Plataforma de Innovación para el Sector Textil - Confección
Retail and Supply Chain Management: trends and challenges for fashion industry in emerging markets

Antonella Moretto
antonella.moretto@mail.polimi.it
• Introduction to Supply Chain Management
• The features of fashion industry
• Supply Chain Management for fashion industry
• The main challenges for fashion companies in emerging markets
- Introduction to Supply Chain Management
- The features of fashion industry
- Supply Chain Management for fashion industry
- The main challenges for fashion companies in emerging markets
Value chain evolution

- Crisis factors
  - Markets instability
  - Life cycle reduction
  - Product range increase
  - Low-cost competition
The context

- Markets instability
- Life cycle reduction
- Product range increase
- Low-cost competition

- Research for flexibility (volume, mix, products, tech)
- Difficulties in managing all competences
- Research for cost advantage

- Deverticalization and outsourcing
- Delocalization
- Focus on "core competence"

- Purchasing relationships more and more important
- Networks more and more important
- Network role in the creation of competitive advantage
Why supply chain management?

- Explosion and volatility in customer requirements
- New products and process technologies
- Request for faster processes
- Internationalization and market globalization

- Optimizing internal processes is no longer enough,
- Need to manage processes going beyond the boundaries of the company
Some definitions

Logistics Management is the **process** of planning, implementing and controlling the efficient **flow and storage of materials** and the **information flow from point of origin to point of consumption** for customer requirements

*Council of Logistic Management, 1986*

Supply Chain Management is a **process-oriented** approach to managing **product, information and funds flow** across the overall **supply network**, from the initial suppliers to the final end consumers

*Metz P., 1998*

- Integration and co-ordination (partnership) reduce logistics costs and increase service level
- “Successful SCM requires a change from managing individual functions to integrating activities into key supply chain processes [involving strategic and operative issues]. The customer remains the primary focus of the process”

*Lambert and Cooper, 2000*
The evolution of SCM

- SCM does not necessarily entail collaboration
- Collaboration costs and takes time and effort
- Selective approach

1. Internal supply chains
2. Customer-supplier relationships
3. External supply chains
4. Networks of companies
• Introduction to Supply Chain Management

• The features of fashion industry

• Supply Chain Management for fashion industry

• The main challenges for fashion companies in emerging markets
The fashion industry

- Short product cycle time
- High demand volatility
- Low demand predictability
- Impulsive purchases
Different level of exclusivity

**ABSOLUTE**
- Global brand reputation
- Values of the brand (e.g., ethical purchase)
- Creation of a lifestyle
- Emotional exclusivity

**ASPIRATIONAL**
- Extreme exclusivity (price, selective distribution)
- Icon brands
- Unique products
- Heritage of craftsmanship
- Country of Origin
- Emotional appeal

**ACCESSIBLE**
- Exclusivity
- Premium quality
- Global brand reputation
- Recognizable style/design
- Emotional appeal

Adapted from Altagamma (2008)
Critical success factors

**Luxury CSF**
- Premium quality
- Craftsmanship
- Superior performances and innovation
- Exclusivity
- Uniqueness
- Style and design
- Lifestyle creation
- Emotional appeal
- Brand reputation
- Country of origin

**quality and craftsmanship** along the whole SC: suppliers/outsourcers selection based on quality and competences; long term relationships and partnerships

**exclusivity and uniqueness** elements: scarce resources (materials, technologies and competent craftsmen) along the supply chain; protection of style, design and brand features; limited editions

co-design with internationally known designers and experienced outsourcers and suppliers

Create *emotional appeal* by providing superior shopping experience: downstream integration, single brand DOS, control distribution, communicate the *brand lifestyle*

Specific facility location (e.g.: Italy for leather goods, France for jewellery, Switzerland for watches)

Entidad financiadora: ATN/ME-11550-CA
Entidad ejecutora: Bid, Ovin, Inexmoda
Entidades de apoyo: Camera di Commercio
Proyecto aliado: Moda Cluster
Pursue success through three dimensions

