death and destruction. Few regions seemed to be spared.[84][85][86][87][88]

Though the human and environmental tragedy looms large, it is also hard to ignore the economic toll. The US, for example, had suffered an annual record, at $23 billion, of climate-related disasters even before 2023 comes to an end, surpassing 2020's record high.[89] And drought in Argentina in 2023 could cause the country's economy to shrink by 2.5 percent, according to the International Monetary Fund.[90] Beyond the Americas, China lost more than $7.6 billion due to severe drought in 2022.[91] Globally, the cost of each climate-related disaster is estimated to have increased 77 percent over the past 50 years, reports the World Economic Forum.[92]

As global warming exceeds its current level of 1.1°C above pre-industrial levels, productivity growth is set to fall. With global warming levels potentially reaching 2.2°C by 2050, global GDP levels could be reduced by up to 20 percent, while warming of up to 5°C by 2100 could lead to "economic annihilation," according to Oxford Economics.[93]

The BoF-McKinsey State of Fashion 2024 Executive Survey found that executives expect other challenges — notably economic uncertainty, geopolitical tensions and inflation — to be vying for their attention ahead of climate risk.[94] Yet, the past year should be a wakeup call for fashion. With fashion still responsible for between 3 percent and 8 percent of total greenhouse gas emissions,[95] a mix of short- and long-term strategies can help companies address the climate challenge. Companies, for example, may look to de-risking the value chain and revamping structural and operational legacies, or doubling down on sustainability.

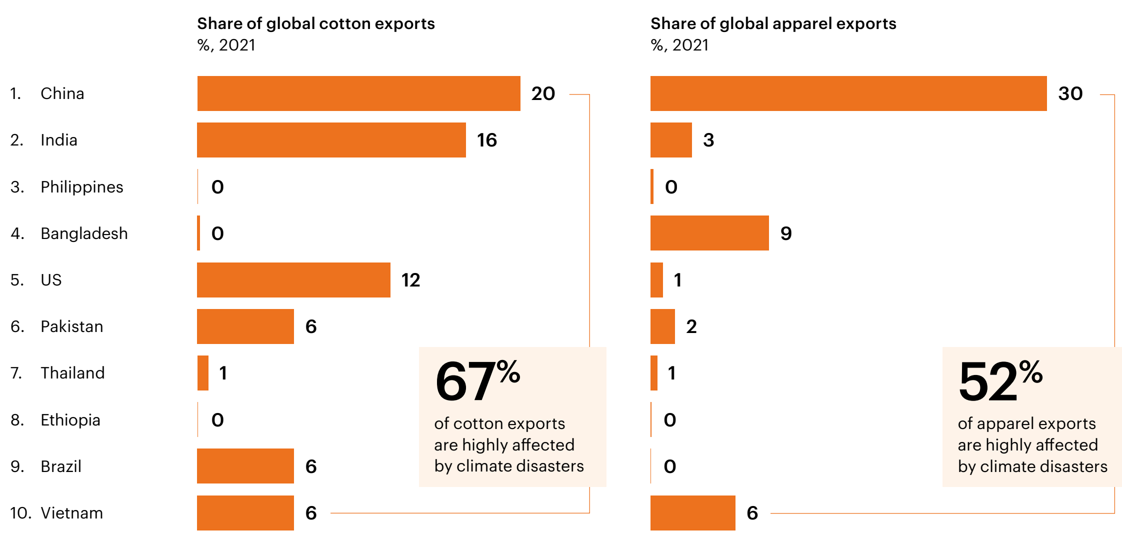
Outsized Risks for Fashion's Value Chain

Every part of the fashion value chain is affected by the climate crisis, not least because so much of the industry is reliant on the countries and regions most directly impacted by climate upheavals, signifying an outsized risk for fashion in comparison to many other industries. By 2030, extreme weather events could jeopardise $65 billion worth of apparel exports and eliminate nearly one million jobs in four economies that are among the most central to the global fashion

Exhibit 7

A significant share of apparel exports is from countries most directly impacted by climate-related disasters

Top 10 countries most impacted by climate-related disasters,
Measured by number of people affected, 2000–2023



Source: United Nations Office for Disaster Risk Reduction, World Trade Organisation industry — in Bangladesh, Cambodia, Pakistan and Vietnam.[96]

One part of the fashion value chain that is particularly exposed is the production of raw materials supplying manufacturers.[97] Consider cotton, which is sensitive to both droughts and flooding. In India, the world's second-largest cotton exporter, extensive rainfall and pest invasions have reduced its supply to the extent that the country began importing it.[98] Pakistan, too, has been hit by extreme monsoons, while in contrast, drought has hit Texas' cotton producers, leading to abandoned crops and steep production declines.[99 100 101]

For manufacturers, flooding is also a growing risk, forcing temporary or permanent factory closures. In Ho Chi Minh City, Vietnam, 55 percent of apparel and footwear manufacturing sites could be exposed to rising sea levels and flooding by 2030.[102] Not only are the livelihoods of factory workers impacted, but their health and safety as well. Factory workers in Dhaka, Bangladesh, report suffering headaches, exhaustion from dehydration and lack of sleep due to high temperatures, while 53 percent of surveyed Cambodian workers reported becoming unwell due to heat stress. Meanwhile, as temperatures climb, productivity is expected to fall significantly, estimated to decrease at about 1.5 percent for every degree that temperatures rise above 25°C.[103]

Climate is also impacting fashion's logistic strategies. Across all industries, 90 percent of exported goods are reliant on shipping to reach their final destinations, but an estimated $122 billion of economic activity at ports is at risk from disruptions caused by extreme climate events.[104 105] The summer of 2023 saw Europe's worst dry spell in 500 years, with ships navigating the Rhine River forced to reduce the weight of cargo in order to continue their journeys. A similar narrative played out on the Panama Canal. In China, drought slowed traffic on the Yangtze River, forcing companies to move goods through alternative, often more expensive routes.[106]

Every part of the fashion value chain is affected by the climate crisis not least because so much of the industry is reliant on the countries and regions most directly impacted by climate upheavals.

Weather-Proofing Strategies in 2024 and Beyond

Fashion executives in 2024 and beyond should embed climate strategies across their businesses. They may do so by first identifying direct value at risk from potential climate impacts as well as material second- and third-order impacts — such as supply chain disruptions, damage to infrastructure, or financial and job losses — and implementing thorough scenario planning for these possibilities.

Boosting resilience up and down the value chain, particularly in climate risk "hotspots," is critical. Nimble processes are needed to swiftly offset weather-related pressures on suppliers and inventories as well as consumers. Alongside these operational changes, other adjustments must be considered, including sourcing strategies and locations to ensure they also enable flexibility and speed in times of extreme weather events. This may require trade-offs between risk mitigation and cost, speed, capacity and availability of materials.

Action by manufacturers must take the form of prioritising worker health and safety. This can be actioned through operational shifts such as offering more frequent breaks, rehydration amenities and proactive temperature monitoring of the factory floor, alongside capital investments in fan systems.

Longer term, and most importantly, companies should invest in innovation across the value chain aimed at helping to reduce fashion's impact on the planet. This will touch on all areas of the value chain, from new material innovations such as lab-grown fibres, more efficient and ethical product reuse and recycling, and a shift from encouraging make-take-waste consumption culture.

Industry-wide initiatives will be crucial to facilitate progress at scale. Joining pacts such as the Fashion Pact, the Sustainable Apparel Coalition and the Fashion Charter is a strong first step, but action must follow alignment. Individual company adaptation should be supported by urgent collaborative change.

Consumer Shifts

03. Vacation Mode

Consumers are gearing up for the biggest year of travel since before the pandemic. But a shift in values means travellers have a different set of expectations, even as shopping remains high on the agenda. Brands and retailers should consider refreshing distribution and category strategies to meet travellers wherever they are.

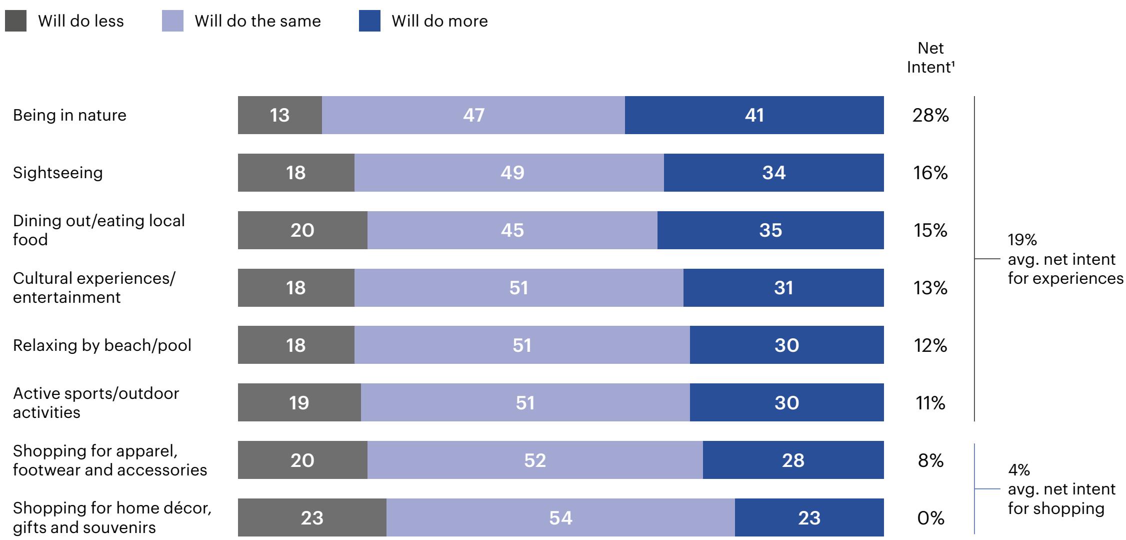
KEY INSIGHTS

- Global travel is projected to exceed pre-pandemic flows for the first time in 2024, reaching up to 110 percent of 2019 levels.
- 80 percent of consumers surveyed in the US, UK and China expect to shop for fashion while travelling in 2024, with 28 percent planning to spend more than the previous year, according to the BoF-McKinsey State of Fashion 2024 Consumer Survey.
- More than half of respondents are seeking destinations they haven't visited before, including second-tier cities.

Exhibit 8

Consumers will prioritise experiences whilst travelling

Future intent whilst travelling,
% of respondents



1 Net intent calculated as the difference between the percentage of respondents who 'will do more' and the percentage of respondents who 'will do less'

Note: numbers are rounded and may not add to 100

Source: BoF-McKinsey State of Fashion 2024 Consumer Survey

In the aftermath of the Covid-19 pandemic, consumers around the world have embraced travel with a new fervour. Despite cost-of-living pressures and economic uncertainties, global travel flows (calculated as the total number of kilometres travelled by paying airline passengers) are projected to return to 100 percent of pre-pandemic levels in 2023 and reach between 105 percent and 110 percent in 2024, according to McKinsey analysis.[107]

A fundamental change of lifestyles adopted in recent years is helping to fuel this rise. For example, remote and hybrid work are more entrenched than they were pre-pandemic. A growing number of workers are no longer tethered to offices. In the US, only 39 percent of companies now require staff to work from their offices full time, down from 49 percent at the start of 2023, according to workplace provider Scoop's Flex Index, which predicts the number to fall to 15 percent in the coming years.[108] Meanwhile, business travellers are extending their work trips into "workation" trips, a global phenomenon that combines business with leisure. Business travellers in the US, Europe and Asia take on average six "workation" trips annually, with 29 percent of these trips to international destinations, according to travel-agency specialist Travel Edge.[109] [110]

For many consumers, travelling and shopping go hand in hand. Leading players like LVMH and Kering have cited tourists, specifically Americans in Europe, as a key driver of increased sales in the first half of 2023, which grew 47 percent and 53 percent respectively.[111] Moreover, the BoF-McKinsey State of Fashion 2024 Consumer Survey found that 80 percent of global respondents expect to shop for clothes, footwear and accessories while travelling in the year ahead, with 28 percent expecting to spend more than the previous year while travelling.[112] For brands and retailers, these travelling consumers will provide new growth opportunities.

Pushing the Boundaries

The world's capital cities will remain popular for world-class shopping. Paris, for example, has seen a notable spike in tourism in 2023 with numbers approaching those in 2019. Nearly 12 million tourists visited the city between January and April 2023, representing a 27 percent year-on-year increase and only 2.5 percent down on 2019 levels.[113] London has also seen a surge — two million more international visitors are forecast to arrive in the city in 2023, compared with the year prior.[114]

But now, many travellers are also looking to expand their itineraries beyond these traditional destinations. Over half of the respondents to the BoF-McKinsey consumer survey said they are seeking destinations they haven't visited before in the year ahead, perhaps as a nod to a post-pandemic desire for freedom and escapism.[115] Smaller cities like Edinburgh, Scotland; Lisbon, Portugal; or Osaka, Japan, have witnessed surging popularity this year, offering different experiences in terms of historical sightseeing, culture, local dining and nightlife as well as local shopping.[116 117] "Set-jetting" destinations inspired by television and film are also resonating with travellers — consider what the series "The Game of Thrones" has done for tourism in Dubrovnik on the Adriatic coast of Croatia.[118]

While travel itineraries are being redrawn, some brands are already adjusting where and how they connect with shoppers. In some cases, this has meant expanding store networks into second-tier cities. Uniqlo has been focusing on accelerating new openings, including plans for a store in Scotland, on Edinburgh's Princes Street, in 2024.[119] Edinburgh, too, has been in Chanel's line of sight as it opened its first Scottish pop-up in the city this past summer.[120] In other cases, it has meant capitalising on trending locations from popular culture. This is what Louis Vuitton did in Taormina, Sicily, where it opened a branded café and boutique in 2023 after the hilltop town served as the backdrop of the hit series, "The White Lotus."[121 122]

Revival of Experiences

Providing differentiating experiences is also important. According to marketing agency Razorfish, 40 percent of travellers are willing to spend half or more of their travel budget on a highly curated moment or experience.[123] While pop-ups have been part of fashion's playbook for some time, brands are increasingly expanding these experiences into adjacent categories such as food, nature and wellness. In 2023, these have ranged from Prada's pop-up café in London's Harrods department store to resort-based rollouts like Fendi's,[124] which extended the luxury fashion brand's aesthetics to design a beach club for the Puente Romano Beach Resort in Marbella, Spain, featuring personalised sailing boats for guests of the luxury Costa del Sol destination.[125] Loro Piana's La Réserve à la Plage in Saint-Tropez, France — consisting of a beach club and boutique — is another example.[126]

And as customers' travel itineraries expand geographically, so too will pop-up ventures. Consider Dior's Dioriviera, which launched in 2018 to showcase the brand's annual beach collection in a few select destinations.[127] By summer 2023, Dioriviera had reached nearly two dozen pop-up and concept shop locations, extending beyond iconic spots such as Beverly Hills, Saint-Tropez and Capri, setting up shop further East in places like Bali and Phuket.[128 129 130] Meanwhile, Coach launched its first Coach Airways-themed pop-up in Malacca, Malaysia featuring a concept store and café housed in a Boeing 747 jet, selling ready-to-wear, bags and travel accessories.[131]

Fashion is also joining forces with hospitality to reimagine experiences for travellers. For example, the Four Seasons Hotel in Houston, Texas and fashion membership club Vivrelle have partnered to offer hotel guests complimentary access to an on-site luxury "closet" of brands such as Prada, Gucci and Dior.[132] Saks Fifth Avenue has also rolled out Fifth Avenue club concepts that offer personal styling, trunk shows and special events at various Ritz-Carlton and St Regis hotels.[133]

Now, many travellers are also looking to expand their itineraries beyond traditional destinations ... perhaps as a nod to a post-pandemic desire for freedom and escapism.

Zimmermann 2023 resortwear collection. Simon Lekias / Isa Sanchez / Getty Images.

Get Packing

The new travel era also has implications for category preferences. With the BoF-McKinsey consumer survey finding that nearly 40 percent of consumers purchase new clothing to wear on their vacations, resort fashion is a key beneficiary of travel's growth,[134 135] spurring the appeal of bright, summery labels ranging from Australia's Zimmermann to Brazil's Farm Rio,[136 137] as well as sales in the vacation category from luxury e-tailers such as MyTheresa, whose vacation category sales in 2022 were triple 2019 levels.[138]

Luxury brands have launched or refreshed resortwear collections, often aiming to attract new customers at more accessible prices. For example, LVMH-owned Loewe — one of Lyst's hottest brands of the year — has continued to expand its Paula's Ibiza vacation line, riding on the success of its popular totes made from woven palm leaves.[139 140] But resortwear is not just confined to luxury houses. In the mass segment, for example, Mango launched a designer collaboration in 2023 with California-based lifestyle brand Simon Miller to create a colourful capsule beachwear collection.[141]

Beyond the collections themselves, succeeding in resortwear requires creative approaches to marketing, such as influencer trips and buzzy local activations. Recent launches of ready-to-wear lines reflecting the spirit of travel include Louis Vuitton's LV By the Pool, with a branded activation at the iconic Zuma restaurant in Mykonos, Greece, and Versace's La Vacanza in collaboration with musician Dua Lipa, which debuted in the south of France.[142 143]

For fashion executives, travel's rebound creates an opportunity to view their global growth maps with a new lens. As their customers seek out more unique, off-the-beaten-path experiences, fashion players should consider proactively identify emerging hotspots, while innovating marketing initiatives and piloting activations that resonate with 2024's travel zeitgeist. Partnerships with adjacent industries, such as travel adventure, hotels, spas and restaurants, can enable brands and retailers to create compelling blended experiences no matter where customers find themselves. Overall, the key will be to keep pace with global customers, adapting to when, where and how they want to shop when on the road.

IN-DEPTH

How China's Tourists Will Return in 2024

By Daniel Zipser, Asina de Branche, Steve Saxon, Jackey Yu and Liann Wu

In 2024, Chinese tourists are set to return overseas, as outbound flows and spending gradually return to near pre-pandemic levels. However, evolving preferences and behaviours adopted throughout the pandemic years mean visitors from China will likely travel and shop differently than before.

For more than two decades, outbound travel from mainland China was a major catalyst for the growth of global tourism. In 2019, China accounted for one-fifth of international tourism spending, amounting to $255 billion as the result of a total of 166 million outbound trips.[144] However, this growth engine came to a halt with the Covid-19 pandemic and the ensuing lockdowns.

After three years of restrictions, mainland Chinese consumers are getting ready for new travel adventures. For fashion brands and retailers around the world, the return of China tourism is a welcome silver lining to the current clouds hanging over the country's economy. However, to maximise the opportunity, companies need to prepare for consumers with different behaviours and expectations than pre-pandemic.

Domestic Strength

With international borders closed through the pandemic, domestic travel has thrived in mainland China, currently on track to exceed pre-pandemic levels in 2023.[145] Despite the current economic uncertainty affecting the country, consumers' willingness to travel is robust. McKinsey consumer research in Q3 2023 shows that travel is the category Chinese consumers are most likely to splurge on, exceeding other categories such as restaurants and groceries.[146] During the country's eight-day Golden Week holiday in October 2023, the Chinese took nearly 826 million domestic trips, up over 70 percent from last year.[147] In 2024, this domestic momentum is expected to continue, with mainland travel flows reaching 110 percent to 120 percent of pre-pandemic levels.

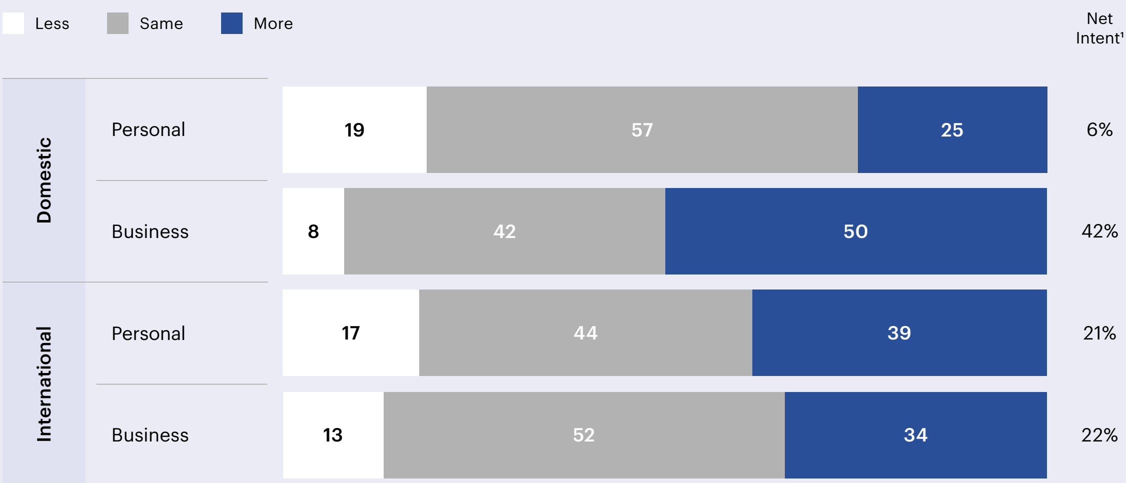
One major reason for the strength of domestic tourism is local destinations have become increasingly attractive. Hainan has emerged as a top hotspot for tax-free shopping, where fashion sales in April 2023 were 203 percent higher than

Chinese tourists and luxury fashion shoppers. Tomohiro Ohsumi/Getty Images.

Exhibit 9

Chinese consumers are planning both international and domestic travel

Chinese consumers' future intent for travel,
% of respondents



1 Net intent calculated as the difference between the percentage of respondents who 'will travel more' and the percentage who 'will travel less'

Note: Numbers are rounded and may not add to 100

Source: BoF-McKinsey State of Fashion 2024 Consumer Survey

pre-pandemic levels.[148] The island is set to become one of the world's largest luxury retail markets in the next five years and is expected to attract over 80 million visitors annually. In October 2023, luxury travel retailer DFS announced a major project — its largest ever — to build a "world-class, seven-star" luxury retail and entertainment destination in Hainan's Yalong Bay by 2026 that will cover more than 128,000 square metres and attract over 1,000 luxury brands.[149]

Outside of Hainan, retail in the mainland has improved significantly as well. Top brands including Hermès, Dior, Chanel and Louis Vuitton invested heavily in their domestic footprints during the pandemic by renovating flagship stores, opening VIP salons and strengthening sales associate teams to cater to local clientele.[150] Luxury has also entered domestic airports for the first time — in September 2023, DFS entered the domestic terminal at Chongqing airport with a line-up of brands such as Bulgari, Valentino and Versace.[151] Higher duty-free allowances on e-commerce purchases and the price parity of brands with markets abroad decreasing from up to 50 percent in the late 2010s to between 10 percent and 20 percent today, also incentivise domestic spending.[152]

Given strong domestic options, experts forecast a permanent repatriation of luxury spend. While China's 460 billion yuan ($63 billion) personal luxury market will continue to grow in the long term, domestic shopping may account for 60 percent to 70 percent of the spend (and international 30 percent to 40 percent). McKinsey analysis indicates a likely permanent reversal from pre-pandemic levels of about 40 percent domestic and 60 percent international.[153]

Outbound Returns

While domestic travel continues to surge, 2024 will also see the long-awaited renaissance of Chinese outbound travel. Outbound travel from the mainland is recovering quickly, and may grow from almost 0 percent of pre-pandemic levels in 2022 to 50 percent in 2023, with potential to almost double to 70 percent to 100 percent in 2024. A full recovery could take place by the end of 2024 or early 2025.[154]

What will drive outbound recovery among Chinese consumers? Primarily, there is a burning desire to go out and explore further afield again. During the October Golden Week holiday, demand for Alibaba's Fliggy visa processing services were over 70 percent higher than May Day, China's last major national holiday. The number of outbound bookings also hit a high for the year. Moreover, travel interest spans both business and leisure.[155] Some 39 percent of respondents from the latest BoF-McKinsey State of Fashion 2024 Consumer Survey plan to travel more internationally for personal reasons, while 34 percent plan to travel more for business reasons.[156]

On the supply side, barriers to outbound travel are also falling, leading to increased flight capacity. Total seats in September 2023 reached over 50 percent of pre-pandemic levels and have consistently risen week on week.[157] Regulatory hurdles have also eased as travel bans to more than 170 countries have been lifted, adding momentum to the recovery.[158] The regions that will likely benefit immediately are those that are easiest logistically to get to, including other East Asian countries and Southeast Asia — over 40 percent of surveyed consumers have expressed interest in travelling to these regions in 2024.[159] Outside of the "four-hour flight circle" around China, tourism is also picking up in Australia and New Zealand, United Arab Emirates, Turkey and Egypt, according to Fliggy.[160]

The Experience Imperative

For Chinese tourists who return abroad, there has been a fundamental change in priorities. Much higher on tourist agendas is the desire for experiences. According to the BoF-McKinsey consumer survey, dining out and trying local cuisine are the most popular travel activities (63 percent expect to do more on the next trip), followed by being in nature (58 percent) and sightseeing (57 percent). Shopping, meanwhile, is in seventh position.[161]

While the shifting demand landscape suggests big shopping hauls are lower on the list vis-à-vis other activities, shopping data from tourism tax refund company Global Blue points to spending on shopping still being on track to recover in force. This year, in Asia Pacific, the shopping spend of mainland Chinese tourists is already 109 percent of 2019 levels. This has been driven by a significant increase in the average spend per shopper.[162]

In continental Europe, the shopping recovery has been slower, with like-for-like in-store sales to mainland Chinese tourists reaching 41 percent of pre-pandemic levels, despite a 54 percent jump in air capacity.[163] Leading the recovery are ultra-high-net-worth individuals, who are spending 28 percent more per transaction on average.[164] According to Jean-Marc Bellaiche, the chief executive of French luxury retailer Printemps, most business this year has been from individual clients at a much higher level compared to pre-Covid, while group travel — which represented nearly a third of sales in 2019 — is significantly down.[165] Therefore, as travel normalises, European stores could expect a recovery of shopping spend close to pre-pandemic levels, though in the near-term driven by value of shoppers rather than volume.

