

# The shape of retail: **The Apparel Market: Five Key Trends to 2025**



Interactive

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# Summary of Trends

Five key trends to 2025 for the apparel market



## **Trend 1**

Shift to online: Huge growth carries a cost



## **Trend 2**

Reimagining stores: showrooms, micro-fulfilment & personalisation



## **Trend 3**

Digital innovation: Social commerce & the metaverse



## **Trend 4**

Supply chains: Mitigating disruption & cost pressures



## **Trend 5**

ESG & Circular economy: from fast fashion to resale





## SECTION 1

# Introduction

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This report identifies five key trends that will shape the apparel sector towards 2025

# Introduction



Apparel retailers are being stress tested by unprecedented pressures. Ongoing disruption from the pandemic, the shift to online, supply chain issues, and macroeconomic uncertainty have all intensified existed challenges.

The cost of fuel and raw materials has soared, including cotton, which hit record highs last year. Transport costs also remain elevated, while high return rates and a lack of warehouse space is driving up inventory expenses.

Such disruption is undermining some business models more than others. Whereas luxury brands have more pricing power and higher margins to manage cost pressures, fast fashion retailers are centred on low prices, thinner margins and rapid lead times.

Nevertheless, retailers and brands will need to adapt their propositions to maintain relevancy and satisfy an ever-expanding set of customer needs and expectations, while battling rising operating costs and ongoing supply disruption. This will be tough for an industry where profit margins have been on a downward trajectory for the last decade.

This report identifies five key trends that will shape the success of UK fashion retailers in the years ahead:

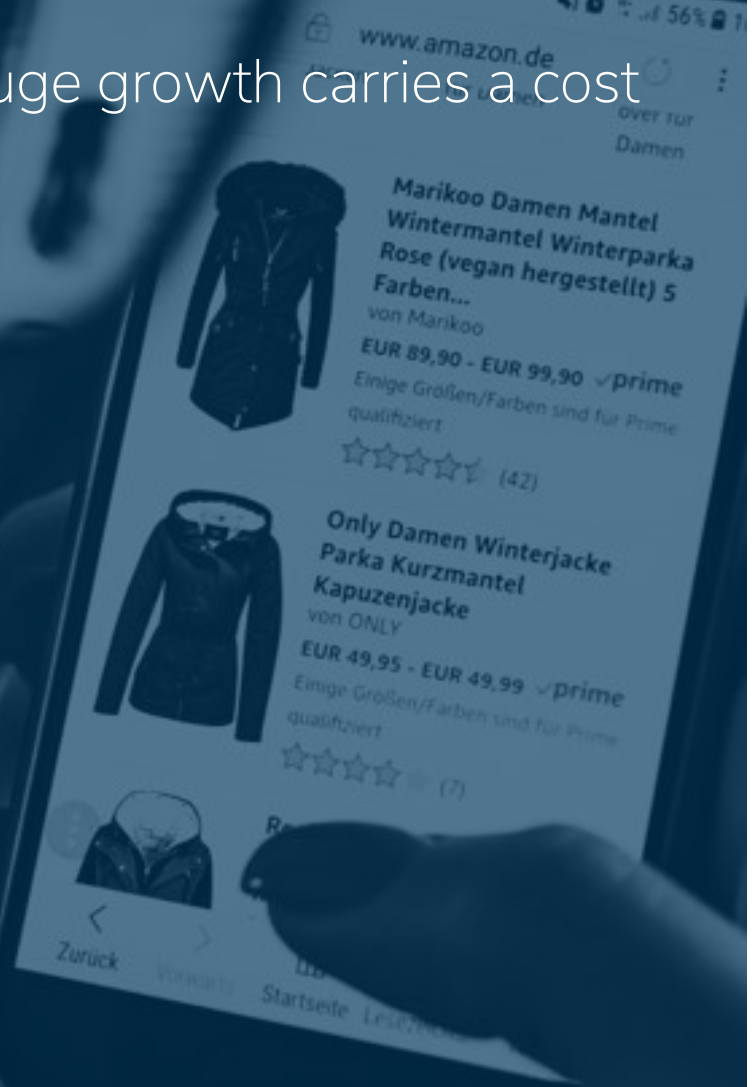
1. Shift to online: Huge growth carries a cost
2. Reimagining stores: showrooms, micro-fulfilment and personalisation
3. Digital innovation: Social commerce and the metaverse
4. Supply chains: Mitigating disruption and cost pressures
5. ESG & Circular economy: from fast fashion to resale

The insights in this report are useful for retailers and retail-related businesses to better understand key category trends for improved strategic and advisory capabilities.

# TREND 1

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Shift to online: huge growth carries a cost



# Trend 1

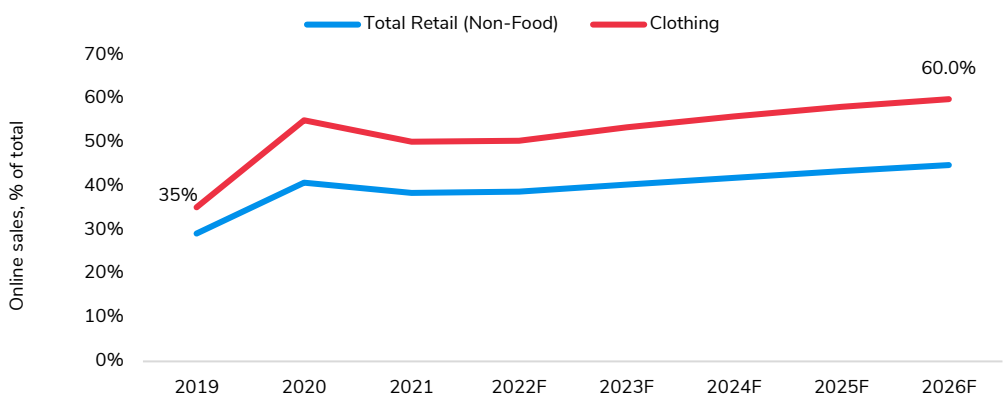
## Shift to online: huge growth carries a cost



The COVID-19 pandemic has heightened the influence of digital across all stages of the customer journey. This has led to a permanent step change in the proportion of apparel sales occurring online.

Consumer appetite for discovering and purchasing apparel online is now firmly entrenched. Retail Economics forecasts online to account for over half (50.4%) of UK apparel sales in 2022, compared to 35% in 2019 pre-pandemic. By 2026, online sales are projected to account for 60% of apparel sales.

