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Business Models of Polish Clothing Companies from the Perspective of the European Union

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Abstract

In recent years, market changes in the clothing industry have radically changed 'the rules of the business game'. Polish companies have been forced to change their way of running their business because former strategies were inefficient. The main point of the text is an attempt at characterising how business models of Polish companies are being fitted to new circumstances. Based on theoretical knowledge and own empirical researches, the authors try to indicate changes that have taken place in the structure of the value chain and also evaluate these models with reference to the transformation of clothing industry in the European Union.

Key words: business models, marketing strategies, clothing companies, clothing industry.

■ Introduction

The transformations that have taken place in the Polish clothing sector in recent years are a consequence of changes in the international textile and clothing sector. The far-reaching liberalisation of international trade, the rapid growth of exports from Asian countries, particularly China, and the aggressive expansion of Western clothing corporations have dramatically changed the “rules of the game” in the industry. In addition, the lack of supportive government policies and the need to adapt the laws to the requirements of the European Union have generated more threats than opportunities for many companies [13]. The new conditions of competition in the industry have forced companies to revise the way they work. Previous business models based on manufacture to order and inward processing have become obsolete because of rising labour costs. Many local businesses continue to pursue this model doing atypical, smaller orders for huge national and foreign clothing corporations; however, they must also maintain a high quality of production, meet strict deadlines and, above all, offer very low prices, which is becoming increasingly difficult in today's market [7].

Another equally obsolete model used by clothing manufacturers is based on the deep vertical integration of the market channel and focuses on production more

than on modern design, marketing and retail distribution.

Along with the formation of a new “order” in the industry, we will see continuing changes in the configuration of competitive powers. Therefore, the business models of Polish enterprises need to be refined or even replaced with new concepts. Without changes reflecting the new rules of the game in the clothing sector, the strategic gap between domestic businesses and foreign competition will only deepen. The method of small steps and routine plans can only provide short term improvement in competitiveness rather than a strategic advantage.

■ Concepts and typology of business models used in the study

In the literature we find different concepts and classifications of business models, and although they differ with respect to the criteria or elements adopted, they seem to be mutually complementary rather than exclusive. Most of them refer to the classical concept of M. E. Porter's “value chain” [2], of which all, or at least most, take into account the strategic and competitive context.

F. Betz stresses the strategic nature of business models but also clearly distinguishes the concepts of a business model and strategy, indicating that a strategy is a way of long-term thinking about the market, while a business model is more of a method of acting in the market.

Similarly, C. Linder and S. Cantrell regard business models as marketing options in terms of the product, product range, pricing and services, which, de-

pending on the configuration, create different versions of competition models and strategies [1].

H. Chesbrough and R. S. Rosenbloom also associate business models with the manner of competing. A characteristic element of their conception is *evolutionary* development, which may be experienced by the business model. Starting from a *simple* model, when the company is a passive follower, the firm does not plan its activities, competes mainly through pricing, has no resources and does not create or acquire innovations up to the model of an *active innovator*, which diversifies its products and market activities as well as exploits the economies of scale and scope. Such a company becomes the integrator of the value chain in the process of creating not only technological but also organisational innovations.

In the Polish literature, K. Obłój presents a similar point of view: a business model is the way the company operates in the market, which provides a specific value to the environment in exchange for material value to the company. The author clearly emphasises the strong correlation between the business model and its strategic context. He treats the business model as a combination of the strategic concept of the company and its practical implementation through good design of the value chain structure, which enables companies to achieve operational coherence in the exploitation and renewal of resources and skills [4].

But in this concept, the idea of a business model is not identical to a strategy. A business model is a more abstract concept: it is static and defines a pattern of actions and a system of cooperating com-

ponents. A business model is primarily focused **on finding and creating value, while a strategy focuses on how to seek and gain a competitive advantage.**

When designing a business model it is important to identify its basic elements, both internal (organisational) and external (industry-specific). The aim is to obtain answers to key questions: What does the company do? What resources and expertise has it got? How are they configured and used in the value chain? And, fundamentally, how is the competitive advantage achieved?

What is also important is to determine who controls the key activities for success in a particular industry (namely who takes over the value)? What are the main barriers and opportunities for the company? To what extent is the market position (achieved by the model) resistant to adaptation by competitors and does it create an entry barrier?

