

DEVELOPMENT OF BUSINESS OPERATIONS OF TNCs IN THE FASHION INDUSTRY IN THE FACE OF CHANGING CONSUMER BEHAVIOR

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Abstract

The article is devoted to the development of business operations of TNCs in the fashion industry. A study was made of changing the concept of fast fashion, actively implemented by TNCs in the fashion industry. The historical prerequisites for the development of the concept of fast fashion are revealed. The influence of changes in consumer preferences on the spread of fast fashion is considered. The current state of business operations of the leading TNC in the fashion industry, the Spanish group Inditex, has been analyzed.

Keywords: Transnational corporations, TNCs, fashion industry, fast fashion, consumers, global production system

Introduction

The global fashion industry is a crucial sector of international business, with an annual turnover of approximately 2.5–2.8 trillion dollars, employing more than 120 million workers worldwide, and playing an exceptionally important role in the recovery of the global economy after the pandemic [3]. In their activities, transnational corporations (TNCs) aim to minimize costs through production outsourcing within established and controlled TNC global production and distribution networks, which have transformed into global value chains (GVCs) [5]. Under conditions of intensifying competition and globalization, the competitiveness of international companies, along with available resources, is determined by dynamic capabilities [1]. Fashion industry TNCs succeed in the market by demonstrating flexibility, rapid responses to changes in the external environment, thanks to the wide application of digital technologies, intellectual capital, optimization of relationships with consumers based on personalized offers [6].

Methodology

The research question of this paper is formulated as follows: how has the business model of fashion industry TNCs developed in the context of globalization, based on emerging trends,

who are the consumers of fashion clothing, and how does consumer behavior influence the development of TNC business models?

Research Results

The dominant position in the global fashion clothing market is occupied by transnational corporations (TNCs) in the fashion industry such as **Inditex, Topshop, H&M, Mango, Benetton, GAP, Guess, Liz Claiborne, The Limited Inc., Fast Retailing**, and others [2].

Fast fashion as a business model of consumer interaction has become dominant for leading TNCs of the fashion industry thanks to the ability to instantly deliver the most fashionable trends to consumers, flexibility, the possibility to offer a variety of styles, and quite affordable prices [8].

Fast fashion significantly developed in the late 1990s, when leading clothing retailers and fashion companies transferred production abroad, which made it possible to drastically reduce clothing costs.

Fast fashion is a business model of European fashion companies, designed in Europe to meet the rapidly changing preferences of primarily young women who want to follow fashion trends but at a low cost.

Before the emergence of the fast fashion model, retailers had to place sufficiently large orders to meet demand for the entire season, which led to large stocks requiring storage. This did not provide enough time to understand consumer demand and often resulted in markdowns at the end of the season [10].

These issues were replaced by a new supply chain model.

The fast fashion model in the consumer sector has transformed the previously established form of the fashion pyramid, allowing consumers to access more fashionable items and differentiate products at a low price. Previously, consumers who wanted fashionable clothing could only buy haute couture items at high prices.

Today, fashion trends are constantly changing, and fast fashion TNCs such as **Forever 21, GAP, H&M, TopShop, and Zara** can take advantage of these trends through their supply chains.

The fast fashion model is a “**well-tuned system, including rapid design, production, distribution, and marketing**” [9]. In other words, retailers specializing in fast fashion can promote smaller quantities of a wider variety of products through the network.

The use of the fast fashion model also allows fashion industry TNCs to manage demand through a very short production cycle, a wide range of assortments, and limited supply of a single model [7].

The spread and adoption of the fast fashion model became so widespread that it became the norm in the fashion industry, much like ready-to-wear clothing once did.

The availability of large amounts of cheap cotton, combined with the mass production of high-quality, inexpensive polyester fibers and threads due to technological innovations in the chemical industry, created a basis for the production of a significant volume of modern fast fashion clothing.

Demographic and socioeconomic changes have led to greater differentiation of fashion and changes in consumer behavior. The fast fashion business model has generated significant competition not only among retailers but also within individual companies.

Each fast fashion company has its own supply chain network. The time required for a product to pass through the entire chain, including purchase, is called lead time. This concept, related to time sensitivity, is extremely important for fast fashion.

