European fashion retail market

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Interviewee

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Looking at the European fashion retail market overall, do you have an estimate of the expected year-over-year growth over the next five to ten years?
Answer: From a broad standpoint, we expect low single-digit growth in European fashion retail over the next five to ten years. We don't see a return to double-digit volume growth: instead the industry will likely grow by somewhere between 2 % and 5 % per annum on average — with variation by market, channel and segment.

What drives the stagnation in sales volume in European fashion retail?
Answer: Several factors contribute. First, the rapid growth of resale platforms—such as Vinted, Depop, and eBay—has diverted a significant share of volume away from first-hand retail. Second, changing consumer behaviour plays a major role: shoppers are increasingly conscious of sustainability and are choosing to buy fewer but higher-quality items. As a result, part of the volume is shifting to resale, and part is lost because consumers are reducing the number of products they buy.

Can we say that consumers are generally shifting from fast fashion toward higher-quality products?
Answer: Yes, but not universally. A large portion of the market remains highly price-sensitive, which is why ultra-low-cost players such as Shein continue to grow. The main pressure sits in the mass market: premium products and low-price products are both performing well, but mid-range players are struggling. Overall, though, there is a broader trend toward buying fewer, better items.

Is sales stagnation more pronounced among brick-and-mortar retailers or online players?
Answer: The shift to online commerce has plateaued. Across Europe, online penetration has stabilised at roughly 30–40% (around 45% in the UK), and has remained flat for two years. Consumers still expect retailers to offer omni-channel experiences, but the *transactional* split is no longer shifting toward digital. This stagnation affects pure online players most, as they no longer benefit from structural online growth, while omni-channel retailers are performing somewhat better.

What are the main risks currently facing fashion retailers?
Answer: Two macro challenges dominate.

- Continued cost inflation—affecting production, labour, logistics, and marketing.
- Muted top-line growth—because increasing volumes is difficult.

These dynamics push retailers toward:

- Competing aggressively for market share, which is likely to drive consolidation.
- Diversifying revenue streams, such as services, resale, and retail media, to reduce reliance on year-over-year product volume increases.

Traditional retail operating models are therefore under pressure from both the cost side and the revenue side.

Does consolidation occur more in mid-market or luxury?
Answer: The mid-market is somewhat further along the consolidation curve, but luxury shows similar emerging patterns. In both segments, the strongest performers are either highly premium, scarcity-driven brands or well-priced entry-level brands. Players in the middle—those without clear scarcity, strong engagement, or low pricing—are struggling, and this drives consolidation across both segments.

Why are mid-market players in particular struggling?
Answer: Consumers are increasingly focused on value for money. Value is clear either when prices are very low or when the product and brand are highly premium. Mid-market brands—neither low-price nor truly distinctive—struggle to articulate value. As consumers become more deliberate and selective in their spending, these "middle-of-the-pack" brands face the greatest pressure.

How are mid-market retailers improving customer acquisition and retention?
Answer: Over the last decade, retailers shifted dramatically from brand marketing (≈80%) to performance marketing (≈80%). This created a transactional model dependent on constant spend but did not build long-term customer value. Retailers are now:

- Rebalancing toward brand and above-the-line marketing to strengthen long-term engagement.
- Investing heavily in CRM and personalisation to maximise value from existing customers.
- Preparing for the rise of agentic search and adjusting their algorithms and presence accordingly.

Why did the industry shift so heavily toward performance marketing in the first place?
Answer: Because performance marketing delivers highly measurable, short-term ROI—making it attractive for CFOs and easy to optimise. Brand marketing, by contrast, produces slower returns and is harder to measure. However, the overreliance on short-term performance channels has proven costly because it undermines long-term customer relationships.

Is long-term engagement—community-building, for example—ultimately more cost-effective?
Answer: Yes. Community-driven and brand-building activities lead to higher customer lifetime value. These are not focused on immediate transactions, but on education, affinity, and engagement—whether through above-the-line advertising, social channels, or branded communities. These customers buy more frequently and across more channels.

What is the difference in acquisition cost or value between "community-based customers" and newly acquired ones?
Answer: The key difference is lifetime value. Customers who engage with the brand more deeply—particularly omni-channel customers—are significantly more valuable over time than single-channel or transaction-only customers.

Which operating models are most common among mid-market brands?
Answer: The dominant model is direct-to-consumer, both physical and digital. Most brands now complement this with third-party channels—either wholesale or marketplaces. A typical target split is:

- ~⅓ DTC physical
- ~⅓ DTC online
- ~⅓ third-party channels

Marketplaces and platforms are increasingly shifting from wholesale to consignment/marketplace models, where the brand retains ownership of stock.

How do mid-market brands source their inventory, and is Asia still important?
Answer: Most brands maintain direct relationships with suppliers, even though intermediaries still exist. Recent disruptions—COVID-19, logistics challenges, tariffs, and sustainability regulation—have pushed brands toward:

- Some nearshoring (e.g., Turkey) for shorter lead times.
- Consolidating supplier bases to improve transparency, planning, and partnership depth.

