

Two fashion models are shown from the back, standing in a studio with a light-colored floor and a plain background. The model on the left has long, straight black hair and is wearing a black, short-sleeved, form-fitting dress with a V-neckline and high-heeled shoes. The model on the right has voluminous, curly black hair and is wearing a black, short-sleeved, form-fitting top and a matching black skirt, also wearing high-heeled shoes. Both models have their hands on their hips.

# **Chapter 3 The Fashion Business**

**Chapter 3.1: Types of Business**

**Chapter 3.2: Fashion & Economics**

# Key Terms

- ❖ Primary Market
- ❖ Secondary Market
- ❖ Tertiary Market
- ❖ Retailing
- ❖ Sole Proprietorship
- ❖ Partnership
- ❖ Corporation
- ❖ Risk
- ❖ Risk Management



# Fashion Businesses

- ❖ A series of events take place for a business to have a fashion product that consumers will accept and buy



# Fashion Industry Segments

- ❖ The primary market is the industry segment that includes businesses that grow and produce the raw materials that become fashion apparel or accessories
- ❖ The secondary market is the industry segment that includes businesses that transform raw materials into fashion in the merchandise production phase
- ❖ The tertiary market is the industry segment that includes retail businesses such as stores



# Primary Market

- ❖ This phase involves technical research and planning
- ❖ The textile industry is the largest segment of the primary market
- ❖ Textiles is a broad term referring to any material that can be made into fabric by any method



# Secondary Market

- ❖ Businesses in this market produce garments by transforming textiles to the finished product, or wearing apparel
- ❖ Producers are responsible for designing, producing, and selling the goods to retailers
- ❖ The main types of producers in the secondary market include:
  - ❖ Manufacturers
  - ❖ Wholesalers
  - ❖ Contractors
  - ❖ Product Development Teams



# Secondary Market

- ❖ Manufacturers: handle all operations such as buying the fabric, designing or buying designs, making garments, and selling and delivering the finished garments
- ❖ Wholesalers: Have a design staff who produces the designs. They also coordinate the selling and delivery processes



# Secondary Market

- ❖ Contractors: may be responsible for many aspects of production- from sewing and sometimes cutting to the delivery of goods.
- ❖ May include the production of a private label, which is the store's label
- ❖ Product Development Teams: these teams design, merchandise, and outsource work to contractors in the U.S. or outside the country



Xhilaration for Target





# Tertiary Market

- ❖ Retailing is the selling of products to customers
- ❖ Selling can either be direct selling or the exchange of merchandise in return for money or credit
- ❖ Types of retail stores include:
  - ❖ Department stores
  - ❖ Specialty stores
  - ❖ Discount department stores
  - ❖ variety stores
  - ❖ Off-price stores
  - ❖ Warehouse stores
  - ❖ Outlet stores
  - ❖ Non-store retailers



# Support Industries

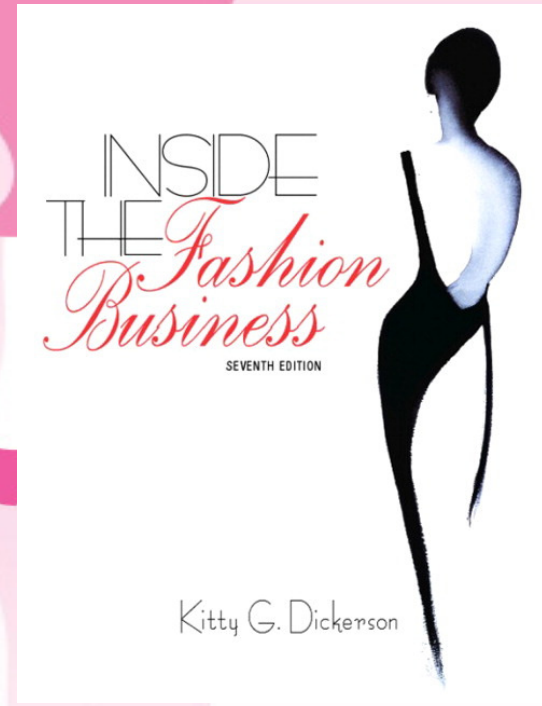
- ❖ These are businesses that help with all other business functions
- ❖ Examples include:
  - ❖ Advertising Firms
  - ❖ Accounting & Financial Companies
  - ❖ Product Development
  - ❖ Market Research