**BRAND**
- Brand reputation
- Heritage of craftsmanship (since 1XXX)
- Emotional appeal
- Creation of a lifestyle: feel the brand values
- Country of origin: made in Italy/France/Switzerland...
- Service level: customization, shopping assistance
- Elements of uniqueness: shortage of materials, hand-made details, limited distribution
- Ethical aspects

**PRODUCT**
- Premium quality: materials and craftsmanship
- Design and aesthetic: embody the personality of the creator
- Technical performance

**CHANNEL**
Pursue success through three dimensions

- **BRAND**
- **MARKETING**
- **CHANNEL**
- **PRODUCT**
Pursue success through three dimensions

- **BRAND**
  - Brand creation
  - Brand awareness
  - Brand extension

- **CHANNEL**

- **PRODUCT**

Entidad financiadora:

Entidad ejecutora:
Pursue success through three dimensions

**BRAND**

- Brand creation
- Brand awareness
- Brand extension

**CHANNEL**

**PRODUCT**

**MANUFACTURING**
Pursue success through three dimensions

- **BRAND**
  - Brand creation
  - Brand awareness
  - Brand extension

- **CHANNEL**
  - SOURCING – MAKE or BUY - DELIVERY

- **PRODUCT**
  - MANUFACTURING
Pursue success through three dimensions

**BRAND**
- Brand creation
- Brand awareness
- Brand extension

**CHANNEL**
- Choose the most suitable FCS mix according to the brand evolution
- Align operations strategy towards the set of FCS

**PRODUCT**
- Use Supply Chain excellence to build and support brand reputation
• Introduction to Supply Chain Management

• The features of fashion industry

• Supply Chain Management for fashion industry

• The main challenges for fashion companies in emerging markets
The supply chain for fashion
What’s the role of Operations and Supply Chain in the luxury business?

- Success in recent years was based on building brand image and on extending product range
  - Loss of “material” competitive advantages
  - Risk of diluting brand exclusivity into accessible lines
- Consumers are now more literate as regards quality in product/services and accept to pay a premium price when their requirements are satisfied
- Fashion effect: product lifecycle is everyday shorter
- New and aggressive players are now entering the market

“HIGH STANDARDS CAN AND MUST BE MAINTAINED THROUGHOUT THE SUPPLY CHAIN FROM PRODUCTION TO DISTRIBUTION IN RETAIL STORES” Bernard Arnault, 2007

Luxury brands can no more live on brand image alone. Physical processes have to be taken into account.
What’s the role of Operations and Supply Chain in the luxury business?

<table>
<thead>
<tr>
<th>CAUSES</th>
<th>IMPACT IN OPERATIONS AND SUPPLY CHAIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rising attention to operations and supply chain</td>
<td>• Companies restructuring their supply chain</td>
</tr>
</tbody>
</table>
| Globalization of luxury market | • Attention to distribution  
• Attention to retail |
| Outsourcing of manufacturing processes | • Coordination  
• Control |
| Different requirements depending on the type of luxury | • Availability for accessible lines  
• Superior service for exclusive segment |
Outsourcing over time

Outsourcing

Malo
From the yarn…

Cartier
Apprentice atelier

Piquadro
China

Gucci
- Perfumes, glasses
- Zama: casual dress

Armani
Guardi: shoes

Brand creation

Brand awareness

Brand extension

time
Outsourcing over time

- Brand is one of the most critical asset to be managed by luxury firms
- Outsourcing and make or buy decisions generally are related to brand management
- Different trends can be observed

![Diagram showing the relationship between outsourcing and time, with stages for brand creation, brand awareness, and brand extension.]

