Unraveling the Fashion Industry in Flanders

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Introduction

Why do we admire the spectacular fashion shows of Dries Van Noten and Louis Vuitton every January and September, but do we buy most of our cloths in retail chains like Zara or H&M? When we talk about the fashion industry, it is important to realize that it involves several "businesses".

In nearly every industry there are distinct product varieties, multiple distribution channels and several types of consumers. The fashion system is made up of many industries (textiles, clothing, knitwear, leather, accessories, etc.). These industries in turn can be further subdivided into different competitive segments. Each firm has to decide how to compete, or position itself, within each industry segment. In this paper we will describe the structural segmentation of the clothing industry.

Investigating the Flemish fashion industry, we identified four main segments: the independent designers, the luxury fashion concerns, the middle market segment, the retail chains. Particularly, the independent designers and the middle market segment are very present in Flanders.

In this paper we will identify the differences between these various fashion segments and we want also to gain deeper insight in the dynamics of these fashion businesses. Afterwards we shall describe the various fashion segments according to their business model. Erica Corbellini and Stefania Saviolo (2012) define a business model in the fashion industry as consisting of four building blocks: 1. The value proposition of what is offered to the market 2. The segment(s) of clients that are targeted by the value proposition 3. The communication and distribution channels to reach clients and offer them the value proposition 4. The way the value chain is organized (degree of vertical or horizontal integration). We will focus on the composition of their collections, the interpretation of their value networks and the outlines of their general strategic, financial and marketing management.

Criteria for segmentation

What are the main criteria for our segmentation? Corbellini and Saviolo (2012) segment the clothing industry according to 3 macro-criteria: product end-uses; groups of clients and price. We will discuss in the first place price and product orientation. The groups of clients are integrated in the business model that we will discuss afterwards.

So, a primary difference between these basic segments is that each operates in a different price segment. Examining the price category for basic ready-to-wear pieces, we can make the following rudimentary classification:

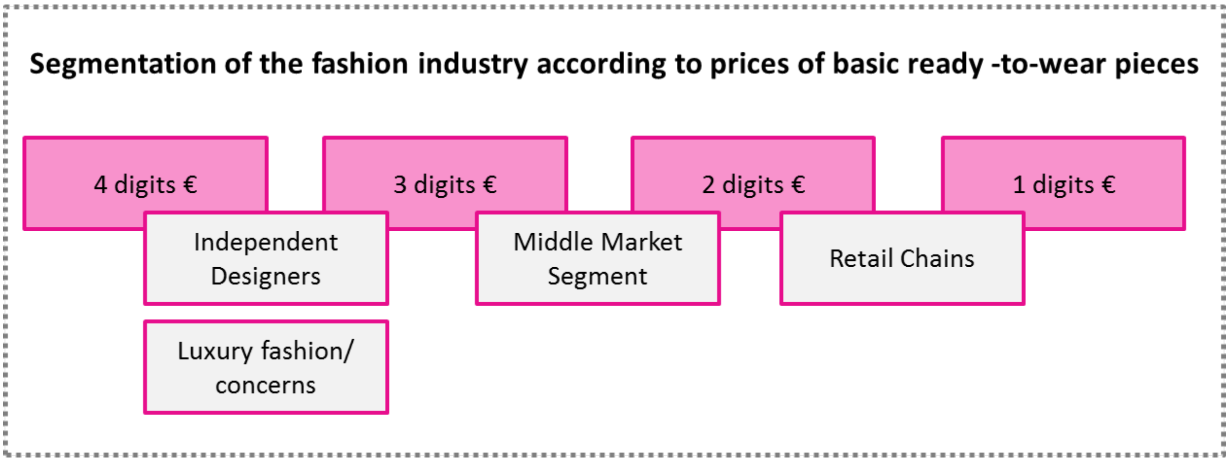

Figure 1. Segmentation of the fashion industry according to prices (in €) of basic ready-to-wear pieces

The segments also differ according to the relative importance of the creativity or individuality of their collections.

At one extreme is the perception of creative goods as *positional goods*. The fashion designer is in the centre of the business and he is more product- than market-oriented. As defined by Jacobs et al. (2012) the symbolic value and market value of positional goods depend largely upon the opinion of peers and experts. This description emphasizes the creativity, the scarcity and uniqueness of the collection. In contrast, and at the other extreme, is the perception of creative products as *private consumer goods*. In this perspective, symbolic value and market value are derived from the satisfaction of individual consumers. Fashion labels are more likely to be motivated by extrinsic elements coming from the market. They have a more business-like structure, often with diversified business activities.

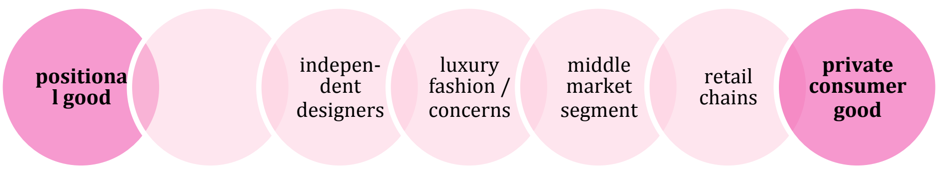

Figure 2. The four fashion segments along the continuum between positional goods and private consumption goods

The price category and conception of creativity also generate different structures for the value chain or value network. Before discussing the segments in greater detail, we will briefly consider the overall value chain or value network of the fashion industry.

