LXRY 665: LUXURY INDUSTRY AND COMPETITIVE ANALYSIS OF READY-TO-WEAR FASHION
For Professor Dr. Ingo Böbel

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MLUX Program 2011-2012
January 13th, 2012
Executive Summary

The ready-to-wear segment refers to men and women’s clothing made in a factory setting as opposed to by hand, sold finished and in standardized sizes. The democratization of couture by Yves Saint Laurent prompted the subsequent offering of this clothing segment. The title ready-to-wear—was first used in the late 1950s and even today has many differing connotations. Luxury brand designers produced ready-to-wear garments for fashion houses, often as a secondary collection after couture. Ready-to-wear constitutes the modern design wardrobe. In France, ready-to-wear apparel is protected by the associate bodies the Chambre Syndicale du Prêt-à-Porter des Couturiers et des Créateurs de Mode and the Chambre Syndicale de la Mode Masculine, for women’s wear and menswear, respectively.

This analysis provides an evaluation of the ready-to-wear segment through a varied literature review.

Through the presentation of my own research approach, I have sought to elucidate key statistics on various macro and micro economic levels, furnish insight into the profitability of the segment, and to illustrate the effect of outsourced production and the threat that fast fashion merchandisers pose to the segment and its profitability.

Regarding methodology, the analysis begins with musings on economic geography theory and the broad five sectors into which all economic activities may be divided. It then focuses on a present world economic outlook in general. Economic Activity is briefly addressed with a graph showing the ranking and spatial agglomeration of cities. Then focusing on the Secondary Sector as formulated by economic geography the various types of economic goods are described. Apparel, Accessories and Luxury good statistic are given for both Europe and the United States. Segueing into a smaller classification, supported by the French government, this report
transitions from the broad scope of the Secondary Sector of economic geography to the French sector labeled Industry in order to focus the scope of the report on France and luxury. Their manufactured goods sector is entitled Fashion and Luxury goods. Using the model entitled Spectrum of Industry Structure, this report identifies the market structure as Oligopoly (also CR4 model). Furthermore, after focusing research on the three key players, the luxury segment of ready-to-wear comes to light through the use of the Consumer Prestige-Seeking model by Vigneron and Johnson (1999), Porter’s value chain and my own graphs). Focusing on issues relevant to ready-to-wear, I conclude by summarizing my key findings via Michael Porter’s Five Forces.

My key findings suggest that ready to wear is not a mature segment of the luxury sector. They are more variable than other product categories and are being challenged from internal factors and external ones, i.e. manufacturing and product outsourcing to fast fashion retailers. There is much study to be done on the luxury segment. Real limitations to research were posed by the fact that most specific apparel market research and statistics must be bought and are very expensive. Additionally, most “apparel industries” are so fragmented that there is no real typology in place and it is hard to extricate information on luxury ready-to-wear from typical apparel of every kinds.
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Acknowledgements

Firstly, I would like to thank Professor Dr. Ingo Böbel’s for his insight and guidance throughout my first economic course. Secondly, I would like to acknowledge Professor Corine Cohen for guidance through the master’s Introduction to Luxury course.

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1. Industry Competitive Analysis

This competitive analysis will begin at a macro-economic and global scale using aspects of general economic geography to guide its course. Then, this report will narrow its focus to the Fashion & Luxury Goods sector as defined by the French Government. Focusing on one luxury segment of the sector, this report will seek to specifically define and analyze luxury ready-to-wear apparel, and to furnish further insight into the profitability and impact of this significant and evolving segment in fashion. Ultimately, this report will address some key issues in the luxury apparel sector such as the economic impact of outsourcing and the effect of the degradation of luxury ready-to-wear into that of fast fashion. Concepts found throughout this report will be reiterated and expanded upon in Michael Porter’s Five Forces framework.

2. Economic Geography & the Five Sectors of Economies

The theory of economic geography\(^1\) at its most basic can offer insight into the ordering of industry at a macro-economic level. It can be upheld that every nation’s economic activities, regardless of the size or the state of the economy, can be divided and classified into various sectors. Such divisions allow a greater understanding of what parts of the economy contribute to the economic health of a country and beyond. For instance, a national economic sector can be agricultural, business-related or even service related in nature.

Diverging from a traditional econ-focused method of analysis, some researchers move towards to economic geography to gain a more broadened view of economic outlook. Although this report will have its foundation in traditional economic theories such as supply and demand, it is interesting to begin with a more broadened view in terms of economic outlook as had been expounded upon by various geographers and notable American economists such as Paul Krugman\(^2\) and Jeffery Sachs\(^3\).

\(^1\)http://geography.about.com/od/urbaneconomicgeography/a/sectorseconomy.htm
\(^2\)New Economic Geography lends itself to national economic analysis:
http://www.princeton.edu/~pkrugman/aag.pdf
\(^3\)Economic growth correlated with geographical variables:
Subsequently, Matt Rosenberg, author of the *Handy Geography Answer Book* and *The Geography Bee Complete preparation Handbook*, classifies the world economy through an economic geography lens detailing five main economic sectors into which can be categorized all national industries under the titles Primary through Quinary. These sectors of classification originate with industries most closely associated with the earth. The sectors afterward continue to those industries that are peripheral to raw material.

