The Fast Fashion Business Model

Gianni Lorenzoni(✉)

Department of Management, University of Bologna, Bologna, Italy
gianni.lorenzoni@unibo.it

Abstract. Fashion has a deep impact on the apparel industry and is used as a lever to gain a competitive advance position. The original idea of the fast fashion firm consists in offering fashionable products at cheap or very cheap prices. The fast fashion players try to capture the trends as opposed to imposing the trends, and simultaneously to reduce the risks of betting the future staying close to the "proof of the market" and be flexible to jump in as soon as signals become stronger and more reliable, therefore they are not incurring in the market risk of unmatched demand or, at least, strongly erase them.

Keywords: Fashion · Market risk · Business model · Cluster effect

1 The Apparel Industry

Fashion has a deep impact on the apparel industry and is used as a lever to gain a competitive advance position, for both larger and smaller companies. Some multi-national (MN) players emerged following an industry concentration process, grouping brands and scaling up revenues.

Fashion designers are acknowledged actors: they give a distinctive configuration to the industry by building new seasonal collections and creating new companies with their own brands. In the last few years an impressive amount of money was devoted to acquire the designers' firms and create MN holding companies spanning the global market.

An additional stone in the industry configuration is the systematic entry of new companies into the market through spin-off moves [1]. The incumbent firms influence the market demand in the higher layers and contribute to the creation of restyled or new performing products in order to attract a new flow of consumers pulled by creativity and innovation. In any case, the underlying magnitude of the innovation span is quite often classified as "architectural innovation" following the definition of Henderson and Clark [2] claiming that architectural innovation consists of resisting, reusing, recombining old and new components.

They systematically introduce new seasonal products in advance, to be bought in the following season. In this activity they disclose trends and collections several months before the sell out of the product to the final consumer. The practice represents, among others, a generic opportunity recognition for the fast fashion industry that conveys to the trends suggested by the big players but reverses the activity based system of the former through a new business model (BM) design and practices.

J. Krogstie et al. (Eds.): CAiSE 2016, LNBIP 249, pp. 65–71, 2016.
DOI: 10.1007/978-3-319-39564-7_6

The original idea of the fast fashion firm consists in offering fashionable products at cheap or very cheap prices. At first glance, this looks counterintuitive since fashion players try to charge premium prices. The basic idea of the fast fashion players is to capture the trends as opposed to imposing the trends, and simultaneously to reduce the risks of betting the future staying close to the "proof of the market" and be flexible to jump in as soon as signals become stronger and more reliable thus, not incurring on the market risk of unmatched demand or, at least, strongly erase them. Moreover, starting later inventory investments can drop substantially.

The clusters creation in fashion industry and the role of ties across individual firms has attracted the attention of various scholars [3]. The interplay of different actors contribute to sustain and give feasibility to a "creative field" [4] where Marshallian externalities and 3T factors [5] serve as a glue, with both weak and strong ties working out [6].

In the creation of a cluster an anchor firm plays a distinctive role in the genealogy of an emergent field [7], where mimicking and externalities offered by specialized actors act as generative rules over the years [8].

2 Research Design and Setting

We focused on the cluster of firms collocated in the CenterGross (CG) – a concentration of some 100 firms – in order to explore and try to get a better understanding of the fast fashion phenomenon. The cluster is significant for a collective movement of small and medium sized firms born in the last 30 years and scaling up in the fast fashion industry domain. At the same time, the CG cluster is at odds compared to the fast fashion big players such as Zara and H&M, working in the same segment of cheap prices, but faraway in terms of size and considering the number of shopping retail facilities owned or managed under their brand weapons.

The CG cluster firms had some previous experiences in the garment trade and transactions and recognized an opportunity within the industry where the fashion trends generated a fast rotation of add and drop products.

The study has been structured using an inductive multiple case research [9], with a recurrent liaison between literature suggestions, data collection and emerging field evidences. Cases are used as experiment, to confirm, reject or enrich inferences from other cases [10]. First, we focused on a single in depth historical case study following the perspective used by Burgelman [11] and Tripsas and Gavetti [12], centered on the recognized "anchor" (20 interviews) player that pioneered the cluster formation experimenting a new fast fashion business model.