In 2023, in Asia Pacific, the shopping spend of mainland Chinese tourists is already 109 percent of 2019 levels.

New Shopping Priorities

When it comes to shopping, Chinese travellers now have a more sophisticated set of expectations than before the pandemic. To start, in-store experience is a top priority. This is especially true in luxury: In the latest McKinsey China Luxury Consumer Survey, 81 percent of consumers said they want to touch and feel products, regardless of the initial discovery channel.[166] This means they now look for elevated in-store experiences, full assortments, deep product education and immersive interactions.

Digital expectations have also matured, as 61 percent of Chinese luxury consumers are true omnichannel shoppers.[167] This means they are more likely to engage with brands that can interact through familiar digital ecosystems with features such as scheduling appointments with Mandarin-speaking associates, WeChat loyalty programmes as well as personalised communications and services.

Category preferences have evolved. In personal luxury, jewellery and watches are expected to gain 4 percentage points of share of discretionary spending between 2023 and 2027, having overtaken handbags as the top-spending category in 2023. One reason is the belief that hard goods are more likely to retain their value in an uncertain economic environment than other categories. Ready-to-wear is expected to lose 2 percentage points of share from 2023 to 2027.[168]

Lastly, demand is high for niche and differentiated products for self-expression and individuality. According to the McKinsey luxury consumer survey, when it came to top factors that consumers consider in a purchase, brand names fell from number one in the ranking in 2019 to number five in 2022. And 31 percent of Gen-Z (age 16 to 23) are open to smaller brands, compared to just 22 percent of Gen-X (39 to 54).[169]

How Should Brands and Retailers Respond?

Now is the time for brands and retailers to proactively prepare for the return of the world's largest outbound travel population. This means strategically balancing domestic and international needs and tailoring shopping experiences to new expectations and preferences.

First, higher standards for in-store experience mean brands should consider maintaining exceptional retail in domestic locations such as Hainan or mainland cities, while deploying investments in key international hubs popular among Chinese travellers. This means creating shopping spaces that offer elevated comfort and convenience, alongside exclusive VIP services in destinations such as the Ginza neighbourhood in Tokyo or famous department stores such as Galeries Lafayette or La Samaritaine in Paris.

Second, retailers awaiting the Chinese consumer could rethink their digital playbooks to link with the latest Chinese ecosystems, integrating a personal touch and tailored offerings into Chinese apps such as WeChat. Partnering with key opinion leaders (KOLs) and other influencers on social platforms such as Xiaohongshu or Douyin will also help drive awareness and engagement with hyper-digitised consumers.

Third, brands and retailers should consider revamping their assortments to reflect the updated tastes of the Chinese consumer. Successful companies will pivot towards categories such as fine watches and jewellery for affluent shoppers seeking safe-haven indulgences and niche products for the individualistic younger generation that will become the future face of Chinese consumers.

Lastly, as global brands and retailers strive to win back the Chinese shopper, they must not lose sight of other key demographics like American and Middle Eastern shoppers who play a large role in the market. Achieving success in serving diverse clientele while making the most of this unique Chinese opportunity demands thoughtful, targeted moves and commitment to creating inclusive experiences that cater to a wide range of tastes and preferences.

04. The New Face of Influence

It's time for brand marketers to update their influencer playbooks. A new guard of creative personalities is gaining brands' attention, winning trust and fandom among key audiences. Working with these personalities in 2024 will require a different type of partnership, an emphasis on video and a willingness to relinquish a degree of creative control.

KEY INSIGHTS

- 68 percent of consumers feel bothered by the amount of sponsored content on social media and 65 percent rely less on fashion influencers compared to previous years.
- Consumers increasingly demand authenticity, entertainment and relatable personalities, unlocking a "new wave" of creators who embrace less-polished aesthetics, quirkiness, humour and vulnerability.
- To capture and hold the attention of consumers online in 2024, fashion marketers will likely break free of tried-and-tested routines and explore new avenues for partnering with creators.

Amelia Dimoldenberg at The Standard, London. Dave Benett/Getty Images.

Capturing consumers' attention online isn't about to get any easier for fashion businesses.

On Instagram, engagement rates have fallen, by roughly 30 percent year on year in 2022,[170] while the reach of posts has diminished.[171] Consumers are showing signs of fatigue towards traditional influencer marketing after years of being bombarded with product promotions and brand announcements. The BoF-McKinsey State of Fashion 2024 Consumer Survey found that 68 percent of respondents were unhappy about the high volume of sponsored content on social media platforms and 65 percent were turning less to fashion influencers than a few years ago. Young consumers are becoming particularly adept at tuning out the noise. One study found Gen-Z loses active attention for advertising after just 1.3 seconds.[172]

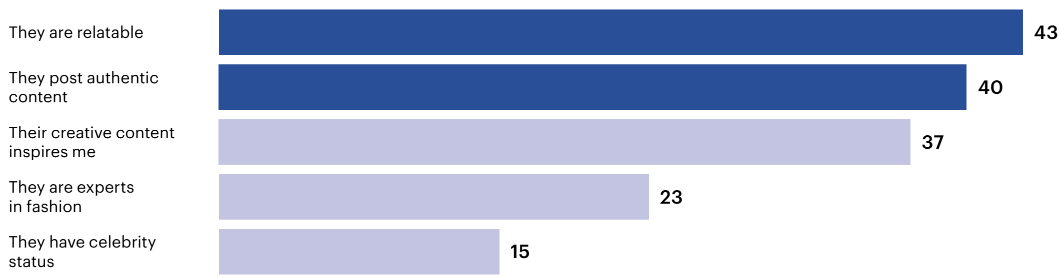
Even in this environment, influencers continue to be a powerful channel for brands to break through the noise and connect with consumers, with the influencer-marketing industry forecast to reach $21.1 billion in 2023, up from $16.4 billion in 2022.[173] However, the influencer landscape has been evolving in the past few years as consumers increasingly demand authenticity, entertainment and relatable personalities, with this trend likely to gather momentum in the year ahead.

According to the BoF-McKinsey consumer survey, consumers are gravitating towards relatable and authentic influencers far more than other attributes

Exhibit 10

Consumers prefer fashion influencers who are relatable and authentic over other traits

Attributes consumers like about their favourite fashion influencers,
% of respondents



Source: BoF-McKinsey State of Fashion 2024 Consumer Survey

such as an aspirational lifestyle or celebrity status. Marketing and influencer firms echo these findings — a 2023 survey found that, although beautiful and aspirational content was effective, social media users were more likely to follow influencers whom they deem authentic and fun.[174]

The changing dynamics are reflected in where users spend their time online. TikTok, often regarded as a platform that promotes authenticity,[175] has taken the lead among some user groups. A March 2023 study estimated that US adults spent nearly 56 minutes a day on average on TikTok. By comparison, US adults spent just over 30 minutes on average on Instagram.[176] TikTok's success, which has prompted Instagram to emulate the platform with its Reels video feature,[177] is based largely on how it surfaces content, emphasising measures such as the time users spend on a post and whether they return.[178] As a result, any creative and entertaining content can reach a wide audience, even if the creator doesn't have a high number of followers. The platform BeReal, meanwhile, saw surging user growth in 2022, and while there are doubts about its longevity,[179] its emergence may well be a response to the perceived inauthenticity of social media's large incumbents.

The New Guard

Though consumers have rewarded greater authenticity online for some time, it is becoming more pronounced as influencers emphasise their individuality. Gen-Z in particular value pursuing their own unique identities and appreciate diversity among other attributes, according to a Stanford University study.[180] This generation's favourite platform for following influencers is TikTok,[181] which was also deemed the best platform by Gen-Z respondents for promoting a product through influencers in a 2022 survey, surpassing both YouTube and Instagram.[182]

While traditional influencers who convey an aspirational lifestyle and command large audiences are likely to remain important for fashion marketing, other influencers who come across as less scripted or polished are already gaining audiences. Quirkiness, humour and vulnerability are helping this cohort stand out. A case in point is Alix Earle, who has built a following of nearly 6 million on TikTok, not with any sort of viral hit but rather with her apparent relatability and willingness to be herself.[183] Madeline Argy's TikTok confessionals, which take the form of funny, rapid-fire videos such as a tearful questioning of what DJs actually do, have earned her roughly 5 million followers. And Sabrina Bahsoon, who goes by Tube Girl, shot to fame posting TikTok videos showing her dancing in the London Underground, an act that's been called "unapologetic self-expression."[184]

While the styles of these creators differ, what unites them is their off-beat, personal approaches to creating content, which reads as being authentic to who they are rather than pursued purely for "likes" or to convey an unattainable ideal. The most-followed personality on TikTok is Khaby Lame, whose content featuring his humorous silent commentary on ridiculous online videos has attracted roughly 162 million followers.

Fashion brands are embracing these personalities and seeing the benefits. Bahsoon featured in Hugo Boss' most-viewed TikTok post, which has garnered more than 144 million views. Lame and Argy have fashion partnerships as well. For the debut of creative director Sabato de Sarno in September 2023, Gucci asked Amelia Dimoldenberg, who became popular conducting awkward interviews at a fried-chicken establishment, to attend the event and interview other guests.

Brands are also going down the path of creating deeper partnerships with influencers than one-off videos or fashion show invitations. For example, luxury brands Loro Piana and Audemars Piguet are working with the creator known as Gstaad Guy, who built his following parodying the tastes and attitudes of the ultra-wealthy. Both brands now dress Gstaad Guy and regularly invite him to events, such as Loro Piana's Spring-Summer 2024 show in Milan and Audemars Piguet's Tokyo launch of its collaboration with 1017 Alyx 9SM. Outside of luxury, online retailer Revolve has created a size-inclusive line with Remi Bader, a TikToker with 2.2 million followers who became popular for her humorous, unfiltered accounts of trying on clothing as a plus-size woman. Realising the importance and reach of these personalities, brands are investing significantly in their engagement — for example, Lame reportedly closed a $450,000 contract with Hugo Boss to walk its Milan Fashion Week show in 2022.[185]

As this new guard of creators joins traditional influencers in fashion week front rows and in brand marketing, it offers consumers contrasting viewpoints and another channel for communicating a brand's message.

Consumers are showing signs of fatigue towards traditional influencer marketing after years of being bombarded with product promotions and brand announcements.

Be Creative

To be sure, capturing and holding the attention of consumers online in 2024 will likely require fashion marketers to break free of tried-and-tested initiatives. In addition to collaborating with celebrities and mega-influencers, they may also need to dedicate resources to identify talent that might not be on their current radars but offers untapped possibilities.

When creating content, brands might want to look beyond highly polished product promotions and push boundaries by developing innovative and surprising campaigns that resonate with followers and reach new audiences. This will still require campaigns to align with a brand's core image and values. In its own guidance to brands, TikTok recommends creating "actionable entertainment" that holds users' attention and can gain greater reach from the platform's content algorithm, among other benefits.[186] Brands should also consider incorporating humour, self-awareness and unfiltered tones into short videos and other popular social media formats.

Because some of the most successful creators build their own online worlds, brands that partner with them might want to empower them with a degree of creative control. Rather than simply gifting items or sponsoring posts, they can collaborate closely to integrate the brand's presence into the influencer's content style. In the most ideal collaborations, a brand finds an avenue to convey its message and perspective in a manner that feels seamless and authentic. Gucci, for example, partnered with TikTok influencer Francis Bourgeois, who shares his passion for trainspotting with his followers, in campaigns such as the latest Gucci Gift and fashion week activations inspired by the scenic countryside, as a way to convey the joy and nostalgia of train travel.

Of course, fashion businesses should still exercise diligence to minimise potential image risks when taking new creative directions. But new directions are also likely to lead to some of the greatest rewards.

EXECUTIVE INTERVIEW

Gstaad Guy: Catering to the 1% with Social Media Wit

By Tamison O'Connor

The **Gstaad Guy**'s online parodies of the ultra-wealthy have blossomed into a full-time business for the pioneering influencer partnering with exclusive luxury brands for ultra-high-net-worth shoppers, highlighting how a niche genre of influencer marketing is helping to inject newness into how brands connect with their customers.

Gstaad Guy — who keeps his real identity a secret — began making a name for himself only a few years ago in niche social media circles by parodying the lives and tastes of the ultra-rich through sharp, satirical social commentary delivered through fictional personas: mainstay character Constance, an old-money British aristocrat who peppers his conversations with French and Italian and dresses head-to-toe in LVMH's "quiet luxury" bastion brand Loro Piana, and guest-star Colton, a happy-go-lucky, nouveau-riche Gen-Z American. His humour is carefully targeted: many of Constance's quips will sail far above the heads of the average Joe or Jane, but leave 1 percent of the wealthy, who are used to flitting between Gstaad, Monaco and London, chortling. (According to *Forbes*, a good chunk of its Billionaires List is among his following.)

Equally, luxury fashion brands also get where Gstaad Guy is coming from — to the extent that several have entered into partnerships with the social media star. Loro Piana launched 600 limited editions of its Open Knitted Walk shoes exclusively for Gstaad Guy followers; the collaboration sold out within hours and became the fastest-selling product the brand had ever made, according to *Forbes*.

How did Gstaad Guy come about?

I was Facetiming [with] a close friend of mine, who has a place in Gstaad. He was complaining about something he shouldn't be complaining about. I had never been there at the time, but I knew a lot of things about it purely based on conversations with him. I filmed one video on Snapchat, making fun of things I've heard him say, while really dialing up the absurdity. I sent that video to his mum, all in character, this fictional character I coined Constance, inspired by my friend. His family and closest friends found the video hilarious. His mum sent it to all the Gstaad mums' WhatsApp group chats, which went to different parents and students of the Le Rosey boarding school [in Switzerland]. And it then quickly trickled into Gstaad-frequenting Geneva, Monaco and London communities.

My satirical social commentary would focus on things that are only really relatable to very few in Gstaad, Monaco, Geneva and Mayfair [in London]. By video five, I think I had maybe 4,000 followers, I spoke about how Constance loves his Loro Piana vicuña gilet. A couple of weeks later, I was told by the salesperson at Loro Piana on Sloane Street that people have been coming into the store asking to buy the items I was wearing in my video. And all similar gilets had sold out.

I was accidentally selling dozens of products that cost about three grand, with under 5,000 followers. This has never been done before; I knew it because I've been on the other side. [I thought] there's really something here.

What is it about Gstaad Guy that attracts your target audience?

I was making fun of a place that's very inconvenient to access through commercial means of transport. It is three hours away from any commercial airport.

The Gstaad Guy social posts. Gstaad Guy.

And it's, frankly, too expensive and too quiet for someone to just stumble upon. So through travel inconvenience, unaffordability and the privacy of the Swiss mountains, Gstaad just attracts some of the world's wealthiest people — people that commute between their chalets in Gstaad, townhouses in London, chateaux in Saint-Tropez and boats on the Mediterranean. And because I was making jokes about them and the way they live their lives there, I was attracting them.

In this influencer landscape that is so saturated, what's the white space that you occupy?

I am in a very unique position, where I have, through fiction, created very authentic characters. People have a deep connection with the characters, likely because of how authentic to their values they are. Especially Constance.

And because of the rather niche jokes I'm making. I have the highest concentration today of high-net-worth people of any social media page globally, who are being communicated things that are delivered lightly through tongue-in-cheek storytelling that's very digestible.

What has your Gstaad Guy account led to in terms of business opportunities?

Gstaad Guy is an atypical account. With anything atypical, especially in the luxury world, you don't sell it like you sell commodities. It's not, 'Hey, here's my price, buy or leave it and move on.' That's bad for the buyer and the seller. In the world of luxury social-media marketing, selling ad space and having a very authentic partnership are two very different things.

For Gstaad Guy, I always had to have a "tasting" for my potential clients before they hired me as their chef. And the way I always played that game is: who is Gstaad Guy in real life? What are the products and items that he would actually love? And let me just talk about those things more and more. I never thought I would have the scale to convert the masses of voyeurs. And I still don't think I do. But I know I have the storytelling abilities to convert and elevate customers of an existing brand to new, better products, and to an elevated perception of that brand.

Slowly, through storytelling, I built a really strong connection with my audience around a very few, very high-end products, which are historically very difficult to market, and it gave the brands no choice but to work with me. I became their ambassador before they asked me to. I think that's what every brand is looking for now. Ad space is readily available, but authentic connections with an audience are scarce. If you have the choice, who are you going to choose? Obviously, the person who has the most authentic connection with your brand and ideal customers, so it doesn't seem like an ad in your face.

Historically, luxury has been very protective of the way that brands are communicated. Content poking fun at their top customer base was not something that they would have typically engaged with. What's changed?

I think the only thing that's changed is that it's been digitised.

If you look at the real conversion of top clients around a truly luxurious brand like Loro Piana, it was never happening in a magazine or on a billboard. It was always happening at a dinner table, among friends and like-minded people. And the way the items were discussed was always through a passion for excellence [and] often through the delivery of comedy and relaxed nonchalance, as one does at a group dinner.

If you're smart and you've made enough money to afford this stuff, you know that luxury is often ridiculous by design. Of course, the brands can't say that, but the people at the dinner table can, and that's happened for generations. ... A brand can talk about their excellences and about how and why they create, but ... as a consumer, you don't want to feel like you're being sold something [and] during those off-the-record moments where the founders of the brands can talk to friends and to ideal customers, they can add that salt and pepper that makes it digestible, and that's what I do. Digital salt and pepper.

What role do products play in your business, given that you are, first and foremost, creating content? There's a lot of content that doesn't have any reference necessarily to any products.

Consumerism is so deeply integrated in the core of my archetypes' personalities and desires. Their conversations are so often about products, and why this product is better than the other. It really came as second nature to my content and storytelling. From my very first video, when I never had any commercial intentions or ideas, Constance was talking about his favourite restaurants, destinations, clothes and Loro Piana gilet. It never seemed inauthentic; I wasn't talking about the art of yoga and all of a sudden selling toothpaste. I've just been expressing who my characters are, and how their buying desires are all intrinsically linked to their values and interests. Real life connoisseurs like Constance demand excellence in all categories of their lives, regardless of price, and if it isn't excellent, it's *à la poubelle*.

Is that limiting the number of brands you can work with?

Absolutely, and I think that's a great thing. I don't want to become a walking billboard. I'd rather be authentic to the few things I love personally and the few things my characters love. Just like the real Gstaad Guy types. Constance isn't fickle and he very rarely changes his shopping, travel or dining habits.

In your case, scale almost works against you because you want to speak to a small community. How do you think about this as you become more famous?

The world's obsession with scale is a bad one, and I learned that the hard way when I worked on a start-up before this. I raised a lot of money and all my investors said is, "scale, scale, scale," and we ended up with two million users that we could not convert financially. If I had raised far less venture money instead, and had 300,000 users who were paying, that's a much better position to be in. And then scale those paying customers very, very slowly and make something sustainable.

That's the core of luxury. If you have few people who love your products and you just grow that sustainably, you can remain a luxury brand and you can get your customers on the ladder of slow elevation. That's really my ideal scenario — to continue to elevate the storytelling, elevate the product offering. ... I intentionally stay away from a lot of viral moments on social media because that's not me. I'll sometimes use my Gen-Z hypebeast character Colton to provide contrast and perspective. But Constance, *the* Gstaad Guy, is not fashion. He's not a trend. Gstaad Guy is a constant. I don't want him to give in to trends, I don't want him to give in to fashion, because I want him to be timeless, that's how Gstaad Guy is perceived.

This interview has been edited and condensed.

In the world of luxury social-media marketing, selling ad space and having a very authentic partnership are two very different things.

05. Outdoors Reinvented

Technical outdoor wear has been propelled by consumers' post-pandemic embrace of healthier lifestyles as well as "gorpcore," and is likely to accelerate even further in 2024. More outdoor brands will likely launch lifestyle collections while lifestyle brands embed technical elements into collections, further blurring the lines between functionality and style.

KEY INSIGHTS

- The recent reorientation of outdoor apparel and footwear into the everyday wardrobe means brands will forge ever-closer ties between style and utility.
- Competition in 2024 may increase across price points and categories, with some outdoor brands skewing apparel towards the high end, while others look to shake-up footwear.
- As the gorpcore trend cools, brands may begin to lean into toned-down, "quiet outdoor" fashion.

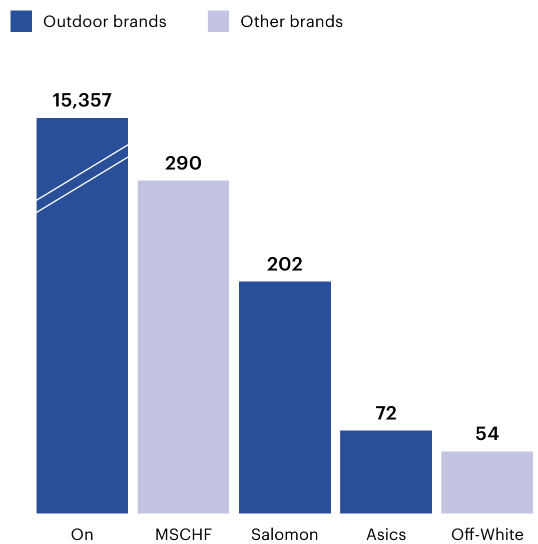
One lasting impact of the Covid-19 pandemic has been soaring consumer interest in healthier lifestyles and nature-focused activities,[187] like camping, hiking and boating. In the US, 82 percent of people said they had participated in such outdoor activities, compared to 60 percent in 2020,[188] while nearly half of survey respondents in the UK report spending more time outdoors than prior to the pandemic.[189] In China, by the end of 2021, more than 400 million people were taking part in outdoor sports,[190] and between 2021 and 2023, the search volume in for "outdoor" on Chinese marketplace Tmall surged more than 600 percent.[191]

This is, of course, good news for outdoor sportswear brands, many of which have also been riding the "gorpcore" trend that has picked up steam over recent years. "Gorpcore" is a colloquial term for trail-running mix (Good Ol' Raisins and Peanuts). Outdoor enthusiasts and young urbanites alike have been gravitating to gorpcore's functional, outdoors-inspired fashion, such as shell jackets and hiking-style sneakers. In 2022, revenues for the outdoor category were 24 percent higher than pre-pandemic times, drawing attention of financial deal makers.[192] Outdoor wear has been a highly active investment category since the pandemic, with deals involving brands and retailers like Moosejaw, Marathon Sports and Topo Athletic.[193 194]

Exhibit 11

Sneakers from outdoor brands On, Salomon and Asics are among the top sellers on resale platform StockX

StockX top five brands by trade growth, year-on-year change (H1 2023 vs H1 2022),[1]
%



1 Only includes brands with at least 5,000 trades in H1 2023. Year-on-year trade growth: Jan 1–July 31, 2023 vs. Jan 1–July 31, 2022

Source: StockX

From Outdoors to the Mainstream

Many of the fastest-growing sports brands of recent years have roots in outdoor performance but have since transcended their core customer bases to attain widespread popularity. In July 2023, The North Face announced its 10th consecutive quarter of double-digit revenue growth,[195] while Amer Sports, backed by a consortium led by Chinese sportswear giant Anta, has said it plans to scale Salomon and Arc'teryx, two of its brands that were born as niche ski and climbing brands, respectively.[196]

A similar evolution is taking place with technical and trail running brands such as Deckers-owned Hoka and On, which found loyal customers within running communities before their innovative, high-comfort solutions found appeal with wider audiences. On reported a 69 percent year-on-year jump in revenue to $1.3 billion for 2022, exceeding analyst expectations, while Hoka is on track to hit $2 billion in annual revenue.[197 198]

Luxury brands also have a toehold in the outdoors. The North Face and Gucci collaboration, unveiled in 2021, was one of the first big tie-ups between luxury and outdoors. Since then, a wave of performance-influenced footwear collaborations have followed, including those from On and Loewe, Hoka and Moncler, and barefoot shoe maker Vibram and Balenciaga.[199] In terms of apparel, Jil Sander and Arc'teryx collaborated on a collection of sportswear-infused mountain gear,[200] while Adidas and Moncler created a capsule collection of puffers and track jackets.[201] These partnerships have elevated gorpcore, while celebrities like Kendall Jenner and Bella Hadid have taken to combining high luxury fashion with outdoor wear and hiking shoes.

Mid-market brands have been heading outdoors, too: H&M's summer 2023 "Move" collection featured water-repellent parkas and convertible hiking trousers, while Inditex's loungewear and activewear brand Oysho launched hiking boots within its permanent range alongside a hiking collection for women.[202] Free People similarly expanded its merchandise to include hiking sticks and trekking poles.[203]

In the year ahead, brands are expected to forge ever-closer ties between style and utility as lifestyle brands deepen investment in the outdoors, and outdoor brands increasingly court fashion-focused customers.

