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Alignment of retail channels in the fashion supply chain

An empirical study of Italian fashion retailers

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Abstract

Purpose – The purpose of this paper is to assess the use of alignment practices between manufacturers and retailers; it focuses on the Italian fashion industry.

Design/methodology/approach – A qualitative approach is adopted (case studies of fashion retailers in Italy), involving both documentary analysis and structured interviews with retail and store managers, with the aim of assessing the level of channel alignment between manufacturer and retailer.

Findings – The paper gives an overview of the extent to which fashion retailers in Italy pursue channel alignment; it suggests a relationship between the degree of alignment and two relevant drivers (channel type and lifecycle phase).

Research limitations/implications – A descriptive analysis with exploratory purpose is provided. The overall research plan includes expanding the analysis and final testing through quantitative methods.

Originality/value – The paper analyses the role of retail channel alignment in the fashion industry from an operational point of view; helps understanding the need for alignment with respect to channel type and lifecycle phase.

Keywords Fashion, Supply chain management, Retailing, Product life cycle, Italy

Paper type Research paper

1. Introduction

The fashion industry has attracted the attention of researchers for many years. The interest in this area has increased lately, mainly due to the growing complexity within this dynamic context. This is a sector where the competition is fierce, especially within the retail environment (Newman and Cullen, 2002). The dramatic shift in scale and power of major retail chains in the market, the advent of own brands retail networks, the nature of sourcing and supply chain (SC) decisions which are increasingly global in nature, are just some of the issues that have contributed to this complexity. Fashion markets are increasingly synonymous with rapid change and, as a result, commercial success or failure is largely determined by the organization's flexibility and responsiveness (Christopher *et al.*, 2004). Hence, researchers have focused their attention on the management of the SC (Harrison *et al.*, 1999; Christopher and Towill, 2001; Lowson *et al.*, 1999).

Within this context, coordination of activities between actors along the SC is a crucial issue. Many fashion manufacturers are pursuing downstream integration through direct operated retail networks or partnership. As a consequence, the interactions between retailers and manufacturers have become a progressively more relevant field to investigate. Of particular interest is how to align operations of different actors

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along the SC by means of information exchange, communication tools and process coordination practices.

This paper presents results of a research project of Politecnico di Milano dealing with the SC of the Italian fashion industry, where traditionally manufacturers and retailers operated as separate firms. Hereby, the alignment of the retail channel in the fashion industry is taken into account. A total of 42 case studies of fashion retailers have been analysed in order to assess the degree of alignment between manufacturer and retailer. The impact of two drivers of alignment (namely retail channel type and product lifecycle phase) has been investigated.

2. Literature background

Critical role of coordination

Across the last decades, several researchers have investigated the concept of supply chain management (SCM) (Ellram and Cooper, 1993; Lambert and Cooper, 2000; Mentzer *et al.*, 2001; Giannakis and Croom, 2004) establishing its theoretical and operational bases. The influence of SC theories on organizational strategy has also been significant. Christopher (1992), Macbeth and Ferguson (1994), and other authors claimed that today's competition takes place between SCs rather than between individual companies. Given the nature of the interdependence between units along the SC, coordination is a prerequisite to achieve success of the SC as a whole as well as of its units (Ballou *et al.*, 2000; Simatupang *et al.*, 2004).

Indeed, as firms realign their focus onto their core activities and outsource the non-core ones, their success increasingly depends on their ability to coordinate internal and external activities all along the value chain, outside their own boundaries. Effective coordination between units in a SC helps achieving innovation, flexibility and speed, which can be sources of competitive advantage (Fisher, 1997; Lee, 2002). Frohlich and Westbrook (2001) proved that integration of a company with suppliers or customers is positively related to performance improvement. Therefore, emphasis is often placed on coordination, collaboration and relationships building among channel members (Ballou, 2007).

Consolidated literature suggests that there are two interrelated forms of integration: the former consists in coordinating and integrating the forward physical flow of deliveries between suppliers, manufacturers, and customers (Saunders, 1997; Trent and Monczka, 1998); the latter regards integration of the backward flow of information from customers to suppliers (Trent and Monczka, 1998; Frohlich and Westbrook, 2001).

Within this view, a question arises as regards the direction (towards customers and/or towards suppliers) in which integration activities should be developed (Frohlich and Westbrook, 2001). This often depends on the specific product and industrial sector being analysed.

Potential advantages of manufacturer-retailer coordination

In fashion industry, the retailer is often the only contact point with the end consumer. This is the reason why companies often concentrate their efforts on the downstream side of the SC more than on the upstream one, in order to increase their control over the sales network (Brun and Castelli, 2008). The final objective of this strategy is the implementation of a demand-driven SC. Many fashion companies, both in the mass market and in the luxury segment, are trying to get in direct contact with final customers, mainly through downstream integration (Ferdows *et al.*, 2004; Brun and Castelli, 2008; Caniato *et al.*, 2009). Not only manufacturers are expanding their direct operated stores (DOS) network in order to control the retail channel (Brun *et al.*, 2008); also, pure retail and franchising networks (such as Principles, Next, River Island, Benetton) expanded and increased market participation (Moore, 1995) and in some cases retailers are even achieving leading roles along the SC (Courault, 2005).

