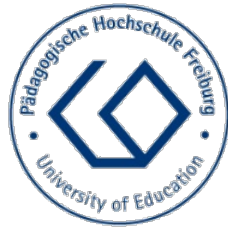


# Best Practices of Sustainable Business Models



Hochschule Reutlingen  
Reutlingen University



Co-funded by  
the European Union

# Learning Objectives

After this lecture students should be able to:

- Describe the role of business models for sustainable development
- Understand what Product-service Systems (PSS) are
- Understand how different types of PSS can contribute to sustainability in the fashion industry
- Understand the benefits and downsides of renting fashion

# Introduction

- Falling prices for clothes relative to other consumer goods, diminishing quality of apparel, rise in households' disposable income
- Consumers shift from 'living without' to buying more fashion items
- Further accelerated through the advent of e-commerce (= immediate and easy purchase of fashion from all over the world at a low price)

# Introduction

→ “throwaway culture”:

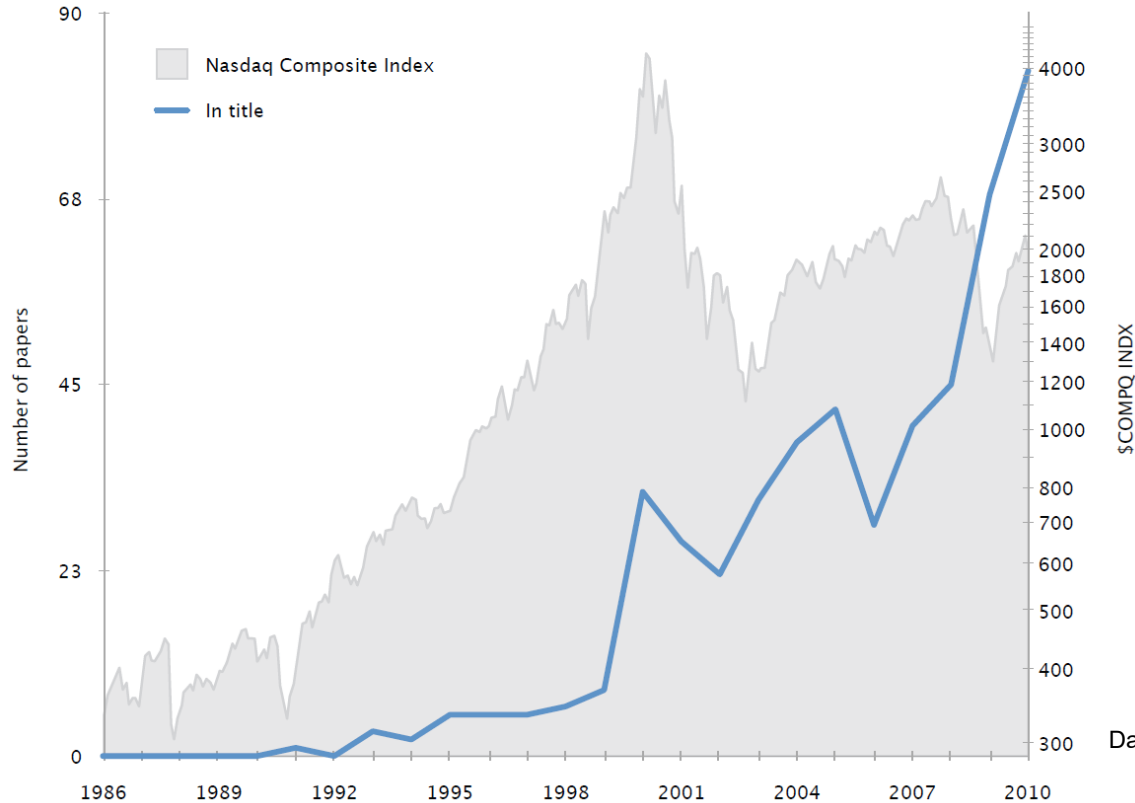
many clothes being disposed before their effective lifetime has ended

- Problem rooted in our economic & social system + behavior
- Sustainable technologies and material insufficient



New Business Models needed

# What is a Business Model?



## Evolution of the term

DaSilva & Trkman (2014)

# What is a Business Model?

- Defines the architecture how the enterprise creates and delivers value to customers
- Comprises:
  - Resources
  - Revenue / Costs
  - Customers
  - Activities
  - Partners
  - Channels
  - Value Proposition

# Business Models needed that...

- ...reduce quantity of produced items
- ...prolonge garments' lifetime
- ...intensify use intensity

