



INTEGRATION OF MULTI-CHANNEL DISTRIBUTION AND ITS IMPACT ON PROFIT OF FAST FASHION COMPANIES

Thi Hong Ngoc Nguyen

International Business

Bachelor's Thesis

Supervisor: Tamar Almor

Date of approval:

Aalto University

School of Business

Bachelor's Program in International Business

Mikkeli Campus

INTEGRATION OF MULTI-CHANNEL DISTRIBUTION AND ITS IMPACT ON PROFIT OF FAST FASHION COMPANIES

Nguyen Thi Hong Ngoc

International Business

Bachelor's Thesis

Supervisor: Tamar Almor

Date of approval:

Aalto University

School of Business

Bachelor's Program in International Business

Mikkeli Campus

Author: Nguyen Thi Hong Ngoc
Title of thesis: Integration of Multi-channel Distribution and its Impact on Profit of Fast Fashion Companies
Date:
Degree: Bachelor of Science in Economics and Business Administration
Supervisor: Tamar Almor
Objectives The main objective of this study is to make a comparison between multi-channel distribution and single-channel distribution companies in terms of profit growth. The comparison enables companies to select the type of distribution system suitable for their businesses. Moreover, this paper strives for an effective framework of multi-channel distribution integration, which guides the companies to integrate their distribution channels in the case they choose to apply multi-channel distribution system.
Summary Based on data from a survey, the paper explores customer behaviors related to the multi-channel distribution of fast fashion companies and points out that the system helps to enhance customer attraction and brand awareness. It also analyzes the financial performance of five fast fashion companies during a five-year period from 2012 to 2016. Aiming to instruct companies operating in the industry to integrate multiple distribution channels, a framework is proposed based on the original six-stage multi-channel strategy model of Sharma and Mehrotra (2007).
Conclusions Integration of multi-channel distribution positively influences customer attraction and brand awareness of fast fashion companies. Nevertheless, e-commerce distribution only fast fashion retailers are having higher net income growth than multi-channel distribution retailers in the recent five years. The single-channel retailers may take into consideration applying the framework proposed in this paper to integrate retail stores with e-commerce channels effectively.
Key words: <i>Multi-channel distribution, multi-channel marketing, e-commerce, retail, fast fashion</i>
See: http://web.lib.aalto.fi/en/helevoc/pdf/
Language: English
Grade:

Table of Contents

1. INTRODUCTION	8
1.1. <i>Background</i>	8
1.2. <i>Research Problem and Scope of the Research</i>	8
1.3. <i>Research Questions</i>	9
1.4. <i>Research Objectives</i>	9
1.5. <i>Structure of the Thesis and Key Definitions</i>	10
2. LITERATURE REVIEW	10
2.1. <i>Positive Impact of Distribution Channel Integration</i>	11
2.2. <i>Negative Effects of Integrated Multi-channel Distribution</i>	14
2.3. <i>How to Integrate Multiple Distribution Channels</i>	16
2.4. <i>Conclusion of the Literature Review</i>	18
2.5. <i>Conceptual Framework</i>	19
3. METHODOLOGY	21
3.1. <i>Data Collection</i>	21
3.2. <i>Ethical and Confidentiality Issues</i>	22
3.3. <i>Data Reporting and Analysis</i>	22
3.3.1. <i>Survey Data</i>	22
3.3.2. <i>Financial Performance Data</i>	25
4. FINDINGS	25
4.1. <i>Customer Behaviours Related to Multi-channel Distribution</i>	25
4.2. <i>Financial Performance Comparison between Multi-channel Distribution Retailers and E-commerce-only Retailers in Fast Fashion Industry</i>	32
4.3. <i>An Integration Framework for Fast Fashion Retailers</i>	35
4.4. <i>Hypothesis Conclusion Table</i>	35
5. DISCUSSION AND ANALYSIS	36
5.1. <i>Effects of Multi-channel Distribution on Customer Attraction and Brand Awareness of Retailers in Fast Fashion Industry</i>	36
5.2. <i>Comparison between Single-channel Distribution and Multi-channel Distribution Fast Fashion Companies in terms of Profit Growth</i>	40
5.3. <i>Applications of the Integration Framework to Fast Fashion Companies</i>	40
6. CONCLUSIONS	43
6.1. <i>Main Findings</i>	43
6.2. <i>Implications of the Research</i>	44

6.3. <i>Limitation of the Research</i>	45
6.4. <i>Suggestions for Further Research</i>	45
Reference List.....	47
28. Rosenbloom, B. (2007) 'Multi-channel strategy in business-to-business markets: Prospects and problems'. <i>Industrial Distribution Management</i> ; 36 (1): 4-9. Retrieved from: ScienceDirect [Accessed on November 25, 2016].....	49
Appendices	51

List of tables

<i>Table 1: Unique advantages of specific channels. Adopted from Berman and Thelen (2004)</i>	13
<i>Table 2: Net income of H&M Group, Inditex, and UNIQLO (2012-2016). Prepared by the author (2017). Data adopted from MarketWatch.com and Inditex.com [Accessed on March 14, 2017]</i>	32
<i>Table 3: Net income of ASOS and Boohoo (2012-2016). Prepared by the author (2017). Data adopted from MarketWatch.com [Accessed on March 14, 2017]</i>	32
<i>Table 4: Net income growth rate of H&M Group, Inditex, and UNIQLO (2013-2016). Prepared by the author (2017). Data adopted from MarketWatch.com and Inditex.com [Accessed on March 14, 2017]</i>	33
<i>Table 5: Net income growth rate of ASOS and Boohoo (2013-2016). Prepared by the author (2017). Data adopted from MarketWatch.com [Accessed on March 14, 2017]</i>	33
<i>Table 6: Revenue of H&M Group, Inditex and UNIQLO (2012-2016). Prepared by the author (2017). Data adopted from MarketWatch.com and Inditex.com [Accessed on March 14, 2017]</i>	33
<i>Table 7: Revenue of ASOS and Boohoo (2012-2016). Prepared by the author (2017). Data adopted from MarketWatch.com [Accessed on March 14, 2017]</i>	34
<i>Table 8: Revenue growth rate of H&M Group, Inditex and UNIQLO (2013-2016). Prepared by the author (2017). Data adopted from MarketWatch.com and Inditex.com [Accessed on March 14, 2017]</i>	34

Table 9: Revenue growth rate of ASOS and Boohoo (2013-2016). Prepared by the author (2017). Data adopted from MarketWatch.com [Accessed on March 14, 2017] 34

Table 10: Hypothesis Conclusion Table. Prepared by the author (2017)...... 36

Table 11: Multi-channel Distribution Integration Framework. Prepared by the author (2017). Adjusted from six-stage framework of Sharma and Mehrotra (2007)...... 44

List of figures

Figure 1: Six stages in optimal multi-channel strategy framework. Adopted from Sharma and Mehrotra (2005)...... 17

Figure 2: Integrated system utility function. Adopted from Yan, Wang, and Zhou (2010)...... 18

Figure 3: Constraint. Adopted from Yan, Wang, and Zhou (2010)...... 18

Figure 4: Conceptual Framework of Literature Review. Prepared by the author (2017)...... 20

Figure 5: Concepts analyzed in this paper. Prepared by the author (2017) 21

Figure 6: Survey Participants by Age. Prepared by the author (2017)...... 23

Figure 7: Survey Participants by Gender. Prepared by the author (2017)...... 23

Figure 8: Survey Participants by Nationality. Prepared by the author (2017)...... 24

Figure 9: Survey Participants by Geography. Prepared by the author (2017)...... 24

Figure 10: How many channels do customer often shop? Prepared by the author (2017)...... 25

Figure 11: How often do you shop at websites of e-commerce fashion retailers? Prepared by the author (2017)...... 26

Figure 12: How often do you shop at retail stores of fast fashion brands? Prepared by the author (2017). 26

Figure 13: Rank as #1 channel in customer preference for shopping. Prepared by the author (2017). 27

Figure 14: How do you look for information about fashion products? Prepared by the author (2017). 28

Figure 15: When you decide to buy a fashion product online instead of visiting a retail store, which factor is the most influential? Prepared by the author (2017)...... 29

Figure 16: Which product type do you prefer to shop online than to shop at retail stores? Prepared by the author (2017). 29

Figure 17: How do you describe most of your online purchasing process? Prepared by the author (2017)...... 30

Figure 18: Why do you choose BOPIS option? Prepared by the author (2017)..... 30

Figure 19: Have you ever bought a fashion product with BOPIS option? Prepared by the author (2017). 31

Figure 20: Which fast fashion shopping behaviors do you have? Prepared by the author (2017). 31

Figure 21: Multi-channel Distribution Integration Framework. Prepared by the author (2017). Adjusted from six-stage framework of Sharma and Mehrotra (2007)...... 35

1. INTRODUCTION

1.1. Background

Studies related to multi-channel marketing mostly address two different aspects. One concerns using multiple communication channels to reach customers, for examples, email, telephone, and salesforce. The other one focuses on selling through many distribution channels such as traditional retail stores, and online websites. My research concentrates on the latter field of multi-channel marketing. A considerable number of researchers have conducted researches into the impact of integration of distribution channels. The majority supports that multi-channel distribution has significantly positive effects on company revenue and profit (Friedman and Furey, 1999; Berman and Thelen, 2004; Sharma and Mehrotra, 2007). However, there are some authors doubtful about the ability to improve profit of multi-channel distribution. Coelho, Easingwood, and Coelho (2003) claims that multi-channel distribution boosts sales performance but reduces profitability. They also suggest the dependence of the statistical importance of their conclusion on the extent to which multi-channel distribution is applied.

Overall, most of the study in this field have been published more than a decade ago. As the way people trade products becomes more and more diversified recently, there is a need for an updated research of multi-channel distribution. It is agreed by a considerable number of authors that product type has noteworthy influences on distribution channel selection (Liang and Huang, 1998; Coelho, Easingwood and Coelho, 2003). On the grounds that fast fashion industry has been strongly involved in the growth of e-commerce and multi-channel distribution, this will be the main industry discussed in the paper. This study argues that multi-channel distribution increases profit growth of fast fashion companies. The reason why net income goes up is positive influences of multi-channel distribution on revenues, as a result of enhancement of customer attraction, customer experience, and brand awareness.

1.2. Research Problem and Scope of the Research

In the last five years, fast fashion has grown considerably and become one of the hottest trends of fashion industry. H&M Group, Inditex or UNIQLO are significant examples of this trend. Distribution is one of the most vital areas of any company's business, and a fast fashion company is not an exception. Making wise investments on distribution channels can make a great contribution to the well-being of the company. In specific, choosing between a well-integrated multi-channel distribution system and an e-commerce only distribution system is crucial to the operation of a fast fashion business. The scope of this research is limited to firms selling through e-commerce channels only and firms selling through multiple distribution channels in the fast fashion industry.

1.3. Research Questions

The study focuses on answering these questions:

- Can online fast fashion retailers operating in e-commerce only such as ASOS or Boohoo compete with those selling through both brick-and-mortar stores and online websites such as H&M Group, Inditex or UNIQLO in terms of profit growth rate?
- Do young customers prefer shopping with retailers concentrating in e-commerce or those with multi-channel distribution?
- How can a fast fashion company integrate its marketing distribution channels?

1.4. Research Objectives

There are three key objectives of this study:

- To make comparisons between multi-channel distribution and single-channel distribution companies in terms of profit growth.
- To analyze influences of multi-channel distribution on variables affecting profit such as customer attraction, customer experience, and brand awareness.
- To find an effective framework of multi-channel distribution integration.

1.5. Structure of the Thesis and Key Definitions

One of the most important definitions used in this Thesis is “fast fashion”. The term was defined as a trend in the fashion industry whereby companies speed up production process so as to introduce new designs to the market as quickly and cheaply as possible (www.investopedia.com). Consequently, some fast fashion retailers do not follow the tradition of introducing new collections on a seasonal basis anymore. Another term to mention is a “well-integrated multi-channel distribution system”. In order to define this type of system, Berman and Thelen (2004) specifically describe it as one providing customers with the ability to evaluate products at a channel, purchase them at another channel, and get them on a third channel. They conclude that a multi-channel distribution strategy with a high level of integration consists of some major factors such as well-integrated promotion programs, consistency of goods sold in different channels, effective information system that controls customer base, pricing and inventory data in every channel and a convenient pick-up policy which allows customers to pick up products they have made purchases on company website in stores.

