**Master Thesis**

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Master of Science in Business and Economics - Marketing

**Competitive Advantage in the European Clothing Industry –**

**The Role of Green and Sustainable Products**

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# **Abstract**

The research of this paper focuses on the development of a competitive advantage for clothing manufacturers in the EU. As a result of trade liberalization and the reduction of trade barriers, competition from Asian producers is increasing. Moreover, increasing resource scarcity, environmental disasters and climate change cause customers and businesses to adopt a more sustainable consumption and production. Therefore, the paper tries to answer the question whether sustainable products manufactured by European producers may become a competitive advantage for the industry and benefit not only the company, but also people and environment at the same time. Through the adoption of a sustainable supply-chain and Corporate Social Responsibility (CSR) companies may become competitive in future. Nevertheless, there are more factors to be considered for a successful portfolio extension, as branding and advertising of the product. A sample survey conducted for the research delivers first insights into customer preferences among sustainable products from different countries of origin.

Keywords: CSR, Textile and Clothing, Competitive Advantage, EU

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# **List of Abbreviations**

ATC – Agreement on Textiles and Clothing

COO – Country of Origin

CSR – Corporate Social Responsibility

EU – European Union

GATT – General Agreement on Tariffs and Trade

WTO – World Trade Organization

# **1. Introduction**

This paper describes the position of the European textile and clothing sector after the removal of quotas in 2005. With increasing pressure from countries with low labor costs, the industry needs to develop a competitive advantage to ensure employment and economic stability in the European Union. The increasing awareness of consumers and businesses about environmental and social issues has led to an increasing demand for green and sustainable products. Moreover, governmental regulations put pressure on manufacturers and force businesses to adapt to new standards of production.

## **Purpose and Objectives**

Environmental disasters and social concerns have changed businesses in the past years and caused changes concerning marketing decisions (Gadeikiene et al, 2012; Iannuzzi, 2012). The textile and clothing industry is one of highest polluting industries in the world, therefore the importance of environmental friendly production is rising (Solomon & Rabolt, 2009). The production of textiles and clothing in low-cost countries, mainly outside the EU, has led to discussions about environmental and pollution issues, but more important social responsibility and working conditions (Iannuzzi, 2012; Paul, 2008; Solomon & Rabolt, 2009). Customers know about the poor working conditions and “will not purchase fashion made in these countries” (Solomon & Rabolt, p. 508-509, 2009). This changing consumer attitude has a direct influence on consumer purchase behavior (Purohit, 2012). It is possible that consumer purchase preferences will go even beyond environmental products and that demand for sustainable products from local producers will rise in future.

“The EU textile and clothing sector is one of the two biggest players in the world market” (European Commission, 2013). Therefore, the textile and clothing sector is an important part of the economy in Europe with steadily rising trade flows; it employs around two million people and generates a yearly revenue of 200 billion Euros (European Union, 2013). The industry has been under different trade agreements over the past years to protect European manufacturers from competition (Paul, 2008). The removal of import quotas in 2005 as a result of the Agreement on Textiles and Clothing (ATC) by the World Trade Organization (WTO) has caused dramatic structural changes for the textile and clothing industry in the European Union (EU). The liberalization of international trade leads to almost unlimited trade flows, which are only restricted by a few non-tariff trade barriers (Krugmann et al, 2012). As a result the sector is under pressure from competitors in Asia and Africa, which gain a competitive advantage in the production of textiles and clothing at lower costs (Paul, 2008). Therefore it is the goal for the industry in the EU to develop a competitive advantage against producers from other countries and to ensure employment in the EU. The aim of this paper is to define the European textile and clothing industry in detail based on the current literature. In addition, the effects of foreign trade policy are discussed and their consequences are analyzed regarding the industry within the EU. Moreover, the importance of the green movement (towards green and sustainable products) within the sector is described based on the industry’s characteristics, the emergence of more conscious consumers and the rising demand for green and sustainable products.

Finally, the objective of the paper is to identify the importance of sustainable products in the European textile and clothing industry from the consumer perspective/ preference and whether sustainable products and consequently supply-chains will become a competitive advantage for manufacturers within the EU.

## **Structure**

The first part of the paper, the literature review, gives an overview of the European textile and clothing industry, its distinctive characteristics and key figures.

In the next section foreign trade policies will be discussed and their effects on textile and clothing trade described. At the same time the impact and structural changes within the sector in the EU will be shown. Moreover, the sources of competitive advantage will be introduced and further the differentiation strategy by Porter will be described.

The following part of the literature review gives a detailed introduction to sustainability in the textile and clothing sector, covering sustainable supply-chain issues, as well as defining green, fair trade and sustainable products within the general trend of more conscious consumers.

The last part of the literature review gives a general overview of product attributes of conventional and sustainable products related to the textile and clothing sector. Finally, a detailed problem definition is given based on the findings of the literature review in coherence with the conceptual framework.

The next section of the thesis covers the research methodology, and gives a detailed description of the survey development, the methodology, hypotheses and data used within the research.

 The following sections show the most important findings of the research and the literature review. A direct connection to the industry will be drawn.

 At the end, a conclusion composed of managerial implications and limitations of the research is presented.

# **Theoretical Background**

## **The Textile and Clothing Industry**

The textile and clothing industry is one of the biggest manufacturing industries in the world, different structural changes have shifted production locations and created new comparative advantages for various nations. Moreover, the fast changing market demand is one of the major challenges faced by manufacturers all over the world.

### The European Textile and Clothing Sector

The EU is the “largest world market for textile and clothing products”, around two thirds of textiles and clothing produced within the EU are sold locally (Euratex, 2012; European Commission, 2013). The high market potential within Europe requires local producers to develop a competitive advantage against third countries, as China, Bangladesh or India, to ensure employment, make businesses profitable and improve the overall economic- and social-well being in Europe (European Commission, 2013; Paul, 2008).

Over the past decades, the textile and clothing sector in the EU has undergone different policies and structural changes with the main goal of protecting local manufacturers (Krugman et al., 2012). Major challenges for the industry are strong competition from low-cost counties and a fast changing market demand (Dunford, 2004). An example of the fast changing market demand and how retailers and manufacturers react to it can be seen in Zara, where collections are changing in a two week rhythm. Especially local design and manufacturing enables the company to react fast to changing trends and to provide consumers with the latest trends (Pahl & Mohring, 2008).

 In addition, the sector is characterized by its high labor intensity, resulting in a comparative advantage for low-cost producers in Asia and Africa (Nordas, 2004; Paul, 2008). A special protection and individual trade policies have been developed for this sector in the past decades (Francois, Glismann & Spinanger, 2000). The liberalization of international trade causes higher and stronger competition in the sector, even more after the removal of import quotas in 2005 as the end of the ATC, which will be described in detail in the next section (Paul, 2008)

Indeed, the European textile and clothing industry has its strengths when it comes to technical textiles, which are especially produced for industrial usage or protective clothing or in the production of high-quality textiles, but fashion and home apparel still accounts for the main part of the EU industry, which is struggling due to high competition (Paul, 2008, European Commission, 2013). The supply-chain of the sector is complex and “covers an important number of activities from the transformation of fibers to yarns and fabrics to the production of a wide variety of products such as hi-tech synthetic yarns, wool, bed-linen, industrial filters, geo-textiles, clothing etc.” (European Commission, 2013). Besides, a few experts expand the scope of products and include luxury goods as jewelry, handbags and other leather goods into the sector (Datamonitor, 2011). In 2010, apparel or clothing and accessories account for 55,4 % of the generated value, textiles in contrast account for 35,6 % and footwear for approximately 9 % (Datamonitor, 2011). The European textile and clothing sector has generated a revenue of 200 billion Euros in 2012.

