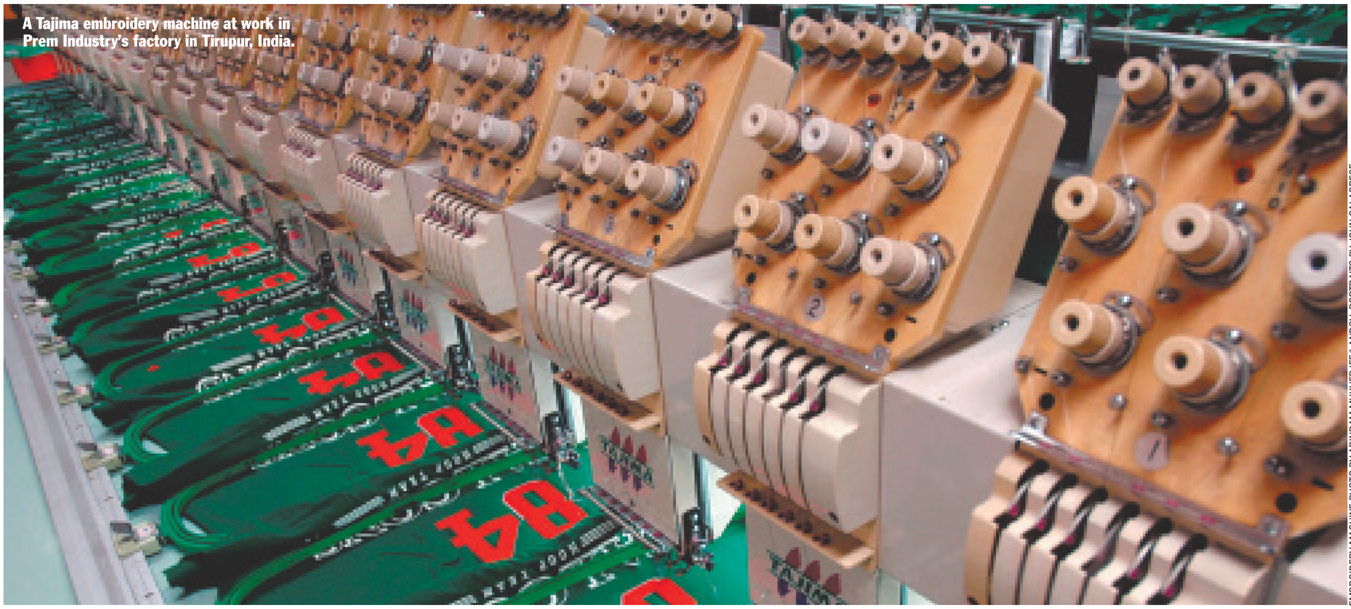
WWD Forum: Apparel Comp



A Tajima embroidery machine at work in Prem Industry's factory in Tirupur, India.

EMBROIDERY MACHINE PHOTO BY ARINDAM MUKHERJEE/LANDOV; PORTRAITS BY JOHN CALABRESE

By Cate T. Corcoran and Denise Power

NEW YORK — Getting product to market faster, understanding the customer and switching to new software and systems gracefully were the main themes of a one-day WWD Technology Leadership Forum held here June 22. Other topics included merchandising, outsourcing and the collaborative Internet. One big issue that emerged was the difficulty of switching to new software and processes — especially at the same time. Another challenge discussed was that, like it or not, technology is always evolving, so change is constant.

Here's what the speakers said:

Victoria Cantrell, senior vice president and chief information officer, Giorgio Armani Corp., the U.S. subsidiary of Giorgio Armani SpA.

Giorgio Armani Corp. will test this month an advanced selling system that may loosen sales associates' firm grips on their so-called "black books," while boosting sales and shopper loyalty.

Victoria Cantrell said staff at the test stores will access customer-specific data typically recorded in notebooks — such as purchase history, style preferences and size — through wireless handheld computers. The devices will also serve as a gateway to other resources designed to help personalize and enhance the overall shopping experience.