**Figure 1** – Online now accounts for over half of UK Clothing sales



Source: Retail Economics.  
Clothing & Footwear sector forecasts available to Retail Economics members - Click [here](#) to find out more

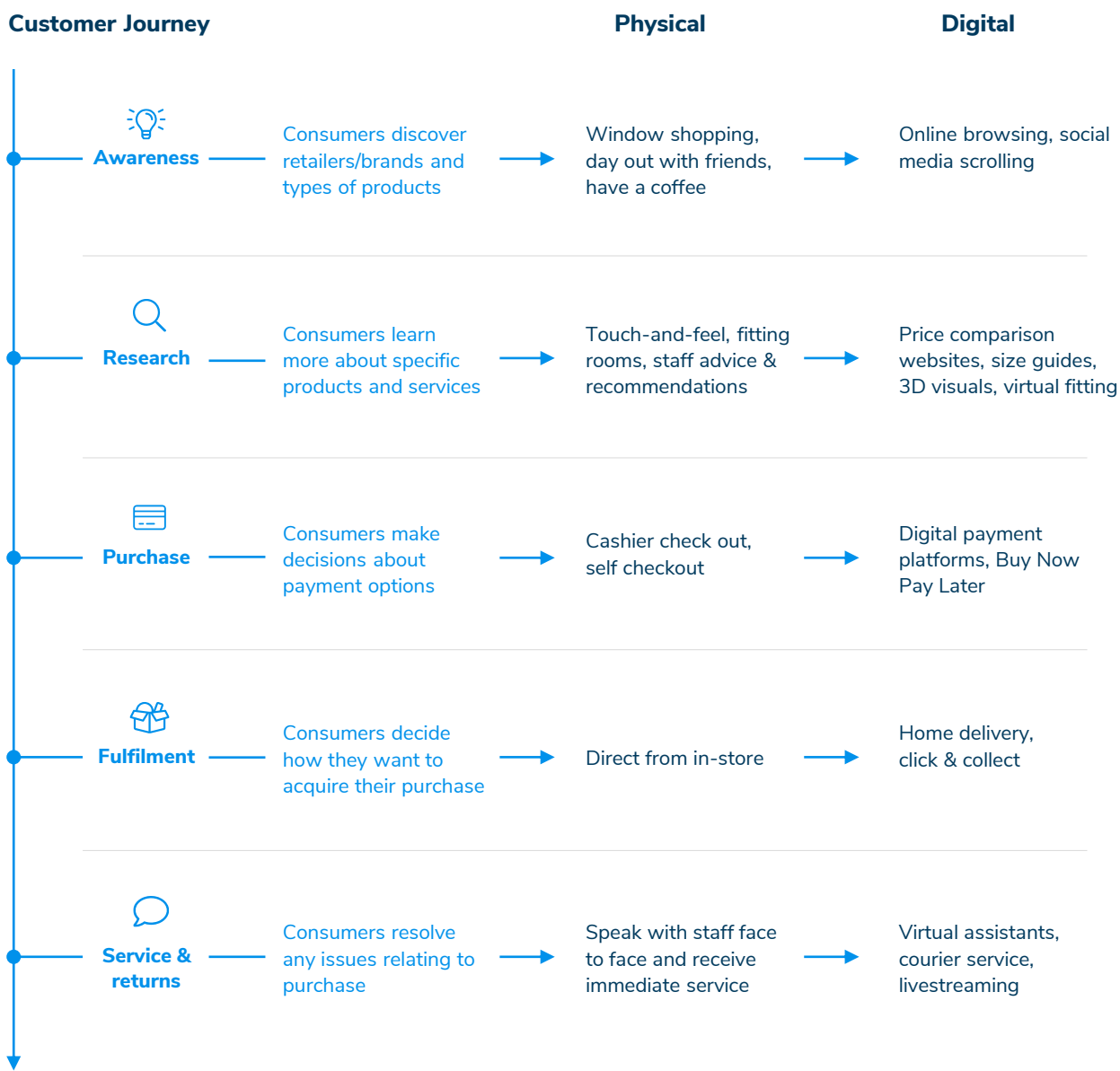
# Digital shift across entire customer journey

Digital technology is firmly at the epicentre of most people's lives, whether communicating with friends and family, remote working, or shopping.

Digital's influence has become more pronounced across all stages of the customer journey for apparel. From the awareness of fashion brands and products to service and returns, many consumers have been exposed to new digital-first customer journeys (Fig 2), breaking down initial barriers of setting up online accounts, entering payment details and overcoming issues of trust.



Figure 2 – The acceleration to online has rewired the customer journey





# The shift to online comes at a cost

Pure online apparel retailers typically operate on considerably thinner margins than their physical or multichannel counterparts. Our analysis shows pre-tax profit margins for pure online apparel retailers across Europe averaged 3.7% before the pandemic (2015-2019), compared with 13.4% for the overall apparel industry.

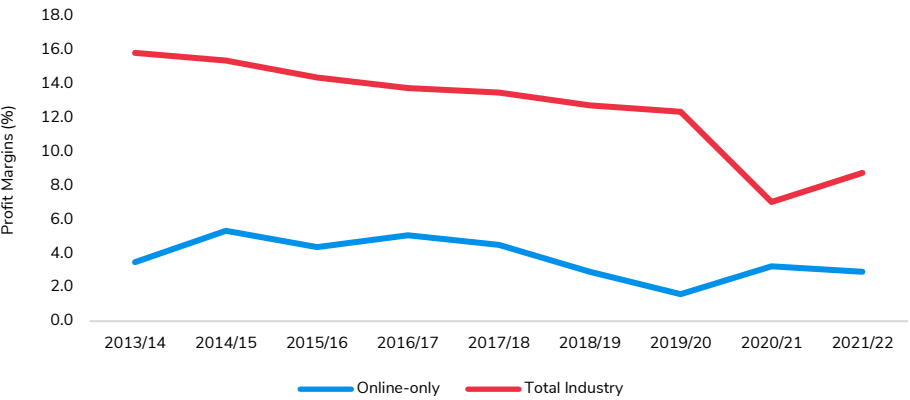
Even during the pandemic when online retailers enjoyed exceptional levels of demand which boosted profits, pre-tax margins remained below industry averages (Fig. 3).

Although bricks-and-mortar retailers are tied to higher fixed costs for their store estates, they generally achieve greater profit margins on each transacted sale.

Conversely, online pure plays have lower fixed costs (e.g. fewer premises and employees) with smaller profit margins on each item. This is because of significantly higher variable costs such as marketing, packaging, shipping costs, and managing greater returns volumes.

Increased transparency online also intensifies competition and limits retailers' pricing power, leading to further margin erosion. Our research shows that the growth of online during the pandemic diluted profit margins across the entire apparel industry, putting retailers' business models and cost structures to the test.

**Figure 3 – Online runs on thinner margins: profit margins versus apparel industry average**



Source: Company results, Retail Economics analysis



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# Higher return rates

The shift online has triggered a rise in the volume of products returned to retailers – especially for apparel. Although free and lenient return practices can be leveraged to incentivise online sales, it also encourages many consumers to over-purchase viewing it as a ‘risk-free discovery’, rather than a ‘final purchase’ (the concept of ‘wardrobing’). This is particularly applicable when shopping for clothing and footwear online, as size, styles, textures and finishes can be difficult to convey digitally.

Retail Economics research shows that the average returns rate for online apparel purchases can be as high as 27%, compared to around 12% for store purchases. Gen Z shoppers (under 24 years) are the most prolific returners (Fig. 4). They return approximately twice the number of items compared to seniors (65+ years).

Purposely over-ordering has become normalised for online apparel shopping. Nearly half (44%) of Gen Zs order multiple variations of clothing and footwear items online, beyond what they intend to keep.

For retailers, increased return rates quickly erode profit margins. Returns are more costly and complex to process than outbound logistics, involving problematic

The average returns rate for online apparel purchases can be as high as 27%, compared to around 12% for store purchases.

reintegration of products back into the supply chain, assessing condition for re-sale, and processing refunds. The cost of handling a return can be up to twice as much as the original delivery when factoring for labour, transportation and warehousing.

Whereas a return in-store can be processed quickly, online purchases must be returned via a courier, sent to a warehouse, unpacked, cleaned, and then put out for re-sale. The extra processes involved can create inventory backlogs, resulting in excess stock and price markdowns as clothes miss their season.

