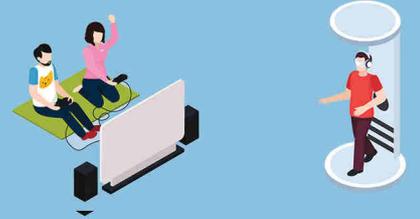




INTESA SANPAOLO
INNOVATION CENTER

INDUSTRY TRENDS REPORT DIGITAL RETAIL TRANSFORMATION AND THE IMPACT OF THE COVID-19 PANDEMIC

July 2021





July 2021

All the content and data in this report has been produced by Fashionbi Ltd. The report draws on information from various company annual reports, regulatory norms & laws enacted globally and open source data. The findings were formulated by the team at Fashionbi Ltd based on this data, surveys and reports available in public domain.

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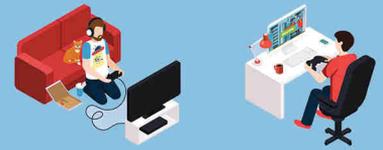
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PRINCIPAL ABBREVIATIONS



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EXECUTIVE SUMMARY

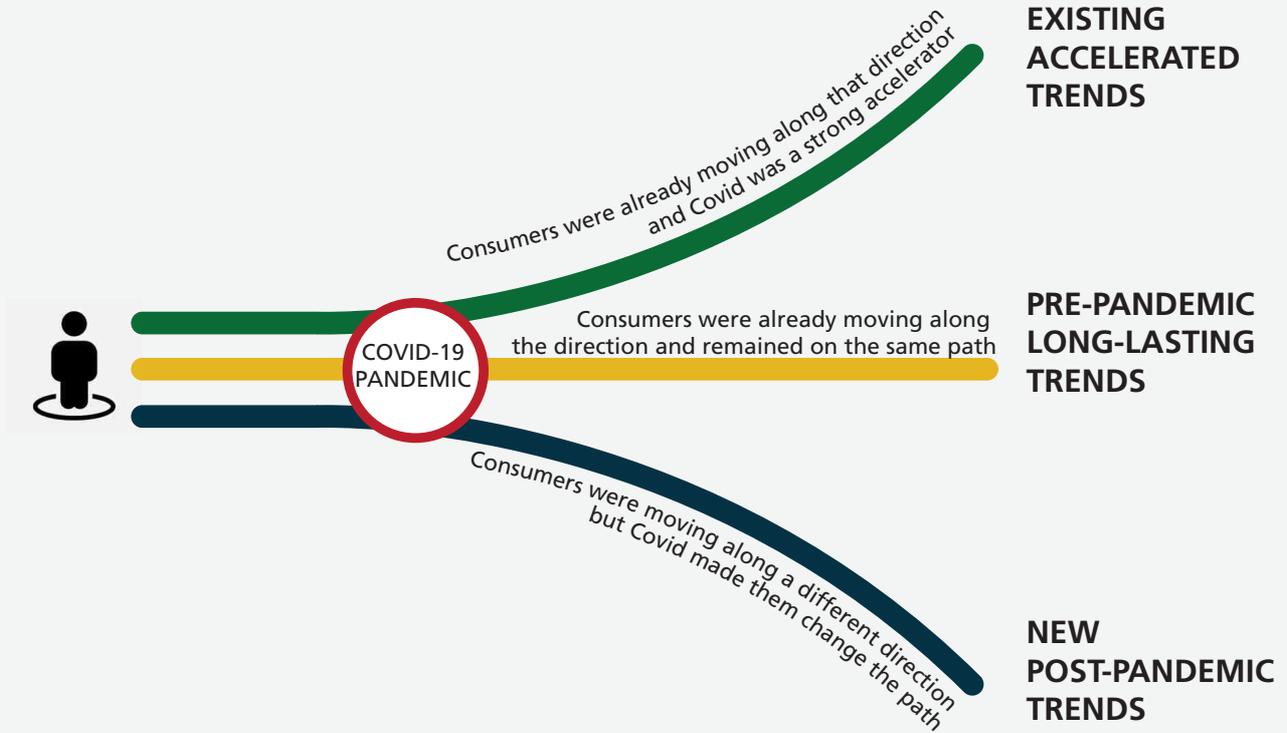
The fashion and luxury industry, like every other sector, was heavily impacted in the year 2020 when the global pandemic of COVID-19 hit the world. The suddenness of this unfortunate illness and its shockingly rapid spread left the entire world in a complete chaos. The long period of lockdowns and social distancing caused fear and stress in the uncertain time. This led to people reassessing their life, giving birth to new behaviours and mindsets. The acceleration of digitization and new norms introduced a new dialogue and language between brands and consumers. Therefore, brands needed to rethink how to effectively approach and communicate with its target audience. There was a radical shift in consumer behaviour. Brands and retail companies had to innovate in the way they functioned because of the ever-changing regulations and safety concerns for their customers and workers alike. There were three ways in which the pandemic changed the retail trends based on consumer behaviour:

