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# EXECUTIVE GUIDE TO ACHIEVING FASTER PRODUCT DEVELOPMENT

## How apparel retailers can benefit from integrating Assortment Planning and Product Lifecycle Management

# Executive summary

This document is for fashion apparel retailers who develop their own products. It suggests that such retailers can achieve big benefits by developing fashion products faster. It recommends that they do so by better integrating their processes for Assortment Planning and Product Lifecycle Management (or PLM). By accelerating product development, these retailers can increase revenue, reduce uncertainty and risk, reduce operating cost, and increase profit.

Many fashion apparel retailers feel pressure from multiple directions:

- Customers want current fashion choices at attractive prices.
- Retailers need ways to grow revenue and differentiate their brand.
- Retailers must generate solid margins.

Retailers can relieve some of these pressures by developing their own products. Differentiated products can increase revenue, reduce price competition, increase customer loyalty, and strengthen a retail brand.

But internal product development generates its own pressures. Long product-development cycles increase business risk and uncertainty. The costs of sourcing, manufacturing, and delivering finished goods increase unless they're tightly controlled and closely monitored.

Shorter product-development cycles can reduce operating costs and enable higher product margins at prices customers will pay. In addition, shorter cycles make retailers more agile in meeting fast-changing customer expectations.

Fashion retailers can shorten product-development cycles in a variety of ways. So why focus now on integrating Assortment Planning and PLM?

We at Columbus Consulting International see three main reasons:

- **The opportunity is big.** Integration of Assortment Planning and PLM can help reduce cycle times by 10% to 30%.
- **The opportunity is available to many.** Until now, leading industry analysts and consulting firms have been mostly silent on the benefits of integrating Assortment Planning and PLM. Because relatively few fashion retailers have done it, the opportunity remains open to most. Progressive retailers have already explored and exhausted the more obvious alternatives such as optimizing supply chains and manufacturing processes or expediting production scheduling.
- **Retailers can integrate Assortment Planning and PLM without herculean effort.** Integration of Assortment Planning and PLM is largely a matter of establishing better visibility and collaboration. It may also require changes to software, internal organization, and company culture. The project may be big, but it's not huge.

In a product-development process where Assortment Planning and PLM are well integrated, the financial plan drives creation of an assortment plan. The financial and assortment plans then drive creation of a line plan. With the design roadmap established, designers use PLM processes and systems to build the styles. This integrated process focuses everyone on the same goals.

Successful integration of Assortment Planning and PLM eliminates tasks that are unnecessary or that don't add value. Planners and designers can pool quantitative analysis with more creative, intuitive thinking. Merchandisers and designers share not only data, but also images of products and their components. The integrated process keeps design esthetics at the forefront while also strengthening the disciplines of financial management and calendar management.

# Introduction

This document has three purposes:

- To draw attention to the benefits fashion apparel retailers can achieve by shortening long product-development lead times.
- To explain opportunities for shortening lead times by integrating the business processes of Assortment Planning and Product Lifecycle Management.
- To explain briefly the level of commitment retailers should expect to make to integrate Assortment Planning and PLM.

The content of this document applies mainly to apparel retailers who operate multi-store units in multiple locations.

# Contents

# Uncertainty, risk, and cost in product development

## Soft demand squeezes selling prices and product-development costs

At the time of this writing, the economies of many developed Western countries are growing slowly, and unemployment rates are relatively high.

To stimulate demand, retailers in price-sensitive markets are under pressure to control or even reduce selling prices. To maintain profit, they must also control or reduce operating costs.

Labor rates are rising in countries that were the lowest-cost producers. For some retailers, domestic labor costs are also rising. Retailers who previously achieved low manufacturing cost and high supply-chain efficiency are running out of places to save more money.

## Fashion cycles are accelerating

Social media, product reviews, blogging, and smartphones give customers more information and control than ever. They make fast decisions about where they'll shop, which shopping channels they prefer, which marketing campaigns they'll respond to, and what they'll buy. Retailing has shifted toward a "pull" model. Customer demand now drives product development and distribution. Previously, retailers pushed products and inventory out to customers.

Retailers today can spot trends faster and more flexibly than ever before. They can do so by watching social media and by monitoring point-of-sale data with sophisticated analytics. With the insights they gain, they can offer promotions that shape demand within a season. Popular items become even more popular. Fashion cycles compress.

With all these changes, customer loyalty has weakened. People who used to shop at a few favorite retailers are now more open to shopping anywhere and across multiple channels.

