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# Who Moved My Fabrics? Supplier Management Strategies for Small Fashion Buyers

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Small medium enterprises represent the largest share of revenues in the apparel and fashion business, compared to larger integrated companies. Small companies however often have to rely on larger suppliers in order to efficiently produce their products. These larger suppliers however will often prioritize companies that place larger orders. In the impossibility to deliver larger orders, how can these buyers make sure that a producer complies with their requests? In this paper we try to answer this question by applying concepts from the marketing channels literature to the specific context of fashion buying. We conclude that despite that the peculiarities of the fashion business do not foster the formation of long-term commitment, dependent companies can develop sources of power based on knowledge and reputation, but also based on applying non-mediated ways to manage the buyer-seller relationship. Examples of possible power sources for a buyer are: establishing a strong brand that a business partner will use in promoting its proposition, forcing suppliers to make transaction specific investments (which are not redeployable), specializing in new products and technologies that a supplier will want to understand and use, developing knowledge that can be exchanged in the form of specialized personnel, investing in standardization of communication before the relationship starts in order to reduce administrative costs for both parties. Power sources are most effective when non-mediated, i.e. informal and based on reciprocity; 'hard' contracts with punishments (coercive power sources) in case of non-compliance will diminish the willingness to collaborate.

**Keywords:** Marketing channels; Power; Dependency; Fashion buying; Sourcing**Introduction**

The fashion and apparel industry are among others characterized by the presence of a high number of relatively small enterprises (or SMEs). Moreover, in the fashion and apparel business high upfront investments are often necessary in order to start producing, or even planning. Bearing in mind market uncertainty and the high level of innovation for apparel products [1], building up long-term buyer-supplier relationships can be a great advantage for buyers as well as for sellers. More in general even in cases of asymmetric dependency, partnering in the supply chain can lead to a competitive advantage [2]. Developing long-term business relationships can lead to improved performance, greater cost efficiency and business development [3,4].

On the other hand, though, due to the restrictions in their size and (physical and knowledge) resources, (fashion) SMEs are generally not very powerful in negotiations and have to accept command or control impositions in a business relationship [5].

Possible recurrent questions are: should a buyer settle for the requirements and conditions of the supplier? Or, are there ways for a SME buyer to satisfy the supplier even if order volumes are lower?

The aim of this paper is to further explore these kinds of questions in the context of the apparel business, as well as to add to the marketing channels literature by providing a further understanding the conditions under which a more dependent business partner should develop and eventually use sources of power in order to offset its dependency from a supplier, or the other way around.

Following we elaborate on the literature on power and dependency in business to business relationships by integrating that with primary data gathered through extensive interviews: three interviews with (ex) product developers or sourcing managers: Mrs. Gerven, Mrs. Niekerk, Mrs. Schaap, Mrs. Bakker, Mr. De Vries, Mrs. Beulens, and two representatives from the Dutch

Apparel Federation: Mr. Crietee and Mr. Tap. Next three in-depth case studies of smaller (under 200 employees) rather fashionable apparel brands have been considered using observational data collection strategies. Next to that we elaborate on the field experience of one of the authors. The reason for this approach is that we do not only aim at confirming or disconfirming hypotheses drawn from institutional or behavioral marketing approaches, but also aim at generating concrete managerial implications that are relevant for the fashion business.

In the following we first briefly elaborate on the reasons why developing long-term agreements in the fashion business is often difficult. After that we analyze different dependency situations and their determinants, to then turn to an overview of possible power sources that can be used by dependent businesses in order to offset that dependency.

### Characteristics of the Apparel Business

Verticals like Zara (Inditex group), or H&M typically are able to reach economies of scale and at the same time to quickly respond to changes in consumer demand because of the way they are able to 'bind' suppliers to them. For an organization that is large, and with a significant brand recognition like the ones mentioned it is relatively easy to generate commitment from business partners, mostly because of the positive expected (for the dependent party) future returns. For SMEs this commitment is more difficult to achieve.

