

AI-POWERED ALTERNATIVE DATA DRIVING FASHION MARKET DISRUPT

BY MERILEE KERN, MBA

Numerous indicators make clear that the next five years will usher in extreme transformation for a multitude of fashion industry sectors and the global economy at large. This begs the question: what is driving such significant and rapid change?

This big question is answered in two words: alternative data. Fashion-related companies that are slow to incorporate alternative data into their R&D, marketing, investment, risk analysis and other key processes expose themselves to extreme opportunity loss at best and operational peril at worst. As one prime example, active investment management firms incur the strategic risk of being outmaneuvered by competitors leveraging alternative data in their securities valuation and trading signal process.

As an ever-evolving methodology, the last decade has ushered in a myriad of new types and sources of alternative data. Unlike traditional data made available by financial exchanges and indexes, SEC filings, financial statements, corporate filings, analyst predictions, press releases, management presentations and other well-entrenched mainstream sources, today's breed of alternative data sets are compiled from wide ranging and disparate sources. This includes financial transactions, satellites, public records, mobile devices and more. Web scraping and financial transactions are, by far, the most common methods of alternative data procurement.

So lucrative is the economic upside of alternative data assets, the category is experiencing a veritable gold rush mentality that is driving extreme growth worldwide across practically every industry sector. The alternative data market size is expected to reach \$143.31 billion by 2030 — a staggering increase from \$2.7 billion in 2021 — with the category forecasted to expand at a compound annual growth rate (CAGR) of 54.4% from 2022 to 2030, according to Grand View Research. Notable industries making great strides in the alternate data space include online retailers, SaaS purveyors and hospitality. These and other such industries are tapping the power of this alt intel for an array of projection activities, with predictive and algorithmic modeling, demand and trend forecasting, lead generation and competitive intelligence among them.

"There are numerous categories of alternative data, and the businesses who fare best are those with the capability to mine insights from the collected data and cross reference and combine it with other types of data, thus enabling investors to identify profitable trends and strategic opportunities," noted Julia Valentine, managing partner at AlphaMille.

"The driver behind this phenomenon is two-fold: investors' appetite for using the data and the providers' willingness to sell credit card transaction data," Valentine continued. "Moreover, data providers

have been enhancing their capabilities of sorting credit card transaction data by gender, age, seller, geography and other metrics."

Of course, these types of drill down insights can make it much easier to identify and evaluate opportunities, especially when advanced analytics and data science are applied to examining alternative data sets. According to Valentine, these offerings produce a crucial differentiator generating alpha for buy-side entities like hedge funds, mutual funds, private equity funds, pension funds, unit trusts and life insurance companies.

"It's essential for investors to have curated alternative data to make their teams, innovation and companies more competitive," said Tracy McWilliams, CEO of Inspire Global Ventures. "Machine learning-enabled alternative data analytics assist our clients, mid-market companies and investment firms, make faster and more informed decisions about investments, innovation, M&A and partnerships with early-stage and private placement companies."

The benefits of employing alternative data are seemingly innumerable. "Among the most important is its ability to derive proprietary real-time signals providing alternative viewpoints, unforeseen insights or perhaps both," noted Valentine. "The ability to go beyond standard financial data to understand company performance, market dynamics or consumer behavior is extraordinarily valuable for companies and investors who desire to plan and execute in a calculated, enlightened and intentional way with mitigated risk."

Even amid the extreme upside, a number of challenges plague processes for incorporating alternative data into the investment and risk models. "As compared to the traditional financial data collection, alternative data assets are known to be unstructured, lack specific patterns and, given its high collection frequency, require significant storage and processing resources," said Vita Koreneva, AlphaMille managing partner.

"Collecting and analyzing alternative data sets certainly requires navigating any number of difficulties or outright obstacles," Valentine warned. "This includes the procurement of expert personnel and cutting-edge technologies like analytics, fluid data architecture and data science platforms, as well as testing tools to actually leverage meaningful insights gleaned from the data."

According to Valentine, starting or enhancing an alternative data platform involves multiple steps: design, plan, source data, integrate, transform, use ML, deploy, support and evaluate. A shorter, five-step implementation model is also available for entities that are ready for a fast route to value creation. With such specialized tools and skillsets involved with mining and distilling alt data, many outsource

the function. "A few key considerations for a prospective professional services partner involve their ability to quickly integrate new solutions with existing infrastructure, cost of data feeds and proving what they deem to be optimal, uncorrelated data sets genuinely add quantifiable value rather than noise," she said.

"Data mastering is fundamental to gleaning insight from this seemingly limitless universe of information," noted Christian Robertson, CEO of Datasynthesis. "It means tracking the data lifecycle from its source — be it real-time or historical, structured or unstructured — through a strict rules-based validation process generating actionable data used to feed the various business intelligence tools used in decision making. However, to distill meaning from so much information one must adopt an active data mastering approach, which can only be achieved by leveraging the latest open-source technologies with capabilities that far exceed anything possible with existing legacy systems."

Preconditions and complexities aside, AlphaMille Chief Revenue Officer Rick Lutz is keeping an optimistic eye on the big picture. "Alternative data hasn't nearly reached critical mass as of yet and there is tremendous growth ahead in this space," he said. "The big winners will be those that onboard the right 'kind' and caliber of experts who can adeptly navigate this highly specialized and ever-changing field."

Digital transformation demands agility. Having the ability to adeptly procure and process alternative data provides a tremendous advantage — especially for those needing to pivot in the short term. Whether to reconfigure a strategy, structure or team, the use of digital technology assures value-creating and -protecting opportunities. The profit promoting outcomes are seemingly endless when organizations utilize cutting-edge cloud, cybersecurity and data science tools.

No matter the industry in which you operate, now is the time to architect a sound and scalable alternative data plan that ensures your company can keep pace in the 21st Century Digital Age.

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