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Process Innovation in the Global Fashion Industry

Edited by
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Brand Management

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Branding and internationalization are critical aspects of any business, and the fashion industry is especially global in nature. Very few apparel items are entirely produced within one country, and it is relatively easier for fashion brands to enter international markets because little financial investment is required, small-scale retail space is possible, and economies of scale can be maximized. Accordingly, there are more successful internationalization cases in the fashion industry than any other sector, yet no one text handles these critical topics (i.e., branding and internationalization) in one book, particularly in case study format. This series will focus on fashion brand cases that have been successful in global marketplaces. By examining their strategies in diverse aspects such as internationalization, innovation, branding and communication, and retail management, these books will help students, scholars, and practitioners grasp lesser-known yet effective international marketing strategies.

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*To the Lord to whom I give all glory,
To the past and current colleagues of mine, whose friendship
and support is always cherished!*

BEJ

*To all those who have given color to my life and who accompany
me daily on my journey:*

*The Fraternity at Our Lady of the Sacred Heart of Jesus,
you are all in my heart.*

EC

PREFACE

The nature of the fashion business requires novelty and speed, which can be effectively fulfilled through process innovation. Subsequent to Volume 3 on product innovation in the global fashion industry, this book is devoted to process innovation. Process innovation is an *improved way of doing things* across the entire supply chain, including management, to expand efficiency in terms of cost, quality, and service. Process innovation is all about enhancing speed, accuracy, and efficiency, which are often internal processes and therefore invisible to customers. Still, leading fashion companies constantly engage in process innovation because doing so allows their product innovations to become even more visible and effective. Yet hidden, process innovations can contribute to a company's profit, thus serving as a means to an end, rather than being a stand-alone goal per se.

With the advent of the Fourth Industrial Revolution, new digital technologies such as big data, artificial intelligence, machine-generated algorithms, virtual reality, robotics, and automation have become a reality and serve as an important means to develop process innovations in the fashion industry. Examples of process innovations include creating an agile supply chain, the Enterprise Resource Planning system, robot manufacturing such as Adidas' speed factory, Stitch Fix's subscription and styling service based on machine-generated algorithms, and using the programmed robot Chatbot as a customer service tool.

Process innovation, however, is not always led by new technologies. Process innovations in the areas of administrative improvements such as work routines, information flow, and organization structures are often led by visionary leaders and human resources. Encompassing both hard and

soft sides, this book aims to comprehend process innovation in a broader sense. In this book, you will find that process innovation occurring in the global fashion industry goes beyond the adaptation of new, innovative system and technologies.

After the introductory overview in Chap. 1, Chap. 2 deals with Italian brand Patrizia Pepe that was established in the 1970s as a micro family business, mainly using Original Equipment Manufacturing (OEM) for production. Patrizia Pepe evolved through continued innovation into a company worth 113 million euros in 2016, with 289 employees. The company's process innovation can be epitomized as "thinking organization," which leads to product and organizational innovations, and "collaborative experimentation" with supply chain partners, which creates a more flexible supply chain.

Chapter 3 focuses on Japanese lifestyle retailer MUJI's process innovation. MUJI's process innovation is unique in that its brand as well as the design concept itself is a process innovation through which MUJI provides customers with very simple products at reasonable prices, therefore making their products widely accessible to global consumers.

Chapter 4 discusses leading swimming wear brand Arena's process innovation in terms of its organizational structure, production, logistics, distribution, and IT management. While Arena is known for its innovative high-performing swimwear, its ownership has been transferred multiple times from Adidas to five different investment funds. The case shows how organizational changes—consolidation of separately run offices in France, Italy, and Germany to a single company headquarters in Tolentino, Italy—can improve operational efficiency.

The case reviewed in Chap. 5 is American subscription and style service startup Trunk Club, established in 2009 and later acquired by high-end department store Nordstrom. Trunk Club not only introduced a unique business model (i.e., customized style service with a flexible subscription), but also innovated its process for offering customized styling for its clients through offering personal stylists online as well as in offline locations called Clubhouses, as well as utilizing machine-generated artificial intelligence.

We hope this volume provides companies and academia alike with practical insights for enhancing process innovations among fashion companies. This book was made possible with the help of many brilliant individuals. Our primary and sincere thanks goes to the authors who shared in the common cause of bringing new knowledge to leaders in the global fashion industry, and who devoted their time and enthusiasm to this book. Each case was developed via one-on-one interviews with key informants,

observations, and visits to stores and factories. Without the industry leaders' inputs the rich information provided in this volume would not be possible. We are sincerely grateful to the industry professionals who were interviewed and shared their vision with the readers of this book. We cannot express enough gratitude to Ms. Naeun Lauren Kim, a doctoral student at North Carolina State University, who spent hours coordinating many needed tasks, including conducting a literature review, formatting documents, checking references, and so on. We also thank Rossella De Toma and Maddalena Franzese for finding information on process innovations in fashion and supporting bibliometric analysis, useful in writing Chap. 1. Last and foremost, we would like to extend our love to our families and colleagues who provided unfailing support and encouragement on this journey. We love you so much!

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Process Innovation: Hidden Secret to Success and Efficiency

Byounggho Ellie Jin, Elena Cedrola, and Naeun (Lauren) Kim

Abstract Process innovation is an *improved way of doing things* across the entire supply chain including management, to expand efficiency in terms of cost, quality, and service. While being internal and invisible to customers in nature, process innovations are intermediate outcomes that serve as

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a means for achieving higher-level performance, rather than as a goal. Yet, by reducing the time and cost to produce a product or perform a service, and increasing productivity and turnover growth, process innovations add value to fashion firms and serve to highlight their products. In this chapter, process innovations occurring in the global fashion industry are examined using actual examples from global fashion brands in five areas—product development, production, order fulfillment, store operations, and at the service level. Notably, information systems, digital technologies, robotics, and artificial intelligence (AI) are important tools for process innovation, especially in enhancing supply chain efficiency, obtaining real-time data, optimizing deliveries, and reducing the time needed for production and service. However, process innovation should not be understood only from the perspective of information systems and technologies because it is possible to achieve without them, especially in terms of management. It is critically important for firms to clearly identify challenge areas and execute process innovation either incrementally or radically, with or without technologies, aligning with their existing systems. This chapter concludes by emphasizing the critical importance of constant process innovation for fashion firms to achieve success.

Keywords Process innovation • Digital technologies • Artificial intelligence • Agile supply chain

INTRODUCTION

The notion that innovation is essential to a firm's competitiveness, growth, and survival is well-supported (Giacosa 2012; Tidd et al. 2001). Multiple disciplines have approached innovation; thus, the conceptual boundaries of innovation are not clearly distinguishable. Yet, the core essence of innovation, according to O'Sullivan and Dooley (2008, p. 5) is "making changes, large and small, radical and incremental, to products, processes, and services that results in the introduction of something new for the organization that adds value to customers and contributes to the knowledge of the organization." Something new can be created at any time in all areas of the economy. Thus, innovation encompasses new products or services, new processes, and new organization structures or administrative systems (Damanpour and Gopalakrishnan 2001; Tidd and Bessant 2009).

Process innovation is a new or significantly *improved way of doing things* in a business that typically increases production levels and decreases costs.

Such innovation might come in the form of new processes or techniques, new equipment, or new software. A classic example of process innovation is the invention of the first moving assembly line by Henry Ford. This process innovation not only simplified vehicle assembly but shortened the time necessary to produce a single vehicle. The increase in the competitiveness of Japanese firms since the 1980s is also often ascribed to manufacturing process innovations such as Just-in-Time, Kanban system (Bhoovaraghavan et al. 1996), integration and parallel development¹ (Rothwell 1994). The introduction of new technology—for instance, new machines and equipment—is the traditional way of achieving greater efficiency when manufacturing a product (Vicente-Lorente and Zúñiga-Vicente 2012).

Process innovation is not only taking place in manufacturing but also occurs in business, as new processes continue to improve service and administrative operations (Khazanchi et al. 2007). In the dynamic global fashion industry, the ability to reconfigure organizational processes through technological and administrative innovations is equally significant.

The major benefits of process innovation include enhanced organizational efficiency and responsiveness (Damanpour and Gopalakrishnan 2001). Unlike product innovation, process innovation typically occurs internally, is not visible to external entities, and is thus less likely to be copied by others. Therefore, it is increasingly seen as an important source of competitiveness and organizational renewal (Hatch and Mowery 1998; Keupp et al. 2012; Reichstein and Salter 2006). Yet, much of the theoretical and empirical innovation studies are directed toward product innovation; the “what, why, and how” aspects of process innovation are relatively under-studied (Keupp et al. 2012). Discussion of process innovation in the area of administrative or business support is particularly limited. Studies of how global fashion brands are innovating their manufacturing or business processes are extremely scarce. In order to generate an initial understanding of process innovation in global fashion brand management, this chapter begins with introduction of the concept and scope of process innovation. Subsequently, the characteristics of process innovation, as opposed to product innovation, will be delineated. Within the boundary of the global fashion industry, process innovation will be illustrated at various stages of the supply chain using actual examples.

¹Innovative Japanese companies integrate suppliers into production and new product development processes. At the same time, they integrate the activities of the different in-house departments, that work on the same project simultaneously (in parallel) rather than sequentially (in series) (Graves 1987).

THE CONCEPT AND CHARACTERISTICS OF PROCESS INNOVATION

Unlike product innovation, which is targeted toward new product offerings or improvements to existing products and commercial activities, process innovations “is focused on the introduction or a new operating method, or improving an existing method in the production, commercial, administrative and managerial area, or generating a new way of using a production factor in order to increase production efficiency in terms of cost, quality and service” (Giacosa 2014, p. 112). The focus of product innovation is making changes in the things (products/services) which an organization offers. In contrast, process innovation involves changes in the way in which things (products/services) are created and delivered, which includes creating and improving methods and developments in the processes or systems (Oke et al. 2007). Its aim is to improve effectiveness and efficiency (e.g., reducing costs and time) in production and organizational processes, which enables firms to become more competitive (Raymond and St-Pierre 2010). Process innovation is in the middle, connecting inputs and outputs efficiently (Murat Ar and Baki 2011). In this way, product and process innovations are mutually supportive and intertwined within a firm’s innovation process and value chain (Raymond and St-Pierre 2010), jointly creating a positive performance for businesses (Damanpour and Gopalakrishnan 2001; Piening and Salge 2015; Reichstein and Salter 2006). For instance, when Prada began manufacturing its iconic trousers using a high-performance fabric, this was made possible because of their investment in the process of developing the fabric (Giacosa 2014). Product innovation can also influence a company’s processes because the new product may require modifications of the company’s process map (Brusa 2012) at both the production and sales levels.

Process innovation can be narrowly viewed as new changes in the manufacturing process, such as developments in the processes, systems, and reengineering activities undertaken to develop new products. For example, to improve the manufacture of new products, plant systems, technologies, and operational practices may be upgraded, modified, or replaced with new and advanced processes (Oke et al. 2007). However, much of the literature supports a broader scope of process innovation, encompassing production and service, as well as administrative improvements (Khazanchi et al. 2007). Organizational processes such as the sequencing of work routines and information flow can also be enhanced (Srivardhana and Pawlowski 2007). Because of all of the diverse activities process innovation

involves, process innovation is also referred to as administrative innovation, technical innovation, production innovation, organizational innovation, management innovation, and business system innovation (Rowley et al. 2011). “Process” refers to the combination of facilities, skills, and technologies used to produce, deliver, and support a product or provide a service. Within these broad categories, there are countless ways a process can be improved. In this study, therefore, we define process innovation broadly, encompassing both technical (manufacturing based) and organizational (administrative based) aspects. Process innovation is also fundamentally different from the innovation process (Keupp et al. 2012). The innovation process is the process which facilitates innovation, which may lead to innovations in the product, service, or process itself. Therefore, a process innovation, Just-in-Time (JIT), for example, is achieved through an innovation process.

Aimed at improving the effectiveness and efficiency of firms’ technological and administrative processes, process innovations are generally characterized by an internal organizational focus (Damanpour et al. 2009; Ettlie and Reza 1992). This is because product innovations aim to present a new or improved product or service for customers, and customers see the impact of such innovation in the products or services they receive. A change in process, however, is typically only seen and valued internally. Changes in process may reduce the cost of production or operation more often than they drive an increase in revenue. Process innovations are intermediate outcomes that serve as a means for achieving higher-level performance outcomes, rather than being stand-alone goals per se (Piening and Salge 2015). Thus, most process innovations are incremental in nature (Crossan and Apaydin 2010) happening within an organization to assist other types of innovation in most cases. Owing to these characteristics, process innovation has received less attention among the many types of innovation. Yet, of the various types of innovation, it is the lowest risk in which a firm can invest.

Process innovation can generate *value* to either internal customers, including employees, or the actual organization itself, or it can create value to external customers, including business partners, end users, or actual consumers. Values derived from process innovation include reducing the time it takes to produce a product or perform a service; increasing the number of products produced or services provided within a given time frame; and reducing the cost per product produced or service provided; and turnover growth. Additionally, process innovation can generate

significant gains in product quality and level of service (Baer and Frese 2003; Klomp and Van Leeuwen 2001; Piening and Salge 2015; Pisano et al. 2001). The literature has further provided compelling evidence that process innovations are positively related to various financial performance indicators (Baer and Frese 2003; Ettlie and Reza 1992) and firm internationalization (Vila and Kuster 2007).

PROCESS INNOVATION IN THE GLOBAL FASHION INDUSTRY

The fashion industry is characterized by high demand uncertainty owing to frequent seasonal and fashion changes, and pronounced variations in size and personal preference (Jin et al. 2011). Accurate demand forecasting, therefore, is extremely difficult; unsold inventory erodes profit and is therefore a ubiquitous challenge for every fashion company. The accuracy of forecasting is heightened when it is done closer to a season or when demand is known during the season; therefore, reacting to demands with agility can solve many of the challenges inherent in the fashion supply chain. Along with these inherent challenges, the global fashion industry constantly faces fluctuations in consumer demands including consumers' increasing desires for faster and more accurate service, customization for products and services, and concerns for environmental sustainability and transparency. Accordingly, many features, systems, and technologies related to process innovation emerging in the industry are around the agile supply chain and addressing changes in consumer needs. This section is devoted to explaining how fashion companies can innovate to deal with current challenges and trends, employing recent technologies and upgraded systems that bring speed, reduced cost, efficiency, and accuracy to companies. In the following section, we explain process innovation according to five levels: the entire agile supply chain system, process innovation during product development, production, order fulfillment, and store operation and customer service. Process innovation during the fiber and textile development stages is not included in this chapter. When needed, past process innovations are also introduced as background.

Process Innovation with Agile Supply Chain

As mentioned earlier, the crux of the fashion business is managing uncertain demand. Having an effective, agile supply chain, therefore, is of utmost importance in handling this demand uncertainty. An agile supply chain is a

manufacturing system with extraordinary capabilities for providing real-time responses to the rapidly changing needs of the marketplace. The fundamental goals of agile supply chains are speed, cost, and efficiency. This term does not refer to a particular technology or system; it rather focuses on any idea, system, technology, collaboration, or organizational culture that results in reduced costs and enhanced speed and efficiency. One of the important tools in achieving these goals is the use of information technology such as the Electronic Data Interchange (EDI), which allows buyers and suppliers to share data in real time and helps create a *virtual* supply chain (Christopher 2000). In addition to sharing inventory information, companies are becoming integrated global businesses that share access to data on cost, personnel, stocks, and sales to create a seamless flow of assets and increased compliance and contribution. Therefore, an agile supply chain requires the manufacturer as well as its suppliers to create a network in which cooperation and leverage of complementary competencies takes place (Yusuf et al. 2004).

Another important tool in enhancing efficiency is the Enterprise Resource Planning (ERP) system. Using common databases, this system is used to manage, integrate, and continuously update the core of the business processes of a company from the supply of materials to production, warehouses, and accounting. The ERP system coordinates internal processes that include large amounts of data which allows real-time access to its employees and supply chain partners. The Bottega Veneta brand, known worldwide for the interweaving process it uses for making leather products (Jin and Cedrola 2018), has used the ERP system effectively. Bottega Veneta's ERP system was designed to plan sales, purchases, accounting, and conduct inventory management, as well as to share real-time information with its own production and sales chain.

The initial effort toward creating an agile supply chain began with the quick response (QR) system during the 1980s that mainly focused on reducing lead time (Suri 2002). Later, the term "agile supply chain" became more popular, encompassing the entire supply chain system, not just reducing lead time. In addition to QR's focus on speed, an agile supply chain encompasses the following characteristics: it is demand-driven, market-sensitive, virtual (i.e., sharing of information), flexible, and interconnected (Christopher et al. 2004). Examples of global fashion brands that have successfully implemented an agile supply chain are fast fashion retailers such as Zara and H&M. As a fast fashion brand, Zara is extremely sensitive to changes in global consumer demands and market trends.

In order to achieve flexibility and speed, Zara has strategically combined global sourcing and in-house production in consideration of demand characteristics. For fashion items with volatile demand, Zara keeps production in-house—these operations include dyeing, cutting, labeling, and packaging—to react nimbly to the demand. Other items with stable demand, such as t-shirts and underwear, are outsourced from networks of more than 300 subcontractors. These subcontractors work exclusively for Zara, and in return, Zara provides the necessary technological, financial, and logistical support. Having this integrated supply chain allows Zara and its subcontractors to be flexible when coping with sudden changes in demand (Christopher 2000). A reduction in lead time provides significant benefits for both the manufacturer and the retailer. For the manufacturer, a reduction in lead time results in higher quality and lower costs; for the retailer, it reduces inventory and forced markdowns, thereby increasing profitability (Christopher et al. 2009). Popular fashion brands including H&M, Zara, and Benetton have achieved reductions in lead time through localized production, sophisticated information systems such as electronic point-of-sale (EPOS) data, and accelerated distribution methods. For example, in order to reduce lead time in design, Benetton maintains a network of “trend-spotters” throughout Europe and Asia and carefully monitors seasonal fashion shows in Europe (Cachon and Swinney 2011). Benetton is also known to control 85% of its textile and thread suppliers to ensure rapid quality control and reduced lead time (Fernie and Sparks 2009). After making the initial effort to reduce lead time (i.e., QR), more systems and technologies are able to achieve an agile yet flexible, demand-driven supply chain. Agility in the supply chain can be achieved in every stage, from design, to production, and order fulfillment. With the help of digital technologies and elements of the fourth industrial revolution such as artificial intelligence, big data, machine-generated algorithms, and virtual reality, fashion companies are able to innovate their processes in developing, delivering, and presenting products in stores. Detailed explanations follow in the next section.

Process Innovation During Product Development

As the ability to rapidly respond to market demand becomes increasingly important, the apparel and textile industry have dramatically increased their adoption of information technology systems since the mid-1980s (Yan and Fiorito 2007). The technology that revolutionized the design

and product development of garments during this period was computer-aided design/manufacturing (CAD/CAM). CAD involves creating computer models with geometrical parameters, which can be altered by changing relevant parameters. CAD allows designers to view the object under various representations and then to test them under real-world conditions. When a design is created using CAD, it can be digitally imported into the CAM system, which then uses the design data to control automated machinery (Inc [n.d.](#)). Reported advantages of using CAD and CAM include improved quality, greater and more efficient productivity (the ability to easily modify designs), flexible manufacturing, greater process control, and the ability to link manufacturing with customer service programs (Yan and Fiorito [2007](#)). While innovative when first introduced, CAD/CAM systems have now become the accepted norm for facilitating product development (Power et al. [2011](#)). From haute couture to the mass market, practically every sector of the fashion industry has now opted to use CAD/CAM over hand sketches due to its efficiency and accuracy.

After the introduction of 2D CAD in the 1980s, the creation of virtual garments using 3D computer-generated images began to gain momentum in the 2000s. The use of 3D virtual garments in the design process entails assembling the 2D patterns in a 3D environment on a virtual model, which can then be viewed from any level with 360-degree rotation. Commercial software that offers such technology includes Lectra's Modaris 3D fit, Browzwear's VStitcher, PAD's Haute Couture 3D, Optitex's 3D Runway Designer, Human Solutions, and Assyst-Buller's Vidya (Power et al. [2011](#)). In particular, Browzwear's VStitcher has become one of the leading names for creating 3D solutions in the apparel industry. VStitcher software enables 2D patterns to be simulated in 3D forms, and allows specific textile properties as well as body measurement data to be inputted. Therefore, it is possible to generate a true-to-life representation of the garment on the human form (avatar) using a variety of textile structures (Power et al. [2011](#)). When making modifications, one can see every change with real-time 3D rendering or on a photorealistic 3D image for accurate material simulation, including transparency, reflections, shadows, and textures (Browzwear [n.d.](#)). The development of virtual design software has led to a significant reduction in product development costs, and improvements in time to market through the creation of virtual samples (Gerber [2011](#)). Over 400 leading fashion brands, including Columbia, Adidas, Nike, the VF Corporation, and the PVH Group are known to use VStitcher software for their product development (Browzwear [n.d.](#)).

Technologies have further expanded the possibilities for fashion design by machines, not human beings. Based on big data and deep-learning algorithms, Amazon has invested in developing a system that learns about a particular style of fashion from images and can generate similar yet new styles from scratch (Knight 2017). This means that the likelihood of producing the right style will become much more accurate in the future because design development will be based on real-time consumer purchasing data.

While systems and technologies are amply utilized in process innovation, not every process innovation happens with the aid of innovative systems and technologies. Instead, process innovation can happen in creating the concept of a product itself, as seen in the Japanese lifestyle retail brand MUJI. MUJI is known for its unique brand concept, “No Brand Logo,” simplicity in its product designs, and for creating minimal waste in the product development process. MUJI strives to eliminate any frilly designs that would increase costs, with an emphasis placed on functional, eco-friendly materials, minimal dyeing process, and simple packaging. Such an approach has proven to be not only environmentally friendly but also cost effective, consistently offering competitive prices for their customers (see Chap. 3 in this volume for more details).

Process Innovation During Production: Mass Customization and Speed Factories

Mass customization is one example of process innovation occurring at the level of production. If the concept of “mass production,” achieved through the development of the assembly line and industrialization, is the innovation of the twentieth century, then the future of production may be shaped by the “mass customization” system. Mass customization refers to the production of customized products in order to satisfy the varying needs and wants of customers using the efficiency of mass production (Yeung et al. 2010). In the fashion retail world, there is a growing demand for individualization in terms of design, function, and fit. Hence, companies are trying to offer a wide range of options that cater to the specific needs of individuals by leveraging information technology and flexible manufacturing processes (Yeung et al. 2010).

In order to offer mass customization, companies need to have the following capabilities: (1) customer experience intelligence to analyze customer preferences, (2) a flexible automation system, (3) process modularity (i.e., the mixing and matching of resources as modules to attain flexibility),

(4) adaptive human capital, and (5) support for customers in identifying their own preferences while minimizing complexity (Salvador et al. 2009). For retailers, mass customization provides more efficiency, given the lower inventory level needed and the ability to raise the prices of customized products. For customers, mass customized products provide utilitarian (i.e., closeness in fit and preference), uniqueness, self-expressive, and hedonic value (i.e., enjoyment of customization process) (Berman 2002).

One global fashion brand that is known for its mass customization capability is Brooks Brothers. Brooks Brothers currently offers its “Made to Measure Program,” which allows customers to create tailor-made dress shirts, suits, sport coats, pants, and top coats. By visiting selected Brooks Brothers stores and working with a tailor, customers can have their body size measured by a body scanner, choose from more than 1000 fabrics, and customize details such as shirt collars, pocket styles, cuffs, linings, buttons, and so on (Brooks Brothers n.d.). Nike’s NikeiD is another example of mass customization in which customers are able to create their own Nike gear by customizing color, design, and performance features. By selling these customized products directly to customers without an intermediary and thus charging higher prices, Nike’s revenue for its direct-to-consumer channel rose 22% in the quarter following NikeiD’s launch (Trefis Team 2015).

Adidas’ Speedfactory is another example of an innovation related to production. Speedfactory is completely automated, using processes such as computerized cutting, robotic cutting, and 3D printing (The Economist 2017). It is designed to produce customizable products or replenish the fastest-selling products of the season up to three times faster than traditional factories (Green 2018). Such speed and flexibility in the manufacturing process allows Adidas customers to create fully custom, one-of-a-kind shoes online and have them made within just a day (Green 2018). Further, Adidas is able to keep its manufacturing plants in local markets (e.g., America, Europe) near the end consumers since its high levels of automation reduce the issue of labor cost. As such, Adidas currently operates two Speedfactories, one near its headquarters in Germany and another just outside Atlanta, Georgia, and has a goal of producing 50% of its shoes using the speedier method. In addition to Adidas, brands like Under Armour and Ecco are also experimenting with 3D printing technology to mass produce customizable shoes.

In 2017, Amazon gained a patent for an automated on-demand clothing factory designed to manufacture custom-made garments as soon as customers place orders. The entire process of apparel production—from printing textiles and cutting patterns to sewing—is automated with minimal human supervision (Armstrong 2017; Wingfield and Courturier 2017).

