



IMPACT
ANALYTICS

RETAILERS' SIZE CURVES ARE BROKEN

AND THEY COULD GET A LOT WORSE SOON



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In August, a Bloomberg article made a bold declaration: "GLP-1 Drugs Are Coming, and They Could Change Everything." While much of the discussion around GLP-1 drugs (the weight loss drugs such as Ozempic and Wegovy) has centered on their revolutionary potential for weight loss and improved health, no one has considered the profound implications they are expected to have on optimizing fashion retailers' size curves. In this white paper, we delve into this intriguing intersection between healthcare and retail, examining how GLP-1 drugs are poised to disrupt the fashion industry's conventional norms—and why retailers need to take immediate note of this paradigm shift.



The Importance of Size Curves for Retailers

In the retail apparel industry, size curves play a pivotal role in inventory management as retailers generally make upcoming season buy decisions six to nine months in advance. These size curves, specific to each product type and point of distribution, influence which sizes are included in the assortment as well as the quantity of each size (small, medium, large, etc.) ordered. Surprisingly, many retailers have clung to the same size curves for years despite evidence suggesting their inaccuracy. Our work shows that a fashion retailer with \$1 billion in annual sales incurs substantial losses due to this rigidity, amounting to \$20 million in margin losses and \$20 million in lost sales, on average.

In our extensive work with fashion retailers, we have identified significant opportunities to advance size curves development and management. Our evaluation of their "size match percentage"—which compares the granular accuracy of planned size curves to actual sales by size—reveals match rates ranging between 20 and 51 percent for key categories. This is well below the industry's best-in-class 70 percent match rate. We attribute this discrepancy largely to retailer reliance on historical data, which often does not account for missed sales due to stockouts, or for opportunities to add sizes to a point of distribution in which those sizes have not been included in prior assortments.

Poor size curves directly impact the buying and allocation processes, resulting in both lost sales due to stockouts and in excessive inventories that are subsequently heavily marked down. Addressing these issues requires a fundamental shift toward historically informed, but forward forecast- and data-driven decision-making to optimize match rates and deliver improved sales and margin on the entire inventory investment.

The emergence of GLP-1 drugs further complicates this situation. As these drugs gain popularity for their ability to facilitate weight loss, retailers will confront a greater challenge in determining size curves and managing inventories. Retailers who fail to adapt to these evolving body shapes and sizes will risk incurring sales and margin losses as a result of deteriorating match rates.

Fortunately, advanced analytics and artificial intelligence present a solution that offers retailers the flexibility and accuracy needed to swiftly adjust size curves to effectively meet the changing demands (and bodies) of their customers.



The Recent Size Shift and Its Impact on Retailers

The momentum behind GLP-1 drug adoption is undeniable. Today, approximately 4.5 million Americans have already embraced these weight-loss medications, signaling a profound shift in health and lifestyle. But even more compelling is the projection that an additional 1.5 million Americans will start taking GLP-1 drugs each year until 2030. This trend portends a remarkable transformation in health and body size, one that promises numerous benefits for individuals but simultaneously poses a significant challenge for the fashion retail industry.

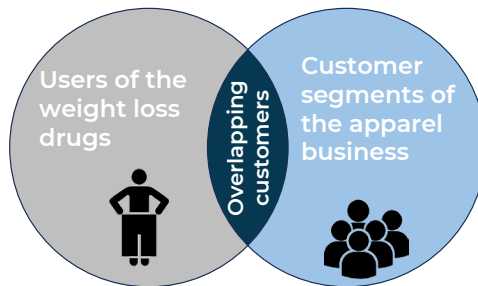
For retailers who are hesitant to adapt their size curves to these shifts in customer body sizes, the consequences could be dire. Our analysis shows that without responsive changes in size curves, retailers risk seeing their entire profit margin erode, with more than 10 percent of their clothing inventory unsold at the end of the year. To put it bluntly: In a market where precision and adaptability are paramount, failing to adjust to this dramatic shift in body sizes could spell financial catastrophe for fashion retailers.

