

WOVN

How fashion brands predict demand

2021



The state of fashion forecasting in 2021

Never before have consumers had more input into product design and innovation. From personal care to packaged food to music, consumer input is becoming more accessible than ever. New direct-to-consumer players are popping up every day to quickly respond to consumer desires, and incumbents must become more nimble or face existential threat.

But even with consumer preferences more accessible than ever, the fashion industry faces a unique set of challenges for capturing and quickly responding to such input. The globalisation of the fashion supply chain over the past several decades has translated into long lead times – sometimes as long as two years. Outside variables like the weather or a trend sparked by a celebrity can mean greater unpredictability than in other industries.

Perhaps more importantly, incorporating consumer input into demand planning represents a fundamental shift in the way the fashion industry does business. But consumers increasingly expect for their voices to be heard and for their preferences to be incorporated into product offerings. And inaccurate forecasting, which results in over 20 billion garments each year being produced and never sold ^[1], is costly both environmentally and financially.

Wovn wanted to understand the current state of how fashion brands are tackling demand prediction in the face of ever-greater availability of consumer insights, so we conducted a survey of buyers and merchandisers from global fashion brands. We found that the challenges of predicting demand in fashion are as complex as ever, but that brands are eager to seize the new opportunities available.



How brands predict demand today

Regardless of the geography, company size, or market tier, most demand planning predictions are made by combining in-house expertise and historical sales data.

Brands that seize the opportunity to talk to real consumers about their preferences have a competitive advantage.

70% of the professionals Wovn surveyed said they use their own experience and instinct to predict demand. This was followed closely by the proportion using historical sales data (66%).

20% said they use something other than experience, sales data, and tech tools to make demand predictions; responses in the “other”

category included trend forecasting agencies like WGSN and forward wholesale orders.

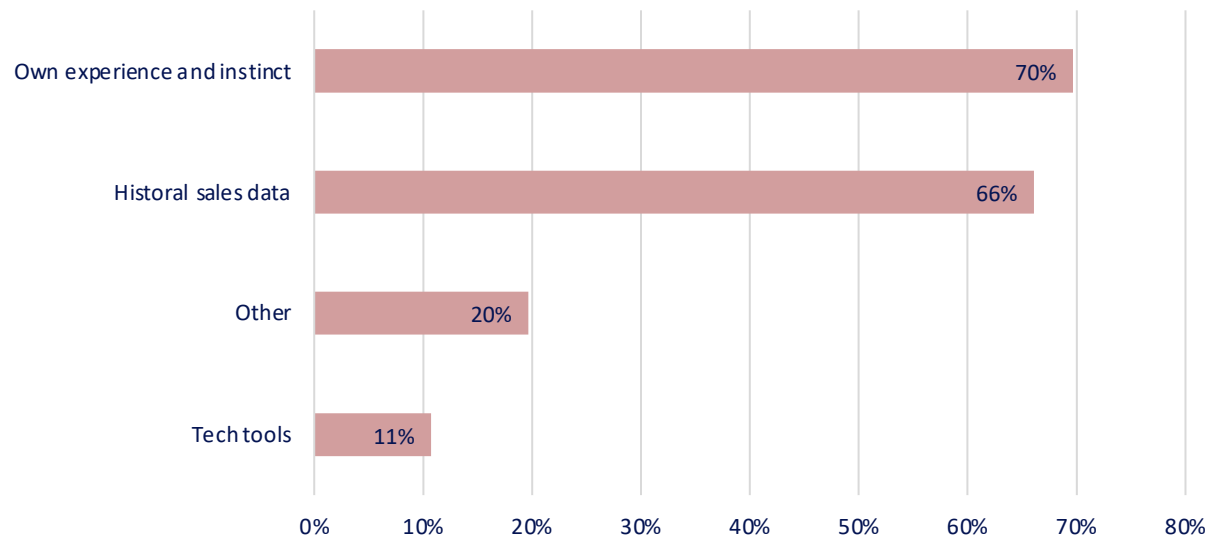
Surprisingly, only 11% of respondents are using tech tools to inform their demand predictions. Some of the tech tools mentioned included PLM and ERP software solutions.

Almost none of the respondents cited consumer insights as an input to their demand planning processes.

Consumer insights don’t replace in-house expertise, but they are a powerful complement to expertise and historical sales data. Brands that seize the opportunity to talk to real consumers about their preferences can tap into a significant competitive advantage.

Which tools do you use to predict demand?

Multi-select; percentages of total respondents who selected each option.



Priorities and success metrics

While there is consistency across brands in the primary methods for predicting demand, the end objectives vary.

The main risk lies in inaccurate forecasting of seasonal items.

