

**PALGRAVE STUDIES IN PRACTICE:
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MANAGEMENT**

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**PRODUCT
INNOVATION
IN THE GLOBAL
FASHION
INDUSTRY**

**Edited by
Byoungho Jin
and Elena Cedrola**



Palgrave Studies in Practice: Global Fashion
Brand Management

Series Editors

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Branding and internationalization are critical aspects of any business, and the fashion industry is especially global in nature. Very few apparel items are entirely produced within one country, and it is relatively easier for fashion brands to enter international markets because little financial investment is required, small-scale retail space is possible, and economies of scale can be maximized. Accordingly, there are more successful internationalization cases in the fashion industry than any other sector, yet no one text handles these critical topics (i.e., branding and internationalization) in one book, particularly in case study format. This series will focus on fashion brand cases that have been successful in global marketplaces. By examining their strategies in diverse aspects such as internationalization, innovation, branding and communication, and retail management, these books will help students, scholars, and practitioners grasp lesser-known yet effective international marketing strategies.

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Product Innovation in the Global Fashion Industry

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*To the past, current and future students of mine:
You are my joy and inspiration*

BJ

*To Walter Giorgio Scott (my Professor of Marketing),
Mauro Marconi (my first Dean), and Francesco Ricotta (my PhD mate):
Thank you for your support!*

EC

PREFACE

The history of fashion and its evolution is closely linked to the history of civilization—it has been and still is conditioned not only by customs, traditions and cultures but also by scientific discoveries and international trade. From the skin of wild animals and the bark of trees used for clothing, the subsequent discovery of vegetable fibers, wool and synthetic fibers to smart clothing, technological innovation has a tremendous impact on how we dress. At the same time, symbolic meanings of clothing within a society have evolved continually throughout the years. The underlying reason behind these constant changes was conforming to the social stratum to which one desires to belong and differentiating oneself from strata with which one desires to disassociate. The essence of the fashion evolution has been constant innovation, which is the utilization of new ideas to produce new products, processes, services or business practices.

In mature industries, design or style often serves as the source of innovation. As seen in the success of Apple's iPhone, it was not a result of inferior technology that Nokia lost its market share but, rather, aesthetics. Combining technologies to create aesthetically and symbolically appealing products—thus creating something drastically different from previous products in the market—is the key to success even in sectors that are traditionally driven by technological standards. In many industries—from automobiles to hotels, not to mention creative industries such as fashion and design—a growing portion of innovation is linked with aesthetic and symbolic elements of products or services (i.e., style) (Cappetta, Cillo, & Ponti, 2006).¹ While not systematically addressed, innovations in style or design are a critical agent of change in mature industries.

The global fashion industry is a mature industry, characterized with constant change in styles and designs. Indeed, innovations in the global fashion industry are inclusively interpreted as an experimentation and adoption of designs, styles and organizational and management behaviors, as well as materials and technical solutions. Just like other firms, innovation in this industry is increasingly at the center of strategy and is a key factor in entrepreneurial growth and competitive advantage. Innovation is undoubtedly key without which the success of a fashion brand or company cannot be adequately explained. Nonetheless, limited efforts have been directed toward the understanding of innovation in the global fashion industry.

As an initial attempt to understand innovation in the fashion sector, this volume focuses on product innovations, followed by process innovations in the next volume in the global fashion brand management series. This volume seeks to explain product innovation happening in the global fashion industry, realizing that this industry is truly an innovative sector in which diverse technologies, science, art and tradition have been merged, synthesized and utilized to solve the needs and concerns of the end users. In doing so, this book categorizes product innovation in the industry into three levels—materials, style and product development—and aims to present the broader scope of innovation in the global fashion industry with the hope that other sectors can learn from these developments and be inspired.

This volume consists of five chapters combining theory with practice. The first chapter comprehensively discusses product innovation in the global fashion industry at three levels—materials, style and product development—with examples and specific references to global fashion brands. Emphasizing that innovations in materials driven largely by technological standard may not tell the whole story of the industry, it maintains that innovation in style may serve as core competitive advantages for fashion brands and other mature industries where functionality or technology is less critical. Subsequently, this book presents four case studies on global fashion brands that are carefully selected to reflect the diverse aspects and trends of product innovation. Each case is written by author(s) from the brand's country of origin and based on original documents and interviews with key informants, some of which have previously been unavailable in English.

Stone Island (Chap. 2) is an Italian menswear brand in the premium outdoor apparel sector and has been growing in revenue and profitability by leveraging a unique set of capabilities in research and development, manufacturing and product innovation. This case study focuses on the brand's product innovation strategies and subsequent distinctive market positioning.

Chapter 3 is about Geox, an Italian shoe company with net sales of 874 million euros and market presence in 101 countries. Recognized by consumers for its patented innovation, the “shoe that breathes,” Geox has the largest number of patents in the industry. The Geox case shows how new technology and continuous innovation can be implemented in a market in which fashion and design typically dominate. Describing and analyzing the company’s marketing activities in recent years, the case demonstrates that Geox’s success rests in its ability to innovate, define and communicate a strategic position in the footwear industry.

In Chap. 4, a case study on Nike is presented. Since its inception in 1964, Nike has been an innovative leader in product development, marketing and retail sales. Due to its dedication to continuous innovation, Nike has been able to sustain a competitive advantage within the athletic apparel and footwear marketplace. This case highlights key points in Nike’s journey of innovation and examines how Nike has successfully emerged and pioneered the athletic wear industry.

Product innovation is not limited to technology-push and market-pull strategies but includes design-driven innovations as well. With a case study on the French, Paris-based upscale shoe brand Repetto, Chap. 5 explores how a small company focused on dance shoes and equipment production has evolved to a global brand with high-end everyday dance-inspired products. The chapter presents analyses of the brand’s design-driven innovation and meaning strategy that are well incorporated into its business.

With these discussions, we hope that this book is accessible and appreciated by larger audiences who seek innovative ideas and inspiration. In particular, this book is relevant for undergraduate as well as graduate students with an interest in the innovation, fashion industry, entrepreneurship, retailing, branding and international business. It will also be an excellent resource for scholars researching innovation and business practitioners who strive on innovation.

There are many individuals whose assistance was invaluable in bringing this book to fruition. Our first and deepest gratitude goes to executives at Stone Island, Geox, Freitag and Sinterama, who were willing to share their passion for innovation with current and future leaders. Designers Amy Winters and Orsola de Castro gladly shared their creative works for the readers of this book. With great respect, we send heartfelt thanks to those who pioneered the industry with creative solutions. Special thanks go to the authors of each chapter for providing insightful case studies, incorporating information and sources not readily available to many readers.

The information is of particular value because of their unique perspective on the history of each brand and their own experiences as consumers, given that the brands are from their home country. We were fortunate to be supported by many former and current research assistants. Particular thanks go to a doctoral student at the University of North Carolina at Greensboro, Ms. Naeun Lauren Kim, who has been diligent in finding support materials, editing, formatting and checking references. We also thank Annalisa Borgoglio for finding information on product innovations in fashion and supporting bibliometric analysis, useful in writing Chap. 1.

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NOTE

1. Cappetta, R., Cillo, P., & Ponti, A. (2006). Convergent designs in fine fashion: An evolutionary model for stylistic innovation. *Research Policy*, 35(9), 1273–1290.

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Product Innovation: Core to Continued Success

Byoungbo Jin and Elena Cedrola

Abstract Innovation is the development of new products, production processes, business practices or forms of organization. It is key to the creation of competitive advantages in organizations and increasingly at the center of long-term strategy. Innovations can be largely classified in three ways: product innovations, production process innovations and business model innovations. Among these, this volume focuses on product innovations and discusses the comprehensive picture of product innovations occurring in the global fashion industry on three levels—material, style and product development—with examples and references from global fashion brands. Innovations in materials driven largely by technology may not tell the complete story of the industry. The authors alert readers to pay attention to innovations in style, which may provide core competitive advantages for fashion brands and other mature industries where functionality or technology are less critical. This chapter concludes that the global

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fashion industry is truly the sector where diverse technologies found in many different sectors are merged, synthesized and utilized to address needs and concerns of end-users.

Keywords Innovation • Product innovation • Materials • Style • Product development

INNOVATION: AN OVERVIEW

Innovation is the development of new products, production processes, business practices or forms of organization. Innovations can occur within a country or industry and can involve either incremental or radical changes (Sundbo, 1991). It is key to the creation of competitive advantages in organizations (Wagner & Hansen, 2005), serving as a major impetus to economic evolution. The life of an organization, therefore, depends on the extent to which that organization is capable of continuous innovation. Fashion is constantly changing with the continual emergence of new shapes, designs and styles. Yet, in the global fashion industry, the term innovation is not as commonly used as in the technology sector. This chapter aims to break common misconceptions of the fashion industry with examples of innovations occurring in this sector.

The topic of innovation is vastly broad and multidisciplinary. To lay a foundation for the case studies presented in this volume, this chapter begins with a summary of previous studies on innovation in literature, including concepts, types, drivers and inhibitors of innovation. Despite ample research on innovation in general, research that includes innovation as the main topic or as a research variable in the global fashion industry is limited. Thus, innovation studies conducted in various disciplines such as economics, technology management, regional studies, entrepreneurship, marketing and retailing will be reviewed briefly in the next section. Innovations are constantly emerging. What is innovative now will not be as groundbreaking in five years—smartphones, for example, are not presently perceived as innovative as they have been widely available since the mid-2000s. As such, examples given in this chapter were considered innovative at the time of writing.

Definition and Types of Innovations

Innovation is commonly perceived to emerge within technology-related industries. However, the term innovation was broadly defined as early as 1934. Schumpeter (1934) documented five forms of innovation: (1) introduction of a new commodity, (2) introduction of a new method of production, (3) opening of a new market, (4) acquirement of a new source of supply or raw material and (5) restructuring of an organization (e.g., creation of a monopoly, merging, etc.). These five areas include both technological development and organizational creativity. Hence, innovation includes not only technological changes but forms of organizational and behavioral modifications as well (Sundbo, 1991). Accordingly, current literature defines innovation broadly as the “exploitation of new ideas to produce new products, processes, services or business practices” (Pittaway, Robertson, Munir, Denyer, & Neely, 2004). Innovation is often viewed as a process, defined as “a process of developing and implementing a new idea” (Van de Ven & Angle, 1989, p. 12) and “the process of bringing any new problem solving idea into use...it is the generation, acceptance, and implementation of new ideas, processes, products, or services” (p. 20). Literature also implicitly and explicitly views creativity as part of this innovation process. Creativity involves the generation of novel and useful ideas while innovation entails the implementation of creative ideas into new products and production processes (Saroghi, Libaers, & Burkemper, 2015). These notions of innovation clearly suggest that innovation can occur in any industry, including creative industries such as fashion. Nevertheless, most existing empirical research and case studies have been mainly conducted within the boundaries of technology-related industries such as IT and pharmaceuticals. In those studies, innovation has typically been measured as the introduction of a new product within the previous two years (e.g., De Jong & Vermeulen, 2006; Lederman, 2010) and innovation input is assessed by the ratio of R&D (research and development) to sales. However, non-technology sectors, such as the fashion and retailing industries, introduce many new products within one season with moderate R&D investments. In high fashion in which the designer is centric to a brand’s existence (such as Versace), unique products and new ideas are introduced each year, if not each season. Innovations, therefore, should be analyzed considering the industry’s innate characteristics. This chapter focuses on innovation in the global fashion industry considering its unique attributes, which are drastically different from the technology sector.

As previously mentioned, innovations can occur in multiple forms—in products, production processes and business models (i.e., De Jong & Vermeulen, 2006). While term usage is slightly varied, this classification of innovation is prevalent throughout literature. *Product innovation* refers to new product development or improvement (Boer & During, 2001), changes in products or commercialization of new products (Madrid-Guijarro, Garcia, & Van Auken, 2009). *Process innovation* is defined as improving production or manufacturing processes or acquisition of new equipment (Boer & During, 2001; Madrid-Guijarro et al., 2009). Reduced lead time, lower operational costs and increased flexibility reflect innovations in the production process.

Distinguishing *business model innovations* from product and process innovations is important. Using the term “business system innovation,” Boer and During (2001) defined it as new and/or improved business and marketing practices, such as e-business and e-commerce. However, most literature in business disciplines define this type of innovation much more broadly, including profit generation in the definition. For example, Tece (2010) defined business model innovation as “how the enterprise creates and delivers value to customers, and then converts payments received to profits” (p. 173). As indicated, business model innovations involve creating and appropriating value by combining revenue models, cost structures, sets of resources or value propositions (Sorescu, Frambach, Singh, Rangaswamy, & Bridges, 2011). Among the three types of innovation, this chapter focuses on product innovations in the global fashion industry.

Drivers and Inhibitors of Innovation

Innovation drivers and inhibitors within an organization have been identified by previous studies. Three orientations—market orientation, learning orientation and entrepreneurial orientation—were found to increase a firm’s level of innovation, which in turn enhances its performance (Hult, Hurley, & Knight, 2004). A customer-centric orientation was suggested to be a potential driver of business model innovations. Emphasis on innovation in general can also lead to business model innovations (Sorescu et al., 2011). In addition, a firm’s learning orientation has significant implications for their innovativeness and competitiveness (Kohli & Jaworski, 1990).

For successful innovations in SMEs, the owner’s ability to recognize opportunities was suggested to be the major driver (Kickul & Gundry, 2002). Further, Kickul and Gundry (2002) found that owners with proactive

personalities tended to search the marketplace for new products, services and technologies, which in turn resulted in greater innovations.

There is little consensus that innovation increases with firm size. Large companies have greater resources to invest in R&D. However, they exhibit a variety of barriers that may inhibit them from being as innovative as small firms, including rigid organizational structures that discourage creativity (Wagner & Hansen, 2005). However, firm size was found to be related to the types of innovations a firm chooses to pursue. For example, in the wood products industry, large wood product companies focused on process innovations by investing in state-of-the-art facilities whereas small firms focused on product and business system innovations (Wagner & Hansen, 2005).

Previous studies have identified other factors that inhibit innovation, which include cost, institutional constraints, human resources, organizational structure, flow of information and government policy (Madrid-Guijarro et al., 2009). Among these, cost is the most critical inhibitor for small firms (Madrid-Guijarro et al., 2009).

Product Innovations in the Textiles and Clothing

Apparel items can gain additional value in three ways: use of high-quality materials, creative styles and how an apparel item is envisioned at the final product stage. As such, product innovations in the textile and clothing sectors occur at three levels, which contribute to value creation—in materials, styles and product development. First, innovation can occur at the level of raw materials, which involves technological advancement to a greater degree than other forms of innovation. Examples include the introduction of micro-fibers and seamless weaving, innovations that have improved the performance of final products through improved sensory perception of the fabric’s “hand” and resistance to wear and tear.

Compared to an emphasis on functionality among material innovations, style innovations are changes that tend to be less tangible. Style refers to a product’s aesthetic form and symbolic value (Ravasi & Rindova, 2008; Tran, 2010), which is “determined by the social and cultural meaning associated with it that enable consumers to express individual and social identity through the product’s purchase and use” (Ravasi & Rindova, 2008, p. 270). A product’s symbolic value is a set of cultural meanings with which consumers desire to be associated. Innovations in style, therefore, indicate changes in a product’s physical and aesthetic

characteristics associated with the product's value or cultural associations (Cillo & Verona, 2008). Different terms are used in the literature to refer to innovations of product symbols and meaning, including stylistic innovation (Cappetta, Cillo, & Ponti, 2006) and design-driven innovation (Verganti, 2010). Often used in the fields of engineering and architecture, design-driven innovation is defined as "innovation[s] in which the novelty of a message and of a design language prevails over the novelty of functionality and technology" (Verganti, 2010, p. 36). The case study of Repetto in Chap. 5 is an example of design-driven innovations contributing to a brand's success. While term usage varies, both stylistic innovation and design-driven innovation refer to the concept of "meaning creation." To be more inclusive, in this chapter we use the term "innovations in style." It should be noted that innovations in style differ from seasonal product development because innovations require a complete change in a product's core concept or line of products, which often indicates a change in the brand's DNA. In contrast, new product development refers to changes that involve colors, shapes and accessories (Tran, Hsuan, & Mahnke, 2011). As such, new product development is much more limited in time and unique to a particular season while innovations in style are enduring enough to shape brand image. In practice, the scope of style innovations can be very broad because meanings can be borrowed, modified and created through a multitude of intangible spheres such as ancient symbols or modern art (the case of Versace described later in this chapter) and by revisiting local traditions through various objects, crafts, hand-made production processes (as by Bottega Veneta, described later in this chapter), colors and aesthetic design (as by Dolce and Gabbana, also later described in this chapter).

Last but not least, innovation at the product level is achieved by synthesizing materials, technologies and systems to solve the needs or concerns of wearers, the company and the environment. Upcycling, mass-customized clothing and smart clothing are examples of this, addressing the concerns of each of the above-listed entities. Product development innovations may be a combination of material and style innovations or the addition of systems such as mass customization. In the case of upcycling, there are no new materials or style innovations involved. What is innovative is the system that consolidates supply chain waste to create different and improved products. In the next section, the above-mentioned forms of innovation will be illustrated with examples from the global fashion industry.

INNOVATION IN MATERIALS: THE NEW FRONTIERS OF THE TEXTILE SECTOR

With the increasing popularity of mass production, fashion companies work to avoid complicated design features. Thus, to distinguish their brand and appeal to customers, many global fashion brands and designers use innovative fabrics to enhance aesthetics and functionality. While a plethora of materials have been developed and commercialized, this section focuses on material innovations used by global fashion brands and current fashion designers. Innovations in material are organized into four subcategories in the following section: sustainable cotton alternative fibers, cosmetotextiles, sport textiles, and new textiles of bacterial origin that can change colors.

Sustainable Cotton Alternative Fibers

Despite its popularity as the most widely used fiber, cotton presents multiple issues from an environmental perspective. For this reason, research has been directed toward new natural sources that produce alternative fibers with lower environmental impact such as soy, bamboo, eucalyptus and stinging nettle. Soy is one of the first to be used in the textile industry as a cotton alternative. In 1999, a Shanghai industry, Li Guanqi, created the Soybean Protein Fiber, a fabric with a soft hand used mainly in the production of underwear and evening dresses. This fabric was made of cellulose extracts from soybean plants. Thanks to its high absorption and thermo-regulation properties, soybean fibers are used in the production of fabrics for lightweight knitwear, underwear, technical clothing and furnishings.

Bamboo fabric, 100% made of bamboo pulp fiber, is another alternative to cotton. It has natural antibacterial properties, is breathable and feels cooler than cotton. Its feel is in between that of cashmere and silk. Bamboo fabric is generally used to make skirts, evening gowns, swimsuits and T-shirts (An, Gam, & Cao, 2013). Another alternative used by many designers is eucalyptus fiber (Tencell Lyocell Eucalyptus—Tle), which produces a fabric with close resemblance to silk. Rapanui, a UK sustainable fashion brand, was the first to create tops and T-shirts with eucalyptus fiber. “The material is perfect to make knitting thanks to its silky smoothness. [It] Has excellent moisture absorption, is breathable, gentle on the skin and naturally hygienic because it blocks the growth of bacteria” says Mart Drake-Knight, co-founder of Rapanui (Rapanui website, 2016).¹

H&M has also included two next-generation sustainable materials in its collections. The first, Tencell, is a form of soft and lightweight lyocell made from eucalyptus plants that is FSC (Forest Stewardship Council) certified. The process of transforming these fibers is not harmful to the environment, and the material obtained is ideal for jersey garments, knits and fabric articles. The second, made from bamboo trees with FSC certification, is the MonoCell (H&M website, 2017).

Nettle fabric, derived from the *brennessel* plant, has a similar appearance to linen. Nettle fabric is hypoallergenic and environmentally friendly since the plant does not need chemical treatments to grow. Depending on the type of processing, light or heavy fabrics can be obtained for cool summer apparel or warm winter sweaters (Pavia, 2012). Netl, a small Dutch company, presented its first knitwear collection made entirely of stinging nettle in London and Paris in 2012 (<http://magnifeco.com/netl-turning-weeds-stinging-nettles-into-fashion/women/>). The collection was designed by award-winning Dutch designer Rianne de Witte, who has been designing for the company since 2007.

One of the last sustainable alternatives for cotton comes from recycling—as seen in Newlife yarn, produced from recycled PET plastic bottles. This innovation is widely accepted among major luxury fashion houses as a result of years of research, and presently, the patent for Newlife is completely owned by the Sinterama group. The entire process was developed in Italy and produces 1 pound of yarn with 30 1.5 liter plastic bottles. Newlife yarns have characteristics very similar to that of silk and cotton. By producing Newlife yarns, manufacturers save 60% in energy usage, 94% in water usage and 32% in CO₂ production. This polymer allows for great versatility in functionality and application. In particular, Valentino and Giorgio Armani brands have been among the first to experiment with Newlife yarn, adopting it to create haute-couture dresses. Max Mara has added the Newlife fabric in its Weekend line since summer 2014. During the press tour to promote the new movie *The Beauty and the Beast*, actress Emma Watson² wore clothes made of this fabric, designed by Louis Vuitton's Nicolas Ghesquière. Figure 1.1 presents some examples of clothes developed with this fabric.

Cosmetotextiles

Another trend is called cosmetotextiles, which claims to exhibit healing properties for the wearer's skin.³ The Japanese company Toray Textiles has created a fabric infused with microcapsules that gradually release Aloe

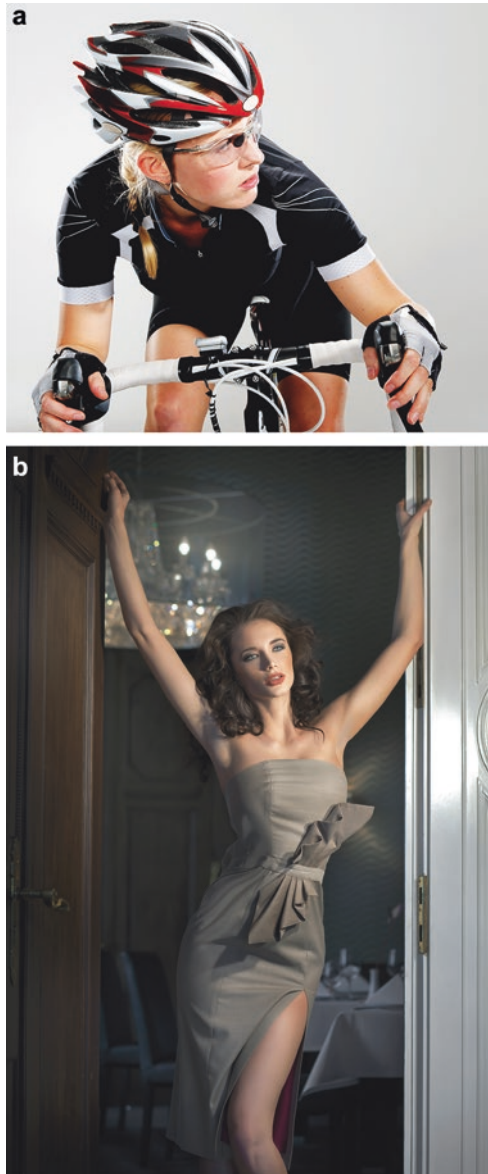


Fig. 1.1 Examples of Newlife fabric use
Source: Courtesy of Sinterama

vera, which also has antibacterial effects when the fabric is heated in contact with the body. Similarly, English Welbeck Fabrics produces fabrics scented with Aloe vera as well as lavender, vanilla and lemon (Umbria Innovation, 2013). In Italy, Tessitura Virgilio Taiana also recently launched shirts releasing scents. Another example is Allure, a cosmeto-fiber with rejuvenating properties, stimulating the production of collagen (Taiana website, 2016).

In an Italian project called Orange Fiber, cosmeto-fibers obtained from the cellulose of oranges that release vitamins onto the skin were developed, and Milan Polytechnics has begun experimentally manufacturing this product (Orange Fiber, 2017). This cosmeto-fiber can endure several wash cycles.

Another type of fabric that has positive effects on the body is Lanital, derived from a protein found in milk. This highly ecological fiber is produced using discarded fats from milk processing, which release as much carbon emission as use of fossil fuels. It is a biodegradable fiber and has obtained the international certification Oeko-Tex Standard 100 for textile products. The fabric is comfortable, soft, refreshing, environment-friendly and healthy for the skin because besides being a better insulator than wool, it is breathable and absorbs moisture effectively. It also has a very high bacteriostat (greater than 99.9%) and contains casein, a milk protein with numerous amino acids that provide nourishment for the skin. Lanital was used in products for young children at the beginning of its development, but now, owing to its lightness, freshness and comfortability, the fiber is used both in underwear and stylish clothing. Milkofil, a fabric obtained from milk produced by the Italian company Filati Maclodio, has a silky appearance as well as a high capacity of perspiration and moisture absorption (Ricossa, 2008). Filati Maclodio has also developed a second type of cosmeto-fiber, known by the name of Lenpur, obtained from White Fir wood. Compared with other cellulosic fibers, Lenpur is characterized by its softness, absorbent capacity, ability to release moisture and deodorant properties. It is currently used in various fields of fashion, from underwear to shirts (Maclodio, 2016).

Italian fashion house Ermenegildo Zegna uses the fabric called Elements, known for its ability to regulate body temperature in all weather conditions. Thanks to its mechanism of opening and closing pores, Elements fabrics adapt to the external temperature autonomously, making garments in the Elements Ermenegildo Zegna line ideal for all seasons (Fig. 1.2) (Ermenegildo Zegna Group, n.d.).



Fig. 1.2 Jacket Ermenegildo Zegna made with the fabric Elements
Source: Photographed by Elena Cedrola, Oleggio, Italy

Sport Textiles

The world of sports textiles has always been an important field of innovation. Over the years, the development of many fabrics has revolutionized the comfort of athletes. An example is Gore-Tex, created by Bill Gore, which was the first fabric that was simultaneously breathable and waterproof (Nencini, 2012). Ever since Gore-Tex was patented worldwide in 1958, they have added another 108 versions of Gore-Tex as a result of continuous innovation, both for clothing and footwear. Only selected manufacturers of finished garments that meet rigid production and manufacturing criteria can obtain Gore-Tex's authorization to produce their products. Among the most important licensed brands are Adidas, Burton, Camper, Clarks, New Balance, Nike, Oakley, Patagonia, Peak Performance, Puma, Saucony, Salomon, The North Face and Timberland.

Italian RadiciGroup has recently developed a yarn that protects skin from ultraviolet radiation, particularly suitable for sports and leisure wear (RadiciGroup, n.d.). Its special and eco-friendly yarns have been used by the fashion brand Herno⁴ starting from its 2007 collection (Crivelli, 2016).

Chervò is another company that has focused its research activities on technical fabrics suitable for golf wear that can safeguard against various atmospheric conditions (Chervò, n.d.). Among the company's most innovative fabrics include Ther-Mos, a revolutionary fabric that acts as a thermoregulator thanks to the ceramic particles present in the polyester yarn that helps the body maintaining a constant temperature.

Italian fabric supplier Reda has launched a collection of fabrics made of wool and soybeans, entirely dedicated to athletes. The whole production process is guided by the principle of sustainability, which through a system of eco-management involves not only environmental protection but also constant quality control to minimize environmental impact. Reda is also involved in the production of finished garments including the Rewoolution collection, which offers innovative technical clothing made of merino wool. The material's complex chemical and physical structure ensures its high level of absorption, thereby preventing the formation of unpleasant odors. Garments in this collection are, therefore, high performing especially in outdoor sports such as hiking, skiing, snowboarding, climbing, running, biking, mountaineering, golf and sailing (Reda Rewoolution, n.d.).

Ingeo®, a trademarked brand name by the American NatureWorks LLC, is made with plants such as corn, soybeans and foliage (NatureWorks, n.d.). Garments made with Ingeo® fibers are characterized with excellent moisture management properties, breathability, comfort, thermal insulation and resistance to UV rays. The fiber is also hypoallergenic, has natural anti-stain properties and minimally retains odors (Umbria Innovation, 2013). The Gattinoni brand has used this fiber in some of its collections since 2010, and the Rizieri brand has created "zero impact" footwear made with Ingeo®.

Another recent innovative sports fabric is made of coffee waste, which is able to rapidly absorb sweat, protect from sunlight and eliminate odors. The French brand Lytess pushed the boundaries of fashion with their underwear infused with caffeine and shea butter, funky tops with Aloe vera and hosiery with ginger and shea butter, all of which reportedly help combat fatigue and swelling (Lytess, 2017). Finally, some fibers have recently been made with materials from the seabed. *Ascophyllum nodosum* is the name of the cellulosic fiber developed by adding nutrients from seaweed.

This new fiber is designed to transmit beneficial substances to the skin with anti-inflammatory and antibacterial effects. Crabyon fiber, derived from crab shells, is used for underwear and socks because it protects against irritation caused by friction (Swicofil, [n.d.](#)).

New Textiles of Bacterial Origin and Changing Colors

Some fashion designers have gone into the world of bacteria in search of an alternative to classic yarns. Biocouture is the term coined by Suzanne Lee, a London-based fashion designer who wanted to break away from the idea of classic fabric. The designer describes her innovation in the following way: "...I use a recipe for kombucha (a sweetened fermented tea), symbiotic mix of bacteria, yeast and other micro-organisms that produce cellulose in a fermentation process. Over time, these small filaments are formed into layers in the liquid and produce a layer of cellulose on the surface" (Campenni, [2014](#)). Interestingly, it is possible to cut these fibers into a desired shape and sew them as normal fabric. Fibers, if not dried completely, can also be arranged in a three-dimensional form. Once the excess water evaporates, seams are formed independently in the fabric.

