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# Online as the key frontline in the European fashion market

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E-commerce is the key trend in retail, with strong growth in online sales visible for most products and across all regions in Europe. Compared to other categories, fashion (i.e. the sale of apparel and footwear), has so far experienced only moderate e-commerce penetration. At the same time, however, the online market for these goods has already reached a considerable size, with strong growth rates likely to continue for the foreseeable future. This is true both for the already more advanced region of North & Western Europe, but even more so for the relatively less penetrated regions of Southern and Central Europe. So far, online pure players such as e-commerce marketplaces and internet stores specializing in fashion have successfully exploited this momentum, establishing strong positions through channel and customer service innovations. Fashion retailers traditionally focused on brick-and-mortar outlets, on the other hand, are still very much at the beginning of their e-commerce journey. In this article we shed some light on the current trends and competitive dynamics in this space.

THE E-COMMERCE 1. THE

## E-COMMERCE LANDSCAPE IN EUROPE

European e-commerce is on the rise overall. However, take a closer look and you find some interesting differences between countries. Three distinct e-commerce regions emerge, differing in terms of both their level of online retail and its historical growth pace (see Exhibit 1). They are as follows:

**Northern & Western Europe**<sup>1</sup> – the most advanced region in terms of e-commerce penetration, on average 19 percent in 2017.<sup>2</sup> This is in line with the overall trend towards digitization in this region. For instance, countries here tend to exhibit higher Internet penetration and more bandwidth consumption per user than in other regions.<sup>3</sup> Basic and advanced digital skills among the general population also tend to be higher, and this is strongly correlated with the share of individuals who made at least one online purchase in the last 12 months: 74 percent on average for the region in 2018.<sup>4</sup> Still, in most markets the majority of Internet transactions are made from desktop computers. But in some, “m-commerce” (e-commerce via mobile devices) already accounts for a relatively high share of online purchases, up to 50 percent in 2017.<sup>5</sup> Despite the share of e-commerce already being relatively high, its growth has been impressively robust in recent years. At around 13 percent per annum, it was more than three times stronger than growth of the overall retail market.<sup>6</sup> While going forward a slowdown is to be expected, forecasts are still very attractive through 2022.<sup>7</sup>

**Southern Europe**<sup>8</sup> – which has the lowest penetration rates for e-commerce in Europe, on average just 5 percent (2017). Only 41 percent of the population bought something online in the last 12 months (2018) – half the level of Northern & Western Europe.<sup>9</sup> M-commerce also remains small. Having said that, due to its low penetration rate, e-commerce has grown exceptionally fast in recent years. The gap in penetration between Northern & Western Europe and Southern Europe is projected to continue closing, with a rapid growth outlook for the latter.

**Central Europe**<sup>10</sup> – here, online penetration averages 8 percent, slightly higher than Southern Europe but still trailing Northern & Western Europe by a significant margin. Room for growth exists in the region: In 2018 just 42 percent of consumers on average shopped online here.<sup>11</sup> In line with these trends, m-commerce is still at an early stage of

development. However, it is predicted to grow very quickly, with forecasts estimating a share in total e-commerce of up to 27 percent by 2022. As in Southern Europe, the low starting point means that e-commerce in Central Europe has been growing very rapidly since 2014. This growth is projected to continue its strong trajectory in the period to 2022.

The penetration of e-commerce also differs across product categories, which can be grouped into frontrunners, followers and laggards (see Exhibit 2). The first group consists of the most digitized categories, where e-commerce penetration has reached such a level, that it has already started significantly cannibalizing offline sales growth. This includes media (i.e. products and services relating to books, music, etc.), where in some markets more than 60 percent of sales take place online. The share of e-commerce is also high in consumer electronics: In Central Europe, for instance, it is estimated at more than 30 percent, while in the most digitized economies it will soon account for more than half of sales. Even though these categories on average exhibit already very high penetration rates, strong discrepancies across regions indicate further room for growth, especially in Southern Europe.

The follower categories, such as consumer appliances, apparel and footwear (together comprising the fashion category) and home furnishing, exhibit moderate e-commerce penetration. In recent years they have been catching up to the frontrunners on the back of double-digit growth rates in e-commerce sales. Forecast indicate that this trend is likely continue. Closing the average penetration gap to frontrunner categories could mean substantial uplifts. In footwear, for instance, that could mean a doubling of the estimated 500 million pairs of shoes sold online each year across Europe, to more than 1 billion pairs.<sup>12</sup> In the coming years, offline sales in these categories are likely to be significantly cannibalized by e-commerce growth, even to the extent where they might enter into a negative growth trend.

