

E-COMMERCE: FASHION

DATA AND ANALYSIS WITHIN THIS REPORT

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E-COMMERCE MARKET

Market focus: Fashion



Focus Segment



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ONLINE FASHION STORES OFFER SERVICES THAT CONSUMERS CAN'T FIND OFFLINE

Customer benefit

The **fashion segment is a relatively mature market segment** in the e-Commerce cosmos. Before the possibility of online shopping, clothes in particular were not only purchased in stores but also through mail order catalogues.

The segment covers all men and women's clothing, accessories (e.g. hats, scarves, gloves), shoes and shoe accessories (e.g. care products) as well as different kinds of bags (daypacks and purses) and luggage purchased online.

The **broader product range** (colors, sizes, styles) offered in online shops, free shipping, improved delivery services (e.g. same day delivery) and hassle free return processes are all factors that support the ongoing trend towards online shopping in the fashion segment.

Some **online shops** selling fashion products **offer services that customers can't find in ordinary brick and mortar businesses.**

The **consumer can get inspired through different means** such as personalization and recommendations (based on personal taste or previous purchases).

Also **social influencers** play a big role in the fashion segment. Fashion blogs or social media platforms like Instagram reach a huge audience. Using these, influencers can directly advertise certain brands and products or indirectly through paid subtle product placement.

An example of services that go beyond the standard online shopping is **curated shopping**: individual outfits are put together by personal style advisers. One example in this niche market is Outfittery who specialize in men's clothing or Trunk Club for men and women.

Market size

The size of the global fashion e-Commerce market is about **US\$332.1 billion** in 2016 and accounts for 28% of the total e-Commerce market.

The three regions covered in this report have an accumulated online fashion revenue of US\$275.8 billion in 2016 and cover more than 83% of the global e-Commerce fashion market.

The **Chinese** market has grown to a total volume of **US\$125.8 billion** and is by far the largest online fashion market. The willingness of Chinese consumers to shop outside of their country (87% of shoppers) and the strong focus on luxury fashion for certain wealthy consumer groups, have a significant impact on the market.

The **European** fashion market is the second biggest in this comparison with a volume of **US\$86.8 billion in 2016**. The large internet population, relatively high online shopper penetration, combined with comparably high

purchasing power makes it a very attractive market for online merchants.

Big online players for fashion in Europe are Zalando, Vente Privee, Asos, the Otto Group and H&M.

The **US** market is valued at **US\$ 63.3 billion in 2016**. The European market accounts for 26.1% of the global market, while the US has a share of 19.0%. Relevant players in the US market are online shops of retailers Gap and Nordstrom as well as the pure player Amazon.

The market size includes gross merchandise volume, meaning returns have not been deducted. Particularly in the fashion segment high return rates are a cost factor but for the most part are still inevitable.

FASHION GOES TECH WITH CHINA AS THE GLOBAL GROWTH ENGINE

Future developments

We expect that e-Commerce in the global¹ fashion segment will **grow at an average annual growth rate of 13.8% by 2021** to reach a total market size of **US\$633.5 billion**.

The growth potential remains relevant due to ongoing differentiation in comparison to ordinary offline retail. Additionally existing and new niche concepts of online retailers are a relevant factor.

The fastest growing region is **China** with **17.8% CAGR² to 2021**. China's online fashion sales is expected to reach three times the size of the US market by 2021. This development is supported by an ongoing **Chinese internet penetration growth** (new potential customers) and increasing purchasing power especially in the urban areas of the country. The penetration of 51.3% in 2016 – compared to the US and Europe – is relatively low.

In **Europe** and the **US** internet penetration is already very high,

which means growth is mainly driven by the continuous shift by the existing customer base from offline to online purchases.

New emerging technologies will shape the customer experience and the efficiency of e-Commerce in different ways: **virtual “fitting rooms”** give customers the option to create **3D avatars**. The shopper has a better feel for the products which results in less returns (and therefore **reduced costs** for the vendor) as well **higher customer satisfaction**.

One of the most important trends of the segment is **“Fast fashion”**. Fast fashion retailers like Zara or H&M **decrease the “time to market”**, i.e. the time between **picking up trends** and **making them available** for their customers through optimized value chains.

