

Roland Berger

Focus

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Dynamic supplier management

A template for the fashion and lifestyle industry



The fashion and lifestyle industry has undergone a radical transformation over the last two decades. Fast-fashion companies have slashed their time to market with the help of streamlined supply chains and an extensive portfolio of factories.

In some cases fast-fashion retailers are now able to present as many as 40 seasons a year. At the same time, digital players such as Zalando and Asos are exerting massive pressure on the competitive landscape. As a result, customer expectations with regard to speed and flexibility have changed beyond recognition – and traditional fashion and lifestyle companies are struggling to keep up.

This is not news, of course. The industry is well aware that fast-fashion retailers and "e-tailers" have raised the bar. Our recent survey of top decision-makers at fashion and footwear companies found that more than 40 percent are currently looking for new suppliers, with almost 40 percent of that group looking in Europe. We also found that speed and flexibility are now more important in the search for new suppliers than price and quality.

Many retailers in the fashion and lifestyle industry are quickly repositioning themselves as omnichannel players, offering a combination of online and offline sales. At first sight, omnichannel appears to affect the front end only, or customer-facing operations. Many medium-sized retailers have been front-loaded in their approach to omnichannel, concentrating on channel management and marketing. But in order to be able to react

flexibly to customer requirements, retailers need to focus on the back end too, ensuring flexibility all the way along the supply chain – a far more challenging task. You cannot become an omnichannel champion without looking vertically.

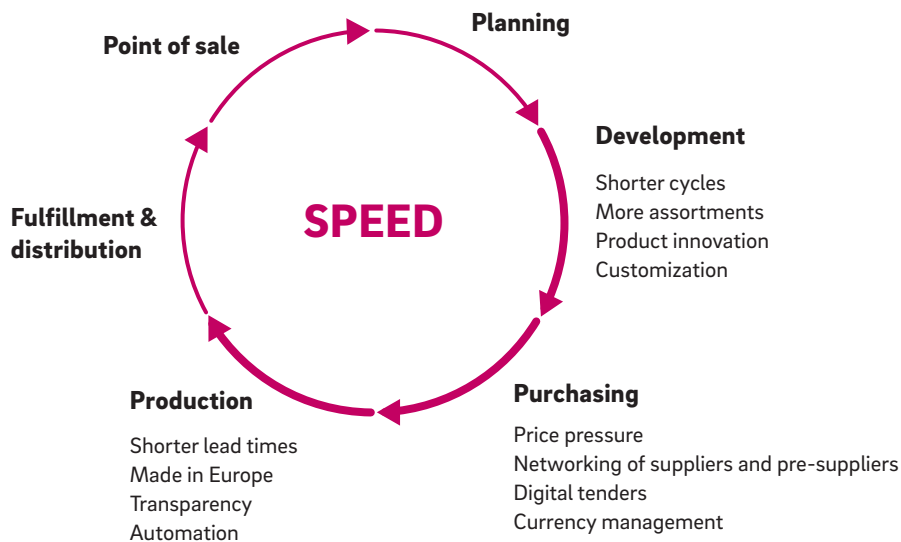
Surprisingly, our survey found that only one-fifth of companies currently had structured processes in place for managing and developing suppliers. Clearly this is an area with enormous potential and a matter for the C-level agenda. The question is, what can companies do practically to speed up their supply chains and meet customer demands? How can they achieve the agility they need to operate on a par with the industry leaders?

We believe that the answer lies in dynamic supplier management. Below, we identify areas with unexploited revenue potential for fashion and lifestyle companies and present our new, integrated concept for reorganizing the supply chain and managing suppliers. Using this new approach to optimizing the vertical and thanks to the agility enabled by digital technology, companies can exploit the massive untapped potential that lies in professionalizing their supplier management processes – and achieve the speed and flexibility that today's fashion and lifestyle industry demands.

"How can I reduce my time to market is the key question for retailers. Cost efficiency is not enough anymore."

Loïc Winckelmans, RetViews

A: Challenges in the fashion and lifestyle value chain.
Need for speed and flexibility remain the key drivers.



Source: Roland Berger

HIDDEN POTENTIAL

Our survey gathered insights from more than 70 key decision-makers from globally operating companies in the fashion and footwear industry, covering all segments from mainstream to premium. We also spoke at greater length to two leading figures in the industry: Jens Fabian from TXT Retail, an Aptos Company, a recognized market leader in retail technology solutions including supply chain management; and Loïc Winckelmans, co-founder of RetViews, the Brussels-based fashion-tech start-up offering real-time retail competition analytics to the fashion industry. Moreover, we discussed our findings with sourcing experts such as Oliver Hein, former CEO of s.Oliver Asia, Bernd Deutscher, former Divisional VP Purchasing & Supply Chain at Heinrich Heine GmbH, Falko Brejla, former head of Product Development at Wellensteyn International and many others besides.

