k3 business technologies

The Changing Landscape of the Fashion Industry:
## What's responsible and what's in the future?

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Introduction

The years of the "retail apocalypse"

In 2017 and 2018, closures of several prestigious stores worldwide in retail fashion industry sent shockwaves through the global fashion market. The shutdown of large high-street stores like House of Fraser, New Look and Marks and Spencer heralded the "Retail Apocalypse" and were soon followed by closures of stores across the US (Macy's and Sears), UK and other countries in the EU. Alarm spread in the media as both large and small businesses closed their doors. Between 2007 and 2017, the number of medium and large retail businesses going into administration steadily increased.

By 2017, the worst fashion retail losses on record were reported, along with closures of several notable stores across the globe.

The so-called "Retail Apocalypse" was a clear sign that something was shifting in the (fashion) retail world; it is vital to identify the causes of these changes and to look at how retailers can embrace digital transformation and new technology and software to thrive in 2019 - and beyond.
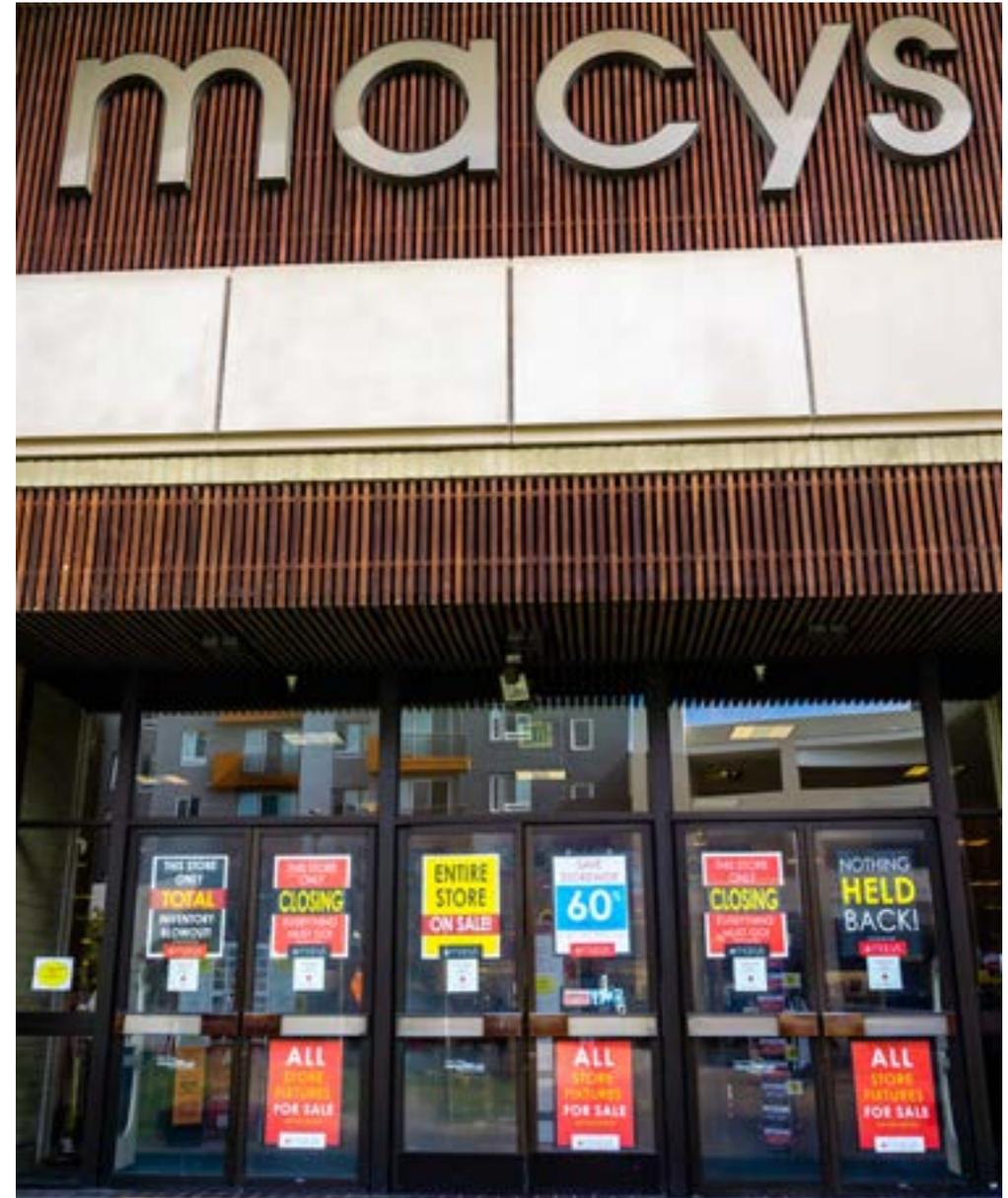
Introduction