Another recent project is Microbe, which uses fermentation of alcoholic beverages to create fabric. The project was initiated by researchers at the University of Western Australia, led by scientist Gary Cass, in collaboration with the contemporary artist Donna Franklin. It investigates the practical and cultural biosynthesis of microbiology—to explore forms of futuristic dress-making and textile technologies. Instead of lifeless weaving machines producing textile, living microbes ferment a garment. The material is very delicate, the coloration of fabric depends on the type of alcohol used—red wine, white wine or beer. This project redefines the production of woven materials. By combining art and science with innovation, the project's ultimate goal is to produce bacterially fermented, seamless garments without using a single stitch (Palomo-Lovinski, [2008](#)).

Also extending beyond the traditional boundary of fashion is fabric that changes color. These materials are made by adding leucodye or liquid crystal capable of modifying optical properties upon application of a stimulus (electrical, optical, thermal, mechanical, chemical, etc.). For example, the city of London proposed as merchandising products "Squidarellas,"



Fig. 1.3 The Orange Petal Dress styled by Amy Winters
Source: Courtesy of Amy Winters

umbrellas made with hydrochromic materials that change color upon contact with water. Under the brand Rainbow Winters, fashion designer Amy Winters proposes dresses, skirts and swimsuits that change color under sunlight, water or both (Ferrara & Bengisu, 2014). By using hydrochromic and photochromic inks, new dimensions are added to garments. Some examples can be seen in Fig. 1.3. The Orange Petal Dress changes color from pink to purple when exposed to sunlight.

INNOVATIONS IN STYLE: BRAND DNAS

Scholars in diverse fields such as anthropology (e.g., Belk, 1985; McCracken, 1986), sociology (e.g., Bourdieu, 1984; Du Gay, 1997), business history (e.g., McKendrick, Brewer, & Plumb, 1982; Williams, 1982) and consumer behavior (e.g., Holbrook & Hirschman, 1982; Holt, 1998) have

documented that consumers are increasingly purchasing goods not only for their practical functions but also for the meanings associated with these products. As such, many high-end designers and luxury brands are devoted to creating meaningful associations with their products. Various styles can be compared to letters of the alphabet, which when joined together in countless combinations, give life to new forms of meaning (Simon-Miller, 1985). Given its symbolic and aesthetic value, innovations in style may be associated with symbolic innovations as described by Hirschman (1986) and Hounshell (1984), who proposes that symbolic innovation is a result of a transferal of meaning associated with an existing product. The creation of meaning rests on the stylistic creativity of leading designers who transfer associations to the product line. Thus, the designer's creativity stimulates the entire innovation process and is also incorporated into the final product, underpinning the creation of a company or brand. In the global fashion sector, innovations in style can be clearly observed in the use of art and tradition, which will be discussed in the following sections.

Innovations in Style from Art

The relationship between the worlds of fashion and art seems to have become increasingly productive (Kapferer, 2014). The arts and fashion cross-fertilize in multiple ways to generate results particularly creative and innovative (Pedroni & Volonté, 2012). Recent research has shown that many companies in the fashion industry are increasingly developing close relationships with the art world in effort to associate values and meanings of art with their own products and brands (Hagdtvedt & Patrick, 2008a, b). Businesses related to the luxury fashion sector often seek to transform their products to resemble artwork to address the issue of commodification resulting from high production volumes (Dion & Arnoult, 2011; Riot, Chameret, & Rigaud, 2013).

High-end fashion designers lead stylistic innovation by incorporating art into their products. An example of this is Gianni Versace. Born in Reggio di Calabria in Southern Italy, part of the Greek colony once known as Magna Graecia or Great Greece,⁵ Versace has always been linked to the traditions of his homeland, including its classical and Hellenistic culture, and has maintained a constant interest in classical sculpture and the ancient iconography (Fig. 1.4). Hellenic heritage and mythology were among Versace's strongest inspirations in his work. Versace draws from the past to give it new modernity: "For years I [explored] areas of possible



Fig. 1.4 The iconic Carbat bag by Bottega Veneta
Source: Photographed by Elena Cedrola, May 2017 (Qingdao, China)

cooperation, convinced as I am that our craftsmanship, integrated art, would approach the value and credibility of artistic expression and could generate amazing results even in the technology” (G. Versace) (Celant, 1996). In his creations, antiqueness is the protagonist. In fact, he chose an icon of Medusa to be the symbol of Maison.⁶ The Versace Medusa head as it appears in the brand’s logo (shown in Fig. 1.4) is an expression of Versace’s vision—encompassing Versace’s taste for tradition and classical nuance along with his desire to astonish audiences with designs that are striking in their brilliance, originality and style. His interest in contemporary art and fruitful collaboration with many artists also constitute an unprecedented source of inspiration to create outfits that openly declare that fashion is art and art shapes fashion.

Attention to artistic heritage and culture has led even Louis Vuitton to ask modern artists to design fabrics, products, showcases, art installations for retail and exhibitions at points of sale (Masè & Cedrola, 2017). Prada and Gucci did the same, printing famous paintings on their apparel (Grant Wood—American Gothic is an example <http://www.ireneccloset.com/en/2014/02/abiti-dipinti.html>). Gucci designer Alessandro Michele, known for his grandma-chic cool clothes, contracted lauded graffiti artist Trouble Andrew to tag bags, skirts, and even fur coats with the GG monogram as part of their Gucci Ghost collaboration.

Innovations in Style from Traditional Craftsmanship and Image

Another notable example of innovations in style can be found in the utilization of traditional craftsmanship. Craftsmanship is an important part of the know-how of industrial districts⁷ as well as a company's and consists of a combination of technical traditions and creativity that characterize the production chain. This value connects a company's identity to its home territory, making it an indispensable element that ensures the brand's progress and success. The relationship between local culture and artisan tradition is reciprocal. That is, the native place maintains local cultural traditions that inspire artisan craftsmanship, which in turn profoundly influences the evolution of local cultures.

The fashion house Bottega Veneta is an example of this. Founded in Vicenza in 1966, Bottega Veneta's brand identity was formed around its iconic bag, the Carbat (Fig. 1.4), which is distinguished for its characteristic woven leather. Every year, the company produces 500 of these handbags alone.⁸

Dolce & Gabbana is also known for its innovative style inspired by traditional Sicilian (an island located in Italy) images and culture. Founded in 1985 by Domenico Dolce and Stefano Gabbana, the brand's products reflect the traditions of Sicily, Dolce's hometown. The prints, colors and materials of Dolce & Gabbana collections are strongly reminiscent of Sicilian traditions: all products are transparent and incorporate lace in a way that merges ancient style with modern fashion. Another collection refers to the island of Capri, also in Italy (Fig. 1.5). Companies like Bottega Veneta and Dolce & Gabbana demonstrate how luxury fashion companies proudly exhibit artisan aspects of their products alongside their strong propensity for innovation and creativity.

INNOVATIONS IN PRODUCT DEVELOPMENT

Subsequent to innovations of materials and styles, fashion product innovations take place at the final stage of product development and can be grouped into three categories: upcycling innovations, mass customization and fusion with information technologies (i.e., smart clothing). Fashion products are developed into drastically different entities by creatively reusing supply chain wastes through a mass customization system and fusion with leading electronic devices or technologies.



Fig. 1.5 Sicily and Capri inspired collections by Dolce & Gabbana
Sources: (1) Window photographed by Elena Cedrola in Shanghai, China, May 2017. (2) Billboard photographed by Elena Cedrola in Milan, Italy, March 2017

Innovations in Product Development from Upcycling

With sustainability being the main driver of innovation and change, final products are often made with supply chain waste. Three leading examples have made upcycling their brands' essence and reason for existence. The idea is related to upcycling—remaking something to have superior value.

The first example is the Swiss brand Freitag. It was founded in 1993 when Markus and Daniel Freitag, graphic design students, developed a bag to carry their projects on a bicycle. They developed the first messenger bag using truck tarpaulins, discarded bicycle inner tubes and a car seat (Fig. 1.6). Since the two brothers started this new trend in the world of bags, the Individual Recycled Freewaybag has spread globally. Developed by hand using recycled materials, each bag is unique. Freitag bags are globally available via their online store and in 450 multibrand stores around the world (Freitag, n.d.).

The second example is fashion design studio From Somewhere, founded by the designer Orsola de Castro in the UK in 1997. She designed two collections for Tesco using material scraps from Tesco's factory in Sri Lanka (Salter, 2010). She also collaborated with Speedo to design unique garments entirely produced with excess fabrics leftover from Speedo's swimwear production (Farrell, 2012) (Fig. 1.7).

The third example is Carmina Campus, a brand of fashion accessories and decorative objects created in 2006 by Ilaria Venturini Fendi⁹ (Camina Campus, n.d.). The brand was born as a project on sustainable creativity and ethical fashion through which residual materials recovered and recycled are transformed into unique pieces, thanks to innovative designs and manufacturing techniques borrowed from luxury productions. Each bag is numbered and catalogued, and materials used are listed on its tag. The design of high-end Fendi accessories is combined with its desire to take part in the fashion industry in a responsible way, using only existing materials leftover from the production process. Bags and accessories are created from PVC, old carpets, truck tires, plastic pipes, iron scraps, leftover leather and fur, aluminum cans or fabric scraps (Casadei, 2013). "As a designer, I feel responsible for the life cycles of the objects I create. Facing the social and environmental problems of today's world, I think the general idea of beauty involved in the concept of design should be enriched by the values of truth and good" (Carmina Campus, n.d.). After a long collaboration in Africa with the UN agency International Trade Centre, Carmina Campus is now



Fig. 1.6 The washing process of recycled truck tarpaulins and an example of Freitag bag

Source: Courtesy of Freitag



Fig. 1.7 Speedo garments produced with supply chain waste
Source: Courtesy of Orsola de Castro

a partner of Socially Made, a group of social work institutions in Italy that operate rehabilitation working programs within Italian prisons, implemented under the supervision of the Italian Ministry of Justice.

Innovations in Product Development from Mass Customization and 3D Printers

Mass customization (MC) refers to producing customized products or services while also satisfying customers with the efficiency of mass production. MC uses information technology, flexible processes and organizational structures to deliver a wide range of products and services that meet specific needs of individual customers at a cost close to that of mass-produced items (Yeung, Choi, & Chiu, 2010). The major difference between mass production and mass customization is the participation of customers in the product development process. MC not only offers customers unique products that suit their tastes and sizes but also induces feelings of enjoyment and achievement by enabling them to participate in the design process. It also benefits firms by enabling them to lower inventory levels throughout the distribution channel and to raise prices (Berman, 2002).

With its significant benefits, a growing number of brands have begun participating in MC. Dell computer is a classic example of this. In the fashion industry, Levi's Strauss & Co was the first apparel company to offer customized jeans in select Levi's stores in which a salesperson would take a customer's body measurement. This initial innovation, however, ceased when the company's last domestic plant closed in 2004. Later, Land's End also began offering customized shirts, jeans and chinos on their website in which customers can input their body measurements following measurement instructions given. However, this service was discontinued in 2011 as well. After these initial waves of MC, at present a growing number of sportswear brands offer mass-customized athletic shoes beginning with Nike's mass-customized shoes called NikeID, which will be detailed in Chap. 4.

MC has become more common, especially with the increasing availability of more advanced technologies. Collecting customers' body measurements using a 3D body scanner, Brooks Brothers has offered mass-customized men's suits at its flagship store in New York City. Once the measurements are collected, customers are able to select desired styles, fabrics and design features with a trained sales professional. Brooks Brothers also uses a patternmaking system to create a customized pattern based on

individual body measurements. Measurement data and patterns for each customer are stored for future orders (“Custom clothing today,” n.d.).

Recently, 3D printing technology has been commonly utilized for mass-customized athletic shoes. “3D printing employs an additive manufacturing process whereby products are built on a layer-by-layer basis, through a series of cross-sectional slices. While 3D printers work in a manner similar to traditional laser or inkjet printers, rather than using multi-colored inks, the 3D printer uses powder that is slowly built into an image on a layer-by-layer basis. All 3D printers also use 3D CAD software that measures thousands of cross-sections of each product to determine exactly how each layer is to be constructed” (Berman, 2012, p. 155). 3D printing allows for the creation of custom-built designs, which may include complex products without high capital investments. It reduces the lead time associated with projects as the design and production process is shortened. Since production occurs closer to the point of demand, supply chains are simplified with much less inventory (Monahan et al., 2015). Under Armour was the pioneer of using this technology and released 96 pairs of shoes to the public for sale, which were sold out within 20 minutes. Under Armour has since produced small batches of 3D-printed shoes, which were all sold out instantly. The 3D printing process takes about a full day to produce a pair of soles whereas Under Armour’s automated technology can produce 2400 pairs of soles in eight hours (Garfield, 2016). New Balance utilized 3D printing when it offered customizable spiked plates for enhanced performance on track shoes. Adidas also introduced Futurecraft 3D shoes that have customized 3D-printed midsole individualized for the wearer’s cushioning needs (Adidas Group, 2015). Further, Nike offers three types of football cleats manufactured through 3D technology: Vapor Laser Talon was built specifically for speed, the Vapor Hyper Agility for explosive lateral acceleration and the Nike Vapor Carbon II for 360° game day speed (Nike Inc., 2014).

The use of 3D printing has now expanded to women’s fashion. Actress Kate Hudson wore a 3D-printed gown to the 2016 Met Gala. The gown was designed by Atelier Versace and was in accordance with the Gala’s theme of “technology” (Armstrong, 2016). A high-end jewelry company American Pearl provides customized jewelry designs through the CAD software and 3D printers. The use of 3D printing in the design and manufacturing process helps cut out most of the labor, which allows high-end, custom-made pieces to be delivered in three or four days for a cheaper price than competitors (O’Connor, 2014).

Innovations in Product Development: Smart Clothing

Another innovation movement seen in the fashion industry at the product level is incorporating technology into clothes, oftentimes collectively referred to as smart clothing or wearable technology. The scope and technicality of smart clothing is broad. As such, this chapter offers a glimpse of smart clothing items by major fashion brands. The initial iteration of smart clothing was incorporating electronic devices such as iPod and Bluetooth to enhance wearers' activities. An example of such is a collaboration of Nike with Apple iPod in 2006. In addition to listening to iPod music during workouts, a sensor attached in Nike shoes would store information such as the wearer's elapsed workout time, distance traveled, pace and calories burned and transmit it to the iPod screen (see further details in Chap. 4). In 2006, Levi's iPod Jeans called RedWire DLX was launched. Similar to Nike + iPod, a built-in docking cradle in a hidden side of pocket and remote control allows consumers to listen to music on the go. Connecting one's devices via Bluetooth, Zegna's Bluetooth iCon jacket, launched in 2013, allowed wearers to answer or end calls as well as play music by toggling the flexible stick. One simply must connect their headphones to the jacket and string them through a convenient hole near their ears (Willett, 2013).

Tommy Hilfiger introduced a solar-powered jacket and sold these limited-edition products at \$600 through its partnership with solar energy experts Pvilion. Waterproof solar panels attached on the back of the jacket transfer energy to a battery pack stored in the front pocket, which has two USB ports available for charging. The battery has enough power to charge a 3000 mAh battery twice (Boxall, 2014).

More recently, smart clothing has evolved to embed sensors or fibers into fabric to develop smart clothing. American brand Ralph Lauren has shown an interest in the field of smart textiles and wearable technology through the production of PoloTech™ in 2015, a smart shirt for men that is embedded with sensors to track vital signs such as breathing, heart rate, stress level and calories burned. The shirt, through silver fibers woven into its fabric, streams that information to an app that generates customized workout programs. The data is sent to a device connected directly to the garment that records all relevant information via accelerometer and gyroscope. Next, the biometric data is sent to the wearer's mobile device (Dolan, 2015). These types of sensor- or bio-embedded apparel items are now heavily invested by major sportswear brands such as Under Armour

and Adidas (Dolan, 2015). Under Armour introduced Athlete Recovery Sleepwear to improve wearers' sleep. The bio-ceramic material printed on the inside of these garments absorbs infrared wavelengths emitted by the body and then reflects them back, which helps wearers' muscles recover faster, regulate temperature and ultimately get more quality sleep throughout the night (Yam, 2017).

Levi's Strauss & Co partnered with Google and introduced a \$350 smart commuter jacket designed especially for those who bike to work with the anticipated release date in fall of 2017. Their joint project with Google is called "Project Jacquard," with the goal of creating innovative jeans and clothing that interact with smartphones. Conductive yarns, no larger than a button, can be woven at precise locations such as the sleeves to allow users to take phone calls, get directions and check the time by tapping and swiping their sleeves. Information is delivered to wearers through headphones (<https://atap.google.com/jacquard/>; Tsukayama, 2017).

DISCUSSION AND IMPLICATIONS

One of the first steps to achieving a competitive advantage in the market is through product innovation. "Innovation is increasingly at the center of the strategy and the DNA of most firms" (Aaker, 2007, p. 8). Innovation examples discussed fall into three categories—materials, style and product development—and clearly reveal that innovation occurring in the global fashion industry is broad and diverse. As with other business organizations, global fashion brands compete through innovations that differentiate their brand from prior seasons and competitors. Yet, what remains unclear is why innovations are not strongly associated with the fashion industry. It may be because fashion brands are not competing with respect to innovative functions or technologies, which is the most commonly understood scope of innovation. High-end fashion houses compete for stylistic creativity, and mass brands compete for economies of scale and access to distribution channels (Bierly & Daly, 2007). Thus, understanding product innovation only at the material level with patents is myopic and does not help advance the global fashion industry to the next level.

Clothing has often been used to ornament one's body and express social identity. Thus, symbolic meanings associated with clothing, as opposed to function, are central to the success of fashion companies. In this regard, innovations in style are a unique aspect of the fashion industry, which can be applied to other mature industries where functionality may matter less.

It should be noted that design or style often serves as the source of innovation in mature industries such as watches, cell phones or automobiles—all of which are traditionally technology-driven industries. In these industries, consumers' choices are with respect to design, as opposed to technology or function. The success of iPhones over Nokia phones presents an example of this. iPhones have conquered the cell phone world not because of their more advanced technology but because they are more aesthetically and symbolically a more pleasing product that is drastically different from existing phones. Recognizing the strategic value of product design, an increasing number of companies are exploring ways to involve design consultants in their innovation process. The resource-based perspective argues that sustained competitive advantages stem from resources and capabilities that are valuable, rare, imperfectly imitable and not substitutable (Barney, 1991). Therefore, competitive advantages secured from innovations in styles may remain truly sustainable in many industries, even in sectors traditionally driven by technology and functionality. In the literature, innovations in styles are brought about in two ways: designer-driven (e.g., Versace and Armani) and market-driven (e.g., Gucci and Prada) (see more details in Cillo & Verona, 2008). As such, innovations in style are beneficial and should be pursued by firms, taking into consideration their vision and capabilities.

Fashion may not be the first industry where all aspects of product innovation are initiated. Rather, the global fashion industry is the sector where innovations from other industries culminate. All innovations, especially innovations at the product level—upcycling, mass customization and smart clothing—require a combination of technologies developed in other sectors such as body scanners, 3D printing, electronic devices, mass customization systems, and so on. If innovations are for the betterment of human beings, its culmination in the apparel industry puts it directly within people's lived experiences.

A clock was once perceived to be a technological innovation. Many towns only had one located at the town center. It later became available to noblemen and even reached laymen as the industry progressed and evolved. Watches are now seen as accessories, no longer considered to be a technological item. As seen in the watch's development, almost every form of technology we see now is incorporated into fashion and will end up on or near the human body. Cell phones and notebook computers, once considered technological inventions, are now becoming fashion items in which symbolic brand names become an important purchase decision criterion along with functionality. This implies that innovations in

materials driven largely by technology may not tell the whole story of developments in various sectors, including the fashion industry.

The global fashion industry is truly the sector where diverse technologies from various sectors are merged, synthesized and utilized to solve the needs and concerns of fashion consumers. Indeed, product innovations should be understood from this broader perspective—of meeting the needs of the ultimate product users. As such, the three levels of innovation examined in this chapter—materials, style and product development—serve as a model from which other sectors may also be inspired.

NOTES

1. Rapanui is an eco-fashion company from the Isle of Wight (UK) that produces clothes using the most sustainable materials. The brand also develops technology to make a truly connected, traceable supply chain. Customers can trace the Rapanui clothing from seed to shop, and at the end of their life, send it back and cash in the material value as store credit (Rapanui website, 2016).
2. Emma Watson is using social media to spotlight sustainable fashion. For more information, see <http://people.com/style/emma-watson-sustainable-fashion-instagram/>
3. According to the official definition of BNITH (Office of Standardization of Textile and Clothing Industries), a cosmetotextile is a textile product containing a substance or preparation intended to be released regularly on the various superficial parts of the skin that they claim to have properties such as cleaning, perfume, changing appearance, protection, keeping in good condition or correcting body odors (Umbria Innovation, 2013).
4. Herno is a family-run business. Its turnover has almost doubled in the last two years, and the Herno brand is now an ambassador for luxury Italian goods in the world's leading stores, with 70% of revenue coming from exports.
5. The Greeks colonized Magna Graecia many centuries ago and in doing so left an indelible imprint of Greek culture and tradition, much of which endures to this day.
6. Medusa was one of the three Gorgons in classical Greek mythology, and the only one who was mortal. The most familiar rendition of her story is this: the young, golden-haired and beautiful Medusa caught the eye of the god Poseidon who, on impulse, decided to ravish the maiden in the temple of another god, Athena. Unfortunately for Medusa, Athena caught them in the act. In a fit of rage and jealousy, Athena turned Medusa into a hideous monster with serpent hair. So ghastly was Medusa that anyone who looked upon her face turned to stone.

7. The industrial district concept describes some aspects of the industrial organization of nations. It is a geographic area where workers and firms, specialized in a main industry and auxiliary industries, live and work (Pyke, Becattini, & Sengenberger, 1990). That specialization is part of the local culture.
8. Its production requires a long manufacturing effort that engages two artisans for at least two days, for two basic operations: cutting of the raw material and braiding. The skins, before being cut and polished, are subjected to repeated tests of resistance, elasticity, reaction to light and color retention. After passing the preliminary checks the leather must be “split”, that is, it must be reduced to a uniform thickness, to avoid defects in workmanship: this phase sees the use of computer support, which by analyzing the leather, tells the crafter the best way to cut it. The process cannot be implemented mechanically.
9. She is Anna Fendi’s daughter. Anna Fendi is an Italian fashion designer and entrepreneur; along with her sisters Alda, Carla, Franca and Paola she has made the Fendi brand famous across the world.

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Stone Island: Product Innovation and Market Positioning as Drivers of Value Creation

Fabrizio Mosca

Abstract Established in 1982, Stone Island is a menswear brand entirely owned by Sportswear Company S.p.A., an Italian family business operating in the premium outdoor apparel sector. A total of 65% of the brand's revenue comes from 48 countries, and it has been growing in revenue and profitability by leveraging a unique set of capabilities in research and development, fabric and product innovation. Stone Island has a loyal customer base, putting it in a unique market position still unchallenged by competitors. The brand's innovation of the fabric production process and its selection of high-quality raw materials are the pillars of its value among consumers and represent features that distinguish the brand and its products. This case study focuses on Stone Island's product innovation strategies and its subsequent distinctive market position based on high product quality and price, strong brand image and reputation for innovation. This case study further examines managerial decisions concerning marketing strategies and development of the North American market, as well as defines future long-term strategies.

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Keywords Innovation • Product development • Family business • Competitive advantage • Value chain

INTRODUCTION

The Stone Island brand is owned and controlled by Sportswear Company S.p.A., an Italian family business operating in the premium outdoor apparel sector, mainly selling apparel for men's outdoor activities such as skiing and sailing. Stone Island is known for its use of innovative textiles developed in a lab unique to the company. In 2016, Sportswear Company S.p.A., whose brand portfolio only includes Stone Island, had revenues in excess of 100 million euros, an increase of 20% compared to 2015 and 106% compared to 2011. By 2017, its revenues are estimated to grow by 30%. The company, thanks to the Stone Island brand, improved both sales revenues and profitability, leveraging a unique set of capabilities in research and development, fabric and product innovation. Stone Island has a customer base that is loyal to the brand and its products, putting it in a unique market position still unchallenged by competitors. Stone Island has become such an iconic brand that many customers have become avid brand followers with even celebrities involuntarily endorsing the brand, as has occurred in the past with other iconic global brands.

Innovation and product quality are considered key factors at the center of the value creation process, representing two distinguishing features of the Stone Island brand and its products. Product innovation is possible due to the wealth of knowledge present at its center of innovation, its Italian headquarters, as well as due to its capacity to co-create value with its local, Italy-based suppliers that support the company.

The firm is controlled by Carlo Rivetti's family, who has established and developed the "Gruppo Finanziario Tessile" (Financial Textile Group, GFT). The family's roots in the Italian textile industry is one of the strongest in country's history. It has also been the main industrial partner of Giorgio Armani for several years.

The Stone Island case study has been chosen because of its product innovation within the premium outdoor apparel sector and success in attaining superior revenue growth and profitability margins (Chevalier & Mazzalovo, 2008). As an Italian family business, it is one of the very few

outdoor apparel brands that owns an innovation lab in Italy and manufactures locally. In other words, the brand is competitive in its systematic innovation of materials, treatments, products and production processes. This case study is based on data and other information gathered from official company documents and interviews with Sportswear Company S.p.A.'s CEO and main shareholder, Carlo Rivetti, in 2016.

COMPANY OVERVIEW

The Stone Island brand was founded in 1982 by Massimo Osti, an independent entrepreneur who had previously established another successful Italian brand, C.P. Company. Gruppo Finanziario Tessile (GFT) acquired all of Massimo Osti's entrepreneurial activities, including his Stone Island brand, in 1983. Carlo Rivetti, having been the chief executive of the outdoor apparel business unit at GFT, acquired total ownership of C.P. Company, including the Stone Island Brand, together with his sister in 1993 and then changed its name to Sportswear Company S.p.A.

In 2016, Sportswear Company S.p.A. had revenues in excess of 100 million euros, an increase of 20% from 2015 and 100% from 2011. Their EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) margin was approximately 20%. Table 2.1 summarizes the main Income Statement metrics for the five years between 2011 and 2016 including revenue, operating margins and absolute growth rates (Table 2.1).

Sportswear Company S.p.A. manages 20 Stone Island directly operated stores (DOS) in the world, representing 10.54% of total annual sales. During the last two years (2015–2016), the company opened new DOS in Turin, Hamburg, Amsterdam, Stockholm, and Los Angeles. Stone Island favors indirect distribution channels consisting of a large network of multi-brand wholesale stores over direct channels. As of

Table 2.1 Sportswear Company S.p.A. financial statements 2011–2016^a

<i>Million euro</i>	2011	2012	2013	2014	2015	2016	2017E	Δ 2011–2016 (%)
Sales unit	53.1	62.1	69.8	79.2	86.5	109.2	140.0	106.0
EBITDA (%)	4.3	6.2	9.6	13.0	13.3	20.2	20.0	365.0

Source: Sportswear Company S.p.A.'s Financial Statements 2011–2016

^aFigures on this table entirely refer to the Stone Island brand as Sportswear Company S.p.A. is the only brand in the company

Table 2.2 Stone Island's distribution channels

<i>Distribution</i>	<i>Units</i>	<i>Sales (mln €)</i>	<i>Percentage of annual sales (%)</i>
Directly operated Stores	20	7.8	10.4
Wholesales	≈1400	66.2	89.5

Source: Sportswear Company S.p.A.'s internal data, 2016

Table 2.3 Domestic and international sales of Stone Island (as of 2015)

<i>Market</i>	<i>Sales (mln €)</i>	<i>Percentage of total sales (%)</i>	<i>Δ% Sales 2011–2015 (%)</i>
Domestic market	27.3	37.0	31.3
Export	46.8	63.0	79.0

Source: Sportswear Company S.p.A.'s internal data, 2016

2015, the company had more than 1400 indirect intermediaries and generated a revenue of 66.2 million euros, representing 89.46% of their total annual sales (Table 2.2). Exports account for 63% of its revenues (46.8 million euros). International sales increased from 26.1 to 46.8 million euros for a cumulative growth rate of approximately 79%, while domestic revenues increased from 20.8 to 27.3 million euros during the period of 2011–2015 (Table 2.3). Through e-commerce sales Sportswear Company S.p.A. generated about 2 million euros in 2015. The firm also developed an e-commerce website, which is directly managed by the Stone Island brand.

As of 2015, approximately half of Stone Island revenues came from Europe, the Middle East and Africa (EMEA), 37% from Italy, 11% from Asia and rest of world and 2% from the Americas. Revenue growth rates in all four regions were positive. Their key region is EMEA, representing a strategic market for two main reasons: first, because it offers a solid revenue source, and second, because Stone Island's direct presence through DOS in several cities and prestigious locations actively strengthens its brand value.

The outdoor apparel market is highly competitive and its players primarily differ in terms of scale, degree of international presence and competitive strategies. Stone Island's key competitors include the

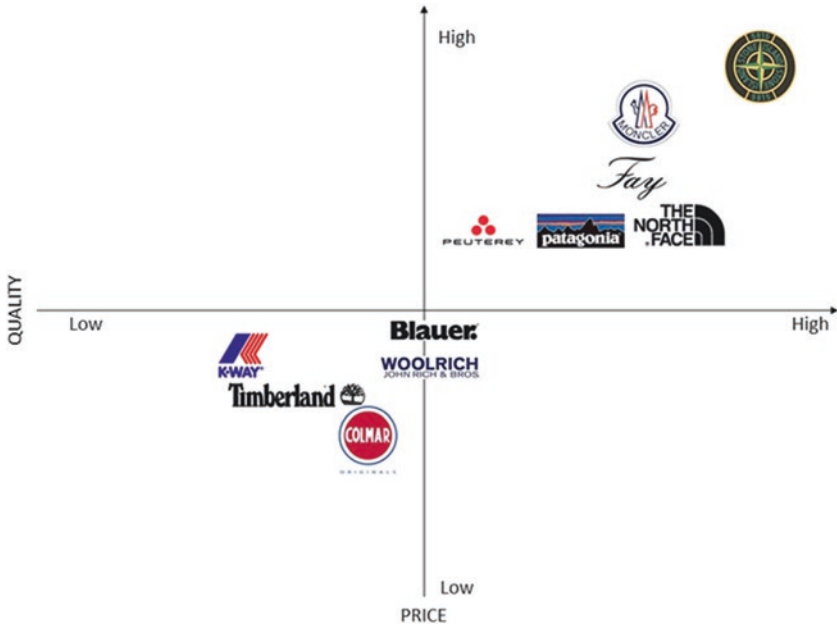


Fig. 2.1 Stone Island's brand positioning in price and quality
 Source: Company's information (2016)

following: Moncler, Fay, Peuterey, Woolrich, Colmar, K-way and Blauer.¹ Stone Island has developed a solid product and brand identity, ranking it as the company most oriented toward the development of new technologies and innovations, consequently enabling it to establish long-lasting relations with customers. The map in Fig. 2.1 shows that Stone Island is positioned highest in terms of price and quality compared to competitors. Figure 2.2 shows the position of Stone Island in the global market with respect to brand image, measured by uniqueness and differentiation, and degree of innovation, measured by product and process innovations. The brand is positioned highest for being a strong and in unique brand image and product and process innovations in comparison to its competitors.