Sales associates are deeply attached to their traditional black books, Cantrell said, and getting them to surrender the proprietary selling tool could prove difficult. However, wireless technology can take the black book concept to the next level and support what she called "pervasive interaction" with the customer.

Staff will be able to access inventory information via the handhelds anywhere on the sales floor or in a fitting room, for example, rather than having to abandon a customer to retrieve that data from a central computer. Through the units, staff will be issued specific instructions on how to solidify a relationship with a customer, based on that individual's history. The handhelds will also serve as a link to the finer points of all things Armani and provide extensive details about an item in a new collection.

"It's important for sales associates to understand the fabrications, the styling and Mr. Armani's idea of how it should be worn," Cantrell said. "It's very important to have that product knowledge."

Victoria Cantrell

The three-month pilot will involve three test stores and three control stores. The handheld computers are Pocket PCs from Symbol Technologies of Holtsville, N.Y., and software is from Atlanta-based Retaligent.

New York-based Giorgio Armani Corp. has been working to enhance its relationship with customers for several years now to improve loyalty, conversion rates and increase the dollar value and number of units in an average transaction, said Cantrell.

Customer data was analyzed "and we learned some scary information," she said. A very small segment of Armani's total customer base in the U.S. — the top 5 percent — is responsible for a disproportionately large amount, 47 percent, of total sales. That data underscored a mandate, she said: Protect that top-spending tier of customers and grow the next 30 percent tier through up-selling, cross-selling and greater loyalty.

The wireless test falls into the company's broader strategy for customer relationship management, a discipline Cantrell has worked on for eight years at both Armani and Gucci. Though there are challenges, she remains passionate: "Some days I say I push the rock uphill," she said. "But to me, it's the most important rock in the business."

Jason Epstein

Jason Epstein, chief technology officer, Elie Tahari Ltd.

Employees at Elie Tahari used to spend half their day answering questions from other departments. Now product life cycle management software from Business Management Systems gives designers, sourcers of fabrics and trims, sample makers and other employees a window into data relating to product design, development and production — without a phone call or e-mail.

All the information is available in one shared location where anyone can view it. Previously, the data was stored on individual Excel spreadsheets on users' desktop computers.

"PLM is more methodology than technology," said Jason Epstein. "It's about passing info from one part of the supply chain to another and avoiding double entries."

In addition to freeing up employees' time, PLM has allowed the company to purchase its trim in bulk, Epstein said. Also, managers get exception reports at the end of the day, which allows them to better manage the business. For example, they can react quickly if Tahari has bought too much or too little of a trim.

However, for some employees PLM increases the workload. So it's key that everyone understands what the gains are for the overall organization, said Epstein. It's important to get buy-in at all levels. Also, trying to change a process while moving to new software is overwhelming to users and creates more work for them. "This is where we were failing in our own implementation," Epstein said.

Tahari took a step back, mapped out its requirements and made sure the system addressed all user needs so it could ultimately eliminate manual processes.

If existing processes work, companies should create an interface to the new system, then change its process later after users are familiar with the new software. For example, in the first phase of its PLM rollout, Tahari continued to do its actual costing in its existing accounting software. Later, it switched to PLM.

Partnering with users creates momentum. Users liked being able to generate line

panies Restyle With Systems

sheets from the software, and they started using it for other purposes, such as to plan gross margins. The end-of-day exception reports were also popular with managers, since they helped them be more successful. And if information was missing, it helped motivate users to enter it into the system.

The company has also offered an incentive for overseas suppliers to connect to the system: a free day of consulting on networks and other infrastructure to support PLM.

Tahari also realized it didn't have a strong enough support team in place. Every department needed help, so the company brought on a few more IT people to focus on details in just one or two departments.

The PLM rollout, which includes Tahari's overseas suppliers, has been going on for three years and will be ongoing. In addition, the company recently put in a data warehouse with Cognos business intelligence software on top for quick analysis. As a result of the reports, Tahari's overhead per style has decreased. In the future, the company will choose two or three metrics to watch per department to increase profitability. For example, if the design department can reduce the number of samples it produces per style, it could mean significant savings for Tahari, which has 20 people on its IT staff.