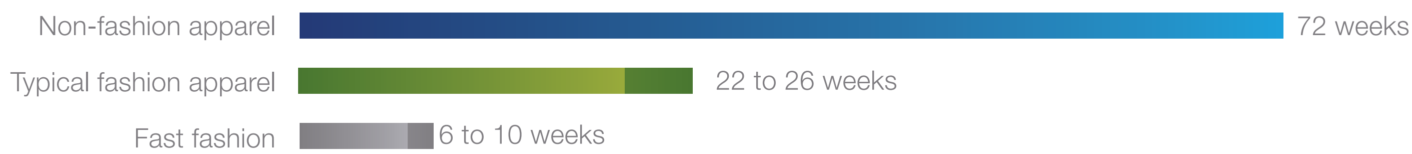
Fast fashion raises the expectations of shoppers. It also accelerates the pace of new-product development—even for retailers who aren't in the business of fast fashion. Most apparel retailers must be more agile, responsive, and adaptive.

To prevent erosion of revenue and profit, apparel retailers must develop differentiated new products and customer experiences. In doing so, they need to focus their design efforts as product-development budgets are more restricted. Designers must produce winning products not only faster but also at lower cost.

## Long product-development cycles increase cost and risk

For apparel retailers, product-development lead times range can range from as long as 72 weeks to as short as 26 weeks. For fast fashion retailers, the range can be as short as six to 10 weeks. These big disparities in product-development cycles are especially striking when you see them in a timeline (Figure 1).

Figure 1. Range of product-development timelines for retailers




Longer cycle times increase cost and risk for three reasons:

- **Higher inventory cost.** Inventory is often a less productive use of capital than investing in new stores or other ways to grow. If you borrow money to finance inventory, higher inventories increase borrowing costs.
- **More demand risk**. It's always better to forecast demand closer to the time of sale. With longer cycle times, fashion and economic conditions are more subject to change. You might not sell your inventory if the economy slows or your customers' taste changes during your cycle time. Longer lead times make it harder to be agile in responding to market trends. You may miss opportunities to sell key products.
- **More supply-chain risk.** The longer your cycle times, the greater the risk that unforeseen factors could disrupt your supply chain before you receive your goods.

# Recommended solution

## Shorten cycle times 10% to 30% by integrating Assortment Planning and PLM

By synchronizing processes and systems for Assortment Planning and PLM, retailers can seize their biggest opportunities to shorten long cycle times. Figure 2 shows a fully integrated product-development cycle from beginning to end. It starts with a review of customer insight and proceeds in eight phases or stages through product promotion and sales in stores.

The recommendations of this document focus on four phases: Assortment Planning, Product Design, Sourcing, and Production.

We define Assortment Planning as planning the breadth and depth of products that appear for sale in your stores at the same time. Assortment breadth is the variety or range of products you offer in each category or style. Depth refers to the number of units for each.

We define Product Lifecycle Management as the steps involved in Product Design, Sourcing, and Production. Some people say PLM properly includes all the steps involved in managing a product from concept through its end of life. We agree. But for this document, we choose the narrower meaning.

Figure 2. The integrated product-development cycle

## Limit your design phase with a handoff from Assortment Planning

For retailers who have yet to achieve good integration between Assortment Planning and PLM, apparel designers are likely to design too many styles for each new line. If they overdesign for one cycle, they're likely to do so for others. The cost adds up.

When designers create styles that never appear in stores, they not only waste their own time but also drive up production costs. While your company may not pay for the cost of samples directly, you do so indirectly. If manufacturers bury their sample cost in their production bids, it may not be obvious how much you can save by reducing the number of samples your designers request. It pays to ask.

In processes that successfully integrate Assortment Planning and PLM, design work begins only after Assortment Planning has provided a well-defined framework for designers. With a clear direction on the number of new designs needed by category, by price (good, better, best), designers can then do their best work with more focus.

As you improve your processes for Assortment Planning and PLM, you'll scrutinize cycle times for each of the stages in the product-development process. When you ask why production cycles are so long, you'll gain insights by asking questions that challenge the status quo:

- Can you further reduce lead times by doing more things concurrently or in ways that are more agile?
- Can you get your teams working together more closely, with more cross-functional cooperation?
- Can you use standard design blocks and fabrications to shorten design times?
- Can you book production with strategic vendors to shorten lead times?

## Reduce inventory, cost of goods sold, and risk without compromising availability

Done properly, integration of Assortment Planning and PLM will enable you to achieve four big benefits that show up on balance sheets and income statements. You can:

- Reduce cost of goods sold and markdowns, resulting in higher gross margins.
- Reduce inventory investment, improving cash flow return on capital.
- Increase revenue through better in-stock performance, improving both sales and margin.
- Reduce operating cost and increase operating profit through improved process efficiency.

You can also achieve several "softer" benefits. You can:

- Be more responsive to fast-changing buyer preferences.
- Increase brand and product differentiation, with less commoditization and price competition.
- Reduce business risk.
- Maximize supply-chain collaboration.
- Provide contract manufacturers with access to a centralized product record.

## Start with the right systems

Integration of Assortment Planning and PLM will be much easier if you have the right systems in place before you integrate business processes. Use of spreadsheets is fine for smaller companies and relatively simple processes. But the limitations of spreadsheets become obvious when you use them to manage complex workflows or to enhance communication across multiple teams.