1.The value chain

The value chain represents all of the various actors involved in the process of value creation in a product or service; i.e. it shows how a drawing becomes a garment. A sketch for a new handbag does not become a product automatically, and it will not necessarily become the new it-bag. Many actors contribute to this process. In general, we can depict the value chain around a creative good or service as follows:

Figure 1. The creative value chain (Guiette et al. 2011a)

This circuit resembles a linear process. In reality, however, it involves an entire ecosystem with complex interactions between various actors. Presenting the value chain as *network* is therefore more appropriate. The value network for a fashion company can be summarised as follows: The designer or design team prepares sketches, which they convert into patterns and prototypes, in consultation with pattern makers. This information is transferred to manufacturers, who produce the full collections. At the same time, a sales and marketing process is established. The prototypes are thus also used in the business-to-business (B2B) sales process, through fashion trade shows, sales agents, fashion shows and showrooms. A business-to-consumer (B2C) marketing campaign is also established, in which PR agencies, the media and bloggers all have roles to play. The sales and marketing processes also involve important roles for other creative businesses, including modelling agencies, make-up artists, fashion-show producers, photographers, designers and event planners. Finally, the collection pieces find their way to consumers through various retail channels, ranging from upscale department stores, self-contained multi-brand stores, proprietary flagship stores and branded chain stores to various “e-tail” channels.

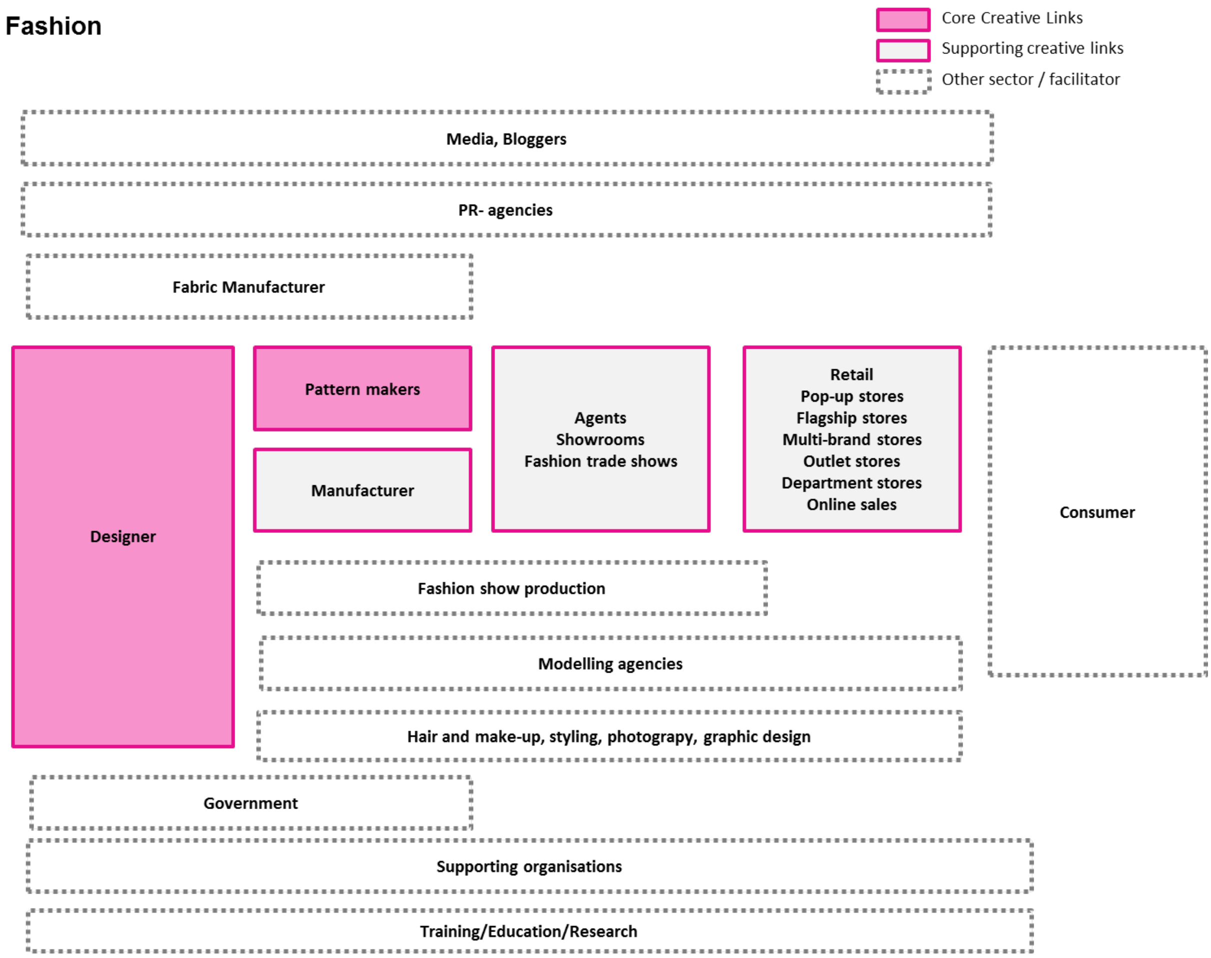

Figure 2. The value network in the Flemish fashion industry (Schrauwen et al. 2013c)

