



Globalization and Rapid New Market Growth

How the International Fashion Market is Evolving to Capture Shifting Consumer Desires

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Introduction

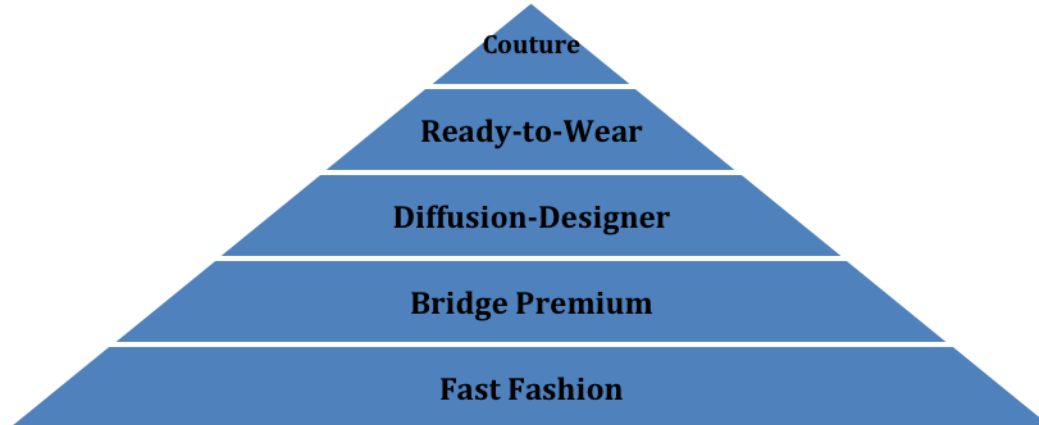
The Italian word for fashion *moda*, comes from the Latin word *mos*, which means usage, custom, habit, and tradition. Fashion always has been a part of the human experience relating to culture, need for identification and differentiation, and hence, our need for a social identity. As society and culture change over time, so does fashion. The fashion industry has managed to develop and expand worldwide, forcing the concept of fashion to diversify to form a variety of fashions. We can find an ever-expanding and ever-segmented market in terms of customers, distribution channels, and competitors.

Consumers face countless choices, forcing brands to differentiate themselves by offering unique products appealing to a large consumer base. Likewise, competitors are becoming bigger and more international, meaning brands must learn to balance operations management and economic results with creativity and innovation. Each brand must strategize appropriately to remain true to its roots, while also attracting as many consumers as possible. Finally, new distribution channels are developing, such as the emergence of e-commerce. The Internet has developed a new market for a new consumer: the online shopper. This platform permits cross segmentation of markets worldwide but also has promoted innovative communication tools for marketing, such as social networking, and for supply chain management, such as IT software.

Globalization has allowed companies to expand into different markets of consumers and suppliers. While expanding and appealing to a broader group of consumers the companies are forced to adapt to different cultures while maintaining a congruent brand image and differentiating their products from those of the competition. The fashion industry showcases how business decisions are made when pressures to align with fast moving trends and those to improve business efficiency converge. Different segments of fashion have different strategies on how to gain more customers, stay competitive and differentiate. From an international business perspective, the globalization of fashion allows for suppliers, producers and consumers to gain more exposure than ever before. The relevancy of fashion as a facet of international business is omnipresent from the streets of Singapore to the back lanes of London. This paper provides insight into how changes in the fashion industry affect the everyday consumer.

In the author's segmenting of the fashion industry by price, an analysis of branding trends became delineated by a logical market segmenter, which often is the first step in trying to understand where, why and how a company is focusing its branding efforts. Going deeper, this paper seeks to hone in on select companies' growth strategies, marketing mixes, and diffusion or dilution brand relationships to gain a better understanding of where the industry and brands stand today. This paper will additionally examine the steps brands are taking to modernize and adapt to a consumer who expects more value for his dollar and more multi-level interaction with the brand, both pre, and post purchase.

Finally, using Michael Porter's Five Forces framework (threat of substitutes, competitive rivalry, bargaining power of suppliers and customers, and threat of new entrants), segment summaries emphasize the important aspects of how the selected brands interact in a competitive environment.

Figure 1: Fashion Pyramid—Segmented by Price

Fast Fashion

Segment History

Fast fashion is a term used to describe the quick movement of designs from the catwalk to the store to respond to the latest trends. Because of the emergence of fast fashion in the 1990s, this industry has transformed itself. In the 1990s, it revolved around the concept of make-to-stock and push strategies. The lead-time was about 14 days, and it focused on wholesale only. Because of the focus of this strategy, the key success factor involved partnerships with fabric suppliers to ensure quick production. This quickly changed; however, by the 2000s, fast fashion focused on push and pull marketing strategies, thus creating the idea of possessing one main collection followed by weekly mini-collections to keep the customer interested and updated with market trends. This change in strategy allowed companies to focus on wholesale and retail. Most important, the key success factors for this new concept of fast fashion became stylistic identity and trade partnerships.

Fast fashion has aggressively challenged the fashion industry status quo. Big fashion houses and other segments that lie above fast fashion must work faster to avoid losing market share to this segment. One could say that this is a fashion revolution, and a fight between quality and quantity. Although fast fashion could never offer the quality that other segments do, its upper hand lies in catering to the masses who want cheap, chic fashion.

For the purpose of this study, we decided to research the most representative brand, oldest brand, and newest brand of each segment. For this specific segment, the brands chosen are as follows:

Lifestyle

The principle idea in this segment is to make fashion affordable. The key success factors involve strategic partnerships that allow brands within this segment to offer the masses high fashion at an affordable price. To do so, the brands in this segment must focus on their communication strategy and brand partnerships. H&M, Zara, and TOPSHOP all have used one or more of the following techniques: designer collaborations, use of social media, creation of apps, celebrity spokespersons, charity partnerships, and fashion shows. The idea behind these techniques is to

keep the customer captivated with the brand and its offerings at all times. This is not only done through its marketing strategy by reaching customers through all communication levels but also by ensuring its product is always available and by following current catwalk trends. Keeping true to this, brands in this segment develop mini-collections and have quick turnovers of up to two weeks. Overall, this segment's main focus is affordability and availability without sacrificing "fashionability."

Marketing Mix

Product. Within this segment, the focus lies on womenswear; however, it has moved to menswear as well. Given the nature of this segment, brands tend to offer and cover every product category possible. "The more the merrier" is the approach taken as larger quantities mean greater profits. The purpose is to offer affordable fashion, which entails covering every basis possible to ensure that the consumer stays within this segment no matter his status, sex, race, or other demographic group.

Price. The main idea behind fast fashion is that it must be affordable for the masses; therefore, the prices should be technically low-to-mid market.

Approximate Sample Pricing for Topshop in the U.S.:

- *Lowest Sale Price: \$4*
- *Highest Sale Price: \$360*
- *Lowest Regular Price: \$35*
- *Highest Regular Price: \$680*

However, from Topshop's pricing scheme we can see that some prices are considerably higher than one would think he would find at a fast fashion retailer. This increase in pricing is of concern as it creates brand dilution within the fashion pyramid by making fast fashion encroach upon other segments.

Place. This segment started to focus only on wholesale channels during the 1990s, but as the market changed and fast fashion took over, brands within this segment moved to sell through retail channels and e-commerce. The Internet has become the easiest way to reach this segment's target market through constant online promotions. In addition, retail stores' placement strategies, like Zara's oil stain strategy, have allowed this segment to grow and become more successful each day. Retailers tend to open about two stores in a country of interest to learn about the market. They use the feedback from these stores to decide whether they should expand into the market or not, thereby providing them with valuable firsthand information and a first mover advantage by having the ability to enter quickly a new market if they see fit. The two things retailers look for when entering a market are existence of potential customer base and demand as well as optimal store locations.

Promotion. This segment relies mainly on the Internet concerning its promotion strategy. Given that this segment's target market falls within the younger digerati generation, brands can rely more on the Internet and fashion-forward promotion techniques. Thus, the use of technology is key. Smartphone apps, virtual runways like ASOS.com, and the constant update of social media sites are imperative within this segment. The idea behind promotion is to ensure that there is always a two-way relationship with the customer and the brand but most important that the

customer has the option of shopping his or her favorite look whenever he or she has an impulse. Availability becomes as important as affordability for this segment.

Growth Strategy

When analyzing this segment's growth strategies it is only fair to analyze Zara as it is the most representative brand for this segment. Zara has proven to be the pioneer of fast fashion and so it is crucial to applaud its success in growing so rapidly and becoming the "brand to beat." The article "Fast Fashion: Zara in India" lists Zara as the "Coca-Cola" of the fashion world. The core concept of Zara's business model is that it focuses on selling medium quality fashion clothing at affordable prices. Along with vertical integration and a quick response to catwalk trends, this concept is key to Zara's business model. Owning the entire supply chain from factory to retail has conceived several key success factors: rapid turnaround, limited amounts of identical product inventory, an extensive variety of new products every season, and heavy investment in creativity and information technology.