Michelle Garvey, global chief information officer, Warnaco

Traditionally, Warnaco was a portfolio of brands that were intentionally kept separate. Now the $1.5 billion company is moving to a single suite of products with integrated enterprise resource planning software from SAP as its centerpiece.

The goal is to increase nimbleness and reduce lead times without sacrificing quality.

When Michelle Garvey joined as Warnaco's global chief information officer, the company had nine ERP systems, five general ledgers and 10 data warehouses. The company didn't have consistent key performance indicators, each brand had different tech packs and even brands that used the same ERP system had different purchase order formats. Each season the company reinvented the wheel.

"We believe a single integrated PLM [program] is the right answer, but we're not there yet," she said.

The company's approach to developing a solution is not rocket science, Garvey said. Committees of users compare processes, determine best practices and identify priorities. The company has developed a standard purchase order form, a standard line sheet and custom software that calculates costing as changes occur.

Michelle Garvey

Warnaco started with swimwear, which is vertically integrated. All other operations are sourced externally. The company started rolling out PLM software but had to stop for lack of resources.

"We are not a technology company," said Garvey. "We are an apparel company facilitated by technology." Warnaco cannot afford to put all its capital into technology all the time, although its list of needs is long.

So the company is taking a staged approach, and rolling out new processes and software one brand at a time. Near-term goals include standard tech packs and fit guidelines, integrating costing and calendar and improving forecasting accuracy.

One of the company's challenges is the differences between operations. When Warnaco moved to a standard purchase order form, some divisions gave up functionality they didn't know they had until it was gone, said Garvey. Different divisions have slightly different processes for a reason, and they cling to them. "Managing the psychology of this is a big piece."

Jamie Pallot, editorial director, CondéNet

Consumers are taking over the Internet, said Jamie Pallot, editorial director of CondéNet at Condé Nast Publications (which owns WWD). They are creating their own media content and that's where the action is — not at the top-down sites of traditional media outlets.

Jamie Pallot

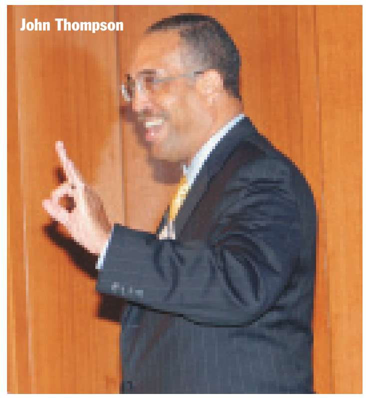
Blogging and tagging are two important aspects of this trend. Blogs are journals, usually on a narrow topic, that are self-published by one individual. Tagging is an emerging method of organizing material on the Web such as photos. For example, users who publish photos on Flickr can tag them with descriptive words such as "streetwear," "vacation" and "South of France" so other users can find them by searching the site.

"Tagging has implications for merchandise on the Web," Pallot said. The Web is a huge filing system where you can find anything you want on any topic. "It's a way to find other people who like the same stuff you do and you can form communities with other people with the same interest," he said.

Important sites include MySpace, Flickr and Digg. Social networking site MySpace, where people can hook up with other people, is the fastest-growing site on the Web because it's complete anarchy and there are no design or editorial guidelines, said Pallot. Digg is a technology news site where the readers post links to the stories they like and vote on their ranking. "It's real-time feedback on what the community finds interesting," said Pallot.

Similarly collaborative sites in the fashion space include MyStyleDiary and Kaboodle. At MyStyleDiary, anyone can create a profile and post photos of what they wear each day and all the items in their closets. At Kaboodle, users can bookmark and tag products to create ongoing shopping lists, which can be shared with friends.

Companies such as Nike are using the Internet to collaborate with consumers on product design, custom-designed products and ad campaigns. Consumers want to be part of the creative process, he said.