The genealogy of the cluster formation suggested to start analyzing the first mover in 1985, that is the actor transforming an idea into a growing business model. The anchor played a role model for followers and laggards, influencing the spin off dynamic of the cluster emergence and amplification. Afterwards, we interviewed 12 additional firms in the same cluster and 6 complementary subcontractors, playing a crucial role in the fast garment manufacturing. The addition of competing firms in the same cluster overcome the limits of the single case study and offer more general evidences to the innovative shape of the fast fashion emerging process.

3 The Creative Machine

The value activity of the fashion players starts with a collection made mainly by external designers and generating a "first collection" that is evaluated and receives a "green light" by an internal jury. The jury is made by the owner, the front office connected with clients, and the sales employee, in different combination and articulation following the organization design. The outcome is a set of samples that are progressively transformed into products subcontracted in small batches in order to have a selection to show to the trader and test the market, thus gaining the reaction of the outlets' owners. Some outlets represent a sort of "second level jury", as they are closer to the consumers and able to quickly sense tendencies, putting the products on display, placing reorders, and therefore signaling a market tendency.

The fast fashion firm tries to grasp information and quickly respond involving the subcontractors and following their orders as quickly as possible. In the cluster jargon, fast fashion firms are supposed to fill "the holes" created by the demand selection and only partially to anticipate the demand that has some bizarre and unexpected feedbacks.

The third-party manufacturers receive orders and reorders when a central intelligence machine captures the trends responding to strong reordering information but often going beyond and using other weak signals to gain and exploit different sources of intelligence. Following this mechanism it is supposed that a signed order can be developed and delivered to the shop within a short span of time, sometime one week.

The key capability is the processing of the amount of information and the quick transformation of the intelligence into product, generating an innovative routine that needs to be replicated hundreds of times [13].

Therefore, the set of sample collection and the manufacturing plan are only partially pre-determined and are influenced by a discovery-driven process [14] that influences the operations through a rolling mechanism. The underlying business model [15, 16] can be classified as a light business model considering the limited investment in tangible assets, and the role played by external agents deliverable in both tangible and intangible assets.

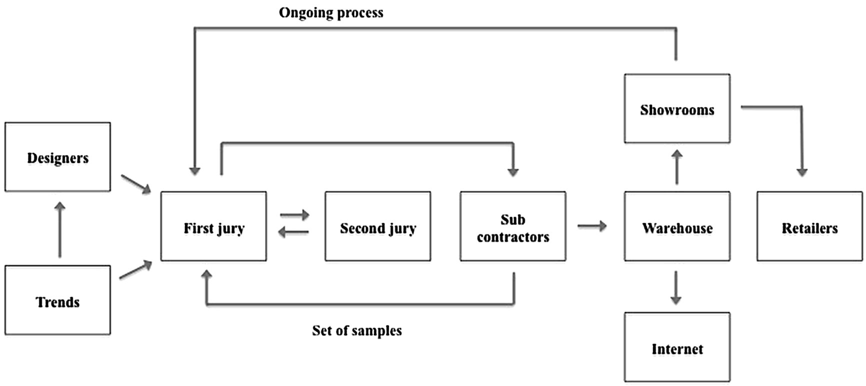

Fig. 1. The creative machine

Information generated in due time reduces the risk of demand, and the division of labor in operation schedules reduces the inventory and increases the flexibility and the product rotation at the focal firm's level. These conditions are rents generative (Fig. 1).

4 The Shop Connection

The companies operating in the wide fashion domain are often MN players, with strong brands and a huge number of labeled shop, and/or large selling space worldwide. This structural condition can afforded to pursue pushing demand initiatives through appropriate marketing clouts.

The companies in our setting can not afford the investments in shop openings at large scale, but try to supplement the lack of the underlying ties in several ways. First, some of them have "negozi civetta" in strategic locations and are able not only to sell, but also sniff or taste the market. Second, the smart guys of the creative machine progressively build a system of preferred clients that is not only a brand supporter, but contributes to sensing the market, send suggestion, are is ready to capture the holes in the collections and appropriate lateral tendencies.

The "product guys" are not only requested to push sales but to maintain the connection with clients' antennae, teaching and learning at the same time through a routinized track system. They are following simple rules in default of a specific shop chain but try to reach the same outcomes. At the micro-organizational level, due attention is given to the enrollment of these profiles, conducive to the creation of a positive atmosphere in the sale processes.

The fashion world has communities of "fans" eager to work in the sector and showing a special attitude to be involved in the fashion commons. One of our interviewee claims it clearly: "We are selecting fans, they can interpret the fashion world and be more easily connected with the various players involved, they speak the same jargon".