Finally, brands within this segment have higher profitability due to vertical integration and as such, can offer lower prices. For instance, Zara's pricing strategy involves mid-range prices that give it an advantage over its competitors in high fashion because it is offering customers the opportunity to dress fashionably without spending beyond their means. Moreover, it stays competitive with other competitors in fast fashion, such as H&M, by trying to match its price points, which in locations such as India go even lower. Many brands in this section of the fashion pyramid face criticism for being cheap and low quality, but this is something all brands try their best to stay away from. Zara, a Spanish company, can afford low prices given that it strategically makes most of its products in Spain. This strategy gives a competitive advantage as increased control of its supply chain keeps operations close to home. Zara makes sure every product entering the stores is approved in Spain to ensure proper quality in anything that possibly could reach its loyal customers.

These brands sell "disposable fashion." This refers to their product strategy, which relies on constantly changing the product as quickly as possible. Every piece of clothing faces limited manufactured quantities and never repeats, even when the stock runs out. The idea behind this is for the customer to be aware, constantly visit the store, and buy quickly because he knows the same style will never sell again. This product strategy is beneficial even if a specific style is unpopular because the company has still minimized manufacturing costs by producing a limited amount. In addition, retailers produce separate collections targeting each of their different markets. They recognize the differences in seasonality, climate, and culture in each market. This close communication between designers and store managers is essential to Zara's success; therefore, out of approximately 40,000 clothing designs annually, only 10,000 make it to production. Occasionally each store will receive pieces from different global locations to test customer reactions. This gives Zara an idea of what may be successful in future collections, thus tailoring supply to location-specific consumer demand. Finally, as part of its product strategy, each store is kept on a rigid timetable for placing orders and receiving stock.

Brand Diffusion and Brand Dilution

As society and culture change over time, so does fashion. The fashion industry has managed to develop and expand worldwide, forcing the concept of fashion to diversify in form. We can find an ever-expanding and ever-segmented market in terms of customers, distribution channels, and competitors. Consumers face more choices, forcing brands to differentiate themselves by offering unique products appealing to a large consumer base. Likewise, competitors are becoming bigger and more international, meaning brands must learn to balance operations management and economic-driven strategies with creativity and innovation. Each brand must learn to strategize appropriately to maintain true to its brand while attracting as many consumers as possible.

The rise of e-commerce has created a new marketplace for a new consumer: the online shopper. This platform allows for cross segmentation of markets worldwide but has also promoted innovative communication tools for marketing, such as social networking, and for supply chain management, such as IT software. Moreover, due to the rapid growth of fast fashion, historical luxury brands have traded down, extending their offerings to include a wider range of customers with products priced for greater accessibility (from perfumes to eyewear to chocolates). We can see that in today's fashion segmentation, the inevitability of overall brand diffusion also ensures the possibility of brand dilution within the segments. The question becomes whether this is good or bad for the fashion world. Fast fashion specifically shows brand dilution through pricing, but how the popularity of this segment due to its affordability and availability is causing many other segments to diffuse until they dilute down through the pyramid cannot be ignored.

Co-Branding and Other Marketing Strategies

Due to the large range of customers this segment attempts to reach, its marketing strategy revolves around keeping its customer enticed and wanting more. The brands cannot afford to lose the customer's interest, and they depend heavily on their marketing strategy. As mentioned earlier, brands count on strategic partnerships, designer collaborations, celebrity endorsements, social media involvement, and charity partnerships not only to be everywhere for their customers but also to promote a better image of the brand to compensate for the perceived lower quality of goods. Again, the idea is to promote the brand as fashionable and stylistic, all while making it available at all times to reach new customers each day and maintain current customers' interest.

Of the brands we reviewed, H&M is the leader in co-branding. An example of this strategy is H&M's designer collaboration with Chanel's Creative Director, Karl Lagerfeld. Although Lagerfeld objected to the fast fashion mentality of producing limited quantities of a product, even calling this mentality "snobbery," the collection was a success and sold out as soon as the items went on sale in 20 test stores across Europe. Following the co-branding success with Karl Lagerfeld, H&M has also partnered with Viktor & Rolf, Versace, and Stella McCartney among others. Another example of co-branding success is Topshop's partnership with Google+ and YouTube to live stream and interact with its customers by allowing them to access its London Fashion Week show "from the perspective of a model, buyer, designer, make-up artist, or celebrity."

In contrast, instead of having a marketing department, one single person at Zara is in charge of overseeing all international marketing activities and media relationships. This reduces costs, allowing it to pass along savings to customers. Its principle form of advertising is through its store windows, which is not meant to imply a lack of multimedia applications or other advertising forms. Zara has a full team of window-front designers who visit each international location to understand the cultures and customers of each store. They use this inside information to create unique designs for every store. Zara understands that “customers are their favorite brand advocates, and a satisfied, happy customer will share and promote on behalf of the brand.” Zara has mastered this strategy, and is one reason why the brand is performing so well globally.

In summary, the most significant pros for the co-branding of luxury and fast fashion brands are the high media exposure, increased sales revenue, and creation of a new customer base. Specifically for H&M, this strategy allows it to differentiate itself from other fast fashion brands and aid in positioning itself higher in the fashion pyramid. However, co-branding could also harm the luxury brands’ images by associating them with “lower quality” brands. Likewise, for fast fashion brands, this partnership could result in a confused consumer and the brand’s dilution from its segment. Therefore, when co-branding, a company must ensure that it stays true to its brand’s identity to avoid this confusion and dilution.

Bridge Premium Brands

Segment History

The bridge premium segment is a result of an initiative by the American market where department stores offer products that act as a “bridge” between the mass market and the first and second lines of European designers. Within the segment, not only are premium industrial brands competing against each other, but they are also competing against younger designer lines. The success of the segment is due to its ability to serve the market at the right time with the right style, such that brand image and time to market are more important than creativity.

Most brands under the segment follow the business model of an industrial company, where the core business is clothing. Determining the main strategy is most successfully done in terms of price, distribution, and communication. Unlike the higher price segments, industrial and distributive realities and the vision of an entrepreneur are what bring bridge brands to life, not the inspiration of a designer. Brands in this segment include Diesel, Max&Co, Massimo Dutti, Patrizia Pepe, Armani Jeans, Miss Sixty, Desigual, Anna Sui, ck Calvin Klein, Kenneth Cole, Tommy Hilfiger, DKNY, Guess, and Urban Outfitters. For the authors to provide a clear picture of this segment, the brands focused on are Urban Outfitters (the oldest brand), Miss Sixty (the newest brand), and DKNY (the most representative brand).

Lifestyle

The bridge premium segment is an “accessible luxury” where the brand image is the brand’s most significant success factor. This connects with powerful communication, high fashion content, price, and quality ratio, accessibility, and service to retailers and consumers. To achieve the ideal price and quality ratio, companies must focus on product specialization, building special relationships with key suppliers by offering different quality and prices, and outsourcing assembly to low-cost countries. To ensure that products are accessible, services provided must be fast, while continual deliveries and supply replenishments are essential.

Most of the companies started off as manufacturers or small enterprises specializing in one product category. Over the years, however, the original product specialization led to the expansion of product ranges and categories toward a lifestyle offering, such as extensions in sportswear, fragrances, and accessories. In addition, companies developed strong brands, created directly operated retail, and revolutionized their communication strategies to a model similar to that of prominent fashion designers. This evolution allowed bridge premium brands to target a younger audience, upgrade their perceived image, and finally reposition themselves as designer brands in new markets. While the emphasis on a designer's name is not as important as in higher segments, bridge premium brands are slowly migrating toward an image of providing target consumers with products from a "lifestyle" brand.

Marketing Mix

Product. All three brands started off specializing in one product category, in which both Miss Sixty and DKNY focused on jeans while Urban Outfitters focused on clothing apparel. Eventually all three brands expanded their product range and product categories toward lifestyle offerings. For example, in addition to apparel, offerings may include accessories, sportswear, fragrances, bedding, home goods, furniture, and shoes.

Place. Companies under this segment usually manage a large network of external suppliers and distribution channels, rigorously controlling their brand concept. Brands use distribution and direct channels heavily. All three brands have flagship stores, self-standing stores, and shop-in-shop retail outlets. In addition, both Miss Sixty and DKNY use their established global presence to take advantage of wholesale channels of corner and wall units as well as transnational channels of duty-free outlets.

Price. This segment generally positions itself in the medium-to-high price range fit for a younger customer, when compared to higher segments. Nevertheless, prices are still one and a half to two times higher than the market average. Whether it is Urban Outfitters or DKNY, both price above average, but neither is at the highest price point. Urban Outfitters' pricing is below that of DKNY, and its prices can range from as low as \$14 to as high as \$449 for apparel. Miss Sixty, however, prices even higher, where product prices can range from €200 to €800.

