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Lappeenranta University of Technology

School of Business

Bachelor's Thesis

International Business

**The Challenges and Opportunities of e-Commerce in Fashion Branding from an e-Trust
and e-Loyalty Perspective**
Case JULJA Finland Oy

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1. INTRODUCTION

Numerous opportunities of internet have changed the characteristics of fashion business by creating unique chances and new solutions for the industry. One major factor is the rapid growth of e-Commerce as an alternative for traditional business models. (Moore et al., 1997, p. 153) Even though, in the early days of online fashion retailing, the confidence in the success of e-Commerce was relatively low. Nevertheless, the huge number of online fashion stores has proven the thought false, as e-Commerce and online consumer shopping trends have grown rapidly in the past few years (Rowley, 2008, p. 348). In turn, the world of e-Commerce has brought many challenges to fashion retailing. The boundaries of fashion business have blurred and thus the competition is becoming more and more intense as new entrepreneurs are entering the fashion markets. (Phau & Lo, 2004, p. 408)

Trust is a major feature in offline commerce and traditional branding. As e-Commerce has captured the heart of fashion business, trust has become even more vital element, especially in the consumer segment (Kamari & Kamari, 2012). Since trust is a key element in building customer relationships, companies struggle with challenges of building and maintaining loyal customer bases in digital environment. The amount of economic uncertainty is constantly increasing in today's world (Odin, et al., 1999, p. 75), and therefore the competitive atmosphere makes loyal customers even more significant for a company as market movements are harder to predict (Delgado-Ballester & Munuera-Alemán, 2000). The fashion industry is characterized by its complex and rapidly changing nature, which makes online branding even more challenging. The traditional brand management aspects need to be transformed suitable for the online world, in order to improve aspects of brand trust and loyalty. After all, according to Lille (2010, p. 9), the most important resource for a fashion company is a strong brand with an innovative and dynamic approach towards business.

1.1 *Research Problems, Objectives and Limitations*

The study contains a main research question and sub-questions, which aim at dividing the main question into parts in order to provide a comprehensive answer to the main research problem. The topic is examined through the following research questions:

The main research question is:

- *What are the main challenges and opportunities of e-Commerce in the Finnish fashion industry from a brand trust and loyalty point of view?*

The sub questions of the study are:

- *What are the typical characteristics of fashion and what is the current state of Finnish fashion industry?*
- *How e-Commerce is used in the fashion industry?*
- *What are the main opportunities and challenges in building brand trust and loyalty online?*

The main objective of the study is to discover the main challenges and opportunities that e-Commerce brings to the fashion industry and to the process of building brand trust and loyalty in particular. Firstly, the field of e-Commerce is investigated and then the findings, benefits and challenges are implemented into companies' branding strategies. Secondly, the effect of companies' online branding actions on customers' behaviour is studied. Finally, new perspectives and ideas are developed for fashion retailers to build trust online and increase the number of customers who continuously utilize brand's products and services.

This study is limited to B2C¹-markets in fashion industry, and therefore the results may not be fully relevant to other industries. Many features of fashion industry depend on how the word *fashion* is defined. In this study the emphasis is on two separate fashion market segments which

¹ B2C (business-to-consumers) refers to the transactions between businesses and consumers. Companies retail products and services to consumers through different sales channels. (Jackson & Shaw, 2009, p. 3)

are ready-to-wear fashion and mass production. These segments are presented later in this study. The main focus is on e-Commerce and its impact on companies' branding. The emphasis is on brand trust and loyalty since those issues are highly important in online retailing. Trust and loyalty are usually studied throughout consumer surveys, but in this study the topic is investigated from a company's perspective.

1.2 Literature Review

This literature review draws together the key themes from three areas; fashion, e-Commerce, and brand trust and loyalty. The themes studied in this paper are explored from the perspective of fashion. There were quite a lot literature found of the particular topic, see for instance: Bohdanowicz and Clamp (1994), Craik (2009), Jackson and Shaw (2009), and Lea-Greenwood (2013). Scientific articles have also been used when exploring the characteristics of fashion, like Moore, et al. (1997), Phau & Lo (2004), Malen (2007), Rpwley (2008), Lille (2010), and Kamm et al. (2013).

Although e-Commerce is quite a new research topic, it has been studied widely. Therefore, the amount of existing literature is relatively large. Turban & King (2003) approach the topic by introducing the overall field of e-Commerce, and later VanHoose (2011) has an interesting way of exploring the research topic throughout economics. New technological innovations and solutions for e-Commerce come across all the time and for that reason, the main focus is on recently published literature and scientific articles like Sloman (2007), Simmons (2007), Strebinger & Treiblmaier (2008), and Dien (2002).

A lot has been written about marketing and branding and the amount of books is increasing as the value of branding is realized (Sounio, 2010, p. 18). The aspect of trust in marketing and branding is a relatively new research topic but still it has reached popularity among researchers. The meaning of trust in building brand loyalty has been studied in many ways in B2C-markets and the relationship between trust, loyalty and satisfaction has been presented in academic literature, see Gommans, Krishnan and Scheffold (2001), Delgado-Ballester and Munuera-Alemán (2000), and Rowley (2008). Brand loyalty has engaged researchers widely and therefore it is often presented in academic literature.

Less literature about online branding than about traditional branding exists but many journals connected with the research topic can be found. Although, Rowley (2008) claims that the existing ones are not studied deeply. Hence, there were fewer articles found concentrating on online branding in the fashion industry in particular, see Dholakia, Fritz, Dholakia, and Mundorf (2002), Park and Stoel (2005), Simmons (2007), and Rowley (2008). The aspects of trust and loyalty in the electronic environment have interested researchers, see, Reichheld and Scheffer (2000), Anderson and Srinivasan (2003), and Kamari and Kamari (2012).

1.3 Theoretical Framework

The theoretical framework, which is illustrated in figure 1, links the theory and the empirical data together. The figure explains the connections between branding and e-Commerce, which are the key concepts of this study.

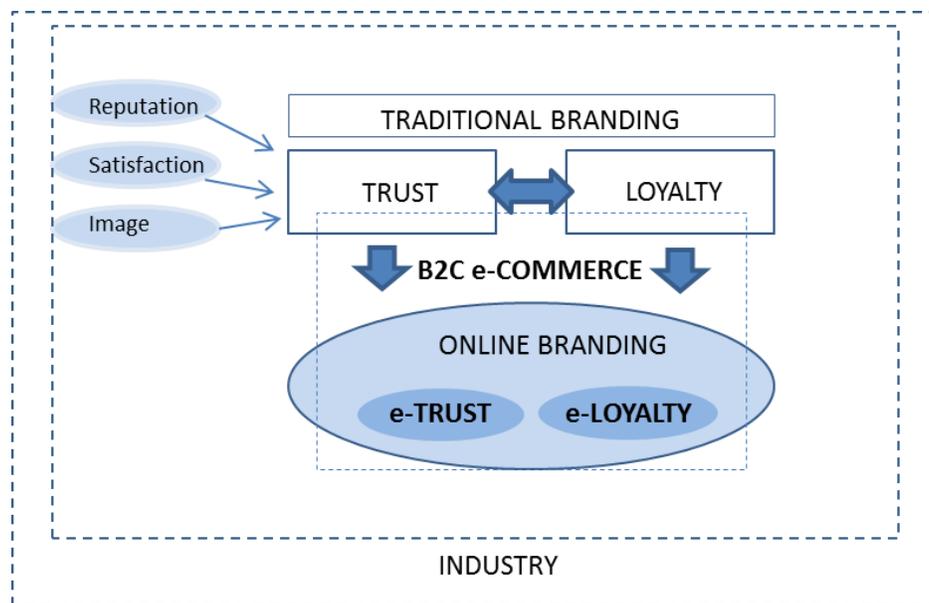


Figure 1 Theoretical Framework of the Study

The study is built from a fashion business aspect and the emphasis is on the benefits and challenges that e-Commerce has brought to the particular industry. Traditional brand theories are explored from trust and loyalty points of view. There are multiple features affecting company's trust building process, which can be encapsulated to three factors: reputation, satisfaction, and brand image. Trust is a key element when the goal is to form a loyal customer base and both,

trust and loyalty, affect each other. In the field of e-Commerce, traditional branding models of trust and loyalty are transformed into theories of e-Trust and e-Loyalty.

1.4 Methodology

This study is done by using qualitative research methods, which are usually contrasted to quantitative research methods. Broadly speaking, the qualitative research method is used to describe a non-numerical data while quantitative research is based on statistics. (Eskola & Suoranen , 1998, pp. 8-10) Qualitative research requires flexibility since the area studied is uncharted and unpredictable. Therefore flexibility can be seen as a characteristic for qualitative research. Yet, qualitative study needs to have good limitations in order to give the reader a fully understanding of the purpose of the research. (Hirsjärvi, et al., 2008, pp. 81-82) Possible data collection methods for qualitative research are the case study method, the grounded theory method and the functional research method. In this study, the empirical data was collected through interviews. Therefore, the case study method was chosen for gathering the information. (Yin, 1984, p. 23)

Case study research is an empirical research method which analyses a certain event that is currently happening, or an action in a certain limited environment, by using information that is collected in several different ways. (Yin, 1984, p. 23) The study can be described as an interactive process between the researched and investigated target. As in other research strategies, the goal is to respond to a set of research questions. This research strategy will often answer to questions how or why. (Thomas, 2010, p. 4)

As mentioned, case study method is used to explain a certain event or events. These, usually social pheromones, may relate to individual or a limited group of individuals. The object under investigation can be for example a group, community or a company, but a number of cases can also be studied at the same time. (Gillham, 2000, pp. 1-3) The results of case study are not generalizable since the study is based on a specific case. The results can be interpreted throughout the certain case and they help to understand the ongoing situation (Thomas, 2010, p. 1). According to Yin (1989) the main goal for case study is to aim for analytic and theoretical generalizations. If this goal is reached, these generalizations can be valid beyond the case study (Yin, 1989, pp. 37-38). In other words, the attempt should not be to make generalizations inside

the case, but to break free from the context, so that the generalization of the results would be possible in theory.