*Process Innovation During Order Fulfillment: Cross-Docking,
Robotic Fulfillment, and Drone Delivery*

Rapid reactivity to the market can be further accelerated by increasing the speed of order fulfillment. Wal-Mart's cross-docking system was innovative when it was first introduced in the late 1980s with clear benefits: eliminating the need to store products in its warehouses, reduction in transportation costs, and reducing the order cycle time and thereby improving flexibility and responsiveness (Apte and Viswanathan 2000). Cross-docking is a warehousing strategy in which materials are moved from the receiving dock to the shipping dock with minimal time spent in between. Wal-Mart uses a centralized logistics system called a hub-and-spoke network, to distribute its products to retail stores. Wal-Mart receives items from vendors at its distribution center as full truckload shipments; then, at the distribution center, these shipments are broken up and consolidated again to create new truckload shipments that go directly to its retail stores. This way, the items spend very little time at the distribution center and incur minimal storage fees. By using the cross-docking strategy, Wal-Mart has been able to reduce its costs and offer lower item prices than its competitors (Apte and Viswanathan 2000).

Recently, by using robots at distribution centers, companies have been able to further expedite product delivery. Traditionally, goods in distribution centers were moved around using a conveyor system or by human-operated machines such as forklifts. Now, items are stored on portable storage units, and when an order is received, the software locates the closest robot to the item and directs the robot to retrieve the item ("Amazon Robotics" n.d.). Amazon acquired Kiva Systems (now Amazon Robotics) in 2012 to utilize robotic technology for automating their fulfillment centers. As of 2017, Amazon has more than 100,000 robots around the world and plans to add even more. The automated fulfillment centers have given Amazon several advantages: cutting down on the amount of walking required for workers, increasing labor efficiency, reducing space between aisles, providing greater density of shelf space enabling more inventory to be stocked, and, in turn, better selection of products for customers (Wingfield 2017). Following Amazon's suit, retailers like Hudson's Bay Company of Canada are also building robotic fulfillment centers for their e-commerce distribution strategy. This investment has enabled retailers to deliver orders as much as three times faster than the traditional fulfillment centers (Business Wire 2016).

Another revolutionary delivery tool that has been unveiled is the drone delivery system. While the technology has yet to be implemented in the market given regulation, security, and privacy hurdles, several retailers are exploring ways in which drones can be used for instant delivery of goods. It is suggested that drone delivery is not only faster but more environmentally friendly, cheaper, and more efficient. For this reason, retailers like Amazon and Wal-Mart have already filed numerous patents for drone delivery, including patents for flying warehouses (Regev 2018). 7-Eleven, the world's largest convenience store chain, began pilot testing drone delivery in Reno, Nevada, by partnering with the drone maker Flirtey. Items such as over-the-counter medicines and food and beverages were delivered to customers within just ten minutes after an order was placed (Glaser 2016). With the advantage of offering instant fulfillment with lower costs and less congested roads, drone delivery may arrive sooner than expected.

Further, in order to mitigate shipping expenses and reduce delivery time, retailers like Amazon have been developing their own shipping infrastructure. In 2018, Amazon began offering same-day delivery in the Los Angeles region using its own shipping service called "Shipping with Amazon" (SWA). With SWA, Amazon retrieves packages from businesses and delivers the packages for them. If the delivery location is outside Amazon's reach, the package is given to USPS or another shipping service for the "last mile" delivery (Palladino 2018). Amazon hopes that the expansion of their SWA service will allow them to negotiate better terms with suppliers and achieve greater operating efficiency in the long run (Garcia 2018).

*Process Innovation at the Store Operation and Service Level:
RFID, AI-enabled Services and Smart Stores*

Process innovation at the level of store operation and service mainly addresses two goals—enhancing operational and customer service efficiency—with the implementation of RFID and AI (artificial intelligence). Operational efficiency at the store level has greatly improved with the introduction of radio-frequency identification, simply known as RFID, in the early 2000s, to major retail outlets like Wal-Mart. RFID is often regarded as the next generation of the barcode system. RFID involves the use of radio waves to read information that is stored on the tag attached to a retail item. Therefore, RFID is much faster and more accurate than the existing barcode system, which requires human hands to scan the

codes affixed to items. The ability for automated tracking through RFID has been found to enhance inventory accuracy, increase labor productivity, minimize distribution errors, and improve customer service (Wong and Guo 2014). As the cost of RFID has fallen dramatically from about \$1 per tag in 2003 to \$0.10 in 2017, a greater number of retailers are now adopting the RFID technology for their in-store and online inventory management (Thau 2017). Macy's, for example, was one of the earlier adopters of RFID tags and has reported that, through switching to RFID, it has experienced only 2–3% inventory inaccuracy per month, and its sales volume has also increased by more than 200% due to a reduction in out-of-stock items (Bianchi 2017; Thau 2017). For Lululemon, the investment in RFID was aimed at enhancing the customer experience. Lululemon employees are equipped with handheld devices and an app that allows them to check inventory without having to leave the customer (Bianchi 2017). Therefore, RFID allows Lululemon employees to interact with customers more fully and provide prompt assistance.

AI (Artificial intelligence)-based machine learning has contributed to operating efficiency in various aspects of retail operations including sales, manufacturing, logistics, and payment processing (Faggella 2018). AI demonstrates human-like behaviors through training by data to make autonomous, intelligent decisions (Weinswig 2018). Utilizing AI technology, the online fashion retailer Stitch Fix offers a subscription and styling service that delivers curated fashion items to customers. That is, Stitch Fix customers do not shop for clothes by themselves; instead, they fill out style surveys, provide measurements, and send in personal notes. Based on these specifications and the customers' personal tastes, machine learning algorithms analyze all of this information and then communicate the styling data to the company's fashion stylists. The stylists then select five fashion items from a variety of brands to send to the customers, who can either keep what they like or return items that do not suit them (Wilson et al. 2016). This data-driven customer feedback on product selection has helped Stitch Fix close the gap between customer information and experience. Since 2016, Stitch Fix has hired more than 120 engineers to work alongside its design and merchandising team. As a result, the unique combination of AI and human judgment has led to a significant improvement in customers' personalized experience, resulting in increased revenue, and reduced costs (Gagliardi 2018), fundamentally changing the process of how retailers offer products. Trunk Club is another leading subscription retailer based in the US that offers curated services for its customers. While Trunk Club also uses AI

algorithms like Stich Fix, it has developed its own unique process for enhancing customer experiences and product offerings (see Chap. 5 of this book for detailed information).

Chatbots are another process-level innovation that make store-level customer service process innovation possible. Many global fashion brands have implemented “chatbots” for their e-commerce businesses. Chatbots are programmed robots that interact with customers by simulating human conversations through AI. Instead of having customers fill out forms for help, chatbots can assist customers and give them the feeling that they are interacting with actual retail associates (Ufford 2017). Chatbots help retailers provide 24/7 digital engagement with customers across various channels such as mobile, website, and email, without having to hire additional personnel (i.e., lowering costs). Companies like H&M, Tommy Hilfiger, Sephora, Burberry, and Nordstrom are examples of companies that already utilize chatbots. H&M, for example, launched a chatbot on a Canadian messaging app called Kik and allowed customers to see, share, and purchase products from the H&M catalog using Kik. The chatbot also offered a taste of a personal stylist service, using photo options and asking questions about the shopper’s style (Kokoszka 2018). Another use of AI technology is IBM’s Watson cognitive computing technology to recommend products based on user history and provide concierge services through detailed conversations with users. North Face, an outdoor gear brand, has adopted the IBM Watson technology to help consumers determine what jacket may be best for them, given variables such as location and gender preference. This recommendation technology has resulted in a 60% click-through rate and 75% in sales conversions (Faggella 2018).

A synthesis of the aforementioned innovative technologies has come into life in what is known as “smart stores.” These smart stores embrace the most advanced technologies in the retail industry including robots, interactive mirrors, smart shelves, and self-checkout. Amazon’s smart store, Amazon Go, may be the most innovative retail format yet. Equipped with hundreds of cameras and sensors as well as smart artificial intelligence (AI), customers can just grab items off the shelf and simply walk out the store without having to wait in line. Even if one places the item back on the shelf, the technology will keep track of it and adjust the order. Amazon recently announced that by 2021, it plans to open 3000 Amazon Go stores in the metropolitan areas where people need quick grab-and-go items (Saltzman 2018). In addition, high-end department store Neiman Marcus has installed interactive mirrors in dressing areas to offer shoppers

a 360-degree view of what an outfit looks like without having to try everything on. Shoppers can also share the image in the mirror with friends for feedback (D’Innocenzio 2017).

DISCUSSION AND IMPLICATIONS

Process innovation is an *improved way of doing things*, either incrementally or radically, throughout the entire supply chain. Owing to its characteristic of demand unpredictability, the main goal for supply chain management in the fashion industry is acting nimbly when demand is known or can be better estimated closer to a season. There are numerous ways to achieve an agile supply chain. Using actual examples, this chapter detailed the process innovations happening across the entire apparel supply chain from product development, production, and order fulfillment to the store operation and service levels. The examples show how fashion companies ensure supply chain efficiency by reducing the time it takes to produce a product or perform a service; increasing the number of products produced or services provided within a given time frame; reducing the costs per product produced or service provided; and turnover growth.

Notably, digital technologies, robotics, AI, and software lead the developments in process innovation, especially in obtaining real-time data, optimizing deliveries, and reducing the time needed for production and delivering customer service. Yet, it is important to recognize that process innovation can also be led by soft-side such as organizational structure, as seen in Arena case (see Chap. 4), in the design concept itself as seen in the case of Japanese retailer MUJI (see Chap. 3), and in the way products being offered to customers as seen in the Truck Club case (see Chap. 5). With Arena, for example, three separately run offices in France, Italy, and Germany were consolidated at its company headquarters in Tolentino, Italy, to simplify its management processes, procurement, and reporting, thereby achieved a significant reduction in cost and allowing for smooth and agile decision-making. After all, it takes human resources to adapt process innovations, sensitively monitoring changes in the environment and market. Recognizing the importance of human resources, Italian fashion brand Brunello Cucinelli states in his firm philosophy: “In my business, people are at the very center of every production process” (Giacosa 2014). Likewise, American subscription-based retailer Truck Club innovated the process of how it provided products to clients. It offers a personalized curation service largely driven by humans (i.e., stylists) even though some portions are

performed by machine-generated algorithms. Organizational structure is the element that holds a firm together (Giacosa 2014); therefore, an innovative organizational structure, together with human resources who work for the organization, is essential for implementing innovative internal business processes as well as providing quality services for customers.

Process innovation is mostly internal, and thus invisible to customers, but it is directly connected to profit by enhancing supply chain efficiencies. According to a report, the integration of digital technologies into the supply chain enabled firms to cut costs up to 30%, also to and improve levels of service (Israelit et al. 2018). Implementing digital technologies, without a doubt, requires resources and time for learning and training across an organization. Therefore, companies should have a clear reason for implementation after thorough analyses of the problems and waste incurred by their current operational structure. In other words, some challenges can be better solved with a simple change of steps, effective communication, or the organizational structures or product design configuration itself, rather than investing in new technologies.

Another important factor to consider when implementing a process innovation is that it should be well-integrated into existing systems. For example, to produce a pair of mass customized shoes, the pattern should be automatically developed through the input of the customer configuration, and thus many necessary parts need to arrive in time for production; production and delivery should occur in a reasonably short amount of time, all of which requires clear communication and integration throughout the company. Any missing links in this process could impede the success of the intended product innovation (i.e., the customized shoes). In this way, well-integrated process innovation complements product innovation.

Digital technologies not only enable firms to innovate but also disrupt the industry (Jin and Shin 2018) and raise customer expectations. With the increase in online offering and seamless integration of omni-channel retailing, consumers increasingly demand shorter lead times and more diverse and customized products and services at lower prices, all of which require much more precise forecasting of customer demands and execution. Therefore, constantly changing and improving the processes to effectively meet customer needs is integral for sustaining businesses. This means that any process innovation will not benefit firms forever, as with any innovation. Process innovation definitely enhances the level of productivity and efficiency; yet, it will only serve as a competitive advantage for companies until the innovation is widely accepted.

As fashion and technologies are constantly in flux, so should be the processes for offering fashion goods. As digital technologies disrupt many sectors, fashion companies are not immune to this disruption. For example, Amazon holds a patent on predictive shipping in which products are shipped even before the customer places an order, which will later be matched with a shipment already in the logistic network and rerouted to the exact customer destination (Alicke et al. 2017). If this becomes a reality, consumers will expect to receive their ordered fashion items much sooner than they do now. With this type of advance in digital technology, the need to constantly improve the ways of doing things—process innovation—either big or small, either incremental or radical, is a must for any fashion company in the global marketplace to sustain and help their product innovations shine.

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Patrizia Pepe: Unconventional Innovation and Integration in Fashion Supply Chain

Paola Signori and Simone Guercini

Abstract Tessilform is an Italian medium-sized enterprise producing clothing, footwear, bags, and accessories for young women, men, and girls under the brand Patrizia Pepe, and can be considered one of best practices for its positive financial performance, attained through a unique proactive and reactive intelligence system for approaching innovation with an obsession with details. Tessilform company is an organization permeated by creative thinking that could be defined as a thinking organization. Its dynamic hybrid business model is a flexible lean and agile integrated system. Fast and flexible capabilities infuse its entire supply chain, with a joint focus on continuous supply chain process innovation, to deliver high-quality products and customer service levels. The supply chain collaboration in trying and

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experimenting new solutions enables the fast adoption of new technologies together with its supply chain partners. This approach to process innovation, called collaborative experimentation, drives to a more flexible supply chain that easily reacts to change and is able to quickly respond to new trends and market challenges. Patrizia Pepe's case study explains "unconventional" innovation as composed by three dimensions: being a thinking organization; evolving an integrated system as business model; and continuously innovating processes, including collaborative experimentation with supply chain partners. In this chapter, we review this case story and vision, supported by the leaders' words to discover the real roots of their particular "unconventional" innovation approach that drives their success.

Keywords Process innovation • Agile integrated system • Collaborative experimentation • Flexible supply chain • Customer experience

INTRODUCTION

Tessilform Spa is an Italian company well known in the fashion industry for its famous brand Patrizia Pepe. For the past 25 years since its establishment in 1993, Patrizia Pepe shows a successful story thanks to the vision of Italian entrepreneurial couple: Claudio Orrea, CEO with strong leadership, who manages a collaborative network and Patrizia Bambi, creative stylist, the primary thought-leader of the brand positioning based on her particular vision of the ideal woman. Their managerial approach led their organization (initially very small) to continuously grow after the brand introduction and survive multiple challenges even during the recent global economic crisis.

Different strategies enable Tessilform to generate positive results in terms of revenues and profits, along with enhanced brand reputation. Patrizia Pepe brand is now considered a best practice, with its rapid growth and a continuous collaborative experimentation approach. In this case study, we review some managerial concepts, revealing innovation within a business model. Reading through this business decisions storyline, it is possible to understand what "unconventional" innovation is, and related strategies that are leading to vertical integration, supply chain and logistics optimization, corporate identity, branding, and multichannel customer experience excellence. This case study demonstrates a continuous innovation philosophy, based on a

unique capability to have both a proactive and reactive intelligence system for approaching innovation with an obsession with details. This company has a flexible organization that reacts to change and is able to quickly respond to national and international market trends, with high-quality products and service levels.

This chapter is based on a longitudinal case study research method (Leonard-Barton 1990) to observe the evolution of a phenomenon in its real-life setting over the years. For 20 years, one researcher in our team has been following this company, communicating with the main business actors by interview sessions and direct observation (Guercini 2004), adopting a qualitative case study methodology (Yin 2017), using a large collection of a variety of data sources: several semi-structured interviews of different functional representatives and business partners, archive sources such as internal documents, reports, historical records, organizational charts, and statistics. Other secondary sources used include financial data from AIDA Bureau Van Dijk database. In addition, information in many managerial articles and Internet including social media threads was examined. We conducted an on-site follow-up interview with the CEO in 2018 to update our knowledge and better understand future opportunities and challenges this company face. The last interview research protocol included topics such as business model changes, the company's own definition of innovation, strategies and tactics, future trends and perspectives. Having retrospective studies, we could identify patterns indicative of dynamic processes and the longitudinal study provides a close-up view of those patterns as they evolve over time. As such, this study relies on complementary and synergistic data gathering and analyses that could enhance its validity. This chapter begins with a description of the company, including its history. We review this case by the elements that characterize the brand and company's success, with particular emphasis on its "unconventional" approach to innovation.

OVERVIEW OF TESSILFORM GROUP

Tessiform is a medium-sized Italian company established in Prato in the 1970s, when the owners decided to start their entrepreneurship adventure in producing clothing. At the beginning, the company was a micro family business, acting as a subcontracting manufacturer of synthetic fur, evolving into producing knitwear using circular knitting machines and selling to wholesalers. In the mid-1980s, Tessiform was a still small company with five employees, producing ready-to-wear medium/low-priced women's

clothing and distributing unbranded products to wholesalers (Guercini 2003). In 1993, Tessilform progressed to establish its own brand name Patrizia Pepe with a specific fast fashion business model focusing on lean processes and the centrality of the relationships with retailers as direct clients. Since then, the company evolved significantly, in particular creating a new “total look” approach to the business with a product upgrading strategy, a new brand name, and simultaneously innovating the business model. Tessilform is nowadays a global group of 18 wholly owned companies made up of 509 employees, with total revenues of €131.4 million, net profit of €10.98 million as of 2016 (Aida Bureau Van Dijk 2018), three registered shareholders and 24 registered participating companies. Table 2.1 represents the list of companies in the Tessilform Group with country, percentage of direct and total ownership, variation date, total revenues, and number of employees for each company.

In the next paragraphs, we explain in detail the story of this brand. Tessilform, the main company of the Tessilform Group, has its headquarters in Campi Bisenzio (Florence in Tuscany, Italy), producing clothing, footwear, bags, and accessories under the brand Patrizia Pepe. Today, Tessilform has 289 employees (“Tessilform Company Card” 2018), and has established many distribution partnerships in Italy and 20 international markets (Russia, Poland, Greater China, Emirates, Belgium, and in other 15 countries).

Tessilform’s success, thanks to Patrizia Pepe brand project, started back in 1993 (at that time the brand name was “Patrizia Pepe Firenze”) when revenues were only approximately €3.1 million. The firm grew to €53.5 million by 2003 (company internal report, 2005), €108 million by 2013, and more than €113 million by 2016. Table 2.2 reports Tessilform’s financial performance during 2007–2016 with revenues, EBITDA, net profit, number of employees, and some profitability indices (Return on Sales, Return on Assets, Return on Equity). Over time, sales growth flattened while profits rose, enabling a shift from revenue growth to margin growth. Tessilform’s revenues in 2017 are 52.5% within Italy, and the rest 47.5% is comprised of international markets (see Table 2.3 for details).

History and Philosophy of Patrizia Pepe

A brief review of Patrizia Pepe brand history explains the strategies behind Tessilform’s growth. The branding strategy of this company is Branded House (multiproduct branding): The company brand Patrizia Pepe is the

Table 2.1 List of companies in the Tessilform Group

<i>Subsidiary Company name</i>	<i>Country</i>	<i>% of direct ownership</i>	<i>% of total ownership</i>	<i>Variation date</i>	<i>Total revenues (million €)</i>	<i>No. of employees</i>
1. T.O.P. S.R.L.	IT	100.00	100.00	04/2017	<0.5	0
2. TESSILFORM BELGIQUE	BE	100.00	100.00	12/2016	3	13
3. TESSILFORM FRANCE SARL	FR	100.00	100.00	12/2016	3	n.d.
4. TESSILFORM HONG KONG	CN	100.00	100.00	12/2016	n.d.	n.d.
5. TESSILFORM HONG KONG LIMITED	HK	100.00	100.00	02/2018	n.d.	80
6. TESSILFORM HONG KONG LTD	CN	100.00	100.00	12/2016	n.d.	n.d.
7. TESSILFORM SPAIN SL.	ES	100.00	100.00	02/2018	<0.5	1
8. TESSILFORM SWISS SAGL	CH	100.00	100.00	12/2016	n.d.	35
9. TESSILFORM VERTRIEBS GMBH	DE	100.00	100.00	02/2018	n.d.	15
10. LACOUR SARL.	FR	–	100.00	12/2016	n.d.	n.d.
11. LIMITED LIABILITY COMPANY PATRICIA	RU	–	100.00	12/2016	4	96
12. ROYAL CAMBON	FR	–	100.00	12/2016	n.d.	n.d.
13. TESSILFORM SHANGHAI LIMITED	CN	–	100.00	12/2016	11	n.d.
14. T.P. S.R.L.	IT	51.00	n.d.	03/2017	<0.5	3
15. T.V. S.R.L.	IT	51.00	n.d.	04/2017	<0.5	6
16. UCW UNIQUE CHILDREN WEAR S.R.L.	IT	50.00	n.d.	06/2017	11	35
17. T.V.A. SRL IN LIQUIDAZIONE	IT	26.01	n.d.	12/2016	<0.5	0
18. ENJOY THE SUN S.R.L.	IT	–	15.00	12/2016	<0.5	7
19. KICK OFF USA INC.	US	15.00	n.d.	12/2016	n.d.	n.d.
20. KICKOFF FRANCE SAS	FR	15.00	n.d.	12/2016	n.d.	n.d.
21. KICKOFF RETAIL SL	ES	15.00	n.d.	12/2016	n.d.	n.d.
22. RAINBOW S.R.L.	IT	15.00	n.d.	01/2018	<0.5	0
23. CONSORZIO PRATOINVEST	IT	–	n.d.	01/2018	<0.5	0

Source: Data extraction from Aida Bureau Van Dijk database (2018)

Table 2.2 Tessilform S.P.A financial performance (2007–2016)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenues (million €)	104.97	103.6	104.08	118.55	129.91	119.17	108.02	103.25	104.62	113.47
EBITDA (million €)	11.53	11.33	13.94	15.12	12.03	10.22	10.21	13.82	14.88	22.25
Net profit (million €)	4.33	3.62	5.43	6.91	4.00	4.01	3.25	7.33	7.92	10.78
EBITDA/Sales (%)	10.84	10.78	13.21	12.55	9.15	8.44	9.27	13.17	13.98	19.23
ROS (%)	6.85	6.49	8.75	9.04	5.56	4.62	5.03	8.73	10.66	16.48
ROA (%)	7.85	6.98	8.94	9.1	5.83	4.85	4.89	7.79	9.12	14.5
ROE (%)	8.48	6.63	9.04	10.32	5.72	5.43	4.21	8.67	8.72	11.05
No. of employees	239	257	273	297	316	299	273	264	264	289

Source: Data extraction from Aida Bureau Van Dijk database (2018)

Table 2.3 Patrizia Pepe, percentage of revenues per country (2017)

Italy	52.5
Germany	12.4
Russia	6.4
China	5.3
Belgium	5.2
Poland	2.8
Holland	2.6
France	1.8
Austria	1.4
Hong Kong	1.3
Switzerland	1.1
Others	7.2

Source: Patrizia Pepe (2018)

dominant source of identification and meaning of the company. The Patrizia Pepe brand is 25 years old and is well known for “irreverent romance,” offering a total look to an ideal female, thin and sexy, elegant and modern.

Its product portfolio is comprised of clothing (coats and jackets, top wear, dresses and jumpsuits, jeans and trousers, suit, skirts, lingerie) and accessories (handbags and clutches, shoes and boots, jewelry, headscarves, belts, hats, pouches, keyrings, stickers, patches) for women, men, and girls. The Patrizia Pepe brand has evolved with entrepreneurial capabilities and managerial skills of the founders. A decade since the birth of the brand, Stefano from the Orrea Family became a top manager and shareholder of the company, and he is now the Sales and Marketing director. The Patrizia Pepe brand now has a clear identity, as also stated in their company blog: *“Our brand is based on a particularly successful philosophy; Patrizia Bambi pays great attention to the fashion universe and the market where she presents her ideal man and woman. Her collections manifest well-groomed minimalism, combined with a passion for details. Her clothing style is based on harmony, suppleness, and character. Practical and original for every moment of the day, whilst also being unfailingly elegant and modern for every moment of the night”* (“About” 2018).

The brand name and logotype creation provides an interesting anecdote to understanding top management’s philosophy: the personal name of the creative brain of the company, Patrizia, gives personality; *Pepe*, a word that in Italian means “black pepper” completes the name with a spicy note: *“It represents the brand’s identity, unconventional and dynamic. A brand that combines practicality of everyday life and glamour for those*

special occasions, thanks to a combination of elegant minimalist lines and meticulous attention to details” (Patrizia Pepe n.d.). Adding a fly to the logotype is also an unconventional choice, Patrizia explains, *“The Fly symbol in our logo would like to communicate a message of irreverence, ‘unconventionality’, freedom. Choosing an insect as a brand mark for clothing is an unconventional decision in itself... However, this is a lightweight bug, determined, that never gives up and ...I see it as a little bit dark, precisely like my new collection. It was a decision taken with instinct, not rationality... and usually the best ideas come in this way”* (Redazione Tg24 2018).

The Tessilform company expresses its core essence in the Patrizia Pepe brand, revealing itself through its “unconventional” approach to business, that is striving toward uniqueness in every managerial decision, with creativity permeating the entire organization and a constant obsession to details. The entrepreneurs and their direct collaborators continuously made strategic decisions with a customer-centered marketing orientation. Every innovation they pursued was to improve their efficiency and effectiveness, to improve customer satisfaction, and to maintain a focus on the brand personality. Patrizia Bambi, talking with Dua Lipa (a famous singer chosen as 2018 brand testimonial), said: *“A person who tries to reach her limits, to play with limits, it’s maybe what brought me to choose you for my advertising campaign. ... My vision of a woman is just a woman who is dropped into reality, who is also free to move, to play, and that doesn’t take it too seriously”* (“Patrizia talking with Dua Lipa” 2018).

