

SUSTAINABILITY MARKETING STRATEGY AND FINANCIAL PERFORMANCE OF AX GROUP

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Abstract – *In the business world, sustainable business is a well-known concept. It is a goal that should be pursued because businesses should not only benefit the people around them but also contribute to the environment and society. Sustainable business aims to create a positive impact on both the community and the natural world. The concept of sustainable business is considered suitable for the fashion industry due to the increasing understanding and concern of consumers about the future of the environment. Consumers are becoming more critical and want to know more details about the clothes and shoes they use. Therefore, sustainability is not just a concern for companies but also a marketing and business strategy aimed at long-term. AX Group is one of textile manufacturing business that has embraced the concept of sustainable marketing, considering the economic, social, and environmental aspects that can benefit long-term business growth. The implementation of sustainable marketing has a positive impact on the brand image of the company, which in turn influences customer satisfaction, trust, and loyalty which provides an increase in financial performance and long-term sustainability of the company. In this paper, we review and see how sustainable marketing considerations have grown and this research extensively reviews the literature in the field of sustainable marketing strategy and highlights AX Group that adopt sustainable marketing strategy are expected to generate more profits than firms that do not adopt the strategy.*

Keywords: *Marketing Strategy, Sustainable Marketing, Firm Performance*

I. THEORETICAL BACKGROUND AND HYPOTHESESTION

The apparel industry is one of the industries that influence a country's economy. It has different areas of production depending on the market demand in the region, clothing trends, the climate of the region and the availability of resources. The development of the clothing industry is also dynamic, with clothing trends changing every season and the emergence of advanced technology that can support production activities. Most apparel companies tend to focus only on the finished product, without understanding that the product is the result of a long chain of activities linked to technology that plays a role in the product's success in the marketplace. In the tough and highly competitive world of business, many entrepreneurs are looking for the right strategy to market their products. Differentiation strategy is a well-known marketing strategic today. It involves creating significant distinctions in products, services, or offerings to generate value for customers and establish a unique perception of the brand. This can lead to greater value as compared to other products and can foster customer loyalty. Sustainability is becoming one of the strategies that companies are using to differentiate fashion brands around the world. Today, people, especially in developed countries, are increasingly concerned about the origin of the things they wear: a piece of clothing, a pair of shoes they wear should be in line with the concept of "sustainable fashion". Based on an article

published in Indonesian media (2022), "Sustainable Fashion Can Be a Long-Term Business Opportunity" writes that according to a global survey in 2018, as many as 66% of millennials are willing to buy more clothes from sustainable brands, and as many as 69% pay attention to 'eco-friendly' and 'sustainable' branding claims when buying clothes. Fashion is not only about clothes anymore, it is also a lifestyle and an identity, fashion tells people to look the way they want to be seen. Consumers are becoming more aware of environmental and social issues. They have become more discerning and prefer "green" and "sustainable" brand claims in their clothing purchases. (Chin, Lawi, Sulaiman, Mas'od, & Muharam, 2019) explains the importance of green brand positioning for companies, namely so that companies can position brands in the minds of consumers to survive in the green product market. Supporting this, (Huang, Yang, & Wang, 2014) explains that consumer expectations regarding the value of the product must be met because green brand positioning is an attribute of green products which are environmentally friendly and provide significant value to consumers. This commitment has begun to influence textile industry players, major retailers and local brands to shift their business models towards sustainability, as a key brand marketing strategy. Experts in economics, management science and, in particular, marketing have long been interested in, and recognised the importance of, running a profitable business while also addressing societal and environmental concerns. However, the level of existing literature, particularly the availability of teaching cases, reflects a limited number of real case studies, particularly those focusing on marketing for social good. Although experts recognise the important role of sustainable marketing, real case studies, especially those focusing on marketing issues related to societal and environmental concerns, are few and far between. This case study book fills this gap, the objectives of this paper are to contribute to the sustainability literature in the apparel sector with review and see how AX Group is one of the textile manufacturing company that adopt sustainable marketing strategy are expected to impact positively on the company's performance.

