What Makes Fashion Specific as an Original Economic Model?

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The average young French woman aged between 15 and 24 buys four bras and nine pairs of pants during the year[1]. An average American woman has eight pairs of jeans in her wardrobe and wears six of them on a regular basis[2]. However, it is really not necessary to own quite so many bras or jeans to ensure one's physiological needs such as protection against the cold (the first level of satisfying needs[3]), or even to fulfil a need for social belonging (level three of Maslow's pyramid).

By creating a product that exists in a context of time (an era) and culture (shared values), fashion adjusts to fit the consumer's expectations and in doing so, pushes the consumer to buy beyond their needs, in terms of volume and value.

This superb sales performance depends essentially on two elements. The first is the immaterial value attached to the product, all the imagined content of modernity, elegance, relaxation, social codes that play with self-esteem, even with self-actualisation. French consumers evoke fashion as a means to distinguish themselves, to express their originality, personality, as potential for playing/acting, getting away, compensating[4]. Brands rely on this feeling of self-actualisation and maintain it cleverly. So it is not just a question of wearing a nice garment with pride, but more a feeling generated by the product, that the boost comes from novelty, the object one doesn't yet own and that one dreams of.

The second component is the short cycles that exist in fashion. The frenetic rhythm of renewal enables on the one hand – thanks to short design/manufacturing periods – to stick to consumer's aspirations, and on the other hand, – through the regular introduction of new products in the shops – to incite the curiosity of the passers-by and push them to impulse buy.

These two elements, an immaterial added value and rapid renewal cycles have, over the past twenty years, created an original and effective system. But can we really speak of fashion "economic model"? If there is an economic model, then to what extent does it constitute a marketing, logistical and commercial example for other sectors?

The dematerialisation of the fashion economy

The textile-garment sector is emblematic of globalisation. First of all, because it was at the heart of the industrial revolution due to the innovation that occurred in weaving and spinning at the end of the 18th century in England, but also because it is the only sector that is present in almost every country in the world, regardless of their level of development. Actual manufacturing has never become truly automated and, as such, remains a labour-intensive industry requiring a low level of initial investment. This specific trait has resulted in its development in lesser developed countries (clothing makes up 70% of exports from Bangladesh or Cambodia for example[5]). The fact that the textile sector is present on every continent has exacerbated international competition. Manufacturers in the industrialised countries have come under pressure due to the low costs of countries with low salaries. As a result, a movement towards the relocation of the manufacturing industry began in the seventies in Germany and the eighties in France. Germany was one of the first European countries to relocate to Eastern Europe where the skills and know-how came from manufacturing outer garments for the Soviet army. The relocation movement in German industry happened first of all in response to a relative lack of labour. German workers, in general more highly skilled than their French counterparts, tended to go into the automobile industry. Relocation appeared thus as the only means for developing the clothing sector in Germany[6].

Relocations in France developed later on in the eighties toward North African countries and corresponded to a wish among the bigger manufacturing companies in France (Devanlay, Bidermann, Playtex, etc.), to be more competitive due to much lower labour costs. While these relocations did lead to a certain de-industrialisation at home, the organisation of the branch continued to be based for the most part on an industrial logic, in as much as the consumer markets were still being supplied by products manufactured in France or North Africa and distributed by department stores and multi-brand independents. In 1985, independent multi-brand stores made up the main distribution circuit in France with 38% of the textile-garment market.

The concentration of distribution due to the growth in specialised chain stores from the end of the eighties onwards led to a steep decline in business for multi-brand independents. As a result, the garment industry manufacturers were faced with a serious downturn in their outlets. So we went from one paradigm to another in twenty years: after being run by industrial activity, the branch is now run by distributors. In France, the level of concentration of distribution is over 70% today (the sum of market share of all distribution circuits, not counting multi-brand independents and markets and fairs).

Concentrated distribution took over the markets without necessarily having any means of production. So, the fashion sector has tended towards a certain dematerialisation with the externalisation of its manufacturing. The link with consumption has become strategic: consumption information is held further down the line and serves to create new products. Distribution, due to the sheer volume of product it buys, represents the most powerful principal: it concentrates higher profit margins than upstream in the circuit and has the power to negotiate. The fashion sector is thus characterised by the domination of distribution concentrated on the market and the end of the line: it designs its offer in terms of consumer demand and manages manufacturing with sufficient knowledge of the early stages of the process. Brands have progressively come round to this dematerialised model, repositioning their added value on design and for a large number, getting rid of their manufacturing interests. The entire fashion market (clothes and accessories) is thus today characterised by the importance given to product design, style, codes, in short the aesthetic content that projects the dream. From an economic point of view, this immaterial added value relies on a cleverly orchestrated balance between design and management within fashion companies. Whether it is a designer that gives a collection his or her style, or an armada of stylists on the lookout for the latest trends as is the case in the better known chains such as H&M or Zara, their role is essential.

