

# Business Models For Sustainability: The Case of Fashion Industry

*The Fashion Industry operates in a highly competitive market dominated by global brands, nevertheless faces staggering social and ecological challenges due to its huge climate change footprint. To effectively address these challenges, fashion companies need to take collective action in their business activities from different stakeholders, including individuals (or consumers), businesses, suppliers and government actors. Ultimately, fashion companies need to manage an important trade-off. On the one hand, they must be profitable and offer economic value, on the other hand, they must be socially and environmentally oriented. Another topic addressed in this study concerns the new Generation Z, which is a group of consumers born after 1995 more tech-savvy and more green-oriented. This study argues that to effectively address these concerns, fashion companies need to design appropriate business models. The Business Model design is basically an abstract representation of the value flow, which comprises value creation, value capture and value delivery. Where the interconnection of the economic, social and environmental value are essential to the success of the company. In total, seventeen Portuguese firms and five foreign firms were analyzed to gain in depth understanding of the sustainable fashion firms that operate the sector. In light of the above considerations, this study contributes to the advancement of knowledge about a Sustainable Business Model in the fashion industry by addressing the following research questions: 1) How does a sustainable business model within the fashion sector contribute to the creation of value, value capture and value Delivery? 2) How do fashion companies approach generation Z?*

**Keywords:** *Sustainable Business Models, Value Creation, Generation*

## Introduction and Objectives

Sustainable fashion is currently at an important crossroads due to its huge impact on local communities and people's buying behaviors. Although the fashion industry operates in a highly competitive market dominated by global brands, it faces impressive social and ecological challenges because it has a huge climate change footprint, and if global consumers are demanding to tackle the existent threat of climate change, the fashion industry needs to urgently address its unsustainable practices, which is considered one of the largest polluting industries in the world. To address effectively these challenges, we need to undertake collective actions from different stakeholders, including individuals (or consumers), firms, suppliers, and governmental actors. According to Schneider and Claub (2019) we are increasingly experiencing emerging peer pressure, governmental initiatives, and consumer demands that are forcing firms to address ecological and social concerns in their business activities (Boons, Montalvo, Quist and Wagner, 2013). Ultimately, fashion firms have to manage an important trade-off. On one hand, they should be

1 profitable and offer economic value, on the other hand, they should be social  
 2 and environmental oriented. Another topic that is addressed in the present  
 3 study relates to the new Generation Z, which is a group of consumers that were  
 4 born in 1995, and that are more tech-savvy and more green-oriented. In  
 5 designing their products and promoting their brands, fashion firms should be  
 6 aware of these groups of consumer preferences and expectations.

7 This study holds that to address effectively these concerns, fashion firms  
 8 need to design appropriate Business Models (BM) (Schneider and Claub,  
 9 2019). As Amit and Zott (2001, p.511) observed, a BM portrays the content,  
 10 structure, and governance of transactions designed to create value through the  
 11 exploitation and exploration of business opportunities. This business model  
 12 design is basically an abstract representation of the value flow, that comprises  
 13 value creation, value capture, and value delivery. As Chesbrough (2010) notes  
 14 the link and functioning of these types of value are essential to the success of  
 15 the firm.

16 In light of the above considerations, this study contributes to advance  
 17 knowledge on a sustainable BM in the fashion industry by addressing the  
 18 following research questions: 1) How different types of value creation, value  
 19 capture, and value delivery should be articulated to design a sustainable  
 20 business model within the fashion sector? 2) How do fashion firms address  
 21 generation Z?  
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## 24 **Conceptual Framework**

### 25 *Business models and sustainability: A brief discussion*

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 28 Business models are an increasingly relevant tool for management since  
 29 the emergence of the Internet and related e-business activities (Richter, 2013;  
 30 Schaltegger, Lüdeke-Freund, & Hansen, 2012; Zott & Amit, 2008). BMs does  
 31 are a way through which a business is defined and how the organization should  
 32 anticipate unpredictable changes obtaining in this way sustainable competitive  
 33 advantages (DaSilva & Trkman, 2014). In addition, they also represent the  
 34 functions and activities of a business, including relationships between different  
 35 stakeholders (e.g., clients, suppliers, institutions, etc.) within a network of  
 36 dependencies and inter-dependencies.

37 Amit and Zott's (2001) describe a BM as the content, structure, and  
 38 transactions that are expected to create value by exploring new opportunities. It  
 39 specifies the activities that are linked with each other that determines how the  
 40 firm makes business. In turn, Schneider and Claub (2019) stated that after an  
 41 exhaustive discussion about what a BM is, academics agree that a BM is a  
 42 structural template that can provide a holistic and systemic view on how firms  
 43 run and develop their businesses.

44 The mechanisms and tools associated with the logic of value include the  
 45 value proposition, value creation and delivery, and value capture. Thus, value

1 plays a central role in a business model, these are the “blueprint” of a Business  
2 Model (Foss & Saebi, 2018).