# Product-Service Systems (PSS)

- Instead of selling solely tangible products PSS focus on **fulfilling final customer needs** through offering complementary service elements
  - Products alone not valuable - serve as vehicle to address customer needs.
  - Companies only offer value propositions - value creation occurs as co-creation in networks



# Product-Service Systems (PSS)

- **Benefits for the environment**

Customer satisfaction decoupled from material consumption

→ fewer material resource input is required for value creation

- **Benefits for companies** (especially in high competitive industries)

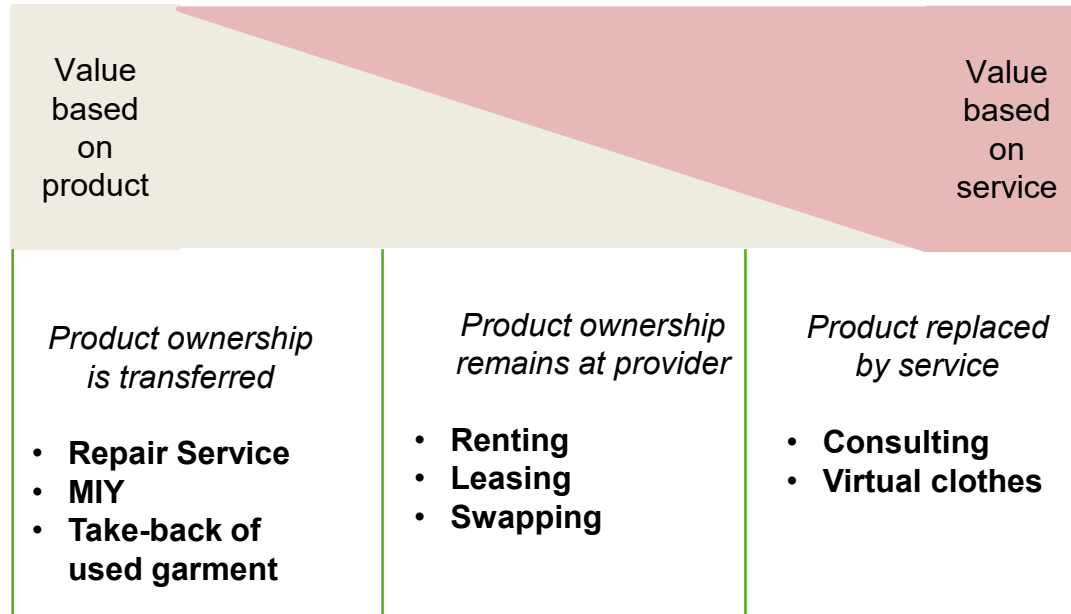
- differentiation

- compete with cost pressure

- mitigate risk of being imitated by rivals

- enhance customer relationships

# PSS in the range between pure products and pure services



Tukker, 2004; Tukker & Tischner, 2006; Baines et al. 2007

→ PSS contradict the traditional, linear fashion business model: Implementation requires new distribution channels, revenue streams, logistics and expertise

# PSS Types

## 1. Product-oriented

- Products are sold in a traditional manner but supplemented by extra services, such as after-sales services, that ensure long-term functionality (e.g., maintenance and repair services) or optimized application of the product (e.g., training and consulting)
- Customer satisfaction is still gained by ownership but enhanced by the convenient feeling of possessing an enriched product

# Examples Product-oriented PSS

## Repair

Levi's or Patagonia's repair initiatives are among the first and most popular examples of product-oriented PSS on a large scale.

- Repair or redesign offers intensify the use and extend the garment's lifespan
- Particularly in the outdoor segment, repair services are gaining more and more attention.

# Examples Product-oriented PSS

## Take-back schemes

- Allow customers to bring their used garments to the retailer and receive a voucher or discount per donated bag
- Received clothes are not disposed but passed into a close loop system to be sorted, reused and recycled
- Take-back of used clothes has recently gained a certain popularity when it was introduced by large retailers like H&M or C&A

# Examples Product-oriented PSS

## **Make-it-yourself concept**

- Among others, sportswear manufacturers like Nike, Adidas, New Balance and Reebok have launched initiatives that allow customers the opportunity to create and personalize their individual sneaker
- Customers develop an emotional bond with the fashion item and are less likely to dispose it soon.