The economy of the limited edition

The orchestration of this new addition through marketing, logistics and management transforms these creative exercises into commercial steamrollers. Of course other sectors do use design in their offer, but fashion has the double characteristic of the radical renewal of product ranges and the absolute necessity to seize the moment.

Each season means a blank page... almost. The big clearout. Sales get rid of the old stock enabling a twice-yearly supply of "all new, all beautiful". When other sectors carefully add one or two new references to a range that is already is use, and has been for a few years, the clothing industry proposes an entirely new collection that makes the news. While the split with the past is clear – a new page is written every semester – the new product is more the result of evolution than revolution. The writing remains the same, the text evolves from one chapter to the next. This type of writing leads to certain particularities. The product is sacrificed prematurely, well before the end of its natural life-cycle, to leave space for one that promises better rotation. Of course, certain "basic" or "timeless" pieces whose colours, details, or nothing at all are varied are "cash-cow" products[7]. This could be straight leg black pants, a T-shirt or a modern, understated sweater. But the more fancy garment, with different cuts and ornaments will not get a second chance. Taking a product off the market before its commercial potential has been fully exploited calls for an over-investment in design and the development of new products.

Having said that, the new is unknown and therefore commercially risky. To ensure the turnover for the coming season involves a subtle balance between the new, that attracts (and without which there is no "over buying", thus explaining its high profile in the collections), and the known that must "guarantee" a minimum sales level… the risk factor lies in the fact that the known product is already part of the past, as are its performances. The balance between design (the new) and management (the quantifiable) is thus very fragile: fashion thus leads to unstable business models. Fashion houses rely in general on a form of "renewal experiment", by meting out the new in an empirical fashion. Constantly calling the offer into question and the never-ending arbitrage between renewal imperatives and safety imperatives in terms of turnover as the collection is being built, are another trait of the fashion sector. The decision-making process in the new model is often collegial and the result of much procrastination. The deadline gong usually puts an end to the debates, generating intense last-minute activity, the night before the shows for example.

Another particularity of the fashion sector is its precarious economic balance. Success comes quickly as does failure. The right product, in line with the aspirations of the moment and the positioning of the brand or store, can experience instant success and immediate financial results. Consumers are constantly on the lookout. But the new season brings a new fashion context so success or failure have a six-month life-span. Management and logistical tools have not managed to invert this unstable balance into a stable balance. They can't prolong commercial success. They enable a precise reading of the past (thanks to sales figures), but provide no reading for the future or of fashion itself. The pre-eminence of these tools has even caused certain distributors to focus on an apparently safe vision of the past, causing the erosion of their sales in a few seasons in a fashion market that is absolutely focussed on the present.

The cycle, a fashion specific

The double necessity for creating immaterial added value and sell product has led to balances – precarious, but effective ones – between design and management, even between designers and managers. The product that comes from this duo is, in itself, ephemeral as it is part of a short cycle, the season. The management of this instability and these rapid cycles, is at the heart of the fashion system.

These short cycles confer certain commercial advantages and place the fashion product at centre of the stage in terms of marketing. This has two advantages: the first is sticking to the consumer's aspirations (pull), the second, provoking new needs (push). Indeed, the fact of artificially replacing a product before the end of its life cycle by another product, supposedly better adapted to the fashion context for the new season, pushes the offer to respond to the demands of a market segment as carefully as possible. The marketing demand here takes precedence over the financial constraints that would lead to covering design and product testing costs as far as is possible. The permanent improvements in the product can be seen as real-life experiments. In addition, these constantly adapting answers themselves modify the market and thus contribute to the changes in consumer's aspirations. Children's pushchairs have worked perfectly with four wheels for generations. The introduction of the three-wheeler created a demand for a product with a modern, valorising design conferring the status of modern parent on the owner. Joggers are far from being the only users of these pushchairs. The new model also pushed certain parents to replace their traditional pushchair. The main advantage of fashion through product renewal is thus to incite people to purchase when the basic need has already been fulfilled. Novelty creates rarity in a market that is saturated.

