

## **The Profit Model of the Fashion Industry**

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### **Abstract**

*According to the inherent characteristics, fashion industry is different from traditional industries. By taking the most important categories in the fashion industry, such as clothing, jewelry, animation industry, cosmetics, consumer electronics as an example and summing up four kinds of profit model, which profit pattern of applicability are very wide, Profit model has carried on the concrete analysis to the fashion industry. Finally, based on the fashion industry problems arising from the current situation of the development, the corresponding Suggestions are given.*

**Key words:** fashion industry, profit model, positioning, Business strategy.

### **1. Introduction**

The latter half of the 20th Century, With the gradually speeding up of the industrialization process and the increasingly rich material life of people, the consumer demand levels has been improved. Consumers are not satisfied with the demand for daily necessities, People's spiritual pursuit and aesthetic value is reflected in the process of daily consumption, which is in keeping with maslow proposed in "the theory of human motivation" hierarchy theory of needs. After people's lowest level needs can be met, incentive effect will be weakened, Instead, Instead, a larger value of high-level needs replace the former. Fashion have become more common, this new demand of people provides a strong soft conditions for the development of fashion industry. The fashion industry is an emerging industry in the industrial format, gradually changing people's lifestyles and consumption concept. The fashion industry has the characteristics of high value-added, high yield. Development of fashion industry for promoting the adjustment of economic structure, accelerating industrial transformation and upgrading, deepening the reform of economic system and other aspects play an irreplaceable role. According to the latest research report by Oxford Economics shows that, the British fashion industry contribute to the UK economy £ 26 billion, equivalent to \$ 43.4 billion in the past five years. The fashion industry is important for the development of the economy. Former Time Warner chief technology officer, Michael Dunne believes that companies in the business process, the primary task is to design a solid business model, which is more important than high-tech, because the business model is a prerequisite for companies to gain a foothold. Modern management guru Peter drucker once said: "today's competition between enterprises, is no longer a competition between products, but between business models (or profit model)." Profit model in an enterprise, equal to the basic state policy in a country. From the economics perspective, the behavior goal of firms is to maximize profits. The particularity of connotation of the fashion industry, make its profit model comparing with the traditional industries have similarities and differences. Therefore, how to select correct profit model to boost the development of the fashion industry, is a significant research topic.

### **2. What is fashion**

For centuries individuals or societies have used clothes and other body adornment as a form of nonverbal communication to indicate occupation, rank, gender, sexual availability, locality, class, wealth and group affiliation. Fashion is a form of free speech. It not only embraces clothing, but also accessories, jewellery, hairstyles, beauty and body art. What we wear and how and when we wear it, provides others with a shorthand to subtly read the surface of a social situation. Now many people like to talk about "fashion". The word is becoming more and more popular in people's life. Different people have different ideas about fashion. For example, some people like wearing the same dresses as the film star's, because they think the dresses are fashionable. Some girls think it is fashionable to wear boy's clothes, because they are different from other girls', some people like to wear sunglasses in winter. They do so not to protect their eyes, but they think it is really cool.

They also think it is kind of fashion. So it is difficult for us to agree with other people about fashion. Fashion refers to styles of dress (but can also include cuisine, literature, art, architecture, and general comportment) that are popular in a culture at any given time. Such styles may change quickly, and "fashion" in the more colloquial sense refers to the latest version of these styles. Inherent in the term is the idea that the mode will change more quickly than the culture as a whole. Coco Chanel think that fashion is not something that exists in dresses only. Fashion is in the sky, in the street, fashion has to do with ideas, the way we live, what is happening. The fashion industry has become a huge import-export business and it is important, especially to China, in World trade. The fashion industry is an enormous one. It provides employment for people like textile workers, designers, and shopkeepers. The fashion industry has helped industrial research in the sense that a lot of new materials, Nylon, Rayon, Orlon, Dacron, have been made to meet the demand of the consumers.

