

Measuring the fashion world

Taking stock of product design,
development, and delivery

McKinsey Apparel Go-to-Market
Process Survey 2018

McKinsey Apparel, Fashion & Luxury Group October 2018



Authored by:

Achim Berg
Miriam Heyn
Elizabeth Hunter
Felix Rölken
Patrick Simon
Hannah Yankelevich

Contents

Introduction	5
Improving go-to-market processes: a high priority for executives	5
A shared language to define the transformation	6
1. Catching up with consumers – accelerating speed to market	12
Why speed to market matters	12
Who sets the pace? Structural differences in speed to market	13
2. A perfect union – bridging art and science through merchandising	19
Merchandising is leading the way in apparel go-to-market	20
Vertically integrated players are achieving real agility in product flow	21
Wholesale exclusives are proving to be both friend and foe to hybrid players	22
“Key looks” are strengthening brands and efficiencies throughout the industry	22
3. It's all about mastering DnA – digital and analytics	25
Step 1. Calendar management	25
Step 2. Product creation, design, and development	26
Step 3. Sell-in and market period	27
Step 4. Production and logistics	28
Step 5. Sell-out	28
Step 6. Foundational system	28
Conclusion	30

Introduction

As consumers of fashion, most of us have changed our habits dramatically as digital and social technologies have transformed the way we shop, spot trends, and share ideas and passions. Ten years ago, we might have spent hours browsing around in fancy stores – or stuck to a few favored brands for the sake of time and simplicity. Today, we’re just as likely to browse and shop from our cell phones, which give us instant access to the looks and recommendations of friends and acquaintances around the world. This has made us much more open to try new brands but also much more impatient about getting the styles we want right now.

Producers of fashion, however, have been struggling to keep up with consumers. Most apparel companies have not significantly changed the way they run their businesses in decades: fashion largely remains a creatively driven “art.” As demonstrated in the State of Fashion reports published by Business of Fashion and McKinsey, apparel executives are well aware of the need for transformation. The executives surveyed for the 2016 and 2017 reports identified “value chain improvement and digitization” as two of their top challenges. That means melding the “science” of highly effective processes with the creative “art” of fashion is necessary to bring the best of the best to the consumer when they want it. Getting that right is crucial, as fashion is increasingly a winner-takes-all industry. Our 2017 report showed that in 2016, the top 20 percent of companies generated a staggering 144 percent of economic profit in the industry.¹

These challenges prompted us to develop this report – the first of a biannual series. This inaugural report proposes a common set of metrics with which the fashion world can measure its progress and take stock of its core processes. Drawing on those metrics, the report creates transparency on where apparel companies stand today and suggests how they can shape nimble, digitally enabled go-to-market processes and use them to win in the new world of fashion. The insights presented here reflect the perspectives of 54 key executives involved in the Apparel Go-to-Market Process Survey conducted by McKinsey in 2018. Together, these executives are responsible for over USD 110 billion in revenue.

This report is focused solely on go-to-market processes – the heart of an apparel organization. These processes are the central driver of how collections come to life, from the inception of a design to when a garment hits the shop floor. Along with many of the executives who participated in our study, we are excited about the potential to transform go to market – and bring new speed, savvy, and energy to trend spotting, calendar planning, and look creation and execution.

IMPROVING GO-TO-MARKET PROCESSES: A HIGH PRIORITY FOR EXECUTIVES

In the McKinsey Apparel Go-to-Market Process Survey, executives shined a spotlight on both the transformation efforts underway in the industry and the challenges they still face (see Box: About the survey). An overwhelming 98 percent of them said it was a priority to improve go-to-market processes and disciplines, and 59 percent said they had already

¹ *The State of Fashion 2018*, Business of Fashion and McKinsey & Company, December 2017. <https://www.mckinsey.com/industries/retail/our-insights/renewed-optimism-for-the-fashion-industry>

appointed a dedicated team to manage these processes. Yet their efforts to reinvent their operating models still have a long way to go. For example, 92 percent of respondents from large fashion companies (those with annual revenue above USD 2.5 billion a year) admitted that their companies struggled to make timely decisions and stick to deadlines – and the majority of respondents said they were still too slow in bringing new products to market. In addition, over 70 percent faced challenges in accurate demand planning and forecasting and said their companies still lacked the necessary digital tools and capabilities (Exhibit 1).

How will fashion executives close the gap between their go-to-market aspirations and today's reality? Our survey provides helpful tips on the way forward. We asked participants to identify their greatest priorities for improvement in 16 different aspects of the apparel go-to-market process (Exhibit 2). The most cited priority was reducing speed to market, stated by more than half of all respondents as a top-three goal. Other key priorities included improving demand forecasting, increasing digital presence, and reducing markdowns. The vast majority of respondents said their companies were already working hard in each of these areas, and most of the rest said they planned to drive progress in these areas within the next 12 months. Yet executives recognize that each of these topics is complex and challenging, and success is by no means guaranteed.

In this report, we break down these priorities and challenges into three critical improvement factors for the apparel go-to-market process: (1) accelerating speed to market, (2) bridging art and science through merchandising, and (3) mastering digital and analytics. In the chapters that follow, we consider each factor individually. We discuss the reasons why these improvement areas are so critical, highlight the challenges companies face regarding progress in each area, compare performance throughout different segments of the industry, and lay out the transformation agenda required to achieve sustainable impact.

A SHARED LANGUAGE TO DEFINE THE TRANSFORMATION

To set an effective transformation agenda, we define the terminology consistently used to describe the apparel operating model and its core processes. The executives we spoke to identified this as a critical need, because even within the same business unit or division team members often use different terminology to describe key steps in their internal processes. As a senior apparel executive put it, everyone in the company speaks their own language and has different naming conventions for particular processes, merchandising roles, design choices, and milestones. This lack of common terminology makes it hard to facilitate a meaningful discussion about a company's current performance in go to market – and correspondingly, where and how to improve it.

Therefore, we propose a simple taxonomy and terminology that any company can use to develop a shared understanding and productive dialog about go-to-market processes. It also makes benchmarking throughout the industry simpler and more robust – thus making the insights from such benchmarking more easily actionable.



About the survey

The findings presented in this report are derived from a survey conducted by McKinsey with leading apparel players. The survey reflects the perspectives of 54 key apparel executives, including MDs, chief merchandising officers, chief supply chain officers, and others involved in the go-to-market process. The survey respondents cover the full spectrum of the market across five continents.

The sample is clearly differentiated and spread across price and revenue segments as well as type of players, percent of respondents, n = 54

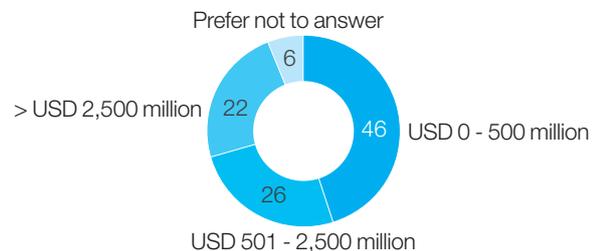
Price segment

"In which price category does your company predominantly operate?"



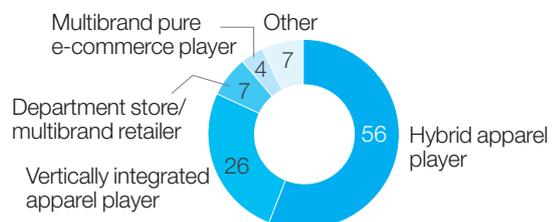
Revenue segment

"What is your company's annual revenue in the apparel segment?"



Type of player

"How would you classify your company?"



Within the sample of companies, most were hybrid apparel players, but the sample also included vertically integrated players, multibrand retailers, and multibrand pure e-commerce players. Likewise, the sample included companies operating across all price segments – from affordable luxury or premium to the value or discount market. Smaller companies (those with an annual revenue below USD 500 million a year) made up around half the sample, while large companies (USD 500 million to USD 2.5 billion) and very large companies (over USD 2.5 billion) each made up about a quarter of the sample. Half the respondents were based in Europe, a third in North America, and the remainder spread across Asia, Australia, and Latin America.

Exhibit 1: Challenges are clearly rooted in low forecasting accuracy and lack of digital tools and capabilities and lag in bringing new products to market, percent of respondents, n = 54

“How relevant are the following challenges at your company with respect to your apparel go-to-market process?”

