UNIVERSITÀ DEGLI STUDI DI PADOVA

DIPARTIMENTO DI SCIENZE ECONOMICHE ED AZIENDALI
“M.FANNO”

**CORSO DI LAUREA MAGISTRALE IN
BUSINESS ADMINISTRATION**

TESI DI LAUREA

“The Heterogeneity Of The Business Models In The Textile And Fashion Industry”

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ANNO ACCADEMICO 2016 – 2017

Index

Introduction

In the fashion and textile industry, and in particular the *fast* fashion industry, it is becoming always more difficult to get a competitive advantage. Today customers are *fashion savvy* and they are more interested in following the last trend of fashion. For this reason they want to change frequently the way of dressing and, then, they are always looking for new garments on the shelves of the stores.

In order to gain a competitive advantage, companies have to be able to quickly reply to what the market asks and it is becoming a time competition, other than a fashion one: this is why today we talk about *fast* fashion.

Companies such as Zara and Benetton aims at satisfying the "demanded" customers that are now driven the market. They have to always monitor the sales to understand, for example, what are the items that are most sold to replace them often with new products, even every week. The supply chain must be as lean as possible to minimize delivering times.

The comparison between the two brand will try to analyse which are the differences and similarities of two companies operating in the same industry, to finally understand who has a higher competitive advantage, what are the limits of their business models and which characteristics they have to pursue in order to be as much competitive as possible.

The first chapter explains the concept of business model, from the origins (supply chain studies) until the most recent studies (Business Model Canvas).

The business model topic has only been studied in the recent past so many theories have been conducted. The objective of chapter 1 is to select and put together these opinions in order to get a possible definition of what the business model is. At the end of the chapter, is also described the Business Model Canvas, the most recent, innovative and dynamic framework about the topic.

In the second chapter, after a short excursus on the history of the apparel industry, from the origins until now, there is a focus on the development and the changing dynamics of the same industry and how the fast fashion took place.

It is then analysed by the supplier and the customer perspective, highlighting what are the dynamics that involve the two parts and summing up, in the end, the general key elements.

In the third chapter the Zara business model is taken into consideration. There are first analysed the design, production and distribution activities that make the company one of the most successful in the fashion market.

After this general analysis, it is reported the interview that it has been run inside a Zara store. The aim was to get a confirmation for some aspects of the Zara business model and in general to closer observe how the organisation works from a store perspective. This allowed to understand why Zara in the last years has obtained a high recognition from consumers.

The fourth chapter makes a focus on the Benetton business model. As in the Zara case, the design, production and distribution activities are analysed. Furthermore it is taken into particular attention even other topics of the company. It has been described the dual supply chain, the Marketing and in general the market strategies that characterizes it. With the description of this paragraphs it is possible to grab some information that could have been got through the interview in the store, which has not been allowed to get yet.

Finally the last chapter (the fifth) makes a comparison between the two companies, making a parallelism between the more centralised structure of Zara and the dislocated one of Benetton.

Some considerations are taken analysing the differences of the two in order to understand, in the end, what business model has more success and how both of them should change in the future to still pursue or maintain the competitive advantage on the market.

Chapter 1

Business Model and Business Strategy

The Business Model is an “abstract” concept that has been recently studied but without reaching a unique and objective definition. The Business Model emerged around the 1990s, when the Internet (and the ICTs in general) took place and started influencing the economy.

Since then, a lot of articles, publications, books and books' chapters have been written with the aim of increasingly better explain the concept. On the other hand, a lot of studies and papers do not give any definition: many times the concept is taken for granted or it is just explain what the Business Model is not, increasing then the confusion around it.

In order to give an identity we should look at where the Business Model comes from, what are the dynamics and the conditions that raise the need to develop this still “equivocal” concept.

1.1 Strategy framework studies

The Business Model concept is strictly linked to the strategy one. Several studies have been conducted around the strategy framework to understand how firms compete effectively.

In the 1980 Porter run the first significant studies about the organization and meaningful of the characteristics of industries (*Porter's 5 Forces*) and the approaches for competitive advantage (*Generic strategy framework*).

More specifically, in the 5 Forces model he identified five competitive forces that help understanding an industry's weaknesses and strengths (Figure 1.1). The ultimate goal of this analysis is to help managers set their profitability expectations, because profitability decreases as competition increases. The first force, *Potential of new entrants into the industry*, analyses the ease of entry of new participant in the marketplace; the *Competition in the industry* evaluates the number and activity of a company's rivals; the third factor, *Threat of substitute products*, refers to the possibility of a new good or service coming onto the market and influence the sales of established products; the *Power of suppliers* is about the bargaining power of the industry's suppliers and the *Power of customers* is the consumer bargaining power.

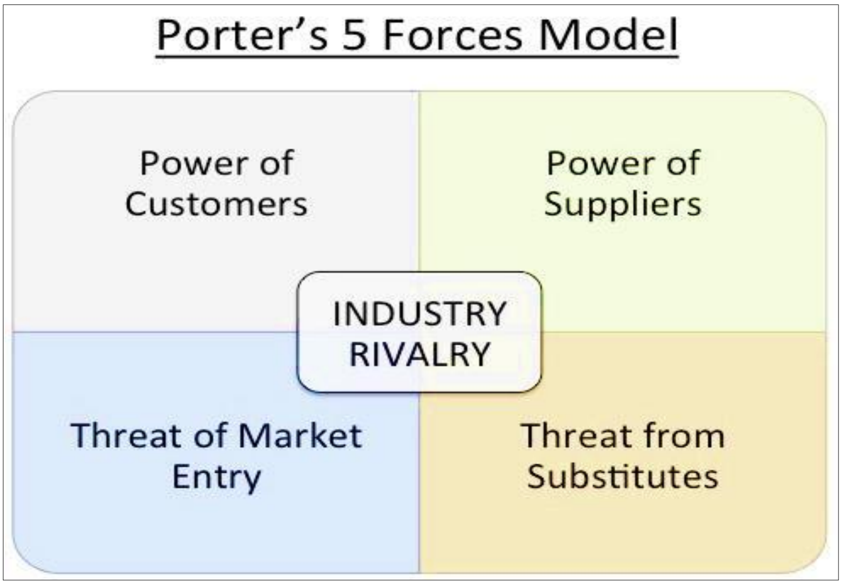

Figure 1.1: The Porter's 5 Forces modEL

In the *generic strategy framework*, instead, Porter describes how a company gets competitive advantage through three main strategies: *low cost*, *differentiation* or *focus* (Figure 1.2).

With the first strategy a firm aims at becoming a low cost producer in its industry. It will, then, pursuit economies of scale, proprietary technology and preferential access to raw material and others factors. With the differentiation strategy, instead, a firm wants to be unique in its industry: it will place itself in a position where it can set a premium price since it is the only one able to satisfy specific needs for customers.

The focus strategy is, finally, the result of the combination of the two just described. In particular the focus strategy has two variants: *cost focus* and *differentiation focus*. Both of them rest on the choice of a narrow competitive scope in the industry. The cost focus allows a firm to gain a cost advantage in its target segment; with the differentiation focus a firm seeks differentiation in its target segment.

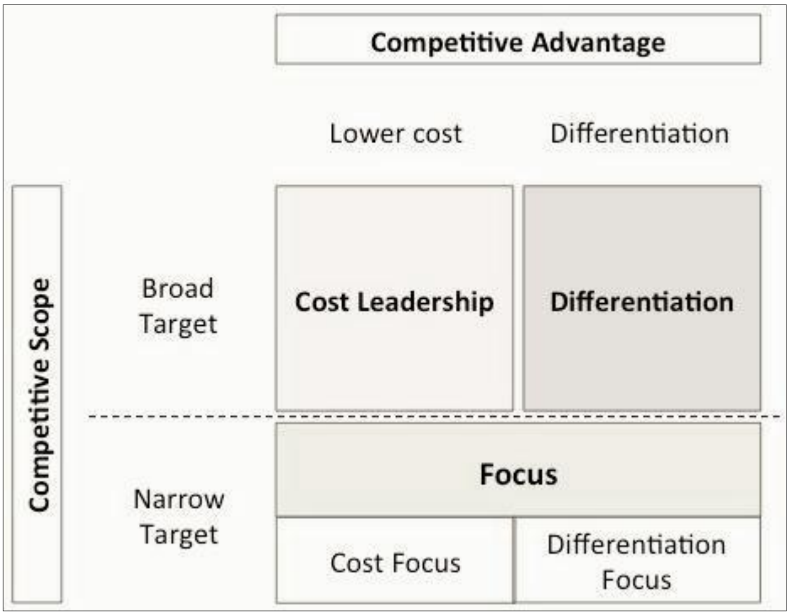

Figure 1.2: Porter's generic strategy framework

Another Porter's contribution was given by his studies and definitions about the *value-chain framework* (1985). It allows to analyse the firm's activities and sources to create value and competitive advantage. In his value-chain theory he highlighted again that basically a firm can reach a cost or differentiation advantage: it depends on the ability to deliver the same benefits at a lower cost (cost advantage) or to deliver benefits that exceed those of competing products (differentiation advantage). Figure 1.3gives a representation of how the Porter's value chain is organised.

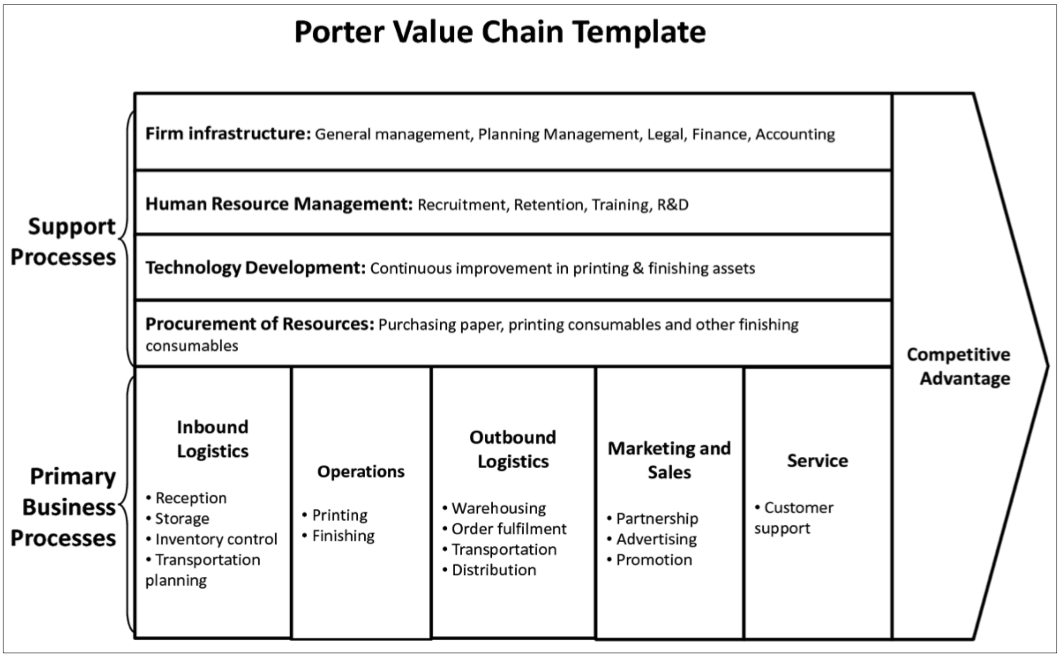

Figure 1.3: Porter's Value-chain model

First of all, in order to reach the final competitive advantage, the structure of a firm has to be supported by *primary* business processes and *support* processes.

For what concerns the primary activities they are about receiving, storing and distributing inputs (*inbound logistic*); transforming the inputs into the final products (*operations*); storing and distributing the products to the final buyer (*outbound logistic*); identifying what are the customer needs and what increases the sales (*marketing and sales*); and maintaining the value of the products after they are purchased through reparation, installation, ..etc (*service*).

The support activities refer to that processes that sustain and help the primary one to reach a competitive advantage. However, they can also play a central role in the organisation and become part of the main activities.

In particular, they involve financial, legal and quality management activities (*firm infrastructure*); recruiting, hiring, training, development and conversation (*human resources management*); activities aiming at improving products and processes (*technology development*) and activities with the function of raw materials, equipment and labour procurement (*procurement*).

Other models for evaluating strategic situation of a firm are the SWOT analysis (attributed to Albert Humphrey's studies of the 1960s and 1970s at the University of Stanford) and the VRIO framework (Jay Barney, 1991).

The SWOT analysis (Figure 1.4) is a management tool used to identify strategies for success and it focuses on what are the Strengths, Weaknesses, Opportunities and Threats of an organization. In general it determines what is assisting and sustaining the company in reaching its objectives and what are obstacles it can face. The SWOT analysis studies where the organization is today and where it may position itself in the future.

Figure 1.4: SWOT analysis

VRIO framework is, instead, the tool used to analyse firm's internal resources and capabilities to find out if they can be a source of sustained competitive advantage. Barney individualized four attributes the firm's resources should have order to sustain a competitive advantage. They have to be Valuable, Rare, costly to Imitate and Organised to Capture Value: capabilities that meet all these four requirements can bring a sustainable competitive advantage for the company (Figure 1.5).

