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Research Partner



Fashion & apparel

Achieving a frictionless shopper experience and streamlined operations



Introduction

Dear customer: you are power walking through the mall, on a mission to find your favorite Dior watch, a pair of Air Jordan sneakers, the latest Gucci handbag, when your phone buzzes with an app alert from a retail location around the corner, offering you a lucrative discount on your purchase or an invitation to meet with the store concierge. Could the timing be more perfect? It's not a holiday or a sales event miracle... It's the power of omnichannel shopping and the physical/digital shopping convergence that is creating a new wave of changes within fashion and apparel retail.

The fashion and apparel industry is experiencing increasing upheaval mainly due to rapidly evolving shopper expectations, the changing role of stores and a growing need for digital adoption. In the midst of all this, retailers need to embrace the new normal of a frictionless omnichannel shopper experience if they want to stay competitive and operationally ready.

- This can be done by understanding shoppers better, upgrading and integrating store technology to encompass all shopper engagement and operational touchpoints, and ensuring frictionless blocking and tackling (preventing out-of-stocks, localizing assortments, providing the most optimal prices and offers). Shoppers also have high expectations related to timely order, fulfillment/delivery of online orders and a flexible 'no charge' omnichannel returns policy.
- A well planned end-to-end retail execution strategy within fashion and apparel brands starts with:
 - Enabling shopper-centric store/digital processes and technology transformation
 - Executing a streamlined and updated operations approach (planning, sourcing, stocking and fulfillment/delivering of products in an optimal, localized, smooth and well-integrated manner).
- Rapid and frequent changes in shopper preferences, the need to shorten speed to market timelines, and increased revenue and inventory turnover requirements can put upward pressure on raw materials, transportation, quality control and labor costs. Even with these pressures, fashion and apparel companies need to remain focused on re-defining the shopper experience and streamlining operations.



Change in consumer demand and uncertainties have affected the fashion industry

Changes in what shoppers expect and volatility in the industry have resulted in dwindling sales and unpredictability

The performance of the fashion industry last year was less than encouraging. According to a recent fashion report, growth in sales were very sluggish with a mere 2-3%¹ growth in 2016, which stagnated the profit margins. The same report points out the stark contrast to the previous decade when those sales numbers were on average as high as 6%. Apart from the sales figures, the report finds that the sentiment of retailers has also been discouraging, as close to 70% believe that the condition of the fashion industry has become worse in the past year. Add to this a scenario where

shoppers are more sophisticated and technology driven and it's no wonder fashion and apparel retailers are feeling under pressure to stay in tune with shoppers' desires and ahead of their competition.

So, the question is what has driven the fashion industry to such a situation? There are three important factors.

First, the sudden exodus of designer talent from big fashion houses has had a tremendous effect on fashion lines, which in turn has affected the ready-to-wear segment.

Second, there has been a shift in shopper tastes and preferences, especially in the way they view fashion and luxury items. The line between regular/luxury wear and fitness wear has become increasingly blurred, with fitness-conscious shoppers preferring to invest in those fashion lines that combine traditional fitness wear and regular wear. This emerging trend has caught many retailers off-guard, leaving them to search for a way to connect with shopper expectations.

Third, modern shoppers are more demanding and tech savvy. The combination of these forces has led to an expectation of customized fashion at a lower price. This has led to price wars where retailers are forced to shift their focus to promotions and discounts to increase shopper counts. Moreover, there is constant pressure to keep shoppers happy by accommodating the shortest possible lead time for them.



In 2016, growth in sales was as low as **2-3%** growth as compared to 6% otherwise



70% of retailers believe that conditions in the fashion industry have worsened

¹The State of Fashion 2017, The Business of Fashion and McKinsey & Company

A recent trend in redefining and adding off-price outlets have gained attention

Another recent trend gaining attention in the industry is related to off-price outlets. Luxury fashion brands such as Gucci and Prada have either opened new off-price stores or have plans to open such stores soon. In a recent study, it was found that 30%² of luxury buyers also shop at fast-fashion retailers, while another 23% visit the luxury retailer's outlet store. In fact, luxury retail shoppers end up spending a considerable portion of their apparel budget at discount stores. In the same study, it was revealed that 71% of luxury shoppers also shop at off-price stores.

