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Introduction

The fashion industry has been under scrutiny by the regulatory and international bodies on the social and environmental issues (FashionUnited, 2021). In the current business climate, it is essential for the companies to acknowledge their social and environmental responsibilities because those are the factors that often determine their brand image (Barney and Hesterly, 2019). Moreover, the firms need to establish competitive advantage in the oversaturated fashion industry, because otherwise, they would be losing their stance in this fast-moving market (Fashion Revolution, 2021). For instance, just a few years ago, M&S had the largest market share in the UK fashion market, whereas now it ranks as the third largest fashion retailer. The lack of competitive advantage has been the reason why the company failed to maintain its top spot in the industry (Bontis, Bart and Wakefield, 2007). The following report, however, looks at the case study of the German luxury fashion brand, Hugo Boss. Founded in 1924, the company currently has retail operations in 1213 locations (Fashion Revolution, 2021). Discussions have been made on the changes in the company's business model in the recent years, influenced by the current market dynamics.

The changes that Hugo Boss has made in the last few years to its business model

One of the positive things about the company's performance in recent years is that it maintained a good revenue growth with a small decline during the pandemic (Tsirulnik, 2021). In 2018, the company's revenue was 2.8 billion euros, and the following year, the revenue had grown to 2.9 billion euros. In 2020, the gross revenues had dropped to 1.95 billion euros (FashionUnited, 2021). Compared to many other European fashion retailers, however, the company has maintained a quite positive financial performance, whereas others struggled with cash-negative conditions (Wheelen, Hunger, Hoffman and Bamford, 2019). In the last annual shareholder meeting, concerns were raised over the social sustainability issues since the company sources a significant amount of its materials from countries like Bangladesh, India, Serbia, Croatia, Ukraine and Bulgaria. Several reports indicated poor working conditions in the factories located in these places, which leads to social sustainability concerns (Worthington, Britton and Thompson, 2018). Furthermore, the company maintained a profitable market position because it continued its business operations even during the pandemic (Tsirulnik, 2021). While that helped generate profits, but it also has risked

workers' safety during the pandemic. Some of the factories in the company's supply chain network even had high Covid-19 positive cases. Therefore, social sustainability is perhaps the most critical challenge in front of the company right now.

Using Porter's value chain model to describe the social and environmental issues involved in Hugo Boss's business activities, the following insights can be gained. The model divides business activities into primary activities and support activities (Worthington, Britton and Thompson, 2018). The primary activities of Hugo Boss include purchase of garments, textile and cotton from different sources, designing new apparels and designs, distributing the products to the regional and local distributors, marketing and sales activities, and customer service activities (HUGO AG, 2021). The challenges faced in these activities include the environmental and social concerns associated to the sourcing and packaging of products (e.g. use of cheap labour, unhealthy work conditions and use of single use plastics) (Wheelen, Hunger, Hoffman and Bamford, 2019). The marketing activities face challenge from the customers, who demand products that are ethically sourced and environmentally less impactful.