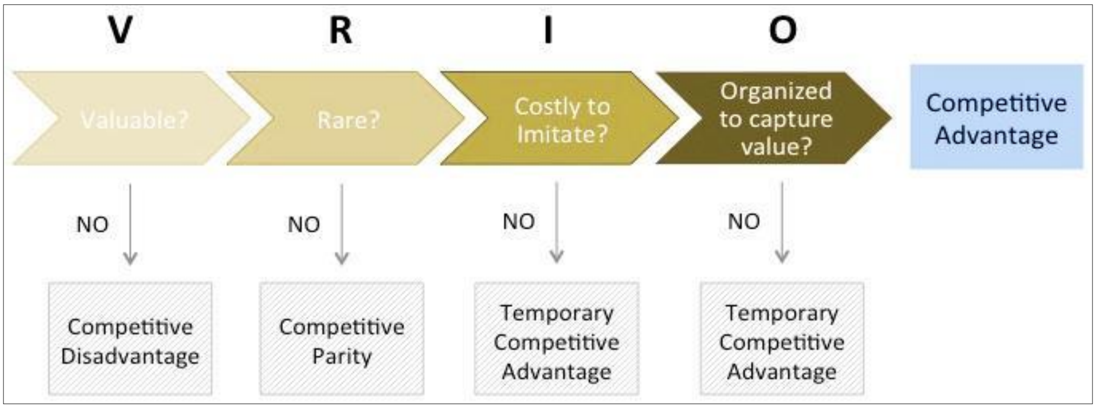

Figure 1.5: The VRIO framework

1.2 Business Model and Business Strategy

Even though there are many other models about strategy, in the previous paragraph we have mentioned the most important ones; the ones that most helped student of business in their studies.

From the listed strategic frameworks we can ascertain that strategy is something related to the achievement of the competitive advantage and to its sustainability in the long term.

The “fresh” theories about how to compete result from a very recent phenomena of rapid technological change and increasing foreign competition.

But, as it has been said, the explained strategic frameworks “enable the strategist to apply general principles to the firm's specific situation and come up with a good theory of how the firm should compete” (James Richardson, *The business model: an integrative framework for strategy execution*, 2008). What is necessary then, is to consider the specific industry and firm in terms of products, services, activities, resources, persons and competitors when applying the theory to the practice.

Richardson (2008) calls it the *logical structure* that not only helps to describe the activities of a particular case, but also it helps to complete the description of the strategy. It is useful to have a guide of how a strategy should be organised in general: that is the development of a business model for strategy formulation and execution.

So, if strategy is the theoretical frame of an organization, the business model can be considered as the *architectural implementation*[1] of the business strategy itself. There are many others definitions of business model that have been given and they are always linked to the business strategy, because the two concepts are simultaneous and co-dependents.

Porter, for example, explained the business model as something different from the strategy, but anyway a *conceptual framework* that helps to link the firm's strategy to its activities (Michael Porter, *Strategy and the Internet. Harvard Business review*, 2001).

The basic ideas of many scholars is that business model describes the way a firm makes money and in particular the way it delivers its products and services. Again, Yip (*Using strategy to change your business model*, 2004), Hedman and Kalling (*The business model concept: theoretical underpinnings and empirical illustrations*, 2003) and Amit and Zott (*Value creation in e*-business, 2001) considered the business model as an *integrative tool* of the strategy.

Even if the general agreement that a business model is the description of “how a firm does business”, there are different considerations on what are the main components a business model develop around.

We will consider the framework by Richardson (2008) who tried to capture the common themes listed by Morris *et al*. (2002)[2] in their work in order to provide a simplified logical structure characterized by a strategic background. Richardson, indeed, considers the logic as “the execution of strategy to gain competitive advantage”.

1.3 The Business Model framework

From his logic consideration, Richardson organized the business model framework around the concept of *value*, since the business model framework can be used to check how the firm is executing its strategy and “the essence of strategy is to create superior value for customers and capture a greater amount of that value than competitors”.

[1]Osterwalder A., Pigneur Y., *An e-business model ontology for modeling e*-business, 2002. Proceedings of the 15th Bled Electronic Commerce Conference, Bled, Slovenia, pp. 1-12.

[2]Morris M, Schindehutte M, Allen J, Richardson J, Brannon D, (*The entrepreneur's business model: theoretical, conceptual and empirical foundation*, 2002) presented a summary of different business models components by different authors. The research highlights 24 different items mentioned as components, with 15 of these receiving multiple mentioned.

Value proposition, *value creation and delivery system* and *value capture* are the three components that Richardson consider to reflect the logic of strategic thinking about value.

In addition to Richardson's framework we will evaluate another consideration about the main concepts the business model includes. From Zott C., Amith R. and Massa L. (*The business model: theoretical roots, recent developments, and future research*, 2010) we observe that the three phenomena the business model addresses are: the *e-business and the use of information technology*; *strategic issues*, such as value creation, competitive advantage, and firm performance; *innovation and technology management*.

If we combine the two logical frameworks, then, we can have a more complete idea of what a business model is. As already said, this huge concept assumes different shades depending on the industry in which it operates and we can only have a general framework, then.

In Figure 1.6 there is the representation of how the two mentioned theories we will refer to are combined, in order to get higher completeness.

As we can see, following Zott, Amith and Massa idea, the three main categories the business model have been employed are: the *E-business and ITC, Strategic issues and innovation* and *Technology management*.

E-business includes all the businesses conducted over the Internet such as *e-commerce* and *e-markets*. The quick development and adoption of new technologies has led to new ways of creating and delivering value: for this reason there have been run several studies of how firms should differently organize themselves exploiting the facilitations the Internet and the technology provide. Furthermore, different authors distinguished among different types business models, considering different *first and second-order components* of e-business models themselves. Others also tried to give a representation to the business model. In particular, Weill and Vitale (*Place to space: migrating to e-business model*, 2001) individualized the schematic tools in three classes of objects: participants, relationships and flows. Tapscott, Lowy and Ticoll (*Digital capital: Harnessing he power of business webs*, 2000) suggested a value map representing how a business model operates, with all the key classes of participants and the tangible and intangible benefits and knowledge exchange. Different scholars, instead, provided business model ontologies (BMO) to conceptualize the essential components of the business model into elements, relationships, vocabulary and semantics (Osterwalder A., *The business model ontology – A proposition in a design science approach*, 2004).

The second main concept to be explained through the business model is about the *Strategic issues*, interpreted as the value proposition, value creation and delivery system, and value capture. Since the aim of the business model is to apply the theoretical strategic idea to get a competitive advantage in the industry, the value proposition, creation and capture are fundamental items. More specifically, *value proposition* is what the firm delivers to its customers, so it represent the basic strategy to grab them and be a leader. It refers to the reason a customer will value a firm's offering.

Value creation and delivery system is how the firm will create and deliver the value to its customers. It can be considered such as how the value proposition is put into action. It includes, then, all the activities the firm undertakes; the resources and capabilities ; the value-chain organization; and the value network.

The *value capture*, in the end, is a matter of revenues and profits generation. It describes, in general, how the firm makes money in terms of source of revenue, margins and cash flow.

The third issues, *Innovation and technology management*, is another concept business model have been addressed to. Two are the main ideas about it: the first is that companies propose innovative ideas and technologies through their business models; the other is that business model is a new form of innovation itself, involving new ways of cooperation.

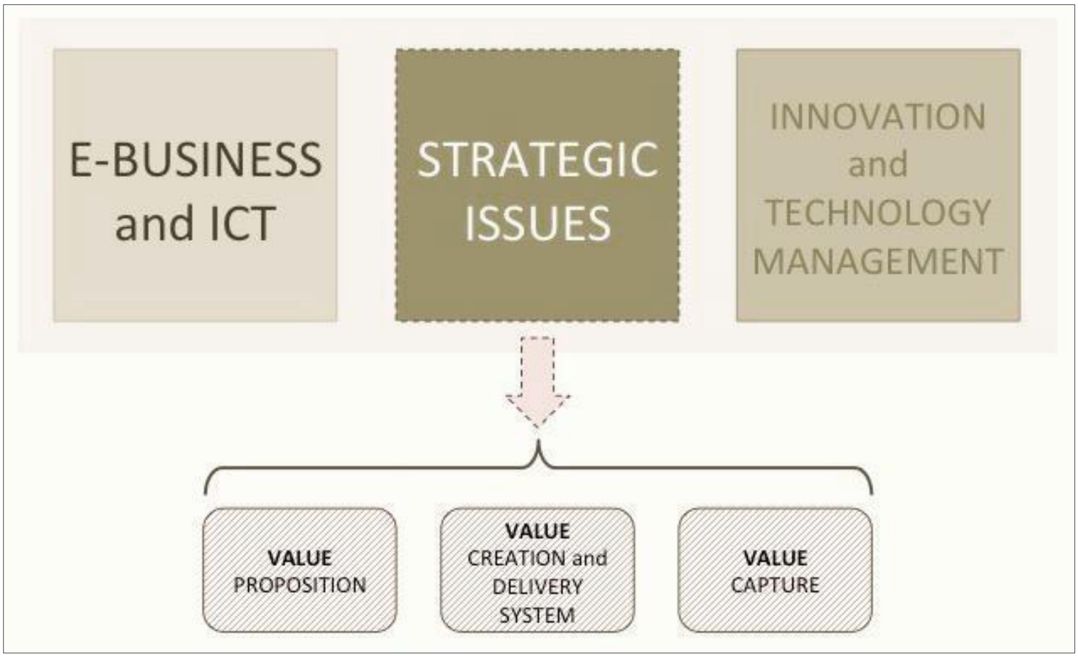

Figure 1.6: The Business Model conceptual framework

If, on the one side, the raise business model concept and adoption is a consequence for being in line with the technological innovations, on the other side it can be viewed as a source of innovation itself. Concepts such as the *open innovation*, *collaborative entrepreneurship* and *open business models*[3] are "modes of innovation" which allowed companies to find external sources of ideas rather than just internal.

The Business Model then, can be considered a "vehicle for innovation as well as a source of innovation" (Zott, Amith, Massa, 2010).

Since there have been run many studies and researches about this topic, with different theories, it is hard to universally define what a business model is. We can only consider what are the common considerations of scholars and authors in their work.

[3] The *open innovatio*n concept has been introduced by Chesbrough (*Open innovation. The new imperative for creating and profiting from technology*, 2003): it relies on outsiders as a source of ideas and as the means to commercialize them and t can lead to new business models.
Chesbrough (*Why companies should have open business models*, 2007b) introduced also the concept of *open business models*. It is strictly connected with the *open innovation* one. Business models exploit outside ideas and allow unused internal technologies to flowto the oustide, helping other firms in unlocking their economic potential.
The *collaborative entrepreneurship* is a similar concept to open innovation. It is defined as "the creation of something of economic value based on new jointly generated ideas that emerge from the sharing of information and knowledge" (Miles R., Miles G., Snow C., *Collaborative entrepreneurship: A business model for continuous innovation*, 2006).

The last conceptual framework helps to summarize and generally define what a Business Model is.

A Business Model is an innovative conceptual framework, addressed to sustain innovative realities, such as e-business and technology management, with the aim of profit generation (value capture) through a proper implementation (value creation and delivery system) of the value proposition.

1.4 The Business Model Canvas

Since until now we have talked about business model innovation, we have to take into consideration the *Business Model Canvas*, which concept is described by Alexander Osterwalder and Yves Pigneur (*The Business Model Generation,* 2010) in the very recent past.

The Canvas framework is an innovative concept of visualizing and evaluating the business model and the definition given by the authors underlines what we have discussed above: "*A business model describes the rationale of how an organization creates, delivers and captures value*". Basically it is nothing new from the less recent theories and definitions, as the value capture, creation and proposition are the three main strategic issues we have already seen. What is new in Osterwalder and Pigneur's work is the aim of offering a common language to think through your business model and any other enterprise. So, to better understand how the value is captured, created and proposed, they thought about nine building blocks (Figure 1.7), grouped into four main areas of a business: *customers, offer, infrastructure, financial viability*. In this efficient and simplified way you can both analyse the singular parts of your business and the interconnections among them.

The model has been already adopted by several organizations and we will soon describe it in order to have an overall idea of how it works.

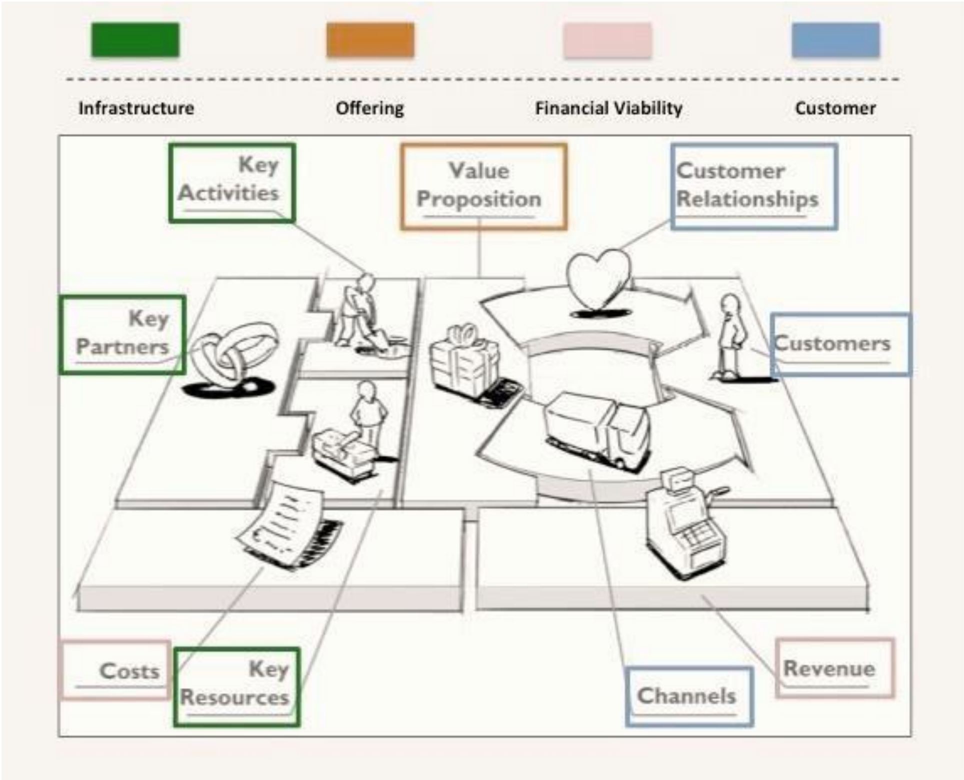

Figure 1.7: The Business Model Canvas structure and areas

1.4.1 Customer Segments

The Customer Segment building block refers to the different groups of people or organisations an enterprise aims to reach and serve.

