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REPORTS

In association with



Rakuten
Marketing

Fashion Now

How consumers are disrupting
the fashion landscape

RETAIL WEEK FOREWORD



VICTORIA MCDERMOTT
CONTENT MARKETING EDITOR, RETAIL WEEK CONNECT

Wow, what a year 2016 was for the fashion industry. From barbecues in March to frost in May, the unseasonal weather that was thrown at retailers had them thinking quick and acting fast in order to shift stock at the best possible margins.

So what can retailers apply from the year that was to ensure they are primed and ready to adapt to changing consumer purchasing behaviour in the coming 12 months? Aided by exclusive intelligence from WGSN's retail analytics arm INstock as well as 2,000 consumers, this report will give you the insight you need to make better decisions.

How often are consumers shopping, where are they shopping and why do they choose particular stores? These questions are among many that will be answered alongside a bird's eye view of the fashion market, with an update on how sales fared

over the past year and what future growth is anticipated.

There was barely a day that went by last year without an email promising 20% off or free delivery incentives tempting browsers to buy, but just how widespread was discounting across the industry and what impact has this had on the clothes retailers are now putting on their shelves?

As expectations regarding seamless shopping experiences continue to grow we also take a look at how consumers are disrupting the fashion landscape when it comes to payments. How many shoppers think contactless payments are a must for fashion stores and how much of a prominent role will mobiles play over the next decade?

What is certain is that armed with this all-encompassing view of the market, fashion firms will be prepared for potential storms whatever the weather.



Expectations for seamless shopping experiences continue to grow



RETAIL WEEK CONNECT: FASHION NOW

Content Marketing Editor

Victoria McDermott 020 3033 2725
victoria.mcdermott@retail-week.com

Commercial Production Editor

Emily Kearns 020 3033 2901
emily.kearns@retail-week.com

Contributors

Dan Harder

Production Manager

Jo Lambert 020 3033 2677
jo.lambert@emap.com

Account Director

Julia Jones-Collins 020 3033 2952
julia.jones-collins@retail-week.com

PARTNER VIEWPOINTS



In the ever-evolving digital landscape we are seeing rapid changes across a number of industries and the fashion sector is no exception. Consumer behaviour combined with technological development is keeping the fashion industry on their toes, forcing businesses like yours to keep up with these demands. Payment innovation is no different.

Fashion-hungry consumers continue to browse for clothes, making payments online and increasingly on their mobiles, looking for the most seamless experience where they don't even have to think about the payment process. These behaviours are driving invisible payments.

These invisible payments are partly enabled by biometrics, which allows retailers and payment providers to identify and authenticate the consumer. Facial recognition is one of the biometric areas at the forefront of the retail experience, looking at how technology

in areas like fitting rooms can simplify the payment process.

Ultimately, though, consumers want a quick and easy service with instant gratification when it comes to payments. Audiences, particularly the millennial market, are happy to interact and adopt new and different technologies to achieve this. With the changing customer demands and expectation of a consistent experience both in store and online, businesses need to be adaptable and ensure the payment part of the journey is seamless.

Getting this right will help differentiate your offering from your competitors and give you the edge.

This report provides great insight into this sector, the demands and changing behaviours of consumers. As a leading innovator in the payment industry, we want to partner with you to remain at the top of your game and meet ever-changing customer demands.



Consumers want a quick and easy service with instant gratification



More retailers are looking to develop a transparent customer view



The modern consumer has come a long way from only purchasing products from the bricks-and-mortar stores of the high street. Not only are there now multiple places and ways for consumers to purchase but also, and intrinsically linked to this, there are multiple channels through which fashion retailers can get their brand in front of consumers.

As covered in this report, the reasons for choosing one fashion brand over another go way beyond product and price. Convenience and a consistent experience are also key influencers. The fashion retailers that take advantage of the opportunities provided by the modern consumer journey to provide the desired consistent experience will thrive. This does not

mean simply using online channels to create a digital presence and reducing a reliance on the high street. It goes beyond that, extending to the need to provide a seamless experience across channels – including across devices, online and in store.

As such, more and more retailers are looking to develop a transparent customer view to help them understand and react to the multichannel customer journey, as discussed in the final chapter of this report. Using data to gain transparency of the modern consumer journey, from research to final purchase, is essential to providing this seamless multichannel experience and therefore adapting to changing consumer purchasing behaviour.

EXECUTIVE SUMMARY

A CHANGING LANDSCAPE

Confronted with the EU referendum, volatile consumer confidence, unpredictable weather and sturdy declines in footfall, the UK fashion market was dealt a difficult hand in 2016.

While the industry saw the demise of BHS, this was a lesson for retailers to understand the importance of the digital age and how neglecting to do so is likely to result.

The industry has undergone huge changes over the past five to 10 years as technology advancements have developed. Same-day delivery is now fully expected, purchasing through social media is the norm and wearable technology has turned into a reality.

What retailers must appreciate now, is that fashion purchase decisions go beyond the product, and consumer choice is fuelled by convenience and experience. Brand loyalty is now getting lost in an environment where mobile connects consumers to a vast variety of comparable products and delivery options in minimal time.

Additionally, the abundance of selling space available online has enabled consumers to become more flexible about when they buy. This, mixed

with mild winters and cold springs, makes many retailers' traditional buying cycles redundant.

As retailers fight to satisfy consumers' changing shopping habits the fashion landscape is evolving at pace. Priorities now include investing in mobile-first strategies, hybrid warehouse solutions and digital payment innovation to create a seamless shopping journey across all channels.

While the fashion industry will need to approach 2017 with cautious optimism as the rise in sourcing and labour costs abate margins, data will be considered key, and capital expenditure is likely to rise in technology to prevent the business falling behind.

With 61.3% of UK consumers planning to spend the same amount on clothing, footwear and accessories purchases in 2017 as they did the previous year, despite any challenges, the demand is clear.

Using further insights from our survey, coupled with expert viewpoints, this report, in association with WGSN, Barclaycard and Rakuten Marketing, reveals what are set to be the key trends for 2017 and how retailers can compete in a digital age while adapting to the changing consumer.