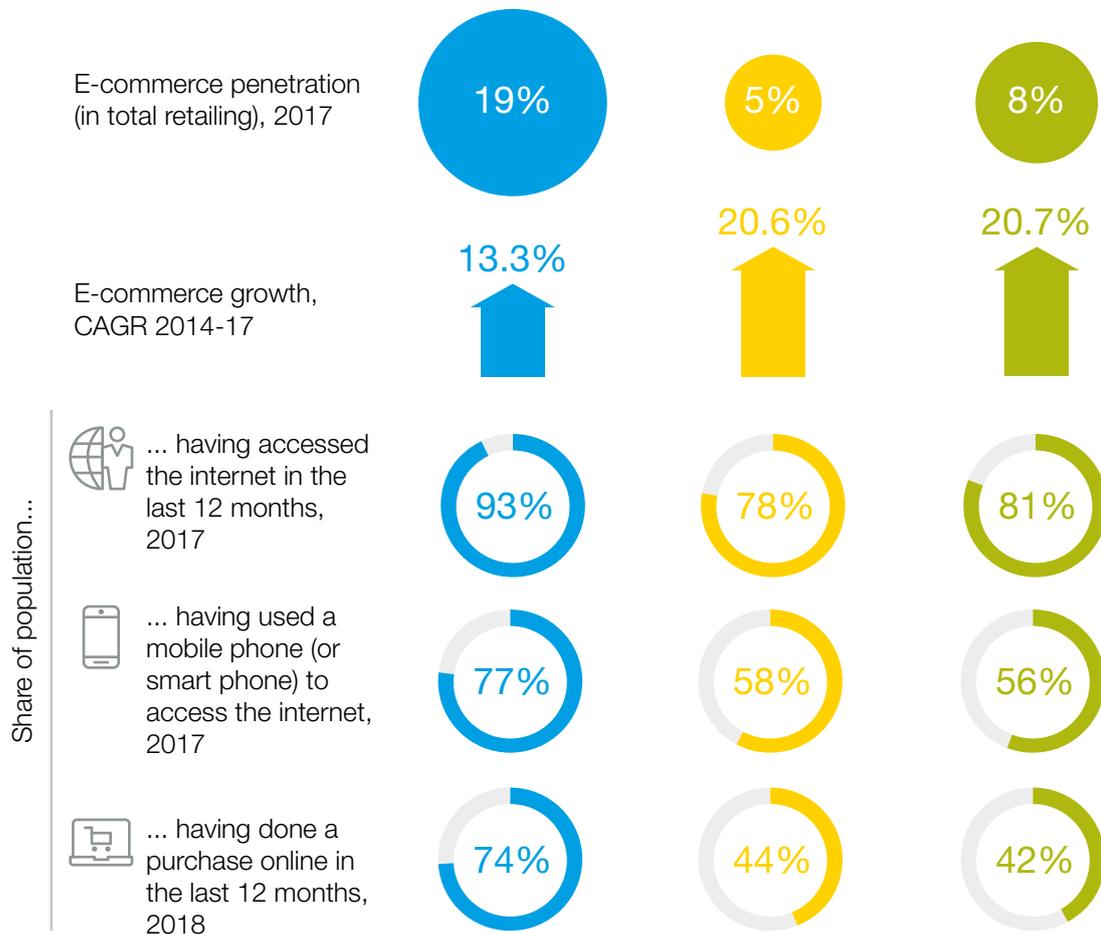
Finally, we see laggard categories, where the share of online sales is still very low, and it might be some time before it really takes off. This includes beauty and personal care, where product trials are particularly important. The lowest online penetration rates across all categories can be found in grocery sales – this is mostly due to logistical challenges and invariable consumer attitudes.

**Exhibit 1.**

We consider three regions in Europe in terms of e-commerce penetration and growth.

E-commerce penetration and growth in selected European markets, %

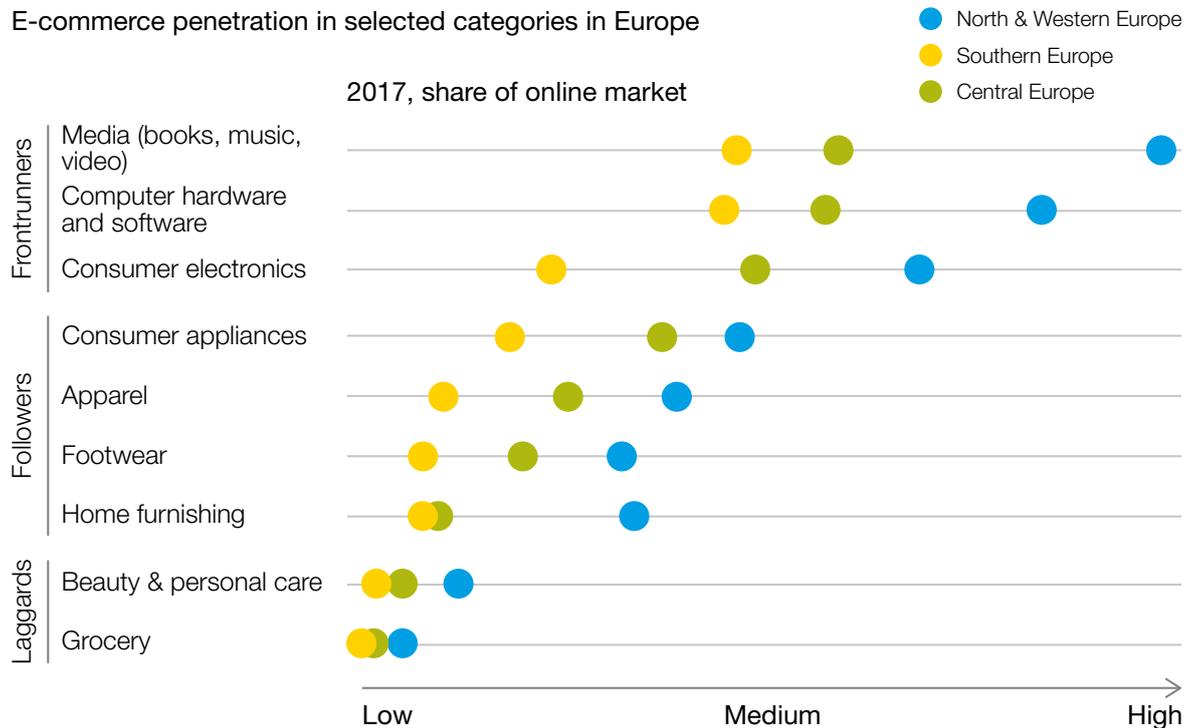
- North & Western Europe
- Southern Europe
- Central Europe



Source: Eurostat; McKinsey market analysis, based on Forrester Analytics: Online Retail Forecast, 2017 to 2022 (Western Europe)

