

FASHION INDUSTRY SECTOR UPDATE:

An industry in need of reinvention



THE SITUATION IS SERIOUS – AN INDUSTRY IS STRUGGLING TO SURVIVE

The number of companies in the clothing industry (manufacturers and retailers) has consolidated from 396 (2008) to <250 (2018). Restructurings and insolvencies have continued to increase in recent months. A trend that will continue in 2019 – for the following reasons:

THE PRICE STRUCTURE HAS CHANGED DRAMATICALLY

In the „good old days“ there were two-week summer and winter sale periods, and margins were predominantly high. Today, sale window displays are up almost all year round – and this has an impact. Customers have been conditioned accordingly: two out of five items are nowadays only bought at a discount. In addition, margins have eroded even further with discounters such as Aldi and Lidl, as well as price-aggressive chains such as H&M, Zara and Primark entering the market. This has also had a lasting effect on customer behavior: for most people, price became the decisive purchasing criterion, while the brand and quality have lost much of their significance. And increasing Black Friday/ Cyber Monday discounts are shifting high-margin December sales into November at discounted prices – or they lead to customers increasingly moving to competitors.

MARGIN CANNOT BE COMPENSATED BY VOLUME

In order to compensate for the fall in prices, retailers pushed higher and higher volumes into the market, thus triggering a downward spiral. Demand failed to increase despite enormous growth in shop space, especially in shopping centers, own brand stores and a steady expansion of opening hours. While German consumers are spending more money on consumer electronics, holidays and leisure activities, spending on clothing has barely increased at all over the past 25 years. Even the changing seasons have lost their role as a reliable sales driver, as many consider seasonal clothing, with yet another transition jacket for fall, for instance, unnecessary.

MARKETS ARE OVERSATURATED

In an interview with the German business journal “WirtschaftsWoche”, Trigema owner Wolfgang Grupp stated one of the main reasons for the stagnating demand: „German people’s wardrobes are overflowing“. And a further reason relates to structural changes in retail: customers are increasingly spending their money online – the customer numbers visiting brick and mortar retail shops have been declining for years. Even leading fashion houses are downsizing/sub-letting space or closing sites – even in large cities.

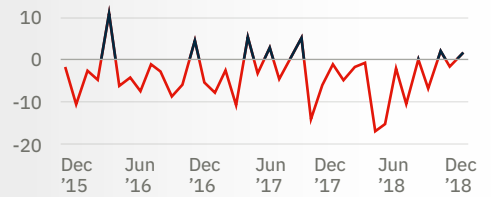
IN ADDITION, MISJUDGMENTS HAVE BEEN MADE

The industry has sought its fortune in expansion for too long. Both manufacturers and retailers recorded increases in sales, which were often driven purely by the growing number of branches in a stagnating market, and they neglected to look at their margins. However, in the absence of a corresponding increase in income, rising rental, personnel and raw material costs soon put the companies under increased strain. And high-loss brand acquisitions or extended property write-downs clouded the view on the bare figures.

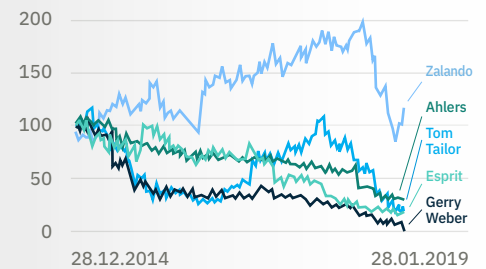
FIRST NO LUCK – AND THEN BAD LUCK

The already tense situation deteriorated further in 2018: the long, unusually hot summer did not stimulate consumers to go shopping in inner cities, and the mild fall and winter gave little reason to buy warm winter clothes. And although traditional companies are meanwhile also partaking in online business themselves, at best they have been able to cannibalize their own store sales. According to Bevh [German association for e-commerce] figures, gross sales of clothing in German online trade rose by 7.9% year-on-year in 2018 to approx. € 12.7 billion. However, with an increase of 9.7%, it was the online marketplaces that benefited more, while online pure players saw the highest benefit with an increase of 14%. Is an „orderly retreat“ the only solution for this industry? Or are there concepts and innovations that open up opportunities and offer shopping incentives?

