OLIVER WYMAN

FAST FASHION

STAYING ON-TREND WITH A NEW STYLE OF SUPPLY CHAIN

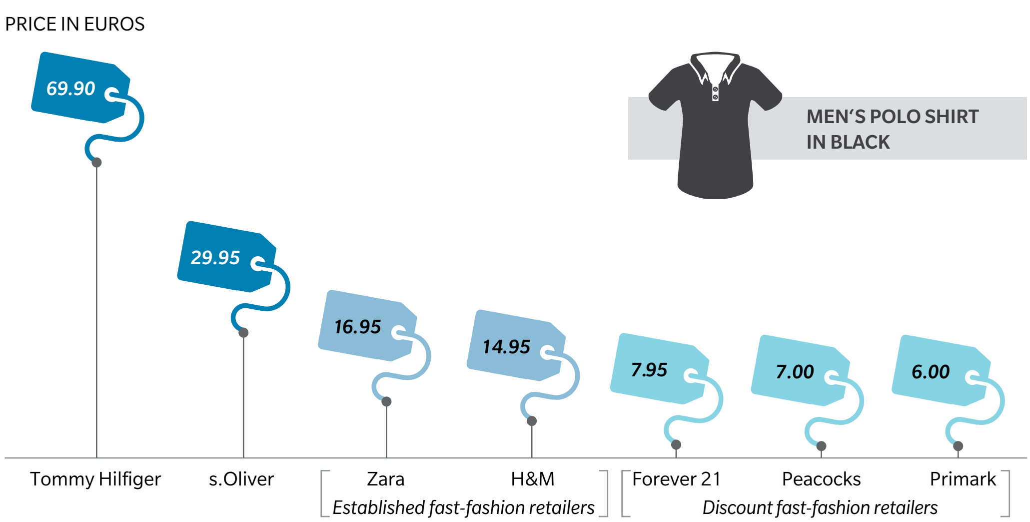
FAST FASHION

In clothing retail, the battle of the supply chains is underway. In response to consumer trends, products can now reach the high street in record time and at bargain prices, all thanks to supply chains custom designed to support a high-volume, more flexible model. In this article, we look at how retailers should react and know how they can rethink their own supply chains to compete. With this type of supply chain becoming more relevant to other non-food sectors over time, there is much to be learned, regardless of whether you sell shirts, high heels, toys, or jewellry.

Over the past 30 years, the textile industry in Europe has experienced disruption from two types of new business model. In the 1980s, the fast-fashion business model first emerged. Then, 5–10 years later, the ever more aggressively priced fast-fashion discounters arrived and began driving a step change in customer expectations with their ability to undercut traditional clothing retailers by 50% or more (see Exhibit 1 and Case Studies 1 and 2).

As a consequence, numerous multilabel retailers operating a traditional two season business have been forced out of the market and many verticalised players who have not yet adopted fast-fashion supply chain principles – at least on some of their products – are suffering.

Exhibit 1: A comparison of price points across fashion retailers



DIFFERENTIATED SUPPLY CHAIN LINKS

As discussed in Case Study 1, the supply chains in fast fashion rely on being the most cost efficient, flexible, and timely for each specific product type. As such, the product range is broken down into clearly defined segments, such as evergreens, traffic generators and image products (see Exhibit 2), and each segment's supply chain needs are clearly defined.

- **Evergreens**
  These can be transported from Asia by boat in a cost-efficient manner and in predictable volumes. These products are not fashion driven so it is not worth paying for a fast and flexible supply chain.
- **Traffic generators and headline grabbers**
  These items often have concept-to-shelf times below 20 weeks. For such fast-tracked items, the final production steps often have to be done in Turkey or North Africa for European retailers, or Mexico for the US and Canada, and the goods are often transported by air. To ensure reliable manufacture, production capacities are frequently reserved in advance and pre-coloured fabrics prepared up front. The final steps validate the item, fine-tune the fit, and so on.

Combining this fast-track approach with increased frequency of new collections ensures that fast-fashion retailers can manage the freshness of their assortment. This, in turn, increases consumer sales and results in improved price realisation and lower markdowns. These benefits usually exceed the extra supply chain costs and, indeed, our experience shows that the cost of markdowns in a traditional multibrand retailer can be reduced by 25–50% using a fast-track approach.

