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Recognize The Fierce Competition in The Fast Fashion Industry

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ABSTRACT

Inditex, Fast Retailing Co. Ltd, Gap Inc, Hennes & Mauritz AB, and Urban Outfitters Inc are world-famous industries that make fashion brand that adopts the fast fashion industry system. This article will discuss market competition in the fast fashion industry using Porter's five forces model. The analysis was carried out using descriptive qualitative methods on five samples of the fast fashion industry within a competitive market, E.g., Inditex (ZARA), Fast Retailing Co. Ltd (UNIQLO), Gap Inc (GAP), Hennes & Mauritz AB (H&M), and Urban Outfitters Inc (Urban Outfitters). That way, we will understand how difficult the competition is in the fast fashion industry environment and where able to use the analytical approach to measure competition analysis for other industries.

SARI PATI

Inditex, Fast Retailing Co. Ltd, Gap Inc, Hennes & Mauritz AB, dan Urban Outfitters Inc adalah industri terkenal di dunia yang membuat brand fashion yang mengadopsi sistem industri fast fashion. Artikel ini akan membahas persaingan pasar dalam industri fast fashion dengan menggunakan model lima kekuatan Porter. Analisis dilakukan dengan menggunakan metode kualitatif deskriptif pada lima sampel industri fast fashion dalam pasar yang kompetitif, yaitu Inditex (ZARA), Fast Retailing Co. Ltd (UNIQLO), Gap Inc (GAP), Hennes & Mauritz AB (H&M), dan Urban Outfitters Inc (Urban Outfitters). Dengan begitu, kita akan memahami betapa sulitnya persaingan di lingkungan industri fast fashion dan di mana dapat menggunakan pendekatan analitis untuk mengukur analisis persaingan untuk industri lain.

INTRODUCTION

Since styles still take a long time to develop, the fashion business has existed forever and will never stop. The fashion industry continues to show highly rapid development now. The fashion sector, which operates globally, is characterized by varying demand, short cycles, lengthy supply processes, intricate supply chains, and a wide range of products (Sen, 2008). The fast fashion industry is a term used to describe the business model of the apparel industry that imitates current runway trends and high fashion designs, marketing them quickly to retailers while demand continues to rise and mass producing them at a low cost as a solution to this challenge from time to time (Cheng, 2021).

In their clothing businesses, well-known companies like Inditex, Fast Retailing Co. Ltd., Gap Inc., Hennes & Mauritz AB, and Urban Outfitters Inc use fast fashion. Consumers have been compelled to visit stores and purchase the products because of the same industry approach used in the fast fashion sector, where this industry competes by offering fashion trends in small numbers, at low prices, and with rapid change. The "speed to market" strategy becomes a top priority in the fast fashion business, which is defined by several marketing variables like low projections, high impulse buying, shorter life cycles, and high market demand (Bhardwaj & Fairhurst, 2010). Before examining the fast fashion businesses in more detail, it is essential to note that they all use the same corporate strategy, which is diversification, as shown in table 1.

A diversification strategy is used to add products but is still related. This strategy is also called a related diversification strategy since the purpose of this strategy is to reach consumers in a broader market. The company can grow by diversification if they have a powerful competitive position, like having extraordinary asset ownership despite low industry attractiveness. However, with the same industry strategy, each industry provides a different record of financial performance (Rufaidah, 2021). This article will analyse Porter's Five Force method to see the condition of the competitive environment externally, which will be proven through financial statements regarding who is superior to implementing a similar strategy.

