

Survival Strategies of Korea's Fashion Industry in 21st Century

Dae-Yun Won

President of Korea Fashion Association

ABSTRACT

The purpose of this study is to analyze Korea's fashion industry and find out the ways to settle recent crisis of the field. This study considered the environments of domestic or foreign fashion industry, then tried to find efforts to become one of the world's top companies and products.

Key Words : fashion industry, marketing strategy, global competitiveness

I. Introduction

For the recent few years, Korea's fashion industry has suffered from the decline in the consumer market. The consumption in the private sectors turned to a minus growth rate; the sales in fashion goods also continued inverse growth; and the purchase intentions of consumers stay bearish. Some critics say that the decline in the fashion industry is

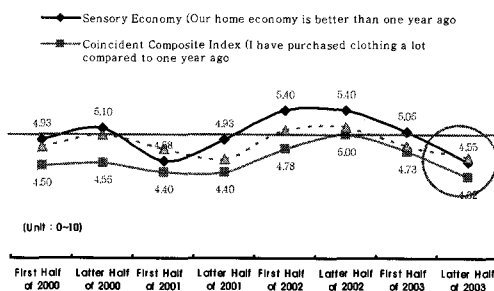
more serious than that of 1997's IMF financial crisis.

II. The Environment and Crisis of Korea's Fashion Industry

1. Continuous Retardation in the Growth of the Fashion Market

The fashion clothing market in 2004, which is backed by the economic growth rate of around 2%, is predicted to outwardly show 5% of growth compared to the year 2003, an amount of 19,400 billion won, however, actually recording minus growth rate when considering other factors such as the increase rate of prices. Accordingly, M&A has been prevailed due to the dropout of related businesses, and assignments of brands have been a matter of concern and interest in the fashion industry.

However, since there have always existed those companies or brands that maintain high growth regardless of depression, and purchase intentions of consumers are always maintained, chance to attract



<Fig. 1> Sensitivity About Consumption Expenditure

Source: CFI Survey by Samsung Fashion Institute

Dae-Yun Won, E-mail: dywonceo@samsung.com

customers always exists.

In particular, the 5-day-per-week working system, which has been put into force from 2004, and the trend of sportism are becoming a sign of the expansion and subdivision of casual sportswear market, the growth of outdoor market, the acceleration of changes in the quality of men and women formal dress market, the total and family trend of brands based on high brand asset and qualitative changes in sundry goods such as shoes and bags.

For the recent several years, the casual clothing market has grown to 6,500 billion won in sales in the midst of continuous strength, and the sportswear market including golf has also grown to 1,700 billion won in sales. On the contrary, women clothing market has declined to 3,700 billion won in sales with its market share staying at 17% from 25% in the past.

is increasing every year.

<Table 2> Share of Brands in Registration

Brands	1999	→	2003	Increase
Domestic	71.2%	→	67.3%	3.9%
Foreign	28.8%	→	32.7%	+3.9%

In addition, as department stores have preferentially provided famous foreign brands with shops as part of differentiated strategies in order to beat new logistics such as discount store or home shopping center, the logistics activities of domestic superior brands are becoming more shrinking. In the end, some brands could not begin since there were no shops.

Moreover, the desire of consumers to purchase or own prestigious branded goods has become a new keyword of fashion, and the production of imi-

<Table 1> Changes in Size of Sub divided Markets

(Unit: Billion won)	1998	1999	2000	2001	2002	2003	2004 (Estimated)
Men	3,856	3,513	4,229	4,119	4,454	4,150	4,001
Overcoat	1,070	543	1,141	929	892	669	773
Women	2,692	3,212	3,478	2,984	2,924	2,553	2,648
Overcoat	1,620	1,211	2,114	1,847	1,973	1,127	1,372
Casual	3,462	4,136	4,818	5,544	5,636	6,481	6,900
Golf	450	604	671	481	1,099	651	773
Sports	909	907	1,186	833	887	1,054	1,218
Baby/Child	403	518	754	654	856	881	870
Underwear	909	748	869	685	745	812	773
Overcoat (*)	2,689	1,754	3,255	2,776	2,865	1,806	2,145
Total	15,371	15,391	19,259	18,077	19,466	18,389	19,327

2. Deepening of Encroachment into the Domestic Market by Foreign Brands

The large opening in logistics in 1996 made the domestic fashion market the arena of competition among advanced goods from abroad before its foundation was established. In particular, the portion in domestic utility model registration by foreign brands

tations by domestic manufacturers has disgraced the domestic market as "imitation country of prestigious goods".

