

# **Sustainable business models in the fashion and luxury industry: How might circular business models impact luxury brands if they were internalized? A study on the secondhand market**

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## **ABSTRACT**

The topic of sustainability, and corporate goals directed towards this issue, are becoming inescapable within the fashion and luxury industries. In recent years, the end-of-life phase has become particularly important. Indeed, by intervening in this final phase, it is possible to extend the useful life of garments and partially combat the issue of overproduction.

In this context, the secondhand market has expanded incredibly, but when luxury products are offered for sale by sellers, on channels that are not controlled by the brands themselves some issues arise. In order to circumvent these problems, brands might consider internalizing the sale of these items, thus being able to approach the circular economy.

The study aims to show what opportunities the secondhand market offers for luxury brands, and what business models are worth adopting to internalize it. By using the qualitative method, with semi-structured interviews featuring industry experts, it was possible to fill the gap in the literature and answer the research question: 'How might secondhand internalization impact luxury brands?'

Among the main drivers of secondhand implementation, brand image proves to be the most important one, both because it is protected and controlled, but also because it is positively impacted by the sustainability initiative. Implementation difficulties were also highlighted, and technology emerges of paramount importance to facilitate change and create a consistent customer experience, integrated with the firsthand. Three different approaches were introduced: (1) resale, (2) partnership, and (3) new offering.

Thus, the research fills the gap in the literature by giving a holistic view of the market and the possibilities it conveys; it provides brands with tools that are needed when considering whether or not to internalize the secondhand business model and how to do so.

**Keywords:** Sustainable business models, Circular business models, Secondhand market, Resale, Re-commerce.

## INTRODUCTION

The topic of sustainability, and corporate goals directed towards it, are becoming inescapable within luxury industries. In this context, the secondhand market has expanded incredibly. Three models can be approached during the end-of-life phase to have a gradual transition to circularity, they '*can be integrated into the value proposition to allow consumers to combine responsible and affordable consumption*' (Amed and Berg, 2023): Resale, Rental, Repair.

The current model for the commerce of used garments and accessories presents problems for both end customers and brands. Firstly, the use of secondhand platforms affects product authentication, which leads to a general uncertainty of purchase, especially for luxury garments. The devaluation of the secondhand products caused by 'do-it-yourself' pricing can have a negative impact on the image as a direct consequence of the brand's lack of control over distribution. Finally, the lack of contact with end consumers, who turn to channels not controlled by the brands is to be stressed.

When referring to the luxury market, it is important and necessary for brands to maintain high standards of service quality. Luxury items offered for sale, on channels that are not controlled by the brands, present risks like image damage from products that are too spoiled, with prices that are too low to even counterfeit products (Ross, Bolton and Meloy, 2022).

To solve this issue, innovative business models need to be implemented to protect brand image, preserve reputation, and adapt to a growing market. Brands, especially luxury ones, might consider internalizing the model, thus being able to approach circular economy. Therefore, a question arises: how it can be internalized and what possible impact this can have. How in fact, can a secondary business be activated without affecting the main one?

The most used approach nowadays is the partnership with already-existing secondhand digital platforms (40%), then integrated secondhand platform (26%), physical secondhand corners (18%), peer-to-peer secondhand platforms (12%), acquisition (4%) (Laroque and Lemieux, 2021). However, it is critically important for brands to understand which of the above-mentioned approaches can be best integrated with the current business model, and to understand what the effect might be.

The paper will explore the secondhand market as an ethical business practice. Specifically, there will be an investigation on how the secondhand model could impact the internal processes and bottom-line results of luxury brands if they decide to internalize it with different types of solutions. Next section presents the literature review on the key concepts of secondhand market followed by Section 3 presenting the employed methodology. Section 4 shares results and critical analysis. Finally, last section looks at perspectives of the research.

## **LITERATURE REVIEW**

The aim of the section is to define key concepts and ideas that will be at the basis of the research, to then introduce the gap.

A screening has been performed between November 2023 and February 2024, in order to study the past literature about the Secondhand Market and the different models adopted.

