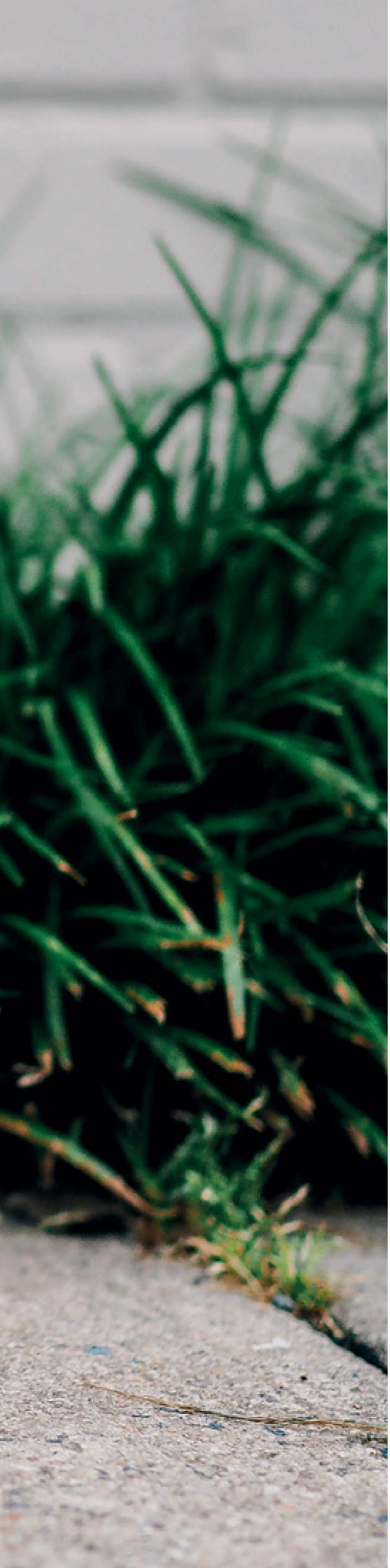
SMART FASHION

EXPLORING HOW TRADITIONAL FASHION PLAYERS CAN ADOPT WINNING PARTS OF THE FAST FASHION MODEL WITHOUT THE *FAST*



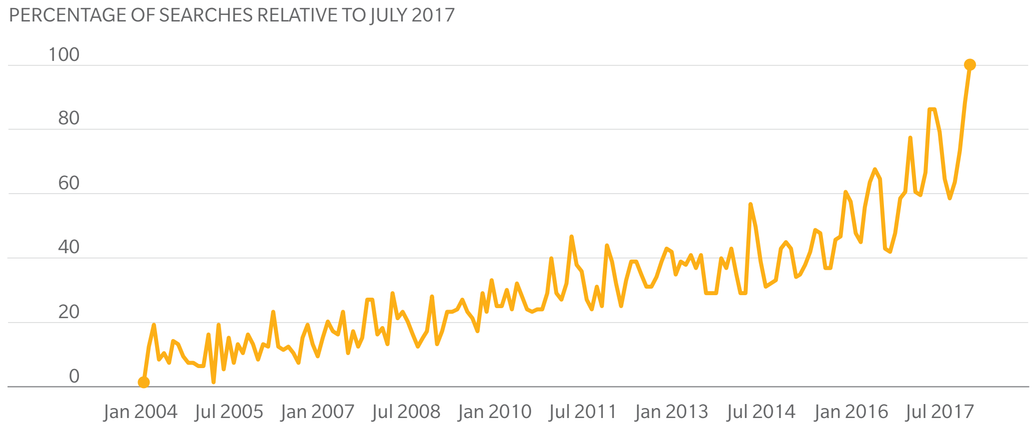
Fast fashion has revolutionized apparel by delivering new, highly fashionable products at low prices in incredibly short lead times. The buzz can make traditional branded apparel companies – wholesalers or vertically integrated retailers – feel like they are falling behind and may never catch up, saddled as they are with global supply chains optimized for scale rather than speed and flexibility. Attempts at radical change in their organizations and working methods may only prove harmful.

