A Work Project presented as part of the requirements for the Award of a Master Degree in Management from the NOVA – School of Business and Economics.

WHAT IS THE NEXT CHAPTER OF THE FASHION RETAIL INDUSTRY?

- STRATEGIC OPTIONS MODEL -

Lisa Schrewentigges, 3466

A Project carried out on the Master in Management Program, under the supervision of:

João Silveira Lobo

3rd January 2018

Acknowledgements

Herewith I would like to express my gratitude to my advisor Professor João Silveira Lobo who supervised and guided me throughout the whole thesis process. I very much appreciate his support, motivation, literature recommendations, and profound expertise regarding the scenario planning process and in the field of fashion retail.

Further, I would like to thank my interview partners for their insights and valuable input in interviews about the future of the fashion retail industry. Since most them requested to remain anonymous, I decided to only name the company in my documentation.

My thanks and appreciations also go to my former project leader at McKinsey, Dr. Stephanie Pratsch, who supported me with necessary reports and knowledge throughout the Work Project.

Abstract

This Work Project aims to understand the future of the fashion retail industry in 10–15 years. Based on a scenario planning process, this thesis explores strategic options for companies operating in this industry. This study shows that no one-size-fits-all positioning is suitable for all companies. It is more likely that different strategic choices need to be made with regards to the intended positioning and level of organizational resources. Finally, two stereotypes of companies have been identified based on the two extremes Fast Fashion and Slow Fashion. For each, this thesis develops positioning recommendations in a space of strategic options.

Keywords: three horizons model, fashion retail industry, scenario planning process, strategic options model

Table of Contents

List of Figures

List of Appendices

1 Introduction

The future context that companies will have to respond to is both complex and uncertain. *'Change is slow until it isn't. This is no time to be a fast follower.'* This quote by P. Sheahan in 2013, founder of Change-Labs, expresses the need for companies to be aware of the upcoming future and its uncertainties since it might come up earlier than expected. By doing so, a company could avoid being a '*fast-follower'* and would be the one everyone follows.

This pioneering role is especially important in the fashion retail industry, on which this Work Project is focussing on. According to the McKinsey Global Fashion Index 2016, fashion represents one of the largest and most fragmented industries with a winner-takes-all-market dynamic. Over the past decade, 20 percent of all fashion players created 100 percent of economic profit. Thus, the top-quintile businesses are the engine of shareholder value creation in this industry (McKinsey, 2016). In the fashion industry's value chain, the retail business is confronted with turbulent times. Traditional retailers, who represented the main sales channel in the past, are currently facing flat or declining sales. Additionally, costly stores and logistics processes result in a competitive disadvantage compared to e-commerce giants (Strategy&, 2017). These developments in the fashion industry and particularly in the retail part underline the need of vigilance for the future.

To better prepare organizations for plausible futures, this Work Project provides fashion companies insights about the industry's future complexity and uncertainty with a focus on retail. By making use of the scenario planning method, the following focal question will be addressed: **What is the next chapter of the fashion retail industry in 10-15 years?**

Starting with the conceptual knowledge in chapter three, the theoretical background of the three horizons methodology, and the scenario planning process will be introduced. Based on profound industry research as well as on interviews with fashion retail companies, end-

consumers and industry experts, future scenarios will be created in chapter four. Next, strategic options will be developed, from which a fashion company may make its strategic choices. However, as there is no one-size-fits-all positioning recommendation due to unique and company-specific organizational resources, this thesis will identify two stereotypes based on extremes. For each, recommendations for a space of strategic options will finalize this thesis in a strategic options model. With this by hand, not only a company falling in one of the two extremes is aware of the future. Also, companies who lie between both extremes can recognize the future as it unfolds, and identify their adequate strategic options.

2 Research methodology

This study aims to provide plausible futures for the next chapter of the fashion retail industry. To get hints about what is driving the industry as a whole in the next 10-15 years, primary research has been conducted, qualified through 12 interviews covering three roles: Fashion retail companies (producers), end-consumers, and industry experts. In order to include companies with different organizational resources, the interviewed fashion retail companies have been selected with regards to their diversity in size, product offer, and sales channel. This research methodology allows an insight into different perspectives about the future, opinions about critical factors, and the adequate readiness of a company. Overall, the in-depth interviews have been conducted along three sections:

Section 1: If you have to draw a picture of the future: How does the future look like for the fashion retail industry?

Section 2: In general, what kind of upcoming trends do you see for the industry? When will they come up (e.g. 2-3 years, 10-15 years)? And, which of them do you think are relatively critical (in the way of high uncertainty and impact for companies)?

Section 3: How should a company prepare specifically for a critical trend (e.g. specific investments, development of competencies)?

Besides these in-depth interviews, a literature review about the three horizons model, and the scenario planning process has been conducted. Additionally, macrotrends and driving forces of the fashion retail industry have been detected. Both have been done by secondary research in online source materials, books, articles, reports, magazines and business papers.

3 Literature review

In this chapter, the interconnected underlying theories of this thesis are introduced in order to create a theoretical background for the practical chapters four and five.

3.1 The three horizons model

When a company grows and matures, it often faces declining growth due to its flattening power of innovation. In order to ensure sustainable growth throughout a corporate lifetime, companies need to focus both on their existing business exploitation and the exploration of new future growth opportunities. This ability is called organizational ambidexterity (O' Reilly III and Tushman, 2011). The three horizons model is an approach to tackle this problem. It is an illustration of how to manage the current company's performance while maximizing its future growth opportunities. Using the model as a blueprint, leaders can balance attention and investments in both present and future business (McKinsey, 2009).

Baghai, Coley and White first introduced the original management-oriented three horizons model in 1999 (see A.1). The illustration maps three horizons, with profitability on the y-axis and time on the x-axis. The horizons are successive curves, each being more profitable than the one before. To clarify, the time on the x-axis is not intended to give advice about the timing when a manager should tackle which horizon. Rather, the approach suggests managers to employ the short-term, medium-term, and long-term futures all at once.

Curry and Hodgson have further developed this model in 2008. The authors extended the y-axis from representing profit to the degree of strategic fit with the external environment. Thus, the graph reflects the effectiveness of each horizon to changes in the external environment over time (see A.2). Additionally, *'Pockets of future embedded in the present,'* (Baghai, Coley and White, 1999) explain signals, which already give hints in the present about what might be coming in the future. Illustrative, special authority rules regarding CO_2 emissions can be seen as pockets of the future since they already indicate that CO_2 emission might play an important future role (Curry and Hodgson, 2008). To detail the horizons, the first horizon shows the current core business of a company. It represents the environmental fit of the current system over time. Being relatively high in the beginning, the curve declined as time passes. The focus in this area is on performance improvement in order to maximize the remaining value of the core business. The second horizon represents an intermediate space in-between the first and third horizon, which surrounds emerging opportunities. This horizon is typically unstable since it is more likely an area of evolution from the first towards the third horizon. It is characterized by value clashes between these two horizons. Besides the two above-mentioned horizons, the third horizon represents several systems, each having the potential to displace the world of the first horizon. While this horizon has a relatively low environmental fit in the beginning, it evolves over time to a profitable option. This is because these viable options will be more effective responses to changes in the external environment over time compared to the current system of the company (Curry and Hodgson, 2008).

The three horizons model is not only explored in the area of growth. Also, the model is applied in the context of innovation (Hobcraft, 2013). Companies need to manage these three horizons, in other words, they need to manage the upcoming future. A methodology to do so is the scenario planning process.

3.2 The scenario planning process

Typically, managers make two mistakes: either they under-predict change or they over-predict it. The first one is the most common mistake. To create a middle ground between under and over prediction, strategic planning becomes inevitable (Schoemaker, 1995). For strategic planning, leaders have several different disciplines to choose from. One of them is the process-oriented approach called scenario planning (Schwartz, 1996; Wright, 2000). The scenario planning process observes the environment and makes sense of its complexity by building scenarios. It faces the range of plausible futures that might unfold and identifies strategic options for companies. By doing so, it breaks leaders out of their settled mindset about the future. Consequently, leaders become aware of alternative plausible futures (Raspin and Terjesen, 2007). In detail, a scenario bundles related events, trends, and forces that describe one plausible future. Mostly, it is a narrative or a story characterizing a plausible outcome. Although it includes a qualitative as well as quantitative nature, the qualitative part is still mainly based on quantitative information (Schwartz, 1996; Raspin and Terjesen, 2007).

After conducting profound research, it can be stated that the scenario planning process differs slightly between authors in the number of steps (Ogilvy, 2015; Wulf, Meißner and Stubner, 2010; Brummel and MacGillivray, n.d.). However, four main steps can be identified, each having sub-steps: starting with a strategic focal question, followed by identifying macro trends and selecting them, towards plausible futures development, and resulting in a strategic options matrix with strategic implications per scenario. In the following, each process step is described:

I Formulate the strategic focal question: The first step involves the formulation of the overall strategic focal question. In this step, it is necessary to agree on a strategic issue. This ensures, that the scenarios are relevant to the raised strategic issue. The focal question can be open and

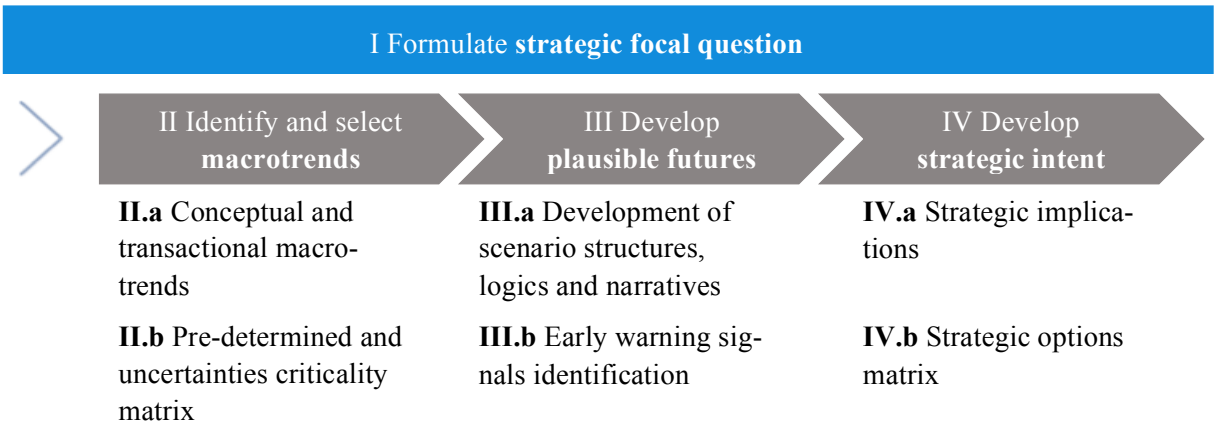
broad (strategic envisioning) as well as closed and specific (discrete strategic decision making) (Brummel and MacGillivray, n.d.).

