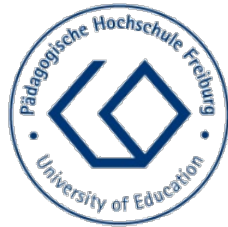


Green Fashion Retail Strategies



Hochschule Reutlingen
Reutlingen University



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Learning Objectives

After this course students should be able to...

- Describe the strategic management process
- Explain the most important terms of strategic management
- List different aspects that strategic management takes into consideration
- Outline how sustainability can strategically be implemented in a fashion retail store
- Describe the concept of Product-Service Systems (PSS)
- Explain how PSS can strategically be implemented

Defining Strategic Management

There are three important questions to answer in developing a strategic plan:

- Where are we now?
- Where do we want to go?
- How are we going to get there?

Stages of Strategic Management

The strategic-management process consists of three stages: strategy formulation, strategy implementation, and strategy evaluation:

- Strategy formulation
- Strategy implementation
- Strategy evaluation

Strategy Formulation

Strategy-formulation decisions commit an organization to specific products, markets, resources, and technologies over an extended period of time:

- developing a vision and mission
- identifying an organization's external opportunities and threats
- determining internal strengths and weaknesses
- establishing long-term objectives
- generating alternative strategies
- choosing particular strategies to pursue

Strategy Formulation

Strategy Formulation Decisions:

- What new businesses to enter
- What businesses to abandon
- Whether to expand operations or diversify
- Whether to enter international markets
- Whether to merge or form a joint venture
- How to avoid a hostile takeover

Strategy Implementation

- requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed
- often called the action stage
- strategy implementation includes developing a strategy-supportive culture, creating an effective organizational structure, redirecting marketing efforts, preparing budgets, developing and using information systems, and linking employee compensation to organizational performance

Strategy Evaluation

- Determining which strategies are not working well

Three fundamental activities:

- reviewing external and internal factors that are the bases for current strategies
- measuring performance
- taking corrective actions

Key Terms in Strategic Management

Competitive Advantage

- any activity a firm does especially well compared to activities done by rival firms, or
- any resource a firm possesses that rival firms desire.

→ A firm must strive to achieve sustained competitive advantage

Strategists

- Individuals most responsible for the success or failure of an organization
- Help an organization gather, analyze, and organize information

Key Terms in Strategic Management

Vision and Mission Statements

- A vision statement answers the question “What do we want to become?”
- A mission statement answers the question “What is our business?”

External Opportunities and Threats

- economic, social, cultural, demographic, environmental, political, legal, governmental, technological, and competitive trends and events that could significantly benefit or harm an organization

Key Terms in Strategic Management

Internal Strengths and Internal Weaknesses

- an organization's controllable activities that are performed especially well or poorly
- determined relative to competitors

Can you think of some opportunities and threats??

Key Terms in Strategic Management

Long-Term Objectives

- specific results that an organization seeks to achieve in pursuing its basic mission
- long-term means more than one year
- should be challenging, measurable, consistent, and clear

Strategies

- the means by which long-term objectives will be achieved
- may include geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures

Key Terms in Strategic Management

Annual objectives

- short-term milestones that organizations must achieve to reach long-term objectives
- should be measurable, quantitative, challenging, realistic, consistent, and prioritized
- should be established at the corporate, divisional, and functional levels in a large organization