It should be obvious that no single company performs all of these tasks. Most fashion brands are "head-tail" companies, meaning that they outsource their production entirely to contractors, most of which are situated in low-wage countries. Only the design (the "head") and the distribution or sale – or even just the marketing (the "tail") – remain in their hands. The head-tail company takes the position of the *chain director*: It controls the entire value chain, from design and manufacturing to distribution, without performing all of the associated activities in-house.

As mentioned before we can observe several "businesses" or segments within the fashion industry based on different criteria,, like the criterium of *price* and/or the *conception of creativity*. Companies within each segment are likely to set different priorities in their general strategic, financial or marketing management.

In general we can distinguish four main segments: *independent designers*, *luxury fashion concerns*, *the middle market segment* and *retail chains*.

2. *Independent designers*

2.1 The collections

For independent designers, the creative talent of the designer is the engine of the business. In most cases, designers establish labels and associate their names with them. The creative collections are identified by their particular styles or signatures. Independent designers often feel less tied to trends, even though they must also consider some basic rules regarding the composition of a collection. This general pyramid of collection composition provides a helpful overview:

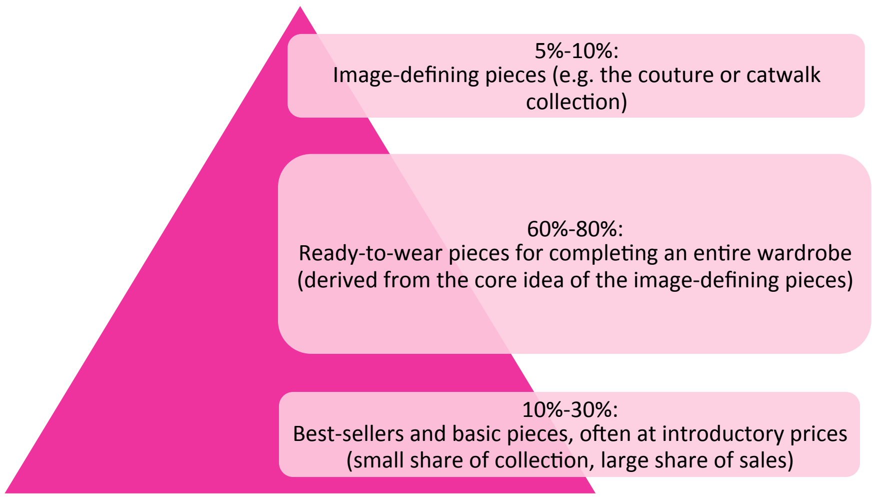

Figure 3. Collection-composition pyramid

Many independent designers follow the traditional rhythm of fashion, bringing out collections twice each year: one for fall/winter and one for spring/summer. The number of collections obviously doubles for companies that design lines for both men and women. The presentation of these collections usually coincides with an international fashion week (e.g. in London, New York, Paris or Milan). Some designers experiment with interim collections or capsule collections.

2.2 The value network

The value network in this segment is fully dedicated to the creative input of individual designers and their teams. It is highly conceptual, focusing on the central idea of the collection. Designs are often more complex than those in the less expensive fashion segments, and considerable energy is invested in pre-production activities. The pattern makers and garment makers who produce the samples are important partners for the designer. For this reason, many designers also choose to keep their pre-production activities relatively close, whether in-house or in specialised studios in the same area.

The result is that the designer's company uses the production preparation – the samples – to set the B2B sales process in motion. The success of these B2B sales will determine the success of the collection.

Not all independent designers have their own stores. Even top designers may have their flagship stores in only one global city (or sometimes in just a few cities). In addition, a collection does not simply land in any multi-brand company. The style and image of the independent designer and that of the multi-brand store must be mutually reinforcing. Moreover, the collections are sold in mostly one, or sometimes just a few places in a city. The distribution network is thus very small and selective. Independent designers therefore feel obliged to distribute their collections abroad almost immediately. Therefore they are also called 'born globals'..

A similar story can be observed in contemporary online sales. Only a few independent designers manage their own online stores, because this requires them to build and maintain stock. Most independent designers operate through curated sites under their own labels or through the sub-pages of brick-and-mortar stores.

The B2B sales process, starts with a lot of exposure. Grand fashion shows and/or showrooms are staged during the international fashion weeks in Paris, London, Milan and New York. All of these activities are dedicated to creating the best possible symbolic value; the show and the showroom are the translation of the central idea behind the collection. Everything must therefore be perfect: the choice of fashion week, city and show location, as well as the models, make-up, lighting, music, set design, catering, photography and other aspects. In addition to the show and showrooms, independent designers work with representatives and agents during the fashion weeks. These parties maintain contact with stores within specific markets. A few designers invite their regular buyers to their headquarters or showrooms, either before or after the fashion weeks. This practice extends the sales process, and it allows designers the possibility of adjusting their collections before the fashion week, based on the feedback from these buyers.