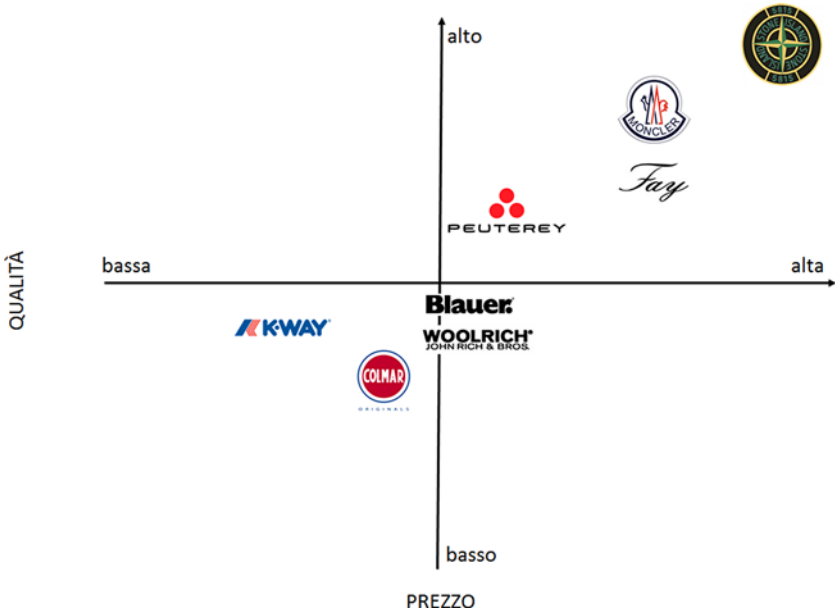


Fig. 2.2 Stone Island’s brand positioning in brand image and innovation
 Source: Company’s information (2016)

COMPANY HISTORY

The Origins: Rivetti’s Woolen Mill and the GFT (1872–1949)

The history of Stone Island began when an ancestor of the current CEO founded a firm manufacturing wool in the second half of the nineteenth century. The Rivetti family’s entrepreneurial development and GFT cover a timespan of almost 150 years. In 1872, Giuseppe Rivetti established the “Lanificio Rivetti e Figli” (in English, “Wollen Mill Rivetti and sons”), a wool mill located in one of the main textile production sites, which at that time was defined as an industrial district,² in the Piedmont area near Biella. The primary activity of the “Lanificio Rivetti e Figli” mill was unraveling of rags to create regenerated wool, an innovative business based on ecological recycling, enabling them to profit by reusing raw materials.

This specialized business allowed the Rivetti family to expand to four plants in less than five years. In 1886, this fabric recycling process was moved into a single large factory in Biella, which would later become the

company's corporate headquarters (Blomback & Ramirez-Pasillas, 2012). During the following years, production volumes continued to grow. In 1899, "Lanificio Rivetti e Figli" employed 1200 workers, a number that further increased to 3000 by 1922.

During those years, Quinto Rivetti was the key management figure who adopted two major strategic decisions, which created the groundwork for further development: (1) he established a profitable relation between superior product quality and fair prices, and (2) partnered with continuous development and innovation of wool fabric production techniques. Quinto Rivetti directly managed the collection of rags, adopted an internal transport of raw materials within the Strona valley through a funicular railway, implemented the process of "finishing with dyeing" fibers, and designed an innovative spinning factory, enabling the firm to be at the forefront of fabric production techniques.

In 1915, when Quinto and Ottavio passed away, they left the second generation—their sons Ermanno, Guido Alberto Mario and Benedetto together with their cousins Giuseppe, Eugenio, Attilio, Ezio, Oreste and Adolfo—with the difficult task of navigating the new company through World War I. During that period, the military uniform fabric was designed: the well-known gray and green pattern. Under Oreste's management, the wool mill wove these clothes with superior quality and became the largest manufacturer of military uniforms in Italy.

After the war, the opportunity arose to launch the production of new garments for work in both domestic and international markets. In those years, a brilliant idea put the Rivetti family ahead of their times (Giacosa, 2014). The family understood future development of the firm would be based on its ability to seize two opportunities within the textile apparel industry: export development and increased manufacturing of tailored garments. In other words, consumers in the newly growing apparel mass market needed quality mass manufactured products at an accessible price and available in standard sizes.

In 1930, "Lanificio Rivetti e Figli" merged with the firm "Donato Levi e Figli", founded in Turin in 1865, to create "Gruppo Finanziario Tessile" (Financial Textile Group, GFT). The merger combined Lanificio Rivetti, focused on the initial stages of the textile fabric process, with Donato Levi e Figli, producing tailored garments and specializing in wholesale of fabrics in the final steps of the supply chain. After the merger, the company became a new player in the market—producing tailored garments, adopting "prêt-à-porter" mass manufacturing and benefiting

from forward vertical integration, thanks to distribution capabilities of Donato Levi e Figli. During the 1930s, GFT Group established directly operated retail store chains, FACIS (Fabbrica Abiti Confezionati a Serie) and MARUS (Magazzini Abbigliamento Ragazzo Uomo Signora). GFT mass manufactured work uniforms and other garments tailored for men with high-quality materials and innovative fabric techniques, which were they marketed by the Facis and Marus network.

Continuous Innovation and Strengthening of Retail Brands (1950–1980)

During the 1950s and 1970s, GFT became one of the main Italian firms specializing in mass production of tailored garments, especially through FACIS retail stores. During these years, GFT focused its research and development efforts to generate innovations in three main business fields: fabric production process, product innovation and marketing. The first sphere of innovation concerned the radical renewal of fabric production techniques, the adoption of technologies coming from the U.S.A. and the consequent transformation of the whole production process. The second domain of innovation resulted in a revolution of product sizing. GFT, emulating some American firms, implemented a sizing project measuring a sample of more than 23,000 potential Italian customers for the first time in Italy to enlarge the range of available sizes from 20 to 120. This historical moment marked the passage from the “taglie a scalare” size system offering only 17 sizes—still widely adopted in Italy and based on the direct proportion between height, girth at chest and waist, and sleeve length—to GFT’s revolutionary system proposing 120 different sizes. Consequently, GFT’s products became much more customizable to the needs of customers at that time, enabling the firm to widely enlarge its customer base to target millions of people within the Italian market. GFT was able to fill one of the main gaps in the development of mass manufactured tailored garments, which was customers’ mistrust due to previous bad experiences related to the “taglie a scalare” size system.

The third and final field of innovation involved the company’s sales and marketing strategy. Tailoring was adapted to customers’ needs through a system of production based on standard models of a range of sizes. Owned by GFT, the retail chain Marus was one of the key implementers of this innovation in the 1960s in Italy. GFT’s distribution strategy was primarily

based on two channels. The first was the sale of fabrics to tailor shops via wholesale commerce, and the second was the adoption of DOS chains Marus, Facis and Alfa. GFT's direct channel represented one of the earliest successful cases of forward vertical integration in the apparel sector at that time. The number of GFT DOSs grew to 68 by 1976.

Marus retail stores also served as tailoring centers, the final stage in the production process in which clothes, manufactured in factories-based theoretical sizes, were tailored and then packed. Through this process, Marus collected anthropometric data on the Italian population. Marus stores had two main strengths. The first was the high and consistent quality of tailoring services, enabling the creation of long-term fiduciary relationships with clients. The second was related to stores' layout, which was extremely innovative for its time. The stores predominantly followed the arrangement of a free-entry store specializing in tailored garments, similar to large retailers, by size and management style. However, the stores also prioritized its customers and had a level of in-store service comparable to a tailoring boutique. At the end of this prosperous growth period, GFT increased its production capacity tremendously. The firm was able to manufacture 8000 pieces of clothing per day at its four plants, with its ten brands generating a turnover that consisted of 40% of the entire tailored garments sector in Italy.

After the consumption crisis in the 1970s, GFT modified its marketing strategy and business model by increasing branded prêt-à-porter production, which would shape its entire business model in the following years. This happened for two main reasons. The first was rooted in the duty of the various players to fulfill customers' desires of that period, thus requiring that fashion be factored into apparel production. The second reason was related to the corporate desire to create an international brand image. GFT inaugurated several collaborations with young, emerging Italian stylists, among whom were Armani, Ungaro and Valentino. The development of the fashion system and its related market presented GFT with the opportunity to sign licensing contracts with numerous stylists, thanks to the company's reputation for superior quality products. Carlo Rivetti, Silvio's son, joined GFT in 1975, bringing a new wave of innovation to the group. He trusted the potential for growth of the new outdoor apparel sector within the apparel industry and hence decided to launch the casual fashion market, which was an addition to already existing men and women formal fashion markets.

In the mid-1970s, the talented graphic artist and designer Osti together with entrepreneur Trinaldo Togna established a firm called C.P. Company, which excelled in developing innovative ideas and solutions. The corporation developed a research center specializing in material and fabric treatment and established a technologically advanced experimental laboratory that focused on garment dyeing located in Ravarino, the Modena area of Italy.

The development of GFT during the 1980s proved the success of strategies the company had implemented in previous years. At that point, the group owned 35 companies (20 of which were abroad) and 18 factories (of which five were operating on an international scale), employed 8000 employees, and had a production capacity of 8 million garments, an international distribution presence with retail stores in 70 countries and an average annual revenue of more than one billion lire (about half a million euros).

The Birth and the Growth of Stone Island Brand (1981–2000)

During the 1980s, the importance of fashion brands grew steadily. In 1982, the independent entrepreneur Osti, who had already established the C.P. Company brand, gave birth to the Stone Island brand. The reason for developing this new brand was related to the discovery of an innovative fabric, a full-bodied truck tarpaulin, colored with red resin on one side and blue on the other. This first fabric prototype was washed with water and worn with pumice stones. The outcome was a surprisingly functional fabric, which was later further treated to produce a garment of great charm and vintage style. The result of this innovation represented a great opportunity for the firm. However, it was inconsistent with the style of the C.P. Company customer base; thus, Osti decided to establish a new brand, Stone Island, and produced seven jackets out of that first tarpaulin. The brand name was chosen by combining the two most used terms in Joseph Conrad's novels: "stone" and "island".

The first collection, featuring a navy mark and strongly reminiscent of a military style, was the outcome of previous research and replaced the early oilskins, which were easily corroded by saltwater. As a final element to complete the product, the famous "Stone Island" logo was applied to its products, which would advertise the brand on a global scale in the years that followed. The logo was designed after a military badge with an illustration of a wind rose, a symbol of love for the sea and a land far away, meant to convey an image of unceasing exploration of something

undefined as in Conrad's novels. The name "Stone Island" evokes a sense of love for the sea while also recalling the treatment techniques implemented by the firm in the fabric production process.

Stone Island was immediately appreciated by customers and soon thereafter became a successful brand without copious investments in marketing communication. Instead, the company achieved acclaim by leveraging its distinguishing characteristics: creativity, product innovation and its Italian style.

In 1983, Osti decided to devote himself only to developing the company's creativity. Hence he sold his shares to GFT, at that time already a large group, to provide his firm with improved organization and additional financial resources. GFT acquired 50% of Osti's C.P. Company. As Chief Style Officer of Stone Island and C.P. Company, Osti proved his competencies in the style domain. He was able to match ongoing research in textile elaboration and experimentation of new materials with the opportunity to create garments, which would be positively received by customers and easily sold on the market due to its functionality and fine features. This resulted in an exponential growth in revenue and profit for C.P. Company, which at the time was the owner of both Stone Island and C.P. Company brands.

Stone Island's growth was strictly related with several product innovation projects implemented during this period (Jones, 2002). Two of these were the development of the "Tela Stella" and the expansion in the research of new materials such as *Jock 23*, a cotton canvas featuring a thick spread of PVC with a latex finish. The Stone Island collection expanded to encompass other products including pullovers, trousers, shirts and t-shirts. Stone Island's research laboratories worked on several projects focused on fabrics, treatments and spreading. During this period, other materials and innovative clothing were developed, such as the "Raso Gommato" (rubber-coated satin) and the Ice Jacket, two peculiar products of Stone Island's never-ending research and Osti's brilliant creativity. Furthermore, the firm also tested attaching badges and large frames made of Nylon to clothing. The products manufactured by these new techniques were rapidly appreciated by a number of young customers who deemed Stone Island's products unconventional and as such, useful in expressing a unique, innovative style. In this way, Stone Island gradually attained a peculiar positioning within the outdoor apparel market as an iconic, innovative, young and high-quality brand. GFT's presence throughout international markets enabled Stone Island's growth in Europe.

In 1993, Carlo Rivetti, after having been chief executive of the outdoor apparel business unit of GFT, acquired full ownership of C.P. Company together with his sister Cristina and changed the company name to Sportswear Company S.p.A. In 1994, Osti left his job as Chief Style Officer at Stone Island. Rivetti replaced him with Paul Harvey in 1996 and carried on with brand development by leveraging continuous innovation, experimentation and the already-gained brand positioning within the outdoor apparel market. Paul Harvey designed 24 new collections without modifying Stone Island's path of development and research attitude. He developed the product line, reclaimed raw materials, increased research activities on new materials, tested potential use of fibers yet to be adopted within the apparel sector, studied other innovations, designed a fabric called "Radial" featured by an effect defined as "esploso"³ (exploded) and developed water proof fabric techniques with *Water-Resistant Quilting* (WQR).

Internationalization and New Opportunities (2001–Today)

From 2001 to present, Stone Island has improved its propensity toward research and development, gaining and strengthening step-by-step its status as an iconic brand. Carlo Rivetti adopted the strategic decision of divesting the C.P. Company brand in order to focus all managerial efforts and investment opportunities exclusively on Stone Island. Consequently, Rivetti directed all corporate activities toward emphasizing brand differentiation factors. Rivetti's decisions in 2008 generated positive corporate financial outcomes mentioned in the opening section, which have provided Stone Island with a long-term competitive advantage.

Further growth of Stone Island during 2010–2015 and for the future is based on specific key issues: strengthening the company's market share in Europe, development of the North American market, launching of the Chinese market and potential opening of corporate share capital.

Strengthening the Market Share in Europe

Stone Island during the last years reached significant growth in terms of revenue and EBITDA. The largest proportion of sales was generated from the domestic market and European countries (combined these represented 80% of the total turnover). Over time, the company gradually improved its degree of internationalization, as shown by 2016 data indicating that 65%

of revenues were derived from international markets. These results are even more valuable when taking into consideration that this large growth was made without significant investments in new DOSs.

The Development of the North American Market

A later stage of corporate growth consists of the development of the North American market, in which Stone Island needs first to raise awareness and then, acquire a customer base. The subsequent step of Carlo Rivetti's strategic long-term plan, after strengthening its position in this new market, will encompass leveraging the fame gained in North America as a breach to enter the Chinese market. Carlo Rivetti explained that the North American market has already expressed its appreciation of Stone Island: the brand's positioning and its iconic nature have already attracted some celebrity customers who have involuntarily endorsed the brand. Further, the brand has the necessary features to be able to strengthen its image in this market.

The North American expansion project will adopt a multichannel distribution scheme: direct, through the opening of two flagship stores in New York and Los Angeles, and indirect, by trading via department stores and wholesale channels. This balance of direct and indirect distribution channels will enable the firm to convey its brand style and values broadly. Stone Island recently opened two flagship stores in Los Angeles and Soho in New York. The company uses its online platform to complement its physical channel because many North Americans visit stores to see and test products but then make purchases online while European customers, on the contrary, tend to use websites as a source of information regarding brand, product and price but then make their purchases in stores. Stone Island's plan is to continue developing its online channel through three main actions: online execution of all marketing and communication activities, creation of mobile apps exclusively directed toward U.S. customers, closing of a deal with Yoox Net-A-Porter Group that would offer services corresponding to local needs. After adequately developing the North American market, the company plans to strengthen its presence in the Chinese market.

The Potential Opening of the Share Capital

Stone Island's growth plan projects the development of project in international markets, beginning in North America, to increase revenues over the 100 million euro threshold and to increase the company value by leveraging

EBITDA between 2017 and 2018. Rivetti believes the two-year period of 2016–2017 will be the final step of corporate organic growth, and, after this, the firm could give birth to a new stage of international expansion also taking into consideration the possibility of opening share capital to new investors. Nevertheless, the opportunity of further growth via a trade or a financial acquisition is still on the table, as Rivetti is uncertain if opening share capital to other investors would add value to the firm and leave unchanged the spirit of innovation at the root of its corporate success.

THE STONE ISLAND STRATEGY: INNOVATION, VALUE CHAIN AND MARKETING FOCUSED ON THE PRODUCT CONCEPT

The key pillars to having a competitive advantage and higher return on capital than peers are the following (Miller & Le Breton-Miller, 2005): propensity toward unceasing innovation; territory, stakeholders and enhancement of the “Made in Italy” identity; and marketing activities and distribution.

The Propensity towards Unceasing Innovation

Innovation is considered the key driver in Stone Island’s process of value creation. All of Stone Island’s management team carries a spirit of innovation, which is focused on continuous development of new products, treatments and materials—some of which have become a standard in the industry and others have been patented. Stone Island’s philosophy is based on three main pillars: research, continuous development and product functionality. Considering these three values, the brand became over time the model of outstanding research on fibers and fabrics applied to an innovative design.

Unceasing innovation lies in the development and systematic use of materials never tested beforehand within the apparel sector, which have been discovered through in-depth, limitless and unceasing scrutiny on transforming fibers and fabrics. Another undisputed strength of the Stone Island brand is its unique capability to finish a garment through specific treatments executed in the “Color Laboratory” of Sportswear Company S.p.A. Some examples of such products are waterproof jackets made in a single filament of nylon originated from water filtering technologies; refractive and thermosensitive fabrics automatically modifying their color as temperature changes; canvases in ultra-light nylon, spreads with a stainless-steel film when vacuum-sealed and commonly used in aeronautics

to cover on-board computers; non-woven fabrics; felts in polyester and kevlar®; and rhomboidal fabrics in polyester adopted in the building sector, spread with polyurethane. The following is a list of iconic products developed by Stone Island as a result of its continuous innovation: Tela Stella (1982), Thermosensible-Ice Jacket (1991), Reflective Jacket (1991), Pure Metal Shell, Silver-Bronze Jacket e Silver Spray (1999), Kevlar (2001), Light Jacket (2002), Seta Prismatica (2006), Hand Painted Camouflage (2008), Liquid Reflective (2009), Heat Reflective Jacket e Reverse colour Process (2010), Reflective Knit (2012), Night Glow (2013), Lasered Reflex Mat, Ice Jacket Wool Blend, Thermo-sensitive Fabric (2014), Flowing Camo Reflex Mat, Raso Gommato Reverse Colour Process, Polycover Composite, Hidden Reflective, Night Glow Knit e Garment Dyed Pixel Reflective (2015). In 2016, Stone Island introduced Prototype Research Series, a limited edition project. Numbered garments are made with fabrics and treatments from research and experimentation processes that have not yet been industrialized. This is an exclusive custom-made fabric anorak that is highly reflective thanks to a resin coating embedding thousands of glass microspheres, individually hand-sprayed with a resin-based color and then oven-dried. A laser beam etches the surface, producing a three dimensional tone-on-tone effect on the finished garment.

The value chain was organized with the final aim of maximizing the Stone Island's internal propensity toward product innovation. The company's degree of vertical integration enabled the firm to control the several critical steps in the production process, maximizing its degree of innovation. Given its more structured value chain and higher number of steps in the fabric process than other companies, the production process at Stone Island almost resembled a craft. Stone Island's deeper focus on the fabric production process enabled them to provide the market with unique craft products of superior quality that can truly be experienced by the customer (Kapferer & Bastien, 2009) who values products excellence as an outcome of a craft fabric process (Catry, 2003). Further, subdividing the fabric production process into steps allows the company to internally monitor each of those steps, extremely improving efficiency (Choi, 2011).

Over time, the company succeeded with its plan to build a network made up with trustworthy long-term suppliers acting as strategic partners. These are long-lasting, mutual relationships in which Stone Island and the several partners cooperate by implementing their respective competencies, hence generating value-adding synergy. Stone Island provides the technology and suggests production plans to suppliers, keeping a

superior degree of control over each step of the fabric process while also assisting its partners financially, if needed. Within the value network sphere, partner suppliers also support and include key aspects of innovation within their own fabric processes (Guercini & Ranfagni, 2013). This peculiar collaboration is also valuable for the partner, primarily by implementing its technological, research and development competencies and, secondarily, by improving its brand image in the market.

Highlighting a product's superior quality needs to be backed by copious investments in research and development, technology, innovation, know-how and enhancement of corporate archives. All product innovations are archived at the company, which represent an intangible asset consisting of know-how and corporate culture. Every single garment that Stone Island has made from the very beginning is stored at their headquarters. On one hand, this is the "place" preserving the firm's intangible assets, and on the other, it is an unceasing source of inspiration for the development of new collections, as it tells the entire story of the Stone Island brand. The brand's strength also lies in knowing and being able to reinterpret and re-explore concepts that originated decades prior.

A corporate strategy focused on the product helps build worldwide recognition for Stone Island and makes it a renowned key reference model within textile research. Other manufacturers cooperate with Stone Island, recognizing the opportunity to produce new fabrics and deeming it as the only firm capable of generating marketable final products starting from embryonal innovative ideas. Hence, Stone Island has become a key center for research and development, not only for the firm itself but other stakeholders as well. Stone Island's customer base values this propensity toward innovation, as embodied in the final product, and shares its business philosophy.

Stone Island's garments, an outcome of specific treatments involving the adoption of uncommon fabrics and materials, are made with extremely advanced fabric techniques. As a consequence, the plant located in Ravarino has a set of unique pieces of equipment which are not available on the market. An example of such technology is the unique equipment specifically tailored for the firm's fabric processes and then internally improved over time. Stone Island regularly provides its partners and suppliers with this technology in order to execute specific tasks that in the absence of such technology would be impossible to complete. Similar to Stone Island's most iconic products, outstanding research generates unceasing innovation, constantly amending the common flow of ordinary

fabric processes. As an example, reflective clothes, which display exceptional reflective effects, are the result of complex and innovative fabric processes called “pixel reflective”.⁴

A further example of how a deep focus on the product can enable skill set development is seen in the culture of the “Tinto in capo” (dyeing after finishing the garment). Due to the key role played by this step of the fabric process, the product is examined and treated during all steps preceding the final dyeing. Almost the entire product is dyed. Stone Island possesses the inimitable capability to treat “a capo finito” (finished garment). Over time, this skill set has brought fame to the brand for its innovative capabilities in fabric treatment and has been implemented thanks to unceasing research that has generated real products and process innovations. The above-mentioned elements of research generate product innovations—sometimes these ideas are patent-eligible, and other times, they are simply reserved for possible adoption at another point in time.

Territory, Stakeholders and Enhancement of the “Made in Italy” Identity

Stone Island co-creates value in the local community and communicates that products are invented, designed and produced in Italy. Despite a style oriented towards global trends and customers, the company owning the Stone Island brand particularly focuses on enhancing the capabilities of the territory in which it operates and its relationships with stakeholders, thus co-creating value (Tynan, McKechnie, & Chuon, 2010). For example, Stone Island promotes and enhances the local manufacturing of knitwear products, its second most popular product in terms of sales after jackets. Indeed, its entire production process is executed in the industrial district of the province of Carpi, one of the main manufacturing districts within the Italian textile industry, a worldwide symbol of excellence with reputation for superior quality raw materials and outstanding craftsmanship capabilities. Being made in Italy connects Stone Island’s products to a region and gives the brand a competitive advantage (Corbellini & Saviolo, 2009). A further example is the enhancement of the “Starcolor” laboratory, the dyeing plant owned by the company and located in Ravarino, Italy, which plays a key role in the fabric production process as all product lines are dyed after being tailored. The knowledge of the process of fabric production is localized which is typical to Italian firms. As Fig. 2.1 shows, the act of styling together with modeling, a phase of the fabric production process, is key

for the final product's quality and is directly managed while dyeing is partly outsourced. When outsourcing to other suppliers, the technology adopted in the manufacturing process is based on plans directly proposed by Stone Island. Stone Island's made-in-Italy identity is not communicated with advertisements but is indirectly shown at the point of sales, mainly in direct stores and online, where Stone Island and its salespeople stress that products are locally produced and that innovations come from a network of local stakeholders cooperating to create value (De Chernatony, 2001).

Marketing Activities and Distribution

Stone Island's management of its several marketing variables is perfectly consistent with the marketing positioning strategy adopted by the firm. Distribution is one of the key strategic marketing variables in managing high symbolic value goods (Mosca, 2014), considering that a Stone Island Jacket is priced over US\$1000. The uniqueness and rarity of goods with high symbolic value associated with Stone Island products require that the distribution be managed in line with the company's marketing and development goals. Stone Island adopts a direct and indirect distribution approach. DOSs in which Stone Island sells at full price are located on the high streets of major European and U.S. cities, and the style at the point of sales is carefully designed to communicate the innovation associated with products. Stone Island directly owns and operates two showrooms (in Germany and Italy) while 16 showrooms are operated by distributors/agents, 16 flagship stores are directly owned and operated, and 4 are owned and operated by distributors (Korea, UK and Sweden) and distribute in multi-brand boutiques. Stone Island has corners in leading department stores such as Rinascente, Selfridges, Harvey Nichols, Harrods, Liberty's, TSUM, De Bijenkorf, Barney's, Bloomingdales, Illum, Kadewe, Isetan and Lotte. With its products at the center and its technical characteristics presented as a key selling factor, all points of sales are designed to the style of high-end competitors like Moncler. Figure 2.2 shows 2017's new advertising campaign, that shows how Stone Island focuses its communication activity mainly on the product.

The dream of the founder would be to manage only direct distribution. The company would not sell in main luxury department stores but in some high-end department stores where it would be possible to communicate product innovation and dedicate more space to the brand. The company does not communicate with advertising campaigns or adopt

product placement, and communication activities are focused on consumer education about the quality of materials, the fabric production process and product innovation. Stone Island benefits from some testimonials, which are not paid. Consumers simply wear the brand because they appreciate it. The most famous to do so are the following: Drake, Travis Scott, Kanye West, Liam Gallagher, Pep Guardiola, Jordan Clarkson, Marco Belinelli and Odell Beckham J.

The Stone Island communication goal to give information about product quality and innovation is mainly developed in directly owned point of sales. For example, the flagship store of Los Angeles, the most recently opened and largest in size, is organized with an entry area dedicated to customer education on product innovation (Moore, Doherty, & Doyle, 2010). Information presented are also communicated through the social media systems (Geerts & Veg-Sala, 2011), developing an integrated digital-physical form of communication (Kim & Ko, 2012; Mosca & Civera, 2017).

DISCUSSION AND IMPLICATIONS

This case study highlights to what extent, within international premium outdoor apparel markets, a new key to success may be found in the ability to pursue continuous product innovation and exhibit an Italy-centric path towards internationalization, a strategy already adopted by other companies. This approach encompasses the internationalization of distribution activities and rigorous monitoring of the fabric production process, product quality and, when applicable, localized steps in the production process, voluntarily kept and preserved in the country of origin, which in turn becomes the cradle of unceasing product innovation. A large and growing base of global customers has become increasingly sensitive to quality and as such, values premium brands' capability to provide innovative products manufactured with prestigious materials (Phau & Prendergast, 2000). In order to fulfill the demands of these customers, companies have to focus primarily on quality and fabric production processes rather than solely on brand development (Nwankwo, Hamelin, & Khaled, 2014). The value customers place on the brand grows linearly with the value of the product. Brands like Stone Island, able to combine an inclination toward innovation with superior product quality, generated an impressive financial performance over time, a signal of its growing market appreciation. The market, indeed, is currently able to assign a value, not only to the brand, but also factoring in the quality of its products. Therefore, the Stone Island brand

gained a loyal, almost addictive, customer base that values its unique market position based on product innovation that is inimitable by competitors. A company willing to preserve its long-lasting competitive advantage in its sector needs to adopt a market position that enables it to build a product concept and brand identity well distinguished from competitors and to persuade customers of its superior and innovative features.

The various approaches a company may adopt to establish its market position are the following (Pellicelli, 2015): positioning relative to the industry leader, positioning through a concept, positioning based on symbolic meaning and positioning through isolation systems. Stone Island leverages the concept of innovation as related to its adoption of raw materials and fabric processes.

Stone Island adopts innovative technological solutions in its production of fabrics for its garments and proposes innovative products, obtaining a unique market position highly appreciated by its loyal consumers. Product innovation and the ability to accurately communicate it are the roots of Stone Island's success, which would not have been able to improve its market share without having adopted an innovative market position.

The company handled challenges with a focus on product innovation, developing a consistent and long-term market position supported by its communication and distribution activities. The future vision of the company is to continue promoting its products in international markets, particularly the U.S.A. and China, in order to preserve its brand image. In conclusion, this case study analysis highlights the extent to which it is necessary for a company desiring long-term growth to focus primarily on product innovation. These distinguishing features of products are automatically appreciated by customers and consequently transferred to the brand, which over time becomes an iconic brand.