We propose a different model that can work better for traditional apparel players: "smart fashion." This model builds on some of the key principles that underlie the success of fast fashion but do not often receive the same hype. They can help traditional players gain many of the benefits of fast fashion without overhauling their companies from the ground up.

THE BUZZ AROUND FAST FASHION

Fast fashion has been around for decades since its emergence in Europe, but its global success has grown exponentially over recent years, raising awareness of its competitive threat to more traditional apparel retailers in the US. Fast fashion is a supply-chain driven operating model that delivers very short product lead times: Clothes often go from runway to shelf in a matter of weeks – or even days. Fast fashion companies can respond more quickly to in-season trends, differentiate their assortment better to reflect local tastes, and substantially reduce the amount of merchandise requiring mark-down and obsolescence.

Exhibit 1: Google worldwide search trends: "fast fashion"
Despite decades of success, fast fashion's interest level has grown exponentially in recent years



Source: https://trends.google.com/trends/explore?date=all&q=%22fast%20fashion%22

But fast fashion is not for everyone. Many traditional branded apparel wholesalers and vertically integrated specialty retailers feel that they cannot afford or do not want the costs and risks of a complete redesign of their supply chains. For these players, our experience suggests there are still highly effective ways to improve time to market and supply flexibility in order to evolve along with consumer preferences without upending the existing supply chain.

The key is not to throw out legacy structures, but instead to learn from the fast fashion model, selectively applying some of the key concepts that receive less acclaim but are integral to fast fashion's success. This hybrid approach, which we call smart fashion, can improve marketplace and financial performance through four key elements.

CHERRY PICK FROM FAST FASHION

From the outside, it may look as though fast fashion players are constantly turning over their entire assortment of new, trendy products and replacing them with even newer, trendier products – a feat that seems impractical to replicate. However, in reality, fast fashion players manage only a relatively small percentage of their assortment like this; our estimates suggest that less than half of the product on the shelf is designed and produced in-season. Instead, these players frequently inject new features and product versions into selected categories with high customer visibility. This gives the whole assortment a feeling of freshness that draws consumer interest.

To decide which product categories to manage on rapid turnaround, fast fashion players segment their assortment and focus obsessively on those areas that need to be on-trend and turned frequently. Smart fashion employs a similar tactic of segmentation. One critical meta-question of self-evaluation is: "How well do we understand where our consumers demand fashionable products?" as opposed to other elements of the product offer, such as timelessness, quality, or price. The other is: "In those places where consumers do demand high-fashion products, how well do we understand what elements of fashion the customers seek?"

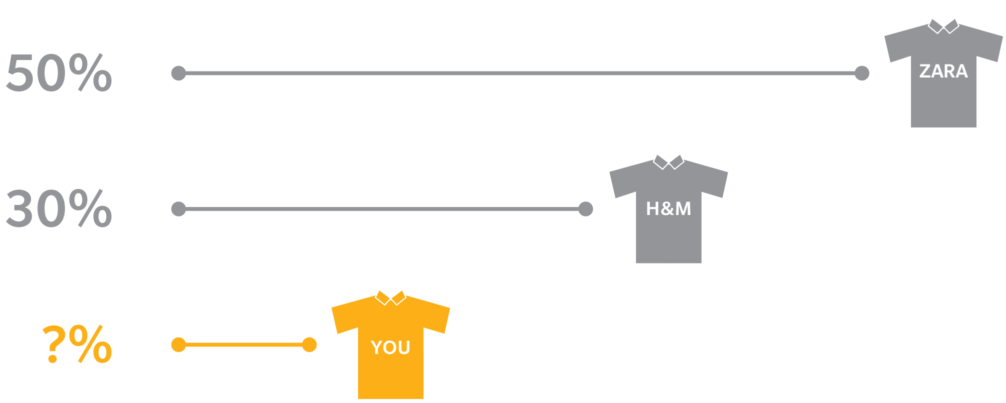
The importance of fashion compared with other qualities varies according to a range of factors, such as category and price points, and it ebbs and flows over time. Understanding which product attributes drive customer traffic and buying choices is vital. Today, women's athleisure is as much about fashion as function. Men's dress socks have emerged as the "new ties" – an item where fashion is as important as comfort for large groups of customers, if not more so.

