WWD

SPEED TO MARKET & CONSUMER INSIGHTS

SPECIAL REPORT

fall 2017

Today, we see a unique disruption underway in the fashion apparel, accessories, and beauty markets, with change happening at a speed and scale not yet experienced. A confluence of factors has up-ended the status quo, forcing brands and retailers to re-think strategies and to make investments in technologies to meet the new demands of consumers.

First, the world is changing. Globalization has meant that information and trends are spreading faster – and to farther corners of the world – than ever before. Volatility and increasing uncertainty is creating greater risk around business decisions—from shifts in FX to trade agreements. Moreover, the digital revolution has led to a new paradigm between businesses and consumers, changing consumer behaviors and expectations when it comes to the B2C experience.

Out of this, a new consumer is emerging, with a number of defining characteristics relevant for retailers, as society ages and millennials enter the consumer class. Consumers are demanding quick, consistent interactions across the shopping journey (e.g., product selection, checkout, payment, delivery, and support), and expect seamless experiences across channels. Consumers have more options than ever before, and are researching in an omni-channel way before making choices. They are also swamped with messages and offerings, and expect brands to cater to their individual needs and provide offers that are relevant.

Moreover, they expect a deeper connection with brands, and search authenticity and meaning with their purchases. Finally, consumers are more closely connected with others than ever before, with more than 3.7 billion people on at least one social media platform today, and engage in a dialog with brands and other consumers through reviews or social media posts.

At the same time, the fashion apparel, accessories, and beauty markets are facing a changing ecosystem. Competition has increased with the internationalization of successful players, and fast paced growth from small and emerging brands. The distribution landscape is also changing, with physical retail fighting for footfall, traditional multi-brand retail and department stores losing share, and fast growing online pure-play retailers are leading the pack. Moreover, new business models are emerging and being accepted by consumers, like consumer-to-consumer platforms and rental and subscription models, stealing share of wallet. At the same time, market growth has significantly slowed since the early 2010s, while the pace of fashion and trend adoption has accelerated.

In this context, brands and retailers are facing immense pressure to both sales and profitability. Inventories are on the rise, sourcing costs are up, promotional pressure is at an all-time high, and store economics have reached a bottom.

Over the past two months, WWD surveyed approximately 100 fashion apparel industry executives, which included asking senior-level decision makers about technologies deployed and relationships with vendor partners.

WWD also interviewed industry executives who participated in the survey to gain a deeper perspective into their strategies and tactics as well as their views on the market. Larry Grischow, senior vice president of supply chain and procurement at Abercrombie & Fitch, acknowledged that the fashion apparel space has been transformed rapidly by changes in consumer behavior, saying "Getting customers, delivering an experience and product to customers the way they want it, where they want it certainly has elevated the game, and has made it more complex."

OKSANA SHUFRYCH / SHUTTERSTOCK

Results and findings based on a 2017 WWD survey of 100 fashion apparel industry executives.

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>
> - Larry Grischow, Abercrombie & Fitch

FINDINGS

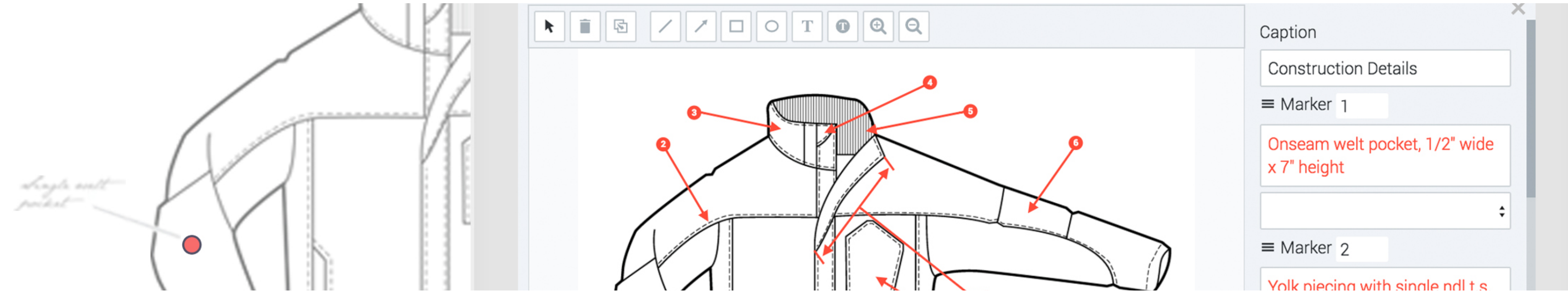
Overall, survey results revealed that many brands are still working with very long product development and supply chain lead times and limited digitization throughout the process, limiting the degree of flexibility that is feasible. Insights are being used, but most often from traditional sources (e.g., in-store analytics, web analytics), with fewer playing in more advanced techniques (e.g., predictive analytics, big data analytics). Moreover, long lead times prevent insights from being fully utilized given decisions need to be made well in advance.

