

# HOW AI'S IMPACT IS RESHAPING FASHION

A Strategic Playbook for 2026 and Beyond



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## Table of Contents

### Executive Brief

#### I. The New Landscape

- I.1 From Experimentation to Infrastructure
- I.2 The Scale of the Shift
- I.3 Why Fashion Is Uniquely Exposed
- I.4 Framework for Reading This Report

#### II. AI Across the Value Chain

- II.1 Design & Product Development
- II.2 Sourcing & Supply Chain
- II.3 Merchandising & Planning
- II.4 Marketing & Content
- II.5 Commerce & CX
- II.6 Resale & Circularity

#### III. The Creative Impact

- III.1 Augmenting vs. Replacing
- III.2 The New Design Workflow
- III.3 Digital Fashion & Virtual
- III.4 The Evolution of Aesthetics

#### IV. Strategic Implications

- IV.1–IV.6 Moats, Data, CX, Sustainability

#### V. Actionable Opportunities

- V.1–V.7 Phases, Flywheel, KPIs, Sprint

#### Conclusion

#### Sources & References

# 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.

|   |   |                               |   |
|---|---|-------------------------------|---|
| <b>\$2T</b><br>Global fashion market size | <b>\$275B</b><br>GenAI profit potential | <b>35%</b><br>Fashion AI CAGR | <b>30–40%</b><br>Inventory marked down/yr |
|---|---|-------------------------------|---|

## What's Changing — Signals → Implications

- **Creativity:** Generative systems increase **creative throughput** while raising the premium on curation, taste, and brand codes.
- **Merch + Planning:** Forecasting shifts from seasonal to near-continuous. Assortments become more adaptive.
- **Content economics:** Content becomes abundant; **distribution + trust + brand clarity** become scarcer.
- **Supply chain:** The biggest gains come from **decision quality** — not 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** 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.

# I. 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

## 1.1 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.<sup>1</sup>

### 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.<sup>2</sup>

### 3. Cost structures collapsed.

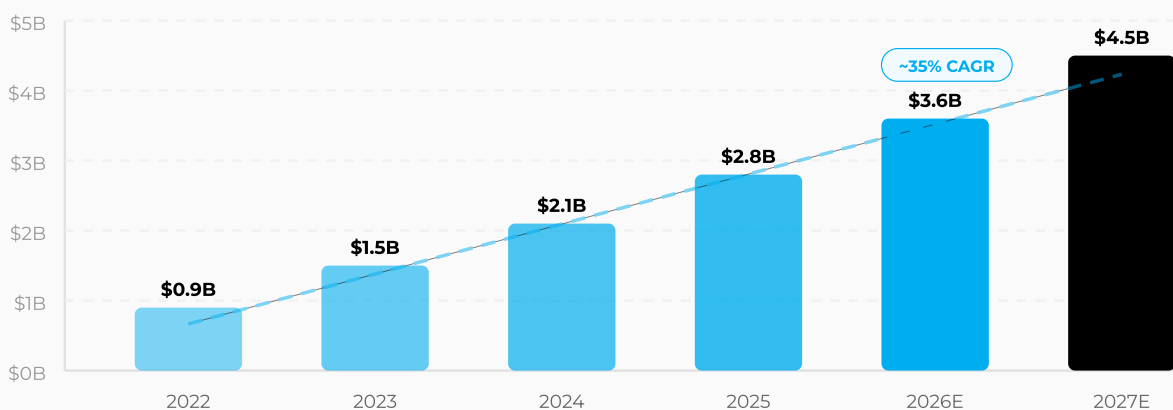
The cost of generating an image dropped from ~\$150 to under \$0.10. The cost of translating a product page into 40 languages fell from thousands of dollars to cents. This isn't incremental — it's a structural shift.

*"McKinsey estimates generative AI alone could add \$150–275 billion in operating profit to the apparel, fashion, and luxury sectors."<sup>3</sup>*

## 1.2 The Scale of the Shift

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

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



Sources: McKinsey & Company; Statista; BoF Insights<sup>7</sup>

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.<sup>8</sup>

### I.3 Why Fashion Is Uniquely Exposed

**High-dimensional creative search.** A single product involves dozens of variables: silhouette, material, colorway, trim, sole, lacing, sizing, fit. AI excels at exploring this combinatorial space.

