

Bachelor's Programme in Business

Customer-centricity in Second-hand Fashion Business

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Abstract

This study explores the increasing importance of customer-centric business models in the rapidly growing second-hand fashion industry. As consumer preferences shift towards sustainable and personalized fashion choices, second-hand fashion companies face heightened competition, necessitating the adoption of strategies that prioritize customer needs and preferences. Through an analysis of existing business models, the study identifies key areas where customer-centric approaches can be more effectively integrated, including customer segmentation, personalized value propositions, and enhanced customer relationship management. The findings suggest that companies which successfully implement these strategies in everyday actions are likely to achieve a sustainable competitive advantage, fostering customer loyalty and brand resilience. The study concludes the ways to transition towards customer-centricity that are essential for the long-term success of second-hand fashion companies, highlighting the need for ongoing innovation and strategic adaptation in the dynamic market. Future research is encouraged to further investigate the specific impacts of customer-centric models on business performance within the industry.

Keywords Second-hand fashion, customer-centricity, customer-centric business model

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Tässä tutkimuksessa tarkastellaan asiakaskeskeisten liiketoimintamallien kasvavaa merkitystä käytetyn muodin toimialalla. Kun kuluttajien mieltymykset suuntautuvat jatkuvasti kohti kestäviä ja yksilöllisiä kulutusvalintoja, käytettyä muotia tarjoavat yritykset kohtaavat voimistuvaa kilpailua. Tämä edellyttää sellaisten strategioiden käyttöönottoa, joissa asiakkaiden tarpeet ja mieltymykset asetetaan liiketoimintamallin keskiöön. Tässä tutkimuksessa tarkastellaan nykyisten liiketoimintamallien analysoinnin avulla lähestymistapoja, joilla asiakaskeskeiset toimintamallit voidaan integroida tehokkaammin yritysten käyttöön. Erityisesti tutkimuksessa painotetaan asiakkaiden segmentoinnin, arvonlupausten yksilöllistämisen ja asiakassuhteiden hallinnan merkitystä. Tutkimuksen mukaan yritykset, jotka toteuttavat onnistuneesti asiakaskeskeisiä strategioita innovatiivisesti jokapäiväisessä toiminnassaan, saavuttavat todennäköisesti kestäväen kilpailuedun ja edistävät sekä asiakasuskollisuutta, että positiivista brändiä. Tutkimuksessa todetaan, että käytetyn muodin yritysten pitkän aikavälin menestyksen kannalta olennaiset tavat siirtyä kohti asiakaskeskeisyyttä sisältävät piirteitä jatkuvasta innovoinnista ja strategisesta sopeutumisesta kilpailullisilla markkinoilla. Lisäksi tutkimus kannustaa tulevaisuudessa tarkempaa tutkimusta asiakaskeskeisten mallien vaikutuksista alan yritysten suorituskykyyn.

Avainsanat Käytetty muoti, asiakaskeskeisyys, asiakaskeskeinen liiketoimintamalli

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1 Introduction

Second-hand fashion industry has been becoming more popular over the last decade due sustainability concerns of customers as well as the appealing provision of unique clothing. At the same time, the competition in the industry has increased. (Gopalakrishnan and Matthews, 2018; Persson and Hinton, 2023). The inspiration to this study rose as I, a customer of second-hand fashion companies, noticed that companies follow same pattern of actions. Second-hand fashion companies I have engaged with embraces either the price of fashion items or the sustainability benefits of shopping used items. As a second-hand fashion consumer, I find it repetitive for company to sell products donated or sold by fashion consumers in physical stores where customer needs to find convenient items themselves. I found a lack of interaction between second-hand fashion companies and their customers which I have however experienced when shopping in traditional fashion retail companies.

Even though second-hand fashion companies redistributing fashion items have characteristics of fashion retail stores in their actions, differences can be found in business models, how company structures its operations to find competitive advantages (Osterwalder and Pigneur, 2010; Teece, 2010). Divergence appears especially in terms of customer segments, with whom company interacts with, value propositions, what company offers to its customer segment, and customer relationships, how company communicates and interacts with customer segments (Gopalakrishnan and Matthews, 2018; Osterwalder and Pigneur, 2010; Teece, 2010). Therefore, I find research concerning the topic would be beneficial for second-hand fashion companies to find their competitive advantage, how company stands out from the mass of competitors.

Especially, I have found lack of customer-centric approaches in second-hand fashion companies. Customer-centricity, which prioritizes the needs and preferences of consumers, is crucial in creating a competitive advantage (Teece, 2010) in the market segment where competition is intense, such as second-hand fashion industry (Gopalakrishnan et al., 2018). The need of customer-centric business models in second-hand fashion industry arises as they also enhance customer satisfaction and foster long-term loyalty. Therefore, my research question is: how can customer-centricity be implemented in second-hand fashion companies. The precise examination includes introducing possible customer segments, value propositions and customer of second-hand fashion companies with a focus on customer-centric approaches.