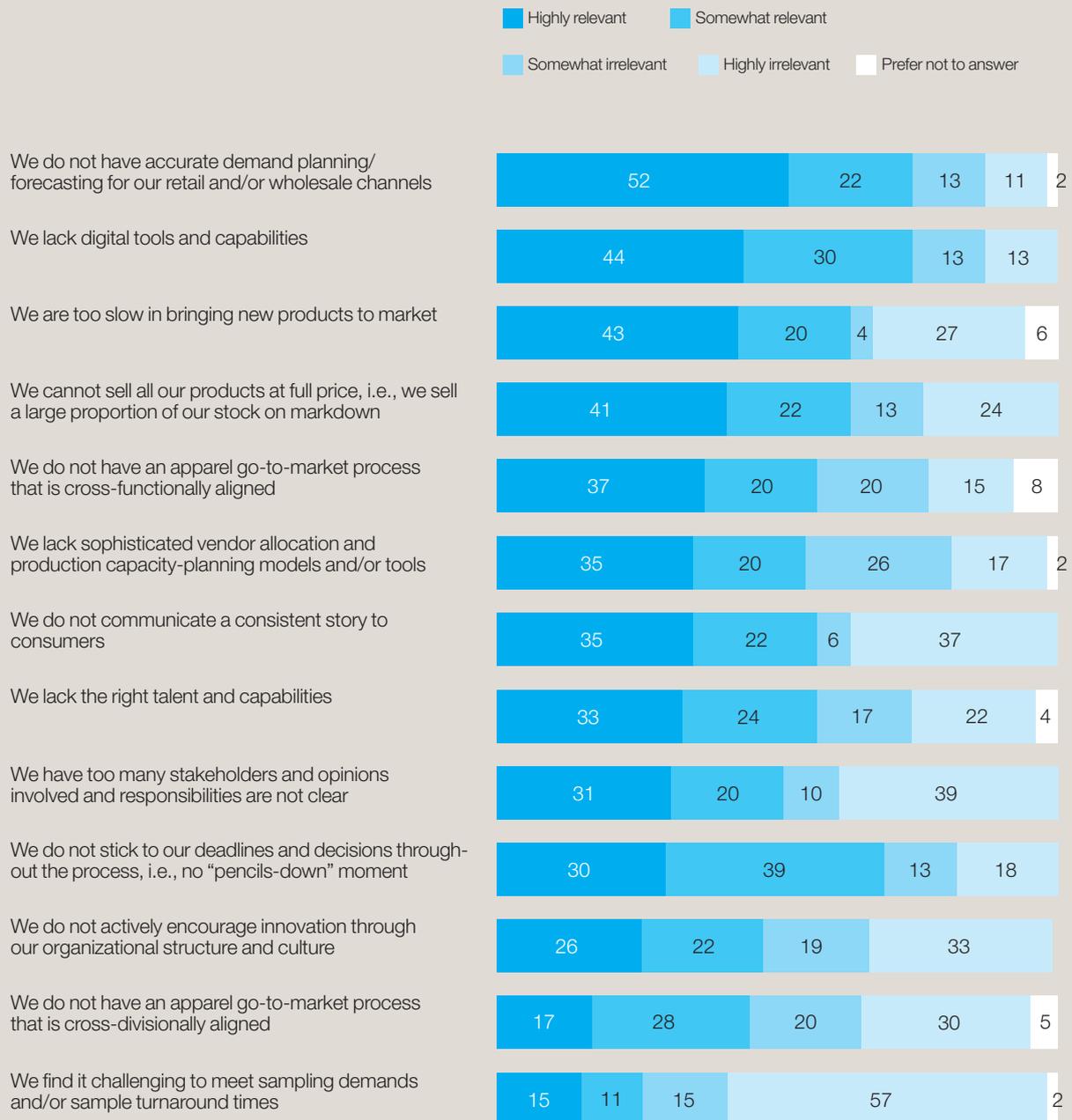
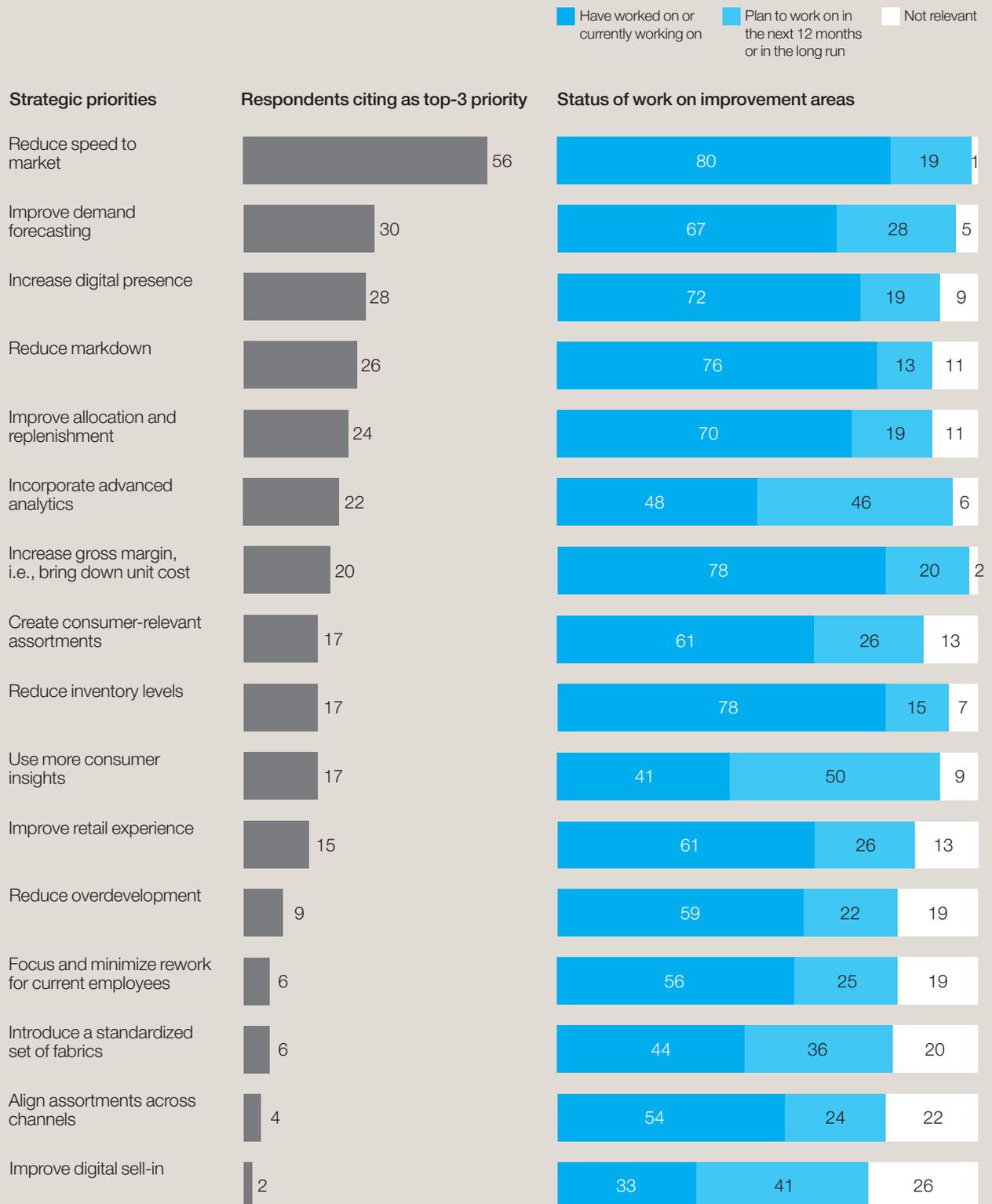


Exhibit 2: Accelerating speed to market, bridging art and science through merchandising, and mastering digital and analytics are key priorities for apparel companies, percent of respondents, n = 54

“What are your current strategic priorities and objectives for improvement of the apparel go-to-market process?”



