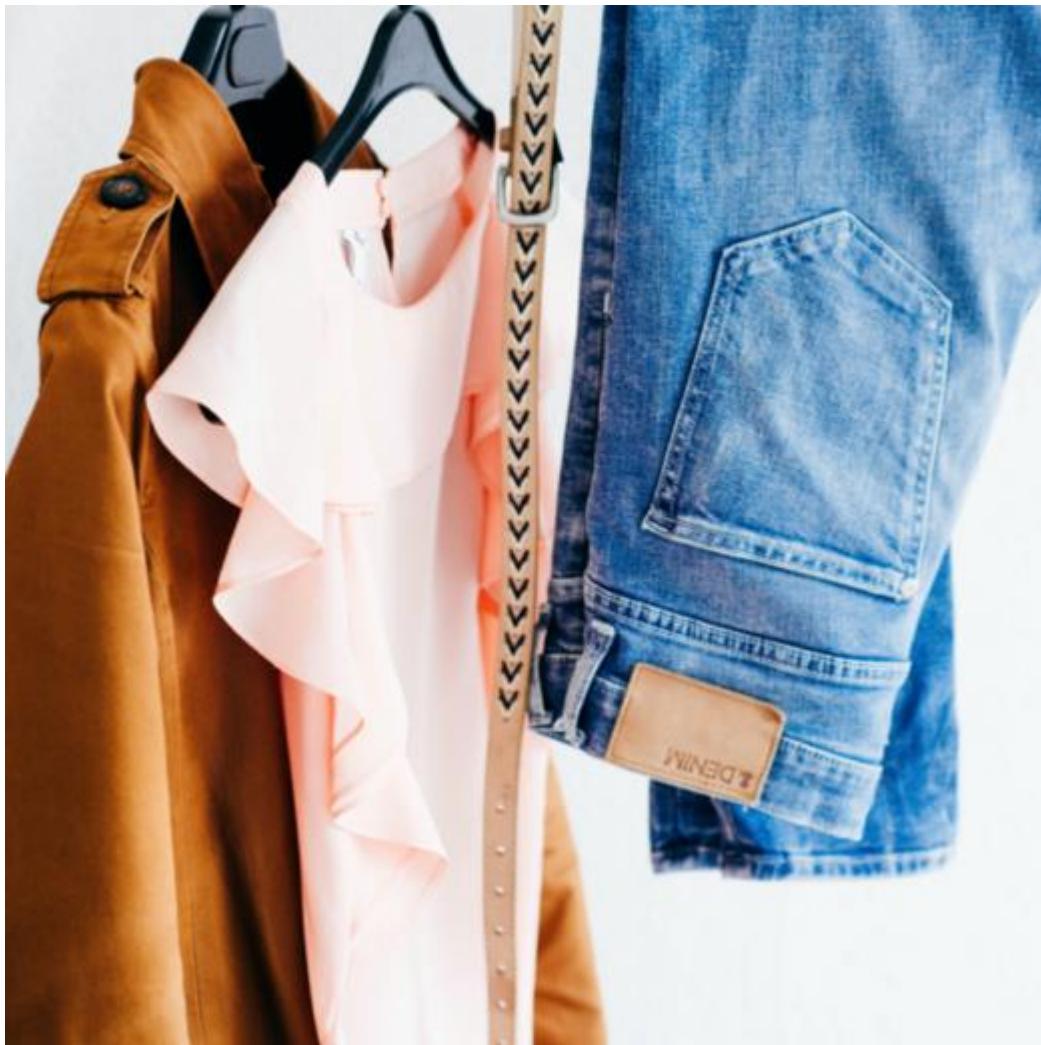


# European fashion brands market

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## Interviewee

Mairi Fairley, Partner and Olivia May, Partner



**Question: Would you assess the market to be fragmented or consolidated?****Answer:**

The market remains very fragmented, and that's primarily driven by the consumer because she shops in a very portfolio-way in her wardrobe. So you're always going to have multiple brands in this market. However, I guess the nuance is that there has been an increasing degree of consolidation around the winning brands, and you have seen the losing brands either massively decline or indeed exit the market or be subsumed into some of these bigger groups. So therefore, you're seeing by far from sort of steady state shared dynamics across the market, and then that's further complicated by the growth of SHEIN, which is basically taking share particularly from a lot of the pure play brands.