Indeed, retail became a core part of the fashion business. Yet, downstream integration is not always possible. However, other paths are available to fashion manufacturers who do not want to lose retail-related competitive advantages. They need to re-think the nature of their key relationships with their major retail buying organizations.

Advantages of coordination are not only on the manufacturer's side. Retailers would be able to develop procurement policies and decision-making processes that are efficient (low cost), flexible (allow variety) and responsive ("fast fashion"). In addition, it is essential to find a balance between costs and flexibility in sourcing, in order to achieve successful growth and development (Hines and McGowan, 2005).

Coordination between retailers and manufacturers in the fashion sector means also aligning the efforts to create "value for the end-user". In this business, emotions and intangible contents conveyed by the brand are extremely valuable: as a consequence, success often depends on the alignment between brick-and-mortar retail operations and the image perceived by customers, i.e. brand positioning (Pal and Byrom, 2003; Moore and Birtwistle, 2004; Girod, 2005).

Traditional marketing-based branding strategies are no longer enough to ensure success (Arnault, 2007). The current competitive scenario requires to align the whole set of SC processes towards the brand values and to the expectations they generate, in order to achieve consumers' preferences and loyalty, and ultimately sustain revenues.

For instance, product availability is often a relevant source of value for the customer and a confirmation of a brand's reliability (Pedraza and Bonabeu, 2006). Ensuring availability requires time compression and flexibility throughout the SC; on turn, this would imply retail and delivery alignment based upon "end-user focus" (Doyle *et al.*, 2006). Birtwistle *et al.* (2003) suggest the use of quick response for textile/apparel products with high fashion content and an unpredictable demand for which lead times compression is a source of advantages.

The previous considerations make it clear why channel alignment emerges as a relevant issue (Maheshkumar *et al.*, 2003; Lee, 2004; Brown and Cousins, 2004). Success is often due to alignment of SC strategy with the business strategy, which, on turn, implies a "supply chain mind set" among the members of the value chain (Kannabiran and Bhaumik, 2005). It is essential to create supplier-buyer relationships, as well as relationships among suppliers, that coordinate and collaborate in order to ensure good inventory management, flexibility and responsiveness (Fernie *et al.*, 2003).

In this context, coordination of activities associated with physically supplying product to the marketplace emerges as a relevant research area (Ballou, 2007): it is worth trying to match the interests of the two partners – the manufacturer and the retailer – instead of maintaining the competition between them – manufacturing on the one side, retailing on the other side (Corault, 2005). The idea is that, through the introduction of integration or coordination practices, both manufacturer and retailer could become more reactive and efficient in responding to the variations of consumers' fashion trends (Moore, 1995). Companies face increasing pressures for speed-to-market and asset allocation: collaboration with partners is crucial to optimize the value stream for the customer. It could be useful to share common management attitudes, decision-making frameworks and personnel skills irrespective of size, retail format and product segment (Arnold, 2002; Burt, 1986; Colla and Dupuis, 2002; Fernie *et al.*, 2003; Treadgold, 1991). Sourcing arrangements, logistical requirements, information sharing and technology innovations are among the tools for creating alignment among retailers and manufacturers (McKee and Ross, 2005).

Companies should pursue their strategic goals and objectives by translating such goals into a supply strategy and organizing processes accordingly (Cousins, 2002). Yet, this rarely occurs. Channel members often have different perceptions of reality, and might opt for different solutions to a particular problem despite having the same goals. Sometimes channel members even set different local goals (Moore *et al.*, 2004). Uncovering such divergences in goals and perception is the first step towards alignment (Frisch and Chandler, 2006), but a further step is needed. Implementation of alignment practices can be pursued in three different ways:

(1) exchanging information and knowledge freely with vendors and customers;

(2) laying down clear roles, tasks and responsibilities for suppliers and customers; and

(3) equitably sharing risks, costs and gains of improvement initiatives (Lee, 2004).

In other words, it is necessary to understand where the value for the consumer lays and let the vision of these requirements penetrate the upstream echelons of the SC in order to coordinate the different actors in delivering such value (Zokaei and Hines, 2007).

Drivers of alignment in fashion retail

As different levels of collaboration between manufacturer and retailer can be actuated, it is necessary to identify possible drivers of channel alignment.

A first relevant factor is channel type. Indeed, different formats of retail shops exist for fashion products (i.e. DOS of the brand owner, franchising mono-brand boutiques, department stores, factory outlets, independent specialist stores, online shops), which differ in terms of linkage to the manufacturer and identification with a single brand (Guy, 1998; Moore *et al.*, 2000). For instance, DOS networks (in which only the manufacturer's own brands are sold) allow fashion companies to communicate a clear brand identity through the control of visual merchandising and the use of innovative store design. Together, with DOS, franchising has grown to become a major retail format (Castrogiovanni and Justis, 1998). Indeed, a fashion retailer may try to differentiate itself from others and develop a sustainable competitive advantage by branding not only the products, but also the total store experience (Bridson and Evans, 2004).

In particular, fashion designer and couture houses reached international success by managing a portfolio of DOS, franchising stores and specialist independent shops (Fernie *et al.*, 1998); while small independent clothing stores experience difficulties in competing against them, also due to the trend towards retail concentration in large shopping malls (Reimers and Clulow, 2004). Brun *et al.* (2008) illustrated that different retail channel types enables different approaches to process coordination between retailers and manufacturers.