MEASURING THE FASHION WORLD

CATCHING UP WITH CONSUMERS – ACCELERATING SPEED TO MARKET

Vertically integrated players set the pace

Vertically integrated players are faster and have a distinct advantage in product creation / design and development. On average, they need 11 weeks to complete this phase, whereas hybrid players need 24 weeks

Finding the balance between quality and time

For hybrid and vertically integrated apparel players, we see a clear correlation between go-to-market speed and price segment

Process segmentation is critical

Instead of a one-size-fits-all go-to-market process, many apparel players use a segmented approach to create products. Other firms are following suit. Among those that use only a standard, seasonal collection process, around 90% say read and react, fast track, and never out of stock processes would boost company performance

A PERFECT UNION – BRIDGING ART AND SCIENCE THROUGH MERCHANDISING

Merchandising is leading the way in apparel go to market

Historically, processes and decisions in many apparel firms were driven by the design function. Today merchandising teams are more and more taking the lead – particularly in vertically integrated firms

Vertically integrated apparel players are

36%



faster

than hybrid players

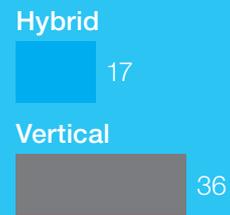
Apparel go-to-market process duration, average weeks



96% see read and react as beneficial to their business



Share of companies with merchandising-led process, percent



IT'S ALL ABOUT MASTERING DnA – DIGITAL AND ANALYTICS

Vertically integrated players are achieving real agility in product flow

Agility in product flow is reflected in the number of product deliveries to consumers – among vertical players, 64% have monthly and 28% have continuous drops or flows

92% of vertically integrated players launch product monthly or even continuously



Wholesale exclusives are proving to be both friend and foe to hybrid players

47% of hybrid players say they create exclusive collections for their wholesale partners and therefore reap the benefits, but they also have to deal with the complexities

47% of hybrid players with wholesale exclusives



“Key looks” are strengthening brands and efficiencies across the industry

80% of respondents say their companies have “key looks” – staple items that define the foundation for the season and drive one brand point of view across channels

More than 80% define “key looks”



New solutions throughout the go-to-market process are reshaping the way of working

Digitization is by no means an end in itself, but rather a critical enabler of faster speed to market, better merchandising, and greater efficiency

More than 70% lack digital and analytics tools and capabilities



1. Catching up with consumers – accelerating speed to market

We were not surprised that speed to market was identified as the top priority by most of the fashion executives in our survey sample. Indeed, concern about speed has been a constant theme in our discussions throughout the industry. In this report, we explore the reasons why this topic is so relevant to fashion companies – and highlight the dangers involved with failing to accelerate speed to market. We also compare performance across different segments of the industry, highlighting the structural differences in the industry that drive the distinct paces in go-to-market processes.

WHY SPEED TO MARKET MATTERS

Why the need for speed in the fashion industry? There are two drivers – one external and one internal – that make this topic so critical for fashion companies. The external driver is **fashion risk** – the risk of launching the wrong product in the market or missing a trend completely. There are many reasons why products might fail to resonate with consumers. These include: lack of trendiness, the wrong product category mix, fit, materials, colors, or simply timing to market. Whatever the reason, the result is lower overall sales, higher markdowns, as well as ripple effects, such as higher inventory levels and missed opportunities.

There are two ways in which this risk can be mitigated effectively through a shorter speed to market. The first, a forward-looking approach, entails getting “closer” to the market. A shorter time to market means less time between the start of product development (i.e., when the first collection-defining decisions, such as concept, range plan, and first sketch designs are made) and the launch of the product in the market. The shorter this time span, the lower the risk of incorrectly anticipating what the market will want by the time the product hits the shop floor. For example, companies will have access to more accurate information on trend forecasting and consumer insights and will be better able to anticipate trends and demand patterns. Even a fully artistic design is more likely to resonate with consumers when it is created closer to the launch date. In addition to faster pre-season development, companies can improve their in-season reactivity, i.e., their ability to respond quickly when they spot a missed trend or need to replenish a sell-out product. In all cases, time is of the essence when meeting consumer demand.

The second, backward-looking approach entails making strategic use of data from a rich set of sources – including a company’s own sales, competitors’ product launches, and runway and fashion trends on social media. The shorter the speed to market, the longer the time frame between the start of sell-out of the past mirror season and the start of design of the new season. This means that there is more data available on the performance of the previous season, providing key insights on planning the new season. For example, a company’s product category (i.e., T-shirts) performance in one season will help merchandising departments identify which product categories to push in the new season.

In some fashion companies, such as sporting goods players, speed to market can exceed one year (see Box: The special case of sportswear). In these cases, no mirror season data is available at the start of design. This poses a real challenge to brands with rapidly evolving aesthetics and a high emphasis on fashion; although, it may be less of a challenge for brands with more stable basics. Overall, there is no one-size-fits-all answer to the questions:

“How do we stay thoughtful while being fast?” and “What is fast enough?” The answer depends on the company and product type. Therefore, companies in every part of the industry have opportunities to accelerate.

The internal driver of the need for speed is **economics**. In fashion, time really is money. Longer processes mean that the personnel working on the collection in all sections of the go-to-market process spend more time developing each collection, thus creating a chain reaction of inefficiencies. For example, long processes lead to higher overlap, with designers working on several collections in parallel at any given moment. By reducing such overlap, thus reducing overall speed to market, companies can distribute the workload more evenly over time and focus solely on the product at hand. This also means they can avoid hiring additional freelancers to aid in times of high workload.

A further benefit of improved speed to market is that it requires teams to work in a more focused way. Such focus can lead to more targeted and structured collections with fewer, yet more robust styles, options, or pieces. This, in turn, can result in lower production complexity, e.g., larger order quantities per style – thereby reducing costs. A more structured process with greater discipline also means smoother collaboration with suppliers. Today, however, internal inefficiencies in apparel companies often have negative effects on suppliers.

WHO SETS THE PACE? STRUCTURAL DIFFERENCES IN SPEED TO MARKET

Not all fashion players are equally nimble – nor should they expect to be. We examined the seasonal go-to-market processes in several types of apparel firms and found key structural differences in pace throughout business models as well as across price segments. As part of our contribution to a common terminology for the industry, we define four distinct business models (Exhibit 3). These range from hybrid players such as Ralph Lauren,

Exhibit 3: Brands and retailers in the industry can be clearly differentiated based on their operating model

BRAND		RETAILER	
Only direct-to-consumer	Mix wholesale/direct-to-consumer	On- and offline	Only online
Vertically integrated apparel player	Hybrid apparel player	Multibrand retailer	Multibrand pure e-commerce retailer
Apparel player consolidating multiple steps in the fashion value chain, beyond that of a pure apparel brand, including operation of own retail and potentially own e-commerce but without wholesale	Apparel player with own retail (and potentially with own e-commerce) as well as wholesale customers	Retailer offering several brands in a physical store, such as a department store, often also offering own brands as part of the assortment (potentially with associated e-commerce)	Retailer offering several brands purely in an online store, often also offering own brands within the assortment

Tommy Hilfiger, and Nike, which serve wholesale customers alongside their own retail and e-commerce arms, to vertically integrated players, such as Primark, which focuses on retail operations, and lastly, pure-play online retailers, such as ASOS, NET-A-PORTER, Zalando, and Tmall.

Our analysis of structural differences in speed to market has yielded three key insights for executives:

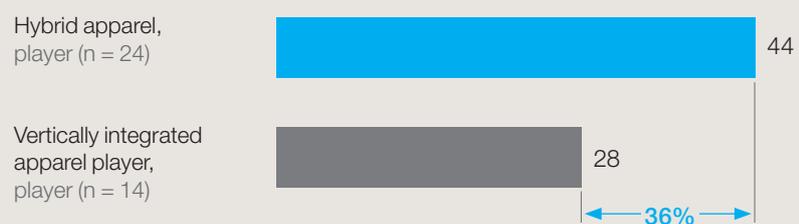
- Vertically integrated players set the pace
- Finding the balance between quality and time
- Process segmentation is critical

Vertically integrated players set the pace

We find that vertically integrated players are 36 percent faster on average than hybrid players in the overall duration of the go-to-market process. The hybrid apparel players in our survey sample averaged 44 weeks for the end-to-end process, compared to 28 weeks for vertically integrated apparel players (Exhibit 4). The vertically integrated players therefore produce their products much closer to the trend.

Exhibit 4: Vertically integrated apparel players have 36% faster go-to-market timelines than hybrid apparel players. Apparel go-to-market process duration, average weeks

“How long is your apparel go-to-market process from the start of product design and development to the collection launch in stores/e-commerce for consumers?”