Nevertheless, more and more manufacturers are shifting production to third countries outside the EU in order to save costs and increase margins (European Union, 2013; Nordas, 2004). As mentioned before, the main aspects weakening manufacturers within the EU in the past years are higher labor costs within the EU and especially in Western European countries (Paul, 2008). Around 60 % of production costs can be allocated to labor costs, nevertheless only 2,6 % of the final retail price can be assigned to labor costs and 75 % of the final retail price are the profit for the retailer, showing an unequal distribution between cotton farmers, clothing manufacturers and retailers (Dunford, 2004, Emery, 2012).

The table below shows different hourly wages in industrialized countries and developing countries for the textile and clothing industry. The biggest manufacturers within Europe are Italy, Germany, France, Spain and United Kingdom, all of them besides Spain belonging to the highest average wage group from the graphic below (European Commission, 2013).

Figure 1: Average salary per hour in $ in 2004.



Source: Paul (2004)

Due to its characteristics the industry can be divided into two separate parts with distinctive characteristics. First low-wage countries assembling mass clothing products with a very low requirement of machinery and technological know-how. This part is especially important in developing countries where income opportunities are limited and unskilled workers may find a job in the sector (Nordas, 2004). Secondly, industries within the EU, the United States and other developed industrialized countries, with a focus on technical textiles and high-quality products requiring, higher technological standards, innovation, flexibility and skilled workers with higher payments (Nordas, 2004; Krugman et al., 2012). Depending on the state within the EU, employment within the manufacturing sector accounts for up to 20 % (European Commission, 2013). The “EU industry remains competitive due to higher productivity, and competitive strengths such as innovation, quality, creativity, design or fashion”, but also capital-intensive or high technological requirements and the fact that inner European trade is duty free improve the competitive position of the EU (European Commission, 2013, Salvatore, 2010). Also, it is argued that a shift of product location to the end-user and resource productivity, but also social aspects, are beneficial for manufacturers, improving their competitive position on the international textile and clothing market (Porter & van der Linde, 1995; Maddock & Vitón, 2010). In fact, until today there are all parts of the production-chain existing within Europe (European Comission, 2012).

All in all, it can be said that there is a high potential for the European economy in the textile and clothing sector, the ability of manufacturers to work more efficiently and deliver higher quality products are important competitive strengths. Especially for future development and profitability manufacturers within Europe have to build on these aspects.

### Effects of foreign trade policy

The European textile and clothing industry has been specially protected in the past decades to lower pressure on European textile and clothing manufacturers, which has consequently led to market distortions (Paul, 2008). Through tariffs, import quotas, import taxes and other trade barriers the number of imported textiles and clothing products was restricted and prices increased through taxes, to enable European producers to compete with foreign products (Paul, 2008).

In 1994, during the Uruguay Round it has been decided to reintegrate the sector into the General Agreement on Tariffs and Trade (GATT) and liberalize international trade in the sector, removing tariffs to move towards free trade. As a result of the Uruguay Round the WTO has been founded with the major goal of liberalized trade between the member states. To avoid massive market distortions and allow some time for the structural changes and adoptions of the industry, the ATC has been developed, a 10 year period to increase quotas (quantitative restrictions) to open markets and liberalize trade. Around 20 % of the employees in the European industry have lost their jobs during 2000 and 2004, which shows the dramatic impact of imports from foreign countries on producers in the EU (Paul, 2008). In 2005, at the end of the 10 year ATC period, import quotas have been removed completely, which before restricted the allowed import volume to the EU (Krugman et al, 2012).

**In contrast, the liberalization of export markets of European manufacturers is significantly slower and new markets remain mainly closed.** Producers in the EU are not able to develop new markets with clothing with high quality and technical textiles, which is the major business and competitive advantage of manufacturers in the EU, because most of the markets outside the EU are using import customs to limit trade flows; this barrier lowers revenues and market possibilities for manufacturers (Paul, 2008, European Commission, 2013). If foreign countries outside the EU open markets and allow for liberalized trade, manufacturers from Europe are able to enter new markets in future and to gain from their competitive position. **Therefore, “market access** constitutes a priority of Community trade policy in the textile and clothing sector. It is generally recognized that global trade in textiles and clothing must be in both directions” (European Commission, 2013). Due to this fact, the number of businesses as well as the number of employees, have been shrinking over the last years within the EU. In 2007, the entire sector employed 2,485 million people, compared to 1,834 million in 2011, in the same time more than 40.000 companies have stopped their business (Appendix 1).

As a result of foreign trade policies and liberalized markets the EU needs to develop products with more value, reduce costs and gain market share to survive in this highly competitive market. Since 2009 the household consumption of textiles and clothing and therefore the total turnovers are increasing again, showing that there is a high potential within the sector (Euratex, 2013).

### Sources of competitive advantage

“Competitive advantage grows fundamentally out of value a firm is able to create for its buyers” stated Porter (p.3, 1985). There are two types of competitive advantage, cost leadership, which can be assigned to developing countries as India or Bangladesh by delivering lower prices, and second differentiation, representing uniqueness and high value or benefits delivered to consumers (Porter, 1985).

Differentiation is built on some attributes a product holds, but even more important in every part of the value chain, these attributes are unique within the industry and valued by customers, therefore rewarded with a premium price. The price premium has to cover the additional costs of being unique within the industry, if this can be implemented the company has a superior performance (Porter, 1985). The differentiation strategy also carries risks with it, when it is not sustained through for example, imitation by competitors or the basis of the differentiation become less important to consumers, for sustainable products made in the EU it is very unlikely since imitating sustainable products from a specific region is not possible by manufacturers located outside the EU, therefore the advantage of country of origin (COO) is sustainable and difficult to imitate. Moreover, the idea of living greener and demanding more sustainable products is an ongoing process and will become even more important in future. Studies have proven that the most conscious consumers are younger people, and therefore future generations (Salamon & Rabolt, 2009; Porter 1985). During the research younger people will be determined as the target group for sustainable products. Porter and van der Linde (1995) state that:

“Properly designed environmental standards can trigger innovations that lower the total cost of a product or improve its value. Such innovations allow companies to use a range of inputs more productively – from raw materials to energy to labor – thus offsetting the costs of improving environmental impact and ending the stalemate. Ultimately, this enhanced *resource productivity* makes companies more competitive, not less” (p.120).

This leads to the conclusion that engaging in the marketing of sustainable products and supply-chains, does not necessarily increase costs and therefore end-consumer prices, but products manufactured in industrialized countries, even though they are not sustainable or green, have a higher price compared to products from Bangladesh or China. Rapid technological change, but also high research and development budgets makes it essential that companies stay updated with the latest technologies to be competitive and able to benefit from new marketing opportunities, which increases product costs and consequently prices (Kotler et al, 2008).

Innovation, technological change and advancement force manufacturers within the EU to expand into niche markets, which is further influenced by competition from developing countries. Nevertheless, the proximity of production locations and consumers, shorter and faster transportation, is of advantage since manufacturers can quickly react on changes in fashion demand (European Commission, 2013). The standards which are applicable to products manufactured within the EU are relatively strict compared to third countries, but they guarantee certain control requirements and quality issues building a fundamental element for sustainable production and products (European Commission, 2013).

