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## **Innovation Business Model on New Luxury Apparel Brand in Taiwan**

### **Abstract**

Good design and sound brand are two key competitive advantages in the global marketplace. Under the knowledge economy, creative culture industry has been gradually playing more important role. Under this trend, the fashion designers in Taiwan seize the opportunity trying to create their own brand. However, the increasing complexity of the world economy and the fast changing consumer tastes has brought great challenges to those designers. Moreover, the M-type society has created two extreme consumer behaviors. Companies, therefore, need to compete either on price or uniqueness. There is a new phenomena on the right-hand side, so-called “New Luxury” market segment. This segment has great potential in revenue and profits. Therefore, this study focuses on “New Luxury” fashion companies in Taiwan.

This is a qualitative research and bases on case study with in-depth interviews. Three cases from Taiwan local designers in this “new luxury” segment, GIOIA PAN, Shawnyi, and SHIATZY CHEN were chosen. These three companies are successful so far in Taiwan market. Therefore, this study analyzes their business model in details in order to find out which factors lead to the success. We examine their business model from three perspectives: value proposition, delivery mechanism, and actualization mechanism.

The results of this research found that there is a common ground for these three companies on their value proposition. These three companies all fully expand their core competencies to deliver values to customers. Therefore, the value proposition of these

cases are well-recognized by their customers. There is also a close relationship between their business model and the essential elements of “new luxury brand”. Hence, companies who intend to operate in this segment can emphasize on : (1) unique quality and design as the value proposition; (2) configuring value network to achieve company’s price strategy; (3) the atmosphere needs to base on customers’ best interest; (4) clear company boundary will add some help on customers’ successful shopping experience.

## **Introduction**

In 2005, Ohmae Kenichi, a renowned Japanese trend researcher, indicates an M-type society is emerging under the globalization environment trend. The phenomena of the M-type society are two folds: the disappearance of middle class and the awakening of consumers. Consumers look for comparatively high quality with reasonable price instead of high quality and high price. Therefore, a social change has turned into an economic change. In response to this change, some “new luxury” brands were brought into the market and became very popular and successful.

A case in point is Coach who established in 1941 and had so-so performance in the past even though she produces very high and reliable quality. In the 90's, the management team re-defined luxury as “Accessible Luxury” and to integrate high quality and fashion under reasonable good price. This change made its average selling price from \$200USD to today's \$300USD over the last 7 years as its business revenue grew 4.2 times since 2001(Mali Yang, 2007). This case indicates a successful strategic positioning and movement of the company to the right-hand side of the M-shape society. Different from Coach's approach, Zara, which stands for “Fair Price Luxury”, was ranked 64th among the 100 largest brands in 2007(Business Week, 2008). Zara is another successful positioning, however, different from Coach is toward the left-hand side of the M-type society. Coach, from America, and Zara, from Spain, adopted proper measures and new business models to become the “Aces” of the business.

The history of Taiwan apparel industry evolves over time. The evolution started from the import substitute, to self-sustain, to export-oriented, and finally to become free market for all importing products. From 1996 to 2005, the revenue of imported products grew annually. Since the 90's, the continuous increased in Taiwan GDP has opened doors for Luxury brands from all over the world. Taiwan became well-known for one of the top luxury products consuming market. And it went into a period of full bloom after the year of 2000. During this period, Luxury products are not limiting to upper-class consumers, it also prevails in the middle-class, either to represent as a symbol of their social status or to express their own identity and taste.

Under the above circumstances, the changing economy and consumers, it is imperative for company to re-examine their business in order to survive in this mature and competitive market. In addition, it is important to deploy a new business model to meet the need of “new luxury” consumer market so as to maintain and sustain in the global marketplace. In this research, three most representable new luxury Taiwan women clothing brands, Gioia Pan, Shwanyī, Shiatzy Chen were chosen. Since the research topic is novel, therefore, we use case study with in-depth interviews and secondary data in this research.

