Supply Chain Strategy in the Luxury Fashion Industry

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Abstract: The purpose of this paper is to investigate what types of Supply Chain Strategies (SCS) are implemented within luxury fashion companies, according to the drivers that regulate competitiveness in this sector (brand positioning, distribution channel, type and line of product). The literature review is the first step performed. Thereafter, a case study research has been conducted in order to attain a comprehensive view of the real context of Italian luxury fashion companies regarding SCS. After the case study sample, composed of six companies, was selected, a questionnaire has been then developed to guide the interviews, after which the data was collected. From the data, a primary case analysis was conducted, from which cross-case patterns were also researched. The paper provides a characterization of the SCS in the luxury fashion industry. From the results obtained, it is possible to state that companies involved in the case study adopted different SCS within the same company according to the drivers that regulate competitiveness in this sector. As a result, the product line is shown to be the only driver that affected the alignment between the expected and implemented SCS, respectively. The carry over line of product is not aligned with the expected SCS. In contrast, the seasonal line is always aligned with the expected SCS regardless of the type of product.

Keywords: Supply Chain Strategies, SCS, Fashion, Luxury

1.Introduction

The luxury fashion industry represents a great resource for Europe. In 2019, the turnover of this sector was approximately 260 billion euros, attained by more than 185,000 companies comprised of 2 million employees (*The State of Fashion 2019*, 2019).

The strong competitiveness within this sector has led many companies to undertake initiatives in rationalizing the operating processes, aimed at improving the ability to respond to the continuous changes in customer demand, whilst simultaneously, improving both the efficiency and speed of the entire Supply Chain (SC) (Vona, 2003).

Therefore, in the face of the constant changes in consumer needs, successful companies can be defined as those with the ability to respond to these rapid changes by reducing lead time (Christopher and Peck, 2004). Within this context, there is the need to define a SCS that can maximize the performance of fashion companies. The Supply Chain Strategy (SCS) is defined as a set of management methods and activities by which a supply chain obtains advantages over competitors (Brun and Castelli, 2008). It is necessary to specify that, when talking about a SCS, there is no "one best way" or best choice in any specific case. Rather it is an approach that depends on both the internal characteristics of the company as well as the environmental characteristics (Lee, 2002). Therefore, in order to define the correct SCS, it is necessary to, firstly, identify the context in which the SCS has to compete and then define the objectives of the single supply chain.

Based on a literature analysis and case studies, the present article aims to provide necessary information to fashion luxury companies regarding the type SCS that should be implemented, based on the factors that regulate competitiveness in this sector.

Given this background, the paper has been developed as follows. Section 2 presents a literature review on the SCS implemented within the fashion companies. Section 3 outlines the Research Question (RQ) and methodology, also introducing the principal features of the companies involved in the case studies performed. Section 4 and Section 5 present the findings and analysis of these results, respectively. Finally, section 6 offers some concluding remarks with suggestions for further developments.

2.Literature review

2.1 Supply Chain Strategy

Regarding the SCS strategies proposed in the literature, as previously reported in (Bindi *et al.*, 2019), particular attention should be paid to the characteristics between Lean and Agile strategies, mentioned in all papers regarding this topic, as well as the Hybrid strategy that results from the combination of the two aforementioned strategies.

The Lean SCS is aimed at creating a cost-efficient supply chain, by effectively managing inventory and focusing on improving the quality in the supply chain (Cagnazzo *et al.*, 2010), thus eliminating waste (Huang *et al.*, 2002; Christopher and Towill, 2002). Christopher and Peck, 2004 have argued that lean supply chains perform well under

conditions where demand is relatively stable and predictable, and variety is low.