Answers to these questions help describe the “dominant logic” of the company and choose the proper variant of the business model. Obviously, the more elements a model has, the more opportunities there are to apply it in practice and the greater the variety of competition strategies [6].

Therefore, the description of a complete business model should include the following:

1. **a description of the value a company offers to one or several segments of customers** (value offered to the customer);
2. **the architecture of the value chain and the network of partners for creating, marketing and delivering this value** (position of the company in the value chain);
3. **capital of resources and expertise to generate profitable, sustainable revenue streams** [8];
4. **a description of revenue sources - the dominant type of business** [9, 12].

K. Oblój in his typology distinguishes three “dominant logics” of operation: *operator*, *integrator*, and *conductor*.

1. **The operator (specialist) model** – the company focuses all its business on the careful implementation of one particular value chain activity ensuring competitiveness in the market; 2. **The integrator model** – the company controls the whole (internal and external) value chain and in this way optimises the transaction costs

between the different agents in the chain depending on the distribution of profitability in the industry; 3. **The conductor model** – the company focuses on a certain link in the chain but also creates value through adequate coordination of all the other links in the value chain or network which it forms together with its business partners.

These assumptions have been adopted as the conceptual foundation of the analysis of business models of Polish clothing companies.

Analysis of the business models of companies in the Polish clothing industry

The primary objective of the study carried out in 2008 was the analysis of the structure, trends of changes, and competitiveness of the business models and market strategies of Polish clothing companies. A total of 70 companies participated in the study. Sampling was targeted, in which the main criterion for selection were regions with the largest concentrations of clothing businesses and the type of activity – production, trade and services.

Research assumptions concerning normative business models have confirmed that there is a significant correlation between their economic activity and the choice of business model ($\chi^2 = 56.7$; strength of the correlation coefficient $T = 0.64$), namely:

1. *Operators/specialists* – these are distribution and service companies that

specialise in providing a particular service (*service operators*) – sewing or wholesale/retail distribution of clothing (*marketing operators*). 16% of companies surveyed declared the use of this business model.

Figure 1 presents the model structure of the value chain of service operators; *Figure 1.a* - marketing operator (service operator) model, *Figure 1.b* marketing operator (distributor) model.

Service operators concentrate on one activity, which is manufacture to order. They do not tend to offer their own clothing collections, and their production capacity is offered to external enterprises: national and/or foreign. Their competitiveness is based on being flexible and fast, ensuring quality production and price competitiveness.

Marketing operators are also focused on one activity - the organisation of the distribution and sales of clothing mainly through traditional market channels. They do not design their own collections, neither do they have their own production potential. Being intermediaries, their competitiveness is based on building good relationships with retailers (customers) and clothing manufacturers, as well as on marketing logistics, offering competitive prices and operating at low margins.

2. *Integrators* – production and trade companies which integrate and control all operations and activities in the market distribution channel, ranging from the organisation of supply logis-

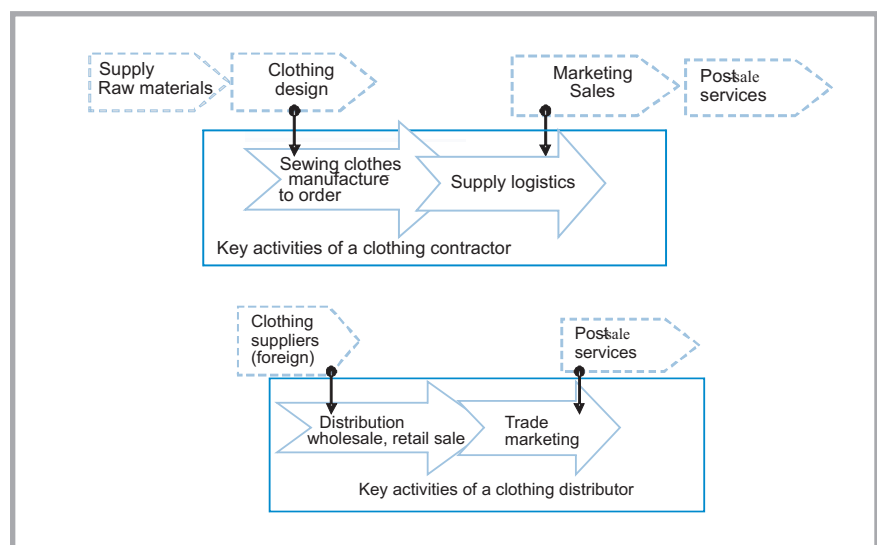


Figure 1. Model Structure of the value chain of service operators; a) Marketing operator (service operator) model, b) Marketing operator (distributor) model.

tics, the design and manufacture (sewing) of clothing, and the organisation of wholesale and retail distribution, to the marketing and organisation of sales (54% of companies declared the use of this model).