# Types of Fashion Business Organization

❖ The fashion industry and other industries are comprised of businesses that have one of the three common types of business organization:

- ❖ Proprietorship
- ❖ Partnership
- ❖ Corporation



# Sole Proprietorship

- ❖ A sole proprietorship is a business owned and operated by one person
- ❖ Risk
  - ❖ The owner takes responsibility for all assets owned; personally liable for the company
- ❖ Taxes
  - ❖ Taxed as personal income tax at a rate less than the rate imposed on corporations
- ❖ Pros and Cons
  - ❖ Owner has the freedom to operate as he or she feel necessary



# Partnership

- ❖ A partnership is a business created through a legal agreement between 2 or more people who are jointly responsible for the success or failure of the business
- ❖ Taxes
  - ❖ Each partner is taxed separately on individual tax returns; must file an annual information return to report income
- ❖ Personal Liability
  - ❖ Each partner is personally liable for debts of the partnership



**Miley Cyrus & Max Azria**

# Corporation

- ❖ A corporation is a business that is chartered by a state and legally operates apart from the owner or owners
- ❖ Stocks & Shareholders
  - ❖ Corporations are traded on the stock exchange, ownership is divided into shares of stock
- ❖ Taxes
  - ❖ Profit if a corporation is taxed to both the corporation and the shareholders when the profit is distributed as dividends



**AMERICAN EAGLE  
OUTFITTERS**

# Fashion Risks

- ❖ Risk is the possibility that a loss can occur as the result of a business decision or activity
- ❖ For designers, there is risk that someone will copy their designs and produce apparel faster or less expensively



# Risk Management

- ❖ Risk management is a strategy to offset business risk
- ❖ Risk management is a systematic process of managing an organization's risk exposure to achieve objectives in a manner consistent with public interest, human safety, environmental factors, and the law





# Types of Risk

- ❖ Economic Risk
  - ❖ Changes in the overall business conditions
- ❖ Human Risk
  - ❖ Caused by human mistakes as well as by the unpredictability of customers, employers, or the work environment
- ❖ Natural Risk
  - ❖ Natural causes such as the weather



NSSL Photo

# Other categories of Risk



## ❖ Pure Risk

❖ Risks that occur when there is a possibility of a loss, but no chance to gain from the event

## ❖ Speculative Risk

❖ Risks that occur when gains and losses are possible

## ❖ Controllable Risk

❖ Risks that can be prevented or reduced in frequency

# Other Categories of Risk



## ❖ Uncontrollable Risk

- ❖ Events that a fashion business cannot prevent from occurring, such as the weather

## ❖ Insurable Risk

- ❖ Pure risk that could exist for a large number of businesses

## ❖ Uninsurable Risk

- ❖ Risks that occur when the chances of risk cannot be predicted or when the amount of loss cannot be estimated

# Managing Potential Risk

- ❖ Businesses can handle risk by different methods:
  - ❖ Purchasing insurance if necessary
  - ❖ Prevention methods like employee training
  - ❖ Transferring risk back to the manufacturer through warranties



The image features two fashion models in a studio setting. The model on the left is wearing a black, short-sleeved, form-fitting dress and black high-heeled boots. She has long, dark hair and is standing with her hands on her hips, looking towards the right. The model on the right is wearing a black, short-sleeved, form-fitting dress and black flat shoes. She has curly, dark hair and is standing with her hands on her hips, looking towards the left. The background is a plain, light-colored wall. The text "Chapter 3.2: Fashion & Economics" is centered over the image in a bold, black font.