The case study method has been criticized widely and there has been a lot of discussion of its weaknesses as a research method. For example, the case study method is not perceived to be a very systematic research method when it has been compared to other equivalent alternatives. The data collection strategy is also criticized as incapable of achieving scientific results as generalized case study theories are rarely formed. The method has also been regarded to be resource and time consuming, as well as quite narrow because of its contextual nature. (Swanson & Holton III, 2005, p. 19)

The empirical data for this study was collected via interviews, which is the most traditional way of gathering information in qualitative research. It is characteristic for an interview that the questions are pre-planned and the researcher opens the conversation and motivates the interviewee. Research interviews can be shared into four groups: structured, half-structured, theme and open interviews. In this study, the chosen method for gathering information was theme interview, where the questions were divided into themes. Questions are semi-structured and the sequence of questions is not accurate. (Eskola & Suoranen , 1998, pp. 85-87) The themes used in this study were background, e-Commerce in the fashion industry, opportunities and challenges of e-Commerce in trust and loyalty building, as well as development ideas, as shown in attachment 1.

1.5 *Structure of the Study*

Figure 2 explains how the study is divided into theoretical and empirical parts and gives an overview of the structure. After the introduction chapter, the definition of fashion and main characteristics of the industry are presented. The third chapter introduces the world of e-Commerce and how it is shown in the fashion industry. Following sections in the chapter deepen the phenomenon by investigating the benefits and challenges of e-Commerce. The last theoretical part, chapter four, is divided into two sections. The first section consists of exploring the traditional brand theories involving brand trust and loyalty. The second section in chapter four integrates e-Commerce and traditional brand theories into theory of online branding, which illustrates the phenomenon of e-Trust and e-Loyalty.

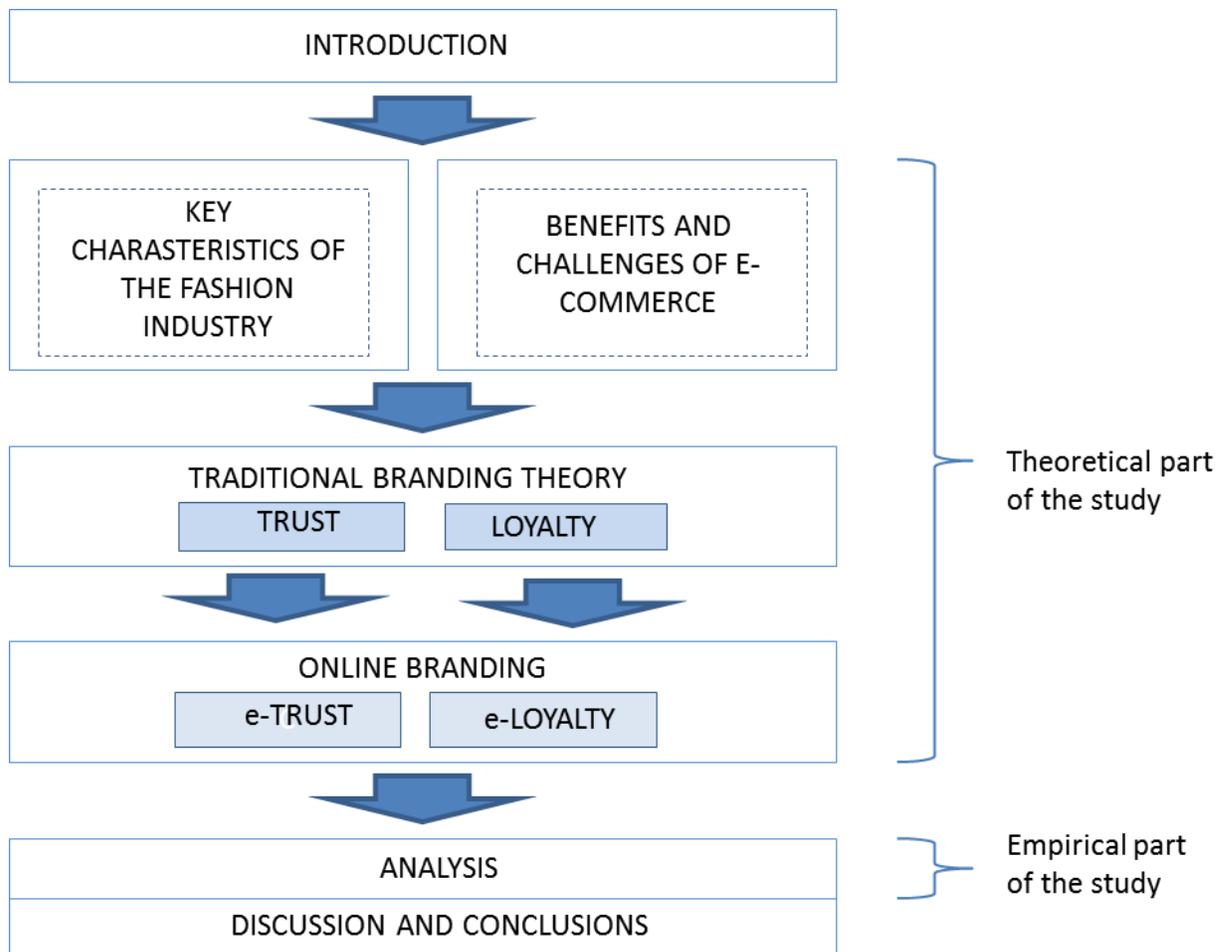


Figure 2 The Structure of the Study

The empirical part of the study investigates benefits and challenges of e-Commerce and their effects on brand trust and loyalty through the analysis based on the theme interviews. In the beginning of the empirical part, the case companies are introduced. The analysis examines the themes discussed in the interviews. Finally, the theoretical and empirical parts are drawn together, discussed, and concluded.

1.6 *Definition of key concepts*

E-Commerce: Electronic commerce (e-Commerce) can be determined as an exchange of goods via electronically linked devices that operate within networks, in which the internet is the most used (Van Hoose, 2011, p. 6). e-Commerce is part of e-business which has a lot broader meaning. (Dholakia, et al., 2002, pp. 2,279)

Fashion: Mass adaption is a key characteristic of fashion. Jackson et al (2009, p. 335) define fashion as the current style of dressing or appearance that is implemented by a majority of people at a certain time. Fashion has a constantly changing character which survives through time.

Brand: An identifiable name, sign, symbol, sound, colour or design that presents a company, is defined as a brand. Customers attach meanings to brands, and a brand can add value to a product. (Jackson & Shaw, 2009, p. 326) (Kotler & Armstrong , 2012, p. 255)

Fast fashion: Usually fashion collections are launched within seasons, fall/winter and spring/summer, but in fast fashion, collections can change even in every two weeks.

Second hand: Within fashion industry, used clothes and accessories are defined as second hand products. The products are collected from different sources and then sold to consumers.

Online branding: As business activities have moved to electronic markets due to growth in the use of internet, companies have had to implement their marketing functions to the online environment.

e-Trust: Companies need to gain trust in order to gain loyal customers (Reichheld & Schefer, 2000, p. 113). e-Trust is gained via electronic channels.

e-Loyalty: With the help of e-Trust, an e-Loyalty can be built. It can be defined as a result of attitudinal and behavioural consistency when customer shows feelings, belief, and behaviour towards the market offering and supplier (Dholakia et al 2002, p.127).

2. MAIN CHARACTERISTICS OF THE FASHION INDUSTRY

The nature of fashion industry differs from other industries in many ways, and therefore it is important to discover the main characteristics of this fast changing industry. In this chapter, the definition of fashion and fast-fashion are first presented and then the main characteristics of the industry are introduced. Next, the stage of the fashion industry in Finland is explored. Final part, the segmentation of fashion markets, clarifies the limitations of this study.

2.1 *The Definition of Fashion*

Fashion is a truly widespread theme, which can be used to sell products from several categories. Hence, the term extends beyond the clothing industry reaching also accessories, cosmetics, footwear and furnishing (Bohdanowicz & Clamp, 1994, p. 4; Moore, et al., 1997, p. 151). The meaning of fashion depends on the concept and it can form different kinds of meanings in people's minds (Jackson & Shaw, 2009, p. 87). The extensiveness of the term is reflected to the definition given below, which describes fashion as:

“A way of behaving that is temporarily adopted by a discernible proportion of members of a social group because that chosen behaviour is perceived to be socially appropriate for the time and the situation.” (Spores, quoted in Bohdanowicz & Clamp, 1994)

The definition highlights two key elements linked to fashion: mass adaptation and constant change. An important aspect is that according to Jackson et al. (2009), a design is not fashionable unless it is adopted by the majority of people. (Jackson & Shaw, 2009, pp. 87-88) Short product lifecycles are also familiar to fashion industry and seasonal changes in collections are prerequisite in order to survive (Malen, 2007, p. 400).

The term fashion should not be confused to the definition of style which can exist outside of the fashion seasons. Nowadays consumers are able to browse different styles, for instance, in the internet, but what is fashionable depends on consumer's own attitude and perception. The current fashion is strikingly shown in the street view in order to convey a status or success. (Jackson & Shaw, 2009, pp. 87-89) Despite the broadness of the term *fashion*, this study concentrates on clothing since it is the main product category of both case companies. After all, clothing

represents many of the fashion issues that dominate the industry as a whole (Bohdanowicz & Clamp, 1994, p. 4).

2.2 *The Complex Nature of the Fashion Industry*

There are some characteristics that distinguish the fashion industry from the textile and clothing industry. First of all, fashion industry includes unique design as well as manufacturing of items, such as textiles, clothing, fur products, jewellery, and accessories. Fashion links these factors to modern technology, branding strategies and successful business models. (European Commission, 2013a) Volatile variation in consumer preferences, arising from uncontrollable factors, is also familiar to this industry. These factors include weather, influences of fashion pioneers, and rapidly developing fads communicated through the media. (Jackson & Shaw, 2009, p. 1) In other words, consumers' behaviour and expectations are hard to predict and this sets challenges for fashion retailers. Therefore, the success of a fashion designer depends on creativity and innovation (European Commission, 2013a). Fashion industry is highly competitive and visual features are key factors in fashion retailing (Lea-Greenwood, 2013, p. 92).