## **Literature review**

New luxury brands is a relative term as to old luxury brands. From academic point of view, old luxury brands stress the pride of high quality and uniqueness. It represents the high social status as well as to satisfy the customers' self-pride (Li-Yi Kuo,2003). Practically, there are three major groups LVMH, Richemont, PPR, as well as those of European origin with long history like Chanel, Giorgio Armani, Hermès, Bvlgari, Tiffany, etc., are defined as old luxury brands. The term New Luxury was firstly named by Michael J. Silverstein (Michael J. Silverstein, 2003), senior vice president of Boston consulting group (BCG), in 2003. Very little research in the academia could be found. Therefore, new luxury brands was defined from the practitioner point of view and need to bear the following characteristics: 1. Quality must be the best of the best; 2. Price must be accessible; 3. Luxurious characters drives people to purchase; 4. Uniqueness on product and process to customers; and 5. A success comes from the combination of above aspects plus delivers good experience to the customers.

The business model came from the development of internet. After that, there are more and more studies regarding the business model. After lengthy study, we adopt Gary Hamel's concept (Hamel,2000) with some modifications as our new business model. The new business model consists of three parts: "value proposition", "actualization mechanism", and "delivery mechanism". The value proposition comes from company's core strategy and strategic resources. Through core strategy and strategic resources, company would be able to come out with special value and specific uniqueness. It can be passed out through the value network, which consists of suppliers, business partners and strategy partners, and become visible. Through the customer interface and pricing structure designed by the company, the visible value then can be converted into profits.

