How Digital Transformation Is Reshaping the Global Fashion Industry

Trending this season:
Executive Summary

When it comes to online revenue share, the global fashion business takes the pole position. The growth of mobile commerce, as well as social media, translate both into new revenue streams but also into challenges which have to be met. This white paper talks about how well-known brands and retailers tackle things like brand experience, assortment, and scalability and how they leverage cloud infrastructure and in-house technical know-how to adapt to these changing conditions.

Introduction

According to McKinsey’s 2018 State of Fashion report1, “The total sales of the traditional fashion sector have grown by more than 20 percent over the last three years”. Every year, the fashion industry, ranging from retailers to luxury brands, drives a significant profit to the global economy. It is one of the biggest, yet most challenging industries impacted by hundreds of factors, including economic uncertainties as well as digital transformation.

Digital transformation in the fashion industry brings a lot to the table, but if ignored, it can unravel everything else. In response to this digital wave, many fashion brands are now under pressure to innovate while at the same time being cost-conscious. Brands have started to improve their speed to market and to innovate and automate their core product design, manufacturing, and overall supply chain process.

The need to embrace digital transformation is a need of time for them. Why? Because consumers’ expectations are now at the highest level. They are no longer content with the simple purchase transaction; they want to have an experience attached to it, and the credit goes to digital technologies they are exposed to. They want to interact, belong, influence and be the personal version of the brands from which they buy. They are more concerned and conscious about how they look in public and on social media, and about the perception of the brands they buy and own. There is no doubt that most consumers use social media channels before, during or after making their purchases to tell the world about their ownership of the brand.

This means that fashion brands have no option but to become digitally-savvy brands and embrace digital transformation. It is now fundamental for fashion brands to redesign the entire consumer-brand relationship because there are no more typical consumer segments, no more geographies, and no more one-size-fits-all solutions. How are global companies adapting to this digital wave? Let’s find out.

Personalized Experiences

Fashion brands are now finding more ways to create personalized experiences for their consumers. They produce and serve content and recommendations based on individual preferences and past shopping behavior. All of this was not possible years ago — unless you had a personal one-to-one relationship with any client. But now, by tapping into the data and information of any customer, brands are walking the extra mile to create a customized and personalized shopping experience. In research done by Bazaarvoice², 66% of fashion brands buyers said that a personalized shopping experience and product recommendations are somewhat or very important. According to a report from Boston Consulting Group³, apparel retailers that have implemented personalization strategies see sales gains of 10% or more, a rate three times faster than other retailers.

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In the fashion industry in particular, consumers are heavily influenced by the expression of their personal style, and when brands try to reflect their personalized fashion statement into a product, they feel connected to it on a whole new level. So, it’s not only about wearing individual items but also about how these items can be combined to put together an outfit.

*Adidas* tapped into the opportunity to educate and empower their consumers on how to become better runners. The company purchased the company *Runtastic*⁴, which initially started as a classic GPS run tracking app but now has expanded into a wide array of connected training apps for cycling, cross-training and even sleeping. Plus, there’s hardware to boot. All of this, just to create an ecosystem of loyal consumers instead of just a customer base.

What we see here are direct-to-consumer strategies at work. Companies like Adidas aim at building 1:1 relationships with their customers. Their focus is shifting away from classic B2B — selling products to retailers, who then own the customer relationship — to getting to know the fans directly and developing new products and services suited to nurture this relationship.

⁴ https://techcrunch.com/2015/08/05/runtastic-acquired-by-adidas-for-240m/
The Importance of the Point of Sale

Like so many other verticals, the fashion industry started as physical retail stores. Brands who like to build their brand image and inspire their customers used to rely on — and still rely on — the foot traffic in physical stores and the “magnetic” effect of flagship stores. Brands can present their new collections in a tasteful and “controlled” environment. Customers can try different fashion items and buy them on the spot. Businesses are using in-store display technology and endless-aisle concepts to bridge the gap between physical and digital. After all, over 20% of all fashion revenue is generated there, and those stores are the number one source for inspiration, according to this Forrester webinar⁵:

Shoppers often discover fashion in stores

“How did you originally find out about the brand of this most recent purchase?”