Strong internal competences
Leverage on suppliers to start-up
Control on quality of products and services
Outsourcing over time – Gucci case study

- **Make:**
  - Design only

- **Buy:**
  - Assembly: approx. 100 dedicated small firms around Florence, they work as the “production department” of Gucci
  - Components (tanned leather, metal parts, etc.): approx. 500 suppliers, all Italian
  - Raw materials: leather from northern Europe, Crocodile from Australia and USA, etc.
The luxury effect

Luxury category

HIGH LUXURY
- Exclusivity
- Unaffordable price
- Implications: Extreme variety (customization)

INTERMEDIATE LUXURY
- Availability
- High price
- Implications: High variety
- High volumes

ACCESSIBLE LUXURY
- Availability
- High but still affordable price
- Implications: Serial luxury
Choices along the supply for different brands

**Absolute brands**
- Made in Italy/France
- Unique components/handmaking
- Inhouse manufacturing/vertical integration
- Outsourcing to specialist companies

**Aspirational brands**
- Controlled distribution
- Characterization of monobrand stores
- MTO approach
- Made in Italy/France
- Exclusive store

**Accessible brands**
- Offshoring
- Not precious materials
- Both controlled and independent distribution
- Brands manufacturers not in house
The fashion effect

Fashionableness

FASHION 10 weeks

Characterization

Variety Innovation

Implications

Responsiveness Flexibility

SEASONAL 20 weeks

Availability

Complete renewal every 6 months MTO + 10%

CARRYOVERS Long lifecycle

Basic Evergreen

Easy forecast
The picture of the situation

Fashion effect

- **CARRYOVER**
  - 20% of the market
  - Shelf life: 20 weeks

- **SEASONAL**
  - 45% of the market
  - Shelf life: 10 weeks

- **FASHION**
  - 35% of the market
  - Shelf life: 10 weeks

Level of exclusivity

- **HIGH LUXURY**
- **ACCESSIBLE LUXURY**
- **MASS MARKET**
The picture of the situation

Level of exclusivity

ACCESSIBLE

Jaguar XK8 convertible

CARRY OVER

HIGH LUXURY

Louis Vuitton Bag autumn09

SEASONAL

ACCESSIBLE

Cruise collect. G.Armani 10

FASHION

PRODOTTI BASIC 20% del mercato

PRODOTTI STAGIONALI 45% del mercato

Shelf life: 20 settimane

PRODOTTI FASHION 35% del mercato

Shelf life: 10 settimane

Fashion effect
### Level of exclusivity

- **HIGH LUXURY**
- **ACCESSIBLE LUXURY**
- **MASS MARKET**

### Product Categories

<table>
<thead>
<tr>
<th></th>
<th>Carryover</th>
<th>Seasonal</th>
<th>Fashion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Jaguar XK8</strong></td>
<td><strong>Louis Vuitton Bag autumn09</strong></td>
<td><strong>Cruise collect. Armani 2010</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Mont Blanc Meisterstück</strong></td>
<td></td>
<td><strong>Furla aut-inv 08/09</strong></td>
<td><strong>Cruise collect. D&amp;G 2010</strong></td>
</tr>
</tbody>
</table>

### Shelf Life
- **PRODOTTI BASIC**: 20% del mercato
- **PRODOTTI STAGIONALI**: 45% del mercato
- **PRODOTTI FASHION**: 35% del mercato

### Fashion Effect
- **CARRYOVER**
- **SEASONAL**
- **FASHION**
The picture of the situation

**Fashion effect**

**Cross-analysis**

- **HIGH LUXURY**
  - Jaguar XK8 convertible

- **ACCESSIBLE LUXURY**
  - Mont Blanc Meisterstuck

- **MASS MARKET**
  - Basic of Benetton

**SEASONAL**

- **CARRYOVER**
  - Louis Vuitton Bag autumn 09
  - Furla aut-inv 08/09

- **FASHION**
  - Cruise collect. Armanni 2010
  - Cruise collect. D&G 2010
  - Benetton spring-sum 09
  - Zara Yellow Fever

**Shelf life:**
- 20% del mercato
- 45% del mercato
- 35% del mercato
The new challenges

- Market globalization
- De-verticalization
- Offshoring of production activities
- Importance of distribution activities
- Time-to-market
- Time-to-serve
- Time-to-react
A new SC approach: the fast fashion

