



PENNINGTONS
MANCHES
COOPER

UNDERSTANDING AND INFLUENCING THE CUSTOMER JOURNEY FOR FASHION



STAGE 2: PURCHASE

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ABOUT THIS REPORT

This is the second of four reports commissioned by Penningtons Manches Cooper to investigate the fashion customer’s journey. It uses data collected through a consumer survey conducted by Retail Economics in Q3 2019 of over 2,000 nationally representative individuals to explore the impact of digital technologies on physical, online, and cross-channel purchasing habits, and how they influence the all-important customer conversion.

FOREWORD

FRESHER FASHION FASTER

The shift from a store-based past to a digital future continues, with online spending now accounting for almost a fifth of all retail sales. While some businesses are thriving, the slow adopters are fighting for survival with some notable casualties in 2019 including long-standing brands like LK Bennett, Gerry Weber, Karen Millen and Hardy Amies.

As traditional clothing retailers close stores and reduce the size of their store portfolios, a new wave of stores are bringing new brands, new services and new experiences to attract customers to the beleaguered high street.

This report focuses on purchasing, the second stage of the customer journey, examining the key trends that are changing the landscape for fashion retailing and raising the bar even higher for retailers to win and keep customers.

These trends include the conflicting desires of consumers – particularly Generation Z – for both a more sustainable approach to fashion production and a conveyor belt of new clothing to achieve positive social media exposure. Meeting the twin demands for “fresher fashion faster” and sustainable and ethical strategies adds yet another layer of complexity for retailers.

In association with Retail Economics, the Penningtons Manches Cooper fashion and luxury brands team has undertaken comprehensive research to explore some of these trends in more depth and to build on our existing understanding of the interactions between fashion retailers and their customers.

As well as sharing the findings with our clients and the retail sector in general, the insight gained will help to put us in a strong position to anticipate legal demands and to give us a more rigorous understanding of the nature of sustainable future business models that will attract funding for business owners.

If you would like to discuss any of the issues contained within the report, please do contact us.

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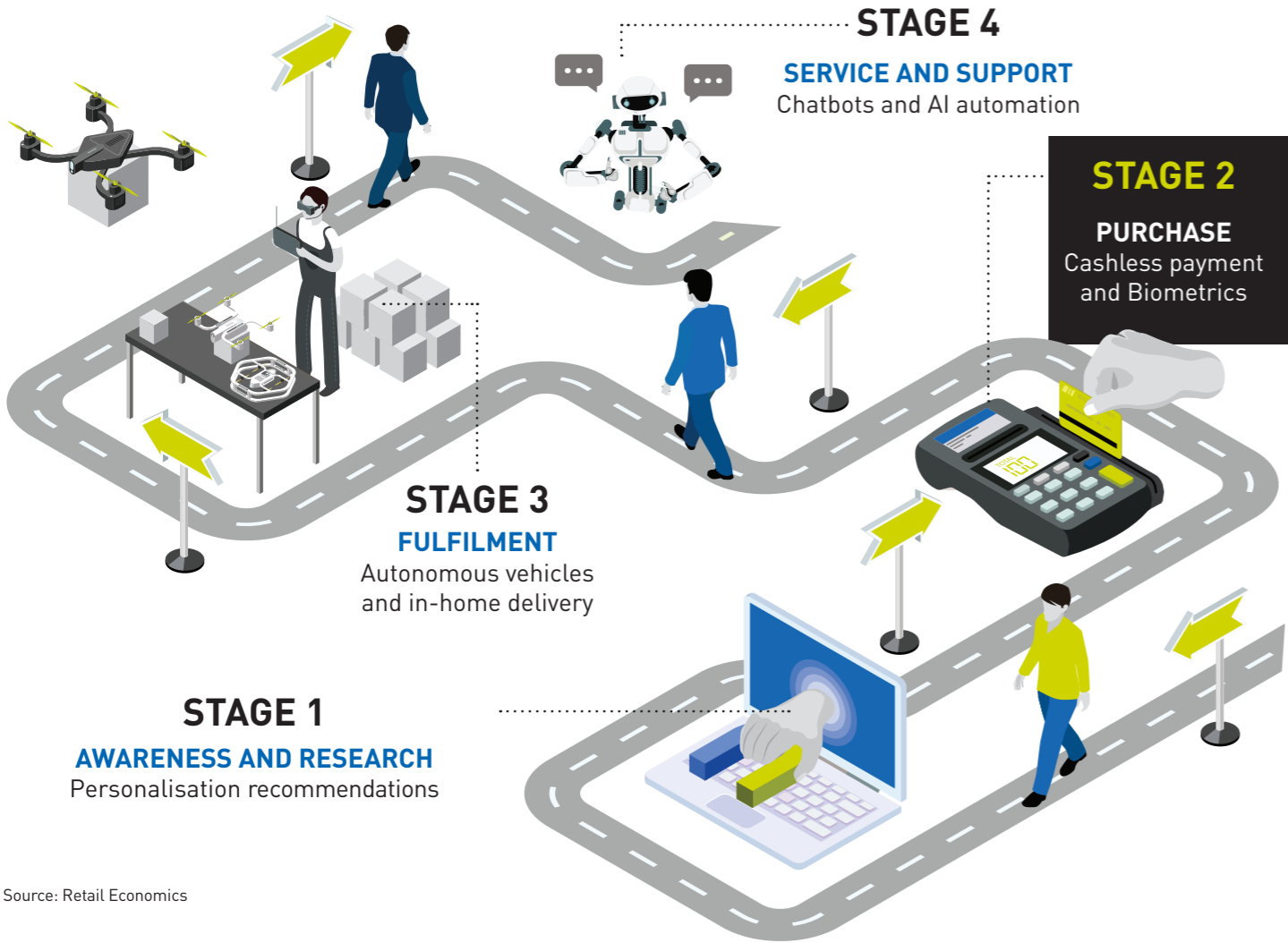