**Exhibit 2.**

**Product categories vary strongly in terms of online sales penetration.**



Source: McKinsey market analysis: for NWE and SE based on Forrester Analytics: Online Retail Forecast, 2017 to 2022 (Western Europe); for CE based on PMR

## KEY TRENDS IN ONLINE FASHION RETAIL

Having already passed its nascent stage of e-commerce development, the fashion industry has already experienced multiple trends in this space, profoundly impacting consumer behavior and competitive dynamics. As part of our “State of Fashion” series of reports, published jointly with The Business of Fashion, we’ve identified several such trends that are likely to further fuel growth of e-commerce in this category. Below we highlight some of the most important ones<sup>13</sup>:

### Personalization on the rise

One of the major trends in online fashion has been the growing need for personalization. In some advanced economies, already more than 70 percent of consumers expect some sort of personalization from online businesses.<sup>14</sup> The consumers’ growing desire to use fashion choices to express their own style, self-image, and values is the primary driver behind this trend. In response,

fashion players turned to data to provide a more personalized shopping experience. Topman, for example, works with AI company Granify to help optimize the menswear store’s e-commerce conversion rates by serving different messages to shoppers when they are at risk of leaving the site. This has given the retailer a 3 to 5 percent uplift in online conversions. Flash sales site BrandAlley invested into marketing automation for persona-based targeting in its email campaigns, achieving a 16 percent conversion uplift.<sup>15</sup> Personalization is also directly shaping the product offering. Mytheresa.com, for instance, offers customers the opportunity to personalize Gucci trainers online. Innovation in this space is partly enabled by technologies such as 3D printing, 3D knitting and laser sensors, as shown by Adidas’s “Knit for you” pop-up store that produces bespoke products in just a few hours. In late 2017, the Japanese online player Zozotown launched Zozosuit, a

mobile body scanner that takes measurements for made-to-fit jeans, T-shirts and suits. Founder and Chief Executive Yusaku Maezawa says that he expects Zozosuit to revolutionize the scale of personalization. In Europe, eobuwie.pl, the Polish online shoe specialist, is building a network of foot scanner islands (called “esize.me”), which can be placed in shopping malls and physical stores. Through these consumers generate a 3D scan of their feet which, once uploaded to their profile on the e-commerce platform, helps tailor the product offering for an improved fit.

### Digital land grab

In order to further strengthen their value proposition, fashion e-commerce players have begun a sort of “digital land grab”, expanding their operations and product offerings into previously uncharted territories. For instance, online pure players have begun venturing into the offline space in a bid to expand their consumer base. Zalando, for one, opened a number of physical outlet stores in 2018, selling items the company found difficult to sell online. Eobuwie.pl has also innovated here, launching a chain of physical showrooms for consumers to browse (via tablets) through their shoe offering, and then try them on the spot before making a purchase. Large e-commerce players are also strategically adding new products and services – Farfetch and Zalando with white-labeling, for example. Players such as these are also expanding into marketing and fulfillment solutions, building up their partner programs. In five years’ time, non-core services are expected to contribute around ten percent of Zalando’s profits.<sup>16</sup>

### Continued growth of m-commerce

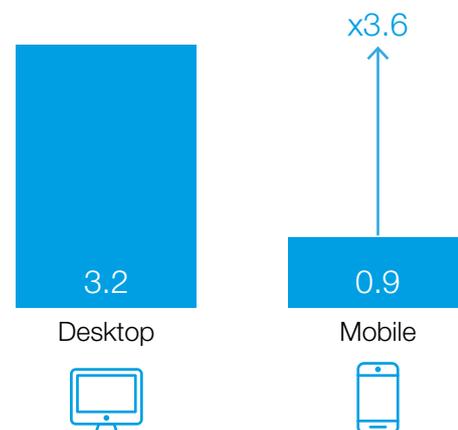
Consumers have been mobile-first for a while now: mobile data traffic has surpassed that of desktop, and half of millennials spend more than three hours every day on their devices.<sup>17</sup> As consumers’ obsession with mobile grows, the end-to-end transaction will also move to mobile. With an overabundance of mobile payment solutions already available globally, consumers will expect fashion companies to cater for increasingly convenient mobile transactions. Zalando is already reporting close to 80% of its traffic coming from mobile devices.<sup>18</sup> For now, however, mobile sales in fashion are yet to lift off – we explore some of the reasons behind this below.

### Now or never

The time lag between discovery and purchase is a pain-point for customers who continue to expect better experiences. Companies are increasingly focusing on reducing this source of friction and launching new technologies to enable a smooth and speedy transition from inspiration to acquisition. Technology leaders such as Amazon, Uber, Netflix and Deliveroo have raised customer expectations in terms of speed and convenience. Through its Prime offering, Amazon has created an expectation that delivery should be next day, or even same day. Fashion e-commerce players have followed suit on the logistics side, with 24-hour deliveries becoming the norm and for large urban agglomerations, same day delivery growing in popularity. Large players such as Zalando also ensure free returns for consumers, many of which are still averse to purchasing products without the option of trying them on first.

