

HOW AI'S IMPACT IS RESHAPING FASHION

A Strategic Playbook for 2026 and Beyond



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Executive Brief

The headline: AI is no longer a "tool layer" for fashion. It's becoming a **system layer**: it compresses cycle time, expands creative search, and rewires how demand is sensed and supplied.

\$2T

Global fashion
market size

\$275B

GenAI profit
potential

35%

Fashion AI
CAGR

30–40%

Inventory
marked down/yr

What's Changing — Signals → Implications

- **Creativity:** Generative systems increase **creative throughput** (ideation + variation) while raising the premium on curation, taste, and brand codes.
- **Merch + Planning:** Forecasting shifts from seasonal to near-continuous. Assortments become more adaptive; "test & read" becomes cheaper.
- **Content economics:** Content becomes abundant; **distribution + trust + brand clarity** become scarcer.
- **Supply chain:** The biggest gains come from **decision quality** (allocation, replenishment, capacity) — not from flashy front-end experiments.
- **Customer experience:** Personalization evolves from "recommendation" to **guided choice + styling + intent capture**.
- **Sustainability:** AI can reduce overproduction, but only if incentives, governance, and measurement are aligned.

The Strategic Punchline

Brands win by building an **AI flywheel**: 1) capture data → 2) train/augment decisions → 3) shorten feedback loops → 4) redeploy gains into better product + CX.

What to do now (90 days): Pick **3 use cases**: one revenue, one cost, one learning. Set up a **single source of truth** for product, customer, and inventory data. Establish **AI governance** (privacy, IP, bias, vendor rules) before scaling. Build a simple **KPI tree** to prove ROI quickly.

► KEY TAKEAWAY

AI is a **system layer**, not a tool. The winners will be organizations that treat AI as operating infrastructure — not a series of experiments.

The New Landscape: Why AI in Fashion Is Different Now

SECTION OVERVIEW

- Foundation models reached production quality in 2023–2024
- Data infrastructure matured: CDPs, unified commerce, composable architectures
- Cost structures collapsed: image generation from ~\$150 to under \$0.10
- Fashion sits at the intersection of AI's strongest capabilities

I.1 From Experimentation to Infrastructure

Fashion has flirted with AI for a decade. Recommendation engines, chatbots, image recognition — useful, but peripheral. What's changed isn't the technology alone. It's the convergence of three forces:

- 1. Foundation models reached production quality.** Large language models (GPT-4, Claude, Gemini) and image generators (Midjourney, DALL-E, Stable Diffusion) crossed the threshold from novelty to commercial-grade output in 2023–2024. By 2025, fine-tuned models trained on proprietary brand data began producing work indistinguishable from human output in narrow domains: product descriptions, campaign copy, pattern variations, colorway exploration.¹
- 2. Data infrastructure matured.** Cloud-native CDPs, unified commerce platforms, and composable architectures gave brands — for the first time — something resembling a single source of truth for product, customer, and inventory data. Without this, AI is a party trick. With it, AI becomes an operating system.²
- 3. Cost structures collapsed.** The cost of generating an image dropped from ~\$150 (professional photographer/designer) to **under \$0.10**. The cost of translating a product page into 40 languages fell from thousands of dollars to cents. The cost of running a demand forecast went from a team-month to a team-hour. This isn't incremental. It's a structural shift in what's economically viable.

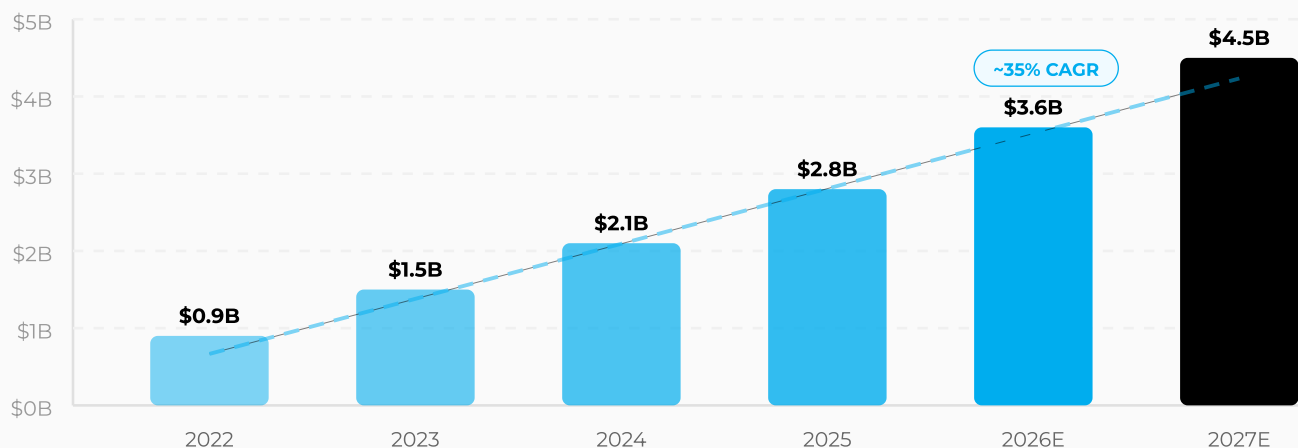
*"McKinsey estimates generative AI alone could add **\$150–275 billion** in operating profit to the apparel, fashion, and luxury sectors. That's not a rounding error — it's a fundamental reallocation of value."³*

I.2 The Scale of the Shift

Consider the numbers that matter:

- **\$2 trillion:** Global fashion market size. Even marginal efficiency gains compound to billions.⁴
- **30–40%:** Share of fashion inventory that is marked down or destroyed annually. AI-driven demand forecasting alone could cut this by 20–50%.⁵
- **12–18 months → 6–8 weeks:** Typical design-to-shelf cycle compression for fast-fashion; 4–8 months for premium.
- **60–70%:** Share of purchasing decisions now influenced by digital touchpoints. AI controls what surfaces, when, and to whom.⁶
- **\$3.6 billion:** Estimated spend on AI by fashion companies in 2025, growing at 35% CAGR.⁷

Figure 1 — Global Fashion AI Market Size (\$B, 2022–2027)



Sources: McKinsey & Company; Statista; BoF Insights⁷

But the real shift isn't in aggregate spending. It's in **who captures value**. Shein's algorithm-driven model — testing **5,000+ new styles per day** with small initial runs, reading real-time demand signals, and scaling winners within 72 hours — isn't just fast fashion. It's a different operating system. Traditional brands aren't competing against a faster competitor; they're competing against a different species.⁸

1.3 Why Fashion Is Uniquely Exposed

Fashion sits at the intersection of AI's strongest capabilities and most disruptive potential:

High-dimensional creative search. A single product (say, a women's running shoe) involves dozens of variables: silhouette, material, colorway, trim, sole, lacing, sizing, fit. AI excels at exploring this combinatorial space — generating thousands of plausible variations and narrowing them by constraint (brand DNA, cost, trend alignment, production feasibility).