Sometimes even established features are not enough to ensure success since the industry battles with the copycats (Malen, 2007, p. 400). Secondly, most fashion products are one-use pieces so the fashion industry can be described as disposable (Jackson & Shaw, 2009, p. 34). Rapid changes are characteristic for fashion industry and therefore success and failure are usually linked to organizational flexibility. Short lifecycles, high volatility, low predictability and high impulse purchasing are typical elements in the industry. (Bandinelli, et al., 2013, pp. 1-2) Seasonal rhythm throughout the year is an expectation (Malen, 2007, p. 401) and seasonal sales vary from country to country depending on consumers' needs (Jackson & Shaw, 2009, pp. 1-2). Usually the seasons are divided into autumn/winter and spring/summer, which can be problematic for designers since their cash flows are not steady throughout the year (Malen, 2007, p. 407).

2.2.1 *Fast Fashion*

In the golden age of Finnish clothing industry, there were two main seasons. Afterwards, the number of collections increased to six which was exhausting for many companies. (Lindroos, et

al., 2005, p. 70) Nowadays, fast fashion is a specific type of business and the term has decently emerged in all over Europe (Jackson & Shaw, 2009, p. 89). The term means that companies' inventory turnovers have increased and product lifecycles have shortened (Okonkwo, 2007, pp. 64,67). Therefore, consumers are cherished with fast changing fashion styles and trends (Bruce & Daly, 2006, p. 329). Usually the collections change in every few weeks (Okonkwo, 2007, p. 64).

A good example of a fast fashion company is Zara, the Spanish retailer, which offers new products to its customers frequently. Zara changes its collections in every two weeks. Despite Zara manufactures its collections mainly in Spain, its prices are low. The secret of Zara's success is in the process rather than in its products. Zara manufactures small sets of clothes to minimize risks (Lindroos , et al., 2005, p. 70) and close sourcing enables fast movements (Bruce & Daly, 2006, p. 330). Another change in the industry is the increasing amount of second hand dealers selling used fashion products. Second hand has gained popularity as recycling and other green values are rising trends. (Okonkwo, 2007, pp. 64,67)

2.2.2 Fashion Industry in Finland

In Finland, fashion is a relatively small industry compared to other European countries and even to Nordic neighbour countries, such as Sweden and Denmark (Lille, 2010, pp. 4-6), as shown in figure 3. Nevertheless, many talented fashion designers reside in Finland (Malen, 2007, p. 412). Probably the most internationally known brands are Marimekko, Nanso and Ivana Helsinki. Domestic companies should expand their businesses to international markets since the demand for high fashion is fragile in small fashion markets (Bruce & Bessant, 2002, pp. 219-220). However, it is very difficult for small companies to find funding (Lille, 2010, pp. 4-6).

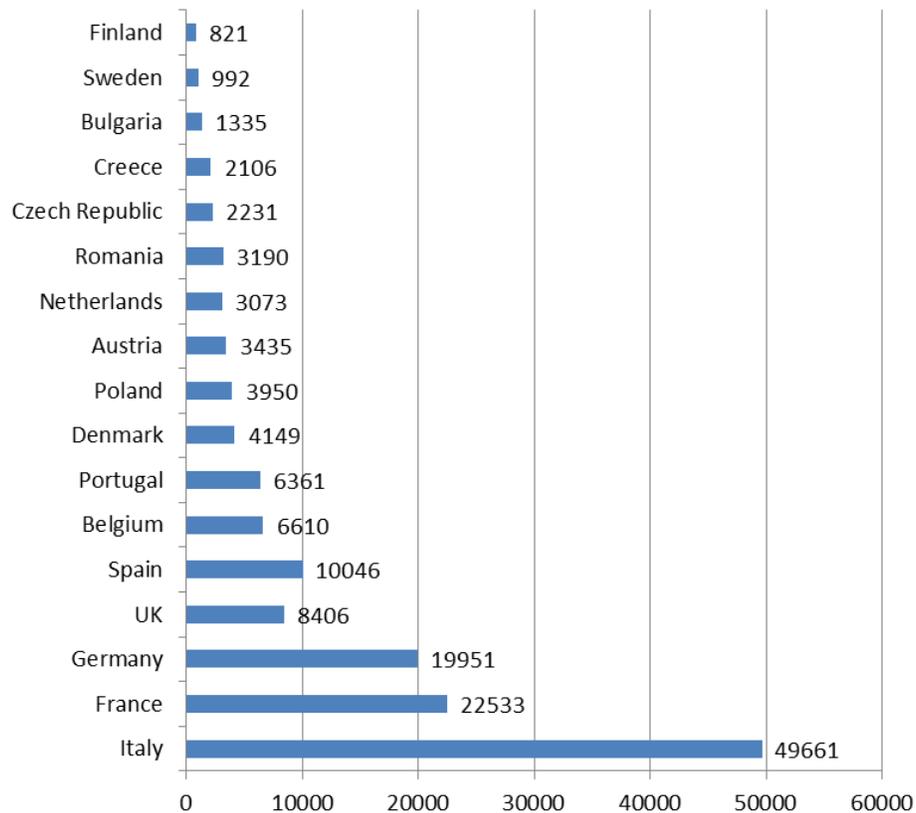


Figure 3 Textile and Clothing Production in the EU in 2011 (Euratex, 2011 sit. Finatex, 2011)

The fashion industry has been more known as a textile and clothing industry in Finland and the use of the term fashion has been rare. The knowhow of creative industries is relatively small in Finland and therefore the industry is unknown to Finns in general. (Lille, 2010, pp. 4-6) One possible reason why the industry has not grown in Finland is that companies have relatively small resources to internationalize their business with traditional marketing methods (Sounio, 2010, pp. 116-118). Although products designed in Europe attract tourists from all around the world, trade and investment blocks in the third world countries makes it hard to remain competitive and reach new markets (European Commission, 2013a). Secondly, the majority of the Finnish fashion companies have not even tried to internationalize themselves, so the export share remains small (Sounio, 2010, pp. 116-118). In addition, the balance between creativity and business knowhow is important in order to succeed in the international markets (Malen, 2007, p. 412).

2.3 The Segmentation of Fashion Markets

Fashion markets can be divided into different segments according to price, value and quality (Bruce & Daly, 2006, p. 329; Jackson & Shaw, 2009, p. 90). The most common way is to divide the fashion industry by using price segmentation (Bandinelli, et al., 2013, p. 1). Geographical area also affects the division since the segments are divided differently in U.S. and Europe (Craik, 2009, p. 216). In this study the focus is on European fashion market segmentation since both case companies operate mainly in Europe. According to this division, the market is usually classified into five different groups: *couture*, *prêt-à-porter*, *diffusion*, *bridge* and *mass*, which are illustrated in figure 4. (Bandinelli, et al., 2013, pp. 1-2) The *couture* includes global luxury brands, which link product quality and value. In this segment the volume is small since it reach only 300-1.000 customers worldwide (Rantisi, 2009, p. 444). These international fashion houses have a strong brand identity which is based on brand values and images that have a global and universal appeal (Moore, et al., 1997, p. 153).

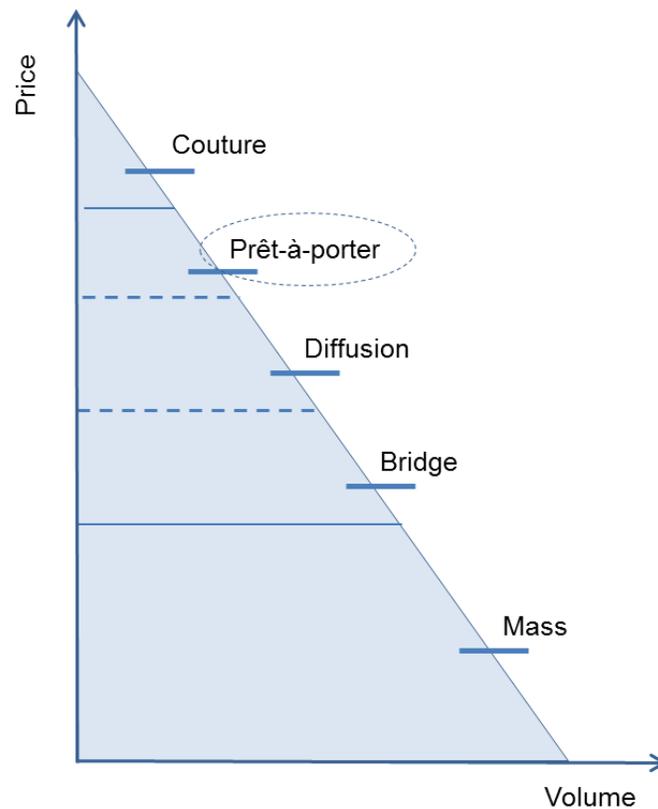


Figure 4 Fashion Market Segments (Modified, Bandinelli, Rinaldi, Rossi & Terzi, 2013)

Prêt-à-porter is French and it can be understood as seasonal *ready-to-wear* products, which are creative and highly priced. This segment includes high level of innovation, quality and brand image. The difference between *couture* and *prêt-à-porter* is that the latter is not as dependent on fashion and it offers more classic products. (Rantisi, 2009, p. 444). Third segment, *diffusion*, present brands with the same criteria's as the segment above, but instead of luxury brands it includes industrial brands (Bandinelli, et al., 2013, pp. 1-2). The boundaries of this segment are unclear and it touches both segments around it: *prêt-à-porter* and *bridge*. In Rantisi's (2009, p. 444) segmentation of fashion markets, this segment is described with the terms "*bridge*" and "*better*" which include the following factors: low volume, selected market, fashion sensitivity and focus on design. Therefore the segment *diffusion* is influenced by the ready-to-wear segment but the prices are lower leading to higher demand from consumers.

Bridge links the two segments around it, *diffusion* and *mass*. In this segment the key to success is the ability to serve the market at the right time and the level of service is more important than style. The last segment, *mass*, is the least customized market and therefore the price level is low. Large volume and fast inventory turnovers are common features of mass production. (Bandinelli et al. 2013, pp. 1-2) The entrance of fast fashion has increased competition in the mass segment and enabled customers to purchase fashionable clothing pieces at a low price (Bruce & Daly, 2006, p. 330).

3. INTRODUCTION TO E-COMMERCE

The next section explains the definition of electronic commerce and after that the term is introduced in the fashion industry. Lastly, the benefits and challenges of e-Commerce are investigated from a fashion industry point of view.