Although a superficial observer would consider this successful firm similar to many others in “who it is” and “what it is doing,” a closer look reveals what is not written in company brochures. A youthful mentality to problem solving, together with strategic management skills, is driving top management to continuously innovate: *“the common phrase ‘we always do it this way’, to us does not exist”* (as the CEO stated during our interview). Moreover, speaking with top management, their constant tension to be effective in improving processes in order to better serve their customers is palpable.

The Patrizia Pepe’s distribution strategy is comprised of two main distribution systems: retail and wholesale. Patrizia Pepe has an international distribution system composed of 48 mono-brand flagship stores, 19 outlets, 7 showrooms, 46 franchising stores, 20 department stores, and 1546 multibrand stores around the world (Patrizia Pepe 2018). The next tables detail the number of point of sales per country of the retail system (Table 2.4), and of the wholesale system (Table 2.5) (Patrizia Pepe 2018). In addition, since 2009, it has an online store, known as “THE STORE,” with sales now representing about 6% of total revenues.

Table 2.4 Patrizia Pepe’s retail distribution system: number of point of sales per country (2017)

<i>Company-owned stores</i>		<i>Outlets</i>	
Greater China	17	Italy	11
Italy	13	Holland	1
Germany	6	Germany	1
Belgium	4	Austria	1
Russia	4	Switzerland	1
Spain	3	Russia	3
France	1	Greater China	1
Total	48		19

Source: Patrizia Pepe (2018)

Table 2.5 Patrizia Pepe’s wholesale distribution system: number of point of sales per country (2017)

<i>Showrooms</i>	<i>Multibrand stores</i>	<i>Franchising stores</i>	<i>Department stores</i>
Milan	1 Managed by showrooms	542	Russia 13
Padua	1 Managed by agencies	916	Poland 7
Florence	1 Managed by distributors	88	Greater China 3
	Total	1546	Estonia 1
Munich	1		Italy 4
			Slovenia 1
Dusseldorf	1		Total 20
			United Arab Emirates 3
Paris	1		Belgium 2
Anversa	1		Ukraine 2
Total	7		
			Austria 1
			Belarus 1
			Bulgaria 1
			Croatia 1
			Cyprus 1
			Germany 1
			Latva 1
			Lebanon 1
			Qatar 1
			Czech Republic 1
			Serbia 1
			Spain 1
			Total 46

Source: Patrizia Pepe (2018)

UNCONVENTIONAL INNOVATION

The context of this case study is the Italian fashion industry, and more properly it was “pronto moda” (Guercini 2001) fast fashion in its first evolutionary stage. “Pronto moda” is a definition that describes a formula, or better a class of formulas, adopted by fashion firms to reduce time gap between trends, production, and market, more than in the traditional seasonal fashion formulas; this is achieved either by putting together more frequent selections or by continuous redesigning and constant new production. Product innovation, together with process innovation, in the relationships between industry and distribution in the textile and clothing pipeline has always been crucial (Runfola and Guercini 2013). In particular, in the fast fashion industry, market trends pushed companies to quickly adapt and invest in communication and coordination along the supply chain (Milgrom and Roberts 1988), increase the number of seasonal collections to weekly collections (Sheridan et al. 2006), and sustain business growth by expanding into foreign markets (Choi 2011).

Paraphrasing a discussion with the CEO, innovation is not only product innovation or adopting the most advanced technology; it is a philosophy of conducting business. Being innovative in an “unconventional way” means looking at problems to find different routes and sometimes breaking the rules. Specifically, Patrizia Pepe’s “unconventional” innovation covers three dimensions:

- being a thinking organization
- evolving an integrated system as business model
- continuously innovating processes, including collaborative experimentation with supply chain partners: both suppliers and customers.

A Thinking Organization

In this case study firm, firm’s top decision makers support and feed creative thinking by hiring relatively young employees from the best fashion schools in the world and any place where creativity can be found, who would bring a youthful spirit to the organization and fresh air to the working environment. This youthful energy is combined with seasoned managers to create powerful teams with business savvy and creative acumen. The organization strives to reduce the weight of hierarchies and seniority, eliminating rigid autocracy from interpersonal relations as much as possible, allowing staff significant

independence within their own spheres of responsibility. This in turn requires staff to show initiative and to be highly motivated self-starters (Guercini 2001). Employees are kept motivated through active management of the culture, including creation of an energized and supportive environment (fitness center, restaurants, etc.) and inclusion of events and activities such as art expositions within the building that taps into employee's passions. This reflects a serious attention to human resource management and employee empowerment (Guercini and Runfola 2009). Infusing creativity throughout the organization and creating functional roles for teams not only results in product innovation but also organizational innovation. The CEO explained: *"Patrizia, my wife and creative brand director, works with a great attention to the business, without 'shooting from the hip' [not acting recklessly] and supported by technical and creative teams that permit her to evaluate every article in terms of our price and quality strategic lines. Creativity helps business when it is driven by a dynamic spirit, like Patrizia's, that combines with her research design efforts, keeping her close to the market. (...) Her commitment to creativity is to be admired; she always finds time for direct contact with sales employees, with our key buyers and sometimes also with final customers"* ("Patrizia Pepe. Interview to Claudio Orrea" 2008).

The rapid growth of this company is again requiring a complete organization redesign (this project is still in progress at the time of this writing), with specialized divisions and units (style and research, retail, digital marketing). This organizational change will enable a concentration of specific competences in professionally managed divisions, along with inter-functional teams allowing the desired internal process coordination and communication. Top management contributed to help evolve their company into a constantly thinking organization, adding a mix of creativity and managerial skills to every strategic decision.

The "Integrated System" Business Model

Initially, before the introduction of the Patrizia Pepe brand, the Tessilform's business model was a ready-to-wear clothing manufacturer that has a long distribution channel where domestic distributors and wholesalers were the main customers. High customer service levels, in terms of quick response and fast deliveries, but with higher-quality products compared to direct competitors were their main competitive advantage in domestic markets. Speed, a value-pricing strategy, and fast adaptation to market changes, achieved through strong relationships with intermediate customers were

primary strengths. In the past, Tessilform's innovation was to be reactive in imitating major fashion trends in short time, relying on wholesalers to filter these trends and understand market preferences (Guercini 2003). "*Responding faster and faster to customer requests is in our company's DNA,*" the CEO commented during our interview.

With this expertise, the brand was launched in 1993, and the first evolutionary stage (1993–1999) saw Tessilform vertically integrating its supply chain to the market and opening three wholesale distribution centers (known as "Diffusioni" and located in Bologna, Milan, and Florence) designed to sell directly to retailers. This decision helped in respecting customer needs and requests, with very high-quality service levels. Moreover, the Patrizia Pepe total look required a change in the business model, designed to offer retailers a high variety of new garments frequently (every week), while also ensuring a reduction of unsold items and stock outs. Then, the company added the "pronto moda" formula to its business model. This particular fast fashion model comprised of roughly 40 weekly mini-collections per year with 15–20 new product proposals per week. This fast fashion model was perfect for reducing customers' risks (Ciappei and Sani 2010). The new Patrizia Pepe system reached a sell-out ratio of 90%, higher than any other direct competitors. In addition, the reduction in time to market cycle was reached thanks to increased collaboration through the entire supply chain, with all members oriented to increase flexibility and agility. About 80% of suppliers were local: in Prato, near Florence, there is a freight village (a logistics infrastructure system) of textile manufacturers, mainly Chinese (Guercini and Runfola 2010; Pieraccini 2011). Tessilform initially outsourced all production phases to many suppliers, except for the cutting operations, that are very critical for these kinds of products. Later, Tessilform outsourced every production stage to integrated suppliers, in this way allowing them higher margins, which led to the creation of even stronger and more collaborative relationships (Guercini and Runfola 2010). This upstream strategy drove reductions in batch production and lot size, to obtain more scheduling flexibility and respect of delivery dates (hour of delivery) (Runfola and Guercini 2013). Furthermore, the direct management and control of warehouse and transportation systems enabled Tessilform to maintain delivery flexibility.

The second evolutionary stage (2000–2006), in this period recording the growth of direct stores and a rapid internationalization expansion (Guercini and Runfola 2010), added another piece to the business model: the "flash formula." "Flash" in this case means fast-planned collections, with

retailers being asked to purchase small quantities frequently (“Tessilform Spa. Imprese per Innovazione” 2007). This change was necessary to meet foreign customers’ requests that were more oriented toward a classical business style with collections created on samples (prototypes), the presentation of the collections to customers, then production to order and deliveries, with about 60 days cycle times (Runfola and Guercini 2013). The internationalization process added new branches to the company group and directly managed show rooms, which guaranteed more direct control of the market with immediate feedback from retailers and outlets. Strategic partnerships with local wholesalers helped the company to open new distribution centers, in particular in culturally and physically distant markets.

The business model mix of “pronto moda” and “flash” formulas, along “with speed in its DNA” (speed also in terms of fast decision processes), increased flexibility and customer service levels (Cietta 2008). However, this model started to show some pitfalls, including a lack of control of the entire process. More importantly, the company was at that times beginning to face higher market risks of forecast errors and unsold items; that particular moment was another critical changing point.

The strategic decision to upgrade the product for a higher-quality brand positioning was the driver of another business model change. A new product concept, with its own personality, permitted Patrizia to infuse all of her creativity in product and distribution design. It created an innovation wave that was more proactive than reactive. This downstream strategy started in early 2000, rapidly expanding since 2005, with the opening of a growing number of independent mono-brand stores, corporate-owned flagship stores, and franchise stores. This additional stage of evolution in distribution systems supported the new branding strategy, together with a better control of the market and direct connections with final consumers. At the same time, this set of decisions motivated the company to adopt a more traditional business model (planned fashion) that is similar to the high-end fashion industry, with main collections and longer life cycles, due to the time needed in style and research creativity stages. At every season, Patrizia Pepe presents:

- a main collection, with cycle time similar to the planned system
- a “flash collection” created in autumn and sold in spring
- approximately 20 weekly mini-collections that are based on the “fast fashion model” to integrate main collections (Misani and Capello 2016).

Even the “traditional” model here is uniquely flexible, adding a “fast touch” in multiple services, thanks to the managerial ability and expertise proper of the still existing business model mix. However, the company noticed that this main collection model has some important limits, with long cycles and unpredictable market risks. In 2018, 80% of revenues came from the traditional model, with a future strategic goal to balance it at 50% with the flash collection, in order to have a traditional base attached to a flexible side. Flexibility is critical when future trends predict more demand volatility and uncertainty. In every country, as well as online, the firm is now defining proper strategies, with personalized agile and effective logistics networks and different times to markets for each segment.

In summary, as defined by the CEO, the Patrizia Pepe business model can be considered an “integrated system,” composed of multiple business models added in layers through the years. Started as a fast fashion business model, the brand is now integrating into a contemporary “griffe” model (Golizia 2016). That is why *“Our fashion is ‘easy’, and we are now competing with the second line of big fashion brands,”* Patrizia commented (*“Patrizia Pepe e il successo della moda facile”* 2014).

Continuous Process Innovation and “Collaborative Experimentation” Along the Supply Chain

The competitive advantage of Patrizia Pepe based on rapid and flexible supply chains enables the brand to offer fast and accurate customer service with quick response. These capabilities are the result of many process innovations, driven by top management’s constant attempts to improve the “industry standard” of performance, including new technologies. First of all, the company invested in IT information systems, with an “on demand” IBM philosophy: this solution drove to higher flexibility in managing applications, operation systems, and database (Tessilform-Patrizia Pepe 2008). Other technologies were added to optimize logistics flows. For example, in 2009, this company started a collaboration with the University of Florence to test the feasibility of RFID tags in internal logistics, to improve shipping logistics from suppliers to distribution centers and retail locations. This pilot study started tagging 60,000 articles of the second season collection. With positive results, the brand is convinced to scale it to the entire organization now attaching tags (RAIN RFID) to approximately 2.2 million products (*“Patrizia Pepe doubles logistics efficiency with RAIN RFID”* n.d.).

This solution reduced time and errors in warehouse operations. Replacing traditional barcode readers with hands-free devices improved individual productivity in terms of picking volume from 200 to 400 items per hour, and it also improved accuracy on item distribution (Stamo 2014). Products on racks in the warehouse are read with four antennas, enabling geo-tracking and positioning of the entire inventory yielding benefits in warehouse efficiency, inventory management, delivery, and order accuracy. The company carefully selected service and technology suppliers for this innovation, initially starting in warehouses, expanding to the transportation system, and now applied to the entire supply chain, from suppliers to retailers. As such, a logistics flow optimization helped information flow accuracy (reduced delivery errors to zero) and supply chain synchronization. The main goals are to reduce time, thanks to a mixed solution of tunnels and gates, and to eliminate errors in information flows for every subject of the logistics chain. Lorenzo Tazzi, the Tessilform group CIO, explained *“The processes of our entire group are all rotating around a fast logistics for goods, to optimize the availability of every single item. Working with our partner Solos, we have engineered our supply chain to guarantee maximum fluidity of production and distribution processes”* (Capoferro 2015).

The technology solution was then adopted in show rooms and stores, becoming a “fashion tech” supply chain. Patrizia Pepe retail stores now include product information on large screens that can adjust their content displays based on what customers have in their hands. Thanks to RFID whole integrated system, Patrizia Pepe is delivering in-store customer experience with large screens offering customized content to each customer (from garment construction details to videos of models wearing clothes, coordinating items, or accessories), which add more sales opportunities (“Patrizia Pepe doubles logistics efficiency with RAIN RFID” n.d.). In this way, customers could find other references and accessories: *“Here you can clearly see the online-offline convergence: we are starting to show our online inventory in our totems, to push customers to buy online while they are in our store”* (Capoferro 2015).

Patrizia Pepe is already investing for the future, adopting a 4.0 e-commerce system, a circular model of e-commerce that also includes the television. For this company, a multichannel strategy is not only an integration between online and offline distribution channels, but it is a direct link between communication and sales, with the real possibility of transforming TV viewers into consumers. This innovative technology

will enable consumers to purchase the products they are watching in a traditional media, simply by taking a photograph, and instantly be linked to an e-commerce platform to buy it (“A Giglio Group il 100% di Evolve, controllata da Tessilform (Patrizia Pepe). Al via ibox.” 2017). All these innovation projects rely on a collaborative approach, building up strong partnerships with supply chain members. Another technology innovation recently adopted by Patrizia Pepe is the acquisition of a large configuration of integrated 2D/3D solutions for its product development, production and sales showroom. It will initially drive the digital transformation of its apparel department before extending them to the bags department. The general manager Sebastiano Lombardo commented, *“By incorporating EFI Optitex digital solutions into the company design and production workflows, we expect to decrease our time to market by 30%, while better streamlining our internal processes and significantly reducing our costs...Moreover, we expect to launch high-quality offerings more frequently in order to meet our clients’ needs”* (Hanson 2017).

An ongoing challenge, as noted by the CEO (2018) and highlighted in recent research (Flint et al. 2018) is to ensure that everything the company communicates and behaves is congruent throughout all channels and touchpoints with customers and suppliers in order to portray a holistic image of the corporation and the brand.

As we look to the future, Patrizia Pepe continues to evolve. They act as a lab, or “pilot fish” as defined by the CEO. It means being pioneers, always the first in experimenting innovative solutions. The company acts as a “pilot fish,” collaborating with selected suppliers to innovate processes, whereby “collaborative” experimentation yields innovation and improvements. This approach to process innovation, called collaborative experimentation, drives to a more flexible supply chain that easily reacts to change and is able to quickly respond to new trends and market challenges. For example, there currently exists concentrated effort to reduce the use of environmentally harmful plastic packaging and where necessary, only use recycled plastic, and as such different solutions are discussed together with selected suppliers and customers. Speaking with the CEO in our follow-up interview (2018), we recognized his “visionary” leadership in its orientation to sustainable supply chain (Signori et al. 2015) by trying to do everything “correctly.” This company is not taking actions alone but it is collaborating with selected supply chain partners, and at the same time maintains a healthy business skepticism about competitors’ sustainable initiatives.

DISCUSSION AND IMPLICATIONS

Patrizia Pepe has speed in its DNA that is comprised of three critical dimensions, all resulting in continuous growth and profitability:

- an organization permeated by creative thinking, becoming a thinking organization
- a unique lean and agile integrated system as a hybrid business model, evolving an integrated system as business model
- fast and flexible capabilities throughout the entire supply chain, continuously innovating processes, including collaborative experimentation with supply chain partners.

The story of this company reveals a continuous metamorphosis that includes organizational dynamics and interpersonal growth. It focuses on continuous improvement, consistent with total quality management principles, yet applied in an “unconventional” way: unconventional is the creative thinking organization, unconventional is the integrated system business model, unconventional is the supply chain collaborative innovation approach, and as such unconventional is also the brand positioning, well differentiated from other brands in the industry. This case study is important because it demonstrates how organizational innovation and state-of-the-art supply chain management in business practice can contribute to the fashion industry, typically known mainly for product innovation and branding.

This chapter contributes to the academic literature by highlighting the importance of collaborative relationships within a supply chain context, with a global network comprised of small to large firms. Practical implications include insights of “unconventional innovation” that drives to think outside the box. This creative thinking may lead to revolutionizing the entire system, selecting core suppliers and customers and redesigning the supply chain to reach higher effective and efficient performance. Reading this case study, top managers could take insights on how to refine their business models with an innovative approach, continuously evolving their processes to adapt to new trends and market challenges. Furthermore, this story shows that process innovation could be reached in collaboration with supply chain partners, with whom doing field experiments to discover new applications and solutions. This collaborative approach to process innovation may help in discovering and adopting new application of technologies to logistics, to better manage the multichannel environment and

create unique customer experiences. In conclusion, this case serves as an example of organizational rejuvenation and continuous improvement within a mature, highly competitive, fast-paced business context.

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MUJI: Brand Concept Creates Process Innovation

Akiko Masuda

Abstract MUJI is a Japanese chain of lifestyle retail brand stores that operates in 27 countries and regions with 821 stores, employing 16,195 staff including 9203 part-time staff. MUJI has continued to grow consolidated operating revenue for the past 14 years. Its brand value is US \$1390 million according to Interbrand. As of the end of February 2017, 35.3% of its revenue comes from overseas operations. The brand concepts of MUJI are unique; “*No Brand Logo*,” simple design, and not “*This is what I really want*” but “*This will do*.” To realize these brand concepts, MUJI has a unique method of product development that includes the following three principles: (1) selection of materials, (2) streamlining the process, and (3) simplification of packaging. These concepts and original product development create process innovations. The simple streamlining of MUJI designs is naturally applicable to many different countries, and as a consequence these concepts are accepted in a diverse range of countries. In the context

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of its customers, MUJI has good methods and tools for communication. It has become an approachable and friendly lifestyle adviser brand, not just a simple one. The author examines how the MUJI brand concept succeeds in process innovations.

Keywords MUJI • Brand concept • Process innovation
• Communication

INTRODUCTION

Ryohin Keikaku is a Japanese store brand retail company that operates globally under the exclusive store brand “MUJI” (hereinafter, Ryohin Keikaku’s activity is referred to as “MUJI”). It is a vertically integrated company encompassing product planning, development, production, wholesale, and retail. MUJI has been remarkably successful since 2003. In 2017, net sales totaled US \$3116 million (108.3% of the previous year) and its average annual growth rate for the last four years is 114% (Table 3.1). As of the end of February 2017, MUJI has expanded to 26 countries, operating 404 stores overseas. In its process innovation, MUJI is a unique success story, having reduced the process of product development, which is derived from the brand concept. Process innovation at MUJI is organically tied to product development and communication. MUJI branded products exhibit simplicity, useful design, good quality, affordability, and wide acceptance by global customers. The simply designed products are all part of a unique brand concept. MUJI proposes a simple but better lifestyle to global customers via wide assortments of products: household goods, apparel, and foods.

MUJI is a private-label store brand. Unlike other specialty store retailers of private-label apparel (SPA), such as IKEA, UNIQLO, H&M, and ZARA, which focus on a certain category to improve value chain efficiency, aiming at “economies of scale,” MUJI sells multiple categories (furniture, houseware, apparel, foods, stationery, health and beauty items, electronics items, and bicycles). MUJI also offers other business services, such as a café restaurant service, selling pre-fabricated houses and huts, and operating campsites and hotels (Fig. 3.1). Compared to other major private-label apparel, as a multi-category lifestyle brand, MUJI chooses other ways to pursue process innovation, which is via brand concepts.

Table 3.1 Consolidated financial results

	2015			2016			2017			2018*plan		
	Result (m\$)	Ratio (%)	Compared to previous year (%)	Result (m\$)	Ratio (%)	Compared to previous year (%)	Result (m\$)	Ratio (%)	Compared to previous year (%)	Result (m\$)	Ratio (%)	Compared to previous year (%)
Net sales	2433	100.0	118.0	2879	100.0	118.3	3116	100.0	108.3	3494	100.0	112.1
Ordinary Income	249	10.2	115.4	306	10.6	122.9	361	11.6	118.0	398	11.4	110.2

Source: Edited by the author based on MUJI Data book 2017 (Ryohin Keikaku 2017) (\$1 US = ¥106.71 as of February 15, 2018)



Fig. 3.1 MUJI hotel. (Source: Courtesy of Ryohin Keikaku)

MUJI has some unique brand concepts: “*No Brand Logo*” and not “*This is what I really want*” but “*This will do*,” which create process innovations. The brand products are credited as “resource-saving,” “low-priced,” “simple,” “anonymous,” “nature-oriented,” and “global” (MUJI homepage; Seiyu 1988). MUJI offers a wide product assortment, like department stores and general merchandising stores (GMS). It is difficult for the multi-category brand MUJI to realize process innovation through economies of scale like single-category private-brand retailers. Single-category private-brand retailers can focus their managerial resources on a single process whereas MUJI handles many different categories. For example, UNIQLO can order sweaters in 12 colors from one factory and fill a whole shelf. On a MUJI shelf, there are various products made from different materials, and the company orders from many factories, managing each individual factory. From this view of process innovation, it is not easy for MUJI to realize process innovation through economies of scale. Instead, MUJI succeeds in process innovation by using a unique brand concept and product development method. Consequently, MUJI develops a range of simple products to fit various cultural consumers and achieve cost reduction. This is a unique business model with many lessons learned. For the purposes of this study, data were gathered from interviews with two directors and three managers, official data from the homepage, and newspaper and magazines. The author had work experience at MUJI as a product developer (merchandiser of household goods) from 2004 to 2014. This case also uses ethnographic data information.

This chapter expands on Muji’s process innovation. Following this introduction, the next section of this chapter overviews the company, focusing on its history, production, brand portfolio, and industry background in the home country. The third section develops the analysis of MUJI’s success, including the brand concept, unique product development method, and communication. The last section includes discussion and implications.

COMPANY OVERVIEW

Company History

MUJI is officially called “*Mujirushi Ryohin*,” a Japanese brand name that translates as “No-brand (= Mujirushi) + quality goods (= Ryohin).” Seiyu, a Japanese general merchandising store, established MUJI as one of its

private-brand series. It began in 1980 with 9 household products and 31 food products and in 1981, MUJI added apparel. The first directly managed store, MUJI Aoyama, opened in Tokyo, Japan, in 1983.

In 1989, Ryohin Keikaku Co., Ltd. was established by its parent company, Seiyu, and the MUJI business was transferred to Ryohin Keikaku the following year. Ryohin Keikaku was established by Seiyu to manage the MUJI brand. Although MUJI was created as one of the private-brand lines of Seiyu, MUJI achieved a great success with consumers, who approved of its unique antithesis, “No Brand Logo” but good quality products. Finally, MUJI became an independent brand, managed by Ryohin Keikaku as one of the private Seiyu brands. Most MUJI customers are not aware of the company name, Ryohin Keikaku. The relationship is the same as that of the Spanish brand ZARA (brand name) managed by Inditex (company name). MUJI is the brand and Ryohin Keikaku is the management company.