There are different segments of customers, the main ones are: mass market, niche market, segmented, diversified and multi-sided platform. In general, when a company analyses this part of the business model, it has to asks itself *for whom are we creating value? Who are the most important customers?* in order to understand what the business model wants to propose.

1.4.2 Value Proposition

It describes the products and services that creates value for a specific customer segments. It is, then, the second block the organisation has to consider, after having defined which segment to focus on.

The first aim is to satisfy customers' needs and in this sense the value proposition is not just a “bundle of products and/or services”, but also of benefits.

What value do we deliver to customers? Which one of our customer's problems are we helping to solve? Which customer needs are we satisfying? What bundles of products and services are we offering to each customer segment?

These are the questions that help to build a proper value proposition. Generally speaking, it can focus on being qualitative or quantitative and more specifically, just to name a few, on newness, performance, customization, accessibility, design, price, brand/status, "getting the job done", risk reduction, cost reduction, convenience/usability.

1.4.3 Channels

After the definition of the customer segment and of the value to propose to them, it is fundamental to determine how to reach them, through which channels. The communication plays a key role in five phases: i.e. increasing the *awareness* of customers; helping them to *evaluate* a company's value proposition; allowing them to *purchase* what they need; delivering the *value proposition* itself and providing *post-purchase support*.

It is a matter of understanding *through which channels do the customer segments want to be reached*, *how an organisation is reaching them now*, *what is working better than the others* (in terms, for example, of cost efficiency), *and what should be changed, instead*.

However, an organisation can choose between using its own channels (direct or indirect) or using the partners' ones (indirect only). Partners' channels are less costly but they provide lower margins, instead the own channels can lead to a higher profitability but they can be much more expansive.

1.4.4 Customer Relationship

What type of relationship does each of our customer segments expect us to establish and maintain with them? Which one have we establish? How costly are they? Are they integrated with the rest of the business model?

The last section of the customer area in the BM Canvas is about what type of relationship to establish with your clients. The questions above are helpful to analyse if, for instance, a company wants to set up a personal assistance, rather than an automated service, or a co-creation relationship. Nowadays, with a highly saturated market, the customer relationship has acquired more relevance than in the past, as customers can consider it as an important issue of differentiation.

1.4.5 Revenue Streams

If the customer area has a central role in the business model of a company, the revenue streams represent the cash deriving from each customer segment. In Osterwalder and Pigneur's analysis, the revenue streams can basically derive from two main streams: transaction from one-time customer segment and revenues from an ongoing relation.

The analysis of the *value customers are really willing to pay, what they currently pay and how, and how much does each customer segments contribute to overall revenues* helps to increase revenues as much as possible. You can, for example, generates revenues from selling ownership rights (*asset sale*), by allowing customers to use a particular service (*usage fee*), by allowing customers using protected intellectual property (*licensing*), from the intermediation on the behalf of one or more parties (*brokerage fee*), and many others.

1.4.6 Key Resources

Another consequential and fundamental piece of the Canvas is represented by the resources needed to offer a value to customers and getting revenues, then. We do not refer just to material resources, but also to human and intellectual ones. In fact, the key resources can be grouped into four categories: *physical*, *intellectual*, *human* and *financial*.

Obviously, the key resources are different depending on the type of business but in general we can say that without them whatever entity cannot be able to think about starting an activity . They are the starting point of a business model.

1.4.7 Key Activities

They represent the most important things a company must do to make the business model work and have success. They are strictly linked to the *key resources* and to what the *value propositions*, *distribution channels*, *customer relationships*, and *revenue streams* require.

The key activities can be of three types: about production (designing, production and delivering of one or more products), problem solving (customer problem solving activity) and platform/network (business models properly designed as a platform).

1.4.8 Key Partnerships

To make their business model companies must also have the right partnerships. They can be alliances between non-competitors, alliances between competitors, joint ventures to develop new business and buyer-supplier relationships.

Key partnerships are synonymous of risk and uncertainty reduction, optimization and economy of scale, incoming resources and activities. Through strategic alliances, indeed, you can reduce costs by outsourcing some activities. Moreover, partnerships can help to reduce the uncertainty in competitive environments and to rely on other firms' resources and activities such as licenses, knowledge, access to customers, ...etc.

1.4.9 Cost Structure

The cost structure is part of the *financial viability* and describes all the costs a company has to sustain when it operates under a certain business model.

All the infrastructures and the customer attentions for providing the value proposition and generating revenues implies some costs. Some businesses are more disposed for cost minimization than others; some other businesses, instead, prefer to save less costs but to have, for example, a higher control of the business and a more centralized organization.

In general, then, we can distinguish between two classes of cost structures: value-*driven* and *cost-driven*. The former focuses on the value creation whereas the latter is more about costs minimization to have the leanest possible cost structure. The cost structure can have different characteristics such as *fixed costs* (costs that remain the same despite the volume), *variable costs* (costs that proportionally vary with the volume of goods or services provides), *economies of scale* (costs advantages when the output increases) and *economies of scope* (cost advantages due to larger scope of operations).

The Business Model Canvas, then, gives the idea of a networked collection of pieces of how to make a business work. Every single part is essential from a singular point of view, but it would not be anything without being related with the other "pieces" of the framework.

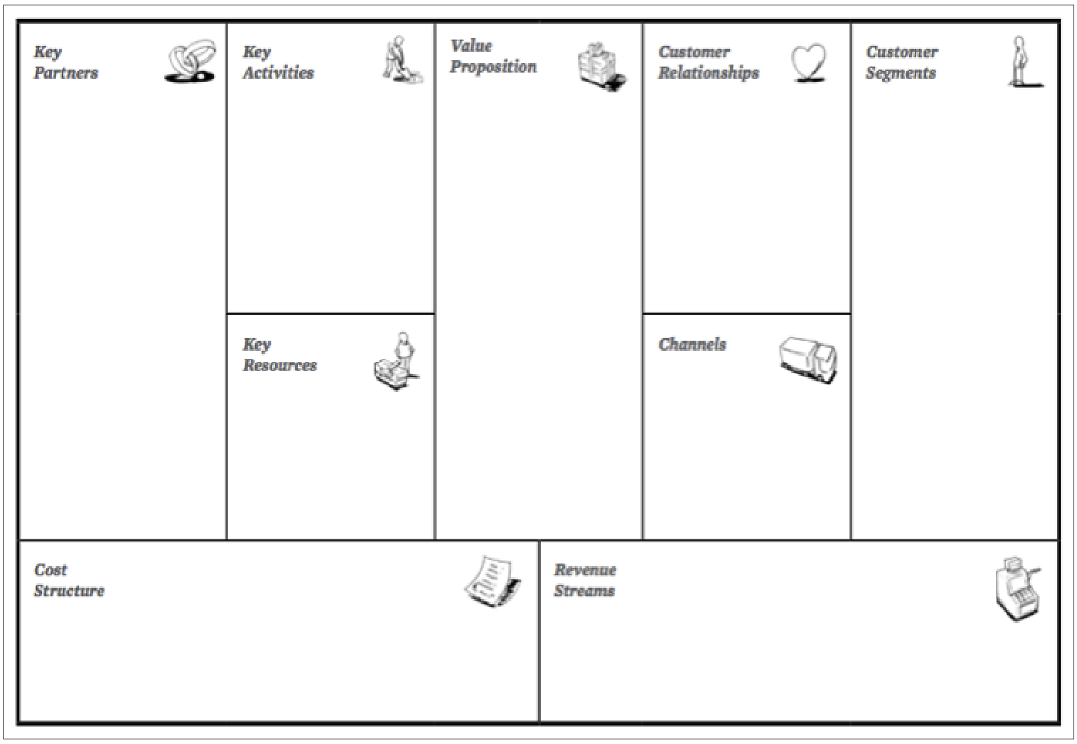

Figure 1.8: The Business Model Canvas

Chapter 2

Business Model and Fashion Industry

2.1 The apparel industry during the Industrial Revolution

Despite the common belief that the clothing industry comes from the innovative technological machineries of the industrial revolution, we should go backward to analyse where this kind of production comes from.

One of the first relevant inventions was the *flying shuttle* in 1734 by John Kay: it allowed a single weaver to wave much more fabrics increasing the speed of production. James Hargreaves, instead, the inventor of the *spinning jenny* in 1764, allowed a substantial reduction of the time needed to produce thread. With this machine, workers were able to manage eight or more spools at once. In the same year, Thorp Mill invented the water-powered *cotton mill* for the production of yarn from cotton.

The textile production of the 18th century, then, experienced a steady technological innovation for satisfying the increasing and more exigent needs of the consumers but the first relevant sewing machines for commercial basis appeared in the 1860s. As a matter of fact the standard sizing was the first real key innovation rather than technology.

The ready-made clothing demand developed first in the United Kingdom, during the seventeenth century, out of the military uniforms production. It grew in the eighteenth century but the request has been limited until the beginning of the 1840s because of the scarce demand for this type of garments.

Even before mechanisation, consumers started being more attracted by the ready-mades and that was proven by the increasing expenditure by everyday working population's families (around 10-20% of the income).

The always stronger fashion orientation in the Industrial Revolution established the idea that the clothing industry could have became one of the most important realities of that period.

Only after the 1840 some entrepreneurs recognised that the demand for cheap new garments would have been relevant. They began by selling second hand garments until 1840s, when they invested in larger retail outlets selling new ready-made and pre-assembled clothes. This determined the most important innovation, marking the evolution from a small to a medium-large demand.

At that time the first clothing emporiums took place, characterized by increasing employment and marketing campaign. *E. Moses & Son* for example, one of the most successful firms of that period, was used to invest £10,000 per year in advertising. The idea was being known as fast by the highest amount of people as possible. Only by the marketing system was possible to get a huge demand in order to create a huge business.

Furthermore, as already said, the increase of tailors and streamstresses was significant as well: *E. Moses*, *Hyams* and *Nicholl's*, for example, employed around 1200 workers in 1850 each.

It is clear how the clothing industry development originated from the standard sizing production and that the first useful machineries (around 1860s) for mass production were introduced rather later than the raising of the mass demand.

Even the 19th century, then, was a period full of developments: the transportation experienced an important transformation during the years, too. Steam-powered ships and the steam locomotive were introduced in the early 1800s in order to provide a regular and punctual carriage.

Generally speaking, the industrial revolution determined greater volume and variety of factory-produced goods and the aim was in general to make the production and distribution as fast as possible in order to satisfy what was becoming a mass demand.

In the 18th century clothes were produced in-house or on request for satisfying the basic needs of people. Later, around the 19th century, the production became a "mass" one in order to reply to the increasing demand due first to standard sizing and technological progress then.

Since that period, the apparel production introduced a new concept in the society. The structure of the industry has evolved: the dressmaking changed from being a small business to becoming one of the largest industries in the World. This precise step began when the "neighbourhood tailors" turned into a larger business and garments were not produced just for fitting. France, one of the richest countries of that time, recognized the economic relevance of the textile and clothing industry and became the fashion leader. In the meanwhile, other important "fashion centres" in Europe born in Milan and London but the most important garments fabrics were developing in New York.

This is the period in which can be traced the line between *apparel* and *fashion*.

The former refers to the idea of "functional clothing" satisfying the human basic needs. Fashion, instead, is what evolved from what people just need and it incorporates the tastes, cultures and personalities of whoever is looking for being accepted by the society but first of all by himself or herself. The fashion reflects the way of being of everyone and the message people want to transmit to the others.

2.2 The evolution of the apparel industry: the fast fashion

The fashion industry is a product of the modern age as it has significantly evolved over the last 20 years. Fashion's purpose can be seen as the satisfaction of desires. It is about the changing wants the consumers are influenced by, due to changing styles, changing concepts of what is now considered "trendy" and evolving values the clothes want to communicate.

The textile industry experienced the greater change during the 20th century. The continuous newness brought new machineries and new fibres like rayon and nylon, allowing the creation of synthetic fabrics and cost savings.

Throughout this century radical inventions have been done: in 1920 the computer, in 1940s and 1950s new fibres took place in the textile industry (the polyester became more used than cotton in 1970s) and consumers started being aware about the difference between the simple clothing production and the *fashion* concept that were raising.

For this reason the most demanding clients of the sector started developing the need of constant newness in stores. Apparel producers became aware of this and thanks to the innovative and efficient machineries were allowed to satisfy the request in order to get a competitive advantage over the competitors.

Obviously, the so called "fast fashion" concept is the result of a dynamic process that will be soon analysed more in details.