NOTES

1. Moncler is an apparel brand established in 1952 by René Ramillon in France. Nowadays, it is a global iconic brand within the luxury outdoor apparel sector. Fay is a brand created in the mid-80s and controlled by the Italian Tod's Group with a product range of high-quality casual wear. The brand is known for its craftsmanship quality, excellence of its materials, meticulous attention to craft details and its high functionality, which does not sacrifice style and quality. The Peuterey brand was founded in 2002 and established itself as the height of luxury casualwear. Peuterey is an expression of design, innovation

and quality—successfully creating a sophisticated and stylish brand. The Woolrich brand is owned by Woolrich, Inc., founded in 1830 by John Rich and Daniel McCormick, and is the oldest manufacturer of outdoor wear in the U.S.A. Colmar is an Italian outdoor apparel brand, created by Manifattura Mario Colombo, which, established in 1923 in Monza (Milan), is currently distributed in the main European markets, in North America and in Japan. K-Way is a brand set up in 1965 and related to a specific product originated by Léon-Claude Duhamel, a revolutionary jacket that is lightweight, comfortable and waterproof. The product truly became a symbol as well as the brand, which since 2004 is controlled by the Group BasicNet, based in Turin. The Blauer brand has been the leading American supplier of technical garments for all police forces and selected areas of the U.S. army since 1936. Nowadays, it is a global outdoor apparel brand owned by an Italian company.

2. Industrial districts are an innovative form of conglomeration among small and medium enterprises, featured by the industrial specialization, that is the manufacturing of products belonging to a sector or to related sectors.
3. The Radial is an historical fabric of Stone Island, a pigmented spreading of polyurethane as a rubber on the cotton; the final treatment, defined ‘esploso’, highlights the grain of the fabric below, creating an anti-slip surface and providing a peculiar coat on the spreading. The WQR technique consists in adopting a resin-coated material, for wind resistance and mild water resistance. The lining is quilted to a thermal insulation polyester padding (Stone Island Brand, 2016).
4. Some of Stone Island’s innovative fabrics, looking metallic and iridescent, are printed with a resin material incorporating thousands of glass microspheres. The final dyeing gives a unique coloring to the fabric. This printing is defined Pixel Reflective and provides the fabric with a superior refraction effect, able to reflect even in low light.

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The Geox: The Shoe that Breathes

Francesca Checchinato and Tiziano Vescovi

Abstract Geox is the largest shoe company in Italy in terms of sales and number of stores, making it one of the leading shoe brands in the world. In 2015, Geox made 874 million euros in net sales, more than 68% of which was accounted for by foreign sales. The brand is sold in 1161 retail stores, consisting of both directly operated stores and franchise stores, across 101 countries. This case study shows how new technology and continuous innovation can be implemented in a market in which fashion and design typically dominate. Describing and analyzing the company's marketing activities in recent years, we demonstrate that Geox's success rests in its ability to innovate, define and maintain a strategic position in the footwear industry. Recognized by consumers for its patented innovation, the "shoe that breathes," Geox has the largest number of patents in the industry.

Keywords Innovation • Business model • Patent • Retailing • Brand

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INTRODUCTION

Relatively recently established in 1995, Geox is a worldwide footwear brand that gained success and awareness by means of a patented innovation, “the shoe that breathes,” that claims to remarkably increase users’ comfort. Geox provides an interesting example of how a company can quickly grow—beginning from a very competitive domestic market, expanding to the European market and then becoming a global name—by precisely and uniquely positioning itself in the mind of consumers. This case study of Geox describes how a company can succeed in a mature industry in which fierce and diffused competition seems to create insuperable barriers to newcomers. It demonstrates how innovation can be the key to enter a market previously focused on other success factors, changing the rules of the game. Italy has a thriving footwear industry in which the number of companies (mainly small- and medium-sized) is quite large, product quality is high and consumer expectations are sophisticated. Nevertheless, a new company with no particular fashion proposal caught the attention of the Italian footwear market, a most difficult challenge. Then, by means of retail diffusion, the company expanded to other market sectors as well. This case study is based on information collected from interviews with Geox executives (marketing, communication and HR managers), 4 visits to company headquarters, R&D laboratories and modelling workshops, and 13 visits to Geox retail stores in Italy, China, France and UK from 2008 to 2016. Additional information was gathered from investors relations, academic literature on the company and the company website.

This case study presents an overview of the company and the story of its innovation, a legend retold by company executives as if it were a mantra. Then, Geox’s production system and the competitive arena are briefly presented. Subsequently, the business model and marketing mix strategy are discussed, which represent the basis of this study. The discussion and conclusion at the end propose keys that can be used to better understand the company’s strategies, both successful and unsuccessful. This is a story of a living company, so any end is not truly the conclusion but only a snapshot in time. According to a survey of the company, 65% of the world knows Geox because of its brand advertising and positioning as the “shoes that breathes.”

COMPANY OVERVIEW AND HISTORY

The Geox Group creates, produces, promotes and distributes Geox-brand footwear and apparel, the main feature of which is the use of innovative and technological solutions that guarantee the ability to simultaneously breathe and remain waterproof. Geox's innovation stems from the creation and development of unique outsoles. Using special membranes that are permeable to vapor but impermeable to water, rubber outsoles can breathe and leather outsoles remain waterproof. This solution has been applied to rubber, leather, sport soles and apparel products. This basic technology has been protected by over 60 different patents registered in Italy and extended internationally. Product innovation is fundamental for the consolidation of Geox's competitive advantage.

Geox headquarters in Montebelluna, Treviso, in the Northeastern part of Italy, is characterized as a footwear cluster consisting of 900 footwear companies and the Sportssystem district, specializing in mountain sports. The headquarters include R&D laboratories and modelling workshops while production is mainly located in Eastern Europe and the Far East. Geox had hired 4123 employees as of December 31, 2015, an increase of 90 in comparison to the previous year. The Group, controlled by Geox S.p.A., which acts as an operating holding company, is split into three macro-groups: EU companies that oversee Geox in directly operated stores in the EU, EU trading companies and non-EU trading companies that handle customer service, and business development including licensing and distribution agreements. Geox began its international expansion in 2000, starting from its main markets in Europe. Today, while Geox has expanded internationally, Europe remains the company's main market (Table 3.1). In 2016, the company had a presence in 101

Table 3.1 Retail distribution of Geox

	<i>Franchising stores</i>	<i>DOS*</i>	<i>Total number of stores (%)</i>
Italy	229	131	360 (32%)
Europe (except Italy)	169	179	348 (43%)
North America	0	47	47 (7%)
Other countries	287	119	406 (18%)
Total	685	476	1161 (100%)

Source: Developed by the author based on company annual report

*Direct Owned Stores

different countries and with more than 68% of its turnover generated by foreign sales. Presently, the most important market for Geox is its European one, accounting for more than 75% of the company's sales (Italy included) (Fig. 3.1). The Italian market is its largest, but Asia-Pacific is also becoming quite important especially because of the high potential of the Chinese market. In fact, Geox is investing significantly in China and has a subsidiary in Shanghai.

The net sales of the company in 2015 were 874 million euros, and the EBITDA (Earnings before interest, tax, depreciation and amortization) was around 62 million euros (7.1%), an increase of 40% compared to the 5.2% in 2014. Footwear sales consisted of 89.8% of total sales, and apparel sales made up the remaining 10.2%. The overall number of Geox Shops was 1161 of which 476 were directly operated stores (DOS) as of

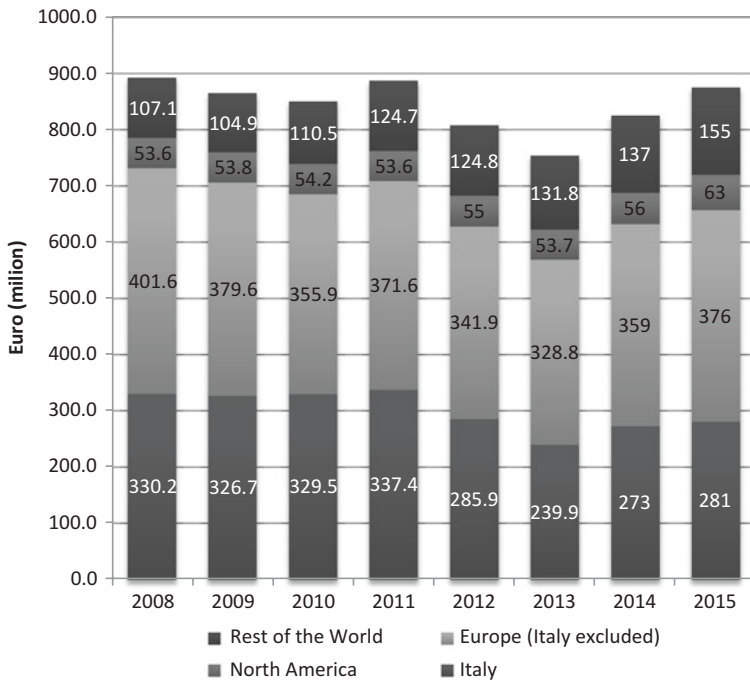


Fig. 3.1 Geox's sales by regions (million euro)

Source: Developed by the author based on company annual report

December 31, 2015. In 2015, 121 new Geox Shops were opened and 185 were closed, most of which were franchising stores, in line with the rationalization plan of the DOS network (see Table 3.1 and Fig. 3.2).

Geox was established in 1995, thanks to the intuition of Mario Moretti Polegato, a descendant of family entrepreneurs from Veneto region in Northeastern Italy who had been active in wine production for three generations. During a trip to Reno, Nevada, U.S., to promote his family's products at a wine conference, Mario Moretti Polegato decided to go for a walk. Annoyed by the overheating of his feet caused by the rubber soles on his shoes, he instinctively pierced both soles with a Swiss Army knife. In doing so, he found a simple and effective solution to release the excess heat from his shoes. Later, after returning to Italy, Moretti Polegato developed his insight in the workshop of a small footwear company owned by his family, developing a new technology for rubber soles. He patented it and created the first "shoe that breathes."

Polegato's idea was quickly realized and has proven successful over the years. They have become high-tech solutions that have been applied to both shoes and clothing. Further, they have passed internal and external tests in real-world environments and in extreme situations from racing

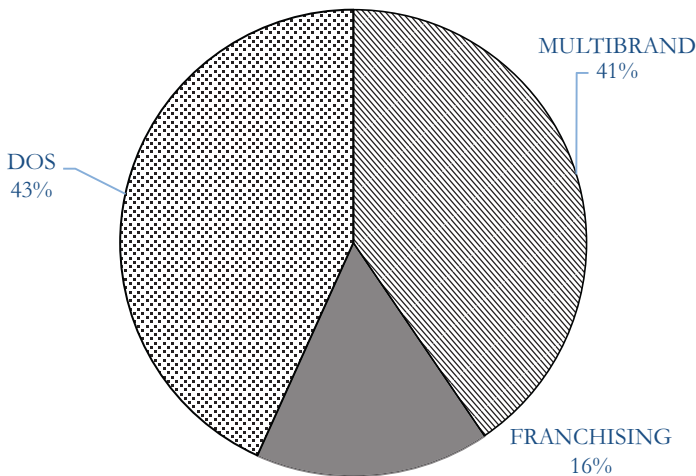


Fig. 3.2 Geox's turnover by retail format

Source: Developed by the author based on company annual report

circuits to ski fields. After unsuccessfully proposing his invention to well-established footwear companies and passing a market test phase (1992) with a line of children's footwear, Moretti Polegato began producing Geox footwear independently at an industrial level in 1995. In the following years, he perfected the patented technology and extended the product range to adult shoes.

As shown in Table 3.2 the company, after many years of growth and success both in sales and EBITDA, suffered a decrease in both measures from 2009 (because of the world economic crisis) until 2013 when it reached its lowest levels. However, starting from 2014 the company began recovering from the crisis. Since 2004, the company has been listed on the stock exchange in Milan. The 2008–2015 economic crisis affected the entire industry, reducing prices and production volume. Despite its global diffusion, Geox was affected by the crisis and suffered especially severely from 2010 to 2014. In the last two years, the company remarkably increased its market and financial performance by improving its selection and control of retail stores, increasing DOS, reducing franchising and developing new products. Nevertheless, the apparel division did not succeed as desired by the company. In the highly competitive market of footwear and clothing, Geox is characterized by products that “breathe.” In 2009, Geox bought an Italian sport footwear company, Diadora, achieving a turnover 132 million euros in 2015. Now, Geox group is active in both sport and fashion footwear markets.

From the beginning, Geox has adopted a family brand name—meaning that the corporate name is extended to all products, the same visual style is used throughout the brand and the brand promise is stronger in their marketing than the products' features. The chosen brand name is short, easy to remember and does not require translation. The brand name also has a meaning. Geox is the combination of two elements: the Greek word “Geo,” referring to the ground we walk on, and “X,” which represents technology, recalling once again the importance of the technological

Table 3.2 Geox's sales and EBITDA in the last ten years (million euro)

<i>Year</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
Sales	612	770	892	865	850	887	807	754	824	874
EBITDA	25.1%	26.1%	22.4%	19.2%	15.6%	13.7%	7.6%	1.4%	5.2%	7.1%

Source: Geox Investors Relations 2016

innovation in these shoes. Easily visible on store signs, the company uses the name alone in black and white or followed by the tagline “Geox Breath” or “Geox Respira,” which is often translated into more than ten different languages. The tagline provides clear descriptive information to make potential customers aware of the product’s main function and the value of Geox products for consumers.

Some research carried out by Geox using the Young and Rubicam brand asset evaluator and presented during the 2016 Investors Day confirm that Geox is a well-known brand with both high brand strength and brand stature. These findings demonstrate that Geox is a healthy brand because brand strength is an important indicator of future performance based on differentiation and relevance, and brand stature measures consumers’ response to a brand and as such, reflects current brand performance based on esteem and knowledge. Concerning brand image, Geox products are top scoring for the following attributes: comfort, quality and endurance. Key brand differentiators in all core European markets are related brands’ historical makeup consisting of innovative, reliable, rational, pragmatic, familial, healthy and international features. In previous years, the company’s new communication strategy also tried to create new associations related to emotions and design (an example is #startbreathing,¹ associated with Nebula). For the future, the objective is to become an aspirational Italian style brand, a status that could also help increase the product’s value and hence, its margins.

THE PRODUCTION SYSTEM AND COMPETITION

Geox’s production system is organized around three strategic objectives: (1) maintaining high quality standards; (2) continuously improving flexibility and time to market; and (3) increasing productivity and reducing costs. Production takes place in selected factories mainly in East Europe and the Far East. All stages of the production process are strictly under the control and coordination of Geox. The company selects third-party producers, taking into consideration their technical skills, quality standards and ability to handle production volumes by the agreed upon deadlines. All output from these manufacturing locations is consolidated at the Group’s five distribution centers—in Italy for Europe, New Jersey for North America, Tokyo for Japan, Shanghai for China and Hong Kong for the rest of Asia.

Geox recently decided to invest in a manufacturing company in Serbia mainly to reduce the production lead time to replenish best-selling products in stores. Once operative, this company will produce about 5–10% of the Group’s products. The project involves hiring 1250 people, for a total investment of nearly 16 million euros. The company began operating at full production capacity in 2016. In 2016, the global footwear sector’s total turnover was around 190 billion euros.² Casual and dress shoes represented 45% of the market. The global market is growing, particularly in sport and casual footwear. As of 2015, the biggest companies in casual and dress shoes are the following.

- **Wolverine World Wide**³: American company; turnover of 2400 million euros; 6000 employees; 294 stores
- **Clarks**: British company; turnover of 2088 million euros; 15,380 employees; more than 1000 stores
- **Timberland**: American company; turnover of 1620 million euros; 5000 employees; more than 240 stores
- **Ecco**: Danish company; turnover of 1250 million euros; 20,000 employees; more than 3000 stores.

Geox is the fifth largest company in the industry. Competition power is based on two main pillars: turnover and stores. Since shoes are a consumer product, stores represent consumers’ “conquered territory” wherein customers acquire knowledge of the brand and as such, serve as an important communication tool. Competition of global brands is quite different in each country. For example, Wolverine and Ecco do not have a visible presence in Italy while Timberland and Clarks do. Geox is prominent in Europe, virtually unknown in the U.S., and growing in Asia. Some companies compete with many brands. Wolverine, for example, has 13 brands directed toward different target groups. Timberland, Ecco and Wolverine have shifted from footwear to accessories such as bags, belts, socks and apparel, pursuing a “total look” strategy to maximize their brand value.

Italy is a highly competitive market for dress shoes. In Italy alone, there are more than 4900 shoes companies with an export value of 8700 million euros, mainly in the high-end segment of the dress shoes.⁴ As such, Geox developed its competitiveness in one of the most difficult markets of the world. In Italy, retail distribution is primarily dependent on a large number of independent stores, as brand-owned and chain stores are not widely diffused. Geox represents the first and largest chain store brand in Italy.

While other Italian brands such as Nero Giardini and Tod's have increased their market share, they are still incomparable with Geox. Because of local competition, Geox's image is perceived domestically to be mid-quality. However, its positioning abroad is much higher.

BUSINESS MODEL AND SUCCESS FACTORS

The Geox business model is based on four pillars: product innovation, functional and comfortable positioning, tight control of product quality and diffusion of branded stores. In only a few years, Geox became one of the main shoe companies in Italy, thanks to new technology and continuous innovation of products which have continued to improve both their impermeability and breathability. Since their first innovation, namely the shoe that breathes, all the company's new technologies have been patented: more than 40 patents in 2013 and 60 in 2016 according to the company's chairman, Mario Moretti Polegato (Geox, 2016). Patents have played an important role in Geox's success, acting as one of the key points of its value proposition. They are the means by which the company proves its ability and competence to provide high-quality customer service compared to its competitors. The use of patents was quite new for the footwear industry (Cassia, Fattore, & Palcari, 2006), and since innovation involves more than traditional elements such as shoes design, patents have become important for the company to protect its key assets. In fact, patents have been registered in several sectors and are related to production in the footwear industry as well as in clothing and accessories, in which similar technological solutions are used. Some examples of U.S. and European patents can be found in Table 3.3.

Another driver of Geox success is its founder and chairman, Mario Moretti Polegato, who has been the face and voice of the company since its origin. He is claimed to be the inventor of most of Geox's patents. Since the beginning of his entrepreneurship story in the footwear industry, he has received numerous awards for his innovations both in Italy and abroad. Among his many awards, in 1994 he received the Italian "Award for Creativity" from Confindustria (the Italian Employers Association); in 2002 he was given the "Entrepreneur of the Year" award conferred by Borsa Italiana (Italian Stock Exchange); and in the same year, the Italian financial newspaper *Il Sole 24 Ore* awarded him for the "best strategic use nationally and internationally of the openings and opportunities offered by the market, combined with a capacity for constant innovation."⁵

Table 3.3 Examples of Geox patents

<i>Patent name</i>	<i>Summary</i>
Mid-sole for waterproof breathable soles for shoes, and waterproof breathable sole comprising said mid-sole	A mid-sole for waterproof and breathable shoes. Includes a waterproof and breathable membrane and at least one lower layer made of breathable elongation-preventing composite material, which is monolithically coupled to the peripheral region of the membrane and, in the corresponding region, to the tread of the sole.
Waterproof vapor-permeable shoe	A waterproof, vapor-permeable shoe, including an upper portion that delimits a foot insertion region; a sole, made mainly of plastic material, including at least one region that is diffusely perforated with holes in the direction of the walking surface; a vapor-permeable or perforated flat element, rigidly coupled to the lower part of the sole on its tread, the flat element adapted to limit the formation of hollows in the foot insertion region at the projection of holes of the diffusely perforated region; and a waterproof vapor-permeable membrane associated with the upper part and/or the sole (the membrane is arranged above the flat element so as to be superimposed on the diffusely perforated region).
Method of manufacturing a breathable shoe	A breathable shoe, including the following: an upper assembly with a breathable upper; a membrane made of a waterproof and breathable material; and a sole made of perforated elastomer, which are all mutually attached such that the membrane is arranged between the upper assembly and the sole, and the sole is sealed parametrically to the membrane to prevent moisture from entering into the upper assembly from the sole through the membrane, and to permit moisture to leave the inside of the upper assembly through the membrane and sole. In one preferred embodiment, the membrane is first attached to the upper assembly so that it becomes a unitary assembly including the membrane, which is subsequently attached to the sole.
Frame for glasses, masks for professional or sports use and the like	A frame for glasses, masks for professional or sports use, and the like adapted to support at least one corrective and/or protective lens in front of the ocular region of the user. The frame has at least one opening which is open toward the user's skin, at least one waterproof and vapor-permeable functional insert which is arranged to obstruct the opening in a vapor-permeable manner in order to allow vapor permeation from the user's skin while preventing a return of condensation toward the user.

Source: Developed by authors based on patent databases

In February 2010, CNBC and Financial Times conferred him the title of “Innovator of the Year” during the CNBC European Business Leaders Awards for the development of a brand which combines fashion and technology.⁶ In view of his distinctions and his company’s story, it can be argued that he appears to correspond with the Inventor-Entrepreneur figure⁷ who is associated with a proclivity for taking out patents (Smith, 1967) and strong commitment to a company strategy of new product development (Miner, Smith, & Bracker, 1992). In the past few years, some brand lines have been created to identify new product innovations that combine the classical feature of breathability with new other incremental innovations—such as Amphibiox, a waterproof technology that guarantees comfort even when it rains, and Nebula, distinct from the other shoes because of its light weight, flexibility and dynamic fit. Moreover, Geox patented the trademark “New:Do,” a new product line inspired by sustainable innovation principles.

However, the success of Geox is not only a result of its technology. In fact, its success is chiefly due to how the company was able to define a new strategic position in the footwear industry, particularly within the functionality and comfort area, being recognized as the “shoe that breathes.” The company has used product innovation and technology to its advantage in positioning their brand in a way that has helped it reach a high level of awareness. In fact, as stated in an interview by its founder, Geox is “recognized as one of the leading Italian shoe brands, most of the world know Geox. Maybe some people... or many people don’t use it, but the brand awareness is fantastic.”⁸

Geox entered a mature industry where no concept of innovation had existed, and competition was mainly based on fashion and design. On the contrary, the value of Geox products is based on functionality and comfort, new benefits to the market. Moreover, by focusing on these core benefits, the firm was able to define and satisfy a large target audience by offering a wide range of products: shoes for men, women and children, along with clothes and some accessories. As stated by Camuffo, Furlan, Romano, and Vinelli (2008) “Geox’s current target market is primarily mid- to high-income consumers who look for comfort and style in their footwear, the potential customer base includes all ages and lifestyles since, as the company notes, no one likes to have [their] feet wet and smelly.”

Since kids’ products passed the market test, the range was extended to men’s and women’s shoes, and in 2007, after another test phase, Geox launched breathable jackets globally too, applying its technology to apparel

and perforating its jacket in the shoulder area.⁹ Then Geox entered the sportswear market, with a new trademark—NET System¹⁰—dedicated to sports equipment. The company's sales are divided in two main categories: footwear and apparel (Table 3.4). As can be seen in the data, footwear still represents the company's core business since apparel has never been able to exceed 15% of net sales. Also within the store, the space occupied by apparel products is small because the assortment is not as diverse as footwear.

Each year, 2% of the turnover is invested in R&D to develop new products based on technological innovation¹¹ because in the Geox strategy, improvement of shoes' comfort never ends. Maximum comfort is offered to wearers thanks to following innovations¹²:

- Geox rubber sole, the original patented breathable shoes
- Nebula, a lightweight product with extra-large perforations in the sole and a new membrane that provides high comfort, more flexibility and cushioning
- Amphibiox, waterproof and breathable shoes
- Apparel Breathing System, a line of clothing with the same features as Geox shoes, guarantees breathability and body temperature regulation, once again maintains the unique selling proposition of comfort
- Geox Performing Concept, the (breathable) windproof and waterproof clothes inspired by characteristics of mountain apparel but with an urban style
- Geox Net Breathing System, which offers superior performance breathability at elevated temperatures, so shoes with this technology are suitable in hot climates
- Geox Xand, an ultra-cushioning mid-sole combined with the Net Breathing System and with a higher level of shock absorption
- Geox Leather Sole, a rain-resistant leather sole.

Table 3.4 Geox's sales by product categories (million euro)

<i>Category</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>
Apparel	9%	11%	14%	15%	15%	13%	12%	10%
Footwear	91%	89%	86%	85%	85%	87%	88%	90%
Net sales	892.5	865	850.1	887.3	807.6	754.2	825	875

Source: Developed by the author based on company annual report

To test and improve its products, Geox has also arranged some partnerships within the sports system. First in 2011 with the Formula One Team Red Bull, providing its know-how to develop shoes for the athletes Sebastian Vettel and Daniel Ricciardo. From this partnership, new shoes approved by F1 were manufactured. Then, a new partnership with FISU (the Winter Sport Italian Federation) emerged wherein the company provided more than 1000 Amphibiox shoes to 400 athletes. This partnership allowed Geox to test its products in extreme conditions. These kinds of partnership are useful to test and develop innovations, which are then sold to Geox's regular customers. For example, the technology developed for the F1 shoes has been used in the Xense and Xand models for men and women.

Even though the key elements of Geox shoes, as underlined in the company's descriptions, are clearly connected to their functionality, shoes also need a design. Regarding designs, Geox shoes are considered as a "fast follower," "rapidly imitating industry trendsetters, and quickly getting the new models to the market [...], designs most of the new products (season and flash collections) in Italy" (Camuffo et al., 2008, p. 149). Before launching a new collection, products are piloted in key retail locations to evaluate customers' preferences. Then, depending on the success of the pilot, collections are adapted and large-scale production begins (Camuffo et al., 2008). Moreover, to reduce the risk of overbuying, Geox reacts rapidly to trends by replenishing stores with best sellers and quickly removing products faring less favorably. Inventory management represents a key strategy to maximize performance per square meter in stores. Another key is flexibility, which the company maintains by decreasing sourcing from China and increasing from Europe.

Production system and quality control are other elements that help Geox maintain its value proposition and simultaneously control costs. As previously discussed, the Geox headquarters are located in Montebelluna, a major district in the shoe industry, which has more than 100 years of experience in the production of high-performance footwear (Aage & Belussi, 2008). This locale was key to the company's success, especially at the beginning when specialized manufacturing competencies from local firms were mixed with the innovative "shoe that can breathe" patent. After a few years, all manufacturing activities were carried out internationally while the Geox headquarters focused on research, logistics, distribution and communication (Di Maria & Micelli, 2007). Nowadays, the entire production and logistics cycle is managed by the Geox Italian headquarters,

and the entire production process in all its critical phases is closely monitored in-house by the firm. Manufacturing, instead, is predominantly executed by selected partners in the Far East¹³ and East Europe for cost efficiency. In this way, these partnerships help Geox leverage its business model, which offers a unique innovative product at a reasonable price.

COMMUNICATION

Since the beginning, the technology of breathing shoes was the focus of all communication and advertisement to increase consumer awareness of the innovation's importance, which guarantees a specific functional benefit: maximum comfort of shoes. The advantage of focusing on a single message is twofold: (1) it points out the uniqueness of the Geox product, emphasizing its ability to resolve a problem that other shoe brands do not address, and (2) it makes it possible to use the same message and image to publicize the product all over the world and in all market segments (men, women, kids, dress shoes, leisure shoes), increasing ease in identifying the brand and therefore also its value. Shoe breathability and the benefit of comfort have been conveyed consistently in in-store and other various forms of communication. The tagline, "Geox breathes" or "Geox Respira," is also used separately in many communication elements, such as some walls inside Geox shops, the cover of shoe boxes (Fig. 3.3) or on shopping bags. Focus on "breathability" reduces the



Fig. 3.3 Geox's tagline translation in a boot package
Source: Photographed by the authors

shoes' perception of fashionableness. All advertisements underline the shoes' functionality instead of the product's design.

Geox stores are, in a sense, the brand's temples in which every detail is modeled to spread the company's message: walls with patent innovation descriptions, pictures of breathing shoes and jackets and TV screens that display videos are among details present in each store. Moreover, salespeople are trained to clearly explain the products to customers.

Concerning media, advertising campaigns have been developed over the years in different phases of Geox history, using TV commercials, magazines and outdoor advertisements to promote either the brand image or single products/new technologies. An example of brand advertising was their 2013 campaign: TV commercials were launched depicting different product users as examples, the objective being to have real people describe their experiences using Geox products as they grapple with challenges of daily life. During that period, brand associations began to expand beyond technology, but at the end of ads, potential customers also recalled product use in real life.¹⁴ An example of product advertising was the 2008 Net System commercial, which had the goal of entering the sportswear market. It primarily consisted of a testimonial from football trainer, Marcello Lippi (<https://vimeo.com/18444820>).

Other campaigns related to specific product lines, often in the form of videos, were posted online. For instance, in 2012 Geox selected four Facebook fans and sent them to Cherrapunjee, India, considered to be one of the rainiest places on earth. There, the participants tested the Amphibiox shoes. Their stories were documented and received 318,378 views on the official Youtube video as of February 2017. The project was even awarded with a Gold Lion at the Festival in Cannes. The following year, Geox decided to test the Amphibiox shoes in an urban environment in the city of Barcelona. Since this is not a rainy city, the participant was placed under his own "private rain cloud" for seven days. The documentary of the subject's experience was posted on Youtube,¹⁵ where it received 76,580 views as of June 2017. This kind of communication attracts the interest of consumers and helps them understand the product and its main features.

Recently, Geox has tried to use storytelling to engage with more customers. In 2015, the company launched a quarterly magazine—*Geox Breathe Magazine*—with the aim of sharing its philosophy, new collections and projects. Each new issue has been announced on Facebook, and the strategy was to distribute the magazine within stores and send it to their most loyal customers.

Concerning their presence on the Internet, based on data provided by the digital Marketing intelligence company SimilarWeb (www.similarweb.com), as of December 2016 the company website www.geox.com reached 844.4K visits with an average visit duration of 3 minutes and 34 seconds and 7.36 pages per visit. Most visitors (17.31%) were from Italy, followed by United Kingdom (16.08%) and France (11.65%).

