Baker Ing

# Fashion, Apparel & Retail in Europe

APRIL 2021

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# EXECUTIVE SUMMARY

The Fashion and Apparel (F&A) sector has gone through a radical transformation in the past decades. The way clothing is designed, produced, marketed and sold has changed, driven mostly by globalization and the increasing purchase power and sophistication of the population in rich countries and in vast areas of the developing world. This has created a massive and constant consumption culture of casual clothes, and the emergence of an affordable and aspirational luxury mass market.

The new paradigm of the F&A industry has led to the emergence of new types of companies that are today the leaders of the market. Companies like Inditex, H&M, C&A, Uniqlo, Gap, Nike, Adidas, and luxury groups like LVMH have built global brands with thousands of stores and employees all around the world. In order to go to market with a differentiated strategy, these companies control the full process of production, including design of collections, manufacturing, logistics, inventory management, branding, communication and sales. In general, they have followed a strategy of brand portfolio creation, either by developing their own new brands or through mergers and acquisitions. The strategies followed by these companies are diverse: Some build their expansion on lower-price positioning (e.g. Primark), some focus on the constant renovation of items (e.g. Zara), and/or some rely on smart penetration of key countries (e.g. H&M).

Europe has been one of the epicentres of the changes in the sector. The traditional manufacturing of clothing has almost disappeared in the region, to become into a new modern, innovative, technologically intense system of production, known as "Production 4.0". A considerable number of F&A brands has appeared in Europe, and have managed to expand rapidly to Asia, the Middle East, the US and other regions like Latin America. The European companies tend to lead a European market that hasn't been fully penetrated by US or Asian companies. They have led the process of concentration: The market share of European clothing sales for Inditex and H&M together represents more than 10%. The expansion of European companies has been possible thanks to a robust eco-system that facilitates the internationalization of companies and international trade of goods; within this eco-system, R&D activities, the ability of companies to benefit from innovations and highly-skilled workforce have been key.

Although the sector seems extremely robust, it is vulnerable to shocks. In recent years, the F&A sector has suffered as a consequence of the slowdown of globalization (trade war between the US and China, and Brexit), forcing the companies to constantly re-adapt to the new environment. The rapid growth -and some public scandals associated with the functioning of the sector- has created a response from big groups of consumers and of the society for a more sustainable and responsible growth. Big brands have reacted, although timidly; new companies are emerging, basing their brands on attributes such as energy efficiency, environment-friendliness, waste rationale, free trade, etc. Finally, the emergence of e-commerce is changing the traditional go-to-market strategies, and we cannot rule out that new ways of doing business may become mainstream in the future.

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# Overview

Fashion and Apparel (F&A) is a sector of massive importance both in our daily lives and in the global economy. The way we consume fashion defines us as citizens, members of different social or economic groups and consumers. The fashion industry –similarly to the food industry - is present in our daily life, making explicit to others a lot of information about our decisions, motivations and preferences. For the global economy, the F&A sector is extremely relevant. A huge proportion of developing countries in the world are part of global value chains of international trade in the sector, which provide jobs to millions of people around the globe. The move in recent decades of F&A industries from rich to developing countries has modified the way substantial segments of the population live in countries as different as Sri Lanka, Morocco or Guatemala for example, who have significantly benefited from that delocalization process. Macroeconomic stability and a smooth political environment have proved key for developing countries to attract investments to produce. At the same time, changes in production and reduced prices due to economies of scale have substantially changed the way clothes, footwear and accessories are consumed in developed countries, increasing exponentially the number of items bought. As described in **2. Economic environment in Europe,** the affluence of the European countries, characterised by a dynamic consumption -fed by credit at low-interest rates and high employment rate-, has supported the rapid increase in F&A purchase patterns. Moreover, the integration of the European economy into the global economy has helped develop an innovative, vibrant and dynamic F&A sector, both in production and retail. A number of debates that are central to the global economy such as trade policies, property-right protection, sustainability and worker conditions are central to the F&A sector.

The way a raw material is transformed into an apparel has substantially changed all across the function of production (agriculture, manufacturing and go-to market) in recent decades. New technologies have been adopted in each of the steps, including innovation in new cotton varieties or in lama's wool, diffusion of recycling technologies and big data analysis for digital marketing. More importantly, different ways to produce clothes coexist in the world. As can be seen in the Chart 1.1, in each of the steps of the value chain, different technologies can be adopted. In agriculture, for example, raw materials that are produced using traditional methods can be sourced. Inputs can be sourced as well from producers that follow organic and sustainable methods of production and establish a fair-trade commercial relationship with their customer. The industrialization or transformation, for example, can be made using traditional manufacturing methods -based on cheap labour and economies of scale- or can be done within the Production 4.0 paradigm, in which different steps of production are automatised and flexible to adapt to constant changes in information coming from the market. The choice of the type of function of production and positioning in the market that countries and companies made is, in good part, related to the ecosystem in which they operate. In **3. The European ecosystem for Fashion and Apparel,** we explain how the favourable conditions for companies in the region has led the continent to position itself globally in a niche of prestige, good quality and high-added value.

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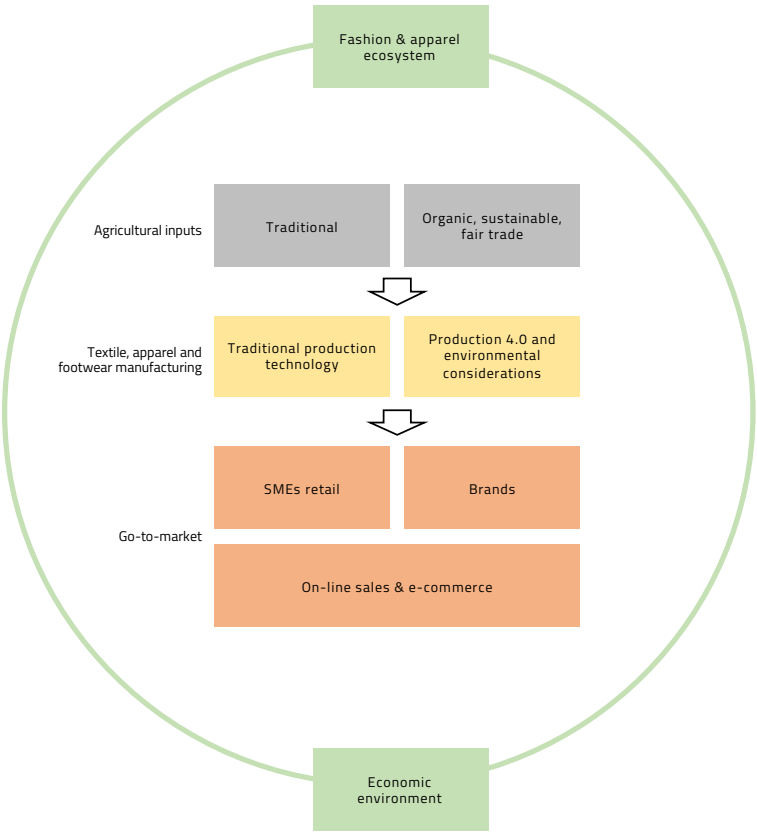
**Chart 1.1 - Fashion & Apparel value chain**




*Source: Baker Ing*

In line with other sectors that are labour-intensive, the F&A manufacturing has moved from traditional centres of production such as Europe to a number of developing countries. As a consequence of this the weight of the sector in Europe is limited. However, the sector is still considerable in terms of employment and number of companies. More importantly, even if European countries have reduced their production to minimum levels, they have specialized in high quality products, minimising the massive production of products including majority of the luxury ones. We explain in some detail this trend in **4. Apparel manufacturing in Europe.**

The go-to-market is the consumer-facing step of the value chain. As an extremely globalised sector, it is supported by a number of activities, each of them fully developed and extremely competitive: supply chain management, inventory management and logistics in the production stage; lease management, marketing, brand building, public relations and communications in retail. The design of collections is closely linked to go-to-market. Design tends to be the activity with the highest added value, as it should capture global fashion trends and global consumer patterns. Teams of designers work for big transnational companies who have the capability to change consumers' taste and the way clothing is consumed. Design activities are closely related to marketing activities and R&D in new production technics and new materials. In general, the big retail companies control the design and retail part and outsource the manufacturing stages to suppliers. In order to guarantee a standard customer experience and quality standards, the international companies strictly monitor the production process. Supply chains comprise several layers of suppliers, making it virtually impossible for the final user (the brand / retailer) to have full

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visibility of its supply chain. Thousands of companies all around the world and hundreds of thousands of workers are involved in it, making traceability, and the implementation of systems of control or transfers of knowledge more challenging. In the go-to-market segment, a number of changes occurred in recent years. The emergence of brands going to market with their own shops and strategies has altered the structure of the sector. More recently -and accelerated by COVID- the explosion of the e-commerce is changing the way players are selling. We explain the central role of European companies in the retail segment and recent changes **in 5. Retail performance and strategies of main players.**

Changes in technology, customers' preferences, logistics and retail technics have a direct impact in the sector's strategies, forcing the big companies dominating the scene to be innovative, flexible and extremely competitive. Europe is maybe the most relevant actor in the world in terms of innovation for the industry. This is a consequence of several factors, including a manufacturing sector focused on R&D, high demand for environmental and ethics standards from the population, the capability of the companies to explore new terrains and the extremely well-organised ecosystem for the public-private cooperation for innovation. In **6. Fashion & Apparel and the circular economy** we explore in some details this new trend that combines a number of topics mentioned in the report. Although the biggest countries in Europe tend to operate within a similar economic, technological and regulatory environment, differences are notorious among some countries. As a result, in **7. Country perspective on the Fashion & Apparel sector performance** we provide a snapshot for the sector for each of the key countries -France, Germany, Italy, Spain and the United Kingdom.

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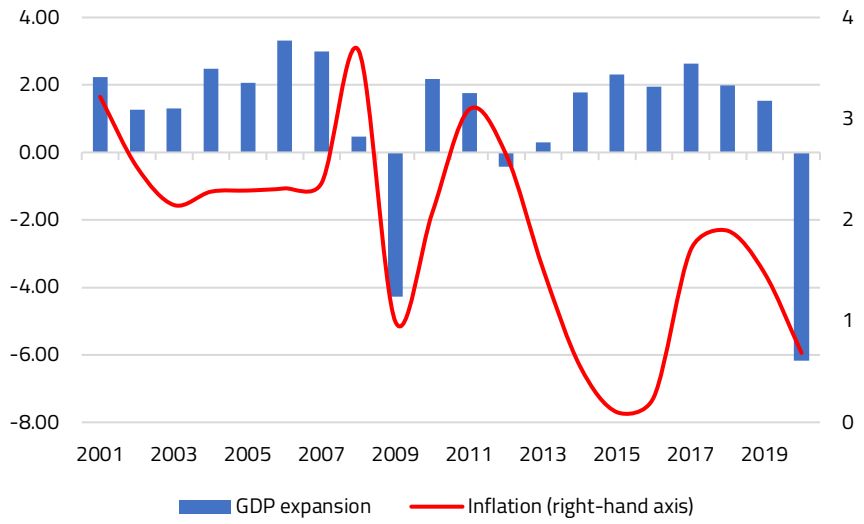
# Economic environment

With 510 million inhabitants, and an average GDP per capita of around EUR 26,000, Europe (defined as the EU and the UK) is one of the biggest economic areas of the world. Extremely open to trade and movement of capital, Europe has followed a process of economic liberalisation in the past decades that has enormously contributed to define its productive specialisation on high-tech, high added-value and knowledge-intensive goods and services. The combination of high levels of investment, a sophisticated system of R&D and relatively efficient action of the public sector in the provision of both transversal and sectorial public goods has led to consolidate a dynamic area where the convergence of quality standards is one of the main policy goals. The coexistence of efficient regulatory frameworks in place with the presence of big companies (in some cases the world leaders) with massive number of competitive, flexible and innovative SMEs has helped the economy to cope relatively well with both structural transformations of recent decades -including the transformation of the EU, the emergence of China as a key economic power and the new demands from consumers such as sustainability and workers protection – and short-term shocks as the financial crisis of 2008 or COVID.

## The European economy

The economy has expanded at an average rate of 1.5% year on year between 2001 and 2019, with drops just in 2008 and 2012. The expansion of the economy occurred in a context of low inflation, which averaged 2.0% in the same period. The combination of fiscal rules and the anti-inflationary monetary policy (mainly in the Euro Area) has led to relatively low budget deficits and manageable levels of debt. Low levels of interest rate -yields of 10-year maturity bonds of the Euro area's central governments average 2.6%- have helped to boost private consumption and investment, which in the past 20 years averaged 21.8% of GDP.

