

ATINER CONFERENCE PRESENTATION SERIES No: MKT2022-0264

ATINER's Conference Paper Proceedings Series

MKT2022-0264

Athens, 25 October 2022

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The Case of Fashion Industry**

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ATINER's Conference Paper Proceedings Series

MKT2022-0264

Athens, 25 October 2022

ISSN: 2529-167X

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ABSTRACT

The Fashion Industry operates in a highly competitive market dominated by global brands, nevertheless faces staggering social and ecological challenges due to its huge climate change footprint. To effectively address these challenges, fashion companies need to take collective action in their business activities from different stakeholders, including individuals (or consumers), businesses, suppliers and government actors. Ultimately, fashion companies need to manage an important trade-off. On the one hand, they must be profitable and offer economic value, on the other hand, they must be socially and environmentally oriented. Another topic addressed in this study concerns the new Generation Z, which is a group of consumers born after 1995 more tech-savvy and more green-oriented. This study argues that to effectively address these concerns, fashion companies need to design appropriate business models. The Business Model design is basically an abstract representation of the value flow, which comprises value creation, value capture and value delivery. Where the interconnection of the economic, social and environmental value are essential to the success of the company. In total, seventeen Portuguese firms and five foreign firms were analyzed to gain in depth understanding of the sustainable fashion firms that operate the sector. In light of the above considerations, this study contributes to the advancement of knowledge about a Sustainable Business Model in the fashion industry by addressing the following research questions: 1) How does a sustainable business model within the fashion sector contribute to the creation of value, value capture and value Delivery? 2) How do fashion companies approach generation Z?

Keywords: *sustainable business models, value creation, generation Z*

Introduction and Objectives

Sustainable fashion is currently at an important crossroads due to its huge impact on local communities and people's buying behaviors. Although the fashion industry operates in a highly competitive market dominated by global brands, it faces impressive social and ecological challenges because it has a huge climate change footprint, and if global consumers are demanding to tackle the existent threat of climate change, the fashion industry needs to urgently address its unsustainable practices, which is considered one of the largest polluting industries in the world. To address effectively these challenges, we need to undertake collective actions from different stakeholders, including individuals (or consumers), firms, suppliers, and governmental actors. According to Schneider and Claub (2019) we are increasingly experiencing emerging peer pressure, governmental initiatives, and consumer demands that are forcing firms to address ecological and social concerns in their business activities (Boons, Montalvo, Quist and Wagner, 2013). Ultimately, fashion firms have to manage an important trade-off. On one hand, they should be profitable and offer economic value, on the other hand, they should be social and environmental oriented. Another topic that is addressed in the present study relates to the new Generation Z, which is a group of consumers that were born in 1995, and that are more tech-savvy and more green-oriented. In designing their products and promoting their brands, fashion firms should be aware of these groups of consumer preferences and expectations.

This study holds that to address effectively these concerns, fashion firms need to design appropriate Business Models (BM) (Schneider and Claub, 2019). As Amit and Zott (2001, p.511) observed, a BM portrays the content, structure, and governance of transactions designed to create value through the exploitation and exploration of business opportunities. This business model design is basically an abstract representation of the value flow, that comprises value creation, value capture, and value delivery. As Chesbrough (2010) notes the link and functioning of these types of value are essential to the success of the firm.

In light of the above considerations, this study contributes to advance knowledge on a sustainable BM in the fashion industry by addressing the following research questions: 1) How different types of value creation, value capture, and value delivery should be articulated to design a sustainable business model within the fashion sector? 2) How do fashion firms address generation Z?

Conceptual Framework

Business Models and Sustainability: A Brief Discussion

Business models are an increasingly relevant tool for management since the emergence of the Internet and related e-business activities (Richter, 2013; Schaltegger, Lüdeke-Freund, & Hansen, 2012; Zott & Amit, 2008). BMs does are a way through which a business is defined and how the organization should anticipate unpredictable changes obtaining in this way sustainable competitive

advantages (DaSilva & Trkman, 2014). In addition, they also represent the functions and activities of a business, including relationships between different stakeholders (e.g., clients, suppliers, institutions, etc.) within a network of dependencies and inter-dependencies.

