

An **Apparel** Thought
Leadership Report

Fashion Wholesaling



DEAD OR ALIVE?

Building Brand Value in
Transformative Times

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THOUGHT LEADERSHIP REPORT

FASHION WHOLESALING'S FUTURE

What is the future for fashion wholesaling? Is it dead, alive, on life support, or undergoing a metamorphosis? There is no single outcome or answer to these questions. It's clear that the traditional wholesaling model — buy early, design even earlier, ship in bulk — is under pressure, primarily from the digital retail revolution.

Fashion brands, new and established, are eyeing the best way to deepen consumer relationships. Of course, their retail customers are doing the same.

"There's a bit of tug of war right now over who is going to have that real connection with the consumer, which is really what it's all about at the end of the day," says Robert Kaufman, CEO, The Parker Avery Group, a strategy and management consulting firm serving retail and consumer goods companies.

"Brands have to think about what channels they are in — and how it's all driving value to the brand," says Bob Copeland, managing director, RetailChain Advisors, a consulting firm focused on the retail supply chain. "If you're a wholesaler, you've got to create value in your brand. Otherwise, you're just a label, and you're the one who is going to get squeezed the most."

What's Wrong (and Right) with Fashion Wholesaling?

Building brand value requires tough choices for wholesalers. There is a concern that putting all of one's eggs in the wholesale basket may limit a fashion brand's ability to engage as intimately as it would like with end consumers. The retailer is always in the middle. Yet going direct or selling through alternative channels could ruffle long-standing retail relationships.

Also, antiquated seasonal cycles are increasingly out of touch with the speed of information flow and trendsetting in the digital age. "Consumers want to buy it now and wear it now," says Copeland. "They want to be able to get the product whenever and wherever it's convenient to them. That puts pressure on both the brand and the retailer."

Up-and-coming brands such as Thakoon are designing and releasing collections quickly, eschewing traditional market cycles to be more in synch with what consumers want and need at a particular place and time. Goods are sold online and at a New York flagship store and never go on sale. As *The Business of Fashion* reported in a July 2016 Thakoon profile, the brand offers value "hinged on newness and scarcity." Designer Thakoon Panichgul "has long recognized the imperfect alignment between what fashion retailers sell and what consumers actually want to buy — and when they want to buy it," the article said.

With the more traditional wholesale model, designers and brands would need to sell retailers on their lines at least three to six months before products hit the market. With the newer, more agile approach, "they can be designing and delivering product at the last minute," says Copeland. "Their ability to be on trend and have product that is meaningful to the consumer is enhanced by not having to go through the traditional market selling process."

Wholesale brands also are frustrated by retailers' markdowns, aggressive promotions and chargebacks. Some retailers require margin guarantees from fashion brands. This can create a difficult

challenge for wholesalers, who often have little control over how their products are allocated and marked down. "The retailer wants to get a certain margin in the end. The wholesaler is the one who is going to have to pay for margin guarantees if the product doesn't perform at the expected level," says Copeland. "That's always been somewhat true, but now it's more brutal than it's been in the past."

At the same time, there are many positives to fashion wholesaling. The model provides access to established distribution channels and exposure to thousands if not millions of consumers, presenting potential for high-volume sales. Though there are exceptions, retailers typically assume the financial burden of holding inventory and bear responsibility for omnichannel fulfillment complexities and costs.

Most importantly, fashion retailers are investing in their brands and building relationships with consumers, too. Many are at the forefront of omnichannel excellence and are experimenting with novel concepts, from virtual dressing rooms to subscription services, to entertain and engage the consumer. At the end of the day, good retailers want fashion brands to succeed. They know everyone loses if they don't.

What Are a Brand's Alternatives?

Fashion brands have many avenues for building brand value, including wholesaling and other approaches. The key is good execution, which requires strategic use of the latest technology solutions. Here is a brief look at some different models and respective IT considerations.

MODEL ONE

Business-to-consumer e-commerce (B2C e-comm). More fashion start-ups are embracing this model. For younger, web-savvy designers and fashion professionals, online selling is a natural first step into the retail business. And younger consumers value authenticity, which is easier to convey in a direct-selling relationship, Copeland says. Direct sales through a brand's website and social media channels not only give the brand control over its presentation and pricing but also enable it to get to know the end consumer. As a bonus, insights from B2C e-commerce benefit their performance in other channels down the road. "They can control the essence of the brand and see how the consumer perceives the brand," Copeland says. "That's what's driving brand value — that understanding of the consumer, where she shops, how she thinks ... knowing what's appropriate for her by channel."