# PSS Types

## 2. Use-oriented

- The use or functionality of a product is sold while the ownership of the product remains at the company that offers
- Thus, customer satisfaction is achieved through appreciating the inherent function of a product rather than through its physical possession
- Frequently cited examples are sharing or renting programs

# Examples use-oriented PSS

- Offers to **rent apparel** or
- **Platform that allows customers to swap clothes**
- **Fashion libraries** (increasingly in city centers)
- **Online platforms** where consumers can rent particular fashion items for a special occasion



# Examples use-oriented PSS

- Instead of purchasing new apparel, consumers share already existing fashion items → Hence, the effective use of the garment is intensified
- This is especially successful for garments that are rarely worn like bridal wear or skiwear, or for babies who periodically outgrow their clothes
- Examples also embrace luxury and premium products: “Rent the Runway” has led the way and with “Prêt-à-Louer”, “Dresscoded”, “Chic by Choice” and “Le Tote”, other global firms are successful with offers to rent premium and luxury clothes

# PSS Types

## 3. Result-oriented

- The company sells a result, a capability, or a competency that underlies a product while the respective product still remains the property of the company
- Examples may be selling laundered clothes (instead of a washing machine), web services (instead of a dictionary), or transportation (instead of a bus)

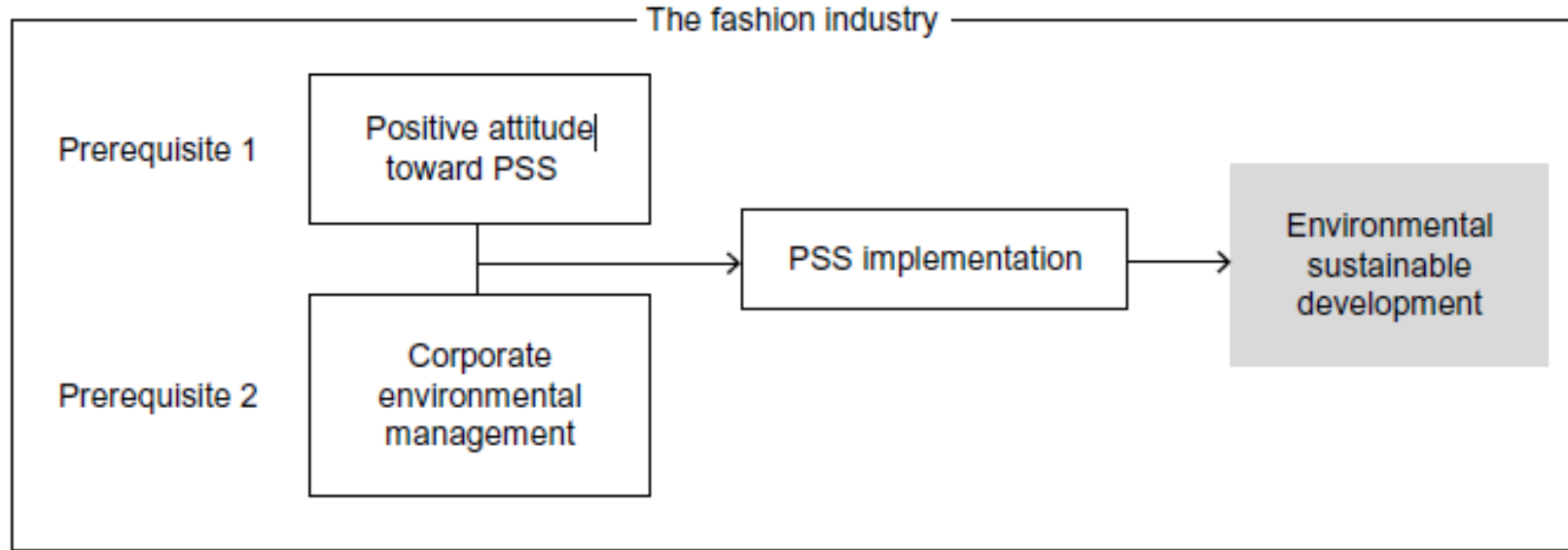
# PSS and Sustainability

- PSS alone are not by definition more sustainable than traditional product-based models in terms of resource efficiency
- Product-oriented PSS do not necessarily imply the use of sustainable material and technologies and will at best effectuate prolonged product lifetime
- They preserve the existing system of product obsolescence as companies still pursue the objective of replacing an older product with a newer one

# PSS and Sustainability

- Firms that implement PSS are, therefore, required to offset sustainable shortcomings of PSS by concurrently pursuing Corporate Environmental Management (CEM)
- Empirical studies of different industries demonstrate that PSS can equally improve both economic performance and environmental sustainability
- Two prerequisites can be formulated for PSS to substantially contribute to the sustainable development of the fashion industry: Positive economic attitude towards PSS + implementation of CEM