Before expanding on the possibilities SMEs have in the apparel business to offset or balance their dependency situation with suppliers, we first have to briefly present the characteristics of the apparel industry that have an impact on the nature of business relationships. According to, among others [6-12], the apparel industry can be characterized as different from other sectors mainly because of the following: (1) high market uncertainty; (2) long lead-times; (3) complex products.

Market uncertainty is related to the fact that demand is unpredictable, which is mostly the case when products have a short life cycle with high innovation and fashion contents [13]. The demand for apparel products is rarely stable or continuous as preferences for style and symbolic value are less predictable than preferences for functional product benefits [14]. Market demand may change, or sales can also be affected quantitatively by various micro- and macroeconomic factors [7,15]. To deal with uncertainty, developing long-term relationships can be very interesting for buyers [16], but at the same time unpredictability of demand poses a threat to establishing long-term agreements.

Long lead-times in the apparel industry are mostly due to the time it takes to source materials and convert them into end-products, mostly because of the high amount of labor involved. This is a fundamental problem for the apparel business [6]. It is required that a buyer places the order months before the selling season to ensure product availability [12]. Because of the total lead-time exceeds the time consumers want to wait for their products, the risk of both obsolescence and stock-outs is high [1].

Shortening lead-times is difficult because of the time needed to obtain raw materials. Another major factor causes long lead-times in the apparel industry: quality-control. All the checks can delay production by days or even weeks. Research by Fernie J, et al. [17]

Suggests that the quality of relationship contributes to the effectiveness of the supply chain in terms of manufacturing flexibility and minimalizing lead-times.

Apparel merchandise can be divided into three types: (1) essential/basic products; (2) fashion-basic products; (3) fashion products [17]. De Vries illustrates this as follows, "In every collection we would have the basic products that would be sold in stores the whole year and would only differ in fit or color. Next to that we had the basics that were season bound and the additional fashion items. We would build up our collection around this". Fashion products are typically short-lived because the products are designed according to the trend of the season. The short product life cycle and the typically high (marginal) innovation level of apparel products makes that these can be defined as complex [11]. The life cycle gets shorter and shorter due to the pressure of big players, which causes more pressure on processes in the whole industry to make the supply chain more efficient for apparel buyers, in order to still be able to meet quality levels [18].

The nature of apparel products has a stronger influence on the structure of the business relationship [17]. Therefore, a buyer needs to develop different kinds of relationships with suppliers according to the specifics of the merchandise. We have seen that the characteristics of the fashion business are such that establishing long term relationships is more often than not an advantage for the relational dyad. However, there are also reasons to keep a relation at an arm's length distance, as well as differences between the capacity firms have to command trade conditions. But when is what kind of relationship wishful? And how can a company manage the relationship to avoid being exploited?

### Relational Asymmetry in Buyer-Seller Relationships

In his pivotal work 'markets and hierarchies' Oliver Williamson looks for determinants of firm's (vertical) integration and growth, starting from two major premises: a firm, or production stage should always be integrated if the transaction costs related to the provision of its goods are too high and 2) in determining these transaction costs one must always consider the assumption that men is opportunistic, not only, but he is so "with guile" [19]. Oliver Williamson mostly considered relations between producers, and not between producers and resellers, or distributors and retailers. The behavioral perspective of buyer seller relationships has identified situations where e.g. integration by ownership is however not possible, or where one can assume business partners not to be opportunistic [20].

So, assuming that integration by ownership is not an option, firms integrate by developing long-term relationships based on mutual trust and commitment [21]. However, the dependency situation in the buyer-seller dyad is to be kept into account when it comes to the question of how to manage such a relationship; a

more independent business partner will e.g. have more incentives to depart from agreements than a more dependent one.

According to Cox et al. [23,20] there are four basic types of buyer-supplier relationships: [1] buyer dominance; [2] interdependence; [3] independence; [4] supplier dominance.

In situation [1] and situation [4] the relationship is imbalanced. One party is able to dominate the other and influence certain factors to its own benefit [23]. In situation [2] and situation [3] the relationship is balanced. In situation [3] There is a low level of mutual dependence: a relationship exists between the two, but they can also operate alone [22]. In situation [2] there is a high level of mutual dependency and both parties need each other to survive.