3 It is relevant to notice that a growing number of studies also underline the  
4 need to explore other forms of value, namely social and environmental. A  
5 sustainable BM (SBM) aligns the interest of all stakeholders, including the  
6 environment and society to create the aforementioned types of value (Bocken  
7 et al., 2014; Geissdoerfer et. al.2016). It extends the notion of value and the  
8 managerial mindset by valuing sustainability-oriented norms and values  
9 (Schneider and Claub, 2019). As Bocken et al. (2014) acknowledged SBMs  
10 may provide access to under-utilized assets or deliver functions rather than  
11 ownership. This is particularly important in the fashion industry in which  
12 pollution (or waste) waste is one of the most pressing problems (e.g. water  
13 waste is a good example).

14 Therefore, the SBM describes the logic in which the organization creates,  
15 delivers, and captures value in different economic, social, and cultural contexts  
16 in a sustainable way (Nosratabadi et al., 2019), and more specifically reducing  
17 the negative impacts on the environment (Marques et al., 2020). SBM  
18 incorporates sustainability as an integral element of a firm’s value creation. As  
19 Preghenella and Battistella (2021) noted a complete definition of SBM should  
20 also consider the concept of both social and environmental value as well as  
21 profit generation.

### 22 23 *Generation Z, its role and impact*

24  
25 The concept of generation becomes relevant in the sense that “born” in a  
26 specific period and living in a specific humankind era determines that these  
27 people are exposed to the specific culture of this period. This exercises a strong  
28 influence on people’s minds and the way they view and see reality (Gazzola et  
29 al., 2020). Generation Z born after1995 lives in an era of economic crisis and  
30 technological evolution. This young generation is currently entering the labor  
31 market, and is usually associated with the following profile: accessibility  
32 perceived easy use of technologies, cooperation, and strong social media use  
33 (Fister Gale, 2015; McCrindle, 2014). Several studies on sustainable fashion  
34 pointed to the fact that GenZ is one of the most loyal customer groups  
35 (Grazzini, Acuti, and Aiello, 2021). The GenZ reveals strong social and  
36 environmental concerns (Balchandani et al., 2020; Gazzola et al., 2020) and  
37 often develops an active attitude towards public entities to develop socially  
38 responsible behavior. From a fashion user's perspective, they are commonly  
39 receptive to buy secondhand clothing due to environmental concerns and cost  
40 savings.

### 41 42 43 **Method**

44  
45 The research method used in the present study can be termed a multiple-  
46 case study. This approach is especially recommended in business innovation

1 research that aims to identify new phenomena, observe the variance in these  
2 phenomena, and gaining an in-depth understanding and insights from this  
3 phenomenon (Yin, 2017). Specifically, this paper presents some guidelines that  
4 enable identification, development, and classify BMs that consider the  
5 structural social changes (Nosratabadi et al., 2019). As previously referred, this  
6 study aims to understand how sustainable fashion firms have adapted their  
7 BMs to the environmental changes and to the new consumers belonging to  
8 GenZ. The sampling process relies mainly on convenience sampling and the  
9 data collection method is based on semi-structured interviews. In total,  
10 seventeen Portuguese firms and five foreign firms operating in the fashion  
11 industry were analyzed. The researchers used video conferencing to conduct  
12 semi-structured interviews. The responses were recorded in audio and other  
13 electronic devices to allow further follow-up of the study. The purpose of the  
14 study was to interview experts from different firms that have used digital  
15 platforms to boost their business. This also enables us to understand the  
16 specificity of this sector. To complement primary data, we have also applied to  
17 secondary sources of data by analyzing internal documents like annual reports  
18 and external sources including online articles and interviews.

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## 21 **Results and Discussion**

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23 In terms of major results, this study shows that value creation, value  
24 delivery, and value capture in the fashion industry should be approached from  
25 the combination of the two following complementary views:

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27 *Sustainable view that integrates social and environmental value concerns*

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29 The first view is based on a sustainable view that integrates social and  
30 environmental value concerns. Although zero-waste, total recycling, total  
31 reuse, etc., are not a panacea for all of the problems, the industry needs to make  
32 a huge effort to change its culture in terms of reducing waste, apply to circular  
33 models of production, replace synthetic materials with biomaterials; increasing  
34 recycling and design products for potential reuse. Within fashion, industry  
35 reuse is more difficult than recycling due to the current mindset.

36

37 “Currently we are still a bit «hostages of the Industry (...) (...) our  
38 mission is to make sustainable fashion more accessible to more people,  
39 this is still a barrier.” ENT [7]

40 “difficulty at the production level... difficulty in having access to more  
41 sustainable materials (...) we do not have the investment capacity to work  
42 with the sustainable materials that we would like to.” ENT [5]

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44

1 *Three types of value are strongly interconnected*

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3 As observed by Almeida, Bollick, and Bragagnolo (2019) and reinforced  
4 by several interviewees reused fashion items lacks consumer appeal as well as  
5 concern with hygiene and worn-out appearance. This may require collecting,  
6 wash, sterilize, and repackaging, which increases costs. With regard to the  
7 second view, this relies on a profit-oriented view in order to keep competitive  
8 advantages.