Commencing this organization is the primary sector of the economy as it is concerned with extraction of raw materials or harvesting for food, which fall under the industry titles of mining, agriculture, forestry, and fishing for example. In undeveloped nations, the labor force is primarily tied to this land & earth based sector; whereas, in developed countries the majority of the workforce is employed in the Secondary through Quinary sectors.

The Secondary Sector of the economy is comprised of the manufacturing of finished goods. This broad sector encompasses many economic processes that deal with creation, construction and industrialization. (ie. production of textiles, cars, airplanes.)

The service industry, in this model, is classified under the Tertiary Sector. Services include retail sales, transportation, distribution of goods, restaurants, tourism, hotels, and banking etc.

The Quaternary Sector is defined as the sector of intellectual activities, which relate to the economic environment such as the government, educational system, scientific research, culture, and technology.

Lastly, the Quinary Sector is interpreted by some economists to encompass the apex of decision-making in an economy, i.e. top minds in government, sciences, educational institutions, and nonprofits would be placed into this geographical economy sector.

It must be noted that Economic geography is a flexible discipline and can entail a wide number of relevant economic theories, hypotheses and geographical focuses. Some of these include special economics (dealing with location, urban agglomeration, spatial competition and regional and urban economics), international trade theory and the influence of global relationships on economics.

3. World Economic Outlook

According to the International Monetary Fund’s economic and financial surveys for September 2011, the global economy is in an uncertain state characterized by structural issues,
fallen confidence and turbulence. Two of the main forces affecting the international economy are rising commodity prices and the budget deficits of many nations. In this apparently turbulent atmosphere it is essential to note that although the price of commodities is rising, the luxury industry can be somewhat bolstered through times of recession or economic unrest. The luxury industry generally suffers most when the top percentages of high net-worth individuals stop spending. However, some critics believe that due to the democratization of luxury and its focus on a more middle market luxury goods are becoming increasingly susceptible to shifts in the world economy.

3.1 Economic Activity

Touching on Economic geography’s theory of urban agglomeration this report includes a cross-section of global economic activity rank by city (spatial concentration) from the Citi Private Bank and Knight Frank worldwide to illustrate global economic activity in general. In economic activity ranking, Citi Private Bank uses 5 main criteria: output, income per head, market activity, market share and the number of international business headquarter in each city to show thriving economic influence and ultimately market power.  

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5 http://www.knightfrank.com/wealthreport/

As clarified above, the Secondary main grouping of industries at that is present throughout global economies detailing manufactured goods. Economic philosophy cites a good as a psychical object of value that is produced in order to satiate human beings wants. The various types of economic goods are classified below. Statistics to follow will fall under the Secondary Sector and focus primarily on the whole category of apparel, accessories and luxury goods in Europe.

4.1 Homogenous Goods vs. Differentiated Goods
Homogenous Goods are goods that are equivalent or the same offerings (homogenous goods appear in the model of perfect competition). Differentiated goods are ones which are different than others and therefore may allow a producer to gain a competitive advantage.

4.2 Public vs. Private Goods
A public good is considered one, which can be freely consumed by individuals without taking away the possibility of consumption by others. Additionally, no individual can be prevented from using the good or resource. A private good on the other hand is one, which is usually sold for profit and can be consumed or enjoyed only by the owner or owners.

4.3 Normal vs. Inferior Goods
A normal good is one, which is increasingly demanded as the real income level of a person increases. Conversely, an inferior good is one for which demand declines as the level of income decreases.

4.4 Veblen Goods
Specifically pertinent for the luxury sector of my analysis below is the concept of Veblen goods, named after 19th century economist Thorstein Veblen. He wrote in his 1899 treatise “The Theory of the Leisure Class,” that spending became the way that people established their social position in an affluent society. The desire of the bourgeoisie to emulate the aristocrats was the main motivator of economic abundance.

The desire for consumption increases as price increases for these commodities. This concept is contrary to the law of demand, which dictates that demand increases for a good when price decreases and demand falls as price increases under the directive of ceteris paribus, “all things remaining the same.” Veblen addressed topics such as the conspicuous consumption of the leisure class, which highlighted posturing, and status-seeking.

(As we will see later in the analysis, a luxury good is differentiated, private, normal and a generally can be considered a Veblen good. Also, luxury goods have a positive price elasticity of demand.)

5. Secondary Sector: Focus on Apparel, Accessories & Luxury Goods

5.1 In North America

According to the New "Global Clothing, Footwear, Accessories and Luxury Goods Specialists Market Size and Forecast to 2015" Published by iCD Research and MarketPublishers.com, North American revenue in these goods sectors combined increased 15.4% to $106.1 million from the prior year (mostly lead by footwear and wool accessories). In Europe revenue from these categories increased 37.4% to $91.7 million. Additionally, in Asia, revenue from clothing, footwear, accessories and luxury goods increased 40% from to $42.3 million.