The differentiation strategy may be appealing to a niche of customers, but also to a broad customer base. Especially nowadays where green consumers are not a niche market any longer and long-term outcomes of our consumption on the environment are not only considered by customers, but also firms, there is a high potential for the European industry to expand its market share rapidly. Moreover, social aspects of production are of great significance (Porter, 1985; Emery, 2012). The attributes that should be promoted by the marketer have to be important to the buyer, at the same time distinctive from the competitor’s products and the company’s performance has to be superior in delivering the benefit to the customer. Additionally, the benefits have to be visible and communicable, affordable for the customer and finally profitable for the company (Kotler et al, 2008). If a company can deliver higher value by exceeding on the competitive offer on the important attributes, it can charge a higher price for its product or charge the same price and gain market share (Kotler et al, 2008). Porter (1985) names innovation as one of the most important elements to deliver higher value to customers and in creating a competitive advantage. In addition, innovation is a crucial part in reducing emissions and pollution and concluding costs through better resource usage or efficiency (Porter & van der Linde, 1995). Those two statements lead to conclusion that the basis to build a competitive advantage already exists within the industrialized states in the EU.

As mentioned before, the textile and clothing sector is characterized by the high labor intensity, therefore companies that can produce at lower labor costs have a comparative advantage over countries as Germany or the United States, where labor is much more expensive (Paul, 2008; Krugmann et al., 2012). Figure 1 above has shown average labor wages in different nations. It is a fact that the EU will never be able to produce textiles and clothing at prices of countries as China or India without adjust the efficiency of production through for example emission reductions and energy savings (Paul, 2008). But former studies for example by Tewari (2006) found that cost competitiveness is not enough to be successful on the world market and gain market share, because as consumers demand more attributes than low prices, the sources of competitive advantage go beyond low costs. Since consumers demand fashion at low prices with rapidly changing styles and therefore a high frequency of shopping, countries outside the EU as China had the possibility in the past years to develop a competitive position and gain high market shares within the EU, which has also been supported by the reduction of quotas in 2005 and the integration of the sector into the GATT (Paul, 2008; Krugman et al 2012). According to Tewardi’s study (2006), this development was possible due to the complex and highly developed marketing and distribution system in China, and not only lower prices.

Finally, a key consideration for the differentiation strategy that mainly builds on the development of more innovative and complex production procedures results from the fact that the market for technical textiles is limited. Only a small number of customers demand those products; the mass market is demanding standard clothing. Nevertheless, there is a growth possibility for the European sector to expand its market share by making supply-chains more sustainable and save costs. The demand for sustainable products has been rising over the past years and will become even higher in future, since customers become aware of social and environmental factors when buying textiles and clothing (Emery, 2012; Dickson, 2000).

## **Sustainability in The Textile and Clothing Industry**

Sustainability has different meanings and it often becomes a synonym for environmental friendliness and recycling, although in the past the concept of sustainability was defined with a focus on social change and global poverty reduction, combining human well-being and natural integrity (Fletcher, 2012).

### Sustainable Marketing and Development

"There are few brands not considering sustainability. That was not the case 10 years ago." (Farrow, 2012). Large and well-known clothing producers have been criticized for their production conditions by public and media (Dickson, 2000). Over the past years, the climate change has caused significant shifts in consumer thinking and caused sustainability to become an important business topic all over the world. Not only global warming or climate change has caused a change in business and consumer behavior, other important topics are water scarcity, air pollution and biodiversity (Iannuzzi, 2012). As well as firms start to rethink marketing and undergo immense structural changes within their companies, due to new standards set by governments, also customers become more and more aware of sustainable products and start to demand environmental friendly products that are produced in a socially responsible way at the same time (Iannuzzi, 2012; Salomon and Rabolt, 2012).

Sustainable marketing and further sustainable products “secure a socially equitable, environmentally friendly and economically fair and viable business for the benefit of current and future generations of customers, employees and society as a whole” (Emery, p. 24, 2012). The European Commission defines Corporate Social Responsibility (CSR) as responsibility of businesses for their impact on society that includes a “process to integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders” (European Commission, 2013).Moreover, it goes beyond short term goals as profit or fulfilling customer needs and therefore enhances lives of current and future stakeholders (Kotler et al, 2008). At the moment, sustainable development within firms focuses on energy reduction or efficiency, therefore reducing the overall ecological footprint of manufacturing facilities, but “the biggest environmental improvements may be made in the selection of raw material or in the use phase of a product” (Iannuzzi, p.7, 2012). There are three basic elements for sustainable supply-chain management: it has to address inequality in the society, economic accountability and natural resource depletion, the objective is a long-term focus with increased social, economical and ecological value, and will shorten the present global supply-chains (Emery, 2012). The complexity of CSR or sustainable products and supply-chains can be seen in the different elements of products that can be produced with environmental consciousness, social fairness and in a healthy way (Dickson, 2000; Emery, 2012). A study by Ha-Brookshire and Norum (2011) differentiated three types of cotton shirts, first organic cotton, which prohibits any synthetic substances, second cotton, which is produced from sustainable farming practices involving new technology methods; both of them mainly focus on environmental impact of cotton production, whereas the third option focuses on social and economical aspects, cotton exclusively grown in the United States ensures a stable economy and saves jobs. Research showed that customers are willing to pay more for all of the three options mentioned above. The textile and clothing supply-chain has its complexity and includes various steps, which makes it harder to implement a sustainable supply-chain. The goal of European manufacturers should be a sustainable supply-chain, by organic grown cotton, sustainable farming, manufacturing and distribution, through local manufacturers all with a conscious selection of suppliers. Kotler et al. (2008) state that the uniqueness of a company’s supply-chain is essential to deliver superior value to customers, it includes upstream and downstream partners. Manufacturers do not only have to know what their product includes, but also working conditions at their suppliers or political conditions in countries where they get raw materials from (Iannuzzi, 2012). True sustainability can only be achieved by sustainably managing the supply-chain of a product (Emery, 2012). Starting with the procurement of raw material that has been grown without genetically modified seeds or usage of chemicals that pollute the environment and harm the health under fair traded conditions and payments to workers; followed by controls over all stages during the manufacturing itself, where harmful bleaching or coloring chemicals are used that endanger health of workers and the environment, and in general carbon and energy reduction. Besides, child-labor, low salaries, long working hours and poor security standards are a major problem within manufacturing facilities. Furthermore, sustainable distribution is part of the supply-chain that needs to be controlled. The last step of the value-chain represents the final product which contains contaminates that can cause cancer and other diseases; here also packaging, labeling and post-consumption issues as recycling, reuse or disposal are important.

In summary, it can be said that all parts of the supply-chain, but also marketing channels demand for further improvement to ensure sustainable products for consumers, creating superior value (Emery, 2012). As a result the first hypothesis can be derived:

Hypothesis 1: Adapting a sustainable supply-chain will benefit firms in the long-run, due to higher efficiency regarding material waste, energy/ water consumption, and will create a competitive advantage.