On the other hand, an Agile SCS is aimed at being flexible by adapting quickly and effectively to rapidly changing customer needs (Christopher *et al.*, 2004; Huang *et al.*, 2002; Christopher and Towill, 2002; Lin *et al.*, 2006). Effectiveness is the primary goal of this strategy. Finally, the Hybrid strategy is derived from the combination of the two aforementioned strategies. In the Hybrid SCS, the practice employed to ensure adaptability to the constant changing customer demands is that of postponement (Cagnazzo *et al.*, 2010). The latter strategy is aimed at moving the differentiation of the product downstream to the final assembly, and as a consequence closer to the customer (Mason-Jones *et al.*, 2000). In particular, the Decoupling Point (DP), is the point at which real demand penetrates upstream in a supply chain. Christopher and Towill (2002) contend that processes are designed to be Lean up until the DP and Agile beyond that point, respectively. Therefore, the Hybrid strategy pursues the cost effectiveness up until the DP and the high service level, necessary in the volatile marketplace, downstream of that point (Christopher, 2000).

2.1 Factors that influence the choice of a SCS

Within a single company, multiple SCS can be implemented on the basis of factors that drive the competition, namely brand positioning, distribution channel, type of product (Brun and Castelli 2008b) and line of product (Brun *et al.*, 2008). Based on these four factors, a company is able to make various decisions. These decisions may include the application of the same strategy to the entire SC, the application of a different strategy based on one factor (i.e. business segment), selecting an intermediate level, thereby segmenting the SCS on the basis of two of the proposed factors, and finally segmenting the SCS according to all four factors proposed (Brun and Castelli, 2008). In addition, from this segmentation, it is possible to understand the hierarchy of the four factors (i.e. which is the main determinant of the strategic segmentation). Brand positioning can be described as the drivers able to differentiate different brand according to the customer perception of the brand itself (Brun and Castelli, 2008). Distribution channel deals with the physical and digital configuration of the downstream supply chain. Type of product is related to the products' typhlology (i.e. Iconic products with few variant, low volatility, long lead time, etc.., Complementary products with product development, licensed product, Innovative products with high variety, volatility demand etc..).

3. Objective and methodology

The goal of the paper is investigating about what types of SCS are implemented within fashion companies and understanding the reasons why companies choose to implement these strategies. One RQ is, therefore, addressed in the present article:

- RQ: What types of SCS are currently adopted by fashion companies and why are these strategies adopted?

The methodology selected was case-based research since this was considered a more suitable approach in answering the type of RQ formulated. The case-based research was carried out in the first phase and included the analysis of secondary sources and interviews carried out in all the companies. These interviews were conducted using a questionnaire.

The methodology was organized into two steps. The first step was the model development phase (Eisenhardt, 1989) (Maimbo and Pervan, 2005), involving the selection of a sample of luxury fashion companies. The research involves a sample of six companies, belonging to the luxury fashion industry, with different sizes and turnovers that were representative of most of the companies in this sector. According to (Eisenhardt, 1989) selecting a sample size ranging between four and ten cases is effective in this type of research approach. Hence, a sample size of six was considered sufficient in providing an accurate representation in an empirical based research. The sample was composed of companies with heterogeneous characteristics regarding the drivers that potentially influence the choice of SCS identified in literature.

In the second phase of Model Testing, particularly in the data collection phase, all the information in answer to the RQ was obtained. In a first phase, a semi-structured two-hour interview was conducted. Initially, information was collected from indirect sources, and thereafter, included the SC and Information Manager (IM) of the companies identified within the sample. The interviews were carried out using a questionnaire (i.e. consisting of a first part of open-ended questions and a second part of closed-ended questions) divided into three sections. In the first section, general information about the companies was gathered. Then, the second section was dedicated to obtaining information about the drivers (i.e. distribution channel, type of product and line of product) that could be influenced the choice of SCS. Finally, both the main characteristics of the individual companies and any points of contrast or similarity between all the companies in the sample were identified in the analysis and synthesis phases, respectively. In the data analysis phase, a transcription and reworking of the information obtained by each individual interviewed within the company was carried out in order to compare all the answers obtained. The realization of these documents was necessary in order to be able to make a representative report of each case study, and then to compare the case studies through a cross-case analysis.

In Table 1 the individual luxury fashion firms involved in the present case study are presented.

