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It's time to rewire the fashion system: State of Fashion coronavirus update

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By Imran Amed, [Anita Balchandani](#), [Achim Berg](#), Saskia Hedrich, Jakob Ekeløf Jensen, and Felix Rölkens

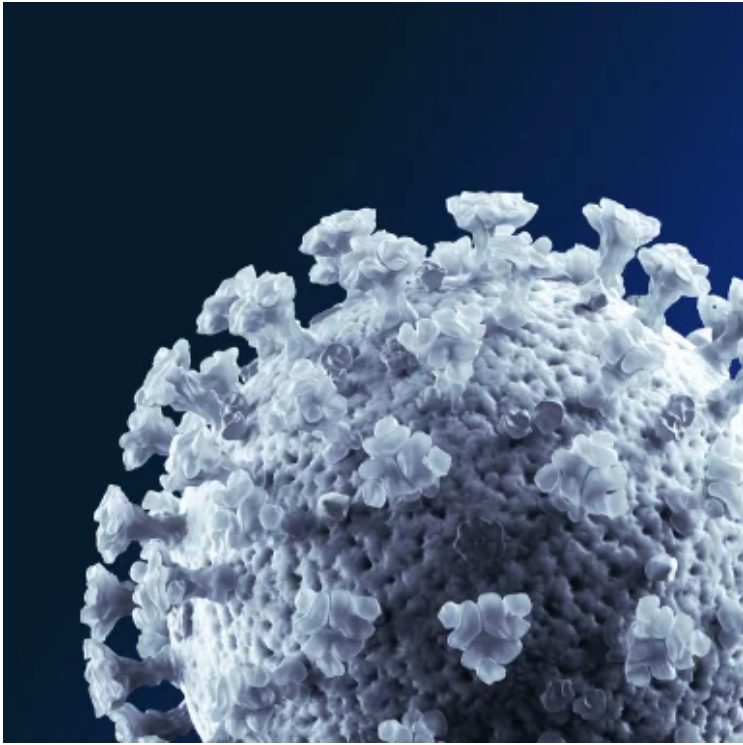
Fashion executives are focusing on crisis management now but eventually must shift to reimagining the industry. How will changes to the global economy and consumers' behavior affect fashion in the postcoronavirus world?

Even before the coronavirus disrupted financial markets, upended supply chains, and crushed consumer demand across the global economy, fashion-industry leaders were not optimistic about 2020. The industry was already on high alert, and executives expressed pessimism across all geographies and price points in our annual report, [The State of Fashion 2020](#), released late last year. But fast-forward a few months, and fashion's outlook has gotten dramatically and suddenly bleaker. The industry is now on red alert.

This unforeseeable humanitarian and financial crisis has rendered previously planned strategies for 2020 redundant, leaving fashion businesses exposed or rudderless as their leaders confront a disorienting future and vulnerable workers face hardship and destitution. With this special coronavirus update to *The State of Fashion 2020*, we have taken a stance on what our new normal will look like in the aftermath of this "black swan" event to provide insights (from analyzing surveys, data, and expert interviews) for fashion professionals as they embark on the 12- to 18-month period after the dust settles.

The black swan and fashion

COVID-19 could spur the biggest economic contraction since World War II, hitting every sector from finance to hospitality.^[1] Yet fashion, because of its discretionary nature, is particularly vulnerable. The average market capitalization of apparel, fashion, and luxury players dropped almost 40 percent between the start of January and March 24, 2020^[2] — a much steeper decline than that of the overall stock market.



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Humanitarian repercussions are expected to outlast the pandemic itself. Dire consequences for fashion, one of the biggest industries in the world, generating \$2.5 trillion in global annual revenues before the pandemic,^[3] entails joblessness or financial hardship for people across the value chain.

We estimate that revenues for the global fashion industry (apparel and footwear sectors) will contract by –27 to –30 percent in 2020 year-on-year, although the industry could regain positive growth of 2 to 4 percent in 2021 (compared with the 2019 baseline figure). For the personal luxury goods industry (luxury fashion, luxury accessories, luxury watches, luxury jewelry, and high-end beauty), we estimate a global revenue contraction of –35 to –39 percent in 2020 year-on-year, but positive growth of 1 to 4 percent in 2021 (compared with the 2019 baseline figure). If stores remain closed for two months, McKinsey analysis approximates that 80 percent of publicly listed fashion companies in Europe and North America will be in financial distress. Combined with the McKinsey Global Fashion Index (MGFI) analysis, which found that 56 percent of global fashion companies were not earning their cost of capital in 2018, we expect a large number of global fashion companies to go bankrupt in the next 12 to 18 months.

The interconnectedness of the industry is making it harder for businesses to plan ahead. Just as China inched through recovery, outbreaks worsened in Europe and the United States. But it is in the developing world, where healthcare systems are often inadequate and poverty is rife, that people will be hit the hardest. For workers in low-cost sourcing and fashion-manufacturing hubs, such as Bangladesh, Cambodia, Ethiopia, Honduras, and India, extended periods of unemployment will mean hunger and disease.

The crisis is affecting daily lives, instilling anxiety and uncertainty in the minds of almost everyone. Indeed, consumer pessimism about the economy is widespread, with 75 percent of shoppers in Europe and the United States believing that their financial situation will be affected negatively for more than two months.^[4]

Although the duration and ultimate severity of the pandemic remains unknown, it is apparent that the fashion industry is just at the beginning of its struggle. By causing blow after blow to both supply and demand, the pandemic has brewed a perfect storm for the industry: a [highly integrated global supply chain](#) means that companies have been under immense strain as they have tried to manage crises on multiple fronts as lockdowns were imposed in rapid succession, halting manufacturing in China first, then Italy, followed by countries elsewhere around the world.