Promotion. Bridge premium brands utilize communication strategies somewhat similar to those of designer brands but also heavily focused on digital advertising. The purpose of all promotional activities is to increase reputation and recognition of the brand and, therefore, further transcend the brand image toward a lifestyle directed at all consumers. Urban Outfitters relies on brand recognition through direct marketing activities, rather than traditional forms of advertising, to draw customers into its retail stores. It purposely has highly visible store locations, creative store designs, and broad merchandise selection and visual presentation to entice customers to enter and explore the store. The hip, ironic, and distinctive store environment, along with increased activity on social media platforms (Pinterest, Facebook, Twitter, Tumblr, Viemo, Spotify) to further publicize and communicate directly with customers, has successfully allowed Urban Outfitters to increase consumer awareness of its stores and product offerings. Similarly, all of Miss Sixty's online advertising campaigns and printed catalogs coincide with the Miss Sixty brand image of "a unique, feminine, personal, and seductive style." In addition to online campaigns, Miss Sixty utilizes social media (Facebook, Twitter, YouTube, Pinterest), as well as mobile applications and its own television commercials.

While DKNY's best known advertising has been the DKNY painted logo on the SoHo Wall in New York City, even this brand is shifting its focus to digital media. In addition to having an iPhone application, it has also created the DKNY PR Girl initiative. This is a social media account on Twitter, Tumblr, Pinterest, and Instagram that brings DKNY fans behind-the-scenes to get the inside scoop.

Growth Strategy

Squeezed between the fast fashion segment, focused on upgrading creativity and brand image, and higher segments, concerned with upgrading service and trading down with more entry-priced products, is the bridge premium segment. Bridge brands seek to combat the competition by repositioning themselves in the diffusion range and achieving strong brand identity needed to become a formidable global brand force. Both DKNY and Miss Sixty are excellent examples of bridge brands successfully repositioning themselves as designer brands and achieving a global presence. While one may not perceive Urban Outfitters as a designer brand, it has an extremely strong international presence, particularly in North America and Europe. In fact, Interbrand ranked Urban Outfitters number 41 on its list of "Best Retail Brands 2012." Being able to internationalize has increased significantly each brand's market share.

Another growth strategy employed within this segment is building a brand portfolio composed of directly owned and licensed brands. Miss Sixty is the flagship brand of the SIXTY Group fashion portfolio—an international fashion company based in Italy. The SIXTY Group increased its presence in the western European market with a dedicated franchising project. Furthermore, Miss Sixty successfully launched its eyewear collection in 2002 through a licensing agreement with Marcolin S.p.A. In 2005, its first fragrance launched in collaboration with Corty and featured a testimonial from Asia Argento. Aiding Miss Sixty's goal to develop itself into a lifestyle brand, another licensing agreement formed with Morellato to produce and distribute Miss Sixty Jewels and Miss Sixty Time. Similarly, the Donna Karan Company originally founded DKNY but was later acquired by LVMH in November 2001. Both brands expanded their market share and product categories through licensing agreements to retain a strong brand portfolio.

Brand Diffusion and Dilution

As bridge premium brands transcend their images into lifestyle brands, DKNY in particular has been a successful example of brand diffusion. Donna Karan New York founded DKNY as a sub-brand; therefore, this bridge brand already carried the backing of a prestigious designer. With the successful launch of DKNY Jeans, the brand later founded DKNY Men in 1992. DKNY Beauty Collection, pureDKNY, DKNY Active, DKNY Underwear, DKNY Jeans Junior, DKNY Kids, and finally DKNY Baby followed. In short, there is a DKNY line for every member of the family. To further enhance the lifestyle experience, the company introduced DKNY Home Collection and DKNY Life, providing both luxury and contemporary, fashion-forward bedding for the household.

In contrast, both Urban Outfitters and Miss Sixty have expanded into different product categories; however, they have not introduced sub-label brands. While Urban Outfitters is only a brand name, its product line has evolved successfully from vintage, bohemian, retro, hipster, ironically humorous, and kitschy apparel and furniture to include luxury brands and several designer collaborations. Its luxury brands and collaborations are not under the Urban Outfitters

name but are sold through Urban Outfitters' retail outlets. Along with its expansion into offering men's and women's fashion apparel, footwear, and accessories, Urban Outfitters also has an eclectic mix of apartmentware and gifts. These range from rugs, pillows, and shower curtains to books, candles, and novelties.

Co-Branding Strategies

Co-branding is not a widely used strategy within the bridge segment. However, high fashion chain DKNY did engage in one noteworthy co-branding effort. In December 2010, it entered into a co-branding partnership with the Champaign house, Veuve Clicquot. The two produced limited-edition rubber snow boots featured in Veuve Clicquot's iconic signature mustard color. The boots are approximately \$100 per pair and are sold through DKNY's retail stores in New York City, DKNY's Old Bond Street store in London, and DKNY's online retail website. The boots successfully kicked off Veuve Clicquot's annual event—Clicquot in the Snow.

“The DKNY for Veuve Clicquot limited-edition boot brings Clicquot in the Snow to life. Our brands both emulate a fun and active lifestyle; I look forward to seeing women show off their boots during après ski as well as in the city this winter.”

Vanessa Katy, Vice President of Veuve Clicquot USA

The event took place on February 2011, where participants spent a day on the slopes, followed by champagne tasting après ski. Furthermore, both Veuve Clicquot and DKNY are part of the LVMH Group, and, thus, LVMH successfully promoted two of its brands simultaneously through this co-branding effort.

Diffusion-Designer and Premium Brands

Segment History

This segment, when delineated by price, serves to separate what some might call “high fashion” from “fast fashion” and other lesser brands. Toward the bottom one will find mass retailers and upper bridge premium brands, while ready-to-wear and couture-luxury brands sit above the diffusion/premium segment. Brands in this segment include Ralph Lauren, D&G, Burberry Brit, J.Crew, BOSS, John Varvatos, 7 for All Mankind, and Diesel. While this assortment of brands might appear quite varied in brand representation within the fashion industry, they all converge in and around the price pyramid level that makes up the diffusion and premium brand segment.

It is helpful to consider various implications the brands within these segments have before further narrowing the scope of analysis. Erica Corbellini, of the University of Bocconi's lauded fashion and business department, brings together a system of brand codes which, if represented correctly, should converge to be “internally consistent and externally relevant” to the fashion-forward onlooker. These codes include heritage, stylistic identity, communication identity, and retail identity. Although some of these brands have heritage stretching back to the 1800s, many are more recent additions to the fashion landscape with incorporation dates in the later 1900s to early 2000s. As for the stylistic, communication, and retail identity, it is important to note that some of the brands listed prior are spinoffs of much more expensive brands and purposefully market themselves as to preserve brand integrity for the “parent” brand while capturing a distinct target market. Burberry Brit, for example, is underneath the British fashion powerhouse of Burberry, yet it caters to a different set of shoppers than its further upscale collections, Burberry Prorsum and Burberry London.

Diffusion and premium brands allow us the opportunity to look into a part of the fashion marketplace that has seen considerable momentum in its mass visibility worldwide – the menswear segment. As Wendell Brown, senior fashion editor at men's magazine *Esquire*, informed the New York Times' Guy Trebay, "Now everyone knows everything." This statement implies that fashionable prowess, once reserved for females, is stretching into the male demographic who unabashedly demonstrate their embrace of fitted pants and shawl cardigans in the backstreets of Brooklyn and high streets of London. While there lie countless historic differences between womenswear and menswear, such as variations in shopping behavior (women are emotionally motivated while men are utility motivated) and business models (menswear displays are more vertical integrated while licensing opportunities for womenswear spread horizontally), focusing on both heritage brands and newcomers to the menswear market will provide a contrast to the more women-focused couture, ready-to-wear, and fast fashion segments.

Lifestyle

Burberry Brit. Born out of British heritage and a certain flare connoted with its signature plaid that many aspire to don, Burberry Brit commands the upper price point of the diffusion/premium brand segment, even as it sits at the lowest price point within its own brand collection. As the oldest and most internationally recognizable of the three focus brands, Burberry Brit benefits from the market reach of its parent brand. Much like other aspirational luxury brands, Burberry Brit has become extremely popular within brand-obsessed Asian markets, where a focus on publically visible possessions as a determinant of wealth has become ingrained in society. Furthermore, being at the upper echelon of the premium/diffusion market allows Burberry to exploit the virtues of invidious distinction, in which yearning consumers of luxury goods use status items to evoke envy from those observing different displays of wealth. Due to Burberry's iconic plaid print, it has quickly become representative of a well-heeled, English sensibility.