John Thompson

John Thompson, senior vice president and general manager, Bestbuy.com, the Internet subsidiary of Best Buy

Best Buy, the $31 billion consumer electronics retailer with ambitions to grow $10 billion bigger in five years, continues to focus on the customer. But exactly how the company does it continues to evolve.

"We don't have the map for how to get this done," said John Thompson. "We are still holding the compass. We are learning as we go."

Launched in 2003, Best Buy's "customer centricity" strategy called for stores to cater to sharply defined customer profiles such as suburban soccer moms and gadget gurus. There was even a targeted customer persona named "Carrie," modeled after HBO's "Sex and the City" character.

"That was a little bit too surgical," Thompson said of the highly granular customer segmentation approach. While customer profiles remain important to the retailer's evolving strategy, market and regional demographics — such as whether a store is located in an urban or suburban setting, or which area of the country it's in — will play an increasing role.

Best Buy's centricity strategy is augmented with merchandise assortment that's tailored to specific markets and price optimization.

Best Buy continues to mine its database of 80 million customers to gain insights into shopper behavior and brand choice. More recently, Thompson said, the company's been tapping employees for ideas about ways to meet unique customer needs.

"We have a goal of growing the company by an incremental $10 billion in the next five years," he said. "The traditional approach that worked in the first 40 years will not be sustainable. We are going to run out of footprint in terms of opening stores in North America."

As a result, Best Buy is expanding internationally. Last month, the Richfield, Minn., company bought a majority interest in China's fourth-largest consumer electronics retailer, the 136-store Jiangsu Five Star Appliance. "And we are evaluating other markets at the same time," Thompson added. Best Buy operates under two banners, Best Buy and Future Shop, in Canada.

To distinguish itself in a market where product commoditization puts pressure on margins, Best Buy is ramping up its services business, such as Geek Squad computer technicians and home theater installation professionals.

It all ties back to the customer centricity initiative and the drive to meet shoppers' end-to-end needs for product and services, he said.

Paul McFarren, senior vice president and chief information officer, United Retail Group

Converging forces in the technology sector and retailers' losing battle to keep pace with the latest advancements mean one thing: "Outsourcing is not an option," said Paul McFarren. "It's a mandate."

But that's not bad, he said. When approached in a strategic fashion, outsourcing to a third party allows small and midsize retailers to innovate faster because they can tap skills and computing power of a much larger organization without the inherent burdens. The $439 million United Retail Group, which operates 500 Avenue apparel stores, outsources its mainframe operations to IBM.

The speed at which technology is advancing along with vendor consolidation creates complexity and systems integration woes that retailers didn't have to cope with years ago, McFarren added. Tackling these challenges without outside help is getting harder, particularly for retailers with lean IT staffs.

McFarren did not suggest all systems be outsourced, but advised companies to consider the option as they evaluate new investments in technology, including infrastructure upgrades such as faster networks. Think of infrastructure as a kind of utility that all applications need to run. "How many of you generate your own electricity?" he asked. "Nobody does that, right? Because it wouldn't be strategically differentiating for you to do that."

About 75 percent of IT infrastructure will be outsourced by 2015, he noted, citing research from Gartner.

Farming out infrastructure to a third party does not mean relinquishing control, he said, acknowledging that retailers have a tendency to be "control freaks." "By accepting responsibility for infrastructure, you actually lose control because you can't hope to keep up," he said.

"The software evolution is not going to stop. It's going faster and software vendors are being pressured to deliver functionality at a rate that is unheard of," McFarren said. For example, IBM revealed a few weeks ago that it's testing a 500 gigahertz microchip, which is more than 100 times faster than today's processors. "This means all the software vendors are going to have to figure out how to take advantage of all this

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Tech Closes Gap Between Product, Consumer

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Paul McFarren

processor speed and capability," McFarren said.

The solutions they develop could undermine the massive investments companies have already made in enterprise resource planning systems, he said. "For those of you who have just implemented an ERP solution, I'm sorry," McFarren said, "because you're going to have to do it again. This is the 'technology-forced march.'"