CHAPTER OUTLINES

FASHION NOW

CHAPTER ONE: RETAIL TODAY

- The UK clothing, footwear and accessories market was estimated to be worth £52.4bn in 2016
- Online sales accounted for 23% of the total UK fashion market in 2016, at around £12bn
- 87% of consumers purchased at least one item of clothing, footwear and accessories online over the past 12 months

CHAPTER TWO: CONSUMER BEHAVIOUR

- Consumer confidence in the UK is highest among younger consumers as 35% of 18-34 year olds plan to spend more on fashion purchases in 2017
- Price is considered the most important factor when purchasing fashion at 41%, followed by quality (24%) and comfort (18%)
- Price also greatly influences 18-34 year olds' in-store selection, whereas over 35s seek product quality, with Marks & Spencer selected as their favourite retailer

CHAPTER THREE: THE FUTURE OF PAYMENTS

- Almost a third of consumers have abandoned fashion purchases because of long queues over the past 12 months
- 56% of UK consumers expect contactless payment to be available in fashion stores
- Mobile advancements will play a prominent role in payment processes over the next five to 10 years

CHAPTER FOUR: PRICING AND POPULARITY

- 48% of products during 2016 were offered at discounted prices, with womenswear representing the highest volume
- Trend for all-in-one fashion saw newness in jumpsuits, playsuits and dresses rise, as the volume of new options in skirts and trousers declined
- Traditional buying cycles no longer reflect consumer behaviour; retailers are responding by moving product launch dates and altering category volumes

CHAPTER FIVE: THE FUTURE

- The UK clothing, footwear and accessories market is forecast to grow by around 20% over the next four years to £62.9bn by 2020
- Online channels will continue to fuel sector growth, accounting for just under a third of all UK online spend in 2020
- Price inflation will begin to show through from Q2 2017



CHAPTER ONE

RETAIL TODAY >>>



Last year was something of a turbulent year for the UK fashion industry. Battered by unseasonal weather and hampered by political uncertainty that dampened consumer confidence, retailers witnessed some of the toughest trading conditions since the recession, resulting in a mixed outcome for the British high street.

A cluster of retailers fell foul of the difficult climate over the past 12 months, notably department store BHS. A new wave of expectations for convenience, rapidity and innovation has troubled many as the industry establishes itself in an evolving digital age. Yet many have welcomed this as an opportunity to place focus on developing their infrastructures to support global multichannel operating models, easily adaptable for change in a fast-paced digital environment.

This has manifested in many retailers ploughing investment into their business in a bid to keep

up with the times by increasing their capital expenditure in technology and logistics. However, in some cases an incapability to compete in a multichannel environment has resulted in weakened sales and profits.

In these changing times, the likes of Matalan and Marks & Spencer have faltered due to stock availability issues and difficulties around the use of its customer data, while other heavyweights have taken measures to protect margins, with John Lewis introducing click-and-collect minimum-order delivery costs.

Yet, despite these tricky hurdles, the UK clothing, footwear and accessories market continues on a positive trajectory and, according to Verdict Retail, the market was estimated to be worth £52.4bn in 2016 following growth of 16% over the past five years.

Throughout 2016 the womenswear market continued to drive growth, contributing an estimated



£24.7bn of spend during the year. The menswear market has also experienced a surge of growth at around 3% per annum over the past five years.

MAN UP

The uplift in the menswear market has been aided by celebrity culture and prominent fitness trends encouraging males to take a greater interest in their appearance and clothing choices. Over the past 12 months, retailers have been responding to demand by developing their ranges to include more innovative and fashionable stylings, and increasing the level of newness within collections. This has also seen the likes of New Look expand into menswear-only stores, while others have focused on online targeting with increased editorial and homepage allocation.

A *Retail Week* survey of 2,000 consumers found that a fifth of UK men (21%) plan to spend more on clothing and footwear in 2017, compared

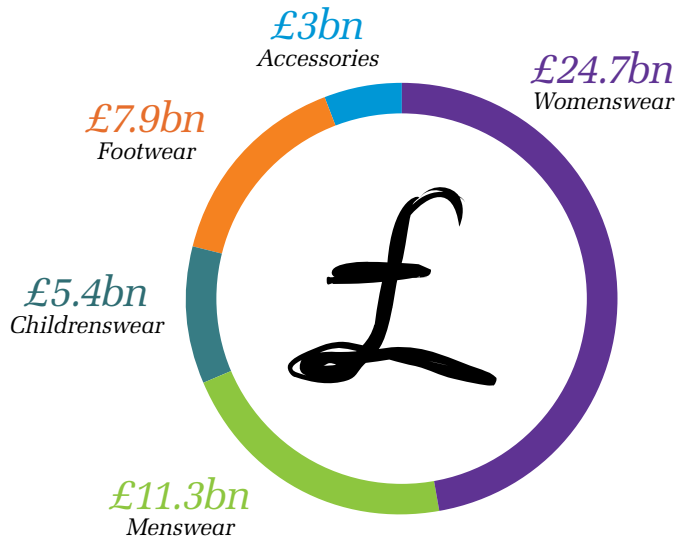
with a quarter of UK women (25%) who plan to spend less. It is no surprise therefore that the menswear market is predicted to spearhead growth over the next few years, with Verdict forecasting menswear sales will increase by around 5% per annum over the next four years.

NEWCOMERS

However, as retailers seek additional avenues for sales growth, womenswear has benefited from an influx of newly developed niche collections including petite, plus-size and tall, which have all become more commonplace through extensive mentions across social media and from bloggers. Companies including Asos and Boohoo have capitalised on the demand for plus-size fashionable clothing at affordable prices.

Additionally, as the health and fitness trend gained traction at the end of 2015, with Verdict

2016 sales breakdown - £52.3bn in total



Retail finding that over half of UK consumers (54%) purchased activewear over the past 12 months, retailers were quick to respond by developing their own activewear collections at more competitive prices than established sportswear brands. The lifestyle trend for more casual dressing has stimulated sales across the market, seeing the likes of JD Sports prosper and new international entrants like Lululemon gain popularity.

CHANGING TIMES

With accessibly priced fashion ranges, accelerated newness and unpredictable weather patterns, consumers' shopping habits have also adapted over the past year. Thirty-nine per cent of UK consumers purchased clothing and footwear more than once a month in 2016, with the average customer spending less than £50 per month, demonstrating consumers' intentions of purchasing little and often to keep abreast of the latest trends and promotional offers. Frequent discounting on the high street has

instigated a new wave of savvy consumers seeking discounts and postponing purchases until promotional periods. As a result, the use of affiliate publishers has gained popularity for online purchases, with research from Rakuten Marketing showing that clothing, footwear and accessories sales from affiliate publishers have grown by 65% over the past four years, to account for £92.7m of online sales in 2016, with 30% coming from shopping and comparison sites.