2.3 The changing dynamics

After the strong development during the Industrial Revolution the apparel industry was characterized by a mass standard production due to the huge demand. This type of productivity has been conducted until the late 1980s. In those years consumers were less “exigent” in terms of fashion: they had more basic needs and the styles did not change so often because of the design restrictions of the factories. The imposed “trend” then was a simple one, without rapid changes.

As soon as the fashion-oriented apparel import was suddenly established, especially for women, consumers became much more fashion-conscious. This determined the reorganisation of the garments production system. Since that specific moment until nowadays, it has not been a matter of forecasting production anymore but it has been about producing in smaller quantities observing the reactions, tastes and needs of customers.

Zara and H&M over all are perfect examples of fast fashion to get a competitive advantage. They propose the “Here Today, Gone Tomorrow” formula in order to encourage customers in “fast shopping”. Today, indeed, consumers are aware of how quickly the shelves change inside the stores and if they are interested in a specific garment they know they should buy it at that right moment.

But which is the fast fashion component that allowed a substantial change in the industry? The many theories that have taken place about this topic can be summarized in three main perspectives (Figure 2.1).

The first one holds the fast fashion in a supply chain process only. Christopher, Lowson and Peck (*Creating agile supply chains in the fashion industry*, 2004) explain how the forecast-driven approach of the supply chain was obsolete for meeting a fast changing fashion demand. They also describe how to generate the required agility and how it is a key element. Their theory was supported later by Doyle, Moore and Morgan (*Supplier management in supplier fashion retailing*, 2006) and Milner and Kouvelis (*Order quantity and timing flexibility in supply chains: The role of demand characteristics*, 2005). Both of the papers confirm that the meeting of customers' needs is just a matter of supply chain process only and in particular Milner and Kouvelis indicate the flexibility in quantity production, with short lead times, the most important innovative aspect to be developed. Broadway and Fairhust (*Fast fashion: response to changes in the fashion industry*, 2010), finally, considered the just-in-time and quick response as the key elements in the supply chain development and arranged them with the passage from 2 main forecasted seasons (Spring/Summer and Autumn/Winter) to even more than 5 per year.

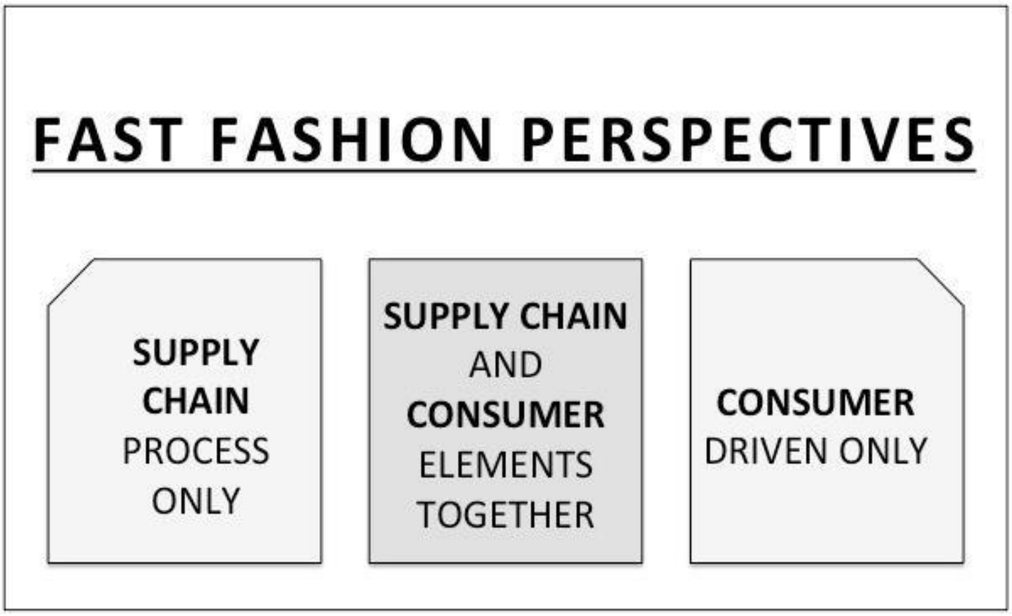

Figure 2.1: *The fast fashion perspectives*

The second theory asserts that fast fashion is a customer driven matter only. Customers are perceived as the unique "elements" the fashion industry should focus on. Differently from a supplier point of view, the customer-driven perspective aims at analysing the customers' demand (taking as the starting point) and consequently reply.

Barnes and Lea-Greenwood, in their composition of 2006 (*Fast fashioning the supply chain: Shaping the research agenda*, 2006), took this particular point of view. More in details, they conducted an exploratory research interviewing people in each stage of the supply chain: buyers, manufacturers, agents, logistic specialists, retailers, retail and fashion consultants, designers, merchandisers and quality controllers. What the respondents had in common was the belief the fast fashion is much more a consumer driven response.

From some quotes Barnes and Lea-Greenwood reported[4] it is clear how customers

[4] Barnes, Lea-Greenwood, (*Fast fashioning the supply chain: Shaping the research agenda*, 2006):

have became more demanding than in the past, how they are savvier and how their needs quickly change. The supply chain has to adapt in order to face the unpredictability consumers' demand generates.

Most recent theories combine the two previous described perspectives and balance the importance of the supplier role such as the customer one, then.

Chacon and Swinney (*The Value of Fast Fashion: Rapid Production, Enhanced Design, and Strategic Consumer Behaviour*, 2009) identified the *enhanced design* and the *rapid production* as the two fundamental characteristics that guide the modern fashion. They demonstrated through the development of a model applied to three different systems (rapid-production only, enhanced design only and traditional system) that both the elements combined together generate profit increase rather than taking them isolated.

Enhanced design is consumer driven and it is about tastes and preferences, while rapid production is supply chain driven and it is a matter of lead time reduction. On the one hand, the enhanced design factor attract a higher number of people inside the stores in order to find the garments they want and making them more willing to buy the product without waiting for markdowns. On the other hand the rapid (changing) production allow firms to better match the inventory with customer demand, consistently reducing clearance sales.

This "sense of scarcity" is discussed also by Byun and Sternquist (*The antecedent of in-store hoarding: measurement and application in the fast fashion retail environment,* 2008): reduced product life spans and lower produced quantities are the keys for "in-store hoarding". Even in this case, the constant delivering of new products (following the requests) and fast production are the ingredients for meeting the current dynamic and volatile fashion market.

From now on, we will consider the most recent theory that link the two typical sides of the fast fashion. We will analyse, then, the fast fashion from the supplier and the customer perspectives.

"*Nowadays individuality is the trend for consumers' fashion demand. Consumers want to be trend setting which has led to demand for fast fashion.*" (Manufacturer)

"*... with access to the media young consumers are so nto the latest look these days, much more than before*." (Designers)

"*Newness sells and the customer expects it*." (Buyer)

2.4 The supplier/retailer perspective of fast fashion

The development from a product-driven to a market-driven approach has already been underlined. The new and quick fashion imposed a flexibility and rapid responsiveness the companies have to pursue in order to compete in the market. In the apparel world we can't think about static collections anymore. Around the 1990s started a sort of mass production fading replaced by the expansion of the seasonal events through constant updating products. Within the same season, for example, have been added 3-4 mini collections. If during the 1980s the life cycles for fashion apparel had four stages – introduction and adoption by fashion leaders; growth and increase in public acceptance; mass conformity; decline and obsolescence (Tartaglione, Antonucci, *Value creation process in the fast fashion industry. Towards a networking approach*, 2013) – at the beginning of the 1990s there was more focus on the refreshing of products and supplier faced reduced lead times for smaller batches deliveries.

In order to specify, we will use the "supplier" term basically referring to the company itself intended as "supplier of products" in store for its customers. It will be specified, instead, when we will use the term in the "proper" meaning of the term.

While the past competition was focused on the quality and design, now it is a matter of promptness with a time minimization logic. But what has to be minimized in the interval going from the design to the deliveries in stores?

We can consider three components companies should work on: the time to market, the time to serve and the time to react. More in details, only shortening the time to recognize market opportunities, to distribute finished products to the stores (following consumers' orders) and to modify them, given the changing demand, can allow you to be in line with the always more common "here today, gone tomorrow" philosophy.

Figure 2.2 illustrates the four main leverages of the fast fashion: *Agile supply chain*, *Quick response and enhanced design*, *Customer participation* and *Communication* (Tartaglione, Antonucci, *Value creation process in the fast fashion industry. Towards a networking approach*, 2013). We will consider the first two as mainly part of the supplier perspective while customer participation and communication as more properly a customer matter.

First of all, in order to provide simple prototypes quickly developed and high variety to ensure customers limited frequent quantities, the *supply chain* should be organize in an *agile and flexible way.* The solution is given by some practices adopted by enterprises in the fashion, such as the synchronized sharing of information and collaboration between suppliers and customers, the elimination of non-adding value activities, the reduction of the products desired from customers, the closer relations with the suppliers themselves, the postponed assembly phase and final configuration of the products.

A company success is also determined by a second structural leverage: *the quick response and enhanced design*. The combination of the two elements, that we have already discussed about being a customer-supplier reciprocal interaction for fast fashioning, comes out with a constant design development for the trendiest products in a short lead time production.

The enhanced design is carried out by a team of “trend spotters” that works together to a team of designers. They constantly control what is new, what are the popular trends and what people prefer to find in stores. The tools used for replying to customers' needs are the feedbacks from the employees, but also the web and the social network are getting always higher importance.

Fast response brings, on the one hand, the risk to increase fixed and variable costs (due to a more intensive labour, designers costs, etc.) but on the other hand the close relations among the business functions in a company allows to daily monitor the willingness to pay of customers related to the incurred costs. It is important to specify that the costs retailers should be careful about are the ones linked to the *selective* offer: one of the two main market orientations which is characterized by an accurate study of emerging fashions. The other market approach, instead, is the *basic* one and proposes standard garments, sometimes the same of the previous seasons (bringing cost savings).

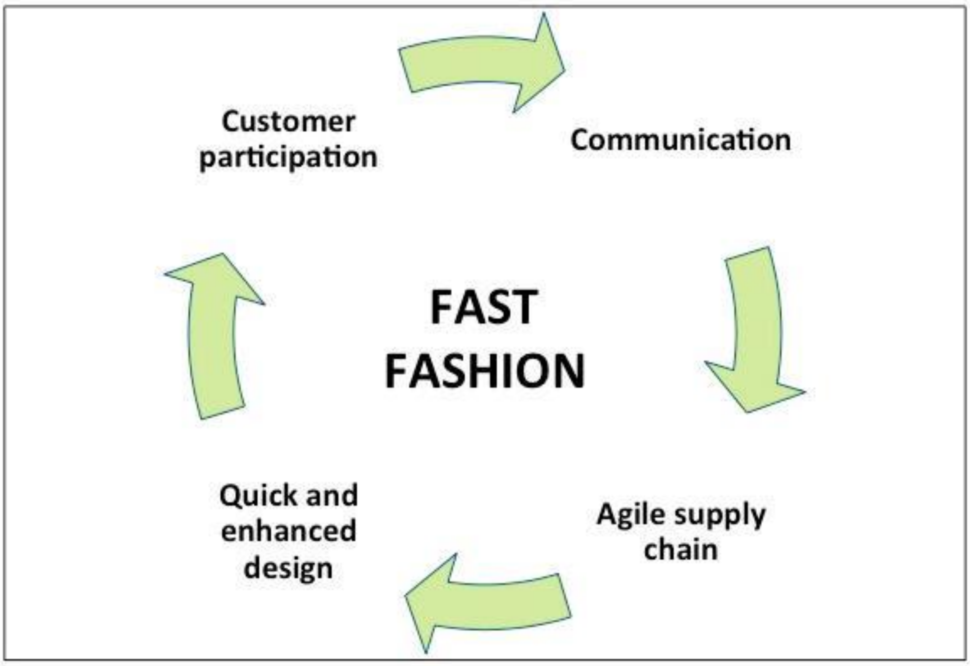

Figure 2.2: The fast fashion industries leverages

In order to make possible what we said until now about fast fashion we must consider *technology* as the key player in reducing lead times, making the supply chain more agile and providing quick changing designs.

In this sense QR (quick response) is considered a profitable strategy and it is defined as "the establishment of new business strategies, new relationships, and new procedures to speed the flow of information and merchandise between retailers and manufacturers of apparel and textile" (*Voluntary Interindustry Communication Standards*, 1898).

The innovation-decision process in the adoption of QR can be summarized in five stages (according to Rogers, E.M., *Diffusion of Innovations*, 1983):

- knowledge, when the firm knows the existence of an innovation;
- persuasion, concerning the favourable or unfavourable attitude towards innovation;
- decision, when the firm decides to adopt or not the innovation;
- implementation, when the innovation is put into use;
- confirmation, concerning the organization's research for the adopted innovation.

Despite of the advantages the QR adoption can bring (decrease of lead times, increase market share, reduced inventory levels, higher profits, lower markdowns, lower costs, higher flexibility, etc.), manufacturers do not adopt easily such technologies: first of all it depends on the organizational strategies firms have. Miles and Snow (*Organizational Strategy, Structure and Process*, 1978) identified four types of behavioural approaches manufacturers can have, which can be considered in the modern age as well: defenders, prospectors, analysers, reactors. The first type refers to organizations that do not adopt (or do it in part) new market developments. Prospectors try to change often, meeting new market opportunities as much as possible and stimulating competition. Analysers can be considered a "mix" of the previous two, and reactors tend more to react to market pressures than to propose them.

