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Six vectors of success in online fashion

The United Kingdom has been the battleground and a major source of innovation for fashion e-commerce. Our research offers a glimpse into the "new fundamentals" that are creating long-term winners in online retail.

by Anita Balchandani, Benjamin Lau, Hai-Ly Nguyen, and Bogdan Toma

Few industries will look back at 2020 with enthusiasm, and the UK fashion industry is no exception. UK retailers have faced intense pressure during the COVID-19 pandemic as a result of unprecedented store closings and stay-at-home mandates. Still, amid the clouds, there is a silver lining: digital demand has soared, with some companies achieving years of progress in just a few months. As fashion leaders seek to consolidate those gains, they must find a formula that keeps digital customers engaged for the longer term.

Worldwide, 71 percent of fashion executives expect their online businesses to grow by more than 20 percent in 2021, which is close to the record-breaking pace set in 2020. In the relatively advanced UK market, online penetration reached 75 percent in 2020 and is likely to climb to 85 percent over the coming period, a recent survey conducted by McKinsey and Dynata shows.[1]
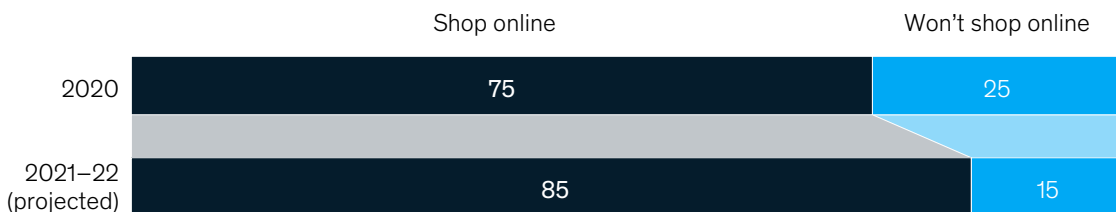
More than a quarter of UK adults first shopped for fashion digitally during the pandemic, and around one in six made apparel purchases at least once. The great news for brands and digital platforms is that once people try e-commerce, they tend to be loyal to it: irrespective of their ages, online shoppers allocate around 60 percent of their budgets to online purchases, either via home delivery or click and collect (Exhibit 1). Moreover, about one-third say they will shop online more in future.

Not surprisingly, digital channels are most popular among the younger cohorts. Some 90 percent of UK consumers under 34 have shopped for fashion online in the past 12 months. But the "silver surfers" are not far behind: among the over-65 shopping cohort, around 64 percent say they are comfortable with online purchases. Across all age groups, the average online spend as a proportion of the total spend is 55 to 65 percent.
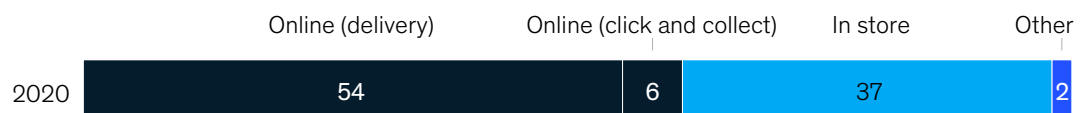
Exhibit 1

Online penetration for the UK apparel and fashion industry is high, and continued growth is expected.

Current and projected share who shop online, %[1]

	Shop online	Won't shop online
2020	75	25
2021–22 (projected)	85	15

Share of spending, %[1]

	Online (delivery)	Online (click and collect)	In store	Other
2020	54	6	37	2

[1]Figures are based on consumer data and may not match actual retail-sales records due to consumers' memories.
Source: McKinsey and Dynata AF&L market research, Oct 2020, n = 2,642

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[1] McKinsey and Dynata apparel, fashion, and luxury market research survey of 2,642 respondents in the United Kingdom, conducted October 2020.

Among the key fashion categories, athletic apparel and loungewear have proved most popular over the past year, reflecting the global trend toward athleisure and the impact of the pandemic on consumers' lifestyles (Exhibit 2). Accessories such as handbags and belts have also seen rising demand. Again, the trajectory is positive, with a large proportion of shoppers expecting to spend the same or more on these categories in the future. Indeed, a significant number of those who have never shopped online say they will consider it going forward, including some 54 percent in the athletic-apparel category.