In 1991, MUJI began its overseas expansion with the opening of its first store in London, which was a new store format in partnership with the Liberty department store. MUJI started Hanayoshi, a chain of fresh flower shops in 1996. In 1999, it opened small format stores, MUJI com KIOSK in Japanese railway stations. In 2001, MUJI Yurakucho (Tokyo) and Namba (Osaka) stores opened as new communication centers in Japan. The MUJI eyeglasses business began in 2002. MUJI Italy and MUJI Korea were established in 2004. In 2005, MUJI received five gold product design awards from international Forum Design (iF) in Germany. Year by year, MUJI increased its business areas and the number of countries it operates in, as well as increasing its reputation among customers. Table 3.2 summarizes MUJI’s business expansion. Table 3.3 summarizes MUJI’s overseas store openings by year. At an early stage, MUJI began overseas store operations in the UK and Hong Kong, in other parts of Europe and East Asia. Later, MUJI proceeded to open locations in the US and East Asia. In recent years, MUJI has opened stores in the Middle East and Oceania (Table 3.4). Table 3.5 shows the financial data of area segments. It shows that the majority of sales are in Japan (64.7%), but thanks to increasing overseas store numbers, the overseas ratio, especially in East Asia, was 26.9% in 2017, an increase from 21.7% in 2015. Since 2014, MUJI has focused on opening stores in China, expanding from 128 stores in 2015 to 200 in 2017 (Table 3.4) and in recent years the Chinese market has been the growth core market for MUJI. MUJI opened a store in India in 2017, the first Japanese retailer to do so. As of 2017, MUJI also

Table 3.2 MUJI business expansion

<i>Year</i>	<i>Business expansion</i>
1980	MUJI started with 40 items (9 household and 31 food products) as a private-brand of the Seiyu store
1981	Apparel production
1982	Wholesale business
1983	First directly managed store opened
1987	Direct ordering to overseas factory. MUJI Exhibition at Galeries Lafayette (Paris)
1988	Expands global sourcing
1989	Ryohin Keikaku established, independent from Seiyu
1990	MUJI transferred from Seiyu, Ltd. to Ryohin Keikaku
1992	Blue MUJI line (upper quality)
1993	RK Trucks Co., Ltd. established (logistics company)
1995	Camping site business
1996	First Hanayoshi flower shop opened
1997	Factory outlet business
1999	MUJI com KIOSK opened in Shinjuku station
2000	Café MUJI
2001	(1) “MUJI + Car 1000” sold in collaboration with NISSAN(2) “Product Development Project” Net Community set up
2002	MUJI Eyeglasses
2003	“MUJI + INFILL” housing business
2008	MUJI to Go (travel-focused small store format)
2009	MUJI Laboratory for Living established
2010	“MUJI BEAUTY” format started Facebook fan page started
2011	MUJI Café&Meal opened (roadside store)
2015	IDEA PARK (web communication system) started MUJI BOOKS started
2017	MUJI HUT started
2018	MUJI Hotel started

Source: Revised by the author based on Ryohin Kaikaku ([n.d.-a](#)) homepage

has eight stores in Middle Eastern countries. MUJI stores have increased in countries with different cultures in recent years. MUJI has come to face a different culture gap and regulation. MUJI has faced these cultural difficulties, carefully addressing them, one by one. MUJI has gradually obtained global growth and gained know-how for overseas business.

There are many positive aspects to the global expansion of MUJI. Customers are now able to find MUJI stores in major cities of 26 countries. Customers may now perceive MUJI as a global brand. Ex-CEO Tadamitsu Matsui said that MUJI stores are good brand for

Table 3.3 Opening overseas stores by year

<i>Year of entry</i>	<i>Overseas store</i>
1991	UK, Hong Kong
1995	Singapore
1998	France (Closed Singapore and Hong Kong)
2002	Ireland
2003	Korea
2004	Italy, Sweden, USA (MOMA Soho), Taiwan
2005	Germany, Norway, China
2006	Spain, Thailand
2007	USA
2009	Turkey, Indonesia
2010	Portugal, Poland, Philippines
2012	Malaysia
2013	UAE, Kuwait, Australia
2014	Canada
2016	India, Saudi Arabia, Bahrain

Source: Revised by the author based on Ryohin Kaikaku ([n.d.-a](#)) homepage

communication media. Masuda (2016) wrote her experience that “I was surprised during a meeting with the owner of a shoe business in Ethiopia that, even though there are no MUJI stores in Ethiopia, he was a big fan of the company having become aware of MUJI on a business trip to Singapore.” A manager of overseas operations stated that there is always a long line of customers in a newly opened MUJI store.

Another merit of global expansion is that MUJI can obtain global lifestyle information from the staff, managers, and customers of each overseas store, which can serve as inspiration for product development. The “Found MUJI” project was started in response to global demand and reflects local lifestyle products from around the world in terms of the MUJI concept:

The innovations of MUJI are not simply a process of creation, they are a review of living by ‘Searching and Finding.’ Searching throughout the world for durable and long-lasting daily necessities, MUJI refines the items found to suit our changing lifestyles, cultures, and customs, reproducing them at reasonable prices. In 2003, ‘Found MUJI’ started its journey with a keen eye for good products, exploring the underlying values of the makers, retaining the essence of their creations, and re-tailoring them into MUJI goods that fit the modern way of life.

Table 3.4 MUJI's global expansion from 2015 to 2018

	2015	2016	2017	2018* <i>plan</i>
China	128	160	200	230
Hong Kong	14	15	17	18
Taiwan	33	38	42	44
Korea	14	14	20	24
UK	12	12	12	12
France	12	9	9	9
Italy	9	9	9	9
Germany	8	8	7	7
Spain ^b	6	6	6	6
Portugal ^b	1	1	1	1
Ireland ^a	1	1	1	1
Sweden ^a	7	8	8	8
Norway ^a	4	2	0	0
Turkey ^a	2	2	0	0
Poland ^a	1	1	1	1
USA	9	11	12	16
Canada	1	2	3	7
Singapore	9	9	10	11
Malaysia	4	5	5	7
Thailand	11	13	14	17
India	0	0	2	4
Australia	2	3	3	4
Indonesia ^a	2	3	6	6
Philippines ^c	7	7	7	4
Kuwait ^d	1	2	2	2
UAE ^a	3	3	4	6
Saudi Arabia ^a	0	0	1	2
Bahrain ^a	0	0	1	2
Qatar ^a	0	0	0	2
Japan	401	414	418	424
Total	702	758	821	884

Source: Edited by the author based on MUJI Data book 2017 (Ryohin Keikaku 2017)

^aWholesale stores (franchise stores) and the rest are directly operated stores

^bDirect management store in 2017

^cAffiliated company in 2018

For example, “Boxes in North America” was launched in 2018 (Fig. 3.2). Other examples of this unique development of products from around the world include “Bamboo products in Oita, Japan,” “Handmade paper in Saga, Japan,” and “Wool double cloth in Ireland.” Global expansion and product development activity have had a positive impact on MUJI's global presence.

Table 3.5 Financial data of area segments

<i>Consolidated segment revenue from operation</i>	<i>Mar. 2014–Feb. 2015</i>		<i>Mar. 2015–Feb. 2016</i>		<i>Mar. 2016–Feb. 2017</i>	
	<i>Result/ m\$</i>	<i>Ratio (%)</i>	<i>Result/ m\$</i>	<i>Ratio (%)</i>	<i>Result/ m\$</i>	<i>Ratio (%)</i>
Domestic business	1721.0	70.2	1869.3	64.5	2032.0	64.7
(A) East Asia	531.6	21.7	782.3	27.0	845.0	26.9
(B) Europe & the Americas	140.0	5.7	161.3	5.6	165.8	5.3
(C) West, South Asia & Oceania	58.9	2.4	83.9	2.9	96.6	3.1
Overseas business (A + B + C)	730.5	29.8	1027.5	35.5	1107.4	35.3
Others	0.1	0	0	0	0	0
Total	2451.5	100	2896.9	100	3139.4	100

Source: Edited by the author based on MUJI Data book 2017 (Ryohin Keikaku 2017) (\$1 US = ¥106.16 as of March 2, 2018)

Fig. 3.2 Boxes for sale in North America
(Source: Courtesy of Ryohin Keikaku)



MUJI's Production

MUJI is a manufacturing retailer. MUJI provides design specifications to the factory of a supplier. MUJI has original in-house strict quality standard regulations, “Ryohin Kijyun (the good product code of standards),” and all factories are inspected according to this standard and advised to improve as necessary. The MUJI stores only sell MUJI brand products in line with the “No Brand, Good Product” concept. Thus, MUJI cares very much about the issue of quality. MUJI’s product development has the same basis

as the Specialty retailer of Private-label Apparel (SPA) style. Although MUJI does not own any factories, those it uses are required to adhere to strict quality management in product development. All items are designed by in-house MUJI designers and merchandisers and all ordered items are subject to MUJI's original strict quality control testing and sold only in MUJI stores all over the world.

MUJI products are designed in Japan, but sourced from Japan, China, Vietnam, Cambodia, and other Asian countries. To supply efficiently, MUJI has had a subsidiary sourcing company, MUJI Global Sourcing (MGS) in Singapore since 2006. Through this sourcing company, some MUJI products are developed in such a manner as to yield cost and process efficiencies. Mainly, many products involve the distributor and/or trading company "Shosya," which is a third-party company, but some key products are sourced by MGS, which researches local materials and product information in the world. MUJI orders their product specifications through MGS and/or the trading company Shosya.

In the early years of MUJI when overseas sales were less than 10% of total sales, MUJI gathered all products at their Japan logistics center, even though products were manufactured in China and other Asian countries. When MUJI later began shipping overseas, this logistical model meant the retail price in overseas countries was about 120–130% higher than the retail price in Japan because of shipping costs and duties. As MUJI has, in recent years, expanded globally and sales from countries outside Japan now account for around 35% of total sales, it has improved and changed the logistical model so that certified factories can ship directly to end-destinations. In China, MUJI established logistics centers that gathered made-in-China items and shipped them to end-destinations. This leads to a reduction in logistics costs; for example, in Taiwan, MUJI Taiwan directly imported products from China and other production locations. Thanks to this change, some products are almost the same price or only about 10% higher than those in Japan, compared to previously being 20–30% higher. An efficient supply chain directly affects the retail price.

Brand Portfolio

The MUJI brand portfolio is shown in Fig. 3.3 consisting of MUJI and four sub-brands. The MUJI parent brand is used for the retail product and a sub-brand is used for the service businesses such as MUJI camping, MUJI café & meal, MUJI books, and MUJI hotel. The sales of MUJI in



Fig. 3.3 Brand portfolio. (Source: Edited by the author based on MUJI homepage)

Table 3.6 Breakdown of sales in Japan by category

<i>Sales breakdown by category</i>	<i>Mar. 2014–Feb. 2015</i>		<i>Mar. 2015–Feb. 2016</i>		<i>Mar. 2016–Feb. 2017</i>	
	<i>Result/m\$</i>	<i>Ratio (%)</i>	<i>Result/m\$</i>	<i>Ratio (%)</i>	<i>Result/m\$</i>	<i>Ratio (%)</i>
Apparel	702.7	36.9	783.6	36.7	831.9	35.4
Household goods	1020.2	53.5	1163.0	54.5	1303.2	55.4
Food	156.6	8.2	156.6	7.3	182.5	7.8
Others	26.4	1.4	31.5	1.5	32.7	1.4
Total	1905.8	100	2134.6	100	2350.4	100

Source: Edited by the author based on MUJI Data book 2017 (Ryohin Keikaku 2017) (\$1 US = ¥106.16 as of March 2, 2018)

Japan are mainly from the retail business (Table 3.6): apparel (sales ratio of 35.4% in 2017), household goods (55.4%), foods (7.8%), and other business (1.4%) (Ryohin Keikaku 2017).

MUJI brand is used across a wide range of sectors: 5328 household products items are (linens and interior goods, furniture, electronic appliances, housewares, stationery, health and beauty, and plants and flowers), 2082 apparel items (men's, ladies, kids, accessories, bags and shoes, and innerwear), and 519 food items (processed foods, sweets, and beverages)

and chilled foods). Other small businesses include three camping site management businesses (Japan only), a housing business (Japan only), and a restaurant and cafe business (Japan, Taiwan, China, and Hong Kong). MUJI began selling huts in 2017 and launched its hotel business in China in 2018, and will launch it in Japan in 2019 (Nikkei 2017).

In Japan, the MUJI store sells about 7929 items in total (Ryohin Keikaku 2017), but stores outside of Japan sell about 4000–5000 items. This difference occurs mainly because of country import regulations and differences in average store sizes. While the Japanese standard store size is 732 m² (Ryohin Keikaku 2017), European stores are smaller and Chinese stores are larger. Satoru Matsuzaki (CEO) said that “MUJI will expand its overseas assortments based on local needs. MUJI knows its business chances, especially in furniture and health & beauty goods” (Nikkei Business Daily 2017).

The management of multiple categories creates a synergistic effect among products. A shelf is matched with various types of size, color, and materials of storage items. Some MUJI competitors may sell a similar type of product at a lower price, but MUJI consumers can maintain a coordinated environment with MUJI products. The strength of MUJI products is the relationship among the product ranges. An item can easily be coordinated with other items because they follow the same design rules, formats, and modules. Development ideas and technologies are shared with development merchandisers in each category.

Industry Background in the Home Country

The Japanese retail market was worth US \$1.32 trillion (139.8 trillion Yen) (the rate calculated as of March 28, 2018 is US \$1 = 105.53 Yen) in 2016 (METI 2018). MUJI ranks 39th in sales in the Japanese retail rankings (Nikkei MJ 2017) with sales amounting to US \$3154 million (333,281 million Yen). MUJI's main competitors are part of the retail holding company Fast Retailing: UNIQLO (3rd; Apparel; US \$16,911 million), Shimamura (19th; Apparel; US \$5366 million), NITORI (24th; home furnishing; US \$4859 million), Daiso (31st; one price store; US \$3978 million) and Kains (32nd; home center; US \$3822 million). Its main competitors in the apparel sector are UNIQLO, Shimamura, and other value price apparel brands. Its main competitors in the household sector are Nitori, IKEA, Kains, and other household retailers. Its main

competitors in the food sector are Kaldi and other processed food and sweets retailers. While it has competitors in each category, MUJI as a multi-category store brand does not have direct competitors.

ANALYSES OF MUJI'S SUCCESS

MUJI's unique brand concept is successful due to good process innovation. In the next section, the factors contributing to MUJI's success are analyzed mainly from the perspective of brand concept, unique product development method, and communication. Figure 3.4 presents the relationships between the three factors and then in the next section, each factor is explained.

Brand Concept

In the 1980s, when the economy grew year after year in Japan, consumers preferred branded products with a logo even though they were more expensive than non-branded items with the same design and materials. Recognized brand logos were seen as prestigious and even iconic, MUJI insisted on being the antithesis of the brand-admiring consumer society.

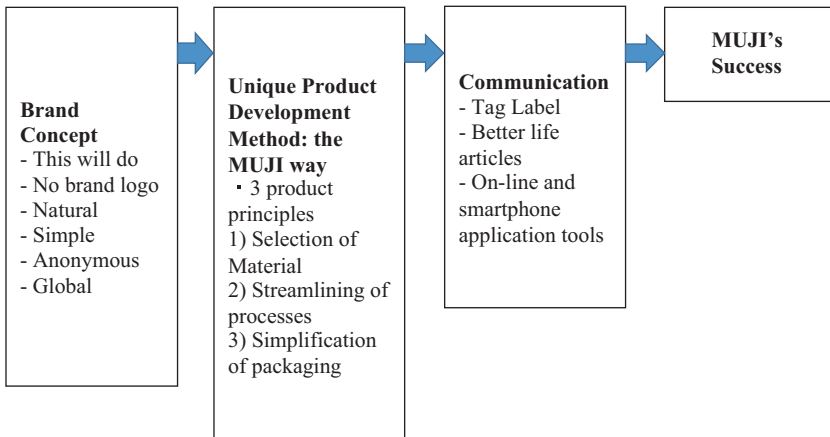


Fig. 3.4 Analyses of factors contributing to MUJI's success. (Source: Revised by the author based on MUJI homepage and "The MUJI Way" Masuda [2016])

For example, in Japan in the 1980s, dried shiitake mushrooms were sold as whole (i.e., uncut or unbroken). Broken shiitake mushrooms were rejected during processing and discarded. However, people used dried shiitake mushroom to make Dashi soup at home and did not eat the mushrooms whole. MUJI released “Ware (Broken) Shiitake” and sold broken shiitake mushrooms at a lower price. Another good example is that of tinned salmon. The middle section of the salmon was used and the head, tails, and side parts were thrown away in order to maintain a pleasing appearance. A commercial poster from 1981 appealed to consumers was that “A salmon is the WHOLE salmon (not only the middle section tastes good, but other parts do too)” (Fig. 3.5).

MUJI asked consumers what a product’s real value was, and not what looked good. In this case, taste is more important than looking good. MUJI sold broken shiitake at a cheaper price than whole and explained the reason why this product was not as expensive as other products on the market. Many consumers understood the reason and supported this idea. MUJI’s first commercial poster displayed the slogan “Lower price for a reason.” All MUJI products have been streamlined in some ways with the focus being on real product value.

At the heart of MUJI’s concept is the production of simple, inexpensive objects through drastically simplified production processes. For example, MUJI paper omitted the bleaching process and maintained a pale brown-beige. MUJI uses this brown-beige paper for packaging, tag labels, and many paper products such as notebooks and files.

To achieve lower prices, MUJI attempted to review product development processes one by one and communicate to consumers why certain products reduced or eliminated certain aspects of other products on the market. This allowed knowledgeable and conscious consumers to make more informed choices. MUJI has gradually gained a following of conscious consumers.

The result of MUJI’s concept was the creation of a line of products that was pure, fresh, and invigorating, contrast to the conventional, extravagantly produced objects of the time. MUJI’s brand concept, “*No Brand Logo*” and not “*This is what I really want*” but “*This will do*” creates process innovations, which are based on “natural,” “simple,” “anonymous,” and “global” ideas (Seiyu 1988). To realize this concept, product developers attempted to streamline the production process and achieve lower prices.

しゃけは全身しゃけなんだ。

アタマやシッポの近くだって
しゃけはしゃけ。
そこででぞろいでもおいしい身を
いかけたフレック缶が
安くてきました。
しゃけの仲間には、われ推賞や
煮もの用しょうゆ、カレー24皿分
ひと包みなどなど。
わけがあつて減価を実現した
「無印良品」群です。
4月発売の新顔も店頭へ。

素材を選択して安くなった「無印良品」

- お風呂用 ショウゆ — 300円 W175
用途を専らにしたほると、べつべつな原材料を使わずにすみずみ実質本家のつくりの品質です。
- カレー 辛でアジキ — 430円 W188
お風呂の良質をそのままにしたので、あつたお風呂にそのまま使えます。乾燥と旨さの、アジキがトランス。
- フレック 鮭水巻 — 220円 W168
年中旬にだけ一部分を使用しています。身はそのままです。おいしに実質アタマ、おしん、まはら、ウチカです。
- 鮭刺身 中身大よ — 250円 W175
鮭刺身の品質をおいしにした鮭刺身です。野菜もあつたお刺身。鮭刺身のみの目まで、実質本家の味が、大好評。
- ワフー パン粉 — 400円 W195
小麦粉の配合を工夫しています。色は黒めですが、味は実質本家、歯ごたえの上手な商品に。
- 醤油 ササガ — 350円 W180
原料の日本人を工夫して、なたはたさいのうまみと旨みで調合。おいしくつくりだすのは、アジキの油。
- 塩粉ハチマキ — 1kg W178
アタマやシッポなどの良質をトランスしてです。
- 味噌 大粒 — 400円 W180
整形のため、お味噌にした部分を使用しています。整形しないですが、おいしに実質本家、旨味です。
- 片つき のり巻あられ — 230円 W158
最後の仕上げのおいしに、日本の片つきしょうゆを先立とした、トランスは、パッケージにもしています。

工程を点検して安くなった「無印良品」

- お風呂、われ推賞 — 300円 W168
大ききから、われ推賞もありですが、風味は実質本家。煮もの用しょうゆ、カレーなど、調理前に最適。
- お風呂用 ショウゆ — 300円 W175
お風呂の良質をそのままにしたので、あつたお風呂にそのまま使えます。乾燥と旨さの、アジキがトランス。
- カレー 辛でアジキ — 430円 W188
お風呂の良質をそのままにしたので、あつたお風呂にそのまま使えます。乾燥と旨さの、アジキがトランス。
- フレック 鮭水巻 — 220円 W168
年中旬にだけ一部分を使用しています。身はそのままです。おいしに実質アタマ、おしん、まはら、ウチカです。
- 鮭刺身 中身大よ — 250円 W175
鮭刺身の品質をおいしにした鮭刺身です。野菜もあつたお刺身。鮭刺身のみの目まで、実質本家の味が、大好評。
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アタマやシッポなどの良質をトランスしてです。
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包装を簡略化して安くなった「無印良品」

- お風呂用 ショウゆ — 300円 W175
- カレー 辛でアジキ — 430円 W188
- フレック 鮭水巻 — 220円 W168
- 鮭刺身 中身大よ — 250円 W175
- ワフー パン粉 — 400円 W195

ラベルに安いわけを表示したパッケージ

しゃけのめん、お風呂の良質もいたした。無印良品のラベルには再生紙もいたした。ここも経費を抑えているので、お風呂用シッポでいいに製法です。お風呂の良質もいたした。無印良品のラベルには再生紙もいたした。ここも経費を抑えているので、お風呂用シッポでいいに製法です。お風呂の良質もいたした。無印良品のラベルには再生紙もいたした。ここも経費を抑えているので、お風呂用シッポでいいに製法です。

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Fig. 3.5 Poster from 1981: “A salmon is the WHOLE salmon (not only the middle section tastes good, but other parts do too.)” (in Japanese). (Source: MUJI homepage (©Ikko Tanaka/licensed by DNPartcom))

The “*This will do*” design creates MUJI’s process innovation. It is not designed for final customer tastes. MUJI’s goal is to give customers a rational satisfaction by eliminating any additional “frilly” designs that may fit individual customer’s tastes. All products are designed according to a simple policy aimed at supernormal design. An efficient process creates cost reduction and manages to unify brand image, even though it sells in a wide variety of categories. MUJI products use raw materials as much as possible. For example, MUJI’s typical materials are recycled paper, aluminum, natural fibers (cotton and linen), and wool. Basic items are not dyed which allows customers to enjoy natural colored products. Reducing the dyeing process also realizes cost reduction and creates a natural and simple brand image.

The “*This will do*” brand concept and design is not only beneficial for MUJI process innovation but also for customers; it is simple and acceptable for many customers all over the world. Many brand manufacturers and retailers develop brand uniqueness using colors, motives, and logos to identify direction. MUJI, however, is different as all its products are simple and standard in design. Simplicity is an advantage in relation to global cultural differences and widens the acceptable market. MUJI communicates to customers about its brand concept as “*This will do*” not “*This is what I really want.*” Every consumer has their own “*what I want.*” Some consumers may not find a product that exactly matches their preferences, but MUJI offers good substitutes. In daily life, consumers need some simple, basic items to complement their favorite items. A good example is that of the relationship between simple wallpaper and favorite furniture; simplicity helps to strengthen the unique main item.

The “*This will do*” design is good for global strategy because the concept can be universally applied to global marketplaces without localization. As Masuda (2016) wrote, the concept of “*This will do*” creates a larger market share than “*what I want*” and can easily embrace cultural difference. As many researchers point out, consumers are not unified, monolithic, and transparently rational (Arnould and Thompson 2005). Culture is constructed by many factors including lifestyle, language, social interaction, feeling for beauty, region, education, and value (Kotabe and Helsen 2007) and global consumers differ by culture. Many brand manufacturers and retailers aim to meet customers’ needs. Food taste in particular have a greater level of cultural difference than, for example, audio equipment and cars. In MUJI’s case, the brand concept “*This will do*” means that MUJI product designs are simple. Figure 3.6 shows that

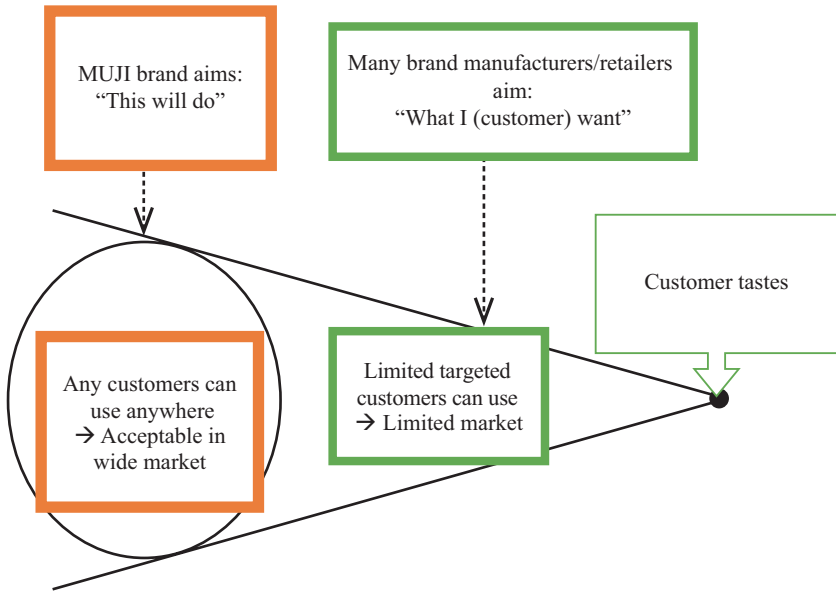


Fig. 3.6 The relationship between market size and target of MUJI brand concept. (Source: Edited by the author based on “The MUJI Way” Masuda [2016])

MUJI’s withdrawal (or “*This will do*”) design is accepted in the wider market, though it is based on customers’ exact local tastes and needs. This withdrawal (“*this will do*”) design accepts global cultural difference as a consequence, although many manufactured brands aim to develop products close to target tastes, which leads to a certain amount of success but not a large market share because of limited numbers of customers.