In general, there is a biased view on greener products; they are perceived as a trade-off between ecology and economy (Porter and van der Linde, 1995). Reasons for this are additional costs when going green and lower competitiveness but increased social benefits as image since consumers prefer green products (Porter & van der Linde, 1995; Maddock & Vitón, 2010). But, there is evidence that greener production or manufacturing improves overall efficiency by reducing costs through higher energy efficiency, lower packaging costs and reduced material waste, which further reduces disposal costs. Greener production “integrates all issues related to manufacturing with ultimate goal to reduce and minimize environmental impact and resource consumption during a product life cycle inclusive of designing, synthesis, processing, packaging, transportation, and the use of products in continuous or discrete manufacturing industries” (Tan & Zailani, p.2, 2009). This concept will be extended to social aspects and finally sustainability; therefore not only covering environmental issues, but also human rights, security standards and other social topics, like responsibility for local communities (Millen & Walker, 2009; Salomon & Rabolt, 2009; Emery, 2012). Some experts argue that according to cultural differences, labor regulations and human rights may differ. For example in China people leave their in the country side located homes for a specific period of time to earn money and get back to their family. In such situations a limitation of working hours may be inappropriate (Salomon and Rabolt, 2009). Nevertheless, from a European perspective, child-labor and working conditions as they are set in China or India are controversial and do not match our idea of fairness, social responsibility and human rights. Therefore the question arises whether from our norms and values, products made in countries as Bangladesh or India, following the local standards, which are difficult to control, are truly sustainable? According to Emery, the manufacturing location plays a significant role, the COO is directly linked to environmental sustainability; manufacturing closer to the end user reduces the carbon footprint of transportation costs. Social sustainability includes the treatment of workers and the local community and finally economic sustainability represents the support of the local economy, based on this, consumers use COO to evaluate the sustainability of product (Emery, 2012). For example public expectations and environmental policies introduced by governments are in different stages across countries, even though high standards and regulations are established in Germany or Denmark, major countries producing textiles as China and India are still lacking in regulations concerning the environment (Kotler et al, 2008). In Germany, higher technological advancement has already improved sustainable production processes and reduced significantly water and energy usage (Umweltbundesamt, 2013). As a result the second hypothesis can be derived:

Hypothesis 2: Sustainable cotton shirts from the EU have a higher likelihood to be bought by customers, compared to sustainable cotton shirts manufactured in Asian low-cost countries.

Concluding, it can be said that there are various drivers for firms to adapt to the concept of sustainability or a sustainable supply-chain, reaching from legal regulations, environmental protection, sustainable development and, of highest importance, new marketing opportunities.

### Green and Sustainable Products

“Consumers ranked environmental consciousness among the most important product attributes” states Iannuzzi (p.11, 2012). The growing demand of customers for green products causes changes in marketing decisions and puts pressure on businesses (Gadeikiene et al, 2012). Besides environmental concerns, another important issue regarding sustainable products are social aspects as working conditions, health issues or child-labor, which have been discussed in media recently (Belz & Peattie, 2009; Dickson, 2000). According to Tan and Zailani (2009) sustainability goes beyond going green, it also takes CSR into consideration.

Marketing sustainable products has its difficulties. Even though the sustainable consumer is not a niche market any longer, there are still misunderstandings with the concept of sustainability. Sustainability can be build on the triple bottom line principle, shown in figure 2 below. According to Emery a sustainable marketing concept has to cover all three aspects, this view broadens the interpretation of green products and bases successful business practices on environmental and social responsibility next to profitability (Emery, 2012). One of the most important elements of sustainability of sustainable products within the EU is closer production location, therefore lower transportation emissions and costs and higher standards of production. In the past, businesses have used location of production for branding efforts, nevertheless the importance to consumers of this country of origin effect are not researched in the context of cotton textiles and other product attributes (Ha-Brookshire & Norum, 2011). Another study by Elliott and Cameron (1994) has proofed that COO can be a surrogate indicator of quality within their study they used shoes and other products. Moreover people are easier to convince to buy local when other attributes are equal, but they clearly state that COO is not a dominant factor when consumers make purchase decisions (Elliott & Cameron, 1994). Therefore the research will test whether the consumer’s preference is influenced by the combination of COO and sustainable products even if prices are higher from local producers.

Figure 2: The three pillars of sustainability.



Source: Emery (2012)

Cost-competitiveness has caused the shift of production locations to third countries, a major problem arising from the production in these countries is that there is no standardized evaluation model for the compliance with labor laws, therefore it is difficult for retailers to ensure proper working conditions in production facilities located in China or Bangladesh and as a result sustainability of products (Salomon and Rabolt, 2009). Besides, experts state that especially a proper communication of the sustainability of a special product is important to educate people about the benefits and higher value of it. Here, especially marketing and advertising campaigns have to be taken into consideration. A proper analysis of the most important and influential factors has to be done, which would be beyond the scope of this paper (Salomon and Rabolt, 2009).

Based on the three pillars of sustainability the third hypothesis can be derived:

Hypothesis 3a: Customers prefer products with overall sustainability, incorporating social, environmental and economic aspects, more than products that are environmental friendly only.

Hypothesis 3b: Customers prefer products with overall sustainability, incorporating social, environmental and economic aspects, more than fair traded products.

 In conclusion, it can be stated that media has drawn much attention to the difficult circumstances in the industry in the last years, but the highest pressure can be achieved by customers starting to rethink their buying behavior and consumption patterns. This process will trigger companies to take responsibility for their entire supply-chains and not only environmental issues (Salomon and Rabolt, 2009).

### Product Attributes

There are different attributes that are assigned within literature to conventional or sustainable products, a detailed list can be found in figure 3 below. The following paragraph will compare those attributes and apply conventional attributes to sustainable products to show that they are able to compete.

Figure 3: Product attributes, sustainable vs. conventional.



Source: Emery (2012)

The first and most important attribute held by conventional products is the price. Sustainable products are associated with higher prices, but there is evidence from research that sustainable products do not directly lead to higher prices or less quality (Emery, 2012, Porter & van der Linde, 1995). As stated before, prices may be reduced through higher efficiency, but also as Weber (2008) states, there are two main drivers of CSR benefits. First, revenue increases due to CSR activities by higher sales and CSR grants and subsidies. The second driver of CSR benefits are decreased costs induced by CSR activities, split into internal cost savings and the reduction of taxes (Weber, 2008). The availability of sustainable products is given due to closer production locations and the ability of local manufacturers to respond quickly to market demand changes. Moreover, as Trigema’s owner and CEO, Wolfgang Grupp stated, the production within Germany ensures quality and superior product performance through innovation (Deutscher Gründerpreis, 2013). It is a matter of fact, that also France, Italy and Spain are engaged in the production of luxury goods and therefore higher quality made in the EU.

Sustainable fashion has also reached the Berlin Fashion Week in 2013. The image of sustainable clothing is improving, more than 100 designers within the Berlin fashion scene produce under ecological, social or sustainable conditions, at the same time delivering demanded styles and latest designs as conventional designers also do (Farrow, 2012). One major attribute that is difficult to estimate is branding. Branding plays a central role in the purchase decision of consumers, but most of the companies located within the EU are medium sized enterprises and not able to compete with advertising campaigns as H&M is doing, and due to this, it is difficult to position a small brand into the consideration set of consumers (Emery, 2012; Kotler et al, 2009; European Commission, 2013). Based on this the last hypothesis is derived:

Hypothesis 4: Branded sustainable products will have a higher utility and therefore the likelihood of consumers to buy products that are branded will increase.

Finally, not only Trigema, but also other designers and clothing manufacturers start to produce recyclable apparel that is compostable at the same time (Deutscher Gründerpreis, 2013; Farrow, 2012). This indicates that sustainable products nowadays are at the edge of competing with conventional products on almost all attributes that have been listed by Emery (2012).