The Rise of E-commerce

One of the trends affecting the fashion industry most in the past decade has been the rise of e-commerce and online shopping. This substantial change in consumer behaviour has created a shaky footing for traditional shopping at brick and mortar stores. The major consumer shift towards online shopping is an important factor in the closures of retail stores. Long queues and limited time to shop are cited as reasons for the changing attitude of consumers.

In 2018, fashion and apparel e-commerce accounted for roughly **20.4 percent of the total fashion retail sales in the United States.**

U.S. retail **e-commerce revenue** from the sale of fashion apparels, footwear and accessories in that same year resulted in an estimated 103 billion U.S. dollars and is projected to grow to almost 139 billion U.S. dollars by 2022.

In the case of Europe, E-commerce is expected to grow to 155.9 billion US dollars in 2023, and digital sales now account for **21.5%** of total retail sales in the UK alone.

However, E-commerce has proven not to be a matter of the Western world anymore: China is has become one of the largest ecommerce markets in the world, closely followed by Japan and South Korea.

Sustainability and ethics demands

Modern trends have placed great significance on ethics in the fashion industry. Consumers are more committed than ever before about which products they want in their homes and how they buy. Shallow marketing jargon is not enough, they want to know where the product's raw materials were sourced and the brand's position regarding social and environmental justice.

From Fair Trade agreements, anti-cruelty concerns and eco-friendly manufacturing and sourcing of raw materials, labour practices are scrutinised by consumers. Many fashion brands have taken a stance in this matter, to set a few examples, in 2016 H&M's conscious beauty collection promised to use only planet friendly materials while Adidas created sneakers using recycled plastic from ocean sources.

An Awakening in the Fashion Industry & the New Fashion Agenda

As the industry experiences continued fluctuations and scrambles to adjust to a changing commercial climate and new players entering the game, fashion retailers must adapt and embrace the new paradigm that is shaping around them to succeed and overcome the challenges ahead of them.

Consumers simply demand more, not only in the fashion and apparel market, but across all industries. There is a super-abundance of online retail options available to consumers, and their expectations regarding speed of deliveries and convenience have raised enormously. Where once new malls opened at a rapid pace, it is now the online shopping portals that set the stage. One negative experience can send customers to the competition which is just a click away. Retaining customer base with loyalty programs, exclusive offers and email marketing has become the primary focus.

In the case of the fashion and apparel ecommerce, displaying content with just product photos no longer fills the needs of consumers: shoppers now want to have access to full details, options, sizing information and a seamless cross- device experience throughout the purchasing journey.

„Twentysomethings are looking at their mobiles between 150 and 200 times a day. It's a high frequency, high velocity channel and... an easier and more intuitive way for customers to interact with e-commerce [but] there is still friction." – Nick Beighton, Chief Executive of Asos, stated to McKinsey&Company in their „State of Fashion 2019" report.

With more consumers choosing online shopping opportunities, the pressure is on for physical shops to provide the customer with creative, innovative, value-added experiences. Despite the rise and impact of e-commerce, physical retail still accounts for about 85 percent of global business-to-consumer commerce. Additionally, a study carried out by ICSC proved that opening a brick-and-mortar shop results in an increase of online traffic to the brand's site by 37 percent. Retailers must reinvent their shops in order to attract and delight customers by providing experiences that would otherwise be impossible to achieve online.

Opportunities for Fashion Companies through Digital Transformation

In addition to the impact of economy and the online market, other factors are reshaping the apparel industry's footprint worldwide, including the need to respond with agility to changing customer demand and the rise of new technologies. All these different forces have disrupted the fashion market and have presented not only challenges, but opportunities for fashion brands to achieve faster speed to market and satisfy consumer demands.

Three objectives have become increasingly important for fashion houses:

1.

Using intelligent business insights to create optimal operations

2.

Empowering staff to facilitate business growth

3.

Satisfying and delighting customers with exceptional online and offline shopping experiences

Outdated technology has come under scrutiny and retailers are steadily replacing old, siloed systems which don't mesh with modern digital systems. In 2018 worldwide spending on digital transformation technologies was projected to reach almost $1.3 trillion in, and it is forecasted to double to more than $2.1 trillion by 2021.