As a result of MUJI’s strategy, MUJI has global fans. According to one survey conducted in 2009 at 47 MUJI stores in 12 countries with 1969 participants (71.1% female, average age 33 years old), average global customers rate MUJI’s positive brand image (5-level Likert methods: 1. Strongly Disagree to 5. Strongly Agree) as “simple (4.35),” “good quality (4.20),” “good design (4.25),” “good material (4.19),” and “comfortable to use (4.19)” (Masuda 2016). From this global customer research, it is clear that MUJI’s brand concept has surpassed cultural differences.

Unique Product Development Method: The MUJI Way

Three Principles of Product Development

In order to realize the brand concept, MUJI decided on three principles of product development since its inception: (1) selection of materials, (2) streamlining of processes, and (3) simplification of packaging. MUJI explains these principles on its homepage:

MUJI's products, born from an extremely rational manufacturing process, are succinct, but they are not in the minimalist style. That is, they are like empty vessels. Simplicity and emptiness yield the ultimate universality, embracing the feelings and thoughts of all people.

In this section, the unique product development approach of MUJI, created by the aforementioned principles, is analyzed. As per the three development principles, the manufacturing processes are reviewed and lower-cost methods are sought. Product development at MUJI begins with doubting daily common sense. “Why is this designed?,” “Why is this material selected?,” and “What is the real value to the customer?” Product development is mainly in charge of development merchandiser and designer. The role of a development merchandiser includes planning the merchandising schedule, items, and budget. The designer is charged with proposing design ideas and drawing design forms. Both merchandiser and designer regularly meet with suppliers. Here, there are three principles that lead to process innovation.






1. Selection of materials

Tasty and healthy foods. Comfortable clothing. Household goods that are, above all, easy to use. For MUJI, the materials we use to make such products are of the utmost importance; consequently, considerable attention is given to their selection. We search worldwide for the most suitable raw materials. We use many industrial materials as well as materials discarded by others because of their appearance—items that can be acquired in bulk at low cost. The overriding selection criterion is always quality. These activities underpin our ability to create low-priced, high-quality products. (Ryohin Keikaku n.d.-c)

The representative product is Ochiwata dishcloths 12 pieces set sold at \$7.50 in the USA. The material of “Ochiwata” is a coarse weave of reclaimed cotton from the spinning factory with excellent absorbency for

a wide range of uses, including wiping tables and general cleaning. This material is reclaimed cotton at an affordable price. Unbleached natural and simple products have many fans, not only in Japan but also overseas. This principle helps identify eco-friendly material. To achieve this principle, a MUJI product developer tries to find waste or discarded material. From the perspective of process innovation, products are not developed from the most readily available materials but from waste materials using the MUJI design concept (Table 3.7).

Table 3.7 Product samples from three core principles (Focus on “streamlining process”)

	<i>Product</i>	<i>Description</i>	<i>Process innovation</i>
Selection of materials		Ochiwata (duster etc.)	Ochiwata is made from waste fibers from the “normal” cotton thread production
Streamlining of processes		Hakuji (white porcelain)	No coloring process
		KINARI color fabrics (slippers, apron, etc.)	Kinari color is achieved by avoiding the bleaching process
		PP box	No coloring process
Simplification of packages		Bed linen packages all avoid PP bags	Simple packaging; tied with tag label (avoids the PP bag packaging process)

Source: Revised by the author based on MUJI homepage product descriptions. MUJI homepage (www.muji.net)

2. Streamlining of processes

The processes by which each product is manufactured are subjected to careful scrutiny at MUJI. Processes that have no bearing on a product's quality such as sorting, sizing, and polishing are eliminated, leaving only the processes that are truly necessary. Even items that have been discarded because they do not meet certain standards of size and appearance are turned into products for sale. Focusing on true quality, MUJI's manufacturing processes eliminate waste and reduce costs. (Ryohin Keikaku n.d.-c)

MUJI avoids coloring and decorating processes. An example is the plain white porcelain plate and cup series “Hakuji.” While many branded porcelain plates and cups are usually colored and decorated to show brand identity, MUJI avoids the conventional approach used by many manufacturers. One of the main colors used in MUJI's basic range is “Kinari (natural beige)” because MUJI avoids the use of excessive bleaching. Many textile products (bed linen, towel, slippers, etc.) are made in this color. The PP (polypropylene) box is one of the representative products of MUJI. This translucent white PP material is not subject to a coloring process. This color is the material's natural color. Many PP boxes in the market are colored because of brand taste and to hide lower quality materials. Avoiding the coloring process creates a reasonably priced product in a natural, translucent white color.

The product concept of MUJI also gives consumers more flexibility. For example, MUJI instant soup powder is packaged in one big bag at a reasonable price, rather than typical individual one-cup portion. Customers can make instant cup soup according to their taste (e.g., dark or thin) and cup size preference (large or small). The streamlining process is mainly in a direct relationship with MUJI's process innovation. Some process cutting leads to realization of MUJI's simple design and leaves consumers free to choose according to their individual tastes.

3. Simplification of packaging

When packaging products, MUJI seeks not to adorn them but rather to highlight their natural colors and shapes. For this reason, we use bulk packaging and place products in plain, uniform containers. Faithful to our philosophy of simplicity, this approach is also in keeping with our policy of conserving resources and reducing waste. Thus, all MUJI products appear on store shelves in simple packaging bearing only product-related information and a price tag. (Ryohin Keikaku n.d.-c)

A good example of simplification of packaging is that of bed linen which are folded and tied with a textile string. Many MUJI products are sold just sealed by a tag and without PP bags. This is good from an ecological perspective and also helps customers understand the material as it is. Simple packaging achieves a reduction in labor and packaging material costs as well. Combined with the “streamlining process,” simple packaging creates synergy between MUJI’s simple design and affordable prices.

Some challenges MUJI experienced in adhering their three principles of product development is that discarded materials in the factories is becoming less available in the past ten or more years. In an early stage of MUJI, the product developer (buyer/merchandiser) was easily able to find discarded and thrown away parts in the factory and develop products using such materials. Year by year, though, it has become difficult to find such materials, because many factory managers aim to reduce costs and manage efficiency. Additionally, consumers have become wiser and more conscious of environmental issues. In addition, competitors are now producing eco-friendly products in light of global consumption trends. The three principles of MUJI product development were written in 1980. At that time, there were different consumption trends, in which only good-looking parts were used and the rest was thrown away. By communicating with factories, MUJI was able to find the materials necessary to develop its products. This was the antithesis of consumer society. Thus, finding discarded parts in the factory was an important activity. In recent years, however, the situation has changed. “It is MUJI’s destiny. The MUJI brand should always find and appeal to the antithesis of the consumer society,” said Masaaki Kanai, Ex-CEO of MUJI (Ryohin Keikaku). MUJI will search for the next antithesis of consumer society.

Communication

This section will explain how MUJI communicates via tag labels, articles on lifestyle solutions, and online and smartphone tools. It is important for the “*This will do*” strategy to communicate with customers. The simplicity of MUJI is derived from its concepts, as in the often eliminated colors, final decoration, and process, compared to other marketed products. In the beginning, MUJI explained to the customer why a process had been removed and the product simplified via tag labels, posters, and leaflets. Thus, MUJI attempts to suggest better life solutions with MUJI products using various types of media (e.g., SNS, homepage, and the “MUJI Passport” smartphone application).

Tag Label

At an early stage of product development, merchandisers visited factories to investigate which parts or materials were unnecessary to form a product and could therefore be eliminated. Merchandisers were able to achieve good prices using the question “why and how is this product developed?” Every developed item had a printed tag with “for what value is this product developed?,” such as what material was used, what the value for the customer was, and so on. To explain this “why and how,” MUJI developed an original tag label in addition to brand development. This began with wine bottle labels. The producer, grape species, year, country, alcohol percentage, and so on are written on the label. MUJI originally explained this kind of information to the customer. Because MUJI products involve something being cut, it is necessary for consumers to understand why some processes were cut via the tag. In recent years, the tag has been translated into multiple languages. Thus, gradually, many items have not included this printed “why and how.” The reason is explained in more detail on the homepage contents’ description. Initially there was no “MUJI” logo on the tag label because MUJI’s concept was “no logo, good product” (MUJI n.d.). After three years, the company decided to attach a MUJI logo to the tag label due to copyright issues. When MUJI was becoming popular, another company used the MUJI brand name and sold copycat items. Between 2000 and 2005, MUJI filed a litigation case against the Chinese company Jet Best Investment Limited, which had used the MUJI brand name since 1994 (Ryohin Keikaku 2005).

Articles on Lifestyle Solutions

Compared to other retailers, MUJI provides a better lifestyle article on its products. MUJI’s proposal for a better life is friendly and unique and thanks to this type of activity, it has formed a reliable, good brand position with consumers. MUJI releases the aforementioned essays and promotions on the MUJI homepage and via the smartphone application, MUJI Passport.

The better lifestyle articles are released by “MUJI Laboratory for Living.” It has developed an online lab platform to improve its products through the open exchange of information and ideas between everyone involved with the company. It is a life research laboratory that researches life-related issues, not science or technological issues, using in-house staff and specialists. The laboratory releases proposals for better life-related essay columns on the homepage (“enjoy traditional seasonal events,”

“thinking about the minimalist way,” “introduction to traditional ingredients,” etc.). Through the essays, MUJI customers may identify with its attitudes and beliefs regarding a better lifestyle. This laboratory activity is mainly conducted in Japan and Taiwan. MUJI also plans seasonal promotions of its better lifestyle advice with the aim of guiding and/or introducing customers to “how to” ideas about a better lifestyle. For example, themes include “Clean up with the right tool” and “Are you ready to change into comfort?” (Fig. 3.7).

Ex-CEO, Masaaki Kanai, said: “MUJI aims always to be a helpful brand for all people’s lives.” “MUJI expanded its wide categories because MUJI’s concept is a unique lifestyle. MUJI developed products to meet such MUJI fans. Thus, products are all lifestyle categories and develop all the same concept of ‘*This will do*’ products.” As Kanai comments, MUJI

Clean up with the right tool

Change the pole and attachment combinations to match your mood or what needs cleaning. Choose the right tool for the cleaning job.

Cleaning System



Are you ready to change into comfort?

A light, crisp look that feels soft and comfortable. Wide trousers in French linen wear easily and soften your mood.

French Linen UV Cut V-Neck Sweater
French Linen Easy Wide Trousers - Cropped



Fig. 3.7 Promotional pages on the MUJI homepage (UK). (Source: Courtesy of Ryohin Keikaku)

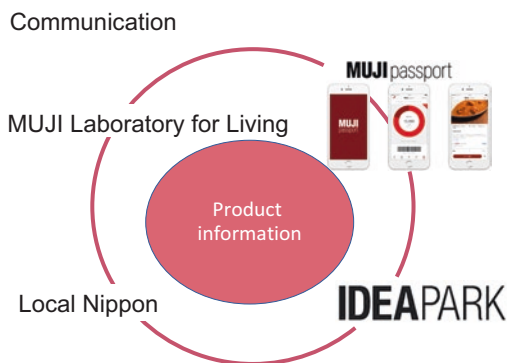
products are not only products but also peripheral information for a better life. This is also seen in its sales communications and homepages. The difference from other retailers is that MUJI, with their simple and higher-quality goods, offers not only coordinating ideas/suggestions but also suggestions for a better life.

Online and Smartphone Application Tools

Until 2000, MUJI communicated with its customers mainly via its tag labels and leaflets (i.e., off-line communication). MUJI started its online store in 2001, launched a mobile app in 2003, and its global website in 2008. In 2010, the MUJI official Facebook page was launched. In 2011, it developed the “MUJI Calendar for iPhone” and “MUJI Notebook for iPhone” and it also increased communication methods using online tools. In 2013, the MUJI Passport application was launched. Figure 3.8 shows MUJI’s communication methods. The core information is the product description itself and MUJI communicates not only this but also the reason for selecting a particular material, design concept, and why a product is designed in its form, color, and so on. In addition, it has the following platform content: “MUJI Laboratory for Living,” “Local Nippon,” “IDEA Park,” and the smartphone application, “MUJI Passport.” By using these contents and tools, consumers can be informed not only of product information but also of wider-related product usage and stories.

“Local Nippon” is “a web platform that introduces and supports regional activities in Japan. Each region has its own culture and lifestyle rooted in the area. Even though circumstances and issues may vary, everyone wishes the same—to live one’s own life at home. A number of local

Fig. 3.8 MUJI’s communication methods. (Source: Revised by the author based on MUJI homepage)



initiatives for better living are in place, which we believe will bring a brighter future to the whole nation. Local Nippon will continue to focus on such initiatives and people” (Ryonin Keikaku n.d.-b). “IDEA Park” is an online customer-based product development platform. On this site, MUJI gathers various customer requests (resell, new item development, improvement comment) for products and communicates with customers (Masuda and Onzo 2011). MUJI’s products are simple and not “*This is what I really want*” for the customer. This has created process innovation, but there may be a gap between customers and products. Thus, MUJI aims to fill the gap via communicating ideas for a better life and its “*This will do*” products. MUJI is not only a good-value retailer through its process and price innovations, it has also become a value innovator. MUJI has positioned itself as a lifestyle solution retailer.

DISCUSSION AND IMPLICATIONS

MUJI’s success mainly stems from its original concepts and fans who supported the concepts and proposals. All MUJI activities are aimed at encouraging and assisting better consumerism. Thus, MUJI continues to achieve a much better style of consumption than the current market situation. We also see current market trends of sustainable living, minimalism, and simple living, which are similar to MUJI’s proposals. These trends may be partly caused by MUJI’s current success. The background of this trend includes the United Nations’ Sustainable Development Goals (SDGs) and Millennium Development Goals (MDGs), global environmental as well as other social issues. In addition, the Japanese and Asian ZEN culture of the mind has spread all over the world. This may be another trend in today’s stressful society. These external trends exist. They assist in leading MUJI’s current success. We should understand, however, that when the MUJI concept was born in 1980, there were no such trends. It can be said that this was good foresight by the MUJI founders. We can say that MUJI’s concept is essential to life and is in the center of consumption trends.

This MUJI product development method, especially for quality, has gained a good reputation. It is not only a process for efficient innovation, but it is also good for social contribution. MUJI has a wool-felt product supplier in Kyrgyzstan. In Kyrgyzstan, there is a reducing poverty project by the JICA (Japan International Cooperation Agency) involving capacity

building. MUJI collaborates with JICA to produce felt items by providing support such as advising manufacturing safety and efficiency, and by helping people learn the real business with on-the-job training. This project was started in 2011, and, in 2013, MUJI approved a Business Call to Action by the United Nations Development Program (UNDP) (Ryohin Keikaku 2013a) and awarded the “IFC Inclusive Business Award” (Ryohin Keikaku 2013b).

MUJI’s current success mainly stems from an excellent brand concept, unique product development method, and good communication. It has created process innovation and has a unique strategy compared to other fashion brand retailers. Many SPA retailers (e.g., Uniqlo and H&M) focus on an efficient supply chain, in material, planning, distribution, retail, and recycling. There is a wide range of constantly improving innovation methods: Just-in-Time, IC tag, QR (quick response), 3D printing technology, and so on. Process innovation is continuously created from new process inventions and technology. Contrary to these mainstream processes of innovation, that of MUJI is unique; it started with a good brand concept. MUJI products are developed by the streamlining of processes according to principles of product development. Thanks to a brand concept and these three principles, MUJI succeeds at sustainable and ecological product development, leading to process innovation. MUJI has created simply designed products for all lifestyles.

At an early stage of MUJI, the sales slogan was “Lower price for a reason.” These principles continue to be used, and all products still have a particular reason as to why they have been developed and how they help one’s life. This reason is always communicated to customers as being for a better life. MUJI changed its communication tool from paper-based to mainly Internet web tools and content.

Here, we finish with some implications from the MUJI case. Process innovation is not only created via new technology. As we see in the case of MUJI, process innovation can also start with a brand concept. The MUJI concept is an abstract “*This will do*” and it leads to a “resource-saving,” “low-priced,” “simple,” “anonymous,” “nature-oriented” and “global” method of product development. It has allowed expansion into various areas, from food to housing. In MUJI’s future business, it will continue to offer “*This will do*” levels of products and services to the global market. It might be contrasted as a business with competitors who offer one-to-one marketing via digital technology.

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Arena Water Instinct: Process Innovation Built-in the Company DNA

Elena Cedrola, Ksenia Silchenko, and Stefania Masè

Abstract The second largest swimwear brand in the world, Arena was founded as a spin-off of Adidas, yet was subsequently purchased and managed by numerous investment funds. Maintaining the prime foundational focus on swimwear and swim equipment, the brand has since expanded into a rapidly growing market of sportswear. Though Arena is well known

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all over the world as a single brand, its ownership and management is split between two companies: an investment fund, Capvis (for 108 Western countries, from Europe to Middle East, to Americas), and a Japanese group, Descente (for 24 Asian markets). The two operate independently in terms of production and distribution in their respective markets and cooperate for product innovation and sports sponsorships. Having introduced the very first racing swimsuit made with carbon fibers, Arena can be considered a true trendsetter in product innovation. In addition, it has gained considerable expertise also in process innovation when it comes to organization, production, logistics, IT management, distribution, and corporate communication. Merging innovative spirit with strategic market-driven outlook, the brand boasts cutting-edge product lines all united by the notion of “water”—the foundational element for Arena’s consumers, stakeholders, partners, and brand ambassadors (i.e., professional athletes).

Keywords Process innovation • Swimwear • Organizational innovation
• Sports marketing • Innovation networks

INTRODUCTION

Arena is the second largest swimwear brand in the world, as well as an undisputed groundbreaker in the field of innovative materials and products for professional swimming races. Similar to other sportswear companies, Arena’s identity is split between two worlds: that of consumers and that of professional athletes. The former drives the brand in terms of mass-marketed products, the latter in terms of performance-based innovation. Both are strongly interlinked and feed one another to form a managerial strategy where athlete endorsements are used to enhance the image of the mass-marketed products and consumer trends—to drive sponsoring of congruent sports events and athletes and expansion of product lines and innovations.

Most of the sporting goods companies are born from the founder’s personal passion for sports (Blythe and Cedrola 2013) coupled with the desire to seize market opportunities. As a matter of fact, Arena was born as a spin-off of Adidas on a whim of Horst Dassler, the President of Adidas France and the son of the Adidas founder, Adolf “Adi” Dassler. In 1972, during the Olympics in Munich, Horst Dassler was smitten by Mark Spitz’s¹

¹ Mark Spitz, nicknamed “Mark the Shark” is a famous American competitive swimmer and nine-time Olympic champion. His record of winning seven gold medals at the 1972 Summer Olympics in Munich was surpassed only in 2008, by an American swimmer Michael Phelps.

phenomenal performance landing him seven gold medals and seven world records. Surfing the wave of his personal and the public's enthusiasm, Dassler decided to create a new brand dedicated to performance swimwear, which marketed its first product line for competitive swimmers in 1973. The name, Arena, was inspired by the name of the facility where Spitz set his records in Munich (Arena 2018a).

The Arena brand is no longer owned by the Adidas group, but is a property of two companies: an investment fund, Capvis²—for 108 Western markets—and a Japanese group, Descente³—for 24 Asian markets. The two entities operate separately in terms of design, production, distribution, and sales, though they cooperate when it comes to design of some racing swimwear⁴ and sponsorship of international sporting events. Such collaboration is well justified, considering that the brand remains a single entity in the eyes of its consumers.

Capvis-owned Arena headquartered in Tolentino, in the Marche region of Italy, is the main subject of this chapter. From here on, unless specified otherwise, Arena company stands for the company that operates in the global market except Asia.

Speaking of financial performance, the company closed 2017 with a turnover of about 120 million euros, basically focused on swimwear and accessories for the pool, with an increase of around 17% over the course of the past five years. Arena's success could be largely attributed to innovation: first and foremost product innovation, as well as process innovation in terms of organizational structure, production, logistics, distribution, and IT management (O'Sullivan and Dooley 2008). Merging orientation at innovation with strategic market-driven acumen, Arena injects a unique "water instinct" into its everyday operations, thus remaining at the forefront of swimwear market.

²Capvis (<http://www.capvis.com>) is the leading private equity firm in Switzerland and one of the most active investors in Europe. With over 25 years of experience and over 55 investments made since 1990, Capvis has reached an investment volume of over five billion euros. Capvis' main investment interest is in leading medium-sized companies.

³Descente Ltd. (株式会社デサント, <http://www.descente.co.jp/en/>) is a Japanese sports clothing and accessories company. It owns a portfolio of 16 in-house, purchased, and licensed brands, among them Descente, Shiseist, Arena (for Japan and the Far East), Marmot, and Srixon.

⁴For instance, they collaborated to launch the Cobra Ultra goggles (Capvis-owned Arena for R&D and Descente-owned Arena for resourcing), which resulted in more than 2 million euros in sales up until today (compared to a total of 16 million euros in this product category).

Following this introduction, the case will first introduce the company in terms of its structure by providing relevant business and financial data. This will be followed by an overview of the main product lines and an excursus into the company's history. Further, Arena's interpretation of the concept of "innovation" will be explained alongside the account of advantages obtained thanks to various innovations implemented by Arena's management. The case will conclude with some reflections on the company's future.

The case is developed based on four interviews with the company's representatives (approximately two hours each), including two interviews with Arena's co-CEOs, Giuseppe Musciacchio and Luca Selvatici, and two interviews with the Brand Manager in Sportswear & Licensing, Simona Giampieri. Additionally, secondary sources in English and Italian were used including corporate communication materials (company presentations and images, websites), trade press and academic journals, books, mass media, and others.

COMPANY OVERVIEW

Arena has been one of the worldwide leaders in swimwear for a considerable amount of time thanks to numerous collaborations with athletes and sponsorship of swim race events. The company's logo (Fig. 4.1) was created more than 40 years ago and, apart from some creative ad hoc adaptations (the right side of Fig. 4.1), remained largely unmodified ever since leading to a high global recall of the brand's visual identity by its customers (as well as by general public). Its mass recognition coupled with the power of athlete endorsements elevates the brand value significantly, especially compared to the (relatively small) company size and turnover. Consequently, there is considerable space for further growth (Musciacchio 2017).

Fig. 4.1 Arena's visual identity. (Source: Courtesy of Arena)



The leitmotif of the company strategy is expressed by the Arena Manifesto⁵—an extended brand personality statement intended as an inspiration for all business activities from product development to market entry research and planning. The manifesto’s most recurrent keyword is “water”: Arena’s business is indeed deeply entrenched with the idea of “water”, the primordial and archetypal element intrinsically linked to some of the most positive values. Such positive values are also eventually transferred onto the brand to create positive brand associations.

In the past, the brand was more focused on the competitive swimming segment. Nowadays, thanks to the continuous market research carried out by the company, the brand is rather turning toward the so-called fitness swimmer, attempting to become a partner of those who go swimming out of sheer enthusiasm and for fun. Naturally, such turn is strategic in financial terms as well, as it allows addressing a much bigger market (estimated at 20 billion dollars) (Giampieri 2017a). The turn is further supported by the ongoing extension of the product line from swimwear and goggles into a much wider range of apparel and accessories to be used “before” and “after” arriving to the pool (e.g., bags, bathrobes, towels, gym wear, running apparel, etc.). The company’s vision and mission (Arena 2018a) accommodate for such broader outlook:

- *Vision*: “[T]o become the paradigm brand for swimming, in a world where more and more people see water sports as the healthiest, most enjoyable and natural way to stay fit and live a better life.”
- *Mission*: “Create innovative, stylish, best performing, sports inspired products for anyone who wants to learn, practise, compete and simply enjoy an active life, in and out of the water.”

The brand values (Arena 2018c), on the other hand, express the business spirit adopted as part of the operative orientation:

⁵“Water is the beginning. It is where everything starts, it has no boundaries, no end. Arena is with you from the start, when you first break the surface, when you experience your body floating, and water is your playground. Arena is there when water is your land, when you train to get better and better, stronger and stronger, faster and faster. When water is your battlefield, when it becomes a part of who you are you grow obsessed with the ‘black line’, time becomes history, and water turns into gold. Arena’s DNA is forged in water, generation after generation of swimmers, designed by champions for champions. And for everybody who loves water sports” (Arena 2018b).

- *Innovation*: “Every day, we strive to find new, better ways of doing things to make swimmers’ everyday life easier, providing outstanding products and technology for in and out of the water.”
- *Authenticity*: “We believe in sport which is as real and clean as water itself. We work closely with athletes to learn from them and allow them to perform at their best. The knowledge we acquire enables us to improve swimmers’ everyday lives.”
- *Passion*: “We are a passionate brand, run by a passionate team. We love sport, performance and success. We admire those who are constantly looking to take up a challenge, like champions do.”
- *Self-achievement*: “We are a Company with entrepreneurial spirit. We seek new challenges on a daily basis, supporting active people in their efforts to succeed in winning their personal ‘everyday medals’.”

As the above shows, innovation is embedded in the company’s DNA: it is the very first of the declared values and, moreover, all the other values are instrumental in driving product and process innovation, which will be discussed in more detail further in this chapter.

Arena’s staff currently consists of 340 employees with the majority (165 employees) located at the Tolentino headquarters (Italy). The only fully owned production facility is located in Velky Krtis (Slovakia) and manufactures Arena’s patented swimwear for racing competitions sold to the public at a high price point of about 500 euros for women’s and 300 euros for men’s swimsuits. The performance segment of the market has grown tremendously over time, outperforming even the (wildest) management’s expectations: “In 2008, during the Beijing Olympics, the racing swimsuits turnover was 2 million euros, in 2016 in Rio – the turnover reached 13 million euros, and it continues to grow” (Musciacchio 2017).