II Identify and select macro trends: In this step, the contextual and transactional macro trends or driving forces in the industry are identified through primary and secondary research. This includes events, forces, and trends affecting the specific focal question. In this respect, it is important to distinguish between predetermined forces and critical uncertainties. The first ones are inevitable and unlikely to change while critical uncertainties have the highest impact and are the most uncertain. To find the critical uncertainties in an organized manner, the critical-uncertainty matrix classifies the macro trends and driving forces. The goal is to identify those who have the most impact and, simultaneously, are the most uncertain in the direction and speed of evolution (see A.3) (Wulf, Meißner and Stubner, 2010).

III Develop plausible futures: Based on two independent critical uncertainties, four scenarios are created. The axes of the chosen matrix are used as driving forces to deduce four scenario logics of stories, with KPI's developed for each axis. Finally, a scorecard of early warning signals allows monitoring the validity of the scenarios and recognizing the future as it unfolds in the real world (Wulf, Meißner and Stubner, 2010).

IV Derive strategic implications and options: The last step draws the strategic implications per scenario in a strategic options matrix. A strategic option is a collection of choices, which a company makes by deciding on an option (Rivkin, 2006). These strategic options involve a significant impact in the medium- and long-run, and a restructuring of the organization. These decisions have the characteristic that they are difficult to reverse, involve a significant commitment of resources, and have a profound impact on the structural rivalry of an industry (Ram and Montibeller, 2012).

The above-described scenario planning process can be summarized as follows:



F.1: Scenario planning process

'The only relevant discussions about the future are those where we succeed in shifting the question from whether something will happen to what would we do if it did happen.' This quote by Arie de Geus in 1998, former coordinator of group planning at Shell International Petroleum Company, describes the decisive asset of the strategic planning process. Rather than giving forecasts, it provides C-leaders with concrete strategic implications if a specific future unfolds (Brummel and MacGillivray, n.d.). Arie de Geus is not the only manager preferring this methodology. According to a corporate strategy board member survey, scenario planning represents the most-liked planning approach (see A.4). Also, researchers favour this method: according to Schoemaker, scenario planning is an outstanding planning tool because of the ability to catch several dimensions of plausible futures on a very high detail level. It differs tremendously from other planning tools. To name a difference, while the scenario planning concentrates on several uncertainties and their joint impact, the contingency planning only focuses on one uncertainty (Schoemaker, 1995). It can be stated that scenario planning has a higher significance driven by the view through more lenses (Ogilvy, 2015). However, this process is not intended to give a perfect forecast about the upcoming future. Nevertheless, it gives a manager the awareness about what might come. With this awareness, a

company is not only prepared when a specific future unfolds. Also, it could act as a stimulant to push the industry actively in a company-favourable direction (Raspin and Terjesen, 2007).

4 The fashion retail industry

This chapter gives a brief industry note about the fashion industry while focussing on the retail channel. After introducing the fashion retail industry, the scenario planning process will be conducted to derive plausible futures for the industry.

Generally, two environments influence the future of a company. The first is the microenvironment, which is driven by company's internal sources of change. This environment includes factors such as financials, human resources, organizational structures, processes, and systems. The second is the macroenvironment, which affects the whole industry. To name some exemplary factors, external shocks, political situations, and the worlds' financial markets have an influence on a company's future as well as social and technological discontinuities. The focus of this Work Project lies on the macroenvironment as it is more generalized and can be applied to the fashion retail industry as a whole.

4.1 Industry note

The fashion industry represents one of the largest industries in the world with the fashion retail part generating approximately $304 billion worldwide in 2009 (Wagner, n.d.). The McKinsey Global Fashion Index (MGFI) provides an approach for a global benchmark of the entire fashion industry since the industry's performance has not been tracked systematically in the past. According to the MGFI, the industry is now worth an estimated $2.4 trillion. If ranked, this industry would be the seventh largest economy worldwide. Additionally, increases in margins and capital efficiency in the past ten years led to a growth in economic profit (revenues earned deducted by opportunity cost) of 8 percent per year, with economic profit outrunning sales growth. As already mentioned in the beginning, the top 20 percent compa-

nies in this industry created 100 percent of the total economic profit. These 20 percents include institutions such as Adidas, Burberry, Hermès, Inditex, LVMH, Nike, and Pandora. However, other players in this industry are facing times of losses, especially the bottom 20 percent. To be more precise, these companies face 18 percent of loss over the past decade. Obviously, proper decisions and their flawless completion to the right direction are making the difference in this winner-takes-all-market (Amed et al., 2016). *'Uncertain, changing, and challenging.'* This is how the year 2016 can be described according to the McKinsey Global Fashion survey. This past year has been challenging for the fashion industry with global economic shocks, more demanding consumers, and new technologies. But not only these macro-environment factors influenced the industry. Also, companies started to change. Beginning with the core operations including product-design and manufacturing processes, the fashion system has been reshaped to meet the customer requirements (Amed et al., 2016).

China and the U.S. have been the largest apparel retail markets in 2014 (Euromonitor, 2014). However, the attention shifted from the Chinese market to countries such as India and Turkey. In the future, emerging markets will capture most of the industry's growth (McKinsey, 2013).

The next chapter of the industry will be shaped by a variety of trends. In order to get an insight what is currently moving the industry, in-depth interviews with fashion retail companies, end-consumer, and industry experts have been conducted and analysed.

4.2 Fashion retail interview analysis

Conducting primary research has shown that the fashion retail industry is dealing with several topics. To highlight some insights from the conducted interviews, a company representative from the Adidas Group, reveals that omni-channelling, retailers' vertical integration, digitalization, and urbanization are the trends that move the fashion companies in the next five years. To prepare for this, the Adidas Group adapts organizations, mindsets, and knowledge within

the company, collaborates with external partners who are experts in these areas, and increases the direct-to-consumer business through own stores and an own .com online shop. A representative from Tommy Hilfiger highlighted the topic of digitalization, for which companies can prepare by investigating in their digital customer experience. A Sourcing Manager at Hugo Boss named Big Data and Analytics to be the most important trend for the fashion retail industry and that Hugo Boss is starting to prepare for it now. According to the interviewee only things, which can be measured, can be managed. Thus, companies in the industry need to establish digital touch points to enlighten customer's digital traces. Through this, customers become transparent, their behaviour can be analysed, and appropriate decisions can be derived. For the interviewee, hiring Data Scientists is the right step for a company to get ready.

When interviewing end-consumers, the trend of sustainability has been mentioned. Additionally, cashless payments, as well as a high industry rivalry, are seen as determinants of the industry's future influencing the companies. According to them, companies need to conquer these challenges with a sustainable competitive position ensured through a superior understanding of the digital customer journey, flawless processes, and outstanding service.

Interviewing an industry expert from Simon-Kucher & Partners revealed, that the optimal fitting of items would play an important role in the industry's future. Since size and colour are the two dimensions the fashion industry is dealing with in their production and inventories, companies who optimize one dimension may gain an advance in effectiveness. For the consultant, full body scanners are the trend that will be the key to success occurring in the next five to seven years. To be prepared for this trend, companies must ensure a high level of data protection and sophisticated software. Moreover, a German expert in the field of retail sees a change of the role of retail stores. Retail stores will be more used as showrooms to create a world around the fashion items. This means that inventories would be removed, and preorders would not exist anymore. If a customer decides to order a product, the purchase will be

done online with the inspiration taking place in the showroom. To acknowledge this trend, retailers need to re-design their stores and adapt their supply chain accordingly.

All the trends, which the interviewees are aware of, have a relatively short-time perspective and are certain to a high degree (also called pre-determined uncertainties). With regards to the three horizons methodology, they represent mainly the second horizon - the emerging opportunities. However, a company needs to manage all three horizons to gain a sustainable competitive advantage. Thus, trends coming up in the next 10-15 years, who represent the third horizon, need to be further identified for the industry. This primary research shows, that the scenario planning for the fashion retail industry is even more inevitable.

4.3 Scenario development for the fashion retail industry

I Formulate the strategic focal question: As mentioned in the introduction, the strategic focal question for the upcoming scenario development is the next chapter of the fashion retail industry coming in 10-15 years. It is deliberately open and broad to be able to develop strategic options suitable for the fashion retail industry as a whole. Later, the wide-fit scenarios and strategic options will be narrowed down to stereotypes of companies and their suitable strategic choices according to specific organizational resources.

II Identify and select macro trends: The global context is influencing the fashion retail industry. Consequently, an outside-in thinking is necessary when recognizing the driving forces. To do so, a STEEP+I analysis has been conducted to reveal the contextual and transactional macro trends (see A.5). These trends have been evaluated regarding their impact and uncertainty (see A.6). The critical-uncertainty matrix illustrates this evaluation table (see A.7).

The **value of store experience** and the **occurrence of smart cities,** the first with either minor or high importance, the second with either slow or fast development pace, have been evaluated as the most critical uncertainties. Their impact in shaping the future of the fashion retail

industry is very high as the consumer's buying decisions in this industry are severely influenced by their store experience and the technological pace of the environment (the evolvement of smart cities). Regarding the **value of store experience**, it can be perceived either virtual or real in the store. Figure 2 shows the two extremes of this critical uncertainty:

F.2: Value of store experience extremes

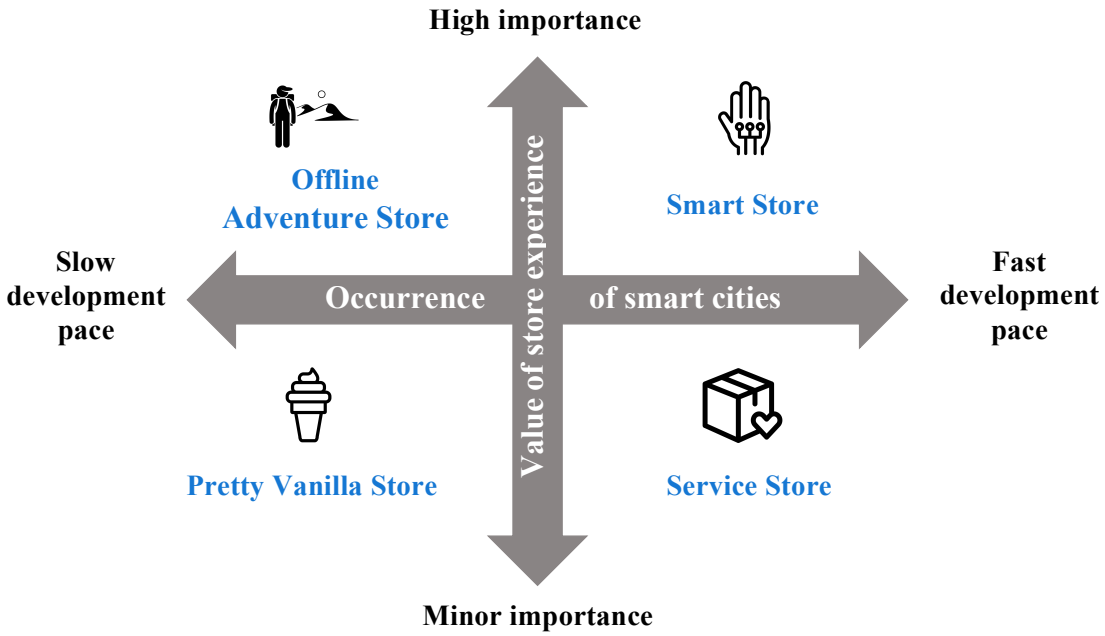
This trend has a high uncertainty since customers' preferences are relatively volatile. As seen on the latest developments, e-commerce sales partly outpaced the retail sales channel (Hodson, Perrigo and Hardman, 2017). Certainly, this is a development which has not been expected years ago. Looking at one extreme of this trend, the value of the store experience may be of minor importance in the future; meaning store concepts and the according experience would play a subordinate role in the customer experience and buying decision. Simple and useful designed stores would characterize the retail landscape. On the other extreme, the industry would try to fulfil the high expectations of customers towards an extraordinary store experience. Customized experiential shopping destinations would be demanded. Concerning the **occurrence of smart cities**, the speed at which this trend evolves affects and alternates companies' positions in the market. These smart cities bring together institutions including government agencies, public and private entities, and technological corporations, creating smart solutions across several areas of society. With the occurrence of smart cities, technology-driven shifts would take place with digitalization breaking down classical industry segments. As a result, organizations would compete in a world of sectors without borders (Atluri, Dietz and Henke, 2017). Within fashion retail, this trend may affect the industry in several areas. For instance, in the logistics, the delivery time can be significantly reduced through robotics followed by an increase in transparency of the supply chain (Deloitte, 2015).

Figure 3 illustrates the opposing directions of the smart city occurrence:

F.3: Occurrence of smart cities extremes

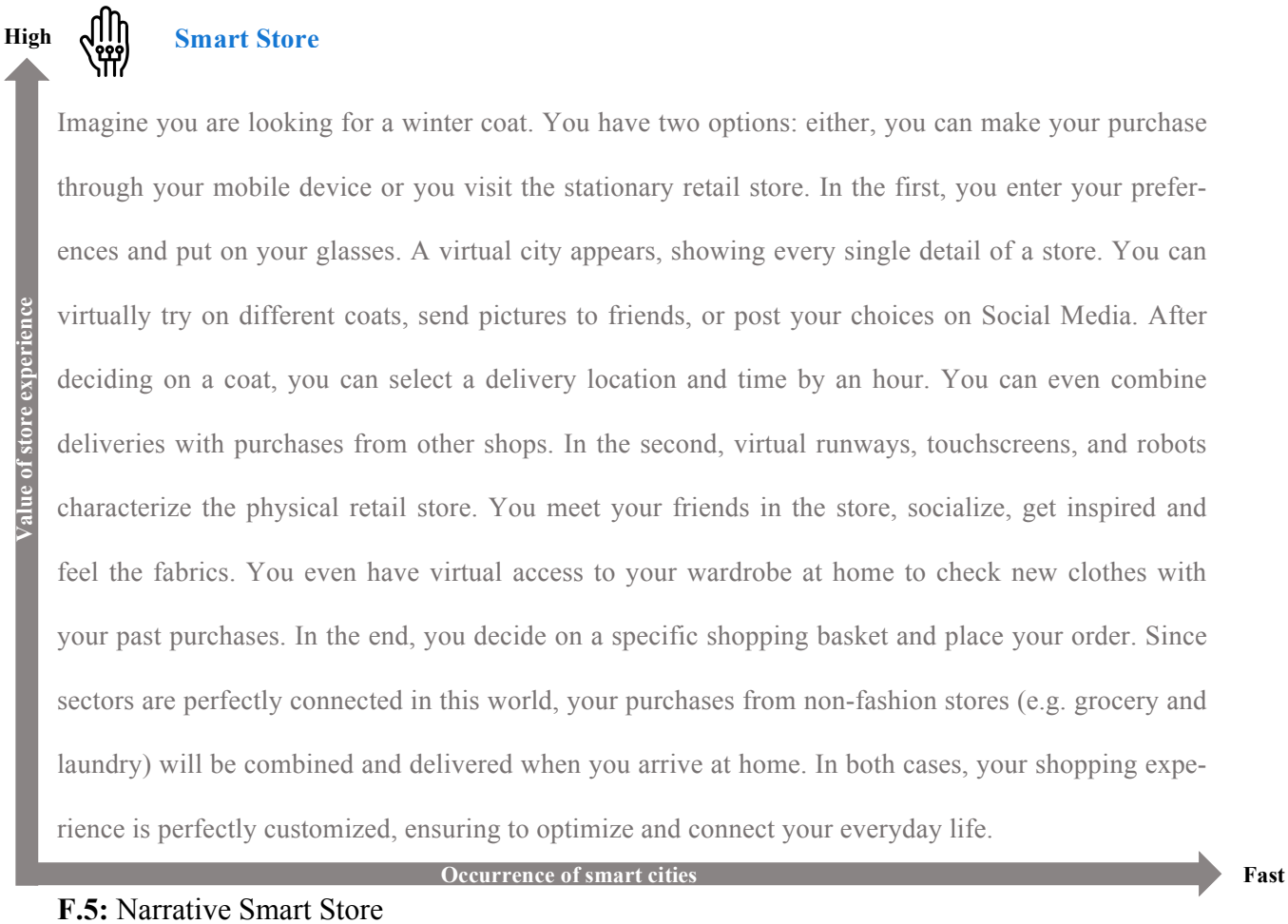
Looking at one extreme, a slow development of smart cities may result in firms competing in product design and quality. Both elements would be of higher importance than technology advance in products and service. On the other side, if smart cities will develop fast, the fashion retail industry would be characterized by fast and disruptive innovations and collaborations with other industries, to which all firms need to respond and adapt with their established retail concepts. These actions would require CEO's attention and high investments in Research & Development. An overview of all critical uncertainties can be found in A.8. In order to measure and assess the two most critical uncertainties, KPI's were defined in A.9.

III Develop plausible futures: Keeping in mind the two identified independent critical uncertainties; Figure 4 illustrates four different scenarios, which the industry might face:



F.4: Four-scenario matrix

To begin with, the "**Smart Store**" scenario might be the most extreme one. It describes the fashion retail industry embedded in a world of smart cities, satisfying customers who highly value the store experience. Both factors combined, customers seek for experiential shopping destinations customized to them through their personal data and technology. The customer journey in the "Smart Store" can be illustrated as follows:



F.5: Narrative Smart Store

This scenario represents the perfect omni-channelling. Digital drives the customer journey from end-to-end, with customers being able to purchase their products in several ways. The full-tech stores are like theatres delivering outstanding store experience, either virtual or real. Tech is in every fingertip with customers living in full-tech cities. This would have several implications for the industry: first, existing demand would change for the current fashion retail industry, especially for the companies who already missed the train in the technological development pace. Now, customers' purchase decisions would be determined by new innova-

tions enabling them to experience new store concepts that combine several areas of life. Second, as shown in the narrative, the shopping behaviour would change. The purchase process can be done from everywhere. Whether at home, at work, or in the metro, by putting on virtual reality glasses, customized stores appear. The classic retail store would have more of a showroom character, offered for customers who love to get inspirations, chat with people in real-life and feel the quality of the products. In this scenario, unique experience and flexibility offer the fashion retail industry a perfect opportunity to be integrated into the everyday life. To be prepared, companies need to fully concentrate their processes and culture on tech.

The opposing scenario is the "**Pretty Vanilla Store**" in which neither smart cities are present nor the store experience is highly valued by customers. This combination results in a merge of retail shops and their inventory halls. Here, the store is like a warehouse in which a customer can buy fashion in multi-channel ways: online-shop or retail. Companies' stores would resemble each other with a simple and efficient design that allows huge storage space, and a fast pick-up of orders and delivery. A shopping experience in this scenario would look like:

Pretty Vanilla Store

Slow ← **Occurrence of smart cities**

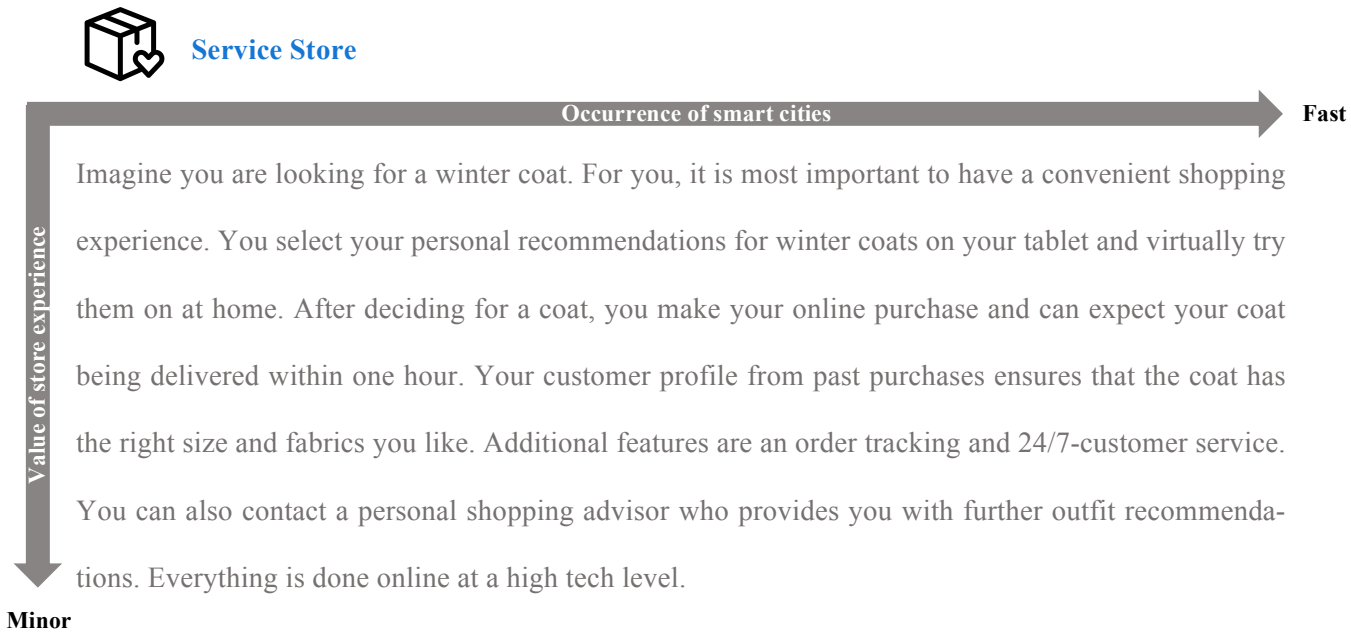
Imagine you are looking for a winter coat. You saw a blue marine coat with gold buttons on a fashion blog on the Internet. You just want to buy this coat. To purchase it, you have two options: in the first, you drive to the according store and go directly to a tablet station. You search for the coat and purchase it without any assistance. After completing your purchase, your order is picked up in the fully autonomous inventory and will be delivered to the checkout within minutes. There are no queues, you can grab your order and go. The second option is to purchase the product online. You can choose same day or instant delivery. The delivery is incredibly fast, driven by simple processes, an effectively designed warehouse, and a service promise.