- **Trends that were already sought after by customers much before the pandemic and which continued to gain momentum**
- **Trends which had just started catching on before the pandemic but they were accelerated due to the new situation**
- **Trends which came about as a result of the pandemic as a part of innovative strategies by companies**

Even before the pandemic, there had already been a transformation underway in the industry. Due to online shopping, social commerce and the continued importance of physical stores, brands learnt to be omnipresent in customers' lives, giving rise to the need for **omni-channel services**. As the use of the internet increased world over, it has become essential for brands to develop **data-driven relationships** with their customers. The internet has also made it much easier for small and big retailers to directly connect with their customers and switch to a **direct-to-consumer model**, leading to higher customer loyalty, retention, and margins. To make the in-store experience exciting, **phygital retail** had already become a huge trend among retailers. Advancement in artificial intelligence has not just helped with data processing, but also improved product discovery through image and **voice search**.

Some technologies received a big push as a result of the new normal during the pandemic. As customers stayed indoors much more than before, some industries benefited from the surge in customers, the most important one being gaming. **eSports** and gaming witnessed a massive growth, and fashion quickly turned towards this trend. Brands collaborated with eSports players and popular games, as well introduced their own **games**. Facial image filters went one step further and became standalone **digital beauty** products. Thanks to the immense growth in e-commerce sales, **buy-now-pay-later** flourished. Brands started to alter their marketing strategies to suit their constantly changing needs - at times using **decentralized marketing** to reach local customers, while sometimes switching to **centralized marketing** to concentrate their resources in these trying times. Customers and brands became more open to the concept of using technologies like **livestreaming shopping** and **virtual reality**.

This was also a period that saw tremendous innovation in a very short span of time. Imaginative and experimental ideas came into existence. Underscored by the latest development in technology, brands began giving importance to **experiential e-commerce** while customers shopped online. As the same time, travel restrictions and social distancing made business harder. The concept of **digital wholesaling** was adopted swiftly to replace tradeshow and fashion weeks. This unprecedented period led to the first ever **digital fashion weeks**. Fashion brands did not just bring fashion shows to customers' mobile screens, but also made shopping online much easier and engaging by using **augmented reality**. Beauty and cosmetic brands did not remain behind, and dabbled in digital realm with the help of latest **at-home beauty tech**.



PRE-PANDEMIC LONG-LASTING TRENDS	EXISTING ACCELERATED TRENDS	NEW POST-PANDEMIC TRENDS
<ul style="list-style-type: none"> • Omni-channel services • Data-driven customer relationships • Direct-to-Consumer business model or C2B • Phygital retail • Voice search for online shopping, product research, and social conversations 	<ul style="list-style-type: none"> • eSports • Fashion gamification • Digital Beauty • Buy now pay later in e-commerce • Livestream shopping • Decentralized VS centralized marketing and advertising solutions • Virtual Reality 	<ul style="list-style-type: none"> • Experiential e-commerce • Digital Wholesaling • Digital Fashion Weeks • Augmented reality shopping boutiques • At-home beauty tech

