



# Fashioning a Supply Chain: The Challenges of a Vertically Integrated Apparel Manufacturer / Retailer



# **Fashioning a Supply Chain: The Challenges of a Vertically Integrated Apparel Manufacturer / Retailer**

**By Helen Jack**

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Aroq  
Aroq House  
17A Harris Business Park  
Bromsgrove  
Worcs  
B60 4DJ  
United Kingdom

Tel: +44 (0)1527 573 600  
Fax: +44 (0)1527 577 423  
Web: [www.just-style.com/market-research/](http://www.just-style.com/market-research/)

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## Executive Summary

This white paper looks at the key trends influencing supply chain management for vertically integrated apparel manufactures and retailers, highlighting the need to re-evaluate systems and processes so that retailers can truly delight today's empowered customers.

The winners will be those who are able to analyse large amounts of disparate data, making informed decisions the backbone of robust supply chains.

Optimised processes and contained costs are the Holy Grail for apparel retailers and manufactures. However, optimizing a business process requires more effort than simply purchasing new software.

The unique set of variables surrounding the apparel industry means that it is business critical to review processes and improve supply chain management. It is no longer enough to design a fabulous collection and create a fun retail environment. To truly delight customers, businesses need to secure the product line in terms of stock, size, and assortment – everything in the right place, at the right time while minimizing risks.

Success centres around getting to the root of these unique variables, it is important for retailers and manufacturers to consider and define:

- Specific customer needs
- Design assortment
- Leverage attributes including size profiles
- Channel and location priorities

Ultimately, businesses need to ask how easy is it to automate these rules. As fashion and apparel moves at an ever-quicken pace there is not only a need to keep up with the industry itself, but with market trends as well. The ubiquitous data that consumers use to make decisions can be put to great effect by organisations to foster integrated decision-making and support real time influence by focusing on better supply chain management.

There are three key trends we will examine in this paper:

- Vertical Integration – fashioning a supply chain
- Cloud computing
- Advanced analytics for continual improvement and better visibility

# CONTENTS

1. VERTICAL INTEGRATION: FASHIONING A SUPPLY CHAIN FIT FOR FASHION	1
2. MARKET CONDITIONS	2
3. CLOUD COMPUTING	5
4. FOCUS ON ADVANCED ANALYTICS FOR CONTINUAL IMPROVEMENT & BETTER VISIBILITY	5
5. CONCLUSION	7
6. REFERENCES	8

## Vertical Integration: Fashioning a Supply Chain Fit for Fashion

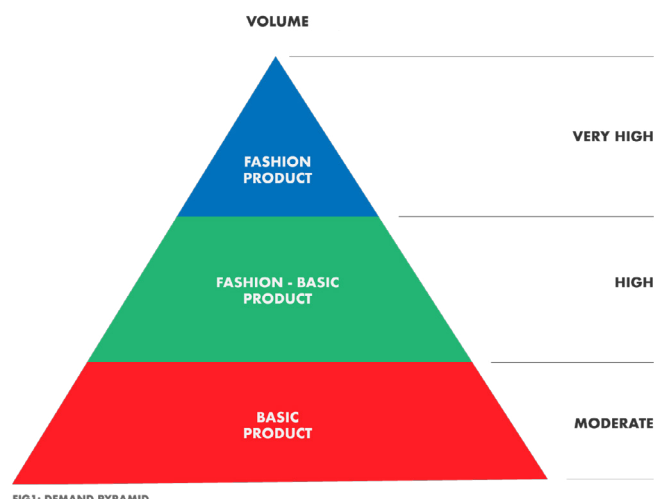
Traditionally, the apparel industry has been vertically integrated. The procurement of raw material, spinning, weaving, dyeing, processing, designing, manufacturing, and selling all the way through to branded retail stores and concessions, all completed under a single market entity. We are seeing a resurgence of this design and make trend returning to the industry.

