

McKinsey Apparel, Fashion & Luxury Group

A perfect storm for fashion marketplaces

In this virtual roundtable, European fashion executives discuss digital acceleration and the role of marketplaces in light of the COVID-19 crisis.



McKinsey conducted a virtual roundtable discussion with a panel of fashion industry executives as part of the ongoing Apparel, Fashion & Luxury COVID-19-response Webex series. Below, panelists share their views on how the fashion industry will likely evolve in light of the crisis and what it will take to navigate the next normal.

COVID-19 is, first and foremost, a human tragedy. As the global death toll rises, healthcare workers continue to risk their lives to combat the crisis on the frontlines. Solving this humanitarian challenge is, of course, the top priority, and much remains to be done globally to respond and recover.

In addition to the concern about the very real impact on human lives, businesses in every sector are grappling with an uncertain future while working to develop responses that best serve their vulnerable employees, customers, and suppliers—and the fashion marketplace industry is not immune.

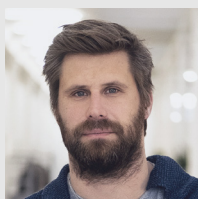
McKinsey's Apparel, Fashion & Luxury Group in Europe conducted a virtual roundtable discussion with European-based executives at leading digital fashion-related companies about their experience managing operations under lockdown. The panelists included Maximilian Bittner, Chief Executive Officer of Vestiaire Collective; Stefan Edl, head of Transformatio-
n Retail & Fashion

DACH at Facebook; Boris Ewenstein, SVP of Supply at Zalando; Stephanie Phair, Chief Customer Officer of Farfetch; and Albert Serrano, CEO of Veepee – a group representing a range of categories and segments – off-price players, luxury companies, social media, and digital-only marketplaces. The McKinsey team of Achim Berg, Karl-Hendrik Magnus, Antonio Gonzalo, Miriam Lobis, and Hanna Grabenhofer developed and guided the conversation and subsequent Q&A.

The panelists offer perspectives on the main difficulties they face, the measures that have proven most successful in mitigating the human and business impact of the virus, and how their operational emphasis has shifted at different stages of the pandemic.

They agree that the crisis has accelerated the use of digital and believe that the opportunities and paradigm shifts that have emerged will persevere post-crisis. Companies will communicate, engage, and interact with customers in new ways. At the same time, consumption is changing. Because consumers are looking for purpose and sustainability, a company's mission is becoming more important than ever. And because the next normal is here to stay, fashion companies must be ready to embrace innovation.

About the participants



Vestiaire Collective

Maximilian Bittner

Maximilian is a tech entrepreneur and the CEO of Vestiaire Collective, the leading global community-driven platform for desirable preowned fashion



facebook

Stefan Edl

Stefan serves fashion and retail companies as the Head of Transformational Retail & Fashion DACH at Facebook



zalando

Boris Ewenstein

Boris is the SVP of Supply at Zalando and a member of Zalando's executive team



FARFETCH

Stephanie Phair

Stephanie is the Chief Customer Officer of Farfetch and the current Chair of the British Fashion Council



Veepee

Albert Serrano

Albert is the CEO of Veepee (formerly vente-privee) in Spain, Europe's largest off-price shopping club

McKinsey: Let's start with an opening statement from each of you. You all occupy a unique position: closely connected with both consumers and brands and getting input from multiple sources. How have the past weeks played out for you?

Stephanie Phair (Farfetch)

Over the last four to six weeks we experienced an unprecedented series of events. This is foremost a humanitarian crisis and fashion is not at the top of consumers' minds – they are primarily worried about health. But recently they have been shopping for fashion again – whether as a pastime, passion, or way to have fun. And online players have seen that the demand curve is in line with the state of the crisis. At Farfetch we have been thinking about how we can manage this crisis in the short term and then move on to the long term. One thing we realized is that you have to go back to your mission. Why do you matter? What do you stand for? Sales should only be an outcome of the answers to these questions.