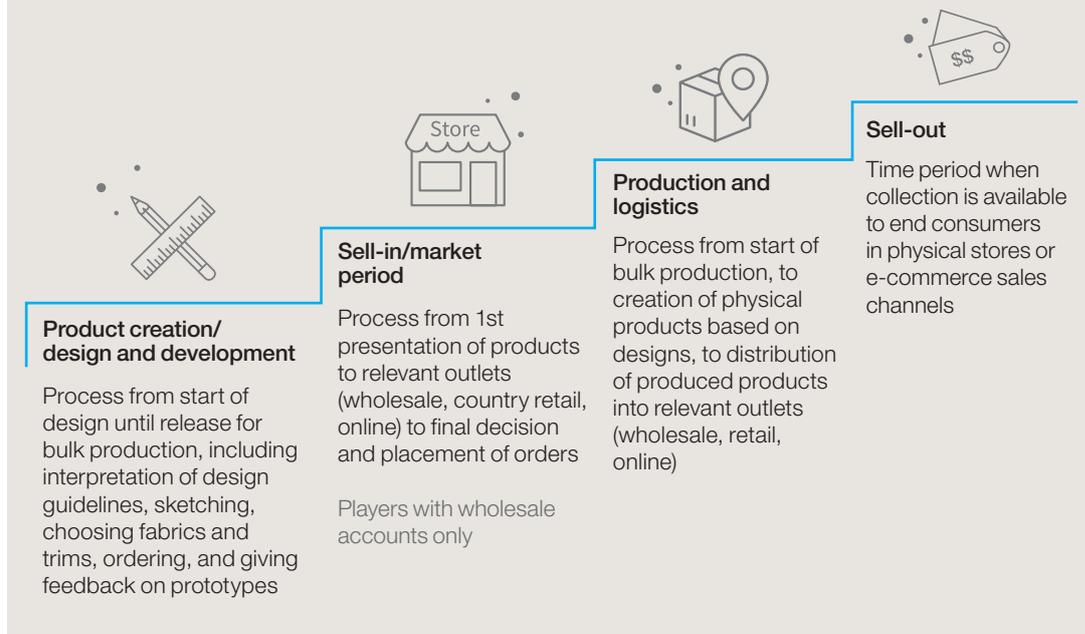


Note: Excluding sportswear companies

To support this analysis, we again draw on our common terminology proposed for the fashion industry. We set out a clear series of tasks corresponding to the creation of each seasonal fashion collection, from official kick-off of product design and development to release, when the product first hits the shop floor or becomes available through e-commerce channels (Exhibit 5).

Vertically integrated players' speed advantage is driven strongly by the absence of a sell-in phase. The duration of the production and logistics phase, in contrast, lasts 17 to 18 weeks – for companies with or without wholesale.

Exhibit 5: The seasonal apparel go-to-market process has 4 distinct process steps



A more surprising finding is that vertically integrated players have a distinct advantage in the product creation / design and development phase. On average, these players take only 11 weeks to complete this phase, whereas hybrid players take an average of 24 weeks. One reason for this difference is the feedback loops that hybrid players have with their wholesale customers. Hybrid players are often very closely linked to their wholesale accounts, actively involving them in developing collections, and this may prolong the go-to-market process. Furthermore, hybrid players need to incorporate production of sophisticated wholesale samples into their timelines, thus making them longer than those of vertical players. However, it is not only the business model but also the price segment in which players operate that defines how fast they go to market.

Finding the balance between quality and time

For hybrid and vertically integrated apparel players, we see a clear correlation between go-to-market speed and price segment (Exhibit 6). Hybrid affordable luxury and premium segment players take on average around 46 weeks to complete the end-to-end process, while the mid-market segment requires only around 35 weeks.

A similar differential can be observed in vertically integrated players. While the mid-market segment has an overall go-to-market time of 32 weeks, value and discount companies have an average go-to-market time of only 27 weeks. These value players are especially fast in the design phase, which takes them an average of ten weeks to complete; the nimblest players take as little as one week. While this difference in speed is impressive, it is not altogether surprising. That is because players in lower-price segments design for high volume and have historically placed an emphasis on speed because this segment and price point are also where fast fashion originates. Players in this segment often take a fashion follower approach,

utilizing successful designs they see in the market and bringing them into their stores at lower prices. It is worth emphasizing that value players achieve high speed to market even though they typically ship products from low-cost manufacturing countries to the shop floor in their primary consumer markets.

As we discuss below, however, the seasonal process is not the only driver of speed to market. Increasingly, apparel companies are using a series of segmented processes – some of them more quickly than others – to accelerate their overall speed to market.

Exhibit 6: Value and discount segment with shortest go-to-market timelines.
Apparel go-to-market process duration, average weeks

“How long is your apparel go-to-market process from the start of product design and development to the collection launch in stores/e-commerce for consumers?”



Note: Excluding sportswear companies

Process segmentation is critical

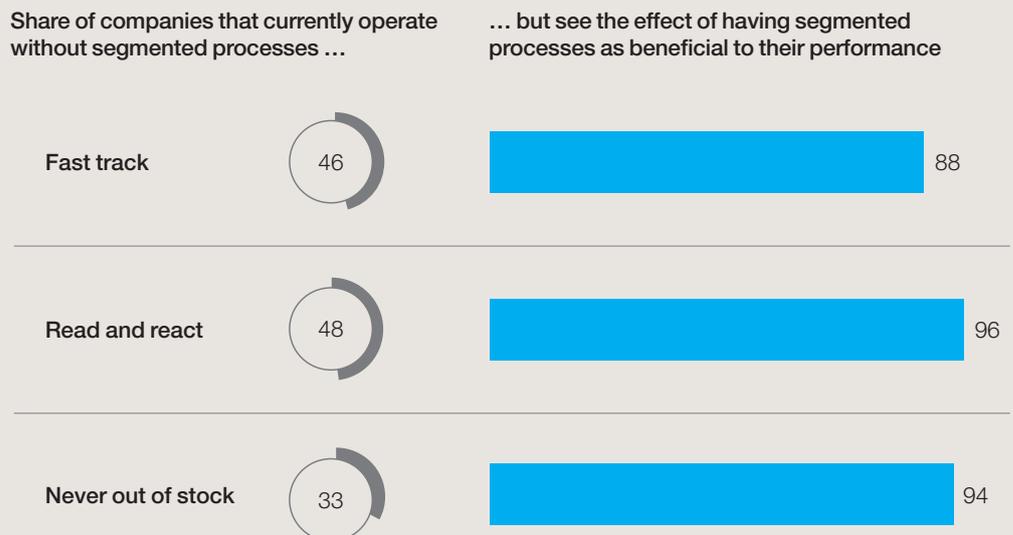
The days when fashion firms relied on a single, one-size-fits-all, go-to-market process are long gone. Instead firms are using a segmented approach to create their products. We identify four segmented-apparel go-to-market processes, or “tracks,” as they are referred to in industry parlance. Each serves a clear purpose or defines a particular business model:

- **The seasonal collection process** is the “bread and butter” business of most apparel players – it typically applies to the majority of their products, which are developed at a standard pace and launched in-store for specific, limited-time fashion seasons.
- **Read and react**, or in-season replenishment, allows companies to react to positive sell-out results through the quick additional production of high-selling pieces in the collection.

- **Fast track**, or the additions process, involves the quick design, development, and production of new products outside the normal go-to-market process. It offers companies the opportunity to react to missed-trend opportunities.
- **Never out of stock (NOOS)**, or core replenishment products, focuses on creating the base of a company's product range over a longer period of time. It involves standard products that are not season specific, but are always available and continuously replenished as a permanent element of the assortment. These products often depend on enablers, such as fabric platforming.

Our survey shows that three-quarters of products in the industry are still produced in seasonal processes. However, just over half the companies in our sample also use read and react or fast track models, and nearly two-thirds use a NOOS model to create basics and best sellers on a continuous basis. The trend is clearly moving toward greater use of segmentation. But what about the firms that are not yet using segmented processes? Among firms that use only the standard, seasonal-collection process, around 90 percent of respondents said read and react, fast track, and the NOOS processes would be beneficial for their company's overall performance (Exhibit 7).

Exhibit 7: Segmented go-to-market processes are very beneficial for the business, percent of respondents, n = 54



Again, there are some important differences between different types of players when it comes to process segmentation. The share of companies with NOOS processes is higher (70 percent) for hybrid players than it is for vertically integrated players (57 percent). On the other hand, read and react processes are far more prevalent among vertically integrated players (64 percent) than among hybrid players (40 percent). This is likely because players

without wholesale have more control of their sell-out channels and thus also have the power and incentive to quickly replenish in-store products throughout the season. Their overall business model is more focused on fast fashion, identifying trends and sell-out quickly, and fulfilling those demands.

The use of the different segmented processes also varies according to price positioning. Among value and discount players, 67 percent have adopted a read and react model, compared to 42 percent of affordable luxury and premium players. Conversely, 71 percent of these high-end players and only 42 percent of the value and discount segment use NOOS. This is partially explained by the inherent goals of each type of company. As the products of high-end players are intended to last longer, they are often trans-seasonal and created in NOOS programs. Such products are often basic signature garments that define the brand, such as polo shirts or chino trousers.