5 The Relay

The attention to fashion impacts on the product creation, however, fast fashion requires a matching between the design, the product selection, and the delivery in a short span of time.

The overwhelming majority of the firms in our sample have a tight, systematic connection with a cluster of subcontractors and, moreover, a consolidated routine energizing and committing to a quick response to impossible time reaction.

Several "laboratories" pre-existed the birth of new fast fashion firms, working for conventional garment companies but had to adapt to the new schedules of the fast program. Subcontractors are all located in the surrounding region and overtime learned the reciprocal jargon of velocity, that has a crucial cultural and linguistic backstage. Quick reactions need actors that squeeze the timing of transactions and use practices and routines accordingly.

It is an arm's length negotiation tempered by the main contractor's agenda of timing and deliverables' quality, complemented by the request of significant scale growth. Such an agenda implies investments and scalability and, also, the adaptability to tackle with some deviation from the product design following specific requests overtime. From the field analysis emerges a specific identity of the new subcontractors working in the fast fashion design.

The "creative machine" has a parallel problem with the fabrics' supply, that can not be fully ordered and stocked in advance, anticipating the demand incurring in risks of forecast and in inventory costs. How to solve the dilemma?

6 The Fast Fashion Business Model

The fast fashion business model relies on the exploitation of some central core capabilities and the leverage of a substantial amount of external contributions, yielding to a light business model format.

This generic configuration puts in due evidence the restriction of the activity boundaries to some central components, defining its own domain of action and the relationships within the economic environment [17]. Zott and Amit [16], in particular, define the BM as the relationship of an individual firm versus its external agents and their mutual relationships. For a research domain of new established firms entering in a new field, claiming a sharp business model is important for their identity, but organizational evolution matters as well. In fact, new innovative routines take place and they are supposed to evolve following daily practices' improvements, single routines and practices linked together over time [13] and, as we perceived, with significant experiments at the micro-organizational level [18].

Fast fashion needs to catch weak signals in the market tendencies at different stages of the process of the collection creation and transform information into products in order to quickly respond to market demands. The time brackets of the response in normally very tight and requires consistent organizational mechanisms.

The strategic side of the business model is focused on sucking and collecting information and feed-backs on fashion tendencies, arising from different sources, translating the funnel into a collection of products to be offered and sold. This activity is developed trying to involve limited resources to incur in variable costs as much as they can, using external capabilities to be orchestrated and limiting the fixed costs, with their impact on flexibility.

The same orientation is followed setting up a cluster of subcontracting firms charged of the total manufacturing activity, consistent with the search of an high flexibility of the product flow and aligned with demand waves requests. The same effect on the variability of the cost structure is achieved. The manufacturing is on demand, reducing the inventory and increasing the goods' rotation. The warehouse exists but serves as a showroom not as a deposit to buffer ongoing demand. The focal firms activities are concentrated on the sense making and enactment of external trends and the consequential organizational efficient delivery of the products to the final users. Therefore, the organizational side of the business model requires the orchestration of third parties outside the boundaries of the focal firms. The peculiarity of the BM is to serve the client with products made to order, as much as it can, manufacturing what is already sold in contrast to a more conventional practice to use the warehouse as a buffer.

Ultimately, the fast fashion business model is lean, discovery-driven, achieved with limited resources and focused capabilities centered on the creative machine and the simultaneous orchestration of third parties to finalize the operations. A business conceived, by necessity, to "do more with less".

In this routinized innovation, strategizing and organizing must move forward simultaneously considering the labor division of disintegrated activities that must be recombined.

7 Conclusion

The fast fashion firms investigated are operating in a setting of distributed knowledge resources and the first strategic decision influencing the business model configuration is the choice of a central position in a network value system [19].

The creative machine is a system of filtering various information sources enacted in a wide environment. The task requires a distinctive capability to deal with designers and trend-setters, and to be able to develop an absorptive capacity spread across the firms and impacting on the activity-based system [20].

At a different level in the value system, an important position is occupied by the capability to select the fabrics and create tight relationships with the fabric manufacturers considering that a consistent impact on innovation is reached through new fabric design, new materials, or both. An additional relational capability stands in the actions orchestrating the network of subcontracting firms, going beyond a conventional arm's length contract.

