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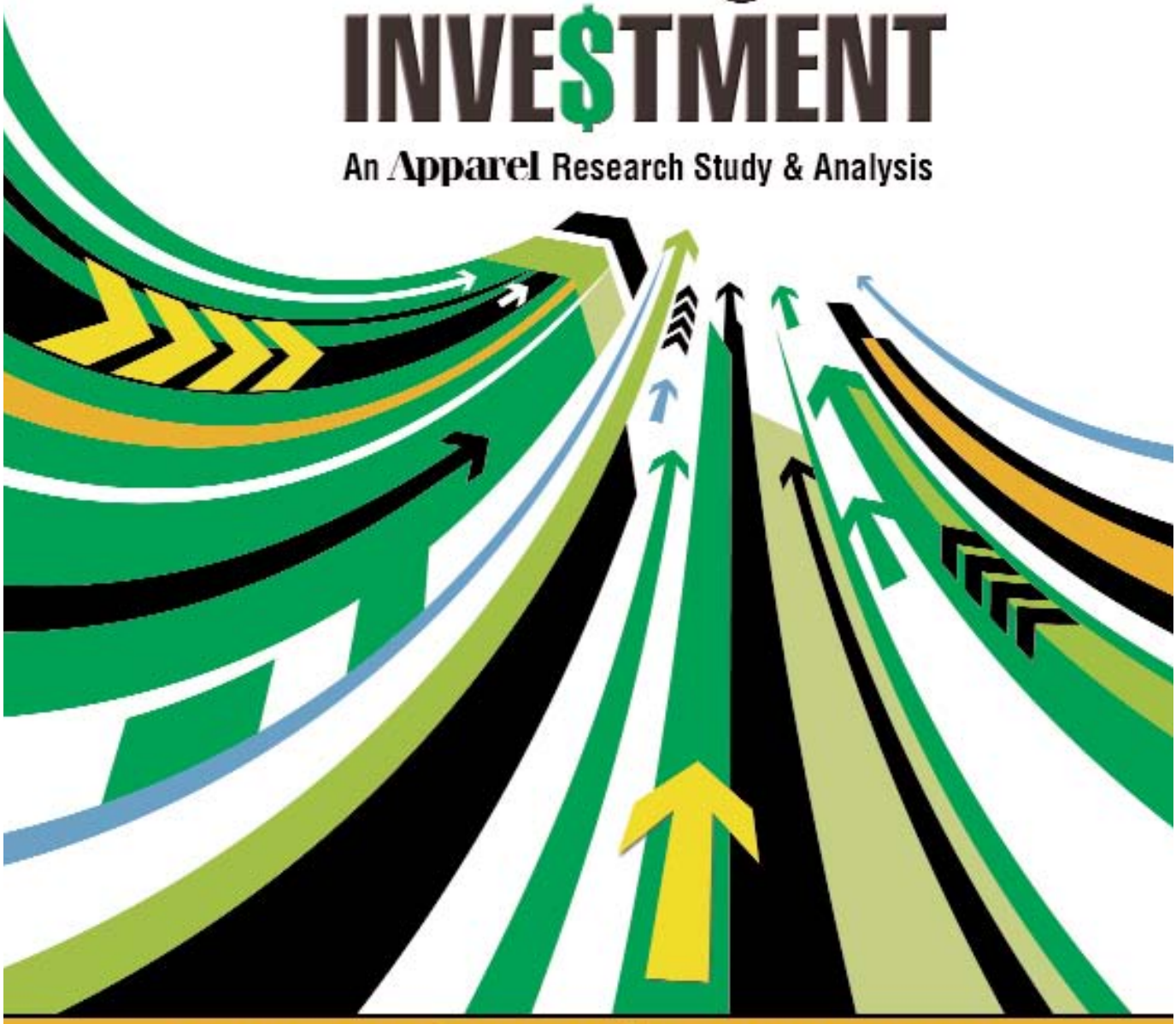
An Apparel Research Study & Analysis



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This second annual study of the state of PLM in the apparel marketplace reveals much about the evolution of PLM implementations and expectations among apparel brands, manufacturers and retailers. *Apparel* Magazine and AMR Research Inc. would like to thank the almost 60 apparel businesses that took part in the survey and shared their latest strategies with regard to PLM.

It's clear that PLM remains a high investment priority in the apparel industry, especially as companies simultaneously spread their reach yet more globally and strive to be first to market with innovative new styles and concepts that will entice the consumer. This year's survey results reflect the reality that, more than ever, PLM takes a team effort including players from design, merchandising, the supply chain, sourcing and the executive suite — both inside the company and within the organizations of the company's vendor base.

This report is designed to help your business benchmark its PLM efforts and hone your strategy. As always, we welcome your feedback.

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PLM Maximizing the INVE$TMENT

PLM projects have become a greater priority for apparel brands, manufacturers and retailers, all of which are putting more focus on who is leading the charge on PLM initiatives and how far PLM rollouts are being integrated into the concept-to-consumer supply chain.

by Janet Suleski, Jeffrey Hojlo and Michael Burkett, AMR Research Inc.

Feeling the pressure to deliver more styles in less time, apparel manufacturers and retailers are evaluating product lifecycle management (PLM) applications to improve time to market, where cycle times are being slashed by 50 percent or more. Adding to the product complexity driven by increased styles are the distributed supply chains used by manufacturers as they outsource manufacturing to Asia and other low-cost regions. Coordinating the iterative process of design and sourcing new products across this global supply chain is a daunting task when managed in an environment of spreadsheets. This is driving demand for PLM as a more scalable platform to support the business.