**Chart 2.1 - GDP and inflation in Europe**




*Source: Baker Ing with data from Eurostat*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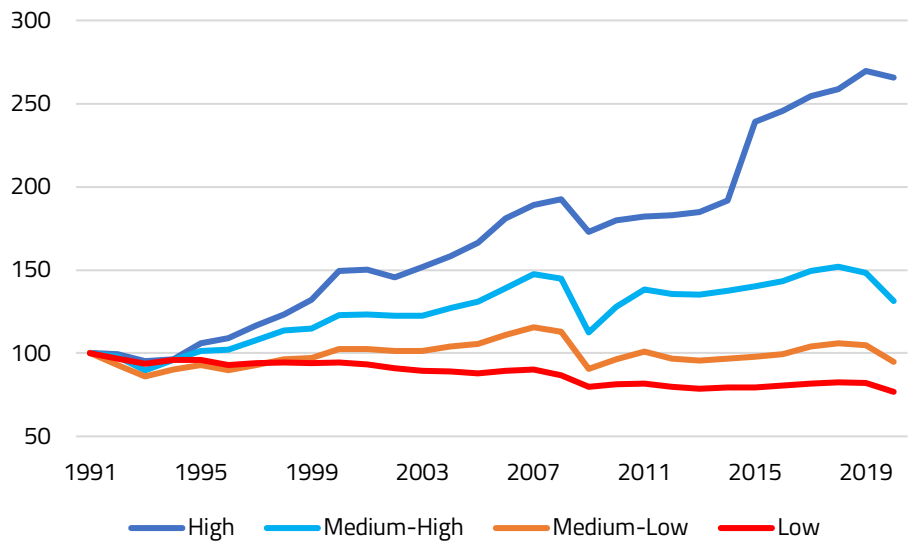
The consolidation of the European Union (see Box Economic impact of Brexit) has led to a massive harmonisation in the functioning and regulation of markets, consumer rights and quality standards for production. In addition to that, the free transit of goods and workers have created significant economies of scales for companies that managed to expand (opening subsidiaries or exporting) in the common market. The development of the common market has encouraged the expansion of European companies with huge footsteps in Europe and beyond in a number of economic sectors such as Telefonica/O2 in telecommunications, Santander Bank, AXA, Allianz and HSBC in Finance, Inditex and LVHM in fashion, Buitoni and Nutella in food, Ikea in interior design, Carrefour in retail, and Iberdrola or EDF in energy. The economies of scales given by the common market have underpinned key assets of the big companies such as innovation policies (both in product and process), quality in production that allow them to differentiate, brand and marketing knowledge, human-resources schemes and, among others, logistics and supply-chain management. The development of the common market has not however benefited just the big companies. The structure of companies of Europe shows a huge concentration of SMEs: out of almost 23 million companies, around 93% employ less than 10 people. The majority of SMEs have managed to benefit from the efficient ecosystem to expand, invest, increase productivity and competitiveness and access new markets: in fact, around 1.7 million companies of Europe have exported in recent years.

**Chart 2.2 - Expansion of manufacturing by technological level**




*Source: Baker Ing with data from Eurostat*

In recent years, the European economy has radically transformed its productive structure. The relevance of manufacturing, which used to be the leading component in the added value, has been decreasing systematically. For example, manufacturing represents now only 10% of GDP in France and 19.7% in Germany, vs 16% and 23% of GDP respectively in 1995. The drop in manufacturing was replaced by the rise of other sectors such as information and telecommunications, or professional and scientific activities. Importantly, although manufacturing continues to play a strategic role in the European economy, its nature has changed. As can be seen in the chart 2.2, Europe has specialised in high-tech to the detriment of low technology-embedded manufacturing. Sectors with high-tech manufacturing such as pharmaceutical,

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computers, electronics, optical products and aerospace-related products have expanded by 165% in the past 30 years. During the same period, sectors with low technology embedded -textile, clothing and apparel production is included in this category together with food, beverage and, among others, furniture- decreased by around 25%. This trend is particularly relevant for the F&A sector: as the manufacturing conditions changed, the sector needed to innovate and adapt in order to establish a leadership in the world. With good part of the clothing and apparel production migrating to other areas, European companies needed to specialise in both high-quality manufacturing and niches, and dynamic retail methods that can exploit the advantages given by a robust ecosystem described in **3. The European ecosystem for Fashion and Apparel.**

**Box 2.1 - Heterogeneity in economic functioning**

The functioning of the European economy is heterogeneous and three main regions can be identified. The first region is the Northern and Central area, mainly formed by Germany, France, Netherlands, UK and Nordic countries. The countries in this category are the richest of the continent, have dynamic labour markets, high salaries and better government results. The second category is formed by the "Southern Europe" area. Italy, Spain, Portugal and Greece are the main countries of this group. These countries have a GDP per capita lower than the previous group. In general, these countries tend to have less flexible labour markets and governments tend to have a less satisfactory performance in terms of fiscal discipline. Finally, the third category is formed by Eastern European countries, that despite the convergence process that have experience their economies are smaller and their companies are not in the frontier of global productivity.

**Table 2.1 - Key indicators by region**

| Area | Population (in millions) | GDP per capita in PPS (EU 28= 100) | Unemployment rate | Government result (as % of GDP) | Government Debt (as % of GDP) |
|---|---|---|---|---|---|
| **Northern** | 285.1 | 115.0 | 5.8 | -0.7 | 74.6 |
| **Southern** | 129.1 | 90.4 | 12.5 | -1.7 | 122.2 |
| **Eastern** | 102.5 | 73.4 | 4.6 | -1.2 | 43.0 |

*Source: Baker Ing with data from Eurostat*

The heterogeneity is not just at country level but within the countries as well. As can be seen Map 2.1, areas of higher income tend to be concentrated in Northern countries, as well as in metropolitan areas such as Paris, Helsinki, Stockholm or the north of Italy and the south of Germany. In addition, some divergence in income can be seen within the Southern countries. In Spain, for example, the north formed by Catalonia, the Basque Country and Madrid have a higher income than the rest of the country. In Italy something similar happens with the already mentioned northern area. Among the Eastern countries, the heterogeneity is not so marked, although there are some pockets of affluence such as around the capital city of Romania Bucharest, Polish Warsaw, Hungarian Budapest or Lithuanian Vilnius.

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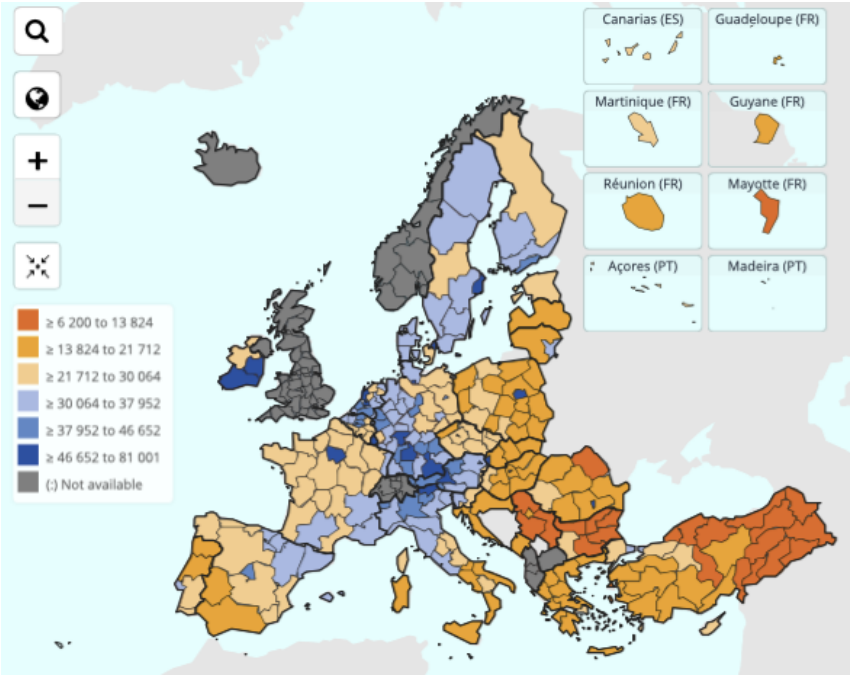
**Map 2.1 - GDP per capita and economic expansion of selected countries**




*Source: Eurostat*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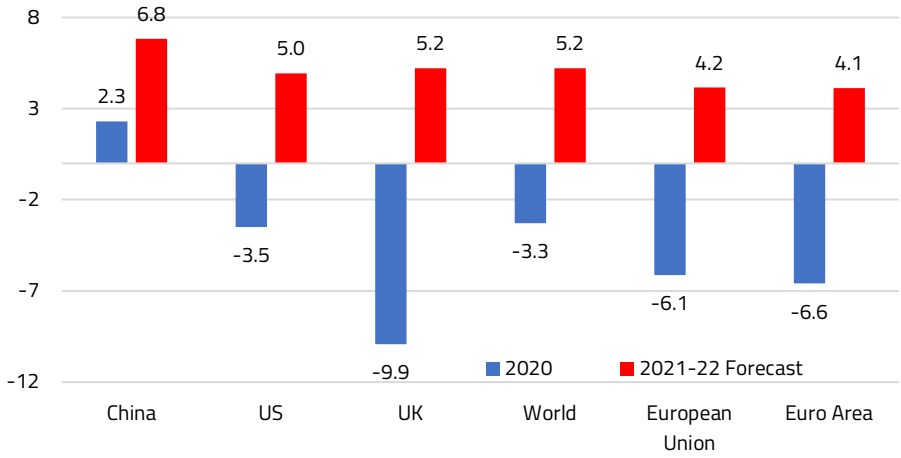
## Effects of COVID on the macro and political spheres

The collapse of the global economy is estimated at around 3.3% in 2020. Europe, just like the rest of the world, was hit heavily by the COVID crisis. Early spring lockdowns, voluntary social distancing, disruptions in supply chains and lower demand led to a record drop in economic activity. The European Union went down by 6.1%, whilst the UK experienced one of the most dramatic collapses by dropping by 9.9%.

**Chart 2.3 - GDP growth of selected regions and countries (2020 & 2021-2)**




*Source: Baker Ing with data from IMF*

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Governments of the region responded with unprecedented policy support packages. The fiscal policy was designed to address both the health challenge and the economic effects of the waves of lockdowns -the first one in spring 2020 and the second in autumn 2020. Fiscal policy (through automatic stabilizers or discretionary policies) provided support of about 7.5 and 6 percentage points of GDP in advanced and emerging European economies respectively. According to the IMF, fiscal policies included a) job retention schemes, deployed by about 40 European countries, that protected 68 million jobs at their peak, b) corporate sector policies (including guaranteed credit to companies, debt moratoria, and job retention schemes) provided lifelines to companies, with the number of corporate bankruptcies declining in 2020 despite the downturn and c) financial policy measures which, together with support to households and companies, helped shield banks from the shock. Nonperforming loans have remained largely contained, common equity Tier 1 capital ratios showed resilience, and credit has continued to flow. Central banks embarked on substantial monetary easing through both conventional and unconventional means. Macroprudential measures were also eased to cushion the impact of the crisis on both banks and borrowers. Importantly, the European Union relaxed existing rules to allow countries to incur higher deficits in order to boost emergency packages.

**Table 2.2 - Economic performance pre and post-COVID**

| | GDP | | | Inflation | | | Unemployment | | |
|---|---|---|---|---|---|---|---|---|---|
| | Av 2018-19 | 2020 | 2021 | Av 2018-19 | 2020 | 2021 | Av 2018-19 | 2020 | 2021 |
| Germany | 0.9 | -4.9 | 3.6 | 3.9 | 2.2 | 1.1 | 3.3 | 4.2 | 4.5 |
| France | 1.7 | -8.2 | 5.8 | 1.7 | 0.5 | 1.2 | 8.7 | 8.2 | 9.1 |
| Italy | 0.6 | -8.9 | 4.2 | 0.9 | 0.7 | 0.8 | 10.3 | 9.2 | 10.3 |
| Spain | 2.2 | -10.9 | 6.4 | 1.2 | -0.3 | 1.0 | 14.7 | 15.5 | 16.8 |
| Netherlands | 2.0 | -3.8 | 3.5 | 2.1 | 1.1 | 1.4 | 3.6 | 3.8 | 4.9 |
| United Kingdom | 1.3 | -9.2 | 5.3 | 2.1 | 1.2 | 2.2 | 3.9 | 4.5 | 6.1 |

*Source: Baker Ing with data from IMF*

More than a year after the start of the COVID pandemic, many countries in Western Europe are enduring a renewed surge in infections. This 'third wave' has been triggered by the emergence of more infectious variants of the virus, a shortage of vaccines, and public lockdown fatigue – which arguably led to the premature easing of the social restrictions associated with the second wave. The third wave of the pandemic has led to the set up of renewed lockdowns and other restrictions across many countries in the region, which will hamper and delay economic recoveries this year. Wide-ranging restrictions will likely remain in place in most countries until at least the end of Q2 2021, dramatically restricting domestic consumption and services activity. More positively, however, most factories in the region are currently able to stay open under the new restrictions, boding well for the region's manufacturing sector and ability to export goods. Exports are crucial for many Western European economies and external demand remains below pre-crisis levels amid the ongoing pandemic, with orders rising robustly from key markets such as China and the US.