The special case of sportswear

The sportswear companies in our survey sample had significantly longer timelines than other companies and averaged 75 weeks for the full end-to-end, go-to-market process. Sportswear companies' overall creation, sell-in, and production timelines are much longer than those of other apparel firms. Why the big difference? These long timelines reflect seasonal processes that are typical of footwear and complex performance products. Due to the focus on coherent marketing and storytelling, sports companies develop apparel often together with these longer-lead-time products to then have a clearly synced go-to-market proposition – both in terms of product and storytelling approach.

Although sports companies have relatively long go-to-market timelines for their seasonal processes, they show considerable sophistication in all segmented processes. Among the sports companies from our sample, 86 percent of them report having fast track and NOOS processes, while 71 percent have read and react processes – putting them way ahead of the typical apparel player. This clearly shows that sportswear companies are counterbalancing their longer lead time in innovative development with effective approaches to associating trends and relevance with their product lines.

2. A perfect union – bridging art and science through merchandising

Merchandising is one of the key roles and processes in the apparel industry – and it often takes the lead in the go-to-market process. In our survey of fashion executives, merchandising also emerged as a key priority for improvement. However, several challenges stand in the way of achieving excellence in merchandising. Not least among them is the lack of a common definition of merchandising and common terminology used in its constituent processes. We help solve this issue in this report (see Box: Merchandising defined).

In this chapter, we examine four emerging trends in merchandising throughout the industry, drawing on our survey findings to present best practices, common challenges, and approaches to driving improvement. Those trends are as follows:

- Merchandising is leading the way in apparel go to market
- Vertically integrated players are achieving real agility in product flow
- Wholesale exclusives are proving to be both friend and foe to hybrid players
- “Key looks” are strengthening brands and efficiencies across the industry



Merchandising defined

Merchandising is one of the key roles and processes in the apparel industry – but there are many different definitions of the term among the various types of fashion players. It is now time to attempt to set a common definition. This starts with presenting a clear picture of the objectives of merchandising, which we define as follows:

Delivering appealing products ...



... in the right quantity



... at the right time



... at the right price



... with an optimal presentation

Considering those objectives, we define merchandising in apparel as the process of planning, selecting, distributing, and measuring success of a product that is delivered to the end consumer. The end-to-end merchandising process starts with the definition of the range plan, then moves to product merchandising and the creation of assortments, buying and allocation of desired assortments, and ends with in-season management and the analysis of the performance of the product at the point of sale. Effective merchandising is the key enabler of consumer-centric assortments and lucrative financial results.



As this definition suggests, merchandising requires a balance of analytical and creative skills. In the planning process, the critical success factors include analyzing and planning the right price, fashionability, and volume. In the design process, on the other hand, success factors include determining the right product stories and messages.

How merchandising is undertaken depends to a large extent on the business model of the particular player. Among vertical players, the elements of merchandising are typically bundled into one role that includes end-to-end responsibility. With hybrid players, on the other hand, the tasks linked to merchandising are often split between different roles, teams, and even regions. In such companies, the merchandising teams at headquarters are often responsible for developing the initial planning and the actual products together with designer and product developers, while local markets are responsible for buying and allocating to points of sale. But this handover between the center and local markets can often lead to friction. This then makes it critical to put in place structured processes for gathering market feedback and involving local teams in the creation process, thus ensuring that consumers' realities are reflected in product creation.

MERCHANDISING IS LEADING THE WAY IN APPAREL GO TO MARKET

Historically, processes and decisions in many apparel firms were driven by the design function due to its key creative role. Increasingly, however, merchandising teams are taking the lead in driving these processes. Of the firms in our survey sample, 26 percent said go to market is led by merchandising. Among vertically integrated firms – which lead the industry in terms of speed to market – this proportion rose to 36 percent (Exhibit 8). Although there are still many companies in which the go-to-market process is led by design or analytics functions, merchandising has the distinct advantage of being able to act as a translator between the two worlds of art and science. In vertically integrated firms, in particular, many key decisions already lie in the hands of merchandising – from the idea of a product to placement of that product in a physical store. In such firms, merchandising experts lead multidisciplinary teams and the allocation of products directly to the stores, taking the lead on deciding the look and volume behind each allocation.

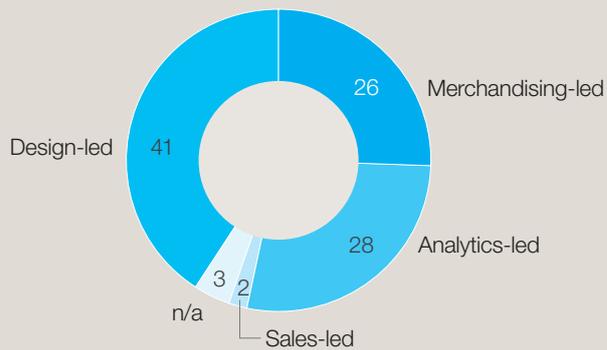
Looking within price segments, we also find structural differences. The more upscale the product, the stronger the influence design has. In our survey, 50 percent of affordable luxury and premium players indicated that their design functions led their go-to-market processes. On the other hand, only 26 percent of mid-market, value, and discount players reported that design led go to market, and 35 percent had merchandising in the lead.

Best-in-class merchandising teams are able to create a healthy balance between art and science. They not only work closely with products, but they also bring hard numbers and processes to a world where decisions have historically been based on a creative direction or gut feeling. It is this mixture that makes merchandising a key driver of efficiency in the industry.

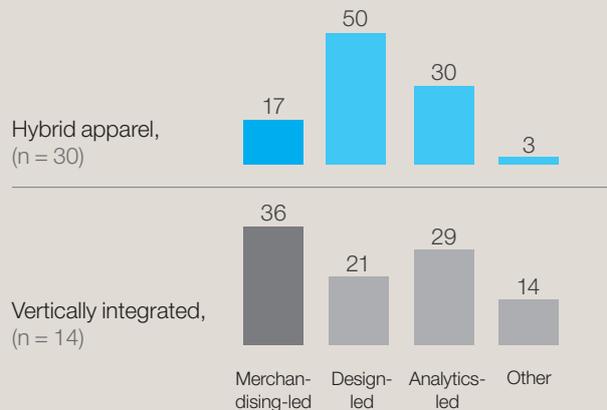
Exhibit 8: Vertically integrated apparel players are more merchandise-led, percent of respondents, n = 54

“Would you consider your company and its process a ‘design-,’ ‘merchandising-,’ ‘analytics-,’ or ‘sales-led’ organization?”

26% of all firms are merchandising-led ...



... and the influence of merchandising increases when looking at vertical players

