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# **Co-Branding between Luxury Fashion Brands and Mass Fashion Brands**

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**Declaration:**

I hereby declare that I am the sole author of the thesis entitled “Co-Branding between Luxury Fashion Brands and Mass Fashion Brands”. I duly marked out all quotations. The used literature and sources are stated in the attached list of references.

In Prague on .....

Signature

Svetlana Khaustova

### **Acknowledgement**

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# **Co-Branding between Luxury Fashion Brands and Mass Fashion Brands**

## **Summary**

This master thesis investigates a relatively new phenomenon of co-branding between luxury and mass fashion brands.

Through exploratory research of the fashion industry with respect to its main segments: luxury and mass fashion, specific and distinctive features of each segment are identified, in order to provide the basis for understanding the practice of fashion and the fashion branding. Further, a thorough study of co-branding in the framework of brand extension and strategic alliances identifies opportunities and threats involved with this practice; and proves the assumption that co-branding holds great potential as a strategic tool for brand activation and democratization of luxury.

The objective of the thesis is to present an analysis of the real life cases of co-branding between luxury and mass fashion brands, determining positive and negative effects attached to the image of the two brands with adoption of the strategy. Moreover, the analysis aims to develop a guide for successful co-branding strategy in the luxury goods market.

## **Key words**

Co-branding; fashion industry; luxury fashion brands; mass fashion brands; brand activation; democratization of luxury.

## **Souhrn**

Tato diplomová práce se zabývá relativně novým fenoménem spojení luxusních a masových módních značek, totiž jejich co-brandingem.

Prostřednictvím zkoumání módního průmyslu jsou označeny specifické a zvláštní vlastnosti každého jeho segmentu, přičemž je věnovaná pozornost tím hlavním - luxusní a masové módě. Rozbor co-brandingu identifikuje příležitosti a hrozby spojené s touto praxí, a dokazuje předpoklad, že co-branding má velký potenciál jako strategický nástroj pro rozhybání značky a demokratizace luxusu.

Cílem mé práce je předložit analýzu reálných případů co-brandingu luxusních a masových módních značek, určit pozitivní a negativní výsledky toho to spojení a jeho vliv na obraz značek a celkovou strategii. Navíc analýza má za cíl vytvořit vodítko pro úspěšnou strategii co-branding na trhu s luxusním zbožím.

## **Klíčová slova**

Co-branding; módní průmysl; luxusní módní značky; masový módní značky; rozhybání značky; demokratizace luxusu.

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## **INTRODUCTION**

Today, in the highly competitive homogenous marketing landscape, fashion companies face a real challenge to differentiate themselves and to stand-out among the equals. Along with this move, consumers have also demonstrated changes in their buying habits. Those consumers, who have been purchasing only luxury goods before, are now looking for items classified as fast fashion. Furthermore, the modern middle class has greater purchasing power and more access to the Internet than never before, thereby it allows consumers to stay in a close contact with fashion and awake their interest and knowledge of designer brands. Through penetrating various areas and constantly creating new patterns of consumption, fashion has established itself as a phenomenon of great economic representativeness.

Despite all these changes, and its spread into various fields, fashion is still strongly associated with clothing. Clothing is a main form for an individual to express his/her identity, to communicate needs and desires, and to establish a position in the society. Although, the way we are dressed continue to relate to the concept of power and distance, the modern fashion promotes accession of individuals to special social classes and differentiates them in the society.

In the framework of multi-billion dollar industry fashion products are classified into two distinct groups: mass fashion and luxury brands. The first group consists of brands that focus on functional benefits. [Lipovetsky, 2002] This so-called benefit can be identified as “a product attribute that provides functional utility to the customer.” [Aaker, 1995, p.95] While the second group consists of luxury brands, which focus on symbolic benefits, exceptional emotions and customer experience. It is between those two groups the phenomenon of fashion democratization has recently arisen. This term that came to characterize the greater accessibility of fashion products with the emergence of prêt-à-porter and fast fashion, had been also evoked to describe collections made by luxury fashion designers for mass consumption, which is the subject of this research study.

Democratization of fashion is observed everywhere in the global economic arena, where large stores supporting this trend have sought a rapprochement between luxury fashion designers and consumers of the middle class – people, who have

sufficient resources to participate in the consumer market, but who still have no access to the higher value products.

*'The high fashion meets high street'* trend started back in 2004 when H&M partnered with Chanel's legendary creative director Karl Lagerfeld for a limited edition collection. The venture had a huge success: the stores were flooded with crazy crowds and the entire collection was sold out in a day across the world. Since then, H&M has partnered with Stella McCartney, Roberto Cavalli, Lanvin and Versace, successfully creating more buzz and excitement each time. Strategic alliances between high-end design houses and major retail chains have grown ever since: Missoni launched a line for Target, Jimmy Choo designed boots for Ugg, and Karl Lagerfeld prepared yet another ready-to-wear collection, and this time for Macy's. [BoF – Fashion News and Analysis – <http://www.businessoffashion.com>]

These collaborations between luxury designers and mass brands seem to be gaining ground in the modern fashion industry. In the marketing terms these partnerships are called co-branding arrangements. In other words, co-branding refers to the situation when two or more existing brands are used to name a product or are marketed together in some fashion. Playing a crucial part in brand building and brand activation, the role of co-operative branding strategies is constantly increasing. According to the study, conducted by Sempora Consulting, Noshokaty, Döring & Thun (2008), the importance of marketing co-operations is expected to grow considerably in the future. The study shows, that companies recognize the relevance and power of co-operations as an effective means for promoting growth potential they cannot realize on their own.

## **OBJECTIVES OF THE THESIS**

In light of the positive statements mentioned above there is a need to create a framework to explore the concept of co-branding in depth, focusing on the luxury and mass fashion industry, the culture of which takes the core part in the modern emotion-based branding.

The **primarily** objective of the thesis is to prove the assumption that co-branding holds great potential as a strategic tool for brand enhancement and democratization of fashion. Positive and negative effects of the co-branding between luxury and mass fashion brands are identified. Recommendations for successful implementation of this co-operative business strategy are developed.

The **secondary** objective is to investigate the theoretical fundamentals of the fashion industry with respect to its main markets: luxury and mass fashion.

The fashion industry like any other industry is a group of related businesses: they do similar things and they do compete with each other. Therefore, before focusing on the main subject of the study, it is crucial to develop a basic knowledge of the fashion industry as a whole. To investigate it, a study of the whole fashion industry will be progressively narrowed by looking at the major markets of the industry, luxury and mass fashion markets.

A thorough study of each market of the fashion industry is done to identify specific trends and customer groups with common characteristics that influence their buying decisions.

In today's competitive and fast changing fashion industry, companies face challenges on how to maintain and manage a brand. Classifying co-branding comprehensive framework based on both brand extensions as well as strategic alliances is important for advancing insights in the concept.

Therefore, this thesis develops a framework of strategic brand activation through co-branding, illustrating the correlations between the strategic aims and the corresponding relationships.

## **METHODOLOGY**

The research analysis of this paper is embedded in a theoretical framework that provides an overview of both the fashion industry and its major markets, as well as the main strategies of fashion branding and fashion brand leveraging. It also explains the area of strategic alliances and offers insights into the various approaches within affinity partnering. The theoretical information and the models presented are the basis of the analytical research within the case studies, and help to prove the assumption that co-branding holds great potential as a strategic tool of brand management. All the secondary literature of the research is based on propositions and conclusions formulated in papers and scientific books in the following areas: marketing, management, and fashion industry.

The explanation of the theory in question is formulated according to a comparison between the secondary literature and the primary empirical data gathered from the observations of customers' perceptions and expert interviews.

In order to confirm the assumptions and provide empirical evidence, a qualitative research analysis is conducted. Two case studies, observations through fashion blogs and telephone interviews were chosen as the most fitting research instruments for this paper. This particular approach offers us the possibility to access qualitative and meaningful data, and thus, serves in gaining practical and theoretical contributions in a distinctive way.

### **Data Collection Plan**

As far as we know, fashion is a multi-faceted phenomenon of the modern world, which is based on the complex branched internal structure that supports a number of functions in society.

A *dress* is one of the components of fashion that can be described as the most mobile and quickly responsive to changes in the economic, social and cultural life of the community. It is a set of clothing, hairstyle, accessories and footwear. Due to its high volatile nature, rapid response and accurate communication of the specific features of a particular period of time, the subject of fashion has led to the interest in conducting in depth studies of the issue. However, a standard approach to the

investigation into the industry still does not exist. Often, contradictory interpretations of fashion arise due to the constantly changing orientation of society that influences behavior, motivations and cultural values.

Therefore, in this study, a significant attention was given to the process of data collection, as it constituted the foundation on which the qualitative research analysis was built.

Data collection was formalized through a *data collection plan* [Weller, Romney, 1988] that consisted of the following activities:

- Pre collection activity – specification of goals and objections for data collection, identification of data types and sources, and who will be involved;
- Collection – data collections;
- Post collection activity – processing material obtained. [Weller, Romney, 1988]

### **Pre Collection Activity**

A crucial initial step in data collection planning is to make an inventory of the types of data one wants to collect and where or from whom one will collect them. “It is often discovered too late that the value of the interview information is discounted as a consequence of poor sampling of both questions and informants and poor elicitation techniques. It follows that only after pre-collection activity is fully finalized, data collection in the field, whether by interviewing or other methods, can be carried out in a structured, systematic and scientific way.” [Weller, Romney, 1988, p. 5]

For the purpose of the research two main types of data were identified: primarily and secondary data.

Primarily data is obtained by a study specially designed to fulfill the data needs of the problem at hand. It is commonly identified as a collection of afresh and first time data and thus happened to be original in nature. It aims to produce detailed, qualitative description of the issue that illuminates social meanings and shared culture. Primarily data sources are also used to develop theory, but here theory tends

to be grounded in the data. So theoretical ideas develop from initial data collection and then influence future data collection. [Sapsford, Jupp, 2006]

In this study, observation method, as well as interview method was the basic technique used to obtain primarily data.

Through direct observation, the information on what is currently happening was gathered and analyzed. The direct observation was conducted by means of the Internet research through monitoring posts and comments about brand partnerships on the selective fashion blogs.

The choice of fashion blogs as a research tool was intentional. Firstly, the Internet provides an environment in which everyone can participate and generate content, and blogs have emerged as the main tool of this phenomenon. "It is estimated that more than 70,000 blogs are created every day around the world, one out of four Internet users read blogs every day for the purpose of education or entertainment." [Hoffmann, Coste-Manière, 2013, p. 86] Secondly, the blogosphere has nearly unlimited audience, making it highly attractive for fashion companies to promote newly established products. Also blogs reflect fashion editors of famous magazines in a more simple way with the language easily understood by consumers. The speed with which information is passed, reliability, loyalty of readers and authenticity are among other advantageous features of fashion blogs. [Hoffmann, Coste-Manière, 2013] Therefore, the key aim of this type of observation was to see the social world as far as possible. Mainly, this method was used to understand consumer behavior and consumer perceptions towards collaborative collections between luxury and mass fashion brands.

The interview method was composed by the telephone interviews only. "The telephone interview is a variant on the face-to-face interview using a schedule but conducted on the telephone." [Sapsford, Jupp, 2006, p. 93] The reasons behind the choice of this technique are the companies and designers under the research study, who represent high profiles on the market and are located in different countries.

The telephone interview technique has considerable advantages over other methods of qualitative research. It makes it possible in a fast and comparatively cheap way to interview a significant number of respondents, including those in remote and inaccessible areas.

When generating a list of leads, such basic information needed as

- Name of the company;
- Core business of the company;
- Name of the person you want to speak to / job title;
- Contact details: switch board / direct dial / mobile phone / E-mail.

The main resource used for generating leads is the Internet given that just about everything about anything can be found online today. In order to collect the most credible and relevant information, only the influential respondents and those who directly participate in the brand management activity of companies have been contacted. The right respondents have been found through the research of a company's website, LinkedIn, and Hoovers.com, for the purpose of identification who are the key decision makers at the firm. Overall, six respondents from have been interviewed: Kristina Stenvinkel, Head of Communications, and Camilla Emilsson Falk, Head of Media Relations, representing H&M; Allegra Ziletti, Worldwide Marketing Director, representing *Stella McCartney*; Yakupova Dilyara, Head of Communications, and Olga Vishnevskaya, Head Store Manager, representing *RC CenrtObuv*, and Irina Nosova, Press-attaché, representing *Valentin Yudashkin*.

Secondary data was obtained from published and unpublished sources. Information about the fashion industry and co-branding theories was found in scholarly articles, periodical publications and press releases, radio and TV programs, marketing literature, seminars and lectures of experts in the field, as well as Internet resources of the respective websites of the selective brands.

Collection of the secondary data constituted the chief material for developing the basis of the research study, providing insights and explanations of the issue for its better interpretation.

### **Collection Activity**

A formal data collection process is crucial to ensure that data obtained are both determined and accurate and that subsequent decisions based on arguments represented in the findings are valid. The process provides both a baseline from

which to measure, and in certain cases a target on what to improve. [Weller, Romney, 1988]

The telephone interviews with experts of the field occupy the central part of this study. The collection process can be divided into two phases: preparatory and field research. [Kvale, 1996]

- I. The preparatory phase involves drawing up a list of questions, sample design and arranging an interview time and date. [Kvale, 1996]

The questionnaire is based on the open-ended questions for the purpose of obtaining as much data as possible. An open-ended question cannot be answered by “yes” or “no”; moreover, it does not have right or wrong answers. Regarding the main objective of this study to prove the assumption that co-branding holds great potential as a strategic tool for brand enhancement and democratization of luxury fashion, it was agreed that open-ended questions would intensely contribute to the exploratory research, where statistical validity is not a prime objective.

The prospects have been contacted in advance in order to verify that they are eligible for the subject in question, and if so, to set up a call back with confirmed and specific times and dates. The longevity of the interview is agreed to be not longer than fifteen minutes according to the general standards of the telephone interview.

- II. Field research is the actual survey. [Kvale, 1996]

A semi-structured interview schedule is chosen to collect data, meaning that there is a list of questions prepared in advance, however, during an interview there is a possibility to rephrase, rearrange, or ask more questions, in order to adapt to the personality of an interviewee, that is to go deeper into his/her area of special interest. [Kvale, 1996]

The call backs have been made using Skype, a software program that allows individuals to speak using the Internet. There are two main reasons to use Skype as a research tool. Firstly, the application allows one to make low cost phone calls to

mobiles and landlines. Secondly, there is a possibility to record and save Skype calls, which is of a great help for processing and analyzing data obtained.

Overall, the interview experience was very fruitful. From the personal perception, all respondents were friendly and eager to give answers on the questions asked. Except the interview call to the Russian based company, all other interviews were filled in English. Nonetheless, a good comprehension was achieved in both cases.

