



FACULTAD DE CIENCIAS ECONÓMICAS Y
EMPRESARIALES, UNIVERSIDAD PONTIFICIA COMILLAS

**A STUDY OF THE
INTERNATIONALIZATION
STRATEGIES OF THE NEW BUSINESS
MODELS IN THE FASHION
INDUSTRY: SECOND-HAND, RENTAL,
SUBSCRIPTION AND INTERCHANGE**

Author: Camino Martos Crespí
Director: Clemente Hernández Sánchez

MADRID | June 2021

ABSTRACT

This paper portrays the urgent need for a transition to a circular economy in one of the most polluting industries on a global level: fashion. After the analysis of data, figures and fashion executives' opinions, it can be concluded that the fashion industry will undergo major changes in the years to come, given the disruptive transformation in society's mentality and the rapid advance in innovation technologies. The emergence of new business models in the industry are challenging and putting in doubt the linear business model followed up till now by traditional fashion retailers. The internationalization process of rental, subscription, second-hand and interchange fashion companies has been studied in depth, providing meaningful examples, and concluding that although there is not an established common path, a considerable number of them opt for hierarchical modes as their entry mode to foreign countries.

Key words: Circular economy, linear business model, internationalization process, rental fashion, subscription fashion, second-hand fashion, interchange fashion, hierarchical modes

RESUMEN

Este artículo refleja la necesidad urgente de una transición hacia una economía circular en una de las industrias más contaminantes a nivel mundial: la moda. Tras el análisis de datos, cifras y las opiniones de ejecutivos de la moda influyentes, se puede concluir que la industria de la moda experimentará grandes cambios en los próximos años, dada la transformación disruptiva en la mentalidad de la sociedad y el rápido avance de las tecnologías de innovación. La aparición de nuevos modelos de negocio en la industria están desafiando y poniendo en duda el modelo de negocio lineal seguido hasta ahora por las compañías de moda tradicionales. Se ha estudiado en profundidad el proceso de internacionalización de las empresas de moda de alquiler, de suscripción, de segunda mano y de intercambio, aportando ejemplos significativos, y concluyendo que, aunque no existe un camino común pre-establecido, un número considerable de ellas opta por los modos jerárquicos como modo de expansión internacional.

Palabras clave: Economía circular, modelo de negocio lineal, proceso de internacionalización, moda de alquiler, moda de suscripción, moda de segunda mano, moda de intercambio, modos jerárquicos

INDEX OF CONTENT

1. Introduction
2. Circular economy
 - 2.1. The importance of a circular economy
 - 2.2. Value creation logics in a circular economy
3. Fashion industry's environmental consequences
4. Current global panorama in the fashion industry
5. Opportunities in the fashion industry
6. The new business models in the fashion industry
 - 6.1. A look into second-hand fashion
7. What do stocks predict?
8. Challenges for the new fashion business models
 - 8.1. Personalized experience
 - 8.2. Zero-based budgeting
 - 8.3. Data-based decisions
 - 8.4. Design
 - 8.5. Logistics
 - 8.6. Overcoming society's stigmas
 - 8.7. The need for collective effort
9. Internationalization process
 - 9.1. Steps for internationalization
 - 9.2. Deciding which markets to enter
 - 9.2.1. Google trends
 - 9.2.2. China
 - 9.2.3. Other markets
 - 9.3. Market entry strategies
 - 9.3.1. Hierarchical entry modes
 - 9.3.1.1. Mergers & Acquisitions
 - 9.3.1.2. Foreign sales branch or subsidiary
 - 9.3.2. Intermediate modes
 - 9.3.2.1. Joint Venture or Strategic Alliance
 - 9.3.2.2. Franchising
 - 9.3.3. Export modes
 - 9.4. Communication on a global level
10. Conclusion
11. Bibliography

INDEX OF FIGURES

Figure 1: Circular economy.....	9
Figure 2: Circular business model value creation logics.....	9
Figure 3: Rank of exposure to shocks in the textile and apparel industry.....	15
Figure 4: Expected decrease in EBIT is costs are not reduced.....	16
Figure 5: Fashion executives planned strategies to avoid overstock.....	18
Figure 6: Fashion executives' biggest challenges expectations in 2021.....	21
Figure 7: Differences between the biological and the technical cycle.....	24
Figure 8: Market sizing and growth estimates in the fashion industry (2009 – 2029).....	25
Figure 9: 2019 – 2024 projected market growth in retail clothing, traditional thrift & donation and resale.....	26
Figure 10: 2019 – 2029 projected global revenues in fast fashion, traditional thrift & donation and resale.....	26
Figure 11: Market Capitalization Comparison between companies with high and low revenues from APAC region.....	28
Figure 12: Market Capitalization Comparison between the industry's average and superwinners.....	28
Figure 13: Market Capitalization Comparison between internet retailers and the rest.....	29
Figure 14: ThredUP's retailer partnerships.....	34
Figure 15: Percentage of each age group that bought second-hand fashion.....	36
Figure 16: Segmentation criteria of B2B and B2C companies.....	41
Figure 17: Fashion executives' expectations for the fashion industry in 2021 by segment and geography.....	42
Figure 18: Search engine market share distribution in Russia (May 2020 – May 2021)....	43
Figure 19: : Search engine market share distribution in China (May 2020 – May 2021)....	44

Figure 20: Evolution in the number of searches of “sustainable fashion” on Google.....	44
Figure 21: Number of searches of “sustainable fashion” on Google per region.....	45
Figure 22: Number of searches of “slow fashion” on Google per region.....	45
Figure 23: Number of searches of “secondhand fashion” on Google per region.....	46
Figure 24: Number of searches of “second-hand fashion” on Google per region.....	47
Figure 25: Number of searches of “rental fashion” on Google per region.....	48
Figure 26: Number of searches of “subscription fashion” on Google per region.....	48
Figure 27: The share of fashion sales from online channels in the US, Europe and China..	49
Figure 28: Total expected fashion revenues in Asia in 2021.....	51
Figure 29: Fashion executives’ expected sales network impact in 2021.....	51
Figure 30: Hierarchical entry modes centralization VS. decentralization options.....	52
Figure 31: Enterprise Value to EBITDA evolution 2008 – 2020.....	54

1. INTRODUCTION

All humans can relate to the fashion industry in some way. It is in our culture to wear clothes when co-living in society. Although it emerged as a practical need it has now evolved into one of the most polluting industries on a global level. If fashion activity continues at the current rate, by 2050, it will account for 26 percent of the total worldwide carbon budget. Sustainability challenges are across the whole supply chain through the linear business model, which continues to have a high presence within the fashion industry. They are present in the fibers manufacturing process (cotton, polyester, silk, etc), in the designing and the manufacturing of the clothes and in the transportation used throughout the production process and the distribution to retail centres.

However, as stated in thredUp's 2020 Resale Report, after the pandemic, up to 70 percent of fashion shoppers acknowledge the urgent need to tackle the problem of climate change within the fashion industry (thredUP, 2020). In this line, 20 percent aim to reduce their fashion consumption by 20 percent. Consumers are demanding sustainable practices from companies but the only way of tackling this transition is by changing the traditional business model that companies have been engaging with up till now. Sustainability needs to become a pillar in the industry, rather than a trend. Alternatives to the existing linear business model have emerged considering a circular economy as their start base, including second-hand, interchange, subscription and rental fashion. They are successfully competing with historical "giant" companies in the industry, satisfying the current and future needs and desires of customers and making use of advanced technologies and capabilities.

The pandemic has had a devastating impact on the fashion industry apart from giving rise to an uncertain and challenging environment in which companies are fighting for their survival. This impact will be studied in detail with facts and figures to understand its scale and how it has contributed to the current transition in the industry. However, there are rising opportunities that companies can profit from which will be determining the success or failure to survive in the following years. Brands following one of the emerging business models in fashion, will need to face some challenges to navigate through the current uncertain situation and situate themselves above their competitors. Such challenges

include offering a personalized experience, budgeting under a zero-based model, enabling and investing in the promotion of data-based decisions, designing with a circular approach in mind, handling an efficient logistics system, overcoming society's stigmas towards pre-owned clothing and promoting a collective effort between interdependent actors.

The internationalization process that these companies are deciding to undergo will be further studied in the paper, picturing examples of some of the most relevant companies actions in these segments. The steps required for an expansion to a foreign country will be explained, together with an in-depth analysis of the potential markets of entry, through the analysis of data from Google Trends and other reliable sources and the chosen entry modes of these companies up till now.

2. CIRCULAR ECONOMY

2.1 The importance of a circular economy

The idea of a circular economy emerges as an alternative to the current “take-make-dispose” business model. The concept is not only aimed at reducing the negative impact of the linear economy many fashion businesses follow. Additionally, it encourages an 180 degrees shift in the system such that sustainable practices are achieved whilst generating economic profitability for businesses and individuals. Circularity addresses environmental challenges that are common to all, such as the rising overconsumption of environmental resources. It is a “self-contained, closed-loop system” (Fehrer & Wieland, 2021, p.610) that has the intention of reaching zero-waste through the maximization of “reuse, repair, remake and, recycling practices paired with minimizing consumption practices” (Fehrer & Wieland, 2021, p.610).

The challenges society faces nowadays cannot be resolved with past solutions. It requires a new way of thinking and the redesign of our economy towards circularity. As a response to COVID-19, governments and other powerful institutions are issuing trillions in economic stimulus, having in mind a recovery plan and deciding upon the destination of these funds. The higher the figure that is destined to promoting circularity, the lower the environmental impact will be, fostering a quicker transition to the next phase of economic prosperity.

The circular economy concept turns around the importance of sustainably designed materials, products, services and business models. Rental, interchange, second-hand and subscription fashion business models took circularity as the base of their creation. Instead of promoting product ownership, the circular economy offers experience and functionality to society. It is a three-value system, taking into consideration social, environmental and economic parameters (Figure 1). This framework explains a systemic perspective that balances the previously mentioned factors to achieve value creation.

Figure 1: Circular economy



Source: Fehrer & Wieland, 2021

2.2 Value creation logics in a circular economy

Four distinct logics can be found regarding value creation in a circular system: efficient material-technical loops; effective product-service loops; social-collaborative loops; and symbiotic systems. The four are stated in Figure 2, together with their

<i>Figure 2: Circular Business Model Value Creation Logic</i>				
	Efficient material-technical loops	Effective product-service loops	Social-collaborative loops	Symbiotic ecosystems
Potential activities	<p><i>Maximizing material and energy efficiency:</i></p> <ul style="list-style-type: none"> • Developing and building for durability • Repairing, refilling and refurbishing • Recycling and collecting • Upgrading 	<p><i>Functionality rather than ownership:</i></p> <ul style="list-style-type: none"> • Paying for use • Leasing • Renting • Maintaining • Servitisation 	<p><i>Proactively engage all stakeholders:</i></p> <ul style="list-style-type: none"> • Sharing • Diffusion of sustainable practices • Slowing down consumption 	<p><i>Driving systemic change:</i></p> <ul style="list-style-type: none"> • Re-purposing the role of business for the society and the environment • Restoring and reincarnating • Scale-up solutions
Required structure	Circular supply chains, vertical (backward and forward) integration	Service solutions, vertical (forward) integration	Collaborative consumption platforms, network integration	Open associative and collaborative networks, network integration
Management system	Supply chain management, firm-centred contractual models	Service management, firm centred with contractual models	Platform orchestration, decentralized with collective contractual models	Collective entrepreneurship, multi-organizational governance, decentralized collective authority

Source: Fehrer & Wieland, 2021

corresponding potential activities, the needed structure and the management required to enable the value creation. (Fehrer & Wieland, 2021, p. 611)

The first value creation logic (featured on the table) is “Efficient material-technical loops”. Under this logic, value is created by slowing, closing and contracting biological and technical lifecycles. The process can be slowed through a time extension in the use and reuse of materials or finished products. On the other hand, closing the lifecycle is intimately related to recycling and collecting to maximize material and energy efficiency. The contraction of the loop can be accomplished by the reduction in resource usage throughout the production process. Efficient material-technical loops promote the increased usage of renewable, recyclable or biodegradable resources. The main objective is to maintain the largest possible value of the material, avoiding downcycling a material. Aquafil, a historical leader in nylon manufacturing, has succeeded in producing recycled nylon at an affordable and competitive price when compared to virgin nylon. New advanced technologies that are growing in popularity in the fashion industry such as 3D printing (technique currently pioneered by fashion designer Iris Van Herpen) or the creation of smart materials are said to enhance the efficiency of the aforementioned loop. Furthermore, this first logic draws on the importance and relevance of forward and backward-integrated processes. (Fehrer & Wieland, 2021, pp. 611-613)

The second value creation logic with regard to a circular business model is the aspiration of an effective product-service loop, where value is created by providing access to a product and service whilst eliminating product ownership. This is present, for example, in the emerging fashion business models of rental and subscription. Defenders and activists of sustainability have defended the need to “servitize” products when creating circular business models. (Fehrer & Wieland, 2021, pp. 611-613)

The following value creation logic are social-collaborative loops. This logic takes as a base the importance of collaboration between interdependent actors as an alternative to competition. The customers go from taking a passive role in the ecosystem to becoming active contributors, engaging in emerging consumption systems. The final objectives are to

narrow the consumption cycle and activate underutilized resources. All the new fashion business models (second hand, interchange, rental and subscription) would fall into this logic. (Fehrer & Wieland, 2021, pp. 611-613)

Lastly, symbiotic ecosystems, which hold a close relationship with recycling, create value by closing resource loops. It builds on the concepts of joint sustainable efforts between institutions and the consequent network integration to drive a systemic transition. This logic draws on the generalist view of the whole system, understanding the interconnection between the environment and collective action and promoting its analysis to better reach a circular business model. To sum up, the way of creating value within a circular economy differs a lot from such of a linear system. A garment can be constantly creating value, through its sale, resale, rental, by being recycled, etc. The loop will then start all over again. (Fehrer & Wieland, 2021, pp. 611-613)

3. FASHION INDUSTRY'S ENVIRONMENTAL CONSEQUENCES

Ellen MacArthur Foundation (2020) expressed one of the major environmental consequences of the fashion industry:

Of the total fibre input used for clothing today, 87 percent is landfilled or incinerated— equivalent to burning one rubbish truck full of textiles every second. 13 percent of textiles get recycled after clothing use, 12 percent are downcycled into lower value uses that are often extremely difficult to recirculate, while only 1 percent gets recycled into new clothing.

Landfilling and incineration of textiles come at a huge cost, which could be prevented. In New York City specifically, around \$20 million are spent in doing so, and the majority of these textiles can be attributed to the fashion industry. In the United Kingdom, this cost amounts to £82 million.