The literature used focuses on both qualitative and quantitative studies concerning benefits of customer-centric business models. Also, mainly

qualitative studies and literature concerning business in second-hand fashion industry is investigated. Teece (2010) states how business model is built efficiently and effectively to find success through customer-centricity. According to Teece (2010) and recent study by Tuominen et al. (2022), innovativeness in the process of building business model can create a slot finding competitive advantage. In this thesis I will explore these innovative ways how business models can be applied in companies redistributing fashion items.

In this study, chapter 2 will explore the foundational principles of customer-centric business models, with a focus on their design and the key motivations that drive businesses towards adopting customer-centricity. The chapter will primarily draw on the framework established by Osterwalder and Pigneur (2010), which identifies the essential components of a successful business model. Following this, Chapter 3 will delve into the operational landscape of second-hand fashion companies, analysing their current business practices and business model structures. Additionally, I will examine strategies that these companies might employ to enhance customer-centricity, building upon the research of Gopalakrishnan and Matthews (2018). Their study provides a critical analysis of existing business models within the second-hand fashion industry, offering a foundation for proposing customer-centric approaches.

While certain elements of customer-centricity are already integrated into the daily operations of second-hand fashion companies, there remains significant potential for further innovation and differentiation. Specifically, the concept of customization, creating tailored solutions that foster customer-centric value creation, emerges as a highly effective strategy for enhancing both innovation and customer-centricity within these business models.

2 Customer-centric Business Models

2.1 Customer-centricity: Definition and Drivers

As the second-hand fashion industry has experienced significant growth, driven by several factors, including environmental awareness, economic factors and fashion choices the competition has increased (Gopalakrishnan and Matthews, 2018; Persson and Hinton, 2023; Turunen et al., 2020; Veneestra et al., 2013;). Gopalakrishnan and Matthews (2018) summarize the competition in the industry is tough due varying customer retention and difficulty to maintain the economic viability of the business. Therefore, companies are constantly looking for new ways to compete and succeed, including ways of strengthening the relationship with customers. Wieseke et al. (2020) provide valuable insights into the importance of customer-centricity in today's business environment and how companies can effectively implement it. Summarizing the literature, customer-centricity can be defined as a way organizations place the customer in the heart of business, focusing on their needs, assumptions and experiences (Teece, 2010; Wieseke et al., (2020); Williams (2014). Wieseke et al. (2020) propose that customers are nowadays influenced mainly by the engagement they have with company. This, in turn, positively influences customer engagement with the organization and may serve as a pathway to discovering competitive advantages. Similarly, Teece (2010), finds that the attractiveness of customer-centric business models arise due the evolving customer needs such as change in values and technological evolution. Teece finds the growth in the amount of data and its accessibility has led to the need to differentiate the value proposed to the customer more. In action, this means pioneering in analysis of the customer expectations towards companies and the value offered and being one step ahead to fill their needs, expectations and hopes. Therefore, second-hand fashion companies should consider adopting such strategies.

To effectively engage with customers, it is crucial to thoroughly understand and prioritize their values. This understanding not only fosters customer commitment but also reinforces the benefits that come with it. According to Shah et al. (2006), metrics designed to evolve when implementing a customer-centric approach in business are primarily focused on enhanced customer satisfaction and loyalty. Additionally, a customer-centric functions can bolster brand reputation and help secure competitive advantages (Boulding et al., 1993; Teece, 2010). These four benefits including customer satisfaction, loyalty, brand reputation, and competitive advantage should be viewed as an interconnected system where each element amplifies the others. This concept is supported by Williams (2014, p. 210), who presents that positive customer experiences are intrinsically linked to these benefits. Further, Homburg et al. (2017) argue that effective customer experience management

requires a deep understanding of and improvement upon every interaction a customer has with a company, ensuring a seamless and positive journey. If a second-hand fashion company manages to understand the customers they engage with, adopt customer-centricity and put it in the core of its philosophy, it offers significant advantages discussed next.

To review literature, customer satisfaction, which results from positive interactions between the customer and the company, is a critical factor that drives other business benefits, including competitive advantages. (Shah et al., 2006; Tuominen et al., 2022). Williams (2014) emphasizes that in companies that prioritize customer-centricity, customer satisfaction is achieved by allocating both financial and non-financial resources to foster positive customer interactions, which may involve prioritizing workforce efforts and time in maintaining customer relationships. Tuominen et al. (2022) further highlight the role of innovative customer satisfaction within customer-centric strategies, noting that it contributes to competitive advantage and revenue growth by deepening the synergy between the customer and the company. This study also underscores the interconnectedness of customer satisfaction, customer-centricity, and customer relationship management, suggesting that a focus on customer relationships may lead to enhanced customer satisfaction, beyond simply meeting customer needs and expectations. This enhanced satisfaction can, in turn, amplify the advantages gained through implementing customer-centricity within a company.

