Analysis on China's Fast Fashion Industry under Covid-19 Based on the SCP Model

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ABSTRACT

The outbreak of Covid-19 causes a great impact on Chinese economy and industries, especially for the fast fashion industry with a large number of brick-and-mortar stores. Many shops are closed because of the pandemic. Therefore, it is meaningful to study the current state of the fast fashion industry during Covid-19 period, so that the effect of Covid-19 on the fast fashion industry can be analyzed and strategic recommendations can be made for the enterprises to overcome the impacts of Covid-19. This paper applies the SCP model to analyze the fast fashion industry in China. Through the analysis, it is concluded that the market structure is oligopoly type III, and the pandemic changes the market structure. The analysis of the market behaviors states that the industry adopts the cost-oriented pricing behavior and the sales channels optimization non-price behavior. The decreasing resource allocation efficiency is shown as a result of the market performance analysis.

Keywords: *SCP model, Fast Fashion Industry, Covid-19, Strategic Recommendations*

1. INTRODUCTION

With the development of technology and the times, the fashion products have already turned from being an initial basic need to a lifestyle for people. Fashion influences many aspects in human's life, such as the means of communication, cultural forms, and economic level [1]. Fast fashion describes the fashionable products with the low-cost, rapid and large-scale production. Since 2002, a number of overseas fast fashion brands have entered Chinese clothing market, and rapidly occupy a significant part in Chinese market because of their special market strategy. The media development, the growing number of young people, and the increasing demand for the affordable products enable the fast fashion market to grow continuously. It is also predicted that the fast fashion industry has a great development prospect in Chinese clothing market [2]. However, a global pandemic named Covid-19 broke out at the end of 2019, and spread quickly around the world in 2020. This sudden shock causes a huge influence on the economy of China as well as the world, and it is difficult for many industries including the fast fashion industry which provides offline services to survive.

The theoretical framework of SCP model contains three parts ——Structure, Conduct and Performance. This model is usually used to make industry or corporate

analysis. It is considered as a useful tool to analyse the effects of the shock and strategic adjustments in the industry when an external shock happens. Therefore, this paper aims to apply the SCP model to analyse the fast fashion industry under the Covid-19 pandemic, define the industry structure, and propose suggestions according to the analysis, so that the companies can make timely adjustments to rejuvenate the industry and develop further. In addition, the recommendations can also be useful for the industry in the future if this kind of public health emergency occurs again.
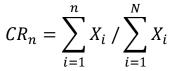
2. STRUCTURE

The market structure is firstly analyzed in the SCP model. It reflects the relationships among various firms in an industry, and describes the environment where the market operates. The kind of the market structure is determined by many factors, and this paper analyses the market structure of Chinese fast fashion industry mainly from three factors: market concentration, product differentiation, and barriers to entry.

2.1. Market concentration

In the framework of SCP analysis model, market concentration is regarded as the primary determinant of

market structure. This is because the changes in concentration have a great influence on the competitive state of market [3]. The market concentration refers to the sum of the market share held by the top N largest firms in the industry. The higher the market concentration is, the greater the value is. The common measurement method of the market concentration is to calculate the market share of the first few enterprises directly [2], and the formula is expressed by

$$CR_n = \sum_{i=1}^{n} X_i / \sum_{i=1}^{N} X_i$$

In the formula, n refers to the number of the first n enterprises, and it is taken to be 4 here; N represents the total number of enterprises in the industry. X_i is the sales of the i -th company [4]. Additionally, the classification method is shown in Table 1.

Table 1. Bain market structure classification [5].

Concentration	Market structure	
	CR_4	CR_8
Oligopolistic type I	$75 \leq CR_4$	--
Oligopolistic type II	$75 < CR_4 \leq 85$	$85 \leq CR_8$
Oligopolistic type III	$50 < CR_4 < 85$	$85 \leq CR_8$
Oligopolistic type IV	$35 \leq CR_4 < 50$	$45 \leq CR_8 < 75$
Oligopolistic type V	$30 \leq CR_4 < 35$	$40 \leq CR_8 < 45$
Oligopolisti type VI	$CR_4 < 30$	$CR_8 < 40$

Table 2. Sales of the fast fashion brands in China [6] [7] [8] [9].

