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Tackling Fashion's Excess Inventory Problem

To combat the high costs of overstock and stock-outs, winning brands are improving their end-to-end planning with tech tools and operating models that allow for greater supply-chain agility, according to the BoF-McKinsey State of Fashion 2025. Key insights

The fashion industry produced between an estimated 2.5 billion and 5 billion items of excess stock in 2023, worth between $70 billion and $140 billion in sales.

The average share of fashion brands' assortments on discount increased 5 percentage points in the first half of 2024 compared to the year prior.

The Ecodesign for Sustainable Products Regulation will require brands in the EU to report on the management of excess stock in 2025 and will make it illegal to destroy unsold products in 2026.

While inventory challenges are complex for most retail industries, the fashion industry faces distinct issues.

The number of micro-trends has boomed, and trending styles fluctuate in search volume by up to 300 percent in just 12 months, making it hard for brands to predict demand. The number of videos tagged #fashion on TikTok has increased 2.5x in the past three years. Ultra-fast-fashion players such as Shein are also shortening speed-to-market times to as little as 15 days.

Meanwhile, climate change is making it harder to predict weather conditions and correlating demand. Temperature fluctuations from the average make it difficult for brands to sell through stock. While global temperatures for 2024 are higher than any other on record, summer 2024 was the coldest in almost a decade in some European regions.

The complex routing of fashion goods across retailers, brands and manufacturers also results in long lead times with limited flexibility. Similarly, the uptick in supply chain disruptions also poses a challenge for brands. Delays at the Suez Canal, for example, can extend lead times by 30 percent.

Consumers are increasingly purchasing fashion items across a variety of channels, making it difficult for brands to provide multiple options for size and colour across a growing number of touchpoints, especially if not operating a single stock pool. One example is social commerce, through which a fifth of US customers have purchased clothing in the last 12 months.

Fashion brands continue to struggle with both excess stock and stock-outs

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Excess stock in the fashion industry was estimated to be worth between $70 billion and $140 billion in sales in 2023.

In 2024, despite overall industry inventory levels remaining broadly flat, about one third of brands continued to struggle with inventory positions.

Luxury inventories rose 2 percentage points in the first half of 2024 compared to 2023. LVMH and Kering recorded excess inventory of almost €5 billion ($5.4 billion) combined in 2023, with impaired inventory accounting for about 4 to 8 percent of total sales.

Many brands resorted to profit-diluting tactics like discounting. In the US, the average proportion of discounted fashion items in the first half of 2024 rose 5 percentage points

year on year. Nike said markdowns affected around 44 percent of its assortment on average in 2024, compared to just 19 percent in 2022.

Stock-outs that span beyond a small proportion for brand-building purposes undoubtedly create missed revenue opportunities.

The root causes of stock-outs are more varied than ever and cut across functions, making them difficult to identify and address. These range from on-time-in-full issues due to vendor problems to inaccurate inventory forecasting.

Out-of-stock sizes ranks as the top complaint among shoppers. Inaccurate stock purchasing across sizes is estimated to result in profit loss of up to 20 percent on average. For example, Lululemon attributed slower growth in the US in the first quarter of 2024 in part to insufficient inventory and stocks-outs in smaller women's sizes.

Managing inventory is key for brands to achieve profitability and address new regulation

In 2025, brands will increasingly prioritise profitability amid flat sales volumes and increased markdowns. Given the strong correlation between inventory turnover and profitability, tightly managing inventory will be one lever they can pull. Meanwhile, higher warehousing costs created by limited capacity and high interest rates are also pushing brands to shift unsold inventory: warehousing costs increased 10 percent in 2023 compared to the year prior.

While over-stocking has been the preferred option to maximise sales, there are further sustainability considerations that may impact this strategy in 2025, including regulation and self-imposed emissions targets.

In July 2024, the EU approved the Ecodesign for Sustainable Products Regulation, which will require fashion companies in the EU to report on unsold textiles starting in 2025 and will make it illegal to destroy unsold products in early 2026.