Generally speaking, in addition to the just mentioned approaches, the adoption or not of QR technologies is a consequence of other factors: *lack of standardization, lack of knowledge and information about QR technologies, investments required and insufficient cooperation among industry segments* (Ernst and Young, 1990).

In the recent unpredictable environment of fast fashion it is essential to make the processes faster in order to avoid obsolescence, anticipate the competitors and grab as many consumers as possible: suppliers (such as Zara, H&M, Benetton, … whose main characteristic is the "short lead time response") should adopt QR technologies, then.

Figure 2.3shows the three hypothesis from E. Ko, D. Kincade and J.R. Brown (*Impact of business type upon the adoption of quick response technologies*, 2000) that summarize the matters about the adoption or not of innovative-technologies, considered all the issues and factors around the supply environment explained until now.

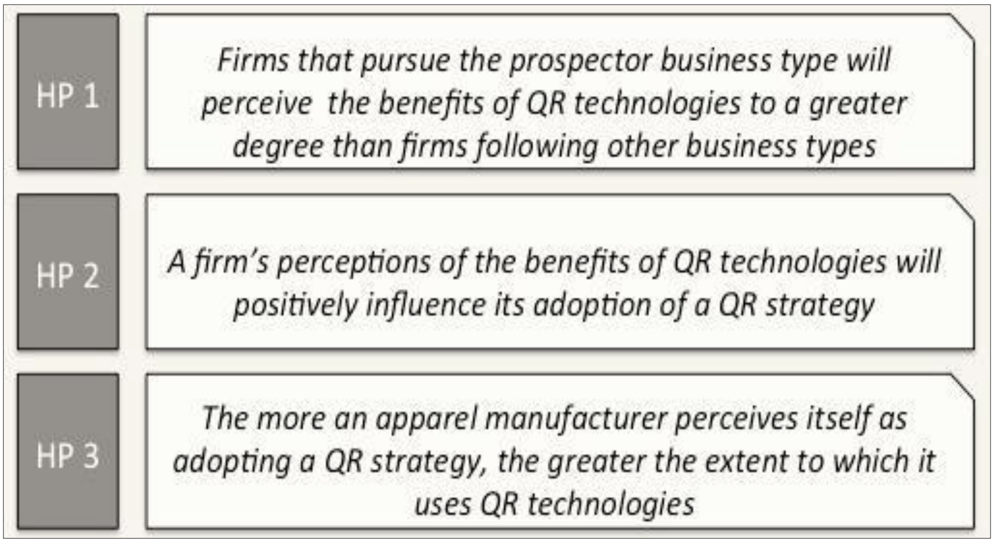

Figure 2.3: The three hypothesis about QR technologies adoption

2.5 The customer perspective of fast fashion

In the previous paragraph we have seen how the relationship buyer-supplier has to be particularly strengthen for streamlining the processes in the supply chain and fastening replying to the market's needs. Time is the main factor of competitiveness: promptness, speed and short life cycles are the key elements of the modern fashion industry.

Such a dynamic decision-taking implies an active and communicative role from both the suppliers and the customers.

In fact, the value creation is not a linear sequential process anymore but it incorporates the Service-Dominant (S-D) logic (Vargo, Lusch, *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*, 2006).

This scientific proposal from Vargo and Lusch is a matter of co-creation which involves producers, consumers and other "resource integrators". Although customers are not the only actors of this new business interaction ("Value co-creation is a complex process involving the integration of resources from numerous sources in unique ways", Vargo (2009)), they have a central role in the value-creation.

In general they seems to rather prefer going for shopping more frequently at affordable prices than buy less luxury garments. Products from mass fashion retailers let people to feel "cheap" garments as exclusives and expansive ones, thanks also to an always stronger “commoditization”. Consumers can find what they want: the variety of designs and colours make them perceive the uniqueness and quality (at relatively low prices) they look for.

So we can say customers are becoming more and more demanding and fashion savvy with much more needs than years ago: they make comparisons among the high number of competitors and they find their best solution in terms of price, design and quality, with low preferences to specific brands. What emerges from this new customers' way of “staying” in the fashion market is their active collaboration in the suppliers decision-taking.

Looking back at Figure 2.2, which was already analysed from the supplier point of view, we can observe how customer participation and communication are the two main characteristics of the fast fashion concept from a consumer perspective.

The enhanced design, as already observed, is a common leverage that includes both the supply and the consumption side, such as communication which will be soon shortly analysed in this paragraph but implies a mutual interaction as well.

Communication itself must be related to the value co-creation, as it allows the interaction between the two big parts of the market. It is about a *win-win* logic where the agents are willing to reach a mutual advantage.

The old concept of chain, then, in which the creation processes were linear, has been replaced by a dynamic one. It cannot be thought as a sequential but rather as a reticular interchanges of information, where actors are interconnected with many entities at any step and the *supplier-centric lean production* changed to a *customer-centric lean consumption* (Womack, Jones, *Lean solutions: how companies and customers can create value and wealth together,* 2005).

The customers’ and suppliers’ roles in the value creation, then, are now strictly connected. Customer participation in value co-creation through the transmission of tastes and desires leads the company to success.

The confirmation of interrelation of all the agents in the fashion industry is given by the satisfaction of consumer desire of newness and uniqueness by the a lean supply chain production, able to fast respond with new products in short times. As shown in Figure 2.4, the limited number of products and the frequent production of new garments are, on the one side, the response to customer's changing lifestyles and demand for fashion clothing linked to special occasions [5]and, on the other side, the supplier's strategy for getting people more often inside the stores[6] The higher the number of customers in the shops, in turn, the higher their willingness of changing lifestyles and fashion garments: we can think about a mutual influence with a growing perspective.

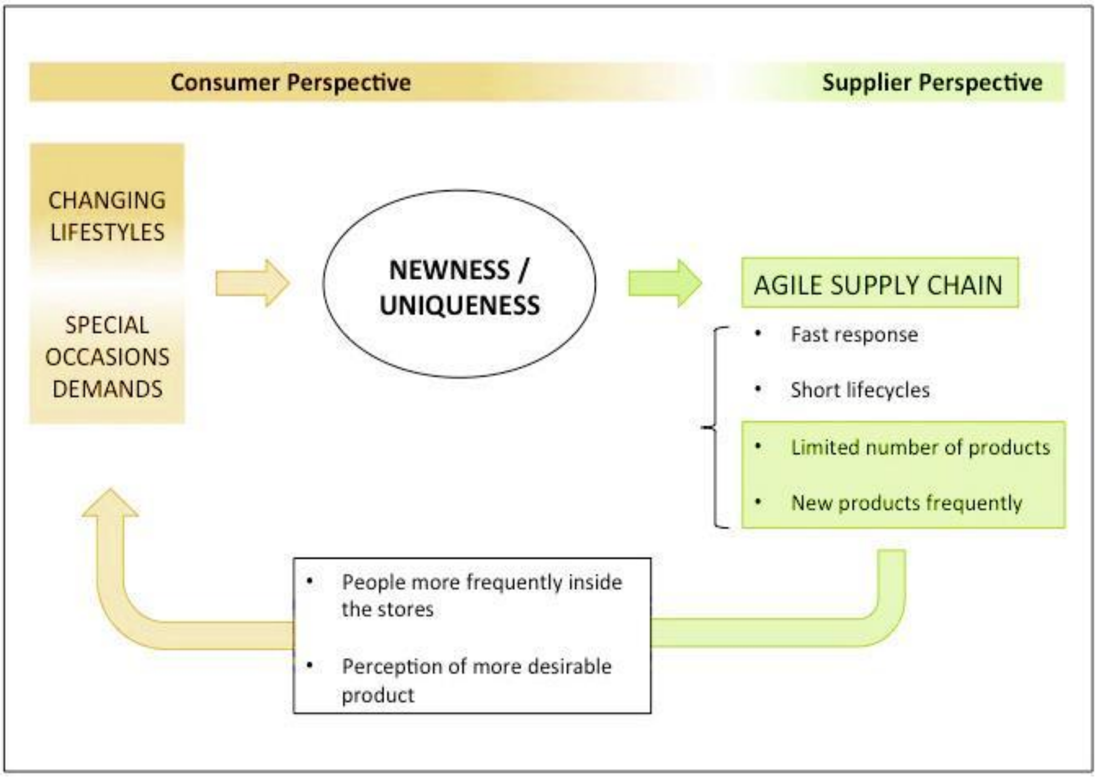

Figure 2.4: The consumer-supplier mutual influence in the fast fashion industry

2.6 Fast fashion Business Model's key elements

In this chapter we have seen several aspects of the apparel industry in general, how it evolved and in particular what are the main characteristics of the fast fashion apparel, both from a supplier and customer point of view. Joining, then, the driven elements of the fashion industry and the Business model general features discussed

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[5] Bhardwaj and Fairhurst (*Fast fashion: response to changes in the fashion industry*, 2010) identified the *response to changes in customer's lifestyles* and *consumers demand for fashion clothing linked to special occasions* as the key reasons for the increase in the number of fashion seasons in modern day retail.

[6] Byun and Sternquist (*The antecedents of in-store hoarding: Measurement and application in the fast fashion retail environment,* 2008) noted that "if consumer perceive that a product is scarce or has limited supply, they are likely to find a product more desirable" (Roleshaba Moeng, *Fast fashion retail: A consumer perspective*, 2011).

in the first chapter, we can define to a more specific framework.
E-business, Strategic issues and *Innovation and technology management* discussed by Zott C., Amith R. and Massa L. (*The business model: theoretical roots, recent developments, and future research*, 2010) are the reference points in the Business Model description, as already said. Furthermore, looking at the *Strategic issues* (i.e. value proposition, value creation and delivery system, value capture), we can make a parallelism with the Business Model Canvas, the most recent and dynamic explanation of the Business Model.
The *Value proposition*, i.e. what the firm delivers to its customers, is what in the Canvas is explained in the value proposition, customer segment and customer relationship "blocks". The reason why people should value my offer rather than another one's depends on what I have different from my competitors; the market segment the firm wants to address the value to and what is the relationship established with them.
The *Value creation and delivery system* includes all that parts of the BM Canvas that are considered of having a *key* role (*key partners, key resources and key activities*) and in particular the delivering *channels* that allow the business to reach consumers.
The *Value capture* is about "how to make money" and concerns the costs and revenues a company incurs in while conducting a business, as described in the Canvas in the *Financial viability* area.
Looking at the particular case of the fast fashion industry and to its leverages, we can draft a general scheme of what a fast fashion business model consists in.
First of all the *Value proposition* of fast fashion is "the delivery of fashionable garments at relatively low prices".
Under this general definition there are several aspects that help the company to reach the aim of the business. Following the *Zott C., Amith R. and Massa L.*model and the *Business Model Canvas*, we know that the basis to build the offering concern the *customer area*, the *infrastructures* and the *financial viability*.
Talking about the last two items we cannot track generic lines for every fast fashion company, as they strictly depend on how the specific business model is organised. Every reality differs in terms of key activities, key partners, key resources, costs and revenues streams. We can only say that are part of the business model all that kind

of infrastructures that help to be as fast as possible in reaching the market, assorting frequently the stores located around the World and in always being the most innovative at the lowest costs possible.

The Financial viability is an even more delicate argument and it basically depends, for what concerns the costs, on the ability of exploiting economies of scale and economies of scope, but also of being able to take strategic decision for saving some redundant costs and spend them in other necessary activities. The revenues, finally, are generated from the selling of garments in this case, and they even derive from the ability to increase customers loyalty.

We can say, instead, something more specific about the *customer area* of the Business Model. Fast fashion companies is oriented towards the cheap items delivery so the first customer segment the products are addressed to comprehends people who want to spend relatively low prices. More specifically, the production consists in *basic* garments, which can be considered "standard" clothes for everyone, and in *fashionable* ones. The latter have the aim to attract fashion-oriented and fashion savvy consumers that knows how the fashion market is going and are able to compare different value propositions from different companies.

Since the fashionable design at affordable prices is a cornerstone of fast fashion, it is clear how firms want to produce not only cheap clothes, but also with a quality appearance. As consequence we can say that another customer segment (probably more restricted) is represented by that customers who sometimes decide to spend less but having something aesthetically "acceptable" in any case.

Fast fashion industry, then, even if with different ranges, seems to be addressed to a large variety of customer segments. Nowadays inside the stores almost everyone can find something satisfying their personal needs and tastes and this is another big advantage of fast fashion.

Generally speaking we could categorize the customers in three big groups (Figure 2.5):

- *Common* or *casual* customers, represented by that kind of people who do not pay so much attention to the fashion in general and who usually buy standard products;
- *Fashion oriented* or *fashion savvy* customers, that includes consumers that

have a keen orientation and interest towards the fashion world and they can be divided into two subgroups, depending on their financial availability:

- *Low willingness to pay* (they want fashion clothes at relatively low prices and they will buy in fast fashion stores most of the time);
- *High willingness to pay* (they can spend much more money for garments, and they do, but they even spend less for fashionable cheap items as well).