Time to market remains the top driver of PLM investment according to one-third of companies responding to AMR Research and *Apparel* Magazine's second annual survey tracking the state of PLM technology adoption in the apparel marketplace. This is not surprising, considering that industry leaders report significant improvements in key metrics that result from faster time to market, including:

- **Higher inventory turnover:** five to seven times;
- **Net margin improvement:** 15 percent to 20 percent;
- **Greater full price sell-through:** more than 80 percent;
- **Comparable store sales increases:** 10 percent to 12 percent; and
- **Shopper frequency increases:** 12 to 17 times per year.

Leading apparel manufacturers and retailers have quickly taken a page from the handbook of their counterparts in other industries, where automotive, aerospace and discrete manufacturing companies have long used PLM to support global design teams. Or consider the high-tech industry, where evolving business models were the catalyst for change that drove PLM investment as companies moved to a dependency on outsourced contract manufacturers.

While apparel manufacturers and retailers may not be designing battleships, they have their own unique challenges. For example, for one manufacturer the challenge was coordinating a high rate of change with global partners across 23 calendars on 10,000 materials and 500,000 samples each year. Hitting the market quickly with new fashions allows retailers to capture premium prices, but managing cost and quality are the keys to achieving consistently high margins. Apparel manufacturers, brands and retailers are looking to PLM as a foundation to support both in their pursuit of sustainable and profitable growth.

Defining the PLM footprint in apparel

The increased interest in adopting PLM technology has led to many descriptions of what is included in the functional scope of a PLM footprint. AMR Research does not view PLM as a new business model or process,

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but rather as a business strategy with a set of enabling functionality to support an organization's new product introduction (NPI) process. Based on this approach, AMR Research defines PLM for the apparel industry as including the following:

- **Product data management (PDM) and specification management** — These data-centric processes revolve around the management of all the critical product, material, and component data needed to build a bill of materials (BOM) and ultimately create a complete specification package for the manufacturer. Specification management includes major components such as measurements and grading, construction details, computer-aided design (CAD), or sketch files, and may include costing details.
- **Line planning** — Line plans define the templates for how many items or styles will be created (including color and size definitions) for each product category. Line plans also form the basis for organizing products across the functional teams that must interact with the process, as well as providing a view of the critical financial elements for products and linking to the assortment planning process.
- **Collaborative product design** — Many design departments begin seasonal activities by creating themed storyboards depicting the trends that will influence the line and individual styles. Creating an electronic version of these typically offline creations, usually in a CAD or illustration application, allows designers, technical designers, and trading partners to review, place markups on, and comment on images in a collaborative manner without jeopardizing the integrity of the native file.
- **Development process management** — This encompasses the many critical development activities and approvals that must occur before the completion of a specification. Raw materials development and approval, lab dips, sample approval and performance testing are just some of the elements many companies currently track and control manually or in Excel spreadsheets. PLM applications provide version control and dynamic process visibility, and reduce risks associated with e-mailing Excel files.
- **Workflow, calendar and event management** — Calendars provide the major milestones and timelines associated with the seasonal development cycle for each product category. As companies create timelines, calendar and event management functionality use milestones and dates to track the status of each individual product or development activity against the deadline, and display the status at any point in time. Workflow functionality overlays the individual or role ownership for each task or event and provides a vehicle for routing alerts and notifications that a particular event is complete or needs oversight and action.
- **Trading partner collaboration** — This functionality enables secured access to data by outside trading partners that participate in the development process. This could include the shared entry of material or product data, the review and receipt of product specifications, collaboration on requests for quotation, and the ability to support joint development activities.

And now — the survey results

Apparel Magazine, in conjunction with AMR Research, recently conducted a survey of 56 companies involved in the design, manufacturing and selling of apparel and footwear merchandise. More than half (51 percent) of the respondents were apparel manufacturers, and 42 percent were retailers — vertically integrated with private-label merchandise, offering branded apparel merchandise, or some combination of the two. Companies of all sizes expressed their interest in PLM technology by participating in the study. Thirty-two percent of survey respondents had annual sales of more than $1 billion, 37 percent had sales of $51 million to $1 billion, and 31 percent had sales of less than $50 million.

Because this was the second annual survey on PLM conducted by *Apparel* and AMR Research, we were able to take an interesting snapshot of some evolving investment trends and priorities.

PLM is part of the supply chain and information technology strategy — for most.

Based on the survey, retailers and apparel manufacturers are planning the bulk of future investment in PLM in the next 12 to 24 months **(see Figure 1)**, and many are learning how effective PLM can be in streamlining sourcing strategies, which is so important in apparel. But when asked, "Do you consider PLM a part of your supply chain strategy," 34 percent responded that they do not, or that they don't know if they do or not **(see Figure 2)**. Encouraging, however, is the following:

- 58 percent of participants responded "No" or "Don't know" to this question in last year's survey;
- 16 percent already include PLM as part of their supply chain or IT strategy, versus 9 percent last year; and
- 25 percent are now in the process of including PLM in their supply chain strategy, up from 9 percent last year.