Customer loyalty, the trust customer has towards company and its' actions leading to engaging with them again, within companies implementing customer-centric philosophy is significantly enhanced when customers feel a sense of belonging to a community that aligns with their interests, values, and needs (Bly et al., 2015). This sense of community is fostered when customers chosen to interact, customer segment, is carried out precisely, creating a shared space where customers interact with others who share similar values. Bly et al. (2015) emphasize that community-building activities can significantly boost customer retention by strengthening the bonds between the customers and the company. This community-building is not only an additional benefit, but a key value created by the company, which can lead to positive interactions and competitive advantage embracing also customer satisfaction. Boulding et al. (1993) demonstrate that these positive interactions contribute to desired customer behaviors, such as positive word-of-mouth, repeat purchases, and overall customer loyalty which are desired in second-hand fashion companies (Gopalakrishnan and Matthews 2018). Moreover, Osterwalder and Pigneur. (2010) highlight that acquiring new customers, often driven by positive word-of-mouth, serves as an indicator of a well-functioning business, underscoring the importance of effective marketing strategies in attracting interest to the company. Customer loyalty is also closely tied to the value that the company creates. To support this, Kuehn et al. (2019) point out that product satisfaction is an even greater determinant of brand experience than the service offered, suggesting that

customer loyalty can be further enhanced when customization processes, making value specifically for individual customer, are executed correctly. As Gopalakrishnan and Matthews (2018) note, in second-hand fashion companies, loyalty is often a reflection of how well the product offerings, such as the variety of clothing items, align with the needs of the customers targeted by the company. This indicates that customization, as a strategy to implement customer-centricity, leads to more intense customer experiences, which in turn fosters greater loyalty. Customization methods vary depending on the strategy and business model of the company, which are specifically examined for second-hand fashion companies in chapter 3.

Brand reputation is fundamentally dependent on how customers perceive the company and relies strongly on customer experiences. The study by Brakus, et al. (2009) examine the concept of brand experience, its measurement, and its influence on consumer loyalty, finding a direct and indirect impact on brand image when positive interactions occur between customers and the company. As Robson (2012) states, the deliverables of company are of higher value compared to thing produced. Thus, as customer receives positive experience through customer-centric actions, the brand image is reinforced. According to Brakus et al. (2009), the customer experience before, during, and after a transaction is crucial for building brand reputation meaning that customer-centric. They state that companies that consistently achieve high levels of customer satisfaction in all three are often seen as more reliable and trustworthy. When a company aligns its functions with the correct customer segment, these efforts appear unique, satisfying, and meaningful to the customers, who can connect with the underlying motives and values. This may involve evoking positive connotations through marketing, customer service, and feedback sessions, among other methods. However, the importance of cohesion among these strategies to foster a positive brand image. To support this, Williams (2014) suggests that personalized functions designed to enhance customer centricity should be implemented company-wide. Consequently, the benefits of a positive brand image are closely tied to the overall synergy within the company.

Teece (2010) suggests that when functions operated and values created by business are hard to imitate, company creates advantages as competitors can't replicate. Companies with strong competitive advantages are more resilient to pressures, enabling them to sustain their position even in highly competitive environments, such as in second-hand fashion industry (Gopalakrishnan et al., 2018; Osterwalder and Pigneur., 2010). The competitive advantage can be found in customer-centric operations of company which create the forementioned positive connotations between customer and the company. Teece also mentions, that the business model of a company and especially the innovative designing process of it is nowadays the baseline to find competitive advantages, which is why business models based on customer centricity are discussed next.

2.2 Building Customer-centric Business Model

To examine the ways to implement customer-centricity through a business model, it is essential to clarify the concept and the need of a business model. While various definitions of a business model exist, they resemble each other involving the idea that it serves as a foundation for how a company is structuring its operations so that it achieves success. Osterwalder & Pigneur (2010) define a business model as a framework that explains how value, whether qualitative or quantitative, is developed, delivered, sustained and enhanced within an organization. Similarly, Teece (2010) describes business model as a strategic tool designed to seek and sustain competitive advantage, outlining how an organization differentiates itself from its competitors. However, Teece also emphasizes that for business model to truly provide a competitive edge, both the design process and the resulting model must be innovative and distinctive. According to Teece, this need for innovation arises from the fact that competitors can quickly adapt and modify their own business models to replicate any monetary success, or reputational benefits achieved by others. In other words, to ensure second-hand fashion company maintain their competitive advantage the process of creating outstanding business model can be used to meet the goals of the company in question.

One approach to refining an organization's business model is to allow the customers within the selected segment to influence the characteristics of the business model. This concept aligns with even Drucker's (1954) assertion, made 70 years ago, that it is the customer, rather than the organization, who ultimately defines the business. This perspective emphasizes the importance of effectively addressing customer needs and preferences in the engagement of company's business model. Supporting Drucker's view, Williams (2014) suggests that company's business strategy with a focus on customer-centricity, serves as a transformative tool for customer relationship capable of creating a compelling customer experience fostering strong engagement with the business. Teece (2010) agrees, stating that business model shall offer the best possible connection to customers as they are the ones who pay for value, to whom is value delivered and with whose interest are value created for. Especially in second-hand fashion companies, where items are bought-in or collected from customers for redistribution, the importance of relationship between customer and company grows. As business is involving functions like this, Teece (2010) suggest that involving customer to the designing process of business model is rather crucial than voluntary to company to continue its' operations in the world where customer have more alternatives to

choose from. Similarly, Dekel et al. (2007) argue that consumers are increasingly evaluating companies based on how they position the consumer within the value creation process, driven by consumers' growing awareness of their identity as shaped by the value they consume.