According to Abi Jacks, director, marketing UK, at Rakuten Marketing: "Shoppers now have alerts and feeds to notify them if a product comes down in price, so discount, voucher and cashback sites are a shopping destination in themselves for bargain hunters. Retailers looking to generate more sales out of peak discount periods should tap into the value of partnerships with these publishers."

BUYING ONLINE

Growth in the fashion industry has been profoundly accelerated through the online channel. Not only has this enabled newer players such as SilkFred and Finery London to gain traction in an already saturated market, but established players have been able to capitalise on the abundance of selling space available in the digital world in offering extended collections and faster speed to market.

So much so, that research from Barclaycard found a third of 25-34 year olds are buying more clothing, footwear and accessories online than a year ago because the product selection is better.

According to Verdict Retail, online sales accounted for 23% of the total UK clothing and footwear market in 2016, forecasted to account for 29% by 2020 – overtaking the electricals market to become the largest grossing online market.

In 2016, 87% of UK consumers made fashion purchases online, with over a quarter of consumers (27%) buying more than half of their purchases through the channel.

However, as the market matures and consumers' need for convenience intensifies, retailers have been using fulfilment capabilities to compete aggressively. This has seen delivery costs decline, the number of collection points rise, and retailers introducing one-hour delivery slots and next-day



How often do you tend to purchase an item of clothing or footwear?



1-5 times per year 35%
6-10 times per year 26%
Once a month 22%
2-3 times per month 11%
4-7 times per month 4%
8+ times per month 2%



home-delivery subscriptions, with New Look being the first multichannel retailer to offer both.

According to Rakuten Marketing's *Brand Confidence Report*, offering free delivery encourages 50% of shoppers to purchase more and 35% say costly postage and packaging is the biggest turn off.

In terms of convenience, click-and-collect has remained a popular choice in the clothing and footwear market, accounting for 54% of all click-and-collect expenditure in 2016 as found by Verdict Retail. Click-and-collect in the fashion market is forecast to grow by 85% over the next five years.

Currently, just under half of UK consumers (43%) used click-and-collect throughout the past year, with one fifth of consumers (20%) planning to exploit this further in 2017, demonstrating that growth will be driven by consumer frequency rather than retailer adaption as time-poor consumers continue to seek reduced shopping times.

However, the rise in online sales has negatively impacted stores, with footfall taking a direct hit, and the high street experienced its steepest decline for two years during 2016.

Research by Barclaycard found that a third of consumers are buying online more often because shopping on the high street is too time consuming; consumers want shopping to fit around their lifestyles, which is why online and mobile shopping has become so enticing. Consequently, the role of the physical store is changing and retailers are having to reinvent their store estate to work harmoniously with their digital presence.

This will prove especially important as mobile continues to take a more prominent role in the online shopping experience. While laptops and desktops still remain the most popular device for clothing, with 72% of online footwear and accessories purchases in 2016 made using them, retailers consider mobile a key area for growth and have begun developing mobile-first strategies to support their multichannel models.

Mobile is therefore being used to drive consumer experience in stores, as well as in the digital world, utilising geo-location capabilities and driving loyalty through personalised location-sensitive promotions.



CHAPTER TWO

CONSUMER BEHAVIOUR >>>

Although the fashion industry was hit by economic turmoil throughout 2016, any resulting price inflation due to weakened sterling is yet to damage consumers' pockets.

Currency hedging throughout 2016 has protected both retailers and consumers alike, leading consumer sentiment to remain positive and nearly two thirds of UK consumers (61%) plan to spend the same amount on clothing and footwear in 2017 as they did the previous year. In fact, one fifth of UK consumers (19%) plan to spend more in the fashion market this coming year.

Consumer confidence is higher among younger consumers as over one third (35%) of UK consumers aged 18 to 34 plan to spend more on fashion purchases in 2017 compared with only 13% of UK consumers aged 35 and over. The younger age group also has a higher shopping frequency, with 53% of 18 to 34 year olds purchasing fashion products more than once a month compared with only 33% of UK consumers aged 35 and over. Furthermore, their increased confidence also demonstrates the reduced financial constraints in this age group compared with older age groups.

Overall, Yorkshire represents the most confident region in the UK as 32% of consumers plan to spend more on clothing, footwear and accessories in 2017, with only 10% planning to spend less. Yorkshire is closely followed by London with 30% of consumers planning to spend more during 2017.

Consumers in the East Midlands are more cautious going into 2017, with 27% of consumers planning to spend less on fashion purchases and only 13% planning to spend more.

Nevertheless, as the hike in prices is likely to come into fruition towards the middle of the year, it is important to consider what drives consumer spend in the fashion market to reduce any missed sales opportunities.

Overall, price is considered the most important factor when buying clothing, footwear and accessories, with 41% of UK consumers stating it as their main consideration. This is followed by product attributes including quality (24%), comfort (18%) and style (13%).

While the trend is similar across gender and age group, men consider quality proportionally more important than women do when buying clothing and footwear, with 29% of males stating this as their main consideration compared with 20% of females. This

demonstrates women's more frivolous stance when it comes to fast-fashion purchases, and the need to keep up to date with the latest trends versus investing in quality staples.

TOP OF THE SHOPS

According to research from Rakuten Marketing, there's a huge difference in loyalty between the under 30s and other older market segments. Less than a third (27%) of those over the age of 60 declare loyalty to any fashion brand. By contrast, 69% of millennials say that they are loyal to a fashion brand.

So what influences their loyalty? Younger consumers are the age group most greatly influenced by price when it comes to store selection and our survey found that those aged 18 to 34 are more attracted to value-priced retailers.

Primark dominates as the favourite retailer for this age group with 10% viewing the value chain as their favourite retailer, followed by New Look (9%), Asda (8%) and H&M (6%). While the likes of New Look, H&M and Primark offer appealing and affordable prices, they also exhibit frequent newness, trend authority and strong links to social media which appeal to millennials.

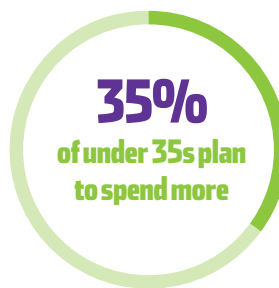
Additionally, low prices at value retailers drive 80% of UK consumers to shop at these stores, followed by product range (57%) and quality (48%).

While value is still considered important among the over 35s, 12% of this age group viewed Marks & Spencer as their favourite retailer, followed by Asda (9%), Primark (8%) and Debenhams (7%).