### **The secondhand market overview**

Secondhand is a form of circular economy that implies the use of less resources, it reduces the production of waste and the environmental impact (Fanning *et al.*, 2021). It also implies a redistribution of the goods' ownership from the seller to the new owner (Yrjölä, Hokkanen and Saarijärvi, 2021), having costumers as suppliers (Gopalakrishnan and Matthews, 2018).

Whereas in the past, the purchase of secondhand garments in high-income countries, has been associated to a form of saving (Brooks, 2019), to date it is a practice that, with the advent of the circular economy, is increasingly associated with fashionable people, which is becoming a real trend (Persson and Hinton, 2023).

Currently, the secondhand market for garments, footwear and accessories globally represents a value of \$100-120 billion, tripling from 2019 (Estripeau *et al.*, 2022) and estimated to grow 20-30% annually.

As above-mentioned re-commerce is, to date, the most important and implemented form of circular business models, representing 7% of the market with a perspective of growing until 12% by 2030 (Berg and Magnus, 2020). In particular, the BCG (Bianchi *et al.*, 2020) study shows that 70% of luxury clients are willing to purchase secondhand products directly from the brands themselves rather than on third-party platforms. Seventy-four percent would like to obtain brand verification and certification on products purchased from external platforms.

### **Resale Model**

Resale responds to one of the biggest issues in the fashion world, which is how to meet growing demand while avoiding excessive increases in production, enabling to reduce new garments by re-introducing pre-loved products into the market. This model results in sales growth but does not correspond to an increase in emissions. Brands can make profit from the same products through “free” sales, in a more sustainable way (Laroque and Lemieux, 2021).

Adopting it requires making changes internally at the process level to accommodate buy-back and consignment operations.

Resale potentially offers several benefits, primarily giving full control to the brand in terms of image, quality, and price, which is not possible with traditional resale platforms.

It involves substantial changes and adaptations, it brings along risks such as cannibalization of firsthand products and management of stock and reverse logistics (Estripeau *et al.*, 2022).

### **Partnerships and Consignment**

A less disruptive approach is the partnerships brands can forge with online secondhand platforms. The brand makes sure that the items are original, in good condition, and meet quality standards. They are sourced directly from sellers by offering vouchers or discounts and offer buy-back or consignment options.

This method provides an opportunity, especially for lesser-known brands, to increase traffic and brand awareness by leveraging already known platforms while still maintaining control over product marketing. However, in this case the brand does not have direct access to consumer data and has less control than in the resale model (Estripeau *et al.*, 2022).

### **Self-listing**

Circular collaboration consists in brands encouraging their consumers to buy and sell pre-loved products on third-party secondhand platforms, receiving small gifts, benefits, personalized experiences from the brand. In this case the brand doesn't have to manage the process but gains in image by approaching a high potential market (Laroque and Lemieux, 2021).

### **The gap**

The secondhand market is described, in most cases, as a stand-alone market without relating it to the firsthand. No extensive contribution can be found on the impact that the internalization of a new business model for the resale of pre-loved products would have on luxury brands.

The objective of the research is therefore, first to understand, on a practical level, whether it actually pays to internalize the model. Then to understand what business

models are mainly adopted, and what advantages and disadvantages they bring within brands to also outline how they can be chosen. The research question which will be attempted to be answered is therefore: "How might secondhand internalization impact luxury brands?".

## **METHODOLOGY**

The different elements framed through a systematic literature review, were essential in order to identify the gap in the literature, that will be attempted to be filled through this research.

This section will discuss the methodology through which the research was conducted to answer the paper's question.

### **Scientific method and sampling**

The choice of the qualitative method through semi-structured interviews stems from the fact that this specific topic has not been covered extensively, hence also the choice of interviewing experts in the field in order to gain a thorough understanding of it.

The purposive sampling helped select information-rich individuals through criteria, like the involvement in fashion, and the knowledge about sustainability.

Two different types of experts were chosen: consultants, as they benefit from contacts with several leading companies in the field and experts who are part of the sustainability team of luxury brands.

The interviewees hold relevant positions to the world of sustainability, within brands or consulting firms. They were chosen to provide detailed information and their views on the topic of discussion. The examples considered range in age from 25 to 55, thus being able to provide different approaches.