J.Crew. Eschewing an air of traditional elegance infused with distinctive American style that appeals to its growing customer base, J.Crew has become a retailer many clothiers look to as a model when it comes to merchandizing and selling more than just a cashmere sweater but a way of life. In a recent exposé, CNBC praised the company's CEO, Micky Drexler, and creative director, Jenna Lyons, for their creative fervor and business cleverness in being able to pinpoint what sells and what does not. Differentiating itself from many other retailers is its famous J.Crew catalog, published bi-monthly, which showcases new clothing in exotic locales and contributes to around 30 percent of sales revenue. Between its catalog, digital marketing campaigns, and innovative co-branding initiatives, the company can sell the J.Crew way of life to those willing to pay.

Ledbury. When founders Paul Watson and Paul Tribble met while studying business at Oxford University, their interest in fine menswear crafted by London's finest tailors peaked. After their potential financial careers came to a halt in 2008, as many did, they decided to pool their brainpower and bring back heritage craftsmanship to the discerning stateside menswear shopper. While their story is unique, Ledbury can trace its rapid growth back to a commonality between all brands in this segment – lifestyle. They do not simply sell premium shirts (most priced around \$135) but market to the needs of young professionals willing to pay for a shirt that feels better, fits better, and delivers an unparalleled crisp look. In the arena of menswear, they are

taking a truly unique approach to marketing their brand. They are proving that a “back to basics” approach can connect with a target market filled with men who appreciate good craftsmanship and fit without having to wade through haute fashion-centric advertising from brands like Burberry, which express an overpowering brand image

Marketing Mix

Product. While J.Crew and Burberry Brit offer everything from fine leather goods to sport coats and premium jeans, Ledbury’s focus on men’s shirting has defined its product offering and allowed it to stand out for specializing in one area. Slowly, however, Ledbury has begun to offer small quantities of accessories, such as pocket squares, leather belts, and ties.

Place. Burberry operates numerous direct-to-market retail establishments around the world, usually in premier shopping districts. However, it varies and thoughtfully adapts its offerings from store to store to specific customer needs as they change from one geographic market to another. J.Crew operates in force online, through brick and mortar stores, and through its bi-monthly catalog. In the past, it mainly located its stores in upscale malls, but it is also moving toward standalone shops and expanding internationally to Canada, the United Kingdom, and Asia. As the newest focus brand in this segment, Ledbury only maintains one retail outlet, housed in the same space as its corporate offices in Richmond, Virginia. Ninety-eight percent of its traffic comes from online channels, and it sees little need to expand into brick and mortar stores at this stage in its development.

Price. As noted in the brand diagram, Burberry Brit is the clear price leader within the premium/diffusion segment, with many items running into the thousands of dollars. Ledbury has less price variation, with most of its shirts averaging \$135 with ties slightly lower and leather accessories slightly higher. Ledbury has, however, begun to introduce blazers, marketed in the \$600 to \$800 range. Perhaps the most varied pricewise, J.Crew allows the greatest range of customers to interact with its brand (based on attainability) because a store may contain both a \$20 pair of socks and an \$800 dinner jacket. Its CEO, Micky Drexler, cites this as one of the reasons J.Crew can withstand the recent financial instability, forcing customers to shift their appetite for product without disengaging with the brand altogether.

Promotion. Burberry’s ads evoke British sensibility while testing boundaries in consumer brand attentiveness through edgy advertisements with haute refinement. J.Crew is more traditional while still constantly refreshing its look through its catalog, showcasing new collections in far away places – yet another example of how it truly builds a lifestyle brand. Successful e-mail marketing campaigns, tailored to specific customer interests, have made J.Crew stand out, similar to what Ledbury has done through its almost exclusively e-mail and social media-based advertisements. All three brands have capitalized on celebrity endorsements, although Burberry has perhaps done so the most aggressively of the group.

Growth Strategy

The challenges facing the diffusion/premium segment are unique. The nature of these brands’ product price structures price many out, while still not realizing the same gross margins per item that couture brands enjoy. As a recent *Financial Times* article highlighted, whereas traditionally price was the major factor determining how well a luxury company did, other characteristics such as ubiquity and rarity are becoming more significant to the discerning shopper. Given the

current global economic climate, the luxury segment is going through a tumultuous time, particularly affecting the diffusion/premium segment. McKinsey & Company analyst Thomas Tochtermann asserts that, “You [luxury retailers] need entry-level products in order to allow the new generation to grow into the brand. If you cut that off, you may cut off your lifeline.” Essentially, older brands like Burberry need to seek out opportunities to forge lasting relationships with younger customers, while newer companies like J.Crew and Ledbury must prove to luxury shoppers why they should try out and trust their brands over seasoned stalwarts. Ralph Lauren is a perfect example of this, inviting customers into its world through \$80 Rugby shirts or \$14,000 alligator handbags. Although some products price out at the bottom, the ability to connect with the Ralph Lauren brand is limitless above a certain threshold and has led to its global fashion dominance.

Male Growth Strategy & Expansion

Alluded to above, J.Crew falls well above par concerning marketing to male shoppers. Its success can be attributed to its “cater[ing] to guys who like clothes, but not shopping; who like fashion, but not trends,” bringing male fashion consciousness into the mainstream. J.Crew communicates a brand to its male clientele that says it is fine to wonder where the fabric of your suit came from, seek out a more tailored look, and perhaps more important, be willing to pay for superior goods. By creating standalone “Men’s Shops” in large market cities and truly aspirational brand items like its signature “Ludlow Suit,” CEO Micky Drexler leaves many other brands behind.

Employing a plan of deliberate growth in brick and mortar stores does not seem to be keeping J.Crew from tapping global markets, either. Although one will soon find J.Crew with a physical presence in the United Kingdom and Asia, its ad campaign “Hello, World” kicked off its partnership with global e-commerce giant FiftyOne. Using an online platform that gives customers worldwide access to J.Crew’s full line of products has made immense business sense as it outsources complicated processing and inventory management costs of doing business overseas while reducing the risk attached to entering less developed markets, thus expanding the availability of its products to more than one hundred countries worldwide. Once again, business cleverness and fashion come together under the roof of authentic American style to allow the world over to experience the J.Crew lifestyle.

As the newest focus brand in this segment, Ledbury finds itself in an early growth stage position. While experiencing immense growth, it is facing challenges, such as how to meet the exploding consumer demand while preserving quality, how to reach its most loyal customers, and how to express a likeness similar to J.Crew’s mentality of catering to men who enjoy fine clothing but are not necessarily interested in fashion. Ledbury’s Vice President of Branding and Communications, Elisabeth Edelman, describes the start up’s marketing techniques as somewhat of a hybrid strategy. By forging strategic partnerships with people and places that fit into the brand identity, Ledbury promotes its products without explicitly wielding shirt sales pitches. One of its biggest successes has been a growing relationship with MSNBC’s Willie Geist, who touts his loyalty toward Ledbury’s shirts whenever he can.

While 98% of its sales are online (5% international, 95% domestic overall), Ledbury has been wildly successful in the art of “pop up shops.” Picking cities where it has growing customer bases but not enough capital to build a physical store just yet allows it to bring its product to

cities like Nashville and Charleston for weekend shows to pull in those familiar and new to the brand into the world of Ledbury. As noted before, it has mastered the art of catering to a certain male customer by interacting with the cities it visits, using landmarks for lookbook photo shoots and brand receptions. In this manner, it builds its brand subtly without using more aggressive tactics that a larger operation like Burberry might employ to attract clientele.

Brand Diffusion and Dilution

Out of the three focus brands within this segment, Burberry faces the greatest risk of brand dilution while also successfully diffusing its brand. Burberry Brit is very distinct from Burberry's more expensive, upper tier brands, but because Brit is at a lower price point, it must be careful to retain the kind of clientele that will not hurt those paying for the highest margin products in its London and Prorsum collections.

J.Crew defends itself against brand dilution while partnering with a growing number of brands because it strategically selects premium brands that bring something new to its customer base, thus protecting against cannibalism.

As such a new company, Ledbury faces little worry from brand diffusion as it is focusing on building its newly developed core brand. Because it has such a tightly controlled distribution channel (almost completely in house), it is not at risk of diluting its product by selling excess stock to discount stores.

Co-Branding Strategies

For premium brands like J.Crew and Ledbury, standing out among the plethora of premium designers has never been more important. Three components of J.Crew's recent growth strategy stand out as exceptional and unique. While many experts scoff at co-branding initiatives for their brand dilution implications, J.Crew excels at this practice. Take its relationship with hundred-year-old Quoddy, a small leather shoemaker based in Perry, Maine. Creative Director Jenna Lyons forged this partnership after she spotted the chic footwear in a small New York shoe shop. After some conversations with President John Andreliunas, Quoddy's premier leather goods appeared in many J.Crew shops to the delight of quality-seeking shoppers. Their popularity, particularly among men, links to what Michael Williams, of men's blog *A Continuous Lean*, told *Women's Wear Daily's* David Lipke is a "masculine zeitgeist that embraces a genuine interest in authentic craftsmanship." Part of selling a lifestyle is allowing consumers into a world that goes into the process behind the clothing they purchase. After bringing them into that world, they often demand more high quality craftsmanship, thus increasing a brand's ability to sell high margin goods.