As such, outdoor specialists are likely to more closely align their products to everyday lifestyles. Merrell, which started as a purveyor of high-performance hiking boots, is among the brands to have developed lifestyle footwear,[204] while Icelandic outerwear brand 66°North named Kei Toyoshima, a menswear design consultant at Louis Vuitton, as creative director in 2022 to enhance its appeal with broader audiences.[205]

Meanwhile, luxury players from Dior to Burberry are moving from one-off outdoor capsules to permanent collections. Prada's Linea Rossa technical line has recently been sported by style makers such as A$AP Rocky.[206] In turn, outdoor labels have started to borrow from the luxury playbook by, for example, opening high-profile flagships and pop-up experiences that elevate their brands. This includes Arc'teryx's latest flagship store in Osaka's Shinsaibashi neighbourhood, which features the first Arc'teryx cafe with food inspired by the brand's Canadian roots, as well as a Japanese menu.[207]

Reflecting this dynamic, Arc'teryx chief executive Stuart Haselden said in spring 2023 that the company is investing in sub-brand Veilance to cater to consumers looking for fashion-forward yet minimalist technical clothing without the typical gorpcore hallmarks.[208] Outerwear label Goldwin has introduced simple, loose suiting made from ultra-lightweight wool and bamboo fibre,[209] while Roa Hiking, a brand favoured by rapper Drake, has married a luxury aesthetic with functionality with products such as thermal-lined trousers made from water-repellent nylon fabric.[210]

When it comes to footwear, outdoor-style shoes from performance brands that "sneakerheads" started coveting in recent years are likely to gain even more traction with consumers in 2024. On was the fastest-growing sneaker brand in 2023 on resale platform StockX, with trade activity up more than 15,000 percent year on year, while trade activity for Salomon and Asics was up 202 percent and 72 percent respectively.[211]

The challenge for all brands will be to establish relevancy among diverse customer segments, from technical outdoor-goers to StockX customers, while staying true to the brand's core.

This may spur brands to lean further into styles that straddle utility and fashion and can be worn in both urban and outdoor settings. For example, one of Salomon's top sellers is its Sportstyle XT-6 Gore-Tex shoe, which features performance benefits but is designed for use in daily life.[212] The brand has teamed up with Maison Margiela to launch an Autumn-Winter 2023 collection including a "Cross Wader" trainer which bridges technical performance and style,[213] building on the success of the two brands' "Cross Low" sneaker worn by Rihanna at the 2023 Super Bowl.[214]

In the coming year, utility, durability and performance may prove to be a good match for consumers' budgets, increasing the appeal of the outdoor category. As such, brands across all price segments should get ready to embrace the outdoors in its new, blended form and find a place in the shifting competitive landscape.

Indeed, competition may increase across price points and categories, with some outdoor brands

Quieter Styles Ahead

However, as the gorpcore trend cools, brands may be challenged to shapeshift their outdoor offerings. Similar to how the "quiet luxury" aesthetic gained popularity as consumer interest in streetwear waned, "quiet outdoor" styles are likely to gain popularity in the year ahead, with consumer preferences shifting from flashy performance jackets and cargo trousers to elevated garments with minimal logos while still featuring technical fabrics.

Rihanna performs during the Super Bowl LVII halftime show. Kevin Mazur/Getty Images.

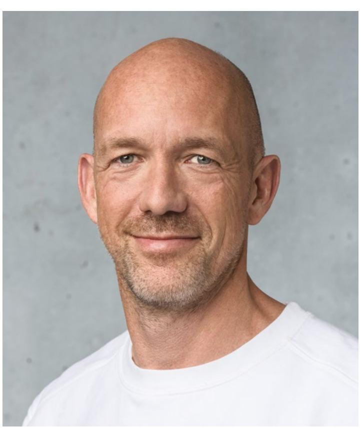
skewing apparel towards the high end (Arc'teryx, The North Face) and capturing some of luxury brands' wallet share, while others look to further shake-up the footwear market (Hoka, On, Salomon). The challenge for all brands will be to establish relevancy among diverse customer segments, from technical outdoor-goers to StockX customers, while staying true to the brand's core. Otherwise, brands may risk watering down their identities and losing what makes them distinctive in the first place.

For outdoor brands looking to conquer fashion, embracing a quieter aesthetic may be the key. On the other hand, fashion brands making their foray into outdoor wear may be able to crack the design code but may have to rapidly scale capabilities and suppliers to compete. Redefining the go-to-market strategy to prioritise innovation and extensive testing of materials for performance will likely become table stakes.

EXECUTIVE INTERVIEW

On: Capitalising on the Perennial Sportswear Boom

By Daniel-Yaw Miller



David Allemann, Co-Founder and Executive Co-Chairman, On

The co-founder and executive co-chairman of the Swiss performance-footwear and apparel brand, **David Allemann**, reflects on why performance sportswear companies can lean into innovation, technology and collaborative relationships with athletes to build credibility with outdoor-focused consumers.

The way David Allemann sees it, On's expansion from geeky, high-tech running footwear into fashion-forward sportswear is evolution, not revolution. Having co-founded the company in 2010 to make quirky-looking running shoes for top athletes and avid amateur runners[215] — whose prototype made from cut-up garden hoses is still proudly on display at On's Zurich headquarters — Allemann has seen how a performance brand like On can "naturally transition" into the wider world of fashion, while staying true to its sporting credentials. The key, he says, is credibility with consumers.

In the case of On, that "organic" ability had multiple implications — from distance running came trail running and professional track and field, then to the pivotal moment in the company's history when On entered into a partnership with tennis star-turned-investor Roger Federer in 2019, capturing the attention of not only gym-goers and hobbyist runners, but enabling it to continue expanding its global footprint and product mix, to generate a record net sales of 1.22 billion Swiss francs ($1.36 billion) in 2022, with apparel's contribution to the top line steadily rising year on year.

With many consumers continuing to embrace performance wear as their everyday "uniform," Allemann says there are plenty of growth opportunities for performance-sport brands.

On shoe collection. On.

The sportswear category has become increasingly competitive, with newer entrants. But even as the market gets more crowded and 2023 has been challenging generally, On continues to grow. How does the brand stay ahead and consistently build desirability?

Generally, the performance-sports space is a super interesting one where there is so much opportunity because we've just seen that massive channel shift of consumers, pretty much almost making performance and sports their new uniform. Driven by the fact that consumers now probably, on many days, are working from home and have it much easier to integrate sports and potentially even nature if it's close by. ... In a sense, the market has become much bigger and we feel it's because of the new uniform. I think this benefits every [brand] that comes from a true performance and sports core.

In the case of On, we've been working very hard over the last 13 years — it's still a young brand — to build at the intersection of innovation, but also design and sustainability, because we feel if you get that formula right ... I think you [can] be relevant for the consumer in this market.

How is the global consumer shift towards embracing the outdoors and healthy lifestyles impacting the sportswear category?

Today it's probably almost easier to come from sports into fashion than it is to go from fashion into sports, because so much [inspiration] is driven from performance technology and from performance silhouettes. Of course, you can create a sneaker coming from fashion, but it's just much less credible. Also, if you think about membrane jackets, technical hoodies, track pants or even backpacks, these are now so big in fashion. But ultimately these are all silhouettes that are originally coming from the sports category to make sportswear the new uniform. If we look at fashion brands these days they almost feed on sports technology, whether it's stretchable fabrics or closure systems.

Roger Federer in 'The Roger.' On.

Presumably, the barriers to entry to becoming a performance footwear brand are high, right?

To start in footwear, you have to have high credibility when it comes to the technology and what uniqueness you bring to the market. That absolutely is not a given. I think we had this gem of technology that for the first time was not just a new foam, but was really an engineering piece that we brought to the market, and then having all the speciality retailers [selling our shoes] and seeing the benefits [of the technology], and also getting the whole buy-in of athletes in the Boston Marathon, like Hellen Obiri or the On Athletics Club that we built together with our athletes.

On brings athletes into the core of its product development process. Since 2019, you've had a fruitful relationship with Roger and with the athletes in the On Athletics Club. Since then, there have been many examples of other performance brands working with athletes collaboratively. How important will this way of working with athletes be for the On brand going forward?

For us, it's always personal. When we're building partnerships, it's always a personal journey, and we really feel that the brand and the personality have to fit. We just feel so fortunate to have Roger, Iga [Świątek, winner of 2023's French

Open] and Ben [Shelton, winner of 2023's Laver Cup in Vancouver, Canada] on board.

Going back to the very origin of On. ... When we started developing On, we always went to our — back-then — lab in a carpenter workshop and tested the shoes or the new outsoles out, together with our athlete friends. So it's always been the case for On that innovation and athlete testing are intrinsically connected.

It just happens now on a much bigger scale. So we're building that scale and I feel the On Athletics Club has given us an opportunity to build almost a family of athletes, who sometimes live together, train together and are part of that On Athletics Club, but are of course also our daily testing ground of every innovation step we take.

Iga is so involved in the development of her shoe that we keep iterating to make it even better, and so it's actually quite a long process how we work together to get the best out of it. It's at the very core of On, and it's also not something where we're basically saying, 'Let's bring in an athlete, let's get some ideas,' and then we do something together and we move to the next athlete. It's long-term relationships.

How has On's approach to launching its apparel category been evolving?

It's fantastic to have Tim [Coppens] on board [as our apparel designer since 2022]. Tim has, I think, this unique background, being originally a snowboarder and a skater, starting out with sports brands, then crossing over to fashion, then having his own fashion brand. We feel this duality in DNA that is part of our success formula. Together with Tim, we have continued to build the apparel business for On.

It is hitting exactly at that intersection where it's with the most technical fabrics with ultralight membranes that win ISPO awards — very technical, but at the same time also accessible and versatile so that you can make it part of your uniform, whether you're road running, whether you're out on the trails, or whether you're travelling. So our apparel addressed a range of activities across a very active lifestyle.

You've also probably observed how we've been opening our retail experiences around the world. There's Regent Street [flagship store in London], but already more than 10 stores in China, as well as US stores including New York, LA and so on. Just to see how apparel is embraced in our retail experience again, gives us the feel that we're hitting the right spot. So, for example, in some of our stores in China, apparel is already 20 percent of the sales.

As a performance brand in the sportswear category in China, what is the On strategy for penetrating that market?

We started in China quite a while ago and it's a fully Chinese team that sits in Shanghai. We've pretty much started the relationship with the China market as we started in a lot of the markets, where it's really about grassroots and making sure that you're doing fun runs, that we are connecting to the training community, which is very important in China as well, and that we're also physically present, which is what we realised as in other big, big markets. You have to build that nucleus in different cities but you can't go after the full market. So, in a similar sense, we started in the major hubs in the US and in London then [a pop-up store] in Liverpool in the UK. We started with Shanghai and Beijing and are expanding from there.

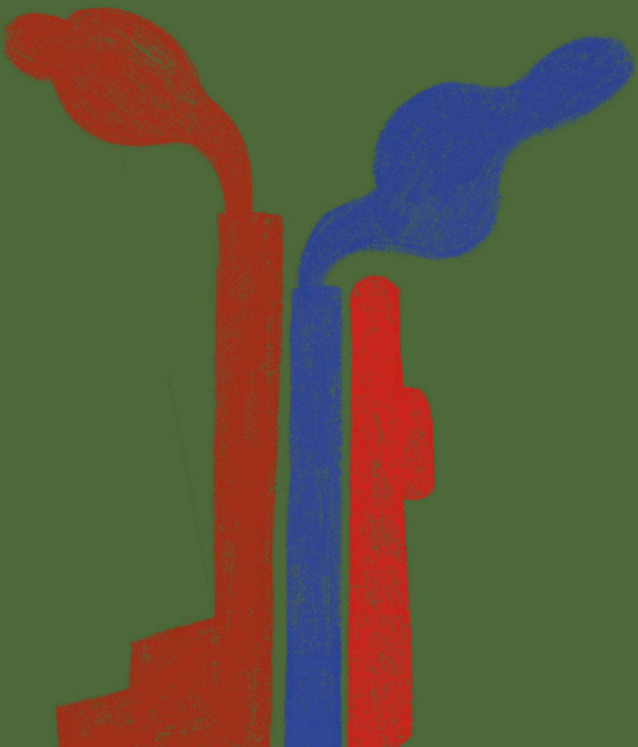
Building that community first is really important for us because the community is also what carries you. For us, it's very much about our mission to ignite human spirit through movement. To have that movement, you have to have a community around you. That is at the core.

Have you found any interesting differences between, say, the Chinese market and other markets?

Yes. What we realised is that for example the speciality stores — the grassroots [speciality] retail partners that helped us grow across the rest of the world — exist less in China and so we realised that we have to, to a certain extent, build that on our own. That's also why we have almost as many stores, or probably as many stores, opened in China alone as we have in the rest of the world. These [On] stores or retail experiences become a hub for building our community. Then a lot, of course, crosses over into the digital sphere. But [in China] you have to build that grassroots community yourself.

This interview has been edited and condensed.

Fashion System

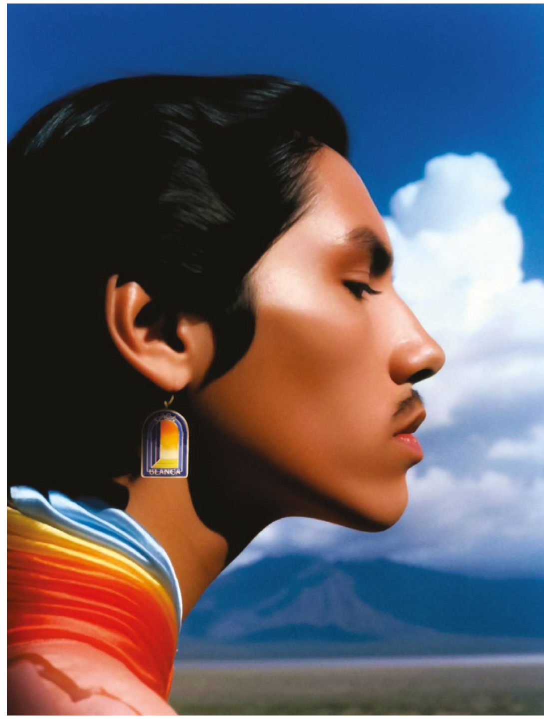


06.
Gen AI's Creative Crossroad

After generative AI's breakout year in 2023, use cases are emerging across creative industries, including fashion. Capturing the value of this transformative technology in 2024 will require fashion players to look beyond automation and explore its potential to augment the work of human creatives.

KEY INSIGHTS

- According to McKinsey analysis, as much as one-fourth of generative AI's potential value in fashion may be driven by use cases in design and product development.
- 73 percent of fashion executives said generative AI will be a priority for their businesses in 2024, but just 28 percent have tried using it in creative processes for design and product development.
- Equity funding for generative AI-focused start-ups skyrocketed in 2023, reaching $14.1 billion in the first half of the year alone.



A Casablanca campaign created with gen AI. Casablanca.

Disruptive technologies in the workplace generally fall into three categories — those that enhance existing skills while creating new ones; those that replace skills while reducing the need for others; and those that fall somewhere in between. So where does one of 2023's buzziest technologies[216] — generative artificial intelligence — fit? For creative teams in the fashion industry, the year ahead could help them find the answer.

Gen AI — algorithms pre-trained on large volumes of data such as text, images and code, often fine-tuned with other corporate data, that can create new, complex content — had a breakout year in 2023 as powerful new tools hit the market. By January, two months after its launch, ChatGPT reached an estimated 100 million users, a record pace of growth at the time.[217] Multiple platforms and tools have since entered the market, and a dizzying array of start-ups are seeking to leverage these, while strong open-source alternatives are challenging proprietary models.

While the technology's use is nascent in many industries, it's accelerating. If its trajectory continues, it could be one of the most transformative technologies for the fashion industry in a long while. Early experiments have offered a promising start, but the transformative power of gen AI will become more evident as use cases move beyond one-off projects and become embedded within fashion's value chain.[218]

The overall financial impact of gen AI on the industry is potentially significant. According to recent McKinsey analysis, as much as one-fourth of the value is expected to be driven by use cases at the design and product development stage of the value chain.[219]

It's no surprise then that gen AI is on industry executives' radars. The BoF-McKinsey State of Fashion 2024 Survey of global fashion executives found 73 percent of respondents said gen AI will be an important priority for their businesses in 2024. Yet while many are experimenting with the technology, just 28 percent said their businesses had tried it for design and product, indicating fashion companies are not yet capturing its value in the creative process.

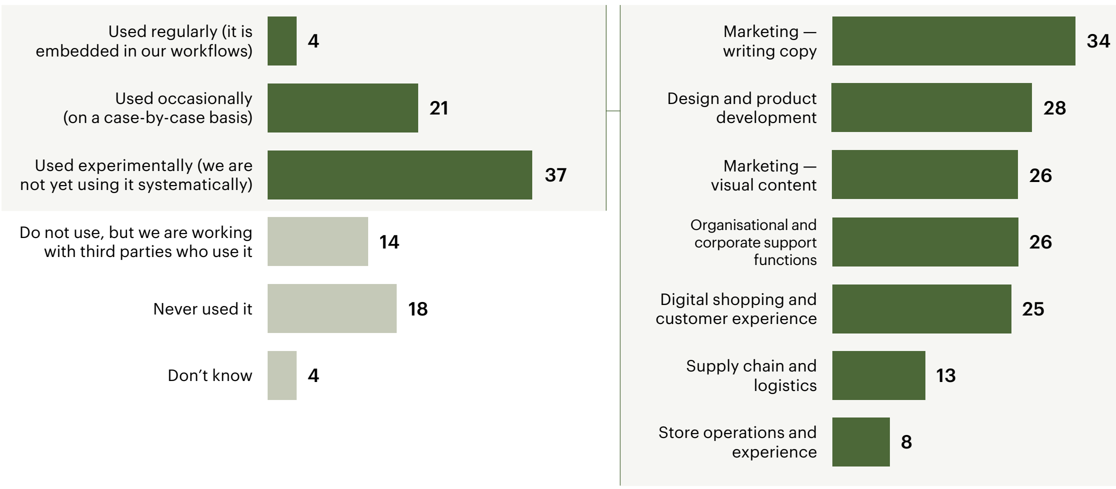
Caution is understandable. The technology could impact jobs and workflows. The fashion

Exhibit 12

Though still an emerging technology, more than half of fashion executives say their companies are using gen AI

Adoption of generative AI in the workplace, % of respondents

Use cases, % of respondents



Source: BoF-McKinsey State of Fashion 2024 Executive Survey

industry has also seen a fair share of technological enthusiasm that has swiftly sputtered — notably, the metaverse. Based on rate of progress and investment, however, gen AI is likely to offer a different story. The technology has more practical applications than the metaverse, making it more attractive to businesses and investors. Equity funding for gen AI-focused start-ups skyrocketed in 2023, reaching $14.1 billion in the first half of the year alone, compared with $3.5 billion in 2021 and $2.5 billion in 2022.[220] A significant share of the surge was due to Microsoft's January announcement of its $10 billion, multiyear deal with OpenAI, the research laboratory behind ChatGPT.[221] In the second half of the year, Amazon announced a $4 billion investment in the artificial intelligence start-up Anthropic, pushing 2023's investments in gen AI even higher.[222]

A Range of Applications

Part of gen AI's potential lies in the array of tasks to which it can be applied, and fashion businesses are already beginning to adopt it in several concrete ways. However, the focus so far has been on one-off use cases with clear advantages when it comes to cost, efficiency or customer experience, rather than those with potential for wider industry disruption.

Online shopping assistance is one area where it is making its mark.[223] Online retailer Zalando announced the launch of a beta ChatGPT-based natural language-powered shopping assistant in spring 2023 that allows a visitor to its site to ask questions and get answers as well as customised product recommendations.[224] Kering, Mercari and Shopify have similarly introduced AI chatbots.[225]

Brands using the technology to write product descriptions for their sites include Snipes, a sneaker and streetwear retailer, and Adore Me, the lingerie company recently acquired by Victoria's Secret. Shopify, meanwhile, has introduced a gen-AI writing assistant for merchants.[226 227]

Other brands have begun exploring gen AI tools in one-off creative and marketing projects.[228] Ganni used the technology at its Spring/Summer 2024 runway show for an installation that let guests ask questions and receive answers reflecting Ganni's point of view. Luxury label Casablanca created a campaign for its Spring/Summer 2023 collection by partnering with an AI artist and using image generator Midjourney.[229] Casablanca creative director Charaf Tajer said human talent and creativity were required to produce the richly hued, stylised campaign set against a desert landscape in Mexico. But he also acknowledged efficiency gains as a result of bypassing all the planning and costs of in-person photo shoots, among other benefits.

By Design

Specific gen AI deployments like Zalando's and Casablanca's have piqued the interest of both the wider industry and consumers. But the technology has not yet been systematically scaled beyond pilot projects. Ultimately, the greatest value may lie in using gen AI in an end-to-end way that enables and enhances creativity.

Use cases may differ across segments of the industry. In fast fashion, gen AI can accelerate the design process, injecting more agility from trend detection to product development and by leveraging analytics data to rapidly produce large numbers of new designs. Meanwhile in luxury, gen AI could become an additional medium in the designer's repertoire, allowing them to experiment with rapid iterations, compile mood boards that draw from diverse sources and curate the output. It can equip less technically skilled designers with the ability to visualise their concepts. The unexpected results produced by AI tools can even provide inspiration.

Fashion brands Collina Strada and Heliot Emil have leaned into this space to craft their Spring/Summer 2024 collections. Both fed images of previous looks into a gen-AI tool to produce new designs that could be refined with text prompts.[230] Online retailer Revolve also used the technology for a series of eye-catching, colourful billboards and dropped a limited capsule collection with garments from the campaign, with further experiments under way.[231] Meanwhile, Spanish brand Desigual launched an on-demand collection that was designed using AI tools.[232]

Companies developing gen AI software for fashion say the technology can reduce manual tasks that take days to mere hours or even seconds. AiDA (short for AI-based Interactive Design Assistant) reportedly can produce a dozen fashion templates within 10 seconds.[233] The system uploads sketches, materials and colour palettes to a virtual mood board with the help of a tagging tool for accelerated product searches. AiDA then creates templates that designers can finesse and augment. Cala, a fashion supply chain interface that includes gen AI in its design tools, can help designers produce more than 100 sketches in a single day, according to co-founder Andrew Wyatt.

Curation is Key

In fashion, human skill and creativity often hold the key to brand differentiation. Rather than diminishing them, gen AI used properly can free designers from manual tasks to focus on creative work. Human designers will remain key, while gen AI will enable their roles to be orientated around curation. This potential must be communicated clearly to creatives to ensure the technology is adopted without undermining the role of the designer.

As the number of gen AI adopters in fashion expands and the technology evolves, it will require more than a superficial understanding of its role in enhancing and unlocking creativity. It holds exciting potential for companies to create unique gen AI models that enable them to infuse their brand DNA across design processes, rather than relying on the generic output of image generators. For creatives, success will hinge on the support and infrastructure of their ecosystems that enable them to move from manual creators to true creative curators. When implemented effectively, the technology can benefit and amplify the creative process, thus augmenting human capability, while retaining the artistic skills and knowledge of designers. Ultimately, say experts, human-centred innovation will likely be the most important use of AI.[234]

In fashion, human skill and creativity often hold the key to brand differentiation.

IN-DEPTH

Driving Growth Through Generative AI: An Executive Playbook

By Roger Roberts and Kimberly Te

Generative artificial intelligence has the potential to augment, accelerate and automate fashion business capabilities — from writing code to supporting design to empowering sales teams. While gen AI comes with risks, executive teams can learn best by doing. The fastest learners will develop a playbook for obtaining bottom-line benefits.

Exhibit 13

Generative AI can add value across the fashion value chain

Illustrative

1 List is non-exhaustive

Source: McKinsey analysis

Value chain stage	**Product development and innovation**	**Supply chain and logistics**	**Marketing**	**Sales and customer experience**	**Store operations**	**Organisation and support functions**
Gen AI use cases	• Write briefs for a product collection using analytics • Generate mood boards, visual imagery and creative inspiration using briefs/brand DNA from previous collections • Convert sketches into numerous 3D product designs and tech packs for production	• Draft research packs on brands, vendors and suppliers • Augment real-time demand forecasting by combining insights from multiple datasets • Tailor product return offerings to individual customer preferences, identifying products to return and facilitating customised exchanges	• Hyper-personalise loyalty programmes and offers based on customer preferences, generating custom content • Accelerate marketing content creation, such as copywrite drafts and campaign photoshoots • Enrich social data channels using sentiment analysis and consumer data to pivot content and messaging accordingly	• Enhance digital experiences, such as virtual clothing try-ons, displaying products on AI-generated models • Enhance customer service and clienteling through advanced virtual assistants • Draft product descriptions for e-commerce sites	• Accelerate store layout design with 3D designs and simulations • Provide real-time store insights to assist managers and employees	• Create individualised training materials based on roles • Automate support tasks such as HR and accounting report generation or legal drafting • Improve talent acquisition, streamlining candidate sourcing through advanced algorithms that dive deep into professional networks to identify and screen the best candidates
Example vendors[1]	AiDLab Adobe Firefly Cala Google AI Midjourney OpenAI Raspberry.ai Runway Stable Diffusion Threekit Yoona.ai	C3.ai Google AI	Copy.ai Jasper LaLaLand.ai Runway	Gladly Google AI Perfect Shopify Veesual	UKG	Aisera Beamery Genie AI Moonhub Sap Zoom

Generative AI (gen AI) offers a plethora of opportunities to build new capabilities across the fashion value chain, from inspiration mood boards to marketing campaigns and virtual shopping assistants. As new use cases emerge and the stakes become higher, there is an opportunity for leadership teams to move from "thinking to doing," while retaining a human-centred approach tied strongly to brands' core values. Forward-looking companies may want to develop a playbook for executives, which could help them navigate the new technology and guide them in effectively applying gen AI throughout their organisations.