The table below shows the descriptions of respondents' companies, the position held, and their nationality.

	Description	Position	Nationality
1	Consultant, assesses environmental risk and product footprint, plan the objectives and help transform companies.	Sustainability Expert	French
2	Acts to reduce the impact produced by its creativity not only environmentally but also socially. Several initiatives have been taken, but in particular the brand is interesting in this research for its "Re-Sell Program" project.	Sustainability Team	French
3	Promotes and strengthens the Culture of Purpose, which is the sustainability strategy. The brand was in this case selected, for the "Preloved" project launched in collaboration with Vestiaire Collective.	Global strategic merchandising operations, vintage and preloved	Italian
4	Consultant specialized in using technology as an enabler for circularity, following several important projects with fashion and luxury companies.	Customer Experience - Practice Manager E-Commerce	Italian
5	Helps brands accelerate their transition to the circular economy by offering a service for brand-powered circular models, especially for the re-commerce of pre-loved items.	Brand Partnerships Assistant Manager	Chinese
6	Second-hand brand that creates consistent collections, with an artistic and creative vision, choosing pre-loved pieces one by one but creating proper collections.	Co-founder and collection director	French
7	Transforms the fashion market into a more sustainable one, favoring the circular model over the traditional one to combat overconsumption, overproduction, and environmental pollution. The platform has started to create partnerships with important brands in the luxury scene.	Senior Brand Partnerships Manager	German
8	Promotes circularity in the fashion industry and help companies transition to a more sustainable model.	Responsible Plaidoyer et Communauté	French
9	Omnichannel marketplace for circular fashion.	President FMC and co-founder of CrushOn App	French

## RESULTS AND DISCUSSIONS

Following the interviews and subsequent data collection, the information were analyzed, it was therefore possible to identify thematic areas common to the different interviews, that will help outline the answer to the research question.

## **Drivers**

The interviewees highlight that secondhand projects are first and foremost approached to improve brand's image and find a solution that leads brands to extend the life of the product and therefore to have a circular transition.

Sustainability and circularity emerged as the first and main driver in undertaking secondhand projects. The search for more sustainable business models that facilitate the transition to circularity will be critical in the near future.

The vintage trend makes it possible to salvage and repair pieces whose value can exceed the one in the firsthand market and generate a profit.

The authenticity of products sold on third-party secondhand platforms is always questionable; many consumers aren't purchasing due to the uncertainty of the authenticity. Unlike third parties, brands can provide a more secure product authentication but also a repair procedure to refurbish products damaged or ruined over which results in increased loyalty and in-store traffic.

Sellers in the secondhand market tend to use their compensation to buy firsthand products, and there is a 3.2x top up; in many cases in fact, they spend more than the actual compensation from the brand.

Finally, data held by resale platforms is a gold mine for brands, currently inaccessible. Integrating secondhand data with firsthand, can help understand purchasing patterns, consumer behaviors, trend forecasting, and help convert secondhand shoppers into firsthand ones.

These points can act as motivations for change. For a company to decide to take this path, often facing logistical difficulties and investments, the presence of incentives of various kinds is mandatory. If there is no perceived economic or image benefit, one would not engage in promoting such initiatives, as was emphasized during the interviews.

## **Challenges**

Every business model implemented to approach the secondhand market has its own downsides; however, there are weaknesses that characterize the market as a whole. The first difficulties arise on the communication side; luxury brands communicate their initiatives very cautiously. The customer database is critical, to be able to continue to maintain a relationship with them and communicate the possibility of bringing their products for sale on the secondhand. Therefore, communication becomes part of after sales service and care. The "stock" is widespread all over the World, which makes the whole process of sourcing more difficult.

Then, there is a problem of product recognition and staff training. Product recognition is difficult because there are regulations that impose a minimum mandatory disclosure, but the label is often cut off and the item loses its identity.

To overcome this problem, specific standards for secondhand at the European level should be implemented, or specific technologies to facilitate garment recognition must be provided.

Once the product is delivered to the brand, the issue of reverse logistics arises. Secondhand products are unique and must be treated as such, so each has a particular backward path. How the product is handled once it reaches the warehouse creates problems. The repair is not yet scalable and can often cost more than producing a new garment. In addition, the shooting of the product and re-labeling must also be handled.

