



IMPACT
ANALYTICS

Get Ahead of GLP-1 Drugs' Impact on Fashion Retail Size Curves and The CPG and Grocery Industries

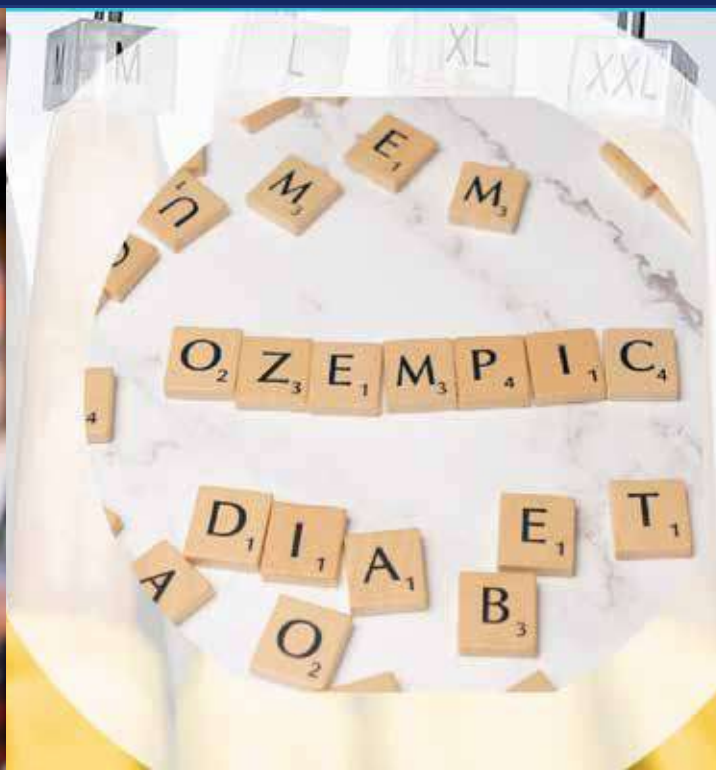
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In August 2023, a Bloomberg article declared: "GLP-1 Drugs Are Coming, and They Could Change Everything."

Now a year later, the world, and especially the US, is seeing just how effectively glucagon-like peptide-1 (GLP-1) drugs promote weight loss and improve health.

Less noticed are the profound implications for the fashion, CPG, and grocery industries.



Retail Size Curves Are Already Broken—And They’re About to Get a Lot Worse

In the first half of this report, we delve into the intriguing intersection of healthcare and fashion retail. Specifically, we examine how GLP-1 drug consumption is starting to disrupt the fashion industry’s conventional norms—and why retailers need to react now.



The Trouble with Size Curves

In fashion retail, size curves play a pivotal role in inventory management. Retailers make upcoming season buy decisions six to nine months in advance and size curves, specific to each product type and point of distribution, determine how many of which sizes are included in the assortment.

Poor size curves degrade the buying and allocation process, resulting in lost sales due to stockouts and in excessive inventories that are subsequently heavily marked down. Yet surprisingly, many retailers cling 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 \$20 million in margin losses and \$20 million in lost sales, on average, due to this rigidity. In fact, we have identified significant opportunities to better develop and manage size curves. For many retailers, the “size match percentage”—comparing the granular accuracy of planned size curves to actual sales by size—is between 20% and 51% for key categories, well below the industry’s best-in-class 70% match rate. We attribute this largely to retailer sole reliance on historical data, which often does not account for missed sales due to stockouts, or for opportunities to introduce new sizes when beneficial.

The accelerating popularity of GLP-1 drugs further complicates this situation, worsening match rates. Addressing these issues requires a fundamental pivot towards forward looking data-driven forecasting that considers historical data as one informing factor, not the main decision driver.

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.

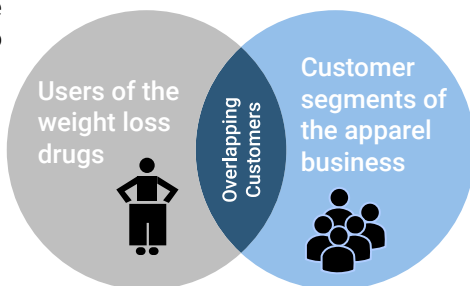
GLP-1 Size Shifting and Its Impact on Retailers

The momentum behind GLP-1 drug adoption is undeniable. Today about one in eight American adults (15 million people) have tried or are using these medications for weight loss—with an additional 1.5 million Americans projected to join them each year until 2030. This trend promises numerous benefits for individuals and society but poses a significant challenge for the fashion retail industry if left unaddressed.