**Exhibit 3.**  
**Conversion rates remain significantly lower for mobile than desktop traffic in online fashion.**

Estimated average fashion online conversion rates, desktop and mobile,<sup>1</sup> %



<sup>1</sup> Conversion rate defined as the share of website visits ending with a transaction

Source: McKinsey Digital Opportunity Scan of 48 apparel, jewelry, retailers in US, UK, Europe, Asia, September 2018

However, where tech companies have taken a lead on streamlining the customer decision journey (in addition to product delivery), fashion companies have largely failed to follow suit. The lag between the moment at which consumers come to the idea of buying a product, and

identifying where they can purchase it, has become a pain point. Word-based searches do not lead to the right place and often consumers wouldn't know the right terminology for the product they search. This problem is exacerbated by the mobile experience, evidenced by the fact that whilst mobile is capturing online traffic share, conversion rates are still lagging behind other digital channels (see Exhibit 3). The cause is that the mobile consumer journey is not yet streamlined or compelling enough to inspire a purchase. It is often that products are difficult to view on a small screen, or that the check-out

process is cumbersome and contains too many steps. This is a serious challenge for the fashion industry, especially given the relentless migration from desktop to mobile. No single fashion player appears to have found the panacea for this problem so far. It is expected that the majority of companies will continue to invest in improving mobile conversion rates, streamlining the check-out process, improving search and optimizing the user experience. Brands and retailers are also expected to increasingly collaborate with technology companies to develop proprietary tools such as visual search engines.

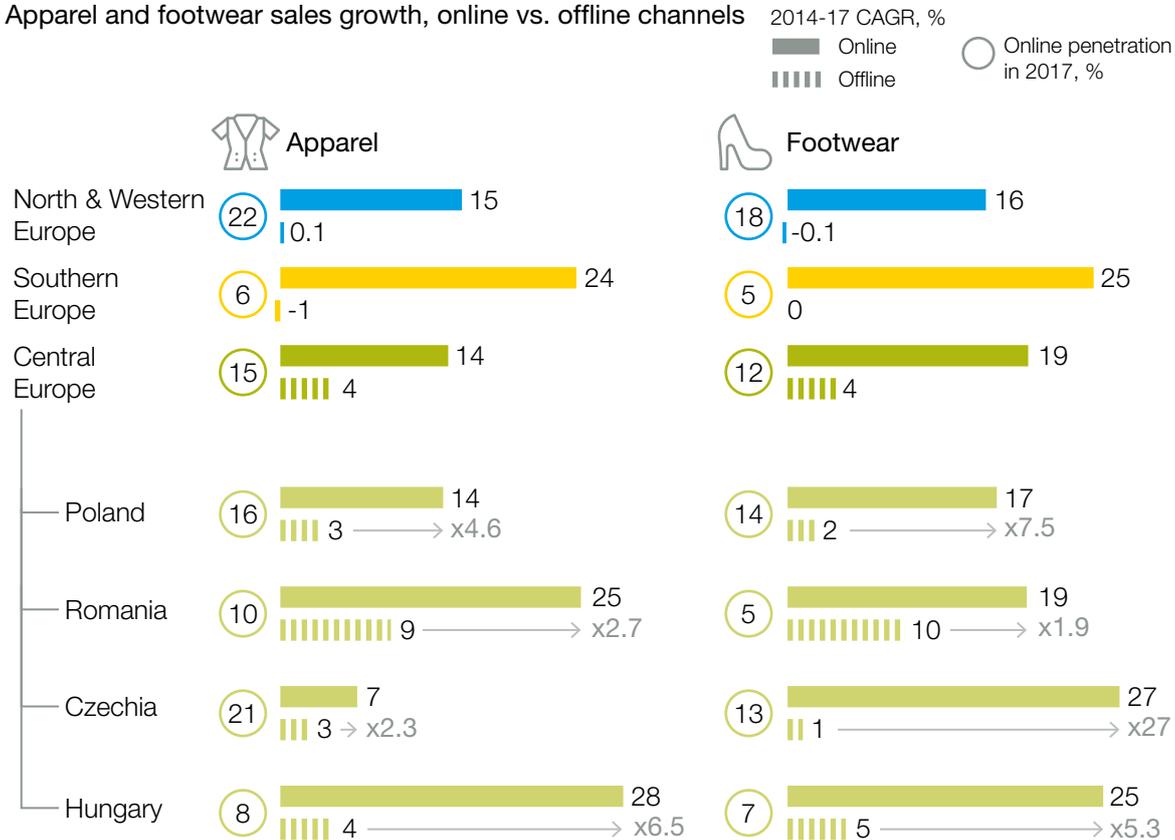
## ONLINE AS THE NEXT GROWTH ENGINE OF FASHION SALES IN EUROPE

The total fashion market in North & Western Europe, including both online and offline sales, is currently worth around EUR 248 billion (2017).<sup>19</sup> That is more than twice the size of the Southern European region,

and almost 17 times the size of Central Europe. Nevertheless, the latter is the only region that showed strong growth rates over the last three years in both offline and online channels (see Exhibit 4).

### Exhibit 4.

**Growth in fashion is mostly driven by online sales, with offline sales growing only in Central Europe.**



Source: McKinsey market analysis: NWE and SE based on Forrester Analytics: Online Retail Forecast, 2017 to 2022 (Western Europe); CE based on PMR;

What is striking about the fashion market across all three regions is that the online channel has already become the growth engine for the total fashion retail industry. This is particularly clear in the more mature economies of Northern & Western Europe, where offline sales of apparel and footwear are stagnating, in connection with double-digit growth in the online channel. Furthermore, despite the already high online penetration in these markets, e-commerce growth is showing no signs of slowing down significantly in the near future.

The fastest growth in online fashion sales can be found in Southern Europe. This is explained to a large extent by the low penetration rate so far seen in this category. Interestingly, online growth in this region seems to be coming at the expense of the offline market, which is already declining in apparel and stagnant in footwear. Central Europe is the only region where offline sales have been growing markedly. Still, it is also the online channel

that is really on the rise, strongly outpacing the rest of the market.

