E-COMMERCE: FASHION
# Overview

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| - Market scope
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- Future developments, assumptions and sensitivity | **Ongoing shift from offline to online fashion purchases with new services brick and mortar can’t offer**
**Mobile shopping gains importance**

06 – 09 | **KPI-Comparison**
| - Market KPI comparison by region in charts
- Market KPI comparison by region in tables
- Market sizing subjects for e-Commerce Fashion forecast | **Biggest market is China with US$125.8 billion in 2016**
**China has the highest average growth rate of 18%**

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12 | **Trend**
| - Curated Shopping | **Curated Shopping services gain market traction**

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E-COMMERCE MARKET

Market focus: Fashion

Focus Segment

Other Reports
ONLINE FASHION STORES OFFER SERVICES THAT CONSUMERS CAN’T FIND OFFLINE

Customer benefit

The fashion segment is a relatively mature market segment in the e-Commerce cosmos. Before the possibility of online shopping, clothes in particular were not only purchased in stores but also through mail order catalogues. The segment covers all men and women’s clothing, accessories (e.g. hats, scarves, gloves), shoes and shoe accessories (e.g. care products) as well as different kinds of bags (daypacks and purses) and luggage purchased online.

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

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

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

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

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

Market size

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

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

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

The European fashion market is the second biggest in this comparison with a volume of US$86.8 billion in 2016. The large internet population, relatively high online shopper penetration, combined with comparably high purchasing power makes it a very attractive market for online merchants.

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

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

The market size includes gross merchandise volume, meaning returns have not been deducted. Particularly in the fashion segment high return rates are a cost factor but for the most part are still inevitable.
FASHION GOES TECH WITH CHINA AS THE GLOBAL GROWTH ENGINE

Future developments

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

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

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

In Europe and the US internet penetration is already very high, which means growth is mainly driven by the continuous shift by the existing customer base from offline to online purchases.

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

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

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

Assumptions and sensitivity

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

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

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

The aspect of mobile shopping is important. The ongoing growth of smartphone penetration will ensure strong growth rates in mobile shopping. With better and easier online services, more customers convert to using mobile research. Also social networks like Instagram, where social influencers reach huge audiences and try to generate authentic and appealing inspirations and recommendations, are mostly used on mobile devices.

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

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

1: Only includes countries listed in the Digital Market Outlook.
2: CAGR: Compound Annual Growth Rate/ average growth rate per year.
# Fashion in Major Regions

## Market KPI Comparison by Region

### Revenue Forecast

<table>
<thead>
<tr>
<th>Region</th>
<th>Bags &amp; Accessories</th>
<th>Shoes</th>
<th>Clothing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2016</strong></td>
<td>9,508</td>
<td>13,154</td>
<td>126.65</td>
</tr>
<tr>
<td><strong>2021</strong></td>
<td>105.84</td>
<td>120.34</td>
<td>120.34</td>
</tr>
<tr>
<td><strong>2016</strong></td>
<td>8,880</td>
<td>12,349</td>
<td>119.28</td>
</tr>
<tr>
<td><strong>2021</strong></td>
<td>105.84</td>
<td>120.34</td>
<td>120.34</td>
</tr>
<tr>
<td><strong>2016</strong></td>
<td>44,897</td>
<td>70,906</td>
<td>118.35</td>
</tr>
<tr>
<td><strong>2021</strong></td>
<td>415.73</td>
<td>415.73</td>
<td>415.73</td>
</tr>
</tbody>
</table>

**Revenue per User**

<table>
<thead>
<tr>
<th>Region</th>
<th>Bags &amp; Accessories</th>
<th>Shoes</th>
<th>Clothing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>United States</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2016</strong></td>
<td>105.84</td>
<td>119.28</td>
<td>357.71</td>
</tr>
<tr>
<td><strong>2021</strong></td>
<td>118.35</td>
<td>126.65</td>
<td>415.73</td>
</tr>
<tr>
<td><strong>2016</strong></td>
<td>126.65</td>
<td>139.28</td>
<td>312.02</td>
</tr>
<tr>
<td><strong>2021</strong></td>
<td>126.65</td>
<td>139.28</td>
<td>312.02</td>
</tr>
</tbody>
</table>

**Revenue Growth**

- **United States**: +8.8% p.a.
- **China**: +17.8% p.a.
- **Europe**: +10.1% p.a.