# PSS and Sustainability



Adam et al., (2017), p.238

# Attitude of Fashion Firms Toward PSS

- The vast majority of fashion firms have not discussed implementation yet and relatively few firms have already put PSS into practice
- Implemented PSS types are mostly limited to product-oriented repair services and take-back of used garments

PSS concept	Already implemented (%)	Considered implementation (%)	Discussed but discarded implementation (%)	Not discussed yet (%)
Repair service	18.6	12.7	1.0	67.6
Redesign service	2.0	4.9	1.0	92.2
Take-back of used garments	13.7	9.8	1.0	75.5
Make-it-yourself	4.9	2.0	5.9	87.3
Renting	1.0	9.8	1.0	88.2

Adam et al., (2017), p.238

# Attitude of Fashion Firms Toward PSS

## Reasons??

Implementing product-oriented concepts does not entail greater risks for the firms

- Repair service and take-back of used garments do not contradict the traditional business model of producing and selling and do not affect current business activities of regular retailers to a greater extent
- It is possible to outsource and implement these concepts effortlessly.
- For example, many fashion companies across different segments may outsource take-back of used garments to a third-party provider. Used garments are collected, stored in the shop, and transferred to a third-party provider who organizes the sorting and transportation to the recycling plant

# Attitude of Fashion Firms Toward PSS

- Only a few companies have discussed a concept but discarded implementation
- Companies that have commenced thinking about PSS are likely to actually implement them
- This may indicate that firms that have gained knowledge on PSS recognize opportunities related to PSS and thus consider putting them into practice



# Attitude of Fashion Firms Toward PSS

- Greater organizational efforts are required for implementing a renting model since this significantly contradicts the traditional fashion business model
- Mastering two incompatible business models is challenging and involves the risk of establishing tomorrow's business at the expense of today's, especially as the present business model is working well for most fashion firms
- This trade-off is referred to as “**ambidexterity**”

# Strategically tackle ambidexterity

## **Spatial separation**

- Put the renting concept into an autonomous and independent unit with own brand name, value chain, and organizational structures
- One way to contain the risks but broaden the existing business portfolio with renting
- This, however, entails that firms fail to seize potential synergies between both units

# Strategically tackle ambidexterity

## Temporal separation

- Temporal separation could be a more viable strategy
- The renting concept could be started in a separate unit and gradually integrated into the main business over time
- Since the traditional manufacturing-oriented business model works well for decades, retailers are not used to change and may not envision a transition today

# Implementation of CEM

- PSS implementation of PSS is significantly interrelated with CEM: Fashion firms with a positive attitude towards PSS or fashion firms that have already implemented PSS also pursue CEM, thus making PSS eco-efficient and unlock its positive environmental impact

# Implementation of CEM

Variable	Positive attitude		Negative/ neutral attitude		F
	Mean	SD	Mean	SD	
Corporate environmental management (total)	3.85	0.79	2.40	0.48	130.68
(1) <i>Sustainable objectives</i>	4.10	0.91	2.23	0.82	112.79
(2) <i>Communication of sustainability</i>	4.06	0.95	2.12	0.65	147.93
(3) <i>Adoption of less polluting material</i>	3.94	0.92	2.21	0.70	98.57
(4) <i>Adoption of sustainable technology and organizational measures</i>	3.67	0.93	2.18	0.65	88.83
(5) <i>Reporting of environmental performance</i>	3.97	1.06	2.14	0.74	105.04
(6) <i>Training of employees on sustainability</i>	3.61	0.99	2.12	0.81	66.65
(7) <i>Rewarding of employees' sustainable behavior</i>	3.56	1.23	2.24	0.93	36.85
(8) <i>Assignment of responsibility to a unit/person</i>	3.89	1.09	2.26	0.79	75.44

Note.  $n = 102$ ; positive attitude,  $n = 36$ ; negative/neutral attitude,  $n = 66$ ; significant at  $p < 0.01$ .

# The future of PSS

- More companies may implement product-oriented PSS as they do not imply greater risks and do not contradict their existing business practice to a greater extent
- This may change if consumer demand for PSS increases, competitiveness intensifies, or the regulatory environment changes
- Firms that commence thinking about PSS also recognize PSS as beneficial for their firm and consider implementation
- If knowledge on PSS among firms increases or more companies put PSS into practice, other firms may follow and stimulate PSS diffusion in the fashion industry

# Renting Clothes

- In recent years the share economy has gained widespread success across different industries
- Prominent examples have been successfully put into practice, i.e. in the hotel (Airbnb), entertainment (Netflix) and transportation (Uber) industries
- Car sharing concepts are among the most prominent and well investigated examples