After the order book has been filled and the designer has received an overview of orders from multi-brand stores, the entire collection goes into production. Unlike the pre-production process, the production of these collections is often outsourced to various producers in low-wage countries (e.g. the Mediterranean or Eastern Europe). Only very technical pieces are prepared or finished in Western European studios.

2.3 management of the chain director

In this process, the company surrounding the independent designer is thus the chain director. Depending on the life phase of these organizations, they could be micro-companies (less than five employees) or small and medium enterprises (SMEs). The shares are usually in the hands of the designer, possibly supplemented by an investor. The company is linked to the career of the designer, thereby posing a risk in terms of continuity or succession if something should happen to the designer. Unlike other fashion segments (to be discussed later), horizontal or vertical integration rarely takes place with independent designers. *Horizontal integration* refers to the distribution of various similar brands by a parent company. *Vertical integration* refers to a situation in which the parent company purchases or controls several small companies within the value chain. The latter sometimes takes place in the form of a production licence. In these cases, the designer cedes the intellectual property rights to specific designs and patterns to the producer. The producer makes the prototypes and handles the production. Some licensees also manage the distribution. This situation is a case of vertical integration proceeding from the producer.

The competitive position of independent designers is weak. Revenues from the collection are not always sufficient, particularly for small or emerging designers, making it necessary to seek other sources of income, including design contracts for other fashion companies, teaching assignments, and/or collaboration with artists. Artistic projects are often more important, given their potential to generate additional symbolic value or credibility. These aspects are also essential in the communication and promotion of the brand. For this reason, independent designers rarely use traditional promotional tools (e.g. adverts or billboard campaigns). In contrast, earned media attention enhances symbolic value and credibility. The reputations of independent designers and their collections are made through press attention and critical acclaim. The brand's representation at the fashion weeks constitutes the start of a communication campaign. In addition to buyers from multi-brand stores, members of the press are invited to shows and showrooms. In many cases, PR agencies are also engaged to ensure continued attention from the press by lending out collection pieces and reporting special events, collaborations and other notable developments.

The entire process thus focuses on the creative talent and aesthetic vision of the independent designer. The value network in this segment is fully dedicated to the creative input of individual designers and their teams. The chain director is usually a micro-company or SME surrounding the designer.

3. Luxury fashion concerns

The luxury segment of the fashion market is aimed at the upper end of the consumer market. This segment has long been dominated by fashion houses operating more or less according to a dated version of the value network described above. In recent decades, however, this market has become increasingly dominated by multinational luxury groups, including LVMH, Kering (until March 2013, PPR), Richemont, Prada and Puig. These conglomerates have gradually bought many old fashion and luxury houses, changing the business models behind them in the process.

3.1 The collection

In reductionist terms, we could say that the luxury fashion concerns now revolve around a "dream world" of couture, which has been created to sell licensed products. In many cases, the brands of a concern have an extensive product range. The least accessible luxury goods are the collections of hand-made and custom-made couture.[i]

In addition, there is the ready-to-wear[ii] line, which is more accessible than the luxury product. For many luxury labels, however, perfume, cosmetics, glasses (or sunglasses) and other derivative licensed products generate the largest profits. A decade ago, most luxury brands also added a separate collection of basics or a line of jeans, in order to reach an even wider group of consumers. This strategy is increasingly being phased out, however, in an effort to guarantee the exclusive character of the label. Moreover, the couture collections seem to be increasingly expensive. The dream world of couture is brought into production for a (very limited) niche within the consumer market. In the marketing of luxury labels, however, these catwalk collections must attract a broader group of consumers for the basic pieces and lines of accessories and cosmetics. The image of the label is thus created by a small part of the product range (the couture collection or the catwalk collection of the ready-to-wear), while its major profits are generated by derivative products (e.g. collection basics, accessories, cosmetics).

Most houses present their couture and ready-to-wear collections twice a year, during the fashion weeks. Between these periods, they regularly introduce pre-fall and pre-spring collections, cruise collections and other offerings. On the one hand, the collections are determined by the brand's identity and "heritage value". This brand identity consists of recognisable characters and iconic pieces that have made the brand famous. The brand identity is most strongly manifested in the catwalk collections of couture and ready-to-wear pieces. On the other hand, the artistry of the current chief designers affects both the couture and the ready-to-wear line. Multinational luxury brands often recruit famous designers to be their artistic directors. Finally, trends are also important in this segment.

The quality and aesthetics of the collection serve as criteria for playing in this top-level segment. For couture collections, the quality of the material, the customisation and the handwork (most of which is performed by proprietary or European studios) account for the greater expense in production costs. The production price for ready-to-wear lines and basic pieces is much lower, as these products are less complex and less labour-intensive. Despite the lower production costs, exclusivity is created in other ways. For example, international luxury brands often create an artificial scarcity around their products, in which the potential market exceeds actual production. *Objective scarcity* (limited production) and *subjective scarcity* (an exclusive network of distribution points) are essential for luxury products. All of these features together ensure that a luxury product is, by definition, an expensive product. For this reason, iconic pieces from these collections often fall victim to counterfeiting, despite the many measures that have been taken at the international level in recent years.