Other examples of trend signals are: **augmented and virtual reality shopping** as well as **mass customization** (3D-printed shoes).

Assumptions and sensitivity

One of our key assumptions is the **shift from offline to online** retail. But also both “worlds” are increasingly connected as **cross-channel services** are implemented. An example of seamless integration of online and offline channels is “Click & Collect”.

The fashion market landscape can be divided into brand marketplaces (Zalando, Zappos), design shops (Net-A-Porter), the online presence of ordinary retailers (H&M, Gap), generalists (Amazon) and discount clothing shops (boohoo).

It is not a “winner-takes-it-all” market due to fast-moving fashion trends and niche segments where it's difficult for just a few big players to cover all needs.

The aspect of mobile shopping is important. The ongoing growth of smartphone penetration will ensure strong growth rates in mobile shopping. With better and easier online services, more

customers convert to using mobile research. Also social networks like Instagram, where social influencers reach huge audiences and try to generate authentic and appealing inspirations and recommendations, are mostly used on mobile devices.

As well as known brands, online shops offer **own-label collections** (e.g. Asos). This creates the advantage of differentiation from other vendors as well as higher margins (no middleman). Also with the help of big data and analysis of customer shopping behaviors, products can be developed with this knowledge in mind.

An **easy return process** is key to customer satisfaction. For merchants, the best-case scenario would be to reduce current return rates in order to keep margins at a substantial level. But due to the **remaining growth potential** in the market, the focus is still on customer acquisition and loyalty in order to increase overall sales.

1: Only includes countries listed in the Digital Market Outlook.

2: CAGR: Compound Annual Growth Rate/ average growth rate per year.

FASHION IN MAJOR REGIONS

Market KPI comparison by region

United States

Revenue forecast

in million US\$ by region

+8.8% p.a.

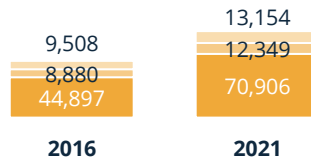
Bags & Accessories:



Shoes:

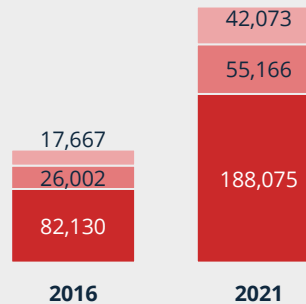


Clothing:



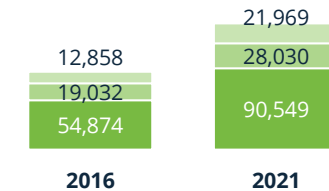
China

+17.8% p.a.



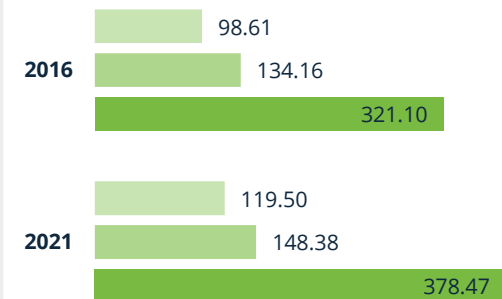
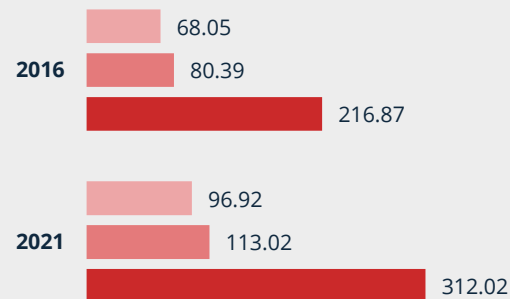
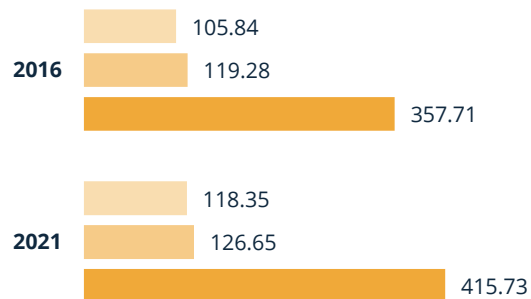
Europe

+10.1% p.a.