As stated, developing a precise business model for a company is essential for clarifying the company's purpose and the reasons it engages with customers (Teece, 2010). Osterwalder and Pigneur (2010) present a framework that outlines nine fundamental elements, which describe an organization's functions and intentions, forming the foundation of a comprehensive and successful business model. According to the framework, the structure of a business model consists of interconnected components, including customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure. The framework is further used in today's literature, as Diderich (2020) introduces framework of business model including the updated versions of the components. Concerning the designing process of business model, Teece (2010) stresses the articulation of value creation and delivering it to customers in today's business models. To rely on this, while each of these components is vital for create a viable business model, this study will focus specifically on customer segments, value propositions, and customer relationships. This emphasis enables a thorough examination of the implementation of customer-centric business models, particularly in second-hand fashion companies. This approach also highlights the crucial differences between business models that prioritize the customer and those that do not, underscoring the importance of tailoring strategies to meet customer needs effectively. The following will introduce these three critical components briefly, which are further discussed in the context of second-hand fashion in chapter 3.

Customer segments address the group of people with certain features who are value created for (Osterwalder and Pigneur., 2010; Diderich, 2020). In customer-centric business model the customer segment is the group of individuals who are in the center of the company's business model, above whose interests' other components are based on. As highlighted by Bly et al. (2015), effective segmentation — dividing the market into groups with shared traits — is crucial for tailoring company functions to meet the unique needs of each segment. These traits may include demographic factors like age and psychographic factors like stylistic preferences of clothing items, influencing consumer behavior. Bly et al. (2015) claims segmentation to help with resonating marketing with target customer segments, building intended customer experience as well as embracing customer loyalty. Similarly, Teece (2010) argues that competitive advantage in design of business model starts from customer segmentation. Consequently, as discussed in Chapter 2.1, it can be stated that

knowing the values, expectations, and needs of customers makes it easier to achieve business advantages as company knows who to target.

According to Osterwalder and Pigneur. (2010) and Teece (2010), value propositions are essential in defining what an organization offers to attract customers over competitors. To summarize literature, value propositions often include a mix of products and services, with elements like customization that differentiate the organization and address customer segment needs (Osterwalder and Pigneur., 2010; Kim et al., 2018; Diderich, 2020). However, in customer-centric business models, the value is also created in the creation and delivery process (Teece, 2010) as customer is involved in both. In the fashion industry, this approach entails engaging customers in product development, transaction processes, and post-purchase activities, rather than simply selling a clothing item (Kim et al., 2018). Teece (2010) also relies on this, emphasizing that traditional methods of value creation, where value is captured merely through a purchase, are outdated. Consequently, a compelling value proposition helps organizations clarify their vision for customer offerings and effectively attract and retain customer segments (Osterwalder and Pigneur., 2010) helping the company to implement customer-centricity.

Osterwalder and Pigneur. (2010) defines customer relationships as a description of how organization establishing the connection with customer segment including elements such as co-creation and assistance. In addition, Diederich (2020) further emphasizes the importance of understanding customer expectations and preferences in shaping these relationships. While Teece (2010) argues that all companies should establish strong customer relationships, this is particularly crucial for second-hand fashion businesses. These businesses rely heavily on maintaining positive relationships since customers often play dual roles as both buyers and sellers, making customer interactions vital for success. Therefore, A well-managed customer journey can serve as a key competitive advantage by fostering continuous positive relationships, known also as a customer journey. Osterwalder and Pigneur. (2010) suggest matching customer relationship with customer segment by exploiting the idea of optimal customer journey as it creates an infinite loop to positive customer relationship. Homburg et al. (2019) agrees, as they state that managing customer journey leads to a positive brand image as well as customer retention. As well, according to Lemon and Verhoef (2016), the coherent customer journey encompasses all stages of interaction between the customer and the organization. Lemon et al. (2016) argue that mapping out these stages leads to a seamless experience, which can increase customer satisfaction and retention. This statement supports Teece's (2010) perspective on delivering the value and managing customer relationship as a part of value creation process, supporting the customer-centric approach.

Possible lack of shared understatement of organization's business model may slow down the activities towards organization's goals and reduce the benefits of organization's functioning. To mention few, synergies can be missing, value propositions may not meet the expectations of customers or brand of the company is weak (Osterwalder and Pigneur, 2010). This in turn have consequences of how strong the company is functioning in the market. Especially in second-hand fashion companies where consumer is key stakeholder, the customer-company engagement is variable to affect the success of a second-hand fashion company. Also Homburg et al. (2017) endorses this as prioritizing customer in functions of company builds and deepens the dynamics between customer and company, which makes it effective strategy among second-hand fashion companies when competing with numerous contenders. This strategy is introduced more deeply next to offer comprehensive view how customer-centricity is implemented in practice in second-hand companies.