2. LITERATURE REVIEW

As e-commerce has been significantly developing since the 1990s, there have been a number of studies related to the rising importance of multi-channel distribution strategy. Friedman and Furey (1999) strongly claim that the Internet has been intensely affecting the way companies approach their market. Payne and Frow (2004) emphasize the strategic role of multi-channel integration in the development of customer relationship management strategy. Rosenbloom (2007) claims that multi-channel distribution strategy plays a vital role in a business-to-business distribution system. Chaffey, Ellis-Chadwick, Mayer and Johnston (2009) aptly suggest the transformation of distribution is a result of the impact of the Internet.

In order to define a well-integrated multi-channel distribution system, Berman and Thelen (2004) specifically describe it as one providing customers with the ability to evaluate products at a channel, purchase them at another channel, and get

them at a third channel. They conclude that a multi-channel distribution strategy with a high level of integration consists of some major factors such as well-integrated promotion programs, consistency of goods sold in different channels, effective information system that controls customer base, pricing and inventory data in every channel and a convenient pick-up policy which allows customers to pick up products they have made purchases on company website in stores.

2.1. Positive Impact of Distribution Channel Integration

A number of studies concerning multi-channel distribution highlight its considerably favorable effects on company business. Levary and Mathieu (2000) concentrate on profits of traditional retail stores, online stores, and hybrid retails. They logically prove that hybrid retail is the option generating the maximum profits. Later researchers such as Berman and Thelen (2004) have the same opinion as they state integration of multiple distribution channels provides firms with valuable chances to boost revenue and generate profit on the account of better appealing to multi-channel customers. Yan, Wang, and Zhou (2010) compare non-integrated channel and integrated channel in terms of profits making. They similarly find out that channel integration brings higher profits to both traditional and online channels.

So as to explain the reasons why distribution channel integration increases company revenue and profit, Rosenbloom (2007) aptly states that the ability to offer products and services to the markets through a diversified portfolio of distribution channels makes levels of customer choice and service go up. Friedman and Furey (1999) strongly states that many distribution channels help companies to reach a broader range of customers. Applying multi-channel distribution enhances exposure of firms and their offerings to customers (Rangaswamy and Bruggen, 2005). Coelho, Easingwood, and Coelho (2003) argue that channel integration gives companies access to more and better information about the market and enables the companies to increase the number of means linking them with the markets. Sharma and Mehrotra (2007) later discuss effort of multi-channel strategies aid in enhancing brand awareness, which equivalently leads to increase in revenue and profit.

It is proved that multi-channel distribution strategy also enables firms to leverage assets (Berman and Thelen, 2004). The authors clarify this point by providing an instance of how a retailing company leverages its assets. The store-based retailing company can make use of excess capacity in depots for the operation of its website. By leveraging assets, the company may generate higher revenue without incurring too much cost.

Moreover, Coelho, Easingwood, and Coelho (2003) claim that a well-integrated multi-channel distribution format helps to reduce business risks on the grounds that it increases diversification of a company's resource allocation. Distribution channel integration also leads to a reduction of distribution system halt risk. For instance, if a company uses single-channel distribution strategy, its distribution system will be completely out of order when there is a problem occurring in the single channel. Nonetheless, if the company makes use of multi-channel distribution strategy, it can distribute products through other channels when a channel is not functioning. Furthermore, Berman and Thelen (2004) argue a diversified distribution investment portfolio enables firms to select a channel that is the most suitable to sell a particular good or service in order to approach a specific customer target. A research of Balasubramanian, Raghunathan, and Mahajan (2005) argues that some elements such as economic goals, demand for affirmation, the symbolic meaning of product, effects of social interaction, and level of reliance on preliminary plans to purchase have a remarkable impact on the way customers choose channels. The more appropriate channel a firm choose to reach its customers, the higher sales it can generate. In order to help firms with channel selection, Berman and Thelen (2004) briefly summarize strengths of different types of channel in this table.

Channel	Advantage
Web	<ul style="list-style-type: none"> Can offer virtually unlimited space to describing an item Access to a global market and to markets without retail stores 24/7 ordering capability Freedom from postage and catalog reproduction costs associated with catalogs Ability to verify shipping status without customer service personnel Integration of video and audio in the sales presentation Ability to easily compare offerings of merchants, prices, product features Ability to customize mailings to past and ongoing customers Enables disabled shoppers to browse and shop in a barrier-free environment Allows retailers to more effectively stock slow-selling merchandise Allows retailers to carry product lines not offered in stores Internet sites appeal to market segments that prefer Web-based shopping Utilizes automatic interface techniques: collaborative filtering, cookies, Web log analysis and real time Enables mass customization through visualization and questionnaire to consumers on their specific needs Enables prices to be easily and quickly changed Allows for automation of consumption, e.g. flowers sent same day each month
Store	<ul style="list-style-type: none"> Immediacy. Consumer can see item and take home on same trip There are no shipping costs for items taken home by shopper Ability to see, feel, try out, and test item as well as substitute items Interaction with store personnel Satisfies "shopping as a social activity", which other channels cannot
Catalog	<ul style="list-style-type: none"> Portability – catalog can be read on train, in waiting-rooms, etc. Long shelf life Control over color is better in catalog than on Web site Access to a global market and to markets without retail stores 24/7 ordering capability Transferable and shareable among customers Satisfies more sensory needs (visual and smell) than Internet
Kiosk	<ul style="list-style-type: none"> Can reach consumers without Web access In-store kiosks can enable retailers to avoid lost sales due to out-of-stock situations High levels of video/audio quality

Table 1: Unique advantages of specific channels. Adopted from Berman and Thelen (2004)

Discussing more thoroughly about sales growth, Coelho, Easingwood, and Coelho (2003) state that sales growth of a new channel may be higher than an old channel when the new channel is brought into operation but it will decrease after that. The reason for this statement is their argument that a company is capable of reaching a new market segment and increasing revenue when they make use of a new channel. Nonetheless, this sales growth will soon start going down after the company has successfully penetrated into the new segments.

Another vital factor of channel integration is the ability of channels to complement each other. According to National Retail Federation (2001), around 25 percent of online consumers in the US admit to frequently shop online before visiting a store. An

additional 42 percent say they often surf the Internet for consultation before buying in stores. Therefore, it can easily be seen that online distribution channel helps to increase the revenue of traditional distribution channel. However, this implies a difficulty of evaluating the performance of a distribution channel. Despite a low return on investment of a channel, the channel may play a crucial role in boosting the revenue of another channel. Chiang (2003) claim that direct distribution may increase the overall profitability of a manufacturer in an indirect way by enhancing retail channel performance. As Berman and Thelen (2004) states it is highly possible traditional evaluation methods that focus on a single channel at a time have problem in recognizing the impact of a channel may have on the revenue of other channels, there is a need for a new marketing distribution channel evaluation method that takes into consideration integration of many different marketing distribution channels. A study of Lenskold (2002) expresses the same concern. He rightly states that multi-channel distribution has created a demand for innovation in ROI and customer lifetime value evaluation.

2.2. Negative Effects of Integrated Multi-channel Distribution

Besides advantages stating above, the integrated multi-channel distribution also has some drawbacks. Some researchers point out the possibility of channel conflicts occurring as a consequence of integrated multi-channel distribution. Webb and Hogan (2002) argue that multi-channel distribution strategy increases the level of complexity of the distribution system, which causes opportunities for conflicts to occur between different channels within a firm. Yan, Wang, and Zhou (2010) state that the rapid growth of e-commerce leads to serious distribution channel conflicts when lots of companies operating in brick-and-mortar business adopt online distribution channels. Other authors, for example, Tsay and Agrawal (2004) claim the boom of E-commerce and third-party logistics is one of the main motivations for companies to engage in direct sales. This leads to a situation that a company may simultaneously be both a supplier and a competitor of any retailers. As a consequence, channel conflicts occur.

Most people think conflicts are bad. Baal and Dach (2005) cautiously warn that high level of internal channel conflict in a multi-channel system may cause product's

promotion to reduce or even withdraw. However, another study of Webb and Hogan (2002) present a different and interesting point of view. They argue that channel conflict is a potential mechanism pushing individual channels to put more efforts in working and serving their markets. Nevertheless, they believe that the conflict may reduce channel performance. In specific, they conclude the frequency of conflict is the major factor negatively affect channel system performance. On contrary to many people's perception, the result shows that the intensity of channel conflict does not have a significant impact on channel performance.

Not only researchers but also companies take channel conflict into serious consideration when they add online distribution channels to their distribution channel portfolio. Gilbert and Balcheldor (2000) have conducted a survey with 50 manufacturers and more than 60 percent of the survey respondents report that channel conflict is the biggest challenge in their online distribution strategy. Supply chain reconstruction may negatively influence traditional sales channels and distribution partners.

A question raised by many researchers concerns the value of multi-channel customers. Will it be worthy to go through a significant number of challenges of supply chain reconstruction in order to attract these customers? According to JamesGirone (2002), a survey conducted by Jupiter Research show that nearly 20 percent of active multi-channel customers are willing to buy from a new online shop if they can get a 10 percent saving. This implies the multi-channel shoppers tend to be less loyal to a brand than other shoppers. Reda (2003) even claims it is possible for multi-channel customers to become a liability for retailers as they are also more likely to switch to other retailers than other online customers. Not in accord with these authors, Wallace, Giese, and Johnson (2004) argue that multi-channel distribution improves customer-retailer loyalty. They explain that multi-channel distribution strategy helps to increase diversification of the portfolio of service outputs offered by retailers, therefore making a remarkably positive impact on customer satisfaction. Opposing to a number of authors claiming that multi-channel distribution has a positive influence on profit, Coelho, Easingwood and Coelho (2003) have conducted a quantitative data analysis and concluded that using multiple distribution channels decreases profitability in spite of its effort in increasing sales performance.

Nonetheless, they also explain that the statistical value of their results highly depends on the extent to which companies apply multi-channel distribution strategy. In specific, they clarify the relationship between the number of distribution channels used and company size or product type. Saunders (2002) is another researcher that believe multi-channel distribution may affect company profit in a negative way. He explains shoppers who shop across many channels have the higher consumption of customer service resources, which leads to higher cost for companies. As Hood (2002-2003) states companies may face problems in customer behavior tracking if they use multiple distribution channels, the cost of collecting and analyzing data may also go up. Consequently, it will become more burdensome for companies to satisfy the needs of their customers.

In terms of pitfalls of multi-channel distribution, Coelho, Easingwood, and Coelho (2003) also logically states the possibility of channel integration causing a loss of flexibility of firm strategy. They explain that channel integration demands large capital investments. As a result, it becomes more challenging for a company to react to environmental change.

2.3. How to Integrate Multiple Distribution Channels

Another popular trend of studies related to online distribution channels is exploring how to integrate these new channels with traditional distribution channels. General strategies have been the main focus of the majority of these studies. Hoobs, Stone, and Khaleeli (2002) have had a significant move in the field by developing a checklist guide for companies to implement a multi-channel strategy. There are multiple later studies proposing processes for multi-channel integration such as Payne and Frow (2004), Berman and Thelen (2004), Sharma and Mehrotra (2007).

Most authors agree that companies should first determine whether their products are suitable for traditional sales channels or online channels or both. (Coelho, Easingwood, and Coelho, 2003; Berman and Thelen, 2004). An empirical study by Liang and Huang (1998) conclude that there are some types of product more appropriate to be sold through online channels than the others.

Some researchers aim to guide firms to achieve an optimal option for multi-channel distribution integration. Berman and Thelen (2004) argues that a firm needs to ensure consistency in customer experience, united item description and appearance across channels, and intra-unit minimization in order to integrate distribution channels. Alptekinoğlu and Tang (2005) publish a model for multi-channel distribution channels analysis. They aim to find a near-optimal distribution policy which minimizes total expected distribution cost. The model discusses a variety of inefficiency sources. Sharma and Mehrotra (2007) propose a framework which they believe to go beyond the frameworks published by Payne and Frow (2004) in planning and implementing an optimal multi-channel strategy. They rightly argue that managers should decide multi-channel strategy in two aspects. The first aspect is choosing types of channels to invest, for instance, online stores, traditional retail stores, or salesforce. The second one is determining the amount of channels a company should aim for in each type of channel. The framework is illustrated by the diagram below.