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Companies define "supply chain" differently. While in the past, the supply chain has had an emphasis around logistics — getting material to the right place at the right time — AMR Research is now seeing a greater emphasis on supplier management. Manufacturers increasingly see PLM as an enabler of effective supplier management and sourcing (a critical component of the supply chain), and are learning to maximize their PLM investment, realizing that the NPI development process needs to be tightly integrated with the supply chain.

The broader connection to the demand-driven supply network (DDSN) — that is, using customer and market insights to drive and shape new products — is still coming into focus for apparel retailers and manufacturers. In our conversations with retailers during the past year, AMR Research has uncovered best practice examples of companies instituting processes to capture customer insight, such as:

- Creating incentives for store associates to capture customer data;
- Using customer loyalty data to establish prices, promotions and products that resonate; and
- Collecting input from sales people, who have their fingers on the pulse of the market.

Most companies are using systems such as Microsoft Office or homegrown applications to manage the flow of new product ideas. Few have a robust, cross-organizational system to manage this early stage phase of new product development, where merchandising, design and supply chain teams collaborate around new concepts and line plans. Many PLM systems have functionality to support these processes.

FIGURE 1 – Planned Timeline for Future PLM Investments

When do you plan on making the bulk of your future investments in PLM technology?

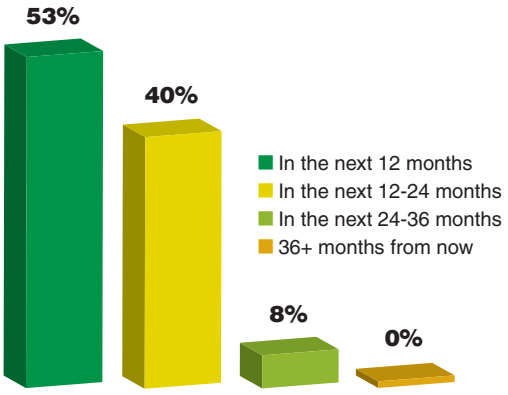
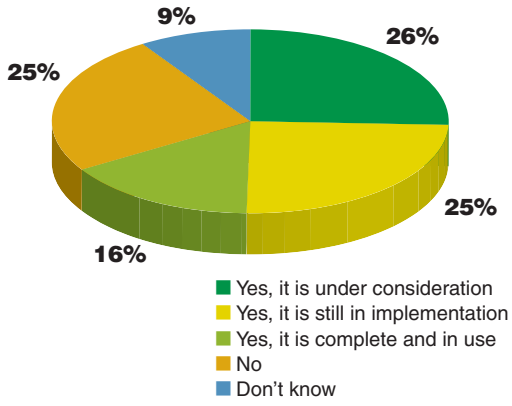


FIGURE 2 – PLM as Part of Supply Chain or IT Strategy

Does your supply chain or IT strategy include Product Lifecycle Management (PLM)?



Early PLM efforts focus on product data management

PDM is the foundation for PLM work being done at apparel companies. Getting data under control is most often the first order of business when deploying PLM. In fact, 43 percent of survey respondents identify this as the current scope of their implementation **(see Figure 3)**. These figures are consistent with last year's results, where 38 percent of companies indicated that PLM rollouts would begin with PDM. The consistency reflects the emphasis companies are placing on getting product development data cleansed and centralized on the way to creating a foundation for more strategic product planning activities. PDM provides a standard library of materials and components that deliver lower cost and improved quality through improved re-use. For global organizations it is core to keeping the extended product launch team armed with the most up-to-date specifications.

Two forms of supply chain data sharing — direct materials sourcing and collaborative design or CAD file sharing — each account for 17 percent of current PLM efforts. Many software vendors now providing broad PLM capabilities began with a focus on PDM or CAD design tools and have added PLM functionality in recent years, accounting for initial PLM footprints including these capabilities. A second group of vendors have approached the PLM challenge from the perspective of direct materials sourcing, supported by sourcing visibility and related workflow and calendaring capabilities. Executive dashboards and line planning functions are being added to existing suites by both sets of vendors, getting attention from more advanced adopters of PLM.

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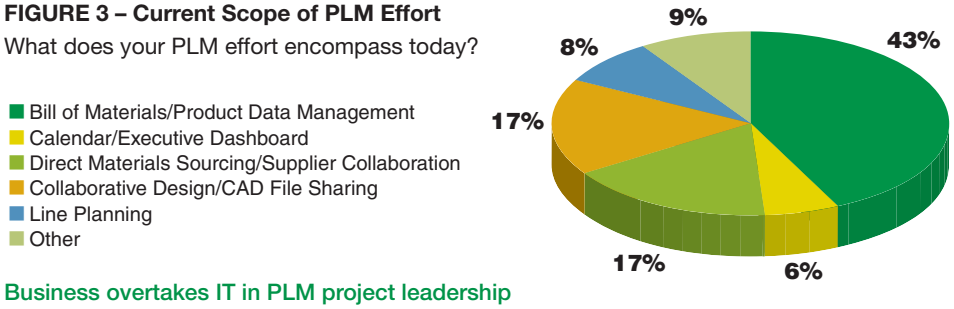
FIGURE 3 – Current Scope of PLM Effort
What does your PLM effort encompass today?

