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**Changes of Standard Business Models - A Multidimensional Analysis of the Digitalization in Fashion Companies**

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– *Masterarbeit* –

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## Table of Contents

Abstract .....	II
Keywords.....	II
List of Figures .....	V
List of Tables.....	VI
List of Abbreviations.....	VII
Appendix Table of Content .....	VIII
1 Introduction .....	1
1.1 Motivation and Relevance.....	1
1.2 Goals and Objectives.....	2
1.3 Outline.....	3
2 Literature Analysis and Status Quo .....	5
3 Theoretical Foundations .....	12
3.1 Fashion .....	12
3.1.1 From Vogue towards Fashion Industry.....	13
3.1.2 Statistics, Data and Facts.....	16
3.2 Digitalization.....	23
3.3 E-Business.....	26
3.4 Business Models.....	27
3.4.1 Standard Business Models .....	27
3.4.2 E-Business Models.....	31
3.4.3 Hybrid Business Models .....	33
3.5 Business Model Innovations.....	34
4 Central Research Question and Hypothesis Generation.....	39
5 Analytical Concept of Research.....	44
5.1 Research Method .....	44

5.2	Data Collection .....	46
5.2.1	Literature Research .....	46
5.2.2	Qualitative Expert Interviews .....	47
5.3	Data Preparation .....	50
5.4	Qualitative Content Analysis .....	51
6	Multidimensional Analysis and Results .....	53
6.1	Standard Business Model of Fashion .....	53
6.2	Digital Business Model of Fashion.....	64
6.3	Digitalization Impacts on Business Models of Fashion Companies .....	74
7	Discussion, Implications and Recommendations .....	82
8	Limitations.....	88
9	Conclusion and Outlook .....	89
	References.....	IX
	Appendix .....	XXII
	Ehrenwörtliche Erklärung.....	CIV

## 1 Introduction

### 1.1 Motivation and Relevance

Digitalization has a pioneering influence. It affects not only society to a rising extent, but also business, whole industries, and therefore the entire world.<sup>1</sup> Where humanity has made gains in value due to digitalization in terms of transparency, flexibility, and speed, which changes its requirements in regard to the business sector, digitalization provides opportunities as well as challenges for the companies at the same time.<sup>2</sup> Although businesses are able to benefit from digitalization, in some sectors it simultaneously leads to a removal or even substitution of traditional business models. Hence, traditional business is pressurised by innovative business models, which are made possible by digitalization.<sup>3</sup> Examples of this are business models like those of Uber, Airbnb, or Spotify. Such businesses revolutionise the model of a whole industry, changing market conditions as well as causing the reorganisation of entire sectors.<sup>4</sup>

The increased technological progress as a consequence of digitalization as well as the resulting rise in networking due to the steadily growing importance of the Internet leads to opportunities of value generation in a new and additional way.<sup>5</sup> Markets become more dynamic and companies have to react to those changes, so that existing firms are under high pressure to adapt or even innovate their business models.<sup>6</sup> Whether the changes and adaptations of business models are working in all industries as a consequence of digitalization remains questionable.

In particular, the bursting of the Internet bubble showed that in many sectors the majority of business models are unsustainable and not economically viable.<sup>7</sup> This can presumably be attributed to the lacking general understanding and underestimated importance of the business models within companies. A uniform definition of the business model is, in spite of the framework's significance, missing.<sup>8</sup> Especially in regard to digitalization, it is essential to understand that the key to generating new and additional values lies in the development of different and innovative business models.

The fashion sector, characterised by adaptability as well as transformability in terms of its constantly emerging trends, fundamentally should not experience any serious difficulties in reacting and adapting to digitalization.<sup>9</sup> An example of a consequence of digi-

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<sup>1</sup> Cf. Kollmann, 2011, p. 1.

<sup>2</sup> Cf. Zimmermann, 2000, p. 729.

<sup>3</sup> Cf. Meidl, 2015, p. 18.

<sup>4</sup> Cf. Brühn et al., 2014, p. 3 et seqq.

<sup>5</sup> Cf. Voelpel et al., 2003, p. 5.

<sup>6</sup> Cf. Barnes and Lea-Greenwood, 2006, p. 260; Von der Gracht, 2013; Celko and Gábor Jánzky, 2014, p. 44 et seqq.

<sup>7</sup> Cf. Hawkins, 2004, p. 65.