Four fast growing technologies are creating a new wave in the fashion industry:

1. Artificial intelligence

Artificial intelligence has become one of the biggest technological developments in business in recent years, and its expanding rapidly in the fashion industry. This type of technology enables businesses to turn large and diverse data sets into enriched information that can help improve speed, cost and flexibility across the value chain and help personalizing every step of the purchasing journey for consumers.

In fashion, AI has the ability to help brands and retailers with predictive forecasting, capacity planning and merchandising, as well as enable businesses to use customer data to create a smoother shopping experience and engaging in accurate predictive forecasting. Used by Amazon, Alibaba, JD.com and Zalando, AI and machine learning generate accurate product search results and displays virtual storefronts tailored for individual »

customers. It is forecasted that by 2020, the market for machine learning applications and AI will reach $39.5 billion at current exchange, according to the International Data Corporation.

2. Augmented reality

Augmented reality allows customers to have real-time experiences while shopping, creating a mix of digital technology experience in the physical world. Compared to virtual reality, this technology has lower barriers to adoption as it doesn't require dedicated hardware, and thus it may be more easily implemented.

AR allows retailers to craft the shopping experience for their customer, for example by trying on a lipstick colour or decorate a room with a particular brand, while collecting valuable data about shopping behaviour.

In the wholesale process virtual reality is on the rise in the product development area where it is cutting out expensive costs in the sampling process. On the sales side more and more companies are experimenting with virtual representations of their products, replacing physical goods with their expensive production cycle and distribution method.

3. Blockchain technology

This type of technology can be accessed from a Smartphone and instils a sense of trust within retailers: it can help gaining trust and brand loyalty throughout the product lifecycle, as it can tell consumers about the composition of a garment, where the fabric raw materials were grown and what chemicals have been used. But it could go a step further and give information not just where an item was made, but also who it was made by and the conditions they worked in.

Blockchain has been successfully used by De Beers diamond mining to verify the authenticity of their gems and this approach can be successfully adapted to the fashion markets. The global blockchain technology market is forecasted to grow to $2.3 billion by 2021.

4. Tailored ERP Systems

Implementing ERP systems that have been built tailored to the fashion retail and wholesale industries help businesses to optimise internal processes and create opportunities for sustainable growth. End-to-end ERP software can help combat retail concerns, allowing legacy brands and innovative start-ups to acquire agile management, improve business processes to achieve faster time to market and gain insight across all channels.

New Strategies and Tendencies

Direct-to-consumer sales are important for an emerging fashion retail business. Cartier and Gucci now offer substantial exclusive value through digital storefronts. Creative and innovative content has set luxury brands apart and helped to maintain profits. Recent strategies include selling garments outside fashion cycles in a bid to create unique production rules. Designer Alexander Wang circumvents fluctuations and restrictions that come with seasonal design in favour of a more consistent aesthetic.

Contemporary sales patterns ignore outmoded rules for 30/50 or 80-piece collections, opting to launch a single, signature item or smaller collections to test market responses. One of the latest trends to do this is by making e-commerce flash sales or product drops, strategies that enhance the exclusivity and create hype for product releases among consumer, to boost sales in a matter of minutes. Companies such as Talbots, Sephora, Evy's Tree, and Kylie Cosmetics do this regularly through exclusive collections and early access to social media fans and loyalty program members.

Keeping mobile commerce fully integrated with the overall shopping experience is another key step for fashion houses to be able to leverage the benefits of an omnichannel strategy and keep pace with consumer demands.

Companies using UX/UI techniques such as tracking software, purchasing behavior, web-shop browsing, ordering, re-ordering and customer reviews are currently optimizing the use of this data to improve customer experiences. ERP systems need to be able to support the resulting processes and where possible even boost efficiency.

An Awakening in the Fashion Industry & the New Fashion Agenda

How are legacy fashion companies embracing changes in the industry

Trends set the scene for creative change in production processes and drive immense shifts in the fashion industry. Top designers and legacy fashion houses have been quick to rise to the changing needs of the customer.

Kering realised the importance of e-commerce and digital marketing for the Gucci brand and set about creating unique strategies to maintain their popularity with consumers. Instead of relying on third parties, Gucci highlights new online markets to explore. They did this very successfully with their "Garden Range" which features womenswear

and accessories available for purchase exclusively online. Burberry and online retailer Farfetch combined talents to extend its online shopping offering to 150 countries.