A little over half of the brands surveyed (53%) said they optimise for minimising terminal stock at the end of the season, while the rest said they prioritise having enough stock of bestsellers. For both groups, the main risk lies in inaccurate forecasting of seasonal items; continuity items carry less risk both because their demand is more predictable and because they can be sold in future seasons. But making the wrong bet on a seasonal item is much likelier to result in stockouts on the one hand or discounting and leftover inventory on the other. Either way, the risk is expensive: stockouts of in-demand products represent a huge opportunity cost, and discounting collectively costs brands and

retailers \$300 billion per year.^[2]

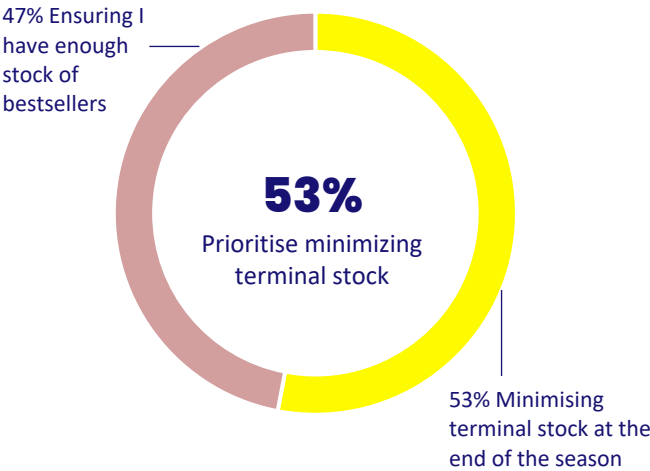
The most commonly cited key success metrics also reflect the risks of inaccurately forecasting seasonal items. A majority of the brands we surveyed (55%) said percent sell-through at full price is their key metric.

Because of the riskiness of making bold bets on seasonal items, it's not uncommon for buyers and merchandisers to hedge their bets in their assortment planning and buy depth decision-making. This is one factor that can end up contributing to mismatches between supply and demand.

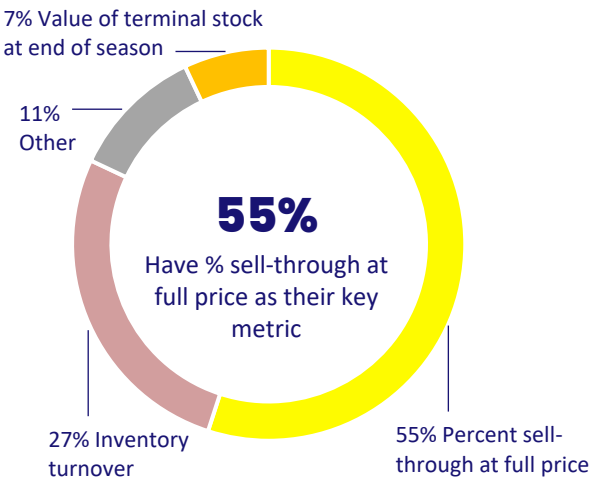
For a significant portion of respondents (35%) compensation is tied to performance success metrics, raising the stakes even higher.

Regardless of which key success metric is used and which priority is most important, improving demand planning accuracy is unequivocally critical in achieving brands' objectives.

What's your top priority?



What is the key success metric for your role?



The impact of Covid

There's no question that the pandemic has introduced huge amounts of additional complexity and difficulty into the job of predicting fashion demand. A solid majority (69%) of respondents said Covid has made demand planning more difficult. Only a tiny sliver (7%) said it's made planning easier.

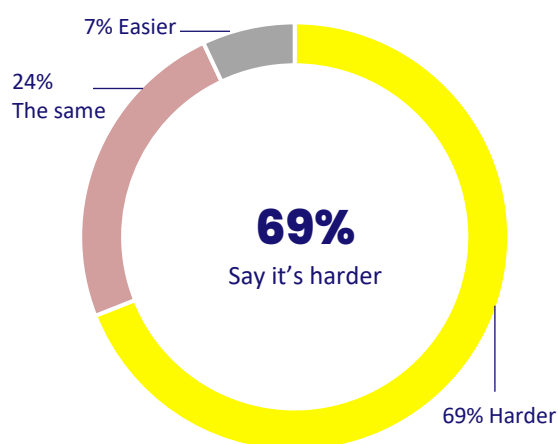
Shopping behaviours have shifted dramatically as a result of the pandemic too, with total retail sales down by 18% but ecommerce orders up by 30%.^[3]

But while Covid has made demand planning more complex, it's also presented fashion brands with new opportunities. In fact, 56% of respondents said they've launched new products due to Covid. While it's possible that many of these new products are specifically pandemic-related (like face masks), the pandemic has introduced lifestyle changes that have enabled brands to expand into new categories like loungewear that may prove to have more longevity.

To be able to capitalise on opportunities provided by pandemic-related lifestyle shifts, it will be imperative that brands keep a finger on the pulse of consumer sentiment.

Understanding new preferences and nimbly embracing them will be pivotal in seizing those opportunities.

Has Covid made demand planning easier or harder?