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<th>Method</th>
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<tr>
<td>Seeing a product while in a store</td>
<td>28%</td>
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<tr>
<td>Amazon</td>
<td>12%</td>
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<tr>
<td>Retailer or manufacturer websites (excluding Amazon and eBay)</td>
<td>7%</td>
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<td>In-store ads/promotion</td>
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<td>Online search results</td>
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However, the rise of digital commerce has led to the demise of physical stores and retail malls. Challenges like less foot-traffic, the cost of stock keeping, as well as costs for property and staff are eating away traditional retailers’ margins. There are even voices that say that the success of Amazon and other online retailers are playing a key role in this⁶.

⁵ https://www.forrester.com/webinar/SectorSpotlightHowConsumersBuyFashion/-/E-WEB24986
The Retail Apocalypse

The fashion industry couldn’t save itself from the retail apocalypse happening all over the world, but most profoundly in the United States. There can be multiple reasons for store closures, but the annual State of Retailing Online study from the National Retail Federation (NRF) and Forrester claims that consumers aren’t abandoning retail brick and mortar stores. Instead, they expect traditional and digital retailing to be intertwined.

According to Coresight, the number of store closures fell in 2018 when store closures totaled 5,524 as compared to 8,139 stores in the previous year. In 2019, 2,187 stores have already been closed, which is more than 23% as compared to the same period last year. That figure was released before reports came out Thursday that Payless ShoeSource is planning to close its 2,300 stores and filed for a second bankruptcy later this month. Some of the prominent retailers who have closed stores or filed for bankruptcy during this wave of change include Abercrombie & Fitch, Aerosoles, American Apparel, BCBG, The Gap, Guess, Michael Kors, and Victoria’s Secret.

Rise of Digital Commerce

On a global level, e-commerce is growing rapidly. From 2015 to 2018, e-commerce sales have almost doubled. The shift towards digital commerce has also made it harder for fashion stores to pull customers into their physical stores and has forced companies to change their sales strategies. Brands and retailers now spend more time devising their sales promotions online and have increased their digital efforts to lure customers to buy more from their online stores. With Amazon as one of the benchmarks, the expectation trickles down to every other e-commerce store as well. Customers today want pixel-perfect websites with the best functionality and quick customer support day and night. They expect rapid deliveries and even better return policies. One of the leading fashion brands, Gucci, now offers deliveries in selected cities from the store to a customer home in just 90 minutes or less. But there are other challenges which have to be deal with.

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7 https://nrf.com/resources/state-retailing-online
10 https://www.wmagazine.com/story/gucci-delivery
Branding Experience
Like any brand would want to create a unique experience in the brick-and-mortar world, they also need to do so in the digital world. They need to make sure to create an appealing website or app which inspires its fans and supports customer loyalty. This is done by building professional designs and delivering an attractive combination of editorial content and product information. This is often referred to as content commerce, a good example of which is the well-known urban fashion label Carhartt WIP\textsuperscript{11}.

\textsuperscript{11} https://ok.commercetools.com/casestudy-carhartt-wip
They are using a combination of the Bloomreach DXP, taking care of the editorial content such as articles, images, and videos, and the commercetools platform, which takes care of all the product data and the transactional elements on the site. With this best-of-breed approach, Carhartt WIP was able to unify its brand experience and increase customer loyalty significantly.

**Sizing and Returns**

If customers only see images or maybe videos of their favorite fashion items, how can they make sure they fit? The most common way of doing this is to offer free returns to customers so that they order their items in various sizes and only keep the size that fits. Of course, this is quite costly for businesses, and return rates of 50% and more are not uncommon. So quite understandably, retailers such as Zalando are constantly looking for ways to better communicate the size so the return rate can be reduced, saving millions of dollars.