Table 1: The sample

Case study	Country	N° of lines	Main product	Age of the company (years)	Turnover	Roles of the people interviewed
1	Spain	4	Footwear Leather goods - Bags	60	239,2 M€	SC Manager
2	Italy	10	Footwear Leather goods - Bags	90	1 B€	SC Manager, IT Manager
3	Italy	7	Leather goods - Bags	>100	3,2 B€	SC Manager
4	Italy	25	RTW – tailored clothing for men	41	91,8 M€	SC Manager, IT Manager
5	French	1	Footwear	30	1 B€	SC Manager
6	England	15	RTW Leather goods - Bags	>100	2,7 B£	SC Manager, IT Manager

Notes: **RTW**, Ready To Wear; **M€**: Million Euro; **B€**: Billion Euros; **B£**: Billion Pounds; **SC**: Supply Chain; **IT**: Information Technology

4. Results

4.1 "Within case" analysis of the SCSs - RQ

In this section the results of the RQ were analyzed. In particular, the results of each case study are reported in Table 2.

Table 2: RQ single case analysis

Case study	Brand positioning	Distribution channel	Type of product	Line of product	SCS expected	SCS implemented	Note
1	Luxury	Retail	Footwear	Carry Over	Lean MTS	Hybrid MTS(MP) MTO(PF)	- Optimization in the purchases of the RM - Levelling the production capacity of façonists - RM stock management on order history
			Leather goods - Bags				
			Footwear	Seasonal	Hybrid/ Agile MTO		- Management of the stock of RM through forecast orders
			Leather goods - Bags				
2	Luxury	Retail	Footwear	Carry Over	Lean MTS	Lean MTS	- Planning on a 6-month forecast by cross-referencing data from marketing with real demand
			Leather goods - Bags				
			RTW				
			Footwear	Seasonal	Hybrid/ Agile MTO	Hybrid MTO	- Production flexibility - Low volume of each SKU
			Leather goods - Bags				
			RTW				
3	Luxury	Retail	Leather goods - Bags	Carry Over	Lean MTS	Lean MTS	- RM stock management based on order forecast - Complete procurement of RM only after the sales campaign and order collection
				Seasonal	Hybrid/ Agile MTO	Hybrid MTO	- No stock either at the RM or FP level. - Sourcing of RMs only after sales campaign and order collection
4	Luxury	Retail	RTW	Seasonal	Hybrid/ Agile MTO	Hybrid MTO	- No stock either at the RM or FP level. - Sourcing of RMs only after sales campaign and order collection
5	Luxury	Retail	Footwear	Carry Over	Lean MTS	Hybrid MTO	- Stock management at the RM and FP level - Use of carry over to fill suppliers' production capacity.

				Seasonal	Hybrid/ Agile MTO		- Stock management at the RM and FP level - Reactivity to customer needs.
6	Luxury	Retail	RTW	Permanent	Lean MTS	Lean MTS	- Stock management of RM and FP by suppliers. - Management of FP stock at point of reorder based on sales forecast from the previous period
			RTW Leather goods	Carry Over	Lean MTS	Hybrid MTO	- Stock management of RM by suppliers. - Stock management of FP at central warehouse. - Orders launched based on sales campaign.
			RTW Leather goods	Seasonal	Hybrid/ Agile MTO		

Notes: RTW: Ready To Wear**; RM:** Raw Material**, FP:** Finish Product**, MTO:** Make To Order**, MTS:** Make To Stock**; SKU:** Stock Keeping Unit

Case 1 represented the high market segment of the luxury fashion industry. Regarding the second driver, distribution and sales channels, the Case 1 company used the both the wholesale channel (about 40%), as well as the retail and commerce channels (about 60%). The core business of the company is footwear and leather goods that are managed internally. For each type of product there are different lines: carry over, seasonal and a small capsule collection. The carry over products represents 30% of the total products while the remaining 70% is composed of seasonal products. The capsule collections are managed as seasonal products and are made through a customization of the basic products. The Raw Materials (RM) are managed in stock and are, therefore, purchased in advance (before the arrival of the orders). For the carry over, the management of the RM stock is based on the order history, while for the seasonal products, RM stock management is attained from "blind orders" through sales forecasts. At the Finished Product (FP) level, carry over, seasonal and capsule collections are managed through a Make To Order (MTO) type of production. In particular, the decoupling point is positioned in the warehouse of the RM.