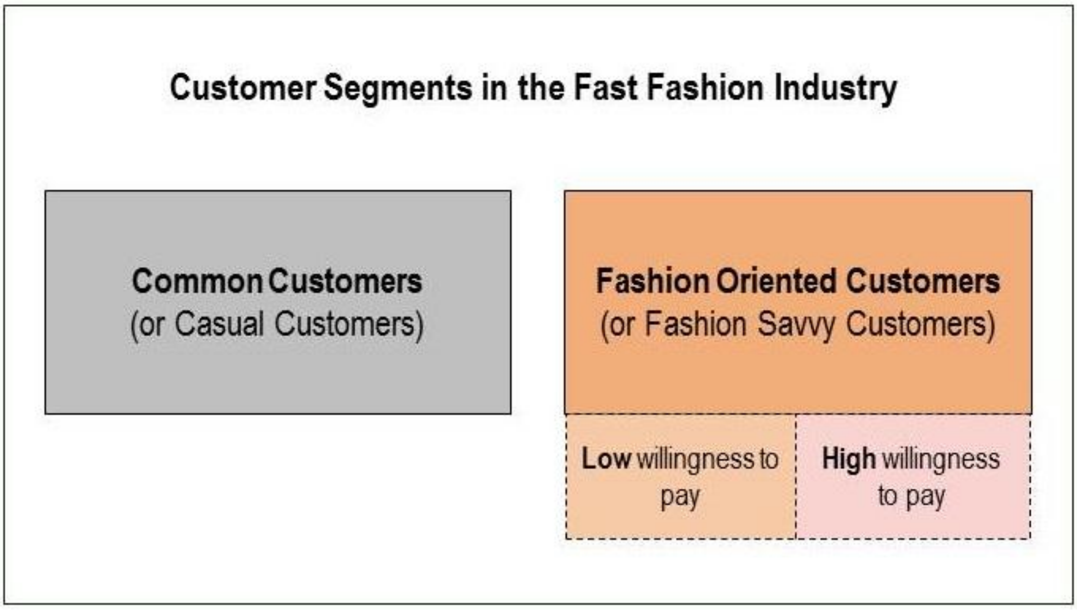

Figure 2.5: The customer segments in the fast fashion Industry

Finally, observing the customer relationship the companies should establish, we can say that the *quick response* and the *frequent assortment*, other two cornerstones of the fast fashion industry, plays a key role about. Indeed, in order to grab as many customers as possible, a company should propose new garments very frequently, based on their tastes and needs. This sort of answer enable a strong relationship between the consumer and the firm and it attract people inside the stores more frequently. Looking at the Business Model Canvas this results in a sort of *co-creation* activity.

Defining and discussing the *Strategic issues* part of the Zott, Amith and Massa framework, we cannot exclude the role the *E-business* has.

E-business refers to the on-line sales, but also to the technology that helps a company to be well-organised. It is fundamental to be innovative and in particular to communicate in a always more dynamic and quick business model such as the fast fashion one.

In the next chapters we will see some particular cases of how a fast fashion business model works, focusing on some key activities and comparing different realities highlighting, then, the similarities and the differences among businesses of the same industry.

Chapter 3
The Zara Case

The history of Zara begins before Zara itself, when in 1963 Amancio Ortega started producing women's pyjamas and lingerie. Only in 1975 the first store was opened in la Coruna. During the 1980s the Inditex group (which owns Zara) started opening other stores not only around Spain but also in Portugal, New York and Paris. In the 1990s the group entered 29 countries all over the Europe, Asia and the Americas. Furthermore it acquired other brands such as Pull&Bear, Massimo Dutti, Bershka and Stradivarius in order to reach different targets of customers.
From now we will analyse only the Zara reality since it is the most important and recognised brand of Inditex representing more than the 70% of the total sales of the group.
Zara has nowadays around 2000 stores in 88 countries around the World (with the highest concentration in Spain) and it launches about 10.000 new garments every year, compared to the 2000/4000 of competitors, on average. It has a competitive advantage even in terms of delivering times: new designed garments only take15 days to arrive in stores and in general, when stores order some missing clothes, they take only three days to be delivered.
Zara, indeed, is synonymous of speed and flexibility since it is able to reply to customers' requests in very short times and develop a high variety of garments during the year.
In the next paragraphs we will describe the three main activities of the business model: design, production and distribution. We will analyse in which way they allow Zara (and Inditex in general) to be the leader in the fast fashion industry.

3.1 Design

The Zara design process origins from two main sources: a team of designers around the World and the stores.
The designers constantly look for emerging trends and new designs at fashion shows, discotheques, universities, music videos, and even from the streets. Whatever is a new trend for people must be taken into consideration and propose

inside Zara stores.

For what concerns the stores, the daily communication between every retail shop around the World and the headquarters allows to keep the situation monitored in terms of sales. It is important to know what are the most sold garments' styles and colours in order to make strategic decision on what produce again and what to eliminate and replace with something new.

The design and production centre in La Coruña, with its 200 designers producing about 60 styles each every year, represent one of the strengths of Zara: the competitors, on average, realize "only" 2000/4000 new styles per year. After the designers receive the requests for new designs, they discuss with buyers and market specialists about what to produce and they are always in touch with each other to constantly and rapidly take decisions. More in details, market specialists are in contact with the stores discussing sales, orders, …etc. After they refer to the designers and the buyers what are the feedbacks, they together take the last decision and the buyers order the fabrics they need.

3.2 Production

The buyers order the fabrics from several small suppliers (more than 250) but most of them are provided by Comditel (40%) and Fibracolor (20%), the two biggest subsidiaries.

After that, the manufacturing takes place and it can be done in own or outside structure. The 40% of the garments are cut and died in Zara own network of Spanish factories; the other 60%, instead, in the 400 outside suppliers (70% of which are in Europe).

The "make or buy" decisions are taken to minimize costs, increase speed of delivering and make sufficient availability of quantities. Moreover, this kind of decision is taken for strategic reasons. For example most of the *basic* garments, the "standard" ones whose style does not often change during the year, are produced in the dislocated centres in Asia. On the other hand, the *fashion* items production is closer to the headquarters in Spain, as this kind of products have to be monitored and changed every week.

All the sewing operations, instead, are conducted among the 500 small subcontractors around Spain (close to La Coruña) and Portugal and after the clothes are ultimate, they are send back again to the production centre for ironing. Then they are checked twice, labelled with readable tags and at the end sent to the distribution centre.

3.3 Distribution

During the year the Inditex group ships about 840 millions of pieces all around the World. As the major exponent of the group is Zara, we can gather that most of them are shipped by it.

The 75% of garments are stored in Europe and the 25% in the rest of the World.

The two most important distribution centres are located in La Coruña and Zaragoza, but there are also others in Brazil, Argentina and Mexico to cope with distance and the different seasons. Since the transportation has to cover long distances, not only trucks or trains are used: airplanes for far destinations leave from the airports of La Coruña and Santiago. From this point of view we can say that Zara sustains a high level of transportation costs, for satisfying a frequent on-time delivery.

The stores receive garments precisely 2 times a week and every time there are new products to expose. When retail shops receive the coded items, they have to be put in a “strategic” way as indicated from the headquarters (in the interview we will go through later, the process is better explained).

The result of this fast and constant turnaround is a high frequency of in-store flows by customers. The statistics recorded a 17 times of shops visited on average in a year by the same person, compared to the 3/4 times of the competitors.

Even in this case, most of the stores are owned by Zara and only a small percentage of them are alliances or franchises. This highlights again the trend of Zara, and the Inditex group in general, to have a high level of centralized control.

3.4 The interview inside the store

After having discussed about Zara overview, highlighting the main activities that characterize its supply chain and business model, we will observe closer how it properly works from a store’s point of view.

With the kind collaboration of A.V., the store manager from a Zara shop, we will go deeply into the details, analyzing what is the last part of the supply chain but also how the final part of a business can give an important contribution to make the organization work in an efficient and dynamic way.

It will be shown below the interview I did to the store manager in the city I come from and later we will make the concerning conclusions.

First of all I would ask you a general question about Zara: what is the *value proposition* it wants to give to the customers and what is the target of customers?

Zara nowadays aims to serve a higher target of customers with respect to the past. Until 2/3 years ago there was a defined target of age (18-35) that was served but during the last period we started looking at the satisfaction of almost everyone. Today the production goes from the children to the 50 years old men and women and I can say that Zara is also moving towards the over 50 age; so we will probably see something new in the future.

Zara, then, wants to propose garments and fashion for everybody and the aim is to make feel comfortable whoever enters in the store. Everyone must know that Zara can offer what he or she is looking for, at affordable price and with constant accuracy in satisfying customers' needs and desires.

Which kind of *customer experience* (impressions, sensations, …) Zara wants to propose to customers entering in the store?

The first aspect of the customer experience is the easiness of "reading" the shop: from the arrangement of the shelves to the disposition of the collections on them. Inside the store there are well defined "micro-corners" all proposing different styles of clothes. The "self-service" formula is what Zara wants.

Considering that Zara Marketing expenses are very low, do you think that the layout inside the store plays a key role in terms of Marketing? And what are the most relevant Marketing expenses today?

Zara has always considered the "word-of-mouth" as the most important Marketing factor. Even the layout inside the shop is fundamental to create a brand identity and let people publicize Zara. Today the marketing expenses are about the 2-3% of the *total expenses and they basically are "calls" to visit the website, most of them on the social networks.*

In which way you can get feedbacks from customers? How can you control their needs and desires?

The figure of "personal shopper" plays a key role about that. He comes 3 days a week in the store guiding customers in their choices. Personal shoppers provide a sort of "assisted shopping" and through the dialogue, they know customers' requests, desires and observations about the products. The store managers, then, receive all the information gathered by the personal shoppers and they will send them to La Coruna.

Even in La Coruna there is an "equipe" operating 365 days per year: they have a deeper relationship with clients since they ask more specific questions for getting more specific useful information to help the headquarters in taking strategic decisions.

Talking about the store management I know that Zara has a dynamic delivering system. How many times do you receive garments? How much time does it take to reach the store after the order has been sent?

We receive the items 2 times per week, on Thursdays and Saturdays. After we order the products, it takes 3 working days to arrive in store. Zara wants to keep a constant supply of garments in little stocks in order to be able to satisfy customer requests in very short times. The aim is also to have as little warehouse as possible.

How much time do the clothes stay on the shelves? Does the decision of replacing the "unsuccessful" products depend on the store manager?

Our objective is to give garments a 28 days of life on the shelves maximum. After that period, if something is unsold, we replace it with new items.

Concerning the replacements, we first of all have to expose some particular clothes coming twice a week. Every week , then, there are "news" in store and through some tools we can understand which have been the less sold clothes. This help us to replace the "unsuccessful" garments with the new ones. So almost twice a week there are changes, even if sometimes just little.

What about the unsold products?

The items can be transferred inside the same area, in the stores where that kind of clothes are sold more. The next step consists in send them back to Spain where, following the same idea, the garments are re-delivered in the countries where they have had more success.

What about the products decisions? Who decides the style and the quantity to deliver? How much influence the store manager has and how much is decided from the headquarters?

It works in this way: the collections are produced in Spain and they are shown to the buyers of every country. The buyer decide what to buy of that collection and a certain amount of the selected garments are delivered to all the stores of that country. After that, store managers will decide what to order again.

Even if the store manager has this decision, there are some items that have to be necessary exposed.

How many *fashion* and *basic* garments are there on the shelves? What is the *turnaround* of both the types of clothes in stores?

Fashion and basic garments are on the shelves with a percentage of 50-50. The basic ones have a higher yield so they have a higher turnaround as they are much more replaced on the shelves. For the fashion ones, instead, the style changes very often but they have much less turnaround as they are not sold as much as the basic ones.

How often the store managers and the assistants meet together for discussing about the day or the week?

Every day, in the morning, the sales team receive what are the objectives of the day. Every day, indeed, there are some data and budget that should be respect and, from the trend of the previous day, we try to give some directions to reply or even to improve the trend itself.

What is the percentage of items that you put on sale in terms of unsold products? In that period, are the customers' flow and the sales above the average?

All the products are put on sale, no matter how much they have been sold during the "regular" season. Usually, at least two months before the beginning of the sales the deliveries are stopped in order to have a similar stock in the same period of the previous year to face the sales period in the same way. The final objective is then to have as little stock as possible. Cost savings in terms of warehouse, logistic, personnel, maintenance, …etc. has primary importance. Moreover, the poor stock allows Zara to sell garments at the highest possible price, even during the seasonal sales.

Obviously, the customers inside the store and the sales are much over the average of the trend of the year. Just consider that the first Saturday of sales the entrance in the store higher than the 100% comparing to the other Saturdays!

When have the online sales been introduced? Did the sales increase in a relevant way?

The online purchases have been introduced two years ago, more or less. We have noticed a high increase of the sales especially in the last year. In fact, on the website customers can buy the sizes that they cannot find in store.

Always about the online purchases, I knew that few years ago the distribution centers were not appropriate for small orders coming from the website. How did Zara manage this issue?

Zara has simply adapted itself to the market and nowadays there is an always higher willingness to focus on this type of sale. Even in stores is possible to order clothes online!

Talking about IT (Information Technology), how often there is the store-headquarter communication? And through which devices? How much important and how much is the presence of technology in store?

We have a constant daily communication with the headquarters, even more than once per day. Through a new system called "RFID" all the information about all *the products in Italy are immediately available inside the store and to La Coruna. We can imagine the device as an iPod that receive the info from the "anti-shoplifting" on every item. Inside the chip now there are all the info about the size, type, color, …etc. and whenever an article is bought, moved away or even stolen, the device receive the information.*

This new system is gradually substituting the old "palmares".

Which are the data the store manager has to report every day/week/month in order to make the situation controlled?

As already said, all the info about the products are sent to the headquarters automatically. Furthermore, the headquarters receive and analyze the working hours and so the cost of the personnel.

How important are the feedback sent by the stores to the headquarters in terms of new designs? Is there a sort of collaboration between store managers and headquarters about this?