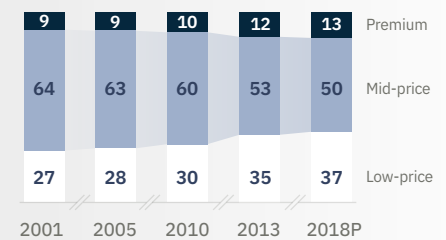
FREQUENCIES OF CUSTOMER VISITS IN BRICK AND MORTAR RETAIL (% CHANGE COMPARED TO PRIOR YEAR)



SHARE PRICES OF LISTED FASHION COMPANIES (INDEX, DEC. 28, 2014 = 100)



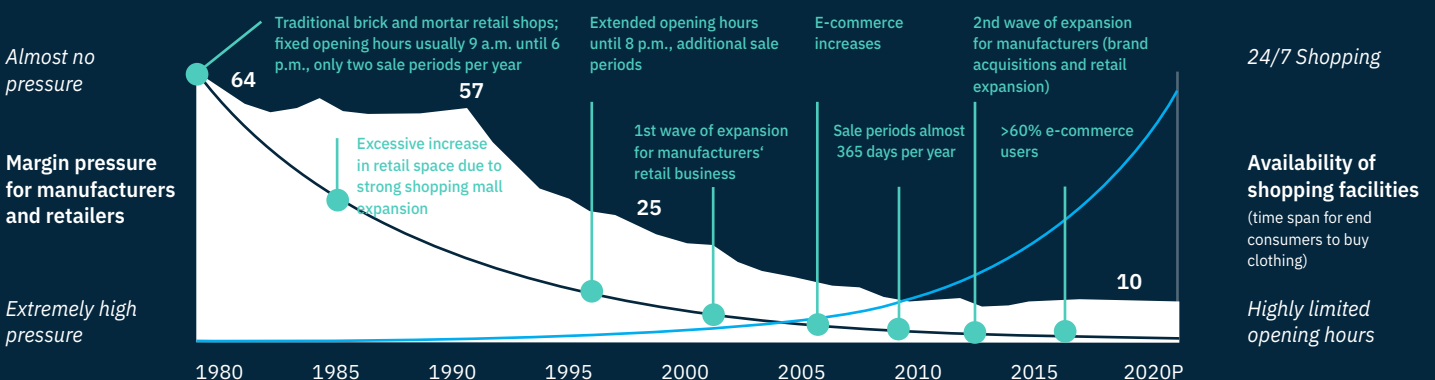
TREND AT THE EXPENSE OF THE TRADITIONAL MID-PRICE SEGMENT (% SHARE)



„Many manufacturers suffer from **overdistribution** of their brands: demand is stagnating, but supply is growing exponentially through their own wholesale, franchise, retail, outlets, and, most recently, own online shops – sales are only being cannibalized while costs are rising“.

(Armin Fichtel, former CEO s.Oliver Group)

INCREASING PRESSURE ON MARGINS WHILE THE RANGE OF PRODUCTS INCREASES



- Sales are stagnating, costs rising and new, aggressive competitors are striving for market share.
- Expanding the range of products on offer over decades did not result in a corresponding increase in demand.

Manufacturers and retailers need to focus more strongly in the future:



- It seems that manufacturers and retailers are in a marriage of convenience, in which they have gradually drifted apart:
 - all year retail sale battles make it difficult for both retailers and manufacturers to achieve adequate margins
 - manufacturers turn to online sales platforms that rob their brick and mortar channels and partners of market share (but usually do not make a profit themselves yet)
 - the reduction of brick and mortar retail space leads to the loss of display areas for manufacturers
- It is now important to break through the negative spiral by forming targeted partnerships and alliances:
 - initial placement, for example via industry associations, to solve the „First Mover Disadvantage“
 - stronger alignment and exchange via target groups; measures to increase attractiveness in the brick and mortar sector, supported by manufacturers; stronger feedback with regard to end customer needs and interests; examination of a possible „sales alliance platform“ that fulfils actual „online first“ criteria as a possible antithesis to platform oligopolists – stronger focus on strengths of the respective offline/online channels instead of pure transfer of brick and mortar retail to e-commerce

Sources: Andersch analysis; market expert interviews; company information; ShopperTrak; Destatis; Oxford Economics; TextilWirtschaft; WirtschaftsWoche; Bundesverband E-Commerce und Versandhandel e.V. (Bevh) [German association for e-commerce]; FashionUnited; BBE; Kreutzer Fischer & Partner; Hachmeister+Partner

Are you interested in the fashion industry’s market trends? We look forward to hearing from you and would be happy to arrange an informal discussion.

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