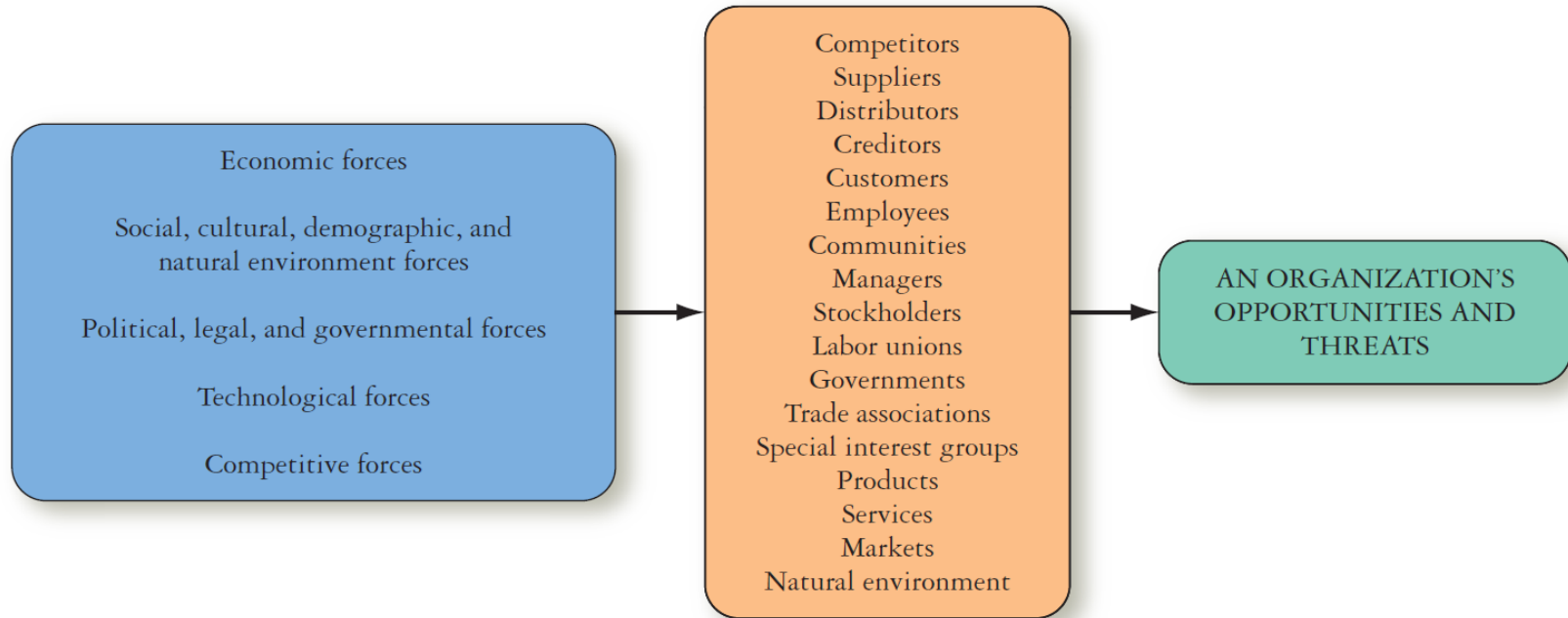
Policies

- the means by which annual objectives will be achieved

5 forces are relevant

1. economic forces
2. social, cultural, demographic, and environmental (SCDE) forces
3. political, governmental, and legal forces
4. technological forces
5. competitive forces

Identifying and evaluating external opportunities and threats enables organizations to develop a clear mission



The “Actionable-Quantitative-Comparative-Divisional (AQCD) Test” is a measure of the quality of an external factor

When identifying and prioritizing key external factors in strategic planning, the following 4 factors are important:

- Actionable
- Quantitative
- Comparative
- Divisional

→ The AQCD is a measure of the quality of an external factor.

Be mindful that relevant economic variables such as those listed must be quantified and actionable to be useful

- Shift to service economy
- Availability of credit
- Level of disposable income
- Propensity of people to spend
- Interest rates
- Inflation rates
- G D P trends
- Consumption patterns
- Unemployment trends
- Value of the currency
- Import/Export factors
- Demand shifts for different goods and services
- Income differences by region and consumer group
- Price fluctuations
- Foreign countries' economic conditions
- Monetary and Fiscal policy
- Stock market trends
- Tax rate variation by country and state
- European Economic Community (E E C) policies
- Organization of Petroleum Exporting Countries policies

Social, cultural, demographic, and environmental trends are shaping the way we live, work, produce, and consume

Social, Cultural, Demographic, and Environmental (SCDE) Forces

- S C D E forces impact strategic decisions on virtually all products, services, markets, and customers.
- These forces are shaping the way people live, work, produce, and consume.

Be mindful that relevant SCDE Forces variables such as those listed must be quantified and actionable to be useful

- Population changes by race, age, and geographic area
- Regional changes in tastes and preferences
- Number of marriages
- Number of divorces
- Number of births
- Number of deaths
- Immigration and emigration rates
- Social Security programs
- Life expectancy rates
- Per capita income
- Social media pervasiveness
- Attitudes toward retirement
- Energy conservation
- Attitudes toward product quality
- Attitudes toward customer service
- Pollution control

Political, governmental, and legal factors can represent major opportunities or threats for both small and large organizations

Social, Cultural, Demographic, and Environmental (SCDE) Forces

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- Natural environmental regulations
- Protectionist actions by countries
- Changes in patent laws
- Equal employment opportunity laws
- Level of defense expenditures
- Unionization trends
- Antitrust legislation
- EUROPE, Germany versus other country relationships
- Political conditions in countries
- Global price of oil changes
- Local, state, and federal laws
- Import-export regulations
- Tariffs, particularly on steel and aluminum
- Local, state, and national elections