What's driving the fragmentation, which might be is the sort of, obviously digital the increase of social selling, etc, which means people are able to tap into their tribes, more readily. So and then you've got some globalised sort of multi markets, sort of internationalization, which is I'm going to say, easier than it's ever been. That's not quite true in the last two years where' obviously regulation and tariffs, etc have actually made that more difficult, but certainly versus 20 years ago, it's much easier. Yeah. So they're sort of, I think most, the view is, although they are clearly big global players, whether it's the Zara's and the Inditex's in this world, or increasingly someone like a SHEIN that are consolidating good amount of market share, the long tale exists and it exists for a very good reason, that is particularly pronounced in premium, actually, but it's where, you know, brands where some can really engage with consumers on a much more one to one basis now and so you're getting kind of more specialized, more bespoke brands that target, a smaller niche of consumers, but can do that much more profitably.

Yeah, and I think a sort of core to that profitability described is basically leveraging the really attractiveness of your community to then reinvest to make your band better and more relevant to them. And so you're seeing this kind of the share of wallet that you can achieve once you establish yourself with your tribe is increasing.

**Question: Do you see cross-segment competition among mass-market, premium and luxury players?****Answer:**

Most consumers will shop across price bounds and depends on the mission. So where you shop for your leggings is probably different to where you shop for a outfit, for a wedding, which is probably different to where you shop for your jeans. And so that mix will be very specific to an individual. And so you do get consumers shop across typically, and there are obviously, if you get to the value and then people are more tend to be a bit more insular, but people across mass and premium tend to shop relatively fluidly across those brands, but it does often depend on mission, occasion, what they are looking for. And actually, one of the things we've seen the key to scale in the mass and premium space has been to

expand the architecture, so to be able to offer a broader range of price points to speak to. Again, that broader sort of set of missions and occasions and customers. But the brands themselves tend to be anchored in a bucket, so Zara isn't really seen as a luxury brand, obviously, even if occasionally they might offer what is sort of entering level, sort of price points for luxury and vice versa, even if luxury is spent, sort of their price points are spending down into premium. It turns from a consumer perspective still to be a luxury purchase.

It is much more demand led than your question implies. It's much less around, you know, as I said, Zara chooses to extend into affordable or premium, you know, aspirational luxury or affordable premium or whatever. And much more that a consumer is consciously thinking, I am prepared to trade up, or I actually want to trade down for this, and I'm going to choose the brand that best fits with that. We've definitely seen in the UK market, the markets really struggle for volume growth. And part of that has been a very squeezed mass middle market, because you've seen some conscious trade up to kind of fewer, better things that I think are going to last longer that probably have more inherent resale value. But at the same time, you've seen trade down being much more budget conscious. I'm about how I prioritize my spending on fashion, but that's happened at the same time as price architecture expansion.

**Question: Do we see European brands dominating the market, or are American and Asian brands playing a bigger role lately?**

**Answer:**

European brands still dominate. But, there are exceptions. So again, you know, if think about Levi's and the jeans category, for example, if you're thinking about someone like, you some of the US footwear brands, then obviously there are brands that have got great traction.

On average, we still see that we'll tend to shop across European brands – in the US, they tend to shop across US brands and Asia is probably a little bit more of a mix, actually, where some of the international brands are gaining more traction. From a value-perspective, (aside from mass and premium), the big disruption in this space has been SHEIN, who has come in into the, deliberately into the European, market and the European market and disrupted it at the value end. So they have managed to achieve that, obviously, through a very specific operating model that's enabled by being based at the manufacturer, the source of the manufacturer in China.