Value of store experience ↓ **Minor**

F.6: Narrative Pretty Vanilla Store

It can be seen from the narrative: retail stores would be simply designed for a fast and easy purchase process. As a result, they would look more or less the same since customers do not value store design that differentiates brands and stores from each other. The customer journey has a more functional intent rather than delivering emotions and brand value. Since digitalization drives the customer journey to a certain way, the degree of tech in the fingertips of the customer is medium. This scenario may result in lower cost for the companies, as they just need to invest in fully autonomous warehouses and close their city stores. However, this would be accompanied by a sacrifice: low differentiation. It would be hard to differentiate through brand value delivered in retail and online concepts. Then, the point of differentiation lies in the product design, quality, and service that animate the customers to shop.

In the "**Service Store**" scenario, smart cities highly affect the fashion retail industry, and customers do not cherish the store experience. Frictionless technology drives this scenario. Customers highly value customized, personal online shopping with fast purchase-, delivery-, and return processes while demanding outstanding customer service in a highly connected technological world:



F.7: Narrative Service Store

In this scenario, customers look for effective and personalized ways of buying fashion. Especially ineffective steps in the purchase process, poor communication, and delays of the delivery have a significant negative impact on a company's sales and reputation. Rather than shopping physically, customers prefer online shopping with a focus on the product and service, not on the atmosphere grasped in-store. Additionally, a brand's value is not anymore perceived through experiences in retail stores. It is more delivered through technological solutions such as product tracking, one-hour delivery service, and virtual shopping guides.

This scenario would disrupt the established retail industry by forecasting the death of the historic physical retail. Here, retail stores become redundant since customers are not visiting the physical stores anymore. Established fashion retail companies can only survive by jumping on the online train. In addition, they can stand out from the crowd by adapting processes serving exactly above-described needs: offering a transparent, fast, and flawless service through an outstanding technological development pace. As a result, new business concepts emerge and companies start to collaborate in certain areas to strengthen their organizational resources.

The **"Offline Adventure Store"** scenario represents the opposite of the tech-driven "Service Store". It is characterized by a high value of store experience and a slow occurrence of smart cities. The fashion retail industry's landscape would consist of a brick-and-mortar retail environment with only one single channel: offline. Delivering emotions with stores who are like theatres are the key to success. As a result, customized in-store shopping experiences emerge as the next step in customer engagement:

Offline Adventure Store

High

Imagine you are looking for a winter coat. You are driving to your favourite brand store, entering the theme concept "Winter Wonderland". It is a store, customized to the seasonal needs: snow is falling from the walls, kids are ice-skating, and an open-fire allows customers to stay warm and chat with

each other while trying on different styles of coats. By strolling through the store, you wish to get some personal assistance. You push the help-button that you received when entering the store. Within 5 minutes, a store employee walks to your location in the store, happy to support you in your purchase decision. After deciding for a coat, you also purchase gloves and a new scarf. You stay longer than needed, go home with a bag of new winter clothes, and full of anticipation of the upcoming season. In the next season, the store will change to a spring store, anticipating the next season.

Value of store experience

Slow — Occurrence of smart cities

F.8: Narrative Offline Adventure Store

In this scenario, companies would compete in innovative and outstanding retail concepts ensuring a unique shopping experience for their customers. They focus on the factors that can be best provided by a physical store: professional assistance by inspiring store employees, engagement, and storytelling. The stores take customers on a journey, bringing an emotional experience in-store to life. These customers highly value feeling the quality, trying on several designs, and leaving the store with their new purchase. This scenario would allow the fashion retail industry to focus on delivering brand value and to connect with the customer. Here, technology would play a minor role. Rather it can be seen as a facilitator of human connection in the physical stores (e.g. through the help button or stock check via tablet).

All the above scenarios have one thing in common: in all cases, mobile devices are used to do a part of or the complete customer journey. It can be concluded, that digitalization represents an anchor in all scenarios.

In the end, companies need to recognize the above-described futures as they unfold in the real world. For this, a scorecard of early warning signals per scenario has been developed and can be found in A.10.

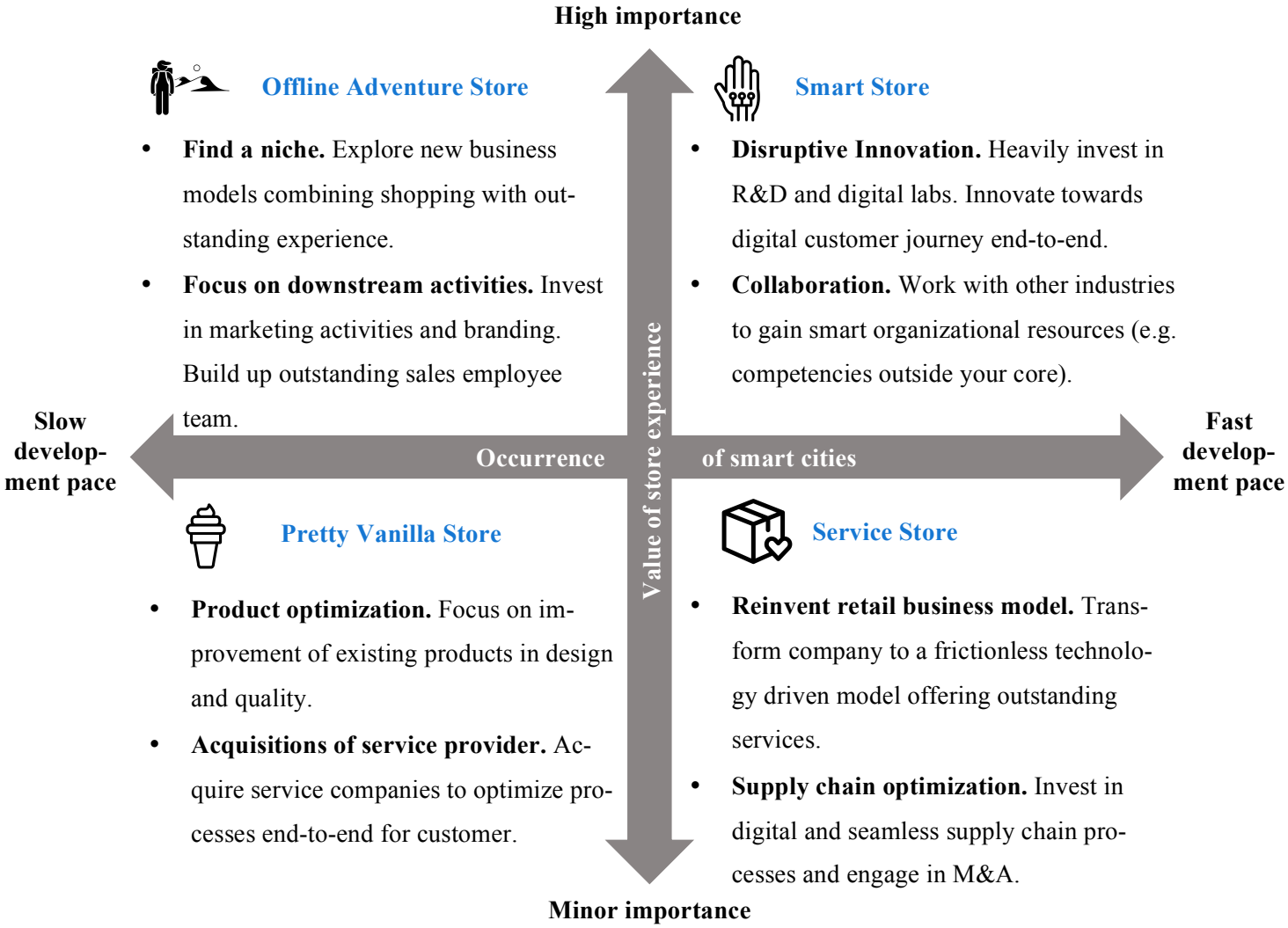
IV Derive strategic implications and options: Only detecting the occurrence of plausible scenarios will leave companies in a vulnerable position; therefore, this Work Project develops strategic options in order to cope with the plausible future.

5 The strategic options model

This chapter develops strategic options for the fashion retail industry as a whole. With regard to the diversity of the companies operating in this industry, this chapter also identifies two company stereotypes. Based on them, recommendations for their individual positioning in a space of strategic options will be derived.

5.1 Strategic options development

To begin with, Figure 9 illustrates the strategic options per scenario:



F.9: Strategic options matrix

Two strategic options can be derived from the "***Smart Store***" scenario. The **"Disruptive Innovation"** includes high investments to build up technical labs for strong innovation activities

and Research & Development. The focus of these activities is on the set-up of *own* knowledge management and competencies rather than relying on other sources. The overall goal is to merge online and offline in customers' everyday life to get the best possible experience. The strategic option **"Collaboration"** includes cooperation with other industries to ensure access to additional organizational resources (e.g. with tech start-ups). The organizations must focus on alliances with companies that enable the future connectivity for smart cities in every niche.

The opposing scenario "***Pretty Vanilla Store***" includes the strategic options **"Product optimization"** and **"Acquisition of service provider".** The first option requires a sharp focus on the improvement of the established products. Since stores are likely the same in this scenario, companies cannot differentiate in their retail concepts by delivering brand value through in-store experience. Their differentiation opportunity lies in design and quality of their products. Thus, these factors have to be optimized. The second strategic option of this scenario is the **"Acquisition of service provider"** which seeks to solve the same pain point of differentiation as the strategic option before. Here, companies would not optimize the product in quality or design but would stand out with their service. This requires high investments in M&A and would optimize the customer journey end-to-end.

