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Luxury fashion can no longer ignore power of off-price segment: McKinsey

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Outlet stores provide a number of opportunities for luxury brands to meet new consumers. Image credit: McArthurGlen Designer Outlets

By NORA HOWE

While luxury has often been associated with exclusivity and high prices, consumers are finding ways to connect with notable labels via off-price retailers a fast-growing segment of the fashion industry.

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According to McKinsey's "[Mastering Off-Price Fashion in an Omnichannel World](#)" report, the off-price segment grew faster than the entire fashion market in 2020, and will likely grow five times between 2025 and 2030. Luxury brands that embrace the power of the off-price market, and strategize ways to navigate it, will ultimately strengthen consumer relations.

"Ecommerce has made price comparisons and transparency on prices much easier from a consumer's point-of-view, hence, putting pressure on online and offline off-price to create the right reason to buy beyond pure discount," said Felix Rlkens, partner from the apparel, fashion and luxury practice at [McKinsey](#) and coauthor of the report, Berlin.

"Hence, online off-price has focused more on creating the right bargains for consumers to satisfy what they are looking for," he said. "Offline on the other hand has more and more focused on experience beyond shopping to make the channel even more relevant."

The study draws on analyses of global data on the off-price market and a survey of 11,000 consumers in 10 European countries.

Rise of off-price

This sector represents an opportunity for high fashion brands to reach new and highly engaged customers who might not otherwise consider paying full price.

McKinsey suggests three priorities will be critical as fashion brands look to engage the off-price market: the rising EU market, online capabilities and in-person opportunities.

The total revenue for the EU's fashion industry was 368 billion euros in 2021, with the off-price segment accounting for 11 percent, or 40 billion euros \$440.4 billion and \$43.5 billion at the current exchange, respectively.

This share is projected to rise to 12 percent in 2025. The off-price segment includes mid market, premium, affordable luxury and luxury price categories.



Many in-person outlet malls are trying to provide similar luxury experiences like full-price high streets such as Oxford Street. Image credit: Selfridges

In the EU, off-price shoppers are particularly interested in midmarket, premium, affordable luxury and luxury brands which jointly account for 80 percent of total spending in the online off-price channel.

These consumers are not looking for the biggest bargains, necessarily, but rather it is about brand selection and exclusive offers.

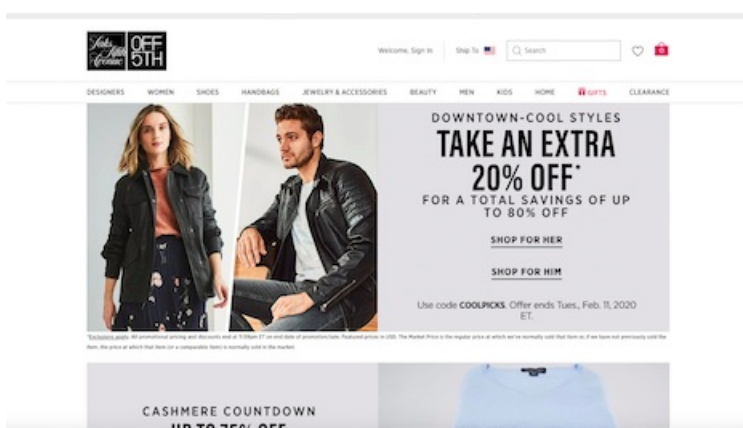
When it comes to channels, in-person outlet malls accounted for 75 percent of the off-price market in 2015. In their formative years, outlet malls focused primarily on low prices as opposed to experience.

Now, off-price malls and shopping centers are increasingly trying to replicate the ambiance of high shopping streets, boasting restaurants, art installations and well-managed grounds.

Customers shopping for luxury in off-price outlets are typically younger and more affluent than the average consumer.

Outlet stores can be the first point of contact luxury brands make with a consumer as they can often appear more approachable than full-price stores in high-fashion districts.

That being said, the digital channel makes up nearly 40 percent of the off-price market. This year, McKinsey predicts growth will come from the online channel because of its convenience, simplicity in filtering and browsing and product range.



Saks off5th's ecommerce site helped lift sales of the company, targeting consumers looking for off-price luxury and fashion apparel and accessories. Image credit: Saks Off5th

Several online models have become popular in the off-price segment such as flash sales, standing assortments and mystery boxes.

In terms of assortment, some models enable customers to buy certain products jeans, for instance year-round, while other players offer items or products from a specific brand for a limited period of time.

Sustainable mindset

Despite increased opportunities to sell products, overstock continues to be a challenge for many brands as

sustainability has become a major focus area.

A number of luxury players continue working with resale businesses to give their products new life, and welcome new consumer groups.

Online retail group Yoox Net-A-Porter partnered with resale technology provider Reflaunt to launch a new luxury resale platform. The collaboration drew on Net-A-Porter, Mr Porter and The Outnet's heritage of personalized customer service to encourage and enable shoppers to contribute to a more circular fashion industry through resale.

The service initially launched on Net-A-Porter, followed by Mr Porter and The Outnet in early 2022 ([see story](#)).

U.S. fashion label Oscar de la Renta entered the resale space in November 2021, hoping to capitalize on a growing market segment in luxury.

Oscar de la Renta Encore debuted a curated selection from the archives of collectors, clients and vintage boutiques. The pieces which were authenticated and reconditioned at the maison's atelier are available for purchase on an ecommerce platform ([see story](#)).

"Luxury fashion brands can use off-price as an attractive way to maximize their commercial potential but need to focus even more on doing this in a brand-right way," Mr. Rlkens said. "For luxury brands, it is particularly important to control the environment in which they sell, the depth of markdown and keep the off-price channel as silent as possible.

"Lastly, it is an interesting avenue to recruit new customer cohorts that experience luxury brands in off-price channels for the first time."

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