READY TO CHANGE

Five technology and customer trends shaping the future of fashion

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INTRODUCTION

From advancing material science to beaming the allure of fashion week, the global fashion industry is threading technology through all areas of its value chain. Fashion and apparel accounts for 2% of global GDP. That's a three trillion dollar industry! But the forces that shape the fashion industry are changing. In 2017, sales outside of Europe and North America trumped sales within those regions. Customers are spending more overall, but categories like dining and travel win an outsized chunk as customers spend proportionally less on apparel. Of what's left, direct-to-consumer models chip away at a small but growing share of wallet. Amazon is determined to become synonymous with fashion (indeed, it is already the largest apparel retailer in North America). Across the pond, Farfetch turns heads with its far-sighted platform strategy that connects consumers with a global network of boutiques. Even previously reluctant sub-sectors like luxury are 'all in' online.

And it's not just traditional brick-and-mortar players who have felt the squeeze, pure-play retailers are rethinking their place and business models too. Hot upstarts from Bonobos to Gilt were purchased for a discount of their former valuations. Brands are urged to pick a side on the price spectrum as the messy middle-market is slaughtered. Simultaneously, the lines blur between fashion, art and health as categories converge. Each is melding to the other.

WHAT WILL THE COMING YEARS BRING?
HERE WE OUTLINE FIVE TECH AND CONSUMER TRENDS SHAPING THE FUTURE OF FASHION.

SECTION ONE

Brands carefully plan their platform partnerships

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To Amazon or not? Au revoir to the golden era where brands could afford to ignore platforms and marketplaces. The balance of power has shifted. The Amazons and Alibabas of the world have lured in colossal customer followings won over by breadth, speed and service. This volume has proved irresistible to brands that once held out on the temptations. In 2017, longstanding holdout Nike reversed course, adding Amazon as a distributor. Nike agreed to start selling some products directly on Amazon in exchange for tighter policing of counterfeits and unsanctioned sales. Alibaba fashioned a similar pact with luxury conglomerate Kering.

2018 will see the continued detailing of interesting and nuanced partnerships between brands and platforms. One particularly interesting deal - Alibaba and Mattel. The ecommerce giant provides data and insights based on its enormous oversight of shopping habits. These insights are fed back into Mattel's product development so that it can create products in sync with local preferences.

In what way will your brand align? Even if it's a conscious decision *not* to partner, retailers need to delicately weigh the pros and cons. An inconvenient truth, platform dominance only fortifies as the data trail afforded by high purchase frequency places them in a superior position to achieve personalisation. But, as the Calvin Klein example below highlights, a nuanced strategy permits the mass-market, volume benefits of Amazon without denigrating luxe allure.

SPOTLIGHT: **CALVIN KLEIN**

When it comes to its Amazon partnership, the notorious Calvin Klein goes to market with a bifurcated strategy. On one end, the brand beefed up its visibility and direct to consumer capability on Amazon for its lower price, high volume items like underwear and jeans. On the other, they invested heavily in brand building, developing sophisticated social campaigns and appointing ex-Dior head Raf Simons as creative director. The lower priced product range is sold deliberately on Amazon, while the high fashion collection is not. The brand has been intentional about building its partnership. In the 2017 holiday season, they afforded Amazon exclusivity for new designs, snubbing traditional bedfellows Macy's and other department stores. Adidas sales rose 57% in 2017 thanks to an almost identical strategy. The brand sells lower-priced merchandise on Amazon and other marketplaces, while reserving higher priced merchandise for its owned properties.

