Analysis of Fashion Industry Business Environment

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Abstract

The notion of global fashion industry is a product of the modern age as clothing is often designed in one country, manufactured in another, and sold worldwide. The global fashion industry is dependent on ever-changing trends that keep consumers, driven by the need to wear the latest. The paper highlights the fast fashion and slow fashion models prevailing in the fashion industry. Among the two models the fast fashion model is well established, however the slow fashion model is gaining importance as it discourages undesirable excessive use of clothing resulting in the waste recycling problems and threat to environment. The paper also peeps through the internal, micro and macro factors influencing the business environment of fashion industry and ways and means to overcome these factors to meet the ultimate goal to establish successful relationship with customers with reasonable profit. The macro factors are often referred as PESTEL (political, economic, technology, environment and legal) factors. It has been pointed out that among these PESTEL factors, presently the environmental factors and social factors of business ethics are posing a serious threat to the sustainability of fast fashion model of the fashion industry.

Keywords: Fashion industry; Business environment; Internal, micro and macro; PESTEL; Fast fashion; Slow fashion

Introduction

Prior to the mid-19th century, most clothing was custom-made. It was handmade for individuals, either as home production or on order from dressmakers and tailors. By the beginning of the 20th century-with the rise of new technologies such as the sewing machine, the rise of global capitalism and the development of the factory system of production, and the proliferation of retail outlets such as department stores—clothing had increasingly come to be mass-produced in standard sizes ready for sale. Although the fashion industry developed first in Europe and America, presently it is an international and highly globalized industry, with clothing often designed in one country, manufactured in another, and sold worldwide. For example, an American fashion company might source fabric in China and have the clothes manufactured in Vietnam, finished in Italy, and shipped to a warehouse in the United States for distribution to retail outlets internationally. The fashion industry has long been one of the largest employers. However, due to increase in labor costs it has moved from developed countries to developing particularly China and African countries [1]. Fashion industry employs people across occupation from skilled labour to fashion designers, computer programmers, lawyers, accountants, copywriters, social media directors, and project managers. Manufacturing is only a fraction of the modern fashion industry as it is a highly sophisticated industry involving fashion and market research, brand licensing/intellectual property rights, design, materials engineering, product manufacturing, marketing and finally, distribution [2].

Components of fashion industry

The fashion industry consists of four components/levels:

a) The production of raw materials, principally fibers, textiles, leather and fur.

b) The production of fashion goods by designers, manufacturers, contractors, and others.

c) Marketing in the form of advertising and promotion.

d) Wholesale/Retail sales and e-commerce.

These levels consist of many separate but interdependent sectors. These sectors are Textile Design and Production, Fashion Design and Manufacturing, Fashion Retailing, Marketing...
Trends in Textile & Fashion Design

Slow Fashion
Quality based
Mid 1980's

Time based

Table 1: Overview of fast fashion and slow fashion models [13].

|                      | Fast Fashion                                      | Slow Fashion                                      |
|----------------------|---------------------------------------------------|---------------------------------------------------|
| **Definition**       | Fast fashion describes the retail strategy of adapting merchandise assortments to current and emerging trends as quickly and effectively as possible. | It is a different approach in which designers, buyers, retailers and consumers are more aware of the impact of product on workers, communities and eco-system. It is about a richer interaction between designer and maker, maker and garment and garment and user. |
| **Emergence**        | Mid 1980's                                       | 2007                                              |
| **Focus**            | Time based                                       | Quality based                                     |

Global fashion industry

The global fashion industry is dependent on ever-changing trends that keep consumers, driven by the need to wear the latest. However, this means that goods have a short shelf life, requiring manufacturers, designers and retailers to meet tight production schedules and distribution deadlines. This also gives trendsetters, such as celebrities, key roles in successful marketing and promotions. In a global marketplace, the fashion industry is highly competitive. Though manufacturing is carried out in developing countries of Asia and Africa due to cheap labor, China is claiming a majority stake by offering quality goods at cheaper prices. The fashion industry is no longer solely dependent on retail stores for sales due to increase in opportunities for retail sales through e-commerce, which allows buyers to shop and purchase online. Marketing and promotion also expand with the growth of social media trends as social networking and use of technologies such as mobile devices and smartphone applications, which allow for shopping anywhere. Product branding is an important part of gaining recognition and customer loyalty. This segment of the market, promoted by designers and fashion models, is among the most visible. It also presents greater challenges for lesser known product lines [3].