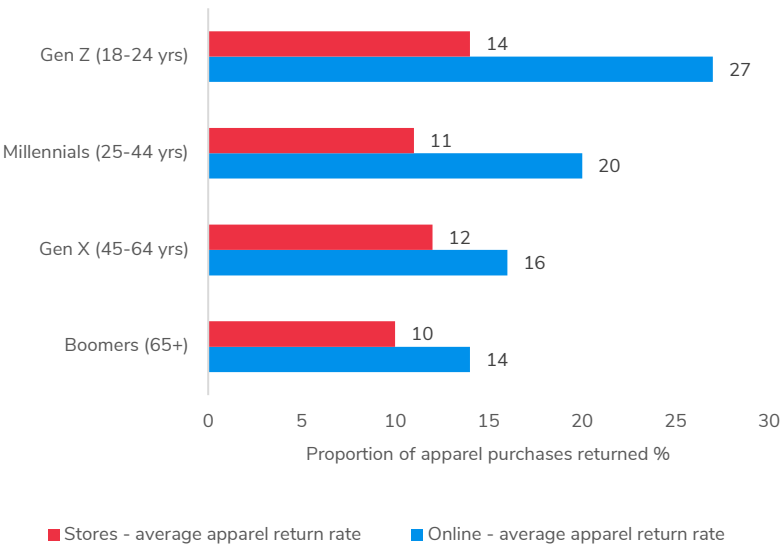
Some fashion retailers are taking steps to discourage serial returners by charging customers for the privilege – Next implemented such a plan in 2018, and Zara recently began charging shoppers to return online orders by post. Crucially, items bought online can still be returned for free in-store.

As a strategy to make better use of store networks to drive footfall, this works well. Next says c.75% of returns are made at its physical stores, reducing margin erosion and increasing the likelihood of repeat purchases.

But for retailers without physical stores, such benefits realised by free “return to store” options are not available; and charging for returns without a free alternative risks alienating shoppers altogether.

There is no one-size-fits-all solution to the issue of returns, but charging for them and leveraging technology to help shoppers accurately assess products can help significantly. Many successful retailers will need reverse logistics and stock management solutions (in-house or third party) that minimise return rates and associated costs. They might also impose policies that incentivise returning items in-store, or even dissuade over ordering in the first instance. Operating subscription models that offer free deliveries while building lifetime loyalty is yet another approach. Nevertheless, the balance between offering convenient online returns while minimising subsequent costs is a key, and ongoing challenge, for the apparel industry.

Figure 4 – Gen Z the most prolific returners of apparel online



Source: Retail Economics 2021

# Customer acquisition costs

As in-store footfall metrics become less relevant to overall performance, apparel retailers need to invest to entice shoppers through their ‘virtual doors’. The average UK consumer spends 3 hours 37 mins per day online (on multiple devices), outside of work environments. This rises to 4 hours 34 mins for Gen Zs, which was boosted by the impact of the pandemic (Comscore, 2020).

Social media is becoming an increasingly important part of the customer journey, especially for younger generations. 30% of Gen Z’s in the UK have purchased apparel online having first seen or discovered the product on social media (Fig. 5).

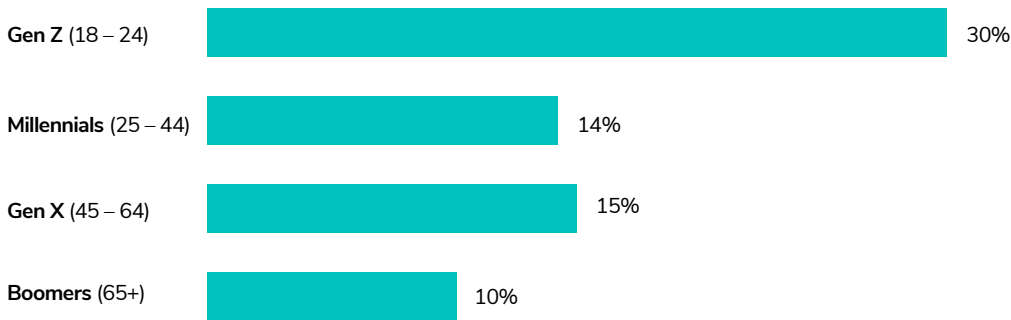
The average UK consumer spends 3 hours 37 mins per day online (on multiple devices), outside of work environments.

Consequently, the battle for consumer attention is increasingly being fought online, with ‘big tech’ (Google, Facebook, Snapchat, Instagram, Pinterest and TikTok) emerging as the ‘landlords’ of the digital environment. Alphabet (Google) and Meta (formerly Facebook) own nine of the top ten most popular mobile applications.



**Figure 5** – Social media is a key discovery tool for younger apparel shoppers

Qu: Have you been inspired to purchase apparel online having discovered a product on social media?  
Those who answered ‘yes’



Source: Retail Economics



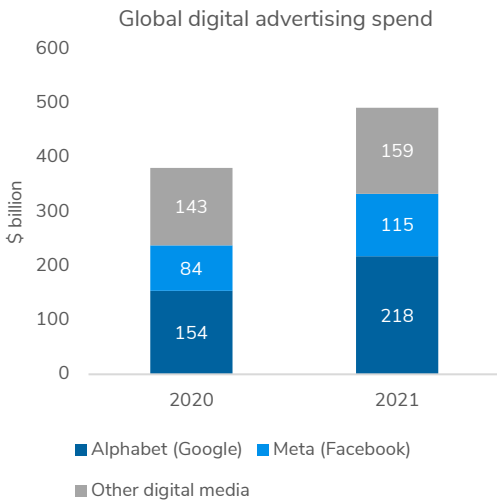
Alphabet and Meta also accounted for 68% of global digital advertising revenues in 2021, and almost half of all expenditure on advertising that year (Fig. 6).

Customer acquisition costs are being driven higher as a result. As brands and retailers compete within the ‘attention economy’, full-scale bidding wars often ensue for online keyword search terms for SEO strategies. A decade ago, key search terms that apparel retailers were bidding on cost less than £0.50 – now they are upwards of £5 – a ten-fold increase.

Alphabet and Meta accounted for 68% of global digital advertising revenues in 2021.

Retailers excelling at customer retention enjoy the reduced cost burden of customer acquisition. With intense focus on ‘paid for’ web searches and social advertising, retailers can often pay multiple times to attract the same customer. Instead, placing similar levels of energy on re-engaging existing customers and driving lifetime value can be a more cost-effective strategy. Nevertheless, battling for customer attention online has become the new reality for most retailers, adding costs and further degrading profits.

Figure 6 – Google and Facebook dominate global advertising market



Source: Quarterly earnings reports, eMarketer



## Tech talent crunch

The rapid migration online highlights the need for apparel retailers to intelligently leverage big data and use analytics to better target, understand and entice customers.

However, this often requires specialist skillsets which many retailers lack. Here, looking for tech-partnerships or securing specialist data scientists requires significant investment with long term strategies. With labour vacancy rates hovering at record highs, businesses are struggling to secure the relevant skills and resources.

Retailers face the challenge of investing in digital talent at a time where labour costs are increasing, driven by rising minimum wages, pension and social security contributions, and expectations around employee welfare.

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In the UK, average salaries for e-commerce roles rose by 9.9% in 2021 to £62,000, significantly higher than traditional store-based roles.

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Competition for IT professionals was already high before the pandemic, but the increased urgency to embrace digital has further elevated wage costs as retailers scramble to hire analysts, developers, data scientists, UX designers and digital marketing specialists. In the UK, average salaries for e-commerce roles rose by 9.9% in 2021 to £62,000<sup>2</sup>, significantly higher than traditional store-based roles.