3 Customer-Centric Business Models of Second-Hand Fashion Companies

Gopalakrishnan and Matthews (2018) describe second-hand fashion business to be a market segment including selling and purchasing pre-owned pieces of fashion to customer with varying motives to engage with second-hand fashion. As Teece (2010) states, companies don't follow the same pattern to function and success as they did hundred years ago due individuals' increased interest towards other elements than scale. This phenomenon can be seen in second-hand fashion companies' business models as well. The companies competing in second-hand fashion market are following the same ideology how to do business as traditional fashion retail companies but with updated characteristics concerning value created for individuals (Persson and Hinton, 2023). Overall, the value second-hand fashion market commonly offers to consumers is based on more sustainable fashion consumption in comparison to traditional ways of consuming (Bly et al., 2015; Gopalakrishnan et al., 2018). While the practice of buying and selling second-hand clothing is not new, its current popularity and the formalization of the second-hand fashion industry as a significant market segment are more recent developments. In 2023 alone, market of second-hand apparel, including the second-hand fashion market segment, grew 18 % (2024 Resale Market and Consumer Trend Report).

Specifically, I focus on business models of companies that practice second-hand fashion business in a form of redistribution market. Redistribution market refers to a system where used goods, such as fashion items, not needed are transferred to where they are needed (Botsman and Rogers, 2010). More precisely, I will focus on business models of second-hand fashion companies retailing used fashion items where customer is crucial stakeholder and value receiver. According to Botsman and Rogers (2010), redistribution markets are part of collaborative mindset of consuming with blurred boundaries on ownership, which is nowadays getting more interest among individuals due it's cost-effectiveness to mention. As the redistribution market in the second-hand fashion industry offers significant appeal to consumers (Gopalakrishnan and Matthews, 2018; Persson and Hinton 2023), in response, companies competing in industry must innovate their business models, integrating customer-centricity as presented next.

The suitable strategy for a second-hand fashion company is based on the same nine components of business model as any other organization with indeed to thrive (Osterwalder and Pigneur, 2010; Gopalakrishnan et al., 2018) and have same characteristics as in fashion retail companies (Gopalakrishnan and Matthews, 2018). Possible strategies to implement customer-

centricity in business models of second-hand fashion companies vary depending on company's goals and resources. However, it is necessary to recognize that ideal customer strategies have tightly interconnected components where the customer is at the center of these connected components, constantly shaping the business model (Teece, 2010; Tuominen et al., 2022). Teece (2010) states, that if a company can create a business model with clear vision what customers are after now and in the future, the designing process of business model can be built customer-centric. This might not need newest implementation methods but the understanding that differs from competitors.

Teece (2010) suggests that new business model, which can in this case mean implementing customer-centricity in second-hand fashion company, process needs analysis concerning information gathered from customers as well as competitors and the market segment. As there are companies functioning in the segment, the analysis is doable. However, Teece stresses that understanding and putting the business model to work needs trial and error -mindset, especially when it concerns emerging industries, as second-hand fashion market segment can be seen as. Even though second-hand fashion is not a new phenomenon, it has been growing during the twenty-first century as it has gathered popularity among customers. Therefore, customer-centric business models might be initially experimental in the field. Teece suggests that creativity and an innovative mindset is crucial features when finding designs that support the field of competition, customer segments and value proposed. Therefore, possibilities to implement customer-centricity in second-hand fashion companies are infinite but may include the following proposed elements.

3.1 Specified Customer Segments

To see the appropriate customer segment of second-hand fashion companies, investigating the motives of customers to engage with second-hand fashion is crucial. These motives are interlinked to values of possible customer segments engaging with second-hand fashion companies. To proceed, I will discuss a comprehensive, though not exhaustive, list of motives — including economic, environmental, aesthetic, and social factors — explaining why customers engage with second-hand fashion companies. Thereby, the deep understanding of the possible customer segment is supported when introducing concrete ways of implementing customer-centric approaches.

As mentioned, the second-hand fashion items are lower in price to consume compared to well-known pattern of fashion consuming: buying newly produced clothing items found in traditional retail stores. Literature agrees

economic factors to be a key motivator for customers to engage with second-hand fashion companies. A qualitative study by Kiehn and Weller Vojkovic (2018) found that young adults trust the prices to be lower in comparison to companies selling newly produced clothing. Similarly, Gopalakrishnan and Matthews (2018) state that customers value the ability to purchase luxury items, such as designer handbags, at reduced prices in second-hand markets. This is due to the resale nature of the items, where previous ownership leads to reduced pricing. In addition, the redistribution market offers a cost-effective alternative to fast fashion, supporting also environmentally conscious consumers' values (Gabrielli et al., 2013; Gopalakrishnan et al., 2018; Virgens et al., 2023).