To summarize the results related to the drivers identified in the literature that influence the choice of the SCS, the Case 1 belongs to the luxury fashion market segment, that employs the use of the retail channel (60%) as the preferential sales channel. Finally, the core business is made up of two types of product, each comprised of two product lines, respectively. The results show a misalignment with the strategies expected (based on the literature analysis) at the product line level for both the main products. The company implements, at the FP level, a Hybrid SCS for both product lines (carry over and seasonal) with a MTO type of production.

Case 2 was also shown to manage many product typologies; however, the core business is in leather goods, shoes and Ready To Wear (RTW). The sales channels used by the company are both retail and wholesale. For leather goods (bags) approximately 70% is sold through the retail channel and the remaining 30% through the wholesale channel, respectively. For the footwear, 60% and 40% are sold through the retail and wholesale channels, respectively. The Case 2 company deals with both carryover products (about 20% for shoes and 40% for bags) as well as seasonal products. Within the Case 2 company, carry over product planning is accomplished through a sales forecast with a time horizon spanning six months based on data derived from marketing. This data is then cross-referenced with real demand. Carry over products are obtained according to a MTS type of production, while seasonal and capsule products are managed according to a MTO type of production.

Case 2 similarly uses the retail channel (60%) as a preferential distribution channel. Unlike Case1, for Case 2 there was a complete alignment with the strategies expected downstream the literature analysis for the types and product lines managed. In particular, at the FP level, the company represented as Case 2 implements a Lean strategy, for the carry over, through a Make To Stock (MTS) type of production. In contrast, a Hybrid strategy is implemented for the seasonal line and capsule collections, through a type of MTO production.

The results reported for Case 3 and Case 4 are like those of Case 2. Both companies represented by Case 3 and 4 produce the same types of products to Case 2 and implement, a SCS for product lines that are in harmony with those suggested and expected by the literature.

Case 5, similarly, belongs to the luxury fashion market segment that uses the retail channel as the preferred SCS channel (60%). It is possible to highlight a misalignment at the carry over product line level as it implements a Hybrid strategy for both the carry over and seasonal products, through a MTO type of production.

Finally, Case 6 is a world-renowned brand operating in the luxury fashion sector. The core business of the company is represented by men's and women's clothing, comprising 70% of the turnover, with the remaining 30% relegated to accessories, particularly leather goods, which have been expanding in recent years. The distribution channels used by the Case 6 company are both retail and wholesale, respectively comprising 45% of the sales volumes. The company manages three different types of products. These include permanent products, such as the traditional trench coat, waterproof coats and various bags and scarves, which have a long-life cycle. In addition, there are the carry over products with a lifespan of least one year and finally, the seasonal products that are designed to respond to the customers' needs. A total of 40% and 60 % of the collection are composed of carry over products and seasonal products, respectively. The capsule collections are made for particular events but are generally not planned

within the collection. The company produces all products externally, ordering finished items directly from the suppliers. For the permanent products, the supplier's stock both RM and FP as sales forecasts for these products span a time span of two years. Also, seasonal products are made by suppliers who are exercise freedom to purchase RM. The carry over products, excluding the permanent and seasonal products, are made with a MTO type of production. No stock is produced because in case that the products remain unsold, the supplier is directly responsible for the goods left in the warehouse.

4.2 "Cross case" analysis of the SCSs - RQ

In order to carry out this analysis a "clustering" of the sample was made. The clustering was obtained distinguishing between companies that produce leather goods (bags) and footwear with leather as the RM and companies that produce the RTW (Figure 3). Companies that produce both of them are reported twice. This type of cluster was created because the SC of leather goods and footwear are very similar, characterized by a network of local suppliers and production planning that are connected to leather as the main RM. Instead, the SC of RTW, is very different because is much more extensive and has a production planning that is linked to all components and not only to the availability of the principal RM.