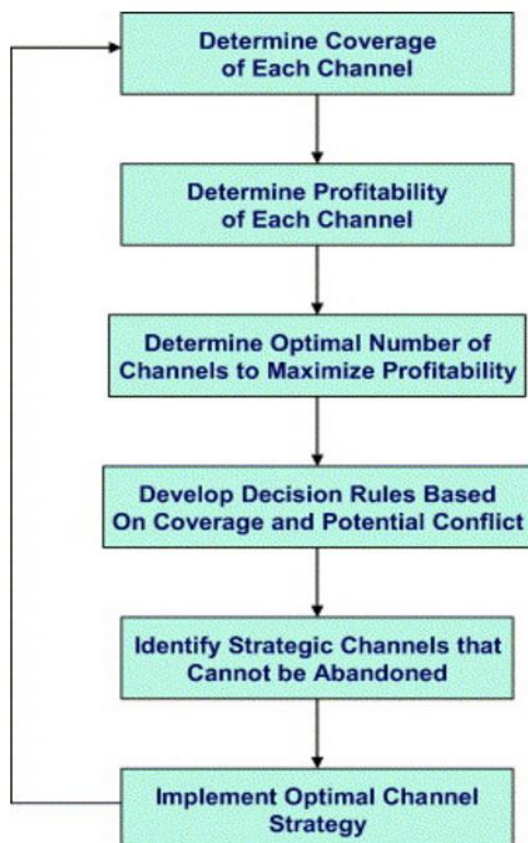


Figure 1: Six stages in optimal multi-channel strategy framework. Adopted from Sharma and Mehrotra (2005)

Another considerable study by Yan, Wang, and Zhou (2010) concentrates on the strategic role of channel integration with profit sharing in the competition between online and traditional channel. They suggest a profit bargaining model helping companies to come up with an optimal distribution channel strategy which maximizes profit. In order to apply this model, they maximize the integrated system utility function subject to a constraint.

$$u_C(\Delta\pi_1, \Delta\pi_2) = \lambda_1(\Delta\pi_1)^b + \lambda_2(\Delta\pi_2)^b$$

Figure 2: Integrated system utility function. Adopted from Yan, Wang, and Zhou (2010)

$$\Delta\pi_1 + \Delta\pi_2 = \Delta\pi$$

$$\Delta\pi_1 = \frac{1}{1 + (\lambda_2/\lambda_1)^{1/(1-b)}} \Delta\pi$$

$$\Delta\pi_2 = \frac{1}{1 + (\lambda_1/\lambda_2)^{1/(1-b)}} \Delta\pi$$

Figure 3: Constraint. Adopted from Yan, Wang, and Zhou (2010)

The authors aptly analyze numerical data so as to prove channel integration with profit sharing outperforms Stackelberg and Bertrand competition models in terms of system profit. Moreover, as channel competition goes up, the system profit under the Stackelberg and Bertrand competition models is likely to diminish.

Among three models discussed in this literature review, the optimal multi-channel strategy framework by Sharma and Mehrotra (2005) is the most suitable model for my research as it provides a detailed and easy-to-understand guidance for managers regarding how to apply the model. However, the framework is proposed more than a decade ago. My research aims to propose an updated guidance on the application of the framework particularly for companies operating in the fast fashion industry.

2.4. Conclusion of the Literature Review

This review has discussed popular researches concerning benefits, pitfalls of multi-channel distribution and how to develop a well-integrated multi-channel distribution strategy. A noteworthy number of researches in this field, for example, studies

published by Friedman and Furey (1999), Berman and Thelen (2004), Sharma and Mehrotra (2007), conclude that multi-channel distribution enhances revenue and profit of companies. Another perspective from Coelho, Easingwood, and Coelho (2003) argue multi-channel distribution causes reduction in channel profitability in spite of its positive effect in enhancing sales performance. Nevertheless, they also explain that the statistical value of their research conclusion highly relies on how multi-channel distribution is applied. Therefore, it is very crucial for companies to determine how they integrate multiple distribution channels. There have been a fair amount of studies proposing frameworks and models in order to help the companies with channel integration. Some significant models are near-optimal distribution policy by Alptekinoğlu and Tang (2005), a six-stage framework by Sharma and Mehrotra (2007), and channel integration with profit sharing by Yan, Wang, and Zhou (2010). In general, the majority of studies concerning this topic pay attention to large capital companies operating in the consumer staples sector. Consequently, it is necessary to conduct a study about multi-channel distribution in fast fashion, which is a rising industry in the business world in recent years.

2.5. Conceptual Framework

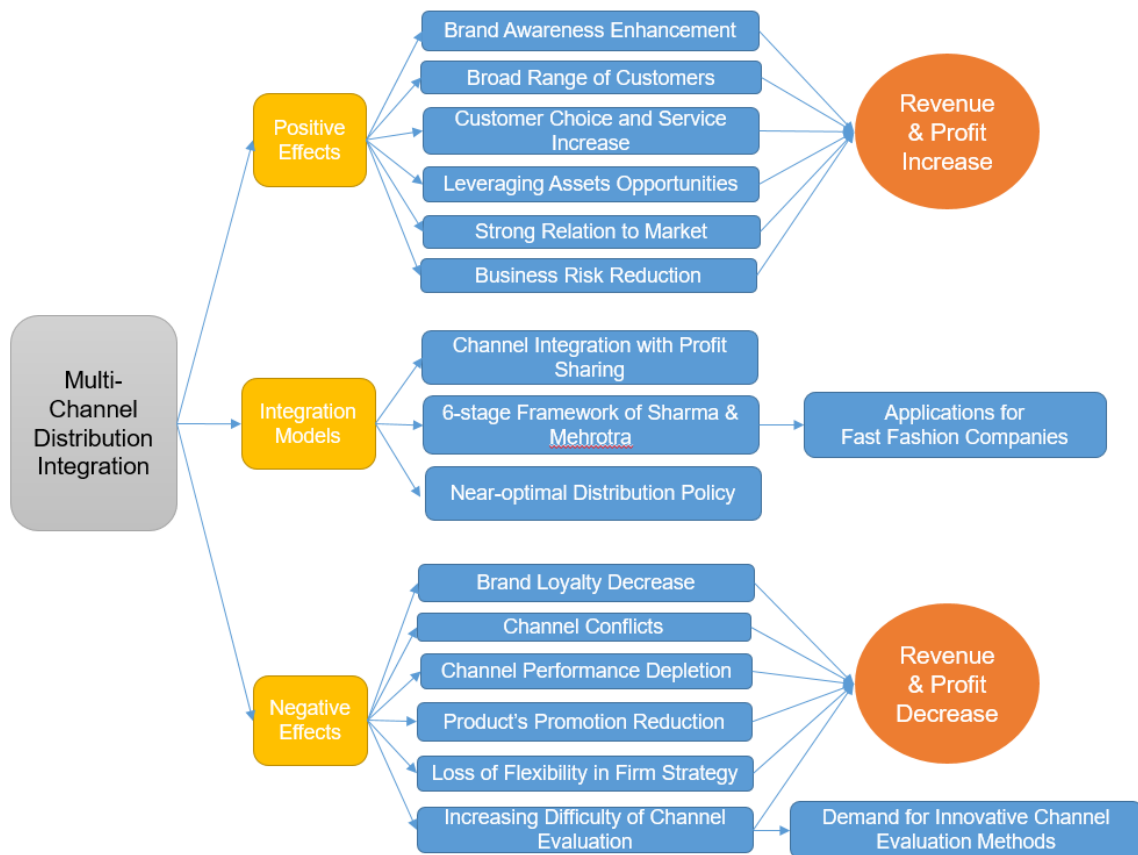


Figure 4: Conceptual Framework of Literature Review. Prepared by the author (2017).

My conceptual framework summarizes key concepts discussed in the literature review and illustrates relationships between the concepts. It demonstrates two contradict trends of researches related to multi-channel distribution. One trend presents its impact in boosting revenue and profit, while the other one proves it may worsen these performance indications. There are some concepts relevant to my field of study and mentioned in the review, but they will not be discussed in detail. Furthermore, the framework highlights the demand for innovative channel evaluation methods and application to fast fashion companies. These are significant gaps of research that are pointed out in the literature review. The paper strives for filling the latter gap by proposing a new framework adjusted from the six-stage framework of Sharma and Mehrotra (2005) for the fast fashion industry. In addition, my research concentrates on testing the variables and concepts demonstrated in the conceptual framework below.

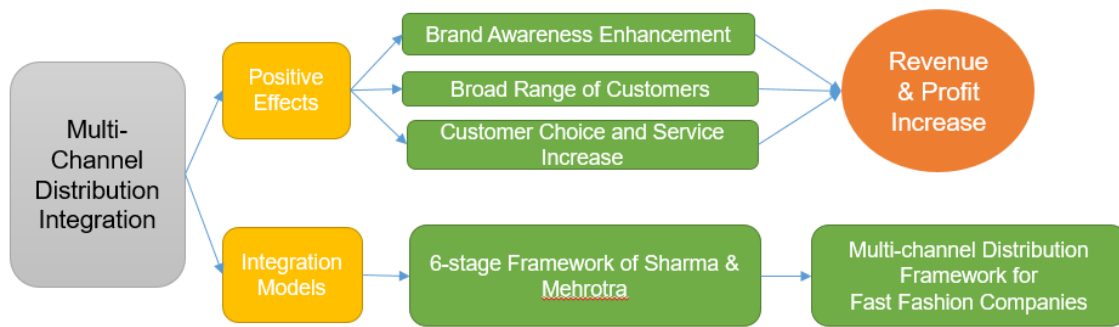


Figure 5: Concepts analyzed in this paper. Prepared by the author (2017)

3. METHODOLOGY

3.1. Data Collection

In order to gather data for studying differences between multi-channel distribution and e-commerce only fast fashion companies in terms of customer experience and brand awareness, a survey is conducted in a week. There have been 110 answers to the survey, which targets people who have purchased a product at a multi-channel distribution or e-commerce only fast fashion brand. This research uses convenient sampling, as it is difficult and time-consuming to make use of other sampling methods.

So as to prove the hypothesis that multi-channel distribution enhances the financial performance of companies operating in the fast fashion industry, the paper uses case study approach and analyzes five companies: H&M Group, Inditex, UNIQLO, ASOS, and Boohoo. These firms are selected on the grounds that they are significant and pioneering firms in the industry. While the first three firms use the multi-channel distribution which comprises of traditional retail stores and online websites, the last two firms distribute their products through a single channel which is e-commerce. Apart from the difference in the number of distribution channels used, the companies also vary in size and age. The multi-channel distribution companies are long-established; meanwhile, the e-commerce companies are very young. H&M Group was founded in 1947, and UNIQLO was founded 2 years later (www.hm.com, n.d; www.fastretailing.com, n.d). Inditex began life in the textile industry in 1963, which is around four decades before the birth of ASOS (www.inditex.com, n.d). Boohoo is the youngest company in the case study, as it is launched in 2006 (www.boohoo.com,

n.d). In terms of size, the two single-channel distribution companies are relatively small comparing to the three multi-channel distribution ones. Revenues of UNIQLO, H&M Group, and Inditex are more than 20 billions of dollar, while the numbers of ASOS and Boohoo are less than 2 billions of dollar in the year of 2015. The diversified portfolio of fast fashion companies analyzed in the case study improves reliability and generalization of this research. Financial data used for analysis are collected from secondary sources such as their annual reports or a financial website called www.marketwatch.com.

3.2. Ethical and Confidentiality Issues

The research is conducted in align with principles in order not to raise any ethical or confidentiality problems. The survey does not require personal information related to the identity of answerers such as name or e-mail address or telephone number, so people who have participated in this survey will not be exposed to any danger related to revealing their identities. Furthermore, the data collected from the survey will be used for research purpose only. The content of questions in the survey is carefully checked to prevent any ethical issue that may occur. For the secondary data researched for financial performance analysis, the sources are cited in the references section of the paper.

3.3. Data Reporting and Analysis

3.3.1. Survey Data

The graphs below demonstrate demographic characteristics of the sample gotten from the survey. They categorize 110 survey participants by age, gender, nationality and geography.