Further complicating the situation, he said, is the rate at which technology vendors are acquiring other technology companies. "They will spend a lot less time creating an end-to-end software solution that makes it easy for you and a lot more time worrying about how they are going to get their money out of the acquisitions they have made," he said.

As a result, retailers will contend with more systems integration challenges than ever.

McFarren said these forces will push more companies toward outsourcing, but such arrangements should be entered thoughtfully.

"Be careful. Outsourcing does not mean you can abdicate the management of the solution. Outsourcing is best suited toward removing the operational aspects of the solution, but not the management," McFarren said.

Chuck Kramer, senior vice president, general manager, Retail Industry Group, i2 Technologies

The pressure to assort stores according to local demand is mounting. No longer is it acceptable to bulk up on inventory just to hedge against out-of-stocks on style, size and colors. "Wall Street is not very favorable of that approach anymore," said Chuck Kramer, who joined the Retail Industry Group at i2 Technologies this year after a 19-year stint at Payless ShoeSource.


Chuck Kramer

Disjointed internal processes and inflexible technology are the saboteurs preventing retailers from tailoring their merchandise mix to local markets, he said. Still, some are making progress on this front.

Payless is one of them. The tailoring is such that the retailer develops one footwear product mix for its store on Chicago's Michigan Avenue and another assortment for a store located just three blocks away, off Michigan Avenue and near public transportation, he said. The company recognizes that tourists shopping the Magnificent Mile are looking for different offerings than commuters.

The strategy is easy enough to understand, but difficult to execute because assortment planning at most retailers is not a cohesive process, he said. Typically, a merchandise financial plan that establishes top-level targets such as sales and margin goals is developed by one group of people. That plan is handed off to another group responsible for buying and assortment planning. A third group carries out the plan by managing allocation and replenishment, but there may be little or no dialogue among the three groups and no coordination of workflow.

Because no two companies plan in exactly the same manner, technology is usually customized to support unique practices. However, that leads to inflexible systems producing conflicting data that's tough to reconcile across divisions.

"Many companies have legacy systems that have been built over many years by different people with good intentions but it was [adequate only for] a moment in time," he said. "And so systems in this space often do not support a process flow."

Replacing numerous systems that operate in a silo fashion with one big enterprise resource planning system solves the integration problem, but they lack advanced capabilities for tailored assortment planning, Kramer said.

WE International BV, an apparel retailer in Utrecht, Netherlands, with 220 stores in six countries, is among those reaping benefits from better merchandise planning practices, he said. The company, which sells women's, men's and children's apparel, reduced inventory 20 percent and reduced markdowns by up to 10 percent after implementing merchandise planning software from i2 Technologies, he said. WE is also beginning to use assortment planning software from i2.

The traditional push of retailing is shifting to the pull of consumer demand. "We [retailers] don't want to be selling things that our company buys," he said. "We want to be buying things our stores sell."


Kathryn Cullen

Kathryn Cullen, vice president, Kurt Salmon Associates

Traditional companies can boost profitability by "acting vertical" and adopting the collaborative practices, technology and customer focus of vertically integrated companies, said Kathryn Cullen at Kurt Salmon Associates, an Atlanta consulting firm.

"Vertical organizations have 50 percent better earnings than some of the traditional models," she said, citing KSA research that compared earnings before interest and tax for both types of companies. Apparel companies should take cues from the vertical sector and develop what she called an intelligent supply network.

"This is a supply network that is more parallel, rather than sequential" in how processes such as design, sourcing, procurement and product flow are carried out. Such a network links multiple channels of distribution and includes not only suppliers, but other partners such as those providing transportation and logistics.

One way to get started, Cullen said, is through collaborative product development processes and software that allow retailers and suppliers to share information and streamline workflow. Companies that have swapped out spreadsheet-based systems with integrated product development management systems report improved cycle times, reduced costs and margin increases of 5 to 10 percent, she said.