Despite Marks & Spencer's suffering clothing sales over the past four years, the retailer is well known for the quality of its products and a whopping 79% of consumers selected this as the key reason for naming M&S as their favourite retailer. This is particularly important when the retailer's range spans across womenswear, menswear and kidswear, making it a popular choice for cross-category purchases and gifting.

Despite differences in store selection across age range, product quality was the main denominator for favourite store choice in the fashion market, influencing 58% of UK consumers in store selection. This was followed by range (53%), fit (47%) and low prices (45%), making it pivotal that as retail prices start to rise in 2017, consumer spend on clothing and footwear is justified by appealing product design and manufacture.

FASHION SPENDING IN 2017



YORKSHIRE
32% plan to spend more
10% plan to spend less

EAST MIDLANDS
13% plan to spend more
27% plan to spend less

LONDON
30% plan to spend more
19% plan to spend less



Confidence is
higher among
under 35s

Style is the
least important
consideration



CHAPTER THREE

THE FUTURE OF PAYMENTS >>>

Barclaycard has teamed up with *Retail Week* to explore the developments around the future of payments. Ever-changing consumer behaviour is certainly keeping the fashion industry on its toes and shoppers have come to expect the fastest and easiest of experiences from the moment they step through the doors, to the second they are handed the receipt, to the ongoing relationship they build.

These growing expectations have meant the sector has had to step up to the mark and embrace more convenient payment processes offering speed and ease. With this pressing need to adapt comes a renewed focus on payment strategies as digital innovation in store and online continue to drive the retailing evolution.

Research from Barclaycard suggests that consumers are placing a premium on convenience and that brand loyalty is becoming less important when it comes to shopping. Insight from Barclaycard's *Are You Keeping up with Your Customers* report (January 2017) showed that almost a third of shoppers have abandoned fashion purchases because of long queues over the past 12 months, while nearly half of consumers say that a quick online checkout would encourage them to choose one retailer over another.

According to customer solutions director at Barclaycard Sharon Manikon: "Customer experience is critical, and payments have a huge role to play in creating that experience. We truly believe if you can make the payments aspect of your customer experience simple you could retain that business and grow your market share quickly."

Therefore, it is important for fashion retailers to consider the experience they want to offer their customers across all channels. Yet, as the industry becomes increasingly driven by digital developments, many retailers are at risk of falling behind as the level of innovation in payment processes rises. Shopping payment journeys are moving away from requiring the physical exchange of money to using payment technology that fades the payment process so much into the background that it becomes almost invisible.

This year sees the 10th anniversary of contactless payments and in recent years this type of payment method has become the norm. *Retail Week* research found that more than half of UK consumers (56%) expect contactless payment to be available in clothing, footwear and accessories stores. This expectation is heightened for consumers aged 18 to 24, with 62% of these consumers using contactless payments for fashion purchases in 2016. The millennial market is more able to adapt to new technologies and so it is

integral that fashion retailers predominantly target this age range to embrace contactless payments quickly.

Mobile has been another game changer, with the development of invisible payments enabling a new wave of contactless payments to surface.

Mobile has been another game changer, with the development of invisible payments enabling a new wave of contactless payments to surface. Contactless payment through mobile devices gained real momentum in July 2015, after a refresh of bPay products, and subsequently grew from that time on.

In September, Barclaycard partnered with British menswear brand Lyle & Scott to launch the world's first contactless payment jacket, and – targeting the millennial market, Barclaycard teamed up with Topshop to create a wearable technology collection, 'Topshop X bPay'. Last year saw other innovations come to market, including the launch of Barclaycard's Contactless Mobile for Android devices and a partnership with British leather accessories brand Tovi Sorga to bring a contactless payment chip to the retailer's wallet cuffs and bracelets.

Tami Hargreaves, commercial director, digital consumer payments at Barclaycard, says: "These collaborations show how the worlds of fashion and technology can combine to create a stylish and easy new way for people to pay using contactless, for everyday things – be it a morning coffee, or a bus trip across town."

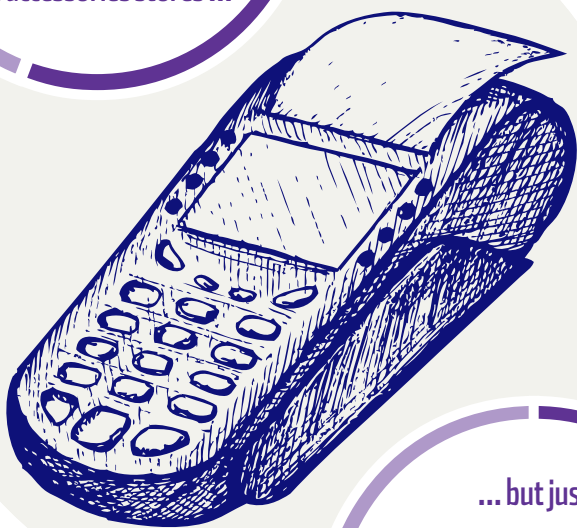
However, due to the £30 threshold on single purchases, there are limitations in the use of contactless payments at fashion retailers. While some retailers allow consumers to make higher-value contactless payments through authenticating themselves with their fingerprint or PIN code on their mobile devices, this is not widely available on the high street, limiting its use when many items of clothing can cost in excess of £30.

Nevertheless, moving away from monetary exchanges can also increase throughput in store as the payment process is faster for both the consumer and staff. Therefore, when the queue time is reduced, more consumers can be served during a given period, while reducing the risk of abandoned sales as a result of long queue times. Additionally, increased throughput will most likely translate to increased revenue for retailers.

