



The State of Fashion 2026

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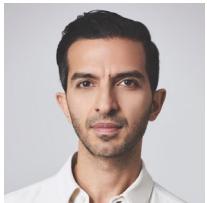
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EXECUTIVE SUMMARY

When the Rules Change

As fashion executives look ahead to 2026, they are contending with a fundamentally new reality. US tariffs have redrawn trade maps and forced brands and their suppliers to rapidly adjust and adapt. Consumers continue to rethink their spending, seeking value and devoting more of their budgets to other goals, including their own health and wellbeing. The swift onset of AI, meanwhile, means fashion leaders are navigating a rapidly changing technological landscape.

While the ongoing disruptions may feel daunting, they are in fact part of a wider set of longer-term systemic shifts. *The Business of Fashion* and McKinsey have been tracking global economic dislocations, shifting consumer preferences and changes to the fashion system in *The State of Fashion* reports for 10 years now. The publication of our first report in 2016 coincided with the Brexit vote in the UK and the first election of Donald Trump. Since then, we have examined the impact of a once-in-a-generation pandemic, global supply chain upheaval and the industry's track record on sustainability, among many other macro themes.

Whereas in previous years fashion leaders facing the volatility of global affairs were uncertain about what lay ahead, now they seem to have accepted

that constant change is simply the new normal. “Challenging” has overtaken “uncertainty” as the word executives polled in the annual BoF-McKinsey State of Fashion Executive Survey used most frequently to describe the industry in 2026, with tariffs cited as the number one hurdle.

Perhaps unsurprisingly, then, many leaders are feeling pessimistic and are not expecting an easy road ahead. This year, 46 percent say they expect conditions to worsen in 2026, compared with 39 percent in last year’s survey. By geography, 36 percent view North America as unpromising or very unpromising, double last year’s share.

But not everyone is so downbeat. Among those polled, 25 percent believe industry conditions will improve, up from 20 percent in 2025, suggesting some players see pockets of opportunity. Sentiment towards China is finally picking up, even as conditions remain difficult: 28 percent view the market there as unpromising in 2026, down from 41 percent heading into 2025.

The industry’s main agenda in 2026 will be adapting to this new environment where trade, consumer behaviour and technology remain in rapid flux. Agile brands that can adapt quickly are likely to emerge as the winners.

Harnessing Artificial Intelligence

With turbulent conditions including volatile input costs, supply chain disruptions and slow growth straining fashion’s economic model, AI is shifting from a competitive edge to a business necessity. Companies are reshaping workforces accordingly, with some existing jobs becoming more AI-centric, enabling roles to shift towards higher-value creative and analytical tasks.

To harness this technological change, companies must redesign their processes and compete for AI talent – looking beyond the fashion ecosystem to find it – while protecting the essential creativity that makes fashion tick. Business leaders must shift their focus from small pilots and experiments that can only deliver incremental change towards a more fundamental reassessment of how their organisations work. And while still nascent, agentic AI is reshaping how people work and collaborate, so fashion companies will need to figure out how they can harness this emerging technology too.

AI is also transforming how people shop. Customers are turning to large language models to search for products, compare offerings and receive tailored recommendations. Some are already using AI as style and wardrobe consultants, seeking advice on what to buy and where to buy it, making



fashion brands' presence in AI chatbot responses the new SEO. These dynamics will only grow more pronounced as agentic commerce accelerates in the second half of the decade.

New Customer Priorities, New Competitors
Fostering customer loyalty is emerging as an important frontline in the battle for customers, with more than half of executives citing retention strategies as a key theme shaping the industry in 2026.

To retain – and attract – customers, brands will need to give them what they want, and increasingly that means offering value. While luxury players raised prices without corresponding improvements in product quality or creativity, design-led brands in the mid-market elevated their products and store experiences. Now, the mid-market is the fastest-growing segment, replacing luxury as fashion's main value creator.

Jewellery has also thrived as fashion brands hiked prices faster. Strong volume demand in jewellery is expected through 2028, driven by consumers' desire for lasting investments and self-expression alongside a rise in self-gifting among both men and women. Meanwhile, smart eyewear that blends fashion and technology has become the fastest-

growing accessory category, with further product launches expected in 2026.

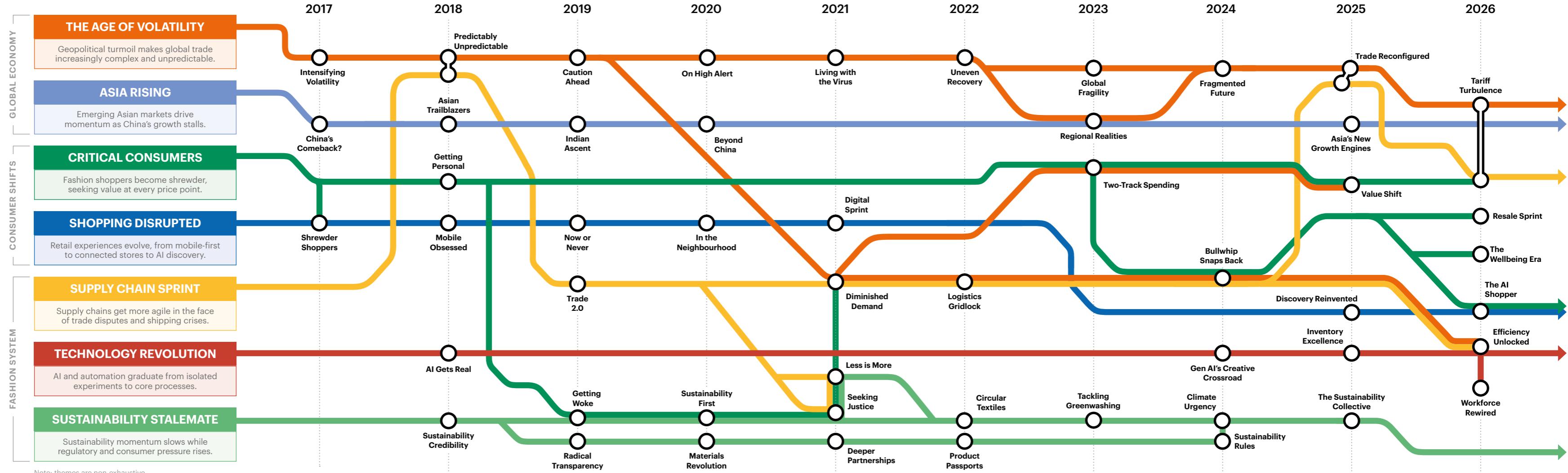
To revive growth, luxury is now embarking on a period of reinvention as several of the largest luxury houses welcomed new creative directors in the year through September 2025. But it may not be enough. High prices remain a significant hurdle for aspirational customers, and anyway, more and more would-be luxury shoppers are focusing on their personal wellness: body, mind and health – a trend we first called out in 2017.

In the end, 2026 will inevitably be yet another year of dislocation for fashion companies. In a flat market, only those companies that capture the hearts and minds of customers will manage to grow and gain market share.

Are you ready?

"The Business of Fashion and McKinsey have been tracking global economic dislocations, shifting consumer preferences and changes to the fashion system in The State of Fashion reports for 10 years now."

10 Years of The State of Fashion



Industry Outlook

A Difficult Road Ahead



Executives brace for challenges as concerns over consumer confidence remain

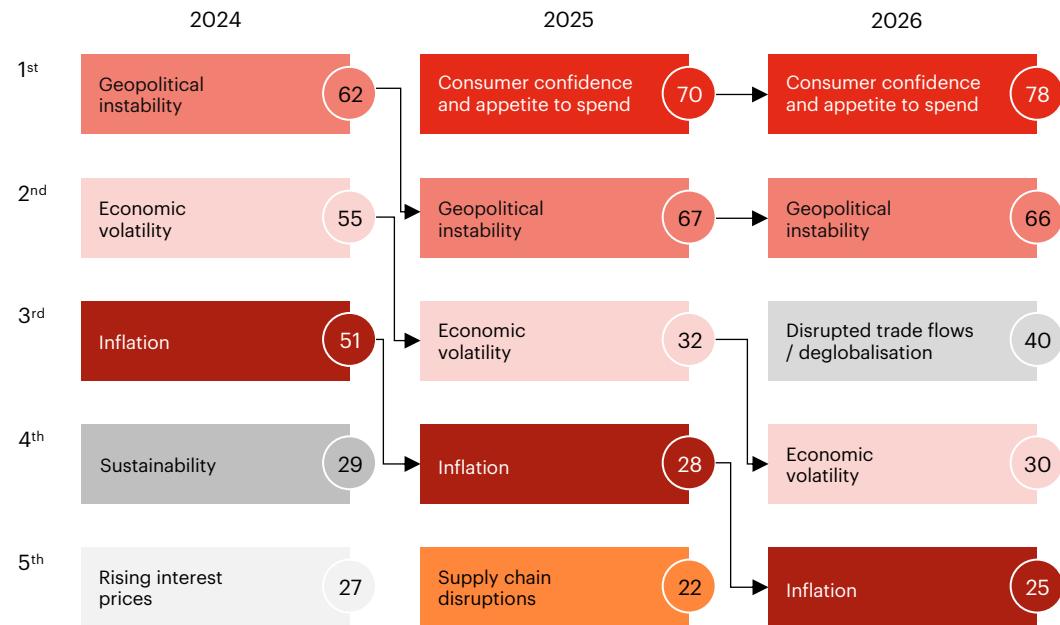
Looking ahead to 2026, the word most frequently used to describe expected conditions in the fashion industry is “challenging,” surpassing “uncertainty” which was most common in 2024 and 2025.^{1,2,3}

As a result, the industry outlook for 2026 remains generally downbeat. Forty-six percent of executives expect industry conditions to worsen, an increase of 8 percentage points (%points) over the previous year. However, expectations have also become more polarised, as 25 percent also foresee industry conditions improving – a 5%point increase.^{1,2}

Overall, the key reasons for concern remain broadly consistent with last year – nearly eight in 10 executives cite consumer confidence and appetite to spend as the top risk to industry growth.¹ This is closely tied to geopolitical instability, with broader macroeconomic conditions continuing to make consumer behaviour more unpredictable.

More so than in previous years, disrupted trade flows and deglobalisation are weighing heavily on executives as they look ahead to 2026. Forty percent of leaders cite this as one of their top three risks (up 25%points from last year),^{1,2} largely driven by new tariffs that are reshaping supply chains and raising input costs.

Question: What aspects of the global economy do you expect will be the greatest risks to growth in the fashion industry in [year]? Select three, %

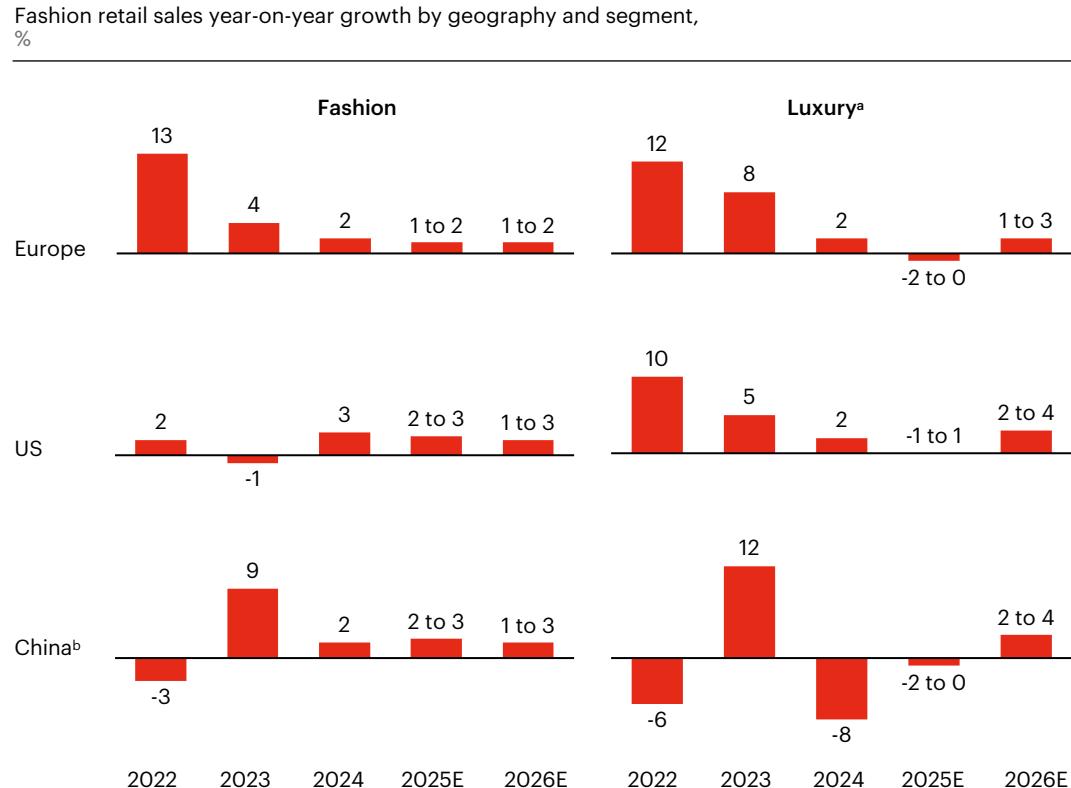


Source: BoF-McKinsey State of Fashion Executive Survey 2024, 2025 and 2026

Industry growth is expected to remain low as macroeconomic uncertainty persists

McKinsey's Fashion Growth Forecasts predict the global fashion industry will once again post low single-digit growth in 2026.⁴ Heightened macroeconomic volatility is expected to continue to weigh on sentiment and drive value-conscious consumer behaviour. Consumer sentiment has been especially challenged in the US in 2025. In April, the consumer confidence index hit its lowest level since May 2020 amid tariff announcements,⁵ with overall US industry growth expected to fall short of last year's forecast for 2025.⁶

The luxury segment is projected to see modest improvements across markets after a difficult 2025, supported by a flurry of creative resets fashion leaders hope will inject excitement into the industry.⁷



a. Excludes domestic unbranded and branded jewellery

b. Mainland China (excl. Hong Kong and Taiwan)

Note: Growth rate forecasts are calculated on actuals converted to USD on fixed 2024 exchange rates

Source: McKinsey Fashion Growth Forecasts 2026

Luxury is expected to improve modestly, while the fashion segment maintains low single digit growth

Fashion growth drivers	2026E market growth ⁴	Luxury growth drivers ^a	2026E market growth ⁴
Europe 2026E GDP growth ⁸ +1.4%	<ul style="list-style-type: none"> GDP growth is expected to remain steady in 2026,⁸ underpinned by a resilient labour market with stable unemployment rates.⁹ Disposable incomes are expected to grow slightly faster than 2025,¹⁰ with inflation easing from 3.3 percent to 2.5 percent.⁸ Consumers are expected to remain cautious, with over 60 percent of consumers planning to trade down in Q4 2025.¹¹ 	+1-2%	+1-3%
US 2026E GDP growth ⁸ +2.1%	<ul style="list-style-type: none"> The first full year of tariffs is set to intensify price pressures relative to 2025, with rising prices the top concern for US consumers.¹² After a slowdown in GDP growth and an almost-four-year unemployment high in August 2025,¹³ GDP growth is set to stay low in 2026.⁸ Uncertainty remains around further Fed rate cuts. Consumer sentiment is still cautious, with confidence down by 3.6%points in September 2025 and ongoing uncertainty expected to weigh on sentiment into 2026.¹⁴ 	+1-3%	+2-4%
China^b 2026E GDP growth ⁸ +4.2%	<ul style="list-style-type: none"> GDP growth is projected to slow in 2026,⁸ with disposable income growth also expected to fall below 2024 and 2025 levels.¹⁰ With the real estate market still weighing on sentiment, consumer confidence remains subdued and saving rates elevated.¹⁵ Category performance is mixed: Sportswear sales are up 9 percent in 2025¹⁶ driven by casualisation and focus on health and wellbeing, while the wider apparel market remains muted. 	+1-3%	+2-4%

a. Excludes domestic unbranded and branded jewellery

b. Mainland China (excl. Hong Kong and Taiwan)

c. Affluent households defined as annual household income above 180,000 RMB (2025 price)

Fashion executives expect to increase prices more than last year

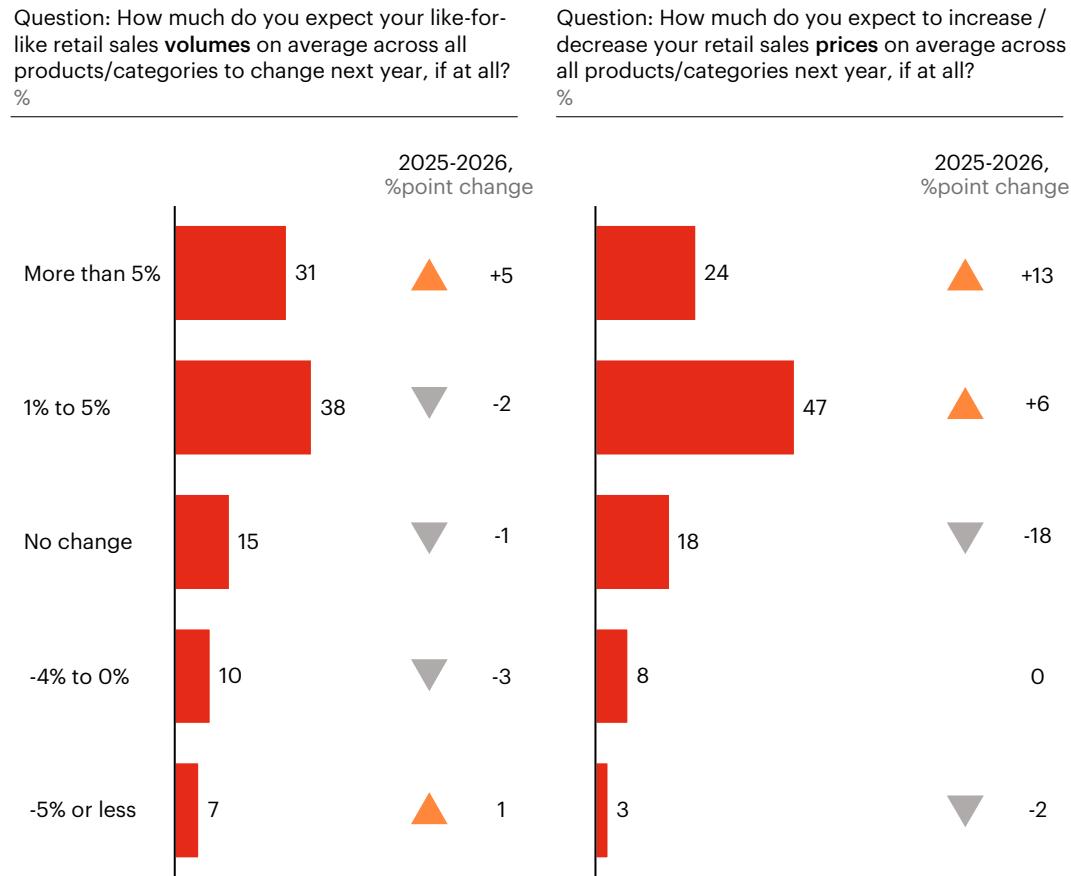
In 2026, nearly three-quarters of executives expect to raise prices — a 19-point increase from 2025.¹² In the fashion segment, 26 percent plan to increase prices by more than 5 percent, compared with 18 percent in the luxury segment, where growth has largely been price-driven in recent years.¹

Regionally, North American executives expect to increase prices the most, with 45 percent planning to raise them by more than 5 percent in an effort to offset tariff-driven input cost increases.¹

Reflecting this, nearly one-quarter of executives in North America anticipate their cost of goods sold (COGS) will increase by more than 9 percent.¹ Expectations of cost increases remain elevated across regions: Excluding North America, 11 percent of executives anticipate COGS to increase by more than 9 percent, compared to just 3 percent in 2025.¹²

As these pressures persist, executives are focussing more on efficiency. In 2026, 69 percent plan to prioritise sales growth over cost improvements, down from 73 percent in the previous year.¹² While top-line growth remains a key focus, the growing emphasis on cost management underscores recognition of higher costs and the need to improve productivity to protect margins.

Question: How much do you expect your like-for-like retail sales **volumes** on average across all products/categories to change next year, if at all? %



Source: BoF-McKinsey State of Fashion Executive Survey 2025 and 2026

Leaders say AI and digital tools will present the biggest opportunity for the industry in 2026

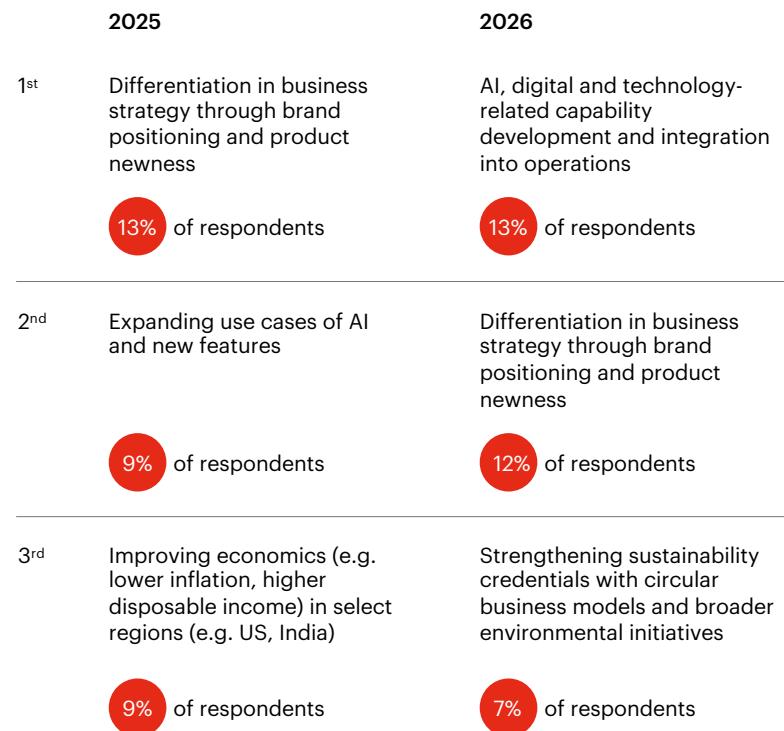
Using AI to manage cost pressures and future-proof growth: Executives identify scaling AI and related digital capabilities as the single biggest opportunity for 2026.¹ To date, most applications have focused on siloed tasks such as copywriting, image generation and customer service. However, leaders are now looking to integrate AI across their businesses. The fashion industry has historically trailed other sectors in adopting AI,²⁸ highlighting the need for the right organisational structure and skills to capture the full potential of AI-driven innovation.

Keeping differentiation front of mind: Executives continue to emphasise the need for a distinctive value proposition rooted in creativity and innovation.¹ Given concerns around the unpredictability of consumer behaviour, this reflects an imperative for brands to differentiate to drive relevance.

Integrating sustainability into the business model: Executives are once again looking to sustainable practices as an opportunity to improve operations and meet consumer expectations. Circular approaches, including resale, were highlighted as areas where executives see potential to create value.¹

Navigating economic uncertainty: Executives no longer consider improved economic conditions in key markets among their top opportunities. Instead, leaders are focussing on building greater resilience through improving their own business operations and differentiating their offerings.

Question: What do you think will be the single biggest opportunity for the fashion industry in [year]?

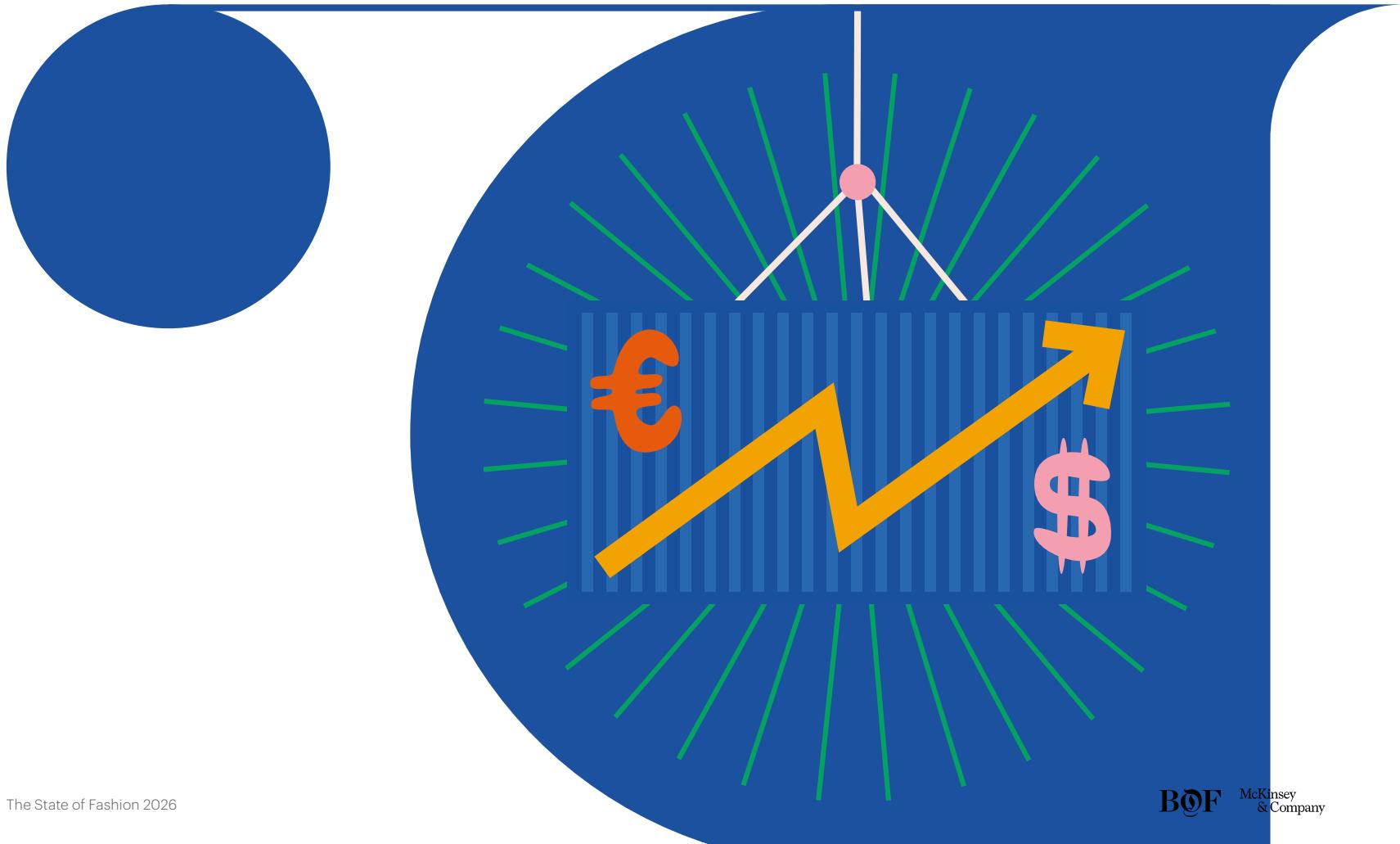


Source: BoF-McKinsey State of Fashion Executive Survey 2025 and 2026

The State of Fashion 2026

GLOBAL ECONOMY		CONSUMER SHIFTS			FASHION SYSTEM				
01. Tariff Turbulence	02. Workforce Rewired	03. The AI Shopper	04. Jewellery Sparkles	05. Smart Frames	06. The Wellbeing Era	07. Efficiency Unlocked	08. Resale Sprint	09. The Elevation Game	10. Luxury Recalibrated
US tariffs are reshaping global trade as higher duties push up costs across the value chain, heavily impacting fashion. Brands are making price changes, shifting sourcing and improving efficiency in a bid to counteract the impact. Larger suppliers are pursuing footprint optimisation, digitisation and automation, while smaller players face mounting pressure. Agility will be the defining factor enabling brands and suppliers to maintain their competitive edge.	Technology is changing workforces globally. Artificial intelligence investments are set to drive productivity, meaning some existing positions will become AI-centric and new roles will emerge. Fashion leaders must prioritise upskilling their workforces and acquiring new talent to stay competitive. Strong change management will be critical to capture AI's full potential.	Artificial intelligence is already disrupting how consumers discover fashion. In the years ahead, autonomous AI shopping agents may even act on their behalf, completing tasks from monitoring prices to buying products. To ensure their products are visible – and favoured by – AI models, brands must rethink their digital marketing and e-commerce infrastructure, where semantically rich data and API-accessible content will be critical to success.	With unit sales growth outpacing all other fashion categories, jewellery's bright moment is set to continue into 2026. Having defied the broader luxury slowdown, the category will keep reaping the rewards of a growing customer base with a desire for long-lasting investments, self-expression and treating themselves. As jewellery cements its role as accessories centrepiece, fashion players will seek to capture their share of the category's outsized growth.	Style-conscious devices equipped with multi-modal AI are set to redefine the wearables landscape in 2026, with smart eyewear emerging as a leading format. Major players already have product launches scheduled, reflecting strong market momentum. With the category projected to exceed \$30 billion by 2030, brands have a timely opportunity to partner with technology leaders to unlock high-value consumer use cases and accelerate adoption.	Wellbeing is becoming central to how consumers live, spend and define themselves. As they tire of attention-grabbing content, they are drawn to brands that reflect their shifting identities and offer them emotional connections. Fashion brands are responding by entering wellbeing-adjacent "third spaces," but further opportunity lies in integrating these shifting priorities more holistically across the brand universe.	In a challenging fashion market, companies must become more efficient to drive growth. Old advantages like scale and low-cost sourcing are no longer sufficient to sustain a healthy economic model. By taking advantage of new technology, businesses can improve productivity to reduce costs, unlocking resources to invest in differentiators that enable growth.	Customers are spending more on secondhand fashion in the search for value as prices continue to rise in the primary market. Marketplaces have made shopping secondhand mainstream, but brands must now define resale strategies of their own. While operational hurdles remain, the lure of untapped revenue will make resale an increasingly attractive way to bolster business models and brand perception.	From the value segment up to affordable luxury, fashion brands are moving upmarket. Some want to differentiate from ultra-low-cost competitors, while others aim to capture the former high-end shopper squeezed out by luxury prices. With margins under pressure and competition intensifying in 2026, these elevation strategies will gain new urgency. Product quality and standout experiences could help brands upgrade their positioning.	The luxury slowdown is prompting a phase of strategic recalibration. Brands are reducing their reliance on price-led growth and refocusing on creativity and craftsmanship to rebuild client trust. This recalibration calls for brands to balance the needs of distinct customer segments and integrate product, storytelling and client experience into a cohesive expression of brand value.
 76% 76 percent of fashion executives say trade disruptions and rising duties will impact the industry in 2026	 ~1/3 By 2030, around one third of employee time across industries could be automated by generative AI and other technologies in Europe and the US	 53% 53 percent of US consumers who used AI for search in Q2 2025 also used it to help them shop	 4x Jewellery unit sales are expected to grow 4.1 percent annually between 2025 and 2028 – four times the rate of clothing	 +9% Wearables are set to grow 9 percent annually to 2028, with smart glasses gaining traction amid several new product launches	 84% 84 percent of US consumers say wellness is a top or important priority in their day-to-day lives in 2024, rising to 94 percent in China	 2nd Fashion executives say changing margin, cost and cash strategies will be the second most-important theme to shape the industry in 2026	 2-3x The secondhand fashion and luxury market is set to grow two to three times faster than the first-hand market through to 2027	 15-25% Value brands such as Bershka and H&M reduced the SKUs in their lowest price tiers in the UK by 15 to 25 percent between 2023 and 2025	 No. 1 The top reported attribute that ultra-high-net-worth customers say epitomises luxury is "expertise and quality"

01. Tariff Turbulence



01. Tariff Turbulence US tariffs are reshaping global trade as higher duties push up costs across the value chain, heavily impacting fashion. Brands are making price changes, shifting sourcing and improving efficiency in a bid to counteract the impact. Larger suppliers are pursuing footprint optimisation, digitisation and automation, while smaller players face mounting pressure. Agility will be the defining factor enabling brands and suppliers to maintain their competitive edge.

KEY INSIGHTS

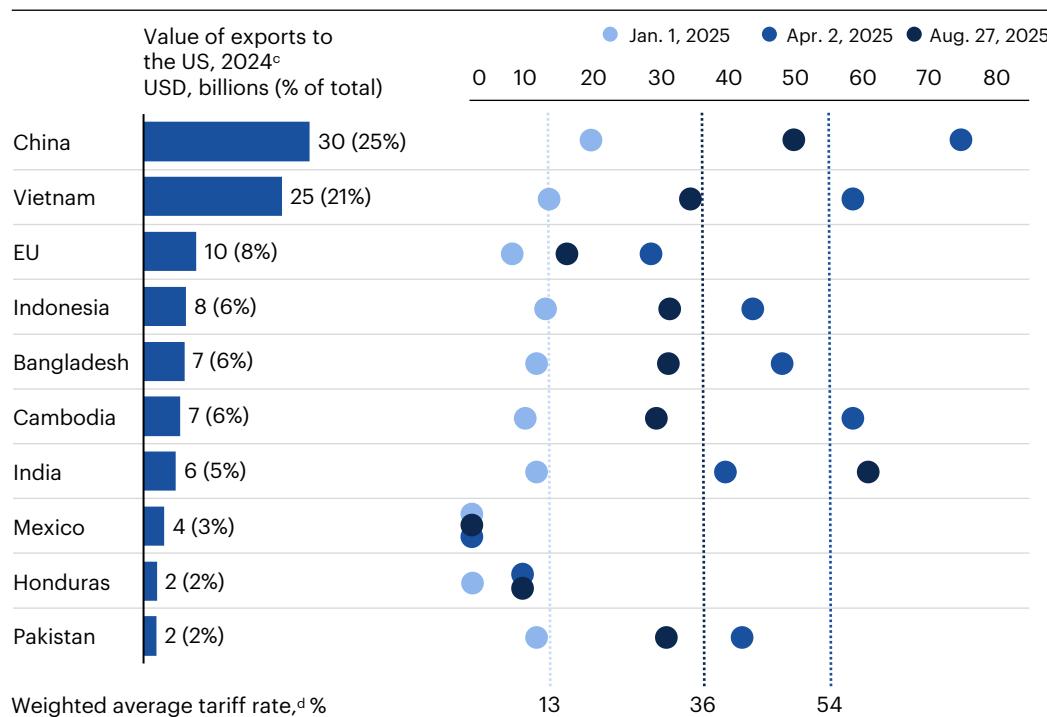
- The weighted average of tariffs on apparel and footwear imports to the US spiked from 13 percent to 54 percent in spring 2025 before easing to 36 percent at the time of writing in mid-October — still well above historical norms.
- 76 percent of fashion executives say trade disruptions and rising duties will shape the industry in 2026.
- US apparel and footwear imports from Cambodia have increased 42 percent between 2019 and 2024, while imports from China have declined by 30 percent.

EXECUTIVE PRIORITIES

- Brands should base price adjustments on consumer reactions and competitor moves, while strengthening their value-for-money proposition.
- Suppliers should improve agility by prioritising productivity gains through lean manufacturing and targeted technology investments.
- Doubling down on the most strategic partnerships will be as critical as having a diversified customer and supplier base. In a volatile trade environment, stability will depend on partnerships built on collaboration.

US tariffs have emerged as a defining force in global trade

Top sources of apparel and footwear imports into the US and their trade-weighted tariff rates,^{a,b}
%



a. Including the following commodities: woven, leather, circular and flat-knit apparel and accessories as well as footwear
b. Jan. 1, 2025 reflects tariff levels prior to the US tariff announcements; Apr. 2, 2025 marks the first wave of measures introduced by the US administration; and Aug. 27, 2025 represents the most recent tariff levels available at the time of writing in mid-October

c. Export data based on country of origin, unless there is a substantial change at the location of a transshipment

d. Weighted average across the top 10 importers listed here

Source: MGI Global Trade Dispute Database, World Bank

In 2025, the US government introduced expansive new import duties. Since the US imports 89 percent of apparel and leather products sold in the country, those sectors are among the most impacted.¹ Trading partners have responded with countermeasures, leaving global supply chains in flux.

The most significant impact occurred during the 90-day implementation period following the April 2025 announcement, when apparel and footwear tariffs spiked from 13 to 54 percent.² Some tariffs were later reversed, but as of mid-October, the weighted average tariff rate for apparel and footwear from the top 10 importers stood at 36 percent – well above the industry-wide average of 17 percent for US exports.² Considerable uncertainty around tariff rates persists, with potential hikes in China's import duties on the horizon.

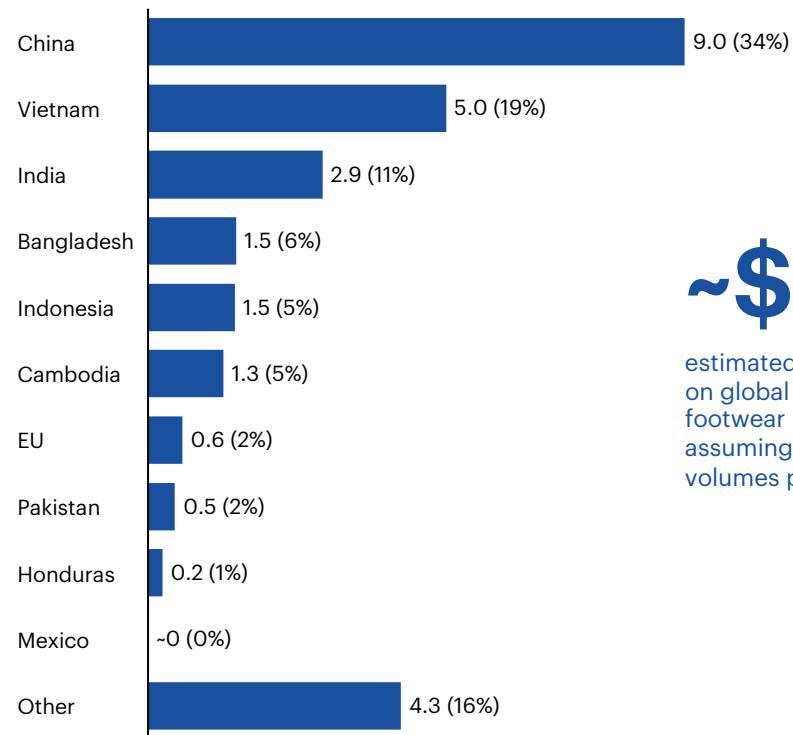
To assess competitiveness holistically, brands and suppliers must weigh tariffs alongside broader operating conditions, including energy, infrastructure and input costs, to identify sourcing hubs that remain viable in this new environment.