Porter's Five Forces Method, developed by Michael Porter, provides an exciting overview of how companies in a given industry can gain a competitive advantage by leveraging five fundamental industry forces. While widely known and accepted, this method has flaws, as many people consider the process irrelevant and only external analysis. Then the following five advantages of Porter's model

Table 1. Brand diversification strategic

Industries	Name of Brand
Inditex	ZARA, Bershka, Pull&Bear, Massimo Dutti and Oysho
Fast Retailing Co. Ltd	Uniqlo, PLST, Theory, J Brand and GU
Gap Inc	GAP, Itermix, Athleta, Old navy and Banana republic
Hennes & Mauritz AB	H&M, WEEKDAY, Arket, COS and Cheap Monday
Urban Outfitters Inc	Urban Outfitters, Anthropologie, Free People, FP Movement and BHLDN

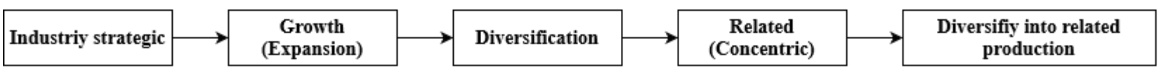

Figure 1. Conceptual Framework

that might influence industry position are shown in Figure 2.

Rivalry Among Existing Competitors

Rivalry among existing competitors refers to the intensity of competition in an industry (Barutcu & Tunca, 2012). Competition between companies operating in the same field often significantly impacts strategy formation. The strategy pursued by the company can only be successful if it has a competitive advantage in the system. It is essential because consumers can access the product information they want (David, 2011). Competition in an industry tends to increase when the number of competitors increases, the size and capabilities of competitors are more balanced, demand for manufactured goods decreases, and price discounts prevail (Achmad, 2020). So, according to Porter, competition between competitors in the same industry becomes the centre of competitive power. Competitors, in this case, are industries that earn and sell similar products, which are competitive to capture the market. Many from other companies are moving into the same field. Although in this article, each industry has the same strategic characteristics, in profit margins, it gives different results. So in the competition between existing initiatives in the fast fashion industry, each sector must pay attention to the aspects in table 2:

Table 2. Rivalry among existing competitors aspects (Porter, 1979)

Existing firm
Quality difference
Design
availability
Number of competitors

Threat of New Entrants

Some management thinkers believe this has the potential to be the most feared of the five forces, especially in a modern globalized world where barriers to entry are negligible. New entrants tend to force incumbents to lower prices, thereby reducing profitability. These new entrants may force entire companies out of the market (Porter, 2008). However, entering this existing market will take much work for new entrants. Following barriers that new entrants should consider:

Table 3. Threat of New Entrants aspects (Porter, 1979)

New Entrants
Economies of scale
Product differentiation
Capital requirement
Acces to distribution
Regulation