Setting Priorities for Impact

In the rush to unlock gen AI's potential, it would be easy to take an opportunistic approach, jumping into applications in the hope that some of them hit the mark. More productively, senior leaders and their organisations can focus on impact to the core business and build a portfolio of use cases that offer both short-term benefits and broader, more transformational potential. Establishing collaboration early on between business and technology functions will be critical when deciding where to focus and when identifying funding and assessing feasibility. While initial moves will likely fall outside "business as usual" investment, they can be integrated with broader tech and IT strategy investments in the next planning cycle.

Companies have been making fast progress in putting gen AI into action. Amazon is testing AI-generated customer product review summaries on its homepage to help customers quickly distil the high volumes of reviews.[235] Google offers hyper-realistic clothing try-on, using AI-generated clothes and models.[236] Across the fashion and luxury value chain, companies will likely see the largest profit gains from gen AI in product design and assortment, followed by content-focused marketing, and sales and customer experience, according to McKinsey forecasts. Further gains are likely to be made by increasing productivity in organisational support functions such as HR and finance.[237]

To maximise the gen AI opportunity, executive teams typically need to deliver early impact while laying the foundations for future scale. The pace of expansion is likely to depend on technology and talent readiness. For instance, producing AI-generated marketing materials could be a quick win for some organisations, while others might view this as a longer-term play if data and platforms are not ready. Talent upskilling is often needed and can demand an accelerated approach to building learning journeys for current staff, targeted hiring and smart partnering. Tech and talent foundations will, of course, need investment and a commitment to new ways of working.

Shaping Teams for Impact

Gen AI implementation is typically a team activity. Teams should be structured around sets of opportunities and use cases, while close collaboration across business units and between functions (legal, risk, HR, finance) and technology and engineering teams will be essential. Internal and external recruiting should focus on the skills necessary for important use cases, shifting from a role-centric to a skills-centric model. Consider a brand that seeks to use gen AI to personalise online ads to individual customers. Required skills could include design, data analytics and prompt engineering. Such a team might comprise a product manager, marketing lead, copywriter, designer, data scientist, specialised engineers (machine learning, data, cloud) and a risk specialist.

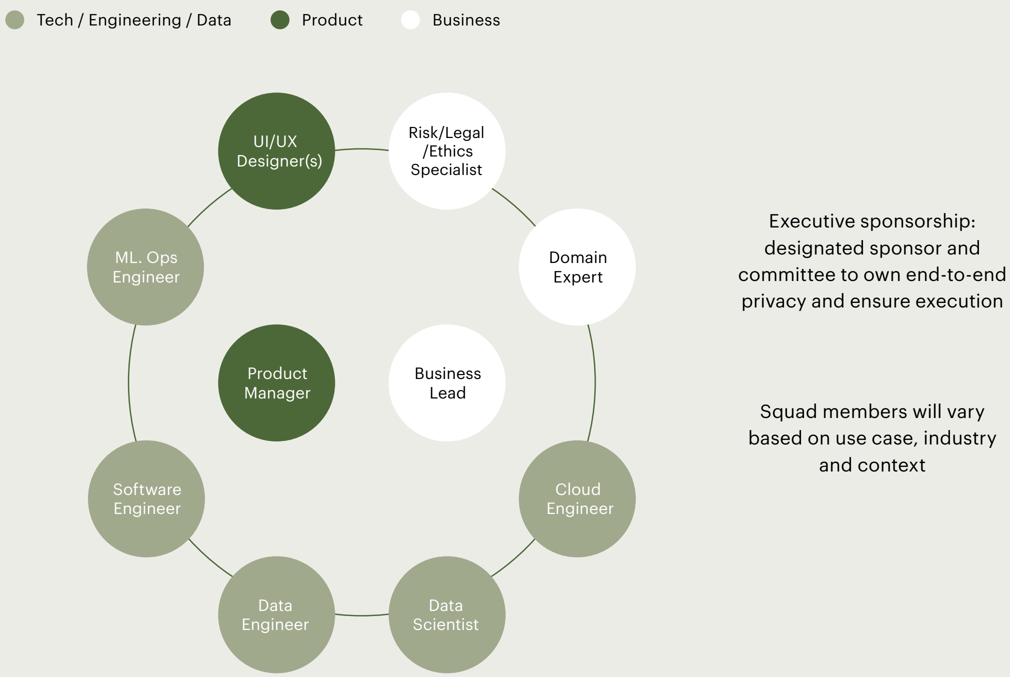
A shared, central "control tower" can orchestrate and choreograph these fast-moving teams — giving them the support, shared skills and sustained funding. A council of senior leaders in business, legal, tech and product roles can provide purposeful governance that balances speed and risk. Often AI-driven initiatives are decentralised and siloed, which can limit success. A central team could coordinate organisation-wide development of the technology platform and set-up guardrails for risk and compliance, enabling faster and more effective progress through centralised coordination. The central team could also preside over technical infrastructure, employee upskilling, internal communications and change management. Finally, leaders could exhibit an open and exploratory mindset and help teach employees how gen AI can help them work better. Allaying fears while encouraging hands-on learning is likely to be a key to success.

AI-generated campaign. Revolve.

Exhibit 14

A generative AI team should contain specialised squad members and executive sponsors

Sample squad structure



Source: Rosales, Aldo et. al, McKinsey & Company

Tech and Partnership Choices

While full outsourcing is rarely optimal, partnerships with platforms, tools and talent providers are often part of brands' plans for gen AI adoption. Given few businesses might have the resources to train models from scratch, we see two main approaches to tech delivery: First, brands can fine-tune third-party foundation models (e.g. from Cohere, Google or OpenAI) or open-source alternatives like those released by Mistral or Meta. Second, brands can consider deploying specialised applications that build on existing foundation models but are tailored to specific uses — like Jasper's marketing content tools or Cala's AI-assisted design platform that provides creative suggestions and converts ideas to production-ready designs.[238 239] Most organisations will need a blend of both. Finally, hard-to-find talent may be provided through tech partners and vendors — but leaders will likely want to ensure they are also building in-house skills and knowledge via these relationships.

Partnerships can often yield faster gen AI adoption by unlocking the use of state-of-the art applications and tools that accelerate impact. Fine-tuning pre-trained foundation models by blending in-house data and documents could ensure acceptable output quality if handled well. Likewise, gen AI-based software applications build on top of foundation models and offer user-friendly interfaces. There is an ever-growing range of tools from established providers (e.g. Adobe's Firefly for Enterprise platform)[240] and fashion-focused players, such as CLO, which converts ideas to production-ready designs.[241] A portfolio of partners will be

Hard-to-find talent may be provided through tech partners and vendors — but leaders will likely want to ensure they are also building in-house skills and knowledge via these relationships.

Metamorphix AI fashion week look. AI fashion week.

needed at most fashion companies, rather than one or two.

In one example of a fashion-tech partnership, designer Norma Kamali partnered with AI creative studio Maison Meta to fine-tune gen AI models using content from the Kamali's 56 years of designs. Kamali said she hopes to use gen AI to preserve her creative legacy and empower her brand's future. She sees close collaboration with tech partners as a key to success, where they iterate to improve tools and identify new practical applications in her business. Kamali completed gen AI coursework at the Massachusetts Institute of Technology to learn more about AI and to encourage her employees to experiment with AI tools in their daily work.[242]

Navigating Risks

As fashion companies embrace the potential of gen AI, balancing enthusiasm with caution is likely to be a key to success. Notable areas of risk include bias, the effect on creativity, intellectual property rights and data protection.

Gen AI outputs are based on data from which they are trained, and biased data can have negative consequences on customers and other audiences. Brands and their partners should carefully construct comprehensive datasets and ensure data teams include diverse backgrounds and perspectives. In addition, while gen AI can augment creativity,[243] overreliance on models trained exclusively on past designs could also inhibit creativity. Designers can instead use gen AI as a "thought partner," critically evaluating gen AI outputs as "inspiration," experimenting with ideas and building on outputs to create net-new designs.

Fashion brands and designers should be especially careful of the risks related to intellectual property (IP). Foundation models are trained on massive amounts of internet-sourced data and IP. Organisations should consider how their creative designs are shared online, as they could be used to train external models. Likewise, without a watchful eye on licensing terms, third-party models could employ an organisation's data and IP for their own use. Similarly, companies should ensure that they are not sharing confidential and customer-sensitive data with models and gen AI applications.

Building secure and scalable IT infrastructure is imperative. In most cases, this is likely to come from cloud providers, but tech teams internally must set expectations and share accountability. Quality assurance, including content moderation, is likely to be an ongoing activity, throughout the life of the model and after it is released into production. Ongoing monitoring of model performance and output will likely be key to maintaining high standards for any brand.

Navigating these risks can enable leaders to pursue gen AI responsibly in a fast-changing world. Governance will need to be flexible and ready to adapt at speed. Organisations that take a human-centred approach — considering the impact of gen AI on employees, customers and communities, and prioritising user needs and experiences — are more likely to succeed.

Scaling Up

Gen AI is redefining the art of the possible. Very rapidly constraints have shifted from technology limitations to the creativity of leaders in applying it to their businesses. In this context, hands-on learning should be a goal of its own — and learning rates may soon separate winners from losers. According to an International Data Corporation report, 40 percent of worldwide retailers and brands are experimenting with gen AI, while 21 percent are investing in gen AI applications.[244] Likewise, over the next three years, up to 74 percent of retail and e-commerce companies plan to increase gen AI spending.[245]

To enable successful employee adoption, organisations could provide training programmes to onboard employees and offer resources that help them use gen AI. Such programmes can help upskill employees and educate them on benefits, highlighting how gen AI can expand their capabilities and reduce repetitive tasks, rather than eradicate jobs.

Leaders can set the tone. To help drive responsible gen AI adoption, leaders could foster creativity by creating psychologically safe environments where users feel empowered to experiment and learn by doing, while investing in internal communication and change management. While gen AI's profit potential is high, the challenge of bringing these possibilities to life is very much a human-centred one.

07. Fast Fashion's Power Plays

Fast-fashion competition will likely become even fiercer in the year ahead. Challengers, led by Shein and Temu, are changing tactics around price, customer experience and speed. Success for disruptors and incumbents will likely hinge on their ability to adapt to evolving consumer preferences, while navigating regulations that may impact the industry.

KEY INSIGHTS

- The third generation of fast-fashion companies have captured consumers' attention. 40 percent of US consumers and 26 percent of UK consumers have shopped at Shein or Temu in the past 12 months.
- The success of much of the third generation is underpinned by several operating model innovations that make fashion faster and cheaper than ever, including agile manufacturer-to-consumer supply chains and data-driven product design.
- In 2024, this generation of fast fashion is likely to face some challenges amid evolving standards from regulators and consumers alike on topics ranging from sustainability to trade practices.

In 2023, fast fashion accelerated. Following in the footsteps of e-commerce giant and market leader Shein, a cohort of challengers has upended the competitive landscape by producing fashion quicker and cheaper than before.[246] The first generation of fast-fashion heavyweights, like H&M and Zara, that introduced the concept of trendy runway-inspired fashion at affordable prices has before been challenged by a second generation of digital-first fast-fashion players like Asos and Boohoo. Now, a third generation of companies is making its mark. Rising players include Temu — a marketplace owned by China-based PDD Holdings, which overtook Amazon as the most-downloaded shopping app in the US and in most of the other 16 markets in which it operates just months after launching;[247] Turkey-based Trendyol, a marketplace backed by Chinese internet giant Alibaba; and Cider, a US-based retailer targeting Gen-Z with a third-generation fast-fashion business model.

However, this speed does not always translate to delivery times — customers often wait weeks for parcels to arrive for the sake of trendy designs and low prices. Customer loyalty is built on more than just price or speed — the third generation of players is also transforming the customer experience through gamification, micro-incentives and social media communities.[251]

Updating the Model

Undergirding the third generation are several operating model innovations:

Agile, scalable manufacturer-to-consumer supply chains: Some third-generation companies have developed large networks of suppliers who often manufacture exclusively for them. For Shein, which was initially built with a first-party, owned-inventory model (before introducing a third-party, cross-category marketplace in 2023), strict performance management of suppliers drives reliability, while direct-to-consumer delivery from China enables rapid scalability with low inventory risk. Temu, meanwhile, operates purely as a marketplace, finding manufacturers with excess capacity and onboarding them to sell unbranded goods directly to consumers in a low-price "B2B2C" model.[252] While Temu's prices are often between 10 percent and 40 percent lower than Shein's, the retailer has faced challenges relating to quality control and reliability.[253 254]

Data-driven product design and testing: At Shein, products are designed or selected using demand-driven trend modelling, which includes a range of data inputs from current trends to viral products to consumer perception. Shein adds between 2,000 and 10,000 items to its app every day and produces in small batches; to maintain a tight grip on inventories, hit rates comparing product page visits to sales are evaluated in real time.[255] Temu's approach also evaluates hit rates to feed back information to sellers on trends and demand levels

Customer loyalty is built on more than solely price or speed — the third generation of players is transforming the customer experience through gamification, micro-incentives and social media communities.

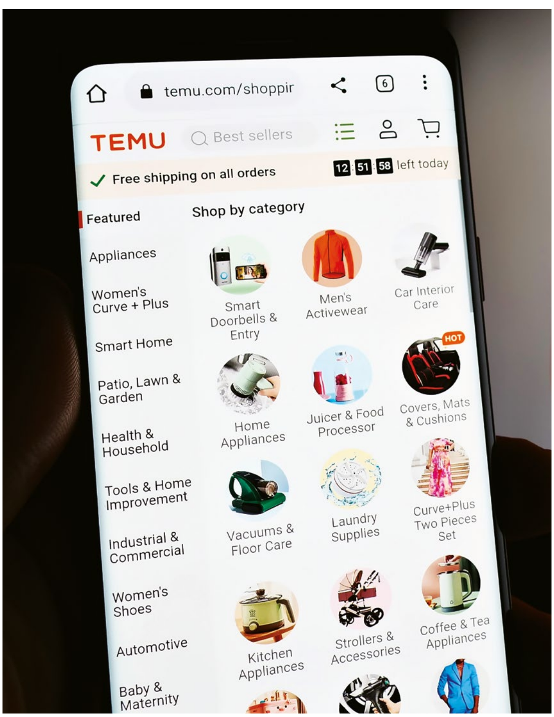
These companies, with their ultra-low prices and rapid turnover of trendy styles, have captured the attention of consumers in western markets. Two companies stand out in this regard: Shein and Temu (which are the focus of this analysis). According to the BoF-McKinsey State of Fashion 2024 Consumer Survey, 40 percent of US consumers have shopped at Shein or Temu in the past 12 months; in the UK, a newer market for the retailers, that figure is at 26 percent. Meanwhile, consumers indicate they are looking to increase their spend with these players: net future purchase intent for Shein and Temu is, on average, 18 percentage points higher than that of first-generation competitors.[248]

Ultra-low prices are integral to the success of the business model. Shein's average SKU price of $14 is significantly lower than H&M's $26 and Zara's $34.[249] Turnaround times from trend capture to product availability are also condensed: Shein aims for 10 days, under half the 21-day minimum elsewhere.[250]

for their products.[256]

Loyal and growing customer bases: Third-generation retailers have focused on building large, deeply engaged, loyal communities. Shein's multi-layered affiliate marketing influencer programme, paired with organic social community building, has driven viral user growth and low customer acquisition costs.[257] Temu is investing in marketing in a bid to scale rapidly, posting more than double the number of Facebook ads in the US than Shein, and more than four times as many as Amazon. It reportedly spent $14 million for two 30-second slots during the 2023 Super Bowl, while market analysis suggests its quarterly marketing investments are nearly $500 million.[258 259]

High app adoption rates and engagement tactics: Shein uses extensive in-app gamification, allowing customers to earn loyalty points by undertaking a variety of steps, including setting up an account, uploading reviews, watching livestreams and participating in outfit challenges.[260]



The Temu shopping app. Shutterstock.

Temu similarly offers rewards to customers who invite friends to join and keeps users engaged with in-app games. Temu's conversion rate is as high as 10 percent, compared with an industry average of 2 percent. Its retention rates rival those of Amazon, Shein and Walmart.[261 262]

Pushing Back

While they may have developed loyal customer bases, these third-generation fast-fashion companies are also subject to public and regulatory scrutiny. Consumers are increasingly aware of fast fashion's role in the wider industry's negative impact on the environment, while policy makers in key markets — notably the US and EU — are considering new laws to address the fast-fashion industry's alleged role in a culture of overconsumption and make-take-waste.

Against this backdrop, some of the core tenets of the third-generation fast-fashion business model are becoming less attractive. The use of small-batch, reactive production has been positioned by some players as part of a "zero-waste" sustainability narrative. However, this type of production is also linked to rapid trend cycles, which go hand in hand with ultra-cheap products that are often quickly discarded.[263] Some third-generation players have attempted, not always successfully, to promote a more sustainable, ethical side to their businesses through marketing campaigns. Shein's recent influencer campaign to refashion the perception of its supply-chain ethics, in which a group of influencers were invited to a Shein innovation centre, was seen as an attempt to gloss over the company's alleged association with unethical practices.[264]

Many trade and tax bodies are considering new standards that address the way in which some third-generation fast-fashion companies have dealt with "de minimis" trade laws in jurisdictions like the US, where import taxes are less for shipping individual orders directly to customers from factories abroad, rather than in bulk — a common practice among third-generation fast-fashion players.[265] US legislators are currently debating two bipartisan bills related to de minimis exceptions and customs and border scrutiny, which in their current form could mean that exporters from countries such as China (including major third-generation fast-fashion players) would no longer be eligible for de minimis exceptions and would instead face enhanced customs and border scrutiny.[266]

The long-term prospects of the third-generation business model may face some challenges as

Exhibit 15

Three generations of fast-fashion companies are underpinned by an evolution in speed and innovation

	1st generation	2nd generation	3rd generation
Fast fashion's evolution	Original runway-to-high street retailers offering trend-driven fashion at affordable prices	Digital-first players with quicker turnaround times and rapid DTC logistics	The latest challengers with ultra-fast trend-to-production times and ultra-low prices
Example companies[1]	H&M Primark Zara	Asos Boohoo Missguided	Shein Trendyol Cider Temu
Timeline[2]	Pre-2000	2000 2005 2010	2015 2020 2022

1 Examples are non-exhaustive

2 Timeline is approximate and relative. Shein date shown as 2012, when company became a fully integrated retailer in its recognisable form (the business was founded in 2008 under a different, smaller model); Trendyol date shown as 2018, when company received majority investment from Alibaba Group (the business has operated since 2010 on a smaller, more localised scale)

Source: McKinsey analysis

players mature. For example, while Temu's large performance marketing spend and discounts have so far helped the company to grow, it remains to be seen if it will be able to maintain its current strategy, which requires significant investments in customer acquisition and razor-sharp logistics.[267]

The Imperative to Adapt

The scene has been set for further disruption in the industry. In the face of incoming regulations, increasing public scrutiny and falling valuations (Shein's $100 billion 2022 valuation reportedly dropped to $66 billion in 2023), third-generation players may not be able to settle into their business models just yet and may need to adapt again.[268]

Shein is attempting to diversify its strategy in a bid to maintain its leading position. The company is experimenting with offline retail, including pop-ups and shops-in-shops.[269] It has formed a joint venture with Forever 21 to expand its US offline experience, and has also recently acquired the Missguided brand in the UK.[270][271] In response to import tax restrictions, Shein is also expanding its supply chain beyond its network of manufacturers in China, building warehouses in Europe, the US and Canada, as well as factories in Brazil.[272]

As Shein adapts its model to face the new challenges — from a network of low-cost manufacturers largely in China to new suppliers elsewhere in the world, and from a direct-to-consumer

Shoppers at a Shein pop up inside a Forever 21 store. Allen J. Schaben/Getty Images.

online model to offline or omnichannel retail — what has been its competitive edge could face some dilution and the stickiness of its core customer base may be challenged.

The "everything store" marketplace model might hold the key to potential success for players. Shein has piloted the model in the US and Brazil and has indicated potential to expand in 2024.[273] The retailer is even beginning to enter luxury fashion, with listings from some luxury brands posted by third-party sellers making their way onto its marketplace (although the authenticity of these items is, as yet, unverified).[274]

In 2024, market disruption may gather pace, with third-generation fast-fashion companies doubling down on marketplaces to expand across categories, price points and consumer segments. Customer engagement is likely to remain a key differentiator, as third-generation players use their strong communities and gamification tactics to increase average basket size, seeking to grow profits and safeguard a viable business model for the future. The industry as a whole could feel the effects of these third-generation players: companies might want to take note of their most successful strategies to capture the attention of the modern consumer.

Exhibit 16

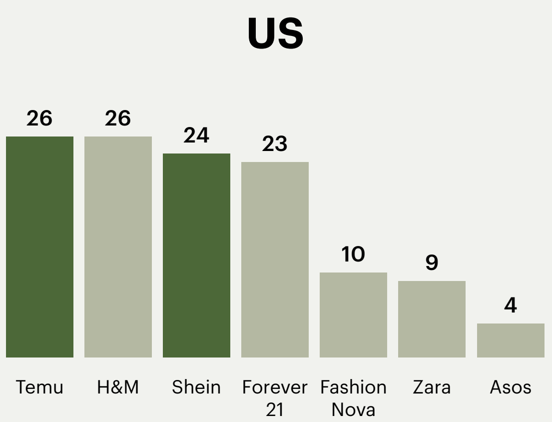
Fast Fashion's Power Plays

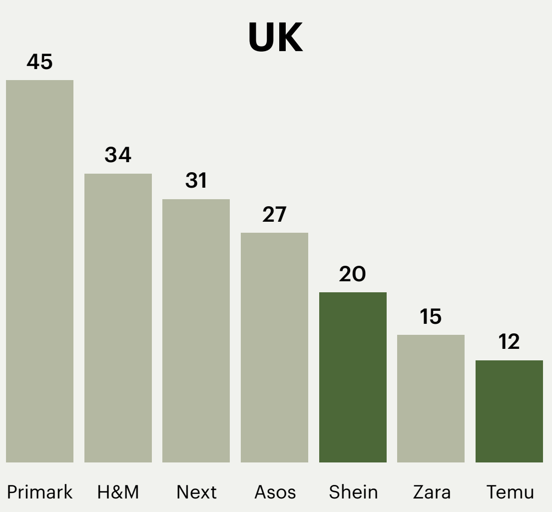
Third-generation fast-fashion players
Incumbents

Source: BoF-McKinsey State of Fashion 2024 Consumer Survey

Third-generation fast-fashion players have attracted shoppers in the US and UK

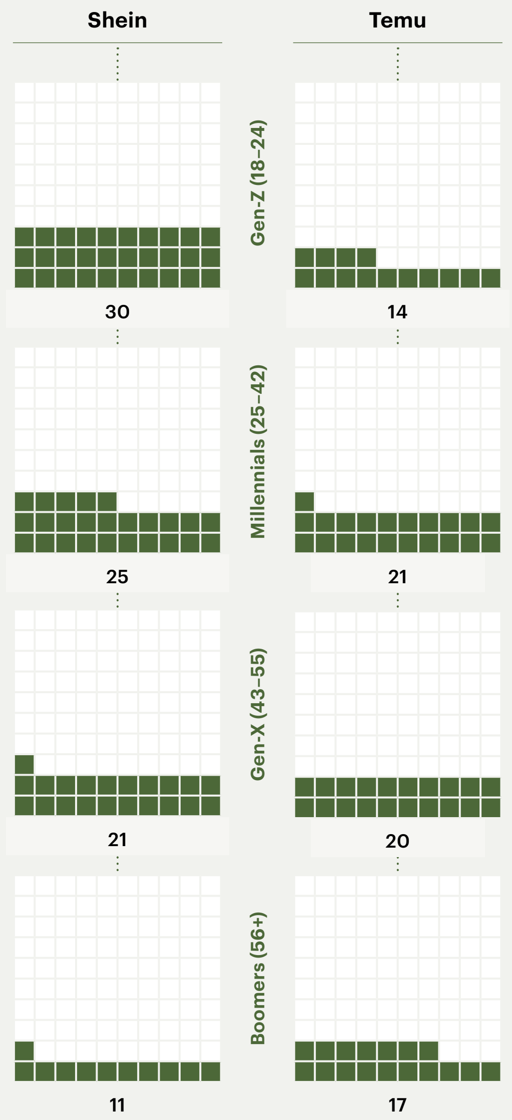
US and UK respondents who shopped at the retailer in the last 12 months, %





Shein and Temu are commanding interest among consumers across age groups

US and UK respondents who shopped at the retailer in the last 12 months, %

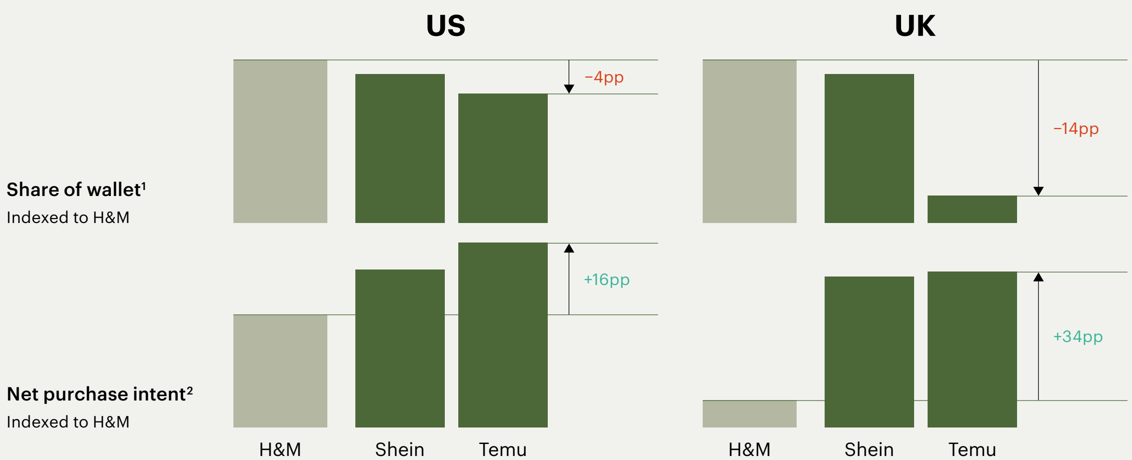


in Numbers

In a proprietary survey of consumers in the UK and US, we find that shoppers from all age groups are increasingly turning to third-generation fast-fashion retailers such as Shein and Temu.