However, industry executives rank supply chain improvements, investments in related technologies and capturing consumer insights as a high priority in their business today. Eighty percent of C-level executives see the role of consumer insights as critical to decision-making in their business today, while 64% rate improving speed to market and supply chain efficiency as a top priority (with 17% ranking it the business's highest priority).

As executives think about their investment dollars as it relates to speed to market and consumer insights, there are three levers that can be pulled to deliver impact:

- First, acquiring data, creating a unified systems infrastructure, and visualizing the data in an easy-to-understand way.
- Second, wiring the insights into the business, starting small and ensuring they are used in a focused, actionable way tied to specific decisions being made.
- Third, focusing on speed enablers to get products to market as fast as possible in an economical way, including segmenting the supply chain to ensure lead times for given products fit business needs and priorities, building testing capabilities for product ideas with the most uncertainty to reduce the level of risk, and assessing where digitization can plug in to further speed the process up.

Results and findings based on a 2017 WWD survey of 100 fashion apparel industry executives.



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DETAILS

Eighty percent of respondents described the role of consumer insights as key to their brand's decision-making functions. One respondent described itself as a small company, "but we try to analyze everything that we have to help us better address the customer desires and responses." With the explosion of data sources available, the first challenge is to create a unified 360-degree view of the consumer as well as consistent data sets.

Oftentimes this starts with web analytics, with 19% of respondents reporting they use this in decision-making today. "Knowing this business, people don't have large teams to do [data analytics, like] Google or Amazon, or Facebook. With eCommerce, it's something very digestible, so ... eCommerce [is] a channel of truly direct feedback and that's where we get the best criticism, or the best comments, or the best feedback," said Ari Hoffman, U.S. chief executive officer at Scotch & Soda.

One fashion designer with three decades of experience who sells products at major department stores as well as via e-commerce told WWD that her "website is the best place to garner feedback from shoppers" and when coupled with data on consumers and what they're buying, "it creates insights that you can act on."

"At the heart of fashion apparel is meeting the emotional needs of consumers," she added. "But to do that, you need the data and the technology to act on it. Which is also why CRM plays such an important role."

Beyond web analytics, companies are increasingly seeking out new sources of data to inform decision-making—from internal sell-through data attributed at more detailed levels than before (e.g., style / trim / color / print / fabric), to consumer feedback, web searches, and CRM data, to newer sources of external data (e.g., social media, web scraping) and market research. Enabling this is an integrated, unified systems infrastructure that enables the user to slice and dice at different levels to easily understand what's working—and what's not—and where there might be white space. However, data consolidation is often the most challenging part, with multiple sources, formats, and tags, making it difficult to create a unified view of what is going on.

By way of solution, Nathalie Remy, Partner at McKinsey & Company, Inc. has developed a tool called "Rapid Design 2 Consumer" to help brands and retailers make better informed decisions. She acknowledges that today's retail market is challenging, but without data and consumer insights along with a clear strategy, "companies will turn into followers instead of leaders."

Remy said Rapid Design 2 Consumer "helps to consolidate multiple sources of data and highlight the resulting insights to pay attention to. The development of the tool is based on feedback from our clients – who acknowledge this is a real challenge for them."

The Rapid Design 2 Consumer tool starts by getting brands and retailers to answer key questions about a product, for example: "Should we offer more bomber jackets?" That question then triggers a series of outputs about the category such as sales trends, search trends, growth, competition and markdowns in the segment – which leads to a better-informed decision-making process.

"The focus of the tool is to help in-line planning, collection design and development as well as assortment planning," Remy said.