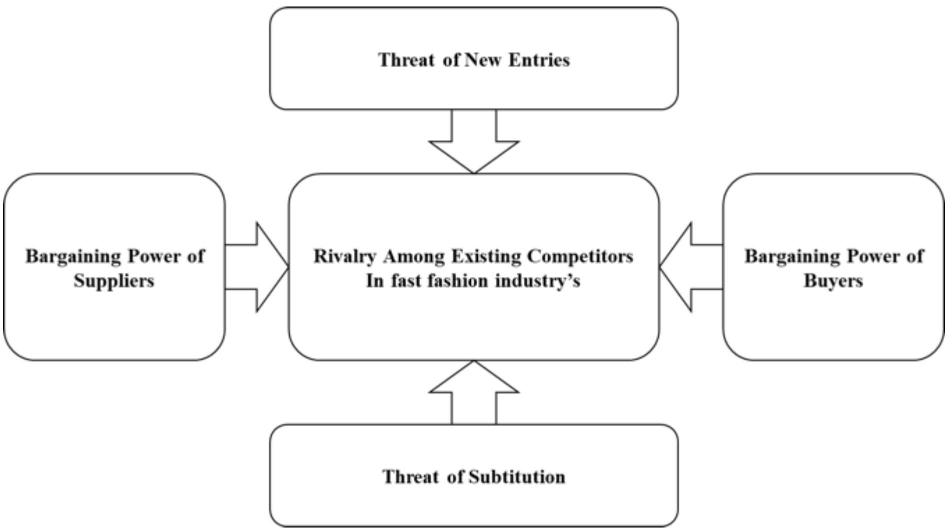

Figure 2. Porter's Five Forces framework

Bargaining Power of Buyers

The bargaining power of buyers refers to the power that the buyer exercises over the company or industries. So if small-scale buyers have high bargaining power and industries have buyers who buy in massive quantities, they are powerful in industries with high fixed costs. Buyers are also strong where industrial products are homogeneous, and buyers do not face high switching costs. When suppliers exhibit symptoms of high profits, buyers can integrate backwards and manufacture finished goods themselves (Porter, 2008). Buyer power can be offset by increasing shopper switching costs, instilling brand loyalty, or differentiating products that add value and shift purchasing decisions toward products rather than price-based ones. (Recklies, 2015). According to (Hartono, 2012) bargaining power of buyers is one of the most crucial porter's five forces that affect competitive advantage in rivalry among existing competitors. So in the bargaining power of buyers, each industry must pay attention to the aspects in table 4.

Table 4. Bargaining power of buyers aspects (Porter, 1979)

Bergaining power of buyers
Loyalty
Purchasing power
Important
Vertical integration
Access & Information

Threat of Subtitution

The threat of substitutes refers to the competition created by substitute products in the market and when buyers are faced with a choice between products that may offer the same benefit. The threat of substitutes is dangerous if they have an attractive price-performance ratio or if the buyer's switching costs are low. It seems easy to eliminate, but it is difficult because companies often don't know all their potential replacements (Concierge, 2008). then it can summarize the threat of substitutes, which can be seen from the aspect in table 5.

Table 5. Threat of Subtitution aspects (Porter, 1979)

Subtitute Product
Lifestyle changes
Green Environment
Efficiency
Scarcity

Bargaining Power of Supliers

According to (Porter, 1989, 1996), the supplier's power reflects the buyer's power. Supplier strength analysis typically focuses first on the relative size and concentration of suppliers close to industries and second on the level of differentiation of the inputs provided. The ability to charge customers different prices based on the difference in value added to each buyer generally indicates that a market is characterized by high supply power and low purchasing power. The bargaining power of buyers in the industry drives down prices, offers improved quality or more services, and pits competitors against each other. The bidding process sometimes needs to be higher or above the minimum level. Not if the price provided corresponds to the cost of production, because if that happens, the industries will suffer, and how the supplier will determine a lot of bargaining power based on the aspects.

Table 6. Bargaining Power of Supliers aspects (Porter, 1979)

Bergaining power of supplier
Is the company important to the supplier
Vertical integration capability
Is there a substitution of raw materials
Are suppliers dominated by a number of suppliers?
Is the product supplier unique

METHODS

This article will empower Porter's five forces model method to analyze the competitive environment of the fast fashion industry. Five samples within the industry selected to be explored; Inditex, Fast Retailing Co. Ltd, Gap Inc, Hennes & Mauritz AB, and Urban Outfitters Inc. Each sample will be analyzed in general using porter's five force model according to the framework in figure 3.

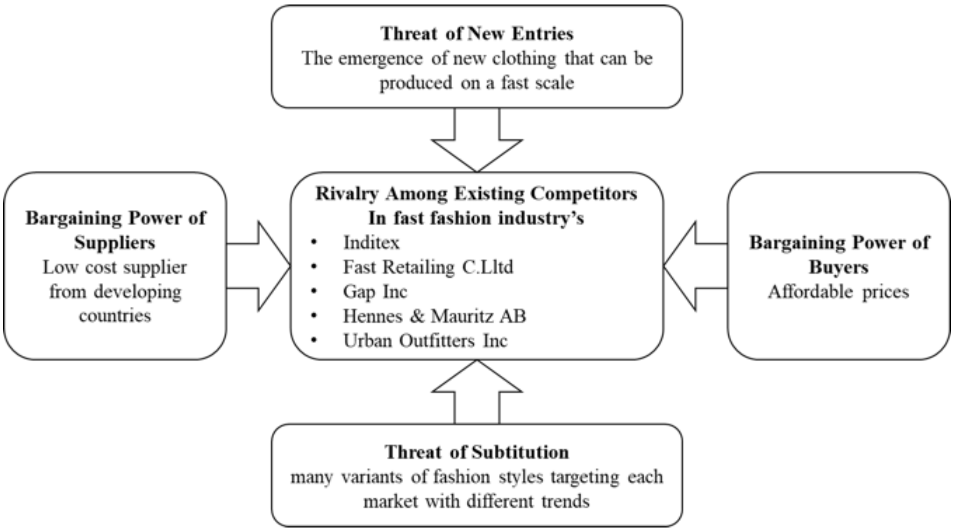

Figure 3. Porter's Five Forces framework in fast fashion industry

The research method used is a descriptive qualitative method based on the threat of each aspect of Porter's five forces analysis.