Why stress in the conclusion the relational architecture after mentioning the key resources and activities? The reason is to emphasize, contrary to most of the literature on the business model, that a lean business model strongly relying on the wide use of several partners is key since the outset of the model's journey. There is no value proposition or product offering without a robust interconnected system of partners at different stages of the decision process. Relational capabilities are a key competence in the fast fashion business model [21].

The creative machine metaphor used to stylize a creative collective weapon in action, is a central activity in the BM deployment that is strongly intertwined with an outside world to be enacted. Therefore, the partners' architectural organization in our setting has an important impact on the quality of the collection. At the same time, these partners' investments and discipline deeply impact the cost structure of the business model. To what extent can this model of routinized innovation and fast product made to order can work as much as the firms grow up and expand globally is a question left to future researches.

The feasibility and the effectiveness of the model are tested for smaller and medium sized organizations. However, we must remind that, especially in this sector, "dwarf starts small" [22] and the new entrants fashion design firms are the variance that keep the sector alive, breeding innovation and eventually being absorbed by incumbent firms.

References

1. Klepper, S.: Employee startups in high-tech industries. Ind. Corp. Change **10**(3), 639–674 (2001)
2. Henderson, R.M., Clark, K.B.: Architectural innovation: the reconfiguration of existing product technologies and the failure of established firms. Adm. Sci. Q. **35**, 9–30 (1990)
3. Uzzi, B.: The sources and consequences of embeddedness for the economic performance of organizations: the network effect. Am. Sociol. Rev. **61**, 674–698 (1996)
4. Scott, A.J.: Entrepreneurship, innovation and industrial development: geography and the creative field revisited. Small Bus. Econ. **26**(1), 1–24 (2006)
5. Florida, R.: The Rise of the Creative Class. Basic books, New York (2004)
6. Granovetter, M.S.: The strength of weak ties. Am. J. Sociol. **78**, 1360–1380 (1973)
7. Lazerson, M., Lorenzoni, G.: Anchoring new clusters: fleshing out the entrepreneurial role. In: Boari, C., Elfring, T., Molina-Morales, X.F. (eds.) Entrepreneurship and Cluster Dynamics. Routledge, London (2016)
8. Kogut, B.: The network as knowledge: generative rules and the emergence of structure. Strateg. Manag. J. **21**(3), 405–425 (2000)
9. Eisenhardt, K.M.: Building theories from case study research. Acad. Manag. Rev. **14**(4), 532–550 (1989)
10. Yin, R.K.: Case Study Research. Design and Methods. Sage, Thousand Oaks (1994)
11. Burgelman, R.A.: A process model of internal corporate venturing in the diversified major firm. Adm. Sci. Q. **28**, 223–244 (1983)
12. Tripsas, M., Gavetti, G.: Capabilities, cognition, and inertia: evidence from digital imaging. Strateg. Manag. J. **21**(10–11), 1147–1161 (2000)
13. Feldman, M.S.: Organizational routines as a source of continuous change. Organ. Sci. **11**(6), 611–629 (2000)
14. McGrath, R.G., MacMillan, I.C.: Discovery Driven Planning. Wharton School, Snider Entrepreneurial Center, Philadelphia (1995)
15. Baden-Fuller, C., Mangematin, V.: Business models: a challenging agenda. Strateg. Organ. **11**(4), 418–427 (2013)
16. Zott, C., Amit, R.: Business model design and the performance of entrepreneurial firms. Organ. Sci. **18**(2), 181–199 (2007)
17. Aldrich, H.E., Ruef, M.: Organizations Evolving. Sage, London (2006)
18. Pentland, B.T., Feldman, M.S., Becker, M.C., Liu, P.: Dynamics of organizational routines: a generative model. J. Manage. Stud. **49**(8), 1484–1508 (2012)
19. Lorenzoni, G., Baden-Fuller, C.: Creating a strategic center to manage a web of partners. Calif. Manag. Rev. **37**(3), 146–163 (1995)
20. Cohen, W.M., Levinthal, D.A.: Absorptive capacity: a new perspective on learning and innovation. Adm. Sci. Q. **35**, 128–152 (1990)
21. Lorenzoni, G., Lipparini, A.: The leveraging of interfirm relationships as a distinctive organizational capability: a longitudinal study. Strateg. Manag. J. **20**(4), 317–338 (1999)
22. Aldrich, H., Auster, E.R.: Even dwarfs started small: liabilities of age and size and their strategic implications. Res. Organ. Behav. **8**(1986), 165–186 (1986)