3.1 Definition of e-Commerce

Before the invention of the internet, business transactions happened face to face in a store or via catalogue orders. e-Commerce took off after the invention of World Wide Web in the early 1990s and thereafter it has radically changed the characteristics of business (Dholakia, et al., 2002, p. 1). In the 21th century, the usage of websites among companies became more common. Later on, companies began to transact products and services via digital channels and thus the term e-Commerce established as a part of business vocabulary. (Robinson & Kalakota, 2004, pp. 3-4) Internet enables electronic transactions, which means that consumers can make purchases easily online from any parts of the world (Okonkwo, 2010, p. 19). e-Commerce is a wide-ranging theme since it reaches multiple business markets of which B2C, B2B² and C2C³ models are probably the most common ones. According to Kamari et al. (2012, p.126), the impacts of e-Commerce appear the most in the B2C- market.

Even though confidence to the success of e-Commerce was low when online retailing started (Rowley, 2008, p. 348), companies have been forced to change their business models suitable for electronic markets in order to survive in global competitive markets. Van Hoose (2011) defines electronic commerce as an exchange of products through electronically linked devices. The operation happens via networks in which the internet is the most important one. (Van Hoose, 2011, pp. 6-7) The most popular devices have been computers but nowadays the use of smartphones and tablets is constantly growing.

² B2B (business-to-business) means transactions between businesses.

³ C2C (consumers-to-consumers) refers to the commercial relationship that exists between consumers (Jackson & Shaw, 2009, p. 3).

The term e-Commerce can easily be mixed to e-Business which is by far a wider concept (Van Hoose, 2011, p. 7). Because of this it is important to distinguish e-Commerce from e-Business. While e-Business refers to the use of electronic networks within an organization, e-Commerce refers to exchanging goods and services between parties through a market transaction. (Turban & King, 2003, p. 3) Therefore, e-Business covers every aspect of online business and it uses digital technology and the internet as channels of multiple business activities in order to create value for the company. Electronic commerce can be seen as part of e-Business since Dien (2003, p. 581) divides it into three main categories: e-Commerce, internal information sharing and customer service. e-Commerce differs from the two other categories since it is directly connected to revenues and it can be used as a measure of online presence (Okonkwo, 2010, p. 20).

3.1.1 *Benefits of e-Commerce for the Fashion Industry*

The internet is going to be even more important tool for companies in the future. The emerged use of e-Commerce is reflected also in the fashion industry (Lille, 2010, p. 30). It is clear that the invention of internet has brought many opportunities for fashion businesses (Sounio, 2010, p. 1; Phau & Lo, 2004, p. 408). The field of electronic commerce offers many benefits for companies to develop their competitiveness since internet enables transactions and information sharing to all over the world without limitations. Digital age has broken the boundaries of global markets and therefore it is easy for start-up companies to internationalize their businesses at an early stage. Since the operational environment is boundless, companies' customer bases have emerged. (Kuzic, et al., 2002, p. 1608)

e-Commerce has reduced companies' operational costs since the traditional transaction costs have decreased or ceased to exist altogether (Dholakia, et al., 2002, p. 72; Kamari & Kamari, 2012, p. 126). The electronic commerce has also reduced marketing costs, since attention can be attracted even with a small budget in e-markets (Sounio, 2010, p. 118). e-Commerce can shorten the supply chain and create cost efficiencies since the number of middlemen is lower, as shown in figure 5 (Lahtinen, 2013, pp. 18-19). The Internet enables a direct connection between producers and consumers which means that traditional retailers and wholesalers can be bypassed (Dholakia, et al., 2002, p. 73).

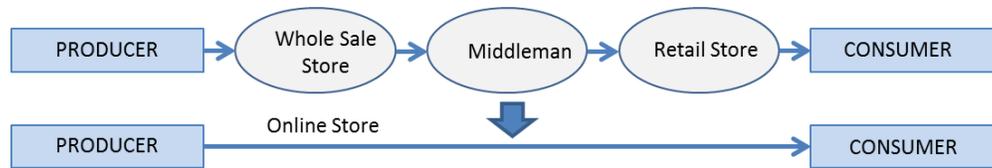


Figure 5 The Impacts of an Online Store to the Delivery Chain (Lahtinen, 2013)

Nevertheless, the process is complex and sometimes the impact can be even the opposite. For instance, if a company begins its business by using only online stores, the supply chain costs can increase within the emerged number of delivery channels. (Lahtinen, 2013, pp. 18-19) The use of electronic channels has improved communication processes: the flow of information has become faster, which provides a quicker entry to a market. In practice, sketches and finished products are quickly in the hands of consumers (Remphill & Suk, 2009, p. 1171)

The usage of e-Commerce has also proven that internet is an important channel when it comes to selling design fashion. E-Commerce offers an easy access to already existing global markets (Sounio, 2010, p. 118). Therefore, the new solutions that e-Commerce offer might help the Finnish fashion industry to cope. In order to improve online retailing, brands need to be unique and interesting enough. As new technological solutions are created, virtual fitting applications, for instance, will improve. One example of a virtual fitting room is Fit.me where consumers can load their personal body measures and fit clothes on in a virtual environment. (Lille, 2010, p. 30)

3.1.2 Challenges of e-Commerce in the Fashion Industry

The fashion industry has not totally accepted internet as a retail channel and it has had and still has faced resistance (Van Hoose, 2011, p. 1). The reason for the ignorance towards online retailing can be seen in delivery and purchasing methods. The willingness of purchasing from internet varies between countries and this becomes a challenge for online retailers (Dholakia, et al., 2002, p. 5). However, despite the resistance e-Commerce faces, customers request the ability to use online stores nowadays (Van Hoose, 2011, p. 19) and the willingness to use online channels depends on how pleasant the website is to use and how secure it is (Dholakia, et al., 2002, p. 5).

Although e-Commerce has managed to have a breakthrough among fashion brands, a large gap remains in the strategies, business applications and knowledge of online fashion business (Van Hoose, 2011, pp. 1, 19). As the competitive battlefield has emerged, companies need to differentiate their business in order to stand out in the global markets. In traditional retailing probably the most important thing is store location. The arrangement is quite different for online retailers since an online store needs to be marketed before customers are able to find it. In the offline world, that is not as necessary. (Lahtinen, 2013, pp. 28-32)

As creativity is highly important in the fashion industry, copying is a major challenge (Remphill & Suk, 2009, pp. 1170-71). These illegal activities often discourage fashion retailers from taking full advantage of online sales (European Commission, 2013b). Although, copying in fashion is not a new phenomenon since the problem has existed already in the early twentieth century. Only the nature of copying has changed since today copiers reproduce design shown in the internet runways and manufacture copies in low cost countries. This is a noteworthy problem since cheap copies can be brought to fast fashion markets in less than six weeks. However, the whole fast fashion sector cannot be judged since some of those retailers consciously avoid copying. (Remphill & Suk, 2009, pp. 1170-73) The Intellectual Property Rights (IPR) issue is a major challenge in the fashion industry and it has become even more important due of digitalization. According to the information given by European Commission (2013), the share of fake products in global trade is estimated to be around 8%. Although the risks are recognized, many small and medium companies do not necessarily have the knowledge to protect their rights. (European Commission, 2013b)

3.1.3 *Online Stores*

An online store is usually a part of company's website where products and services are sold. In order to build a functional online store, necessary mechanics need be installed. (Turban & King, 2003, p. 45). Therefore, retailers need to have technical skills, money and a lot of time in order to build an effective online store (Kalakota & Robinson, 2001, p. 487). Fortunately, during the development of technology, several IT companies have begun to offer ready to go- solutions for online retailers. These solutions include necessary mechanics, such as an electronic cart and a payment gateway. (Lahtinen, 2013)

Almost every company is somehow connected to e-Commerce and several of them mix electronic and physical stores in various combinations (Dholakia, Fritz, Dholakia, & Mundorf, 2002, p. 125). Online stores can be divided into four categories depending on the nature of the store (Lahtinen, 2013, p. 18). There are pure internet retailers, which offer their products only in online stores (Dholakia, Fritz, Dholakia, & Mundorf, 2002, p. 125) and there are also companies that have both, online and physical stores, which is probably the most common type of business today. Some companies have launched an online store beside their physical stores in order to create more profits and afterwards moved to pure online retailing. The final category is opposite to the previous one; the company has started its operation within online store and then moved to physical stores. (Lahtinen, 2013, p. 18)

4. BRANDING MEETS E-COMMERCE: ONLINE BRANDING

The growth of e-Commerce has lifted IT and branding functions into high stage. Researchers have become interested in effects of e-Commerce on branding. (Jackson & Shaw, 2009, p. 277) In order to fully understand the field of online branding, the traditional approaches to brand trust and loyalty are introduced in the following sections. Companies brand building and management contain several features, but in this study the focus is on brand trust and loyalty, since those are very important factors in online retailing. The traditional branding aspects and e-Commerce are integrated in order to build a theory for online branding. The brand trust and loyalty are studied from an electronic commerce point of view and defined into e-Trust and e-Loyalty.

4.1 Definition of Traditional Branding

The word *brand* was presented for the first time as a marketing term in the end of 18th century. After a long time, the concept has developed itself to mean more than just a concept or an advertisement. (Sounio, 2010, pp. 25-27) The term brand has many possible meanings depending on the perspective. An identifiable name, sign, symbol, sound, colour or design that presents a company, is defined as a brand. A common theme for brands is that customers attach meanings to them. (Kotler & Armstrong, 2012, p. 255) Brands can also add value to a product and thereby create brand equity. Some consumers want to make a statement about themselves to others, especially in the fashion industry, and therefore use brands with a badge shown. (Jackson & Shaw, 2009, p. 326) In this study, the term *traditional branding* is used when the discussed themes are related to offline markets.

4.1.1 Approach to Brand Trust

The main function of branding is to form a bond between the consumer and the brand. The most important factor in achieving this connection is to build trust. However, trust is difficult to define and the definition depends on the context. (Rosenbaum-Elliot, et al., 2007, pp. 32-33) The topic has been studied widely in the field of social psychology where the focus has been on relationship analyses. From the aspect of social psychology, trust can be defined as an emotion of a certain person; honesty, responsibility or dependability. Trust can also be described to base on the sense of security. (Delgado-Ballester & Munuera-Alemán, 2000, p. 1239) Dwyer and Oh

(1987, p. 349) defines the topic as one's expectation towards the other party in the belief of the other person justifying its requirements, and pulling its weight in the relationship. The less the relationships contain any breaks of promises the less difficult it is to build a strong relationship (Delgado-Ballester & Munuera-Alemán, 2000, p. 1240).

