Value Innovation and Demand Chain Management – keys to future success in the fashion industry

Dag Ericsson
School of Engineering, University of Borås and Swedish Institute for Innovative Retailing (SIIR)
dag.ericsson@hb.se

Malin Sundström
School of Business and IT, University of Borås and Swedish Institute for Innovative Retailing (SIIR)
malin.sundstrom@hb.se

Abstract
Value innovation is a key in developing competitive advantage in most industries. Value innovation is both related to the physical products and accompanying value-adding services. Logistics has evolved from an order qualifier – that is a necessity – to an order winner. Increased focus on the consumer and co-creation with the consumer as a vital partner lead to alignments and rethinking of the channel structure. The supply chain evolves into a demand chain! Deeper knowledge about the why, how, and when of consumer buying behaviour is a main ingredient in demand chain thinking, and the starting point in designing and developing segmented demand chains in the fashion market. These chains are built on partnership and trust oriented relationships. The game of power is increasingly replaced by the game of trust. This is a necessity when the competition shifts from rivalry between companies to rivalry between chains. In this position paper we discuss visions of the fashion future, and how to develop innovative concepts that deliver added value to the consumer. The “old school” of distribution economy, and the concept of convenience, are the basic theoretical grounds, and we argue that innovations could be reached when investing in consumer insights and closer relationships in the demand chain.

Keywords: added value, distribution economy, demand chain management, demand networks, convenience, consumer behaviour

Introduction
The fashion industry is in an interesting and challenging development. Some of the fashion companies have even served as archetypes for development of new business models in the Fast Moving Consumer Goods (FMCG) market. The industry is an interesting field also for the evolving business models based on closer integration between logistics and marketing, especially in terms of consumer and consumption processes. In Sweden, the fashion industry is facing a decline (Svensk Handel 2012). Many fashion customers begin expressing a feeling of “saturation” and search for other kinds of added value than just another garment to buy and wear. We see a clear change in the contemporary fashion market. On one side, competition is increasing on almost
all markets around the world. On the other side, globalization and new tools and techniques for transportation and physical movements make it possible to build new and more efficient distribution channels. And from a consumer perspective, communication technology, such as the use of smart phones and applications, have become a natural part of everyday life. These two facts could be seen both as threats and opportunities and they lead to an interesting challenge for the fashion industry. Value innovation is the key word for winning the future battle of consumers.

But innovation requires more than novel use of techniques and awareness of competitors; it requires change of business models, organization structures and behavior, a better understanding of the customer and perceived value, and, above all, a change of mindsets (Ericsson 2011a). Change of mindset is the most difficult thing because it requires unlearning, i.e. getting rid of the old ways of thinking and replacing it with new paradigms. It is easy to put up new fancy strategies and goals, but very hard to implement them (Ericsson 2011b). Unlearning is at least 10 times as hard as learning! Therefore, change management has to be a major part of all efforts to improve effectiveness and efficiency in individual firms as well as supply chains.

Information and Communication Technology (ICT) is one of the major enablers of value innovation and achieving business visions. There is a constant interplay between visions and tools, and as Christopher Columbus once said: “Men is limited not so much by his tools as by his visions” (Ericsson 2011a). Figure 1 shows the interplay and the mutual dependence in the evolution of visions and tools. Today, ICT enables design and development of new, creative business models. During the 1990s the concept of eLogistics was developed as a toolbox for implementation of integrated logistics, ICT and process management (Ericsson 2000). eLogistics is the cornerstone in the development of today’s demand chain approach.

**Visions and Tools to Become Innovative**

The understanding and definition of innovation is multi-faceted. Peter Drucker (1985) stated that an innovation is a change that creates a new dimension of performance. In retailing, an innovation is often seen in that way, and it is something necessary for business survival and growth (Reynolds and Hristov 2009). The ICT development is one of the major triggers of innovation and also an important enabler in the transformation from the old industrial to the new digital world. The availability of new tools within ICT is increasing rapidly both from a B2B and a B2C perspective. The trick for management is to know which ones to use and for what purpose. Implementation has to be driven by business needs and not by technology. One way of succeeding is to look at the consumer needs and wants through the lenses of what they actually do in their everyday life and how added value is perceived. Today there is a need for a new paradigm that suits the shift to the knowledge society. Islands of rethinking and new frames of reference are popping up in the vast ocean of business strategy and management. It is time to develop a holistic approach to transformation in order to bridge the troubled waters separating those islands. Fashion is a suitable field to elaborate on, since it is open to innovative thinking and the business is put up to a great challenge.