On the other hand, it takes 75 lbs of carbon dioxide to manufacture a single pair of jeans and 700 gallons of water to make a t-shirt. If everyone bought one item pre-owned instead of a new one this year, it would save up to 5.7B lbs of carbon dioxide (equal to planting 66M trees), 25B gallons of water (equal to 1.25B showers) and 449M lbs of waste (equal to 18700 full garbage trucks). Purchasing single-use items continues to be popular amongst society, with 70 percent of shoppers stating they have done it at some point in their lives. Actually, 208M lbs of waste in 2019 corresponded to single-use clothing. (thredUP, 2020)

4. CURRENT GLOBAL PANORAMA IN THE FASHION INDUSTRY

Fashion executives' most chosen words to portray their expectations for the fashion industry in 2021 in the survey conducted by McKinsey in collaboration with the Business of Fashion (2020) are: "uncertain," "challenging" and "disruptive." McKinsey Global Fashion Index analysis predicts two potential panoramas in the fashion industry from 2021 to 2022. The first scenario, which is more optimistic, predicts a decline of worldwide fashion sales from 0 to 5 percent in 2021 with respect to 2019. This specific scenario assumes well managed virus containment strategies in numerous countries, leading to quick economic growth. Under this situation, fashion sales would equal those of 2019 by the third quarter of the year 2022. The second possible panorama suggests a later recovery where sales would decline even further (by 10 to 15 percent) in comparison to 2019 levels. If this was the case, global fashion sales would reach the previous 2019 figures by the fourth quarter of 2023. (McKinsey&Company & Business Of Fashion, 2020)

Regardless of the scenario, trading conditions will continue to suppose a challenge and bankruptcies, the closing of stores and firings will persist. The closing of ports and airports as a response to COVID-19 affected the movement of fashion related goods between regions. This was accentuated by the continuing trade and tariff tensions between powerful economies like China and the US or the withdrawal of the United Kingdom from the European Union. Additionally, the limitation on international travel has supposed a major problem to those fashion firms that rely on the travelling consumer. McKinsey anticipates international tourism will continue to remain controlled until 2023 or even 2024. In the same line, "66% of fashion executives expect travel retail sales to recover their former growth levels only within 2 or 3 years" (McKinsey&Company & Business Of Fashion, 2020). Consequently, companies were pressured by the panorama to concentrate on local consumers, making strategic investments in regions holding a quicker recovery and unlocking emerging opportunities to continue driving customers' consumption. Robert Burke, a New York based retail consultant offering his services to clients from China, Europe and South America, states that "Recovery is going to happen where businesses and retailers are not heavily tourist dependent. That's where we are seeing some of the best

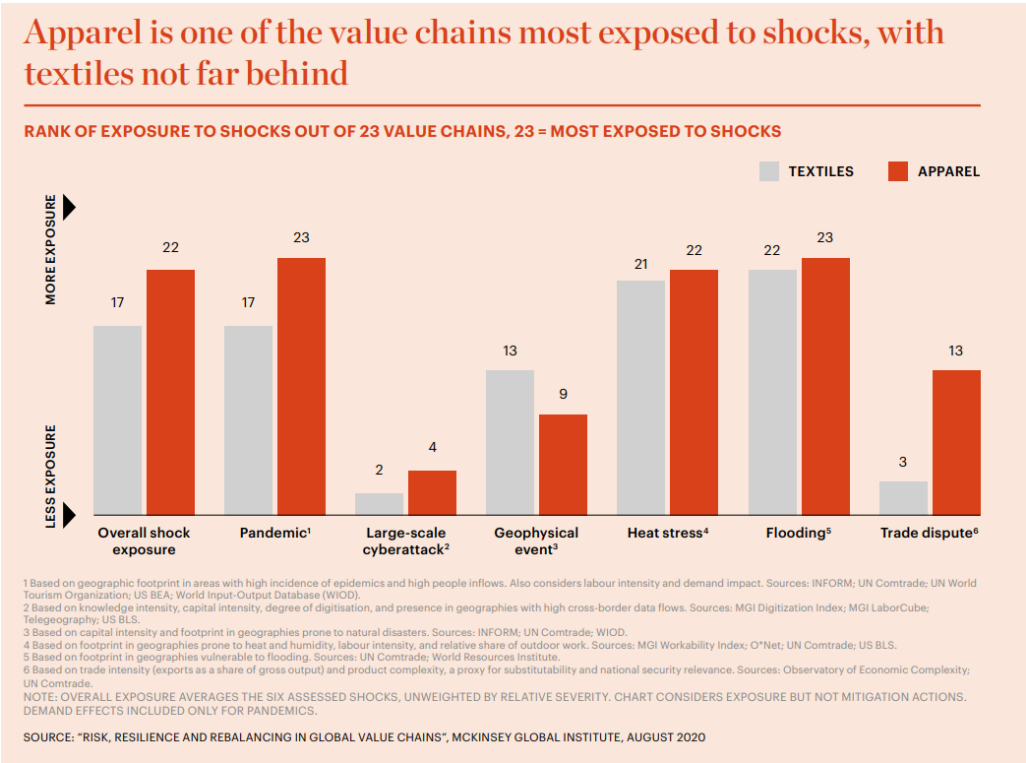
recoveries: where it's a local shopper." For example, China, in contrast to Europe, is not so heavily reliant on tourists for fashion sales. Therefore, brands in Europe and other places with this issue will have the cultivation of local relationships at the top of their long-term agendas.

The decrease in spending power for a great part of the population as a result of unemployment and rising inequality has led companies to reduce their investment in outperforming categories, channels and territories. The price sensitivity of customers towards discretionary items, such as fashion, has risen as a result of the pandemic. As stated by Ellen MacArthur Foundation, "over 60% of consumers have reported reducing their spending on apparel during the crisis, with about half expecting that trend to continue post-pandemic" (Ellen MacArthur Foundation, 2020). Discount players had a challenging year in 2020, observing a decline of 36 percent in sales which led to tons of unsold inventory and the consequent environmental challenges it supposes. Society is living a polarization effect after the crisis. Value clothing retailers, like Primark, are expected to experience a higher increase in sales with respect to the other segments. In the same way a high number of people have shifted towards lower-priced fashion, others have traded up to higher quality, more premium brands, making companies with mid range pricing suffer the crisis the most. Fashion brands offering mid-priced products experienced a decline in sales of 35 percent and of 21 percentage points in EBITA from February to June. ThredUP, an online store for high quality second-hand clothing, experienced, during the pandemic, a rise in the demand for luxury brands such as Louis Vuitton (+82 percent), Gucci (+26 percent), Marc Jacobs (+20 percent) or Prada (+10 percent).

In the fashion industry, unplanned problems like a pandemic or a natural disaster (Figure 4) have a widened effect given its global value chains. It is predicted that over the next five years, the industry will experience a significant shift to diverse countries with the objective of making their supply chains more resilient. To be able to cope with a lower revenue stream, fashion companies need to adjust their profit and loss accounts accordingly. Boston Consulting Group carried out an analysis of the estimated drop in the average EBIT (earnings before interest and taxes) companies in the fashion industry would

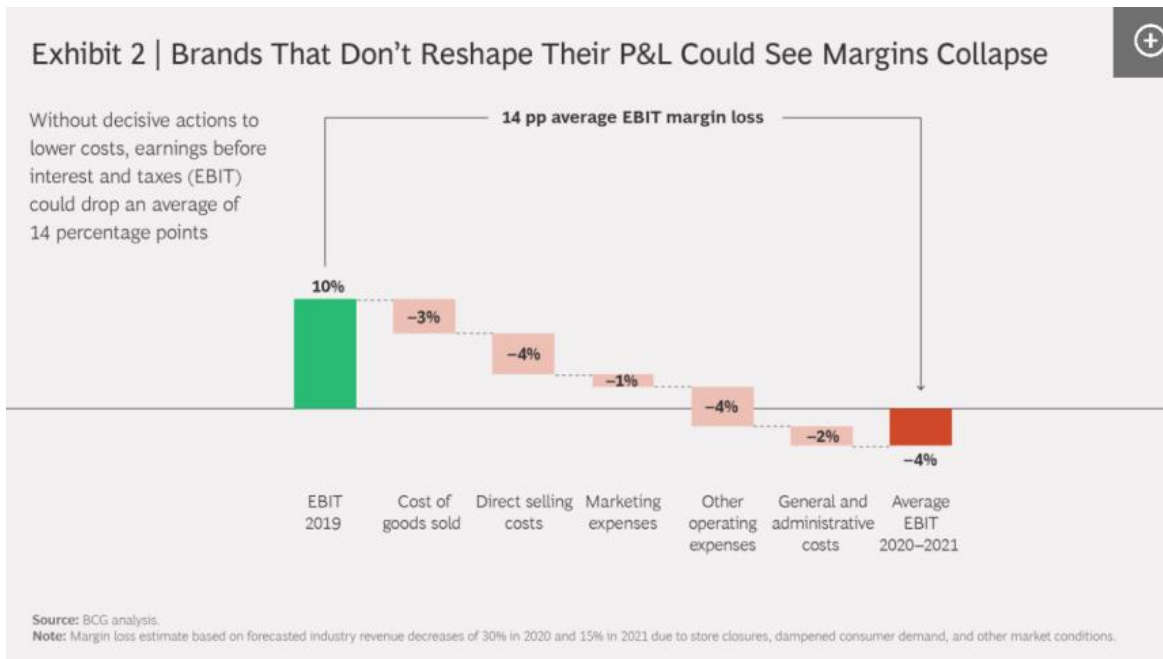
suffer if they didn't adjust their costs consequently, as shown in Figure 5. To do so, they assumed a 30 percent decrease in global revenues in 2020 and a 15 percent in 2021, extracted from their forecasts. The final figure stated a 14 percent decrease in EBIT if nothing was done as a response, meaning that the survival of many would be determined by these actions. Such costs include the rent of physical offices or factories, costs of goods sold (COGS), salaries, marketing, etc. For example, excess inventory can lead to the attractive option for companies of markdowns. This can be avoided by reducing the unit cost per fashion item through renegotiation with their suppliers. Another example would be to offset the increasing capital companies decide to invested in data based marketing through digital channels by reducing the budget for offline marketing campaigns that tend to be more expensive (i.e. large-scale events).

Figure 3: Rank of exposure to shocks in the textile and apparel industry



Source: McKinsey Global Institute, 2020

Figure 4: Expected decrease in EBIT is costs are not reduced



Source: Boston Consulting Group, 2020

5. OPPORTUNITIES IN THE FASHION INDUSTRY

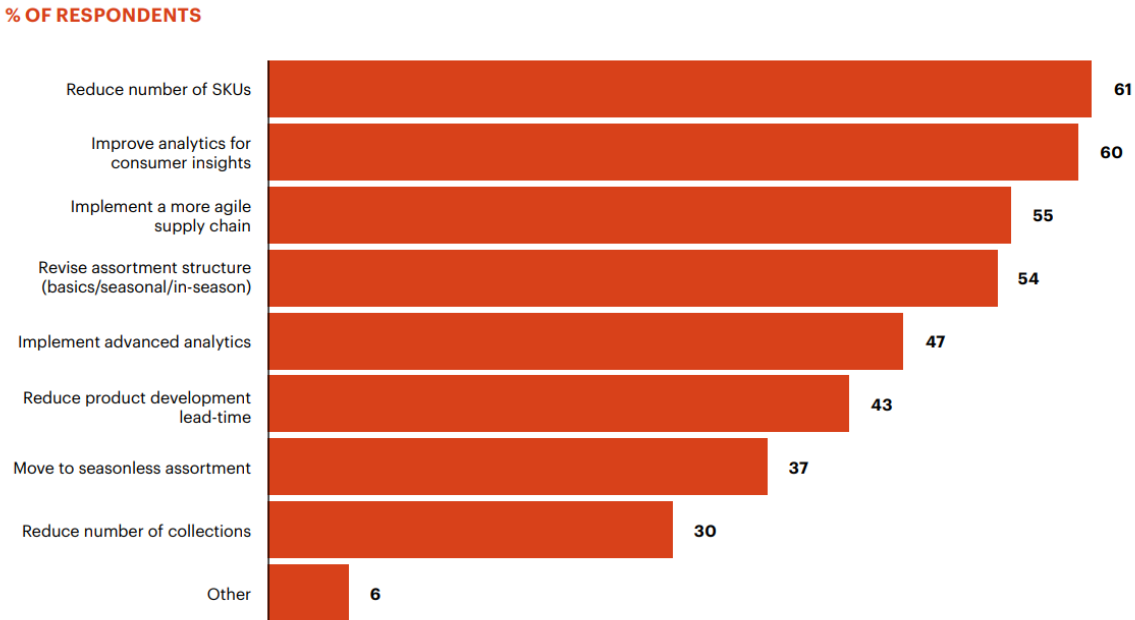
The trend of the search for experiences over products had been shifting during lockdown but figures predict this trend is coming back stronger than ever before. As a reaction, multinational luxury houses started giving importance to the “experience” factor. Armani, Bulgari and Versace, to mention some, created hotel residences with their names; Gucci created the “Gucci store”, a restaurant and concept store, in Florence, etc. In 2019, Greenlight Insights, a company dedicated to market research, estimated that location-based experiences would amount to \$12 billion by 2023, growing in between at a 32.2 percent CAGR (compound annual growth rate). This contributed to the emergence of resale, rental, interchange and subscription fashion business models, which far from only offering a product, they provide the customer with an engaging adaptable experience. Whenever there is a disruption in the macro environment, like the one society is currently experiencing as a result of the pandemic, history has proved that those companies that are able to offer a high-quality experience to customers end up being successful. After the 2008 global financial crisis, pioneer companies in customer experience had 3 times higher shareholder returns with respect to laggards. Analysis demonstrate that customers, after living the pandemic, are much more willing to change and experiment with brands, meaning that the loyalty to their favourite brands will decrease. This fact will enable companies to increase their customer base by initiatives such as an improved customer experience.

Rather than offering promotions and discounts, successful fashion companies will need to improve their business model such that the perceived value of the customer aligns with the price, the excess inventory is reduced or eliminated and the number of collections on an annual basis are reduced. It has been recently proved that there is no direct relationship between the latter and its financial results. One third of the fashion executives who participated in McKinsey’s and the Business of Fashion’s survey (Figure 5) expressed their intention to reduce the number of collections to avoid overstock in a future. Gucci, for example, will be slowing down, reducing its current five collections per year to just two, portraying the gradual movement towards seasonless fashion. COVID-19 has exacerbated the excess inventory problem at a time in which fighting against the wasteful and

environmentally damaging nature of the fashion industry is more important and urgent than ever before. Companies like LVMH and Gap inc. have announced such excess. PVH (Phillips-Van Heusen Corporation) and Michael Kors are planning to hold onto their excess inventory to hopefully sell it in the near future. The predicted importance of analytics and an agile supply chain to control more effectively their inventory can also be extracted from Figure 5. Investing in data and analytics will be a key factor affecting the fashion industry in the coming years. Companies must dedicate the necessary resources to create engaging social experiences that encourage the personal connection with customers. Moreover, it will enable companies to adapt and improve their cost structure and improve every step in their value chains such that they become more efficient, cheaper and faster.