ZARA VIDEO
Zara case: the context

**Products:**
- 3 product categories (man-woman-kinds), 6 brands, 300,000 new products per year
- Direct own retailers

**Marketing:**
- Stock-out as “exclusivity”
- Internal design per product category

**Production:**
- 22 plants in Spain
- Vertical integration
- Small size production
- Low utilization of the production capacity
- Postponement
Zara case: the 4 principles

- Total control of the product flow, from sourcing to retailing
- Strong attention to information flow, for the management of sales information, the automation of the NPD process and the production
- Internal flexibility: over-capacity
- Optimization of the sum of the single supply chain problems
  - Small batches
  - Frequent deliveries
  - Fast transport
  - Low saturation
  - Stock-out as a commercial leverage
The fast fashion

- Concept and design
- Sampling and procurement
- Sales campaign
- Production
- Retail and distribution

15 months

C&D

Proc

Prod

Distr

13 weeks
The fast fashion

• Objectives:
  – Reduction of the purchasing and production lead times
  – Creation of new collections every two weeks
  – Competitive priorities: price as order winner, variety and new product availability as market qualifier
  – Strong emphasis on design and new product development. Involvement of the store managers in the creative phases

• Approach consistent with a trend follower strategy
• Introduction to Supply Chain Management
• The features of fashion industry
• Supply Chain Management for fashion industry
• The main challenges for fashion companies in emerging markets
The new challenges

• Following shifting demographics
• Revising business models
• “Direct to customer” strategy
• Strategic alliances
• International presence growth
• Scope-economies exploitation
• Green and ethical supply chains
Following shifting demographics

• “New relevance”:
  – luxury not relevant to younger at the moment
  – need to recruit new young customers to luxury business

• New needs:
  – from aspirational to experiential
Revising business models

- People panicking during recession
- Do not depend upon undependable partners!
  - “If you control manufacturing, you control quality
  - If you control distribution, you control image” (Arnoult)
- Reduce licensing, increase control
  - In the short term, the shock of losing regular income from license partners…
  - In the long term having control improves profits
“Direct to customer” strategy

• Reconfiguration of distribution policy
• Getting rid of intermediaries
• eCommerce…
  – …is not about growing the business
  – …it is about a new powerful channel to get in contact with the market
  – One of the main benefits of eCommerce is market intelligence – true data!
Strategic alliances

• Strategic alliances to extend brand reach
• …as a way to keep control but still grow! (the “1+1+=3” effect)
  – Gucci & Latin Grammy
  – Ferrarelle & Bulgari
International presence growth

• With local difficulties and slow downs…
• …it is the right moment to grow international presence
• Remember that one of the top target area is not just BRIC, it is US, due to the scarce penetration (so far) of European brands in US market
International presence growth

September 2010 - Shang Xia
French luxury brand Hermes launched an exclusive Chinese designed and manufactured line name Shang Xia in China. Shang Xia is based in Shanghai and designed strictly for the Chinese market. Under the guidance of, Qiong-Er Jiang (creative director), Shang Xia includes ready-to-wear pieces and decorative arts inspired by Chinese culture and traditions of craftsmanship. Hermes’ involvement in the launch of Sang Xia marked the first time Hermes has built a brand from the ground up, and the company’s products are designed, manufactured and sold entirely in China.
Scope economies exploitation

• Most luxury brands to not exist in isolation
• Brand portfolio brings to “parent advantage”:
  – Improved efficiency in group departments
  – Knowledge transfer
  – Common production facilities (as far as the customer doesn’t know…
    YSL sandals manufactured by Sergio Rossi… with significant price
    differences)

What is the “core” business of Louis Vuitton?
Bottega Veneta?
Who is Tory Burch?
Who is Madonna?
Green and ethical supply chain

- Tiffany “no coral” policy
- Bernard Arnault: Excellence and sustainability