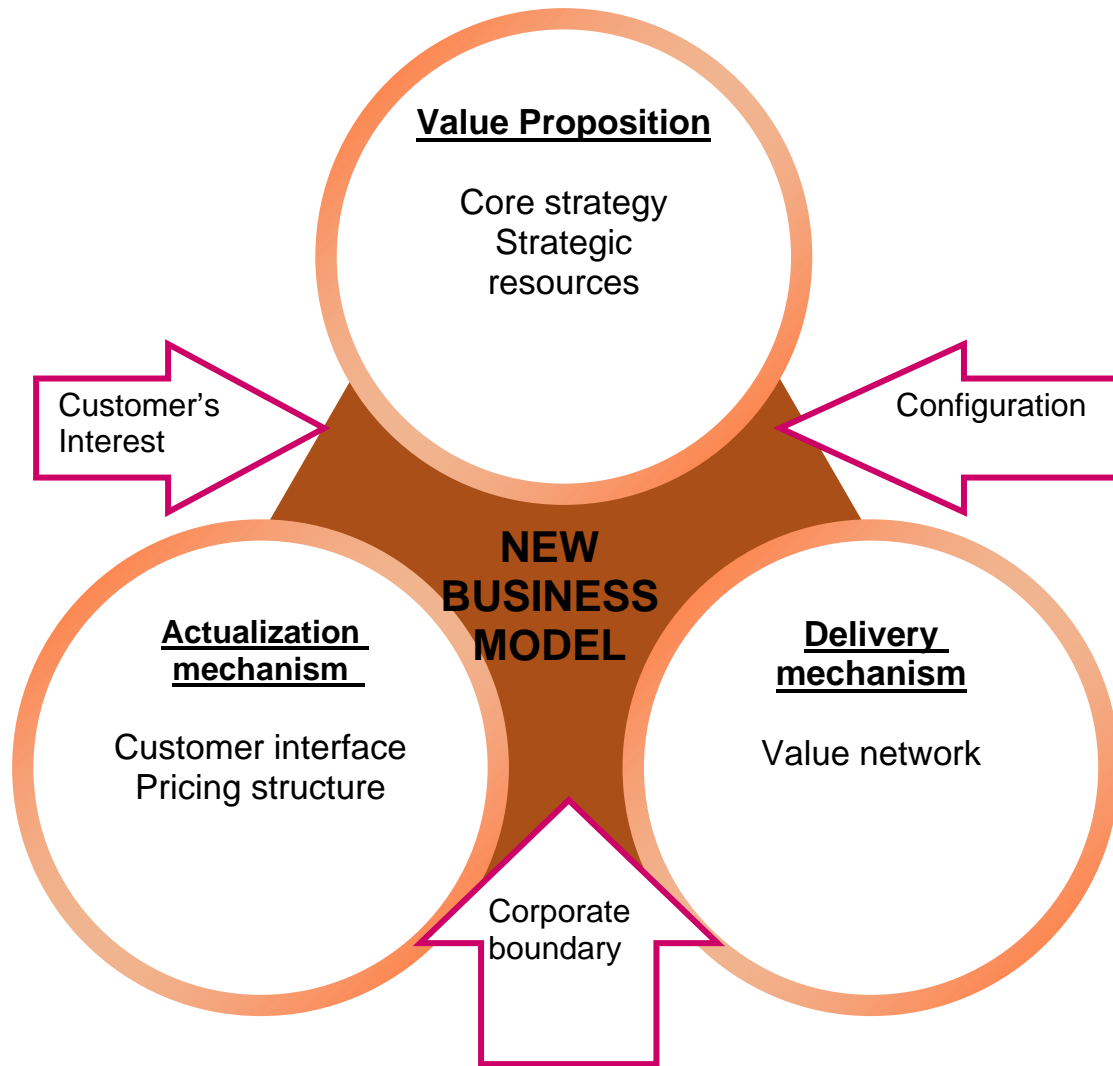


Figure 1. The New Business Model

## **Methodology**

The terminology of business model was coined from the e-commerce because the development of technology enabling many possibilities which would be impossible in the past . Therefore, it is a relative novel and yet popular and important research topic in the past five years. This is a qualitative research. We use case study because the nature of this research is exploratory. The deep interviews were conducted from the studied companies. It was tape-recorded during the interview and made it into word by word manuscript later on. The coding and conceptualization were done from the manuscript to get our research findings.

## **The Background of the Cases**

Three cases from Taiwan “new luxury” women clothing brand were selected. A brief background description of these three companies is described as below:

1. Gioia Pan: Gioia Pan is also the name of the owner. She is a designer, graduated from the Department of Textiles, Bunka Fashion College, Japan and holds an EMBA degree from the Department of Textiles and Clothing at Fu Jen Catholic University. Three generations of his family have all been involved in knitwear. Their value proposition emphasizes traditions and innovation. Their innovation comes from using different materials, techniques in their designs. Therefore, Gioia Pan would be able to position herself in the high price and custom-made knitwear market. The value proposition for distributors lays stress on local goods made with local fabrics. The major partners today is from her family and probably will merge with large enterprises in the future. She successfully allies with jewelry stores, liqueur and wine suppliers, health care centers, sports goods shops, beauty contest and award ceremony organizers not only in her quarterly fashion show but also in her social network of their customer base. Presently, their basis of business includes the flagship store at Zhongshan N. Rd., Taipei 101 Building in Taipei, and the world trade center “The Place” in Beijing. The price of custom made products starts from \$3,000 to even \$7,000. The first store was in Taipei 101 and was already making a little profit in the first year despite the high rent in Taipei 101.

2. Shawnyi: Both co-owners of the brand, Yufeng Chien and Shawn Pan, went to France to study design and founded their own brand “Yufeng Shawn” in Paris, France, in 2001. They were the first Taiwanese designers joining the Paris Fashion Week. In 2005, they returned to Taiwan and re-named their brand “Shawnyi”. Shawnyi positions itself as haute-couture designing house. In the past, they made products principally according to orders they received when they are in France. In Taiwan, they mainly produce high-end customer-made products. They take the advantage of continuing to cooperate with European suppliers so that they can have in control of the materials. The two co-owners are financially supported by their families currently and they hope to be acquired by a larger enterprise in the future. Most of their partners are jewelry stores and liqueur and wine suppliers. Currently, their major bases are located at Zhongshan N. Road, luxury store section on the 2nd floor of Howard Hotel in Taipei, Talee-Isetan Department Store in Kaohsiung, and Prince Shopping Plaza in Japan. In Japan, their agent is in charge of brand promotion for them. Prices ranges as high as up to \$10,000. The revenue grows up by 15% to 20% annually.