### **Post Collection Activity**

Before initiating the analysis of knowledge created in cooperation with respondents in the interview process, the transcription of the material is considered. By itself transcription is not solely a technical work, but it is a process of data interpretation. [Kvale, 1996]

In order to transcript an oral interaction into something capable of analysis, the conversation is recorded in the course of the interview. Methods of interview recording for documentation and further analysis include audio and video recording, handwriting and memorizing. [Kvale, 1996]

The most common method of recording interviews is audio recording followed by transcription of information. In this study, the interviews have been recorded through an official Skype recording application.

Nowadays, interviews are rarely analyzed directly from the record. Typically, the transcription procedure begins with conversion of the interview into the written form. Transcription is not a copy or representation of the original reality, but it is an interpretive building, which helps to achieve specific objections. Transcription represents a decontextualized record, or an abstraction, which works similarly to a topographical map showing an abstraction of the area from which it is drawn. The map highlights some of the aspects of the terrain while omits the other. The selection of these features depends only on the initial objections of the drawer. [Kvale, 1996] “How detailed the transcription needs to be, and what does and does not need to be included, then, are matters of judgment that depend on the purposes of the research.” [Sapsford, Jupp, 2006, p. 247] The transcription of the interview from an oral form

into the written form rebuilds conversation so that it becomes more capable of deep analysis.

The structuring of material in the form of text helps to achieve its greater coverage and, by itself, represents the beginning of the analysis. The entire text is then divided into excerpts, each of which is assigned to the specific category of interest. However, “the task is not just the assignment of data to the categories, but the categories themselves have to be developed at the same time. In fact, what is involved is a process of mutual fitting between data and categories.” [Sapsford, Jupp, 2006, p. 251] The categories are reviewed and relations among them are established. The goal of this stage, or so-called grounded theorizing “is to facilitate the more rigorous definition of categories through the process of analysis, rather than specifying at the beginning of the research process what categories are appropriate and how they are to be defined.” [Sapsford, Jupp, 2006, p. 253] Thereby, it gives the opportunity to focus on semantic creative interpretations of what was said in the interview.

When a network of relationships among categories and interpretations of the data in terms of these categories are created, these form the core of the main claims of the resulting research report. The available observational data makes it possible to look at the relationship between what respondents say they do and what they actually seem to do.

## **THEORETICAL FRAMEWORK**

### **1. FASHION INDUSTRY**

#### **1.1. Background**

Everyday we speak about ‘fashion’. The meaning of the term ‘fashion’ is most commonly associated with that of ‘clothing’. However, in reality fashion is considered a complex social factor, since it applies to almost all areas of society. Some argue that nowadays we can talk about fashion even in the sectors far from such dimensions as aesthetics and style, for instance, computer science, law and scientific research. Fashion allows some mature sectors to regenerate dynamic and satisfactory profits, thanks to the constant stimulus that provides renewal and extension of demand. [Codeluppi, 2002]

Despite unprecedented growth and influence of the fashion industry on society, the investigation into the industry, from a strategic point of view, has been so far largely unsystematic. One of the main reasons behind it is the existence of the popular belief of the fundamental impossibility of rational analysis of fashion as such, as it has always been associated with creativity and emotions, and that it rather goes alongside with business, but not intertwining it.

The fashion industry was formed due to the parallel development of the luxury and mass consumption. During the period 1890-1960 the production of clothing and accessories had been gradually transformed from a small business into a mass production. [Lipovetsky, 2002] The fashion industry had been forming as a phenomenon of Western civilization until the end of the 20<sup>th</sup> century, when it was affected by the influence of other cultures. Globalization has not only led to a broadcast of the European fashion around the world, but also to a penetration of influences from the East into the industry. [Granger, Sterling, 2011]

In the late 20<sup>th</sup> century the extensive spread of computer and related technologies greatly simplified the basic structure of fashion houses. If in the past only wealthy and prosperous fashion designer could afford establishment and maintenance of a fashion house, presently, thanks to the use of computers, even a

tiny workshop, often consisting of one or two people, can become successful and can manufacture goods in the industrial scale worldwide. [Granger, Sterling, 2011]

Table 1: Global apparel, accessories and luxury goods market value: \$ billion, 2006-11

Year	\$ billion	% Growth
2006	1,293.8	
2007	1,353.4	2.28%
2008	1,375.9	2.07%
2009	1,402.2	2.03%
2010	1,439.7	2.16%
2011	1,778.5	5.45%
CAGR: 2006-11		5.45%

Source: Datamonitor, own processing

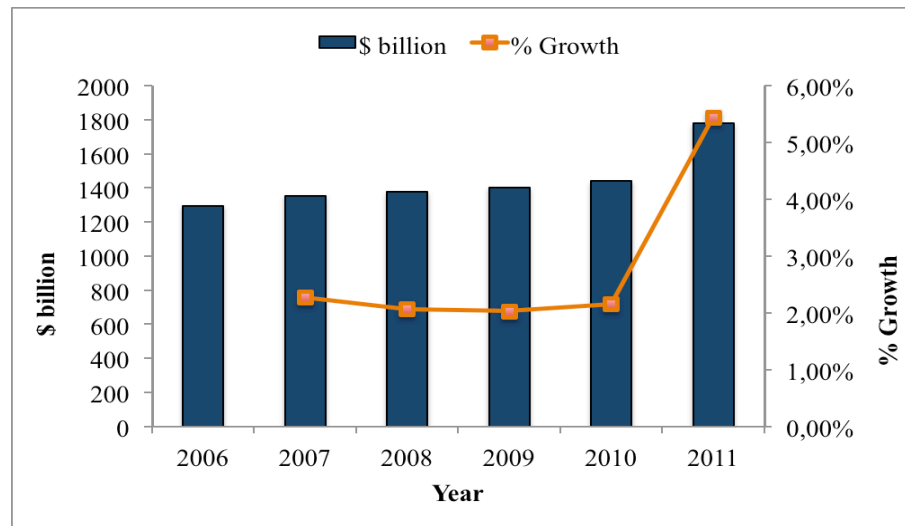
Companies, engaged in the manufacture, sale and service of fashion products, create a powerful industry in terms of income, trade, investment, and employment generation. Since the beginning of the 21<sup>st</sup> century, the fashion industry has been ranked as one of the most capital-intensive sector of the modern economy. [Granger, Sterling, 2011]

The fashion industry includes apparel, accessories, and luxury goods market, which consists of the total revenues generated through the sale of men's, women's and children's clothing, footwear, jewelry, leather goods and watches. [Lipovetsky, 2002]

The global apparel, accessories and luxury goods market had total revenues of \$1,778.5 billion in 2011, representing a compound annual growth rate (CAGR) of 5.45% for the period 2006-2011 (see Table 1). [Apparel Retail – <http://www.datamonitor.com>]

The performance of the market is forecast to accelerate, with an anticipated CAGR of 4.2% for the five-year period 2011-2016, which is expected to drive the market to a value of \$3,748.7 billion by the end of 2016 (see Chart 1). [Apparel Retail – <http://www.datamonitor.com>]

Chart 1: Global apparel, accessories and luxury goods market value: \$ billion, 2006-11



Source: Datamonitor, own processing

Therefore, the place and role of the fashion industry continue to increase dramatically in the present global economy. The following trends in current fashion business development are worth mentioning:

1. More and more attention is paid to the environmentally friendly raw materials. Taking into consideration the high level of pollution and the increased concern about healthy lifestyle, an average consumer tends to choose products made of natural fibers over the products made of synthetic fibers.

2. The high technology development made it possible to create special fabrics that have unique qualities for a consumer, such as anti-bacterial, anti-allergic, protective against UV rays, or, on the contrary, completely UV transmissive, etc. The use of such fabrics makes products more appealing to customers, thus bringing to manufacturers a great commercial result. [Granger, Sterling, 2011]

3. Advanced computer and related technologies introduce new, more economical and highly effective methods of fabrics processing and simplify techniques used in the light industry. [Granger, Sterling, 2011]

4. Generally, the consumer attitude towards fashion has recently changed. Primarily, it is seen in the amplification of a trend, that makes one seem the same, and everyone, men and women, alike. Fashion stores like Zara and H&M are

open all over the world, from America to Saudi Arabia. '*Male*' fabrics and colors are often traced in women's clothing, while '*female*' patterns and colors can be found in men's clothing.

5. The pursuit of a healthy lifestyle led to the cult of ever young and well-groomed look. '*To be in a good shape*' became one of the essential elements of the image of a wealthy and successful man. Hence, there are more and more fitness-oriented fashion products appearing on the market.

6. Desire of self-expression and emergence of individuality led to the democratization of fashion. A greater mixing of class, gender and cultural codes led to the decrease in barriers between formal and casual, luxury and mass.

## **1.2. Fashion Product**

Every product does not have value in itself, but is determined as a response to a specific set of needs. [Kapferer, 1997]

The product of the fashion industry is very specific. It is a reflection of both tangible and intangible components. The fashion product goes beyond its functional characteristics, and it refers to the communicative content of a symbolic nature, defined by a consumer himself at the moment of buying or consumption decision. [Granger, Sterling, 2011] For instance, the fashion product remains one of the prime symbols demonstrating one's economic status. Even in the ancient Roman Empire, the visual image of fashion was so embedded in the society that the governing authority declared the design and colors of shoes worn by members of each class. Thus, the fashion product itself became a tool to communicate a '*way of being and living*'. [Okonkwo, 2007] Nevertheless, within the fashion industry both products can be identified: fashion goods oriented towards physical attributes and functional values, and fashion goods focused on the immaterial and symbolic dimension.

According to the classification of the American Marketing Association (the AMA) goods can be divided into: '*convenience goods*', or '*commodities*', those consumers' goods which the customer purchases frequently, immediately, and with the minimum effort; '*shopping goods*', those consumers' goods which the customer

in the process of selection and purchase characteristically compares on such bases as suitability, price and style; and '*specialty goods*', those consumers' goods on which a significant group of buyers are habitually willing to make a special purchasing effort. [mg-dictionary – [http:// www.marketingpower.com](http://www.marketingpower.com)] This tripartite division, indeed, may be used to describe goods in the fashion industry as well. That is:

- Convenience: poorly differentiated products, such as unbranded or private label products, that meet basic needs and offer low style at low cost, and that are usually sold in popular stores. Basic and continuous products, not necessarily at low price, such as an Oxford shirt or a blazer, also fall into this category.

- Shopping: differentiated and branded products, characterized by premium price and prevalence of emotional and intangible attributes. Those products are still comparable and are chosen after an evaluation process regarding product characteristics, distribution and price.

- Specialty: unique products, or at least perceived as such by customers.

Therefore, to understand the modern fashion product means to differentiate customers by their perception of trendiness, mass appeal and price. It is a complex process of defining different levels to operate in: levels of excellence, quality and snobbery. These are:

- **Haute Couture**

Haute couture has the highest level of manufacture and most time-consuming especially in terms of skilled labour. It involves stylish, rich garments with expensive fabrics and attention to sewing details, made by the most experienced tailor using hand-executed techniques. Usually it is a particular design made to order for a specific customer. As a rule, the price of haute couture products is ten times higher than the market average. [Tungate, 2012]

The term haute couture is protected by law and is defined by the *Chambre de commerce et d'industrie de Paris*, based in Paris, France.

The most popular haute couture brands are: Valentino – Chanel – Giorgio Armani – Christian Dior – Elie Saab – Jean Paul Gaultier – Versace. [Couturiers & Designers – <http://modeaparis.com>]

- **Ready-to-wear (RTW)**

RTW or *prêt-à-porter* fashion houses manufacture at a very high level, but industrially. RTW items are made in small quantities to guarantee exclusivity, so they are rather expensive. The price of such products is usually set up three to five times higher than the average market price. It is a cross between haute couture and mass market. [Tungate, 2012]

All the designers, taking part in a Fashion Week, are considered to be *prêt-à-porter* designers: Prada – Luis Vuitton – Max Mara – Marni – Dolce & Gabanna. [Couturiers & Designers – <http://modeaparis.com>]

- **Diffusion**

A diffusion line is a secondary or a third line of products created by a high-end designer or a prestige brand that retails at more moderate prices, usually two-three times higher than the average market price. '*Diffusion*' is a new buzz word in fashion. It appeared mainly due to the recent financial crisis, when high-end labels had to bring out a cheaper range to widen its appeal and recruit new, younger customers to ensure they become loyal fans and mature into the main line. [Tungate, 2012]

Examples of diffusion lines include: Marella by Max Mara - Armani Jeans by Armani – Versace for H&M – Jason Wu for Target. [Tungate, 2012]

- **Bridge**

The bridge segment was born in the U.S. market at the initiative of department stores to offer a product that would act as a '*bridge*' between the mass market and the first and second designer lines. The price of bridge goods is 1.5-2 times higher than the average market price. [Tungate, 2012]

Some of the examples of bridge labels include: Ellen Tracy – Dana Buchman. [Tungate, 2012]

- **Mass production**

Mass production is the cheapest and most highly industrialized and can produce hundreds of thousands to millions of garments. In order to reduce cost of the final product, mass manufactures use cheaper fabrics and simpler production techniques, which can easily be done by a machine. [Tungate, 2012]

The most well known manufactures are: Zara – H&M – Mango – C&A. [Tungate, 2012]

Therefore, fashion today is no longer restricted to a small group of people. With the emergence of ready-to-wear and mass production, fashion items have started being produced at scale, becoming more affordable and meeting all levels of society.

### **1.3. Luxury Fashion**

#### **1.3.1. Background**

Although it may appear as a recent phenomenon, consumption of luxury goods has always been present in society. At all times, a high class or an elite society has been surrendering themselves to the pleasure of consuming luxury products in religious, tribal or profane purposes. An ability to consume such products was the main indicator distinguishing unreachable upper class from the rest of the population.