Social media was also developed, as Geox created official accounts on Facebook, Twitter, YouTube, Pinterest, Instagram and others and social media campaigns have been developed to increase customer engagement. The main objective of this digital strategy was to boost brand visibility in an international context as well as to acquire customer insight to understand their needs and buying behavior. A product-driven approach, also built around brand storytelling, was implemented with positive results. For example, one year after the launch, the Facebook page acquired more than 380,000 fans and more than 50 million impressions.¹⁶ Presently, news about products and events are posted every two to three days, and the fan base is 1,368,001 as of February 2017. From the beginning to the end of 2015, the engagement increased 26% (Geox Group—Investor Day 2016).

Beyond social media, Geox also uses other tools to reach and maintain the relationship with loyal customers. Among other various means, such as the newsletter, the company also has a loyalty program called Benefeet, implemented in Geox stores in many countries and yielding great results. Benefeet expanded from the 923,000 subscribers in 2012 to 2,900,000 in 2015, generating a turnover of 209 million euros.¹⁷ Between 2006 and 2007, the percentage of turnover invested in communication was around 10%¹⁸ to reach the target level of brand awareness while recent years, this percentage has decreased as the company has sought to maintain this level of awareness (Fig. 3.4).

RETAILING AND DISTRIBUTION

Distribution is an important element in the Geox marketing and business strategy. Since product differentiation is based on innovation and technology, stores are one of the most important touchpoints to explain these benefits and give customers the chance to receive accurate information. In fact, DOS channels are increasing each year both in the number of stores openings and net sales. The important role of stores is demonstrated in the opening of new Geox shops in a network that has been continuously

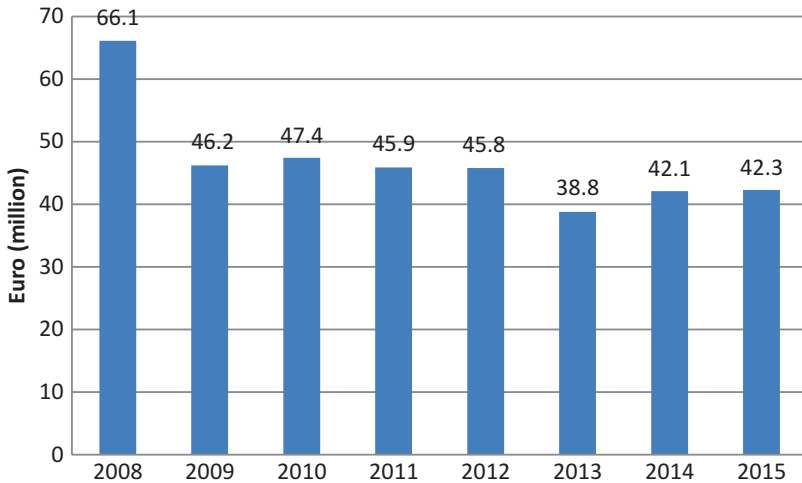


Fig. 3.4 Geox's advertising and promotional costs (million euros)
Source: Developed by the author based on company annual report

expanding. Starting from 278 Geox shops in 2004, the network presently has 1161 points of sale and products can further be found in about 10,000 multi-brand stores, including Nordstrom, Macy's West, Lord & Taylor and Foot Locker.

Beginning in 2013, Geox initiated a stabilization and rationalization plan of the wholesale channel, increasing the selection of multi-brand stores. Meanwhile the number of DOS has continued to increase while franchising stores decreased. In 2016, they began testing new retail formats and brand-managed spaces such as shop-in-shops and corners were developed with key partners.

To build a strong brand image, location is also important and as such, requiring the opening of stores on high streets of the most populous cities in the world such as New York, London, Paris and so on. Shop location plays an important role in franchising because stores should be located "in either a shopping centre or in primary high-street retail destinations in towns and cities with populations greater than 70,000" and should be between 100 and 130 m².¹⁹

Stores are usually planned to be spacious with walls which display both products and patent information together with brand features and descriptions of the company's philosophy. The windows are often open-back to

give consumers the chance to see inside the shop before entering, and the furniture layout has a modern style with cubes to allow consumers to sit and try on shoes. Geox was awarded for its store design in the 2010 Franchising Awards organized by Az Franchising magazine.²⁰

Integrating online and offline strategies, the company has tried to adopt an omni-channel strategy at its own e-commerce site and third-party virtual malls such as Tmall in China and Zalando. Thanks to the “Click & Collect” service, customers can make purchases online and then collect their products from participating Geox stores around the world. Similarly, should consumers desire to return products they are not satisfied with, they can do so directly in stores, without sending them back via mail.

DISCUSSION AND IMPLICATIONS

Product innovation is the key success factor for Geox, and in this case, two traditional types of innovation can be highlighted: radical and incremental. At the beginning, Geox succeed thanks to a radical innovation, defined as “fundamental changes that represent revolutionary changes in technology” (Dewar & Dutton, 1986, p. 1422). Then Geox grew as a result of continuous incremental innovations that are “minor improvements or simple adjustments in current technology” (Dewar & Dutton, 1986, p. 1422).

Clear brand positioning, based on the main benefit of Polegato’s invention, was important for the initial growth of the company, making it more memorable to consumers and distinguishing it from other competitors. This positioning follows Laforet’s (2009) criteria for success: relevance, distinctiveness, coherence, commitment, durability and clarity.

We also highlight that patents play an important role in Geox’s success, a finding that is consistent with Song, Podoyunitsyna, Van der Bij, and Halman’s (2008) results: patent protection is one of the factors of success in new technological ventures. Moreover, no other brands in the fashion market that patents products and technology like Geox, and in doing so, the brand exhibits its uniqueness. The innovative approach is not very common in the fashion industry, which disassociates Geox from the perception of being a fashionable brand.

“Control of distribution is essential not only to ensure ready access to the market, but for various other reasons. One fundamental function of sale points is to provide instant and direct contact with the world of the consumer” (Bettiol & Micelli, 2006, p. 24). Geox has started its retail

expansion with wholesale and then franchising, which casts two problems: (1) limited control on franchisees and (2) rapid growth. Gaining the control of retail distribution is one of the pillars of being a consumer product company. To have more control, Geox is now reducing its franchising retail and increasing directly operated stores. Geox products are not strictly made in Italy but are designed and branded in the country. Innovation and reputation come from the cultural environment of the footwear district where the research and the quality standards are developed.

This case study highlights the fact that for consumers, Geox is a comfort footwear brand, not a fashion brand. This image is quite difficult to be modified when trading up, so brand extension toward apparel products made by Geox may be risky and not successful. In the future, the first opportunity lies in the development of new big markets such as in the U.S. and China. The company should consider the two markets as different in terms of consumer culture and competition level. Flexibility and adaptability should be key in the new expansion. The second opportunity concerns brand extension. Brand extension needs consistency and prudent progression. Brand extension should appear to consumers as consistent and beneficial for existing products. Considering the positioning of the Geox brand, technology and comfort should be central to extending the brand. Typically, a fashion company executes brand extension from apparel to accessories, not vice versa, primarily because most critical within a brand is apparel fashion, not footwear or accessories. Therefore, Geox's extension to the apparel market is still a big challenge that should be managed quite carefully. The Geox dilemma in the future will be to sustain innovations in comfort and remain fashionable. While innovations in comfort are well accepted by customers, fashionableness may not be well appreciated among consumers. The more Geox stresses the comfortability of their shoes, the more difficult it is to position fashion products. The two positions are different and difficult, though not impossible, to be combined. Thus, the challenge for Geox will be integrating comfortability and fashion within their apparel products in a meaningful way to their consumers.

NOTES

1. To see the campaign, watch the following video: <https://www.youtube.com/watch?v=vZkJyPIY8Hg>
2. According to the Italian Footwear Producers Association (Confindustria).

3. Headquartered in Rockport, Michigan, U.S., Wolverine World Wide Inc. has diverse brands in their portfolio including Wolverine Boots and Shoes, Hush Puppies, Merrell, Sperry Top-Sider, Keds, Grashoppers, and so on.
4. Ermeneia (2016).
5. A comprehensive reconstruction of Mr Moretti Polegato career can be found on <http://www.geox.biz/en/governance/corporate-bodies/mario-moretti-polegato.html>
6. www.BuySellSignals.com
7. “The Inventor-Entrepreneur has taken out many patents. It appears that his orientation is not to attempt to build a business or to turn out the best product. Rather his major concern seems to be to develop an organization, not as an end in itself, but rather as a vehicle to allow him to invent and produce various products (Smith, 1967, pp. 87–89).”
8. <http://www.bworldonline.com/content.php?section=Arts&Leisure&title=geox-technology-comfort-style&id=117127>
9. Beckett W. (2006). Geox launches breathable jackets, applying its technology to apparel. *Women’s Wear Daily*.
10. http://www.italiaoggi.it/news/dettaglio_news.asp?id=200804021504001703&chkAgenzie=PMFNW
11. http://www.geox.biz/static/upload/inv/investor_day_2016_audio.mp3 [Last Accessed 14/01/2017].
12. For a comprehensive description of these technologies: <http://www.geox.biz/en/group/innovation-technology/innovation-technology.html>
13. Relazione finanziaria semestrale Geox, June 2016.
14. Commercials are available in the Geox Spa YouTube channel.
15. <https://www.youtube.com/watch?v=i7Z36GNB6X0>
16. http://www.advertiser.it/sfogliabili/speciali/adv_speciale_impatto_creativo/index.html#/8/zoomed
17. <http://www.geox.biz/static/upload/inv/investor-day-presentation.pdf> [Last Accessed 19/01/2017]
18. <http://www.brandforum.it/files/pdf/papers/GeoxIntervista.pdf> [Last Accessed 12/01/2017]
19. <http://www.geox.biz/en/group/geox-franchising.html>
20. <http://www.modalizer.com/geox-premiato-dai-francisor-per-il-concept-innovativo-degli-store/>

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Nike: An Innovation Journey

Michelle Childs and Byoungho Jin

Abstract Nike is an American multinational company that has evolved to become a global leader in athletic wear with annual sales exceeding \$21 billion in 2016, more than half of which is attributed to international markets. Since its inception in 1964, Nike has been an innovation leader in product development, marketing and consumer experience. Due to a dedication to continuous innovation, Nike has been able to sustain a competitive advantage within the athletic apparel and footwear marketplace. This case highlights key points in Nike's journey of innovation and examines how Nike has successfully emerged as a global champion within the athletic wear industry. Based on these analyzed strategies, this case provides implications that are relevant for practitioners and academics.

Keywords Athletic wear • Product development innovation • Marketing innovation • Consumer experience innovation

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INTRODUCTION

Nike Inc. (hereafter Nike) is an American multinational company that is engaged in designing, developing, manufacturing and marketing athletic apparel, footwear and equipment. Established in 1964 as Blue Ribbon Sports, Nike has become the global leader in athletic wear and athletics-related technology, with annual sales exceeding \$21 billion in 2016, which is nearly four times larger than its closest US competitor. These astonishing sales figures rank Nike as the 19th largest brand in the world (Interbrand, 2016), the highest among apparel and footwear brands, including the iconic fashion brands Louis Vuitton and Hermès. Headquartered in Beaverton, Oregon, Nike currently operates a portfolio of four different brands (Nike, Jordan, Hurley and Converse). The company's 62,600 employees support operations in more than 850 brick-and-mortar retail stores and in offices in 50 countries (Nike, 2016b).

Since its inception, Nike has been an innovation leader in the sportswear and equipment industry. The company's original innovation, a waffle-soled running shoe, established a culture of innovation that permeates nearly every aspect of the company. Early on, Nike invested heavily in an innovation lab, which has evolved into a sophisticated research space where premier researchers apply scientific approaches to understand human movement and physiology. Today, this innovation space remains at the physical core of company headquarters and at the philosophical core of product development. This emphasis on innovation since company establishment has led Nike to develop industry-changing technologies, such as Nike Air and Nike Shox soles, Dri-FIT fabrics and mass customization capabilities.

Nike has heavily promoted its products internationally through aggressive marketing programs, elite athlete sponsorship and social networking. Beginning with its iconic "Just Do it" advertising campaign, Nike has aggressively invested in advertising campaigns, many of which feature sponsored elite athletes. Often utilizing top sponsored athletes, the company's goal is to personally communicate to their customers through socially engaged experiences beyond Nike athletic products.

Important lessons can be learned from Nike's journey from an entrepreneurial startup to the global leader in athletic wear. Drawing on a variety of sources, such as published biographies (e.g., Strasser & Becklund, 1993), annual market reports (e.g., Nike, 2016b), previous case studies (e.g., Wasserman & Anderson, 2012) as well as trade and

news articles (e.g., Nazario & Roach, 2015; Salfino, 2017), we provide an analysis of both successes and missteps throughout Nike's history. We begin this case study by providing an overview of important events in Nike's historical trajectory, and of the athletic wear industry in the United States. We then present an analysis of Nike's innovation strategy before concluding with a discussion of Nike's most notable achievements and valuable insights about the company's journey with implications for both practitioners and scholars.

COMPANY OVERVIEW

Nike was founded by Phil Knight and Bill Bowerman in 1964 as Blue Ribbon Sports (MarketLine, 2016; Strasser & Becklund, 1993). The company, which was renamed Nike in 1971 (MarketLine, 2016), has evolved to become the world's largest athletic brand offering innovative athletic apparel and footwear, and related sportswear and technology. The sportswear giant has been listed among the Fortune 500 since 1994, and was listed among the Fortune 100 for the first time in 2016, at rank 91 (Kish, 2016). With sales exceeding \$21 billion in 2016, more than half can be attributed to international markets. Nike operates in six geographic regions. Among these major regions, the North American division accounted for 46% of sales in 2016, followed by Western Europe (18%), greater China (12%), emerging markets (11%), Central and Eastern Europe (4%) and Japan (3%), while other non-major operations accounted for the remaining revenues (Nike Retail Services, Inc., 2017).

In the early stages of the company, Nike promoted its products exclusively to serious athletes (Strasser & Becklund, 1993). As Fig. 4.1 demonstrates, Nike targeted these athletes by charging premium prices and distributing products via specialty sporting goods stores. The first Nike shoes were sold in 1971 and distributed by four Blue Ribbon Sports specialty shoe outlets in Portland, OR, Eugene, OR, Culver City, CA and Natick, MA (Strasser & Becklund, 1993). To focus on delivering products to top athletes, Nike expanded its innovation lab, but failed to consider the needs of "weekend enthusiasts" or "fashion/casual enthusiasts" during the 1980s. After realizing the potential of these markets, Nike began to expand its target audience to reach more mass market consumers—namely, those who engaged in occasional exercise or simply wore athletic

shoes and apparel for fashion purposes. Thus, Nike expanded down the pyramid to reach weekend enthusiasts by distributing products to sporting goods stores (e.g., Foot Locker). To reach more fashion-minded consumers of athletic wear, Nike lowered its prices to offer its products in department stores (e.g., Macy's) and shoe stores. With the exception of the brief time period (i.e., 2004–2007) when Nike operated Starter, Nike has avoided the low-end mass merchandise market, depicted as the base of the pyramid in Fig. 4.1.

To diversify its product offerings and reach additional consumer segments, the company has acquired seven different brands over the years with the primary goal of targeting younger consumers (see Table 4.1). Nike acquired Cole Haan¹ and Bauer² to expand beyond the athletic footwear and apparel market into the casual footwear and sports equipment markets, respectively. To appeal to younger consumers, the company acquired Jordan,³ Hurley⁴ and Converse,⁵ and to reach price-conscious consumers, it bought Starter.⁶ Finally, Nike acquired Umbro⁷ to obtain greater market share in soccer apparel and footwear. In 2016, the company narrowed its brand portfolio to just four major brands: the Nike



Fig. 4.1 Nike's distribution and target market pyramid
Source: Modified from Rikert and Christensen (1984)

Table 4.1 Nike's brand portfolio

<i>Brand</i>	<i>Time period</i>	<i>Target customers</i>
Nike	1964-present	Men and women; athletic footwear and accessories
Cole Haan	1988–2013	Men and women; stylish footwear and accessories
Bauer	1994–2008	Elite, performance and recreational hockey players; ice hockey and inline skates
Jordan	1997–present	Urban youth fashion market; premium brand of footwear, apparel, and accessories
Hurley	2002–present	Young consumers; apparel and accessories for alternative sports
Converse	2003–present	Young consumers; fashionable, yet casual apparel and sneaker lines
Starter	2004–2007	Sports fans, athletes and entertainers; fashion-forward logo branded apparel
Umbro	2008–2012	Soccer enthusiasts and players worldwide; performance and style elements

Source: Compiled by authors based on websites and industry reports

signature brand is applied to athletic shoes and apparel, digital devices (e.g., Nike+ Fuelband), sports equipment (e.g., bats, gloves and sports balls), and accessories (e.g., eyewear and bags); the Converse brand is applied to apparel, casual sneakers and accessories through trademarks including All Star, Chuck Taylor, One Star, Star Chevron and Jack Purcell; the Hurley brand is applied to apparel, action sportswear and accessories under the Hurley trademark; and the Jordan brand is applied to basketball-related apparel and accessories (MarketLine, 2016).

To manufacture these products, Nike has established contracts with 620 independent factories in 42 countries that employ 1,041,646 workers (Nike Manufacturing Map, 2017). That is, Nike does not own and operate factories, or employ factory workers, opting to outsource manufacturing activities instead. Although most of the factories that manufacture Nike's products are located in emerging markets (e.g., Brazil, China, India and Indonesia), some are located in developed countries, such as Canada (6 factories), Italy (19 factories), Japan (15 factories) and the United States (52 factories) (Nike Manufacturing Map, 2017). Interestingly, to protect and perfect its leading innovation, Nike exclusively operates the Nike Air Manufacturing Innovation building, strategically located close to its world headquarters in Beaverton, OR (Nike, 2017d). Along with their counterparts in Missouri, employees use materials and manufacturing

Table 4.2 Number of Nike stores in the United States

<i>Year</i>	<i>Nike factory</i>	<i>Nike in-line</i>	<i>Cole Haan</i>	<i>Converse</i>	<i>Hurley</i>
2009	140	30	111	43	14
2010	145	26	106	51	18
2011	150	28	107	58	20
2012	156	28	109	62	29
2013	171	33	–	72	27
2014	176	33	–	84	29
2015	185	33	–	92	29
2016	196	34	–	103	29

Source: Statista (2016). Number of Nike stores in the United States from 2009 to 2016. Retrieved from <https://www.statista.com/statistics/241642/number-of-nike-stores-in-the-us-since-2008/>

tools to fine-tune and enhance Nike Air technology. These facilities also employ a workforce of 1300 skilled individuals responsible for the 3.5 billion Nike Air units produced since its inception (Nike, 2017d).

To sell its products, Nike has aggressively expanded its brick-and-mortar presence domestically and internationally. In the US domestic market in 2016, the company operated 196 Nike factory stores (i.e., outlet stores), 34 stand-alone stores (i.e., full price stores), 103 Converse stores and 29 Hurley stores (Nike, 2016b; see Table 4.2). Approximately half of Nike’s revenues (53%) come from international markets. Outside of the United States, Nike operated 588 Nike factory stores, 72 in-line stores, and 23 Converse stores and had international branch offices located in 50 countries around the globe (Nike, 2016b). Next, a detailed summary of Nike’s history is presented.

COMPANY HISTORY

Nike has experienced six major phases of development since its inception in 1964. We present a timeline of major events in Nike’s company history in Fig. 4.2.

Company Beginnings: Onset of a Culture of Innovation (1950s–1971)

Bill Bowerman, a track and field coach at the University of Oregon from 1948 to 1973, took a deep interest in the shoes worn by his runners.

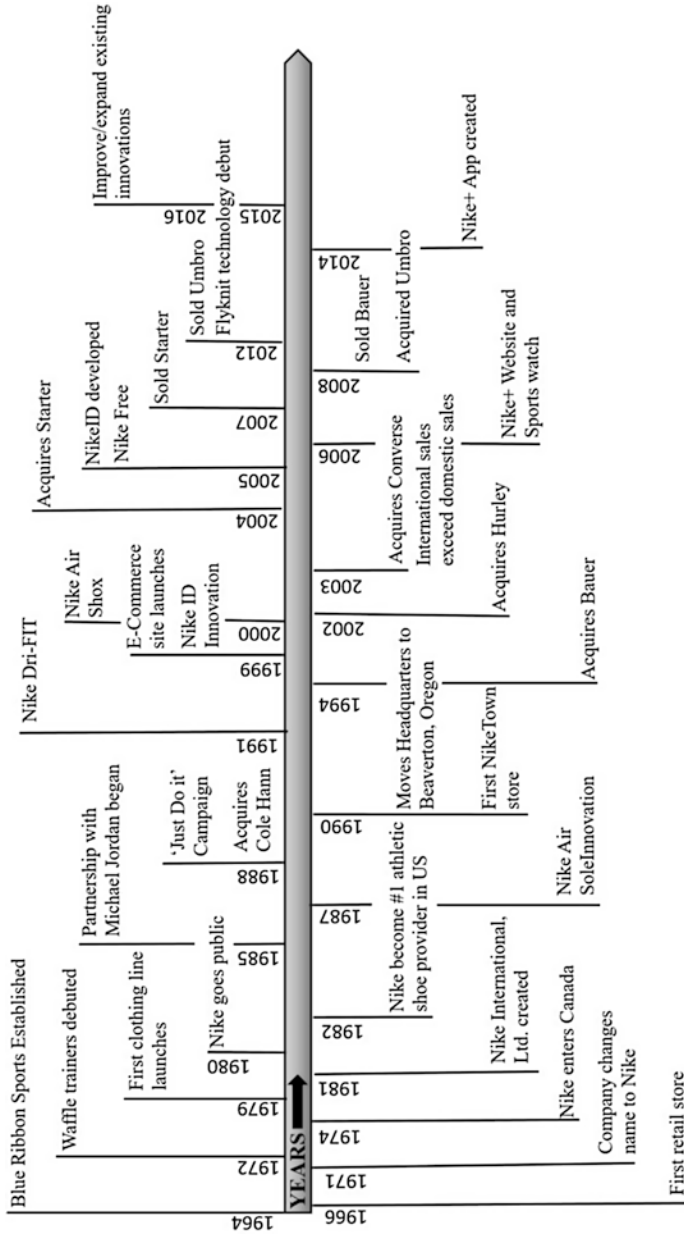


Fig. 4.2 Nike company timeline
Source: Compiled by authors based on Nike's annual reports and website

An accomplished coach of 33 Olympians, 25 US record holders and 22 world record holders, Bowerman believed that if his runners could wear lighter shoes, they could potentially shave seconds off their race times. With this in mind, Bowerman began ordering Adidas shoes from Germany which were not yet available in the United States and took them apart to understand how they were constructed. By experimenting with a variety of materials, Bowerman began developing racing shoes exclusively for his athletes. The first athlete to wear one of Bowerman's racing footwear creations in competition was University of Oregon runner Phil Knight (Strasser & Becklund, 1993) who later became armed with footwear knowledge from Bowerman.

After graduating from the University of Oregon in 1959, Knight became interested in importing Onitsuka (now Asics) brand shoes from Japan. Partnering with Bowerman, Knight believed that their company could compete with Adidas, which dominated the US athletic shoe market at the time (Strasser & Becklund, 1993). With the establishment of Blue Ribbon Sports in 1964, Knight began selling shoes to athletes out of the trunk of his car at track and field competitions (Wasserman & Anderson, 2012). With this initial revenue, Knight and Bowerman opened their first brick-and-mortar Blue Ribbon Sports store in 1966 in Culver City, near Santa Monica, CA. They became obsessed with shoe design innovation and worked to perfect their running shoes by working closely with the Onitsuka factory in Japan to develop prototypes which were then tested by members of the University of Oregon track team (Wasserman & Anderson, 2012).

When the relationship with Onitsuka eventually dissolved in 1971, Bowerman and Knight partnered with Japanese manufacturers to develop a line of exclusive athletic shoes. Pressed for time to come up with a name and logo for their athletic footwear line, they commissioned a Portland State University art student to develop a logo for a \$35 fee (Strasser & Becklund, 1993). The designed checkmark logo would eventually become known as the iconic Nike "swoosh" (Wasserman & Anderson, 2012). A company employee suggested the name Nike (then used for the product line only) because it was the name of the winged goddess of victory in Greek mythology, and had a catchy "k" consonant sound. Surprisingly, there was no input from anyone else (Strasser & Becklund, 1993; Wasserman & Anderson, 2012).

The Emergence of Nike: Domestic Growth and Initial International Expansion (1972–1979)

One serendipitous day in 1972, Bowerman was experimenting with his footwear designs and suddenly became inspired by his wife's waffle iron. Attracted to its square and spike pattern, he poured polyurethane into the waffle iron to create a "waffle" sole which he used to construct a light-weight shoe for his runners. Waffle-soled footwear soon became popular with his athletes, who publicly wore Bowerman's creations at the US track and field championships in 1972 (Strasser & Becklund, 1993).

This innovation helped Nike become a fierce competitor in the 1970s within the athletic footwear market. Much of Nike's initial success can be attributed to significant investments in research and development to make innovation a top business priority. Beginning in 1972, Nike dedicated itself to improving the performance of high-level athletes while preventing injuries. The company's initial R&D investment of \$5.7 million far exceeded the R&D expenditures of their competitors (Rikert & Christensen, 1984). During the brand's first full year (1972), the company sold 250,000 pairs of running shoes and 50,000 pairs of basketball shoes that incorporated its innovative waffle-sole design, representing a 60% increase over company sales in the previous year (Strasser & Becklund, 1993).

Throughout the 1970s, Nike grew significantly in terms of sales (reaching \$5 million in 1974), number of employees (250) and international presence. The company expanded its operations globally to Canada and Australia in 1974 (Reference for Business, 2003). That same year, the "waffle trainer" quickly became the best-selling training shoe in the United States (Wasserman & Anderson, 2012). The company continued to cultivate market visibility by sponsoring prominent athletes (e.g., tennis star Jimmy Connors) to wear Nike shoes in competitions and launched its first advertising campaign, "There is No Finish Line," in 1976. International sales increased further after the company entered markets in Asia and South America in 1977 and 1978, respectively. As the fitness trend gained momentum throughout the late 1970s, by 1978 the firm officially became the number-one athletic shoe company in the United States, surpassing competitor Adidas (Strasser & Becklund, 1993).

*Company Highs and Lows: Expansion, Diversification
and Aggressive Marketing (1980–1989)*

For Nike, the 1980s was a period punctuated by great successes and costly missteps. In December 1980, Nike issued an initial public offering of 2 million shares of stock (Reference for Business, 2003). The revenue generated from going public funded the company's aggressive international expansion into Europe, Asia, Latin America and Africa, and enabled the establishment of Nike International, Ltd. to spearhead international operations. At this time, Nike also expanded its Nike Sport Research Lab (NSRL; see [Innovation in Product Development](#) section) and continued to focus on innovating products for the serious athlete (Reference for Business, 2003).

However, by the following year, Nike began to feel pressure due to a declining interest in running in the United States; at the same time, corporate executives failed to recognize the market potential of the aerobics craze, and did not view women who took fitness classes as "serious" athletes (McGill, 1989). In turn, women turned to competitor Reebok for fitness gear and Nike's earnings declined steadily; profits were down 30% in 1984 (Reference for Business, 2003). In response, Nike restructured the organization numerous times, implemented a cost cutting strategy and established a renewed focus on innovation. At this point, Nike laid off approximately 10% of its employees in the US corporate office and sold over half of its stake in Nike Japan to its Japanese affiliate (Reference for Business, 2003). In 1985, Nike created a new products division (Reference for Business, 2003) and responded to market changes in the United States by expanding its presence into several new product categories. Nike also sponsored basketball star Michael Jordan and launched the iconic Air Jordan basketball shoe in 1985 (Reference for Business, 2003). In addition, the company implemented a diversification strategy to broaden its focus beyond footwear (McGill, 1989). Company profits rebounded in 1988 to reach \$100 million, in line with its strategy to infiltrate niche markets in sports other than running (e.g., tennis). That same year, Nike also acquired Cole Haan, a casual and dress shoe brand, for \$80 million (Reference for Business, 2003). The company also implemented more aggressive marketing campaigns. In 1988, Nike launched its highly successful "Just Do it" ad campaign; with a budget of \$45 million, the company produced a series of memorable ads featuring Michael Jordan and actor/director Spike Lee.

Building a Megabrand Through Innovation and Retail Operations (1990–1996)

In 1990, Nike entered the brick-and-mortar retail market and opened its first NikeTown store in Portland, Oregon (Strasser & Becklund, 1993). Thanks to successful product innovations such as Nike Air shoes and a booming international market, sales increased to \$3 billion in 1991, up from \$2 billion the year before (Reference for Business, 2003). Nike had far surpassed competitor Reebok in the United States, and was quickly gaining on Adidas in the European market. Nike was achieving success not only in its international expansion efforts, but also in particular product categories, namely the women's shoe and apparel division. Following the launch of a \$13 million print and television advertising campaign, "Dialogue," annual year-over-year sales increased by 25% in this product category from 1989 to 1990 and again from 1990 to 1991 and further increased by 68% from 1991 to 1992 (Reference for Business, 2003). In July 1992, Nike opened its second NikeTown store in Chicago, and swiftly opened 30 more Nike-owned stores across the country. As Nike celebrated its 20th anniversary, sales were at an all-time high (\$3.4 billion) and the company was quickly becoming a megabrand.

In light of these significant achievements, the then-chairman Phil Knight was deemed "the most powerful man in sports" as he dedicated himself to creating the best sports and fitness company in the world (Reference for Business, 2003). During this time, Nike continued to be a dominant force in the global athletic apparel and footwear industry. In the mid-1990s, the company negotiated new contracts with star athletes (e.g., Scottie Pippin in 1993, Tiger Woods in 1995) and maintained a 30% market share in the United States, outperforming previous rival Reebok by 10%. Nike also continued to diversify its product category offerings by acquiring sporting equipment manufacturer Canstar Sports (renamed Bauer) in 1994 (Reference for Business, 2003). International sales continued to flourish and reached \$2 billion by 1995.