Basically, the equipe in Spain decides what collections are the most profitable from the monitored daily sales in stores. From this point of view, then, we can say that the info from the stores are important.

Concerning the styles of the articles, the store manager only sends the feedbacks, impressions and requests of the clients, but he has not any decisional power about the products design.

Talking about the layout of the stores, again the store manager cannot (or should not) take any personal decision. I am talking about the disposition of the garments on the shelves and of the shelves themselves. Twice a week we receive from Spain some pictures showing a prototype of a store layout. The visual department take the pictures in the so called "tienda pilota", that is a "fake" shop where windows and shelves are set up in the way that every shop around the World must follow.

The prototype layouts from Spain are built on what the commercial department from Italy (in this case) decides to order in terms of collections.

How long is the interval between the feedbacks to the headquarters and the delivery of new designs?

Feedback about customers' requests are sent every two months. Every three months, instead, buyers, visual department and store managers take a meeting to discuss about the styles but at the end there is a proper department which takes the last decision.

Figure 3.1: Zara store external layout

3.5 Conclusions

From the interview we can first of all understand why Zara business model is considered one of the most innovative and dynamic in the fashion industry.

The constant communication between the stores and the headquarters, passing through all the agents involved (personal shoppers, marketing specialists, …) allows the system to be immediately updated about the stock movements, customers' needs and sales trend. In this way the company can give quick responses and get a competitive advantage being the first on the market.

The first strength of Zara is exactly the ability of being fast. Short delivering times all around the World is the synonymous of dynamism and efficiency.

Right after the fast responsiveness, the customer orientation plays a key role in the business model. A strong relationship is established with consumers by all the agents that take care of them (personal shopper for example) and in general by whoever is enrolled to discover what are their needs. Even the frequent limited stocks of garments in store (another cornerstone of Zara) confirms the willingness of a total customer satisfaction. The aim is to provide customers exactly what they want with a high percentage of renewal: in this way they first of all enter in stores more often with respect to the competitors. Second, whenever they see something they like, they know they should buy it in order not to run the risk of not finding it anymore. The uncertainty of the garments on the shelves (high turnover) gives Zara a strong advantage.

Linked to the customer orientation, then, there is the ability to keep Marketing costs very low. Zara, providing the same idea all over the World in terms of layout, design, customer experience and brand in general, can rely on the word-of-mouth advertising. The most relevant Marketing service is then provided by the customers themselves, who share their impressions, news, experience, …etc.

The vertical integration (*forward* in particular) and the strong centralization show how Zara wants to keep its business under control as much as possible: only in this way the company can have the same identity everywhere.

Chapter 4
The Benetton case

After the Second World War, around 1956, Luciano Benetton started a small business producing sweaters with Gilberto, Carlo and Giuliana Benetton, his brothers and sister.
The Benetton Group was actually founded in 1965 in Ponzano Veneto, province of Treviso (Italy). In the same year the first store took place in Belluno, close to Treviso and in 1969 Benetton started expanding outside the Italian boundaries: the first retail shop was opened in Paris.
During the 1970s the company exported the 60% of the production and in 1974 it acquired the Sisley brand. The expansion in other countries kept going on during the 19907s and the 1980s: stores have been opened in New York, Tokyo, and in general mainly in the Far East and China.
Today, Benetton is present in 120 countries with about 5000 stores.
During the years, especially from the 1980s until now, the group has always invested a lot in Marketing campaigns such as the sponsorship in Formula 1 but especially with the advertising images that made the brand famous all around the World.
Nowadays Benetton can be considered part of the fast fashion industry in particular after the introduction of the dying at the end of the production process (the so called "tintura in capo") for a quicker response to the retailers' requests.
In the next paragraphs will be described the business model in order, then, to compare the two realities and underlining the advantages and disadvantages of both.

4.1 Design

Benetton design centre is located in Ponzano (Italy). Many designers from many backgrounds are involved in this area and this underlines again the multicultural aspect that Benetton wants to have. They are divided in three groups: usually one takes care of the commercial aspect of the product, one carries out the research on fabrics and the third group takes care of the graphics.
Basically the design process start with the research of new trends and ideas by a

group of designers travelling around the World (for example to fashion shows). After that, colours, fabrics and materials are chosen. Finally design samples are created, and, even after the opinion of the sale force, the prototype is done and used to cut fabrics into the required pieces.
To understand customer preferences, Benetton conducts in-store surveys and testing.
Furthermore, until 2000 Benetton used to produce only two main seasonal collections per year and this was a disadvantage taking into consideration the other competitors.
Nowadays, instead, the group has adapted to the fast market and introduced the so called “flash” collections reducing the 30% of the “standard” collections.

4.2 Production

For what concerns the production, Benetton manufactures most of the garments abroad by more of 200 contractors. Also many other sub-contractors work to produce the garments as specified by the headquarters; in general, contractors and sub-contractors are involved in specific operations. They are provided of production planning support, technical assistance to maintain quality and sometimes of machineries.
More in details, Benetton was used to produce all the items in Italy until the 80s and until the 2000s most of the garments were manufactured in-house. Only the 20% has been outsourced during that years (in France, Spain and Portugal) in order to be closer to the foreign markets and avoid to incur in costs and risks of monetary exchanges.
Later, with the Euro and with emerging competitors, Benetton decided to outsource to save costs of production and fabrics procurement.
Nowadays, the few Italian production centres are located close to Treviso, but many contractors and sub-contractors are located in different countries of Europe (especially Hungary, Croatia and Romania) and outside Europe (North Africa and China).
While the European contractors are provided by Benetton with the fabrics (acquired locally) and the prototypes of production, the China production centre only needs the prototype and, after the garments are produced, they are bought by Benetton and

sent to the distribution centres for quality checks.
On average, the annual production of Benetton is around 150 millions of garments and today only about the 10% of the garments are produced in Italy but from 2017, the group implemented a new machinery for a reshoring of the competitive in-hose production (in particular for sweaters).

4.3 Distribution

Benetton distribution centres are located in Europe (Italy, Croatia, Hungary and Tunisia) and in Asia, in order to send to almost 5000 Benetton stores across the world.
Benetton system works through a licensor-licensee relationship. The agents are responsible to recruit retailers promoting Benetton's collections to different events in several countries. The function of the agents is to procure retailers, select the locations were to promoting, train them and let the company knows what are the fashion trends in different countries. Agents are intermediaries between the store and the company and they are supervised by the area managers. The area managers report all the information to the commercial director who takes decision about the merchandising, products, store locations, …etc.
After the strategic decision is taken, the garments are produced and sent to all the franchisees. Garments are directly sold to retailers without wholesalers: this model has been introduced in the 1990s and it allowed to get higher margins and the company did not have to buy back the unsold. The products that Benetton supplies to the retailers, indeed, is a "no-return" stock: stores cannot send back the unsold or "unsuccessful" clothes but it is under its duty to sell them.
The owners of the stores do not have a formal agreement with the company but with the agents, who are licensed to sell Benetton's products to the retailers themselves.
Once the retailer receive the stock, he has to sell them following the guides in terms of merchandising, layout and pricing.
Despite most of the stores are in franchise, Benetton in the recent years has purchased some of them. Many franchises did not accept to be buy from the headquarters son Benetton started open own stores.

4.4 The dual supply chain

To better understand how Benetton business model is changed with respect to the past, we should take into consideration the dual supply chain. This was introduced in 2004, to start competing with other fast fashion companies. Until the first years of 2000, indeed, Benetton was just able to come out with two collections per year, comparing with the 4/5 of the competitors. Benetton was used to produce the orders months in advance and this limited the reply to customers' needs of newness.

The dual supply chain helped solved this problem: it allowed to respond to changes during the seasons and to balance production, sales and design.

Through the dual supply chain, more than two collections are produced during a year, maintaining the required novelty of products.

It included the *sequential* dual supply chain and the *integrated* dual supply chain. The former is used to deliver the garments usually required by the retailers at the beginning of the season. The latter's function, instead, is used to supply the items during the season.

After the implementation of the dual supply chain, Benetton was able to provide five collections in each season.

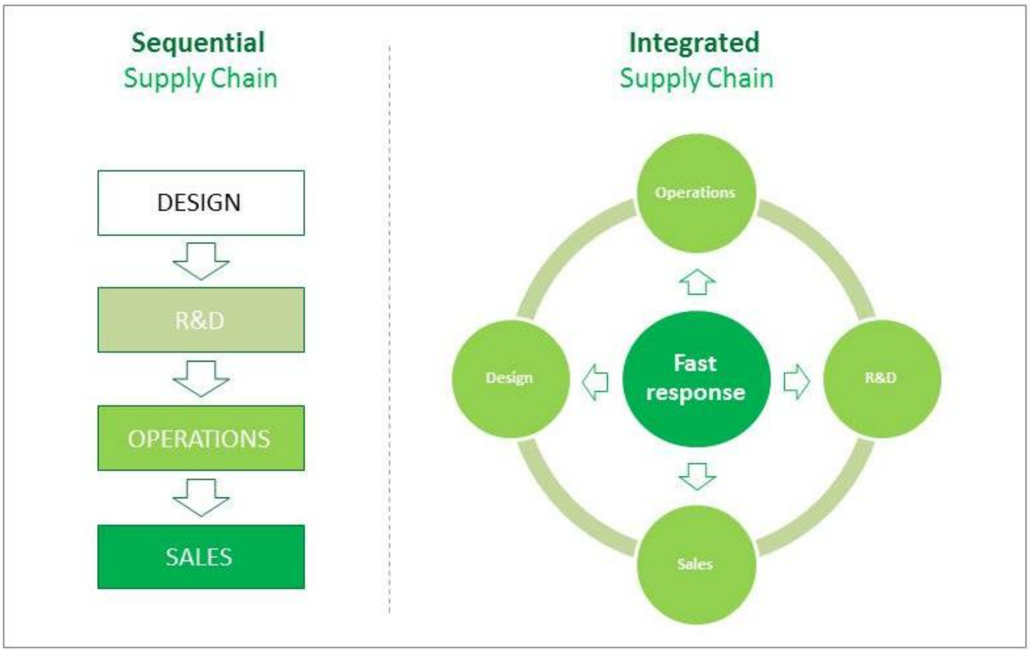

Figure 4.1: Benetton dual supply chain

The first collection is called *Contemporary 1*, and is made around 6-8 months before the season. The second collection, *Contemporary 2*, is made 4-6 months before the season. The third collection is called *Trends* and usually is ready 2-4 months before the season. The *Just in time* collection incorporates the latest trends and it is brought out between 2 months and 2 weeks before the beginning of the season. The *Evergreen* collection, in the end, is brought into stores around 1-2 weeks before the beginning of a season.

After the franchises order the garments (through a platform), they are sent in stores in around a week, if the store is in Italy, or around two weeks if it is abroad.

With this system, Benetton is able to produce smaller lots of clothes and to deliver them every two weeks.

4.5 Marketing

We already mentioned how Benetton always took care about the Marketing and merchandising aspect. The advertising campaign launched by the famous photographer Oliviero Toscani employed by the company in 1983.

From one of his slogan derives the name “United Colours of Benetton”: the picture illustrates different individuals from different part of the World all together. The aim of “Tutti i colori del mondo” slogan (i.e. “All the colours of the world”) was to put together ideals of peaceful, multi-ethnicity and equality.

This represented the willingness of Benetton of having a multicultural background and communicate global concern to its global customers.

Generally speaking, Benetton has always tried to communicate social and political issues to transmit people the effort the company spent to deal with them and to sustain the ideals mentioned above: the concept of *social advertising* took place.

In Benetton opinion it is more important to grab the attention of the customers and of the media through advertising of this type, without commercializing its clothes but representing social facts and strong impact images.

Figure 4.2: Benetton recent advertising outside a store

4.6 Market strategies

At the beginning of its history, Benetton was considered a *market-driver*, as the company was source of inspiration for the fashion industry, but in the recent years it was necessary to adapt to the new market. Today is the market that guides the fashion retailers and for this reason we can talk about *market-driven* companies.

Benetton had then to change market approach, and especially from the 2000s after the raising of the new competitors (such as Zara, H&M, …etc).

The perspective of the companies have changed since customers perspective changed. Now people are more fashion conscious, as we can discussed in the first chapters, and wants a high percentage of innovations in stores.

The dual supply chain has been the most effective step that Benetton undertook. Part of the garments (the basic ones) are sold to stores 6-8 months before the beginning of the season but, for the fashion ones, it is necessary to have a monitored situation and fast response to the needs of people. Since 2002 Benetton objective was exactly to focus the attention on the customers, and not vice versa.

We can also observe how the stores layout has been adapted to the fast fashion. At the beginning, stores were organised in the "classical way" with the shop assistants under the counter which showed the clothes to the customers. Now, in the "fast fashion age", the disposition is completely different: the "assistant-client" concept has been removed by a disposition of shelves that wants to make customers feel free to enter and just look at the garments. The windows now allow to look inside the shop and there are no more barriers between customers and clothes. Stores are bigger and it has been implemented a sort of “self-service” that characterizes the fast fashion retailers.

In this way, not only the costs of the personnel is lower, but the personnel itself can be closer to the customers in order to perceive their impressions, comments, needs, …etc.

The technology, furthermore, played a key role about this. The technology system keeps in touch, the suppliers, the production, the logistic and the distribution.

The centralised IT allows to communicate directly with the two storage centres (in Castrette and Hong Kong) and to automatically verify how many garments are available and how many to order the production to the different suppliers.

