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ON ACTIVE PRICING: A CRITICAL PERSPECTIVE ON END OF SEASON SALES IN FASHION RETAIL

Sobre precificação ativa: Uma perspectiva crítica sobre promoções de final de coleção na moda

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ABSTRACT

Recent fashion industry efforts towards trends democratization have resulted in a system that promotes looking at clothes as perishable goods, strongly supported by retailers' practice of end of collections sales. This paper looks critically at this mainstream practice by investigating alternatives to pricing strategies in fashion to propose new alternatives. To illustrate this proposal, the strategies behind three cases are presented and studied. Through the study, three value foci enabled by the strategies are found: production management, storage space and client relationship. The paper concludes with a discussion on alternative pricing models in fashion and how they can be more broadly applied to the fashion industry, supporting that clothes be regarded as long-lasting goods.

Keywords: fashion design; pricing model; critical fashion

RESUMO

Esforços recentes que visam a democratização de tendências na moda resultaram em um sistema que promove a compreensão de roupas como bens perecíveis apoiado na prática de liquidações ao final de coleções. Este trabalho problematiza esta prática através de um viés crítico, investiga estratégias de precificação e propõe alternativas. Para ilustrar esta proposta, marcas são analisadas via estudos de caso. O estudo aponta para três focos de valores facilitados pelas estratégias adotadas: gestão de produção, espaço de estoque e relacionamento com clientes. O trabalho conclui com uma discussão sobre como esses modelos alternativos podem ser aplicados na indústria da moda, corroborando com a ideia de que roupas sejam vistas como bens de longa vida.

Palavras-chave: design de moda; modelo de precificação, moda crítica

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Introduction

Recent fashion industry efforts towards trends democratization have resulted in a system that promotes looking at clothes as perishable goods (Chapman 2005), supported by the practice of end of collections sales practiced by ready-to-wear and fast-fashion retailers. The problems generated by such perspective go beyond an increase in profits and excessive consumerism and include what can be seen as one of the biggest issues faced by design today; the early and massive disposal of garments (Fletcher 2016). The moment undoubtedly calls for a re-thinking of the system as a whole to promote changes on how we perceive, produce and consume clothes from a critical perspective (von Busch 2008). Despite many proposals been put into practice, the way to a feasible system is still being built².

This paper questions mainstream pricing strategies practiced in fashion, especially the end-of-season sales. To do that, three case studies that make use of alternative pricing models are presented, discussed and analysed. The case studies are investigated via interviews and desktop research (cases 1 and 3) or auto-ethnography (case 2). The first case looks into the work of Finnish designer Anna Ruohonen, who adapts haute-couture pricing strategies to her bespoke line. The second case emerges from my practice as a fashion designer, where sales are offered at the launch of collections. The third case looks at atacac, a Swedish clothing company that has adapted the model offered in the second case to better suit a broadly digitized production. The collected data is open coded and core themes that motivate each of the pricing models are found. The findings suggest three value foci; client relationship, storage space and production management. The limitations of the work concern the size of the companies investigated and the length of the application of the models. The paper concludes with a discussion on alternative pricing models in fashion and how they can be more broadly

² The second case study in this work has been partially presented in Valle-Noronha 2015.



applied to the fashion industry, supporting that clothes be regarded as long-lasting goods.

What's *in* this season?

Strongly connected to the year's seasons, fashion collections come and go thanks to trends, quite like seasonable goods. This constant movement of consumption and discard has been previously defined by Brooks Stevens (Adamson and Glenson 2003) and later popularized by the social critic Vance Packard (1960) as programmed formal obsolescence. The concept of programmed obsolescence deals with an object designed to 'prescribe' in a determined length of time. This obsolescence can be functional, where the product stops working or breaks, or formal, when users no longer feel pleasure with or admire that design, amongst others. Creating and producing clothes which are sensitive to trends is a similar approach to the design of formal obsolescence.