The apparel and footwear industry is among the most exposed to tariff impacts

The implications for the apparel industry are profound. Responding to this pressure, 76 percent of fashion executives say that responses to trade disruptions and tariffs will be the single most important factor shaping the industry in 2026.³

Key fashion sourcing hubs are most affected by rising tariff rates — China, Vietnam, India, Bangladesh and Indonesia — which together account for 63 percent of US textile and apparel imports and roughly 75 percent of the incremental impact.²

Estimated incremental impact of tariff increases from January 2025 to August 2025 on apparel and footwear imports into the US based on 2024 volumes,
USD, billions (% of total)



~\$27B

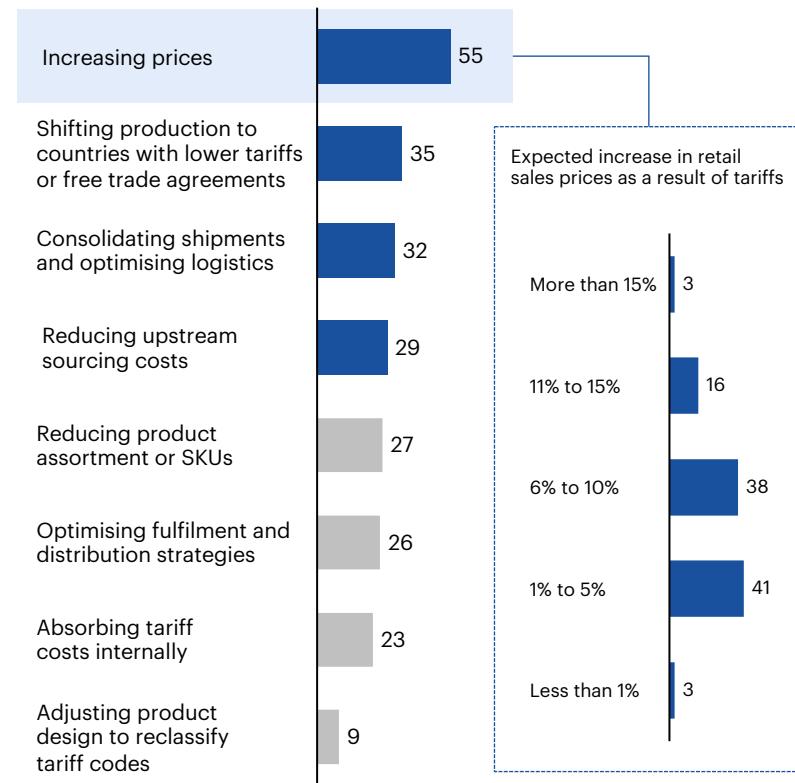
estimated increase in duties
on global apparel and
footwear imports into the US,²
assuming no change to import
volumes per country

Source: McKinsey analysis, MGI Global Trade Dispute Database

Apparel and footwear companies are implementing pricing, cost and sourcing levers

- Adjusting prices:** Between January 2025 and July 2025, US apparel prices rose 1.3 percent, and 55 percent of executives expect further increases in 2026 in response to tariffs.³⁴ Several players have been explicit about price hikes —Nike, Hermès and Ralph Lauren among them.⁵⁶⁷ With inflation still elevated, 92 percent of consumers express concern about their household finances.⁸ Across price segments, over 80 percent of consumers say good value for money is a top buying factor.⁹
- Reducing costs:** Brands are also optimising efficiency to offset margin pressures, such as by renegotiating supplier terms, consolidating shipments, streamlining assortments and improving logistics. For example, Walmart has asked Chinese suppliers for price reductions, while Levi's is streamlining its holiday assortment, reducing complexity and inventory to focus on core, higher-margin products.¹⁰¹¹ Many suppliers, though, are already under strain from higher input costs, meaning both sides will need to find balanced ways to share the burden.
- Adapting sourcing:** Thirty-five percent of executives plan to shift sourcing to markets with more favourable trade agreements, illustrated by Shein's expansion in Vietnam.³¹² For global brands, urgency depends on the extent of US exposure. However, the effects also extend beyond the US. As US orders retreat from China, global players may move in to fill the space, securing better terms and diversifying their suppliers.

Actions that brands and retailers are taking to mitigate tariff impacts, % of fashion executives



Source: BoF-McKinsey State of Fashion 2026 Executive Survey

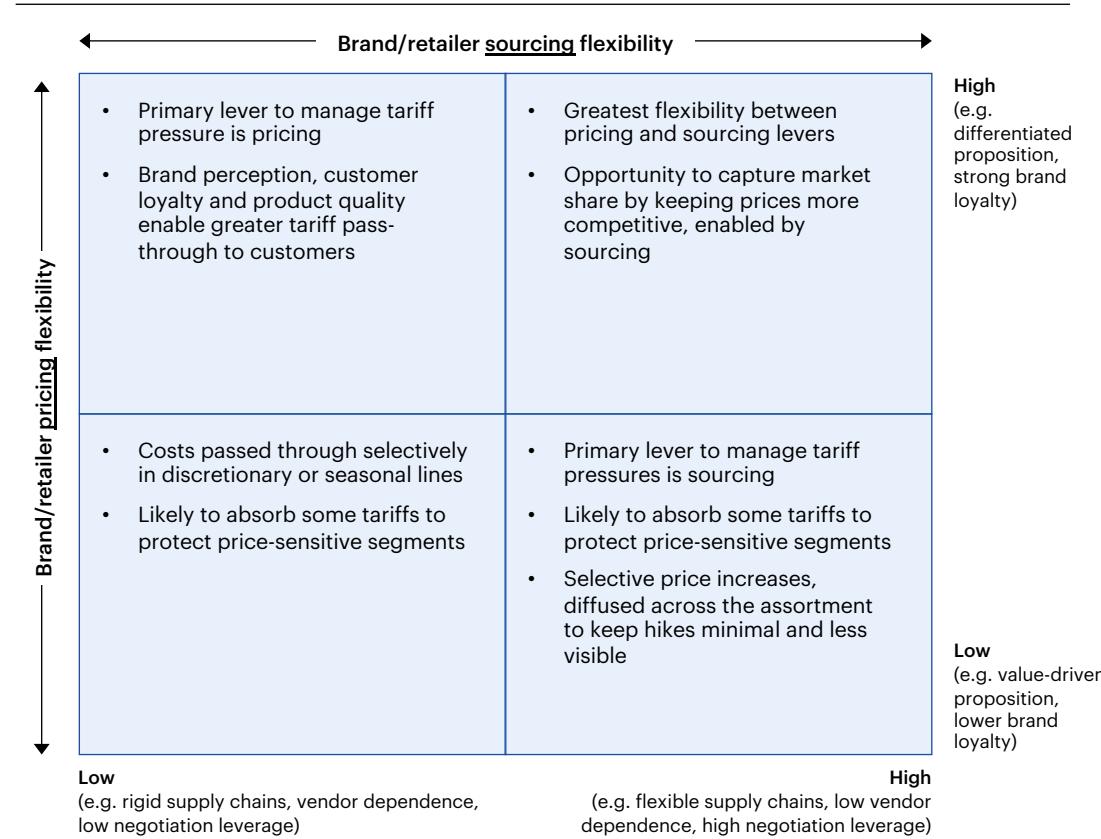
Brand strength and flexible sourcing are important levers for protecting margins

The optimal balance of pricing and cost changes depends on the strength of a brand or retailer's proposition and flexibility in sourcing operations. Brands with highly differentiated propositions and strong equity — such as those offering innovative or uniquely crafted products — are better positioned to offset costs through pricing levers without eroding demand.

Flexibility in sourcing operations adds a complementary dimension. Those with diversified supplier networks and agile operating models can adapt more effectively, whether by reallocating volumes, redesigning products or negotiating terms to offset cost pressures.

For suppliers, those with a diversified production base can be at an advantage in this environment, helping brands to navigate and reduce complexity, though only a subset currently can provide this breadth.

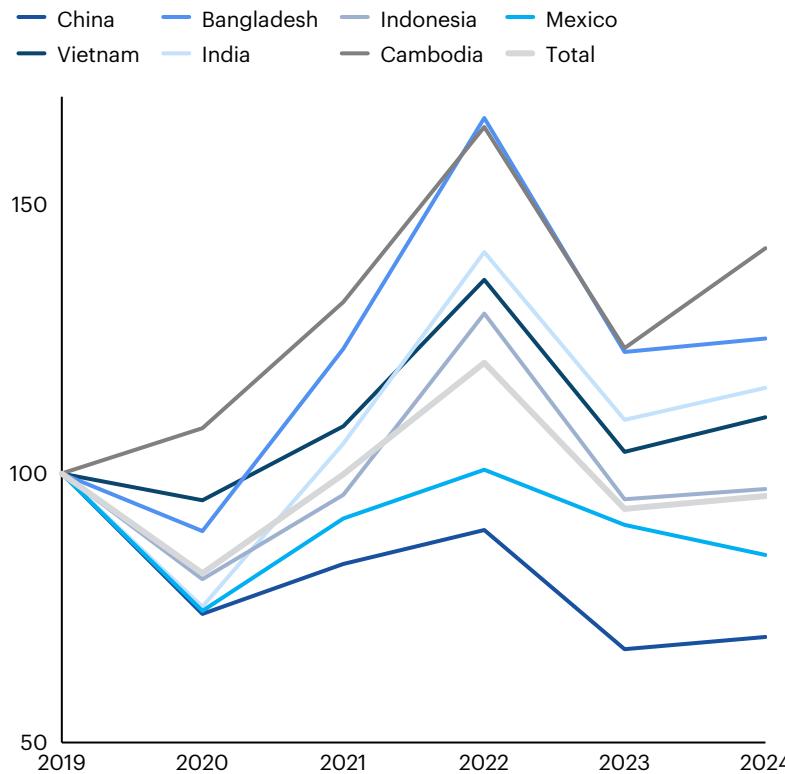
Archetypes of brands and retailers based on their approach to protecting margins



Source: McKinsey analysis

Volatility is disrupting factory utilisation, prompting suppliers to rethink global footprints

Apparel exports to the US over time,
Indexed to 2019 (2019 = 100)



Tariffs have added yet another wave of uncertainty for suppliers

Many suppliers are being asked by brands to absorb part of the cost burden. Larger players are renegotiating contracts to add volume buffers (such as minimum order or capacity commitments) and broaden their customer bases, while others are exploring shifting production towards higher- or lower-value items to stay afloat.

Suppliers are reevaluating their footprints:

- Cambodia has been gaining momentum as a fashion sourcing hub, supported by competitive wages, a young workforce and favourable trade terms compared to countries like China. US imports from Cambodia increased 42 percent over the last five years and local manufacturers say tariffs have driven up order volumes.¹³
- US imports from China, by contrast, were down 30 percent from 2019 levels at the end of 2024.¹³ The open capacity in China could be partially filled by European and other non-US brands, which may secure competitive suppliers as US demand shifts elsewhere.
- Suppliers are also considering new locations outside traditional sourcing hubs. For example, Gokaldas Exports, one of India's largest manufacturers and a supplier to Walmart, Gap and JCPenney, plans to expand production in Kenya and Ethiopia to counter tariffs.¹⁴

Brand and supplier positioning will shape short-term responses, agility is needed for the long term

EXECUTIVE PRIORITIES

1 Brands should monitor market responses to price changes

Many brands and retailers have taken initial pricing and sourcing actions. In the medium term, they must track consumer reactions, test what the market will truly bear and adjust relative to competitors — leveraging social listening, demand forecasting and price benchmarking, among other tools.

Improving and communicating value for money will be key — through storytelling that highlights craftsmanship, quality or creative differentiation and through initiatives such as repair or resale that position products as lasting investments.

2 Suppliers should consider reassessing footprints

Suppliers must evaluate production footprints holistically, considering total sourcing costs and balancing tariffs, labour and competitiveness across hubs. The ability to shift volumes or redesign networks as trade conditions evolve will remain central to resilience.

To strengthen agility and offset cost pressures, suppliers should prioritise productivity gains through lean manufacturing — reducing waste, improving efficiency and optimising workflows — while complementing these efforts with targeted technology investments in automation and digitalisation to streamline operations and enhance visibility across the value chain.

3 Diversify and deepen key partnerships to maximise stability

Both brands and suppliers could reduce concentration risk by diversifying their customer and supplier bases. At the same time, they must strengthen their most strategic relationships. This can enable suppliers to update their facilities and processes and mitigate risks associated with volatility, for example through co-investment in initiatives that individual suppliers might otherwise struggle to finance.

For brands, digitising operations and leveraging AI to optimise and manage a diversified, multi-country supply base can reduce reliance on any individual sourcing partner and protect margins amid rising production costs.

Levi's Answer to an Increasingly Complex World: Simplify

An emphasis on direct-to-consumer sales, profitability and streamlining the business have set the denim-maker up to better manage tariffs and macroeconomic uncertainty under CEO Michelle Gass.

BY JOAN KENNEDY

Levi's was off to a good start at the outset of 2025. It was growing gross margin alongside its direct-to-consumer business, and had even made headlines with a Beyoncé campaign after the star namedropped the brand on her album "Cowboy Carter."

It was a reassuring moment for Michelle Gass, who had taken over as chief executive in January 2024 as Levi's was in the midst of a course

correction. The 170-year-old US denim giant had become a bit sleepy, bogged down by declining wholesale, underperforming business units and unwieldy inventory mixes — often resulting in heavy discounting.

Then came the US tariffs, which plunged the industry into disarray.

The duties have redrawn fashion's supply chains, pinching brands' margins while testing their agility and

the strength of their supplier partnerships.

Amid the chaos, Levi's has emerged as a standout for its tariff playbook. The company has enacted both fast mitigation tactics, like bringing forward holiday inventory and cutting slower-selling SKUs, and long-term strategic initiatives, including maintaining a diversified supply chain and consumer base, reducing intricacies in its design process,

creating a more efficient inventory mix and growing higher margin sales.

The quick work paid off. In October 2025, Levi's reported a 7 percent year-on-year increase in quarterly sales, with margins coming in above guidance, though it did warn tariffs would hit margins in the fourth quarter. Even so, the company raised its full-year revenue outlook.



In recent years, the words 'unprecedented' and 'uncertainty' have been used to describe the market to the point where they've almost lost meaning. How would you describe the environment in 2026?

Complex, [among other things]. There are macroeconomic forces, there are geopolitical, there's the state

of the consumer, there's massive disruption in technology and AI. As a leader in the retail industry, it's very complex, and you have to be really thoughtful on how you navigate [it].

Fashion is being rocked from top to bottom right now by shifts in the global trade system as the US enacts

its most comprehensive tariffs in nearly a century. What levers has Levi's pulled already to address the trade situation?

From a company standpoint, we are structurally advantaged: approximately 60 percent of our business is international. Many of our domestic competitors are

much more heavily penetrated in the US, therefore the tariff burden is going to be higher. We are working with our vendors to see what opportunities we have. We have been, over time, working to get greater cost efficiencies. That will help mitigate the tariff impact.

And then pricing. There's [three] parts to that. We are taking some surgical and targeted pricing [increases], as probably most apparel or retailers are. There's only so much you can absorb from the tariffs, because they're just very high. Two is promotional levers. [We are] pulling back on the amount of promoting we do — less of your '20 percent off' events or 'friends and family.' That helps elevate the brand, and it's also good for margins and helps us mitigate the tariffs. The third piece is where it makes sense, pricing for innovation. When you're coming in with a new product, consumers are likely willing to pay more for that, so therefore we can take advantage.

When you were appointed CEO in 2024, you were tasked with transforming Levi's into a 'head-to-toe denim lifestyle' brand. That means expanding beyond jeans and taking risks, which becomes harder to do in a tough economy and



A Levi's ad featuring Beyoncé in a store window. Sean Gallup/Getty Images.

"We're operating in a complex environment, but we ourselves are becoming less complex."



volatile environment. How do you balance those demands?

We have to stay really close to the consumer and understand what they want, what they need — and bring them things they don't realise they need. We will diversify in [lifestyle], but it has to make sense to the consumer and what Levi's can distinctly own. Quite literally it means you start with all the amazing things you can do with denim, whether it's this Blue Tab shirt [from our premium line] to denim dresses, skirts, jumpsuits, trench coats. But it's also [finding] the right products that do complement our denim. It significantly expands our addressable market.

Levi's made an early call to stop offering less popular styles during the holiday season to avoid having to discount. Do you anticipate that this lever will be pulled again in the year ahead?

Simultaneous to us thoughtfully expanding our assortment into denim lifestyle, we're also being deliberate about where we can pare back and reduce less productive SKUs. It's a journey we've been on the last two years. We operate in 120 countries. It's a very complex network of how we go to market. Over time, our SKUs had proliferated. If you're not in

control of that, you create a lot of complexity.

We are seeing sequential improvement on our gross margin and our EBIT margin. As we become more profitable, it is giving us more leverage to mitigate the tariffs. [Now we are] activating the things we had in place: greater full-price selling, less promotion, looking for pricing opportunities on innovation.

How will the assortment change next year based on everything that you've learned this year?

We are quite truthfully rewiring this company end-to-end and top-to-bottom. We had different assortments all over the world. Even though [product] was coming from [our headquarters in San Francisco], what Japan might need, versus what the US might want, versus the UK, was different things. Not that long ago, what was common across all of our stores, it was less than 10 percent [of product]. Now, about 40 percent of product is common globally. That's a game-changer for how our teams design, develop, source, how we work with vendors, how we merchandise, how we market. It creates a tonne of efficiency. We're operating in a complex environment, but we ourselves are becoming less complex.

Right now with tariffs, challenges in the supply chain are hard to predict. Is diversification enough? How have you collaborated with your suppliers to tackle tariffs head on?

We're all in this together. Our teams are talking to our suppliers 24/7, trading information, figuring out what our plans are, what our forecasts are. This is a relationship business. Just like we build relationships with our consumers, we build very strong relationships with our vendors. We want to make sure they get what they need from us as well. On some of our key products, we source from multiple countries. Whether tariffs or any kind of supply chain disruption, it does give us flexibility.

The US consumer in particular is historically resilient, continuing to spend through downturns. But the full effect of all of these higher costs due to tariffs is only starting to trickle into the marketplace. The strength of this shopper will be tested in the year ahead. What do you foresee in terms of price sensitivity?

Our consumer has proven to be resilient; we've just posted our fourth consecutive quarter of high-single-digit growth. If consumers are feeling pressure, they're going to be more choiceful with their dollars, and look

to brands that do have that value in the broadest sense. Consumers are still going to buy, [but] as the walls get tighter, we have to work harder. We have to continue to make sure that our brand is relevant. All the investments we've made to be at the centre of culture, the partnerships we have, the collaborations with Nike, makes us relevant, interesting and loved. For that consumer who may feel more pressed financially, we have a [range of price points].

International markets are really driving growth for Levi's. Are there any emerging markets that Levi's is doubling down on in the year ahead? Asia is a very big opportunity for us, and India is a key growth opportunity market. There's over a billion people, a growing middle and upper class. It's youthful and they already love the brand.

Are there any macro-shifts or other currents that you think are underappreciated by fashion right now?

The world is in the midst of a major disruption on what AI is going to mean to our business. One of my top priorities is having our teams across the company embrace and see what's possible with AI. Over the last year there really has been a sea change in

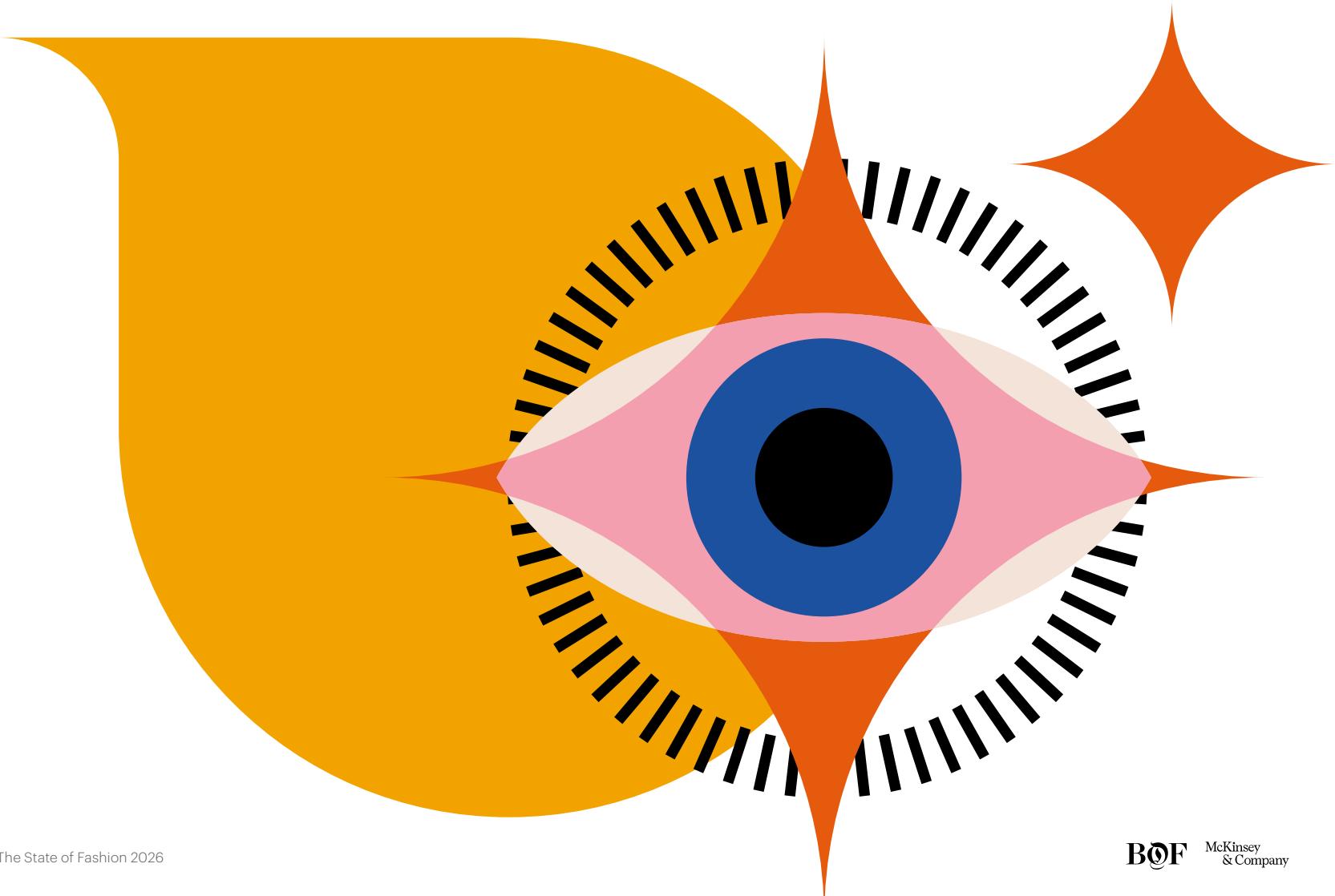
how the company is deploying AI. [We're looking at how it can] help us achieve our strategies better [and] faster. [We're] embedding AI in a lot of our processes, inventory management and planning and financial processes. We're in the earlier stages of [using AI as part of our design process], but we see the potential and how that can not only help us reduce cycle times but even open up new ideas.

This year ahead is set to test the operational prowess and pricing power of brands at every level. How do you think it will shake out?

You want to be entering into this time from a position of strength and momentum. Disruptive times can create more separation between stronger companies and the weaker companies.

This interview has been edited and condensed.

02. Workforce Rewired



02. Workforce Rewired Technology is changing workforces globally. Artificial intelligence investments are set to drive productivity, meaning some existing positions will become AI-centric and new roles will emerge. Fashion leaders must prioritise upskilling their workforces and acquiring new talent to stay competitive. Strong change management will be critical to capture AI's full potential.

KEY INSIGHTS

- By 2030, 30 percent of employee time across industries could be automated by generative AI and other technologies in Europe and the US.
- 92 percent of organisations say they will increase investments in generative AI, but only 1 percent describe their rollouts as "mature."
- Up to 40 percent of workers in developed countries will need to reskill or change roles by 2030 due to technology.

EXECUTIVE PRIORITIES

- Make AI a strategic priority across the organisation. Start with the processes that will generate the greatest value across functions, integrating it into core operations and executive decision making.
- Build the talent base required to meet technology goals, supporting every technology investment with hiring or upskilling. This will require close alignment between the chief technology officer and chief people officer.
- Prioritise change management and lead with a clear vision, appropriate resource allocation and transparent communication to capture the full value of technology investments.

Companies worldwide are entering a pivotal moment as AI transforms work

A convergence of forces are reshaping global labour markets

Automation and generative AI are set to have the most immediate and transformative impact on how organisations operate, reshaping roles, skills and ways of working at a pace comparable to the disruption created by computers and the internet in their early stages of adoption.¹

Companies across industries are expected to unlock productivity gains of more than 30 percent over the next five years due automation and generative AI.²

Progress among global organisations remains uneven

While 92 percent of companies say they will increase their investments in generative AI, only 1 percent say their deployment of AI has reached maturity.³ Many are stuck in pilot mode, testing siloed AI solutions with limited impact, with scaling often seen as too complex or costly.

In fashion, early adoption is proving promising

Automation is reshaping many routine tasks, such as customer service and inventory management, freeing up time and resources. Companies like Zalando and Nike are using generative AI across functions, from image generation to product design and personalisation.^{4,5} At Zalando, generative AI has reduced image production costs by 90 percent.⁴ Agentic AI is accelerating this further, offering the potential for autonomous decision making and execution.

Key forces shaping the global labour market

Automation technology

30 percent of employee time across industries could be automated by generative AI and related technologies in Europe^a and US by 2030^{6,7}

Population aging

+25 million more people will be over the age of 65 by 2030 in Europe^a and the US^{6,7}

Net-zero transition

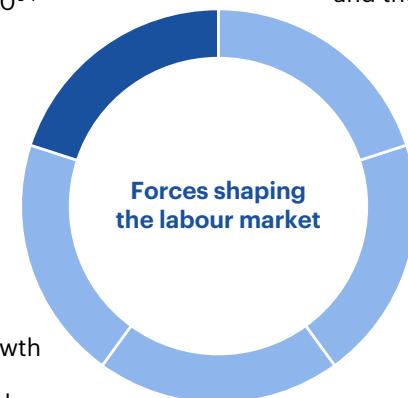
2 million net new jobs will be created by 2030 in Europe^a and **700,000** in the US⁶

Infrastructure investments

12 percent growth is expected in construction jobs from 2022 to 2030 in Europe^a and US^{6,7}

E-commerce growth

6 to 11 percent annual growth is expected across Europe^a and **7 percent** in the US between 2022 and 2030^{6,8}



a. Europe refers to Czech Republic, Denmark, France, Germany, Italy, Netherlands, Poland, Spain, Sweden and the UK

In 2026, fashion organisations need to evolve in four key areas to capture the benefits of AI

ORGANISATIONAL DESIGN

28-38%

of consumer goods and retail workers' current activities in Europe and the US could be impacted by technology by 2030³

AI will impact different functions and types of organisations differently, but fashion companies of the future will be more efficient, with employees focused on higher-value tasks. Some transactional functions with highly repetitive tasks — like core corporate services such as accounting and payroll processing — may become very heavily automated.

WAYS OF WORKING

47%

of US employees across industries expect more than 30 percent of their work to change because of generative AI³

Cross-functional collaboration will become the cornerstone of better-informed decision making. For example, design teams using AI could access real-time material prices from preferred suppliers, enabling quicker choices in conjunction with sourcing and procurement teams. Unlocking this potential requires cultural shifts that break down silos and establish clear roles and responsibilities.

ROLES AND TALENT

47%

of US consumer goods and retail employees say training is the most important factor for generative AI adoption, but nearly half feel they are receiving only moderate support or less³

With AI, the nature of work will shift from manual tasks, data processing and record-keeping to activities such as troubleshooting and programming. Up to 40 percent of workers in consumer goods and retail industries in developed countries may need to reskill or transition to new roles by 2030 due to technological progress.⁹ However, technology skills remain scarce and technology talent churn is high.

CULTURE

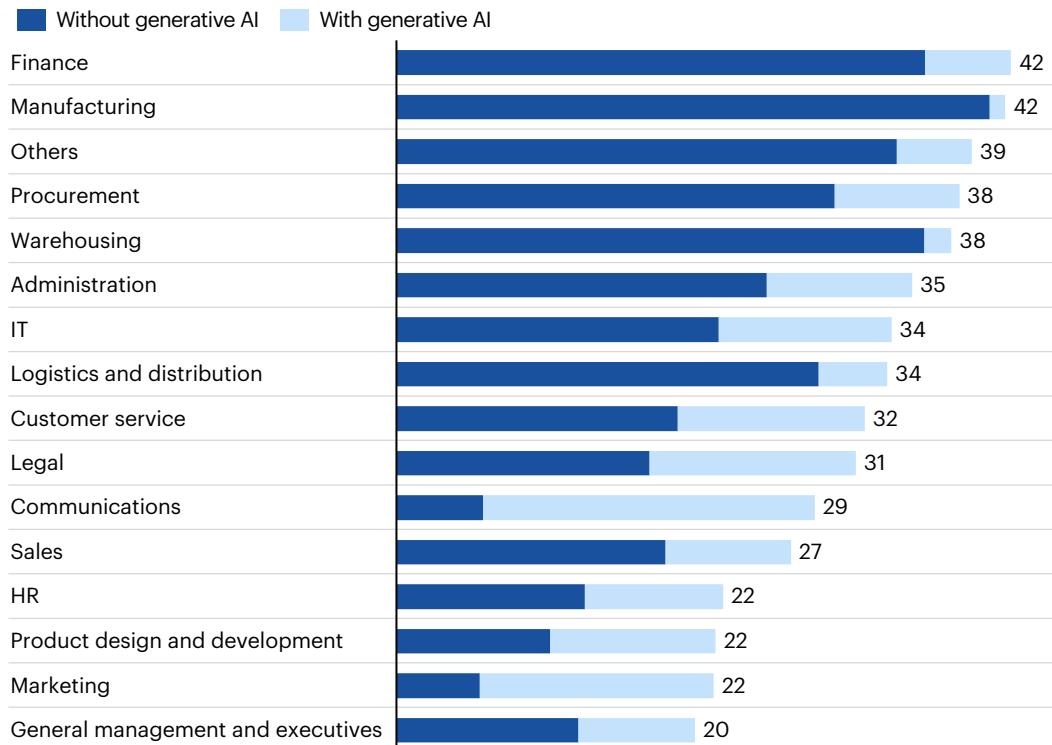
60%

of leaders across industries say company culture is the biggest obstacle to tech-related change¹⁰

Fashion and luxury companies have traditionally attracted talent from within the industry, thereby limiting change. Leaders must widen their approach to talent acquisition and foster cultural changes to support new ways of working. For some functions, such as customer engagement or supply chain automation, third-party solutions may accelerate adoption more than building capabilities in-house.

In retail, automation is transforming back-office operations to the greatest degree

Expected share of work automated by 2030 in US apparel, fashion and luxury companies with and without generative AI acceleration,^a
 % of total time spent



a. Assumes moderate pace of adoption by companies

Source: McKinsey Global Institute

Global fashion and luxury players have made progress deploying automation with generative AI in select functions for routine tasks. More than 35 percent of executives report already using it in areas such as online customer service, image creation, copywriting, consumer search or product discovery.¹¹

Yet adoption is not without its barriers: Challenges include high implementation costs, fragmented legacy systems, limited in-house expertise and uncertainty around governance and ethics. Achieving full potential will depend on redesigning processes and team structures rather than simply overlaying new technology onto legacy ways of working, particularly in critical functions — often resulting in longer lead times. Adoption will inevitably lag the technology's actual potential.

However, the efficiencies gained will enable companies to redeploy talent towards higher-value, creative and strategic work — for example, related to innovation, brand storytelling, product development and client relationships.

Generative AI is accelerating shifts in marketing, merchandising and sales

MARKETING IS MOVING FROM CONTENT PRODUCTION TO CURATION

Around 22 percent of marketing tasks can be automated by 2030, particularly in strategy development, campaign ideation and content creation.⁷ Generative AI will allow creative teams to shift from manual production to curating and directing AI-generated assets. Advancements in this space, however, will require careful risk management around authenticity and consumer trust given the limited precedent for AI-generated assets.

Zalando

The online retailer is using generative AI to accelerate image creation for its app and website, cutting production time from six to eight weeks to just three to four days, according to Zalando's vice president of content solutions. In the fourth quarter of 2024, 70 percent of its editorial content was AI-generated.⁴ While traditional photoshoots remain part of the process, creatives involved in the process are now expected to adapt to using AI tools.

MERCHANDISING DECISIONS CAN BE ACCELERATED AND MORE INFORMED

Generative AI could significantly accelerate merchandising with applications ranging from automating assortment selection to detecting microtrends via social listening and translating them into actionable guidance for stock volumes and marketing priorities.

Pandora

The Danish jewellery brand has partnered with AI software platform o9 Solutions to modernise its planning and merchandising operations. The collaboration focuses on integrating demand, assortment and merchandise financial planning into a single AI-driven platform, replacing fragmented legacy systems. Through o9's Digital Brain platform, Pandora aims to enhance visibility, forecasting accuracy and responsiveness across its global network, enabling more data-driven, real-time decision-making.¹²

SALES TEAMS CAN BE EQUIPPED WITH VALUABLE CUSTOMER DATA

Digital ordering systems and AI tools can increase sales associates' effectiveness, from offering personalised product recommendations to improving stock visibility. This is particularly relevant for the premium/bridge and luxury segments, where such tools can elevate the shopping experience if executed well, enhancing – not replacing – clienteling or human connection.

Zegna

Zegna launched Zegna X, an AI-powered clienteling app developed with Microsoft. Using Zegna X, associates can share new arrivals, recommendations and styling ideas with customers via text, email or platforms like WhatsApp. The app consolidates customer data to refine personalisation, making recommendations smarter. The AI supports rather than replaces sales representatives, who remain responsible for finalising client interactions.¹³

Fashion players need to reskill teams and recruit tech expertise to mature their AI pilots

Actions that would encourage greater day-to-day use of generative AI tools,
% of US employees in consumer goods and retail



Upskilling the workforce

Employees are eager for AI training, yet many organisations are not meeting this demand. More than 40 percent of US employees in consumer goods and retail say initiatives such as formal generative AI training, seamless workflow integration and incentives would make them more likely to use generative AI tools daily.

Companies should offer practical programmes – whether focused on general-purpose AI tools or domain-specific, custom-built applications. For instance, a marketing-focused programme could demonstrate how agentic AI scans consumer sentiment on social media, integrates those insights with customer data and drafts campaign concepts for teams to refine.

Attracting talent

Fashion players should be open to bringing in external expertise and attracting talent from beyond the traditional fashion ecosystem. LVMH, for instance, has built a centralised research team of data scientists and engineers to work across its brand portfolio, demonstrating the need to invest in specialised talent to accelerate enterprise-wide adoption.¹⁴

However, Big Tech's competition for AI talent is driving up costs and limiting availability for fashion players. Demand is rising for roles such as product flow engineers, integrative marketing strategists and consumer experience designers – skills in short supply. Key hiring criteria include expertise in data quality, system integration, digital twins and marketing automation. To compete, fashion companies must build a compelling employee value proposition beyond pay and compensation.

Source: McKinsey US employee survey, Oct–Nov 2024

Building a future-proofed fashion workforce requires talent investments and a mindset shift

EXECUTIVE PRIORITIES

1 Make AI a strategic priority and start with high-value processes

Fashion and luxury players must integrate AI into core creative and operational processes, elevating it to a board-level priority rather than limiting it to function-specific pilots. Companies will need to scale and mature these investments to lock in efficiency gains as cost pressures rise from multiple angles.

The most effective transformations balance quick wins with long-term ambition — targeting high-value tasks with relatively easier implementation in areas like marketing or back-office functions, while reinvesting gains to advance core product and customer-facing processes.

2 Build the talent base to support technology goals

Fashion companies should widen their recruitment net to secure capabilities outside the traditional fashion ecosystem. Limited in-house expertise and competition for scarce technology talent remain critical obstacles.

A compelling employee value proposition that highlights innovation and creativity will be critical to differentiate from companies that typically attract top digital talent.

Every investment in advanced technologies must also be matched with deliberate workforce development. This requires close collaboration between chief technology officers and chief people officers, as well as targeted upskilling and reskilling employee programmes.

3 Prioritise change management and culture transformations

Strong change leadership is key to realising AI's full value. Instead of top-down directives, leaders should identify where innovation is already emerging, support teams, employees or departments that are early adopters, and scale their successes so that momentum builds and employees feel personally invested in the change.

Above all, leaders must recognise that the shift is not just about skills but about culture — reshaping how people think, collaborate and embrace change. Without strong leadership to guide both mindset and capability shifts, brands risk falling behind in an industry where AI adoption is accelerating.

03. The AI Shopper



03. The AI Shopper Artificial intelligence is already disrupting how consumers discover fashion. In the years ahead, autonomous AI shopping agents may even act on their behalf, completing tasks from monitoring prices to buying products. To ensure their products are visible — and favoured by — AI models, brands must rethink their digital marketing and e-commerce infrastructure, where semantically rich data and API-accessible content will be critical to success.

KEY INSIGHTS

- 53 percent of US consumers who used generative AI for search in the second quarter of 2025 also used it to help them shop.
- Shopping-related searches on generative AI platforms grew 4,700 percent between 2024 and 2025.
- 41 percent of consumers say they trust generative AI search results more than traditional advertising, and 85 percent express higher satisfaction with AI-assisted shopping journeys than conventional ones.

EXECUTIVE PRIORITIES

- Optimise for AI discoverability by overhauling product content and digital infrastructure to ensure AI agents can readily access and read it.
- Set your agentic AI strategy before mass consumer adoption. Identify potential partnerships and assess the value of building proprietary AI tools.
- Plan to dedicate marketing budget to supporting an AI visibility strategy.
- Keep human connection at the centre of the brand experience. Balance AI discoverability with rich storytelling and branding that inspire human shoppers.

While traditional search still dominates, shoppers are increasingly turning to large language models

TRADITIONAL SEARCH STILL DOMINATES FOR NOW

23%

of consumers primarily use generative AI to discover products, while the majority still use traditional search¹

While search engines remain dominant, driving around 80 percent of all search traffic, the rapid rise of AI-driven discovery highlights a fundamental change in how people find and evaluate products.^{2,3,4} Nearly a quarter of global consumers already rely on generative AI as their main starting point when shopping. As tools become more advanced and trusted across different use cases in everyday life, more consumers will adopt AI for shopping.

AI-DRIVEN DISCOVERY IS ACCELERATING

53%

of US consumers who used generative AI for search in Q2 2025 also used it to help them shop⁵

Though still comparatively small, shopping-related generative AI searches grew 4,700 percent between July 2024 and July 2025, with AI supporting inspiration and product comparison – especially helpful in the fashion category where choice abounds.⁶ This is impacting brands' traffic sources. According to SimilarWeb, ChatGPT accounted for 16 percent of Zara's and 8 percent of H&M and Aritzia's inbound traffic between June and August 2025.⁷

CONSUMER TRUST IN GENERATIVE AI IS GROWING

41%

of consumers say they trust generative AI search results more than paid search ads⁸

Unlike paid ads which are clearly sponsored, over 40 percent of consumers say AI responses feel more reliable, while only 15 percent consider them less reliable.⁸ Shoppers are therefore increasingly willing to make purchases from AI-based recommendations, as seen in the 84 percent growth in AI-driven revenue per visit on US retail sites between January and July 2025.⁶

AI IS ENHANCING CONSUMER SATISFACTION

85%

of US consumers that use generative AI for shopping say they have a better experience than traditional methods⁶

Technical improvements, such as reduced hallucinations (where a model generates incorrect, misleading or nonsensical information), combined with access to consumer behavioural data are making generative AI more reliable and user-friendly. These models provide more relevant recommendations, reduce search friction and build consumer confidence as the algorithm learns and improves over time.

Generative engine optimisation is becoming an essential add-on to search engine optimisation

Generative engine optimisation (GEO) is fast becoming a critical counterpart to search engine optimisation (SEO) as AI's role in product discovery continues to grow.