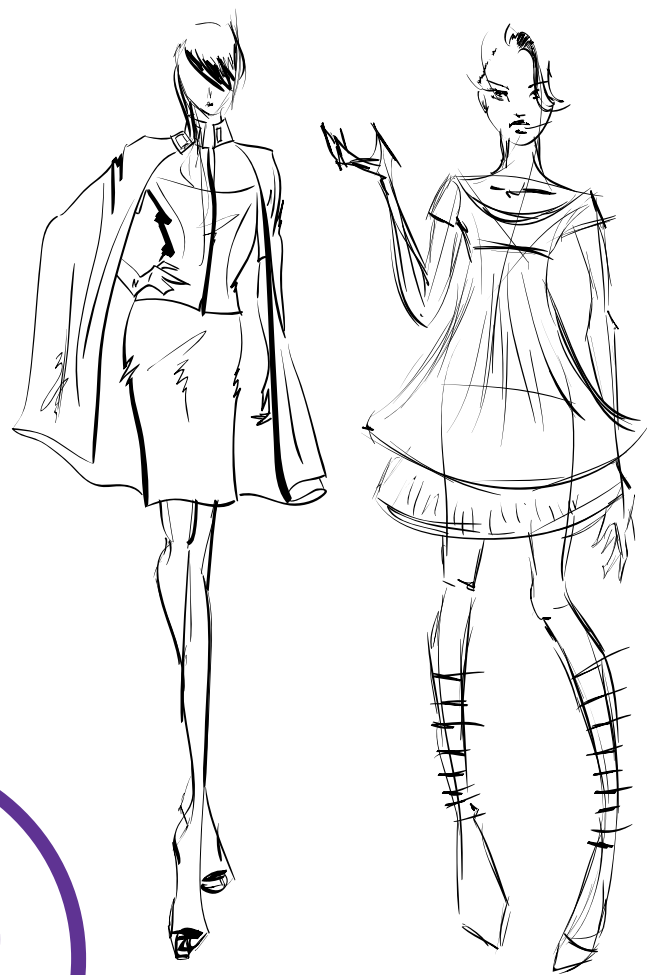
Invisible payment technology through mobile also brings increased speed, ease and convenience in online purchases through the development of biometric payments. This futuristic point-of-sale technology authenticates payment through human characteristics, whether that be fingerprints, voice or even face.

While fingerprint touch for payment on mobile

56%
of consumers expect contactless payment to be available in clothing, footwear and accessories stores ...



... but just **34%** of all retailers in the UK accept contactless payments



shopping apps is widely available in the UK, one card scheme is trialling facial recognition for online mobile payments through its identity check initiative across 16 countries outside of the UK. Payment is authorised through consumers taking a selfie, with the card scheme claiming that 92% of trialled consumers found its selfie ID check more convenient than other payment methods.

However, this is not surprising given the social media culture now ingrained in almost every aspect of daily life, particularly for the younger demographic. Therefore fashion players targeting younger consumers would be extremely well-suited to embrace something similar to a selfie checkout system.

More widely, biometric payments not only make the checkout process feel more effortless but also reduce the gap between browsing products and owning, while minimising any barrier for basket abandonment. Biometric and contactless payments therefore enable frictionless purchases, where consumers purchase products without even thinking about the payment.

But the extent of technology developments for payment processes, most notably through mobile, goes further than just the cyber world. Insight from Barclaycard's *Are You Keeping up with Your Customers* report found that, by 2020, a quarter of consumers expect to be able to use an app to scan and buy clothing in store with their mobile device and have their

payment taken automatically.

While this has been trialled by a leading online retailer for the grocery market in the US, it is yet to be implemented for the fashion market. However, consumer behaviour and purchase drive is no longer just determined by retailers having the right product; they are demanding an experience and the fashion sector must also encompass this in store.

Consumers are open to trying new experiences that will help improve and speed up service, such as digital fitting rooms, where consumers can try on merchandise through virtual reality and make payment then and there, rather than going to the checkout.

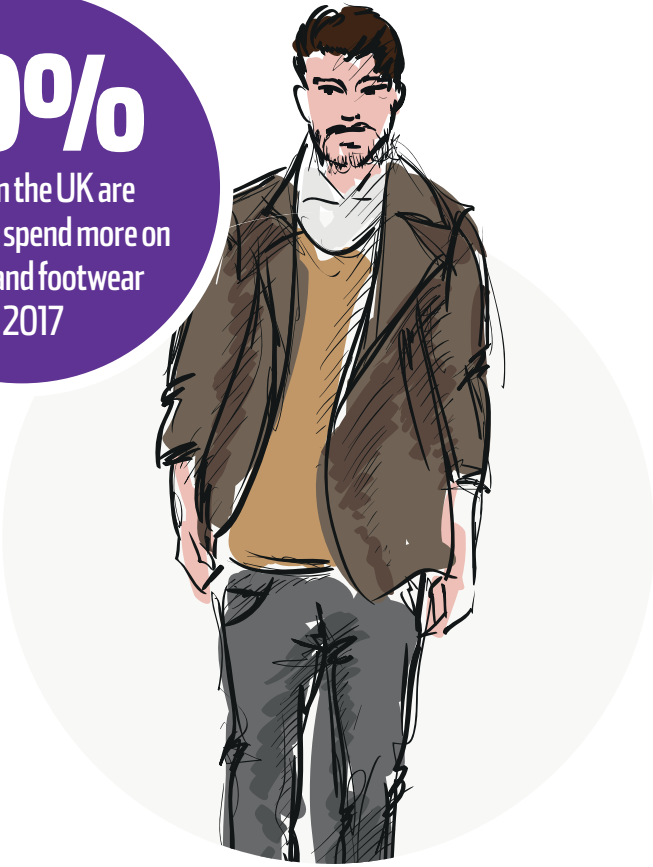
When it comes to payment processes in an omnichannel environment, the fashion sector needs to integrate its digital experiences online and offline, and mobile is a great way to blur these lines. Many retailers are therefore adopting a mobile-first strategy.

In Barclaycard's *Payments 2016: The Big Story is Mobile* insight report, the group's head of strategic initiatives and innovation, James McDonald, agrees that while he doesn't expect any one technology to come in and replace traditional payment systems over the next five to 10 years, for many people, mobile will become the default payment choice.

However, when navigating the evolving future of digital payments, it is important for retailers to consider their target consumer and whether a new payment technology will aid their shopping experience. What may work for certain retailers who appeal to younger consumers may in fact deter more traditional shoppers.



20%
of men in the UK are
planning to spend more on
clothing and footwear
in 2017



1 in 3
consumers in Yorkshire plan
to spend more on clothing,
footwear and accessories in 2017,
representing the most confident
region in the UK



62%

OF CONSUMERS AGED 18 TO 24
USED CONTACTLESS PAYMENTS
FOR FASHION PURCHASES IN 2016



42%

JUST UNDER HALF OF UK CONSUMERS
USED CLICK-AND-COLLECT
THROUGHOUT THE PAST YEAR



86%

OF UK CONSUMERS MADE FASHION
PURCHASES ONLINE IN 2016

CHAPTER FOUR

PRICING AND POPULARITY >>>

DISCOUNTING

With competition continuing to rise on the UK high street, consumers have been overwhelmed by discounts and promotions as retailers struggle to compete in a saturated market. As a result, consumers have become accustomed to spending less for the products they want, awaiting discounting periods until parting with their cash.

Additionally, this has fuelled the use of affiliate publishers for fashion purchases, with consumers willing to go the extra mile for discounts. According to data from Rakuten Marketing, 15% of sales from affiliate sites were from cashback and loyalty sites in 2016.