Sustainability and demand planning

The sweeping lifestyle changes that Covid has forced have translated into sharp disruption to the fashion industry. The categories consumers are most interested in have shifted abruptly since the pandemic began. Research Wovn conducted in January 2021 indicated that in the preceding 12 months, while total consumer spend on categories like clothing and beauty was down by 25%, spend on loungewear was up 13%. [4]

Dramatic shifts in consumer preferences not only make predicting demand more difficult; they also have the potential to exacerbate the issue of excess inventory. As consumers become more savvy and demanding about sustainability, this should be a chief concern for brands.

Brands are clearly aware of the growing consumer demand for more sustainable practices. As a group, the brands we surveyed were well on the way to establishing sustainability policies.

In fact, every single one of them indicated that they were at least working on a sustainability policy.

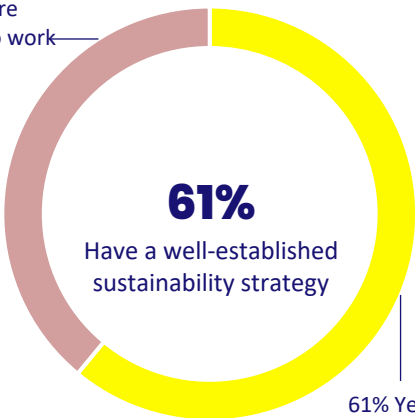
All of the brands we surveyed indicated they were at least working on a sustainability policy.

Furthermore, responses indicate that brands are starting to recognise addressing excess production is a crucial input to becoming more sustainable; 80% of the brands we surveyed said that their sustainability strategies include avoiding overproduction.

It's clear that as consumers demand yet more out of fashion brands on the sustainability front, accurate demand predictions will only become more important.

Does your company have a sustainability strategy in place?

39% We are starting to work on one

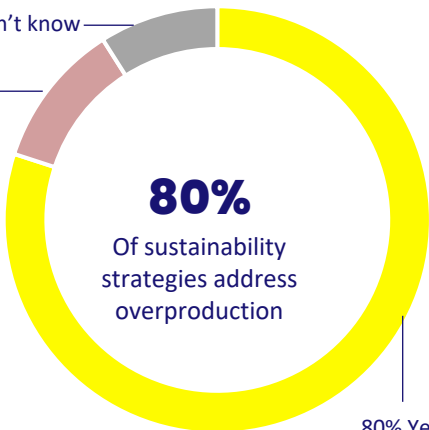


61% Yes, we have a well-established sustainability strategy

Does the strategy include avoiding overproduction?

9% I don't know

11% No



80% Yes

What the future holds

We are now in the midst of the second major upheaval to the fashion industry since the beginning of 2020; as we emerge from lockdowns, there's a collective eagerness to know how closely our new normal will resemble the old one. It's not just lifestyles that have changed over the past 15 months – consumers' preferences and deeper values have shifted dramatically as well.

After buying fewer clothes throughout the pandemic, will consumers re-evaluate their pre-Covid consumption habits? After living in loungewear 7 days a week, will they resist squeezing themselves into anything without an elastic waistband? And how will their increased attention to brands' sustainability practices translate into consumption behaviours?

One thing is for certain: Because of dramatic changes in shopping behaviour, historical sales data is no longer as useful for

accurately predicting demand as it once was. The expertise of buyers and merchandisers may also be challenged by these dramatic changes. And brands that used to rely on input from store associates will have to find new ways of gathering customer feedback.

Consumers' deeper values have shifted dramatically.

Fashion brands that invest in enhancing their demand predictions to achieve greater accuracy will have an edge. Over the next year, we expect to see more brands adding technology solutions to their demand prediction toolsets.

Ultimately, there's no better way to assess consumer tastes than by gathering insights from consumers themselves. Brands that manage to do this effectively will be the winners.



About Wovn:

Wovn helps fashion brands access real-time consumer insights to better predict demand and engage with new customers. Find out more at www.wovn.co

Research methodology:

Wovn surveyed 57 fashion professionals for this research. Respondents represented buyers, merchandisers, innovation and digital transformation executives, and C-suite executives. 60% of the brands surveyed had 10 employees or more, and 47% of respondents came from the UK and the US, with the remainder mostly spread across Europe and Canada.

Endnotes:

1. Thomas, Dana, "The high price of fast fashion", The Wall Street Journal, 29 August, 2019, <https://www.wsj.com/articles/the-high-price-of-fast-fashion-11567096637>
2. Howland, Daphne, "Markdowns cost retailers \$300B last year", RetailDive, 11 February 2019, <https://www.retaildive.com/news/markdowns-cost-retailers-300b-last-year/548129/>
3. "E-commerce in the time of COVID-19", OECD, 7 October 2020, <https://www.oecd.org/coronavirus/policy-responses/e-commerce-in-the-time-of-covid-19-3a2b78e8/>
4. "Consumer fashion shopping trends 2021", Wovn, 15 January 2021, <http://www.report.wovn.co/2021consumer.pdf>