Figure 2 and 3 present the structure of the models - Figure 2 of the integrator model, whereas Figure 3 of the conductor model.

3. *Conductors* – in their business activities design and trade companies are focused exclusively on the selected value chain links, which are their key competences. Their attention is centered primarily on the design of clothing, marketing and distribution, while they are not concerned with manufacturing and some of the logistics. These processes are controlled and coordinated by outsourcing to their cooperating business partners (30% of companies surveyed declared the use of this business model).

Delegating certain activities that are not critical in a given industry to other operators causes the deconstruction of the value chain. However, coordination costs which result from the transfer of the activity outside of the company must be balanced by benefits arising from lower the costs of purchasing a product or service from the outsourcing partner.

Research shows that new Polish private clothing companies mainly use the *conductor* model based on the business models of the Zara and Benetton chains, which have become the basis for designing innovative business models for clothing companies.

More and more clothing companies decide to modify their business models, mainly through diversification with greater emphasis on production, trade and services; thus looking for new possibilities of expansion and improved competitiveness [3].

The literature generally distinguishes five paths of transforming a company's own model of value creation [10], which involves the modification of the existing value chain as a result of technological or organisational innovations introduced by the company. They are shown in the Table 1.

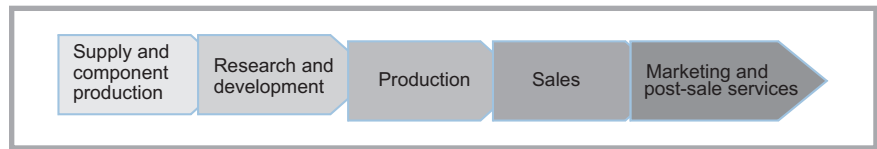


Figure 2. Structure of the integrator model.

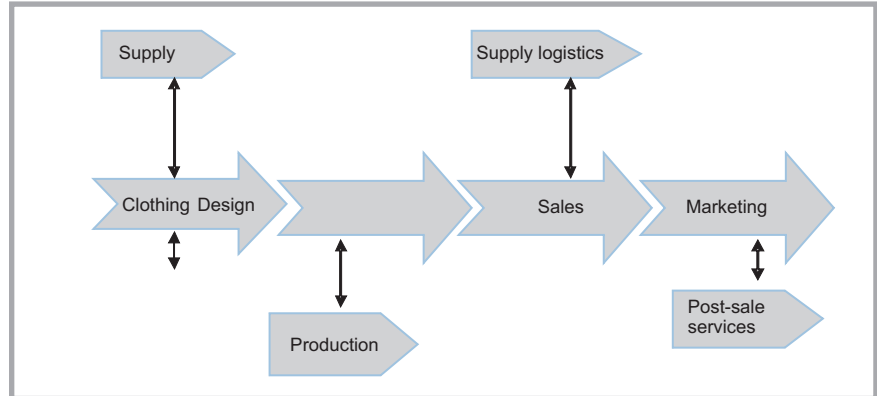


Figure 3. Structure of the conductor model.

Table 1. Models (Paths) of generating new value; Source: own work based on: B. Jankowska, *Perspektywy i kierunki rozwoju przedsiębiorstw międzynarodowych*, Scientific Letters Ed. by Economic Academy in Poznan, Poznań 2006, pp. 82-85.

Model of Value Creation	Characteristics
Concentration - reduction	The company selects parts of the system (the value chain) with prospects for development and those in which the company has higher competence than its competitors
Vertical and/or horizontal integration	Integration of two types of activity occurring in the vertical chain or extension of activities with additional services associated with a particular stage of value creation
Coordination (outsourcing)	Focusing on selected activities of the value chain and outsourcing other activities
Expansion	Expansion of the value chain with activities from outside the company's value system which contribute to the introduction of new services or goods
Distribution modification	1. Partial – discarding the current linear value chain and implementing e.g. direct marketing 2. Total – increased development of the value chain by giving up the intermediary role or a traditional retail model and the use of the e-commerce model

The authors' own studies have shown that there is a significant correlation ($\chi^2 = 37.39$, $p = 0.00019$, $T = 0.4$) between the changes implemented and the assessment of the competitive situation. Companies that have implemented strategic changes in their models assess their competitiveness in the market as "good" and "very good". These companies have declared a definite improvement in their market position and the introduction of further organisational changes.