According to research from Rakuten Marketing, when quizzed about what would make consumers spend more with a brand online, the influence of offers and discounts is clear. For 44% of shoppers, the awareness of voucher codes such as a 10% discount can prompt them to spend more with a brand online.

Despite many retailers fighting to protect full-price sales through reducing the number of days they are on offer, consumers have been inundated with promotions over the past three or so years, with seasonal Sale periods almost a thing of the past.

Data from WGSN INStock indicates that the percentage of markdown stock in the UK clothing, footwear and accessories market across menswear, womenswear and childrenswear has increased from 46% in 2015 to 48% in 2016.

The traditional January Sales period unsurprisingly still sees the highest level of markdowns, with the UK high street having offered 55% of its stock at a discounted price in January 2016. However, WGSN INStock data also indicates that markdowns were rife throughout the rest of the year, with the total market offering at least 44% of its stock at a discount in any given month throughout the year.

The womenswear market is rife for discounting with retailers not able to rely on this sector for strong margins and instead having to drive full-price revenue through additional categories, such as homewares, gifting and beauty. Just under half of the womenswear clothing, accessories and footwear market went into markdown during 2016 at 49%, rising 1 percentage point year on year.

Nevertheless, the womenswear market dominates the fashion industry, with more than twice as many products available for women than for men. However, as men's collections have grown in volume, so too has the volume of markdowns, rising from 43% of products in 2015 to 45% of products in 2016.

PRODUCT MIX

As our research has found that women shop more frequently than men for clothing, footwear and accessories, it is important for retailers to ensure that product newness is frequently available to fulfil consumer interest in the womenswear market.

Over the past two years, the dress category was considered a key area of revenue growth for retailers. In fact, the dress category contributed the highest level of newness across the year. This was particularly evident during the first half of 2016 as the percentage of dresses within new apparel increased by 1.3 percentage points year on year. At the same time, the presence of jumpsuits and playsuits throughout the sector grew in 2016, demonstrating a trend for all-in-one fashion, which provides more ease in outfit choice for consumers.

With jumpsuits and playsuits gaining popularity in the fashion market, retailers have been able to negotiate lower cost prices when ordering higher volumes to fulfil consumer demand. Therefore, consumers benefited from lower retail prices within this category during 2016, with average retail prices across the market down by 10% during the year and with 40% of this category costing the consumer under £30 in 2016 compared with 38% of products in 2015.

Meanwhile, the tops category continues to play a key role in the product mix in womenswear, representing the second highest number of options after dresses. However, the level of newness declined in this category throughout 2016 as retailers became more experimental in tailoring, offering fashion trends through increased styling in shirts and blouses. As a result, newness in the shirts and blouses category increased by 1.2 percentage points during the first half of 2016 year on year – representing 6% of the product mix.

Following an increased focus on this product category, design aesthetics were heightened in shirts and blouses, with manufacturing prices edging up as a result. This resulted in increased retail prices throughout 2016 to protect retailers' margins. On average, retail prices rose by 12% during the year in this category.

However, the trend towards shirts and blouses was more prevalent in the mid-to-premium clothing markets than the value end as value retailers seek to

The UK high street offered

55%

of its stock at a discounted price in January 2016

keep manufacturing costs low, while driving volumes through wardrobe basics such as jersey tops. In fact, the value market was the market segment with the highest increase in shirts and blouses with a rise of 1.4 percentage points.

PRODUCT POPULARITY

Throughout 2016 female shoppers embraced products with enhanced features in tailoring and ruffled blouses were among one of the most popular subcategories purchased during the second half of 2016, along with pleated skirts and duster coats.

Multi-functional and trans-seasonal products were also popular as consumers sought greater value in their purchases. Fitness leggings, padded jackets and casual sweaters all performed strongly during this period. Conversely, sub-categories which did not offer as much opportunity for wear, including gilets, capes and fitness shorts, drove the highest percentage of markdown throughout the six-month period.

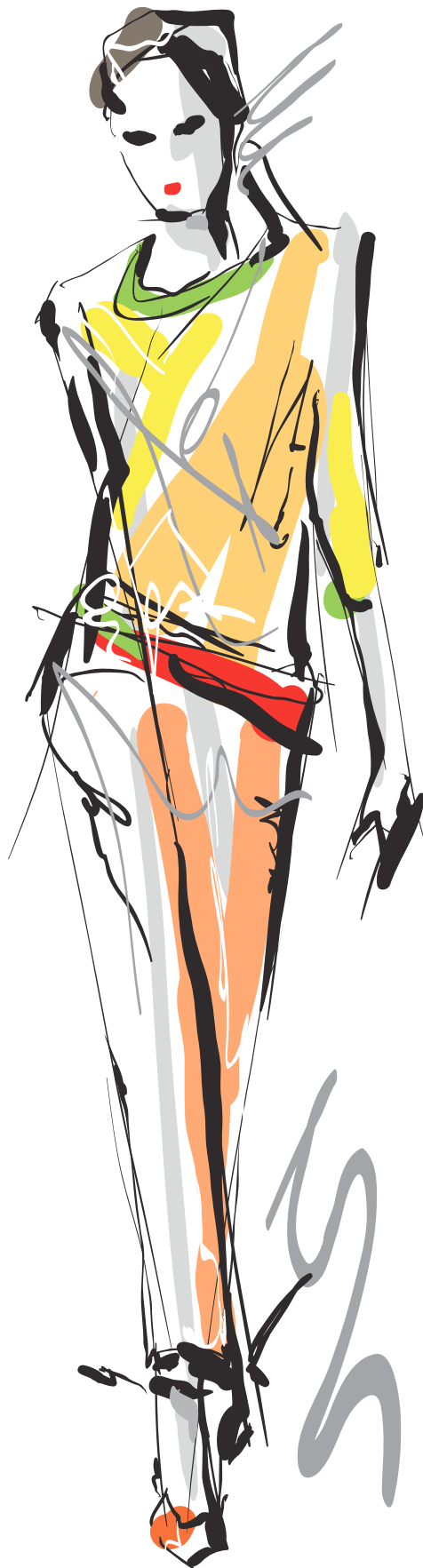
41%

of UK consumers state price as their main consideration when buying clothing, footwear and accessories, making it the number one factor

The fashion market is predicted to grow by

20%

over the next four years



SHARE OF SPEND

As consumers' shopping habits have evolved, retailers have responded by adapting their buying patterns. Furthermore, unseasonable weather has suppressed traditional buying cycles and modification has been required as a result.