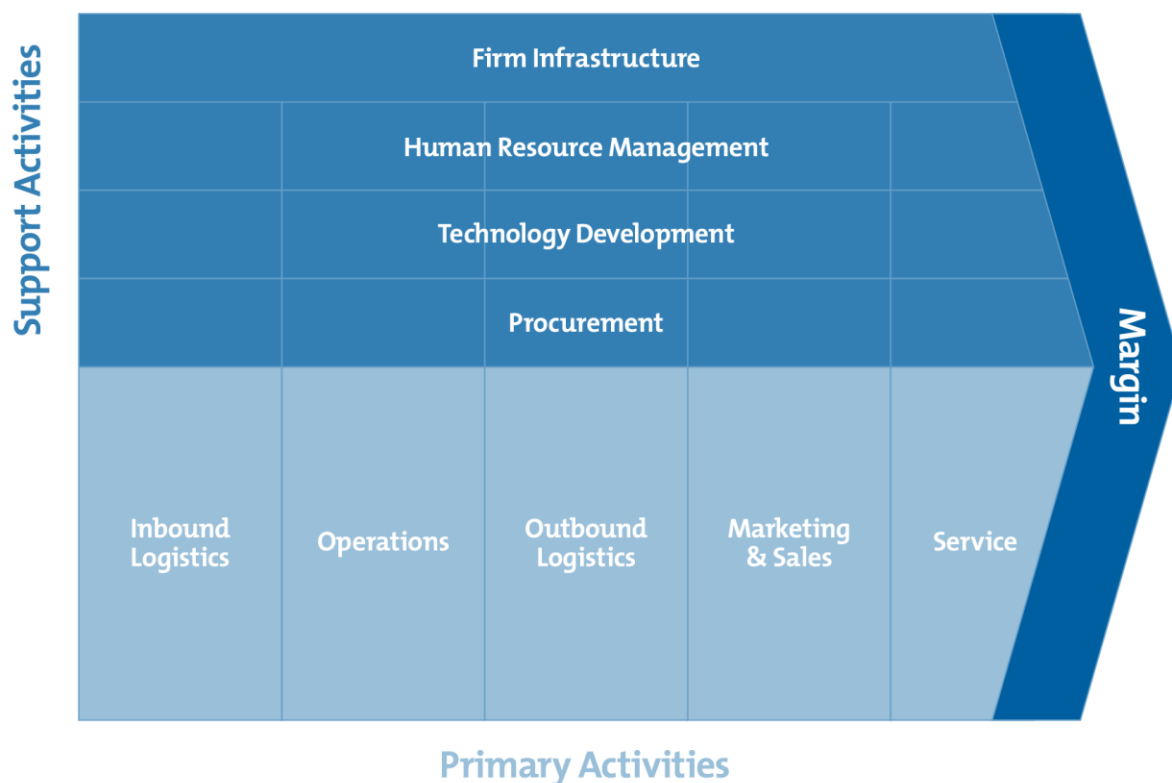


Figure: Porter's value chain (Wheelen, Hunger, Hoffman and Bamford, 2019)

The support activities include firm infrastructure, which currently does not face any challenge, the human resource development activities and technology development activities. These are the activities that the company uses to gain competitive advantage with (HUGO AG, 2021).

In 2020, Hugo Boss had announced its long-term sustainability plan aimed towards achieving net zero by 2030. The company's goal is to reduce energy consumption by 30% and carbon emissions by 40% as well as a 40% reduction in water use (HUGO AG, 2021). As for social sustainability, the company aims to purchase 90% of all its materials and garments from suppliers that fully comply with human rights and labour rights issues, and have satisfactory social audit performance (Tsirulnik, 2021). It is to be noted that the company already purchases 40% of its cottons from sustainable sources. In order to communicate its social and environmental performance to the stakeholders, the company has also recently announced that it will be regularly publishing its sustainability report from now on an annual basis (HUGO AG, 2021).

From the looks of it, the company is embracing the stakeholder theory of CSR in its global business operations (Wheelen, Hunger, Hoffman and Bamford, 2019). By definition, the stakeholder theory refers to “the theory of organizational management and business ethics that accounts for multiple constituencies impacted by business entities like employees, suppliers, local communities, creditors, and others” (Kelly and Ashwin, 2013). Hugo Boss's current approach towards establishing social and environmental accountability reflects that it actually does concern about the interests of the stakeholders in a larger scale (Retailing Reports, 2021). Therefore, changes in the business model to embrace the stakeholder theory is certainly a major approach for the company in the recent years. As per its recent sustainability goals, the company will be catering to the stakes of both its internal and external stakeholders in the years to come (Tsirulnik, 2021).