Behaviours that started before 2020 have become an established, even dominant, preference. This suggests a secular shift in shopping patterns as the most likely scenario in the wake of the pandemic. We expect e-commerce to account for 50 percent of the UK market by 2022, compared with 35 percent at present. UK retail across all channels, however, may not recover until the second quarter of 2023. This contrast of a slow aggregate recovery and rapidly accelerating demand for e-commerce suggests that players should think carefully about their growth strategies for the coming period.

The new fundamentals

Across the fashion landscape, retailers are investing time and money to enhance their digital platforms and develop their online strategies. From shoppable live streaming to direct checkouts on social-media platforms, digital pioneers are finding new ways to excite and engage their customers. Against this backdrop, the results of our survey may challenge some common orthodoxies regarding shopper intent.
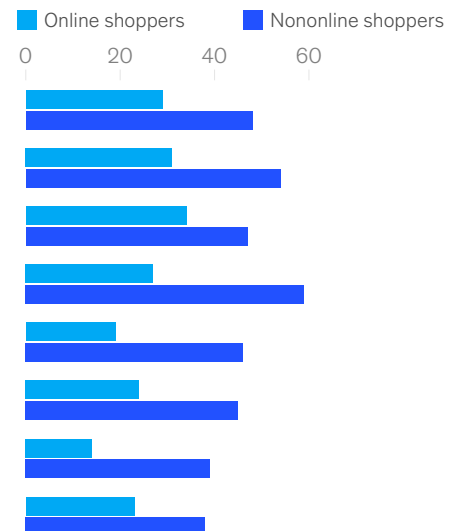
Exhibit 2

Athletic apparel and loungewear have outperformed in the United Kingdom.

Items people shop for online,
% of respondents[1]
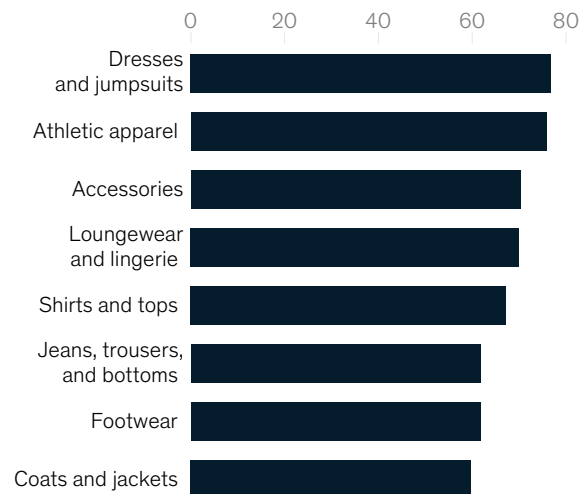
Shoppers considering buying more online,
% of respondents[1]

■ Online shoppers   ■ Nononline shoppers

[1]Figures are based on consumer data and may not match actual retail-sales records due to consumers' memories.
Source: McKinsey and Dynata AF&L market research, Oct 2020, n = 2,642

Customers value high-quality digital interactions and appreciate innovation, the survey shows. However, these are not the only, or even most important, factors that influence shopping decisions. Customers' highest priorities, in fact, go to the basics of retailing (Exhibit 3). They want to buy items that are fit for purpose, offer value for money, and are appealing. They favour retailers that consistently stock the right sizes and offer an efficient delivery proposition, as well as offer reliable product information and relevant website content. Customers do not necessarily need to get the lowest price. But they *do* want the best value—whether shopping for everyday items or luxury goods. These are the qualities, the survey shows, that inspire customer loyalty.

As fashion consumers become more accustomed to e-commerce, the bar has risen on the fundamentals. In response, decision makers must ramp up their capabilities with respect to four key pillars:

Discovery. Customers want brands to stay in touch via interesting news and offers and provide timely and relevant online advertisements. They value attractive, easy-to-use apps and downloads.

Exhibit 3

UK consumers care most about the fundamentals of retail.