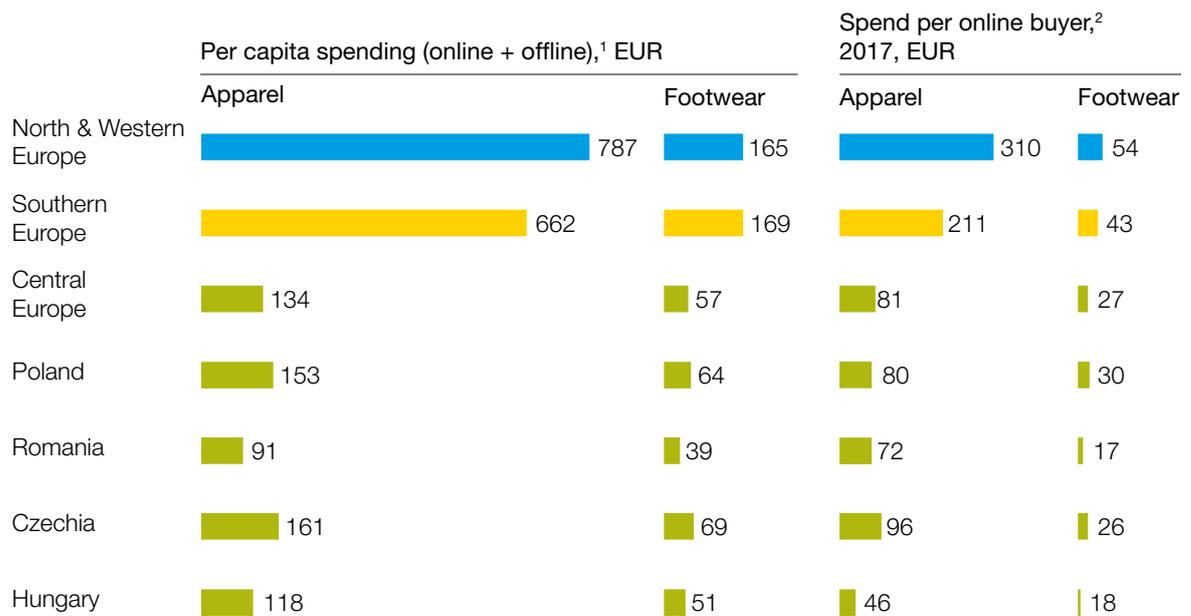
Markets in Central Europe reveal further room for growth, both offline and online. Per capita annual spending on fashion overall averages around EUR 800 in most of Europe, an estimated four times higher than in Central Europe. Similar regional differences can be seen in spending per online buyers (see Exhibit 5).

The North and Western European region will remain by far the largest online fashion market for the foreseeable future (see Exhibit 6). Southern Europe, on the other hand, will experience the highest growth rates – it will, however, remain the region with the lowest penetration, due to the strong forecasts for online sales growth across the entire continent. Central Europe is the only region that is expected to see growth in both the online and offline channel. By 2022, we expect that penetration of online in this region will reach the level seen in Northern & Western Europe today.

**Exhibit 5.**

**The average consumer spends two to three times more online on apparel than on footwear in all European regions included in our analysis.**

Average spending on apparel and footwear: per capita total spend vs. online spend per buyer on apparel and footwear



<sup>1</sup> Per capita spending – total of apparel and footwear spend vs population