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THE FASHION CUSTOMER'S FOUR-STAGE JOURNEY

The customer journey for fashion has become increasingly complex to measure, understand and influence. Competition for shopper attention is fiercely contested with retailers and brands battling against competing factors to form meaningful relationships at key points within the customer journey.

STAGE 2 OF THE FASHION CUSTOMER'S JOURNEY



Source: Retail Economics

The Retail Economics Customer Journey describes a four-stage process during which consumers interact with companies and brands: awareness and research, purchase, fulfilment, and service and support.

The second in our four-part series, this report focuses on purchase, stage 2 of the journey, in which browsing shoppers are converted into purchasing customers.



THE UK CLOTHING MARKET

EIGHT KEY FACTS

The clothing market has been under intense pressure in recent years. The rise of online has enabled shoppers to become savvier and price sensitive, at a time when legacy retailers are looking to invest in digital to pivot ailing business models. Online entrants, such as Boohoo, and discount chains, led by Primark, are taking an increasing share of sales. This comes at the expense of the middle market, which is facing the most store closures as footfall plummets.

As online continues to grow and the relevance of some mid-market high street retailers remains under question, the polarisation in clothing is likely to continue in favour of convenience and experiential retail.

Based on research undertaken by Retail Economics on the 2018 UK clothing market, eight key market facts are explored below.



ONE.

THE £45BN UK CLOTHING SECTOR IS EXPECTED TO EXPERIENCE LOW, SINGLE-DIGIT GROWTH UNTIL 2023.

TWO.

WOMEN'S OUTERWEAR ACCOUNTED FOR 46% OF ALL CLOTHING SALES IN 2018. MEN'S OUTERWEAR REPRESENTED JUST UNDER A QUARTER OF THE MARKET.

FIVE.

SMARTPHONE PENETRATION IN THE FASHION MARKET IS PARTICULARLY HIGH COMPARED TO THE INDUSTRY AVERAGE, WITH TWO-THIRDS OF CLOTHING AND FOOTWEAR WEBSITE VISITS COMING FROM SMARTPHONES.

SIX.

THERE HAS BEEN A DECLINE IN STORE FOOTFALL ACROSS HIGH STREETS AND SHOPPING CENTRES AS SHOPPERS INCREASINGLY USE THEIR SMARTPHONES TO RESEARCH AND MAKE PURCHASES RATHER THAN VENTURING OUT INTO STORES.

THREE.

IN RECENT YEARS, PURCHASES HAVE COME UNDER PRESSURE DUE TO INTENSE COMPETITION FROM ONLINE ENTRANTS AND SUPERMARKETS TAKING A GREATER SHARE OF THE MARKET.

FOUR.

ONLINE RETAIL SPENDING HAS RISEN FOUR-FOLD IN THE LAST 10 YEARS, ACCOUNTING FOR 19% OF TOTAL RETAIL SPENDING.

SEVEN.