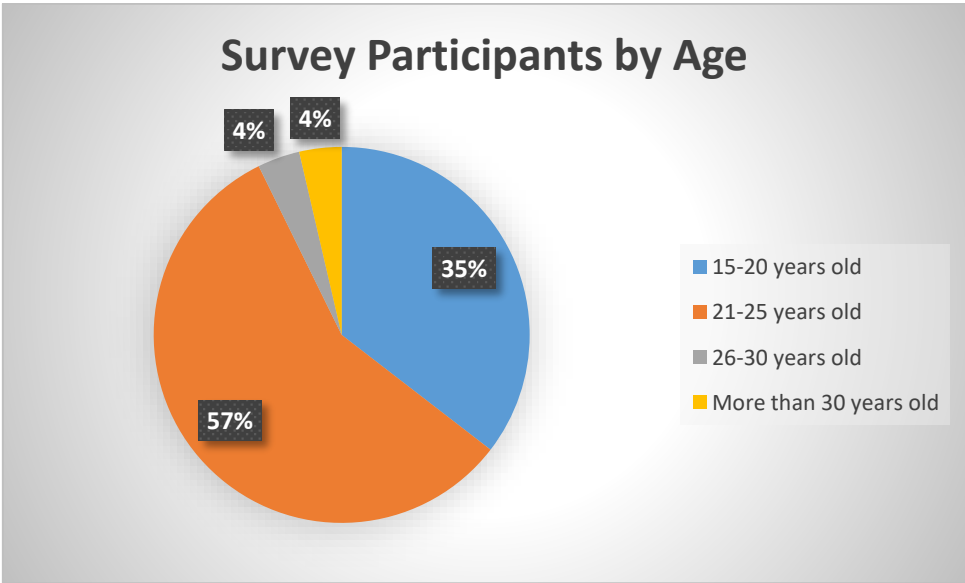


Figure 6: Survey Participants by Age. Prepared by the author (2017).

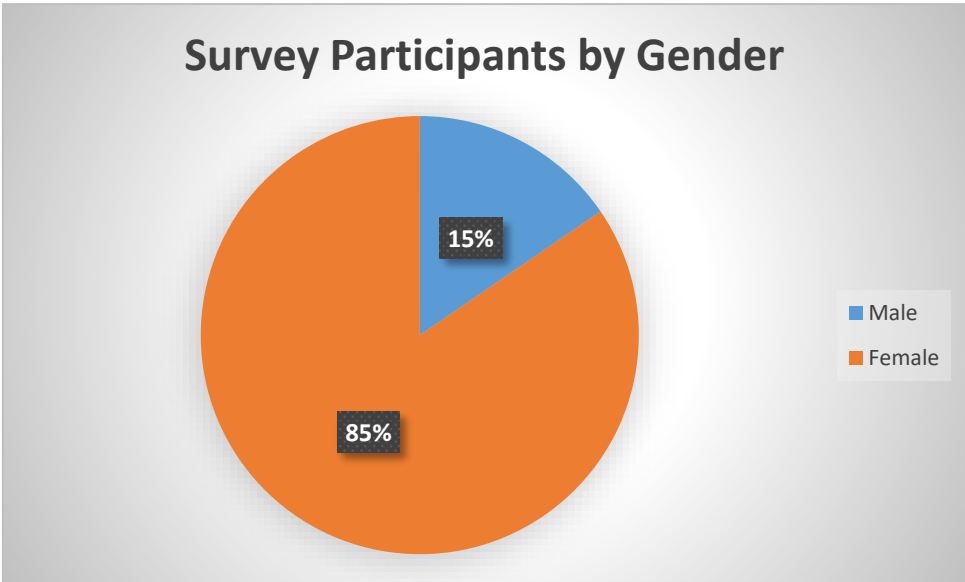


Figure 7: Survey Participants by Gender. Prepared by the author (2017).

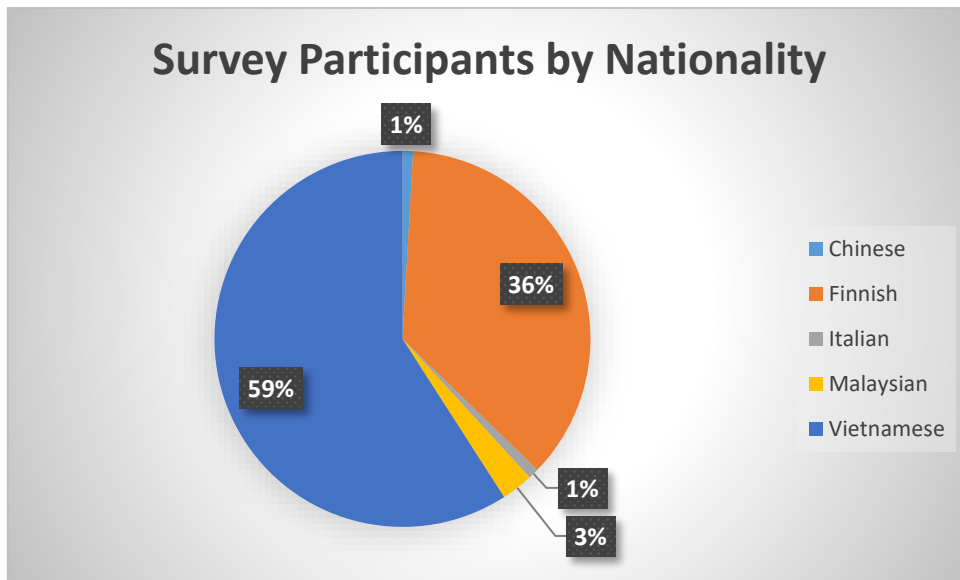


Figure 8: Survey Participants by Nationality. Prepared by the author (2017).

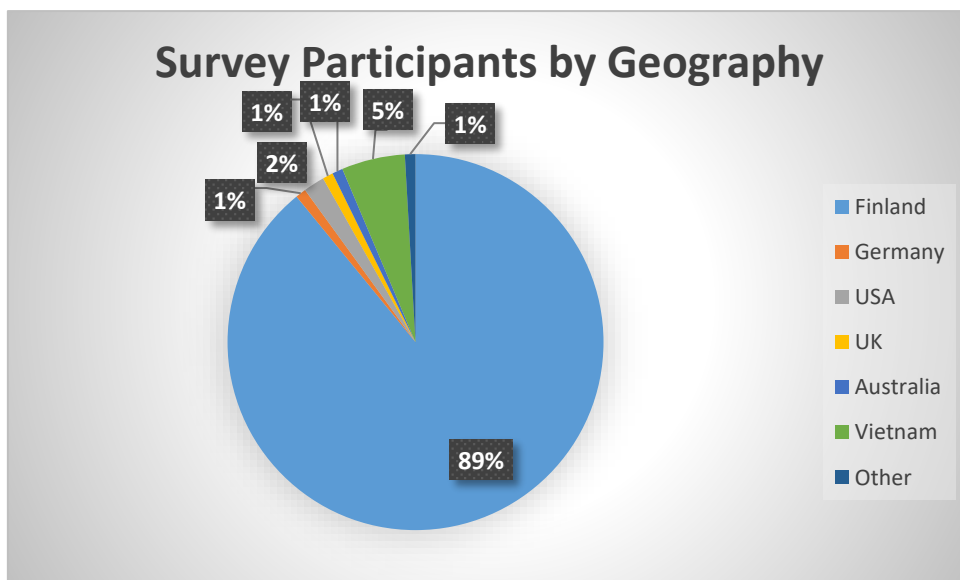


Figure 9: Survey Participants by Geography. Prepared by the author (2017).

The survey participants have answered 25 questions including screener questions, categorical questions, and investigation questions. Most of the participants are young people. The age group 21-25 accounts for 57% and the younger age group 15-20 makes up 35% of the sample. Because I use convenient sampling method and I live in Finland currently, nearly 90% of survey participants are living in the country. Moreover, the majority of them are females, as this topic seems to be more attractive to this gender than it is to men. The data collected from the survey will be analyzed mostly through charts and graphs in order to effectively visualize the results. These visual elements are created from Microsoft Excel. To conduct statistical methods, a

program named SPSS Statistics is applied. The data is coded in the program before running tests.

3.3.2. Financial Performance Data

This type of data is presented by five case studies. The research puts concentration on revenue and net income, so it does not analyze other figures related to the financial performance of the five fast fashion companies (H&M Group, Inditex, UNIQLO, ASOS, and Boohoo). On the account that the companies differ by size, the comparison is drawn mostly by growth rate. The analysis focuses on the five-year period starting from 2012 to 2016 so as to produce an updated research of the field.

4. FINDINGS

4.1. Customer Behaviours Related to Multi-channel Distribution

- Two-third of customers frequently shop through at least 2 channels (66%). More than a third of survey participants often shop through at least 3 channels (39%).

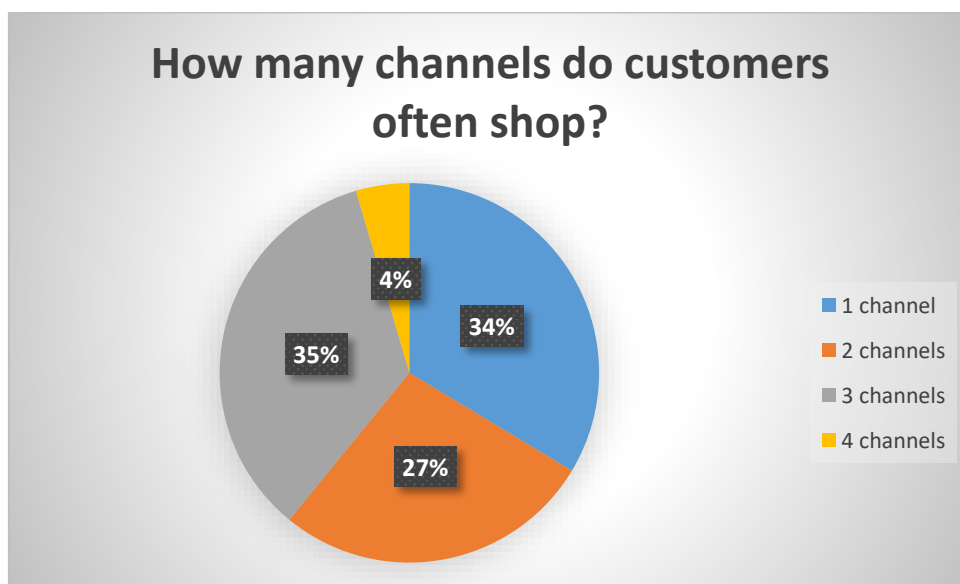


Figure 10: How many channels do customer often shop? Prepared by the author (2017).

- Shoppers make a purchase at retail stores of fast fashion brands such as H&M, Zara or Mango more often than at websites of e-commerce fast fashion retailers such as ASOS.com or Boohoo.com. More than 60% of customers shop at websites of e-commerce fast fashion retailers less than four times a year, while around a third of customers (29%) shop at traditional retail stores of fast fashion companies two to three times a month.



Figure 11: How often do you shop at websites of e-commerce fashion retailers? Prepared by the author (2017).

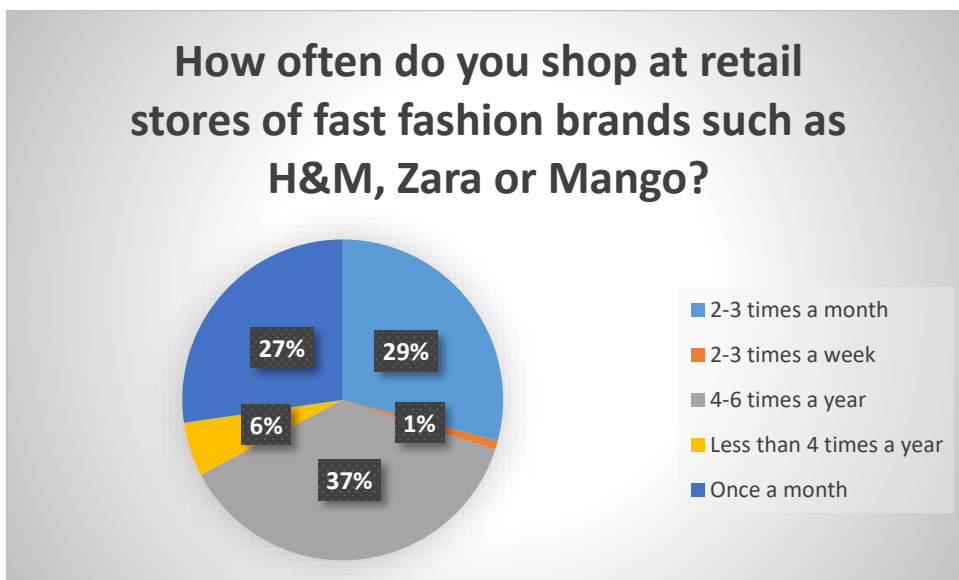


Figure 12: How often do you shop at retail stores of fast fashion brands? Prepared by the author (2017).