J.Crew is not alone in its attempt to capitalize on co-branding within the luxury sector and beyond. As Euromonitor's Rob Walker points out, "At its core, the biggest attraction of co-branding is the opportunity to introduce one company's products to the consumer base of another." Partnerships ranging from Fiat and Gucci to Chrysler and John Varvatos are demonstrating that there are gains made from these efforts. In the example of the Varvatos/Chrysler collaboration, the rebuilding of a broken car brand has included releasing limited editions of one of its most popular models, the "300." With designer interiors and the exclusivity of owning one out of only 2,000 John Varvatos branded cars, Chrysler successfully introduced trendy Varvatos loyal customers to classic American car styling. Both entities'

enhanced their brand equities because Chrysler used Varvatos to “brand up” one of its models and Varvatos was attached to a feel good story of the rekindled pride of American-made cars.

Ready-to-Wear Designer Brands

Segment History

The ready-to-wear designer segment, also known as *prêt-à-porter*, had its origins in the 1970s in Italy, when designers and manufacturing firms began to partner together. During this period, new trends were beginning to develop outside of French haute couture; hence, consumers began demanding more informal wear, especially in the area of women’s clothing. As flexible and fashion-sensitive small-to-medium size companies evolved, fashion industry and designers formed a new relationship utilizing licensing partnerships to upgrade products. Armani and Versace were two of the major brands that emerged during this period. In the 1990s, designer-entrepreneurs like Versace, Armani, and Dolce&Gabbana began to control their production and distribution processes, thus reducing their licenses and purchasing their own factories. Multi-brand and multi-business groups also developed as companies acquired brands and other designer companies to form entities such as the Gucci Group, Prada Group, and IT Holding S.p.A. This business model has, therefore, evolved from that of a *maison*, based solely on style and image, into vertically integrated companies that control a brand’s manufacturing and retail activities as well.

This segment’s primary distinguishing characteristic is the presence of a designer who manages the creation, development, and communication strategy of a collection. Brands in this segment include Louis Vuitton, Burberry Prorsum, Prada, Gucci, Dior, Valentino, Giorgio Armani, Marc Jacobs, and Dolce&Gabbana. To provide a clearer picture of this segment, the brands that will be focused on are Louis Vuitton (the oldest brand), Dolce&Gabbana (the newest brand), and Giorgio Armani (the most representative brand).

Lifestyle

Consumers sought after the ready-to-wear designer segment for its distinctiveness of design based on the designer’s signature, emphasizing product innovation, strong stylistic creativity, and excellence in quality. The designer’s reputation is the brand’s most significant success tool and is based upon a number of factors, including creativity, image, opinion makers, marketing, and good relations with international store buyers and fashion editors. Based on the designer’s reputation, a brand can command a higher price and become coveted for its “dream factor.” As an executive at LVMH (Louis Vuitton Moët Hennessy), the world’s largest luxury group, stated, “There are four main elements to our business model – product, distribution, communication, and price . . . Our job is to do such a fantastic job on the first three so that people forget all about the fourth.” This segment strives to emphasize its quality, innovation, and creativity through highly desired seasonal products related to the time period, rather than through timeless items, which is what the couture-luxury segment does.

Two main segments of consumers tend to purchase these “fashion” pieces. The first segment is conspicuous consumers, who spend to impress others. Termed the “snob effect” or “bandwagon effect,” these consumers are often of the upper class and buy high-end fashion products to make certain that others are aware of their socio-economic status. The second main segment is aspirational consumers. Through “selective extravagance” or “rocketing,” these consumers

occasionally trade up and spend large sums of money, beyond their income level, on a few expensive items, and penny pinch on everything else. These consumers are often members of the middle-class with a luxury culture, especially in Western markets. As traditionally underdeveloped countries become increasingly more industrialized, perhaps aspirational consumer tendencies will shift more toward developing nations. In a 2011 Millward Brown survey, 13% of global consumers believed that purchasing luxury products was extremely/very important in their personal lives, with the largest percentage from India (34%) and the smallest percentage from the United States (8%). China and Russia also followed India as the top-ranking countries in this poll, demonstrating that the market for high-end goods is only becoming stronger in developing nations.

Marketing Mix

Product. The focus of this segment traditionally has been high-end, innovative, ready-to-wear womenswear; however, numerous brands have moved away from solely focusing on this area. As a leather goods retailer before ever producing womenswear, consumers continue to recognize Louis Vuitton for its luggage made by hand. For a full breadth of brand expansion, one need only look at Giorgio Armani. He operates cafes, restaurants, a bar, a nightclub, a bookshop, a florist, and a confectionary, in addition to its ready-to-wear womenswear and menswear, leather goods, shoes, watches, jewelry, accessories, eyewear, cosmetics, and home interior product lines. Moreover, an important strategy for this segment has been the development of licensing agreements, which Dolce&Gabbana has become well known for employing. Through an eyewear agreement with Luxottica, perfume agreement with Procter & Gamble, and watch and jewelry agreements with Binda Group, Dolce&Gabbana has expanded its brand offering outside of ready-to-wear.

Place. In recent years, most fashion houses have moved toward retail environments, opening directly operated boutiques to create a better image of their brand and display more product categories. In addition, most ready-to-wear designers sell their clothing by leasing space within high-end department stores. Generally, this segment only utilizes e-commerce to offer limited editions of accessories and gifts developed to sell online only. Internet sales have been slow to take off for ready-to-wear clothing due to the difficulty to characterize accurately the products' fit, touch, colors, and details online. Most high-end fashion designers produce items through make-to-order strategies so as to minimize unsold stocks that will go out of fashion the following season. After presenting its seasonal collection, the brand produces only the portion of the seasonal offer that has already been sold to retail clients.

Price. The average price of ready-to-wear clothing is three-to-five times higher than the average market price. For example, Dolce&Gabbana womenswear can cost anywhere from \$650 to \$4,000. Louis Vuitton consistently yields profit margins of 40 to 45%, which is the highest of any luxury goods brand. Part of the prestige of this segment comes from commanding a high price. As Milton Pedraza, CEO of the Luxury Institute, said, "The desire for Louis Vuitton is omnipresent, from Shanghai to Sloane Street . . . Not bad for a company that prides itself on never going 'on sale.'"

Promotion. Getting press recognition is paramount for a designer's success; therefore, the investments in communication in this segment are much higher than those of any other segment. This segment's main channel of communication is seasonal fashion shows, in which the designer

presents his or her collection. Other successful methods of communication include developing limited edition items in conjunction with certain events and lending out clothes to celebrities for media attention. Giorgio Armani is acclaimed for dressing celebrities and other members of the elite, such that one expects to see a Giorgio Armani gown on the red carpet at the Oscars. “The royalty of Belgium, the royal families of many Asian countries, and even opulent women from the Middle East” were famously photographed wearing Giorgio Armani gowns, further enhancing the brand’s image and prestige. Additionally, this segment tends to utilize print advertisements to portray the brand’s image, rather than solely its products. For example, many of Dolce&Gabbana’s advertisements depict Sicilian streets and Italian families among colorful, beautiful backdrops to demonstrate its Mediterranean charm. On the other hand, Louis Vuitton’s marketing campaigns tend to showcase well-known models, musicians, athletes, actors, and government officials to connect its image to the present day, despite being the oldest brand in this segment.

Growth Strategy

In recent years, brands in this segment have utilized two major growth strategies as they seek to expand their market share. First, brands have demonstrated a desire to enforce their global presence and move increasingly abroad in terms of target markets, communication channels, and actors employed in marketing campaigns. For example, Louis Vuitton experienced such tremendous growth in Japan during the early 2000s that it decided to partner with Japanese designers and artists like Rei Kawakubo and Yayoi Kusama to enforce this growth. Because the Chinese market has many similarities with that of Japan, its largest customer base, Louis Vuitton also began to direct its focus at China. The Chinese have become its second largest customer base.

The second primary growth strategy that brands in this segment have employed has been trading up or down to move into another segment. By trading up, traditional ready-to-wear brands have caused the distinction between the timelessness of luxury items and the short product life cycles of “fashion” items to disappear. For example, realizing that personalization is the key to men’s fashion, Giorgio Armani moved into made-to-measure menswear with its “Hand Made to Measure” line. On the other hand, designers have also been trading down as fashion houses undertake line extensions to develop their creativity in more accessible or younger product lines. This movement is in the development of shoes and accessory lines as well as through brand extensions like Armani’s Armani Exchange or Prada’s Miu Miu. At the same time, unexpected competitors are also entering this segment as other brands trade up or down in their own segment. French luxury firms from the couture segment especially have been trading down and entering ready-to-wear as an attempt to use the communicative potential of seasonal collections to renew and update their brand image, creating greater competition for traditional ready-to-wear brands.