Figure 5: Fashion executives planned strategies to avoid overstock

Fashion executives plan to employ several strategies to avoid overstock in the future



SOURCE: BOF-MCKINSEY STATE OF FASHION 2021 SURVEY

Source: Business of Fashion & McKinsey State of Fashion Survey, 2021

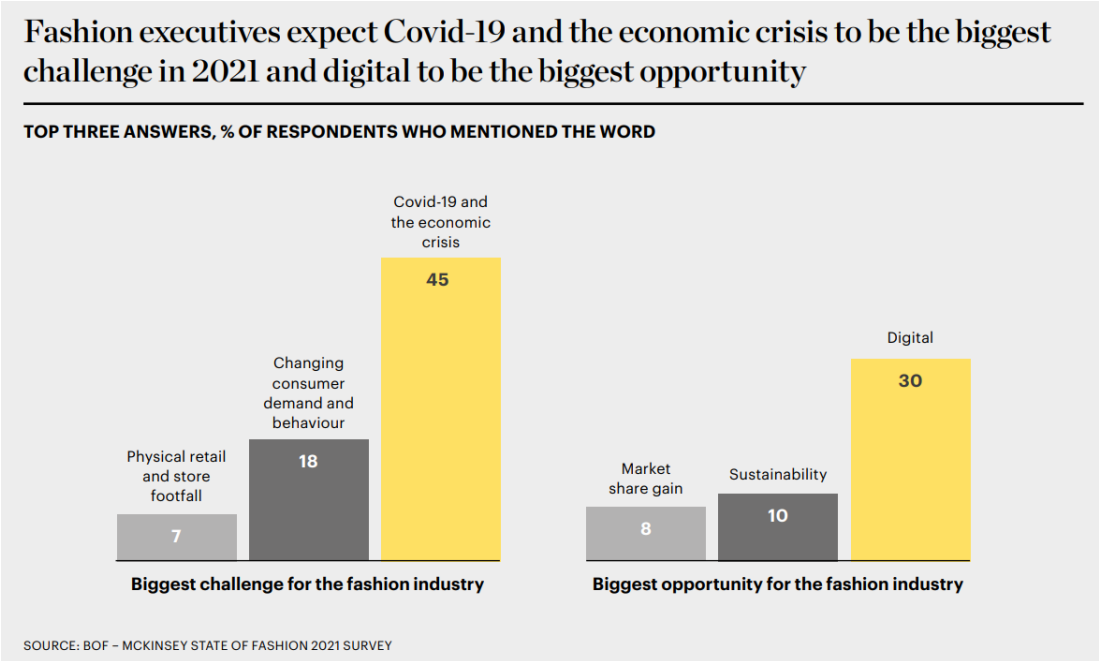
An omnichannel strategy continues to be the preferred one to drive sales in this industry, but experts are confirming the importance of Return on Investment (ROI) assessment in the physical stores to ensure the maximization of sales. There is a growing pressure from more demanding customers to make the fashion stores as interesting as possible and differentiate the customer experience they offer. Boston Consulting Group anticipates a change in the role of physical stores. They defend that stores will continue over time exclusively with the objective of building their brand image, supporting the execution of online orders or as a channel to implement community activities (Bianchi et al., 2020). Retail isn't dead, but boring retail is dead," explains Rania Masri, Chief Transformation Officer at Chalhoub Group, a retail and distribution business that collaborates with worldwide renowned luxury brands across the Middle East. Helena Helmersson, Chief Executive at H&M Group stated "The most clear [change] is that customers that had not yet started to do their shopping online have now started to do so. We didn't know [if] people [would] go back to their old behaviours, but what is now really clear when we re-open the stores [is that people] really want to meet us in both channels, physical stores and online. They want to do both" and she anticipates the future of fashion by saying "In the future probably there's even more channels than our two main ones." In this line, fashion groups are opting for disinvesting in their physical stores to invest that money in digital growth. Examples are INDITEX closing 1200 stores or Diane Von Furstenberg's announcement to close all of its stores to transition to a digital only model. In the United States, around 20,000 to 25,000 stores closed in 2020, doubling the figure from the previous year. Moreover, they experienced an average drop in offline sales of 22 to 27 percent (YOY from 2019 to 2020), whilst Europe saw an 8 to 13 percent downturn in offline sales. Given that retailers were forced to close their physical stores, online sales rose, "encouraging an increase in first-time fashion e-commerce shoppers of 14% in the US and 17% in China" (Ellen MacArthur Foundation, 2020).

Although there has been a rising popularity in "digital" over the past years, the pandemic has accelerated the transition. It led to increased levels of innovation and efficiency in the online market, as companies scaled-up by focusing their investment on the

only channel that was available in the majority of regions: e-commerce. In 2019, e-commerce accounted for 10 to 15 percent of the global luxury sales. By 2020, this figure amounted to 50 percent and the average market value of internet retailers had risen 42 percent with respect to the previous year. This shift is not temporary as a consequence of COVID-19, but rather permanent. It offers the opportunity to create more efficient operating models and a personalized customer experience. As can be seen in Figure 6, 30 percent of the fashion executives who took part in the survey carried out by McKinsey agree that the biggest opportunity for the fashion industry is “Digital” followed by sustainability, which remains a key factor, and market share gain. Almost all companies expect their online sales to boost, with “26 percent of executives projecting a gain of 50 percent or more and nearly half of executives projecting growth of 30 percent or more” (McKinsey&Company & Business Of Fashion, 2020). In line with the rise in digital adoption, companies have experimented with digital innovations such as livestreaming, social shopping and offering customer service through video chat. Virtual fashion could potentially become a valuable source for revenues, establishing as a profitable channel for apparel discovery. Ralph Lauren, for example, partnered with Snap Inc. to come up with virtual branded clothing for avatars, something that is each time more common to see in video games. Another example is Louis Vuitton collaboration with League of Legends to create skin designs to go hand by hand with the actual capsule collection they had launched. Regarding the sustainability aspect, the pandemic has accelerated the already existing disapproval by many of human consumerism, the importance of including sustainability when making a purchasing decision and the consequent emergence and growth of circular business models. As Boston Consulting Group stated: “More than ever, consumers will favor brands with a purpose, and sustainability will become a minimum requirement. Brands must ensure that they operate in ways that are environmentally and socially responsible” (Bianchi et al., 2020). ThredUP, for example, has claimed a high rise in the demand during the pandemic for sustainable brands like Patagonia (+89 percent), Reformation (+94 percent), Everlane (+87 percent) and The North Face (+77 percent) (threUP, 2020). However, as a result of knowing this consumer growing worry about the environment, greenwashing is very present these days. Fast fashion companies continue to

thrive for growth and global expansion whilst stating their use of materials like organic cotton to create a sustainable image of their brand. Given the scale of their reach, they need to overproduce organic cotton and continue promoting overconsumption, and neither of these aspects is sustainable.

Figure 6: Fashion executives' biggest challenges expectations in 2021



Source: Business of Fashion & McKinsey State of Fashion Survey, 2021

6. THE NEW BUSINESS MODELS IN THE FASHION INDUSTRY

Currently, clothing underutilisation and a shortage in recycling is leading to a loss of \$500 billion worth of value. New fashion business models have emerged as a response, empowered by the use of digital technologies, and are expected to boost in popularity in the years to come. They companies operate under a demand-based model, which helps reduce environmental costs and excess inventory. They establish sustainability at the reach of all, attracting price-sensitive and environmentally conscious individuals too, while reducing the use of resources and raising the revenues per item. Not only are they contributing to the benefit of the environment, but they are also acting on the new customer behaviours and demands. Everything is built from the idea of a sharing economy, defined by Cambridge Dictionary as “an economic system that is based on people sharing possessions and services, either for free or for payment, usually using the internet to organize this” (Cambridge Dictionary, 2021), which emerges as an alternative to ownership.

The four major emerging business models in the fashion industry are: second-hand, rental, subscription and interchange. Second-hand fashion companies (either e-commerces, physical stores or both) serve as a marketplace to buy and sell pre-owned items. Rental fashion normally entails paying a fixed price per day for one or more items, which can then be given back or sometimes be bought at a discounted price. Subscription fashion is similar to that of rental in that there is no ownership. However, the methodology is different. People tend to pay a monthly or annual fee to receive a specific number of items each month specifically selected by employees or big-data platforms for each individual. Some of these companies also offer the possibility of buying the items at a reduced price. Lastly, interchange fashion is the newest of them, being still in the “introduction” phase of a product life cycle. The idea behind this model is to give in an item in return of another one.

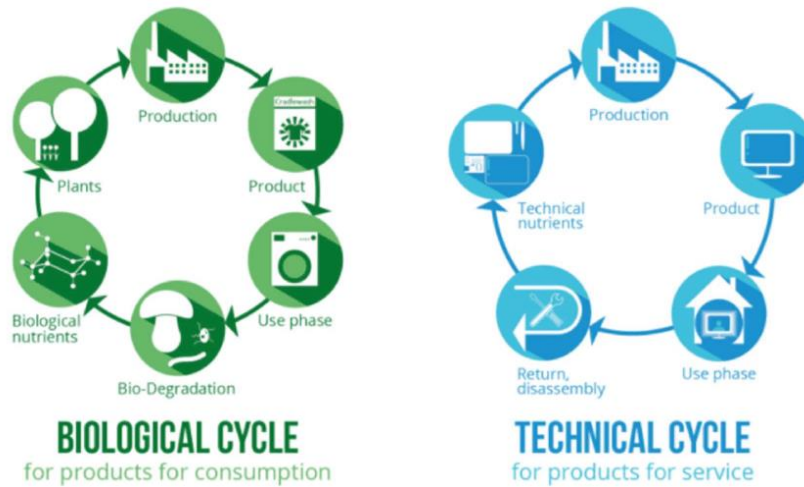
Around 70 percent of fashion customers in 2020 have a bigger interest in circular business models than before and have the intention of investing their money in higher quality garments. The positive consequences of engaging with fashion companies that operate with a circular business model can be studied with figures. Studies demonstrate that

extending the lifespan of a garment for three months can reduce by 5 to 10 percent garment's footprint (carbon, water and waste usage), if a decrease in purchasing behaviour is assumed. It has also been demonstrated that 65 percent of second hand fashion purchases in the United Kingdom and United States and 41 percent in China have avoided the purchase of a new garment.

Up till the emergence of these new fashion business models, sustainability was not an option for everyone. Sustainable first-hand fashion brands often demand a price premium, to the reach of some, that accounts for the increased costs of producing sustainably, which is one of the main drawbacks that stops other fashion companies to act equally. Although people wanted to be part of a more sustainable fashion industry, prices were too high for them to be able to afford such garments. With the emergence of these companies, sustainable fashion has been democratized; it is a cultural movement that is now at the reach of all.

With circular business models, the use of virgin resources and production by-products are reduced. Materials in the fashion industry flow within two different cycles: the technical cycle and the biological cycle. Sustainable designers need to design having in mind that the item can firstly be reused or recycled, going through the technical cycle over and over again without losing its value. Additionally, materials can be chosen or manufactured such that once the item loses its value and cannot be rotated anymore, it can be decomposed to create additional value, like increasing the health or carbon in soil. Figure 7 has been included with the intention of better portraying the differences between these two cycles involved in any company following a circular approach. (Wautelet, 2018)

Figure 7: Differences between the biological and the technical cycle



Source: Wautelet, 2018

Different companies have varied opinions about the future of fashion. Figure 8 compares the market size of each segment within the fashion industry in 2009 and 2019 and predicts how will figures have changed by 2029. Apart from the massive expected growth in second-hand fashion, it can also be observed that both the rental and the subscription based models will rise in popularity. The revenues from fashion rental companies are expected to grow at a CAGR (Compound annual growth rate) of 11%, rising to \$801 million between 2019 and 2023. Supposedly, apart from the latter, Amazon Fashion, direct-to-consumer and off-price would also increase its market sizing, whilst mid-priced, value chains and department stores would experience a decline.

Figure 8: Market sizing and growth estimates in the fashion industry (2009 – 2029)



Source: thredUP, 2020

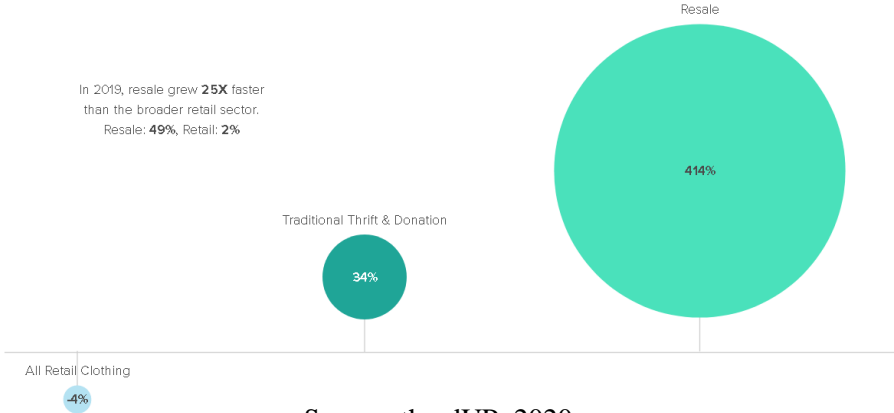
6.1 A look into second-hand fashion

The second-hand fashion global revenues are expected to rise from \$28 billion in 2019 to \$64 billion by 2024. This figure includes both the resale and the traditional thrift and donation segments. Resale will grow at a CAGR (compound annual growth rate) of 39 percent over this period, whilst traditional thrift and donation will grow at a much lower 6 percent CAGR. Figure 9 portrays graphically this expected situation, showing the comparison between the previously mentioned segments of second-hand and retail clothing, which by contrast, is expected to decline by 4 percent (from 2019 to 2024). If compared to fast fashion, a clear transition can be traced from the situation in 2009 to that of 2029.

Apart from the clear rise of resale over these past few years, it is predicted that by 2029, the second-hand fashion market will nearly double that of fast fashion. (thredUP, 2020)

Moreover, 4 out of 5 people say they have or are willing to shopping second-hand fashion when their income level decreases, which, as mentioned before, is the current situation of many due to the economic crisis the pandemic has triggered. On the selling side, 2 out of 3 people who have never sold second-hand clothing before are now open to do so. This has resulted in an increase of 50 percent (compared to pre-pandemic levels) in the number of people selling their clothes online. (thredUP, 2020)

Figure 9: 2019 – 2024 projected market growth in retail clothing, traditional thrift & donation and resale



Source: thredUP, 2020

Figure 10: 2019 – 2029 projected global revenues in fast fashion, traditional thrift & donation and resale



Source: thredUP, 2020

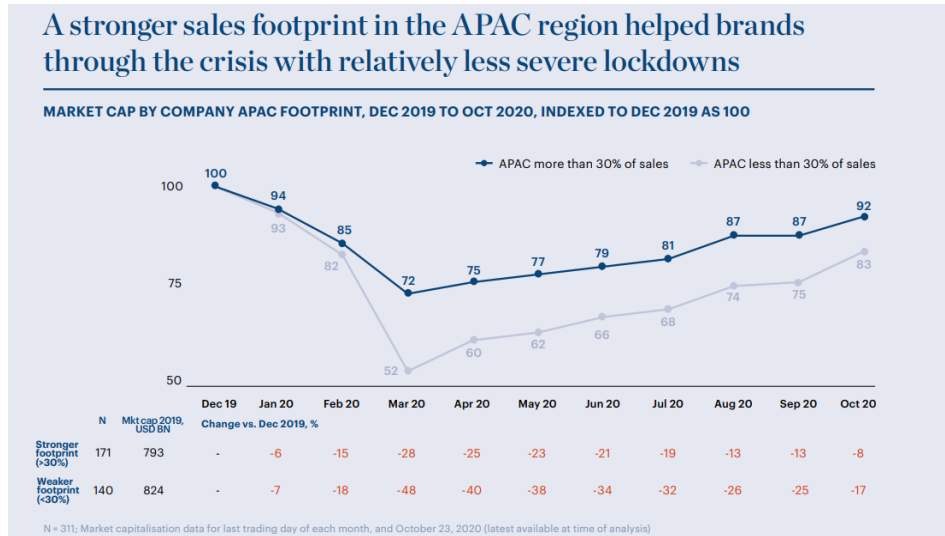
7. WHAT DO STOCKS PREDICT?