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.

We infer that from .5 - 1.5% 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 for that segment of the population.

We expect even a 2% transition may increase excess inventory by 5-6%. Additionally, we project a missed sales opportunity of approximately 2%, equating to a margin reduction of roughly 4%. For a billion-dollar business, this may well translate to margins becoming negative.

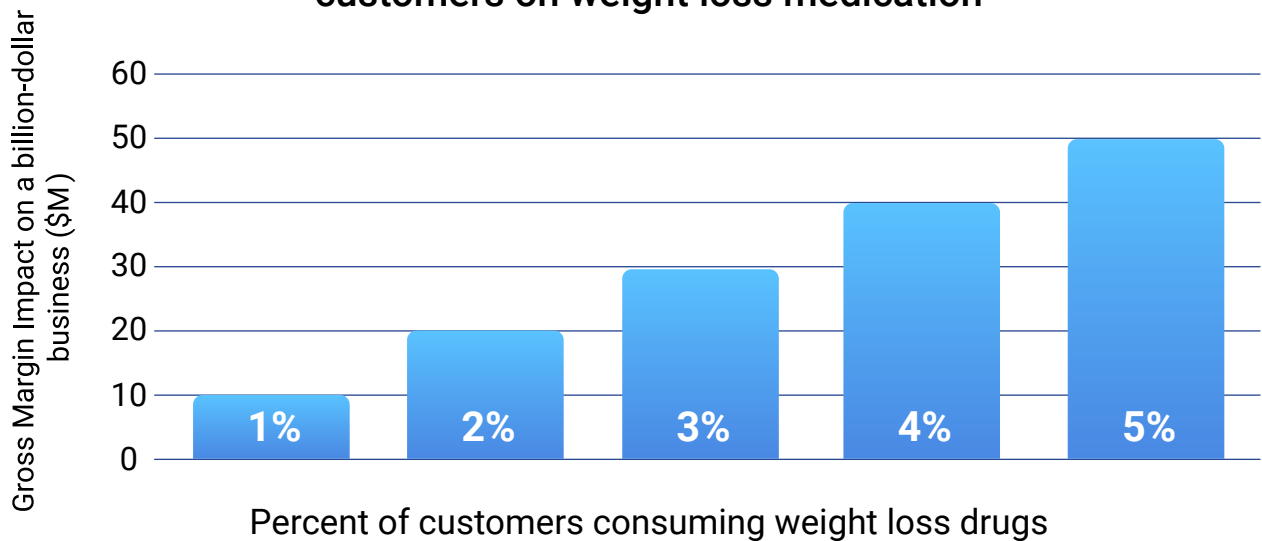
In a market where precision and adaptability are paramount, retailers must proactively address this dramatic shift in body sizes. Our analysis shows that without responsive changes in size curves, retailers risk seeing their profit margin erode with more than 10% of their clothing inventory unsold at the end of the year.

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.

Business impact due to changing size preferences of customers on weight loss medication



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 over the age of 30 in urban areas 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.

Because GLP-1 medication users lose weight continuously before stabilizing, we expect increases in the cumulative number of individuals altering their sizing over the next decade. As they don't move immediately from their existing size to their steady-state size, size curves management and inventory planning will become even more complex. The curves will need to be updated frequently, and retailers will need to pay special attention to forecasts of customer size shifts by point of distribution.

NYC Leads the Way

As we continually monitor this phenomenon's effects to better advise our clients—and because we're really into this stuff—we decided to zero in on New York City, where GLP-1 drug use has exploded, particularly among the non-diabetic population. We had a feeling the drug's impact here would be both interesting to observe as well as instructive for our clients.

We were right, big time.