Brand Diffusion and Dilution

In a segment in which designer’s reputation determines success, a brand must be incredibly careful not to dilute its image as it grows. Giorgio Armani is an extremely successful example of brand diffusion while maintaining a high-end image. The Armani brand has expanded into several sub-labels, including Giorgio Armani, Armani Collezioni, Emporio Armani, Armani Jeans, Armani Exchange, Armani Junior, and Armani Casa, ensuring that there are clear distinctions between labels, while still maintaining high quality throughout. The Giorgio Armani

label on its own has enhanced its prestige through ventures, such as partnering with a chain of luxury hotels and resorts in major worldwide cities. It even partnered with the highly anticipated movie, *The Dark Knight*, to create print advertisements showcasing “Giorgio Armani for Bruce Wayne,” given that Bruce Wayne is an elite character dressed in Giorgio Armani throughout the film. Through these types of partnerships, Giorgio Armani succeeds in distinguishing itself from its lower sub-labels while maintaining its superior image.

However, other brands in this segment, such as Dolce&Gabbana, have struggled to retain a clear distinction between sub-brands. Although its secondary D&G line, known for its “youthful buzz,” made up 45% of the company’s revenue in 2009, Dolce&Gabbana decided to fold this brand into the main label in August 2012 so as to limit cannibalization between the lines. The plan was to expand the offering of the Dolce&Gabbana line, known for its “sexy ultra-tailoring,” to include lower-priced clothing, a risky move that may cause consumers to become confused with the brand’s image.

Given that the “dream factor” is high among these brands, a major factor in brand dilution has been overexposure through counterfeited products. Louis Vuitton is notorious for its struggle against counterfeiting its bags. Recent court rulings have made it easier for Louis Vuitton to go after companies that use its trademarks in Web advertisements to sell fake bags, assisting the brand in maintaining its exclusivity. However, while it prides itself on emphasizing quality, innovation, and creativity, rather than a “bling” factor, Louis Vuitton continues to be a favorite among aspirational consumers striving to show off their few high-end purchases. Perhaps these reasons are why Bernard Arnault, chief executive of LVMH (Louis Vuitton Moët Hennessy), stated that Louis Vuitton is “planning to dampen its expansion worldwide and focus on high-end products to preserve its exclusive image.” Although Louis Vuitton currently remains the luxury brand with the highest brand value (\$25,920 million in 2012), it is uncertain whether or not brand image will be diluted.

Co-Branding Strategies

Collaboration is a key strategy for the ready-to-wear segment, given that these brands spend more money on their communication strategy than any other segment. Whether the partnerships relate to celebrities, electronics, hotels, artists, nonprofit organizations, or sports teams, these co-branding campaigns represent an important opportunity for ready-to-wear brands to further advertise themselves.

As a leather goods company known for its handcrafted bags, Louis Vuitton has centered many of its partnerships on encouraging art. In 2012, Louis Vuitton formed a partnership with Italy’s oldest film school, Centro Sperimentale di Cinematografia (Italian National Film School), in an effort to “perpetuate handcrafted artistry.” Louis Vuitton’s support will form an honors committee composed of key figures in cinema, tutor young talents, establish a scholarship for disadvantaged students, and create workshops. As Centro Sperimentale’s general director explained, “Cinema has taken a lot from the fashion world. But fashion has taken a lot from cinema.” Louis Vuitton has also collaborated with several artists. For example, its best known artist collaboration occurred in 2002 when Marc Jacobs, Louis Vuitton’s Creative Director, reached out to Takashi Murakami, a prolific contemporary Japanese artist. To improve and maintain its success in Japan, Louis Vuitton also reached out to other Japanese artists. In

September 2008, Louis Vuitton opened a joint store in Tokyo with Comme des Garçons' Rei Kawakubo, a Japanese "ultimate fashion rebel" designer.

Additionally, Dolce&Gabbana has become known for its partnerships with sports and celebrities. In July 2010, Dolce&Gabbana signed a three-year partnership with the Chelsea Football Club, providing the formal club suits, redesigning the club's main office reception, and creating the "Dolce&Gabbana Lounge" in the West Stand at Stamford Bridge. Domenico Dolce and Stefano Gabbana issued a press release saying:

"We are big football fans, for us it means healthy competition, intense passion, and great discipline. Football players are style icons both on and off the pitch and, on top of this, there is our love of England and of London, which have always been a source of inspiration for our work."

The brand has also been noted for its partnerships with celebrities. As stated by Vogue UK, "They have successfully channeled the power of the front row, the ad campaign, and celebrity friends to their advantage with friends like Naomi Campbell and Kylie Minogue." For example, to celebrate the twenty-fifth anniversary of Naomi Campbell's career, Dolce&Gabbana created a line of limited edition t-shirts. Not only did the brand create the costumes for Madonna's Girlie Show tour in 1993, but it also partnered with Madonna to design a collection of sunglasses titled "MDG." Furthermore, in October 2010, it was announced that Lionel Messi, one of the best soccer player in the world, would be wearing Dolce&Gabbana outfits at all official occasions. Through these co-branding opportunities with sports and celebrities, Dolce&Gabbana leveraged popular names to create endless amounts of advertising for itself.

Moreover, Giorgio Armani has employed co-branding opportunities in an effort to update its image and remain seen as a luxury brand. For example, in 2010, Giorgio Armani partnered with Lady Gaga to design several of her outfits and create costumes for her concerts and videos. As stated in *The Wall Street Journal*, "the 76-year-old designer's partnership with the 24-year-old pop idol, worth multimillion-dollars in publicity and clothing, has put Mr. Armani 'in a new creative spotlight—individuality, edge, futuristic style' . . . It is also an effort by one of fashion's oldest figures to rejuvenate his €1.5 billion business." By launching a Giorgio Armani cell phone through a co-branding opportunity with Samsung to create high-end electronic and consumer products, Giorgio Armani has continued to update its brand image to fit with every day culture. In addition, Giorgio Armani partnered with the U.S. Fund for UNICEF as the national sponsor of the 2012 UNICEF Tap Project through its Acqua for Life campaign, in which it donated \$1 to UNICEF for each purchase of its Acqua perfume or cologne. In this manner, the brand raised awareness for an important cause while refreshing its brand image. Furthermore, as mentioned previously, to retain its image of luxury, Giorgio Armani collaborated with Emaar Properties in 2004 to plan a chain of luxury hotels and resorts in several major cities across the world. Giorgio Armani was responsible for overseeing all aspects of the interior design and style of these hotels and resorts. Thus, similar to both Louis Vuitton and Dolce&Gabbana, Giorgio Armani utilizes co-branding opportunities to update and strengthen its current brand image while providing additional opportunities for advertising.

Couture-Luxury Brands

Segment History

The couture-luxury segment has evolved over the course of the past century. This segment began in Paris and is the highest level of luxury. In Paris, luxury was not an image that became real and attainable through the brands in this segment. To this day, luxury is only attainable by a very small percentage, although recently some brands have been developing their image and offering to deliver some products that can reach other segments to increase their customer base. The whole premise of couture is made-to-measure clothing, which is clothing created for the consumer and not available to the rest of the public. Made-to-measure couture creates exclusivity and a unique piece of fashion accessible by only a few.

Couture is a very difficult market to enter because while the quality has to be excellent, the piece also has to have value through a respected brand. Founded in 1837, Hermès is the oldest brand in this segment. Chanel is the most representative brand in this segment, founded in 1920. Chanel is the most representative brand because it has maintained its view of couture, while also diffusing the brand into other segments as well. Founded in 1980, Carolina Herrera is the newest brand in this segment. While not all consumers interpret Carolina Herrera as couture, it is the newest brand in the couture segment due to the high prices of its product offering.

Lifestyle

Couture captures the lifestyle of the most elite and wealthy individuals around the world, where extraordinary wealth and unique and exclusive lives are of most importance. Therefore, consumer purchased goods must carry same characteristics. In other lower segments, companies need to focus on how to reach greater numbers of customers and grow their customer base. In couture, the objective is completely different. The goal is to limit the production and growth, increasing the demand. This strategy has helped many brands in this segment to avoid a downfall in the recent economic downturn.

Consumers buy couture products for their quality, status, and perception as art. The quality of the goods is assumed to be flawless, because the handmade goods have specifications on size and style for the particular customer. Consumers view the goods as art pieces to be worn time and time again. This art aspect does not fade with time, which helps justify the wait time. The pieces have to be made-to-wear; therefore, the designers have to make them in-house and it can take months for production. Many desire couture, but few achieve. To be a couture consumer, one has to have the status to obtain access. Consequently, consumers purchase goods either to prove top status or maintain this status, not to gain status.