Luxury Brand Farfetch has topped retail growth figures for several years in a row boosting sales of $151 million in 2016 and increased sales by 65% in 2018.
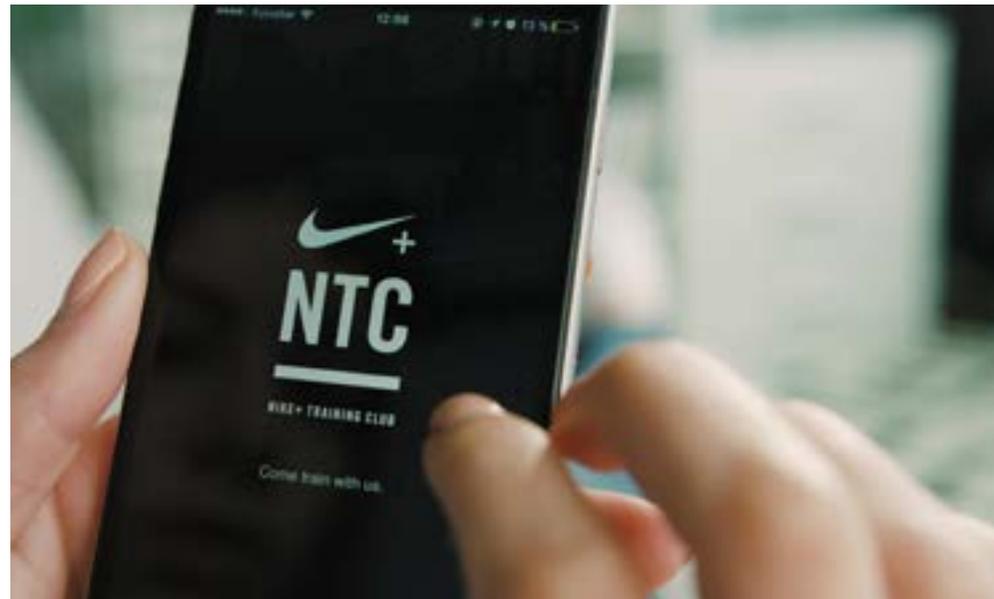
To do this they teamed up with 700 independent boutiques and fashion labels, worldwide.

Social media has an increasingly important voice in shaping consumer demand, and besides helping small brands grow explosively, legacy brands like Nike or Versace have also made a move to tap into platforms such as

Facebook or Instagram in order to reach more effectively to a younger audience. Video-based platforms like YouTube have enabled legacy houses like Burberry, to use streaming for live fashion events. By adopting a digital approach which uses Instagram as an online shopping channel, Farfetch now boasts followers of around 1 million, globally - by simply sharing content that attracts attention to their range. Their latest digital innovation is the "Store of the Future" currently undergoing trials.

Technology-driven operations and business processes

Modern technology influences the manufacturing process from design concept, through to development and sale. Data interpretation tools pinpoint and analyse current trends, while ERP solutions need to be able to support the expected customer experience. Technological innovations like 3D printing, virtual modelling and smart tailoring are further enhancing design. The Kinematics Dress by Nervous System is an excellent example of 3D-printed fashion. Fashion apps like Tradesy encourage trading in premium fashion items by guaranteeing authenticity.

Cutting down lead times, achieving a faster time to market and boosting productivity are some of the goals that fashion retailers aim to achieve through the implementation of innovative technologies such as robotics or automated production. Design, production, order processing and distribution are faster than ever before and driven by fast fashion business models like H&M and Zara. Data management systems allow companies to obtain fast-changing data sets and stay current with each new trend in real-time. Conducting business using cloud-based technologies has provided a common platform for international teams.

ERP software which is designed for fashion needs to be able to adapt to the changing needs in the product design, development and product lifecycle management processes as well as the manufacturing and supply chain areas. By making use of innovative software solutions, fashion retail business plans can be tailored to the needs of the company. Updated business strategies help fashion businesses remain agile in a market where the customer is king, and adaptation is the key to survival. Removing old, outdated technology must be the primary concern of fashion businesses who want to emerge amongst the winners. As the fashion industry market shifts into a new paradigm where consumers are empowered with choice and market conditions are increasingly volatile, new technologies can help brand owners and other types of fashion players in the industry achieve greater efficiency and deliver exceptional customer experiences.

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K3 is a business technology innovator realizing results for our customers through the power and expertise of our people, our products and our global partner ecosystem. K3 is passionate about providing fit for purpose industry solutions for Retail, Distribution and Manufacturing, in the cloud, hybrid and on-premise.

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