The information is fundamental for the continuous requests of the items that are frequently sold: it is possible to check if in the wholesaler there are the requested products and to plan the deliveries.

From this system, the company has been able to study what customers most want during a season and organise the production in a more efficient way.

What instead represents a limit to the dynamic model that Benetton tried and is currently trying to pursue is the high number of stores not owned by the company. Benetton, to monitor the sales and produce as consequence, tried to buy many of the stores around the World but with scarce results.

Benetton, then, is trying to further vertical integrate the supply chain opening owned big stores to have a real-time control of what is sold and to give quick responses.

Chapter 5
Zara vs Benetton

Zara and Benetton represent today two of the most important realities in the fast fashion industry in Italy and all around the World. They serve a similar target of customers and they express the same general concepts inside a market that is becoming more and more competitive.

How we observed in the previous chapter, many years ago Benetton business model was completely different since it "imposed" the fashion by producing large amounts of stock and was used to deliver them at the beginning of the seasons, that actually were only two (autumn/winter and spring summer).

The Italian group then changed the way of operating (or tried to do it) as soon as competitors such as Zara entered the boundaries of the global market. The offers provided by the main competitors incorporated another different ideas and they were much more focus oriented.

This determined the passage of Benetton from *market-driver* to a *market-driven* approach but it faced some difficulties.

We will see now the main aspects that differentiate the two models, what are the advantages and disadvantages of both and, at the end, which can be the future prospects for both of them and what they can do to sustain or improve their market approach.

5.1 Design

The design process of the two companies is quite similar for some aspects but different for other ones. Zara, with its 200 designers, generates around 11.000/12.000 new designs each year compared to the only 2000/4000 of competitors such as Benetton. Benetton's designers characteristic is their multicultural background, more than Zara.

Both the companies have a team of designers travelling around the World and discovering what are the different tastes and wishes of customers to make the production focused and provide different designs following the different requests.

What more differentiate Zara from Benetton is their relationships with the stores.

We know that Zara owns most of its stores and it is a critical factor to better have under control the desires and impressions of customers than Benetton. The Italian company, in fact, has a less immediate response from stores and it is trying to open as much owned retail shops as possible to increase the efficiency in this sense.
Benetton runs in-store surveys and Zara has twice a week a shop assistant that assist and dialogue with customers to understand what they want: even from this aspect we notice a higher dynamism and functionality of the Spanish company.

5.2 Production

The first big difference between Zara and Benetton in terms of production is that the first is characterized by a centralized structure meanwhile the second is more branched. After Zara receive fabrics from different suppliers around Spain, the production activity can take place. The 40% of the factories are owned by Zara and are close to the headquarters in Spain. The rest (60%) are instead outside suppliers with the majority of them in Europe.
Benetton, instead, procures fabrics from the countries in which the production centers are located to save costs. Indeed, only a small part of garments are manufactured in Italy with the rest in the East Europe, North Africa and China.
Zara has always tried to keep the production centralized, in order to have a more efficient control of the products. Benetton, on the other hand, aims at costs saving and after the incumbent competitors came out around 2000s it delocalized in huge quantities. Today, the company is trying to integrate the supply chain but it is becoming a difficult process.
The two different approaches underline how Zara, again, owns a more dynamic business model. On the one hand Benetton can save more costs and does not need high investments for personnel but, on the other, the process to re-organize the production based on customers' requests is much slower. This allows Zara to get a competitive advantage in terms of time on the market.
The two production models, then, have some analogies and some differences. What is most relevant is essentially the quantity of garments

5.3 Distribution

Even in this case we can observe how Zara is synonymous of centralization while Benetton represents a dislocated business model.

Zara, indeed, owns the two main distribution centers in La Coruña and Zaragoza from where the 75% of garments are distributed. The rest of the items (25%) are stored from outside distribution centres, specifically in Brazil, Argentina and Mexico.

Benetton, instead, has more logistic centres dislocated around Europe, in China and in India. The main problem Benetton had to face since the raising of the fast fashion competitors was the large amount of time for delivering products in stores. Zara, for example, is able to send garments twice a week to retailers and it is able to renew them on a constant basis, monitoring the request of the market. Every week there is something new and store managers have to put the "news" on the shelves.

Benetton, until few years ago, was not able to make frequent renewals and it was a problem for being competitive in a dynamic and innovative market. Since the introduction of the dual supply chain it started align with Zara but it still has larger leads of time to create and deliver new items with respect to the Spanish company.

Another big difference between the two companies is that Zara owns most of the stores around the globe (even if some of them are in franchises) while Benetton relies almost exclusively on franchises. Now, as we already said, the Italian group is trying to integrate as many franchises as possible and it is necessary to open new owned stores.

Another characteristic of Zara is the supply of small stocks of garments to keep warehouses costs as low as possible and to have fast turnaround of garments in store. Furthermore, periodically Zara retailers send back to the distribution centres the unsold or unsuccessful garments that are then sorted to the stores or countries in which has been recorded a high percentage of sales for that particular items.

Benetton, having the most part of the retailers in franchises, do not operate in the same way. In most of the cases the owners of the shops have to buy in advance the stocks that come in and they cannot send back again. For this reason, customers during the sales can find both modern and "obsolete" clothes on the shelves and this reduce the level of novelty that people want.

5.4 Marketing

From the in-store Zara interview we have had the confirmation of how the company has always invested very small amounts of money in Marketing. Basically, the only marketing campaigns are run on the social networks and, as A.V. (the store manager) told us, "*it is just a sort of calls to visit the website*: *the marketing costs represent just the 2-3% of the total expenses*".

What Zara mainly relies on about marketing are basically two elements: the *word-of-mouth* of people and the set of the stores in *prime locations*. It was never necessary to find out other sources for being known. The awareness of the company has always been possible thanks to the innovative system it operates with: the frequent new garments, the always fashion clothes and, in particular, the affordable prices are enough to make people often come in and tell the experience they live inside the Zara retail shop. The mentioned *prime locations* also have a fundamental role in Marketing. The large windows with visible clothes make advertising by themselves and do not need any other support. We can say that Zara have always saved marketing costs to invest more money in something that allow to keep a centralized structure such as the opening of new stores and the transportation costs from Spain all over the World.

Benetton, on the other hand, adopted a different strategy.

We know how its advertising campaign are famous and that most of them have been realized by Oliviero Toscani. The aim is to impress people with strong images incorporating shocking or meaningful contents. In such marketing campaigns clothes are never sponsored because the willingness is to make people aware about the Benetton brand. In the past the visibility of the group increase a lot through sport events such as Formula1, basketball and rugby, to cover with advertising the largest amount of people.

Gianluca Pastore, the communication responsible for Benetton, declared that "*after a Millward Brown research we can say that the health status of our brand is more than 70% all around the World*".

So Benetton has always invested a lot in this aspect, and it still spends a lot of money (almost the 50% of the budget) in advertising. Probably, since the promotional channel for fashion are changing (especially for fast fashion) it should give less importance to marketing focusing more on how to make the organization more efficient.

5.5 Online Sales

The online sales is another point of difference between the Italian and Spanish companies.

Until two years ago, Zara did not rely on online sales for logistic reasons. Basically the distribution centers were not adapt to follow small quantities of orders by customers and Zara was more addressed to make people come inside the store and try the items. Today, instead, the online sales are important and they are trying to always improve the system. With online sales is much easier for the company to understand customer tastes and customer themselves can find on the website something they did not find in stores (remember the high turnaround and small stocks of garments!). We can consider the introduction of online sales as a mutual advantage and as a strengthening of the company-customer relation.

What mainly distinguish Zara from Benetton, in terms of online sales, is the possibility to buy in store and through an app for iOS and Android devices.

Despite Benetton has online sales on the website and in-store as well, the missing of a smartphone app influence the potential sales the group could reach. From 2014 it is possible to buy online directly from the store, after the implementation of screens around the shop to create an innovative, functional and dynamic customer experience.

We can understand the opportunity Benetton is not considering just observing that fashion is the first industry in the e-commerce. For example, in Italy the 17% of the total sales of the fashion industries towards Italian and foreign consumers derives from the online platforms and, in percentage, it is increasing with an average of 30-35% year by year.

5.6 What about the future?

At this point, after the analysis and comparison of the two business models, we should ask if the two models will be sustainable in the long term or not. In particular, will Zara be able to keep going on with its strategy of expansion and

maintaining the centralized structure that characterizes it? And what Benetton will have to do to get close to Zara and the other competitors of the fast fashion?
For what concerns the first question, as long as it will be convenient in terms of profits, Zara will be able for sure to enter new markets. The dislocation of the production and distribution centers will have to be taken always into consideration to cope with long distances. This would guarantee the speed Zara has in terms of new designs production and distribution, but would gradually compromise the centralization and so the high rate of control that nowadays it has.
On the other hand Benetton should try to find new solutions for make the supply chain leaner and more efficient. It should stop try to be faithful to the old traditions and make the business model more integrated and centralized. Benetton should probably bring back strategic activities as much as possible, such as production and distribution; should cut some irrelevant costs and invest more in what could make the business model more innovative, faster and dynamic. The market will always change and the companies have to be able to face it.
At the moment we can say that Zara has a competitive advantage due to its newness, dynamism and a higher fashion in the items that Benetton is trying to reach. The Italian company can rely on a higher quality of materials but prices are a bit higher: as long as customers will prefer to dress in a cheap and fashion way, Zara will be always one step forward the others.
Looking at the revenues of the last five years, we can notice the substantial difference between the two companies.

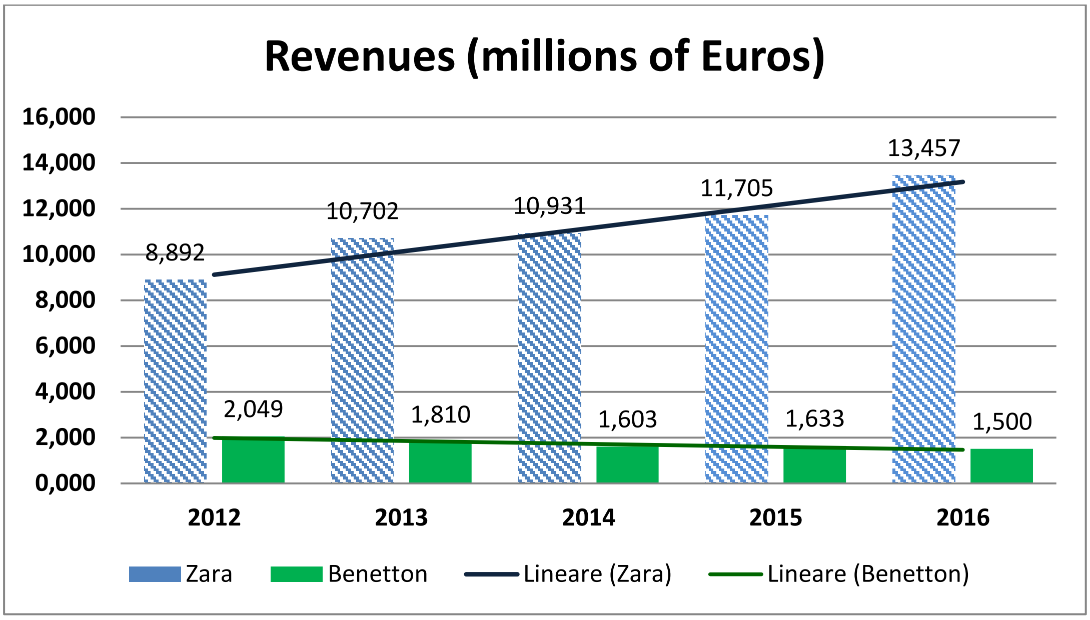

Figure 5.1: Zara and Benetton Revenues 2012-2016 (millions of Euros).

How we can notice the trends are completely opposite, such as the numeric level of revenues. Zara's prospects shows a potential growth for the future instead Benetton, with substantially lower revenues per year, ha a negative trend which should be diverted to compete.

Conclusions

The comparison between the Zara and Benetton business models, underlining the heterogeneity of two competitors in the industry of the fashion, is the objective of the thesis. The two companies can be considered two competitors since they propose fashion garments at relatively low prices (especially for the Zara case) and try to fast reply to customers' needs and tastes.

After a theoretical framework about what a business model is and in particular what are the key elements of the business model in the fast fashion industry, there have been taken into consideration two real cases to observe how the industry works in concrete.

It has been run an interview in a Zara store to get more precise information about the flexibility and dynamism of the organisation. For what concerns Benetton, instead, the interview has not been possible and it is a first limit in the research.

In general, there have been some complications in finding data and prospects of the Italian company that seems more reluctant to give information about itself. Benetton seems to be more "scared" about the competition, and may consider every given information as a threat for its competitive advantage.

The results about the parallelism highlights a higher level of innovative and dynamic business model of Zara which Benetton has tried to imitated and is currently trying to get closer to.

Benetton introduced the dying after production ("tinto in capo") which Zara imitates. For the rest of the business models, most of the strategic and efficient characteristics have been introduced by the Spanish company.

Benetton seems to be still far from the Zara business model especially in terms of fast responsiveness (despite the significant improvements of the last years) and fashion designs of clothes. On the other hand owns a higher quality of materials but nowadays customers seems not to concern about it, even because of a fast changing of styles and fashion trends.

Time and fashion go fast and, if on the one hand Benetton has to reach Zara's business model as fast as possible to increase its market share, Zara, on the other hand, has to control the fast-changing market to always be in line with it.

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