This notion of cycle, essential to fashion's economic model covers a range of systems and timeframes. We can point out cycles that are imposed, those linked to industrial processes and manufacturing constraints, cycles that are followed linked to fashion and seasons and cycles that are created on purpose such as updating a range mid-season. This enables us to highlight the marketing and economic levers that have developed in the fashion sector. The imposed cycles first of all, rely on the time it takes to create the product. While it is true that the dyeing or manufacturing periods are difficult to compress to a certain degree of productivity, it remains that fashion garment manufacturing has managed to develop value chains that enable it to exploit these deadlines to the utmost. The "industrial" optimisation of deadlines relies on a capacity to anticipate, commit to long deadlines (fabric manufacturing) and to shorten the short deadlines as much as possible (manufacturing). The distributor or brand anticipates their needs according to sales forecasts and books fabric that they will send for manufacturing according to sales. Certain distributors even advance book ecrus so that they can designate a colour or print later on. If the product is not successful, the fabric can then be used for another model, or sold off.

Beyond this deadline optimisation, the system enables the reduction of risks linked to the anticipated characterisation of the model. Colour, for example is an essential element when choosing a product as a consumer. For the range designer it is often a factor for error[8], more so than the style or the size. Choosing the colour further down the line enables the manufacturer to match the demand of the moment and, as such, increase sales. This mastering of industrial cycles leads to a kind of paradox. Distributors and brands that concentrate their added value on product creation and have a hands-off approach to production, are obliged to commit early on in the manufacturing process in terms of knowledge and managing the industrial process in order to better handle short deadlines. The dematerialisation of the fashion economy must thus be conjugated with a form of expertise in production. The Zara chain is a good example of how this paradox can be controlled effectively.

While controlling time in industrial terms is useful, this is not what underlies the system for the most part. To a much greater extent than the manufacturing process, fashion is characterised by the seasonal cycles. Fashion's biannual rituals are unique. They set the rhythm for all fashion houses from design to commercialisation. First of all, the fabric trade fairs and the shows are points of reference for the profession in calendar terms: they launch the season. Then, the new collections arrive in the shops and mark the rendezvous for customers keen for new things. 85% of Italian[9] women declare that they always do their clothes shopping at the start of the seasons.

These cycles that are followed by the entire sector show the conjugation of the evolution of fashion trends and the passage to the summer or winter season (even if the criteria of the physiological adaptation to exterior temperatures tends to disappear a little). These rhythms cause an irregularity of activity for a number of specialised manufacturers (woollen goods, swimwear) that sell a year's worth of product in the space of a few months, and see their activity fluctuate in the extreme according to trends (print fashion, lace, linen).

The trends in question are characterised by cycles of varying amplitude, that can cover a few years or a few weeks. So, the issue is to build a delicate balance between a solid offer that depends on long trends (the return of the skirt) to medium-term trends (the unstructured skirt survived over a number of seasons) to the very short-term (a motif, a specific spirit, that will have a lifespan of only six to eight weeks). The same product can include both short-term and long-term trends: the skirt can be brought up to date with different cuts and fabrics.

Following fashion cycles is different for each brand or store. There must be a measure of arbitrage between the expression of the brand's identity and the trends announced or predicted. It is also a question of the internal capacity of a brand to react to changing trends. A top of the range brand requires longer in terms of product creation and development than a range from a distributor that takes inspiration from existing designs and other brands, and for whom the speed at which the range hits the stores is more important than quality or precision. To a certain extent, these "followed" cycles depict the "life" of the fashion sector with its complete renewal of ranges (its "Spring"), its rites of passage (shows, the sacrifice of the sales), its temples (the stores), and the almost sacred universe of haute couture with its luxury craftsmen and artists. So when consumers talk about fashion they say « *c'est la vie* », "it makes us feel alive"[10].

The third type of cycle, the intentional cycle goes much further. It involves a high level of control of the imposed and followed cycles that enable them to push this notion of rhythm to the utmost and to use this as a lever to encourage even more sales. This ultimate use of fashion as a commercial and marketing lever is unique to the clothing and accessories industry, for women most of all. The rhythm is just getting faster.