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With data and technology, Scotch & Soda's Hoffman said it should be deployed strategically while always prioritizing products. "There's so much talk about big data and about all kinds of tools. And sometimes I think it gets a little bit too tricky," Hoffman said. "Sometimes people put too much emphasis to some parts of technology and they forget about actually what you're trying to sell. Is technology important? Absolutely. Product is first, though."

Still, data – such as predictive modeling and analytics – can help brands and retailers develop products that resonate with consumers. These technologies allow brands and retailers to push price points up, which results in better margins.

At a WWD presentation earlier this year, David J. Katz, executive vice president and chief marketing officer of Randa Accessories, touted the benefits of predictive analytics. Katz told attendees that the department store segment is suffering from a lack of differentiation — at least in the minds of consumers. Moreover, there's an "overall malaise" in the segment, and he noted that much of it has to do with not offering shoppers a chance for "discovery and delight."

Katz said the current market requires data-informed consumer insights and a strategic direction. "You can't navigate tomorrow's landscape with yesterday's map. We need new maps," he said adding that product rate failures were over 60 percent across the market. Katz said his company, founded in 1910, is the largest in offering men's accessories, which includes being the number-one belt vendor to Nordstrom and Wal-Mart Stores Inc. Randa Accessories are also produced for Guess, Levi Strauss & Co., Anne Klein and Nine West as well as Cole Haan and Columbia, among many others. Katz said it's a "full market," where the company "can't gain any more share."

Subsequently, Randa's solution was to use data to help bring products to market that consumers are compelled to buy. Using predictive analytics that is augmented with qualitative and POS data, Randa has been able to bolster price points and margins, Katz said. Although he did not share specific numbers, he described the gains as "significant."