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The global pandemic continues to weigh severely on the travel & tourism sector in Western Europe, a region in which many countries are heavily dependent that industry. Indeed, according to data from the World Travel & Tourism Council, the contribution of travel and tourism to GDP in 2019 was as high as 23% in Iceland, 20% in Greece and 17% in Portugal. It is also a vital sector in many other regional countries – accounting for over 10% of GDP in Malta, Spain, Cyprus, Italy, Austria, the UK and Germany. While 2020 data is only available for a small number of countries, it highlights the drastic impact that the COVID pandemic has had on the travel & tourism sector so far – in Greece, for example, travel & tourism GDP fell by a massive 61.1% in 2020 – with the sector accounting for just 8.7% of the total economy (compared to 20% in 2019).

Ultimately, the prospect of a stable lifting of lockdowns, economic recovery and business improvement is highly dependent on the success of vaccination programmes both domestically and globally. Domestically, while rollouts have been progressing well in some countries (including the UK, where 55% of the population were estimated to have received a vaccine as of mid-April), the EU vaccination programme has had a slow start, due to delays in production and distribution, as well as concerns over the safety of the Oxford-AstraZeneca vaccine. Supply bottlenecks are likely to ease in the coming months, but widespread rollout of the vaccine across the EU is unlikely to be achieved until the end of 2021.

**Box 2.2 - Economic impact of Brexit**

Brexit opens a new way of functioning for both the British and the European economies. In the short term, the increased uncertainty regarding the future relationship between the former partners led to a reduction in investment, which slowed down the British economy. Moreover, changes in rules of access to markets and potential disruptions in supply chains have forced businesses to develop contingency plans and put a lot of focus on operational activities to the detriment of strategic ones.

Noticeably, a number of sectors for whom the European market is key (including pharma, finance and airlines) have decided to move their headquarters to countries in the continent. In the financial sector for example, Barclay's moved 5,000 clients to its Irish subsidiary, while Goldman Sachs, JP Morgan, and Morgan Stanley switched 10% of their clients outside the UK. Bank of America has also transferred 100 bankers to its Dublin office and 400 to a broker dealer unit in Paris. Importantly, some regulatory authorities have also moved from the UK to establish in Europe. The European Medicines Agency (EMA) and the European Banking Authority (EBA) moving from London to Amsterdam and Paris, respectively, are examples of this exodus.

After achieving a trade deal with the EU, the UK will negotiate new trade agreements with countries outside of the EU. The UK is in the process of negotiating a trade deal with the US. The biggest barrier is the agriculture chapter, as the UK requires greater food safety and animal welfare regulations than the US does.

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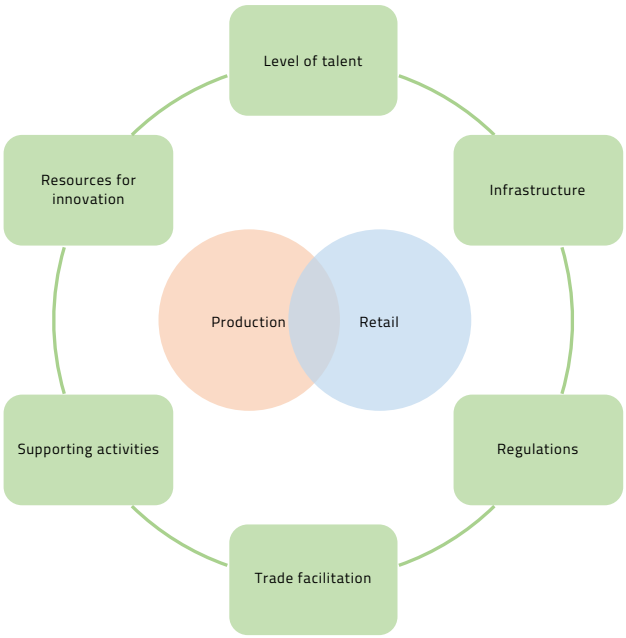
# The European Ecosystem for Fashion and Apparel

With a production worth EUR 160bn and some of the biggest retail brands of the globe, the development of the F&A sector is in part explained by the strong and dynamic ecosystem in which it plays. This ecosystem formed by companies, schools or government agencies has been key for the strategy of differentiation that European countries have followed, as they specialised in high technology, skilled people, quality and reputation. More importantly, the success of the strategy of differentiation followed by Europe needs a constant dialogue within the participants of the whole ecosystem in order to adapt to changes and finding the way to add value.

**Chart 3.1 - The F&A ecosystem**




*Source: Baker Ing*

Europe combines a number of assets that are part of the ecosystem -described in Chart 3.1- that underpin the development of the sector. The region presents an adequate environment to conduct international business -including international trade to benefit from specialization of production- and a level playing field for transnational operations that can bring knowledge, expertise and innovative ways of doing business. Europe is an extremely open economy. EU has 45 preferential trade agreements with 76 partners that represent around 33% of total EU external trade. The EU Common Customs Tariff (CCT) applies to all imports coming into countries from outside the EU (there are no tariffs levied on trade between members of the customs union). As such, the applied weighted mean tariff rate in the EU member states is 1.8%, significantly lower than the equivalent tariff rate in the US, which was 13.8% in 2019, and Japan (3.5%). In terms of easiness of trading across borders, EU countries show low cost and fast procedures. The combination of an internationalised economy with a number of tools to facilitate trade has helped a number of companies

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to export. More than 700,000 EU27 enterprises exported goods outside of the EU -of which 615,000 were SMEs-, representing around 30% of EU exports.

Advanced infrastructure has proven key for the development of complex and flexible logistics operations. Adequate facilities for international trade -ports, airports and roads- in combination with good urban and metropolitan infrastructure for urban distribution have helped create efficient supply-chain operations, in a sector in which timing is key. The high level of technology used in the majority of companies of the region -across all manufacturing sectors- has created a fertile land for modern manufacturing, introducing quality controls, remote inventory management systems and efficient communications between companies. Moreover, a dense system of supporting companies -from generic legal and accounting services to ones that are specific to the F&A sector such as graphic design, material development, printing technics- combined with a relatively easy access to funding, means that the majority of companies have access to makes processes and products that help them operate in the technological frontier.

Europe also boasts a pool of highly skilled people that can be part of a modern, flexible and world first-class industry. Each year, around 7 million students graduate in the EU27 from tertiary, bachelors, masters or doctoral degree. Around 20% graduate from masters or doctoral programmes. Skills of people -years of formal education, work experiences, exposure to global business- are not just in the overall economy but also in the F&A sector, where trained people are also employed. The relevance of the highly skilled people in the F&A sector is reflected in the educational institutions specialised in the topic. Europe hosts some of the best fashion and design schools of the world, such as Central Saint Martins, London College of Fashion, the Royal College of Art in the UK, Istituto Marangoni, Politecnico di Milano and Raffles Milano Istituto Moda e Design in Italy, Institut Français de la Mode, ESMOD and Paris College of Art in France, or the Royal Academy of Fine Arts Antwerp in Belgium. These schools are extremely integrated into the productive sector and their programs tend to be around a particular segment of the market such as Fashion Design Menswear, Fashion Design Womenswear, Fashion Design Technology, Fashion Design Jewellery. Moreover, these schools have schemes for professional training, scholarships and collaborations with global sponsors such as a Christian Dior, Louis Vuitton or Nike. Finally, as will be seen in **5. Retail performance and strategies of main players,** the presence of big companies with a global footprint and massive number of resources that mark the way fashion is seen and consumed, creates an environment where innovative ideas -including about brand positioning, marketing, social media presence and go-to-market channels- are the rule, making the sector extremely dynamic and innovative. The presence of a highly developed specialised print and especially online media sector that can relay and amplify these ideas, contributes to the success of the F&A sector, and encourages further the innovative trend.

**Box 3.1- Ecosystem and the adoption of technology**

European companies operate in an environment of high productivity due to the rapid adoption of technologies. Companies in the region tend to have a high level of modern technologies for each of the areas of a business. According to data from Eurostat shown in Table 3.1, companies in Europe have a considerable use of technology in activities related to internal organization, integration with customers and suppliers, usage of services on the cloud and utilisation of modern tools for organisation of the

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production (use of robots and 3D printing) or for understanding the market in which they operate.

**Table 3.1 - Percentage of companies with at least 10 employees in the EU28 using digital technologies for different business activities, by economic activity (2020)**

| | All the economy | Retail | Manufacturing | |
|---|---|---|---|---|
| | | | All the activities | Textiles, clothing and apparel |
| Integration of internal processes | 36 | 30 | 47 | 32 |
| Integration of supply chain | 18 | 28 | 18 | 14 |
| Cloud computing services | 36 | 27 | 36 | 31 |
| Big data analysis | 13 | 11 | 9 | 5 |
| Use of 3D printing | 5 | 2 | 12 | 3 |
| Use of robotics | 7 | 4 | 19 | 9 |
| Internet of Things | 18 | 16 | 19 | 10 |
| Artificial intelligence | 7 | 8 | 7 | 5 |

*Source: Baker Ing with data by Eurostat*

According to data from Eurostat, the F&A sector has also adopted new technologies. In terms textiles, clothing and apparel manufacturing, we can see that the sector has not managed to achieve the same level of technology adoption as the other branches of manufacturing. However, around 30% of the companies have digitally integrated their internal process and use cloud-based services. In the other activities, adoption rates are lower, however the same happens for the rest of the economy. In terms of retail (not just for apparel), we can see a fast adoption of new technologies, in particular around big data analysis (mainly focusing on consumers' preferences) and IoT.

## The ecosystem and the role of Europe

The F&A sector can be divided in four different segments. Each of these segments represents different type of experiences from customers. Moreover, each of these segments require companies to use different sets of skills to fulfil consumers expectations. In each segment, the F&A ecosystem of Europe helps companies transform the expectations of the customers into products. As shown in Table 3.2 the F&A sector can be divided according to two dimensions. The first one is based on the production process. We can distinguish here two main strategies: the massive production method, based on low-cost strategy, and the "Production 4.0 and differentiated" one. Massive production refers to a non-personalised experience of products, which are part of a series of items manufactured through an extremely long and dense global value chain. In contrast, the "Production 4.0 and differentiated" strategy is based in the use of high-technology and highly skilled people for the production of lower quantities- in some instances the production can be even labelled as "artisanal". In the second dimension, brand positioning, in terms of purchase power. We have two levels: high-end and middle and low-end. Each of these four segments of the market looks for different experiences that the brands can identify, develop and exploit.

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**Table 3.2 - Strategies for the F&A specialization**

| | | Brand Positioning | |
|---|---|---|---|
| | | Middle and low-end | High-end |
| Production method | Massive with low labour cost | • Customer's expectation: up to speed with global fashion<br>• Companies' main skills: flexible production, logistics and marketing | • Customer's expectation: Aspirational luxury<br>• Companies' main skills: brand positioning and ability to maintain luxury attributes at affordable prices |
| | Production 4.0 and differentiated | • Customer's expectation: Responsible consumer<br>• Companies' main skills: research of valuable attributes and capability to include them in the brand | • Customer's expectation: unique personal experience<br>• Companies' main skills: highly skilled people and ability to link to the European cultural experience |

*Source: Baker Ing*

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The biggest segment of the market combines the "massive" type of production and "middle and low-end" of brand positioning. In this segment we find most of the brands that are in the main street in European countries and have a global footprint. We can mention as examples Adidas, Nike, Gap, Uniqlo, Zara, Primark. In general, as the products of these brands are massively produced in globalised value chains, they are affordable and consumed at mass scale, generating constantly new products and collections. The logic of the segment is based on the idea that the customer is up to speed with the global fashion trends of casual outfit and sportswear. Companies working in this segment manage to react very quickly to changes in trends and can organise their production, logistics and marketing accordingly. An extremely efficient system to manage the supply chain and control the quality needs to be in place. Transport and infrastructure logistics in combination with a flexible labour market to adjust to operational aspects of "new collections" are key. Technologies to manage inventories at global level in combination with sophisticated systems to track orders to suppliers and from customers in e-commerce are essential to the success of the business.