Due to the restrictions in their size and resources, SMEs are generally less powerful in negotiations and have to accept command or control impositions in the relationship [24]. Therefore, in practice, a SME will most of the time find itself in situation [25].

The focus of this paper lies in the development and preservation of, specifically, a long-term relationship. To achieve this, in an asymmetric situation, satisfaction, economic but also non-economic, is mandatory for both parties.

When a buyer is dominant in the relationship, however, the supplier may feel exploited and can eventually back out of the relationship [26]. Conversely a long-term relationship is not necessarily maintained when the supplier feels highly dependent on the buyer. Therefore, the preferred situation for both parties is either [1] or [2].

Caniëls MC [27] rightly points out that "A high level of total interdependence is an indicator for a strong, co-operative long-term relationship". Thus, we focus on the conditions and possibilities related to moving the relationship up from situation [4] towards the preferred situation [28].

## Determinants of Dependency in the Apparel Business

Dependency is not only a function of the money involved in a transaction; in this paragraph we elaborate on the concept of dependency and its constituencies.

Many conceptual studies discuss the determinants of organizational dependence. Emerson's RM [29] definition of dependence is mostly used: "The dependence of actor A upon actor B is (1) directly proportional to A's motivational investment in goals mediated by B, and (2) inversely proportional to the availability of those goals to an outside of the A-B relations".

This means that the dependent party does not entirely control the conditions that are necessary to achieve an action or a desired outcome [30]. Because they lack control, they are obliged to be the dependent party in the relationship [27]. But when is a company 'really' dependent on another?

A brief and non-exhaustive meta-analysis of the marketing literature [27,18,20,31-40], lead to defining the following as

the five main determinants of a SME buyer's dependence: (1) the availability of alternatives; (2) level of relational specific investments; (3) switching costs, incurred when replacing a trading partner; (4) frequency of interaction in the relationship; (5) shared wallet. Following we will comment on these determinants keeping in mind the fashion industry's characteristics sketched above.

### Availability of alternatives

A buyer is highly dependent on a supplier if the access to alternative supply sources are limited. It is unlikely that a buyer will terminate a relationship if the alternatives are not as attractive as the current partner. Critee in this respect shared the following: "The brand X does business with an Asian supplier for twenty years. The relationship is very manageable, they both know what to expect from each other. However, X does not have an alternative for this supplier and would face problems if this party falls out of business". Niekerk (2016) observed the following, "As a buyer you constantly try to spread your risks. Once we had a flood in Bangladesh that ruined our production. Finding alternatives at that stage was impossible and we lost a part of our collection". In the case of buyers changing plans, long lead-times also limit the possibility for quick alternatives; long lead-times caused by long-term forecasts add to the level of dependency also. Schaap explained: "It is easier to find alternatives for your basic essential products than for your fashion products because basic products are basic for you but also for the market and thus easy to manufacture". Gerven added, "It is easier to find alternatives for your basic products. You switch often to alternatives for basic products because on those products you need to make profit, for fashion products it is much more interesting to work on a long-term basis to ensure the right quality and receive some security".

The reason for the often-limited availability of alternative supplier sources is that apparel products are complex products. Some apparel products (e.g., knitwear and outerwear products) require highly specialized machinery to manufacture and, due to the complexity of these production processes, for buyers, a suitable supplier can be hard to find, and it can be even more difficult to switch to alternative suppliers because of relationship specific investments. This means that buyers for each product type become generally dependent on certain specialized suppliers.

### Relational specific investments

A buyer and supplier operate in a bilateral relationship for a considerable period once an investment is made [38]. Relational specific assets are, for example: capital improvements, training or equipment. The work of Williamson OE [37] identified three types of asset specificity:

- Site Asset Specificity: refers to the situation where successive production stages are located close to one another.
- Physical Asset Specificity: transaction-specific capital investments, buildings, tooling and equipment.
- Human Asset Specificity: transaction-specific know-how, investments in people or in time and effort spent learning.

The downside of relational specific investments is that it is hardly possible to transfer these investments into another relationship, because these investments will lose their value in another relationship. Once a buyer has invested in the supplier, they might become locked in that relationship. This will make it difficult for the buyer to switch to another supplier, as they have to write off those specific investments [25].