High net intent to spend indicates more growth is on the way for third-generation players

US and UK respondents,
%

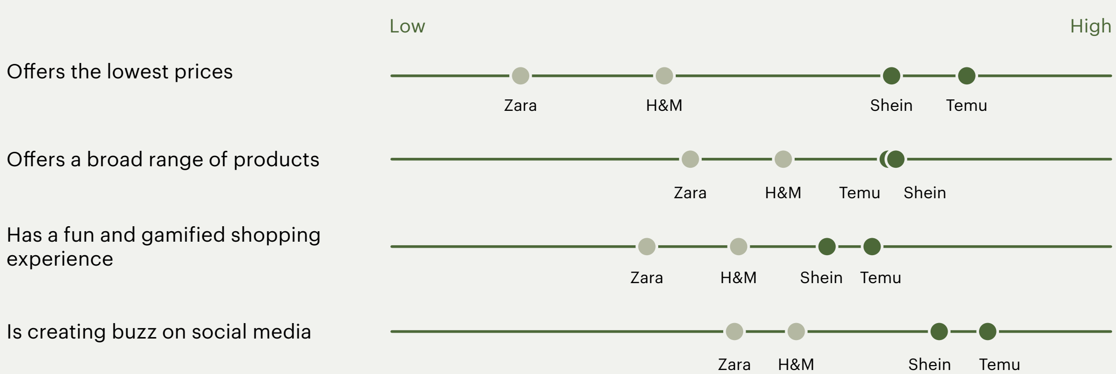


1 Share of wallet calculated as total stated retailer spend as a percentage of total stated fashion spend. Includes those who did not shop with the retailer

2 Net purchase intent calculated as difference between percentage of consumers who expect to buy more from the retailer and percentage of consumers who expect to buy less from the retailer in the next two to three years

These companies stand out for not only their low prices but also choice, experience and social buzz

US and UK respondents' perception of retailers,
%



EXECUTIVE INTERVIEW

Musinsa: Taking the K-Fashion Ecosystem Global

By Janet Kersnar

Mun-il Han,
Chief Executive,
Musinsa

Mun-il Han, has helped build the fast-growing South Korean fashion e-retailer, and has created what he believes is a differentiating business model that benefits up-and-coming brands, their Gen-Z customers and Musinsa itself. Now, riding the wave of K-culture's surging global popularity, Musinsa is doubling down on international expansion.

Having a global presence and recognition would have been hard to imagine only just a few years ago for Korea's fashion industry, which is increasingly on global brands' radars thanks in large part to fashion's ability to benefit from the recent surge in popularity of K-films and series, according to Mun-il Han, who became CEO of the Seoul-based fashion marketplace in 2022 at the age of 33. "When I look back [in 2018 when I joined] fashion marketplace Musinsa, it usually was quite rare that a CEO or a top executive of a global brand would actually come to Seoul, and even if they did, they wouldn't stay very long," he recalled. "That has very much changed."

But Musinsa wasn't going to wait around for global recognition to make its own mark on Korea's fashion industry. Starting out in e-commerce's early days in 2001 as an online platform for sneaker-loving high school kids to share street fashion photos, Musinsa has grown into a fashion marketplace that it says comprises a community of 13 million, largely Gen-Z fans, with a 2023 funding round that reportedly valued the company at approximately $2.76 billion.

According to Han, Musinsa has taken a different approach than other fashion e-tailers by focusing on the sellers — that is, the 8,000 local and global brands selling their apparel and footwear on its Korean platform or via its app, including independent brands it helps fund and support by, for example, providing marketing and innovative initiatives to connect them directly with customers. One such initiative was its first-ever "Musinsa Season Preview" event, where customers could visit four offline venues in Seoul to share their thoughts alongside those of a panel of industry experts on the Spring/Summer 2024 collections from 30 local brands, which could then adjust pricing and inventory based on the feedback.

Beyond Korea, Musinsa is now present in 13 countries, selling around 800 Korean brands. Han said one of the markets where K-fashion is in increasing demand is Japan, where it set up a subsidiary in 2021 and has become the company's largest global market.

With bands like BTS, Blackpink and most recently New Jeans (the latter a Musinsa brand ambassador), K-pop's star just seems to keep rising higher. Analysts at Bernstein recently said the K-pop industry could generate annual revenue of approximately $10 billion by 2030, or roughly double 2023's level. How is K-fashion riding that wave?

I don't think the global impact of K-pop is fully hitting home to us in Korea. It's not just K-pop stars but also K-celebrities who are really gaining global exposure with the popularity of K-content or for movies and dramas. Especially fashion and luxury brands, they are leveraging K-pop stars and signing them on as their brand ambassadors. We can indirectly feel the extent to which these pop stars now have so much influence and power.

We're still in the incipient stages, but I think when these artists or musicians share their daily lives on social media, that's when fans really take interest. Then also when people watch K-content like movies and dramas and they see how Korean people or celebrities dress or what their lifestyle is like, people gradually start to become familiar with their lifestyle and their dress.

It's a bit like what happened with hip-hop. People who were doing hip-hop in Korea wanted to emulate that way of life and consume the brands that were part of that. We feel that K-content is now at a similar juncture, where it's being exported abroad. It's taken a while for fashion to have a distinct connection with K-culture but it's starting to happen. At Musinsa, we want to leverage that opportunity to really expand our global footprint, after having grown very rapidly by mainly focusing on the online fashion market in Korea.

Ever since Musinsa became a fully fledged fashion retail platform in the 2010s, fashion retail generally has been undergoing disruption and change. What has been Musinsa's role in this? Does Musinsa consider itself one of the disruptors?

We definitely see ourselves as a disruptor. Korea's fashion market in the past was very much led by the department stores — you only had a handful of brands that were able to launch in department stores and that were recognised as bonified brands. Whereas with the emergence of a platform such as ours, we see many new brands emerging to create a fashion ecosystem.

Back in 2001, we started as an online community. It was a

A Musinsa Standard store in Hongdae, Seoul, South Korea. Musinsa (above).
A Musinsa "Season Preview" display in Seoul, South Korea. Musinsa (right).

community where young people were able to freely exchange information and narratives about fashion and lifestyle that they were interested in. This was a very active community, a community where we were also able to introduce overseas street fashion brands that Koreans may not have been familiar with and introduce some local brands that were up and coming.

Right from the beginning, we had a very strong understanding of what young people wanted, what their needs were. At the same time, brands were looking for channels to sell their products and large companies also wanted to do business online but weren't really aware of what young people like and need.

In terms of that ecosystem, how does it enable Musinsa to differentiate itself in an increasingly crowded e-retailing market?

If we look at this from a platform perspective, the China-based platforms are really doing well in terms of gamification. But in Korea, I don't think we see any notable results with gamification. Rather than that, I think the biggest differentiator of our company compared to other e-commerce platforms is that we really zero in on managing the sellers.

Also, we focus more on what I would call the "essence" rather than things like gamification. What I mean by that is, people who are interested in fashion or lifestyle through our community are able to ask questions about fashion. They are able to get recommendations from other people within the community. We don't think that algorithms alone provide the best recommendations, so we try to mix our curation with the data to come up with the best recommendation for our customers.

We've always had the philosophy that we focus on the seller. Because of the success of Amazon, most of the e-commerce players at that time were more focused on the buyer side. What we had in mind was something more like a content business, like Netflix and Spotify, while also focusing more on the needs of the seller, the fashion brands on our platform, the small independent brands who have a little bit more of a personality or individuality.

What does partnering with up-and-coming designers entail? Why do you want to work with these designers?

The key for our business is to be able to secure good, talented new brands, and even enter agreements in which they sell with us exclusively. ... We feel the right formula is to really study what their needs are as they are rising, support them to address those needs, and build a good relationship and thereby build a fashion ecosystem.

Just like Netflix invests in production companies, or like YouTube secures a lot of great creators on its platform by providing them with various tools, Musinsa partners with and invests in brands, that investment can provide everything from marketing content to interest-free loans to help fund their production plans or tools on our platform like how-to videos.

After a brand joins us, we're able to see very quickly the type of reception it is getting, how much feedback there is [from customers on the platform], along with sales figures. So, we're able to quickly identify if a brand is really growing or if there are any issues that need to be addressed. That's not to say that we provide equal amounts of support to all our brands. We try to sow as many seeds as possible and then when we see there is explosive growth of a certain high-potential brand, we really try to support them so that we can grow together.

In 2023, Musinsa secured $190 million of series C funding, led by investment company KKR. Given that you've long focused on 20-somethings in Korea, what are your plans for taking Musinsa's 'K-ecosystem' to different demographics and other markets?

First, we are broadening our customer base to include individuals in their late 20s and 30s, due to focus on offering an extended range such as high-end brands.

Offline and online are both important but basically 99.9 percent of our sales occur online, so we have to continue to motivate our consumers to come online to shop. But people do want to try on the clothes before they buy, and so that's why we're expanding our offline presence. We opened our offline flagship stores in Daegu and Seoul in late 2023. As for our private brand, Musinsa Standard, we have a store in Busan scheduled to open at the end of 2023.

Our global expansion strategy involves a gradual introduction of westernised global brands and will evolve with emerging brands too. It's been about a year since we launched our app test cases to run alongside the platform [for non-Korean markets]. Currently it's in phase one and we have about 800 Korean brands on that app. Phase two should happen around the end of [2024] when we believe we will be able to carry foreign brands too. These would be very westernised types of brands and that would help enhance the visibility of the Korean brands as well. Then in phase three we're thinking it could be in Tokyo, Bangkok or Singapore or anywhere else, but to really grow the platform to incubate these other new brands.

This interview has been edited and condensed.

08.
All Eyes On Brand

Brand marketing will likely be back in the limelight in the year ahead as the fashion industry confronts a shifting landscape in which performance marketing no longer reigns. Consumers' emotional connections to brands will likely be critical as fashion marketers reorientate their playbooks to emphasise long-term brand-building strategies.

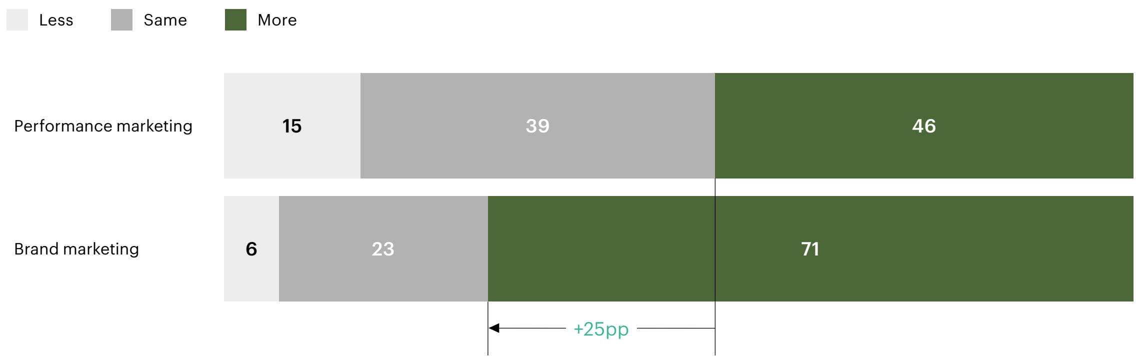
KEY INSIGHTS

- Fashion marketers need to find new ways to engage shoppers given the increasingly onerous costs of performance marketing and the introduction of data privacy regulations restricting customer targeting.
- 71 percent of fashion executives plan to spend more on brand marketing in 2024 than previously, while 46 percent intend to do so for performance marketing, according to the BoF-McKinsey State of Fashion 2024 Executive Survey.
- Brands may lean into marketing to refine how they establish emotional connections with consumers and will likely collaborate across the fashion industry and adjacent sectors in a bid to build compelling brand stories.

Exhibit 17

More executives expect to increase spending on brand marketing than performance marketing

Change in marketing spend by type in 2024 vs 2023,
% of respondents



Source: BoF-McKinsey State of Fashion 2024 Executive Survey

Brand-building isn't what it used to be. After years of leaning heavily on instantly trackable performance marketing, the fashion marketing landscape is shifting. A convergence of factors, including pressures on discretionary spend, is sharpening consumer appetite for entertaining brand storytelling that captures their aspirations and interests, well beyond the products on offer.[275] Spurring this change are the increasing costs of performance marketing alongside new data privacy regulations restricting customer targeting, forcing marketers to find different ways to engage with shoppers.

Many fashion leaders now plan to reprioritise marketing spend. According to the BoF-McKinsey State of Fashion 2024 Executive Survey, 71 percent of executives plan to increase brand marketing spend in 2024, while 46 percent intend to do the same for performance marketing.[276] This marks a fundamental shift for many fashion companies, including direct-to-consumer labels that have built their brands using the trackable, targeted performance-marketing playbook.[277]

While brand marketing by its very nature doesn't enable the same depth of trackable insights as performance marketing, it does offer other benefits — notably, done effectively, it can help brands to stand out in an increasingly saturated media world. Brand marketing is also proving to be pivotal in transforming a label's market position, while often helping it capture entirely new customer bases.

Identity Revamp

Effective brand marketing needs to employ a multi-pronged strategy over time, rather than one-off moments. Sustained, holistic brand marketing can transform brand images, as several recent examples show.

Germany-based Hugo Boss launched an image reboot with heavy investment in brand marketing that aimed to attract young consumers. With newly differentiated branding for "Hugo," aimed at Gen-Z, and "Boss," aimed at Millennials, it updated its logo and other visual cues and enlisted ambassadors like Hailey Bieber, rolling out a star-studded web and out-of-home campaign and hosting events including see-now-buy-now fashion shows and sponsoring sporting events to feature its new streetwear-influenced looks. In March 2023, the company announced the first full-year results since the rebrand, attributing record sales of €3.65 billion ($3.85 billion) in large part to the "momentum" throughout 2022 it gained from the new-look Boss and Hugo brands.[278]

Italian luxury house Ermenegildo Zegna Group

Chief marketing officers and their teams will need a laser-sharp focus on customer perception and cross-funnel strategy, working with creatives and brand specialists as well as data, finance and strategy leaders to form a cohesive brand story.

began a refresh of its Zegna menswear brand in the run-up to its initial public offering in 2021. The brand streamlined and modernised its image, dropping "Ermenegildo" from its name and condensing three sub-brands into one modern, slick Zegna-branded umbrella. The company also collaborated with luxury streetwear label Fear of God to tap into a broader, younger audience as part of a wider casualisation campaign, which expanded Zegna's brand authority from tailored suits to luxury leisurewear for the modern quiet luxury consumer.[279] [280] [281] Zegna's full-year 2022 sales rose 16 percent year on year to €1.5 billion ($1.6 billion).

Meanwhile, New Balance has used collaborations as a part of its broader strategy to elevate the brand and drive demand. In addition to targeted inventory allocation across channels, product drops and marketing investments, the sneaker brand leveraged tie-ups with image-driving partners, such as JJJJound, Miu Miu, Joe Freshgoods and Aimé Leon Dore, while tapping ALD's Teddy Santis to be creative director of New Balance Made in USA.[282] These actions have reinforced New Balance's brand positioning, with it ranking as one of the best-selling brands on sneaker resale platforms Goat, StockX and Flight Club.[283] [284] [285]

The Brand Marketing Toolkit

As consumers crave greater connection and authenticity from brands, marketing efforts will home in on brand storytelling and emotional affinity through multiple avenues.

One way this can be done is by leveraging the personalities behind a brand, such as the founder or creative director. Think Miu Miu (Miuccia Prada) or Loewe and JW Anderson (Jonathan Anderson) or Jacquemus (Simon Porte Jacquemus) — labels that featured in the recent quarterly Lyst index of fashion's most prominent brands.[286] Underscoring how many consumers gravitate towards the people who personify and drive a brand,[287] organic content can be created around these personalities in authentic, personable ways.

However, there are other ways to build communities that don't rely on a brand's stand-out personality. In the case of Nike, bold ad campaigns featuring high-profile athletes have over the years created a perception around the brand for focusing on social causes.[288] Meanwhile, as heritage luxury brands have shown, there's plenty of scope for storytelling that pivots around other aspects of their brands' unique qualities. Hermès, for example, has long employed deep brand stories that evoke

A Jacquemus pop-up. Jacquemus.

a history of craftmanship. At Tiffany & Company, the brand was revitalised after its acquisition by LVMH, balancing established brand stories and new campaigns with stars like musicians Jay-Z and Beyoncé to access a new generation of consumers.[289]

There's also a brand marketing opportunity by creating memorable shopping moments. Connecting emotionally with consumers has become increasingly difficult in a world of ever-shortening attention spans. However, by meeting consumers in the real world with activations that span channels, brands can capture attention and build a more pervasive presence in customers' lives. Immersive stores, featuring visually striking spaces and interactive, multisensory experiences, can be employed here.[290] [291] A range of brands have already been experimenting with boldly designed pop-ups which often have the additional benefit of serving as ideal backdrops for shoppers' social media posts. Examples include Jacquemus's handbag vending machines, Chanel's perfume-themed diner, H&M's immersive collection launches and Pretty Little Thing's themed influencer showroom.[292] [293] [294] [295]

Melding marketing strategies with adjacent industries such as music, film and sports, is also helping fashion brands remain relevant with customers. In 2024, brands may consider investing further in cross-industry collaborations, joint ventures and sponsorships.[296] LVMH announced its "premium" sponsorship deal of the 2024 summer Olympic and Paralympic Games in Paris, with plans for individual brands to make standout contributions in the run-up to the games.[297] [298] Following on the heels of LVMH's news, Kering-owner François-Henri Pinault announced that his family's holding company Artémis had closed a multi-billion-dollar deal to acquire a majority stake in Hollywood talent giant Creative Artists Agency, perhaps a precursor to fashion players inking more cross-cultural deals.[299]

Creating Long-Lasting Affinity

Succeeding as a brand in 2024 may require a shift in priorities — selectively using brand-building tools to develop compelling brand stories, supported by a long-term strategy and underpinned by the right talent and channel investments.

Chief marketing officers and their teams will need a laser-sharp focus on customer perception and cross-funnel strategy, working with creatives and brand specialists as well as data, finance and strategy leaders to form a cohesive brand story. After years of focusing on performance marketing, CMOs must now invest in hiring and training teams to bolster brand marketing capabilities, ensuring that the marketing department contains both brand and performance marketing specialists that can work closely together. Indeed, more companies may hire chief brand officers as brands take a more holistic view of their storytelling and marketing efforts.

Undergirding this is a focus on the long-term story. This will require a mentality shift, with impact measurement focused on longer-term, strategic horizons, rather than instant return on investment — while blockbuster marketing campaigns can generate immediate buzz, maintaining consumer attention thereafter is a challenge. Consumers expect to see brand stories that are consistent and authentic; the success of purpose-led brands such as Patagonia are proof points. Brand marketing may need to be maintained with consistent storytelling throughout consumers' day-to-day lives, from large-scale events to touchpoints on social media. However, 2024 won't be about generating more and more content, or perpetually refreshing brand identities. Now, the focus needs to be on "less is more," with carefully crafted storytelling that amplifies a brand's clear, coherent personality.

EXECUTIVE INTERVIEW

Dior: Balancing Tradition, Innovation and Scale

By Robert Williams

Olivier Bialobos, Deputy Managing Director, Communication and Image, Dior

Image credit: Karim Zeriahen

Having piloted Dior's image through the tenures of a succession of designers and three CEOs, **Olivier Bialobos** is now working to drive the luxury brand's growth and desirability at unprecedented scale.

During 18 years at Christian Dior, Olivier Bialobos has established himself as the French couture house's 360-degree communications maven amid an ever-widening scope of projects to craft a varied, yet consistent message and glorify the Dior name.

Bialobos joined the company in 2006 during the heyday of former womenswear creative director John Galliano — then was charged with building a stable platform amid frequent creative turnover under Raf Simons and a studio-designed interregnum before the blockbuster tenure of Maria Grazia Chiuri since 2016. On the menswear side, his work intersected with creative director Kris Van Assche, and then Kim Jones, as well as Victoire and Cordelia de Castellane to design jewellery and homeware, respectively.

Still, Dior's message of dreamy glamour and couture excellence came across more strongly than ever as owner LVMH continued to invest heavily in celebrating the prized asset, the first brand in chairman Bernard Arnault's luxury empire.

In addition to multi-million-dollar runway spectacles throughout the year — from Paris Couture Week to far-flung travel shows to weekend-long experiences for high jewellery collectors — the brand has invested in establishing itself as a cultural institution through museum exhibitions as well as countless artist collaborations and celebrity partnerships.

In 2021, Bialobos' remit expanded to include oversight of Dior's beauty division, the first time the units have shared a C-suite executive since Parfums Christian Dior and Christian Dior Couture in the 1960s. Then under new CEO Delphine Arnault in 2023, Bialobos was elevated to the role of deputy managing director in a consecration of his long-term contribution to and vision for the French house.

Dior revenue has been growing in recent years, and Citi estimates that it will rise to €10.2 billion ($11.4 billion) in 2024 from €8.7 billion ($9.3 billion) in 2022. How does this change the job of marketing a luxury brand?

It isn't the scale that makes the job different so much as the period we're living in. There's so many communications tools that have appeared and you need to always be adapting to. Twenty years ago, there was no Instagram, no TikTok, not to mention all the more specific platforms in countries like China and Japan. Now we're also seeing new opportunities related to TV thanks to streaming platforms like Netflix, Apple TV.

All of this means that, compared to the past, we have to produce much more content. Not so long ago, you were doing one ad campaign, maybe a little film every season. Marketing the fashion side was essentially just pictures. And we didn't have so many collections to promote either.

When operating across so many channels, what steps can marketers and communicators take to avoid saturating the market, to avoid being overexposed? Can couture brands adopt the performance-driven approaches that are increasingly popular, or would that be antithetical to the idea of luxury?

Desirability — not just visibility — has to be the target. That's always been part of Dior from the beginning. There's no recipe, but it all has to do with values somehow. Mr Dior had a vision with strong values: creativity, exceptional *savoir-faire*, inventiveness, audacity. Don't forget that this was just after the [Second World War]. Those values remain very important to us today; then we could also add sustainability.

Performance marketing is about playing the game, it's normal. But while you have to work on your current clients and make them dream, you also have to work on your potential clients, and make them dream. You promote the product properly and strongly, but then you also create emotions.

'Designer of Dreams' [Dior's retrospective museum exhibit that has been shown at the Musée des Arts Decoratifs (in Paris, Victoria & Albert in London and Long Museum in Shanghai] seems to mainly address the latter priority, which a lot of people would just call 'brand marketing,' although on quite a large scale. You also recently opened Dior's own fashion museum — La Galerie Dior in Paris, the world's largest museum devoted to a single designer. What is the strategy behind those museum projects?

We wanted 'Designer of Dreams' to be a mix of our heritage and also Dior today, presented in a modern way. It's been a huge success —

normally the MAD gets 400,000 visitors per year, during 'Designer of Dreams' it had 800,000 people in six months.

What's very important is to make people dream, and with this show some people who don't care about fashion, they escape and dream for hours. It's about when you get out of the Galerie Dior or the V&A with stars in your eyes — and now Dior means something to you.

What's also great is we have a huge range of products, starting with a fragrance or even a lipstick, up to an haute couture dress. So, if you love Dior you can buy into the brand at every level.

You've been responsible for the 'One Dior' image since 2021 — meaning you oversee image and communications for Dior's cosmetics now too. What were the most important steps you've taken towards unifying the Dior message across fashion and beauty?

You need a common thread — a *fil rouge* we would say in French — between fashion and beauty. That's very interesting and pretty challenging because it's two different timetables: You don't often create a lipstick or a fragrance in less than two years, while we can create a [fashion] collection in four months.

But both can focus on the icons and the codes, to become one voice — which is stronger and louder. We're unifying the messages and the energy.

More and more of Dior's perfume ads have been re-shot with clothes, reflecting the current designers' aesthetic on the couture side, or they've started to feature the updated logo and typefaces from 2017 more prominently.

It's not just the clothes, now. One of Maria Grazia Chiuri's favourite photographers, Brigitte [Niedermair], recently shot the J'Adore campaign. We are using more and more of the same visual language overall.

There are also some of the same ambassadors across beauty and fashion, like Jisoo [from South Korean band Blackpink].

Dior has navigated the transitions from John Galliano to Raf Simons to Maria Grazia Chiuri. What did you learn from managing that creative turnover?

I was very fortunate to work with all those incredible designers, who each had a vision; each had a different way of working or of finding inspiration. John was taking research trips, making these research books that were sort of like his version of a mood board, then spending hours in these very closed-door fittings with just his immediate deputies. Raf was more focused on art and artists. With Maria Grazia, it's more open, it's about visiting ateliers, reading tonnes of books, trying to have a conversation — with artisans, with people. She isn't trying to put the light on herself.

Ultimately our designers are constantly reinterpreting or sublimating our codes because it's about storytelling, and creating dreams. All the designers are immersing themselves in the archives.

How can the codes and values of a brand like Dior change over time?