When looking from environmental sustainability point of view the interest towards second-hand fashion, business functioning in this market segment can be seen as a strategy to manage waste by reusing the items (Fletcher, 2008; Virgens et al., 2023). Multiple studies examine how customers are aware of the negative environmental impact of fashion and the benefits of mitigating the consumption of newly produced fashion items (Changing Markets, 2021; Turunen and Halme, 2021; Gopalakrishnan et al., 2018). For instance, in 2021, it was predicted that if fashion industry keeps its form, the usage of synthetic materials made from fossil-fuels in fashion will dominance the world's total fiber production in 2030 (Changing Markets, 2021). Therefore, increased awareness of the environmental impact of fashion has impacted the consuming behavior for long. Even from last century, Bailey (1993) apparel market has been changing due increased consciousness towards mass production of fashion. More recent studies show also evidence that environmental consciousness is still increasing. A study by Hiller Connell (2011) showcases that 85 % of participants engaging with eco-conscious clothing consumption methods were motivated to consume second-hand apparel by environmental in addition to economic reasons. Similarly, studies by Hiller Connell (2011) and Virgens et al. (2023) found that motivation arises from lowering negative environmental impact of one's by choosing consuming practices. To summarize, the environmental impact of fashion is appealing to customers, why customers want to engage with second-hand fashion companies.

However, according to the study by Hiller Connell (2011), behavior towards consuming eco-conscious apparel was also motivated by external sources, such as aesthetics. Kiehn and Weller Vojkovic (2018) support this as their study found that millennials primarily see environmental benefit of engaging with second-hand fashion companies as a positive consequence rather than motive to choose a company over other. Kiehn and Weller Vojkovic (2018) states that millennials see second-hand fashion companies in positive light

as the fashion pieces are trendy and attractive by appearance. Similarly, Fletcher (2008) addresses aesthetic approach to be one core value to offered by sustainable fashion companies as it attracts individuals to choose to consume sustainable clothing. Kiehn and Weller Vojkovic (2018) found that consumers of second-hand fashion to be appealed by the uniqueness of the clothing, as every piece have their individual background, which is not available in the pieces of newly produced clothing items.

Interconnecting social and aesthetic approaches, According to Veenstra and Kuipers, (2013) aesthetic attraction of the fashionable second-hand clothing stem from consumers' need to build their identity through consuming. Second-hand fashion consuming is one way to build one's identity, as Veenstra and Kuipers (2013) suggest, as the authenticity of one's identity can be claimed by consuming second-hand fashion. In addition, study by Kiehn and Weller Vojkovic (2018) mentions internal motivations, such as status to be connected to engaging with second-hand fashion companies. It can foster a sense of community as individuals share their unique finds and experiences when second-hand shopping. By these means, second-hand fashion business' value creation is partially based on the look of the clothing sold but also motivated by social matters. In addition, the study by Kiehn and Weller Vojkovic (2018) introduce second-hand shopping as an activity to spend time with, referring to social motives to shop second-hand. People enjoy the experience of browsing second-hand stores, often seeing it as a recreational activity or a chance to socialize with friends.

When second-hand fashion companies develop a customer-centric business model, it is essential to place the motives of the customer at the core of the company's operational strategy. By doing so, value can be co-created with customers and successfully delivered to them, ultimately generating a competitive advantage. Payne and Frow (2005) highlight that information management is a critical process for organizational success. This involves gathering detailed information about customers' consumption behaviours, such as preferences and needs. Peppers and Rogers (2016) further advocate for the use of individual customer data in building deeper customer relationships, suggesting that all organizational functions, including value creation, should be based on this customer-centric information.

For example, Gopalakrishnan and Matthews (2018) state in their qualitative study that especially young female adults are profitable customer segment as they relate mostly to the motives of engaging with second-hand fashion. However, the ideal customer segment also depends on the type of value the company seeks to create and for who states what the value shall be like. For instance, precise psychographic segmentation may be required to align with

specific lifestyle values that resonate with both the company and its customers (Osterwalder and Pigneur (2010)). An example of this would be if a company aims to engage individuals who value minimalism; offering an extensive range of diverse fashion items may not align with this segment's preferences. Osterwalder and Pigneur (2010) also suggest that customers can also be segmented based on their preferences for certain styles of service. From a customer-centric perspective, this means that the selected segment desire deeper engagement with the company which is discussed more deeply in next chapters.

3.2 Tailored Value Propositions

In the sustainable fashion sector, companies offer value by aligning with current trends and individual expressions of style, while also promoting sustainability. According to Bly et al. (2015), sustainability itself can be viewed as fashionable, and sustainable fashion items provide an avenue for unique self-expression. Therefore, second-hand fashion companies shall offer products and services that support valued matters of customers. Gopalakrishnan and Matthews (2018) agree with this, noting that second-hand fashion companies offer a wide variety of stylish and branded items that customers find appealing. However, their research also highlights the importance of affordability and quality customer service in the value creation process.

In addition, Kiehn and Weller Vojokovic (2018) found that consumers appreciate the ability to purchase large quantities of apparel for a relatively low cost, reinforcing the perception of receiving fair value in the second-hand fashion market. Additionally, Turunen et al. (2020) and Persson and Hinton (2023) explored how sellers can find monetary advantages in selling second-hand items, such as designer handbags, particularly when undervalued items are redistributed. Due this, the company can price its products below the original distributor's price, while still providing customers with a perception of value and meeting economic expectations. Recognizing this potential, companies can enhance customer satisfaction. Moreover, redistributive markets offer a cost-effective alternative to fast fashion, known for its affordability due to efficient production models (Gabrielli et al., 2013). As Gopalakrishnan et al. (2018) state, by offering reduced-price, luxury or non-luxury items, second-hand fashion companies align with sustainability-driven consumer motives while maintaining economic appeal. By focusing on these unique needs and values of second-hand companies' customers, companies can carve out a distinct niche. In action, emphasizing sustainable practices and ethical sourcing in value creation second-hand fashion company can attract environmentally conscious consumers who prefer to shop second-hand to

reduce their environmental footprint while having economic value as well (Turunen and Gossen, 2024).