Tapping into this behavior, a few of the luxury retailers have defied the current norm of focusing on online sales and are opening new stores, which sport a new look and feel that appeals to young as well as seasoned shoppers while offering off-price shopping. Luxury retailers are also hoping to battle stagnating growth and fierce competition for shoppers by using innovative in-store shopping technology. Another strategy is to open stores in emerging markets, like China and India. These markets offer a large number of shoppers purchasing high-end products after visiting the store.



71% of luxury consumers shop at off-price stores



Facing competition, retailers are innovating with **in-store technology** and venturing into emerging markets

Global disruptions add to the uncertainty

The last year has seen major political conflicts, the slowing down of some large economies and an increased threat from terrorism. The result is a feeling of general global instability. A lot of the sourcing in the fashion industry is done in regions that are prone to conflicts and terrorism. Some of the major sourcing regions have suffered from such attacks in the recent past, leaving a sense of fear in the sourcing industry that in turn makes shoppers think twice about buying anything, which weakens the demand and creates an uncertain supply base.

The economic slowdown in China means that the larger fashion brands could lose out on a major high-growth market. And the Brexit situation could lead to lower shopper confidence and higher manufacturing costs on the back of currency volatility and a weaker pound. Also, Brexit might result in restricted movement of imports and act as a deterrent to attracting international talent. The political uncertainties in the United States and Europe could have a long-term impact on trade, tariffs and import/export regulations. All these trends are sure to have an effect on the fashion industry and how retailers assess their business models and pricing strategies.

²Quartz Media article on July 20, 2016 'Nobody in the US wants to pay full price for clothes anymore'

Trends shaping and modifying the fashion and apparel industry



TREND 1

Fashion retailers will need to step forward to provide an 'above expectation' experience to their shopper base

Fashion and apparel retailers have already put in place business strategies that take into account the growing need for a frictionless omnichannel shopper experience enterprise-wide. The problem is not with this intent but with the need for greater commitment (and investment) towards faster execution of such a strategy.

- A recent EKN survey shows that more than half of fashion and apparel retailers have executed a formal 'shopper experience management' approach as a business strategy over the last 1-5 years, while 31% are planning to implement the approach in the next 2 years. For effective implementation of shopper experience management, fashion and apparel retailers have built capabilities using shopper loyalty programs (49%) and enterprise-wide one-view-of-the-shopper data (35%)³.
- The same survey reveals there is a clear and observed trend in the proportion of total revenue allocation towards shopper experience management initiatives: from 4.6% in 2016 to 9.8% in 2020.



More than **50%** of fashion retailers are executing a formal 'customer experience management' approach

The concept of 'the intelligent store' is on the rise within fashion and apparel retail as a way to take shopper experience to the next level.

- Technologies such as RFID, video analytics, intelligent/interactive digital displays, mobile apps, NFC and mobile payments are being implemented.

³ EKN's Retail Shopper Experience – A 2020 Outlook Survey, 2016

- More than a third of fashion and apparel retailers indicate that solutions such as 3-D merchandising, space management, and visual merchandising solutions are planned enhancements in the next two to three years.
- But standing in the way of effective implementation of shopper experience management are challenges like limited software toolsets, inability to integrate data from multiple data sources and lack of a single owner set up for shopper experience management initiatives.



'Intelligent stores' are on the rise to take customer experience to the next level






TREND 2

The divide between technology and fashion is increasingly becoming blurred

Adoption of digital technologies is the future of retail and the backbone of a frictionless omnichannel shopper experience. Though integration of high-end technologies within apparel and fashion is yet to become mainstream, there is evidence of increased activity.

- Implementation of digital technologies such as 3D virtual reality stores, wearables devices, augmented reality and 3D printing is still low when compared to Internet of Things (IoT), in-store beacons, digital fitting rooms, interactive virtual stores or interactive digital signage. Luxury boutique retailers are already experimenting with virtual reality headsets so that shoppers can tour the brand's stores.
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Wearables are integrated with technology in the form of 'smart' clothes
- Technology has already found its way into wearables in the form of smart clothes and devices with the likelihood of more adoption by shoppers in the near future.
 - One in four adults in the US will own a wearable device by 2017 with the number touching 81.7 million by 2018⁴. Some examples are: Under Armour's 'Connected Fitness', Ralph Lauren's nylon t-shirts (that track heart rates), and Rebecca Minkoff's smartphone charging handbags.
 - To be a part of this trend, fitness companies, such as OMSignal and Sensoria, are designing smart work-out shirts that can be worn under regular clothes or at the gym⁵.
 - Adidas has been testing a new process at a pop-up store in Germany that allows shoppers to design a sweater with various colors and patterns, undergo a laser body scan to determine fit and receive a knitted, hand-finished, washed, dried and ready to take home product within a few hours⁶.

