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SOFTWARE AND TECHNOLOGY

Fashion prepares to double down on tech investment: McKinsey

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canning QR code on Burberry's classic trench coat in the Shenzhen social retail store. Image credit: Burberry

By NORA HOWE

From ecommerce to the metaverse, the fashion industry is experiencing rapid technological shifts across all points in the value chain.

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To keep up with an increasingly digital-first consumer base, fashion businesses are expected to increase their investments in technology by 1.4-1.8 percent by 2030, according to McKinsey's and Business of Fashion's joint State of Fashion Technology 2022 report. For luxury, where personalized service lies at the center of the industry, investing in and incorporating new tools and capabilities will be critical to enhancing customer relationships.

"Technology has already revolutionized the way that global fashion companies do business," said Achim Berg, senior partner and global leader of McKinsey's global apparel, fashion and luxury group, Frankfurt.

"Though the focal point to date has largely been on customer-facing technologies, brands now have an opportunity to expand the breadth and depth of technology application in the industry."

Based on executive and expert interviews, analyses of public and private companies, market intelligence and consumer research, this report identifies key business opportunities into which McKinsey and Business of Fashion believe fashion leaders should funnel their resources and investments.

Leveling up

There are five areas in which the fashion industry should be focused: the metaverse, personalization, digitalizing the in-store experience, value chain integration and traceability.

Global spending on virtual goods reached more than $100 billion in 2021, more than doubling 2015 spending. While some luxury brands have taken the plunge into the metaverse, industry-wide success will depend on how quickly it will become adopted on a larger scale.

In March, virtual world platform Decentraland hosted the first Metaverse Fashion Week, and luxury labels looked to make a splash on the digital catwalk. Dolce & Gabbana, Etro and Selfridges were among the brands and retailers participating in Metaverse Fashion Week (MVFW).

The Selfridges metaverse flagship as part of the first metaverse fashion week. Image credit: Decentraland

While more fashion labels have been experimenting with the metaverse and digital fashion, Decentraland's MVFW was the first large-scale virtual event with major industry players (see story).

It is estimated that brands could generate up to 5 percent of revenue in the next two to five years from metaverse-related opportunities.

"While the metaverse might not be a big 'play' for all brands, this could fundamentally change how customers interact with fashion," said Anita Balchandani, senior partner of global apparel, fashion and luxury group in EMEA at McKinsey, London. "That's why it's important for all brands to stay close to the development of this and evaluate how it will impact their value proposition and how relevant it will be for their target customers."

More channels for engagement, however, mean increased competition for retaining customer attention, so brands must leverage AI, analytics and cloud computing technology to support a shift to hyperpersonalization.

"Personalization in luxury is not going away, instead luxury brands are exploring how to use technology to enhance the customer experience and increase personalization," said Carlos Sanchez Altable, partner at McKinsey, Madrid. "Contrary to popular belief, 80 percent of luxury sales are influenced by digital touchpoints which means that it is very important for luxury to maintain that position."

Fashion leaders should optimize their data and analytics capabilities, while also ensuring that this data is protected and the collection follows best practices. While it may be more work for businesses, the benefit would be retaining loyal customers.

This echoes Hugo Boss' vision for its future, which places data at the heart of all operations.

Having secured a reputation for openly embracing new technology and jumping into forward-thinking opportunities, the brand's new CEO, Daniel Grieder, intends to transform the German fashion house and double sales by 2025.

During a keynote session at the *Vogue Business* and Google virtual summit "The Way Forward" last year, Mr. Grieder discussed plans for a new data campus to strengthen the company's online activities as well as analytics, technical and production capabilities (see story).

In tandem with personalization, the fashion industry will see major investments in the digitalization of in-store experiences, as bricks-and-mortar continue competing with the rise of ecommerce. Despite this rise, research shows that consumers are still interested in physical shopping.

The Hugo Boss data campus. Image credit: Hugo Boss

McKinsey and Business of Fashion predict companies will begin investing more in in-store mobile "clienting" apps to provide associates with better ways to help customers. In-store apps may also remove any major pain points for customers and ultimately increase their time spent browsing.

Beyond the consumer-facing side, technology and stock optimization software can help brands and retailers set up microfulfillment centers, integrating physical stores as digital data structures in their distribution and delivery networks, cutting fulfillment costs by up to 90 percent.

While digital tools and analytics have critically enhanced important areas of the value chain, they tend to remain within organizations, making cross-functional advancements more challenging.

More than 60 percent of fashion executives believe creating integrated digital processes throughout their organizations will be among their top five areas for digitization as they look to 2025. By adopting digitally enabled value chain solutions, brands could see a 50 percent reduction in time-to-market, an 8 percent rise in full-price sell-through and a 20 percent decline in manufacturing costs.

Tracking the supply chain

As technology has skyrocketed to the forefront of business practice, so has the issue of sustainability, and fashion companies are starting to learn that technological innovation can enhance social and environmental practices across their supply chains.

If fashion brands are to achieve sustainability objectives and meet rising ecological consumer demands, they must establish a fully transparent view of how their products are manufactured.

French conglomerate Kering acknowledge this when it partnered with Albini Group, Supima and Oritain in 2019 to develop a more sustainable business model through 100 percent traceable organic cotton (see story), as did LVMH's Tiffany & Co when it became the first in its industry to disclose the full craftsmanship journey of its newly sourced, individually registered diamonds that are 0.18 carats or larger (see story).

More than half of fashion industry executives believe traceability will be a top-five enabler of reducing emissions in their supply chains. To meet these goals, McKinsey suggests brands consider partnering with tech start-ups and industry bodies to establish a common data standard and to share insights via platforms and other data technology.

"Fashion brands and retailers are leaning into technology not only to become more resilient to supply chains and other disruptions, but also to become more responsible and transparent as the world seeks sustainable solutions," Mr. Berg said.

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