Demand uncertainty. Fashion is a prediction business operating under radical uncertainty. Seasons, trends, weather, culture, celebrity — all interact in nonlinear ways. Machine learning models trained on sell-through, search, social, and resale data don't eliminate uncertainty, but they narrow the cone significantly.

Visual-first, content-heavy. Fashion lives on images, video, styling, and storytelling. Generative AI's strongest modalities — image synthesis, text generation, video creation — map directly to fashion's core outputs.

Fragmented, data-rich value chain. From fiber to consumer, fashion's supply chain generates enormous data. Most of it goes unused. AI can turn this latent data into actionable decisions: which factory, which fabric, which SKU, which market, which price.

Emotional + functional product. A handbag is simultaneously a functional object, a status signal, an identity marker, and an aesthetic choice. AI can optimize the functional layer (fit, durability, supply) while humans own the emotional layer (meaning, desire, brand). Getting this division right is the strategic challenge.

1.4 A Framework for Reading This Report

This report is structured around a simple logic:

1. **Where is AI being applied?** (Section II — the value chain)
2. **How does it change what fashion is?** (Section III — creative impact)
3. **What does it mean for your competitive position?** (Section IV — strategy)
4. **What should you do about it?** (Section V — roadmap)

Each section is designed to be read independently or in sequence. The goal is not comprehensiveness for its own sake, but decision-useful insight for leaders who need to act.

AI in fashion passed the tipping point in 2024. Three converging forces — production-quality models, mature data infrastructure, and collapsed cost structures — mean the question is no longer **whether** to adopt AI, but **how fast** you can build the flywheel.

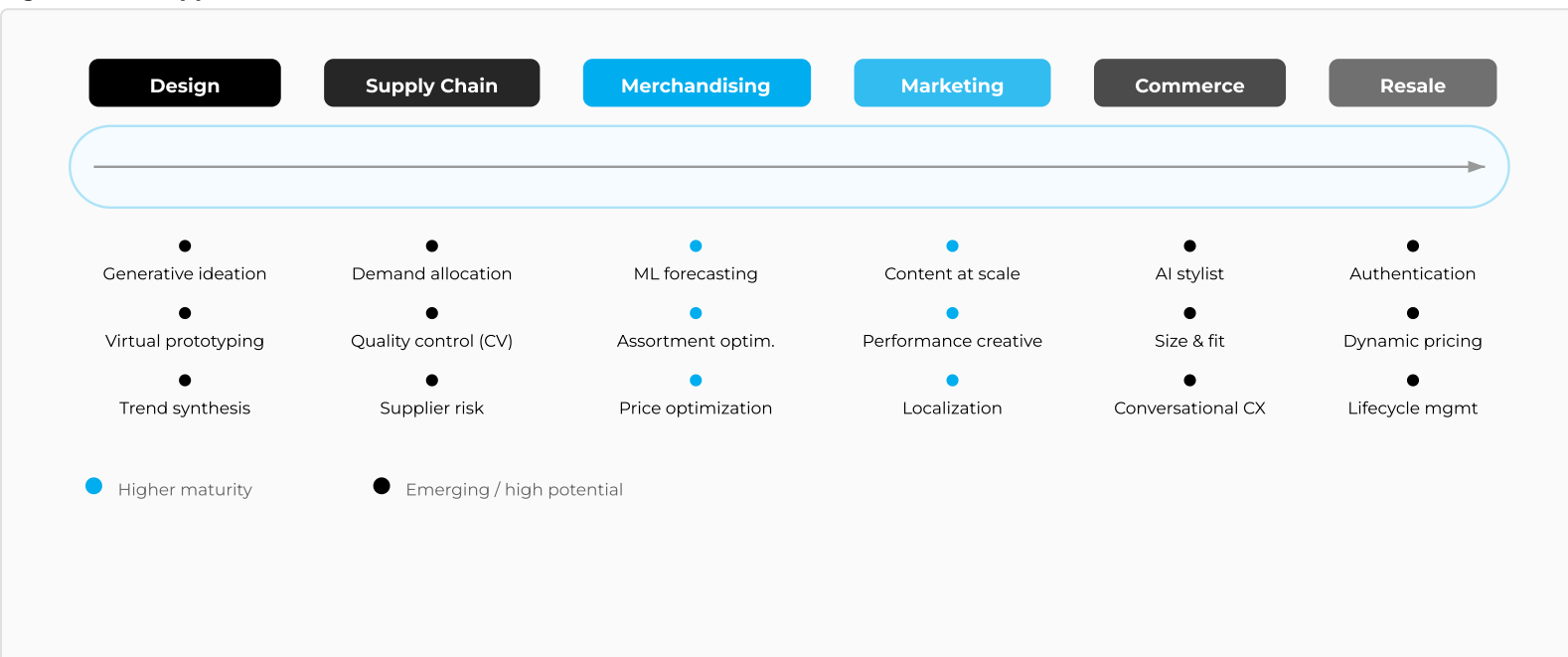
II AI Across the Fashion Value Chain

SECTION OVERVIEW

- Six domains mapped: Design, Supply Chain, Merchandising, Marketing, Commerce, Resale
- Merchandising & marketing are most mature; design & resale have highest disruption potential
- Supply chain is least glamorous but highest-impact for margin improvement

AI's impact is not evenly distributed. Some functions are already being transformed; others are barely scratched. This section maps the current and near-term state across six domains — not to catalog every vendor or tool, but to identify **where the leverage is highest and the gaps widest**.

Figure 2 — AI Applications Across the Fashion Value Chain



Source: Author analysis

II.1 Design & Product Development

Current state: This is where the hype is loudest — and where the nuance matters most.

What's Working

- **Ideation acceleration.** Designers at companies like Nike, Adidas, and Acne Studios are using Midjourney, DALL·E, and custom Stable Diffusion models to generate concept boards, colorway explorations, and silhouette variations in hours rather than weeks. Nike's computational design team has integrated generative tools into their exploration pipeline — not to replace designers, but to increase the surface area of creative search.⁹
- **Virtual prototyping.** CLO3D, Browzwear, and Style3D enable digital-first sampling. Tommy Hilfiger and PVH Group reported a **60% reduction in physical samples** through 3D design workflows.¹⁰
- **Material and print generation.** AI-generated prints and patterns are reaching production. Maison Meta created collections for Collina Strada and others using generative tools, pushing aesthetic boundaries that would have been cost-prohibitive with manual techniques.¹¹
- **Trend synthesis.** Platforms like Heuritech and Trendalytics use computer vision to scan millions of social media images, runway shows, and street-style photos, surfacing emerging trends weeks to months before traditional methods. LVMH has invested in Heuritech; Zalando uses similar systems for assortment planning.¹²

What's Not Working (Yet)

- **Technical design.** Generating a beautiful concept image and producing a technically viable garment specification are very different problems. AI still struggles with construction details, tolerance stacks, and manufacturing constraints.
- **Brand code enforcement.** Most generative models produce generic output unless heavily fine-tuned. A Hermès designer needs output that **feels** Hermès — the specific leather weights, the precise colorways, the proportional language.