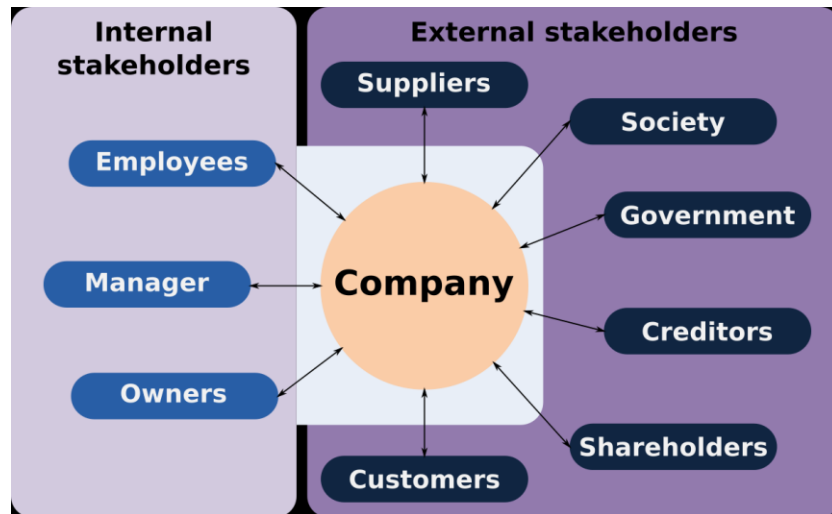


Figure: Stakeholders of the company (Wheelen, Hunger, Hoffman and Bamford, 2019)

The importance of stakeholder perspective is that it helps implement an effective system for self-regulation (Cokins, 2017). By definition, organizational self-regulation refers to the process of implementing policies and protocols within the organization to adhere to the ethical, social, safety and legal standards (Worthington, Britton and Thompson, 2018). Industry self-regulation, on the other hand, is the process that involves the members (companies) of an industry “to monitor their own adherence to legal, ethical, or safety standards, rather than have an outside, independent agency such as a third-party entity or governmental regulator monitor and enforce those standards” (Wheelen, Hunger, Hoffman and Bamford, 2019).

Stakeholders perspective theory of CSR involves establishing transparency and accountability in business so that the adherence to social, legal and environmental issues can be ensured without the need for third party interventions (Fashion Revolution, 2021). The shareholders and other key stakeholders of the company hold it accountable for its actions, and thus, the company informs them about its own performance by publishing sustainability and CSR performance reports. The same has been the case for Hugo Boss as well (European Commission, 2021). The company has been pressed by its shareholders recently, demanding it to improve its social and environmental impacts in its primary and supporting business activities.

Competitive advantage of the company

From a resource-based view, the company's competitive advantages can be listed and described as the following;

Resources and capacities	Valuable	Rare	Inimitable	Organised	Competitive advantage
1. Fashion designs	Yes	Yes	No	Yes	Sustainable competitive advantage
2. Intellectual properties	Yes	Yes	Yes	Yes	Sustainable competitive advantage
3. Number of outlets	Yes	No	No	Yes	Competitive parity
4. Human resources/ talents	Yes	No	No	Yes	Competitive parity
5. Supply chain network	Yes	No	No	Yes	Competitive parity
6. Technological resources	Yes	No	No	Yes	Competitive parity
7. Financial stability	Yes	Yes	No	Yes	Sustainable competitive advantage
8. Innovation	Yes	Yes	No	Yes	Sustainable competitive advantage
9. Customer service	Yes	No	No	Yes	Competitive parity
10. Distribution capacities	Yes	No	No	Yes	Underutilized competitive advantage

Table: VRIO analysis (Cokins, 2017) (FashionUnited, 2021) (HUGO AG, 2021)

The findings of the VRIO analysis shows that the company has a decent range of sustainable competitive advantages and competitive parities that secure the company's market position in the highly competitive fashion industry (HUGO AG, 2021). The findings also reveal that the company uses the competitive advantages to maintain a competitive status in the fashion retail market (Wheelen, Hunger, Hoffman and Bamford, 2019).