**The “old school”**
The overall aim of this paper is to try and see how bits and pieces fit together to create a new pattern and understanding of a complex structure in the field of fashion and retailing. In order to distinguish between fads and lasting, innovative concepts, one must understand what kind of methods and tools to use, and how training and education should be performed in order to change the mindset and design the transformation process. One important tool in this development is to go back in time and renew the ideas from the “old school” of distribution economy, before marketing and logistics became separated disciplines. Another important tool is, as mentioned, transportation technology and ICT, which together with awareness of contemporary consumer behavior and the increasing need for convenience can create a leverage effect on business.
The Evolution of New Business Models in the Fashion Industry

The necessity of moving from a supplier oriented push approach, to a consumer oriented pull approach, is one of the mantras in today’s research and business literature (Darling et al 2009). The quest for the fashion industry to understand and deliver added value is closely connected to this change in management perspective. The question is how to implement change (Ericsson 2011 a, b). It is easy to understand the rationale behind the expression “we have to shift from looking inside-out to looking outside-in”. Hans Stråberg (CEO of Electrolux) once put it in this way: “We have to stop trying to sell what we can produce and start producing what we can sell”. In theory this seems logical and sound, but doing it in practice is a long and tedious journey. It requires change of business model, renewal of structures and behavior, shift of mindset and a lot of courage and persistence. Change management requires solid, practical experience in order to be successful.

In Order to Look Forward We Have to Look Back

Winston Churchill is said to be the man behind this statement, and we believe that one way of succeeding in change is taking a more holistic approach, and learn from the past and the knowledge we have regarding both marketing and logistics disciplines. One of the keys to success in creating new business models is, as mentioned to “go back to the future” in terms of reuniting marketing and logistics. “In the good old days”, up to the mid 1950s, the distribution concept covered both “demand creation” (marketing) and “demand fulfillment” (logistics). Logistics was referred to as the “physical flow” of products and marketing was seen as the “information flow” to create exchange (that is change of ownership or possession) between buyers and sellers.

The term information can be misinterpreted to stand for a “one-way street” and therefore it is better to talk about communication, which is, by definition, a “two-way” street. Communication is the tool to involve the consumer in the system and to get a real understanding of the buying and consumption processes. According to The Nordic Textile Journal “fashion communication is a challenging subject for research efforts. It is truly multi-disciplinary and trans-disciplinary, as the socio-economical and socio-cultural context is crucial, but to create and spread the message, it involves the sciences of media, management, logistics and technology” (editors 2010, p. 2).

The physical flow in fashion retailing today is accompanied by an integrated flow of information and services that increase the value of the product to the consumer. Hence, the strict boundaries between the flows are blurring which has to be taken into account when designing the offer to the consumer, the “value package”. The value package consists of the “hard core” which can be evaluated quality-wise in terms of traditional “according to specification” measures. The core is surrounded by several layers or “shells”, i.e. value-adding services. The first layer consists of “order qualifiers”, services necessary to permit the company to enter the “play-ground”, such as lead time, availability etc. The second layer consists of more intangible services that serve as order winners, such as attitudes toward consumers. (Ericsson 2011a). Both layers are judged by the consumer, and in many cases, convenience is (conscious or subconscious) the standard for success or failure. When evaluating a purchase, consumers often value a convenient purchase, meaning: easy to pay, a variety of products, time to think and make a smarter choice, sustainable in not having to travel, flexible delivery options, open 24/7, timing, and time saving (Sundström 2007). Customers of today could be in a physical store, trying out a pair of jeans, and at the same time wanting the convenience of searching on the internet for a matching pair of shoes. They might even want to take a look in the closet at home to see if the existing pair of shoes matches the jeans. With mobile technology and a simple application this could quit easy be a service offered to the customer, but is to our knowledge not yet implemented. Why? The lack of inter functional approach to added value. The increasing focus on the consumer and “perceived value” as the starting point for design and development of segmented distribution highlights the necessity of an interdisciplinary and inter-functional approach to value creation and innovation.