Boris Ewenstein (Zalando)

The next normal is that I'm talking to you from my daughter's bedroom. The situation has been a mix of shock and opportunities. In January/February we were looking at supply-side risks. How do we ensure that our logistics are functioning properly and that there is sufficient production and product to supply. Then it was March and the tide turned as we faced the issue of too much stock. It was a huge swing: from potentially having too little to having way too much. We saw a similar swing in terms of planning. Business performed as expected in January and February. In March, demand dried up. But after March 30, the landscape changed again. People who would have bought offline before are now moving into online. Of our 32 Million active customers as of March 31, 17 percent are new (year over year). We sold one million items just over Easter via our direct-to-consumer partner program, which is up more than 100 percent from last year. Similarly, new sign-ups to the Partner Program were up 150 percent from February to March.

There are shocks and opportunities for fashion players.

Albert Serrano (Veepee)

Everything is about people. In the beginning you want to understand how your people are doing and how you can support them. Our business is logistics-heavy and people were working in areas hit hard by the crisis. They were our first priority. Second, for an off-price business you need demand.

January and February were difficult for us but now business is doing well: we are getting more and more brands as they have a lot of stock – new customers, new offers. But there is a big question mark on how this will evolve.

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Maximilian Bittner (Vestiaire Collective)

For us, the shift started in January as we have business in Hong Kong. In the last four to five weeks it has intensified. It's an interesting time because we interact with consumers on both the buying and selling side. Consumer sales on our platform dropped during the first lockdown, but now that people have figured out the more important things they are buying again. And now sales are accelerating. We are 15 to 20 percent above February's level and experiencing record days. We see a similar pattern on the selling side. There are always two sides to the story, and the reselling side is much more serious right now as sellers are experiencing uncertainty and financial distress. In this situation they are happy that they can monetize their wardrobes.

On our platform we haven't talked about discounts but about community. People are passionate about belonging and togetherness. We started a series of charity sales with a range of profiles including Kate Moss to raise money, which were very successful.

We haven't talked about discounts but about community. People are passionate about belonging and togetherness.

Stefan Edl (Facebook)

I was surprised by how fast people adapted to working from home. High demand exists for digital insights and companies want to switch into our offered products faster. Usage is up a lot. Time spent on Instagram increased rapidly and the number of reviews went up as well. There is a clear shift to online shopping. Brands are innovative, examples include advertising for a client concierge service or selling directly via Facebook live.

McKinsey: What works in this next normal? How do you generate traffic and activate consumers?

Stephanie Phair (Farfetch)

What works is that people want authentic communi-

cation from the company. They want to buy from companies that have a mission. Farfetch refocused on its core values. We started the company after the financial crisis to bring together small companies who have a great curated assortment and should be given a broad audience. This mission statement could not be more important now. So we really highlight the human aspect and story. Fashion is the product, but it also takes the curator – by which I mean boutiques and brands (the creators) – to give the product meaning. The key points are storytelling, meaning, purpose.

People want authentic communication and to buy from companies with a mission. Farfetch is refocusing on its core values.

This approach is working and consumers have a broader mindset – including about shopping locally. They think about small retailers. Our partners need us to monetize their stock and tell their story. Flexibility in our business model has meant companies can operate through us. We are the business partner for them.

McKinsey: There are also special programs in place to support smaller retailers. What are their demands?

Stephanie Phair (Farfetch)

We serve independent retailers, larger retailers, brands. This is multifaceted. Our partners realize the power of our business model, especially in a time where they are unable to welcome their customers physically into their stores. COVID-19 could accelerate the shift to digital in luxury fashion. Now brands really want to find a great partner that works with them. Harrods went live on February 22 with Farfetch Platform Solutions, and, as they unfortunately cannot have their retail store open, this is a way they can still serve their customers. And there is something around innovation. If you are a technology business that is your DNA. There is a lot of demand for start-up innovation. Brands wonder how they can use technology to continue design. We link them to start-ups with 3D design, digital showrooms.

