

COLUMNS

Fashion's newest models are not on the runway

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Paula E. Payton

By [Paula E. Payton](#) and David P. Lindsey

As with most high profile sectors, the United States fashion industry has undergone significant changes of late in both strategy and execution to address shifts in new model economies.

From the globalization of the supply chain to the dynamic online retailers that are breaking the mold of how fashion is created and consumed, commercial success now requires a keen application of agility and innovation.

Fashion is based on want, not need. That simple premise is also the basis for the spate of change across the industry: shoppers increasingly expect immediate gratification in both selection and delivery and use new social channels for curation and community, forcing everyone from manufacturers to real estate investment trusts (REITs) to adapt in real time.



David P. Lindsey

Until recently, creating that want, and satisfying it traditionally has been a mass-market game, dominated by global brands available anywhere and everywhere, at a variety of prices. Disruption has occurred. The equations have changed from online to off the rack.

No one size fits all

The old paradigm of malls and major brands comprising the market are under siege by channels and service models that cater to a new generation of fashion customer.

New competitors in the marketplace are beginning to emerge that further challenge the incumbents.

Retail entrepreneurs are changing the shopping and buying activities by providing personalized, service-centric experiences. The industry is shifting from one-size-fits-all to no-size-fits-all, may-I-fit-you?

Subscription-based services Stitch Fix and Trunk Club use detailed profile and sales data to build clothing that match

the shopper's fashion personality and preferences, selected by a personal digital stylist.

Consignment-based Thred Up and Poshmark and sharing economy online retailer Rent the Runway have created new services and expectations for shoppers that many apparel retailers laser-focused on getting the right merchandise in the right quantities to the right stores at the time that customers want it did not anticipate and cannot easily emulate.

In the end, perhaps fashion manufacturing has migrated to a production scenario of smaller numbers of items lots of 10,000 or less and a far cry from the million or more SKU runs created to serve the mass-market.

The lot size is shrinking, and so is the consumer base. Fashion will always be for the masses, but style becomes a personal, singular transaction.

New entrants to the category such as these cater squarely to the shopper who wants the latest fashions with the minimal amount of time and effort spent shopping for them.

As Trunk Club acquired by Nordstrom last year aptly stated on its Web site, shopping for clothes [in stores or online] "is overwhelming, inconvenient, and takes way too much time."

As increased need for immediate gratification creates new demands on the fashion industry, the gap from runway to store continues to narrow. We feel that there may come a time where the brand moves into the mainstream without the runway entirely, a future that is perhaps already here.

Fast, smart and agile

Retailers must continue to shorten lead times to markets introducing completely new products in shorter and shorter cycles to reach shoppers when demand is at its peak.

Competing with new channels and providers that offer real-time fulfillment is forcing retailers to become agile in technologies and execution.

In the race to omnichannel integration, companies are incorporating technology into their businesses to deliver quantities of one to consumers.

This last-mile delivery strategy is a high priority for retailers and their technology partners. What used to be overnight is now same day and quickly becoming a requirement of one hour or less.

Beyond order-on-demand fulfillment, this year witnessed increased trialing by fashion brands for example, Ralph Lauren to incorporate advanced, smart textiles into their lines to engage consumers who expect digital to be interwoven into their lives, literally and figuratively.

Bespoke options are emerging daily.

Intel announced digital scanning using unique technology to make custom shirting in partnership with Brooks Brothers. Customers can design their own shoes online at Nordstrom/Shoes of Prey, New Balance and Converse.

As wearable technologies command early and specialized market adopters, we expect to see a steep increase in alliances among fashion and technology, such as the Hermes and Apple Watch collaboration.

By all accounts, fashion technology will continue to be an area of growth.

Main streets to new mindsets

The new fashion retail models are not from Paris or Milan, but from Harvard and Wharton.

While the traditional storefront still has tremendous value, it also holds opportunities for new efficiencies for the industry.

Some of our greatest fashion stores were anchored in town centers and provided drawing power. They were developed and run by savvy merchants who offered their customers personally curated selections of the best fashion in the market.

Interestingly, these merchants often stumbled onto unique and often locally generated product ideas, because they were out looking for the next big idea.

Hunting and gathering was part of the merchant's core job description. Buyers were purposefully located in stores to keep their fingers on the pulse and preferences of the local community.

Although these buyers are regionalized today, as these companies have grown for example, Macy's it has become

challenging to maintain this structure.

