The emergence of relationship-based retailing – 
a perspective from the fashion sector

Luciano Batista$^1$ and Irene Ng$^2$

$^1$University of East Anglia, Norwich Business School, UK
$^2$University of Warwick, Warwick Manufacturing Group, UK
L.Batista@uea.ac.uk, Irene.Ng@wmg.warwick.ac.uk

Abstract
Challenging the sceptical view that consumers would not buy apparel and accessories without feeling the fabric and testing for size and look, online fashion sales is growing fast. Yet, the myriad of recent business model developments in the sector depicts a disorderly environment lacking frameworks and typologies to facilitate understanding and explain different business propositions. In this paper, we report the preliminary findings of a work-in-progress study being developed in the fashion retail sector. Initial analysis showed a regular presence of relationship-based functionalities in current business models emerged in the electronic fashion retailing context. It is also possible to notice a widespread adoption of relationship-based functionalities across different business models in the sector. The models are presented under a conceptual framework developed to support and facilitate understanding of the core functionalities they implement. Furthermore, the study also identified click-and-mortar initiatives where fashion retailers integrate online relationship-based functionalities into their conventional brick-and-mortar operations. An interesting aspect observed in the study is the augmented scope of the relationships that fashion retailers are now able to explore. This is mainly due to the positioning of customers’ social networks into the retailers’ reach by the customers themselves, who now have easy access to their social contacts from the online, and sometimes in-store, environments they are interacting with.

Key words: online retail, business models, CRM, social web, digital technology

1. Introduction
The evolution of digital technologies and the pervasive nature of the internet have transformed significantly the way consumers shop. By accessing information and purchase resources available on the web, consumers are now able to shop online anywhere and at any time. Currently, online shopping represents a key sales channel for many retailers in different sectors of the economy, adding substantial capabilities to organisations that not long ago where operating only with conventional sales channels. In its basic form, online retailing allows consumers to access and compare detailed information about products, check shop inventories,
place orders, make payments, and make delivery arrangements through simple internet transactions (Vanheems & Kelly, 2009).

Over the last decade, advancements on digital technology and innovative ways of using new web resources and platforms have paved the way for a renaissance in consumers’ online shopping experience, particularly in the fashion sector – a sector where the customer shopping experience usually goes beyond mere browsing.

Challenging the sceptical view that consumers would not buy apparel and accessories without feeling the fabric and testing for size and look, online fashion sales is growing fast. Traditional brick-and-mortar retailers as well as new start-up companies are seizing the digital opportunity by bringing about innovative business models set to improve the customer shopping experience. Yet, the myriad of recent business model developments in the sector depicts a disorderly environment lacking frameworks and typologies to facilitate understanding and explain different business propositions.

The fashion sector plays a significant role in many economies around the world and it is a key sector of the British economy in particular. According to the British Fashion Council (www.britishfashioncouncil.com), in 2009 the fashion industry contributed about £21bn to the total UK GDP, generating over £13bn of direct taxation to government and supporting about one million direct jobs. To build upon this significant position, electronic retailing is seen by the council as a key area with great potential to grow and a fertile land for innovations. Key questions emerged from this context are: Which business models have been emerging from the sector recently? Which core functionalities the models implement? Which digital technologies and platforms enable their business propositions?

In this paper, we report the preliminary findings of an exploratory study being developed in the fashion retail sector under the New Economic Models in the Digital Economy (NEMODE) initiative of the Research Councils UK (RCUK)’s Digital Economy (DE) research programme. Initial analysis showed a regular presence of relationship-based functionalities in current business models emerged in the electronic fashion retailing context. The models are presented under a conceptual framework developed to support and facilitate understanding of the core functionalities they implement. Furthermore, the study also identified click-and-mortar initiatives where fashion retailers integrate online relationship-based functionalities into their conventional brick-and-mortar operations.

Overall, it is noticeable that recent business models emerged in the electronic fashion retail environment are making use of customer relationship management (CRM) practices and capitalising on the social power of the internet. To deal with the wide universe of initiatives in the sector, we analyse different business models from the perspective of a conceptual framework that builds upon CRM and social web aspects around personal subscription, mass customisation, social merchandising and collaborative consumption concepts.