3.2 The value network

The value network of the luxury fashion concerns centres on exclusivity. A famous designer is usually recruited to design the basic concept for the collections. The designers then elaborate on these concepts, together with their design teams (who usually remain anonymous). In this fashion segment, special consideration is given to the projections of trend agencies and information from detailed sales figures. The influence of the company's marketing and merchandising services (see below) is apparent even in the design process.

The pre-production and production processes are carried out in proprietary or external studios. In many cases, the couture is still produced in proprietary studios, as prescribed by the *Chambre Syndicale de la Couture Parisienne* (see footnote I). Technically complex pieces in the ready-to-wear collections are usually produced locally as well. These artisan studios nevertheless produce only a fraction of the total product range. Serial production is usually outsourced to low-wage countries in Eastern Europe or Asia.

The distribution of luxury goods depends upon its intended accessibility. Couture collections are available only on order from the main house. Selective or exclusive distribution is nevertheless important, even for the less inaccessible luxury goods. The company focuses itself exclusively on flagship stores in major world cities, in prime locations. In these stores, the collection is often shown in its entirety in a luxurious atmosphere that fully coincides with the identity of the brand. In addition, parts of the collections are sold worldwide in corners of a highly selective group of multi-brand shops and department stores. China and other BRICS countries continue to be growth markets for luxury concerns. For many luxury brands, the Asian market is even more important than the European market. As is the case with independent designers, the shows are of major importance in the B2B sales process for luxury fashion of concerns, given that such press attention helps to construct the dream world of luxury. The accessible luxury goods – the licensed products – are distributed more widely, making them available to a larger group of consumers. One final remark is the considerable bargaining power that these luxury concerns have with the multi-brand stores. In addition to controlling a large number of brands (thus representing a major potential source of sales for multi-brand stores), they also own and manage many more multi-brand retail channels (see below).

3.3 The management of the chain director

The chain director in this fashion segment is the concern, with its fashion houses. The conglomerate contains only consolidated companies, often involving fashion companies that have long been independent and that had attained some level of maturity before their shares (or a portion thereof) were acquired by the group. In the 1990s, many concerns focused on historic, somewhat dormant luxury brands. In recent years, they have exhibited a preference for acquiring independent designers who are still quite active. In this regard, the concerns obviously prefer the established names and avoid young starters. At the head of the concern is a parent company or holding company, whose shares are held by investment companies (in many cases, belonging to the same family). A few of these holding companies are listed on the stock market.

The concerns are integrated both vertically and horizontally, and sometimes even diagonally. Horizontally integrated concerns have portfolios of brands with similar activities. Vertically integrated companies incorporate multiple companies within a single value chain. For example, in addition to their fashion labels, some concerns have acquired production studios and department stores. By controlling the design, the production channels and the key players in the distribution network, a conglomerate can become very powerful with respect to smaller players. In this context, diagonal integration refers to the acquisition of several companies in the value chains of related industries. For example, in addition to its clothing brands, a luxury concern might have brands of historical weapons, yachts, hotels, champagne or other items.

In addition to the various strategies for integration, licensing strategies are common in this segment. For example, companies sell licences to create other product groups under the same brand name: consider the lipstick and sunglasses sold under the Chanel brand. Another licensing strategy involves trading licences to open stores under a specific brand name. The high level of integration combined with great financial strength and global reach makes these concerns extremely powerful within the value chain, and thus gives them a strong competitive position.

The communication and promotion strategies of luxury fashion vary according to the product group. The dream world of inaccessible luxury products must generate earned media attention in order to sell the accessible luxury products as well. Advertising campaigns are created for the accessible luxury products. These massive advertising budgets also exert influence on earned media attention. In some cases, journalists are pressured by their marketing departments, and in other cases, informal barter deals may be made. The influence of fashion houses on bloggers is even clearer. Well-known bloggers with hundreds of thousands of followers and millions of hits per month are able to reach lucrative deals with fashion houses (even though some bloggers cling to their editorial freedom in order to maintain their credibility). Finally, for communication and promotion, it is essential to build a consistent brand image to cover all of these different product groups, as observed in the privately owned media and social media channels. Such an image might centre on the brand’s history or heritage value. The combination of a consistent image and a plurality of communication channels generates added visibility.

We could say that the luxury fashion concerns deploy a dream world of couture in order to sell licensed products. The value network in this segment revolves around exclusivity. The chain director in this context is a powerful group of consolidated companies.

4. The middle market

4.1 The collections

The middle market segment consists of brands that bring fashion to a clearly defined target audience within the middle class. To be as pleasing as possible to this target group, collections are often based on the identity of the brand (ranging from very creative to sophisticated-conservative), as well as on projections made after analysing sales figures and trends. In this fashion segment, it is more common to experiment with different collections each season, although these tend to be derivatives of the main idea behind the collection. Production volumes are generally higher than in the previously discussed segments, but the technical complexity is somewhat lower. Both of these aspects have an impact on consumer prices.