**Demand uncertainty.** Fashion is a prediction business operating under radical uncertainty. ML models trained on sell-through, search, social, and resale data narrow the cone significantly.

**Visual-first, content-heavy.** Fashion lives on images, video, styling, and storytelling. Generative AI's strongest modalities 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.

**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 while humans own the emotional layer.

### I.4 A Framework for Reading This Report

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)

#### ► KEY TAKEAWAY — SECTION I

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.

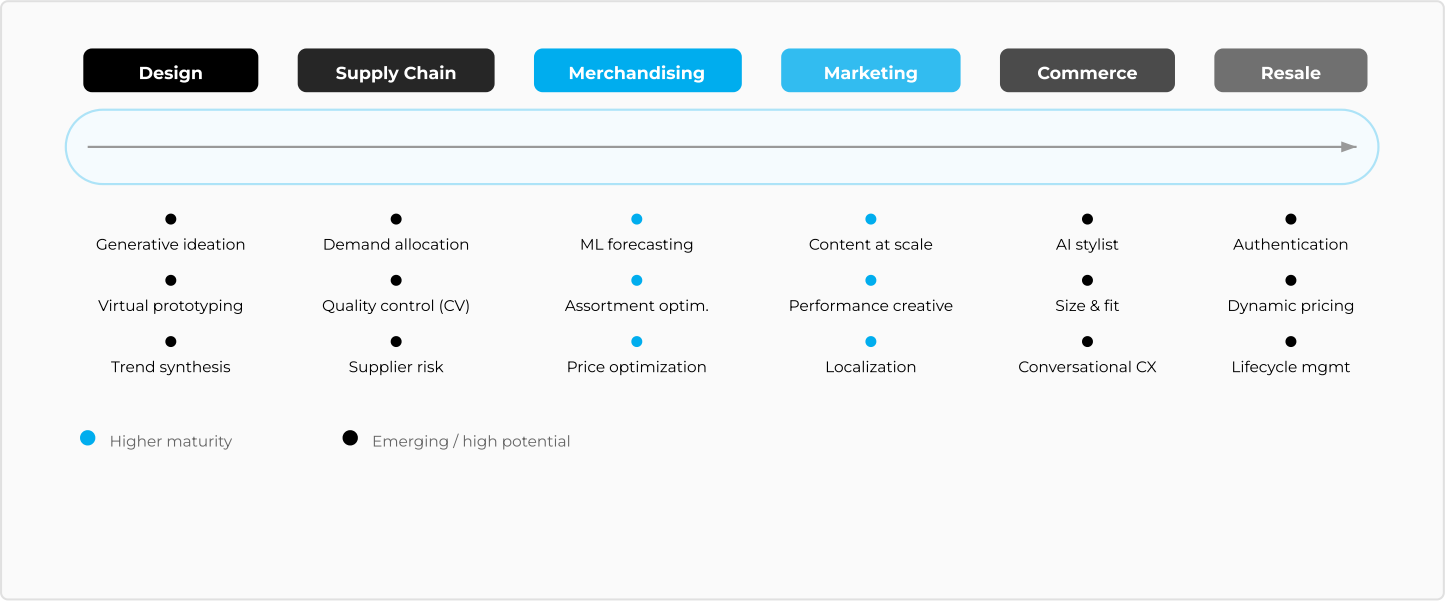
# II. AI Across the Fashion Value Chain

**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.

Figure 2 — AI Applications Across the Fashion Value Chain



Source: Author analysis

## II.1 Design & Product Development

### What's Working

- **Ideation acceleration.** Designers at Nike, Adidas, and Acne Studios use Midjourney, DALL·E, and custom Stable Diffusion models to generate concept boards in hours rather than weeks.<sup>9</sup>
- **Virtual prototyping.** CLO3D, Browzwear, and Style3D enable digital-first sampling. PVH Group reported a **60% reduction in physical samples**.<sup>10</sup>