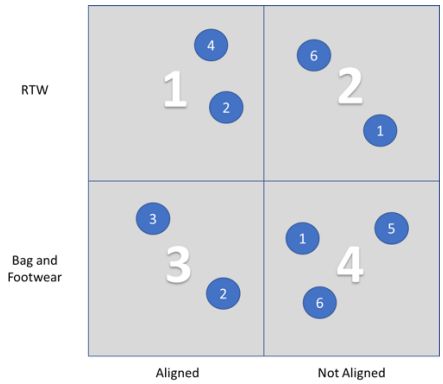
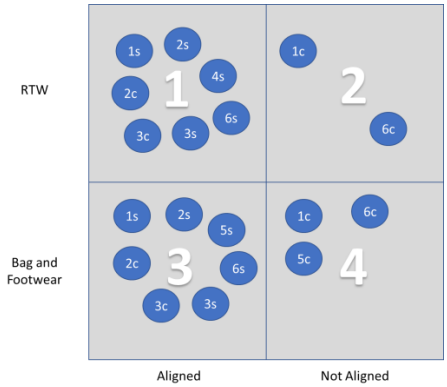


Figure 1: Cluster according to product type

After this first analysis, the product type did not emerge as a driver affecting the alignment between the expected and implemented SCS, respectively, by the respective companies (Figure 1). In the present study, there are not a significant number of companies, for both clusters. Hence, it could not be ascertained whether the companies producing a certain type of product were either more or less aligned with the expected SCS after the literature analysis. As can be seen in Figure 2, for both types of clusters identified, the only product line not aligned with the expected SCS is the carryover. Instead, the seasonal line was always shown to be aligned with the expected SCS, regardless of the type of product being produced. It is possible to conclude that the only driver that affects the alignment between the expected and implemented SCS, respectively in the six case studies is the product line.



C=Carry Over, S=Seasonal

Figure 2: Cluster according to product lines

5. Conclusion and future development

This article stems from the desire of companies in the luxury fashion industry, which operates within a highly dynamic context, to implement SCS strongly linked to action. Quite often, it is the inability to connect SCS to the actions, and the consequent lack of attention in the implementation phase, that result in failure pertaining to the concretization of initiatives and ideas, even if supported by apparently coherent plans.

The requisite of the present study was to provide answers to the research questions. Although the literature suggests adopting a Lean strategy for carry over products, the case studies have shown that this type of strategy is not always adopted. As far as seasonal products are concerned, a Hybrid SCS, consisting of a Lean phase, followed by a subsequent Agile phase, appears to be the approach adopted. This result was confirmed from both the single case analysis and by the cross-case analysis. Finally, the capsule product was shown to follow the same strategy used for seasonal products, despite the fact that the literature recommends an Agile SCS for these types of products that focuses on reactivity and flexibility in order to meet customer demand.

In terms of managerial implications, one of the most interesting contributions is the identification of the product line as a driver influencing the SCS choice. Managers could adopt the listed elements in order to define the most suitable SCS for the specific targets of the brand. Since this decision is strictly related to the company positioning on the market, it is important to fully understand and identify the set of drivers that the brands pursue on the market. As a consequence, it is possible to evaluate the actual SCS, in terms of structure and practices.

A limitation of the present study is related to the sample dimension and composition. While case studies permitted us to understand and compare different SCS in the fashion luxury industry, a wider sample should be applied in order to evaluate different sectors, as the fast fashion or the mass

market. On the other hand, sample could be extended including other luxury segments, as jewels, boat or cars. Despite this fact, the present study is a starting point for further research in these directions. Last, the study the sample could be extended to include additional types of fashion luxury products in order to understand different approaches to SCS derived from different type of distribution channel and product typology.

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