5.2 In Europe

Included in these specific manufactured goods statistics are a wide array of product categories such as menswear, women’s wear, childrensware, footwear, watches and jewelry, luggage and leather goods sold through almost every retail channel. Additionally, the title of “Europe” encompasses both western and eastern Europe. These statistics are to show the market characteristic of goods in general.

This grouping of goods reached a value of $529,782.8 million dollars in 2009. The 2014 estimate forecasts these goods to increase 9.8% to $581,642.3 million. Clothing goods make up the majority of the markets total value: 72.5%.

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(DataMonitor- Apparel Accessories & Luxury Goods in Europe)

6. Fashion & Luxury Goods
France, which demonstrates the diversity of national economic classifications, typifies its own economy in the following categories: Agriculture, Forests, Energy, Industry, Service Sector, and Foreign trade\(^9\). Accordingly, the French sector of Industry is relatable to the Secondary Sector of manufactured goods addressed above; however, for the Secondary Sector statistics even though they did include some luxury goods, the statistics also included retail giants such as H&M to demonstrate the profitability of generalized “goods,” for the sake of this report.

President of Affluent Insights Chris Ramey asserts, “In the product goods arena, luxury is about the artist that creates the product.” “A commodity is about making it as inexpensively as possible and selling it as inexpensively as possible,” he said. “[However], luxury is emotion whereas a commodity is about rationalization.”\(^{10}\)

Therefore as the analysis is narrowed further, we take into account that under the French Government’s Industry classification is the Fashion and Luxury Goods division is devoted to luxury products. France is considered the global leader in production of luxury goods. It’s long heritage of Fashion and Luxury Goods encompasses haute couture, ready-to-wear, leather goods, perfumes, cosmetics, and fine glassware, all the traditional paradigms of luxury.

6.1 Key Statistics
The personal Luxury Goods market was projected to reach 191 Billion Euros by the close of 2011 (for a 10% increase from 2010).\(^{11}\)

Luxury goods sales online reached 5.6 Billion euros in 2011.

From 2009 to 2011 there has been increase in revenue from 153 Billion euros to 191 Billion euros.

Overall there was a 10% growth in the luxury industry and emerging markets are becoming extremely significant for example, central Europe, brazil, the Middle East, Russia and India.

The U.S. accounts for 48% of the luxury goods market revenue, followed by Japan, Italy, France, China and the UK.

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\(^{10}\) [http://www.luxurydaily.com/how-to-avoid-turning-the-luxury-brand-into-a-commodity/](http://www.luxurydaily.com/how-to-avoid-turning-the-luxury-brand-into-a-commodity/)

\(^{11}\) Bain & Company Luxury Worldwide Market Study 10\(^{th}\) edition
Chinese customers, at home and abroad, account for more than 20% of the global luxury consumption.

Leather accessories (leather goods and shoes) maintain high growth in 2011 after booming in 2010.

Hard luxuries (21%), accessories (17%) and apparel (10%) are experiencing continued growth.

7. On Competition

The entire objective of competition is to make a good profit. Competition does not always represent a need to produce or be the best in a market but rather to create something of value in order to attract and please your customer base. The seller of a good is assumed to try and maximize profit from a transaction (via the theory of profit maximization) while a buyer is assumed to also try to maximize his or her own gratification.

8. Spectrum of Industry Structure

The fashion and luxury goods market structure is an oligopoly by nature. An oligopoly is a market structure in economy theory with a few firms, significant barriers to entry, and powerful potential for differentiating products produced by the firms in the market. Nonetheless, if more firms are enticed by the market attractiveness and join the market, the concentration of firms is lessened and therefore market share and power decline. The pricing of goods at this point would become closer and closer to marginal cost due to the rise in competition. Market strength is dependent on market concentration as mentioned above. It is also dependent on the elasticity of demand. If demand in the market is elastic, concentration of firms won’t affect price. It the demand in the market is inelastic any change in firm concentration will most likely affect price strongly. Market structure is constantly evolving due to new entrants and incumbents exiting. In
luxury, however, a market presence who is nearing market exit may be snapped up by a conglomerate and restructured so as to profit.

