

10 PLAYS FOR SUCCESS IN APPAREL & FOOTWEAR



INTRODUCTION

Many apparel and footwear companies are struggling in the United States in spite of high consumer confidence and a strengthening economy. Too many headlines are eulogies for once-formidable brands and stores.

To understand the trends and figure out how best to address them, we have carried out an extensive literature review, conducted a survey on consumer shopping habits, and held numerous interviews with leaders across the apparel spectrum – from low-cost to luxury and from brands to multi-brand retailers.

Our main conclusion: In the past, apparel and footwear companies enjoyed strong, easily defensible positions. A company first developed a brand and products that connected with consumers, then built out a store network to sell them – or else used an established channel such as department stores. With this footprint established, it was relatively straightforward to attract shoppers who were already heading to malls and shops. But today, that model is crumbling, and competition is increasing, as consumers change and the industry responds.

Our research suggests six significant trends in consumer behavior. They want to shop whenever and wherever is convenient. They are looking for new, exciting shopping experiences. They consider themselves savvy shoppers. They are willing to experiment

Exhibit 3: Consumers are changing in a big way. They ...



...WANT TO SHOP WHENEVER/WHEREVER

- Accustomed to convenience, access, and flexibility
- Want immediate gratification without unnecessary effort



...WANT NEW, EXCITING PRODUCTS & EXPERIENCES

- Can grow bored quickly with mass-produced products and standardized assortments
- Prefer experiences to ownership



...CONSIDER THEMSELVES SAVVY SHOPPERS

- Refuse to pay full price after years being trained to expect promotions
- Enjoy a “treasure hunt” to find the best deals



...DEMAND PERSONALIZATION

- Expect companies to understand and track customers
- Want experience and products to be customized



...ARE WILLING TO EXPERIMENT

- Willing to try new models such as subscribing, renting, and sharing
- Explore the potential of different brands



...SHARE AND EXPRESS THEMSELVES ONLINE

- Use social media to manage personal style and identity
- Can connect and validate instantly within network

with new, innovative companies and brands. They crave personalization. And they want to express themselves through clothing – and share the results on social media.

The other reason the model has collapsed is the industry's response to these consumer shifts. The apparel-and-footwear market has not stayed still. In fact, tectonic shifts have been underway for some time.

The rise of e-commerce has made many individual stores unprofitable, threatening the entire chains they are part of. Web-only players are gaining strength: They don't have the burden of store overhead or inventory, and they don't need to transform an old model into something new.

Fast fashion has created expectations both for "seasonless" clothing and for the rapid availability of new, fashionable items. So other retailers need to come out with new products more quickly, while managing the risk of obsolescence from styles that fail – and keeping prices low.

Promotions have lost their impact. They used to drive consumers into stores and to websites, but have become so pervasive that consumers now expect them. New types of offers, such as those in the off-price channel, are rapidly gaining share. The result is further margin pressure.

Finally, technology has lowered the barriers to entry for new players, and led to appealing new models including subscription, rental, and consignment. All these challenge traditional conceptions of how consumers like to shop for clothing and shoes. So, incumbent apparel and footwear companies can no longer sit atop a large, store-based distribution network and consider themselves safe.

To help clients navigate this uncertain competitive environment, we have analyzed successful apparel and footwear companies, as well as some that have failed to adapt. Our observations, research, and experience have led to 10 actions – or plays – that will dramatically raise the chances of success for apparel and footwear companies over the coming years.

FOCUS ON THE CONSUMER

1. Create a 360° view of the consumer
2. Build a compelling brand experience
3. Mine data for insights

UPDATE THE MODEL

4. Develop omnichannel capabilities
5. Speed up



GET THE ECONOMICS RIGHT

6. Simplify and streamline
7. Improve the value strategy
8. Re-engineer costs
9. Implement metrics 2.0

DRIVE TOWARD THE FUTURE

10. Foster innovation and exploration

THE 10 PLAYS FOCUS ON THE CONSUMER

► 1. CREATE A 360° VIEW OF THE CONSUMER

The first and most fundamental step is to truly understand the end customer. A 360° view means going beyond basket and transaction analysis and building a more substantial view of customers. What other brands do they buy, and why? Which channels do they prefer on which occasions? Where do they live? How do they interact with social media, and what are the best ways to directly engage with them?