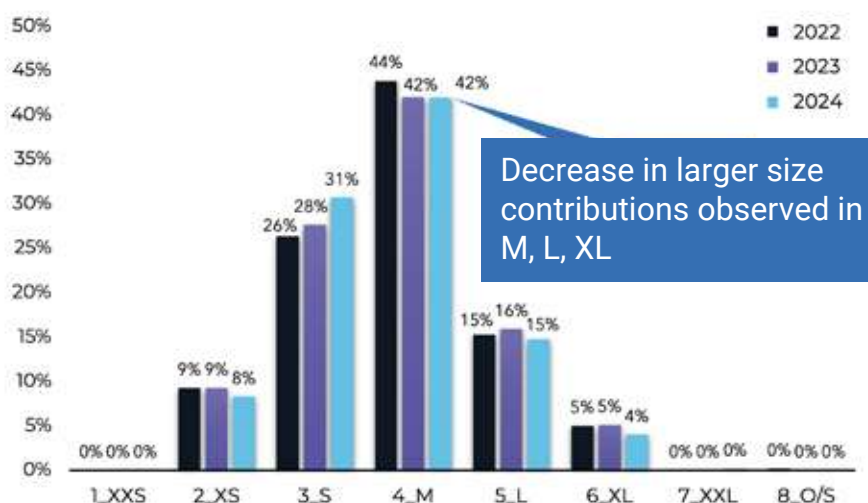
New York City's Weight Loss Enthusiasts

NYC not only leads the world in fashion but also in GLP-1 drug usage. A striking 43.8% of the city's GLP-1 drug prescriptions go to New Yorkers who do not have a Type 2 diabetes diagnosis. This demographic skews younger and is predominantly female (74.7%).

Further slicing the data, we observed the NYC GLP-1 drug prescriptions coalesce in the affluent neighborhood of Manhattan's Upper East Side.

This usage concentration provided a unique opportunity for us to examine its retail impact.

NYC Fashion Retailers: 5% YoY Increase in "S" Size Purchases

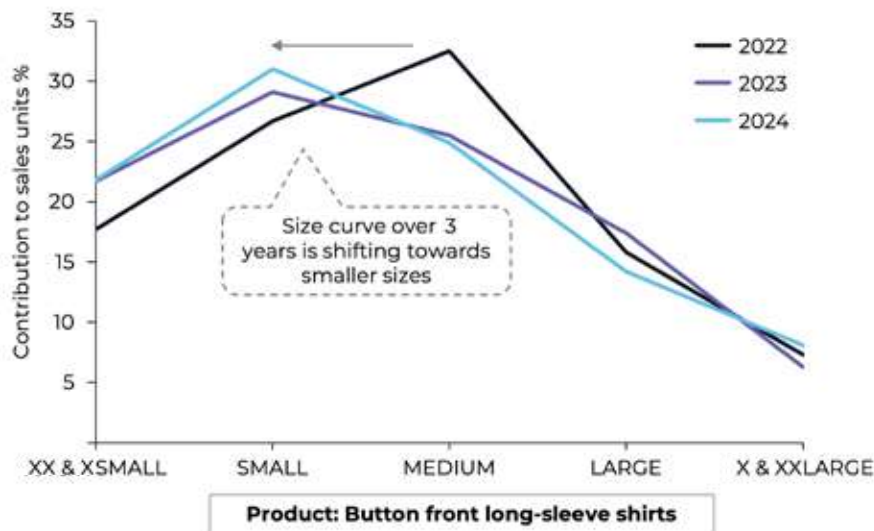


The Impact Analytics Investigation

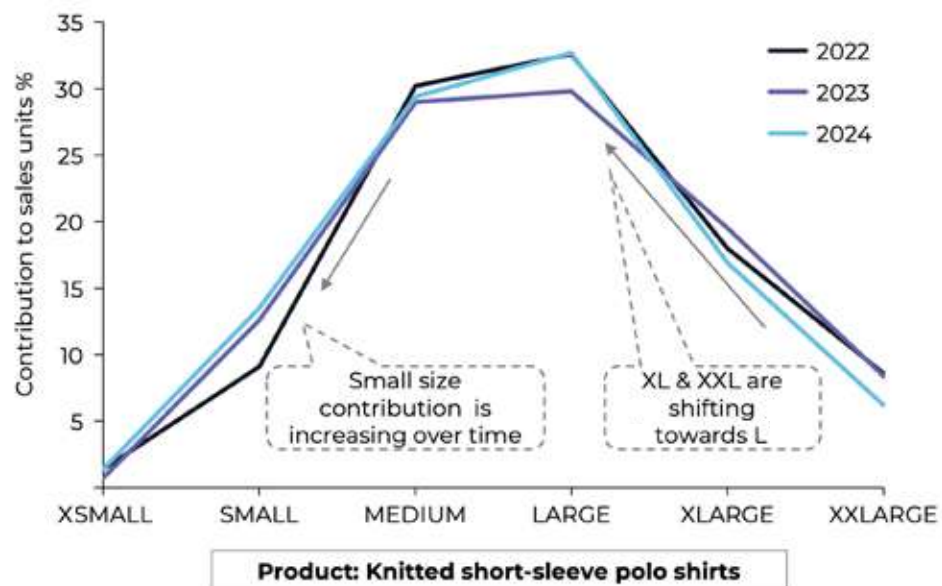
We examined multiyear sales from flagship stores of Fashion Apparel retailers prominently situated on Madison Avenue. We focused our analysis on shifts in clothing size curves, which reflect both the absolute and relative amounts of particular apparel sizes bought by consumers. Shifting size curves indicate a change in customers' body sizes.