The advantage of vertical integration is that it allows companies to have the intrinsic ability to control all aspects of their process. The disadvantage is that vertical integration also creates more pressure to maximise efficiencies in the supply chain by reducing inventory, whilst simultaneously maintaining super-responsiveness to volatile market demands. The key benefit overall however, is the ability to pick up trends and create collections far more quickly than manufacturers or retailers with a more disparate supply chain.

There is a basic correlation between the different types of fashion products that retailers produce (basic, basic-fashion and high-fashion) and their respective demand uncertainty – which may concern retailers operating in more than one segment of the demand grid. (iii) The connection between the three broad types of products and their volatility highlights why the supply chain needs to adapt at both the top level and within the product portfolio itself.

Fast-fashion retailers react extremely quickly to changing consumer demands and trends. Retailers such as Groupe Dynamite, in comparison to industry norms, have a very quick turnaround time from receiving demand changes to implementing an actuated response (such as reducing or increasing a particular fashion range in stores). In fact, their fast-fashion apparel can reach the store shelves within weeks of design conceptualization.

### DEMAND UNCERTAINTY AT SKU LEVEL



Within the demand pyramid, fashion products create the biggest challenges for retailers managing the supply chain due to a lack of previous forecast data. The mission of fast fashion retailers is to delight customers by designing a fabulous collection available in a fun retail environment while making sure products are in stock, in the right size and assortment for the customer regardless of channel or store location.

## Market Conditions

The global apparel industry continues to grow at a steady rate with mature markets becoming increasingly competitive and seeing lower growth rates. In Europe CAGR growth rate to 2025 is predicted to be around 2%. Europe, to date, has been the largest global apparel market, however this is set to change over the next eight years with China's CAGR predicted to increase by 10% to USD 540 million in 2025 (i). This market growth will be largely driven by volume.

The worldwide apparel market has previously seen price as the main driver of growth. Post-recession, consumers cut down on clothing, preferring to buy fewer, more expensive garments. This switch from price to volume growth shows a marked change in consumption and provides new challenges to apparel retailers. Volume growth in a European market that is predicted to show low growth means retailers are competing for spend. In this light, getting the product mix right is vital.

The Holy Grail of getting the right product in the right place at the right time has never been more important and the need to maximise technology never more critical.

The challenges facing the supply chain of a global apparel business:

- Attract more customers
- Increase proportion of full price sales
- Achieve true, omni-channel experience

Attracting more customers means increased repeat sales and decreased lost sales. It has been well documented that it is far cheaper to sell more to your existing customers than to recruit new ones. Daily sales lost by customers going into store but not being able to find what they want in their size or colour can have a direct impact upon customer loyalty.

To strategically place the right inventory in the right location at the right time can only be achieved by transforming the forecasting and replenishment processes. Proactive planning based on a combination of historic data and real-time sales results, supports the costly marketing and branding activity that brought customers to store in the first instance.

Increasing the proportion of full price sales, when across the industry 30-40% of products are sold at markdown prices, is a difficult challenge facing global apparel businesses. Integrated solutions such as Logility Voyager Solutions™ can significantly help reduce this level of markdowns to a target of 20-30%. Through advanced analytics, for example,

around customer preferences, solutions can develop better size distributions which in turn drives a higher proportion of stock at full price. This can have a significant impact on margins and go a long way to protect the brand image. Retailers who have less product on sale enhance their brand appeal and desirability, thus ensuring that the hard work which goes into producing a fabulous product gets the status it deserves.

Achieving a true omni-channel experience through a single look and feel, as well as similar access to options, is challenging in this fast-paced industry. Consumers today are well informed, impatient and often use several channels for the same transaction. They expect

their shopping experience to be seamless and to see the same promotional messages, product highlights, branding and imagery regardless of channel. According to Verdict UK online sales are currently circa 20% of total sales and are predicted to rise to 28.8% by 2020 (iv). Globally the apparel industry will see a similar rise highlighting the importance and significant impact that online will have, however in the US, ecommerce accounts for just 8.4% of total retail sales showing there is a tremendous opportunity for growth(v). The rise of online has been rapid and as such little historical data exists to predict sales patterns. For this reason, it is critical that companies don't simply layer on this channel to their mix but truly integrate the organization and systems to support the technology solution by having a single pool of inventory.