The operational side of technology adoption relates to the challenge of having the requisite infrastructure in place and a workforce trained to implement effective IT systems (ideally, based in the cloud) that operate out of retail headquarters, stores and distribution centers. Where relevant, retailers must explore the possibility

⁴ EKN's Future of Stores, 2016

⁵ Optitex report '5 digital trends transforming fashion in 2016

⁶ Retail Dive, 2017

of combining enhanced workforce capabilities with machine learning and artificial intelligence (AI) for upgrading customer service and imparting product knowledge. However, a third of retailers lag behind their competition in terms of technology innovation mainly due to lack of skilled resources and the high percentage of budget they must continue to spend on managing legacy systems.



1 in 4 US adults will own a wearable device by 2017






TREND 3

Digital and omnichannel shopping continues to expand in fashion & apparel

There has been a steady increase in digital and omnichannel shopping in the last couple of years within fashion and apparel retail. This growth can be characterized by a similar increase in consumer demand and the plethora of products that are available for sale (the “long-tail” concept).

- Interestingly, by 2018, global digital sales for women’s luxury fashion alone are expected to grow from the current 3% of total sales to 17%⁷. This extraordinary growth has forced fashion and apparel to embrace capabilities and tools in their physical stores that enable digital transformation. For instance, stores are beginning to implement capabilities such as access to digital catalogs that can be displayed on in-store tablets/kiosks..
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More than **30%** of shoppers shop online at least once a week
- Other physical/digital integration capabilities include store fulfillment of digital orders, in-store mobile offer personalization via connected ads, in-app mobile shopping and click and collect. Zara, H&M, Burberry, Primark, Wal-Mart, Tommy Hilfiger, Debenhams and others are using these trends and technologies as part of their business models.
 - Besides focusing on store digital marketing, content and collaboration capabilities, an important aspect of digital and omnichannel shopping is delivery and management of the ‘last mile’ (from both the operational and cost perspectives).
 - In fact, frequency of online and mobile orders is generally accompanied by the desire for speedy delivery. The promise of free shipping within a day coupled with free returns continues to drive shopping expectations for consumers.

⁷ Article: The opportunity in online luxury fashion, February 2015, McKinsey & Company

The increase in digital and omnichannel shoppers has forced fashion and apparel retailers to take an active interest in creating a unified commerce hub in their stores that addresses both physical and digital purchases and all order, ship, return or exchange interactions. Zara and Nordstrom are implementing such changes to their in-store systems and for good reasons:



1 in 4 retailers believe that omnichannel shoppers are 11-15% more profitable for them

- A fourth of fashion and apparel retailers feel that omnichannel customers are at least 11-15% more profitable as compared to single channel customers⁸.
- The same study points out that close to half of fashion and apparel retailers feel that 21-40% of their customer base is comprised of omnichannel shoppers. Surprisingly, as many as 84% of fashion and apparel retailers will see an increase in the number of online orders fulfilled from stores over the next 12 months⁹. In general, shoppers want a unified experience across both the digital and physical formats, yet only a few are actually experiencing it. Retailers need to be aware of this when it comes time to prioritize their digital investments so there is a focus on the unified commerce needs of their customers. Growth in digital shopping coupled with smart in-store omnichannel technologies has redefined the way fashion and apparel retailers operate. It can increase sales, minimize advertising and marketing expenditures, and open the floodgates for new opportunities for operational collaboration between channels.



⁸ EKN's Executing Omni-channel Profitably survey 2016

⁹ EKN's 2nd Annual Stores Benchmark Study, 2014



For many years, the fashion and apparel industry relied mostly on intuition and limited available data to predict pre-season, in-season, and post-season shopper demand. The typical results were out-of-stocks, lost sales opportunities and poor lead times on products. Today, fashion and apparel is following the trend set by most other industries by using data analytics to better understand their shoppers. Fashion retailers are increasingly turning towards data analytics to predict demand, assortments, inventory turns and other related trends.

The major challenges that fashion retailers have tried to solve through data analytics are accurate pricing of latest as well as out-going items, adequate inventory management of the hot-selling brands/items and management of stores.