There is a shift from the traditional functional (silo) orientation in the companies to a process oriented flow approach, which could be a starting point to change. Relationships in the supply chain have to move from arms-length adversary behaviour to close partnership relationships based on trust and confidence (Ericsson 2011a). The trust game is replacing the power game (Kumar 1996). This is true for certain types of products in certain types of relationships, but “one size does not fit all”. Commodity types of products need one type of channel and innovative products need another (Fisher 1997). However, segmentation based on type of product is not sufficient; the segmentation has to be based on buying behaviour as well. And the buyer behaviour changes. In one instance the consumer wants to buy in a shop and bring along the products right away, in another he/she wants to buy online and get the products delivered at home or to be picked up in a store. Which one it will be depends on what is perceived as convenient at the time.
The buying moment and the pre- as well as post-purchasing activities have to be turned into positive and exciting experiences. Consumer convenience is one of the keywords for creating value. A customer described as a convenient consumer is no longer seen as a “bad” or “lazy” customer (Sundström 2007). On the contrary, a convenient consumer could be seen as a “smart” and “rational” consumer. This trend leads to the deduction that convenience as a notion will become increasingly important to most of the Western customers. Novel research on convenience also has indicated a link between gender and convenience as an added value. Workman and Cho (2012) found young male consumers in clothing shopping more convenience oriented. Results further indicate that male fashion customers have higher motivational attitudes in impulsive, quality, convenience, and price shopping orientations than other groups. We also know that men tend to adopt new technology in its early phase, while women tend to wait until the technology proves useful in everyday life (Venkatesh and Morris 2000). These are well known facts in marketing, but they have up to now been underestimated in logistics research and practice, where the “one size fits all” paradigm has been ruling. Reunion of marketing, consumer behaviour, and logistics creates a real win-win situation.

A Holistic Approach and Reunion of Disciplines
When the concepts of logistics and marketing drifted apart during the 50s a lack of mutual understanding started to evolve both in academia and in business. Today’s turbulent and highly volatile market, especially in the field of fashion, requires a reunion of the disciplines. Electrolux states that “there is no value in a fridge until it is in the hands of the user”. This highlights the necessity of a cross functional and even interorganizational approach all the way from design, via product development, purchasing, manufacturing, marketing/sales and distribution (including returns management). Hence, the holistic concept of “concurrent design” is evolving.

The same type of holistic approach is necessary also within the fashion industry. There is no value in the products until they are in the hands of the consumer. Also in the fashion industry, there has in many cases been an underutilization of concurrent logistics knowledge. However, there is a shift evolving which was initiated by companies such as Zara and H&M. They have introduced new, highly agile business models based on state of the art logistics. They have been so successful that they can serve as archetypes and role models even for heavy industry. The program “Fashion Logistics and Demand Chain Management” at the University of Borås focuses on this evolving concept and its applications.

First, the shift of focus to the consumer means much more than simply getting more quantitative data regarding the consumers buying behavior. You have to understand the reasons and motives behind the actual purchase. Or, to cite the CEO of Hemtex: “You have to put yourself in the consumer’s shoes”. It is necessary to understand both the consumer and the consumption process in its socio-cultural context. This means going much deeper than most logisticians and supply chain managers do, even though they sometimes brag about their “consumer focused approaches”. On the marketing side, consumer culture theory (CCT) has been an important development in order to understand the consumers (Arnold and Thompson 2005), and focuses consumers’ desires as mediated by culture (Illouz 2009). When it comes the fashion field, critics are heard, and Karin M Ekström (2010) argues that fashion communication “needs a more critical stance, involving a stronger consumer orientation. The understanding of fashion and how fashion is communicated needs to be understood from a consumer’s perspective” (p. 5). She also points out that consumption occurs in a socio-cultural context and that consumer socialization is a concept that aims to understand the context in which consumers live.