For "massive" and "high end" we can think of all the brands that are traditionally associated with exclusive and expensive consumers experiences but that in recent years have expanded their business, changing essentially the way they produce. In some of these cases, the "aspirational luxury" brands have licenced the brand in other countries; in other cases, they have decided to produce in countries other than where they originally produced. In general, the production of clothing apparel in the "massive" has moved away from expensive European countries to other areas of the world. One of the key assets of companies operating in this segment is probably a great understanding of their customers and of how to talk to them. The ability to

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produce massively whilst keeping good quality that can be associated with luxury is also a key expertise.

The "Production 4.0 and differentiated" clothing production has been the increasing method that European countries are adopting. It's important to clarify that Europe is not producing just on this method; however, the Production 4.0 and differentiated system is the new prominent system of production, at the expense of the low- labour cost method. The "Production 4.0 and differentiated" is compatible with the two levels of brand positioning. For the high end, good part of the luxury brands and niche segments (such as baby clothing) still produce in Europe with methods that use a considerable amount of highly skilled people, in warehouse that combine traditional technics with highly advanced research in areas such as the use of materials, design technologies or studies of heritage and culture for inspiration and adaptation of products. Moreover, in this particular segment companies have managed to introduce a personalised experience, allowing the customer to, for example, be part of the design. This segment requires not just extremely highly skilled professionals (in diverse areas such as fashion design, marketing, interior design, etc) but also the ability to create an "European cultural experience", based on the vibrant cultural environment.

For the "middle-end", the "Production 4.0 and differentiated" puts the emphasis on environmental and quality attributes of the products, as consumers look for a responsible experience. In this segment, organic and sustainable production of the raw materials or fair-trade and high standards of labour conditions are highlighted. Moreover, there is a focus on the research, development and adoption of new materials (usually more eco-friendly) and on a waste efficient and green energy intensive production. In this segment, companies tend to have a collection of certifications for their products and process. Finally, although it is a smaller segment with a slower pace of adoption, "Low-end" is also targeted by the "Production 4.0 and differentiated" production. New trends such as the circular economy and personalisation of items can find their way into this segment.

Both the "Production 4.0 and differentiated" and the "Low-cost" systems of production require an ecosystem that provides a number of assets and skills for the companies to operate within their respective paradigm: mechanisms to connect the R&D with companies' needs, smooth adoption of technology, a skilful workforce and companies with enough resources and clarity in their strategy to be able to adopt the necessary changes. Whilst the functioning of the European economy changed in the past decades, leading to a substantial drop in low-technology production affecting in particular the textile and clothing industry as described in **Box 4.1- The long-term changes in the European industry**, a robust ecosystem has helped the European F&A sector to find its way in the broad spectrum of possibilities.

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# Apparel manufacturing

The apparel manufacturing industry is extremely globalised, employing directly and indirectly millions of workers worldwide, and with thousands of companies participating in the production through sophisticated Global Value Chains (GVCs). European and American brands, who control the retail market thanks to marketing, branding, innovation and differentiation efforts, outsource their manufacturing all around the world. In the 2017-2019 period, apparel exports totalled on average USD 0.6tr, representing around 3% of the global trade. Exports of F&A products are mainly dominated by China (37% of the total exports in the 2017-19 period) and by some EU countries such as Italy (6.2%), Germany (5.6%) and Spain (3%). The main importers are the US, countries in the EU and Japan. Europe's imports of clothes from non-EU countries came mainly from China (EUR 21bn or 30% of extra-EU clothes), Bangladesh and Turkey (EUR12 billion and 8 bn, respectively) for example. Consumers in these markets lead changes not just in terms of fashion but also in terms of production and retail standards and practices. The internationalization of the F&A production has benefited some countries who became important global players. The most important example is probably Vietnam, who, at the beginning of the XXI century, used to export around 1.5% of the global F&A products and in the 2017-10 period reached almost 8%. To a lesser extent, Bangladesh, India and Cambodia also increased their weight in exports.


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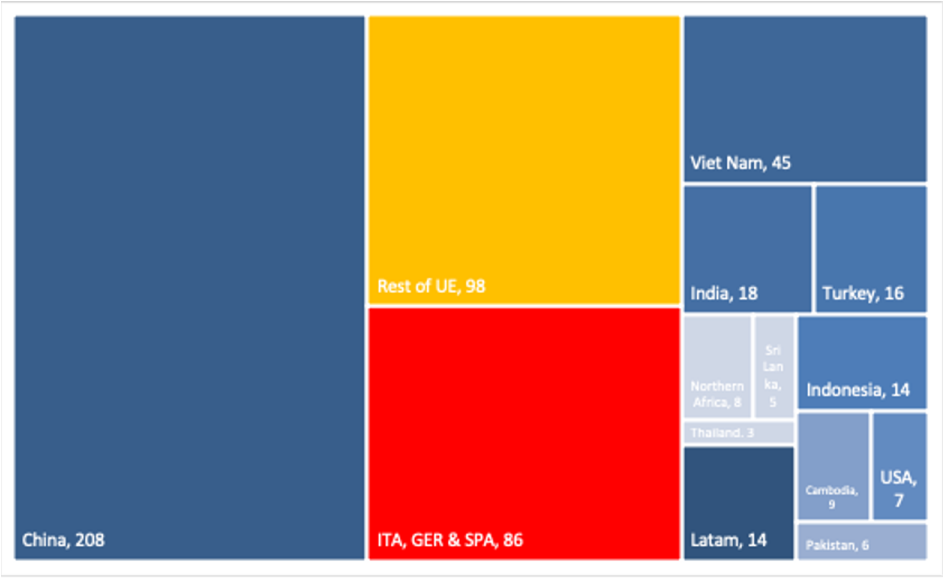
**Chart 4.1 - Top Apparel exporting countries and European countries**




*Source: Baker Ing with data from COMTRADE*

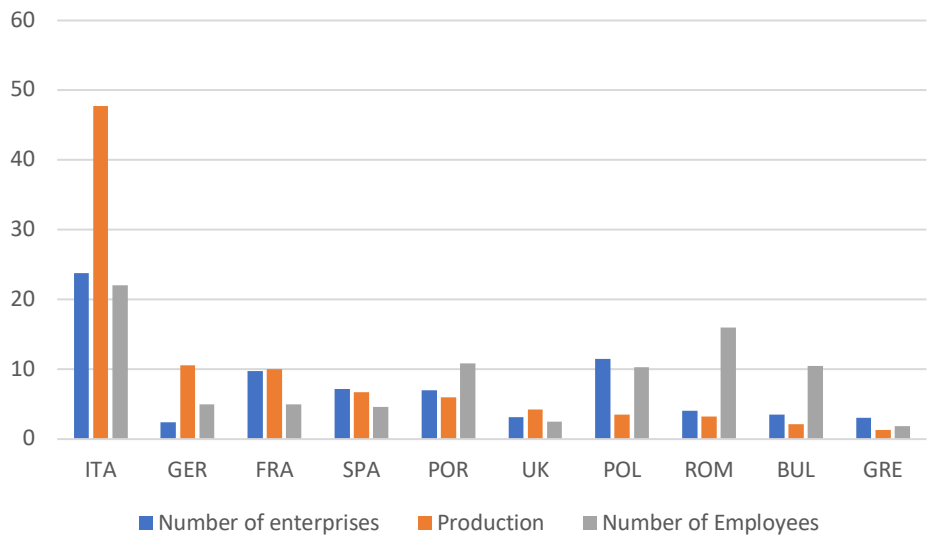
As explained in **3. The European ecosystem for Fashion and Apparel**, changes in the production of Europe in recent decades, in combination with a robust ecosystem have helped good part of Europe's rich economies to specialise in the "Production 4.0 and differentiated" system of production. Although this has led to a decrease in volume of production in recent years, this has meant that the production tends to have high added value thanks to a strong and innovative sector. As a consequence, European exports tend to be directed to rich countries (both inside and outside Europe) where

the quality is key, as opposed to countries like China whose exports are directed in an important proportion to non-rich countries.

## Overview of the European apparel manufacturing sector

Textile and Clothing is a key sector of the European manufacturing industry. Its turnover reached EUR162 bn in 2019, and it employs around 1.5 million people. The sector is formed by around 160,000 companies, almost exclusively SMEs, who invest on average EUR5 bn per year, showing its dynamism and innovation efforts. The sector can be divided in four sub-sectors, with outwear and accessories representing more than 40% of the total. The remaining three sub-sectors are fabrics (17%), industrial and technical textiles (16%) and home textiles (13%). As can be seen in Chart 4.2, Italy concentrates most part of the production, with around 50% of the production of the European Union, 25% of the enterprises and 20% of the employees. Germany, France, Spain, UK, Portugal and Greece add around 40% of the production, 30% of the enterprises and 40% of the employees. Poland, Romania and Bulgaria are the biggest producers among the Eastern countries. These three nations concentrate 9% of the production, 19% of the companies and more than 35% of the overall employment of the region.

**Chart 4.2 - Percentage of participation of different countries in the EU apparel manufacturing (year 2018)**




*Source: Baker Ing with data from Eurostat*

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In the last decade, the sector has been increasing its productivity while employing fewer workers. Jobs decreased by around 12% between 2011 and 2018 in the EU for manufacturing of apparel, and productivity increased by around 8% in the same period. Increases in productivity were not just the only innovations in the sector. In recent years, the sector has moved towards a more environmentally friendly production, including initiatives towards increasing the proportion of green energy and reducing the environmental impact of waste. At the same time, the industry has continued to reduce its CO2 emissions and continued its exploration for the

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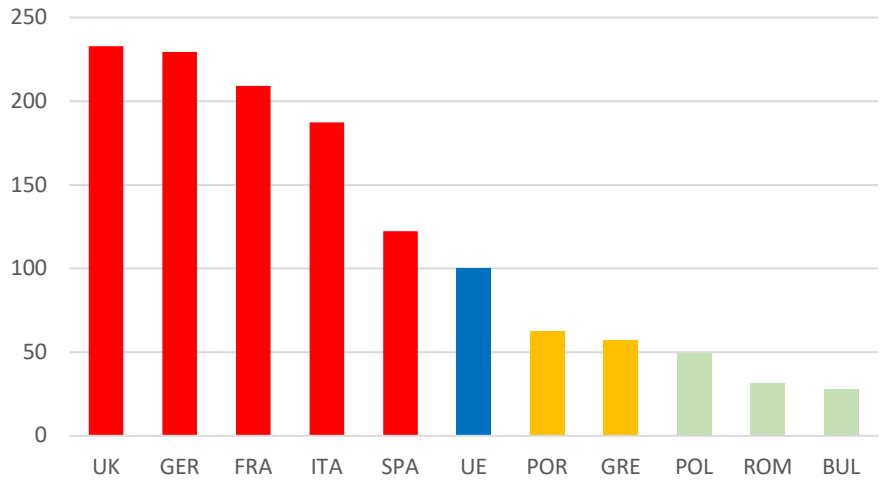
development of new materials as part of the circular- economy paradigm. All these innovations are taking place thanks to the dynamic ecosystem.

Although European countries enjoy the European economy's ecosystem, levels of productivity are very heterogeneous among them. Following Chart 4.3, countries can be sorted by level of productivity (defined as product by employee) in the manufacturing of apparel, and grouped in three categories. The first group is formed by the countries with high levels of productivity, including the UK, Germany, France, Italy and Spain. All these countries have productivity above the average of the EU. Differences within this category are also present with the UK or Germany almost doubling the productivity of Spain. The second group is formed by Portugal and Greece. Productivity of these two historical members of the EU is below the average of the region. In contrast with countries in the first group they haven't been so successful in the transition from a massive and low-labour cost system of production to a 4.0 Production with differentiated scheme. With lower GDP per capita and reduced access to R&D by SMEs than the rest of the Western members of the EU, Portugal and Greece are likely to continue having low levels of productivity. The third group is formed by the countries located in Eastern Europe. Poland, Romania and Bulgaria have productivity levels well below the average of the EU. Despite receiving for the past years a considerable amount of official funds to upgrade the economy and private investment, productivities continue to be low.

**Chart 4.3- Productivity of the manufacturing of apparel sector per country (Index EU=100, year 2020)**




*Source: Baker Ing with data from Eurostat*

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**Box 4.1 - The long-term changes in the European industry**

The changes in the European economies' patterns of specialization in in the past three decades have been outstanding. Traditionally, industrialised economies had become more specialised in services. But the specialisation was not between manufacturing and services. On the contrary, the high-tech sectors managed to expand within the manufacturing. Textiles, apparel and footwear manufacturing have been among the most affected segments. Their production collapsed even in countries that have managed to keep the drop of manufacturing at low levels like Germany, France and the UK - Germany has even increased it by 17%. The same happened with Italy, the leading country in the F&A sector in Europe, where the production halved in 30 years. Spain, traditionally with a less developed manufacturing sector, also has experienced massive drops.