Since the "***Service Store***" scenario is characterized by frictionless technology and customized products, two strategic options can be derived: **"Reinvent retail business model"** and **"Supply chain optimization"**. The first is inevitable for companies whose sales channel is mainly retail. Customers do not value classical retail stores with their store experience anymore. Rather, they look for virtual easy and fast purchase processes individualized to them. This requires specific investments and profound changes in the core business (e.g. culture and processes). The second strategic option includes high investments in the supply chain. The reason behind this lies in the changed preferences of the customers. They highly value outstanding customer service, which can only be provided with a seamless and transparent supply chain.

For the "***Offline Adventure Store***" scenario, the fashion retail industry has two different strategic options: **"Find a niche"** and **"Focus on downstream activities"**. The first one is helpful in the way that new business models offer new potential. By finding a niche, a company can distinguish itself from established retail concepts in design, style, and service. The second strategic option requires a company to heavily invest in marketing and branding as well as research. This not only ensures a perfect understanding of the customers' needs but also enables an organization to address the customers in the right way and to strengthen the bond to the brand. Big Data, as well as competitor analyses, may help to find out customer preferences and what may be unique and innovative in the industry. Hence, data can be used as a competitive weapon within the industry.

All the strategic options mentioned are not mutually exclusive. They are different in their focus towards several factors such as investments, business focus, and degree of internal changes, but can certainly be chosen simultaneously.

5.2 Identification of fashion retail company stereotypes

The global apparel industry has not only grown in revenue since 2000 but also in the number of pieces bought per capita (Euromonitor, 2013). A significant driver of this has been the emergence of retailers like Hennes&Mauritz from Sweden or Zara from the Inditex group in Spain, which offer fashionable clothes at affordable prices (Caro, 2014). These industry players are representatives of the Fast Fashion concept. This segment includes companies driven by a strategy that adapts assortments to current and emerging fashion trends as quickly and effectively as possible (Sull and Turconi, 2008). Items are produced with immense speed but are often associated with a lack of social responsibility regarding waste treatment and labour laws (Caro, 2014). The time-based focus of the Fast Fashion model is the major difference to the rather quality-based Slow Fashion concept (Fletcher, 2008).

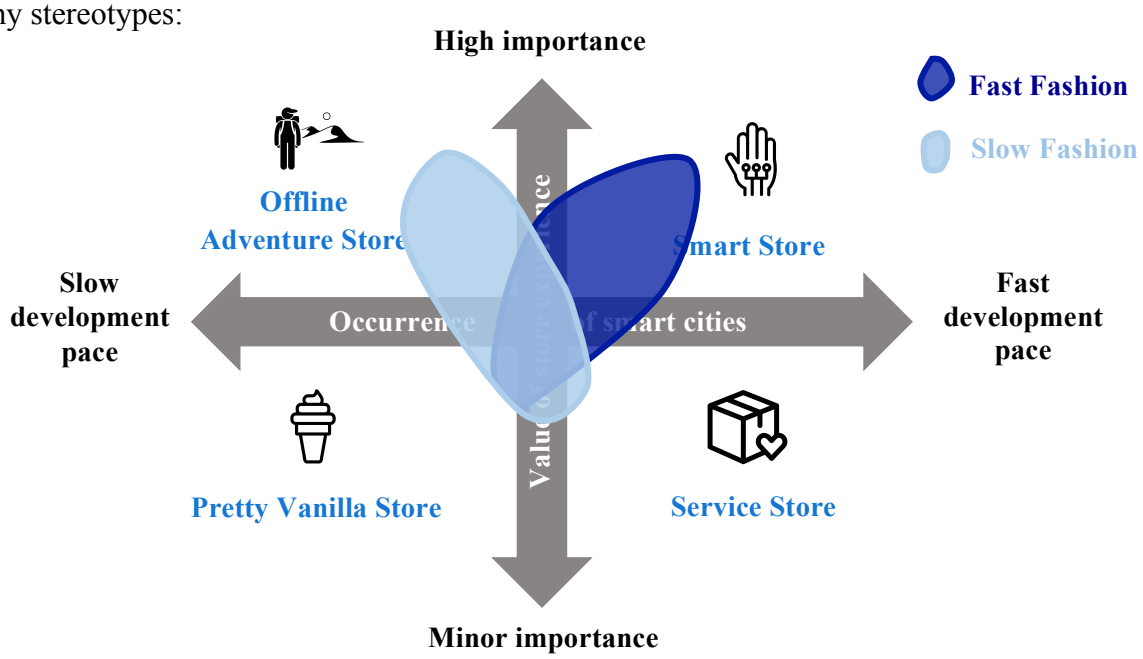
Generally, Slow Fashion is a business model focussing on quality and sustainability. It encourages a more conscious approach to purchasing clothes (Gockeln, 2014), in which designers, suppliers, retailers, and consumers are aware of their impact (Fletcher, 2007). Recently, the Slow Fashion business model increasingly gained momentum, fuelled by environmental criticism towards the Fast Fashion players. Entrepreneurs created new businesses with this concept as well as established companies turned their processes towards it (e.g. Patagonia). Slow Fashion companies can be seen as relatively new entrants in the fashion retail industry since they are at the beginning of their settlement (Gockeln, 2014). The following table gives an overview of the two extremes:

	Fast Fashion	Slow Fashion
Concept focus	Time-based	Quality-based
Business model elements	Quick response, frequent assortment changes, fashionable clothes at affordable prices (Caro, 2014)	Selected assortment, mindful consumption, transparent supply chain (Phelan, 2017)
Underlying models	Opportunity-pull model (Sull & Turconi, 2008); Adaptive business model and sense-and-respond model (Day, 2011)	Designer-push model (Sull & Tuconi, 2008); Make-and-sell model (Day, 2011)
Characteristics	Highly responsive supply chain, speed-to-market, sensitivity to catwalk trends, flexibility (Gockeln, 2014)	Quality over quantity, responsibility, sustainability, transparency, eco-friendly, ethical (Gockeln, 2014)
Production	Outsourcing, External suppliers, Manufacturing in low-cost countries (Gockeln, 2014)	Local production, fair trade, recycling (Gockeln, 2014)
Design-to-sales process	Item level – all sizes and colours of given garment (Caro, 2014)	Collection-based (Caro, 2014), partly seasonless basics (Phelan, 2017)
Price level	Cheap	More expensive
Criticism	Environmental pollution, inhumane labour standards, unconscious shopping, waste (Gockeln, 2014)	High prices, questionable trendiness of products, limited availability of eco-friendly clothes (Gockeln, 2014)
Industry players	Zara, H&M, Gap, Uniqlo, Forever 21, Topshop, Mango	Elizabeth Suzann, Patagonia, Kowtow, United by Blue, Synergy, Amour Vert

F.10: Profile of Fast Fashion and Slow Fashion extremes

5.3 Individual positioning in spaces of options

Although companies can detect the point in time when a scenario occurs through the score-card of early warning signals, it is sometimes too late to start the preparation. Especially in established companies, change requires time and organizational resources. Thus, it is necessary to start the decision-making now and position oneself for the next decade. Additionally, a company should not tackle the strategic options one-by-one. Rather it should position itself in a space of strategic options suitable to the characteristics of its stereotype. Figure 11 shows the recommended positioning in a space of strategic options for the two prior identified company stereotypes:



F.11: Strategic options model per company stereotype

The Fast Fashion extreme with its specific characteristics is most likely to prepare for the "Smart Store" scenario. The current resource allocation allows an easy reallocation and direction towards it. The strategic options "Disruptive Innovation" and "Collaboration" are easy to tackle due to several reasons: referring to the table of characteristics in Figure 10, companies belonging to the Fast Fashion extreme usually have a remarkable size. They are characterized by high volume sales and turnovers and are consequently able to invest heavily in certain areas (e.g. R&D). Besides this, their size and reputation allow to easily find partners to cooper-

ate. Smaller companies such as niche tech start-ups are open for collaboration. Additionally, their time-based focus intrinsically motivates them to innovate for up-to-date fashion and retail concepts. Favourable for them is also a highly responsive supply-chain they can build on. All these factors combined enable this extreme to prepare optimally for these strategic options. The coverage in the other scenarios is relatively low since technology-driven aspects and agile processes drive this extreme and are favoured by the fast occurrence of smart cities.

On the contrary, the Slow Fashion extreme is more likely to take a position in the area of the "Offline Adventure Store" scenario. Especially the strategic option "Finding a niche" is suitable for the Slow Fashion concept. The quality-based focus of this business concept seeking for quality over quantity is helpful as it ensures a high differentiation from competitors. Besides the quality reason, the characteristics of being sustainable, responsible, and transparent in the supply chain differentiate a player of the Smart Fashion concept from others. These companies can present store concepts with scenery that tell a story around the products. However, other strategic options like the "Smart Store" and "Service Store" scenario are harder to realize for this concept due to its relatively small size and hence low investment power.

Finally, it can be stated that both extremes are recommended to take a position in different areas of strategic options due to differences in their business focus and extent of organizational resources. However, it exists an area in which both company stereotypes take a position: the intersection of the axis where both extremes clash. The rationality behind this is to be prepared to a minimum for any plausible future that might unfold.

6 Conclusion and limitations

No doubt, the future is uncertain and there is no magic to forecast it. However, companies can anticipate and conquer it to a certain degree through several planning methodologies. This Work Project aimed to address the question about the next chapter of the fashion retail indus-

try in 10-15 years. For this purpose, the scenario planning method, based on primary as well as secondary research, has been used to explore this question for the industry as a whole. Since companies are very different and no one-size-fits-all recommendation would apply, two stereotypes of companies have been used to develop suitable recommendations: Fast Fashion and Slow Fashion. While companies belonging to the Fast Fashion stereotype should be more likely to position themselves in the "Smart Store" scenario by collaborating with others and investing in R&D, the Slow Fashion stereotype should take a position in the "Offline Adventure Store" scenario. Especially finding a niche in the industry represent a favourable option for companies falling in this extreme. However, both concepts should prepare to a minimum for all scenarios and thus need to strike a balance between the online and offline experience to a minimum degree.

Nevertheless, this Work Project has some limitations due to space constraints. First, the definition of stereotypes can be further refined than just being an extreme. This approach covers retailers in the luxury sector (e.g. Prada) or haute couture (e.g. Kaviar Gauche) only indirectly since they fall in-between both extremes. By doing so, these retailers only know that their strategic options lie in-between the recommendations of the two extremes. Second, the positioning recommendations per company stereotype can be further developed regarding the specific organizational resources needed to be able to act upon the unfolded future.