For the codes, Dior has long been associated with its flagship bar jacket or *cannage* stitching. But other motifs can become codes over time, like how Maria Grazia revived the *Toile de Jouy* and made it a stamp of the brand.

In terms of values, the notion of femininity has evolved over the years and under every designer. Maria Grazia brought something about not just femininity but feminism that was really a very strong statement.

She was convinced it was the right thing and she had a vision. She didn't want to fight — there's something negative about that — but rather she wanted to promote something.

In 2017, she's been very criticised in fashion because of a T-shirt [reading "We Should All Be Feminists"]. Today I receive calls from museums all over the world to have this outfit.

Are there any other lessons you'd like to share about marketing a luxury brand?

Mr Dior used to say, 'Tradition needs to be disrupted so that it always remains modern and desirable.' That's a quote I use almost every day.

This interview has been edited and condensed.

LVMH is part of a group of investors who, together, hold a minority interest in The Business of Fashion. All investors have signed shareholders' documentation guaranteeing BoF's complete editorial independence.

09. Sustainability Rules

The era of the fashion industry self-regulating sustainability is drawing to a close around the world. Across jurisdictions, new rules could have a widespread impact on both consumers and fashion players. Brands and manufacturers need to revamp business models to align with the changes ahead.

KEY INSIGHTS

- As many as 16 pieces of legislation relating to fashion and textiles were under discussion in late 2023 in the EU alone, with the first coming into force in 2024.
- The regulations span the entire fashion value chain, from product design to marketing, and will impact consumers and companies globally.
- Regulatory competence cannot be limited to a brand's sustainability team, but rather should be embraced throughout the C-suite and integrated across functions.

The fashion industry is heading for a reality check. By the end of 2024, self-regulation of sustainability may no longer be an option.[300] Many new rules around the world are set to mandate action on everything from textiles production and chemicals use to recycling and waste.

While some industry progress is evident, the pace of transformation falls short of what is needed to prepare for impending regulations. Across the industry, the polluting use of fossil fuels continues to dominate production while circular business models are still in their infancy. If progress continues at the current pace, clothing and footwear consumption is expected to increase by over 60 percent, from 62 million tonnes in 2019 to 102 million tonnes in 2030.[301]

With the industry struggling to move forward, regulators are stepping in. Leading the charge is the EU as it pursues a vision for a climate-neutral, circular economy, with growth decoupled from the consumption of finite resources.[302] [303] The EU's textiles vision is encapsulated in its Strategy for Sustainable and Circular Textiles, passed in June 2023, which envisages an industry defined by products made with respect for the environment and social rights. As many as 16 pieces of legislation are currently under discussion, with the first coming to force in 2024. The window for brands to prepare to comply is narrowing quickly.[304]

The Heat is On

With fashion responsible for significant emissions, pollution and waste, regulators are set to require companies to both fix their own operations and force higher standards in their supply chains. The regulations apply across key areas of activity, impacting consumers and companies within and outside the EU.

Product design: Up to 80 percent of a product's environmental impact is determined in the design phase and is baked into materials and dyes.[305] The EU's flagship Ecodesign for Sustainable Products Regulation (ESPR), set to come into full effect by 2025, sets minimum design standards for all individual products sold within the EU. This includes requirements around recyclability, durability, reusability, repairability and use of hazardous substances. Digital product passports that collect and share this information with consumers are expected to become required by law.[306]

Marketing: Greenwashing is high on consumer and regulatory agendas, with the claims of many companies seen as vague or misleading. The new EU Green Claims Directive curbs greenwashing by requiring sustainability-related declarations and statements to be specific, backed by evidence, verified by independent bodies and communicated clearly.[307] France has already taken the first step, requiring large companies to put carbon labels on all clothing sold in the country.

Waste management: Less than 1 percent of fashion textiles are recycled[308] and a truckload of products are sent to landfill or incinerated somewhere in the world every second.[309] [310] An amendment to the Waste Framework Directive is calling for Extended Producer Responsibility, which already exists in France, and which requires companies to finance the collection, sorting and recycling of textile waste. Fees are expected to vary based on production output and pollution levels caused, a principle known as "eco-modulation." All EU countries will be required to launch textile collection programmes by 2025 and the destruction of unsold goods is expected to be banned.[311]

Reporting: Despite huge volumes of corporate environment, social and governance (ESG) disclosure, companies still struggle to secure sufficient data and performance metrics or define economic activities that can be considered sustainable. A lack of comparability across brands inhibits effective decision making among investors and consumers. The upcoming Corporate Sustainability Reporting Directive (CSRD) requires companies to report on ESG activities via a standardised framework. Meanwhile, the Corporate Sustainability Due Diligence Directive mandates environmental and human rights diligence and action plans across the value chain.[312]

Notably, the requirement for standardised, comprehensive public disclosures has become a lightning rod of debate in the fashion industry, with some executives concerned about the amount of data and analysis required. At a recent conference, the head of sustainability at Puma said that the brand had been publishing reports for 20 years but was "nowhere near being able to fulfil the requirements of CSRD."[313] [314]

The impact of the EU's new rules are expected

Exhibit 18

Sustainability regulations impacting fashion and textiles are on the horizon

Jurisdiction	Status	Regulations and directives
EU (Under the EU Strategy for Sustainable Textiles)[1]	**Adopted**[2]	Waste Framework Directive: Mandates Extended Producer Responsibility (EPR), requiring brands to pay for end-of-life waste treatment
		Corporate Sustainability Reporting Directive: Requires companies to report on environmental and social activities using a standardised methodology
		Corporate Sustainability Due Diligence Directive: Requires environmental and human rights-diligence and improvements across the value chain
	Proposed	Eco-design for Sustainable Product Regulation (ESPR): Mandates ecological design and circularity requirements to be practised at the product level, supported by digital product passports
		Waste Shipment Regulation: Facilitates the transportation of waste for recycling and reuse in the EU and bans illegal waste shipments to the Global South
		Ban on Destruction of Goods: Limits destruction of unsold or retained textile products, encouraging the repair or reuse of goods
		Green Claims Directive: Addresses "greenwashing" and introduces requirements on various aspects of consumer-facing product claims
	Draft	Microplastic Legislation: Aims to reduce the release of microplastics into the environment across manufacturing stages
		Revision of the Textile Labelling Regulation: Streamlines physical and digital product label requirements on composition and origin of textile products
US	**Adopted**	California SB 253: Requires businesses with more than $41 billion of annual revenue operating in the state to report scope one through scope three emissions
	Proposed	New York Fashion Sustainability and Social Accountability Act: Requires supply-chain transparency, ESG disclosures and due diligence for apparel companies conducting business in New York with annual global revenue of $100 million
		Fabric Act: Protects US garment workers by improving worker conditions, reforming pay scales and investing in domestic production

1 EU Strategy for Sustainable and Circular Textiles implements the commitments of the European Green deal and the Circular Economy Action Plan to reinvent the entire lifecycle of textile and footwear products

2 In the EU, adopted directives still need to be translated into national law by each member state within a two-year period. Adopted regulations go into force immediately

Source: McKinsey analysis

Clothes in landfill. Anadolu Agency/Getty Images.

to extend beyond the region's borders, especially into Asia, where 70 percent of the EU's textiles are manufactured.[321] In addition, lawmakers in other regions are progressing their own initiatives. In the US, the New York Fashion Sustainability and Social Accountability Act plans to hold major brands accountable for ESG impacts and supply-chain traceability.[322] In the UK, the Green Claims Code aims to stem greenwashing, while China has committed to peaking carbon emissions before 2030 and become carbon neutral by 2060.[323]

As the regulatory landscape evolves, the year ahead presents an opportunity for fashion executives to revamp their business models. But this will likely require a holistic approach rather than targeting select parts of the value chain:

Traceability: Achieving full supply-chain visibility across all tiers of manufacturing will be a critical enabler for regulatory compliance. However, many brands currently have limited visibility over their suppliers at best, and therefore lack reliable and standardised data to make meaningful progress. Advances in blockchain and other technologies may enable more transparent and efficient monitoring. Adidas, for example, has achieved material traceability at scale by using TrusTrace's digital traceability platform, which is also used by companies including Renfro Brands and Brooks Running.[315]

Sourcing and production: As upstream supply-chain activities account for the majority of carbon emissions in apparel, there may be a sharper focus on decarbonising material and garment production.[316] In the production process, main decarbonisation levers include energy efficiency and energy transition initiatives. As brands shift to more sustainable materials, they may look for new suppliers or join strategic alliances. Kering, for example, has established supplier-focused sourcing standards and created the Material Innovation Lab dedicated to the sourcing of sustainable materials and fabrics,[317] while Hermès has partnered with start-up MycoWorks' to secure access to its engineered mycelium.[318]

Design: New requirements for circularity are expected to shake up the design process. For example, a focus on longevity and durability may demand fresh attention to details such as stitching and seams. Equally, materials that cannot be separated in recycling may need to be avoided, meaning designers may need to think more creatively about design choices. Design libraries may increasingly support material selection, while 3D sampling may reduce use of resources. Packaging design is also impacted, with new rules emerging around composition of labels and tags and elimination of single-use plastics.

End-of-life waste: To minimise production and waste, new business models are coming to the fore. Resale continues to grow through brand partnerships with secondhand marketplaces, such as The RealReal or Vestiaire Collective. In-house programmes offering resale, rental and repair are gaining traction as well. There is also an opportunity to accelerate closed-loop recycling. Stockholm-based Renewcell is ramping up the world's first at-scale fibre-to-fibre recycling factory. In partnership with global brands like H&M, Inditex and Levi's, Renewcell plans in 2024 to reach full capacity of 120,000 tonnes, or the equivalent to 600 million T-shirts.[319] Fully embedding these new materials into supply chains remains a challenge, however — Renewcell recently cited slower-than-expected sales of its cellulosic pulp to fibre producers.[320]

A Greener Horizon

While regulations are being finalised, brands need to capitalise on this grace period to get ahead. Regulatory competence is a critical muscle brands need to build and is one that few have today. And given the fundamental challenge regulation poses to some segments, such as fast fashion, procrastination is ill-advised.

Brands should consider establishing a squad of regulatory experts. This squad can review the laws relevant to the business, conduct materiality assessments and advise on implications for the organisation. However, regulation ultimately cannot be outsourced to a single team. All C-suite executives need to build knowledge, align strategies within the regulatory programme, identify capabilities and tools required for change, and disseminate knowledge across respective departments.

All C-suite executives need to build knowledge, align strategies within the regulatory programme, identify capabilities and tools required for change, and disseminate knowledge across respective departments.

Additionally, brands should consider viewing regulation as an opportunity rather than a threat. For example, regulation may spur demand for certain materials, creating supply and peaking demand. This could be transformed into a competitive advantage by strategically gaining access to innovative materials in short supply.

Finally, industry associations and trade groups, such as the Council of Fashion Designers of America or the European Fashion Alliance, have a major role to play in shaping policy. Corporate leaders should consider engaging with such groups, contributing to discussions and galvanising stakeholders to co-create effective regulation between policy makers and the industry.

EXECUTIVE INTERVIEW

Rachel Arthur: How the UN Wants Brands to Sell Sustainability

By Sarah Kent

Rachel Arthur, Advocacy Lead for Sustainable Fashion, UN Environment Programme

Image credit: Holly Falconer

As sustainability regulations become more prominent in 2024, the sustainable fashion advocacy lead at the UN Environment Programme, **Rachel Arthur**, breaks down why marketers should have a bigger role in efforts to improve the way the fashion industry operates, including adjusting communication to help break the cycle of overproduction and overconsumption.

In June 2023, the United Nations published a report with a radical message for fashion brands: stop pushing overconsumption.[324]

"The Sustainable Fashion Communication Playbook" published by the United Nations Environment Programme and UN-backed Fashion Industry Charter for Climate Action took aim at the core of fashion's business, examining the role marketing plays in driving the cycle of overproduction and overconsumption that underpins the industry's environmental impact.[325]

It's an issue signatories to the UN Fashion Charter, who include many of the world's biggest brands, have pledged to tackle. But it also strikes at the heart of one of fashion's biggest sustainability hurdles: businesses geared towards driving more consumption will always be part of the problem.

Increasingly, regulators are looking to tackle the challenge from various angles, looking at ways to make brands responsible for textile waste and incentivise designing for long life and circularity. But the role marketing plays has been overlooked, said Rachel Arthur, a sustainability strategist and sustainable fashion advocacy lead at UNEP.

That needs to change, but that doesn't mean the end of fashion, it just means a new focus, she said.

Rachel, you spearheaded the playbook project. Why did you feel like this was the thing to focus on?

This started on the UNEP side with a piece of work that was looking at the role of communication to help drive change and inspire action within the industry.

Typically, a piece of work like that would lead to a consumer-facing campaign on the need for greater sustainability within the fashion sector [or] more sustainable consumption. Actually, the outcome from strategy was that while that kind of work was possible and viable and could be considered necessary, there seemed to be a much more powerful lever to consider, not just looking at what consumers could do, but why consumers were consuming in the way that they were.

That comes down to primarily the brands and then the media, and the ecosystem that surrounds them. The industry is so good at creating desire. But we're making people fall in love with something that isn't serving us on a planetary basis. The primary message put forward is based on a linear economic model and on messages fundamentally of overconsumption.

These job functions need to be part of this conversation. Communication needs to be aligned to sustainability. The playbook basically is the "how."

What are the key recommendations?

Basically, there's a role for marketing, there's a role for storytelling. Brands need to make sure that everything they're doing in sustainability is matched by what they're putting out in the world.

Within the playbook, we spell that out, with [a set of] pillars of work.

First, how do we ensure we're not greenwashing or putting forward anything in the way of misinformation? I'd say that's kind of table stakes. This is not new to the industry, but unpacking it is quite complex and it's evolving fast as more policy comes in.

Then we start moving into areas that are newer, and I think typically where the communication professional has more of a forte or skill set that can be brought to the table that hasn't existed here previously. This is where we're looking at culture change.

We clearly call out that we need to eradicate messages of overconsumption. This is probably the heaviest area [of what we are outlining] in terms of complexity in practice. Marketers are 'KPI'd' on how much they can sell, so this is going against that logic.

But we really present positive solutions. We're not trying to do away with fashion as it exists, but change the focus of it. From a marketer's standpoint, it's about saying, how can we put more of our effort, energy, creativity, budget towards circular solutions?

Can you outline what you mean by circular solutions?

Ultimately, you've got to start with people buying less, but then you might look at other ways of consumption — resale, rental, keeping what you've got for longer, so the repair market, with the last thing on the list being recycling before you buy something that's completely new and unsustainable. There's a lot of room within that for exploration, creativity.

And it is important here to recognise that there isn't one size fits all. Sustainable consumption looks different in different markets. In some markets, we know that basic needs still need to be met, so we're not asking for reduction in consumption as a blanket global view.

[But] the third section is about 'reimagine values,' and this section could underpin all of it. We're trying to inspire people to think and aspire to something different. We call [fashion marketers] 'architects of desire,' so how can we redirect aspiration towards sustainable lifestyles?

You've already alluded to the tension underlying this work: you're essentially trying to encourage marketers to start selling something that is at odds with their current KPIs and where it's not clear what the business model is. How does this fit with broader conversations around sustainability?

It is the elephant in the room. I think most businesses along that sustainability journey now recognise that, but that doesn't mean they're yet willing to address it at the board level or the senior executive level.

This is new, not in the sense that nobody knows about it, but it's not yet been a true conversation. What we have been trying to do with the playbook is to say this needs to be on the table.

It's not on the shoulders of those who work in a communication capacity, of course, but if you look at the bigger picture of what the playbook is talking about, it is addressing the system's challenge, which is to say that we can push as hard as we possibly want with all of the evolution that is needed, but we won't get anywhere within that if we don't also look at volume.

When we talk about systems, regulation often comes up as a lever for change. What role should policy play?

We're seeing policy come down the line that is focused on the green claim side of things, but it is interesting starting to think about what that could look like from a sustainable consumption standpoint and what might be indeed possible within all of that.

The fourth section of the [playbook's] principles is called 'drive advocacy.' It looks at a couple of lenses. Obviously, how do we push for greater education from a broad consumer-based standpoint? Within that, we talk about the internal lever that communicators can help play to help ensure that there's accountability for change within the business. Also [they can] help play a role within the policy landscape, recognising that a lot of these businesses are incredibly powerful and that there could be an opportunity from a very competitive standpoint to advocate for wider change that facilitates sustainability in a wider sense.

How do you see the regulatory landscape at the moment?

There's so many things going on within the policy landscape, which are interesting, potentially exciting, highly complex and bewildering for a lot of the industry to get their head around.

The green claims side of things, the industry is kind of ready for it. Everybody just wants that guidance. Yes, there are going to be hurdles to actually get people on the right page, but just having black and white, 'this is what you can and this is what you can't do,' it's going to be really helpful for everybody. And it also helps level the playing field.

In a wider sense, I think we're at an interesting juncture in terms of policymakers recognising this role of consumption as a result of unsustainable production. The waste side of things is a very interesting lever. We have to recognise in this conversation around overconsumption just how much waste there is in terms of the stuff that was [never sold].

What we also really need to see is incentives for businesses around doing 'the right thing.' On the one hand, that's [encouraging the use of] sustainable preferred materials so consumption that is happening is less impactful, but also do we push for circular solutions to be more easily facilitated or incentivised?

I'm not sure that we're seeing that play out fully as yet but I think all of those things combined — which we know is not going to happen overnight — would be incredibly beneficial.

Are things missing from the conversation, and in particular the policy conversation?

This elephant in the room around production levels and volume. It's really interesting to think about what that looks like at a policy level. While we see certain regions looking at reducing, for instance, fast fashion, I think there's a much bigger picture that isn't necessarily in there, which is looking at consumption behaviour, and how that's perpetuated by an overproduction model and how we look at that holistically in terms of the way that businesses are measured on success.

Lastly, the area that we don't include as much as we should is around the worker side. How do we ensure that garment workers are being paid a living wage or the right amount for what they're creating. What does that look like in a world of creating less?

This interview has been edited and condensed.

10. Bullwhip Snaps Back

Changes in consumer demand have resulted in the "bullwhip effect," where cuts to orders increase in magnitude at different parts of a supply chain, putting pressure on fashion's suppliers. Now, if supply is to keep pace with anticipated renewed demand, brands and retailers should consider focusing on transparency and bolstering strategic partnerships.

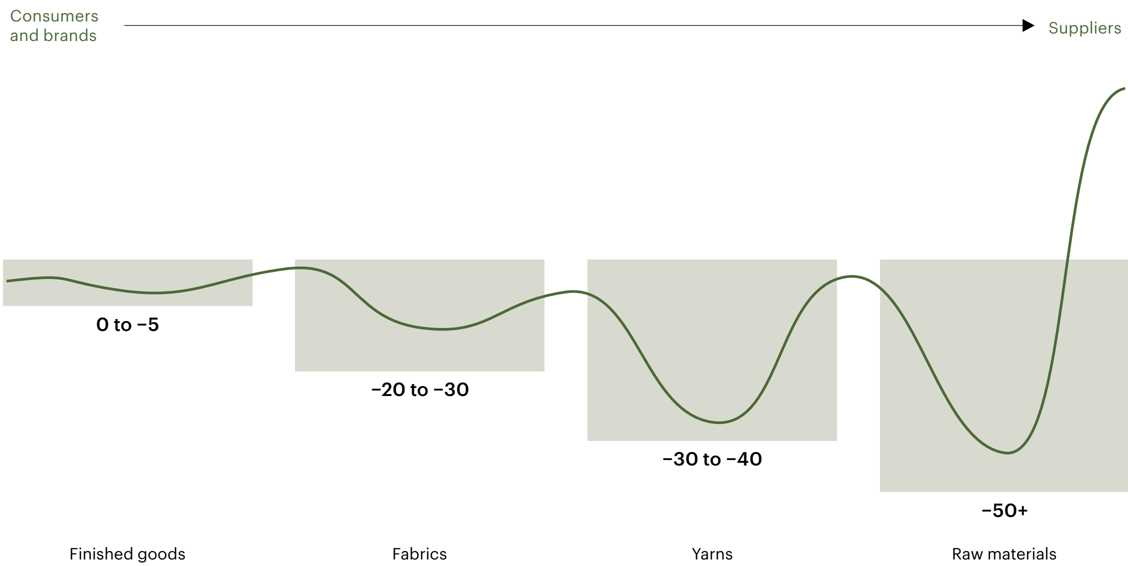
KEY INSIGHTS

- Demand volatility has disproportionately impacted upstream suppliers. Factories that were at full capacity in 2021 have been operating at 30 percent to 40 percent below capacity in 2023.
- 73 percent of chief procurement officers expect this volatility will be one of the top challenges affecting supplier relationships over the next five years.
- Manufacturing experts believe the third quarter of 2024 may be the earliest that textile factories see capacity improvements.

Exhibit 19

The "bullwhip effect" disproportionately impacts upstream suppliers who have seen up to a 50 percent drop in order volumes

Demand across the supply chain,[1] year-on-year change Q1 2023 vs Q1 2022,
%



1 Approximate changes in order demand as proxied by export trade data from seven top textile producing markets: China, Hong Kong, Germany, Italy, India, Pakistan, Turkey. Includes cotton and synthetic fabrics, yarns and fibers

Source: UN Comtrade data, McKinsey analysis

Far from resolving in 2024, the fashion industry's supply-chain volatility of the past few years is set to continue. Upstream apparel suppliers and manufacturers have undergone significant disruption, where changes in consumer demand have resulted recently in a sharp decline in factory utilisation, widespread layoffs, and delayed investments. As brands and retailers look to scale up capacity to meet renewed demand, they may start to feel the repercussions of recent upstream strains.

This turmoil is known as the "bullwhip effect,"[326] a phenomenon where changes in consumer demand escalate across the value chain. In the case of fashion, changes in consumer demand are magnified at each step from retailers to garment manufacturers to yarn and raw material suppliers. In the face of falling demand, each part of the supply chain overcompensates by reducing forecasts, lowering production and decreasing order volumes — often driven by communication gaps and forecasting inaccuracies.

The bullwhip effect reached fashion in 2020 and 2021 as retailers contended with pandemic-related disruptions when products arrived late and overcompensated for inventory shortages by ordering too much stock. When post-pandemic inflationary pressures and economic uncertainty arose in the second half of 2022, making consumers more cautious than anticipated, retailers were left with billions of dollars in unsold goods.[327] As a result, many orders for the upcoming 2023 season were reduced or cancelled.

The pullback has disproportionately impacted upstream suppliers. Across seven of the world's biggest textile exporting countries, fabric exports dropped nearly 20 percent in the last quarter of 2022

A production line at a textile factory in China. Zhao Qirui/Getty Images.

compared to the year prior, followed by a 40 percent drop in yarn exports in the first quarter of 2023.[328] Factories that were at full capacity in 2021 may have been operating at 30 percent to 40 percent below capacity in 2023, according to industry experts.[329] It's a similar story for textile machinery players. Swiss manufacturer Rieter reported a 63 percent year-on-year drop in orders in the first half of 2023, citing weakening demand for spinning technology.[330]

Smaller manufacturers with limited resources have been the most affected. The managing director of a manufacturer in Pakistan estimated that as much as 30 percent of the country's textile factories have closed.[331] In India, spinning mills have requested aid from the government,[332] while many operate at a loss.[333] Other manufacturing hotspots such as Sri Lanka and Vietnam have entirely shut operations in some factories.

The Bullwhip Snaps

The bullwhip effect has only made more urgent the humanitarian crisis occurring within textile-producing countries. For starters, a large share of textile and garment workers live on low wages and have little if any savings to fall back on. Today, the increased stress on factories could increase the risk of labour abuses, such as wage theft and union busting.

In China, the world's largest textile producer, the number of worker strikes and protests rose in 2023.[334] According to the China Labour Bulletin, more than 700 factory strikes in the first half of 2023 took place, compared to 800 in all of 2022. In Pakistan, loss of cotton crops from floods, shifts in production and lower exports contributed to over one million of its eight million textile workers losing jobs. Textile employment levels also fell by tens of thousands in key markets such as Bangladesh, Sri Lanka, Cambodia and Turkey in 2023.[335]

This supply-chain volatility is not expected to subside in the near term. A McKinsey survey of chief procurement officers (CPOs) in September 2023 found that 73 percent believe demand volatility will be one of the top challenges to affect supplier relationships over the next five years.[336] However, the third quarter of 2024 is the earliest that textile factories might see some capacity improvement.[337] But even then, the consequences of the bullwhip effect may continue to linger. Layoffs and delayed investments may mean the industry is insufficiently prepared to scale up capacity quickly.

Worker displacement and skills loss may create major challenges for the industry. In Vietnam, for example, competition for qualified labour is intensifying with other industries — suppliers to Apple, Lego and automotive players are among those expanding operations and attracting former textile workers in the country.[338] Factories short on staff and dealing with hiring and training new employees could face longer production timelines.

Brands and retailers not prepared for these shifts could incur higher expenses to compensate for the potential delays. For example, they may need to pay for expedited shipping, overtime work or additional warehouse space. Those that try to rush production face other costs, such as increased quality issues that can damage a company's reputation with consumers.

Many companies are rethinking their supply chains to de-risk manufacturing. According to McKinsey's CPO survey, 54 percent of executives expect to increase reshoring or nearshoring in 2024.[339] Others are thinking about rebalancing their sourcing footprint by sourcing from multiple countries. However, these approaches are not without challenges. Finding and contracting new suppliers, or partnering more closely with existing strategic ones, can be costly. Companies can also run into manufacturing limitations compared to traditional sourcing hubs or face new regulatory and compliance factors.