**Material and print generation:** Maison Meta created collections for Collina Strada using generative tools, pushing aesthetic boundaries that would have been cost-prohibitive manually.<sup>11</sup> **Trend synthesis:** Heuritech and Trendalytics use computer vision to scan millions of social images. LVMH has invested in Heuritech.<sup>12</sup>

**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, and killing bad ideas earlier.

### What's Not Working (Yet)

- **Technical design.** AI still struggles with construction details and manufacturing constraints.
- **Brand code enforcement.** Most generative models produce generic output unless heavily fine-tuned.
- **Cross-functional integration.** Design tools remain siloed from PLM, ERP, and supply chain systems.

## II.2 Sourcing, Manufacturing & Supply Chain

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

- **Demand-driven allocation.** Inditex has spent **€2.5B** on integrated digital systems using real-time sell-through data across 5,700+ stores.<sup>13</sup>
- **Supplier risk management.** Nike and H&M deploy AI systems monitoring supplier health across financial, compliance, and delivery dimensions.<sup>14</sup>
- **Quality control.** Computer vision systems from Inspectorio and Optitex detect defects in real time.

## II.3 Merchandising & Demand Planning — Most Ready for Transformation

### What's Working

- **Forecasting accuracy.** ML models outperform traditional methods by **20–50%**. EDITED, Centric Software, and o9 Solutions integrate external signals with sell-through data.<sup>15</sup>
- **Assortment optimization.** AI enables "cluster-of-one" strategies. Stitch Fix built its entire model on this principle.<sup>16</sup>
- **Size and fit prediction.** Returns due to poor fit cost the industry **~\$50B annually**. True Fit, 3DLOOK, and Fit Analytics use body-scan data to predict optimal sizes.<sup>17</sup>
- **Price optimization.** Tools from Revionics, Competera, and Blue Yonder deliver 3–8% gross margin improvement.

**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

The function experiencing the most visible disruption:

- **Content production at scale.** Zalando generates thousands of product descriptions using LLMs.<sup>18</sup> Brands produce social media variants at **10–50x the volume** at a fraction of cost.
- **Performance creative optimization.** Tools like Pencil, AdCreative, and Jasper generate and test ad creative variants programmatically.
- **Visual search and discovery.** Pinterest Lens, Google Lens, and ASOS Visual Search shift discovery from keyword to visual.<sup>19</sup>

**Leverage point:** 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

- **Recommendation engines (evolved).** Leaders move toward context-aware recommendations factoring in occasion, weather, and style affinity. Kering's client advisors use AI copilots.<sup>21</sup>
- **Size and fit tools.** Brands deploying robust fit tools report **10–25% reductions** in fit-related returns.
- **Visual try-on.** AR-powered virtual try-on is improving substantially for accessories and eyewear.

**The next frontier:** The **AI stylist** — a system that understands intent ("I need something for a gallery opening in Berlin"), knows the customer's style profile, pulls from real-time inventory, and delivers curated options. The brand that builds it owns next-generation loyalty.

## II.6 Resale, Circularity & Sustainability

- **Authentication.** AI-powered services (Entrupy) verify product authenticity with **99%+ accuracy** for luxury categories.<sup>22</sup>
- **Price intelligence.** Vestiaire Collective and StockX use AI to dynamically price resale items.
- **Demand forecasting for circular models.** Rent the Runway uses ML to predict rental demand and manage garment lifecycle.<sup>23</sup>

**Leverage point: AI-enabled product lifecycle management** — tracking individual garments from production through multiple use cycles and optimizing for total lifecycle value.

### ► 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
- Digital fashion's real value is design R&D, not revenue
- Convergence pressure vs. human premium creates strategic choice

## III.1 Augmenting vs. Replacing the Designer

What's happening is a **redistribution of creative labor**, not a replacement.

### What AI Does Well

- Generates high volumes of variations on a theme
- Explores adjacent aesthetic spaces
- Synthesizes reference material into mood boards
- Translates 2D sketches into 3D renders

### What AI Does Poorly

- Originating genuinely new aesthetic directions
- Understanding cultural context and timing
- Maintaining brand coherence across a collection
- Making taste judgments — choosing the one that **matters**

The designer's job shifts from **generation to curation**. The scarce skill becomes judgment.