GEO ensures content is visible to and optimised for generative AI models

Large language models (LLMs) like ChatGPT, Claude, Perplexity and Gemini respond to consumer search queries by providing conversational, synthesised and structured answers rather than ranked lists of links. To appear in answers, website content must be easily read, contextualised and considered credible by the AI. GEO focuses on optimising content such as products listings to be just that, with early movers like Estée Lauder Companies, L'Oréal and Mejuri experimenting with GEO.^{9,10}

Bettered-structured content is more likely to be surfaced by AI

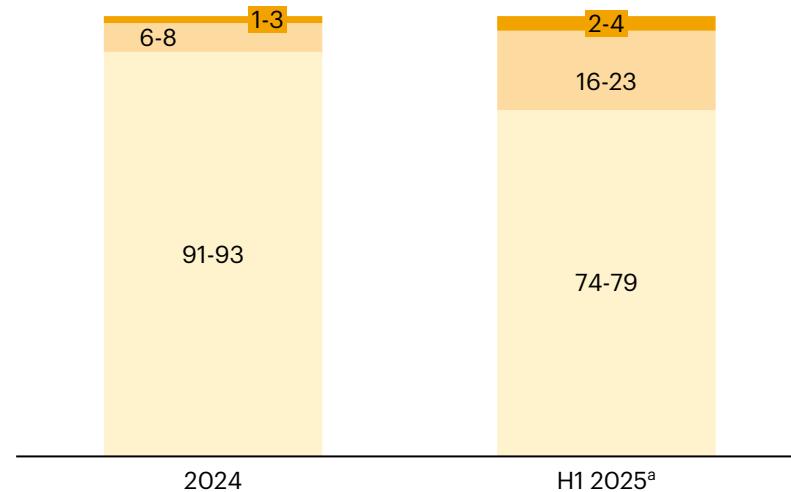
Making content visible and easy to pick up means showing up in more places (different channels, languages, platforms) and making sure the basics are done right — like clear product titles, descriptions and metadata tags (descriptive data labels that help AI tools understand and surface products). Reviews, blogs and partnerships are also powerful signals that AI tools use to judge trustworthiness that brands should amplify.

Brands and retailers should tackle GEO alongside SEO

Traditional search, including paid and organic, still drives most search traffic. (Bing alone accounts for 4 percent of global search volume, more than all generative AI platforms combined.) Overlooking either GEO or SEO risks leaving critical gaps in visibility.^{23,4}

Estimated annual global search volume by source, %

- Generative AI platforms (e.g. LLMs)
- AI summaries in traditional search (e.g. Google AI overview)
- Traditional search engines



a. By Q3 2025, Google and other search engines will provide AI overviews for most searches, with rollouts advancing country by country

Note: Percentages may not total 100 percent due to rounding. Data reflects global search traffic across all industries and includes traditional search engines (e.g. Google) and LLM/AI chatbots (e.g. ChatGPT). Direct site visits (e.g. Amazon) that bypass search engines are excluded

Sources: SearchEngineLand, DemandSage, Economic Times, The Verge, Semrush, Statista, Pew Research, OpenAI

In the years ahead, consumers could rely on autonomous AI agents to help them shop

Advances in AI are opening the door to autonomous agents that act on behalf of consumers and businesses. These agents could streamline journeys by condensing multiple steps into a single action.

While still nascent, agentic AI has the potential to fundamentally transform digital commerce, taking on the role of intermediary between brand and consumer, like retailers and marketplaces today. With AI simplifying product comparisons, brand loyalty will become even more important in purchase decisions. Brands should double down on retention tactics to build the emotional resonance that will influence consumers' choices.

The technologies that would allow agents to transact on someone's behalf remain in development. As they mature, agentic AI models may either integrate into existing e-commerce ecosystems or create entirely new channels of discovery and purchase, reshaping how brands both market and sell their products.

Some AI players are already testing these models. For example, OpenAI struck deals with Shopify and Etsy to let shoppers buy products from those platforms directly in ChatGPT, while Amazon's "Buy for Me" lets consumers buy from third-party platforms within the Amazon app.¹¹¹²

Customer journey shifts expected from agentic AI		
Stage	From human-first	To agent-first
Prompt	Customer sees ads, hears recommendations or notices a need	Agent suggests a purchase proactively — for example, linked to a specific occasion or recurring purchases
Search and Compare	Customer browses websites, reads reviews, checks prices and delivery times	Customer prompts an agent to perform a product search. Agent finds products, checks preferences, reviews and compares prices across sites
Recommend	Customer weighs options based on features, price and brand equity	Agent presents a shortlist of options for customer approval, or agent takes pre-approved action on behalf of consumer
Purchase	Customer enters payment details, selects shipping option and applies discount codes	Agent completes payment and delivery details automatically. The website records purchase history and applies loyalty benefits automatically
Track	Customer checks emails or tracking pages for updates	Agent monitors delivery and updates the customer of arrival status
Support	Customer contacts support, arranges returns and follows up on refunds	Agent helps to orchestrate returns, schedules pickups and tracks refunds

Source: McKinsey analysis

To compete in the age of agentic commerce, some players may build their own shopping agents

Generations of e-commerce

E-commerce 1.0 to 2.0

E-commerce evolves from straightforward transactions to omnichannel and digital-first models

Mobile-first e-commerce

Shopping shifts into consumers' hands as smartphones make purchasing instant and on-the-go, and mobiles overtake desktop in traffic

Social and live e-commerce

In Asia, shopping via livestreams and social media grow significantly, with the trend also gaining traction in Europe and the US

Generative AI e-commerce

Purchases are made directly through chatbots, which consumers increasingly adopt for fashion discovery

Agentic commerce

Autonomous AI agents transact on behalf of consumers with minimal or no input required from users

Approaches to engaging with AI shopping agents

OPTIMISE FOR AGENT INTERACTION

In the era of agentic commerce, optimising for engagement from shopping agents will be a high priority for nearly every brand and retailer.

Common standards will likely emerge to let agents interact directly with brand and retailer ecosystems, but players must act now to control their visibility:

- Expand content reach across channels and languages while increasing volume.
- Structure content for AI readability using proper layout, data formatting and markup.
- Adopt common protocols that let agents easily pull information from and carry out actions on a brand's website while establishing links to the CRM to track customer data and enable loyalty features.
- Actively monitor and encourage third-party content since reviews, blogs and affiliate posts make up around 80 percent of the sources that AI uses.¹³

BUILD AN AI AGENT

For some players, developing a proprietary shopping agent may align with strategic goals, enabling seamless onsite experiences – from tailored recommendations to checkout.

The case for proprietary agents is generally stronger for retailers than brands. Retailers – whether specialists with authority or those with large inventories – can use agents to reinforce their aggregator role and offer specialised abilities like asking style questions to better personalise their recommendations. Most brands, by contrast, can focus on optimising products to be surfaced by third-party agents. For luxury brands, which differentiate through in-store experiences, a proprietary agent may be relatively less important.

While AI costs are declining, agents remain expensive to run as of now. Complex workflows can use hundreds of thousands of tokens versus only a few hundred for a simple chatbot, according to the Wall Street Journal.¹⁴

Agentic AI will shift the underlying economics of digital commerce

The growth of agentic commerce is set to accelerate in the second half of the decade as LLM-powered shopping becomes mainstream. Its value could grow to be as much as \$3-5 trillion by 2030, assuming moderate adoption by both consumers and businesses.^{15 16 17}

As shoppers shift from apps and websites to AI agents, fashion players risk losing ownership of the consumer relationship. Going forward, brands may also need to pay for premium integration and placement in agent recommendations. However, the precise monetisation model of agentic commerce as well as the distribution of the value captured between AI platforms and brands and retailers remains undefined.

A brand's value proposition will be more critical than ever as AI agents compare brands across dimensions like delivery time, price points, assortment range and colour variability. Excelling across these factors will provide a more distinct competitive advantage when comparisons are algorithmic and instantaneous.

\$3-5T

potential value of agentic commerce in 2030 if adoption is similar to mobile commerce in the 2010s with higher levels of internet connectivity globally¹⁵

11-18%

agentic commerce's share of the total projected business-to-consumer retail market in 2030^{15 16 17}



Customer shopping for fashion online. Pexels.

Companies should optimise for agent interaction to maximise discovery in 2026

EXECUTIVE PRIORITIES

1 Assess discoverability by auditing content and digital infrastructure

Structure product content and data sharing feeds so AI agents can interpret and display the product catalogue. Whether or not proprietary agentic tools are appropriate, securing visibility at the point of consumer search is essential. At the same time, SEO remains a core driver of traffic, making a balanced approach across both GEO and SEO key.

2 Set your agentic AI strategy now

Set an agentic AI strategy ahead of mass adoption — whether by optimising for third-party agents or developing proprietary ones in cases where it is advantageous, such as for multi-brand retailers. Building an in-house agent will likely require leveraging an LLM-based platform, supported by dedicated engineering and continuous iteration to tailor the experience to target customers.

3 Dedicate marketing budget to support an AI visibility strategy

As discovery shifts from search to AI assistants, brands need to treat AI ecosystems as a new marketing channel with new rules of discovery, requiring a deliberate strategy and supporting budget.

4 Continue strengthening the brand's storytelling and value proposition

Balance machine-readiness with storytelling, striking imagery and a distinctive digital identity. People — not just algorithms — remain central to the brand experience, with stores, frontline staff and human interactions continuing to inspire customers and drive conversions. Strengthen the brand's value proposition, as differentiators like delivery speed, price and product quality will help AI surface the brand and make it stand out to humans alike.

For Brands Trying to Stand Out in AI Search, Profound Is There to Help

As more consumers adopt tools like ChatGPT for shopping, startups such as Profound are helping brands make sure their products appear in AI search results. Co-founder and CEO James Cadwallader talks about how online shopping is evolving in this new era, and how brands must adapt.

BY MARC BAIN

Large language models are already transforming the way consumers find and buy products, letting them ask questions in natural language to get more tailored recommendations than what they typically receive from traditional keyword searches.

That's just the start. In September 2025, OpenAI announced deals with Shopify and Etsy to let shoppers buy from their platforms directly through ChatGPT, while Google and

Perplexity have unveiled agents that can complete purchases on a shopper's behalf.

At the moment, shopping is still just a fraction of consumers' total use of AI. Researchers found 2.1 percent of a sample of 1.1 million messages sent to ChatGPT between May 2024 and July 2025 sought information about purchasable products. Still, that's a significant amount of traffic given the authors said ChatGPT received 18

billion messages per week, and it continues to grow.

The situation changes the online playing field for fashion brands. If consumers now get a short list of product recommendations, rather than a long list of links to sources to sift through themselves, brands not appearing in that consideration set may as well be invisible. It's kicked off a race to improve what's known as answer-engine optimisation (AEO) or

generative-engine optimisation (GEO), as opposed to traditional search engine optimisation (SEO).

Profound is among a crop of startups on the frontlines of assisting retailers such as Mejuri to adapt to this new environment. In August 2025, the company announced a \$35 million funding round led by Sequoia Capital, with participation from Kleiner Perkins, Khosla Ventures, Saga VC and South Park Commons.



We hear a lot about the rise of AI platforms, but overall, they're still a small share of total traffic to retailers. How much do brands really need to think about how they're showing up on these platforms?

You're speaking to someone extremely biased, but I think this is the biggest platform shift maybe in the history of the internet. The front door of the internet is changing for the first time in 25 years. The brands that are discussed and covered via AI will naturally receive billions of eyeballs over the coming years. Today, I think we see typical [traffic] referral rates of around 10 percent from AI answer engines like ChatGPT. These numbers are only increasing.

Are there any factors that you see driving more consumers to use AI platforms for shopping?

It's fantastic for comparison. If you imagine that the old paradigm was that you'd have 10 tabs open in your Chrome window, and you're comparing one against the other, you can literally feel your rote human cognition working. That all has just shifted now into a world where the entire funnel is being compressed into a ChatGPT window. You might ask for help in finding a new pair of sneakers and it would give you a shortlist. Then, you narrow down that

shortlist to maybe two options that you're thinking about.

Are there other ways the shopping journey could change as these platforms evolve?

I think we are going to see a platform like ChatGPT emerge with the personalisation of a social-media feed, because they just capture so much intent through these interactions that just didn't exist in a Google search. You tell these models so much more about yourself, and so much more about what you're looking for and what you're thinking. That allows them to tailor the results a lot more.

Are there things brands should be doing for what's often called answer-engine optimisation (AEO) or generative-engine optimisation (GEO) that differ from what they're already doing to ensure they're optimised for traditional search (SEO)?

The way to think about it is you are creating content for bots, not humans. In the old world, let's just say a brand like Chanel would create web pages for humans to read, but the future of the internet looks like Chanel creating lots of content for AI crawlers to hoover up into their results. Content is essentially machine optimised, it's far more structured, it's information dense. You wouldn't pay as much

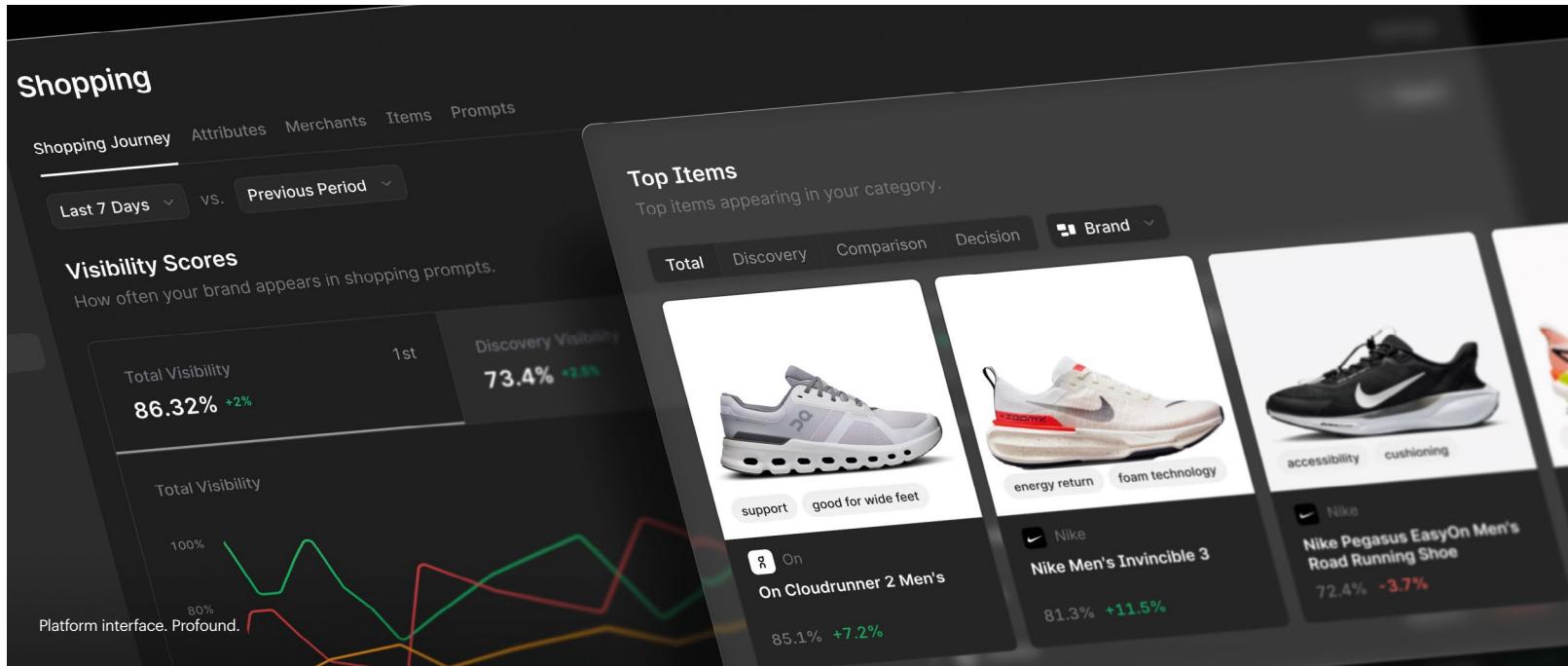
attention right now to imagery, for example, because it's the words that matter. I'm sure that's going to evolve and change over time. There's [also] technical nuance: JavaScript is invisible to the crawlers that are retrieving information. The way that you structure your website, the way that you actually build your website will change.

Is it realistic to expect AI answer engines to overtake traditional search at some point, or will consumers use both to gather as much information as they can?

I think it would be over-dramatic to say that Google search and blue-link search is going to disappear off the face of the earth in the next 12 months. I think as these consumer platforms like ChatGPT get better and the shopping experiences improve, which we are expecting them to, we're going to see a lot of consumer behaviour [shift]. As a techno optimist, I tend to bet on the best technology will win over time.

The large language models (LLMs) that power AI answer engines can be a great way to learn what people online say is the best electric toothbrush or the best mountain bike – functional products that you can rank based on performance. But fashion is very individual, it has to

"You're speaking to someone extremely biased, but I think this is the biggest platform shift maybe in the history of the internet."



spark an emotional connection and there's often an aspirational aspect to it. Do you think consumers will use LLMs to search for fashion?

The word I would rotate around here is 'search.' I don't know if they would use LLMs to discover fashion. These conversational interfaces are not the best place to stumble across something beautiful. However, let's say you had decided that you were in the market for a Chanel 2.55.

Absolutely you're going to ChatGPT to ask about the provenance of the

bag, why is the Chanel 2.55 bag so iconic, what's the history of it, where did it come from and how much is it, what should I look for when I'm buying one, how do I make sure I don't buy a replica? All of that part of the consumer journey, these AI answer engines are perfectly suited for that.

If consumers use LLMs in greater numbers, does it create a winner-takes-all environment where the brands and products the AI

recommends become the entirety of what consumers consider purchasing, and anything that doesn't show up is invisible?

We're actually going to see the opposite be true. I think we're going to see a huge, long tail of coverage because every answer is different. [Cadwallader types 'what's the best luxury sneaker for men right now?' into ChatGPT in two separate browser windows.] In response one, the answer was Maison Margiela, Tom Ford, Burberry, D&G, Amiri,

whereas in the second response, we had Brunello Cucinelli, we had Gucci. You see this probabilistic nature, the answers change.

AI is notoriously a black box, especially as models get more complex. How do you go about determining what works and what doesn't for getting a brand to show up in AI search results?

It's by looking at where they're going to build these answers. When we asked this question earlier about

“Lean in and take it really seriously, understand that there are billions of people using these platforms on a weekly basis. This is the new marketing channel.”

‘what’s the best luxury sneaker for men right now’ what happened in the background is ChatGPT went to a bunch of different sources to build this answer. What we’re able to do is we can show the sources: where the models are going, what are the names of the websites, which websites are being used most frequently.

A lot of the content these LLMs are drawing on is not under a brand’s control. How much are brands able to influence how they show up in AI answers?

[Cadwallader shows a breakdown on Profound’s platform of where an LLM is finding information for a query about trail-running shoes.] You can see that Nike.com is the ninth most-visited site [by the LLM], so Nike.com is not that far below Reddit or YouTube. What this shows is that these models are going to Nike.com. Nike is actually controlling a lot of the narrative here.

When you look at the rise of LLMs and potentially agents that can actually take action on a consumer’s behalf, does that change the work of fashion marketers?

At this point in time, at least — and I expect this will evolve and change as well — I think marketers in fashion right now should focus on description

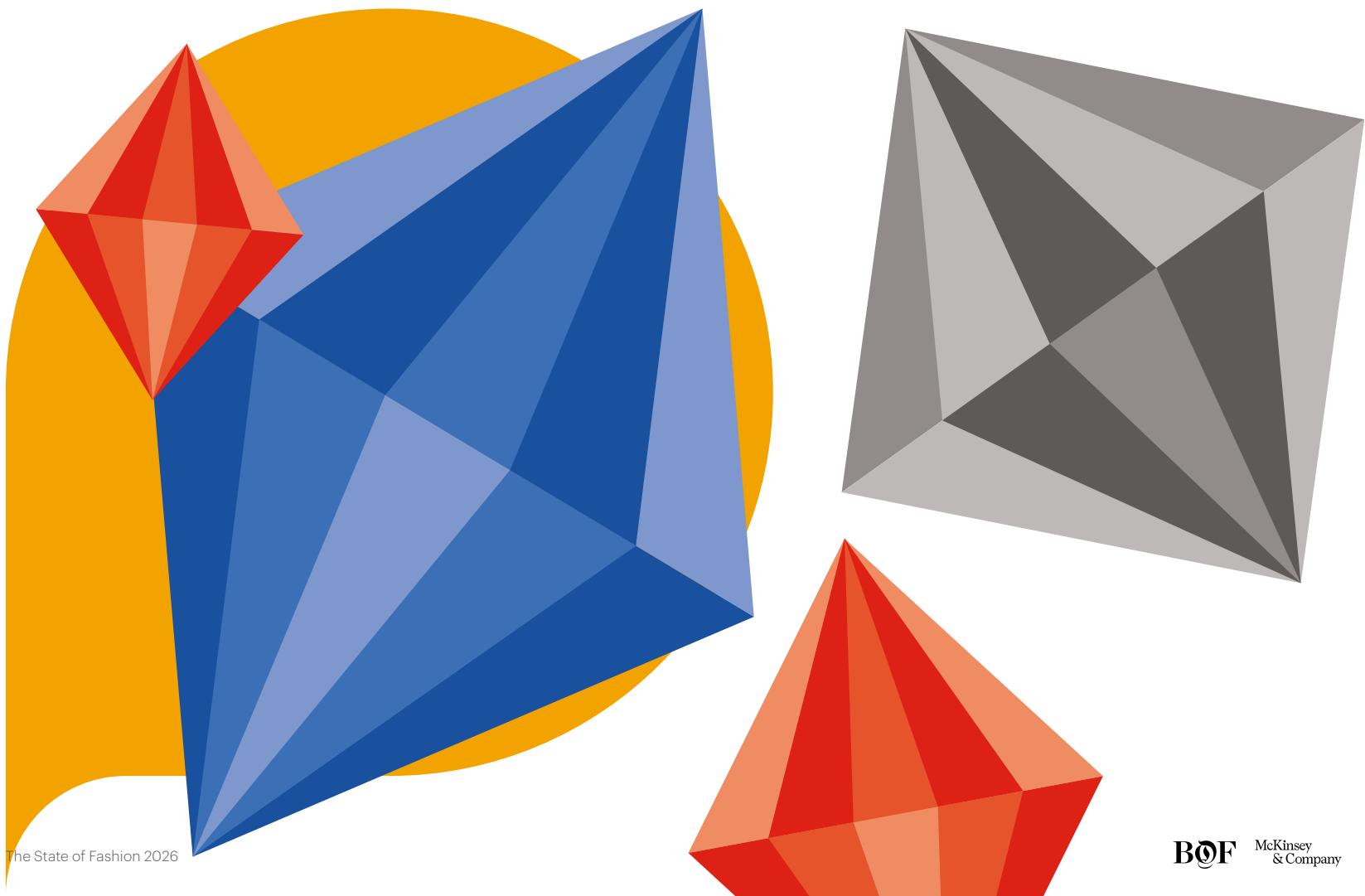
and lots of coverage around the quality of the product, having nice, structured text on their website that describes what makes their product special, that describes the look and feel in a very detailed way, that is designed to get pulled into responses. That’s how we’re working with fashion brands right now.

When we think about how AI is changing shopping, what do brands need to do to win in this new environment?

Honestly, it sounds so trite, and so unimpressive, and it’s not like the magical response that I would imagine you’re hoping for, but it’s just lean in. Get set up, pay attention, start. Once you understand how you’re showing up in answer engines, which is a very self-serving statement, but that’s what we help you do, I think lean in and take it really seriously, understand that there are billions of people using these platforms on a weekly basis. This is the new marketing channel. It’s happened. This isn’t a speculation into the future. You shouldn’t put your entire 2026 marketing budget into your AI visibility strategy, but in the same vein, you should have a strategy.

This interview has been edited and condensed.

04. Jewellery Sparkles



04. Jewellery Sparkles With unit sales growth outpacing all other fashion categories, jewellery's bright moment is set to continue into 2026. Having defied the broader luxury slowdown, the category will keep reaping the rewards of a growing customer base with a desire for long-lasting investments, self-expression and treating themselves. As jewellery cements its role as accessories centrepiece, fashion players will seek to capture their share of the category's outsized growth.

KEY INSIGHTS

- Between 2025 and 2028, jewellery is projected to record annual unit growth of 4.1 percent — four times the rate of clothing.
- 42 percent of women and 35 percent of men report buying more jewellery for themselves than two or three years ago.
- Lab-grown diamonds are expected to account for half of all diamond jewellery unit sales by 2030, thanks to more affordable prices, growing ethical concerns and expansion beyond bridal occasions.

EXECUTIVE PRIORITIES

- Anchor category extensions into jewellery in the core brand DNA, such as craft or innovation, to resonate with customers already aligned to brand codes.
- Expand male and genderless collections to meet demand for jewellery from new customer segments.
- Reposition jewellery as a form of self-expression by emphasising personalisation and self-purchasing in communications.
- Define a strategic approach and value proposition for lab-grown gemstones.

Jewellery volume growth is set to outpace other categories, reflecting consumer value perceptions

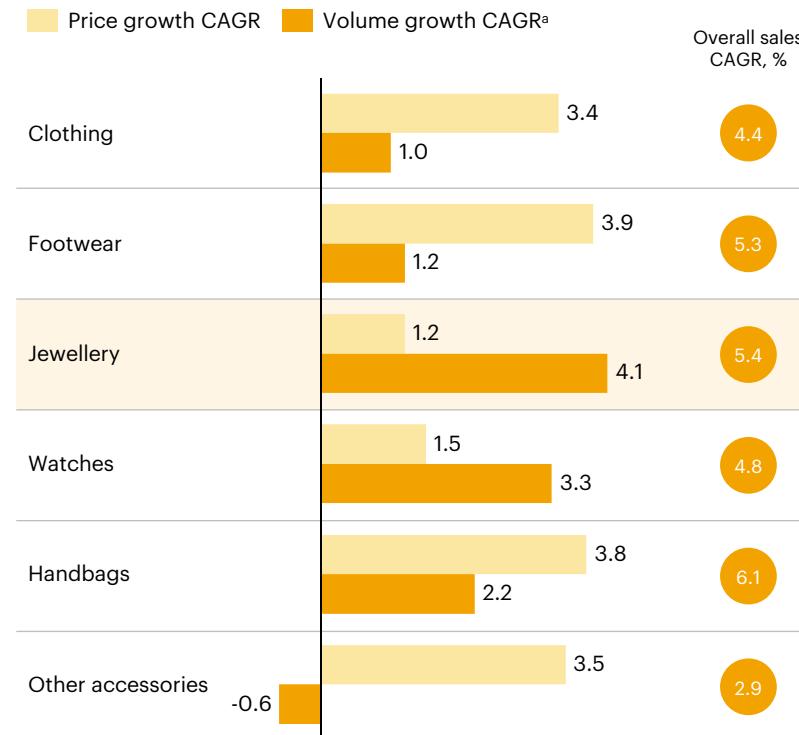
Over the next few years, jewellery is forecast to be the fastest-growing category in fashion by unit sales, growing at nearly four times the rate of clothing. Both costume and fine jewellery are expected to grow similarly, with sales growing between 5.3 and 5.6 percent per year through 2028.¹

This growth is particularly pronounced in branded jewellery: Sales of branded jewellery made up 25 percent of the market in 2024 and grew 8.3 percent per year between 2021 and 2024, almost double unbranded jewellery's 4.3 percent growth.¹ In 2025, 61 percent of consumers say jewellery is a category in which brand matters most, increasing to 82 percent in China.²

Diamond jewellery accounts for roughly one-third of global jewellery sales and is expected to expand at 4 to 5 percent per year through 2028. Within this, lab-grown diamonds are forecast to grow 15 to 16 percent annually as adoption increases, particularly in India, China and the US.³

This momentum reflects jewellery's unique role as both an emotional and financial value store. When asked to compare categories for their investment potential, consumers rank jewellery top — 15 percentage points higher than handbags and other accessories.²

Projected growth by category, 2025E–2028E
%



a. Volume growth is growth in the number of units sold
Note: Other accessories includes fashion glasses, belts, scarves, gloves, hats, caps, ties and other small accessories
Source: Euromonitor

Regional tailwinds and demand for long-term value will propel the market

Asia Pacific will continue to drive the largest share of market growth through 2028, led by China and India, where jewellery sales already represent around two-thirds of the APAC market.

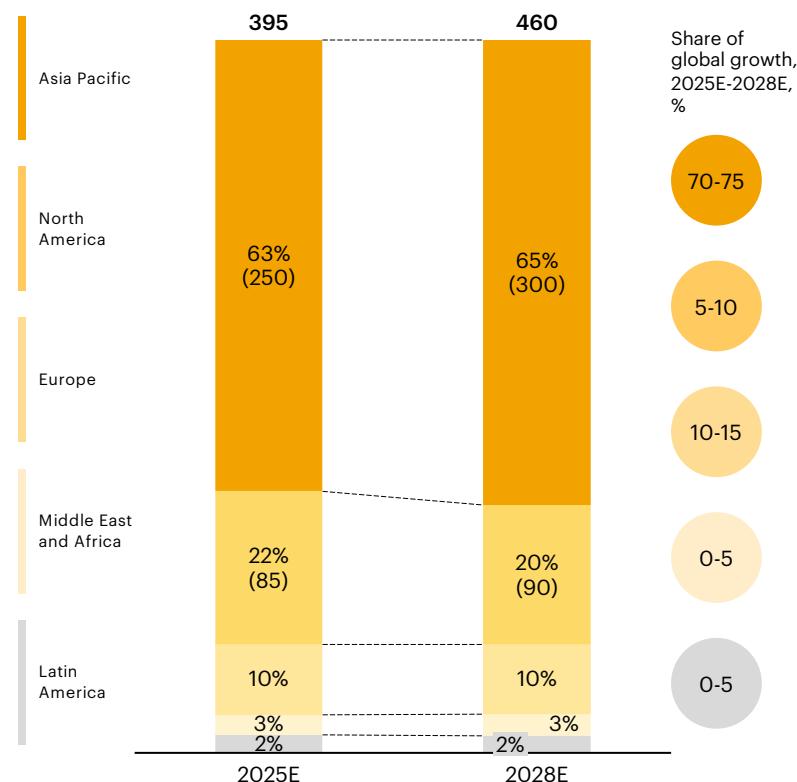
Market drivers in China

For international brands – which account for over 50 percent of branded jewellery sales in China⁴ – sharp price increases in soft luxury categories such as ready-to-wear and handbags have weakened perceived value, prompting consumers to shift spending towards hard luxuries like jewellery. Several local brands are also performing well, including Laopu Gold – which offers fixed-price gold, where prices do not fluctuate daily with the market rates – and Kering-owned Qeelin, whose Chinese heritage design codes are resonating with local consumers.^{5,6} In the unbranded jewellery segment, a softer property market has reinforced fine jewellery's appeal as a store of value.⁷

Market drivers in India

According to De Beers, India has now overtaken China as the world's second-largest diamond market, accounting for roughly 11 percent of global demand, second only to the US at over 50 percent.^{8,9} India's rising middle class and deep cultural affinity for gold and diamonds are fuelling sustained double-digit growth for domestic jewellers – which make up more than 90 percent of branded jewellery sales.¹

Share of total jewellery market by region, 2025E–2028E, % (USD billions)



Source: Euromonitor, McKinsey analysis

Jewellery is moving beyond gifting, with more men and women buying it for themselves

As jewellery becomes more associated with personal identity than occasion,¹⁰ more consumers are buying it for themselves rather than as a gift for others. Forty-two percent of women and 35 percent of men report buying more jewellery for themselves than two or three years ago.²

This shift is fuelled partially by rising incomes and evolving gender roles. By 2028, women will command over 75 percent of global discretionary spend,¹¹ likely benefitting jewellery sales to women buying for themselves. Forty-one percent of jewellery retailers surveyed say female self-purchasing is the top opportunity in silver jewellery, whereas just 26 percent cite gifting.¹² Self-purchasing is set to propel accessibly priced jewellery, with retailers already seeing strong sales for pieces priced \$100 to \$500.¹²

Although still a small part of the market, men's jewellery is one of fast-growing segments, set to grow 7 to 8 percent per year through 2028, compared to women's jewellery at 4 to 5 percent.^{11,13} Brands are meeting this demand by launching male or genderless collections, often fronted by celebrities like Korean actor Byeon Woo Seok.

75%

of consumers say they love to treat themselves with jewellery²

+58%

increase in jewellery sales of women buying for themselves in 2024, compared to 2021¹²

David Yurman

The American jewellery brand launched its first-ever men's high jewellery collection in 2024 with campaigns featuring brand ambassador Michael B. Jordan. It comprised a 30-piece assortment of necklaces, bracelets, rings and cufflinks, and supplements the brand's existing men's offering, which was introduced in 2004.¹⁵

Graff

Diamond jeweller Graff launched a unisex line in 2024, the Laurence Graff Signature collection, featuring rings, pendants and bracelets, moving beyond its traditional bridal focus. Though diamonds are traditionally associated with women, the collection extends the brand's DNA as well as the addressable market.

De Beers

As women have increasingly become independent consumers in the diamond market, De Beers has shifted its messaging from a primary focus on everlasting love and marriage to celebrating one's authentic self in a bid to stay relevant. Its revised messaging highlights narratives such as uniqueness and self-worth.¹⁶

Mejuri

The fine jewellery brand is known for its competitive prices, thanks to its direct-to-consumer model, as well as its marketing that encourages women to buy jewellery for themselves. Female self-empowerment is core to the brand's story, including its Mejuri Play initiative, which launched in 2025 and celebrates female athletes.

Self-expression is becoming a defining force in jewellery across price segments

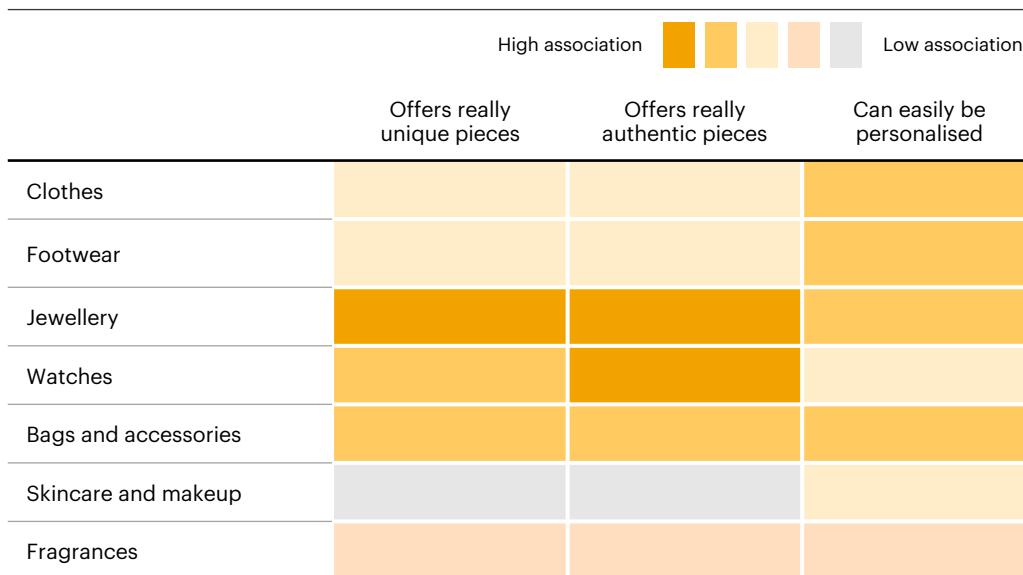
71%

of consumers say jewellery is how they express their personality²

75%

of consumers say they prefer jewellery designs that are creative or unique²

Strength of consumer associations of fashion categories with key emotional attributes



Source: McKinsey jewellery consumer survey, September 2025

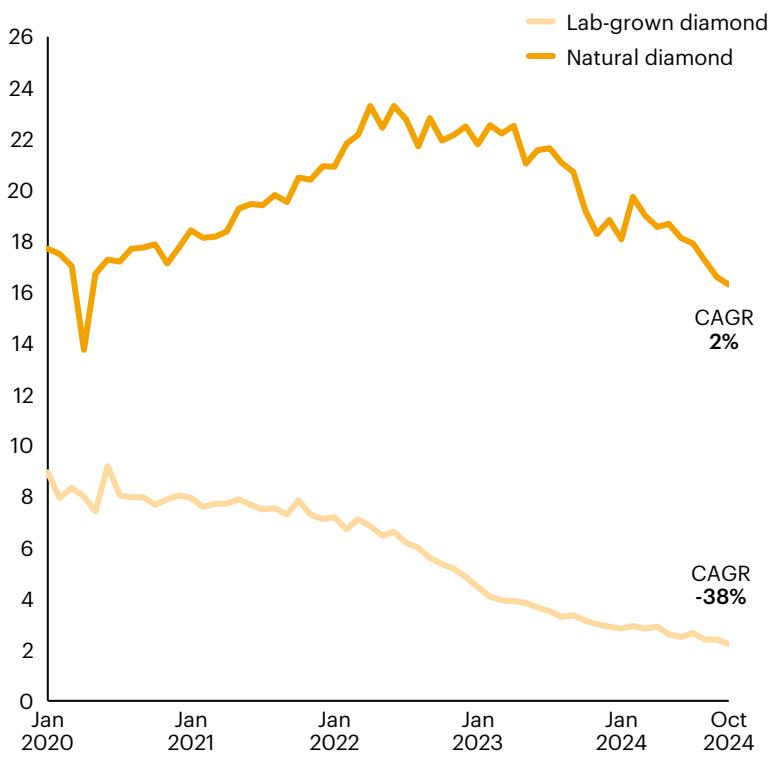
Jewellery is increasingly valued as a canvas for individuality and signifier of taste. For example, buyers can signal their taste and style through artisan handwork, customisation and unique materials at the higher end of the market,^{17 18} as well as express their identity through layering and stacking pieces in custom ways — a trend that applies to jewellery across price segments.

Novelty jewellery featuring whimsical, fun designs — from food-themed rings to neon enamel pendants that lend themselves to social media — is growing in appeal. This spans from entry-level costume jewellery to precious gemstone pieces costing \$25,000 or more.¹⁹ Smaller jewellery brands that offer unique, limited quantity designs, such as Irene Neuwirth or Nadine Ghosn, are also on a rise.

The rise of jewellery as a form of self-expression is creating momentum for branded players. Unlike unbranded pieces, branded jewellery often carries its own iconography and symbolic language — a shorthand for identity.

Lab-grown gemstones are making fine jewellery more accessible for everyday occasions

Average retail price of two-carat polished lab-grown vs. natural diamonds, 2024, USD (thousands)



The rise of lab-grown diamonds

As prices for lab-grown diamonds continue to fall — now priced 80 to 90 percent below mined equivalents — diamonds are expanding from symbols of heritage and permanence to more accessible accessories worn for a broader range of occasions.¹⁶⁻²⁰ Lab-grown diamonds account for nearly 20 percent of global diamond jewellery sales and could reach 50 percent by 2030.²¹⁻²²

Lab-grown gemstones for everyday

While half of US lab-grown diamond sales come from bridal jewellery, brands can fuel growth by expanding their use across other collections and introducing lab-grown coloured gemstones into pieces that tap into consumer demand for individuality and self-expression.²¹⁻²² Reflecting this shift, consumers are wearing lab-grown diamonds more regularly: 57 percent would wear lab-grown diamonds daily, versus 30 percent for natural diamonds.²³

Brand and retailer strategies for lab-grown and natural diamonds

As lab-grown diamonds reshape the market, brands and retailers must sharpen the narratives around their collections. Prices for lab-grown stones may continue to fall, strengthening value-for-money narratives. Lab-grown diamond marketing can also emphasise sustainability, which resonates strongly with younger consumers.⁸⁻²⁴⁻²⁵ By contrast, natural diamond players are emphasising rarity, provenance and emotional value: De Beers and Signet have partnered in the US to train associates on these attributes.²⁶

Source: Edahn Golan Tenoris, October 2024

Brands should capitalise on the sector's growing diversification and changing consumer tastes

EXECUTIVE PRIORITIES

1 Anchor a jewellery extension into the brand's core DNA

As more fashion and luxury players move into or expand their presence in jewellery, success will depend on articulating a credible point of differentiation. Brands should identify existing strengths, such as heritage craft or material innovation, and reflect these in collection development for it to feel like a natural extension of the brand rather than an opportunistic add-on.