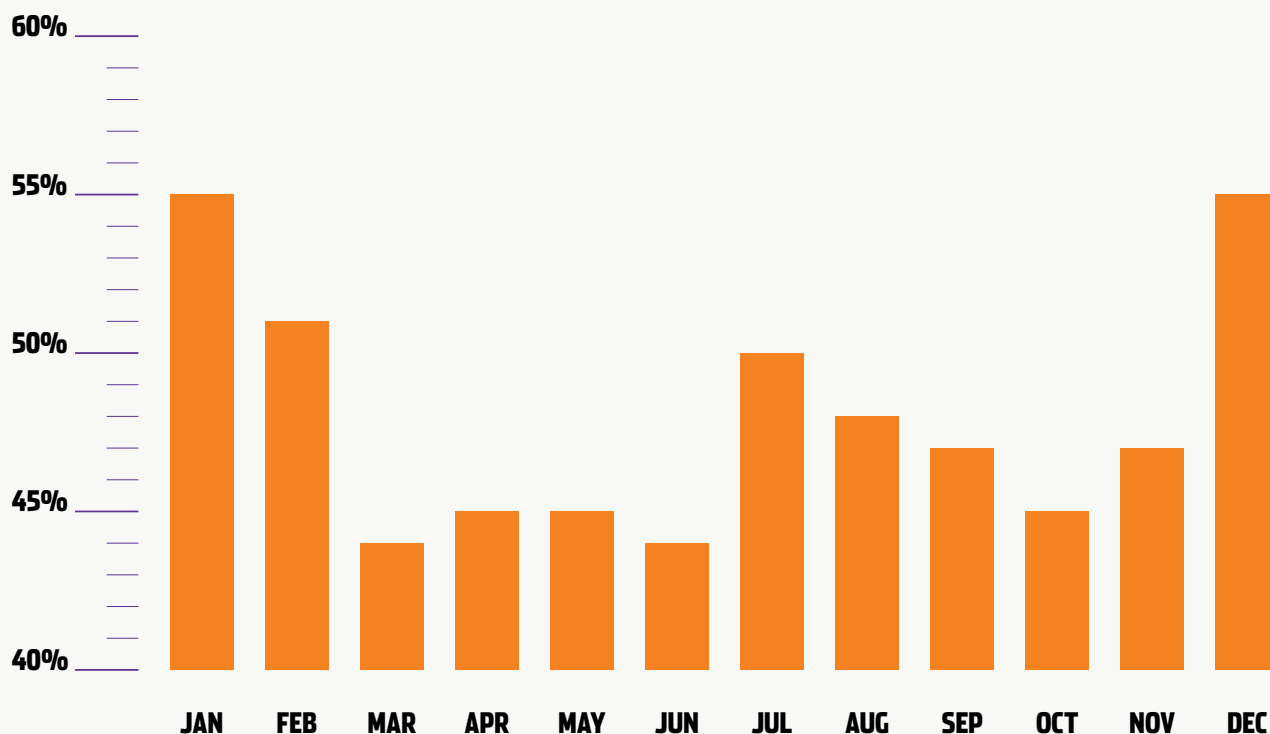
The change is most noticeable within the mid-to-premium markets, where the product mix for heavy winter items, such as jackets and coats, has reduced throughout 2016.

With this, retailers have also moved product launch dates to accommodate for the reduction in heavy winter items, with the percentage of new knitwear options introduced throughout the latter half of 2016 increasing year on year, compared with reduction in newness during the first half of 2016.

Therefore, as more retailers embrace non-traditional buying cycles, product newness will become more reactive towards consumer behaviour in order to reduce markdown and drive full-price sales.

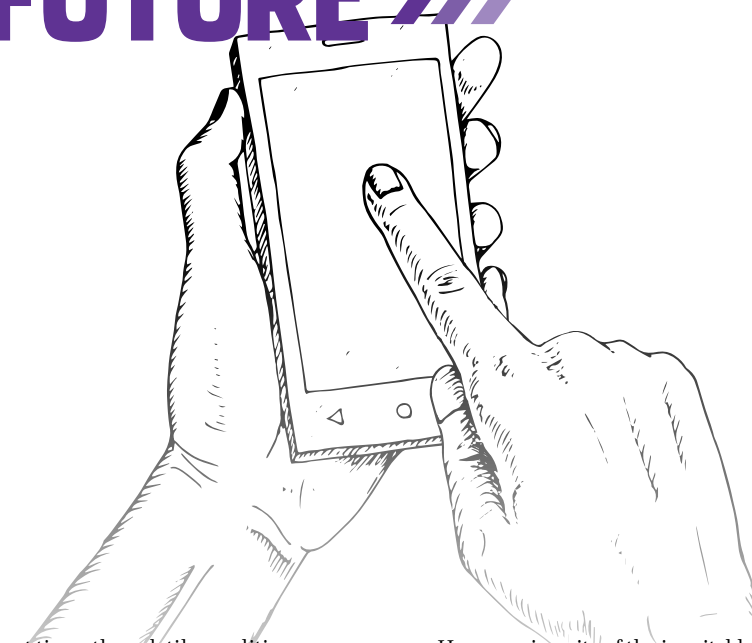


Percentage of stock marked down over 2016



CHAPTER FIVE

THE FUTURE >>>



While at times the volatile conditions throughout the year were difficult to navigate, retailers' online channels and supply chain infrastructures enabled many to fulfil heightened demand from shoppers and encourage a surge of clothing, footwear and accessories purchases.

Although there remains an element of uncertainty, cautious optimism is also evident with steady growth expected for the fashion sector. Verdict Retail forecasts growth over the next four years of a whopping 20% to £62.9bn by 2020.

It is widely expected that spend across the retail sector will be stronger in 2017 than in 2016 with market growth fuelled by inflation, not volume. Average UK consumer product inflation in 2017 is estimated to stand at 2% according to PWC, yet is predicted to slow later this year.

While the increase in sourcing costs following the result of the EU referendum, along with the fall in sterling, was masked by currency hedging in 2016, this will start to show through during the second quarter of 2017 as retailers begin to phase through retail price increases.

Cost prices are estimated to grow between 5% and 8% over the course of this year, so it is likely that some retailers will struggle to absorb the full costs and resulting pressures on margins. Therefore, many retailers are likely to pass a percentage of the price hikes on to consumers.

Despite the rising costs of sourcing products, some retailers – such as Asos – have vowed not to raise prices as they seek more cost-efficient practices to try to avoid price increases for consumers.