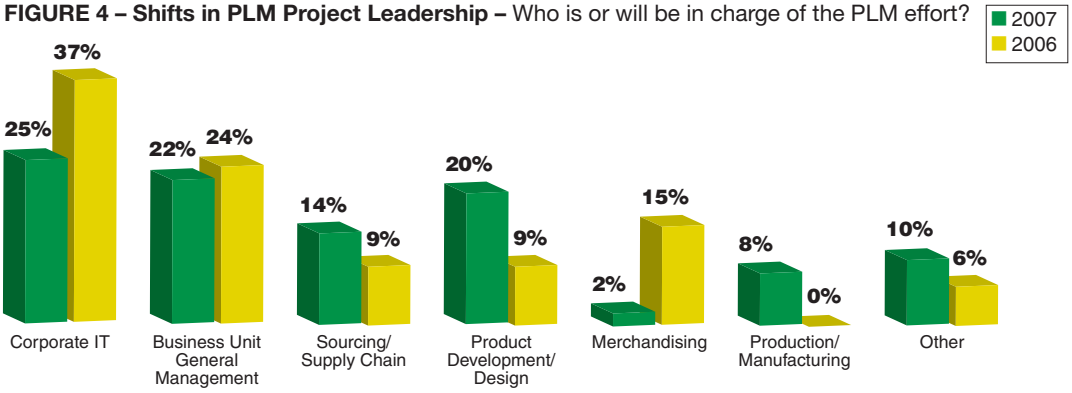


Business overtakes IT in PLM project leadership

The business leaders of apparel companies have clearly seen PLM's role in improving their competitiveness and are taking a more active role in leading PLM efforts. According to this year's survey, 25 percent of companies have their IT team leading the effort, down from 37 percent last year. The percentage of supply chain and sourcing professionals who are leading the PLM charge at their companies increased to 14 percent from 9 percent last year, emphasizing the importance of supply chain coordination for improving time to market. Meanwhile, product development leadership of PLM initiatives more than doubled to 20 percent as these teams recognize the need for more effective innovation strategies **(see Figure 4)**.

This shift in leadership is a natural progression as IT works to get the business engaged. Early PLM efforts often started as technology projects with the goal of putting data into a single location, but failed to achieve the potential business value because of poor organizational involvement. Business leaders are now being held accountable for achieving these time-to-market and cost goals, which is driving them to seek a leadership role to ensure these goals are met. Success with PLM requires a change to the business process itself and cannot succeed as a technology project alone.

FIGURE 4 – Shifts in PLM Project Leadership – Who is or will be in charge of the PLM effort?



Custom applications are out, packaged applications are in

This shift from IT to the business is reflected in an increased interest in commercial off-the-shelf (COTS) packaged applications over custom built or home-grown systems. Where last year barely 50 percent of companies were pursuing COTS applications, this has grown to well over 80 percent, signaling a desire for fully supported PLM applications that provide a foundation to the business **(see Figure 5)**. As PLM project leadership has moved to the business side, the view of PLM as a homegrown IT project has shifted as well. When business leaders become dependent on PLM as a critical infrastructure component, they seek out applications that are fully supported by a partner from a technology and services standpoint.

COTS PLM applications are maturing to meet apparel needs as well, where incumbent apparel vendors and those bringing experience from other industries are making improvements to their applications. Many of the early global PLM implementations in apparel and footwear were built on applications that brought extensive experience from other industries, but lacked domain experience in apparel. After several years of learning industry requirements from these early adopters, the software providers now have apparel-specific templates and workflows that require little customization.

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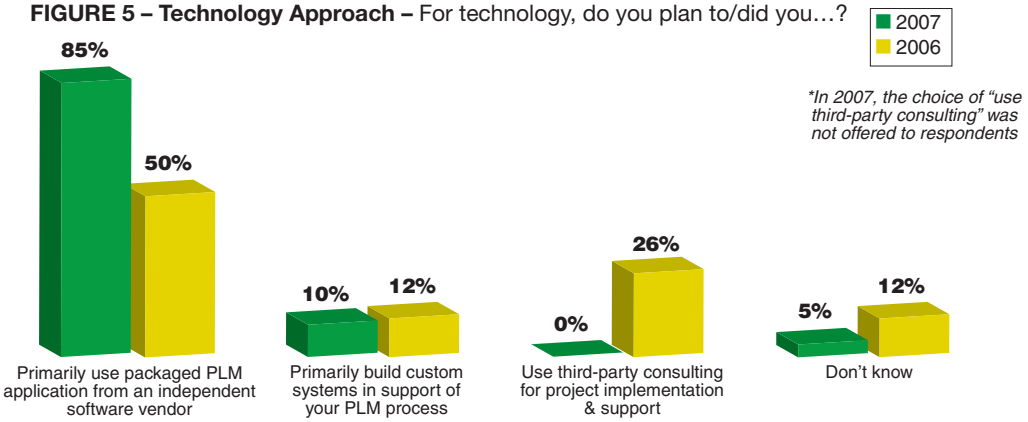
Meanwhile, many of the vendors that have served the apparel design space for well over a decade are responding to customer demand for scaleable PLM and to the increased competition entering the market. They are now adding calendars, line plans and global PDM capability to let current customers expand from initial technology investments.

FIGURE 5 – Technology Approach – For technology, do you plan to/did you…?



PLM spending plans get real, while ROI expectations go higher

Although the most prevalent investment level in PLM systems is less than $100,000, there is a trend upward in those that plan to spend more than $500,000 on their PLM applications. In fact, 18 percent of respondents plan to spend more than $1 million **(see Figure 6)**. A remarkable 58 percent of respondents want a return on investment (ROI) within a year, while last year most expected a return in one to two years **(see Figure 7)**.