Above: Calvin Klein has strategically deepened its partnership with Amazon, including a physical store tie-up to bolster holiday sales. Image credit: Griffin Lipson/BFA.com

SECTION TWO

Digital discoverability emerges as the new storefront

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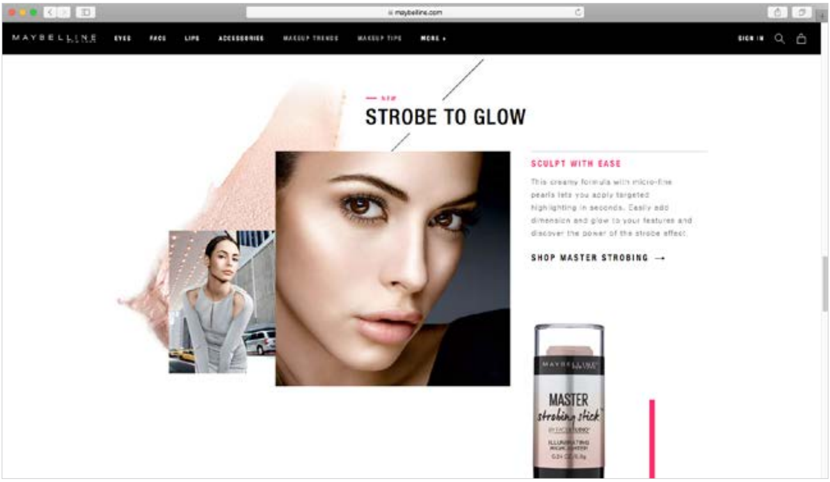
As the distinctly modern adage goes: “Need to hide a body? Try Page 2 on Google”. The phrase captures the state of how shoppers search and find. Where the formula for brands was once simple: grow and increase reach by opening more stores, that same real-estate battle is now fought online. Who surfaces first when customers search “skinny black jeans?”. Sales growth is increasingly predicted by first page search occupancy. When 58% of customers begin their product search on Amazon, and 28% begin on Google, the new Bond Street is Google and Amazon’s prime spot. The upshot? To get ahead, brands need search prowess, tech and marketing talent that is constantly in sync with the algorithms of key platforms.

Some bad news for brands (particularly where there is low differentiation and recall), branded search terms are on the decline. Business intelligence firm L2 reports that in many categories, fewer people are using branded search terms in Google. As an example, customers are more likely to search the generic ‘yoga pants’ than the branded ‘Lululemon yoga pants’. The percentage of affluents who can nominate a ‘favourite brand’ across categories is also trending south. This shift has allowed smaller indie players to dethrone formerly immovable, behemoth counterparts. It’s a broad trend that highlights the importance of owning both branded and unbranded terms.

Some good news, there’s an opportunity to distinguish with streamlined search and navigation on owned sites and apps. A search for ‘black dress’ on Amazon yields a swampy 50,000 results. Advanced filtering and visual navigation can help brands distinguish the shopping experience on their own ecommerce sites. Pithy search results are particularly valuable in a world of information abundance and time-scarcity.

SPOTLIGHT: **MAYBELLINE**

Maybelline's content-driven strategy helps it shine in search visibility. The brand has set up strategic landing pages that help is appear first in organic results for competitive terms like 'matte lipstick' and 'contouring'. According to L2, Maybelline secures this visibility by using broad product terms on its highly visual and educational landing pages that blend DIY information with product descriptions and how-to videos. For example, the terms 'contouring' and 'matte lipstick' appear on key landing pages 10 and 46 times respectively.



Above: Maybelline uses educational product pages to buoy its search visibility.
Image source: Maybelline.com

SECTION THREE

Growth and innovation are imported from China

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China's dominance as a sales growth engine is well reported. Less publicised is its mounting prominence at the forefront of eCommerce innovation. The importance of China is twofold: First, its technologically advanced economy serves as a 'window' into the future of mobile and eCommerce (According to a report from McKinsey and Business of Fashion two thirds of eCommerce unicorns are born in China). Second, its exploding consumption (and so, growth potential).

