



EXECUTIVE BRIEF

Five challenges that are redefining the fashion industry

Fashion

As industry attitudes and consumer behaviors change, so does the challenge of sustaining a business in the fashion industry. The global health crisis has accelerated the need for retailers and fashion brand owners to reconsider the concepts of brick-and-mortar shops to meet the demands of digitally native consumers—while still maintaining omni-channel supply and ensuring sustainable production to allow for recycling. The landscape is evolving more quickly than many can adapt.

Despite these difficult new industry dynamics, fashion companies big and small still can turn these challenges into channels of transformation. Those who can observe and react to shifting buyer behaviors, regulatory changes, and the growing number of channels to market will not only gain a competitive edge, but also help assure the future success of their business.

Here are the top five challenges the fashion industry is facing today, and how fashion brand owners can respond.

1. An increasing number of channels to market

In addition to legacy distribution channels like wholesale, along with direct-to-consumer pipelines and other emerging models, an abundance of e-commerce and digital channels have created multiple touchpoints. At any one of these, consumers can discover new styles and products, research what might work best for them and their budget, evaluate prices and inventory availability, and pull the trigger on a purchase—which might then be fulfilled direct from the manufacturer, retailer, distributor, or other party. The fashion industry is already heavily invested in the world of e-commerce and leveraging the sophisticated global mail network, which means that additional channels only serve to complicate an already complex inventory management ecosystem.

For fashion brands focused on creating a fulfilling customer experience, the growing number of channels to market could spread resources too thin. Each channel comes with its own challenges, strategies, rewards, and potential consequences. Some companies may find it beneficial to use every available channel, while others may simplify their model and use one or two.

To be successful, you need to stay on top of customer engagement based on expressed behaviors and see how each aligns with your goals as a fashion brand.

Direct-to-consumer

A new generation of digitally native brands has disrupted the fashion industry with a direct-to-consumer e-commerce model that builds, markets, sells, and ships products directly to customers. In some cases, customers are offered produce-on-demand garments that require local production capabilities. Besides changing the way clothing is manufactured, produced, and distributed to customers, these models are improving both margins and consumer insight. Direct-to-consumer allows fashion brand owners to bypass retailers and test different distribution models, social media sales, tailored production, and local sourcing options while redesigning stores as service center for consumers.

Direct-to-consumer channels include:

- Online e-commerce
- Social media

Levi's, the world-renowned denim retailer, has made the pivot to a direct-to-consumer model. "We've been on an intentional path to strengthen that direct relationship," said Marc Rosen, executive vice president of Levi Strauss America.

Direct-to-consumer sales offer brand owners more control over market presence and facilitate more meaningful communication between brand and consumer. However, e-commerce brands will need to be more careful in their consideration of brand identity across channels, online and social presence, product pricing, and distribution. Brands that seek flexibility may leverage the power of an online marketplace like Amazon for at least partial distribution of their product line.

Wholesale

Wholesale distribution was the main channel for fashion brands. However, this channel is easily disrupted, as it requires businesses to pre-order goods ahead of time to predict and accommodate seasonal buying behaviors. This model relies on consumer consistency, something that is not assured in the digital era, and often results in product surpluses or deficits.

Physical retail stores

Although consumer behavior has demonstrated a clear transition to the e-commerce and digital markets even before the global pandemic, brick and mortar retail stores are still a reality for many fashion brands. But retail stores are struggling now more than ever before, faced with inventory overages, a steady decline in foot traffic over the last year, and inconsistent expense-to-profit ratios. To draw the attention back to stores, fashion brands need to reimagine physical stores and also use them more like showrooms, experience and fulfillment centers to meet and service consumers by offering click-and-collect options, repairs, and returns.

Online marketplaces

Online marketplaces such as Zalando, eBay, and Amazon are great choices for some fashion brands, though they require different inventory management processes and fulfillment channels to succeed. Many brands choose to utilize marketplaces as a supplemental channel within a larger omni-channel strategy.

So how do you choose? The competitive brand owner will look to capitalize on the opportunities presented by an omni-channel approach. Remember that some channels, such as physical retail stores and e-commerce channels, may complicate the supply chain by forcing brand owners to run separate or even conflicting orders to secure inventory by channel. Assess each channel and identify which will create the most meaningful, fulfilling experiences for your consumers, and grow from there.

2. Shifting consumer demands

The modern consumer doesn't just want new products or styles; they want visibility into the sale-to-delivery process and they want to know whether their preferred retailers are operating with sustainability in mind. Disruptive brands have entered the market to answer the modern customer's highly specific needs, offering made-to-order clothing and the opportunity to rent clothing.

The growing accessibility of automation and analytics have made these transformative models possible, allowing fashion brands to respond to on-demand requests on the mass market while understanding the rising sustainability concerns expressed by eco-conscious consumers.

Today's shoppers are more willing to pick up thrifted or repurposed garments instead of newly produced clothing. The recycling and resale industry has found inventive ways to give life to fabrics and clothes that keep them in circulation longer, while still appealing to fashion-forward consumers. Fast fashion brands will most likely suffer under these new conditions and will be forced to reframe the development and marketing of their clothing to models that are more sustainable.