The drive for this faster ROI is the need for an NPI system to address the business challenges of increased global competition, and fast-changing consumer trends, and companies see PLM as a tool that can quickly do this. And companies are willing to spend more for applications that have increased functionality while offering relatively short deployment time frames.

Another reason for planned increases in spending may be the change in who is leading the PLM charge. Last year, it was mostly IT; this year, that has shifted to include a greater percentage of business unit manage-

FIGURE 6 – Current and Planned Level of PLM Investment – What amount have you invested in PLM technology to date? Approximately how much more do you plan to invest in PLM?

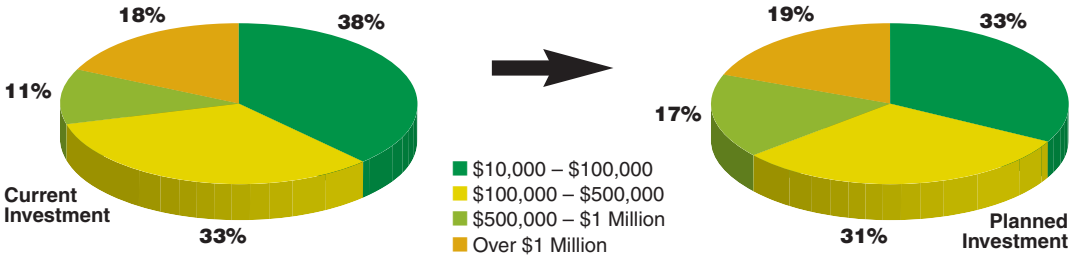
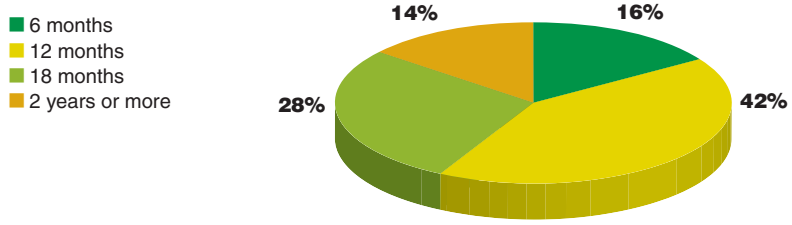


FIGURE 7 – ROI Expectations – Do you expect/did you expect a positive ROI within…?



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ment. In other words, PLM is becoming more strategic to the business and is receiving attention at the executive levels within apparel retailers and manufacturers. The investment level is beginning to reflect the weight being placed on PLM as a strategy and a technology to address important business issues.

Faster time to market and lower product costs drive expected benefits

PLM to apparel businesses is primarily about managing and speeding the delivery of specifications to the right people in the design process (i.e. product data management). It is less about design; just 15 percent plan to use their PLM applications for collaborative design **(see Figure 8)**. PLM systems are used by retailers and apparel manufacturers to maintain revision history, connect with the line plan and draw on standard materials for color and trim. Design is typically handled via the free-form processes that have always been in place such as white-boarding, CAD or illustration applications — a reminder that designing a shirt or a pair of pants is still a creative process. This doesn't mean PLM applications can't be used for design, just that there are existing processes in place that are satisfactory for designers. PLM systems need to integrate with these processes.

The expected benefit of lower product costs (i.e., effective sourcing) was 21 percent last year, declining to 6 percent **(see Figure 9)**. This number most likely declined, much like the design number, due to respondents allocating their answers to "all of the above," a reflection of increased expectations being placed on PLM systems.

FIGURE 8 – Planned Scope of PLM Effort

In what areas do you expect to grow your PLM footprint in the next 12 to 18 months?

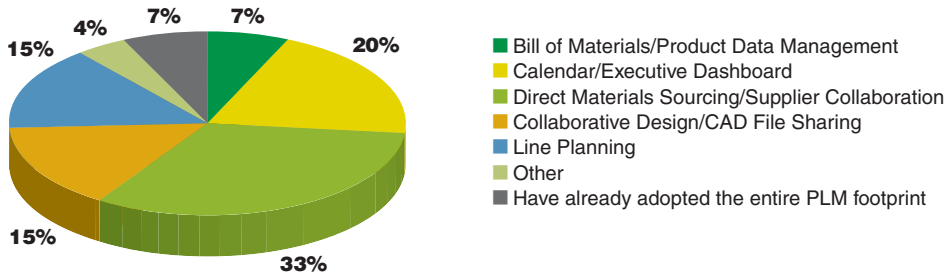
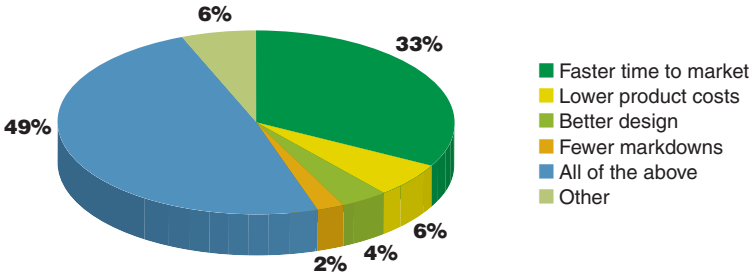


FIGURE 9 – Primary Benefits Hoped For or Achieved

What are the primary business benefits you hope for or have achieved from implementing a PLM system?