Cross-functional integration. Design tools remain siloed from PLM, ERP, and supply chain systems. A concept generated in

Leverage point: The highest ROI isn't in replacing designers. It's in **compressing the exploration-to-decision cycle** — generating more options, evaluating them faster (via digital twin testing), and killing bad ideas earlier.

II.2 Sourcing, Manufacturing & Supply Chain

Current state: The least glamorous area — and arguably the highest-impact one.

What's Working

- **Demand-driven allocation.** Zara's parent company Inditex has spent **€2.5 billion** on integrated digital systems that use real-time sell-through data to drive allocation decisions across 5,700+ stores. Their logistics center in Arteixo processes 2.5 million items daily, with AI models optimizing routing and replenishment. The result: higher full-price sell-through and lower markdown rates.¹³
- **Supplier risk management.** Post-COVID, brands like Nike and H&M deployed AI systems to monitor supplier health (financial, compliance, delivery reliability). These systems ingest data from public filings, news sentiment, logistics tracking, and audit results to flag risks before they become crises.¹⁴
- **Quality control.** Computer vision systems from companies like Inspectorio and Optitex are deployed in factories to detect defects in real time — fabric flaws, stitching errors, color inconsistencies. Acceptance rates improve; rework drops.
- **Lead-time prediction.** Machine learning models trained on historical production data, port congestion, weather patterns, and carrier schedules can predict delivery windows with **85–92% accuracy** — a significant improvement over deterministic planning.

What's Not Working (Yet)

- **End-to-end visibility.** Most fashion supply chains are multi-tier with limited data sharing. AI can optimize what it can see; most brands can't see past Tier 1.
- **Small-batch economics.** AI-driven demand sensing creates pressure for smaller, more frequent production runs. But most factory economics are built on MOQs of 500–3,000+ units. The incentive misalignment is a binding constraint.
- **Automation in garment production.** Despite advances in robotic sewing, garment assembly remains overwhelmingly manual. The physical dexterity required to handle soft materials is one of robotics' hardest problems.

Leverage point: The compounding gain comes from **connecting demand signals to supply decisions in near-real time.** Every day a replenishment decision is delayed or a size curve is wrong costs money. AI doesn't need to revolutionize manufacturing; it needs to make every allocation, routing, and timing decision 5–15% better. At scale, this is worth hundreds of millions.

II.3 Merchandising & Demand Planning

Current state: The function most ready for AI transformation — and where the resistance is highest.

What's Working

- **Forecasting accuracy.** Machine learning models outperform traditional statistical methods (moving averages, Holt-Winters) by **20–50%** on typical fashion demand patterns. EDITED, Centric Software, and o9 Solutions offer platforms that integrate external signals with internal sell-through data. Retailers like Nordstrom and ASOS have reported significant markdown reductions after deploying ML-based planning.¹⁵
- **Assortment optimization.** AI enables "cluster-of-one" assortment strategies — where each store or market gets a tailored product mix based on local demand patterns, demographics, and competitive landscape. Stitch Fix built its entire business model on this principle.¹⁶
- **Size and fit prediction.** Returns due to poor fit cost the industry an estimated **\$50 billion annually.** Companies like True Fit, 3DLOOK, and Fit Analytics use body-scan data, purchase history, and garment specifications to predict optimal sizes.¹⁷
- **Price optimization.** Dynamic pricing and markdown optimization tools from Revionics (Aptos), Competera, and Blue Yonder adjust prices based on demand elasticity, competitive positioning, and inventory levels. The lift is typically **3–8% gross margin improvement.**

What's Not Working (Yet)

- **Planner adoption.** AI recommendations that contradict a senior buyer's gut feel often get overridden. The "model override rate" in many fashion organizations exceeds 40%. The AI isn't wrong; the change management is incomplete. 8

- **New product forecasting.** For genuinely new styles — the lifeblood of fashion — forecasting remains difficult. Attribute-based
- **Cross-channel complexity.** Most AI planning tools optimize within a channel; cross-channel optimization remains fragmented.

A 10% improvement in forecast accuracy at a \$1 billion fashion brand translates to \$20–40 million in reduced markdowns, fewer stockouts, and less excess inventory. This is the use case to fund everything else.

II.4 Marketing, Content & Brand Communication

Current state: The function experiencing the most visible disruption — for better and worse.

What's Working

- **Content production at scale.** Zalando generates thousands of product descriptions using LLMs, freeing copywriters to focus on editorial and campaign storytelling. H&M and Mango have tested AI-generated campaign imagery (to mixed public reception). Across the industry, brands are using AI to produce social media variants, email personalization, and localized content at **10–50x the volume** and a fraction of the cost.¹⁸
- **Performance creative optimization.** Tools like Pencil, AdCreative, and Jasper generate ad creative variants, test them programmatically, and optimize spend allocation. The feedback loop from performance data to creative iteration compresses from weeks to hours.
- **Copywriting and translation.** Product descriptions, meta tags, and marketing copy are now largely automatable. Brands operating in 30+ markets are using LLMs to localize not just language but tone, cultural references, and regulatory compliance.
- **Visual search and discovery.** Pinterest Lens, Google Lens, and ASOS Visual Search let consumers photograph an outfit and find similar products. Discovery shifts from keyword to visual, and AI decides which products surface.¹⁹

What's Not Working (Yet)

- **Brand-safe creative generation.** Most AI-generated campaign images still lack the editorial precision and emotional resonance of professional photography. Levi's pilot with AI-generated models drew significant backlash over diversity washing.²⁰
- **Influencer and cultural intelligence.** AI can track engagement metrics and audience overlap. It cannot reliably predict which creator, meme, or cultural moment will resonate.
- **Authenticity risk.** As AI content floods every channel, consumer trust in brand communications erodes. One viral call-out costs more than the efficiency gained.

Leverage point: The shift isn't about producing more content. It's about **reallocating creative talent** from production to strategy and brand building. AI handles the long tail (variants, localization, performance creative); humans handle the peak (campaigns, storytelling, cultural positioning). Brands that confuse the two will damage their equity.

II.5 Commerce & Customer Experience

Current state: Moving from blunt personalization to contextual, intent-driven experiences.