Source: Digital Market Outlook 2016
## Fashion in Major Regions

### Market KPI Comparison by Region

#### Revenue

<table>
<thead>
<tr>
<th>Segment</th>
<th>Unit</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>CAGR(^1) 16 – 21</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>mUS$</td>
<td>63,286</td>
<td>69,821</td>
<td>76,846</td>
<td>83,918</td>
<td>90,343</td>
<td>96,408</td>
<td>+8.8%</td>
</tr>
<tr>
<td><strong>Clothing</strong></td>
<td>mUS$</td>
<td>44,897</td>
<td>49,973</td>
<td>55,427</td>
<td>60,950</td>
<td>65,933</td>
<td>70,906</td>
<td>+9.6%</td>
</tr>
<tr>
<td><strong>Shoes</strong></td>
<td>mUS$</td>
<td>8,880</td>
<td>9,590</td>
<td>10,362</td>
<td>11,130</td>
<td>11,852</td>
<td>12,349</td>
<td>+6.8%</td>
</tr>
<tr>
<td><strong>Bags &amp; Accessories</strong></td>
<td>mUS$</td>
<td>9,508</td>
<td>10,258</td>
<td>11,058</td>
<td>11,838</td>
<td>12,558</td>
<td>13,154</td>
<td>+6.7%</td>
</tr>
</tbody>
</table>

### Users

<table>
<thead>
<tr>
<th>Segment</th>
<th>Unit</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>CAGR(^1) 16 – 21</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Clothing</strong></td>
<td>m</td>
<td>126</td>
<td>135</td>
<td>144</td>
<td>154</td>
<td>162</td>
<td>171</td>
<td>+6.3%</td>
</tr>
<tr>
<td><strong>Shoes</strong></td>
<td>m</td>
<td>74</td>
<td>79</td>
<td>85</td>
<td>90</td>
<td>95</td>
<td>98</td>
<td>+5.5%</td>
</tr>
<tr>
<td><strong>Bags &amp; Accessories</strong></td>
<td>m</td>
<td>90</td>
<td>95</td>
<td>100</td>
<td>104</td>
<td>108</td>
<td>111</td>
<td>+4.4%</td>
</tr>
</tbody>
</table>

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

Source: Digital Market Outlook 2016
KEY-TAKE-AWAYS BY REGION

Market sizing subjects for Fashion forecast

United States
- In 2016 second highest single-country market with US$63.3 billion in revenue
- Within the fashion market, clothes generate the majority of revenue, about 70% in 2016
- Though the US is a pioneer in online fashion sales, it still has a high single-digit CAGR\(^1\) of 8.8%
- User growth ranges between 4-6%, depending on the specific segment,
- A significant part of market growth will be generated through increasing baskets and higher order frequencies
- Major online shops (Amazon, eBay), test ground for new products and services
- Expansion of same day delivery availability will increase impulse buying

China
- Biggest single-country market globally with US$125.8 billion in 2016
- Average revenue per user is the smallest when compared to US and Europe, with US$216.9 per user in the clothing segment
- Tmall has an exceptional market position in the online apparel segment
- Highest growth rate with a CAGR of 17.8% mainly because of ongoing internet penetration and user growth
- Revenue is expected to reach a market volume of US$285.3 billion in 2021
- Chinese cross-border online shoppers should be considered by foreign vendors (e.g. tailored offers)
- Social content-driven commerce through platforms like WeChat

Europe
- Diverse market sizes, though the third and fifth largest fashion markets are located in Europe (UK and Germany)
- As in China and the US, fashion revenues are dominated by the clothing segment, generating more than 60% of the total
- Europe has still a relatively high growth rate with a CAGR of 10.1%
- Revenue is expected to increase to US$140.5 billion in 2021
- Online clothing shoppers will reach 239 million by 2021, a 40% increase compared to 2016
- Region is a strategic target for online retailers who want to grow their global footprint
- Noticeable: Curated shopping players and inspirational platforms with high social media activity are on the rise
- Zalando will become the most relevant online fashion marketplace