Stock indexes portray investors positive feelings for internet retailers, companies with a stronger presence in the APAC (Asia-Pacific) region and well-known market leaders in the industry, thinking they will come out of the pandemic even stronger. Market leaders in the industry reported a stock market plunge of 29 percent from December 2019 to March 2020, whilst the rest of fashion companies experienced a 38 percent decline. By October 2020, the most successful companies had a market capitalization 11 percent above than that of December 2019, compared to the rest, which were still recovering and had not yet surpassed December 2019 levels. On the other hand, Figure 11 portrays investors' preference for companies whose APAC sales accounted for at least 30 percent of the total sales figure during the studied period. Still, neither those that had a stronger presence nor those that had a weaker one had returned to their trading positions back in December 2019 by October 2020. (McKinsey&Company & Business Of Fashion, 2020)

Finally, the strength of internet retailers over other listed fashion companies was also visible in the stock market. The market capitalization of internet retailers rose by 176 percent in comparison to that of December 2019, whilst the rest of retailers capitalization had decreased by 19 percent during the same period (Figure 13). They achieved, on average, valuations 42 percent higher than the rest. Adobe Analytics carried out an analysis of fashion e-commerce platforms, concluding that the gap between the most successful and the rest was widening. In their analysis, it is observed that in the United States and the EMEA region (Europe, Middle East and Africa), overall digital revenues augmented by 24 percent from 2019 to 2020. However, the top 5 percent experienced a boost in digital revenues of 220 percent, while the worst 25 percent noticed a decline of 2 percent). In this line, pure play internet retailers such as Farfetch, Asos, Zalando and Revolve continued to outperform the rest. Zalando, a German multinational e-commerce platform, experienced a boost in sales of 39 percent YOY (year-on-year) in April 2020 and Farfetch, a global luxury platform, announced a 74 percent increase in revenue in the second quarter of 2020, with respect to the same period in 2019. Additionally, the websites of the top 100 European brands saw an average rise in digital traffic from March to April 2020 of 45 percent. The

two main ways to drive e-commerce growth are currently being thought of as the improvement of the digital customer experience and identifying behavioural insights, as recognized by fashion executives interviewed by McKinsey in partnership with Business of Fashion (McKinsey&Company & Business Of Fashion, 2020).

Figure 11: Market Capitalization Comparison between companies with high and low revenues from APAC region



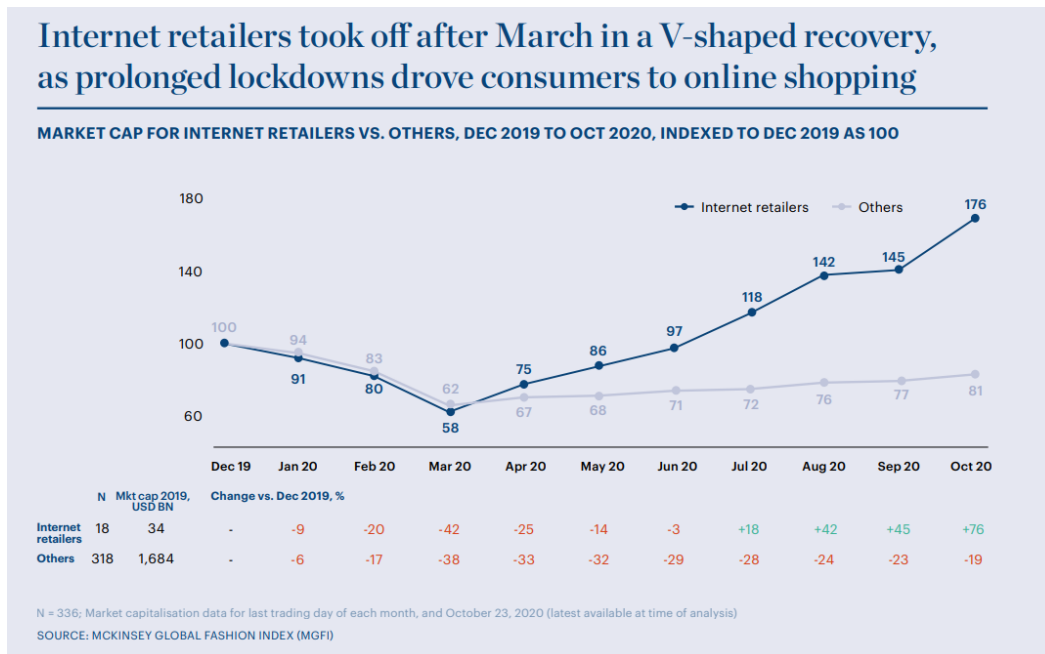
Source: McKinsey Global Fashion Index, 2020

Figure 12: Market Capitalization Comparison between the industry's average and superwinners



Source: McKinsey Global Fashion Index, 2020

Figure 13: Market Capitalization Comparison between internet retailers and the rest



Source: McKinsey Global Fashion Index, 2020

8. CHALLENGES FOR THE NEW FASHION BUSINESS MODELS

8.1 Personalized experience

These new fashion business models are data driven and offer a one to one experience. Previously, this one-to-one experience was reserved for high income individuals. Now, with the increased use of technologies and the inexpensive know-how in data analytics, these companies have it very easy to make all customers feel unique and target them in a personalized way. Personalization at scale is known as clienteling 2.0: companies target customers across a variety of channels (digital, physical stores, social media, etc) through one-on-one engagement. The switching pattern of fashion consumers from mass media channels to more personalized ones enables brands to come up with a communication strategy that is relevant and personalized for the customer. This is achieved through a mix of artificial intelligence, a close relationship with salespeople which can be achieved online, and by the use of customer relationship management tools. This customer approach is making these online companies grow at a much faster rate than those that are not present in this channel or that do not invest enough money in it. Moreover, it is facilitating the emergence of new companies by the use of the low-cost digital channel (in the majority of regions) for customer acquisition. Nonetheless, in order to attract potential customers, their presence in the digital arena has to be well-thought of and designed, considering the selective panorama of customers due to the overwhelming quantity of options. All companies are fighting to create the most optimal customer experience to promote their presence in direct-to-consumer channels. Consumers expect convenience when using the platform (an app in the majority of cases), which should offer a very intuitive browsing and shopping experience and a quick delivery of the items. An example of successful innovative one-to-one implementation that the pandemic accelerated was the change from store associates to digital stylists selling fashion items across digital platforms like WeChat or Instagram.

8.2 Zero-based budgeting

Given the unprecedented and uncertain times that companies are experiencing, it seems essential for these companies to undergo a zero-based budgeting and organization design in order to improve their business model before expanding to other regions. It is a process by which the history of the company is not taken into account by getting rid of self imposed barriers. Budgeting is decided in relation to future necessities of the brand with the aim of improving its efficiency and customer offer. Items included in previous budgets are not directly included in the following budget. Rather, all items are studied such that the expenditure on each one is justified. By following this analytical methodology, the company will liberate itself from inefficient cost allocation, underperforming departments or procedures. Just like it happens with the budget, the optimal organizational structure is created without taking into account the already existing one. The traditional approach would require fully understanding the current situation in order to come up with potential improvements. Undergoing a zero-based approach, in contrast, revolves around the idea of where they want to be, regardless of where they are now.

8.3 Data-based decisions

Under these circumstances having a plan but being able to adopt flexibility, operational resilience and agility will be key. Given the digital nature of these new fashion business models, experts believe that their built-in analytics and digital capabilities throughout their whole value chain helps them achieve the previously mentioned factors. They have digitalized core processes and a lot of them count with high-level artificial intelligence (AI), in comparison to traditional multinational firms that have demonstrated to be slow adopters of these technologies. Artificial intelligence will be an increasingly important factor to drive conversion in the apps. Giving the customers the opportunity to try on the dress they would potentially rent, or the second hand bag they are planning to buy is something that is already being offered by some companies. This will extend over to the whole industry, moving from an additional feature to an expectation. Those that contain the most useful data will end up taking the lead in this segment, where rather than design,

analytics is the number one success factor. To internationalize correctly and efficiently, companies will need to codify and consolidate all the data from the different sales channels into a unique analytics program, if they have not done it yet. This leads to an improved objective decision making system to better manage inventory planning and management, promotions, prices, markdowns, customer preferences, etc. ThredUp, for example, counts with a very strong analytical platform that enables them to carry out all the above mentioned to maximize profitability.

8.4 Design

Circularity starts with the design of the fashion item. As such, fashion designers need to take into account the durability of the item, garment construction efficiency (to reduce waste) and its processing (for example, dyeing) to not erode the product's value, so that it can be used a higher number of times and recycled once it can no longer be used. One of the main aspects companies following one of the emerging fashion business models have to take into consideration is the durability or recyclability of the items. Companies have the option of investing in environmentally-friendly materials. They can train suppliers in reducing and reusing fibres, chemicals and packaging with the intention of reducing production waste and support. Investing in reskilling fashion designers so as to offer them with the needed knowledge for circular design innovation will be key. Timeless designs or garment adaptability can be good measures to encourage the desire of customers to buy the item. The garments these emerging fashion businesses decide to rotate need to be designed with durable and non-hazardous materials that will resist various uses. Refurbishing products for rental or subscription requires money and people and it can only be done over and over again if the quality of the item is high. Similarly, if the item is composed of various materials, the company is going to have a difficult time recycling it.

8.5 Logistics

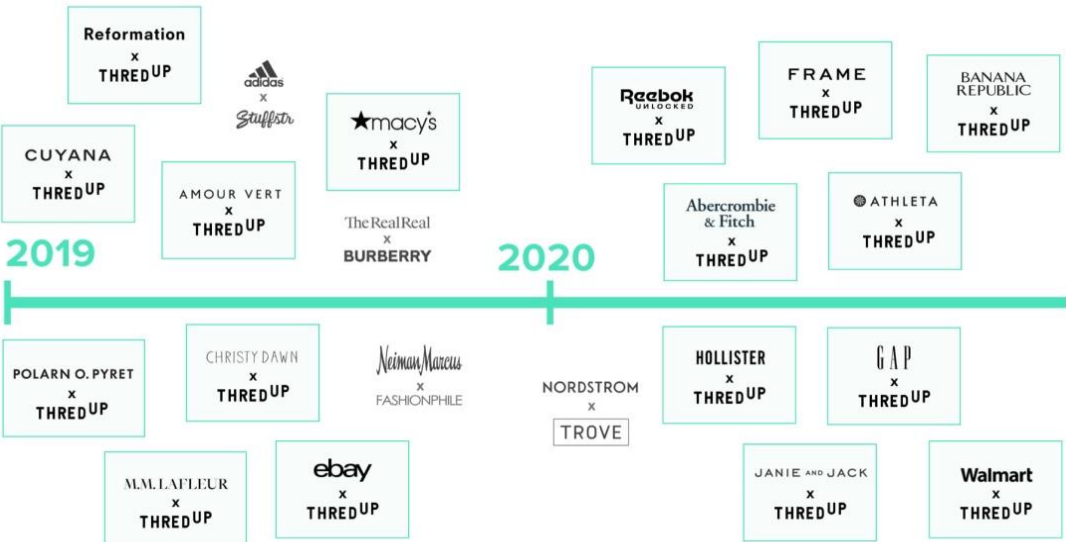
The most complex part of their internationalization is building a complex yet efficient web of logistics. As predicted by Boston Consulting Group: "Brands with a strong supply chain will be in a better position to take advantage of the recovery once economies

start to rebound” (Bianchi et al., 2020). These companies follow a bionic operating model, where technology and people are seamlessly integrated to enable faster and more precise actions. Bionic supply chains enable full system control, transparency and data optimization. As a result, the complexity of the supply chain is reduced, it enables strategic planning, and it is the approach that works best in a complex and uncertain environment like the current one.

In resale, it is normally carried out peer-to-peer, although there are exceptions, like it happens with the company thredUp. The logistics include washing, packaging, sending the product and having a strong high-level platform to control and track each item. Logistics is either carried out in-house or through an intermediary who takes care of the whole process. A large number of companies are acknowledging the need to be engaged in second-hand initiatives such as implementing buy-back programs, creating their own platforms destined to resale, or partnering with already existing companies. Actually, in 2019, 87 percent of traditional fashion companies were willing and excited to try resale and rental models. Boston Consulting Group, together with Vestiaire Collective, carried out a market research which concluded that 62 percent of shoppers would increase their spending in traditional brands who decide to partner with second-hand players (Willersdorf et al., 2021). Larger retailers are likely to prefer partnering with smaller specialized and innovative fashion businesses that offer a faster, effortless path to the adoption of a circular business model instead of building the capabilities internally. Other reasons include environmental footprint or attracting the younger generations. It is a quick way these recent companies are choosing to expand their market share within their home country before deciding whether to internationalize or not.

Some of these partnerships between retailers and resale platforms are illustrated in Figure 14. Patagonia, for example, collaborates with Trove, a start-up that develops white-label channels to take control of the resale marketplace, to buy back garments and sell them at a discounted price. In the rental segment, CaaStle, as an example, leads the whole process for brands, from warehousing and cleaning fashion items to collecting customers feedback. One of the partnerships which can be observed in Figure 14 is the one between Gap Inc. and thredUP. Launched in April 2020, their Clean Out bags enable Gap shoppers to earn credit to spend in their shops by turning in their pre-owned unwanted garments to thredUP. In the luxury segment, it is more common that companies take control of the logistics involved in resale, subscription, rental or interchange. However, a very similar partnership to thredUP X Gap was negotiated in June 2021 between Vestiaire Collective and MyTheresa, a luxury fashion e-commerce, whereby customers can also earn credit to spend in the platform after sending their second-hand luxury garments to Vestiaire.