Overall, this Work Project gives a clear picture about plausible futures of the fashion retail industry, according strategic options, and concrete positioning recommendations for two company stereotypes. Through this, companies can anticipate what is coming and prepare themselves to secure a future sustainable competitive advantage in the industry. Ignoring the implications of this Work Project and ignoring the long-term future would result in severe negative consequences for any company. As Benjamin Franklin already said in the 18th century: *'By failing to prepare, you are preparing to fail'*.

Bibliography

Abomhara, **M**. and **Køien G**. **M**., 2015. "Cyber Security and the Internet of Things: Vulnerabilities, Threats, Intruders and Attacks." Department of Information and Communication Technology, University of Agder, Norway.

Amed, **I**., **Berg**, **A**., **Brantberg**, **L**. and **Hedrich**, **S**., 2016. "The state of fashion." Accessed October 15. https://www.mckinsey.com/industries/retail/our-insights/the-state-of-fashion

Atluri, **V**., **Dietz**, **M**., and **Henke**, **N**., 2017. "Competing in a world of sectors without borders." Accessed November 25. https://www.mckinsey.com/business-functions/mckinsey-analytics/our-insights/competing-in-a-world-of-sectors-without-borders

Audier, **A**., **Frédeau**, **M**., **Brun**, **S**., 2017. **"**How Technology and Collaboration can help create smart and safe cities." Accessed October 25. https://www.bcg.com/publications/2017/defense-justice-border-digital-transformation-technology-collaboration-smart-safe-cities.aspx

Baghai, M., **Coley**, **D**. and **White**, **D**., 1999. "The alchemy of growth." New York: Perseus.

Berg, **A**., **Hedrich**, **S**. and **Leon**, **J**., 2017. "The two faces of fashion-industry performance." *McKinsey Quarterly*. Accessed October 5. https://www.mckinsey.com/industries/retail/our-insights/the-two-faces-of-fashion-industry-performance

Bogdan, **I**., 2016. "Trust in the Economic Environment is Crucial for the Future Evolution of Businesses." *Business Digest*. Accessed October 31. http://rbd.doingbusiness.ro/opinions/trust-in-the-economic-environment-is-crucial-for-the-future-evolution-of-businesses/5567

Brummel, **A**., **MacGillivray**, **G**., n.d. "Introduction to Scenarios." *Scenarios to Strategy*, pp. 3–5.

Busch, **T**., 2016. "Five Forces Analysis of the Fashion Retail Industry." Accessed October 24. http://pestleanalysis.com/five-forces-analysis-of-fashion-retail-industry/

Caro, F. 2014. "Fast Fashion: Business Model Overview and Research Opportunities." *Retail Supply Chain Management: Quantitative Models and Empirical Studies*, 2nd Edition, Narendra Agrawal and Stephen A. Smith (Editors), Springer, New York, NY.

Curry, **A**., **Hodgson, A.,** 2008, "Seeing in Multiple Horizons: Connecting Futures to Strategy." *Journal of Futures Studies*, 13(1): pp. 1-20.

Darwin, **L**., 2015. "12 Conversations the Fashion Industry doesn't want to have." *Refinery29.* Accessed October 25. http://www.refinery29.com/2015/12/99774/fashion-industry-problems-2016

Deloitte, 2015. "Supply Chain Innovation, Making the Impossible Possible." Accessed October 30. https://www2.deloitte.com/content/dam/Deloitte/dk/Documents/process-and operations/2015MHI Industry Report.pdf

European Commission, 2017. "Textiles and clothing legislation.", Accessed November 08. https://ec.europa.eu/growth/sectors/fashion/textiles-clothing/legislation_en

Ewen, **L**., 2017. "The 7 trends that will shape apparel retail in 2017." Accessed October 15. http://www.retaildive.com/news/the-7-trends-that-will-shape-apparel-retail-in-2017/433249/

Fletcher, **K**. 2007. "Slow fashion. The Ecologist." Accessed November 10. http://www.theecologist.org/green_green_living/clothing/26 9245/slow_fashion.html

Forbes, 2000. "Corporate strategy board analysis." Accessed October 10. https://www.forbes.com/sites/stratfor/2015/01/08/scenario-planning-and-strategic-forecasting/7/#18dfbeaa7a80

Gocken, **L**., 2014. "Fashion Industry Analysis. From the Perspective of Business Model Dynamics." Accessed November 10. https://essay.utwente.nl/65268/1/Gockeln_BA_School%20of%20Management%20and%20Governance.pdf

Hartjen, **R**., 2017. **"**5 trends shaping apparel retail in 2017." Accessed October 23. https://retailnext.net/en/blog/5-trends-shaping-apparel-retail-in-2017/

Hobcraft, **P**., 2013. "Entering the Zone of Innovation Uncertainty." Accessed October 06. http://innovationexcellence.com/blog/2013/12/10/entering-the-zone-of-innovation-uncertainty/

Hodson, **N**., **Perrigo C**., **Hardman D**., 2017. "2017 Retail Trends." Accessed October 06. https://www.strategyand.pwc.com/trend/2017-retail-trends

Kaur, 2016. "Low wages, unsafe conditions and harassment: fashion must do more to protect female workers." Accessed November 08. https://www.theguardian.com/sustainable-business/2016/mar/08/fashion-industry-protect-women-unsafe-low-wages-harassment

McGuire, **L**., 2017. “Seven green technologies that will shape our future.” Accessed October 06. https://www.virgin.com/entrepreneur/seven-green-technologies-will-shape-our-future

McKinsey, 2009. “Enduring Ideas: The three horizons of growth.” *McKinsey Quarterly*. Accessed October 09. https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/enduring-ideas-the-three-horizons-of-growth

OECD, 2016. “Income inequality remains high in the face of weak recovery.” *Income inequality update*. Accessed October 31. http://www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf

OECD, 2017. “Waste.” Accessed November 08. http://ec.europa.eu/environment/waste/

Ogilvy, **J**., 2015. “Scenario Planning and Strategic Forecasting.” Accessed October 10. https://www.forbes.com/sites/stratfor/2015/01/08/scenario-planning-and-strategic-forecasting/#54a2f27411a3

Pettinger, **T**., 2016. “The impact of an ageing population on the economy.” Accessed October 13. https://www.economicshelp.org/blog/8950/society/impact-ageing-population-economy/

Potter A., 2016. “The upside of disruption. Megatrends shaping 2016 and beyond.” Accessed October 31. http://cdn.ey.com/echannel/gl/en/issues/businessenvironment/2016megatrends/001-056_EY_Megatrends_report.pdf

Pimentel, **M**., 2015. “Smart Cities: Growing New Markets for Information Technology.” Accessed October 30. https://www.bccresearch.com/market-research/information-technology/smart-cities-growing-new-markets-information-technology-report-ift115a.html

Ram, **C**., **Montibeller**, **G**., 2012. “Exploring the impact of evaluating strategic options in a scenario-based multi-criteria framework.” Technological Forecasting & Social Change. Forthcoming.

Raspin, **P**. and **Terjesen**, **S**., 2007. “Strategy Making: What have we learned about forecasting the future?” *Handbook of Business Strategy*. Emerald.

Rickert, **N**., 2016. “The Future of Retail 2017.” Accessed October 31. https://www.walkersands.com/Futureofretail

Rivkin, **J**., 2006. "An options-led approach to making strategic choices.*"*, *Harvard Business School Background.* Note 702-433.

Schoemaker, P., 1995. "Scenario planning: a tool for strategic thinking." *Sloan Management Review*, 36(2): pp. 25-40.

Schwartz, **P**. 1996. "The Art of the Long View: Planning for the Future in an Uncertain World." New York, Currency Doubleday.

SDI Group, 2013. "Multi-Channel Distribution in the Apparel Industry." Accessed October 23. http://www.mmh.com/wp_content/sdi_wp_content_073013.pdf

Sidney, **P**., **Raine**, **A**., 1979. "Consumer Behavior and Fashion Marketing." *Dubuque*, Iowa: W.C. Brown Co.

Skorupa, **J**., 2013. "Smart Quotes: Inside the Best Minds in Retail." Accessed October 07. https://risnews.com/smart-quotes-inside-best-minds-retail

Sull, **D**., **Turconi**, **S**., 2008. "Fast fashion lessons." *Business Strategy Review*, 19(2), 4-11.

Tan, **O**., 2017. "How Social Media Contributed to the Rise of Fast Fashion." Accessed October 22. http://www.adweek.com/digital/oliver-tan-visenze-guest-pot-fast-fashion/

Tushman, **M**., **O'Reilly III**, **C**., 2011. "Organizational Ambidexterity in Action: How managers explore and exploit." *California Management Review Vol. 53*, No. 4 summer 2011

Wagner, **N**., n.d. "Analysis of the Retail Apparel Industry." Accessed October 19. http://smallbusiness.chron.com/analysis-retail-apparel-industry-70514.html

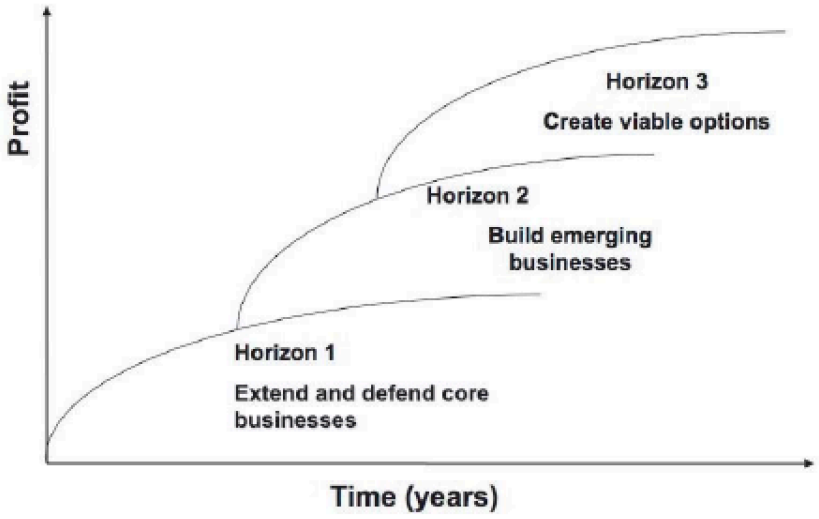
World Economic Forum, 2012. "Global Agenda Survey 2012." Accessed November 08. http://reports.weforum.org/global-agenda-survey-2012/

Wright, **A**., 2000. "Scenario planning: a continuous improvement approach to strategy." *Total Quality Management*, 11, 4/5&6: pp. 433-438.