However, over time, particularly throughout the 17<sup>th</sup> and the 18<sup>th</sup> centuries, the number of people acquiring luxury products had been rapidly increasing, having reached its maximum in the late 20<sup>th</sup> century. Due to this fact, luxury consumption extended its primal purposes to also symbolize either a trophy, earned through hard work, or a privation, needed in the personal life. [Lipovetsky, 2002]

The modern luxury industry was formed in Europe during the Industrial Revolution, when some European entrepreneurs created premium goods as a symbol of supreme lifestyle of that period. During the early years of industrialization, wealthy Americans and Asians travelled to Europe to acquire luxury goods, boosting international trade and the expansion of the global economy. [Lipovetsky, 2002]

The business model of the luxury sector is based on supreme quality, high price and exclusive products, in order to satisfy customers at the top end of the wealth spectrum. The key elements of the luxury business strategy involve meeting customers' expectations and selective distribution. According to LVMH Moët Hennessy • Louis Vuitton S.A. (LVMH), the business model of luxury industry includes designing, production and marketing of premium products using the services of exclusive designers, latest innovations and technologies to produce extremely high quality products that meet customer's demands and expectations. Selective distribution ensures quality service, experience, choice, protection and trust, which consumers repay back with their loyalty. [Group Mission and Values – <http://www.lvmh.com>]

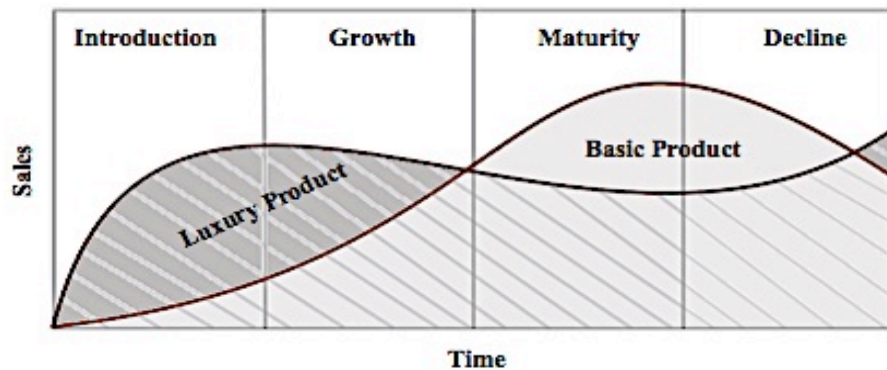
The global luxury industry faced a slight decline during the global financial crisis, mainly due to tightening of budget and reduction in spending. However, because the global economy is expected to grow at 2.4% in 2013 and 3.2% in 2014, primarily because of rapid growth in India and China, the luxury industry is poised for recovery. The global luxury goods market had total revenues of \$278 billion in 2012, representing CAGR of 8.44 percent for the period 2009-2012. [Trading Volume Statistics – <http://www.futuresindustry.org>]

### **1.3.2. Luxury Fashion Product**

A product is considered '*luxury*' when it has the particular design, quality, performance, or durability that is remarkable superior to the comparable substitute. [Tungate, 2012] Luxury goods have a lot to do with the consumers psyche and how it makes the person feel. Generally, luxury goods are considered to be the highest quality, and price in the market.

The product life cycle (PLC) of luxury goods is high, because of the designing and manufacturing process, and sourcing of high quality materials (see Image 1). [Granger, Sterling, 2011]

Image 1: Product Life Cycle. Basic Product vs. Luxury Product



Source: Fashion Entrepreneurship [Granger, Sterling, 2011]; own processing

However, PLC and durability varies across different segments. Luxurious goods such as cosmetics and apparel generally have a shorter PLC, typically for a season since changes in fashion trends are quite frequent and the segment is highly competitive too. [Granger, Sterling, 2011]

Overall, a luxury product should be handmade and sold by one individual to another. Not like standard customer products that are mass-manufactured by machine and could be sold almost anywhere.

Within the luxury fashion industry there are three different categories of products, differentiated through pricing. [Granger, Sterling, 2011] These are:

- expensive luxury goods, representing haute couture and RTW, such as jewelry, apparel, leather goods, wrist watches, special edition products; [Granger, Sterling, 2011]
- medium-priced luxury products, representing RTW, such as eyewear, bijoux and wrist watches, diffusion lines of a main brand and bridge labels; [Granger, Sterling, 2011]
- lower-priced luxury products, such as cosmetics, fragrances, writing material. [Granger, Sterling, 2011]

### 1.3.3. Luxury Fashion Consumer

Traditionally the target customers of luxury goods have been high net worth individuals who represent the high society and constitute the upper end of the wealth

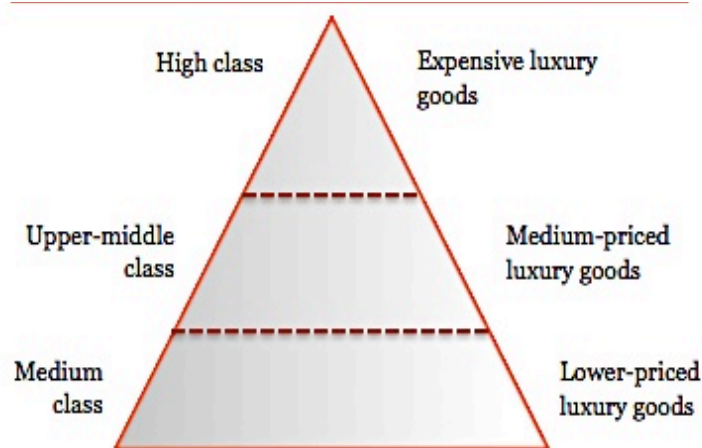
spectrum. In the past, luxury goods market was mostly limited to developed economies, such as United States of America, Europe and Japan. However, the real growth in the sector has been achieved due to globalization, advanced communication, lowering of entry barriers, new markets and opening of the world economy. [Okonkwo, 2007]

Nevertheless, the segmentation of luxury products is still done according to the ability of each social class to purchase the product (see Image 2). [Alleres, 1990]

High class is the traditional luxury consuming class. Today, it is represented by high net worth individuals, characterized by availability of more than \$1 million in their assets. Approximately 61% of them are over 56 years old. High net worth individuals tend to purchase the most exclusive, rare and expensive items. [Agin, 2000, p. 53] [Alleres, 1990]

Upper-middle class is a recently appeared class, linked to the new bourgeoisie. They are satisfied with goods manufactured in a small scale by fashion designers; however, they do not make those purchases on a regular basis. Upper-middle class tends to imitate behavior of high net worth individuals, thus, distinguishing itself from the middle class. [Agin, 2000]

Image 2: Hierarchy of Luxury Consumers and Luxury Product



Source: Strategies Marketing [Alleres, 1990]

Middle class consists of customers, who are purchasing fashion items that carry a luxury brand label. For them luxury products are considered indulgences and a way to join the cultural heritage of brands. [Agins, 2000]

#### **1.4. Mass Production: Fast Fashion Concept**

##### **1.4.1. Background**

Consumers are cautious to spend on discretionary products, and when they do, they expect such product characteristics as fashion, quality and low cost.

*'Fast fashion'* is a modern term used by fashion retailers to concede that fashion items move from catwalk to shop in the fastest time possible to seize current trends in the market. The apparel products are designed and manufactured instantly and cheaply to grant the mass consumer with advantages of popular clothing styles at a lower price. [Tungate, 2012]

The concept of fast fashion has its roots in the development of Quick Response (QR). [Stone, 2008] Having faced severe competition from the Far East and other low-cost supply countries in the late 1970's and throughout 1980's, American textiles and apparel suppliers initiated the project on improving manufacturing processes in the textile industry with the aim of reducing time in the production system. As a result, during the project lead times in the manufacturing process were halved, making the U.S. industry more efficient and competitive for a time. [Stone, 2008, p. 34] However, Amancio Ortega, a Spanish executive of Inditex fashion group, is considered to be the real founder of fast fashion. His mega chain of Zara clothing and accessories retail shops created in 1975 has become the global model of the QR concept, demonstrating how to decrease the time between design and production. [Tungate, 2012, p. 123] [Stone, 2008] This production short cut enables the whole Inditex group to make 840 million garments a year to nearly 5,900 stores in 85 countries. Another key element of Zara strategy is consumer boom, arising from the constantly changing edition of affordable alternatives to designer looks. [Concepts – <http://www.inditex.com>]

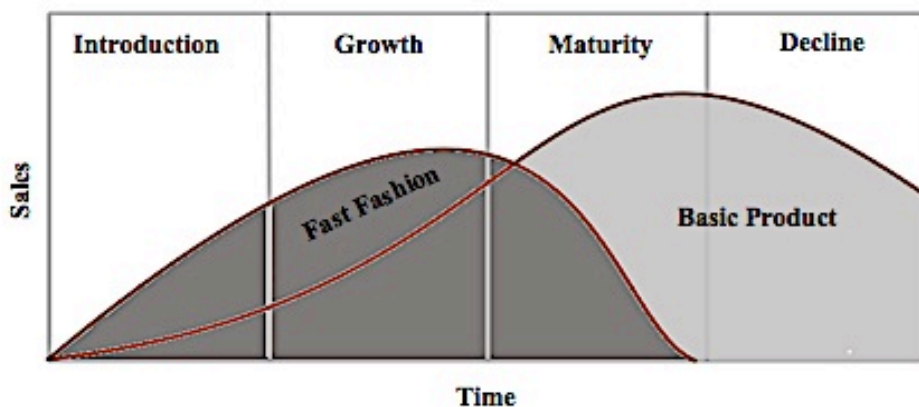
Fast fashion is generally recognized as a business strategy of mass fashion brands. In order to satisfy consumer demand at its peak, the aim of fast fashion is to reduce involved processes in the buying cycle and lead times for delivering new fashion products into stores.

#### 1.4.2. Fast Fashion Product

As PLC of fast fashion has a shorter time than basic products, brands are encountered with the unique opportunity of delivering not just one product, but a product line in a timely, trend-right manner (see Image 3). [Granger, Sterling, 2011]

Fast fashion product is characterized as a product being disposable for immediate consumption. It is not durable and not built to last. It also should not linger in the closet, as it is not commodity clothing. Because of the affordable price, customers need to make purchase again within a short-time frame since clothes get outdated. Fast fashion products usually cost 10% of the price charged by luxury brands. It should be pointed out, however, that fast fashion does not apply to the whole range in the mass fashion brand's store. As much as 80% may be core or basic lines and only 20% may account as fast fashion. [Stone, 2008, p. 87]

Image 3: Product Life Cycle. Basic Product vs. Fast Fashion



Source: Fashion Entrepreneurship [Granger, Sterling, 2011]; own processing

### **1.4.3. Fast Fashion Consumer**

A typical fast fashion customer expects to have a wide choice of up-to-date well-designed clothes when doing the shopping. The following value expectations are identified to be the most important to consumers of fast fashion:

- current fashion design;
- immediate availability of trends;
- variety/choice;
- low price matching quality;
- service that includes an attractive store design.

The target group for fast fashion is mainly made up of young to middle-aged people, 15-35 years old and they are typically female customers. [Stone, 2008, p. 78] This is due to the fact that they tend to purchase fashion products more often and usually spend more. Fast fashion customers are frequent visitors of shops, because they do not want to miss out on the latest trend, as fast fashion products are manufactured in rather small quantities and not replenished.

## **2. FASHION BRANDING**

### **2.1. Brand and its Meaning**

As luxury has now diffused into the masses, fashion market is becoming more interdependent and competitive, while consumers on the other hand are becoming more selective. Due to this fact many companies today are faced with the decision of how to address this changing environment. On the one hand, there is a need for differentiated products for the diverse needs of the various target groups, simultaneously combining exclusivity and availability and an appeal to many while appearing to be right for only a special few. On the other hand, the fashion industry has to cope with high expenses for both cost of goods and operating costs by finding new ways to reduce those expenses other than production. “Wages are rising in many of the old standbys, with China being the obvious one”. [The Apparel Industry’s New Reality – <http://www.checkpointsystems.com>] As a result, it becomes extremely challenging for the industry to squeeze cost of goods simply by finding a cheaper place to manufacture. Therefore, the prolonged period of austerity over the last few years has led to an increased need for companies to effectively manage their brands as assets, keeping them relevant and attractive.

“A product is something that is made in a factory; a brand is something that is bought by a customer. A product can be copied by a competitor, a brand is unique. A product can be quickly outdated, a successful brand is timeless.” [Aaker, 1991, p.1]

That is why it is important to distinguish between a brand and a product. “Product is anything that can be offered to a market for attention, acquisition, use of consumption that might satisfy a need or want”. [Kotler, Amrstrong, 2001, p. 46] “A brand is a name, term, sign, symbol, design or a combination of these that is intended to identify the product of a seller and to differentiate it from those of competitors. It is an identifiable entity of a company’s total offerings that makes specific and consistent promises of value, which results in an overall experience for the consumer or anyone who comes in contact with the brand.” [Okonkwo, 2007, p. 23] Thus, a product is a commodity, either hand- or factory-made, which possesses attributes and

characteristics, making it tangible. While a brand “is the sum of all experiences and communications received by the consumer resulting in a distinctive image in their mind-set based on perceived functional and emotional benefits, which makes it intangible.” [Aaker, 1991, p.2] Even Rebecca Robins, Global Marketing Director of Interbrand, stresses, “brands are valuable assets, but only if developed, managed and maintained as such”. [New Ideas in Luxury Marketing – <http://interbrand.com>]

Branded products not only add a fashionable image to the apparel, but it also gives some extra benefits to the consumers. It enables them to create an idea about both the value of the product and the brand itself.

The value of the brand or the ‘*brand equity*’ may literally be defined as the difference of cash the customer pays for a non-branded item, and a branded one. Therefore, building a strong brand provides numerous financial rewards to organizations. [Aaker, 1995] Indeed, the brand simplifies the tracking and transportation of products. Having different brands in place allows a company to organize its inventories, accounts and other documents. The brand also gives a company legal protection of unique features and aspects of a particular product. Therefore, the brand can be identified as a source of competitive advantage and consistent economic returns.

All these observations, taken as a whole, emphasize that it must be taken a cautious approach towards brand building and brand activation, as they form the basis of successful branding.

To be strong, a brand must have well-defined elements and badges that are legally defensible and easily memorable, and that recall to consumer’s mind the category, which a specific product belongs to, thereby, evoking the desired brand associations.

## **2.2. Distinguishing Features of Fashion Branding**

In the fashion business, the brand is not only the part of the commercial world, but it is also a part of the communication process. It is a core element in focus of all business strategies: the role of the brand has passed from ‘*ancillary*’ into ‘*functional*’ of generating and adding up the value to the entire business. [Okonkwo, 2007]

Apparently, it became a point of convergence between production, distribution and consumption. As of today, products are becoming more and more homogenous, consumers and distribution channels, on the contrary, are expressing more and more individuality and independence from the industry.

According to Salzer-Morling and Strannegard (2004), the brand is a visual sign that aims to create impressions and communicate meanings. The visual sign becomes brand when it is transformed into an aesthetic product. The process of '*aestheticisation*' does not arrive solely from the company, but it is a joint expression of a company and consumer interaction. [Salzer-Morling, Strannegard, 2004]

Fashion branding is represented by various decisions aimed to coagulate and concretize all the tangible and intangible assets of the supply chain, making clear their contents for marketing purposes and building upon them the competitive advantage for the products and the value for the customer. The brand carries on both denotative functions, such as identification and description of a product, as well as connotative functions, which allow consumers to establish associations between features of the supply chain and the system of communicative symbols and codes, thus creating credibility and trust on consumers' perceptions of the brand. [Kapferer, 1997]

Fashion branding has a number of particular features distinguishing it from branding in other business sectors. The following six features were found to be the most distinctive ones:

1. Fashion industry is the only sector of the economy, where fashion shows form the basic of shaping and maintaining brand image. Fashion shows influence both how strong a brand is going to be, and how well a collection is going to be sold. Mass media is regularly visiting fashion shows, thus, media coverage plays a significant role in maintaining a brand value. [Stone, 2008]

2. Fashion brands do use celebrities in their advertising activities more often than other brands do. [Okonkwo, 2007]

3. Fashion brands usually have provocative advertising campaigns, controversial and sensually centered.

4. Designer plays an integral role in the fashion brand image. He is a key face of a fashion house, and most often, fashion houses and brands name themselves after designers, who have established the brand.