Figure 14: ThredUP's retailer partnerships



Source: ThredUp, 2020

In order to improve the customer experience, features like home pick-ups are growing in popularity. Eliminating single-use packaging is also starting to emerge as an important factor customers pay attention to, but most importantly, optimizing assembly facilities and

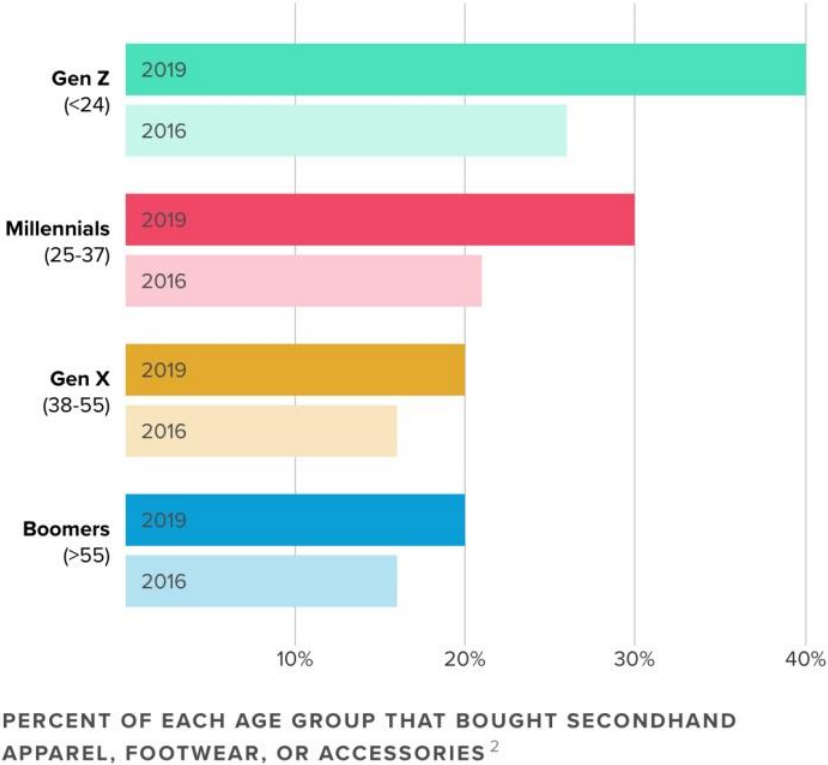
investing in the required technology. For example, the accuracy and velocity at which items are sorted and distributed could be drastically improved by the use of sorting technologies like Fourier Transform Infra-Red spectroscopy (FTIR) or Radio Frequency Identification (RFID) tags, which help with dealing with product information and tracking encoding. To sum up, the fashion industry is undergoing a difficult phase in which strategic partnerships are more important than ever. They are moving away from a purely transactional relationship to one that is valuable and long-term oriented. This has ended up benefitting fashion brands and their partners, increasing their productivity, optimizing their inventory management and decreasing their environmental footprint in an uncertain environment with initiatives like the ones mentioned above. Companies following one of the new fashion business models partnering with big international companies will need to forge close relationships with them to enable an efficient and quick logistics process for the items traded from one company to the other, whilst establishing initiatives that promote risk sharing. They would therefore need to come up with a mutually beneficial system that contributes to a reliable logistics process.

8.6 Overcoming society's stigmas

Some countries have a huge respect for the environment, being the latter a key in their shopping behaviour. For example, in Sweden, the term “köpskam” is becoming popular, meaning the “shame of buying”. However, there are other regions where companies will face the problem of having to engage consumers in changing their mentality towards circular fashion by overcoming society's stigmas. Negative connotations towards these emerging fashion business models activity are still very present in a lot of countries. Figure 15 represents the percentage of people who bought second-hand fashion during 2019 within each generation (Generation Z, Millennials, Generation X and Boomers). For the younger generations, sharing economy is not only an option to consider but the best option, for many. The majority are free from society's stigmas and prejudices. ThredUP estimates that 80 percent of the people belonging to Generation Z think that there are no stigmas towards second-hand clothing (thredUP, 2020). Younger generations consider “newness” to be unimportant when buying fashion, opening up the path for emerging business models.

Up to 90 percent of them consider buying second-hand fashion when money gets tight. Nonetheless, older consumers tend to require a higher level of education and stimulation to convince them of taking part in the circular fashion economy. In a recent study, 203 participants with different nationalities answered the question: If you don't buy second-hand fashion, ¿what is the reason behind it? Close to 65 percent of them agreed it was as a result of their “perception of cleanliness” of the items. Other reasons included “unfashionable” or the idea that it had been “previously owned” (Paço et al., 2021). Selfridges, a chain of high-end department stores, and Zalando, a multinational e-commerce, have incorporated a variety of circular initiatives in their main activity with the objective of normalizing circularity in consumers' minds.

Figure 15: Percentage of each age group that bought second-hand fashion



Source: ThredUP, 2020

8.7 The need for collective effort

Knowing that production in fashion is rising by 2.7 percent annually (from 2019 to 2030) and that only 1 percent of garments are recycled into new ones, creating a circular economy is essential. Circularity is expected to disrupt the industry but it is up to brands, suppliers and marketplaces to take advantage of the opportunity before others do so. “Scientists estimate that limiting warming to 1.5 degrees Celsius would reduce the odds of initiating the most dangerous and irreversible effects of climate change” (Henderson et al., 2020). McKinsey estimated that in order to align with the 1.5 degree direction by 20230, around 20 percent of fashion items would need to be continuously circulating (McKinsey&Company & Business of Fashion, 2020). In order to achieve scalability, a collective effort is required, including powerful institutions and policy-makers. The European Union has come up with many initiatives to encourage circular practices. Examples include the EU’s carbon border tax or France’s ban on luxury goods’ destruction. Groups have also been formed to tackle the fashion industry’s sustainability challenges. Some include the Fashion OECD Due Diligence Guidance for Responsible Supply Chains in the in the Garment & Footwear Sector and the United Nations Alliance for Sustainable.

9. INTERNATIONALIZATION PROCESS

Globalization has led to a growing interdependence within the world. It has resulted in an increased international trade, it has fostered the expansion of many corporations abroad, and has enabled a freer movement of goods, services and capital between regions. Internationalizing a business can result very costly in money and in executives time. Nonetheless, investors expect fashion companies following one of the new business models (rental, subscription, second-hand or interchange) to thrive in the coming years. Therefore, the majority of them are raising millions in funding rounds primarily with the objective of expanding to other regions. The majority of these companies are born global, meaning “a firm that from its inception pursues a vision of becoming global and globalizes rapidly without any preceding long-term domestic or internationalization period” (Gabrielsson and Kirpalani, 2004), and count with cutting-edge technologies to achieve it.

9.1 Steps for internationalization

The first step companies undertake is to decide whether to internationalize or not. In order to decide this, they carry out an internal analysis of the company, its capabilities and its potential to internationalize. Benchmarking, which normally consists in comparing your business to that of competitors, is also essential in this phase. Regarding the external analysis, an effective way of doing so is through the PESTEL framework, where the political (government in power, political stability, trade barriers, ownership, operating or transfer risk, etc), environmental, social (individual behaviour, company culture, industry culture, national culture), technological, economical (GDP, exchange rate, income distribution, direct foreign investment, etc) and legal (legislation and regulation, intellectual property, method of resolution of disputes, etc) environment of the foreign countries are researched beforehand. In the same line, a SWOT analysis may be carried out with the intention of identifying the company’s strengths and weaknesses (both internal factors) as well as the opportunities and the threats (external factors) in the countries it plans to expand to. An estimation of the total market should then be carried out. To decide which countries to enter out of all the potential countries the company is planning to expand to, a

segmentation process is required. The factors that would be taken into account depend on whether the company follows a B2C or a B2B model. In a B2C (business-to-consumers) process, businesses sell directly to the consumer, whereas in a B2B (business-to-business) process, business is made between companies. Nearly all fashion companies following one of the emerging business models are B2C, which has been enabled by the Internet. The relevant criteria for segmentation in a B2C and a B2B company can be observed in Figure 16. Once the segmentation process has been executed, the company will carry out a competitor analysis at the chosen markets, it will determine their competitive advantage and establish their positioning in the target market relative to its competitors. Two different market expansion strategies can be performed: an incremental strategy or a simultaneous strategy. An incremental strategy entails entering in one market at a time whereas with a simultaneous strategy, the company decides to enter various market at the same time. Next, the company should establish a series of SMART marketing objectives (specific, measurable, achievable, realistic, timetable). Once it has done it, the following step is to determine the entry mode strategy, which can be grouped into three: hierarchical modes, intermediate modes and export modes. This decision is based on internal and external factors, on management preferences and on transaction factors. Export modes lead to a low control, low risk and a high flexibility. Intermediate modes generate a shared control and risk and the ownership is split between the actors. Lastly, hierarchical modes entail a high risk, a high control and a low flexibility situation. Once the entry mode is decided, an international marketing plan has to be created. A marketing mix for every region should be developed, including the following factors (7 P's): price, place, promotion, product, people, process and physical evidence. The prices of the products or services can be standardised or adapted depending on the region. The factor "place" includes aspects such as distributors, wholesalers, retailers and transport. "Promotion" involves all the activities (TV ads, google ads, guerrilla marketing campaigns, OOH advertising, etc) that create market awareness of the brand as a whole or of a specific product or service. The "product" or service decisions may encompass a required change in the packaging due to legal requirements of the foreign market or a change in the name or colours of the brand due to negative associations to such pertaining a specific region. The factor "people" comprises all the employees, which are an

essential part of a business. Moving onto “processes”, this term refers to the whole process involved to deliver the product or service to customers. Lastly, physical evidence refers to the tangible item (packaging, receipt, etc) that they are receiving as a proof of the product purchased or service contracted. After designing the global marketing plan, the last step in the internationalization process is to implement and coordinate it. In this part, the strategy needs to be translated into actions. The 7 P’s in the marketing mix should be adapted to each product or service the company offers. Responsibilities are addressed, the period in which each activity takes place is decided, and the marketing plan is discussed internally to determine any potential barriers before externalizing it. In case there needs to be cross-border negotiation because there are employees working in the foreign regions, cultural distance is evaluated, given the potential differences in communication or negotiation style, in the way of working, in their concept of time, etc. This can also be reduced through market research (through primary and secondary resources) and the implementation of cultural training for employees. An international marketing budget will be developed with the aim of allocating the necessary resources to each region to meet the company’s objectives. Normally, this is done on an annual basis, planning it for up to three years ahead. The country managers are accountable for maximizing the marketing contribution from the region they are responsible for. The international marketing director is in charge of maximizing this figure on a global level, being his or her duties to establish the marketing resources per country through cooperation and negotiation with the previously mentioned country managers. The methods for organizing the global marketing activities could include: a matrix structure, an international division structure, a product structure, Global Account Management (GAM), a geographical structure, ad hoc exporting or a functional structure. Budgeting and planning are the two main ways of controlling the company’s structure, for which the actual performance will be compared against the planned one. (Hollensen et al., 2014)

Figure 16: Segmentation criteria of B2B and B2C companies

Segmentation criteria	Type of company	
	B2C	B2B
Demographic	age, income, occupation, etc	size of firm, type of industry
Geographic	countries, regions	countries, regions
Psychographic	lifestyle, preferences, etc	-
Behavioural	heavy, medium, light users	-
Economic	-	buying power of customers
Customer Type	-	end-customer, middlemen, OEMs, global accounts, etc

Source: Adapted from Hollensen et al., 2014

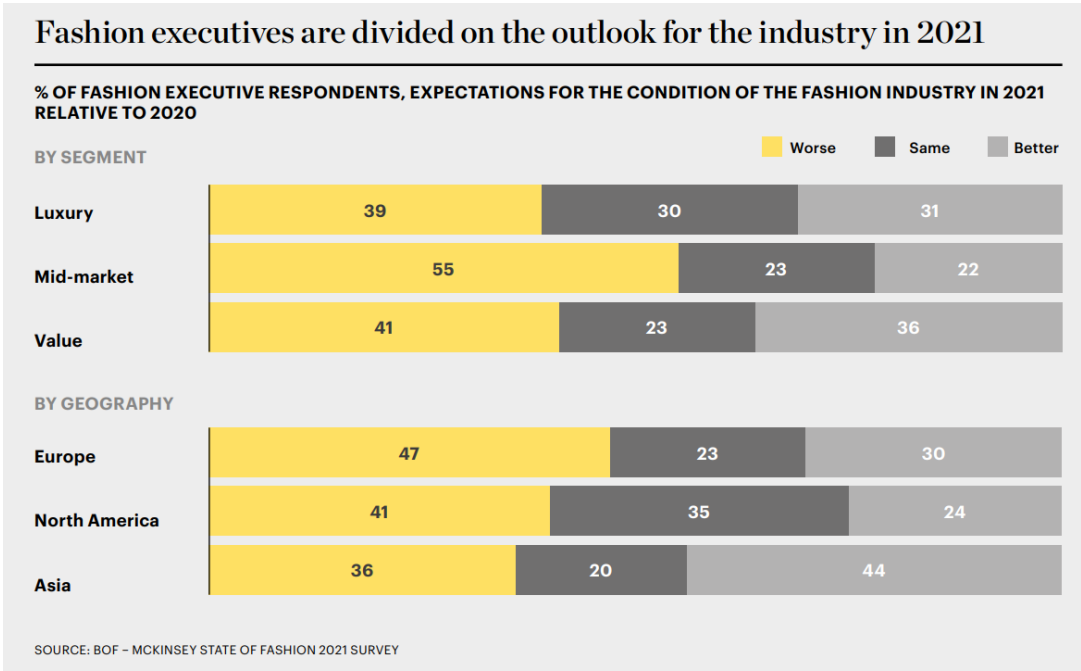
Given the digital capabilities of the companies following any of the new business models in the fashion industry, some choose to offer their products or services to other regions without undergoing an internationalization process. They take responsibility of the logistics involved to carry the items to other countries, either by transporting the items themselves or via a transportation independent company. This is an easy way to reach customers worldwide which gives them full control whilst reducing the typical costs associated with an expansion. An example could be Rebelle, an online platform for second-hand luxury goods, which has its headquarters in Germany but has not invested in any subsidiary. They offer a shipping price of 15.90 euros to any country in Europe, whilst this figure can reach up to 69 euros if shipped outside the European Union. Although they are reducing their risk by not investing in capital in other regions, they are also reducing their potential revenue sales given that if they reduced the transportation costs, it would lead to a

reduction in the total price the customer would pay, attracting a higher number of customers.

9.2 Deciding which markets to enter

McKinsey carried out a survey in 2020 destined to the world’s most renowned fashion executives to better understand the outlook of the fashion industry in 2021 with respect to 2020. In line with the recovery from the pandemic per region, nearly half of Asian executives (44%) expect a positive outlook in the fashion industry within that region. By contrast, the west shows a more pessimistic view in the industry, “with only around a third of European executives and a quarter of US executives expecting the state of the fashion industry next year to improve” (McKinsey&Company & Business of Fashion, 2020). Europeans’ sentiments are the worse, with nearly half predicting an aggravating situation, in comparison to 41 percent in the case of North America. (McKinsey&Company & Business of Fashion, 2020)

Figure 17: Fashion executives’ expectations for the fashion industry in 2021 by segment and geography



Source: Business of Fashion & McKinsey State of Fashion Survey, 2020

9.2.1 Google trends

Google’s search engine is the most popular on a worldwide level, with a 92 percent market share. A search analysis by geography was carried out with Google Trends to better understand the interest per region with respect to the new fashion business models. The following Google graphics are not representative neither of Russia nor of China. In Russia, although Google is the most used search engine, its market share is very close to that of Yandex, meaning the data collected by Google to create the graphics is not complete (refer to Figure 18 to see the search engine market share distribution in Russia). In the case of China, the data collected from Google is even less symbolic, given the large dominance of search engine Baidu and the small market share of Google (around 2 percent). Figure 19 shows the aforementioned statistics in China.

Figure 18: Search engine market share distribution in Russia (May 2020 – May 2021)



Source: Statcounter, 2021

Figure 19: Search engine market share distribution in China (May 2020 – May 2021)



Source: Statcounter, 2021

The increase in the interest for sustainable fashion can be observed in Figure 20, which portrays the clear positive evolution of the number of its searches from May 2013 to May 2021.