The paper is organised as follows. First, we develop the theoretical basis for the conceptual framework of analysis. In the sequence, after describing the study’s methodology, we present illustrative real-life examples of business models in the fashion retail sector which are exploring the concepts specified in the framework (i.e. personal subscription, mass customisation, social merchandising and
collaborative consumption) as well as some of the enabling technologies and platforms they rely upon. Finally, we conclude the paper by pointing out limitations and identifying areas for future research.

2. Conceptual framework of analysis

Key relationship-based functionalities of current business models emerging in the fashion retail sector can be derived from core CRM concepts and practices. CRM is a wide field of knowledge per se, involving customer-oriented strategies and technological dimensions predominantly aimed at strengthening customer relationships (Payne & Frow, 2006). For this study, Hansotia’s (2002) view that “CRM is essentially a customer data intensive effort” is of particular interest. This is a central matter handled by CRM systems, which enable companies to capture customer information and translate them into personalised interactions and tailored offerings. Indeed, each customer interaction produces extensive data. The purpose of CRM is to make inferences over this data in order to allow a company to identify patterns of consumption and customers’ profiles, needs and preferences, which ultimately allow customised delivery of products and services (Buttle, 2008; Mithas et al., 2005).

In an online environment, a mechanism through which individuals can actively feed specific information about their profile and preferences into the system is typically implemented via customer registration functionality. A business model that builds upon this functionality is the *personal subscription* model, where customers complete a more detailed survey when registering (or subscribing) to specific retailers’ website. Thus, retailers are able to offer personalised selections of products to their customer on a regular basis (Wang et al., 2005).

Other online functionalities allow the capture of individual preferences for specific products, letting customers to specify certain features of the products they are interested. Adopted in a large scale context, this functionality enables *mass customisation* models, where retailers deliver tailored products customised according to customers’ attribute choices of style, colour, material, size, shape, etc.

More recently, the adoption of social web concepts and platforms have expanded the boundaries of company-customer relationships to a wider company-customer-society configuration, paving the way for business models based on concepts such as *social merchandising* and *collaborative consumption*.

In models based upon the social merchandising concept, retailers capture customer feedback, or customer reviews (e.g. comments, quality rates, usability, etc.), on their products and attach the information to the items displayed on their website. Besides engaging customers in highlighting the features and quality of specific products to a larger public, this sort of feedback can potentially help retailers to align supply processes according to the popularity level of their offers (Picazo-Vela et al., 2010).

By their turn, collaborative consumption models focus upon peer-to-peer marketplaces. Retailers exploring this model play a brokerage role by bringing third party sellers and buyers together and facilitating online transactions (Botsman & Rogers, 2010). A peculiar feature of this model is that the offerings may also include used products, which can be sold, swapped, traded or rented. Furthermore, they
also make use of social merchandising concepts by attaching customer ratings and reviews not only to the products being offered, but also to third party sellers.

An underlying characteristic of the business models above mentioned is the presence of resources to support relationship-based processes. More specifically, the models draw key functionalities from CRM systems and social web platforms in order to engage customers in closer and lasting relationships through personalised interactions, customisation processes, sharing of individual opinions with the public in general, and prompt connection with customers’ social networks. In a wider context, customers can also engage in online communities where they exchange their experiences with the products they consumed and related logistics and customer service processes.

Figure 1 provides a graphic perspective of the conceptual framework, showing the main CRM and social web functionalities explored by recent business model developments in the online fashion retail sector.

**Figure 1 – Conceptual framework and underlying functionalities**

- **Emergent relationship-based models**
  - Personal subscription
  - Mass customisation
  - Social merchandising
  - Collaborative consumption

- **Capture of customer profile, opinions and preferences**
  - Customisation of products
  - Retailer-customer relationships
  - Customer engagement

- **Sharing of customer profile, opinions and preferences**
  - Merchandising of products
  - Retailer-customer-social relationships
  - Social engagement

**3. Methodology**

The main objective of this preliminary study is to provide a perspective of new business models that emerged in the online fashion retail sector through developments in digital technologies. The study focuses upon identifying business case examples which illustrate historical, not speculative, developments across the fashion retail sector.