II. METHODS

The conceptual model linking the relationship between sustainable marketing, which includes green product, green price, green distribution, green people, green process and green promotion, and the implication of both financial and non-financial firm performance, is shown in Figure 1.

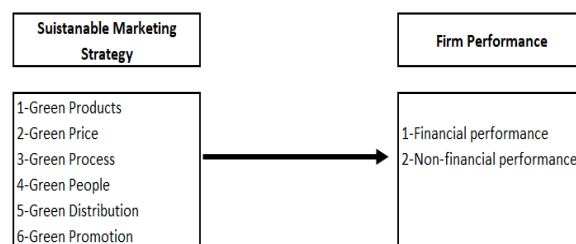


Figure 1. Proposed conceptual model

III. RESULTS AND DISCUSSION

Green Product

A product could be described as "green" if its production process is environmentally friendly and less damaging to the environment. Every company has a responsibility to reduce the environmental impact of its production process. production process. The raw materials used in the product must be environmentally friendly. natural resources. The AX Group has already implemented a green product that uses 100% recycled raw materials in compliance with environmental safety standards, and are certified by organizations such as the Global Recycle Standard (GRS) and the Forest Stewardship Council (FSC) since 2019. In this context, The AX Group are continuously designing and producing greener products and promoting these products along with their brand image by communicating their green credentials to customers through various channels. "Eco-labelling is an effective

approach to informing customers about how green the company's products are.

Green Pricing

Green pricing practices consider both the economic and environmental costs of production and marketing, while providing value to customers and a fair profit to the company (Martin & Schouten, 2014). The AX Group implements tactics to offset cost increases for raw materials, such as raising sales prices or re-engineering its products. Additionally, it maintains the ability to keep sales prices steady if costs for raw materials decrease.

Green Process

The AX group implement green process with produce a majority of its self-adhesive materials using water-based emulsion and hot-melt adhesive technologies. A portion of AX group manufacturing process for self-adhesive materials utilizes organic solvents, which, unless controlled, could be emitted into the atmosphere or contaminate soil or groundwater. Emissions from these operations contain small amounts of volatile organic compounds, which are regulated by federal, state, local and foreign governments. The AX group continue to evaluate the use of alternative materials and technologies to minimize these emissions. In connection with the maintenance and acquisition of certain manufacturing equipment, they invest in solvent capture and control units to assist in regulating these emissions. Company has developed adhesives and adhesive processing systems that minimize the use of solvents. Emulsion adhesives, hot melt adhesives and solvent-free and emulsion silicone systems have been installed in many of their facilities.

Green People

Companies must empower managers and employees with both technical skills and a strong belief in environmental stewardship to ensure an organization-wide commitment to the green marketing philosophy. Additionally, companies should provide their employees with all the necessary tools to promote green marketing principles comprehensively. The development of green products demands a significant level of creativity. Group AX

upgraded their professional-level onboarding process, expanded digital access for remote and manufacturing employees, encouraged the continuous growth of their employee resource groups (ERGs), improved their flexible work arrangements, expanded and updated their annual pay equity review process, supported talent development programming, and matured their enterprise leader-development program.

Green distribution refers to the selection of channels in a way that minimizes environmental damage, The AX Group companies are expanding a recycling program based on the collection and recycling of used label materials by customers. The program streamlines recycling for converters and brands by providing a one-stop solution. Customers use this online web application to schedule pick-ups of used materials, and The AX Group manages the rest, such as transportation, recycling, paperwork and regulatory compliance.

Green Marketing

Green marketing also includes the promotion of a company's material. Sales promotion, direct marketing, public marketing, public relations and advertising are some of the means of communicating the core message of green to customers. The latter two approaches are the most widely used platforms for communicating a company's green for communicating a company's green credentials. Going green, which aims to bridge the gap between business and community, may sometimes require a major public relations initiative. In addition, The AX Group has developed a digital platform for a digital care-label solution that replaces physical labels with QR codes. By scanning the code, customers can access information about the location of manufacture of the fashion product, details about the usage of raw materials and the company's approach to recycling waste or unused products.