### CASE STUDY

**Coperni.** The Parisian house integrated AI into its design process while maintaining a distinctive creative vision. Their approach: use AI to pressure-test ideas early while keeping final creative decisions in human hands. The technology expands the aperture; the designer controls the lens.

## III.2 The New Design Workflow

AI is compressing and parallelizing the traditional linear sequence (research → sketch → develop → sample → fit → approve → produce). PVH Group (Calvin Klein, Tommy Hilfiger) reduced pre-production samples by **60%** through digital-first workflows.<sup>10</sup>

**The risk: Over-optimization.** When AI makes iteration cheap, brands may produce a "perfect average" that lacks conviction. The most distinctive fashion comes from constraints and strong points of view.



### III.3 Digital Fashion & Virtual Garments

- Balenciaga's Fortnite collaboration and Gucci's Roblox garden proved luxury brand equity translates to virtual contexts.<sup>24</sup>
- Nike's .SWOOSH platform sold **\$185 million** in virtual sneakers by late 2024.<sup>25</sup>
- AI removes manufacturing constraints entirely — enabling impossible geometries, materials, and physics simulations.

**The contrarian view:** Digital fashion's real value isn't revenue. It's **design R&D**. Every virtual garment is a free experiment — no material cost, no inventory. The smartest brands use digital fashion as a low-cost testing lab.

### III.4 The Evolution of Aesthetics

**Convergence pressure.** When thousands of designers use the same tools with similar prompts, output drifts toward a homogeneous "AI aesthetic." The risk: a visual monoculture.<sup>26</sup>

**Counter-pressure: the human premium.** As AI content becomes ubiquitous, the market premium for demonstrably human-made, hand-crafted work rises. Hermès, Brunello Cucinelli, The Row, and Loewe benefit from a halo of authenticity AI cannot replicate.

**New aesthetic vocabularies.** Iris van Herpen, Coperni, and GCDS used AI tools to explore forms and textures impossible through traditional techniques.<sup>27</sup>

**The trend acceleration problem.** AI-powered trend detection + AI-powered production means the half-life of a trend shrinks. For luxury brands trading on timelessness, this is a threat.