Thus, we help in two ways: direct to consumer and technology

Boris Ewenstein (Zalando)

First, social is a matter of not just channels, but tone of voice. Second, we really want to show support for brands and retailers during the crisis: we want to support all kinds of fashion brands, designers, and retailers suffering from the effects of the corona-

virus crisis and strengthen the diversity of the industry. That's why Zalando now offers immediate solutions to increase liquidity, clear overstock, and launch or expand direct-to-consumer business. For small to midsize partners we will push onsite visibility worth EUR 5 million via Zalando Marketing Services until the end of 2020 because we believe our partner program is the best way for smaller brands to put their creations in front of millions of customers. We took out loans to pay partners faster. We also have initiated measures for brick-and-mortar retailers to uphold parts of their business during the lockdowns. Until May 31, partners in the Connected Retail program can sell via the platform without paying commission fees. This led to around 35,000 items sold by brick-and-mortar stores over the Easter weekend alone. So far, we have connected over 1,500 offline shops to the Zalando platform. Over the past two weeks, we have received more than 160 requests from retailers to join the program, growing the Connected Retail network by more than 1,500 stores over the weeks to come. We are seeing our partner program accelerate through our direct-to-consumer offering. Since the beginning of the crisis we have seen existing partners expanding way quicker into more markets than initially agreed: the amount of countries to which brand partners have expanded has tripled.

McKinsey: What are some of the changes you're seeing as a result of the crisis?

Maximilian Bittner (Vestiaire Collective)

The point is not to just keep the consumption machine going. This event is changing our world and what people think is important. It's a wake-up call. Sustainability is becoming a bigger part of the decision-making process. People are more conscious of what they buy and what impact that product has – the ethical side is coming to the forefront. And the economic impact will be apparent. We haven't seen big price drops. But consumers might trade down as they did in 2008, when people shifted to cheaper food-shopping channels and never shifted back. We believe we can make a positive contribution because we are a selling machine that gives people the ability to monetize their wardrobes and connects people around the world to help them through this crisis.

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Albert Serrano (Veepee)

How are we differentiating ourselves? By going back to our core business. And off-price has always been our core. Brands are asking us to work in this area with them. While there might be a “discount war,” we think we have advantages in this world. The way you sell discount is much more important than just the sales themselves. There will be a lot of competition but also twice the stock, and we offer a place for players to deal with this situation.

Boris Ewenstein (Zalando)

With everyday life changing so significantly for most of us, we’re seeing a shift in customer demand and an increase in loungewear, skincare, and sports products. Yoga-wear sales have spiked over the past weeks, doubling last year’s sales within the same time period. The share of existing customers that have bought sportswear from us for the first time has also doubled compared to last year. In line with increasing demand in sportswear, Zalando has launched its first ever remotely produced marketing campaign, #TogetherIAmStrong, inspiring customers to stay active at home.

McKinsey: What are people thinking out there? When will consumers have an appetite for fashion again? When will consumer sentiment bounce back?

Stefan Edl (Facebook)

There already is an appetite. Some categories are growing: home wear, sports, casual. Businesses need to communicate in an authentic way. So the question is, how do you produce content? We recommend apps for this. How do you tell different stories? How do you use existing material? Recovery depends on how quickly businesses can adapt – and everyone should adapt. It’s important to set realistic expectations in terms of product delivery, product credibility, etc. You have to be customer-centric.

Recovery depends on how quickly businesses can adapt – and everybody has to.

McKinsey: Participants in this virtual roundtable have asked us a lot about discounting. We have done some analyses based on the MGFI (McKinsey Global Fashion Index) that show there will be around EUR 35 billion to 45 billion in overstock from the Spring/Summer 2020 season.

What levels of discounting will be required to get rid of this overstock?

**Discount acceleration**

Massive amounts of excess stock will drive players to offer steep discounts and raises questions about how to re-infuse products with value

EUR 35-45 billion

in excess stock from the Spring/Summer 2020 season

Stephanie Phair (Farfetch)

Obviously there is an inventory pile up right now, we remember 2008 and how big department stores had to use huge discounts back then. Right now, our boutique partners provide 25% discount on our site. Farfetch matches this by waiving 25 percent off our charge to boutiques to sell through our marketplace. But there are some systemic issues of what happens in fashion. Large uncontrolled wholesale players do not seem to work anymore. There are fundamental issues in the fashion ecosystem that this crisis is making us think about. Brands want to move into concessions (offline or online). They want to have more control. Consumers are motivated by price. And economic agents will reduce the price in response. But this opportunity should be used to rethink the fashion business: sustainability, no more overproduction. This opportunity to change the business should not go to waste.