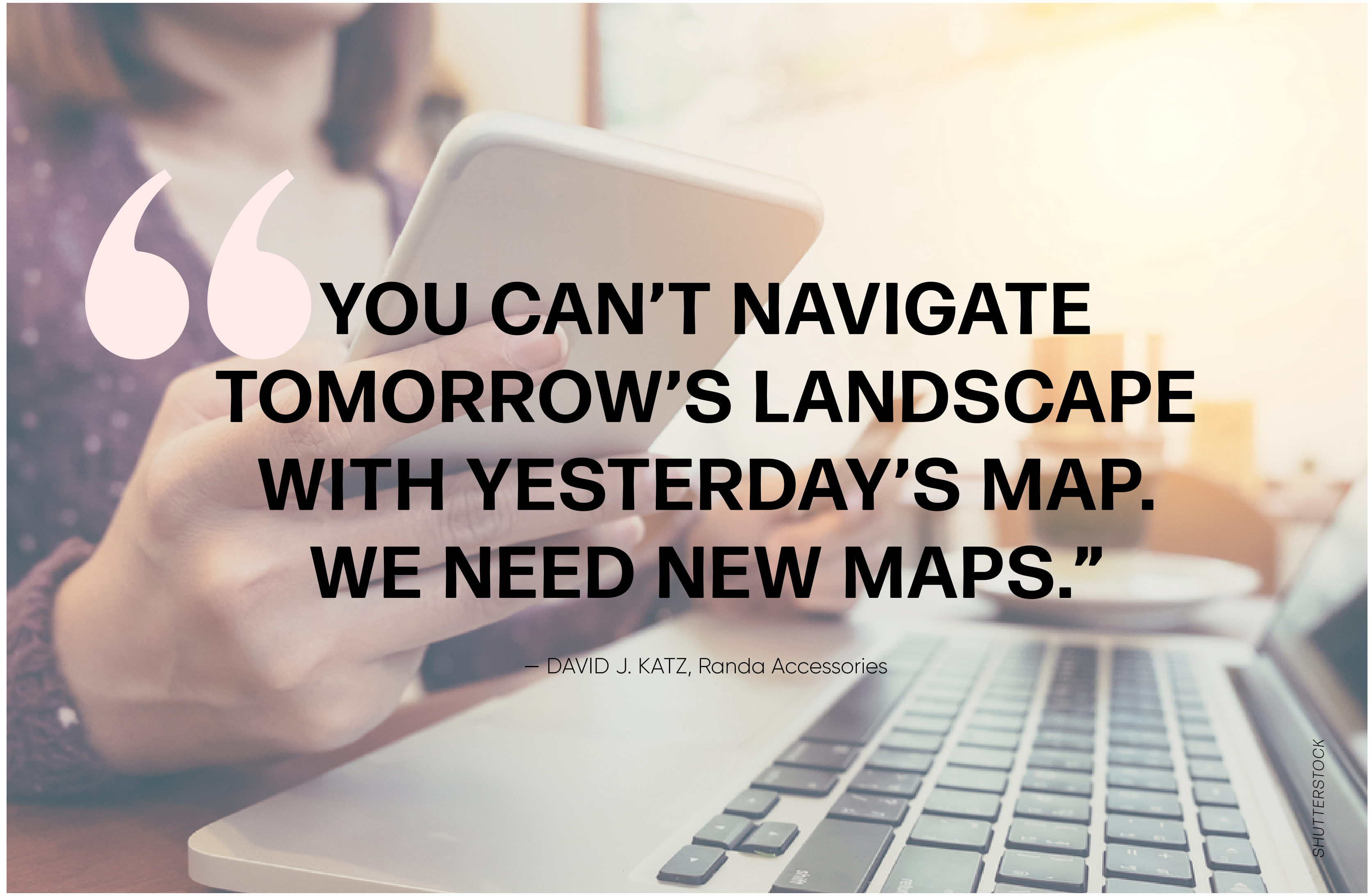

EXHIBIT 1.

HOW WOULD YOU DESCRIBE the role consumer insights and analytics play into key decisions across company functions?

Just as important as gathering the data and deriving insights is making sure the insights are actionable to the business, and as such are tied to specific decisions within the business. Oftentimes the amount of data available can be overwhelming to business users.

The breadth of applications from data and insights into product decision-making are broad, from more informed product development and design, to sharper forecasting and better downstream inventory management. For example, StitchFix is using consumer insights-driven algorithms to design new clothes, while Victoria's Secret runs panties on a speed program to be able to read initial sales results for test products in store and be back in-stock in 15 to 25 days.

With that being said, it's critical to balance the insights coming from the consumer with the point of view of the brand to ensure brand identity is not lost with a fickle consumer. Guy Sommerhalder, Chief Operating Officer at John Varvatos said striking that balance is key and companies require brands to "leverage the data while still remaining who you are. You have to have that point of view, that DNA, otherwise you become a weaker brand."

"As to adjusting the seasonal to trends or inputs, you have to stick to who you are, but at the same time inject some of those insights," Sommerhalder said adding that it's a difficult and complicated process. But it is a necessary evolution given current market conditions, he said.
Neil Tenzer, head of strategic planning at Abercrombie & Fitch, agreed and said focusing and investing in technology and insights shouldn't be done at the expense of the brand. Tenzer told WWD there are retailers and brands in the market have become adept at speed – getting products to consumers quickly, cheaply and efficiently. "[But] we don't see a whole lot of players out there who can create a really rich brand experience. So there's an opportunity for us to play a role there."

For players incorporating consumer insights into their decision-making for the first time, it helps to start small, with a focus on applying insights to specific business decisions, and to bring analytics, customer research, social monitoring, and similar functions to the table at once to eliminate competing recommendations and get to the best answer for the business.

Jennifer Schmidt, Senior Partner at McKinsey & Company, said companies are adapting and making changes in regard to improving speed to market and leveraging consumer insights, but it is taking time. "Brands and retailers are figuring it out, but with the supply chain many are still tethered to a single model – and it is a model that results in long lead times."

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— JENNIFER SCHMIDT, McKinsey & Company

Schmidt and Remy both said data segmentation helps companies deploy product segmentation strategies, which involves brands and retailers offering seasonal and trend-right fashions while also maintaining a core of basics. In a research interview, an executive from an international apparel retailer said for his company, product segmentation means offering "fast fashion" on a short lead-time while the brand's basics business can take months. He also said his company is using more than one calendar.

"We have four calendars," he told WWD. "We categorize it: large circuit, medium circuit, short circuit, and extra large circuit." The shorter circuits are the in-season, trend-forward apparel collections with short lead times while the longer circuits include apparel basics with long lead times – "up to seven months," he noted.

"The trick here is figuring out how much are you able to do in each circuit?" he said. "It's quite easy to purchase something that is valued on design, and you buy from someone else – and it's a very small quantity of 2,000 units. To do something in those short circuits is very easy. For me, the real hurdle is how much of that [fast fashion] are you doing? How much of your volume is on the short side of the spectrum, and how much is on the medium, and the large?" For his part, he said the brand focuses on the longer lead times with basics because it allows the company more control over the product development.