Apart from making the general public more aware of (the many) fashion trends (Clark 2014), the changes promoted by fast-fashion industry has shaped how the fashion system works today. This shaping encompasses not only the industry speed and collection release policies but also how clients deal with clothes consumption today. While shorter collections backed by aggressive advertising boost frequent consumption, massive end of season sales helps with keeping low stocks by offering up to 80% discount just before a new collection arrives in stores. The easy, affordable and frequent access to new clothes conforms a society eager to acquire and dispose of garments after little consideration (Morgan and Birtwistle 2009), closer to how we deal with consuming rice and eggs than to how we deal with consuming furniture or kitchen appliances. The overconsumption and early disposal of garments is a worrying issue faced by the fashion industry today. Apart from the increase of clothes ending in landfills (Allwood et al. 2006), another worrying fact is a mindset one; the growing



perception of designed objects as perishable goods (Chapman 2005) ready for disposal after short-term use.

The reasons behind this mindset problematic are plenty, including the promotion of trend-driven creation in commercial fashion and overproduction aiming at larger profits. It's effect on the fashion industry force companies to keep large stocks based on bets and have most of its gross sales when reductions are offered. This paper aims at tackling specifically the matter or pricing strategies taught and practiced by the mainstream fashion and calls for a rethinking of how we price, consume and perceive fashion goods. It is suggested, and believed, that different forms of creating and producing call for different forms of selling, and an alternative form of pricing based on sales at the launch of collections is proposed. Three case studies are introduced as an illustration to the proposal, each of them focusing on different aspects enabled by the model. The information for outlining the cases came from my own experience and an interview with Anna Ruohonen in 2016, added to desktop research performed on digital content available on-line.

From Growth to Decline

"[...] fashion teaches one to adapt a garment and not to make it last." (Barthes 1979, p. 247)

Classic marketing literature in fashion suggests a formula for the lifecycle of clothes in stores which is taken as a rule for the majority of retailers, following a general product lifecycle proposal (Hoffer 1975). It consists of 4 cycles that lead the pricing strategies aiming at best profits, visualized in a bell-shaped curve: introduction, growth, maturity and decline (Figure 1 below, adopted from Cox 1967). This model assumes that products have similar in-store life cycles and their selling totals generates similar curves (Tellis and Crawford 1981), growing slowly after introduction, reaching a

levelling stage and decreasing afterwards. In response to that, offering sales after the levelling stage would boost sales and prevent an abrupt decrease.