In competitive environment of the second-hand business, companies must create and deliver compelling and differing value propositions that resonate with customers, encouraging long-term engagement (Teece, 2010). As previously defined, value propositions are the elements that draw customers and make them want to return (Osterwalder & Pigneur, 2010). In a customer-centric business model, the customer actively participates in the process of addressing their own needs and values. Effective customer-centric value propositions can serve as a key differentiator, helping companies build competitive advantages (Williams, 2014). These competitive advantages can be achieved through differentiated strategies, developed in collaboration with customers to ensure that their expectations are met. This approach fosters strong relationships between the customer and the company, ultimately generating value for both parties (Williams, 2014). In fashion industry, customization is a popular way to bring customer into the value proposition (Kim et al., 2018; Pallant et al., 2020), which shall be introduced in second-hand fashion companies as well.

Homburg et al. (2017) and Pallant et al. (2020) state that customer loyalty in fast-fashion retail companies can be strengthened by involving customers in the design process, as their participation itself creates added value. This customization strategy can be adapted for second-hand fashion companies by allowing customers to influence the selection of product themes, even though new products are not being manufactured. On the one hand this creates the possibility for customer to discover the unique fashion items (Gopalakrishnan and Matthews, 2018), which can be seen as personalization of the items purchased by customers. On the other hand, second-hand fashion companies face limitations in fulfilling every customer request in value creation since they have no control over the production of items. Still, second-hand fashion company can utilize types of value creation based on customization, which supports customer-centric value creation (Gilmore and Pine, 1997; Homburg et al., 2017; Pallant et al., 2020)

Gilmore and Pine (1997) introduces a framework outlining four types of value creation methods concerning mass customization, cost-effective way to offer tailored options for a mass of customers, which can be implemented in second-hand fashion companies. In second-hand fashion companies, mass of customers can be the chosen customer segment. First method, adaptive customization, allows customer to customize the value themselves after the transaction of item. Second method, cosmetic customization, includes the product to be personalized by the company before the change of ownership.

(Gilmore et al., 1997). These two methods are not generally recognized in second-hand fashion literature but present a possibility to seek differing value and competitive advantage for the company as these methods are already used in fashion industry (Peppers et al., 2016). For example, second-hand fashion companies could explore niches by offering personalized accessories, such as adding customer initials (Peppers et al., 2016) or providing tailoring services to alter the fit of items.

The third and fourth methods, collaborative and transparent customization, are rather known in second-hand fashion companies' value creation strategies. Both include the feature that customization is not necessarily in sight of customer and need background work from the company. Collaborative customization involves tailoring offerings based on explicit customer input, while transparent customization is informed by a customer's long-term consumption habits, anticipating their needs. (Gilmore et al., 1997) According to Gopalakrishnan and Matthews (2018), second-hand fashion companies often respond to customer preferences for certain clothing types and price points, adjusting their product mix and pricing to align with customer expectations. This way, they can adjust their value propositions, for example by pricing the clothing or choosing the style of clothing to be something between commonly used casual clothing and luxury branded items (Gopalakrishnan et al., 2018).

It shall be noted that multiple customization methods are possible to implement at the same time (Gilmore and Pine, 1997; Gopalakrishnan et al., (2018), For second-hand fashion companies to fully embrace a customer-centric approach in their everyday operations and foster positive customer relationships, transparent customization could be a crucial factor in building a competitive advantage (Gilmore and Pine, 1997). For instance, individual pricing models and product customization can be implemented in the same second-hand fashion company. Also, it is beneficial to see that by employing transparent customization, companies can anticipate customers' needs based on long-term behavior, offering a more personalized experience. This strategy, combined with collaborative customization, enables businesses to implement multiple customization methods, thereby enhancing the customer journey as a whole. (Gilmore and Pine, 1997).

3.3 Enhanced Customer Relationships

The third essential component to examine at the grassroots level is customer relationship management, as it represents a customizable value that directs the success of a customer-centric business model. Williams (2014) highlights that a key function of implementing such a model is a genuine focus on

enhancing the customer experiences. In the daily operations of a second-hand fashion company, this may involve streamlining the transaction process, maintaining a visually appealing brand image, and ensuring the quality of staff and their service delivery. Gopalakrishnan and Matthews (2018) emphasize through their study that positive customer experiences in second-hand fashion companies can be reinforced through effective visual merchandising, such as maintaining physical stores aesthetically attractive. This approach not only boosts the customer's perceived value but also underscores the connection between customer relationship management and value creation.

