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A contingency approach for SC strategy in the Italian luxury industry: Do consolidated models fit?

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ABSTRACT

The industry of luxury goods is worth investigating from the point of view of operations and supply chain (SC) strategy. Several authors expressed the need to focus SC strategy and align it towards the critical success factors (CSF) of the product/market. Despite this is a relevant topic also for the luxury industry, very few specific contributions dealing with luxury have been proposed in the SCM related literature. The present paper, based on 13 case studies of luxury manufacturers in Italy, moves its steps from the contingency theory and reports a review of the main models for SCM strategy, in order to assess their suitability to the luxury industry and to its contingent variables, in terms of CSF. Results show that most models do not apply to the luxury context; but some relevant variables can be extracted and used to identify and classify firms in this industry and to explain SC and operations strategies. It is confirmed that specific features of luxury SCs need to be taken into account.

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1. Introduction

The industry of luxury goods has become in 2006 a $170 billion business worldwide (Egon Zhender International, April 2006), with sales growing by 6% per year (Kwak and Yoffie, 2001). Despite the adverse economic cycle of the last few years, luxury goods experienced increasing demand: this is due in part to the increasing social relevance of owning luxury goods, in part to the strong commitment of the luxury companies in branding and communication management (Castaldo and Botti, 1999). Furthermore, markets are polarizing, with growth concentrated both at the lower-priced and at the high-end, especially considering fashion-sensitive businesses; as a consequence, entering the luxury market is a very attractive way to expand a brand and build a sustainable business for the future (Danziger, 2005).

Does such success within this market rely on marketing initiatives only? According to Nueno and Quelch (1998) design and communication management is only one of the elements which contribute to the success of a luxury firm, together with product line management, customer service management and channel management. In other words—as assessed by Brun et al. (2008)—the whole supply chain (SC) seems to be relevant for success in the luxury industry.

Despite the acknowledgment of such relevance, very few contributions dealing with the luxury industry have been proposed in the SCM related literature. The "one size fits all" approach does not hold (Childerhouse and Towill, 2000): it is necessary to explore the business field and identify the contingent aspects that set the requirements for choosing the right SC strategy, according to the competitive priorities of the luxury industry. A wide research program is ongoing at Politecnico di Milano, dealing specifically with SC and operations strategy in the luxury industry; this paper provides some interesting findings, evolving from the first publications of the

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research group (Brun et al., 2006, 2008; Castelli, 2006; Caniato et al., 2007).

In particular, the present paper moves its steps from the contingency theory, identifies the critical success factors (CSF) for competing in the luxury market and reports a review of the main contributions in terms of SC strategy models: the latter are analyzed and compared to the data collected by the authors by means of case studies in 13 Italian luxury firms, in order to assess the suitability of each model and its capability to identify the luxury segment or classify luxury products in different categories.

2. Literature review

2.1. A contingency approach for SC strategy

There is wide agreement on the nature and the effects of the major economic trends of the last decade: the globalization of markets; the extreme level of outsourcing of activities; the evolution of consumers who require a growing number of innovative and customized products in small volumes, with high quality and high service level, in an unpredictable way. All these changes had a major impact on both managerial research and practice, leading to the birth and growing importance of SCs and networks (Gunasekaran et al., 2004). SC management indeed emerged as fundamental in order to remain competitive in a context where most activities are outsourced and the interaction of multiple actors is critical to ensure the delivery of products to the customer (e.g. Stevens, 1989). The concept of SC Strategy has been proposed as an evolution of the consolidated framework of manufacturing and operations strategy proposed by Skinner (1969) and Hayes and Wheelwright (1985): the operations strategy framework (in terms of competitive priorities, structure and infrastructure) can be extended to the SC (Harland et al., 1999). In particular, in order to compete in today's highly competitive marketplace SC strategy should aim at matching product characteristics and customer requirements (Aitken et al., 2003; Li and O'Brien, 2001; Demeter et al., 2006). Other contributions expressed the need to focus SC strategy and align it towards the CSF of the considered product/market, i.e. those features in terms of product or service design that allow a firm to succeed into a specific market segment (customers select the firm's product and not the competitors' ones because of those specific features; Rockart, 1986). Product features in terms of CSF indeed influence SC configuration and management choices (Brun et al., 2008) and should be taken into account in order to capture end users' needs and maximize the value in their perspective (Al-Mudimigh et al., 2004).

As the same SC approach cannot be appropriate in all the situations (Fisher, 1997) increased customer and market orientation is needed (Schnetzler et al., 2007). According to Frohlich and Dixon (2001) market orientation means orientation towards a certain set of competitive capabilities (alias CSF, such as price, quality, flexibility, distribution and service). Differences within customers demand in different market segments can determine different priorities within CSF for a single company.

The presence of differences from industry to industry—mainly in terms of different CSF, different methods of process improvement, different kinds of SC relationships, different degrees of human involvement—sets the path for a contingency foundation of the right SC configuration and management choices (Stonebraker and Afifi, 2004).

Using a contingency (or situational) approach means emphasizing that the nature and structure of organizations can take different configurations and this may be related to several contingencies, like environment, technology, organizational goals or characteristics of members of the SC such as skill, knowledge and size (Van der Bij and Broekhuis, 1998).

Therefore the process of identifying the right SC strategy for a given context requires, on the one hand, identifying the contingencies of such context and, on the other hand, verifying whether the available SC strategies can fit these contingencies. Market characteristics, particularly in terms of CSF, emerge as a relevant set of contingency variables to be taken into account when evaluating the most suitable SC strategy for a certain market context: they can be taken as a good indicator for corporate goals (Schnetzler et al., 2007).

According to Luthans and Stewart (1977), a particular level or state of system performance is a dependent variable which is functionally determined by the interaction of situational and management variables. Situational (or contingent) variables (i.e. market characteristics) are a result of the interaction of environmental variables (e.g. culture, technology, education, suppliers, competitors) and resource variables (e.g. human resources, attitudes, group dynamics, raw materials, capital, etc.). Management variables include planning, organizing, motivational techniques, leadership styles, decision-making models, etc. (Longenecker and Pringle, 1978). Indeed, a common approach is that of considering a set of "independent" contingent variables (such as corporate goals in terms of CSF) while other sets of variables (such as SC configuration) can be considered as dependent.

Hence, the available literature has been studied in depth in order to identify the contingencies that characterize the luxury market and the consolidated models that have been proposed for SC strategy.

2.2. Contingency factors for the luxury market: identification of CSF

Given the cross-sector nature of the luxury industry (which ranges from automotive to apparel, from yachts to leather bags, etc.), aspects such as technology and characteristics of the members of the SC cannot be representative of the general situation of a luxury company. In contrast, some commonalities can be traced in terms of organizational goals, mainly expressed in terms of CSF. This clearly emerges when taking into account specific studies that analyzed the luxury industry, mainly from a marketing perspective (Nueno and Quelch, 1998).

The ambiguous nature of the term "luxury" immediately emerges when looking for a definition. Nowadays

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