Bad Press and Plummeting Sales (1997–2001)

Although Nike had achieved consistent growth during the early to mid-1990s, the flourishing financial landscape quickly changed following the Asian financial crisis in 1997 (Reference for Business, 2003). As ramifications of the crisis spread and consumer tastes and beliefs began to shift,

sales of Nike products decreased by 4% over two years to \$8.78 billion in 1999. American teenagers (i.e., Generation Y consumers) were no longer interested in athletic shoes. Nike also became the target of consumer boycotts and protests and fell victim to negative publicity. Accusations centered on manufacturing-related abuses overseas, including poor working conditions, unfair labor practices and the use of child labor (Reference for Business, 2003). To target Generation Y consumers born in the 1980s and 1990s, Nike established Techlab at corporate headquarters to create high technology accessories, such as portable heart-rate monitors and audio players. To connect with this new young audience, Nike created an online division and launched its e-commerce site in 1999. During this time, the company established the innovation NikeID, a service that enabled consumers to mass customize their shoes online (see section [Innovation in Product Development](#); Reference for Business, 2003).

Making a Comeback: Focusing on Core Operations and Intensive Innovations (2002–2016)

By 2002, Nike appeared to be making a comeback. The company recruited key executives from outside the company to offer a fresh perspective on how to reestablish Nike as a megabrand (Reference for Business, 2003). In its apparel division, the company focused on niche sports such as golf and soccer, and eventually surpassed competitor Adidas as the top brand in the European soccer market (Reference for Business, 2003). Nike further diversified its brand portfolio by purchasing Hurley in 2002 and Converse in 2003 in order to tap into the youth market where interest in the Nike brand had waned. In 2004, Nike acquired Starter, which distributed its products via discount department stores; doing so enabled Nike to reach price-conscious consumers, a new market segment for the company (Reference for Business, 2003).

In addition, Nike began to develop an effective system to monitor its overseas manufacturing facilities in order to address workers' rights issues and win back consumers who were angry about the company's manufacturing practices. The company began to perform random factory inspections, offered greater transparency about its relationships with overseas manufacturing facilities and developed a line of eco-friendly products. These practices enabled Nike to improve its relationship with consumers who had criticized its manufacturing practices. As a result, by the end of 2004, sales had grown to \$12.25 billion and profits had surpassed \$1.2 billion.

Over the last decade, Nike has remained resilient by focusing on its core capabilities: innovation and collaboration with top athletes in brand promotion activities. The company extended the successful NikeID mass customization tool to Converse in 2005. Soon after, in 2006, the company introduced the innovative Nike+ system to the market. Nike+ includes merging its products with brand communities. That is, Nike+ is a socially engaged community and includes innovations such as the iPod nano digital tracking device that fits into specific Nike shoes and tracks helpful statistics, such as distance traveled and time spent performing physical activity, all of which could be transmitted to consumers' iPods. As sales skyrocketed to \$16.3 billion in 2007, Nike began to restructure its brands. It sold Starter in 2007 and Bauer in 2008. Although it purchased Umbro in 2008 in an attempt to penetrate the soccer market, consumer interest in the brand was waning, and Nike sold it to Iconix Brand Group in 2012 for \$50 million less than it had paid for it. Soon after, in 2013, Nike sold Cole Haan and focused on developing innovative products for its core athletic market. Some key innovations during this period included Nike Free shoes and Flyknit technology (see [Innovation in Product Development](#) section). Fueled by Nike's commitment to product innovation, sales continued to increase steadily and reached nearly \$28 billion by 2014, making it the most valuable sports-related brand (Nazario & Roach, 2015). Around this time, Nike developed the Nike + app. Dubbed "the perfect running partner," the Nike+ app enables runners to track their daily progress (i.e., running pace, distance and heart rate), receive personalized coaching from fitness experts and share statistics from their runs on social media. The app also provides access to motivational messages from friends and elite athletes (Nike, 2016a). Following this, Nike has expanded the model beyond running by creating Nike+ Football (i.e., soccer), Nike+ Basketball and Nike+ Training, each devoted to interacting with sport-specific brand communities with their own specific websites and interactive tools to provide members with unique interactive experiences (Piskorski & Johnson, 2014). Nike+ Basketball members are granted exclusive access to training advice from star athletes, and offered a four-week training program where results could be shared via social media (Piskorski & Johnson, 2014). Nike+ Basketball and Nike+ Training enables consumers to share sport-specific data from their Nike shoes (e.g., movements, how high players jumped) and to receive real-time feedback on their progress from members of the social network and prominent athletes via the Nike+ mobile application (Piskorski & Johnson, 2014). Over the next two years, in 2015 and

2016, Nike engaged in intensive innovation efforts to further improve existing products and connections with consumers. Among others, these innovations contributed to annual sales of over \$32 billion in 2016.

OVERVIEW OF THE US ATHLETIC AND FOOTWEAR INDUSTRY

During the 1970s, Americans became increasingly concerned with their health and physical activity levels (Rikert & Christensen, 1984). In this case, millions of Americans began to jog and participate in team sports such as softball, and many were drawn to aerobics (Hennessy, 2012; Rikert & Christensen, 1984). More than half of Americans were active exercisers during this time (Rikert & Christensen, 1984); consequently, the domains of athletic wear and fashion began to overlap (Hennessy, 2012). Fashion became a focus at the gym as women invested in aerobics apparel and men were drawn to more loose and comfortable fabrics (Hennessy, 2012). Companies began to design athletic apparel not only to improve performance and prevent injuries, but also to appeal to fashion-conscious consumers (Rikert & Christensen, 1984). As athletic brands continued to blend performance and aesthetics, they created more sophisticated designs and incorporated technologically advanced fabrics (Venkatraman, 2016).

Recently, US consumers have begun to wear athletic apparel when engaging in non-fitness related activities, sparking a significant increase in sales of “athleisure” apparel and footwear (Euromonitor, 2016). The growth of athleisure attire, “casual clothing designed to be worn both for exercising and general use” (Athleisure, n.d.) is fueling consumers’ demand for athletic apparel and footwear to satisfy both fashion and comfort needs for everyday activities, rather than just fitness and sports-related activities (Euromonitor, 2016). Today, the boundaries between fashion and athletic wear are becoming increasingly blurred; as a result, fashion retailers have begun to enter the athletic wear market. For instance, American fashion brand Forever 21 has expanded its selection of sportswear, and American fashion designer Tory Burch launched Tory Sport, a sportswear collection, in 2015 (Euromonitor, 2016).

Due to this trend, athletic wear is a rapidly growing sector, with sales increasing 71.4% from 2000 to 2015. This growth is expected to continue, and sales are predicted to reach \$120 billion in the US market by 2020. Mirroring the trend in athletic wear, overall sales of athletic apparel

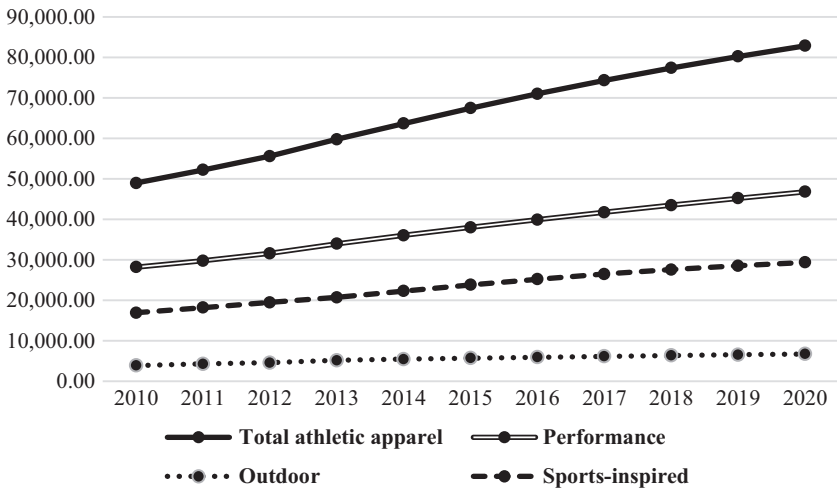


Fig. 4.3 Athletic apparel sales (2010–2016) and forecasted sales (2017–2020) (USD millions)

Source: Euromonitor (2017). Market sizes. Retrieved from Euromonitor database <http://www.portal.euromonitor.com>

have increased by 72.5% over the past 15 years (2000–2015), with the greatest increase in the performance apparel sector (i.e., apparel worn to enhance physical activity performance) (78.3%; see Fig. 4.3). These sales figures outpace the overall apparel market (Germano, 2014; Kell, 2014), which seems to suggest that despite the rise in the number of brands entering the sportswear/athleisure market, US consumers continue to emphasize functionality and performance over the fashion aspects of garments (Kissane, 2016). This growth is not limited to apparel, however. Sales of performance footwear, outdoor footwear and sports-inspired footwear also increased by about 69% between 2010 and 2015 (see Fig. 4.4).

While many athletic wear brands are competing for a share of this rapidly growing market, Nike continues to dominate the athletic wear sector within the United States (see Table 4.3). With its brand strength and prominent culture of innovation in product development, Nike has 74.6% more revenue than its closest competitor, Under Armour, which was established in 1996, is relatively new to the athletic wear market and did not overtake Adidas as Nike’s closest competitor until 2014. Table 4.3

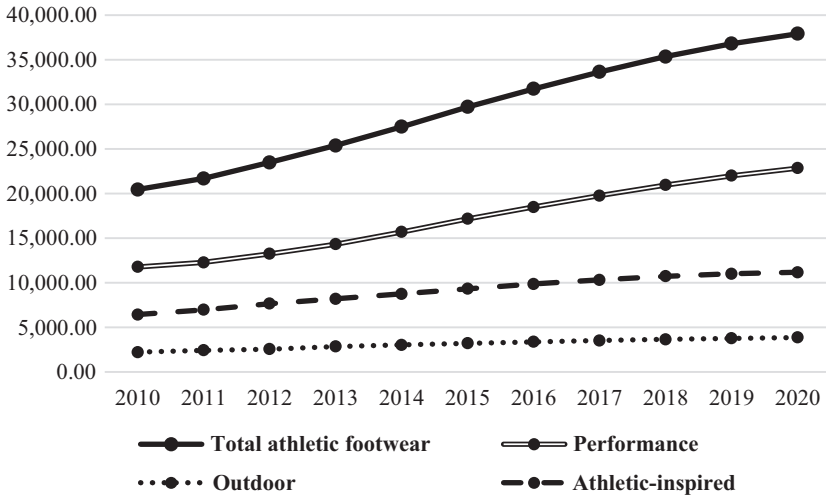


Fig. 4.4 Athletic footwear sales (2010–2016) and forecasted sales (2017–2020) (USD millions)

Source: Euromonitor (2017). Market sizes. Retrieved from Euromonitor database <http://www.portal.euromonitor.com>

indicates that brands ranked 4–10 (Sketchers, The North Face, Timberland, Columbia, Champion, New Balance and Lululemon Athletica) are close competitors, with sales ranging from \$1.6 to \$2.8 billion. Under Armour (ranked 2) and Adidas (ranked 3) are relatively close competitors with \$5.6 and \$4.4 billion in sales, respectively, in 2016.

NIKE'S INNOVATION STRATEGY

Nike's continuous leadership in innovation permeates the company culture. Describing the company's stance toward innovation, current CEO Mark Parker explained, "at Nike, innovation is in our DNA, that applies to all dimensions of our business, from the products and services that we deliver to consumers, to the operating and business models that we employ" (Grill-Goodman, 2015, p. 1). Nike takes a particularly innovative approach to product development, marketing and consumer experience. In the following sections, we present a detailed analysis of Nike's continuous approach to innovation. While Nike is responsible for numerous innovations, we focus specifically on key innovations that have set industry standards.

Table 4.3 Top 10 athletic brands in the United States (USD millions)

<i>Current Rank</i>	<i>Brand</i>	2010	2011	2012	2013	2014	2015	2016
1	Nike	10,882.70	11,953.50	13,985.50	15,840.10	18,328.10	20,655.80	21,915.80
2	Under Armour	1462.90	1907.80	2360.30	2997.30	3812.30	4590.50	5562.30
3	Adidas	3063.80	3666.30	3673.50	3488.50	3021.20	3386.70	4426.80
4	Sketchers	2304.60	1473.90	1470.00	1811.20	2233.00	2697.40	2810.70
5	The North Face	1394.20	1609.10	1764.50	1881.00	2104.20	2125.30	2199.60
6	Timberland	unavailable	1659.40	1707.00	1780.40	2015.40	2055.80	1963.20
7	Columbia	1256.30	1349.90	1336.90	1354.70	1660.80	1758.80	1936.40
8	Champion	1312.80	1438.10	1575.30	1537.20	1798.10	1870.00	1853.20
9	New Balance	994.80	1002.70	1085.50	1152.20	1243.90	1400.70	1571.60
10	Lululemon Athletica	293.50	488.90	755.30	963.40	1151.30	1381.50	1635.70

Source: Euromonitor (2017). Brand shares. Retrieved from Euromonitor database <http://www.portal.euromonitor.com>

Innovation in Product Development

Fueled by its strong culture of innovation, in terms of product development, Nike has taken novel approaches to developing (a) athletic products (footwear and materials), (b) partnerships with fashion designers and celebrities and (c) technology products that support athletes in their athletic endeavors.

Athletic Products

Nike's athletic footwear innovations are unprecedented. Nike pursued a mission to aid athletes in their athletic endeavors while keeping them injury-free. In 1987, Nike developed the breakthrough Nike Air technology that is still used today, over 20 years later (Nike, 2015). Instead of a traditional foam sole, air is injected into the sole of the shoe. Cushioning athletes' movements by reducing foot strike impact, the technology makes them feel as though they are "walking on air." Unlike foam soles, air soles reduce impact on athletes because they recover their original shape after use. The market popularity of this innovation is demonstrated by its longevity. Additional air was incorporated into each subsequent model, and eventually in 2006, the Air Max 360 model embodied the vision of a foamless shoe sole filled entirely with air (Nike, 2015).

Athletic shoe innovation continued, and in 2000 Nike introduced its Shox technology that had been in development since the mid-1980s. The Shox, which are incorporated into the heel of the shoe, provide a spring effect thanks to hollowed-out columns made of energy-efficient foam. As athletes' feet strike the earth, the columns collapse and absorb the impact, providing a spring-like feeling to their movements. The invention was intended to help absorb the impact of an athlete's foot strike to reduce the risk of injury (Jones, 2013). The unique features were considered futuristic and the innovation launched a new paradigm for athletic shoe design (Click, 2013).

A few years later in 2005, Nike launched the Nike Free athletic shoe. Powered by research-based evidence that barefoot running can reduce the likelihood of injury, the Nike Free was designed to facilitate natural foot movements (Nike, 2017a). The idea was that if an athlete's foot can move naturally, physical activity will strengthen key muscles that would otherwise be restricted in more stable shoes. This innovation was a game changer in the athletic shoe industry and helped launch a free running movement. Sales of this new type of minimalist athletic shoe boomed and several other athletic shoe companies specializing in minimalist shoes such as Vivobarefoot, Vibram and Merrell rose in popularity.

Promoted as the lightest and best-fitting shoe the company had ever made, Nike launched its Flyknit technology in 2012. Shifting its focus from the sole to the upper part of the shoe, Nike engineered yarns and fabrics to create formfitting and seamless footwear aimed at enhancing performance. This technology is lightweight; a size 9 shoe weighs less than 5.6 ounces, which is 19% less than comparable shoes. The Nike Flyknit design is form fitting and is meant to create a feeling of a second skin or a sock (Nike, 2012). The innovation established a revolution in sustainable design (Townsend, 2012). Through computer-aided technology, the entire upper part of the shoe is woven in one piece and is later attached to the sole, whereas traditional shoes require as many as 37 separate pieces to be sewn together. Flyknit technology cuts labor costs and reduces waste by as much as 66% since there is no cutting or stitching involved (Townsend, 2012). Further, the reductions in production time and labor costs associated with implementing this technology increase potential near-shoring opportunities in the future (see [Innovation in Product Development](#) section) as part of Nike's customization initiative. That is, although final shoe assembly takes place in Asia since it still requires human labor (Knitting Industry, 2012), the innovation represents a step toward human-free shoe manufacturing (Brettman, 2015).

Most recently, as part of the Breaking2 project aimed at helping marathon runners break the two-hour barrier, Nike outfitted three of its sponsored runners with customized shoes. The shoes were unique in that the soles were designed to reduce the amount of oxygen needed to run, saving approximately 4% of athletes' much-needed energy required to break the milestone marathon time (Longman, 2017). While the two-hour barrier has yet to be broken for a marathon, Nike has contributed significantly to realizing this goal.

Beyond athletic footwear, Nike has innovated many unique material technologies that help regulate body temperature during physical activity, regardless of external weather conditions. Notably, Nike's Dri-FIT technology has evolved to become a leading global performance technology. First developed for runners in the 1990s, the popularity of this technology has grown exponentially and the company has since expanded the technology to apparel for other sports such as golf and soccer (Diercksmeier, 2011). Dri-FIT fabric is a microfiber and polyester blend that helps regulate an athlete's temperature by wicking sweat away from the skin to the surface of the product, where it evaporates. The quick-drying fabric

promotes moisture management and leaves athletes feeling more comfortable. Tiger Woods explained the impact of this technology on his athletic endeavors as a professional golfer:

Before [Dri-FIT], it was cotton. Heavy cotton just sagged on you. It didn't feel very good. For me I was always tugging on my shirt trying to get it to fit, it just never did. With Dri-FIT, it keeps me cool and because of the strength of the fabric, it moves with you and doesn't hold you back. (Diercksmeier, 2011)

Over the years, Dri-FIT technology has evolved and the company has used it on multiple products, such as shirts, pants, shorts, sweatshirts, hats and gloves. Reaching new levels of innovation, Dri-FIT technology has expanded to include ultraviolet protection from the sun, greater mobility (i.e., Dri-FIT stretch) and more precise ventilation (i.e., Dri-FIT body mapping) to cool parts of the body that need it most (Nike, 2017e).

While Dri-FIT keeps athletes cool, Nike has developed other technologies that help keep athletes warm and dry, such as Nike Aero loft and Nike Shield, which are fabrics designed to keep athletes warm in cool conditions without overheating. Nike Aero loft uses insulating panels that offer precise ventilation to allow heat to escape through laser-cut holes, keeping athletes dry and warm (Nike, 2017e). Offering protection from the wind and rain, Nike Shield incorporates Dri-FIT technology to resist the elements and help athletes stay comfortable despite the weather.

Nike's leadership in developing temperature-regulating materials is supported by its investment in NSRL. Located at its world headquarters in Beaverton, OR, NSRL houses over 40 researchers in areas such as biomechanics, physiology, engineering, physics and kinesiology. In their quest to develop innovative materials, physiologist researchers use a life-sized sweat mannequin called Hal to test clothing performance (Nike, 2017b). Hal simulates human performance on a treadmill and has 139 ports that simulate sweating while simultaneously providing thermoregulation information to researchers. The chamber in which Hal operates can be modified to reflect different environmental conditions that help researchers understand how clothing affects comfort and performance during physical activity under these conditions.

Partnerships with Fashion Designers and Celebrities

Additionally, Nike promotes product innovation by collaborating with prominent designers and celebrities. For instance, in 2016 Nike collaborated with Olivier Rousteing, a designer for the iconic fashion brand Balmain, and Kim Jones, the menswear director for Louis Vuitton, to create unique Nike apparel and footwear products. Given the rise in athleisure consumption in the marketplace, collaborating with fashion brands elevates Nike's fashion-forward image (Kunde, 2012). With their sleek and stylish designs, items developed within these collaborations are mostly worn for fashion purposes, not for physical activity, which helps to position Nike as a fashion brand. Most recently, Nike collaborated with actor/comedian Kevin Hart. Such partnerships enable Nike to capitalize on celebrities' enormous social media networks, which could help the company reach additional non-athlete consumers (Kell, 2016).

Technology Products

In pursuit of its vision to help athletes succeed, Nike has incorporated a series of technology products into its athletic product portfolio. Soon after Nike launched its e-commerce site in 1999, the company developed and launched NikeiD, a digital customization platform that allows customers to customize shoe designs. Today, customers can choose from over 250 shoe models including those from the Converse and Air Jordan lines, and edit design elements such as the laces, lining, midsole, outsole and swoosh logo. Customers can customize element colors and add text stitching to their designs, instantly viewing their creations online as they select each option. To meet the promised four-week delivery time for customized goods, Nike has implemented supply chain management practices that optimize efficiency (Salfino, 2017). Through a partnership with private equity firm Apollo, Nike has developed near-shoring manufacturing capabilities to enable quicker delivery of mass customized products through a nimble, vertically integrated supply chain system (Salfino, 2017). While details about the location of the manufacturing facilities have not officially emerged, they will be located in the Americas (Supply Chain Digest, 2016).

Additionally, Nike has developed a series of technology-inspired sports products as part of its Nike+ strategy to connect with consumers beyond shoes and apparel. Beginning with a partnership with Apple in 2006, Nike engineers developed a Nike+ chip that could be inserted into specific Nike shoe models, enabling consumers to sync running data with their Apple

iPods. Nike+ enabled customers to monitor running speed, distance covered, and calories burned while exercising (Apple, 2006). This data could also be uploaded and viewed on the NikePlus.com website, where customers could interact, share training tips and motivate each other. In 2007, just one year after the program was launched, NikePlus.com became the world's largest online destination for runners (Nike, 2007). Nike later expanded Nike+ with GPS functionality and offered it on the Nike+ SportWatch and the Nike+ Fuelband wristband.

Nike also developed an in-house metric that measures all types of movements. This exclusive metric, Nike Fuel, is calculated on the watch product. The metric allows users to compare all types of physical activities, giving Nike a comparative advantage against other companies (e.g., Garmin) (Piskorski & Johnson, 2014). Additionally, Nike's athletic watches enable customers to track running distances and routes and then share them with other community members (Piskorski & Johnson, 2014). The Nike+ community had grown to over 5 million members in 2012, and claimed to have created the single largest database of running routes in the world (Swallow, 2011). Most recently, Nike has expanded the capabilities of these technologies to include superior displays, lightweight breathability and additional motivating features (e.g., personal reminders and weather notifications) (Nike, 2017c).

Innovation in Marketing

Nike's marketing innovation strategy focused on three main areas: (a) outfitting serious, elite athletes with Nike gear; (b) developing large, multi-channel advertising campaigns, and (c) developing online social communities to foster close relationships with customers.

Early in its history, Nike targeted serious athletes by advertising on niche platforms (e.g., *Runner's World* magazine) and outfitting top athletes. Beginning with American runner Mark Covert in 1972, Nike has a long history of sponsoring top athletes; some of Nike's biggest endorsement contracts have been with basketball stars LeBron James (\$30 million annually) and Kevin Durant (\$28.5 million annually), international soccer superstar Cristiano Ronaldo (\$21.7 million annually) and golf legend Tiger Woods (\$20 million annually). The idea behind these sponsorships is that if top athletes wear Nike footwear and apparel, then other fitness enthusiasts or fans will follow.

Nike's promotional strategy has centered on delivering high profile and costly multi-channel advertising campaigns that are meant to inspire consumers to engage in physical activity. Most famously, Nike's "Just Do It" promotional advertisement in 1988 depicted an 80-year-old man out for his daily 17-mile run. The tagline was simple, yet resonated with athletes because they used it as a personal mantra (Gianoatasio, 2013). The campaign was so well received that the slogan is still used in advertisements and on garments. Another notable Nike advertising campaign, "Find Your Greatness," was showcased during the 2012 London Olympics. Depicting everyday fitness devotees, the ad was meant to inspire consumers to find greatness within themselves and celebrate their own fitness milestones (Roberson, 2016). Nike's 2017 advertising campaign incorporates Nike co-founder Bill Bowerman's famous words, "If you have a body, you're an athlete." This advertising campaign features athletes of various shapes, sizes and abilities to showcase a range of definitions for the word "athlete."

While Nike continues to implement large multi-channel advertising campaigns, the company has championed social engagement with consumers. Through consistent, active engagement in social networks, Nike works to bridge the gap between the physical and digital worlds to establish greater personal connections with consumers (Piskorski & Johnson, 2014). By utilizing social media, Nike focuses on more interactive conversations with consumers and engages them to participate, rather than simply transmitting standardized messages through traditional advertising media (Swallow, 2011). For example, Nike encourages consumers to comment on their posts by posting questions, provides a behind-the-scenes perspective by posting newly launched products, and offers interactive gaming apps which help athletes work on their mental and physical reaction skills.

Beginning in 2004, Nike was at the forefront of experimentation with social media networking and reduced its spending on traditional print and television advertising (Piskorski & Johnson, 2014). Utilizing cutting-edge technology at each point in time, Nike connected with consumers through blogs (2004), the MySpace social networking site (2005), operated the first branded YouTube channel (2005) and even developed its own social networking site called Joga.com (2006) before social networks became the norm (Piskorski & Johnson, 2014). Joga.com (which is now unmanaged) was a custom social networking site devoted to creating discussions with consumers and disseminating exclusive video content

(Piskorski & Johnson, 2014). While many companies have failed to maintain robust social networks as new platforms evolve over time (Swallow, 2011), Nike has achieved great success at connecting with consumers by embracing social networking and the latest social networking technologies. Nike's greatest social networking achievement is the development and implementation of the Nike+ system (discussed in detail above), which offers social experiences for customers beyond Nike athletic products. Nike+ products and experiences are unprecedented; this social marketing strategy enables Nike to market products by socially connecting with consumers on a digital platform. That is, by coupling Nike products with social experiences, Nike builds a sense of community and personalization for consumers, which enhances their engagement and interaction with the brand (Piskorski & Johnson, 2014).

Innovation in Offering Consumer Experience

Nike began offering consumer experiences when it opened a new prototype store called NikeTown in Portland, Oregon in 1992 (Marketline, 2016). Unlike traditional Nike stores, NikeTown stores were designed to provide customers with access to more products and entertainment experiences. More square footage (around 42,000 square feet for NikeTown vs. 15,000 for Nike in-line stores) enabled the company to showcase all products in the company's key sports categories (i.e., soccer, running, basketball, sportswear, action sports, athletic training and women's training), rather than the limited selections carried by traditional Nike stores (Nike, 2010). NikeTown stores were also designed to entertain sports and fitness fans through in-store experiences, an innovative concept at the time. Over time, Nike's strategy shifted from enhancing their NikeTown stores to flagship stores. These selected flagship stores, located in New York City, Hong Kong and London, aimed to link product innovation with its digital platforms. Heidi O'Neill, president of Nike's global direct-to-consumer division, described the company's seamless connection between product and customer experience innovation: "We've always been innovators: We innovate footwear, we innovate products and we innovate retail" (Reda, 2017). Shopping at one of Nike's retail stores is described as a "sport experience" (Reda, 2017). The SoHo flagship store in New York City is particularly impressive; the five-story space includes Nike+ sport-specific facilities where trained experts encourage consumers to try products. For instance, consumers can test running-related products on a virtual

run through Central Park, try cleats on a turf field, and identify the perfect footwear as they shoot hoops on a basketball court (Reda, 2017). The SoHo store also offers a one-of-a-kind customized experience. For example, fitting rooms have adaptable lighting to simulate environments for various athletic endeavors (e.g., a night run or yoga studio), and products can be customized in-store while consumers browse. No other retail store currently offers this level of customization and personalization to its customers. For this reason, Nike is expanding these unique customer experience innovations to additional markets (e.g., Miami, other US cities and Beijing) in 2017 to strengthen social connections with consumers and links between its product and digital innovations.

IMPLICATIONS AND CONCLUSION

Inspired by the possibility that shoes can improve athletic performance, co-founders Bill Bowerman and Phil Knight founded an enterprise that would eventually become the world's largest athletic company. The company, which began in 1964 with Phil Knight selling shoes to track and field athletes out of the trunk of his car and Bill Bowerman developing shoe prototypes, eventually became the 19th largest brand in the world (Interbrand, 2016) and is ranked among the Fortune 100 with global sales of \$32 billion. Nike employs over 62,600 employees who work in more than 850 store locations and offices in 50 countries around the world (Nike, 2016b). In this chapter, we have documented Nike's journey and highlighted key innovations that have helped the company to become one of the most recognizable brands in the world. Nike has set industry standards by implementing innovative product development (e.g., Nike Free athletic shoes, Dri-FIT material technology), marketing (e.g., Nike+ system) and customer experiences (e.g., Nike-Town).

Nike became an industry leader in the 1970s, when fitness became a growing trend in the United States (Rikert & Christensen, 1984). During this fitness boom, more than half of Americans participated in some form of physical activity, such as jogging or aerobics. As physical activity became a popular leisure and social activity, footwear and apparel worn for athletic endeavors soon became a fashion focus (Hennessy, 2012). Nike has since expanded its initial focus on developing athletic wear exclusively for serious athletes to incorporate both fashion and function into its designs.

Part of Nike's success can be attributed to its efforts to expand beyond footwear to other athletic wear products and to establish a strong

international presence. To expand beyond footwear, Nike began acquiring well-known manufacturers of casual apparel and footwear, sports equipment and fashion apparel and footwear. Although the company later sold several brands (i.e., Cole Haan, Bauer, Starter and Umbro), Nike was able to obtain specific knowledge about additional product categories and target markets. For example, when Nike owned Bauer, it gained irreplaceable knowledge about hockey and inline skates and related equipment, which is now applied to Nike's innovative hockey products. The knowledge Nike gained by expanding its brand portfolio is a valuable resource that has helped decrease uncertainties as the company has expanded into almost every sports-related product category.