RESULTS AND DISCUSSION

Threat of New Entrants

if we see the threat of new entrants in the small industry side, they will generally specialize in their own targets. because small industries or new entrants will find it very difficult to compete with the large fast fashion industry where they have advantages in the condition of company assets, operational costs and qualified resources, which is why the risk of new entrants is low from perspective of industry competitors.

Bargaining Power of Buyers

The bargaining power of buyers is at moderate threat because competition is very tight; buyers can easily switch to other brand competitors. The influence of buyers in this industry is significantly more substantial due to this bargaining power. Therefore, every fast fashion industry will work around this by providing affordable prices for buyers. But buyers usually will only bid if the brand already provides clothes at affordable prices while maintaining the quality. They will compare the trends given by each brand in the fast fashion industry.

But in this bargaining power of buyers, buyers cannot suppress prices directly. In the case of the fashion industry, buyers are usually individuals with little or no direct bargaining power and will be different from large companies (major clients), where buying in bulk allows them to provide natural bargaining power.

Threat of Subtitution

n the fashion industry, the threat of substitution is natural competition between similar sectors. It comes within the industry due to intense competition. Every industry might stay confident that it will continue to sell and remain the best without focusing on the customer. Customers will consider factors in terms of quality, price and product offerings, which causes the substitute product to be high.

These five fast fashion industries compete with each other. From the upper-class segment to the lower-class segment, it can be seen from the diversification strategy carried out by the five fast fashion industries. By diversifying their brand, they can attract a broader range of customers. Each brand from the fast fashion industry has different fashion trends according to its target market. It is intended solely for the fast fashion industry players to have the ability to continue selling their products in a tough competition where the influence of substitute threats is from within the industry itself. So the threat of substitution is considered high.

Bargaining Power of Supliers

In the fast fashion industry, the power of suppliers is a relatively small and insignificant force. Most of the product supply comes from developing countries such as India, Bangladesh, Vietnam, and Indonesia. However, the demand for supply from industry players is high because the fast fashion industry has quick design changes every month (Nugroho, 2021). However, suppliers from developing countries where labour costs are cheap and only receive a small portion of the profits inevitably have to follow the game's rules for brand holders or fast fashion industry players. Due to suppliers needing more control over the fashion industry, fast fashion industry players or brand holders can quickly move from one supplier to another. As a result, input prices for this industry are relatively low, which ultimately provides low-cost suppliers from these developing countries so that the bargaining power of suppliers becomes insignificant and poses a common threat to the fast fashion industry.

Competitive Rivalry Among Existing Firms

These five fast fashion industries implemented a related diversification growth strategy using the same approach. With so many brands in one sector, they can reach a broader range of buyers because each brand has its niche. For example, in the Inditex fashion industry, they diversified their brands into Oysho and Pull&Bear.

Oysho specializes in underwear, beachwear, homewares and sportswear. This focus on female sophistication is echoed throughout the store, where a Mediterranean aesthetic merges with modern technology to create warm, open and inviting spaces. Meanwhile, Pull&Bear has two distinct lines in each area of womenswear and menswear. For womenswear, in addition to a collection that showcases the latest trends for women, the brand also has a Pacific Republic division aimed at a younger audience. In menswear, Pull&Bear also has a department dedicated to young people, with clothing inspired by the worlds of the outdoors, music and sports.

But even though every fast fashion industry starting from Inditex, Fast Retailing Co. Ltd, Gap Inc, Hennes & Mauritz AB, and Urban Outfitters Inc, applied the same strategy, they produced different financial statements records as shown in the bar graph of total revenue for the last three years in figure 4.