Exhibit 2: Three categories in a differentiated supply chain for clothing retail

EVERGREEN PRODUCTS

Supply chain requirements
- Cost efficiency
- Planning security
- Supplier reliability
- Dependable supplier basis

IMPLEMENTATION

- ✓ Uses long-term strategic suppliers
- ✓ Production in Asia
- ✓ Ocean freight

TRAFFIC GENERATORS

Supply chain requirements
- Flexibility
- Option for smaller order sizes
- Fast implementation

IMPLEMENTATION

- ✓ Uses multiple suppliers
- ✓ Production in Asia and Europe

HEADLINE GRABBERS

Supply chain requirements
- Relies on reliability of processes
- Flexibility and speed
- Shortened process steps and faster handover

IMPLEMENTATION

- ✓ Strategic, high-performance suppliers
- ✓ Production in Europe
- ✓ Land and road transport

The most sophisticated textile retailers go beyond this, putting in place an additional final step: this is a separate process that swings into action if a trend is missed. Once set in motion, this "chase" stream can produce an item from concept-to-shelf in less than ten weeks.

This breakdown of the value chain into category roles is complemented by a direct feedback mechanism, "read and react". Each day the stores report back on the collection's hot sellers and slow movers and this process enables the product line to be constantly optimised for sell-out. This results in an optimised make-to-demand production operation that outclasses traditional make-to-stock and make-to-forecast models in many regards. A number of catalogue and multichannel retailers have already taken a cue from this approach and have introduced a form of read and react for their product ranges.

HOW TRADITIONAL MULTIBRAND RETAILERS CAN FIGHT BACK

When fast-fashion retailers and discounters first arrive, many multibrand retailers start by increasing investment in the shopping experience, both in terms of product mix and visual merchandising, as well as in complementary inserts such as coffee bars, DJs, and complementary beverages. The result is often unsatisfactory, as selling space is sacrificed for aspirational elements of experience that simply do not justify their cost.

CASE STUDY 1

THE FAST-FASHION MODEL

Fast-fashion business models are all underpinned by a segmented value chain that carefully juggles cost efficiency, flexibility, and speed across product types. Their supply chain normally comprises three parts, as described in Exhibit 2. The most sophisticated go beyond this by putting in place a fourth process to capture missed trends. Once set in motion, this supply chain can deliver an item from concept to shelf in less than ten weeks.

The supply chain is tightly managed by direct feedback mechanisms from the shop floor, known as "read and react". By tracking a collection's hot sellers and slow movers, the retailer can adapt to ensure precise make-to-demand production, which optimises for – and outclasses the traditional make-to-stock and make-to-forecast models.

Combining a fast-track approach with frequent new collections enables fast-fashion retailers to ensure that their range is always up to date. This increases sales velocity and thehigher stock turn allows them to sell at prices significantly lower than other high-street fashion retailers, with the additional volume more than making up for higher supply chain costs.

A more sustainable response is to take on the fast-fashion players on their own turf. To do so, retailers need to answer a number of analytically challenging questions:

- For which parts of the product range does a fast-track model represent an economically sensible option?
- What is the maximum markdown for a garment? At what point at which is it more profitable to use a conventional supply chain solution than the more expensive fast-track model?
- How can previous decisions be subjected to constant review (on an SKU basis), taking into consideration the dynamic cost factors within the supply chain?

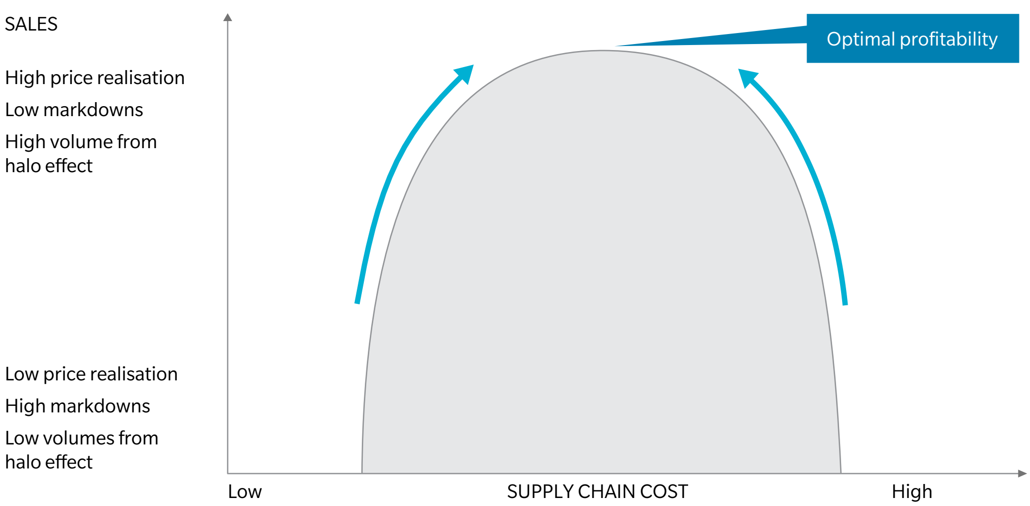
The answer to these questions requires a metric-driven comparison of the additional costs of a fast-track supply chain with the increased amount of sales produced by it. Three sources of data are generally required to enable this:

1. Historic price-to-sales ratios per style
2. Average markdowns throughout the product-range cycle
3. Costs for the various purchasing or supply chain models.

