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From Concept to Cash Register Faster—and More Profitably

For retailers, achieving growth year after year used to be fairly straightforward. The formula for success seemed simple: aggressively open new stores. But, in today's increasingly crowded and diverse marketplace, a one-dimensional strategy based on rapid store expansion is not enough to guarantee growth in either revenues or profits.

Retail space is at a premium today, and consumers enjoy more shopping options than ever. They are often able to compare prices on the same product across multiple shopping channels, such as online and catalog, versus physical store location. Channel blurring has added to shoppers' choices, while eroding their loyalty to any single retailer. For example, as mass merchants have begun to sell groceries, and grocery stores have begun to sell gas, consumers can choose from a seemingly unlimited number of options for these common purchases.

37% of total sales were derived from own-brand products in 2007, according to AMR Research.

This enormous range of choices has resulted in demanding shoppers. Consumers today expect not only low prices, but also product assortments that are customized to their specific preferences—creating new pressures for retailers to custom-tailor their store assortments to diverse local markets.

To differentiate themselves in an increasingly crowded marketplace, and offer truly unique products, many retailers have turned to private-label product strategies. By designing and manufacturing products, retailers can leverage their own customer knowledge to create one-of-a-kind offerings that are customized to the needs of their local stores, while also maximizing their profit margins.

Given the potential payoff, it's not surprising that in-house brands are growing in both popularity and influence. In fact, a recent study by AMR Research states, "Survey responses show consistent growth in private-label penetration from 2006 to 2008. 37% of total sales were derived from own-brand products in 2007 and [this category] is expected to grow by 11%." (AMR Research Report, April 2007, "The State of Fast-Moving Consumer Goods Retailers: the 2007 Technology and Process Review," by Mike Griswold and Fenella Sirkisoon.)

Private-label products offer the potential for higher profits, greater differentiation and increased loyalty. However, retailers are discovering that there is enormous financial risk in assuming responsibility for the entire design-to-shelf process. Retailers may wield significant power when purchasing finished goods, but that power disappears when they become the designer and the manufacturer—and there is no longer anyone to accept their product returns. Every private-label strategy represents a tremendous financial investment, with no guarantee of success.

Cycle-time optimization, always a strategic imperative, plays an absolutely critical role in the private-label business model. To accurately predict and capitalize on fashion trends and regional preferences, retailers must drastically reduce cycle times so that they can delay decisions as close to the start of the selling season as possible. This means taking a close look at every aspect of their supply chains, as well as rethinking their traditional relationships with supply chain partners.

Beyond business as usual

To design and deliver private-label products, retailers must extend their traditional supply chains to include raw-materials suppliers and manufacturing organizations around the world. In this new model—which requires retailers to assume the risks associated with raw materials, manufacturing and inventory—retailers must view each supply chain process as an opportunity to cut time and costs.

Retailers need to realize that information sharing and visibility—both within their own businesses and across the supply network—can lead to faster cycle times, lower costs, increased margins and higher revenues. By fostering collaboration, retailers can collapse individual process times, drive out unnecessary costs and turn the concept-to-market cycle into a series of parallel, not sequential, steps that move products continuously and quickly toward the cash register.

Closer inter- and intra-enterprise collaboration also enables retailers to maximize their forward visibility, since any constraints can be more easily identified and addressed. Retailers can also track any changes in demand forecasts or materials reservations, increasing their agility and responsiveness. And, by sharing the same cycle-time metrics across the global supply chain, retailers can ensure ongoing improvements in overall time and cost performance.

Optimizing cycle times: five key areas

Competing in the private-label marketplace requires retailers to embrace collaboration and visibility in every part of the business. Through i2's work with both retailers and manufacturers, we have identified five key areas in which enhanced visibility and collaboration can eliminate months in private-label cycle time.

1. Integrated design and demand planning. Typically, a private-label sourcing team learns of new product designs and associated raw-materials needs about six months before the beginning of a selling season. But i2 has discovered that 8–10 weeks can be taken out of the product development cycle by sharing information about designs at a much earlier stage. Buyers can actively collaborate with designers, as well as with a core group of suppliers, to choose the most cost-effective materials and manufacturing processes. Instead of being presented with final designs, and then scrambling to line up materials and manufacturing facilities, buyers become part of a fluid design process that considers materials and manufacturing costs up front.

In addition, the forecasting team has a much greater opportunity to study market trends and create accurate demand projections when specific product-design information is shared earlier. By sharing forecast information as early as possible, retailers can minimize risk and maximize responsiveness across the supply network.

2. Strategic sourcing. Early notification also allows buyers to consolidate orders for raw materials across numerous products, pre-position materials that may be difficult to find and create flexible supplier contracts that include options to purchase additional materials—or withdraw from contracts—as demand projections shift. While actual purchase orders are not formalized until closer to the selling season, buyers can gain an earlier understanding of supplier costs and capacity constraints. Products are manufactured and brought to market faster, and profitability is enhanced through strategic supplier negotiations that make the most of purchasing investments.

3. Integrated manufacturing planning. Private-label product teams can cut significant cycle time by using early design specifications to choose the most cost-effective manufacturer, as well as to plan exactly how products will be made and shipped. For example, the sourcing team can weigh the positive financial implications of manufacturing in large quantities against the costs associated with carrying inventory. If the sourcing team partners with a core group of suppliers, team members can also use this preliminary information to position multiple products and raw materials across vendors, ensuring high capacity utilization and a constant flow of product through the supply chain.

4. Dynamic inventory utilization. Similarly, buyers can work with multiple raw-materials suppliers to allocate materials in the most timely and profitable manner. The private-label buying team can consider such factors as material costs and capacity levels to make more strategic decisions about acquiring raw materials, and to ensure that materials are shipped just in time to keep the overall supply chain running efficiently and profitably.

5. Flexible distribution. A flexible approach to the distribution process can save significant time and costs by allowing retailers to analyze data on prices, profit margins and capacity constraints at various supplier facilities—and make more fluid decisions about how to move products through the supply chain. At most companies, such decisions are made on a product-by-product basis by individual sourcing managers, but i2 helps retailers gain visibility across all their private-label offerings. This ensures that the right assortments will hit the right stores at the right time, and in the most cost-effective manner.

Sharing information across the network

While many retailers may be initially reluctant to share so much of their strategic information with their global supply network, it is the only way to achieve the dramatic time and cost improvements that today's new retail environments demand.

It's also the only way to manage the financial risk and demand uncertainty that come with private-label strategies. By fostering greater collaboration with worldwide partners, retailers can delay critical decisions until closer to the start of the selling season. When retailers can make more intelligent and timely decisions about their private-label offerings, they maximize their chances of selling products at full price—and minimize the real financial risks associated with excess inventory and markdowns. The tangible results are lower inventory levels, higher rates of in-stocks and faster inventory turns—leading to significantly enhanced profitability.

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