The main outcomes of the study are expected to exemplify a broader perspective of the sector. Therefore, case study on a single organisation is out of the scope of the study.
An exploratory approach involving environmental scanning is the method adopted to identify new business models and the companies exploiting them. The environmental scanning comprises searches on the internet, literature review of academic journals, business reports and press articles, and visits to fashion retailers.

The preliminary study is expected to be developed in a period of 12 weeks structured in two main activities:

- Scanning of the technological context: Identification of enabling technologies and web platforms supporting new business models in the sector. From the perspective of the study, enabling technologies/platforms are the ones which provide resources and functionalities to support CRM practices (i.e. capture of personalised information such as customer style, measurements and preferences) and peer-to-peer or social web integration.

- Scanning of new business models: Identification of how fashion retailers are exploring technological resources to implement web-enabled business models around concepts such as personal subscription, mass customisation, social merchandising and collaborative consumption.

4. New business models in the fashion sector

Despite the substantial attention that business models have been drawing from academics and practitioners over the last years, there is no overall agreement on what a business model is.

Some scholars (Zott et al., 2011) recognised that business model as a subject-matter has been regularly employed to address three phenomena: (1) e-business and the use of IT by organisations; (2) strategic issues related to competitive advantage, organisational performance and value creation; and (3) innovation and technology management.

In this study, we have adopted Amit & Zott (2001) definition of business model as the depiction of “the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities” (p. 511) together with Magretta’s (2002) view that “business models are stories that explain how enterprises work” (p. 4).

Accordingly, with basis on the conceptual framework presented we provide below real-life examples of business models emerging in the online fashion retail sector and highlight some of the main enabling technologies and platforms the models build upon. It is also possible to link some of the initiatives in the sector with traditional brick-and-mortar contexts. The examples are presented in a didactic categorisation according to the business model concepts they explore. Not uncommonly, fashion retailers implement more than one of the concepts below integrated within their wider business model proposition.

4.1. Personal subscription

Business models based upon personal subscription concepts have become quite common in online retailing. Personal subscriptions are particularly useful in online
fashion retailing because retailers are able to capture detailed and specific information on style, tastes, age, gender, preferences, size measurements, and so forth when customers complete a subscription survey in the joining process. This enables personalised interactions and product selections according to customers’ profile, resulting in greater customer loyalty and better inventory management (Sorescu, et al., 2011; Wang et al., 2005).

Tobi (www.tobi.com) and Smithfield Case (www.smithfieldcase.com) are typical examples of online fashion retailers exploring the personal subscription models. Tobi implements a basic concept of members-only retailing. They motivate customers to become members by offering free subscription and 50% discount on first orders. Members receive regular newsletters with a selection of new arrival items offered with 30% discount. Registration via Facebook login adds social web functionality to the company’s model.

The Smithfield Case model is also based upon a standard implementation of the personal subscription concept. They target the men’s market segment and sell a broad range of designer brands from high-end department stores. Their business innovation is in the way they select and show products to customers. In the registration process, customers fill in a questionnaire with detailed information about their fashion style, preferences and general measurement attributes. Qualitative data related to what the customer is looking for in terms of general wardrobe items or new outfits are also collected in the process. The retailer uses this information to send the customers a case with a selection of items matching their profile and specific requests. After trying the items, customers decide what to keep and arrange collection of the items to be returned to the retailer. Cases are only sent to customers by request, unless a regular delivery schedule is previously agreed.

4.2. Mass customisation

The number of retailers implementing mass customisation models has been considerably growing over the last decade (Dellaert & Dabholkar, 2009). In this model, customers can actively participate in the design of the products they want to buy, individualising items according to their specific choices of style, shape, size, colour, and other aesthetic attributes. This functionality can be compared to a pull production system where the customers trigger the production of products rather than the retailer pushing pre-manufactured items to the customers.

