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INTERNATIONAL GROWTH OF FINNISH B2C FASHION

Bottlenecks and needed action

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CONTENTS

EXECUTIVE SUMMARY

The international fashion industry is going through unforeseen changes. Consumer expectations are changing, and most parts of the traditional fashion value chain are being challenged. This report is exploring through interviews, a workshop and a questionnaire the potential bottlenecks and needed actions for significant international growth. The opportunity is massive for Finland, and the changes in the market open new opportunities for Finnish fashion brands. The Finnish society and ecosystem have many strengths, such as the Finnish culture and design heritage which stand as an antithesis to fast fashion. Also the highly ranked fashion design education, our investments and commitment to the circular economy of textiles, and the focus on technology, especially on digital technology are considerable assets.

The report concludes that many of the ingredients exist, but “the formula” is missing. The Finnish fashion industry currently has a very small share (less than 0,05%) of the global fashion business[1]. Although the global market has grown only at 1.3% CAGR in the last 5 years, there are several faster growing sub-segments. These include sustainable, slow and ethical fashion, as well as D2C. All of these are growing by double digits or nearby. The Finnish fashion industry can grow significantly by focusing on the high growth sub-segments where the Finnish brands have stronger competitive advantages.

It is suggested that much more attention should be paid to how different actors across the Finnish fashion ecosystem can come together and how they can work together to drive growth. The project identified four bottlenecks holding back growth:

1) Lack of interdisciplinary collaboration,
2) Need to create more visibility for Finnish fashion business,
3) Not enough fashion business concepts and associated funding,
4) Undervaluation of fashion in Finnish culture.

These bottlenecks point to a need to collaborate with an enhanced focus on the international consumer, leveraging digital technologies more effectively, creating an inspiring, energetic, and ambitious fashion culture.

1 Global fashion business refers here to the fashion manufacturing and excludes fashion retailing.

It is suggested that a long-term growth program should be started to develop a targeted B2C fashion ecosystem. The first steps should be to

1) Create a joint program for starting and growing digital, international consumer-first businesses (e.g. collaborations projects, training, seminars),
2) Create a fashion event that attracts investors and media to Finland (e.g. in tandem with Slush),
3) Create a joint consumer/market insights project for understanding the potential of Finnish brands internationally (for example, with a focus on the opportunity for sustainable fashion in different markets),
4) Establish a collaboration network of businesses to jointly share experience and create international connections, and
5) Create a mentoring platform where early stage entrepreneurs can get advice from more experienced peers.

INTRODUCTION

The fashion industry is going through massive changes. The shifts impact all aspects of the industry, ranging from what consumers expect and how they want to engage with brands to how products, fabrics, materials, and fibres are produced. Many of these changes have started earlier and are driven by long-term changes in society, people's expectations, and technological developments, but they have accelerated and become clearer during the COVID-19 pandemic.

For Finland, these changes offer an opportunity to drive more impact and growth internationally in a "new era" of fashion. Our advantage is that we have few established conventions in traditional, and often unsustainable, fashion. Therefore, those capabilities required in the new emergent business environment come quite naturally to us.

In this report, we are looking specifically into the future demand for fashion brands in B2C business and highlight the need across the globe to rethink the playbook of fashion. We suggest that Finland and Finnish brands can, and should, take an active part in this, carving out niches where their strengths can be used to the full potential.

At the same time, we need to recognize Finland's current position within the international fashion business (appr. 0.05% of the total share of the market). The industry in Finland is small, compared to the size of the industry in many other countries.

The process of building future success will require concerted investments, time and higher ambitions.

On the other hand, we see the small size of the Finnish industry and the lack of fashion establishment as an opportunity to move forward in an agile and collaborative way. There are possibilities to reposition fashion as a branch with scalable, global opportunities, comparable to any other industry. The potential to grow is massive.

To do this, it is necessary to build an environment for growth supported by a culture that valorises a Finnish fashion business. This fashion business will not be about personalities or fads, but about establishing and creating new kinds of brands that are both responsible and aspirational in the eyes of an international consumer who has become increasingly sceptical about fast-paced and destructive consumption.

Possibilities to reposition Finnish fashion as a branch with **scalable, global opportunities, comparable to any other industry.**

The structure of the report is the following: First, the objectives of the report are discussed. Second, global demand shapers are defined to provide an overview and description of the dynamics in the fashion market. This provides a starting point for the analysis of strengths and bottlenecks within the textile and fashion ecosystem. Third, Finland's current position within the fashion business, as well as the strengths that it can build upon, are discussed. Fourth, bottlenecks for significant growth are described. Fifth, the need for a long-term commitment to create a thriving ecosystem is underlined, followed by a list of short-term actions that should be taken to get started. Sixth, next steps will be discussed and observations will be raised to highlight important aspects that should be kept in mind when moving forward.

Although the report focuses on B2C fashion, it is suggested that the recommendations are applicable to the lifestyle business such as home textiles as well.

THE OBJECTIVE

The objective of the report is to identify the changing demand for fashion and to define the strengths and bottlenecks for Finnish brands that aspire to grow internationally. The goal of the report is also to list actions that can - and should - be taken to overcome the bottlenecks.

We will also discuss the need for a stronger ecosystem for growth. We find that the nature of many current growth bottlenecks is such that they cannot be solved by individual companies. There is a need for more cohesive and collaborative efforts across a range of different capabilities, including those that are not always seen as a core part of the fashion industry. They can be related to direct-to-consumer (DTC) or analytical approaches to understand markets and the international consumer.

An extensive range of professionals has been involved into writing this report, from leaders of both large and small companies within the industry, to industry experts, investors, designers, and academics. Their perspectives have been gathered through interviews, a workshop and an online survey.

The working process is described in more detail in appendix 1.

We thank warmly thanks to the interviewees, all of whom provided invaluable insights:

Tiina Alahuhta-Kasko, Marimekko
Petri Alava, Infinited Fiber Company
Elina Björklund, Reima
Rolf Ekroth, Designer
Sibilla Foti, Fashion professional
Pirjo Hirvonen, Aalto University
Ilkka Kivimäki, Maki.vc
Mikko Koponen, Manna & Co.
Martta Louekari, Juni Communications
Kerry Murphy, The Fabricant
Anna Rauhansuu, Myssyfarmi
Sissi Silván, PanScan Consulting
Mika Sutinen, Board professional
Marta Valtovirta, Hálo

The interviews were used as main material for the section of strengths and bottlenecks in Finland.