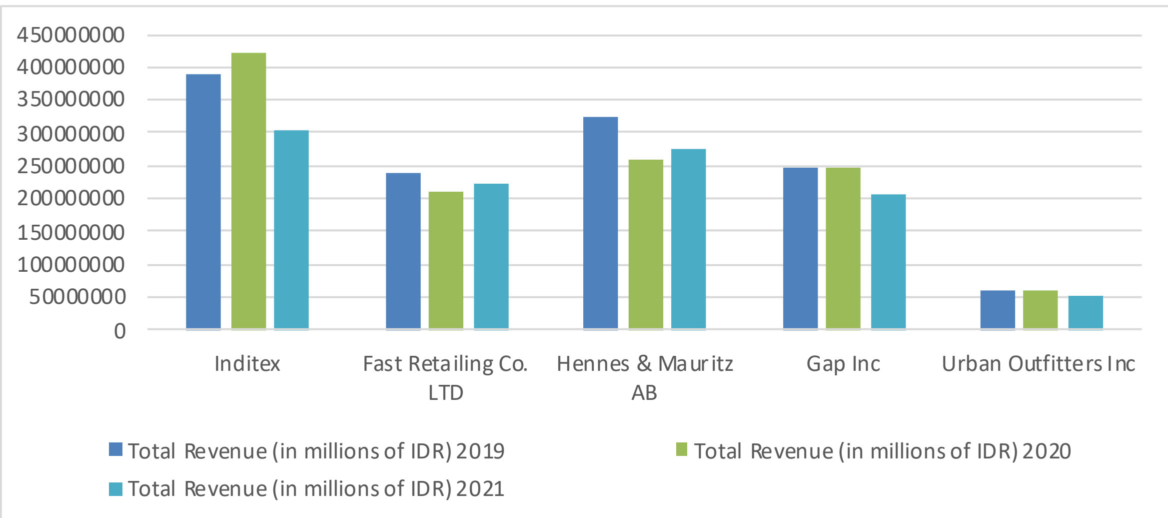

Figure 4. Financial summary of total revenue each Industry 3 years back

From the bar chart data in figure 4, it can conclude that Inditex always leads in terms of total revenue every year compared to the other four fast fashion industries. Followed by H&M in second place, Gap inc in third, even though in 2021, Fast Retailing co. Ltd can outperform it, and Urbaban Outfiters Inc is in the last position. Inditex can sell more products than competitors, such as Fast Retailing Co. Ltd., Gap Inc., Hennes & Mauritz AB, and Urban Outfitters Inc. The fashion products sold must also be in line with the asset ownership of each industry. Therefore, to prove it, let's look at the total assets owned by each fast fashion industry for the last three years, as shown in figure 5.

In Figure 5, the assets of each company have increased on average from year to year. Inditex is recorded as having the most extensive asset ownership annually, followed by Fast Retailing Co. Ltd., Hennes & Mauritz AB, Gap Inc. and Urban Outfitters Inc. Then, it can prove that the total revenue obtained follows the ownership of the assets owned because the sales made by each industry will be different. However, Hennes & Mauritz AB, with fewer asset holdings, can outperform Fast Retailing Co. Ltd in terms of total revenue. Therefore, we then look at the gross profit and net profit of each industry to make sure in figure 6 and figure 7.