Revenue per user

in US\$ by region



FASHION IN MAJOR REGIONS

Market KPI comparison by region

United States

China

Europe

Revenue

Segment	Unit	2016	2017	2018	2019	2020	2021	CAGR ¹ 16 - 21	2016	2017	2018	2019	2020	2021	CAGR ¹ 16 - 21	2016	2017	2018	2019	2020	2021	CAGR ¹ 16 - 21
Total	mUS\$	63,286	69,821	76,846	83,918	90,343	96,408	+8.8%	125,799	159,014	193,897	228,004	260,469	285,313	+17.8%	86,764	96,670	107,676	119,216	130,831	140,548	+10.1%
Clothing	mUS\$	44,897	49,973	55,427	60,950	65,933	70,906	+9.6%	82,130	105,992	130,154	152,846	173,867	188,075	+18.0%	54,874	61,535	68,885	76,536	84,173	90,549	+10.5%
Shoes	mUS\$	8,880	9,590	10,362	11,130	11,852	12,349	+6.8%	26,002	31,755	37,834	43,790	49,423	55,166	+16.2%	19,032	20,689	22,510	24,409	26,314	28,030	+8.1%
Bags & Accessories	mUS\$	9,508	10,258	11,058	11,838	12,558	13,154	+6.7%	17,667	21,268	25,909	31,368	37,179	42,073	+19.0%	12,858	14,446	16,280	18,271	20,344	21,969	+11.3%

Users

Segment	Unit	2016	2017	2018	2019	2020	2021	CAGR ¹ 16 - 21	2016	2017	2018	2019	2020	2021	CAGR ¹ 16 - 21	2016	2017	2018	2019	2020	2021	CAGR ¹ 16 - 21
Clothing	m	126	135	144	154	162	171	+6.3%	379	420	468	519	571	603	+9.7%	171	184	198	213	228	239	+7.0%
Shoes	m	74	79	85	90	95	98	+5.5%	323	353	385	419	453	488	+8.6%	142	151	161	171	181	189	+5.9%
Bags & Accessories	m	90	95	100	104	108	111	+4.4%	260	288	322	361	402	434	+10.8%	130	141	152	164	175	184	+7.1%

1: CAGR: Compound Annual Growth Rate/ average growth rate per year.
Source: Digital Market Outlook 2016

KEY-TAKE-AWAYS BY REGION

Market sizing subjects for Fashion forecast

	United States	China	Europe
Market size 	<ul style="list-style-type: none">› In 2016 second highest single-country market with US\$63.3 billion in revenue› Within the fashion market, clothes generate the majority of revenue, about 70% in 2016	<ul style="list-style-type: none">› Biggest single-country market globally with US\$125.8 billion in 2016› Average revenue per user is the smallest when compared to US and Europe, with US\$216.9 per user in the clothing segment› Tmall has an exceptional market position in the online apparel segment	<ul style="list-style-type: none">› Diverse market sizes, though the third and fifth largest fashion markets are located in Europe (UK and Germany)› As in China and the US, fashion revenues are dominated by the clothing segment, generating more than 60% of the total
Growth rate 	<ul style="list-style-type: none">› Though the US is a pioneer in online fashion sales, it still has a high single-digit CAGR¹ of 8.8%› User growth ranges between 4-6%, depending on the specific segment,› A significant part of market growth will be generated through increasing baskets and higher order frequencies	<ul style="list-style-type: none">› Highest growth rate with a CAGR of 17.8% mainly because of ongoing internet penetration and user growth› Revenue is expected to reach a market volume of US\$285.3 billion in 2021	<ul style="list-style-type: none">› Europe has still a relatively high growth rate with a CAGR of 10.1%› Revenue is expected to increase to US\$140.5 billion in 2021› Online clothing shoppers will reach 239 million by 2021, a 40% increase compared to 2016
Trend signals 	<ul style="list-style-type: none">› Major online shops (Amazon, eBay), test ground for new products and services› Expansion of same day delivery availability will increase impulse buying	<ul style="list-style-type: none">› Chinese cross-border online shoppers should be considered by foreign vendors (e.g. tailored offers)› Social content-driven commerce through platforms like WeChat	<ul style="list-style-type: none">› Region is a strategic target for online retailers who want to grow their global footprint› Noticeable: Curated shopping players and inspirational platforms with high social media activity are on the rise› Zalando will become the most relevant online fashion marketplace