- Most customers prioritize retail stores and websites of brands in shopping. 78% of surveyees rank retail stores as the number one channel they would like to shop at.



Figure 13: Rank as #1 channel in customer preference for shopping. Prepared by the author (2017).

- Sales associate is no longer a popular source of help that customers seek for (0%). More than two-thirds of survey answers illustrate customers' preference to research products online before visiting retail stores to try on and purchase (65%). Following common options are asking an online customer service associate for help (49%) and using smartphones in the store to look up information (39%).

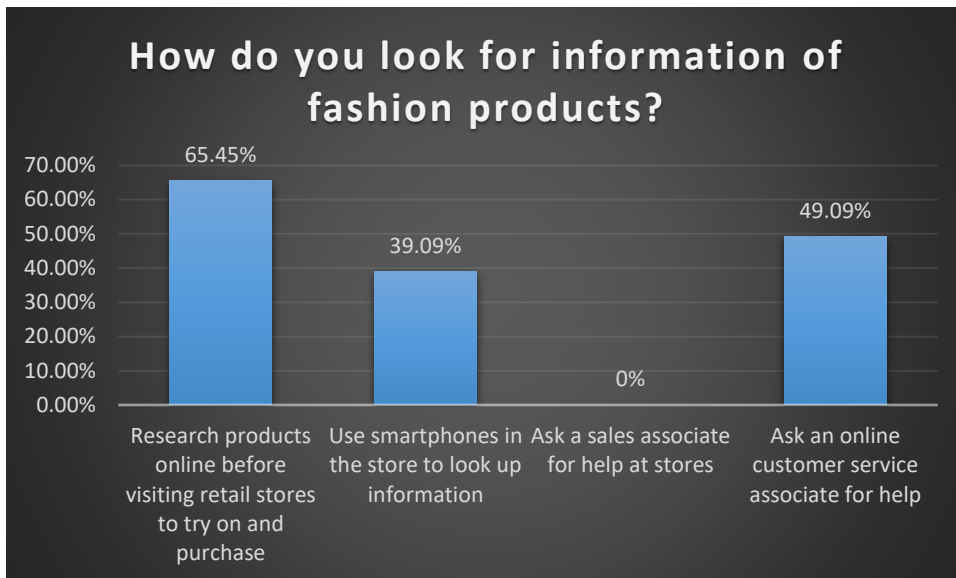


Figure 14: How do you look for information about fashion products? Prepared by the author (2017).

➔ **These findings help to prove the hypothesis that multi-channel distribution enhances customer attraction.**

- Most people report that convenience (33%), price (28%) and availability (25%) are the top three factors which make them decide to buy a fashion product online instead of visiting a retail store.

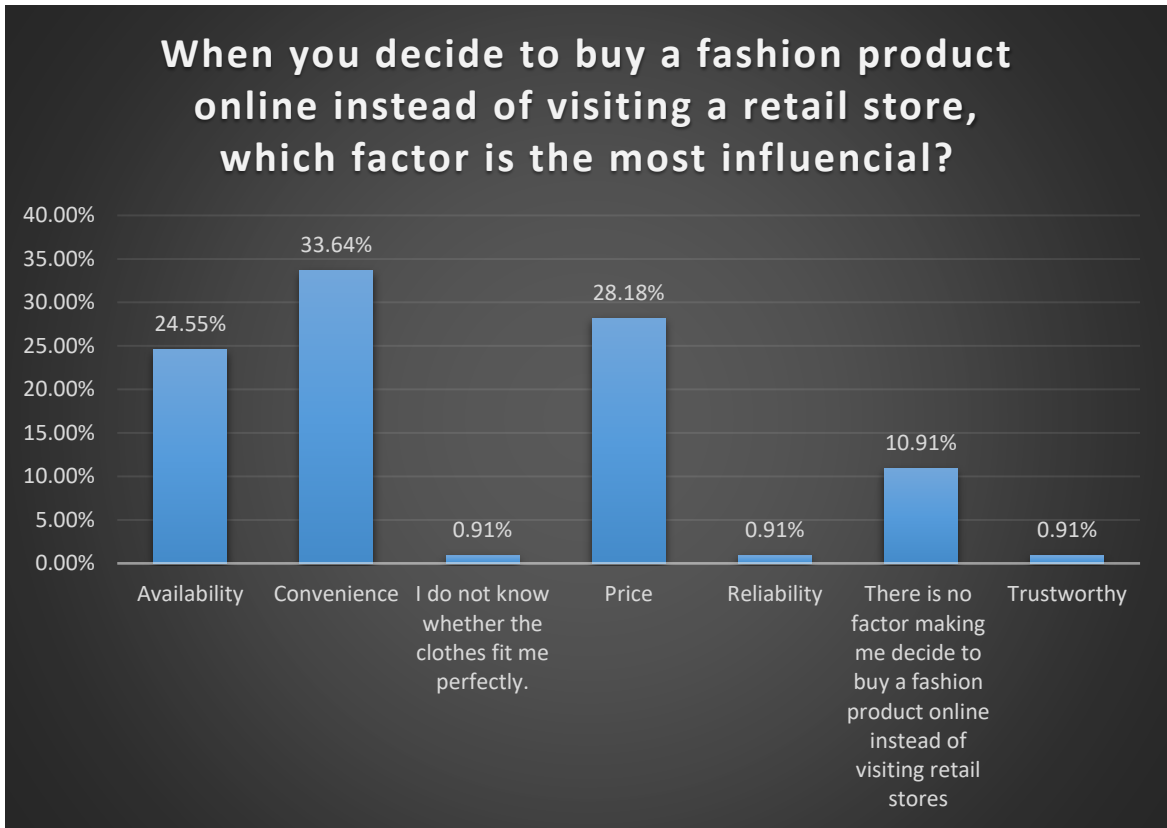


Figure 15: When you decide to buy a fashion product online instead of visiting a retail store, which factor is the most influential? Prepared by the author (2017).

- Furthermore, almost a half of surveyees answers that they do not prefer to shop online any products than to shop at retail stores (40%). Others have a preference for clothes (31%) and accessories (30%) in online shopping.



Figure 16: Which product type do you prefer to shop online than to shop at retail stores? Prepared by the author (2017).

- A significant number of people (68%) describe their online purchasing process as smooth. Only 5% of customers find this process not smooth and 2% of this sample think the process is very troublesome.

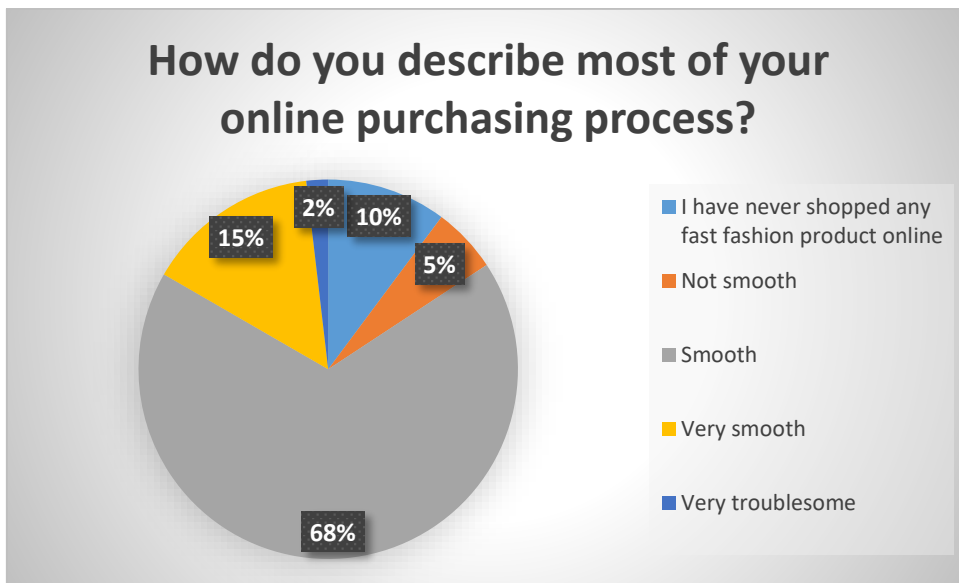


Figure 17: How do you describe most of your online purchasing process? Prepared by the author (2017).

- The result shows BOPIS (Buy Online Pick-up In Store) option is not a common choice. 78% of surveyees report that they have not made use of this option. For people who have used BOPIS, they explain saving on shipping cost is the main reason why they choose the method (79%).

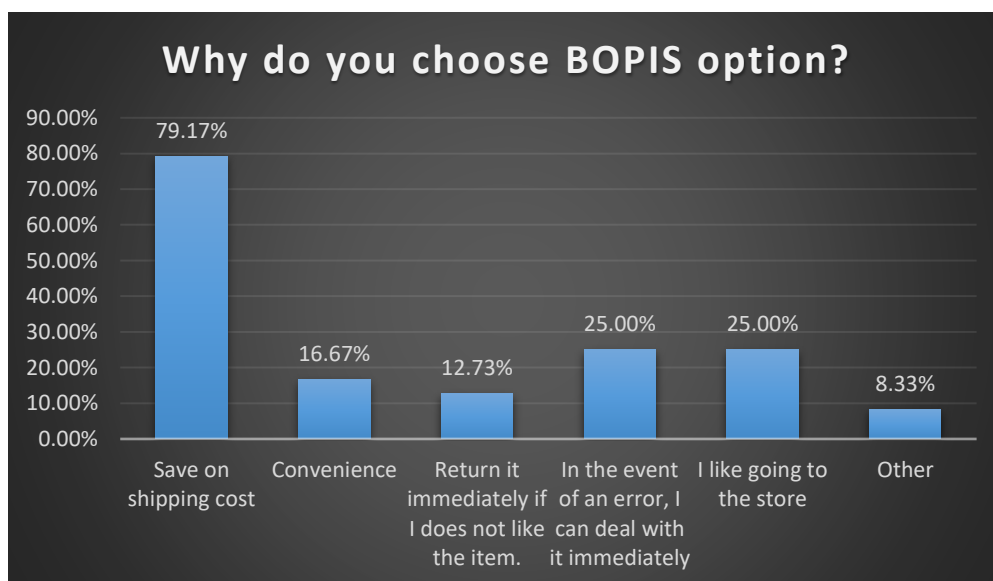


Figure 18: Why do you choose BOPIS option? Prepared by the author (2017)

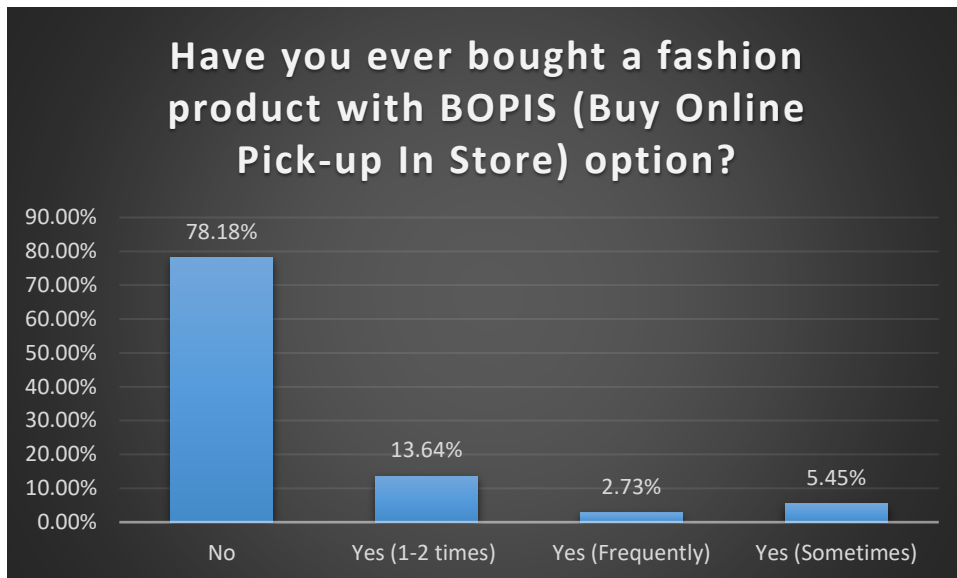


Figure 19: Have you ever bought a fashion product with BOPIS option? Prepared by the author (2017).