## **Chapter 3.2: Fashion & Economics**

# Key Terms

- ❖ Globalization
- ❖ Imports
- ❖ Exports
- ❖ Balance of Trade
- ❖ Supply
- ❖ Demand
- ❖ Profit
- ❖ Trade Quotas




# Impact on Global Economy

- ❖ For centuries, ships have carried goods from exotic ports of call
- ❖ Changes in government policies and new trends in international trade have caused the market for fashion goods to increase



# Globalization and Fashion

A stylized illustration of two fashion models. The model on the left is shown from the back, wearing a pink dress and high heels. The model on the right is shown from the front, wearing a pink top and skirt, also with high heels. The background is a light pink gradient.

- ❖ Globalization is the increasing integration of the world economy
- ❖ Improved worldwide communication systems, such as the internet, and the ease of world travel have opened the doors to other countries



# Global Competition

- ❖ This globalization has created competition between countries in the manufacturing sector of fashion
- ❖ Labor is a major component of the cost of production for fashion products
- ❖ Many foreign governments offer incentives, such as favored status and tax exemptions



# The Balance of Trade

- ❖ Imports are goods that come into a country from foreign sources or goods that a country buys from other countries
- ❖ Exports are goods that a country sends to a foreign source or goods that a country sells to other countries
- ❖ The balance of trade is the relationship between a country's imports and exports, and it affects the economic health of a country



# Trade Agreements & Restrictions

- ❖ The North American Free Trade Agreement (NAFTA) is between the U.S., Mexico, and Canada
  - ❖ The goal is to enable all countries to experience free trade by eliminating or reducing tariffs, or fees, for trading goods
- ❖ The World Trade Organization (WTO) is an international organization that promotes and enforces trade laws and regulations
  - ❖ 145 + countries
  - ❖ Reduce barriers to trade



# Globalization & America

❖ Globalization in fashion is evident

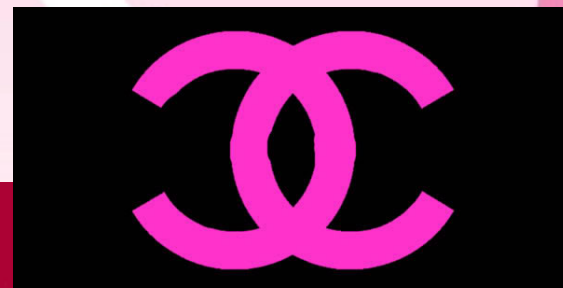
❖ Fifth Avenue

❖ Givenchy

❖ Escada

❖ Benetton

❖ Gap



# International Fashions

- ❖ The fashion business is truly international, as producers, designers, and retail buyers cover the globe in search of new products and ideas
  - ❖ Produced in China with fabric from India and buttons from Bali
  - ❖ Designed by a designer in France
  - ❖ Modeled in Milan
  - ❖ Purchased in New York City



# Impact on Domestic Economy

- ❖ U.S. consumers spend \$275 billion every year on apparel
  - ❖ Includes 3 billion slacks or pants
  - ❖ 5.7 billion shirts and blouses
  - ❖ 370 million sweaters
- ❖ Americans spent \$320 billion on home furnishings
  - ❖ Includes 560 million sheets and pillowcases
  - ❖ 1.8 million towels and washcloths



# Textile Industry Impact

- ❖ The textile industry includes textile mills, textile producers, apparel, fibers, and machinery
- ❖ These industries support 2.75 million jobs