1: Only sales of commercial vendors are in scope of the Digital Market Outlook

2: CAGR: Compound Annual Growth Rate/ average growth rate per year

Source: Digital Market Outlook 2016

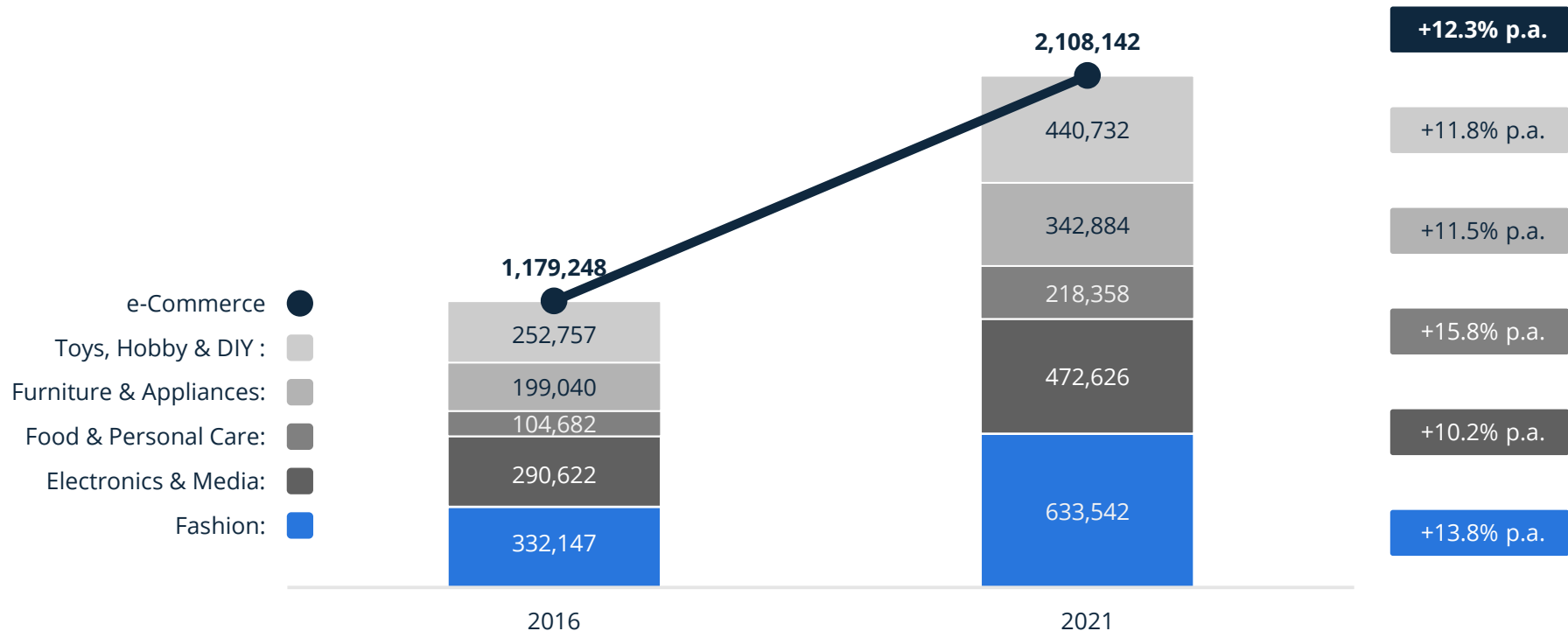
FASHION – 2ND HIGHEST GROWTH SEGMENT

Fashion global segment size and growth rates

Global¹ e-Commerce Revenue

CAGR² 16 – 21

in million US\$ by segment

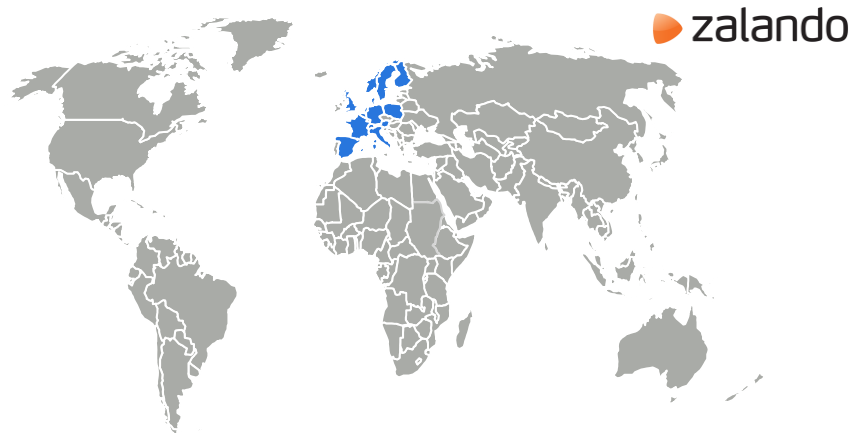


1: Only includes countries listed in the Digital Market Outlook
2: CAGR: Compound Annual Growth Rate/ average growth rate per year
Source: Digital Market Outlook 2016

TOP PLAYER: ZALANDO

Company profile

Availability



Facts

Active customers	17.9m (2015)
Revenue	€2,958.2m (2015)
EBIT	€89.6m (2015)
employees	9,987 (2015)
Average basket	€67.8 (2015)
# of orders per customer	3.1 (2015)

Background

Zalando, headquartered in Berlin, was founded in 2008 and has now become a major player in the European online fashion business.

Inspired by U.S. online retailer Zappos, the German venture builder Rocket Internet started the company with a strong focus on footwear, before expanding the product range to include clothing and accessories.

In 2014, Zalando made one of the most significant IPOs in the history of European internet companies when it was valued at US\$6.7 billion.

Following a very aggressive growth strategy, the company became profitable in 2014 for the first time and has had extraordinary success since then.

Analyst opinion

Through aggressive marketing Zalando pursued their primary goal to become the largest online fashion retailer in Europe.

Now Zalando focuses on brands and develops a marketplace, which might be the only area Amazon is not dominating.