PRE-PANDEMIC LONG-LASTING TRENDS

PRE-PANDEMIC LONG-LASTING TRENDS

The fashion industry has been greatly affected by the advent of e-commerce and other digital retail features. Fashion and luxury brands have been selling online for almost a decade now. The initial reluctance from luxury brands to switch to e-commerce, for the fear of losing their premium and exclusive image, has long been forgotten. Now, one can find almost all the brands online. And if they did not, the COVID-19 outbreak has definitely changed that.

During the pandemic, pureplay e-commerce companies performed much better, than those who sold mainly offline. Outdoors were considered unsafe due to the ongoing pandemic, and customers switched to online modes of shopping soon. Brands that did not have a digital presence got left behind.

The steep growth in online shopping resulted in companies paying heed to periferal technologies which make their sales stronger. There was impetus given to growing and investing those aspects of the business that helped engage better with customers, both online and offline, facilitate their needs during this new normal, and assist them in making their shopping journey seamless.

The role of the different touch points along the customer journey changed, and it became essential for retailers to adapt their business strategy to navigate through the gruelling period.

Being on the path of digital transformation helped many brands stay afloat during the pandemic. Those who leveraged their existing facilities and supplemented these areas of their business with fresh reseources have flourished in the past year. If there was ever a doubt about digitization of the retail industry, COVID-19 has erased that. Going forward, being agile and tech-savvy is the only way brands will be able to stay relevant.



OMNI- CHANNEL SERVICES



DATA-DRIVEN CUSTOMER RELATIONSHIPS



DIRECT-TO- CONSUMER BUSINESS MODEL



PHYGITAL RETAIL



VOICE SEARCH

**EXISTING
ACCELERATED TRENDS**

EXISTING ACCELERATED TRENDS

Fashion and luxury brands had started adopting digital technologies into their business activities. However, the pace of adoption was varied among the brands. There was no immediacy, and companies have a tendency to hold onto the traditional way of doing things, as this eliminates risks, investment and painful transitions.

However, the COVID-19 outbreak changed this. Out of necessity, brands were forced to come out of their shells, and get bullish with innovations. There was dramatic shift in the industry, and speed of digital transformation accelerated.

As per KPMG's global survey, organizations are investing heavily in technology, to address immediate concerns like falling revenue and interrupted supply chains, and to build longer-term competitiveness and resilience. In a survey conducted with 780 professionals involved with digital transformation strategy decisions, 67% said they've accelerated their digital transformation strategy as a result of COVID-19, and 63% said they've increased their digital transformation budget as a result of COVID-19.

As a result of this rapid growth, some industries have seen a much better growth, while others have lost momentum. The gaming industry got the better part of the bargain, witnessing an exponential growth during 2020, continuing through 2021.

Virtual product market was another winner during this phase. As lockdowns caused a lull in shopping, customers' yearning to shop was quenched by digital products that could be used online.

At the same time, products and services which improved, simplified and made the online shopping experience more exciting saw a big surge in adoption.



ESPORTS



FASHION GAMIFICATION



DIGITAL BEAUTY



BUY NOW PAY LATER IN E-COMMERCE



LIVESTREAM SHOPPING



DECENTRALIZED VS CENTRALIZED MARKETING & ADV SOLUTIONS



VIRTUAL REALITY

NEW POST-PANDEMIC TRENDS

NEW POST-PANDEMIC TRENDS

As history always suggests, necessity is the mother of innovation. Due to the turmoil caused by the COVID-19 pandemic, and the consequent restrictions, the fashion industry was forced to innovate.

Many brands took to existing technologies, and adapted their strategies to make use of these tools to their advantage. Fashion brands strived to survive in this uncharted territory of a purely digital world. A big trend was how market players partnered with technology giants as well as tech start-ups to create new, never-seen-before experiences. The digitization of business channels was seen, on both - the customer side, as well as the backend.