Another consequence of the slowdown is that suppliers have fallen behind in critical investments in new infrastructure for both speed and sustainability. More than 70 percent of fashion's greenhouse gas emissions stem from upstream activities, such as producing and finishing textiles.[340] Yet, textile players say costs are high for upgrading machinery or adopting greener practices.[341] Without a steady stream of orders, they are postponing capital expenditure on such initiatives. Unifi, a US-based manufacturer of recycled and synthetic fibres, has delayed machinery replacements from 2024 to 2026 to offset slowing demand.[342]

With sustainability regulations coming into effect in the EU and elsewhere that mandate companies disclose environmental impacts in their supply chains, and the push from investors for companies to disclose data about scope three emissions (that is, indirect emissions),[343] the risk may only increase for brands and retailers.

Navigating Disruption

In the year ahead, brands might consider placing greater emphasis on making their supply chains more resilient to mitigate future risks. First and foremost, transparency and communication among all stakeholders in the supply chain will likely be paramount in facilitating better information-sharing and joint demand forecasting. According to McKinsey's survey, 70 percent of chief procurement officers believe that improving demand transparency with suppliers through systems and processes is critical in navigating market turmoil.[344]

Cultivating strategic partnerships with key suppliers could also be considered and could include longer term contracts with not only direct suppliers, but also tier two, tier three and tier four partners that are vital to a business. One potential benefit of such a long-term commitment is that it can provide a supplier with cash flow to invest in industrial and sustainability improvements at its facilities, according to Florian Heubrandner, executive vice president of global textiles at Lenzing, a wood-based cellulosic fibre manufacturer.

Brands should also continue to actively champion workers' rights. This includes ensuring fair wages, job protection, safe working conditions and opportunities for professional development for factory workers. Beyond enabling two-way communication with suppliers about this, companies can take steps on their own. Adidas, among other companies, has established a worker hotline to enable workers to voice complaints that it can then work to resolve.[345] Similar initiatives include PVH's, which includes setting up representative workplace committees for all workers employed by key suppliers by 2025.[346]

The upheavals of recent years have made clear that fashion companies and their suppliers not only depend on each other to succeed, but also endure challenges together. 2024 will likely provide further evidence as to why.

EXECUTIVE INTERVIEW

PVH Corp: Transforming Supply Chains Through Trust and Transparency

By Janet Kersnar

David Savman, Chief Supply Chain Officer, PVH Corp

Fashion supply chains continue to experience the knock-on effects of wider geopolitical, macroeconomic and consumer shifts, all of which may intensify in 2024. **David Savman** believes there are multiple ways that retailers, brands and their suppliers can learn to thrive together in this environment.

"They thrive, we thrive" is a catchphrase that captures David Savman's approach to running PVH's supply chain. Since leaving H&M in 2022 to become the chief supply chain officer of the US owner of Tommy Hilfiger and Calvin Klein, Savman has put relationships front and centre across a supply chain that relies on around 300 garment manufacturers in approximately 30 countries, building on PVH initiatives such as its first supply-chain financing programme that provides suppliers with better financing rates based on their sustainability performance. As he explains, having strong relationships across a supply chain "is the way we do business; it gives you a possibility to stand ready when whatever happens."

After the turbulence caused by the Covid-19 pandemic, how would you characterise the impact on supply-chain relationships between brands, retailers and their suppliers?

It became clear during the pandemic which relationships were really strategically strong, transparent and reliable, and which ones were not. It is also clear that the suppliers that were able to use their relationships with brands and retailers to find more-[long-term] solutions are the ones now working with the best [partners] in the market. There are a lot of brands and retailers out there, [and] it's much more important for everyone to work with strong business partners from whatever side.

Both suppliers and retailers are more cautious in how each of us progresses. Who do you work with? Why do you work with them? What's the value that we bring to the table? What's our common goal? Are we equally vested in what we're going after? It becomes much more obvious that it is a win-win relationship [when both partners] have answers to those questions [that align]. It's part of a transformation in the way we think about supply-chain partnerships for the last 10 years, but the pandemic really accelerated that.

Even if you run your own company in a good way, there are still fluctuations in the market that affects the whole market, right? We want to be transparent both in terms of being up-front and candid about what we see changing, but also having frequent data flows to make sure we have the same view of reality all the time. Of course, that's not super easy on a day-to-day basis due to a lot of reasons.

In terms of the day to day, what are you doing to ensure the transformation you've mentioned continues to happen?

I've been in this industry and in this field for many, many years. I don't think I've ever spoken to suppliers as much as I have in the last 10 months, first [because of] being brand new at PVH, but also to build on what I'm hearing [about] what are their pain points, what works for them, what doesn't work for them. How do we do this better? What is it that's important for them to know? When do they actually need to know it?

What has surprised me through all of the conversations is seeing that there is still a big upside for the fashion retail industry to take bigger steps in how much more systematic and granular we need to be when we look at demand planning, supply planning, inventory management, regardless [of where we are based]. Each and every one of us has to be sharper [in all those areas], with supply models that are more agile, precise and diverse than before — everyone needs allocation algorithms that are flexible.

You've mentioned inventory — how should companies be thinking of inventory management in the year ahead?

I think what the industry needs, and what we're doing a lot at PVH, is [creating a mindset that] inventory is the most valuable asset we have, not only from a financial perspective, but also in terms of where capital is employed. ... You can't afford today to not make amazing products, at least not from where we stand. You also cannot afford to not be very granular in your demand planning, in your inventory planning, in your supply models, and really treat your inventory as the most precious thing you have. That's where you put all your effort, your creativity. That's how your brand comes to life with the consumer. It's also how you run a sustainable, efficient business model around a fashion retailer.

Where will the conversations around offshoring, nearshoring and onshoring head?

The important part of this is to ask why you do it, and that comes back to treating inventory as one of the most important things you have. To be able to have good inventory, take care of that inventory, make it available to your consumer and

The solution is based on better data, but it's also based on something as simple as trust.

be responsive, you need to have production in different parts of the world. We are a global company. So, it's going to be nearshore to one market and far away from another one.

I think that the [terms] nearshoring and onshoring are a bit un-modern in a global company. Does a global brand like PVH need a multiple country-of-origin sourcing strategy to be able to run great availability with less inventory? Absolutely. Does it involve asking, 'Am I going to nearshore?' No. But it's still a valid point that you need a diverse sourcing strategy, especially if you're a brand active in every part of the world.

For companies like PVH with supply chains that are global, a key part of sustainability — being able to trace where fibres and materials are sourced — is even more complex given the amount of information that needs to flow through multiple supply-chain tiers. Technology advances have helped, including the use of blockchain. But would you say advances in traceability and other moves towards more supply-chain sustainability would be accelerating now if it weren't for regulators pressing for change?

It's a tough question to answer. I don't know if it's accelerated or not. Probably. [But] it's what the consumer wants. It's what the store associates and your [other] staff want. It is what the shareholders and the financial markets want. We all want it to move as quickly as possible, so if anyone has managed to accelerate it, that's … a positive thing.

No one in this industry wants to hide where our fibres are from. That doesn't exist. It's just a complex thing. It's how it has built up for hundreds of years. … It doesn't come from bad intention, but now when we go back, there is untangling to do. A lot of them have already been done, and a lot of these technologies will help.

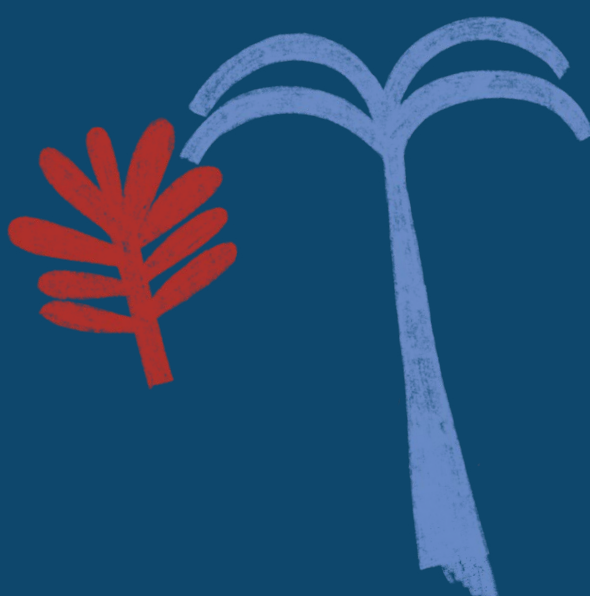
There's the critical human side of the supply chain that often doesn't get discussed as much as it should. What can executives of retailers and brands do to uphold social rights in supply chains, regardless of economic cycles or headwinds that we might be facing in 2024?

The answer is to run a much more granular, precise supply chain. If I go to my biggest suppliers and say, 'Here is how we see it, and we're going to update you, and I'm going to do it on each and every level of the supply chain,' I know that [the impact of any consumer demand shifts] is going to be smaller for everyone. If we talk to each other often enough and we have a strong strategic relationship, you trust that what I say is accurate. Therefore, you won't add 20 percent, or you won't remove 20 percent, from your operations. In contrast, if you don't trust me and you do add upside or remove downside, the next level will do the same.

The problem is when you don't have this, they're sitting blind, and then if all of a sudden demand totally disappears, or triples, they struggle to handle it, and this will impact their employees. The solution is based on better data and integrated systems, but it's also based on something as simple as trust, and making sure that you do what you say you're going to, if you do that over and over … they're with you on that journey. That builds the possibility for them to continue to grow their business. It's like it's the absolutely best thing that can happen to us, that our suppliers continue to thrive, and invest in innovation, sustainable solutions, circularity, technology and so on. The day they don't, then I'm troubled.

This interview has been edited and condensed.

McKinsey Global Fashion Index



Resilience Buoyed by Luxury

The fashion industry demonstrated remarkable resilience in 2022. The luxury segment in particular propelled growth through price increases, offsetting the weaknesses of other segments. However, the future remains unclear against a backdrop of ongoing headwinds, from geopolitical tensions, inflationary pressures and slumping consumer confidence to the Chinese economy's slower-than-expected recovery.

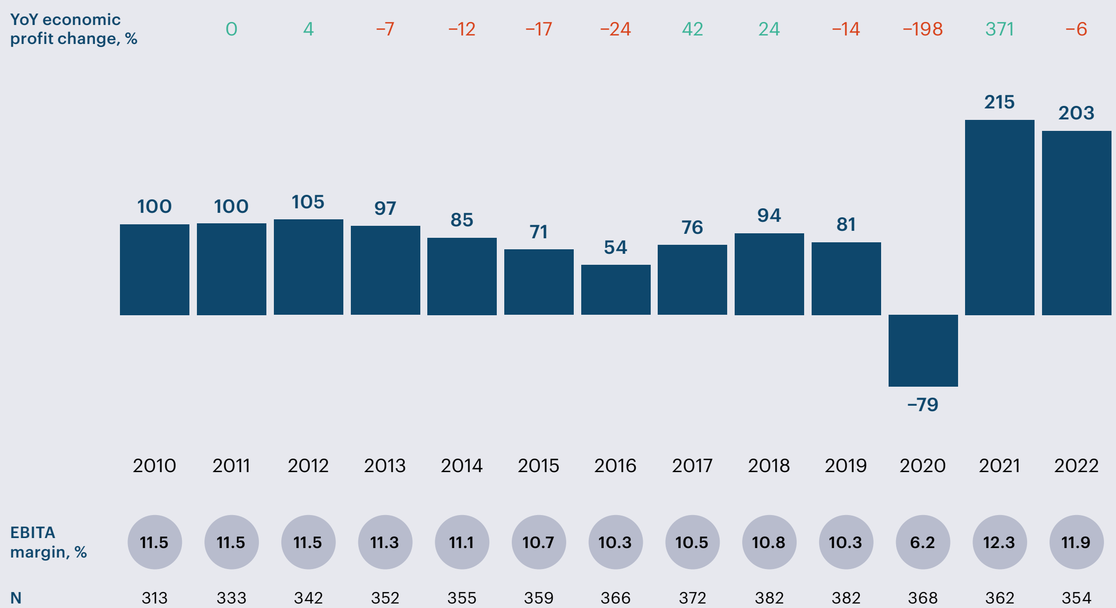
KEY INSIGHTS

- After a record 2021, industry economic profit stabilised at similar levels in 2022, with macro challenges offset by strong revenues and cost discipline which protected margins.
- Excluding luxury and affordable luxury, however, the industry's 2022 performance would have been negative, with the mid-market segment particularly under pressure. In luxury, there were also clear winners: about 98 percent of the luxury segment's total economic profit was generated by the four largest players.
- Value creators outnumbered value destroyers for the second year in a row. However, there are signs of increased polarisation, with the industry's "Super Winners" increasing their share of economic profit from 84 percent to 99 percent.
- In this year's list of Super Winners, luxury group LVMH rose to the number one spot. Sportswear players continued to perform strongly amid a reshuffling of the pack, led by Nike in second place.
- The industry faced economic uncertainty and diminished consumer confidence in 2023. However, it is likely it will maintain its economic profitability for the year, primarily thanks to the resilient luxury segment.

Exhibit 20

After a strong recovery in 2021, industry economic profit was maintained in 2022

Total economic profit (EP), index (2010=100)



Source: McKinsey Global Fashion Index

Leveraging financial data from nearly 400 public companies, the McKinsey Global Fashion Index (MGFI) helps decision makers evaluate the fashion industry's most important segments, product categories and markets. The index primarily tracks financial development and value creation through the lens of economic profit (EP), calculated as the difference between a company's current 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 this eighth edition of the MGFI, we first unpack the industry's historical EP composition and development, then we analyse individual segments, showing where value was created or eroded. We look at the performance of companies that have risen to the top as "Super Winners," unpack a crisis in inventories and share our outlook for the coming year.

Resilient Performance

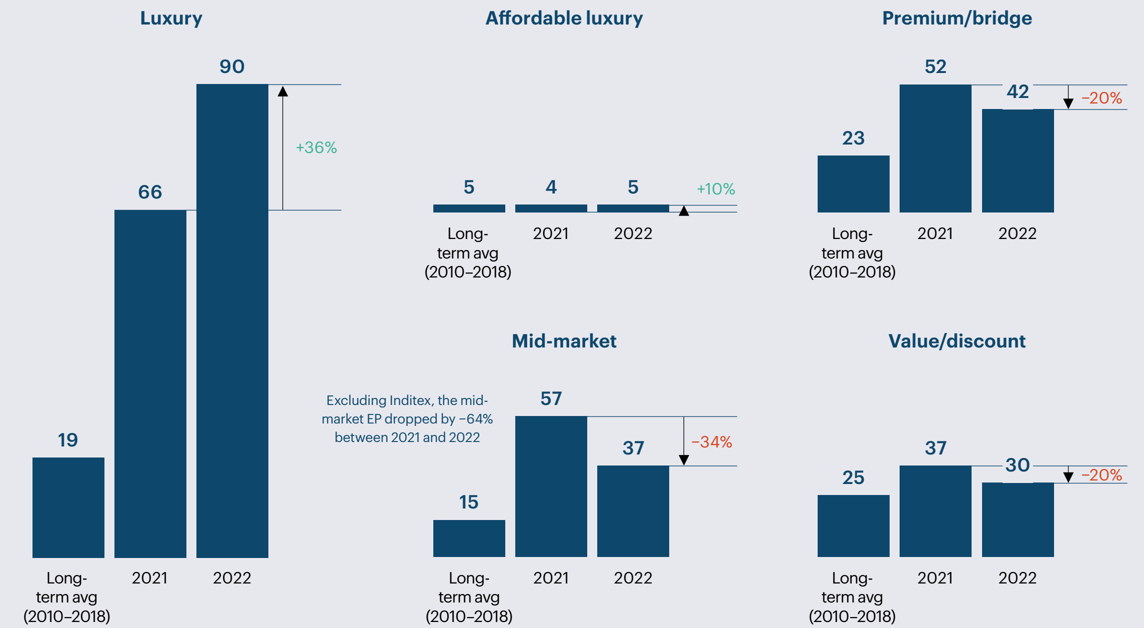
The fashion industry achieved a strong financial performance in 2022, led by the luxury segment's economic profit contribution. EP held steady near the high-tide level created in 2021, suggesting stabilisation and reflecting a recovery in consumer sentiment as pandemic effects started to fade. Our EP index, baselined to 100 in 2010, hit 203 at the end of 2022, just 12 points lower than the record set in 2021.

Industry performance was resilient despite significant challenges, including geopolitical uncertainty (such as the Russian invasion of Ukraine) and accelerating inflation, which put disposable income under heavy pressure. The industry generated revenue gains while keeping a firm grip on costs, leading to average adjusted EBITA margins of almost 12 percent, slightly ahead of the 11 percent long-term average. Capital intensity, which refers to

Exhibit 21

Luxury was the main segment driving economic profit while others, particularly the mid-market, suffered

Average economic profit by value segment, index (2010=100)



Source: McKinsey Global Fashion Index

the assets required to generate income, decreased 6 percent compared to 2019, despite a significant increase in revenues of 12 percent. Decision makers were hesitant to commit to significant investments, resulting in a relatively modest 4 percent increase in capital investment since 2019.

The key to the industry's relatively strong performance in 2022 was pricing-led growth. The luxury segment in particular showed that it can raise prices without significantly impacting demand.[347] Large players were most proficient at managing these price rises. However, price adjustments were not restricted to the top end of the market. Companies including Inditex and Uniqlo have shown that implementing well-managed pricing strategies can effectively support profitability.[348 349]

Our analysis of industry dynamics over the past three years (2019-2022) suggests that high levels of EP can be largely attributed to margin performance. McKinsey's sensitivity analysis shows that margin was twice as important as capital turn in shaping EP trajectory. A 1.3 percentage point improvement in margins from 2019 to 2022 was the main driver sustaining the current elevated EP levels.

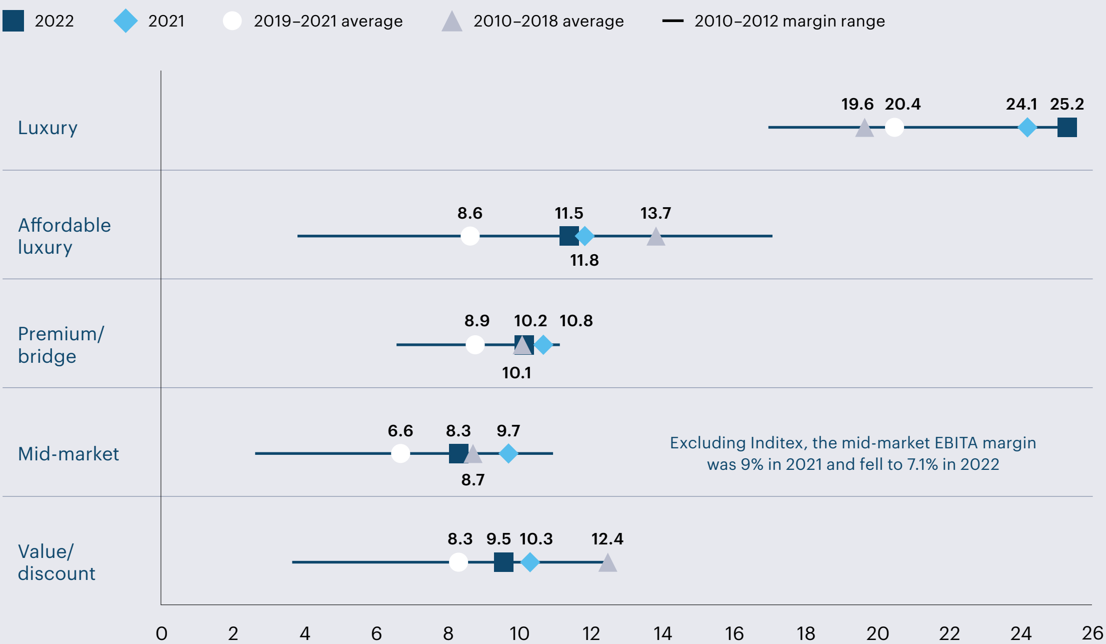
Luxury on Top

In a year of economic challenges and accelerating inflation, only two segments were able to improve on their performance in 2021. Luxury and affordable luxury saw average EP rise 36 percent and 10 percent respectively — a result reflecting successful repricing strategies and the resilient spending power of higher-income consumers. Due to the uncertain environment, shopping behaviours have further

Exhibit 22

Luxury also saw the greatest margin improvements

EBITA margin by value segment,
%



Source: McKinsey Global Fashion Index

diverged, with high-income shoppers broadly maintaining their spending on fashion while lower-income consumers cut discretionary spending.[350] It is worth noting that while affordable luxury improved its year-on-year EP, the segment only amounts to a small portion of the market. Meanwhile, the premium/bridge, mid-market and value/discount segments suffered.

In a bell curve pattern, the extremes of premium/ bridge and value/discount suffered less than the middle ground, seeing 20 percent declines in EP compared with a mid-market EP decline of 34 percent (including Inditex) and 64 percent (excluding Inditex). That said, the mid-market still produced more EP in aggregate than its long-term average, recording an EP index level of 37, compared with 15 on average between 2010 and 2018. Premium/ bridge and value/discount also outperformed their long-term averages but by smaller amounts.

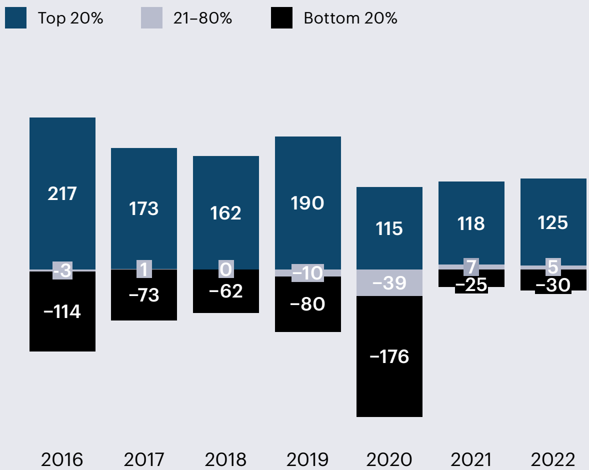
While affordable luxury recorded a 10 percent EP gain in 2022, the segment was unable to improve on its 2010-2018 average. Luxury, however, reached new highs, more than quadrupling its long-term 2010-2018 average. Luxury now accounts for nearly half of the industry's total EP, with an EP index of 90. Its performance would have been even more exceptional if online pure players were omitted from the analysis. These pure players generally posted negative or much lower levels of EP. Meanwhile, premium/bridge and mid-market produced an EP index of 42 and 37 respectively, while value/discount achieved 30.

Among individual luxury companies, LVMH posted a record performance, with revenue of €79.2

Exhibit 23

The industry is once again showing signs of increased polarisation

Fashion companies' contribution to industry economic profit by ranked quintile,
%



Source: McKinsey Global Fashion Index

Segment Deep Dive: Luxury

Luxury has experienced extremely rapid growth in recent years, and its EP is now six times 2010 levels, accounting for 44 percent of the industry's total. This growth trajectory continued in 2022, with luxury EP growing 36 percent, spurred by record EBITA margins of 25 percent. Still, growth is expected to stabilise amid macroeconomic headwinds and slower growth in China.

EP in luxury (including publicly listed companies only) is driven by just four players: LVMH, Hermès, Richemont and Kering. These powerhouses accounted for 98 percent of the segment's EP in 2022, although the first signs of growth normalisation are beginning to emerge in 2023.[371] Of the four, Kering recorded the smallest EP growth.

billion (approximately $83 billion) and profit from recurring operations of €21.1 billion ($22 billion), both up 23 percent year on year.[351] Hermès also had an exceptional year, with a 29 percent increase in revenue.[352] These results partially reflected the primacy of companies that were able to secure higher prices while maintaining strong demand.

The strong performance of the luxury segment was evident in both margins and revenues. Luxury's average adjusted EBITA margin widened from the pre-pandemic historical average by about 5 percentage points, and 1 percentage point from 2021, to 25.2 percent. This was on the back of an 18 percent increase in revenues, driven partly by price increases. Elsewhere, margins held steady or were slightly narrower. For example, mid-market margins contracted to 8.3 percent from 9.7 percent the previous year. Value/discount margins of 9.5 percent were about 2 percentage points lower than pre-pandemic, partly driven by strong price competition and increases in the cost of goods sold.

Value Creation and Destruction

To be sure, the fashion industry has had to contend with myriad challenges in recent years. Even before the pandemic, a relatively small group of players was responsible for generating the majority of EP. The pandemic led to weaker performance across the board, albeit with exceptions. Now, there are signs of a return to the traditional pattern of polarisation, with the top 20 percent of companies driving industry EP. This group saw a slight increase in overall profit contribution of 4 percentage points, accounting for 125 percent of the industry's EP at the end of 2022.

Meanwhile, the bottom 20 percent accounted for most of the industry's losses, equivalent to an EP of negative 30 percent compared to negative 25 percent in 2021. Still, the cohort was significantly less value destructive than pre-pandemic, with an improvement of approximately 50 percentage points since 2019. In the middle, a small amount of EP (5 percent of the distribution) was produced by 60 percent of companies.

The long-term trend in the fashion industry has been that there are more value destroyers than value creators. In 2021, that started to change as value destroyers faltered, resulting in bankruptcies, mergers and acquisitions. The proportion of value destroyers fell to 45 percent, compared to 68 percent in 2020, marking the first year since 2014 that creators outnumbered destroyers. In the most recent financial year, the new equilibrium remained stable, with destroyers accounting for a share only slightly higher than the previous year at 47 percent. Luxury and affordable luxury saw the highest number of new value creators, while the mid-market saw the highest number of new value destroyers. Prada is an example of a new value creator, with a 21 percent increase in revenues in 2022 driven by growing brand momentum, particularly for youth-focused Miu Miu.[353] However, mid-market players accounted for about 50 percent of the value destruction in 2022.