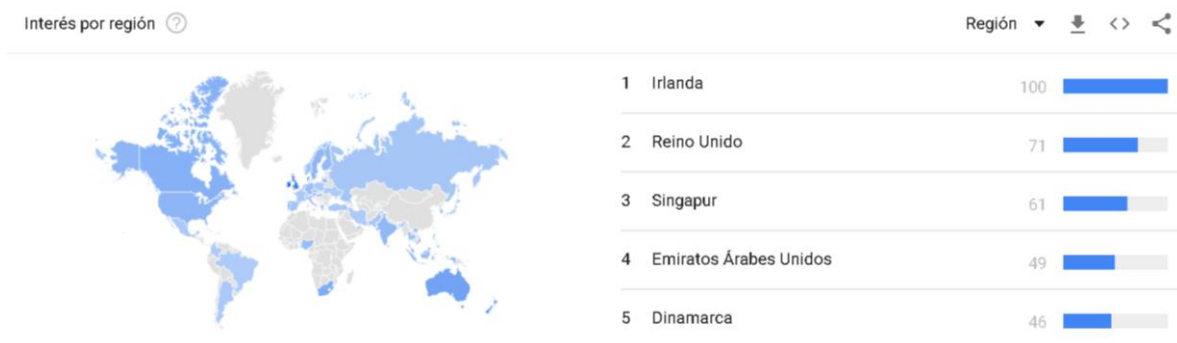
Figure 20: Evolution in the number of searches of “sustainable fashion” on Google



Source: Google Trends, 2021

If a geographic segmentation is carried out for the search term “sustainable fashion” from May 2020 to May 2021 (Figure 21), it can be concluded that during this period of time, Ireland was the region where the majority of the searches were made (adjusted for the total population), followed by the United Kingdom, Singapore, the United Arab Emirates and Denmark. Given the close relationship in the meaning between sustainable fashion and “slow fashion”, an analysis of the latter within the same period of time (May 2020 to May 2021) was made (Figure 22). In this case, both Denmark and Singapore continue to make it to the top 5 countries searching this term. Nonetheless, other countries emerge on the map: Slovakia, Czech Republic and Belgium.

Figure 21: Number of searches of “sustainable fashion” on Google per region



Source: Google Trends, 2021

Figure 22: Number of searches of “slow fashion” on Google per region



Source: Google Trends, 2021

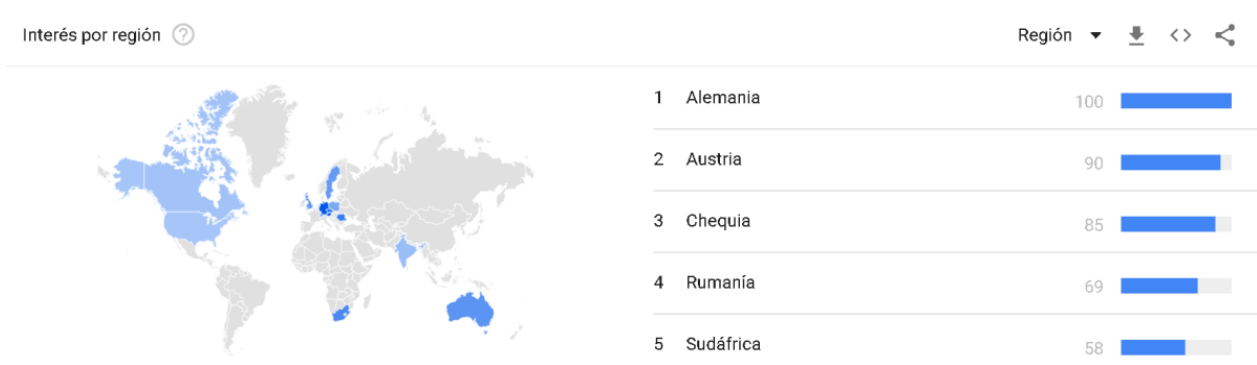
Second-hand fashion interest, as explained previously, has risen over the past year. Two graphs with two different search terms have to be created to portray correctly the number of searches per region. If only the search term “secondhand fashion” is entered for further analysis, data could be misunderstood given that the United States is the only country which appears (Figure 23), supposedly meaning that the difference between the search term interest in that country with respect to other countries was huge. However, this is due to the fact that in the rest of the world society writes the word secondhand separately: second hand or second-hand. Therefore, a new search term analysis is created to see which other countries have been interested in second-hand garments from May 2020 to May 2021 (Figure 23). Germany and the United States are the countries who have shown the largest interest for this search term over the last year. Other countries that show a high interest in the search term second-hand fashion but where the average income level of citizens is lower than in the aforementioned countries include: Austria, the Czech Republic (which has also shown interest for slow fashion), Romania and South Africa.

Figure 23: Number of searches of “secondhand fashion” on Google per region



Source: Google Trends, 2021

Figure 24: Number of searches of “second-hand fashion” on Google per region

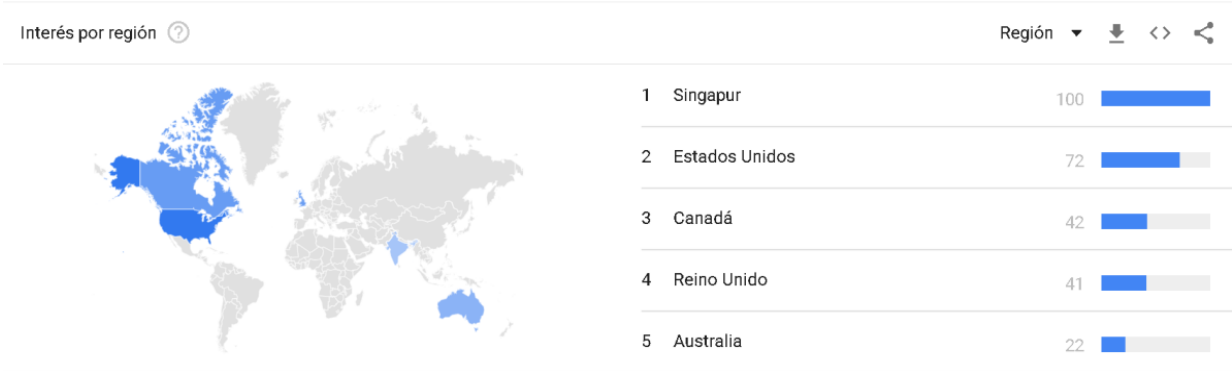


Source: Google Trends, 2021

Moving onto rental fashion, the country with the highest number of searches (adapted to the population size) between May 2020 and May 2021 was Singapore (Figure 25). Assuming the number of Google searches is representative of the interest in each area for a specific search term, it could be concluded that Singapore is highly interested in sustainable fashion and has a higher interest in rental fashion than in second-hand fashion. It can also be observed that the United Kingdom is the only country which is not only interested in the general topic of fashion sustainability, but also in second-hand, rental and subscription-based fashion business models. Actually, Google trends also expose that the United States has not been interested in sustainable fashion over the past year. However, American citizens are really interested in all three of the business models: rental, second-hand, and subscription. Although veridical conclusions cannot be extracted solely from this data, it could be a sign that rather than engaging in these new business models to encourage sustainability in the fashion industry, other reasons may apply to Americans engagement: cost-savings, desire to wear distinct outfits at an affordable price, interest in the experience factor, etc. Consequently, a deeper analysis should be carried out for companies to know how and what to communicate with customers to drive sales or subscriptions in the United States. Additionally, two more actors enter the search arena relative to “rental fashion”: Canada, which shows a similar interest than the United Kingdom and Australia, where the interest is around half of that from Canada. To conclude, there is no sufficient data

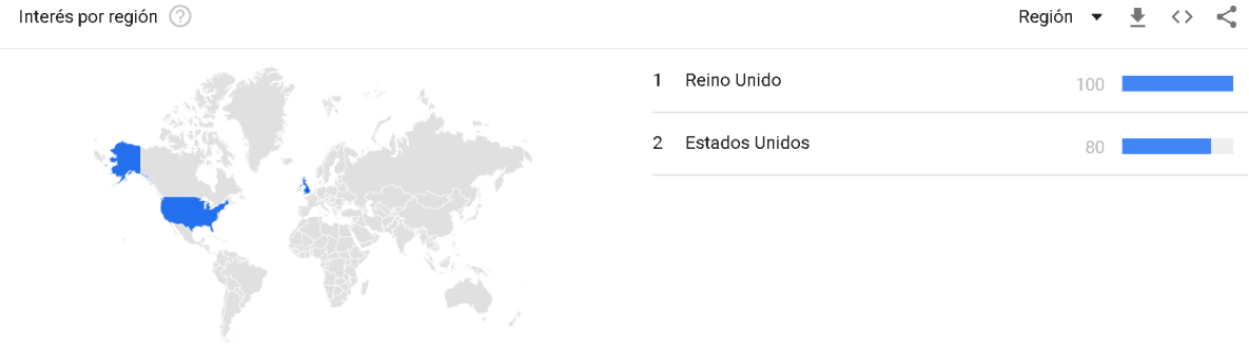
regarding the searches relative to “interchange fashion”, confirming that it is the newest of the emerging fashion business models and does not count yet with the same popularity as the rest.

Figure 25: Number of searches of “rental fashion” on Google per region



Source: Google Trends, 2021

Figure 26: Number of searches of “subscription fashion” on Google per region



Source: Google Trends, 2021

9.2.2 China

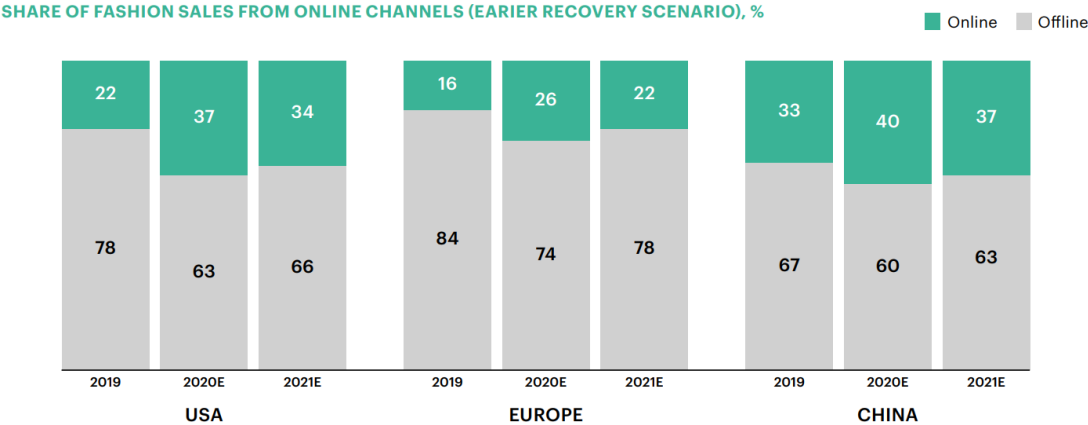
The Chinese economy has experienced excellent growth in the previous years and is expected to continue doing so in the years to come. It is gradually integrating with the global economy and many experts agree that if a business wants to succeed on a global level, it should include China in its investment plans.

The current global recession we are living has been categorized by the International Monetary Fund as the worst after the 1930’s Great Depression. Nonetheless, its impact on the fashion industry will not be equal across all regions. Europe is predicted to be the most affected region, followed by the US. Those companies that had a huge presence in China have suffered the pandemic the least and this is expected to continue in the years to come. Kering, a global market leader in the luxury category, has publicly informed the recovery in sales to 2019 levels during the second quarter of 2020. Furthermore, its sales in China are estimated to increase by 10 to 30 percent in 2021 with respect to 2019.

As pictured in Figure 27, the expected fashion revenues in 2021 coming from online channels in China are quite higher than in the US and much higher than in Europe. This portrays the potential of growth for the new fashion business models, which are heavily reliant on digital channels. However, these companies should also consider that it is currently more expensive to convert a lead into a customer via the online channel than through the offline channel in China. This occurs because e-commerce fashion platforms have reported skyrocketing costs to acquire customers. (McKinsey&Company & Business of Fashion, 2020)

Figure 27: The share of fashion sales from online channels in the US, Europe and China

The share of online fashion sales is expected to remain high in 2021

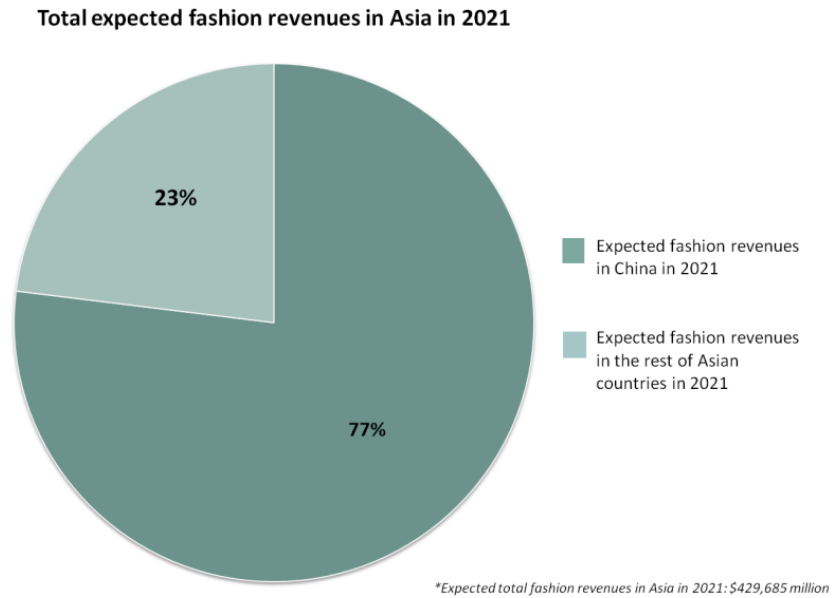


Source: McKinsey, 2020

9.2.3 Other markets

The planned strategies for countries like Brazil or India, where the pandemic has had terrible consequences, will need to be rethought. As seen by Nelli Kim, a New York based consultant to luxury retailers, companies have the doors open to many other growing markets other than China. In his opinion, the “rest of the world strategy” should be completely rethought, establishing specific strategies adapted to the market in question. Total fashion revenues in Asia are expected to amount to \$429,685 million by 2021 and \$585,433 million by 2025, as stated by Statista (2020). Although most revenue will be generated in China (\$330,633 million in 2021), the other \$99,052 million will be coming from the other countries in Asia. The expected panorama in 2021 in the APAC region is portrayed in Figure 28 The Southeast Asia region particularly is undergoing a growing digitalization process. Moreover, as it can be observed in Figure 29, a great part of the APAC fashion executives interviewed by McKinsey expect online sales in the luxury segment specifically to boost. Furthermore, and looking beyond China, the African continent, supposes a huge potential given the continuously increasing average income level, which in turns rises the potential customer base in the region. However, there are more barriers of entry and a lower probability of success, pulling many companies back. Additionally, “the U.K. is projected to register 11.8% YOY (year-on-year) growth (in online clothing rental revenues) in 2021, performing exceedingly well within the Europe market” (Future Market Insights, 2021). To conclude with this section, impacting figures regarding the future of circular business models in the fashion industry in America has been disclosed by thredUP: 82 percent of Americans haven’t yet resold any fashion item, but 67 percent of them in 2020 said they were opened to doing so. The United States specifically has accounted for 95 percent of the total online fashion rental revenues from North America.