**International Retailing and Marketing**

Other challenges have to do with targeting new audiences. Truly global brands need to be present in many areas around the world, so their digital stores need to reflect the local circumstances such as different product preferences, prices, but also different tax logic as well as payment and shipping methods. The luxury fashion company Dolce & Gabbana had to learn this the hard way; in 2018, they decided to promote their Shanghai fashion show with a video ad which showed an Asian-looking model trying to eat pizza and spaghetti with chopsticks\(^\text{12}\). This spurred criticism of racism, which ultimately led to D&G to cancel this event.

**Scaling Business**

Building a global commerce infrastructure also means having to cope with unexpected traffic peaks. Brands and retailers need to make sure that their customers have full-time access to their collections, regardless of where in the world visitors are viewing their collections or whether it happens during the year or at busy times such as Cyber Week or Christmas. This is the reason why major retailers around the world are building their digital businesses on top of public cloud providers such as AWS, GCE, or Azure or use cloud-native commerce platforms such as commercetools. In doing so, they benefit from the cost-effective, automated scaling options of this technology, and don’t have to worry about outages caused by limited server capacity.

**Assortment and Stock**

Especially for larger retailers, it becomes increasingly important to manage their stocks efficiently. They need to be able to predict how many items they will sell via their digital platform; otherwise, they have to live with expensive markdowns. This is one of the reasons that fashion retailers are building their own marketplaces: to alleviate the stock risk and offer a wider range to their customers.

Nordic fashion brand Scandinavian MAN\(^\text{13}\) started creating a marketplace uniting digital and traditional worlds of global fashion enthusiasts and Nordic brands. On top of the commercetools platform, they built an international marketplace which enables the products of Scandinavian brands to be showcased and purchased while users browse the fashion content.


\(^{13}\) [https://www.scandinavianman.com/](https://www.scandinavianman.com/)
Technological Expertise

It is important to note that all of those challenges have a technological aspect to them. Most of the processes described above are unthinkable without the necessary software applications. However, the way in which these applications are built, maintained, and used is changing rapidly. When the whole Internet was in its infancy in the 1990s, it was often sufficient to use off-the-shelf software to create a web store which would be considered adequate. With the proliferation of new business models, touchpoints (which we will talk about in the next paragraph) and overall use-cases, things are changing rapidly.

Brands and retailers have understood that in order to stay relevant and successful, they need to build their own technical teams which, in turn, build tailor-made solutions for their business. They need to attract talent to stay independent and agile. Also, they have to provide a holistic experience on the basis of data, developing a functional website, deciding a beautiful user experience on mobile cannot be done by experts who have only worked with fashion brands and never stepped into a digital industry.

So, instead of relying on the old model, which is moving every technical project to external solution partners, who then use and modify monolithic, one-fits-all solutions such as Salesforce Commerce Cloud®, the focus is changing. Now, it’s more important for them to be able to build their own ecosystem and be in full control. Their aim is to benefit from a mixture of pre-made components and services delivered out of the cloud, and supplement those with custom applications.

Those new types of solutions are often referred to as “headless”. They are using so-called APIs, interfaces which allow them to tightly integrate applications and let them exchange information. Like a box of LEGO bricks, those solutions can be combined in every conceivable way. The ultimate goal: stay agile and retain the freedom to build websites and applications that keep delivering value for the customer and drive business.

Emerging Touchpoints

But arguably, the biggest challenge the fashion industry is facing regarding digital business has to do with the multitude of devices and channels people are using to access them. Instead of using just their PCs to browse a desktop-based web-shop, customers use mobile devices and find their inspiration in social channels such as Instagram and Pinterest.
Mobile Commerce

Our mobile device follows us everywhere — even into the bedroom — and is always close to our bodies. It’s the most personal digital item we’re carrying. So, it’s no surprise that in fashion, where everything is about expressing yourself by the way you look, this is kind of a natural ally. When we have a few minutes during the commute or before the next meeting starts, we can look for the item which looked so good on Meghan Markle. Fashion retailers, such as Zalando, are seeing a mobile visit share of more than 80%. Brand presentation, as well as the checkout process, needs to be flawless on all the various mobile devices; otherwise, they will create a barrier for conversion. Especially repeat buyers need to feel comfortable, making it easy for them to earn and redeem loyalty points or find out when the next parcel will be delivered.