What's Working

- **Recommendation engines (evolved).** Leaders are moving toward context-aware recommendations that factor in occasion (a wedding, a job interview), weather, browsing behavior patterns, and style affinity. Kering's client advisors use AI copilots that surface product knowledge, styling suggestions, and inventory availability in real time.²¹
- **Conversational commerce.** AI chatbots and virtual assistants have matured significantly. Shopify's Sidekick and similar tools let merchants automate customer interactions without sacrificing quality.
- **Size and fit tools.** Brands deploying robust fit recommendation tools report **10–25% reductions** in fit-related returns.
- **Visual try-on.** AR-powered virtual try-on lets consumers preview sunglasses, shoes, and apparel on themselves. Adoption remains uneven, but the technology has improved substantially — especially for accessories and eyewear.

What's Not Working (Yet)

- **True personalization at scale.** Most "personalization" is still crude — segmentation dressed up as individualization. Genuine 1:1 personalization requires real-time data unification, sophisticated modeling, and organizational alignment.
- **Discovery beyond the algorithm.** Over-optimized recommendation engines create filter bubbles. Fashion requires serendipity — the unexpected find, the style stretch.

• **Post-purchase experience.** Most AI investment focuses on acquisition and conversion. The post-purchase journey remains

The next frontier: The **AI stylist** — not a chatbot that answers questions, but a system that understands intent ("I need something for a gallery opening in Berlin"), knows the customer's style profile, can pull from real-time inventory, and delivers options with explanations. This doesn't exist at scale yet. The brand that builds it owns the next generation of customer loyalty.

II.6 Resale, Circularity & Sustainability

Current state: The area where AI's potential is highest and deployment is earliest-stage.

What's Working

- **Authentication.** AI-powered authentication services (Entrupy, used by The RealReal and others) use microscopic image analysis to verify product authenticity. Accuracy rates exceed **99%** for key luxury categories (handbags, watches), dramatically reducing fraud in the \$200B+ resale market.²²
- **Price intelligence.** Platforms like Vestiaire Collective and StockX use AI to dynamically price resale items based on brand, condition, demand trends, and comparable sales.
- **Demand forecasting for circular models.** Rent the Runway uses ML to predict demand for rental items, optimizing inventory allocation across warehouses and managing garment lifecycle (cleaning, repair, retirement cycles).²³

What's Not Working (Yet)

- **Overproduction prevention.** AI can forecast demand better, but brands still overproduce because incentives reward topline growth and wholesale commitments, not inventory efficiency. This is a governance problem, not a technology problem.
- **Supply chain transparency.** Tracking a garment's environmental footprint across a multi-tier, multi-country supply chain requires data that mostly doesn't exist.
- **Consumer behavior change.** AI can make resale, repair, and rental more convenient. But the fundamental challenge — shifting consumers from "buy new" to "buy better / buy less / buy used" — is a cultural and economic problem that technology alone can't solve.

Leverage point: The strategic play is **AI-enabled product lifecycle management** — tracking individual garments from production through multiple use cycles (primary sale, resale, rental, repair, recycling) and optimizing for total lifecycle value rather than first-sale margin.

► KEY TAKEAWAY — SECTION II

The biggest ROI is in **merchandising & supply chain** (decision quality), not in flashy front-end experiments. Start where the margin impact is clearest.

III The Creative Impact:

How AI Reshapes Fashion's Core

SECTION OVERVIEW

- AI redistributes creative labor — from generation to curation
- The new design workflow compresses and parallelizes the traditional linear sequence
- Digital fashion's real value is design R&D, not revenue
- Convergence pressure vs. human premium creates a strategic choice

Fashion is, at bottom, a creative industry. The question that keeps designers, creative directors, and brand founders awake isn't "will AI make us more efficient?" — it's "will AI change what fashion *is*?" This section confronts that question directly.

III.1 Augmenting vs. Replacing the Designer

The polarized narrative — "AI will replace designers" vs. "AI is just a tool" — misses the structural reality. What's happening is a **redistribution of creative labor**, not a replacement.

What AI Does Well in Design

- Generates high volumes of variations on a theme (colorways, pattern iterations, silhouette modifications)
- Explores adjacent aesthetic spaces ("show me this jacket in a brutalist architecture style")
- Synthesizes reference material into mood boards and concept directions
- Translates 2D sketches into 3D renders and vice versa
- Identifies pattern relationships across historical collections and trend data

What AI Does Poorly in Design

- Originating a genuinely new aesthetic direction (AI remixes; it doesn't invent)
- Understanding cultural context and timing ("this is the right provocation for this moment")
- Maintaining brand coherence across a collection (the "red thread" that makes 40 pieces feel like one story)
- Making taste judgments (choosing the one option out of 1,000 that *matters*)
- Designing for the body in motion — how fabric falls, how a garment feels, how it transforms when worn

The implication: the designer's job shifts from **generation to curation**. The scarce skill becomes judgment — the ability to look at 500 AI-generated options and identify the three that are right. This is a fundamentally different workflow, and it requires different instincts.

CASE STUDY

Coperni. The Parisian house has integrated AI into its design process while maintaining one of the most distinctive creative visions in contemporary fashion. Their approach: use AI to pressure-test ideas early (does this silhouette have historical precedent? how does it compare to current market offerings?) while keeping the final creative decisions firmly in human hands. The technology expands the aperture; the designer controls the lens.

III.2 The New Design Workflow

The traditional fashion design process follows a linear sequence: research → sketch → develop → sample → fit → approve → produce. AI is compressing and parallelizing this:

Research phase: Instead of weeks of mood-boarding, designers query generative models to produce concept directions in minutes. A creative director at a major sportswear brand described the shift: "We used to start with 200 inspiration images. Now we start with 2,000 AI-generated concepts and narrow from there. The starting point is richer, but the editing has to be sharper."

Development phase: Digital-first design using AI-augmented 3D tools (CLO3D + generative layer) allows designers to iterate on silhouette, fabric, and construction simultaneously. PVH Group (Calvin Klein, Tommy Hilfiger) reported reducing their pre-production sample count by **60%** through digital-first workflows.¹⁰

Sampling phase: Virtual sampling with AI-enhanced rendering (realistic fabric behavior, lighting, body interaction) enables internal review cycles that once required physical prototypes. Adidas has experimented with AI-generated photorealistic product imagery for buy meetings.

The risk: Over-optimization. When AI makes iteration cheap, the temptation is to over-iterate — producing a "perfect average" that tests well but lacks the conviction that defines great design. The most distinctive fashion comes from constraints and strong points of view, not from optimizing across all possible variables. Brands must build workflows that preserve creative friction.