# Renting Clothes

- In the mainstream fashion industry the share economy has yet to be anchored
- However, there are few but increasing examples of entrepreneurial initiatives that adapt the idea of the share economy to the fashion industry by providing offers to resell, rent or swap clothes
- Especially a mushrooming of small ventures that offer services to rent clothes



# Renting Clothes

- **Renting** = agreement between two parties whereby one side obtains the right to use the rented item owned by the other side for a specific period of time
- Different types of fashion renting business models can be observed in the market that significantly differ in terms of value proposition, channels and cost-revenue streams

# Renting Clothes

- Firms that directly rent clothes to customers for a certain period of time either for a fixed fee or a membership fee (e.g. monthly) via an online store
- Fashion libraries that rent clothes through a permanent physical store
- Peer-to-peer renting (e.g. providers of online platforms)
- B2B offers (e.g. renting providers of working clothes)

# Let's work!

Discuss:

- What are the main drivers for consumers to rent fashion?
- What are the main barriers for consumers to rent fashion?
- How about drivers and barriers for companies?

# Consumer: Drivers

**Availability of rare items**

**Availability of variety**

**Price**

**Fun and social interaction**

**Uniqueness**

**Guiltfree satisfaction**



# Consumer: Barriers

**Hygiene / Health Concerns**

**Consumption Habits**

**Lack of ownership**

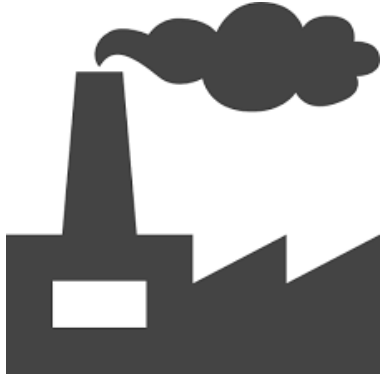
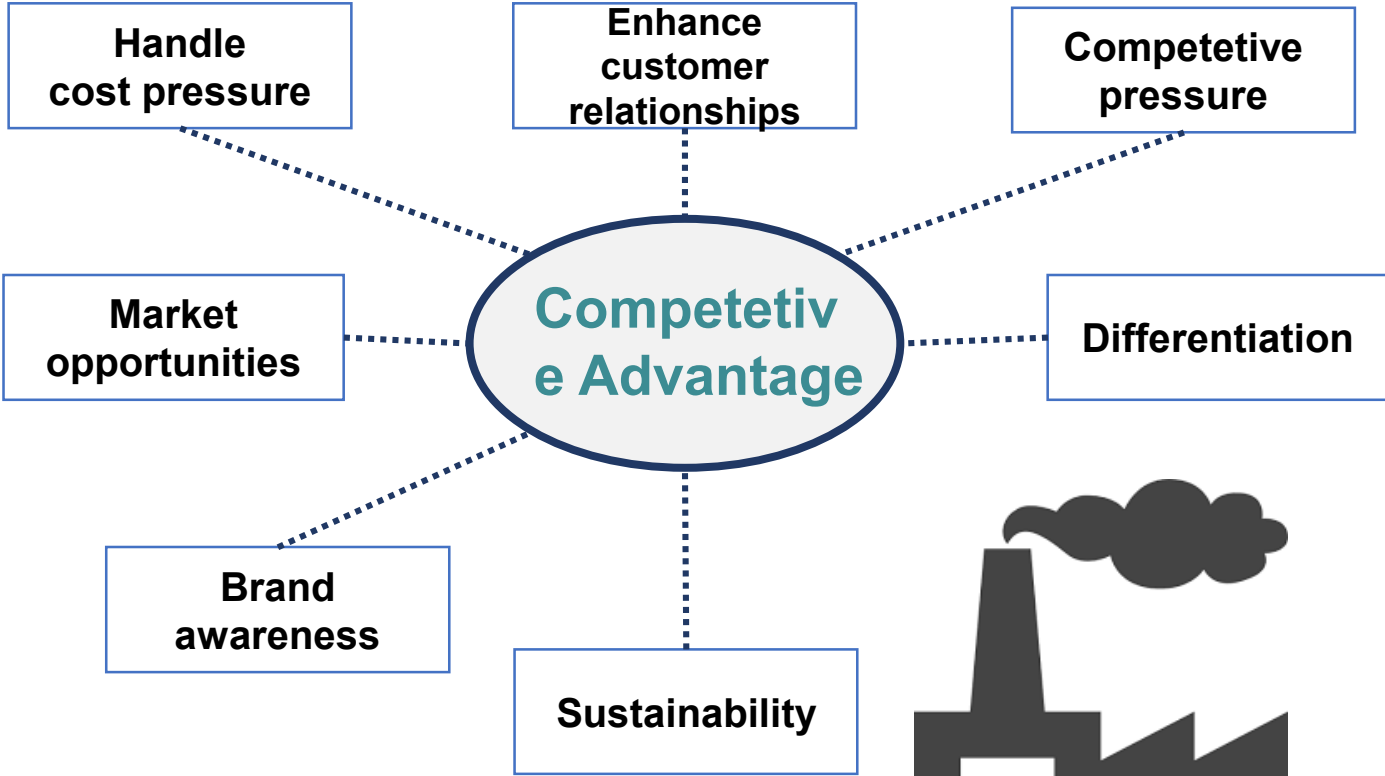
**Lack of trust in offer**