**Table 4.1 - Changes in volumes of manufacturing production (1991-2020) per country and sector**

| Manufacturing | GER | FRA | ITA | SPA | UK |
|---|---|---|---|---|---|
| Overall | 24 | 0.3 | -17 | -5 | -0.3 |
| Textiles, apparel and others | -78 | -93 | -60 | -65 | -49 |
| Textiles | -55 | -65 | -62 | -48 | -47 |
| Wearing apparel | -91 | -97 | -50 | -76 | -53 |
| Footwear | -58 | -96 | -77 | -76 | - |

*Source: Baker Ing with data from Eurostat*

## The impact of COVID in F&A manufacturing

The F&A manufacturing sector has inevitably collapsed during the COVID sanitary crisis. Demand for clothes across the globe has dropped in 2020, meaning many orders were cancelled, unpaid or put to a halt. More importantly, the manufacturing sector was forced to close and stop production as part of the health and sanitary policies applied in various countries. The capacity of companies to react to the shock and to return to normal operations depends on a number of factors. Contingency plans in place in supply chain and inventory management, financial health prior to COVID, and flexibility to adapt production processes to manufacture different outputs, will or have already been key to determine how well companies can recover from a bad 2020.

The biggest countries in terms of manufacturing in Europe (Italy, Germany and Spain) are suffering in different ways from the COVID crisis. The collapse in Italian apparel production reached almost 35%, when the overall industry went down by just more than 10%. In Spain, a similar pattern can be observed: the drop in apparel manufacturing was almost three times the value of the overall industry. In Germany, where the apparel production contracted by around 20%, the gap was smaller. In France the apparel manufacturing and the overall manufacturing performed similarly, with drops of around 12%. Poland was the most successful of the key producers, containing the drop in apparel manufacturing as the contraction was just around 2%.

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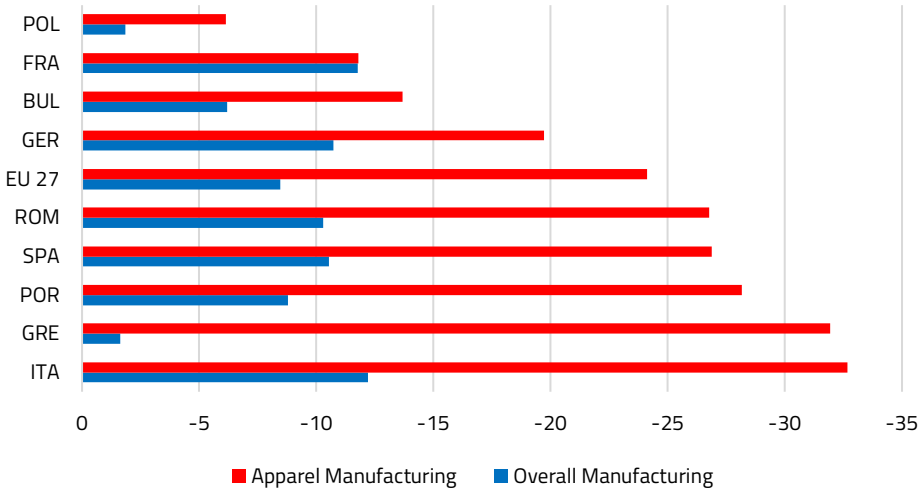
**Chart 4.4 - Performance of the manufacturing sector in 2020**




*Source: Baker Ing with data from Eurostat*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# Retail performance and strategies of main players

Over the past three decades -and as part of the globalization of the sector-, the retail industry has been through a profound evolution. High streets and shopping malls used to be dominated by department stores and smaller shops that were selling clothes from different brands (aggregator-type retailers). Today many retailers are companies with strong identifiable brands who design and go to market with their own range of clothes. Their size varies from small and local brands to big multinationals such as Inditex or H&M, and they have replaced small to medium-size aggregator-type retailers, who have almost completely disappeared in some countries. These global brands control many key aspects of the value chain, including design and sophisticated sales and marketing through multiple channels. The manufacturing and sourcing parts of the global value chain remain mostly outsourced. Both models have also been replicated online, where e-commerce giants like Amazon play the role of aggregators, whilst brands (multinationals and local) are catching up and have developed their own e-commerce platforms.

**Table 5.1 - Clothing and footwear retailers in Europe (2018)**

| | Number of companies (in 000s) | | Turnover (in EUR bn) | | Gross margin (in EUR bn) | |
|---|---|---|---|---|---|---|
| | Clothing | Footwear | Clothing | Footwear | Clothing | Footwear |
| EU* | 293.6 | 63.3 | 222.4 | 47.5 | 78.6 | 15.9 |
| Germany | 24.6 | 5.6 | 39.3 | 9.4 | 18.7 | 4.3 |
| France | 46.6 | 11.5 | 20.1 | 3.2 | 8.7 | 1.4 |
| Italy | 31.9 | 6.4 | 28.0 | 8.0 | 12.9 | 3.4 |
| Spain | 66.2 | 14.2 | 27.5 | 8.1 | 9.6 | 2.8 |
| Netherlands | 9.5 | 1.5 | 10.1 | 1.9 | 4.7 | 0.9 |
| UK | 11.5 | 2.5 | 49.0 | 6.3 | 24.0 | 3.2 |

**data for gross margin is just for the six countries in the table*

*Source: Baker Ing with data from Eurostat*

According to Eurostat, there are around 294,000 companies selling clothing and 63,000 selling footwear in Europe. The turnover of the European sector totalled EUR222.5 bn in clothing and EUR47.4bn in footwear in 2018. Gross margins for the combined products (clothing and footwear) totalled around EUR100bn. In terms of turnover and gross margin, UK is the biggest market. Moreover, the UK has the biggest average company size in terms of turnover: Turnover per company averages EUR4.2 million in the UK, against the average of EUR0.8m for the EU, or other countries like Germany (EUR1.6m or Netherlands EUR1.0m). In terms of profitability, companies in the UK also show the highest figures: gross margin/turnover in the UK is 50, above the other main countries of the region.

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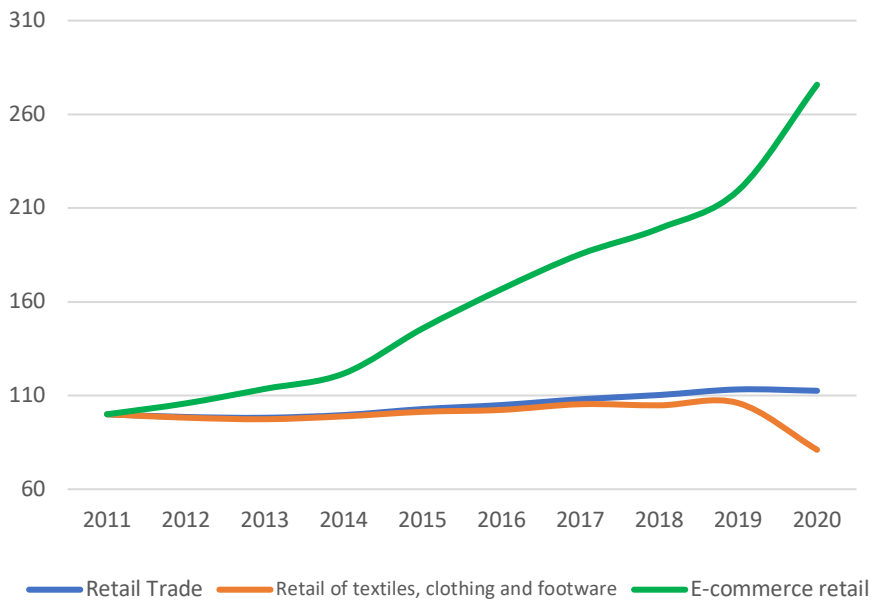
**Chart 5.1 - Retail sales performance in Europe (index value 2011=100)**




*Source: Baker Ing with data from Eurostat*

As can be seen in Chart 5.1, retail sales of textile, clothing and footwear have been slowly expanding in the last decade, up to 2020. This has been in line with the European economy's overall retail. By contrast, e-commerce retail has shown a meteoric expansion. In 2020, we could see three distinctive performances: general retail trade was flat, textile, clothing and footwear dropped by 23% and e-commerce retail expanded by 25%.

## Strategies for brand differentiation

In the same way that Europe has differentiated itself from the rest of the world on how clothing is produced, brands use differentiation strategies to target and capture particular segments of the market. Although the F&A market can be segmented in different ways, we think that is useful to have two main axes: a) the go-to-market strategy and b) the segment or niche of the market targeted. As reflected in Table 5.2, the first relevant consideration is if the go-to-market strategy is based on low prices or quality attributes. The biggest part of the market (including in the EU) is in the low-price type of strategy. Within this strategy, brands target different segments such as accessible luxury, outwear and casual, footwear, sportswear and specific segments such as socks, glasses or accessories. Companies like Italian Armani and Dolce & Gabbana, French The Kooples, Zadig & Voltaire or Maje, and British Reiss for example are in the "aspirational luxury" category. The low-price strategy doesn't mean that the companies don't have good quality standards or specific certifications for process or products. However, in general their positioning and branding is not around those quality attributes. Instead, they are based on other aspects, such as the rapid adaptation to diktats from trends in fashion. In this strategy, we find some of the biggest companies in the world that operates in several segments at the same time. This is the case for Spanish Inditex, Dutch C&A and Swedish H&M, Irish Primark or French Monoprix and British M&S.

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Among the sportswear and footwear, we can mention German Adidas and Puma, American Nike, British Clarks and Spanish Camper. Among the segments, some examples are Italian Calzedonia, specialised in hosiery and socks, British Accesorize or French Kindy, focused on socks. In general, the production of the brands in the low-price strategy (as explained **in 3. The European ecosystem for Fashion and Apparel**) are done in countries with low-cost labour.

**Table 5.2 - Differentiation strategies for F&A brands**

| | | Segment or niche | | | |
|---|---|---|---|---|---|
| Go-to-market strategy | Low price | Accessible luxury (Dolce & Gabbana, Armani, The Kooples, Zadig & Voltaire, Reiss) | Outwear & casual (Inditex, H&M, C&A, Primark, Gap, Uniqlo, Next) | Footwear & sportwear (Adidas, Puma, Nike, Clarks, Camper) | Specific segments (Calzedonia, Accesorize) |
| | Quality attributes | Design by author (Hermés, Louis Vuitton, Viviene Westwood, Versace) | Valuable standards of production (Hircus, EKYOG, House of Sunny, Armedangels) | Circular economy (Charity shops, Percentil, eBay, Le Bon Coin) | |

*Source: Baker Ing*

The strategy based on quality attributes is followed by fewer companies. Their goal is to exploit a series of attributes that are associated to the production or sale of the product. The attributes can be diverse, and the value consumers give them also changed with time. However, it is easy to affirm that the "design by author" is one of them. Within this category, there is a big gradient in terms of quality, but we can mention French Hermès, Louis Vuitton, Vanessa Bruno or Chanel, British Vivienne Westwood and Italian Versace. Among the segment of "valuable standards of production" we can find a variety of companies. Some of these may base themselves on environmental credentials, others on fair-trade, and some may even highlight their origin. In order to illustrate the diversity, we can mention French Hircus specialised in knitted clothes made in France, EKYOG exploiting its organic clothes, Le Slip Francais in the niche of underwear highlighting the "made France" or the sustainable fashion for jeans of Sezane. In the UK we can find House of Sunny, whose core strategy revolves around sustainable clothes, just like German Armedangels. Finally, in the "circular economy" niche, we can mention all the second-hand markets that have recovered prestige in recent years. In the UK, this niche has been historically well organised thanks to charity shops. In Spain, the brand Percentil works with second-hand clothes in almost new conditions for example. An important new channel for this segment is e-commerce, including sites like Amazon or eBay. In France, for example, Le Bon Coin, has positioned itself as a marketplace for second-hand clothes, and is one of the top 5 most visited websites in the country.

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**Box 5.1 - Top global players per segment**

The globalisation of the F&A sector in recent decades -in parallel with the outstanding expansion of Asian economies- has led to the surge of giant global players that not only have a substantial portion of the market share but also have managed to mark the pace of innovation in the industry. The biggest segment for the F&A is the outwear and casual. Sales of the top 10 companies in this segment totalled around EUR120 bn, equivalent to the GDP of Peru, a country with 30 million inhabitants. These 10 companies have more than 30,000 stores around the globe, employing more than a million people. Together, Inditex and H&M – the two biggest ones- represent almost 40% of the sales of the Top 10.