A second factor is product lifecycle duration. In recent years the fashion industry is increasingly characterised by shorter product lifecycles and high product variety, which resulted in high demand volatility, low predictability, and frequent impulse purchase (Fernie and Sparks, 1998). Companies who focus on basic products conceived for mass retailing can aim to highly efficient operations, while the proper fashion industry (as the name suggests) is much more concerned with trendy products, i.e. style/trend sensitive goods characterised by a short lifecycle (Abernathy *et al.*, 1999). Fashion retailers are therefore facing the risk of excess inventory of short lifecycle and seasonal products causing increased discounting or write-offs as well as the risk of missed sales opportunities (McKee and Ross, 2005) and have to implement rapid product replenishment and should achieve this through coordinated management of their supply base (Bruce *et al.*, 2004). In order to balance supply and demand, ensure product availability and control logistic costs, retailers and manufacturers should join efforts as regards the related operations, e.g. coordination of order policies, use of expediting, committing for supplier's capacity. This is even more challenging since complexity grows as product lifecycle becomes shorter (Nair and Closs, 2006).

Indeed, product lifecycle has been largely addressed as a relevant driver for managing processes at the interface between supplier and customer (Towill *et al.*, 2002; Childerhouse *et al.*, 2002; Aitken *et al.*, 2003; Caniato *et al.*, 2007). In particular, Cigolini *et al.* (2004) suggest to focus on the dominant phase within the whole product's lifecycle. If products are in the maturity phase, demand is highly predictable, sales per stock-keeping-unit (SKU) are high, and the same products can be sold at full price for long periods. By contrast, other products experience almost only the introduction and decline phases of their lifecycles: in this case, coordination is required in order to be responsive and follow fickle market trends. Lifecycle characteristics are indeed very relevant factors to consider when dealing with supplier-customer coordination in the fashion industry.

3. Research goals and methodology

Based on the evidences of the literature review presented in the Section 2, it is clear that the differences in retail formats should imply different level of coordination. In particular, we could argue that, as the retailer's identification with the brand increases, retailers will need to achieve a higher degree of alignment towards the goals set by the manufacturer or brand owner.

At the same time, the increasing relevance of the retail channel in the fashion industry requires a shift towards a new managerial approach. Beyond optimizing operations at point of sale, a wider point of view is required, i.e. managing the downstream side of the SC and coordinating the different actors towards common goals.

To some extent, this implies a mind-set change, shifting the emphasis from market relations to SC integration. Indeed, the scope of integration is extended beyond a company's boundaries to include suppliers and/or customers, thus creating networks of firms based on long-lasting partnerships (Cigolini *et al.*, 2004). The experience of companies in different industrial sectors shows a positive link between integration and performance improvement (Frohlich and Westbrook, 2001). The success of a wholly integrated apparel chain like Zara (Christopher *et al.*, 2004) suggests that increasing integration could lead to performance improvement also in the fashion industry.

Therefore, the following research questions emerge:

RQ1. To what extent do fashion brands pursue goal alignment along the retail channel?

RQ2. Does the alignment degree change according to retail channel type?

The idea is that, as retail channel type changes, alignment will change correspondingly in terms of integrated processes between the finished products supplier (manufacturer or brand owner) and its customers (retailers). Indeed, brand owners should be interested in transferring appropriately not only the image but also the reliability (for instance in terms of product availability, service level, lead times for customized items) of their brands; but the strategic relevance and the practical feasibility of such an alignment will vary depending on channel type.

Literature also suggests that the need for aligning operations between manufacturer and retailer is related to the lifecycle phase of products. Therefore, a third research question emerges:

RQ3. Does the alignment degree change according to lifecycle phases?

Research methodology

As documented in the previous sections, an in depth study and analysis of the available literature was the first step of the research.

This allowed a first verification of the relevance of the topic addressed by the present paper. Indeed, on the one hand, many authors suggest that in the fashion industry retail channel should be aligned with the brand's vision; yet they mainly focus on marketing and branding aspects, while they do not explicitly analyse the transition to a SC approach in the relationship between manufacturers and retailers, nor the facilitating role of coordination tools. On the other hand, authors studying coordination tools for aligning SCs do not take into account the manufacturer-retailer relationship in the fashion business.

There still is lack of an empirical assessment from a SC point of view. In particular, no investigation has been explicitly proposed for the Italian fashion industry, which is actually a major industrial sector but often suffers the limitations of a more traditional approach compared to other countries (Djelic and Ainamo, 1999).

Moreover, literature was the source for identifying likely drivers, namely channel type and lifecycle phase, which can explain the degree of retail channel alignment.

As the three research questions aim at understanding the phenomenon of retail channel alignment in the fashion industry, case study methodology was identified as appropriate. This methodology belongs to the area of research paradigms known as interpretivism and uses both quantitative and qualitative tools to help understand phenomena. The case method lends itself to early, exploratory investigations where the variables are still partially unknown and the phenomenon not completely understood (Meredith, 1998).