2 Expand male and genderless jewellery collections

Brands can develop modular, minimalist and sculptural designs that transcend traditional gender categories. This may also involve reducing gendered product segmentation — both in-store and online — and marketing existing pieces as universal. Product and marketing should reflect regional nuances: In some markets, social stigma around men wearing jewellery persists. Male influencers can help build credibility and reframe jewellery as a form of self-expression.

3 Empower personal expression through customisation

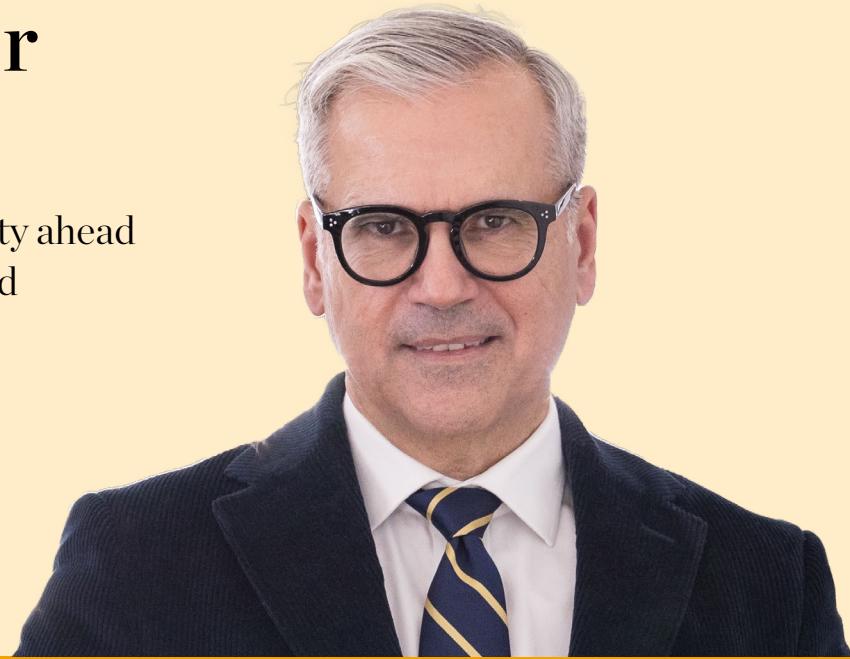
Examine how existing products can be customised and personalised. This may differ across price segments, from engraving core pieces as an add-on service to offering custom jewellery painting or bespoke creation. Brands should rebalance messaging around bespoke jewellery and customisation to include self-reward and self-expression as well as gifting, targeting women and younger consumers as empowered buyers.

4 Define a strategic approach to lab-grown gemstones

Brands — especially pure jewellery players — should define a clear approach to if, where and how lab-grown diamonds and coloured gemstones can be incorporated into the product pyramid beyond bridal occasions. For example, they could be incorporated into multi-stone pieces like bracelets or necklaces, or as melee stones to highlight mined solitaires. This strategy should be tailored to regional differences in consumer attitudes. Retailers should clearly differentiate marketing between natural and lab-grown diamonds to emphasise distinct value propositions.

Swarovski's Strategy for Maintaining Its Shine

Chief executive Alexis Nasard sees more opportunity ahead for the brand by embracing lab-grown diamonds and leaning into culture and design trends as jewellery continues to be a bright spot in the fashion market.



BY SIMONE STERN CARBONE

Swarovski came into 2025 sparkling. Its jewellery business grew 9 percent year on year in 2024, with particularly strong results coming from the US and lab-grown diamonds, which more than doubled in sales.

Alexis Nasard, Swarovski's chief executive since July 2022, is confident the momentum will continue. The brand's plan for 2026 is to maintain its focus on creative craftsmanship, while catering to trends in design and

customer behaviour — like jewellery being used for all-day wear — that are reshaping the market.

It also aims to keep serving customers across price points. Swarovski segments its offering into low, medium and high complications — much like the watch industry — with the strongest growth in the mid-range, where Nasard noted the brand has little competition.

Lab-grown diamonds remain

another strong point. Nasard says they've been effective for drawing in new customers, even those who've traditionally favoured mined diamonds, with some of the newcomers converting to buyers of the brand's other lines, such as its crystal pieces.

These moves play to the brand's positioning as "pop jewellery" that actively engages with and shapes the cultural zeitgeist, staying relevant and fresh. To that end, Swarovski has

launched strategic capsule collections and partnerships with celebrities, the latest being Ariana Grande, who had the best-selling capsule in the brand's history.

The strategy works particularly well in the US, the brand's largest market, where Nasard expects consumers to keep buying Swarovski's jewellery as long as the job market remains strong.

Luxury fashion has struggled lately due to price hikes that go beyond inflation. How is Swarovski approaching pricing, and what strategies have you employed to engage consumers?

We have kept our pricing largely in line with inflation. In terms of customers, our focus is on building strong engagement with local customers in key metropolitan areas in our established markets – Europe and the US – but also in our key growth markets like South Korea, Brazil, Japan and Mexico.

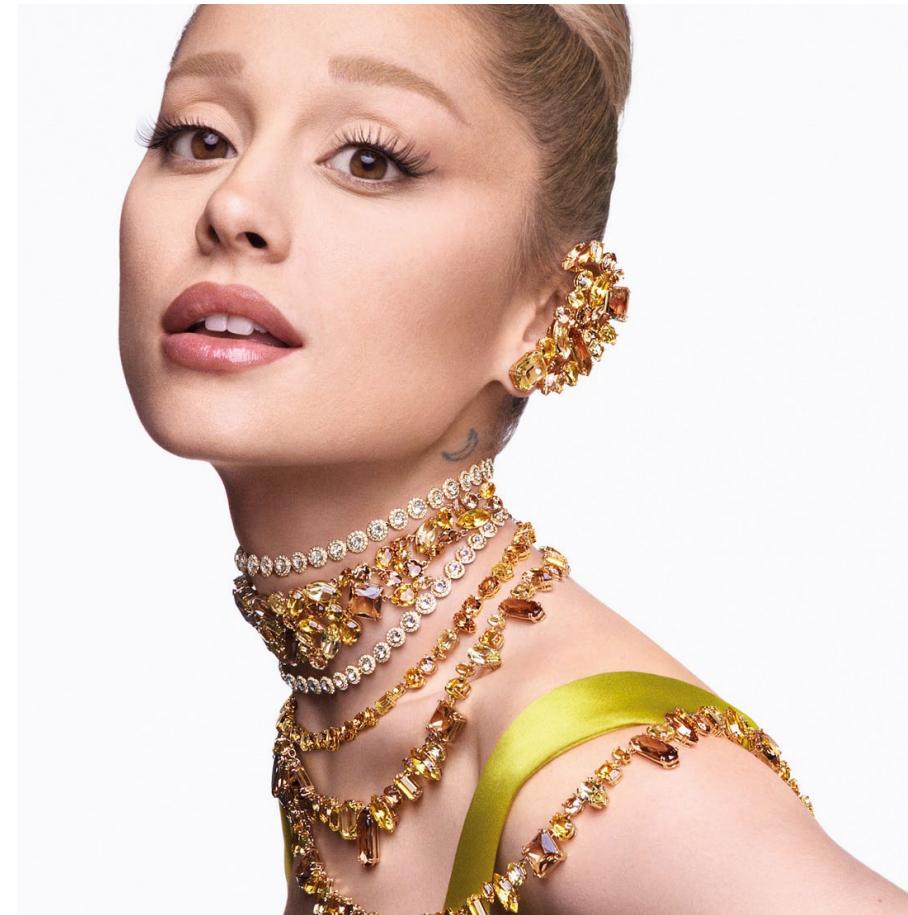
Cosmopolitan areas drive trends, so to keep up with the cultural zeitgeist, we have a city-focused strategy. We want our stores to be destinations in their own right, offering experiences that encourage repeat visits and self-purchase – a trend we see growing among women that we find empowering and strongly encourage. By combining compelling product design, cultural alignment and a seamless shopping experience, we aim to create reasons for consumers to shop beyond holidays or gifting for special occasions. In this context, jewellery becomes a medium for everyday expression, even when the economy is troubled. Jewellery is ultimate discretionary spending, but in markets like the US, as long as consumers have some money to spare

and the value proposition resonates, they will spend.

Some brands in luxury jewellery are simplifying their assortment to manage inventory, reduce overstock and minimise risk. How is Swarovski approaching its product range, and do you see any shifts in consumer demand influencing this strategy? At Swarovski, we maintain a broad price range and variety of designs, but we are highly disciplined about what we offer. Our assortment reflects both creative innovation and consumer expectations. The mid-tier complexity segment has emerged as particularly strong because it combines originality with accessible pricing. In a landscape where competitors may overextend or dilute their offerings, our strategy is to curate thoughtfully, ensuring that each product resonates with customers and supports the brand's cultural relevance.

You mentioned that mid-tier complexity is driving growth. Can you explain why this segment is performing so well, and how it fits into the broader jewellery market? Mid-tier complexity bridges the gap between entry-level pieces and high jewellery. It allows customers to access designs that are original,

"Consumers buy not just a product but the cultural narrative and emotional experience it represents."



Ariana Grande in a Swarovski campaign. Swarovski.



Swarovski Asia flagship store in Shanghai. NurPhoto/Getty Images.

intricate and emotionally resonant without the costs of high jewellery. There is relatively little competition in this range, and it offers a compelling value proposition. Customers recognise the creativity and craftsmanship in these pieces, which makes them a strong choice for self-purchasers. It's a segment that reflects both aspiration and accessibility, and it aligns with the evolving desires of contemporary consumers.

How is Swarovski responding to the rise in women shopping for themselves, particularly with the adoption of lab-grown diamonds? Women are increasingly choosing jewellery for themselves, and lab-grown diamonds play a significant role in facilitating that. These diamonds offer exceptional quality and design flexibility at a price point that makes acquisitions attainable. They are also more sustainable, using

renewable energy and recycled metals, values that resonate strongly when self-purchasing. We have observed that stores offering lab-grown diamonds attract new customers who then also engage with other parts of the Swarovski range, like our crystals, creating a positive ripple effect across the business.

Lab-grown diamonds are becoming more mainstream. How do you see

their role evolving in luxury jewellery? Lab-grown diamonds are a critical part of the future of jewellery. They offer the same brilliance and durability as mined diamonds while enabling more imaginative design options. They allow us to engage customers who are looking for creativity, sustainability and value. The US is leading in adoption — over half the diamond market there is now lab-grown — and we expect the growth to continue globally.

Cultural trends are increasingly influencing jewellery design. Which trends do you expect to shape the market in 2026?

We see several intersecting trends. Jewellery designed for all-day wear is becoming more prevalent, moving seamlessly from professional settings to leisure activities — from date night to tennis to the meeting room. Multi-metal pieces and multicoloured crystals are growing in popularity, allowing for more playful and versatile styling. Men's jewellery is slowly gaining traction, reflecting broader shifts in gender expression, though it still only makes up around 2 percent of the market — women will always be key consumers for jewellery. Pearls and charms are also being reimaged for contemporary use beyond traditional settings.

Customisation, on the other hand, is not a game changer for us, though we saw a small uptick four to five years ago. We offer some customisation but it's still a small part of the business and the market at large. The majority of customers go for standard collections.

China remains a complex market for luxury brands.¹ How have the market's current dynamics affected Swarovski's strategy there?

China presents unique challenges due to demographic shifts, macroeconomic pressures and regulatory uncertainty. Youth unemployment in major cities is high, and population trends suggest a contraction in the younger consumer base, Millennials and Gen Z, who represent half of the domestic luxury market. These factors, combined with the unpredictability of policy and geopolitical tensions, make our strategy more cautious. We maintain a presence in key cities with designs that resonate locally, ensuring the brand remains relevant while avoiding disproportionate risk.

The US appears to be a strong growth driver. What factors are contributing to your success there?

In the US, discretionary spending remains strong because employment levels are stable, and consumers

continue to prioritise categories like jewellery. Additionally, Swarovski's brand perception is at an all-time high in the US: Americans resonate particularly well with the 'joyful exuberance' our jewellery embodies. We don't even have 250 stores stateside yet, so there is room for much more footprint, which keeps us quite optimistic.

With branded jewellery increasingly dominant globally, how does Swarovski position itself in this competitive landscape?

Branded jewellery offers creativity, culture and a sense of participation in a broader lifestyle. These are key differentiators to unbranded jewellery. Consumers buy not just a product but the cultural narrative and emotional experience it represents. Swarovski's strategy emphasises brand consistency, creativity, engaging with the cultural zeitgeist, especially pop-culture, with ambassadors like Kim Kardashian, Bella Hadid and now Ariana Grande, whose capsule collection was our all-time bestseller. Tapping into these elements differentiates us from unbranded alternatives. Value considerations remain important in some markets, like secondary cities in emerging markets such as India. There, especially in economically

tough times, unbranded jewellery may be favoured for value purposes. Globally, branded jewellery will win in the long run.

How do you see jewellery consumption evolving between investment pieces and everyday wear, and are these even mutually exclusive?

Everyday wear and investment pieces are not mutually exclusive; both will continue to coexist. Economic cycles

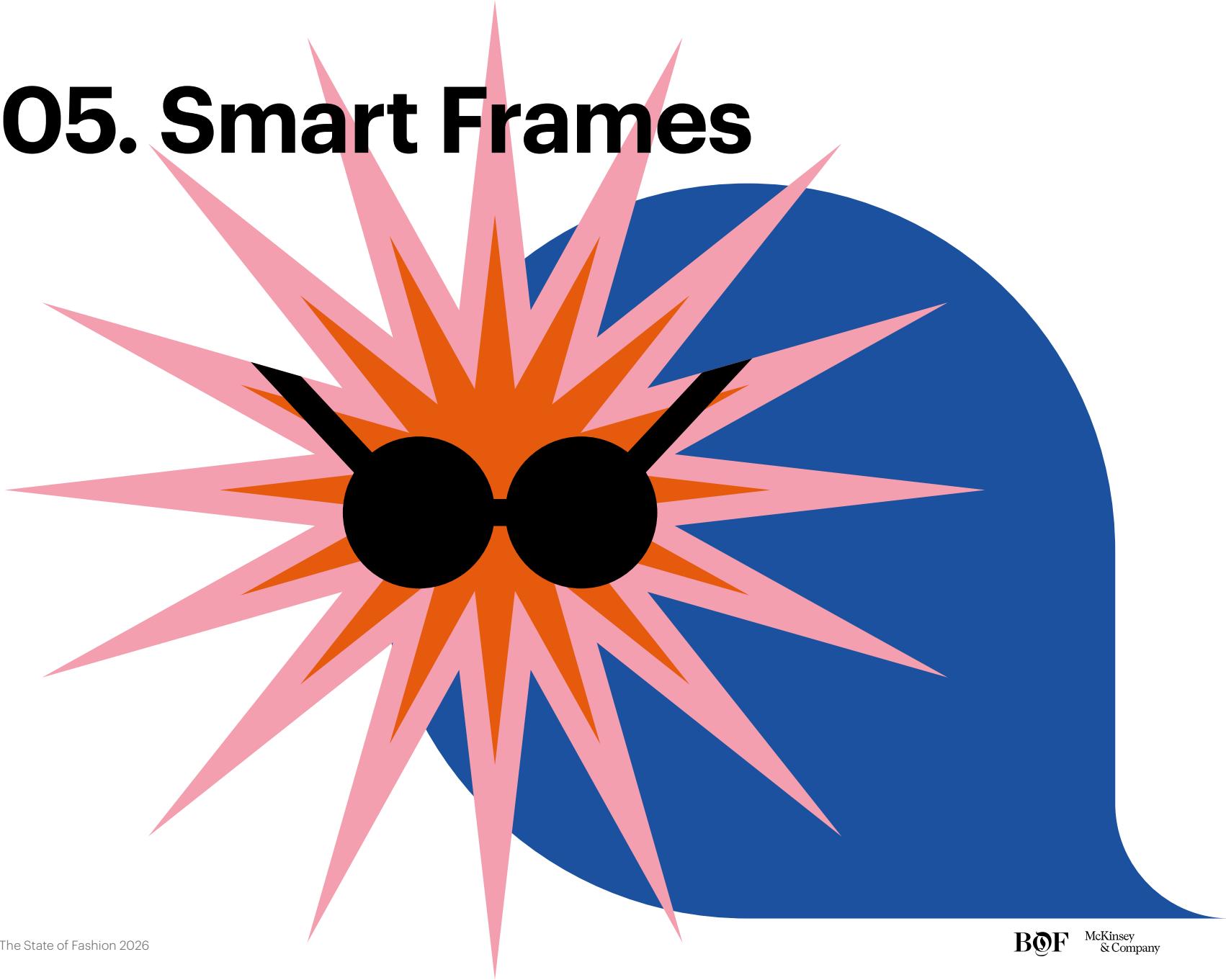
and consumer segments influence preferences, but jewellery fundamentally serves multiple roles. Middle-class consumers in emerging markets may prioritise value and longevity, especially when the economy is down, while socialites in established markets are more likely to seek instant gratification. We cater to both ends of the spectrum.

This interview has been edited and condensed.



Kim Kardashian, Swarovski x Skims collaboration. Taylor Hill/Getty Images.

05. Smart Frames



05. Smart Frames Style-conscious devices equipped with multi-modal AI are set to redefine the wearables landscape in 2026, with smart eyewear emerging as a leading format. Major players already have product launches scheduled, reflecting strong market momentum. With the category projected to exceed \$30 billion by 2030, brands have a timely opportunity to partner with technology leaders to unlock high-value consumer use cases and accelerate adoption.

KEY INSIGHTS

- Wearables — including smart watches, rings, eyewear and bands — is the fastest-growing accessory category, with growth of 8.3 percent per year since 2022, set to continue at 9 percent annually to 2028.
- Consumer adoption of smart watches is high, with the category representing 35 to 40 percent of watch market volume, while smart eyewear and smart rings represent less than 10 percent of their respective market volume.
- Consumers are expected to further embrace smart glasses in 2026. Ray-Ban Meta glasses were already the top-selling product in 60 percent of Ray-Ban's EMEA stores as of Q3 2024.

EXECUTIVE PRIORITIES

- Monitor consumer adoption of wearables as well as technological advancements enabling improved design or functionality. Brands must assess carefully if and how wearables appeal to their target audience.
- Brands entering smart eyewear should secure strategic partnerships that complement their in-house expertise. For example, fashion brands without a core eyewear business can license their brands to technology leaders, whereas eyewear players can enter joint ventures with tech firms or commission specialist suppliers.
- Leverage fashion expertise to elevate wearables with complementary products such as protective cases and straps, as well as product personalisation.

Wearables will continue to be the fastest-growing accessory category and an opportunity for brands

Wearables is the fastest-growing accessory category

Sales of wearables reached \$42 billion in 2025, equating to 230 million units, and while small compared to some other categories, it is set to remain the fastest-growing accessory category to 2028.¹ Smart wearables — devices with voice assistants, messaging and other intelligent features — are expected to account for 58 percent of volume by 2028.¹

Smart watches have propelled the category

Early wearables appeared in the 2000s with GPS devices like Garmin's ForeRunner 101. The breakthrough in the wearables category came with smart watches, which grew from around 15 percent of the watch market in 2016 to 35 to 40 percent today.¹ Fashion players have also entered the space, with brands like Tag Heuer, Tissot and Louis Vuitton launching their own lines.

The performance of other wearables is mixed

Smart bracelets, once 40 percent of the basic activity wearables market in 2016, now account for less than 10 percent. Smart rings, dominated by Oura, which had an 80 percent market share in 2023, are becoming popular — Oura has sold over 5.5 million rings as of September 2025, with more than half of those sold in the preceding year.²³

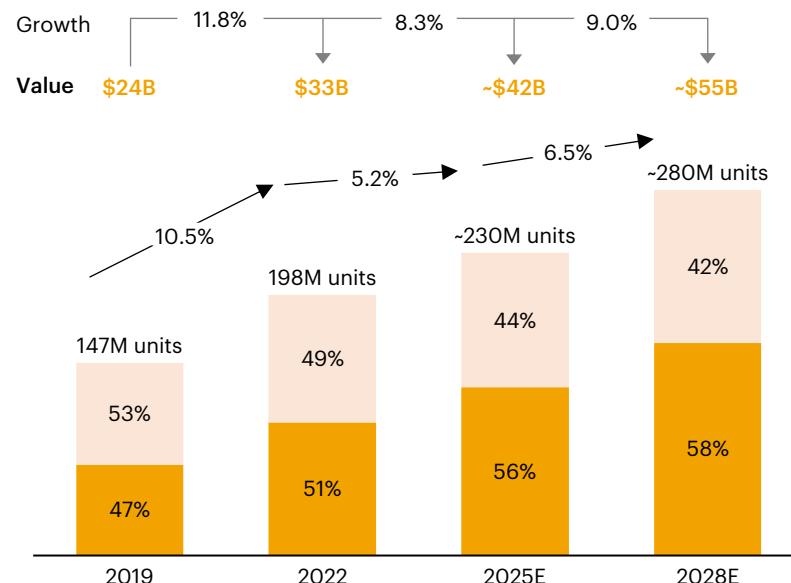
Smart eyewear is poised for breakout growth in 2026

Despite several false starts over the past decade, smart eyewear is finally gaining traction as hardware advances and multi-modal AI make them sleeker and more functional. EssilorLuxottica reported in February 2025 that Ray-Ban Meta sales had reached two million pairs and announced plans to increase production capacity to 10 million annual units by the end of 2026.⁴⁵

Wearables market, volume by number of units sold, 2019-2028E

Basic activity wearables: focused on health and fitness tracking, with limited additional features (e.g. fitness bands, rings)

Smart wearables: incorporating smartphone-like features (e.g. message response, voice assistant, cellular connectivity) and can run third-party applications independently from a smartphone (e.g. smart watches and eyewear with those features)

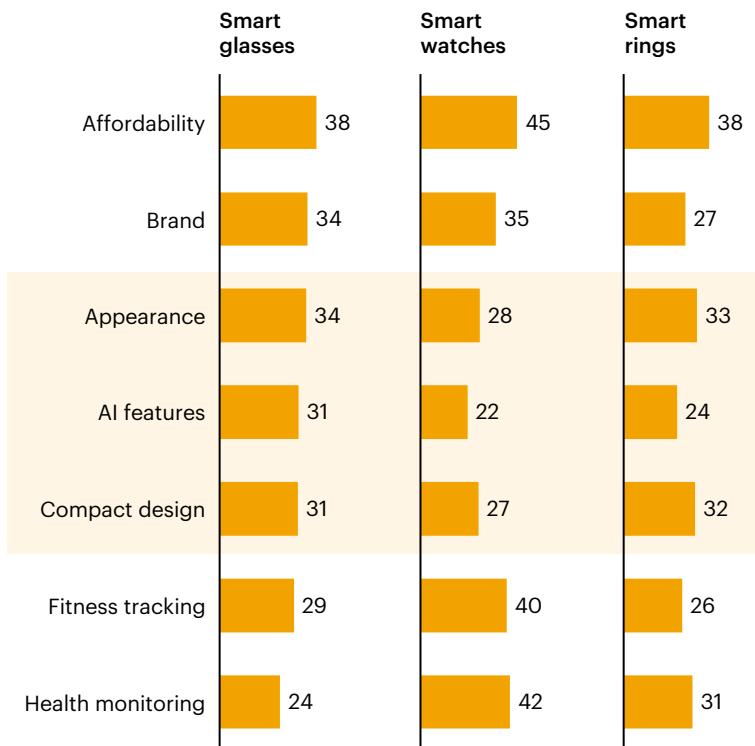


Source: Euromonitor

Eyewear fashion trends and tech advances will accelerate smart eyewear adoption in 2026

Most important factors influencing wearable purchases,
% of wearable users

Factors expected to increase in importance in 2026



Lower consumer prices are set to propel smart eyewear growth

Global shipments of smart glasses rose 110 percent year on year in the first half of 2025, with AI-enabled models representing 78 percent of shipments (up from 46 percent the same period the year prior).⁶ Analysts expect sales to quadruple in 2026, supported by lower average prices of \$300 to \$400 per pair today – about one-third of Google Glass’s original cost in 2014.⁷

Eyewear demand is strong across price points

The broader eyewear category grew 6 percent annually from 2022 to 2025, with sustained 5.2 percent growth projected through 2028.¹ Eyewear is increasingly seen as an accessible status symbol, illustrated by Jacques Marie Mage’s \$1,000 frames and the rise of challenger brands offering distinct aesthetics, from Gentle Monster’s bionic designs to Blue Elephant’s grunge style and L.G.R’s travel-inspired look.

Smaller components are enabling more stylish frames

Advances in technology have reduced chip size and power use, allowing more compact designs. Style is a critical purchase driver in eyewear, influencing one-third of smart glasses buyers compared with one-fourth of smart watch buyers.

AI is expanding smart eyewear use cases

Multi-modal AI now powers image recognition, natural language processing and autonomous tasks, aligning with existing consumer habits – for example, close to 60 percent of Americans use voice assistants.⁸ Smart eyewear enables hands-free content capture as well as everyday functions like navigation and communication. It is the only wearable for which AI features rank among the top five purchase drivers.

Source: BoF-McKinsey State of Fashion 2026 Consumer Survey

Fashion's involvement in smart eyewear is recent, but 2026 is poised to offer more opportunities

Tech accessories and industrial solutions		Nascent fashion wearables	Advanced fashion wearables	
				
1960s-2000s	2010s	2016 onwards	2023 onwards	2025 onwards
Early prototypes and first consumer products	Pivot to enterprise	Stylish products with select consumer use cases	Stylish glasses with AI-enabled voice features	Stylish and multi-function AI glasses
Early experiments were niche and impractical. Initial products were designed for specialised use cases (e.g. astronaut training, remote robotics) and suffered from bulky design, short battery life and no connectivity.	Enterprise use cases took priority. High prices (around \$1,500 per pair), short battery life and privacy concerns led technology players to focus on professional settings such as manufacturing, healthcare and remote support.	Consumer eyewear re-emerged with select functions. To improve style, brands narrowed functionality to focus on simpler use cases such as taking photos and videos for social media or listening to music.	AI voice features enabled broader use cases. This included voice assistants, expanding possible tasks to include hands-free messaging, calls and search.	New fashion-forward releases include integrated products with AI assistants, supporting navigation, fitness, translation, video calls and health tracking — making eyewear a true multi-use wearable.
Examples:	Examples:	Examples:	Examples:	Examples:
<ul style="list-style-type: none"> Steve Mann's Eyetap (1990s) MicroOptical's Myvu, iPod compatible glasses (2000s) 	<ul style="list-style-type: none"> Google Glass, first launched for consumers (2013), re-focused on enterprise (2017) Microsoft HoloLens (2016) 	<ul style="list-style-type: none"> Snap Spectacles (2017) Amazon Echo Frame (2019) Xiaomi Smart Audio Glasses (2021) Ray-Ban Stories (2021) 	<ul style="list-style-type: none"> Second generation Ray-Ban Meta glasses featuring three styles of frames (2023) Launch of Oakley Meta HSTN featuring seven styles (2025) 	<ul style="list-style-type: none"> Xreal One Series Oakley Meta Vanguard Meta Ray-Ban Display Expected future launches: Google with Kering, Gentle Monster and Warby Parker, Snap Spectacles (relaunch), Samsung, Amazon^{9 10 11 12}

(Left to right): 1. Steve Mann's Eyetap. Randy Quan/Getty Images. 2. Microsoft HoloLens. Justin Sullivan/Getty Images. 3. Snapchat Spectacles. David McNew/Getty Images. 4. Meta Ray-Ban second-generation smart glasses. Josh Edelson/Getty Images. 5. Meta Ray-Ban Display. EssilorLuxottica.

Three distinct consumer segments are shaping the smart eyewear market

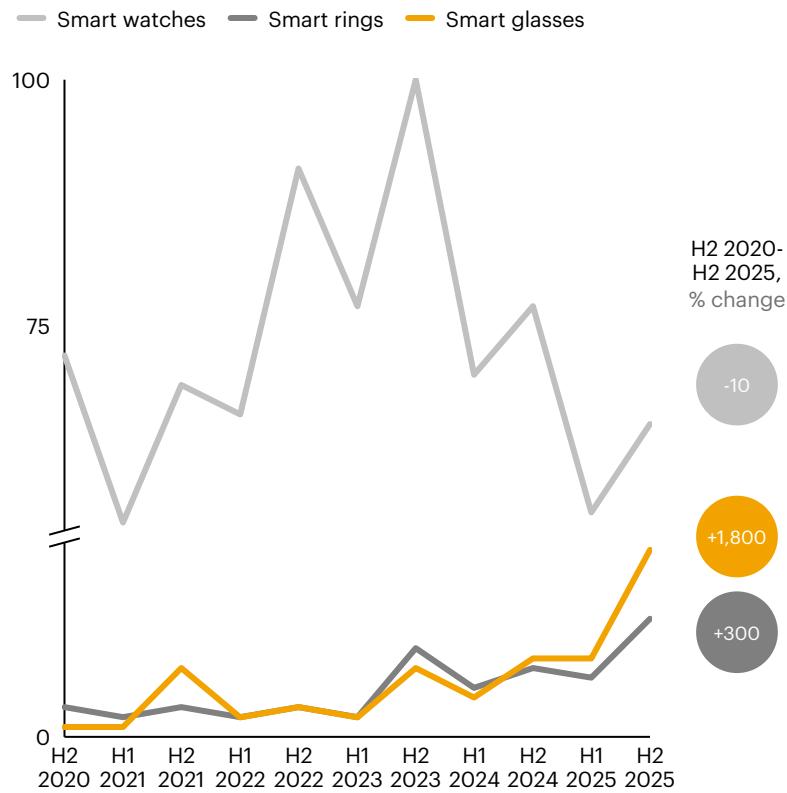
Across use cases, certain smart features will be non-negotiable. Consumers will expect reliable internet connectivity, seamless integration with their existing devices like phones and laptops, and compatibility with multi-modal AI to enable smooth, hands-free operation.

Everyday eyewear will demand lightweight, discreet designs, while sports and technical eyewear will require durability and advanced functionality. Models used in work settings will require a different approach again. For instance, work/enterprise models — such as mixed-reality headsets designed for industries such as manufacturing and design — can be up to 10 times heavier than models designed for everyday or sports.¹³ Brands that want to compete will need to find the right balance between design and function.

Consumer use cases for smart eyewear			
Capabilities	Everyday	Sports	Work/enterprise
● Essential feature	Supports daily tasks like getting directions, calling and listening to music	Supports physical activity by providing hands-free guidance and health tracking	Offers alternative screen to take conference calls and complete desktop tasks
○ Optional feature			
Voice assistant	●	●	●
Audio and video recording	●	●	○
Social media streaming	●	○	○
Voice call capabilities	●	●	●
Video call capabilities	○	○	●
Built-in display	○	○	●
Health tracking	○	●	○
Productivity apps integration	○	○	●
Proximity sensors	○	●	○
Hands-free control	○	○	●
Relevant brand archetypes	Lifestyle brands with eyewear lines and dedicated eyewear brands	Sports and athleisure brands	Lifestyle brands and dedicated eyewear brands

Partnerships will drive the segment's growth as interest in smart eyewear rises

Search interest for smart wearables, H2 2020-H2 2025,
Google interest over time



Although subscale compared to smart watches, search interest in smart eyewear has seen significant growth in the second half of 2025. With major launches taking place in 2026, momentum is expected to accelerate. Partnerships between tech players and fashion brands will be critical to this growth, likely falling under two models:

1. Joint ventures with technology players

Meta's \$3.5 billion investment in EssilorLuxottica, Ray-Ban's parent company, illustrates the power of the joint venture model.¹⁴ EssilorLuxottica contributed styling, manufacturing expertise, brand equity and distribution, while Meta focused on hardware and software. Ray-Ban Meta glasses were the best-selling product in 60 percent of Ray-Ban's EMEA stores in Q3 2024, according to EssilorLuxottica.¹⁵ Most current partnerships follow this structure, including Google's deals with Kering, Gentle Monster and Warby Parker.⁹ With technology giants such as Samsung and Xiaomi entering the space and introducing AI-enabled eyeglasses, opportunities for new ventures continue to expand.^{11 16}

2. Brand-led development with tech suppliers

Brands can develop proprietary products by working with hardware specialists. Suppliers such as Qualcomm, Applied Materials, Lumus and Schott are already offering tailored components.^{17 18 19} This approach mirrors luxury watch collaborations, where Tag Heuer (Intel), Louis Vuitton (Qualcomm) and Montblanc (Qualcomm) partnered with hardware providers to launch branded smart watches. In this model, operating systems are either developed in-house (e.g. Swatch) or integrated with third-party solutions (e.g. Google's Wear OS).²⁰

Smart eyewear offers a new growth platform for both eyewear and non-eyewear brands

EXECUTIVE PRIORITIES

1 Closely monitor adoption of wearables and determine how to engage

Brands must assess carefully if and how wearables appeal to their target audience — staying on top of emerging technology, wearable trends and consumer attitudes through social listening and market data — and prioritise investments accordingly. Authentic engagement in the category is a non-negotiable.

For example, smart eyewear will be an appropriate extension for some brands with the right image, positioning and consumer base, but not all. Instead, some fashion players may be better suited to engaging with other wearables such as smart rings if they have a more luxe, minimalist brand image, or if they already have a jewellery line. Brands must link clear use cases with consumer personas and need cases in their target audience.

2 Secure strategic partnerships to enter smart eyewear

Fashion and eyewear brands entering smart eyewear must secure strategic partnerships that complement their in-house expertise.

Eyewear players should be first-movers in the category. They can enter joint ventures with tech firms to produce smart eyewear or commission specialist suppliers like Qualcomm or Lumus to support product development.

Fashion brands without a core eyewear business can license their brands to technology leaders such as Meta, Xreal or Google, leaning on their expertise in manufacturing and production as well as their marketing reach.

3 Elevate wearables through complementary products and services

As wearables become daily essentials, demand for cases, skins, straps and customisation is likely to grow. Fashion brands can extend their influence by creating seasonal and trend-driven designs for both established and emerging formats, including smart eyewear.

Offering in-store personalisation, such as engraving or painting, can further differentiate the experience, drive traffic and create opportunities for cross-selling in other categories.

EssilorLuxottica Thinks It Cracked the Code on Smart Glasses

The collaboration between the world's largest eyewear player and tech giant Meta has produced the first commercially successful smart glasses, and more recently a new version with an in-lens display. EssilorLuxottica chief wearables officer Rocco Basilico believes they're just getting started.

BY MARC BAIN

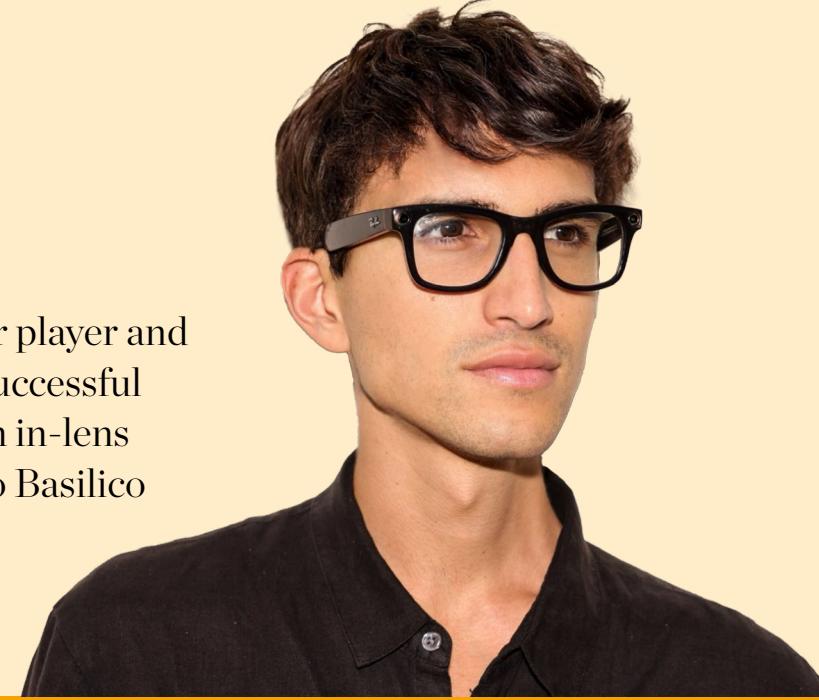
EssilorLuxottica and Meta reached a new milestone in their six-year-old partnership in September 2025 when they introduced the Meta Ray-Ban Display, their first smart glasses with an in-lens display, controlled via a bracelet that translates hand gestures into actions. The glasses offered capabilities like letting the wearer read text messages, see a transcription of what a speaker is saying or get turn-by-turn navigation. Just as important: They still look like regular glasses.

For more than a decade, tech companies promised that smart glasses would be the next breakthrough consumer device. They never connected with mainstream shoppers, however, because to make capabilities like a display possible, the glasses required bulky or awkward designs that weren't what people wanted to wear on their faces.

Ray-Ban and Meta attacked the challenge head-on, focussing on

design first. The second generation of their Ray-Ban Meta glasses, which didn't offer full augmented reality but packaged audio, image capture and Meta's AI into Ray-Ban's classic frames, became a surprise hit, selling more than two million pairs since their launch in 2023.

That success has bolstered the companies' confidence. Last year they announced a long-term extension of their partnership, and this year Meta



bought a minority stake in EssilorLuxottica for \$3.5 billion.

As EssilorLuxottica's chief wearables officer, Rocco Basilico has worked to preserve the balance of form and function in the company's collaboration with Meta, and believes what they've unveiled so far is just the beginning.



EssilorLuxottica trade show booth. Patrick T. Fallon/Getty Images.

Tech companies have been trying to make smart glasses a commercial success for at least a decade. What did the Ray-Ban Meta glasses do that previous generations of smart glasses failed at?

We started with design first, and we were very rigid in the partnership on not compromising on design. I think Meta appreciates this quality, that we were very firm that the Wayfarer needs to be a certain level of thickness or a certain weight. We said, if we don't fit the technology into this frame, we will not have a product.

EssilorLuxottica has said it's scaling production volume for the Ray-Ban Meta glasses and mentioned on its July 2025 earnings call that sales grew more than 200 percent year over year. That's still very fast growth. How big is the potential market here?

We are at the beginning of something; it's just starting. We said that we will be able to produce more than 20 million glasses, so the ambition is obviously very high. And because we have the opportunity to scale with different brands, I think that is key in accelerating adoption. We already see that a lot of new customers are buying Oakley. There are customers buying the Ray-Ban Meta that bought [Oakley's] HSTM or Vanguard, but



"I do think there's something beautiful about intertwining technology with fashion."

we saw more than 60 percent of new customers reaching out and discovering wearables through Oakley. It's such an important metric because you understand that we are not selling to the same bucket of people. Now we are going through the list of our brands and understanding what is the right mix for wearables as a category. Sports obviously are very important. Then it's important also to reach more women, so we have plans for that. We do it through style expansion, but at some point we will do it also from brand expansion.

Are you using the same strategy with the Meta Ray-Ban Display?

You're going to see a lot more. As you probably guessed, there is a lot of product strategy that goes behind this roadmap. The things that we're going to release a year from now, or a year and a half, are planned now. We're very fast between the decision-making of, 'Ok, we're going to do this,' and the release date. We can be faster; it can be two years or even less, which is a very, very fast product cycle. So

you're going to see way more products coming down the pipeline starting in the next months, not even the next years. But the strategy goes much deeper than that. We have a multi-year partnership; we have a very strong three-year roadmap that we feel very proud of.

The Meta Ray-Ban Display only just went on sale, so it's still very early, but can you say what the response has been so far?