Today, there are many ways of improving and increasing communication with the customer. However, market information is still too much seen from a mechanistic point of view on the logistics side. “Technical” approaches, like Efficient Consumer Response (ECR), Quick Response (QR), Point Of Sales (POS) and Point Of Demand (POD), and, more recently RFID, have been launched as solutions to the communication problem. ECR can improve cooperation and alignment in the field of inventory management and replenishment and Collaborative Planning, Forecasting and Replenishment (CPFR) can improve cooperation regarding assortment planning and manufacturing. However, this is not enough. POS data are always about yesterday’s sales to each firm’s existing customer group. Potential customers are just as valuable as the existing ones. How would you know about potential customers who never come? We also need to get a grip of missed sales as a consequence of stock outs and lack of products that are demanded. Zara tries to approach this by relating part of the bonus to salespeople to the value of qualitative and not only quantitative data they submit. Too much focus on mechanistic tools may lead to underinvestment in the real customer knowledge and the quest for added value. Implicit as well as explicit needs and wishes have to be taken into account, and truly understood. And, also, what consumers cannot tell you might be just what you need to develop successful new products and sustainable value. The consumers’ ability to guide the development of value is limited by their experience.
and their ability to imagine and describe the perfect purchase. As Henry Ford once stated: “I cannot ask the customers, they just want faster horses”. We believe consumer convenience is a keyword in finding added value. Leonard and Rayport (1997) suggested that we should “Spark innovation through empathic design” by observation, that is watching consumers use products and services.

Efficient and effective alignment of demand and supply requires that the chain of activities that communicates demand from markets to suppliers is integrated and fused with the traditional supply chain. So, the first requirement is exchange of consumer information. The easiest form of this is automatic replenishment on the basis of sales data. But not everything that has been sold has to be replenished. We all remember the story about the green cars. The cars had been a nuisance for sales people for quite some time and they had really tried to get rid of them. Finally, after heavy promotion and discounts they were sold. Logistics people saw the 0 in stock, thought the car was a massive success and ordered an even larger batch from manufacturing! Internal communication and understanding is just as important as external.

The Key to Success in the Field of Fashion - a demand chain management approach
Inter organizational processes are the cornerstones in demand chain management. The number of processes and their names can be debated (see e.g. Cooper et al 1997). Ericsson (2011) defines four core processes that have proven their value in practical applications. One is Time to Market (TTM) which refers to product development and commercialization. Another is Time to Cash (TTC), the fundamental and basic process in traditional logistics that focuses on the order fulfillment process from initiation of the order to delivery to the final user. The third is Supplier Creation and Retention (SCR), a process with growing importance in an increasingly turbulent environment where price and low purchasing costs no longer are the most important issues. Just as companies have to develop and manage relations with their customers, they also have to manage supplier relations. Fourth, Customer Creation and Retention (CCR) highlights marketing as “the science and art of finding, keeping and growing profitable customers” (Kotler 1999). Customer and consumer insight are keys to lasting and sustainable profitability. Market research and the customer intelligence part of marketing have to be more emphasized and, slowly, this reorientation appears to take place.

Smarter Consumers Require Smarter Demand Chains
With the help of ICT, consumers have information access that enables them to make better decisions. One example, still in its infancy, is the use of GPS and direct offering and communication when the customer checks in at a location, or, by permission, receives a SMS when passing a store. Smarter consumers require smarter demand chain solutions. Fewer consumers listen to the messages from sellers. Instead they listen to each other, use internet and mobiles to manage their consumption. In a study based on interviews with 30624 consumers in 13 countries (IBM Retail User Group 2011) it is stated that only 18% of the interviewed listen to traditional advertising, instead they listen to friends, family and other consumers. The increasing use of social media such as Facebook and video hauls also change the market arena. Ekström (2010) points out that “there is a need for more research studying how fashion spreads across social groups also including families” (p. 10).

Research shows that the smart consumer wants to buy from retailers that exist in several channels: brick and mortar stores, web, mobiles and Ipad. The design and milieu and the personnel in the shops have to adapt to the new consumer behaviour and expectations. It has to be convenient, nice, service-oriented and easy to shop. In a way it is going back to basics in treating the consumer as an individual and renews old virtues like service and convenience. The retailers have to embrace the new development and live up to the consumers´ individual needs and wishes. Consumer insight should be the starting point for implementation of new technology. Technology that can also be used to – in a respectful way regarding privacy – map the consumer’s individual needs and learn how to serve him/her as an individual and not a part of a “Grey mass”.