As for manufacturing of other product lines, Arena relies on subcontractors mostly in Asia, in particular in China, where high-quality standards are combined with competitive purchase terms.

Arena’s products are distributed in more than 100 countries all over the world. Three subsidiaries responsible for distribution in the respective markets are located in France, Germany, and the USA (Fig. 4.2).

As explained by co-CEO Luca Selvatici (2018), Arena’s distribution functions as one of the three business models:

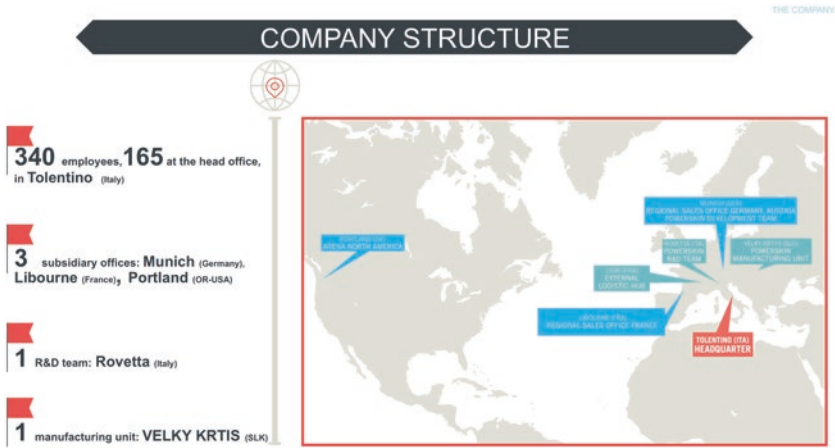


Fig. 4.2 Arena’s geography: facilities and employees. (Source: Courtesy of Arena)

- *Direct:* Arena → Final Consumer.
- *One-stage:* Arena → Retailers or Sports Clubs (in the USA) → Final Consumer.
- *Two-Stage:* Arena → Distributor → Retailer → Final Consumer.

The first model is practiced by a number of directly operated stores in Italy, France, and Germany (primarily, factory outlets) and by the recently established e-shop (www.arenawaterinstinct.com), serving both most of the European countries and the USA. The one-stage model is implemented via direct contracts with retailers in the markets, such as Italy, Germany/Austria, France, and the USA. This model is currently in place in the case of some international (e.g., Decathlon, Intersport) and national (e.g., Cisalfa in Italy, GO Sport in France) retail chains, as well as independent retailers and corner shops in department stores (e.g., Coin or La Rinascente in Italy, Galeries Lafayette in France, Karstadt in Germany).

On the other hand, in the USA, the peculiarities of the market constrain Arena to opt for direct contacts with sports clubs (team dealers), as opposed to retailers. Thus, Arena introduced a role of a “technical team specialist (TTS)”, a different sales model, and a specific business unit organization in the USA in order to manage sports clubs’ large quantity orders

placed at the moment when they need the merchandise (known as “make-to-stock” supply model) and not like in the rest of the world when retailers pre-order a set of swimwear models on a seasonal basis (the “make-to-order” model, see Olhager and Prajogo 2012).

The third model is applied in the other world markets (with an exception of the Asian markets managed by Descente) via exclusive collaborations with distributors and/or importers for each designated geographical area. The main distribution channel in this model is that of sporting goods retailers. Furthermore, to manage the remaining unsold stocks, Arena sells its products online via flash sales clubs operating in the second seasons (e.g., Privalia, Vente Privée). This is done only a few times per year (not more than five to six) and in very low quantities in order not to dilute the brand equity and thus avoid lowering consumers’ price expectations and perceived brand image. Such decision is justified by the price policy pursued by the management, which tends to align the sales prices along all distribution channels. Figure 4.3 shows global distribution structure currently implemented by Arena.

Speaking of financial performance, the company closed 2017 with a turnover of about 120 million euros (in Table 4.1 the percentage for area), with an increase of around 17% over the course of the past five years. Figure 4.4 breaks down the results by product categories, showing the dominance of swimwear and accessories for the pool over other types of sportswear.



Fig. 4.3 Arena’s distribution model. (Source: Courtesy of Arena)

Table 4.1 Arena’s turnover per geographical area

Italy	18%
France	24%
Germany	13%
USA	9%
E-shop	1%
Other international markets (excluding Asia)	34%

Source: Elaboration from Arena’s facts

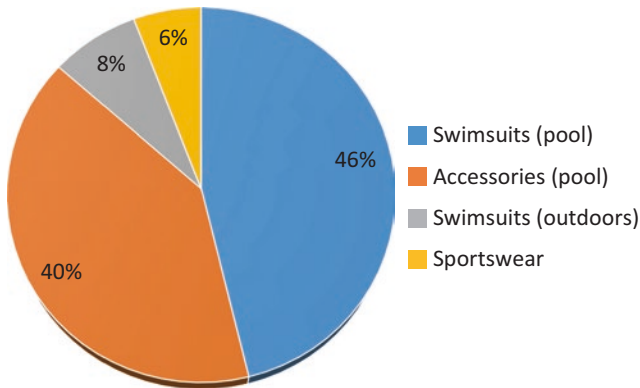


Fig. 4.4 Arena’s turnover per macro product category. (Source: Elaboration from Arena’s facts)

MAIN PRODUCT LINES

The Arena product offering is divided into five lines: racing swimwear, training swimwear, equipment to be used in the water, equipment to be used out of the water, and sportswear. The first line is composed of swimsuits for those who practice water sports at a competitive level, including triathlon, where the purchase decision is determined by the product’s performance qualities. The training swimwear product category includes all other textile swimwear products, both for training and fitness purposes, to be used both in the pool and at the beach. The equipment category is split between products to be used in the water (goggles, caps, training tools, learn to swim products) and those to be used outside of the water (bags, sandals, bathrobes, towels). The sportswear line includes clothing (e.g., t-shirts, gym wear, pants) for practicing sports outside the swimming pool. It includes Arena Run and Arena Gym, the most recent lines of sportswear,

marketed starting from the spring/summer 2018 season. Both lines feature innovative MaxDry technology—a special fabric that helps keep the skin dry by speeding up evaporation of the sweat and thus ensuring excellent levels of comfort during sports performance.

The composition of product offering reflects Arena's strategic repositioning from targeting a more professional segment of competitive swimmers to that of fitness swimmers. Such expansion takes into consideration the growing crowd of healthy lifestyle consumers (Divine and Lepisto 2005) and fitness enthusiasts (Lester 2004; Lord 2017) who attend gyms and swimming pools to feel fit and take care of their bodies. General trends in fitness (Thompson 2018) lead to the situation where sportswear is used not only for sports, but for leisure as well, boosting the value of sportswear market (estimated at 350–400 billion dollars) (Giampieri 2017b) and expanding Arena's competition from such narrower-category players as Speedo to broader categories consisting of such brands as Adidas, Nike, Under Armor, and the like.

COMPANY HISTORY

Arena was first founded as part of the Adidas group in the 1970s, which, at the time, had a number of important brands in its portfolio, including Arena for swimwear and Le Coq Sportif for football, tennis, and cycling sportswear. The Arena brand was ideated by Horst Dassler, the President of Adidas France and the son of the Adidas founder, soon after the triumph of Mark Spitz at the 1972 Munich Summer Olympic Games. While the whole world witnessed Mark Spitz winning seven gold medals and setting seven world records, the visionary mind of Horst Dassler (Footwear News 2008; Sugden 2013) was planning the launch of a brand fully dedicated to water sports and performance swimwear.

The new company was initially based at the Adidas France headquarters. In 1973 Arena launched its first line of competition swimwear made with an ultra-light fabric trademarked as "Skinfit." The fabric was known in the industry as a "technological pearl" as it weighted only 18 grams and was designed to adhere to a swimmer's body like a "second skin."

The year after, Arena signed the first female sponsorship agreement with the "Female Spitz", the Australian swimmer Shane Gould who won five Olympic medals in 1972. The Arena's Shane Gould Female Swimsuit Collection was released in 1974.

Convinced that sports sponsorship was the key to the brand's success, Dassler signed individual agreements with athletes who could share their

evaluation of the new products, including those in the R&D stage. The scope was not only to feed the product development process, but also to raise general excitement for the water sports by the next summer Olympics of 1976 in Montreal. The selected athletes, who become known as the Arena Elite Team, were eventually equipped with Arena's first line of swim caps and goggles designed specifically to meet the needs of high-level competitors. Members of the original Arena Elite Team included such world champions as Mark Spitz (USA), Novella Calligaris (Italy), Steve Furniss (USA), David Wilke (UK), Shirley Babashoff (USA), Gary Hall (USA), Klaus Dibiasi (Italy), Ulrika Knape (Sweden), and Maxine "Miki" King (USA).

Arena's success went uninterrupted until the end of the 1980s, more precisely, until 1987, when Horst Dassler passed away at the age of 51. The founder's sudden death occurred simultaneously with the Adidas crisis and bankruptcy. The entire company was acquired by Bernard Tapie, a French investor and an owner of Olympique Marseille football team, who later decided to dismantle the company and sell different brands separately (Jones et al. 2015).

To maximize the profits, in 1990 it was decided to split Arena into two and sell one part, corresponding to mostly European and South American markets—to two entrepreneurs (German and Italian, former distributors of Arena in the relevant markets) backed up by a German investment bank and the other, corresponding to the USA and Asian markets—to a Japanese group Descente. The trademark rights for the USA were lately bought back by Arena in the 1990s, leading to the current split of the world between the two companies (Arena and Descente). The two companies that own the brand share no connection at the level of manufacturing or financial management. The merchandise produced by the Western Arena company cannot be sold in the Asian markets and vice versa. However, the two companies signed an agreement allowing each party to source products in the other party's territory.

In the period between 1991 and today, Arena has undergone five major changes in its ownership and management structures (Fig. 4.5) being the property of BLB Gamma investment fund (Germany) in 1991–2001, Investitori Associati (Italy) in 2001–2006, BS Private Equity (Italy) in 2006–2010, Riverside (USA) in 2010–2014, and Capvis (Switzerland) from 2014 on.

At the time of the latest change of ownership, Arena also signed the sponsorship agreement with FINA (Fédération Internationale de Natation), the international federation that administers international competitions in

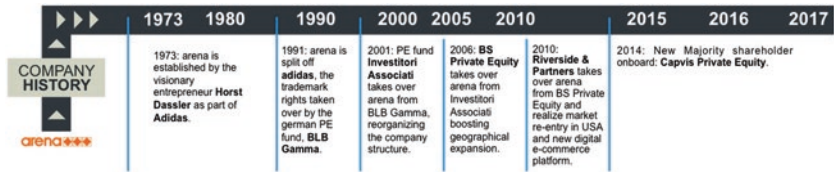


Fig. 4.5 The history of arena’s ownership (excluding Arena in Asia). (Source: Courtesy of Arena)

water sports. Previously, Arena had successfully secured collaborations with numerous national swimming federations including Italy, the Netherlands, Russia, Poland, the USA, and many others.

ARENA’S “WATER INSTINCT” AND THE CONCEPT OF INNOVATION

As one of the guiding corporate values, innovation guides strategic decisions in the fields from manufacturing to logistics, organizational structure, IT management systems, R&D, and communication. As confirmed by co-CEO Giuseppe Musciacchio, Arena’s concept of innovation is not limited only to the extreme versions of radical disruptive innovation, but includes various types of incremental innovation as well:

Innovation does not mean that we must always invent something new, such as a product, a sales technique, or a business process that was never seen before. For a company like ours, to be innovative means to continuously improve the things we do every day. For us, being innovative means repeating to ourselves that every single thing that we do today can be done even better tomorrow: product, packaging, commercial strategy, commercial terms, our supply chain, and our factories. You can always improve, but the question is – how? By considering what our customers would want. Our competitors include brands like Adidas and Nike, and they are giants. The challenge is to occupy a proper market space (Musciacchio 2017).

Process Innovation: Outsourcing, Insourcing, and Logistics

The two biggest process changes implemented by Arena over the past few years involved manufacturing and logistics. When it comes to the process of manufacturing, decisions to implement both outsourcing

and insourcing have been made (Schniederjans et al. 2005). In 2007, the owned factory located in France (dedicated to swimwear) was closed and the production of the whole range of products was outsourced in Asia and Eastern Europe. Lately, production of top-of-the-range racing swimsuits made with a patented heat-sealed carbon-woven fabric required a higher level of control over the process of research and development, which compelled the company to take-over a dedicated production facility in Slovakia (formerly owned by an Italian subcontractor). Strong growing trend of demand of racing swimwear generated, more recently, the need to find additional production capacity, through the recourse to selected suppliers bound by strict confidentiality agreements to protect company know-how.

The logistic model, particularly that of warehousing, has undergone some considerable changes as well. Previously, Arena relied on three hubs: two fully owned hubs in Italy (serving Italy and a few international markets) and France (serving France) and an outsourced hub in Germany (serving German market). Multiple warehouses, says co-CEO Selvatici (2018), were a response to the need of reducing delivery times, but their displacement also created inefficiencies in terms of inventory management. The first warehousing process innovation resulted in a closure of the warehouse in Germany and a transfer of its respective activities in Italy. Further, the French warehouse was sold and replaced by an outsourced logistics partner located in the center of France, near the location of Arena's major retail customer, Decathlon.⁶ The reduction in the number of hubs and strengthening of the Italian warehouse has enabled the company to achieve better efficiency and coordination in logistics overall, as well as inventory optimization, a higher inventory turnover, improvements in managing customs clearance, and quality control.⁷ The US market is managed following a different model due to a different competitive environment (i.e., market leadership of Speedo) and a different procurement process (i.e., "made-to-stock" supply model), which will be covered in more detail in the following section.

⁶Decathlon (<https://www.decathlon-united.com>) is a French sporting goods retailer and one of the largest sporting goods retailers in the world with turnover of 11 billion euros (as of the end of 2017).

⁷There is a two-level quality control for merchandise produced by third-party manufacturers for Arena. First, a third-party quality control (run by companies such as Intertek and SGS) is carried at the supplier's premises. Second, additional quality controls are managed internally when the goods arrive at the Italian headquarters' warehouse.

Organizational Model and Management System Innovation

To accommodate for numerous transfers of ownership from Adidas to five different investment funds (Fig. 4.5) and to cope with the growing need to be always at the edge in terms of efficiency and effectiveness, Arena has implemented several important organizational innovations. Arena's original organizational model was based on a strong geographical fragmentation, which is why the subsequently applied changes were aimed primarily at centralization of strategic business functions. The organizational model changes can be divided into three periods: 1991–2001, 2001–2016, and 2016–until today.

In the first period from 1991 to 2001, when the company became independent from Adidas and sold to a German investment fund BLB Gamma, it was an aggregate of independent companies: Arena Italia, Arena France, and Arena Germany, each led by its own General Manager. Each company was autonomous in terms of product development, procurement, selection of suppliers, and other strategic decisions. Arena France, for instance, used to produce textiles in its own manufacturing facility and purchased accessories from the third parties. Arena Germany and Arena Italy had their own subcontractor networks. The only thing they had in common was the Arena brand.

In the second period from 2001 to 2016, when the company's property was transferred between four different investment funds, the initial steps toward consolidation and centralization of the most strategic functions took place. The Italian hub gradually became the group's headquarters. The process of product line development was centralized, thus taking a step toward a proper global collection, identical for all the international markets.⁸ Further centralization affected the functions of strategic marketing, purchasing, and finance. On the other hand, local companies remained in charge of sales, trade marketing, operational marketing, supply chain management, warehouse logistics, as well as general administration. A matrix organization structure was therefore created, with corporate functions operating on one axe of the matrix and sales regional responsibilities on the other (Fig. 4.6).

From 2016 to the present, when Arena was acquired by its current owner, a Swiss investment fund, the third phase of organizational innovation characterized by acceleration in centralization process took place. The logic of business units (and relative General Managers for Arena France, Italy, and Germany) was dismissed in favor of a unified management structure.

⁸The fall/winter 2018 collection was Arena's first global collection. A single unified product catalog was presented to all international buyers despite full awareness of regional differences in the selection process.

		SALES				
		ITALY	FRANCE	GERMANY / AUSTRIA	USA	INT'L MARKETS
BRAND MANAGEMENT	CONSUMER MARKETING					
	SPORTS MARKETING					
	DIGITAL MARKETING / E-COMM.					
	DESIGN & DEVELOPMENT					
	PRODUCT MANAGEMENT					
FINANCE & OPERATIONS	SOURCING & QUALITY ASSURANCE					
	SUPPLY CHAIN					
	MANUFACTURING					
	FINANCE & IT					

Fig. 4.6 Arena from 2016 until today: the first matrix organizational structure. (Source: Courtesy of Arena)

The matrix organization structure was replaced by a functional structure under the direction of two co-CEOs (see Fig. 4.7). All strategic managerial decisions are now made at the Italian headquarters, while the local offices are in charge of local implementation.

There is, therefore, a Sales division, with a single Chief Sales Officer who is responsible for defining the sales strategy for the entire company (excluding USA) and coordinating resources for each geographical area in which the company operates. Further, there is Brand Management division, which includes both product management and marketing, and Finance and Operations division.

The only exception from the strict hierarchical organization is the US market, which is run as a separate and relatively independent business unit due to geographical distance and nine-hour time zone difference with the headquarters. As a matter of fact, the European and the American markets differ in terms of supply and stock management model. The European model represents a “make-to-order” approach, where Arena commissions production of the merchandise to its subcontractors when the large part of the orders from its customers is already in place. This method, naturally, helps minimize the inventory risks. The American model, on the other hand, represents a case of “make-to-stock” supply where the goods are produced for inventory based upon sales forecasts and historical level of demand.

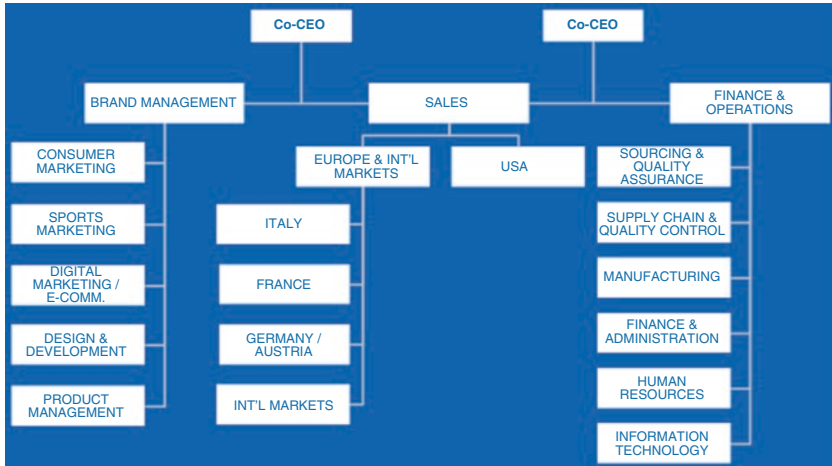


Fig. 4.7 Arena from 2016 until today: the second re-organization with unification of management functions. (Source: Courtesy of Arena)

Organizational innovation produced both long- and short-term results. The centralization of business functions leads to the optimization of supply and workforce management in the short run, and to consistency in product lines and communication in the mid- and long term. In addition, centralization has improved communication between various functions, such as R&D, marketing, and production—an element essential for successful product innovation (Desbordes 2001).

Management systems were updated following most of the company re-organizations, with a progressive harmonization of applications. The product development and supply chain management systems have been recently merged through the implementation of a US software called Centric,⁹ while planning and forecasting management systems rely on a Finnish software called Relex.¹⁰

⁹Centric management system (<https://www.centricsoftware.com>) provides software specific for retail, fashion, footwear, luxury, and consumer goods companies in the field of product development and related processes (collections' planning, technical dossiers' development, global sourcing, calendar, materials, and quality management).

¹⁰Relex software (<https://www.relexsolutions.com>) is a unified retail planning solution that helps carry out a range of data-based planning from forecasting to assortment, space, and workforce planning. At Arena, the Relex management system is run from the Italian headquarters based on data collected from all international offices overnight.

R&D and Product Innovation

Arena's product innovation is driven by the mix of factors, including the internal organizational structure, a network of research institutes, and collaboration with notorious athletes at the peak of their careers. Overall, managing successful product innovation requires Arena to create a "network of competencies" involving both technical know-how and socio-cultural capital (Desbordes 2001).

Arena's in-house R&D division is run by a group of experts in the field of high-end innovative products for swim racing. It can be considered a proper benchmark for product innovation. Taking advantage of networks formed with external institutions, current and former athletes and champions, Arena aims at product innovations that go beyond pure stylistic adaptations and conceive truly original ideas, patents, and breakthrough products.

At various points in the past and the present, Arena has collaborated with various research institutions (see Fig. 4.8), such as the University of Reims (France), the University of Bologna (Italy), the University of Liège (France), the University of Berlin (Germany), the Polytechnic of Milan (Italy), and other research centers, agencies, and consultants in various subfields of technological innovation. In particular, collaboration with an English innovation agency called Innovia that brings together scientists from various research areas has resulted in a milestone innovation for racing swimsuits: in 2012, for the very first time carbon fibers were inserted into the swimsuit fabric. In addition to helping limit the production of lactic acid during the performance effort, it also flattens the body and raises the swimmer's pelvis improving hydrodynamics, for female athletes in particular (Alderson 2016; Krieger 2004; Raguzzoni et al. 2015).

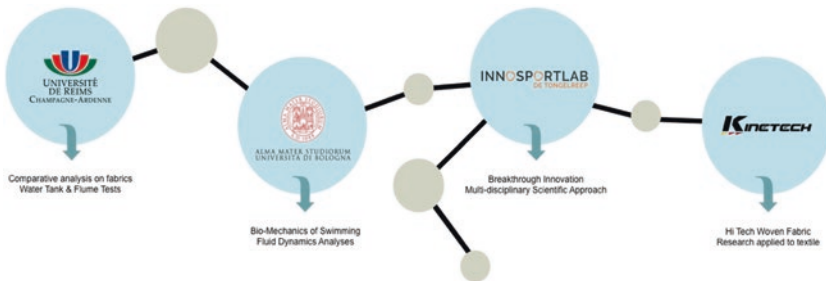


Fig. 4.8 Arena's scientific network. (Source: Courtesy of Arena)

Some of more “everyday” innovations were introduced as well, such as an anti-fog liquid to be sprayed onto the goggles to prevent them from fogging or a patented “smart” cap designed specifically for swimmers with long hair.

Arena also takes full advantage of sports sponsorship (Jones and Schumann 2004) turning them into opportunities for innovation. The Arena Elite Team,¹¹ a group of about 30 European and world champions in respective water sports, in fact can be considered “part-time” members of the company’s R&D team. These athletes are followed by a group of four Arena’s managers, who frequently interact with the athletes and their coaches, observe competition events and training sessions, and make notes about the athletes’ feedback on their swimwear experience. Often, such interactions lead to very specific suggestions for product improvements and innovations. Therefore, in order to gain a deeper understanding of the unmet needs of the swimwear market, Arena goes beyond traditional methods of market research and capitalizes on the established relationship with expert consumers. It is this trusted relationship with water sports stars built over time that gives Arena a unique perspective and advantage in terms of product innovation, allowing the company move the product back and forth between the R&D team and the potential users during the phases of product development (Desbordes 2001).

Furthermore, starting from the 2017 World Aquatics Championships in Budapest (Hungary), Arena tried a new type of collaboration with the Elite Team, employing four iconic athletes as a source of inspiration to create limited-edition capsule collections (Fig. 4.9)—a practice often employed by fashion brands to showcase a condensed version of a designer’s vision (Morton 2018).

Each athlete selected a spirit animal (e.g., the dragon for Gregorio Paltrinieri¹² or the lion for Adam Peaty¹³), which was included in the design of their official racing swimsuit during the championship, thus attracting viewers’ attention and boosting media exposure. This animal design was subsequently reproduced on a limited number of products for

¹¹Full and updated list of Arena Elite Team athletes can be found at https://www.arc-nawaterinstinct.com/en_uk/team/elite-team/.

¹²Gregorio Paltrinieri is an Italian competitive swimmer specializing in freestyle. He is the Olympic, world champion and European champion both in long-course and short-course events. He currently holds the European record in long tub and the world record in short tub for 1500 m freestyle event.

¹³Adam Peaty is a competitive swimmer from England. Specializing in breaststroke, he is the 2016 Olympic Champion, a five-time World Champion, a twelve-time European Champion, and a three-time Commonwealth Champion.



Fig. 4.9 Arena Elite Team capsule collection. (Source: Courtesy of Arena)

non-competitive swimming, such as backpacks, training suits, and t-shirts. These products were marketed at the 2017 World Aquatics Championships event, which resulted in a good level of sales, as well as earned considerable media exposure. Moreover, the limited line has gained a lot of space on social media, especially on Instagram, thanks to the “star power” of the athletic endorsers (McCormick 2018) influencing both increased brand awareness and consumer reciprocity, which results in consumers patronizing sponsors (via actual purchase of both the limited and the standard line of Arena swimwear) in return for them sponsoring the athletes (Pracejus 2004).