Amit and Zott's (2001) describe a BM as the content, structure, and transactions that are expected to create value by exploring new opportunities. It specifies the activities that are linked with each other that determines how the firm makes business. In turn, Schneider and Claub (2019) stated that after an exhaustive discussion about what a BM is, academics agree that a BM is a structural template that can provide a holistic and systemic view on how firms run and develop their businesses.

The mechanisms and tools associated with the logic of value include the value proposition, value creation and delivery, and value capture. Thus, value plays a central role in a business model, these are the "blueprint" of a Business Model (Foss & Saebi, 2018).

It is relevant to notice that a growing number of studies also underline the need to explore other forms of value, namely social and environmental. A sustainable BM (SBM) aligns the interest of all stakeholders, including the environment and society to create the aforementioned types of value (Bocken et al., 2014; Geissdoerfer et al. 2016). It extends the notion of value and the managerial mindset by valuing sustainability-oriented norms and values (Schneider and Claub, 2019). As Bocken et al. (2014) acknowledged SBMs may provide access to under-utilized assets or deliver functions rather than ownership. This is particularly important in the fashion industry in which pollution (or waste) waste is one of the most pressing problems (e.g. water waste is a good example). Therefore, the SBM describes the logic in which the organization creates, delivers, and captures value in different economic, social, and cultural contexts in a sustainable way (Nosratabadi et al., 2019), and more specifically reducing the negative impacts on the environment (Marques et al., 2020). SBM incorporates sustainability as an integral element of a firm's value creation. As Preghenella and Battistella (2021) noted a complete definition of SBM should also consider the concept of both social and environmental value as well as profit generation.

Generation Z, its Role and Impact

The concept of generation becomes relevant in the sense that "born" in a specific period and living in a specific humankind era determines that these people are exposed to the specific culture of this period. This exercises a strong influence on people's minds and the way they view and see reality (Gazzola et al., 2020). Generation Z born after 1995 lives in an era of economic crisis and technological evolution. This young generation is currently entering the labor market, and is usually associated with the following profile: accessibility perceived easy use of technologies, cooperation, and strong social media use (Fister Gale, 2015; McCrindle, 2014). Several studies on sustainable fashion pointed to the fact that GenZ is one of the most loyal customer groups (Grazzini, Acuti, and Aiello, 2021). The GenZ reveals strong social and environmental concerns (Balchandani

et al., 2020; Gazzola et al., 2020) and often develops an active attitude towards public entities to develop socially responsible behavior. From a fashion user's perspective, they are commonly receptive to buy secondhand clothing due to environmental concerns and cost savings.

Method

The research method used in the present study can be termed a multiple-case study. This approach is especially recommended in business innovation research that aims to identify new phenomena, observe the variance in these phenomena, and gaining an in-depth understanding and insights from this phenomenon (Yin, 2017). Specifically, this paper presents some guidelines that enable identification, development, and classify BMs that consider the structural social changes (Nosratabadi et al., 2019). As previously referred, this study aims to understand how sustainable fashion firms have adapted their BMs to the environmental changes and to the new consumers belonging to GenZ. The sampling process relies mainly on convenience sampling and the data collection method is based on semi-structured interviews. In total, seventeen Portuguese firms and five foreign firms operating in the fashion industry were analyzed. The researchers used video conferencing to conduct semi-structured interviews. The responses were recorded in audio and other electronic devices to allow further follow-up of the study. The purpose of the study was to interview experts from different firms that have used digital platforms to boost their business. This also enables us to understand the specificity of this sector. To complement primary data, we have also applied to secondary sources of data by analyzing internal documents like annual reports and external sources including online articles and interviews.

Results and Discussion

In terms of major results, this study shows that value creation, value delivery, and value capture in the fashion industry should be approached from the combination of the two following complementary views:

Sustainable View that Integrates Social and Environmental Value Concerns

The first view is based on a sustainable view that integrates social and environmental value concerns. Although zero-waste, total recycling, total reuse, etc., are not a panacea for all of the problems, the industry needs to make a huge effort to change its culture in terms of reducing waste, apply to circular models of production, replace synthetic materials with biomaterials; increasing recycling and design products for potential reuse. Within fashion, industry reuse is more difficult than recycling due to the current mindset.