Luxury is the second biggest segment with sales around EUR104 bn in 2018. With higher prices, it has higher productivity in terms of the sales-employees ratio. In this segment, LVHM is the unchallengeable leader with around 40% of the sales made by the Top 10 companies. Close to luxury, sales of the sportswear segment reached EUR102 bn in 2018, with around 50% of the market share of the Top 10 going to Nike and Adidas. Segments like urbanwear are relatively smaller with sales of around EUR27 bn globally in 2018. Although smaller than all the previous ones, the childrenwear is a growing sector. In 2018, the sales of the segment reached almost EUR10 bn. American Carter's is the leader in the segment.

**Table 5.3 - Top 10 global companies per segment (2018)**

| Segment | Top-10 companies | Sales (in EUR bn) | Stores (in 000s) | Employees (in 000s) |
|---|---|---|---|---|
| Outwear & casual | Inditex, H&M, Fast Retailing, GAP, L-Brands, VF, Primark, PVH, C&A, Bestseller | 120 | 30.7 | 1,196 |
| Luxury | LVHM, Kering, Richemont, Chanel, Chow Tai Fook, Hermès, Ralph Lauren, Michael Kors, Tapestry, Tiffany | 104 | 14.3 | 334 |
| Sportswear | Nike, Adidas, Intersports, Decathlon, Dick's, Foot Locker, Under Armour, Puma, Sports Direct, JD Sports | 102 | 31.6 | 420 |
| Urbanwear | Levi's, American Eagle, Urban Outfitters, Abercrombie & Fitch, Global Brands, Guess, Superdry, Diesel, G-Star Raw | 26.8 | 18.5 | 75.6 |
| Childrenwear | Carter's, The Children's Place, Gymboree, ÏDKids Group, Mothercare, Orchestra, Kidiliz, Mayoral, CWF, Zippy | 8.8 | 7.5 | 60.5 |

*Source: Baker Ing with information from themds.com*

Although the companies leading the global F&A market are giants and look invincible, shocks to the environment in which they operate affect them, forcing them to respond in order to maintain their market share. In recent years, challenges to the global value chains reflected by the nearshoring trend in the US, the Brexit in Europe, or the commercial tensions between the US and China are affecting the way these companies operate. COVID has also proved to be a considerable challenge to the sector, who was not only affected by the drop in purchase power and logistics disruption but, more importantly, by the disruptive rise of e-commerce, as it becomes evident that is –and will be- substantially changing the market. Last but not least, the COVID crisis can lead to changes in preferences -mainly in rich countries- towards more sustainable products. Companies react in different ways to these challenges. Factors such as history and organization culture, growth strategy, type of management or adoption of new technologies are all variables that are relevant to react to the new challenges.

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# Key players in Europe

The high purchase power of European consumers -in addition to the millions of affluent tourists that visit the main European cities every year-, in combination with the robust ecosystem the F&A sector evolves in, has helped towards the development of strong European F&A brands. European brands operating in different segments are global leaders. This is the case, for example, of companies in the outwear and casual segment like Inditex or H&M, in the luxury segment like LVMH, or in sportswear like Adidas. Interestingly, European brands have managed to maintain their dominating position in the domestic market despite the efforts of companies like American GAP or Japanese Fast retailing (who owns UNIQLO, for example) in the outwear and casual segment, or Michael Kors in luxury and Nike in sportswear.

Inditex and H&M concentrate around 15% of the clothing sales of Europe. Both companies have followed different strategies. Inditex, the most important company in the European market, enjoys around 7.5% of the market share of the European sales of clothing. Headquartered in Spain, European sales of Inditex represent around the 75% of the global income. With a broad range of brands (Zara, Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Uterqüe), the group has around 5,000 stores in Europe. Zara is the flagship of the company. The ownership of supply chain steps allows for a rapid product turnover: it only takes a month for a product that is being designed to be manufactured and to hit the shelves. The main manufacturing plant of Zara is in Spanish city of A Coruna. According to the company, 54% of production facilities are in Spain, Portugal, Turkey, and Morocco, although they also have suppliers in Pakistan, Cambodia, Vietnam, China and Brazil. The strategy of Zara is based on a high number of items available to sell. While most clothing retailers manufacture and offer to the public between 2,000-4,000 different articles of clothing per year, Zara offers over 10,000 pieces annually. This strategy has allowed the company to target a broader number of customers.

**Table 5.4 - Key companies in Europe (2019)**

| | Number of companies (in 000s) | | Turnover (in EUR bn) | | Gross margin (in EUR bn) | |
|---|---|---|---|---|---|---|
| | Clothing | Footwear | Clothing | Footwear | Clothing | Footwear |
| EU* | 293.6 | 63.3 | 222.4 | 47.5 | 78.6 | 15.9 |
| Germany | 24.6 | 5.6 | 39.3 | 9.4 | 18.7 | 4.3 |
| France | 46.6 | 11.5 | 20.1 | 3.2 | 8.7 | 1.4 |
| Italy | 31.9 | 6.4 | 28.0 | 8.0 | 12.9 | 3.4 |
| Spain | 66.2 | 14.2 | 27.5 | 8.1 | 9.6 | 2.8 |
| Netherlands | 9.5 | 1.5 | 10.1 | 1.9 | 4.7 | 0.9 |
| UK | 11.5 | 2.5 | 49.0 | 6.3 | 24.0 | 3.2 |

*Source: Baker Ing with information from themds.com, retail-index.com and companies' websites*

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Swedish H&M is the second biggest F&A in Europe. With a turnover of EUR14.5 bn, the European market represents around 75% of its global revenues. The company represents around 6% of clothing sales in Europe. The company has several brands, including H&M, Monki, Weekday, H&M Home, & Other Stories, Cheap Monday, Afound, and Arket. H&M has expanded considerably over the last few years. It has 4,372 stores open worldwide (April 2021), and far more physical stores than Zara (around 2,100). H&M's strategy to penetrate the U.S. market has also been more effective than other companies', as the company has managed to open 559 stores. Although H&M has plans to roll out thousands more stores in the next few years, it has also closed stores as part of the transition the company is undergoing from a physical sales-based model to an e-commerce one. Part of the strategy of H&M is to offer customers featured products that have been marketed as designer collaborations with well-known names, such as Versace and Alexander Wang. By offering these products within H&M locations, the company boosts its own reputation by partnering with valuable figures in the fashion world, and it offers its customers additional lines for purchase that are different in look and style from the traditional style of the company.

## The online F&A market

Among the most impactful shocks that the retail of F&A has been through recently, we need to mention the transition from physical stores to e-commerce. Although the development of e-commerce had started well before the COVID crisis, the pandemic accelerated it. E-commerce has already started to transform a number of market (including sectors as different as books, food, transport, travel and entertainment). The F&A retail is also changing quickly. According to Eurostat, e-commerce clothing sales in Europe increased by 25% in 2020; however, the figure grew by 10% GARC in the 7 years prior to COVID.

E-commerce can be seen as new go-to-market channel that big brands are going to adopt. However, e-commerce could also bring a number of challenges for the established leaders, who have built their leadership on the physical stores. Firstly, they can find themselves overinvested in stores. Secondly, they may be less flexible to adapt. E-commerce is not just about having a webpage to sell; it requires changing the way the business works, including process of inventories management, new logistics and storage, and different communication and branding strategies.

At the moment, there are three main types of players in the online F&A market. The first type of player is the brands that have lived the pre-online phase. All the big brands have launched their webpages with online shops. They have followed different strategies and paces but it is a growing area of their business. Online sales of some segments of Zara, for example, have already reached 20-25% of the total sales. The second type of player are generic platforms like Amazon, eBay, Veepee, Dreivip, Leboncoin. Some of this pure player retail companies have launched fashion specific online portals such as Amazon Fashion. The third type of player is the companies that are essentially online marketplaces dedicated to clothing. In this segment, we find companies in several countries with different go-to-market strategies. One group is formed by companies that are brand aggregators such as Asos, Spartoo, esdemarca, LaRedoute, Zalando, Etsy or BonPrix. The second group is formed by companies that are second-hand marketplaces. Companies like Micolet, Percentil, or Vinted.

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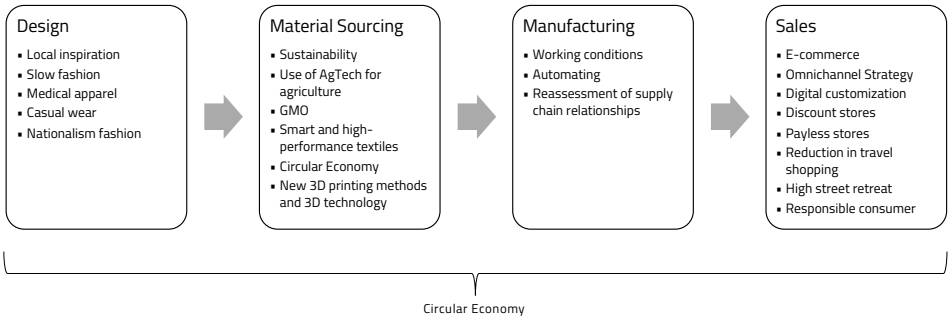
# Fashion & Apparel and the circular economy

The F&A sector is dynamic and fast-moving. It has managed to adapt to the changing demands from consumers, creating high efficiencies across the globe in terms of market creation, and all through the manufacturing chain and sales points. As explained previously, the F&A value chain is extremely globalized, complex and connected with other sectors of the economy. For decades, the sector has been highly innovative in order to maximise efficiency through global operations. Nowadays some of these processes related to environmental and social performance are being questioned and some new challenges emerged. Circular economy applied to the F&A has been one of the responses.

In the past decade, the sector has been shaken by a lot of changes and initiated profound transitions in each step of the value chain. Some of these changes have affected good part of the sectors of the global economy, F&A being one of them. Perhaps the most important among these have been the exposure across the globe of bad practices in working conditions, and the emergence and growing adoption of fair-trade standards. Some other changes have mainly been initiated by other industries but have had a direct impact on the F&A sector. This is the case of changes in agriculture, where technology and consumer demand combine to help moving towards a more organic and sustainable model. The digitalization of the economy is not F&A specific but has fully impacted the way consumers relate to brands and their purchase experience. Finally, other changes are more specific to the Fashion, Apparel & Retail industry, such as the backlash on fast fashion or the retreat of high street activity. Table 6.1 shows some of the most important trends affecting the F&A sector.

**Table 6.1 - 20 trends in the F&A manufacturing and retail sector**




*Source: Baker Ing*

The circular economy is a practice that is affecting the F&A sector in transversal way. It impacts design, material sourcing, manufacturing and sales. The concept of circular economy has gained momentum in the F&A sector a few years ago and with the COVID crisis -a 15% drop in retail is expected between 2019 and 2020-. The second-hand online market is expected to reach EUR60bn in the US in 2025, representing around the 20% of the European new clothes sales.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It is estimated that the average US person throws away each year 23Kg worth of clothes and that in the UK each household throws out 35kg of clothes a year, which is equivalent to 90 pairs of jeans. Only 1% of the materials used for clothing are reused to produce new garments, and approximately 70% are disposed of in landfills or incinerated, in spite of the fact that 95% of the clothes we throw away could have a second life. Moreover, F&A accounts for 10% of global carbon emissions and 20% wasted water. The reasons for such waste all point towards a F&A industry that has been in the past decades intensifying the frequency of change in clothing lines, making short-lasting clothes at such low cost that buying a new item makes more economic sense than mending ones already purchased. The circular economy is a response to the fast fashion. Criticism comes not just from consumers that are increasingly conscious of social and environmental issues, but also from within the sector. Some designers are starting to speak against fast fashion, from Vivienne Westwood to Stella McCartney, pointing out the waste and damage done to the environment. Europe is at the forefront of this trend. The European Commission launched its first circular economy action plan in 2015, which included actions to help stimulate Europe's transition towards a circular economy. The robust, innovative and dynamic European ecosystem can be also a helpful tool to support this transformation.