Nike also has established a strong international presence, predominantly in Europe and Asia. This expansion has enabled Nike to easily access knowledge about athletic footwear, apparel and related accessories that have been developed in international markets (Chung & Yeaple, 2008). It can be argued that tacit knowledge is more easily transferred when there is more frequent personal contact (Kogut & Zander, 1992). For instance, when Nike first expanded to Europe, the goal was not only to increase its market share, but also to learn from its competitor, Adidas, which assisted Nike with research and development.

One of Nike's strategies for marketing its brand was sponsoring top athletes in niche sports to create competitive advantages in the athletic wear market. Initially, instead of providing large financial incentives, Nike gave performance shoes to top athletes hoping that others would see them being worn during competition (Strasser & Becklund, 1993). The company's rationale was that if consumers saw top athletes wearing their products, they would be convinced that Nike's products improve performance. This strategy continues to be an integral part of the company's promotional budget. In exchange for endorsements, Nike financially sponsors 11 of the 15 highest-earning athletes. Nike's lifetime sponsorship of LeBron James is worth over \$30 million per year, and in 2015, Nike spent \$225.2 million annually on athlete sponsorships.

More recently, Nike has become a leader in bridging the social gap between physical products and the digital world through social media networking utilizing the Nike + strategy. By providing platforms for social experiences such as the Nike+ running group meet-ups beyond the products themselves, Nike is able to develop a more intimate relationship with its customers and learn deep insightful information about its users.

This information gained through social interaction can provide valuable customer knowledge that can drive product and technology innovations (Johannessen, Olsen, & Olaisen, 1999).

Nike's strategies support a strong commitment to continuous innovation. Even though Nike has been the top-selling athletic brand in the world for the past several years, the company has not become complacent; instead, it places innovation at the core of business operations. For instance, Nike's innovation lab sits at the physical and philosophical center of the organization (Nike, 2017b), demonstrating that innovation is and always has been a top priority for the company.

Nike's innovation lab, staffed by industry-leading researchers, is unlike any incubation center within this sector, and none of Nike's competitors (i.e., Under Armour, Adidas) have comparable operations. While Adidas does operate a sport research lab, it does not possess the same product development technology capabilities such as a life-sized sweat mannequin. Additionally, while Under Armour has a newly developed innovation lab, its operation focuses more on product testing and developing a fast and efficient production process (Garfield, 2016) rather than product innovation.

This priority of continuous innovation in areas of product development, marketing and customer experiences is why Nike has become an industry leader. Nike has become a leader in product innovation by launching cutting-edge and groundbreaking products in footwear and materials, as well as technology. One prominent example is Nike Free athletic shoes. Developed out of research-based evidence indicating that natural foot movements may strengthen key muscles while running, this innovation launched a minimalist shoe movement and established a new product category within the industry.

In addition to key technology-related innovations (e.g., Nike ID, Nike+ Sports Watch), Nike's Flyknit fabric is unlike anything offered by competitors and is dramatically transforming footwear manufacturing. Developed recently in 2012, this technology dramatically decreases labor costs and reduces waste, since there is no cutting or stitching involved (Townsend, 2012). While Nike's competitors primarily manufacture in emerging markets, Nike's Flyknit technology represents a step toward eliminating human labor from the manufacturing process and presents clear opportunities for near-shoring in the future.

To protect its innovations, Nike is known for aggressive patenting (Low, 2016). The latest report indicates that Nike has obtained or filed 19,500 global annual patents and patent applications, a staggering number compared to competitors Adidas (~2400) and Under Armour (~104) (Low, 2016). These patents help Nike in the fight to keep counterfeit products off the market. As one of the most counterfeited brands in the world (Kim, 2016), Nike partners with global law enforcement and customs to prevent counterfeit products from reaching consumers (Rodionova, 2016). As part of the company's internal division that fights counterfeiting, Nike also relies on consumers to report specific stores and websites that are selling counterfeit products.

Nike also has been a clear leader in marketing innovations. In addition to being the first in the industry to participate in social media, the company recently launched the Nike+ social network, which enables customers to automatically connect via Nike-branded products such as Nike+ SportWatch and Nike+ Fuelband. Although competitor Under Armour has heavily invested in fitness technology and building an online community (Burns, 2016), it lacks synergy and communication between the two entities.

In addition, Nike has been heavily innovative by creating opportunities for in-store customer experiences at NikeTown and Nike flagship stores. Similar to the way Apple showcases its products for customer trial and experience at Apple stores, the Nike flagship stores provide opportunities for customers to interact with and experience Nike products by testing them in sport-specific settings (e.g., on a treadmill or on a basketball court). No other retail store currently offers this level of customization and personalization to its customers. Offering these free experiences also helps build the brand's image among current and future customers (Moore, Doherty, & Doyle, 2010). Overall, these aspects of innovation in product development, marketing and consumer experience is why Nike has been able to achieve and maintain its dominant position and strong brand image within the athletic wear industry.

As a leader in product innovation, Nike seeks to ensure that it keeps pace with consumer demand for sustainable materials and fair labor practices. Consumers are becoming increasingly aware of the relationship between clothing and footwear production and the environment (Shen, 2014). Following accusations centered on Nike's manufacturing-related abuses in early 2000s, Nike made its business practices transparent and was the first company in the industry to disclose a comprehensive list of the factories that manufacture its products worldwide. Just as Nike has

assumed leadership in innovation, it has also assumed leadership in tackling issues related to fair labor practices in manufacturing. In fact, Nike has developed and implemented a manufacturing index that is used throughout the industry to track contractor performance and related issues (Sharma, 2013). It will be interesting to see how development of these sustainable practices presents opportunities for future innovations.

NOTES

1. In 1928 in Chicago, IL, Cole Haan was established by two founders—Trafton Cole and Eddie Haan. The company focused exclusively on men's footwear before expanding into women's footwear in 1979 (Shoemetro, 2016).
2. Bauer was founded out of Kitchener, Ontario, Canada in 1927 and was the first company to make hockey skates that had a permanent blade attached to the boot, an innovation that changed the industry (Ozianian, 2012).
3. The Jordan brand was launched in 1984 when basketball star Michael Jordan signed a contract with Nike. An outcome of this five-year, \$2.5 million deal was a brand new line of shoes called Air Jordan (Footlocker, 2017).
4. With roots in beach culture, Hurley was established in Southern California in 1999 by Bob Hurley. Initially, it was known for surf-related products but eventually became a youth lifestyle brand (Transworld Survey, 2002).
5. Converse began in 1908 near Boston, MA as a rubber shoe company that specialized in galoshes. The brand expanded to sneakers and basketball shoes starting in 1920 (Converse, 2017).
6. Founded in New Haven, CT by David Beckerman in 1971, Starter first manufactured team uniforms for high schools and eventually entered into licensing agreements with professional sports teams (Reference for Business, 1995).
7. Originally founded in Wilmslow, Manchester, UK in 1920 as Humphrey Brothers Clothing, the company was later renamed Umbro in 1924. The company was one of the earliest to provide professional clubs with soccer gear (Hunt, 2009).

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Repetto, a Paris-Based Craft Enterprise Growing into a Global Brand: Design-Driven Innovation and Meaning Strategy

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Abstract Product innovation is not limited to technology-push and market-pull strategies but includes design-driven innovation. This form of innovation must be associated with the meaning conveyed by the brand and its corporate business model. We describe such a connection between design-driven innovation and meaning strategy as exemplified by French, Paris-based upscale shoe brand Repetto. Our study starts with the historical development of the company, an overview on its core market (dance shoes and equipment), then moves on to Repetto design innovations for professional dance shoes and everyday dance-inspired products. CEO Jean-Marc Gaucher strengthened the company's dance-based expertise by structuring Repetto's whole business model around dance-world meaning and aesthetics. He has thus revived a declining enterprise in the 1990s with fresh inspiration, meaning and energy. Superb communication and

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large investments in their stores revitalized Repetto which promoted a series of stylish capsule collections signed by renowned designers and artists. The resurgent French brand renewed its business model and has obtained consumer recognition in the high-end premium segment. Repetto has secured a niche in the upscale sportswear market based on their recognition for long-standing expertise in dancewear. They have extended their collections into urban wear and expanded into international markets. The chapter devoted to this French brand shows their endeavor to move from premium into luxury. It ends with managerial implications.

Keywords Design-driven innovation • Meaning strategy • Business model • Image semiotics • Brand community • Premium • Luxury • Artification

INTRODUCTION

Repetto is a quintessential French brand for dancers and dance lovers located at the heart of French cultural life, and in the heart of Paris where major dance companies and opera houses are located. Repetto shoes have long been part of French dance education and stage events, but Repetto as a brand has now become iconic both in the dance shoe market and the urbanwear market.

The company was launched in 1947 thanks to a revolutionary arts-craft technique designed by founder Rose Repetto for her son, choreographer Roland Petit. She resorted to a different way of producing softer, hand-made *pointe* shoes for professional dancers. By using the so-called *cousu-retourné*/'stitch and sewn back or returned' innovation, her shoes improved foot comfort and dancer performance. They have since been appreciated by ballet dancers worldwide as well as by the dance community in France (Repetto, 2017).

Then, in the 1960s, this technical innovation in professional dance shoes was applied to ready-to-wear shoes thus following a 'design-driven innovation path' (Verganti, 2006). Repetto created a product that consumers did not expect but ended up loving for the meaning it conveyed (Verganti, 2017). Repetto used the same 'stitch and returned' production technique to produce ready-to-wear shoes soon endorsed by French artists, Serge Gainsbourg and Brigitte Bardot, who had trained as a ballerina before becoming a movie star. The first ballerina shoe for everyday wear was exclusively produced by

Repetto for her part in the 1956 movie *And God Created Woman/Et Dieu créa la femme*.¹ The French sex symbol internationally spread Repetto's name and shoes, thus transforming a professional shoe into a desirable fashion object conveying different meanings connected to ballet, French craftsmanship, youthful Parisian allure, effortless chic style—in other words, the dynamic components of Repetto's meaning strategy.

A meaning strategy approach is based on the notion that a product is not only represented by form and function but also by meaning which is vital to give coherence and structure to the entire firm's business model (Battistella, Biotto, & De Toni, 2012). Interestingly, Verganti's model (2006) rejected the 'traditional market-pull and technology-push dichotomy', and defined design-driven innovation as 'a strategy that aims at radically changing the emotional and symbolic content of products, *i.e.* their meanings and languages, through a profound understanding of broader changes in society, culture and technology' (Verganti, 2006). This helps us observe how a brand like Repetto which was launched in the late 1940s on the basis of a technical innovation was able to recover from a period of economic downturn in the late 1990s by preserving the meanings connected to their design innovation, and by using them again to restructure the entire business model of the enterprise in a coherent manner. Reinforcing business model meanings around dance culture resurrected Repetto which had gone into decline after Rose Repetto's death in 1984. The *Maison* seemed doomed by an aging strategy which had not evolved with its environment.

Recovery was initiated by French entrepreneur Jean-Marc Gaucher who took over as CEO in 1999. Forward-looking, self-made man Jean-Marc Gaucher went back to the cultural roots of the brand that had been diluted by unwise investments under previous management. As sole investor, owner and CEO, Jean-Marc Gaucher aimed to turn the company into a luxury brand. He became a star manager, was awarded business prizes and given French Ministry of the Economy recognition. Under his leadership, Repetto was given *Entreprise du Patrimoine Vivant* status (*i.e.* Living Heritage Companies—The Excellence of French Know-How).

The new CEO has brought fresh air into the brand by supporting research and development in technical innovation on dance shoes, and most importantly, by combining design-driven innovation with a meaning strategy specifically grounded in the dance world to restore the coherence of its business model. From the moment he took over, he has pushed the brand into the premium sphere aiming at luxury via a series of limited collections styled by artists like Issey Miyake. Styles were updated for urban

and young female consumers whose perception of prestige and rarity was part of Repetto's meaning strategy (Kapferer, 2012).

Recently, the CEO has looked forward to global markets and searched for international locations for his stores, like the one opened in SoHo, New York City, in December 15, 2015. Opening-up to global markets is a complex step for companies with a strong cultural mission like Repetto: it can count on a global community of dancers and dance enthusiasts to allow the company to become a reference brand in their field. However, moving into foreign markets and increasing production must be managed wisely by a brand bent on promoting their made-in-France authenticity and their claim to luxury.

This case study focuses on the strategies implemented by Jean-Marc Gaucher since he became CEO and on the meaning strategy he has extended to Repetto business model. Data were collected through a triangulation between third-party sources, external documents, websites and social media as well as numerous interviews released by Jean-Marc Gaucher to the press.

The case study begins with the historical evolution of the brand and its roots firmly tied to the world of dance and French culture. It then describes the most important innovation brought by the brand to professional dance shoes. Next, a short literature review on design-driven innovation leads us to connect the company business model to a meaning strategy analysis. The semantic dimension carried out by the company and the products is key to account for the aesthetic, symbolic and emotional messages at the source of Repetto's renewed competitive advantage (Battistella et al., 2012). It is this unique combination that gives coherence to the entire business model of the enterprise. Managerial implications are presented last for the benefit of other businesses that are in need of innovation while grounding their products in their own unique historical heritage.

COMPANY HISTORY

The company was founded in 1947 by Rose Repetto who opened an *atelier* on 22, rue de la Paix, Paris, to produce dance shoes for her son Roland Petit, who later became a renowned choreographer (Castets, 2012; Leboucq, 2012). Mother and son are the creative genius at the source of the company history and heritage. Figure 5.1 shows the timeline of Repetto's history available on the company website (Repetto, 2017).

Unlike our timeline which lists historical landmarks in the company evolution, the website time chart visually emphasizes the brand continuity over time. It is made to look consistent over time despite management ups and

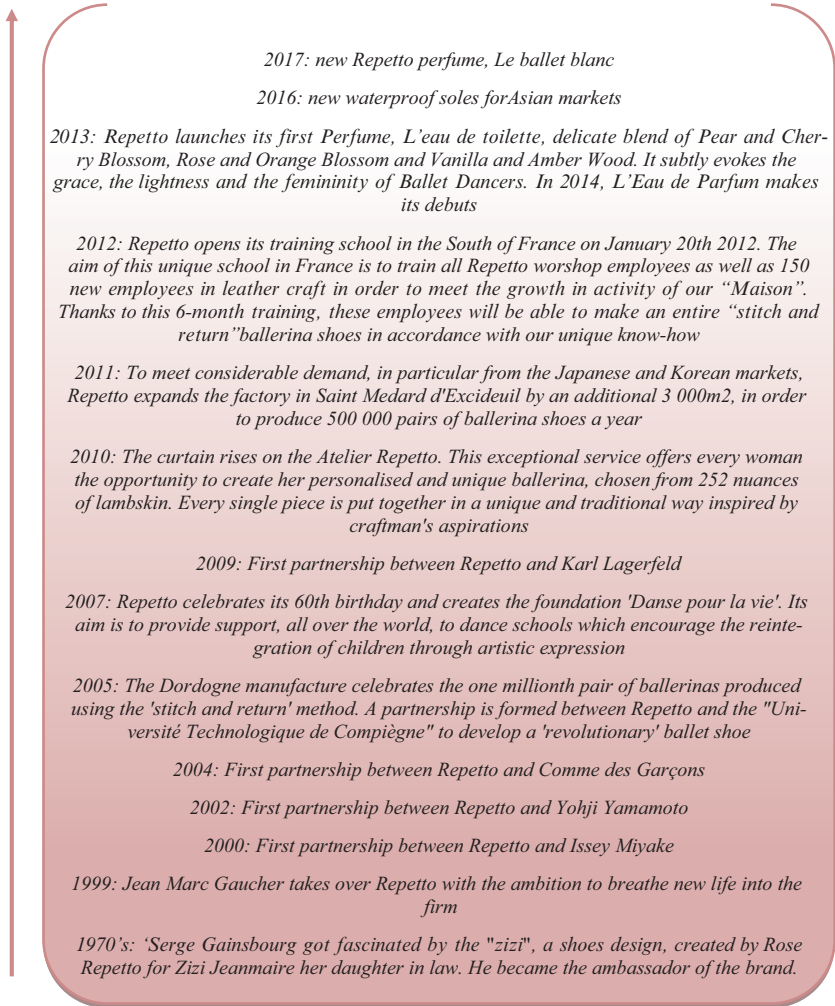


Fig. 5.1 Repetto’s history and timeline

Source: Elaborated upon by the authors from Repetto website

downs. The brand visually maintains continuity in their dance identity over discontinuity and ruptures.

It is also worth noting that despite earlier successes in the professional dance world, the brand faced numerous difficulties until 1999. Repetto managers were not aware of how misguided some of their decisions were

(Leboucq, 2012). For instance, in 2000 Repetto still manufactured for Tex—a low-cost, private-label brand owned by Carrefour, the French multinational retailer headquartered in Boulogne Billancourt, France. They did it at a loss with a gross margin of 10% (Leboucq, 2007, 2012). Furthermore, in order to increase production, Repetto started to produce shoes for damaged feet instead of maintaining their brand identity in the dance world (Leboucq, 2012). It resulted in the brand loss of prestige in the eyes of consumers. When Jean-Marc Gaucher bought the company in 1999, he became the CEO of a 180-employee firm heavily in debt (€15 million).

Today, Repetto facts and figures are the following: 1 brand, 330 employees, €61.3 million in revenues and 20 patented sketches and models (Cathala, 2016). One example should suffice: the creation of differentiated right and left foot for dance technical shoes. This innovation by Repetto in the world of dance is covered by a patent registered in the US—‘Asymmetric ballet shoe and pair of such shoes US 5191726 A’ (United States Patent, 1993).

Under the new management, one of the main changes introduced was to ground the company back in the dance world and promote Made-in-France authenticity. The world of dance was used as a source of meaning which unified brand values and messages. Dance played a catalytic role in supporting the values that the new CEO wished the brand to mobilize: beauty, femininity, elegance, Parisian chic, art discipline and ethos.

Jean-Marc Gaucher, who formerly worked for Reebok, took up the challenge of transforming Repetto into a high-end brand with exclusive products and improved technical features for ballet and stage performance with a view to establishing the grounds for a luxury *Maison*. He started by getting rid of seven factories out of eight and he called for high-quality shoes that were consistent with Made-in-France standards (indicating that a product is planned, manufactured and packed in France). This was achieved by maintaining production exclusively in the Dordogne region where Rose Repetto had originally established the Saint-Médard-d’Excideuil factory. In 2000, Repetto created flat ballerina limited collections with Comme de Garçons, Issey Miyake and Karl Lagerfeld. This successful co-branding activity with Issey Miyake in particular allowed the brand to push toward high fashion and to stand out again as unique and inimitable among its competitors.

By 2010, the company began their production of bags and accessories which represents 10% of sales today. From 2011 onward, the firm extended

into fashion to reach international markets without compromising their core legacy linked to the dance world and high art culture. Since the 2010s, they have consistently asked Opera de Paris dancers like Dorothée Gilbert and Marie-Agnès Gillot to represent the brand.

In 2012, Repetto launched their first collection line in streetwear apparel. Inspiration came from dancers' technical clothes. The new ready-to-wear collection was created by designer Emilie Luc-Duc (formerly at Rodier) and initially launched in 2012 in Repetto's boutiques and e-shop. Olivier Polge designed the first Repetto perfume (Repetto, 2017). Interparfums—which has created perfumes for Burberry, Lanvin, Van Cleef & Arpels, Montblanc (Richemont group) or Jimmy Choo—and Repetto agreed to a license agreement in 2013. Most recent collaborations included French artist/singer Stromae for the 2017 season.

In 2015, Jean-Marc Gaucher decided to boost production by hiring Yasu Michino as new artistic director exclusively for accessories and bags. He went for 'French chic, Japanese sobriety and American practicality with a touch of *fantaisie*' (Vigorous, 2016). Then, he tried to energize ready-to-wear production under the artistic direction of Danish Carolina af Rosenborg, formerly with Vivienne Westwood. He meant to push ready-to-wear sales that were only at 3% of the total amount in 2016.

COMPANY OVERVIEW

After the arrival of Jean-Marc Gaucher, the growth of Repetto has been astonishing. It went from 85 employees and €5 million in revenues in 2002 to more than 300 employees and €60 million in revenues in 2012 (Leboucq, 2012). It also went from low production levels (fewer than 10,000 pairs of shoes) at Saint-Médard-d'Excideuil in 2003 to 400,000–450,000 pairs of shoes per year since 2013 (Caillaud, 2013).

Brand

All Repetto products are distributed under the same brand and with the same logo designed in 1964 by Leonor Fini, a Paris-based surrealist artist and theater decorator with links to modernism. Leonor Fini may have modified a Typewriter OldStyle font with serif roman typeset. Letters are in distinctive lower case to be more legible while PARIS

is in upper case and in a different font. Instead of an all-caps style, the logo uses an ascender (R) that extends above the mean line of the font used. The use of a distinctive old-time serified font for an Italian-sounding name and that of a non-serif font for the French capital twins two art cultures very much the way music and dancing are connected (letters are often said to be like musical notes). The name might also be associated with *repetitions*/rehearsal or with Geppetto, the fictional woodcarver who created *Pinocchio* in Carlo Collodi's folktale (1883). Whether the logo is in black on white soles, or in white on black packaging or in gold on the perfume bottles, it evokes the fairytale work world of old-time artisans and the work spaces of dance and art.

The core message of the brand is that dancing fulfills every little girl's yearning for the stage, 'the aspirational dream of the stage' (Repetto, 2017). The brand's entire communication activity is based on this brand promise or 'social contract' (Spiggle, Nguyen, & Caravella, 2012). It was visualized in a 2017 video on their website which charts a girl's progress from early classes to solo performance on stage. The world of Repetto is structured by this momentum which starts in collective dance studio practice and leads to individual solo performance on the basis of strong discipline and high art ethos (Repetto, 2017). The pointe shoes, the pink ribbon and the R logo represent these values and are reproduced on the packaging, product design, and in the pricing strategy, distribution channels and communication actions. The enterprise maintains its authenticity and legitimacy through a number of limited collections and limited series meant to boost sales without compromising the core bond between the brand dance world and its extension.

Jean-Marc Gaucher's decision was to make the parent brand message co-extensive or co-natural with the brand extension, thus grounding brand extension in Repetto's core message 'Consumers perceive a brand extension as authentic when it preserves and sustains the uniqueness, originality, heritage, values, and essence of the parent brand. [...] authenticity conveys legitimacy to the extension, validating its claims as a rightful heir of the parent brand' (Spiggle et al., 2012, p. 969). The notion of brand extension authenticity differs from the notion of brand fit which is based on criteria of perceived similarity between the brand and the extension, and on the relevance of brand associations between brand and extension. Spiggle et al. (2012) define brand extension authenticity as a consumer's sense that a brand extension is a legitimate, culturally consistent extension of the parent brand. Brand extension

authenticity is multifaceted, comprising four interrelated dimensions. Indeed, in the case of Repetto, under Jean-Marc Gaucher's management, the company was bent on the following:

- (1) Maintaining brand styles and standards: standards and style are reflected or contained in the extension. They fit the expectations of the parent brand.
- (2) Honoring brand heritage: the extension connects to the origins of the brand, its legacy, its roots.
- (3) Preserving brand essence: the extension is consistent with or embodies or preserves what is distinct about the brand. The extension distinctiveness is captured.
- (4) Avoiding brand exploitation: the extension does not trade off the essence of the brand for profit; does not sacrifice its special identity in exchange for commercial gains, and the firm is more concerned about preserving the brand rather than growing the market (Spiggle et al., 2012).

In this theoretical perspective, Repetto has consistently grounded the cultural legitimacy of their brand extension while enhancing the parent brand.

Target Market

The world of dance is essential to Repetto. It connects its past and future. CEO Jean-Marc Gaucher often stressed how dance inheres in Repetto whose 2017 campaign catch phrase was *Ce monde parle ballet – this world speaks ballet*. It claims to be as connected to local Paris Opera as London Covent Garden or San Francisco Ballet life as global shoemaker (Castets, 2012). Dance drives the various activities of the company that can leverage its dance legacy and culture to a large and well-established community of dancers, especially in France where Repetto is commonly associated with this specific segment. Dance aficionados are also a good target market—mostly young and urban men and women who approve of the aesthetics and ethos of this art practice. Thus, we would argue that Repetto takes advantage of the benefits of tribal marketing by tapping into the social and cultural potential of dance in the behaviors of certain groups (tribes) to promote a specific product or service (Cova, 2001; Cova & Cova, 2002; Moran & Gossieaux, 2010).

Products

Repetto creates unique products for dance (pointe shoes, soft ballet shoes, tutus, leotards, tunics), shoes (Ballerinas, Zizi, Michael)—ready-to-wear collections comprising dresses, skirts, tops, jackets, pants/shorts, scarves and even items of leather goods as bags, wallets, purses, keyrings. Recently the brand also introduces perfumes and body lotions (Repetto, 2017). In a statement of their dance DNA, Repetto claims that they serve French opera dancers and non-classical dancers at a loss: a €22 price tag for basic pointe shoes but €40 production costs (Pescande, 2012).

Based on a coherent communication structured around the dance world, diversification intensified over the years because, as the current CEO stated, ‘one cannot live and grow only by remaining anchored to the niche of the technical dance market’ (Castets, 2012). An in-depth look into Repetto product portfolio shows *chaussons* and ballerinas are still 80% of sales of the group. Production mainly targets urban shoes for women like ballerinas but also men shoes made with the same ‘stitch and return technique’—models for men are called Richelieu ZIZI (also for women). Today, the entire daywear shoe collection includes 70 models.

Repetto branched out into a footwear collection for women, men and children as well as a ready-to-wear, bridal footwear, small leather goods and fragrances. A dance-inspired fashion line for streetwear was introduced in 2012.

All in all, 10% of the production centers on accessories, leather goods (bags, wallets, purses, keyrings), ready-to-wear lines which have a 3% turnover (dresses, skirts, tops, jackets, pants/shorts, scarves); perfumes (*eau florale*, *eau de parfum*, *eau de toilette*, perfumed oil, body lotion); and the Active Line sportswear collection launched in 2016. Figure 5.2 shows Repetto iconic shop layout which uses the painter’s palette of colors to neatly display shoes at points-of-purchase. This is their signature merchandizing code found at airport outlets, multibrand stores and Repetto shops. Such a carefully studied display confirms the brand unimitable style and premium identity. The whole color scheme helps create a strong brand statement and leads to add-on buying since customers can buy coordinated looks, bags and shoes. The picture (Fig. 5.2) shows Repetto’s iconic shop layout which uses the painter’s palette of colors to display shoes at all their points-of-purchase. Their signature merchandizing code is a recognizable display that confirms the brand unimitable art identity and premium status. The color scheme helps create a strong brand statement and leads to add-on buying since customers can buy coordinated looks, bags and shoes.



Fig. 5.2 Repetto products display and iconic color palette
Source: Photographed by Geneviève Cohen-Cheminet, Le Printemps (a multi-brand store) Lyon, France, April 2017

Capsule Collections to Renew Style

Since Jean-Marc Gaucher's arrival, Repetto has adopted a luxury strategy for its development. In line with other major brands belonging to the luxury market, Repetto keeps no idle stock, combines an enduring collection

line of iconic basics with a new upbeat collection every two months, has a no-restocking policy to whet the appetite and desires of clients, and purposefully restricts points-of-sales in upscale urban areas. This ensures rarity and stimulates sales.

Prices are at up-market level with a 50% profit margin which sets the final price tags around €150–€200 for the most iconic flats. Latest collections are sold at a higher price between €500 and €800. Repetto positioned the brand in the premium market but claims to luxury are substantiated by the way the brand wishes to convey perceptions of high quality and perceptions of originality in design. Capsule collections for ballerinas and urban footwear have been pivotal components of Repetto's luxury strategy from the start. In 2000, Japanese designer Issey Miyake was asked to design a collection and commercialize it exclusively in Issey Miyake's boutiques in Japan (Pescande, 2012). Then, Yohji Yamamoto in 2002, Comme des Garçons in 2004 and Karl Lagerfeld in 2009 followed suit.

Repetto's claim to luxury was restated when they celebrated their 60th anniversary. It was an occasion to ask 60 creators and celebrities in the world of fashion and *couture* to design their own signature shoes: Jean-Paul Gaultier, Rei Kawakubo, Andrée Putman and Chantal Thomass among others contributed to the anniversary. Their signature shoes were displayed in an itinerary show in 2008 and were auctioned off for the benefit of the Repetto Foundation schools of dancing (Huret, 2007).

In 2013, Mary Katrantzou collaborated to a line of silk and satin brogues and ballet flats which were all hand stitched at the Repetto Atelier exclusively for *Colette*, 213, rue Saint-Honoré concept store (Katrantzou, 2017). The 2017 capsule collection was created in collaboration with the *Mosaert* label founded by singer Stromae with the desire to offer a full outfit to consumers (Repetto, 2017).

International Sales

An increase in production and international growth beyond France (Leboucq, 2012) have become essential since around 60% Repetto revenues come from international markets today. Two-thirds of revenues have always been reinvested in the company, and this strategy has allowed Repetto to reach €100 million in revenues in 2014. However, after enjoying strong double-digit growth in revenues for years with a 2012 apex (€60 million in revenues), the brand revenues decreased around €50 million in 2016 (Leboucq, 2012). Refreshing Repetto's strategy is

much needed now, all the more so as current CEO Jean-Marc Gaucher has long claimed he would fight to ensure the future of his company. His dream is to sell the brand to a major luxury conglomerate rather than an investment fund.

Jean-Marc Gaucher obtained a 25% increase in sales in 2011. This increase particularly comes from Asia where customers go for ‘Made-in-France’ labels on the soles and are ready to pay steep prices (Leboucq, 2012). At the same time, Asian markets are highly responsive to luxury, so that rotating collections also help stimulate the perception of the rarity of the collections. In the coming years, Repetto strategy will stick to its partnerships with key designers and artists, and will maintain the shoe customization service started in 2010. They ensure perceptions of prestige and high quality.