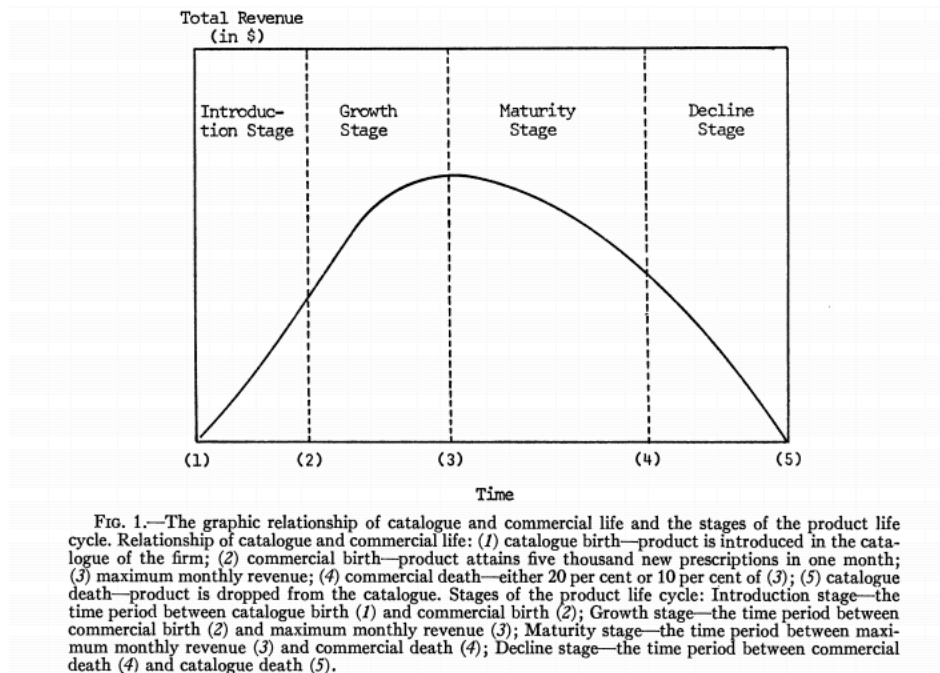


Figure 1 The bell-shaped curve model as illustrated and explained in Cox (1967, p. 377)

The model below illustrates how these assumptions are applied to practice in the general commercial fashion brands extracted from the pricing model followed (with slight variations) by a medium-sized high-end fashion brand operating in Brazil:

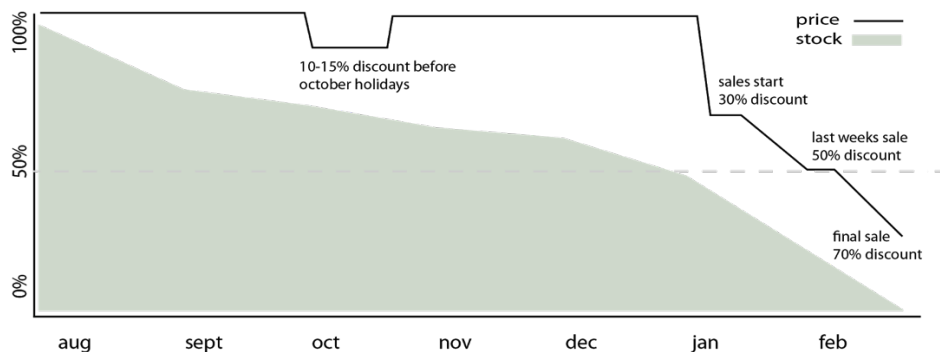


Figure 2 Visualisation of stock and price variation of a garment over the selling period of a collection.



Considering mainstream commercial fashion, at the end of a collection lifecycle, when trend-informed pieces approach their style obsolescence expiry dates, they must be sold in quantity and speed. After all, by the time of a new collection launch, these pieces will be visually outdated, having their commercial value depreciated. While this pricing model does seem to justify the way many of the businesses in fashion work, it is sound to question its applicability to all modes of designing, producing and selling clothes. If one designs directed by motivations other than trends, should the same pricing strategies be followed?

Offering end of season sales as a marketing strategy has worked since the early beginnings of the new fashion system order set by the prêt-à-porter in the early twentieth century and later intensified by the growth of fast-fashion companies in the 1980s. The recent rise of sustainability awareness and questioning of ethics in production and consumption has stimulated consumers to buy consciously and avoid fast-fashion (Kim et al. 2013), added to an economic crisis in different spheres, has led to a decrease in growth for the fashion market (CNBC 2016). Additionally, consumers have grown more aware of sustainability issues, demanding revision on different levels in the fashion system. The moment thus calls for an overall rethinking of how small and large companies have been dealing with the given system as a whole.

Some efforts have sprung recently, coming from the leading brands on an international scale concerning promoting changes by reframing their commercial strategies. In the realm of pricing, alternative inventory-based approaches adapted to fast-fashion retailers suggest simultaneous price reductions and new collection exposure on stores (Lago et al. 2016). In regard to commercial approaches, the more recent see-now-buy-now trend takes advantage of the easy access to fashion shows images aiming at an increase in sales. In this, at first, experimental model, the six-month interval between fashion shows and in-store releases is eliminated by offering the fashion show pieces concomitantly with the shows (Nylon 2016). These experiments have proved effective to some business models and their practical implementation grew among



different mainstream companies in the fashion system. But how are other alternative business models engaging towards systemic change? The following sections introduce a pricing model to small companies not following fashion trends and illustrates it by presenting and investigating three cases.