This transformation’s potential to reshape the industry's fundamental norms further underscores the urgency for retailers to proactively address the impending challenges presented by the increasing popularity of GLP-1 drugs.

Identify overlapping customer groups to evaluate business effects

Based on existing studies, these are the key demographics most likely to take weight loss medications:

- Higher income households
- Urban markets
- Ages between 20-50
- Women



Identify customer demographics using same or similar parameters:

- Household Income
- Urban/Non-Urban
- Age
- Gender

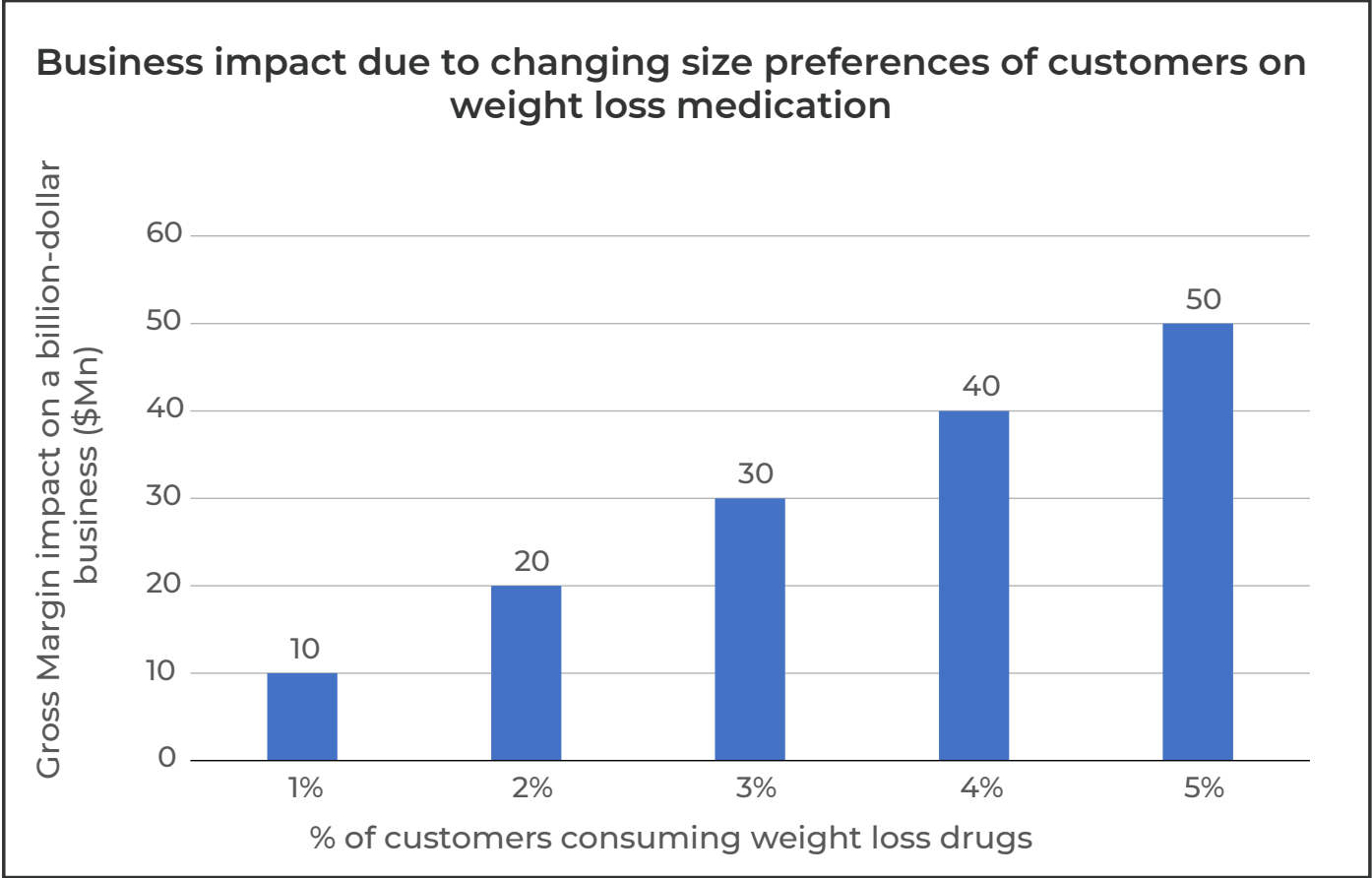
Identify these demographics at company level as well as granular subgroups across locations and product categories.