- For instance, fashion trend forecaster WSGN tracks the clicks of online shoppers and the items bought. They analyze the data and provide retailers with the list of items/products that seem to have peaked and are falling off the trend. Retailers can use this as a trigger for markdowns and as a way to stay competitive through margin protection and inventory sell-through.

Fashion retailers are relying on data analytics to perform two tasks:

- Prepare reports (daily/monthly/quarterly) based on analysis to help them understand what shoppers actually want so that customer service and operations customization become easier and more effective.
- Predict the latest fashion trends and manage seasonal fluctuations so that the retailers do not lag behind their competition.



Fashion retailers are increasingly using **data analytics** to:

1. Understands what customers actually want
2. Predict latest fashion trends and manage seasonal fluctuations

Leading fashion brands like ASOS have reported a 33% increase in sales after using data analytics¹⁰.

- Other fashion giants like Burberry and Ralph Lauren have resorted to Big Data analysis to pre-calculate their next fashion lines and assortments.
- And retailers like UCB, Puma, Prada, and Nordstrom have built in the flexibility to combine enterprise resource planning (ERP), product lifecycle management (PLM) and business intelligence (BI) data to predict shopper preferences.



33% increase in sales after using data analytics

While the use of analytics in fashion and apparel has practical applications for planned supply chain and inventory management improvements, using it to determine the whims and fancies of shoppers is a challenge and should be approached judiciously.



¹⁰ Article: Asos boosts sales by 33% using real-time data, February 2014, RetailWeek



One of the distinguishing traits of a successful retailer in creating a frictionless shopper experience is efficient order management. Order management and fulfillment is cost intensive. It not only escalates the total cost of sales but also exposes a retailer to lost sales and margin opportunity. Retailers such as Amazon and Gilt have redefined order fulfillment and as a result, have raised shopper expectations when it comes to order delivery.

- With the advent of omnichannel commerce, order volume has certainly increased, forcing retailers to clearly define workflow for each order type. One in three fashion and apparel retailers state that orders placed online or those made through the mobile channel and then fulfilled in stores have increased by up to 10% year-on-year¹¹.
- For every dollar that a shopper spends on an order, retailers are spending an extraordinary 18 cents in the area of fulfillment¹².
- The same survey cited above reveals that for 40% of retailers, automating order capture and processing, integrating inventory and standardizing order management from different order types across channels remains a major challenge.
- While only three in ten retailers have built a unified order management and fulfillment process, a similar number are still in the process of planning for implementation in the next year. The retailers who do not currently possess a unified order management strategy for all channels are using disparate order management and fulfillment systems for different channels. For instance, some retailers use an e-commerce order management for digital channels and shipper carrier system or distributed order management for other channel orders.



1 in 3 fashion retailers faced 10% increase in omnichannel order fulfillment from store

¹¹ EKN's Future of Stores, 2016

¹² EKN Omnichannel Order-Fulfillment survey 2015

Because fashion and apparel is such a fast-paced shopper-focused industry, the shelf life for new trends is relatively short. Therefore, it is critical that current trends are supported by an accurate order management process. Such accuracy can only be guaranteed by strong technological backing. Retailers should focus on creating a single, centralized and scalable distributed order management system that is linked to a unified point-of-sale (POS), warehouse management systems (WMS), enterprise resource planning (ERP), inventory management, supply management and business intelligence. Taking it one step further, retailers must also rationalize the comparative value of cloud-based versus on-premise order management systems.





Conclusion

Fashion and apparel retailers are striving to figure out how to grow their global and local businesses and brand presence in an extremely price-sensitive, hyper-competitive and evolutionary shopper-centric environment. Global financial market uncertainties, growth of digital and online retail and ever-changing shopper needs are increasing pressure on these companies to transform either all or parts of their businesses, including enhancements within omnichannel shopping, fulfillment and delivery operations, shopper analytics and in-store technologies.

The continual increase in omnichannel sales has forced apparel and fashion retailers to take an active interest in creating frictionless, omnichannel shopping experiences. Fulfillment, delivery and order accuracy are equally as important and can only be guaranteed by strong technological backing. Retailers should focus on creating a single, centralized and scalable distributed order management system that links up all the elements necessary to ensure end-to-end success.

Lastly, fashion and apparel retailers are increasingly turning towards structured and unstructured data analytics to predict store and omnichannel/digital demand, assortments, inventory turns and other trends. Going forward, fashion and apparel retailers have a unique opportunity to use transformation and change to evolve into one of the leading retail segments.

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