However, the previous explanation of trust is not enough when exploring the subject in a business context. Firstly, the trust between business partners is essential in order to build long-term relationships. The stage of a relationship depends on the capability of providing positive outcomes to the other. Therefore, trust can be defined in this context as willingness to rely on an exchange partner in whom one has confidence. (Rosenbaum-Elliott, et al., 2007, pp. 32-33) Secondly, as Ha (2004, p.329) states, the main goal of building brand trust is to form a steady position in the competitive field. Probably the most used factors of forming trust are the stage of customer service and the external presence of a company (Rowley, 2008, p. 352). However, gaining trust is a complex process, which is affected by several other factors (Ha, 2004, p. 336). In this study the main focus is on online branding and therefore these features are explored within the definition of e-Trust as the study continues.

From a branding perspective, trust is a feeling in consumer's mind that the brand will realize one's expectations (Delgado-Ballester & Munuera-Alemán, 2000). According to Luhmann (1979), person's level of expectations depends on three different features, which are familiarity, commitment and trust. Trust cannot be formed without awareness of the history and therefore familiarity is required. (Luhman, 1979, pp. 20-24) Especially in the B2C markets, the aspect of trust in a purchasing decision is related to familiarity as the risk of dissatisfaction depends on the level of brand knowledge (Reichheld & Scheffer, 2000, p. 107). The more the purchasing includes risk factors, the more important the aspect of trust becomes. When the number of purchases rises, the more confident the consumer becomes towards the brand. (Rosenbaum-Elliott, et al., 2007, pp. 33-34) Hence, after the trust has been built, it appears as a confidence and commitment. In addition, trust is required only if a risk of losing it exists. (Luhman, 1979, pp. 20-24) Trust among with familiarity and commitment are key factors when building brand loyalty (Rowley, 2008, p. 352) and without first gaining trust, loyalty cannot be established (Reichheld & Scheffer, 2000, p. 107).

4.1.2 The Formation of Brand Loyalty

In the long term, the success of a brand is not based on the number of purchases from random consumers. The key to success is rather in the amount of loyal customers who make their purchases on a regular base. (Odin, et al., 1999, p. 75; Anderson & Srinivasan, 2003, p. 123) It has been proved that consumer loyalty has a positive effect on companies' profits (Delgado-Ballester & Munuera-Alemán, 2000, p. 1238). Brand loyalty creates value for a company as consumers purchase the brand on a regular basis (Odin, et al., 1999, p. 75). Brand loyalty can also decrease marketing costs, since it is a much more cost-effective to maintain an existing customer base rather than gain new customers with expensive marketing methods (Reichheld & Schefter, 2000, p. 106). In addition, loyalty among consumers improves companies' marketing positions since customers are less sensitive to competitors' marketing efforts and therefore it is more difficult for them to increase market share. Brand loyalty also causes positive word-of-mouth reputation (Delgado-Ballester & Munuera-Alemán, 2000, p. 1238).

Brand loyalty has interested researchers for a long time, but still the conceptual nature of loyalty is not clear (Delgado-Ballester & Munuera-Alemán, 2000, p. 1238). Factors affecting the creation of brand loyalty are shown in figure 6. First, the brand image delivers a favourable meaning for targeted customer who changes one's behaviour and begins to purchase the brand regularly, if the reputation of the brand pleases him or her. The image of the brand causes physiological commitment towards it and therefore creates a loyal customer. In order to create brand loyalty, retailers need to find ways to increase consumers' repurchase intentions. (Dholakia, et al., 2002, pp. 127,133-136)

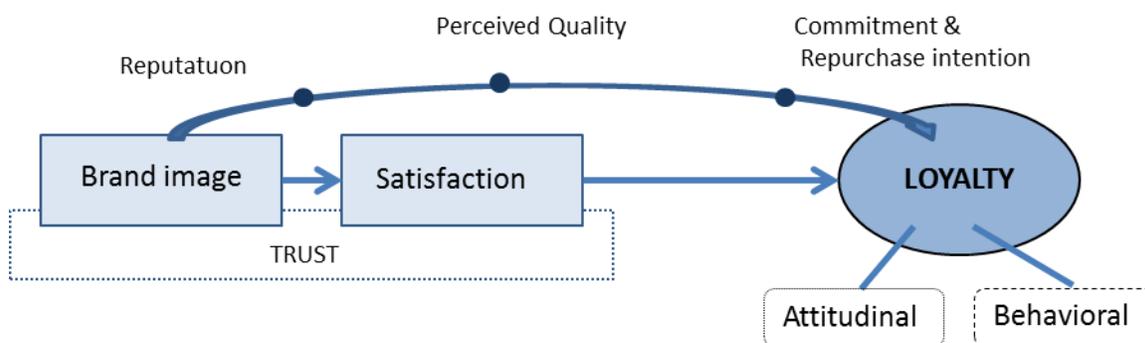


Figure 6 Factors Involving Brand Loyalty

Secondly, the level of satisfaction is reflected in loyalty (Delgado-Ballester & Munuera-Alemán, 2000, pp. 1239-1240). After the first purchase customer either feels satisfaction, if the expectations are fulfilled, or is disappointed (Rowley, 2008, p. 352). Anderson and Srinivasan (2003, pp. 124) defines satisfaction as a customer's constant estimation of an experience of a certain product. The right level of satisfaction is achieved if the perceived quality meets customer's needs. In other words, if the brand succeeds to offer a splendid experience to the customer, the customer becomes contented (Reichheld & Scheffer, 2000, p. 113). This means the whole purchasing process, from the order to the use of the product, satisfies the customer (Dholakia, et al., 2002, pp. 133-136). With an unsatisfied customer, there is a risk of losing the customer to the competitors. Retailers have noticed that with a certain amount of satisfied customers it is more likely to build loyalty. The problem is that they need to find ways to measure the level of satisfaction and figure out how the customer is going to behave. (Anderson & Srinivasan, 2003, pp. 124-5)

The stage of the satisfaction can be made deeper when the customer makes repurchases. Thereafter, the repeated purchases lead to brand loyalty strengthening the whole process. (Dholakia, et al., 2002, pp. 133-136) The relationship between trust and both loyalty and satisfaction, has been presented in existing literature. As mentioned previously, brand loyalty cannot be built without a brand trust (Rowley, 2008, p. 352) and lack of trust reduces the level of brand loyalty. Trust develops positive and favourable attitudes and thereby the relationship between the consumer and the brand becomes stronger (see figure 6). (Delgado-Ballester & Munuera-Alemán, 2000, pp. 1239-1240)

According to Dholakia et al (2002, p.127), brand loyalty is a result of attitudinal and behavioural consistency when customer shows feelings and behaviour toward market offering and supplier. Anderson et al. (2003) mentions that the measuring of brand loyalty is complicated, since the repurchasing intention can be caused by a lack of options. And therefore it is essential to investigate both attitudinal and behavioural components (Anderson & Srinivasan, 2003, pp. 124-125). On the other hand, Odin (1999) divides the loyalty theme into two parts depending on consumer behaviour towards the brand. These two approaches are stochastic and attitudinal. The stochastic approach means that the loyalty is behavioural; the purchasing of the same brand by an individual customer is random. It is difficult to figure out an explanation for this kind of

customer behaviour and loyalty. Therefore it is hard for a company to influence repeated purchasing behaviour. The attitudinal behaviour is based on customer's state of mind. (Odin, et al., 1999, p. 75)

Delgado-Ballester & Munuera-Alemán (2002) have a different point of view of approaching the topic: they approach brand loyalty from the aspects of repurchase intention and psychological bond or commitment. The relationship between these two approaches has been studied and the issue has also been investigated through the effects of other factors. (Delgado-Ballester & Munuera-Alemán, 2000, pp. 1239-1240) Although the researchers use different conceptual words when classifying customer behaviour, the definitions are quite similar. These approaches to loyal customer behaviour are also presented in figure 6. The behaviour models are deliberately generalized to attitudinal and behavioural consistency.

4.2 Online Branding

The aspects of trust and loyalty become even more significant in e-markets (Reichheld & Schefter, 2000, p. 107). This leads to the fact that traditional brand management has expanded to the field of e-Commerce (Anderson & Srinivasan, 2003, p. 123), as shown in the figure 7. The term *traditional branding* has been complemented with another term – *online branding*. As mentioned in the previous parts of this study, the development of e-Commerce has particularly affected the B2C-market (Kamari & Kamari, 2012, p. 126).

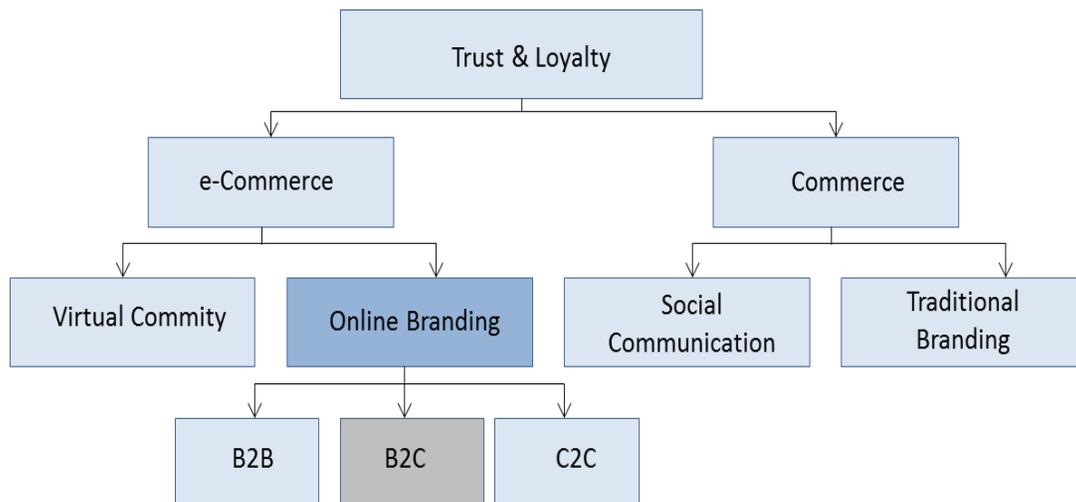


Figure 7 How the Aspects of Trust and Loyalty are Divided

The usage of internet reveals new opportunities for companies to increase the awareness of their product brand (Gommans, et al., 2001). Therefore traditional advertising is not anymore an effective way to a large extent to communicate with consumers. Thus, fashion brands are facing the challenge of communicating with today's technology in virtual communities. Internet is becoming a battlefield for brands as consumers move to spend from physical stores to online shops. Nevertheless, factors such as creativity and innovation are critical for the success of a fashion company (Jackson & Shaw, 2009, pp. 245, 273, 275) since internet enables many competitive and unique choices for brand building (Gommans, et al., 2001).