THE RISE IN ONLINE PURCHASING AND REDUCED STORE FOOTFALL HAS PUT PRESSURE ON STORE NUMBERS, PARTICULARLY IN THE MIDDLE MARKET, WHICH IS MOST OVER-EXPOSED.

EIGHT.

RETAILERS HAVE STRUGGLED TO MANAGE THEIR PROPERTY PORTFOLIOS QUICKLY ENOUGH TO RESPOND TO THE SHIFT IN CONSUMER PURCHASING HABITS. SOME HAVE RESORTED TO COMPANY VOLUNTARY AGREEMENTS (CVAS) AS A MEANS TO RAPIDLY RENEGOTIATE RENTAL CONTRACTS WITH LANDLORDS.

FIVE KEY TRENDS CHANGING THE FASHION RETAILING LANDSCAPE

A new paradigm has emerged in the world of fashion retailing. Rapid technological development has given shoppers an ever-increasing range of opportunities to engage with retailers, altering the business-consumer dynamic. Advances in online and payment technologies offer consumers new forms of purchasing that were unimaginable a decade ago. But while these may encourage and enable consumers to make a purchase, they also put pressure on retailers.

As online retailing matures to account for a greater share of fashion clothing sales, shopper expectations of seamless purchasing between online and offline environments will only grow. Retail Economics estimates that just under a third of clothing sales are already conducted online but this will rise to half of all sales by 2025.

As the customer journey has grown more complex, the retailers which have adapted quickly to the evolving market have gained a competitive edge. Among the fastest growing fashion players in the UK are *Farfetch*, *Matchesfashion.com* and *JD Sports*, all of which have unique customer propositions, stand out from their competitors, and support true omni-channel shopping.

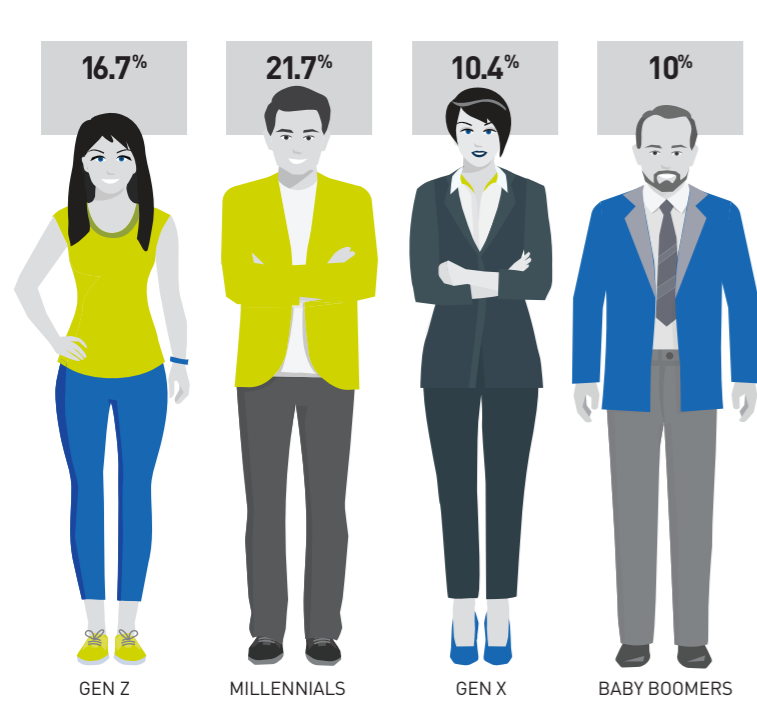
While pure online retailers such as *Boohoo* have already raised consumer expectations when it comes to price, range and availability, this report highlights five trends that have changed the retail landscape and will continue to do so into the 2020s:

- The growth of online sales
- The woke (conscious) customer
- A desire for the new
- The increasing value of experience
- Payment technology

THE GROWTH OF ONLINE SALES AND THE INFLUENCE OF SOCIAL MEDIA ON SALES

The four-fold increase in online sales over the past decade has unlocked new opportunities for retailers to engage with their customers. Consumers have never faced so much influence from media to inform and encourage fashion purchases. The rapid rise of social media enables retailer brands to instantaneously collect customer feedback via likes and posts, inspire purchases and trust through influencers and, more recently, transact on social media platforms.

Digital natives are the most enthusiastic adopters of shopping through social networks and are nine times more likely to be influenced by social media than consumers aged 65 and over. Even though shopping functionality from platforms such as Facebook, Pinterest and Snapchat is in its early stages, more than a fifth of Millennials have purchased clothing through social media, with Gen Zs not far behind.