► **TECHNOLOGY CONSIDERATIONS:** To sell online, brands need turn-key e-commerce capabilities, including built-in search engine optimization (SEO) and integration to social media. Whether the company is a new brand or established wholesaler venturing online, it's important to think big and plan for the future. That future might include expansion into additional brands, physical stores and global distribution. There are software platforms designed to accommodate multibranded digital storefronts, physical stores and multilingual and multicurrency transactions. Product data management (PDM) and product lifecycle management (PLM) are essential to manage the

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Q & A

EXECUTIVE INSIGHT



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What are a few factors prompting some fashion brands to explore alternatives to the traditional wholesale go-to-market business model?

A big driver is the changing face of the retail landscape where we see especially large, traditional, mid-priced retailers under pressure. On the other hand, we are seeing a resurgence in smaller retailers, offering a more limited, but highly tailored assortment and a more personalized and fun shopping experience. Both of these have an impact on wholesalers, especially on the size of their market and the ability to drive volume sales and margins.

Another point to consider is that for many wholesalers, maintaining control over their product and brand is an on-going challenge. However, the widespread adoption of online shopping now offers them a route to market where they are not solely dependent, or at the mercy of the retailers. If they do it right, they regain an element of control over their product and their revenue streams as well as the possibility to broaden out their market and to build and strengthen their own brand identity. And an additional benefit of being at least one step closer to the always critical consumer, is that wholesalers can react quicker to emerging trends and play in on the increasing need for a more personalized shopping experience

What type of technology platform and capabilities can give apparel brands the flexibility to pursue new and possibly multiple business models to engage the end consumer?

The biggest challenge we most often see is the inconsistency of product and stock management across different channels to market. It happens only too often wherein a product is available but cannot be

delivered, or that the consumer is told that the product is available when it actually isn't.

In many cases, organizations are running heavily customized backbone systems made up of several best of breed applications, synchronizing data overnight in scheduled batches. There is no single version of the truth, available from anywhere at any time for any channel. In addition, maintaining and upgrading all these systems comes with huge complications and costs.

In our opinion, a more ideal situation would be to have one single system that covers 80 percent or more of all the activities regardless of channel, function or process. And more ideally, it not only efficiently manages transactions across multiple channels but is also a flexible and agile system that supports the creative/design process which is often kept completely separate from the ERP system. The benefits are clear — increased insight and control and accurate data available on all products and across all channels, ensuring that what is promised can actually be delivered. And at considerably less effort and cost to maintain and upgrade with the latest functionality.

As brands look to diversify into different distribution models, what are some common pitfalls and how can they be avoided with proactive use of the latest technology solutions?

When looking at different distribution models, it's important to think of them in the context of being a delivery mechanism. At the end of the day, the ultimate goal is to reach the consumer in a way that makes him/her purchase the goods that the wholesaler is offering. The consumer needs a fluid and consistent experience

irrespective of channel where expectations are clear and what is promised is delivered and even exceeded.

One of the biggest challenges to overcome in making this happen is to let go of the traditional way that organizations have been set up. In many cases there is a split somewhere in the organization. Whether it is between on- and off-line channels or retail, wholesale and online stock, the separation is the hardest to let go of. In an ideal world, all channels are collapsed into one approach where we look at wholesale in the same ways as we do retail and online and even at a product level we approach retail styles in the same way as we would for wholesale programs. While this is not new, it's still not easy to do, especially without the right support system in place to manage all the different product variants, seasons, channels etc.

A further possible pitfall is complacency. Today's reality might not be the reality of tomorrow and it is critical to remain agile and innovative both in terms of product assortment as well as business models. And this means leveraging enabling technologies to get close to, and stay close to, the ever changing consumer. It will become increasingly important to "listen" to what consumers are saying irrespective of the channel they are using, capturing that information and using it to make quick and intelligent decisions. "Copycat" or "me-too" products won't cut it when there is an increasing demand for personalization and differentiation.



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complexities of developing multiple brands and collections, which may end up being targeted to different channels over time. Calendar and workflow management tools help brands keep control of myriad styles and product details across overlapping traditional and non-traditional selling seasons.