We sold out, then we replenished, and we are trying to keep up. But the first day that we launched in our stores, we sold out. We had queues all over. We had queues at LensCrafters at five in the morning in New York. It's intentional that you have to go to the store to try the product, because you need to try the bracelet, you need to try the fitting of the frame. It's a new technology. The volume driver will be still AI glasses in the short term, but I do see at some point this category of display glasses becoming more important. There are some unique features that you can only have

Meta Ray-Ban campaign. EssilorLuxottica.

through the glasses, and I do think there will be some crossover even in sports. I imagine being able to see your speed when you're skiing, or your heart rate, or fewer display outputs.

Do you have a sense of which abilities offered by the display could become the most used?

Texting, I would say, is the main one, and translation and caption. The thing that could be interesting, when you take a picture right now with the Ray-Ban Meta, you need to pull out your phone, look at it and then post it or send it to a friend. Now you avoid that step potentially. You can look at the picture [in the display] and send it directly to a friend. That's already the direction of starting to leave a little bit your phone in your pocket. We started this journey with this idea to bring back people to live a little more in the moment, and I think AI glasses do this perfectly.

Could smart glasses eventually replace smartphones?

It's difficult to say. I'm a bit sceptical when people say things like that, because there is a lot of computing processing that you probably need your phone [for]. In the very long term, that maybe could be a possibility. I think it's worth the shot, because we have been holding our

phones for so many years now, which even has an impact on our posture. I do think that maybe there is an opportunity there to lift people up, having people looking straight ahead of them. I am optimistic that that could happen. I don't see that happening in the next five years; 10 is a bit too far to say. But it's not like the phone replaced the laptop completely. I think it will be more an integration of a bigger ecosystem of devices.

You have a product for the lifestyle customer and the sport customer. Could there be a product for a work customer, who's using these glasses for business and day-to-day productivity?

I think so. We have the tools really to do it, so we can be very specific, like a use case could be like a surgeon who needs to go in the clinics and do his daily tasks. There are a lot of people using the glasses already for this use case, but I do think that could be something to explore. I think at some point also, you could develop apps for specific use cases. In particular, with display glasses, I see the ecosystem opening up to different use cases and different platforms and apps.

Are there ways you expect the partnership between EssilorLuxottica and Meta to evolve in the future?

I think it will evolve with the product. It's such new, uncharted territory that we're exploring for the first time together. I think it's a good thing if the partnership will change, but maintaining the skill set of who is doing what. In design, we can bring value and we can help them in really selling the product. They can bring value on the other end, on having the magic of technology and the investment that they did on R&D, for example, on the display glasses. The level of investment that goes into [it], it's really only a big tech company can do it.

What advice would you give to a luxury or fashion brand that's thinking about entering into

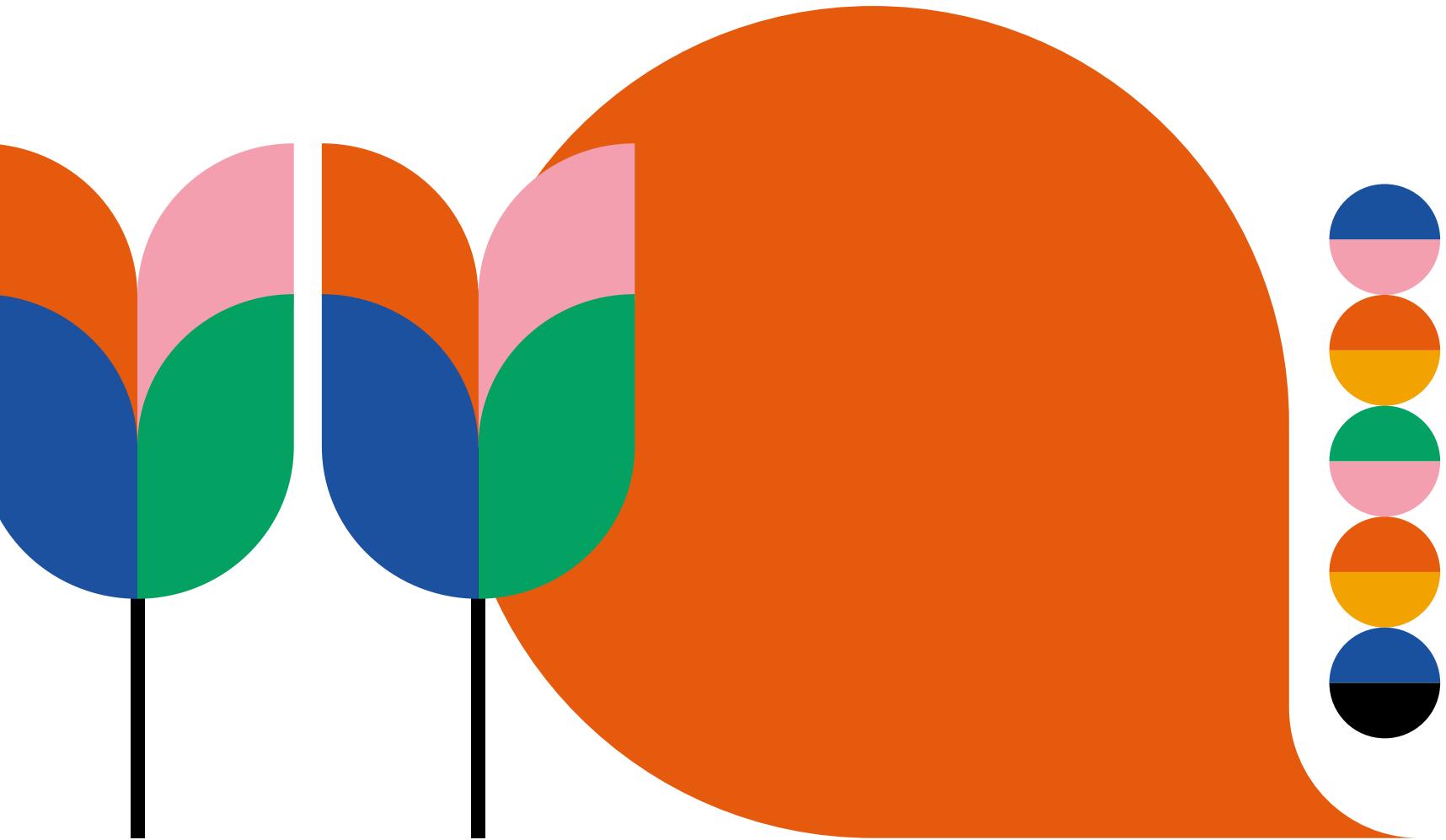
technology and wearables?
I think it's key for a fashion brand to approach this path. I do think there's something beautiful about intertwining technology with fashion. It's very difficult to do it right, and expensive, to be honest, so venture when you're ready. But I think it's important. I do believe even for fashion, having some technical part of some IP, or something you can really own as a fashion brand, is key, because wearables are only going to increase and evolve. If I were a fashion brand starting now, let's say, in my roadmap I would definitely put wearables.

This interview has been edited and condensed.



Meta Ray-Ban Display. EssilorLuxottica.

06. The Wellbeing Era



06. The Wellbeing Era Wellbeing is becoming central to how consumers live, spend and define themselves. As they tire of attention-grabbing content, they are drawn to brands that reflect their shifting identities and offer them emotional connections. Fashion brands are responding by entering wellbeing-adjacent “third spaces,” but further opportunity lies in integrating these shifting priorities more holistically across the brand universe.

KEY INSIGHTS

- 84 percent of US consumers said wellness is a top or important priority in their day-to-day lives in 2024, soaring to 94 percent in China.
- 51 percent of consumers would spend the same or more on health and wellness if their discretionary income decreased.
- Nearly nine in 10 consumers say being part of a like-minded brand community strengthens their connection to a brand more than other engagement tactics like influencer marketing.

EXECUTIVE PRIORITIES

- Determine if wellbeing sits at the core or periphery of the brand by understanding what matters most to consumers and how effectively the brand aligns with their sense of identity.
- Execute wellbeing initiatives in a credible, authentic way, ensuring they align with the brand’s overarching purpose and values.
- Build credibility in the wellbeing space through long-term commitment, integrating wellbeing across touchpoints and partnering with established voices to strengthen authority.

Consumers are seeking meaningful connections to brands embodying what matters most to them

Dopamine hits lose their edge

Fashion has been rewired by “dopamine culture,” where social media algorithms reward speed, spectacle and constant novelty and fuel a cycle of short-lived viral trends.¹ But that model may be reaching its limit. Microtrends are losing their grip on audiences, who are gravitating towards longer-form content with more narrative depth and shifting their focus to brands that reflect their identities and give them a sense of belonging. Nearly nine in 10 consumers say being part of a like-minded brand community strengthens their connection to a brand more than other engagement tactics like influencer marketing.²

Focus shifts from attention to retention

AI is impacting brand loyalty by making product comparisons easier, while consumers simultaneously shift discretionary spend away from goods to travel and experiences. Executives say customer retention is therefore more important than ever, with 50 percent identifying it as a top priority for 2026.³ Fashion brands that connect with what matters most to today’s consumers will be best positioned to earn lasting loyalty.

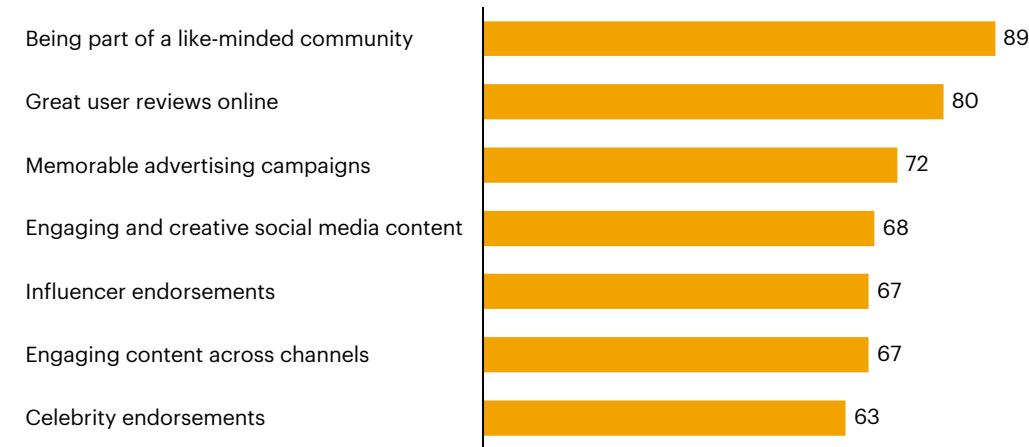
43%

higher reach for videos over 60 seconds than shorter ones on TikTok in March 2025⁴

62%

of consumers say they have an emotional connection to the brands they buy from the most⁵

Top drivers of emotional connection with a brand, % of respondents



Source: BoF-McKinsey State of Fashion 2026 Consumer Survey in the US, UK and China

A growing focus on wellbeing is shaping the identities and priorities of consumers today

The democratisation of wellbeing

Wellbeing is redefining how consumers globally live and define themselves, shifting from a pursuit of niche enthusiasts to a priority across consumer segments. Eighty-four percent of US consumers and 94 percent of Chinese consumers now consider wellness a top or important priority. Gen Z and Millennials are at the forefront, accounting for over 40 percent of US wellness spending in 2024.⁶ For many in this generation, wellbeing has evolved from hobby into a defining part of who they are, with 55 percent considering fitness to be a core part of their identity.⁷

The longevity movement

Consumers today are focused not just on living longer but living better. Around 60 percent of consumers say “healthy ageing” is a top priority.⁸ This is fuelling the longevity movement, which reframes everything from diet and sleep to skincare and fitness through the lens of vitality and balance. The focus has shifted from relentless self-optimisation to equilibrium, where health is balanced with enjoyment and discipline with indulgence.

Consumer prioritisation of wellbeing dimensions,
% of respondents who consider the dimension a very high priority

US UK China

Better health

Improving overall health



Better sleep

Improving sleep onset, duration or quality



Better nutrition

Eating a healthy diet



Better mindfulness

Increasing calm and improving mental health



Better fitness

Optimising exercise



Better appearance

Improving skin, hair and nail health



Source: McKinsey & Company, Future of Wellness 2025; US (N=3,700), UK (N=2,003) and China (N=2,002)

As the wellbeing movement accelerates, there is a growing opportunity for fashion brands

The wellness market is surging as wellbeing becomes central to how consumers spend their time, money and engage with brands. This is not a passing trend, but an enduring lifestyle shift, with the wellness market growing 6 percent annually from 2019 to date⁹ and forecast to continue growing at 5 to 6 percent per year through 2028. It is reshaping consumers' spending across categories, from what they eat (around half of consumers and two-thirds of Gen Z and Millennials purchased functional-nutrition products and supplements last year)¹⁰ to how they socialise (as seen in social wellness clubs such as Remedy Place gaining traction).

Since they are intrinsically linked to lifestyle, fashion brands should consider how they engage with the wellbeing-focused customer. For many, this space has offered a natural entry point into adjacent categories such as athleisure and skincare, enabling brands to capture a broader share of lifestyle spending. But further opportunity lies in integrating consumers' shifting priorities towards wellbeing — and the changing consumer identities they reflect — more deeply across their ecosystems.



Notes: Wellness market sizing includes products and services aligned to health, sleep, nutrition, fitness, mindfulness and appearance (excludes certain wider categories e.g. public health, real estate and workplace wellness). Estimated compound annual growth rates (CAGR) calculated using Global Wellness Institute, "Global Wellness Economy Monitor 2024" — sectors of Personal Care & Beauty; Healthy Eating, Nutrition & Weight Loss; Physical Activity; Wellness Tourism; Mental Wellness; Spas — triangulated with category level data
Source: McKinsey & Company, Future of Wellness 2025; Global Wellness Institute

Brands are leveraging ‘third spaces’ increasingly tied to wellbeing to deepen connection

Fashion players are attempting to deepen emotional connection with customers by creating “third spaces”—social environments that sit between home and work, encouraging customers to spend valuable time with a brand, whether online or in-person. Brands are leveraging these spaces as tools to attract and retain customers, with almost one third of consumers first discovering a brand aligned with their values through brand-community interactions.¹³

Wellbeing is becoming increasingly central to these third-spaces as brands seek to connect with customers on what matters most to them. For example, Dior’s growing portfolio of branded spas extends the brand further into customers’ lifestyles, while Lululemon’s yoga hubs and Missoma’s London running clubs promote mindful, community-focused engagement.

KITH IVY IN NEW YORK CITY



The Kith Ivy club. Kith.

Kith Ivy, a new members club in New York City scheduled to open in late 2025, blends retail, dining, wellbeing and leisure into a single experience. It includes rooftop padel courts, an Erewhon tonic bar and Moroccan-inspired cuisine from Café Mogador. It also includes an Armani Spa, offering wellbeing-orientated experiences including sports massages and IV drips. In celebration of the launch, Kith will introduce its first collection of apparel and equipment, available at the Pro Shop located within the club. Together, these elements create a holistic environment where culture, commerce and self-care meet.¹⁴

ALO WELLNESS CLUB AND RETREATS



Alo Wellness Club private saunas. Alo Yoga.

Alo Yoga’s Wellness Club is a subscription-based digital platform centred on the pillars of yoga, fitness, mindfulness and self-care. The online experience offers members on-demand access to fitness instructors.¹⁵ The brand has also moved into physical spaces and offers in-person wellness retreats that bring community members together around Pilates, mindfulness and food. Most recently, a three-day retreat at a luxury resort in Mexico offered an immersive experience led by renowned instructors.¹⁶

Truly aligning with evolving consumer priorities will require a holistic transformation

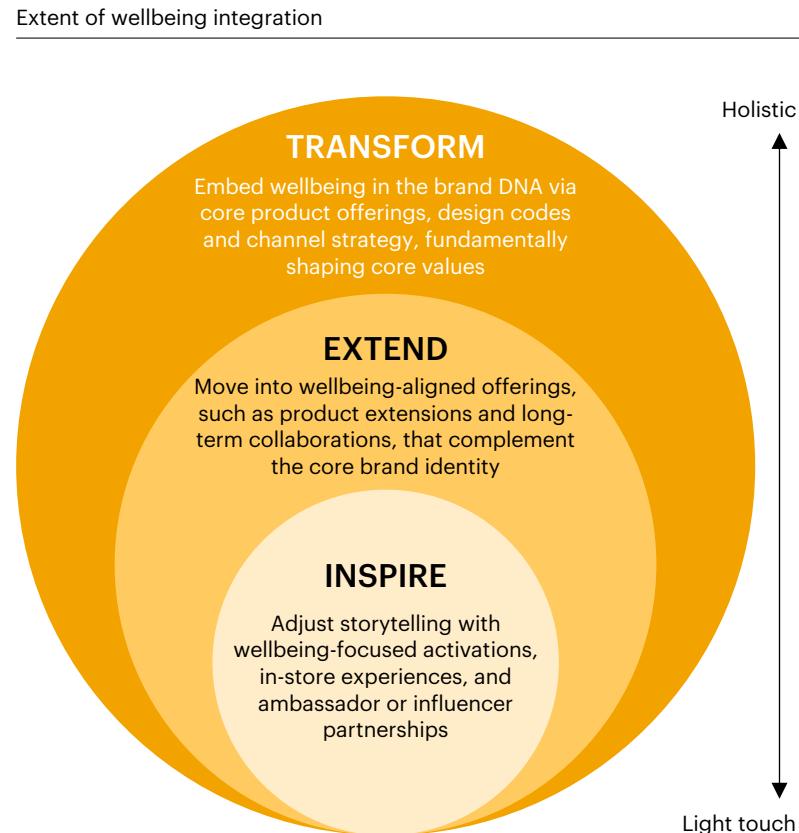
While wellbeing-orientated third spaces can deepen connection and drive footfall, truly reflecting consumers' evolving priorities and wellbeing-shaped identities requires brands to embed consistently and deliberately across strategic levers.

Lighter-touch wellbeing integration

Brands can embed storytelling that promotes balance and vitality into their marketing messages to credibly align to the wellbeing-orientated consumer. In addition, they can collaborate with wellbeing ambassadors or influencers to connect with their audiences organically. As a step further, brands can create pop-up events or immersive in-store experiences, such as the Wellness Galerie at Galeries Lafayette, and launch product extensions like Celine's Pilates clothes and accessories.

Holistic wellbeing integration

To fully tap into the wellbeing movement, brands should consider embedding wellbeing into both their DNA and go-to-market approach. This means intentionally rethinking assortment and design codes to reflect a deeper commitment to wellbeing and balanced living, with these principles carried through channel strategy and retail experiences to authentically reinforce the brand's positioning and drive revenue. Sporty & Rich, for example, has built its identity around "wellness-inspired apparel and accessories," and also offers a beauty range, sleepwear and the recently published "Sporty & Rich Wellness Book" written by the brand's founder, Emily Oberg.



Brands need to define how wellbeing fits into their identity today and in the years ahead

EXECUTIVE PRIORITIES

1 Determine if wellbeing sits at the core or periphery of the brand

Define how far the brand should evolve to align with the wellbeing movement, from marketing shifts to full brand DNA transformation.

Begin by developing an in-depth understanding of what the brand stands for, what matters most to customers and how effectively the brand already delivers on those expectations today. Stay abreast of consumers' shifting identities using insights from tools such as social listening and search analytics to guide the extent of wellbeing integration.

2 Execute strategic integrations authentically

Map how your brand can authentically execute on the wellbeing opportunity across relevant categories, services or communities.

Identify white spaces that align with existing offerings, brand values and design codes to embed wellbeing authentically and avoid overextension. Successful integration often builds on what the brand already does well and extends those strengths into the wellbeing space in ways that feel natural and emotionally resonant.

Prioritise opportunities with data-led insights on projected customer adoption, revenue potential and risk.

3 Build credibility in the wellbeing space through long-term commitment

Build meaningful and lasting connection with customers around wellbeing through discipline and consistency. This demands sustained action that shows up across products, services and experiences.

Track consistency of brand values to ensure initiatives enhance rather than dilute brand equity and resonate with customers.

Partnerships can further strengthen credibility. Collaborating with credible wellbeing experts, creators, and adjacent sectors such as fitness, hospitality and beauty enables brands to expand their influence and reinforce authority in the space.

07. Efficiency Unlocked



07. Efficiency Unlocked In a challenging fashion market, companies must become more efficient to drive growth. Old advantages like scale and low-cost sourcing are no longer sufficient to sustain a healthy economic model. By taking advantage of new technology, businesses can improve productivity to reduce costs, unlocking resources to invest in differentiators that enable growth.

KEY INSIGHTS

- Fashion executives say changing margin, cost and cash strategies will be the second most-significant theme to shape the industry in 2026, second only to tariffs and trade disruptions.
- 45 percent identify sourcing costs as the area of their economic model under the most pressure, followed by pricing and inventory management.
- Up to 90 percent of transformative AI projects are stuck at pilot stage, constrained by structural and cultural barriers.

EXECUTIVE PRIORITIES

- Evaluate where margin gains can be unlocked by assessing the full company P&L and prioritising technology that offers the greatest efficiency improvements.
- Bring renewed focus to enablers such as data sharing, change management and a culture of experimentation to accelerate efficiency gains.
- Reinvest freed-up resources into customer-facing differentiators that matter most to the target audience.

Compounding challenges mean fashion companies can no longer rely on old levers to grow

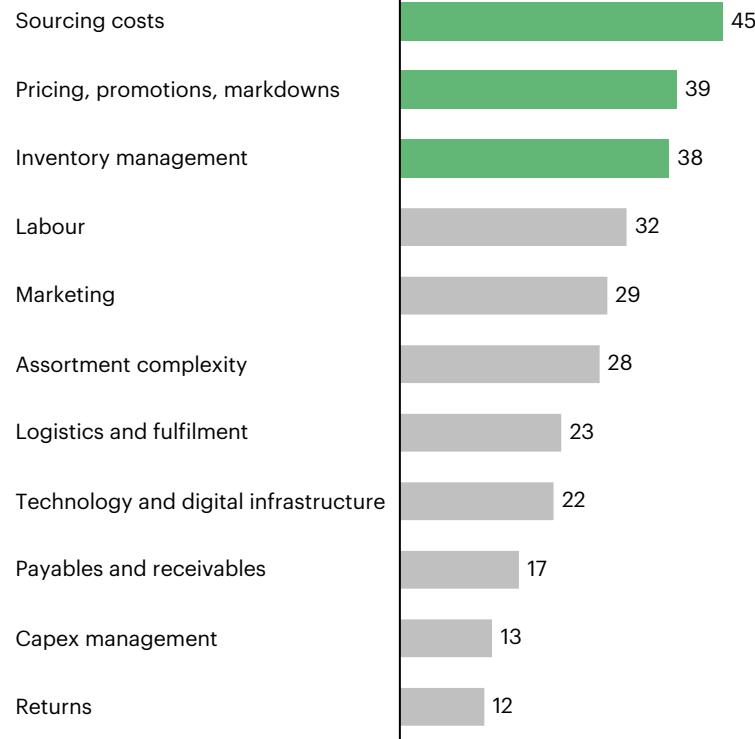
For much of the last decade, fashion companies relied on scale, low sourcing costs and tactical promotions to grow profit. Today, these levers no longer provide the same advantage:

- **Costs along the value chain are rising**, driven by tariffs — most notably US-imposed — together with inflation and supply chain disruptions. It is estimated that tariffs introduced in 2025 will drive price increases of 35 percent for apparel and 37 percent for leather goods in the short term.¹ To add to this, fashion's reliance on low-cost labour in sourcing countries is under growing scrutiny, raising questions about fair pay and sustainability.²
- **Consumers are more price-sensitive**, constraining margins and limiting the ability to pass on costs. Seventy percent of shoppers intend to spend less across apparel categories from Q3 to Q4 2025, and almost 80 percent say that when prices go up, they will not buy at full price but will wait for a sale, buy a cheaper alternative, postpone their purchase or buy secondhand.³
- **Cash is under pressure** as faster trend cycles and uneven demand result in overstock and tie up working capital in inventory. The number of days fashion companies held inventory before turning it into sales rose 4 percent from 2023 to 2024, inflating warehousing and logistics expenses.⁴

Executives recognise these pressures and say changing margin, cost and cash strategies will be the second most-significant theme to shape the industry in 2026, second only to tariffs and trade disruptions.⁵

Parts of fashion's economic model under the greatest pressure,
% of executives who ranked in the top three

■ Deep dive to follow



Source: BoF-McKinsey State of Fashion 2026 Executive Survey

Leading companies are pioneering technology to reshape their economic models

Automation of cost-intensive processes frees up resources

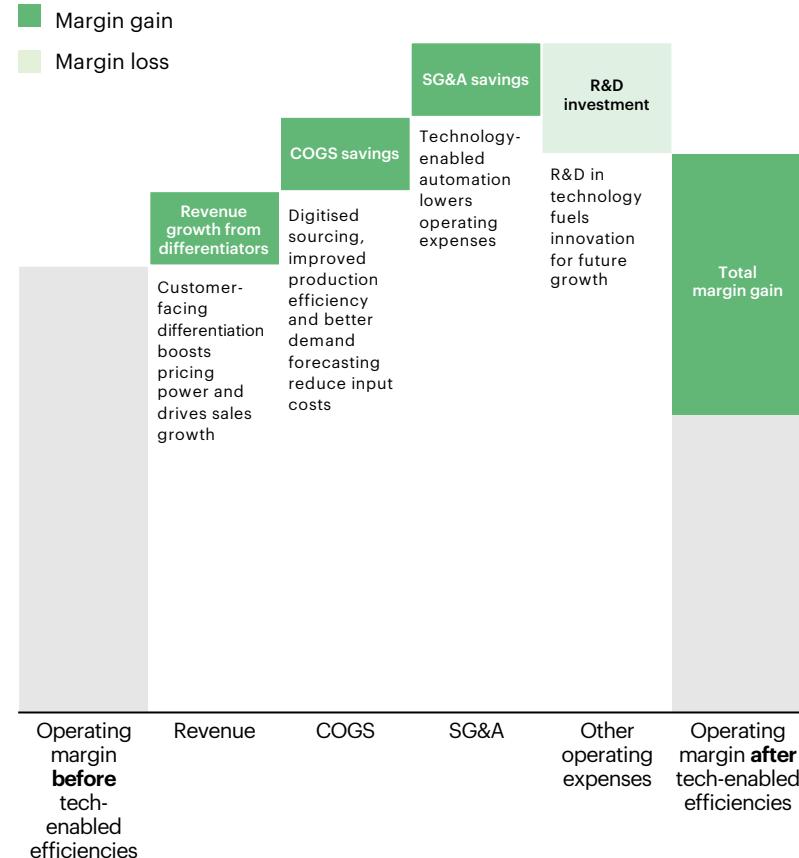
By automating parts of processes such as sourcing, inventory management and physical sampling, companies can save money to dedicate to customer-facing differentiators, such as personalisation, product innovation and enhanced store experiences. Generative and agentic AI are evolving quickly and promise to transform processes like these.

Leading players are overcoming challenges in scaling AI use cases

Research suggests that up to 90 percent of initiatives fail to scale beyond the pilot phase. This is caused by structural barriers (such as weak governance, poor data quality and fragmented tools) and cultural barriers (such as absence of incentives to reward thoughtful risk taking), both of which constrain experimentation at scale.⁶

Digital tools, backed by strong data foundations are enabling leading players to overcome these hurdles. Coach-parent Tapestry has used generative AI design tool Adobe Firefly to scale its use of “digital twins,” which are virtual replicas of real products.⁷ Digital twins were first created to aid product development, reducing the need for physical samples, then expanded to applications like content creation for social media campaigns and in-store merchandising.⁸

Illustrative operating margin improvements from tech-enabled optimisation



Digitisation can unlock double-digit reductions to sourcing costs

Rising input costs, geopolitical tensions and shorter trend cycles are making improvements to supply chain agility a top priority for cost savings.

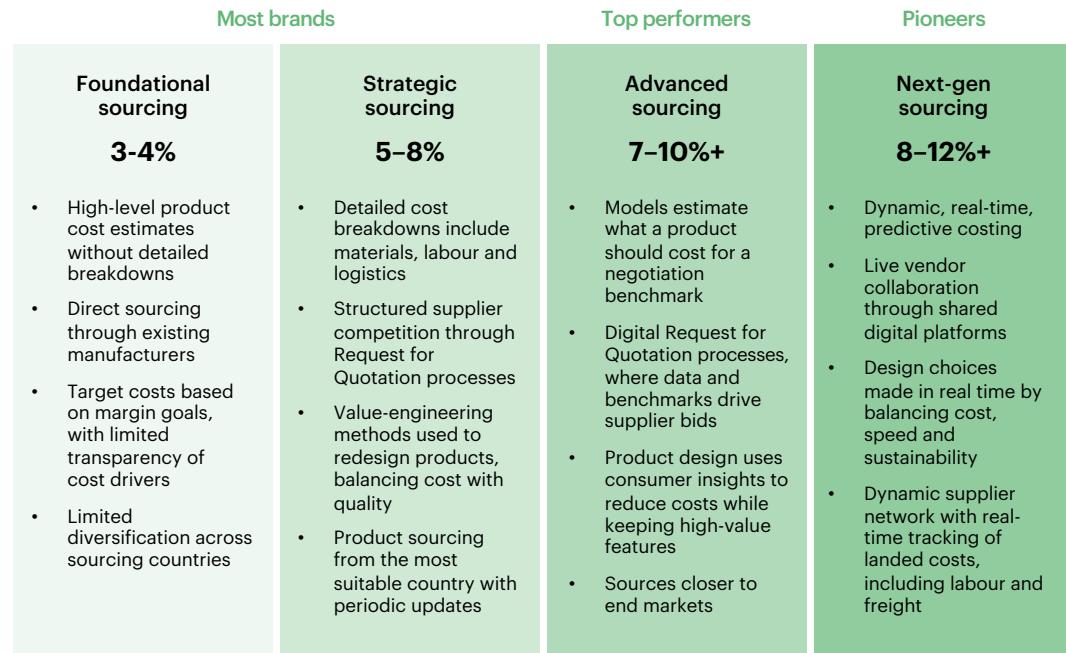
While many fashion brands still rely on legacy systems, top-performing brands are digitising their sourcing practices to improve flexibility in response to changes in demand and supply chain shocks.

Brands are pursuing digitisation in different ways: Many partner with third-party providers such as product lifecycle management platforms, while others build proprietary systems. Shein, for example, has begun offering its digitised supply chain platform as a service to external brands.⁹

Looking ahead, the next wave of innovation will be driven by AI, enabling companies to leapfrog from early foundational sourcing models to advanced, AI-driven models. Using tools such as AI agents, companies can link systems like product lifecycle management and enterprise resource planning to create a unified view of sourcing, enabling real-time analytics and unlocking double-digit cost savings.

Sourcing maturity stages,
Potential cost reduction compared to basic procurement,^a %

Using AI, pioneering brands can skip intermediate stages and progress to next-gen sourcing



a. Basic procurement is transactional and cost-focused, driven by freight on board price negotiations, reliant on intermediaries or agents, and marked by limited supplier competition or cross-sourcing
Source: McKinsey analysis, values based on 30+ sourcing maturity transformations

AI can offer an edge in a price-sensitive market

The hunt for the lowest prices is intensifying, driven by rising price sensitivity, the surge of dupes and use of both established consumer tools such as Google Shopping and Lyst as well as newer entrants like Phia.¹⁰ This shift means brands must accurately align prices with perceived customer value to remain competitive.

AI is unlocking new levels of precision and agility in this task. Leading companies are leveraging AI to integrate cost, competitor and customer data in real time to optimise pricing, either by building proprietary pricing engines, or leaning on specialist vendors that deliver similar capabilities. In doing so, they may not only optimise prices but also build richer insight to guide future pricing decisions.

AI-enabled pricing optimisations

FROM TRADITIONAL

Prices at launch are set using static data, failing to account for evolving market conditions

TO AI-ENABLED

Access to real-time market and competitor data enables optimal prices to be set for each product at the right moment, maximising their competitiveness and customer appeal

Prices are revisited only through infrequent manual reviews, making the pricing process slow and resource-intensive

Real-time insights enable frequent price reviews based on inventory levels and shifts in demand across substitute products (e.g. silk vs. satin blouses), leading to better-informed pricing decisions and regular adjustments if required

Uniform markdowns and promotions applied across channels, products and locations (e.g. winter coats reduced 30 percent across all stores, even in locations with little excess stock)

Targeted promotions by channel, product and store, based on demand, sell-through and related inventory levels (e.g. winter coats promoted only to customers near locations with excess stock) steering demand and clearing inventory where needed, while avoiding unnecessary discounting

Demand-driven strategies are gaining traction as a lever to reduce inventory pressures

Inventory challenges continue to weigh heavily on the fashion industry. The number of days inventory outstanding — meaning the average number of days a company holds stock before converting it into a sale — reached all-time highs in 2024, based on analysis from the McKinsey Global Fashion Index.⁴

Upcoming legislation will intensify the financial burden of inventory

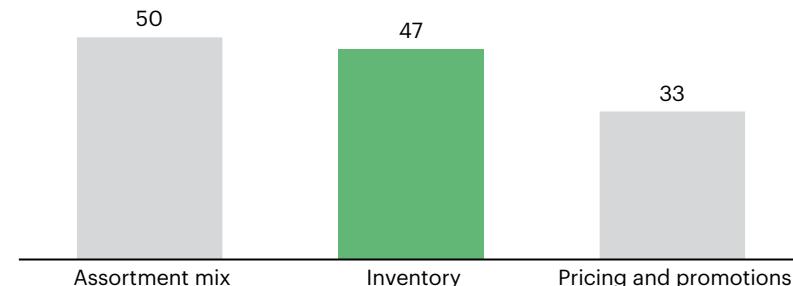
In 2026, legislation such as the Ecodesign for Sustainable Products Regulation in the EU and the Responsible Textile Recovery Act in California will penalise unsold or obsolete stock, impose recycling and take-back obligations, and raise the costs of non-compliance.^{11 12}

Demand-driven inventory optimisation is one way to protect margins

Technologies such as digital textile printing, combined with AI tools that analyse demand and optimise production workflows, are making on-demand solutions more feasible. Initiatives such as Nike's SNKRS Reserve system, which allows a select group of customers to preorder sneakers before they are made, illustrate how companies are beginning to experiment in this space.¹³

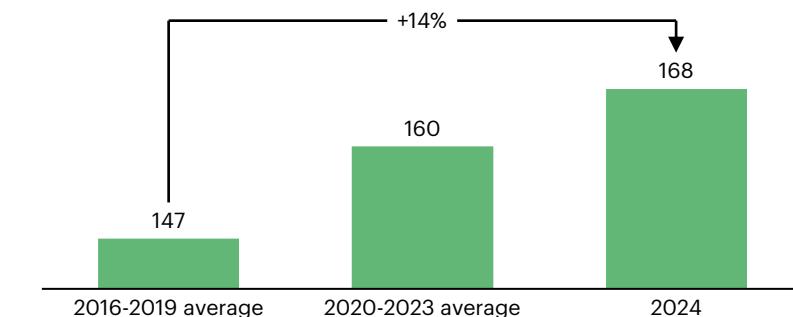
Some brands are even developing their own inventory management platforms that generate insights from data across operational and commercial functions to improve accuracy and speed.

Fashion executives' top targets for optimisation to protect margins in 2026, % who ranked the initiative in their top three



Source: BoF-McKinsey State of Fashion 2026 Executive Survey

Number of days inventory outstanding per year across fashion companies



Source: McKinsey Global Fashion Index

Executives should prioritise structural enablers and organisational readiness to scale innovation

EXECUTIVE PRIORITIES

1 Prioritise the most impactful areas to scale innovation

Evaluate where margin gains can be unlocked by assessing the full company P&L — for example, improving cash flow through better inventory management or boosting revenue by offering fewer discounts.

Target high-return technologies. Focus on solutions that tackle the biggest inefficiencies first. Use a pilot-test-learn-scale approach to manage risk, measure impact and scale promising solutions across the business.

2 Support innovation with enablers such as data sharing and change management

Enable data sharing between functions for faster, more-informed decisions. External partners such as AI and cloud providers should also be integrated.

Support employees with adequate training and change management to enable widespread adoption of new processes. Strong governance structures are needed to sustain momentum, with clear ownership to ensure accountability, defined decision rights to enable effective collaboration and aligned incentives across functions to prevent pilots from stalling or remaining siloed.

Encourage experimentation and treat failures as learning opportunities. Leadership should embody the culture they want to build, communicate openly and signal that AI is a priority that offers development opportunities.

3 Reinvest freed-up resources into customer-facing differentiators

Redirect savings from cost efficiencies into strategic customer-facing investments that will enable the brand to stand out in a highly competitive market. Study customer preferences and benchmark against competitors to prioritise differentiators.

For luxury brands, invest further into clienteling to offer highly personalised services to VICs, while sustainability-focused brands could channel investment into blockchain traceability to reinforce brand values with eco-conscious consumers.

Burberry Lights a New Way Forward by Reigniting Its Core

In his first year as CEO of Britain's biggest fashion firm, Joshua Schulman has pushed Burberry to rebalance pricing, refocus on outerwear and reassert a globally understood vision of British luxury, while instilling a new sense of urgency inside the heritage brand.

BY ROBERT WILLIAMS

Burberry has been hard hit by luxury's slowdown, with sales down 15 percent year on year in the 12 months through March 2025. But the British trenchcoat maker has nonetheless been the object of investor euphoria, with the brand's share price more than doubling from September 2024 to October 2025.

What's got markets bullish on Burberry? Simply put, confidence — that after years of "square peg, round

hole" turnaround plans aimed at transforming Burberry into a top-end, fashion-forward leather goods house, new CEO Joshua Schulman's more pragmatic approach to branding, pricing and more will pay off.

Schulman joined Burberry in July 2024 following a transformative tenure at Tapestry's Coach and a stint leading Michael Kors. Since his arrival, Burberry moved to swiftly clear inventories to make room for

new collections, refreshed to include a greater share of accessibly priced options and identifiable more branding.

Hero bags priced around £2,000 (approximately \$2,661), tartan scarves for £420 (\$559) and staples like polo shirts with touches of Burberry check were a focus. Raingear has been front-and-centre in campaigns referencing iconic British films, featuring globally recognised British talents like Kate Winslet.



What was your initial analysis of Burberry when you first joined the company last year?

I'd been following the brand for 25 years. What Rose Marie Bravo and Christopher [Bailey] created – and then when Angela Ahrendts came and further amplified the brand – had a huge impact for me. Since then, there has been a lot of change at Burberry in terms of logos and brand expression – and individuals, frankly, who took the brand in different directions.

It was clear to me that the brand was not performing at the level it should be. In some ways, we had lost our way. We were focussing on categories that weren't our historic core. Burberry has authority, heritage and legitimacy as a leader in outerwear and scarves, but we had adopted a handbag-first approach.

It looked from the outside that Burberry had the most opportunity where it had the most authenticity. Almost from the moment I walked in and shared that with the teams, that idea resonated across the company.

The brand's marketing message has shifted since your arrival, with campaigns full of cinematic references starring British actors

like Kate Winslet and Olivia Colman. It seems the company is recalibrating its approach to 'Britishness.'

Our brand expression had gone with a very niche view of British luxury rather than a globally recognised view. The wonderful thing about Britishness is there are so many stories to tell, whether it's country houses or Carnaby Street. I think what's important is that they be recognisable and globally understood views of Britishness. Daniel [Lee] has shown that he has a broad repertoire, and I look forward to seeing how he interprets them going forward.

Brands across the luxury industry have struggled to justify price increases. How are you adapting Burberry's approach to pricing?

It's about having a pyramid of pricing with [options for] good, better, best. We had previously pursued elevation at the expense of our core. We were abandoning customers who came to us for the 'good' and 'better' parts of the pyramid.

For example, a £600 polo shirt with a boxy, oversized fit is very different from our £300 Eddie polo shirt with a check placket, which for many years had been a core opening-price product. We brought back the Eddie



The Burberry Knight. Burberry.



"Britishness" expressed in a Burberry campaign. Burberry.

polo and it became a bestseller again. We can still sell the £600 polo, but it will have less demand.