Business models of fashion industry

The fashion industry is a dynamic in the sense that fashion trends and styles change continuously. Each fashion company responds differently to the changes in fashion trends, distribution and selling of clothes to its customers. The majority of companies choose to follow the latest fashion trends while new entrants try to emphasize quality over quantity by striving for a more sustainable and long-lasting approach. These differences are generally illustrated by two business models, which have emerged over the past few years within the fashion industry, namely the fast fashion and slow fashion model. According to Fletcher fast fashion is time based whereas slow fashion is rather quality-based [4].

Table 1 provides a more detailed overview of the two business models.

Table 1: Overview of fast fashion and slow fashion models [13].
Overview of fast fashion and slow fashion models

Business environment

Business environment is a marketing term and refers to factors and forces that affect a firm’s ability to build and maintain successful relationships with current and prospective customers. The business environment is also known as marketing environment [14]. The marketing environment factors can be internal (within the organization) or external (outside the organization). The external factors can further be divided into micro and macro environment factors. Thus, the marketing environment can be broadly classified into three components as shown in Figure 1.

| Underlying models       | Opportunity pull model                                                                 | Designer push model                                                                 |
|-------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Features                | Highly responsive supply chain, speed to market, sensitivity to trends. New merchandise every week. Flexibility. | Quality over quantity, responsibility, sustainability, transparency, eco-friendly, ethical, ‘Trans-seasonal’ Fashion. |
| Production and materials| Out sourcing, External suppliers, manufacturing in low cost countries, Synthetic fabric like polyester, nylon, non-organic cotton, rayon. | Local production, Fair trade, Recycling, High quality organic fabric like cotton, wool, silk, hemp, linen. |
| Price                   | Original price is cheaper                                                              | Original price is more expensive                                                    |
| Criticism               | Environmental pollution, Inhumane labor standards, Unconscious shopping, ‘McFashion’, Creation of culture of disposable clothing. | High prices, Questionable trendiness of product, Limited availability of eco-friendly clothes. |
| Examples                | Zara, H&M, Top Fashion, Forever-21, Primark.                                           | Honest by, Patagonia, Adil, CIEL, Must Mood.                                         |

Business environment factors

Some of the marketing environment factors are controllable while some are uncontrollable and require business operations to change accordingly. Firms must be well aware of its marketing environment in which it is operating to overcome the negative impact the environment factors that are affecting on firm’s marketing activities for successful business.

Internal environment factors

The internal environment is made up of factors within the firm itself. These factors include staff relationship, resources and corporate culture and ability to deal with external environments. This is depicted in Figure 2.
Internal environment of an organization [15,16]

Thus the internal environment is the staff relationship and the functioning of internal departments such as management, finance, research and development, purchasing, Business operations and accounting. Each of these departments influences marketing decisions. For example, research and development may provide inputs of the features a product that can perform and accounting approves the financial side of marketing plans and budget to incorporate such inputs. Marketing managers must ensure that product will be delivered to customers in the time frame required in order to maintain a strong customer relationship. Controlling the internal environment depends on the corporate culture. Unless the company has ability to control internal environment factors, it will not be able to compete in the market.

Micro environment

The Micro Marketing Environment includes all those factors that are closely associated with the operations of the business and influences its functioning on day to day basis. Therefore, before deciding corporate strategy companies should carry out a full analysis of their micro environment. The micro environment factors shown in Figure 3 include customers, employees, suppliers, retailers & distributors, shareholders, Competitors, Government and General Public. Businesses cannot always control micro environment factors but they should endeavor to manage them along with Internal Environment and Macro Environment factors Figure 3.