Understanding which product attributes truly drive customer traffic and buying choices is vital. This is often referred to as a "consumer decision tree." Is "fashion" or "trendy" one of the top two priorities in the tree? Or are these both further down the list, below qualities such as comfort and the durability of materials? Vertically integrated retailers can use transaction data and product switching matrices to figure out how consumers trade off different product attributes against each other. Wholesalers can put their likely growing set of direct-to-consumer data to work, and also collaborate with key retail partners. They can then make fashion-centered investments in the categories that provide the most incremental benefit.

However, this limited application risks being overlooked by consumers. So, smart fashion players must also create a positive perception that associates the brand or brands with newness. One way is to launch products in limited runs, often in fashion centers such as New York, Los Angeles, Paris, and London. Those launches could reinforce fashion credibility and generate the buzz needed for a nationwide or global rollout. Moreover, the initial scarcity of the products could help drive up demand and sustain relatively high prices.

Exhibit 2: In-season developments

The impression of newness can be created with only a portion of the assortment developed in-season



Source: Oliver Wyman analysis

In a similar manner, wholesalers may elect to first launch a product in a single retailer (either a brick-and-mortar or online-only retailer) or just on their own e-commerce site, before later expanding to other channels. Other approaches from highly regarded brands include Victoria's Secret's nationally broadcast fashion shows. These are accompanied by marketing activities that create a perception of new, trendy products – even though few women actually wait online to buy the diamond-encrusted products shown at the events.

Armed with an understanding of their categories and consumers, smart fashion players can deploy clever brand association tactics. They can test new advertising or product concepts and act based on the consumer response. Remember: The consumer does not know – or care – what percentage of stock keeping units (SKUs) are new designs for that week or season, or how quickly the product went from design to shelf. What matters is that the consumer perceives something as fashionable and wants to buy it.

LEARN FAST

Looking at fast fashion from the outside, too many companies seize upon the wrong word. They look at "fast" and think it means taking an entirely new idea, pushing it through the supply chain, and getting it into stores as quickly as possible – the runway to the rack in 3.6 seconds, so to speak. We argue that there is no inherent consumer value in this kind of speed. Even the most astute shoppers do not pay an additional cent for a product simply because it sped through the product development and production processes. They pay for fashion, which means on-trend products.

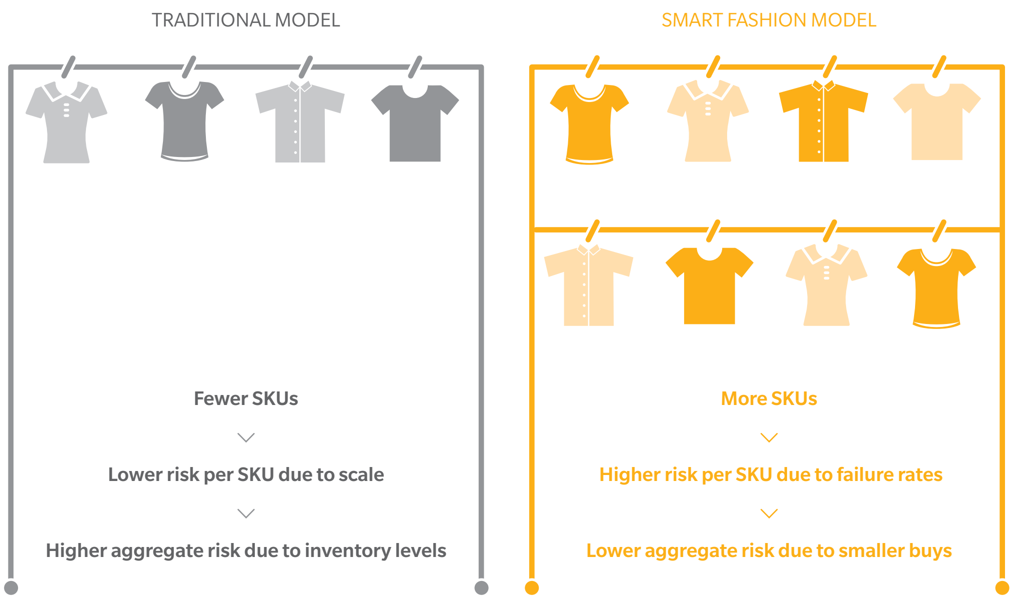
Still, "fast" does serve one vital goal: It reduces risk. Fast fashion is, at its core, a risk mitigation technique, enabling a company to place a large number of small bets and then respond in-season by doubling down on the items that really fly. Fast fashion companies do not just deliver fast; they are also fast learners. They study product performance closely and recognize, quickly, whether a product is a success or a failure, or requires some tweaks to make it a success. Conversely, traditional players have historically placed large bets on a few items, each of which has a high probability of success. However, as consumers become increasingly fickle and demanding – and as the competition ups the ante – success becomes harder to guarantee.