In contrast to survey research – which allows quantitative findings but presents some limitations, i.e. precluding the emergence of elements that have not been planned a priori – longitudinal case studies are normally used to gain a more in-depth understanding of the research object when trying to answer questions like "how" and "why" (Yin, 1994). Furthermore, case study research has substantial interpretive advantages even though it is limited in terms of standardization and generalization of findings outside the boundaries of the considered empirical research (Larsson and Lubatkin, 2001).

According to the research questions, the appropriate sample should include a variety of channel types and product lifecycle phases. In particular, four channel types were taken into account, namely:

(1) DOS;
(2) mono-brand franchising shops;
(3) factory outlets; and
(4) specialist independent shops.

The sample should also present a variety of the four lifecycle phases:

(1) introduction;
(2) growth;
(3) maturity; and
(4) decline.

The unit of analysis was the combination of brand (manufacturing company) and channel type. For instance, the brand AEFFE is distributed through three different channels; we investigated the three of them as different case studies. In contrast the store "Max Milano" – an independent shop – deals with several brands but it is a single case study. Interviews involved store and retail managers. For each case study, the interviewee was asked to focus on a product category, clearly positioned in a certain lifecycle phase.

As regards the sample size, Mintzberg (1979) state that it is not that relevant how small the sample and suggests that 8 can be a reasonable sample size; the point is trying to go into organizations with a well-defined focus to collect specific kinds of data systematically. In the present work, 23 companies (fashion brand owners) were involved in the research, and – as many of these companies allowed multiple case studies, i.e. for each brand different channel types were analysed – the resulting amount of case studies was 42 (Table I). This number can be considered sufficient to give an accurate account in an empirical research (Yin, 1994; Eisenhardt, 1989). We indicated for each case the core product, on which the interview was focused.

The case studies were constructed in the form of semi-structured interviews during which it was possible to fully assess the relationship between retailer and manufacturer. Information collected was then organized into an *ad hoc* classification scheme consisting of two sections (Table II):

(1) The first section aimed at classifying the case with respect to the two drivers, namely channel type and lifecycle phase.
(2) The second section was meant to describe the degree of alignment between the retailer and the manufacturer by indicating which coordination practices are in use. Four areas (items) where addressed, namely "kind of information exchanges", "communication tools", "SC management tools" and "alignment".

Table I. The sample

Store name	Brands carried in the store	Size (sales; M€/year)	Main product categories	Channel type	Case study
AEFFE	AEFFE	About 200	Women haute couture	Factory outlet	1
	AEFFE			Direct operated store	2
	Many brands			Independent store	3
Alviero Martini	Alviero Martini	About 150	Leather bags and accessories	Factory outlet	4
	Alviero Martini			Direct operated store	5
	Many brands			Independent store	6
Benetton	Benetton	>1,000	Fashion clothes and accessories	Franchising boutique	7
	Benetton, sisley			Factory outlet	8
Boggi	Boggi	About 50	Men suites	Direct operated store	9
	Boggi, Brian&Barry			Factory outlet	10
Brian & Barry	Brian&Barry	About 50	Premium fashion collections	Direct operated store	11
	Boggi, Brian&Barry			Factory outlet	12
Bric's	Many brands	About 100	Leather bags	Factory outlet	13
Caractère	Caractère	About 150	Women fashion clothes	Direct operated store	14
	Many brands			Independent store	15
Cavalli	Cavalli	About 300	Designer clothes	Direct operated store	16
	Cavalli			Factory outlet	17
	Many brands			Independent store	18
D&G	D&G	About 500	Designer clothes	Direct operated store	19
	D&G			Factory outlet	20
	Many brands			Independent store	21
Ferré	Ferrè	About 600	Women haute couture	Direct operated store	22
	Many brands			Independent store	23
Fratelli Rossetti	Fratelli Rossetti, Flexa	About 150	Leather shoes	Factory outlet	24
Furla	Furla	About 150	Leather bags	Factory outlet	25
	Furla			Franchising boutique	26
Krizia	Krizia	About 250	Women fashion clothes	Direct operated store	27
	Many brands			Independent store	28
Larusmiani	Larusmiani	<50	Women luxury clothes	Direct operated store	29
Missoni	Missoni	About 50	Designer clothes and knitwear	Direct operated store	30
	Many brands			Independent store	31
Parah	Parah	About 50	Swimwear and underwear	Factory outlet	32
	Parah			Franchising boutique	33
Prada	Prada	>1,000	Clothes and leather goods	Direct operated store	34
	Many brands			Independent store	35
Sergio Tacchini	Sergio Tacchini	About 150	Fashion sportswear	Direct operated store	36
	Many brands			Independent store	37
Baccarat	Many brands	About 400	Fashion sportswear	Independent store	38
Rescalli	Many brands	<50	Women premium fashion clothes	Independent store	39
Armeria Meschieri	Many brands	<50	Premium fashion clothes	Independent store	40
Max Milano	Many brands	<50	Underwear	Independent store	41
Del Mare 1911	Many brands	About 50	Man suites	Independent store	42

A semi-structured approach was used during the interview, so to let the interviewee touch the target elements while speaking about his activity in a natural language (e.g.: a first general question was "How do you evaluate the relationship with the brand owner? Please describe it"; then – depending on how the speech evolved – the interviewer could ask such specific questions as: "How often do you communicate with the brand owner? Are you required to collect any information on his behalf?" or "Does your supplier apply any mix or quantity discount? Under which conditions can you return unsold products?", etc.).