We also thank the participants taking part in a workshop for action planning based on initial findings taken place on the 28th of October 2021, and the respondents

to the survey that was sent out to Finnish Textile & Fashion's members in November 2021 for prioritising identified actions.

The participants have offered an important contribution to the conclusions of the report, but the interviewees or the workshop participants should not be held accountable for any of the recommendations presented in the text.

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DEMAND **SHAPERS**

Above and beyond the COVID-19 related changes brought about by shifts in consumer behaviour and supply chain issues, we believe that the fashion industry (globally) is entering a period of change and disruption. There are five major dynamics at work in society and the industry that we have observed emerging[2] over recent years, that will engender both short- and long-term impact on the textile and fashion industry and will drive changes of the like not seen since the Industrial Revolution.

The five dynamics are: Adaptability, Stability, Sustainability, Fashion-Tech and Multiplicity of Expression. They are driven by the increasingly volatile external economic, social, and environmental context and amplified by the acceleration of technological transformation.

Adaptability: A report published for SITRA in 2017[3] has outlined how the external drivers of volatility and uncertainty create a need for preparedness, as well as a desire to stay light, agile and to be ready for anything. The COVID-19 experience and the renewed focus on climate crisis have accentuated this need. The desire to be adaptable and resilient, fed by the continued trend in health and fitness, will also drive change in the relationship to ownership and ideas of possession.

For fashion, this is seen in the selection of functional apparel to support an activity-focused lifestyle (sports/outdoors), and an increased interest in clothing resale (second hand) and rental models, which add flexibility to the consumer wardrobe.

Functional apparel (including sportswear and outdoor wear) – focusing on technicity and performance such as sweat wicking, temperature mediation, stretch, easy care, odour resistance, bactericide, responsive and sensing textiles – is predicted to reach a market size of $372,5bn by 2026, averaging 5,7% CAGR (7,3% in China) over the period from 2020[4]. Companies surfing on this trend range from sportswear and outdoor specialists, such as Adidas, Nike, Lululemon, The North Face, Patagonia and Arc'teryx and more niche D2C brands like Ministry of Sup-

2 Alice Labs Proprietary studies, Stuff in Flux 2016, Retail in Flux 2019, Infinit Youth studies in China 2015, 2017 and 2019 and from a variety of open-source data available, including longitudinal data from the World Values Survey

3 Korkman and Greene 2017: The changing relationship between people and goods https://www.sitra.fi/en/publications/changing-relationship-people-goods/

4 https://www.prnewswire.com/news-releases/global-functional-apparel-market-to-reach-372-5-billion-by-2026--301322650.html

There are five major dynamics at work in society and the industry that we have observed emerging over recent years, that will engender both short- and long-term impact on the textile and fashion industry and **will drive changes of the like not seen since the Industrial Revolution**

ply which specialise in scientific innovation in easy care/easy wear office- and city-wear for men and women.

The resale/second-hand market, although starting from a smaller base (estimated market size in 2021 $36 billion[5]), has been boosted by digital commerce and digital transformation acceleration. The market is predicted to grow at 15-20% CAGR[6] to 2026. Some key specialist players are ThredUp, Vestiaire Collective, Depop, The RealReal and Vinted. However, more and more of the mainstream brands are including second-hand sections in-store and online[7]. Also companies in Finland, such as Emmy, Vestis and Rekki are active in this field.

The smaller global apparel rental market was estimated at $1,8bn[8] in 2018, but it is also predicted to have double-digit compound growth in the coming years.

5 https://www.thredup.com/resale/#size-and-impact

6 https://www.bcg.com/publications/2020/consumer-segments-behind-growing-secondhand-fashion-market

7 https://www.retaildetail.eu/en/news/fashion/zalando-launches-second-hand-platform

8 https://brandessenceresearch.biz/ICT-and-Media/Global-Online-Clothing-Rental-Market-2018-to-2023/Summary?MND_Priyanka

Stability: The second dynamic is an alternative reaction to volatility and uncertainty and is expressed as the need for a sense of control provided by stability and familiarity. We see this expressed as a demand for products that are "timeless" and long-lasting and that will be consistently high-quality, while remaining contemporary. Importantly, sustainability is an implicit feature of this definition of timelessness. This dynamic, in total opposition to fast fashion, seeks to minimize the need for many different articles and styles. According to McKinsey,[9] consumers today are less concerned about following the latest season trends and now rank newness as the least important attribute, when selecting a fashion brand. This timeless (slow) clothing movement will be hallmarked with purposeful and intentional creation.

Anna Wintour, one of the most influential personalities in fashion, speaking about the impacts of the pandemic on CNBC[10] last year, said *"I think it is an opportunity for everyone to slow down, produce less and make the*

9 https://www.mckinsey.com/industries/retail/our-insights/survey-consumer-sentiment-on-sustainability-in-fashion

10 https://www.cnbc.com/2020/05/20/vogue-editor-anna-wintour-coronavirus-has-been-catastrophic-for-fashion-industry.html