What consumers care most about, listed by order of importance

▌Most important

Discover	Browse	Purchase	Experience
▌The brand sends me interesting news and offers	▌The product content appeals to me	▌The best value for the money	▌The delivery exceeds expectations
▌The online advertisements are relevant to me	▌Relevant product recommendations are available	▌Always has products in my size	Easy-to-return products
The app is attractive	Interesting news and trends	▌Has a selection of my favourite brands	Easy-to-exchange products
The app is easy to download	Useful reviews	▌Products I need are in stock	Attractive loyalty program
	Personalized recommendations	▌Offers the most attractive discounts/promotions	The marketing newsletter has an easy signup
	Can compare products	Products are of great quality	The loyalty program has an easy signup
	Easy to navigate, search, and browse	Exclusive products	The retailer offers additional services (eg, alterations, wrapping)
		Offers personalized promotions	
		The delivery is free/cheap	
		Offers a range of delivery options	
		The retailer has the lowest prices	
		It is easy to make a payment	

Source: McKinsey and Dynata AF&L market research, Oct 2020, n = 2,642

Browsing. Features cited as important include appealing product content and relevant recommendations. Again, interesting news and perspectives are rated as desirable, alongside personalized recommendations, comparison functionality, and simple searches.

Purchasing. Customer priorities are focused on value for money, accurate sizing, a selection of brands and products, and considerable discounts. The tried-and-tested characteristics of quality, exclusivity, and simplicity in the purchasing process go a long way toward making shoppers happy.

Experience. Seamless delivery is a highly rated attribute, and customers value being able to return or exchange products easily. Loyalty programs are perceived positively, as are newsletters with simple signups.

UK retailers that consistently achieve high Net Promoter Scores (NPS) for their digital offerings tend to outperform on basic needs. These include visibility, ease of navigation, availability, value, and excellence in delivery. Top performers that inspire an intention to buy more include Adidas, ASOS, Amazon, John Lewis, M&S, Next, and Nike. And the good news for retailers more broadly is that there is no one-size-fits-all model for achieving high ratings. Companies that lead on meeting customer needs come in all shapes and sizes, from pure play to omnichannel and from multicategory to single category. Some platform offerings are among the elite group in terms of NPS scores, while others are not. Still, very few companies are top performers through the entire customer journey; it is much more likely for a company to achieve top ratings at some stages but not at others. One leading retailer, for example, scores highly on its ability to facilitate purchasing but not on repeat purchases. Another, conversely, struggles to grab customers' attention but sees high levels of repeat purchasing once it has done so.

Looking forward: Six vectors to stand out

In an era of digital disruption, there is a natural inclination to outsmart the opposition and break new ground. However, as they pursue these objectives, retailers should remember that customers are not focused solely on innovation. Indeed, consumers continue to place high value on traditional qualities such as reliability, value, and excellent service. With that in mind, we see six themes to aid retailers' in executing an e-commerce strategy as the digital bandwagon rolls onward.

1. *Reinforce the value-for-money proposition.* Because online consumers find it easier to compare prices across fashion categories and brands, focus on finding the right price points and assuring customers that they are getting excellent value (although not necessarily the lowest prices). Amazon, boohoo, and H&M score highly on these attributes, our survey shows.

2. *Curate intelligently.* Invest in cutting-edge segmentation techniques to ensure that your assortment will appeal to your target groups as their needs evolve over time. Leverage advanced analytics, as well as internal and external data, to generate deep insights into customer priorities and behaviours and to create tailored responses. Among companies seen as leaders in this space are Amazon, ASOS, JD Sports, John Lewis, and Nike.

3. *Balance inventory and availability.* Interrogate data to more effectively manage availability and visibility. Direct customers to where there is stock and redirect them when stock is unavailable. Analytics can play a key role in monitoring and predicting: if something is not immediately available, let customers know and make contact when it is back in stock. Top of the class in this area are Amazon, boohoo, and Nike.

4. *Stay connected.* Forge ever-closer partnerships with your customers, leveraging omnichannel engagement, nudges, and fresh ideas. However, don't be indiscriminate. Ensure that content is relevant to the individual and, based on the current circumstances, timely. Amazon, ASOS, and boohoo are rated highly in this area.

5. *Design websites purposefully.* Outstanding content goes a long way toward inspiring purchasing decisions. Prioritize great photography and sharp copy, and don't let ideas go stale. Companies cited as leaders in this regard include Amazon, ASOS, and John Lewis.

6. *Get it right on the road.* Logistics are a key element of e-commerce business models and a significant driver of costs. Put more emphasis on guaranteeing that deliveries are speedy, on time, and reliable. And ensure plans are in place for when things go wrong. Leaders in this area include Amazon, John Lewis, and Next.

In the wake of the COVID-19 pandemic, there is an opportunity for fashion companies to accelerate their recovery by excelling in digital. However, amid a myriad of opportunities, it is worth remembering a maxim that holds as true now as always: few businesses fail by delivering the fundamentals well.

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