### 3. Literature review

By industrialized operation, fashion become the sunrise industry of city economy and can create considerable economic benefits for the urban development. Along with the importance of the fashion industry has become increasingly prominent, sociologists' attention on the fashion industry is also growing. Frederick think that fashionable statements in different academic fields with different emphases, but has a universal applicability<sup>[1]</sup>. Simmel wrote in "The Philosophy of Fashion" that fashion is a widespread social phenomenon, including language application in various places and different ways of communication<sup>[2]</sup>. Semiotologist Roland Barthes think fashion is a rich cultural system, clothing is the material basis for the fashion, but not all clothing can be included in the ranks of fashion<sup>[3]</sup>. Ma Gongxia think popularity with fashion supplement each other, popularity is the main medium of dissemination, popularization and development of fashion, fashion is the inevitable result of the popularity<sup>[4]</sup>. Chen Xinhua points out that fashion is popular, but popular is not always the fashionable<sup>[5]</sup>. Fashion industry blue book points out that the fashion industry is a general term for a range of business activities, is a kind of new era of industry formats with distinctive characteristics<sup>[6]</sup>. Fashion industry is inconsistent with the labor-intensive characteristics of traditional industries, and also different from the knowledge-intensive industries, but the symbol-intensive industry<sup>[7]</sup>.

Theoretical study of the fashion industry in order to keep pace with the development reality, all walks of life to the fashion industry's research also involves the following several aspects. As Elena Karpova, Sara Marcketti etc. through in-depth interviews, research the creative development of fashion industry professionals. They think through the practice of creative thinking strategies, formal training, the accumulation of social experience, creating a safe and challenging environment, etc. Which can enhance the creativity of fashion, so as to promote the development of the fashion industry<sup>[8]</sup>. Jeannie Suk, C. Scott Hemphill starting from the perspective of protecting intellectual property rights, comparing the United States and Europe differ in intellectual property fashion design, say the United States strengthen the most effective measures in this regard is the anti-piracy<sup>[9]</sup>. From the Angle of economics study, Zhao Junli think that the fashion industry belongs to the producer services, has many characteristics, such as marginal increasing returns, oligopoly<sup>[10]</sup>. Liu Changkui, Liu Tian summed up four basic development mode of fashion industry's: consumer fashion, manufacturing fashion, government-led and the market-oriented, and considers that consumer fashion in line with our country's development fashion industry of characteristic<sup>[11]</sup>. By discuss the unique industrial cluster model of Italian fashion industry, Chen Xi provides reference for the fashion industry development in our country<sup>[12]</sup>. Based on the instability, dynamics and complexity of the fashion industry, Ma Zhijun think that the supply chain management should be enhanced sensitivity and fast response strategy<sup>[13]</sup>.

To sum up, the study about the fashion industry has a lot, the domestic research about the fashion industry is in a stage of rapid rise, theoretical research is not yet mature. The focus of attention concentrated in the connotation of the fashion industry, economics, modular perspective, supply chain management, etc., but research literature of profit model is relatively lacking, which is this paper conducted.

## 4. The profit model research of the fashion industry

### 4.1 The connotation of the profit model

Enterprises are profit-oriented organization, therefore, the exploration and research of profit model is the problem that every enterprise must face. Profit model is a kind of concrete, specific operation method<sup>[14]</sup>. Michael Rappa think that profit model is simply a way of doing business, the company how to create value is determined by the profit model.

The factors of user necessity, reliability, usability, utilization, scalability, and exclusivity, when taken together, shape the business model for utility services. A business model is a method of doing business. All business models specify what a company does to create value, how it is situated among upstream and downstream partners in the value chain, and the type of arrangement it has with its customers to generate revenue<sup>[15]</sup>.

#### **4.2 The importance of positioning**

Companies want to get a foothold and long-term sustainable development, must be positioning their products in a competitive market. Positioning is the starting point and foundation to build profitable business models, including market positioning and product positioning. market positioning An effort to influence consumer perception of a brand or product relative to the perception of competing brands or products. Its objective is to occupy a clear, unique, and advantageous position in the consumer's mind. All in all, positioning is a marketing strategy that aims to make a brand occupy a distinct position, relative to competing brands, in the mind of the customer. Companies apply this strategy either by emphasizing the distinguishing features of their brand (what it is, what it does and how, etc.) or they may try to create a suitable image (inexpensive or premium, utilitarian or luxurious, entry-level or high-end, etc.) through advertising. Once a brand is positioned, it is very difficult to reposition it without destroying its credibility. Also called product positioning.

