Chapter 11
Fast Fashion Business Model:
What, Why and How?

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ABSTRACT

The greatest difficulty any apparel company encounters is managing demand uncertainty and controlling strategic consumer behaviors (consumers' propensity to delay purchase intentionally until a sale occurs). Fast fashion retailers, however, have overcome these challenges by supplying the small quantities of latest fashion with agility, which has resulted in profitable revenue gains. This paper reviews what a fast fashion model is, why a fast fashion business model is becoming prominent in today's apparel business, and how the supply chain is managed in a fast fashion business model. By examining the operation strategies of two successful fast fashion retailers (Zara and H&M), this study concludes with the elements of the fast fashion business model that can be effectively adopted by fashion retailers and future of fast fashion business model.

INTRODUCTION

The apparel industry is indeed a dynamic business. The industry is characterized by demand uncertainty resulting from the high variation in styles and consumer tastes and the handling of numerous SKUs (Stock Keeping Unit, the most detailed level of product specification) in a season, which makes it impossible to forecast demand accurately. Therefore, the ability to manage uncertain demand is a critical element of success for the industry (Hayes & Jones, 2006). Another challenge the apparel industry faces is the consumers' propensity to delay purchase intentionally until

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a sale occurs, which leads to fewer sales at full price, automatically eroding retailers' margins and drastically reducing profitability. Such consumer behavior is referred to as strategic or rational consumer behaviors in academic literature (Cachon & Swinney, 2009; Rozhon, 2004). Thus, another important success element in the apparel industry is how to control the strategic consumer behaviors and have them purchase at the initial full price.

Most fast fashion retailers (e.g., Zara, H&M, Forever 21) outperform non-fast fashion retailers (e.g., Gap, Ann Taylor). The average profit margins of fast fashion retailers are 16%, compared to 7% for the typical specialty apparel retailer (Sull & Turconi, 2008). Over the last five years, Zara (Inditex) and H&M have attained a 19.2% and 8.4% annual growth rate, respectively. In the same period, Gap, Inc. has experienced a negative growth of -1.7% (Datamonitor, 2008; Gap, Inc., 2009; Hoover's, 2009a; Hoover's, 2009b; H & M, 2009; Inditex, 2009), resulting in Inditex's annual growth rate being nearly 20 times that of Gap, Inc. (Table 1). All three companies are comparable in the list of the 2008 top 250 global retailers in terms of sales volume: Inditex ranked 54, H & M ranked 60, and Gap, Inc. ranked 53. The group net income of Inditex (US$1,842 million), however, is almost twice that of Gap, Inc. (US$967 million) in 2008 (see Table 1). Gap, Inc. has also lost its brand share in the world apparel market, while Zara and H&M have both been growing steadily (Figure 1).

This paper regards the success of fast fashion apparel retailers as a result of solving two main

Table 1. Financial Performance of Inditex, H&M, and Gap, Inc. as of 2008

	Inditex	H&M	Gap, Inc.
Sales rank among the top 250 global retailers as of 2008	54	60	55
2008 group revenue (US$ million)	15,194	23,084	14,526
2008 retail sales (US$ million)	15,048	14,154	14,526
2008 group net income (US$ million)	1,842	814	967
2003-2008 retail sales compound annual growth rate	19.2%	8.4%	-1.7%

Source: Developed by authors based on information available at www.deloitte.com

Figure 1. Brand Shares (Market Shares) in the World Apparel Market. Source: Euro-monitor: http://www.portal.euromonitor.com/Portal/ResultsList.aspx