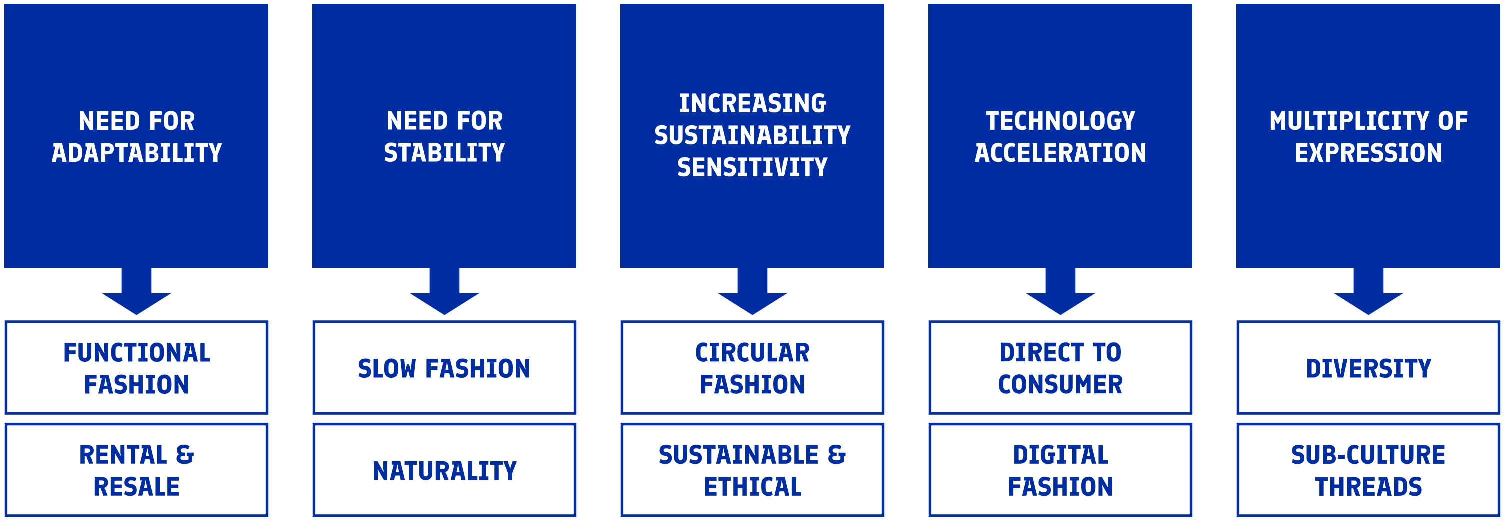

Figure 1: Five dynamics shaping the demand of the textile and fashion industry

world fall over in love with the creativity and passion of fashion, and maybe have less of an emphasis on things moving so quickly and emphasis always on what's new... Fashion should last, it should be emotional, it should have memories, it should be meaningful...”

We see this dynamic expressed through both slow fashion and permanent collections and exemplified by brands who emphasise quality over quantity – fewer, better items – and integrate manufacturing principles that respect people, environment, and animals. This often also integrates aspects of naturality and use of organic materials and craftsmanship.

Here, we can see brands like CUYANA, a US D2C permanent collection brand with a cult following, or ARKET, a Swedish brand part of H&M Group offering “a curated collection of timeless and sustainable wardrobe components and home items”. ASKET is another Swedish brand with no seasonal collections. The brand has created “timeless wardrobe essentials since 2015” with a focus on building a single permanent collection only. Similarly, ASPHALTE is a French brand that focuses on durable timeless menswear.

Sustainability: Sustainability has been described as an implicit part of the Stability dynamic, but it is also a

larger stand-alone dynamic and an explicit shaper of demand. Sustainability has become urgent and non-negotiable, and consumers are hearing and seeing the fashion industry being called out again and again for not doing enough[11]. This is the one of the most important dynamics, meriting the term Megatrend, that will shape what is required of the industry in the coming years.

"Our message to every country, government, business and part of society is simple. The next decade is decisive for climate action (…) we all need to follow the science and embrace our responsibilities to keep the goal of 1.5°C alive (…) "This includes the fashion industry."[12]
Alok Sharma, President-designate of the United Nations Climate Change Conference

The Fashion Industry Charter for Climate Action, for example, aims for net-zero emissions by 2050[13]. Today, any fashion growth initiative must consider sustainability as a core part of the strategy. Reducing total emissions is not only about more sustainable materials, or a transition to renewable energy across the supply chain, but also different business models that rely less on generating desire for ever-increasing volumes of new clothes.

11 https://www.bbc.com/news/world-europe-58145465

12 https://www.voguebusiness.com/sustainability/fashions-takeaways-from-the-un-climate-change-report

13 https://unfccc.int/climate-action/sectoral-engagement/global-climate-action-in-fashion/about-the-fashion-industry-charter-for-climate-action

Consumers (despite their love for fashion) are becoming increasingly sensitive to this issue but are often confused about what makes clothing sustainable and where they can find sustainable clothing. Recent research from the US finds that 86% of consumers believe sustainability is a good goal. Yet, nearly half (48%) don't know how or where to find sustainable clothes, and 42% are confused about what makes clothing sustainable.[14]

As the supply of sustainable clothing increases and communication improves, consumers will become more at ease selecting sustainable alternatives, and the virtuous cycle will continue, with more demand driving a larger supply. This will be further enhanced by a new generation of consumers for whom sustainability is a non-negotiable part of their values. According to a report by Bain & Co for Depop, the shopping behaviour of Gen Z's are "strongly influenced" by brands' commitments to social and environmental sustainability.[15] The global ethical fashion market (here aspects of social justice are included alongside sustainability) is expected to grow to $9.81 billion in 2025 and $15.17 billion in 2030 at a CAGR of 9.1%.[16]

As a reaction to the Sustainability dynamic, we are now seeing larger brands, such as Levi's whose waterless range uses 20 innovative techniques to use less water in jeans production, innovating their way into new sustainable spaces. Next to them, a hoast of newer brands that are sustainable from inception have been born. These include brands such as Honestbasics.com, a German company "on a mission to make fair fashion easy and accessible for everyone", or Allbirds which makes sneakers with natural materials like merino wool and eucalyptus.

The fashion market is starting to offer consumers a larger, albeit for now still confusing set of sustainable choices.

Fashion-tech: The fourth dynamic identified as shaping the future of demand encapsulates several evolutions and innovations that together are shaking some of the industry foundations. In the words of the Digital Fashion Group, a European-led collaboration between fashion academics, industry innovators, and industry leaders working to equip fashion education, professionals and brands with the relevant skills, mindsets, and strategies for the future of fashion:

"Fashion is about the "New", but behind it is an out-of-date system based on 19th century tailoring and manufacturing with an unsustainable environmental and social impact, while fashion education perpetuates a system developed in the 1940s, 50s and 60s. Both fail to adapt to changes in society and to the recent wave of new digital technologies delivering tools to reinvent every aspect of fashion education and the fashion cycle."