Those companies that did not opt to make changes or introduced only small changes to their models assessed their competitive position as "poor" or "average". Changes were not introduced by companies which intended to withdraw from the market or whose goal was to remain in business only by reducing costs.

A similar correlation ($\chi^2 = 46.85$, $p = 0.000$) occurred in the case of companies that did not intend to make any changes in the near future: they perceived the competitiveness of Polish companies as "poor" or "average".

When analysing changes in the business models of Polish clothing companies, we observed significant differences in the level of orientation of the main objectives and strategic directions.

Companies using the *conductor* model aim mostly at the promotion of company and chain brands (4.29) as well as international expansion (4.19); *integrators* focus on product quality (3.26) and cost competitiveness (3.55), which may come from the pursuit of the partial reduction of production costs and activities

throughout the value chain. *Operators*, in turn, focus on decreasing business costs and lower prices (3.55).

Analysis of the marketing goals shows yet another important aspect: companies using the *conductor* model are more oriented towards expansion on the international market (76% of respondents indicated that they operated in a foreign market) than the *operators* (12%) or *integrators* (36%), which are more intent on internal market penetration.

Objectives indicated by the companies imply the directions of improving competitiveness and changes in their business models. For the *conductors* the most important thing is to develop marketing and sales structures (100%), introduce new design technologies and products (85.7%), and develop their own retail chains (81%). For the *integrators* it is important to implement new manufacturing technologies (88.9%), develop design and marketing structures (81.6%), outsource manufacturing (71.1%), and perform financial restructuring (73.7%). The *operators*, in turn, point out that the most important thing is to improve the organisation of sales and reduce marketing costs (100% of respondents), as well as develop distribution channels and networks (81.8%) and marketing structures (72.7%).

In order to gain control over all or part of the process of creating value and, at the same time, reap greater benefits, companies make various changes and combinations to create mixed models.

The *integrators*, most of whom are of the "old blood", still carry out most of the production themselves, but they are slowly turning to the modern model. By intensifying their activity in the retail market, they want to increase their range of products, therefore they outsource sewing to external contractors, thanks to which they do not engage their own capital in purchasing machinery or bear the costs of an increased manufacturing payroll (the integrator-conductor model). Some companies that have some spare production capacity additionally act as contractors, manufacturing to order mostly for foreign firms (the integrator-operator model). Yet another example shows that such companies may, at the same time, outsource sewing while manufacturing to order for others [11].

The *conductors* pursue two options of production outsourcing: they outsource sewing to external companies (domestic or foreign), or only to selected subcontractors under the overall supervision of their own technologists. In addition, to improve their financial results, they manufacture for other companies.

The *operators* expand their value chains with additional activities. Service companies which have some spare capacity often decide to sew their own clothes under a pseudo-brand name for the local market (the operator-integrator model) or vice versa - when a greater number of profitable contracts are received, they subcontract their execution to other companies.

Intermediaries in the distribution of clothing, apart from wholesale and retail distribution in the domestic market, often decide to directly import western clothing brands, acting as exclusive representatives (master-franchise takers) or as multibrand representatives. Using knowledge of the market, they may act as wholesale and retail intermediaries in clothing manufacture.

Some distributors, in turn, complement their product range with their own collections manufactured for them (operator-integrator). Clothing contractors are beginning to act in a similar way [5], as they, in turn, extend their value chain with clothing distribution.

■ Conclusions

In order to stay in the market, clothing companies implement a number of changes that have both strategic and short-term effects. Former market leaders are moving away from the traditional model of production and reorganising their value chain: outsource production, and place greater importance on the development of retail networks and the creation of product brands.

In turn, manufacturers/contractors, wholesalers and retailers using the *operator* business model are becoming more flexible and better adapted to the expectations of their suppliers and customers, mostly in terms of the quality of their services and prices.

