Fashion's Digital Tipping Point

Why a strong transformation strategy needs a strong digital foundation

Insights from 300 fashion and apparel retailers.

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INTRO

2020 provided a reset moment for retail and fashion, with many brands completely pivoting to meet customer demands through digital channels.

Fashion brands quickly turned their attention to their eCommerce capabilities. Reshaping existing operations and IT systems to engage with customers online became a top priority, creating a fresh set of challenges. Our research found that the issues reported overwhelmingly lie within a lack of visibility into operations and inventory: the return on investment from investments in digital channels is at risk because of antiquated transactional systems.

Our study shows that a good digital strategy depends on a solid foundation, and for many that means reconsidering their ERP solution. For the uninitiated, an Enterprise Resource Planning (ERP) solution is technology that provides real-time views of stock and tracks and optimises operational processes such as procurement, distribution, replenishment, sales, and accounting.

We are in the era of digital ERP. While previous decades saw ERP integrations as an arduous and painful process, today the popularity of easily integrated cloud-based solutions continues to grow. The advent of specialised solutions has cut the complexity from the process, providing retailers with quicker time to value.

In fact, according to our research, retailers that have made investments in digital ERP earlier report fewer issues and are quicker to deploy efficient digital sales strategies. Essentially, the ability to access a single source of real-time data is a huge competitive advantage for fashion brands in a world which increasingly values convenience, personalisation, and flexibility.

I hope you enjoy the read!

Jason Colbridge,
Retail Business Director,
Hitachi Solutions Europe

METHODOLOGY

In Q2 of 2021, Hitachi Solutions and K3 Fashion Solutions commissioned a survey of 300 Directors of eCommerce, Finance, and Buying and Merchandising from apparel and footwear brands with a turnover of over 100 million euros. Respondents were split equally over those based in France, Germany and the UK.

The survey was conducted by appointment over the telephone and the results are presented here with analysis and commentary.

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KEY STATS

86% say the #1 cause of internal bottlenecks is lack of visibility over operations and inventory

The greatest benefits of digitalising ERP are enabling growth (28%) and visibility (20%)

The top challenge to digitalising ERP is making the business case (28%)

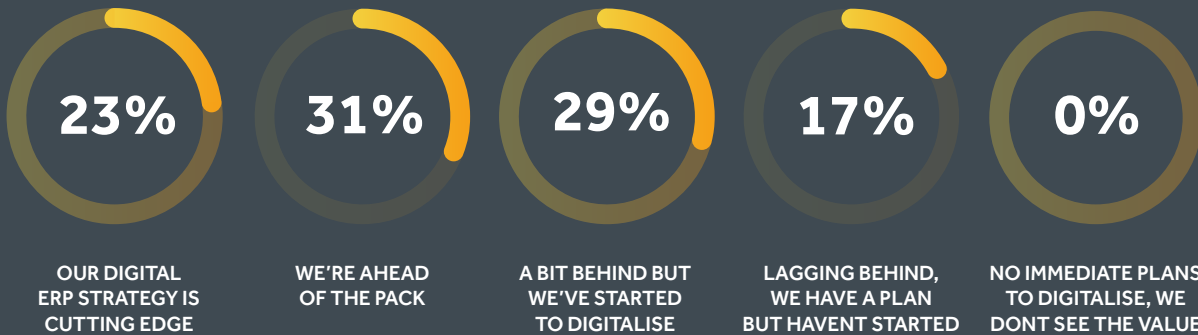Early adopters of digital ERP are a third more likely to have capitalised on the eCommerce boom

45% of fashion retailers say they are behind in their digital ERP journey

81% believe ERP solutions can help the fashion industry become more sustainable

58% of respondents say easy integration is the most important feature in an ERP

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KEY FINDINGS

Where are you on your digital ERP journey?

23%
OUR DIGITAL
ERP STRATEGY IS
CUTTING EDGE

31%
WE'RE AHEAD
OF THE PACK

29%
A BIT BEHIND BUT
WE'VE STARTED
TO DIGITALISE

17%
LAGGING BEHIND,
WE HAVE A PLAN
BUT HAVENT STARTED

0%
NO IMMEDIATE PLANS
TO DIGITALISE, WE
DONT SEE THE VALUE

Do you have one source of data for inventory and ERP processes?

