European fashion brands market

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Interviewee
Jan Knaisch, Partner

Question: How would you structure and segment the fashion market, and what level of fragmentation do you see?
Answer:

Typically, you structure markets like fashion and luxury by price segment first: value or mass, premium, and different categories of luxury-—entry luxury, mid-luxury, ultra-luxury. For this exercise, we can keep it to three categories: value-mass, premium, and luxury. You also separate by article type: ready to wear, accessories, footwear, and so on. There are variations across different geographies, but we can focus on the key segments for now.

In terms of fragmentation by price segment, you see some distinct patterns. For value and mass market, the market is still highly fragmented globally. You have a few big scale players—Inditex, H&M, Shein, Primark, Fast Retailing—and we see they're gaining share, but overall it remains highly fragmented. The reason you see these big scale players gaining share is that they need to compete on price at good quality, and the only way to do this is to scale to survive.

For the premium market segment, this is the most fragmented segment. You have thousands of small to mid-sized brands with limited scale, especially in apparel and footwear. You see all of these D2C brands popping up online constantly, which is highly fragmented. I think this will change going forward. Premium brands have a mid-positioning in pricing and will need to fight harder to differentiate versus the other two segments. Due to high fragmentation, they lack the conglomerate scale of luxury and also the price leadership of mass—so they're kind of stuck in the middle. You're seeing a bit of a general polarization in demand, which means this mid-tier or premium segment is going to be squeezed unless it's really differentiated.

For luxury, you see a very strong trend towards consolidation. The big luxury groups are doing this: LVMH, Kering, Richemont, Chanel, Hermès, Watch Group, Tapestry, and others. They capture basically the largest share of value and profit pools in that market. There is clear consolidation in terms of ownership—even if you look within those brands and they have thousands of brands, they typically belong to those fashion houses. This consolidation will continue.

Question: When luxury groups consolidate and acquire brands, do they leave them operating under their own brand or absorb them fully into the parent company?
Answer:

You have to differentiate a bit by what purpose you're buying them for. Take LVMH, for instance. They typically buy high-quality houses that have a very long-standing tradition, where they have a direct connection with the creative design officer and believe in their vision. They buy them for the respective brand and their heritage, and it makes sense to leave the brand standing as it is rather than integrate it into the overall group.

But there are other instances where they invest heavily in partnerships. For example, Gruppo Florence is one of the largest producers in Italy that produces leather goods for other luxury firms. That's more of a partnership investment into a supplier of certain goods rather than buying a brand outright.

So the differentiation is: if it's a heritage brand with a distinctive vision and creative leadership, they keep it separate. If it's a specialized supplier or component manufacturer, they often take a stake or partner with them, and eventually may acquire them fully to secure that differentiation point and keep the relationship close.

Question: Is the European fashion market dominated by European brands, or do you see competition from outside growing?
Answer:

You have to be careful about the segmentation. It's different for different price segments, and it's different by article types.

For luxury and high premium, that's still largely European dominated—French, Italian, Swiss—and the European groups are the core of the global luxury industry. For mass and fast fashion, it's different. You have a mix of European players—Zara, H&M, Primark—but also Asian players like Uniqlo and Shein, and big U.S. players like Gap and Old Navy that have strong regional chains.

By article type, it also varies. In performance, athleisure, and footwear, you have strong North American leadership—Nike, Lululemon, VF Corp—but also Asian brands like Anta, Li Ning, and Fila. North American leadership still outperforms a bit.

As a current snapshot of the market, European brands still dominate in luxury. But if you look at where trends are coming from—who is dominating innovation and trends—you see a big push from Asian brands. They pick up on trends earlier, and those trends spill over into other geographic markets. This doesn't only hold for fashion but also for skincare and others. Brands like Gentle Monster from South Korea are super fresh, innovative, and modern with different retail concepts. Those trends are spilling over into other markets, but it hasn't manifested in market shares yet.

Question: What is the trend in terms of how brands sell? Do they prioritize e-commerce, physical stores, or retail partnerships? Does this differ by segment?
Answer:

It depends strongly on the segment. In luxury, the largest part is sold via own boutiques. They typically have own boutiques and some e-commerce as well, depending on what you're looking at.

For ultra-luxury brands like Chanel, they only sell via own boutiques and sell very selective articles in own e-commerce. For instance, they sell fragrance, cosmetics, and accessories in their own e-commerce, but they will not sell a handbag. That's because they want the touch point of the retail store with the consumer and want to take control of their brand to the most degree possible. Wholesale for luxury is still important in certain markets—think about department stores, specialty retailers, travel retail—but the strategic focus is really on direct control of experience and customer data. That's key for them.

For premium brands, it's a bit different. It's basically a hybrid concept or hybrid mix of different channels. You'd have significant wholesale via multi-brand retailers, department stores, online wholesale marketplaces like Zalando or Farfetch, plus own D2C via flagship stores, mono-brand franchises, multi-brand franchises, and e-commerce. In the premium segment, you can see they're starting to rebalance wholesale versus D2C, also depending on capital, since D2C is relatively expensive but wholesale requires giving margin.

For mass value, you have two different models. First, vertically integrated chains like Primark, Zara, or H&M are almost fully D2C—their own stores and their own online store. But you also have a big portion of the mass market that relies on retail partners with other challenges like hypermarkets and value fashion chains. You have to differentiate by different types

Question: How do you assess loyalty and customer acquisition strategies? Is it easier to acquire new customers or more profitable to invest in existing customers and grow wallet share?
Answer:

This is another question you have to differentiate by price segment and customer type. Top luxury brands typically focus on what they call VIC—very important clients. The numbers in the market are roughly that 4% of clients make up around 70 to 80% of the revenue of a brand. It's a very small portion of consumers that purchase a lot. So they'll try to personalize the experience and shape touchpoints that turn wealthy customers into very loyal, high-repurchase customers. It's more focused on retention than new customer acquisition, especially if you're a very visible brand like Chanel, Hermès, or Louis Vuitton—everyone knows them, so you focus less on acquisition and more on retention.