3. Start of Price Competition in Fashion Products with the Rapid Growth of Discount Stores

The Korea's fashion logistics market is facing

with a new phase in the midst of diastrophism with the starting point of IMF financial crisis in 1997. Its features include the rapid growth, differentiation, and diversification of discount stores, strategic conversion of department stores into specialization and luxuriousness, business diversification of new logistics companies, expansion of entry into logistics by manufacturers, practicality of logistics/information innovation, widespread of online shopping, and integration and large-scale of street stores.

In particular, discount stores have continued 25-50% of growth every year, and took the 1st place in 2003 ahead of department stores, and it is predicted that it will gradually grow both in quantity and quality up to 2009. In addition to price discount strategy, it provides ideas in daily life and value as part of image upgrading. As its fashion products feature various composition and the development of specialized products, its portion in product sales accounts for more than 20% from 9% in the past. That means that discount stores have taken their place as one of main logistics channels in the fashion manufacturing industry.

4. Changes in Consumer's Purchase Pattern

The globalization of lifestyle through economic growth, multimedia development and the widespread of overseas travel brought the enhancement of consumers' level and the complication of purchase pattern. In particular, as the domestic market is becoming an international market, *i.e.*, the competing arena of global products, the coverage of choice has become broader. In the end, the changes in purchase patterns including individuality, practicality, information searching require thorough investigation into consumers of Korea's fashion manufacturing,

and high investment in R&D for improvement of design.

III. Survival Strategies of Fashion Industry for Conversion into Highly Value Added Industry

1. Knowledge/Information and Highly Value added Advanced Country type Industry to Create Culture

Advanced countries including France, Italy, USA and Japan realize highly added value that provides improvement of the national image and continuous growth in all industries by utilizing the high intangible value of the fashion industry.

France grew as an economic power by marketing and industrializing fashion design in the early twentieth century, and Italy joined the line of advanced countries by communicating the competence as the best fashion manufacturing country to the world through 1960 Rome Olympic. USA developed to the market leader as its fashion design was rooted as one of the global standard through the global network in 1970s and 1980s, and Japan improved its national image as Japanese fashion designers entered into the European market and could establish the foundation to gain the fame as the world's top designer.

Also, those examples that ups and downs of a company are governed by renovation of fashion design have increased. Italy's Gucci, the most prestigious brand of leather products, founded in 1923, was in the edge of company sale and chronic deficit operation due to the retirement of the founder in 1970s and 1980s and unreasonable business expansion. However, it is enjoying new prosperous days, thanks to the successful product improvement

by a designer named Tom Ford who was recruited in 1995, recording U\$2.3 billion in sales and U\$5.3 billion in intangible brand value in 2002. Louis Vuitton of France, which started as a retailer of travel bag in 1854, achieved U\$5.9 billion in sales and U\$7.1 billion in brand value in 2002, and its mother company LVMH recorded U\$11 billion in sales, growing a world's top fashion company.

Like this, as the fashion industry is not a declining one, but culture creation industry of knowledge-information and highly added-value advanced country-type, Korea should also change its policy in 21st century's international and high-cost era.

2. Competitiveness Created by the Development and Cultivation of Superior Talent

In highly value-added information industry, the investment in superior talent is an important competitiveness in the future. Korea has 173 fashion related professional schools, which produce about 10,000 persons yearly.

since academic background is not that important in this specialization era, and rather, this is an era where individual's own ability is its own weapon, promoting such an environment that may cultivate global professionals may be a factor of competitiveness.

3. Intensive Strategies Focusing on Core Brands and Brand Power

The 21st century became an era to lay stress on intangible asset according to the value management, not tangible one. In particular, brands are emerging as an important asset in the fashion industry. The brand value in the clothing industry to the total tangible asset value is 61%, much higher than tobacco industry 46%, food industry 37%, chemicals 34% and electronic industry 22%(Source: Simon, C.J. (1990), "The Measurement and Determinants of Brand Equity: A Financial Approach"). It is a good example to show the highly added-value competitiveness of the fashion industry that fashion brands occupy 10 out of the world's top 100 brands

<Table 3> Fashion Related Educational Institutions and Manpower Produced

	4 Year Universities	2 Year Colleges	Professional Educational Institutes	Studying Abroad	Total
Numbers	71	42	30	30	173
Graduates	3,700	4,000	3,000	200	10,900

Source: 2002 Korea Fashion Outlook and Survey on Fashion Industry's Manpower by the Ministry of Commerce, Industry and Energy

However, we live in an era where one genius feeds 1,000 individuals. Accordingly, we should contend for victory in terms of quality, not quantity. First of all, we should cultivate superior talent. Next, an environment in which talent may exert their ability to their fullest and creation and new ideas are available should be made. In particular,











in value. The asset value of brand, an intangible asset symbolizing the brand name and its related product, plays a role of increasing or decreasing the value that products or service are provided to companies and their customers through it, and it is determined through the main five indices including brand loyalty, awareness, product quality recognized

by customers, brand image and other proprietary brand assets.