While impacts will vary by retailer and the apparel types sold, according to the provided estimates we infer that around .5-1.5 percent of the relevant population will experience changes in their needed size every year for the next five to ten years. This will tilt the size distribution towards smaller sizes and away from plus sizes. We expect even a 2 percent transition to cause an increase in excess inventory by 5-6 percent. Additionally, we project a missed sales opportunity of ~2 percent, equating to a margin reduction of ~4 percent. For a billion-dollar business, this may well translate to margins becoming negative.

The worst hit: Businesses with low margins and largest overlap of customers taking weight loss drugs

		% of customers consuming weight-loss drugs				
		1%	2%	3%	4%	5%
Gross Margin of the business (%)	30%	3.3%	6.7%	10.0%	13.3%	16.7%
	40%	2.5%	5.0%	7.5%	10.0%	12.5%
	50%	2.0%	4.0%	6.0%	8.0%	10.0%
	60%	1.7%	3.3%	5.0%	6.7%	8.5%
	70%	1.4%	2.9%	4.3%	5.7%	7.2%

The values in the table denote the anticipated reduction in margin due to missed sales opportunities and excess inventory.



- The extent of the impact will differ among businesses, geographies, and sectors, influenced by their target customer demographics and types of products sold. For instance, a high-end clothing retailer primarily serving women in urban areas over the age of 30 is likely to find a more significant overlap with GLP-1 drug users than a retailer focused on children or operating in non-urban areas.
- GLP-1 medication users lose weight continuously before stabilizing. Consequently, we expect increases in the cumulative number of individuals altering their sizing over the next decade.
- Because GLP-1 users don't move immediately from their existing size to their steady-state size, it introduces additional complexities to size curves management and inventory planning. The curves will need to be updated more frequently, and it becomes critical to rely on ongoing forecasts of customer size shifts by point of distribution.
- Retailers typically start planning a year ahead. Failure to incorporate the ability to define size curves based on advanced forecasting models may leave them playing catch-up.



A Threat or an Opportunity?

Retailers may initially perceive this transformative shift as a looming threat—with good reason. The conventional methods they've relied on for size curve optimization are ill-equipped to handle the rapid and dynamic changes brought about by the increasing popularity of GLP-1 drugs. Traditional approaches are inadequate in the face of this unprecedented challenge.

Opportunity: Revenge Shopping

However, the historical data unveils an exciting opportunity within this shift. People who lose significant weight often need an entirely new wardrobe, presenting retailers with a golden opportunity. Weight loss, spurred by GLP-1 drugs, has the potential to drive an upsurge in clothing sales, unlocking a lucrative market for retailers who are prepared to adapt.

Get Ahead of the Problem

1. Examine the efficacy of your current size curves; identify gaps and their causes and correct them
2. Understand how products and consumer segments intersect with weight loss drug use
3. Plan for Summer 2024 with new size curves
4. Redraw Summer 2024 buys taking into account potential size curves and product preference shifts
5. Automate size curves incorporating weight loss drug use for new buys into 2024 and beyond

Retailers that don't embrace the shift brought by weight loss drug use may well erode their profits. Retailers that embrace the weight loss drug revolution stand to benefit substantially and increase sales and margin.

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