45% YES

40% NOT YET BUT WE
ARE WORKING ON IT

16% NO AND WE ARE
NOT WORKING ON IT

Around 1 in 5 fashion brands have yet to digitalise their ERP, with France being the slowest adopters and Germany the quickest.

Out of 300 respondents, there was not a single fashion executive who didn't see value in digitalising ERP. Having one source of data to connect operations in real-time is not only beneficial, but fundamental to a healthy business.

Keeping track of operations and stock might not be the most glamorous part of the fashion industry, but meeting customer demands depends upon having that connected overview. Businesses who start with this as a foundation will have a much easier time responding to issues, decreasing time to market, and pivoting to meet changing customer demands.

Despite this, **only 45% of respondents have one source of ERP data –** the UK are lagging most with only 35%.
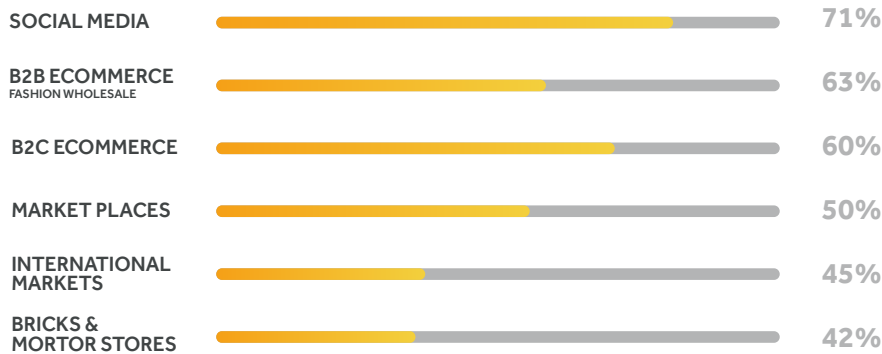
However, the fact that 40% of fashion brands are working on a single source of ERP data is a good indication that the industry is about to move past a tipping point. As the percentage of fashion brands with a digital ERP solution continues to grow, it's going to become more and more difficult for brands who are still entrenched in disconnected and time-consuming legacy systems to differentiate themselves. This stat indicates the last call for retailers to wake up and start acting on the customer demand that they've been leaving on the back burner.

KEY TAKEAWAY

Laying the foundations for a single source of real-time data is a competitive advantage for fashion brands in a world which increasingly values **convenience, personalisation, and flexibility.** Fashion brands need to meet customers where they are, and digital ERP solutions play a critical role here.
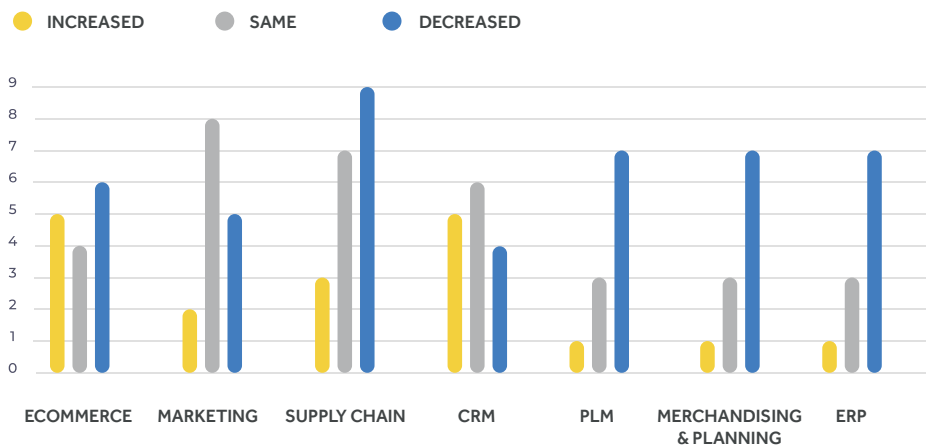
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ADAPTING TO NEW RETAIL MODELS

What do you see as your key growth sales channels?