Leaders are moving to the next stage of profit maximization

Those leaders who have made an initial PLM investment are now building on that foundation to further improve their new product launch process. Typically manufacturers focus first on getting their data standardized and under control to provide one version of the truth for the extended supply chain to access. They then build on that foundation to automate processes and improve visibility for decision making.

This year's survey reflects that trend as projects extend into the following areas:

- **Direct materials sourcing and supplier collaboration** — Growing the PLM footprint into sourcing is the next priority for companies, where 33 percent state that this will be their next phase of implementation during

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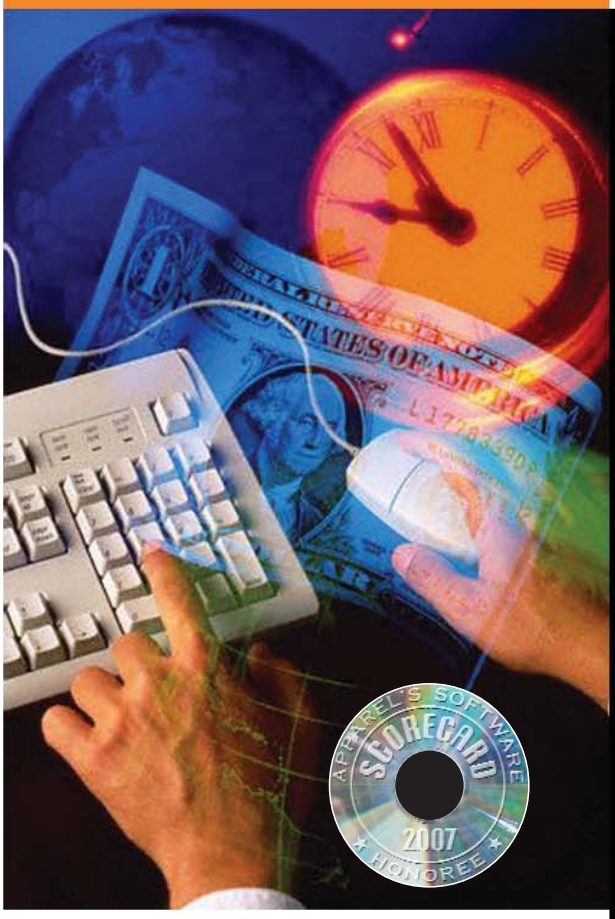

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the next year **(again see Figure 8)**. This is a natural extension of the original PDM foundation and supports a number of processes with suppliers including: request-for-quote, total landed cost analytics and workflow tracking of product sample quality checks.

▸ **Collaborative product design and line planning** — These two areas tie for the second-most-important next step after PDM for 15 percent of respondents. While coordinating the sourcing process is a major bottleneck to time-to-market, collaborating on designs and line plans is where the innovation and market alignment decisions take place. Getting the cross-functional teams of merchandising, design and supply together allows faster iterations of design ideas to ensure market trends are satisfied. Streamlining the design process, in addition to leveraging reusable material and component specifications, will combine to reduce the design cycle component of total time to market.

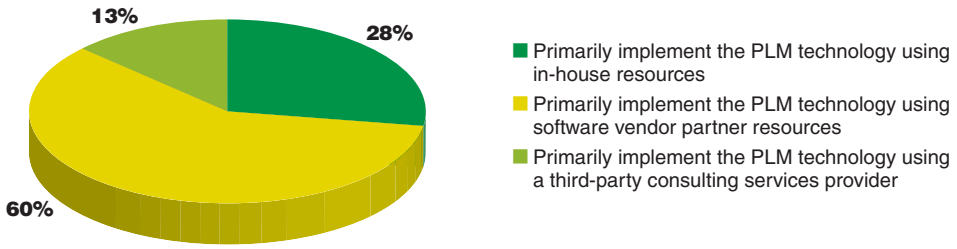
The initial business benefits from PLM often come from consolidating the IT infrastructure, eliminating the many disparate legacy systems and desktop applications so often in use. Laying the initial PDM foundation achieves this first step, but the greater impact comes from operational improvements and helping to achieve strategic business goals. Reducing operational costs and improving quality through business process improvements have a tangible impact on the bottom line that go beyond infrastructure savings. Meanwhile, making the business more responsive to market opportunities provides a strategic competitive advantage that cannot be overlooked.

Extending PLM requires process flow across organizational and technology silos

As companies progress along their PLM journey, they move from the initial PDM data repository to the more complex area of business process flow. This creates a paradox because NPI is inherently a cross-functional business process, yet assigning ownership and achieving consensus across these functions can be one of the greatest obstacles to getting the full value from PLM. Beyond the organizational interaction required, PLM must also integrate with other technology systems to complete a business process flow.

To satisfy the organizational and business process changes required, many companies are looking to external parties to provide the consulting services needed. The most successful implementations typically have a core team consisting of IT, business liaisons and these external experts. While there are independent consulting firms available to provide support, the survey indicates that 60 percent of companies are looking to their software provider to obtain these services **(see Figure 10)**. This approach provides the advantage of having a single partner responsible for total business success. However, because many vendors are either new to apparel or are fairly small, manufacturers should take care to ensure their software provider has sufficient expert staff to scale to their needs.

FIGURE 10 – Implementation Approach – For implementation services, do you plan to/did you…?



