HIDDEN COSTS

Fast fashion presents a rare success story amid the UK's tricky retail climate. Lucy Douglas explores how retailers maintain profitability despite sustainability concerns

HARRY HAYSOM/IKON

On 15 January, online fashion retailer Boohoo released a trading update. The numbers were good: for the four months ending 31 December 2018, the group's revenue was up 44%. It saw double-digit growth across all of its brands and all of the territories it operates in, including the UK.

The success of Boohoo stands out against a wider retail landscape that has been characterised by its ongoing struggles. According to the Centre for Retail Research, store closures and job losses are both predicted to rise 19% in 2019. Factors including rising rents and business rates are pushing up operating costs for high-street businesses and, as more customers go shopping online, it becomes harder to justify a large store footprint.

According to Lisa Hooker, partner, head of consumer markets at PwC, consumer spending might be more resilient than some observers expect. She notes that the under 25s are more positive than any other customer segment and the only group that still prioritises buying fashion.

Part of Boohoo's appeal to younger consumers is its prices: dresses and tops are as little as £5. Missguided, H&M and Primark also sell items for as little as a couple of pounds.

According to the latest McKinsey Global Fashion Index, value is the only segment of the fashion market predicted to see increased year-on-year growth in 2019. But while value retailers are happily enabling their young consumers to buy cheap and often, their business models are coming under increasing scrutiny.

McKinsey data suggests the number of garments produced each year doubled between 2000 and 2014. The average consumer purchases 60% more garments than at the turn of the century, but keeps each item for half as long. In the UK alone, 300,000 tonnes of textiles are sent to landfill or incinerators each year.

The Environmental Audit Select Committee completed an eight-month investigation into the fast fashion sector in February, which revealed allegations of unscrupulous – and illegal – practices by some value retailers and third-party suppliers to keep costs down. Time could be up for the fast fashion party.

BASE RATES

Selling fashion to fickle customers that demand the latest styles at the lowest possible price while turning a profit requires a complex supply chain. Tactics to bring down production and operating costs – such as bulk buying and slow shipping – are used on some items to offset the higher costs of trend-led pieces that need to be produced quickly.

Elizabeth Stiles is a retail supply chain consultant who used to work in buying for the likes of Next and George at Asda. She says that the brands selling at the lowest price points generally aim for lower margins than the mid-range retailers – around 30-40% – and rely on vast economies of scale.

Often it's not the apparel with the highest recommended retail prices that make the most money. Basic items that customers want season after season, which often have the lowest retail price, can be ordered at huge scale with a much lower cost per unit. "Take, for example, a black pair of leggings," Stiles explains. "Buyers know those leggings are a safe bet. They are going to sell. You'd buy 30,000 units and obviously you'd want quite a decent margin on that."

One buyer said the largest fast fashion players can place orders for as many as a million units of basic items.

Other strategies include bulk buying fabrics that can be used across several different products. "Fabric might make 50% of the cost price of your garment, so if you can get a really good price on it, you're going to have a much better deal," explains Stiles.

Then there's shipping. An item like the hypothetical black leggings, Stiles says, might be produced by suppliers in low-cost countries like Bangladesh and shipped back by sea freight.

"A boat could take anything up to eight weeks. If something is selling quickly, you don't want to wait eight weeks for it. But with something like leggings, there's no point putting them on a plane, which would obviously cost a lot more, because they'll still be in fashion in eight weeks' time.

"There's a theory that 80% of your sales will come from 20% of your stock," Stiles continues. "So 20% of the range will make the most amount of money – things like black leggings, white T-shirts, and maybe one anomaly trend piece that's gone wild because a celebrity has worn it. Retailers know the majority of their sales are going to come from a handful of items."

> **"When you're not seeing an increase in the amount that people are spending overall, creating a reason to shop because of newness is critical"**

IN WITH THE NEW

Historically, fashion retailers bought and launched two new product collections a year – spring/summer and autumn/winter. Then Zara changed the rules. Its parent company, Inditex, accelerated the brand's operations to an unprecedented speed – working with suppliers in nearby Turkey, Portugal and Morocco to get thousands of new items from the design tables to stores in as little as a week, steadily throughout the year.

It's a tactic that online-only retailers such as Boohoo, Asos and Missguided have been able to replicate, working with factories in the UK to produce garments quickly, giving them an edge over legacy players that can't match the speed to market.

"The people who are spending money – young people who are driving the market – can see new stuff all the time and they expect it," explains Kien Tan, director for retail strategy at PwC. "It's harder for the legacy high street businesses to reorientate their model," he says.