- About a third of surveyees like to visit websites of fast fashion brands before going to their retail stores (29%).
- The considerable number of survey participants (66%) says they are more familiar with multi-channel distribution fast fashion brands such as H&M or Zara than e-commerce only websites such as ASOS or Boohoo.



Figure 20: Which fast fashion shopping behaviors do you have? Prepared by the author (2017).

➔ **This means multi-channel distribution improves brand awareness of fast fashion companies. Therefore, the hypothesis is accepted.**

4.2. Financial Performance Comparison between Multi-channel Distribution Retailers and E-commerce-only Retailers in Fast Fashion Industry

- Except for Inditex, profit of all companies in the case study decreases in the year of 2016. The profit of H&M, Inditex and UNIQLO is significantly higher than ASOS and Boohoo during the period 2012-2016.

Company	NI 2012	NI 2013	NI 2014	NI 2015	NI 2016	Average
H&M Group	16.87B	17.15B	19.98B	20.9B	18.64B	18.71B
Inditex	2.4B	2.4B	2.5B	2.9B	Not available	2.55B
UNIQLO	71.65B	104.6B	74.55B	110.03B	48.05B	81.78B
Average	30.31B	41.38B	32.34B	44.61B	33.34B	34.34B

Table 2: Net income of H&M Group, Inditex, and UNIQLO (2012-2016). Prepared by the author (2017). Data adopted from MarketWatch.com and Inditex.com [Accessed on March 14, 2017]

Company	NI 2012	NI 2013	NI 2014	NI 2015	NI 2016	Average
ASOS	23.77M	40.93M	36.95M	41M	34.7M	35.47M
Boohoo	0.25M	2.57M	8.43M	8.41M	12.44M	6.42M
Average	12.01M	21.75M	22.69M	24.71M	23.57M	20.94M

Table 3: Net income of ASOS and Boohoo (2012-2016). Prepared by the author (2017). Data adopted from MarketWatch.com [Accessed on March 14, 2017]

- However, net income growth rate of multi-channel distribution fast fashion companies such as H&M Group, Inditex, UNIQLO is much lower than e-commerce only fast fashion retailers such as ASOS and Boohoo. This result may be affected by the difference in size and age of companies in the two groups.

Company	NI Growth Rate 2013	NI Growth Rate 2014	NI Growth Rate 2015	NI Growth Rate 2016	Average

H&M Group	1.66%	16.50%	4.60%	-10.81%	2.99%
Inditex	0.00%	4.17%	16.00%	Not available	6.72%
UNIQLO	45.99%	-28.73%	47.59%	-56.33%	2.13%
Average	15.88%	-2.69%	22.73%	-33.57%	3.95%

Table 4: Net income growth rate of H&M Group, Inditex, and UNIQLO (2013-2016). Prepared by the author (2017). Data adopted from MarketWatch.com and Inditex.com [Accessed on March 14, 2017]

Company	NI Growth Rate 2013	NI Growth Rate 2014	NI Growth Rate 2015	NI Growth Rate 2016	Average
ASOS	72%	-10%	11%	-15%	15%
Boohoo	932.13%	228.02%	-0.24%	47.92%	301.96%
Average	502.16%	109.15%	5.36%	16.28%	158.24%

Table 5: Net income growth rate of ASOS and Boohoo (2013-2016). Prepared by the author (2017). Data adopted from MarketWatch.com [Accessed on March 14, 2017]

➔ The hypothesis that multi-channel distribution improves profit growth of fast fashion companies is rejected.

- Revenues of all five companies studied gradually go up during the five-year period from 2012 to 2016.

Company	Sales 2012	Sales 2013	Sales 2014	Sales 2015	Sales 2016	Average
H&M Group	120.8B	128.56B	151.42B	180.86B	192.27B	154.78B
Inditex	15.9B	16.7B	18.1B	20.9B	Not available	17.9B
UNIQLO	928.67B	1.14T	1.38T	1.68T	1.79T	1.38T
Average	355.12B	428.42B	516.51B	627.25B	991.14B	518.81B

Table 6: Revenue of H&M Group, Inditex and UNIQLO (2012-2016). Prepared by the author (2017). Data adopted from MarketWatch.com and Inditex.com [Accessed on March 14, 2017]

Company	Sales 2012	Sales 2013	Sales 2014	Sales 2015	Sales 2016	Average
ASOS	571.26M	769.4M	975.47M	1.14B	1.44B	979.23M
Boohoo	29.01M	67.28M	109.79M	139.85M	195.39M	108.26M
Average	300.14M	418.34M	542.63M	639.93M	817.7M	543.75M

Table 7: Revenue of ASOS and Boohoo (2012-2016). Prepared by the author (2017). Data adopted from MarketWatch.com [Accessed on March 14, 2017]

- The sales growth rate of e-commerce fast fashion retailers (ASOS and Boohoo) triples that number of multi-channel distribution fast fashion retailers (H&M Group, Inditex, UNIQLO).

Company	Sales Growth Rate 2013	Sales Growth Rate 2014	Sales Growth Rate 2015	Sales Growth Rate 2016	Average
H&M Group	6.42%	17.78%	19.44%	6.31%	12.49%
Inditex	5.03%	8.38%	15.47%	Not available	9.63%
UNIQLO	22.76%	21.05%	21.74%	6.55%	18.02%
Average	11.40%	15.74%	18.88%	6.43%	13.38%

Table 8: Revenue growth rate of H&M Group, Inditex and UNIQLO (2013-2016). Prepared by the author (2017). Data adopted from MarketWatch.com and Inditex.com [Accessed on March 14, 2017]

Company	Sales Growth Rate 2013	Sales Growth Rate 2014	Sales Growth Rate 2015	Sales Growth Rate 2016	Average
ASOS	34.68%	26.78%	16.87%	26.32%	26.16%
Boohoo	131.92%	63.18%	27.38%	39.71%	65.55%
Average	83.30%	44.98%	22.12%	33.01%	45.86%

Table 9: Revenue growth rate of ASOS and Boohoo (2013-2016). Prepared by the author (2017). Data adopted from MarketWatch.com [Accessed on March 14, 2017]

→ This finding helps to explain why the hypothesis that multi-channel distribution has positive effects on profit growth is rejected.

4.3. *An Integration Framework for Fast Fashion Retailers*

- Based on the six-stage framework of Sharma and Mehrotra (2007), I propose an updated framework for Fast Fashion Retailers aiming to guide them through the integration of multiple distribution channels.



Figure 21: Multi-channel Distribution Integration Framework. Prepared by the author (2017). Adjusted from six-stage framework of Sharma and Mehrotra (2007)

4.4. *Hypothesis Conclusion Table*

Number	Hypothesis	Conclusion
--------	------------	------------

1	Multi-channel distribution improves profit growth of fast fashion companies	Reject
2	Multi-channel distribution helps fast fashion companies to attract more customers	Accept
3	Multi-channel distribution enhances brand awareness of fast fashion companies	Accept

Table 10: Hypothesis Conclusion Table. Prepared by the author (2017).

5. DISCUSSION AND ANALYSIS

5.1. *Effects of Multi-channel Distribution on Customer Attraction and Brand Awareness of Retailers in Fast Fashion Industry*

In general, fast fashion retailers can attract more customers and promote their brands better if they make use of multi-channel distribution. As mentioned in the findings section, the survey result shows that two-third of customers frequently shop through at least 2 channels (66%) and more than a third of survey participants often shop through at least 3 channels (39%). These numbers prove distributing products through multiples channels increases exposure of fast fashion brands to customers. This higher level of brand exposure is likely to lead to higher customer attraction and brand awareness. There is a significant number of researches having a similar conclusion. Friedman and Furey (1999) strongly states that many distribution channels help companies to reach a broader range of customers. Applying multi-channel distribution enhances exposure of firms and their offerings to customers (Rangaswamy and Bruggen, 2005). It is undoubted that this argument remains true after a decade has passed.

As discussed in the literature review section, a crucial element of channel integration is the ability of channels to complement each other. The survey result illustrates that many people have the tendency to research products online before visiting retail stores to try on and purchase (65%). This number is much higher than the result of a survey conducted by National Retail Federation (2001) that 42% of US customers frequently surf the Internet for consultation before purchasing in stores. This trend seems to significantly grow in the past 16 years. In order to attract customers to traditional retail stores, it is necessary for fast fashion brands to launch an online

channel. This finding also demonstrates a low profitability of an online website may not mean the integration of e-commerce and traditional retail stores is not effective on the grounds that the online website may help to boost up sales performance of retail stores. As a result, there is a difficulty in performance evaluation of a distribution channel. In spite of generating low sales, a distribution channel can positively influence sales of another channel. Studies of Lenskold (2002) and Berman and Thelen (2004) expresses a concern for the need of a new distribution channel evaluation method which takes into consideration integration of multiple distribution channels. Unfortunately, there has not been any noteworthy methods created. Consequently, companies are still in need of an innovative method to resolve this issue.

There is clear evidence proving multi-channel distribution enhances the ability to attract customers of fast fashion companies. The survey outcome demonstrates that shoppers make a purchase at retail stores of fast fashion brands such as H&M, Zara or Mango more often than at websites of e-commerce fast fashion retailers such as ASOS.com or Boohoo.com. More than 60% of customers shop at websites of e-commerce fast fashion retailers less than four times a year, while around a third of customers (29%) shop at traditional retail stores of fast fashion companies two to three times a month. Moreover, most customers prioritize retail stores and websites of brands in shopping. 78% of survey participants rank retail stores as the number one channel they would like to shop at. Also, websites of brands are ranked as the second choice for shopping by 63% of customers completed the survey, while only 24% of customers report websites of e-commerce retailers are their second option. This means multi-channel distribution fast fashion companies outweighs their e-commerce only competitors even in online shopping, which is the main area of e-commerce retailers. These figures show that multi-channel distribution fast fashion companies are preferred by most customers comparing to their single-channel distribution competitors.

Despite the fact that two-thirds of survey participants select traditional retail stores as the most prioritized shopping channel, fast fashion companies should integrate traditional retail stores with online websites. Integration of multiple distribution channels may lead to better quality of customer service as it creates more channels for customers to seek for help. For instance, nearly a half of survey answers says

they often ask an online customer service associate when they need help. It is even more surprising that no one chooses sales assistant at retail stores as a source of help. Even when customers are inside a store, they tend to use electronic devices such as smartphones in the store to look up information about products (39%). This result may be influential by cultural factors as most of the survey participants are living in Finland (89%). People in the country tend to be quiet and avoid direct communication with strangers; therefore, a sales associate may not be a common source for help here. In contrast, a survey conducted by iVend Retail (2017) in North American reports that 49% of shoppers more than 54 years old ask a sales associate in stores for help instead of looking up information themselves while only 17% of shoppers under 35 years old do so. The report of iVend Retail (2017) also points out that a significant number of customers like to shop with the same retailer in different ways (32%). According to my survey outcome, about a third of surveyees like to visit websites of fast fashion brands before going to their retail stores (29%). This illustrates multi-channel distribution's favourable effects on customer experience.

Nevertheless, many people are not used to purchasing a product through a multi-channel process. In specific, there is only a small quantity of survey participants who have made use of BOPIS (Buy Online Pick-up In Store) option (22%). BOPIS is one of the most considerable outcomes of integration of multiple distribution channels. This option enables customers to purchase products at a channel (online websites) and pick up them at another channel (retail stores). On contrary to the result of my questionnaire, iVend Retail (2017) presents that 58% of customers participated in the survey in North America have made use of BOPIS. This difference may be caused because the quantity of retail stores of popular fast fashion brands like H&M or Zara is much higher in Northern American countries such as the US or Canada than it is in Finland, the country in which most of my survey participants are residents. However, small European countries with the bigger population than Finland may show a different result. Online shopping is greatly popular in the US as many people live far away from commercial centres. Although Finland is a small country, a great deal of people does not live near urban areas. In more populated European countries, many people live close to shopping centres. Therefore they can use multi-channel shopping options more easily.