**Lack of trust in provider**

**Stigma of used goods**

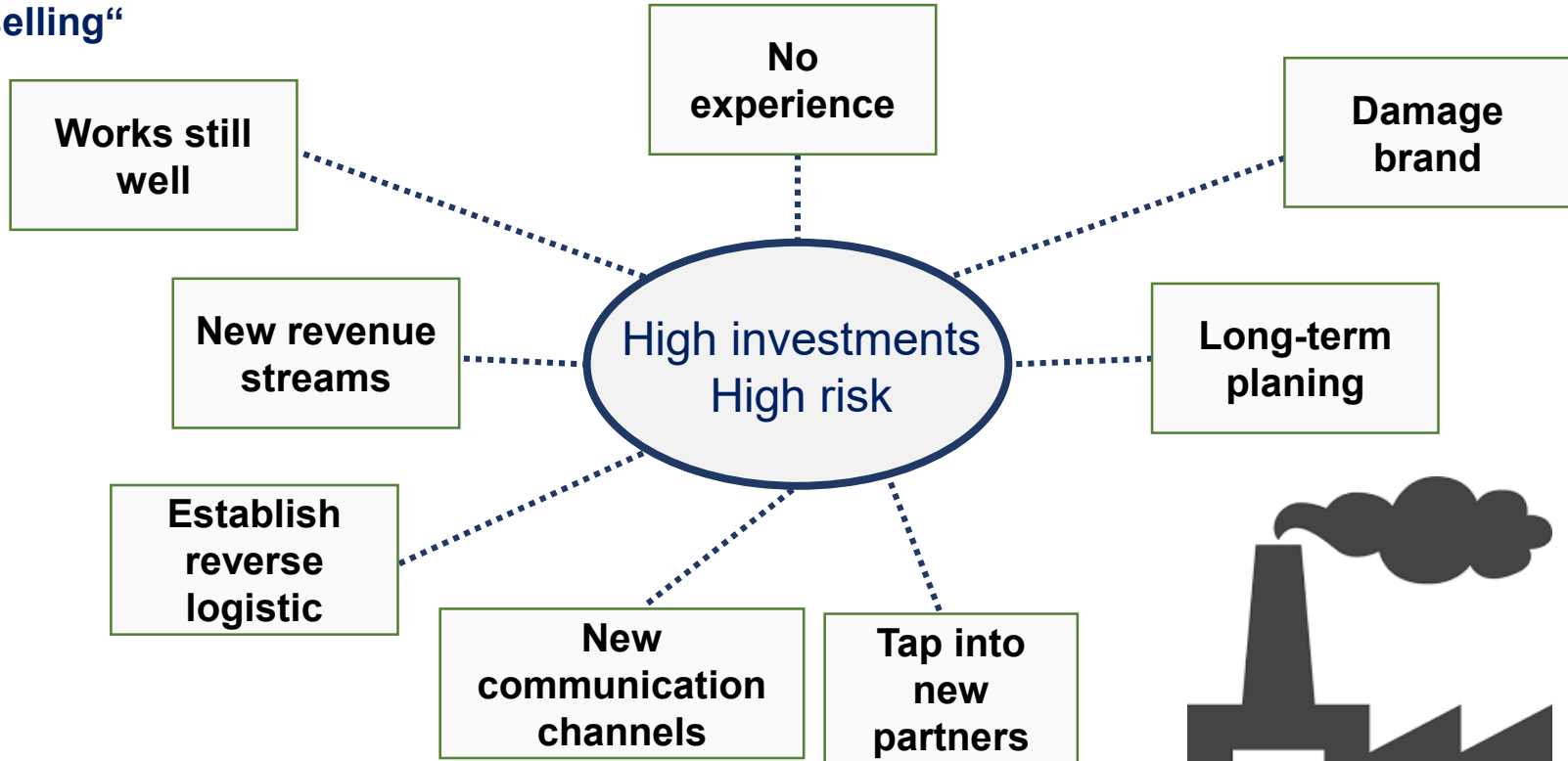


# Companies: Drivers



Tradition of „producing -and- selling“

# Companies: Barriers



# The Business Problem

Consumer

- Hygiene / Health Concerns
- Stigma of used goods
- Consumption habits
- Lack of ownership
- Lack of trust in offer & provider
- Benefit/cost-ratio