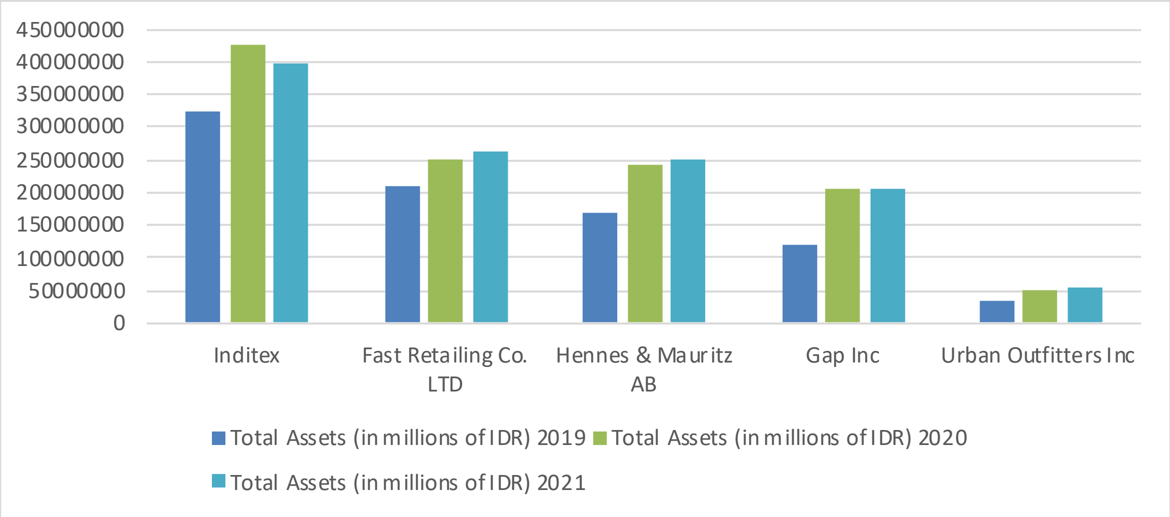

Figure 5. Financial summary of total assets each Industry 3 years back

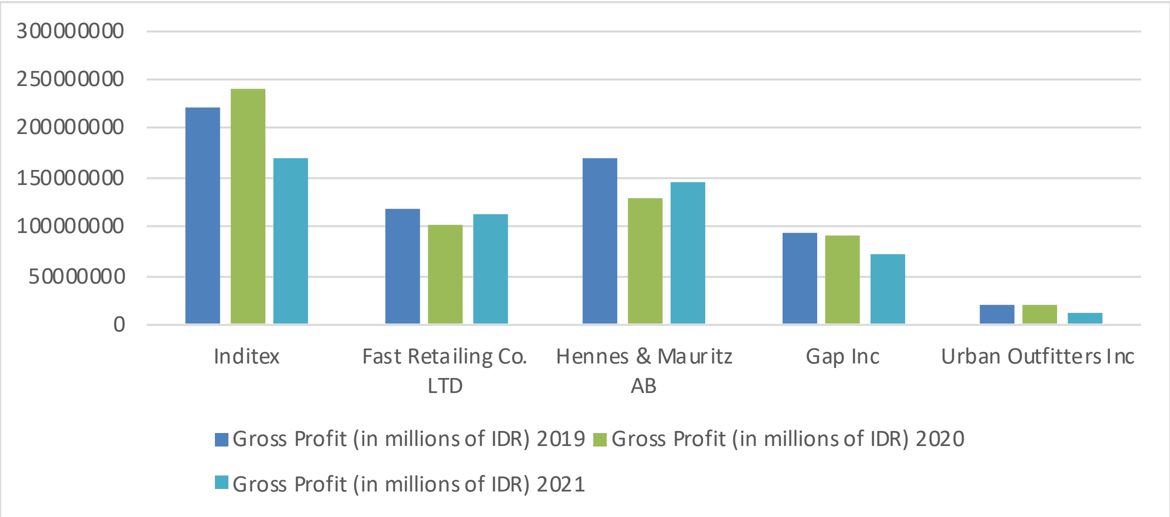

Figure 6. Financial summary of gross profit each Industry 3 years back

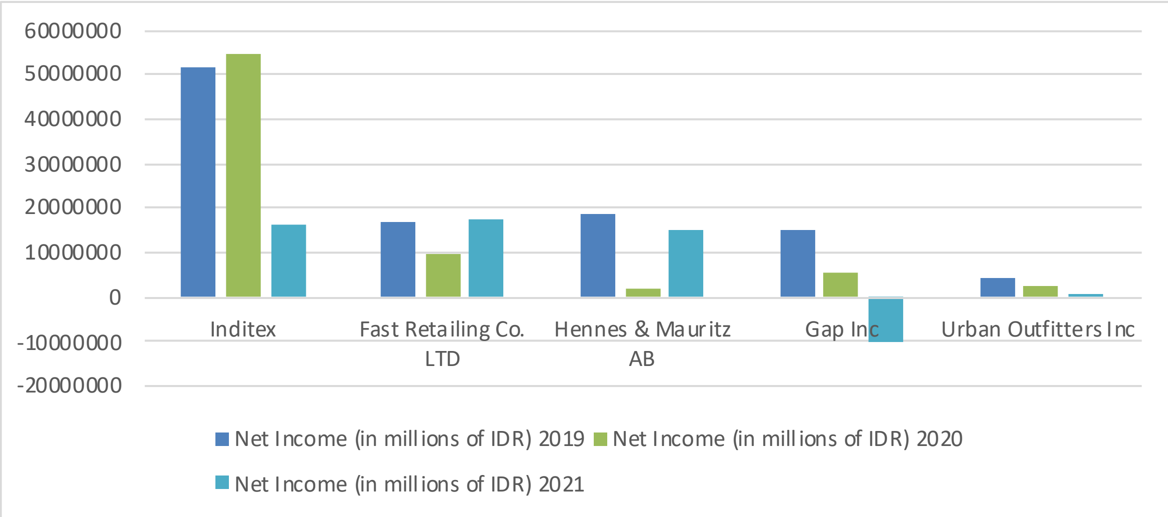

Figure 7. Financial summary of net income each Industry 3 years back

Gross profit is income before operating costs and taxes after a financial analysis between gross profit and net profit. Fast Retailing Co. Ltd's average net profit is more extensive than Hennes & Mauritz AB. this means Hennes & Mauritz AB incurred higher operating costs and taxes than Fast Retailing Co. Ltd. Inditex and Urban Outfitters Inc itself experienced a significant decrease in net profit in 2021. It is, of course, following the decline in Inditex and Urban Outfitters Inc's gross profit that year. However, it differs from Gap Inc, which in 2021 experienced a minus in its net profit. It means that the operating costs and taxes borne by the industry exceed the net profit that should obtain.

Then the results of research analysis of the fast fashion industry were obtained, which were assessed based on the aspects of each threat, which brought a total score as follows in table 7

MANAGERIAL IMPLICATIONS

Through Porter's Five Forces Model, a company will get a detailed description analysis of the fast fashion industry environment consisting of the level of competition among competitors, the threat of new entrants, the threat of substitute products, bargaining power of suppliers, and bargaining power from the buyer. that way we can practically formulate a company strategy by making the right decisions based on environmental analysis using the porter's five forces method. Furthermore this method can be applied to various types of industries. Finally for academics, this article is expected to be used to enrich knowledge, complement the literature, as well as apply Porter's Five Forces in an academic context.