We found the size curve in women's apparel—particularly in button-front long-sleeve shirts—has been trending smaller. Similarly, there is a detectable trend towards smaller sizes in men's size curves, although the shift is not as pronounced as it is for women.

Fashion Retailers on Madison Avenue: Women's Apparel



Fashion Retailers on Madison Avenue: Men's Apparel



A Threat or an Opportunity?

These are early, still-developing trends. But if they continue or accelerate before plateauing as a new normal—something many top analyst firms expect, and as today's supply chain and health insurance obstacles are removed or smoothed—fashion and apparel retailers are going to have to revisit their allocation and replenishment strategies. And then re-revisit them again. And again.

Retailers may perceive this transformative shift as a looming threat—with good reason. Conventional methods for optimizing size curves are ill-equipped to handle these rapid, dynamic, and unprecedented changes.

Despite the very real threat, there is also a great opportunity for retailers who begin to adapt their planning strategies now. People who lose significant weight will need an entirely new wardrobe, possibly more. These consumers may drive a lucrative market upsurge for retailers who have the foresight to prepare and respond now.

Get Ahead of the Problem

1. Retailers that embrace the weight loss drug revolution stand to benefit substantially and increase sales and margin.
2. Understand how products and consumer segments intersect with weight loss drug use.
3. Plan ahead for new size curves, taking into account potential shifts in product preferences like changing silhouettes and necklines.
4. Automate size curves that incorporate weight loss drug use for new buys into 2025 and beyond.

How CPG and Grocery Sectors Will Contend with GLP-1 Effects

In the second half of this report, we explore how CPG manufacturers and retail grocers can meet the challenge of shrinking purchase volumes and a shifting basket of goods, sketching out the strategic adaptations necessary to thrive in this brave new (and thinner) world.



Diminished and Shifting Consumption

J.P. Morgan Research forecasts that by 2030, GLP-1 drug users will comprise 9% of the US population¹. Studies indicate that such users have a diminished appetite, especially for sweet, salty, and fatty foods, causing consumers to eat less and more healthily². These twin phenomena are reshaping consumer buying patterns and, not coincidentally, transforming the grocery and CPG sectors.