5. The logo of fashion companies is usually very simple and easy to remember. It is either a brand name, or brand initials.

6. Luxury brand awareness must be superior to its penetration, meaning that there is always should be a distinction between brand awareness and brand diffusion. [Stone, 2008]

### **2.3. Brand Building**

“Building a strong brand with significant equity is seen as providing a host of possible benefits to a firm, including greater customer loyalty and less vulnerability to competitive marketing actions and marketing crises, larger margins as well as more favorable customer response to price increases and decreases, greater trade or intermediary cooperation and support, increased marketing communication effectiveness, and licensing and brand-extension opportunities.” [Fournier, Allen and Miller, 2007, p. 90]

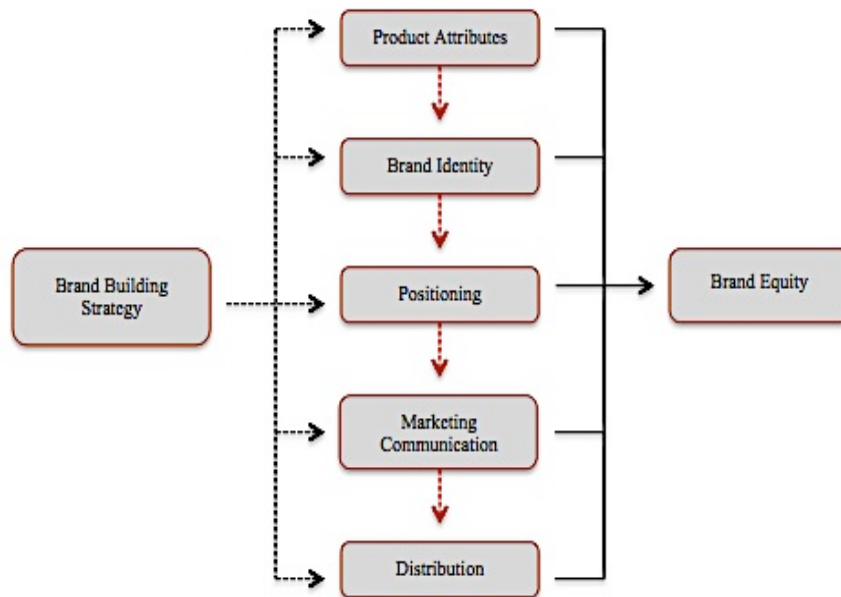
There are different approaches to brand building depending largely on whether a company stays local, or goes global. However, it can be generalized into the need of a company to decide if each stage of the brand building process, such as product attributes, brand identity, positioning, marketing communication and distribution, should be either adjusted to one or another environment, or maintained as such.

#### **Product Attributes**

The product attributes refer to the tangible value a customer receives when purchasing an item. Like many other products, apparel is composed of many physical characteristics, which are perceived differently by various consumers. When considering a purchase, consumers tend to compare and contrast all possible alternatives made up of different attribute combinations, such as design, style, retail store and price. Kapferer (1997) identifies those tangible attributes as ‘*physique*’. “Physique is both the brands’ backbone and its tangible added value. If the brand is a

flower, its physique is the stem. Without the stem, the flower dies: it is the flower's objective and tangible basis.” [Kapferer, 1997, p. 56] Therefore, defining the physical aspects of a product is fundamental when creating a branding strategy.

Image 4: Brand Building Process



Source: Building Strong Brands [Aaker, 1995, p. 67]

### Brand Identity

According to Upshaw (1995) the identity is what makes a brand distinctive; it is a brand's unique fingerprint. “Identity draws upon the brand's roots and heritage – everything that gives it its unique authority and legitimacy within a realm of precise values and benefits”. [Upshaw, 1995, p. 44]

The term brand identity refers to intangible features, which aim to offer the consumer added value on an emotional level. A company creates and maintains a specific set of brand associations, such as the name, origin, and personality of the branded products that make up the brand identity. The associations are directly connected to a brand long-term singularity and attractiveness.

### Positioning

A brand's positioning is based on one fundamental principle: all choices are comparative. When it comes to brands, customers make a choice, but with products, they make a comparison.

The aim of positioning is to find the right product for the right consumer with rather specific needs that can be satisfied in a unique way. In other words, positioning is the first step on the road to developing a relationship with customers. [Aaker, 1995]

Being an integral part of the brand identity, positioning plays a crucial role in the brand building process, as it is not a product to determine positioning, but positioning itself ones designed and established builds a product, adds characteristics to it, develops packaging and communicates the message. [Upshaw, 1995]

At the same time, positioning is how the target market perceives the brand in relation to its competitors. “Positioning is competition-oriented: it specifies the best way to attack competitor’s market share”. [Kapferer, 1997, p. 59] When doing analysis of customers and competitors fashion companies often limit it to the boundaries of the fashion industry. But related industries and their brands are also striving to reach the same target audience. Primarily, these are companies specializing in manufacture of perfumes and cosmetics. Secondly, all those entities associated with the beauty industry, such as spa and yoga centers, plastic surgery. Tourism, entertainment and automotive industries are also among real competitors of fashion companies. [Stone, 2008]

Therefore, when positioning goods in the fashion industry, it is vital to take into account the following factors:

1. The main consumer-buying motives of fashion goods are either emotional, or social. So when analyzing those motives, it is important to understand the nature of the emotions and experiences that drives customers to purchase a product. These emotions must be reflected then in the visual content and marketing communication messages.
2. As it was mentioned earlier, fashion products are divided into luxury goods sector and mass fashion sector. Therefore, consumer-buying motives corresponds to different reasons in each sector.

### **Marketing Communication**

Marketing communications represent the network of relationships that forms between the producer, retailer and customer. The aim of such communications is to

create a favorable predisposition towards a brand, influence the consumer and direct his/her purchasing pattern.

Marketing communications involve all promotional elements between a company and its target audience. When entering the market organizations can use all elements of the communication mix: advertising, personal selling, sales promotion, and public relations (PR). Each element has its own features and particular functions, and can be most effective in reaching a very specific, desirable target group. However, the greatest beneficial effects for the company can be achieved only by the integration of individual elements of communication into the one marketing communication mix. [Rath, Bay, 2008]

Advertising takes the biggest share in the total communication policy of fashion companies. It is the main mechanism of developing and maintaining brand image and high status of a company. Image advertising is the key form used in communications with consumer, simply because in such sectors as apparel, perfumery, and luxury goods there is no need for a thorough clarification of the meaning and construction of arguments. "In some lines, like clothing advertising, pictures have proved most convincing. Not only in picturing the collar or the clothes, but in picturing men whom others envy, in surroundings which others covet. The pictures subtly suggest that these articles of apparel will aid men to those desired positions." [Rath, Bay, 2008, p. 45]

The objective of PR is to create a positive brand image, to maintain sustainable relationship with mass media and to increase brand awareness. PR strategy of fashion companies usually consists of press releases about new collections and lookbooks; important events in the industry, such as fashion weeks, press tours and events for journalists; sponsorships; organization and design of show rooms; and cooperation with celebrities and representatives of show business. [Okonkwo, 2007]

### **Distribution**

Through distribution channels customers get access to products. It is of vital importance to choose the right channels, as they are of particular weight for fashionable goods and they can help build a strong brand.

Effective retail channels meet the customer's expectations in terms of location, convenience and product selection. For luxury brands, there is an additional challenge of brand protection in the distribution channel choice. In order to maintain an exclusive brand aura a tight control over distribution channels is of must have. Avoiding or minimizing the use of intermediaries, licenses and franchises help to retain control of where the products are sold. For instance, when Gucci licensed its brand to multiple producers and distributors, the brand value dropped dramatically leaving the company with decreasing sales and mounting debt. However, the buying back of the licenses led to revival of the brand, bringing total control of all aspects of the firm up to the floral arrangement in every store. [Tungate, 2012] Thus, intermediaries must match the organizations' overall marketing strategy. The competitive and complementary goods carried by the distribution channel, its selling and promotional activities, the inventory policy and service must concur with those of the company. "Fashionable goods tend to be sold through selective channels as they often have a high unit value and contain a style element". [Rath, Bay, 2008, p. 87]

Fashion companies, particularly high fashion houses tend to standardize the way they distribute their products, primarily, in terms of store location, meaning that companies search for similar settings in different countries and regions. [Alleres, 1990]

#### **2.4. Brand Activation**

"Brands are like muscles: Exercise them, stretch them, and keep them moving and they'll have a longer, healthier life. Let them be couch potatoes and they'll atrophy". [Zyman, Brott, 2002, p.61]

Depending on different phases of the PLC, there is a need to implement different types of strategies. The more a product enters into maturity and decline stage, the more it is essential to slow down the process and to revitalize the product and the brand itself, through continuous transformation strategies, designed to meet changing consumer needs and expectations. Such strategies may include attempts to

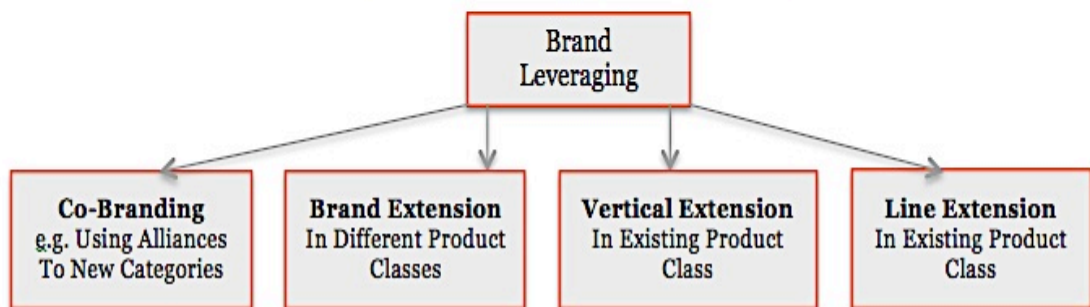
expand consumption and usage of the product, to modify its marketing mix, or, at extreme, to reposition the product.

Aaker (1995) states that creating and leveraging a strategic asset is a recipe for success. [Aaker, 1995] In fact, the created brand represents the most concrete and measurable in monetary terms resource of a company. The brand with its brand awareness, perceived quality, associations and loyalty makes up the company's most powerful asset.

In this study, the term '*brand activation*' is used synonymously with '*brand leveraging*'. Aaker (1995) has developed a brand leveraging model that illustrates ways in which a brand can be activated, namely through line extensions, vertical extensions, brand extensions and co-branding. However, every innovative strategy aimed on the brand expansion, attraction of new customers and extension into new markets must be in compliance with the original brand (see Image 5). [Aaker, 1995]

The brand acts as an intelligent structure that creates evolution through learning. A company must develop a full understanding of concepts and roles of the brand to a degree that allows adoption of dynamic perspectives to the brand analysis and brand management with regard to brand leveraging strategies.

Image 5: Brand Leveraging Model



Source: Building Strong Brands [Aaker, 1995, p. 19]

### **Line extension.**

It is possible to talk about extension of the line, when a company introduces additional items in a given product category under the same brand name. Most often those items include new flavors, shapes, colors, ingredients, or a different dimension of packaging. According to Kotler, Armstrong, Saunders and Wong (2001), the line

extension is by far the most popular way of introducing new products. [Kotler, Armstrong, Saunders and Wong, 2001]

### **Vertical Extension (Stretching Up/ Stretching Down).**

A brand can be enhanced through vertical extensions; in other words, stretching a brand can be a move up or down. Companies must decide whether they are going to extend into higher or lower markets. “When a brand moves down, value becomes the key focus. Low-cost, while delivering acceptable quality and features, becomes the central objective. This involves some risk, since the perceived quality of the brand as a whole will inevitably be influenced”. [Aaker, 1995, p.20] “An upward brand movement occurs when the volume leader decides to target the high-end or luxury end of the market.” [Aaker, 1995, p.20] In this niche, margins are frequently better, innovation and quality gets more noticed and high margins help to pay for new innovations. Generally, vertical extensions allow a company to enter into an emerging ‘*low-end*’ segment without threatening the value of the brand in the ‘*high-end*’ segment. . [Granger, Sterling, 2011]

### **Brand Extension.**

“Extending the brand occurs when a new product is introduced which is an entirely different category. The advantages include the fact the new product can piggyback some of the goodwill generated by the existing product.” [Aaker, 1995, p.20] A possibility to differentiate new products reduces risk to existing brands if a new product fails. And generally, brand extension helps to facilitate an introduction of new products to the market, especially when the company’s name is highly consolidated. “The disadvantages and risks, however, are substantial – including the fact the core brand name may not add value in the new category, confusion may arise and an opportunity to create a new brand name as a stand alone asset has been passed over. Brand extensions offer both the greatest potential returns and the greatest possible risks”. [Aaker, 1995, p.20]

### **Co-Branding**

It is possible to talk about co-branding, when two brands combine as partners to enter into a new product class. Co-branding can create huge amounts of enhanced visibility and credibility for both partners, but there are definitely potential dangers involved.

As co-branding is the main focus of this thesis, it is going to be further analyzed in details in the Chapter 3.

### 3. CO-OPERATIVE BUSINESS STRATEGIES

*“If you want to be incrementally better: Be competitive.  
If you want to be exponentially better: Be co-operative” [Author Unknown]*

Relationships form the core of our society, both in personal and professional life. In today's homogenous markets, the necessity of differentiation is constantly increasing. Moreover, organizations are trying to achieve more brand action with fewer resources. Fournier and Allen (2007) identify co-creation, collaboration, complexity, ambiguity, dynamism, loss of control and multimodality as characteristics that define '*our new branding world*'. "To successfully address these challenges, the building of relational ties offers a promising strategic option." [Fournier, Allen, 2007, p. 26] It comes with no surprise that the use of co-operative strategies is steadily increasing in the dynamic and competitive landscape of the 21<sup>st</sup> century.

A co-operative strategy is a business strategy of two companies working together to achieve a common goal. Through co-operation companies create value for customers, which goes beyond the cost of providing this value and establishes a favorable position well against competitors.