For surveyees who have used BOPIS, they explain saving on shipping cost is the main reason why they choose the method (79%). The finding may lead to an assumption that if transportation continues to develop and shipping cost goes down gradually in the future usage of BOPIS option may not grow significantly. This means a well-integrated multi-channel distribution system will not be as influential to customer experience as it is today. In addition, less than two-thirds of survey answers describe their online purchasing process as smooth (68%). Hence, both multi-channel distribution and e-commerce only fast fashion firms need to take into consideration how to better online shopping process so as to enhance customer satisfaction. An empirical study by Liang and Huang (1998) conclude that there are some types of product more appropriate to be sold through online channels than the others. However, a finding through my survey shows that almost a half of surveyees do not prefer to shop online any products than to shop at retail stores (40%). Others have a preference for clothes (31%) and accessories (30%) in online shopping. As a consequence, fast fashion companies do not have the need to determine the appropriateness of their products with online channels. This finding is in contrast with the argument of most researchers that companies should first determine whether their products are suitable for traditional sales channels or online channels or both. (Coelho, Easingwood, and Coelho, 2003; Berman and Themen, 2004).

Not only does multi-channel distribution lead to improvement in customer attraction of fast fashion companies but also it builds up brand awareness. A study by Sharma and Mehrotra (2007) discusses the influence of multi-channel strategies in an enhancement of brand awareness. My research proves that this statement is true to fast fashion brands. The considerable number of survey participants (66%) says they are more familiar with multi-channel distribution fast fashion brands such as H&M or Zara than e-commerce only websites such as ASOS or Boohoo. The reason for this higher familiarity may be because of the higher level of exposure of customers to the brands which apply multi-channel distribution. Specifically, they can come across names of the multi-channel distribution brands both when they go outside or online. Meanwhile, e-commerce only retailers are exposed to customers mostly on the Internet. So as to overcome this challenge, e-commerce only retailers may place many banners and advertisements on the streets and on television.

5.2. Comparison between Single-channel Distribution and Multi-channel Distribution Fast Fashion Companies in terms of Profit Growth

Group 1: Single-channel distribution fast fashion retailers (ASOS, Boohoo)

Group 2: Multi-channel distribution fast fashion retailers (H&M Group, Inditex, UNIQLO)

On the grounds that the two e-commerce only retailers are relatively younger and smaller than the three multi-channel distribution retailers in the case study, it is difficult to compare two groups in terms of profit. Therefore, profit growth is more appropriate than profit as a variable for this case study. In spite of generating higher net income than ASOS and Boohoo, H&M Group, Inditex, and UNIQLO see a significantly lower net income growth rate than ASOS and Boohoo from 2013 to 2016. A reason for this result is the fact that the average sales growth rate of Group 2 triples that number of Group 1.

However, the outcome may be strongly affected by the difference in size and age of the companies. As ASOS and Boohoo are both less than 20 years old, the two retailers are in the fast growth period. Meanwhile, H&M Group, Inditex, and UNIQLO are all long-established companies, so it is understandable that their growth rates are steadier. Although the hypothesis that multi-channel distribution boosts up profit growth rate of fast fashion companies is rejected, there are still possibilities for further researches related to this issue when e-commerce only retailers have come to the steady growth period. On the account that the survey results have proven the ability of multi-channel distribution to generate enhancement in customer attraction and brand awareness of fast fashion brands, it is very likely that e-commerce only companies will have a need to adopt new distribution channels when they take into consideration opportunities for expansion. Furthermore, when the profitability of their online distribution channel reaches its maximum level, the e-commerce only fast fashion retailers will face a challenge of maintaining high net income growth rate, especially if the companies come to the steady growth period.

5.3. Applications of the Integration Framework to Fast Fashion Companies

A considerable number of studies related to online distribution channels discuss how to integrate new marketing distribution channels with traditional channels. There are multiple researches proposing processes for multi-channel integration such as Payne and Frow (2004), Berman and Thelen (2004), Sharma and Mehrotra (2007). The six-stage framework of Sharma and Mehrotra (2007) presents a variety of inefficiency sources. Sharma and Mehrotra (2007) propose a framework which they believe to go beyond the frameworks published by Payne and Frow (2004) in planning and implementing an optimal multi-channel strategy. In order to come up with a new multi-channel integration framework specialized for fast fashion companies, I adjust the model of Sharma and Mehrotra to make it more appropriate and applicable to the industry. Furthermore, I integrate some of my findings from the survey into the framework so as to increase realisticness and timeliness.

In the original model of Sharma and Mehrotra (2005), the third step is to determine the optimal number of channels to maximize profitability and the fifth step is to identify strategic channels that cannot be abandoned. On the grounds that outcome of survey illustrates preference of customer on traditional retail stores and e-commerce, I believe the model should be altered to concentrate on these two channels. In fact, retail stores are ranked by nearly 80% of surveyees as the first option they would like to go shopping with. Following common options are websites of brands and websites of e-commerce retailers. Other channels, such as social media pages of companies, are not widely used among customers. Therefore, retail stores and online websites are the two strategic channels on which fast fashion companies need to focus.

The first task for companies when they integrate multiple distribution channels is to decide the level of coverage for each channel. In this case, the fast fashion retailers have to determine coverage of retail stores and e-commerce. In reality, fast fashion brands often have unequal coverage for retail stores and online websites. For examples, many products of H&M are offered online only. The main reason for this difference is the high cost for mass coverage. Mass coverage means products are distributed to nearly all store locations. This type of distribution boost up expenses for firms, especially shipping costs. In contrast, if the products are only offered on e-commerce, the shipping costs can be passed along to customers. Another finding to notice is that saving on shipping costs is the main motivation of customer answered

the survey to select BOPIS option. As a consequence, fast fashion companies should conduct an analysis of values gained from the level of coverage comparing to the cost associated with the values. Moreover, most fast fashion brands are operating on a global scale, so they may have difficulty in making their products available at all stores.

The next step for fast fashion companies is to determine the profitability of retail stores. This task may be challenging as a result of a lack of effective channel performance evaluation methods for a well-integrated multi-channel distribution system. Nevertheless, the companies may consider using a study by Yan, Wang, and Zhou (2010). The study puts the focus on the strategic role of channel integration with profit sharing in the competition between e-commerce and traditional retail stores. They propose a profit bargaining model offering a guidance for companies to find an optimal distribution channel strategy for profit maximization. It is proved in the study that this model helps to reduce profit competition between two channels comparing to other models.

The following two steps are strongly related to each other. The companies need to develop decision rules based on coverage and potential conflict and make use of these rules as a base for ensuring united customer experience and promotions. These steps are vital in order to prevent channel conflicts. A significant quantity of researchers mentions the possibility of channel conflicts occurring as a result of the integrated multi-channel distribution. Webb and Hogan (2002) argue that multi-channel distribution strategy increases the level of complexity of the distribution system, which causes opportunities for conflicts to occur between different channels within a firm. Yan, Wang, and Zhou (2010) state that the rapid growth of e-commerce leads to serious distribution channel conflicts when lots of companies operating in brick-and-mortar business adopt online distribution channels. In fact, the online purchasing process is demonstrated as smooth for less than 70% of survey participants. Furthermore, fast fashion brands usually have some promotions applied for online shopping only. These promotions should be carefully considered as it may have a negative influence on revenue of retail stores and reduce the competitiveness of the stores with stores of other brands. After the four steps, fast fashion companies can create an optimal multi-channel distribution strategy and begin implementation.

6. CONCLUSIONS

6.1. *Main Findings*

- Multi-channel distribution helps fast fashion companies to attract more customers
- Multi-channel distribution enhances brand awareness of fast fashion companies
- Two-third of customers frequently shop through at least 2 channels (66%). More than a third of survey participants often shop through at least 3 channels (39%).
- Most customers prioritize retail stores and websites of brands in shopping. 78% of surveyees rank retail stores as the number one channel they would like to shop at.
- The result shows BOPIS (Buy Online Pick-up In Store) option is not a common choice. 78% of surveyees report that they have not made use of this option. For people who have used BOPIS, they explain saving on shipping cost is the main reason why they choose the method (79%)
- About a third of surveyees like to visit websites of fast fashion brands before going to their retail stores (29%).
- The considerable number of survey participants (66%) says they are more familiar with multi-channel distribution fast fashion brands such as H&M or Zara than e-commerce only websites such as ASOS or Boohoo.
- Net income growth rate of multi-channel distribution fast fashion companies such as H&M Group, Inditex, UNIQLO is much lower than e-commerce only fast fashion retailers such as ASOS and Boohoo.
- The sales growth rate of e-commerce fast fashion retailers (ASOS and Boohoo) triples that number of multi-channel distribution fast fashion retailers (H&M Group, Inditex, UNIQLO).
- Based on the six-stage framework of Sharma and Mehrotra (2007), the research proposes an updated framework for Fast Fashion Retailers aiming to guide them through the integration of multiple distribution channels.

- There are significant differences between people living in Finland and North America in terms of customer behaviours related to multi-channel distribution. Because there are not many retail stores of fast fashion brands in Finland as in North American countries, BOPIS option is less popular in Finland than in North America.



Table 11: Multi-channel Distribution Integration Framework. Prepared by the author (2017). Adjusted from six-stage framework of Sharma and Mehrotra (2007)

6.2. Implications of the Research

The paper provides information about noteworthy customer behaviors related to the integration of multi-channel distribution of fast fashion companies. The information is essential and beneficial to the companies which are planning to integrate new channels with their original channel, especially those currently puts concentration on e-commerce distribution only. As the data analyzed in the paper is very timely, it can be used as a valuable source for later researches of the field.

Moreover, the research proposes an adjusted and updated framework for integration of traditional retail stores and e-commerce. This framework is practical and meaningful to fast fashion companies. The firms can make use of this model as an instruction for integration. Also, it can be used as a standard in order to check the level of integration of multi-channel distribution system.

6.3. *Limitation of the Research*

A considerable limitation of the study is its failure in proving the impact of multi-channel distribution on profit growth of fast fashion companies. As explained above, the reason of this problem may be because of the huge difference in size and age of the companies analyzed in the case study. Furthermore, most people participating in the survey are young women living in Finland. Consequently, the results may not be suitable to apply to other demographic groups, especially US customers. The differences may be explained by the number of retail stores of fast fashion brands or average distance to the nearest shopping centre.

Another limitation is the lack of instances demonstrating effects of the framework proposed in the paper. If there is a case of a company applying the framework, arguments of the paper will be more valuable and trustworthy.

6.4. *Suggestions for Further Research*

On the grounds that the study fails to acknowledge effects of multi-channel distribution on profit growth of fast fashion companies, later researchers may consider to conduct other analysis and apply different methods to explore this issue. Because fast fashion retailers distributing products through e-commerce only may go to steady growth period in the next 20 years, studies at that point of time may have better accuracy in comparing the single-channel distribution and multi-channel distribution companies in the industry. Also, later papers may make comparisons between e-commerce fast fashion retailers before adopting new channels and after adopting new channels, on the account that there are possibilities that the companies will open retail stores when they get an expansion.

In addition, there is a need for researches exploring new methods for evaluation of distribution channels when the multi-channel distribution is becoming more and more popular used. This finding will play a crucial role in expansion planning of a significant number of companies operating in not only fast fashion industry but also other industries.