Figure 28: Total expected fashion revenues in Asia in 2021

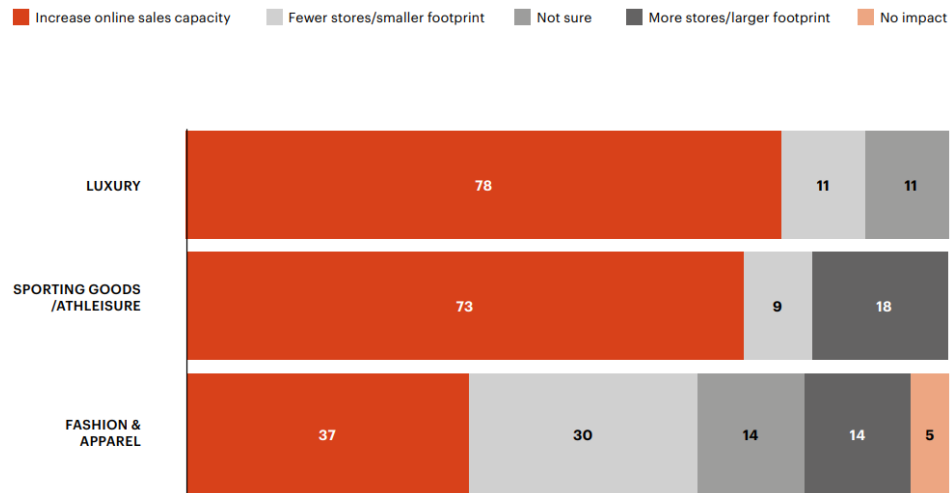


Source: Own elaboration based on data from Statista, 2020

Figure 29: Fashion executives' expected sales network impact in 2021

APAC fashion executives are expecting to increase online sales capacity and reduce their footprint in response to Covid-19

% OF RESPONDENTS, EXPECTED SALES NETWORK IMPACT FROM COVID-19, MAY 2020



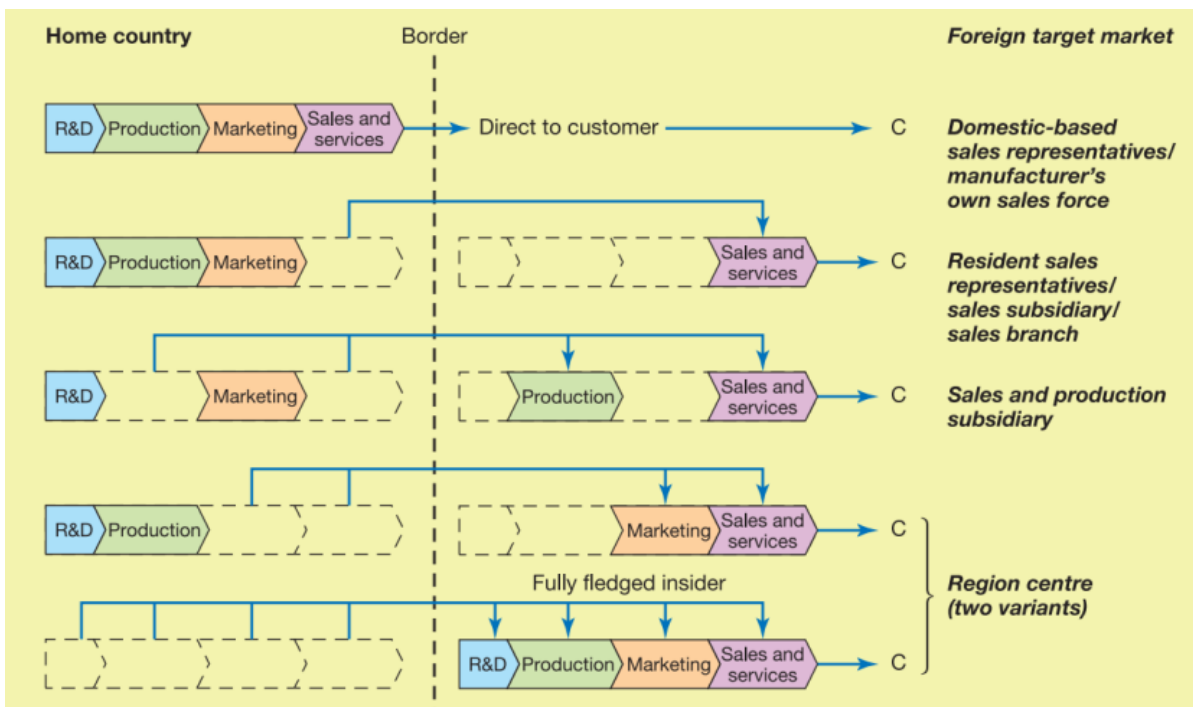
Source: McKinsey, 2020

9.3 Market entry strategies

9.3.1 Hierarchical entry modes

Companies have the option to enter a country through a hierarchical mode, under which the company can have full control over the operations. The degree of control will vary according to the value chain activities that will be carried out in the host country and those that will be carried out in the home country. Figure 30 portrays how companies can decide upon complete centralization of the operations at the foreign market (top of the graph), some centralization of specific activities in the value chain or a complete decentralization (bottom of the graphic), where all the operations in the value chain would be controlled in the foreign country.

Figure 30: Hierarchical entry modes centralization VS. decentralization options



Source: Hollensen et al., 2014

9.3.1.1 Mergers & Acquisitions

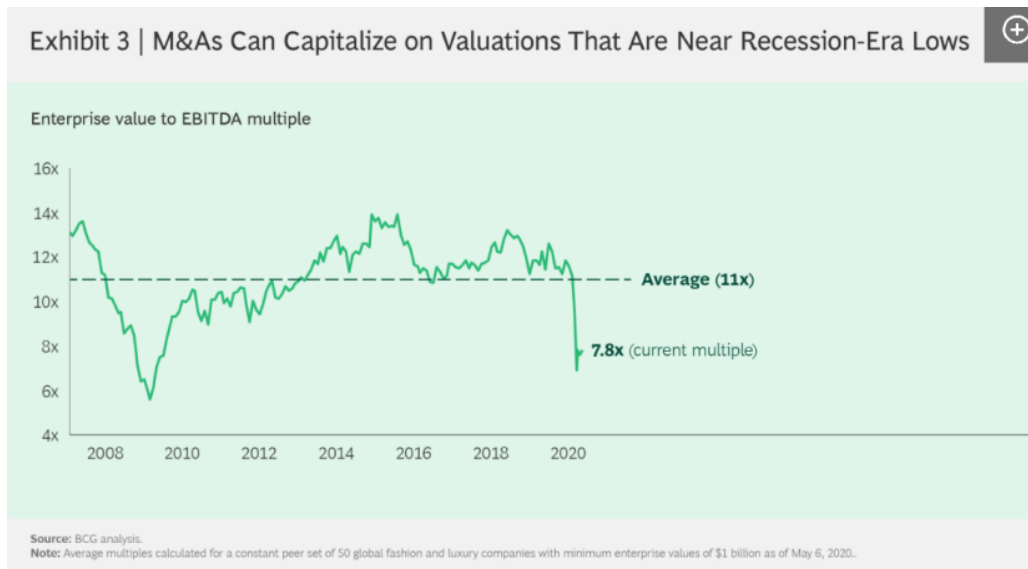
Like it happens with any crisis, the pandemic has triggered acquisitions. History confirms the success of acquisitions in challenging times, creating a higher value for buyers than the ones made within a stronger economic panorama. It has been proved that, under a recession scenario, a year after an acquisition relative shareholder return raises by 7 percent, on average, and two years after, the gap widens to by more than 9 percent. For example, Nike acquired Converse in the year 2003, just after the dotcom crash, leading to a 10 times increase in their sales. Stronger players, which count with high levels of cash, have had the opportunity to acquire other businesses at a bargain price, as a great deal of companies were going bankrupt or receiving government subsidies for their survival. As explained by Boston Consulting Group “Companies with cash to spend can take advantage of industry valuations that have dropped by an average 33% year-to-date, to a near-recession-era low of 7.8 times enterprise value over EBITDA” (Bianchi et al., 2020). The latter can be observed in Figure 31, which represents the Enterprise Value to EBITDA multiple from 2008 to 2020, calculated with data from 50 strong global companies operating in the fashion and luxury sector. The opportunity for mid-sized fashion brands to merge would help them in the competition with the industry giants. Anne Line Hansen, founder of a boutique European consulting firm, affirms that: “The world has become very complicated... but [conglomerates] are going to get too big. There is going to be some consolidation between mid-sized companies that are more family- and culture-driven and less corporate.” Often, companies will acquire others that have similar business models or that use the same channels, as it makes integration easier. The main factors that are currently driving acquisitions in the fashion industry are the following:

1. Increasing their market share through the incorporation of new categories or the internationalization to other geographies. Larger and stronger companies have concentrated on this objective.
2. Improving or gaining new paths to act on the market. Many opportunistic companies are considering this as their prime objective in the digital area. Some

acknowledge the boom that digital is going to experience in the next few years and want to adapt to this change in consumer demands as soon as possible by acquiring those that count with a better position.

3. Obtaining new capabilities. For example, many companies want to buy those that have strong artificial intelligence or data analytics technology (which is the case of many start-ups) that would otherwise take them time, risk, and a higher capital investment. This factor is expected to grow in popularity amongst luxury players specifically.

Figure 31: Enterprise Value to EBITDA evolution 2008 - 2020



Source: Boston Consulting Group, 2020

M&A (mergers and acquisitions) can reduce the barriers of entry into a new market, which otherwise could entail a costly investment (in market research, product testing, time, etc) or a tedious challenge. It can also give access to capabilities and resources that they do not count with, boosting a growth in revenues or building on the long term financials of the company. This could then make it easier to raise the capital required for further expansion.

M&A can also provide the company or companies with additional expertise in the same or different areas in which they operate. Local knowledge of a region can be transferred to a

company which is not located there and doesn't count with the necessary expertise to succeed in that specific location. It can also be very advantageous in terms of capital when a larger company is involved, giving the smaller one additional money to rely on for expansion. Finally as of the advantages, M&A often leads to the creation of a new team, with varied ideas and perspectives, coming up with better and more creative solutions. However, there are also drawbacks that may arise from M&A which should be taken into account before considering a merger or an acquisition. Firstly, it might give rise to a cultural shock if there are big differences between them, potentially arising from employee dissatisfaction with the operation or management misalignment between the two companies. Duplication, on the other hand, is a common problem in which employees end up carrying out the same duties as others, leading to time and work inefficiency, which results in an increased impractical salary cost. Moreover, if the companies involved have conflicting objectives, their discord could provoke problems for both. M&A operations should be very well-thought, meaning that companies should be advised by experts to carefully select the correct company and understand the implications of such before making any decision.

The majority of the fashion companies that operate under one of the emerging circular business models have been classified as unicorns, described by Investopedia as “a startup company with a value of over \$1 billion” (Chen, 2021), whose main goal is to plan and succeed in a rapid global expansion. One of the quickest ways to rapidly boost a company's growth is through acquisitions or mergers, being the latter the main reason why a great deal of them have tilted towards this option as their entry mode to international markets. The main difference between them is that after an acquisition, both companies carry on existing as separate legal entities although one turns into the parent company of the other, whilst in a merger, only one of them continues its operations whilst the other one stops existing.

There are various types of acquisitions and mergers. A horizontal acquisition or merger occurs when the two companies are direct competitors, meaning the market in

which they operate or the products or services they offer are very similar. This type is normally undergone when companies desire to increase their market share, boost economies of scale and make the most out of the consequent synergies. On October 2019, Vinted, an online secondhand clothing marketplace merged with its competitor in Spain Chicfy, whose users were invited to move their accounts into Vinted's platform, without being required to create a new one. When Vinted first entered the Spanish market, they had to compete against Chicfy. At that time, they were concentrating their investments on growing in the Spanish, Netherlands and Belgium markets, dedicating a great amount of money on marketing campaigns. They were also offering a lower commission than Chicfy. This made Chicfy search for a potential buyer, which in principle, was going to be Wallapop. At the end, Vinted bought Chicfy for close to 10 million euros with the objective of rapidly increasing their customer base in the Spanish market.

On the other hand, in a vertical merger or acquisition the main objective is a forward or backward integration process, where two companies that operate in different phases of a value chain either merge or one is acquired by the other. This leads to a higher quality control, synergies and it improves the communication between actors in the supply chain.

Another type of merger or acquisition is the conglomerate, where the two companies have no relationship between them. Two differentiations can be made: a pure conglomerate or a mixed conglomerate. The first one takes place when the companies operate in different markets and are not related in any way whereas in the second one, the two companies share the objectives of expanding their product line or targeting a new market. This type entails a bigger risk than the others, given the consequent and immediate transition in its completely different business operations.

By contrast, a market-extension merger or acquisition materializes when two companies have the same product or service offer but operate in two different markets. The aim is to increase their customer base through the access to a larger market. For example,

before Chicfy (previously mentioned) was acquired by Vinted, it was previously acquired by GoTrendier. GoTrendier was the market leader in Latin America for second-hand fashion whilst Chicfy was the leader in Spain, being all Spanish-speaking countries. The main objective of the operation was to grow, lower the costs and improve their technology with the aim of offering an improved experience to customers. Belén Cabido, founder and CEO of GoTrendier, at the moment of the acquisition, expressed: “The great beneficiaries of this merger will be the users, as the teams are strengthened with top-level professionals, with the main objective of improving the quality of service and experience”.

Lastly, a congeneric merger or acquisition occurs when the companies operate in a related or in the same industry but count with a different product or service line. The key is that they share the same distribution channel, technology production process or marketing. The main objective with this type of acquisition or merger is to group their product lines so that they increase the variety of their offer and increase their market share. Etsy, an American global e-commerce marketplace for unique and creative items, announced the acquisition of Depop, a peer-to-peer social fashion shopping app, on the second of June 2021. It will be a congeneric acquisition, where Depop will count with the large resources of a much bigger and public company, while Etsy will be able to engage with Depop’s customer audience (Generation Z) and exploit the potential of the app. They are both two ecommerce platforms, meaning they operate through the same channel and share similar technology and they operate in two similar industries. Gabriella Santaniello, founder of A Line Partners, a retail consultancy, thinks “Etsy is much older and more established, while Depop is much younger and hipper, so this partnership is going to be very complementary.” Actually, Depop has disclosed that 90 percent of its active users are below the age of 26. Both Etsy and Depop charge low commission rates in comparison with their competitors, Etsy charging a 5 percent fee and Depop charging a 10 percent fee. Etsy’s CEO, Josh Silverman, stated publicly: “Depop’s world-class management team and employees have done a fantastic job nurturing this community and driving organic, authentic growth in a way that aligns well with Etsy’s DNA and mission of Keeping Commerce Human. We see significant opportunities for shared expertise and growth synergies across what will now be

a tremendous ‘house of brands’ portfolio of individually distinct, and very special, e-commerce brands.”

9.3.1.2 Foreign sales branch or subsidiary

Many companies opt for another hierarchical model, establishing either a foreign sales branch or a subsidiary in the foreign country or countries. The main impulse behind this action is a long term market potential expectation in the area. It entails a higher risk than other entry modes but gives full control of its operations to the company, without having to rely on intermediaries. It should help avoid the majority of the government restrictions and, in the long term, reduce overall costs. A good communication network between the subsidiaries and the headquarters should be established to promote growth and the consequent success of the company. Examples of companies who have used this entry mode to expand to other countries includes Depop, Vinted or Vestiaire Collective. Vestiaire Collective has offices in Paris, New York and Hong Kong; Depop in London, Manchester, New York, Los Angeles and Sydney and Vinted in Vilnius, Berlin, Prague, and Utrecht. Some of these subsidiaries are responsible for a bigger region than the country they are located. For example, in the four offices of Vinted, all operations across the European Union, the United States and Canada are controlled.