The only other nuance we might add is that there are European brands that very effectively span European geographies and definitely Inditex Group and H&M Group fall into those categories, but then there are still national champions that just because they are strong in their home market doesn't necessarily mean they automatically can be switched on elsewhere because fashion is so tied up with the sort of heritage of the brand, the emotion you attach to it, the awareness you have for different missions and occasions.

**Question: Could you please explain the role that resale is playing in the market?****Answer:**

So this is, this I would say has been the single biggest impact on volume in the first-hand market has been growth of the second-hand resale platforms.

The leading one in Europe is Vinted. But ebay still has a very strong and good foothold in fashion across several European markets and then you have more of the specialized retail platforms like Vestiaire Collective which plays in premium and luxury specifically. They have basically very much changed consumers behaviors here and that's in a few different ways: firstly to our previous point around kind of price point there is sort of conscious willingness to trade up if you know you can resell something because I'm thinking about the net price of that rather than the price I've parted for in the first instance and in most cases you can resell a garment as long as it's sufficient quality for around a third to a quarter of the kind of initial resale value highly varies by category. Then secondly it's prompted very different behaviors in terms of how consumers are willing to engage with first-hand brands because they know that Vinted or eBay is a really viable solution to get the brands that they love for a price point that's much more palatable.

And so you're seeing Vinted become almost like a default part of the consumer purchase journey here. So if I'm thinking about, particularly for something like an event where I might only wear that dress a handful of times, I would now consider Vinted as much as I would consider Zara or New Look or John Lewis. You know, it's right up there, peak consciousness amongst consumers, and we're seeing huge amounts of volume swing into that market.

So around 20% 25% of UK transacted volume is now through second hand. It's similar in Poland as well. There are some markets that are slightly further behind, like Germany, who have structural reasons for that. But actually, a Europe-wide, I think it's a meaningful channel within the market. In a way that we wouldn't have seen even five years ago.

The other important dimension of that is that particularly all of these resale platforms adopt absolute best practice in terms of network effects of their platform play. So, they basically bring in sellers and then the more you sell, the more you buy. And so they are really effective snowballing businesses. So as you think ahead, you basically can't assume that resale is a flash in the pan. It's a really scaled, established kind of segment of the market that can't be ignored.

I think we're blurring retail and brands, obviously. But obviously, Vinted is a brand as well as a peer-to-peer platform, although obviously they don't have their own branded product. But it's really important from a branded perspective in terms of understanding what brands response to the rise of platforms like Vinted is going to be.

We speak to brands that say, we launched a new season product, we've launched it, three weeks later it's available on Vinted, because someone's bought it, worn it, and is now reselling it. On one level, that's great, because that person may not have bought it otherwise, because you've now made it more affordable, so they can know they can resell it, but it also means you've got a direct competitor you didn't have before.

But the brands are desperate to find a way to participate in resale, which is with a kind of partner platform, lots of them have tried to do it themselves, but the economics are tough, the logistics are really complicated.

So there is like a B2B2C model here in resale that I would expect to see kind of come to light in the next few years.

**Question: In terms of customer relationship, what is trend for brands when it comes to sales channels? Do they prefer physical stores or e-commerce, or a mix?**

**Answer:**

You know, the main selling channel, the consumer trend is towards omni-channel. So, there is a move from consumers into spending with brands that have an omni-channel presence, and that can be, you know, digital, that can be physical, that can be social, that can be presence in third parties, but definitely there is a sort of shift.