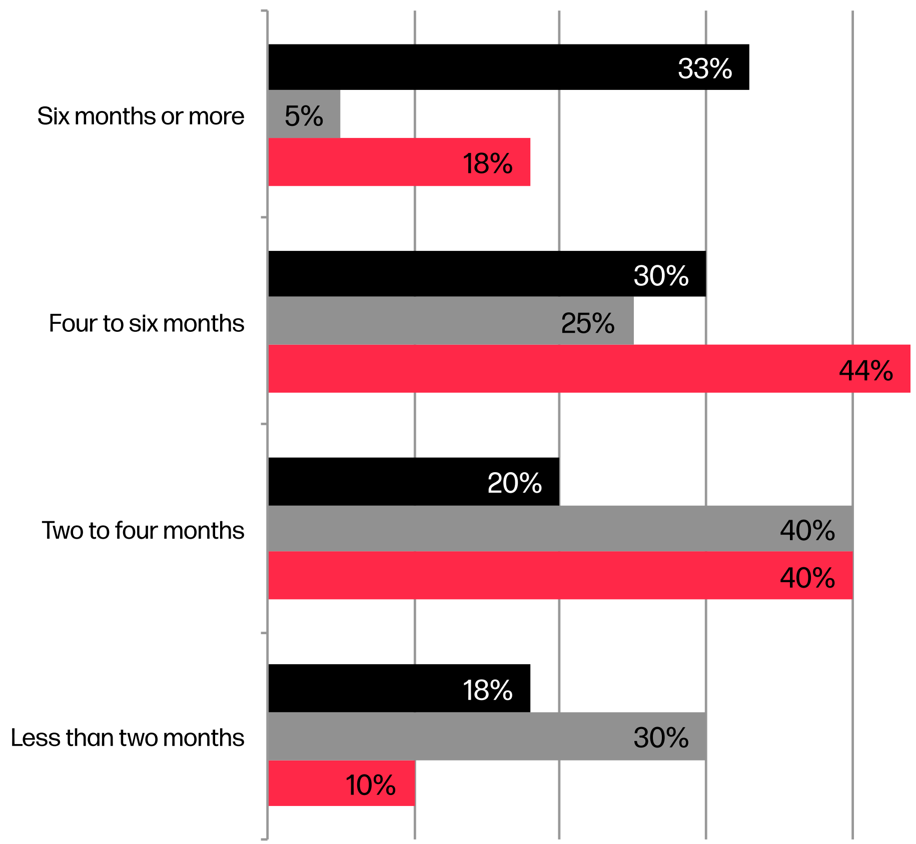
Schmidt said companies have spent a lot of time optimizing for cost. But consumer demands are now forcing brands and retailers to "optimize for speed."

Finally, Schmidt and Remy note that the current supply chain as its stands is a rigid, inefficient and costly process for many companies. The challenge is that long lead times are also often preventing insights from being fully utilized given product decisions need to be made well in advance before they arrive on shelf.

And as shoppers embrace the "See Now, Buy Now" trend while also flocking to fast fashion brands such as H&M and Zara for apparel as well as accessories, the majority of respondents note that the product development calendar – from initial design to products showing up on shelves – run longer than a year, preventing sell-through data from previous collections from informing the buys for the next season. This reveals an intentional approach in avoiding the fast fashion treadmill, as the global apparel brand previously noted.

Still, executives report reducing long lead times is a top priority.

EXHIBIT 2.



Q1 Typically, how long is your product development time for your seasonal collection (from initial design to creation of samples to showroom preparation)?

Q2 How long does the sell-in process typically take for your seasonal collection (from start of market to purchase orders placed)?

Q3 How long are lead times for final production for your seasonal collection (from purchase orders received to ex-factory date)?

Results and findings based on a 2017 WWD survey of 100 fashion apparel industry executives.

GIOVANNI GIANNONI/WWD

Stephan Schambach, a pioneer of e-commerce who launched Intershop and Demandware, and now leading NewStore, penned a bylined column in WWD that noted the importance of "See Now, Buy Now" and fast fashion. "In today's economy, people want their goods right now," Schambach wrote. "Like shoppers everywhere, high-fashion customers live in a state of constant connection. Even at a runway show, they compare and review clothing online as the model wearing it swishes past.