## **Problem Definition**

On the basis of the facts that within the EU there is a high potential, manufacturers have the capital to invest into technology and further innovation as a key element of sustainable production, the closer locations and lower transportation costs and emission, but also the better governmental regulations and controls build a sustainable basis for manufacturers within the EU to enlarge their product portfolio.

The literature review has shown the development of the textile and clothing industry within the EU, the pressure on manufacturers is growing. In addition, the importance of sustainability and green products has been described, but there is a significant lack within literature and former research regarding sustainable products, which incorporate green and fair traded elements, that are at the same time socially responsible to a broader group of stakeholders. The European textile and clothing sector needs to develop a competitive advantage against low-cost producers as China or India. On the basis of Porter’s three generic strategies, the market situation and the capabilities of European manufacturers, the only strategy to follow for the sector is differentiation. Indeed, the sector owns a competitive advantage in terms of technical textiles that require more technical expertise, capital and machinery. But this doesn’t hold for clothing manufacturers, as mentioned before, especially the clothing sector within the EU is under pressure. Although customers demand products at low costs which are mainly provided by countries outside the EU and imported without any trade restrictions, benefiting the world’s welfare and supporting the Ricardian Model of comparative advantage, this paper focuses on the sustainability of clothing products made in the EU (people, planet and profit). New markets and future perspectives are limited through the restrictions of trade in export countries. European producers have to stay in Europe to ensure employment and economic wealth and at the same time develop European market to gain market share and increase revenues, this may be a possibility due to the fact that consumers get aware of ecological textiles, fair trade and other sustainability issues. Previous researchers have confirmed with their studies that besides product labeling and advertising, consumer attitude is a crucial element within the decision making process of consumers when buying green products (Purohit, 2012). Other important attributes have been determined to be able to compete with conventional products, nevertheless branding plays a crucial role. Moreover, this study will focus on preferences of customers to buy various sustainable products from different regions to determine the preference of each product by the target customer.

The paper aims to answer the following research question:

“Can sustainable products be a source of competitive advantage for the European textile and clothing manufacturers?”

Additionally, it points out which elements are valued most by customers, fair trade or social aspects compared to environmental friendly elements. This paper is written from a marketing perspective that will benefit producers located in the EU, forced by foreign competition, seeking for a competitive market positioning, but also benefiting the customers with sustainable products at moderate prices, that deliver a higher value. The graphic below represent the conceptual framework developed during the study, showing the relationships between the four hypotheses (H1-H4) and the most important factors influencing the marketing of sustainable products.

Figure 4: Conceptual Framework.

# **Research and Methodology**

## **Methodology**

The research of this study aims to identify the importance of sustainable products made in Europe in contrast to Asia, where the strongest competition comes from. Besides, it differentiates overall sustainability (social, environmental and economic), fair trade (a part of social) and green (environmental) products. The research focuses on clothing products, most of these are imported from China and India, the customer survey will focus on Asia, when comparing COO in combination with preference of sustainable products. As mentioned by Ha-Brookshire and Norum (2011) in their study on the customer’s willingness to pay for cotton apparel, cotton is one of the most used materials in the apparel industry. Hence this study will exclusively focus on apparel produced out of cotton fibers. Moreover, synthetic materials may be biased due to the fact that these types of materials are produced with the usage of oil, a non-renewable natural resource (Emery, 2012). Berekoven et al (2009) mentioned that it is significantly important that respondents have sufficient knowledge about the attribute levels. Therefore a definition of all three sustainability aspects will be given at the beginning of the sample survey (figure 5). To develop the different product attributes, for the survey a focus group with eight participants will be conducted, the following survey represents the main research of the study and is distributed among 121 participants. The goal of the study is to find out frequencies of a situation and the relationship between two variables, therefore the study has a descriptive nature. Nevertheless, the focus group conducted as well as the literature search show the influence of exploratory research on the study (Churchill & Iacobussi, 2009). To explore the general relationships between the dependent (Y) and independent or predictor (X) variables, a linear regression model will be used and applied to the collected data from the survey. The dependent variable is defined as the likelihood to buy one of the product bundles. The general model is written as (Churchill & Iacobucci, 2009):

$$Y= β\_{i}+ β\_{1}X\_{1}+ β\_{2}X\_{2}+ β\_{3}X\_{3}+ …+ β\_{n}X\_{n}+ ε$$

 Where: Y = dependent variable

 X = independent variable

 $β\_{i}$ = parameter, coefficient

 ε = error term

In addition to the survey conducted exclusively for the research purpose, secondary research will be conducted by using data and findings of former studies, as well as annual reports and other secondary data sources.

Figure 5: Definitions given in the survey



## **Survey Development**

Churchill and Iacobucci (2009) stated that the selection of attributes is the first step when measuring customer preferences; most important is to select attributes, where the company has the ability to adapt to customer preferences on the basis of technological advancement or general resources. Based on the literature, most important attributes of apparel are price, quality, convenience and brand name (Ha-Brookshire & Norum, 2011). Nevertheless, and as suggested by Churchill and Iacobucci (2009), a focus group has been conducted with eight participants, which will be described in detail below. The second step determines the level of attributes; here it has to be taken into consideration which levels create the highest utility for the respondent/ customer. The attribute levels determined for this study follow a realistic system, i.e. not combining highest quality with lowest price, which may bias the respondents answer (Churchill & Iacobucci, 2009). The sustainability attribute of clothing has three levels: green products, fair trade products and sustainable products. Further, as the study aims to identify whether consumers value sustainable products made in Europe more than sustainable products from Asia. Participants of the survey were asked to rate their likelihood to buy a product with different attributes. Afterwards, the five different products had to be ranked by the respondent. Moreover, the study will identify how their likelihood to buy sustainable clothing produced within the EU would increase. Therefore one more question (question 13) will be added that can be answered by selecting one of the predetermined answer possibilities (figure 9).

### Focus Group

A focus group has been conducted with 5 females and 3 males to gain qualitative insights and determine the four most important attributes for the survey, the main research of the study. Since the survey will be conducted among younger people between 20 and 30, the focus group with an exact average age of 25,75 years gives a good indication of the researched sample. Based on the focus group, the four most important attributes have been determined:

1. Price

2. Quality

3. Convenience (in the sense of comfort)

4. Pattern or style

Even though, sustainability and COO were not mentioned within the focus group discussion, as previous literature has already stated, there is an increasing trend and the market for green and sustainable products is rising (Emery, 2012). Since the study aims to identify the importance of sustainability and COO, those two attributes will be added. Only one of the respondents named branding as important, therefore this attribute will not be taken into consideration for the product bundles, even though suggested by previous studies and literature. This can be explained by the fact that the target group consist of are younger people with lower incomes. Nevertheless the last question of the survey will include this attribute again to measure its importance (figure 9).

Another attribute mentioned during discussion was the ability to clean clothing at home. This attribute is already given due to the fact that the study focuses on cotton shirts. The detailed attributes determined during the focus group discussion with different levels can be found in the table below (figure 6).