This effort should extend to understanding consumer perception of a brand's current offer. Fashion often means different things to different people, so it is important to understand what customers are specifically seeking. How does a company compare to others in terms of fashion, value, and quality? Mapping out the full customer journey can be a powerful way to identify consumer preferences and needs that can be acted on for different channels, products, and brands.

► 2. BUILD A COMPELLING BRAND EXPERIENCE

The total brand experience has always been important in apparel and footwear, and it will become more so as the retail world transitions toward a truly omnichannel model. The barriers to choosing from many different brands for the same apparel have been reduced to the ability to flip between websites, so brands need to stand out and tell a compelling story more than ever before.

If consumers are going to post pictures of themselves wearing new clothes on social media, the brand needs to resonate with them in some way that provides meaning. This brand must also be consistent across all touchpoints. If the mobile shopping experience is radically different from the marketing campaign or the in-store experience, customers will be left confused and – likely – disappointed. So, brands need to consider the entire customer journey as they proactively develop these experiences.

► 3. MINE DATA FOR INSIGHTS

Companies can put their customer data to work to forecast trends, personalize the customer experience, and promote loyalty. Forecasting can be improved through advanced econometric models that go beyond the underlying demand profile to include holidays, pricing, and promotions. More-advanced models can utilize machine learning to reveal latent features that predict a product's popularity.

Companies can also now harness external data to identify and anticipate trends. For example, by web-scraping social media they can obtain important insights into new fashion trends, popular brands, and buzz-creating campaigns.

THE 10 PLAYS UPDATE THE MODEL

► 4. DEVELOP AN OMNICHANNEL INFRASTRUCTURE

Customer-facing activities rest on a foundation of infrastructure sufficient to deliver on a brand's promise. Omnichannel capabilities are no longer optional and most retailers already have some elements in place. However, the development is often arbitrary and disorganized, and lacks consideration for return on investment and what consumers really want.

Building omnichannel capabilities has a direct impact on many parts of a business. Among other changes, forecasting and ordering capabilities must be updated; distribution capabilities need to be enhanced or repositioned; and incentives and organizational design have to be tweaked. Relatively straightforward policies can have significant knock-on effects. If items bought online can be returned to stores, for example, how does the retailer compensate store employees working on commission who now must process those returns? How are the returns netted out when computing the store's performance? In our experience, operating in an omnichannel environment has implications far beyond setting up the rudimentary capabilities.

► 5. SPEED UP

Fashion is a risky business: It's very difficult to predict which product will be a hit and which won't. One way to mitigate this risk is to dramatically speed up the process from concept to customer, so that customer feedback can be rapidly incorporated. This is one of the things fast-fashion players such as Zara do particularly well. In essence, they make a large number of small bets on new products, and then assess customers' reactions before ordering larger volumes. This customer-centric business model has substantial implications for the product design and production processes, the supply chain, and stores.

Fast-fashion is difficult to execute halfway, as it represents a fundamental shift in approach. It appears, for example, to require a vast proliferation of products, thereby raising complexity in the supply chain. However, there are ways to do "smart fashion" that generate the benefits of fast fashion without excessive new costs. This model can help traditional players gain many of the benefits of fast fashion without overhauling their companies from the ground up.

THE 10 PLAYS GET THE ECONOMICS RIGHT

► 6. SIMPLIFY AND STREAMLINE

Complexity can complicate and slow down decision-making, leading to missed opportunities and higher costs, which can make it difficult for companies to offer competitive pricing and improve their value perception. Apparel and footwear companies are especially prone to complexity due to their constant push for more products, more brands, and more stores. Some brands have created so many sub-brands that consumers are confused over the brand's actual value proposition is.