Lastly, many apparel companies will require new organisational structures that prioritise upskilling and digital capabilities, but this often involves a transitional period plagued by additional sunk costs to overcome the inertia of legacy systems.

<sup>2</sup> Cranberry Panda 2021 eCommerce Salary Survey

A background image of two mannequins in a store window display. The mannequin on the left is wearing a light-colored, short-sleeved dress with a ruffled hem and a dark necklace. The mannequin on the right is wearing a light-colored, short-sleeved top with a ruffled hem and light-colored trousers. Both are wearing dark sandals. The background is dark and out of focus.

# TREND 2

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Reimagining stores: showrooms,  
micro-fulfilment & personalisation

## Trend 2

### Reimagining stores: showrooms, micro-fulfilment, and personalisation

The pandemic-induced shift to online and subsequent impact on store-based sales has magnified the urgency for retailers to adapt.

Physical stores can be of comparable value to digital channels – if they co-exist in a seamless, symbiotic relationship. As industry restructuring continues, the purpose of stores will evolve. As such, there will be a renewed focus on reimagining and repurposing physical stores to improve customer experiences.

#### Sensory showrooms

Online apparel purchases can be extremely convenient, but stores inject physical touchpoints and emotional dynamics that add considerable value to shopping experiences.

Online apparel purchases can be extremely convenient, but stores inject physical touchpoints and emotional dynamics that add considerable value to shopping experiences.

Our research shows that almost half (48%) of consumers said that the ability to touch, feel and try on products are the most important aspects of shopping in-store. The tactile experience of stores holds appeal to consumers of all ages, but particularly older generations (e.g. Gen X, Boomers) of whom over two thirds still prefer to 'try before they buy'.



By honing in on high-touch, sensory-driven experiences, physical stores can better complement digital channels, fuelling online sales instead of competing against them.

Many concept stores function more like 'retail showrooms'; they are designed to enable customers to try and test products, but actual purchases take place online or on the move. Simultaneously, retailers can educate consumers on products and services while supporting online sales via the 'halo effect'.

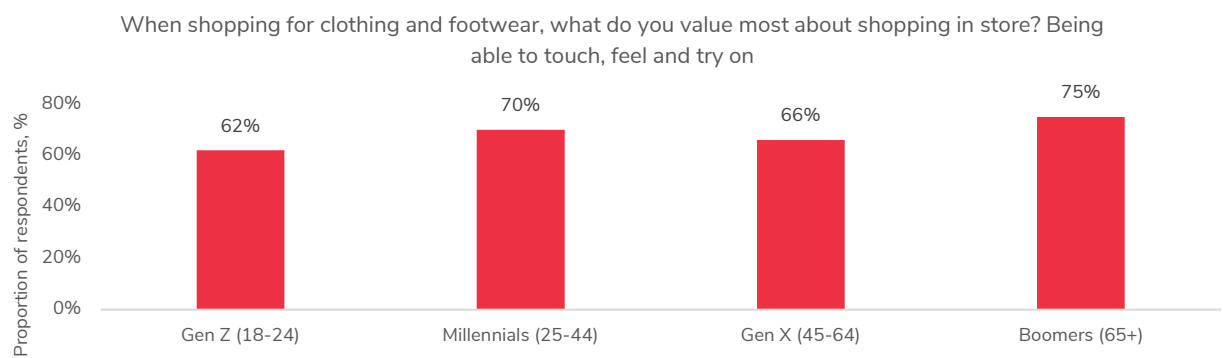
Most online spend involves a physical store touch point during the customer journey (e.g. click and collect or 'try before you buy'). Indeed, research shows that online sales at fashion retailers are 124% higher on average within the catchment area of a physical store than outside it<sup>3</sup> - Our research shows 30% of UK consumers regularly buy clothing online having first seen the product in store.

Showrooms can also be effective in building a brand and developing customer trust. The recent push of online retailers such as Amazon and Gymshark in opening physical stores reinforces the growing appreciation of bricks-and-mortar as an effective way to strengthen brand loyalty and secure lifetime value.

But they can also be useful for retailers looking to pivot online and reduce their store footprint as they require less space to hold inventory.

<sup>3</sup> CACI, 2019

Figure 7 – Physical touchpoints valued by all ages, but particularly older consumers



Source: Retail Economics. Sample: 2,000 UK adults

## Fulfilment hubs

By leveraging stores as micro-distribution centres, retailers and brands can implement faster and more convenient delivery solutions for customers, while simultaneously relieving supply chain pressures and utilise in-store stock more efficiently.

Levi's was among several retailers that used its closed stores to fulfil online orders during the pandemic, helping speed up delivery times and preventing overcrowding in its distribution centres.

The pandemic will accelerate the rise of 'grey' or 'dark' stores that mimic normal store operations but are more akin to a walk-in fulfilment hub, geared up for collection and returns. Click-and-collect services surged during 2020/21 with our research showing that consumers

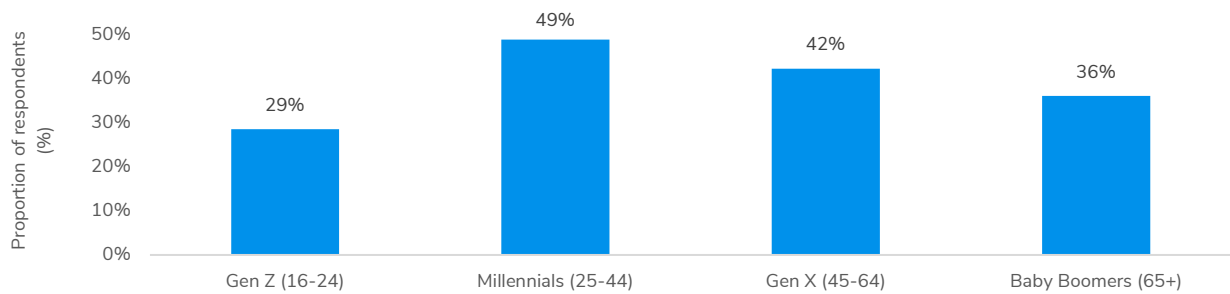
expect to increasingly use this service going forward.

Click-and-collect is most popular amongst Millennials. This age group finds it convenient to collect an order as part of a work commute or school run, rather than risk being out and missing a home delivery.

Almost half (49%) of UK millennials are more likely to visit an apparel store if they offer free click-and-collect.

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Figure 8 – Physical touchpoints valued by all ages, but particularly older consumers



Source: Retail Economics





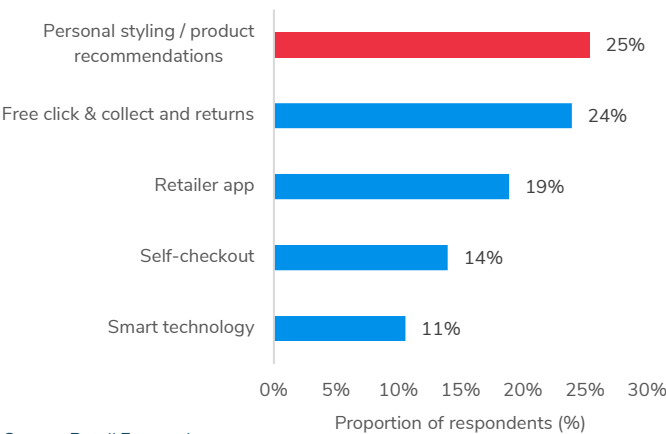
## Personalised experiences

Today’s consumers crave unique and personalised shopping experiences. In a crowded marketplace, personalisation is a key differentiator which retailers and brands can develop to gain a competitive advantage.