## The organization of the market

The second-hand market has been driven by few developments. Firstly, in recent years, clothing retail has been an early (and big) adopter of e-commerce, with some estimations indicating that even before COVID, 41% of all clothing and sportswear purchases were made online in Europe – a figure even higher than for travel and holiday accommodation. Online marketplaces, developed thanks to e-commerce, are an efficient way to put together sellers and buyers at low cost. Secondly, the cost reduction to promote new technological developments in digital platforms has contributed to a rapid and wide spread of the second-hand trend and its alternatives, all of which have been supported through communication campaigns by a number of celebrities all around the world. Thirdly, perceptions have been profoundly changing around second-hand clothes. A growing number of people now associate second-hand more with environmental responsibility than with savings. Young people, the main users of second-hand clothing, don't seem to have as many prejudices as the previous generation. Finally, the changes in patterns of consumption as a consequence of COVID have encouraged forms of consumption that point towards more sustainability; these forms are almost the opposite of fast fashion.

At the moment the market is organised in three main segments. The first segment is formed by a new generation of online marketplaces that were born as second-hand platforms. As can be seen in Table 6.2, second-hand platforms have emerged all around Europe. Easiness to process payment and to move the items across the countries have contributed to the continental expansion of these companies. An example is Vinted, a Lithuanian company born just 10 years ago that currently operates in 12 European countries, employing 500 people and forming an online community of 37 million members who buy and sell used clothes. In France, Vinted has around 70% of the second-hand clothing trade. Within this segment, there are different niches. Some companies are specialised in low and mid-end items, others in luxury. There are some companies that work with niches such as vintage or clothes

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that are coming from charity shops. This is the case of British company Beyond Retro that sells used vintage clothing to several European countries. All merchandise sold by Beyond Retro was previously purchased from charities, directly or through recycling companies. In general, these platforms have in their catalogues fast fashion items originally from retailers like Zara or H&M. For the customer, the shopping experience is relatively easy as items are organised by brands. In this way, the customer can follow their personal style without a great searching effort. One of the main problems of these companies is the complexity in standardising the quality of the items, and to set the correct expectations of the customer and avoid disappointments.

**Table 6.2 - Selection of key participants in the circular economy sector for clothing in Europe**

| Company | Headquarter | Type of products in the marketplace |
|---|---|---|
| Beyond retro | UK | Clothing for women, men and children; accessories; bags |
| Loopster | UK | Clothing for women and children |
| Hardly Ever Worn It | UK | Luxury clothes; shoes for women, men, and children; jewellery & watches |
| Vinted | Lithuania | Clothing for women, men and children; accessories; bags |
| Re-SEE | France | Clothing for women |
| Vino Kilo | Germany | Vintage clothing for women and men |
| Desert Fox Collective | France | Vintage clothing for women |
| Haute Vintage | Poland | Clothing for women |
| Percentil | Spain | Clothing for women, men and children; accessories; bags |
| Micolet | Spain | Clothing for women, men and children; accessories; bags |
| Zadaa | Germany | Clothing for women & men |

*Source: Baker Ing with data from almostzerowaste*

The second segment is formed by the traditional charity shops. This is still a big channel for second-hand in some countries like the UK. Some of these charities have launched their own websites to sell clothes. They are facing a particular challenge, as a considerable amount of people that used to donate to charities will find it more convenient to go to the second-hand platforms to offer their items. This could create a reduction in the offer and therefore the perception from customers that visiting those websites is a poorer experience. Having an attractive marketplace will require from charities some efforts, including the ability to process rapidly the reception of clothes, an efficient system to label them and, last but not least, the capability to package and deliver.

The last segment is made of traditional brands, including some of the most relevant in the fast fashion sector. Inditex, for example, announced that one of its objectives is to stop sending products from its own headquarters, logistics centres, stores or factories to landfills by 2023. The Spanish company has also launched a recycling program in its stores, who have available in-store points where consumers can drop their discarded clothing for donations to non-profits organizations and/or re-use in

second-hand stores. Another example is H&M, who has recently launched in Europe a system of clothes rental for kids, in a bid to reduce waste and to start getting involved in a more circular economy. It is worth highlighting however that, although big mainstream brands are showing signs of supporting the circular economy through these types of initiatives, their current DNA continues to be in fast fashion.


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# Country perspectives

Although the F&A sector was strongly affected by the COVID crisis in all the countries of the region, both the performance in the short and medium term will continue to be explained by the robustness of the F&A ecosystem and the capability of the companies in each country to react to the changes in the global economy and to the trends affecting the sector.

**Table 7.1 - Snapshot of main European countries**

| | Structural behaviour | Short-term performance & forecast |
|---|---|---|
| GER | • The German F&A is highly technological with a robust ecosystem that prompts adoption of technology even in small companies.<br>• It has specialized in sports brands such as world leaders Adidas and Puma. C&A, the main fast fashion company of the country, is a key global player. | • The pro-innovation environment has created the conditions for the emergence of a number of e-commerce marketplaces<br>• The sector seems to be well placed to move towards a more sustainable system of production. |
| FRA | • The F&A industry is oriented towards luxury with companies like LVHM, the global leader in the luxury segment.<br>• Medium and big companies in the middle-to-high-end segment are strongly present, and benefit from the reputation of the French style. | • Emergence of several e-commerce marketplaces will support the growth of the sector in the country.<br>• Companies are reacting quickly and well to position themselves as environmentally-friendly and socially responsible. |
| ITA | • Home of the biggest F&A sector of the continent, the country is Europe's biggest exporter.<br>• A dense and big cluster of SMEs, well connected with R&D efforts, benefits from a strong reputation and a pool of highly-skilled workers. | • Internationalization of Italian companies has failed to gain as much momentum as for companies from other European countries.<br>• Few companies are reacting to new trends or customers' requirements. |
| SPA | • Spain's F&A sector has extraordinarily expanded in the past decades, with the emergence of some of the world's biggest companies.<br>• A robust F&A ecosystem has helped to disseminate learning from big companies such as Inditex to SMEs. | • Environmental and social concerns that the sector is facing can particularly affect big Spanish companies.<br>• New Spanish companies are emerging to respond to the responsible consumption trend, and to the migration to e-commerce. |
| UK | • The country combines an extremely attractive business environment for F&A retail, with London as a global key consumption center.<br>• An efficient financial sector encourages the expansion of global brands. | • Brexit has increased uncertainty about future trade agreements, slowing down investment.<br>• With more restrictions to EU citizens and workers to access the British market, the retail sector may suffer. |

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# Germany

| Country Performance | | F&A Production | F&A Retail |
|---|---|---|---|
| GDP (USD bn) | GDP per capita (USD) | Number of companies (in 000s) | Number of companies (in 000s) |
| **3,803** | **45,733** | **29.0** | **31.2** |
| GDP growth | | Number of employees (in 000s) | Turnover (EUR bn) |
| Pre COVID | 2020 | | |
| **0.9** | **-4.9** | **36.9** | **39.2** |
| Inflation | Unemployment | Output (y-o-y change, 2020) | Output (y-o-y change, 2020) |
| **2.2** | **4.2** | **-19.7** | **-23.5** |

**Macro overview.** Following ten consecutive years of expansion, the German economy contracted in 2020 due to the COVID pandemic, despite the measures taken to contain it. GDP shrank by 4.9% as domestic consumption, private investment and external demand all slumped. However, the downturn was less severe than in the other major economies of Western Europe, including France, Spain and the UK. Germany's relatively better weathering of the crisis reflects less stringent lockdowns and a high level of government support. While supply chain disruptions hampered the country's large manufacturing sector – which accounts for almost 20% of GDP – the strongly recovering Chinese market has helped to support German factory activity. The economy is expected to rebound by 3.6% in 2021, with the bulk of the recovery likely to take place in the second half of the year. The recovery will be helped by the rollout of vaccines, which will allow the easing of lockdown restrictions, as well as ongoing generous government stimulus measures. In addition, the large export-oriented industrial sector, which is less affected by lockdown measures than the services sector, will continue to benefit from growing demand in China and other Asian markets.

**The F&A sector.** Similarly to the other big economies of Europe, the F&A sector in Germany has been going through a significant transformation. The overall reduction in manufacturing output and employment and the move towards a high-tech at the expense of low-tech manufacturing in the past decades has radically changed a German F&A sector who has been able to modernise and adapt to globalization, specialising in products with high added-value, for example technical clothing (e.g. security, health). German brands have also specialised in sports products with giants Adidas and Puma, leading the world scene together with American Nike. German/Dutch/Belgium C&A is also the most important brand for fast fashion with a global presence. The German ecosystem is supporting not only the manufacturers in innovation and how to reap the benefits of the adoption of technology in internal and external processes, but it has also been useful to boost the emergence of a number of marketplaces specialised in fashion (e.g. Zadaa). The ecological and social awareness of German consumers is leading a number of companies to adopt more sustainable processes.

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# France

| Country Performance | | F&A Production | F&A Retail |
|---|---|---|---|
| GDP (USD bn) | GDP per capita (USD) | Number of companies (in 000s) | Number of companies (in 000s) |
| | | **12.1** | **38.3** |
| GDP growth | | Number of employees (in 000s) | Turnover (EUR bn) |
| Pre COVID | 2020 | | |
| **1.7** | **-8.2** | **39.8** | **20.0** |
| Inflation | Unemployment | Output (y-o-y change, 2020) | Output (y-o-y change, 2020) |
| **0.5** | **8.2** | **-11.8** | **-23.5** |

**Macro overview.** The French economy contracted by a sharp 8.2% in 2020 as a result of the coronavirus, with the country being one of the worst affected globally by the pandemic. The tourism, manufacturing, retail and construction sectors were worst hit, reflecting the impact of strict lockdown and social restriction measures. While the economy is expected to rebound by a robust 5.8% this year (one of the strongest projected growth rates in the region), activity in the first half of the year will remain weak. Indeed, growing concern over rising infection rates amid the third wave of the COVID pandemic prompted the French authorities to announce a month-long lockdown on March 18th for the worst-affected regions of the country. Beyond this, some degree of restrictions are likely to remain in place for at least the first half of 2021, as the government gradually rolls out vaccinations. The economic recovery should then gain pace in the second half of the year as restrictions are gradually relaxed and pent-up demand boosts household consumption and spurs business investment. Export-facing sectors, meanwhile, will continue to benefit from the recovery in Asia. Crucially, the projected recovery depends on the timely implementation of the vaccination programme and its success in conferring protection against any new variants that potentially emerge. Moreover, the extent of the recovery will be limited by impaired balance sheets and elevated unemployment.

**The F&A sector.** The process of transformation of the French economy has led to a substantial reduction of manufacturing in general, and of textiles, clothing and footwear in particular. However, with around 12,000 companies and almost 40,000 employees, the sector is not minor. France is globally associated with the high-quality fashion, with some of the most iconic haute couture designers of the 20th century (such as Chanel, Christian Dior or Yves Saint Laurent), who are almost considered as a synonym of the country. France was also the home of the prêt-à-porter concept that was a revolution in fashion in the mid-20th century. The tradition of high quality and innovation is still present in the contemporary industry. Groups like LVHM -the biggest group in the luxury segment in the world- and Hermès continue this tradition, but in a modern version and with a global scale. Actually, LVHM is responsible for the expansion of luxury beyond the rich segment of society. On parallel to the luxury segment, France has a considerable amount of small-to-mid-range designers (such as Vanessa Bruno, agnes b., Isabelle Marant) that base their expansion on high-quality combined with style and strong brand identity. In recent years, companies like

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Comptoir des Cotonniers, Zadig & Voltaire and The Kooples have emerged to target a middle-end consumer. Brands in the low-end of the spectrum, although strong locally (such as Celio or Pimkie), haven't managed to expand much internationally. More recently, French customers have become increasingly demanding in terms of environmental and social impact of the clothes they wear. As a consequence, a multitude of SMEs has emerged, whose development is based on a broad range of attributes. Finally, e-commerce has been relevant with companies like Le Bon Coin – a second-hand online marketplace– who are performing well in the clothing market.