Over one-third of respondents in the survey saw clear potential within their company in the area of supplier management. Fashion and footwear companies face increasing challenges in development (for instance, pressure from shorter fashion cycles, more assortments, product innovation), purchasing (price pressure, digital tenders) and production (shorter lead times, transparency). They can respond with actions such as reducing the rate of write-offs, optimizing replenishment cycles and increasing open-to-buy volumes. → **A**

Many fashion and lifestyle companies suffer from lead times of several months. One option for reducing this is nearshoring, or transferring production to nearby countries rather than more distant ones. More than 40 percent of respondents in our survey said that they were currently looking for new suppliers, primarily in Europe

"In the past it was all about low-cost suppliers – now it's about best-cost suppliers."

Jens Fabian, TXT Retail, an Aptos company

(37 percent), with a strong focus on Eastern Europe (28 percent). Nevertheless, China (24 percent) and Southeast Asia (21 percent) still play an important role. Our industry insiders also highlighted certain areas with particular room for improvement. Some 43 percent of respondents focused on "speed and flexibility", while one-third mentioned "innovation and design competence" and another quarter "sustainability". Only ten percent foresaw price becoming more important in their segment of the industry. More than half of the industry insiders we interviewed said that they considered supplier management a core element of corporate strategy, at least in part. However, only 29 percent said that supplier management currently formed an integral part of developing their own firm's strategy, and just one-fifth said that their companies had structured processes in place for managing and developing suppliers. Evidently, a large gap exists between ambition and reality in this critical area.

DYNAMIC SUPPLIER MANAGEMENT

So, what does dynamic supplier management – our template for the fashion and lifestyle industry – consist of? In brief, it means clustering your suppliers on the basis of demand and establishing different key performance indicators or KPIs for each cluster. This is the strategic

analysis part of the approach, which takes place once a year. In parallel, you need to monitor your portfolio of suppliers, talk to them strategically, develop them in line with your needs or, if things are not working out, delist them and find someone new. This is the operational management part of the approach, which should take place on an ongoing basis.

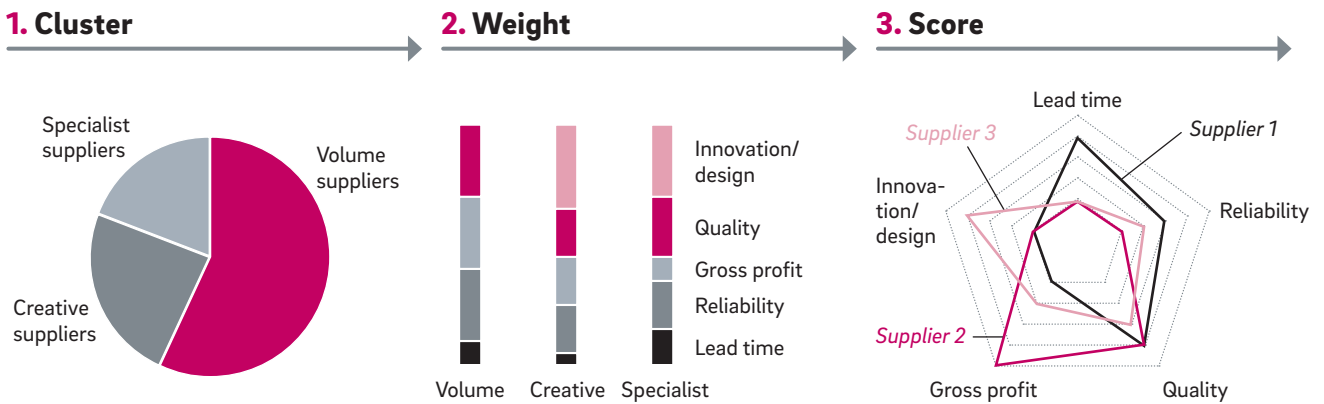
The combination of these two components creates a dynamic system of managing suppliers – "dynamic" because it involves managing the supply chain actively on a continuous basis. Importantly, it is an approach that needs to be signed up to by all parts of the organization that are involved in the process. → **B**

The first part of the approach – the strategic analysis – consists of three separate steps. **Step 1** is to build demand-based supplier clusters on the basis of your corporate strategy and market requirements. Traditionally, companies clustered their suppliers by looking at criteria such as geographical region, product group, price, brand, capacity or, more recently, factors such as service level, machine park, productivity or quality standards. In a dynamic supplier management approach they need to look at speed, flexibility, creative focus, innovation and specialization. For example, they might create three supplier clusters: fast and flexible volume suppliers (offering short lead times and good access to fabrics and trimmings), creative suppliers and specialist suppliers.

