



# Opportunities and threats for exports to the European apparel market

by CBI (Centre for the promotion of imports from developing countries), Ministry of Foreign Affairs of the Netherlands.

**E-commerce and the use of social media are growing fast in the apparel industry, both among consumers and businesses. New technologies are influencing the industry in other ways, too: for example, demand for wearable high-tech is up. Consumers expect the industry to behave more sustainably, for example in managing waste, but they do not want to pay more for it. Another trend is that European players are discovering new sales markets in developing countries. This creates opportunities for you to do business with them in your region.**

## No business without e-business

European consumers no longer buy all their clothes in physical shops. Increasingly, they buy them online. Sellers can be big and small brands, multi-brand web shops, retailers and apparel chains. And not only do consumers shop online, they also use the

Internet and social media to follow trends and develop their own styles and preferences. This means being active on the Internet and in social media is a must on today's market.

More than anything else, European consumers buy clothing (and footwear) online, according to Ecommerce News Europe. Almost every fashion brand has a web shop or uses online sales channels. According to a survey by the Centre for Retail Research, e-commerce is the fastest growing retail market in Europe and North America. Online sales in the UK, Germany, France, the Netherlands, Sweden, Italy, Poland and Spain grew by 18.6% in 2015. Similar growth figures are expected for 2016 and 2017.

In July 2016, even the highly exclusive fashion brand Prada announced it would start online sales. Like many other brands, Prada will sell through existing European multi-brand web shops, Net-APorter and Mytheresa.com.

## Social media are shaking up the market, with SnapChat as the fastest grower

Like e-commerce, the growth of social media is also shaking up the market. Many apparel brands have stepped up their social media activities. Facebook is still the leading social media platform in fashion. But SnapChat is the fastest growing application. It is especially popular among young people aged 13 to 34, logging 8 billion video views daily.

More and more fashion brands are using SnapChat, partly because it centres on real-time, authentic content and today's consumers like that. Also, SnapChat gives brands immediate contact with users' smartphones, whereas Facebook posts are only viewed by an average of 5% of a brand's followers.

Some retailers are struggling to keep up with e-commerce and are losing traffic

*This is an article reproduced from market research prepared by CBI, Centre for promotion of imports from Developing Countries, based in The Netherlands. CBI provides invaluable service to exporters from developing countries, many of whom need the guidance to enter the European market. Their scope of activities include, market information and matchmaking: export development of businesses: training and institutional development of business support organizations in developing countries. Trends, market studies and information about regulations and standards are some of the services provided by CBI. Their comprehensive database provides valuable contacts for importers from Europe and exporters from developing countries. For more information visit their website [www.cbi.nl](http://www.cbi.nl).*

to their physical shops. Others are tapping into e-commerce in new ways, for example by presenting new fashion to followers on social media, such as McGregor on Tumblr. Burberry was one of the earliest adopters of SnapChat and has been using the medium to give followers direct access to its ad campaign shoots, fashion shows and front rows.

### **Factory-to-consumer sales: The Alibaba effect**

The Internet is making it increasingly easy for consumers to shop further away. Websites like those of Aliexpress and Alibaba, now also represented in Europe, are encouraging consumers to buy directly from factories in Asia. It's easy and cheap. Obviously, the levels of return service and quality and fit do not yet compete with those of the established e-commerce brands, but this will soon change.

### **Online commerce works best when combined with offline**

The growth of e-commerce does not mean Europe will no longer have offline fashion shops. The opposite is true. Here are some developments you can expect in the coming years:

Companies that combine e-commerce and online activities with offline commerce will be the most successful: e-commerce cannot survive on its own.

Large e-retailers will open offline stores, or service points, to combine online and offline.

Like the USA, Europe will probably get more big shopping malls dominated by the leading global brands, but with room for – usually short-lived –

innovators and niche fashion concepts.

Younger generations will do much of their buying online. Older folk will continue to prefer offline shopping.

Both younger and older people will view offline shopping not as functional, but as an experience, which means it will have to involve multiple sensory experiences: food, music, media, etc.

Brands that until now have relied mainly on offline shops will have to find ways of embracing ecommerce, adjusting their business model, and regrouping their offline and online goals and activities.

### **In fast fashion, technology is making production more capital than labour-intensive**

Technology is changing the apparel industry with new production techniques, faster communication, the possibilities of scanning sizes. Particularly in fast fashion, labour-intensive production will likely make way for capital-intensive production, dominated by new technology and robotics. This means Europeans will see near sourcing as a major time-saving opportunity. For slow fashion, labour-intensity remains a leading factor; in this segment, most European buyers will prefer far-shore sourcing.

### **As a supplier you need to evolve from (sub-)contractor to partner**

The buyers require new kinds of supply chain service, due to technological and other changes in this industry. This means that as a supplier you need to shift from being a contractor (or subcontractor) to being a partner.

Virtual designing, 3D technologies and digital showrooms are examples of technology spinoffs in fashion. Digital showrooms and presentations are increasingly being used to visualise products in all their variety without requiring the production of sales or other samples. In Tommy Hilfiger's virtual showroom, which was recently opened, wholesalers can browse collections without the need for physical samples.

As a supplier, you have to be aware of these changes and the changing supply chain service levels involved. For example, buyers will want you to deliver more digital data and presentation material along with your products.

### **Technology is pushing demand for faster production and delivery**

The 'need for speed' is evident in the fashion business. Technology and consumer trends are its main drivers. It presents both threats and opportunities. If you want to sell high volumes, you can use IT solutions that will speed up your ordering, production and delivery processes. You may also choose to avoid the speed trend, focusing on slower fashion with higher margins.