With this information in hand, the retailer can put in place a product-range management solution that increases a collection's profitability product line by product line. As Exhibit 3 shows in simplified form, the supply chain can be optimised on the basis of fact, without getting bogged down in a simplistic debate about the uselessness of fast supply chains for white T-shirts and black socks.

Of course, it is not just as simple as segmenting the products. The organisation will also need the skills to implement the required modification of the supply chain. This applies both to the precise management of production capacities at various locations and to the design skills that are necessary for expanding its line of own-label products.

Exhibit 3: Critical factors of supply chain optimisation



WHEN WILL YOU NEED TO ACT?

Clothing is not the only retail sector where changes to the supply chain are likely to play a critical role in the coming years. An increasing number of non-food segments already fine-tune product supply and range, in terms of both speed of delivery and the highest possible level of cost efficiency. This is most obvious in footwear, accessories, and toys, where the share of trend-led products has been steadily climbing for many years. All these sectors are subject to decreasing fashion cycles.

So how ready are non-food retailers to take the next step in supply change management? To answer this, retailers should focus on the following four areas:

1. Examine the opportunities for differentiation along the value chain and the costs entailed, including those from near-sourcing.
2. Develop a comprehensive plan to restructure the supply chain, including streamlining SKUs, improving automated processes, and optimising long-term capacity planning and lead times.
3. Identify the supplementary skills that will be required, including read and react systems and negotiating closer partnerships with suppliers in exchange for sales data.
4. Make an honest assessment of whether or not the high degree of resolve necessary to implement the required changes exists within the organisation.

CASE STUDY 2

THE FAST-FASHION DISCOUNT MODEL

The business model used by discounters such as Primark or Forever 21 is a modification of the proven fast-fashion formula. Compared to the standard formula, the fast-fashion discounters have a markedly lower gross margin (less than 40%), an even higher level of standardisation in material purchasing and product development, and a supply chain that relies even more heavily on efficiency. Combined with extremely lean personnel and marketing cost structures, these factors generate moderate single-digit EBIT margins, meaning fast-fashion discounters can only cover their fixed costs with high sales volumes.

This strategy has been profitable. With the help of unbeatable prices, including fashionable T-shirts that sometimes sell for just €3, they have concocted a price level that established fast-fashion players and traditional multibrand retailers can only dream of. The point of such a price model is clear: it is all about acquiring market share and establishing superior value perception.

Fast-fashion discounters are already well established in the UK and Ireland, but in the rest of Europe, their impact has not yet been fully felt. Though Primark has almost 50 stores in Iberia and half that number in the Netherlands, it has just 15 scattered across Austria, Belgium, France, and Germany. Peacocks has a limited number of franchise outlets in Greece and a number of Eastern European countries. Forever 21, with just a dozen stores in mainland Europe at present, is still in the first stages of its planned European expansion.

CONCLUDING REMARKS

Fast-fashion business models are already revolutionising the clothing industry, and we suspect that other segments of non-food retail where fashion-led products are prevalent will be next. Retailers can get ahead of this trend by segmenting their own products and supply chains and, where the trade-offs make sense, moving to fast-fashion sourcing. While these changes can add complexity to the business, they will also deliver a significant step up in competitiveness that more than justifies the effort.

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialised expertise in strategy, operations, risk management, and organisation transformation.

In the Retail practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail: an obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands-on approach to making change happen is truly unique – and over the last 20 years, we've built our business by helping retailers build theirs.

www.oliverwyman.com

RETAIL CONTACTS

JAMES BACOS

Global Retail Practice Leader
james.bacos@oliverwyman.com
+49 89 939 49 441

PAUL BESWICK

North American Retail Practice Leader
paul.beswick@oliverwyman.com
+1 617 424 3259

BERNARD DEMEURE

French and Iberian Retail Practice Leader
bernard.demeure@oliverwyman.com
+33 1 4502 3209

NICK HARRISON

European Retail Practice Co-Leader
nick.harrison@oliverwyman.com
+44 20 7852 7773

SIRKO SIEMSSEN

European Retail Practice Co-Leader
sirko.siemssen@oliverwyman.com
+49 89 939 49 574

OLIVER WYMAN