9.3.2 Intermediate entry modes

Intermediate modes serve as a bridge to interchange knowledge and skills from one company to the other to promote foreign sales. Ownership or control does not correspond to one of the companies but is rather shared between both. Within this entry mode, there are four possibilities: contract manufacturing, licensing, franchising and joint ventures (or strategic alliances).

9.3.2.1 Joint Venture or Strategic Alliance

One of the intermediate modes with which these emerging fashion companies have been engaging up till now are either joint ventures or strategic alliances. The main

difference between them is that a strategic alliance tends to be a non-equity partnership whereas a joint venture can be either equity-based or non-equity based. Many strategic alliance have been cited earlier on in this paper. Although it is the go-to way of expansion within the national territory of one of these companies, it is currently not commonly used as a method of expanding to foreign countries.

9.3.2.2 Franchising

As defined by Investopedia, “a franchise is a type of license that grants a franchisee access to a franchisor's proprietary business knowledge, processes and trademarks, thus allowing the franchisee to sell a product or service under the franchisor's business name. In exchange for acquiring a franchise, the franchisee usually pays the franchisor an initial start-up fee and annual licensing fees” (Hayes, 2021). Although franchising is not popular with respect to rental, subscription or interchange fashion brands, it still remains a viable option for expansion for second-hand fashion retailers who rely on their physical stores rather than on digital channels. Franchising is useful for people-intensive and service-oriented businesses, specifically those that require a large number of stores in different locations. Moreover, governments are increasingly committing to policies that favour self-employed workers, being the latter a key aspect that drives the growth of franchising. Franchising agreements should be carried out with a long-term objective, meaning country stability is key when deciding which countries to enter. The franchising model should be first tested in the home country and after collecting feedback and improving the process, international expansion could be considered.

A very well-known example in North America is Plato's Closet, a second-hand fashion franchise currently targeting teenagers and young adults. They opened their first store in the United States back in 1998 and in 1999, Winmark Corporation bought the franchising rights of the company. Soon after, the company saw a boost in their growth as a result of public relations, marketing and the use of digital channels for advertising. In 2007, they had expanded to Canada and nowadays (year 2021) they count with 475 stores within North America. Their paying methodology to sellers is very attractive given its low

difficulty and low risk: a seller goes to the physical store without the need of an appointment, he gives his garments to be reviewed by the store personnel who will make him an offer (to be delivered by cash at the moment) which he can either accept or reject. Winmark franchisees are offered detailed training programs, continuous operations and marketing support, a powerful POS system and an online cloud platform to help with reporting and pricing.

9.3.3 Export modes

Export modes are the typical entry mode to a foreign country during the initial phases of internationalization. Under this method, items are transferred to other nations either directly or indirectly. The most common one when referring to the new fashion business models is an export house. Under this scenario, the companies are in charge of confirming the orders and of the “contracts” with the buyers, whilst the export house is in charge of carrying the items to the foreign countries. Export houses carry a high volume of products which result in discounts and in economies of scale. They deal with the required documentation and they are knowledgeable of the corresponding transport laws. Partnering with them enables many of these companies to enter countries which have difficult barriers of entry and provides them with a service that would otherwise suppose a higher cost and risk. Shippo, for example, takes care of the whole distribution process, providing an API (Application Programming Interface) to create a simplified and automated shipping process. They work by shipping goods from multiple vendors, which enables them to get high discounts that they then pass onto their ecommerce retailer partners. One of these partners is Vinted, a second-hand clothing peer-to-peer platform. As a result of this partnership, Vinted has to deal with lower shipping costs, making the process of internationalization cheaper and therefore more accessible.

9.4 Communication on a global level

Having an omnichannel sales strategy with a global e-commerce platform and multiple adapted physical stores worldwide is very challenging. One of the key aspects in

order to internationalize is communication. Consumers are more demanding and knowledgeable than ever. Therefore, any company following a circular business model needs to show transparency and traceability to its customers or potential customers to gain their trust. Traceability, as described by Ellen MacArthur Foundation, is “the ability to trace products, components, and materials, as well as the social and environmental conditions in which they were made, along the whole supply chain, including after use” (Ellen MacArthur Foundation, 2020). On the other hand, transparency is “the ability to make information (for example on product specifications, chemical inputs, materials used, and production practices) available to all actors of the supply chain (including users), allowing common understanding, accessibility, comparability, and clarity.” (Ellen MacArthur Foundation, 2020). Companies following any of the new fashion business models can go even further, engaging in sustainable actions across the whole supply chain and investing in the necessary technology that guarantees traceability and transparency. Customers would appreciate this as a (competitive) advantage, helping in the positioning of the brand of what seems to be growing into a really competitive market. A potential improvement could be to engage in the use of renewable energy in the logistics process. In this line, distribution would be made via electric vehicles and the energy required at the assembly line would be renewable. This should then be effectively communicated to consumers.

Moreover, building a global image whilst coming up with an effective social media strategy supposes a great challenge as all content has to be adapted to the corresponding channels: Instagram, WeChat in China, KakaoTalk in Korea, Facebook, Twitter and Line in Japan, to mention the most popular ones. Developing relevant and appropriate content for each platform requires a high level of investment in terms of capital, time and people. Therefore, bigger brands, like Vinted or RentTheRunway have it much easier to succeed in their internationalization process than emerging ones.

10. CONCLUSION

The fashion industry is currently moving within an uncertain economic environment, drastic changes in consumer behaviours and a highly evolving environment. In order to succeed in their internationalization, any company in the fashion industry will need to continue investing in digital, analyse the transition of customers needs and desires and target those geographies, product divisions or segments that outperform the rest, whilst maintaining their brand identity. Executives will have a huge responsibility when deciding upon the short and long-term strategies the companies will follow and will yet need to make the boldest decisions.

The emerging business models in the fashion industry are expected to mark a before and an after in the industry. It will reach a moment when all companies will acknowledge it and decide either to shift their operations towards a circular business model or at least engage in initiatives that promote it. Those that don't do so will not be satisfying the consumers demands of tomorrow, losing a great long-term opportunity for maximizing profit and potentially leading to the disappearance of the company.

Second-hand fashion companies have been driving the growth within these new business models group. Nonetheless, there are high expectations in the potential rise in popularity for rental and subscription-based fashion companies in the years to come. On the other hand, there is not enough data nor literature regarding the last revolutionary business model in the industry: interchange. It is a newly emerging model which companies are still testing and which hasn't escalated that much so as to confirm its welcoming from society. Therefore, valuable and veridical conclusions cannot be extracted from the latter regarding its future.

Although these companies will need to have in mind major challenges when directing their short and most importantly, their long-term strategy, they count with very advantageous technologies and capabilities that situate them above traditional fashion retailers and facilitate their internationalization process to foreign countries. China will a key region for investment but other regions (both underdeveloped and developed) should

also be taken into account when deciding upon which markets to enter. It is clear that depending on the specific situation of each of these companies, they choose different routes as their mode of entry to other nations. However, it can also be concluded that the majority of them are opting for hierarchical entry modes to carry out their expansion strategy. They are engaging in acquisitions, a rapid form of expansion, taking advantage of the drastic decrease in company valuations as a result of the pandemic. Establishing foreign subsidiaries has been proved to be a commonly used option, whereby companies maintain a high control of their operations and hope to reduce their costs in the long term. Given the positive expectations regarding the still unexploited potential of these business models, these companies are expanding with the intention of growing global, raising millions for investment in capital in an increasing number of regions and taking high risks to have a higher probability of success in what will become a very competitive segment in the industry.

To conclude, the concept of circularity is completely disrupting the practices of many industries, and fashion has been one of them. Consumers are more knowledgeable and demanding than ever, being conscious of the existing negative environmental consequences of this industry. Therefore, there is a growing number of people who are unwilling to contribute to an unsustainable linear business model and are becoming increasingly open to new forms of fashion consumption as an alternative, being the best examples second-hand, rental, subscription and interchange fashion business models.

11. BIBLIOGRAPHY

- Bianchi, F., Dupreelle, P., Krueger, F., Seara, J., Watten, D., & Willersdorf, S. (2021). *Fashion's Big Reset*. Boston Consulting Group. <https://www.bcg.com/en-es/publications/2020/fashion-industry-reset-covid>
- Chen, J. (2021). *What Is a Unicorn in Business?* Investopedia. <https://www.investopedia.com/terms/u/unicorn.asp>
- Corporate Finance Institute. (2019, December 31). *Types of Mergers*. <https://corporatefinanceinstitute.com/resources/knowledge/deals/types-of-mergers/>
- Driver, R. (2019, October 16). Vinted acquires Spanish competitor Chicfy. *Fashion Network*. <https://www.fashionnetwork.com/news/Vinted-acquires-spanish-competitor-chicfy,1147698.html>
- Ellen MacArthur Foundation. (2020). *10 circular investment opportunities for a low-carbon and prosperous recovery*. Ellen MacArthur Foundation. <https://www.ellenmacarthurfoundation.org/assets/downloads/Fashion.pdf>
- Ellen MacArthur Foundation. (2020). *Vision of a circular economy for fashion*. <https://www.ellenmacarthurfoundation.org/assets/downloads/Vision-of-a-circular-economy-for-fashion.pdf>
- Fehrer, J. A., & Wieland, H. (2021). A systemic logic for circular business models. *Journal of Business Research*, 125, 609-620.
- Future Market Insights. (2021, February). *Online Clothing Rental Market*. <https://www.futuremarketinsights.com/press-release/online-clothing-rental-market>
- Gabrielsson, M., & Manek Kirpalani, V. (2004). Born globals: how to reach new business space rapidly. *International Business Review*, 13(5), 555–571. <https://doi.org/10.1016/j.ibusrev.2004.03.005>
- Hayes, A. (2021). *Franchise*. Investopedia. <https://www.investopedia.com/terms/f/franchise.asp>
- Henderson, K., Pinner, D., Rogers, M., Smeets, B., Tryggestad, C., & Vargas, D. (2020, December 14). *Climate math: What a 1.5-degree pathway would take*. McKinsey & Company. <https://www.mckinsey.com/business-functions/sustainability/our-insights/climate-math-what-a-1-point-5-degree-pathway-would-take>
- Ho, S. (2020, June 2). Second Hand Fashion Is Taking Over The World, From Thrift To Preloved Luxury. *Green Queen*. <https://www.greenqueen.com.hk/second-hand-fashion-is-taking-over-the-world-from-thrift-to-preloved-luxury/>

Hollensen, S., Education, P., & Pearson Education. (2014). *Global Marketing*. Pearson.

Information about shipping. (2021). REBELLE. <https://www.rebelle.com/en/shipping>

Kenton, W. (2021, May). *What Is a Congeneric Merger*. Investopedia. <https://www.investopedia.com/terms/c/congeneric-merger.asp>

McDonald, S. (2021, June). *Why Etsy's Acquisition of Depop Is Bigger Than You Think*. Yahoo Finance. https://finance.yahoo.com/news/why-etsy-acquisition-depop-bigger-192332351.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xILmNvbS8&guce_referrer_sig=AQAAADpauIqtQBr0pEHBOMo99gVPW0x4sPYGoV586W_nHRO2Z3nBQlkKkeBH_dSnNOG9W9eITW_A4P5Z-ufO7wGJxJ5AMKqshG63STnDG4Z1gf9KcoA-2J1Ytt27Cb10bdG2b7Dr8vqAiYhJWPUE94Qio4Xho-enWWOEOBLyMw4ijgi8

McKinsey&Company & Business Of Fashion. (2020). *The State of Fashion 2021*.

McKinsey&Company & Business Of Fashion.

https://www.mckinsey.com/~/_media/mckinsey/industries/retail/our%20insights/state%20of%20fashion/2021/the-state-of-fashion-2021-vf.pdf

Mytheresa Partners With Vestiaire Collective to Introduce a Unique Resale Service Dedicated to Mytheresa's High-end Luxury Customers to Reinforce the Shift to Circularity as Part of the Fashion Ecosystem. (2021, June 9). Business Wire.

<https://www.businesswire.com/news/home/20210608005814/en/Mytheresa-Partners-With-Vestiaire-Collective-to-Introduce-a-Unique-Resale-Service-Dedicated-to-Mytheresa%E2%80%99s-High-end-Luxury-Customers-to-Reinforce-the-Shift-to-Circularity-as-Part-of-the-Fashion-Ecosystem>

Neate, R. (2021, June 2). *Etsy buys secondhand clothing app Depop to tap into gen Z*. *The Guardian*. <https://www.theguardian.com/fashion/2021/jun/02/etsy-buys-second-hand-clothing-app-depop-to-tap-into-gen-z>

Paço, A., Leal Filho, W., Ávila, L. V., & Dennis, K. (2021). Fostering sustainable consumer behavior regarding clothing: Assessing trends on purchases, recycling and disposal. *Textile Research Journal*, 91(3-4), 373-384.

Plato's Closet. (n.d.). Winmark Franchises. Retrieved June 16, 2021, from

<https://www.winmarkfranchises.com/platos-closet/about-platos-closet/#%7EF2j2D93>

Search Engine Market Share China. (2020–2021, May). [Dataset].

<https://gs.statcounter.com/search-engine-market-share/all/china>

- Search Engine Market Share Russian Federation*. (2020–2021, May). [Dataset]. <https://gs.statcounter.com/search-engine-market-share/all/russian-federation>
- Sharing economy. (2021). In *Cambridge Dictionary*. Cambridge University Press. <https://dictionary.cambridge.org/dictionary/english/sharing-economy>
- Shippo. (2021, April 27). *E-commerce Shipping API for Marketplaces*. <https://goshippo.com/shipping/ecommerce-shipping-api-marketplaces/>
- Statista. (2020). *Fashion - Asia*. <https://www.statista.com/outlook/dmo/ecommerce/fashion/asia>
- The Concept of Circular Economy its Origins and its Evolution*. (2018, January). Thibaut Wautelet. https://www.researchgate.net/publication/322555840_The_Concept_of_Circular_Economy_its_Origins_and_its_Evolution
- ThredUP. (2020). *2020 Resale Report*. ThredUP. <https://www.thredup.com/resale/>
- Turk, R. (2021, March 8). Gap and ThredUp announce new partnership for Resale-as-a-Service platform. *FashionUnited*. <https://fashionunited.uk/news/fashion/gap-and-thredup-announce-new-partnership-for-resale-as-a-service-platform/2020022047627>
- Vogue Business Team. (2021, May 26). World Economic Forum: Sustainable leaders on circularity. *Vogue Business*. <https://www.voguebusiness.com/sustainability/world-economic-forum-fashions-circular-future-from-concept-to-reality>
- Willersdorf, S., Krueger, F., Estripeau, R., Gasc, M., & Mardon, C. (2021, January 8). *The Consumers Behind Fashion's Growing Secondhand Market*. BCG Global. <https://www.bcg.com/publications/2020/consumer-segments-behind-growing-secondhand-fashion-market>
- Zero-based budgeting*. (2015, November 13). Deloitte. <https://www2.deloitte.com/global/en/pages/operations/articles/gx-zero-based-budgeting.html>