9 “I think that the economic issue is also a factor to consider, that is, the fact  
10 that we are also (investing on quality... on sustainability (...)) the raw material  
11 is essential, it will make the cost, the base cost of the product much higher  
12 (...).” ENT [3]

13

14 Thus, value creation, delivery, and capture should accommodate these two  
15 views (Evans et al., 2017; Joyce & Paquin, 2016; Kozłowski et al., 2018). In  
16 the present study, these three types of value are strongly interconnected.

17 “(...) effectively, I think it is all three that do... that dictate the success of  
18 a brand that you want to implement in the market.” ENT [3]

19 “I think it's a balance (...) let's make every effort to maintain this... this  
20 concept (...) The economic balance is very important, the balance of the choice  
21 of location is also important...” ENT [7]

22

23 *Sustainability, local communities and the consumer*

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25 Based on interviews we also found the important role of mobilizing local  
26 communities, particularly engaging local communities in sustainable projects  
27 that can contribute to forming a positive awareness and posture towards the  
28 environmental protection of certain areas and towards the image of certain  
29 firms (or brands) operating in the sector.

30 “I think we are much more likely to be successful if we don't just think  
31 about the “me” but the “me” within the “us.” ENT [3]

32 “working closely with responsible suppliers and eco-friendly  
33 manufacturers, and certifying our clothing from start to finish (...) we aim for  
34 long-term, strategic alliances (...)” ENT [10]

35 According to several interviewees developing a collaborative  
36 consumption, enlarge the product life cycle, having a socially responsive role,  
37 reflected on payment of fair salaries and normal working conditions, as well as  
38 safety precautions and accomplishment of labor rights are elements that  
39 contribute to creating, delivering and capture value.

40 “our partners who produce the hides (...) they have changed, all the... in  
41 the tanning of the skins (...) they manage to... recover all the water used in the  
42 process, for example (...) the product from the tanning of the skins is used as  
43 fertilizer (...).” ENT [4]

44 “(...) we care about the people who make the products for us, who work  
45 with the products (...) who are equally remunerated, paid and have good  
46 working conditions (...).” ENT [3]

## 1 **Conclusions**

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3 From a conservative perspective, it is generally accepted that traditional  
4 BMs employed by fashion firm's caused serious damages to the environment  
5 (Lee, 2012; Nosratabadi et al., 2019). In order to reach an easy profit, billion of  
6 products are being pumped out of factories every year to land, lakes, and seas,  
7 and many of these products are made from synthetic materials that take  
8 hundreds of years to biodegrade, thereby, this reality makes the fashion  
9 industry unsustainable in the short term. Although the fashion industry is one  
10 of the largest polluting in the world, some brands have recently announced that  
11 they are going to adopt a "zero-waste" goal.

12 "(...) our clothing is made in a Zero waste (..) we only work with like  
13 minded factories (...)" ENT [10]

14 Furthermore, the capability to identify and respond to new market  
15 challenges is crucial to the success of any firm (Pedersen et al., 2018) so that  
16 entrepreneurs need to be aware of the increasing importance of developing an  
17 SBM (Amed et al., 2019). A major conclusion that we may be drawn from this  
18 study relates to the fact that the consumer is always key. Since the consumer is  
19 part of the change process in many of the above-described initiatives, like  
20 reuse, recycling, collaborative consumption, and mainly exercising pressure  
21 (e.g., advocacy) over global corporations and global brands. In such a context,  
22 digitization through social media may have a relevant role in communicating to  
23 a large community the way large corporations behave among their consumers.  
24 These are becoming more aware of the clothes manufacturing industry's  
25 environmental impact and consumers have been pressuring the industry to  
26 improve their operations and being more environmentally responsible. For  
27 example, if the raw materials they use in the manufacturing process are  
28 renewable or environmentally friendly, or if they have concerns about which  
29 transports to use due to carbon emissions. As a response, the industry is  
30 making changes in their processes and the way they do business, finding new  
31 ways to create and deliver value, by exploring innovative technologies to be  
32 applied throughout the product's life cycle.

## 33 34 35 **Limitations and Further Research**

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37 This study is subject to limitations, particularly due to its methodology and  
38 the COVID19 pandemic. The purposive sample of firms that were studied is a  
39 general limitation of the method used. As the findings are mostly grounded on  
40 fashion firms, future studies should extend both the scope and other areas of  
41 businesses as well as other cultural contexts in order to add some validity to the  
42 findings.

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## 1 **Managerial Implications**

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3 Managerially, this study offers managers a holistic understanding of the  
4 potentialities of different social media platforms in engaging Generation Z and  
5 how they can be helpful to reinforce loyalty mechanisms with the digital  
6 consumer.

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