Source: Retail Economics

I HAVE PURCHASED CLOTHING DIRECTLY THROUGH ONLINE SOCIAL MEDIA

GEN Z AND MILLENNIALS ARE EARLY ADOPTERS OF PURCHASING THROUGH SOCIAL MEDIA

RETAIL ECONOMICS CLASSIFICATION	AGE TODAY
Gen Z	18 – 24
Millennials	25 – 44
Gen X	45 – 54
Baby Boomers	55+



However, consumers who grew up before the digital age have been rapidly increasing their internet usage, with 83% of 65-74 year olds using the internet in Q1 of 2019, compared to just half that figure in 2011¹. As younger shoppers get older and baby boomers continue to gravitate online, the generation gap is likely to narrow over time.

Although the results show that mass adoption of shopping via social media still has a long way to go, with 73% of consumers yet to purchase this way, its influence is undeniable.

While two thirds of the UK's internet users are active on social media², retailers are becoming more creative about combining shopping with social. For example, Lego Wear opened a London pop-up in early 2019 that required shoppers to scan a Snapchat "Snapcode" on arrival. This gave consumers an augmented reality experience on their smartphones that showcased clothes, mannequins, an interactive DJ booth and an arcade machine. Customers could then purchase clothing via the app for home delivery.

As technological sophistication becomes more widespread, adoption is likely to skyrocket in the 2020s.

THE WOKE (CONSCIOUS) CUSTOMER - SUSTAINABILITY MATTERS BUT PRICE MATTERS MORE

As social shopping has become more influential, so has the number of "woke" or conscious consumers. The past year has seen a boom in the followings amassed by sustainability-focused influencers like Trash Is for Tossers, Sustainably Chic and The Conscious Cut.

SHOPPERS EXPECT RETAILERS TO ENSURE SUSTAINABLE PRACTICES IN THE FASHION SECTOR

THINKING ABOUT SUSTAINABILITY AND CLOTHING PRODUCTION; WHO SHOULD BE MOST RESPONSIBLE FOR ENSURING SUSTAINABLE PRACTICES WITHIN THE FASHION INDUSTRY?



Source: Retail Economics
¹ONS ²Statista

Customers are increasingly interested in sustainability and social well-being, with almost two thirds of survey respondents believing that retailers and brands have the greatest responsibility to ensure sustainable practices within the industry, ahead of shoppers themselves and the Government.

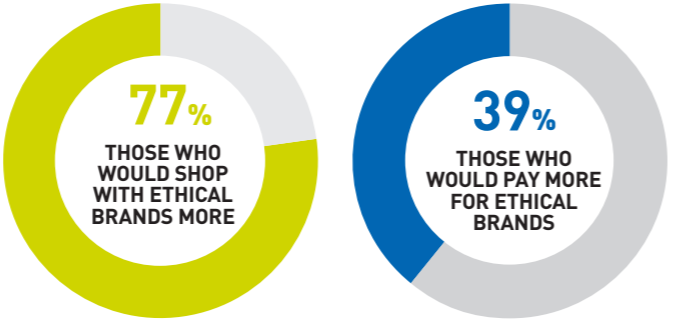
It is hardly surprising that consumers place less responsibility on the Government given that, in mid-2019, ministers rejected recommendations for tackling issues across the fashion industry. These included putting a ban on incinerating or landfilling stock that can be recycled and a 1p levy on each garment to raise £35m a year for improved clothing collection and sorting.

Consumers' beliefs are backed by their shopping habits, with 77% of survey respondents stating they would shop more from retailers with strong ethical and environmental values. This provides a key opportunity for retailers to create a point of differentiation by operating responsibly.

However, despite expecting retailers to drive change, 61% of respondents who would shop more with retailers with strong values would not be willing to pay more for their products. When asked which was more important for them - price or sustainability - two thirds of respondents favoured price, with little difference in the value of price and sustainability by age. Retailers therefore face a tough challenge to appease the conscious customer and demonstrate social responsibility without materially impacting the consumer's wallet.

OVER THREE QUARTERS OF SHOPPERS WILL BUY MORE FROM RETAILERS WITH STRONG VALUES BUT MOST OF THEM WON'T PAY FOR IT

WOULD YOU SHOP MORE WITH RETAILERS / BRANDS WHICH HAVE STRONG ETHICAL AND ENVIRONMENTAL VALUES?