**Brands must choose: 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.**

#### ► 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

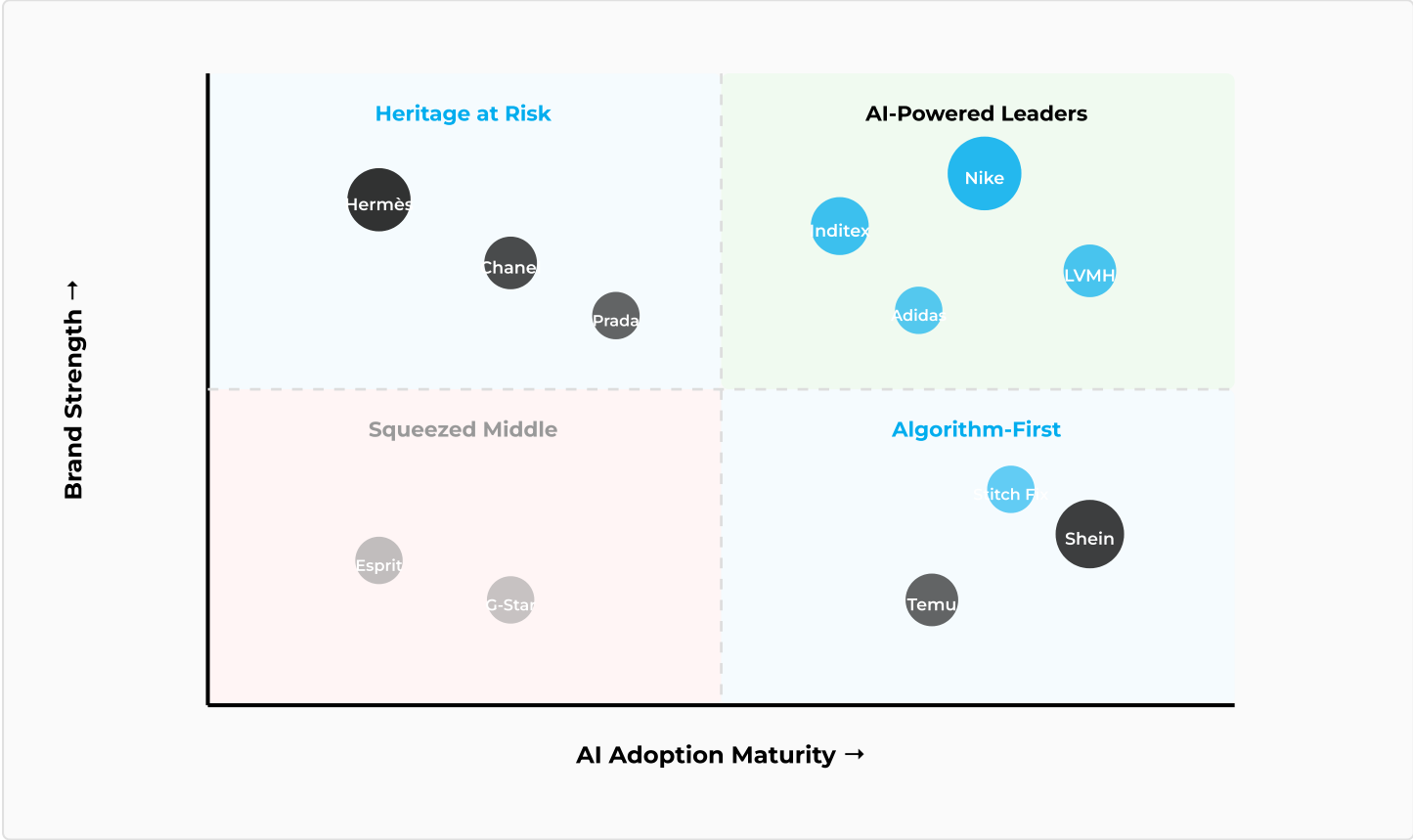
**Table Stakes (Parity):** Product recommendation engines, basic chatbots, automated content production, standard demand forecasting, visual search. Available via off-the-shelf platforms — necessary to compete but won't differentiate.

Potential Moats

- **Proprietary data loops.** Nike's connected ecosystem generates first-party data on **300M+ members** — data no competitor can replicate.<sup>28</sup>
- **Brand-specific AI models.** Burberry's work digitizing its archive creates the foundation for a generative model trained on 50 years of brand DNA.<sup>29</sup>
- **Decision speed advantage.** Weekly assortment adjustments vs. seasonal cycles compounds over time.
- **Customer relationship depth.** AI-powered styling + sizing creates switching costs through accumulated preference data.

**The acid test:** Can a competitor replicate this by buying the same software? If yes → table stakes. If no (because it requires your data, expertise, or organizational capability) → 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.** AI doesn't fix bad data — it amplifies it.

The Data Hierarchy for AI

1. **Clean product data** — enables search, recommendation, assortment planning
2. **Unified customer data** — enables personalization, LTV modeling
3. **Real-time inventory data** — enables allocation, fulfillment optimization
4. **Feedback data** — enables product improvement, fit optimization
5. **External data** — enables trend sensing, competitive intelligence

**Before spending \$10 million on AI tools, spend \$2 million on data infrastructure. This determines whether your AI investments generate returns or waste.**

CASE STUDY

**LVMH.** The luxury conglomerate has been quietly building a centralized data platform across its 75+ maisons, balancing shared AI infrastructure with each brand's autonomous creative identity.<sup>30</sup>

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

- **From sequential to parallel.** AI enables design, merchandising, and supply chain to work on the same data simultaneously.
- **From intuition-first to data-informed intuition.** Senior buyers shift from "I decide the buy" to "I override or validate the AI's recommendation."
- **From large teams → small teams.** Fewer people producing, more people curating and deciding.
- **From seasonal → continuous.** AI-driven demand sensing is always on.