Channel		
SOCIAL MEDIA		**71%**
B2B ECOMMERCE FASHION WHOLESALE		**63%**
B2C ECOMMERCE		**60%**
MARKET PLACES		**50%**
INTERNATIONAL MARKETS		**45%**
BRICKS & MORTOR STORES		**42%**

Respondents were asked to select all that apply

Has your budget for digitalising the following operations in 2021 increased or decreased?

● INCREASED   ● SAME   ● DECREASED

ECOMMERCE   MARKETING   SUPPLY CHAIN   CRM   PLM   MERCHANDISING & PLANNING   ERP

Social is a key growth channel for all regions (France 65%, UK 79%, Ger 70%) – the UK also expects to see significant growth from B2C eCommerce (70%), and France from B2B eCommerce (70%) as well as marketplaces (56%).

In terms of funding for digital, ERP has seen a third decrease this year, while eCommerce increased by 61%. It's no surprise that eCommerce has absorbed much of the digital budget with online sales figures surging.

Last year, many brands pivoted completely to meet customers through digital channels. But it's important to remember that a good eCommerce strategy depends on a solid foundation – which means creating a single view of inventory. Customers expect a connected journey – from an Instagram ad to a click and collect order, to the shop floor. Being able to track orders and returns across channels is essential to this seamless experience. Creating a connected ecosystem now will set fashion brands up with agility in the long-term, as well as benefitting digital strategies in the short-term. As lockdowns ease and stores begin to re-open, connecting these digital and physical channels will be a key differentiator for customers who have become used to seamless digital journeys.

KEY TAKEAWAY
Connecting channels with real-time data matters in the short and long-term. While fashion brands are wise to be focusing on digital channels, retailers should not be too quick to cut funding for ERP. It's important to remember that without a connected view of inventory and operations, the wider ecosystem won't be connected enough to provide a seamless customer journey.

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What is the greatest benefit to a digitalised ERP solution?

ENABLING GROWTH	28%
GREATER VISABILITY INTO...	20%
QUICKER TIME-TO-MARKET	16%
ABLE TO RESPOND TO...	11%
FREES UP TIME	10%
LESS HUMAN ERROR	7%
INSTANT REPORTING	7%

The last year stress-tested retailer's agility like never before, with customer behaviour changing overnight. And according to our research, **57% felt they weren't agile enough to capitalise on the eCommerce boom last year.**

Our research found that early adopters of digital ERP were a third more likely to capitalise on the eCommerce boom, while digital ERP laggards weren't agile enough. This suggests that pouring money into eCommerce alone isn't enough – fashion retailers need to build their digital strategies from the ground up, starting with a single source of data.

Indeed, our respondents said the **greatest benefits of digitalising ERP are enabling growth (28%) and visibility into operations and inventory (20%).**

Quicker time-to-market was also a listed as a key benefit for the fashion executives we surveyed, who know all too well the importance of having the right product in the right place at the right time.

Traditional processes and legacy software can severely hinder an apparel company's ability to react with agility to market trends. However, integrated ERP solutions with robust product development capabilities tailored to the fashion industry can help standardise the pre-production processes and communications that prolong to time-to-market.

Would you say your business was **agile enough** to fully adapt to and capitalise on the boom in eCommerce last year?
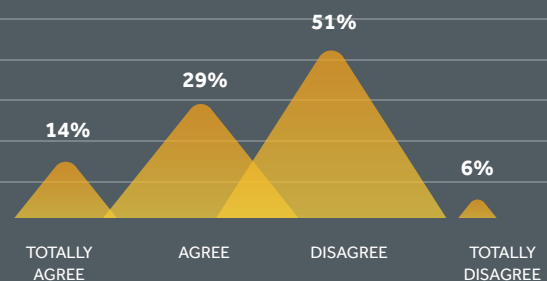
|			
14%	29%	51%	6%
TOTALLY AGREE	AGREE	DISAGREE	TOTALLY DISAGREE

KEY TAKEAWAY

Connecting channels with real-time data matters in the short and long-term. While fashion brands are wise to be focusing on digital channels, retailers should not be too quick to cut funding for ERP. It's important to remember that without a connected view of inventory and operations, the wider ecosystem won't be connected enough to provide a seamless customer journey.