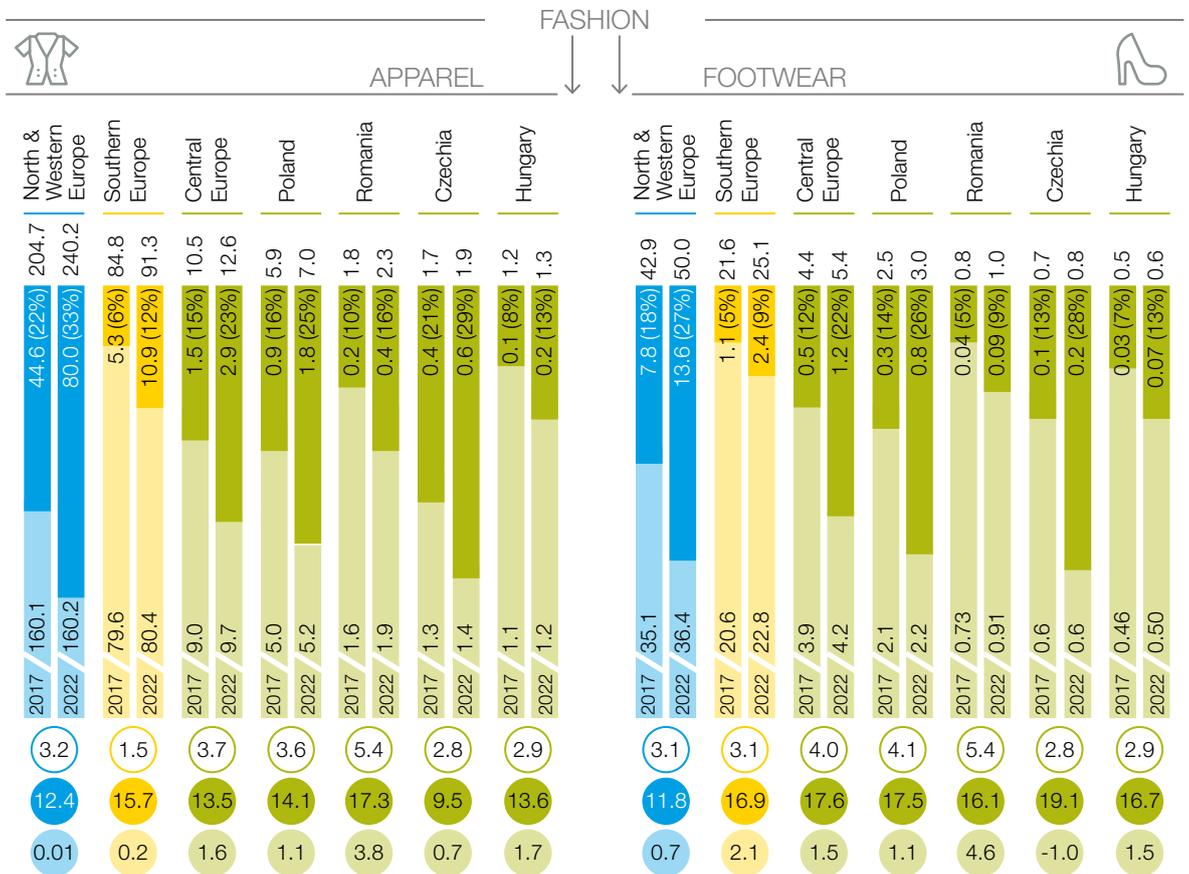
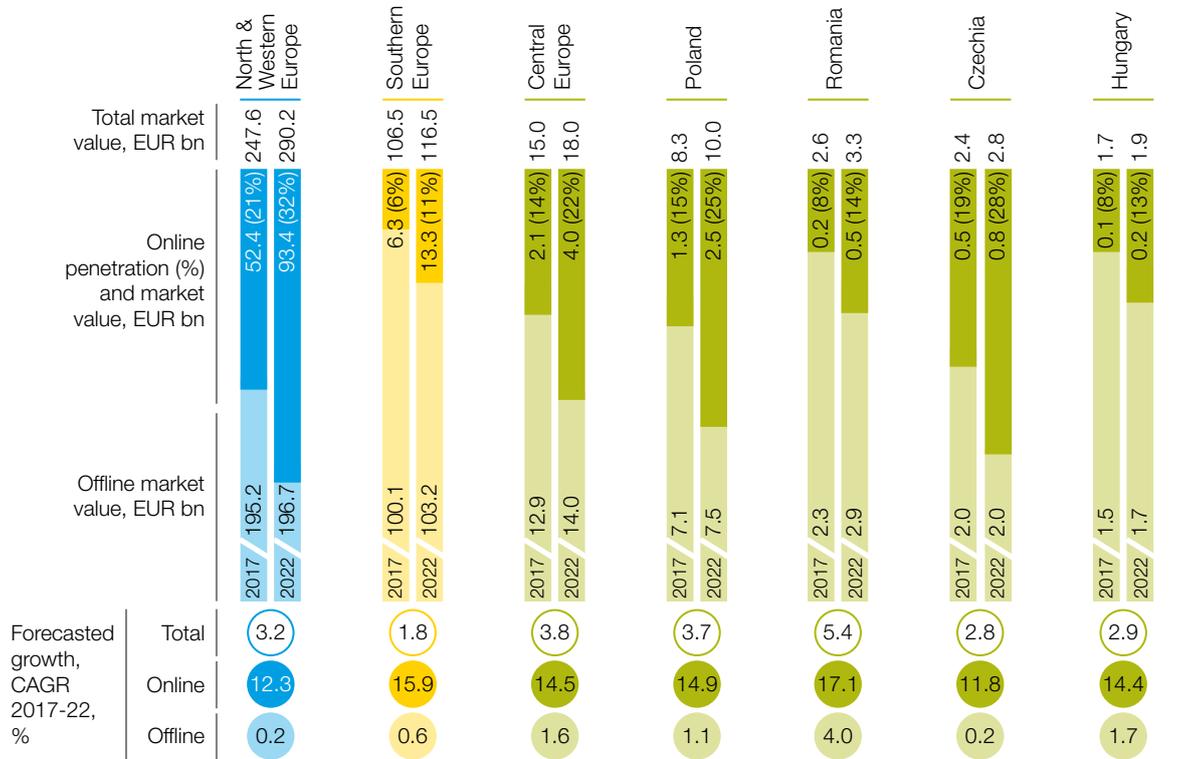
<sup>2</sup> Estimated annual spend per buyer claiming to shop for the specific category online

Source: McKinsey market analysis: NWE and SE based on Forrester Analytics: Online Retail Forecast, 2017 to 2022 (Western Europe); CE based on PMR;

**Exhibit 6.**

**E-commerce will be the largest growth driver in fashion sales in Europe.**

Total fashion market overview, apparel and footwear split below



Source: McKinsey market analysis: NWE and SE based on Forrester Analytics: Online Retail Forecast, 2017 to 2022 (Western Europe); CE based on PMR; forecasts based on McKinsey estimates

## THE COMPETITIVE LANDSCAPE IN ONLINE FASHION

The competitive landscape in online fashion is formed by three distinct segments. First, we see large e-commerce marketplaces offering a wide range of products, with fashion as only one of many categories on offer – take Amazon as an example. Second, there are multi-label online fashion stores offering a wide range of brands, such as Zalando. Finally, we have fashion retailers establishing e-commerce capabilities, typically in the form of brand.com websites, alongside their traditional focus on the offline channel.

The Northern & Western Europe online fashion market is dominated by the first and second group, together accounting for more than 50 percent of total sales (see Exhibit 7).<sup>20</sup> In this region, online giants such as Amazon and Zalando hold leading positions, contributing to high market concentration. By contrast, in the less penetrated region of Southern Europe, brand.com stores control the largest portion of the market having outpaced other players in recent years. The market concentration, however, is still relatively low here – this combined with the high forecasted growth in online fashion

sales creates an opportunity for new entrants. In Central Europe, online fashion stores achieved the highest market share, having clearly outpaced e-commerce marketplaces in recent years.

