

APPAREL AND ACCESSORIES

Supply chains pose greatest threat to 2022's fashion recovery: McKinsey

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Luxury fashion brands must adjust supply chain management while seeking out digital and sustainable opportunities for growth. Image credit: Christian Dior/LVMH

By NORA HOWE

After grappling with the collateral effects of the COVID-19 crisis for nearly two years, the fashion industry looks to 2022 with optimism, but there are caveats to its recovery.

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According to McKinsey's and Business of Fashion's "[State of Fashion 2022](#)" [annual report](#), fashion's recovery appears V-shaped as the industry taps into new opportunities with the digital and sustainability spaces. Supply chain issues are currently the main challenge for the industry, however, with 67 percent of businesses expecting to increase prices next year.

"The global fashion industry is poised for recovery an outlook that should provide some comfort and relief to the industry," said Imran Amed, founder/CEO of [Business of Fashion](#), in the report. "However, businesses must look at their supply chain models and focus on making these as flexible and resilient as possible to navigate the year ahead."

The "State of Fashion 2021" report is based on a survey of more than 220 global fashion professionals and experts, including in-depth interviews with industry executives.

The road ahead

Global fashion sales are on track to surpass 2019 levels by up to 8 percent next year a faster recovery rate than was forecasted earlier this year.

According to the McKinsey Global Fashion Index (MGFI), the industry posted negative economic profit for the first time in 2020 for at least 10 years, causing all-time high levels of industry consolidation in 2020 and 2021.



Consumers are looking to spend more on fashion, but are increasingly interested in a circular model of consumption. Image credit: Vestiaire Collective

Despite a record 69 percent of fashion companies delivering negative economic profit, strong performance in the first half of 2021 led by China and the United States put the industry in good standing for the future.

Fashion in China, across all value segments, has already reached pre-pandemic levels with the luxury sector set to grow 70 to 90 percent over 2019 sales by the end of this year. Similarly, U.S. consumer sentiments toward the industry are positive, as they intend to increase spending on fashion.

McKinsey also found that 80 percent of vaccines distributed globally by September 2021 were in high- and upper-middle-income countries, suggesting an uneven recovery trajectory.

With this, international tourism is not expected to fully recover until at least 2023. To compensate for the prolonged decrease in international shoppers, it is crucial that brands engage domestic consumers.



Digital offerings are key to engaging shoppers. Image credit: Verishop

Issues within the supply chain are the biggest cause of concern for the industry, with 49 percent of fashion executives citing supply chain disruptions as the number one issue impacting businesses in 2022 and 87 percent expecting supply chain disruptions to negatively impact margins next year.

From material shortages and transportation delays to rising shipping costs, input costs will inflate forcing businesses to increase prices. More than two-thirds, 67 percent, of fashion executives expect to raise retail prices in 2022 by 3 percent.

Areas of opportunity

Despite the challenges coming fashion's way in 2022, there are a multitude of ways in which brands can still thrive, as long as they strategically tap into the right opportunities.

With the recent and growing emergence of the metaverse and other digital environments, multidimensional virtual capabilities will be crucial.

This new digital space offers opportunities for audience engagement as well as the monetization of digital products, such as creating and selling NFTs through gaming platforms. According to McKinsey, 81 percent of Gen Z played video games in the past six months, averaging 7.3 hours per week.



Gucci is one of the brands that has most eagerly embraced gaming. Image credit: Gucci

Italian fashion house Gucci partnered with social app Zepeto in a gaming-centric push to engage consumers. The collaboration allowed users to dress their Zepeto 3D avatars in pieces from Gucci's latest collections ([see story](#)).

Additionally, social shopping is experiencing a surge in engagement from brands, with 37 percent of fashion executives citing social commerce as one of the top three themes that will impact their business in 2022.

There are seldom social media platforms that have not incorporated new tools and capabilities for ecommerce, and while opportunities vary by region, embracing in-app purchasing, livestreaming, AR and other technology will be paramount for luxury brands in 2022.

In July, social media platform Snap Inc. partnered with Southern California-based online retailer Verishop to launch Verishop Mini. The new curated shopping experience, which lives exclusively within the Snapchat app, allows users to discover and shop fashion and beauty products without leaving the app ([see story](#)).

A recurring theme across all industries is sustainability, and particularly circularity as it relates to fashion.

More than two-thirds, 68 percent, of fashion executives consider the maturity of technology solutions as the most important factor to enable circular recycling solutions. More than half, 60 percent, of executives say they have already invested or plan to invest in circularity in 2022, there is still progress to be made and opportunities for companies to affect change on a global scale.

In March, French luxury conglomerate Kering invested in luxury resale platform Vestiaire Collective. By September, the platform had garnered more financing, valuing the company at \$1.7 billion ([see story](#)).

"We are emerging from the worst crisis the industry has ever seen," said Achim Berg, senior partner and global leader of apparel, fashion and luxury at McKinsey, in the report.

"When looking ahead with the prospect of normalization, it is important that players in the industry pursue five key topics in 2022: growth and innovation, margin control, flexibility and resilience, sustainability strategy and digital frontiers."