4.2.1 *e-Trust*

The aspect of trust in electronic markets has interested researchers since many studies concerning the importance of trust can be found. The aspect of trust is even more important in the field of e-Commerce (Ha, 2004, p. 329), since the customer is not able to look, feel and touch products online. Customers need to rely on the company and if a lack in trust exists, it usually leads to negative purchasing decisions. (Reichheld & Schefter, 2000) One reason for this kind of behaviour is a doubt concerning product delivery, as payment is usually required before delivering the product (Lahtinen, 2013, p. 62). Therefore, in electronic transactions, building trust is almost directly proportional to the quality of product delivery (Barwise & Meehan, 2010, p. 93).

The internet opens new ways for companies to build trust (Reichheld & Schefter, 2000, pp. 109-110). e-Trust contains many complex factors (see figure 8), and the process of achieving the ultimate level of trust is ambiguous. First of all, companies need to follow privacy and security issues (Dholakia, et al., 2002, p. 7) since those are key factors of trust building in online retailing. These aspects cover the security of personal data, payment process and online communication. Especially credit card payments need to be secure. (Ha, 2004, p. 329)

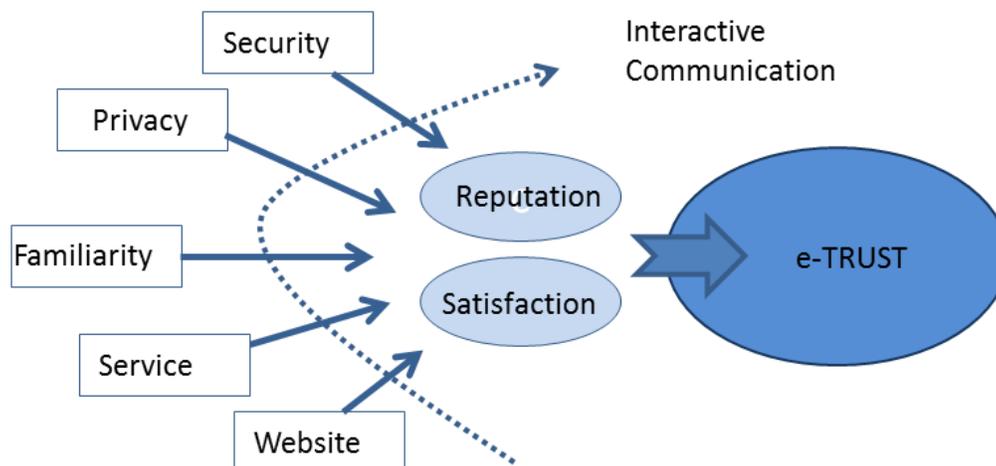


Figure 8 The Features Affecting Online Trust Building

Ha (2004) has found a connection between brand trust and brand name. Those brand names that reflect comfort and familiarity are more likely to gain trust from consumers. Word-of-mouth has also an impact to brand trust as consumers seek information from the web. (Ha, 2004, p. 329) When customers are trustful towards an organization, it is more likely to gain personal information from them. With the information companies are more able to build good relationships with their customers and increase the level of trust even more. (Reichheld & Schefter, 2000, pp. 107-108)

Websites' overall appearance, structure, awareness, amount of information and customer service all affect to trust. The website needs also to be easy to use, well designed and fast to load. (Reichheld & Schefter, 2000) According to Lahtinen (2010, pp. 93), appearance of a website is the most significant factor while customer service has the least impact on trust. In the field of e-Commerce, trust is primarily reflected from the organization itself, since there is a gap in personal service (Kamari & Kamari, 2012, p. 127). Rowley highlights the importance of URL because the connection between the domain name⁴ and the brand name can add familiarity of the brand while another domain name can be harmful to the brand image. If the company does not

⁴ Domain name is a unique name for company's website website (Dholakia, et al., 2002, p. 280).

success in the issues mentioned above, there is a risk of losing brand equity to competitors. (Rowley, 2008)

Information presented on company's website is crucial since lack of information can affect negatively consumer's buying decision. In order to maintain trust, information chain between the parties needs to be flawless (Barwise & Meehan, 2010, p. 93) and the relationship between consumer and a particular brand need to be interactive (Ha, 2004, pp. 329,337). Fitting and sizing information is also highly important in online retailing, because the better the fitting is the lower the number of returns will be. Another significant factor is the information about ongoing and upcoming fashion trends. One option is to offer online magazines for customers to browse. (Rowley, 2008, p. 356)

Above mentioned factors affect company's reputation, brand image and the level of consumer satisfaction, which all are main components of e-trust building (see figure 8). Reputation is a key element for companies even in online marketplaces, since customers make assumptions based on company's reputation. After all, the customer may not have any experience of a particular organization. (Kamari & Kamari, 2012, p. 128) It has always been company's main goal to satisfy customers but the increasing popularity of social media and its speed to deliver information can be crucial for companies. The reputation of a company can be quickly ruined in online world. Another risk is to miss new developments in social media and therefore lose market share to competitors. (Barwise & Meehan, 2010, p. 82)

4.2.2 e-Loyalty

The ever increasing competition in global e-markets forces companies to develop even better strategies for building and maintaining their loyal customer bases. (Lahtinen, 2013, p. 63). Without a loyal customer base, even the best-designed e-Commerce business model will not survive (Anderson & Srinivasan, 2003, p. 124). After all, the costs of attracting new customers can be several times the cost of retaining an existing customer and often the costs are even higher if the company operates only in online environment (Reichheld & Schefter, 2000, p. 111). Therefore the increase in the number of customers that purchase repeatedly is even more necessary and brand loyalty is the most essential concern in online retailing. (Dholakia, et al., 2002, pp. 125-126)

Jackson and Shaw (2009, p.277) claim that in the past, large brands needed to build their brand awareness and loyalty for almost twenty or thirty years, but brands born in the era of internet have achieved global brand loyalty and awareness in a very short period of time. However, Rowley (2008) claims that behavioural loyalty is much more difficult to fulfil in the world of internet than it is in real life. In the past, it was common that customers did not have the opportunity to choose, and the repurchasing was habitual. e-Commerce has changed the behavioural models by enabling customers to compare suppliers in real time. (Reichheld & Schefter, 2000, p. 113)

Company's websites should be built in a way that it enables effortless surfing inside the site (Lahtinen, 2013, p. 63). Customers may switch to another website if the online store is difficult to use. The behaviour of an online customer should be followed. It is easy for a customer to leave the site, if the total price is too high. This tells that the customer is probably price sensitive. On the other hand, if the customer moves quickly from one page to another without doing a purchase, it tells that the particular customer might be frustrated at being unable to find a certain item or being unable to initiate a transaction because of technical issues. (Reichheld & Schefter, 2000, p. 111)

Brand identity and values are not often described in home pages. Actually, those issues are frequently "hidden" to "about us" or "careers" sections. (Rowley, 2008, p. 365) There are four things that companies should involve when integrating social media into their marketing plans: there needs to be a customer promise and that promise needs to be fulfilled in order to achieve trust. The promise needs to be developed constantly in order to build loyalty. The action in the social media needs to be innovative so that the interest of customers will remain. (Barwise & Meehan, 2010, p. 82)

4.2.3 *How to Measure e-Trust and e-Loyalty*

It is very costly for a brand-new company to promote and market the company. Nevertheless, start-up companies rarely recognize their target market and therefore the marketing strategies are in a really low level. However, companies should try to gain as much publicity as they can in order to create meaning to consumers' minds and by doing so, build popularity to their brand.

Once the attitude towards a brand has been built, it takes several promotion campaigns to make even a small shift in attitude. (Lea-Greenwood, 2013, s. 10)

Consumers can be either loyal to a brand or stores and when the loyalty is extended to the e-Commerce, both conceptual and measurement issues become more complex and sophisticated (Rowley, 2008). Brand loyalty can be measured throughout number of visits per individuals. The level of website interest can be measured by seeking how deep consumers go when surfing in brand's web sites. The attraction of the brand can be estimated by following how long customers stay in the web site. (Charlesworth, 2009, p. 54) Fashion retailers need to defend their brand and also measure upcoming domain names. According to Rowley (2008, p. 366), fashion retailers should highlight their brand values in their web sites in order to use their pages as "online shop windows". Nevertheless, loyalty can be measured with several tools and therefore the results vary a lot (Delgado-Ballester & Munuera-Alemán, 2000, p. 1238).

5. BUILDING BRAND TRUST AND LOYALTY ONLINE IN THE FASHION INDUSTRY

This part examines the topic of this study from the perspectives of different themes chosen for the interviews. The case company of this study is a start-up company JULJA and the goal is to find new solutions, perspectives and ideas for brand trust and loyalty created in the electronic environment. Since the case company is a small start-up a different angle is built based on another fashion company, Esprit, which has been operating much longer and therefore can bring different perspectives to the study. The selected companies operate within different fashion market segments. The choice was conscious since the different setup gives more dimensions for the study and the impact of fashion is shown.

5.1 JULJA – A New Finnish Fashion Brand

JULJA is a young Finnish fashion brand which designs women's wear. The designer behind JULJA's label is Nora Peltoniemi. The company was founded in 2012, but is has been officially operating since summer 2013. The founders of JULJA, Nora Peltoniemi, Inka Kiuru and Johanna Hakala, are students living in Turku, Finland. The company got started when these students participated in JA-YE (Young Entrepreneurs) Start-up Program, where the business idea was developed. In the autumn of 2013 JULJA founded an online store, which is its main sales channel. The reason why the start-up company does not have a physical store is that it would commit a lot of resources. Products are sold to all over the world, but for now on, most of the orders have come from Finland.