is able to compete in the global market, based on the firm 1st place in the domestic market. Increased

<Table 4> Fashion Brands Among Top 100 Brands in Value (2002)

(Unit: Billion dollars)

Ranking	Brands	Brand Value	
		Amount	Sales
35	 NIKE	7.7	9.5
36	 GAP	7.4	13.8
41	 LOUIS VUITTON	7.1	5.9
52	 GUCCI	5.3	2.3
64	 CHANEL	4.3	4.2
68	 ADIDAS	3.7	5.4
73	 LEVI'S	3.5	4.1
86	 PRADA	2.5	1.6
95	 POLO RALPH LAUREN	1.9	2.4
100	 GIORGIO ARMANI	1.5	1.4

Source: Interbrand Corp., & J.P.Morgan Chase & Co.

From now on, fashion companies should start management for improvement of their own brand's assets and value, and thoroughly maintain the principle that brand is the core of management from beginning to end. To this end, first, we should identify our position, and introduce the "concentration and choice" strategy in the management. That is, it means securing many leading brands and establishing optimal business portfolio through choice and concentration. Brand restructuring is required in order to create core businesses. For example, our brand which is in the 1st place in the market should increase the gap with the 2nd place, and vying brand should defeat the competing brand and strengthen the 1st place. And, inferior brand should be removed after making an effort to become a vying brand.

The second goal is to create a leading brand that

investment is necessary for the increase of brand value, and the development of core manpower and the differentiation of VMD & SI is necessary for the improvement of design capability.

Finally, it is necessary to create brands that may continuously grow through the improvement of relationship with customers and market.

4. Development of Dynamic Force for the Future Growth

In order to compete with foreign advanced companies and overcome the limited growth in the domestic market, global strategies are required. A few global brands will make your company that may survive ten or twenty years later. The global strategies first focus on Korean market in order to lead foreign brands in the market. The Bean Pole of Cheil Industries Inc. positively started competitions

with the world's famous brands from the time when it was released to the market fifteen years ago. In particular, it enhanced its competitiveness through CSI and comparative display with advanced products and, in the end it has occupied the 1st place in the domestic market. Those brands that have occupied the 1st place in the domestic market should enter into the global market stage by stage. Since such attempt is more difficult so many times than in the domestic market, thorough preparation and strategies are required. Finally, the increase of global outsourcing force and the establishment of strong network will provide rapid applicable ability to localization in the global market.

5. Systematic Networking and Cooperation of the Three Countries in the Northeastern Asia

From Japan in the 1960s and 1970s through the four dragons including Taiwan, Hong Kong, Singapore and Korea in the 1980s and 1990s, and China in the 2000s, although Asian countries have played an important role in the global market for the last 40 years, their roles in the world's fashion industry have been insufficient for the renovation of the industry. In the recent years when the consumer market of China in 1.3 billion populations is continuing growth, and becoming a competing place of companies from the globe, it is true that efforts to develop joint market through cooperation among the main three countries are insufficient. Combination and supplement of the software of Japan and Korea (design and technology) and the production capability of China will provide a leading role in the fashion industry.

IV. Conclusion

First, it requires CEO's insight and enthusiasm. Global advanced companies have been focused on future strategies including Profit Valued Management, Strategic Management and Global Management, which are based on the management philosophy including Nice Quality, Best Service and Good Price, for years. CEOs are leading the implementation of the management philosophy and future strategies.

Second, all employees and officers should share vision and make an effort together. All employees and officers of global advanced companies are making their efforts to maximize profits and secure global competitiveness by prioritizing brand value.

Finally, academic circles, institutes and the governments as well as private sector should take part in the efforts in harmony. As the global market goes into unlimited competition era, it is anticipated that those tasks that may not be solved by a company itself will emerge. In order to secure the ability to solve those tasks, being together with many experts from various fields is the best method. Not only the recent trading liberalization and changes in the rule about origin in the global trading, but also the developments of cutting edge fashion materials and fashion related IP technology are those tasks that should be shared, for the creation of one of the world's top fashion companies.

References

- 1) CFI Survey (2000~2003). *Samsung fashion institute*. Korea
- 2) Korea Fashion Outlook and Survey on Fashion Industry's Manpower (2002). *The ministry of commerce, Industry and Energy*. Korea.
- 3) Simon, C. J. (1990). The measurement and determinants of brand equity: A financial approach. *Marketing Science*, 12(1), pp.28~52.
- 4) Top 100 Brands in Value (2002) by Interbrand Corp., & J. P. Morgan Chase & Co.. The Business Week U.S.