<sup>8</sup> Cf. Alt and Zimmermann, 2012, p. 3.; Amit and Zott, 2001, p. 494, 495.

<sup>9</sup> Cf. Masson, 2013, n.p.

talization in the fashion sector is the development of a strikingly large number of new market players with innovative business models, which creates a completely new marketplace. Zalando and Amazon are just two examples of innovative companies, which influence the market of fashion through their innovative modelling of business with fashion.<sup>10</sup> Nowadays fashion is available at anytime and any place. Change as well as further development of the fashion industry can particularly be attributed to the rising importance of the electronic commerce (E-Commerce), which arises in conjunction with the development of digitalization and the association with the Internet. Hence, digitalization as well as the Internet opens up new opportunities of getting access in a recently stagnating market, creating competitive advantage and generating profits by enabling steadily innovative opportunities.<sup>11</sup> Notably the Online-Shop is correspondingly gaining more importance, so that especially in terms of current growth rates within the fashion sector; it might be assumed that the future of the fashion sector lies in the online trade.<sup>12</sup> However, the extent to which the new business model influences the existing fashion firms is disputable. Thus, the degree to which the traditional business with fashion is indeed replaced remains to be examined. These are all issues that the present fashion sector and its players have to deal with at the moment.

## 1.2 Goals and Objectives

Based on the aforementioned relevance of the topic, the aim of the present thesis is to identify changes within the business model in the fashion sector triggered by digitalization. For this purpose, the primary research question to be addressed in the thesis at hand is:

***“How do standard business models of the fashion sector change with regard to the development of digitalization?”***

To answer the question of whether conducting the investigation is with a practical orientation supported by interviews with experts from the fashion sector. Thus, the objective is assisted by combining the theoretically-developed status quo on the one hand and the practice on the other hand. In this case, an optimal insight into the business with fashion is provided. For this reason, the framework of the present investigation is built using the findings regarding the initial situation as well as existing approaches out of the theory. Furthermore, the hypotheses are generated in connection

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<sup>10</sup> Cf. Metzger and Enkel, 2013, p. 432, 438.

<sup>11</sup> Cf. Boersma, 2010, p. 25-26, 33.

<sup>12</sup> Cf. Ramge, 2013, p. 30.

with the central research question as well as the status quo, which are of prime importance in regard to the further research proceeding.

The empirical survey aims to review the practical application of the existing business model approach in terms of the fashion sector, analysing the changes within this business model approach affected by digitalization, and hereinafter identifying solution approaches and recommendations regarding digitalization. In this process within the present thesis, an enhanced insight into the practice of the fashion sector and the influences in terms of digitalization shall be examined and the development of a better understanding of the main core of the business model of fashion firms shall be gained.

### **1.3 Outline**

The structure of the present thesis comprises nine chapters and is illustrated in figure 1. Within this first chapter the research question is established and the relevance of the topic is described. Following this, the research gap is demonstrated. Furthermore, introductory questions concerning the goals and objectives are described. The first chapter is followed by an overview of the existing literature in chapter 2. This chapter serves as a reprocessing of the existing academic literature and reveals a portion of the current status of research in regard to business model definitions as well as business model concepts and frameworks. Chapter 3 of the thesis at hand lays out the theoretical foundations, which are considered to be the fundamentals of the present investigation and shall contribute to a better understanding in the following. Hence, this section represents the descriptive part of the fashion sector, digitalization, and the business model in general. In particular, the definition of business models and their various frameworks are explained in detail, since the main emphasis of the thesis at hand is being placed on the concept of the business model as a unit of analysis. In this process the needed basic terms are clarified and the framing is signified. Afterwards, the theoretical information is used to examine a multidimensional analysis, which is underlined by the interviews with experts from the fashion industry, specifically the textile and clothing sector. Whereas the development of the research question and the hypothesising is presented in chapter 4, the analytical concept of research builds the focus of chapter 5. Based on the development of the research questions and the additional deduced sub-questions, the hypotheses were created to structure the investigation. The methodical proceeding of the present thesis in chapter 5 is organised in four parts. Whereas the first two parts are about the research method and data collection, the third and fourth sections of this chapter deal with the method of data preparation as well as the subsequent analysis of the collected data. Here, the general concept of qualitative research as well as the process and operation of qualitative interviews with experts are documented. Along with the analysis of those interviews, the so-called computer-assisted content analysis is described. The following two chapters are creat-