JULJA's product category consists two separate parts: seasonal collections and second hand. Their ready-to-wear collection is in the main role and it changes twice a year. The second hand products are picked up from different sources and then fixed to suit better today's fashion trends, and then sold to consumers. These items are mainly Finnish design from the 70s. JULJA describes its clothing as flattering, flirtatious, and easy to wear. The clothes are designed for outgoing, strong and independent women who are happy with their body images. The company describes its ready-to-wear collections as feminine and playful. JULJA wants to be transparent, responsible, open-minded, and reliable company.

JULJA has not wanted to move its manufacturing to cheaper third world countries, since the company wants to be aware of the whole manufacturing process. Currently, the manufacturing happens in Estonia and the company wants to keep it in countries close to Finland. The company is constantly seeking for new manufacturers and one possible future manufacturer is located in Portugal. Since the company has just started its operations, financial statements were not available. Nevertheless, the CEO stated that the company's turnover has been growing steadily, (Kiuru, 2013)

5.2 *Esprit – Comparative Perspective*

The other case company chosen for this study is Esprit, which is an international fashion brand, founded by Susie Doug Tompkins in 1968. Company describes its brand as effortless, authentic, and easy-going. Good quality, responsibility and natural materials are key factors for Esprit. Product categories consist of women's, men's, and kids collections. Women's collections are by far the most profitable for the company. Esprit has over 1.000 retail stores in more than 40 countries. The wholesale department consist over 9.000 points, which include franchise partners. Esprit has separated its e-Commerce functions to retail and whole organizations. The retail e-Commerce department handles Esprit's own online store, whereas the wholesale department handles online customer companies. Esprit has headquarters in Germany, Hong Kong, and its brand has been divided into the Esprit brand and the edc brand. (Esprit, 2013; Laresvuo, 2013) Esprit can be seen as a mass production company, since it changes its collections several times in a year. Brand's products are also low-priced.

5.3 *Introductions of the Interviewees*

The interviewees for this study were chosen based on their knowledge and experiences of the researched topic. From JULJA a CEO, Inka Kiuru, was chosen, although the choice could have been made differently, since according to the CEO, all of the founders have a good touch to the topic. JULJA's CEO's job description includes almost everything from customer service to financial figures, but the main weight is on marketing. Since JULJA Is a start-up company, its founders have not made a clear division between different functions. The founders work together in order to make the company grow. The interviewee from Esprit, Ella Laresvuo, works in the

company as e-Commerce Area Manager within the wholesale department. The area covers Nordic countries and Finland in particular. Therefore the subject of this study touches closely everyday work life of both interviewees’.

5.4 *Current State of the Finnish Fashion Industry*

One of the interviewees had a clear opinion of the state of Finnish fashion industry. Interviewee stated that the industry is sleeping and that it needs to be woken up. The reasons behind the poor condition of the industry in Finland were thought to be weak attitude towards the fashion industry, lack of support from the government and poor willingness to reach out the international markets.

“...entrepreneurs might be afraid to internationalize their businesses.” (CEO, JULJA)

As stated in the previous parts of this study, Finland is full of talented fashion designers and the CEO agrees with this. However, Finnish fashion brands have managed to make barely few breakthroughs in the industry. The interviewee mentioned that trade fairs and the emerged popularity of fashion blogs can help companies to internationalize their businesses. The example of others and cooperation are also mentioned as possible solutions for the ongoing situation. The interviewee mentioned that Finnish fashion industry needs success stories in order to get the industry to cope.

5.5 *The Impacts of e-Commerce in the Fashion Industry*

One of the interviewees commented that online purchasing has become popular in the fashion industry worldwide and therefore the online sales channel is essential for today’s fashion companies, despite the fact that founding of an online store is quite expensive. Both of the interviewees argued that fashion industry is a challenging field for online retailing, since the factors, which exist in physical stores do not exist in the online environment. Since fashion products are very unique and special, the inability to touch, feel and fit the products becomes a challenge for companies.

“Usually a company’s online store generates about 15% of the whole turnover. This is relatively high, and in the future the number will be even bigger.” (e-Commerce Area Manager, Esprit)

According to the e-Commerce Area Manager, there is a notable variation between the best sold products online compared to physical stores. Esprit’s bestseller products consist of simple, easy-to-buy and low priced items. With a more complex product, the website needs to provide good quality pictures showing product’s details and a comprehensive information package on the item. Otherwise the sales of those products will suffer. According to the CEO, it is very difficult and also crucial to get the first order from a customer. Ready-to-wear fashion is more difficult to sell online than mass production, since clothes include more details and are priced higher.

“The most obvious thing driving the customers to the physical stores is the possibility of fitting. The whole basis of shopping clothes is to touch them, try them on and compare them to others. Since this is not possible to do online before the purchase, it has to be compensated by adding other benefits..” (e-Commerce Area Manager, Esprit)

The Area Manager continued that purchasing from an online store is more effortless for a customer than from a physical store. In the online environment, customer can switch to another store in a blink of an eye and browse different styles. Interviewees mentioned discount vouchers, different campaigns, and straightforward logistics, as well as free delivery and return, as ways to seduce customers in e-markets. The CEO said that in pure online retailing showrooms, temporary shops and events, which enable fitting, are a good way to introduce brand’s products to customers.

“...it is essential to present comprehensive product information. Therefore, for instance, pop-up shops⁵ are a good way to introduce products to consumers.” (CEO, JULJA)

Both interviewees agreed that the area of e-Commerce brings a lot of benefits to the fashion industry. As a one factor they mentioned that fixed costs are considerably lower in online

⁵ Pop-up shops are temporary retail shops, which are opened for a certain period of time. The idea is usually to sell all the limited edition products and then close the shop.

business than in offline business. Therefore risks in online business are not as high as in traditional sales channels, since the risk of losing cross margin is low. One of the interviewees mentioned the opportunity of reaching out consumers worldwide and another interviewee emphasized the speed of e-Commerce. Online marketing saves company's time, since new campaigns and events are fast to execute. Nowadays companies need to act quickly in order to survive in constantly changing markets.

“...in online business increasing sales does not need extensive amounts of money and work, but just a bit of creativity and consumer-oriented thinking.” (e-Commerce Area Manager, Esprit)

Online store sales are also easy to measure with the amount of visitors. CEO of JULJA said that it is easy to follow which path the customer uses. This means that the company can find out which links the consumer has used. The customer can be followed in real-time throughout the online purchasing process. The website administrator can monitor when the customer leaves the website, which products the particular customer browses and if the browsing leads to an order. The interviewee highlighted that these customer behaviour actions are vital to notice and recognize the reasons behind this kind of behaviour.

“...the click can be made via fashion blogs, but if its leads to purchase is more difficult to figure out, but yet possible.” (CEO, JULJA)

5.6 The Opportunities and Challenges of e-Trust and e-Loyalty for Fashion Industry

The importance of loyal customer base was brought up in both interviews. The CEO of JULJA stressed the status of a loyal customer base and brought out the difference of mass production and ready-to-wear fashion. According to the interviewee, loyal customer base is in key position, especially when the sold products are design fashion, since the volume is smaller compared to mass clothing. Both of the interviewees emphasized that it is more costly to gain a new customer rather than keeping loyal ones.

“Generally, it is easier to get already purchased, a satisfied customer to buy again than to acquire new customers.” (CEO, JULJA)

5.6.1 Opportunities

Both of the interviewees stated that although the online environment is a challenging field of business, emerging number of online channels can be seen as an opportunity for companies to build trust and loyalty among consumers. Digitalization has speeded up business activities, thereby different marketing actions are quickly carried out to loyal customers. This means that information can be shared to everyone in real time. The Area Manager's opinion was that the company is more able to serve their loyal customers in the internet, since the clothing pieces are shown separately from the collections. Lookbooks and trend reports in websites generate additional sales and are easy to build. Major benefit of an online store for a customer is that orders can be done independent of time and place.

“...in online business increasing sales does not need extensive amounts of money and work, but just a bit of creativity and consumer-oriented thinking.” (e-Commerce Area Manager, Esprit)

One of the interviewees mentioned that with the help of social media the company can create special kind of society around the brand. In addition, social media and for instance fashion blogs are an easy way to bring a customer closer to the company. It is important to open up the stories behind the brand in order to create trust among consumers. In practice, pictures and videos are always more effective than written content.

5.6.2 Challenges

One of the interviews mentioned poor quality, high returns rate and the lack of variation as trust reducing factors. The risks of losing customers' trust in online business are seen similar as in offline business. After losing customer's trust, it is almost impossible to get it back. In order to avoid disappointments, fitting needs to be standard and website pictures need to illustrate the quality of products as well as possible. Brands need to have enough information in their websites. It is impossible for a company to avoid customer's disappointments, but these situations need to be solved and the disappointment needs to be changed into satisfaction.

“What I realised was, that a reduced trust in an organisation has just a little to do with the actual product. The consumer actually trusts an organisation that takes care of its customers. What I understood was that every company has flawed products, which the consumer will understand, but the most vital part is how the company handles the complaint after it has occurred.” (e-Commerce Area Manager, Esprit)

Customers are able to visit online stores frequently and therefore companies need to add new items regularly. If this issue is underestimated, the risk of disappointing the customer, and thereby losing trust, is huge. The CEO mentioned that the changes in collections are not seen as trust reducing factor in the ready-to-wear segment, since customers do not even expect them to change that often. There were no disagreements between the interviewees that product circulation affects also the loyalty of customers.

In online stores, changes in collections need to be quick enough so that customers would visit the websites often and purchase products regularly. However, the interviewees approached the matter differently. According to the Area Manager, the reason why the circulation needs to be fast is that fashion industry trends change quickly. And in order to satisfy the customer, the online store needs to offer the latest trends. Although, these kinds of actions are hard to execute since the process from designing to manufacturing is slow and very difficult to adjust. The CEO of JULJA had also found out that product cycle needs to be varied, but in the ready-to-wear segment it is almost impossible and highly costly to produce more than two seasonal collections in a year. In JULJA, the problem has been solved with fast changing collections of second hand products. The CEO also pointed out that those second hand items support their brand values. The recognition of loyal customers is also seen as challenging.

“...thus, very difficult to measure that (brand loyalty) in the online networks.” (CEO, JULJA)

The Area Manager stressed the quality of service when gaining loyal customers, since the whole purchasing experience needs to satisfy the customer. Customers build their loyalties based on the level of satisfaction they have experienced. Therefore the lack of physical service is a major challenge in online retailing. The level of exclusive service is hard to reach in the online environment, since a physical connection does not exist with the customer. One reason is that

companies do not have the same opportunity of communicating interactively with the customers as in offline stores. Therefore, it is harder for the company to affect customers' brand experiences.