Each item was measured in terms of the tools/practices in use in order to pursue coordination and alignment. A score was then calculated for each item and the weighted sum (with equal weight for each item) of the scores achieved in each area was taken as a measure of the degree of alignment pursued within the relationship as shown in Table III. As an example, if the store manager explains that:

- they send formal orders to the manufacturing company;
- they communicate by phone every day up-to-date sell-out information; and
- they can get discounts if they order the mix suggested by the brand owner, this store will score 50 per cent in Item 1 (both orders and sales information are communicated), 25 per cent in Item 2 (telephone only), 0 in Item 3 and 33.3 per cent in Item 4 (mix discounts are regarded as incentives).

Total score is:

$$\frac{(50\% + 25\% + 33,3\%)}{4} = 27.075\%$$

4. Findings and discussion

To what extent do fashion brands pursue goal alignment along the retail channel?

Out of the 42 case studies, all of the interviewees highlighted that the field of competition in the fashion industry is moving from manufacturing towards distribution and retail. This is the main reason why many of the companies within the sample have developed a network of direct operated or franchising stores selling exclusively their branded products. Some companies – which in the past focused on the industrial part of the textile-apparel business – are even dismissing part of their manufacturing plants redirecting efforts and energies towards the distribution and retail business.

The interviewees generally acknowledged that operating a retail network is the key for creating a relationship through direct contact with the final customer and – provided that appropriate communication tools are implemented along the channel – being able

Retail channel type	Direct operated store Mono-brand franchising shop Factory outlet Independent shop
Lifecycle phase of the considered product	Introduction Growth Maturity Decline

Table II.
The classification scheme – Section 1

Item	Instances	Points (%)
1. Kind of information exchanged between retailer and manufacturer	Orders (Yes/No)	25
	Sales information (Y/N)	25
	Inventory information (Y/N)	25
	Demand forecasts (Y/N)	25
	Score	$\sum$ points
2. Communication tools	Only telephone/fax	25
	Internet	25
	Barcodes	25
	Integrated information system	25
	Score	$\sum$ points
3. SC management tools	Continuous replenishment (Y/N)	50
	VMI (Y/N)	50
	Score	$\sum$ points
4. Alignment through	Vertical integration	33.3
	Contract obligations	33.3
	Incentives	33.3
	Score	$\sum$ points
	Total score	$1/4 \times \sum$ scores

Table III. The classification scheme – Section 2

to ascertain the actual demand. Indeed, this allows prompt recognition of changes in the demand and is the first necessary step when the goal is building a more responsive organization. As a consequence, many a company is integrating its information systems and investing in communication tools, in order to allow information flow. In contrast, very few of them are thinking of integrating also logistic processes and physical flows of goods.

Table IV summarises the structured information collected concerning alignment in the 42 case studies.

Regarding the quest for channel alignment, we can conclude that the issue is not disregarded by the analysed companies. Results, shown in Figure 1(a), show an average degree of alignment of 57.7 per cent, with no occurrences below a minimum of 20 per cent. This reflects an actual wish to align the retail channel with the manufacturer goals. The first, second and third quartiles of the distribution are positioned, respectively, at 41, 58 and 73 per cent (Figure 1(a)).

On average, companies within the sample mainly pursue alignment by exchanging information (average score for the whole sample is 70.8 per cent) and through communication tools (average score 67.9 per cent); also alignment through ownership, contracts and incentives is quite common (average score 53.9 per cent).

In contrast, SCM tools are relatively scarcely applied, with an average score of 38.1 per cent and 20 cases over 42 where integration of logistics processes is not implemented at all. Hence, there still is room for exploiting tools and techniques for SCM. This lack of implementation may be due to the fact that implementing such systems requires far greater efforts than – for instance – simply exchanging information. Yet this may well be a signal that in this field there's still lack of a SC mind-set despite the wish for channel alignment. Many fashion brands (such as love therapy) still experience difficulties in scrutinizing the market in order to identify the major trends on specific items; hence, they basically launch manufacturing on the base of agents' feeling

Case	Channel type	LC phase	Questionnaire scores Item 1: information (%)	Item 2: communication (%)	Item 3: SCM tools (%)	Item 4: alignment (%)	Total (%)
1	FO	D	75	75	50	33	58.3
2	DOS	I	75	75	100	67	79.2
3	IND	G	75	75	0	33	45.8
4	FO	D	75	75	50	67	66.7
5	DOS	G	100	75	0	100	68.8
6	IND	G	25	50	0	33	27.1
7	FB	G	50	75	0	33	39.6
8	FO	D	75	50	0	33	39.6
9	DOS	G	100	75	100	100	93.8
10	FO	D	75	75	50	67	66.7
11	DOS	G	100	75	100	100	93.8
12	FO	D	75	75	50	67	66.7
13	FO	D	50	75	50	33	52.1
14	DOS	I	100	75	100	100	93.8
15	IND	G	75	75	0	33	45.8
16	DOS	I	100	75	100	100	93.8
17	FO	D	75	50	50	33	52.1
18	IND	I	25	50	0	33	27.1
19	DOS	I	100	75	100	100	93.8
20	FO	D	75	75	50	33	58.3
21	IND	G	75	75	0	33	45.8
22	DOS	I	100	75	100	100	93.8
23	IND	G	75	75	0	33	45.8
24	FO	D	75	75	50	33	58.3
25	FO	D	75	75	50	33	58.3
26	FB	I	50	50	0	33	33.3
27	DOS	G	100	75	0	67	60.4
28	IND	G	75	75	0	33	45.8
29	DOS	G	100	75	100	33	77.1
30	DOS	I	75	75	50	100	75.0
31	IND	I	25	50	0	33	27.1
32	FO	M/D	75	75	50	33	58.3
33	FB	G	75	75	50	67	66.7
34	DOS	G	100	75	100	100	93.8
35	IND	G	75	75	0	33	45.8
36	DOS	I	75	75	100	100	87.5
37	IND	G	25	50	0	33	27.1
38	IND	I	75	75	0	33	45.8
39	IND	G	50	50	0	33	33.3
40	IND	I	25	50	0	33	27.1
41	IND	G	25	25	0	33	20.8
42	IND	G	50	50	0	33	33.3
		Mean (%)	70.8	67.9	38.1	53.9	57.7
		SD	0.24	0.12	0.41	0.29	0.22