MODEL TWO

B2C e-comm plus a store (or stores) in select markets. Building on model #1, this approach enables brands to interact with consumers online as well as in person. Some brands, following Bonobos' lead, may opt for their physical stores to be showrooms for shopping and trying on styles, which are then purchased online and delivered to the home. Others may sell from in-store and online inventory.

► **TECHNOLOGY CONSIDERATIONS:** Ideally, a single platform should be ready to connect online, mobile, social and in-store experiences. Disjointed systems, such as separate ERPs supporting online vs. physical store businesses, have become the bane of the retail industry. Brands will benefit from implementing an end-to-end solution that is built from the ground up to handle omnichannel planning and fulfillment, including distributed order management. The point-of-sale (POS) solution should have native capability to support traditional in-store sales as well as click-and-collect and buy in-store/ship-to-home scenarios.

MODEL THREE

Consignment or concession retailing. These are a couple of twists on traditional wholesaling. With consignment retailing, the brand provides merchandise to the retailer, who fully controls the selling process and only pays the vendor for the goods as they sell. With concession retailing, the brand operates a shop-within-a-shop inside the retailer's store, controlling the selling process to a greater extent and paying rent and/or sharing sales proceeds with the retailer.

► **TECHNOLOGY CONSIDERATIONS:** Omnichannel planning is crucial, especially if the brand is going direct through its own website and store and now adding some consignment or concession sales. The system should balance inventory levels across warehouses to support all sales channels. Because the consumer's purchase will trigger a payment to either the wholesaler or retailer, depending on the model, RFID tagging also is likely to play a growing role. Both retailers and brands will want clear visibility into how many items are moving out the door. This requires an enterprise solution ready to support RFID and the Internet of Things.

MODEL FOUR

Distribution via online marketplaces. Amazon and eBay are already major forces in apparel, and other online marketplaces are rapidly expanding. This model also could include selling through mainstream retailers' online sites.

► **TECHNOLOGY CONSIDERATIONS:** All of the aforementioned solutions come into play here. It is important that the sales order management tool cater to specific delivery and packaging preference agreements of different marketplaces. Apparel brands will need robust tools to support online marketing and fulfillment,

including dynamically feeding product catalogs to online marketplaces, drop shipping individual orders to consumers and shipping bulk orders to marketplace fulfillment centers.

MODEL FIVE

Hybrid wholesaling/direct/omnichannel. Why not have it all? Consumers are becoming less predictable about where and how they buy their favorite brands, so it only makes sense that fashion brands need to be where the shoppers are — everywhere.

► **TECHNOLOGY CONSIDERATIONS:** Like hybrid automobiles, hybrid retail models require more complex engineering under the hood. This is especially true for planning. Before, it made sense for apparel wholesalers to put their planning emphasis on product characteristics and compelling line plans, tying them out to the big picture of how much volume they expected to sell through different retail customers. But now, wholesalers have to think more like retailers, Copeland says.

From a technology and business process perspective, this means wholesalers must be more engaged in understanding what SKUs, and in what quantities, are likely to perform best within different retail store groupings. Armed with predictive analytics and the latest forecasting and planning tools, apparel brands can make smarter recommendations to retail partners about the right amount of product to buy. In the end, if a retailer buys too much, and the garments don't sell through as planned, they will be marked down, and the wholesaler will eat the difference. "They are the ones who will take the hit if the product is in the wrong place and doesn't perform," Copeland says.

Brands also need a strong systems core. The enterprise solution should have functionality to handle product management for both wholesale and retail. Sales order management tools must be able to support pre-sales and direct sales across different channels and also optimally allocate received stock over open orders, taking into account shortages and surpluses. There also should be season management functionality to encompass both pre-season collection planning (applicable to all channels) and in-season planning with open-to-buy options (for wholesaling).

"To have an efficiently run operation, they have to understand the expectations for what they're going to sell, where and when," Copeland says. "You can't do that without good core technology. The ERP is the lifeblood there. Advanced solutions for planning, forecasting and managing replenishment also are critical so that you can execute precisely."

"The ideal is to have channel-agnostic, or channel-less, inventory," says Kaufman. "That any product could serve any distribution or sales channel need is really an objective all wholesalers would love to be able to achieve."

So, fashion wholesaling, dead or alive? As a breed, fashion wholesalers will stay alive if they continue to enhance their brands and build strong consumer relationships. As a business model, fashion wholesaling is transitioning, evolving into a leaner, more dynamic version of its former self. ■