As Schaap pointed out in the interview, RSIs were common in her company. As a new and innovative brand, they needed special investments, especially machinery. The buyer, but also the cotton supplier and denim weaver, made investments to manufacture Schaap's products. Unfortunately, when her company went bankrupt, everyone lost their investments.

The trends of the season dictate what the buyer procures from their suppliers. The technical expertise or the equipment that a supplier owns might limit the capabilities of the supplier to develop the buyer's products. A buyer can decide to invest in human asset specificity and can send his technical employees to the factories to check production [24]. When quality is not as expected, technical employees can invest their time and effort in teaching the suppliers' workers how to develop the best products. Because the time invested is non-retrievable, a buyer is dependent upon a supplier. "You do make investments in the relationships with fashion suppliers more than for the essential basics. I remember one time when I sat behind a sewing machine to explain to the supplier how they should manufacture the product, they had no idea what I envisioned in my head, so I showed them" says Gerven. Fashion products are innovative products, a supplier might need special machinery and/or training to produce the product.

### Switching costs

Relation specific investments cannot be recovered when the relationship ends. Wilson DT [38] expressed a similar view, these non-refundable investments are part of the switching costs. Switching costs are the one-time losses incurred in dismantling the current operation and setting up a new one. A buyer is dependent on a supplier if high switching costs occur by turning to alternatives [25]. Switching costs are, for example: search-, set-up- and equipment costs. Additionally, as Schaap said, "When you start working with a new supplier you always need to make payments upfront and, especially for a small company, you do not have this money because you have not made profit yet. This is always a big problem when switching to new suppliers".

Due to the limited financial resources of SMEs all additional costs have to be avoided, this is the same for all companies the nature of the product does not matter in that case, according to Bakker, "Looking for a new supplier leads to costs. Flights and hotels are, for example, very expensive for a small label, I rather avoid making these". Schaap (2016) claims that it is not always possible to avoid them, however: "I terminate the relationship when I do not want to work any longer with this supplier. The costs of switching to alternatives is then something we just have to deal with".

Be that as it may, from our personal experience, the dependency caused by this determinant is usually mutual. Over time, factory workers get used to the manufacturing methods taught, as based on the guidelines of the buyer. From the perspective of the supplier, all experience, and therefore extra efficiency and effectiveness, developed by their workers in producing the specific products of the buyer also go to waste when the buyer changes to another supplier. To promote specialism in manufacturing for a certain buyer, most factories even work with reward programs where, for incentives, factory workers are rewarded if they meet high targets. These can be obtained easier and quicker if an employee works for the same brand multiple times.

### Frequency of interaction

If the interaction is not frequent, the relationship will not be important for the buyer. Neither party will work on creating value and building up a long-term business relationship. Both become dependent when the relationship is frequent [17]; the buyer expects their products, the supplier their profits. For example, when Coca-Cola has a special design collaboration, they address different suppliers than for their usual products. The relationship is not frequent and both parties will probably try to exploit the relationship, which should hence be based on hard contractual agreements rather than on mutual trust.

Frequent interaction is very important for both parties; the buyer needs their products and the supplier their profits. Therefore, both parties need to work closely together in order to establish the best product. As De Vries mentioned, interaction with essential suppliers is less frequent because these styles are repeated from previous seasons and only fit, and color adjustments need to be made. With fashion products you start from scratch every season. For these products the patterns are never right the first time, or fabrics do not immediately have the precise drape, meaning the process takes more time and thus more communication. "Interaction is much more frequent for complex products," Beulens pointed out, "For example, suppliers' patternmakers visit our company more often for fashion products to assist in fittings, they can see from their point of view what needs to be changed." Especially in the case of standardized communication concerning specification sheets, it is important to work quickly and accurately. Currently, there remains great variation in the description of product specifications resulting in delays in production and, therefore, costs.

### Share of wallet

Share of wallet is "the actual volume for one product sourced through a particular supplier" [39]. The higher the volumes for one supplier, the more dependent a buyer is.