From a supply chain perspective, there are a number of additional challenges facing the sector:

- Rapid changes in demand
- Managing a short selling season
- Lack of history
- Protection of presentation minimums
- Capacity constraints at store locations
- Inventory needed to support predicted sales including online
- Managing thousands of colours, styles, sizes across options

Taking these key global challenges and looking in more detail at the supply chain uncovers the many fundamental issues that need to be addressed. Spreadsheets and the human brain cannot be as efficient or accurate as the multiple algorithms in a dedicated solution. The ability to utilize advanced capabilities such as auto replenishment requires retailers to respond to the demands of dealing with thousands of decisions.

Rapid changes in demand caused by celebrity culture and globalised social media give rise to significant strain on the traditional supply chain. There is nothing as fickle as fashion and at the drop of a social media post consumers will switch buying patterns in an instant. Take for example Alexa Chung spotted in Charlotte Olympia's black velvet slippers. Soon

Katy Perry, Beyonce and Taylor Swift followed suit, countless high street copies sprung up from vertically integrated retailers able to react to unpredicted shifts in demand.

Managing a very short selling season is a further challenge. For fast-fashion retailers much of the inventory will have a 6-8 week selling season before collections are marked down, this gives little to no time to react to changes and gives rise to further problems with long discounted stock periods.

For many products in a retailer's portfolio there is little to no history to complete initial allocation of that item. Retailers who have implemented an integrated allocation system are able to develop an accurate plan based on several attributes of a product, store profiles and selling regions. Through key alerts and advanced analytics, changes in demand are quickly identified and the correct action can be taken to minimize the impact on customers.

As part of the retail experience the look and feel of a store is partly created by the visual merchandise. If the presentation minimums are not protected, broken size runs will appear which impact negatively upon the customer experience therefore causing knock-on problems in terms of maintaining customer loyalty.

Each store within a retailer's portfolio will have different capacity constraints. Many retail locations with limited stockroom capacity require more frequent deliveries and the ability to allocate dedicated inventory in a central warehouse. However, this inventory also needs the ability to be released to other channels if it is not used within a specific period of time. This is a challenge for most supply chains and requires advanced capabilities to create this Virtual Store Warehouse.

Each sales channel and store needs a pooled inventory with individually predicted sales built into an overriding algorithm. In the past, each channel had its own forecast and inventory effectively creating silos as product was forecast by channel. Today's omni-channel environment means companies need to be more agile as well as retain tighter controls on stock, aggregating demand for smarter buys and leveraging inventory pools across channels for better margins.

Managing thousands of colours, styles, and sizes across options is a major challenge to the supply chain. With every new range and growth expansion comes an ever-growing portfolio of products. It has become increasingly difficult to manage thousands to SKU's through different channels using traditional spreadsheets or human brainpower – there is just too much complexity. Companies are looking for software such as Logility Voyager Solutions that has a proven track record with customers. The results of getting the supply chain process wrong, is very costly. Transfers, mark-downs and lost sales hit the bottom line and have a knock-on effect to customer loyalty.



## Key Take Outs:

- Vertically Integrated retailers and manufacturers have the opportunity for ultimate control of their business but need integrated solutions to manage their supply chains
- Creating high fashion products is not just about fabulous product it's also about making sure products are in stock, in the right size, and are in the right assortment for the customer – regardless of channel or store location
- The human brain cannot be as efficient as multiple computer algorithms; this complexity of data is the key to auto replenishment

## Cloud Computing

Out-dated systems that rely on spreadsheets and do not allow for collaboration across the supply chain are outmoded and limited. Cloud computing increases transparency, collaboration, and productivity between suppliers, retailers, and potential customers.