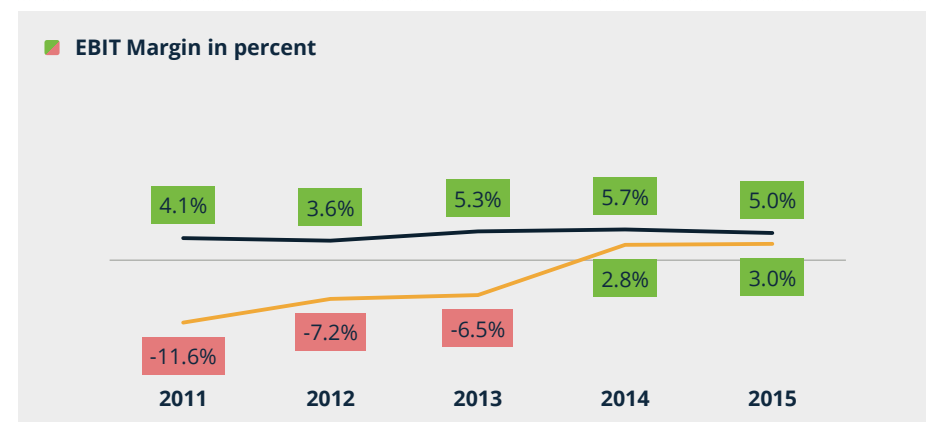
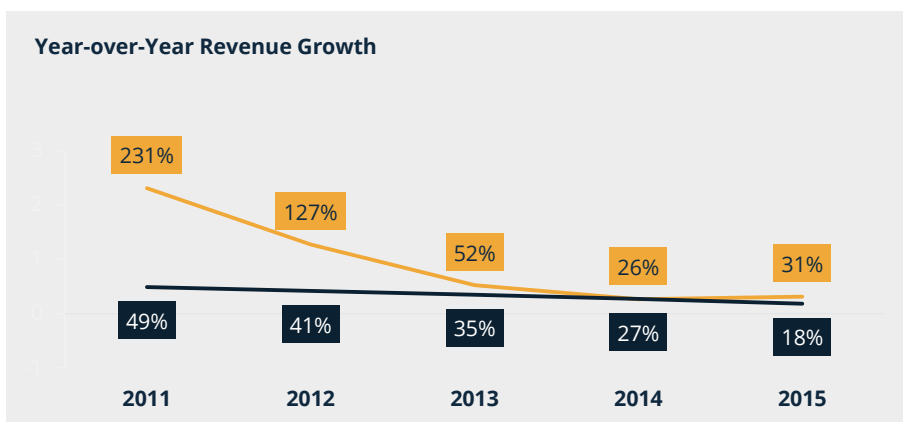
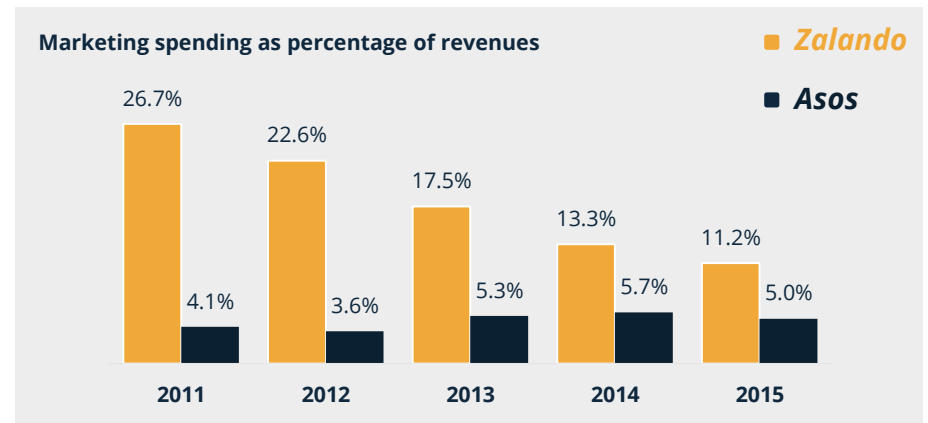
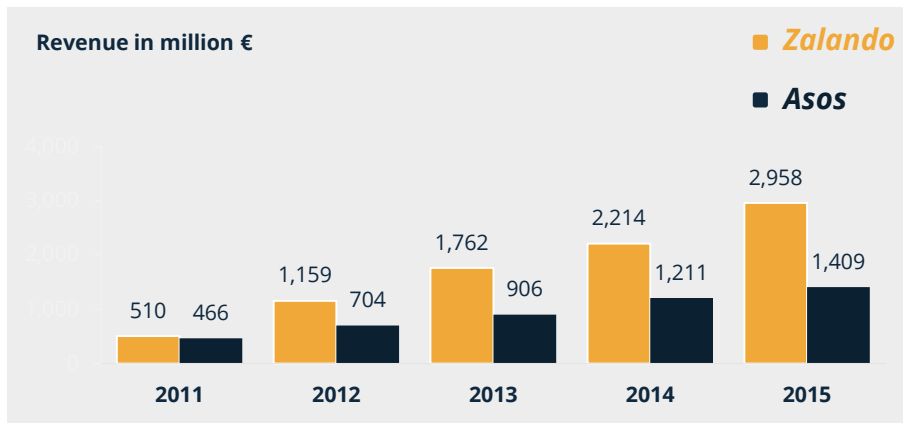
The opportunity for brands is to reach a wide range of customers and to gain customer insights.

As Zalando still owns all customer touchpoints, they are able to use this data to further improve their business.

With several smart acquisitions (e.g. Tradebyte, Metrigo) Zalando additionally underlines its capabilities in using customer data to boost the business in areas such as mobile commerce, personalized advertising and social media.