Recent high-profile runway shows from brands like Diane von Furstenberg, Rebecca Minkoff and Tory Burch have answered the call for a much shorter delay between demonstration and delivery. Their buy-now-wear-now tactic demonstrates that consumers are no longer content to wait four to six months for designs to arrive in-store."

There are a number of levers that are being pulled to speed up and make more flexible the supply chain, including introducing new technologies, closely partnering with vendors, re-shoring production, and investing in training teams to embrace new speed tools and mindsets.

"You also need to collaborate with suppliers and create a supplier base that also can react quickly," Schmidt said. Remy and Schmidt said the most important change also comes from within an organization. Again, this presents its own set of challenges and requires an internal cultural shift of a retailer or brand. The executive from the global fashion apparel brand said his company is "still in a stage – and this is true across the fashion industry – where data is something that is not used in the creation process, because the creation process is perceived as an art."

This perspective may also explain why adoption rates in the survey varied: some companies may be more adept at using data and consumer insights than others.

Meanwhile, competitive market pressures continue to mount as brands and retailers reconcile the creative side of their business with the data-driven supply side, there are a number of fast fashion firms along with traditional fashion apparel brands that are continuing to make supply chain improvements and investments.

This past summer, for example, Hennes & Mauritz AB said it was hoping to return to higher levels of top-line growth via improved cost controls as well as investments in omni-channel capabilities and its supply chain.

During a call with journalists and analysts, Chief Executive Officer Karl-Johan Persson said the H&M group "has invested heavily for a number of years to build a digital infrastructure based on the latest technology in order to secure long-term growth."

Persson described the investments as "costly but necessary." And currently, the focus has been on integrating a faster and more efficient – and flexible – supply chain, the retailer noted. This includes developing new logistics hubs and turning to automated solutions as well as sourcing products closer to market.

And it's not only fast fashion brands that are looking to get faster. Earlier this year, PVH Corp. teamed up with Li & Fung to develop a "supply chain of the future." Details were not fully disclosed, but the companies said new technologies will play a pivotal role. The biggest change is having Li & Fung source a majority of products.

On the mass market retail side, Target Corp. has made a commitment to improve its entire supply chain – from apparel and accessories to home goods and consumer staples. Brian C. Cornell, Chairman and Chief Executive Officer of Target Corp. told investors during the company's second quarter earnings call this past August that it was on a "multiyear journey" aimed at "completely transforming our supply chain from end-to-end."

Schmidt expects more initiatives such as Target's to be launched at retail. She noted that the current infrastructure of distribution centers and retail warehouses adds "another two to three weeks" to lead times for apparel. "So this will also need to be figured out," she added.

So, it's clear that with speed to market, technology plays a key role. Coupled with consumer data, technology can get products that shoppers want, quicker. When asked about the level of digitalization used in the product development process such as 3-D sampling and virtual reality, 35% of respondents have not adopted any level of digitization. However, this appears ripe for change. In other product sectors, companies such as PTC are deploying virtual reality headsets that couple with their PLM software platforms to help companies improve their product development capabilities.

With 3-D virtual sampling, the technology for use in apparel has been around for over a decade. Larger brands such as Nike, Adidas, Under Armour and V.F. Corp. have adopted its use and vendors such as PTC offer the platforms. For example, implications of digitizing sampling are to cut immense time out of the process, removing need for physical samples throughout the product development process while ensuring design intent is communicated more clearly with vendors.