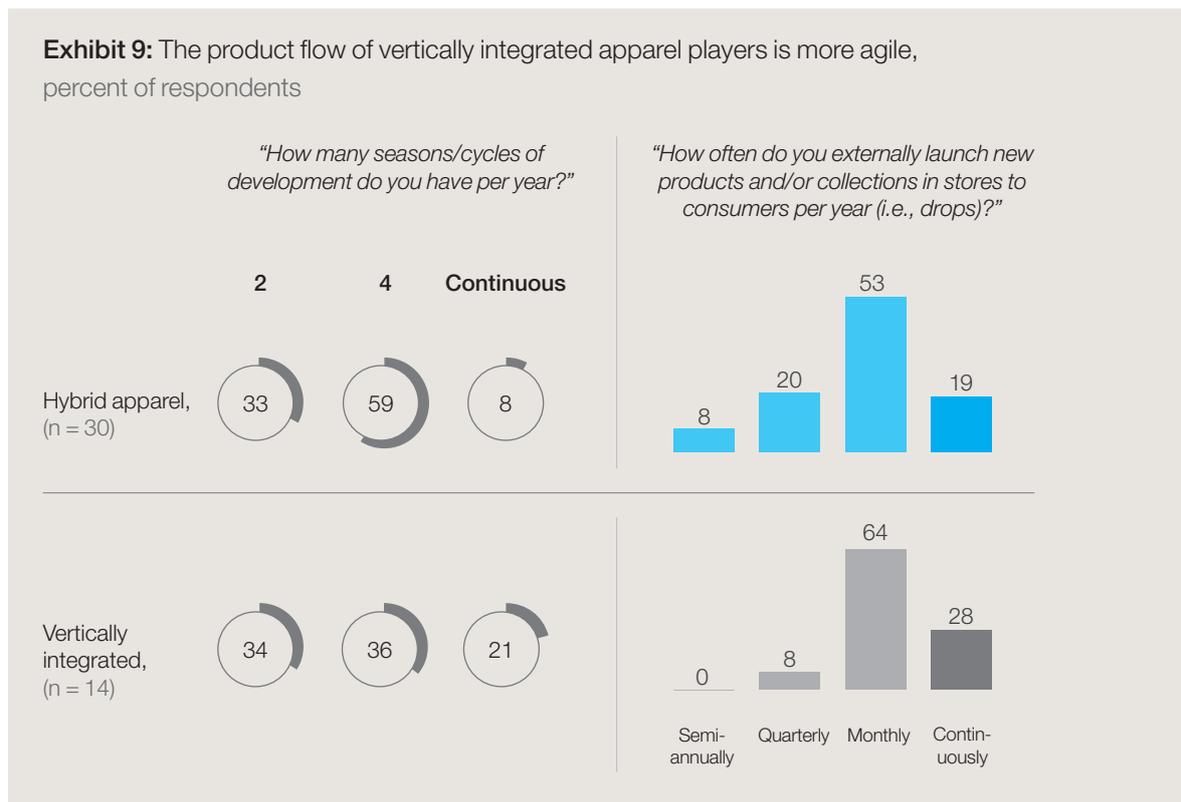


VERTICALLY INTEGRATED PLAYERS ARE ACHIEVING REAL AGILITY IN PRODUCT FLOW

In our survey, we asked fashion executives to report how many seasonal collections their companies created per year. Around 40 percent of all respondents said they produced 4 collections per year, while a third had 2 collections a year, and 17 percent reported continuous seasons. We also asked them how many “drops” or “flows” they made each year, i.e., the number of deliveries of products to stores. The majority of respondents – 43 percent – reported making between 10 and 12 deliveries to stores each year.

There were distinct differences between hybrid and vertically integrated players. Companies without wholesale have significantly more seasons and deliveries to stores than those with wholesale. To be precise, 21 percent of vertically integrated players had continuous seasons, but this was true of only 8 percent of hybrid players. This is also reflected in the number of product deliveries to consumers: among vertically integrated players, 27 percent had continuous drops or flows, in contrast to just 19 percent of hybrid

players (Exhibit 9). We see, however, that hybrid players are also moving more towards a verticalized wholesale model in many instances where they closely collaborate with their wholesale accounts in order to push out drop more frequently towards their consumers.



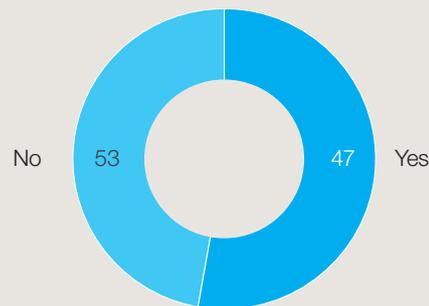
WHOLESALE EXCLUSIVES ARE PROVING TO BE BOTH FRIEND AND FOE TO HYBRID PLAYERS

Hybrid players do not only collaborate with their wholesale accounts on when to drop new product but also on what product to put in front of the consumer. This introduces feedback loops in the creation process, involving numerous decision makers. Their sales and account management teams are much more involved in the process and represent the voice of the wholesale customer when working with merchandising and design teams. One way for them to improve this relationship is through specific products or collections for their wholesale partners – typically their major key accounts. For example, among companies in our survey sample, 47 percent of hybrid players said they created exclusive collections for their wholesale partners (Exhibit 10).

Wholesale customers looking for differentiation appreciate this special treatment. But hybrid fashion players need to be careful not to deviate too much from brand style to avoid dilution and inefficiencies. If they focus too much on creating smaller batches for specific wholesale partners, they could see reduced efficiencies in sourcing, marketing, sales, and logistics – at least for now. Automated manufacturing will create new opportunities for customization and smaller batch sizes.

Exhibit 10: Wholesale exclusives are frequently used to build customer relationships at the expense of additional complexity, percent of respondents, n = 15

“Is a part of your collection fully exclusive to 1 wholesale customer?”



“KEY LOOKS” ARE STRENGTHENING BRANDS AND EFFICIENCIES ACROSS THE INDUSTRY

Our survey shows that “key looks” or “big ideas” are of high relevance for all types of players – throughout different price segments, company types, and size structures. All in all, 80 percent of respondents said their companies had “key looks” – staple items that define the foundation for the season, including color palette, core prints and fabrics, and key silhouettes. This underlines the increasingly important role of product curation in the industry as well as the importance of showing a consistent picture to the consumer. As consumers move away from buying from a few trusted brands to increasingly shopping around, fashion players must work harder to show one distinctive and recognizable “face” to the consumer. Among vertically integrated players, only 7 percent do not have “key looks.” Because vertically integrated players own their own distribution, “key looks” are of course easier for them to implement as they can decide what lands in stores, whereas for hybrid players the wholesale partner takes the final decision.



Liz O'Neill

Executive Vice President and President, Global Product
Levi Strauss

A consumer-centric transformation of product development

Levi's® jeans are a classic brand in the apparel industry. But the company is moving dramatically away from traditional go-to-market processes. Catalyzed by the need to become more consumer-centric, Levi Strauss & Co. is transforming the way it develops products – moving from a sequential model to a modular, integrated approach.

Consumer expectations are changing fast, which means the industry must change too. At Levi Strauss & Co. we've recently announced a structural shift that brings our teams, all the way from design to delivery, into one structure. We're dissolving the traditional idea of a sequential go-to-market process in which a piece of work is handed over from team to team along a chain. Instead we're integrating the consumer's perspective, not just at the point of sale but way back upstream into our products. Bringing all our product functions under one organizational structure certainly doesn't mean that designers are becoming inventory managers or distribution people are turning into merchants. But by putting everybody under one roof we can create a much more modular approach, bringing true integration to the moments that matter, and bringing us much closer to the market.

We are trying to dramatically push forward the moment when we decide what is going to be in front of the consumer. It's not going to be nine months out, like it is today. We plan to achieve this through a combination of creative reinvention of timelines, use of digital tools, and postponement strategies within products, sourcing, and distribution. For example, the way we think about our distribution networks is changing from mega-distribution centers to a hub-and-spoke model, especially in high-growth markets. We're looking across the whole value chain for each product and asking: "Where can we really make big, disruptive changes to our process that will get us significantly closer to market?" It's not about squeezing out a week or two. We're looking to delay the commitment date – when we really understand what should show up for the consumer – by months.

To drive these changes, our company is investing more and more in innovation. We're looking for ways to ensure innovation is solving a consumer problem and also trying to be organizationally flexible enough to let innovation ideas grow. Take

manufacturing, for example. We are engaging with companies from different industries to understand how they think about innovation in their supply chains. We are bringing together people who truly understand our industry with others who have absolutely no preconceived notion about how to do it.

One area where there's enormous opportunity is in the use of digital versus physical tools. Product is still king; we cannot sacrifice our product or our brand on behalf of any of this. But at the same time, there are absolutely ways of getting that same amazing product the consumer wants in a much more efficient and innovative way than we're doing now.

Change management is really hard in a mature, big, complex environment like ours. There are two ways to drive the change. You can either rip off the Band-Aid and just force people to try to adopt the new, or you can ease into it. I advocate for the more thoughtful approach. Within every function we look at who's going to be impacted by the change, and we find a really good evangelist to help explain it to them. We ensure that there are frequent touch points along the way and detailed documentation on the who, what, when, where, and why. We have constant check-ins on how the change is going and what people are concerned about, being empathetic to those whose jobs are changing while still pushing forward. Last but not least, we make sure the key leaders of the company visibly promote and support the change.

In not too many years from now, the entire go-to-market philosophy and process in the apparel industry will be very different from what it is today – mostly because of consumers' changing expectations. In our company we're moving fast to put ourselves ahead of that change.

3. It's all about mastering DnA – digital and analytics

As we noted in the introduction to this report, more than 70 percent of the fashion executives we surveyed said their companies lacked the digital tools and capabilities they need. There was also broad agreement that digitization is a key priority in optimizing the apparel go-to-market process – one that is building in importance. For example, survey respondents said increasing their companies' digital presence was one of their top-three priorities. Other frequently cited priorities included improving demand forecasting, making greater use of consumer insights, and incorporating advanced analytics into the go-to-market process. These are all areas in which digitization is a key driver of progress – and in which executives recognize that much work is still needed.