Source: Retail Economics

WHEN BUYING CLOTHING, WHAT'S MORE IMPORTANT TO YOU?



Source: Retail Economics

With greater online transparency increasing price awareness among consumers, comparison culture is unavoidable and fashion retailers, aware that shoppers will vote with their wallets, have recently been making sustainability pledges to increase their appeal. For example, in July 2019, Zara committed to making all its clothing from 100% sustainable, organic or recycled fabrics by 2025.

FRESHER FASHION FASTER

If balancing price and sustainability wasn't enough of a challenge for fashion retailers, the consumer's appetite for fresher fashion faster adds another layer of complexity.

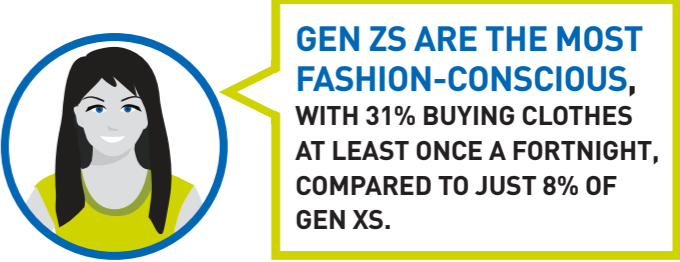
The survey shows that Gen Zs are the most fashion-conscious, with 31% buying clothes at least once a fortnight, compared to just 8% of Gen Xs. Only 9% of Gen Zs would allow their wardrobe to be refreshed less than once a year, compared to 19% of Gen Xs who may have more pressing priorities.

A factor in the desire for young people to have a conveyor belt of new clothing is social media exposure. One in seven shoppers consider it a fashion "faux pas" to be photographed in the same outfit twice³, while one in three young British women consider clothes "old" after wearing them once or twice⁴.

³McKinsey ⁴Barnardos

This churning of wardrobes is supported by streamlined supply chains and shorter production times, enabling brands to release new lines faster, favouring retailers such as Boohoo and Missguided. They can release hundreds of new collections every week at pocket money prices, using influencers to boost demand and visibility.

Zara pioneered the fast fashion model through its ability to get products from design stage into stores in as little as three weeks, supported by owner Inditex sourcing half of its items in-season. This compares to traditional clothing supply models such as H&M's, which sources up to 80% of its stock at least six months in advance from low-cost locations such as Asia.



Source: Retail Economics



EXPERIENCE MATTERS MORE

Online currently accounts for around 20% of retail sales and is forecast to increase to more than half in the next decade, placing the role of stores firmly in the spotlight. Physical stores are shifting from the purely transactional to providing social and meaningful experiences and, as a result, the perception and expectation of what stores offer is evolving.

For example, Primark, which continues to post market-beating results, is set to roll out more stores offering food, drink and beauty treatments. This follows the opening in spring 2019 of its Birmingham flagship store, which features three cafés, a barber, nail salon and interactive changing rooms.



HALF OF GEN Z SHOPPERS SHIFT MORE OF THEIR SPENDING ONLINE FROM STORES AROUND CHRISTMAS.

WHEN BUYING CLOTHING, WOULD YOU VISIT A STORE IF IT OFFERED 'CLICK AND COLLECT' AND/OR 'RESERVE AND COLLECT'?

48%
WOULD VISIT A STORE **MORE OFTEN** IF IT OFFERED COLLECTION FOR ONLINE ORDERS



Physical stores are becoming more than mere product distribution hubs, with a wider experience becoming integral to building brand connection with consumers.

Many mid-market clothing retailers operate too many stores to roll out flagship experiences and focus on convenience. Providing cross-channel experiences can help stores remain relevant in the digital age. Almost half (48%) of respondents said they would visit a store more often if it offered collection for online orders, with click-and-collect favoured over reserve-and-collect for fashion purchases.

A good example of this is Next. Over the past decade, the company has made its 500-strong stores an integral part of its online business by incorporating click-and-collect, which now accounts for more than half of its online orders.

But the desire to visit stores has a degree of seasonality. Although Christmas does not affect how shoppers buy clothes for almost half (47%) of survey respondents, for those who do shift their spending between stores and online there is significant variation by age. Younger generations will shift more of their spending online from stores around Christmas compared to other parts of the year, while those aged 55+ tend to shop more in-store. Younger generations are, therefore, likely to put pressure on warehousing and fulfilment in the golden quarter, the three-month Christmas and New Year trading period.