## Italy

| Country Performance | | F&A Production | F&A Retail |
|---|---|---|---|
| GDP (USD bn) | GDP per capita (USD) | Number of companies (in 000s) | Number of companies (in 000s) |
| | | **29.7** | **80.5** |
| GDP growth | | Number of employees (in 000s) | Turnover (EUR bn) |
| Pre COVID | 2020 | | |
| **0.6** | **-8.9** | **175.6** | **27.9** |
| Inflation | Unemployment | Output (y-o-y change, 2020) | Output (y-o-y change, 2020) |
| **0.7** | **9.2** | **-32.7** | **-27.1** |

**Macro overview.** The Italian economy contracted by 8.9% in 2020 as a result of the dual supply and demand shocks stemming from the coronavirus pandemic, with the hospitality, tourism, and transport sectors most severely affected by the restrictions on mobility and economic activity. Of the four largest Eurozone economies, Italy's downturn was not as steep as that of Spain (-11.0%) but was worse than that seen in Germany (-4.9%) and France (-8.2%). GDP is forecast to recover by around 4.2% in 2021, as the on-going immunisation programme helps to provide an eventual exit from the pandemic. However, heightened uncertainty over emerging mutations could cause setbacks and delay the economic recovery. Nevertheless, investment activity should be supported by increased EU funding this year and a continued accommodative fiscal policy stance, while the gradual reopening of the global economy will help to fuel foreign demand. Consumer spending, meanwhile, will be spurred by the eventual relaxation of restrictions, which should unleash pent-up demand in the second half of this year. However, on-going caution and still-high uncertainty will limit the extent of the revival in both consumer spending and business investment. Meanwhile, the recovery of Italy's important tourism sector will lag behind, as travellers are expected to return only gradually. The Italian government allocated significant fiscal resources to deal with the health crisis and cushion its social and economic effects in 2020, and large-scale support remains in place – including short-term work schemes and temporary moratoria on taxes and the servicing of bank loans. All in all, after registering a fiscal deficit equivalent to 9.5% of GDP in 2020, Italy is likely to register another substantial deficit this year (projected at 8.8% of GDP). The recovering economy and the phasing out of anti-crisis measures should help the government to rein in the deficit more significantly in 2022.

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**The F&A sector.** With around 30,000 companies and 175,000 employees in the clothing manufacturing F&A sector, Italy is the biggest producer of Europe. Italy is the biggest exporter of the EU; exports outside the EU (including rich and not rich countries) represent around 50% of the total. The wide distribution of destinations (including countries with quality requirement lower than the EU's) shows that the sector is flexible, adaptive and diverse. As is the case in other sectors, small family companies often form the F&A manufacturing, who have been able to access bank funding, training or new technologies. This has however been a barrier to fully benefit from globalization, in contrast with other countries such as Spain, France or the UK, and few Italians companies are among the biggest global or European retailers. In the aspirational luxury segment, Italy boasts internationally-renown companies like Armani and Dolce & Gabbana that have managed to expand globally. Calzedonia, traditionally specialised in socks, has also managed to expand in other segments of the market, with operations in several key markets such as the UK, the US, China and Japan. Few actors have appeared in the context of the new challenges that the sector is facing. In contrast with other countries, we don't find new companies leading the online go-to-market strategy or new specific marketplaces for clothing.

# Spain

| Country Performance | | F&A Production | F&A Retail |
|---|---|---|---|
| GDP (USD bn) | GDP per capita (USD) | Number of companies (in 000s) | Number of companies (in 000s) |
| | | 9.0 | 58.1 |
| GDP growth | | Number of employees (in 000s) | Turnover (EUR bn) |
| Pre COVID | 2020 | | |
| 2.2 | -10.9 | 36.7 | 27.2 |
| Inflation | Unemployment | Output (y-o-y change, 2020) | Output (y-o-y change, 2020) |
| -0.3 | 15.5 | -26.9 | -31.7 |

**Macro overview.** The Spanish economy contracted by 11% in 2020, as the coronavirus pandemic and measures to contain it – both domestically and abroad – weighed heavily on activity and demand. Spain's recession was the most severe in the Western Europe region. This reflects a number of structural features that make the Spanish economy more vulnerable to COVID-related disruptions, including its high prevalence of small and medium size enterprises (SMEs), the importance of tourism, and the widespread use of temporary employment contracts. The economy is projected to partially recover in 2021, with growth of around 6.4%. Momentum will remain subdued in the first half of the year, as economic activity remains severely hampered by ongoing coronavirus restrictions. The anticipated pick-up in activity in the second half of the year depends crucially on the speed of Spain's vaccine rollout, which has been sluggish so far. The government's current plans to administer at least one dose of the vaccine to 70% of the population by the end of August are ambitious and at high

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risk of being delayed. Nevertheless, the progressive lifting of restrictions should boost economic activity from the third quarter onwards, driven by the materialisation of pent-up consumer demand and a rebound in investment helped by moderating uncertainty. Gradually recovering global demand will also help to lift exports. In 2022, the tourism recovery is expected to gain momentum, while domestic demand growth will likely ease once pent-up demand is exhausted. These developments should see growth moderate to around 4.7%. All in all, the recovery will be protracted, and the outlook is highly uncertain, with risks heavily tilted to the downside amid uncertainty over the course of the pandemic. Moreover, the strong prevalence of SMEs in the economy, which tend to have minimal capital and small margins, indicates a high risk of a wave of business insolvencies materialising, particularly when the government withdraws its key support measures.

**The F&A sector.** With 70,000 companies and sales in retail of almost EUR30 bn annually, the F&A is a key sector of the economy. It is relevant not just due to its direct contribution, but also for its indirect contribution in terms of reputation, tourism, and positive externalities in terms of expertise acquired to succeed in such a competitive market. Home of global leaders in casualwear such as Inditex -the controlling company of Zara-, Mango, Camper, and Desigual, Spain has become a key player in the European and global F&A market. The combination of its long tradition in design (Modernism in Catalonian architecture, for example), in modern painting (with Miro, Picasso and Dali as examples), its sophisticated industrial base (mainly in the north of the country) and an efficient use of the benefits of accessing the EU in mid-1980s (macroeconomic stabilization and access to affordable credit) have led to a robust growth of the sector that found its way to expanding globally. Although companies like Zara have been extremely innovative and created a new way of consuming fashion, the rapid expansion of the sector in recent decades could find challenges. Threats to globalisation (coming from the trade tensions between China and the US and Brexit) in combination with the emergence of a more responsible fashion consumer encouraging the circular economy, the respect of social and environmental standards or the slow fashion movement could affect Spanish companies particularly hard. Moreover, the emergence of e-commerce, that has been amplified by the COVID crisis, will require from good part of the Spanish companies -whose expansion has been driven by a strong physical presence- to adapt rapidly to the attributes demanded by an increasing portion of European consumers. In recent years, a number of new companies have emerged to be part of new market niches such as the second-hand one (e.g. Percentil), or to develop new marketplaces for clothing such as esdemarca.

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# United Kingdom

| Country Performance | | F&A Production | F&A Retail |
|---|---|---|---|
| GDP (USD bn) | GDP per capita (USD) | Number of companies (in 000s) | Number of companies (in 000s) |
| | | 3.9 | 14.0 |
| GDP growth | | Number of employees (in 000s) | Turnover (EUR bn) |
| Pre COVID | 2020 | | |
| 1.3 | -9.2 | 20.7 | 48.9 |
| Inflation | Unemployment | Output (y-o-y change, 2020) | Output (y-o-y change, 2020) |
| 1.2 | 4.5 | -11.2 | -26.5 |


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**Macro overview.** The coronavirus pandemic and resulting public health measures caused a severe economic contraction in the UK in 2020, with real GDP shrinking by 9.9% – more than twice as much as the previous largest annual fall on record. After contracting further in the first quarter of 2021 due to the long and strict lockdown implemented in January, the UK economy is now gradually reopening, and should see a significant bounce-back in activity commencing in Q2, as consumers start to spend pent-up savings and government incentives help to lift business investment. For 2021 as a whole, the economy is forecast to grow by 5.3%, notably above the regional average of 4.5%, reflecting the UK's relatively speedy vaccine rollout. However, Brexit-related disruptions as the UK adjusts to more limited access to the EU market could constrain momentum to some degree. Growth is likely to moderate only marginally in 2022 and is projected to register at a still robust 5.1%. It will then moderate significantly, and is expected to average 1.8% during 2023-25, as catch-up growth abates, and taxes rise. Risks to the near-term economic outlook are to the downside, with uncertainty still elevated over the course of the pandemic globally, and the degree of balance sheet damage that has been sustained by households and small and medium enterprises. Indeed, as exceptional fiscal support abates, a sharp increase in debt defaults among both households and businesses cannot be excluded – particularly as many UK consumers and companies were already over-indebted before the pandemic. The UK's foreign trade relations are currently subject to a high level of uncertainty following its departure from the European Union in January 2020, and the provisional implementation of its new trade deal with the EU from the beginning of January 2021. Prior to this, the UK's applied weighted mean tariff rate was 1.8%, but this is likely to change going forward. Moreover, despite the implementation from the beginning of this year of the EU-UK Trade and Co-operation Agreement – which allows for tariff- and quota-free trade between the UK and EU – data and anecdotal evidence suggest that the UK's departure from the single market and customs union has raised the costs of UK-EU trade significantly.

**The F&A sector.** The UK retail sector is the biggest in Europe, with London being its vibrant centre, specifically for F&A. Companies in clothing retail in the UK are bigger than in the rest of the region's as the number of multinationals and companies with

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branches is bigger than in other countries. All the main brands of the world have a key branch in London, if not a flagship store. This is explained by the Londoners' high purchase power and the constant inflow of tourists. The combination of highly sophisticated logistics, economic openness and the easiness to adopt changes and innovations has created an extremely efficient sector. The international relevance of the F&A in the UK has not been a barrier for the development of local brands. Companies like Next, JD Sports or Marks & Spencer have become leaders in the UK and the European market. A more specialised and high-quality F&A sector is also present in the UK. A number of local companies (e.g. Burberrys, Stella McCartney or Vivienne Westwood) have leveraged the British cultural tradition that combines innovative design and British style, and expanded globally. As part of its dynamism and innovative spirit, a number of alternatives have emerged in recent years to compete in the segment that challenges the "fast fashion". On top of the traditional charity shops (the Oxfam Online Shop is an example of a digital version), a number of second-hand marketplaces such as Thrift+ or Hardly Ever Worn have stepped into the market, competing with foreign companies operating in the county such as Lithuanian Vinted. E-commerce has also been thriving in the country, helping the development of a few companies (including Asos) that emerged and expanded rapidly. The F&A sector in the UK will face not just the same challenges that the industry faces in the rest of the continent. It will also need to adapt to the changes driven by Brexit, which is expected to affect a number of key elements such as international trade, conditions in the labour market, tourism real estates and supply-chain management to name a few.

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# Key Information

| | GER | FRA | ITA | SPA | UK |
|---|---|---|---|---|---|
| **Macroeconomic indicators** | | | | | |
| GDP, 2020 (bn USDs) | 3,803 | 2,599 | 1,885 | 1,278 | 2,710 |
| GDP per capita, 2020 (USDs) | 45,733 | 39,907 | 31,288 | 27.132 | 40,406 |
| GDP expansion, av. 2018-19 (% change) | 0.9 | 1.7 | 0.6 | 2.2 | 1.3 |
| GDP expansion, 2020 (% change) | -4.9 | -8.2 | -8.9 | -10.9 | -9.2 |
| Inflation, 2020 | 2.2 | 0.5 | 0.7 | -0.3 | 1.2 |
| Unemployment rate, 2020 | 4.2 | 8.2 | 9.2 | 15.5 | 4.5 |
| Population (m) | 83.1 | 65.1 | 60.2 | 47.1 | 67.0 |
| Exports, 2019 (USD bn) | 2.0 | 1.1 | 0.7 | 0.6 | 1.2 |
| Investment, 2020 (% of GDP) | 20.3 | 23.7 | 17.5 | 20.2 | 17.0 |
| Sovereign credit rating | | | | | |
| | | | | | |
| **Ecosystem performance** | | | | | |
| Doing Business Index | 79.7 | 76.8 | 72.9 | 77.9 | 83.5 |
| Degree of openness, 2019 | 80 | 65 | 60 | 67 | 64 |
| Infrastructure (WEF Index) | 90.2 | 89.7 | 84.1 | 90.3 | 88.9 |
| R&D (as % of GDP) | 2.2 | 1.4 | 0.9 | 0.7 | 1.2 |
| | | | | | |
| **F&A Manufacturing** | | | | | |
| Number of companies (in 000s) | 2.9 | 12.1 | 29.7 | 9.0 | 3.9 |
| Number of employees (in 000s) | 39.6 | 39.8 | 175.6 | 36.7 | 20.7 |
| Turnover (EUR bn) | 7.6 | 7.0 | 31.2 | 9.0 | 2.9 |
| Productivity | 230 | 209 | 187 | 122 | 233 |
| Production, 2020 (% change) | -19.7 | -11.8 | -32.7 | -26.9 | -11.2 |
| | | | | | |
| **F&A Retail** | | | | | |
| Number of companies (in 000s) | 30.2 | 38.3 | 80.5 | 58.1 | 14.0 |
| Turnover (EUR bn) | 39.2 | 20.0 | 27.9 | 27.2 | 48.9 |
| Gross margin/Turnover | 47.5 | 43.6 | 46.0 | 35.3 | 49.0 |
| Sales, 2020 (% change) | -23.5 | -22.6 | -27.1 | -31.7 | -26.5 |


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