E-commerce gained a giant share of sales in the initial months of the pandemic stricken world, and fashion brands tried to present their customers with exciting features, that delighted them and enhanced their customer journey.

At the same time, there was also a major transformation underway behind the scene. New channels popped-up for industry professionals to collaborate, form business partnerships and formulate deals. Advantages of these media proved that this was a much needed plunge for the industry, into the digital realm.

Brands kept their customers entertained at home through enriching experiences, that could be accessed thanks to the widespread use of smartphones, faster internet and openness to online platforms. Starved customers enjoyed being able to shop from their favourite brands and explore emerging ones, with the help of tools that made shopping from home, if not more, as exciting as shopping in a physical store.



EXPERIENTIAL E-COMMERCE



DIGITAL WHOLESALING



DIGITAL FASHION WEEKS



AUGMENTED REALITY SHOPPING BOUTIQUES



AT-HOME BEAUTY TECH

PRINCIPLE ABBREVIATIONS

PRINCIPLE ABBREVIATIONS

DIY	Do It Yourself
BOPIS	Buy-online-pickup-in-store
BOPAC	Buy-online-pickup-at-curb
OMS	Order Management Systems
KOL	Key Opinion Leaders
YNAP	Yoox Net- a-Porter
AI	Artificial Intelligence
IoT	Internet of Things
BCG	Boston Consulting Group
SaaS	Software-as-a-Service
TMIC	Tmall Innovation Center
C2M	Consumer-to-Manufacturer
LVMH	Moët Hennessy Louis Vuitton
B2B	Business to Business
EMEA	Europe, Middle East, Asia
DTC	Direct-to-consumer
CLV	Customer Lifetime Value
CAC	Customer Acquisition Cost
CRG	Crisis-Recovery-Growth
SEO	Search Engine Optimisation
GPS	Global Positioning System

AR	Augmented Reality
BNPL	Buy-now-pay-later
IRL	In Real Life
CNY	Chinese Yuan
DAU	Daily active users
GMV	Gross merchandise volume
VR	Virtual reality
USD	United States Dollar
CAGR	Compound Annual Growth Rate
MR	Mixed Reality
LED	Light-Emitting Diode
3D	Three-dimensional
SKU	Stock-keeping Unit
FHCM	Fédération de la Haute Couture et de la Mode
QR Code	Quick Response Code
US/USA	United States of America
UK	United Kingdom
EU	European Union
RFID	Radio Frequency Identification
<number>M	<number>Million
<number>B	<number>Billion

ABOUT INTESA SANPAOLO INNOVATION CENTER:

Exploring the business models of the future to discover the new assets and skills needed to support the long-term competitiveness of its customers and of the Group as we become the driving force of the New Italian Economy, this is the mission of Intesa Sanpaolo Innovation Center which aims to create the assets and develop the necessary skills that guarantee the competitiveness of the group and its customers through the promotion of new technology use and the support of corporate transformation projects where responsible business models can reconnect business and society. Intesa Sanpaolo Innovation Center supports the growth of start-ups in domestic and international markets through programs in acceleration and networking and has created laboratories and Competence Centers to generate know-how and develop new assets and businesses. Intesa Sanpaolo Innovation Center invests in start-ups with its Corporate Venture Capital NEVA Finventures to encourage new business growth and to support the champions of tomorrow. Intesa Sanpaolo Innovation Center: the country's driving force for future-proof change.

For further detail on Intesa Sanpaolo Innovation Center products and services, please contact ISPIInnovationCenter@intesaspaolo.com

ABOUT FASHIONBI:

Fashionbi is a data and insights provider in the fashion & luxury industry. Fashionbi data centre monitors 3'500+ brands in 90 countries, from their financials to the digital presence, social media performances and marketing campaigns. Among Fashionbi clients are the most famous brands across EU, US and Asia.

For further details on Fashionbi's coverage and services, please contact

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