This CR4 model is also used by some economists to classify market structure by concentration. (http://faculty.babson.edu/gwin/indstudy/index.htm)

<table>
<thead>
<tr>
<th>CR4</th>
<th>Interpretation of Market Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR4 = 0</td>
<td>Perfect Competition</td>
</tr>
<tr>
<td>0 &lt; CR4 &lt; 40</td>
<td>Effective Competition or Monopolistic Competition</td>
</tr>
<tr>
<td>40 &lt;= CR4 &lt; 60</td>
<td>Loose Oligopoly or Monopolistic Competition</td>
</tr>
<tr>
<td>60 &lt;= CR4</td>
<td>Tight Oligopoly or Dominant Firm with a Competitive Fringe</td>
</tr>
<tr>
<td>90 &lt;= CR1</td>
<td>Effective Monopoly (near monopoly) or Dominant Firm with a Competitive Fringe</td>
</tr>
</tbody>
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source: http://faculty.smu.edu/sroy/indorg06lec6.pdf

Also, it is significant that presence in the main luxury markets of North America (mature market), Western Europe (mature market), Asia Pacific, and Japan (although some reconstructuring is occurring due to the economic downturn caused by the 2011 earthquake and subsequent tsunami) is representative of nearly every luxury brand. Luxury firms are now looking to enter into the emerging markets of Brazil, Russia, India and China if they have not already tentatively done so (to accommodate for barriers to entry such as restrictive foreign laws, discrepancies on price due to local economies inflation, duties, and taxes).

9. Supply: Firms

The fashion and luxury goods sector of the French Economy is made up of multi-brand conglomerates and mono-Brand privately held or family firms. The three most powerful Multi-brand conglomerates are LVMH, Richemont, and Gucci Group. The historical development from small family businesses to powerful publicly traded entities has occurred through numerous acquisitions and mergers, which consolidated the major players into powerhouses with copious brands under their control. Thus, the market share of these three conglomerates (which will be shown below) is relatively concentrated.

9.1 LVMH

The global luxury goods leader LVMH–Moët Hennessy Louis Vuitton, is a conglomerate owned by French Businessman Bernard Arnault. The group encompasses more than 60 well-known powerhouse brands across numerous product categories such as Berluti,

\[LVMH.com\]
Fendi, Givenchy, DFS, Loewe, Guerlain, Make up for Ever, Moët & Chandon and Pucci. It operates in 5 main sectors: wines and spirits, fashion and leather goods, jewelry and watches, cosmetics and perfumes and selective retailing. LVMH has been continuously characterized by avid mergers and acquisitions. Most recently LVMH has acquired Bulgari and has shown dedicated interest in wresting the renowned leather goods company Hermes from the family.

Another important fact regarding LVMH is the fact that one of the earliest successes at Louis Vuitton was pioneered by Henry Racamier who discovered that retailers as franchisees were making the biggest profits due to retail mark-ups. Thus, he implemented vertical integration in luxury which is the cutting out of the middleman and the opening of Vuitton directly owned and operated stores. It is important to note that today most luxury companies follow Racamier’s vertical integration model.

Size of the company:

- Created in 1987 via merger
- Revenue of 20 billion euros (financial indicator)
- 80,000 employees (with 77% employed outside of France)
- 2545
- Operates in 5 sectors: wines and spirits, fashion and leather goods, jewelry and watches, cosmetics and perfumes and selective retailing

Performance of the company:

- Uninterrupted growth between 2010 and 2011

Activities performed by the company:

- New target: emerging markets
- Selective Retailing of duty-free goods which accounted from 26.5% of revenue in fiscal 2010

9.2 Richemont

Is the second largest luxury goods player, specializing in watches and jewelry. The company is controlled by the Rupert Family. Mr. Johann Rupert is the Executive Chairman. It has prominent holdings of Cartier, Van Cleef & Arpels, Montblanc, Piaget, Baume & Mercier,
Jaeger-LeCoultre, Lancel, Alfred Dunhill, Chloe, Azzedine Alaia, and NET-A-PORTER.COM. Overall the company is extremely focused on watches and acquiring watchmakers.

Size of the company:
- Genesis in 1988
- Revenue of 6 billion euros (financial indicator)
- 20,000 employees
- Operates Globally
- Operates in 4 sectors: watches, jewelry, writing instruments and other

Performance of the company:
- In 2011 Richemont’s Fashion Apparel Sector under the title of other businesses had 967 Million euros in sales—a 66% change from 2010\(^\text{13}\)
- Richemont’s largest market is Europe accounting for around 40% of sales

Activities performed by the company:
- Fragmentation of the industry for design, manufacture and distribution of premium accessories (writing instruments, leather goods and fashion) yet, represents some 30% of the turnover
- Richemont has established central functions and a regional structure globally to centrally manage distribution, final, legal and administration
- Controls 8 specialist watchmakers centralized in Switzerland
- Fully integrated

\(^{13}\) [www.richemont.com/investor-relations/key-figures/sales-by-business-area.html]
9.3 Gucci Group

PPR started as a timber company under the control of Francois Pinault, transitioning into retail activity in 1991. Pinault has always had diversified holdings. In 1999, the group enters the luxury sector acquiring stake in Gucci Group, YSL, YSL Beauté & Sergio Rossi. Boucheron, Bottega Veneta, Balenciaga, Stella McCartney, Alexander McQueen follow. PPR’s iconic luxury holdings cement its reputation as a key player in the luxury goods market, although it continues to expand into the fast market consumer goods sector. Gucci Group Now controls bespoke menswear company Brioni.