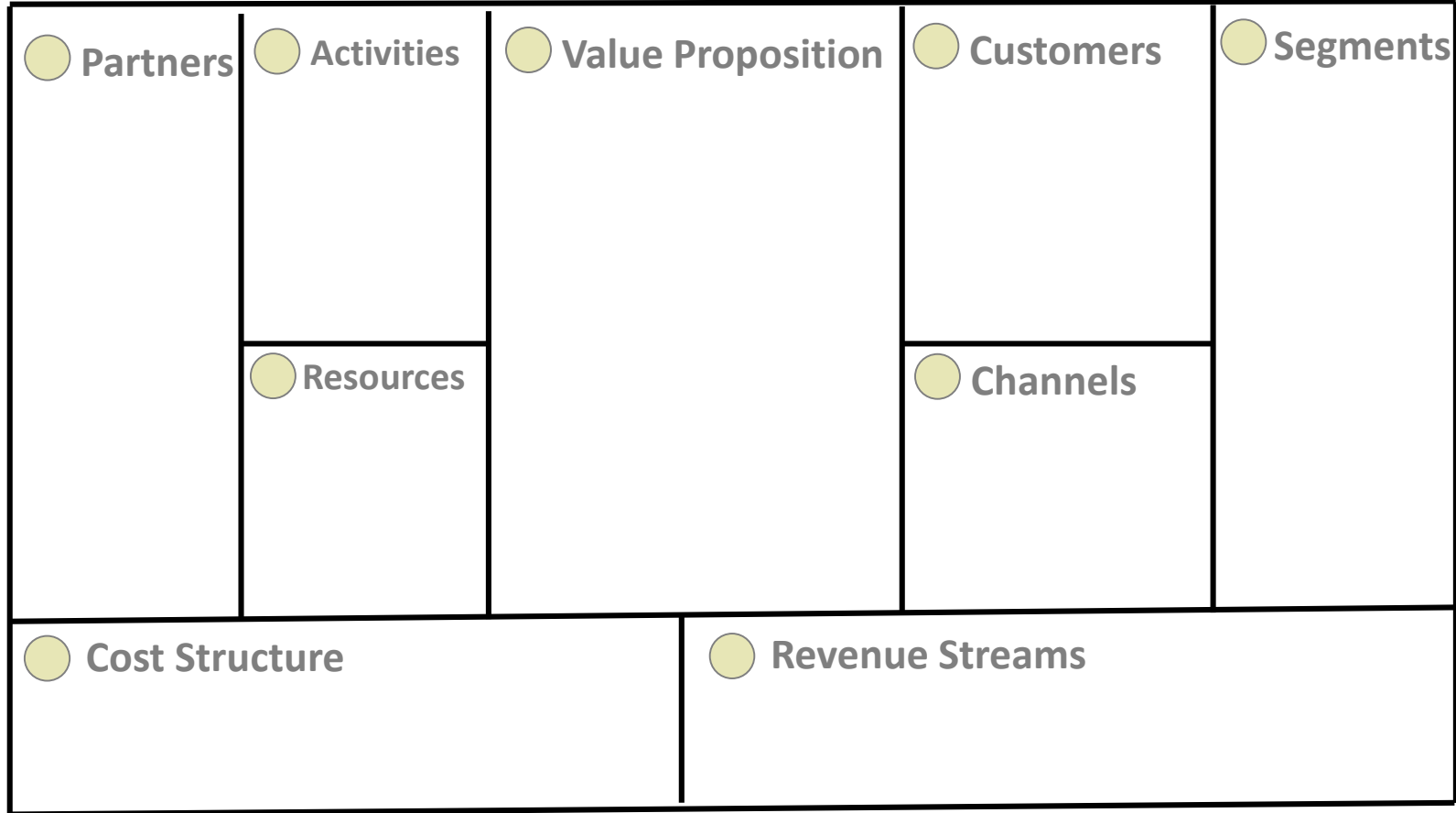
Provider

- Broad assortment
- Availability of rare items
- Logistic & transport & packaging
- Drycleaning & Repair
- Insurance
- Marketing / customer service / social media