#### 3.1. Strategic Alliances

Strategic alliances are partnerships between two or more companies in which resources, skills and core competences are combined to pursue a set of agreed upon goals and mutual interests in designing, manufacturing and distributing goods or services. Strategic alliances often involve joint research and development (R&D), joint marketing activities, technology sharing, or joint use of production facilities. [Bamford, Gomes-Casseres, Robinson, 2002]

Strategic alliances can be grouped into three broad categories: non-equity alliances, equity alliances, and joint ventures. [Bamford, Gomes-Casseres, Robinson, 2002]

### **Non-equity Alliance.**

Non-equity alliance or a contractual relationship is cooperation between firms that is managed directly through contracts, such as franchise or lease agreements, supply or distribution agreements, sublease or subcontract for services, without cross-equity holdings or an independent firm being created. Since it does not involve establishment of a separate company or capital investment, non-equity alliances tend to be less formal and require less commitments by partners. Thus, those features make non-equity alliances inadequate for complex projects where success depends on the efficient transfer of tacit knowledge between partners. [Bamford, Gomes-Casseres, Robinson, 2002]

Sometimes companies implicitly engage in cooperative agreements. Outsourcing is a good example of such agreement. Many companies in the fashion industry are strongly entrenched in a business model that involves outsourcing production and distributing products through cheaper channels. Even though, most often it is a case of mass fashion producers, outsourcing of the manufacture of luxury products and services is also steadily increasing. Several luxury brands manufacture their products in Asia, East Europe and South America where labour costs are substantially lower than in their home countries. Furthermore, luxury brands are increasingly outsourcing their customer services through independent call centers, which leads to cost-saving opportunities for the brands. [Stone, 2008]

### **Equity Alliance.**

In an equity alliance, cooperating firms supplement contracts with equity holding, aimed to combine some of their resources and capabilities to create a competitive advantage. Most of the foreign direct investments (FDI) are supplemented by the equity strategic alliance. Moreover, equity alliances are considered to be more efficient in transferring know-how between companies, because they are closer to the hierarchical control than non-equity alliances. [Bamford, Gomes-Casseres, Robinson, 2002]

Back in 1999 Italian luxury designer goods maker Gucci entered into a strategic alliance with Pinault-Printemps-Redoute (PPR)<sup>1</sup>, which provided Gucci with important financial resources and a partner in creating shareholder value while growing through acquisitions. It enabled the company to transform Gucci into the world's leading multi-brand luxury goods company. [History – <http://www.kering.com/en>]

### **Joint Ventures.**

In a joint venture, cooperating firms create a legally independent firm in which they invest and share profits, if any. Joint ventures are formed to establish long-term relationships and to transfer tacit knowledge, which is an important source of competitive advantage. Usually, the cooperating companies share an equal percentage of shares in a joint venture. [Bamford, Gomes-Casseres, Robinson, 2002]

At the present time, in conditions of unstable global economy and ongoing bank crisis, Western companies turned to joint-ventures for the purposes of entering hard-to-penetrate emerging markets and developing non-organic profit. “In a move that underlines the growing global appeal for Indian apparel, L Capital Asia, the private equity arm of the world's largest luxury conglomerate LVMH Moët Hennessy – Louis Vuitton (LVMH Group), and Groupe Arnault is forming a 50:50 joint venture with Genesis Luxury Fashion for a renewed focus in the Indian market. While L Capital Asia will bring in its knowledge and help create a multi-brand system, Genesis will focus on retail distribution and infrastructure”. [L Capital Asia, Groupe Arnault in fashion JV with Genesis Luxury Fashion - <http://articles.economictimes.indiatimes.com>]

### **3.2. Affinity Marketing**

Affinity marketing seeks to develop a positive or influential relationship among customers by associations with other companies. These companies may be connected via a standalone brand. This association may offer better access to a group of customers than by using conventional marketing techniques. Being a special form of

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<sup>1</sup> PPR will become KERING subject to approval at the Annual General Meeting on 18 June 2013.

strategic alliance, affinity partnering is defined as “a relationship marketing strategy in which the primary goal of the partnership is to leverage the felt affinity, goodwill or brand name strength of a partner so as to enhance relational market behavior in existing or new segments.” [Swaminathan, Reddy, 2000, p. 34] Thus, one of the major characteristics of affinity marketing is to inform the customer of the partnership in order to benefit from the partner’s brand image and reputation.

There are a variety of strategies within affinity marketing relationships. Swaminathan and Reddy (2000) introduced a classification system that forms a theoretical basis of key strategic differences. They note that “the level of affinity can be high, moderate or nominal, and that the level of integration can be either physical or symbolic” (see Table 2) [Swaminathan, Reddy, 2000, p. 39]

Table 2: Topology of Affinity Partnering

	<b>Physical</b>	<b>Symbolic</b>
<b>High</b>	Affinity/loyalty programs, product bundling	Affinity promotions
<b>Moderate</b>	Cause-related marketing	Cause-related marketing promotions
<b>Nominal</b>	Co-branding, dual branding, celebrity marketing, product placement	Co-branding, joint sales promotions, co-operative advertising, sponsoring, celebrity marketing, product placement

Source: Handbook of Relationship Marketing [Swaminathan, Reddy, 2000, p. 39]

Reviewing the secondary literature, the concept of loyalty as ‘*customer loyalty*’ is frequently seen as an expected outcome of relationship marketing. Indeed, the term ‘*loyalty marketing*’ is often used interchangeably with affinity marketing. [Rath, Bay, 2008] Nowadays, loyalty programs are becoming increasingly pertinent for luxury retailers. When managed well, loyalty programs allow luxury retailers to build brand affinity, increase physical and online store visits, grow brand advocates and increase transactions. For instance, Saks Fifth Avenue, an upscale department store chain owned by American multinational corporation Saks Inc., just introduced new offerings to its SaksFirst loyalty programs, providing Saks cardholders and loyalty program members with perks such as free same-day shipping, bonus points with

purchase and gift cards, special events and a “5 Days of First” program. [SaksFirst - <http://www.saksfifthavenue.com/SaksFirst>]

### **3.3. Co-Branding**

#### **3.3.1. Definition and Development of Co-Branding**

Today, many companies are in the midst of a market, in which it has become increasingly difficult to remain differentiated, relevant and strong due to fierce competition, emergence of new technologies and grow of consumer demand. Within this context, it is crucial to find new ways that can differentiate and strengthen existing business. Any brand building should become more efficient and effective, since the margins today simply do not tolerate mediocrity and inefficiency. [Aaker, 2007]

Co-branding or brand alliance between various available marketing strategies is a tool of creating a factor of differentiation from competitors and establishment of better relationships with target audience. Blackett and Russell (1999) combine value and time aspects in their definition, and indicate a limit when the collaboration turns into an alliance: “Co-branding is a form of co-operation between two or more brands with significant customer recognition, in which the participants’ brand-names are retained. It is usually of medium to long-term duration and the net value creation potential is too low to justify setting up a new brand and/or legal joint venture”. [Blackett, Russell, 1999, p.26] In the marketing context co-branding can be defined as partnership of two brands that may play different roles and may pursue different objectives.

The formation of the concept of featuring the names of two popular brands on one item dates back to the mid-1990s. [Smith, 1999] In general, this time was characterized by the emergence of relationship quality concept and relationship marketing. Blackett and Boad (1999) refer to McKinsey&Company who states that in the last decade the amount of corporate alliances worldwide, including co-branding ventures, has grown by 40% each year. [Smith, 1999, p. 56] Companies has understood the great potential of co-operations, since alliances become a successful

factor for many, offering them competitive advantage through added value and image transfer of the brands involved in the partnership. Therefore, today, co-branding is used to promote not only tangible assets but also intangible values of co-operating companies.

### **3.3.2. Legal Aspects of Co-Branding**

As it was stated before, a company's brand is usually one of its most valuable assets and authorizing a third party to use it always requires careful consideration and control. Before starting any co-branding ventures, it is essential to be aware of legal issues and implications that may arise with co-branding. Depending upon the nature of the products or services concerned and the countries in which they are produced and marketed, legal advice and considerations must be adapted to the general principles.

The agreement between the partners in a co-branding venture is fundamental to reduce risks and ensure well-balanced partnership and success of the venture. Co-branding agreements are often initiated through informal exchange of intentions, which are then followed by traditional contractual exchanges, and finally formalized in a binding agreement. The basic role of the agreement is to establish clearly and unambiguously what the parties have agreed, so that they understand exactly what they are permitted to do and what is prohibited or compulsory under the agreement. As a rule, most of contractual co-branding arrangements have shorter durations and include a trial period within the contract. Thus, both parties have time to decide whether they want to continue participating in the venture, or end the agreement. Often, extension of the contract leads the prior arrangements to turn into strategic alliances. In other case, the agreement sets up the agreed course of action for the parties when the arrangement is eventually terminated. [Dorozala, Kohlbrenner, 2008]

As all co-branding ventures are different and unique, without the trust and goodwill of both parties, even the best contracts and legal agreements cannot ensure a stable mutual business relationship for the future.

### **3.3.3. Opportunities and Threats of Co-Branding**

While providing numerous opportunities, co-branding involves great risks if not managed well.

Among the major opportunities that can be achieved through co-branding are: (1) access to new markets and consumer groups, (2) generation and transfer of knowledge and vision benefits, (3) brand name enhancement, (4) added value and product differentiation, (5) exclusivity, (6) brand activation, and (7) enhancement of consumer trust. [Dorozala, Kohlbrenner, 2008] [Blackett, Russell, 1999]

On the other hand, among the major threats that can be brought about by co-branding activities are: (1) brand equity damage through the partner, (2) domination of the partnership through one party, (3) confusion in the consumer mind, (4) loss of authenticity and credibility in case of partnership failure, (5) consumer aversion to one brand as a result of transfer of the negative image of another brand, (6) legal requirements. [Dorozala, Kohlbrenner, 2008] [Blackett, Russell, 1999]

Thus, taking into account major opportunities and threats it is clearly seen that choosing the right partner is one of the principal success factor of co-branding ventures. Generally, companies are looking for partners that can enhance their strengths and offset their weaknesses. It is important to note that the arrangements between companies are complementary and non-redundant. According to Aaker (2007) the big question is to create an offer that is greater than what any of the two companies are able to develop on their own. A healthy co-branding provides benefits and creates value for both partners. [Aaker, 2007]

### **3.3.4. Types of Co-Branding**

While there are many forms of co-branding, before starting any co-branding arrangements a company must decide on the option that makes the most sense for the current situation. Each type of co-branding is distinguished by the level of customer value creation, expected duration and possible risks for a company, which may

include the loss of investment, brand equity damage and the loss of the value by failing to focus on a more rewarding strategy. The four main co-branding types are categorized with respect to its customer-value creation (see Table 3). [Blackett, Russell, 1999, p. 37]

### **Promotional/Sponsorship Co-Branding**

Celebrities and famous people, events and holidays are considered to be a brand as well. Each of them is usually associated with some particular values. And this value component should correlate with the advertised product; otherwise such co-operation will be ineffective. Typically, this strategy requires a relatively low level of investment and work while both partners benefit from increased awareness and revenue opportunities. Direct marketing campaigns are most often used in this approach. [Blackett, Russell, 1999]

Table 3: Hierarchy of Co-Branding Types in Terms of Customer-Value Creation  
(from low to high)

<b>Customer Value</b>	Innovation	Develop new multi-branded offerings with substantial increases in customer and corporate value.
	Value Chain	Combine brands to expand brand experience for customers.
	Ingredient	Highlight distinct component brand attributed to enhance a product or service.
	Promotional	Link company's brand image to people and events.

Source: Co-Branding: The Science of Alliance [Blackett, Russell, 1999, p. 37]

### **Ingredient Co-Branding**

Ingredient branding is directed to communicate the presence of a certain technology or substance of content in the end products, because usually those ingredients have low brand recognition in the consumers' mind. In all cases the ingredient brand's identity structure is subordinate to the carrier brand in the co-branded identity structure. The strategy allows companies to build a direct relationship with customers, thereby increasing brand awareness. On the one hand,

the partner brand up the value chain stream, on the other hand, it benefits from the communication of quality and enhanced trust. [Blackett, Russell, 1999, p. 37]

### **Value Chain Co-Branding**

Value chain co-branding can be classified into vertical and horizontal co-branding both above or below the value chain. Companies engaged in the value-chain co-branding combine their capabilities to create a new experience and value for the customer, which is not possible to achieve with promotional or ingredient co-branding. Because each brand must be associated with worthy and positive values, choosing a potential partner is essential for the success of the venture. Collaboration is one of examples of the value chain co-branding and is described as a joint creation of several brands or designers. Today, this phenomenon is, perhaps, the most rapidly growing trend in the fashion industry. [Blackett, Russell, 1999, p. 37]

### **Innovation Based Co-Branding**

Innovation based co-branding allows companies to create entirely new offerings and provide substantial enhancement of customer and corporate value. It is the only one approach of all the co-branding types that offers potential to expand existing markets or create entirely new ones. Because partners are willing to achieve the higher value propositions as possible, both rewards and risks associated with innovation based co-branding activity are substantially larger than those of other co-branding strategies. For that reason, higher levels of control and organizational collaboration are required to manage the venture. [Blackett, Russell, 1999, p. 37]

### **3.3.5. Co-Branding in the Fashion Industry**

In the luxury fashion industry there are different types of co-branding activities, which are gaining more and more acceptance among the brands. As it was stated before, specifically for the fashion brands, collaborations provide competitive leverage in terms of changing luxury market environment and democratization of luxury. However, it is essential for a company to cautiously choose not only the right

partner, but also the market where he wants to extend his brand to, as it could have adverse affects on the brand image and brand loyalty.

Overall, there are four mostly used co-branding approaches in the luxury fashion industry [Okonkwo, 2007]:

I. Co-branding among luxury brands both in the fashion as well as other categories of goods.

The most widespread example is collaboration between luxury car brands and luxury watches, such as Breitling for Bentley, Parmigiani Fleurier and Bugatti, Cabestan and Ferrari.

II. Co-branding between luxury brands and celebrities.

Celebrity endorsement is hardly an innovative concept. It has been on the market for several centuries. Celebrities are a great source to add an extra personality, as well as sustain a brand's aura. Most recent examples are: Chanel and Blake Lively, who starred in an American television series "Gossip Girl", that has won numerous awards; David and Victoria Beckham and Armani; Sean Connery and Louis Vuitton, Madonna and Louis Vuitton, and many more.

III. Co-branding between luxury brands and companies in other categories of goods

This approach has a reciprocal relationship, as usually companies of other goods' categories provide additional funds to sponsor the brand in all its activities. For example, Alexander McQueen designed limited edition cards for American Express, who in turn sponsored the designer at his fashion shows.

IV. Co-branding between luxury brands and mass fashion brands

As in the previous cases the purpose of collaborations was to increase brand awareness and brand loyalty mainly within the same social class, co-branding between luxury brands and mass fashion brands stretches the luxury brand down. By providing an immense possibility to expand its customer base, co-branding with mass fashion brands brings about risks to loose existing customers and their loyalty,

and be perceived in a wrong way.