3. Shiatzy Chen: Mr. Yuan-Hon Wong and his wife, Mrs. Tsai-Shia Chen Wong, started their business from a fabrics workshop in Changhua, central Taiwan, 20 years ago. It aims to be the one-hundred-years brand and represents Taiwan. Their value proposition highlights gracious Chinese style, best craftsmanship, and innovation. Their custom-made products are produced stitch by stitch to earn customers’ appreciation. Partial of their suppliers are the same as “Loewe”. They do not have any partners. The company is fully-owned by the couple and their next generation all have joined the business. The company has some history and has been very successful. Therefore, they seldom allies with other. Currently they own 48 outlets all over the world, of which only those in Europe are run at a loss. Their price ranges from \$4,000 to \$7,000. One of the company’s policies is “no price difference” around the world.

## **Findings**



This research is to find out what the new business model of luxury brand is and how these studied companies meet the change of the M-type society. After the interview and analysis, the findings of value proposition are: 1. The business mission of new luxury brand must heavily link with their global development. 2. The customization products of new luxury brand are emphasized to satisfy the unique of left-hand side of the M-type customers and to preclude piracy. 3. The market position of new luxury brand is on specific customers who have their own “life style”. 4. The new luxury brand is always good at “telling stories” so that their customers will be touched. It is a key to differentiate themselves from the competitors.

These findings are organized into “new business model” of this research and described the characters by table 1. The delivery mechanism and actualization mechanism are summarized in table 2 and table 3 respectively.

Table 1. Summary of value proposition

| VALUE PROPOSITION                 |   |                     |  |
|-----------------------------------|---|---------------------|--|
| Core Strategy                     |   | Strategic Resources |  |
| Business Objective                | To reach the same achievement as old luxury brands.   | Core Capability     | Core capability cannot be achieved at one time; it must be built up step by step with the development of the company.  |
| Orientation of Market and Product | New luxury brands cannot get any advantages from procedures, price and information and techniques, so the old way of hand-making stitch-by-stitch is adopted to fulfill customers' desires. Customers' lifestyle is also an important parameter to be considered. | Tactical Resources  | Most tactical resources concentrate on the intangible ability to obtain competitive advantages by producing unusual, one of a kind, unique and irreplaceable products. |

|                     |   |                |   |
|---------------------|---|----------------|---|
| Differentiated Base | Different background stories of the brand can touch customers' heart and make them believe that the uniqueness caused by the different background enhances the psychological added value. | Core Procedure | To produce fashionable dresses or custom-made clothes, mainly by hand, would take more time than ordinary clothes-making procedures. Once this difficulty is overcome, hand-made products would be a competitive advantage. |
|---------------------|---|----------------|---|

Table 2: Summary of delivery mechanism

| DELIVERY MECHANISM |  |
|--------------------|--|
| Suppliers          | In choosing suppliers, they prefer suppliers from the fashion capital of Europe or suppliers of world-renowned brands to ensure the stability of quality.  |
| Partners           | Since a new luxury brand is not a mass production business, the capital needed at the beginning is lower than that of mass-produced clothes and is therefore mainly raised by the owner. Hence, no partners are needed at this stage. Moreover, another reason for this is that the revenue is too small to attract partners for investment. |
| Strategic Alliance | New luxury brands will choose different strategic partners depending on their financial capability. Most of their targets are luxury brands of other fields.   |

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Table 3: Conclusion on actualization mechanism

| ACTUALIZATION MECHANISM               |   |
|---------------------------------------|---|
| Performance and Support for Customers | Due to the escalation of manufacturing standards in Taiwan, most brands emphasize "Made in Taiwan" and they indeed gain customers' appreciation. But as to contact with customers, besides taking part of fashion shows and |

|  |  |
|--|--|
|  | exhibitions domestically and abroad or setting up flagship stores, there are few new measures to attract customers.        |
| Perception of and Information from Customers | Because “custom-made” is emphasized, they can receive details and opinions quickly and directly and meet customers’ needs. |
| Interaction with Customers                   | As to the relationship with VIPs, the prestige of “honor and respect” is better than the privilege of a discount.          |
| Pricing                                      | In global pricing policy, Taiwan’s market has lost its dominant position of setting the price.                             |