4.2 The value network

Companies in this segment therefore aim to create maximum added value for the client. This philosophy extends into the value network. An anonymous team of designers, sometimes supplemented by freelancers, designs with a clear customer profile in mind. The design teams of several labels coordinate the collections with their merchandising and marketing departments. They analyse the sales figures in the proprietary stores and with key accounts, and follow the trends closely. These departments help to determine which type of collection pieces will be designed and how they will be put on the market. At the start of the design, the label is thus already considering such matters as the channels in which the pieces will be distributed, the niche for which the pieces are intended, the price at which the collection pieces will be sold and the image that will be dominant in the promotion.

During the pre-production phase – from design to prototype – the design team gives instructions to the manufacturer (in many cases, through technical design sheets) about various characteristics, including style, fabric, type and position of stitches, the kind of seam and placement of the zipper. Based on these instructions, the manufacturer produces prototypes and sales samples. The head-tail company surrounding the label outsources the entire production to several manufacturers. Production is outsourced almost entirely to low-wage countries in such regions as Eastern Europe, the Mediterranean or Eastern Asia. Some companies in this segment have developed out of production companies. In these businesses, some of the pre-production (i.e. collection development) and retouches are still performed in-house.

Distribution takes place through a network of proprietary and multi-brand stores. The proprietary boutiques, which are sometimes known as pilot stores or flagship stores, carry the name of the label and are usually located in larger cities. These stores embody the full image of the brand, thus serving as an important marketing tool in addition to being a point of sale. Efforts are also invested in retail through multi-brand stores. Some regions still have a relatively strong culture of independent boutiques in rural regions, as is the case in Belgium. In other countries, these independent retailers are increasingly surrendering to chains of multi-brand or proprietary stores. Several brands also set up corners in department stores. In this type of arrangement, department stores allocate a defined area to the brand. The department stores still select the pieces that they wish to offer, but the label has more opportunity to adapt the sales area to suit its image. The label also uses various other B2B channels to sell its pieces to B2B customers. The most important channels are the national and international fashion trade shows. In view of the high number of such trade shows, it is important for a label to select one that suits its image and that displays labels from its niche. In addition, a label may use its own permanent showrooms or self-organized fashion shows (usually for buyers on the local market), in addition to its own representatives or agents who represent multiple labels. Only rarely do labels in this segment make use of fashion shows during the fashion weeks.

The e-tail strategies of these brands follow the logic of click-and-mortar commerce: while each label has its own webshop, most also offer pieces to “multi-brand e-shops”. Curated sites, however, appear to be less prominent in this segment. In many cases, the likelihood that a brand will venture into online sales also depends on the familiarity of the target audience with online clothing sales, as well as on the distribution of physical points of sale. Brands that focus primarily on older women, the domestic market or well-branched distribution networks with personal boutiques have been more reluctant to venture into online sales.

4.3 management of the chain director

In the middle market segment, the chain director is usually a company with one fashion label or a limited number in its portfolio. Although several listed companies exist within this segment on the international market, most of the companies on the local market are SMEs that have existed for at least a decade and demonstrated a certain level of robustness. The founder of the company is often a business owner or family of entrepreneurs with experience in the sector. The companies tend to grow slowly, internationalizing only after they have established a firm foothold in the market at home. As stated before, horizontal integration is common. Vertical integration took place in some companies several decades ago. In the past, they would have operated primarily as manufacturers, but have re-oriented themselves toward running a label.

Competition in this segment is high, given the large number of labels (i.e. direct competitors), as well as in response to the pressure of the retail chains (i.e. alternatives or substitutes) existing within the same market segment. Consumers therefore have many (and often less expensive) alternatives to these labels. In this segment, therefore, marketing management receives considerable attention. Companies engage in a wide range of efforts to transform their labels into “love brands” in the minds of their target audiences. The labels make much greater use of promotion and communication tools than independent designers do in order to reach their target groups. Earned media attention is essential for these labels as well, and adverts, posters, product placement and a consistent image (as visualised through the label’s own stores and corners) constitute major promotion tools. Finally, the labels in this segment invest in good customer relationships with B2B customers, as well as with the end-consumers who know the brand through its network of stores.

The middle market segment can thus be summarised as fashion for a defined middle-class target audience. The value network revolves around added value for the end-consumer. The chain director is usually an SME owned by a genuine fashion entrepreneur, and is usually anchored locally.

5. Retail chains

5.1 The collections

The slogan of the retail chains is ‘fashion for the masses at very competitive prices’. These companies reason from within a market-pull strategy. The collections are adjusted according to projections on what the market will demand. Trend forecasting, market research and sales figures from previous collections define the appearance and composition of the collection. In order to reach as many different types of consumers as possible, chains carry a variety of proprietary brands under one roof. To stimulate as many consumers as possible, new stock is also placed in store throughout each season. This new stock can range from bestsellers of the current (or previous) season to pieces derived from the core collection to new, separate capsule collections. The industry average for collection exchanges is around six weeks, although some retail chains are speed demons, refreshing the range of products in their stores every two weeks. Speed to market is thus vital in this fast-fashion business. Retail chains also try to keep the cost price as low as possible. This is reflected in the material used and the simplicity of the design, but it also affects the core philosophy of the value network.