In 2006[11], the offer was built around two collections per season, or four collections per year. In 2010, the biggest European brands and distributors intend to move up to an average of three collections per season, or 6.8 collections per year. In addition, 86% of them add new items between the collections. The accelerated renewal of collections in stores constitutes an amazing sales lever and has been adopted by most brands and distributors, of course in the lower and mid-ranges, but is slowly being adopted at the top of the range also.

While the objective is the same, the methods diverge. We can thus distinguish anticipatory updates from reactive updates. The first are planned in advance. The preparation time involved is relatively long. They are, on the one hand, collections that are designed at the traditional rhythm (on average eleven months in advance) like the "collections croisières" at the top end of the market. They can also be "mini-collections" designed, on average five months before the season starts. Deliveries to stores are staggered, on a monthly basis down to a weekly one in the lower end of the market. The client's appetite is whetted; the product is semi-fresh.

This type of anticipated updating enables an acceptable compromise between the commercial risks linked to too much trend anticipation on the one hand, and the inherent difficulties for last minute production on the other. This influx of newness will reach a crescendo: in 2004 it represented approximately 13% of supplies of European brands and distributors; today it represents 25% of their buying.

Reactive updating relies on organisational prowess: the product is designed and delivered during the season with a three to eight week deadline. The distribution circuit is integrated which enables quick decision-making and store allocation. With short deadlines, buying involves relying on fabric or ecru stock that is already available, and more often than not in nearby production facilities (almost 60% of production during the season relies on fabrics bought in Europe and the garments made in Europe or the Mediterranean basin).

These launches rely on trends that become clearer as the season goes on or on new proposals from designers. The client's appetite is satisfied; the product is ultra-fresh. The supply process is risky: there is no room for catching up if there is a production problem as the demand for the product and the season are ephemeral. So the share of this ultra-short-term, in terms of buying and logistics has only gone from 12% to 15% of supplies over the past three years.

In other words, if the machine takes off and the rhythms speed up, the process needs to be well-oiled. These processes are completely consumer-based as the consumer must perceive a new interest, and then wish to buy, every time they visit the store.

The original geography of the fashion economy

The specific nature of the fashion sector is due, for the most part, to the increasing rate of renewal of collections during the year and its corollary: the pre-eminence of the last collection, having clear-out sales for end of line products before the end of their natural life-cycles. The geography of the textile sector is built entirely around this specific element. Where other sectors concentrate their supply base in Asia for economic reasons (for example, China produces 70% of the world's toys), the fashion sector has a much more measured approach to buying (small series, production close by).

As we have already mentioned, the veritable engine behind consumption especially when dealing with women's clothing (consumption of women's clothing represents half of the consumption in France as opposed to 30% for men's clothing and 20% for children's clothing), lies in the rapid renewal of products, which stimulates the consumer's appetite. The specialised chains built their success in part on this strategy by upsetting the ritual of two collections per year in favour of mini-collections.

The specific nature of the *sistema moda*, as the Italians put it, has led European buyers to adopt a strategy that combines supplies from Asia with nearby sourcing. In addition to the safer spread of monetary risk over the dollar and euro zones, this strategy is essential in order to increase the number of collections each year. In addition, sourcing enables the know-how in different areas of the world to be recognised and valorised (North Africa for jeans, India for embroidered garments and Romania for outer garments).

Among all of the clothes bought in Europe, over half are produced in the Euro med zone (EU and Mediterranean basin). The countries of the Mediterranean basin, while they have seen their competitive edge blunted somewhat in recent times remain the main suppliers of the European market. All of the countries in the Med Basin today represent over 20% of European supplies (not counting inter-European imports). Fashion cycles thus contribute to the preservation of the activities of Med countries and enable the principals to diversify their supply bases in order to balance out the risks of too much dependence on one supplier.

The number of items ordered in Morocco and Tunisia are often in small series, but there can also be much bigger orders when they come from the specialised chains with a lot of retail outlets. Manufacturers in the Mediterranean regions are now specialised in what the Italians refer to as *pronto moda* or *fast fashion* as they have chosen reactivity and short manufacturing deadlines.

The dynamism of Moroccan exports in 2006 due to orders from Spain shows how certain specialised chains practice diversified sourcing and complete their panel of domestic suppliers with suppliers from the Med regions. The Inditex group (Zara, Massimo Dutti, Bershka, etc.) is in the process of becoming one of Morocco's biggest clients.