The research also found that the triangular formed by three constructs of the new business model indicates in the figure 1 by Gary Hamel is not as balanced as it should be. Among these three constructs, value proposition weights highest. It has become a basic and essential requirement of high quality of the products in the world market. The common phenomenon on all three cases is that they win their own customers by differentiated characteristics and core capabilities to deliver luxury and uniqueness to their customers. However, as to delivery mechanism, customer design interface and pricing, all three brands did not show any uniqueness. That may be the reason why their new business models are off -balanced and unsteadiness. However, the high quality, luxurious nature, good customer support interface and pricing structure would only be able to meet the definition of new luxury. Special functions of the value network are employed by the company to compensate for its own weakness.

## **Conclusions**

From above, we learn that the profit of a company must be based on the proposition of its value, delivery mechanism, design of customer interface and pricing structure. These factors in turn decide the arrangement for different levels of value propositions, set the business boundary clearly so as to bulge out customer's interest and obtain the uniqueness, luxury, high quality and good price for the company. Only in this way is it possible to run a successful new luxury brand. The conclusion of this research can be show out by following figure.

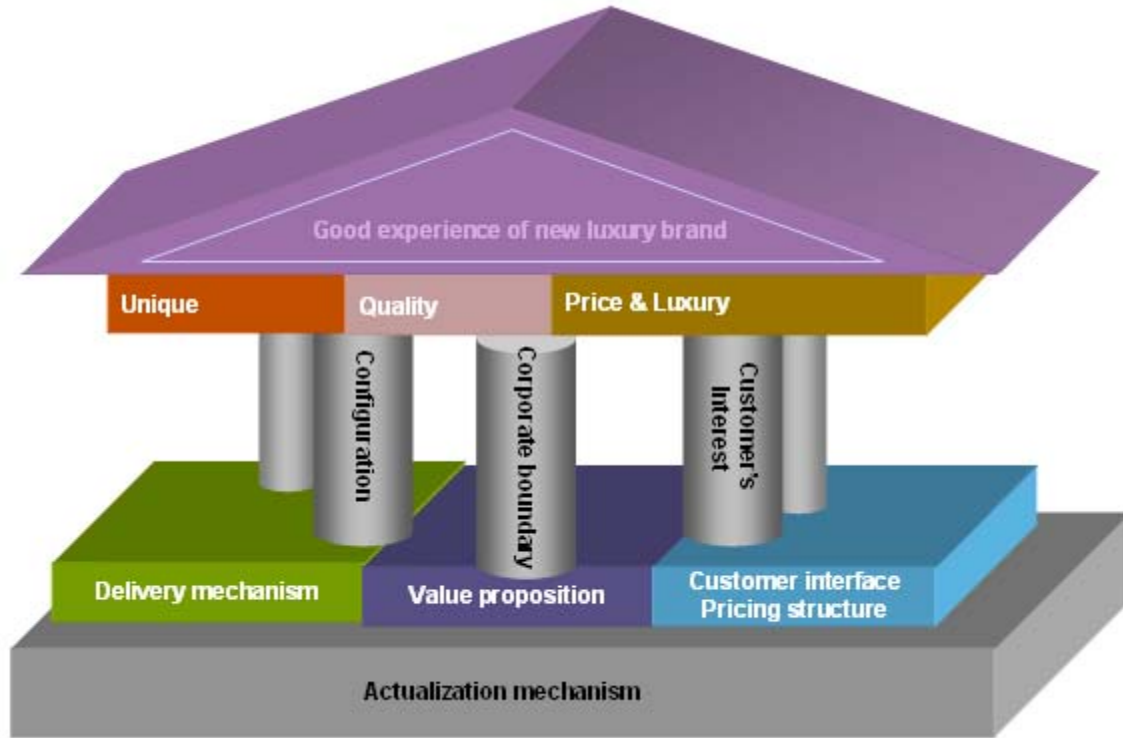


Figure 2. The New Business Model by This Study

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