

Overture de 'Fashion and Luxury Management'

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Abstract

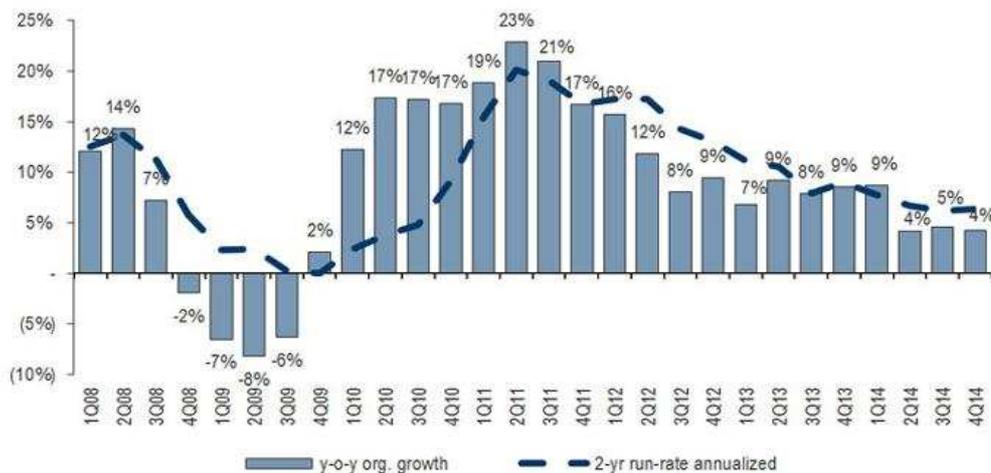
In 2014, the luxury fashion market closed with a value of 224 billion euros marking a growth at constant exchange rates of 3 percent and driven primarily by the online channel, and the outlet one. This Special Issue on 'Fashion and Luxury Management' aims to highlight some features of the High-End Italian Companies pertaining to the fashion and luxury industry of Made in Italy, and their key drivers of growth such as innovation, craftsmanship, creativity, and sustainability.

Keyword: Fashion Industry; Luxury Industry; Global Competition; Innovation; Craftsmanship; Creativity; Sustainability; High-End Companies; Made in Italy

1. Fashion and Luxury

The global luxury and high fashion industry demonstrates considerable growth with over 330 million luxury consumers around the world, in contrast to the modest growth of global markets. Demand for luxury goods continues to sustain the markets of the main western and eastern economies (Figure 1).

Figure 1: Development of the Luxury Goods Sector (2008-2014)



Source: Credit Suisse, 2015

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□ *According to Bain & Company, the luxury goods market has tripled over the past two decades, with a value of 223 billion euro in 2014. With a 5% growth rate in the third quarter of 2014, the luxury industry's growth is considered significant in the global economy (Annual Luxury Study, 2014). However, according to some marketing companies, worrying signs are emerging of the decline in luxury goods consumption. For example, Unity Marketing shows a decrease in expenditure on fashion accessories, clothing, beauty products and luxury jewellery brands in the past four years. This decrease would seem to be the result of very wealthy families with annual incomes in excess of 250,000 US dollars spending less on luxury goods.*

The global luxury industry is primarily driven by online sales of luxury goods, which continue to grow as the Internet has radically changed the path to purchasing. Online purchases are dominated by younger buyers and e-commerce is now an important sales channel for luxury brands, especially for a large number of the most affordable luxury goods.

□ *According to Credit Suisse research, in 2014, accessories and clothing dominated online purchases of luxury products, representing more than half of total online sales, followed by beauty products, watches and high-end jewellery.*

In the online market and for younger female and male buyers, the growing demand for luxury electronic devices is also evident. Such growth in demand is driven by the continuous competitive imitation of smartphones (Brondoni, 2012). High-end smartphone manufacturers develop intense competition based on innovative features and luxury mobile phone sales remain consistent, despite ever-increasing launch prices.

The online market has also generated a second-hand market for luxury brands, which in recent years has assumed significant importance.