**The talent implication:** Fashion needs the "AI translator" — someone who understands both the domain and the technology. Not a data scientist. Not a fashion executive. Someone at the intersection.

### IV.4 Three Horizons of AI-Driven CX

#### Horizon 1 (Now): Friction Reduction

Chatbots, size tools, personalized email. Optimization of the existing experience.

#### Horizon 2 (2025–2027): Intent-Driven Commerce

Customers describe needs, not products. An AI stylist processes intent, style profile, inventory, and context.

#### Horizon 3 (2027+): Anticipatory Commerce

The system predicts needs before they're articulated — proactive replenishment and styling.

### IV.5 Sustainability: From Narrative to System

- **Overproduction reduction.** AI-driven planning could cut overproduction by **20%**, dwarfing any recycled-material capsule collection.<sup>31</sup>
- **Material optimization.** AI cutting algorithms reduce fabric waste by 3–8%.
- **Supply chain emissions.** Maersk's AI-driven logistics reports **10–15% emission reductions**.<sup>32</sup>
- **Risk:** AI could **increase** total consumption (Jevons paradox). Computational footprint is non-trivial.<sup>33</sup>

**Strategic implication:** The EU's Digital Product Passport (mandatory from 2027) will require the supply-chain data infrastructure AI can help build.<sup>34</sup>

### IV.6 Who Wins, Who Loses

#### Winners

- AI-first platforms (Shein, Temu)<sup>8</sup>
- Luxury houses with archives (Hermès, Chanel)
- Data-rich athletic brands (Nike<sup>28</sup>, Adidas)
- AI-native startups

#### Losers

- Mid-market brands with weak data
- Wholesale-dependent brands
- Brands treating AI as an IT project rather than business strategy

#### ► 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.

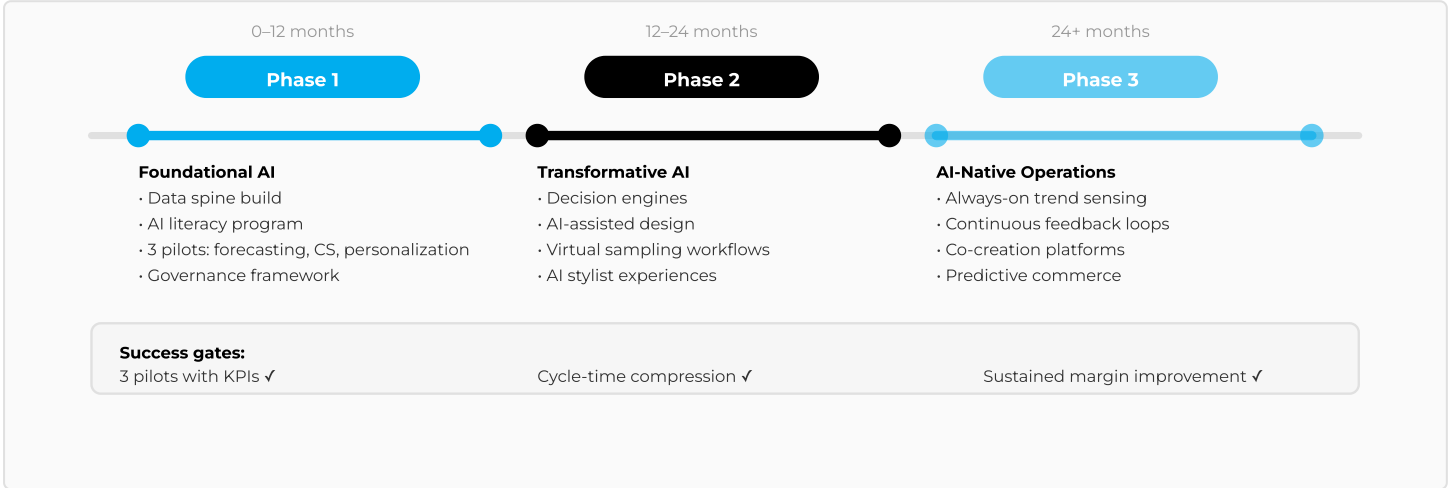
# V. Actionable Opportunities: The Path Forward