Active Pricing

How can a pricing strategy contribute to cater to storage, production, and designer-client relation? With that starting question, this work outlines emerging pricing proposals that take into account the different modes of making garments and their different needs. Three cases were identified via informal conversations with the designers themselves. The data was collected via: (1) a semi-structured interview with Anna Ruohonen – transcribed and open coded, (2) autoethnographic data collection on my own work via sales reports, informal conversation with clients and printed informative material, all summarised and open coded and (3) desktop research on the atacac’s company website, summarised and open coded.

Case 1 - Anna Ruohonen

Founded in 1999, Anna Ruohonen is a Finnish designer based in Paris whose work is centred on a carefully crafted concept, advocating for a sustainable and ethical fashion by making long-lasting pieces with quality craftsmanship in made-to-order format. Most of the production is done in house, which occupies a six-storey building in Paris, and encompasses the head office, the sewing, pattern-making and design studios as well as a showroom. The clothes are sold in stores in Paris and Helsinki and stockists in Finland and Stockholm. As stated by the eponymous label, the “*clothes are not made for just for one season, they endure time as beautiful objects*” (Anna Ruohonen, 2017). As the production has no connection to trends and is only initiated on demand, the pricing model applied at Anna Ruohonen also differs from the usual ready-to-wear



strategies. Price reductions are rarely offered and are usually focused on samples and showroom pieces.

After the shows or collection presentations, Anna Ruohonen receives orders from stockists' buyers. Following the orders, pieces are produced in an interval from three to six months, when they are delivered to the stores. In 2010 the label decided to also take orders coming from individuals. This allowed clients living in other cities than Paris and Helsinki to buy the clothes and the label to optimise production by having a larger number of pieces being produced at the same time. Whilst, on the one hand, the three to six months wait time is superior to the usual 3 to 21 days, on the other, a 20% discount was offered. The made-to-measure format allows the designer to produce only ordered, avoiding over-production or garment waste within the atelier.

Case 2 - juliavalle

juliavalle is the name of my clothing line, which I have run between 2007 and 2017. Focusing on experimentations on creative pattern cutting, I produced clothing projects artisanally in reduced scales (between 40 to 100 pieces per project) in the atelier located in Belo Horizonte, Brazil. Despite the small sales revenue, the atelier maintained its production due to other design projects and consultancy jobs, allowing that experimentalism was not impaired by marketability needs. In 2013, a small manifesto published under the name "fashion and Fashion: a manifesto" (Valle-Noronha 2013) introduced a pricing model that defied the mainstream pricing strategies. Whilst price reductions are usually offered at the end of seasons, following the known proposal by Hoffer (1975) the atelier started offering reductions at the launch of projects. The main reasons behind the proposal on this manifesto were the acknowledgement of different modes of clothes-making and a client-oriented selling strategy. For me, the experimental production is not seen as fitting the 'perishable' notion of fashion due to the expected lifetime extending the period of one (or many) seasons, thus demanding different pricing policies. In regards to the designer-client, I





advocated for reckoning clientele loyalty by offering loyal customers—those who usually come on launching events—a better price.

The pricing proposal follows a 20%-30% discount at the launch of each project (varying for each project). After around 30% of clothes have been sold, the discount drops to 10%, reaching full prices when about 60-70% of the pieces are sold (Valle-Noronha 2013). During the years in which the sales inversion pricing proposal was used in the atelier shop (2013—2017), the average discount per piece remained very close to the previous years, in which a more traditional approach was applied. For the clients, this is an opportunity to acquire just released garments at special prices. For the designer, this means that a larger number of pieces will be sold on the first few days of sale. But ultimately, this intensifies the idea that experimental clothes should not be regarded as perishable. Instead, it draws the production outcome closer to other products of creative work, such as works of art or rock concerts, in which scarcity results in a price increase.