Brands	Sales in 2020(CNY Million)	Sales in 2019(CNY Million)
H&M	6,383	7,897
Uniqlo	25,000	27,000
Zara	5,982	8,043
Muji	2,233	6,126
All	71,000	84,800

The fast fashion industry in China is dominated by four international brands —— H&M, Uniqlo, Zara and Muji. Through the investigation on the data of these enterprises, the sales of these four top brands in 2019 and 2020 are presented in Table 2. By comparing the data, it is clearly shown that the sales of the fast fashion brands all decreased owing to the Covid-19 pandemic. According to the formula presented above, the market concentrations of the fast fashion industry in 2020 and 2019 are derived as CR_4 =55.7 and CR_4 =57.9 respectively. The decrease on the market concentration demonstrates that the fast fashion market structure in China still remains to be oligopolistic type III under the Covid-19 period, but the monopoly is slightly lower and the competitions in this industry become more.

Therefore, it can be concluded that the pandemic indeed influences the market structure of fast fashion industry. The policy of shutdown significantly affects the sales of enterprises which makes them less competitive in the industry.

2.2. Product Differentiation

As another significant factor which has an effect on the market structure, the product differentiation means the companies will create special features in their products so that customers can differentiate them from the other companies which offers the similar products. The product differentiation enables companies to gain an advantageous position in the competitive marketplace. In general, the higher the degree of the product differentiation is, the easier it will be to gain a competitive advantage.

The brands in the fast fashion industry all have their unique characteristics: Zara focuses on the vertical integration to expand the scale and establish the strong and flexible supply chain. It can rapidly response to the customer demands through setting up centralized distribution center which is close to the stores. Zara also shorten its lead time into 14 days to avoid the large inventories and the need for storage. Zara seldom restocks their products so that customers will be attracted to buy the new products [10]. Unlike Zara's policy of little advertising, H&M cares more about marketing, and spends about 4% of revenues to build brand images and awareness. H&M takes the budget product prices as a competitive advantage, thus it chooses to outsource the manufacture to the garment factories. This causes that H&M has a longer supply chain than Zara and cannot provide new arrivals as frequent as Zara. However, the lower product cost makes customers have more opportunities to get the products with a higher quality-price ratio [11]. As for the brand Uniqlo, what is similar to H&M is that Uniqlo also reduces the cost by outsourcing. While what is totally different from Zara and H&M is that Uniqlo is a market-oriented brand, its products aim at the customer demands of all age groups.

Uniqlo also concentrates on developing new fabrics, although it is a fast fashion retail brand. Apart from these three top brands, some local brands appeared in recent years. They usually focus on the "Chinese design" and cooperate with Chinese traditional IP [12].

In conclusion, the top brands in the fast fashion industry all have their own features, and the product differentiation is still significant, which forms the oligopoly market.

2.3. Barriers to Entry

The barriers to entry mean the negative factors that new companies may encounter in competing with existing businesses. Generally, in the fast fashion industry, the barriers to entry under Covid-19 are weaker than before, but they are still quite high.

At present, many overseas brands have taken significant shares in China's fast fashion market, and they build up good reputation in the long-term business process, which increases consumer preference for the companies' products. In addition, many brands have established customer loyalty through advertising, so the new company need to pay more on the promotion. All these factors make the barriers to entry become quite high. In terms of the product differentiation mentioned in the previous sector, it is significant in the market, and it makes customers have higher preference for their products than that for the new companies. However, the Covid-19 pandemic leads to some changes of consumer behaviors, such as firstly considering the products which are more comfortable or are sold online. With these consumer behaviors changes, some local brands can have more opportunities to enter fast fashion industry.

3. CONDUCT

In the SCP paradigm, conduct, which is usually called market behaviors, plays the role of connection between the market structure and performance. In this section, the market behaviors are analyzed from two aspects: pricing and non-price behaviors.

3.1. Pricing behaviors

To a large extent, the pricing behaviors of enterprises directly determines their profits and losses. There are three main types of pricing behaviors. They are cost-oriented pricing, market demand-oriented pricing and competition-oriented pricing [13]. In the fast fashion industry, most of the brands take the method of cost-oriented pricing, along with the regular promotion. The cost-oriented pricing strategy largely lowers the starting point for clothing pricing and enables companies to occupy market share rapidly. As a result of Covid-19, consumers nowadays take promotion as the most significant reason for their purchase [14]. Therefore, the

pricing behaviors are the main competitive approaches in the fast fashion industry. Apart from this, the prices that the top brands set up are not always low to aim at the low consumer group, they also provide products aiming at the middle consumer group.

3.2. Non-price behaviors

However, customer demands cannot be fully satisfied only through the pricing behaviors, it is also important for the firms to focus on their non-price behaviors.

- Sales channels:

With the technology develops rapidly, the online consumption has been an important way for consumers to purchase goods. Especially during the lockdown period of Covid-19, when consuming offline is quite difficult, the online consumption thus becomes people's prior choice. In Chinese fast fashion market, the enterprises develop their online consumption by entering the platforms such as Tmall, JingDong and WeChat Mini Program [2], and the fast fashion brands spend a lot of money on upgrading and integrating the offline and online shops so that the business model will be more flexible and sustainable.