Every interviewee mentioned that they preferably never split a production order over multiple supplier. "It is risky to spread a production order of one particular style; you risk a difference in quality," Gerven stated. Bakker mentioned in the interview that, "If colors, fit or techniques are not the same, combining them in store is impossible".

So far, we have identified five possible determinants of buyer-seller dependency from the literature and explained these in the context of the fashion business. The reader will have noticed that whereas some determinants, like the availability of alternatives for specialized products, are defining the relationships' governance ex-ante, others, like the amount of transaction specific investments, can be changed and influenced during the relationship. So next we look at what possibilities there are to influence the dependency situation, assuring a longer term (albeit necessary and calculative) commitment.

### Power sources in the Apparel Business

Instruments that allow a company to change the dependency structure in a relationship, or more in general that allow a company to exert a specific behavior from a business partner can be considered as sources of power. Power can be used as a tool by both parties (buyer and supplier) to evoke desired behaviour [2].

Due to the relatively small (order) size of SMEs in comparison to their suppliers, the risk of being exploited is significant [5]. SMEs must always remain aware of their vulnerable position and should not jeopardize their relationship by making bold moves. SMEs are limited in obtaining competitive price quotes and have less leverage in negotiating terms of agreements also [30]. This however does not imply that as the weaker party cannot influence the more powerful party (Ibid).

The nature of a power source can be coercive or non-coercive [29]. Coercive power [40] describes a state wherein the more powerful party uses mainly punishment and/or threatening sanctions to obtain desired behaviour. Rewards are an example of non-coercive power. The use of coercive power is 'risky' in the development of long-term relationships as it has a negative effect on commitment [2], a greater emphasis should hence be placed on the use of non-coercive strategies [42]. Similarly, power sources can also be divided in mediated and non-mediated [43]. With mediated power the powerful party specifically asks the other party to act as desired; non-mediated power is more indirect, and usually used by the less powerful party to decide if and how much it will be influenced by a powerful party.

The most evident governance instrument in a trade relationship is an explicit contract: "A contract is an effective tool to decide and agree upon the terms and conditions of the cooperation" [44]. Contracts are used for different motives: formal or informal reasons, as well as agreements, and can be considered as mediated and non-mediated power tools. Formal contracts stimulate the creation of mutually beneficial relationships by explicitly stating contractual agreements that give both sides of the relationship legitimate rights. They make both parties committed for rational reasons; formal contracts are used as a safeguard of transaction specific investments [44].

In reaction to certain behaviour and occurrences, one member has the ability to either reward or punish another channel member. To translate this to Lith's definition, rewards are mediated tools that

are non-coercive, and punishments are coercive. A buyer can offer a supplier rewards that are attractive to the supplier. A buyer can punish suppliers when they do not meet requested performance. De Vries states "When delays appeared, a penalty would demand the supplier to ship the garments by air instead of by sea or demand to find another suitable discount. If a supplier delivered exceptionally good work, we would reward them with giving them additional orders next season". Brown JR, et al. [28], state that the frequent use of mediated coercive power is likely to damage the relationship. This can appear unacceptable, annoying, and possibly threatening. The overuse of mediated coercive power in long-term relationships can cause conflicts.

An informal contract stimulates relational or affective commitment [44]. These contracts are more about creating a positive reputation by using integrity and fairness. Informal contracts exist to ensure that a buyer's trust in the supplier is well found and vice-versa [30]. If a buyer uses non-mediated power tools even if the buyer is the more powerful party in the relationship, it can greatly increase the commitment of the supplier in the relationship (Ibid.).

Another method used to lower the other party's dependence is to ask how well you perform your own role in the relationship [9]. Both Cox A [22] and Powers TL, et al. [37] state that behaviour represents one party's perception of the capabilities of the other party. The better a party performs its role as a buyer, the fewer alternatives a supplier has. By performing its role according to expectations, a buyer can increase the supplier's dependence. Crietee observed, "I heard a rumor of a German buyer that always developed three of the same products with one supplier. The first supplier that delivered was always paid on time, but for the second and third supplier this company would always find something to cancel the order, and not pay".