(The Digital Fashion Group)

14 https://www.genomatica.com/survey-consumers-want-sustainable-clothing-need-more-info/

15 https://depopxbainreport.depop.com/

16 https://www.globenewswire.com/news-release/2020/10/28/2116073/0/en/Sustainable-Fashion-Market-Analysis-Shows-The-Market-Progress-In-Attempt-To-Decrease-Pollution-In-The-Global-Ethicalfashion-Market-2020.html

Fashion-tech covers a broad and heterogeneous category of technologies with applications in the fashion industry. We can only hope to brush the surface in this report. However, one of the more obvious areas of technology application has been in direct-to-consumer (DTC) fashion where, as the name suggests, a brand markets and sells direct to its customer (via digital commerce). There's no wholesale, no third-party retail, just manufacturer to customer via the internet. Although this could be described as a simple modernisation of the mail order business model, the digitisation shift is fundamental. It not only modernises direct selling for the digital age but also the whole approach to the value chain, incorporating many different technologies. It also opens the market to emerging brands with well-defined concepts that can raise funding from sources who usually pass the fashion industry by.

Favours the Brave (**https://www.favoursthebrave.com/**) is a directory showcasing some new UK and European DTC brands. DTC is not easy to evaluate as a market but could be considered as a sub-category of fashion eCommerce, which is expected to attain 9.1% CAGR to 2025[17]. The D2C sub-segment is expected to grow slightly faster (some estimate up to 19% CAGR).

Also other important technological advances are making their way into fashion. Blockchain and the metaverse reflect a momentum from the gaming universe, to blend the digital with the physical. This includes attaching digital passports to physical items and attaching real value to digital goods. Digital clothing is increasingly becoming an integral part of these universes and several brands have recently made headlines with "digital drops" for example Balenciaga with Fortnite[18] an online survival game developed by Epic Games in 2017 and clocking up 125 million players in its first year. Other examples are Genies avatar technologies, The Fabricant Digital Fashion House, and DressX which claim to reinvent multi-brand fashion in the digital universe.

Throughout the fashion value chain 3D technologies are being leveraged: 3D assets in design and sample production, 3D experiences (AR/VR/MR) in retail/e-commerce. Though still at early-stage, experts predict that 3D design knowledge will become a necessary skill in the fashion industry.

Some early examples of what may follow are Stitch, a 3D design incubator by PVH Group (Tommy Hilfiger Parent), or Stylé, a French start-up that animates virtual clothes.

Virtual fit technology for digital fitting rooms and showrooms is also making a grand entry. A COVID-19 pandemic driven need to find solutions for showcasing or trying on fashion without physical presence has accelerated development. Start-ups in this area are: Fit, Match AI (for physical stores), and True Fit, an online fit tech

17 https://www.statista.com/study/38340/ecommerce-report-fashion/

18 https://www.epicgames.com/fortnite/en-US/news/high-digital-fashion-drops-into-fortnite-with-balenciaga

tool, or Fit Analytics, a company that makes size recommendations based on an online survey.

Finally, artificial intelligence (AI) and the internet of things (IOT) are also transforming the fashion industry. The use cases range from deep personalisation and on-demand production to use of digital twins to improved supply chain efficiencies and supporting circularity. The advanced use of data, AI and IOT have the potential to modify many aspects of the industry as we know it today. Some examples of start-ups in this area are Zeekit (acquired by Walmart) and Fision (recently acquired by Zalando).

Multiplicity of expression: The fifth dynamic is closely linked to a core driver of the fashion industry, the desire for self-expression. Driven by increasingly ubiquitous technology and hyperconnectivity, the possibilities for self-expression have multiplied and we may be witnessing a form of cultural fragmentation.

By the end of 2021 there will be nearly 5bn people across the globe connected to internet[19]. Instant translation and the increasing adoption of visual language by younger generations (Instagram, TikTok, or simply using icons and emoticons instead of words) reduce language barriers. More and more young people have access to global content.

This global hyperconnectivity drives on the one hand the diffusion of elements of "global culture", creating bridges that cross national boundaries. At the same time,

19 https://datareportal.com/reports/digital-2021-july-global-statshot

it also enables the creation and maintenance of multiple sub-cultures and lines of difference and demarcation between people.
These tensions will drive a form of cultural fragmentation and a space where multiple trends and identity markers will be able to co-exist at a creative-culture level.

These sub-cultures will not necessarily be bound in by national borders but will find expressions among like-minded people across the globe e.g., AVCG (Anime, Video, Comic, Games) sub-cultures in Asia, or Cosplay which emerged in Japan in the 80's and has since gotten a cult following in Asia and the west.

"The pandemic has elevated style subcultures like never before. Blame it on the fact that most of the world is still in the throes of social distancing, but for many, experimenting with an extreme sense of style is a form of escapism. As a result, more people are expressing themselves by dressing up on TikTok and beyond. There are Goths, Punks, Dark Academia kids, Cottagecore Stans, and scores of other subcultures thriving both online and IRL."[20]

(K. Bateman W Magazine Jan 2021)

In another expression of the impact of cultural fragmentation we see the fashion industry embracing the multiple expressions of diversity. And among the trends that we would expect to see enhanced by this dynamic are body-positive fashion, genderless fashion and ethnisensitive fashion.

According to a JWT Intelligence study from 2016, only 44 percent of Generation Z consumers buy clothes specifically geared towards their gender (or assigned gender).[21] H&M's Denim United and Zara's Ungendered Collection both aim to serve this new consumer demand and there are many examples of other niche brands doing the same. Finnish Nomen Nescio is also an example of unisex fashion.

20 https://www.wmagazine.com/fashion/tiktok-fashion-trends-subcultures-goths

21 https://www.wundermanthompson.com/insight/gen-z-goes-beyond-gender-binaries-in-new-innovation-group-data

FINLAND AND **FASHION**

The international market is morphing, and we can see increasing alignment with the type of capabilities and characteristics that are emerging or established in Finland today.

By this we mean the Finnish culture and design heritage that stands as an antithesis to fast fashion, the highly ranked fashion design education, our investments and commitment to the circular economy of textiles[22], and the high technology intensity in the core of the Finnish innovation ecosystem.

These are all elements that could be sources of significant growth for the fashion business. There are, however, bottlenecks that are far from trivial. The report will shed light on these, but before, we will first discuss the current position of Finnish exports, our strengths, and the opportunities these bottlenecks withhold.

22 https://www.fablehti.fi/circular_economy/

CURRENT POSITION

In-depth analysis of the current state of the Finnish fashion industry has been provided in other reports[23], a high-level description only is provided here.