An integrated product-development process uses the output of several information systems:

- Financial Planning
- Assortment Planning
- Purchase Order Management
- Computer Assisted Design (or CAD)
- Product Lifecycle Management
- Calendar Management.

Because Calendar Management systems may be the most under-appreciated on the foregoing list, it's worth saying more about them here. Calendar Management is an essential skill and discipline for companies that develop multiple products. Within a single season or delivery period, each division or department has its own events to track and manage. Each merchandise category has its own timeline. A good system helps manage these complexities.

In addition, a good calendar system also has these capabilities:

- It enhances collaboration by managing critical paths, tasks, and resources across teams and business units.
- It enables teams to manage a library of critical paths for the workflows of each product group.
- It facilitates any re-planning you must do to accommodate changes in the development process.
- It's tightly integrated with resource-management systems to help avoid bottlenecks. It enables you to see where the development process is slow and where to improve it.
- It improves transparency across the business for improved communication and risk mitigation.
- It improves multi-channel planning.

In short, a good calendar system not only manages tasks, events, and timelines, it also enables teams to make better decisions.

## Allow enough time

An integration project may take from six to 24 months, depending on where you start and how much integration you want to achieve.

# Summary and conclusions

The benefits of integrating Assortment Planning and PLM result from shorter product-development cycles. Shorter cycles enable you to:

- Reduce cost of goods sold and markdowns, resulting in higher gross margins.
- Reduce inventory investment, improving cash flow return on capital.
- Increase revenue through better in-stock performance.
- Reduce operating cost and increase operating profit through process efficiency.
- Improve sales and margin because more focused assortments are better matched to consumer preference by channel.

You can also be more responsive to fast-changing buyer preferences. You can increase brand and product differentiation and reduce business risk.

PLM systems improve the flow of information. They give key participants throughout the supply chain access to the same real-time information—including delivery dates, product information, and supplier information. Participants can update the system in real time, enabling faster reactions.

An integration project may take from six to 24 months to implement, depending on where you start and how much integration you want to achieve.

Successful projects require solid support and commitment from top management.

To move toward shortening lead times and becoming more agile in product development, retailers can take four steps now:

1. **Build cohesive internal teams and a cooperative culture.** Bring in outside talent if you must.
2. **Map your current Assortment Planning and PLM business processes.** Also map your timelines. This mapping process will help you assess your potential for improvement.
3. **Assess your supply chain.** If you haven't already analyzed your supply chain for ways to improve its efficiency, do so now. Inefficient supply chains will thwart your efforts to shorten total cycle times.
4. **Strengthen your relationships with key suppliers.** As you ask suppliers to be more flexible in scheduling your production, they're more likely to help if your business provides an important share of their revenue. It may pay for you to consolidate more volume in fewer suppliers to increase your influence. Strive for the 80/20 rule, with 80% of your volume in 20% of your suppliers.

For more ideas on how retailers can be more agile, please see the white paper by Columbus Consulting International, "Agile Retailing: New Ways to Manage Uncertainty, Disruption, and Innovation." http://columbusconsulting.com/agile-retailing or visit the Columbus website at http://columbusconsulting.com/

To discuss your own opportunities to reduce cycle times, please contact Columbus Consulting International.

# About the authors

**Charlotte Kula-Przezwanski** has more than 20 years of experience working with retail, wholesale, and manufacturing companies. She has focused on improving corporate performance through better planning, execution, and analysis. Her background includes merchandising and buying, space planning, inventory management, supply-chain management, sourcing and procurement, and merchandise information systems. Charlotte has held senior positions in large UK retailers and in software companies that specialize in merchandise-planning solutions. She now heads CCI's practice for Europe, the Middle East and Africa.

**Nancy Marino** has more 25 years of experience in the retail industry and consulting/advisory sector. Her expertise is in retail buying and merchandising, licensing, design and product development, international business, and global sourcing operations. Before joining Columbus, Nancy served as CEO and president at Frederick Atkins, Linmark, and Russell Newman. She was also EVP at Gloria Jeans and AMC (currently known as Target Stores Global Sourcing) and was SVP at Sears and Hanes Brands. She is chair emeritus of the Cotton Board and is an adjunct professor for fashion merchandising at the Fashion Institute of Technology (or FIT).

# About Columbus Consulting

Columbus Consulting comprises a team of highly experienced specialists in retail systems and processes.

- We combine pragmatism, innovation, and years of experience to deliver services ranging from strategic insight to tactical project delivery.
- Our experience stems from holding executive responsibility in retail, and from successfully managing some of the most challenging projects in the industry.

While we are adept at virtually all aspects of retail operations, our core strengths lie in the following:

- Planning, Assortment Planning, Allocation, and Replenishment
- Data Warehousing (business intelligence)
- Product Development and Sourcing
- IT Strategy, PMO, Mergers and Acquisitions, and Interim CIO services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