Being online-only also insulates companies like Boohoo and Asos from some of the risk of releasing new designs. They have limitless space in which to display their stock, meaning they don't have to sell through old lines to make way for the new and can trial limited runs of new items, sometimes buying as few as 50 units of a garment, then make larger orders depending on what is selling well.

"When you're not seeing an increase in the amount that people are spending overall, creating a reason to shop because of newness is critical," says Hooker. "And then being able to test and repeat to avoid unplanned markdowns is important."

Increasingly, retailers are able to use data tools to make their buying more efficient and capitalise on trends more effectively. Companies like Edited offer retailers AI-based insights into how customers are responding to different styles and price points to, hopefully, reduce the chance of being left with mark-downs and unsold stock.

"Animal print, for example, has been trending for a while and our software has been able pinpoint exactly where it's performing well, what categories are the most stocked in the print, where it reached its peak and if the trend is on its way out," explains Edited's chief operating officer Julia Fowler.

END OF THE PARTY?

There's another challenge pressing on the doors of the fast fashion retailers. Conversations about the environmental and social impact of their operations are going mainstream and the tide of consumer sentiment is beginning to change.

The Environmental Audit Select Committee's investigation put a spotlight on the supply chains of UK-based low-cost retailers, revealing evidence from HMRC showing UK-based garment factories had been forced to pay out a total of £90,000 to employees for failing to comply with national minimum wage legislation. Further evidence said that underpayment of garment factory workers in Leicester was an "open secret".

In February, the committee published a report, *Fixing fashion: clothing consumption and sustainability*, calling

£90,000

Amount paid out by UK-based garment factories as a result of failing to comply with national minimum wage legislation

for mandatory environmental targets for large retailers, tax incentives to support recycling, repair and reuse among retailers, and a new charge of 1p per garment to fund better textile recycling facilities.

Some retailers are already ahead of the game on this. Swedish retail giant H&M has been leading the way, with ambitious targets such as aiming to use exclusively recycled or sustainably sourced materials by 2030. Its new concept store, opened in West London in December 2018, features a repair and remake service to mend H&M garments for customers.

According to the *State of Fashion 2019* report by McKinsey and Business of Fashion, nine in 10 consumers from generation Z (those born between mid-1990s and 2010) believe companies have a responsibility to address environmental and social issues.

"It's reached a tipping point where sustainability is not optional anymore," says Deloitte's director of retail leadership, Kelly Meily. "Watching that play out in fast fashion will be very interesting. Because it requires greater visibility of the supply chain, buying differently, not buying excess where possible, looking at different models of how to exit inventory. And I think it's also easy to see in terms of brand loyalty that, if you take a misstep, the backlash can be quite strong." ●

SUSTAINABLE STYLE: END OF OWNERSHIP

The sustainability challenge is driving the public to think critically about how they consume fashion. McKinsey and Deloitte have both identified "the end of ownership" as a key trend for fashion in 2019. Here are some of the frontrunners in alternative fashion business models:

RENTAL

Identified as a growing trend by analysts and forecasting firms, fashion rental is in the rise in the UK. Renting suits for occasions is a long-standing practice in menswear, but it's beginning to gain traction for womenswear and accessories too. Shopping centre Westfield ran rental pop-ups at its Stratford site in December 2017 and again in 2018. UK-based startups like Hirestreet (founded in 2018) and Wear the Walk are hoping to help drive change in consumer behaviour and sate an appetite for new products in a sustainable way.

The US is much further ahead in this space; Rent the Runway, launched in 2009, is reportedly valued at $750m. Founder Jennifer Hyman famously said she aims to put Zara out of business. It's a business model that requires highly efficient logistics to succeed at scale.

RESALE

According to US-based digital second-hand retailer ThredUp, apparel resale is growing its market share. It is expected to achieve 15% annual growth, increasing the market from $20bn in 2017 to $41bn by 2022, compared with 2% expected annual growth in the overall apparel market.

The market of platforms available to buy and sell through has expanded too. Players like Hardly Ever Worn It and EditSecondHand specialise in pre-owned luxury fashion; Vestiaire Collection, another player in this space, has some seven million members. There's also Thrift+, a new digital social venture that sells pre-owned fashion and donates half the fee to a charitable cause chosen by the previous owner of the item.

Serving the whole market are the likes of Vinted and eBay. Social-first Depop, which has a customer base that's 80% under 25s, is partnering with apparel brands that are prioritising sustainability to encourage more people to resell items they stop wearing.

$41bn

Projected market share of apparel resale by 2022