It is very difficult to get a complete picture of the international sales of consumer products by Finnish brands. The total clothing export from Finland based on customs statistics was EUR 253 million in 2020[24]. This figure is a cross-industry classification of clothing but does not include goods that were produced elsewhere and then directly shipped to another market than Finland.

Statistics Finland collects data of the turnover of Finnish companies selling abroad, irrespective of where the products are produced. This data is based on industry classifications but not all fashion consumer brands are classified in the same way. The industry classification of manufacturing of clothing is in total EUR 620 million, of which 30% is estimated to come from export,

23 For example, Antti-Jussi Tahvanainen ja Mika Pajarinen (2014): Älykankaita & kukkamekkoja Suomalainen tekstiiliteollisuus globalisaation ristiaallokossa. Etla; Kirsi Lille (2010) Tevallako tulevaisuuteen? Selvitys muoti- ja designalan hyödyntämättömistä voimavaroista ja potentiaalista. Diges Ry
24 Finnish Customs

Specific areas of the market, such as sustainability and D2C fashion, are **expected to grow significantly faster at 9% CAGR or higher.**

i.e., EUR 188 million. This figure does not accurately represent the export of fashion consumer goods because it does not include companies that are classified as retailers. Instead, it does include workwear, for example, which are not necessarily consumer-branded products.

For these reasons, it is difficult to reach an exact figure on the size of the Finnish fashion exports. We can, however, draw the conclusion that, no matter how we calculate, the share of Finnish fashion brands in the international fashion market is a proverbial "drop in the ocean". Globally, the total market for fashion manufacturing is estimated to be EUR 710 billion ($825.7 bn) in 2021[25]. If we assume that the total international sales from Finland are approximately EUR 500 million, this is still less than 0,06% of the total market.

The overall fashion manufacturing market is growing by 1.3% annually (avg. last 5 years)[26]. However, specific areas of the market, such as sustainability and D2C fashion, are expected to grow significantly faster by 9% CAGR or higher.

25 https://www.ibisworld.com/global/market-size/global-apparel-manufacturing/
26 https://www.ibisworld.com/global/market-size/global-apparel-manufacturing/

It is important to keep in mind that in some regional markets the growth will be higher than the average figures presented here.

STRENGTHS

Although the project allowed us to identify several significant strengths that can be foundations to build the future of Finnish fashion, it is important to note that these strengths are not currently utilised to their full extent within B2C fashion business.

In the section about bottlenecks, we will further discuss how the strengths could be better utilised.

- **Finnish culture:** Simplicity, being down to earth, being trustworthy, focus on function, practicality, timelessness, equality, cleanliness and naturality are attributes that are often associated with Finland. Many of these attributes are currently in high demand in the world of fashion, especially amongst more progressive international consumers. The interest for fashion items that capture these ideas may further be supported by a global shift towards what could be called more grounded

values. This shift has partly been accelerated by the COVID-19 pandemic.

- **Finnish design:** Design is a key strategic capability in most Finnish companies. In 2019, the turnover of the design sector's businesses was around €12.6 billion[27]. Design competence is utilised in many areas of business, from services to B2B industrial production. Finland is one of the world's leading countries in design[28]. The international recognition of Finnish design has its origin in the 1940-1960s, partly because of national promotion work[29]. The position on the world map was accelerated by international design exhibitions such as the Milan Triennials and renowned designers[30].
- **Finnish design education:** The design education in Finland is world class. Aalto University's art and design programmes were ranked by the QS World University Ranking as the 6th best in the world in 2021[31]. Aalto's IDBM (International Design Business Management) was one of the first study modules in the world that combined business sciences, engineering sciences, and design education.

27 Ornamo Economic Outlook 2021: https://www.ornamo.fi/economic-outlook-21/
28 https://www.ornamo.fi/
29 https://www.fablehti.fi/finnish-fashion/
30 https://toolbox.finland.fi/arts-design/finland-a-design-country/
31 https://www.aalto.fi/fi/uutiset/aalto-yliopiston-taide-ja-muotoilu-nousi-jo-maa-ilman-6-parhaaksi

- **Circular economy:** Finland has an ambition to be a leader in sustainability and circular production and capabilities that are a result of intentional investments in this area. Finland's strengths are related to sustainable raw material base, know-how and innovation platforms. In the fields of bio-based raw materials and smart technologies, Finland is one of the world's leading countries in terms of expertise[32]. New start-ups in the field, such as Spinnova and Infinited Fiber Company, show great progress in material innovation and B2B collaboration, with partnerships with some of the most important and forward-looking brands around the world.
- **Digital innovation:** Finland has the biggest number of digital start-ups per capita in the world. This has accelerated our innovation environment and provided a continuous source of new growth. There is a strong emphasis on digitisation in Finland, and there are actors, such as the gaming cluster, in the Finnish creative sector that have been able to use this capability to drive significant international consumer business.

It is impossible to talk about strengths without also envisaging the existence of weaknesses. The weaknesses brought up in the discussions during the project tend to, on the one hand, gravitate towards a lack of production capabilities in Finland and highlight the lack of commercialisation capabilities, on the other.

However, there is a strong sentiment that these weaknesses could be tackled if the actors in the Finnish fashion ecosystem came together in new ways. This way, some of the lacking capabilities could be solved gradually, by more concerted, ambitious, and energy creating investments into the overall ecosystem around B2C fashion.

The cited lack of marketing and sales capabilities, perceived as a weakness, can also be a dangerous self-fulfilling prophecy. World-class talent is per definition scarce, so a scarcity of world-class talent in Finland is not exceptional. An overall more robust positioning of the Finnish fashion industry could significantly facilitate attracting more missing capabilities to the Finnish industry.

32 https://www.vttresearch.com/en/news-and-ideas/finnish-textile-industry-will-be-most-responsible-and-functional-world-2035

BOTTLENECKS

We have identified the four most urgend bottlenecks to be solved. These bottlenecks came through clearly during the working process as the most critical in terms of international growth:

- Lack of interdisciplinary collaboration
- Need to create more visibility for Finnish fashion business
- Not enough fashion business concepts and associated funding
- Fashion culturally undervalued by the Finns

LACK OF INTERDISCIPLINARY COLLABORATION

The strength of a small nation is in having low barriers for collaboration or combining resources for international growth.