“The main difficulty in online business is being able to make it personal. Service is among the hardest things to carry out online since there is no physical interaction.”

(Area Manager, Esprit)

The opinion of both interviewees was that it is difficult to get new customers to visit online stores and also figure out new solutions to serve the loyal ones. During the both interviews, the loyalty of a customer is reflected in profits. Both of the interviewees said that the purchasing process needs to be really straightforward. If the customer gets frustrated, it is more likely that the order is left undone. JULJA's CEO mentioned that they have had problems with getting customers to order, since the ordering required registration. The delivery needs to be fast, since the other option for the customer is to buy the product from competitor's offline stores. The customer needs to be somehow hooked to order the product. Companies need a great amount of creativity to figure out the things affecting customer's decisions.

“Every once in a while I ask myself: what is the cherry on top that makes the consumer want to buy this product online, versus buying it from a physical store?, and even more importantly: what is the catch we have in our online stores that makes the consumer want to buy the product from us instead of other online stores?” (e-Commerce Area Manager,

Esprit)

5.7 Development of e-Trust and e-Loyalty

According to the CEO, companies need to be even more open-minded and offer a great amount of information to customers. A customer needs to be able to find easily the information one is seeking. Thereby, customers will be more trustful towards the brand. Personal service helps to form loyal customers, therefore it needs to be improved and adapted to online stores. The Area Manager mentioned the opportunity to use an “online-chat” – service, which makes communication between a consumer and a stylist possible. With the help of the stylist, the consumer might be more trustful and satisfied to make an order.

The CEO stressed the importance of involving the customer to company's operations. The customer needs to feel oneself as a part of the company. This could be achieved by letting the customer to participate in company's activities, for example to designing. The CEO thinks that CRM (Customer Relationship Management) system is going to be necessary when their customer base becomes wider. In order to maintain the loyal customer base, exact and systematic actions are essential when managing orders and other customer information. Another interviewee stated that an online store does not need as much resources and work as a physical store; therefore it is easier to increase profits. The Area Manager pointed out an example of discount coupons to online store on the back of physical store receipts, which increased the number of visitors and helped to reach out the target market. Simple and easily implemented activities can increase the online sales. The secret to online success is creativity.

“Nowadays to succeed, let alone stand out, in online fashion markets it is not enough to follow others – you need to be the pioneer.” (Area Manager, Esprit)

6. DISCUSSION AND CONCLUSIONS

The objective of this study was to explore the main challenges and opportunities of e-Commerce in the fashion industry from the brand trust and loyalty point of view. The main goal was to investigate the benefits and challenges of building trust and loyalty in the field of e-Commerce by discovering the characteristics of fashion industry and the impacts of e-Commerce. These features were studied throughout academic literature, scientific journals and theme interviews. Two fashion brands from different fashion market segments were chosen for the interviews. The main case company of this study is JULJA Finland Oy and the purpose was to find new angles and ideas for increasing the number of their loyal customers.

The state of Finnish fashion industry is quite weak as Lille (2010), Sounio (2010), and Malen (2007) have stated. The other interviewee also agreed and said that Finnish fashion entrepreneurs need to become more eager to move to global markets. An interesting point of view is that although Finland is full of skilful designers, the lack of knowhow and respect towards the industry complicates internationalization. In Finland the textile industry has been stronger than the fashion industry, as Lille (2010) mentioned, and the meaning of fashion to economic growth is not totally understood. Therefore, one major issue is that there needs to be a change in attitude. The empirical part of this study revealed that fashion brands should work together in order to grow. Although, following others is not the key to success. A successful fashion company uses both creativity and innovation in order to be the first one acting in the markets.

Both of the interviewees mentioned that the nature of fashion products makes touching, feeling and fitting essential elements in consumer's purchasing process. This study focused on two different market segments, which are ready-to-wear and mass production, as Bandinelli et al. (2013) have divided the fashion markets in figure 4 on page 13. According to the information gained from the interviews, the fast changes in the ready-to-wear collections are not as essential as in the mass segment markets. The division in Bandinelli's et al. model is based on product price and volume. A connection to the particular theory and the empirical part is shown: mass production focuses on volume when ready-to-wear fashion is more price-oriented. These issues are also taken into account when building brand strategies.

The main challenge in the electronic environment is that an online store does not meet all of the elements of offline retailing. Therefore, customers need to be encouraged with several ways to carry out their purchasing processes online. e-Commerce has also enabled brands to market via social media channels. Visual presence in online environment seems to be a key factor for fashion brand's success. This includes companies' online stores and also fashion blogs. Charlesworth (2009) mentioned that customers' movements are easy to follow online. The CEO of JULJA also mentioned that they follow their customers in real-time. However, it seems that companies do not have a clear vision on how they should exploit the measurements. The number of visitors and time spent in the website are the most used indicators. The measuring is not enough; online retailers need to find the reasons behind online customers' behaviour and learn to predict their movements.

The interviews revealed that trust and loyalty aspects are highly important in online retailing. The main weight in the empirical part of this study was in the challenges of e-Trust and e-Loyalty. The circulation of products was pointed out because of the fast changing nature of fashion. Companies need to have variation in their collections in order to avoid customer disappointments. Also researchers have mentioned (Rowley 2008, Reichheld & Schefter 2000, Dholakia et al. 2002) that satisfaction is a necessary element when companies gain trust, as shown in figure 8 on page 26. And without trust, it is impossible to build loyal customers bases, as stated in the theoretical part (see figure 6 on page 22). The enormous difference in product cycles between mass production and ready-to-wear fashion was also brought up since in the ready-to-wear segments it is not that essential to change collections that often. There is a notable difference between theory and empirical part of this study since security issues were not pointed out during the interviews. This is interesting since many researchers stress the importance of security and privacy in the online business (Dholakia et al. 2002, Ha 2004, Lahtinen 2013).

The importance of comprehensive information and storytelling in company's websites was mentioned when interviewees figured out the elements affecting trust. Researchers have also mentioned that the lack of information might lead to negative purchasing decisions (see Ha, 2004, Reichheld & Schefter 2000, Kamari & Kamari 2012, Barwise & Meehan 2010, Lahtinen 2013, and Rowley 2008). In addition, the information shown in the websites reflects to company's reputation. If the customer has not made the first purchase yet, the website is the

main source of information. Company's reputation is another main factor that affects the trust building process, which is also shown in the figure 8 on page 26. The variety of electronic channels was seen as a benefit for organizations to build trust and loyalty. Social media is seen as a major channel for delivering information to consumers and thereby create trust. Barwise and Meehan (2010) stressed also the issue.

On the other hand, ever increasing competition has become a major challenge. Building trust and loyalty in the field of online fashion retailing is essential and also extremely challenging. Fashion items are unique and often require fitting especially when it comes to high fashion. Therefore, companies need to pay attention to factors that affect to trust, such as delivery and return policies. This study has revealed the most important elements when gaining loyalty in fashion e-markets which are trust, satisfaction, product circulation and reputation. Since the trust has been gained and a loyal customer base built, it is more profitable for a company to operate. Increased reputation adds the number of loyal customers even more. The main challenge for a company is to figure out how to get a customer to purchase goods from a certain brand when the competition is limitless in the e-markets. The customer needs to be somehow hooked to the online store and tempted to make an order. The particular brand needs to be unique, innovative, and creative enough.

Based on the discussions of this study the case company, JULJA Finland Oy, should first of all add more information to their website and online store. Another factor which can affect to their sales is the inability to move products to shopping carts when browsing their website outside the actual online shop, for instance, look-books or JJULJA's blog. The purchasing process need to be made easier for consumers or otherwise there is a risk of losing potential buyers. JULJA should also keep a record of their loyal customers and reward them. Attention need to be paid to JULJA's domain name, since the online store might be hard for a customer to find in countries outside Finland. Currently, the domain name is juljafinland.com instead of julja.com. This issue is highly important when aiming to become an internationally known brand. The company need also to figure out different other ways to conquer global e-markets, since operating mainly in the domestic markets, will not lead to success. JULJA, as a brand, need to be strengthened. The company should figure out answers to questions: *"Why should a customer wear JULJA? What is the promise behind the brand that will make the customer to repurchase?"* Although, it is

extremely hard for a new company to build reputation and thereby enlarge their customer base, but all the elements for a great success exists since the e-Commerce enables movements to international markets.

It would be interesting to explore how e-Trust and e-Loyalty are shown in different cultures. Future studies could include topics like: “*How culture affects to customers’ trust and loyalty towards a brand in the online environment?*” or “*How online customers’ behaviour differs between cultures?*” New technology will surely bring new opportunities for businesses and therefore it would be interesting to study new online retailing solutions, such as virtual fitting, and its impacts on business methods.

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ATTACHMENTS

Attachment 1 Interview questions

1. Introduction of the company

- Describe briefly your business model.
- How would you describe the state of Finnish fashion industry?
- How have you segmented your customers?
- How is e-Commerce connected to your organization?
- Is your personal work related to e-Commerce?

2. E-Commerce in the fashion industry

- What are the sales channels in your organization?
- How do you see the importance of online retailing?
- Can you describe the benefits that e-Commerce has brought to your business?
- Does the nature of the fashion industry bring any special challenges to e-Commerce?
- Which electronic channels does your company use?

3. The benefits of building brand trust and loyalty online

- Can you describe your company's brand?
- Can you describe the benefits of electronic environment when constructing trust among consumers?
- How important is a loyal customer base seen in your organization?
- Have you used e-Commerce to increase your brand loyalty?
- What are the benefits of e-Commerce when creating brand loyalty?
- How is loyal customer managed in your organization?
- Can you describe successful actions in your organization that have led to brand loyalty?

4. The challenges in building brand trust and loyalty online

- What are the main challenges of building consumer trust online?
- What makes it difficult to gain loyal customers online?
- What are the main challenges in managing loyal customer bases?
- What factors might reduce customers' trust in your organization?

5. The improvement of brand trust and loyalty in the online environment

- What are the factors that could improve consumers trust in the field of e-Commerce?
- How do you measure brand loyalty?
- How do you think the amount of loyal customers could be increased?