Reference List

1. Alptekinoğlu, A. and Tang, C.S. (2005) 'A model for analyzing multi-channel distribution systems'. *European Journal of Operational Research*; 163(3): 802-824. Retrieved from: ScienceDirect [Accessed on February 1, 2017]
2. Balasubramanian, S., Raghunathan, R. and Mahajan, V. (2005) 'Consumers in a multi-channel environment: Product utility, process utility, and channel choice'. *Journal of interactive distribution*; 19(2): 12-30. Retrieved from: ScienceDirect [Accessed on February 1, 2017]
3. Berman, B. and Thelen, S. (2004) *Table of Unique Advantages of Specific Channels*. Retrieved from: EmeraldInsight [Accessed on January 10, 2017]
4. Berman, B. and Thelen, S. (2004) 'A guide to developing and managing a well-integrated multi-channel retail strategy'. *International Journal of Retail and Distribution Management*, 32 (3): 147-156. Retrieved from: EmeraldInsight [Accessed on January 10, 2017]
5. Business Wire (2002) *Jupiter Research Releases New Retail Survey that Challenges Common Online Retail Assumptions; Active Multi-channel Shoppers Drive Revenue, but Not Necessarily Profit*. Available from: <http://jamesgirone.com/fastfacts/fastfacts64.htm> [Accessed on February 1, 2017]
6. Chaffey, D., Ellis-Chadwick, F., Mayer, R. and Johnston, K. (2009) *Internet Distribution: Strategy, Implementation and Practice* (4th edition). UK: Pearson Education Limited
7. Chiang, W.Y.K., Chhajed, D. and Hess, J.D. (2003) 'Direct distribution, indirect profits: A strategic analysis of dual-channel supply-chain design'. *Management Science*; 49(1): 1-20. Retrieved from: ScienceDirect [Accessed on February 1, 2017]
8. Coelho, F., Easingwood, C. and Coelho, A. (2003) 'Exploratory evidence of channel performance in single vs multiple channel strategies'. *International Journal of retail and distribution management*, 31 (11): 561-573.
9. *Fast Fashion*. Available from: <http://www.investopedia.com/terms/f/fast-fashion.asp> [Accessed on March 16, 2017]

10. Fast Retailing (n.d) *History 1943 – 2003*. Available from:
<http://www.fastretailing.com/eng/about/history/> [Accessed on March 14, 2017]
11. Friedman, L.G. and Furey, T.R. (1999) *The channel advantage: Going to market with multiple sales channels to reach more customers, sell more products, make more profit*. UK: Butterworth–Heinemann.
12. Gilbert, A. and Bacheldor, B. (2000) 'The big squeeze'. *Information Week*; 779: 46-56.
13. H&M (n.d) *The history of H&M Group*. Available from:
<https://about.hm.com/en/about-us/history.html> [Accessed on March 14, 2017]
14. Hood, R. (2002-2003) *One Customer, One Relationship, Multiple Distribution Channels*. Available from:
<http://wnim.com/issue13/pages/multchanmark.htm> [Accessed on February 1, 2017]
15. Inditex (n.d) *Financial data*. Available from:
https://www.inditex.com/investors/investors_relations/financial_data
[Accessed on March 14]
16. Inditex (n.d) *Our history*. Available from:
http://www.inditex.com/OUR_GROUP/OUR_HISTORY [Accessed on March 14, 2017]
17. iVend Retail (2017) *Great Omnichannel Expectations Survey Report Part II*. Great Omnichannel Expectations Survey Report. [online] New York, USA: CitiXsys Americas Inc. p.6. Available from:
<https://ivend.com/omnichannel-shopper-survey-report-2016-17-north-america/> [Accessed on February 27, 2017]
18. Lenskold, J.D. (2002) 'Distribution ROI: Playing to win'. *Distribution Management*; 11(3): 30. Retrieved from: ScienceDirect [Accessed on February 1, 2017]
19. Levary, R. and Mathieu, R.G. (2000) 'Hybrid retail: integrating e-commerce and physical stores'. *Industrial Management*; 42(5): 6–13. Retrieved from: ScienceDirect [Accessed on February 1, 2017]
20. Liang, T. and Huang, J. (1998) 'An empirical study on consumer acceptance of products in electronic markets: a transaction cost model'.

- Decision Support Systems*; 24: 29–43. Retrieved from: ScienceDirect [Accessed on February 1, 2017]
21. Market Watch (n.d) *Annual Financials for ASOS PLC ADR*. Available from: <http://www.marketwatch.com/investing/stock/asomy/financials> [Accessed on March 14, 2017]
 22. Market Watch (n.d) *Annual Financials for Boohoo.Com PLC ADR*. Available from: <http://www.marketwatch.com/investing/stock/bhooy/financials> [Accessed on March 14, 2017]
 23. Market Watch (n.d) *Annual Financials for Fast Retailing Co. Ltd. ADR*. Available from: <http://www.marketwatch.com/investing/stock/frcoy/financials> [Accessed on March 14, 2017]
 24. Market Watch (n.d) *Annual Financials for H&M Hennes & Mauritz AB Series B*. Available from: <http://www.marketwatch.com/investing/stock/hmb/financials?countrycode=se> [Accessed on March 14, 2017]
 25. National Retail Federation (2001), *The State of Retailing Online 4.0*. Washington, DC: National Retail Federation.
 26. Payne, A. and Frow, P. (2004) 'The role of multi-channel integration in customer relationship management'. *Industrial distribution management*, 33 (6): 527-538. Retrieved from: ScienceDirect [Accessed on January 7, 2017]
 27. Rangaswamy, A. and Van Bruggen, G.H. (2005) 'Opportunities and challenges in multi-channel distribution: An introduction to the special issue'. *Journal of Interactive Distribution*; 19(2): 5–11. Retrieved from: ScienceDirect [Accessed on February 1, 2017]
 28. Rosenbloom, B. (2007) 'Multi-channel strategy in business-to-business markets: Prospects and problems'. *Industrial Distribution Management*, 36 (1): 4-9. Retrieved from: ScienceDirect [Accessed on November 25, 2016]
 29. Saunders, C. (2002) 'Multi-channel shoppers actually not so hot'. *Internet Advertising Report*. Retrieved from: ScienceDirect [Accessed on February 1, 2017]

30. Sharma, A. and Mehrotra, A. (2007) 'Choosing an optimal channel mix in multi-channel environments.' *Industrial Distribution Management*; 36 (1): 21-28. Retrieved from: ScienceDirect [Accessed on November 25, 2016]
31. Sharma, A. and Mehrotra, A. (2007) *Figure of Six Stages in Optimal Multi-Channel Strategy Framework*. Retrieved from: ScienceDirect [Accessed on November 25, 2016]
32. Tsay, A.A. and Agrawal, N. (2004) 'Channel conflict and coordination in the e-commerce age'. *Production and Operations Management*; 13(1): 93-110. Retrieved from: ScienceDirect [Accessed on February 1, 2017]
33. Van Baal, S. and Dach, C. (2005) 'Free riding and customer retention across retailers' channels'. *Journal of Interactive Marketin*; 19(2): 75–85. Retrieved from: Wiley [Accessed on February 1, 2017]
34. Wallace, D.W., Giese, J.L. and Johnson, J.L. (2004) 'Customer retailer loyalty in the context of multiple channel strategies'. *Journal of Retailing*; 80(4): 249-263. Retrieved from: ScienceDirect [Accessed on February 1, 2017]
35. Webb, K.L. and Hogan, J.E. (2002) 'Hybrid channel conflict: causes and effects on channel performance'. *Journal of Business and Industrial Distribution*; 17(5): 338-356. Retrieved from: ScienceDirect [Accessed on February 1, 2017]
36. Yan, R., Wang, J. and Zhou, B. (2010) 'Channel integration and profit sharing in the dynamics of multi-channel firms.' *Journal of Retailing and Consumer Services*; 17 (5): 430-440. Retrieved from: ScienceDirect [Accessed on November 25, 2016]

Appendices

Survey:

Screening Questions

1. Have you purchased any product of fast fashion companies such as H&M, Zara, Forever21 for the last 12 months?*

Yes

No

2. Have you purchased any product of e-commerce websites such as ASOS, Boohoo, etc. for the last 12 months?*

Yes

No

3. If your answer is Yes to ONE of the above questions, please continue doing the survey. If your answer is No to BOTH questions, the survey ends here. Thank you for your time.*

Continue the survey

Shopping Behaviors

4. How do you describe level of importance of shopping to you?



Min (Not important at all)



Max (Very important)

5. How much do you often spend for a purchase (related to fashion) in the last 12 months? If you buy many products at once, please use the TOTAL amount you pay for the bill.*

More than 1000€

500-1000€

100-499€

50-99€

Less than 50€

6. Which distribution channels of fashion companies have you shopped? (Check all that apply)*

Retail stores

Websites of brands (Ex: hm.com, zara.com, etc.)

Websites of e-commerce retailers (Ex: ASOS.com, boohoo.com, very.co.uk, etc.)

Social media pages of companies (Ex: Facebook, Instagram, etc.)

Other (please specify)

7. Rank these distribution channels according to your preference for shopping.*

Move the responses in the order you want. Rank from 1st (like best) to 4th (like least)

Retail stores

Websites of brands (Ex: hm.com, zara.com, etc.)

Websites of e-commerce retailers (Ex: ASOS.com, boohoo.com, very.co.uk, etc.)

Social media pages of companies (Ex: Facebook, Instagram, etc.)

8. How often do you shop at retail stores of fast fashion brands such as H&M, Zara, Mango, etc.?*

2-3 times a week

2-3 times a month

Once a month

4-6 times a year

Less than 4 times a year

9. How often do you shop at websites of fashion brands such as hm.com, zara.com, etc.?*

2-3 times a week

2-3 times a month

Once a month

4-6 times a year

Less than 4 times a year

10. How often do you shop at websites of e-commerce fashion retailers such as ASOS.com, boohoo.com, very.co.uk, etc?*

- 2-3 times a week
- 2-3 times a month
- Once a month
- 4-6 times a year
- Less than 4 times a year

11. How do you look for information of fashion products? Check all that apply.*

- Research products online before visiting retail stores to try on and purchase
- Use smartphones in the store to look up information
- Ask a sales associate for help at stores
- Ask an online customer service associate for help
- Other (please specify)

12. When you decide to buy a fashion product online instead of visiting a retail store, which factor is the most influential?*

- Price
- Availability
- Convenience
- There is no factor making me decide to buy a fashion product online instead of visiting retail stores
- Other factor (please specify)

13. Which product type do you prefer to shop online than to shop at retail stores? Check all that apply*

- Clothes
- Shoes
- Accessories (Necklaces, hats, belts, etc.)
- I do not prefer to shop any fashion product online
- Other products (please specify)

14. Have you ever bought a fashion product with BOPIS (Buy Online Pick-up In Store) option?*

If your answer is Yes, please continue with question 15. If No, please continue with question 18.

- Yes (Frequently)
- Yes (Sometimes)
- Yes (1-2 times)
- No

Questions concerning people who have used BOPIS. Please go to the next page if you have not used BOPIS.

15. Why do you choose BOPIS option? Check all that apply.

- Save on shipping costs
- Convenience
- Return it immediately if I does not like the item
- In the event of an error, I can deal with it immediately
- I like going to the store
- Other (please specify)

16. Which product type do you prefer to choose BOPIS than to get it shipped to your home? Check all that apply

- Clothes
- Shoes
- Accessories (Necklaces, hats, belts, etc.)
- I do not prefer to choose BOPIS when buying any fashion product.
- Other (please specify)

17. How do you describe your product pick-up at store process?

- Very smooth
- Smooth
- Not smooth
- Very troublesome

Questions concerning ALL surveyees

18. How do you describe most of your online purchasing process?*

- Very smooth
- Smooth
- Not smooth
- Very troublesome
- I have never shopped any fast fashion product online

19. Which fast fashion shopping behaviors below do you have? Check all that apply

- I think a brand is more credible if it has both retail stores and e-commerce.
- I am more familiar with brands having both retail stores and e-commerce. (H&M, Zara, etc.)
- I am more familiar with brands focusing on e-commerce only. (ASOS, Boohoo, Very, etc.)
- I am equally familiar with multi-channel distribution companies (H&M, Zara, etc.) and e-commerce companies (ASOS, Boohoo, Very, etc.)
- I like to visit websites of brands (H&M, Zara, etc.) before going to their retail stores.
- Other (please specify)

20. What is your nationality?*

- Finnish
- Vietnamese
- Chinese
- Malaysian
- Other (please specify)

21. Where do you currently live?*

- Finland
- Vietnam
- Other (please specify)

22. Do you have a job?*

- Yes (Full-time job)
- Yes (Part-time job)

No

23. How old are you?*

1-14 years old

15-20 years old

21-25 years old

26-30 years old

More than 30 years old

24. What is your gender?*

Male

Female

25. Thank you so much for completing this survey! I wish you all the best. If you have any comments about the survey, please use the space below.