# Textile Industry Issues

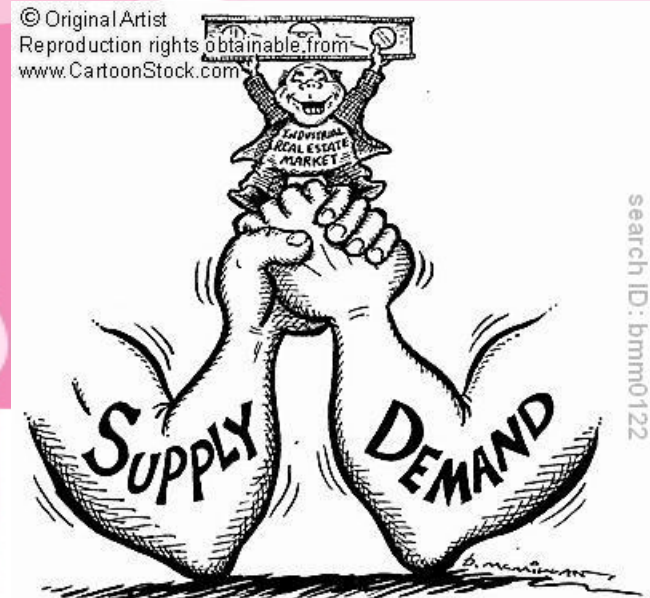
- ❖ Issues surrounding the textile industry have dramatic impact on the economy
- ❖ Because of the rise in competition, the U.S. textile and apparel industries have become more competitive