Figure 6: Product attributes and levels, survey.

|  |  |  |  |
| --- | --- | --- | --- |
| 1.Sustainability | Green | Fair trade | Sustainable |
| 2.COO | EU | Asia |  |
| 3.Price (€) | 24,99 | 14,99 | 9,99 |
| 4.Quality | Normal | Low |  |

### Product Combinations

Based on the focus group and the determined product attributes and levels, different combinations of products have been developed that will be used during the survey and ranked by participants. The table below gives a detailed overview of the 5 possible combinations. Within the questionnaire, it is assumed that people are buying a cotton shirt which is comfortable and has an appropriate style, because the goal of the research is to determine how important the combination of local production and sustainability factors is. As already proven by other researchers, if quality and price are equal, the consumer’s choice for local product is positively influenced. Besides that, if the quality of a product is perceived as superior, it is possible to charge a price premium for it. However, the combination of COO and sustainability has not been explored in previous studies (Elliott & Cameron, 1993; Porter, 1985). In consequence of this, the different product combinations below have been developed to test consumer’s preference for sustainable products. One of the new companies within the industry is Bleed. It manufactures exclusively in Europe (Portugal and Poland) and sells its products online, based on the website of Bleed and Trigema the price of sustainable clothing made in the EU is determined for the survey. Prices of green and fair trade products are derived from retailers as B&C, Earth Positive and Continental Clothing (Grundstoff, 2013).

Figure 7: Product combinations, survey.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Attribute | Sustainability | COO | Price | Quality |
| Product 1 | Green | EU | 14,99 | good |
| Product 2 | Sustainable | EU | 24,99 | good |
| Product 3  | Green | Asia | 9,99 | low |
| Product 4 | Fair Trade | Asia | 9,99 | low |
| Product 5 | Sustainable | Asia | 14,99 | low |

## **Hypotheses**

As a result of the literature review, different hypotheses have been derived, which will be studied further in the research of the paper. Not only based on primary research by conducting a survey, but also using secondary data to support or reject the hypotheses.

Hypothesis 1: Adapting a sustainable supply-chain will benefit firms in the long-run, due to higher efficiency regarding material waste, energy/ water consumption, and will create a competitive advantage.

Hypothesis 2: Sustainable cotton shirts from the EU have a higher likelihood to be bought by customers, compared to sustainable cotton shirts manufactured in Asian low-cost countries.

Hypothesis 3a: Customers prefer products with overall sustainability, incorporating social, environmental and economic aspects, more than products that are environmental friendly only.

Hypothesis 3b: Customers prefer products with overall sustainability, incorporating social, environmental and economic aspects, more than fair traded products.

Hypothesis 4: Branded sustainable products will have a higher utility and therefore the likelihood of consumers to buy products that are branded will increase.

## **Data and Sample**

The data was collected by conducting an online survey among 121 European participants via social networks, but also by asking participants personally to fill in the survey in paper form, only 111 surveys were filled in completely and further used for the analysis. The respondents were all between 20 and 30 years old with an exact average of 24,69 years. Younger people have been defined as the target group in literature before, since they are most likely to adapt to sustainable products of any kind. Therefore, this survey focuses on the highest potential target group for sustainable products. The sample can be divided into 3 major groups of current work situations, 44 % are students, 29 % full-time employees and 26 % are students that have a part-time job. Only 1 % has a part-time employment. This structure of the sample gives a good indication of income classes; students without work have different spending patterns in contrast to full-time employed young professionals.

Figure 8: Question 7, survey.



Figure 9: Question 13, survey.



* 1. **Results**

The sample survey conducted during the research has shown that the majority of respondents indicated in a ranking that the preference for European products, whether they are sustainable or only green, is higher than those from Asia. The detailed preferences can be found in the table below (figure 10). In addition, the distribution of important product attributes is shown in figure 11, indicating that especially price is a main consideration when people buy sustainable clothing from European manufacturers.

Figure 10: Ranking of Product Bundles, Survey.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Most Preferred** | **More preferred** | **Preferred** | **Least preferred** | **Not preferred** |
| **Product 1** | **78** | 17 | 7 | 9 | 0 |
| **Product 2** | 20 | **41** | 22 | 17 | 11 |
| **Product 3** | 12 | 10 | 22 | **43** | 24 |
| **Product 4** | 1 | 10 | **41** | 22 | 38 |
| **Product 5** | 0 | 33 | 19 | 20 | **39** |

Figure 11: Factors increasing likelihood to buy sustainable products from EU manufacturers.

The study is based on a linear regression model, as mentioned before the model follows the basic linear regression structure e.g. for product 1:

$$Likelihood to buy product 1= 4,333\*Price+ 4,300\*Style+ 4,000\*Comfort+ 4,111\*Brand+4,457\*Quality+ ε$$

The goal is to estimate the impact of different product attributes on likelihood to buy of the different pre-set product bundles. For the research it is of major interest to find out how sustainable product from European manufacturers will become more competitive due to higher demand of customers. In consequence, the relationship between the dependent variable “likelihood to buy product X” and the independent variable “price, quality, brand, style and comfort of clothing” will be calculated. For the nominal independent variable, dummy variables have been created. First of all, it is worth to mention that all of the product attributes have a significant impact on the likelihood to buy products from the EU on a 5 %-significance level. All attributes have a positive effect on the likelihood to buy, showing that the attributes determined during the focus group are of high importance to the target group when doing purchase decisions.

Figure 12: Likelihood to buy product 1

|  |
| --- |
| **Coefficientsa,b** |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | Price | 4,333 | ,126 | ,624 | 34,381 | ,000 |
| Style | 4,300 | ,189 | ,413 | 22,744 | ,000 |
| Comfort | 4,000 | ,598 | ,121 | 6,691 | ,000 |
| Brand | 4,111 | ,282 | ,265 | 14,587 | ,000 |
| Quality | 4,457 | ,143 | ,566 | 31,188 | ,000 |
| a. Dependent Variable: Product 1, likelihood |
| b. Linear Regression through the Origin |

Figure 13: Likelihood to buy product 2

|  |
| --- |
| **Coefficientsa,b** |
| Model | Unstandardized Coefficients | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | Price | 2,400 | ,155 | ,447 | 15,486 | ,000 |
| Style | 3,700 | ,232 | ,459 | 15,916 | ,000 |
| Comfort | 2,000 | ,735 | ,079 | 2,721 | ,008 |
| Brand | 4,111 | ,347 | ,342 | 11,863 | ,000 |
| Quality | 3,743 | ,176 | ,615 | 21,298 | ,000 |
| a. Dependent Variable: Product 2, likelihood |
| b. Linear Regression through the Origin |

# **Findings and Analysis**

## **The Importance of Sustainable Products Made in the EU**

Based on the literature review there is evidence that, within the EU, there is a need to develop a competitive advantage, as a result of some distinctive industrial characteristics, it is possible for manufacturers to develop a differentiated marketing strategy to make businesses more competitive and profitable, but also create jobs and improve the economic situation locally.

There are various factors that strengthen the assumption that sustainable products made in the EU will become a competitive advantage for the local textile and clothing industry, especially over the next years growing shortages of raw materials, increasing energy costs, more pollution and significant climate changes, but also governmental regulations will force companies to adopt to sustainable marketing strategies to create a world economy that can be supported indefinitely (Kotler et al, 2008). European manufacturers may use the differentiation strategy as the basis to develop a competitive advantage and engage in sustainable business with a long-term orientation, before governmental regulations force them to do it. Herewith, the reconstruction of production locations as well as other parts of the supply-chain, reaching from raw material sourcing and suppliers, packaging to completely recyclable products, have to be adjusted (Caniato et al, 2012). As a result companies will be ahead of others and gain a competitive advantage over other producers outside the EU.