III.3 Digital Fashion & Virtual Garments

Digital fashion — garments that exist only in virtual environments — was dismissed as a metaverse hype artifact in 2021–2022. It's quietly becoming a real business:

Market Signals

- DressX, The Fabricant, and RTFKT (acquired by Nike in 2021) have demonstrated that consumers will pay for digital garments — for social media content, gaming avatars, and virtual try-on.
- Balenciaga's Fortnite collaboration and Gucci's Roblox garden generated significant engagement and revenue, proving that luxury brand equity translates to virtual contexts.²⁴
- Nike's .SWOOSH platform sold **\$185 million** in virtual sneakers by late 2024, validating the model at scale.²⁵

AI's Role

- Generative design for virtual garments** removes the manufacturing constraint entirely. Designers can create garments that are physically impossible — fluid dynamics simulations, impossible geometries, materials that don't exist.
- Personalized digital fashion** becomes viable: AI can generate custom virtual garments based on a user's style profile, body scan, and context.
- Bridge between physical and digital:** AI-powered 3D scanning and rendering can create accurate digital twins of physical garments, enabling "phygital" product strategies.

The contrarian view: Digital fashion's real value isn't in revenue from virtual garments. It's in **design R&D**. Every virtual garment is a free experiment — no material cost, no production risk, no inventory. The data on which digital designs generate engagement, desire, and conversation becomes signal for physical product development. The smartest brands are using digital fashion as a low-cost testing lab, not a revenue line.

III.4 The Evolution of Aesthetics

This is the most profound and least discussed impact. AI is not just changing how fashion is made — it's changing what fashion looks like.

Convergence pressure. Generative AI models are trained on the internet's visual history. They produce outputs that, by construction, converge toward weighted averages of their training data. When thousands of designers use the same tools with similar prompts, the output drifts toward a homogeneous "AI aesthetic" — smooth, polished, referential, and slightly uncanny. The risk: a visual monoculture where everything looks like a Midjourney render.²⁶

Counter-pressure: the human premium. As AI content becomes ubiquitous, the market premium for demonstrably human-made, hand-crafted, and imperfect work rises. Hermès's artisanal positioning becomes more defensible, not less. Brands built on maker culture, craft, and visible human labor (Brunello Cucinelli, The Row, Loewe under Jonathan Anderson) benefit from a halo of authenticity that AI cannot replicate.

New aesthetic vocabularies. AI is also generating genuinely new visual languages that human designers are adopting and evolving. The "AI surrealism" visible in recent collections by Iris van Herpen, Coperni, and GCDS didn't originate from a prompt — but AI tools helped designers explore forms and textures they wouldn't have discovered through traditional techniques.²⁷

The trend acceleration problem. AI-powered trend detection combined with AI-powered production means trends can be identified, produced, and saturated faster than ever. The half-life of a trend shrinks. For fast fashion, this is an advantage. For premium and luxury brands that trade on timelessness, it's a threat.

Second-order effect: the rise of "illegible" fashion. If AI can instantly decode and replicate any legible aesthetic, then true differentiation may require aesthetics that resist algorithmic interpretation. Expect to see more fashion that is deliberately ambiguous, culturally specific, or experientially rooted — fashion that you have to **be there** to understand.

Brands must make a choice — lean into AI-augmented aesthetics and own the speed game, or lean into human-centric, craft-forward positioning and own the scarcity game. The middle ground — using AI but pretending you don't — is the most dangerous position, because it delivers neither efficiency nor authenticity.

► **KEY TAKEAWAY — SECTION III**

AI doesn't replace the designer — it shifts the scarce skill from **generation to curation**. Brands must make a strategic choice: own the speed game (AI-augmented) or own the scarcity game (craft-forward). The middle is death.

IV/ Strategic Market

Implications for Brands

SECTION OVERVIEW

- AI capabilities split into table stakes vs. potential moats
- Data quality determines AI ROI — most fashion brands have terrible data
- Operating models shift from sequential/seasonal to parallel/continuous
- Winners: data-rich platforms + heritage houses with archives. Losers: mid-market with weak data

IV.1 AI as Competitive Moat — or Table Stakes

Not all AI investments create differentiation. The crucial distinction:

Table Stakes (Parity)

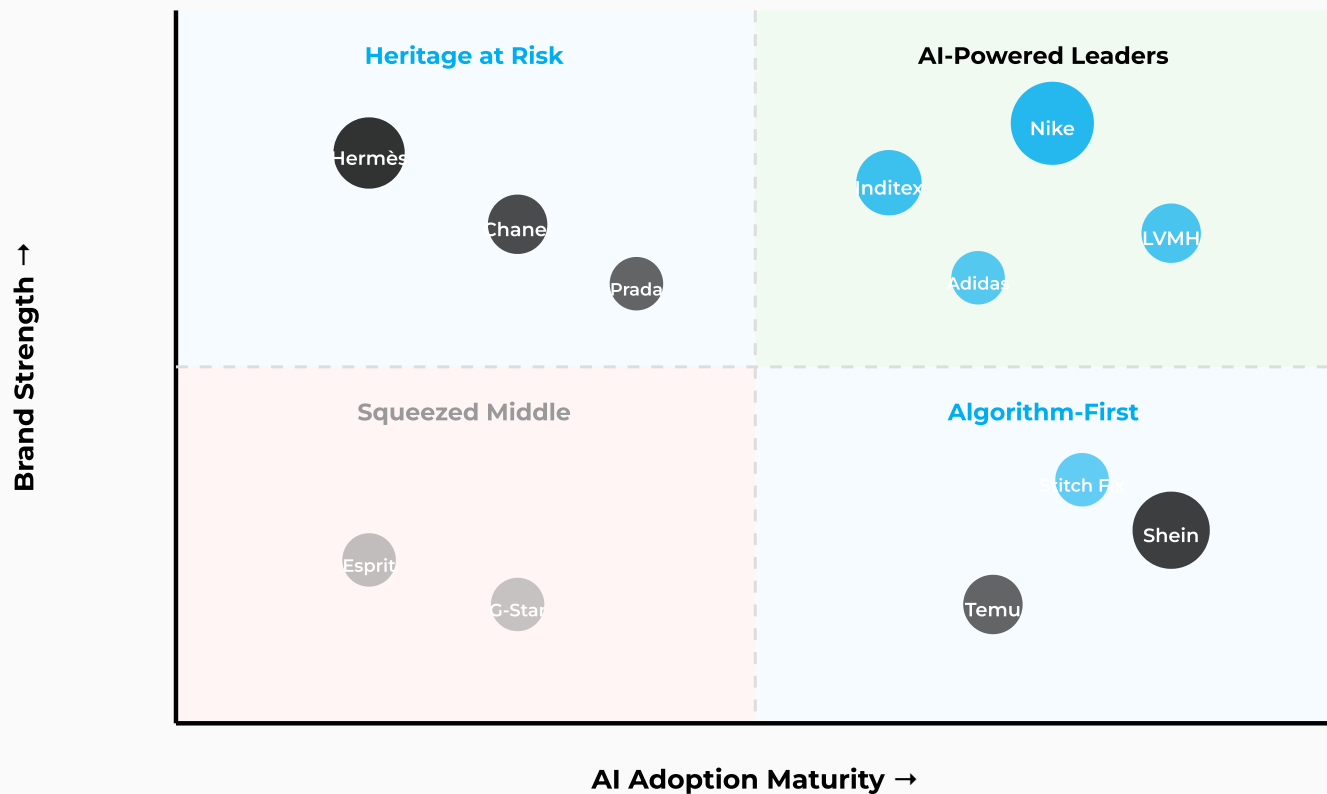
Product recommendation engines, basic chatbots and customer service automation, automated content production (product descriptions, SEO copy), standard demand forecasting, visual search. These capabilities are available via off-the-shelf platforms (Salesforce, SAP, Shopify, various best-of-breed vendors). Implementing them is necessary to compete; it won't set you apart.