American fashion retailer EXPRESS has built a new mobile app which serves a number of purposes. It inspires the audience with new collections; customers can browse through the various categories, order directly, and pay via Apple Pay as well as locate the nearest store. It has an integrated barcode scanner to access more information while in the store, and there are numerous ways to share items via messengers or social networks.

Most fashion buyers find their inspiration on Facebook, Instagram, and other social networks. So, fashion lends itself to be presented and promoted there. Who would not want to wear the exact same outfit as this or that actress? Influencers are becoming an essential part of fashion brands’ marketing efforts. It’s not a coincidence that ABOUT YOU, one of the largest fashion retailers in Europe, and belonging to the OTTO Group, is organizing very successful real-life influencer award shows, which are being broadcasted on national television. In other words, fostering the influencer ecosystem is a way for this particular retailer to engage with their audience. This also means that “simply” presenting fashion online is not enough anymore. Retailers are generating a lot of media content to make sure they engage their customers.

Burberry, the iconic British fashion label, was and is still experimenting with relevant digital channels.

Burberry has also been a first mover in many other new digital channels. It was the first luxury brand to experiment with personalized experiences on Pinterest and the first brand to use a Snapchat Snapcode. Both initiatives were part of specific product campaigns with Burberry tailoring the digital partner to the content — in the case of Pinterest, it was makeup and Snapchat was fragrances. Other Burberry firsts include a dedicated Apple Music channel. The brand is also experimenting with enabling customers to buy through the WeChat social media service\(^{15}\).

But of course, regardless of which social channel those fashion brands are tapping into, what they need for their bottom line is for their fans to click or tap their buy buttons. They have to offer a lightweight process to make this a smooth experience. This is why networks like Instagram are experimenting with purchases right within the platform, without urging followers to jump out of their context to a new web-shop, where they have to fill in complex order forms.

\(^{15}\) [https://www.insider-trends.com/inside-retail-strategy-burberry/#ixzz5z1nevxvz](https://www.insider-trends.com/inside-retail-strategy-burberry/#ixzz5z1nevxvz)
Final Thoughts & Outlook

Yesterday, it was still about linking the brick and mortar with online commerce; today, it’s about connecting many online channels and touchpoints. The fashion industry has come a long way with digitalization, and the demands of today’s shoppers, especially those belonging to Generation Z, are experimenting with new channels and formats. For brands and retailers, the experience is the key, through content, through social media, and through influencers, too. It’s about building a 360-degree brand world around your customers. This cannot be done by a flick of a switch of some kind of super-software, but a smart combination of scalable cloud services, custom developments and, of course, the right employees and the right mindset to create inspiring and seamless experiences.

About the author

Since 2001, Dr. Roman Zenner works as an author, consultant, and speaker in e-commerce. He has written several books on web shop software and regularly publishes articles in professional magazines and blogs. Dr. Zenner runs shoptechblog.de as well as the podcast ShopTechTalks. Furthermore, he speaks at conferences, teaches university classes and moderates expert panels.

In his work, Roman focuses on next generation commerce technologies and explores what retail will look like in a post-web world. Since 2015, he is a full-time employee of commercetools GmbH, working as an Industry Analyst.
About commercetools

commercetools is the world’s leading platform for next-generation B2C and B2B commerce. To break the market out of being restrained by legacy suites, commercetools invented a headless, API-first, multi-tenant SaaS commerce platform that is cloud native and uses flexible microservices. This enables customers to deliver the best commerce experiences across all touchpoints.

Founded in Germany in 2006, commercetools has worldwide offices spanning the US, Europe and Asia Pacific, with a customer base of Fortune Global 500 companies across industries.

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