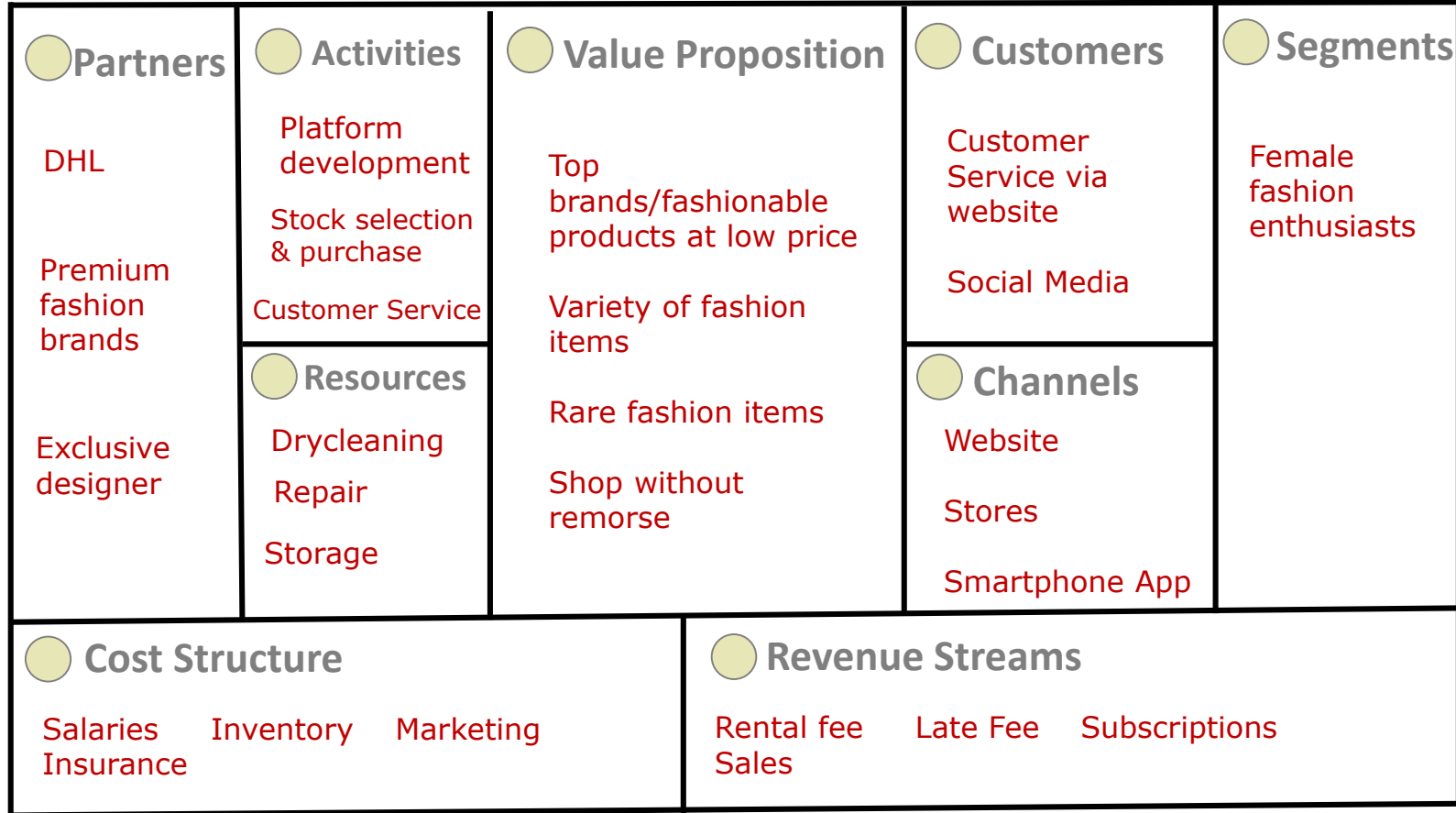


# Let`s work!

- Get familiar with the business model canvas: Osterwalder, A., & Pigneur, Y. (2010). *Business model generation: a handbook for visionaries, game changers, and challengers* (Vol. 1). John Wiley & Sons.
- Fill out an ideal type for renting fashion based on what you just heard and know



# Typical fashion renting business model



# Let`s work!

- Is renting clothes an opportunity to solve the problem of overconsumption? Discuss!

# Critical Review - Is renting clothes sustainable?

- Frequency of rentals before item is sorted out
- Origin of item: remainder of stock or extra production for new market
- Flatrate does not solve consumption addiction + permanent shipment
- Rental model → leasing model → sale model: rented items advertised for sale
- Currently only works high-end/premium – not the core problem
- ...

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