![Figure 3: Micro environment factors [15].](image)

**Micro environment factors [15]**

**Customers:** Every business revolves around fulfilling the customer’s needs and wants. Thus, each marketing strategy is customer oriented that focuses on understanding the need of the customers and offering the best product that fulfills their needs and customer service.

**Employees:** Employees are the main component of a business who contributes significantly to its success. The quality of employees depends on the training and motivation sessions and promotion opportunities given to them. Training and development play a critical role in achieving a competitive edge; especially in Marketing.

**Suppliers:** Suppliers are the persons from whom the material is purchased to make a finished good and hence are very important for the organization. A supplier’s behavior will directly impact the business. For example if a supplier provides a poor service this could increase time scales or product quality. An increase in raw material prices will affect an organization’s marketing strategy and may even force price increases. It is crucial to identify and choose best suppliers existing in the market and maintain close relationships with them to remain competitive and provide quality products to customers.

**Retailers & Distributors:** They play a vital role in determining the success of marketing operations. Being in direct touch with customers they can give suggestions about customer’s choice regarding a product and its services.

**Competitors:** Keeping a close watch on competitors enables a company to decide its marketing strategy according to the trend prevailing in the market. Competitor analysis and monitoring is crucial if an organization is to maintain or improve its position within the market.

**Shareholders:** Apart from financial institutions, the public company can raise funds through shareholders. Therefore, every public company has an objective of maximizing its shareholder’s wealth. Thus, marketing activities should be undertaken keeping in mind the returns to shareholders and to strengthen company’s financial position.

**Media:** Positive media attention can “make” an organization (or its products) and negative media attention can “break” an organization. Organizations need to manage the media so that the
media help promote the positive things about the organization and reduce the impact of a negative event on their reputation. Some organizations will even employ public relations (PR) consultants to help them manage a particular event or incident. Consumer television programs with a wide and more direct audience can also have a very powerful impact on the success of an organization.

**Government**: The Government departments make several policies viz. pricing policy, credit policy, education policy, housing policy, etc. that do have an influence on the marketing strategies. A company has to keep track on these policies and make the marketing programs accordingly.

**General public (Society)**: The business has some social responsibility towards the society in which it is operating. Thus, all the marketing activities should be designed that result in increased welfare of the society as a whole.

**Macro environment PESTEL Factors**

The macro environment refers to all forces that are part of the larger society and affect the micro environment. Factors affecting organization in macro environment are known as PESTEL, that is: Political, Economical, Social, Technological, Environmental and Legal shown in Figure 4.

![Figure 4: Macro environment (PESTEL) factors [17].](image)

**Macro environment (PESTEL) factors [17]**

**Political and legal Factors**: These are all about how and to what degree a government intervenes in the economy. This can include - government policy, political stability or instability, foreign trade policy, tax policy, labor law, environmental law, trade restrictions and so on. It is clear from the list above that political factors often have an impact on ease of doing business. Organizations need to be able to respond to the current and anticipated future legislation and adjust their marketing policy accordingly. Legal factors include - health and safety, equal opportunities, advertising standards, consumer rights and laws, product labeling and product safety. It is clear that companies need to know what is and what is not legal in order to trade successfully. If an organization trades globally this becomes a very tricky area to get right as each country has its own set of rules and regulations [17-20].

**Economic Factors**: Economic factors have a significant impact on how an organization does business and also how profitable they are. Economic factors include - economic growth, interest rates, exchange rates, inflation, disposable income of consumers, employment etc. These factors can be further broken down into macro-economical and micro- economical factors. **Macro**- economic factors deal with the management of demand in any given economy. Micro-economic factors are all about the way people spend their income. The effect of some of the economic factors on fashion industry is summarized below.