Retailers implementing this model can differentiate themselves from the competition by selling products with a high degree of personalisation, which is harder to both replicate and be found elsewhere (Dellaert & Dabholkar, 2009; Sorescu et al., 2011). Recent technological advancements are making the implementation of mass customisation models more feasible and the 3D-printer technology is an interesting example to illustrate this aspect.

3D-printing is a process that makes three dimensional solid objects from a digital model designed with the help of animation modelling software and Computer Aided Design (CAD) applications. The digital model is literally printed on a materials printer, which prints successive layers of a specific material until the physical 3D object takes its full shape. It can be seen as a really disruptive technology, paving
the way for new business models that bring mass customisation and value co-
creation capability to higher levels.

The company Shapeways (www.shapeways.com) is a remarkable case of a
business model implementing mass customisation functionalities enabled by 3D-
printing technology. The company, which is a spin-out of the incubator Royal Philips
Electronics, provides a platform for individual or business customers to create and
share 3D designs as well as to buy and sell 3D-printed products from a range of
materials that offer a unique combination of practical and aesthetic properties. Fashion accessories, shoes and the N12 bikini from the company Continuum
(www.continuumfashion.com) are concrete examples 3D-printable fashion products
being commercialised by Shapeways.

Presently, most of the retailers selling 3D-printed products are doing it through
business models based upon online environments. However, a recent case of 3D-
printing technology adoption in a brick-and-mortar context shows that 3D-printers
can also be used in-store as a complementary service. The company MakerBot
(www.makerbot.com) manufactures consumer-ready 3D-printers and related
consumables that are relatively cost-effective. They also provide expertise and
customer service for the items that are created with their printers.

MakerBot has recently opened its first conventional high-street retail shop in New
York, where customers are able to experience the 3D-printer technology
demonstrated by 3D design staff and have the chance to buy gifts and accessories
made on MakerBot 3D desktop printers.

It is still early to predict the impact of 3D-printing technology on traditional brick-and-
mortar retailers. Nonetheless, as the use of desktop 3D-printers scales up and their
retail prices go down, we can logically infer that in the long-term 3D-printers are
likely to make their way into end-consumers’ home, where people will be able to 3D-
print traditional items such as plastic cups, cutlery, small gifts, accessories, toys,
etc. This will almost certainly pose a threat to retailers that sell items that can be
easily printed at home. In the short- and medium-term, it would not be a surprise to
find conventional retailers following the MakerBot lead to adopt 3D-printing
technology in-store to sell customised items as a complementary service.

4.3. Social merchandising

In practical terms, social merchandising in online environments implement effective
word-of-mouth communications in form of user-generated content, which is more
widely known as customer ratings and reviews. Retailers exploring this model not
only make use of customers’ opinions and perceptions to leverage sales, but also to
connect with customers’ social networks (Picazo-Vela et al., 2010). This allows
retailers to project their products to a wider audience and, furthermore, to inform
potential customers on which of their social network contacts are also customers.

The well-known online retailer Amazon.com has long ago integrated customer
ratings and reviews into its online business model. In the fashion sector, recent
innovations in social merchandising models draw on both the social and the media
power of the internet to project products to customers’ social networks. In short, one
can say that social merchandising is also going visual.
For example, launched in April 2011, the company Motilo (www.motilo.com) is an online fashion retailer which enables customers to shop together in real time using image functionalities. The company’s members are able to create looks by combining different items in the shop and share them with their social networks.

Another example is the company LazyLazy.com (www.lazylazy.com), which is a virtual shopping centre where different brands have their own webshop environment with core shopping functionalities and resources available. Their shop platform includes an online application termed Webcam Social Shopper by its developer Zugara (www.zugara.com). The application integrates augmented reality and motion capture technologies with social networking functionality to provide virtual fitting room capability to fashion retailers by turning consumers’ webcams into a real-time virtual mirror. With this technology, shoppers can “virtually” try clothing items, getting a sense of style and how they would look. They can also capture their look on photos and share the images with friends on social networking platforms such as Facebook, Twitter and Pinterest so that friends can provide opinions and comments on whether the look works.