It's been a lot of those types of decisions. Bags were almost entirely over £3,000, with some prices going

up to £5,000. We had walked away from where we have our core strength, which is broadly speaking around £2,000. So last year Daniel introduced B Clip bags priced just under £2,000, and those are selling very well. They had the look of a

fashion luxury bag, but also an identifiable brand signifier, a check-trim strap.

It's all about balance. Burberry is a luxury brand with broad universal appeal. The top five luxury brands all

have different access points to come into the brand. Chanel has an amazing beauty business. At Burberry, we provide access into the brand through things like polo shirts and scarves. We have legitimacy at the top of the pyramid with our runway, but we got

out of whack for a few years because we were buying into the runway as if it were the core.

How was the company able to implement these changes while managing high levels of pre-existing inventory?

The sell-through on the seasonal collections had been tough. We took decisive action to do pretty deep markdowns, even during the festive season, with the goal of finishing our last fiscal year with flat inventory. We were able to finish our fiscal year with 7 percent less inventory. That allowed us to invest more in the new.

You've used the word decisive. One thing you've really been heralded by the market for was bringing a renewed sense of urgency, after years of maybe focussing too much on medium- and long-term strategic plans. How do you strike the right balance?

Long term, Burberry should be a top-five luxury brand. The goal is still to sit among the pinnacle brands. But being an independent, publicly traded company, looking at the financials there absolutely was an urgency to get back on track.

We cleaned up the inventory. Over many years we had built up a level of

operating expenses which were misaligned with the size of the business. So we took fairly decisive action there as well. This was as much about the [operating expenses] as it was about our way of working. We had a structure in which you had a lot of the decision making happening far away from the customer, and a lot of barriers between the executive committee and the customer.

Instead of a chief commercial officer, now the regions report directly to me. We also looked at the way our regions were set up, realigning them to have a Greater China organisation that oversees the Mainland, Hong Kong, Macau and Taiwan. These are examples of how we were able to get closer to the customer while improving our [operating expenses].

There have also been quite a few job cuts.

That's one of the hardest parts of the job, frankly, because it's never easy to say goodbye to valued colleagues. But the team has really appreciated the sense of urgency, also the transparency around what was happening in the business.

As we reorganise it's really with the idea of how do we continue to have the funding to reignite desire, which

means investing in design, merchandising, marketing. Investing in what the consumer will see. It's competitive out there and we need to break through.

What's the role of Burberry's runway show? Where does that collection and the innovation we might see there fit into Burberry's strategy?

The show is a tentpole moment for us. It's where Daniel has the opportunity to celebrate Burberry's codes. I couldn't be more excited by the evolution of what he's doing over the past year. Shortly after I joined we had a discussion around Burberry check: it's a cornerstone of the house. He's using the check in both more overt and subtle ways.

The runway is a laboratory for ideas that get cascaded through the entire range. The B clip bag with a check strap, which debuted in September 2024, has become a very important part of our business since it shipped in February.

In addition to Britishness as an idea, Burberry also has 'made in Britain' as part of its message, even if many products are made elsewhere. Have you explored ways that you could retool the supply chain to take more

advantage of British craft and industry?

Our pinnacle trench coats continue to be made in Castleford [England]. We also have another tentpole product — our scarves — where we have a very long-term partnership with a manufacturer in Scotland. But this is an area we can explore further.

You've spoken about polos and scarves. There also seems to be a renewed focus on outerwear on the runway and in Burberry's marketing.

Great businesses have a strong core and great businesses know their own strengths. The brands that are succeeding are the ones that forge their own path and [are] not taking a formulaic view of luxury. Handbags are a great business, and they're a really great business if you're born with legitimacy as a handbag brand. Outerwear is also a great business if you're born with legitimacy as an outerwear brand. The more we tap into our authenticity, the more we tap into who we are, the more we will succeed.

This interview has been edited and condensed.

08. Resale Sprint



08. Resale Sprint Customers are spending more on secondhand fashion in the search for value as prices continue to rise in the primary market. Marketplaces have made shopping secondhand mainstream, but brands must now define resale strategies of their own. While operational hurdles remain, the lure of untapped revenue will make resale an increasingly attractive way to bolster business models and brand perception.

KEY INSIGHTS

- The secondhand fashion and luxury market is forecast to grow two to three times faster than the first-hand market through to 2027 as consumer appetite grows and scale and technology unlock profitability.
- Almost 60 percent of global consumers say they are likely to shop resale in 2026. This figure exceeds 70 percent in China, where secondhand growth is being propelled by strong appetite for premium and luxury goods at accessible price points.
- Both marketplaces and brand-led resale are growing. European resale platform Vinted grew net profit more than 330 percent from 2023 to 2024, while the number of brand-led resale programmes in the US grew around 300 percent from 2021 to 2025.

EXECUTIVE PRIORITIES

- Identify the appropriate resale model, from lighter-touch platform partnerships to integrated, brand-led offerings powered by Resale-as-a-Service providers.
- Prioritise resale for categories aligned to the core brand proposition and regional market dynamics, as well as those with strong resale value, such as outerwear and bags.
- Use resale to create a brand halo around the primary offering by capturing new customers, reinforcing perceptions of quality and durability, and creating loyalty loops.

The global secondhand apparel market is expected to reach \$317 billion by 2027

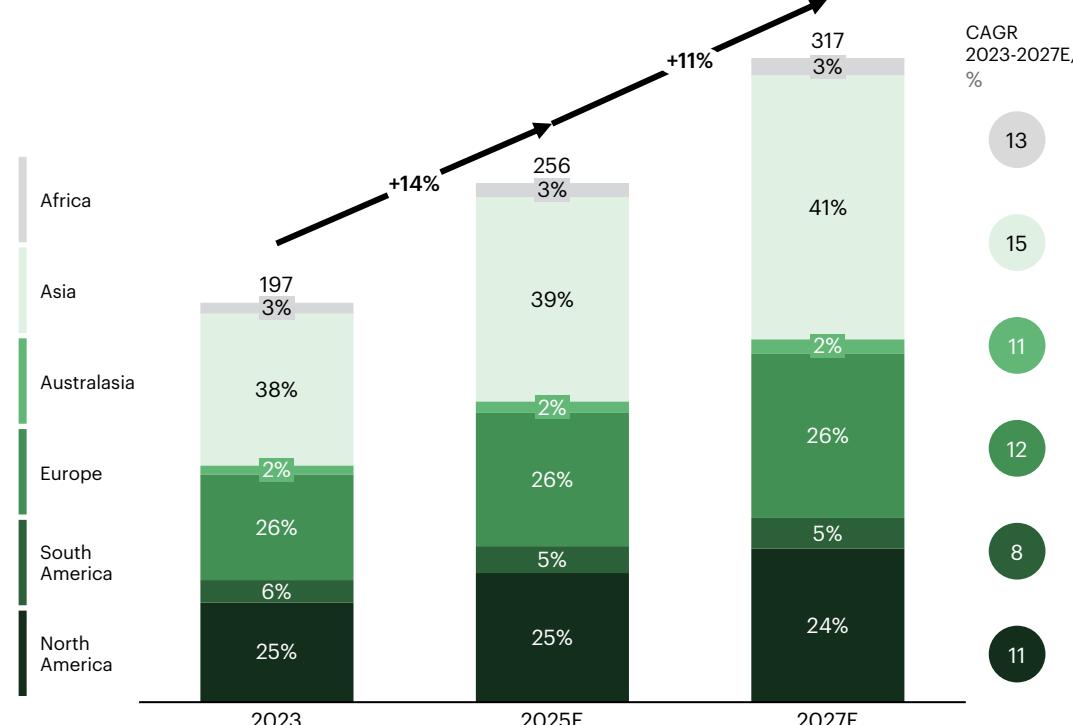
Resale continues to outperform the broader fashion and luxury market. Looking ahead, the secondhand market is expected to grow two to three times faster than the first-hand market from 2025 to 2027.

Online resale marketplaces make up the lion's share of sales, accounting for 88 percent of resale spending in the US in 2024. US online resale is forecast to grow 16 percent annually, reaching \$34 billion by 2027.¹

Asia has become the largest and fastest-growing market. China is a key growth driver, where even wealthier shoppers are seeking deals by shopping resale.² Over 60 percent of Chinese consumers report shopping more from resale platforms today compared with two to three years ago, while over 70 percent report plans to shop resale in 2026.³ The luxury resale market in China is expected to reach \$33 billion by 2025.⁴

Globally, 59 percent of consumers say they are likely to purchase secondhand in 2026.³ Gen Z and Millennials continue to be the core consumer groups buying secondhand, but older generations are also increasingly shopping resale.

Global secondhand fashion and luxury market by region, 2023-2027E,
Gross merchandise value, USD (billions)



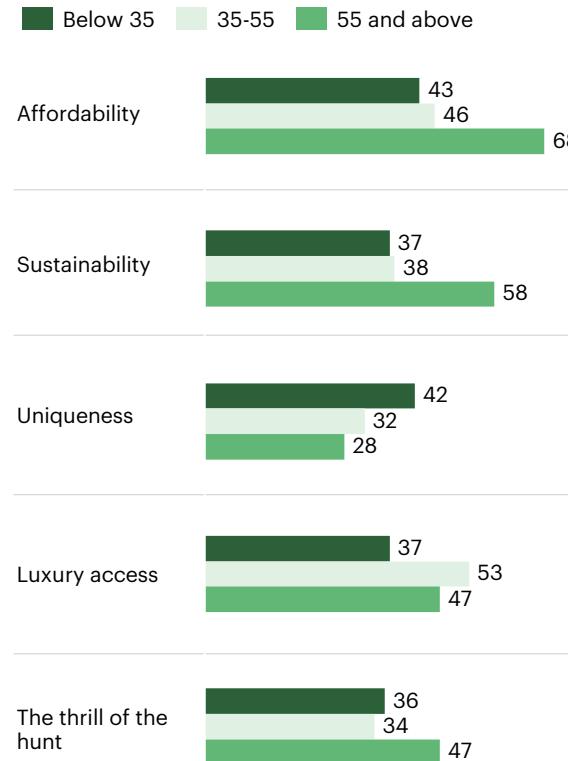
Affordability is a key driver for shopping secondhand across consumer cohorts

Several motivations underpin the uptick in consumer appetite for resale, including rising prices on the primary market due to trade uncertainty. According to ThredUp, nearly 60 percent of consumers say they will seek more affordable options like shopping secondhand if tariffs increase apparel prices.¹ Early signs are already visible: in the first quarter of 2025, as tariff discussions intensified, resale marketplace Depop's app downloads increased 125 percent over the previous quarter.⁵

Even so, consumer motivations extend beyond their budgets, as 61 percent of consumers say they would continue to buy or sell products on resale websites even if they had more money to spend,⁶ for reasons such as the “thrill of the hunt.”

Motivations for shopping resale vary across age groups. Younger shoppers place greater value on discovering unique pieces and past-season items, while older shoppers are more motivated by the treasure hunt and sustainability aspects.³

Consumer motivations for shopping resale by age group, %



“My wardrobe looks twice as expensive because I shop vintage. Scoring a \$300 jacket for \$40 never gets old!”

“When I thrift, I’m voting against exploitative manufacturing. I rest easier knowing my style isn’t harming workers or ecosystems.”

“I turned to secondhand when my closet felt identical to everyone else’s. Now each piece tells a story, and my style feels mine.”

“Smart spending still gets me nice things. Resale luxury builds my dream wardrobe without the guilt.”

“My friends joke about my ‘thrift superstitions’ — rainy Tuesdays bring the best denim! The magic is never knowing what you’ll find.”

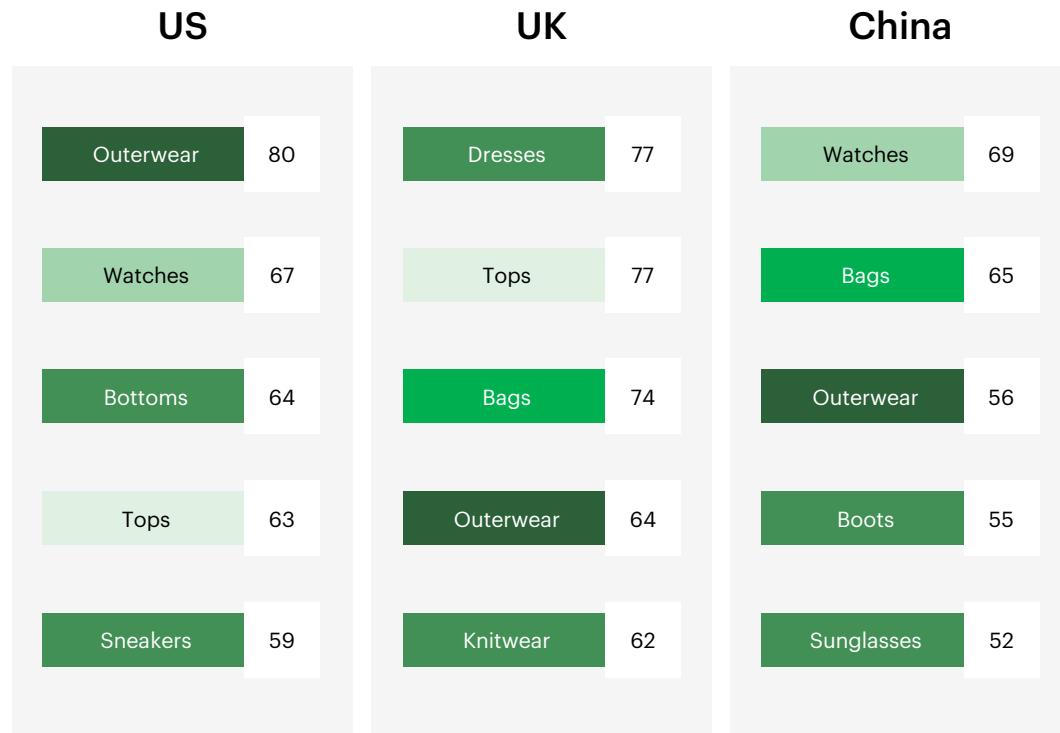
Source: BoF-McKinsey State of Fashion 2026 Consumer Survey. Assimilated consumer quotes from Quilt.AI Social Meaning platform

Category demand varies by region and reflects cultural norms, trust and market maturity

Different product categories appeal to different resale markets, reflecting cultural norms, the market's maturity and consumer attitudes. In China, a newer resale market, the top resale categories include asset-like accessories that maintain their value over time. In the UK, where resale culture is broadly penetrated and trend-led, everyday wear and occasion wear for events like weddings dominate. Globally, categories like outerwear that are perceived as durable are popular in resale.³

Watches, jewellery and bags are popular as investment pieces. In China and the US, where despite economic uncertainty consumers are still interested in buying luxury, watches are the first and second most popular resale categories, respectively. Some products in these segments can even gain value over time. For example, the average selling price for Van Cleef & Arpels' Alhambra collection rose 20 percent between 2021 to 2025 on The RealReal.⁷ On eBay, global resale prices for Miu Miu's Arcadie bag climbed 43 percent between January and May 2025.⁸

Top five categories customers purchase on resale platforms,
% of consumers



Source: BoF-McKinsey State of Fashion 2026 Consumer Survey

Resale platforms are reaching an inflection point, as scale and technology unlock profitability

Online marketplaces are the engine of resale's rapid expansion

The scale and reach of these online platforms have made resale a mainstream channel. Some marketplaces specialise in luxury and designer goods, such as The RealReal and Vestiaire Collective, while others target the mid-to-mass market, like ThredUp. Some cater to specific product categories, including Rebag for designer handbags, Chrono24 for watches and StockX's focus on sneakers.

The financial viability of resale marketplaces is improving

The RealReal achieved EBITDA profitability for the first time in Q4 2023.⁹ Europe's Vinted, after years of losses, also reached profitability in 2023 with a net profit of €17.8 million (\$20.9 million), before growing 330 percent to reach a net profit of €76.7 million (\$89.2 million) in 2024.¹⁰ In the first quarter of 2025, Vinted became the biggest retailer by sales volume in the entire apparel market in France.¹¹

These milestones reflect significant momentum in a sector that historically struggled with profitability. The constraint of high inventory costs, the one-of-a-kind nature of products, inefficient reverse logistics for individual items and the authentication burden weighed on margins. While these challenges remain, this dynamic is starting to shift as technology lowers costs and boosts efficiency.

Resale marketplaces are reducing costs by bringing more operations in-house. For example, Vinted invested in its own logistics and payments arm and brought servers and security software in-house.¹² AI and automation are also streamlining critical processes, from listing to authentication.

Adjusted EBITDA margins of online resale platforms, 2020-2024, %



a. 2020-2022 values are non-adjusted EBITDA
Source: Company reports

The RealReal

The RealReal uses proprietary AI tools to save time and money on authentication. Its machine learning counterfeit inspection model, Shield, collects data from more than 50 product attributes to identify those at high risk, which are then prioritised for inspection by the most experienced authenticators. Additionally, Vision, its photo-based AI tool, examines product images in minute detail to predict counterfeit likelihood. It considers fine details, such as leather grain and threading, which can be particularly hard for the human eye to accurately assess.¹³

While a smaller part of the market, brands and retailers are increasingly participating in resale

Brand- and retailer-led resale currently makes up only a fraction of the secondhand market. These players hosted approximately 275,000 active online listings in 2025, while peer-to-peer platform Depop hosted more than 40 million alone.^{14¹⁵} Participation has risen since 2021, but momentum has slowed over the last year as fewer than one-third of executives cite resale as a priority.¹⁶

Motivations for entering resale

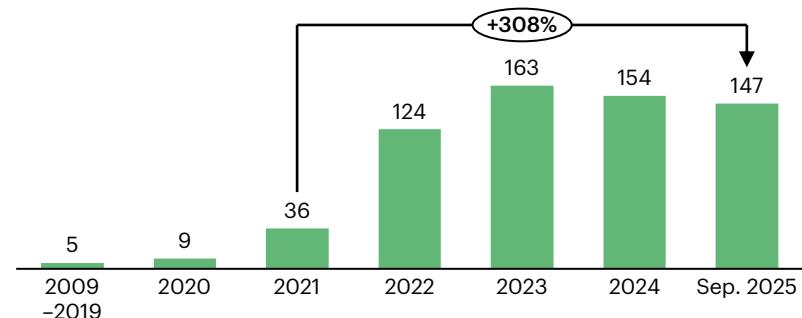
Heading into 2026, the success of marketplaces should encourage brands to reassess how resale could fit into their ecosystem. Of brands that are embracing resale, two-thirds cite the acquisition of new customers at lower price points as a key incentive, while around one in four cite improved brand control, allowing them to extract greater value from products by keeping them in circulation.¹⁶

Resale can also drive store traffic, providing new reasons for customers to visit and browse first-hand products – while also reducing the operational burden of listing and describing resale items online.

Resale-as-a-Service (RaaS) providers as enablers

Platforms such as Trove, ThredUp and Reflaunt offer tailored solutions that enable brands to deliver resale experiences integrated into existing infrastructure while outsourcing operations. These platforms help overcome common hurdles such as product quality control and authentication (cited by 34 percent of executives as a challenge) and lack of internal expertise (cited by 31 percent).¹⁶

Number of brands with resale programs in the US, 2009-September 2025



Source: ThredUp, The Recommerce 100

Lululemon Like New

Lululemon's "Like New" trade-in programme, in partnership with software platform Archive Resale, enables the brand to keep customers and products in the Lululemon ecosystem. Customers trade in their used Lululemon products in exchange for store credit. The brand hosts events to grow awareness of the programme, such as at film festival South x Southwest in Austin in March 2025.¹⁷

Selfridges

Luxury department store Selfridges' resale offering, Reselfridges, is available in stores and online. With a focus on high-end designer brands, archival and rare items, Selfridges leans into its curatorial reputation and sells pieces from customer trade-ins, partnerships with external specialists and concessions. The programme supports the retailer's goal to make 45 percent of all sales circular by 2030.^{18¹⁹}

Brands and retailers entering resale should tailor the model to their business needs

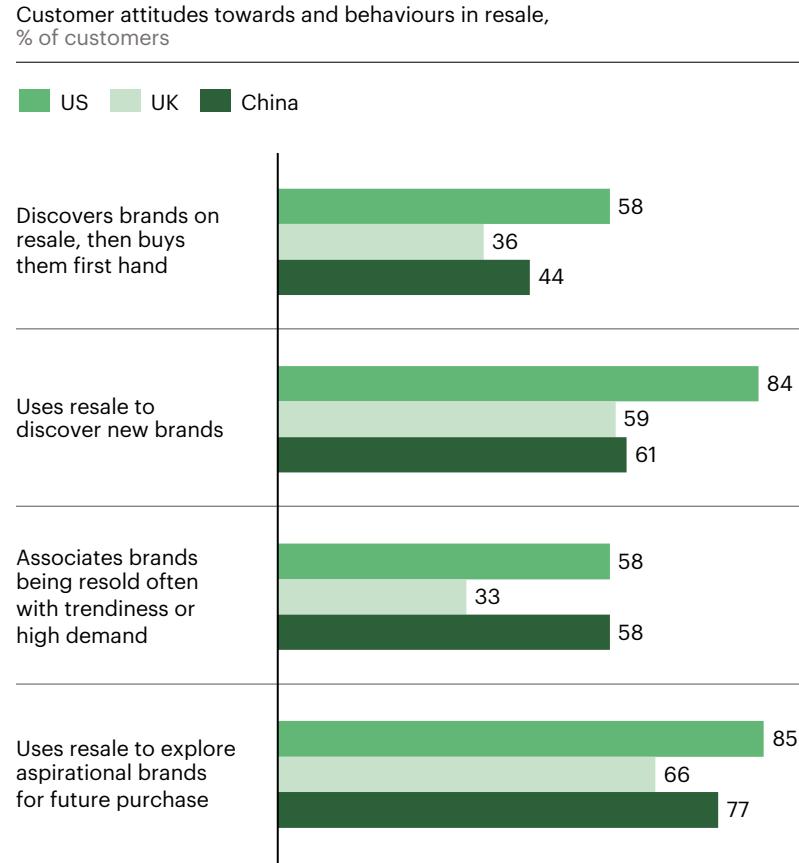
			Low involvement Low control	High involvement High control	
			PARTNER WITH A PLATFORM	USE RESALE-AS-A-SERVICE	BUILD IN-HOUSE
How it works	A brand partners with a third-party resale marketplace, ranging from co-marketing initiatives to deeper collaborations such as consignment models, product buy-backs or shop-in-shop integrations	RaaS providers deliver white-labelled, turnkey solutions for resale technology and operations, allowing brands to integrate the offering into their own website or host it on a separate platform	A brand builds the underlying technology and operates its own platform, including collecting and buying back items, authentication, product display, transactions, returns and logistics		
Benefits	Light-touch operationally and minimal infrastructure investment Access to established marketplaces and large communities of buyers and sellers	Favourable economics due to fixed costs and revenue-share or per-item arrangements Operational expertise and support is outsourced	Full control of the brand experience and scalable potential Full ownership of customer data and integration into e-commerce processes		
Drawbacks	Limited control over brand experience and customer data Limited revenue generation potential	Outsourcing can result in limited customisation and market differentiation Commercial, operational and strategic benefits are filtered through a third-party	Upfront investment required can be significant, especially in tech builds Significant running costs and labour dedicated to non-core capabilities		
Most suited to	Small to mid-sized brands who want a low-cost, fast entry to test appetite for resale Luxury brands that want access to a ready-made audience and high traffic	Brands that lack the scale, expertise or tech capabilities to invest heavily in resale Brands with a loyal following seeking to balance speed to market with control	Larger brands with significant scale and brand equity Brands that want to make resale a long-term part of their strategy		

Resale can be seen as a commercial lever as much as a brand play in 2026

Brands remain cautious about cannibalising first-hand sales with secondhand strategies, with one in five executives citing this as a barrier.¹⁶ However, resale also has the potential to boost the primary offering:

- Brand perception:** Resale can reinforce perceptions of quality and durability while emphasising circularity initiatives. Extending the lifespan of products will be an increasingly important consideration as the EU's incoming Extended Producer Responsibility regulation shifts financial responsibility for end-of-life products onto producers. Already in place in France, fines of up to €7,500 (\$8,805) per unit can be issued for non-compliance.²⁰
- Customer acquisition:** 43 percent of consumers who first discovered a brand through resale subsequently purchased first-hand items.³ Resale widens access to more price-sensitive consumers, a growing consideration as tariff-driven price increases heighten affordability concerns.
- Customer loyalty:** Resale can power repeat purchases from a brand's primary offering. Brands like Balenciaga – which launched resale with RaaS provider Reflaunt in 2022 – encourage customers to trade in old products in exchange for store credit to purchase new items.²¹ As customers heighten their focus on value, store credits become even more persuasive.

Brands have often treated resale as a brand building exercise. Looking ahead, those adopting should consider making it commercially adjacent – for example, setting KPIs such as trade-in conversion, retention and incremental full-price sales – to capitalise on rising demand for value.



Source: BoF-McKinsey State of Fashion 2026 Consumer Survey

Success in resale will require clear strategic choices on model, category focus and scale

EXECUTIVE PRIORITIES

1 Choose a resale model to suit scale, ambition and resources

Given the growing demand for resale and increased price sensitivity, a resale presence is increasingly essential for brands. But in 2026, brands can no longer treat resale as a side initiative. Selecting the right model is a strategic choice that will define the amount of value captured — from brand equity to revenue and loyalty.

For some players, marketplace partnerships may suffice. But for those seeking deeper impact, more integrated approaches such as Resale-as-a-Service or in-house investments can allow brands to differentiate their propositions, such as through a brand-curated product selection or expert authentication.

2 Focus on high-value categories that reinforce brand identity

Not every category will be equally as attractive from a resale perspective. Deciding where to invest efforts will be particularly important for multi-brand retailers entering resale. Products with strong resale value — such as handbags and outerwear — tend to have a longer life and can generate higher margins. These categories are natural candidates with which to pilot and scale resale. Regional and cultural dynamics should also shape which categories to prioritise, with consumers in the US and China leaning towards big-ticket items and those in the UK more trend-driven everyday wear.

Brands should also use their core values to prioritise which products and categories to integrate into resale. Doing so ensures that resale reinforces brand identity and deepens loyalty, rather than becoming a disconnected add-on.

3 Use resale to strengthen first-hand sales and attract new customers

Resale can reinforce brand equity and consumer perception in the primary market. It extends reach by attracting new audiences and converting resale buyers into future full-price customers.

Strong resale value also signals quality and durability — a “good investment” that sustains trust in a brand’s first-hand products. Many companies amplify this effect by rewarding customers with credit or promotions, creating a loyalty loop that drives repeat purchases and deepens long-term relationships.

To capture this value, brands should establish clear commercial KPIs — from trade-in conversion rates to customer retention and incremental full-price sales.

The RealReal's Plan to Capitalise on the Luxury Resale Boom

Soaring prices for new luxury goods and growing scepticism around their value relative to cost are driving more consumers to resale platforms like The RealReal. President and CEO Rati Sahi Levesque discusses the company's strategy for continuing its winning streak.

BY MALIQUE MORRIS

For most of its 14 years in business, The RealReal was yet another money-losing online retailer with a growth-at-all-costs mentality, despite being a pioneer in luxury resale. In the past year, the company has turned profitable, with its adjusted EBITDA jumping 83 percent year on year in 2024 to \$9 million.

The RealReal's road to profitability has been smoothed, in part, by a resale boom as rising luxury prices

have sent shoppers looking for more affordable secondhand options. But The RealReal is also more disciplined than it's ever been, says president and chief executive Rati Sahi Levesque. In recent years, it has changed its commission structure to encourage sellers to consign higher-priced items, instead of flooding its marketplace with lower-priced goods to grow sales. It has also integrated artificial intelligence into its authentication process to improve its

ability to catch fakes and reduce operational costs.

The RealReal is looking to sustain that momentum, adding more AI capabilities to its operations, launching new tools to acquire more consignors and strengthening its international business. Levesque believes luxury resale's winning streak isn't about to end either, despite some younger consumers' embrace of counterfeits and dupes.



This year was marked by a destabilising trade that's forced brands to raise prices. How have tariffs impacted The RealReal's growth?

Resale is having a moment, but there's a lot of factors that are contributing to that. Tariffs are one of them. The inflationary pressures, all of that.

The consumer is just smarter than they've ever been, and they're like, 'Why wouldn't I participate in the circular economy?' Even when they're buying wedding dresses, they're now thinking of the secondary market first.



When [consumers] shop in the primary market now, they're thinking about The RealReal. They actually call us and ask us, 'What holds its resale value? Is it the Louis Vuitton Speedy or is it the Goyard tote bag?' They want to understand that before they're even buying in the primary market.

The RealReal has been turning a profit in recent years. What have been the biggest profit drivers?

We made some systemic changes to our business. We changed our commission structure, for example.

Low-value items under \$100, maybe we're not the place for those items. Maybe you need to take them somewhere else, because it costs us the same amount to process and authenticate low-value as it does mid- and high-value. Our sweet spot is that mid- to high-value product. The other place that we made changes is we were out buying inventory. We went back to our core consignment [model].

As consumers across income groups confront higher prices, how has their willingness to buy luxury items on the resale market shifted?

Most of our products, you can't find anywhere else. So it's not a commodity. These are rare items that people are willing to pay for. People want to make sure that they're getting value.

In the primary market, a lot of these brands kept pushing the envelope on pricing. Every year, taking their pricing up pretty significantly. At The RealReal, it's really about what the consumer will pay for something.

We use data to understand how far the consumer is willing to pay for something, and they tell us. We'll see demand drop, or we'll see the sell-through go down. Our sell-through is quite high. It's pretty much [around 75 percent] in 90 days, which is

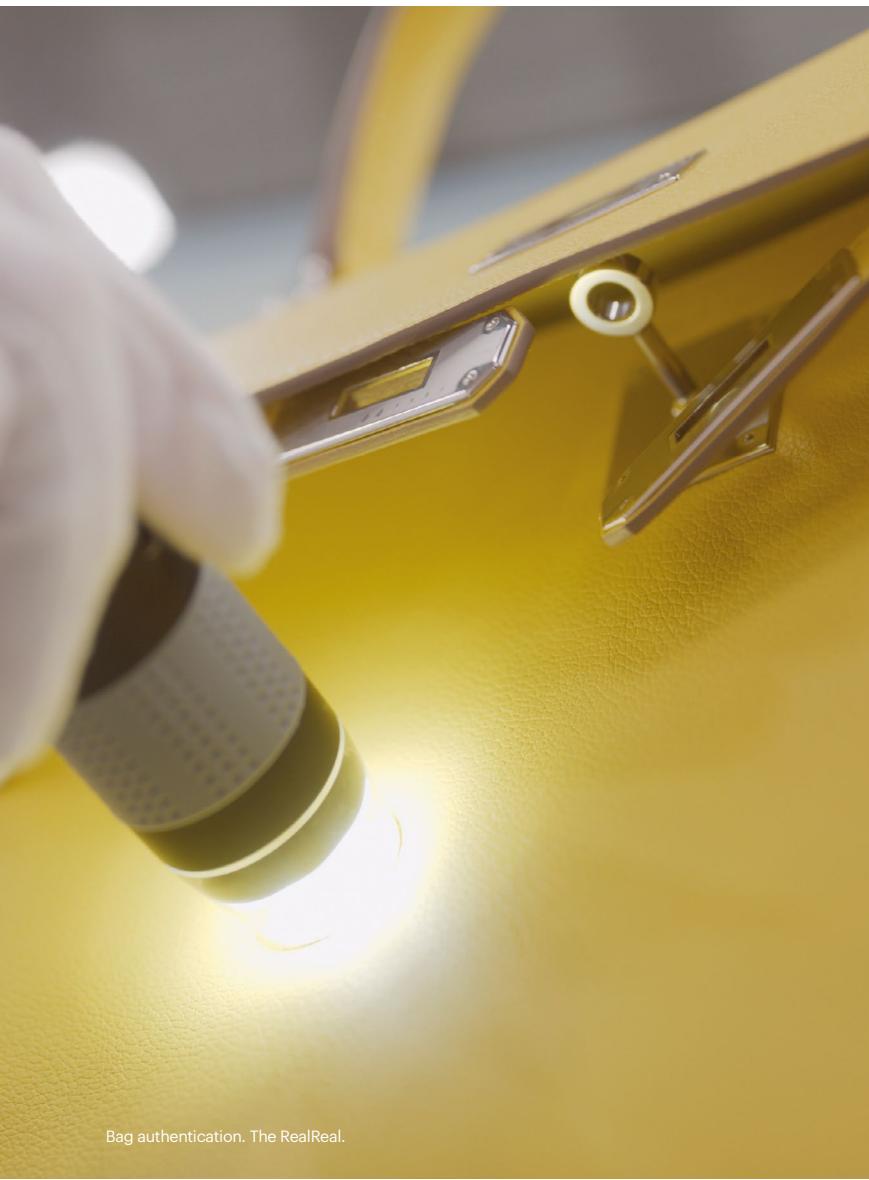
unheard of, because we let the market set the price. It's not The RealReal sitting here and setting the price, it's the market, the consumer telling us what they will pay for something.

There's been a rise in younger consumers seeking dupes – less expensive versions of high-end goods – and counterfeits. What has that meant for luxury resale?

There's always going to be a want for authentic goods. The value play is important, but authenticity is important, too. We do it for a lot of different reasons. Authenticity is one, integrity of the product is another, really preserving the history and heritage of the brands, keeping these brands alive.

How has the embrace of counterfeits impacted your authentication practices?

We are not new to authenticity. We've invested a lot of time and dollars and patent technology around it. I sleep well at night because I know no one does more than us to keep fakes off the market. Some of these brands are authenticated three times, by three different authenticators. Then we're using technology, something called Vision and Shield, to not only authenticate the consignor but also the product.



Bag authentication. The RealReal.

“Most of our products, you can't find anywhere else. So it's not a commodity. These are rare items that people are willing to pay for.”

I'll use handbags as an example. We now can measure, on a pixel level, the handbags, and know if an item is authentic or fake. It's this piece of hardware that goes in and takes a picture of it at a microscopic level, and then puts it through the right kind of funnel and say, 'Hey, there's something wrong with this, at a microscopic level,' or 'This has the wrong metal at the zipper. It's not real.'

How will your use of AI continue to evolve?

Now it's about coverage across all products. It's also going to be about speed of processing. Some of these items take two or three weeks to process. You can see how now it can take a week to process. Now we're authenticating all handbags via AI.

We have all this data [from our] 40 million members. Knowing your behaviour, you buy a handbag and your typical pattern is, in six months, you're wanting to move on from that

handbag and buy something else. Then we'd ping you and say, 'Hey, you can trade up now.' So that's something called My Closet that we're launching. In one click, you'll be able to re-consign it and actually sell high.

When is this launching?

Our first part of that was 're-consign' that we already launched, and we're seeing huge engagement there. My Closet will launch early next year.

Consumers are asking for it. What if you can say to them, 'You have \$30,000 in your closet, you want to go out and buy this Cartier watch, here's the two things to consign right now that you're going to get the most dollars for. Maybe this is the right time to consign those things to go buy your Cartier watch.'

Which regions are driving the most momentum in luxury resale? Which regions are underpenetrated but show a lot of potential?

Well, we are mostly domestic [in the US] right now. We do sell internationally. So Europe is a big piece of that. The Middle East a bit. As well as Australia. Hong Kong is another one. Northern Europe, Europe in general. So that's where we're seeing [interest] outside of the US.

We are looking at a cross-border solution right now. We think this could be a big growth driver for us over the years. We sell to a lot of these countries overseas, and now it's about how we bring in the supply. For example, Japan, we're now just starting to get products from Japan. We're also starting to get in product and partnering with [consignors in Japan], with something called an API feed. So they'll be able to directly post on our site, and we'll authenticate post-purchase.

Customer acquisition costs continue to go up. How is that impacting the online resale market? Where are resellers finding their best customers? It's about getting smarter around attribution and targeting. What we've gotten better at is being able to flag which buyers make the best consignors, and how do we target them, and where are they? A lot of the old-school channels, sometimes radio,

TV, direct mail, being able to target certain zip codes. If you're young and you're fashionable, usually you're a consignor of ours because you do like to change out your wardrobe every so often, you do have this love for fashion, and that does become important to our ecosystem. So being able to target those people and getting better at it is really where we're focused.

What are some untapped customer acquisition strategies that you're not investing as much in yet but seem promising?

Another place is the affiliate programme. If you're a closet organiser or a celebrity stylist, you can earn a few extra thousand dollars every month, because you earn a percentage of every sale of your client's closet. It becomes interesting for them. We're definitely seeing something there, and we're building out what that strategy looks like.

How do you expect the dynamics in resale to play out in the coming year? Are more brands going to pursue resale on their own, and what does that mean for resale platforms like The RealReal?

There's room for all of it. That said, we're really focused. We find that our customer and consignor like the simplicity of our service. They like

how easy it is. They like that they can consign all categories, everything, not just one brand. They like the cash versus the site credit. They like the depth of our product and what we sell, because we sell across all categories.

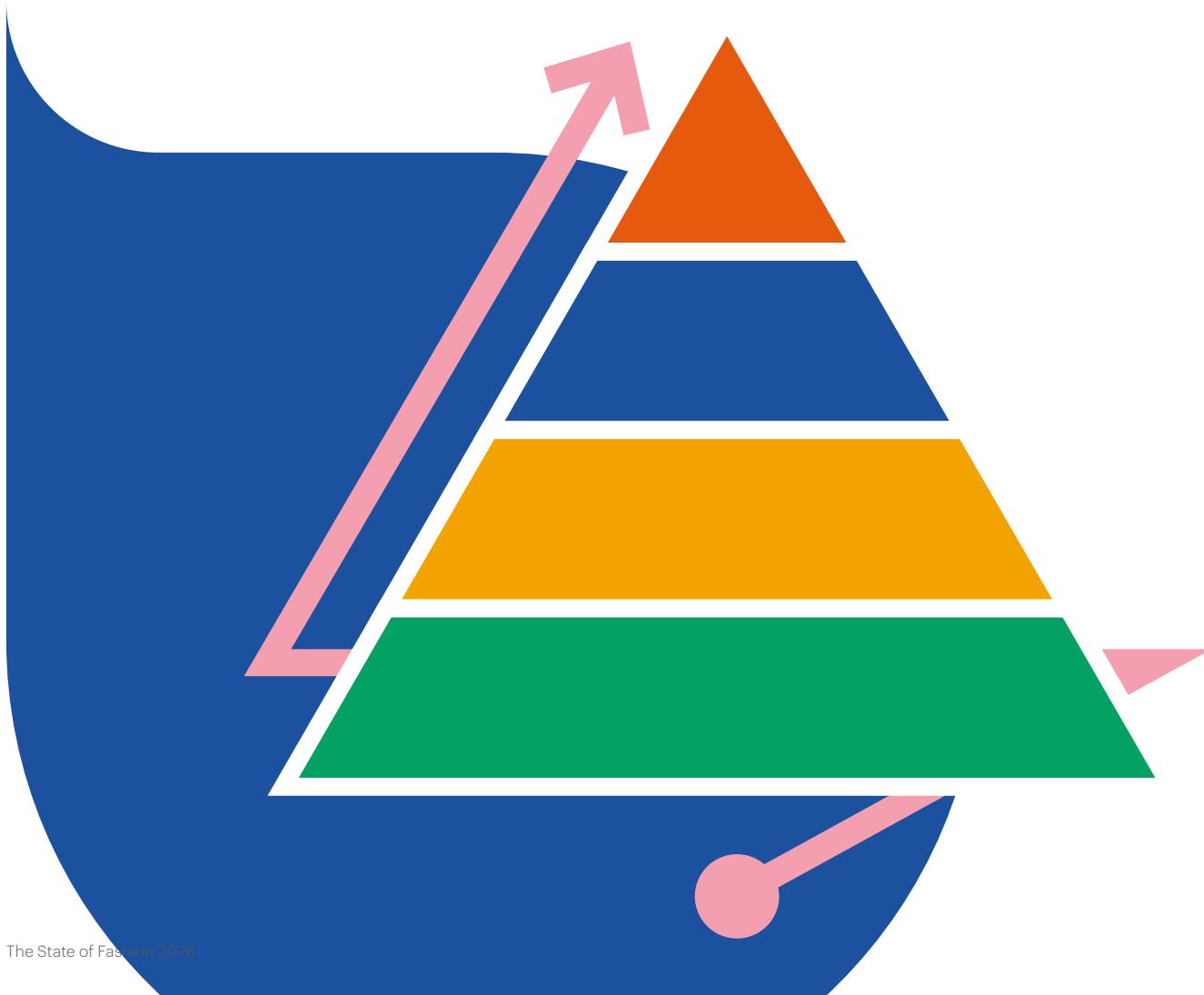
That is definitely a competitive advantage for us.