I think our stats show that over 80% of journeys are omni-channel for consumers, and often that means it doesn't matter where you end up transacting, whether you transact digitally or physically. In the journey of sort of inspiration, consideration, research, etc., often it probably starts digitally, I've discovered something, I went to a website and searched, I opened my app, I saw something on social, store, I then might have walked past the store, but it's a very fluid omni-channel engagement model, regardless of where you end up, where the transaction ultimately ends up. The sort of spend from consumers has trended towards brands who are present in multiple channels, and can therefore offer the sort of, "be where the consumer wants you to be", sort of type model.

Within that, if you look at the balance of, for a brand, where is growth coming from, or how are they sort of focusing their energies, I think there has been a sort of, there was a previous trend which was quite a hard shift into direct consumer selling, whether that was digital or physical, and away from working with third parties. I think that the recognition has been that you need a balance of all three, so you need kind of digital presence, direct consumer, physical presence, direct consumer, and then also to work with both digital and physical third parties, and typically people are, the right balance depends on the brand, depends on the sector, depends on lots of things, but people tend to be trying to work towards a third, a third, a third, in terms of that sort of mix.

Within that, for most people. Digital is still the faster growth in terms of transactions on an individual brand basis.

But if you actually look at market penetration, digital penetration has broadly plateaued in most European markets. So there's sort of a consolidation of that digital spend rather than a significantly greater shift into online spending.

That is broadly sort of normalized and then plateaued post-COVID.

And the only other nuance I would add to that is that stores definitely have a role to play here.

And you see that because of, you know, play that in data through the plateau described. There was a huge step up in econ penetration during COVID. Everyone thought that was the new future. And then it settled back down in the UK, for example, at 40% econ penetration. And it's basically stayed there since. And stores are really important here. They're really important to touch and feel, but what you've seen is a lot of store closures and a lot of consolidation around really good quality space for many of these apparel retailers. So I've got a smaller footprint, but the footprint that I have is actually much more productive and it's much more relevant to my consumers and I'm really clear on the role that it's playing.

And so we wouldn't let like markets defined by closing stores to tell you that that channel is losing relevance. It's just shifting its role and it's right sizing itself for what the kind of consumer wants.

**Question: How are relationships with retail partners?**

**Answer:**

Three main models and there's some shift in this space. So the very traditional model is wholesale, where the retailer buys direct from the brand at a wholesale price, they then own the product and they sell it.

And so effectively the brand hands over the responsibility of the product and it is then sold by the sort of retailer. That still exists. And this is where some of your category questions come in. It's still the dominant model and footwear actually.

But there has been a shift, again, as brands have wanted to take more control of inventory in their stock, to have more control over pricing and discounting in particular, and actually they've just wanted to have more control about sort of brand engagement and access to more customer data.

For that, there is a sort of shift into either a marketplace model digitally, so you are working with a retailer, but you are operating a marketplace model, so you own the stock, you trade the stock, you represent your brand on the retailer's website, or a concessionary consignment model in physical space, where, again, it's a similar set of dynamics, but you own the stock. You may or may not also staff it physically yourself, and then you sell, sell the product that way. Wholesale is a very transactional agreement, the concession

consignment agreements tend to be longer term, although they will have things like minimums within them that if you're, you know, obviously, if you're not meeting your, the requirements, the retailer very regularly will sort of go through their brand list and effectively work out who they do, who they reduce space for, who they want to sort of, keep on who they don't, so there's quite an active management process of brands. Those tend to be longer-term relationships.

**Question: What about customer loyalty programmes? Are these in place?**

**Answer:**

The key here is that there's, because we know this is fragmented, and we, because we know that each customer's own wallet is fragmented, if you can gain a bit more of that customer wallet as a retailer, the value of that is potentially enormous.

That can double the size of your business. Okay. That is. is. It's cheaper for you to do than to be acquiring new Greenfield customers, and it's probably more actionable for you to do, particularly if you're a big and established brand, and actually most people know you or they have a perception of you.

So how you can be engaging with your customers through loyalty is really important. I would say the sort of traditional definition of a loyalty scheme has massively shifted in fashion, and it's much more around broader engagement with your customers.