Recent scandals within the industry that blamed global players as H&M increased companies’ interests in sustainable supply-chain management. Companies do not only have to take responsibility for their own environmental and social impact, but also for their suppliers’. If they don’t, the corporate image and reputation of the company is negatively influenced (Caniato et al, 2012). Environmental issues and the development of greener products are not longer an issue of risk management as Iannuzzi (2012) stated, sustainable products may be an important part of innovation and growth, which is especially important for manufacturers of clothing within the EU.

In addition, according to Iannuzzi (2012), there are three success factors for green marketing and products. First, there is a need of a credible product story. Second, the customer’s demands for green products have to be met, and finally product attributes have to be communicated properly to build the desired attitude of consumers (Iannuzzi, 2012; Purohit, 2012). Caniato et al (2012) name three groups of practices that drive a company to start sustainable business. First, there are several internal reasons as cost savings, reputation and brand image; second, market drivers have been identified as customer requirements and demands to which the company is responding; the third group covers laws and regulations that force the company to change its way of conducting business (Caniato et al, 2012). Moreover, within Europe the competition from Asia forces companies to become and remain competitive in the fashion industry. The green trend and increasing consciousness of consumers may benefit the sector on the basis of closer production to consumption locations, saving transportation costs and reducing emission of transportation on the one hand; and faster supply on the other hand, necessary to respond to the fast changing clothing market (Caniato et al, 2011; Plieth et al, 2010). The same trend can be observed in food supply, having regional and seasonal fruits or vegetables benefits the environment and strengthens the regional suppliers and manufacturers (Maddock et al, 2010). If companies adapt their supply-chains to provide sustainable products, they will reduce their emissions and overall pollution. Pollution is seen by experts as waste, since resources have been used inefficiently, as a result higher costs without adding any value for the customer emerge. Moreover, companies that are able to improve their resource productivity will have the highest benefits (Porter & van der Linde, 1995).

Summing up, it can be said that sustainable, but also green products are of growing importance in different sectors of the economy. Anyway, especially for textile and clothing firms in Europe it is time to take the developing market demand and start sustainable production. According to Tan and Zailani “future sustainable competitiveness is therefore closely dependent on as to what extend the manufacturing companies are greened and being environmental friendly” (p. 4, 2009).

## **Competitive Position Of the EU**

The EU and producers located within the region are able to build on the differentiation strategy based on a number of distinctive characteristics and advantages. First of all, the EU is one of the pioneers when it comes to technological advancement, which serves as the basis for sustainable production including water recycling or energy efficiency. Higher technological standards and latest technology require high capital investment and skilled workers; these conditions are not compatible within most Asian, countries as for example Bangladesh, nevertheless within Europe, producers can fulfill these conditions (Paul, 2008; Nordas, 2004).

Production standards regarding energy waste, chemicals used and how hey are disposed, the working environment and human rights have much higher values within the European culture than in Asia, which is mainly regulated by law. In addition to that, the proximity of production locations to the end-consumer; in regard to Emery’s statement that “place of production, geographic source of materials, COO are becoming more important as means of evaluating and assessing the sustainability credentials of supply for business and consumers” (p.210, 2012), pointing out that also for businesses, geographic criteria has a significant impact on the evaluation of their suppliers, the material they procure and companies they work with.

Another important factor is that governments encourage “buy local” campaigns, which will build the basis for EU manufacturers of clothing (Elliott & Cameron, 1993). As Albino at al (2012) state, the number of European companies adopting green or environmental strategies is higher than the average, and in contrast Asian companies lay below the average of the example used for their study. This already indicates that within Europe, businesses, governments and consumers start to rethink and adapt to new, more green and sustainable strategies. The EU has already adapted to greener and more sustainable production by reusing water through filtration, circulation of water, reduction of residual water by using fewer carbon dioxide for coloring textiles or even using natural colors that do not harm the environment at all and further utilization of waste heat to generate energy (Umweltbundesamt, 2013). Based on these findings, hypothesis 1 is supported. Sustainable supply-chains are a competitive advantage for producers within the EU. Especially in developing countries the technological advancement and capital to adapt to these procedures is not sufficient and therefore these countries can not step that easily into the production of sustainable products in the textile and clothing industry, moreover the EU strengthens its competitive position with this advancement (Eurpean Comission, 2013; Emery, 2012). New standards set by governments or other Environmental Management Systems as the ISO 14001 drive firms to times where “environmental business practices are no longer be an optional business practice, but rather a competitive necessity for survival” (Tan & Zailanil, p.1, 2009).

Besides, work conditions and social aspects of sustainability are of higher value and therefore smaller changes are necessary to implement a full sustainable supply-chain and consequently sustainable products. For example, Germany is seen as “number one green technology country in the world”, as a result of governmental regulations that forced companies to adapt to more sustainable production, improve its processes and products (Berger, p. 105, 2011). Other important factors that strengthen the competitive position of the European textile and clothing sector are innovation and fashion edge, as well as transportation costs, environmental consciousness and consumer awareness of sustainability (European Commission, 2013).

Furthermore, luxury products at a high quality level will be increasingly exported to markets in Asia (European Commission, 2013). The sustainability of the differentiation strategy depends on the value to buyers and the ability of competitors to imitate the product (Porter, 1985). First, there is evidence that climate change, scarce resources and other environmental issues, as well as social aspects will guide customers into the consumption of sustainable products to a higher degree, which indicates that the value perceived by customers will remain constant or even increase (Iannuzzi, 2012; Emery, 2012). Second, the imitation of made in Europe clothing that has been produced under sustainable conditions, not harming the environment or people, cannot be copied by competitors from outside of Europe. According to Tan and Zailani (2009), leadership in environmental issues creates a competitive advantage; it improves a company’s image and market position, and moreover increases revenue and profit. The fact that research and development and technological advancement are competitive advantages within Europe is a key success factor for the development of sustainable textiles and clothing (European Commission, 2013). Offering products produced under a CSR background will satisfy customers and benefit the company through higher profits and competitive position within the market (Ha-Brookshire & Norum, 2011).

According to Weber (2008) there are five business areas that classify the benefits of CSR. First, there are positive effects on companies image and reputation, second employee motivation, retention and recruitment is positively influenced, third cost savings through efficiency improvements and better relationships to stakeholders, forth higher revenue due to higher market share and last CSR related risk reduction and management. The figure below (figure 14) shows the different benefits classified according to their nature, monetary and non-monetary, and the nature of their indicator, qualitative or quantitative, which lead to competitiveness of the company and finally economic success.

Figure 14: Business benefits from CSR.



Source: Weber (2008)

 Overall, the framework for sustainable supply-chains and products is already set within the EU, not only due to basic human rights and the defined value system, but also technological standards and the necessary money to adapt to new production facilities that provide higher efficiency. In accordance to previous research, businesses will also benefit from adapting their processes and integrate CSR into their daily operations.

## **Consumers and Sustainable Products**

The literature review and the analysis have shown that within the EU, numerous firms have already started to include CSR and sustainable supply-chains and therefore built the basis for the product of sustainable products. Nevertheless, the most important question is which attributes consumers value most and how they differentiated between products of different countries, especially Asia and Europe.