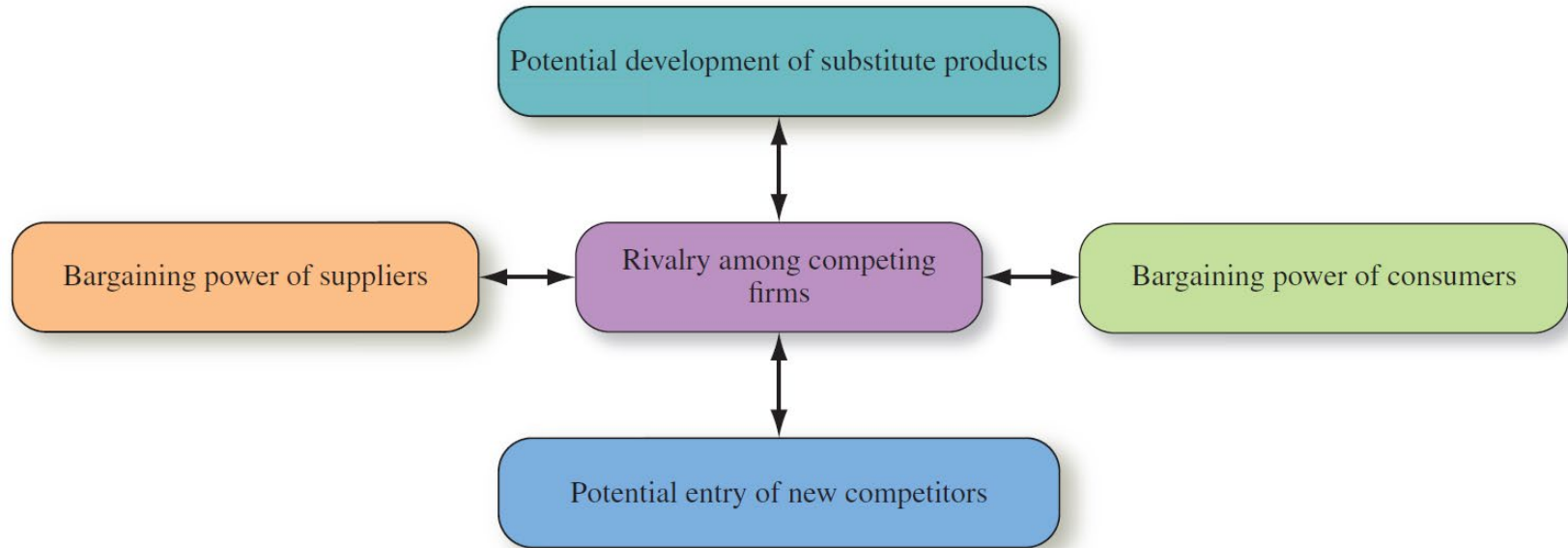
No company or industry today is insulated against emerging technological developments

- The Internet of Things
- 3 D printing
- the cloud
- mobile devices
- biotech
- Analytics
- AI
- Robotics
- METaverse

Addressing questions about competitors is important in performing an external audit

1. What are the strengths and weaknesses of our major competitors?
2. What products and services do we offer that are unique in the industry?
3. What are the objectives and strategies of our major competitors?
4. How will our major competitors most likely respond to current economic, S C D E, political, governmental, legal, technological, and competitive trends affecting our industry?
5. How vulnerable are the major competitors to our new strategies, products, and services?
6. How vulnerable is our firm to successful counterattack by our major competitors?
7. How does our firm compare to rivals in mastering the social-media conversation in this industry?
8. To what extent are new firms entering and old firms leaving this industry?
9. What key factors have resulted in our present competitive position in this industry?
10. How are supplier and distributor relationships changing in this industry?

Porter's Five-Forces Model of competitive analysis is a widely used approach for developing strategies in many industries



Porter's Five-Forces Model of competitive analysis is a widely used approach for developing strategies in many industries

- **Rivalry among competing firms**
 - Most powerful of the five forces
 - Focus on competitive advantage of strategies over other firms
- **Potential Entry of New Competitors**
 - Barriers to entry are important
 - Quality, pricing, and marketing can overcome barriers
- **Potential development of substitute products**
 - Pressure increases when:
 - Prices of substitutes decrease
 - Consumers' switching costs decrease

Porter's Five-Forces Model of competitive analysis is a widely used approach for developing strategies in many industries

- **Bargaining Power of Suppliers** is increased when (there are):
 - Few suppliers
 - Few substitutes
 - Costs of switching raw materials is high
- Backward integration is gaining control or ownership of suppliers
- **Bargaining power of consumers**
 - Customers being concentrated or buying in volume affects intensity of competition
 - Consumer power is higher where products are standard or undifferentiated