When the consumer wants to search for information and shop in different channels, it is obvious that the demands on logistics increase. One day you want to buy on the net and pick up the goods in a store. Next time you may want to buy in a store but the goods have to be delivered to your home or working place. In all cases it has to be convenient to get the delivery. The product has to be in the shop or in a nearby storage when the purchase is done. Today’s smart consumers require diversity, simplicity, excellent service and an efficient, transparent supply chain that ensures the lead time required. Attitudes are changing, demography is changing and we live in a turbulent time, when everybody is trying to win the consumer in different ways. Innovation regarding business models, structure and behavior is the key to success!
The BAFARA approach (Buy Anywhere, Fulfill Anywhere, Return Anywhere) indeed matches the convenience needs from the customers, but requires alignment and interplay between sales and logistics in order to exploit several information and distribution channels. The key is transparency; that consumers, order and products are available and visible in the whole chain of suppliers, warehouses and stores. This is a challenge because all too often we are locked in old silo structures with isolated systems for stores, e-commerce and warehouses. Proactive retailers can turn the store into a show room, a test room and experience centre for consumers that want to check out, test and so on. This can lower the need for inventory to the extreme “one of each” – a test collection. The sale is executed via self-service stations or mobile e-commerce sites. But the consumer wants the products rather quickly, so lead time is a key issue. The lead time is a key issue, but must be seen from the customer’s point of view – sometimes a convenient delivery is that of two hours; sometimes it could be that of five days. It depends on the individual, the situation, and the motive for the purchase.

In this area the B2C business has a lot to learn from B2B. For instance, several companies have solved the problem with erratic demand that is impossible to forecast by building virtual networks of companies that open up their inventories even for competitors (Narus and Anderson 1996). For example, there are two types of demand for spare parts. One is the “normal” that is related to scheduled maintenance. In this case, a lean supply chain may be appropriate. The other is the emergency situation when something happens to e.g. a truck out on the road. What is needed is a “fully flexible” supply chain (Gattorna 2010).

**Segmented Supply Chains**

We need a portfolio of segmented supply chains based on categorization of products and customers with different requirements regarding where, when and how to shop and get deliveries. Systems for sourcing, replenishment, and ordering and returns management have to be restructured. As said before, this requires a higher degree of consumer intelligence and segmentation based on consumer buying behavior and consumption process.

In the fashion market, this leads to at least three different set ups:

One for traditional sourcing before the season. Fashion buyers may rely on their knowledge and experience of the market and order before the season. Real conversations between these buyers and manufacturers with their own consumer insight may be very helpful here (see eg. Fisher 1997).

Another channel relates to apparel classics such as white shirts, polos, T-shirts, underwear that can be replaced rather automatically on a never out of stock approach. Quick decisions are taken by responsible buyers based on sales and stock data. Seasonal swings and also changes in color and styles have to be taken into account.

At the other extreme are very fashionable short-season items for which there are no replacements at all. Very close cooperation with manufacturers is necessary to take advantage of volatility and to adapt products to desired changes in colour, size, and shape. Seamless cooperation between retail and manufacturing can lead to added profits on the basis of successful products. Rapid response and short lead times are needed which means that manufacturing has to be closer to the market.

**Conclusions**

In this article it has been argued that added value in the field of fashion could be reached by integrating the “old school” of distribution economy and concurrent knowledge regarding convenience into a holistic approach of demand chain management. Innovations and prospering success could be reached when investing in consumer insights, and closer relationships in the demand chain. Fashion industry need to be more flexible and prepared to segment, not only different channels, but also within the same channel, adapting to smaller customer segment’s need of convenience as an added value. Our firm belief is that a weak expansion in most cases can be explained with a low investment in consumer knowledge and lack of adjustments according to different segments.

On a larger scale there is the problem of too much uniformity between all kinds of shopping centres and malls, which all look precisely the same, as a consequence of scale economies of large fashion chains and the internal control systems they have established. Apparently, this trend has not been reversed by the multiplication of multi-brand corporations (Jacobs 2004). And, finally, even the most advanced form of cooperation between retailers and manufacturers won’t help in developing more radical fashion innovations, like the introduction of new products (e.g. mini- and maxi skirts, cat suits etc) or styles in the past. Room for genuinely creative thinking has to be opened up and stimulated in the organization.

One of the core ingredients in creating value is to analyze the consumption process and the how, why and when of the actual purchase has to be turned into a picture, a visualization,
of the value package. This image can be used as a target for design and development of the segmented supply chain with its accompanying information flows and relationship patterns (Ericsson 1996; 2011). In most cases, the physical products get more and more similar and also the first layer of services, the order qualifiers, are getting similar. What is important is to get the order winners right. They can turn the consumer experience from satisfaction to ecstasy!

References


Svensk Handel (2012) *Stilindex*. 2012-03-09