Firm performance

Most companies are looking for ways to improve their performance. The winning card can be held by those who strive to innovate, to achieve and sustain performance. To compete in an ever-changing environment, it is very important to understand and monitor performance. (Germain, Dröge, & Christensen,

2001) classified performance control into two types: internal performance, relating to issues such as cost, product quality and profit levels; and benchmark performance, comparing cost, quality, customer satisfaction and operations against a standard (i.e., industry norm, leader practices). (Maltz, Shenhar, & Reilly, 2003) proposed five performance indexes for evaluating company performance, to take advantage of both financial and non-financial measures, namely, financial performance, market/customer, process, people development, and future. Marketing literature shows the benefits of green initiatives, such as increased financial profits and market share, high employee commitment, improved business performance and enhanced capabilities. Environmentally responsible actions also improve customer satisfaction and shareholder value, which in turn increases company valuations. In particularly, green companies can quickly recover the financial costs of green efforts through energy efficiency and waste reduction.

The AX Group believes that achieving financial performance between 2019 and 2021 was positively impacted by the implementation of sustainable marketing.

The AX Group Financial performance:

(In millions, except percentages)	2021	2020	2019
Net sales	\$8,408.3	\$6,971.5	\$7,070.1
Cost of products sold	6,095.5	5,048.2	5,166.0
Gross profit	2,312.8	1,923.3	1,904.1
Marketing, general and administrative expense	1,248.5	1,060.5	1,080.4
Other expense (income), net	5.6	53.6	53.2
Interest expense	70.2	70.0	75.8
Other non-operating expense (income), net	(4.1)	1.9	445.2
Income before taxes	\$ 992.6	\$ 737.3	\$ 249.5
Gross profit margin	27.5%	27.6%	26.9%

Figure 2. Financial performance Group AX period 2019 – 2021

Reported net sales of \$8.41 billion, up ~21%, reflecting volume growth across AX Group’s businesses and recovery from the prior-year impact of COVID-19, Gross profit margin in 2021 decreased slightly compared to 2020 and increased 0.60% compared to 2019.



Figure 3. EPS & Net Cashflow Group AX period 2019 – 2021

Reported earnings per share (EPS) increased ~34% from \$6.61 in 2020 to \$8.83 in 2021, in part due to the prior-year impact of COVID-19. With reported net cash provided by operating activities of \$1,046.8 million, delivered record free cash flow of \$797.7 million, \$250+ million higher than 2020

The AX Group Financial nonperformance:

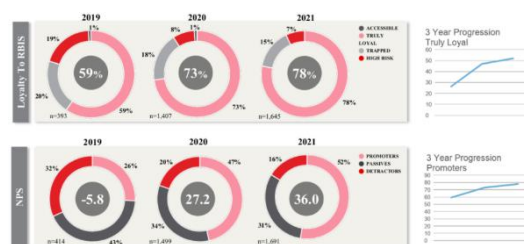


Figure 4. Customer Loyalty and NPS Group AX period 2019 – 2021

As per result customer survey during period 2019 – 2021 shown that loyalty customer to AX group 78% in 2021 increase vs yr. 2020 and 2019, NPS (Net Promoter Score) 36 increase vs yr. 2020 and 2019.

IV. CONCLUSION

This research highlights the importance of sustainable marketing activities for The AX Group and demonstrates that a company's brand image and consumer loyalty can be strengthened through sustainable marketing efforts. This paper reviews and highlights company strategy, which adopts a sustainability marketing strategy covering green products, green pricing, green process, green distribution,

green people, and green promotion. The results suggest that such strategies can generate greater profits, positively affect both the financial and non-financial performance of firms compared to before adopt such practices. This paper is expected to contribute to the existing literature that focuses on green marketing strategy and financial and non-financial performance of firms.

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