#### **4.3 The profit model analysis of all kinds of fashion industry**

##### **4.3.1 SPA model - Take the clothing industry for example**

SPA short for speciality retailer of private label apparel. It is a business model that enterprise takes full control of product development, design, planning, production, circulation and distribution, marketing and other aspects of the integration of the industry. SPA for the development of the company's new business system proposed by the American giant GAP clothing company in 1986, is considered the most successful clothing business model. UNIQLO was the first company in Japan to establish an SPA model encompassing all stages of the business--from design and production to final sale. Then, ZARA, Sweden's H & M, Germany's C & A, the Netherlands, WE, Italy BENETTON, France UR and other European brands as the SPA model representation garment industry, it is the SPA model to the extreme.

##### **4.3.2 Profit Multiplier mode -take the entertainment industry as an example**

Profit Multiplier means the profit to sales ratio (multiplier) relationships. Usually use it to measure the value of the enterprise. The higher the profit to sales ratio, indicating that the greater the value of the enterprise. It is an enterprise value measurement standard.

Strong brand profit profit model is the premise of success. World famous American Disney is the leader of profit multiplier model and faithful practitioners. Founded in 1923, most of the contemporary American young people grew up watching Disney animation, has become part of American culture. Disney involved four big business, which is in the value chain is the film and television entertainment industry, including the Walt Disney, Hollywood, touchstone and the Max four film companies; The second is the theme park and resort area; the third is associated with Disney cartoon image of the consumer goods, such as the famous Mickey Mouse, Donald Duck and winnie the pooh, Snow White, sleeping beauty, and the lion king, etc; Finally is the network game, television and other media network, including the ABC television network, which is one of the five major television networks in the United States, ABC radio network, the cable TV network ESPN, and disney.com, ABCNEWS.com, children's social networking websites Togetherville belonging to Disney's website. Multiplier model is used like tencent QQ in China, hello Kitty in Japan, the United States starbucks, etc. Their common advantage is that they all have high reputation and popularity and a strong attraction to consumers of the brand. Use of brand extension strategy in the process of new products should be wary of damage to the original project of brand image, brand image of ascension is to realize the competitive advantage of long-term profit.

##### **4.3.3 Products of Pyramid mode --take the consumer products and cosmetics as an example**

Products of Pyramid mode and the profit multiplier model of the two concepts are different. An important feature of the profit multiplier model is business to other industries for the enterprise profit by using the brand product high visibility and market share advantage, while the premise of product of Pyramid mode is in the same product domain or range.

Its essence is according to the difference of market consumer income and demand for product diversification, the same set of products through the different production process is divided into three types of high, medium and low-grade, forming product structure of Pyramid, in order to adapt to the market of all kinds of different levels of consumption of products of different price demand and attitude, That is a strategy of product differentiation. Product located in the bottom of the pyramid has the advantages of low cost, high production, high performance to price ratio etc.,the product structure has a strong defensive characteristics, intrusion can effectively prevent from competitors or potential competitors. High-end products in Pyramid usually is the result of high-tech production process research and development, with delicate, elegant, noble, fashion and other unique characteristics, with relatively high prices, small batch production, customer base is relatively smaller features, which is the key product profitability. However, enterprises can not put the products of Pyramid mode is simple understanding for all kinds of product price from high to sort, the focus is to dig deeper into the user's preferences, the user should be for product design center, because the product is only accepted to sales, to the enterprise profit. By constantly updating and integrated product line, clearing each layer target consumer group, it can expand the enterprise product market share.

There are a lot of use of the product Pyramid profit mode of enterprises at home and abroad. For example, Italy Milan Armani luxury brand clothing, as one of the world's most fashionable men's clothing brand, its products are the top of the Pyramid is mainly aimed at the wealthy Couture brand Giorgio Armani Prive series, price is the highest,the Giorgio Armani series of senior clothing prices relatively low,after that are Emporio Armani、Armani Collezioni、Armani Jeans, Finally, located in the bottom of Pyramid are A/X Armani Exchange sub brand series.The Swatch group is headquartered in Switzerland, the founder of Nicholas · G · Hayek his watch called on wrist fashion.Swatch according to different consumers to watch style, movement type, band material, color, style preferences of different factors, its production is the rank distribution, divided into luxury and high, medium and low-grade.The end product of bottom to small profits but quick turnover, for the high-end product profit concentration area at a high price, small volume of sales.In the cosmetics market, the French L'oreal L'Oreal is typical of the products of Pyramid mode.For each class to occupy the market, the frontline brands including Lancome, Biotherm and HR and other high-end products, Pyramid is located in the middle of two products have Kiehl 's, Yue-sai,the three line for mass consumption or three line brand has L, 'Oreal Paris, the jazz, Garnier, small nurse, The Body Shop. However, enterprises blindly imitate does not increase sales, the result is more serious, will dilute the brand image of enterprises or damage the goodwill and other intangible assets. Enterprises should construct the system according to the scope of product characteristics and technical ability of products using the brand localization, radiation force, to determine the optimal product line length rather than blind expansion, as far as possible to cover different levels of consumer groups, to create their own brand of Pyramid.