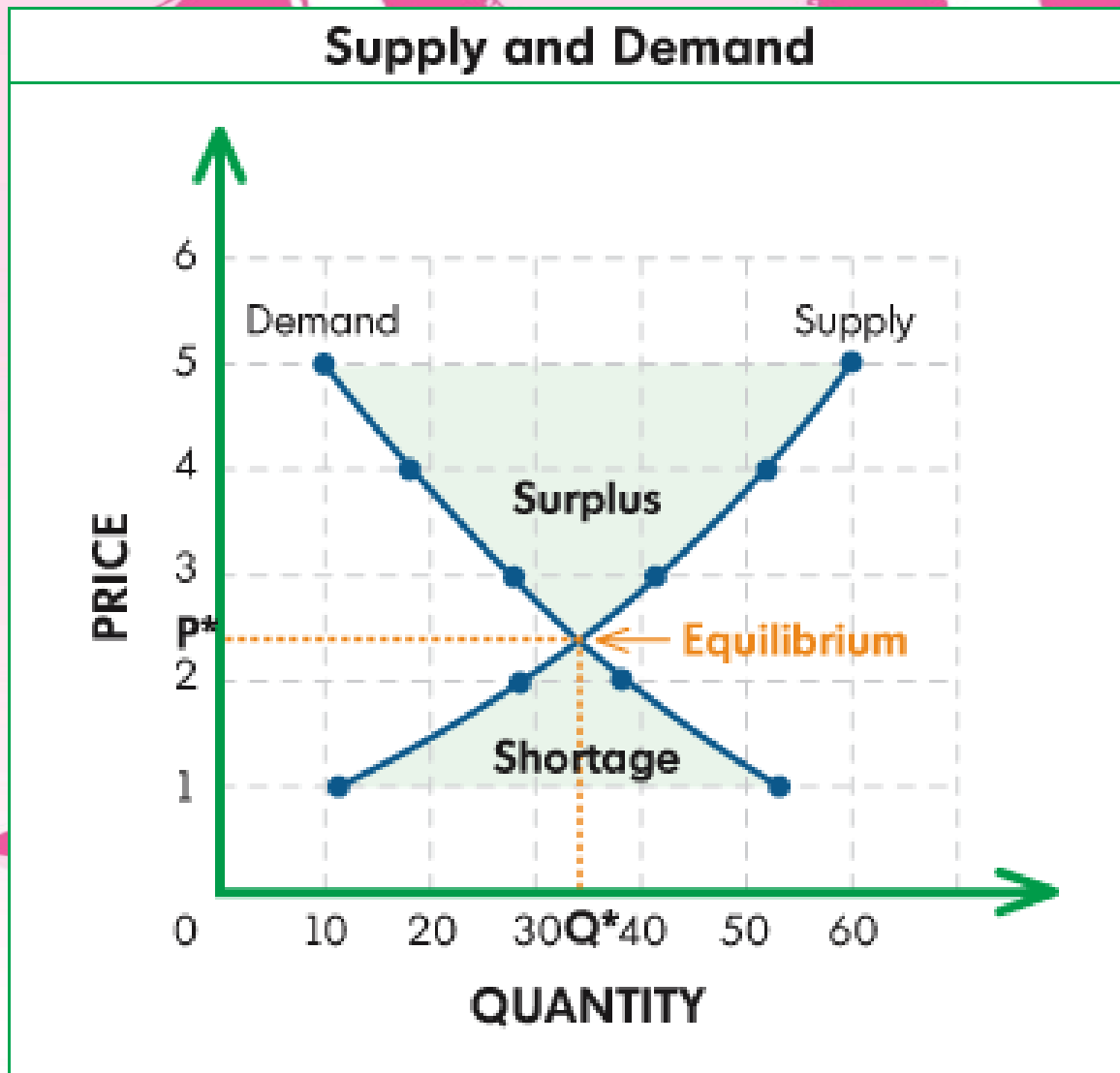


# Supply & Demand

- ❖ Supply is the quantity of product offered for sale at all possible prices
- ❖ Demand is the consumer's willingness and ability to buy and/or use products
- ❖ The interaction between supply and demand creates the conditions of surplus, shortage, or equilibrium



# Supply & Demand



# Profit

- ❖ Profit is the money a business makes after all costs and expenses are paid
- ❖ Profit dictates the supply of goods available for sale
- ❖ Other factors that influence supply:
  - ❖ Governmental laws and regulations
  - ❖ Subsidies
  - ❖ Bad publicity
  - ❖ Boycotts
  - ❖ Promotion and advertising



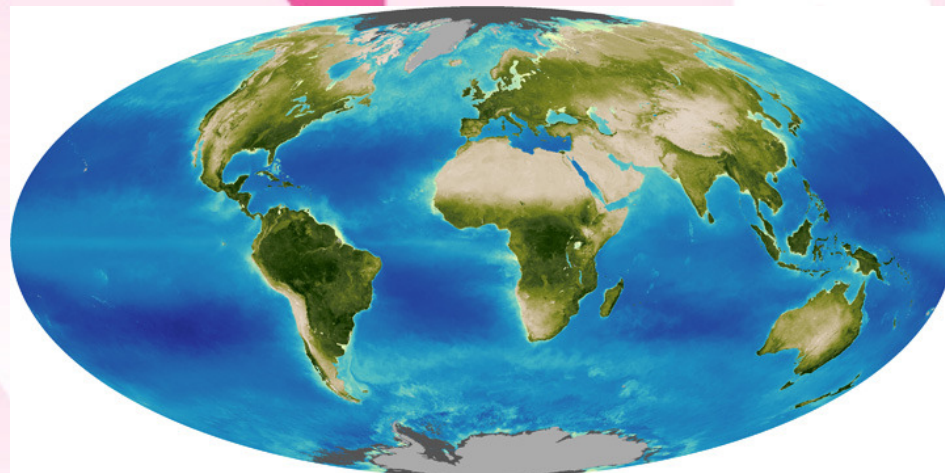
# Employment in the Fashion Industry

- ❖ The most obvious impact the fashion industry has on the economy is in the area of employment
- ❖ Trade quotas are restrictions on the quantity of a particular good or service that a country is allowed to sell or trade



# Global Employment

- ❖ Skilled labor tends to stay in the U.S.
- ❖ Manual labor tends to be outsourced
- ❖ The textile and apparel industries will continue to be a major provider of a variety of jobs as the fashion business continues to grow





**THE END**