In 2022, the top 20 companies saw EP levels rise on aggregate, and the group continued to have an outsized impact on overall EP. But of the 99 percent of EP attributable to the top 20, 81 percent was generated by the top 10. That said, value creators outside the top 20 contributed more to EP than they did for most of the past decade. Meanwhile, value destroyers were proportionately less destructive, with a similar EP level to previous years representing a smaller proportion of total EP.

Super Winners

It is no secret that fashion is a winner-takes-all industry, with the top companies dominating the global value pool. This year, our list of Super Winners contains five new entrants, reflecting shifts in consumer behaviour after the Covid-19 pandemic. Meanwhile, four of the top seven are luxury companies, highlighting the importance of the segment. Also, sportswear saw a recalibration while some retailers rebounded.

In the luxury segment, LVMH was the standout performer, rising one place to take the top spot, achieving significant growth particularly in its fashion and leather goods category in Europe, US and Japan. The next-best performing luxury player was Hermès, which rose from fifth to fourth place due to its strong performance in international markets, while Richemont jumped three places to fifth, with growth driven by momentum in retail and the Americas.[354] Kering was seventh and Tapestry rose 13 places to 16th.

Leisure and sportswear brands saw positive momentum as consumers continued to prioritise healthy lifestyles. However, with more people returning to the office as well as spending time outdoors, the picture was slightly more mixed than last year. China's Anta moved from ninth to 11th place. On the flipside, Lululemon rose from 11th to 10th position, boosted by a net revenue increase of 30 percent, attributed to product innovation, a focus on consumer experiences and strategic market expansion.[355] Retailers including Dicks Sporting Goods and JD Sports remained on the list, with the former holding steady in 12th place, while JD moved down four places to 19th.

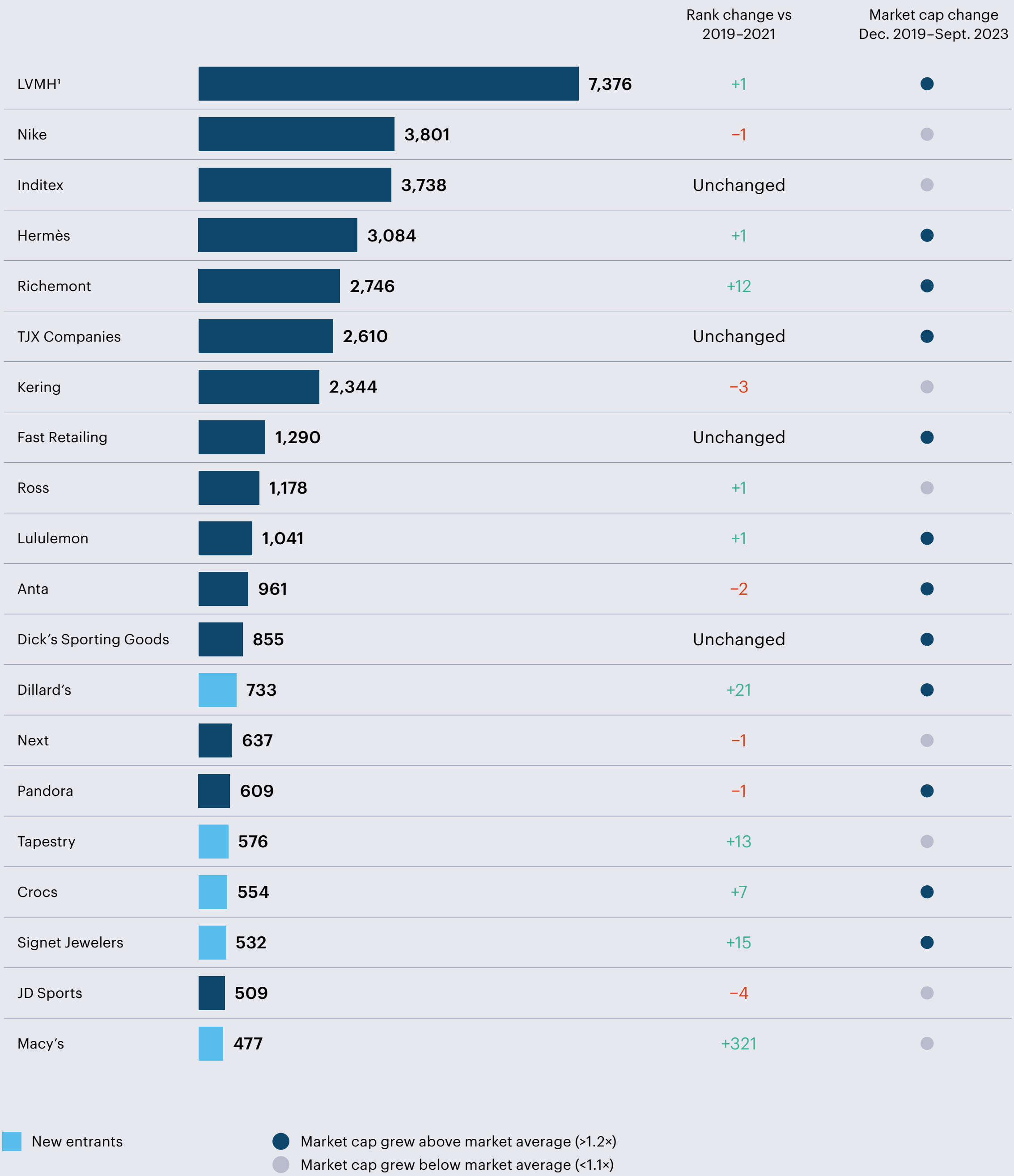
Elsewhere, the past year saw strong performance by off-price multi-brand retailers, including TJX Companies and Ross. TJX remained in sixth place on the Super Winners, and Ross was ninth, rising from eighth place last year.

Macy's was the biggest mover in the group, rising 321 places to secure the 20th spot on the list. Four other new entrants also made the list, including American department store Dillard's climbing 21 places to claim the 13th position. These department stores experienced a strong rebound post-pandemic in 2021, reflecting consumers' eagerness to return to in-person shopping after lockdowns and social distancing measures were lifted. However, despite a range of actions taken by department stores, including Macy's restructuring efforts announced in 2020[356] and Dillard's tight inventory control strategy,[357] the business model remains challenged, with many experiencing a growth slowdown or even decline in sales during the financial year 2022. New entrant Tapestry climbed 13 places to 16th, with performance attributed to the momentum of its key brands such as Coach and Kate Spade as well as the execution of its "acceleration programme" to cut costs and improve margins.[358] [359] Footwear manufacturer Crocs reached 17th place, climbing from 24th last year, after record 2022 revenues as a result of exceptional demand for the Crocs and Heydude brands.[360] Lastly, Signet Jewelers, the world's largest diamond jewellery retailer, saw a significant 50 percent increase in fiscal 2022 sales, driven by a 56 percent growth in brick-and-mortar sales, resulting in an upward move from 33rd to 18th

Exhibit 24

Luxury leads the Super Winners, while sports players reshuffle

Top 20 players by economic profit, 2022,
USD (millions)



1 LVMH includes economic profit from Tiffany & Company

Source: McKinsey Global Fashion Index

place.[361]

It would be tempting to assume that the ability to produce EP is highly correlated with a company's size. However, while size matters, it was not the only factor influencing this year's results. Super Winners contributed almost 18 times more EP than the average fashion company. Not only was such a significant gap in EP due to the Super Winners' revenue, which is on average six to seven times higher than the average of the wider cohort, but also their relative margin performance. Overall, Super Winners demonstrated a margin performance contribution with an EP-to-revenue ratio of around 8.6 percent, compared to 3.4 percent for the wider group.

With every company joining the Super Winner list, there is a company exiting it. Dropping out of the top 20 in 2022 were Adidas, Hanesbrands, Li Ning, Deckers Outdoors and VF Corp.

Inventory Headaches

During the pandemic, inventory levels increased significantly due to changes in consumer behaviour and supply chain disruptions. As the industry began to recover in 2021, inventory value-to-revenue levels returned to around 19.6 percent, in line with the pre-pandemic average from 2015 to 2018. However, in the past year, inventory levels have risen again, reflecting economic pressure and continuing supply chain disruptions. In 2022, the average inventory value-to-revenue ratio was higher than pre-pandemic levels, with a particularly concerning situation in the fourth quarter when the traditional holiday-season clear-out failed to materialise.

When examining segment performance, there was a clear divide between luxury and non-luxury. Luxury typically maintains higher inventory levels compared to non-luxury, reflecting the fact that many luxury players have high-priced items that sell less frequently, a higher share of permanent collections and apply less discounting, thus holding on to more inventory. During the pandemic, luxury inventories peaked largely due to store closures, but a surge in post-pandemic demand meant companies could scale back inventories to below the long-term average.

Non-luxury players also faced inventory challenges during the pandemic, posting an average increase in 2020. However, unlike luxury, these segments did not see a strong performance uplift in 2022. As a result, inventories remained bloated, with levels higher than the 2015 to 2018 average, driven by unpredictable consumer demand. The industry's surplus inventory created a prime opportunity for off-price retailers like TJX, Ross and Burlington to acquire excess goods at a substantial discount.[362] However, these retailers faced their own inventory hurdles, resulting in a significantly higher inventory value-to-revenue ratio that approached pandemic levels. This trend started to improve towards the end of 2022, showing signs of inventory levels normalising.

One exception to the general trend was sportswear, where surging demand during the pandemic meant that companies maintained inventories just slightly above the long-term average. Demand for sports and outdoor wear has remained robust since the pandemic, but that has not prevented

Segment Deep Dive: Sportswear

Sportswear grew rapidly during the pandemic, driven by consumer demand for comfortable, stay-at-home clothing and a focus on fitness and wellness. From 2010 to 2021, sportswear grew to 3.5 times the size, with growth at double the rate of the overall fashion industry (excluding luxury), and even generated positive EP in 2020. Although EP has decreased by approximately 17 percent since its peak in 2021, 2022 remained a promising year for sportswear, becoming its second most profitable year in the last decade.

Historically, sportswear has been a "two horse race," between giants Nike and Adidas. Due to pandemic-related growth and Adidas' challenges, new players have gained ground. Nike remains the leader, despite growth plateauing in 2022, with EP twice as large as it was in 2019. Emerging players, such as Lululemon, Deckers or On, have differentiated strategies and propositions. Lululemon has a leading position in the lifestyle space, while specialised companies like Deckers (which owns Hoka) and On have risen to prominence in the running space, offering new materials, technology and designs for consumers focused on performance wear. In addition, Anta, an established player, improved its performance through substantial growth in China, particularly with its flagship brand Fila. Anta also led a consortium that acquired Amer Sports in 2019, supporting its ambitious growth plans to elevate Arc'teryx, Salomon and Wilson into billion-euro brands.[372]

Segment Deep Dive: Online Pure Players

After 2021's highs, the online pure play segment came down to earth with a bump. In 2022, the online market stagnated or contracted in some regions, exposing players that were previously lauded for their focus on growth rather than profitability. Amid high interest rates and investor demands, online pure players have shifted their focus from growth and market share gains to improving their bottom lines. Luxury specialists such as MyTheresa and Farfetch faced bottom-line challenges, despite the growth of the luxury market. Meanwhile, mass-market businesses such as Boohoo, Zalando, Asos and About You posted negative EP, amid intense competition from third-generation fast-fashion players such as Temu and Shein.[373] Other headwinds included inventory pressures, supply chain disruptions and high return rates.

some companies from falling into an inventory trap. With year-on-year revenues under pressure in 2022, inventories expanded in the third quarter without declining materially by the end of the year.

On the Horizon

In the coming year, the dampening effect of the economic environment on consumer sentiment will likely continue. This will put pressure on brands to deliver value for money, as well as standout customer experiences. Meanwhile, China's slower-than-expected recovery suggests a persistent constraint on demand.

At the time of writing, the macroeconomic situation is in a state of flux. There are tentative signs that the worst of the post-pandemic effects is abating, and inflation is softening in many economies. However, uncertainty looms large; as recent geopolitical conflicts unfold, inflation is still high by historical standards and consumer wallets remain squeezed.[363] Across the MGFI cohort, revenues grew 5 percent year on year in the first half of 2023. Again, the strongest performers were in the luxury segment, which saw 14 percent growth, while the mid-market, premium/bridge and value/discount segments managed just 3 percent.

Among luxury Super Winners, LVMH reported 17 percent growth in the first half of 2023 and Hermès 25 percent.[364] Outside the Super Winner list, Prada, Hugo Boss and Moncler posted revenue gains of 20 percent, 22 percent and 24 percent respectively.[365] However, the luxury industry appears to be experiencing growth normalisation driven by signs of a slowdown in the US and tighter economic conditions in China. LVMH announced its third quarter results in October 2023, resulting in a share price drop of 7 percent, putting the share price down almost 25 percent since April. Luxury groups Kering and Richemont also felt the impact, falling more than 2 percent and 4 percent, respectively.[366] [367] Sportswear also showed signs of resilience. On, Asics and Lululemon reported second quarter 2023 revenues of 52 percent, 29 percent and 18 percent respectively.[368] Sportswear giant Nike saw better-than-expected first quarter results in September 2023, indicating that demand remains strong despite consumer challenges.[369] Meanwhile, travel is high on consumer agendas, reflecting a post-pandemic appetite for new experiences. As a result, luggage specialist Samsonite had a good first half, seeing revenue gains of 40 percent compared to 2022.[370]

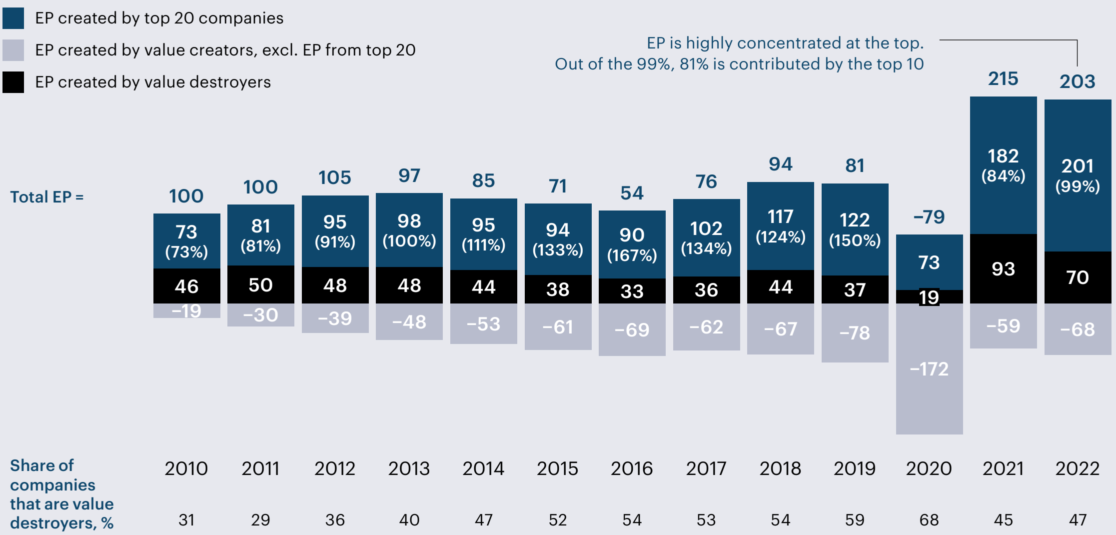
One reassuring trend is that the industry has been able to maintain its margins, which averaged 15 percent in the first half of 2023 (for unadjusted EBITA) — just 0.2 percentage points lower than the year prior. Again, luxury was the primary driver of performance, sustaining average margins of more than 25 percent. In other segments, average margins were around 11 percent. Analysts expect margins to hold steady over the remainder of 2023 and into 2024. However, this comes with a warning that the recovery is fragile.

Based on revenue and profitability trajectories, and our review of expert analysis, the most likely path forward is for the industry to hold steady over the coming period. That means the MGFI cohort will likely broadly maintain EP levels thanks to a strong luxury segment. However, the current uncertain economic environment could potentially lead to further deterioration in performance before the end of the year, putting struggling players under even greater pressure, further increasing EP polarisation.

Exhibit 25

In 2022, the top 20 companies increased their EP while others shrank

Total economic profit by top 20 players, value creators and value destroyers, index (2010=100), %

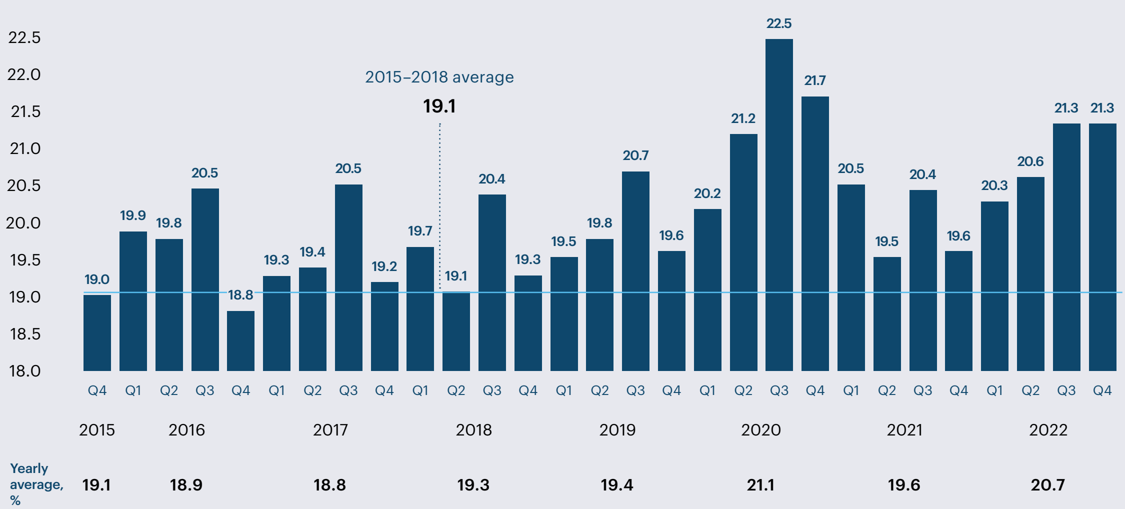


Source: McKinsey Global Fashion Index

Exhibit 26

In 2022, inventory challenges escalated above pre-pandemic historical averages

Inventory value as a percentage of revenues by quarter, 2015-2022, %



Source: McKinsey Global Fashion Index

GLOSSARY

Affiliate marketing
A process where an affiliate partner, for example an online blog, publishes a link in its channel, promoting a product or service from a merchant, such as a retailer. The affiliate earns a commission for providing a specific result, typically a sale, to the merchant.

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.

Athleisure
A hybrid fashion category that combines athletic with casual, everyday styles — for example jogging bottoms in athletic fabrics.

Baby boomers
Demographic cohort born circa 1946-1964, following the "Silent Generation."

Blockchain
A digital database containing encrypted information that can be simultaneously used and shared within a large, decentralised, publicly accessible network.

BoF-McKinsey State of Fashion 2024 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 2024 survey, 435 respondents took part between August and October 2023.

BoF-McKinsey State of Fashion 2024 Consumer Survey
A proprietary annual joint survey from *The Business of Fashion* and McKinsey polling consumers from the US, UK and China to understand consumer sentiment, purchase behaviour and brand attitudes. For the 2024 survey, 2,955 respondents took part between August and October 2023.

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.

Bullwhip effect
A supply-chain phenomenon in which small changes in consumer demand magnify moving up the value chain from retailers to manufacturers.

California Consumer Privacy Act
The state law aimed at enhancing data protection and privacy that went into effect on Jan. 1, 2020.

Circularity
An economic system aiming to eliminate waste and pollution, lengthen product lifecycles, promote the continual use of resources and minimise resource inputs.

Closed-loop recycling
A process whereby textile product waste (both post-production and post-consumer) is recycled into new textile products so that the materials remain in constant circulation (garment-to-garment).

Computer vision
A subfield of artificial intelligence in generative AI, which enables the understanding of visual data (e.g. images, videos). It supports visual capabilities such as object recognition, image classification and anomaly detection, enabling use cases like social media analysis and campaign video creation.

Consumer sentiment
A measurement of how optimistic consumers feel about their finances, the economy and purchasing behaviour.

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.

Decarbonisation
The reduction or elimination of carbon dioxide emissions from a process, such as textile manufacturing, through low-carbon power sources.

Deflation
A reduction in the general level of prices.

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.

Dry powder
Cash or liquid securities that private equity and venture capital funds have available for investment.

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.

Eco-modulation
The notion of penalising the use of materials perceived to be environmentally harmful, while rewarding the use of those deemed to be better.

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.

Environmental, social and corporate governance (ESG) investing
An investment strategy that screens potential investments based on environmental, social and corporate governance criteria, as well as financial performance.

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.

First-party (1P) data
Data collected from customers via a brand or retailer's own channels (such as a website, app or in store), enabling businesses to use data in a privacy-complaint and cost-effective way.

Foundation models (FMs)
Large deep learning models trained on vast quantities of unstructured, unlabelled data that can be used for a wide range of tasks out of the box or adapted to specific tasks through fine-tuning, powering generative AI capabilities. Examples of these models are GPT-4, PaLM, DALL-E 2 and Stable Diffusion.

Freight
Goods transported from place to place by land, sea or air.

G20
The group of 20 brings together the world's developed and emerging economies that form more than 80 percent of global GDP. G20 members include Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, South Africa, Saudi Arabia, South Korea, Turkey, the UK, the US and the EU. (Spain is also invited as a permanent guest.)

Gamification
The practice of incorporating gaming elements and mechanics, such as collecting points or badges, into retail experiences to influence consumer behaviour.

General Data Protection Regulation (GDPR)
The EU's law on data protection and privacy, implemented in 2018.

Generation-Z (Gen-Z)
The demographic cohort born circa 1996–2012, following the Millennial generation.

Generative AI (gen AI)
A type of artificial intelligence that describes machine learning algorithms capable of generating text, images or other forms of media. Gen AI can be viewed as a sub-branch within deep learning, which is a sub-field in artificial intelligence.

Gorpcore
Outerwear designed with both fashion and utility elements, originally a colloquial term for a trail running snack, "Good Ol' Raisins and Peanuts."

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.

Greenwashing
Communication that suggests a company or its products are environmentally friendly in a way that is misleading, exaggerated or not reflected in overall business practices.

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.

Hybrid working
A flexible way for employees to split their working hours between an office and their homes.

Influencer marketing
A type of social media marketing based on endorsements and product mentions from influencers.

K-pop
Short for popular music in South Korea.

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. 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).

Mergers & acquisitions (M&A)
The combining of two or more companies through various types of financial transactions, including mergers, acquisitions, consolidations, tender offers or the purchase of assets.

Metaverse
The envisioned future iteration of the internet that is made up of 3D virtual spaces linked within a perceived virtual universe. In a broader sense, it often refers to not just virtual worlds, but the full spectrum of virtual reality, augmented reality and the internet.

Millennials
The demographic cohort born circa 1982 to 1995, also referred to as Generation-Y (based on Generation-X, the preceding generation).

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.

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.

Performance marketing
A form of advertising whereby affiliates or marketing companies are only paid for the results achieved through, for example, influencer marketing and search engine marketing.

Price parity
The concept of a product or service sold at the same price across all channels or regions.

Price segment
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.

Quiet luxury
A fashion movement embracing understated, high-quality clothing as everyday essentials, often without logos.

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.

Regenerated fibre
Fibre created from pre-existing fibres whose cellulose areas are dissolved in chemicals and rebuilt into new fibres by viscose method.

Regenerative materials
Materials that are bio-based, reusable, non-toxic and non-critical. They are organic and can be made from by-products of agricultural processes or can be grown and harvested responsibly.

Repatriation
The process of sending money back to one's home country; in relation to shopping, this refers to when a consumer spends money domestically rather than abroad.

Reshoring
The practice of returning the production and manufacturing of goods to the company's original country.

Selling, general and administrative expenses (SG&A)
An income statement item stating all costs not directly tied to making a product or service.

Set-jetting
A travel trend where consumers are inspired to travel to a destination seen in film or on television.

Strategic buyer
Company or investors that typically acquire 100 percent of a company or asset, whose acquisition will drive synergies to their existing portfolio; in contrast to a private equity buyer who looks to grow and sell after a period of time.

Super Winners
The top 20 fashion players by economic profit (based on economic profit for 2022) 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.

Third-party (3P) data
Data purchased from external sources such as aggregators that are not the original collectors of the data. The third parties purchase data from other sources across the web to aggregate, segment and resell it.

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.

Travel flow
The total number of kilometres travelled by paying airline passengers, used as a proxy for travel demand.

Turnaround time
A term used in fashion to describe the lead time between a product's design and development to delivery.

UN Sustainability Development Goals (SDG)
A collection of 17 objectives aimed at ending global poverty, protecting the planet and universally improving the quality of life for all, implemented in 2016.

Unstructured data
Data that lacks a consistent format or structure (e.g. text, images and audio files) and typically require more advanced techniques to extract insights. Gen AI can input and output unstructured data, which was previously difficult.

Ultra-high-net-worth individual
A term used to describe 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.

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).

Vertical integration
A corporate strategy that occurs when one company acquires a producer, vendor, supplier, distributor or other related company along the same value chain.

Virtual sampling
A digitised, three-dimensional product development process, enabling designers to create virtual samples simulating movement, stretch and use.

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