CONCLUSION

Porter's Five Forces analysis helps in analyzing the

Table 7. Result of Porter's Five Forces Analysis

Forces	Index	Rating	Score	Value
Threat of new entrants	0,1	4,2	0,42	Low
Rivalry among existing firm	0,3	4,5	1,35	High
Threat of subtitute products	0,3	3,6	1,07	High
Bargaining power of buyer	0,2	3	0,6	Moderate
Bargaining power of supplier	0,1	2,3	0,23	Low
Total	1			

external competition of the industry whose output the industry can develop strategic planning for the future. Especially in the fast fashion industry business sector, where every fast fashion industry is competing to be at the forefront, it will prepare us to become an industry that is ready to compete with other industries with a careful analysis and planning system.

With Porter's five force analysis, companies can consider both in developing corporate strategy, business strategy, and company functional strategy. Because by paying attention to external industry competition, a company can adjust the right strategy to become a market leader in market competition.

By using the theory in this paper, companies can help organizations to identify potential threats and opportunities that need to be anticipated by the company. Therefore for further research it is hoped that there will be fundamental research into future market projections. So that a company can carefully consider whether they can compete with existing competitors in the blue ocean market. And then it is recommended to use the company's internal analysis. because porter's five forces theory only conducts external analysis so that companies do not ignore the internal dynamics of the company which can cause skewed perspectives and hinder the development of effective strategies that are aligned with organizational goals. ■

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