PLM applications provide a robust foundation to support the new product launch process, but there are other systems that share data both upstream and downstream. A primary objective in reducing time to market is to eliminate redundant data entry between applications, and to improve the consistency of information shared throughout the organization. As a result, openness of the applications should be a priority for any PLM application selection to support integration with these other systems. ERP tops the list of existing integrations, with 28 percent of respondents having completed this task **(see Figure 11)**. For those with additional integration plans in the future, sourcing is the priority, with 26 percent stating this is next on their list. Other systems on the future integration list include calendaring, procurement and color management.

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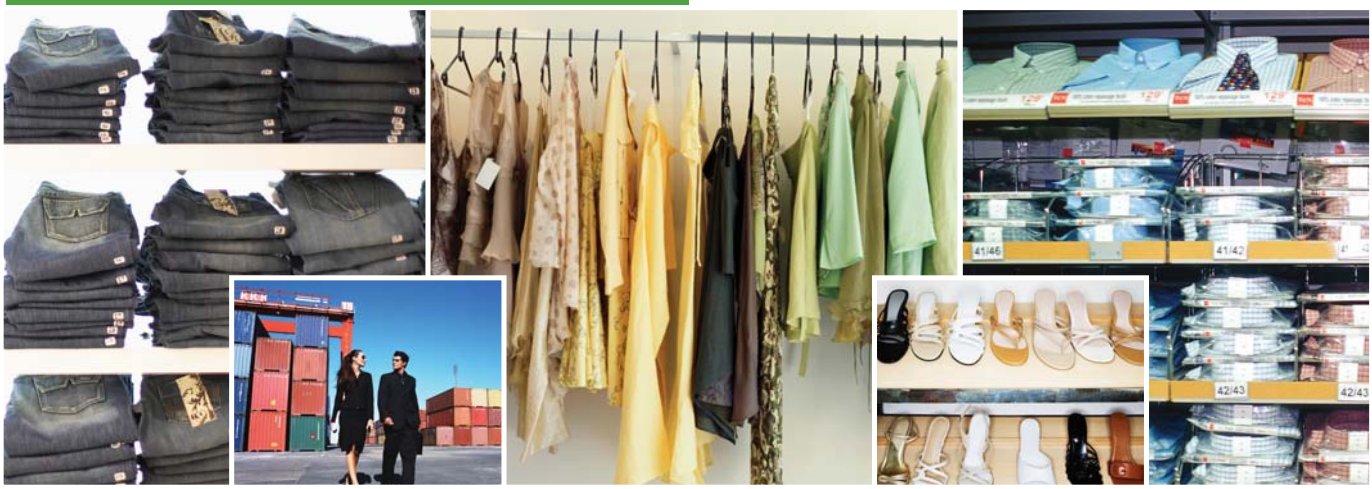

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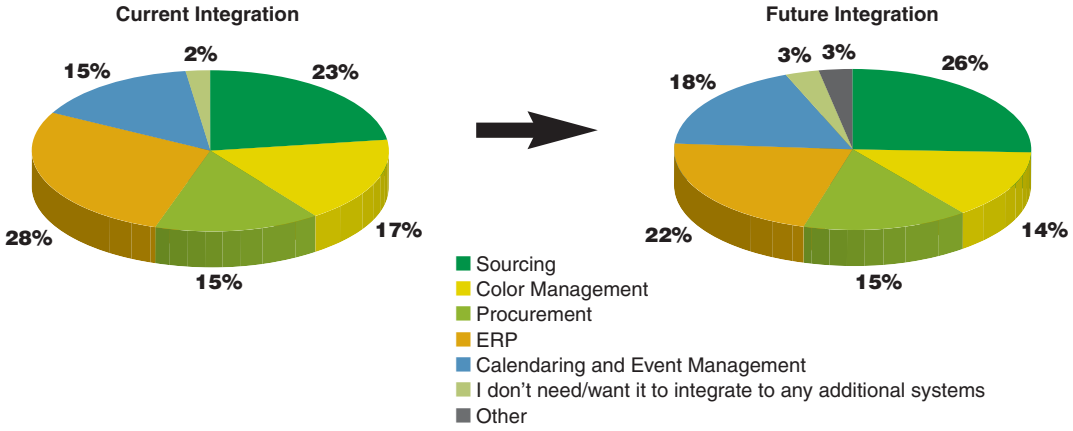
FIGURE 11 – PLM System Integration Touch Points – Current and Desired

Does your PLM system currently integrate with any of the following applications?
To which applications would you like your PLM system to integrate in the future?



Competitive imperatives will push technology users and providers along, ready or not

Retail and apparel companies have recognized the need for PLM technology as a key enabler of improved speed to market. Early implementations were sometimes siloed, held outside of larger supply chain processes. With ownership shifting to business process leaders, PLM is taking its rightful place as part of new product introduction activities interfacing with supply chain execution. And packaged software is rapidly overtaking custom solutions as the tool of choice to close the gap between existing and best-in-class PLM business practices. Nonetheless, challenges remain:

- **Business owners' expectations for ROI are high** — higher than for almost any other enterprise application. Commitment for funding the adoption of PLM applications is a sign of how seriously the business is seeking the potential benefits. AMR Research cautions that while packaged PLM applications for the apparel sector are maturing, functional gaps still exist, and it's important to ensure your PLM project is staffed with knowledgeable talent from either your software vendor partner or your third-party consultant. Expectations for time-to-benefit need to more realistically take these factors into account. And, as AMR Research first suggested last year, benchmarking current performance to provide a baseline against which to judge project success is critical, particularly as business leaders track the time it takes to achieve those substantial ROI expectations.
- **Now is the time** for companies to move beyond PDM to add direct materials sourcing, vendor management and collaboration, and creative processes such as collaborative product design and line planning to the PLM footprint. Managing product data well is an essential step in creating the platform for other, more strategic business processes to rest. Ultimately, competitive differentiation for apparel companies cannot depend on how well data is managed — it depends on what the companies are able to do with the data, both internally and collaboratively with business partners. Collaborating in ways that allow companies to achieve their cost targets while producing designs that appeal to targeted markets, and reach those target markets in a timely manner to maximize margin potential, is the bigger-picture goal that PLM technology needs to support.