Source: Retail Economics

**PAYMENT TECHNOLOGY AND THE APPEALING
OPTION OF SPREAD PAYMENTS**

While technology can generate positive change and enhance experiences, giants such as Amazon, Netflix and Uber have raised expectations when it comes to ease and speed of checkout. This has ramped up the pressure on traditional retailers to provide a wide range of payment options to prevent lag between discovery and purchase.

**WHAT IS YOUR PREFERRED PAYMENT
METHOD FOR BUYING CLOTHES?**



**CASH IS NOT KING
DEBIT CARD
IS THE PREFERRED
PAYMENT OPTION AMONG
FASHION SHOPPERS**

Source: Retail Economics

While a debit card is the most popular payment option across age groups, “buy now, pay later” services such as Klarna and Clearpay are increasingly preferred among Gen Z and Millennial shoppers who typically have limited disposable income and need to manage their cash flow. These options enable shoppers to delay and spread payments to bring purchases forward.

Footwear retailer, Schuh, reported that its conversion rates leapt 40% on desktops and 25% on smartphones using Klarna, while Arcadia brands reported that average order values rocketed between 80% and 90% when compared to other payment options. Another advantage to services like Klarna is that, after an initial purchase, future checkout forms can be completed in one-click among all retailers in the payment provider’s network.

Additionally, pay-after-delivery services also allow shoppers to try online purchases before they pay, thus removing a key barrier to purchase for online fashion shopping.

Such services arguably help retailers to create a more fluid buying process that appeals to various consumer preferences.

**WHAT IS YOUR PREFERRED PAYMENT
METHOD FOR BUYING CLOTHES?**

**YOUNGER
SHOPPERS PREFER
BUY NOW
PAY LATER
SERVICES OVER
MORE TRADITIONAL
STORE CARDS**



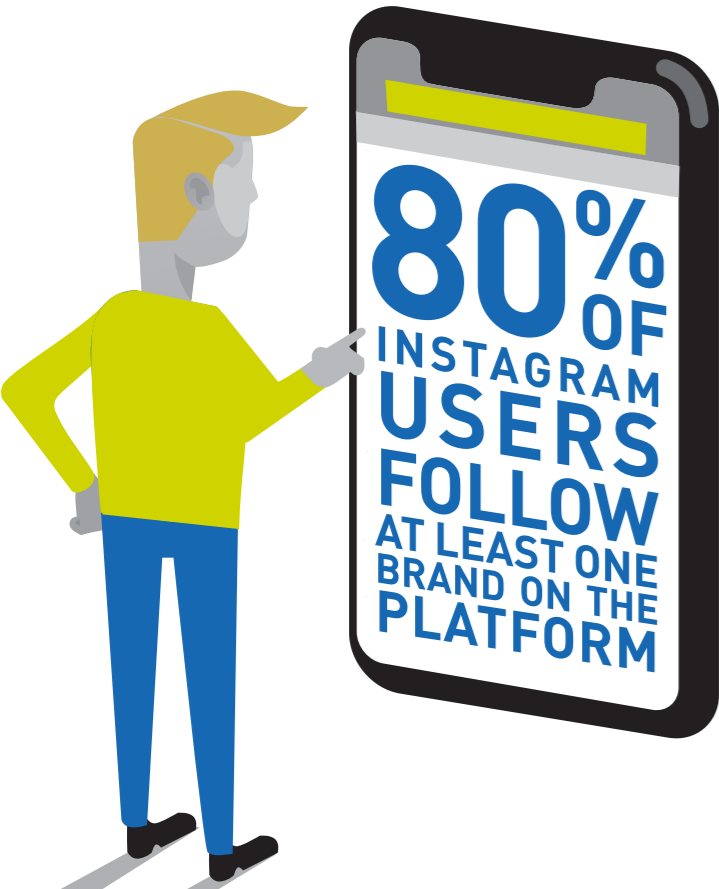
IMPACT AND IMPLICATIONS FOR FASHION RETAILERS

REDUCING FRICTION BETWEEN INSPIRATION AND PURCHASE

The need to thin the layers in the journey from inspiration to purchase extends beyond payment options. Social media giants have recognised that it is now or never for consumers and are seeking to increase retail sales on their platforms. For fashion, this enables shoppers to buy wherever they find online inspiration.

Instagram is an important part of marketing activities for brands with reportedly 80% of the app’s users following at least one brand on the platform. Missguided, which targets 16-24 year old fashion-conscious women, says the majority of its audience spends the most time with its brand on Instagram.