Notes: FO, factory outlet; DOS, direct operated stores; IND, independent store; FB, franchising boutique; D, decline; I, introduction; G, growth; M, maturity

Table IV.
Results from the case studies

about the market. There also are cases of fashion brands (such as Guru, for instance) that, in the past, despite the introduction state-of-the-art software for information exchange with retail stores, were not able to resist in the competition after the initial brand-driven boom.

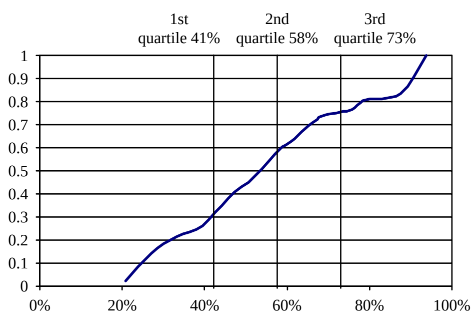
The case study methodology allowed the identification of other peculiar tools for pursuing retail channel alignment. For instance, some companies use periodical meetings among retail managers in order to ensure horizontal alignment: this is a way for sharing experiences, knowledge, problems and to let the best practices emerge. Other companies are trying to align horizontally DOS and independent stores on the issue of merchandise assortment and availability: first, the company collects a forecast from their DOS managers and then – on the basis of such forecast – propose assortment packages to independent retailers.

Does the alignment degree change according to retail channel type?

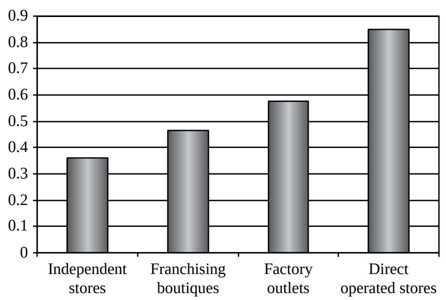
More interesting insights come from the analysis of results per channel type. First of all, overall alignment seems to strongly depend upon channel type (Figure 1(b)). Moreover, differences can be traced also as regards single items (Table V).

In the following, results will be commented according to each channel type:

- *DOS*. Not surprisingly, DOS is the highest scoring channel type in terms of average alignment (85 per cent); in certain cases, companies decided to set up DOSs, because they recognised the strategic importance of channel alignment for their business. By keeping (or bringing) the retail network under their control, manufacturers managed to implement effective information exchange (the item with the highest score, 94 per cent on average), communication practices



(a) Frequency of total alignment scores



(b) Average alignment score per channel type

Figure 1.

	Item 1: information (%)	Item 2: communication (%)	Item 3: SCM tools (%)	Item 4: alignment (%)	Total (%)
DOS	94	75	81	90	85
Franchising boutiques	58	67	17	44	47
Factory outlets	73	70	45	42	58
Independent stores	52	60	0	33	36

Table V.
Average questionnaire scores per channel type

and incentives. With DOSs it is also easier to put into practice actions aimed at optimizing inventory management and material flows. For instance, many of the companies enabled real-time in-store stock visibility between the different point-of-sales of the direct operated networks allowing lateral transhipment when needed. While doing the research, the authors paid some mistery shopping visits to DOSs and actually happened to ask for items that were out-of-stock: in more than one occasion, the sales assistant logged into the corporate information system and in a matter of seconds reassured the customer that the item was on hand in a certain DOS and that the shop could have it delivered in a short time. In other cases the manufacturer centrally manages the replenishment of the various stores, analyses weekly the state of sales per SKU and modifies accordingly the replenishment plans.