Last year, AMR Research wrote about PLM technology coming of age, something that continues to be more of a journey than a destination. The good news is that business owners have now joined the journey and taken on the challenge heretofore headed up mostly by IT departments. Only with the two working in alignment can apparel companies maximize the benefits made possible with PLM technology. Realistic or not, expectations are high, and many software vendors are stepping up to the plate to take a swing at those expectations. Gaps still exist in both technology and in the ability to make the very best use possible of the technology that does exist. But ready or not, the time-to-market imperative, linked with the need for cost control, will drive apparel retailers and manufacturers, along with their technology providers, to where they need to go, and AMR Research and *Apparel* will be there to measure their progress.

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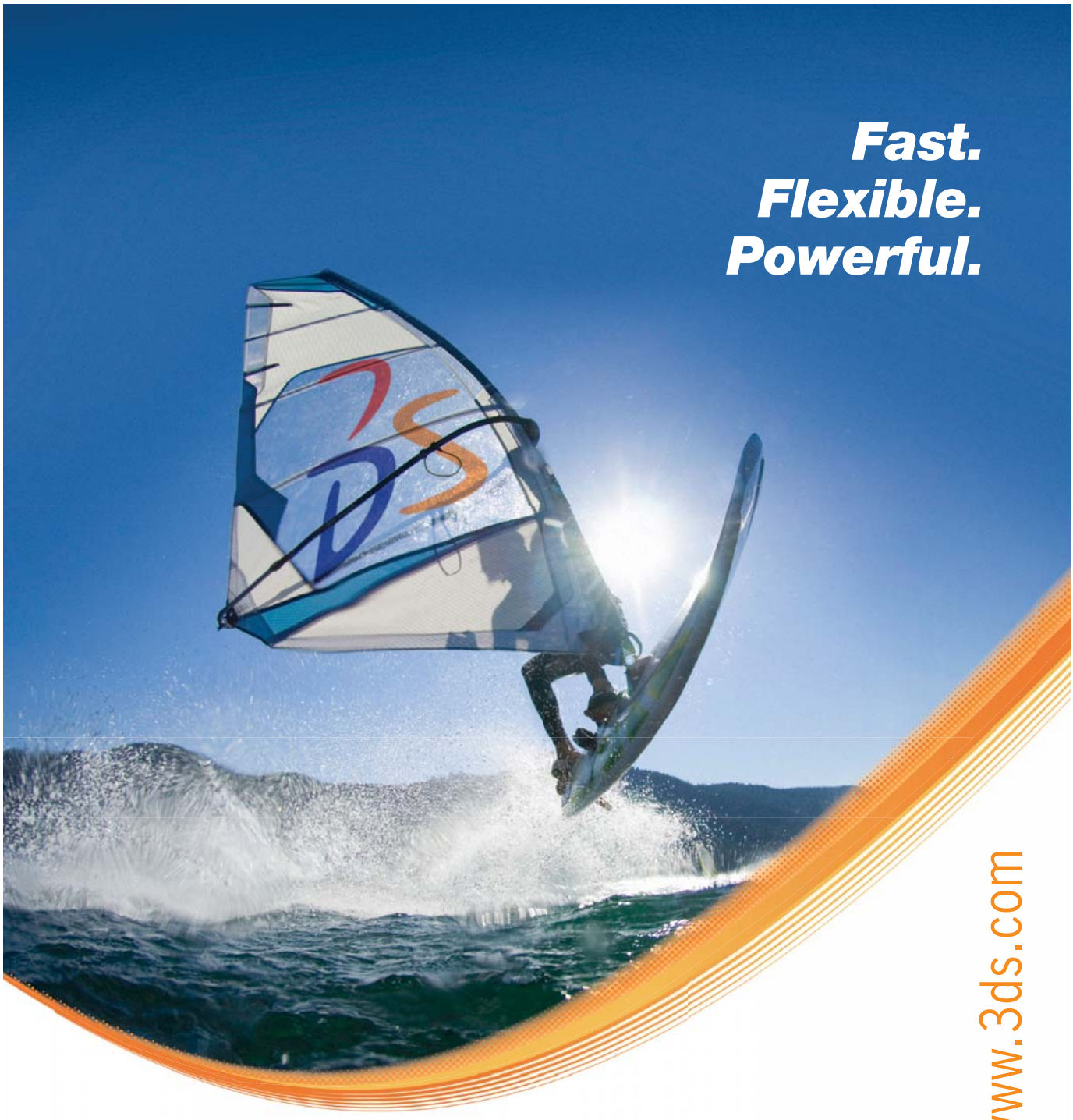

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