Industrial Organisation
Final Paper

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Part 1: History and Structure

History and structure of Fashion Retail Industry

Apparel manufacturers are primarily engaged in the design, cutting and sewing of garments from fabric. Some manufacturers are contractors or subcontractors, which generally manufacture apparel from materials owned by other firms. Larger manufacturers often contract production to many such contractors or subcontractors in the U.S. and abroad. Some manufacturers are vertically integrated, producing the textiles from which they make garments, or even operating retail outlets.

Recent Developments in the Clothing Industry (Geneva: International Labor Organization, 1995)

- Apparel merchandisers generally design and market clothing, but contract the actual production to manufacturers.
- Buying agents locate, qualify and inspect foreign suppliers/producers of garments, negotiate with suppliers/producers, and often monitor production for quality control and compliance with other standards. They may be used by U.S. companies that do not have a large presence abroad, or in addition to a U.S. company's own buying staff.
- Retailers are primarily engaged in the distribution, merchandising, and sale of garments to consumers. Apparel retailers include department stores, mass merchandisers, specialty stores, national chains, discount and off-price stores, outlets, and mail-order companies. A relatively new development is the rise of

electronic forms of retailing such as interactive TV and on-line shopping services. Some retailers who sell their own private labels go beyond their traditional role as distributors and become directly involved in the design and sourcing of garments from manufacturers and contractors.

Heavy competition in the U.S. retail sector has resulted in significant restructuring of the industry in recent years. “One factor contributing to this trend has been the rise of mass marketing stores and discount retailers with low overhead costs and low prices.
These nontraditional retailers have displaced a significant share of the sales of traditional apparel retailers such as department and specialty stores.”[1]

Many experts point to changes in consumer attitudes as a driving force behind the restructuring that is occurring in the retailing industry. Not only have consumers become more cautious in their buying habits, but they have been reducing the portion of their disposable income that they spend on apparel.
In addition, consumers are increasingly demanding quality goods at low prices.

Retailers have often been forced to sell merchandise permanently at “sale” prices, with promotions occurring throughout the year.
Economists and sociologists have attributed increasingly volatile consumer demand to growing numbers of new products, the rise of fashion-consciousness for even the lowest-cost apparel, and more selling seasons. In response, retailers are increasingly

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[1] *The Apparel Industry and Codes of Conduct: a Solution to the International Child Labor Problem?* U.S. Dept. of Labor, Bureau of International Labor Affairs, 1996.

utilizing new technology to facilitate communication with suppliers and speed the distribution of goods.

Apparel manufacturers who wish to remain competitive are having to reduce cycle times for apparel design, manufacture and delivery. Many manufacturers have adopted “quick response” manufacturing systems that allow retailers to trim inventory, respond more quickly to changes in consumer preferences, replenish stock almost continually, and offer a wider choice of clothing styles. Ebbing consumer demand, combined with higher raw-material costs, have in turn placed increased pressures on apparel manufacturers.35 Unable to pass higher costs onto consumers in a market with excess supply, both apparel manufacturers and retailers have been squeezed by lower margins.

As retailers have gained growing bargaining power through consolidations, apparel manufacturers have had to absorb higher costs and live with lower profit margins in order to maintain production. Because of these competitive pressures, apparel manufacturers have also undergone considerable restructuring and consolidation in recent years.

It is usually the larger manufacturers that can afford the capital investment necessary to successfully adopt more flexible, “quick response” systems.

Conduct and Public Policy

The U.S. fashion apparel industry is made up of a complex chain of actors whose functions often overlap. The industry includes the following entities:

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A few U.S. corporations — particularly manufacturers — tended to have structured monitoring of all aspects of their codes of conduct and subjected their foreign subsidiaries to such disciplines. There was also evidence from the field visits of numerous instances of contractual monitoring of codes of conduct. A reliance upon a form of contractual monitoring is most prevalent in the case of U.S. retailers which do not have a significant presence abroad.

Codes of conduct have become increasingly common in recent years, particularly in the apparel sector. While the first codes of conduct in the apparel industry were developed in the early 1990s,[21] today, the majority of the major apparel manufacturers and retailers have developed or are developing codes or business policies that address child labor and other working conditions.

While many companies have adopted codes either to prevent, or in response to, adverse publicity, having a code of conduct can, ironically, make companies more vulnerable to
criticism if conditions are found that violate their code. Indeed, some companies still consider it
“safer” to avoid any public declaration of their standards through a code of conduct.

Furthermore, the most important developments today do not lie so much in adopting codes,
which are already widespread, but in the ways companies are devising to implement those
codes. Some companies have adopted codes before fully developing methods to implement
them. The international apparel industry is complex, with many U.S. companies sourcing from
hundreds or thousands of overseas buying agents, contractors and subcontractors. For this
reason, implementation presents definite challenges for many importers.