All organizations have strengths and weaknesses in the functional areas of business

- **The internal audit**

- Requires gathering, assimilating, and prioritizing information about the firm's management, marketing, finance, accounting, production/operations, research and development (R and D), and management information systems operations
- Provides more opportunity for participants to understand how their jobs, departments, and divisions fit into the whole firm

The basic premise of the RBV is that the mix, type, amount, and nature of a firm's internal resources should be considered first

The Resource-Based View (RBV) Approach

= contends that internal resources are more important for a firm than external factors in achieving and sustaining competitive advantage

- Proponents of the RBV contend that organizational performance will primarily be determined by internal resources. These resources can be grouped into
 - tangible
 - intangible
- For a resource to be valuable, it must be either (1) rare, (2) hard to imitate, or (3) not easily substitutable.
- These three characteristics of resources are called Empirical Indicators
- These enable a firm to implement strategies that improve its efficiency and effectiveness and lead to a sustainable competitive advantage.

Sustainability in Fashion Retail Store

Let`s have a look at an exemplary process for a fashion retailer, who wants to implement a sustainability and energy management system in his retail stores

- There is no standard solution for each retailer
- The sustainability management system has to be customized for each business requirements



1. Develop a Sustainability Strategy

The first step is to “Develop a Sustainability Strategy”:

- Retailers should define a clear long-term oriented strategy and develop a plan of action to meet the strived goal
 - Commitments to sustainability and energy have to be formalized, core metric will be established and baselines have to be evaluated
 - A database of successes is compiled, performance is validated versus market benchmark data and an internal workgroup is formed to review sustainability issues gained
 - Review the performance in periodic intervals; internal stakeholders are engaged and educated; communication plan for progress is established
- result: a sustainability roadmap document with detailed goals, benefits and risk

2. Implement Strategic Energy Sourcing

- This step contains the monitoring and analyzing of data to prioritize efficiency initiatives by return on investment
- Market information across multiple geographies have to be analyzed to identify saving possibilities and reduce operating expenses
- Negotiations with business partners about improving contract terms and rate structures
- Rates and tariffs have to be analyzed, energy market research will be performed and risk tolerance is determined
- Ongoing reports on contracts, market changes and opportunities (include clear recommendations on how to move forward)

3. Deploy energy assessments in a sample of stores

= Fashion retailers have to use this step to examine audit results by store cluster and identify improvement

- Stores have to be organized in categories such a building type and age or by equipment which is installed
- Not only the equipment is important but also facts like using green energy and low energy bulbs for lightening.
- Not all stores, only a selection of stores undergoes in depth assessments to find inefficiencies (=much more cost effective than auditing all stores) → audit results can be used to find inefficiencies in similar categories of stores with similar characteristics

4. Collect energy and resource data, report on key performance indicators

- A report will be passed to internal and external stakeholders on progress toward goals
- A metering infrastructure which uses existing data collection infrastructure is designed and commissioned for new and current stores
- Monitoring systems are defined to meet business-specific requirements
- To be able to prepare a wide visibility into disparate data sources to internal and external stakeholders, energy and resource consumption data has to be collected and reports generated

5. Remotely monitor energy and resource consumption

- Monitoring energy and resource consumption is necessary to make improvement recommendations
- Energy and resource data has to be aggregated, centralized in a software and reviewed by remote energy experts to discover inefficiencies and recommend initiatives to optimize process or equipment
- Ranking of the expert recommendations to improve efficiency based on the organizational goals
- Fashion retailer can also make site visits to implement initiatives in selected stores

6. Identify Supply Chain Risks

- Examination of the supply chain, using a platform to view supplier characteristics as well as compliance and ratings
- Supplier information has to be analyzed to identify potential risks
→ This could vary from one retailer to another based on what is most relevant for the business
- If retailers use an internet based platform for a supplier database, the supplier itself can add information → compare and evaluate prospective supplier's sustainability profiles in an effort to minimize risk and promote compliance with identified sustainability target