In a “new” fashion era, emphasising multi-disciplinary skills will be more critical than ever. To compete in the new era, people with different mindsets and competencies will need to work together. Skills in leadership, business, consumer knowledge, digital technologies, sustainability and circularity and, of course, fashion design need to come together around shared ideas and ambitions. Currently, this is not yet happening to the extent it could.

The most pressing problem causing the bottleneck is the following:

- A lack of forums/places for companies to come together and create a sense of community and interdisciplinary respect and understanding. During the interviews the lack of intersections between disciplines became evident and is a major concern. Particularly, creating deeper intersections and closer connections between technology development and fashion could have many benefits for the fashion ecosystem and Finland at large. Our industry experts felt that fashion is not always deemed a “serious” business in Finland, whereas technology is. It is possible that a closer link between fashion and technology could be a pathway to create more interest in fashion across the whole industry ecosystem.

NEED TO CREATE MORE VISIBILITY FOR FINNISH FASHION BUSINESS

The success of Finnish fashion is limited, which means that there are bottlenecks in terms of creating broad and multi-level connections internationally. This is particularly the case for starting and smaller companies that do not necessarily have the budgets nor the resources to build networks from scratch.

The most pressing problems causing the bottleneck are the following:

- A lack of concerted long-term efforts to jointly create long term connections abroad. Lifestyle Finland was a program run by Business Finland a few years ago, which was mentioned as a very good initiative several times during the interviews. This initiative was, however, for a specific period, and did not produce the continuity that was wished for by the participants.
- The lack of a high-profile event in Finland with the objective to attract international actors. It would benefit the entire ecosystem if more international partners, media and talent could be attracted to Finland and more effort focused on branding Finland more clearly and systematically on the international fashion scene. A high-profile event could support achieving this.

Fashion is highly competitive, but there are clearly opportunities where the market is currently changing and evolving rapidly and where Finnish companies could find **targeted, attractive, and scalable ideas for new fashion.**

NOT ENOUGH "NEW FASHION" BUSINESS CONCEPTS AND ASSOCIATED FUNDING

Fashion businesses in Finland are seldom founded as start-ups with clear concepts and a focus on scalability and rapid growth.

Fashion is highly competitive, but there are clearly opportunities where the market is currently changing and evolving rapidly and where Finnish companies could find targeted, attractive, and scalable ideas for new fashion. These opportunities are interesting not only for people within the fashion industry, but also for people with different backgrounds, such as digital technologies and business. Ideally people with different backgrounds can come together around new fashion opportunities.

The most pressing problems causing the bottleneck are the following:

- A lack of mentoring capacity for international fashion business. There is still a very small number of individuals in Finland with significant business experiences in international fashion.
- Too few start-ups with scalable business ideas. Funding alone is not necessarily the problem, although the fashion business can be perceived as risky and difficult to invest in. There is an opportunity to encourage talent across different disciplines to seek a career in fashion business.
- A need for a more outside-in, analytical and consumer insights led approach to the fashion business, starting with the identification of central international opportunities. By starting with understanding the demand it will be easier to judge whether and to what extent a business idea is scalable.

FASHION CULTURALLY UNDER-VALUED BY THE FINNS

It has become clear during the project that the Finnish business culture is not always supportive of creative businesses and fashion. In the Finnish culture, and more specifically in the Finnish business culture, technology is appreciated at the expense of more creative industries. This has implications for society at large, ranging from which education attracts the most talented students to the prevailing public image about Finnish fashion.

Compared to many other countries, Finland stands out as a nation of people who do not appreciate brands and branding and who do not recognize the intangible value of brands. This is perhaps because of Finnish “pragmatism”.

It is important to note that it is critical for Finland to recognize the intangible value of Finnish cultural products.

FROM INGREDIENTS TO **A STRONGER ECOSYSTEM**

Finland has many ingredients that are important for a success in a "new" era of the international fashion business.

Most bottlenecks listed in this report could be tackled by a growing and better working ecosystem where companies, organizations and people can collaborate, united by their shared ambition to attract the international consumer. The more robust ecosystem would also nurture a culture that appreciates fashion, not as "non-essential fads", but as a vehicle for growth and a means to drive better consumer culture around the globe.

The bottlenecks we have identified all have aspects around the intersections between different capabilities: both in terms of how they come together, and how they work together.

To overcome the bottlenecks and to create significant growth for the Finnish fashion business, an overall ecosystem needs to be developed that is focused on growing internationally recognized Finnish B2C brands. There is a need to increase interactions between different actors to drive developments that are difficult to solve by individual actors.

By ecosystems we mean the following:

"Ecosystems are built on interaction between companies, entrepreneurs, research, public administration and third-sector actors. An ecosystem is both a structure and an interactive process, in which actors complementing each other join forces to create value…"[33]

There are several reasons why an ecosystem seems like an appropriate term in this context.

- Internationalization requires resources at a scale that often doesn't exist in individual companies.
- The necessary competences are not present in sufficient volume, and the lack of scale of the Finnish fashion business makes it challenging to attract and hire the right talent.
- Experience in international branding is limited, so it is in the interest of the overall ecosystem to better use existing knowledge and to build future knowledge together.

33 Katri Valkokari, Kirsi Hyytinen, Pirjo Kutinlahti ja Mari Hjelt (2020): Collaborating for a sustainable future – ecosystem guide. VTT Technical Research Centre of Finland.

Finland needs to make a concerted effort to develop ways of working for interdisciplinary, consumer- and digital-first business concepts, which are successful in marrying **different skills, creative work, and analytical insights.**

- There appears to be a lack of confidence and ambition, and only a supportive community can help in building this.

The actors within the Finnish fashion industry have a genuine need and willingness to work together. For example, we have learned from the interviews that entrepreneurs in the field can feel isolated and lack contacts, mentoring, and support from people with different talent profiles from theirs. Even larger companies can feel that they are not respected and could benefit from a concerted effort to be more attractive, for example in talent acquisition.

The ecosystem does not need to have clearly defined boundaries. The following capabilities were discussed during the project as potentially important in an ecosystem.