Personalisation is particularly important for apparel where customer journeys are often complex and rarely linear. Each shopper has their own individual style and preferences, and the path to purchase often spans multiple devices and channels – online and offline. Personalisation is a potent sales tool, offering superior leverage for conversion.

Personalisation is valued most by Gen Z consumers who enjoy being able to customise products. Personalised offerings, such as Spotify playlists and Netflix recommendations, already play a key role in their everyday consumption; and they increasingly seek a similar personalised experience from retailers and their stores.

Figure 9 – Personalised service valued highly by consumers



Source: Retail Economics

Our research shows that highly personalised services are a key pull factor for physical stores. One in four shoppers said they would be more likely to visit an apparel store if they offer personal styling and bespoke product recommendations (Fig 9).

One in four shoppers said they would be more likely to visit an apparel store if they offer personal styling and bespoke product recommendations.

Physical stores can also act as ‘playgrounds’ for consumers by generating interest and creating brand buzz. The fusion of entertainment and retail is likely to take on new heights in a post-pandemic world as physical stores reposition themselves as destinations of discovery. Here, entertainment can include in-store workshops, glitzy fashion shows, and celebrity appearances amongst others.

# TREND 3

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## Digital innovation: Social commerce and the Metaverse

# Trend 3

## Digital innovation: Social commerce and the Metaverse

As digital uptake soars, so does the need for apparel retailers to innovate and embrace new technologies.

During the pandemic, digital innovation focused on the need to quickly upscale online capacity and help bridge the gap between physical and digital. Many retailers invested significantly in more sophisticated digital marketing campaigns, automated fulfilment systems and innovative shopping features (e.g. livestreaming, customer service video chat). In many cases, the pace of digital transformation accelerated plans by years, in just a matter of months.

In a post-pandemic world, retailers will need to elevate their digital propositions even further. As shoppers increasingly demand more sophisticated digital interaction, apparel retailers must optimise online capabilities while continually discovering new ways to entice customers. Examples include using augmented reality (AR) and building next-generation mobile apps that check stock availability and support self-checkout.

### Social commerce

Around one in five UK shoppers have used their smartphone while shopping in an apparel store to help with their purchasing decision, including for price comparison, checking social media, or to use a retailers' mobile app.

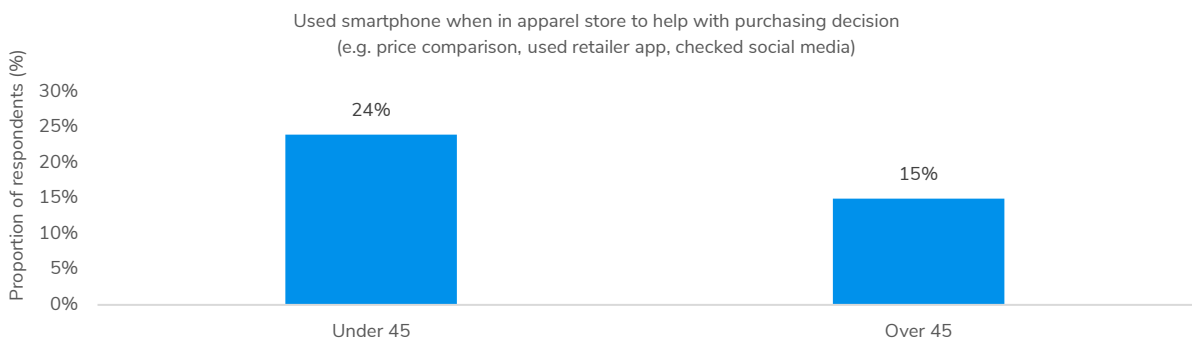
This will continue to rise over the coming years as retailers better integrate mobile into the store experience to meet growing expectations from younger generations in the future.

Social commerce in particular presents huge opportunities for the apparel industry, leading to creative solutions for marketing, design and new revenue streams.

Many aspects of social commerce (e.g. checking out using apps, purchasing products within the social media ecosystem) allow apparel retailers to lessen friction within the customer journey while also offering creative marketing solutions. China is arguably leading in this field where super-apps like WeChat offer users a wide range of functions – beyond social networking.

Instagram, Pinterest and TikTok are all enhancing their own in-app shopping features where consumers can discover and buy the latest products from apparel brands. Social shopping innovations give apparel retailers the opportunity to leverage richer digital experiences that offer convenience, personalisation and entertainment.

**Figure 10** – Mobile and social commerce becoming important part of apparel store experience



Source: Retail Economics



## The metaverse

The metaverse is a virtual digital environment with virtual 'worlds' for users to explore, game, shop, trade, and work in.

Although it is still immature and conceptual for the most part, certain fashion brands have moved early to explore possibilities with virtual stores and merchandise.

For example, Nike partnered with Roblox in 2021 to develop 'Nikeland', a virtual world featuring sports fields, arenas and showrooms to offer Nike gear, alongside the opportunity to unlock 'superpowers' and explore the future of virtual sports.

Gucci also partnered with Roblox during the pandemic to create Gucci Gardens, a virtual version of the Gucci Garden in Florence that includes a Gucci Store, Gucci Museum and Gucci restaurant. During this virtual event, Gucci allowed user to buy a Queen Bee Dionysus bag for 475 Robux, or \$5. The bag was only on sale for 1 hour, creating scarcity for the limited digital product. One of these virtual bags was later sold for over \$4,000 – more than the actual bag in real life.

If the metaverse is widely embraced, retailers and brands will need a radical rethink when considering the types of products and services they will offer. It is likely that they will need to consider a shift in brand positioning and

proposition to remain relevant in a new digital age defined by more immersive experiences.

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In time, it is possible that apparel brands and marketers will realise that the metaverse is another 'place' – not just another channel.

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Retailers will need to think carefully about how their products will be viewed, used, and traded, because the metaverse has the potential to profoundly impact the customer journey, and customer relationships in the future. In time, it is possible that apparel brands and marketers will realise that the metaverse is another place – not just another channel.

> Click [here](#) to learn more about the Metaverse and its implications for retail

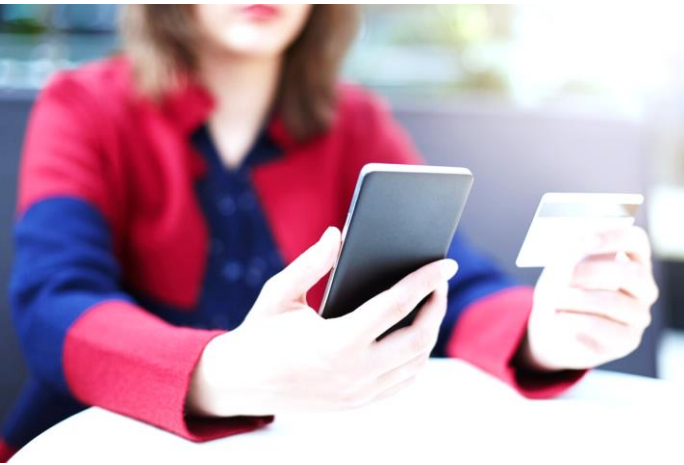


# Data analytics

Data analytics generated through social commerce and digital integration more broadly can give retailers powerful insights into their operations

Using data science, apparel retailers can identify their most profitable customer base from customer segmentation and profiling. It also allows a deeper understanding of their customer’s needs and requirements to help predict future behaviour.