- *Factory outlets*. It scores on average 58 per cent. They represent a peculiar retail channel: despite being directly operated by the manufacturing or brand owner company, they are seldom regarded as a strategic channel. In the analysed cases, outlets are used to minimize obsolescence losses associated to end-of-life products (mainly, collections of the previous year or season). A certain level of alignment is pursued, yet not as much as in case of DOS networks. Lately, an increasing strategic relevance has been placed on factory outlets. Some companies purposefully designed some collections for exclusive sale in this channel and are correspondently increasing the level of alignment.
- *Franchising boutiques*. As regards franchising boutiques (average score 47 per cent), alignment is mainly concerning point-of-sales "touch and feel". Indeed, in most of the cases, the brand owner gives strict guidelines for layout and interior design. Moreover, a certain degree of information exchange is typically going on between franchiser and franchisee – mainly dealing with sales data. Despite the manufacturers efforts to align the behaviour of the franchisee by mean of binding contracts and incentives, logistics coordination seems to be very hard to achieve. Reaching loftier levels of alignment would require the full commitment of the shop manager, which is hardly the case.
- *Independent stores*. Finally, independent stores scored on average 36 per cent, confirming the idea that this type of retail channel is the most problematic for companies trying to achieve high levels of alignment. The complete independence of the retailer does not allow the brand owner to give guidelines concerning the store style and design. In most cases, the retailer is not even willing to share with the manufacturer data about the total sales at the end of the season and information exchange is often limited to sell-in information. Sometimes this happens even when the independent store is a renowned (and – at least theoretically – well-managed) department store. Finally, it is worth noting that – for this retail channel type – SCM tools are not applied at all across the sample.

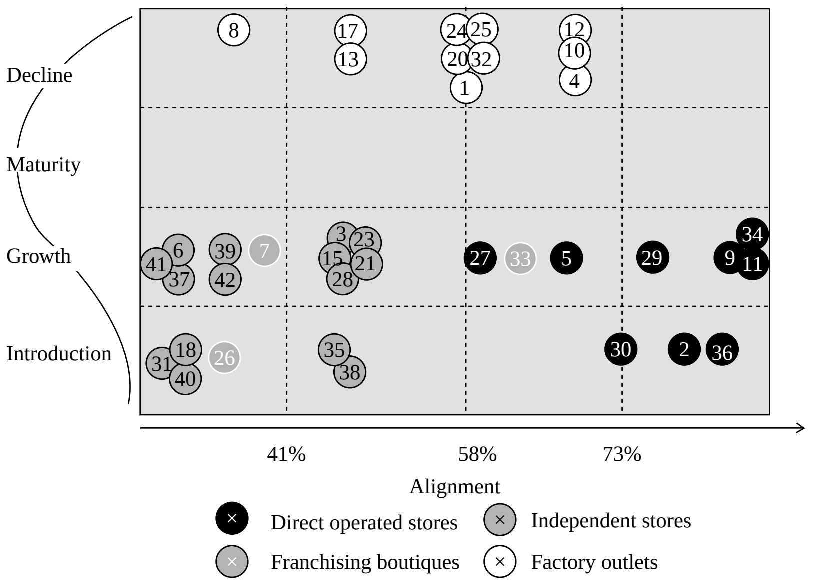
Does the alignment degree change according to lifecycle phases?

The *RQ3* aimed at assessing the impact of product lifecycle phase.

A first empirical evidence is that – according to the consolidated characteristics of the fashion industry (Christopher *et al.*, 2004) – many companies are dealing with products whose lifecycle is very short and characterised only by an introduction phase and a decline phase. For other companies most products are placed somewhere between the growth and the maturity phases, since they do not exclude the possibility of transforming a successful item into an evergreen to be re-proposed in the next season(s). Therefore, a certain polarization of the case studies results can be observed as regards product lifecycle phase (Figure 2).

Clearly, the choice of the retail channel type is somehow related to the lifecycle phase. A conspicuous separation between factory outlets and other types of stores emerges, for the formers are regarded as the least-cost alternative to "get rid" of goods that cannot be sold through other channels (and making a profit out of them). This role of outlets accounts for the different results obtained for factory outlets and DOS, despite the fact that both of them are controlled by the brand owner. During the interviews, it emerged that the higher strategic relevance of DOS is the main reason for their higher level of alignment.

While endeavouring to represent the relationship between the degree of alignment and the classification variables (i.e. store type and product's lifecycle phase), Figure 2 has a limit in that it could only raw a partial picture of the involved companies. In particular, a simplification was required in order to place every case on one specific stage of product lifecycle. Positioning of each case on the lifecycle curve was done according to the answers reported in Table IV: the interviewees answered the questionnaire with explicit reference to a product which they considered "representative" for their business (i.e.: "representative" corresponds to the qualitative judgment "the answer is suitable to the majority of products I deal with"), The lifecycle



Notes: In case of small clusters of circles (such as #3, 15, 21, 23 and 28), all the cases were meant to be placed in exactly the same position. In particular, points are placed above or below the horizontal reference line merely for clarity reasons

Figure 2.
The lifecycle-alignment matrix

phase represented in the figure hence refers to such "representative product". Consequently, answers for factory outlet stores concentrated on declining products; in contrast, answers for other store types were distributed on different lifecycle phases. However, store manager generally stated that products that deviate from the "representative" lifecycle actually constitute a rare exception.

No relevant differences are observed within a single type of channel, i.e. companies do not currently differentiate their alignment efforts for products in the introduction phase with respect to products moving forward a maturity phase. However, many of the interviewees explained that they are taking a first step towards aligning the retail channel with the brand owner's objectives; the second step will most likely consider a differentiation between products with different lifecycle characteristics.