This interview has been edited and condensed.



The RealReal store in New York. The RealReal.

09. The Elevation Game



09. The Elevation Game From the value segment up to affordable luxury, fashion brands are moving upmarket. Some want to differentiate from ultra-low-cost competitors, while others aim to capture the former high-end shopper squeezed out by luxury prices. With margins under pressure and competition intensifying in 2026, these elevation strategies will gain new urgency. Product quality and standout experiences could help brands upgrade their positioning.

KEY INSIGHTS

- Value brands such as Bershka and H&M have reduced the share of SKUs in their lowest price tiers in the UK by 15 to 25 percent between 2023 and 2025.
- 51 percent of global customers say quality is a key driver in creating a high-end brand perception, the highest of all attributes, while 47 percent cite a strong brand story.
- While consumers are becoming more price-conscious, around one-third are still willing to splurge on fashion when they find good reason — such as when products are well-crafted and when consumers are made to feel special and valued.

EXECUTIVE PRIORITIES

- Redesign product pyramids. Introduce premium “halo” products that signal new positioning and build authority through product excellence. Use higher-priced capsules and collaborations to create excitement without alienating the core customer.
- Adjust pricing architecture but avoid overreaching or elevating prices too quickly by committing to long-term discipline. Accompany changes with clear messaging about the elevated proposition, closely monitoring consumer perception.
- Reinforce elevated positioning by improving the customer experience across channels and by investing in brand marketing to tell compelling narratives that deepen emotional connections.

Across price segments, fashion brands are premiumising in a bid to grow sales

Value players are elevating their brands defensively against ultra-low-cost rivals such as Shein and Temu, whose business models remain difficult to undercut, even as policy shifts erode some of their cost advantage. For example, value brands Bershka and H&M have reduced the share of SKUs in their lower price tiers across categories and markets between 2023 and 2025, according to data from EDITED.¹

Mid-market players are tapping into the growing demand for “affordable aspiration” from consumers who remain price-sensitive but increasingly prioritise quality and design.² Zara has pioneered this strategy, taking aim at trend-focused shoppers seeking fashionable designs at more affordable prices than luxury ready-to-wear collections.

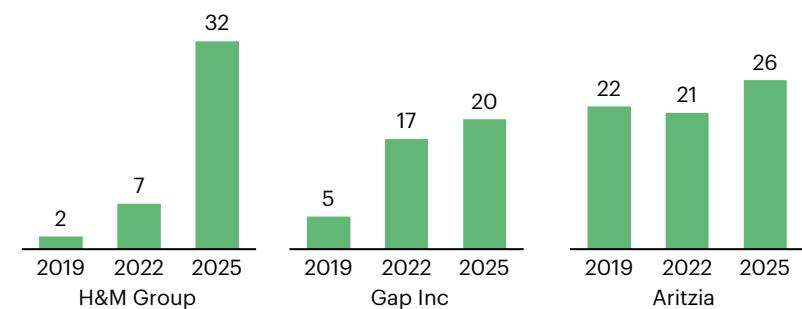
Premium/bridge and affordable luxury players are seizing the white space created by the increase in luxury prices, which rose 61 percent on average between 2019 and 2025.³ Many aspirational consumers, also squeezed by inflation and seeking more creative inspiration from luxury brands, are opting to spend their disposable income elsewhere. Brands like Ralph Lauren are capitalising on this shift, increasing focus on categories like outerwear and bags, where customers are familiar with paying more.⁴ Similarly, French affordable luxury giant SMCP has reduced reliance on discounting to support the elevation of its brands, which it outlined as a key priority in 2025.⁵

Segment definitions

Segment	Example brands	Example price
Affordable luxury	Coach	\$160–\$320
Premium/bridge	Aritzia, COS	\$100–\$160
Mid-market	Zara, Gap	\$40–\$100
Value	H&M, Uniqlo	\$20–\$40
Discount	Primark	<\$20

Note: Example prices are based on men's jeans

Number of references to premiumisation/elevation in earnings calls and company reports, January 2019–September 2025



Note: Aspirational consumers are those spending between €3,000 (approx. \$3,494) and €10,000 (\$11,647) annually on luxury goods

Source: Individual company reports, press releases, earnings calls

Brand elevation depends on three pillars – price, product and brand experience

Price: increasing the share of products in higher price tiers and growing full-price sales

31%

of global customers are willing to splurge on fashion, driven by both tangible and emotional factors⁶

Price architecture: Drive value perception by shifting more of the assortment into higher price tiers and introducing “hero” products in premium categories, reinforcing stronger brand positioning

Discounting: Preserve brand value by scaling back promotions and discounting, ensuring pricing signals remain consistent with an elevated image

Channel exposure: Protect brand equity by carefully restricting distribution through outlets and off-price channels, particularly for signature products

Product: improving product quality, durability and relevance

51%

of global customers say quality is a key driver in creating a high-end brand perception, the highest of all attributes²

Quality: Elevate customer perception by investing in higher-grade materials that align product value with rising expectations for price-to-quality balance

Design: Strengthen long-term appeal by focussing product development on durability and versatile styling that extends wear and relevance

Collaborations: Expand reach into higher-spending segments by partnering with premium brands, leveraging their equity to enhance desirability and brand stature

Experience: elevating perception through retail stores and brand marketing

47%

of global customers say a brand’s story is a key driver in creating a high-end brand perception²

Brand marketing: Build stronger resonance by refining brand voice and narratives, and by actively engaging in cultural conversations where relevant

Stores: Differentiate the brand experience by enhancing store formats and visual merchandising

E-commerce: Invest in creating editorial content, elevated visuals and improved customer journeys

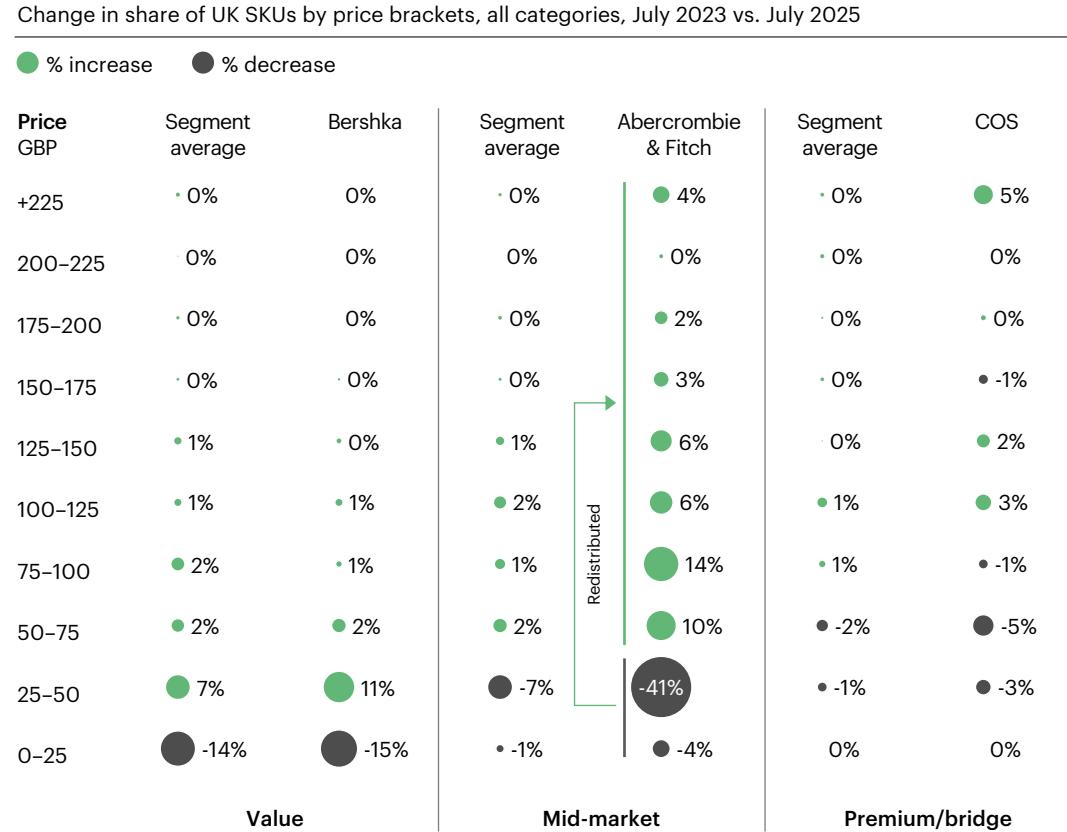
Ambassadors: Amplify cultural impact by partnering with aspirational, brand-aligned influencers

Brands are reducing SKUs for cheaper products and increasing them in higher price brackets

Many value brands are retreating from ultra-low-price tiers where players like Shein and Temu increasingly dominate. In the UK, Bershka reduced the share of SKUs priced below £25 (\$34) by 15 percent between 2023 and 2025, according to EDITED. H&M made similar moves during this time, reducing the share of bags in this bracket by 25 percent in the UK.¹ H&M has been diversifying its offering with premium ranges and capsule lines, such as H&M Premium and the Studio Collection,⁷ as well as collaborations with designer brands.

In the mid-market and premium segments, brands are incrementally increasing core assortments within most price bands. They are also introducing hero products in the higher tiers that create a halo effect that lifts consumer perception of the entire collection. For example, COS released its £1,000 (\$1,355) Nappa leather shearling jacket in 2025.⁸ This is part of a 9 percent increase in the share of outerwear SKUs priced over £175 (\$237) between 2023 and 2025 in the UK, according to EDITED.¹

Brands should be cautious about raising prices too quickly or steeply, as this can alienate the customer and call into question the balance between quality and value and the brand's right to play within the price segment. Brands can use consumer research and peer benchmarking to calibrate pricing moves.



Note: Segment averages represent overall SKU % change per price point across a subset of established brands to control for price inflation
Source: EDITED

Higher prices demand superior quality and refreshed designs

Customers are expected to become more cautious with their spending in 2026.⁶ For those who do splurge, they will be paying special attention to signifiers of value for money, such as craftsmanship, durability and sharp creative direction.² Brands that raise prices without improving quality or design risk alienating consumers and eroding brand equity.

Creative vision will play an outsized role in proving worth. For example, the wave of luxury creative director appointments at mass brands — including Zac Posen at Gap and Jonathan Saunders at & Other Stories⁹ — has injected a higher-end aesthetic into lower parts of the market. Gap also launched the premium line GapStudio in 2025,¹⁰ designed by Posen and featuring items like silk slip dresses and worn by celebrities on the red carpet.¹¹

Collaborations offer another route to import design authority and relevance into accessible price points. Partnerships such as JW Anderson with Uniqlo¹² and Victoria Beckham with Mango¹³ deliver both credibility and access to a more aspirational audience. These collaborations are often positioned as limited editions, which generates desirability and exclusivity among consumers — even in a more price-conscious environment.

43%

of global consumers say they care more about quality than ever before, up from 30 percent in 2023¹⁴

50%

of global consumers say exclusivity creates a high-end brand image²

Marks & Spencer

Marks & Spencer is elevating the style, fabrics and fit of its fashion offering.¹⁵ For example, the brand is leaning into real leather across coats, minidresses, skirts and shoes and is generating excitement by increasing novelty, refreshing two-thirds of its assortment each season while dedicating one-third to core basics.¹⁶ Fashion, Home & Beauty sales increased 3.5 percent in the fiscal year 2024 ending March 2025.¹⁷ Its premium Autograph range performed particularly strongly, with sales up 47 percent over the same period.¹⁷

Uniqlo

Uniqlo's elevation strategy is centred around design authority and quality basics. Its premium essentials, such as its affordable cashmere sweater range, provide an alternative to trend-driven fast fashion. In 2023, the brand launched Uniqlo:C, a sub-label by Clare Waight Keller¹⁸ — formerly creative director of Givenchy and Chloé — focused on elevated everyday essentials and outerwear. In 2024, Keller assumed the role of creative director for the entire brand, expanding her remit to include Uniqlo's core offering. Parent company Fast Retailing's revenue grew 10.6 percent year on year in the nine months to May 2025, while operating profit expanded to 17.2 percent of revenue.¹⁹

Product elevation only works when reinforced holistically across the brand experience

Borrowing aesthetic cues from luxury – across campaigns, editorials, photography and retail – can help justify elevated product positioning. For example, COS staged a ready-to-wear runway show at New York Fashion Week in September 2025,²⁰ signalling its ambitions to extend its brand beyond the high street. While not every mass brand has a credible place on fashion week calendars, COS' design-led aesthetic makes the case. Meanwhile, Zara's use of famous fashion photographers such as Steven Meisel and Mario Sorrenti^{21 22} helps position it closer to high-end fashion.

Redesigned retail environments can offer similar signals and in-store service adds further weight. Aritzia's personal style advisor approach to customer service is the backbone of its store experience, offering a high-touch styling journey like luxury department stores, which reinforces its premium positioning.²³

The same principles extend online. Websites and apps increasingly reflect elevated positioning through streamlined interfaces, lifestyle-driven storytelling and immersive visuals that replace function-focused user experiences.

76%

correlation between a positive store experience and consumers' perception of a brand as premium²

87%

correlation between memorable and creative advertising campaigns and consumers' perception of a brand as premium²

Zara's High-Tech Concept Store

In August 2025, Zara reopened its Manchester flagship in the UK with a new concept designed in an elevated format.²⁴ The layout includes a series of curated rooms, each dedicated to collections such as Zara Origins, highlighting higher-value product lines. This zoning approach borrows from luxury retail, moving away from the uniform mass-market feel typical of fast fashion.

Technology is central to the redesign. Automated product sorting from fitting rooms to online orders, assisted return stations and app integration reduce friction and allow staff to spend more time on high-value customer interactions.



Zara's Trafford Centre flagship store in Manchester, UK. Zara.

Fashion brands should practise discipline in rolling out their elevation strategies

EXECUTIVE PRIORITIES

1 Redesign product pyramids to signal elevated positioning

Build a product pyramid informed by consumer insights, balancing core assortments for the existing customer base with premium tiers aimed at capturing “splurge” purchases and recruiting more aspirational audiences.

Invest in material quality, craftsmanship and fit. Ensure consistency across the assortment to build credibility and trust with customers, which can translate into pricing power.

Introduce halo products in categories such as outerwear and leather goods that lift the perception of the entire brand.

Hire recognised creative talent to inject creativity and originality, or use capsule collections and designer collaborations to import design authority and generate excitement.

2 Adjust pricing architecture over a long-term horizon

Plan a multi-year brand elevation roadmap, emphasising gradual progress across multiple seasons over one-off drops or store renovations.

Use a combination of internal sales data and social listening tools to gauge price sensitivity across categories and define the brand's price ceiling.

Place smaller-volume orders to limit overstock risk and reduce reliance on discounting to protect brand equity.

3 Reinforce positioning across the brand experience

Roll out the elevation strategy across the full brand experience — from communications to in-store environments.

This means placing emphasis on elevated brand storytelling and cultural relevance while ensuring store design, visual merchandising and service standards signal the same aspirational positioning.

Online, brands can reinforce these cues through improved visuals, editorial content and frictionless user journeys that feel both premium and intuitive.

Higher-touch experiences more commonly found in luxury — such as personalised clienteling or exclusive community activations — can also build advocacy and deepen customers' emotional connections.

COS Is Building a Bridge Between Mass Market and Luxury

The H&M-owned brand has become one of the understated stars of the “quiet luxury” universe, drawing in both customers in search of sophisticated design and those looking for value. Managing director Daniel Herrmann discusses how COS strikes its high-low balance.

BY CATHALEEN CHEN

Daniel Herrmann doesn’t want to talk about elevation strategies — at least not explicitly.

The managing director of H&M-owned COS believes elevation is a matter of perception, and true elevation comes from the customer experiencing the products you create.

It’s a notable stance for someone who has presided over an unexpected retail success story, with COS landing

among Lyst’s top 10 hottest brands in 2025 seemingly out of nowhere. Since taking the helm in April 2024, Herrmann has steered the brand through a moment in which it has emerged as a darling of the “quiet luxury” movement, capturing customers trading down from higher-end labels while maintaining its accessible price points. The brand has managed to stake out coveted territory between mass market and luxury — what Herrmann calls a

“bridge” — by staying consistent to its minimalist aesthetic and focussing obsessively on value, whether that’s a £19 cotton t-shirt or a £1,000 investment piece.

It has also pushed a refined, aspirational image with its marketing, staging a buzzy runway show in September at New York Fashion Week.

Herrmann discusses how COS approaches brand positioning without



COS launched in 2007 to serve an older customer base than H&M. The point was always to be more minimal, to be more refined. How has this point of view evolved or shifted?

I wouldn't say that the brand point of view necessarily changed. Besides the aesthetics, which is obviously one important thing, we make sure that the entire universe within COS lives and fits together. We also developed within the brand point of view more of a narrative or a storytelling perspective, where we would like most of our storytelling to centre around what we call relevant fashion moments that we select and pick out that feel authentic to COS, like showing up at New York Fashion Week, or around craftsmanship, which is about the style and quality of the product.

In your strategy, or in your intentions, was elevating COS ever an explicit objective?

Both yes and no. It's a little bit dangerous as a brand to go after a word that you don't own yourself, because I feel true elevation comes from the one experiencing what you're trying to create.

Our hope is that we can deliver on something that feels elevated, but it's more important, I feel, to talk about

the quality and execution than us producing something that someone else should express as being elevated. I think it's more important to, as a brand, discuss how you actually show up.

As young customers – Millennials and Gen Z – discover the brand, how have you been able to ensure that COS' identity resonates with them as well as existing segments of customers?

We tend to look at ourselves as more ageless, to be honest. We don't look so much at our customers depending on age. We look at it much more [as] we are tapping into a style that is very genuine to COS, which is what we talked about before, being centred around something that is more timeless, centred around really quality materials and also of course really sustainably sourced materials.

I think we're not trying to show up differently. We're trying to be the brand we are, no matter what age the person is experiencing us. I think our positioning in this is much more focused on delivering what we feel is authentic to COS than trying to slice ourselves into different parts for different segments.

What does COS' brand storytelling look like?

We always go back to, 'How can we



Inside a COS store in Seoul. COS.



amplify and use the perspectives of relevant fashion movements, of craftsmanship and innovation, in our communication and how we actually reach out?" Then we do that in producing shows. We go back to New York Fashion Week in the Fall, and then for the Spring season we are a bit more playful in where we go.

So, ultimately, product is COS' biggest vehicle for storytelling?
It's so easy to talk about the ambition of generating elevation, but unless you have a product actually meeting that feeling, everything you do becomes unnecessary in a way.

What we are doing [to widen] our position in the market is to be very, very considerate in our price architecture of things. We like to talk about our positioning as this bridge between luxury and more mass-market players, and really giving more people from the mass market the opportunity to experience COS.

We have the cotton t-shirt for £19, which we feel is a competitive price for many of the customers buying from mass market today, so giving them a chance to start experiencing COS on a price point they are more familiar with is an important strategic choice for us.

"It's so easy to talk about the ambition of generating elevation, but unless you have a product actually meeting that feeling, everything you do becomes unnecessary in a way."

Can you say more about COS' overall approach to pricing architecture?

Value is so important to us. No matter if the price is £1,000 or if it's £20, we always focus on value, because that's the proof that we're trying to build something that you feel is elevated.

We look at our price architecture in three modules, which is entry price range, a more regular price point and investment pieces.

What role do brick-and-mortar stores play in COS's strategy?

Retail is really important to us. It's more than just transactional spaces, because it's actually a way for us to create extensions of COS where you can feel cultural relevance by us working together with local artists.

We did something with Sophie Ashby not too long ago where she helped us to actually bring art in store in selected ones across Europe, and of course, it's also an extension of our aesthetics and our own point of view.

We also work with more experiential formats. Usually these are more short-term activations. We had a pop-up in Seoul where both customers and also press could come and learn and understand, and see and feel more about what the collection is about and how it was made. We also use the retail experience to test and learn in new places with pop-ups. I just came back from Paris where we opened a pop-up on the Champs Elysée to see if that's a place where people would resonate with COS, and see how we would actually be perceived in a prestigious place like that street. Then, of course, just opening up COS to new markets, trying to find new COS customers and really taking COS out to new places. After this call I'm on a flight to India where we opened our first store in Delhi yesterday.

Many customers today are redefining what luxury looks like, including many high-spending

shoppers trading down in reaction to tremendous price hikes in the traditional luxury sector. How have you observed these trends and how has COS adapted to these shifts? We've seen the trend of moving away from being logo- and status-driven to really also homing in and focussing on value. That's a trend we see within luxury, that luxury brands are also now moving into value in both product and experience. We feel that's really suitable for us, because we've tried to become this bridge between mass and luxury. We know that a lot of consumers today, they're not either-or. They move fluently between all segments of the market.

It's also why price architecture is a consequence of that too, where we both can showcase the really high-end while at the same time we can also onboard new customers from the high street and allow them to hopefully experience COS and over time buy more from the range that we offer. It's

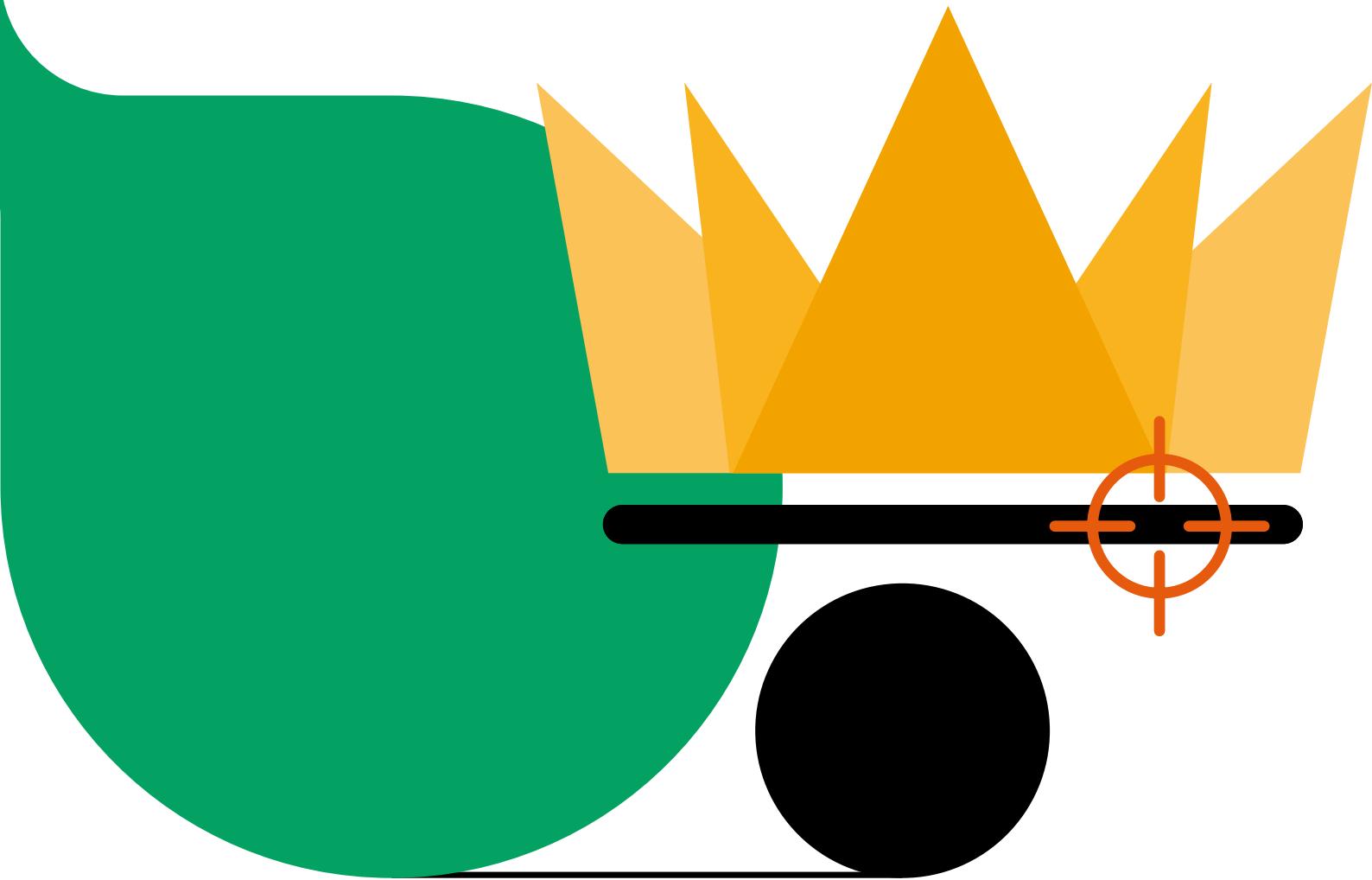
an important answer to how we see the market is flowing.

Do you think that quiet luxury has more legs to it?

When COS started we have always had this aesthetic. It's not something we grew into with the trends in the market. It's always been our starting point. Then, of course, that has been more of a macro trend that's been really clear and significant within the market over the last period of time.

We think it's not a trend. It's something that will live on as a style for people, I don't know for how long but for a long time, and us tapping into that interest is of course both good for us because it's authentic but also resonates with customers yesterday, but also for the years to come.

10. Luxury Recalibrated



10. Luxury Recalibrated The luxury slowdown is prompting a phase of strategic renewal. Brands are reducing their reliance on price-led growth and refocussing on creativity and craftsmanship to rebuild client trust. This recalibration calls for brands to balance the needs of distinct customer segments and integrate product, storytelling and client experience into a cohesive expression of brand value.

KEY INSIGHTS

- Luxury's great reset is underway. Nine of the largest 15 luxury brands appointed new creative directors in the 12 months since September 2024, while four also appointed a new chief executive.
- The top reported attribute that ultra-high-net-worth customers say epitomises luxury is "expertise and quality."
- Gen Z and Millennial customers cite exclusivity as a driver for increased luxury spend, 11 percentage points above the average.

EXECUTIVE PRIORITIES

- Translate new creative energy into sustained commercial impact with aligned marketing, merchandising and store concepts.
- Prioritise rebuilding client trust by taking responsibility for practices in the full value chain and delivering on ethical commitments, while reinforcing brand narratives around craft and artisanship.
- Put customer experience first, using next-generation clienteling and integrated data to elevate service, connect channels and drive traffic in stores and online.

Luxury brand performance has become more polarised amid the sector's slowdown

Over the past three years, luxury volume growth has softened, with brands increasingly relying on price increases to maintain top-line performance.

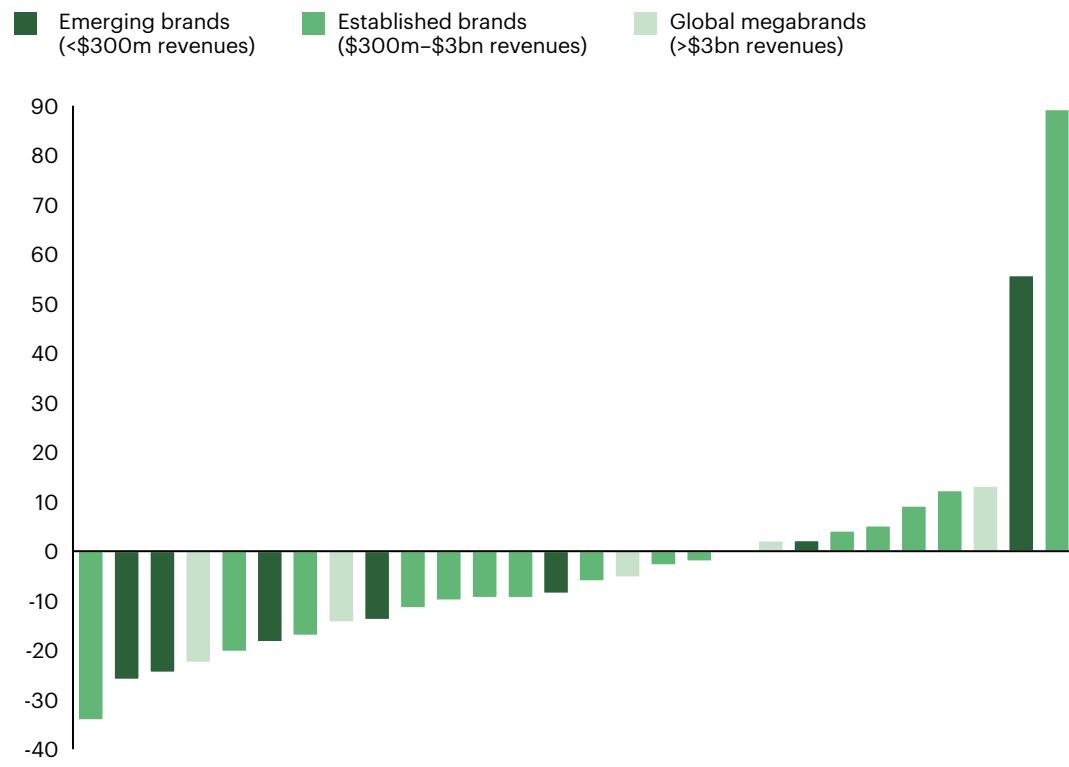
Between 2023 and 2025, around 80 percent of luxury market growth is estimated to have stemmed from price increases rather than volume gains — a lever that cannot be relied on indefinitely.¹

At the same time, competition for share of wallet has intensified as customers redistribute discretionary spending across a wider range of categories, including travel and wellness.

Aspirational shoppers — those spending between €3,000 (approx. \$3,494) and €10,000 (\$11,647) annually on luxury goods — have cut spending on luxury goods amid price increases and a more challenging economic backdrop, with an estimated 35 percent of aspirational luxury customers pulling back on or delaying luxury spend.²

Brand performance has become more polarised amid this shift: The range of EBITA margins among the middle 50 percent of performers (analysed to exclude outliers) has increased more than 2.5 percentage points since 2021.³ Brands that outperformed did so by focussing on more resilient parts of the market, such as hard luxury categories like jewellery and ultra-high-net-worth customers.

Revenue change for top luxury brands, 2023 vs 2024, %



Note: Grouped by 2024 reported revenues

Source: Annual reports and company filings, Morgan Stanley, CapitalIQ, press reports

Brands are turning to creative reboots to reignite customer demand

#1

show was Jonathan Anderson's Dior during Paris Fashion Week Spring/Summer 2026, by UGC share of voice on social media⁴

9 of 15

of the largest luxury brands appointed new creative directors in the 12 months until September 2025, with four also appointing a new chief executive⁵



Loewe Spring/Summer 2026 runway. Spotlight/Launchmetrics.

Luxury's creative refresh

Over the past decade of rapid growth, many luxury brands have widened their customer bases – at times, trading exclusivity for broader reach. This has accelerated customer desire for greater creativity and differentiation, which is most pronounced among younger customers: 81 percent of customers under the age of 35 cite design and creativity as their primary purchase driver.⁶ In response to this and slowing sales, luxury houses replaced their creative directors at an unprecedented rate over the last year.

The highly anticipated Spring/Summer 2026 season

The Spring/Summer 2026 fashion show season was an early test of brands' new creative directions, with designers at houses from Chanel and Dior to Balenciaga and Loewe showing their debut womenswear collections.

Online audiences praised Jonathan Anderson's Dior for its modern reinterpretation of heritage motifs and sculptural silhouettes and described Matthieu Blazy's solar-system adorned Chanel runway as symbolic of the brand's new era, according to social listening analysis. Meanwhile, audiences viewed former Proenza Schouler designers Jack McCollough and Lazaro Hernandez's debut at Loewe as an energetic and playful reinterpretation of the brand's craft heritage through the collection's bold colours, frayed elements and transparent shoes.⁴

Brands have started to capitalise on this initial buzz by accelerating their go-to-market calendars, making their collections available the same week the lookbook is released. The next challenge to fully translate this into commercial impact is to ensure aligned marketing, merchandising and store concepts.

Rebuilding customer trust is an essential part of the sector's recalibration

Luxury's value equation has come under pressure from repeated price increases and recent labour investigations, leaving customers questioning if luxury goods are worth the high price tags.

Rebuilding value perception has become a strategic imperative as brands reset for growth, partly achieved by taking more control over practices across the full value chain to ensure their integrity. Some brands are attempting to gain oversight of their entire value chains and protect craftsmanship. For example, Dior created a new industrial division in late 2024 to centralise oversight of suppliers and workshops to strengthen quality control and preserve artisanal know-how.⁷

Leading houses are also aiming to improve value perception by investing in their manufacturers, developing talent in-house or vertically integrating production to preserve rare artisanal skills. Most recently in June 2025, Prada acquired a 10 percent stake in Italian leather group Rino Mastrotto, strengthening its control over leather production.⁸ Meanwhile, brands like Van Cleef & Arpels and Bulgari are opening their jewellery schools to the public to showcase in-house craftsmanship skills and inspire a new generation of customers — a growing engagement tactic across the industry.⁹

#1

attribute that epitomises luxury is "expertise and quality," according to ultra-high-net-worth customers⁴

67%

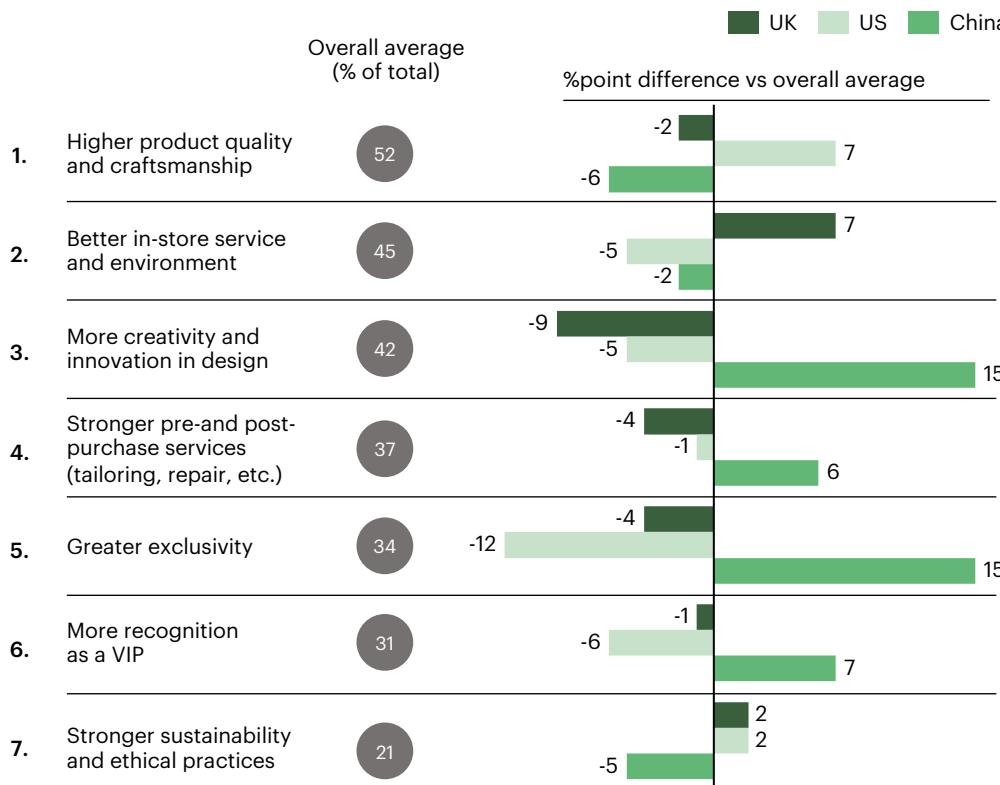
of consumers say trust in a brand translates into long-term loyalty and advocacy¹⁰



Artisan constructing a luxury bag. Rapeepong Puttakumwong/Getty Images.

Regional differences in purchase drivers reveal unique formulas to capture high spenders

Factors that would encourage ultra-high-net-worth individuals to buy more from a luxury brand in 2026,
Top three reasons



In China, ultra-high-net-worth customers continue to prize exclusivity and innovation, gravitating towards brands that balance recognisable heritage design codes with creativity. Luxury is seen as an expression of taste and individuality, where exclusivity can be signalled by showcasing access to exceptional design and brand iconography.

When asked about associations with luxury, respondents in the US and UK emphasised attributes such as quality, durability, elegance and affluence. By contrast, Chinese consumers cited specific brand names twice as often.⁶

In the US and UK markets, strengthening clienteling and store experiences through AI or digital tools can be a key source of competitive advantage. For example, such tools can be used to personalise web interfaces to customers' purchasing and browsing history to maximise engagement, or can guide sales advisors to more effectively prepare for in-store visits. While use in luxury is nascent, brands like Saks Fifth Avenue have started to use AI to personalise editorial content and product recommendations on their websites.¹¹

Source: Altiant UHNW Survey, October 2025. N=300, includes US, UK, China

Younger cohorts place greater emphasis on luxury as a marker of identity and status

Premium quality and craftsmanship are key for all customers, but there are slight differences between generations on other associations with luxury.

Redefining wealth and luxury

Gen Z and Millennials are reshaping expectations of luxury brands. Younger customers use luxury purchases to signal status, image and self-definition more than older cohorts and are less likely to link luxury to wealth, redefining luxury beyond affluence.¹² This is linked to luxury's widening scope to include experiences, and is reinforced by resale's rise, which weakens luxury's link to wealth.

The evolving meaning of exclusivity

Gen Z and Millennial customers cite exclusivity as a driver for increased luxury spend, 11 percentage points above the average.⁶ Yet as luxury continues to grow its customer base and the notion of exclusivity evolves, brands must foster desirability through storytelling, personalisation and product distinction rather than limited access alone.

Younger cohorts are gaining spending power

Gen Z spending is growing twice as fast as that of previous generations. It is expected to surpass Baby Boomer spending by 2029, fuelled by \$15 trillion to \$20 trillion in wealth transferred from Baby Boomers to Millennials and Gen Z.^{13,14}

Attributes most associated with luxury by ultra-high-net-worth customers,
Top seven themes per generation

	Gen Z and Millennials	Gen X	Boomers and Silent Gen.
1st	Premium & exclusive	Quality & craftsmanship	Quality & craftsmanship
	Quality & craftsmanship	Premium & exclusive	Premium & exclusive
	Personal status & identity	Affluence & wealth	Affluence & wealth
	Elegant & timeless	Elegant & timeless	Unique
	Unique	Unique	Indulgent & extravagant
	Affluence & wealth	Indulgent & extravagant	Elegant & timeless
	Innovation & design	Personal status & identity	Innovation & design

Source: Altiant UHNW Survey, October 2025. N=300 (US, UK, China)

Luxury brands must harness creativity and focus on clienteling to unlock the next wave of growth

EXECUTIVE PRIORITIES

1 Translate creative energy into sustained commercial impact

Support creative instinct with customer insight and analytics. Use client insights to focus artistic instincts, not replace them. Balance the art of risk-taking with a deep understanding of brand heritage and audience reception to create work that feels daring and fresh but lands with customers.