Such is the power of Instagram that ‘Instagram Checkout’ was launched in the US, allowing users to buy, track and manage their purchases directly within the app to effectively offer contextual commerce. Its shopping cart concept streamlines the function launched in the UK in 2018 which allows users to purchase via Instagram through redirection to a retailer’s website checkout form.



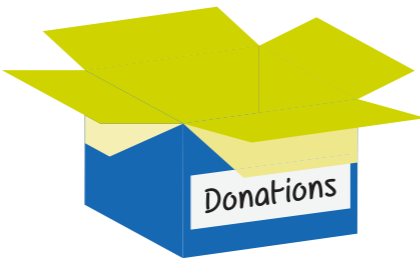
Source: Retail Economics

Visual search is also emerging as a way to find similar items from a picture taken on a smartphone, with Marks & Spencer having partnered with tech firm Syte in early 2019 to launch “Style Finder”, a photo search feature on its smartphone site, across womenswear and menswear. As artificial intelligence (AI) grows, so will the scope for further innovation.

AI has a multitude of functions when it comes to generating sales, including using purchase history as part of a retailer’s marketing funnel. While personalisation has been a retail buzzword for some time, the ongoing development of AI is making it more scalable. Zalando says it has been doing “a lot of work” on AI across its platform, which provides shoppers with inspiration based on current purchases.

Such sophisticated AI capabilities, whether for image-based search or personalised marketing, are arguably more easily deployed by nimble tech-savvy retailers. However, platforms and partnerships can allow traditional retailers a much-needed step up in the bid to close the gap between stages in the path to purchase.

TWO FIFTHS OF SHOPPERS HAVE DONATED OR TRADED-IN SECOND-HAND CLOTHING TO A RETAILER



NEW MODELS FOR SUSTAINABILITY

With collective consciousness about sustainability growing, the fashion sector is being influenced by shoppers adopting a more circular approach as they attempt to stretch the lifespan of clothing before it hits landfill.

The survey shows that two fifths of shoppers have donated or traded-in second-hand clothing to a retailer. Although a large proportion of shoppers do not donate, 72% of those who have not donated said they would consider it in the future, reflecting a shift in mentality when it comes to sustainability and ethics.

While sustainability schemes are yet to become widespread, they would put traditional retailers under pressure due to the additional infrastructure required to roll out donations and the inability to pass on higher costs to most shoppers.

Nonetheless, the desire to improve the lifespan of fashion has seen the emergence of US second-hand online clothing platform ThredUp in what is estimated to be a resale market worth £5.6bn.

With retailers under pressure from consumers to provide initiatives to cut waste and reduce environmental impact, American department stores Macy’s and JCPenney have