A synoptic view of all the results is shown in Figure 2, in which every single case is positioned into a two dimensional matrix, according to its degree of alignment and the lifecycle phase. A clear distinction in three different clusters (DOS; factory outlets; independent stores and franchising boutiques) can be observed with different alignment degrees and/or different lifecycle phases.

Managerial implications

Selecting the most appropriate channel to reach the market is a strategic decision, while actually implementing a certain alignment strategy is an operational matter.

So it is reasonable to expect that, once a certain retail network has been set up, the stronger the efforts to increase alignment, the higher the degree of control over the retail operations.

Overall, the picture of the Italian fashion SC that emerged from the study is in line with such theoretical expectations. Nonetheless, there are some areas of improvement we would like to point out:

(1) First of all, every company should strive to bring the overall level of alignment of their DOSs all the way up to 100 per cent. In our analysis, we found out DOSs scoring as low as 60/70 per cent and this is simply not in line with the fact that, when discussing about channel strategy, all the interviewed managers explained that DOSs are of utmost strategic importance.

(2) Also factory outlets are directly operated by manufacturing or brand owner companies: yet, because of their different strategic role, the average factory outlets alignment was a good 27 per cent short of what DOSs scored. Cases such as Alviero Martini (where the outlet scored 66.7 per cent vs 68.8 per cent of DOS) show that if outlets play an important role in the brand strategy, they are treated like DOS. What we expect in the future is therefore a sharp increase in factory outlet alignment scores, especially for those brands planning to leverage more on outlets, e.g. by introducing dedicated collections that will be distributed exclusively through the outlet channel.

(3) Furthermore, the paper digs into the decision of "how" to reach the desired level of alignment. Showing that DOSs typically have the highest levels of alignment is only part of the value provided by Table III. Owing to Table III it is, for instance, possible to analyse on an "itemwise" level the alignment policy implemented for factory outlets, in order to understand whether a certain alignment policy implemented for DOSs is also transferred to outlets. We could

therefore notice that the widest gap between DOSs and outlets is in the adoption of contract obligations and incentives. Special contracts for outlets should then be carefully designed to reach the scope, possibly stressing the right aspects in order to preserve the original value of this store format, i.e. selling past seasons' items.

(4) From a customer perspective, franchising stores are representing the brand in the relationship with end customer. Hence, a fair alignment is required, as a minimum condition, to avoid the threat of a store activities becoming detrimental to the company brand image. As reported in a well known Harvard Business School case about Gucci Group, "during one of his early, aptly named 'terminator' tours, de Sole closed the Duty Free Store door in Hong Kong's airport overnight". In fact, "is the store contributing to build the brand image?" was the simple "alignment" rule applied by de Sole when he decided to close Hong Kong and many other stores (Kwak and Yoffie, 2000). The extent to which the store was contributing to the company profits was not even considered: alignment was the only issue. If the brand image is playing a crucial role in a company strategy, then we recommend either revising franchising contracts or finding ways to increase alignment. Noteworthy is Parah case, where the franchising boutique reached a respectable 66.7 per cent overall alignment score; this is due to the manifest company policy of considering the store managers part of the Parah's team and caring for information and experience exchange among them.

(5) Independent stores are, undoubtedly, the most problematic channel type. While striving to achieve very high alignment would simply be a lost cause, brand owners might consider improving communication and revising contracts and incentives with independent shop also. In nowadays rapid response, always-on-line fashion business, the case of Max Milano, where the communication with manufacturers takes place only via phone or fax, can be regarded as an utter communication breakdown between the brand and the customer.

(6) As a final remark, no relevant differences are observed within a single type of channel, i.e. companies do not currently differentiate their alignment efforts for recently introduced products with respect to products in their maturity phase; probably, this happens because mature products only represent a very small part of the fashion business. A further development in the quest for alignment might be that of defining contracts or incentives depending on products lifecycle stage.

5. Conclusions and further developments

The paper presents the results of a research project, examining the degree to which fashion companies pursue retail channel alignment by means of information exchange, communication tools and SCM tools. Findings coming from 42 in-depth case studies were analysed, confirming the suggestions of the literature: fashion companies pursue retail channel alignment because they regard it as a source of competitive advantage. This explains why, on the one hand, brands/manufacturers tend to improve communication and coordination with retailers and, on the other hand, they often create their own mono-brand retail network. The level of alignment actually achieved is clearly depending on the retail channel type, in line with the different relevance of the channel within the manufacturing company strategy. Such relevance arises not only from the retail format type but also on the characterisation of products in terms of lifecycle phase.

Along the 42 case studies, SCM tools are relatively scarcely applied, despite the wish expressed for alignment and coordination. Therefore, this provides a motive to perform further extensive investigation about the advantages that could be gained through the introduction of specific SCM practices and through the integration of logistics processes.

This paper identifies a number of interesting insights, in terms of relevance of the alignment issue and of the role of retail channel type and product lifecycle. Nonetheless, some limitations of the present research can be identified: the project is still at an exploratory stage, due both to limitation of the analysis to a nationwide area and to a sample size which does not automatically allow generalization of results to other national contexts.

Therefore, it is necessary to reproduce the case study approach not only on a larger sample but also taking into account different business environments: this could allow model testing through quantitative methods. Furthermore, other dimensions of analysis should be investigated, for instance the target positioning of the considered companies, differentiating between mass market and luxury segments.

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