That is why this research study is going to be focused on the fourth type of co-branding practice existing on the market.

As it was stated before, co-branding is a process of joining two or more brand names into one unit with a goal to activate specific marketing objectives. [Blackett, Russell, 1999] This phenomenon may include the establishment of new or revival of old products and services, implementation of various business ventures or advertising activities, as well as opening retail stores and outlets. Until recently, the co-branding tactics have not been widespread in the luxury goods sector, mainly due to the high level of competition and desire of companies to protect their brands. However, in recent years popularity of this approach has started growing. [Dorozala, Kohlbrenner, 2008]

It is believed that the concept of co-branding in the fashion industry appeared in 1959, when a big-name fashion designer Pierre Cardin tried to merge luxury and mass fashion. [Okonkwo, 2007] He joined the name of his highly exclusive and expensive at that time brand with the name of the supermarket Printemps, where he hold the fashion show of his first RTW collection. This event shocked the world of high fashion. The action was seen as a betrayal of the high fashion ideals. As a result, Pierre Cardin was expelled from the Syndicate of High Fashion in Paris. [Tungate, 2012]

The next milestone in the development of the concept of co-branding in the fashion industry was the collaboration of the venerable Japanese designer Yohji Yamamoto with the sportswear brand Adidas. It caused a real confusion in the fashion media and the desperate attempts of many analysts to explain what motives other than commercial gain led the designer to create this capsule collection. At that time, in all the media the step made by Yohji Yamamoto was declared as '*commercialization*' of luxury fashion. [Tungate, 2012] Speaking of the present, the partnership between Yohji Yamamoto and Adidas continues today: the range of the products has expanded offering its customers clothing, shoes and accessories.

In autumn 2004, there was an event that became a turning point in the development of fashion branding. The '*King of podium*', the creative director and designer of Chanel and Fendi, Karl Lagerfeld created a limited edition collection for

the Swedish fast fashion brand H&M. His desire was to involve ordinary people in the high fashion world. The result was conclusive. Many of the items from the collection were sold in a few hours after the stores were opened. The H&M's sales in the first month after the release of the collection increased by 12% compared to the same month previous year. [About H&M – <http://www.hm.com>]

In autumn 2005, a similar situation occurred on the market, when Stella McCartney designed a limited collection edition for H&M. This time, the night prior to the appearance of the collection in stores, several H&M shops collected long queues in front. The collection had a great success not only for H&M, but also for Stella McCartney, who had launched her own luxury brand just five years earlier. [Stella McCartney for H&M - <http://www.hm.com>]

Today, there are many examples of co-branding partnerships between luxury and mass fashion brands. In this paper two collaborative cases were analyzed, in order to collect more precise and correct data of the issue.

The women's collection '*Stella McCartney for H&M*' was chosen as the first case to investigate. The choice of these two brands was intentional. Both brands are being recognized worldwide and are actively participating in co-branding activities with other brands. Interviews conducted with the representatives of marketing and communication departments of both brands created a basis for identifying positive and negative aspects attached to the two brands with the adoption of the strategy. With the obtained information it was possible to evaluate and determine successful factors in the collaborative process, as well as customers' perceptions about the partnership.

The second case of interest is the women's footwear and accessories collection '*Valentin Yudashkin Limited Collection for CentrObuv*'. The choice of these brands is obvious, in terms that they are the first companies to create a co-branding relationship in the Russian market.

Comparing these cases allows us not only to investigate a particular partnership with all its opportunities and threats, but also to prove that co-branding is a successful tool for brand activation that can be used in both local, as well as global context.

## **4. ANALYSIS**

### **4.1. Stella McCartney for H&M**

#### **4.1.1. Stella McCartney**

Stella McCartney is one of the most acclaimed and influential designers in the international fashion world. Being of English origin, she graduated from the renowned art and design school Central Saint Martins in London. Stella McCartney launched her label in 2001 as a joint venture with Gucci Group. Her design works are associated with modern trends that reveal in a natural way the sensuality and power of women. [About Stella – <http://www.stellamccartney.com>]

The brand consists of such products as the range of women's RTW, accessories, fragrance, eyewear as well as a long-lasting co-branding collection for *Adidas*. The brand is operating in 23 freestanding stores in locations including Rome, Milan, London, New York, etc., and is distributed in over 50 countries through 600 wholesale accounts including specially shops and department stores. [About Stella – <http://www.stellamccartney.com>]

Being as an animal rights activist, Stella McCartney does not use such materials as leather and natural furs in her collections. [Sustainability – <http://www.stellamccartney.com>]

#### **4.1.2. H&M**

##### **Facts and Figures**

*H&M Hennes & Mauritz B.V. & Co. KG* is a Swedish retail clothing company and one of the largest fashion companies in the world. H&M was established in 1947, aiming to offer fashion and quality at the best price. Since then the company has been constantly growing and diversifying its product portfolio to include

womenswear, menswear, childrenswear, footwear, accessories and cosmetics. [Facts about H&M – <http://www.hm.com>]

Being a company of the Swedish origin, H&M, however, has the biggest market, more stores and higher sales volume in Germany, followed by the US, UK and France. In 2011 H&M had 2,325 stores in 43 countries, having opened 180 new stores during the same year. Its sales including VAT totaled 19.7 billion U.S. dollars for the fiscal year 2011. [Managing Director Karl-Johan Perssons Presentation – <http://www.hm.com>]

Despite the fact that H&M's stores offer only the products under its own brand name, the company itself does not own any factories. It places orders in 700 independent manufacturing enterprises around the world. This particular strategy of H&M is based on the principle of strict labour division: design, marketing and advertising activities are done in Sweden, while manufacture of textiles and clothing is located in China, Pakistan and Sri Lanka. [Facts about H&M – <http://www.hm.com>]

In 2012, H&M was ranked 58<sup>th</sup> in Deloitte's Global Powers of Retailing and third in the apparel/footwear spatiality category as estimated by retail sales. [Global Powers of Retailing 2012 – <https://www.deloitte.com>]

### **Brand Strategy and Target Audience**

H&M has its own design and purchasing departments, in which a hundred of designers create their collections. All collections are based on the recent trends identified in movies, travels, other cultures, media and fashion shows. Designers work closely with the purchasing department, which in turn communicates with the units responsible for production. [Facts about H&M – <http://www.hm.com>]

Kristina Stenvinkel, the Head of Communications in H&M, describes the operational process of the company as follows:

*“The key pieces of each collection are planned a year in advance, however, they are always comprised of such products, which are suitable for all occasions.*

*Later they are combined with the items from the past collections that have not been sold yet and new designs for the new season. Collections are realized twice a year together with several sub-collections; all products are sold in large volumes to ensure that the customer will find an appropriate item for himself/herself. The main concept of H&M is to offer “clothes for everybody in one place”.*

The collection *B&B* is designed for businesswomen; *Big is Beautiful* is a plus-size line; *Momma* is designed specially for pregnant women. Menswear consists of two main lines, *Conwell* and *Logg*, formal and casual respectively. *H&M's* childrens' and teens' wear line is one the most famous one in Europe now. [Facts about H&M – <http://www.hm.com>]

According to H&M press release: “In all our markets customer response was incredibly positive, and sales, too, developed very well”. [Managing Director Karl-Johan Perssons Presentation – <http://www.hm.com>] It shows that the company's targeting and communication strategy is working well.

Stenvinkel, the Head of Communications in H&M, points out the following fact:

*“It is important to never be boring. By targeting a large segment, the company should be able to generate curiosity about each and every new collection, thus being perceived as inviting and existing, and therefore, attracting customers and inspiring them to shop.”*

With every passing year, competition in the apparel and textile industry is growing rapidly. Thus, it makes it difficult for the company to survive in such an active struggle. The main competitors of H&M stores are *Zara*, *Bershka*, *Mango*, etc. All of these companies are actively operating in the fast fashion segment, aimed on the rapid turnover.

Stenvinkel, the Head of Communications in H&M, reports in her interview:

*“The brand is one of H&M’s greatest assets that helps to strengthen our position in existing markets.”*

To face a fierce competition in the industry, the company has chosen a global expansion strategy. H&M stores operate in both the major capitals, as well as in small and mid-sized cities around the world. CEO Karl-Johan Persson identifies it as “a strength; it enables us to grow deeply into each market and at the same time expand into new countries.” [Managing Director Karl-Johan Perssons Presentation – <http://www.hm.com>]

Camilla Emilsson Falk, the Head of Media Relations in H&M, describes the expansion strategy of the company as follows:

*“Before entering a new market, H&M analyzes its potential by assessing such factors as demographic structure, purchasing power, economic growth, infrastructure and political risk, in order to ensure the long-term quality of the expansion strategy. Even if franchising is considered as a driving force for mass fashion brands, the directory of H&M does not include it as a part of the general strategy. Today, H&M is collaborating with franchise partners mainly from the Middle East and East Europe.”*

When it comes to existing products on the market, many companies do not overlook carefully their expansion strategy. Often a simple “transfer” of even the most effective operational methods is not enough. When going international, a company must take into account a number of factors and adjust its strategies according to the peculiarities of a new market. The fact that franchising does not take the central part of H&M expansion strategy shows that the company makes an attempt to distinguish itself from mass fashion brands in a way similar to luxury fashion brands, which either do not engage at all into franchising agreements (Louis Vuitton), or do engage in a long term exclusivity agreements depending on a particular country/city they want to expand to. The main concern of franchising is loosing identity or quality of the brand. Considering a fierce competition on the mass fashion market, H&M should be able to make that kind of an offer that unlike its

competitors will fulfill all the needs and demands of its customers. This is the most effective way of catching an interest of potential audience.

### **Co-Branding Activities**

Stenvinkel, the Head of Communications in H&M, explains the reason for engaging in a co-branding partnership as follows:

*“The core philosophy of H&M is to sell the best fashion at fair prices. For the purpose of strengthening position on the market and differentiating itself, the company introduced the idea of co-branding partnerships with luxury brands.”*

H&M initiated designer collaborations starting with iconic *Chanel* designer *Karl Lagerfeld*. The collection came about in 2004. [About H&M – <http://www.hm.com>]

Falk, the Head of Media Relations in H&M, describes this capsule collection as follows:

*“The launch of the Lagerfeld collection was the starting point of merging haute couture and high street, which showed a shift in fashion within recent years. The two unequal worlds have suddenly started to overlap.”*

At this point both parties involved, H&M as well as Karl Lagerfeld, had to think carefully about what communication scheme would be the most effective and appropriate for the situation, in order not to repeat the failure of Pierre Cardin back in 1959.

Falk, the Head of Media Relations in H&M, points out that this “shocking” collection ought to be promoted in a unique way that has not been used before:

*“To promote the partnership and to prepare the world for the up-coming*

*shock, H&M's collection by Karl Lagerfeld was advertised on the global scale, including giant posters, and a provocative TV-commercial. On the first day when collection appeared in stores, H&M encouraged the formation of long queues by supplying breakfast and a limited edition Karl Lagerfeld t-shirt to the first 200 people queuing before each store opened. Personnel of all stores had to wear the same t-shirt as well, which was also available for purchase. Comparing the prices of the original designer products with the co-branded ones, the study shows that they were about 15% of the price of standard designs. The co-operation turned out to be one of H&M's greatest marketing achievements."*

Today, trying to surprise its target group and at the same time to preserve the immense success of Lagerfeld collection, H&M is consistently entering into new seasonal co-operations with different designers and celebrities. This results in special and limited collections and big campaigns that create buzz in a distinctive way. These include well-known figures such as the English fashion designer *Stella McCartney*, the Dutch designer duo *Viktor & Rolf* and the number of Italian fashion designers: *Roberto Cavalli*, *Versace*, *Missoni*, *Anna Dello Russo*, as well as celebrity brands, such as signers *Madonna* and *Kylie Minogue*, a football player - *David Beckham*, and etc. The results of these short-term co-operations were low priced luxury goods and collectors items. [About H&M – <http://www.hm.com>]

Even though, on the one hand, the collaborative strategy of H&M seems to have a short-term time horizon, providing an immediate effect on store visits and sales volume. On the other hand, it is possible to trace the long-term effect of the overall concept through changes in the perception of the H&M brand, making it more attractive to customers. And the best communication bridge is fashion bloggers.

The core idea, finalized from close analysis of different posts about collaborations in the fashion industry, is that fashion must be equal for all, whether you are rich or poor. Designers must realize the needs and wants of the consumers and be able to correspond to them as well. The collaborations are a good compromise in a way that it makes it possible for the high-end brands to reach wider audience, and for the customers to own a piece of "the dream".

Stimulating, leveraging and strengthening the brand create a foundation of the brand activation, and co-branding activities help H&M to achieve that.

Falk, the Head of Media Relations in H&M, notes in her interview:

*“These co-branding relationships enhance the strength and breadth of H&M’s offering. The media coverage and customer responses they receive strengthen our brand as an international fashion company. Another important point worth being mentioned is that the collaborations really work as a brand activation tool for H&M in terms of reaching a very broad audience”.*

The way *H&M* promotes its co-branding strategy keeps the collaborations being unique, fascinating and unconventional for its customers. The company always utilizes various marketing techniques, such as special videos of the designers; launch parties, and pre-view collections.

#### **4.1.3. Co-Branding Case Study**

In November 2005, the hugely successful one-off collection “*Stella McCartney for H&M*” was sold out in record time. [Stella McCartney for H&M - <http://www.hm.com>]

Stenvinkel, the Head of Communications in H&M, speaks about objectives behind the collaboration as follows:

*“The goal of the partnership Stella McCartney for H&M is democratization of fashion for all audience. Nowadays, information about fashion trends can easily reach all social classes, thanks to the modern technology and various means of media. Those, who are interested in the subject, are always updated on what is happening inside and outside their countries.”*

In fact, analyzing the dates of the first fashion bloggers' posts made about the up-coming collaboration, it is possible to make a conclusion that the partnership has been under discussions months before the actual collection appeared in stores.

Stenvinkel, the Head of Communications in H&M, also emphasizes that:

*“The choice of the designer for the partnership is an extremely important factor, because it is essential for the brand to reach other potential customers.”*

Indeed, consumers perceive the name of a particular designer as a proof that the products will have worthy quality and distinctive design.

In her interview Alegra Ziletti, the Worldwide Marketing Director of Stella McCartney, explains:

*“The choice to associate the brand Stella McCartney with H&M was made due to the energetic and youthful concept of the retail chain, that always seeks to catch up the latest trends on the market. The alliance with a fast fashion brand is an opportunity to have an access to a different market segment and to provide a chance to a consumer to purchase an affordable version of the brand.”*

Therefore, one can determine that both *Stella McCartney* and *H&M* have a common goal in their partnership: reaching audiences, which previously have not been much in contact with those brands. For this purpose, it is essential to have the real synergy between the brands, so that the brands have a strong and complementary association with each other. In this context, Stella McCartney's collection for *H&M* sought to strengthen the elements of the identity of each party with the respect to both the final products, as well as communication language aimed on promoting the partnership.