□ *According to the Bain & Company 2014 Annual Global Luxury Study, the second-hand market for luxury brands in 2013 recorded sales of 16 billion euro.*

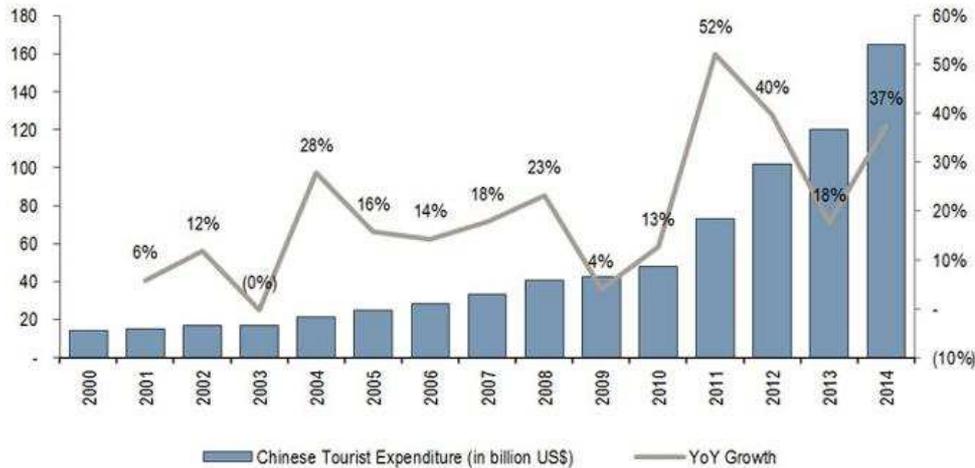
The second-hand market for luxury brands is particularly important for the growth of the luxury and fashion industry. On the one hand, it enables middle to lower-middle income groups to purchase expensive brands. On the other, developing the spread of products 'from below' promotes the sale of new luxury products based on a potential market that is increasingly widening.

The main component of the global luxury industry is nevertheless tourism and international travel. In particular, outgoing Chinese tourism has in recent years become a very important component (Figure 2) of the growth in demand for luxury goods.

When the Chinese GNP was above 12%, Chinese tourists spent more on luxury items abroad than at home, especially since luxury goods in China are much more

expensive. However, in the last three years, with the growth of Chinese GNP at around 6%, China's international tourism has ceased to be the main driver of the global growth of the luxury and fashion industry.

Figure 2: *Development of the Spending of Chinese Tourists Abroad (2000-2014)*



Source: Credit Suisse, 2015

□ *Emergent markets, such as China, have recently seen a downward trend in luxury goods expenditure, which coincides with the economic slowdown in Asia. This tendency of the containment of purchases is also associated with a shift in demand towards lower price luxury brands and therefore accessible to a wide segment of customers, especially women and millennials (Credit Suisse, 2015).*

Another important component of the growth in luxury goods sales is duty free shopping, in turn closely linked to the continuous development of tourism and international travel.

□ *According to Global Blue, a company that operates one of the largest duty free shopping networks, purchases in duty free shops have increased at an average annual rate of 26% since 2009. In addition, the Ipsos 2015 Chinese Luxury Forecast shows that more than half of respondents in China shopped in duty free shops while traveling abroad in 2014.*

The big corporations that manage luxury brands are expanding their presence in international airports where wealthy travellers dedicate themselves to shopping.

2. Global Trends in Fashion and Luxury Management

The fashion and luxury market is characterized by a peculiar structural complexity and a wide variety of management processes realized by companies operating within. As the competitive dynamics of the fashion and luxury market are more and more interconnected, a broader understanding of fashion and luxury management is essential to integrate new ideas related to fashion and luxury marketing theory and practice.

The luxury fashion market grew in last years and much of this growth came from emerging markets, especially from the increasing buying power of Asian consumers, who migrated into the middle class and started considering fashion products as a tool to express their status quo and lifestyle. In addition, Asian customers and, in particular, the Chinese ones travel extensively abroad and shop in foreign markets, typically in Europe and US countries. By 2020, the McKinsey Institute forecasts that Asian-Pacific residents' spending outside their home country will triple and in the luxury goods' segment 75 percent of sales will originate from Chinese buyers, with more than half of that being spent outside of China.