Asia remains significant, but the mix is being rebalanced.

Is sourcing easier for non-branded than branded products?
Answer: Not necessarily. Even for own-label items, brands tend to work consistently with the same manufacturers due to expertise, long-standing relationships, and the need to meet specific price points.

What does competition look like in the mid-market?
Answer: Two major disruptive forces dominate:

- Chinese tech-enabled players (e.g., Shein), which combine vertical integration and highly advanced technology across the supply chain.
- Second-hand platforms**,** which attract consumers by delivering superior value for money and enabling them to both buy and sell with decreasing friction.

These models pressure traditional players and are prompting the mass market to adopt more tech-enabled approaches.

Are retailers rethinking their return policies as return rates rise?
Answer: Yes. Several trends are emerging:

- Significant investment in sizing and fit-prediction tools.
- Strong emphasis on omni-channel integration so returned stock can be resold quickly.
- Increasing use of paid returns for online orders—now widely accepted by consumers.

Are retailers moving toward more agile, lower-inventory supply chain models?
Answer: Yes. The goal is not only faster trend response but better inventory and cash management. By predicting demand better and buying smaller initial quantities, brands can achieve higher sell-through and better cash profiles. Agility is primarily about inventory efficiency, not about chasing micro-trends.

What does the channel mix look like for luxury brands?
Answer: Luxury brands rely more heavily on direct-to-consumer than mid-market brands. Third-party retail still plays a role—especially luxury department stores—but typically accounts for only 15–20% of sales. Multi-brand luxury e-commerce players have lost share as many struggled to sustain their models.

Are entry barriers higher for luxury retailers than for mid-market players?
Answer: Yes. Luxury brands place a strong emphasis on control, exclusivity, and clienteling. This makes it harder for luxury retailers to gain access to top brands and to secure premium assortments.

Do luxury brands have more pricing power with retailers?
Answer: Generally yes—particularly highly scarce, high-equity brands. They also have more control over assortment allocation. In the affordable luxury tier, dynamics are more similar to the premium mass market.

Why do some luxury brands perform well while others struggle?
Answer: A major factor is the ability to raise prices while maintaining desirability. Brands with strong scarcity and brand equity can increase prices without losing demand. Others lack this equity, and their customers trade down to more affordable luxury options that offer better perceived value.

How do luxury retailers build customer stickiness?
Answer: Primary drivers are:

- Deep personal relationships through clienteling.
- Experiential engagement, such as private events or members-club concepts.

The aim is to integrate the brand into the customer's lifestyle, not merely to sell products.

Are gross margins higher in luxury retail than in mid-market?
Answer: Yes—significantly higher. Luxury retailers compensate for lower volumes with elevated price points and high gross margins.

How can luxury retailers negotiate better purchasing terms from brands?
Answer: Mostly through deep, strategic relationships and collaboration. Exclusive products or features also help, but mutual benefit and partnership are the foundation.

Are exports (tourist spending) still more important in luxury than mid-market?
Answer: Yes, though less than a decade ago. International spending has partially shifted back to domestic markets and is now more balanced. It is unlikely to return to former highs.

Which demographic groups are most important for luxury brands today?
Answer: The customer base is trending younger, and the strongest brands maintain broad relevance across generations. Age is no longer the primary driver; brand strength and desirability matter more.

Given recent collapses of multi-brand luxury e-commerce players, will luxury retail remain primarily physical?
Answer: Digital multi-brand platforms still have a role: they serve different customer missions, often capturing "trade-up" purchases from shoppers not yet loyal to specific brands. The challenge has been profitability, not demand. Many players are now reshaping their operating models and may re-emerge stronger.

What is the typical channel mix in footwear?
Answer: Footwear traditionally relies more on multi-brand retail than apparel. About 40% of footwear sales run through third-party retailers, supported by strong specialist channels.

Is physical retail more important in footwear due to fit and sizing?
Answer: Yes. While digital penetration is still high, physical sales represent a slightly larger share than in apparel because consumers often want to try shoes before buying.

Are mid-market dynamics (premium vs value, weak middle) also present in footwear?
Answer: Less so. The strongest trend is toward premiumisation and technical performance footwear. Brands such as On and Hoka have grown rapidly by targeting specific use-cases and community segments.

Is supply allocation risk (e.g., shortages) a major issue in footwear?
Answer: Yes. Footwear manufacturing is far more technical and less flexible than apparel. It is difficult to shift production between factories. Combined with complex sizing requirements and SKU proliferation, footwear is significantly more cash-intensive to manage.

Is price competition stronger in footwear than in apparel?
Answer: Not necessarily stronger, but more transparent. Because many footwear products are sold via wholesale, retailers often discount them more than brands do on their direct-to-consumer channels, making price comparisons easier for customers.

What does the footwear supply chain look like, and does Asia still dominate?
Answer: Footwear production remains heavily centred in Asia, more so than apparel, because of the technical complexity of manufacturing. Options for short-lead-time or nearshored production are more limited. Retailers therefore rely on fewer, more strategic manufacturing partners.