Size of the company:

- Created in 1921
- Revenue of 4 billion euros
- 11,941 employees
- 684 directly operated stores
- Operates in 4 sectors: leather goods, ready-to-wear, shoes and other

Performance of the company:

- 897 million euros in recurring operating income (financial indicator)
- 33% of revenue from Western Europe, 30% from Asia Pacific and 18% from North America in 2010

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14 Ppr.com
Activities performed by the company (cf. Value Chain & Supply Chain models)

- Fully integrated
- Manufacturing & Selling
- Distribution network of direct operated stores
- Parent company PPR purchased land in Switzerland to better allow luxury international distribution and logistics\(^{15}\)

9.4 Other Key Players

Mono Brand Key Players: Chanel, Armani, Burberry, Ferragamo, Valentino,

Family owned: Hermes, Ferragamo, Prada, Chanel

Multi Brand: Hermes International

10. Minimal Collusion in the Market: Comité Colbert\(^{16}\)

The Comité Colbert began in 1954 as an association of 12 French luxury houses united by Jean Jacques Guerlain. The association is now comprised of 75 luxury houses whose goal is to internationally promote the French culture, superior craftsmanship and heritage. Collusion in its pure form is an agreement when firms collaborate in order to alter the good of a price or stop supply in order to gain an unfair market advantage.

10.1 Comité Colbert Key Figures

Sales of these 75 companies represent 26 billion euros and employ 128,000 people in France. Exports account for 85% of their sale (on average). Some Comité Colbert members are Mellerio dits Meller, Yves Saint Laurent, Chanel, Rochas, Christian Dior, and Veuve Cliquot Ponsardin.

The economic importance of the Comité Colbert is linked to the fact that the Comité fights against the economic threat of counterfeiting which is both damaging to profit and brand image. Additionally, the solidarity among the firms, which belong to this group, creates barriers to entry for those who are not in the comité. Engaging in friendly competition, the member


\(^{16}\)http://www.comitecolbert.com/internet/index.php?option=com_content&task=view&id=229&Itemid=191
houses agree not to infringe on design rights. All in all, the Comité protects the economic importance of French luxury brands.

11. Luxury Consumers

This model illustrates luxury consumer behavior which price as the indicator of prestige. These are the proclivities of consumers when they purchase luxury goods. Euristic value comes into play, which is the correlation between high price and high-perceived quality and value. Vigneron and Johnson associate values with motivations, i.e. conspicuous with Veblenian, unique with snob, social with bandwagon, emotional with hedonist and quality with perfectionist. The snob perceived value in a good as long as it is exclusive. The bandwagon effect sometimes extends to lower product categories as the social value of the good is validated by the many and the purchasing of the good is in a social setting for instance. Veblenian goods are again at their heart ostentatious. The hedonist is inwardly focused on his or her own perceptions of the good and the perfectionist values the good by the perceived quality. (A

Review and A Conceptual Framework of Prestige-Seeking Consumer Behavior, Vigneron and Johnson.)

12. Luxury Ready-to-Wear

As abovementioned, the Fashion and Luxury Goods subdivision of industry, according to the French Government’s definition comprehends luxury apparel, leather goods, perfumes and cosmetics. A few large firms such as LVMH, Richemont and Gucci group dominate the luxury goods landscape; however, the numbers of varying brands (both under these conglomerates and other companies) engaged in the specific sector of luxury apparel are abundant. In a 2010 estimate from Bain & Company\(^\text{18}\), the apparel category (such as men & women’s casual wear, outerwear, formal and evening wear) of the Luxury goods market accounted for 27% of 172 Billion Euros. More recently, the Personal Luxury Goods Market has been projected to reach 191 Billion Euros by the close of 2011 (a 10% increase from 2010).\(^\text{19}\)

Within the specific luxury segment of apparel\(^\text{20}\) there are two main taxonomies: haute couture & ready-to-Wear. In this report, ready-to-wear is proposed as the one exclusive luxury segment of the overall Fashion & Luxury Goods sector being analyzed. In order to properly define ready-to-wear it is invaluable to first define haute couture and successively, ready-to-wear.\(^\text{21}\) Although not all fashion houses partake in both product offerings they are intricately linked through heritage as ready-to-wear has its roots in haute couture.

One of the main characteristics of haute couture is that it is bespoke, made to measure. Historically, all clothing was bespoke prior to industrialization. Couturiers tended to the clothing needs of those of noble birth while among the lower socio-economic classes individuals relied on family members to make and repair clothing by hand. Nearly all definitions of haute couture point to scarcity, exclusivity, highest quality, and high price. Additionally, French law protects haute couture due to the creation of the Chambre Syndicale de la Haute Couture in 1868. The specified criterion for a couture house to become a member of the Chambre Syndicale are as


\(^{19}\) Bain & Company/Fondazione Altagamma, Luxury Worldwide Market Study 10\(^{th}\) Edition.

