

## View Point



### Increasing consumer centricity by reducing cycle time\*

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#### Abstract

Global sourcing has provided significant cost benefits to apparel and footwear companies. But these benefits have come with challenges such as long product development and procurement cycle-times, communication issues and lack of visibility. In addition, fickle consumer behavior coupled with abnormal changes in weather pattern has often left retailers with large quantities of non-selling merchandise in recent years. This has forced apparel and footwear brands and retailers to look for ways to reduce cycle-times to give them the ability to change merchandise assortments to match consumer demand.

Companies are taking various approaches such as implementation of new PLM, planning and execution systems to tackle this issue without achieving the desired results. This paper discusses the capabilities needed in three important areas of the apparel and footwear value chain to solve the cycle-time problem, and how companies can achieve them. The three important areas are – Product development, Planning and Execution.

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## Introduction

“For many items, our [lead times are so long](#) compared to the fashion cycle it’s very difficult to plan... we either end up with way too much inventory that has to be marked down, or with empty shelves”

“My Designers spend [too little time creating new products](#) and too much time in data entry and validation”

“My ‘supply chain’ is spread across so many locations and systems, its impossible for me to have a [single view on what’s going on](#)”

Sounds familiar? In the Apparel/Footwear (A&F) industry, forecast errors average 55%<sup>1</sup> and can be as high as 100% at SKU level due to sudden shifts in consumer preferences or causal factors like weather conditions. In addition, finished goods lead times are often as high as three times the selling season. These pressures have led A&F companies to an environment of low operating margins where markdowns<sup>2</sup> and stock-outs<sup>3</sup> coexist and average 30% of revenue.

In the face of these realities, how can A&F companies become consumer-centric while at the same time prosper as businesses?

## How are Apparel and Footwear different?

Consumer-centricity means providing consumers what they need, when and where they need it, at the price they are willing to pay for it. The apparel and footwear environment, however, is unique in many ways, and any approach used to become consumer-centric in this environment must take into account this uniqueness. Some of the features that make this industry different are:

- Product development and sourcing lead times are frequently much longer than selling cycles
- Product sales are seasonal and repetition from one year to the next are rare
- Product demand is highly dependent on fashion trends and weather
- Demand forecasting challenges are further complicated due to proliferation of sizes and colors
- Design partners and vendors are dispersed around the globe

Because of these differences, conventional forecasting, product development, planning and distribution techniques have marginal benefits and fail to address key industry requirements. Any relevant A&F solution in this area must address important challenges such as...

- What products should be manufactured?
- How much quantity should be manufactured pre-season versus in-season?
- How much inventory should be maintained as finished goods and how much as raw material?
- If demand is higher or lower than forecast, can margins cover the cost of expedited freight or capacity and materials be shifted to produce other products?

## The Solution

In order to address these challenges, A&F companies must develop capabilities around three important areas of the value chain – Product Development, Planning and Execution. These capabilities are summarized below:

1. **Accelerated Innovation:** This means responding continually to expressions of consumer choice by making the products they want and abandoning those that they do not. To do this, A&F companies must develop processes and tools to:
  - Sense inputs from different sources that suggest consumer preferences; such as point-of-sale data, customer orders, syndicated data, etc.
  - Collaborate across the organization to leverage the varied capabilities across teams in the product development process
  - Reuse materials and colors to reduce procurement lead times and cost while improving quality
  - Address global and regional regulatory requirements

2. **Flexible Planning:** Companies continue to enhance their demand forecasting capabilities. But, while doing that they should build appropriate levels of flexibility in supply and distribution plans to leverage latest information.

While flexible supply planning must incorporate fundamental planning characteristics like understanding of supply chain parameters and agreement on strategic objectives, it must incorporate the following capabilities specific to the A&F industry:

- Decision postponement to take advantage of forecast improvement
  - Raw material and finished goods hedging based on demand certainty
  - Pre-positioning and reuse of raw material and capacity
  - Air/Sea freight decision support
3. **Effective Execution:** The key to success in a dynamic environment is in the ability to respond quickly to changes. Effective execution allows business teams to focus on those activities that require attention while putting activities progressing smoothly on auto-pilot. The key ingredients of this are:
    - Develop and automate clearly defined processes to manage day-to-day business transactions
    - Ability to execute lean manufacturing processes with smaller lot sizes
    - Clear definition of processes and roles, so:
      - Day-to-day activities can be executed smoothly
      - Exceptions are recognized and resolved quickly
      - The overall supply chain can be monitored effectively
    - Collaboration at all levels of the organization
  4. **Integration:** The capabilities described above apply to areas that extend beyond conventional boundaries of Product Development, Planning and Execution. Therefore, tight integration and alignment of KPI's among these are vital for maximize benefits.

To optimize functioning, one must use the most up-to-date and accurate information. The important elements of information that must flow across process areas and systems are:

- Demand signal from customers, point-of-sale and forecasting
- Product information like Bills of Material, Costing, etc. from product development to planning and execution
- Raw material and finished goods requirements from planning to execution
- Work-in-progress and supply chain constraints from execution to planning
- Shipment and order status across planning, execution and logistics

## Conclusion

The strategy above can have a dramatic impact on cycle-times – thereby improving KPI such as markdown and out-of-stock that directly impact profit performance. Before embarking on a cycle-time reduction initiative, however, companies must perform a thorough analysis of their current processes and systems in the area of product development, planning and execution. This analysis will help identify the quick wins, and establish the road-map for the organizations' journey to adopt the best processes and tools to reduce the overall cycle-time and improve profitability. Following this analysis, and after receiving executive and business buy-in, companies must implement this roadmap iteratively across business units and process areas.

## References

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