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

## V.1 Phase-Gated AI Implementation

Figure 4 — Phase-Gated AI Adoption Timeline



Source: Author framework

Phase 1 — Foundational AI (0-12 months)

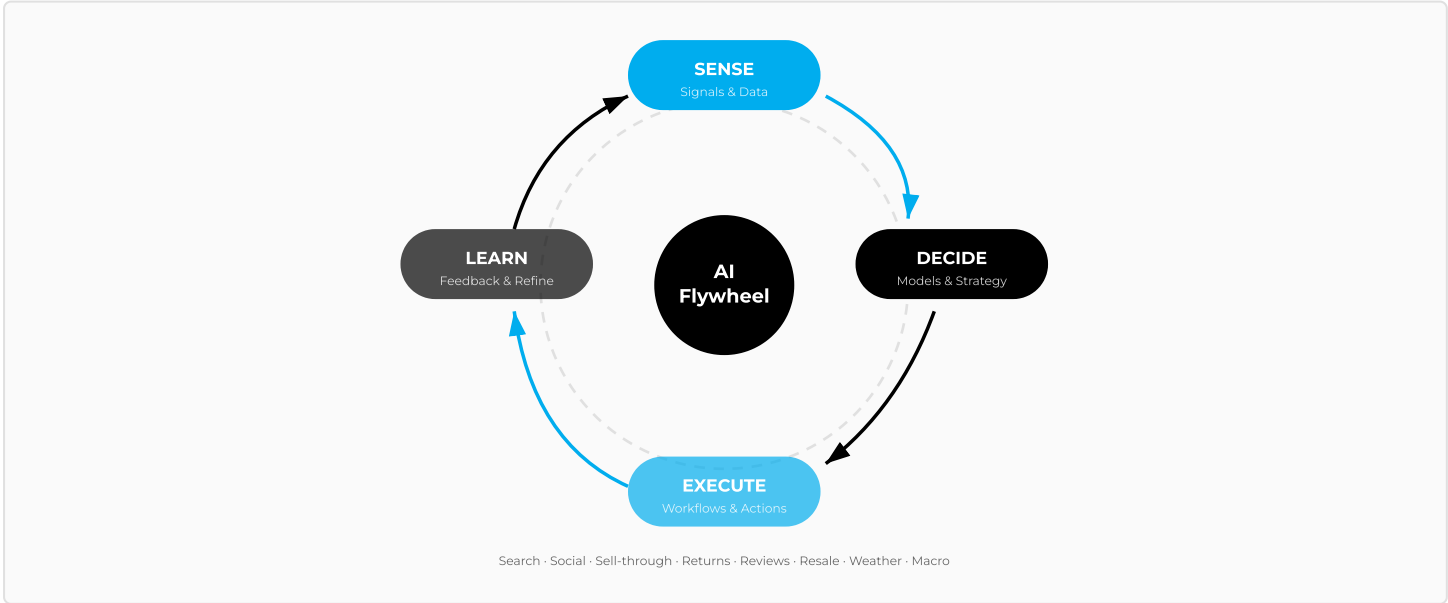
**Objective:** build capability, clean data flows, ship low-risk wins.

**High-ROI Use Cases**

- Demand forecasting + size/fit forecasting
- Customer service copilots
- Basic personalization (PDP/PLP ranking, email)
- Content acceleration with guardrails