\(^{20}\) The International Classification of Goods and Services of the Nice Agreement includes any kind of clothing under class 25. http://support.dialog.com/techdocs/international_class_codes_tmarks.pdf

\(^{21}\) http://www.modeaparis.com/en/federation/Historical-background-and
Design made-to-order garments for private clients which require more than one fitting, employ at least fifteen workers full time in an atelier. For haute couture, daywear and evening designs are presented to the press twice yearly in Paris. Haute couture remains the apex of the luxury dream yet it is important to note that ready-to-wear usually offers a higher return on investment than haute couture does (for reasons such as cost of materials, time-element, cost of couture shows, number of buyers).

The other side of luxury apparel known as ready-to-wear can be translated from the French as pret-a-porter according to Miarriam-Webster Dictionary. The term ready-to-wear in general, refers to clothing made in a factory setting as opposed to by hand. Clothing is sold finished and in standardized sizes allowing the democratization of luxury apparel. This term was first used in the late 1950s and coincided with the emergence of Yves Saint Laurent, who is often credited as the first couture house to expound luxury ready-to-wear during the 60’s consumerism boom. For many elite fashion houses, designers produce designs for garments that are not unique but produced in limited numbers, which still command a very high price. Trends in ready-to-wear point to “demi-couture,” meaning the high-end side of ready-to-wear. In France, The Chambre Syndicale du Prêt-à-Porter des Couturiers et des Créateurs de Mode, is the associative body which encompasses women’s ready-to-wear specifically, while the Chambre Syndicale de la Mode Masculine, includes men’s ready-to-wear brands.

Ready-to-wear collections are shown in seasonal fashion weeks that take place in main fashion cities such as Paris, New York, London and Milan. Fall & Winter shows occur in September and Spring & Summer collections occur in February. Other branches such as Pre-collections and Cruise wear are presented according to the season. Traditionally, Ready to wear fashion weeks occur before those of Haute Couture.

Also, ready-to-wear is sold through numerous retail channels controlled by the brand, generally, through brand owned and operated boutiques, exclusive distribution, and selective distribution i.e. Directly Operated Stores, high-end Department Stores, Premium Outlets, E-Tailing on the brand website, or other e-commerce platforms such as Net-a-Porter etc.

Please reference Appendices 2, 3 & 4 for comprehensive mention of all haute couture players in fall 2011 and both women’s and men’s ready-to-wear players for Spring 2012*
13. Value Chain: Conduct in Operations

Accord to Value Based Management.net, within the Michael Porter Value Chain the primary activity of Operations specifically concerns the creation of the product, “machining, packaging, assembly…and all other value-creating activities that transform the inputs into the final product.”

However, the act of creating the luxury ready-to-wear is rarely done in house or by the brand itself. The majority of garments are produced by low-profile manufacturers. In Luxury World, by Mark Tungate, Staff International is given as an example of one such manufacturer, which was founded in Italy and is linked throughout its history to numerous brands like Martin Margiela, Marc Jacobs, Vivienne Westwood, Valentino, Costume National and even Karl Lagerfeld. The manufacturing company has ateliers that produce many different product types and the goods find their way to the market through Staff International’s own distributors.  

14. Ready-to-Wear Statistics within the Luxury Goods Market

According to Bain and Company’s Worldwide Markets Monitor from October 2011, in the Worldwide Luxury Market by Category Apparel was worth 27% of 173 Billion Euros in

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22 Luxury World by Mark Tungate, p.15
2010. This figure remained nearly constant at 27% for 2011, which had revenue of 191 Billion Euros.

Interestingly Men’s ready-to-wear has been steadily improving since 2009. Worth 19 Billion euros in 2009, it jumped to 22 Billion Euros, then in 2011 up to 24 Billion euros.

![Men's RTW Growth in Billions](image)

Between 2009 and 2010 that is an increase of 13%. The percentage increase in revenue between 2010 and 2011 falls slightly to 9%. Menswear is outperforming the apparel market. Many brands in 2011 invested in men-only stores in key locations. The men’s market is driven by trends of “new formal” in mature markets such as the U.S. and Europe, and the concept of “upper casual” in China. Men’s wear has now been valued equal to Women’s wear around 24 Billion Euros.

Women’s ready-to-wear has increased at a slower percentage rate and it currently focused on product and brand rebound in the high-end segment concerning high fashion for special occasions. Also an influence is the “casualization” of day-to-day dressing. It is crucial to mention the strong competition posed by fast fashion retailers that cause lower performance levels in ready-to-wear.
Example: Hermes Ready-to-wear & Fashion Accessories registered 31% growth due to the success of the latest ready-to-wear collections and to the extensive array of fashion accessories. The first women's ready-to-wear collection was designed by Christophe Lemaire. (Hermes 3rd quarter financial report)

**15. Demand for Haute Couture & Ready-to-Wear**

To begin, the basic market determinants of demand are tastes, expectations, the number of buyers, and prices of related goods. Ceteris Paribus (all things remaining constant), demand dictates that the price of a good or service increases as demand increases.