So, a key tactic for smart fashion players is to make a series of small bets on different products, colors, and fabrics. They focus on fast learning in a tight feedback loop, in which a small bet is made, consumer reaction is gauged, and action then taken accordingly. Losers can be discarded quickly and with minimal impact on the bottom line because the size of the original order was small. If a product is successful, companies can quickly produce more of it with the knowledge that it is a proven winner.

Traditional players often hesitate at this shift in mindset because it looks like it will be costly. However, in our experience, it is dramatically less costly in the long run to diversify the product portfolio through more bets, and then follow up with further investments carrying high chances of success. Though a supply chain able to move product from needle to shelf in mere weeks may be beyond a traditional player's capabilities (and may also have diminishing returns), fast learning requires less-dramatic change and promises a greater return on investment. In this way, smart fashion gives a traditional player a new level of finesse and responsiveness.

Exhibit 3: More, smaller bets

Moving from traditional to smart fashion requires rethinking the per-unit and aggregate cost trade-offs



Source: Oliver Wyman analysis

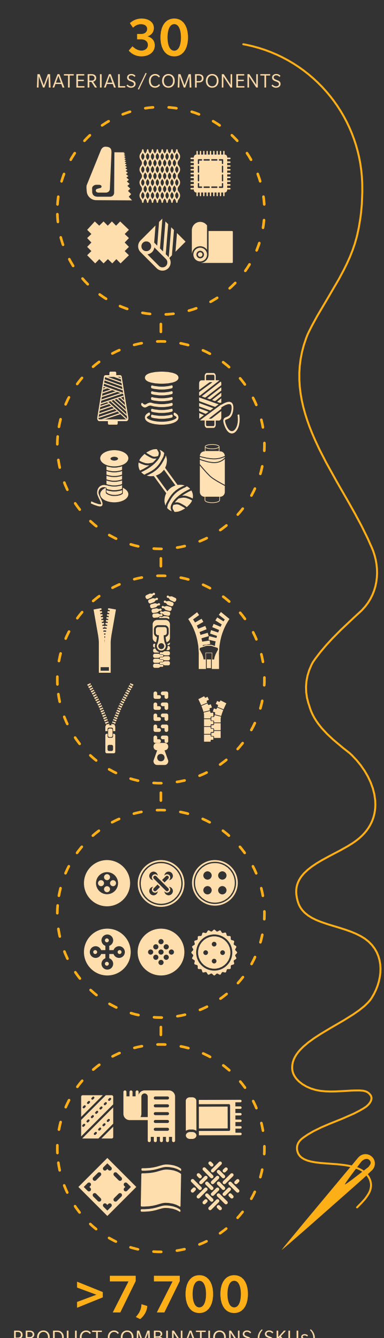
DRIVE DOWN COSTS

While product category segmentation and fast learning sound sensible to many companies, it is a challenge to execute them without blowing up the supply chain economics. All else being equal, the unit costs of numerous, more-frequent, smaller bets are higher than those in the traditional model, in which the supply chain has been set up to maximize economies of scale. Though our experience emphatically confirms the long-term financial advantages of smart fashion, companies should look for innovative improvements in efficiency at every turn.