Some companies require their quality control personnel to double as social auditors, while others are engaging outside firms to survey compliance. Still others ask their contractors to sign a contract certifying that they do not hire children, and then rely on the word of the contractor without further verification. Some companies are experimenting with new approaches, literally learning as they go. Some have begun working with unions, human rights and religious groups to establish a monitoring system. Credibility is the critical element for codes of conduct. Without it, the promises contained in a code are hollow and the credibility of the company falters.

Companies' success in assuring the public that their policies on labor practices abroad are indeed being followed will depend on the three key elements of implementation - transparency, monitoring, and enforcement.

First, codes of conduct cannot be effectively implemented without transparency. It is critical that all actors affected by a code — buying agents, contractors, subcontractors, union representatives and the workers themselves — be aware of its provisions.

Second, while a credible system of monitoring — to verify that a code is indeed being followed in practice — is essential, there is no agreement on the best way to conduct monitoring. Some companies only monitor their largest contractors or contractors that produce private-label merchandise for them and rely on buyer agents or self-monitoring for other

facilities. Several methods of monitoring are currently being used and developed, including
monitoring by outside auditors and local and international NGOs. The most effective type of
monitoring may vary according to the characteristics of the importing company, such as whether it has a strong presence abroad or whether it is vertically integrated. It appears that
the closer a company is to the production, the more leverage it has to ensure that the conditions at manufacturing facilities comply with its policies.

Third, the issue of enforcement presents some complex issues. These are some of the pitfalls and challenges that companies face in attempting to enforce their code of conduct in
overseas facilities. An effective implementation program can be time-consuming and financially
burdensome. But just as companies invest in the quality of their clothes, they are now learning
how to effectively invest in the quality of their labor conditions.

Historically, the industry has been associated with concepts like excessive consumerism, extremely high costs, elitism or guilty pleasures. However, as the new generations are taking over the market with their new values, consumers' expectation for

luxury brands are changing accordingly. Ethics and moral values are becoming increasingly
important for consumers, in such a way that they are starting to strongly influence their purchasing decisions. Environment, sustainability, animal welfare, production and labor practices, positive impact on communities are all elements now taken into consideration when
buying a product, and luxury goods are not an exception. In particular, younger generations and
millennials are the most dedicated to sustainability and deeply care about a brand's ethical
standards.

Affluent millennial consumers want their preferred luxury brands to be involved and provide a positive contribution to their ecosystem with practical actions and are willing to pay a
premium price for those products that come from a conscious brand. In fact, since they value
transparency and authenticity, they expect the brands that they buy to reflect their own values.

The new affluent generations are more socially and environmentally conscious, and so have
higher expectations of luxury brands to be more sustainable and ethical in their production

processes. This implies an important lesson for luxury brands that want to retain these customers: they need to evolve towards new models of ethical and sustainable luxury. To stimulate interest among Millennials and Gen Z, luxury brands are increasingly using social media platforms to engage with young consumers, while trying to keep their brand value intact. The future success of luxury brands depends on how well they will be able to communicate and market their goods to the new generations of tech-savvy buyers. The rapid digitalization and ease of use of the digitalized platforms have led consumers, especially the youngest ones, to increasingly use social media tools to express their brand preferences.

Nowadays, almost every brand has its own distinct social media strategy that is carefully designed keeping in mind their traditional customers preferences and choices. Some of these strategies include unveiling the collection on social media platforms. Others are trying to promote their products on social media by emphasizing their aspirational characteristics rather than their accessibility, to avoid impacting their traditional brand value. They post regularly and consistently, differentiating and optimizing the type of content across platforms.

As hyper-servicing by omni-channels becomes more widespread, clients increasingly take its inclusion for granted, commoditizing the consumer experience. Instead, to ensure
greatest loyalty, brands are starting to become highly personalized to meet individual customer
requirements. To focus on specific audience segments, while adopting omni-personal approach,
luxury brands are redesigning customer engagement techniques by using data analytics tools.
Implementation of privacy laws inhibits the freedom of luxury brands to use consumer data for providing personalized services, but many companies are promptly reacting
Data privacy laws and other regulations are limiting the extent to which brands can provide
customized shopping experiences. Several new requirements, such as the EU's General Data
Protection Regulation (GDPR), which took effect in May 2018, and the California Consumer
Privacy Act, which imposes various obligations from 2020, limit the extent to which firms may
gather and use personal customer data. The legal framework is particularly complex also due to

the different level of protection of data owners depending on the jurisdiction. Circulation of

data from the UK to the US and many other non-EU countries is strongly limited and subject to

strict compliance requirements as they are deemed unsafe for data processing purposes. This

affects almost all luxury brands even the smaller brands, who are global by definition.

Overall, it can be seen that the fashion industry's fast pace and dynamic nature causes it

to be one of the most competitive industry – where capturing and maintaining market share is

not a concept, since it varies based on trends and consumer preferences. But there is deal of

coherence amongst brands concerning the entry and exit of competition, looking further at the

ways of monopolistic competition.