Knowledge can be used by a buyer to share expertise and/or skills that are desired by the supplier. Suppliers can use these obtained skills in other relationships as well. "There is an Indian company that has set-up a five-year plan in a factory in Bangladesh. Sixty Indians moved to Bangladesh to train the workers there" said Crietee, giving an example in the interview.

Mr. Tap shared that one big problem nowadays is a buyers' lack of product knowledge. Tap said that it would be a major advantage for buyers to have more product knowledge as a small player in the industry to increase your appeal, "The first step in developing a product is that the buyer comes to a supplier with the first idea sketches. The supplier develops multiple prototypes and checks them with the buyer. If the buyer would have presented their ideas more worked out in the beginning of this process (samples, patterns etc.) this would save a lot of prototypes and thus money and thus lead-time. This is a common problem that we experience in the apparel industry".

Finally, the virtue of a well-known brand name comes from the "desire of one party to be associated with another party" [26]. Suppliers try to attract buyers by having at least one well-known

brand name in their portfolio. "Suppliers could be very eager to work for us, because of our popular brand name. Sometimes, they would give us extra discounts in order for us to reach our preferred targets so we would buy products from them," said De Vries. De Vries added, however, "Small brands are also interesting for suppliers because of their exclusive and innovative products. Most suppliers manufacture next to buyers' products also products for their own brand. They would never copy buyers' products, but they like to get inspired by the silhouettes, colors and fabrics interesting innovative brands use".

Finally, being satisfied in the business relationship is the final aim of a collaboration, as mostly in asymmetric relationships that is the way, or aim to be held, to balance dependency. Satisfaction can be economical but also non-economical. Essential products are the core business products of a buyer, the products a buyer needs to make profit on. For a supplier, these essential products are attractive because of the higher volumes. These volumes might not be high for the first order but are usually repeat orders. The volumes are higher because they are spread over multiple seasons. This not only provides commitment but also expected economic satisfaction for the supplier. Because of this economic security, a buyer has room to develop fashion products with this supplier also. The supplier agrees to manufacture these fashion products out of rational commitment: if they produce the fashion products, they will also be able to manufacture the essential products. So, allowing for non-economic satisfaction can generate long term returns, at the detriment of short term lower economic satisfaction [30,31].

## Conclusions and Implications

The rationale of this paper is that oftentimes smaller businesses in the fashion and apparel industry are quite dependent on bigger ones and are not aware of ways to offset their dependency other than the promise of future -larger- orders. Creating long-term commitment can deliver advantages to both parties in a relationship, however the high levels of product complexity, long lead times and market uncertainty makes that in the apparel business long term commitment is rare. So, what tools do smaller enterprises have to exert their conditions? In order to explore that we have used insights from the marketing channels literature to understand what exactly the determinants of the dependency structure in a business relation are and applied that to the apparel business. After we have looked at ways to change that dependency structure. Most apparent power sources for a buyer consist of: establishing a strong brand that a business partner will use in promoting its proposition, forcing suppliers to make transaction specific investments (which are not redeploy able), specializing in new products and technologies that a supplier will want to understand and use, developing knowledge that can be exchanged in the form of specialized personnel, investing in standardization of communication before the relationship starts in order to reduce administrative costs for both parties.

Power sources are most effective when non-mediated, i.e. informal and based on reciprocity; 'hard' contracts with punishments (coercive power sources) in case of non-compliance will diminish the willingness to collaborate.

One important limitation of this paper is that cultural norms and values have not been taken into account. Specific form of rewards and punishments can have different effects on commitment depending on (national) cultural norms. More empirical research could look at different perceptual and behavioral outcomes of coercive and non-coercive, or mediated vs non-mediated power sources.

Another limitation of this study is that the perspective taken is that of the buyer. Also, suppliers are often 'squeezed' by larger vertically integrated companies; suppliers for Zara have to produce large quantities before even getting the order to be able to deliver product in a very short-term notice. More research about possible sources of power for these suppliers is also necessary.

Methodologically triangulation of results through case studies, interviews and own experience assures for some degree of theoretical (instead of statistical) generalization of the results.

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## Conflict of Interest

No conflict of interest.

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