- Users/ lead users/ Key opinion leaders (KOL)/ influencers
- Branding of fashion
- Co-branding across categories
- Omni-channel marketing/ sales
- Customer engagement
- PR
- Models & photographers
- Consumer & market insights
- Agents & collaborators
- Ambassadors & Senior industry opinion leaders
- Education & research institutions
- Event organizers
- Public funding (e.g. Business Finland)
- Associations
- Public support services
- Public innovation funds (e.g. SITRA)
- Public Research (e.g. VTT)
- Private funding
- Experts & consultants
- Fashion design
- Circular production/ services/ economy
- Technology providers & innovators
- Manufacturing of products
- Manufacturing of fibres
- Manufacturing of yarns
- Manufacturing of textile materials

But collaboration is not the only reason to build an ecosystem.

There are also skills and competences at the intersections between different capabilities that are critical for success. Finland needs to make a concerted effort to develop ways of working for interdisciplinary, consumer- and digital-first business concepts, which are successful in marrying different skills, creative work, and analytical insights.

It is hard to imagine radical growth within the new ecosystem without market sensitivity, the ability to look at its business from outside in, and the innovative use of digital and material technologies to engage consumers.

A WAY **FORWARD**

The recommendation of this report is two-fold.

First, we suggest that the Finnish society is at a junction with a need to decide whether fashion business, and the creative industries associated with fashion, are in focus for growth.

Our report suggests that the opportunity for Finland is significant, due to the following:

- A changing landscape opens up new opportunities.
- Finland has many capabilities that are needed, but these capabilities are underutilised.
- The growth potential is massive for Finland and can be unlocked with a better functioning ecosystem where necessary capabilities come together.

There is, however, a need to make a long-term commitment to build a thriving and evolving ecosystem.

We also think that investments for the development of a robust fashion ecosystem could benefit other sectors, as many capabilities are at least to some extent transferrable between different ecosystems. For example, expertise in DTC can benefit most B2C business in Finland.

Second, we suggest that to achieve the long-term ambition of developing a stronger fashion ecosystem, several more urgent actions should be kicked off.

These actions are described further below. For this section we have primarily used the workshop and questionnaire to create a list of five urgent actions.

INVESTMENT IN ECOSYSTEM BUILDING

The ecosystem building for B2C fashion business requires high ambition but also understanding that the investment is focused in creating a business environment that only bring success in a longer term, not immediately.

The following principles are important.

Long term commitments: The initiative to build a stronger B2C fashion ecosystem is in many ways a project of creating a new culture and way of doing fashion business in Finland. This needs to be seen as a long-term national growth program, not as a series of quick fixes. We are in this report focusing on B2C aspects of ecosystem, but this could also be coupled with a larger investment into the end-to-end value chain for fashion and textiles, from fibres to branding and engagement with international consumers.

Investments & public monetary support: As discussed earlier in the report, the industry in Finland is currently small, and overcoming the bottlenecks requires investments. There is a need to clearly examine how public funding can be arranged for an emerging ecosystem that requires investments that are atypical in a Finnish setting.

Open: The ecosystem should go beyond the industry of fashion and textiles and deliberately and systematically make connections between capabilities and talents that are not within the traditional industry perimeter. Such capabilities might be found amongst the players working in the digitalisation of commerce, for example.

It is also important to notify that although we are discussing the international growth of Finnish brands, we are not suggesting that the ecosystem should be limited to Finnish actors. On the contrary, the ecosystem needs to be connected across the globe to ensure the best capabilities and talent.

Orchestrator: There is not a clear commercial player/ industry leader that can or could orchestrate the development of the ecosystem, but it seems more realistic for a non-profit organisation to take on this responsibility. It is, however, important that the orchestrator have the monetary prerequisites to do this long-term. There is strong evidence that shorter "programs" quickly fall flat. Therefore, programs and such actions should be long-term commitments.

Market focus: In Finland, we tend to start from production rather than from the market when investing into the future. In this report, we are strongly emphasizing the need to take the international consumer as a starting point.

Process of maturing the ecosystem where actions are planned along the way. In this report, we are solely focusing on the "start", i.e., what needs to be done to get the ecosystem started. A growth program for developing the ecosystem needs to be constantly assessed and planned in an agile way, depending on the pull of actors within the ecosystem.

SHORT TERM ACTIONS

Although there is a need for high-ambition and long-term commitment, we have also focused on listing short-term actions to kickstart the development.

During the project, a workshop was held to explicitly list short-term actions needed to overcome the defined bottlenecks. After this, a questionnaire was sent out in November 2021 to gather additional opinions and perspectives on the identified bottlenecks and actions.

25 Finnish Textile and Fashion member companies responded. All the companies had an employee base of 200 or less. These findings are used in combination with the interviews and the workshop to identify the most urgent priorities.

The findings from the questionnaire are coherent with other findings, and a clear majority of the respondents totally agree (80%) that there is a need to the establish long-term state funded “growth program” to ensure that the industry is transforming into a successful business ecosystem. Overall, the results point to a strong agreement within the industry that there is a need to increase interaction and the infusion of new skills (i.e. collaborations within the industry and the development of an international network) to increase international growth.

The questionnaire gave us directional support on the following priorities of most urgent actions.

1. Create a joint program for starting and growing digital, international consumer-first businesses (e.g. collaborations projects, training, seminars).
2. Create a fashion event that attracts investors and media to Finland (e.g. in tandem with Slush).
3. Create a joint consumer/market insights project for understanding the potential of Finnish brands internationally (for example, with a focus on the opportunity for sustainable fashion in different markets).
4. Establish a collaboration network of (smaller[34]) businesses to jointly share experience and create international connections.
5. Create a mentoring platform where early stage entrepreneurs can get advice from more experienced entrepreneurs.

Although the sample is not representative of all actors within the ecosystem of fashion businesses, it is difficult to dispute the relevance of these actions.

Overcoming the identified bottlenecks will require long-term projects/programs. However, our recommendation is to start with these short-term actions in 2022-2023 and use these as a start for creating intersections between different players.

They will serve as platforms to define the more long-term orientations.

34 This specific reference to smaller businesses was inserted into the statement in the questionnaire, but after analysis, we suggest that the network must include companies of different sizes, although small and larger companies may have different needs.

OBSERVATIONS

This report has been very focused on fleshing out the bottlenecks and needed actions for international growth for fashion business in Finland.

To conclude, we raise some observations that we believe could be central in the future dialogue.