**Disposable income and employment**: Increasing disposable income of households, has been witnessed in most of the Economic Cooperation and Development (OECD) countries over the last couple of years. This implies that there is more money available for consumers to purchase clothes, which may increase the total sales of fashion companies. On the other hand the employment rate in most OECD countries has continuously decreased over the last few years [18, 19]. In the course of this trend, there might be less people able to buy fashion clothes due to the unemployment, but those who are employed can spend more money on the products due to higher disposable income. Consequently, as an option for higher profits, fashion firms may increase price by enhancing product quality.

**Growth in global economy**: According to the OECD, the global economy is expected to strengthen and grow in the next few years. The European Commission [20] declares that the fashion industry itself has constantly growing at around 10%. Remy, Schmidt, Werner and Lu [21] claim that the global women's apparel market growth rate is expected to increase by 50% till 2025. As a result, there are greater opportunities for internationalization of apparel brands.
Raw material and labor costs: Raw materials like oil and water are becoming scarce; resulting in rise in manufacturing cost of apparel [22,23]. The European Commission [20] alerts that due to the decline of the manufacturing industry, skilled labor has decreased and became more expensive, which may pose a threat to the competitiveness in the apparel industry [20]. As a response to these two trends, fashion industry tends to outsource the textile production to low-cost manufacturing countries like Bangladesh or Cambodia in order to cut production and labor costs [7,9,24]. However, experts alert that even in these countries, the resource prices already have and will be rising significantly in the future [25].

Social factors: These factors include-population growth, age distribution, health consciousness, career attitudes and so on. These factors are of particular interest as they have a direct effect on how fashion industry understands customers. The fashion industry is one of those industries that may be most affected by the impact of socio-cultural trends [26]. For instance, it has been witnessed for decades that the world population is aging [18]. Such a demographic change may result in a threat for solely teenage-oriented apparel firms because the competition for their shrinking segment becomes more intense. However, an opportunity can open up for new or more flexible incumbent fashion retailers. They may focus on more mature customers and offer appropriate sizes and simpler designs with quality durable materials. Another social trend is that customers are more and more concerned about their health, which can be confirmed by a steady increase in individual health expenditure [27]. This may lead to a greater customer interest in the materials used, their origin and their processing methods, demanding more transparency and accountability on behalf of the fashion firms. In this respect, more and more customers have gone ‘green’ and support sustainable and ethical activities of companies [7,10]. Besides this, fashion tastes and trends of teenagers and young adults are very diverse and volatile nowadays and are influenced by celebrities and the media [23]. The ‘hipster’ trend is a recent example and companies may have to decide if they follow such temporary fads or if their business is stable enough to sustain within their usual channels. The media, however, does not only spread trends to customers but also makes aware of scandals and negative publicity about bad Corporate Social Responsibility (CSR) practices like child labor, sweat shops or inhumane working conditions. One example was the incident at the Rana Plaza in Bangladesh in 2013, a factory which makes garments for chains like Primark, where more than 1,100 workers died when the dilapidated building collapsed above their heads [28]. As a result, changes in customer behaviour and attitudes towards fashion companies are increasing the demand to more reporting activities and auditing processes on labour conditions and wages to ensure a fairer treatment of workers.

Technology factors

The fashion industry has always been subject to technological changes and has influenced the way in which apparel products are produced, supplied and delivered to customers. The emergence of the Internet and improvements in communication technologies have facilitated and accelerated the information flow of new trends and brands from the customer to the retailer, which enables companies to respond more quickly to the latest market impulses [29]. In turn these advancements have increased customer demands since the media continuously updates them about the newest fashion styles [23]. A similar improvement in knowledge transfer and interaction can be witnessed between retailers, wholesalers and manufacturers, which are able to benefit from more efficient distribution and communication channels [30]. Besides, low-cost advertisement and marketing options for retailers through social media platforms or a corporate website are on rise to attract consumers for buying fashion products [23]. Innovations like matrix coding, the co-creation of products and online shopping have made the decision and purchase of fashion easier and more convenient for customers [31,32]. Despite the technological enhancements, the apparel industry remains rather labor-intensive with limited automation because of frequent design, textile and demand changes [33].