Marketing Mix

Product. In couture, the product is quintessential because it has to be what the consumer wants and expects for the price. The products of Hermès, Chanel, and Carolina Herrera vary in their diversification and brand diffusion strategies. The branding, however, is the same because the three brands all try to maintain their image while increasing brand awareness and improving their appearance through packaging. The packaging may have to do with sales assistance, warranties, and other perks that customers receive when they buy these products. The products are not just a piece of clothing or jewelry, rather they are pieces of art and investments. The Hermès Birkin Bag can appreciate over its lifetime. This fact is unheard of for purses; however,

the Birkin Bag is not just a purse, it is an investment. This is partially because there are so few Birkin bags in supply and partially due to the fact that the bags last for so long. Hermès also makes sure that each store's inventory is specific to its customers' wants, as opposed to having the same inventory in every store. This allows stores to be more successful in selling inventory because they can select specific items that would sell best in their specific environment. Another strategy Hermès employs to maintain exclusivity is to destroy pieces that the customer does not want to buy; this is to ensure that the item is not discounted and sent to a retail or outlet location. This helps maintain its brand image and shows that the goal of Hermès' products is to provide quality innovation for their intended customers.

Carolina Herrera's products have focused on sophisticated women while making adaptations to seem younger and more contemporary. Her products vary depending on line, but celebrities at public events wear many of her pieces.

Place. Most of the couture brands use direct distribution and focus on private selling. Some brands have websites or retail locations, but most couture items are not sold through long distributions channels. Hermès has a website that offers some of its couture items; however, it is more available to explore options. The website encourages consumers to visit the store, interact with staff members, and enjoy a customized experience. The items on its website include jewelry priced close to \$40,000, which shows that some couture items are available over the Internet. Chanel has chosen to distribute its products slightly differently because it is in many retail stores; however, the couture items that Chanel has are typically not found in any retail locations. The retailers that carry Chanel typically only stock ready-to-wear or accessories.

Price. Couture pricing is very different from most segments because the motivations are not as focused on data and market research. Companies try to focus more on the customer's value of the product; by doing so firms typically can raise prices more than normal through using data and measurements. Another pricing technique some luxury brands employ is to not have a specified price to fully allow consumers to customize the good and therefore increasing the company's profit margin. Most firms use minimal market research, while mainly focusing on the customer's opinion of the worth of the goods.

Promotion. Couture has to have a different approach than other segments when concerning promotion because while the brands want to increase demand for their goods, they also want to increase exclusivity. Luxury brands need to focus on both personal selling and customer service to keep customers fully knowledgeable about the brands product offering. Luxury companies' promotion goals have to do with promoting the brand image of exclusivity while increasing growth. A large problem that most luxury brands face is that they want to grow but during the process, lose exclusivity. Hermès has avoided the loss of exclusivity, explained by CEO Patrick Thomas as,

"The luxury industry is built on a paradox: the more desirable the brand becomes, the more it sells but the more it sells, the less desirable it becomes! I believe Hermès' vision provides a solution to the dilemma: we will remain committed to the best quality materials, the best craftsmanship, sustained creativity, and style."

As Mr. Thomas asserts, it seems as though Hermès' strategy for promotion is great quality, which it has the history to prove, and innovation that preserves the brand's image, while also helping to grow through diversification of goods.

Growth Strategy

The growth strategies of Hermès, Chanel, and Carolina Herrera seem to be different. Hermès focuses on diversification within the same segment of couture, if not just in ready-to-wear. Hermès has forged partnerships with two separate companies focusing on furniture manufacturing and textile manufacturing, which has allowed it to diversify into home decoration and wallpaper. Through this process, however CEO Patrick Thomas says Hermès will maintain the responsibility of its products to ensure the quality and design of goods produced.

Chanel focuses on diversification through its brand name in different segments. Its accessory, makeup, and fragrance lines can be categorized into three different segments. This strategy allows more consumers to access the brand, without diluting its couture line. However, this affects the brand because couture is meant to be inaccessible and exclusive.

Chanel and Hermès both are trying to diversify, yet both brands have completely different approaches. Chanel is becoming more accessible, while Hermès is remaining as inaccessible as possible. Hermès appears to be the most successful brand in this area, in 2008 Hermès was voted number two in Luxury Institute's Luxury Brand Status Index, while Chanel did not make the top three. Hermès has seen sales increases throughout the recession, reporting that sales increased by almost 20% in 2012. While Hermès has been successful in its own stores and couture segment, its products sold to lower segments through retailers have struggled in comparison.

Carolina Herrera is in a different stage of growth than Chanel and Hermès because it was founded within the last 30 years. The company has much less exposure but is gaining speed, taking a different perspective on growth because it is expanding throughout Europe. As opposed to Chanel and Hermès, which both started over a hundred years ago in France, Carolina Herrera is in the beginning stage of growth and is actively looking to create its brand image, as opposed to maintaining it. This creates a problem for the brand because it has to create an image while growing throughout alternative segments. As opposed to having only one line of ready-to-wear and couture, Carolina Herrera created "CH" to reach more customers on a more attainable basis.

Co-Branding Strategies

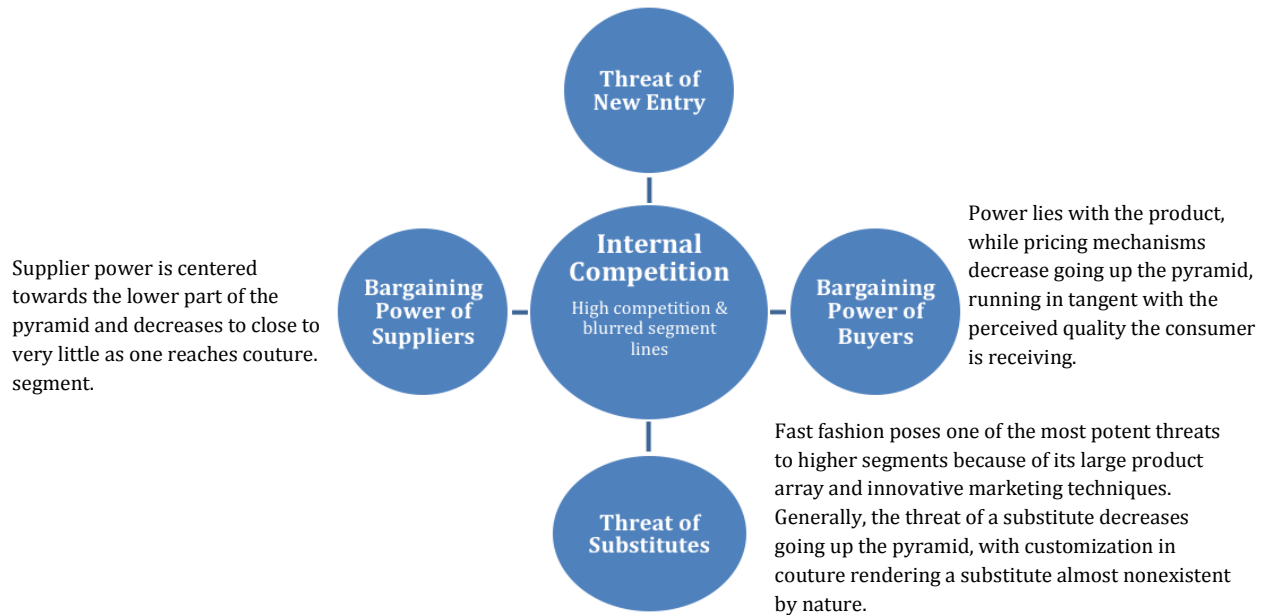
Luxury brands also have the opportunity to create links with other brands to create modified products. Hermès has had a longstanding relationship with Bugatti dating back almost 80 years when Émile Hermès created a suitcase for the Bugatti Royale. In 2008, the two brands decided to make a Veyron together, creating 15 Bugatti Veyron Fbg par Hermès, including both brands in the name. This use of co-branding is unique to Hermès and Bugatti because the two are historic luxury brands and have a history together since the early 1900s. The Bugatti Veyron Fbg par Hermès allowed Hermès to gain more attention and publicity, and it helped Bugatti increase its exclusivity by offering a limited edition product.

Porter's Five Forces Framework

Michael Porter's Five Forces framework consists of several influences that factor into a company's competitive environment: the threat of new entrants, threat of substitute products or services, bargaining power of customers, bargaining power of suppliers, and intensity of competitive rivalry. By utilizing this framework, each segment above emphasizes the important aspects of how the selected brands interact in a competitive environment. The figure below

summarizes the key trends for each of the forces affecting the fashion segments. Following this figure is an in-depth analysis of how each fashion segment is affected individually.