Folk, the Head of Media Relations in H&M, describes how this particular partnership has been promoted:

*“In order to create greater public expectation, H&M adopted a strategy that included expansion of the communication strategy beyond the traditional mass media to the channel that has been increasingly exploited by brands: the Internet. In order to start activating the partnership, a number of actions have been created online nearly two months before the collection appeared in stores. Among them, we can highlight a special program that the brand developed with some fashion bloggers that was displayed in the H&M Official Website and the brand channel on YouTube.”*

The program consisted of videos shot by the bloggers themselves, where each of them represented a pillar theme of Stella McCartney’s career. It was also considered as a way to let customers know about the designer’s biography and history of the brand.

Falk, the Head of Media Relations in H&M, notes in her interview:

*“After this action, press releases and several fashion blogs had already been talking about the partnership.”*

At the initial stage of launching collection both brands were able to find the most effective channel to create awareness and buzz, which is fashion blogs.

According to Ziletti, the Worldwide Marketing Director of Stella McCartney:

*“The growth and agility of fashion blogs is immeasurable. It takes three months for a magazine to publish a story, while it takes less than ten minutes for a fashion blogger to inform the world”.*

Taking into account all the communicative measures undertaken by the brands, and analyzing each and every interview, the idea was to identify strengths and weaknesses, associated with the partnership, thus investigating their co-branding strategy from the perspective of both customers, and the brands themselves. Interview responds and observational notes were organized and divided into three

categories, which compose the final vision of the collaborative partnership between Stella McCartney and H&M.

a) Democratization of fashion.

Today, differentiation of social classes aroused the interest of the big brands not only to keep the market they operate in, but also to find opportunities in new markets.

According to Stenvinkel, the Head of Communications in H&M:

*“Brands are trying to satisfy a larger audience. It is quite easy to achieve with the help of co-branding partnerships. It is a win-win situation for both parties: new consumers and social classes are attracted, and at the same time customer loyalty is enhanced.”*

Indeed, the migration of the audience that was not a customer of H&M before was traced. The partnership showed that the other social classes have also space to shop in H&M.

According to various fashion blogs and customers’ comments, H&M seemed to conquer *fashionistas* and people who previously could not afford the original items. At the same time, H&M being a fast fashion brand has always had the quality issues because of low prices, but with the help of this collaboration it succeeded to capture customers’ attention and drive them to shop for interesting, unique and quality pieces in the usual price range.

Stenvinkel, the Head of Communications in H&M states:

*“Nowadays, everything is becoming more democratic. A lot of consumers do not circulate only in one niche, they are seeking to create their own style mixing among various brands.”*

This is a trend that finally brings fashion to the democratic edge, where every consumer has an opportunity to have an outfit created by a famous designer without spending fortunes on it.

There is a clear picture that the goal of reaching new audience in the collaboration between Stella McCartney and H&M, indeed, has been achieved, and the strategy seems to have been effective. However, there are people who believe that the brand H&M might end up moving away somewhat from its loyal audience, who can be scared when being faced with price of certain items. In fact, even if collection was sold in the price range acceptable for the mass fashion market, some items were still sold at the prices generally higher than the average H&M prices for its normal collections.

According to customers' reviews and comments on fashion blogs, the price factor played crucial role in the buying decision-making. Those people who perceived the higher prices of the collection as a negative factor stated that they would never pay that certain amount of money for the item even if it has a label of *Stella McCartney*. While, other consumers who were able to recognize the value and quality of the products, were willing to purchase an item even if it was selling in a fast fashion retail chain.

#### b) Identity of the brand *Stella McCartney*.

In her press release, Stella McCartney states that she is an advocate of environmentally friendly fashion. Among the main features of her designs are minimalism, cut and trim, as well as natural shapes that reveal the sensuality and power of women. [Sustainability – <http://www.stellamccartney.com>] The collaborative collection with H&M sought to bring a redesign of classic pieces of the brand to shapes and forms of the general mass, while maintaining a careful choice of quality and material used in manufacture.

As co-branding partnerships among international brands have become an important part of business strategy of different fashion retails, the right partner being the key factor must be carefully chosen. The reason is that much of the success of the brand alliance depends on the image transferred from one brand to another. In this

context, one can see that the key attributes of the brand identity of *Stella McCartney* was aggregated in the partnership and was fully perceived by consumers.

Ziletti, the Worldwide Marketing Director of Stella McCartney, describes the collection Stella McCartney for H&M as follows:

*“The collection came out beautiful and it has a face of Stella McCartney. The special choice of materials allowed us to not take away the quality”.*

Brand identity has a texture and depth; a company has to consider it as a product, person, symbol and organization itself. It is done with the purpose to demonstrate different elements and standards of the brand, which can clarify, enrich and differentiate its identity. [Aaker, 2007]

The identity of the brand *Stella McCartney* can be described as “basic is chic, based upon Stella McCartney’s personality, the homespun bohemia of her upbringing and lifestyle.” [Sustainability – <http://www.stellamccartney.com>] “Stella McCartney is a personal favorite of mine and I know she is also one of the favorite designers of our fashion-conscious customers. She has put together a stylish, easy-to-wear, feminine collection that I think our customers will love”, says H&M’s head of design Margareta van den Bosch. [Stella McCartney for H&M - <http://www.hm.com>]

The designer’s attention to the quality and classicism of the products comprised the core of the manufacturing process.

In her press release Stella McCartney comments:

*“It is essential when working with a brand like H&M to be able to produce pieces that women will wear for a long-time, not thinking of something totally connected to the current trend. I would like to create classic pieces.” For me, “Stella McCartney for H&M” is a fantastic way of reaching a wider female audience with a collection that is attractively priced yet offers high quality together with a superb fit and details.”*

*[Sustainability – <http://www.stellamccartney.com>]*

According to the observations from the customers' perspective, it is possible to safely assure that the designs were perceived in the right way. Such features as minimalism, taste, chic and style were identified in the collaborative collection.

c) Limited collection.

The strategy of releasing information about the collaboration far in advance created a strong expectation among consumers. Using fashion blogs as the main tool helped to spread the news faster and easier and it also allowed a closer contact with the public. More than a month before the collection appeared in stores, there were numerous comments from different customers seeking to know whether the collection will be on sale on any of the websites, since H&M announced that "collection will hit only 400 selected H&M stores in 22 countries in Europe and North America." [Stella McCartney for H&M - <http://www.hm.com>]

It is important to highlight, that the main objective of co-branding partnerships in the fashion industry is to generate curiosity about new collections that serves as a tool for brand activation. However, another crucial point is to be able to meet those created expectations.

Observing customers' impressions, the collection "*Stella McCartney for H&M*" failed in achieving that. Some consumers were disappointed that the collection comprised only a few pieces after such a big promotion. The major compliance was that in most of the shops on the launch day almost all pieces were sold out in a time. Another compliance was that the distribution was made only for some stores. Even the opportunity to purchase items via the Internet did not solve the issue as the products were sold out as quickly as in the physical stores. Even consumers who managed to acquire pieces were frustrated but with another fact. Generally, they did not like limited choice of clothing sizes, long queues to the dressing rooms and to the cash desks.

On the other hand, there were other customers who defended the fact of having the collection in a limited scope, mainly for the purpose of not meeting up a 'Stella McCartney's army' in the streets.

Thinking in a positive way, limiting the number of distribution channels and pieces available on sale serves as a life-saving technique for the luxury brand, since it must always be associated with the desire that in turn plays a role of the value aggregator for the collaborative collection.

In the conclusion, it is possible to say that, on the one hand, those customers who have managed to buy items from the collection rested with the feeling of purchase exclusivity. On the other hand, a valued brand has managed to achieve its goal of reaching new audience.

## **4.2. Valentin Yudashkin for CentrObuv**

### **4.2.1. Valentin Yudashkin**

Valentin Yudashkin is Russia's most recognized fashion designer. He is a privileged member of the Academy of Arts of the Russian Federation. He is also honored with a rank of National artist of Russia. His clothes are displayed in the Louvre Museum of Clothes in Paris, the California Museum of Fashion in Los Angeles, the Metropolitan Museum in New York, the State Historical Museum in Moscow and in other museums around the World. [Biography - <http://www.yudashkin.com/en>]

“Valentin Yudashkin is the only ever Russian designer to be honored with membership of the Syndicate of High Fashion in Paris.” [Biography - <http://www.yudashkin.com/en>]

The designer created his first collection in 1987, and he has since created more than 40 collections. [History - <http://www.yudashkin.com/en>]

Today, his clothing collections comprise haute couture and prêt-à-porter, and accessories, jewelry, porcelain and sunglasses complete the collection. Valentin Yudashkin is actively participating in the fashion weeks of haute couture and prêt-à-porter in Paris, Milan, New York, and other cities. [News - <http://www.yudashkin.com/en>]

#### 4.2.2. CentrObuv

##### Facts and Figures

The retail chain (RC) CenrtObuv, CJSC, is a part of the Centrofashion Corp., and is the largest footwear retail chain in Russia with the 4.3% market share. In 2011, the company was ranked third in the TOP-100 of fashion retailers by *INFOLine & Retailer Russia*. It is also the leader in the Russian mass footwear market. [INFOLine&Retailer Russia Top 100 - <http://info-line.spb.ru/>]

Yakupova Dilyara, the Head of Communications in RC CenrtObuv, states in her interview:

*“Brand loyalty makes up 14% of the population in Russia. In 2011 every tenth citizen made his/her purchase in CentObuv branded stores.”*

The brand *CentrObuv* was established in 1992 as a shoe wholesaler, having shifted its strategy to develop as a retail chain later. In 1996, it unified several Moscow’s major retail stores. At that time the brand registered its trademark and created a specific format of the modern retail industry. In 2008, the company launched a new fast fashion line of the footwear chain focused on the young audience between 17 and 30 years old. The line has been developing since then till now under the brand name *Centro*. [About the Company - <http://centrobuv.ru>]

RC CentrObuv offers a wide range of stock keeping units (SKUs), which is about 20–30 thousand items. Almost all products of the company are manufactured in China. The share of items made in Russia in the product range does not exceed 5%, thus, it allows the company to maintain the lowest prices in its stores. [About the Company - <http://centrobuv.ru>]

Yakupova, the Head of Communications in RC CenrtObuv, describes the operational strategy of the company as follows:

*“It is CentrObuv that shapes the market pricing policy, strongly affects the market and sets the lowest prices for basic items. We build up our business in the most fast-growing and high-demanded low- and low-middle price segments of the footwear market. It brings us high profitability and business stability in all the regions across Russia.”*

In 2011, the total number of RC CentrObuv’s retail chains amounted to 800 stores, operated in more than 240 cities across Russia, Ukraine and Poland. [About the Company - <http://centrobuv.ru>]

According to *INFOLine & Retailer Russia*, in the same year the company had revenue of 893.7 million U.S. dollars, having overcome the company *Adidas*, the leader of 2010 in terms of revenue in the Russian footwear market. [INFOLine&Retailer Russia Top 100 - <http://infoline.spb.ru/>]

### **Brand Strategy and Target Audience**

Yakupova, the Head of Communications in RC CentrtObuv, is confidently saying that:

*“By using the most effective principles of doing business and operating the latest technologies of launching new retail facilities, the future development of the footwear retail market is in the large-scale retail chains, capable of responding to market changes in a more flexible way and matching consumers’ needs with suppliers’ capacity in a quicker and more precise way.”*

In fact, in recent years consumers have demonstrated changes in their buying habits. Those consumers, who have been purchasing only luxury goods before, are now looking for items classified as fast fashion. Furthermore, the modern middle class has greater purchasing power and more access to the Internet than never before, thereby it allows consumers to stay in a close contact with fashion and awake their interest and knowledge of designer brands.

Yakupova, the Head of Communications in RC CentrObuv, describes the core strategy of RC CentrObuv as being based on the following principles:

- *“up-to-date sales techniques;*
- *price-quality compliance;*
- *high level of service provided to each customer.”*

The mission of RC CentrObuv is to make its footwear brand the only one in Russia, capable of meeting needs of all groups in the society by offering high-quality, affordable, comfortable and stylish shoes. [About the Company - <http://centrobuv.ru>]

However, the major target groups of the company are families and young people.

Yakupova, the Head of Communications in RC CentrObuv, confirms this fact in her interview:

*“Our typical customers are those who have families and hold low or medium positions in state-financed or business entities. Their primary value is their families’, well-being and welfare. Even with their limited incomes, their goal is to bring the best of the best to their families. We share value of our target audience and this is reflected in all marketing elements, shaping our brand positioning, such as location of our stores, structure of our product ranges and price levels, emotionally charged elements of our advertising campaigns and format of our brand stores.”*

Today, RC CentrObuv is actively developing due to acquisitions of small regional footwear retailers, mitigated by the effects of the financial and economic crisis. The company’s strategy is to become a major international retailer by entering in the CIS, the Baltic States, Western Europe and China markets. [About the Company - <http://centrobuv.ru>]

Yakupova, the Head of Communications in RC CentrObuv, believes that:

*“In the age of globalization and mergers only the strongest and the largest companies survive. The key success to it is to build co-operative strategies.” Until recent times, the company was strongly promoting cooperation through franchising. Nowadays, 53 stores operate under franchise agreement with RC CenrtObuv, CJSC.”*

And to contrast it to the H&M case, it is important to note what Yakupova, the Head of Communications in RC CenrtObuv, states in her interview:

*“Franchising provides wide opportunities for the development of the structure of relationships as a whole, integration of large, medium and small businesses, promotion and enhancement of the brand in both domestic, as well as foreign markets, formation of additional quality control system, and creation of new jobs. Currently the company employs 7,750 people.”*

At this point, it is vivid that franchising, as an expansion tool, is perceived differently in those two companies, even though they are related to the same mass fashion segment. The reason why is mainly in the differences in the economic development of the countries of origin of those brands.

In the unstable, lacking transparency and easily changing situation on the Russian market, it is safer to develop a franchising chain rather than starting up a new business. Therefore, the demand to engage in a franchise agreement is high. On the other hand, companies from developed markets face difficulties to establish their own units in the developing markets, mainly due to the same reasons, as political instability, over-regulation of business by government, low marketing education, and etc. Thus, it is of no surprise, that those companies choose franchising opportunities only for such markets as Middle East or East Europe.

#### 4.2.3. Valentin Yudashkin Limited Collection for CentrObuv

Foreign mass fashion brands can long be proud of their successful co-branding experience with the world's leading designers. The whole world closely monitor each and every new project they are working on, *fashionistas* count minutes before a new collection appears in stores, taking a queue ahead of time in front of stores.