Environmental Factors

These factors have come to the forefront by the turn of the century. They have become important due to the increasing scarcity of raw materials, pollution, health hazards, carbon footprint targets set by governments to mitigate climate change, doing business in an ethical and socially responsible way etc. These are just some of the issues marketers are facing within this factor. More and more consumers are demanding that the products they buy are sourced ethically and if possible from a sustainable source. In the environmental dimension of the PESTEL framework several trends can be observed which are likely to have an impact on fashion industry. First of all, climate change and global warming might pose serious challenges to fashion companies in the future, especially within developing countries [34]. Events like droughts, tsunamis or floods are often unforeseeable and can harm the growth of cotton and the maintenance of manufacturing facilities. Since many retailers have shifted the production to so-called developing countries in Asia [7,9,24].

Fashion industry need to be particularly aware of such environmental risks and create awareness in production units and among workers for such events. Besides, in order to counteract and reduce the consequences of the changing climate, stakeholders are putting pressure on fashion companies to reduce their carbon footprint and incorporate environmental friendly practices alongside their whole supply chain [7,10]. A related critical debate that has been pursued recently and may continue to be the issue in the future is about the environmental pollution that is attributed to the supply chain activities of companies in the apparel industry. Fashion leaves a great environmental footprint along its supply chain and life cycle. For instance, growing non-organic cotton requires a big amount of chemicals, water and pesticides, which harm human health and have a significant, long-lasting impact on

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the environment. Besides, overconsumption in the fast-fashion world leads to greater amounts of waste creating disposability problems.

Textile production facilities use a lot of energy, water and chemicals generating contaminated water and toxic volatile emissions [7,1,3,35]. No one wants to eat a meal laced with plastic, but if something doesn’t change in our current textile economy, that could soon be a reality. Plastic microfibers, which are like tiny pieces of plastic lint that come off synthetic clothing in the washing machine, are now entering the oceans at a rate of about half a million tons every year - that’s equivalent to more than 50 billion plastic bottles. Once in the water, these microfibers are ingested by aquatic wildlife and travel up the food chain where they end up being consumed by humans.

This problem is just one of many, highlighted in a report from the Ellen MacArthur Foundation. Entitled “A New Textiles Economy: Redesigning Fashion’s Future.” The report has garnered support from brands like Stella McCartney, Nike and H&M in addition to the United Nations and organizations like the Sustainable Apparel Coalition and the C&A Foundation [36].

The House of Commons environmental audit committee in the UK has launched an inquiry to explore the carbon impact, resource use and water footprint of clothing throughout its lifecycle and supply chain. The committee has observed that the globalised market for fashion manufacturing has facilitated a “fast fashion” phenomenon; a proliferation of cheap and cheerful clothing, with quick turnover that encourages consumers to keep buying. The key to the inquiry is how consumers could be encouraged to buy fewer clothes, reuse clothes and think about how best to dispose of clothes when they are no longer wanted. An estimated 300,000 tonnes of fashion waste goes straight into landfill each year in the UK, despite growing efforts to encourage consumers to recycle their worn and unwanted clothing [37]. It is for these reasons more and more consumers, governments and other stakeholders demand more sustainable and ethical practices in daily business operations. If fashion companies want to maintain loyal customers, they need to reduce their impact on the environment and invest in sustainable and eco-friendly practices in order to reduce waste and minimize the pollution of water and air.

Conclusion

Though fast fashion model is well established, however, due to environmental issues and social values related to business ethics, the slow fashion model is gaining an edge over. Business environment is an alternative term to business marketing. Among the three factors, macro factors known as PESTEL are purely of external nature need to be carefully understood and researched by the fashion industry for carrying out the business in ethical and environmentally friendly way for its sustainability. Technology is playing a great role in the marketing of fashion products but is also posing a threat of competition. Therefore, creating a brand image based on ethics and providing environmentally friendly products has become essential for the survival in the global fashion industry.

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