This crisis is forcing us to think about fundamental issues in the fashion ecosystem.

Boris Ewenstein (Zalando)

Once stores open, discounts will likely be massive. We are trying to help our brands ease stock pressure now. Platforms are accelerating. We want to help bring our partners into the driver’s seat on their platform business. Our off-price channel Zalando

Lounge offers consignment deals and takes care of order fulfillment. We are also creating a dedicated sales event for partners that will take place at the beginning of May so that they can release some of their immediate stock pressure.

Once stores open, discounts will likely be massive.

McKinsey: Let's talk about marketing budget. Is this the time to increase it or to invest instead?

Stefan Edl (Facebook)

It depends on the brand. But generally, yes, it's the time to invest – in your brand and your e-commerce marketing. Don't neglect measuring the right KPIs, and make use of automation. Having systems in place provides these opportunities and companies should make sure that they set the right targets for campaigns.

McKinsey: McKinsey: Our analyses show from April to September, 35 to 40 percent of all sales will take place online. But the question arises: Is digital here to stay? And looking further in the future, when will we have the first normal season again?



Digital push

Digital push required as consumers grow increasingly used to online and social channels, which recover faster than offline

35 to 40%

of all sales for the next six months will take place online

Stephanie Phair (Farfetch)

Is digital here to stay? Absolutely. It was growing already and this will likely accelerate it. I don't think we will go back to normal and hope we don't miss this opportunity to use consumer feedback to move the industry in the right direction and fulfill our missions.

Boris Ewenstein (Zalando)

I'm very excited about our completely new partners but also about customers who have never shopped with us or even shopped online before. People have said that our brand is geared toward younger shoppers, but this perception is now changing.

Normality for the industry's mega-winners might arrive in Spring/Summer 2021, bringing them a more normal, plannable future. For smaller players it's more difficult.

Albert Serrano (Veepee)

It's important to understand that the fashion industry is full of small brands and many will not survive, especially in countries where the market is not big enough. In Southern Europe, digital is not as big as it is elsewhere. The idea of going back to normal there will be different and there will be fewer brands.

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Maximilian Bittner (Vestiaire Collective)

A world where my parents, who are in their 70s, are asking to have Zoom chats with their grandchildren is a crash course in digitization. And once you've made new habits, they are hard to break. Are things going back to normal? I don't know what normal is. 'Will we be able to travel internationally in the coming months? Will Chinese tourists come to Paris in the next six, ten, or twelve months? I doubt it. The new normal will be different.

Stefan Edl (Facebook)

More digital is a definite. People will also change their behavior and be more mindful about traveling, etc. But I'm looking forward to innovation: things are speeding up and companies are very open to developing new solutions.

When will we go back to normal? I hope it will be mid-2021, at least for Germany. Across the globe we will see.

Summary of key lessons and best practices for thriving in the new normal:

- Focus on and **reemphasize your company's mission**. Consumers are looking for purpose in this world of uncertainty. Staying true to who you are as a brand is authentic and infuses your products with value.
- **Accelerate digital change**. Consumer behavior will likely change in the long term, and online and social channels will pick up momentum even directly after the immediate COVID-19 crisis. It is important to reevaluate your company's digital positioning, grow opportunities, invest in marketing, and find strong collaboration partners.
- **Reinfuse value in your products** and avoid steep discounting through innovative approaches like upcycling, reusing items for different seasons, or using discreet off-price channels.
- **Push your company's sustainability goals** further as consumers are developing a heightened sense of environmental goals as we come out of the crisis.
- Use this opportunity to **reimagine what the fashion life cycle should look like** in terms of speed, overproduction, and consumption to change things for the better.



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