Looking forward, with advanced data analytics and capabilities, retailers will be able to segment customer cohorts into ‘groups’ of one – the individual. Here, hyper-targeted promotions, bespoke pricing, and meaningful messaging offering genuine advice and guidance will be the marketing ‘gold standard’ many retailers will aim for.



With advanced data analytics and capabilities, retailers will be able to segment customer cohorts into ‘groups’ of one – the individual.



# TREND 4

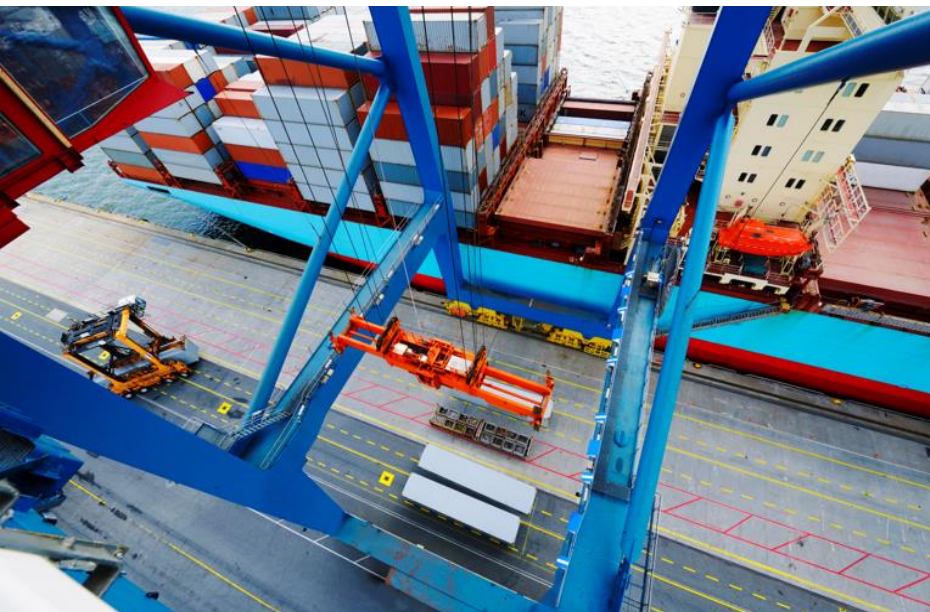
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## Supply chains: Mitigating disruption & cost pressures

# Trend 4

## Supply chains: Mitigating disruption & cost pressures



The apparel industry is reliant on an intricate web of global supply chains that are experiencing significant pressure and disruption as economies reopen and demand bounces back.

Manufacturing delays, shipping backlogs and labour shortages are adding additional layers of cost and supply chain complexity for retailers. Indeed, 87% of fashion executives expect dealing with supply chain disruptions to negatively impact profit margins over 2022<sup>4</sup>.

The cost of shipping a 40-ft container from Asia to Europe has risen more than 500% above pre-pandemic levels, while air freight is up around 200%. And even when UK- and EU-bound containers reach their destination ports, a shortage of HGV drivers and Brexit-related bureaucracy has caused further delays and additional costs.

China's 'Zero-Covid' policy and the Ukraine conflict have only exacerbated underlying supply chain issues, leading to congestion at ports and increased raw material costs. For example, surging fuel prices has propelled inflation of petroleum-based materials, such as polyester and nylon, affecting prices at fast-fashion and value operators that use these materials.

<sup>4</sup> BOF-McKinsey State of Fashion 2022

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The cost of shipping a 40-ft container from Asia to Europe has risen more than 500% above pre-pandemic levels

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While it's difficult to predict how long and to what extent these challenges will last, many retailers will see this as an opportunity to reset their supply chain strategies.

Improved strategies are likely to involve using shorter, more flexible supply chains better equipped to deal with supply shocks; implementing cutting-edge inventory management and collaborating with logistics providers to build greater flexibility to secure supply.

As the apparel industry looks to navigate supply chain disruptions more effectively, our research highlights the key strategies below:

**Simplification and diversification:** Businesses should explore simplification of supply chains by making them shorter, often involving more on-shoring, near-shoring and re-shoring. Supply chains can also include more sources, and reduced overreliance on single countries. Prolonged supply chain issues might also encourage larger companies to consider more fundamental changes to drive efficiency gains and futureproof operations such as bringing distribution or production in-house – a strategy that luxury players and megabrands have capitalised on in recent years.

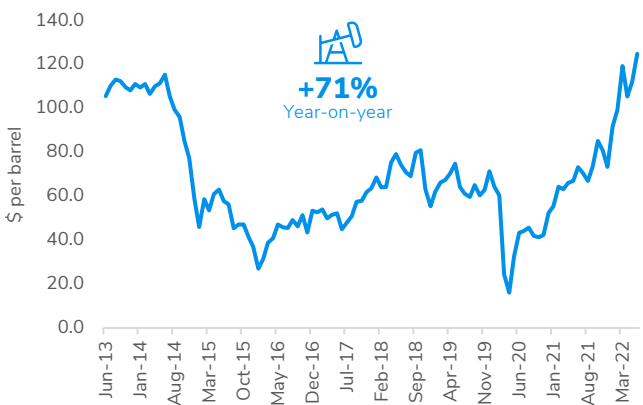
**Rethinking inventory:** Establish alternative supply sources to enable fast-tracked volume delivery capability. Adopt better, more agile inventory management to maintain 'just-in-time' strategies with established mitigation.

**Understanding cost to serve:** Any move to near-shoring will have an impact on margin due to local cost differences. Businesses will need to gain an understanding of these differences to build mitigation options and pricing scenarios. There is a clear trade-off between agility and inventory write-offs.

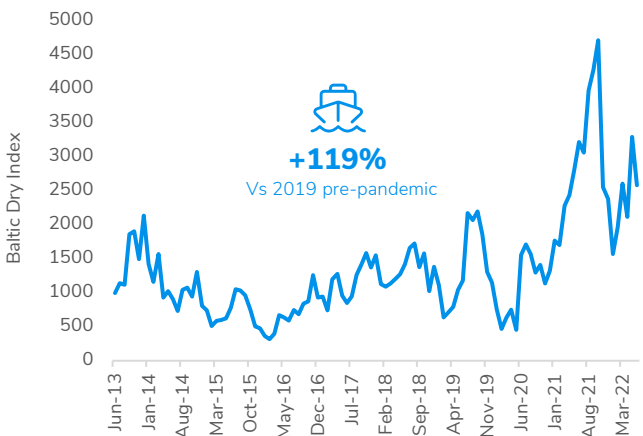
**Contingency planning:** As operating costs continue to rise, continuous review and risk assessment are required to ensure flexibility to switch suppliers, operate parallel supply chains if needed, or switch supplier countries if localised disruption persists. Building up strategic stockpiles where appropriate to mitigate against potential supply shortages can prove effective, although diligent assessments on cashflow, storage costs and demand forecasting will be imperative.

Figure 11 – Cost pressures mounting for retailers

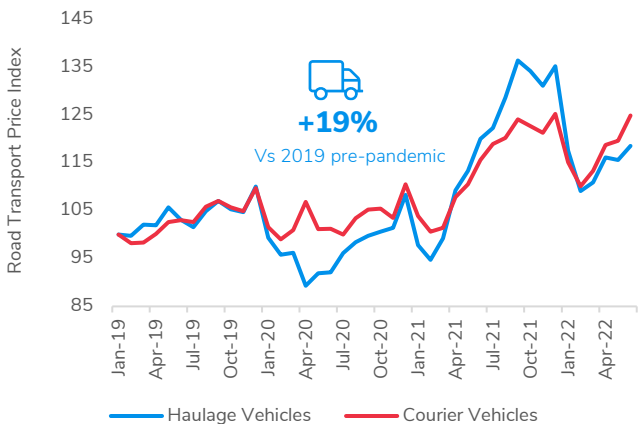
Crude oil – price per barrel



Shipping costs – Baltic Dry Index



Road transport costs – TEG Index





# Empathetic communication

Retailers must understand their consumers and the economic circumstances they face and adapt accordingly.