3. Regulatory and ethical concerns

As the fashion industry has evolved, often for good reasons, so too have the regulations that govern fashion companies. To continue moving forward, fashion needs to confront its weaknesses and formulate a remediation plan. Among the top concerns for fashion companies and their consumers are ethical business practices that consider human rights a necessary link in the supply chain. These regulations work to eliminate child and forced labor, discrimination, unfair wages, non-compliance, and unsafe work environments.

According to the 2019 Ethical Fashion Report, 61% of fashion brands have created policies that address gender inequality, while another 35% have implemented tests to ensure their manufacturing workers are not exposed to hazardous materials on the job. Other initiatives are also being put in place to provide living wages and ensure responsible purchasing practices.

The same level of care and attention is also being extended to the environment as fashion companies and their customers advocate for increased transparency and sustainable environmental management.

This eco-friendly movement has encouraged the rise of circular fashion (clothes designed to be recycled later in their lifecycle), rental boutiques, and sustainable product manufacturing practices.

Staying current and compliant with the extensive list of regulatory and ethical concerns is a lot to manage, but technology is making it possible for fashion companies to enhance transparency, improve productivity, and gain better visibility into their own processes.

4. Inventory management concerns

Even with the help of technology, inventory and supply chain management remains difficult for most fashion companies. On the back end, visibility into supply chain inventory is integral when it comes to maintaining responsiveness to changes in arrival dates, stock volume, and distribution channel assignment. Tools that handle supply chain visibility can help fashion brand owners gain better insights into factories, distribution lead times, available inventory levels, and the different channels to market. Nevertheless, there are additional aspects of inventory management to consider such as trends, styles, and transient customer desires.

Inventory management processes remain largely rigid and outdated, but with proper execution, fashion companies can get a better balance between stock-outs and wasted "deadstock" and increase customer satisfaction. Good execution can even help investors value your organization as a lower risk investment.

To secure success in the fashion industry, brand owners need to prioritize inventory management. This means learning how to best utilize their inventory through channels like click-and-collect at stores, ship-to-home from store, direct-to-consumers, and more. Global inventory visibility will help brand owners determine the most efficient fulfillment process for every order based on location, regional stock availability, and even transportation cost. End of season markdowns and waste as a result of overstocking can damage a brand's sustainability score while diminishing sales revenue and diluting profit margins. Plus, extra inventory leave many fashion companies more susceptible to loss, damage, or theft.

To mitigate overproduction and subsequent waste, many fashion brands are looking for ways to accurately predict the tastes and desires of consumers. Many turn to enterprise resource planning (ERP) and warehouse management systems to gain global visibility, and collect data on inventory, buyer behavior, and distribution methods. In contrast, some are also using their struggle as an opportunity to leverage other tools like SoundOut, which uses crowdsourced data and machine learning to predict demand for new products. Consumers can rate designs before production, saving fashion companies the expense of producing goods that may never be purchased.

5. Loss of foot traffic in brick and mortar locations

The global health pandemic has accelerated the decline of foot traffic in physical retail stores, but even before the pandemic, physical retail stores no longer had the same potential or sales volume that they used to. Buyers have become accustomed to digital shopping experiences, giving e-commerce and online marketplaces preferential treatment. Physical stores, for the most part, have become last resort options for many shoppers.

Beyond this, physical locations have spatial limitations. Retailers are afforded a finite amount of shelf space, making it difficult to maintain stock that consumers want. This puts retailers at risk for dampening the customer experience and can cause shortages in the supply chain.

Much like an omni-channel to market model, modern fashion brands are using hybrid solutions to address these concerns. Endless aisles satisfy consumers' desire for an expansive product selection by offering in-store kiosks that allow consumers to purchase items from a complete range. These items may be new for the season, out-of-stock, or not available in-store, but can be shipped directly to a customer's home from the kiosk.

Consumers can gain open access to the store's entire range of product offerings, allowing them to customize their garment in terms of style, color, and size, where they were previously limited to immediate supply. This provides consumers with the personalized feel of in-person interactions and combines it with the convenience of e-commerce for a more fulfilling shopping experience.

By providing various options, fashion brands give customers more reasons to stay loyal; multiple touchpoints between sellers and consumers result in better conversions. Endless aisles present one great option that allows retailers to capitalize on buyer intent and maximize the reward potential.

While they may help a large number of retailers, endless aisles might not be the ultimate solution for all retailers as they require robust inventory management systems to keep stock up-to-date, both online and in-store. When looking to implement new solutions, prioritize your efforts to ensure that new gaps aren't created when others are filled.

Design your future

The challenges facing the fashion industry are universal, and the environment is in a constant state of evolution due to its reliance on consumers and the global climate. Maybe you have already witnessed these challenges in your own fashion organization, or maybe you see them on the horizon; nevertheless, the best thing you can do is to be aware. Adopt a proactive approach to innovation and implement solutions now to better secure your future. Reactivity is a common behavior for fashion brands, but it rarely breeds the innovation they endeavor to achieve. The future of fashion can be created by your design. Be prepared and get ready for what's coming next.

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