ed to discuss the specific changes of the business model in terms of the fashion sector. Thereby, chapter 6 deals with the multidimensional analysis of the business model changes and innovations, and runs a comparison between the standard and the digital business model in terms of the hypotheses. Consequently, at this point the previously described and, for this thesis, underlying business model frameworks are investigated in regard to the textile and clothing industry, and differences or changes are analysed. Moreover, within the multidimensional analysis, the results of the interviews with experts are demonstrated in terms of hypothesis testing. The results from this analysis in the previous chapters are afterwards discussed and accentuated by possible explanatory approaches. Hence, chapter 7 contains the discussion and implications, as well as creates recommendations for actions and approaches of possible solutions. Ultimately, the final chapters include the critical evaluation and are broken down in terms of their limitations in chapter 8 and the conclusion as well as the outlook concerning future research, additional open research gaps, and remaining questions concerning the topic of the present thesis in chapter 9.

As mentioned at the beginning, figure 1 provides an overview about the structure of the thesis at hand:

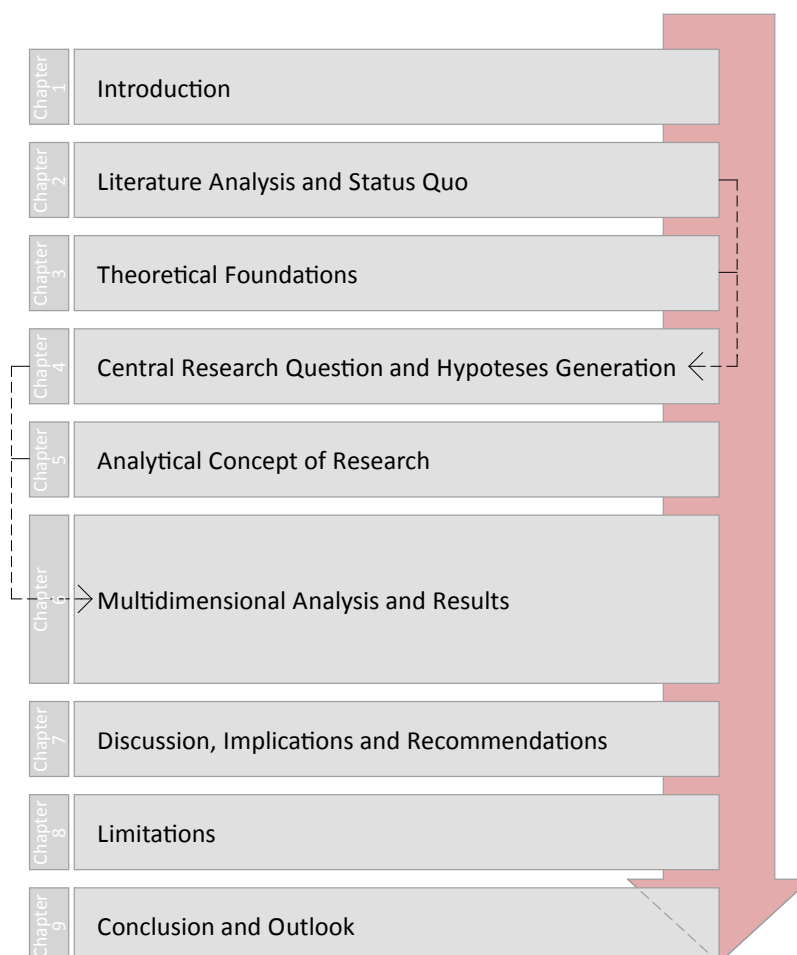


Figure 1: Structure of the present thesis.

Source: Own illustration.

Further limitations in terms of the thesis at hand can be seen in the complexity of the topic. Just the topic of business models in general features high complexity. As in the results shown, digitalization also results in rising complexity for the entire fashion industry. As a consequence, limitations have to be set in terms of the whole industry. Hence, the focus of the present thesis and its investigation of to what extent digitalization changes the classical business model, is built on a single sector which is the fashion sector. In conjunction with the selected industry, the fashion sector of Germany in particular plays the major role. As a consequence, the results of the present thesis can only be generalised to a limited extent. In this process, the developed recommendations and innovations within the presently used business model approach are transferable to only a limited degree and the generalisation remains to be examined in order to provide a more meaningful representation of the results. In terms of the extent of the thesis at hand it was not possible to emphasise the findings with absolute numbers. For that reason, it was impossible to obtain the absolute size of the German fashion market by high quality data and sources. Moreover, the author's own empirical calculation involves too high an empirical effort for the scope of the present thesis. Thus, it was not deductible to produce findings in terms of empirical numbers and thereby provide further meaningful results. For this reason, it was among others impossible to conclude by numbers whether or not, through digitalization, a greater portion of the market is available for companies, hence leading to a higher realisation of market potential, or if, due to the existing classical business models within the fashion sector, a coverage of the market is provided, thus developing predatory competition as a consequence of digitalization. Therefore, questions like "What opportunities of market share are created by digitalization?" were not able to be answered.