An increase in sales can only be secured through a foray into ready-to-wear high-end sportswear and dancewear. This implies Repetto might have to give up on strictly Made-in-France production. Besides, Repetto is part of the general sportswear market which has recently caught the attention of fashion houses’ strategists. Their recent interest in athletic-casual wear is evidenced by the recent launch of sports collection lines by luxury brands Philipp Plein or Prabal Gurung. Even fast fashion brand Zara confirmed renewed interest in athleisure when designing capsule collections or developing cross-sectorial collaborations (Pambianco, 2016).

Repetto’s goal today is to extend their range to a global market that is expected to reach €61 billion by 2021 according to the *Evolution of athleisure Report* by Euromonitor International (Halliday, 2017). Sportswear has increased performance for three consecutive years. Although performance sportswear took the lead in terms of market size with US \$78 billion in 2016, sports-inspired apparel is the fastest growing category. Both sports-inspired footwear and apparel are growing at a rapid pace respectively registering 9.5% and 6.5% growth in 2016 (Halliday, 2017).

In terms of dancewear market size, Repetto’s competitors are Lanvin, Vanessa Bruno, Sansha, Jacob Bloch, J. Crew, Matt Berson, Tory Burch, Pretty Ballerinas, Christian Louboutin, Dansgirl, Grishko, Capezio and DTTROL. Competing in a condition of parity, none of these competitors could take the lead.

What may help Repetto stand out among its competitors is their ability to tap into an authentic historical legacy in classical ballet and French culture. By introducing design-driven innovations for professional dancers, the brand reinforced their dance-based meaning to communicate to their main target—dance enthusiasts around the world. The brand continuity in

time, consistency, originality, reliability and naturalness give Repetto a competitive edge over competing companies which cannot substitute for the French brand.

DESIGN-DRIVEN INNOVATION AT THE HEART OF REPETTO'S SUCCESS

A technical innovation was at the heart of the company's success: in 1947 the *consu-retourné*/'stitch and return' technique was applied by Rose Repetto on professional dance shoes to make them softer and less hurtful for dancers' feet. This innovation is still in use and advertised in the production process when the sole is stitched inside out before being returned by Repetto's trained workers. This technique is said to bring comfort and unmatched suppleness to the shoes. Initially, professional dancers used to order their shoes directly from the Paris-based *atelier*. Once ballerina shoes were endorsed by Brigitte Bardot, their softness and comfort were noticed outside the dance world. The actress directly asked Rose Repetto to create a pair of shoes as light and comfortable as dance slippers with an additional touch of sex appeal and Parisian chic. This is how the Cinderella flat shoe (*aka* ballerina) was born. Its deep cleavage (*aka* vamp shape or throatline) reveals the forefoot and a bit of the toes (Adamkzyc, 2014). Until this request in 1956, flat ballerina shoes did not even exist in urban footwear. The company remarkably applied a 'stitch and return' technical innovation meant for professional dancewear to urban footwear. Along the path of design-driven innovation (Verganti, 2010), Repetto became a household name in the 1960s. Consumers started calling ballerinas *des Repettos* and they became a pop-cult object for everyday use and wear.

What is noticeable is that what started off as a new design for technical pointe shoes is still being applied to Repetto's entire collections of shoes (Adamkzyc, 2014). This technique is learnt and applied by trainee artisans or craftspeople in Saint-Médard-d'Excideuil Repetto factory (Repetto, 2017). Production has been maintained there since 1967, some 20 years after Repetto *atelier* opened near *Palais Garnier*, Paris historical Opera and Ballet house. It is striking to note that professional dance shoes and urban shoes or leather goods are produced along the same technical processes that have ensured the very softness and comfort needed by professional dancers. Production is mechanized with extensive hand-made operations as the 'stitch and return' technique is very demanding. A pair of shoes is reportedly handled by eight to ten artisans and on average completion and quality controls require 45–90 minutes (Caillaud, 2013).

True to its heritage and keen to remain at the forefront of technology, Repetto management team started a new research and development partnership in 2004 with *Université Technologique de Compiègne* (Unité d'innovation 'Conception, Qualité des Produits et Processus' CQP2i, headed by André Cayol). University scientists were asked to design improvements on their iconic pointe shoe with a view to minimizing the impact of dance shoes on wooden floors, their level of noise and the pain inflicted on dancers' feet. This is how the shoe named Carlotta was born in 2007: 'While meeting the requirements of professional dancers, the Carlotta, with its high vamp and reinforced wings, provides a beautiful line and comfort' (Repetto, 2017). This academic partnership will be maintained in the future and reflects Repetto's effort to serve the highest level of artistic achievement. It is in step with their association with the Royal Ballet, Bolshoi and San Francisco Ballet. They are key to maintaining and strengthening the link between Repetto and the dance world.

Repetto has also developed their own R&D unit in their Dordogne factory: they launched their new product in 2016. They replaced their traditional leather sole with a waterproof, weather-resistant rubber sole for Asian markets and consumers well used to monsoon heavy rainfalls. They researched and developed this new sole on a €205,000 budget for research and equipment (Cathala, 2016). This innovation is combined with their 'stitch and return' method to allow for comfort but will only be applied to 10 out of the 70 models available in Repetto collections. The brand proceeds with caution: the point is to watch the appeal of these shoes to Asian customers first.

THE ROLE OF THE BUSINESS MODEL IN THE DESIGN-DRIVEN INNOVATION APPROACH

A formal and modular business model approach can foster innovation and increase competitive advantage (Amit & Zott, 2001; Zott & Amit, 2010). We argue that Repetto follows a meaning strategy in order to guarantee business model coherence linked to design-driven innovation based on the 'stitch-and-return' technique in shoe production (Battistella et al., 2012; Dell'era & Verganti, 2009; Verganti, 2006, 2010). These authors researched design-driven innovations as a new form of product innovation which went beyond the market-pull and the technological-push innovation strategies enterprises can use. Innovation management literature is no longer exclusively focused on the analysis of the relationship between innovation and technological change since advocates of meaning strategy hold that a

product is not represented only by form and function but also by meaning. Many scholars have underlined the importance of meanings driven by products, services and consumer experiences (Geels, 2004; Mcracken, 1986; Verganti, 2006).

Battistella et al. (2012) explain that a company can implement a design-driven innovation strategy that helps implement a coherent meaning in all of the building blocks of its business model. There is no unique, bullet-proof definition of a business model in the literature, but it is commonly presented as the blueprint of how a company does business. A business model serves as a building plan that allows to design and carry out the business structure and systems that constitute the company's operational and material form (Osterwalder, Pigneur, & Tucci, 2005). A business model differs from strategy in that it focuses on describing the elements and relationships that outline the way a company creates and markets value.

A business model is a conceptual tool that contains a set of elements and their relationships and it helps explain the business logic of a specific firm. It is a description of the value a company offers, and of its network of partners to create, market and deliver this value.

One of the most commonly shared definition of a business model in literature includes building blocks. The nine business model building blocks have four pillars and each one of them has one or more other blocks (Osterwalder et al., 2005).

The following is the composition of pillars and blocks:

1. product (value proposition)
2. customer interface (target customer, distribution channel, relationship)
3. infrastructure management (value configuration, core competency, partner network)
4. financial aspects (cost structure and revenue model).

The first building block is the value proposition which gives an overall view of a company's bundle of products and services. The target customer building block describes the segments of customers a company wants to serve, while the distribution channel describes the various resources the company mobilizes to reach its customers. Relationship explains the kind of links a company establishes with its different customer segments. The building block called value configuration describes the arrangement of activities and allocation of resources. Core competency outlines firm's competencies, while partner network portrays the network of cooperative agreements with other companies. Regarding cost structure and revenue

model building blocks, the first one sums up the monetary consequences of the means employed in the business model while the second describes the way a company makes money through a variety of revenue flows (Osterwalder et al., 2005).

Strong enterprises apply a coherent meaning strategy to each of these pillars. When focusing on Repetto's meaning strategy, the most significant meaning the brand can mobilize is the dance world. However, Repetto taps into other related meanings to maintain the coherence of its business model. All of these meanings are consistently communicated through their visual communication strategy.

We propose four company business model meanings based on our observation of Repetto activities which surface in the interview of its CEO and in the visual advertising campaigns set up by Repetto. They help maintain the coherence of the business model.

Meaning 1: Dance identity

Meaning 2: Country of origin

Meaning 3: Craftsmanship

Meaning 4: A promise of luxury lifestyle

Meaning 1: Dance Identity

The most foundational component of Repetto meaning strategy is their constant use of dance in all their advertising campaigns and communication strategy. While Repetto no longer limits itself to dance shoes, they introduced their dance-inspired fashion line for streetwear which was an instant success in the 2010s because their extension was designed on the basis of their dance identity. Major Opera artists like Dorothee Gilbert danced in Repetto's commercials. The Repetto character who appears on their website, in print and video commercials, is always a dancer in urban clothes who wears red Cinderella flats. The brand visual codes in commercials explicitly include wooden floors, a wood-paneled room, a professional mirror with electrical bulbs, a Repetto perfume bottle, ballet shoes stacked on a bench, while a tuttu and stockings are next to urban ready-to-wear clothes. Repetto ads consistently fit a brand that claims to address stage performance and daily life.

A statement of their dance DNA is confirmed by the fact nearly 10% of Repetto turnover is devoted to the development of relations with the world of dance, one recent example being their sponsorship of the animated movie titled *Ballerina*.

Another example could be Repetto *Fondation Danse pour la Vie* (Foundation Dance for life) created in 2007 with a view to bringing support to dance schools and encouraging the education of disadvantaged children through artistic expression. The Foundation provides equipment (ballet slippers, pointe shoes, ballerinas, tights, etc.) to children in dance schools in Cuba, Haiti, South Africa, Brazil and the Ukraine. Repetto Foundation has a business-ethics orientation: they recently associated a special man-and-woman shoe collection (Zizi model) with French singer Matthieu Chédid. The revenues generated from the sales were donated to Donko Seko dance school in Mali in the hope of helping underprivileged young Malians through a commitment to art and dance education (Repetto, 2017). Dance as a dream of empowerment is the cornerstone of Repetto brand image.

Meaning 2: Country of Origin

Repetto has a France-based strategy for international growth (from Paris to Europe, the US and the Middle-East) and for slow-paced growth in Asia. This incidentally reflects current French economic patriotism held to be essential to the country at large (Leboucq, 2012). All Repetto communication activity and storytelling stress link with France and its main monuments like Opera Garnier or the name of the city of Paris included in their logo. Celebrities, artists and Opera soloists are closely connected to the brand to increase the perception of French style.

Repetto claims to produce solely in France, and the enterprise wants to push from 2500 to 6000 pairs of shoes each day and 30 custom-made pairs of shoes at Saint-Médard-d'Excideuil. The website nonetheless mentions that part of the production has been outsourced to Tunisia and Portugal but the image connected to the country of origin is one of the chief meanings conveyed by the brand. This explains why Repetto opened a vocational school in Dordogne, close to Saint-Médard, in 2013 to ensure the transmission of the 'stitch and return technique' thought to be a national heritage (Castets, 2012). They also maintain the basis of their claim to luxury which depends on production in France.

Meaning 3: Craftsmanship

France as country of origin and craftsmanship is interconnected. At the school based in Saint-Médard, trainees learn everything from how to handle fabrics and materials to how to stitch the shoes. In all, there are about

50 steps in Repetto's production process. A video on Repetto website (*Repetto Know-how* <http://www.repetto.fr/savoir-faire-repetto> aka *le savoir faire*) documents their technological mastery: the artisan's hands and the dancer's hands are shown to caress the same material and are co-dependent (Repetto, 2017). The same attention to details, to higher quality and beauty, are found in the workers' craft and in the performer's art. This is no industrialized production but craftsmanship of the highest order. When Repetto combines the workspace of the dancer who practices her art and the workspace of the craftspeople in Saint-Medard-d'Excideuil who produce the shoes the dancer depends on for her art and life (Repetto, 2017), they allow the company to materialize the claim that producer and performer have the same values and practices. The credits finalize the symmetrical roles of the dancer and workers whose first names appear. *Dominique, Julie, Isabelle, Jean-Claude dit Bambi, Patricia, Maryse, Fabien, Marie-Caroline, Géraldine, Bruno, Barbara, Josette* are the named stars who are thanked (*Merci à ceux qui font de ce savoir-faire unique, un patrimoine vivant*). The dancer in the video remains nameless and anonymous. However, they all work on an individual basis and with utmost care to create a work of art.

This narrative strategy does not preclude a degree of mechanization but visualizes the claim that producer and end-user share the same passion for craftsmanship and training for excellence. It is therefore no coincidence that the same hands and the same gestures should create pointe shoes as well as urban shoes. When the young dancer returns to daily life in Repetto clothes, red Cinderella/*Cendrillon* flats and with a Repetto bag, she is still an integral part of the Repetto world. Ordinary consumption and art performance pertain to the same logics of craftsmanship, artisanship and perfection. In this narrative, packaging is part of Repetto's sense-building activity. The iconic black Repetto box, the delicate pink ribbon and the R on the heels of the shoes extend craftsmanship to the minutest details in all Repetto diversified products (skirts, tops, bags, perfume, outfits). They help bring together the world of art (pointe shoes, stage performance) and the world of everyday life experienced in Repetto sneakers and skirt.

Meaning 4: The Promise of a Luxury Lifestyle

The notion that *Repetto* shoes, bags, clothing and perfumes fit on-stage performance as well as off-stage ordinary life underwrites Repetto brand promise of a luxury lifestyle. Repetto brand story attempts to transform an ordinary activity (wearing shoes or clothes, carrying a bag, using perfume)

into an elevated experience of art. This is the endlessly repeated brand promise and it is at the core of their multifaceted luxury strategy.

A first component of Repetto's luxury-oriented strategy is *Atelier Repetto* launched in 2011 to enhance the shopper's experience by offering customized choices. Customers can select a color among the 252 shades of lamb skin for the upper shoe, and borders and laces are picked up to create a pair of unique *shoes*. *L'Atelier Repetto* customization is only available in a few boutiques in France, China, Hong Kong, South Korea, Japan and the US. Perceived uniqueness, singularity, originality, scarcity and hedonism are key dimensions of a luxury brand. Customization is part of Repetto's promise of a luxury lifestyle.

Another component of Repetto's luxury-oriented strategy is their association with contemporary artists and designers: they celebrated the 60th anniversary of the brand with amazing flagship store window exhibits (February 28, 2011 to March 9, 2011 interactive window, Leitus, 2011) and with a unique collection of 60 shoes created by 60 creators from the world of fashion and couture (Jean-Paul Gaultier, Rei Kawakubo, Andrée Putman and Chantal Thomass among others). Artists' collaborations and customization are major steps for Repetto in order to transfer luxury meanings to the brand, thus slowly moving away from premium perceptions into luxury perceptions.

This explains why attention should be given to the luxury experience promised by Repetto. We claim it goes beyond welcoming customers into sales points that look like a ballet stage décor complete with cut-glass chandeliers, shiny wooden floors, tall mirrors and red velvet. The brand promises that their products will change customers' experience of the world.

This 2016 window tells customers that their Repetto shoes, bags or apparel have the power to transform their act of purchase into a luxury lifestyle choice which will in turn elevate their ordinary lives to the level of art. Luxury in this sense does not only mean acquiring costly exclusive goods but experiencing life differently. This is the brand promise of a luxury lifestyle that has consistently structured Repetto web campaigns:

1. 2011 *Repetto World* (<https://vimeo.com/26314641>) aka The Itinerary of a Dancer directed by Jérôme Cassou
2. 2014 *Dance Duet Between City and Dance* (<https://www.youtube.com/watch?v=WsGDELotlqo>) aka *Pas de deux*
3. 2016 *Repetto know-how* (<https://www.youtube.com/watch?v=XqeIRM0I94Q>) aka *le savoir-faire*, filmed at Saint-Médard-d'Excideuil in Dordogne

4. 2017 *Our World Speaks Ballet* (Repetto believes the world is a stage. Improvise, perform and captivate every day in style) (<https://www.youtube.com/watch?v=VgZayZXXGgs>) aka *Ce monde parle ballet*. (Credits: Dancer: Marion Barbeau; Choreography: Sébastien Bertaud, Maxime Thomas; Direction: Edouard Le Scouarnec; Creative Directors: Remy Aboukrat, Julien Boissinot; Editor: Kevin Salembier)
5. 2017 *Perfumed Ballet* for the creation of *Le ballet blanc* perfume (<https://www.youtube.com/watch?v=ipUEpG3pnCM>) aka *Un ballet parfumé* or White ballet perfume (Credits: Dancers Marion Barbeau, Mickaël Lafon; Choreography: Sébastien Bertaud; Creative Director: Julie Merle; Photographer and Producer: Sophie Delaporte).

What all these campaigns have in common is a young female character set into motion by music and dancing. Because her body is her own ‘instrument’ of artistic expression, she represents the experience of dance but also embodies a dynamic individual (De Nora, 2004). Women who wear Repetto sneakers on urban sidewalks are shown to be soloists, virtuoso acrobats. The brand promises them self-expression, fulfillment and mastery through dancing and wearing Repetto shoes, clothes, and bags. Products hold a promise of empowerment to potential consumers.

Besides, the classical music used in all Repetto commercials until 2017 move consumers into a time and a rhythm of life which stand in sharp contrast to the speed of our contemporary lives. The Repetto world conjured up by commercials cannot be speeded up. It is a world where soft colors (pink, light yellow), music and objects are in harmony. Visual, aural, textual, and sensory perceptions are synchronized. Image-music-thought-feeling-motion are combined in a holistic (synesthetic) experience (Bresnahan, 2013, 2014, 2015). Commercials visualize another world or life where all the senses are mobilized and rewarded. Repetto products open up to an unexpected world of aesthetic resonance and peace.

The ultimate promise of the brand is that any consumer has a ‘body musician’ / *un corps musicien* which will produce individual and social harmony. This is where sociologist Hartmut Rosa (Rosa, 2010a, b, 2015) might help us understand Repetto’s promise of a luxury lifestyle: in our late-modern societies, Hartmut Rosa claims individuals are affected by ‘social acceleration’, the hectic, chaotic, speeded-up rhythm of life and work which lead to de-synchronized experiences of time. Hartmut Rosa considers them to be typical of late capitalist modernity. Our modern society is premised on perpetual competition, constant change and unsustainable acceleration (Rosa, 2010a, b, 2015). In contrast, Repetto promises a

different, reassuringly slower paced world in which individuals are in step with others and are synchronized with their time and place. Classical music is not only a marker of class affiliation and *habitus* (a luxury for the elite), it conjures up an orderly and measured rhythm of life. Regardless of what viewers actually prefer in terms of musical choices or practices, they are affected by this possibility of a time differently ordered by the human step which moves to a tempo that beats in unison with music. The body of the dancer and the musical instruments are synchronized. In Repetto narratives, the dancer and the consumer partake of an ideal community of social harmony and artistic order. All Repetto commercials conjure up this utopian possibility of a world measured by music and dance, by art as expressiveness, intensity, non-practicality. Repetto's promise is a dream of individual and collective harmony based on the mastery of time, behavior, body and beauty.

Like any brand, Repetto promises a 'Triple A story of Availability, Accessibility and Attainability' (Rosa, 2010b, 2013, 2015). Repetto promises to bring consumers closer to an elite world of beauty, harmony and individual empowerment. It pushes the horizon of availability, accessibility and attainability further. Consumption is not limited to the buying act but holds this promise of social and cultural, individual and collective dynamization, synchronization and empowerment in a harmonious world. This is the world of Repetto art.

Seen in this perspective, Repetto sneakers or flat shoes promise a leap across the borders of ordinary life into art. Interestingly, this transformation of an ordinary activity into an art practice is called *artification* by art sociologists Roberta Shapiro and Nathalie Heinich (Heinich & Shapiro, 2012; Shapiro & Heinich, 2012). They define *artification* as a process that annuls the distance between art and ordinary (non-art) activities or products. If we look at Repetto marketing campaigns in this perspective, we notice they promise to substitute urban life for art, and the consumer for the artist. They annul the gap between commodity and art object. The border between art and non-art is gone. It typifies Repetto storytelling (Fig. 5.3).

While other processes of *artification* may resort to art infusion, Repetto actively collapses the border between ordinary life and the experience of art by claiming to sell the very goods that mediate the artistic experience (Hagtvedt & Patrick, 2008; Masè & Cedrola, 2017). *Repettos*—shoes, clothes, perfume—are the mediators of art by virtue of elevating ordinary experience to the level of artistic experience. Repetto tells the story of consumers who move from art to daily life—the title of this chapter—from stage floors to sidewalks with grace.

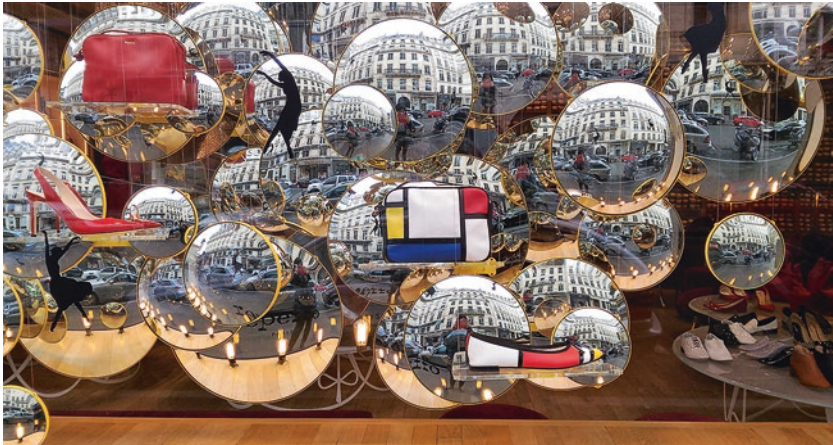


Fig. 5.3 Art-based items at Repetto flagship store (22, Rue De La Paix, Paris, France)
 Source: Photographed by Stefania Masè, Paris, October 2016

It is this experience of *artification* that has the potential to turn Repetto goods away from mass prestige or premium into the social markers of luxury. *Artification* is in line with the ‘dream of exception’, ‘elevation’, ‘timeless distinction’ beauty and ‘hedonism’ and the social stratification that underpin luxury (Kapferer, 2012). The Repetto promise holds together the democratic dream of happiness and youthful hedonism with the elite drive for higher beauty and art discipline which the brand will reward.

BUILDING BLOCKS ANALYSIS: MEANING STRATEGY
 LINKS DESIGN-DRIVEN INNOVATION
 TO REPETTO BUSINESS MODEL

Repetto’s history as a brand helps us see how the brand consistently promoted design-driven innovation (based on the ‘stitch and return’ mode of production) when they introduced flat ballerinas, then ready-to-wear skirts, tops, bags sportswear outfits and perfumes in their collections. Thus, they mobilized the meanings of the brand extended to their entire business model. Other meanings (the strength and coherence of the brand) rely on their dance identity, country of origin, craftsmanship and the promise of a luxury experience.

Table 5.1 summarizes the meanings mobilized by Repetto business model which we analyze through the nine building blocks model

Table 5.1 Repetto's meaning strategy

Product	<p>Value proposition</p> <p>M1. Technical shoes for dancers, dance-inspired shoes and clothes for the dance lovers' community</p> <p>M2. Strengthening of Made-in-France production, especially in Saint-Médard-d'Excideuil, France</p> <p>M3. Technical shoes for dancers created with a specific hand-made technique which confers handcraft allure to collections</p> <p>M4. A high-priced collection that fits a coherent communication structured around the dance world. Serious attention to the points of sales</p>
Customer interface	<p>Target consumer</p> <p>M1. Dance community for technical shoes and dance lovers for all the collections. Appeal to new consumers interested in casual and athletes wear</p> <p>M2. Made-in-France authenticity proved by the name of the city of Paris included in the logo</p> <p>M3. A passion for craftsmanship and high art excellence is communicated to consumers through commercials</p> <p>M4. Commercials and brand communication are in step with other luxury brands (CEO often communicates his desire to sell the brand to a luxury conglomerate)</p> <p>Distribution channel</p> <p>M1. Monobrand stores are laid out like theater stages, dance-based communication is underlined at every point of sales</p> <p>M2. The name of the city of Paris on the company logo at every monobrand shop</p> <p>M4. Monobrand stores are located on the most exclusive streets in upend shopping areas (e.g. Paris Rue de la Paix). Brand also sold in numerous luxury department stores</p> <p>Relationship</p> <p>M1. The brand supports numerous activities related to the dance world (<i>Fondation Repetto</i>) for the benefit of young underprivileged dancers living in deprived areas or the recent sponsorship of the animated movie <i>Ballerina</i></p> <p>M2. In interviews, CEO underlined the importance of France-based creations and strong attachment to French location of production activities</p> <p>M3. Serious attention paid to the importance of French craftsmanship and know-how. A vocational school created in Dordogne in order to transmit their artisanal know-how to newer generations of workers</p> <p>M4. Communication in line with other luxury brands. CEO often communicates his desire for the brand to be recognized by consumers as a dance-based luxury brand</p>

(continued)

Table 5.1 (continued)

<p>Infrastructure management</p>	<p>Value configuration M1. Patent for the creation of technical ballet shoes M2. Geographical proximity to iconic classical ballet Opera of Paris, near flagship store 22, Rue de la Paix M3. Highly skilled workers for technical shoes productions M4. Strong technical creations, France-based, dance-inspired communication, high price tags</p> <p>Core competency M1. Repetto is one of the few enterprises able to produce patented technical shoes for ballet M2. Technical shoes collections are produced in France while bags and high-heeled shoes are produced in Tunisia and Portugal M3. Vocational school for the transmission of technical know-how is one of Repetto’s strong points to ensure the continuity of its future production M4. Repetto strategy to be recognized as a luxury brand</p>
<p>Financial aspects</p>	<p>Partner network M1. Bolshoi, San Francisco and Covent Garden ballet companies for technical dance research activities. Other partners are professional dancers and Gaumont (sponsorship of animated movie <i>Ballerina</i>) M4. Interparfum for the creation of <i>Repetto parfum</i> collection</p> <p>Cost structure M1. Repetto’s focus on the dancewear industry allows the French brand to become part of a growing sector, that is, luxury athleisure sportswear sector M2. Communication based on Made-in-France authenticity allows for higher price margins M3. Hand-made/partially mechanized production allows for higher price tags M4. The price range of Repetto collections falls in the premium or high-end sector</p> <p>Revenue model M1. Repetto does not base earnings on technical ballet shoes and invests in this sector with minimal margins. Nonetheless essential to establish an authentic dance DNA M2. Made-in-France authenticity is used by the brand to reinforce the value of the dance-based community M3. Communication on hand-made creations focusing on dance/high art and the creation of a vocational school dedicated to the transmission of these skills to ensure higher margins M4. Repetto’s positioning in the high-end or premium segment allows the brand to have higher margins</p>

(Osterwalder et al., 2005; Osterwalder, Pigneur, Smith, & Movement, 2010). It shows the processes at play for meanings creation, applying four meanings to the entire Repetto's business model.

DISCUSSION AND IMPLICATIONS

This case study is part of a line of research dedicated to understanding the link between design-driven innovations and meaning strategies, supporting the theory that holds that innovation does not only concern product innovation technology, but connects design-driven innovation to a coherent meaning strategy that affects the components of the business model.

CEO Jean-Marc Gaucher defined his strategy for growth in an interview 'Before acquiring Repetto, I wrote three lines that I absolutely want to respect: make Repetto a global brand; offer exclusive products; maintain the dance heritage but by reinscribing it into the world of luxury' (Goinère, 2011; Pescande, 2012). We read this as the blueprint of Repetto innovation strategy: first came their design-driven innovation in dance which still represents its historical and most important market. Then, their 'stitch-and-return' technical innovation allowed the creation of a new type of shoes (the flat ballerina for informal daywear) which opened the company to non-professional markets and to streetwear collection lines. They doubly innovated at the technical and iconic streetwear style level. Then, they strengthened their connection with the dance world by mooring dance-based meanings to the different blocks of their business model. We stressed the importance of the Made-in-France label, craftsmanship and handcrafted production and the promise of a luxury experience. They have ensured a coherent business model so far.

Since the meanings of the company have been firmly grounded in a dance heritage, they should allow consistent growth with capsule collections increasingly and cautiously moving toward international luxury markets. However, increasingly high production volumes or a Made-In-Europe label would be detrimental to the brand claim to luxury. Luxury brands and premium brands do not have the same logics and Repetto stands poised in-between today. They need to manage diverging luxury vs. premium logics.

Their firm footage in premium fashion is not incompatible with luxury: haute couture brand Chanel also has a ready-to-wear division together with make-up, skincare and accessories at premium prices. For Repetto, managing the two logics of luxury and premium could prove quite a challenge in the future. It will have to grow yet remain rare (Kapferer, 2015).

The other main weaknesses we could anticipate for the future would expectedly come from the possibility of diluting the parent brand by overstretching their brand extension nationally and globally.

Locally, in their home market, brand overexposure might be a danger. Brand consistency and enhancement could degrade into brand dilution. One of the issues raised by the recent history of the company is overextending the brand. It might undermine the brand promise, thus putting the parent brand's authenticity and integrity at risk.

Globally, on international markets, Repetto faces other hurdles. While it is well known in France, Repetto is not immediately recognized by international consumers who may not be aware of the deep links between the brand and art. They might also overlook the French brand in the increasingly competitive market of sportswear and casual wear that tempts many fast fashion and luxury brands. Repetto will have to gain international recognition.

Another weakness might come from the overuse of Paris clichés as well as the overexposure of *tutu* commercials whose novelty may wear off. Preserving their visual codes from copycat mass brands is also a danger since mainstreet brands copy highstreet brands and cause confusion between luxury and non-luxury. It may lead the brand to reassess the well-established Repetto image associations but it should not affect their commitment to the world of art.

Indeed, Repetto may continue to grow on international markets and stick to its profound roots by tying all the blocks of their business model to luxury and dance meanings. Repetto has an original brand story to tell and protect: if Hermes narrative thrives on horsemanship; if Louis Vuitton narrative centers on travels, Repetto may tell a unique dance-to-live narrative from art to daily life.

NOTE

1. A movie directed by Roger Vadim in 1956 which launched the global career of French sex symbol Brigitte Bardot (IMDB, 2017).

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