European buyers in the fast fashion segment will tend to cut down on suppliers to gain speed. Instead of having many different suppliers, they will want to invest in stronger relationships. If you are in such a relationship, you will benefit from more stable business. But your buyer will also expect you to show more goodwill and to move faster.

Buyers will also seek out factory owners who are willing to take time to







discuss needs, wants and options aimed at more speed. This can cost time, but it means fewer difficulties when problems have to be solved. These buyers will see you as a partner and want to share their dream with you, as shared passion, again, will accelerate things.

Another way of speeding up production is to simplify designs. This is an option European buyers will also be looking for in the near future.

### **Aging population continues to grow, but the Millennials are coming**

There are more and more older people in Europe. Younger target groups tend to dominate fashion and general consumer trends and it is important to follow the trends set by this group. However, the older groups of consumers offer a growing opportunity for business, too. Demographic changes will differ significantly within Europe. In general, Eastern European countries have high rates of population growth and lower standards of living (although they are improving).

The percentage of people aged 65 years and older is projected to increase from 17% in 2010 to 30% in 2060. The number of people, who are 80 years and older is expected to increase from 5% to 12% in the same period. Another important change is that older people are becoming more active.

All of this means they are becoming more and more important as a consumer group. While many clothing brands traditionally focus on kids, young people and families, the 'oldsters' offer important new opportunities for suppliers.

Younger consumer groups are still important too, of course. In the next 5 to 10 years, baby boomers (individuals born in the period 1946-1964) will dominate apparel consumption. After that, the Millennials (individuals born in the period 1980-2000) will become an important consumer group.

These two groups of people are likely to develop new outlooks on fashion and design, as well as on such aspects as sustainability. For example, millennials are likely to easily adopt garments with integrated gadgets and wearable technology.

### **Sustainability, transparency and waste offer new business opportunities**

The reputation of the fashion industry in terms of social, environmental and economic responsibility is far from perfect. The industry has been known for using toxic dyes, polluting rivers and farmland and causing harm to people. It uses too much water. Labour conditions are often rough, with poor wages, long hours and underage workers. Millions of tons of unused fabric go to waste every year when dyed the wrong colour. All in all, the apparel industry is the second largest polluter in the world.

The push to change this is growing stronger. The drivers behind this push for sustainability are non-governmental organisations (NGOs). Their many reports and media campaigns are making consumers and buyers in Europe more aware than ever of the need for sustainable, responsible business – and the damage that is done without it. This means most consumers and buyers in

Europe know that the three Ps of corporate social responsibility (CSR) – people, planet, profit – have to be in harmony. And increasingly, they assume the industry will make it happen. As a supplier you will increasingly be expected to play a part in this. It also offers good opportunities for becoming more competitive.

### **European players are looking for sustainable solutions**

Consumers expect fashion businesses to clean up their act regarding the environment, animal welfare, labour conditions, community welfare programmes, fair wages and more. For example, cotton is one of the most water-intensive crops to grow, and textile dyeing and leather processing involve highly toxic chemicals that put workers, local water supplies and ecosystems at risk.

European players are therefore looking for materials, fibres and techniques that are sustainable and functional, such as raw, natural, synthetic, renewable or recycled materials.

### **Consumers are usually not willing to pay for sustainability**

It is important to realise that most consumers and buyers are not willing to pay higher prices for any of these changes. This means progress in this area is gradual and not automatic.

It also means there is a lot of confusion about corporate social responsibility (CSR) in this industry. As a supplier you may often be that told a good CSR performance will give you a competitive advantage, but because of

the many different standards going around, it is difficult to know where to start.

### Turning waste into a resource

Another aspect of your environmental performance that is often scrutinised by non-governmental organisations – and that is therefore of increasing interest to buyers and consumers – is how you deal with waste. European consumers currently use 16 tonnes of material per person per year, of which 6 tonnes become waste, according to data published by the European Commission. This means that better waste management offers huge potential for improvement – and for a more competitive market position.

In Europe and the USA, we have vast amounts of waste clothing, so it seems inevitable, that recycling will grow strongly in the coming years. The prospect of a circular economy will strengthen this development. In some countries, such as Italy, quality waste materials are already a commercial hit.

There are many examples of fashion companies tackling sustainability problems – and generating new business as a result. In the USA, Evrnu is taking on the waste problem with patent-pending technology that turns old clothing into fibres for new clothing. Bionic Yarn produces denim from ocean plastic. Eco-friendly dyeing technologies are also emerging. See, for example, DyeCoo's solution. Levi Strauss has modernised and transformed its brand in part by emphasising sustainability.

For players like these, waste is no longer a problem, but a resource. They understand that they can turn 'waste' into a viable resource. As a supplier, you can tap into this trend by exploring new waste management solutions yourself. If you communicate it effectively, a strong or innovative waste management performance can significantly improve your market position and competitiveness.

### Improved sustainability also means greater transparency

Large retailers, non-governmental organisations (NGOs) and governments are pressuring European businesses not only to operate in a more sustainable manner, but also to be more transparent.

This applies both to individual businesses as well as to entire supply chains.

A good example of the push for transparency is the Fashion Transparency Index report published in 2016 by NGO Fashion Revolution. The Index ranks 40 high-visibility fashion brands based on their supply chain transparency and governance practices. The average score was 42%, with only three brands receiving a 'top rating' of up to 77%. High performers make their supply chain policies available to the public and have

auditing and reporting policies in place. Most low performers merely have a code of conduct available on their websites.

For suppliers, increasing transparency is inevitable: If you cannot offer the kind of transparency your buyers want, they will find other suppliers. At the same time, it is a good way of getting more business: the better your performance in this area, the more attractive your company will be to buyers in higher segments. ♦