PLAYER KPI COMPARISON: ZALANDO VS. ASOS

Zalando's aggressive growth strategy outpaces organically growing Asos



TREND: CURATED FASHION & STYLING SERVICES

Remote personal stylists recommend and package individual outfits

Curated shopping players address people who have no time or desire for shopping or the latest fashion trends. Personal stylists pick complete outfits including shoes and accessories based on a short survey of personal preferences. Curated shopping therefore adds a service component to the

traditional fashion e-Commerce experience without generating high overhead costs. Though it is a niche segment, recent fundings and acquisitions of players like Trunk Club, Outfittery or Modomoto as well as market entries from players like Zalando (Zalon) underline the rising potential of this shopping trend.



TRUNK CLUB

HQ: Chicago (USA)
Founded: 2009
Funding: US\$12.4m
Acquired by Nordstrom (US\$350m in 2014)

OUTFITTERY

HQ: Berlin (Germany)
Founded: 2012
Funding: US\$59.8m

MODOMOTO

HQ: Berlin (Germany)
Founded: 2011
Funding: n.a.
Acquired **The Cloakroom** in 2016

FASHION REVENUE STREAMS

Market Structure and definition

Segment

Sub-segments

Fashion	<p>Clothing</p> <p>Includes digital sale of almost all types of clothing articles (e.g. t-shirts, coats, pants, underwear). The main sales channels in this market segment are multi-brand merchants (e.g. Asos, Nordstrom) and online shops of individual fashion retailers (e.g. Zara).</p>
	<p>Shoes</p> <p>This segment includes all types of shoes (e.g. casual shoes, slippers, etc.) - with the exception of sports shoes – as well as shoe accessories and care products. The main distribution channels in this market segment are multi-brand merchants (e.g. Asos, Zappos) and online shops of individual shoe retailers (e.g. Clarks).</p>
	<p>Bags & Accessories</p> <p>This segment contains various types of bags and accessories. Included are for example, leather bags, suitcases and purses, jewelry, hats, scarves, and gloves, among others. The main sales channels in this market segment are online fashion retailers (e.g. Asos, Zalando, Nordstrom) or dedicated luggage retailers such as eBags.</p>

Out of segment

<p>Outdoor and sports clothing, sports shoes</p> <p>This type of clothing and shoes that have a special purpose are subsumed in the category "Sports & Outdoor".</p>
<p>Toddler and baby clothes</p> <p>This kind of clothing can be found in the segment "Toys & Baby".</p>
<p>reCommerce</p> <p>The resale of used, defective or repaired goods is not included.</p>
<p>Consumer-to-Consumer</p> <p>Sales between private persons (e.g. via Craigslist) are not included.</p>



In scope



Other segment



Out of scope

ABOUT DIGITAL MARKET OUTLOOK

9 Markets, 34 segments & 85 sub-segments



Digital Media

Video-on-Demand, Digital Music, Video Games, ePublishing



FinTech

Digital Payments, Business Finance, Personal Finance



eTravel

Online Travel Booking, Mobility Services



eServices

Event Tickets, Fitness, Dating Services, Food Delivery



eHealth

Diabetes, Hypertension, Heart Failure



Connected Car

Connected Hardware, Vehicle Services, Infotainment Services



Smart Home

Home Automation, Security, Home Entertainment, Ambient Assisted Living, Energy Management



e-Commerce

Fashion, Electronics & Media, Food & Personal Care, Furniture & Appliances, Toys, Hobby & DIY



Digital Advertising

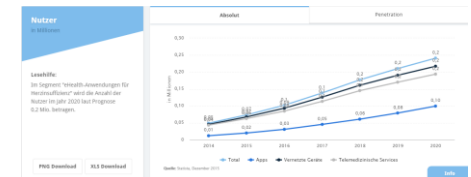
Banner Ads, Video Ads, Search Ads, Social Media Ads, Classifieds

Details

- › 50 countries
- › Direct access & downloads
- › 7-Year coverage: 2015 - 2021
- › Revenue forecasts



› User count & penetration



› Comparable data



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