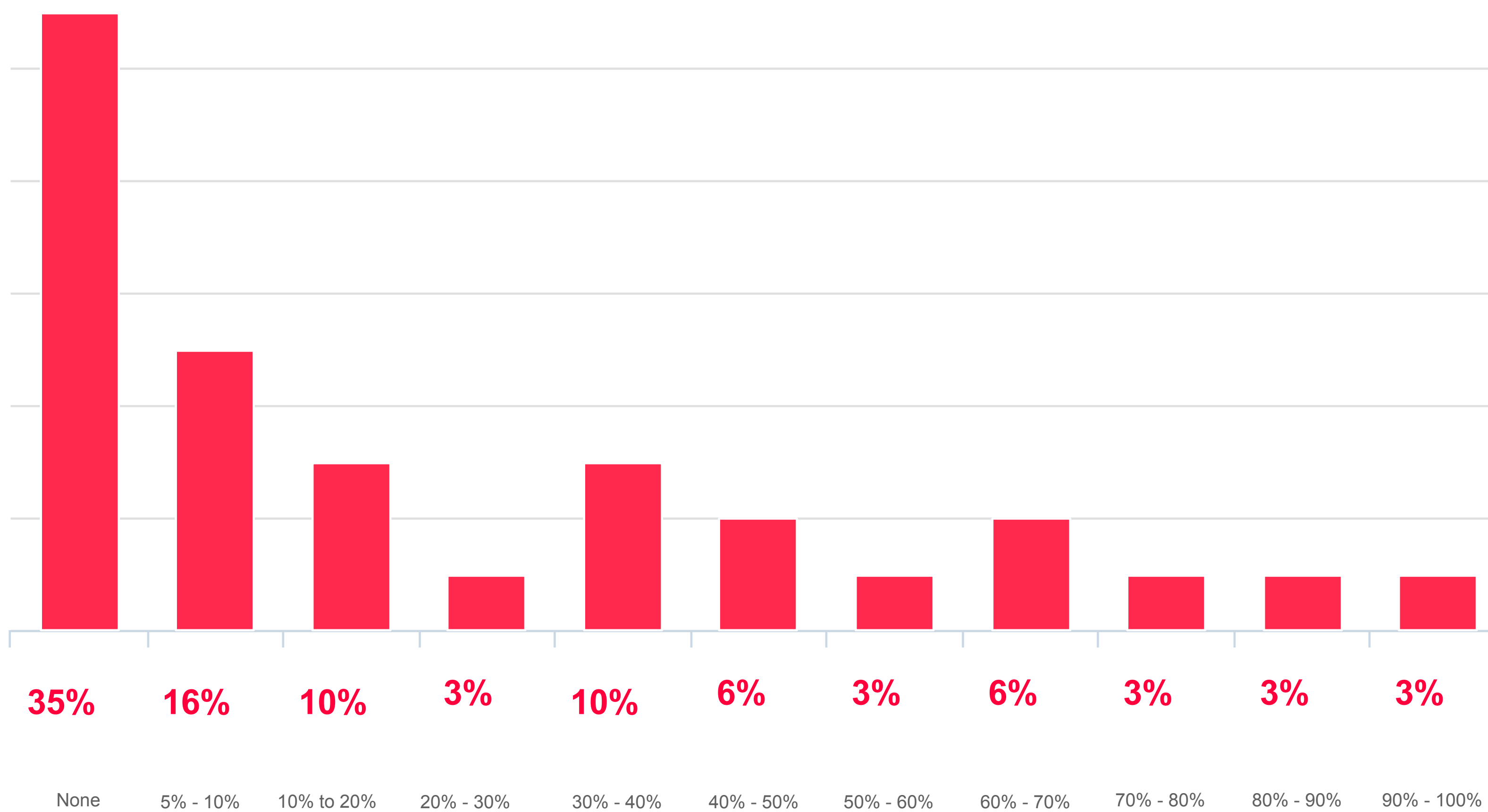
Results and findings based on a 2017 WWD survey of 100 fashion apparel industry executives.

What level of digitization are you currently using in your product development process (such as 3D sampling, virtual/augmented reality, etc)?

Survey respondents noted that limitations to implementing new technologies included high cost (33%), a lack of integration capabilities (22%) and insufficient staff training (19%). With the issue of integration, legacy systems that have been “frankensteined” over the years have made adopting and integrating new technologies challenging. What’s revealing is that while respondents say improving supply chain efficiencies is a top or high priority (32 and 29 percent, respectively), the level of their company’s commitment to invest in technologies is lower on the priority list (only 7% reporting it being the top priority).

As the market experiences its current transformation, companies are finding that forging partnerships is essential to navigating any turbulence. The collaborative nature of fashion apparel retailers, brands and vendors is noteworthy and provides a foundation for achieving speed to market. Over 70% of respondents said that the degree of sharing with vendors was done on a regular basis.

EXHIBIT 3.



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How would you describe the current level of partnership between you and your vendor and retailer partners – on the topics of speed to market and consumer insights?

What degree of sharing occurs between your company and your vendor and retail partners?