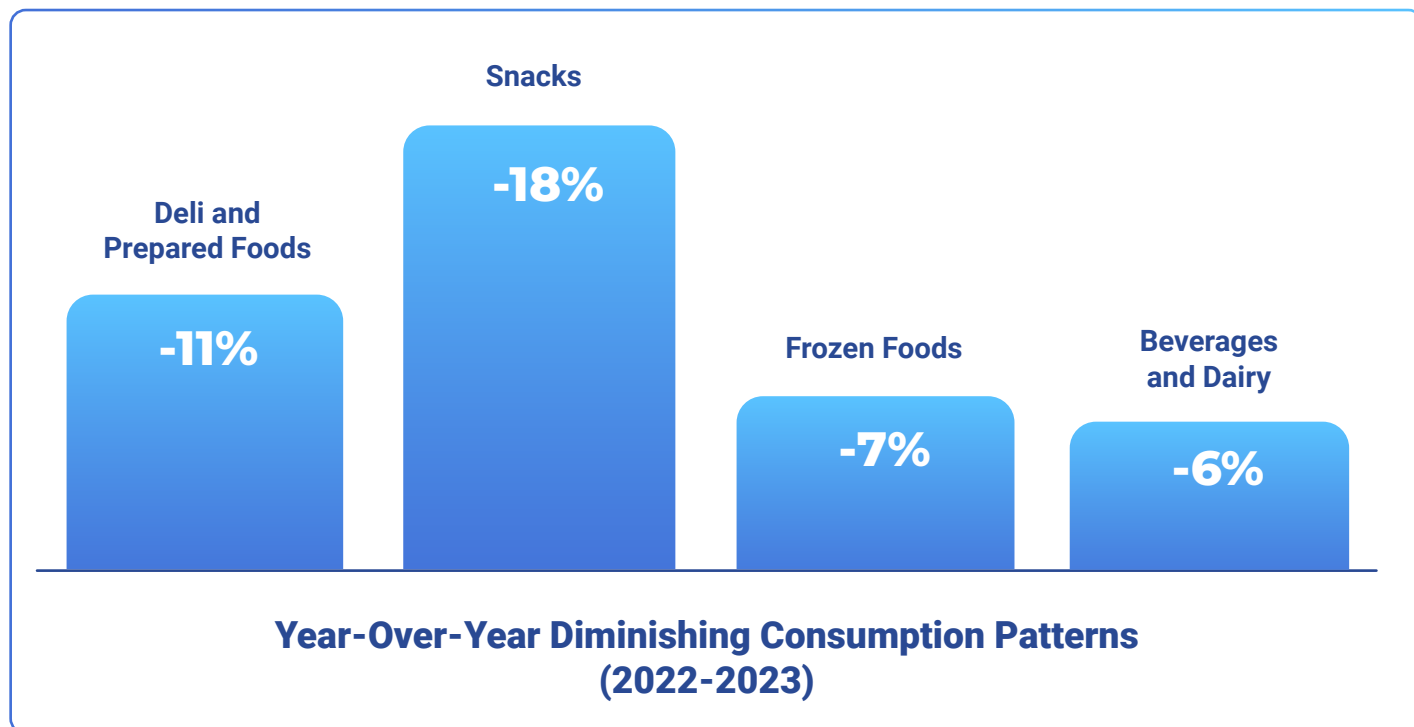
52%

Portion of GLP-1 drug users who report eating less.

9%

Forecast portion of US population using GLP-1 drugs by 2030.

The shift toward less consumption is significant. As reported by CNBC, Deutsche Bank polled 600 US consumers and found 70% were actively using GLP-1 drugs; of those, 30% reported they ate “a little less” and 22% said they ate “a lot less³.” Based on other studies and reports, those numbers may in fact, understate the dramatic behavioral changes taking place.



GLP-1 drug users exhibit a year-over-year diminishment in consumption across food categories—an 11% decline in the deli and prepared food, 18% in snacks, 7% in frozen foods, and 6% in beverages and dairy⁴. This drug-induced consumption transition has been identified as a key factor in median larger-cap US food producers underperforming on the S&P 500 index in 2023 by a staggering 40%.¹

Perhaps just as significant is the shift toward healthier food choices. As GLP-1 therapies gain popularity for their efficacy in diabetes management and weight loss, they inadvertently influence the kinds of food and wellness products that these consumers favor. This shift appears to result from the drugs inherent effects as well as from consumers’ interest in seeking food options—low calorie, high protein, sugar-free—that accelerate the achievement of their health and wellness goals.

Even though healthy food is often more expensive, snacks, pastries, and ice cream remain more profitable for retailers. As demand shifts towards healthier selections, overall revenues decline⁵. It has been reported that retailers realize a 6–9% decrease in monthly grocery spend as consumers shift to healthier foods⁶.

Grocers and CPG companies need to rethink their strategies and equip themselves for what is almost certain to be the new normal.

Grocery Sector Adaptations

Faced with shrinking revenues from an increasingly appetite-suppressed US public, grocers will have to work even harder to squeeze out profits wherever they can. In the short run, that means offsetting volume losses by filling shelves with healthy packaged goods and the refrigerated section with higher-margin fresh foods.

- ◀ **Shift Towards Fresh Foods:** Grocers can expect to take a smaller hit than packaged goods companies if they offer a greater percentage of high-margin fresh food, which GLP-1 users are more likely to purchase over traditional center-store items and snacks.
- ◀ **Boost Health-Centric Offerings:** Grocery stores have an opportunity to capitalize on the increasing health consciousness of GLP-1 users by expanding their fresh, organic, and specially formulated health-centric products.
- ◀ **Revise Product Assortment and Pricing Strategies:** Grocery stores must rethink their product assortment and pricing strategies to compensate for the reduced purchasing of traditional grocery items by GLP-1 users. Emphasizing value and accessibility in healthier food options attracts a broader consumer base seeking to align with dietary trends.
- ◀ **Educate on Healthy Options:** Grocers may mitigate the impact of decreased packaged food sales by engaging in consumer education initiatives. Providing insights into the benefits of fresh and health-focused foods supports a shift in purchasing patterns towards these higher-margin items.