Apparel and footwear companies often have a long tail of underperforming items in their portfolio, but the apparently simple solution of chopping off the tail might have side-effects. Closing an underperforming store may seem to make sense, but in the omnichannel era all stores might come to be viewed in the same way as a flagship store in Times Square – that is, to build the brand rather than turn a profit by itself. Sophisticated analytics can help to model scenarios in advance so that simplification is executed with data and insight.

► 7. IMPROVE THE VALUE STRATEGY

The best way for a brand or retailer to improve its long-term value perception is to lower its base prices. However, many companies have become addicted to the promotional drug – which consumers have now grown to expect in apparel and footwear. Promotions certainly drive short-term increases in revenue, but they can be costly for the company and often do little to change value perception.

Other techniques can be used in concert with base prices and promotions, such as loyalty and marketing programs. Brands with wholesale channel partners should review their trade spend with the aim of gaining more control over customer perception and ensuring a better return on investment. Still, it can be very complicated to make these mechanisms work together in a cost-effective manner. To get better results, their impacts need to be tested, tracked, and analyzed as part of a robust approach to governance.

► 8. RE-ENGINEER TO REDUCE COSTS

For companies struggling to maintain revenues, cost management can be a critical short-term measure. However, cost-cutting is often executed with blunt tools. If it is not done with a strategic perspective, and the company is stripped of critical personnel and capabilities, the result may be short-term profits but lower growth prospects.

Cost re-engineering is more strategic in nature and is implemented with an eye on the long-term return to the company. In our experience, we've found many bloated cost buckets are hiding in plain view. Even when the costs are identified, procurement teams are often understaffed or too poorly positioned in the organization to drive sustainable savings. Automation and artificial intelligence can improve decision making and reduce its cost: Intelligent forecasting tools can diminish the inventory burden, for example. Processes can be simplified and duplication reduced, making an organization lighter and more effective. In fact, several of the 10 Plays here can have a meaningful positive impact on a company's costs.

► 9. IMPLEMENT METRICS 2.0

A new pricing strategy and re-engineering to reduce costs can only be implemented if company leaders can predict the impact of the strategies with a reasonable degree of accuracy and explain past performance. To do this, they need a working set of data and metrics. We advocate developing clear and consistent commercial key performance indicators that provide an understanding of how operational activities influence financial outcomes.

This is much more complex in the omnichannel world than it was in the past. For example, how should store performance be evaluated when much of a company's business is being shifted online? Should employees be incentivized to drive sales through a particular channel because it more profitable? Basic metrics need to be re-examined and, in many cases, replaced with new versions – "Metrics 2.0." These should provide insights into the foundations of the new business model, better enabling companies to diagnose problems and drive action.

THE 10 PLAYS

DRIVE TOWARD THE FUTURE

▶ 10. FOSTER INNOVATION AND EXPLORATION

Faster change and heightened competition mean that apparel and footwear companies need to be more innovative. First, they should find ways to significantly increase their decision-making speed and promote an innovation-centered culture. This can be done through rapid processes that promote quick learning for idea generation, exploration, new project development and the management, testing, and launch of products. The processes can help to develop new products, channels, customer experiences, geographies, and brands.

Second, sophisticated M&A capabilities can be the difference between riding a new wave of growth and watching a competitor steal share. Of course, simply making an acquisition does not guarantee success: The acquired company must be successfully integrated to yield benefits. But it is imperative to have an aggressive eye on a growing array of competitors – far beyond three or four peers that have traditionally been considered as competition.

CONCLUSION

Success in the apparel-and-footwear market is increasingly complicated and difficult. Companies can no longer rely on just exposure to more foot traffic; they need to be strong on numerous fronts.

All 10 plays can benefit all apparel and footwear companies in the long term. But some will have a more-immediate impact than others for a particular company. So an important first step for a company is to conduct a self-assessment of its current positioning on each of the plays. A robust gap analysis will reveal areas of vulnerability and potential value. Which plays are most underdeveloped? Which plays require significant investment of time or money? Which plays is the competition pursuing? Which plays are most important for the strategic goals of the company?

Once these questions have been answered, a company can prioritize and select the plays to pursue. It can then figure out how they can lead to growth and profitability in the fastevolving consumer and retail environment.

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 & Consumer Goods 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.

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