In the final stage of product resale, an ad hoc platform is needed. Therefore, an ecosystem must be provided where customers can have the same experience as firsthand. Integration is necessary in order to bring customer information into one database and ensure omnichannel. It is critically important that the customer experience matches the brand and is seamless across every touch point.

Pricing is also to be considered as tricky. In luxury, garments that are often considered vintage, or pre-loved can fetch higher prices than firsthand items. In general, with the internalization of this model, prices are expected to rise for products that will be reconditioned, repaired, and advertised causing. This poses an issue of affordability to the public. Thus, the problem arises of finding the right target audience and price to avoid cannibalization of the firsthand.

All these points must be managed effectively, by providing resources with great knowledge of the market, who can help brands specialized in their own business model. It is also necessary to increase public awareness and unlock the current ideal of consumption. It's crucial to see the benefits not only in term of sustainability, but in all aspects.

### **Approaches**

Several approaches to secondhand were discussed in the literature review, two in particular were then brought up as examples during the interviews. The first example is Balenciaga relying on Reflaunt for the consignment option of its pre-loved products. The second example, on the other hand, is Gucci collaborating with Vestiaire Collective for a partnership.

In contrast, Cent Neuf bills itself as a secondhand brand. Unlike common secondhand

stores, Cent Neuf greatly emphasizes its branding, offering a certain image and collections that are consistent and homogeneous, although created with pieces from different brands.

The interviews were mainly aimed at understanding how brands can leverage the secondhand market to their advantage, trying to figure out the effect of internalization. For this precise reason, it is essential to realize what business models are being implemented so far, and what effect they have on the brands.

### **Resale**

The most disruptive and challenging business model is the resale model. In most cases, to date, it is managed through white-label solutions. Since it is necessary to equip oneself with specific skills and to invest large amounts of money to revise internal processes, thus distorting one's business model, most brands rely on specialized companies such as Reflaunt.

A separate and dedicated platform is created specifically for the brand, it can be integrated with the normal e-commerce through a smart button, and all information about the clients are managed by the brand itself to create a seamless experience between the different channels.

The secondhand experience must be equal to that of the firsthand, and that a complete integration of customer data and information are needed as well. This is one of the major problems encountered with this business model, which can only be solved by the use of the most advanced omnichannel technology.

Reflaunt also takes care of reverse logistics and warehouses, the goods in fact, enter not the brand warehouses but the Reflaunt ones, which also takes care of the repair, labeling and shooting phases.

They also deal with pricing, through an algorithm that searches for similar products on the market and makes a comparison, evaluating the most correct price. The last phase, fundamental to make brands understand that this is the right direction, is the measurement of various KPIs.

The target is mainly made up of people who already know the brand or are interested in the world of fashion and in looking for secondhand products; they are less price sensitive and prefer to rely on the brand itself spending more, rather than on the various platforms.

In this case both the buy-back and consignment options are possible. In general, vouchers are offered that can be spent both in the firsthand and in the secondhand of the brand.

This model certainly presents the greatest control on the part of the brand, that have complete visibility on consumers, and their data. When operations are outsourced, the model is not particularly resource-intensive and leads to great advantages in various aspects: it increases the possibility of retaining customers and reaching a new target, Reflaunt estimates 40% customer engagement scale; it allows brands to make profits because customers who sell receive a voucher but tend to spend 3.2 times the value of their store credit into a new order; increase in-store footfall; maximize circularity.

The major negative sides that emerge, are instead linked to the fact that the reach of this type of operation is lower than that of partnerships, and it also presents greater communication difficulties, because it can lead to a partial cannibalization of firsthand products.

Everything must be managed perfectly because even small errors can lead to major damage to the image of well-established brands.

	<b>Model</b>	<b>Pros</b>	<b>Cons</b>	<b>Who</b>
<b>Resale</b>	Brand handles the operations or outsource to providers	Control over image, price, data	Difficult reach and traffic.	Fashion brands
	Specific <i>ad hoc</i> channel	Loyalty	Risk of cannibalization	Innovative luxury brands
	Voucher to the seller	Customer retention	Difficulties in communicating the project	
		Transition to circularity		
		Profits		

### **Partnership**

In this case, the brand relies on a specialized external company that has the skills and infrastructure, and an already established customer base, offering brands the possibility of expanding theirs and increase traffic.