Step 2 is to establish a cluster-specific scoring system with appropriate weighting for the different types of suppliers. This is the key to creating a transparent, objective decision-making process. Individually adjusted criteria are applied to each cluster, including both quantitative factors such as complaint rate, reliability and price, and qualitative factors such as design and innovation. In **Step 3** the company then calculates suppliers' scores on the basis of their cluster-specific criteria. Monitoring supplier performance in this way reveals where suppliers require further development or other action. → **C**

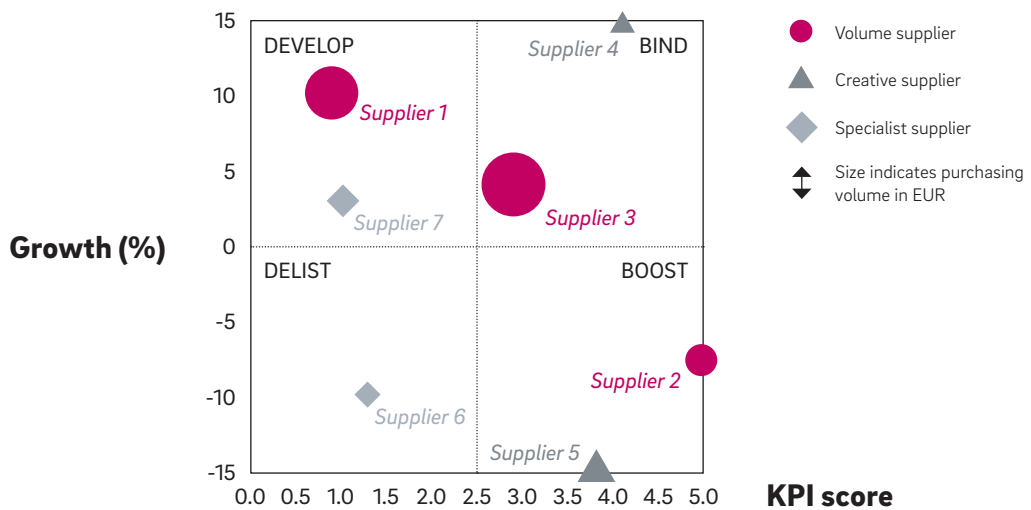
C: Strategic analysis – cluster, weight and score.

Monitor your suppliers' performance on a continuous basis.



D: Supplier portfolio matrix.

Determine your future type of collaboration.



In the second part of the approach – operational management – the company takes appropriate action on the basis of each supplier's score. A supplier portfolio matrix such as that shown in Figure D may be useful here. Appropriate action could involve targeted training, increasing order volumes, introducing incentives or, where necessary, delisting the supplier entirely. → [D](#)

THE DIGITAL REVOLUTION

Our proposed system of dynamic supplier management was theoretically possible in the past, if somewhat laborious. In today's digital age it has become much easier. Multilateral digital networking of suppliers and pre-suppliers makes it possible for companies to optimize capacity planning and radically improve their agility.

In many industries, digital platforms are already bringing supply and demand together. However, this is an area still in its infancy in the fashion and lifestyle industry. For example, our survey found that the software most often used by fashion and footwear companies to communicate with their suppliers was...MS Office. Only five percent of respondents received details of free production capacity or material opportunities automatically via an integrated IT system.

Part and parcel of implementing dynamic supplier management is the emergence of digital platforms for the fashion and lifestyle industry. Digital platforms can bring companies together with producers located all around the world. Ideally a retailer that wants a certain type of T-shirt, say, would simply list the order on a digital platform that can be accessed by a certain number of vetted factories. One or more of those factories would then offer to take on the job and the retailer would select the candidate it assesses as most suitable.

The digital revolution will transform many areas of the fashion and lifestyle industry, enabling standardized tender management, real-time capacity data, comparable formats for different suppliers and accurate notification of

"Discussions with suppliers often focus on specific operational issues, rather than strategy."

Jens Fabian, TXT Retail, an Aptos company

incoming materials, for example. The fast sharing of schedules and event management, replacing former tracking-and-tracing systems, will help companies react faster to demand fluctuations and critical issues. This represents a quantum leap in terms of agility. In the front end, digital innovations include the creation of additional data points that enable retailers to steer their operations more accurately. Tech firms are collaborating with fashion and lifestyle companies to use artificial intelligence (AI) to spot new trends and inspire designers, for example. Retailers can use heat maps in stores to identify where customers spend most of their time and then use that invaluable information to optimize their store layout. Virtual reality, 3D measurements and even simple communications apps are transforming the customer experience.

Some companies within the fashion and lifestyle industry have already started making changes on the IT side, aware of the need for increased speed and flexibility. However, they lack an overall concept of how to leverage that agility fully. This is where our system of dynamic supplier management comes in. When combined with the technology emerging from the digital revolution, it allows companies to slash their lead times, supercharge their time to market and optimize their control of the supply chain. All of which are essential if they hope to survive the competition with fast-fashion retailers and discounters.

WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

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