Self-fulfilling prophecies: The Finnish fashion industry should be careful not to fall for dangerous, potentially self-fulfilling prophecies, especially related to a common belief that Finnish actors are bad at marketing and sales. It is true that our strengths may lie in other areas, but Finnish fashion industry should keep in mind that all world-class competence is scarce. There are ways for Finnish fashion industry to address the marketing and sales talent scarcity by making concerted efforts to develop talents at home and branding Finnish fashion more systematically abroad.

Risk associated with circular/sustainability: The risk that we see is that Finland may in some cases have a skewed reading of the market. We may be relying on an overly technical and production-centric interpretation of what sustainable fashion is, or could be, from a consumer perspective.

It is likewise important to ensure that we are designing and producing sustainable offerings and responding to an identified international demand where sustainability alone will not create a competitive edge. Finland needs to acknowledge that what we call “sustainability” today is quickly becoming a basic requirement for new entrants across the fashion industry.

It is also difficult to imagine that Finland can position long-term on sustainability alone. We need to see sustainability as an enabler for different kinds of meaningful propositions in the market. It is likely that very few “non-sustainable” players will enter the global fashion market in the coming years.

Manufacturing: Throughout our discussions during the project, manufacturing and skills related to manufacturing came up many times as a quite specific weakness. Fashion brands are interested in nearshoring. More efficient production enabled by automation and robotization may be a solution to this[35].

35 https://cris.vtt.fi/ws/portalfiles/portal/52199670/Finland_as_a_forerunner_in_sustainable_and_knowledge_based_textile_industry_Roadmap_for_2035.pdf

In this report, we have not defined this as a bottleneck for international growth on an ecosystem level, but we do recognize its importance, and the benefits it could provide for the entire ecosystem.

Finnish design & culture: Finnish people feel proud of their heritage, Finnish design and culture. Despite this, it is surprisingly difficult for us to say which forward-looking and contemporary attributes drive demand for Finnish brands amongst international consumer. Or show how it fits or does not fit into the promise of Nordic design and culture. There is a need to continually progress and challenge how we think about Finnish design and culture. In the context of growth, there is also a need to take a more critical and dynamic outside-in perspective on what parts of our cultural promise have scalable business potential. It is also important to remember that differentiation in the global market does not require Finland to be completely different, but sufficiently different.

Creative vs. Analytical: In a new area of fashion, we would like to continue to highlight the need for creative and analytical skills to come together in ways that do not de-value each other. It is very important to find ways of showing respect across different skills and competences, and to recognize that the most successful businesses in the future will find ways to merge and integrate multiple mindsets.

Business vs. Culture: During the project, a recurring topic of discussion with the participants was what is or is not fashion, and whether fashion is culture or business.

In the context of this report, we assume that we can see fashion as business, a specific type of business, but still comparable to other types of creative business, such as gaming, for example.

SUMMARY

- The global fashion industry is in the grip of change that encompasses the whole value chain.
- There are five different forces that shape the future demand: Adaptability, Stability, Sustainability, Fashion-Tech and Multiplicity of Expression.
- Finnish fashion brands – existing and new – have an opportunity to tap into new high growth market opportunities.
- Finland has many strengths, but there is a lack of a concerted effort to significantly grow fashion brands in Finland.
- The project identified four bottlenecks:
  - Lack of interdisciplinary collaboration
  - Need to create more visibility for Finnish fashion business
  - Not enough fashion business concepts and associated funding
  - Fashion culturally undervalued by the Finns
- The recommendation is to form a targeted ecosystem for “new” fashion and begin this by kickstarting several actions aiming at a more collaborative and empowered business environment.
- The focus of the “new” fashion ecosystem should be to drive international growth. It could represent a new way to create an ecosystem in other sectors outside of fashion, as well, having as a starting point of changing international demand.

APPENDIX 1 METHOD & SCOPE OF THE WORK

This report is based on several different activities carried out during the autumn/ winter 2021.

Desk research and analysis of open source and proprietary data (Alice Labs data) has been used to develop an overview of the most important dynamics influencing B2C business now and in the future.

Interviews with representatives of companies and experts were held. All interviewees provided their own perspectives to the challenges and bottlenecks of the Finnish textile and fashion industry to grow.

A workshop was arranged on the 28th of October 2021 to identify key actions needed to overcome identified bottlenecks. Altogether 17 participants from Finnish B2C fashion and lifestyle companies were present.

A questionnaire was sent in November 2021 to Finnish Fashion & Textile members to further validate the importance and priorities of actions.

A steering group guided the work during 4 meetings during the autumn/winter of 2021. The steering group consisted of the following members:

- Marja-Liisa Niinikoski, Managing Director, Finnish Textile and Fashion
- Anne Ruokamo, Advisor, International Business and Funding, Finnish Textile and Fashion
- Petra Tarjanne, Ministerial Adviser, Ministry of Economic Affairs and Employment
- Anu-Katriina Perttunen, Chief Networking Officer, Creative Finland
- Kenneth Nyholm, Head of Creative Business Finland, Business Finland Oy
- Leena Arvonen, Network Lead, Business Finland Oy

Alice Labs Partners, a Finnish strategy consultancy with international experience in understanding emerging demand, and capabilities required to meet future demands have guided the project, conducted all the interviews, and also authored the report.

Oskar Korkman, Alice Labs Partners, Co-founder. Oskar is a market strategist and works with clients in Europe and US to develop new approaches to explore markets, strategies and business models for growth. Works with several of the most valuable brands in the world and with multi clients/ innovation systems (incl. non-profits, universities, innovation funds, associations) in Finland, UK and Canada.

Before co-founding Alice Labs partners, Oskar was Director of Consumer Intelligence at Nokia and Consumer evangelist at Microsoft, and has 15+ years of experience in global research as well as turning insights into business decisions. Oskar has a Masters in Education and a Ph.d. in marketing focused on ethnographic research and innovation.

Sharon Greene, Alice Labs Partners, Co-founder. Sharon was born in Ireland and educated in Ireland and France where she now lives. Sharon was a director of RISC International, a socio-culturally focused consumer behaviour and trends consultancy, assisting global companies in the design of consumer-led business strategies. Sharon has an International MBA from the EM School of Business Lyon France and a BA from the NCAD Dublin. Sharon has 15+ years of experience in conducting sociocultural research.

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