Previous researches have confirmed with their studies that product labeling, advertising and consumer attitude are crucial elements within the decision making process of consumers when buying green products (Purohit, 2012). Studying all aspects considered during the decision making process would go beyond the scope of this paper. Therefore the study focuses on the most important product attributes that have been determined during the focus group discussion; and customers likelihood to purchase sustainable products. At the moment, there is no label that incorporates all aspects of true sustainability, socially fair, economically responsible and environmental friendly, even though there are more than 100 different eco-labels within the EU (Emery, 2012). Labeling is an important issue for green, but also sustainable products, labels communicate quality and reliability of the product. The results of the survey show that quality is of highest importance for 31 % of the respondents (figure 11), therefore labeling (as a reference for quality) is an important factor for marketing sustainable products. Nevertheless, 41 % of the respondents indicated that price is the decision driving factor when considering sustainable clothing from the EU. These customers can only be reached by marketers through higher value of the product resulting from remaining product attributes and features justifying a price premium.

 Even though consumers are willing to pay more for cotton shirts made out of organic cotton, US grown cotton or cotton from sustainable farming, as studied by Ha-Brookshire and Norum (2011), prices as provided by the biggest retailers ranging from H&M, Inditex to Walmart will never be reached by more efficient production. If marketers are able to meet the customer’s needs, customers will pay a price premium for sustainable clothing made in the EU, which is of immense significance since European producers are under pressure from competitors in Asian countries that are able produce clothing at much lower costs and compete on this comparative advantage. Only 8 % of the respondents indicated that branding would increase their likelihood to buy. But, the regression model showed that the product attribute brand has a significant effect on the likelihood of sustainable and green products manufactured in the EU to be bought.

 Concluding, hypothesis 4 is supported, branding plays an important role in customers purchase decisions. In conclusion, the potential within the EU increases, mainly consisting out of small and medium sized companies that don’t have enough brand awareness to establish long lasting brand equity and reputation.

More than half of the respondents (63 %) indicated that they have never bought any kind of sustainable clothing before, this shows that customer consciousness in the clothing sector is not as far as assumed within the literature. Above all, knowledge of sustainable products and its different features are important to be communicated to users (Iannuzzi, 2012, Dickson, 2000). Reichard (2009) says that there is an increasing awareness of customers and that 50 % of consumers already started to look for green clothing, which have become the latest trend. Dickson’s study (2000) has shown that the more customers know about the industry, the higher is their concern about the industries’ workers, indicating that problems and issues related to environmental and social aspects have to be communicated to the customer to create awareness and consciousness.

 The industry within Europe consists mainly out of small and medium sized companies or start-ups, as for example manomama; this specific structure makes it difficult for marketers or the company itself to use international advertising campaigns, because they are too expensive (Plieth et al, 2010). Since costs for products as manufactured by manomama are already higher than from mass retailers as H&M, advertising costs need to be saved. In this case especially online marketing through social networks is of significant importance to communicate the benefits of the product, the brand and the problems within the industry. As used by manomama, transparent communication of material uses, suppliers, but also design builds long-lasting relationships to customers and benefits the company in the long run (Plieth et al, 2010). Besides that, becoming the retailer of self produced products, meaning that the producer overtakes all parts of the supply-chain, will enable producers in the EU to gain the retailer profit directly, and therefore will guarantee higher profits.

The research findings have shown the number of respondents per product and the ranked preference (figure 10). It is significant that product bundle 1, a green shirt manufactured in the EU has been ranked by the majority of respondents as most the preferred product and none of the respondents ranked it as not preferred. Product 1 and 5 have the same price, but different origins and qualities, nevertheless customers did not have a strong preference for product 5, most frequently ranked as least preferred. Product bundles 3 and 4 are mainly positioned in the lower half of the preference scale; in contrast both products of the EU are ranked by the majority of respondents in the upper half of the preference scale, indicating a positive attitude toward these products even though they are more expensive than those from Asia. As a result, hypothesis 2 is supported. Based on the findings of the research it can be said that customers have a better attitude towards products from the EU. This may be reasoned by source credibility, which refers to the credibility of the source, in this case the EU, in perceived expertise, objectivity and trustworthiness (Salomon & Rabolt, 2009). There is no clear indication of higher preference for sustainable products over green or fair traded, comparing the two products from the EU the green product (1) has been more preferred than the sustainable product (2). This may be due to the fact that customers expect social aspects as already given when products are manufactured within the EU as a result of stricter norms, values and human rights. For Asian products it can be found that the sustainable product has been ranked most frequently on not preferred, but the ranking is equally distributed; the same can be found for product 3 and 4.

These findings lead to the conclusion that customers do not rate overall sustainability higher than only green or fair traded products, therefore hypothesis 3a and 3b cannot be proven. Nevertheless, as already mentioned by other researchers, consumers do not only base their decisions on social responsibility within the production process, but also consider other attributes as price, quality and brand (Ha-Brookshire & Norum, 2011). But the tendency of customer preferences goes to products manufactured within the EU.

# **Conclusion**

## **Implementations**

Resulting from the findings of the research and the analysis, it can be stated that sustainability of clothing is not only considerable during production, but also regarding the entire supply-chain and its management. Companies have to take more responsibility and closely monitor where their raw-materials come from and how sustainable their suppliers operate (Caniato et al, 2012). As the results of the survey show, customers especially value green products manufactured within the EU, but also sustainable products will gain market share in future due to higher consciousness of customers, but also competitiveness of companies. In summary, it can be said that not only the introduction of sustainable and green products from EU manufacturers is of major importance to build a competitive position in the global textile and clothing industry, but also packaging, labeling and other factors of the marketing campaign have to considered as well (Purohit, 2012). Integrated marketing campaigns are essential to communicate features and benefits of products that create value to customers, for small- and medium-sized firms, social networks will play a crucial role in this context. There is a strong need to introduce a reliable label that is used internationally and incorporates the three pillars of sustainability, since customers refer to the label in order to access product quality and reliability.

As can be seen in the findings of the survey, consumers are more likely to buy from local producers in contrast to Asian ones. Particularly in future, when even more governmental regulations will be implemented and consumer consciousness further increases, the importance of sustainable products that have been manufactured within the EU will become of increasing importance and will be a sustainable competitive advantage for the local textile and clothing industry. A study from 2009 measured the attitude of Finnish customers and showed that 91 % of the respondents were interested in ethical production and the environmental impact of products (Caniato et al, 2012). Concluding, it can be said that within Europe there is a growing market for sustainable and green products, opening new marketing possibilities.

Another recent development are possible bilateral trade agreements between Europe and the United States. This new market will increase the export volume and strengthen the sector, here again European manufacturers can build on their competitive position and supply sustainable or green products (European Union, 2013). Especially close relationships of neighbor countries within the EU, but also in the broader Mediterranean area, which includes countries as Egypt and Morocco, will strengthen the competitive position of the sector (European Commission, 2013). Even if parts of products are not manufactured within the EU directly, and therefore do not follow European standards, the closer location to the end user makes products more sustainable (Emery, 2012).

## **Limitations**

The main limitation of the research can be seen in the customer survey conducted with European students. Even though the European textile and clothing market is one of highest revenue creating in the world, exports of textiles and clothing to nations outside the EU are of significant importance as well. It may be interesting to see how demographic differences change the attitude towards sustainable products made in the EU and how preferences change among generations. Further research may be conducted to explore the advertising of green products and how consumers perceive green or sustainable advertising. As mentioned before, the communication of information about sustainable products is crucial and reduces perceived risk during the decision making process of consumers. This is another important success factor of sustainable products that has to be determined when successfully introducing sustainable products in the textile and clothing industry. Advertising is absolutely necessary within the sector. As mentioned before the supply-chain of textiles covers a number of different processes and therefore consumers have to be informed about the origin, production and quality of the textile.

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**Appendix**

Appendix 1: Key Figures 2011- European Union-27 Textile and Clothing Industry