Wulf, T., **Meißner**, **P**., **Stubner**, **S**., 2010. **"**A Scenario-based Approach to Strategic Planning – Integrating Planning and Process Perspective of Strategy." Accessed October 29. https://www.hhl.de/fileadmin/texte/publikationen/arbeitspapiere/hhlap0098.pdf

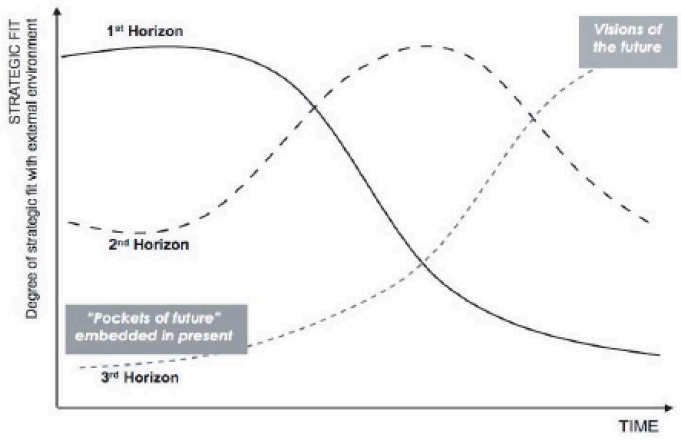
Appendix

A.1: The original management-oriented three horizons model



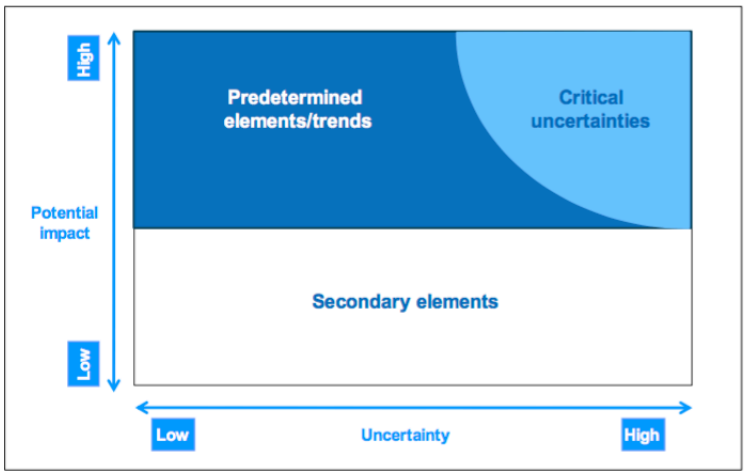
Baghai, M., **Coley**, **D**. and **White**, **D**., 1999. "The alchemy of growth." New York: Perseus.

A.2: Multiple horizons methodology



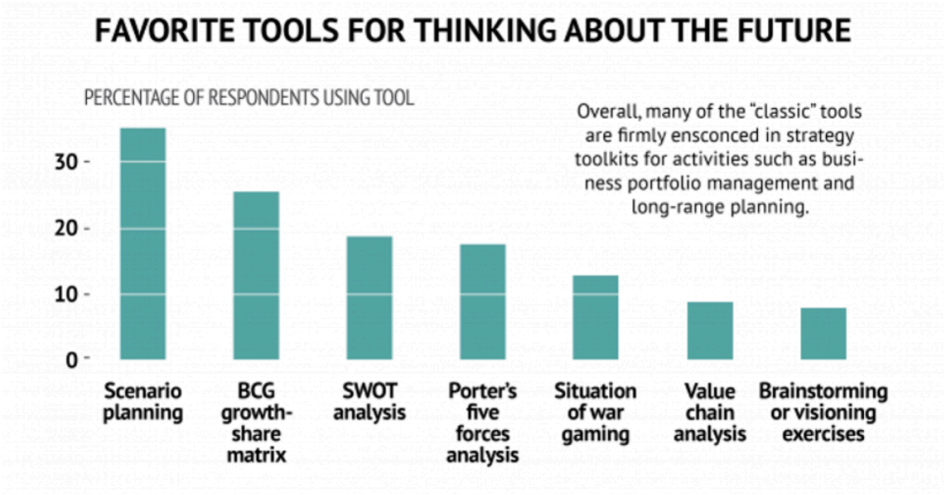
Curry, **A**., **Hodgson, A.,** 2008, "Seeing in Multiple Horizons: Connecting Futures to Strategy." *Journal of Futures Studies*, 13(1): pp. 1-20.

A.3: Illustrative critical uncertainty matrix



Wulf, T., **Meißner**, **P**., **Stubner**, **S**., 2010. **"**A Scenario-based Approach to Strategic Planning – Integrating Planning and Process Perspective of Strategy." Accessed October 29. https://www.hhl.de/fileadmin/texte/publikationen/arbeitspapiere/hhlap0098.pdf

A.4: Favourite tools for thinking about the future



Forbes, 2000. "Corporate strategy board analysis." Accessed October 10. https://www.forbes.com/sites/stratfor/2015/01/08/scenario-planning-and-strategic-forecasting/7/#18dfbeaa7a80

A.5: STEEP+I analysis

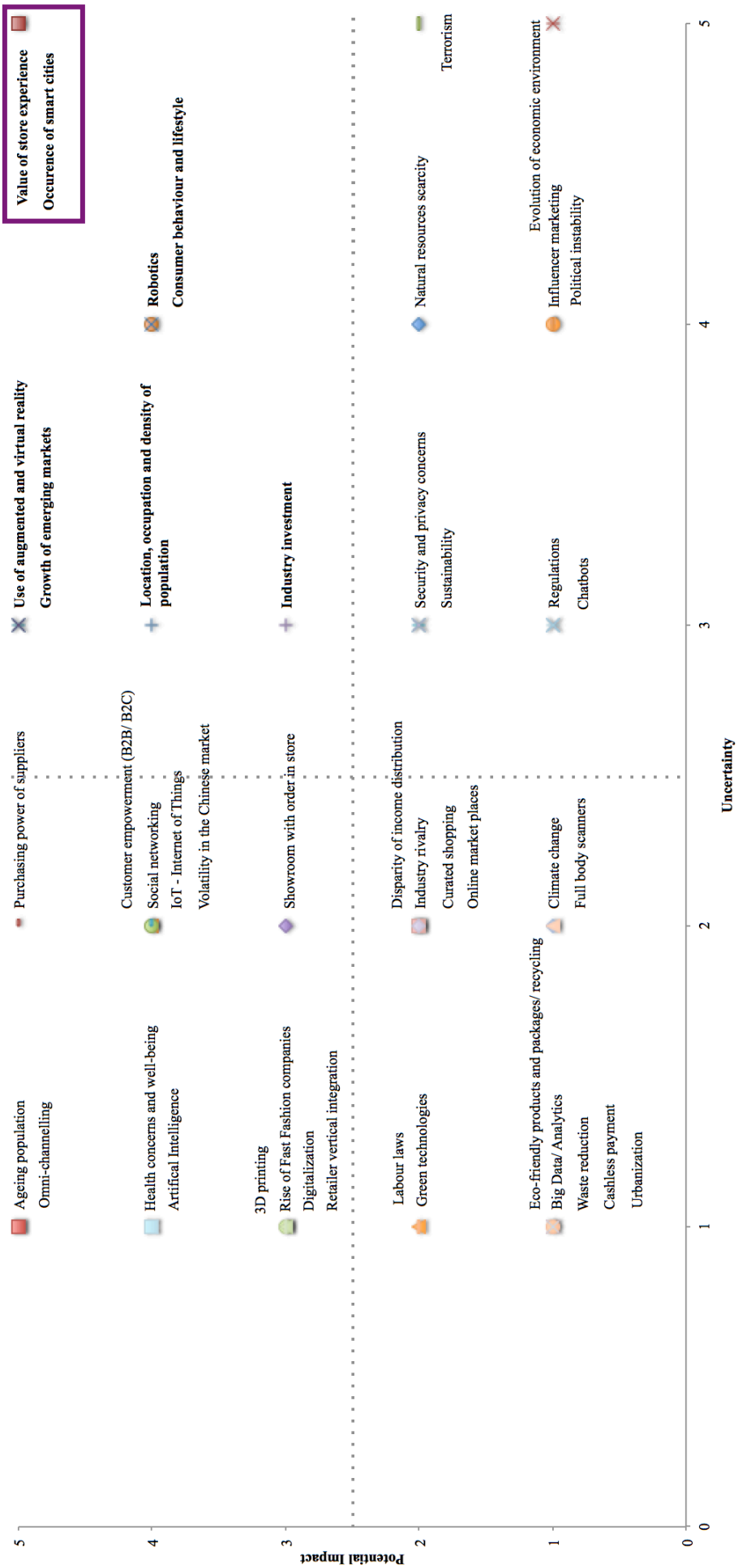
(Note: References mentioned are illustrative; factors below have been mentioned multiple in several resources and in-depth interviews)

Social	• Social networking (Tan, 2017; Interview with Hugo Boss, Tommy Hilfiger) • Value of store experience (Rickert, 2016) • Consumer behaviour and lifestyle (Delace, 2011) • Location, occupation and density of population (Sidney and Raine, 1979) • Ageing population (Pettinger, 2016) • Urbanization (Interview with Adidas) • Health concerns and well-being (Darwin, 2015)
Technological	• IoT - Internet of Things (Hartjen, 2017) • Occurrence of smart cities (Audier, Frédeau and Brun, 2017) • Green technologies (McGuire, 2017) • Security and privacy concerns (Abomhara and Køien, 2015) • Use of augmented and virtual reality (Amed et al., 2016; Interview with Hugo Boss) • Big Data/ Analytics (Interview with Hugo Boss, MyStyleHit) • Artificial Intelligence (Interview with Tom Tailor) • 3D Printing (Interview with Tommy Hilfiger)
Economic	• Evolution of economic environment (Bogdan, 2016) • Disparity of income distribution (OECD, 2016) • Customer empowerment (B2B/B2C) (Potter, 2016) • Purchasing power of suppliers (Busch, 2016) • Industry investment (Amed et al., 2016) • Growth of emerging markets (McKinsey, 2013) • Volatility in the Chinese market (Amed et al., 2016)
Environmental	• Natural resource scarcity (World Economic Forum, 2012) • Waste reduction (OECD, 2017) • Climate change (World Economic Forum, 2012) • Eco-friendly products and packages/ recycling (OECD, 2017)

