

Reduce risks by trimming lead times *Apparel & Footwear Industries*



Highlights

- **Lead Time Reduction Strategies**
Across the Product Life Cycle
Continuum Including:
 - Product Development
 - Pre-Production
 - Production

Reduce risks by trimming lead times

In today's unpredictable economic environment, retailers and consumer product companies (brands) may be challenged to deliver trend-right products in the right quantities to the right locations. This challenge is often exacerbated by long lead times that may require apparel and footwear companies to gamble on open-to-buy decisions a year or more in advance.

These challenges may be considerable, but they are not insurmountable. Based on our experience, apparel and footwear retailers can significantly reduce lead times by thoroughly assessing and addressing each phase of the product life cycle.

Over the past two decades, companies have increasingly shifted product development and production to geographically dispersed locations. Offshoring has improved margins and retail pricing, but we have also observed situations where lead times have been prolonged by six to twelve months. Longer lead times, in turn, have forced brands to determine seasonal plans so far in advance that they are often inaccurate.

In fact, this level of advanced planning can present two risks: Products may not resonate with customers and open-to-buy commitments may become inflexible. The apparel and footwear industry can be subject to short-term variations which can impact purchases. This, combined with other factors like an exceptionally cold spring season or rising gas prices, can result in excess or insufficient inventory.

Brands can lessen these risks by reducing lead times. To do so, they will likely need to improve their planning capabilities, business processes, and supplier policies.

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Trimming lead time in product development

In the apparel and footwear industry, the lead time for development of outsourced products often exceeds that of the production and transportation cycles. The reason? Differences in language and culture, as well as geographies distance, can present significant communication barriers between suppliers and customers.

Another source of delay: Suppliers often cannot quickly develop new products because they lack access to raw materials. As a result, brands may incur significant expenses to keep production timelines on track by shipping samples overseas and visiting factories in person.

One way to anticipate these challenges is to build additional time into time and action (T&A) calendars. For some product lines, however, a more proactive approach will likely be needed. Brands, for example, should consider investing directly in specialized machinery for production of quick, cost-efficient product samples. Take, for instance, the product development cycle in the denim category. Development of a new fabrication can require a minimum production lot of 10,000 yards with a lead time of four to six weeks. After developing the fabric, brands must conduct extensive quality testing in the washing process, which typically stretches the lead time an additional two to four weeks.

Brands that invest in hand looms and small laundry equipment can produce as little as 100 yards for product samples and can reduce the end-to-end development time to two to three weeks. Some considerations to evaluate ROI for this type of investment include margin contribution, trend stability, and cycle-time reduction. It may also be necessary to assess tax and environmental regulations that apply to location and legal structures. For less critical products,

organizations can reduce lead times by implementing more effective management policies with strategic suppliers. Doing so will likely require that performance metrics are defined and designed to reward suppliers for more quickly developing products. Tools such as product life cycle management (PLM) solutions can help achieve these goals by integrating product development with merchandise calendars, providing end-to-end visibility of product-development activities, and analyzing supplier performance. In addition, PLM tools can enable a seamless integration of cross-functional activities such as merchandise planning, procurement, and pre-production.

Increasing efficiencies in pre-production processes

One way to reduce lead time in the pre-production phase is to facilitate procurement of raw materials and streamline regulatory lab testing.

Efficient procurement of raw materials and trims may require that brands work with suppliers to enhance their vertical capabilities or to establish relationships with providers located near existing factories.

Suppliers can be encouraged to make small investments in equipment like a hang tag printer, for instance, or in larger endeavours such as upstream vertical capabilities to increase control, reduce risk and shorten lead times. Brands, for their part, can improve relationships with key suppliers by implementing performance metrics and monitoring operations, and rewarding high performers with additional business opportunities. In addition, a detailed assessment of regulatory and organizational lab testing policies can enable brands to streamline testing procedures and eliminate unnecessary

requirements. This also will likely help ensure that products meet established quality standards, as well as adhere to state/provincial and federal regulations.

Consider, for instance, lead testing for graphic T-shirts in which many brands require a test for every style and color combination. Suppliers that demonstrate consistent positive results could employ streamlined shade-band testing procedures that can help trim lead time by a week or more—and cut lab testing fees in the process.

How planning and supplier partnerships enhance production

Brands can reduce production lead times by leveraging disciplined planning and enhanced supplier-partnership agreements. Doing so will likely help suppliers maintain ideal safety stocks of raw materials, works in process, and finished goods. Better planning and partnerships will also likely help suppliers guarantee in-stock levels and fill rates.

Apparel and footwear products have significant demand variations and comparatively short shelf lives, which may require a thorough category analysis before implementation of a stock-guarantee program. Considerations should include seasonality profiles (informed by the demand curve for a particular product), product complexity, category maturity, and supplier competencies.

In a mature model, brands can rely on trusted suppliers to perform category planning. Doing so will likely require that the retailer provide clear requirements on fulfilment targets, in-stock levels, and inventory turns, with a long-term emphasis on improving performance. In a simple model, brands can establish the raw materials and trim inventory levels to be maintained by suppliers. This approach is appropriate for items like socks and

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underwear because these products are not seasonal, are simple to manufacture, and are subject to minimal trend sensitivity; accurate planning and inventory control are comparatively easy. At the other end of the spectrum, trend-sensitive categories like fashion blouses are likely more suitable to a model in which suppliers maintain stock of convertible raw materials like greige yarn.

In either scenario, lead times reduced significantly by careful planning and disciplined supplier partnerships. To be successful, however, brands should carefully consider the final stages of the product life cycle to minimize obsolete inventory levels throughout the supply chain.

Planning to a T

A plan to reduce lead times will vary by business, of course, but following is an example of how strategy might play out in one type of apparel company, a global retailer of graphic T-shirts.

In this example, the organization moved production of its graphic T-shirts overseas to improve margins. The move unexpectedly resulted in significant inventory management issues, which in turn extended lead times to nine months due to T&A extensions on product development, production, and transportation. These longer lead times made it difficult for the company to quickly react to changing trends, and it missed a significant opportunity that its competitors captured. The result? Significant lost revenue and mark-downs on existing inventory. To redress the situation, the brand conducted an end-to-end assessment of its supply-chain processes. This analysis identified several initiatives that would enable the company to more quickly react to market trends, including:

- Enhanced partnership with key suppliers to maintain inventory levels of greige fabric stocks;
- A 40% reduction in product testing requirements.

When implemented, these factors resulted in a 64% reduction in end-to-end lead time. By trimming lead time, the company also improved its planning capabilities and was able to agilely react to fashion trends. Combined, these improvements yielded a 25% increase in margins in the company's graphic T-shirt category. The company can now more effectively control inventory and deliver the products that consumers want.

Contacts

For a deeper discussion of how to reduce risks by trimming lead times, please contact:

Bob Moncrieff, US Retail and Consumer Operations Leader
PwC
(408) 817-4333
bob.moncrieff@us.pwc.com

Brian Houck, Retail & Consumer Operations Director
PwC
(312) 298-6513
brian.m.houck@us.pwc.com

Joel Alpert, Retail & Consumer Operations Manager
PwC
(973) 236-5820
joel.alpert@us.pwc.com

- Acquisition of sampling equipment for screen-print development;