"The bottom line is by acting vertical across the whole supply network, time is measured in days and you start to gain speed and visibility, and if you can do that, you will be more profitable."

Robert McKee, industry strategy director for Lawson fashion, Lawson

In the fashion supply chain of the future, shoppers will drag and drop images of the styles they want from sites such as MyStyleDiary to MyDesign and then MySource and Lectra will develop the underlying technology to make them, quipped Robert McKee of Lawson That would be a truly intimate supply chain, he said.


Robert McKee

But until then, fashion companies need to have one version of the truth so they can work more closely with suppliers and give customers what they want, rather than trying to sell what the vendors happen to have. The industry's focus should be on pull, not push, he said. McKee has held senior-level sourcing and operations positions with a variety of apparel companies, including Warnaco. Lawson makes enterprise resource planning software.

ERP is a single software solution that potentially touches all parts of a company. ERP consists of modules of software that cover functions such as forecasting and demand management, resource planning, operational management such as customer and supplier relations, inventory control and warehouse management. ERP's advantage is that each module is linked to every other module so that it offers one source of truth, so everyone is playing from the same sheet of music. Data must only be entered once, and it is visible to everyone.

ERP eliminates islands of information and is a critical enabler for working with supply chain partners, McKee said. Another benefit: It enables the transition to "lean" principles because it removes wasted motions and dollars from the process, he said.

Following certain rules will help ease the move to ERP. First, define business issues and processes. Then apparel companies should define where they want to be. Only then should they select a software provider. And after that step, they can choose supply chain partners.

Neco Can, chief technology officer, International RFID Business Association
A problem that plagues apparel companies is inaccurate data, said Neco Can, formerly with J. Crew, Abercrombie & Fitch and Gap. Apparel companies need correct data so they can share it internally and manage their processes better, he said.

Companies such as Wal-Mart are turning to Master Data Management, or MDM, an effort to reconcile inconsistent data and formats within a company. Wal-Mart is one of the best companies in this regard, with data accuracy of 85 to 90 percent. Specialty retailers typically have data accuracy rates of 60 to 70 percent, he said.

Old Navy, Banana Republic and Gap have the same customer, but the company is decentralized so it doesn't have a single view, said Can. Each customer appears in multiple databases.

Common issues that all retailers have include contradictory spreadsheets, the struggle to get global sales data and the difficulty of calculating margin across an organization.

The solution is a data hub so everyone has the same view. Better data will lead to better planning, allocation and customer management. This in turn will increase service levels, Can said.

He admitted improving data accuracy is costly, and said it's important to know why you want to do it.

Radio frequency identification, or RFID, is one tool that can help manufacturers get a better grip on what merchandise is in their stores. But it comes at a price, he said. Wal-Mart will probably never put RFID tags on most of the stockkeeping units it sells because tag prices will never reach an affordable 2 cents or 3 cents, he said.

But right now, data accuracy is, on average, at 67 percent, and Can said he wants to take it to 95 percent. "It's not just data," he said. "It's how you can know your customer."

David Rode, North American president, Lectra
Product life cycle management can help companies be more competitive by synchronizing activities from design to shipping, said David Rode. It helps unite design staff, accounting and suppliers — three groups that traditionally don't always mix well.

A changing world means apparel companies need to make better garments faster and more cheaply. Consumers want innovation, yet are sensitive to price. There are fewer players and more competition.

Although companies have moved production offshore to lower costs, they also spend more than in the past to manage that global process and for shipping, said Rode.

Today the biggest barrier to PLM adoption is the difficulty of adopting new business processes, not technical problems such as integrating software.

Companies can now choose between PLM programs designed to work in a variety of industries, such as aerospace, or PLM programs that are apparel-specific. Apparel-oriented PLM software includes design tools such as sketching, color management, prototyping and pattern design.

In the future, PLM might include 3-D virtual prototyping, he said. Such programs already exist, but they are not yet tied into PLM systems.


Neco Can


David Rode