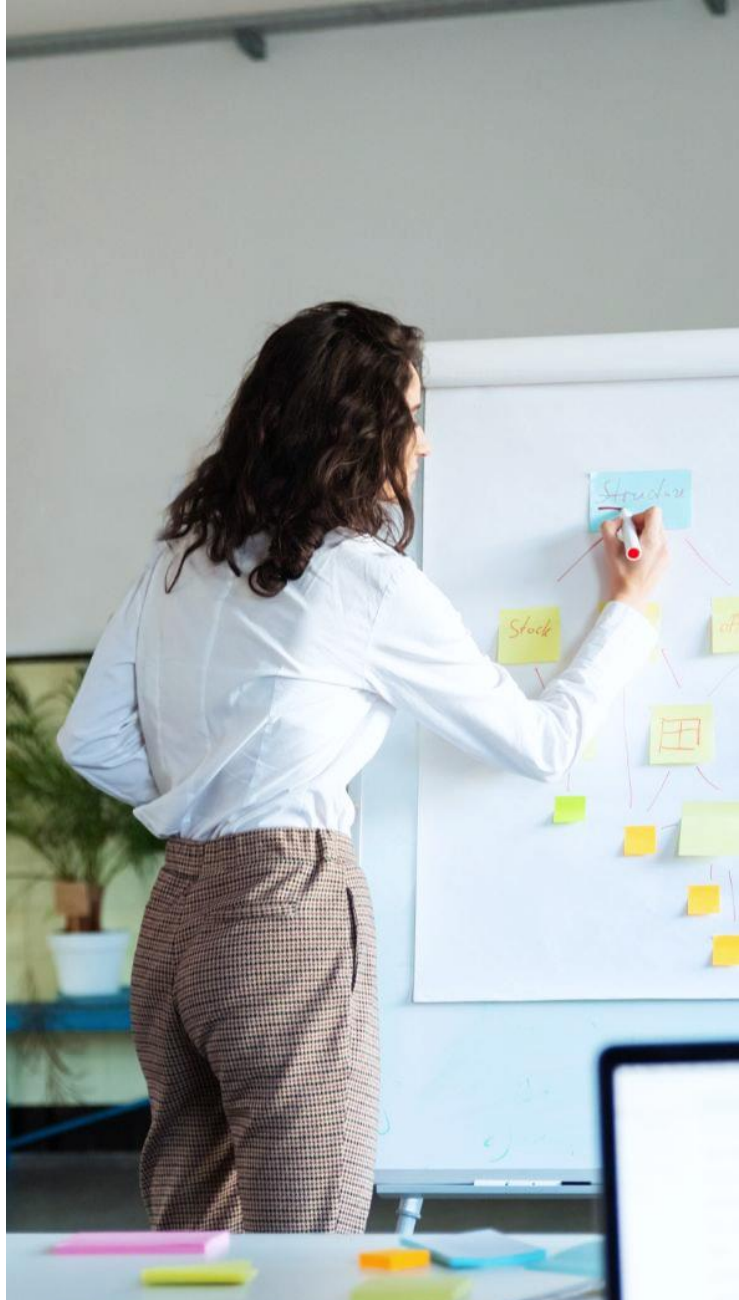
With cost pressures expected to persist for the foreseeable, most fashion retailers will be forced to pass on price rises to the customer to some extent, as profit margins were already being squeezed even before the pandemic.

However, in an ultra-competitive market like apparel, price rises need to be carefully targeted, limited to certain ranges or types of products where possible, and communicated to consumers effectively if retailers are to preserve their market position.

What is most important here is communication with suppliers and consumers alike – if shoppers understand the reasoning behind price rises or delivery delays, and can still recognise the quality and value, they are more likely to remain loyal to a brand.

Retailers must understand their consumers and the economic circumstances they face and adapt accordingly. Successful businesses will not only acknowledge that people are feeling the pinch but offer ways to help them mitigate the challenges.

For example, expanding loyalty schemes that offer better, personalised rewards for customers. Consumers are more likely to remember and reward those businesses that helped them through the biggest squeeze in disposable income in more than a generation.



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# TREND 5

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## ESG & the circular economy: From fast fashion to resale



# Trend 5

## ESG & the circular economy: from fast fashion to resale

Environmental, Social and Governance (ESG) will remain a key priority for retailers who will need to navigate consumer spending pressure, legislation and reporting requirements, alongside growing investor activism.

The apparel industry is under pressure to live up to its social and environmental responsibilities. Lenders, shareholders, and consumers increasingly expect retailers to implement a meaningful proposition tied to specific targets on carbon emissions, worker welfare, and other ESG goals.

### Fast Fashion scrutiny

Shoppers’ purchasing habits are increasingly shaped by responsible consumption and the desire to ‘do good’. Resultantly, consumers are more mindful of what they buy, how products are manufactured, and where materials and ingredients are sourced.

Our research shows that 63% of consumers believe their experience of shopping with a retailer will be enhanced if they were able to clearly demonstrate strong ethical and environmental credentials.

Younger shoppers are particularly attuned to company values. Over two thirds of Gen Zs consider ethical and environmental credentials as an important factor when choosing an apparel brand, more than any other age group.

Consumers want to feel fulfilled by their purchases having acquired them in meaningful ways; and their purchasing habits are increasingly shaped by the desire to ‘do good’.

When choosing an apparel brand, our research shows that Gen Z consumers are motivated less by price and more by ethical or social value; whereas older age groups consider price to be a more influencing factor (Fig. 12).

Figure 12 – ESG and positive shopper experiences

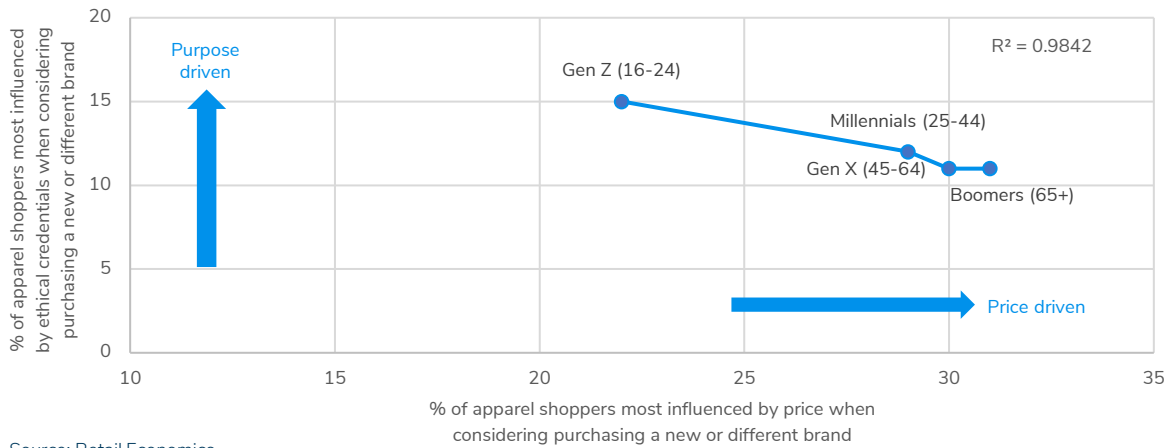
Qu: My experience of shopping with a retailer would be enhanced if they were able to clearly demonstrate strong sustainability, ethical and environmental credentials”? Those who answered ‘yes’



Source: Retail Economics



**Figure 13** – ESG and positive shopper experiences



### Raw materials

A shift away from products made from synthetic fibres towards using more natural fibres is key — while also transforming how natural fibres are produced. This includes scaling the use of next generation fibres that don't rely on new natural resources and are instead made from old textiles or other waste streams, such as agricultural residues, produced using clean, closed-loop manufacturing and recycling processes. In the future, our clothes may be grown using algae.