Case 3 – atacac

Atacac, founded in 2016, is a Swedish company and research centre focused on manufacturing and commercializing clothing, located in Gothenburg. The brand is invested in rethinking fashion industry from a digitization viewpoint and explores ways to apply digital technology to the creative and production processes in fashion to “redo the way to design, present, sell and produce garments” (atacac 2018). Instead of releasing collections, atacac releases single products, initially in a digital form, with the support of Clo 3D software. To them, digitization means more than taking advantage of digital prototyping tools. They fully explore the digital world to visualise, present and communicate their work to their clients. Additionally, they pair up with the gaming industry to produce clothing for avatars and game characters, disclosing new spaces of action for the fashion design professional.





Atacac's pricing strategy is an adaptation of the active pricing model (Valle-Noronha 2013) in which pre-production sales receive a discount. The online shop offers pieces at three different pricing points: pre-production (at an average 40% discount), in-production (at an average 20% discount) and in stock (at full price). This strategy (atacac 2018) allows the brand to raise funds for the production, similarly to a crowd-funded project. Additionally, it also offers better control of material use, leading to reduction in textile waste due to overproduction and less stock-keeping.

Rethinking pricing strategies in Clothing and Fashion

The three cases presented above introduce alternative strategies to pricing clothes with different interests in their core. After reviewing the data gathered via interview (Anna Ruohonen), autoethnography (juliavalle) and desk research (atacac), three value foci were identified. The pricing strategies enabled the optimization of different parts of the processes of manufacturing and commercializing garments within a micro-small size production. The values are presented and described below:

Production Management: The pre-production discount strategies at Anna Ruohonen allows her to increase the effectiveness in the production phase, in a way that pieces of the same style are produced at a larger number at a time. The strategy supports effectiveness in cutting, sewing and finishing times, as a series of pieces are produced together instead of individually.

Client Relationship: In the production at juliavalle, changing the pricing strategy meant reckoning that different modes of making clothes require different modes of commercialising. Additionally, the connection with loyal clients was restructured in a way that their loyalty is rewarded with better offers. Sharing the motivations behind the active pricing model invited clients to reflect on clothing consumption, especially regarding the lifespan of the pieces they own.

Storage Space: By offering pre-production discounts, atacac explores ways to better fit pricing strategies to a more digitized production. In doing so, the company's



website states, that “[...] we can minimize overproduction and stock keeping. In this way we save money and can lower the retail markup to one third. Basically, if you pre-order before the item is produced you pay the costs for production, design, developments and our digital communication. You do not need to pay for stock keeping or for overproduction compensation” (atacac 2018).

Conclusion and Discussion

This paper has presented and briefly analysed three cases that apply alternative pricing strategies to the mainstream product lifecycle proposal (Cox 1967; Hoffer 1975), named here as active pricing models. Each of the cases refers to different motivations as well as outcomes that result from the application of their particular pricing models. Together they represent possible paths to be further investigated and developed in the field of fashion marketing. The alternative pricing models introduced here suggest forms of improving production management, storage space allocation as well as designer-client relationship.

Despite this potential, the limitations of this study are clear regarding the number and size of companies that employed the models, as well as the geographical location restricted to one company in Brazil and two in Europe. Due to that, the study focuses not on their financial performance, but rather on other aspects the alternative pricing models may offer the fashion system in a moment when more radical changes are needed. Additionally, many questions arose as the study was developed and cannot be answered due to lack of data. Some of them regard the commodification of fashion good — that may increase with the models if applied to a larger production. To investigate that, a new study is needed, focusing on clients’ perception of the new pricing strategies.

This work expects to instigate discussion around the need for revising the ways we relate to, commercialise and market clothing products, especially when not fitting the unsustainable fast-fashion approach. Other examples that look into pricing



transparency, shared economy, amongst others, contribute to the efforts of rethinking fashion in the contemporary world towards more respectful and responsible futures.

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