Furthermore, all operations are outsourced and managed by the platform. The brand simply needs to think about how to communicate the project to its customers, by creating a connection that can encourage loyalty. It is then necessary to prepare training for the sales associates or an e-commerce section where they can evaluate the products.

Gucci for example has a partnership with the largest secondhand luxury platform,

Vestiaire Collective. This project is certainly based on the circular transition, but it is also a very important traffic-builder.

Gucci Preloved allows the Maison's customers to return some of the bags, carefully selected by sales associates, in exchange for a voucher that can be spent in store. This system allows customers to return to purchase firsthand and spend higher amounts than those of the voucher. However, there is a tradeoff, the secondhand market should, in fact, incentivize the reduction of overconsumption, but through the offer of vouchers, the purchase of new products is determined. As shown by all the interviews, this is the only convenient method at the moment, that can be seen as a transition solution as there is no secondhand without firsthand.

The Vestiaire Collective platform offers Gucci a training for sales associates regarding product evaluation. In fact, an app is created which, by entering precise information, provides an evaluation that the customer can accept or refuse.

The brand does not become the owner of the item, Vestiaire provides the labels for shipping to its warehouses and owns the stock, so there is no stock risk for the brands. The biggest difficulty remains in the methods of communication to the customer. In this case, a newsletter on the initiative is provided after the purchase of the products.

The advantages are a return on image, an economic return with the generation of profits, and the potential reactivation of inactive customers. To authenticate the products, there is an initial viewing by the sales associates and then a real authentication provided by Vestiaire. This phase is very important to avoid damaging the brand's image.

It should be underlined, however, that the brand does not have total control over the product and that, once it is sold, the brand has no information regarding the customers who purchase it.

This model is recommended for players in the luxury market, who want to enter the secondhand market in a cautious manner, without incurring particular risks and without substantial investments.

The main target is made up of people looking for vintage or unique pieces, scrupulous in purchasing authentic products.

The model is also very flexible and customizable according to needs. In this case, in fact, both the buy-back by the platform and the consignment option are permitted. There is also high customization on the part of the platform which usually provides a page dedicated exclusively to the brand.

	<b>Model</b>	<b>Pros</b>	<b>Cons</b>	<b>Who</b>
<b>Partnership</b>	Partnership with already established platform  The platform handles logistics and operations  Voucher to the seller	Huge reach and traffic-builder action  Loyalty  Profits	Less control over image, price, data  Difficulties in communicating the project	Luxury brands

### **New Offering**

Multi-brands can create a collection specifically for the secondhand through an online store, physical store, or both.

Operations in this case can be handled in-house but also outsourced. This model is therefore advisable either for brands that want to preserve their firsthand image but also to communicate their past and heritage by investing in a project that approaches sustainability and promotes a positive image, or for new brands that want to be purely secondhand.

An emblematic and particular example of this model is the French startup Cent Neuf. The distinctiveness of the brand's approach lies precisely in the fact that while selling secondhand, Cent Neuf is a real brand. The collections are created by a creative direction and a merchandising direction. The process is quite complex because the research works to find items that can be in line with the collection, that are sufficient in terms of quantities and that are in line with the brand image, takes time. All pieces also have to meet quality standards and are then washed and repaired. The logistics of this model is a challenge because, although there are people ready to sell their garments, the "stock" is widespread, and there is difficulty in sourcing.

The objective remains to combat overproduction by creating a brand that does not produce but, through the same creative process as any brand, creates homogeneous and new collections, with their own identity thanks to garments already produced.

Their target is made up of people who are very interested in fashion, in dressing well and fashionably but not necessarily in trendy clothing. They are mainly attracted by finding good quality, long-lasting and unique garments.

This model therefore represents an interesting possibility especially for multi brands who want to approach secondhand through an innovative approach.

