

RESEARCH

Key themes that will shape fashion in 2023

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Upscale fashion is expected to fare better than fast fashion and other tiers in 2023, per a new study from McKinsey & Company and *The Business of Fashion*. Image credit: McKinsey, *Business of Fashion*

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The fashion industry will likely face a downturn on a global scale, according to "The State of Fashion 2023" report co-authored by management consultancy McKinsey & Company.

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In the face of major socio-economic and political obstacles, namely supply chain shortages, rising inflation costs and the ongoing war in Ukraine, 56 percent of industry leaders expect a worldwide slowing down of business, per the new research jointly released by trade publication *The Business of Fashion*.

"The global economy is facing one of its toughest years ahead, with rising inflation, the cost-of-living crisis and the continued fallout from the war in Ukraine creating a polycrisis' requiring careful cost management and focused growth strategies to seize on pockets of opportunity in the luxury and in the Middle East, India and South Korea, as well as in resale and the discount market for customers who are trading down," said Imran Amed, founder/CEO of *The Business of Fashion*, in the report.

The industry, however, will be bolstered by the upscale fashion market, which is expected to grow by nearly 10 percent in 2023, as opposed to the 3 percent growth predicted for the rest of the industry.

This is the sixth annual report from *The Business of Fashion* and **McKinsey**.

Threads of thought

Fashion is buffeted by many factors out of its control.

Global GDP is expected to drop by roughly 2.5 percent next year, as an already weakened international economy is hit by several destabilizing forces such as geopolitical conflict.

Not surprisingly, fashion executives are giving priority to the United States and the Middle East as havens of calm and growth. Half predict they will expand their companies' presence in North America next year.

Inflation will curb the spending of lower-income consumers, with nearly three-fourths choosing less expensive options in the second quarter of this year, per the study.

Meanwhile, high-income earners and those with job security will continue spending discretionary income on

fashion.

Members of Generation Z those born between 1997 and 2012 continue to obfuscate gender boundaries.

Half of them purchased clothing and accessories outside of their gender identity this past year. This means brands will have to rethink their business and operations to remain apace.

As the nature of the workplace continues to evolve, consumers will reconsider the way they dress for the workplace and for formal events. Therefore, nearly 40 percent of fashion executives expect occasion wear to be in the top three in growth categories in 2023.

Post-pandemic ecommerce growth rates have returned to normal, increasing the costs of digital marketing as a result.

Other factors which contribute to the increasing price of paid digital marketing are privacy regulations and changes in technology.

As a result, many brands have had to pay three times the amount in 2022 that they paid in 2013 for customer acquisition.

Nearly 80 percent of U.S. shoe and apparel executives consider retail media network as the most effective channel for their marketing.

Building a consistently profitable online direct-to-consumer (DTC) business has also been challenging. One-third of executives believe that these challenges to DTC channels will impact business in the coming year.

The European Commission, which is the politically independent executive branch of the European Union, is looking more closely at the practice of greenwashing.

Greenwashing occurs is when a company markets itself as environmentally conscious but fails to make any significant efforts toward sustainability.

Nearly 80 percent of fashion executives believe that consumers may see their efforts to reduce environmental impact as insincere due to a lack of industry-wide standard.

Sixty-five percent of fashion executives will consider the process of nearshoring transferring operations from a distant location to a nearby venue to better serve their domestic customers.

Two-thirds of these executives consider digitalization to be the primary factor in empowering suppliers to grow in 2023.

Nine out of 10 executives expect to see a shortage of skilled workers in their companies next year.

More than half cite a talent crunch as one of the major factors that affected their business in 2022.

The answer seems to be addressing the lack of skills with education and training, as this approach yielded nearly three times the ROI that recruiting did.

"Just as the fashion industry was about to recover from COVID-19 the deteriorating macroeconomic and geopolitical conditions have weighed heavily on the industry in the second half of the year 2022," said Achim Berg, senior partner and global leader of McKinsey's apparel, fashion and luxury group, in the report.

"While the industry's strong performance with 13 percent revenue growth in the first half of 2022 provides a solid foundation, we expect 2023 to remain challenging," he said.

Beyond China

Perhaps surprisingly, China, whose consumer population accounts for a major portion of the fashion industry's profits, has experienced a slowing in growth this year. Many speculate that this is a result of continued restrictions due to COVID-19.

As a result, executives plan to deprioritize China in the short term, lowering the country's dominance in the market.

Meanwhile, Chinese neighbors Japan and South Korea will continue to drive growth in their neck of the woods.

"Our report indicates that the current economic environment is creating a shift in regional dominance," said Anita Balchandani, senior partner and head of McKinsey's apparel, fashion and luxury group for Europe, Middle East and Africa, in the report.

"While China's growth may slow down in part due to COVID-19 restrictions still in place, Japan and South Korea continue to be growth drivers in the Asia-Pacific region," she said.

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