Dana Thomas in her book Deluxe, *How Luxury Lost its Luster*, gives a shocking figure: In the 1950s more than two hundred thousand women worldwide wore haute couture prior to the 1950s; today in comparison, an estimated mere two hundred women worldwide buy haute couture. A similar figure related by Mark Tungate in Luxury World, reiterates “by the end of the 1990s it was suggested that there were fewer than 500 haute couture customers worldwide.” (19) In regards to haute couture, the demand for couture by the individual is what creates the supply. Haute couture is too costly and time consuming to do if no one has ordered a one of a kind ensemble. Ready-to wear seemingly filled a demand from consumers for more accessible clothing with high design yet, consumers have no right to fix a price on the good that they want.
16. Supply of Haute Couture & Ready-to-Wear

Determinants of Supply mean the number of sellers, costs of production, input cost, expectations, technology and innovation. In luxury there are often higher costs of production than in fast moving consumer goods because of the cost of manufacturing in the country of origin of the good. There are many brand sellers in the luxury industry but many of them make up the main three firms. Changes in any of these determinants affects/shifts the curve. With ready-to-wear produced in factories faster and greater consumption is conferred due to finished product in standardized sizes. Supply can now meet demand quicker and at greater volumes. It is common that struggling couture houses may heavily expand into ready-to-wear and even end their haute couture division to recoup lost revenue.

17. Pertinent Economic Issues within Luxury Apparel

There are two very pertinent issues within the luxury ready-to-wear segment the first is the outsourcing of production to foreign countries and the second is the boom of fast fashion.

Regarding outsourcing, the ready-to-wear segment is becoming cheapened due to the fact that many luxury brands are looking to cut costs to retain a higher profit. They do so by two obvious methods: using cheaper materials and trimming the cost of labor. The majority of luxury ready-to-wear production occurs in France & Italy, both of which have stringent labor laws and the higher price of living of the workers contributes ultimately to a higher price. For consumers, the higher price means perceived value. The leather goods company Coach (it is debated whether it is a luxury brand) was one of the first to outsource its production to China and proved to other firms that Chinese workers could attain brand quality standards. Luxury brands with ready-to-wear and even leather goods collections attempt to circumvent the mention of production in another country than the country of origin, or heritage of the brand in question. Now some luxury ready-to-wear may have tags bearing a “designed in –insert European country-“ rather than a “made in...” label type. Additionally, textiles and accessories necessary for final production such as zippers come from various different countries.

17.1 The Nature of Fashion Markets May Lend itself to Fast Fashion

Ready-to-wear, once it has been seen on the catwalk, it is in perceived to be in the fashion domain. Fashion, in and of itself, is ephemeral and cyclical. Thus, according to Martin

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23 Deluxe:
Christopher, Robert Lowson & Helen Peck, apparel can be characterized as having a short life cycle, often a highly volatile demand cycle, low predictability of customer acceptance of the style and subject to impulse purchasing. If these concepts are held to be true then it is only logical that some consumers would, in the ultimate search for fashion on a more regular basis turn to fast fashion apparel.

It is believed that Women’s ready-to-wear at the current date is not experiencing that same time of market expansion as men’s ready-to-wear due to the fact that global fast-fashion retailers are in vogue, (i.e. Zara (Spain), H&M (Sweden), Topshop (UK), and Forever 21 (U.S.).)

17.2 Key Fast Fashion Figures

Fast fashion accounts for 1% of the U.S. Market, and 12% in the U.K. (Forbes/Bain&Co).
The UK’s Topshop has more than 2,500 retail outlets.
Inditex, Zara’s parent company, has 5,221 stores in 78 countries
H&M has over 2,000 stores in 41 countries
Forever 21 has a yearly profit estimate around 3 billion dollars (and growing)

Notable collaborations: Versace, Jimmy Choo, Stella McCartney and H&M, Target and Missoni, and Brian Lichtenberg and Forever 21 etc.

The main concern with such fashion retailers is their ability to design and manufacture new looks or even designs loosely based on luxury brand’s ready-to-wear collections in about two weeks. Their competitive edge is their speed and ability to price their goods considerably lower than the ready-to-wear that may have inspired their product. Furthermore, another harrowing factor is the rise in designer collaborations with fast fashion companies. Designers and brands are eager to capture a new and younger consumer base but at what cost? The true economic impact of fast fashion is yet to be seen as this is a relatively new and concerning widespread practice but it could ultimately be damaging to brand image and profit maximization to further democratize fashion to such an extent (what will be left?). As the demand for fast fashion increases it is logical that the demand for luxury ready-to-wear could decrease if the

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products become similar, especially since there is the socio-cultural trend for mixing luxury pieces with less expensive goods.