Furthermore, statements regarding additional investments as a result of digitalization in terms of absolute numbers were not able to be formulated. Consequently, the additional costs in numbers arising by digitalization are unknown.

To sum it up, the main focus of the thesis at hand was consequently to detect changes and required innovation within the business model, which are driven by digitalization, rather than to analyse the additional potential given by digitalization in the fashion sector.

## **9 Conclusion and Outlook**

The aim of the thesis at hand was to build up the methodological development of changes within the business model of fashion firms in terms of digitalization. In order to gain an initial overview, the research gap was first analysed from a theoretical perspective by explaining the status quo of the business model research as well as the current fashion industry. Furthermore, a suitable approach for analysing the business model within the fashion sector was illustrated. In order to include not only theoretical



underpinnings but also practice-oriented aspects, a qualitative research in terms of qualitative interviews with experts were made in addition to the literature research. Within this qualitative research, four experts contributed information out of their own practical experiences gained by their work in fashion companies or fashion associations, and thereby added value to the empirical data collection. The empirical data collection which emerged out of the qualitative research resulted in a useful supplement of the previously conducted theoretical investigation. Using the theoretical information as well as the data collected from the interviews with experts, a comparison between the standard business model and the digital business model was made to reveal the changes and innovations which resulted from digitalization within the business of fashion. Furthermore, the established research question, as well as the hypotheses were discussed in the light of the results concerning the qualitative interviews. Additionally, implications were discussed and recommendations were made.

In conclusion, digitalization as well as the arising Internet created new rules for humanity but, with special regard to the present thesis, also for running a business in the fashion sector. Rising technology allows new ways of creating business and hence defining business models, which puts pressure on the standard business with fashion. However, with respect to the importance of including digitalization in one's business, a further result of the investigation at hand is that digitalization within the fashion market will not replace traditional business. Where digitalization and the Internet not only create benefits in terms of new distribution channels, especially in this part as a core competence of the fashion sector, a hybrid business is seen as the only possible model for the future. Nowadays and in the future as well, consumers will be served by a multitude of channels. It cannot therefore be considered that digitalization will rule out or replace the standard business model of fashion companies. In point of fact, digitalization, with its influences of flexibility, transparency, speed and the like, can be defined as a supplement for the fashion sector. The complementary nature of digitalization in the business of fashion in addition creates higher complexity within the market but especially within one's business model.

As a final result, it can be said that the detailed understanding of digitalization itself as well as its impacts and with it in particular, its challenges for the fashion sector, has to exist as the decisive factor to include digitalization in one's business model or implement new business models with regard to digitalization. Once a detailed knowledge is present about the new technology and its evolving effects in terms of innovative information and communication technologies like the Internet, only little restrictions within the business model and the changing business due to digitalization exist for fashion companies. The question of the success of fashion firms and their innovative digital business models rather lies in the acceptance by the customer, which shows the increasing power of consumers. Hence, the end-customers have to be positioned in

the centre of the business model in fashion companies in order to achieve a successful market position. Additionally, in this process, the thinking within business models as a whole is not to be underestimated.

With respect to the further research needs, a high potential of investigation exists relating to the present topic. Future research could be extended to other sectors and industries in terms of examining the influences of digitalization in the standard business model of other industries. Thus, the resulting changes as well as innovations of digitalization could be investigated regarding homogeneity. Furthermore, the recommendations in conjunction with the changes created by digitalization could be analysed concerning empirical foundation as well as generalisation. Moreover, the present investigation could be extended concerning the increasing number as well as usage of mobile devices including Apps and their effects on the business model in the fashion sector and also in other markets.

To sum it up, a variety of research possibilities can be shown, which among others, result from the relevance and topicality of the present topic as well as its rising importance as a result of on-going digitalization in the future.