Figure 2: Porter's Five Forces—Key Trends



Fast Fashion. It is hard to compete in the fast fashion business against pioneers like Zara. However, new entrants have been seen joining the e-commerce business and staying true to fast fashion pricing such as Forever 21 and Tobi (online only). These brands could become new competition as Zara, Topshop, and H&M attempt to enter higher segments through designer collaborations and price increases. In addition, suppliers have high bargaining power in this segment, as rapid inventory turnaround is crucial to success. Zara, however; has utilized vertical integration to ensure total control over its supply chain. As a general rule, the brands in this segment are bound to their suppliers. Consumers have less of a say in the fast fashion segment, as it is the bottom of the pyramid. It is the only segment that offers affordable fashion for all consumers, placing its focus on keeping the consumer enticed to avoid losing its interest.

Given that this is the bottom of the pyramid, this segment has less to worry about threats of substitution. The evolution of the Internet, technology, and e-commerce has helped this segment, by allowing it to offer as many services and products as possible. This makes fast fashion a threat to the other segments by offering substitutes for their consumers. Nevertheless, this segment suffers from strong competition between brands as they try to differentiate themselves because they all tend to offer similar products and services. Finally, pricing plays a major role in creating rivalry among existing competitors. Fast fashion is flexible in that it can sell to the masses by offering low prices, but with the rise of co-branding through designer collaborations and celebrity endorsement techniques, brands are able to raise their pricing schemes. This increase in prices is elevating fast fashion higher up in the pyramid and making it a rival for other segments.

Bridge Premium Brands. The bridge premium brands placement in the middle of the fashion hierarchy results in the brands having to compete against fast fashion brands, while repositioning

themselves as lifestyle brands to compete with higher segments. In essence, the bridge brands are losing their identity where any segment that is above or below them could offer similar products or services that the bridge brands offer. In addition to having a high threat of substitute products, bridge brands also face a high threat of new entrants and high rivalry among existing competitors. Fast fashion is continuously and aggressively moving up into this segment by offering products of higher quality. This change could blur the lines of what defines a bridge brand and what defines fast fashion. As bridge brands struggle to compete against rising fast fashion entities, they must seek to reposition themselves as lifestyle brands at the same time to appeal to those who see the higher segments as unattainable. Bridge brands are essentially stuck in an extremely competitive environment.

As mentioned earlier, a key success factor for bridge brands is the ability to maintain a strategic price-to-quality ratio. For this reason, suppliers have a significant amount of bargaining power. Bridge brands must focus heavily on building relationships with key suppliers to offer different quality and price points as well as outsourcing to low cost countries in an effort to increase overall company margins. Similarly, because consumers view this segment as “accessible luxury,” the consumer has some bargaining power. While consumers may not have the power to influence the price points of the product offerings, they do exert enough pressure that time to market is driven by their demand. Brands must have the ability to deliver the right style of products at the right time to meet consumer demand.

Diffusion-Designer and Premium Brands. Diffusion-designer and premium brands face unique challenges when looking at their market environment because of the amount of overlap between their segment and the tiers immediately above and below them. While competing within the segment, they are also fending off competition from lower tiered brands trying to price into their segment as well as higher tiered brands trying to broaden their depth with more affordable goods. This is forcing an even more narrowed marketing scheme to maximize the market definition between brands.

The bargaining power of both suppliers and retailers depends tremendously on size. J.Crew and Burberry clearly dominate amongst the three focus brands in this segment because of the quantity they purchase. In an interesting paradigm shift Ledbury has bucked this trend by combining supplier relationship cultivation (particularly in Italy). For those less interested in the brand recognition factor and more discerning when it comes to concerning quality, Ledbury has been able to compete with larger competitors like Burberry and J.Crew on quality while offering slightly lower prices and being a luxury goods company.

Because the product lines of J.Crew and Burberry are so diverse, there is more exposure upon which competitors may capitalize and attempt to offer a differentiated product. What make consumers purchase a Burberry suit over more than one of J.Crew’s signature Ludlow suits are the fit, design features, quality of fabric. These are not only features, which customers pay close attention to but also what clothiers use as a platform to be fiercely competitive on. By creating a retail experience, which transcends a consumer’s expectations, the possibility of other products or services appearing as close replacements becomes smaller and smaller.

Rivalry amongst existing competitors is perhaps the most closely watched component of Porter’s Five Forces model because in today’s marketplace brands within this segment compete most

predominantly here. Burberry competes at the upper end of the diffusion/premium segment with its “Brit” brand while J.Crew has more varied price points, introducing more opportunity for competition from retailers like Ralph Lauren. Ledbury, while certainly trying to steal some shoppers away from the aforementioned outfits, has somewhat of a staunchly loyal customers base, which it has built from the ground up, helping it to keep competition out while growing at a rapid pace.

Ready-to-Wear Designer Brands. Within the ready-to-wear segment, there is intense competition among existing competitors as well as threats from new entrants. The rivalry among existing competitors tends to be based on the designers’ reputations, which include factors such as their creativity, image, marketing, and relations with international buyers, fashion editors, and opinion makers. One reason there is a high level of competition among existing brands is that many of these products are substitutes for one another. Due to the high number of ready-to-wear men’s and women’s clothing as well as the availability of much less expensive substitutes, there is a high threat from substitute products, making the designer’s reputation increasingly important. The seasonal nature of clothing in this segment also requires designers to compete constantly to come up with the most innovative trends. Moreover, there is a medium-level threat of new entrants joining this segment to compete with traditional ready-to-wear brands. The main competition comes from other brands trading up or down in their own segments and therefore, moving into ready-to-wear to attract new global consumers. Luxury French firms, in particular, are trading down and entering ready-to-wear to update their brand image through seasonal collections. However, because the brands in this segment are strong and their designers are world renowned it is extremely difficult for brand new designers to enter this segment and become successful on a global scale.

Because ready-to-wear brands traditionally do not compete based on price, both suppliers, and buyers tend to have little bargaining power in this segment, compared to lower segments of the pyramid. Given that these brands are seen with such prestige globally and are known for using the highest quality materials, suppliers have little weight in influencing the prices of materials. Buyers also have little influence over prices, because products are meant to be well above market price and only purchased by a small portion of the population to retain their exclusive, luxurious image. Ready-to-wear consumers justify these high prices with the perceived quality and brand name that they are receiving. Consumers’ power tends to come from pushing designers to retain an image of innovation and exclusivity, despite the high desire for these products from consumers worldwide. In sum, although competition is intense in the ready-to-wear segment, designers hold much of the power; therefore, their focus must be on communicating their brand image to enhance their reputation and set themselves apart from other brands in this segment.

Couture-Luxury Brands. The majority of couture brands have a deep history in fashion as well as a historic brand name and image. These companies have been in existence for similar time periods and have similar product lines resulting in historically steep competition. Meanwhile, outside competition from other segments is increasing and forcing the brands to diffuse into other segments to grow and gain more customers. While it is very difficult to enter the couture segment, brands from other segments are appealing to couture customers; thus, these companies are making it easier for customers to move between segments for specific items.

Both suppliers and consumers have very little bargaining power. Suppliers typically have long-lasting relationships with couture brands because of the in-house nature of the process. The suppliers are only distributing raw materials, as opposed to manufacturing and expertise. Hermès makes sure that its own craftsmen inspect any work done by a partner company, leaving the suppliers without any bargaining power. Consumers shopping within the couture segment are not focused on bargaining power, either. These consumers drive the development of new and quality products while having limited influence on price. However, consumers can influence some prices because many products have a base price with numerous optional add-ons. Still, the company maintains control over the base price.

Conclusion

Through an analysis of Michael Porter's Five Forces model, we could draw conclusions about where the fashion industry is moving. Our research has led us to three main takeaways regarding fashion today:

- **Effective globalization:** Through increased e-commerce and efficient supply chain management techniques, technology has led to the emergence of companies like Zara that can offer first-in-class turnover while cultivating their brand base.
- **Blurred segment lines:** Where lines between segments used to be largely impermeable, today's brand pyramid analysis shows more mobility when it concerns brand diffusion and dilution. Couture brands are dipping down into ready-to-wear and even diffusion segments, while fast fashion brands are stealing some business from their higher priced counterparts.
- **Global consumption:** Market saturation and advances in technology are increasing the purchasing power to many customers worldwide. A consumer in Dubai can just as easily consume a heritage American brand item as a fashion lover in the United States can satisfy her love of Parisian scarves. The exposure and quality of products offered to consumers is increasing, while the ability for producers to sell all over the world has led to a decrease in consumers' ability to dictate pricing.

Fashion is inspirational, creative, and intuition-driven, yet it is also the collaboration of organization, strategy, and management. These concepts come together to form a distinct business environment. Fashion, as we define it today has changed vastly with respect to the past. Business logic, which at one time applied to a limited number of product categories and satisfied few Western markets, has extended to an ever-expanding world of products and services, transversal targets, and emerging markets. This consumption-driven industry is asking for more each day from all firms who wish to compete in such a competitive yet rewarding industry construct.