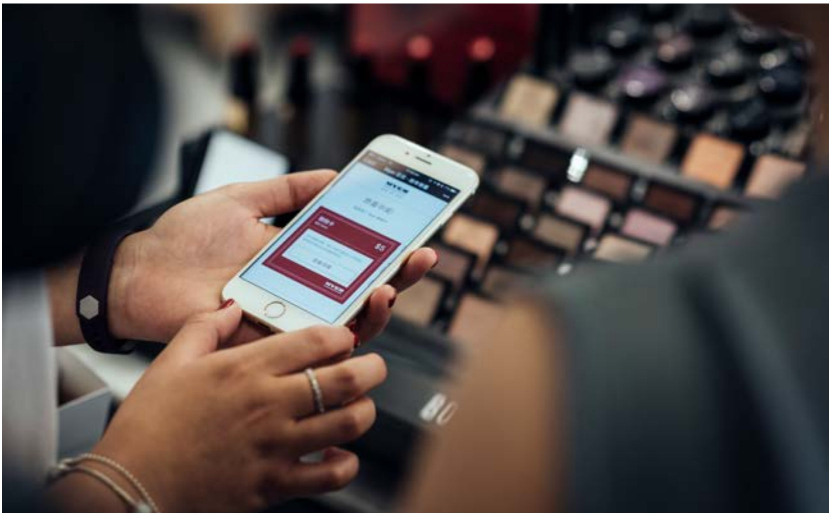
China's importance as a battleground for growth is already indisputable. Chinese buyers are the top purchasers of luxury goods around the world, and within China the average monthly apparel and footwear sales reach $120 billion. With a population that dwarfs Europe and the US combined, there's no ignoring the opportunity in retail terms.

Brands of all types and sizes are taking the elaborate opportunity seriously. Australian department store Myer built an engagement platform on top of WeChat to attract Chinese shoppers. Britain's Department of International Trade (DIT) set up 'The Great British Fashion Directory' to connect Chinese buyers with British brands. NYC-based sneaker boutique Stadium Goods realised the scale of opportunity when a customer bought $10,000 dollars worth of merchandise to sell in China. Since then, the store partnered with JD.com and executed localised marketing campaigns. Now, JD.com represents the brand's second largest sales channel behind its own ecommerce site.

And it’s not just home-grown innovation and enviable sales potential. China has transitioned from ‘factory of the world’ to one of the leading investment and startup environments. Local firms and funds exert growing control over the global fashion ecosystem. The same McKinsey report highlighted that JD.com pumped $397 million USD into luxury eCommerce platform Farfetch, collecting a seat on its board in the process. Hong Kong based Trinity recently acquired Italy’s Cerruti and Britain’s Gieves & Hawkes (of Savile Row fame). When it comes to influence on global fashion, It’s safe to say China has arrived!

SPOTLIGHT: **MYER**

Australia is a hotspot for Chinese tourists. More than 1.4 million Chinese tourists visited Australia in 2016. Each spent an average of $8000 per visit. Noticing the desirability of this segment, Myer partnered with ThoughtWorks to build an engagement platform on top of WeChat in time for Lunar new year. It's a gateway for Myer into the lives of Chinese consumers. A 'red envelope' game lets shoppers win and share gift cards, and the 'Shake-Shake' function lets customers discover deals by shaking their device. Since launch, the platform generated more than $1M AUD in sales during the pilot, representing a 400% return on investment.



Above: Myer built an engagement platform on WeChat to connect with Chinese shoppers

SECTION FOUR

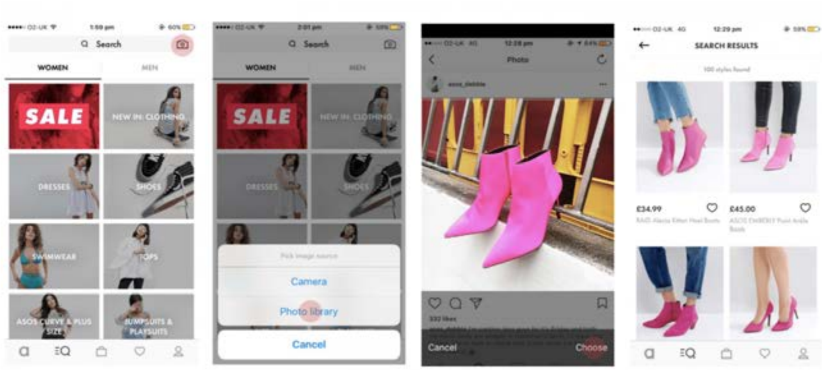
Mobile moves beyond miniaturised eCommerce sites and apps