So some of the best ones, know, like the North Face, for example, their loyalty scheme rewards physical activity as much as it does purchases.

In Selfridges, for example, you are rewarded for basically engaging with the skate park or going to the cinema or eating in the restaurants as much as you are buying products.

So it's, we are, we are, our definition of loyalty here is that you are really invested and engaged with our brand and our loyalty scheme is just trying to really push that. And then I would say in the more sort of premium and luxury end of the market, this is much more around feeling like a member, feeling like you are a special part of a community. We are engaged with you. We are engaged with your lifestyle. We know what you want probably before you do. We're going to talk to you in a very personalised one-on-one basis. And that's all about basically trying to grow our share of your eyeballs, your engagement, and then ultimately your spend.

The one thing to add is that this is one of the areas where luxury differs from mass and premium, because where, to some extent, mass and premium are a volume play, luxury is about deep and, very deep and meaningful relationships with a smaller number of customers. And, obviously, the volumes sold in luxury are significantly lower than, than, sort of, premium and mass, but obviously the sort of price point means the value of who created is more significant. But here it's, the emphasis has shifted more to the very deep

relationship with fewer numbers of customers, rather than the sort of broader engagement that you see in the mass and the premium space.

**Question: When it comes to the brands' operations – is production outsources to low-cost countries?**

**Answer:**

The reality is sourcing has been shifting into what we would call a multi-track model, where people are shifting to sort of long lead and short lead, simplistically long lead and short lead product tracks, where long lead does typically come from lower cost markets, whereas the short lead product is probably more likely somewhere like Turkey or near, or in fact, any of the European sort of hubs.

And the sort of rationale there is a couple of things, one of which is the short lead product allows you to buy in smaller quantities and repeat, and so you can have more of a test and learn sort of opportunity. That also means you can manage your cash flow better, because what that means is if you buy smaller quantities, if it sells out, you buy back in. If it doesn't sell out, you don't. That allows you to sort of manage your cash flow much better, as well as, in theory, obviously leaning into fashion. So if you can turn things around quicker, you can be more relevant on trend. But for most people now, it's actually increasingly not really about fashion, it's more about testing and learning and having more certainty around what's going to sell, what's not going to sell.

Whereas the role of the long lead product is effectively more "you're never out of stock", you're well proven, you're sort of icons, or, you know, people call them different things, basics, you know.

But the product where you know it's, you've been probably had it for a while, and you know it's going to sell, you know it resonates with the consumer. And so you can better manage effectively the sort of supply chain. The long lead supply chain means you can sort of do it at lower cost without any sort of commercial risk because you know the demand is there.

Yeah, the other nuance I would add is that there are certain markets that are a better place to serve different category requirements and there is, you know, a jersey t-shirt, it's jersey t-shirt, but actually the fabrication and composition of a bra or footwear or tailoring is actually very precise and it does require a degree of kind of specialism amongst your supply base. That does tend to have kind of geographical biases as to where those kinds of specialist hubs sit. So you do have in, in most cases, particularly for the, the scaled brands, they have, they do have quite a diversified, supplier mix across countries that has also had the benefit of being able to kind of give them some flex, and some hedging when there have been, you know, COVID obviously the biggest example, but there was flooding in Bangladesh a few years ago, which really impacted a lot of the kind of cotton farmers. So if you've got a bit of kind of flex and diversification across other countries in your supply base, you're able to kind of shift demand to different places.

**Question: What are the main OPEX components for brands?****Answer:**

It does depend on their business model. If you think of a sort of traditional, omni-channel player, there's obviously the cost of goods.

Then you've got typically the labour costs for stores, if you're operating stores, rent, those tend to be the sort of big cost buckets as well as then obviously depending on the brand, the size of the central, the sort of head office overheads. So those tend to be the sort of big cost buckets. Marketing depends on the maturity of the brand and obviously the approach as well. But we would typically depending on the maturity and the approach see anything, you know, a scaling up brand would be spending 15 to 20 percent of revenue on marketing. And that tends to settle somewhere between five and seven. There are absolutely some of the big scale players who spend one to 2 percent.