A while ago, the Russian fashion industry has decided to follow this trend as well. Valentin Yudashkin became the first Russian haute couture designer to support the merger of high fashion and mass fashion.

Irina Nosova, the Press-Attaché of *Valentin Yudashkin*, comments:

*“Valentin Yudashkin is one of the most important figures on the Russian fashion scene, and his contribution to the industry is immense. His designs are desirable both in Russia, as well as in Europe – his stunning dresses are worn by society ladies and well-known actresses. Twice a year Valentin Yudashkin opens the Fashion Week in Moscow demonstrating his new collection, and each time it is a spectacular show, leaving no one indifferent.”*

Today, the works of the fashion designer is closer to people. Valentin Yudashkin was invited to collaborate a capsule collection for the season Spring-Summer 2013 with the giant footwear RC CentrObuv.

For the company partner selection played a central part in the whole co-branding process.

The partner brand must be desired and must add something special to the partnership, as Yakupova, the Head of Communications in RC CentrObuv, comments in the interview:

*“We are pleased to present our joint work. We have no doubts that ‘Valentin Yudashkin Limited Collection for CentrObuv’ will be an invariable attribute of all*

*young girls and successful women who appreciate our new vision turned into achievement. It is possible to safely assert that the partnership of such kind is a novelty in the Russian fashion market, and we are happy to be trendsetters in the business. And this is just the beginning. RC CentrObuv will continue to delight its customers with fashion solutions, which definitely will add bright colors and unforgettable experience to their life.”*

Observing the market and identifying the needs of customers is a very delicate process, requiring continuous monitor and adaptation to the fast changing environment.

Yakupova, the Head of Communications in RC CentrObuv, points out that:

*“We have diverse variety of consumers, each living their unique lives. Thus, by finding really the best partner we make sure that RC CentrObuv demonstrates and offers a large variety of footwear items to match their lifestyles”.*

According to Yakupova, the Head of Communications in RC CentrObuv, the process of partner selection is based on a number of various factors so that there is no standard recipe of how to develop a successful co-branding partnership:

*“Being positioned in the biggest mass market segment aimed at wide audience, we primarily were searching for the designer familiar to the majority of the population. Valentin Yudashkin was selected as a partner by the results of a large-scale market research among Russian women, having received an overwhelming majority of votes”.*

Valentin Yudashkin himself shares his impressions in a press release:

*“As a professional I was very pleased to co-operate with a team of specialist from CentrObuv, who showed themselves as the real experts in the field of fashion footwear and took the matter with proper seriousness. I am completely satisfied with*

*the result of our joint work. All our ideas were successfully realized in this collaborative collection.”*

*[Valentin Yudashkin for CentrObuv - <http://centrobuv.ru>]*

It is, however, worth mentioning that a special communication concept was developed in order to promote the co-branding relationship.

Nosova, the Press-Attaché of *Valentin Yudashkin*, comments in her interview:

*“The collaboration was announced in October 2012. Several items the capsule collection have already been exclusively presented in Valentin Yudashkin’s House of Fashion catwalks in Paris Fashion Week and Volvo Fashion Week Moscow prior to launch. On top of that, launch store parties were held in the biggest cities in Russia the day before the collection officially appeared in stores on March 22, 2013”.*

It is still quite early to speak about the real estimated success both partners received from the collaboration. For this purpose, Olga Vishnevskaya, the Head Store Manager, has been contacted to give a preliminary review about the success of the collaboration. Vishnevskaya was not able to mention the real estimated data, but she did mention an operational statistic data:

*“On the first day when collection appeared in stores, the number of visitors was significantly greater than usual. During the first working hour we were able to sell eleven pairs of shoes and three bags.”*

## 5. CONCLUSION

In recent years the fashion industry has dramatically changed. Mainly, it was due to the change in behavior and buying habits of consumers. Linked to the rampant growth of the Internet and the increase in purchasing power of some classes, new public groups received access to the fashion market. Fierce competition and more demanding customers forced fashion brands seek new forms of differentiation to attract and retain customers.

Not so long ago, many of us could only dream of, for instance, high heels of Jimmy Choo or an exotic dress by Versace. Today, the streets around the world are filled with holders of stunning dresses, satisfied by the purchase of luxury items they made at affordable prices. Now everyone is able to touch the world of high fashion thanks to collaborations between luxury and mass fashion brands.

*“It is not about the price. It is all about taste. If you are cheap, nothing helps”.*

*(Karl Lagerfeld)*

This phrase was a core idea of the capsule collection, aimed at uniting different strata of society, so called “democratizing the fashion”. Since then, such collaborations as Stella McCartney for Adidas and H&M, Missoni and Jean Paul Gaultier for Target, Christopher Kane and Mary Katranzu for Topshop, Valentin Yudashkin for CentrObuv, and many more, appeared on the market. By introducing this type of collections, luxury fashion houses are offering their customers a product with more refined style at a price compatible with the reality of the mass segment. Such action was aimed to attract more customers to the store, thereby increasing the market share of the brand. Through continuous improvement of the manufacturing quality of the mass fashion brands, their products are becoming more and more analogous to *prêt-à-porter* items, slowly approaching to its quality level.

In this context, co-branding between luxury brands and mass fashion brands has become a global trend, and it seems to keep increasing in upcoming years due to the success it has had for large retail chains that gain competitive advantage through

this practice. The two cases, analyzed in the research study, demonstrate how this strategy can be set when there is a synergy between the brands in building the business.

Overall, going through the main findings of interviews and opinions expressed in blogs and press releases, it is possible to state that co-branding practice between luxury fashion and mass fashion brands, indeed, allows companies to increase brand awareness and to attract larger audience. In case of H&M, the co-branded collection with Stella McCartney it launched was sold out during the first days. According to the interview, “customers who did not purchase an item were among those who stood in a queue to acquire one”.

Along with this, one of the issues highlighted in the study materials was that customers were able to identify the particular and distinctive features of each designer, collaborating the collection. The emphasis on environmental concerns, quality of materials, the fit and cut of the products were compatible with the original designer pieces.

Much of this was due to the well-designed communication strategies, implemented by companies. Provocative TV commercials, collection preview in stores’ window displays, creation of buzz, and launch parties with celebrities, music, food and champagne.

Even though, there are many positive points, one cannot overlook that some faults were pointed out by both customers, as well as designers, invited for collaboration. From the point of view of customers, there are two main drawbacks.

The first one concerns the price/quality ratio of products. Generally, co-branded collections have higher prices than the stationary collections of the fast fashion brands. But some customers fail to recognize, while comparing to the average prices, that the higher price means not only the designer brand name, but also the higher quality of materials and other garments used in the production of these special capsule collections.

And the second drawback touched the topic of the perceived status and prestige of the luxury brand. Based on the findings of a study conducted by Renée Richardson Gosline, people do “like mixing status brands, but they dislike interstatus co-branding”.

Designers in turn tend to underestimate the capability of fast fashion brands to reproduce an item as close to their own brands as they would like it to be.

Ziletti, the Worldwide Marketing Director of Stella McCartney, notes in her interview:

*“Even if H&M increased its commitment to use more organic cotton in the manufacture of products in accordance with Stella McCartney’s ethical views, the capsule collection did not come out totally organic, mainly due to the high costs of the basic textile.”*

Another compliant, not associated with the case studies, but worth being mention in this topic, is Karl Lagerfeld. He was offended by the minimal number of his designs, which H&M decided to produce, as well as by the retail chain’s decision to manufacture clothes in larger sizes than he had visualized.

Excluding the negative points, and coming back to the case studies, it is believed that the image of the partnerships in both cases was perceived as positive and that the identity of the brands was preserved and recognized by the public. Therefore, it is possible to say that through co-branding companies have reached: (1) new customers, (2) product differentiation, (3) exclusivity, and (4) brand enhancement. Among the risks, the following criteria have been recognized: (1) brand confusion in the minds of some consumers, (2) quality and quantity issues, and (3) loss of sympathy for the brand from both sides: consumers and designers.

To sum it up, it is clear that co-branding practices are gaining more and more popularity among luxury brands. However, there is a must need to take a cautious approach to the analysis of potential collaboration, because it can have a negative impact on both the brand image, as well as the level of customers’ loyalty to the brand.

Fundamental idea of taking co-branding decision should reflect the implication of this strategy for final consumers. The following essentials principles were elaborated as a guide to develop a successful co-branding strategy in the luxury goods segment:

I. All activities in the area of co-branding should be based on a strategic necessity. In other words, brands should not create an alliance without having a specific and sufficient reason. When H&M invited Stella McCartney to collaborate collection, both brands were pursuing the common goal – to meet changing consumer demands and to make the luxury brand closer to the mass.

II. Co-branding has to be mutually beneficial for all participating brands. Taking as an example of the capsule collection ‘Valentin Yudashkin for CentrObuv’, it can be noted that the agreement was beneficial to both sides: on the one hand, Valentin Yudashkin succeeded to attract a broad audience by providing an opportunity to get into contact with the luxury design; on the other hand, the retail fast fashion chain became a sort of supplement to the luxury brand, rather than its competitor.

III. The extent of co-branding should be strictly controlled, and collaborations between brands must not go beyond the production of one or a limited edition collection. Limiting the number of available products allows a luxury brand to preserve the aura of exclusivity and elitism around it. It is also a guarantee that customers will not wrongly perceive a fast fashion chain as a luxury brand, since fast fashion brands do not pursue the strategy of transition into the luxury segment.

IV. Brands participating in the co-branding, must act in a coherent and coordinated manner, even if it involves brands with completely different characteristics and associations. The target audience must understand the communication message coming out from both of brands and must clearly see the benefits offered by the union. At the same time, joint benefits must exceed individual benefits of each brand when doing the same business on their own.

V. Co-branding has to increase the equity of the participating brands. Brand equity is the effect that the knowledge of the brand has on the consumer’s attitude to this brand. One of the sources of the brand equity is brand loyalty that in turn results in the psychological attachment to it. Co-branding should be directed to the strengthening of this feeling in the heart of its consumers.

To sum it up, in order to create a successful co-branding partnership, brands must operate in the following directions:

- I. Clearly and consistently conveying customers to the promise associated with their collaborative work, highlighting differentiated features;
- II. Maintaining a high level of respect and devotion to the customer groups in relation to themselves.

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## APPENDIX

### Appendix 1. Profiles of Interview Respondents

*H&M Hennes & Mauritz B.V. & Co. KG, Stockholm (Sweden)*

<b>Name</b>	<b>Kristina Stenvinkel</b>
<b>Position</b>	Head of Communications
<b>Interview Date</b>	24.04.2013

<b>Name</b>	<b>Camilla Emilsson Falk</b>
<b>Position</b>	Head of Media Relations
<b>Interview Date</b>	24.04.2013

*Stella McCartney, London (United Kingdom)*

<b>Name</b>	<b>Allegra Ziletti</b>
<b>Position</b>	Worldwide Marketing Director
<b>Interview Date</b>	30.04.2013

*RC CenrtObuv, CJSC, Moscow (Russia)*

<b>Name</b>	<b>Yakupova Dilyara</b>
<b>Position</b>	Head of Communications
<b>Interview Date</b>	10.04.2013

<b>Name</b>	<b>Olga Vishnevskaya</b>
<b>Position</b>	Head Store Manager
<b>Interview Date</b>	10.04.2013

*Valentin Yudashkin, Moscow (Russia)*

<b>Name</b>	<b>Irina Nosova</b>
<b>Position</b>	Press-attaché
<b>Interview Date</b>	9.04.2013

## Appendix 2. Fashion Blogs

### Stella McCartney for H&M

#### **DESIGNER FOR TOMORROW**

Hosted by Stella McCartney. *DfT Patron 2013 – Stella McCartney.*

Available at WWW: <http://www.designer-for-tomorrow.com/patron/stella-mccartney-2/>

#### **D-kriptik BLOG.**

*H&M Stella McCartney Chaos.*

Available at WWW: <http://d-kriptik.com/blog/2005/11/12/hm-stella-mccartney-chaos/>

#### **EARTH DIVAS' BLOG.**

*Stella McCartney Sustainable Style.*

Available at WWW: <http://earthdivasblog.com/2010/08/23/stella-mccartneys-sustainable-style/>

#### **FASHION TRIBES BLOG**

By Lesley Scott, Fashion Writer, Critic & Blogger. *Stella McCartney Brings Absolute Mayhem to H&M's Across America.*

Available at WWW: [http://fashiontribes.typepad.com/main/2005/11/stella\\_mccartne\\_1.html](http://fashiontribes.typepad.com/main/2005/11/stella_mccartne_1.html)

#### **GAWKER.**

*Stella McCartney's H&M Line Sells Into Thin Air.*

Available at WWW: <http://gawker.com/136535/stella-mccartneys-hm-line-sells-into-thin-air>

#### **I AM FASHION.**

*Stella McCartney for H&M.*

Available at WWW: <http://iamfashion.blogspot.cz/2005/11/stella-mccartney-for-hm.html>

#### **MY DAILY MODE.**

*H&M vs. Stella McCartney.*

Available at WWW: <http://www.mydailymode.com/2013/06/h-vs-stella-mccartney.html>

### Valentin Yudashkin for CentrObuv

#### **DianaDaron**

*Valentin Yudashkin for CentrObuv: Capsule Collection.*

Available at WWW: <http://www.dianadaron.ru/index.php/tag/валентин-юдашкин/>

#### **LOOK.tm**

*Valentin for Masses.*

Available at WWW: <http://look.tm/content/blog/valentin-dlya-naroda>

#### **RELOOK**

*Valentin Yudashkin for CentrObuv.* Available at WWW: <http://www.relook.ru/post/46660/>

#### **The Style Jungle.**

*Valentin Yudashkin's collaboration with CentrObuv.*

Available at WWW: <http://thestylejungle.livejournal.com/86023.html>

### Appendix 3. Interview Questionnaire

No.	Questions
1	May I ask you to introduce yourself? What position do you occupy in the company?
2	Could you describe the company's brand strategy and target audience? What are the company's specific features of marketing communications? How do customers perceive it?
3	Who are your main competitors? How do you cope with competitors' pressure?
4	Expand to preserve the brand, do you agree or disagree? Which strategies does your company utilize to expand and enhance the brand?
5	When did your company first use co-branding practice? Who was the partner? Could you please tell me how many collaborative agreements does your company have today? What would you tell me about future co-branding projects?
6	Could you please describe the partner selection process? What principles must be considered before entering into brand collaboration? In what direction partner brands must collaborate?
7	How does your company measure co-branding success? Could you share with me your own impressions about the collaborative collections from the customer's perspective? How did your relatives/friends perceive it?
8	What do you think about future development of co-branding? What is your impressions about democratization of luxury?