Indeed, digitization is by no means an end in itself, but rather a critical enabler of faster speed to market, better merchandising, and greater efficiency. For example, apparel sourcing executives surveyed by McKinsey in 2017 said they expected digitally enabled sourcing solutions to reduce their average lead time by two to eight weeks. Most of them had a target cost reduction of at least 2.5 percent through digitization alone. Companies that have implemented 3-D design and virtual sampling report shortening the sampling process by 2 weeks or more, and they often see reductions of 50 percent in the number of samples needed and the costs involved.² Besides these costs and time improvements, digitization also offers new business models. For example, it enables companies to produce smaller batch sizes and refresh styles more quickly and frequently.

Everyone agrees that digitization is critically important not only at the frontend to expand and improve digital offers for consumers, but also throughout all back-end functions of apparel companies. But fashion executives still have big questions about what effective digitization really looks like and which digital technologies and applications will have the greatest impact on consumer experience, brand strength, speed to market, process efficiency, and financial performance.

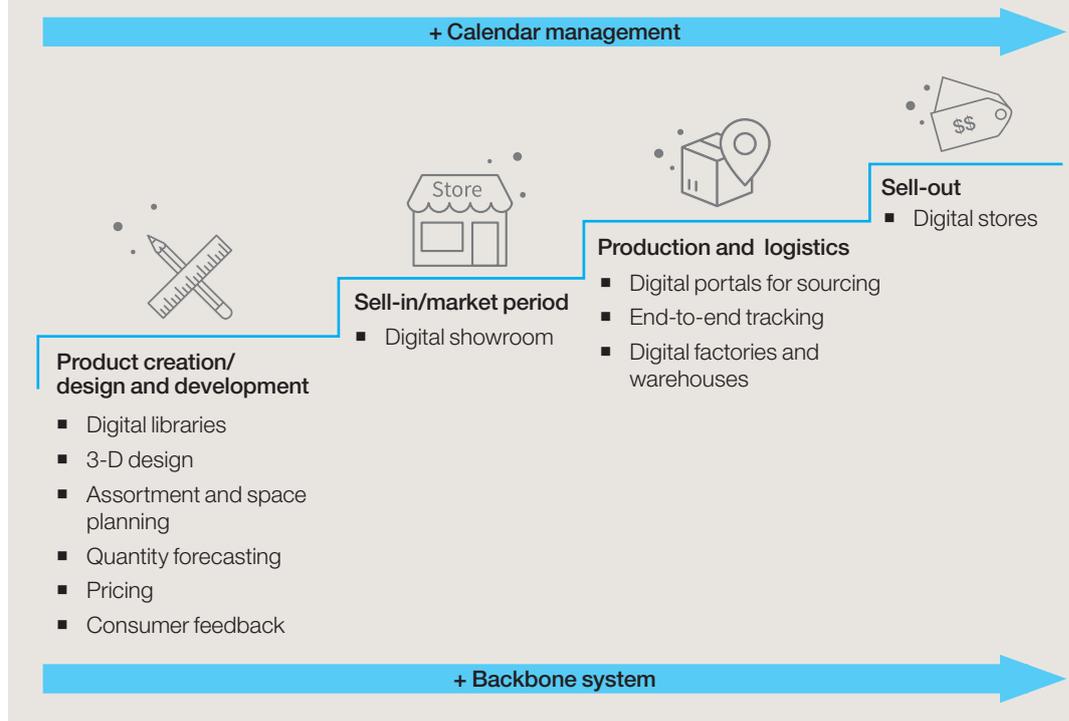
To help answer these questions and guide executives throughout the digitization journey, this chapter maps out what effective digitization looks like for each step of the apparel go-to-market process – as well as for overall calendar management and foundational systems (Exhibit 11). We present best practices, key digital tools, and leading-edge case studies for each of those steps. Ultimately, our intention is to help executives bring together these multiple steps and tools into one, end-to-end, digitized process flow that drives sustained improvement throughout the entire apparel value chain. One example of a firm that has embarked on end-to-end digitization is zLabels, a multibrand fashion company that is a subsidiary of Zalando, the German fashion platform. The CEO of zLabels, Jan Wilmking, shares his perspectives on fashion's digital and data revolution on page 29.

STEP 1. CALENDAR MANAGEMENT

Digitization offers powerful opportunities to create fast, real-time calendar management throughout fashion companies' entire end-to-end value chain. It also opens the way to greater flexibility and efficiency, thus driving faster speed to market. A key digital enabler is

² *Digitization: The next stop for the apparel-sourcing caravan*, McKinsey & Company, September 2017

Exhibit 11: New solutions throughout the go-to-market process are reshaping the way of working



the [digital calendar tool](#) – a collaborative, interactive tool that companies can use to manage all milestones in the seasonal calendar in all brands, divisions, and functions. The calendar tool should be both customizable to the individual user and shareable within the organization. This allows for real-time communication of adjustments in the calendar, better individual time management, and effective tracking of adherence to deadlines.

One key benefit of adopting a digital calendar tool is more effective data sharing. The tool allows each user to access the appropriate data in one place, creating a single source of truth, while also providing access to previous seasons. This advantage not only encourages people to use the tool, but also allows executives to track data and adherence throughout the business and harness it during decision making.

STEP 2. PRODUCT CREATION, DESIGN, AND DEVELOPMENT

As our survey findings make clear, fashion companies invest significant time in product creation and digital tools offer exciting opportunities to accelerate the product creation process. There are several digital enablers that companies can use to achieve this goal. These include:

- **Digital libraries.** These allow companies to structure design options, such as color and trim, more efficiently and to use them within different product divisions.
- **3-D design.** This helps companies to render their designs virtually, thereby replacing physical prototypes for internal and external meetings, i.e., design reviews, and selling meetings.

Thinking a step further, apparel firms can radically enhance processes through cutting-edge applications with [artificial intelligence](#) (AI). A pioneer in this regard is Stitch Fix, which is at the forefront of AI-driven fashion with its “hybrid design” garments. These are created by algorithms that identify trends and styles missing from the Stitch Fix inventory. This AI application suggests new designs for human designers to approve based on combinations of consumers’ favorite colors, patterns, and textiles.

Innovations are also coming from big tech players. Google has already tested user-driven AI fashion design with Project Muze, an experiment it deployed in partnership with German fashion platform Zalando³. The project trained a neural network to understand colors, textures, style preferences, and other aesthetic parameters derived from Google’s Fashion Trends Report, as well as design and trend data sourced by Zalando. Drawing on that data, Project Muze used an algorithm to create designs based on users’ interests and affinity to the style preferences recognized by the network.

Last but not least, digital capabilities can drive greater sophistication in [merchandising](#), a key element in the product creation process. Key digital enablers include:

- **Assortment and space planning.** This allows firms to visualize merchandise on the virtual shop floor and plan the space from the start of each season.
- **Quantity forecasting.** This uses AI to help determine demand more accurately. This is a key need, given that 51 percent of respondents in our survey said that accurate demand planning and forecasting was a core challenge for them.
- **Pricing.** This uses algorithms to recommend prices for individual products, combining price elasticity, currencies, costs, and competition.
- **Consumer feedback.** This provides early consumer reads on digitally created styles to test color, print, and silhouette concepts as well as enable companies to incorporate that feedback into the final designs for production. These digital tools give companies new, consumer-informed insights during product development as well as robust selling data, which helps shape collections with the most consumer receptiveness.

STEP 3. SELL-IN AND MARKET PERIOD

As our survey respondents made clear, sell-in time is a large hindrance in the business model for hybrid players with wholesale accounts. Among these players, average sell-in time is eight weeks, thus having significant impact on go-to-market timelines.

A key digital enabler to shortening the sell-in period is the [digital showroom](#), which allows an apparel company to show its collection in a fully digital format and take orders directly from customers via cell phone, tablet, or computer. An example is Tommy Hilfiger, which has successfully implemented digital showrooms, allowing buyers to look at their entire collection and directly place orders. Besides the digital showroom, increasing numbers of apparel

³ Zalando’s Project Muze: Fashion Inspired by You, Designed by Code, <https://www.thinkwithgoogle.com/intl/en-ccc/success-stories/global-case-studies/zalandos-project-muze-fashion-inspired-you-designed-code/>

companies are implementing business-to-business (B2B) ordering platforms. These portals allow them to serve smaller customers more cost effectively.