5.2 The value network

In this segment, money can be earned only by reaching a very large group of consumers. In order to avoid “fashion failures” as much as possible, the anonymous design teams often work in close consultation with the merchandising team. They jointly determine what type of collection pieces will be designed for which target audiences, sub-segments and points of sale. The merchandising team provide feedback on the collection based on data about trends, market research and sales figures. Even in the development of the prototype, the merchandising team estimates how many pieces will be sold in which stores (*quantity per stock-keeping unit*, or *SKU*), and a marketing strategy is conceived around sub-collections. The collection might be supplemented by *white products*: garments with no label, which are designed completely in-house by the manufacturer and which the producer offers to multiple retail chains or other channels (e.g. market vendors and supermarkets).

As noted before, the extension of the value network revolves around cost-price reduction and speed. The pre-production is performed in-house or by the manufacturer, not according to vague sketches, extensive descriptions and complex patterns, but according to technical design sheets. The production is fully outsourced to low-wage countries. The exact location depends on the speed-to-market that the supplier can guarantee. For basic pieces, a delivery time of four to six months is often sufficient, making producers in Asia (e.g. Bangladesh, China, India, Cambodia) and boat transport viable options. For product lines with a shorter delivery time (four to eight weeks), European chains often prefer countries such as Turkey, Tunisia, Morocco, Poland, Romania, Bulgaria or Ukraine. Some chains (such as the Inditex group) bring the production back to the country of the parent company in an effort to respond even more quickly to the needs of the customer. For the production of its stock, a clothing chain often calls on about 60 to 150 suppliers, including about 40 core producers with whom a long-lasting relationship is built.

Although not applicable to this segment alone, retail chains are often criticised for the working conditions at their producers in low-wage countries, including excessively low minimum wages, long working hours, child labour, use of hazardous materials, and unsafe working conditions. Monitoring by independent agencies and quality certificates are becoming increasingly important, and the industry is trying to regulate itself through a global code of conduct. Nevertheless, the extensive internationalization and complexity of the supply chain make monitoring difficult.

For the classic retail chains, the B2B sales process is not active, as companies sell their pieces only within a network of their own stores and webshops. A few retail chains combine their own network of stores with B2B sales to multi-brand stores (e.g. the brands of the Bestseller group). Brands that engage in retail through multi-brand retail stores are often distributed through multi-brand websites (e.g. asos.com or zalando.com). By eliminating the middle layer of agents, representatives, trade shows and wholesalers, retail chains are able to operate more quickly and more cost-efficiently. On the other hand, the company’s logistics branch is often much more elaborated, with its own distribution centre and transport network, as well as an extensive system of stock automation.

Within the store network, all sales units have a recognisable style and a uniform store concept. To reach as many buyers as possible, companies tend to adopt one of two real estate strategies. Some chains focus on shopping centres and the major shopping districts of central cities. Properties in these streets are expensive, but sought after, as they are frequented by large crowds and many recreational shoppers. Other retail chains design themselves as discounters or target their efforts towards family purchases. These chains tend to focus on retail areas in the periphery, the out-of-town retail parks. It is important for the store to be easily accessible by car, for sufficient parking to be available at the door. The price per square metre for property at out-of-town retail parks amounts to only a tenth of those for prime locations in city centres. In many cases, this makes it possible also to furnish large buildings. In both cases, sales and expansion strategies are determined in part by the availability of properties and prices on the real estate market.

5.3 The management of the chain director

Chain management proceeds from the distributor, who has usually acquired a core creative link. Because the chain director has many stores and its own distribution network, many SME chains are driven out by larger companies or groups of companies with several hundred employees. The founder, a true fashion entrepreneur (or the family of one), controls the majority of the shares. Their capital and the profits of the company or large corporation are thus also used to finance expansions. Horizontal integration is becoming increasingly common at the international level. We have already mentioned the Bestsellers group (which owns such labels as Only, Vero Moda and Selected). Other examples include the Inditexgroup (which owns Zara, Massimo Dutti, Bershka and others) and the H&M group. Because of their size, business structure and capital structure, such companies are able to play the market more aggressively. Vertical integration from the point of sale occurs in this segment as well, thereby increasing control over the value network and allowing reductions in cost and increases in speed to market. The inexpensive fashion segment is characterised by strong market concentration in favour of chains, to the detriment of independent retailers. Licences are less common in this segment, with the exception of licences for the image rights of popular figures. Another important point in the strategic management of these companies involves the organizational and operational implications of their high rate of speed to market. For example, many chains have adopted relatively flat decision-making structures. Moreover, there is considerable consultation between divisions (e.g. designers, buyers, retailers, marketing and merchandising department) in order to keep as close an eye as possible on what the customer wants.

