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Assessment 1

Environmental Analysis of an industry

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Introduction

The impact of the pandemic has been quite severe on the UK fashion industry. Due to the frequent lockdowns, ongoing travel restrictions and the declining demands have affected the fashion industry quite critically so far (Bayley, 2021). As of now, it is quite uncertain that when the sector will return to its optimal operation once again. The following report explores the opportunities and challenges facing the industry, and how they could affect Hugo Boss, a German based multinational fashion retailer (CIPD, 2021). The report also makes recommendations on how the sector can adapt to the changing business environment, addressing the current challenges. Relevant models of analysis have been used for conducting the external and internal assessment on the current fashion market conditions.

The impact of the pandemic on the fashion industry

According to S&P Global market Intelligence (2021), the sales in the UK fashion industry have dropped by 25% due to the pandemic. The Forbes (2021) has called the 2020 to be worst year for the UK fashion retailers so far. The findings of Oxford Economics (2021) have revealed that the current state of the UK fashion industry will lead to over 240,000 million direct and indirect job losses. Also, the same year, the second largest UK fashion retailer, M&S has been set to close down more 110 of its stores by 2022 (CIPD, 2021). Thus, the effect of the pandemic on the fashion industry is quite obvious. Sales decline, job loss, affect on supply chain partners, financial sustainability of the businesses and changes in business operations are some of the obvious impacts of the pandemic on the UK fashion industry (Cavusgil, Knight and Riesenberger, 2019). These risks have been significant for companies like Hugo Boss.

Due to the pandemic, the customers' movements have been limited (Morgan, 2021). The employers also had to keep their operations closed in order to follow the government protocols for contain the virus spread. The fashion clothing companies that outsource their productions have failed to keep the international operations running due to the risks of the pandemic (Bayley, 2021). Due to the lower sales, the companies have been on a cash-negative condition. Thousands of employees working in this sector had been on furlough as a result. Thus, the overall business operations have been affected by the pandemic (Morgan, 2021). Only a few number of companies including Hugo Boss have managed to sustain their operations despite these market challenges.

The major forces that have shaped the business environment of the fashion industry.

The following PESTLE analysis gives a detail view on the business environment for Hugo Boss in the UK fashion industry;

Political factors: While the UK political landscape has a reputation for being business supportive, but in the recent years, several political decisions including the Brexit and the pandemic response tactics have been anything but (Morgan, 2021). In 2019, Brexit was brought into motion and the transition was completed in 2020. Now the UK fashion producers have to spend extra money exporting their products to the EU countries. However, the fashion retailers such as Hugo Boss, which have subsidiaries located in the EU countries have been less affected by it (Fashion United, 2021). Also, the government's failure to tackle the pandemic more proactively has affected the businesses in the country as well. While some European countries are slowly recovering from the pandemic, the UK is still fighting the battle (Folsom, Van Alstine, Ramsey and Schaefer, 2019). However, on a positive note, since Brexit, the UK government has been renewing its trade ties with other countries, which will create new global opportunities for the retailer such as Hugo Boss (Fashion United, 2021). Also, the UK leaving the EU could create better opportunities for Hugo Boss in the UK fashion market since the German retailer would enjoy greater facilities in the European fashion industry in terms of competition.

Economic factors: Since the pandemic had started, the UK politics suffered a huge loss. The GDP growth had gone down to -9.9% in one year. At the same time, the Brexit had weakened the GBP currency as well (Fashion United, 2021). The wealth gap in the society has widened during the pandemic. All these led to a negative economic landscape for the businesses (ELLE, 2021). Lower GDP means lower productivity, and the lower incomes mean less people having the ability to avail premium products such as Hugo Boss apparels (Fashion United, 2021).

However, the UK economy has also been showing the positive signs of resilience. The economists suggest that this year, the GDP growth can be around 4% and the following year it will grow up to 7% (Morgan, 2021). The inflation and interest rates are also currently close to normal. Therefore, the businesses can expect a quick recovery by the end of this year, or the mid of 2022 (ELLE, 2021). But the British international fashion companies such as Hugo Boss might still be facing the risks of the British currency dropping in value.

Social factors: The social factors that have been influencing the fashion industry include the demand for sustainability, the demand for ethically sourced products, and the demands for innovation (Morgan, 2021). First of all, the customers nowadays expect companies like Hugo Boss to ensure that they follow fair trade policies and reduce their impact on the environment and the society. This led a significant awareness towards the treatment of employees in the bottom line of the supply chain (Naik, 2021). If Hugo Boss, for example, fails to pay the bottom-line workers their right price due to the pandemic, the brand could be facing a backlash. The brand also needs to ensure that the health and safety of the employees are not compromised, once the business gets back to its optimal operations (Retail Economics, 2021).

Last but not least, the current UK consumer market is now largely populated with millennial and generation z consumers. The characteristics of the younger customers is that they are not highly brand loyal, but instead, they prefer value for money (Retail Economics, 2021). There are other significant behavioural aspects that set these consumer base from the previous generations of customers. The customers are highly value-oriented and they prefer to choose from many options. Therefore, Hugo Boss will have to address the dynamics of the current market demography and improve the value of their products to maintain a strong market presence (Wild and Wild, 2019).

Technological factors: The technological factors that influence the business climate include the rise in e-commerce (Wild and Wild, 2019). Although e-commerce has already been becoming a major trend in the UK fashion industry, but it has been solidified in the current business climate since the pandemic started. The customers, in order to maintain safe social distancing, have been preferring online purchase recently (Retail Economics, 2021). Also, at the same time, the use of emerging technologies such as IoT, Big Data and Data Analytics has also increased in the recent years to tackle the operational challenges. For instance, using IoT, many manufacturers can now keep a better track of their supply chain activities. Data Analytics technologies offer greater insights to the market changes and dynamics (Wild and Wild, 2019).