So, while the supplies from the Med basin propose an alternative for European principals that is more expensive (due to wage costs that are three times the Chinese rate), the upside is that they deliver quickly without needing huge orders (unlike Asian producers). The speed and flexibility (in small series production) thus constitutes a real value in the fashion sector.

Fashion: an original and specific economic model

All of the consumer goods sectors are in the process of developing offers with updated design and conception that encourage the consumer to buy again. They all have the potential to do so in any case. Fashion is everywhere. The reasons it can be proposed as a marketing and commercial model are first of all, as it complies closely with consumer's aspirations and not just their functional demands but to their need for valorisation through the service or object chosen and secondly as it incites premature renewal and, as such, over-consumption of a product. However, no sector outside clothes, shoes and a few accessories has managed to set up a system that can incite a level of consumerism that goes beyond a person's basic needs. Where the fashion business builds original unstable models, other sectors look for long-term stability in their business models. Where fashion plays with cycles and sacrifices fresh product to biannual sales, other sectors concentrate on return on industrial investment and progressive transition between old and new ranges. In as much as no one can really risk taking on the fashion model, can it then be considered to be a model? Can it be a reference?

The economic model can be divided into three categories: companies' economic models or business models, the economic organisation of companies and mathematical economic models. Whatever the case, the economic model relies on logical arguments that are generally quantifiable and verified to schematise a system. Quantifying creativity, outlining specifics and verifying unstable, varied and ephemeral balances, calibrating the degree of newness in an offer seems at odds with what underlies the entire fashion system: intuition. So, fashion can not

be a model. It is even an anti-model as its out of kilter, unproven balance is constantly being recomposed.
Given this fashion system, we could even question if the very notion of a model damages economic performance… let's push the reasoning a little further. The stable model is tested, and as such, duplicable and duplicated. When competing companies are fighting on the same markets with the same arms, at a certain point the products and services are comparable in the eyes of the consumers. Competition happens in terms of cost. The big issue for companies means taking market share from the competition, in a market that is already supplied so renewal is needed, instead of centring on the consumer's new needs. A stable, and as such, inert offer also leads to consumer inertia. So, the model becomes poorer, unless one of the structures ventures outside of the model looking for a new lease of life. So, the model, as a strictly followed model leads to its own end.

Fashion, on the contrary needs a constant new lease of life. On the one hand, the offer is always being renewed. On the other, the sector is made up of a multitude of companies of different sizes whose permanent objective is dual: to fulfil the target's aspirations and develop original offers to stand out from the closest competition. The models of the companies the most examined today (H&M, Zara, Mango to mention but a few), reveal themselves to be fundamentally different from one another. Nevertheless these original and unstable balances (risky as they rely for the most part on products with unpredictable commercial performances) have managed to become world wide successes. The specific nature of fashion as an original economic model depends thus on its precarious, multiple and human characteristics. It is human as it depends on the intuitive projection of a positioning on a product vision. Human also as it relies on the internal balance within companies (in the fashion "houses") between the creative and managerial staff.

While it is true that "creative madness" constantly refuels the machine, while managerial rigour paired with intuition filters and selects; and it is true that the calendars and the level of reactivity of certain distributors push the machine to advance at a faster and faster rate, it remains that the system has some quite serious limits. Over-consumption, waste, the need to recycle, pollution (cotton fields soaking up water and pesticides, dyes, the energy needed to transport goods internationally), underpaid workers in foreign countries, are all reasons to question the system… but here again, fashion has the potential to be a pioneer in terms of solutions, in as much as its propositions are in tandem with consumer's sensibilities.

Fashion as an aesthetic touchstone touches our environment (products and services) and shapes our perception of how products and services are marketed. We are dealing with renewal through design, renewal that stimulates sales. But fashion as an economic system models only a part of our environment. Clothing, shoes, some accessories, are the only sectors to have developed this marketing prowess that pushes us to consume way beyond our needs. Only this system dares complete renewal of the offer every six months. It creates new standards that make the others obsolete and simultaneously proposes an offer that fulfils those new standards at an accelerated rhythm. These design-time performances dictate a world wide scattered geography in terms of manufacturing in cost-time-know-how zones. They also dictate varied and precarious business models (as they are constantly being recomposed with the difficult balance between design and creativity and management) but that are strong in terms of added value and commercially effective. Fashion might end up remaining a unique economic model. A one-off, pioneering, different model.

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