Probably the most powerful way to reduce the costs of a greater focus on fashion is material leverage: the effective use of fabrics and materials across different products to achieve a "bundling effect." This increases volumes and, therefore, lowers costs – and it has been employed by the automobile industry for many years.

LEVERAGING SHARED COMPONENTS

Smart fashion employs the multiplicative effect of sharing components to create newness with minimal cost



Just as the entire portfolio does not need live, in-season developments to make a brand feel fresh, not all of a garment's components need to be new for consumers to find it new and fashionable. Often, a small embellishment – such as a seasonal color or print – can transform a product. These are light-touch changes that can be applied to existing patterns with very little alteration to the product specification and limited further testing. Vendors can often begin producing an updated product version the same day for minimal incremental cost.

These small tweaks can produce big differences. Consider a pair of jeans with six options for each of the following five components: main fabric, pocket lining, thread, clasp, and rivets. That makes more than 7,700 combinations, each one producing a unique version of the product. Even if only a tenth of those are technically viable, that is still hundreds of potential variations from just 30 material components.

Even if such a modular approach feels restricting to the creative team, this is a vital framework to limit material proliferation and costs. The materials purchased for these component changes can be used in the regular assortment of clothes too, further increasing economies of scale. Moreover, if designers can use excess or obsolete materials – from a weak product line, for example – write-offs can be avoided, and those materials can instead contribute to revenue.

The bundling effect of this use of materials also gives larger, traditional players an advantage over smaller start-ups, which cannot achieve such economies of scale.

SMART ORGANIZATION

Smart fashion operates differently from the rest of a traditional apparel business, so the parts of the company that follow the approach must work differently too. They need different teams with different processes and targets – all geared toward enabling the prior three elements of the model. The profit and loss account (P&L) must be segmented to reflect the category segmentation between fashion and traditional. The team will operate with different metrics: For example, material costs per unit will likely be higher and quality standards may need to be loosened. Revenue and expenditure must be separated so that the smart fashion teams can adjust quickly to frequent data showing the results of small bets on new product versions.

Teams working on a company's smart fashion projects will also need designers, merchandisers, and others who are well versed in these new products and processes. The team will be aware of brand associations, so they should work closely with the marketing department to foster positive perceptions around newness and fashion products. After product launch, they will be the driving force behind fast learning, as they identify new trends and quickly generate new product ideas.

The new processes, metrics, and terminology will feel uncomfortable at first, as they do at the initiation of any business venture, and we recommend that the smart fashion teams be given the freedom and mandate to operate differently. However, companies will need to keep the right balance. Smart fashion will not be completely separated like a digital start-up in an incubator. Instead, the smart fashion teams need to be part of the wider organization, so that effective communication can be maintained with the traditional parts of the business and the company as a whole can benefit from the economies of scale generated.

The organization will also need to be set up to promote the flow of information that smart fashion depends on. Zara, as an example, has empowered its store personnel by setting the expectations that they are the best source of customer intelligence, and learns from them daily by connecting them directly with designers and merchandisers at the corporate center. Many strong wholesalers and vertically integrated retailers lean on business intelligence for detailed performance updates. Wholesalers should maintain strong partnerships with select retailers and share data and viewpoints. Information from all of these sources can be employed to determine whether or not a new product should be expanded, tweaked, or eliminated.

GETTING STARTED

Fast fashion appears innovative and radically different, and has received a great deal of publicity. But it can trigger different reactions. Some try to follow blindly without really understanding the details of the operating model, and they are liable to make costly mistakes. Others, dissuaded by the complexity of the changes needed, do not even try it. But ignoring the lessons of fast fashion can be even more damaging in the long run. Consumers increasingly want on-trend products at great prices, and fulfilling this demand represents a substantial opportunity. By understanding the key elements of fast fashion correctly, nearly all players should be able to create value from deploying some of its techniques. They will not be doing fast fashion though, but smart fashion.