Political	• Regulations (European Commission, 2017) • Terrorism (World Economic Forum, 2012) • Political instability (World Economic Forum, 2012) • Labour laws (Kaur, 2016)
Industry	• Cashless payment (Interview with Via Appia Mode GmbH, A.C.) • Showroom with order in-store (Interview with Simon-Kucher, via Appia Mode GmbH) • Robotics (Interview with Via Appia Mode GmbH, limango, Simon-Kucher) • Omni-Channelling (Interview with Adidas, MyStyleHit, C.M.) • Retailer vertical integration (Interview with Adidas) • Digitalization (Interview with Adidas, Deichmann, limango, Tommy Hilfiger, Tom Tailor) • Industry rivalry (A.C.) • Rise of Fast Fashion companies (Interview with Deichmann) • Sustainability (Interview with Hugo Boss, Tommy Hilfiger, C.M.) • Chatbots (Interview with Hugo Boss) • Online market places (Interview with MyStyleHit) • Influencer Marketing (Interview with MyStyleHit) • Curated Shopping (Interview with Hugo Boss, Tom Tailor) • Full-body scanners (Interview with Simon-Kucher)

A.6: Excel evaluation table and graph of STEEP+I analysis

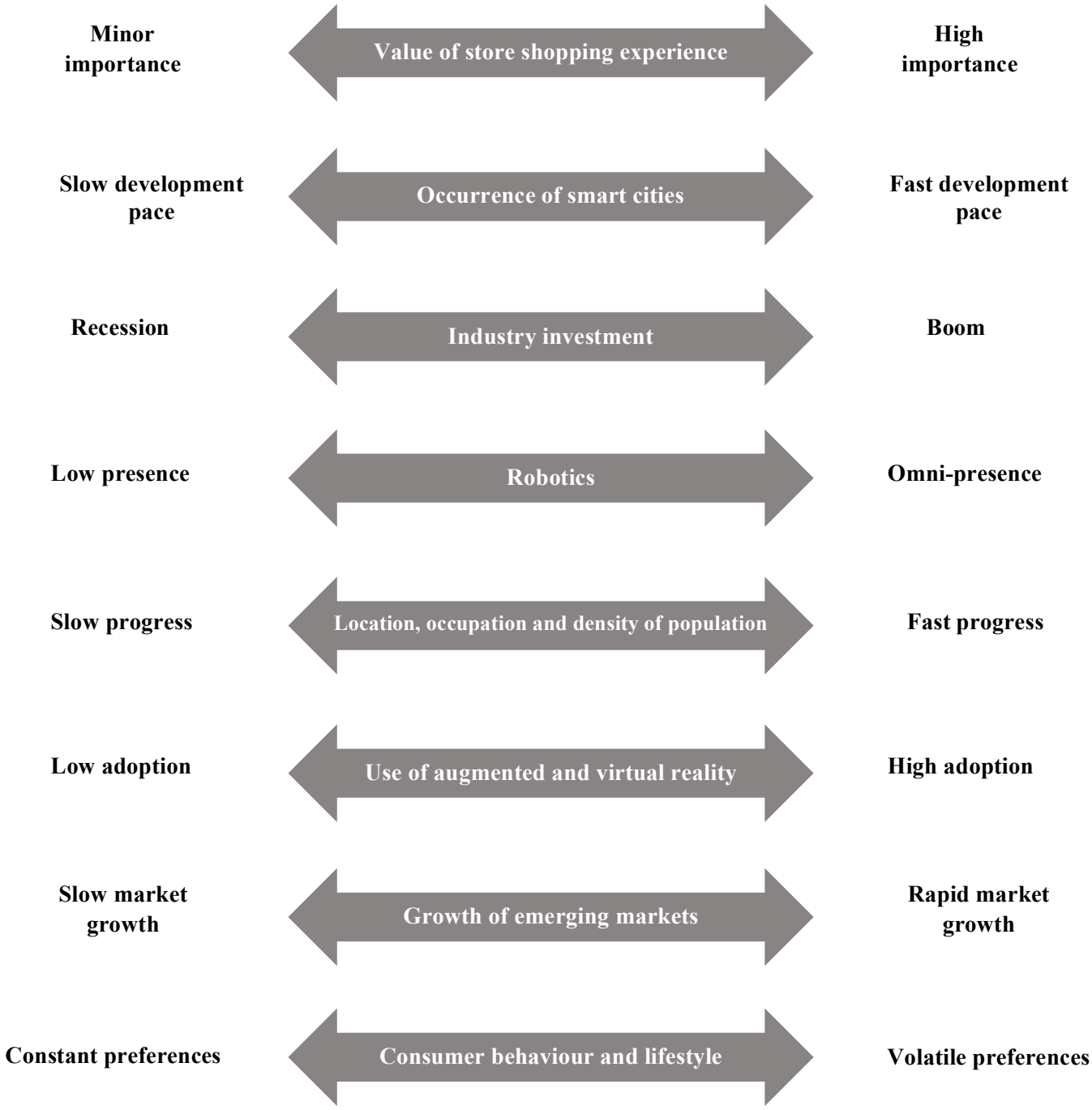
		Low (1) - High (5)	*Low (1) - High (5)*
Area	**Trend**	**Uncertainty**	**Potential Impact**
Social	**Value of store experience**	5	5
Technological	**Occurence of smart cities**	5	5
Economic	Industry investment	3	3
Industry	Robotics	4	4
Social	Location, occupation and density of population	3	4
Technological	Use of augmented and virtual reality	3	5
Economic	Growth of emerging markets	3	5
Social	Consumer behaviour and lifestyle	4	4
Economic	Purchasing power of suppliers	2	5
Political	Terrorism	5	2
Social	Social networking	2	4
Social	Ageing population	1	5
Technological	IoT - Internet of Things	2	4
Economic	Evolution of economic environment	5	1
Economic	Customer empowerment (B2B/ B2C)	2	4
Economic	Volatility in the Chinese market	2	4
Environmental	Natural resources scarcity	4	2
Industry	Omni-channelling	1	5
Social	Health concerns and well-being	1	4
Technological	Security and privacy concerns	3	2
Industry	Digitalization	1	3
Industry	Industry rivalry	2	2
Industry	Rise of Fast Fashion companies	1	3
Industry	Sustainability	3	2
Industry	Chatbots	3	1
Technological	Big Data/ Analytics	1	1
Social	Urbanization	1	1
Industry	Online market places	2	2
Industry	Influencer marketing	4	1
Technological	3D printing	1	3
Industry	Curated shopping	2	2
Technological	Artifical Intelligence	1	4
Industry	Full body scanners	2	1
Political	Political instability	4	1
Industry	Showroom with order in store	2	3
Economic	Disparity of income distribution	2	2
Political	Regulations	3	1
Industry	Retailer vertical integration	1	3
Technological	Green technologies	1	2
Environmental	Climate change	2	1
Political	Labour laws	1	2
Environmental	Waste reduction	1	1
Environmental	Eco-friendly products and packages/ recycling	1	1
Industry	Cashless payment	1	1


Value of store experience
Occurence of smart cities
Ageing population
Omni-channelling
Purchasing power of suppliers
Use of augmented and virtual reality
Growth of emerging markets
Customer empowerment (B2B/ B2C)
Health concerns and well-being
Artifical Intelligence
Social networking
IoT - Internet of Things
Volatility in the Chinese market
Location, occupation and density of population
Robotics
Consumer behaviour and lifestyle
3D printing
Rise of Fast Fashion companies
Digitalization
Retailer vertical integration
Showroom with order in store
Industry investment
Labour laws
Green technologies
Disparity of income distribution
Industry rivalry
Curated shopping
Online market places
Security and privacy concerns
Sustainability
Natural resources scarcity
Terrorism
Eco-friendly products and packages/ recycling
Big Data/ Analytics
Waste reduction
Cashless payment
Urbanization
Climate change
Full body scanners
Regulations
Chatbots
Evolution of economic environment
Influencer marketing
Political instability
Potential Impact
Uncertainty
0
1
2
3
4
5

A.7: Critical uncertainty matrix

	Low Uncertainty	High Uncertainty
High Impact	• Ageing population • Omni-channelling • Artificial intelligence • 3D printing • Rise of Fast Fashion companies • Digitalization • Health concerns and well-being • Purchasing power of suppliers • Customer empowerment • Social networking • Volatility in the Chinese market • IoT – Internet of Things • Showroom with order in-store • Retailer vertical integration	• **Value of store experience** • **Occurrence of smart cities** • Industry investment • Robotics • Location, occupation and density of population • Use of augmented and virtual reality • Growth of emerging markets • Consumer behaviour and lifestyle
Low Impact	• Labour laws • Waste reduction • Eco-friendly products and packages/ recycling • Climate change • Disparity of income distribution • Green technologies • Cashless payment • Big Data/ Analytics • Urbanization • Full body scanners • Online market places • Industry rivalry • Curated Shopping	• Terrorism • Natural resources scarcity • Evolution of economic environment • Security and privacy concerns • Political instability • Regulations • Influencer marketing • Sustainability • Chatbots

A.8: Overview of critical uncertainties



A.9: Key performance indicators (KPI's)

Value of store experience		
High	Medium	Minor
Increase of mobile applications (e.g. omnichannel ability)	*Constant* use of mobile application (e.g. omnichannel ability)	*Decrease* of mobile applications (e.g. omnichannel ability)
Increase in spending on personalized products	*Constant* spending on personalized products	*Decrease* of spending on personalized products
Buying decision: *emotional* approach	Buying decision: *mix*	Buying decision: *informational* approach

Occurrence of smart cities		
Fast	Medium	Slow
Increase of smart city market size	*Constant* size of smart city market	*Decrease* of smart city market size
Increase spending on R&D in technology solutions	*Constant* spending on R&D in technology solutions	*Decrease* spending on R&D in technology solutions
Rapid growth of wealthy cities (mega cities)	*Moderate* growth of wealthy cities (mega cities)	*Slow* growth of wealthy cities (mega cities)

A.10: Scorecard of early warning signals

High value of store experience

Slow occurrence of smart cities

Fast occurrence of smart cities

Minor value of store experience

 **Offline Adventure Store** • Increase of in-store sales (# of visits & revenue) • E-commerce companies face a decrease of sales • Companies adjust their retail concepts on a regularly basis according to themes	 **Smart Store** • Decrease of in-store sales (# of visits & revenue) • Increase of urbanization • Financial struggling or bankruptcy of companies with low technological development pace • Cost decrease of technological solutions
 **Pretty Vanilla Store** • Increase of e-commerce purchases • Customers seek for specific designs, service and products	 **Service Store** • Increase of e-commerce purchases • New entrants in the fashion retail industry market with service focus • Constant development of new business ideas building upon optimization of service processes

Statutory Declaration

I declare that I have authored this thesis independently, that I have not used other than the declared sources/ resources, and that I have explicitly marked all material which has been quoted either literally or by content from the used sources.

Lisa Schrewentigges