CPG Sector Adaptations

CPG manufacturers are in a similar boat, albeit one that's perhaps a bit leakier than their grocery counterparts'—that's because packaged goods are weighted towards snacks, soft drinks, high-carb high-sugar products, increasingly rejected by the growing GLP-1 crowd. An 8% reduction in food purchases for at-home consumption among GLP-1 users is a significant shift away from processed and packaged foods¹.

- ◀ **Adjust to Consumer Preferences:** The sector should try to adapt its product portfolios to meet changing consumer preferences, such as increasing its range of low-carb, healthier options.
- ◀ **Innovate, Innovate, Innovate:** The shift necessitates innovation in product development, focusing on health-forward, lower-calorie options that appeal to evolving dietary habits.
- ◀ **Boost Profit Margins:** AI-powered tools uncover new market opportunities and guide innovation in product portfolios, effectively cushioning the blow to revenues.

6-18%

Decrease in "unhealthy" food group purchases by GLP-1 drug users in 2023.

6-9%

Decrease in grocery spend as GLP-1 drug users switch to healthier foods.

Navigating Challenges and Building Opportunities

Both the grocery and CPG sectors face unique challenges in light of GLP-1 therapies' rising influence, each needing to adapt to both reduced overall demand and demand transfer to healthier options. While CPG companies may require more significant shifts in product offerings, grocery stores also stand at a crossroads, tasked with rethinking their inventory and marketing strategies. Strategies include:

- ◀ **Optimize Inventory:** Use machine learning algorithms to optimize inventory levels, ensuring all food items—including high-demand, health-oriented products—are adequately stocked. This approach reduces waste and ensures the availability of options that align with consumer demand.
- ◀ **Innovate Product Lines:** Utilize AI to identify gaps in product offerings and develop new products that take advantage of the emerging needs of GLP-1 users. This could include expanding ranges of low-carb, high-protein, and sugar-free options to attract consumers seeking healthier alternatives.
- ◀ **Fortify the Supply Chain:** AI/ML models predict demand complexities for all types of products, enabling retailers to build robust supply chains. These models factor in external variables like GLP-1 drug adoption rates and regional price variations, enabling more responsive supply chain strategies.
- ◀ **Optimize Pricing Strategies:** Apply machine learning to dynamically adjust pricing strategies, making a variety of food options more accessible and affordable. This offsets potential revenue drops by attracting a broader base of consumers, including the newly health-focused GLP-1 group.
- ◀ **Adapt Retail Spaces:** Utilize AI/ML for store layout optimization, spotlighting health-centric and higher margin products more effectively. Analyze customer flow and preferences to design spaces to create an engaging environment that is appealing to health-conscious shoppers.

40%

Amount by which median larger-cap US food producers underperformed on the S&P 500 in 2023.

8%

Decrease in food purchases for at-home consumption by GLP-1 drug users in 2023.

Future Outlook

The shift in consumer demand and consumption due to GLP-1 therapies is significant and deepening—and will likely accelerate in the near future as supply catches up to demand and insurance/pricing issues are worked out.

The strategies outlined above will equip the grocery and CPG sectors to directly tackle the downturn in conventional food sales and the increase in demand for healthy food options—the best way to do that is with AI technology.



¹<https://www.jpmorgan.com/insights/global-research/current-events/obesity-drugs>

²<https://www.medicalnewstoday.com/articles/how-semaglutide-and-similar-drugs-act-on-the-brain-and-body-to-reduce-appetite#Initial-phase-of-weight-loss-while-on-GLP-1-analogues>

³<https://www.cnbc.com/2024/01/08/post-ozempic-patients-may-eat-more-calories-deutsche-bank-survey-finds.html>

⁴<https://www.capitalgroup.com/advisor/insights/articles/weight-loss-drugs-could-reshape-industries-beyond-health-care.html>

⁵<https://foodfoundation.org.uk/publication/broken-plate-2023>

⁶<https://foodinstitute.com/focus/appetite-for-reduction-glp-1-drugs-fuel-grocery-decrease/>

Take the Next Step

Our fashion, CPG, and grocery clients rely on our AI-powered tools and services to get ahead of the fast-evolving health-leaning, less-consumptive, body-dwindling market trends shaped by GLP-1 drug use.

Why not schedule a demo?

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