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

Benefits for the environment

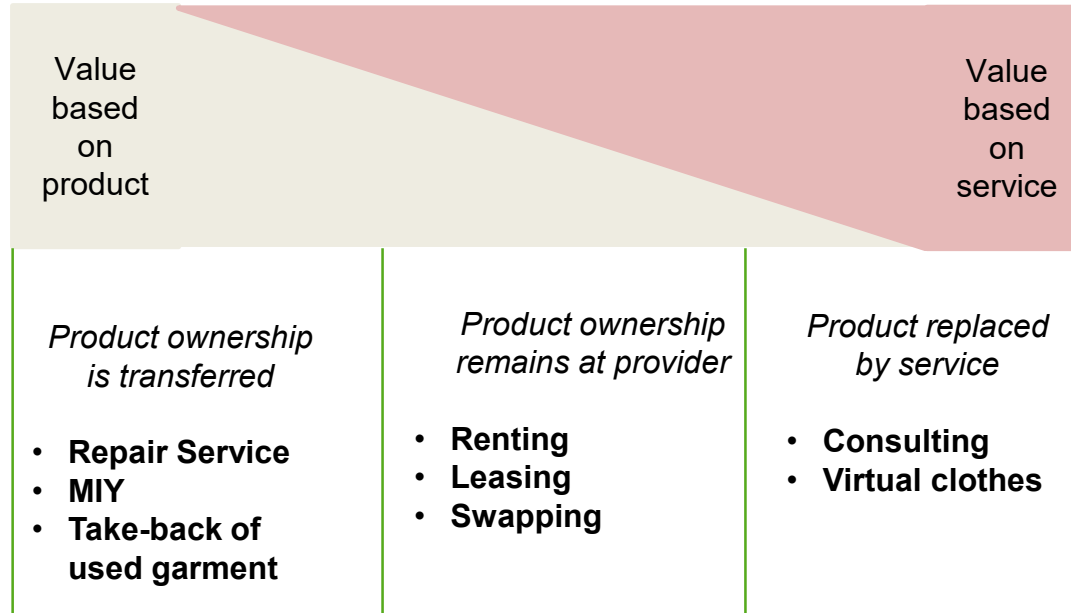
Customer satisfaction decoupled from material consumption

→ fewer material resource input is required for corporate 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)

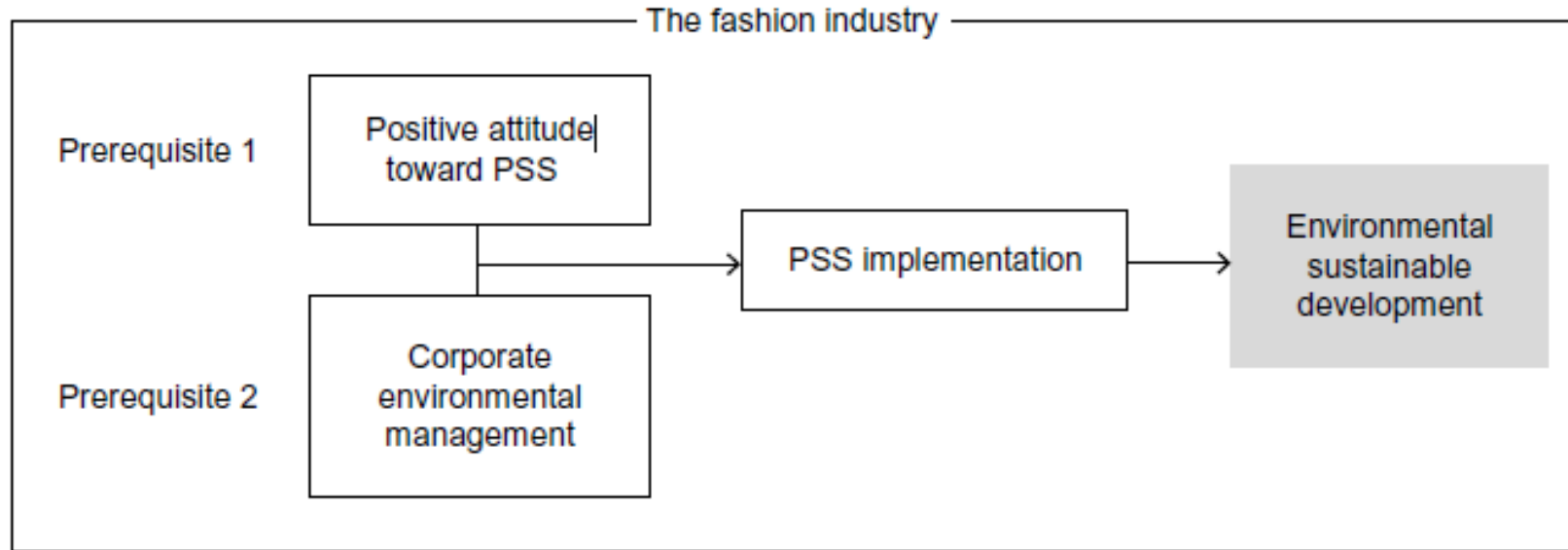
PSS and Sustainability

- 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

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