Similarly, in August 2024, California became the first US state to approve the Extended Producer Responsibility programme for textiles, requiring apparel players to submit a plan for collection, repair and recycling of goods by July 2030.

With 60 percent of brands behind on sustainability targets, reducing over-production and cutting waste through cost-effective initiatives may place brands in the best position to achieve targets and maintain the bottom line.

Fashion brands need to adopt proactive tactics to inventory management using tech-enabled tools

In search of a healthy bottom line and more sustainable business practices, companies are recognising the importance of a proactive approach to inventory optimisation:

Data-driven planning and forecasting tools: 75 percent of fashion executives plan to prioritise data-driven tooling. Brands are turning to advanced analytics platform providers such as o9, Nextail and Blue Yonder to automate processes from demand forecasting to allocation of inventory. These use cases have the potential to reduce inventory by 5 to 15 percent and to achieve a 15 to 25 percent improvement on stock-outs. Kering reported a 20 percent improvement in the accuracy of its inventory forecasting with AI demand planning.

Dynamic open-to-buy adjustments: Increasing the share of in-season purchases helps brands control inventory levels. Other mechanisms such as “test and react” and “on demand” are also increasingly used by brands, enabling them to buy low quantities and test market reactions before reordering to reduce stock risk. In 2023, Asos announced its objective to scale “test and react” to 10 percent of its own-brand products.

Network optimisation: As supply chains become more complex, brands are looking to maximise efficiency in their network. Advanced analytics and digital twins can help

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model scenarios across channels. Hugo Boss plans to invest more than €150 million ($163 million) in digital intelligence by 2025 and reported inventory-to-sales ratios down 3.4 percentage points in the second quarter of 2024 compared to the same period a year prior.

Achieving sustained impact will require end-to-end collaboration across the value chain

Traditionally, merchandising, sourcing, logistics and supply functions used isolated solutions to address inventory challenges. This has led to lost value due to inefficient handovers, opaque processes and limited data sharing across teams and channels.

Brands can no longer expect supply or store teams to resolve out-of-stock inventory. Instead, they must break down silos, collaborating and connecting decisions on assortment stock level across the value chain and through omnichannel optimisation.

An end-to-end transformation is estimated to yield 10 to 15 percent cost savings in retail, whilst implementing individual solutions across functions typically yields only 5 to 10 percent.

How should executives respond to these shifts?

Embed processes and a cultural mindset that breaks down silos

Collaborate across the value chain, instilling a partnership mentality, working from a single source of truth (known as a “platform approach”) and connecting decision making across functions. This will enable fact-based inventory interventions supported by central leaders with weekly meetings.

Secure endorsement from senior leaders with influence across the organisation who can remove barriers to collaboration and set an example for the wider business to follow.

Establish a cadence for fact-based problem solving to jointly resolve service and inventory issues, for example through nearshoring order allocation.

Widen accountability for inventory levels

Align on organisation-wide goals, establishing inventory KPIs such as carrying cost, turnover, tracking and sell-through with accountability that is shared across the business and endorsed by leadership. Focus on return on investment rather than simply reducing costs.

Endorse a mindset shift from a static (i.e. six- to nine-month lead) to dynamic buying approach that is always on and involves the whole business. Instil cultural confidence in data tools to inform decision making.

Leverage technology-enabled tools

Take a customer-centric approach to the use of generative AI, machine learning and advanced analytics tools to stay closer to the realities of demand and increase the accuracy of advanced planning and scheduling systems.

Prioritise data transparency and marry the data between retail functions, integrating multiple systems. Understand and identify existing data handovers and potential translation issues between systems or teams.

Involve suppliers and be open to sharing insights and data with manufacturers to improve end-to-end visibility on early indicators of disruption.

This article first appeared in The State of Fashion 2025 an in-depth report on the global fashion industry, co-published by BoF and McKinsey & Company.