Potential Moats

- **Proprietary data loops.** Nike's connected fitness ecosystem (Nike Run Club, Nike Training Club, SNKRS app) generates first-party data on **300M+ members** — data that no competitor can replicate and that continuously improves their AI models for product development, personalization, and demand forecasting.²⁸
- **Brand-specific AI models.** A generative design model fine-tuned on 50 years of your archive, your specific material palette, and your construction language. Burberry's work digitizing its archive creates the foundation for this.²⁹
- **Decision speed advantage.** If your AI-powered planning system enables weekly assortment adjustments while competitors operate on seasonal cycles, you have a structural speed advantage that compounds over time.
- **Customer relationship depth.** AI-powered styling, sizing, and after-sale care that creates switching costs through accumulated preference data.

The acid test: Can a competitor replicate this capability by buying the same software? If yes, it's table stakes. If no — because it requires your data, your domain expertise, or your organizational capability — it's a potential moat.

Figure 3 — Competitive Positioning: AI Adoption vs. Brand Strength



Source: Author analysis. Positions are illustrative.

IV.2 Data as the New Core Asset

The uncomfortable truth: **most fashion brands have terrible data.**

Product data is scattered across PLM systems, spreadsheets, and designer sketches. Customer data lives in siloed CRM, CDP, and e-commerce platforms that don't talk to each other. Inventory data is updated in batches, not real-time. Supply chain data stops at Tier 1.

AI doesn't fix bad data — it amplifies it. A demand forecast built on inconsistent product attributes and fragmented transaction data will produce confident-sounding garbage.

The Data Hierarchy for AI

1. **Clean product data** (consistent attributes, taxonomy, imagery). Enables: search, recommendation, assortment planning, trend analysis.
2. **Unified customer data** (cross-channel behavior, preferences, transactions). Enables: personalization, lifetime value modeling, acquisition optimization.
3. **Real-time inventory data** (by location, by SKU, with committed/available-to-promise). Enables: allocation, fulfillment optimization, customer experience.
4. **Feedback data** (returns reasons, reviews, NPS, post-purchase behavior). Enables: product improvement, fit optimization, demand signal refinement.
5. **External data** (social, search, weather, competitors, resale). Enables: trend sensing, demand shaping, competitive intelligence.

Before spending \$10 million on AI tools, spend \$2 million on data infrastructure. This is unglamorous work — data cleaning, taxonomy harmonization, pipeline engineering — but it determines whether your AI investments generate returns or waste.

LVMH. The luxury conglomerate has been quietly building a centralized data platform across its 75+ maisons, balancing the need for shared AI infrastructure with each brand's autonomous creative identity. This isn't about homogenizing data; it's about creating a common layer that enables cross-brand learnings (supply chain efficiency, customer insights) while preserving the distinctiveness that makes each maison valuable.³⁰

IV.3 Human-AI Collaboration: The Operating Model Shift

The organizational chart needs to change. Most fashion companies are still structured around pre-AI workflows: linear processes, functional silos, seasonal cadences. AI demands a different operating model.

What Changes

- **From sequential to parallel.** AI enables design, merchandising, and supply chain to work on the same data simultaneously. The traditional handoff model (design → merch → sourcing → production) becomes a concurrent process with shared visibility.
- **From intuition-first to data-informed intuition.** The role of senior buyers and merchants doesn't disappear — but their input shifts from "I decide the buy" to "I override or validate the AI's recommendation." This requires new skills: understanding model outputs, recognizing when to trust vs. challenge AI.
- **From large teams doing repetitive work to small teams doing judgment work.** If AI handles the first draft of every product description, the first pass of every assortment plan, and the first cut of every campaign brief, you need fewer people producing and more people curating, judging, and deciding.
- **From seasonal cadence to continuous operation.** AI-driven demand sensing is always on. Allocation models update daily. Content generation is real-time. Organizations built on two or four seasonal cycles must evolve toward continuous planning with periodic creative anchors.

The talent implication: Fashion needs a new role archetype — the "AI translator" who understands both the domain (design, merchandising, marketing) and the technology. Not a data scientist. Not a fashion executive. Someone at the intersection who can frame problems, evaluate AI outputs, and translate between technical and creative teams.

IV.4 Customer Experience as Strategic Differentiator

AI-powered CX is moving from "nice to have" to "the thing that determines who wins."

The Three Horizons of AI-Driven CX

- Horizon 1 (Now): Friction Reduction**
Chatbots answer questions. Size tools reduce returns. Personalized email improves open rates. This is optimization of the existing experience.
- Horizon 2 (2025–2027): Intent-Driven Commerce**
The customer doesn't search for "black dress" — they describe a need: "I have a gallery opening in Milan, I want something that's understated but memorable, I run warm, budget under €800." An AI stylist processes this — considering style profile, body data, inventory, weather, cultural context — and presents curated options with explanations. Conversational commerce replaces catalog browsing.
- Horizon 3 (2027+): Anticipatory Commerce**
The system knows enough about the customer to **predict** needs before they're articulated. A trail runner who logs 40 miles/week and whose current shoes show 400 miles gets a proactive notification: "Your Pegasus 43s are approaching end-of-life. Based on your gait data, the Vomero 21 is your best next option."

The privacy tension: Horizons 2 and 3 require deep customer data — behavioral, physical (body scans, gait data), contextual. The brands that navigate this will be those that create **clear value exchange**: "We use your data to save you time, improve your fit, and find you things you'll love." Transparency isn't just ethical; it's strategically necessary.

IV.5 Sustainability: From Narrative to System

Every fashion brand talks about sustainability. AI forces a distinction between **narrative and operations**.