View marketing and stores as further opportunities to differentiate creatively from competitors. The most compelling creative reboots will drive early buzz, sustain momentum through consistent marketing narratives and convert it into measurable improvements to store and web traffic, engagement and sales.

2 Prioritise rebuilding client trust

As transparency becomes a baseline expectation and regulatory pressure increases, responsibility in sourcing and labour is central to rebuilding trust.

Whether vertically integrated or not, brands must own responsibility for the entire value chain — from raw materials and sourcing through to the finished product. Prioritising traceability and fair labour practices signals genuine integrity to customers and enables tighter control over production quality and working conditions, and enables brands to secure (and where required, rebuild) their reputations.

Customers want proof of exceptional materials and human skill visible in the product. Brands should anchor brand stories in craft and product quality. They might also invite customers behind the scenes in production with atelier visits, open workshops or storytelling to help restore value perception and strengthen emotional connection.

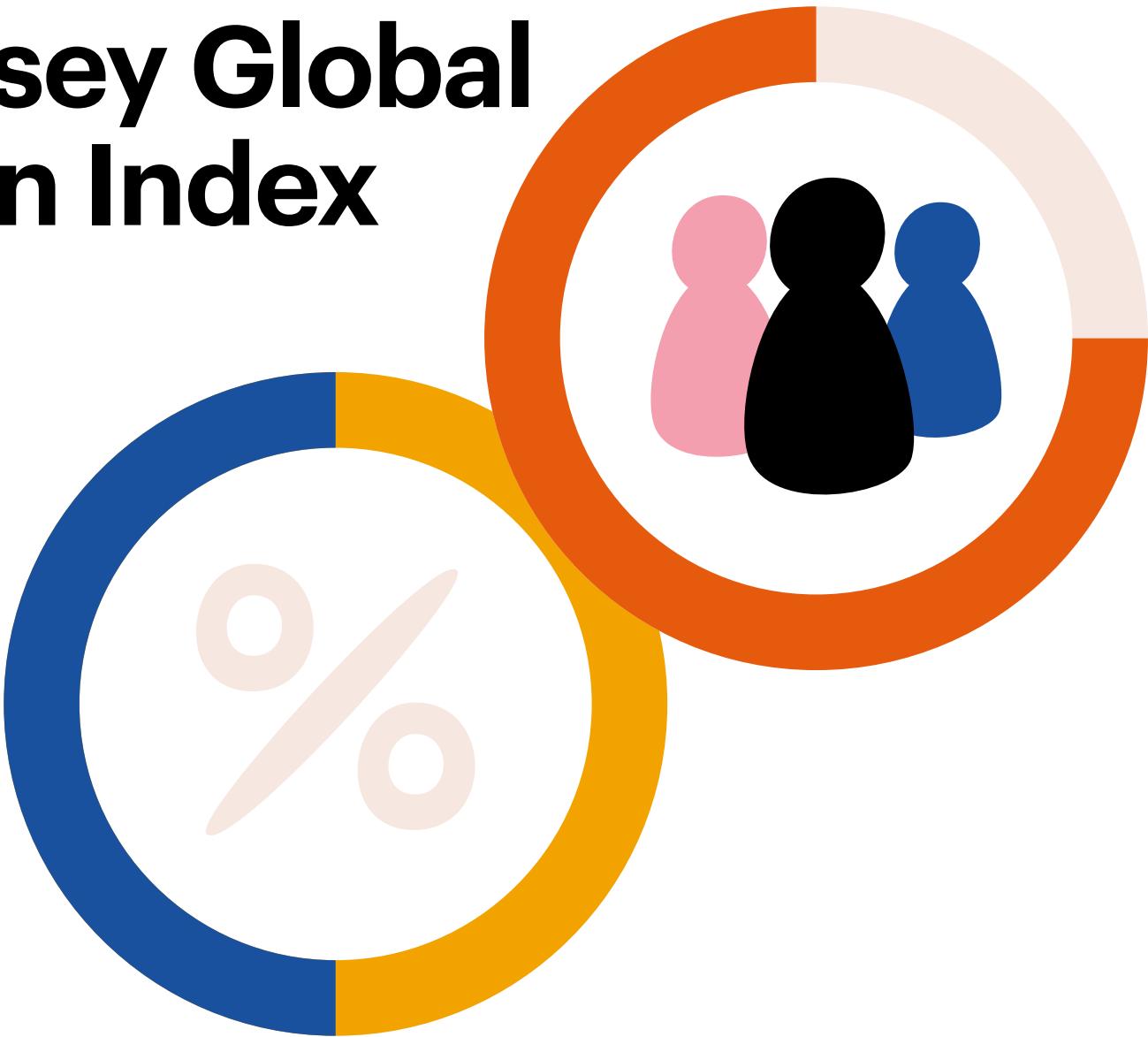
3 Improve the client retail experience across channels

Empower advisors to deliver more personal, high-touch service both online and in store, pairing investment in clienteling tools with ongoing training and incentivising digital fluency.

Data must also flow seamlessly across stores, e-commerce and social channels, creating a single, unified view of each client to enable:

- Tailored outreach, such as notifying a leather goods client that a new handbag has dropped ahead of their birthday or anniversary.
- E-commerce personalisation, such as adapting product listing pages to unique preferences to maximise engagement and conversion.
- Exceptional in-store experience, such as client advisors using AI tools to more effectively prepare for appointments.

McKinsey Global Fashion Index



McKinsey Global Fashion Index After a record 2023, the industry's economic profit declined in 2024 as luxury's slowdown outweighed strong growth in the mid-market and value/discount segments. The mid-market emerged as the largest contributor to economic profit and reclaimed the top spot on the Super Winners list for the first time since 2017.

KEY INSIGHTS

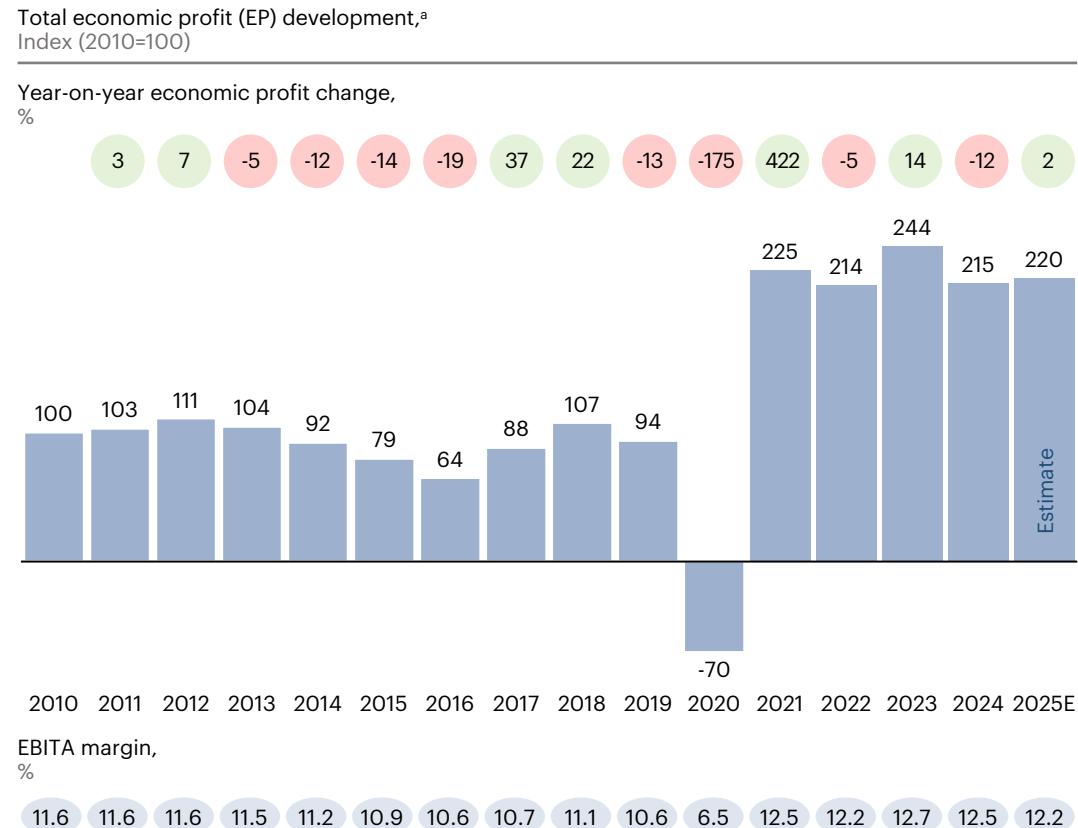
- Economic profit (EP) fell 12 percent in 2024 from record-high levels in 2023. In 2025, the industry is expected to rebound modestly with 2 percent growth.
- The industry's performance remains well above pre-pandemic levels, with average EP from 2021 to 2025 expected to be more than 2.5 times higher than from 2015 to 2019.
- After years of strong performance, the luxury segment's EP fell for the first time since 2016 (excluding Covid-19).
- Mid-market and value/discount players are seeing the strongest performance, with their combined share of EP expected to reach a record high in 2025.
- 40 percent of value/discount players are combining margin expansion with above-average revenue growth. Among the strongest performers are off-price retailers, benefiting from a rise in cost-conscious shopping behaviours.
- Intensified competition eroded the top 10 brands' share of industry value, dropping 2 percentage points in 2024 and projected to drop a further 3 percentage points in 2025.
- Mid-market player Inditex now leads the Super Winners list, delivering record-high EP based on 2024 full-year performance.

Following double-digit growth in 2023, economic profit declined 12 percent year on year in 2024

The McKinsey Global Fashion Index (MGFI) uses data from 400 public companies to track performance across the fashion industry's five key segments. To enable like-for-like comparisons, the segment a company is placed in remains consistent over time. The MGFI measures financial growth and value creation through economic profit (EP), calculated as the difference between a company's adjusted operating profit (minus taxes) and its cost of capital (invested capital multiplied by the weighted average cost of capital). EP also reflects value created over time, allowing the index to gauge how much a company invests to generate its results.

Following a year of record-high EP in 2023, industry revenue growth slowed to just 1 percent in 2024, outpaced by a 3 percent rise in operating costs. This was largely due to rising marketing spend as brands competed for more value-conscious consumers. As a result, EBITA margins compressed by 0.3 percentage points (%points).

At the same time, the share of invested capital over revenue increased from 71.8 percent to 74.2 percent. Coupled with a higher cost of capital amid rising interest rates, this weighed further on overall EP.



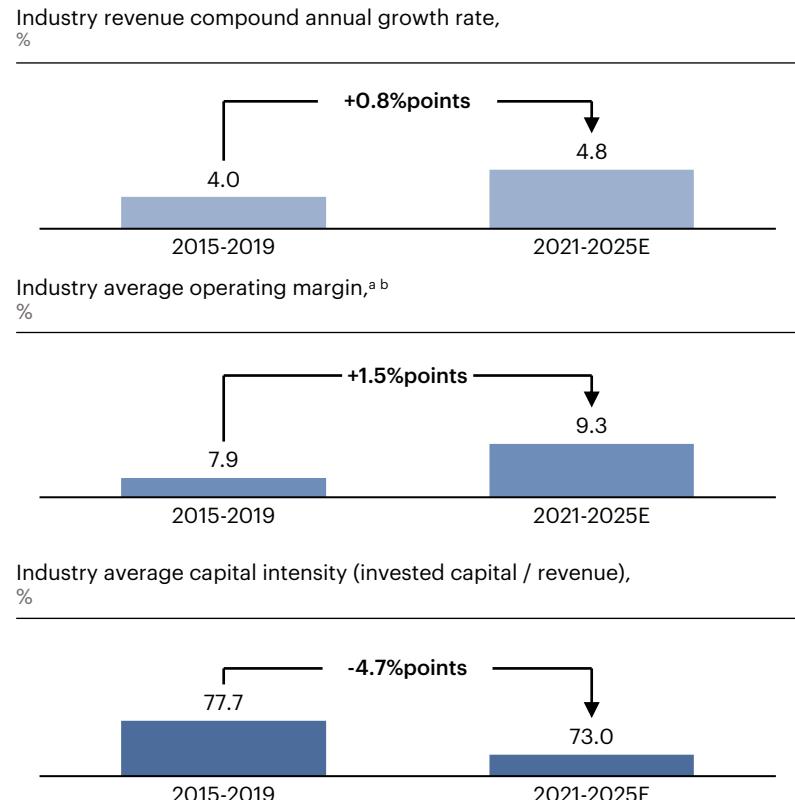
a. For companies with fiscal year ending before June, FY-1 is used
Source: McKinsey Global Fashion Index

Despite the slowdown, the industry remains structurally stronger than pre-pandemic

Since 2019, the fashion industry's EP has increased significantly, stabilising well above pre-pandemic levels — averaging over 2.5 times higher between 2021 and 2025 (estimated) than from 2015 to 2019. This has been driven by an improvement in operational and capital efficiencies that lowered costs, while players that had previously weighed on performance exited the industry. Comparing the pre- and post-pandemic period reveals the following dynamics:

- Average revenue growth has improved modestly, with the greatest increases seen in the affordable luxury and mid-market segments — the latter supported by a higher drop-out rate of underperformers during the pandemic (relative to other segments).
- Average operating margins have expanded by 1.5%points, reflecting improvements across segments. The luxury segment has seen the largest gain, with margins up 3.5%points between the two periods, driven by strong pricing-led growth from 2021 to 2023. As EP is highly sensitive to margin gains, these improvements have resulted in disproportionate value creation.
- Average capital intensity decreased almost 5%points, bringing down capital charges. This has been supported across segments by a shift to more capital-light models (such as online channels and fewer new stores).

The uplift in EP was broad-based: Luxury, premium/bridge and mid-market segments each contributed approximately one-third to EP growth between the two periods, while the value/discount segment grew modestly, already operating with a lean structure.



a. Net operating profit less adjusted taxes (NOPLAT) margin

b. Differences are calculated using unrounded figures; values shown in the chart may not match exactly due to rounding

Source: McKinsey Global Fashion Index

Luxury and premium/bridge segments weighed on industry performance in 2024

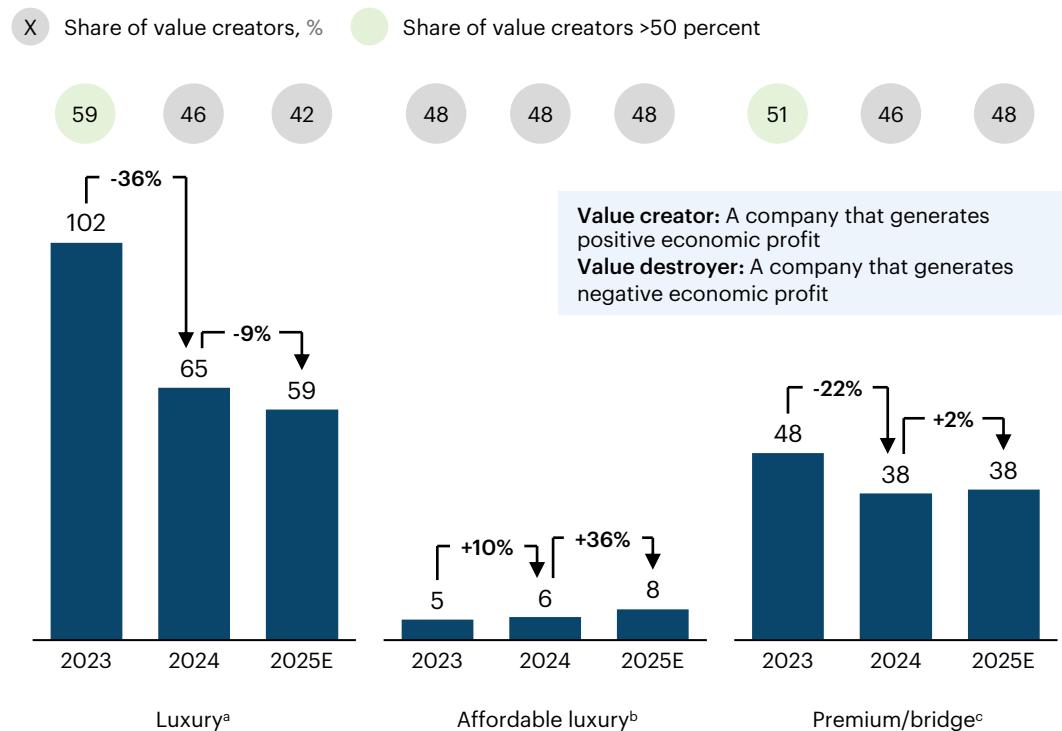
Luxury

As expected, luxury's EP declined in 2024 as brands eased back on price hikes that have weakened demand.¹ The number of value destroyers in the segment reached its highest point post Covid-19, including Kering whose EP decline weighed heavily on the segment, alongside LVMH. The scale of the downturn is set to slow in 2025 with several creative leadership changes. Recovery is not expected to be immediate, typically taking at least two to three collections for brands to stabilise under new leadership.²

Premium/bridge

Nike's EP dropped by 60 percent, affecting the segment overall. Excluding this impact, the segment posted an 18 percent increase in EP in 2024. Fast-growing sportswear players such as On, Asics and Anta Sports are supporting this growth, fuelled by strong demand in Asia – particularly China where outdoor sportswear sales have doubled over the last five years,³ even as luxury contends with regional headwinds.^{4,5,6} This strong momentum is continuing through 2025, with Asics on track to break into the top 25 performers based on EP, after being outside the top 100 in 2021.

Total economic profit (EP) development 2023-2025E,
Index (2010=100)



a. Example luxury companies: LVMH, Hermès, Richemont

b. Example affordable luxury companies: Tapestry, Ralph Lauren Corporation, Canada Goose

c. Example premium/bridge companies: Nike Inc., Lululemon, Aritzia

Source: McKinsey Global Fashion Index

The share of value creators in the value/discount segment is has reached a multi-year high

The mid-market and value/discount segments recorded the largest gains in EP in 2024, and their combined share of EP reached its highest level since 2016 (excluding Covid-19). This momentum is expected to continue through 2025.

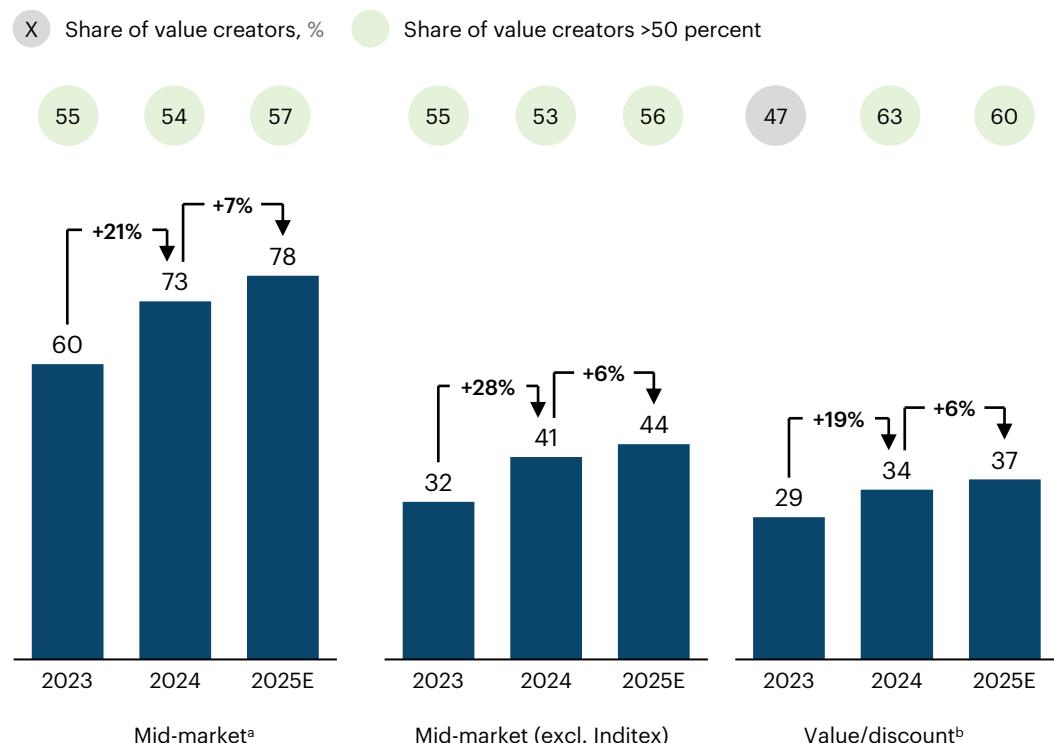
Mid-market

Among mid-market performers, Gap delivered the largest increase in EP in 2024 as transformation efforts began to yield results.⁷ Next also posted double-digit EP growth, driven by strong international performance that exceeded expectations and growth in third-party platforms.⁸ Inditex maintained strong performance from an already high base. However, growth among other players meant segment results excluding Inditex slightly outpaced total mid-market growth in 2024.

Value/discount

In the value/discount segment, the share of value creators rose to a multi-year high, driven by cost-conscious shopping behaviours. This trend is expected to continue through 2025, with 27 percent of consumers now shopping at lower-priced retailers than they typically would.⁹

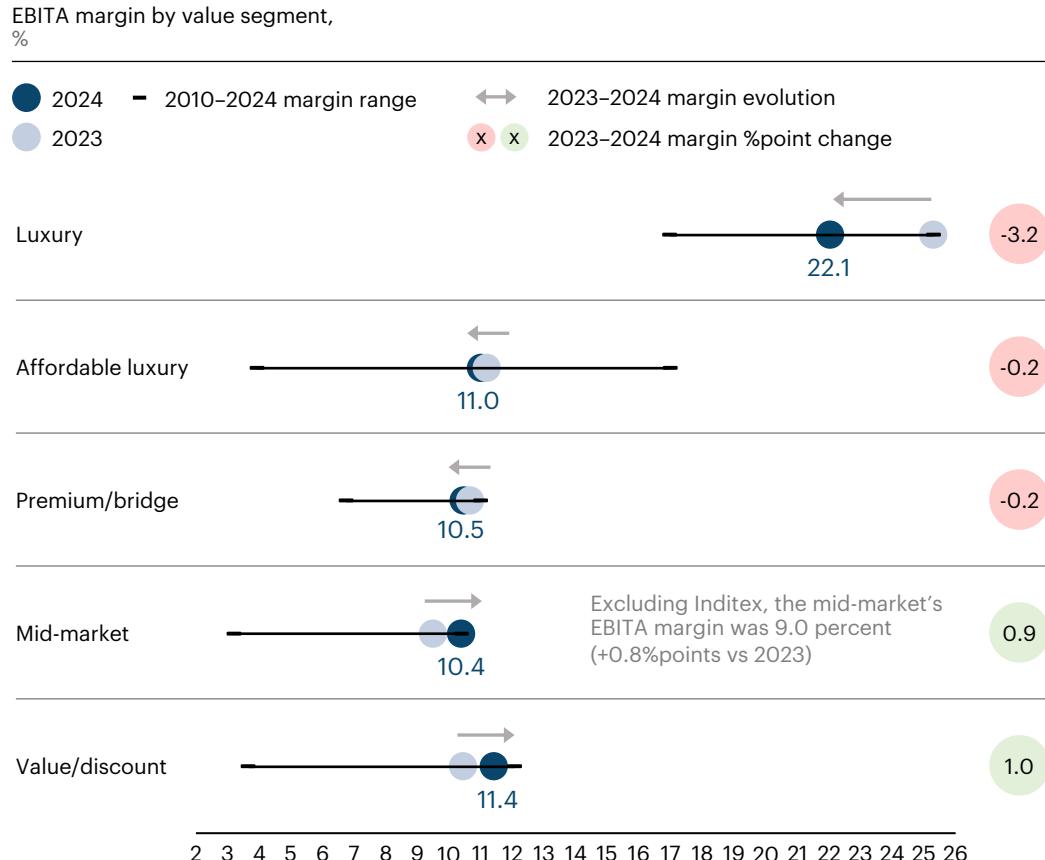
Total economic profit (EP) development 2023-2025E,
Index (2010=100)



a. Example mid-market companies: Inditex, H&M Group, Gap Inc.

b. Example value/discount companies: The TJX Companies Inc., Ross Stores, Shimamura Co. Ltd
Source: McKinsey Global Fashion Index

EP growth in value/discount and mid-market segments is supported by operating margin gains



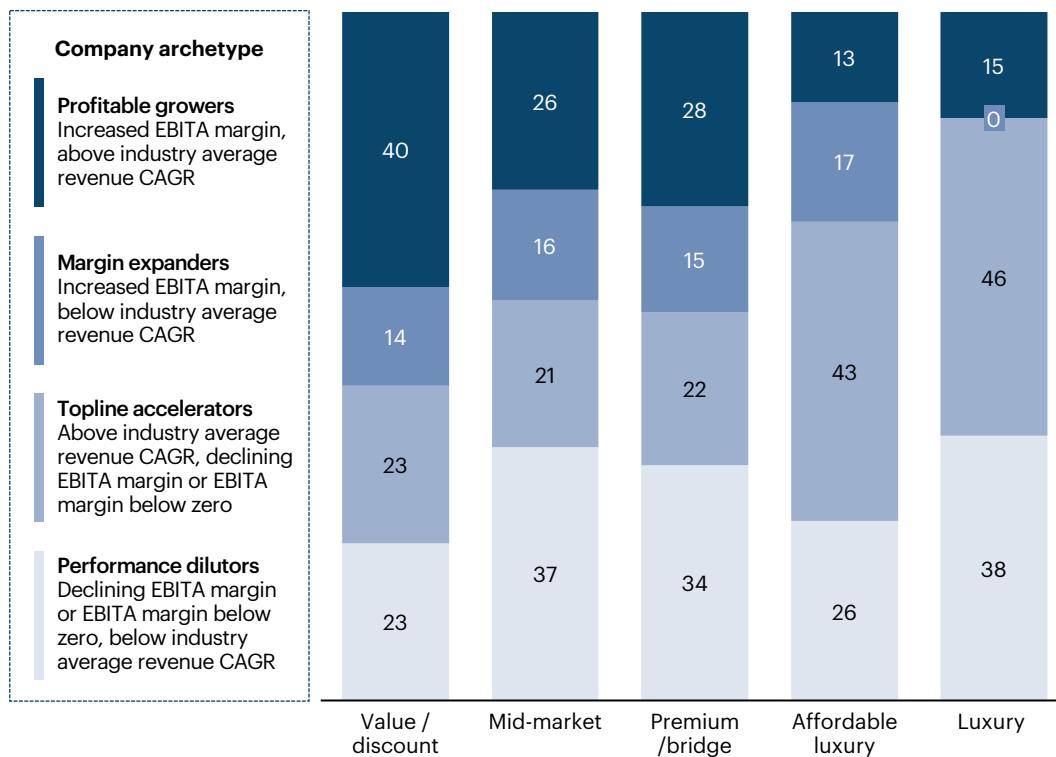
The mid-market segment delivered its highest EBITA margin since 2010. Contributing to this are several mid-market players that have invested in elevating their brand propositions and are now seeing tangible returns. Gap grew its operating margin by 3.6%points¹⁰ in 2024 in its first year under the creative leadership of Zac Posen,¹¹ while Inditex improved operating margins by more than 0.5%points.¹²

Through 2025, margins in both the value/discount and mid-market segments are expected to remain stable, while affordable luxury and premium/bridge will see modest improvements but remain below their historical peak. Zooming in on the premium/bridge segment, Nike's margins fell below the segment average for the first time in 2024, which lowered overall segment performance.

At the upper end of the market, while luxury continues to lead in EBITA margins, the decline from 2023 was steeper than expected, with margins falling 3.2%points. This trend is projected to continue through 2025, with margins dipping to 20.6 percent, narrowing luxury's lead against other segments.

A higher share of value/discount players combine margin and sales growth versus other segments

Company archetype by value segment, 2023-2025E^{a, b}
% of companies per archetype



a. Like-for-like comparison on companies with EBITA and revenue data available 2023-2025E

b. Revenue CAGR based on weighted industry average

Source: McKinsey Global Fashion Index

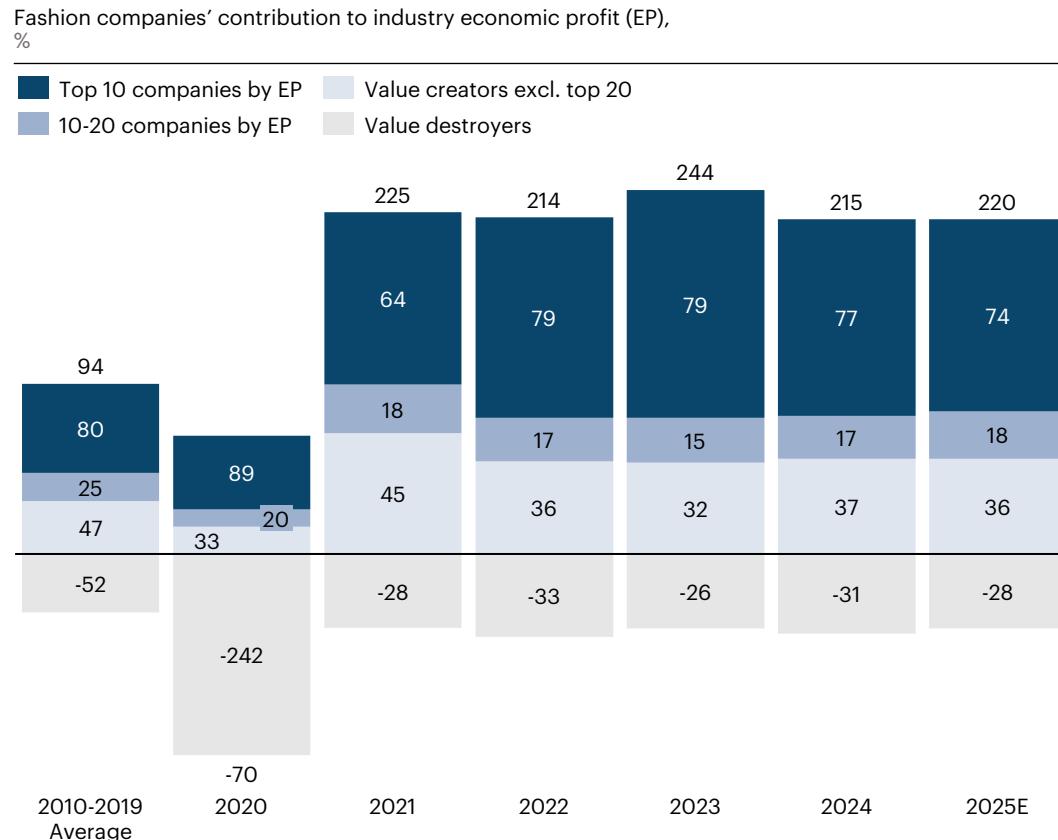
Brands in the value/discount segment are combining their margin gains with above-average revenue growth. These margin improvements are not driven solely by topline expansion:

Value/discount players achieved a decline in SG&A as a share of revenue from 2023 to 2024 and are operating with the leanest inventory levels – 15 percent of revenue versus the 21 percent industry average.

Off-price retailers are among the strongest performers, gaining share from traditional department stores as consumer price sensitivity persists. TJX and Ross Stores saw EP improve by 8 percent and 13 percent year on year in 2024, respectively. Looking ahead, off-price retailers are expected to maintain momentum, with analysts suggesting that sourcing excess inventory from other retailers could help insulate them from tariffs and sustain performance.¹³

By contrast, luxury and affordable luxury segments have a higher share of topline accelerators, reflecting already elevated margins now facing downward pressure.

The share of the industry's value created by the top 10 performers is softening



This shift reflects a relative weakening in performance among several established leaders alongside gains by challengers – a trend that is especially pronounced in sportswear. In a continuation of the pattern noted in last year's report, sportswear challengers achieved a 25 percent year-on-year increase in EP, contrasting sharply with a 48 percent decline among sportswear incumbents.

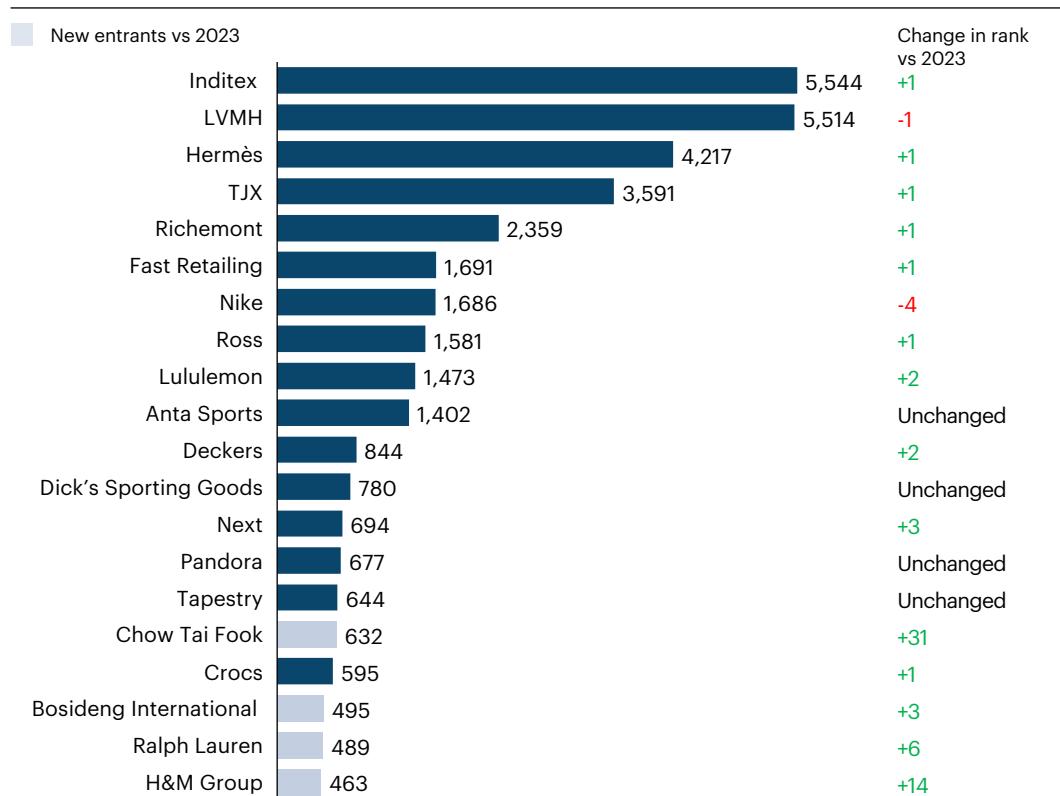
After increasing in 2024, industry value destruction is expected to ease in 2025, as over half of value destroyers reduce their losses.

The mid-market tops the 2024 Super Winners list with record-high EP

In 2024, mid-market players drove the largest share of the industry's value, contributing 34 percent of total EP — the highest since 2010 (excluding Covid-19). This was led by Inditex, which achieved a record-high result, topping the Super Winners list.

- More than half of the Super Winners saw higher capital charges weigh on EP, reflecting increased investment in technology. In 2025, the negative impact on EP is expected to ease for most companies as they begin to reap the benefits of these investments.
- Intense competition at the lower end of the list saw Moncler and Dillard's drop from the list, while Bosideng International, Ralph Lauren and H&M Group joined the list, the latter two supported by elevated product offerings.
- Jewellery players delivered strong results, including Pandora and Chow Tai Fook (which became a Super Winner for the first time). Richemont's performance was buoyed by its jewellery maisons, which posted a 4 percent increase in operating profit despite declines in other divisions.¹⁴

Top 20 players by economic profit (EP), 2024,^a
USD (millions)



a. For companies with fiscal year ending before June, FY-1 is used
Source: McKinsey Global Fashion Index

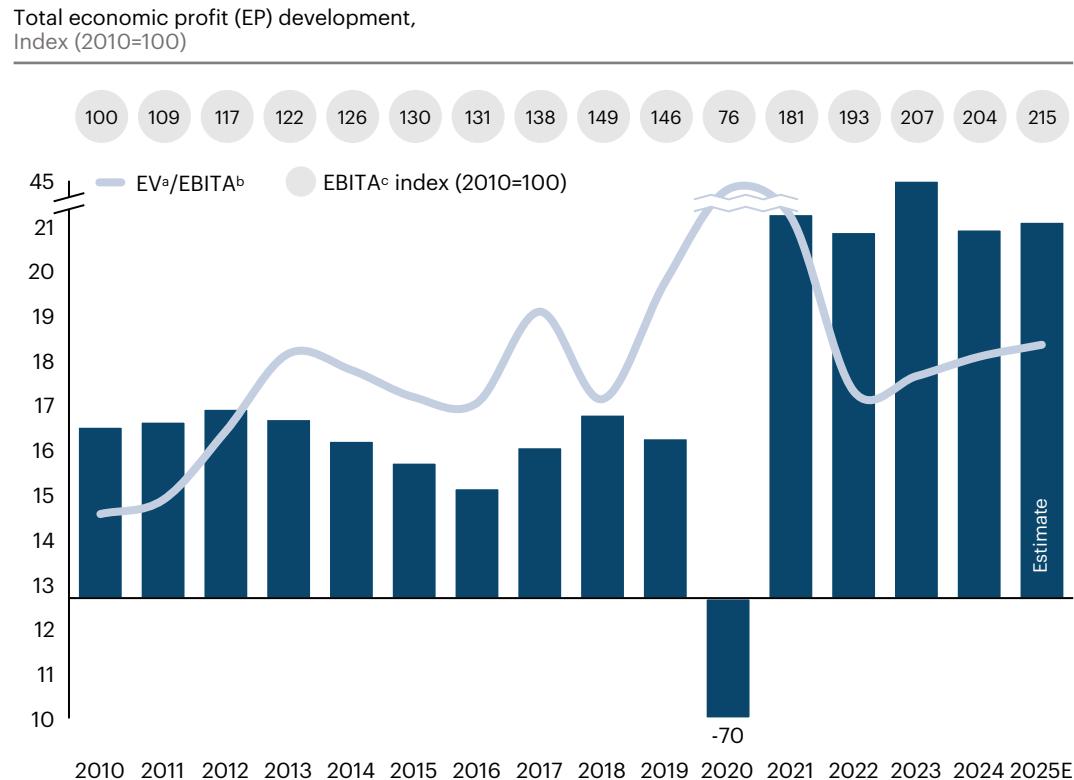
Looking ahead, a modest uptick in valuations signals cautious optimism from investors

EP is expected to recover modestly in 2025, driven by revenue growth and a moderate improvement in capital intensity, which together will offset slight margin declines. Valuations are projected to edge higher — up 0.3x over 2024.

Valuations in luxury remain more heavily weighted toward future profit expectations than in other segments (60 percent versus the 49 percent industry average), suggesting that investors are pricing in long-term growth potential, likely supported by the creative reset.

The greatest improvement in valuation is seen in affordable luxury, where multiples increased from 11.4x to 15.6x in 2024, driven by Tapestry and Ralph Lauren. Tapestry has substantially outperformed the market — with its stock price up 158 percent year on year as of October 2025.¹⁵ The company has been buoyed by Coach, which has successfully attracted younger audiences, adding 4.6 million new customers in North America in the last fiscal year, the majority of whom were Gen Z and Millennials.¹⁶

Overall, valuation momentum points to a measuredly positive outlook for the industry, as investors position for relatively stable performance and gradual long-term value creation.



a. Enterprise value (EV). 2025 value is for calendar year, the rest fiscal years of companies

b. EV/EBITA is a financial ratio that compares a company's enterprise value (EV) to its earnings before interest, taxes and amortisation (EBITA), used to evaluate a company's valuation and profitability

c. Earnings before interest, taxes and amortisation

Source: McKinsey Global Fashion Index



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BoF Insights recently launched BoF Insights Brand Pulse, a new tool to measure, benchmark and understand fashion brand performance in the age of TikTok, Instagram and AI search, powered by Quilt.AI.

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