Given that the online penetration of the fashion industry is still relatively low compared to other categories such as media or electronics, online pure players in this space are still limited by a natural barrier in terms of growing their share in the total fashion market. However, given the dynamics in the market, with e-commerce projected to significantly outpace offline sales in the coming years, they are in a position to achieve a disproportionately higher share in the overall growth of this market. Getting e-commerce right will be crucial for any player wishing to capture the market momentum.

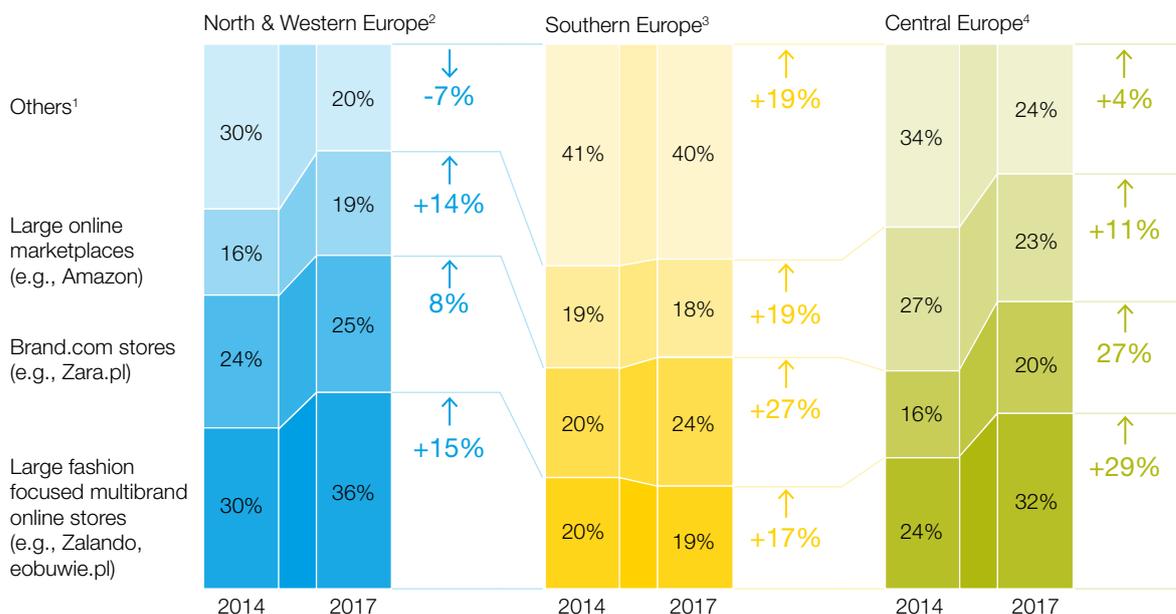
Looking at the online footwear market specifically, the competitive landscape is strongly varied across regions (see Exhibit 8). The mature markets of Northern & Western Europe are the most concentrated ones, with higher fragmentation visible

### Exhibit 7

#### Large online marketplaces and multi-label retailers dominate Northern & Western Europe and Central Europe, with brand.com players visible in Southern Europe

Estimated share of sales by store type in online apparel and footwear retail  
% share of total online apparel & footwear sales

↑ CAGR 2014-17



1 Includes small, independent online fashion stores, as well as multi-category online players for which apparel & footwear accounts for small share of sales; 2 Estimate based on data for Germany, France and the UK; 3 Includes Italy, Spain and Greece; 4 Includes Poland, Czechia, Hungary and Romania

Source: McKinsey analysis based on Euromonitor International Retailing data 2018

in Southern and Central Europe. In the latter region, however, we see clear disparities at market level.

Poland stands out as by far the most concentrated market in CE, with the top-five players (in alphabetical order: Allegro, answear.com, BonPrix, eobuwie.pl, Zalando) commanding a 72 percent combined market share. This is due to the strong presence of both local shoe specialists, such as eobuwie.pl, and local online marketplaces, such as Allegro. In this, however, Poland is an outlier: Generally, fragmentation of the online footwear market in Central Europe is higher than in other regions.<sup>21</sup>

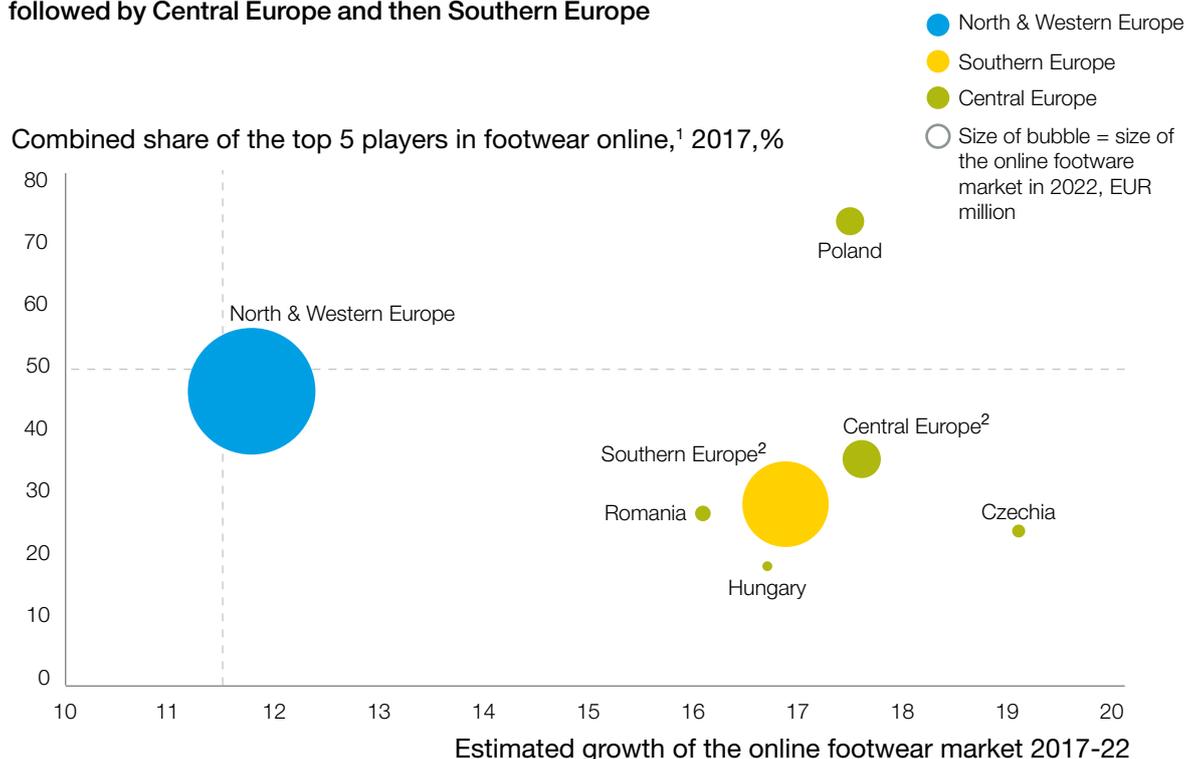
The competitive dynamics in recent years in this space point to clear winners and losers. The Polish shoe specialist eobuwie.pl has become the regional leader in online shoe sales, outperforming general e-commerce marketplaces and online fashion stores. In Romania, online pure players (answear.com, cel.ro, eMag, eobuwie.pl, Fashion Days) lead the market, as is the case in Czechia (alza.cz, eobuwie.pl, Mall, Zoot) where Bata.com rounds off the top five list.