STEP 4. PRODUCTION AND LOGISTICS

Irrespective of player type, the production process takes an average of 17 to 18 weeks for fashion companies in our sample. Harnessing digitization to shorten the production process is thus a crucial element of companies' overall drive to reduce go-to-market times.⁴ There are several powerful digital enablers available:

- **Digital portals for sourcing.** Web interfaces with suppliers that facilitate interactions, including ordering, submission of tech packs, and access to the bill of materials (BOM). These portals enable easy monitoring via live dashboards.
- **End-to-end tracking.** This allows companies to track each item from the beginning of the value chain to the end. For example, Zara uses radio frequency identification (RFID) tags to increase store efficiency and monitor its shelves, significantly improving its replenishment processes.
- **Digital factories⁵ and warehouses.** These optimize supply chain and production processes with state-of-the-art automation and digital ways of working to reduce lead times and costs.

STEP 5. SELL-OUT

There are also major opportunities to enhance sell-out through digitization. Key digital enablers include [digital stores](#), which offer a full-throttle digital experience. A compelling example is Farfetch's store of the future, which features a universal login that recognizes consumers, RFID-enabled clothing racks that automatically add products to the consumer's wish list, digital mirrors, mobile payment, and seamless connection to other Farfetch platforms.

STEP 6. FOUNDATIONAL SYSTEM

Finally, to enable all the digital capabilities discussed above, companies must establish a strong data foundation. A critical objective here is to ensure data integrity throughout the end-to-end, go-to-market process, because a robust foundational system creates a digital trail with a replica of each product available throughout the entire product lifecycle.

The key digital enabler here is a [product lifecycle management \(PLM\)](#) system, which companies can use to establish a consistent database that is constantly updated throughout the whole value chain and that is accessible to anyone in the company.

⁴ For an overview on digitization in sourcing and production, see *The apparel sourcing caravan's next stop: Digitization*, McKinsey & Company, September 2017, <https://www.mckinsey.com/industries/retail/our-insights/digitization-the-next-stop-for-the-apparel-sourcing-caravan>

⁵ See details on automation in the context of nearshoring in our recent white paper, *Is apparel manufacturing coming home? Nearshoring, automation, and sustainability: Establishing a demand-focused apparel value chain*, McKinsey & Company, October, 2018



Jan Wilmking

Chief Executive Officer
zLabels

Harnessing data to revolutionize fashion

Berlin-based zLabels, a subsidiary of Zalando, was founded in 2010 as a digitally driven fashion firm. Using millions of points of data, it connects consumers in real time to its brands, such as mint&berry, Zign, Anna Field, and even&odd. zLabels is also leading the way in the digitization of product development and production.

Technology is revolutionizing the fashion industry. The wealth of data available has opened a whole new world, allowing fashion firms to push the limits of product relevance and demand forecasting. Granted, the word “data” feels rather technical, cold, mathematical, and unemotional – quite the opposite of how fashion is perceived. But we see data as the direct and unfiltered voice of consumers, who tell us in detail and in real time what they like and want. Technology helps us to listen to and make sense of millions of consumer signals and connect our brands with consumers.

zLabels was developed for the digital market from day one, so we can act at the speed of now. Throughout the industry, we observe that the front end of fashion, the retail and marketplace side, is fully digital. But the opposite is true on the supply side, where digitization is just starting, especially for core fashion design and production processes.

We see a wave of innovation and digitization ahead in product development and production – and we strive to participate in it and help shape it. That is why we are working closely with software vendors and leading suppliers to substitute analog processes with digital processes such as virtual 3-D product development, which significantly reduces the need for physical samples. This not only saves time and costs but also greatly enhances communication between decision makers and product makers, who are often thousands of miles apart when making large financial decisions.

We are not standing still when it comes to consumer insights. We are trying to better understand the true needs of our consumers and increase the relevance of our products

through the sophisticated use of data. Our data-driven way of doing business means that we hardly ever make decisions we cannot back up with data insights. We always strive to combine data with creativity and to directly translate consumer demands and specific behaviors into the most compelling product selection at exactly the right time and price for the market.

We use these consumer insights to make better decisions in all parts of our business – from planning to design, buying, production, operations, selling, and marketing. We are also creating more flexible supply chains, so we can offer the right products at the right time and right price – ideally on demand and not with months-long lead times and high preordered stock levels.

We are constantly looking for ways to improve manual processes, drawing on the range of promising technologies out there. One example is machine vision, which can be used to describe products with detailed attributes. This can help improve forecasting and design accuracy. Another example is digital printing of textiles to increase speed to market. We are also looking into integrated, end-to-end tracking and steering of capacities and materials beyond the boundaries of our own company and into the world of suppliers.

Technology is, in fact, changing every aspect of our company and is therefore influencing all roles within our organization. Even in a young company like zLabels, moving from traditional to new ways of working requires lots of communication and experimentation. And all activities need to contribute to a larger vision, so the “why” of the change is always clear to everyone involved.

Conclusion

Consumers' attitudes toward apparel are changing fast: many want fresh, compelling, and personalized fashion. There are also rapid advances in the technologies people use to find inspiration, communicate with fellow consumers, compare brands, as well as browse, customize, and purchase garments. Can apparel companies in different parts of the industry keep up? Can they achieve real acceleration in their speed to market? Our answer to both questions is yes – so long as fashion companies are open to embarking on a dramatic transformation of their processes and mindsets. This transformation will not be a quick fix; rather, it will be a journey that requires the engagement and energy of the entire organization.

Where do companies begin? In our view, there are three essential requirements for success:

- **Tailor-make the transformation.** Each company needs to define its own ambition for speed to market and make the right merchandising choices based on its business model. There is no one-size-fits-all transformation approach and even within each company solutions need to be segmented for different brands and divisions.
- **Set up for success.** In our view, companies in many parts of the industry would do well to empower their merchandising teams to drive the transformation process. In addition, it is critical that highly capable project managers are given responsibility to ensure effective process execution.
- **Prioritize the right tools and analytics use cases for your business.** Most apparel companies need to ramp up investment in data and digital systems and tools – the essential foundation of robust analytics. Analytical reporting on in-season selling data and adherence to calendar milestones can help drive critical decision making to meet seasonal development goals and create successful, strong-selling lines. Depending on the company, the right tool might range from a sophisticated PLM system to a standardized Excel tool. Either way, creating standardization throughout the product development process is the first step in melding science with the art of fashion.

We hope the insights, terminology, and examples presented in this report will enable executives to inspire discussions on their company's go-to-market processes, capture efficiencies, and level their performance with that of their best-in-class peers and beyond. Most of all, we hope that this report will help fashion executives to catch up with the speed, digital fluency, and global imagination of today's consumers.

Authors

Achim Berg is a senior partner in McKinsey's Frankfurt office and leader of the global Apparel, Fashion & Luxury Group.

Miriam Heyn is a partner in McKinsey's Berlin office and a leader within McKinsey's Apparel, Fashion & Luxury Group.

Elizabeth Hunter is an associate partner in McKinsey's Toronto office and a leader within McKinsey's Apparel, Fashion & Luxury Group.

Felix Rölkens is an engagement manager in McKinsey's Berlin office and a leader within McKinsey's Apparel, Fashion & Luxury Group.

Patrick Simon is a partner in McKinsey's Munich office and a leader within McKinsey's Consumer Industry Group.

Hannah Yankelevich is an associate partner in McKinsey's Minneapolis office and a global leader within McKinsey's Retail Practice.

Acknowledgments

The authors wish to thank all the executives who took the time to participate in our Apparel Go-to-Market Process survey. We extend particular thanks to the executives and experts who contributed their own perspectives to this report. They are Liz O'Neill, Executive Vice President and President, Global Product at Levi Strauss & Co., and Jan Wilmking, SVP Private Labels Zalando, CEO/Managing Director of zLabels.

We also wish to thank the following McKinsey colleagues: Fabio Baum, a consultant in McKinsey's Stuttgart office; Alyssa Callister, an engagement manager in McKinsey's Minneapolis office; Marine Daul, a consultant in McKinsey's Lyon office; Saskia Hedrich, a senior knowledge expert in McKinsey's Munich office; Paula Hübner, a consultant in McKinsey's Berlin office; and Tiffany Wendler, a consultant in McKinsey's Stuttgart office. We also thank Colin Douglas, who edited the report, and Adriana Clemens for communications support, as well as Susanne Kamm and Renata Sampaio Rodriguez, who designed it.

For further information, please contact:

Apparel_GoToMarket_Process@mckinsey.com

Measuring the fashion world – Taking stock of
product design, development, and delivery

McKinsey Apparel, Fashion & Luxury Group
October 2018

Design contact: Visual Media Europe
Copyright © McKinsey & Company
www.mckinsey.com