Additionally, Arena manages collaborative networks, which involve both athletes and art institutes, such as, for instance, a recent collaboration between Tania Cagnotto¹⁴ and NABA (New Academy of Fine Arts of Milan). NABA’s art students created various designs, which were proposed for an open public vote online. The winning designs were incorporated into the athlete’s swimsuits worn during the Olympic diving competitions and later produced on a larger scale for mass market sales.

Innovation in Communication

Arena’s founder, Horst Dassler, is considered not only one of the most powerful businessmen in the sports world (Slack 1996), but also the “father” of sports sponsoring (Sugden 2013) and therefore the “inventor”

¹⁴Tania Cagnotto is an Italian diver and the first Italian female diver to win a medal in a World Championship. A five-time Olympian and the most decorated European diver, she won medals in both individual and synchronized springboard diving in her final appearance at the Olympics in 2016.

of sports marketing. One of Dassler's founding concepts was, in fact, using sports events and athletes as a potent communication medium. Sports marketing offers opportunities to insert the brand into the midst of emotionally charged atmosphere of sports events (Uhrich and Koenigstorfer 2009), creating "immersionary" moments of sports experiences (Schmitt et al. 2003), and thus increase brand awareness, drive its penetration into targeted consumer's purchase consideration set, and generally sustain brand communication and public relations (PR) strategies (Blythe and Cedrola 2013; Jones and Schumann 2004; Tripodi 2001). For instance, in the case of Arena, the audience watching a swimming competition—whether on TV or at the live event—would unconsciously memorize the sponsor, whose logo is displayed on the athletes' attire and equipment (Fig. 4.10) and even transfer positive associations and athlete's competence onto the brand itself (Pracejus 2004). The brand will therefore remain interlinked in the audience's minds with the very athlete's achievement, especially if it is considered particularly "heroic" (Shuart 2007).

As early as in 1973, Arena started investing into sponsoring major sports occasions, including external (e.g., Olympics and world championships) and internal events (i.e., organized by specific institutions to promote a certain location or an event), expos (i.e., the company's presence at exhibitions or shopping villages organized during sports events), and sponsorship of athletes, federations, and sports clubs.

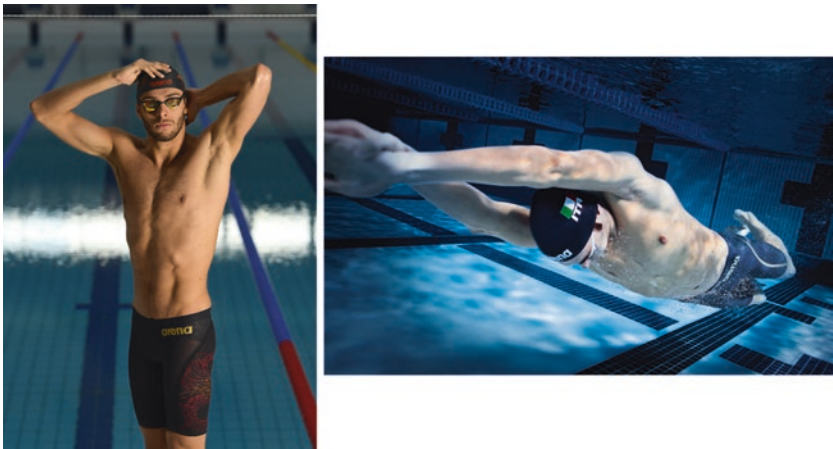


Fig. 4.10 Arena Elite Team: Gregorio Paltrinieri. (Source: Courtesy of Arena)

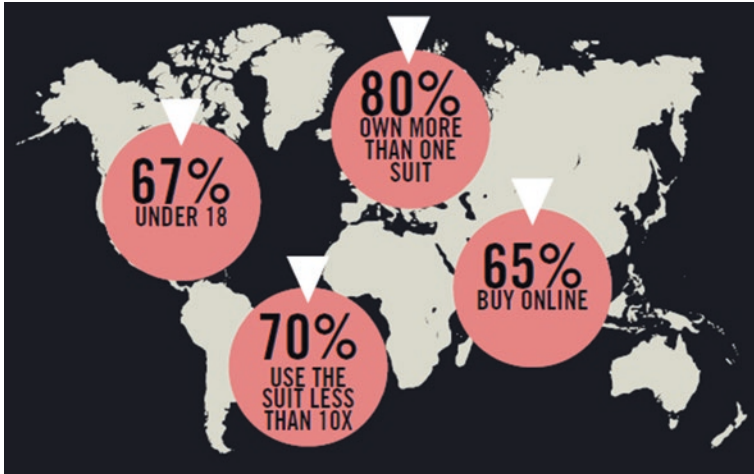


Fig. 4.11 Competitive swimmers' profiling. (Source: Courtesy of Arena)

Arena's communication and PR strategies are currently moving toward the online and social media channels, in line with the general trends in communication and consumer behavior (Bigne et al. 2005). According to the market research findings (Giampieri 2017b), the competitive swimmers are usually very young: 67% of them are under the age of 18 who spend a lot on swimwear and 65% of them prefer to make purchases online (Fig. 4.11).¹⁵

To keep up with the young, digital, and always-connected consumer, Arena has recently created an e-shop integrated into the company's official website:

There are products for which the share of online purchases is preponderant, like for example, the racing swimsuits. The most expensive swimsuits in our product line are purchased primarily online, because once you find the swimsuit that fits you – you do not change it. It becomes a repetitive purchase. (Musciacchio 2017).

The US market is currently the leader in terms of proportion of online sales (about 40% of total sales). In the rest of the world the online sales

¹⁵ The market research was carried out in 2013 on a database of 4000 people who bought a swim racing product. The final sample consisted of 1000 of usable answers. The findings identify a consumer profile of a young (often underage) consumer, who buys at least two-three swimsuits a year. The brand considers them a highly profitable segment with a high rate of brand loyalty (Giampieri, interview, December 4, 2017b).

share is considerably lower (about 15%). However, in the light of the emerging consumer trends, the percentages will likely grow over proportionally in the next few years.

DISCUSSION AND IMPLICATIONS

The case analyzed is rich in elements to reflect on. Arena is a brand that was born out of passion for swimming. The legend of Horst Dassler, who surfed the wave of the world's enthusiasm about Mark Spitz's extraordinary performance at the 1972 Olympics in order to transform it into a business opportunity, is of high relevance not only for Arena's brand, but for the entire world of sports, both water and not. Horst Dassler was the first entrepreneur to start sponsoring star athletes and collaborate with them for innovative product development in order to create associations between emotional sports events and brands and thus drive sales of sporting goods (McCormick 2018; Shuart 2007; Tripodi 2001)—an approach which will later be theorized and defined with the term “sports marketing” (Mullin et al. 2014).

The short proximity with the intended users achieved through collaborative networks with athletes and sports clubs (Desbordes 2001) has made Arena one of the best-known brands in swim- and sportswear, alongside such competitor brands as Speedo, Nike, or Adidas. However, differently from its multimillion competitors, Arena is only a medium-large company owned by an investment fund. This gap likely speaks in favor of a strong potential for positive growth, safeguarded by the company's pioneering spirit in product R&D and, in particular, innovation of racing swimsuits. Arena's fully owned production facility in Slovakia dedicated to patented swimwear is already operating at its full capacity in response to a sharp increase in demand for technically advanced swimsuits by professional swimmers, especially millennials. On the other hand, the spread of the general population's enthusiasm for fitness and healthy lifestyles (Divine and Lepisto 2005; Lord 2017; Thompson 2018) has convinced the company to expand into sportswear and include a wider range of products that accompany the “moment of doing sports” into its range.

The case also sheds light on various aspects of interrelation of product and organizational innovation. Organizational innovation has driven the company to change its business model and undergo a gradual process of centralization moving from the situation of separately run and geographically constrained offices in France, Italy, and Germany to a current state,

where the corporate functions are consolidated at the single company headquarters in Tolentino (Italy) and the local hubs are left with authorization to take operational decisions in sales and post-sale services. The only exception to the functional centralization is the US market. Due to a range of “technical” problems, starting from a significant time zone gap with the Italian headquarters to considerable differences in buying model between European and the USA, the North American market requires a different distribution model and, as a consequence, a different business unit management approach. Nevertheless, thanks to management systems and forecast software, all international markets are subject to centralized analysis and planning, which have contributed, as stated by Luca Selvatici (2018), to costs reduction and overall simplification in processes of management, procurement, and reporting.

As far as the product innovation is concerned, the Arena case highlights the importance of collaborative networks (Desbordes 2001) established between internal R&D divisions and such external players as universities, research institutes, independent consultants, and athletes. The combination of various perspectives and expertise has allowed the brand to develop breakthrough innovations in swimwear both in terms of performance (e.g., patented carbon fibers) and design (e.g., capsule collections developed by the Arena Elite Team). This new process of extended product innovation has permitted the company to move from running regional collections to a more centralized strategy based on a single global collection.

Centralization will likely remain the main theme in the future of Arena’s managerial strategies as well. Another likely development would be strengthening of processes’ automation, including integration of automatic warehouse management tools to improve space management and optimization of stocks, as well as faster retrieval and shipment of products.

A major challenge for the company’s future will be to overcome the traditional European model based on seasonal collections and “make-to-order” supply orders placed by large corporate and retail customers. Based on the current experience with a completely different US market model based on “make-to-stock” supply, Arena will likely have to undertake a more industrial approach based on forecasting. Consistent with this possible development are the custom-made collections produced in collaboration with some of Arena Elite Team athletes. The sales of such collections have proven them successful not only from the perspective of brand exposure and communication but also in terms of sales. Clearly, the “make-to-stock” model is riskier, but the simultaneous development of direct

channels online and offline (e.g., through factory outlets) would mitigate the risks and allow the company to manage the unsold stock while maintaining the transactions profitable. In fact, Arena aims at a unified pricing policy relying on standard prices set across all sales channels and, under such policy, multiplication of stages along the sales funnel¹⁶ would lead to reduced margins. For this reason, the use of direct channels for second seasons and/or unsold stocks could help arrive at the same level of margins while charging the final consumer a reduced price. Unsurprisingly, the company management is presently considering an imminent opening of fully owned Arena branded stores not only in the historical European markets but also in the USA, where the risk of unsold items is already high due to the different distribution model.

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¹⁶The sales funnel (also known as a revenue funnel or sales process) refers to the buying process that companies lead customers through when purchasing products.

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Trunk Club: Revolutionizing the Retail Model in Fashion

Dipali Modi and Li Zhao

Abstract Trunk Club, a subsidiary of the Nordstrom company, began as a Chicago-based startup and is disrupting the retail fashion industry through its innovative and customer-centered retail format. The company, one of the early players in subscription-based fashion retailing, has designed its business model to empower its customers (e.g., young American executives with shrinking schedule availability, who want to dress fashionably but do **not** exactly know what would look good on them) to outsource their fashion needs. The company innovates the consumers' shopping process by providing personal styling services based on their needs, size, budget, and style preferences with the help of a team of dedicated styling experts through its website or brick-and-mortar stores across the United States. In addition to incorporating machine-learning and personalized recommendation algorithms, which might be similar to its competitors, Trunk Club values building personal relationships between stylists and the customers, thus providing more a flexible and personal shopping experience to its customers.

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INTRODUCTION

The retail fashion industry has witnessed significant changes in recent years through digital transformation. Except for the final step—the physical transfer of goods—every part of a consumer’s shopping journey is being digitized (Baird 2018). Today’s large retailers have transformed into multichannel firms, where the same customer can visit the retailer via different channels for different purposes like browsing products online and making purchases offline. Most have also expanded their focus from selling products to engaging and empowering customers, with a vision of creating a unique and rewarding customer experience. As a result, retailing practice is increasingly encompassing a broader range of activities as retailers expand the boundaries of their target markets and develop innovative ways to interact with their customers.

In this light, some retailers have started a subscription-based format where customers can set their preferences and receive the same or similar products at certain intervals (e.g., Birchbox, Stitch Fix, etc.). According to a recent report by McKinsey (Chen et al. 2018), the subscription e-commerce market has grown by more than 100 percent a year from 2012 to 2017 in the United States. The largest such retailers (e.g., Amazon Subscribe & Save, Dollar Shave Club) generated more than \$2.6 billion in sales in 2016, up from a mere \$57.0 million in 2011 (Chen et al. 2018). As this market is growing quickly, it is crucial to explore the key success factors of such an innovative model, the ways to develop great experiences for consumers, and the means to accelerate both growth and profitability.

Trunk Club is a great example of business model innovation because the company innovates in how consumers select their wardrobes (i.e., through curated style service offered by the firm) and how the company offers its products (i.e., subscription-based service). In selecting products for its customers, the company uses machine-learning and personalized recommendation algorithms along with personal stylists, which sets a good example of process innovation as well. Trunk Club was one of the early players in the apparel industry to start a subscription service, which has disrupted the traditional retail model (Reid 2012). Unlike most of its competitors, Trunk Club targets the high-end subscription market. It uniquely provides personal

stylists working with clients to understand their needs and style and accordingly helps them build their wardrobes based on their fit, budget, and personal style, along with recommending styling solutions based on algorithms. The customers can avail themselves of these services and make purchases either online through its website or by visiting its brick-and-mortar stores—the Clubhouses (Trunk Club 2018). Among subscription-based retailers, Trunk club has proven to be a leader of innovations in terms of omni-channel retailing because it offers both online and offline experience, unlike its competitors.

This case study aims to understand Trunk Club’s business model and process innovation in terms of its target customer segment, value propositions, and customer relations, along with its key resources and activities. This study also looks into the evolution of the company since it was founded in 2009 and explores the advantages and challenges this retail format entails in today’s market. To answer these questions, the authors reviewed literature on business model innovations in the retail fashion industry and collected information from the company website, Nordstrom’s annual report, and media reports. The authors also interviewed two employees holding positions in the senior management of Trunk Club between April and May 2018 to understand the company philosophy and its business practices. The case starts with a company overview, the history and growth of Trunk Club over the years, followed by a discussion of its business model and process innovations. Competitors were analyzed to highlight the unique aspects of Trunk Club. Finally, the authors conducted Trunk Club’s SWOT analysis to describe the strengths and the weaknesses of this particular business model, followed by its future opportunities and threats. Some suggestions were proposed.

COMPANY OVERVIEW

Trunk Club is a high-end men’s and women’s clothing subscription service provider based in Chicago, Illinois, in the United States. It operates through multiple channels—website, mobile app, and brick-and-mortar stores in selected cities—to serve its customers. Each customer, through one of these channels or a combination of these channels, works with a personal stylist who chooses clothing and accessories for their box (called the Trunk), which is then shipped to their home. Customers can purchase the items they like and send back the rest to Trunk Club at no cost if they do not like it. These services can be fulfilled either online or at one of the

company's six locations called Clubhouses. Every Clubhouse is customized with unique furnishings, fitting rooms, and a bar offering craft beer, wine, champagne, and spirits in order to provide a luxury shopping experience to customers. The customers visiting the Clubhouses can either purchase the clothing outright from the site or have their stylist curate a Trunk and ship it to their home. Hence, Trunk Club provides flexibility to its customers in terms of how they want to shop and where they want to shop. The customers can also subscribe for a monthly or seasonal Trunk and have their dedicated stylists shop for them as per their needs and style preferences, hence empowering them to outsource their entire shopping experience.

Trunk Club was founded in 2009 by Joanna Van Vleck while she was studying for her Master of Business Administration degree. It began as a personalized clothing service based in Bend, Oregon, connecting fashion-frustrated men with personal stylists via Skype and mailing them on-demand cardboard trunks stuffed with designer clothing, outerwear, shoes, and accessories, all handpicked based on the customer's individual needs and tastes. Brian Spaly, the co-founder of Bonobos, left his company to join Trunk Club as its CEO the same year (Ankeny 2013). One of the first things Spaly did was to create a Trunk Club headquarters based in Chicago as a physical space where customers could be fitted, have a session with a stylist, or purchase clothing. The idea was to create a location where men could come for one-on-one styling appointments, sidestepping the exasperation of shopping in department stores and malls. Consumers outside of Chicago could still sign up for the service online, creating personal profiles that detail their measurements and fashion preferences. Trunks containing six to ten items from fashion partners like Gant Rugger, Billy Reid, Eton, and Jack Spade, with an average price of \$150 per item, were delivered as often as a customer wished. No upfront fees were charged at the time, and shipping and returns services were free.

By 2013, Trunk Club had expanded its business to Dallas, Texas, and launched its mobile app to provide its customers an additional medium to connect with their stylists. In early 2014, it opened three more Clubhouses in Chicago, Los Angeles, and Washington, DC. Later that year, the company was acquired by the major fashion retailer Nordstrom, after which it continued to expand and opened its services to women. The Trunk Club team expanded to more than 1000 employees by 2015 and in the next two years the company opened Clubhouses in New York and Boston. Nordstrom, as the parent company, now manages the inventory and shares its customer loyalty program with Trunk Club. Nordstrom has extended its

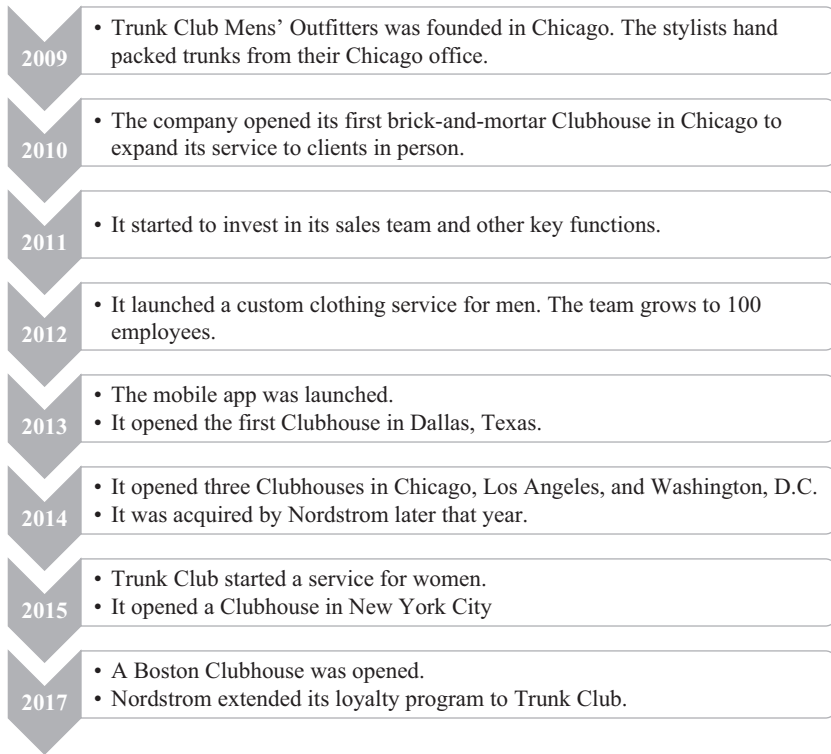


Fig. 5.1 History milestones of Trunk Club since it was founded in 2009. (Source: Elaborated by the authors from data published on the company's website: <https://www.trunkclub.com/locations> (last accessed on Sept. 23, 2018))

investments to mobile-shopping apps, kiosks, and capabilities for managing customer relationships across channels. Trunk Club is now an integral part of Nordstrom's omni-channel strategy. Figure 5.1 illustrates the history milestones of Trunk Club since its establishment in 2009 until 2017.

THE TRUNK CLUB BUSINESS MODEL

Digitization has come with greater opportunities to personalize products and services, and understanding the innovative business model of Trunk Club is crucial to today's retailers. A business model is defined as "a well-specified system of interdependent structures, activities, and processes that serves as a firm's organizing logic for value creation (for its customers) and

value appropriation (for itself and its partners)” (Osterwalder 1996). Previous studies have pointed out that the key building blocks of any business model are its customer segment, value propositions, sales channels through which it communicates with its customers and distribution, customer relationships, revenue stream, and key resources of the business (Osterwalder 1996). In this study we have studied Trunk Club’s business model from these perspectives and evaluated its strengths and weaknesses in the current market to demonstrate the process innovation at this fashion retail company. Figure 5.2 shows some key concepts in the Trunk Club business model innovation. More explanations are provided in the following sections. The company’s process innovation aspect—process of offering curated style service based on algorithms as well as personal stylists—is also included.

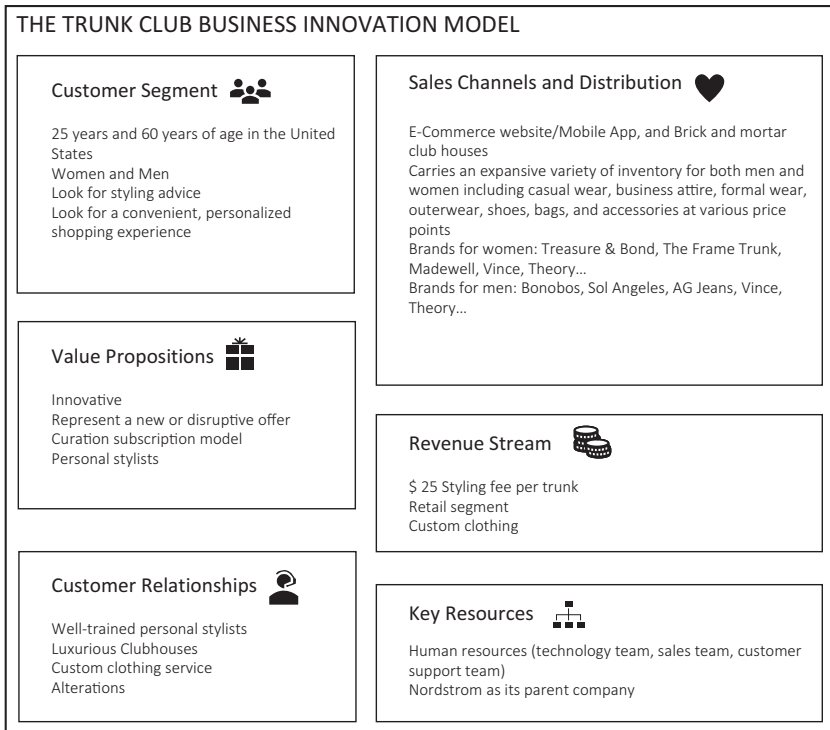


Fig. 5.2 The Trunk Club’s business model innovation. (Source: Developed by the authors)

Customer Segment and Value Propositions

The customer segment of any business defines the group of people or organizations the enterprise aims to reach and serve (Osterwalder 1996). Customer segmentation is very crucial for any business. The clientele of Trunk Club can be described as people between 25 and 60 years of age in the United States who are looking for some styling advice and a convenient, personalized shopping experience. Trunk Club started with targeting only the men's market (Petersen 2015; Trunk Club 2018). Currently, along with ready-to-wear apparel, Trunk Club also offers custom clothing for men. This includes a range of custom-tailored casual and business wear, including suits, tuxedos, sport coats, trousers, outerwear, and shirts. According to a report on men's clothing (Smith 2018), one in five men aged 18–44 expressed a desire to dress in a more stylish way but do not know how. Also, about seven percent of men use a subscription clothing selection or delivery services for shopping (Smith 2018). Trunk Club is able to cater to their needs. After Trunk Club was acquired by Nordstrom, it decided to expand its customer segment to the women's market, given the expertise of its parent company in that area. It now carries merchandise for women in sizes ranging from petite to plus, and also carries maternity apparel. Through our interviews with the head of the sales team, we found Trunk Club has two types of customers—ones who know exactly what they want and others who struggle with style and need advice.

Our goal is to meet the clients' [needs] what they want to be met. So, some of our clients I would consider to be pretty fashionable, so they know what they want. Like if they are looking for a pair of jeans or they need gloves to go with it, they know what they want. And then I would say some of our clients just don't know what they want. They've always struggled with style, how to look professional. So that's become a little bit more of an advisor's [role] where we get to know them personally and figure out what you wear at work, what do your peers wear at work, you know, kind of like dress for the job you want and then guide them and educate them along the way.

In other words, Trunk Club attracts a wide variety of people ranging from those who do not have time to shop because they are working professionals to those who hate to shop because they don't know how to shop for their body type and have always struggled with clothing fit and are looking to elevate their image. Hence, Trunk Club tailors its services according to

what each of its clients' demands, and thus, one can say it has a segmented customer base where both segments have similar but varying needs and problems.

In order to serve their customer segment, businesses need to create some value for them through an assortment of products and services. This bundle of products and services that create value for a specific customer segment, and which leads customers to turn to one company over others, is called value propositions (Osterwalder 1996). Some value propositions may be innovative and represent a new or disruptive offer. Others may be similar to existing market offers, but with added features and attributes. For example, retail models like e-commerce stores create value with their home delivery and hassle-free return services. Similarly, traditional brick-and-mortar stores can create value for their customers who want to try on clothes before buying them. In a subscription-based business model, the customers pay a subscription price to have access to products and services (Sorescu et al. 2011). This model was first pioneered by newspapers and magazine companies. It is now being adopted by many other industries including apparel and accessories retailers. In terms of current subscription models, there are three broad types: replenishment, curation, and access (Chen et al. 2018). Replenishment subscriptions allow consumers to automate the purchase of commodity items, such as razors or diapers. Curation subscriptions seek to surprise and delight by providing new items or highly personalized experiences in categories such as apparel, beauty, and food. Lastly, access subscribers pay a monthly fee to obtain lower prices or members-only perks, primarily in the apparel and food categories. The curation subscription model is the most popular one among consumers, and the one that Trunk Club has adopted (Chen et al. 2018). In order to satisfy its customer segment, Trunk Club has employed this type of convenience model, where the customers subscribe to purchase their products periodically on a monthly or seasonal basis without having to take out time to visit stores and websites to find clothing. If customers only decide to keep some items, they may return the rest in unused condition. This model has been adopted by many cosmetics companies like Birchbox and Dollar Shave Club and a few fashion retailers like Stitch Fix and The RealReal.