## V.2 The AI Flywheel for Fashion

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



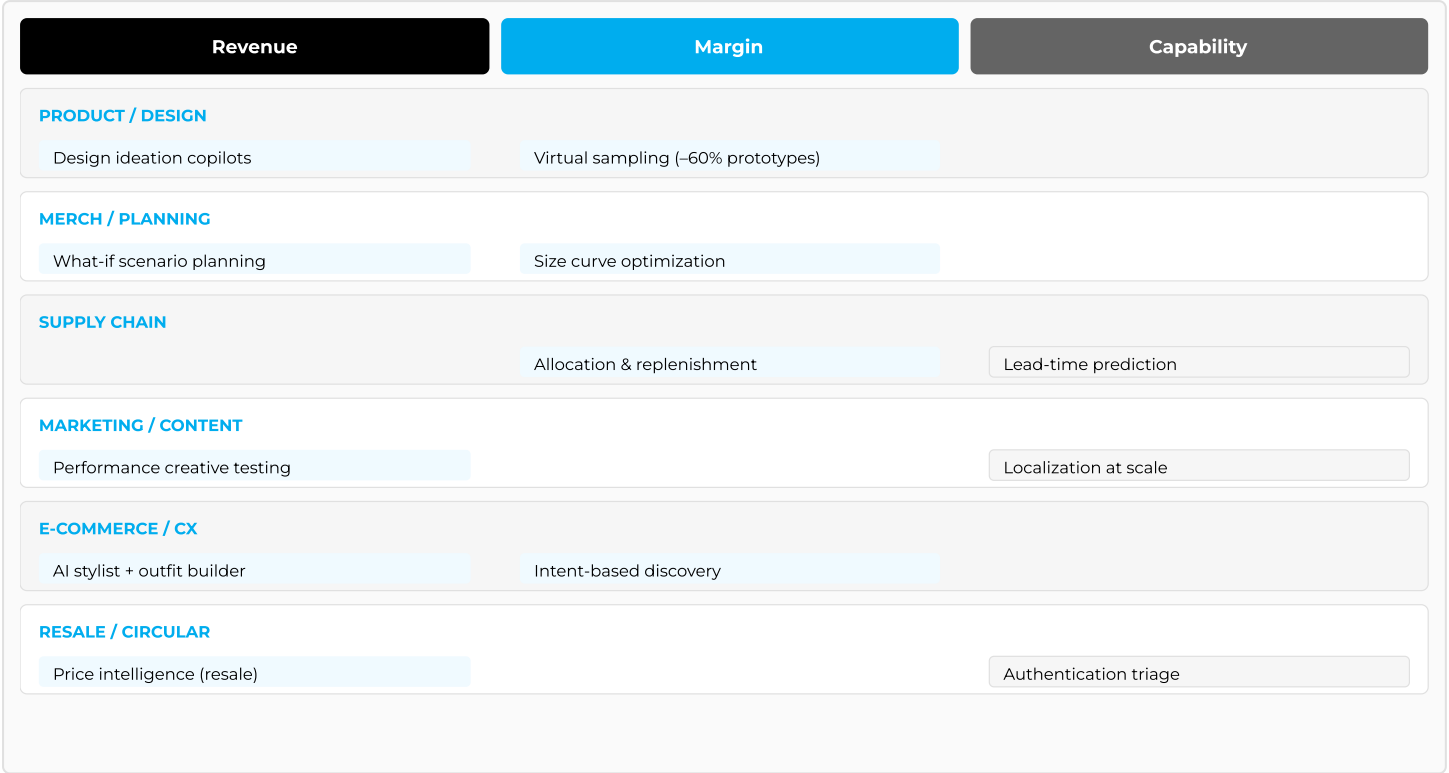
Source: Author framework

**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 rule: 1 Revenue use case + 1 Margin use case + 1 Capability use case.

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



Source: Author framework

V.4 KPI Tree — North-Star Outcomes



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

V.5 Build the AI-Ready Workforce & Culture

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.

Human–AI Synergy

- **Humans own:** brand taste, ethics, claims, strategy.
- **AI owns:** search, variation, prediction, optimization.

V.6 Governance

Non-negotiables before scaling:

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

V.7 90-Day Sprint Plan

Weeks 1-2: Setup

- Pick 3 use cases + define KPI baselines
- Inventory data sources + access
- Choose tooling and governance rules

Weeks 3-6: Build Pilots

- Ship MVPs in production (not demos)
- Create measurement dashboards

Weeks 7-10: Scale What Works

- Expand to second market/channel
- Document playbooks, automate evaluation

Weeks 11-12: Decide

- 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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and drive strategy forward.

## Contact:

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