Where AI Makes Sustainability Tangible

- **Overproduction reduction.** Better demand forecasting directly reduces the volume of unsold inventory that ends up in landfills or incinerators. If AI-driven planning reduces overproduction by **20%**, the environmental impact dwarfs any recycled-material capsule collection.³¹

- **Material optimization.** AI-driven cutting algorithms (like those from Lectra and Optitex) reduce fabric waste in production by **3–**
- **Supply chain emissions.** AI-optimized logistics (routing, consolidation, modal shift) reduces transport emissions. Maersk's AI-driven logistics optimization reports **10–15% emission reductions** on managed routes.³²
- **Product lifetime extension.** AI-powered resale platforms, repair scheduling, and care recommendations extend garment life — the single highest-impact sustainability lever.

Where AI Creates Sustainability Risk

- **Increased consumption.** If AI makes fashion faster, cheaper, and more personalized, it could **increase** total consumption — the Jevons paradox applied to fashion.³³
- **Computational footprint.** Training and running large AI models requires significant energy. A single large model training run can emit as much CO₂ as five transatlantic flights.
- **Greenwashing amplification.** AI can generate convincing sustainability narratives faster than organizations can verify them.

Strategic implication: The EU's Digital Product Passport (mandatory from 2027) will require exactly the kind of supply-chain data infrastructure that AI can help build — and expose.³⁴

IV.6 Who Wins, Who Loses — A Market Reordering

AI doesn't impact all market segments equally. Here's how the landscape reshapes:

Winners

- **Vertically integrated fast-fashion platforms (Shein, Temu).** Their AI-first model is structurally advantaged. They're not adopting AI; they **are** AI.⁸
- **Luxury houses with deep archives and brand clarity (Hermès, Chanel, LVMH maisons).** Their competitive advantage — heritage, craft, cultural authority — becomes **more** defensible as AI commoditizes everything else.
- **Data-rich athletic brands (Nike, Adidas).** Their connected ecosystems generate first-party data at scale. The flywheel is already spinning.²⁸
- **AI-native startups.** Small brands built from scratch on AI infrastructure can compete on speed and personalization at a fraction of the cost.

Losers

- **Mid-market brands with weak data and no clear positioning.** If you can't out-speed Shein, can't out-prestige Hermès, and don't have the data assets of Nike, AI becomes a cost you bear rather than an advantage you deploy.
- **Wholesale-dependent brands.** AI advantages compound in direct channels where brands control data and customer relationships. Brands that sell primarily through department stores lose both data and customer access.
- **Brands that treat AI as an IT project.** If AI lives in the CTO's budget rather than the CEO's agenda, it will produce pilot projects that never scale.

► KEY TAKEAWAY — SECTION IV

The acid test for AI investment: **can a competitor replicate this by buying the same software?** If yes, it's table stakes. If no — because it requires your data, expertise, or organizational capability — it's a potential moat. Invest in the moats.

7 Actionable Opportunities: The Path Forward

SECTION OVERVIEW

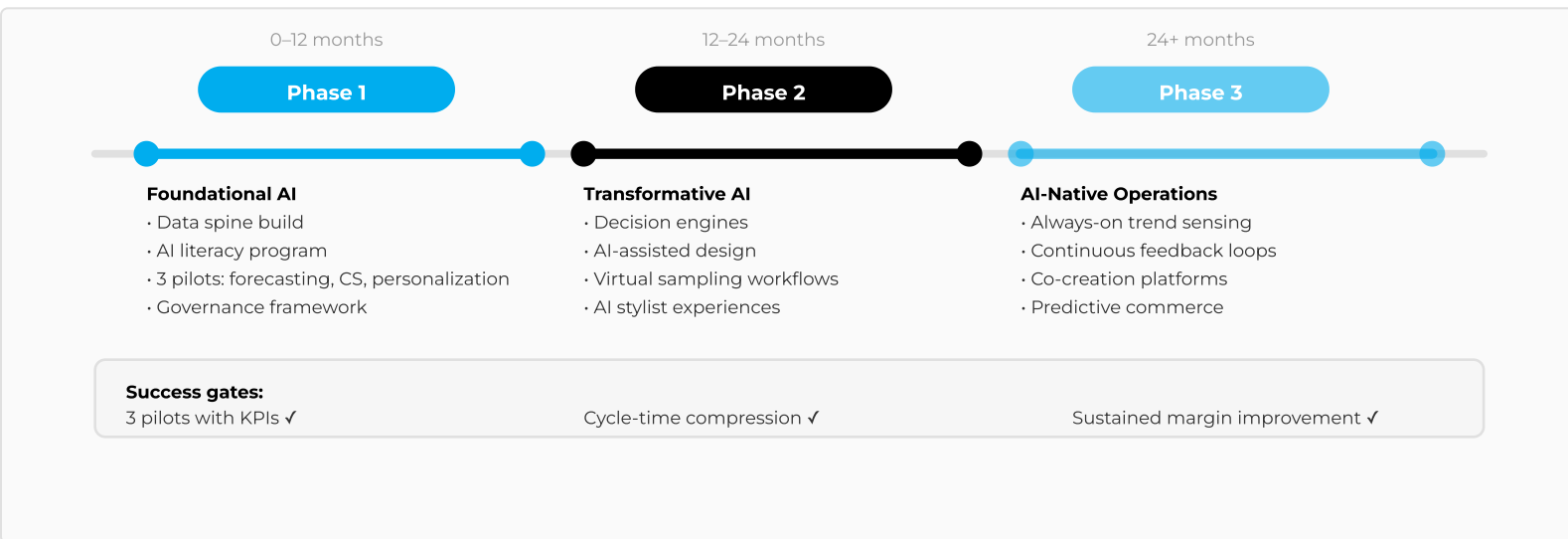
- Phase-gated 24-month implementation roadmap
- The AI Flywheel: Sense → Decide → Execute → Learn
- 12 prioritized use cases across the value chain
- KPI tree, governance framework, and 90-day sprint plan

This section translates AI's impact into a pragmatic operating roadmap. The aim: move from "AI curiosity" to **compounding advantage**.

V.1 The Phase-Gated AI Implementation Strategy

Recommendation: adopt a phased approach. Fashion organizations don't fail because models are weak; they fail because data + workflows + incentives aren't ready.

Figure 4 — Phase-Gated AI Adoption Timeline



Source: Author framework

Phase 1 — Foundational AI (0-12 months)

Objective: build capability, clean data flows, ship low-risk wins.

What You Build

- A minimal **data spine** (product, inventory, demand, customer)
- **AI literacy** inside core functions
- A small internal **AI studio** (product + data + domain)

High-ROI Use Cases

- Demand forecasting + size/fit forecasting (reduce stockouts + returns)
- Customer service copilots (deflection + higher CSAT)
- Basic personalization (PDP/PLP ranking, email personalization)
- Content acceleration with guardrails (localization, copy variants)

Success Criteria

- 3 pilots shipped, each with baseline + lift measurement
- Data quality thresholds defined (not perfect, usable)
- Clear guardrails: privacy, IP, tone-of-voice, claims

Phase 2 — Transformative AI (12–24 months)

Objective: Integrate AI into core decision loops.