The communication and promotion strategies involve a plethora of measures and channels, ranging from advertising in all media (not only the specialized press), poster campaigns, direct mail and sales promotions to earned media attention. It is interesting to note that, although various sub-brands in the chain stores often have their own images, communication and promotions tend to be based on the brand name of the store. Recurrent purchases and customer loyalty are often promoted through customer loyalty cards and personal discounts through direct mail. While it is less important in this segment to gain positive critiques from the specialised press and bloggers, these brands often engage PR agencies to make their collections available for fashion reports and to generate press attention for special collaborations or capsule collections. In addition, several chains enter into media deals (e.g. for product placement on television) or work through celebrity endorsements.

Retail chains thus offer fashion for the masses at competitive prices. The design is therefore highly market driven and inspired by trends and sales figures. The value network revolves around cost-price reduction and speed. Given their retail structure, retail chains are often large companies or groups of consolidated companies.

6. Overview… and strategies beyond

The four basic segments or fashion businesses can be summarised as follows:

Summary of four basic fashion businesses	Independent designers	Luxury fashion concerns	Middle market segment	Retail chains
Product	Focus on the creative talent of the designer; designer push	"Dream world" couture sells licensed products	Fashion for a defined target group in the middle class	Fashion for the masses at competitive prices; market pull
Value network	Value network dedicated to creative input	Value network dedicated to exclusivity	Value network dedicated to added value for the customer	Value network dedicated to cost-price reduction and speed
Chain director	Micro-business or SME around the designer	Powerful group of consolidated companies	SME owned by a fashion entrepreneur	Large company or group of consolidated companies developed around the distributor

Table 1: Overview of fashion businesses

The four segments described above should not be interpreted as laws set in stone. The descriptions are better seen as dominant thinking and acting (or 'logic') within a given segment. Moreover, some actors are sometimes breaking through the dominant logic of their own segments, thereby gaining a strategic advantage or arriving at their own *Unique Selling Propositions* (*USP*).

We distinguish three strategies for innovation:

- The first category consists of **segment switchers**: labels that have switched from one segment to another throughout their histories. For example, the first achievement of the Swedish label Acne was a collection of jeans for the middle market segment. Because of its *avant-garde*, creative image, however, the brand increasingly acquired the allure of the independent designer and luxury segments. The brand currently presents its collections during London and Paris fashion weeks, and it has become highly selective in choosing its points of sale.

- A second strategy is that of the **segment stretchers**: companies that expand by moving into other segments, while striving to maintain their positions in their original segment. The segment-stretching strategy can often be observed in the concerns of fashion companies. In the past, many luxury brands (e.g. Armani or Versace) attempted to increase sales by offering a line of jeans with very basic garments for the middle market segment, alongside the couture and ready-to-wear lines that they presented during the fashion weeks. Several luxury houses have recently been dialling back this strategy, because it has been eroding the symbolic value (which is based on exclusivity) of their creative core collections. At the level of concerns, portfolios continue to be differentiated according to a segment-stretch strategy. In 2002, OTB (the concern that grew out of the middle-market Diesel) bought shares of the company behind independent designer Martin Margiela (NEUF SARL). OTB also controls Staff International, a production company for the luxury segment, with licences to produce the collections of Vivienne Westwood, Marc Jacobs Men and Just Cavalli.

- The final category consists of **segment combiners**: companies that combine segmentation criteria (price/product) from one segment with the interpretation of the value network or management of another segment, or those that combine the segmentation criteria of two segments. For example, many independent multi-brand stores attempt to differentiate themselves within their own regions by combining brands from two segments. In this way, the portfolio can consist largely of brands from the middle market segment, supplemented by brands from retail chains. The brands COS and &Other Stories have established their USP by combining the production and distribution logic of retail chains (through the value chain of their parent holding company, H&M) with a level of creativity and quality resembling that of the middle market segment.

7. Summary

As demonstrated in this paper, there is no single “fashion industry”. Instead, there are four major segments, each exhibiting its own dynamics: independent designers, luxury fashion concerns, the middle market segment and retail chains. Their collection and the value chains are arranged in different ways, and the chain directors must address different issues in carrying out their general, strategic, financial and marketing management. Nevertheless, these four main segments should not be interpreted too rigidly. A company can break through the dominant logic of a segment, thus innovating, by stretching, combining or switching between segments. A company can use these strategies to develop its USP within the fashion scene.

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[i] The term *haute couture* is protected by French law and by the *Chambre Syndicale de la Couture Parisienne*. For this reason, the term 'couture' is often used to identify collections that have emerged in a manner similar to that of the *haute couture* collections, but that have not been recognised by the *Chambre Syndicale*. The rules of the *Chambre Syndicale* concerning couture houses are as follows: the house must present a collection of at least 35 pieces, consisting of day and evening wear, twice each year, one for spring/summer (January) and one for autumn/winter (August). The collections must include designs tailored for private customers who receive one or more fittings, and the house must have a studio located in Paris with at least 15 full-time equivalent employees (Sterlacci & Arbuckle 2009).

[ii] In contrast to such customisation, the terms *ready-to-wear* and *prêt-à-porter* refer to garments that are designed for sale through *department stores,* online or through other retail channels. Other terms that are commonly used include 'off-the-rack' and 'off-the-peg' (Sterlacci & Arbuckle 2009). Over the years, there has been a significant narrowing of meaning, whereby the term 'ready-to-wear' is used primarily in the higher price segments.