To add to their woes, retailers have been hit with increased labour costs in the UK and it is likely the government's national living wage will increase again in April 2017.

However, in spite of the inevitable hikes, consumer sentiment rebounded during the latter half of 2016 and PWC claims a quarter of UK consumers believe they will be better off in 2017 than they were last year. Additionally, our research shows that a fifth of UK consumers (19%) plan to spend more on clothing, footwear and accessories throughout 2017, driving growth in the UK fashion industry.

WHATEVER THE WEATHER

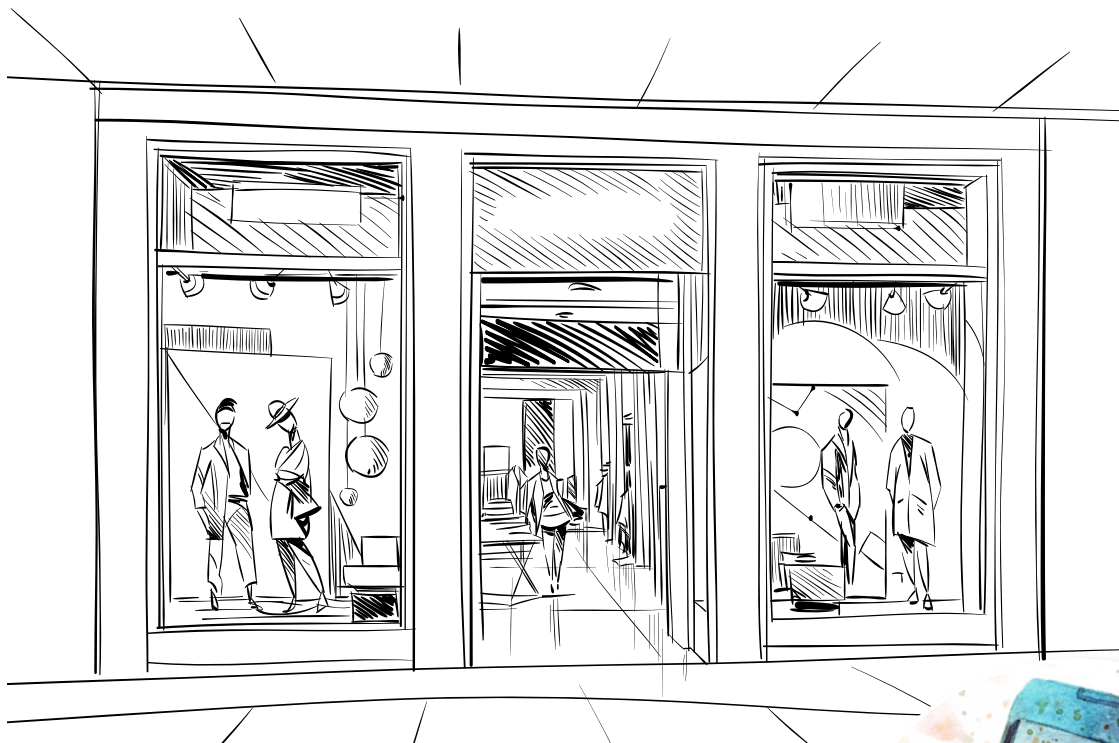
Hit with mild winters and cold springs in the UK, unpredictable weather has repeatedly been drawn on by fashion retailers as a cause for weakened sales and pre-tax losses over the past four to five years. However, the fluctuant British weather is likely to continue and retailers need to look beyond this and instead address the fundamental in-house issues which have resulted in high levels of terminal stock at the end of their planned selling seasons.

When it comes to clothing, the digital era has greatly altered shopping behaviour. Long gone are the seasonal catalogues as we are faced with a 'see now, buy now' social media driven industry, which has seen the likes of Burberry stream catwalk shows on Instagram and offer its new season collection for purchasing as soon as it hits the catwalk.

Although rigid buying cycles may have worked five to 10 years ago, they no longer reflect how consumers are shopping.

Swim and beachwear required for holidays are no longer restricted to summer, just as knitwear and sweatshirts for layering aren't restricted to winter, and consumers are becoming more flexible in when they buy what are known as 'seasonal products'. As a result retailers are striving to offer a range of products all year round, whatever the weather.

While the availability of core seasonal products



will remain important, fashion retailers need to reduce the over-buying across these ranges which results in heavy markdowns. Instead, buying budgets should be released for all-year-round collections to subdue the effects of weather unpredictability, and allow retailers to take advantage of the growth in UK manufacturers, while becoming more reactive to consumers' purchasing trends.

LET'S GET INTEGRATED

Although it is clear that product price and range will determine demand in the fashion sector, shoppers' decisions about where they buy goes beyond the product, and consumer demand for convenience, speed and ease will intensify in the increasingly digital age.

Online channels will continue to fuel sector growth, with Verdict Retail estimating the online clothing, footwear and accessories market will account for just under a third of all UK online spend in 2020.

While personalisation was the buzzword for 2016, the year ahead will see companies prioritising 'seamlessness' across every aspect of the business, with retailers striving to provide a smooth customer journey wherever and however they chose to shop.

The battle to be had, though, is that consumers don't think in channels, but rather convenience. Therefore, many retailers are aiming to remove channel boundaries and integrate their online, mobile and store networks.

DATA-LED DECISION MAKING

Many are seeking to develop single customer views to understand the shopping journey across all channels. Reacting to how and where consumers are browsing, comparing and purchasing will only enhance their experience, while helping to mitigate damages to in-store like-for-like sales and reduced sales densities as

a result of the growth in online sales. Consequently, data strategies will become significant in a retailer's approach for omnichannel growth.

Additionally, seamlessness wouldn't be possible without ensuring convenience, which tends to lie in product fulfilment. Consumers have become accustomed to fast fulfilment, and those retailers falling behind in delivery speed tend to result in basket abandonment. Therefore, it will become imperative for retailers to ensure the infrastructure within their supply chains can live up to the rapidity expected.

Warehouse automation, hybrid solutions, and developing single stock views, will each help provide a seamless operation for online and store fulfilment.

However, satisfying increased demand on the high street also requires increased investment. Many retailers are fighting for a more cost-efficient business in the light of increased sourcing and labour costs, yet others, such as Asos, have planned to double capital expenditure to nearly £170m during the 2016/17 financial year to invest in digital, technology and operational infrastructure to ensure they remain top of the league.

While there is a risk that the expenditure may engross profits, there is also a greater risk that those who don't invest in digital-proofing their business will fall behind, as lamentably proven by the once coveted BHS.





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