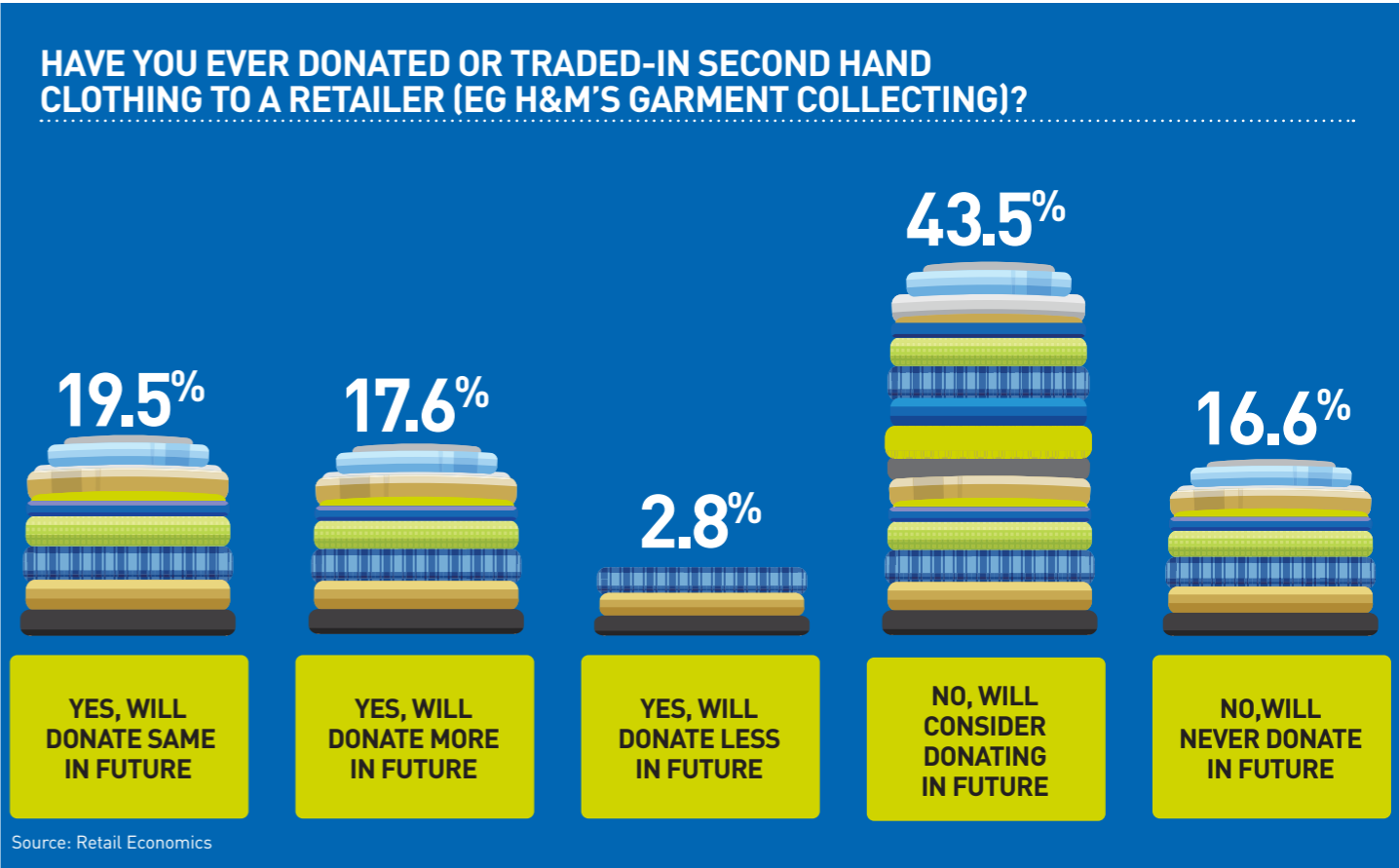
partnered with ThredUp to offer resale concessions in stores, while rival Depop opened a pop-up in London’s Selfridges in August 2019.

However, given the “wear once” attitude among younger consumers, rental models have also burgeoned since Rent the Runway spearheaded clothing subscription a decade ago.

Urban Outfitters launched an online clothing rental service called “Nuuly” in summer 2019, offering customers across the pond monthly access to six items from across their brands including Anthropologie and Free People for \$88 per month. At the end of the month, shoppers return garments in reusable and recycled plastic bags.

Subscription models have also emerged for new clothing that consumers are more likely to keep. For instance, the London Sock Company delivers luxury men’s socks every month from £10 per month.

With fashion retail sales under pressure as shoppers are reluctant to splash out on discretionary spending, models that attract a new type of customer looking for pre-owned clothing or provide access rather than ownership might just be the silver bullet that bolsters revenue and extends the lifespan of clothing at the same time.



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ABOUT RETAIL ECONOMICS

Retail Economics is an independent economics research consultancy focused on the UK consumer and retail industry. Its service provides unbiased research, consultancy and analysis on the key economic and social drivers behind the UK retail sector, helping to inform critical business decisions and provide a competitive edge through deeper insights.

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ABOUT PENNINGTONS MANCHES COOPER

Penningtons Manches Cooper LLP is a leading UK and international law firm which provides high quality legal advice tailored to both businesses and individuals. With 141 partners and over 850 people, we are acknowledged as a dynamic and forward-thinking practice which combines comprehensive legal services with a responsive and flexible approach.

Our multi-disciplinary team of fashion and luxury brands sector specialists, many of whom have worked in the industry or been seconded to retail businesses, provide corporate, IP, commercial, employment, real estate and immigration advice.

This solid base of experience and connection with the retail sector means that we can advise you at every point of your operation – from acquiring or funding your business and protecting your trade marks and brand to recruiting and managing staff from store to board room, online retailing, overseeing your property portfolio and product safety issues.

For a copy of the first report in this series:
Understanding and Influencing the Customer Journey for Fashion, Stage 1: Awareness and Research,
please visit:

**[www.penningtonslaw.com/
fashion-customer-journey-stage-1](http://www.penningtonslaw.com/fashion-customer-journey-stage-1)**



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