For other fashion brands in mid-premium segments, the approach is shifting. They've overspent a bit on acquisition and are now pivoting to retention and loyalty, introducing loyalty programs, membership models, and driving personalization through data. They're focusing on profitable growth in the future.

For mass market, there's lower emotional loyalty, but there is some stickiness in terms of habitual behavior. If you go to Uniqlo and like a certain pair of jeans that fits perfectly or a certain t-shirt, or you like the price point, you'll return. So in the mass segment, you'd try to focus both on new customer acquisition but also make sure some customers that flow into your funnel you keep throughout the customer journey.

Question: Can you elaborate on how brands are using personalization and AI to enhance customer relationships and operations?
Answer:

There's actually a whole lot you can do with AI. Let me give you a concrete example because we're currently in discussions with several high luxury fashion houses doing this.

First part is about how they acquire the consumer. Typically the consumer knows the brand and is searching for a new handbag, watch, or whatever. They research online and then purchase offline at a retail store. So brands need to take control of, for instance, their presence in large language models and how search works. Typically you'd search via Google, but now most customers actually go to LLMs to compare. So that will redefine how luxury clients perceive different brands across digital ecosystems

The second part is about AI shaping that experience, both client-facing and operational processes in the back end. Here's a specific example: demand forecasting and personalization. If Yue goes to a store and the sales agent has her data and knows she's purchased three items from a collection, an agentic AI can take that data and say, “I know you've purchased these three items. There are two or three more items that would fit that collection.” The sales agent can make those recommendations and sell more. But it can also feed back into overall sales and demand planning and forecasting. Because at some point you'll know what she's typically purchasing and what she's probably most likely interested in, and then circle that back into your production operations and demand planning. There's a whole lot you can actually do with AI.

In terms of scope, full personalization—knowing your customer data and what they purchased and what would fit—stays exclusively to luxury segments because it's very cost-intensive and takes time to build. But there's also a certain level of personalization for mass or premium customers. For instance, you go to Uniqlo, buy something, and get an email with post-purchase appreciation saying, “Thanks for visiting. We know you purchased jeans XYZ. We also have that in different colors.” That type of personalization will probably roll out to the mass segment as well, not just luxury or premium.

Question: : How does the cost structure and production sourcing differ across segments?
Answer:

I would agree that mass market would be heavily outsourced to low-cost countries in Asia. Premium would be a mix between nearshoring and offshoring to Asia. And luxury would be more Europe production.

For mass, they typically go to low-cost countries: China, Vietnam, India, Pakistan, and so on. For premium, it's a bit of a mix. Some actually produce in Europe, like Portugal. For luxury, they typically produce in Europe in selected countries like Italy and France, where a part of the value creation can also be nearshoring. But typically they focus on having high quality and the respective materials, hence they need to produce in Europe.

There's also a second part to this: they need to keep up that proposition to consumers that products are actually made in Europe. That's a big part of it.

Question: Do luxury players do a lot of private label production or partnerships with specialized manufacturers?
Answer:

Yes, exactly. Gruppo Florence is an example of a luxury goods producer that produces for others. For instance, they're producing items for Loro Piana. There are also others. A lot of the categories you see in fashion are actually licensed. All of the sunglasses, fragrances—those go to different players. Dior, for instance, would never produce their own perfume, but they go to Coty. If they produce sunglasses, they don't do that themselves but go to Luxottica, an Italian player, and license their brand. That's typically how they do it.

But if those are strategic components—say, a leather manufacturer that they really need to secure as a differentiation point—they typically take a stake in the business and try to keep it close with exclusive contracts. That's how they typically do it. Once they've established a relationship, they partially also acquire them fully.

Question: In terms of market outlook, what are the main growth drivers and challenges for the fashion industry?
Answer:

Growth in general: the luxury fashion industry and also premium and mass fashion will grow at single digits—I'd say between three to five percent overall globally. For the European market specifically, I'd say around one to three percent for non-luxury and three to five percent for luxury.

- Challenges:

Overall consumer confidence and appetite to spend has decreased over the last year and will probably be challenged over the next years as well. Geopolitical instability is a big factor—think about Russia being detached from the market, all the wars like Ukraine and so on. That's adding a lot and is decreasing demand. Overall economic volatility is significant, and then there are supply chain disruptions and tariffs that we see. These are big factors affecting the fashion and luxury industry overall.

- Growth drivers:

First is shifting consumer behaviors. Consumers will be more discerning. Value isn't just about price anymore—it's also about sustainability, ethical production, and durability of products. This is specifically supporting growth for the premium segment.

Second is the whole trend around sustainability, circular fashion, and the resale economy—selling pre-owned or pre-loved articles via platforms. This is a big part driving the fashion industry.

Third is digital acceleration. Online adoption will continue to expand globally, driving the overall fashion industry. And then the whole part about AI—there are so many customer-facing AI use cases that would increase appetite for fashion and demand. But they'd also ease the margin pressure that current fashion companies are seeing.

Question: Are there any other critical points to consider when analyzing this industry?
Answer:

There's a lot of value and movement in terms of AI in the market. Fashion companies are really starting to understand there's value in driving this—including the traditional luxury ones that weren't typically strong in tech, data, and AI.

And when writing a report, it's critical to really differentiate between luxury, premium, mass, and also by article type. Your footwear industry works totally differently than your watch industry or your overall fashion apparel industry. That differentiation is very important.