Paco Underhill, CEO of retail consulting group Envirosell, and others have noted how many shopping centers have now devolved into homogenous distribution points.

Inventory is assessed, bought and analyzed with precision as long as the result can be rolled out efficiently to often hundreds of outlets as cost-effectively as possible, given producers prefer a rolled-up order rather than dozens of different orders.

Data-driven decision-making will remain a foundation of retail. However, we cannot help but think there may be missed opportunities to spot and incubate the next big idea because it may not be immediately scalable.

It is in this environment that entrepreneurs can bring fresh ideas and focused service without sacrificing one iota of style.

We see a critical opportunity to advance local entrepreneurs with fresh ideas in beauty and fashion and, happily, there has been a spate of recent activity in this area, from Sephora's Accelerate to the Tory Burch Foundation.

Concomitantly, more malls need to innovate. REITs could incubate pop-up retail concepts inside their centers, making a point to lower the barrier to entry fashion and beauty entrepreneurs.

This community-based approach to build and grow new retail brands could eventually give rise to a more diverse and highly dynamic marketplace: a different concept than large retail chains adopting a measure of localization for their market. This is about creating a culture of local retail innovation.

Some developers already have embraced this concept and diversified their tenant mix, with the focus on sourcing new retail concepts to entice shoppers to a select location.

Mall of America and KIMCO have programs targeted to startup retailers, offering free rent and operational support to young entrepreneurs to guide them through the critical early stages. We are sure there are others of note.

However, despite the call to action from people from industry observers, many centers remain stuck in the old model, caught between the simpler mass market of the past and the shiny, app-filled world of the future.

REIT developers continue to focus almost exclusively on rents to the exclusion of innovation. These centers will be hit hardest as the industry shifts.

Leasing teams that are tasked to bring in dozens of deals at a time, rather than the strategic development of a tenant mix, are more akin to landlords running an apartment complex where the only concern is steady income stream.

As a corollary, centers with this mentality cannot help but look exactly the same, and fail to provide an inspiring visit experience.

Value of a storefront

A storefront still is an important way for many designers to showcase their line and tell their brand story.

Stores also offer entrepreneurs an invaluable opportunity to develop closer relationships with their customers.

Retailing one's own beauty or apparel line also generates a sense of true community, especially among women.

And while a storefront always gives a designer autonomy and creative license, at the end of the day, the items need to be saleable.

But for the early-stage fashion entrepreneur, the rewards of actually operating and managing a store often are undervalued and overlooked.

Today's brand development may depend on a Tweet, a Facebook post or a celebrity.

In the past, these fashion and beauty brands have been tightly articulated, supported by print and television advertising to drive mass desire and mass consumption. Now all it may take is an Instagram photo or a YouTube video to enflame desire.

Innovation season

There is a critical opportunity to surface and advance local entrepreneurs with fresh ideas in beauty and fashion.

Like the recent spate of food truck innovations, we would like to see more innovation inside the centers, with more REITs incubating fashion and beauty entrepreneurs, removing some of the usual barriers for entry.

This community-based approach to build, grow and retail new brands could eventually give rise to a highly diverse marketplace.

The center benefits as well. It will embed itself with the community as a home for locally sourced and manufactured goods.

Even in a world of REITs, a mall is part of a community's fabric. Appealing to both global and local is in itself a marketing strategy.

TO BE CLEAR, the approach we are advocating is fundamentally different than large chains adopting a measure of localization for their market. It is about a creating a culture of local retail innovation.

But the road to more retail entrepreneurship innovation consists in not only the new product idea, but also a general stakeholder mentality to commit to and action the new idea.

We cannot just meet local retail demand. We must create it. This model of bottom-up innovation that brings developers, fledging fashion brands and consumers together creates a unique identity rooted in the local community.

Without a doubt, fashion retail will continue to evolve and look as different in 2020 as it did five years ago.

Many established fashion brands are struggling to show the growth they used to, as new competitors enter and gain ground.

In the end, the issue remains not only how to best understand and meet local demand, but how to create it.

Paula E. Payton is a shopper insights expert and teaches at the [NEOMA Business School](#), Paris, France. Reach her at paula.payton.15@neoma-bs.com.

David P. Lindsey is Bainbridge Island, WA-based founder of David Lindsey & Associates and former vice president of store planning at Nordstrom Inc. Reach him at dave@dplindsey.com.

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