In addition, Trunk Club outsources and depends on its analytics team members who unify and analyze customer behavior and stylist behavior from various data sources. Trunk Club also employs more than 500 stylists who build special relationships with their customers, taking inventory of their

personal tastes, preferences, and measurements. Stylists peruse the Trunk Club inventory with the help from a machine-learning-powered recommendation engine and recommend items for their customers. Communication between stylists and clients takes place by phone, by email, and through the Trunk Club app. Hence, massive data regarding what items stylists are choosing for which client, and then what products among those sent are being kept or returned by the customers, provides useful insight for various teams while designing inventory or in making recommendations to the stylists for their customers (Segment 2018).

In sum, Trunk Club provides its customers a unique shopping experience through its subscription-based business, coupled with availability of personal stylists for its segment of customers who either have no time for shopping or need the help of a stylist to build their closet.

Sales Channels and Distribution

Drawn from the value propositions of Trunk Club, Trunk Club's omnichannel retailing strategies have helped enhance customer experience in today's digital world. Although Trunk Club follows a subscription-based business model, it is unique from others of its kind in many ways. Currently, Trunk Club reaches out to target consumers through two major channels: its e-commerce website/mobile app and its brick-and-mortar Clubhouses.

The first channel is where the customers can sign up on the company website and get a stylist assigned to them who interacts and finds out what their needs are, and sends them a virtual preview of clothing that they feel reflects best on the customer. The customer can then shop for those pieces at home and Trunk Club delivers the trunk of clothing to the customer's doorstep. The customers can then try on the pieces sent to them and interact with their stylist over the phone for any assistance. The customers can keep the pieces they like and send back the rest without any additional shipping cost. However, the customers do have to pay a styling fee of \$25 before the trunk is sent to them, which is later credited toward the items they buy. According to one of the interview participants, this strategy protects the company against losing money over unnecessary returns by online shoppers.

The second way to shop at Trunk Club is through its six Clubhouses in Boston, Chicago, Dallas, Los Angeles, New York, and Washington, DC. This is more common among the people living in those cities and who prefer in-person shopping like the traditional shopping experience. However,

the experience at these Clubhouses is more luxurious than what one finds at a traditional retail outlet. The customers here have their own fitting room where they sit down with their stylist and have a conversation about their style. The stylist then picks out a range of clothing from the inventory rooms located within each Clubhouse, which carry huge amounts of inventory. The customers then try out the clothing with their stylist and can make the purchase upfront or get it altered if needed and delivered to their doorstep. Figure 5.3 shows the six locations of Clubhouses in the United States.

With the help of its team of personal stylists, Trunk Club curates and delivers high-quality apparel and shoes to customers on a monthly or seasonal basis through its website as well as its brick-and-mortar Clubhouses. Hence, unlike other subscription-based fashion retailers in today's market, Trunk Club has webbed together the subscription model with omni-channel strategies in order to provide a variety of ways for its customers to shop and interact with the company. The channels through which the company communicates with its customers in order to deliver its value propositions are another building block of a successful business model.



Fig. 5.3 Six Trunk Club Clubhouses in the United States. (Source: Elaborated by the authors from data published on the company's website <https://www.trunkclub.com/locations> (last accessed on Sept. 23, 2018))

The communication, distribution, and sales channels together form a company's interface with its customers. These channels play an important role in building customer experiences. These channels not only provide a medium to deliver value propositions and help the customers make purchases, they also help in providing seamless after-sale customer support.

When it comes to inventory distribution, since Trunk Club was acquired by Nordstrom in 2014, all its inventory is supplied solely by Nordstrom to ensure high-quality standards and customer satisfaction. Trunk Club carries an expansive variety of inventory for both men and women including casual wear, business attire, formal wear, outerwear, shoes, bags, and accessories at various price points. For women's wear, some brands that Trunk Club carries are Treasure & Bond, The Frame Trunk, Madewell, Vince, Theory, and so on. Trunk Club carries premium brands for men's wear as well, such as Bonobos, Sol Angeles, and AG Jeans. The company has a warehouse where all the Trunk Club inventory is kept. However, a separate buy is done for the Clubhouses, which is more curated to their location and clientele. Since the Clubhouses offer higher priced merchandise as compared to the website, the Clubhouses experience more serious shoppers who are willing to take time from their day to meet the stylist and spend time finding great pieces. Customers from Chicago might be very different from those in Los Angeles, so Clubhouses prepare products not just from Nordstrom inventory, but also other sources to meet local needs. According to the sales director of Trunk Club, managing and curating inventory to the clients' needs in each Clubhouse is more challenging and is a continuous work in progress. Customers can also use their Nordstrom card to earn rewards on Trunk Club purchases.

Customer Relationships

To provide dedicated personal assistance to Trunk Club's customers, all stylists go through extensive training and get hands-on experience to know which colors, sizes, styles, and brands will look and fit best on each customer. Every customer is assigned a personal stylist who guides them through the process and curates their personalized trunk. Every customer has a dedicated stylist in both the Clubhouses and on the website. As mentioned before, in the Clubhouses customers can interact personally with their stylists who will help them find what they are looking for or help them find their styles based on their needs, occupation, fit, personality, and so on, even if the customer has no idea what they are looking for.

After the customer receives the trunk, they can still communicate with their dedicated personal stylist through telephone or on the website while trying on the outfits and provide feedback or get assistance if they need it. In today's retail market, Trunk Club is not the only subscription-based fashion retailer. The true competitive advantage of this company lies in the relationship between its stylists and the clients. As explained by the Trunk Club director of sales, the stylists and the clients are able to communicate and talk about what works or does not work, hence, developing a personal relationship.

Our key strengths are definitely our stylists and our technology. Allowing clients to have a one-on-one relationship with someone at a retail company is different from any other company right now! The clients can directly communicate with the stylists which is very different from many other formats.

In addition, Trunk Club offers custom clothing services through any of its Clubhouses. It also provides alterations at both the Clubhouses and all Nordstrom stores. Customers can read various articles about fashion trends, style advice, outfit inspiration, and so on, on the Trunk Club blog. With the high-quality service and fruitful resources, customers can enjoy one-stop shopping with no need to worry about fitting problems and returns. Having a dedicated personal stylist throughout the shopping process makes the customers feel comfortable and helps with customer retention as they find it much less stressful and more convenient.

Revenue Stream

Trunk Club has two main streams of revenue. First, customers shop one trunk at a time and subscribe to a monthly or seasonal delivery of trunks. Each trunk costs customers \$25 upfront, which is credited toward the cost of products they finally buy. Shipping and returns are always free. The styling fee is waived if customers use a Nordstrom credit or debit card. The second part of its revenue stream is similar to other retailers. Trunk Club buys clothing at wholesale and sells it at retail. Every cent of profit it makes comes from the retail transaction. When it comes to generating revenue, Trunk Club is just another retail operation with a service layer. In terms of pricing, each trunk carries premium brands from Nordstrom that cost from \$40 to \$400 depending on how much the customer is willing to

spend. However, Trunk Club does place comparatively high price-point products at their Clubhouses compared to those on the website based on their customer segment. Usually, custom clothing costs more than ready-to-wear.

Key Resources

Every business requires some key resources that allow the company to create and offer a value proposition, reach markets, maintain relationships with its customer segment, and generate revenue. These resources can be physical, financial, intellectual, or human. While Trunk Club's key resources definitely include its physical assets like the website and its brick-and-mortar Clubhouses in six locations, the company is also heavily dependent on its human resources as Trunk Club maintains a dedicated personal relationship with its customers both online and offline. Its value lies in providing a flawless customer experience to its customer segment, which requires a high level of creativity and involvement for their employees, especially the sales and customer support teams.

Based partly on recommendations from algorithms, the stylists pick clothes to send to customers periodically according to customers' subscription preferences. When the co-founder, Amanda Jones, started this business, she gathered a small, national group of independent sales contractors called "expert stylists." Since then, Trunk Club's founding team realized that stylists are valuable resources to the company and, in turn, have become their competitive advantage in today's retail world. Additionally, the technology team of Trunk Club helps with constant innovations in the business and maintenance of systems to support the communication between stylists and their clients. Hence, its human resources have proven to be an invaluable asset to Trunk Club's business.

In addition to the human resources, its partnership with Nordstrom also contributes toward building its intellectual resources such as brands, in-depth knowledge in the retail fashion industry, and customer databases. Nordstrom also contributes toward building the product inventory for Trunk Club in order to ensure high-quality products for its customers and, hence, helps with building customer trust. Being able to satisfy its customers has always been Trunk Club's foremost mission, as was evident from the employee interviews. As one of the participants put it:

We are a very customer-focused company—both before we were acquired by Nordstrom and now more than ever. Our stylists work to make their clients happy and we also have a service team that deals with any issues that need to be escalated.

MARKETING AND ADVERTISING

Trunk Club's marketing strategy is heavily based on social media marketing on Facebook and Twitter, as well as influencer marketing on Instagram. According to one of its marketing personnel, before Nordstrom acquired Trunk Club, the most productive marketing channel for Trunk Club was word of mouth generated by both customers and its employees. Trunk Club also aims at increasing customer loyalty through Nordstrom's loyalty program, improving its social media presence considering the high effectiveness of these sites in engaging existing customers and reaching new audiences, and enhancing brand experience at the six Clubhouse locations.

The marketing of Trunk Club today includes print advertising in magazines, blog posts, and press releases about Trunk Club events, video and photo advertisements on social media sites such as Facebook and Twitter, and influencer marketing on Instagram and other blogging websites. Trunk Club offers partnership opportunities to digital content creators with fashion and lifestyle blogs in order to generate brand awareness. Under this influencer program, each influencer is compensated by Trunk Club in accordance with their individual audience demographics and reach capabilities. These influencers advertise Trunk Club by either sharing a blog post with their followers about Clubhouses or the trunk experience, creating and co-promoting a thematic trunk for their customer's purchase, featuring a campaign cross-promoted on blogs and social media sites, or by posting their content on Trunk Club's social handles. Figure 5.4 illustrates influencer marketing on Instagram by Trunk Club.

COMPETITOR ANALYSIS

Some companies are emerging as Trunk Club's major competitors. According to one of the interview participants, companies ranging from Amazon to Stitch Fix to Saks can be seen as Trunk Club's competitors. Based on the customer segment they cater to and the value propositions they offer, Stitch Fix, Rent the Runway, and Le Tote can be considered potential competitors of Trunk Club. These companies also view the



Fig. 5.4 Social media marketing on Instagram by Trunk Club. (Source: Courtesy of Instagram user @lilacandlipgloss. Note: She was not sponsored by Trunk Club. She paid for her clothes and blogged about it to share with her followers. This example is used to show that the most productive marketing channel for Trunk Club was word of mouth generated by customers)

process innovation as their competitive advantages. Stitch Fix provides similar personal styling service. It aims to sell a complete look to its customers through optional subscription services. It can be considered as a direct competitor of Trunk Club. Le Tote is a fashion subscription service which provides personalized styling consulting, but it lets customers to rent clothing and accessories instead of purchasing. Rent the Runway is also a fashion rental company. Although it does not have any personal styling service, it provides optional subscription service to customers which is similar to Trunk Club. It is interesting to explore how Trunk Club makes its unique business model a sustainable advantage over its rivals.

Stitch Fix can be considered one of the biggest competitors to Trunk Club given its similar business model and large customer base. Stitch Fix is an online personal styling service for men and women that also provides

its customers the option to subscribe for automatic shipments (Stitch Fix [n.d.](#)). However, unlike Trunk Club, Stitch Fix operations are limited to its website and it does not have any brick-and-mortar stores for those who want to consult their stylists in person. The company combines the expertise of their personal stylists with algorithm results to make recommendations to their clients according to their taste, lifestyle, and budget (Stitch Fix [n.d.](#)). At Stitch Fix, each customer is required to take a style survey and based on the answers they provide, Stitch Fix curates a set of five garments/accessories for the customers that they can check out from the website. Like Trunk Club, the customers can try out the outfits at home and return the pieces they do not want to keep. They also charge a styling fee of \$20, which is credited toward the final bill. However, the Stitch Fix process is based more on algorithms and data science, unlike at Trunk Club where the emphasis is placed on building a personal relationship between the stylist and the customer.

Le Tote is another fashion subscription service that lets its customers rent clothing and accessories for a flat monthly membership fee of \$69 for classic and \$79 for maternity clothing with no commitment to buy. However, it does give its customers the option to buy any item in the shipment at half its retail price. Le Tote has built a slightly different business model than Trunk Club and Stitch Fix, however the value offering to customers—personal styling with options for a periodic subscription—is the same. While Trunk Club and Stitch Fix are more inclined toward personal styling services through their team of stylists and through algorithms, respectively, Le Tote is more about subscription services and providing an endless closet for its customers through the rental services. Unlike Trunk Club, Le Tote is currently targeting only the women's market. Also, Le Tote operates only through its website and does not have any brick-and-mortar stores. Similar to Stitch Fix, Le Tote relies more on its algorithm to curate the wardrobe for its customers.

Another similar retailer, Rent the Runway, can be seen as a potential competitor for Trunk Club given the unique services it provides to its customers. The company has built an unlimited “closet in the cloud” for its customers. This means it lists its products on its website and allows its customers to rent an outfit when they need it. They have three types of subscription services to choose from. The customers can either rent an outfit for up to eight days as needed, or they can subscribe to a monthly or unlimited plan by paying a monthly subscription fee of \$89 to \$159. The customers receive four outfits every month that they can use once or

Table 5.1 Comparison of Trunk Club with three major competitors

	<i>Trunk Club</i>	<i>Stitch Fix</i>	<i>Le Tote</i>	<i>Rent the Runway</i>
Established year	2009	2011	2012	2009
Clientele	Men and Women	Men, Women, and Kids	Women	Women
Market position	High end	Mid-high end	Mid-high end	Mid-high end
Services	Subscription, personal styling, one-on-one style consultancy	Subscription, personal styling	Rent clothing, personal styling, subscription	Rent clothing, subscription
Styling strategy	Algorithm-assisted and dedicated personal stylists	Algorithm-based	Algorithm-based	None
Sales channels	Website, mobile app, brick-and-mortar stores (Clubhouses)	Website, mobile app	Website	Website, mobile app, brick-and-mortar stores

Source: Developed by the authors

as often as they want based on their subscription plan. The idea is to provide customers with a fresh wardrobe every month without having to buy anything. Like Trunk Club, Rent the Runway also has brick-and-mortar stores in selected cities where customers can try out clothing before renting. However, Rent the Runway does not provide any personal styling services to its customers. Instead it lists all products on its website and lets customers choose the style and size they want to rent. Table 5.1 provides a comparison of the four retailers and Fig. 5.5 illustrates the market positioning map of Trunk Club among these retailers.

SWOT ANALYSIS

Figure 5.6 summarizes the SWOT analysis of Trunk Club's business model conducted by the authors. As evident from the interviews and the data collected through its website and media reports, the biggest strength of Trunk Club lies in its unique customer service, which makes personal styling available to its customer segment through its website and its brick-and-mortar Clubhouses. Additionally, the company provides its customers the option to either subscribe to their trunks monthly or seasonally, or just make purchases when they need to. Basically, Trunk Club is leaving it to their cus-

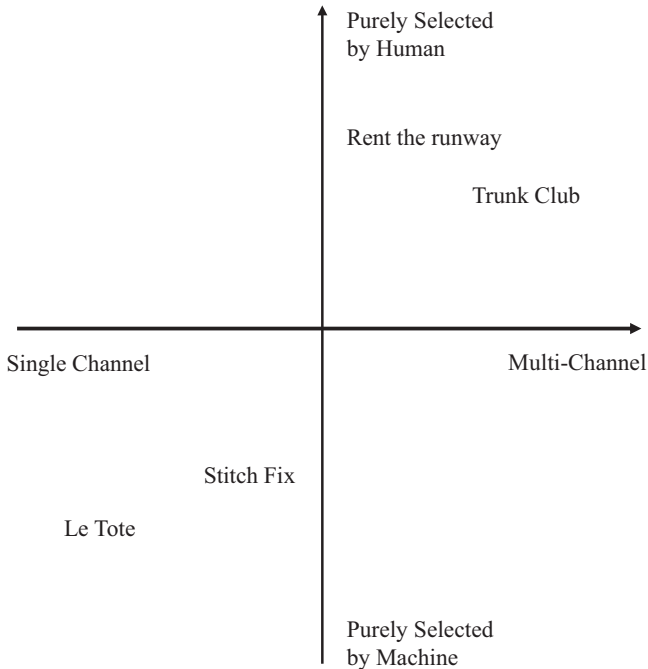


Fig. 5.5 Positioning map of Trunk Club. (Source: Developed by the authors. Note: Items from Rent the Runway are purely selected by customers, not stylists)

tomers to shop through whichever channel they feel comfortable with and whenever they feel the need to buy the product, unlike other subscription-based retailers who require their customers to subscribe for their service and need them to make the purchase through websites. One of their weaknesses may be their high operation cost largely resulting from personal stylists' services and maintaining Clubhouses. For example, if stylists are away for weekends or holidays, it is difficult for them to respond to customers' requests or questions. Trunk Club has to assign another stylist, which may increase the cost of communication and lower the satisfactory level of customer services. Also, compared to its major competitor Stitch Fix, Trunk Club has less strong brand recognition. Trunk Club mostly depends on media coverage and word of mouth for exposure and does not seem to be very aggressive in its marketing and advertising strategy. It definitely needs to create more awareness among people about the business as,

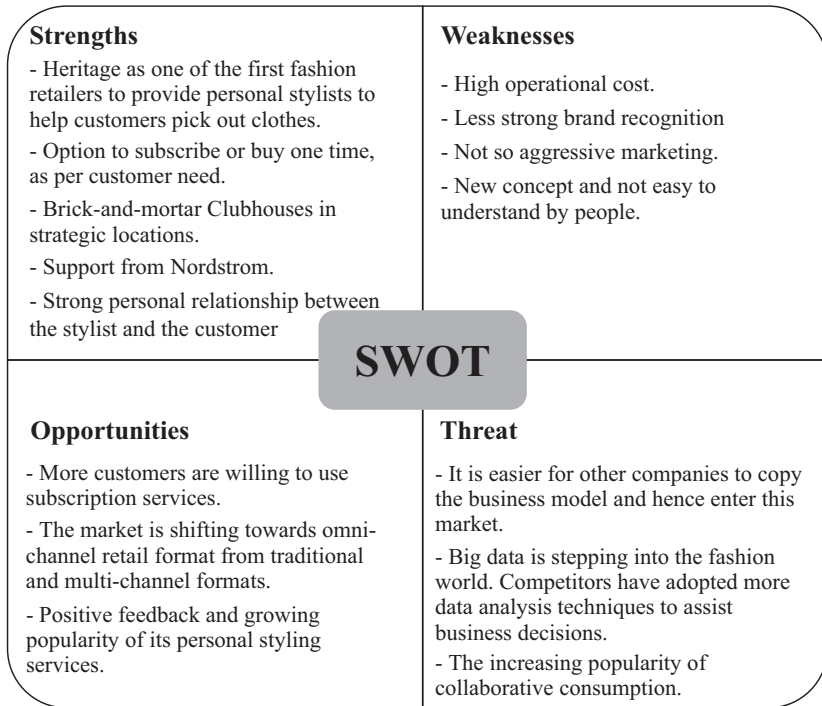


Fig. 5.6 SWOT analysis of Trunk Club's business model. (Source: Developed by the authors)

according to one of the interviewees, its services are very new and unique, which makes it difficult for the public to fully understand the concept. It took some time to make people comfortable with the idea, and it is evident how their perception and willingness to try the company's services has changed over the years. In addition, under the former CEO, Spaly, Trunk Club had been a heavily male-focused shopping. The Clubhouse in Chicago exuded a very masculine ambience (Lazare 2018). The company now is trying to change their company image and paying at least equal if not more attention to female shoppers.

The company has many opportunities in the market given its novel and unique business model. More and more customers in the United States are adopting subscription services for apparel, making an entire market with companies like Stitch Fix and Le Tote. Similarly, the current shift in

the retail fashion industry is toward the rise of an omni-channel retail format where many traditional and multichannel retailers have successfully integrated their sales channels to provide customers a seamless shopping experience regardless of what channel they choose to buy from. It is important to keep customers moving around within the brand ecosystem, with each channel working in harmony to nurture more sales and engagement. In this light, Trunk Club's omni-channel retailing strategies provide customers better shopping experience than its competitors. According to one of the interview participants, the public is becoming more comfortable and willing to try the services provided by Trunk Club now as compared to when it was started.

I think that they are much more widespread and customers are very accepting. When I first started at TC [Trunk Club], people were often confused by the concept. Now, most people have a much more clear idea of what it is before they sign up. I think customers enjoy engaging with all three types of formats. Especially our female clients—they seem to use Trunk Club as an additional channel to shop, not as their only channel.

In order to take the most advantage of these opportunities Trunk Club may consider increasing its brand awareness and expanding its reach to more locations by opening more Clubhouses in major cities. The threat for Trunk Club will lie in the imitability of its business model. New businesses willing to enter the market may be able to easily copy and customize the business model in order to provide similar services at a lower cost to this customer segment. For example, the e-commerce giant—Amazon launched Prime Wardrobe, a “try-before-you-buy” service. It might be a threat for Trunk Club as Amazon has low prices and massive customer base (Levine-Weinberg 2017). In addition, many other fashion companies have leveraged the power of big data. Trunk Club has to understand their competitors' strategies about using big data and technology. Compared to Stitch Fix, personalized recommendations at Trunk Club still heavily rely on human selections (stylists). How to effectively use data analysis techniques would be a good question for Trunk Club. The increasing popularity of collaborative consumption might be another threat for Trunk Club. Consumers may wish to rent a look instead of purchasing all items.

DISCUSSION AND IMPLICATIONS

The unique nature of Trunk Club's business model, including the process of providing curated style service based on both algorithm and personal stylists, makes this case study unique. In this light, the study will have several academic and practical implications. First, this is among the few case studies that address a business model innovation case of a fashion retailer who combines a subscription-based business model with omni-channel retail format and personal styling as one of its major value propositions. In addition, by offering unique curated style service by matching customers' needs, size, budget, and style preferences based on algorithm and the analysis of personal stylists, the company innovates the process of selling products for its customers. Hence, this case study adds to the literature of business model innovation, process innovation, omni-channel retailing, and that of subscription-based businesses. Second, the case further adds to the literature of social media marketing by discussing influencer marketing adopted by Trunk Club, which is a new area being explored by marketing and social media researchers. Finally, the SWOT analysis of Trunk Club's business model provides researchers further information on the pros and cons of its innovative model and, hence, a perspective to analyze other similar business models and make suggestions.

The study also has several practical implications for the retail fashion industry and other industries looking for process innovations. According to the annual reports, Trunk Club was worth \$197 million in 2016, which was less than Nordstrom's purchase price for Trunk Club (\$350 million) in 2014 (Rey 2016). The drop in total revenue can be attributed to lesser awareness of its services among the public and the rise of competition providing similar services at lower prices. Nordstrom admitted in a statement that "current expectations for future growth and profitability are lower than initial estimates." In the meantime, Trunk Club's major competitor, Stitch Fix, posted 2018 Q2 financial results of \$296 million in revenue, which beat analyst expectations (Rey 2018). The study makes some suggestions for Trunk Club to tap new opportunities and further improve its performance. As mentioned in the SWOT analysis, Trunk Club needs to further expand its market presence through more aggressive marketing and by opening Clubhouses in other major cities. However, a major challenge for Trunk Club in the future would be to maintain its lead in the market as its business model can be easily copied and modified by other new entrants. It is vital, therefore, for the company to keep

innovating and maintaining its competitive advantage. As Nordstrom currently is sharing more and more resources with Trunk Club in terms of customer base, inventory, and talents, Trunk Club may wish to leverage its resources in fine-tuning its current offering and expanding its presence to a large audience such as offering custom clothing for women or kids clothing.

Additionally, Trunk Club takes pride in its human-based styling services over complete algorithmic solutions adopted by its competitors, irrespective of the massive operational cost it incurs for the company. With advancements in technology and increasing accuracy of these algorithms with time, the company may consider increasing the use of such algorithms. This will not only help Trunk Club lower its operational cost, but also maintain its competitive advantage of having the human factor in styling services it provides at the same time. As Amazon prime wardrobe and Stitch Fix put more emphasis on data-driven models, Trunk Club may also continue its process innovation and utilize data more to not only make selections for its customers, but to forecast purchase behavior and demand and optimize inventory. The new president of Trunk Club, Terry Boyle, is “a technology and digital veteran with experience launching and scaling companies” (Trunk Club 2018). Moving forward, Trunk Club needs to incorporate more data analytics into every process of its business. That way, their business model innovation can be further efficiently managed through the process innovation.

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