A freeze on spending is aggravating the supply-side crisis. Widespread store closures for an industry reliant on offline channels, coupled with consumer instinct to prioritize necessary over discretionary goods, hit brands' bottom lines and depleted cash reserves. Even online sales have declined 15 to 25 percent in China, 5 to 20 percent across Europe, and 30 to 40 percent in the United States.^[5]

Once the dust settles

Once the dust settles on the immediate crisis, fashion will face a recessionary market and an industry landscape still undergoing dramatic transformation. The exhibit unpacks five areas that could see significant changes; the full report explores these areas in greater depth. We expect a period of recovery to be characterized by a continued lull in spending and a decrease in demand across channels. As noted in our previous articles on "[getting woke](#)," [radical transparency](#), and [sustainability first](#), the consumer mindset was already showing signs of shifting in certain directions before the pandemic.

Exhibit

Five areas of the fashion industry could be particularly affected by the coronavirus outbreak.

Global economy	Consumer shifts		Fashion system	
Survival instincts	Discount mindset	Digital escalation	Darwinian shakeout	Innovation imperative
				
Recovery from the pandemic will coincide with a recessionary market, compelling players to ramp up resilience planning and adapt operating models. Companies surviving the crisis will have made bold, rapid interventions to stabilize their core businesses before seeking new markets, strategic opportunities, and pockets of growth.	As deep discounting plagues retailers for the remainder of 2020, a decade-long buildup of bargain-shopping culture will be exacerbated by a rise in anticonsumerism and cash-strapped consumers looking to trade down or turn to off-price channels. Clearance of overstock will be a priority as brands find ways to regain value and rethink their business missions.	Physical distancing has highlighted the importance of digital channels more than ever, and lockdowns have elevated digital as an urgent priority across the entire value chain, but unless companies scale up and strengthen their digital capabilities in the recovery phase of the crisis, they will suffer in the longer term.	The crisis will shake out the weak, embolden the strong, and accelerate the decline of companies that were already struggling before the pandemic, leading to massive waves of consolidation, M&A activity, and insolvency.	To cope with restrictions, mitigate the damaging impact of the pandemic, and adapt to economic and consumer shifts, companies must introduce new tools and strategies across the value chain to improve operational agility, boost productivity, and future-proof business models.

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Now, the resulting “quarantine of consumption”^[6] could accelerate some of these consumer shifts, such as a growing antipathy toward waste-producing business models and heightened expectations for purpose-driven, sustainable action. Meanwhile, some of the shifts we will witness in the fashion system, such as the digital step change, in-season retail, seasonless design, and the decline of wholesale, are mostly an acceleration of the inevitable—things that would have happened further down the road if the pandemic had not helped them gain speed and urgency now.

The coronavirus also presents the fashion industry with a chance to reset and reshape the industry’s value chain completely—and an opportunity to reassess the values by which it measures actions. We expect that themes of digital acceleration, discounting, industry consolidation, and corporate innovation will be prioritized once the immediate crisis

subsidies. Even after witnessing waves of insolvencies, industry leaders will need to get comfortable with uncertainty and ramp up future-proofing efforts as the potential for further outbreaks and lockdowns loom.

This will also be a time for collaboration within the industry—even among competing organizations. No company will get through the pandemic alone, and fashion players need to share data, strategies, and insights on how to navigate the storm. Brands, suppliers, contractors, and property owners should also find ways to share the burden.

This joint report by the Business of Fashion and McKinsey is an effort to advance the discussion beyond crisis management and immediate contingency planning by outlining the areas in which the fashion industry must focus once the dust settles on the current crisis. Exactly when this will happen is impossible to know for sure, except that it will, in all likelihood, be linked to the discovery of a workable antiviral treatment and delivery of a proven vaccine, which some experts say is at least 12 to 18 months away.

Navigating this uncertainty will not be easy for fashion leaders. Players need to be decisive and start putting recovery strategies into motion to emerge with renewed energy. The crisis is a catalyst that will shock the industry into change—now is the time to get ready for a postcoronavirus world.

Download [The State of Fashion 2020: Coronavirus Update](#), the full report on which this article is based (PDF–3MB).

1. [“UN chief says coronavirus worst global crisis since World War II,”](#) France 24, April 1, 2020, france24.com.
 2. McKinsey analysis, based on data from S&P Capital IQ.
 3. McKinsey analysis, 2019.
 4. McKinsey COVID-19 Consumer Pulse Survey: for Europe, held March 20–26, 2020, with 5,614 respondents (France, Germany, Italy, Portugal, Spain, and the United Kingdom); for United States, held March 23–29, 2020, with 1,119 respondents.
 5. McKinsey analysis, based on data from Amazon and Stackline.
 6. Marcus Fairs, [“Coronavirus offers ‘a blank page for a new beginning’ says Li Edelkoort,”](#) *Dezeen*, March 9, 2020, dezeen.com.
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About the author(s)

Imran Amed, the founder, editor-in-chief, and CEO of the Business of Fashion, is an alumnus of McKinsey's London office, where Anita Balchandani is a partner and **Jakob Ekeløf Jensen** is a consultant; Achim Berg is a senior partner in the Frankfurt office; **Saskia Hedrich** is a senior expert in the Munich office; and **Felix Rölkens** is an associate partner in the Berlin office.

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