But collaboration is also important as an internal function of a brand or retailer. As companies are forced to pivot to market demands, internal barriers must be removed as well as silos. And this means clear communication and collaboration across the entire product development process – from reading consumer insights to initial product design and/or sourcing to POS. This includes close collaboration with wholesale partners and distributors, who also need to embrace speed in order to make the end-to-end process work.

Sommerhalder said the designer brand's culture is a bit of a mix: a little bit of Google and Facebook with a lot of entrepreneurial spirit, which he said is "key in terms of organizing and managing an organization." "We have to keep being nimble and being agile, and reactive to do different trends, but at the same time as an organization there needs to be accountability," he noted.

Any investments in improving the supply chain and insights process must be paired with sufficient focus on change management to ensure the company culture is collaborative and intensely focused on speed and agility. Moreover, team members often need to learn new processes and skill-sets, which is difficult and needs investment to ensure the learnings stick. Critical to making all of this work is a speed mindset where calendars and roles and responsibilities are highly visible to everyone within the organization, and hand-offs are adhered to.

EXHIBIT 5.

How would you best describe the overall culture and level of collaboration within your organization?

54% said

We operate in an open, creative and highly collaborative environment, but one where there are clear roles and accountability. We're willing to try new approaches because the market demands it. We like to see ourselves as a perennial start-up.

6% said

We're like Google. Good ideas can come from anywhere within the organization, and new collaborations are born daily and can involve many people. We don't have a corporate headquarters, we have a campus. And are learning all the time.

29% said

Big decisions are executed across the organization and can involve many teams working together. We collectively own our mistakes, and learn from it. We're kinda like Facebook in many ways.

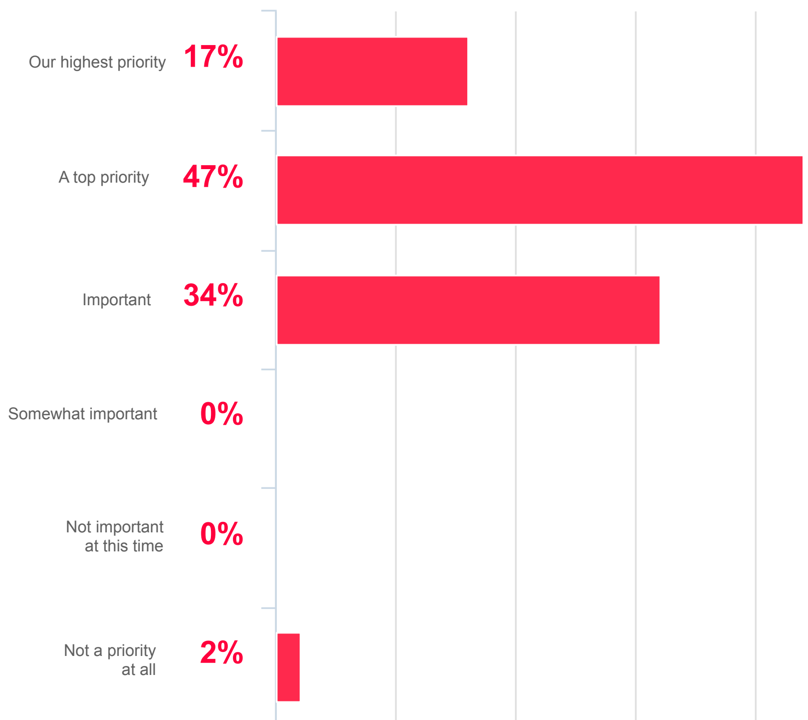
8% said

The end-consumer and meeting their needs is at the heart of what we do every day. Big decisions and collaborations are always executed and structured with this in mind. We're like Amazon.

Results and findings based on a 2017 WWD survey of 100 fashion apparel industry executives.

EXHIBIT 6..

The level of our company's commitment to improving speed to market and supply chain efficiencies is:



CONCLUSION

Retail's current transformation is being driven by seismic changes in consumer behavior, shopping preferences and expectations. Retailers and brands have responded to these changes, which require faster lead times. But more needs to be done. Specifically, retailers and brands need to leverage consumer data and insights – and embed it into the organization structure of their business.

This means reconciliation of the creative and product development side of the business with the data science and technology side. And the clock is ticking as fast fashion and traditional fashion brands lead the way with investments aimed at creating more efficient and speedier supply chains that can react to the ever-changing demands of today's consumer.

KIKOVIC / SHUTTERSTOCK