Hungary is another market, where a brand.com player can be seen among the top five (hm.com) – it is also the only market we examined in Central European where a global e-commerce marketplace is seen among the top five players (eBay). BonPrix together with online multi-label specialists such as eobuwie.pl and FashionDays completes the top players picture.

What is apparent when looking at the top players in this region, is that online pure players have been most dominant in recent years. Even though brand.com players have started developing their online capabilities, they have so far been unable to achieve market shares comparable to online pure players. Indeed, many of the region's top fashion retailers report online sales contributions clearly below the market penetration rate. This indicates that – so far – these players have failed to exploit the momentum offered by the rise of fashion e-commerce. Going forward, they face a key strategic decision: to continue investing in their own capabilities, or to leverage the growing strength of online marketplaces and multi-brand retailers.

### Exhibit 8

**Northern & Western Europe shows the highest market concentration in online footwear sales, followed by Central Europe and then Southern Europe**



<sup>1</sup> Estimates for North & Western Europe, and Southern Europe based on the total fashion market

<sup>2</sup> Regional combined market shares of top 5 players based on non-weighted country averages

Source: McKinsey analysis based on Euromonitor International and company financial data

## ENDNOTES

- 1 Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Luxembourg, Netherlands, Norway, Sweden, Switzerland, United Kingdom
- 2 Based on Forrester Analytics, Online Retail Forecast, 2017 to 2022 (Western Europe)
- 3 Based on data from Eurostat and the World Bank
- 4 Based on data from Eurostat
- 5 Based on data from Euromonitor International
- 6 Based on Forrester Analytics, Online Retail Forecast, 2017 to 2022 (Western Europe)
- 7 Based on various sources, such as Forrester Analytics, Online Retail Forecast, 2017 to 2022 (Western Europe), PMR, Euromonitor International
- 8 Greece, Italy, Portugal, Spain
- 9 Based on data from Eurostat
- 10 Due to data availability, we consider four CE countries in this article: Czechia, Hungary, Poland and Romania
- 11 Based on data from Eurostat
- 12 McKinsey estimate based on 2017 category online sales penetration data and online sales volumes from various sources, including Forrester Analytics, Online Retail Forecast, 2017 to 2022 (Western Europe), Euromonitor International and PMR
- 13 For extended insights, see our most recent “State of Fashion 2019” report as well as its 2018 predecessor <https://www.mckinsey.com/industries/retail/our-insights/the-state-of-fashion-2019-a-year-of-awakening> <https://www.mckinsey.com/industries/retail/our-insights/renewed-optimism-for-the-fashion-industry>
- 14 Pat Hong, citing AgilOne Research, “70% Of Consumers Want More Personalized Shopping Experiences”, Linkdex, December 1, 2014, <https://www.linkdex.com/en-us/inked/70-of-consumers-want-more-personalized-shopping-experiences>
- 15 Rachel Arthur, “Artificial Intelligence dominates the retail conversation at Shoptalk Europe”, Fashion&Mash, October 12, 2017, <http://fashionandmash.com/2017/10/12/artificial-intelligence-retail-shoptalk-europe/>
- 16 “Zalando SE – More than just a retailer; upgrade to Outperform” RBC Capital Market report, 12th March 2018
- 17 “Smartphone and IoT Consumer Trends 2017”, <https://www.b2x.com/en/smartphone-and-iot-trends>
- 18 Based on Zalando’s 2018 Q3 quarterly statement, [https://corporate.zalando.com/sites/default/files/media-download/Zalando\\_SE\\_Q3\\_2018\\_EN\\_0.pdf](https://corporate.zalando.com/sites/default/files/media-download/Zalando_SE_Q3_2018_EN_0.pdf)
- 19 McKinsey estimate based on data from the Forrester Online Retail Forecast, Eastern Europe 2017-2022, PMR and Euromonitor International
- 20 McKinsey estimate based on data from multiple sources, including Forrester, PMR and Euromonitor International
- 21 For North & Western Europe, as well as Southern Europe, estimated market concentration in footwear based on the online fashion market