	<b>Model</b>	<b>Pros</b>	<b>Cons</b>	<b>Who</b>
<b>New Offering</b>	Offline or online secondhand BRAND	Curated selection  Sustainability and circularity  Niche target	Sourcing  Loyalty	Multi brands looking for opportunities in secondhand

### **Technological enablers**

To manage such a change, innovation is key; some innovative technologies are seen as enablers, managing each step and phase of the processes.

Certainly, there is not entirely common ground on this aspect, because the tools depend on the brand and model chosen.

Blockchain is certainly a technology that can facilitate some processes. Traceability is one of the biggest challenges in the circularity landscape, blockchain guarantees that the data are almost completely immutable and can be transmitted to end consumers. It could also allow simplification of product authentication and transfer of ownership. However, it still requires the use and consequent consumption, of large quantities of energy, thus causing pollution. Finally, to access the information, it is necessary to equip the products with a physical object, such as an RFID or NFC which requires a modification of the industrial process to insert a further component, unique for each product, preventing the possibility of standardization.

A back-office type collaboration tool is then needed, an interface for communicating with consumers who decide to sell a pre-loved product. But also, a tool or app for evaluating products, with functionalities for entering data on garments that can be used for collaboration with consumers online, or in-store by sales associates.

Some programs are also used for product evaluation and subsequent pricing. Software and algorithms that grades the item, scrape secondhand pricing to find the right pricing compared to competition is often used.

Full ad hoc interface integration is often provided between secondhand and the main website.

On the operations side, after the product recovery is completed, a system to manage

reverse logistics is necessary. Brands need to find a match between the data entered on the app and the product itself.

Single-stock SKU makes sales-through enhancement via multi-channel distribution, very costly. In the first place and short run, leveraging APIs and AI is decisive to automate product reference creation and multi-channel inventory management.

These technologies not only represent an investment on the part of brands, but they must also be introduced correctly within firsthand operations, ultimately creating a smooth purchasing experience for the customer, so as not to alter the brand's image.

## **CONCLUSION AND PERSPECTIVE**

The research enriched the present literature on secondhand, by analyzing the impact of business models thanks to real cases. It also outlined how to approach it and for what reasons, thus providing interesting insights for further study and internal reflections.

Through interviews with experts, it was therefore possible to analyze the impact that the adoption of this model could have internally for brands. Interviewees also provided practical examples of each model.

The most important aspect that emerged during data collection, was to maintain consistency between the firsthand and secondhand business models. There should be an alignment between the two and they should serve each other, creating a virtuous circle. It is in fact essential to maintain the same image, but above all the same level of service, consumers must not perceive differences, and the experience must be seamless and integrated.

Finally, what generally emerges is the fact that the development of this market will be seen predominantly online, as a matter of ease of implementation. There may be developments in the future, but at present the consignment option remains preferred over buy-back, because it allows great simplification and a general risk reduction.

The paper fits into the theoretical framework by bringing light to many aspects not yet fully addressed and filling the gap.

It is therefore useful at the managerial level, as a tool for assessments regarding future entry into the secondhand market and how to do so.

As for the implications of the research, they can be grouped as follows:

- *Opportunity analysis.* The study thoroughly analyzed opportunities and challenges of the secondhand market.

- *Development of secondhand approach strategy.* A brand can draw on this study to understand which of the models addressed may be most aligned with the current business model.
- *Operations.* All the most important weaknesses in the implementation of secondhand have been considered.
- *Technological tools.* Through the interviews, it emerged that technological innovation is one of the main enablers in the market and that it is through the use of specific technologies that the difficulties can be countered.

The method used for the purpose of data collection to answer the research question, although very effective for the specific topic, presents some limitations. Detailed and interesting data and explanations were provided by the interviewees. However, it should be emphasized that the data provided are subjective, since the interviews were semi-structured.

To overcome this problem, future research on this topic could use a quantitative approach, with pre-established questions in the form of a questionnaire to experts and users of the secondhand market, thus providing an analysis based on numerical data, that are less subject to these types of biases.

The sample represents almost exclusively experts from Europe, thus limiting geographical generalizability.

To be able to overcome these limitations, therefore, a larger panel of experts should be considered, from different geographical areas, each representing a different geographical area who may provide different views and approaches to the discussed theme.

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