Chapter 8

Fashion Technology and the Development of New Business Models

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ABSTRACT

This chapter explores the concept and components of business models and particularly, the technological innovation of predominant business models in the fashion industry associated with the phenomenon of convergence. The main inquiry revolves around how business models in the fashion industry are handling the ongoing challenges and changes of new technologies. This multiple-case study validates that technological convergence is the key to accomplishing business model innovation in the fashion industry. Limitations and further research are considered relevant because of the dynamic and complex extension of this topic and the current lack of published material.

INTRODUCTION

“When one looks at today’s fashion retailing news, it very often speaks of the changes” (Diamond, Diamond & Litt, 2015, p. 1). Before the 1880’s, fashion goods were restricted to the hands of a few wealthy consumers (Diamond et al., 2015), but expansive and innovative business values in the current fashion industry have enabled the development of a new fashion business environment including: worldwide hubs, multiple channels of online and offline sales, modernization of supply-chain, and a dynamic engagement between companies with other companies, companies with consumers, and consumers with one another, becoming active participants in fashion trends spread over social media platforms, e.g., Twitter, Facebook and fashion blogs (Rinnebach & Richter, 2014). The ongoing improvement of technologies and communication implies direct impact on business models and represents both risks and opportunities for companies’ management (Hacklin et al., 2013). The preponderant failure rate in the fashion business shows that managers encounter complex challenges (Rinnebach & Richter, 2014),

DOI: 10.4018/978-1-5225-3432-7.ch008
even though the profitability of the fashion industry indicates significant weight in the overall economy (Tungate, 2012).

This chapter aims to answer how current companies in the fashion industry are managing their business models in response to ongoing changes triggered by technological innovation. Moreover, the investigation intends to draw concrete findings from operating companies that can contribute to the development of feasible managerial initiatives and add valuable information to business literature.

**BUSINESS MODELS**

The advent of the Internet and new technologies appears to drive companies to further acknowledge the importance of their values to stakeholders and to develop sharper business models (Demil, Lecocq, Ricart & Zott, 2015). There are multiple views and discussions about how the elements and specific structure of a business model are defined (Morris et al., 2005; Hacklin, Battistini & Von Krogh, 2013; Hacklin & Wallnöfer, 2012; Bertels, Koen & Elsum, 2015; Gustafsson & Schwartz, 2013; Osterwalder, Pigneur & Tucci, 2005). Business models are discussed in the context of many different disciplines (Gustafsson & Schwarz, 2013; Teece, 2010), generating distinct interpretations in the existing literature and management applications. So, what is a business model? One plain answer defines it primarily as “the firm’s economic model” (Morris et al., 2005, p. 726). Yet, the concept of business model involves many more components, such as “revenue sources, pricing methodologies, cost structures, margins, and expected volumes” (Morris et al., 2005, p. 727). Business models appear to directly answer the following questions: “Who is the customer? What does the customer value? How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?” (Magretta, 2002, p. 4).

Business models act as the delivery of value proposition to consumers and account for evolving stages in order to capitalize on these values using one architecture or structure (Teece, 2010). In other words, they will hold all operations necessary to reach the company’s target (Al-Debei & Avison, 2010). The concept of business model frequently indicates the rationale behind companies’ operations (Teece, 2010; DaSilva & Trkman, 2014) or the “heuristic logic” that links technology to economic results by using the most opportunities of value chain to final consumer (Chesbrough & Rosenbloom, 2002). It is also related to the “blueprint of how a company does business… a conceptual tool containing a set of objects … that help managers to capture, understand, communicate, design, analyze, and change the business logic of their firm” (Osterwalder et al., 2005, pp. 2, 3, 11), comprising the “logic by which an enterprise earns its livelihood” (Clark, Osterwalder & Pigneur, 2012, p. 29).

“Value” is a word used in the conceptualization of business models among over 30 different overviews (Gockeln, 2014), confirming that business models deliver an important framework for creating and capturing value for new or innovative organizations (Hacklin & Wallnöfer, 2012) and that the creation of value happens when the “exploitation of business opportunities” occurs (Amit & Zott, 2001). Business models are able to frame value proposition to stakeholders (especially to consumers), to distinguish target market, outline feasible value chain processes, establish positioning and competitive strategies, and to describe the most efficient way to achieve profitable revenues with competitive advantage (Chesbrough, 2007; Sako, 2012).

Many authors agree that business models represent “systems of activities” (Martins et al., 2015) or “complementary” activities that develop company’s performance in operational and other business
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