What You Build

- Decision engines for allocation/replenishment
- Advanced personalization (intent + styling)
- Generative design ideation + virtual prototyping workflows

Use Cases

- AI-assisted design exploration anchored to brand codes
- Virtual sampling + digital approval loops (time-to-market compression)
- Supply chain optimization (capacity, routing, MOQ management)
- "AI stylist" experiences (guided discovery, outfit building)

Success Criteria

- Measurable cycle-time compression (weeks → days in select loops)
- Planning accuracy improvements with fewer overrides
- CX metrics improve without increasing discounting

Phase 3 — AI-Native Operations (24+ months)

Objective: AI becomes a strategic driver; new business models emerge.

What You Build

- Always-on trend sensing + demand shaping
- Continuous feedback loops (sell-through → design → drop cadence)
- AI-enabled co-creation (customer input at scale)

Use Cases

- Co-creation platforms (community → capsule drops)
- Design-to-production optimization with automated constraints
- "Predictive commerce": pre-emptive replenishment, proactive styling

Success Criteria

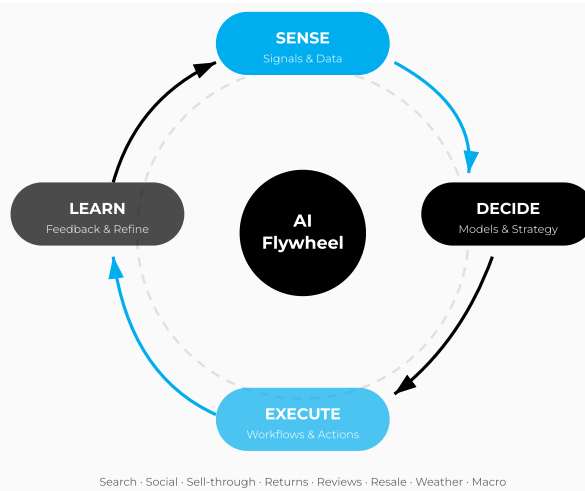
- Operating model changes (teams, incentives, budget ownership)
- Sustained margin improvement from better decisions, not just growth

V.2 The AI Flywheel for Fashion

Most brands treat AI as projects. Winners treat it as a loop:

1. **Sense** (signals): search, social, sell-through, returns, reviews, resale pricing, weather, macro
2. **Decide** (models): forecasting, clustering, allocation, pricing, content selection
3. **Execute** (workflows): drops, replenishment, creatives, CRM, support
4. **Learn** (feedback): measure lift, retrain, refine brand codes

Figure 5 — The AI Flywheel: Sense → Decide → Execute → Learn



Source: Author framework

Key insight: the compounding advantage comes from **feedback-loop speed**, not model novelty. The brand that closes the loop in days outperforms competitors with better models but slower loops.

V.3 Use-Case Portfolio

A simple portfolio rule: **1 Revenue use case + 1 Margin use case + 1 Capability use case.**

Figure 6 — The 12 AI Moves: Use-Case Portfolio by Function

Revenue	Margin	Capability
PRODUCT / DESIGN		
Design ideation copilots	Virtual sampling (~60% prototypes)	
MERCH / PLANNING		
What-if scenario planning	Size curve optimization	
SUPPLY CHAIN		
	Allocation & replenishment	Lead-time prediction
MARKETING / CONTENT		
Performance creative testing		Localization at scale
E-COMMERCE / CX		
AI stylist + outfit builder	Intent-based discovery	
RESALE / CIRCULAR		
Price intelligence (resale)		Authentication triage

Source: Author framework

V.4 KPI Tree — North-Star Outcomes

REVENUE <ul style="list-style-type: none">Conversion rateRepeat purchase rateCustomer retention	MARGIN <ul style="list-style-type: none">Gross marginMarkdown rateReturns rateStock obsolescence
--	--

SPEED	EXPERIENCE
<ul style="list-style-type: none"> Time-to-replenish Content cycle time 	<ul style="list-style-type: none"> Support resolution time Fit satisfaction

Rule: every AI initiative must declare: **baseline metric**, **target lift**, **measurement window**, **owner**, and **rollback plan**.

V.5 Build the AI-Ready Workforce & Culture

AI transformation is change management disguised as technology.

Operating Model

- AI Studio (core):** product lead, data/ML, analytics, domain expert, legal/compliance
- Embedded champions:** design, merch, supply chain, marketing, CX

Skills to Build

- Prompting isn't the skill; **problem framing + evaluation** is.
- Train teams to: define success metrics, curate datasets, validate outputs.

V.6 Governance

Non-negotiables before scaling:

- Privacy:** consent, retention, access controls
- IP:** rules for training data, vendor rights, internal asset usage
- Brand safety:** tone-of-voice, claims, prohibited categories
- Bias & fairness:** size/fit recommendations, representation
- Auditability:** log prompts/outputs for regulated touchpoints

V.7 90-Day Sprint Plan

Weeks 1–2: Setup <ul style="list-style-type: none"> Pick 3 use cases + define KPI baselines Inventory data sources + access Choose tooling (build/buy) and governance rules 	Weeks 3–6: Build Pilots <ul style="list-style-type: none"> Ship MVPs in production (not demos) Create measurement dashboards
Weeks 7–10: Scale What Works <ul style="list-style-type: none"> Expand to second market/channel Document playbooks, automate evaluation 	Weeks 11–12: Decide <ul style="list-style-type: none"> Keep/kill decisions Convert winners into roadmap + budget

► KEY TAKEAWAY — SECTION V

Start with **3 use cases** (1 revenue, 1 margin, 1 capability). Build the data spine first. Establish governance before scaling. The compounding advantage comes from **feedback-loop speed**, not model novelty.

The New Competitive Edge

AI doesn't replace fashion's human core: taste, cultural intuition, and brand meaning. But it **amplifies** the organizations that already know who they are.

The winners in 2026+ will:

- Build faster feedback loops than competitors
- Use AI to reduce waste and increase relevance
- Treat data as a strategic asset, not an IT byproduct
- Build trust: with customers, creators, and regulators

In a world where content is infinite and trends are noisy, advantage comes from **clarity + cadence + compounding systems**.

The brands that master the human-AI partnership — using technology to amplify judgment, not replace it — won't just survive the AI transition. They'll define the next era of fashion.

\$275B

GenAI profit potential
in fashion & luxury

60%

Sample reduction
via digital workflows

90

Days to your
first AI sprint

3

Use cases to
start with

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