Interestingly, virtual mirrors (or their interactive or magic mirrors variations) are also being adopted in brick-and-mortar contexts, enabling social merchandising capabilities in conventional fashion retailing. For example, in an initiative to engage with young customers in Facebook, the company Diesel has not limited itself to just opening a Diesel shop on Facebook, they also brought Facebook connectivity to in-store points. The idea was to turn customers into Diesel models with the support of cameras specially installed in special mirrors placed in a particular section of fitting room areas so that customers could easily share with their social contacts images of the items they were trying.

Despite the initial scepticism about the widespread adoption of virtual mirrors in-store due to implementation issues concerning technical failures, overflow of customers crowding into specific shop areas and non-intuitive controllers (Lindsay, 2004), the potential adoption of this type of technology in-store should not be underestimated. Strong technology players such as Intel, Toshiba and Microsoft with its Kinect technology are behind recent developments in virtual (or interactive) mirror technology.

Moreover, traditional fashion retailers such as Macy’s, Selfridges, Republic and others are experimenting with the adoption of virtual mirrors in-store in order to equip staff with a unique sales tool to leverage sales, to drive traffic to their social platforms/shops on the web, and to enable customers to access their profile data in-store. For instance, a recent Internet Retailing article reported the figures of a three-day trial by Hugo Boss early this year of the Von Bismark’s Wardrobe physical web solution based upon virtual mirror technology (http://vonbismark.com/wardrobe). According to the report, the experiment has increased customer in-store traffic by 110%, generated 200 customer interactions which lasted 20 seconds each. From these interactions, 50 pictures were shared on Facebook, which generated 1,025 Facebook Likes and resulted in an audience peak of 20,000 people reached by the brand on Facebook (Internet Retailing, 2012).

4.4. Collaborative consumption
From a generic perspective, collaborative consumption models can be seen as more environmentally sustainable forms of commerce, where the dominant consumption logic is focused upon product usage rather than product ownership. Hence, consumers in collaborative consumption markets are more interested in using products rather than owning products. Although in collaborative consumption marketplaces goods that are privately owned by end consumers can be sold for cash (as in the case of eBay’s environment for example), companies implementing collaborative consumption models usually offer goods as a service as well, rather than just selling them as products (Botsman & Rogers, 2010).

A typical example of collaborative consumption model in the online fashion retail sector is the one implemented by the company I-Ella (www.i-ella.com). The company’s customers are invitation-only members who can buy, sell, borrow, lend or swap fashion accessories and apparel. Customers can also have access to iconic designers and celebrities’ apparel through auctions eventually organized by the company.

5. Conclusion

In this paper we presented the initial outcomes of a work-in-progress study aimed at providing a perspective of new business models that emerged in the online fashion retail sector in particular through developments in digital technologies.

From the examples here presented, it is possible to notice a widespread adoption of relationship-based functionalities across different business models in the sector. An interesting aspect observed in the study is the augmented scope of the relationships that fashion retailers are now able to explore. This is mainly due to the positioning of customers’ social networks into the retailers’ reach by the customers themselves, who now have easy access to their social contacts from the online, and sometimes in-store, environments they are interacting with.

Retailers now have a more complex scenario of relationships to manage and this complexity calls for further research where phenomena concerning social relationship management are investigated.

The findings of this preliminary study are not conclusive; rather, they provide valuable insights and point out potential directions for future developments. For instance, the conceptual framework here presented can be used as a basis for in-depth studies where a maturity model related to relationship-based capabilities could be derived. How retailers are incorporating the merging of social web with e-commerce into their business is another fertile area for further research. The adoption of social web functionalities in conventional brick-and-mortar contexts is a related aspect of research in this area.

Finally, collaborative consumption model seems to be gaining momentum among retailers. This model combines social networking technologies to extend traditional C2C e-commerce beyond the sale of goods to further value-added activities based upon sharing of cars, home goods, residential spaces, as well as sharing of skills and expertise (Barnes, 2012). Research on this area is still in its infancy and certainly deserves further developments.
References