18. Michael Porter’s Five Forces

18.1 New Market Entrants

The main barriers to entry into the fashion and luxury goods sector are natural or somewhat strategic. In general these barriers are capital costs, economies of scale and heritage. The three main firms in luxury goods have been incumbent for many years. These well-oiled conglomerates can afford to purchase other less successful luxury brands and remain revenue negative for many years before getting a return on investment. The costs of entering the industry from scratch would be monumental. Additionally, once a new entrant was in place the capital costs to advertise or have a fashion show on the same level (and in order to compete with an incumbent brand) would be exorbitant for a new firm.

Over the years these incumbent firms have built up huge reserves of capital and have established their methods of manufacturing and distribution. They have most likely become cost efficient per economies of scale and economies of scope. Another barrier to entry, which is
extremely important, is heritage. Luxury brand reputations and brand loyalty are built through legitimacy of the product offering and a rich history of high quality production. Few brands succeed without at least borrowing or referencing legitimacy from some source.

Geographic factors do play a role similar to heritage. Luxury goods are credible and valuable due to the country of origin effect.

Incumbent resistance would probably be low because of incumbent firm’s stable position. French law specifically protects haute couture and ready-to-wear and the existence of the Comite Colbert exemplifies cooperation between the luxury houses.

New entrant strategy could be based on product differentiation. If the consumer can be attracted to a new entrant’s substitute good over the incumbents good, the new entrant may secure a permanent place in the market (taking market share and power away from others).

18.2 Buyer Power

Buyer power us the impact that buyers can have on an industry. Buyers in the apparel industry are fragmented and in the luxury market no buyer has any real influence on the price or the product offering (buyer concentration). In an Oligopoly there is a large number of buyers. However, buyers can change, especially in luxury goods there is a correlation between buyer and service importance.

18.3 Supplier Power

Production in an industry often requires suppliers to enter into relationships with buyers in order to have the raw materials in order to create products and meaning. (Differentiation of inputs. Good relationships with customers is paramount).

18.4 Competitive Rivalry

In perfect competition, competition nearly drives profit to zero. Rivalry is measured by market concentration. Rivalry is now occurring in emerging markets due to trends showing profitability. Although there are a number of brands in the luxury market, the market is Oligopoly in nature due to the fact that the three large conglomerates, LVMH, Richemont and Gucci group have ownership of numerous brands between them.

Trends in the market are democratization of luxury, mergers and acquisitions, fighting counterfeiting, e-commerce, emerging market expansion in ready-to-wear are extremely
prominent as well as leather goods, which are booming. Fast-fashion. Rivalry can also be based on product differentiation and strategy of product categories in which the firms operate.

Some competitive trends are democratization strategies. Brands try to create hype by focusing on heritage and craftsmanship, encouraged provocative fashion shows, use shocking ad campaigns, celebrity endorsement, sponsoring sporting and entertainment events, launching e-commerce sites, and by offering duty free retailing. Also, firms can expand by going public which raises capital, elevates brand status and creates incentive.

19. Conclusion

Ideally, the luxury ready-to-wear segment will remain profitable as long as trends continue in its favor. Additionally, ready-to-wear is more linked determinants of demand than other specific luxury goods such as leather goods, which do not need to be tried on in-store, or mass-marketeted accessories such as perfumes and makeup, which offer marginalized luxury to luxe-hungry masses. As long as the increasing profitable luxury market bolsters ready-to-wear, it will continue to be a profitable segment. Yet, even with a bright outlook for luxury goods at the present time, it is experiencing some degradation due to fast fashion, which can offer more seasonality, high design at a cheaper price (especially due to designer and luxury brand collaboration). Fast fashion, “combines operating characteristics of…quick response…and enhanced design. As a result the firm is capable of both raised consumer values for the product and reducing supply-demand mismatch.”

Thus, only time will tell if luxury ready-to-wear can hold its position as a profitable segment while being challenged by the threats of outsourcing and fast fashion retailers.

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APPENDIX
1. Tailored IMF Report for Selected Country Groups and Subjects

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2. Exhaustive mention of Couture during 2011

3. All ready-to-wear collections for spring 2012
4. Exhaustive List of Menswear Spring 2012


PESTLE

Political
- Government legislation preventing brand extension

Environmental
- Growing awareness of potential environmental impacts in luxury sector affects how companies operate and the products they offer
- Green profit & loss assessment

Socio-Cultural
- Population profile for Western Europe, North America, Asia Pacific, Japan
- Women’s wear and Menswear on the rise
- Likely socio-cultural change

Technological
- Impact of Internet for e-commerce, advertising

Legal
- Intellectual Property laws

• Counterfeit
• Trademark infringement

**Economic**

• Recovering Growth patterns after the recession as consumer anxiety decreases\(^{32}\)
  Top % of American market stopped spending
  Now higher amounts of full-priced sales occurring
  Amex Luxury Summit predicts a spending increase of $26.6 billion
  % of households planning to increase spending is up 87.5% (over 2008)
• Expansion into emerging markets of Brazil, Russia, India, China
• Continually difficult operating context in Japan due to natural disaster
  Restructuring of retail strategies for some companies

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