#### **4.3.4 The value chain model of industry -- take the animation industry as an example**

Industry value chain based on the industrial chain, analysis and research on a series of activities of enterprises in product research, design, production and sales in the process only from the value perspective. Because of China's fashion industry started relatively late, the fashion industry value chain is not perfect. Based on the fashion industry fast, avant-garde, personalized, creative and other natural characteristics, the products with high additional value should be the key area belongs to the R & D, brand design and marketing etc..In 1992 Acer Group founder Stan Shih in enterprise reform put forward the famous "Smiling Curve" theory. The smile curve are summarized with the additional value of products in the production process of different, Mainly divided into R & D, manufacturing, marketing three aspects. The fashion industry value chain characteristics can also be interpreted according to the smile curve theory.

Enterprises should pay attention to the upstream of value chain, improve the added value of product development, design, but also face the downstream brand value chain marketing channel mode. Not only to highlight the brand superiority from the quality, more attention should be paid to the products to consumers to convey the emotion sympathetic chord, increased consumer awareness of brand loyalty, and reputation, to enable consumers to a series of products from the ideological identity of the same brand, and expand the enterprise market share. In the animation industry as an example. China's animation industry is an early start, but the slow development, independent innovation brand is not much, lack of originality, learn from foreign animation industry through industry chain profit is an important way to enhance the value of China's animation industry.

Throughout the domestic animation market, The Japanese anime "detective Conan", "Naruto", "One Piece" and other animation without full of the domestic market, American cartoon characters Superman, snow white, and more recently by the animated film "despicable me" and the popular cartoon characters of small yellow and other related products also occupy a high market share. The concrete realization of the process of animation industry value chain profit model can be summarized as follows: First on the sale of cartoon, issuing serial publication, if a higher market share to sell, then adapted into anime form, one way is to sell to the TV station to broadcast TV version, another way is to OVA (original video animation) in the form of profit. In the process of animation broadcast, animation also realize further profit by clothing, COSPLAY community, work songs, performance related role player, model. When the power reaches a certain degree, animation in theatrical version of the form shown in cinemas, which is an important channel of cartoon industry profit. Japanese animation masterpiece "Naruto" is a concrete example. "Naruto" is the representative of Japanese animation about fighting, it began in 1999 to serialized in "weekly Shonen JUMP". With the development of animation and comic strip, "Naruto" led to the development of copyright such as toys, games, clothing, daily necessities. According to incomplete statistics, at each period "Naruto" theater version, it will bring the 0.6 billion-1 billion yen income, forming a unique "Naruto culture".

However, in reference to foreign successful experience at the same time, the key is to fully exploit their own advantages factors. First of all, in the animation creation, it can be combined with Chinese rich historical resources and cultural heritage re creation, the positioning of domestic animation should not be limited to the education, somewhat naive children's animation, should be more blood, youth, reasoning, slash or science fiction theme, the development of suitable for adults animation. Secondly, in the marketing process of the animation industry, it can be more foreign animation industry marketing mode, establish brand awareness, the animation brand used for the two time, cross industry relates to Anime Games, electronic audio and video products, comic strip magazine, COSPLAY clothing and other derivative products, to extend the industrial chain, make full use of various segments of the industry chain profit space, to enhance industrial added value, to create a complete industrial chain of animation.

### **5. Conclusion and prospect**

Based on the above research results, there are two aspects of the research. The first is that research perspective is too narrow. For the rich variety of fashion industry, only from the perspective of profit model analysis is not enough. The second is the single research method. In the form of case study research fashion industry cannot have certain theoretical basis for general conclusions. The growing importance of the fashion industry for economic development will attract more social scholars into the study of the fashion industry.

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