### Decarbonising the supply chain

Retailers and brands need to help suppliers transition to renewable energy, whether through cost-sharing, facilitating access to bank loans or committing to longer-term buying contracts that give suppliers the confidence to invest in the transition to clean energy. Interestingly, although many apparel suppliers report that brands want to buy from sustainable factories, they are unwilling to pay the substantial costs associated with it.

### Scaling down production

Whether its diversifying revenue streams or adjusting business models to shift away from fast-fashion, brands need to be focused on separating growth and profitability from volume production. However ambitious, fashion's environmental efforts are undermined if the industry fails to address its overproduction problem, which is the underlying driver of its huge carbon, water and waste footprint; 13 million items of clothing go to UK landfill every week (Oxfam). Overhauling business models is a long-term project, but 'brave' brands could potentially encourage customers to increase the longevity of purchasing cycles.

### Better buying practices

Suppliers can only improve working conditions, pay decent wages and implement sustainable practices if they are paid well enough by brands to do so. That means contracts need to include fair pricing for individual product orders but other elements as well, such as decent payment terms and reliable production schedules.



## Resale going mainstream

“Resale”, “preloved”, “second-hand” – whatever term is used, the circular economy will be a major trend across fashion retail in 2022 and beyond.

The process of renting, re-selling or thrifting previously owned clothes is rapidly gaining momentum as retailers respond to growing demand from consumers for economical and sustainable methods of owning ‘new’ clothes instead of buying brand new.

As spending power is reduced and retailers’ overheads increase, the resale and second-hand market not only offers an affordable shopping option to cash strapped shoppers, but also meets the strong desire from conscious consumers to minimise their impact on the environment.

Our research shows that almost a quarter of UK consumers plan to buy second-hand or shop on re-sale sites more often in response to the rising cost of living.

Consumer perceptions of buying used clothes is changing: there is less stigma attached socio-economically, and it’s increasingly seen as ‘trendy’.

Contestants on ITV’s Love Island 2022 will be wearing second-hand clothes for the first time, with eBay being the show’s fashion partner for the season. Previously, clothes worn by Love



Island contestants have quickly sold out on retailers’ websites, and so the new partnership could spark a major shift towards circular economy buying habits, particularly among Gen Z audiences.

For retailers, allowing customers to resell items they previously purchased offers a circular, brand-loyal experience for customers, while helping with ESG commitments by extending product lifecycles.

Retailers are already making moves to offer “pre-loved” selling to their customers. For example, Joules recently launched their own clothing takeback and resale scheme, Urban Outfitters have launched its own peer-to-peer resale marketplace, while M&S have jumped on board through a tie-up with childrenswear resale platform Dotte.

For brands, resale isn’t necessarily a revenue driver; it’s about being part of a consumer experience that’s happening with or without them. While retailers are betting it may eventually become a profitable part of their models, most are focused currently on resale’s potential for driving customer acquisition and loyalty.

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Consumer perceptions of buying used clothes is changing: there is less stigma attached socio-economically, and it’s increasingly seen as ‘trendy’.

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## ESG: more than just the 'E'

A key misconception when discussing ESG is to place an overriding focus on *environmental* concerns as though the 'E' is the main priority and the social (S) and governance (G) aspects will almost 'take care of themselves'.

In reality, all three elements of ESG matter – to their customers, employees, investors, regulators, and for the wider society. Focussing on the social and governance elements of ESG is integral for brand trust and reputation.

For example, the speed at which brands responded to the Russia-Ukraine conflict illustrates the importance of understanding what is important to consumers and wider society, and adapting the customer experience and marketing message to reflect this.

Our research shows brand reputation is an area that shoppers appear unwilling to compromise on at present. Three quarters (78%) of consumers say they would not switch to a cheaper brand if their company values were not aligned to their own.

ESG policies have a key role to play in building trust and loyalty among socially minded consumers, while ensuring the customer journey and overall brand experience makes a positive, lasting impression.



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Three quarters (78%) of consumers say they would not switch to a cheaper brand if their company values were not aligned to their own.

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# CONCLUSION

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The final word



# Conclusion

The five key trends highlighted in this report: (1) Online shift; (2) purpose of stores; (3) digital innovation; (4) supply chains; and (5) ESG, encapsulate the shifts and disruptions unfolding across the apparel industry.

The substantial costs involved in upscaling online capabilities and building more resilient supply chains alongside digitally transforming business models, poses a challenge for many retailers already experiencing dwindling profit margins.

In addition, the apparel industry is under increasing pressure to live up to its social and environmental responsibilities, particularly for fast fashion. As the industry reorganises to face a new post-pandemic era, retailers must also acknowledge the need to align their growth and profitability goals with ESG concerns, demonstrating solid brand credentials that creates value beyond the balance sheet.

As such, structural changes, evolving consumer demands and policy demands apparel retailers and brands to adopt more sophisticated strategies to retain existing customers, win new ones, and pursue growth.

Nevertheless, there is cause for optimism. With a deep understanding of the insights in this report, businesses can identify and leverage emerging opportunities. Already, a selection of leading apparel brands are enjoying the rewards harvested from reimagining stores, driving supply chain efficiencies, and focusing on digital innovation.



# How Retail Economics can help

## About Retail Economics

Retail Economics is an independent economics research consultancy focusing exclusively on the UK retail and consumer industry. Our membership service empowers you with a deeper understanding of the key economic drivers supporting the UK retail industry, providing a competitive edge needed to make critical business and investment decisions.

We provide retail economic insights, data and consultancy services to organisations associated with the UK retail industry, publishing regular insights on a range of retail related topics in different formats including:

- **Economic retail reports** analysing monthly sales, ecommerce, inflation, consumer trends & macroeconomic factors for improved performance
- **Category specific reports** every month focussing on the retail industry through the lens of seven key categories (e.g. food & grocery, clothing, homewares, health & beauty etc.) for targeted support with strategy
- **Shopper Sentiment Surveys** on a quarterly basis which measures changes in shopper's intentions (saving, spending, job security etc.) for better planning
- **Retail Cost Base Index** which looks at cost pressures to retailer's operating models to help maximise efficiencies
- **Cost of Living Tracker** which accurately assesses impact of inflation, income growth & discretionary spending by different income groups for refining marketing strategies
- **Thought leadership research** reports that analyses key industry trends and their impacts to help identify emerging opportunities and threats
- **Retail Roundup** bullet-point report for a tight summary of industry need-to-knows to keep abreast of events
- **Sector Snapshot** report provides a succinct overview of the retail industry broken down by category to help stay informed for more effective sales conversations
- Also: retail data sets, bespoke reporting, retailer profiles, economic chartbooks, newsletters and more

Get in touch with us now to see how we can help you.

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The shape of retail:

# The UK Apparel Market: Five Key Trends to 2025



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