“Currently we are still a bit «hostages of the Industry (...) (...) our mission is to make sustainable fashion more accessible to more people, this is still a barrier.” ENT [7]

“difficulty at the production level... difficulty in having access to more sustainable materials (...) we do not have the investment capacity to work with the sustainable materials that we would like to.” ENT [5]

Three Types of Value are Strongly Interconnected

As observed by Almeida, Bollick, and Bragagnolo (2019) and reinforced by several interviewees reused fashion items lacks consumer appeal as well as concern with hygiene and worn-out appearance. This may require collecting, wash, sterilize, and repackaging, which increases costs. With regard to the second view, this relies on a profit-oriented view in order to keep competitive advantages.

“I think that the economic issue is also a factor to consider, that is, the fact that we are also (investing on quality... on sustainability (...) the raw material is essential, it will make the cost, the base cost of the product much higher (...)” ENT [3]

Thus, value creation, delivery, and capture should accommodate these two views (Evans et al., 2017; Joyce & Paquin, 2016; Kozlowski et al., 2018). In the present study, these three types of value are strongly interconnected.

“(...) effectively, I think it is all three that do... that dictate the success of a brand that you want to implement in the market.” ENT [3]

“I think it's a balance (...) let's make every effort to maintain this... this concept (...) The economic balance is very important, the balance of the choice of location is also important...” ENT [7]

Sustainability, Local Communities and the Consumer

Based on interviews we also found the important role of mobilizing local communities, particularly engaging local communities in sustainable projects that can contribute to forming a positive awareness and posture towards the environmental protection of certain areas and towards the image of certain firms (or brands) operating in the sector.

“I think we are much more likely to be successful if we don't just think about the “me” but the “me” within the “us.” ENT [3]

“working closely with responsible suppliers and eco-friendly manufacturers, and certifying our clothing from start to finish (...) we aim for long-term, strategic alliances (...)” ENT [10]

According to several interviewees developing a collaborative consumption, enlarge the product life cycle, having a socially responsive role, reflected on payment of fair salaries and normal working conditions, as well as safety precautions and accomplishment of labor rights are elements that contribute to creating, delivering and capture value.

“our partners who produce the hides (...) they have changed, all the... in the tanning of the skins (...) they manage to... recover all the water used in the

process, for example (...) the product from the tanning of the skins is used as fertilizer (...)” ENT [4]

“(...) we care about the people who make the products for us, who work with the products (...) who are equally remunerated, paid and have good working conditions (...)” ENT [3]

Conclusions

From a conservative perspective, it is generally accepted that traditional BMs employed by fashion firm’s caused serious damages to the environment (Lee, 2012; Nosratabadi et al., 2019). In order to reach an easy profit, billion of products are being pumped out of factories every year to land, lakes, and seas, and many of these products are made from synthetic materials that take hundreds of years to biodegrade, thereby, this reality makes the fashion industry unsustainable in the short term. Although the fashion industry is one of the largest polluting in the world, some brands have recently announced that they are going to adopt a “zero-waste” goal.

“(...) our clothing is made in a Zero waste (..) we only work with like minded factories (...)” ENT [10]

Furthermore, the capability to identify and respond to new market challenges is crucial to the success of any firm (Pedersen et al., 2018) so that entrepreneurs need to be aware of the increasing importance of developing an SBM (Amed et al., 2019). A major conclusion that we may be drawn from this study relates to the fact that the consumer is always key. Since the consumer is part of the change process in many of the above-described initiatives, like reuse, recycling, collaborative consumption, and mainly exercising pressure (e.g., advocacy) over global corporations and global brands. In such a context, digitization through social media may have a relevant role in communicating to a large community the way large corporations behave among their consumers. These are becoming more aware of the clothes manufacturing industry’s environmental impact and consumers have been pressuring the industry to improve their operations and being more environmentally responsible. For example, if the raw materials they use in the manufacturing process are renewable or environmentally friendly, or if they have concerns about which transports to use due to carbon emissions. As a response, the industry is making changes in their processes and the way they do business, finding new ways to create and deliver value, by exploring innovative technologies to be applied throughout the product's life cycle.

Limitations and Further Research

This study is subject to limitations, particularly due to its methodology and the COVID19 pandemic. The purposive sample of firms that were studied is a general limitation of the method used. As the findings are mostly grounded on fashion firms, future studies should extend both the scope and other areas of

businesses as well as other cultural contexts in order to add some validity to the findings.

Managerial Implications

Managerially, this study offers managers a holistic understanding of the potentialities of different social media platforms in engaging Generation Z and how they can be helpful to reinforce loyalty mechanisms with the digital consumer.

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