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1: Only sales of commercial vendors are in scope of the Digital Market Outlook
2: CAGR: Compound Annual Growth Rate / average growth rate per year
Source: Digital Market Outlook 2016
FASHION – 2\textsuperscript{nd} HIGHEST GROWTH SEGMENT

Fashion global segment size and growth rates

\textit{Global\textsuperscript{1} e-Commerce Revenue}

in million US$ by segment

\textbf{CAGR\textsuperscript{2} 16 – 21}

\begin{tabular}{lcc}
\textbf{Segment} & \textbf{2016} & \textbf{2021} \tabularnewline
\hline
e-Commerce & 1,179,248 & 2,108,142 \\
Toys, Hobby & 252,757 & 440,732 \\
& & 342,884 \\
Furniture & 199,040 & 218,358 \\
& & 472,626 \\
Appliances: & 104,682 & & \\
Food & 290,622 & & \\
& & 633,542 \\
Personal Care: & 332,147 & & \\
Electronics: & & & \\
& & & \\
Media: & & & \\
Fashion: & & & \\
\hline
\end{tabular}

\textsuperscript{1} Only includes countries listed in the Digital Market Outlook

\textsuperscript{2} CAGR: Compound Annual Growth Rate/ average growth rate per year

Source: Digital Market Outlook 2016
TOP PLAYER: ZALANDO

Company profile

Availability

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

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

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

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

Facts

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

Background

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

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

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

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

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

Analyst opinion

Source: Company Information 2016
Zalando’s aggressive growth strategy outpaces organically growing Asos

Source: Company Information 2016
**TREND: CURATED FASHION & STYLING SERVICES**

Remote personal stylists recommend and package individual outfits

Curated shopping players address people who have no time or desire for shopping or the latest fashion trends. Personal stylists pick complete outfits including shoes and accessories based on a short survey of personal preferences. Curated shopping therefore adds a service component to the traditional fashion e-Commerce experience without generating high overhead costs. Though it is a niche segment, recent fundings and acquisitions of players like Trunk Club, Outfittery or Modomoto as well as market entries from players like Zalando (Zalon) underline the rising potential of this shopping trend.

**TRUNK CLUB**
- HQ: Chicago (USA)
- Founded: 2009
- Funding: US$12.4m
- Aquired by Nordstrom (US$350m in 2014)

**OUTFITTERY**
- HQ: Berlin (Germany)
- Founded: 2012
- Funding: US$59.8m

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

Source: Company Website, Crunchbase
## FASHION REVENUE STREAMS

### Market Structure and definition

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

### Out of segment

- **Outdoor and sports clothing, sports shoes**
  - This type of clothing and shoes that have a special purpose are subsumed in the category "Sports & Outdoor".

- **Toddler and baby clothes**
  - This kind of clothing can be found in the segment “Toys & Baby”.

- **reCommerce**
  - The resale of used, defective or repaired goods is not included.

- **Consumer-to-Consumer**
  - Sales between private persons (e.g. via Craigslist) are not included.
9 Markets, 34 segments & 85 sub-segments

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

**FinTech**
Digital Payments, Business Finance, Personal Finance

**eTravel**
Online Travel Booking, Mobility Services

**eServices**
Event Tickets, Fitness, Dating Services, Food Delivery

**eHealth**
Diabetes, Hypertension, Heart Failure

**Connected Car**
Connected Hardware, Vehicle Services, Infotainment Services

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

**e-Commerce**
Fashion, Electronics & Media, Food & Personal Care, Furniture & Appliances, Toys, Hobby & DIY

**Digital Advertising**
Banner Ads, Video Ads, Search Ads, Social Media Ads, Classifieds

**Details**

- 50 countries
- Direct access & downloads
- 7-Year coverage: 2015 – 2021
- Revenue forecasts
- User count & penetration
- Comparable data

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more information
Tobias Bohnhoff
Managing Analyst

Tobias Bohnhoff studied Geography and Innovation Management. He gathered deep knowledge of digital transformation processes and innovative business models in numerous research and consulting projects before he started to build up the Digital Market Outlook team at Statista.

E-MAIL
tobias.bohnhoff@statista.com

WEB
statista.com/outlook

Released: September 2016

Imprint
Statista • Johannes-Brahms-Platz 1 • 20355 Hamburg • +49 40 413 49 89 0 • www.statista.com

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