In a highly saturated fashion market in Europe, Hugo Boss does a good job securing the sources of sustainable competitive advantage (HUGO AG, 2021). Also, the fact that the company a range of sustainable competitive advantages, therefore, Hugo Boss actually has more resilient competitive advantage in the European fashion retail industry (FashionUnited, 2021).

The company's competitive advantage position can also be evaluated by conducting SWOT analysis, which provides a clear view of the strengths and weaknesses of the company, and how they create opportunities or pose threats for the company (FashionUnited, 2021).

Strengths	Weaknesses
1. A well-established and popular luxury fashion brand. 2. Strong brand recall (HUGO AG, 2021). 3. Has competitive CSR strategies to create a loyal consumer base (HUGO AG, 2021). 4. Has consistent market share in the global market as well as the domestic market. 5. Has a decently diverse range of product portfolio within the luxury fashion market (Tsirulnik, 2021). 6. Skilled employees; hired through extensive recruitment process (Retailing Reports, 2021). 7. Has a well-developed R&D unit (HUGO AG, 2021).	1. Haven't made any significant innovation in the last few years. 2. Fake and imitated products in the global market affect the brand's image. 3. Less effective intellectual property protection (Retailing Reports, 2021). 4. Lack of social sustainability in business practices. 5. Under-utilized e-commerce marketing (Statista, 2021).

8. Has a competitive distribution network (Worthington, Britton and Thompson, 2018). 9. Ha a competitive marketing communication and positioning strategy in the European fashion market. 10. Ranks as one of the top brands in terms of popularity (Tsirulnik, 2021).	
Opportunities 1. To innovate the business model in a way that it helps achieve the sustainability goals (Retailing Reports, 2021). 2. Innovate new products for to create appeal in the changing market climate (HUGO AG, 2021). 3. Realigning the supply chain network and implementing fair trade policy to be more socially sustainable and responsible (Tsirulnik, 2021).	Threats 1. The brand could lose its opportunities in the emerging markets due to the prevalence of counterfeits (Retailing Reports, 2021). 2. The weaker intellectual property rights may affect the company's reputation in the global market (Wheelen, Hunger, Hoffman and Bamford, 2019). 3. The lack of innovation can affect the competitive position of the company in the global and regional market (Statista, 2021).

Table: SWOT analysis

Reviewing the company's strengths and weaknesses, the challenges and opportunities have been identified. It is evident that the company has the R&D capabilities to innovate and design new products that would create new market demands (FashionUnited, 2021). It also has a good control over its supply chain and distribution functions that will help implement more sustainable business policies and practices. In overall, the firm has the capabilities, capacities and resources to address the demands for social and environmental sustainability, and the economic challenges posed by the pandemic (HUGO AG, 2021). That being said, the company needs to make a better use of its distribution capabilities. Looking at the current market changes, it is evident that most fashion retailers are going online to tackle the challenges posed by the pandemic. An e-commerce-based business model also helps improve business efficiency and profitability (Worthington, Britton and Thompson, 2018). Therefore, at this point of time, the company needs to improve its e-commerce

line of business in order to bring its sales performance to the growth-positive condition again (Tsirulnik, 2021).

Conclusion

Discussions have been made in the report on the challenges that Hugo Boss has been facing in the fashion industry lately. The issues involving the social and environmental sustainability have been discussed in more detail. While the company's financial performance has been quite positive in recent years, the company needs to boost its efforts to be more socially responsible as well. The performance against the recently introduced sustainability policies need to be evaluated using clear metrics. Right now, the company does not face any major challenge that might deter its growth in the global market, other than the issues involving counterfeits in the emerging market economies. Therefore, alongside improving social sustainability performance, the company also needs to strengthen the global protection of its intellectual properties. This can be done by working with regional and national regulatory bodies as well as international trade associations.

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