And then the other big costs in particular, we can debate where it sits in the cost lines, but the, there's been a disproportionate amount of costs going into promoting products and particularly kind of shifting products. So discounting, there was a bunch of overstocking that sort of characterised the market a couple of years ago off the back of COVID where people sort of didn't really know what new normal they were buying for. There was then the kind of Suez crisis, which basically held up a bit of stock in the system.

So there was a lot of extra discounting. And again, that's actually can be like a really sizable cost to retailers in the space.

And then the other one, which is big and everyone's trying to invest in AI to help them solve it, is returns.

**Question: What is the main driver for profitability for brands?****Answer:**

If you had to say one, that would be product. What you typically have is an iconic product that is world-class, best-in-class, and a brand that then leverages and is able to tell people about that.

So Birkenstock is a great example, their sandal, best-in-class. They have done a great job of then leveraging that in terms of into the fashion cycles, but also, you know, getting it in front of consumers, expanding the use cases, and then they've expanded to become a full footwear brand, for example.

So, you know, it is, for most, it starts with truly differentiated product, often a single differentiated icon that is then expanded on and built out.

And then in the mass, in the lower end of mass, and certainly in value, volume is a big factor in your gross margin, so in that kind of cost of goods, if you can commit to big volumes with suppliers, if you can give

them guaranteed capacity, that comes through to you in a few extra percentage points, it's here and there in terms of your cost of goods, which is, again, a powerful lever.

If you think beyond sort of product and brand, then it's execution, so being, you know, those brands that are very, very good at sourcing supply chain, bringing product to market, have great discipline around, frankly, the basics of retailing, are those that tend to do best.

**Question: What are important trends you see shaping this industry?**

**Answer:**

But in terms of trends that we are seeing from an outlook perspective, volume is definitely going to continue to be hard to come by.

That's a combination of continued consumer, lower degrees of confidence and cost consciousness, even though they probably do have a bit more money to spend now than they did a couple of years ago, that's volume shift to second hand that we discussed, where we think that's going to become a bigger and bigger part of consumers' share of wallet and share of volume. And then there is, you're going to continue to see kind of a bit of consolidation, we're sure we'll continue to see Fraser's groups snap up, poorly performing bands, brands. We're sure we'll see next, you know, more brands join the next ecosystem, which means that you're probably not going to see that at a kind of total market value level, but you're definitely going to see that play out in terms of share that sits within that, those dynamics are going to continue to shift, and then value growth in the market's interesting, because across all price points, there's been about 11 or 12% price inflation passed through in the last couple of years alone, and there's going to be a point where consumers kind of revolt to that. So there's no much more price inflation beyond CPI that can really be passed on.

And then the final dynamic is, the segment shift is going to be interesting. We'll continue to see maybe the mass being squeezed at the expense of a bit more growth in value, a bit more growth at the sort of more affordable end of premium, where the product and the brand is really right.

**Question: In terms of market outlook – is it expected that mass-market brands will be squeezed? Or is this rather for premium brands?**

**Answer:**

It varies a bit by market. So a sort of broader European view is a little bit tricky, but the mass market, there are some, and again, it sort of depends where you draw the lines, but clearly there are some brands that have been doing a good job. Zara and Inditex generally continue to grow, but there are also brands within that mix that have really struggled to sort of find their identity. At an overall level is a very challenging place to be, whereas if you look at value, most value players have actually achieved a decent amount of growth, so that's a sort of, as a market perspective, easier to be.

Premium sits somewhere in between the two, which is often what you have in premium is smaller players, and therefore there is still, they sort of naturally have more headroom and more growth, so there are fewer big scale players within the sort of premium space.