- Organizational Adjustment:

In recent years, the development speed of the fast fashion industry is slowing down, the increase rate of new stores is quite lower than before [12]. The Covid-19 even leads to a reduction in the number of stores for some brands such as H&M and Zara. Although the overseas brands are still dominating in the market, some local brands show a good prospect based on their rapid development.

4. PERFORMANCE

The market performance is the state of resource allocation and benefit distribution that results from the formation of the fast fashion industry through the market behavior under a certain market structure. Thus, the market performance is analyzed under the oligopoly type III market structure. This section measures the market performance mainly from two parts: the resource allocation efficiency and the enterprise scale.

4.1. Resource Allocation Efficiency

Resource allocation efficiency is one of the main measurements of the market performance, while the profit rate is the main indicator of the resource allocation efficiency. The data of the revenue and gross profit rate in 2020 and 2019 are shown in Table 3 and 4. It is clearly presented that the gross profit rate of these three brands all decreases owing to the impact of Covid-19. The lower profit rate demonstrates that the resource allocation efficiency is lower, as well as the market concentration

and monopoly. Although there is a reduction on the gross profit rate, it is still more than 45%, which is higher than the average of the apparel industry. This means that the fast fashion industry has a relatively strong ability to get profit in the garment industry. The decrease of gross profit rate is the reasonable effect of Covid-19, and the profit rate which does not change too much indicates that the enterprises in the fast fashion industry have a relatively fast response speed.

Table 3. Global revenue, profit rate of H&M, Zara, Uniqlo in 2020 [6][7][8].

CNY Million

	Gross profit	Net sales	Gross profit rate
H&M	60,450	120,863	50%
Zara	79,389	142,204	55.8%
Uniqlo	53,450	110,036	48.6%

Table 4. Global revenue, profit rate of H&M, Zara, Uniqlo in 2019 [6][7][8].

CNY Million

	Gross profit	Net sales	Gross profit rate
H&M	79,137	150,422	52.6%
Zara	110,169	197,156	55.9%
Uniqlo	61,322	125,467	48.9%

4.2. Enterprise scale

There are many enterprises in the fast fashion industry taking the vertical sales model, where companies create their own supply chain from production to retail. This kind of sales model connects them directly, so that enterprises can rapidly response to the demands of consumers. In particular, Covid-19 makes firms focus on developing the speed and flexibility to create a streamlined supply chain. This effectively increases the enterprise scale.

5. SUGGESTIONS

Through the analysis in the previous sections, it can be concluded that the external shock "Covid-19 pandemic" results in the changes including a decrease in market concentration, less barriers to entry. Therefore, the small local fast fashion brands will have more opportunities to enter this industry and become more competitive in the market.

Suggestions are proposed for the enterprises in this part, in order to diminish the effect of the "external shock". Firstly, the companies are strongly recommended to develop different channels of sales. The outbreak of Covid-19 not only make a difference on people's consumption perceptions, but also the consumption patterns. The pandemic proves the importance of developing online sales to satisfy consumer demands, otherwise they will lose a part of market and the concerned customers. Therefore, the enterprises need to strengthen the combination of online and offline sales to provide the customers good shopping experience no matter online or offline. Secondly, local brands can improve their brand value and the competitiveness. With the decrease of the market concentration, the monopoly of the top brands also reduces, and the local brands have more chances to participate in the competitions in the market. Thus, the small local brands are suggested to differentiate their products to be more competitive through the product design, brand culture and so on.

6. CONCLUSION

Based on the analysis by SCP model, the market structure of the fast fashion industry under Covid-19 situation is oligopoly type III with clear product differentiation, and the Covid-19 pandemic decreases the market concentration and barriers to entry. As for the market behaviors, the fast fashion brands take the cost-oriented pricing behavior, and the non-price behaviors including expanding sales channels and organizational adjustments are also adopted. In terms of the market performance, the reduced resource allocation efficiency resulted from the lower profit rate demonstrates that the supply chain is less effective, but the profitability is relatively high compared with the other garment industry owing to the high profit rate.

Due to the limitations of thinking, there are some shortcomings existing during the process of analysis. For the statistics used in section 2, there is some difficulty to gain the data of China, for the reason that some annual reports only provide the data in Asia. This makes it quite difficult to analyse the market concentration, and some data is speculated rationally, which makes the analysis not comprehensive enough. In terms of the analysis in Conduct and Performance part, this paper only analyses them briefly from two perspectives. Further research can be conducted to analyse the other important factors in the Conduct and Performance parts.

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