Lead times differ across companies: **Zara** can design, manufacture, and deliver new clothing in two weeks; **Forever 21** requires six weeks; and **H&M** needs eight weeks [11].

Consumers continue to demand cheap, disposable fashionable items, but in the fashion industry there is always uncertainty about consumer demand.

A focus solely on analyzing global commodity chains or “fast fashion” supply chains shifts attention away from the social and cultural causes of the fast fashion phenomenon and the material culture associated with it.

The fast fashion business model has proved attractive to young modern women from different social groups [11]. Technology likely plays a role in consumer behavior and their loyalty to retailers.

Modern technologies allow consumers access to large amounts of information about the latest trends or styles. Many fast fashion consumers are interested in celebrity culture, and high fashion inspires them to buy similar items.

The challenge is that these consumers want what they see celebrities or public figures wearing—trends that appear at haute couture shows—to be offered at affordable prices [10].

Consumption of fast fashion reflects social aspirations through the identity people attempt to convey. Importantly, fast fashion consumers want items immediately.

As a result, fast fashion companies face pressure on delivery times. This consumer preference and demand for instant supply also leads to cheap products. Moreover, it makes products disposable because trends and styles change quickly.

Consumers shop at brands that offer them fashionable products faster and cheaper.

They continue buying cheap disposable fashion items because they believe there is limited time to get the product they want before others buy it.

Consumer psychology expert K. V. Park explains that there are no physiological or psychological limits to how much clothing people want to buy [11].

TNC Business Operations

Fashion industry TNCs' business operations are characterized by widespread outsourcing and spatially distributed production models within GVCs, where headquarters handle collection design, marketing, finance, and direct sales to consumers through their own or franchised stores.

They actively apply digital technologies, very rapid collection updates, operational reproduction of demanded products, direct and close consumer contact, skillful logistics management, and active international expansion based on globalization of consumer preferences.

Fast fashion companies such as **Zara, H&M, and New Look** have become famous for their policy of constantly updating product assortments with fashionable styles that attract media attention and stimulate their (mainly young female) buyers to frequently visit stores [10].

Studying information about a firm makes it possible to understand its strategy, business model, and development prospects [4].

Zara is considered a pioneer of fast fashion. Founder **Amancio Ortega Gaona** started his women's clothing business with his wife with the small company **Confecciones Goa**, established in 1963, which vertically integrated design and clothing production in Galicia, Spain. Ortega sold clothing to wholesalers and retailers and later opened his own store in 1975 in La Coruña, Spain, under the name **Zara** [12].

From the beginning, Ortega had a different strategy than other retailers of the time. Ortega demonstrated remarkable foresight by implementing the **Zara** business model, which consisted of "minimal advertising, minimal inventories, and the pursuit of 'democratizing fashion,' making innovative designs available to most income groups" [12].

Since Ortega already successfully controlled costs and the entire production and logistics chain, opening his own store only increased his control, and retail sales boosted the company's income. This strengthened **Zara's** vertical integration.

Speed and sensitivity to the latest fashion trends are key factors of **Zara's** significant competitive advantage and that of its parent company, the Spanish TNC **Inditex** [9].

According to the latest financial reports, **Inditex's current revenue (TTM) is \$32.90 billion in 2022**. In 2021, the company's revenue was \$30.49 billion, an increase compared to 2020,

when it amounted to \$25.59 billion. Prices rose by 5% or more in some ranges as spring boosted sales, analysts noted.

The Spanish TNC Inditex, which also owns **Massimo Dutti** and **Bershka** in addition to Zara, announced that its net profit rose to €3.1 billion (\$3.3 billion) from €2.5 billion a year earlier for the first nine months of the year [Pons, 2022].

Conclusion

Technology and globalization are blurring the boundaries of long-established industries. Leaders in the fashion industry are seeking ways to improve business operations and increase profitability by enhancing engagement with modern consumers.

The business operations of leading fashion industry TNCs are characterized by flexible adaptation to rapidly changing consumer priorities through digital data processing, sophisticated logistics, business analytics, and a distributed global production system.

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