Trends decks since 2010 have consistently crowned the incoming year as the ‘year of mobile’. Forget ‘year of mobile’, it’s the mobile double-decade. And the best is yet to come. It’s challenging to overstate the importance. Dreams of VR and AR shopping abound but are yet to demonstrate stickiness. Mobile will continue to grow. Voice-based devices may play a role, but once you shrink speakers and add screens (a-la Amazon’s Echo Show), said devices start to look and act remarkably like our much loved mobile phones.

Where recent years have been defined by brands miniaturising their ecommerce stores for the small screen, the coming years will see brands think deeply about the unique possibilities created by mobile’s ubiquity. How can mobile transform how you find and buy items in a store? What new opportunities does it offer to reward engagement and loyalty? How can unique mobile properties (like the shake feature and AR overlays) provide new ways to surprise and delight? Take Sephora, whose app morphs into an in-store shopping companion when customers enter a store. Or Nordstrom, whose acquisitions of BevyUp and MessageYes will allow associates to connect with customers beyond the store.

SPOTLIGHT: **ASOS**

British fashion retailer Asos is investing heavily to build experiences that capitalise on mobile. Their app with over 10 million downloads features AI-driven product search, expedited mobile payments and a fit analytics function that helps users find their perfect size. Asos also added a visual search function that lets users snap an image to search for similar items from their 85,000+ item product catalogue. When asked "What's next?", Director of Product Development Rich Jones spoke of a plan for fewer, more personalised search results. "We can show you 10,000 products if you just type in 'dresses', but we want to get to the point where we can show you five or ten that really gel with you and understand you", he revealed in an interview with Digiday. The company is also planning to launch a digital assistant called AVA that helps shoppers find products and keep a profile of their size and preferences.



Above: Asos' visual search function lets shoppers search by snapping an image

SECTION FIVE

Retailers embrace APIs to underpin new experiences and efficiencies

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Technology expectations in fashion are seldom set by other fashion retailers. What we expect from technology is set by the outstanding digital experiences du jour. A novel Uber or Airbnb experience raises the bar for everyone, across industries.

Where a small number of partners sufficed in ‘old retail’, ‘new retail’ requires a rapidly demanding roster of partners. Tie-ups between startups, influencers and other established retailers help to offer new and exciting possibilities. To meet customers’ changing definition of convenience and experience, retailers’ technical architecture needs to be capable of ingesting these partners at speed with minimal cost and friction. Investing in APIs and services can help retailers simplify how brands engage with them, adding automation and intelligence to traditionally manual and labour-intensive processes.

SPOTLIGHT: **METRO**

German wholesale giant Metro is making inroads with an API strategy to simplify relations with thousands of suppliers who service thousands of stores in Europe. Their digital platform goes beyond order management, enabling Metro to codify the relationship it has with vendors and partners. Thanks to a microservices approach, it's easy for them to add new partners and functionality effectively at a low cost.

Above: Metro's API based approach simplifies operations and underpins new functionality

A FINAL WORD

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What will divide good from great? The best retailers will redraw their business models and devise plans to capture the increasingly dominant East. Already, high end brands from Bulgari to West Elm have entered the hospitality space, constructing hotels as their new temples of brand experience. Both Selfridges and Saks are adding services like fitness clubs and facials to provide compelling reasons to visit stores.

Like many winning designs, the lift created by new features and experiences is increasingly transient. Agility is the new enduring competitive advantage! Knowing what's next can be as challenging as predicting what we'll wear next spring, so brands need to embed agility into their mode of being to consistently meet the moving target that is customer expectation.

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