In fact, travel shopping represents an important element to consider in examining the sales' breakdown for geographical area in retail fashion market. In the last years, in global clothing retail market, the European fashion market has suffered a loss of 3.1%, which was completely absorbed by Asian countries that recorded +3.8% (MarketLine, 2015). However, in real terms, the loss was even more severe because the decrease in consumption of European buyers was offset by the travel shopping. In 2015, France, Germany, United Kingdom, and Italy constituted the main destinations for travel shopping and, for example, in Italy the top spenders were Chinese tourists (32% of the Italian tourist shopping), followed by Russian (13%), and American (8%) (Marketline, 2015).

It is now possible to examine some global trends that characterize the fashion and luxury industry and, consequently, affect the way in which fashion and luxury companies manage their business.

- *New Target Groups, New Markets, New Megacities*

In global markets, demography represents an important environmental trend that companies carefully monitor in order to orientate all their processes of manufacturing, logistics, retailing, and sale.

The world population is growing rapidly and in various ways; for example, from an age perspective, in Western countries, the senior segment is developing much more than others in terms of size, since the population is aging, but also in spending power for luxury and fashion goods. Furthermore, from a geographical perspective, the economic power is shifting from North to South and from West to East. A study carried out by the McKinsey Global Institute on the cities' role in the global economy shows that, while currently 25 megacities around the world reach a population over 10 million, by 2020, a quarter of the global wealth will be concentrated in 60 megacities (with more than 10 million residents), and some of these will have a size even larger than some Nations (Dobbs et al., 2011).

Many megacities represent already currently a great market for fashion and luxury companies that are expanding there. For example, Tianjin, one of the largest

cities in China with 13 million residents, is growing very fast and determine the same clothing total revenues than Sweden (Keller et al., 2014). However, in 2025, this city is expected to become one of the largest clothing markets worldwide and, the entire fashion market will be concentrated in few cities mainly placed in Asia and South America. Consequently, fashion and luxury companies need to rapidly reach new segments and new markets by adapting their marketing strategies to develop into the new contexts.

- *Customer Focus and Brand Building*

In fashion and luxury market, brands are important points of reference for customers that spend less time than in the past to do shopping and they look for the items of known and loved brands. Therefore, it becomes particularly relevant for fashion and luxury companies to strengthen an emotional attachment with customers based on a clear brand positioning (Brondoni, 2015). Companies need to improve their brand relationships and use all sources of customer data to analyze in order to develop personalized marketing communications and tailored special offers.

- *Democratization of Fashion and Luxury*

In recent years, a trend labelled as ‘accessible luxury’, ‘massification of fashion and luxury’, or ‘democratization of fashion’ has taken place and has seen in the decrease of fashion products’ price one of the main reasons of an enlargement of their demand (Li et al., 2015). The process has contributed at changing the customer perception of fashion items from being considered as a durable asset for few, to becoming a convenience good for the mass.

Also in the luxury field, some ultra-prestigious brands have approached the mass-market in order to make available their items to a wider public. Thus, massive policies (from the contraction of the two terms "mass market" and "prestige") have been developed by approaching an exclusive brand to a store brand for a limited period of time. In this way, the mass market brand is able to provide consumers with the chance to buy an item designed by a luxury brand and this latter can increase its awareness and revitalize its image.

- *Innovation and Flexibility*

The speed of change in the fashion and luxury industries has increased significantly. The growing success of fast fashion retailers added pressure on times since on average a fast fashion cycle for a collection can be only four weeks. Thus in order to speed their processes, fashion and luxury companies pursue a great flexibility within their supply chain through innovation. The term “innovation” emphasises every dynamic aspect of novelty that improves a company’s competitive position. Thus, in fashion and luxury industries, innovation can be referred to many aspects such as, for example: the adoption of devices and procedures that can provide data in real time; a constant monitoring of logistics flows of goods; new or technological tissues or materials, innovative design, innovative manufacturing or logistics processes, innovative solutions into the stores; and even new retail formats. In particular, flexible retail formats can help improving customer value and generating special shopping experiences. They have

spread among fashion and luxury companies with the aim of enhancing the customer-brand relationships; innovative formats are for example flagship stores, pop-up stores, and virtual showrooms where customers can try out products virtually.