Legal factors: The UK government is set to make some changes to the labour laws, trade laws, employment law, and tax legislation in the coming years. The businesses such as Hugo Boss are required to address the impacts of these changes on their operations and make necessary adjustments in their UK market operations (ELLE, 2021).

Environmental factors: The fashion industry has been under the pressure of minimizing their carbon emission rate to meet the sustainability development goals (ELLE, 2021). They are also expected to bring more innovation in their business operations in order to meet the environmental targets and sustainability expectations. Market experts suggest that eco-friendliness could be one of the defining factors in the changing dynamics of the UK fashion industry (CIPD, 2021).

To summarize the findings of the PESTLE analysis, it is evident that the key sources of challenge are the political factors, social factors and environmental factors. On the other hand, technological factors can be viewed as the key sources of opportunities for the industry.

Key players in the fashion industry

In terms of market capitalization, the top companies in the UK fashion industry are Burberry, Next Plc, M&S and ASOS (Fashion United, 2021).

1.Burberry:	10 billion dollar
2.Next Plc:	7.16 Billion
3. Mark & Spencer:	6.18 billion dollar
4. ASOS:	6.18 billion dollar

(Fashion United, 2021)

Other top competitors include Georgia, Jedi, John Lewis, Debenhams, Tesco etc. The foreign fashion brands present in the market include Hugo Boss, Armani, Tommy Hilfiger, etc (Fashion United, 2021). In terms of popularity, Fendi, Burberry, Versace, Gucci, Hermes, Prada and Ralph Lauren are in the top spots. Hugo Boss is amongst the top European fashion brands with a strong presence in the global fashion market. In 2019, the company's global sales generated a revenue of €2.9 billion (ELLE, 2021).

The opportunities and challenges that these forces have presented to the key players in the fashion industry

Following SWOT analysis findings provide a better view of the market factors in the UK fashion industry and its implications on Hugo Boss. The SWOT analysis has been applied here because it helps identify the opportunities and threats faced by the industry, along with the relevant strengths and weaknesses of the sector.

Strengths 1. The UK fashion industry is one of the largest fashion markets in Europe, second only to Paris. 2. The UK fashion industry has made impressive achievements in textile innovation in the recent years. 3. Most of the top fashion brands are based in the UK (ELLE, 2021). 4. The fashion industry in the UK also has the access to a highly skilled workforce due to the well-developed fashion and textile education sector (Morgan, 2021). 5. The UK fashion industry has a strong supply chain network that extends across the world. 6. The e-commerce fashion industry is growing fast in the UK, with a CAGR of 7% (Fashion United, 2021).	Weaknesses 1. The pandemic has affected the financial sustainability of many fashion brands (ELLE, 2021). 2. The Brexit weakens the presence of the UK fashion brands in the European fashion market. 3. The sector has been lacking in disruptive innovation recently (Morgan, 2021).
Opportunities 1. The post pandemic economy will swift the recovery of the fashion industry as well. 2. The innovation and R&D capabilities of the UK fashion sector can tackle the	Threats 1. The fashion industry might face the impacts of market oversaturation due to the growing number of businesses (ELLE, 2021).

environmental issues more effectively (Morgan, 2021). 3. New international trade agreements by the government will create more lucrative opportunities for the company in various parts of the world. 4. The UK fashion industry has the opportunity of setting new fashion trends (Bayley, 2021).	2. If the current conditions related to the pandemic continues longer, thousands of people may lose their jobs (CIPD, 2021). 3. The lack of effective government planning to tackle the pandemic can lead to the closure of smaller fashion retailers. 4. The government's failure to come to favourable conditions with the EU may lead to a significant market share loss in the European market (CIPD, 2021). 5. The premium fashion retailers might lose their edge over the regular fashion retailers due to the customers' unwillingness to pay more and the shifts in attitude towards brand preference (Bayley, 2021).
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Table: SWOT analysis

The brands that did quite well during the pandemic and among other external challenges include Amazon Fashion, H&M, Zara, John Lewis, ASOS, Prada and River Island (Bayley, 2021). The reason why these brands have been able to tackle the challenges of the pandemic is that they were able to make more effective digital shift and they have been focusing on the cultural issues to grab attention in the consumer market (Cavusgil, Knight and Riesenberger, 2019). As mentioned earlier, two of the external forces influencing the businesses right now include the growing attention towards sustainability and CSR issues, and consumer friendly e-commerce business models. Also, the pandemic had made it a requirement for the businesses to not operate physical operations at full capacity due to the virus contamination risks (Collinson, Narula, Qamar and Rugman, 2019). As a result, both the customers and the businesses have embraced ecommerce-based business activities recently. E-commerce gives the customers the convenience and comfort, which the younger consumer bases seek more (Fashion United, 2021). Secondly, now customers are doing more research on the brands they are purchasing their products from. As a result, social issues are getting more spotlight. By addressing these social issues, and adopting and communicating socially responsible business models, the companies are targeting the consumers'

attention and sentiments (ELLE, 2021). The brands, such as Hugo Boss, that have been offering competitive customer service through their consumer-friendly ecommerce business models, and are addressing the social values and issues, are the ones that are doing particularly well in the current market climate (Fashion United, 2021).

Conclusion

In conclusion, the report tells the changes that are redefining the fashion industry. The factors of the external business environment as discussed in the report will significantly influence the performance and business operations of Hugo Boss in the upcoming days. The company needs to acknowledge these changes in the business environment, and adopt the effective strategies that are in line with the current industry changes.

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