The implementation of customer-centricity, however, is not just about maintaining relationships as it also requires a degree of innovation and creativity. Tuominen et al. (2022) argue that companies need to innovate continuously to sustain and enhance their customer relationships, particularly in dynamic industries like second-hand fashion. This implies that second-hand fashion companies must continuously seek new ways to engage their customers and stay competitive. Moreover, the cohesion between the various methods used to build customer relationships is vital for gaining a competitive edge. As Homburg et al. (2017) assert, the integration of these methods into a cohesive customer journey is essential. Homburg et al. (2017) note that the nature of interactions between customers and companies becomes more intense as these relationships evolve over time. This makes it crucial to align relationship-building methods with the characteristics of the specific customer segment. Shah et al. (2006) emphasize that customer-centric relationships should be at the heart of any business model, suggesting that understanding and engaging deeply with the chosen segment creates an intense and lasting connection.

Moreover, Gopalakrishnan and Matthews (2018) confirms that second-hand fashion companies often rely on strategies such as word-of-mouth, social media marketing, and loyalty programs to secure customer loyalty. The study highlights especially the role of social media marketing in fostering customer relationships, as it provides a platform easily accessible by both the company and the customer. According to study, word-of-mouth is another highly effective marketing tool that thrives under a customer-centric business model, which is supported also by Boulding et al. (1993). Peppers and Rogers (2016) support this by stating that direct interaction with customers, where expectations and preferences are mutually communicated, adds significance to customer relationships. They argue that such interaction is a key aspect of the personalization process, which requires companies to engage with customers on an individual level. Additionally, Kim et al. (2018) propose the use of reverse marketing, where customers independently discover the company and the value it offers, further reinforcing the connection between the company and its customer base. Gopalakrishnan and Matthews (2018) also agree, as they see network building effective.

Furthermore, the methods of customization can be interlinked to the value created by serving the customers. Tuominen et al. (2022) support this, as they emphasize the significant impact of customer service in implementing customer-centric business models in terms of customer retention and customer satisfaction. In practice, Kim et al. (2018) recommend building networks that foster a personal connection with customers, making them feel part of a community where they can engage with individuals who share similar interests. In this way, customers can relate to other customers and share their experiences. This approach not only enhances customer satisfaction but also facilitates more open communication, allowing customers to provide feedback and interact with the company, whether the experience is positive or negative. Complementing this, Gopalakrishnan and Matthews (2018) identify loyalty programs and reward systems as effective methods for cultivating customer interaction and fostering loyalty. Loyalty programs and reward systems offer more advantages to customers who engage with company more often in comparison to other customers, creating the urge for the customer to return.

4 Conclusions

In this thesis, I first explored the concept of customer-centricity and what drives companies to add customer-centricity in the core of their business model. I investigated how a comprehensive business model is built, basing my viewpoints on Osterwalder and Pigneur's (2010) framework applying it to the context of second-hand fashion. I further delved into the three components of customer-centric business model including customer segments, value propositions and customer relationships, including the innovative perspective of building a differentiating business model. Overall, this study aims to highlight the distinct advantages of focusing on customer needs, experiences, and satisfaction.

The findings can be concluded as follows. As competition intensifies, driven by increasing consumer demand for sustainable and unique fashion options, second-hand fashion companies must differentiate themselves through innovative strategies that prioritize customer needs and preferences (Gopalakrishnan and Williams., 2018; Teece, 2010). By putting the customer at the heart of company's operations, these companies can foster stronger customer relationships, enhance loyalty, and build a strong brand reputation. This approach helps second-hand fashion companies create unique customer experiences, encouraging repeat business and positive word-of-mouth referrals. (Boulding et al., 1993; Gopalakrishnan and Matthews, 2018; Teece, 2010).

The analysis of existing business models in the second-hand fashion sector revealed significant potential to incorporate customer-centric strategies more comprehensively. While some companies have begun integrating these approaches, the study identified that there is still considerable room for growth, particularly in areas such as customer segmentation, personalized value propositions, and customer relationship management (Osterwalder & Pigneur, 2010; Wieseke et al., 2020). Implementing these strategies not only meets the evolving customer but also creates a sustainable competitive advantage that is difficult for competitors to replicate (Teece, 2010). As the industry continues to evolve, the companies that succeed will be those that place the customers at the core of their business models, consistently delivering value that resonates with their target audience (Shah et al., 2006; Tuominen et al., 2022).

While the findings offer valuable insights, several limitations must be acknowledged. The study primarily focused on second-hand fashion companies within specific market contexts concerning redistribution markets. As a result, the generalizability of the findings may be limited, particularly in markets with different consumer behaviors, cultural contexts, or economic conditions. Future research could expand the scope to include a more diverse

range of companies and markets to better understand the applicability of customer-centric models globally. Also, the research relied heavily on qualitative data, such as interviews and case studies, which may introduce subjectivity and bias. While these methods provide in-depth insights, they may not capture the full spectrum of consumer experiences and behaviors.

Future research shall delve deeper into the specific strategies that second-hand fashion companies can employ to enhance their customer-centric approaches. Additionally, exploring the long-term impact of customer-centric business models on financial performance in the second-hand fashion industry could provide valuable insights. Lastly, investigating the role of digital platforms and technology in facilitating customer-centric practices in this sector could provide valuable insights.

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