And the other thing we've seen at the sort of top end of premium, and this is maybe a good bridge into luxury, is, as over the last sort of three to five years, the luxury players have significantly increased their price points. Actually, there's an interesting dynamic developing in the luxury space, which is almost mirroring the mass market, but you are, we are getting a sort of divergence where, actually, for a good number of brands, the consumer no longer considers those to be good value for money.

In some cases, they've sort of accelerated their price points, and that means that some people are trading just down into that sort of top end of premium where, you know, it's just the value for money equation stacks up much better.

At the top end of luxury, there are still players that are doing phenomenally well, where even though they've increased their prices, consumers deem the value equation to work.

But you are seeing this divergence of where there is sort of scarcity and real strength of brand and luxury.

People are still buying into it despite the price increases, but where that equation is not as well understood that they are not.

And that's where you're seeing some of the trade into the top end of premium.

**Question: When it comes to luxury – is there a change in demographics, e.g. Gen-Z becoming a big “shopper” in luxury – and is the role of Chinese consumers changing for European luxury brands?**

**Answer:**

On the luxury, the Chinese consumer, that has been quite closely linked to travel, and so the Chinese consumers increased their spending on luxury product in their domestic market as they have travelled less.

That was true through the end of COVID, is obviously unwinding, but it's not expected to go back to the level it was at previously.

So what you're seeing is, it's still an important, so international spend on luxury products in Europe is still important, but it's less important than it was pre-COVID.

That is definitely a dynamic, and certainly from a luxury perspective, Asia, Middle East, and the US are the key markets. Europe is not a hugely significant part of their focus, if we're totally honest. Although, obviously, it's the heritage and the home of the brand, so from a brand perspective, it's disproportionately

important, but from a sales and transaction perspective, it is not as significant a proportion of their revenue, basically, than the other regions. So that is definitely the case.

In terms of, I guess, sort of Gen Z, from just a purchasing power perspective, they have now come of age, they've got the money. Again, one of the dynamics we're seeing across retail more broadly, which is also playing out, and you can see it in the evolution of the luxury brands, is that that generation, and to some extent millennials as well, are preferring to spend on experiences over products, and that's where you're sort of getting this merge of luxury brands moving more into, or offering more experiential things as well as products.

And so that's definitely where that sort of, as they are increasing their... Spending power, more money is coming from those generations, but also more money is shifting into experiences, some of the emphasis is shifting a little around that.

And then you do see the Gen Z shopper is typically more values-based in what she chooses.

She's more likely to cancel a brand if they don't fulfil her values, and she's more likely to kind of look for a brand that feels like they align to what she believes in.

**Question: The retail channel has been the most important sales channel for footwear vs apparel. Is there a specific reason for this?**

**Answer:**

Historically it has been because it's consumers like to shop multi-brand and so they like to compare sort of directly different products, different brands.

And that has lent itself to originally department stores, now, obviously, more sort of marketplace sort of type models. The other thing that has sort of driven some of that, has just been the existence of specialist players. We're talking about Europe, but "Journeys" in the US, for example, you've got very good sort of multi-brand retailers that have served that market very well, whereas you historically haven't had that to a certain extent in some of the apparel categories, so that has sort of helped shape that dynamic.

The other thing to say about footwear, obviously, and across all of this that we haven't sort of mentioned, but it's even more acute. Obviously, all of these categories have experienced a sort of trend towards casualisation.

The manifestation of that in footwear is obviously the trend, you know, towards sneakers, trainers, and within that what you have seen is a shift to more technical products as well as sort of everyday lifestyle sort of products, products.

And so it's probably a little bit behind some of the fragmentation you see in clothing.

The of brands is absolutely also happening in the footwear space, where people are sort of finding niches to go after, you know, the recent success stories, without a doubt, have been HOKA and On Running, where they are both “premium-nised” and sort of specialised - that sort of category, and scale very quickly.