Cloud computing can provide three broad services for businesses across infrastructure, platform development, and transparent knowledge. In turn, such benefits reduce the need for real-estate computing storage and data centres, can be customised at point of use, and produce collaborative and transparent working environment that incorporates the entire supply chain.

## Key Take Outs:

- Out-dated systems and use of spreadsheets hinder collaboration and transparency
- Cloud Computing can help foster collaboration and share knowledge across geographical and silo boundaries
- Leverage planning specific expertise to manage technical platform and increase availability

## Focus on Advanced Analytics for Continual Improvement & Better Visibility

Research carried out by Lora Cecere of Supply Chain Insights revealed that only 12% of supply chain teams are driving improvement and performance (vi). By thinking differently teams can improve outcomes, not just by continually or incremental improvement programs, but by using advanced technologies through a redesign of supply chain processes. In turn, this means such effective teams can outperform competitors. In order for this to be enabled, leaders must harness big data and leverage new insights by following two simple principles of measurement: review and action.

There are a great many systems and solutions available that will make a significant difference to improving processes through the employment of advanced technology. One of the current issues is the unchecked rise in item complexity. For example, the need to forecast an item of clothing at style, colour and size level, but also at market and channel level is challenging. This requires unstructured external data sources to be analysed against internal data to help drive predictive analysis and strategic decisions.

By implementing a system that optimises planning processes such as Logility Voyager Solutions, companies are able to take full advantage of improving not only operational and financial performance but also to improve features such as integrated merchandise planning, forecasting, allocation, and fashion replenishment. This results in the unique ability to dynamically react, adapt and take action, based on customer demand and sales trends – features not possible through spreadsheets and brainpower alone.

In order to take advantage of the opportunities afforded by a comprehensive and forward-looking supply chain, companies need to facilitate analysis and give teams the opportunity to use big data to drive strategic change. At the supply chain summit in 2016 analysis of 6,000 responders showed that the top three barriers to continual improvement are sited as: traditional supply chain thinking, lack of organisational alignment and a focus on functional excellence. It's up to leaders to challenge the silos and facilitate a new way of thinking. (vi)

Moreover, enhanced systems make such data analysis easy and can help serve up the information through the use of Advanced Analytics to deliver information direct to users. In turn, this directs users as to where to focus their time, and allows employees to be more strategic in their actions. Providing employees with access to the right solutions to help them can drive increased retention rates. In this age, being able to access and analyse increasing amounts of Big Data really does make a difference to individual businesses. After all, with Big Data, comes big insight and competitive advantage.

### **Key Take Outs:**

- Advanced Analytics is not just about advanced technology but also about the people who deliver analysis and solution recommendations
- Improvement is not through incremental changes but a fundamental change in processes by reviewing and taking action
- Choose a system that has the ability to optimise planning processes, that uses merchandise planning and automated algorithms with an straightforward UX interface

## Conclusion

Vertical integration has given companies a unique ability to retain complete control of their supply chain, to be more flexible and agile, and able to respond to changing consumer demands. It is no longer enough to design a hit collection and create an exciting retail environment, to really delight your customers you need to make sure you have the products in stock, in the right size and right assortment for the customer who is going to interact with you regardless of channel or store location.

For vertically integrated companies to succeed they must look outwards at the changing market place as well as inwards to their own sales data, and use this information to radically change how business is done. The internal supply chain challenges for global apparel companies are to attract more customers, sell more at full price and to truly create an omni-channel experience for consumers. These issues are interrelated to those external key trends in supply chain management – the circular v linear supply chain, cloud computing and data analysis for continual improvement.

The companies who invest in collaborative supply chain management systems, allow the opportunity to improve processes and attract the best people will be the winners, capable of making informed decisions the backbone of their supply chains.

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