Design and trade businesses run in a modern way tend to apply more competitive *conductor* business models (based

on the European market leader models) and focus on core activities connected to their expertise and to industry success factors such as clothing design, marketing and building chain brands. Assessing the effectiveness of this business model today, it definitely gives the best economic results: production outsourcing helps to rein in manufacturing costs, which further contributes to the increased profitability of the business. On the other hand, if a company intends to develop even further, it needs to commit more capital to the development of a chain of stores, which entails expenditure on creating an adequate logistic base (storage and transport), investment in computer hardware and software, as well as promotion and advertising.

From the perspective of the European Union, the competitiveness of Polish clothing enterprises will not necessarily depend on domestic market penetration but rather on whether they implement further organisational changes to increase their effectiveness or introduce brave marketing strategies aimed at international expansion. Indeed, the further inevitable internationalisation of the industry will be followed by more entrants in the domestic market, more severe competition, and therefore there will be more and more cooperation and mergers with major international companies.



Editorial notes

1. *The concept of "value chain" described by M. E. Porter determines primary and support activities in which the fundamental issue is the right coordination ensuring profit margins and a competitive advantage. Porter later developed this concept into the notion of a "value system" based on the integration of value chains of companies cooperating with each other, which are also participants in the common logistic chain and create various types of multilateral alliances, groups and cooperation networks; for more see M. E. Porter, Porter o konkurencji, PWE, Warsaw 2000, pp. 25-32.*
2. *Among the companies surveyed, 60% were production and trading companies, 19% retail and service companies and 21% design-commerce businesses. Among the companies surveyed, 36% were companies employing up to 50 people, 44% were medium-sized enterprises employing up to 250 people and 20% were large enterprises with over 250 employees. In terms of income, 57% of the companies surveyed had an*

income below PLN 28 million, 36% in the range of PLN 28-160 million and 7% more than PLN 160 million.

3. This is the so-called pioneer business model (market maker). This model is not an alternative to the above but rather illustrates innovative changes to the business model that generate new value and improve the competitiveness of the company. See B. Jankowska, *Perspektywy i kierunki rozwoju przedsiębiorstw międzynarodowych*, Zeszyty Naukowe, Wydawnictwo Akademii Ekonomicznej w Poznaniu, Poznań 2006, pp. 82-85.

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INSTITUTE OF BIOPOLYMERS AND CHEMICAL FIBRES

LABORATORY OF BIODEGRADATION

The Laboratory of Biodegradation operates within the structure of the Institute of Biopolymers and Chemical Fibres. It is a modern laboratory with a certificate of accreditation according to Standard PN-EN/ISO/IEC-17025: 2005 (a quality system) bestowed by the Polish Accreditation Centre (PCA). The laboratory works at a global level and can cooperate with many institutions that produce, process and investigate polymeric materials. Thanks to its modern equipment, the Laboratory of Biodegradation can maintain cooperation with Polish and foreign research centers as well as manufacturers and be helpful in assessing the biodegradability of polymeric materials and textiles.

The Laboratory of Biodegradation assesses the susceptibility of polymeric and textile materials to biological degradation caused by microorganisms occurring in the natural environment (soil, compost and water medium). The testing of biodegradation is carried out in oxygen using innovative methods like respirometric testing with the continuous reading of the CO₂ delivered. The laboratory's modern MICRO-OXYMAX RESPIROMETER is used for carrying out tests in accordance with International Standards.



The methodology of biodegradability testing has been prepared on the basis of the following standards:

- **testing in aqueous medium:** 'Determination of the ultimate aerobic biodegradability of plastic materials and textiles in an aqueous medium. A method of analysing the carbon dioxide evolved' (PN-EN ISO 14 852: 2007, and PN-EN ISO 8192: 2007)
- **testing in compost medium:** 'Determination of the degree of disintegration of plastic materials and textiles under simulated composting conditions in a laboratory-scale test. A method of determining the weight loss' (PN-EN ISO 20 200: 2007, PN-EN ISO 14 045: 2005, and PN-EN ISO 14 806: 2010)
- **testing in soil medium:** 'Determination of the degree of disintegration of plastic materials and textiles under simulated soil conditions in a laboratory-scale test. A method of determining the weight loss' (PN-EN ISO 11 266: 1997, PN-EN ISO 11 721-1: 2002, and PN-EN ISO 11 721-2: 2002).



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The following methods are applied in the assessment of biodegradation: gel chromatography (GPC), infrared spectroscopy (IR), thermogravimetric analysis (TGA) and scanning electron microscopy (SEM).

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