- *CSR and Sustainability*

The above-mentioned democratization process of fashion caused both an increase of fashion and clothing demand and an intensified consumption of natural resources. Furthermore, the markets' globalization provided fashion and luxury companies with the opportunity to place their manufacturing and retailing processes wherever it is more convenient (Arrigo, 2010).

Aware of their impact on the natural and social environment and in response to some NGOs and public opinion's accusations, fashion and luxury companies are more and more committed to social, environmental and economic sustainability (Perrini & Vurro, 2010; Vurro et al., 2014; Appolloni et al., 2013). Furthermore, ethical fashion movements have recently emerged in response to fast fashion, along with sustainable considerations (Kim et al., 2013).

- *Digitization & Information Technology*

Mobile devices such as smartphones and tablets have proliferated in recent years, and in several emerging countries they represent the primary way by which people gain access online. Online consumers, especially young people gather information, express opinions, exchange views and compare prices in the digital environment.

Thanks to the interactive nature, social media plays a key role in building the relationship with consumers both from a marketing communication purpose and a commercial one (Arrigo, 2014). In fact, social media platforms represent also a sales channel, through the "social commerce", and many fashion and luxury companies have already caught this opportunity by developing a social media presence integrated with a direct sale on the most known social platforms, such as Facebook.

However, digitization goes far beyond digital marketing communication and refers to all company activities that can become virtual. Although in fashion and luxury industries most of manufacturing processes are labor-intensive, companies make a large use of digital technologies to automate and speed various tasks. For example, during the creation of new collections, 'digital design' are employed for a rapid garment industrialization and image digitization. Again, 3D scanning functions are commonly used in fashion and clothing industry for the human body digitization (White et al., 2015). Furthermore, the RFID technology allows fashion companies to reach a higher efficiency by following, via an antenna reading the radio frequency data of a microchip present on a tag for each product, the route it takes from the moment it leaves the manufacturing facilities along the entire supply chain until the final point of sale (Garrido et al., 2012). In retail settings, the microchip placed on the garment tag works as antitheft by preventing robbery.

- *Multi-Channel Strategy and Cross-Channel Integration*

Luxury and fashion companies design very carefully how to distribute and sell their offerings since it influences both their brands and their profitability. A large

portion of fashion customers go online not only to watch garments and items but also to shop. Only few years ago, this would seem unbelievable. A recent research showed that the sales of fashion items through the digital channel have grown between 2002 and 2014, three times faster than sales realized through physical outlets. In particular, clothing online sales marked + 17.5% versus + 4.2% in offline sales in the same period (Keller et al., 2014). Thus, the digital channel offers significant opportunities to fashion and luxury companies that through a multi-channel strategy try to reach customers everywhere and every time.

However, realizing a multi-channel strategy is quite complex since customers use various channels for choosing and buying clothes and their expectations have grown, in fact they desire to live an exceptional shopping experience both online and offline. Therefore, fashion and luxury companies need to look for a cross-channel integration in order to spread the same brand values, and to satisfy customers by removing the risk of channel cannibalization (Berghaus, Müller-Stewens, Reinecke, 2014). For example, some tactics of integration among sale channels are represented by the following: consumers can choose and buy online clothes but they need to pick up them in a physical store, or they can receive products at home but in case of problems they have to return in-store (Arrigo, 2015).

The above mentioned global trends faced by fashion and luxury companies make their development policies very complex especially because the fashion market is oversupplied and the competitive rivalry is fierce. Consequently, each competitive action must be conceived and analyzed with respect to that of competitors.

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