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SUSTAINABILITY THROUGH TECHNOLOGY

Do you believe digital ERP solutions can help with the push for sustainability in retail?

19%
NO

81%
YES
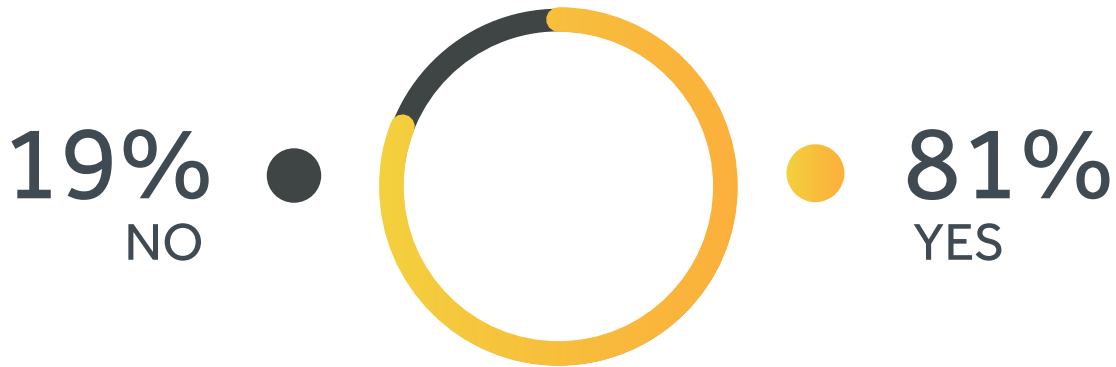
Here's what our respondents had to say...

FRANCE

"Accuracy builds sustainability and ERP is known to bring in accuracy within most of the organizational processes."

"Accurate consumption, less wastage will be prime outcomes of ERP solutions and this will certainly push sustainability within the organization."

"Reducing wastage is one of the first steps of sustainability and ERP can prove to be vital in that regard."

GERMANY

"Digital ERP solutions and sustainability go hand in hand. The solution is bound to bring in good resource measurement and utilization."

"Digital ERP solutions will assess the usage of resources well and derive methods to use them accurately. This is an important step in achieving sustainability."

UK

"All modern solutions that are digitized have an underlying advantage where sustainability comes into the picture. If the right solution is used in the right manner, sustainability will make its way through."

"Wastage due to errors will be eliminated and operations will become accurate. Better decisions all relating to sustainability will follow."

"Optimal asset management will lead to sustainability in the steadiest of ways."

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Recent research by K3 on 2,000 consumers found 30% had boycotted a brand last year for lack of environmental awareness – and for 18-24 year old that number rises to a staggering 54%. On top of this, nearly half want to see more circular initiatives from retailers.

Customers are demanding more sustainable ways to shop – and **81% believe ERP solutions can help fashion become more sustainable.** Tech is playing a huge role in retail's move towards a more sustainable and transparent model. With Germany recently passing the **Supply Chain Act,** it's likely that other countries will soon follow in placing the responsibility of a transparent supply chain upon retailers.

Ultimately, it's up to the individual customer whether a t-shirt with a hole in it goes in the landfill, gets recycled, or is used for something else. In that way, consumers are gatekeepers. In return, brands and retailers need to produce and sell products that can be repaired, reused, and recycled, and they need to make it easy for consumers to make sustainable choices.

If they have all the information, and the solutions are attractive, transparent and convenient, it can be a really symbiotic relationship. Retailers have a role to play in guiding and educating, and they can see this as an opportunity to build customer loyalty.

KEY TAKEAWAY
Customers are demanding more sustainable ways to shop. Technology is a powerful tool to trace provenance, and help consumers circulate products and give them a new life – but transparency depends on having fully digitalised operations.

QUICK CASE STUDY

ADIDAS

The fashion industry accounts for around **10%** of global greenhouse gas emissions. However, environmental activism has seen fast fashion taking a backseat, while **sales of second-hand clothing are set to grow 69% between 2019 and 2021.**
Adidas has partnered with Stuffstr, an app that can be integrated on any retailers' website to track the value of a purchase over time and allows customers to sell back unwanted
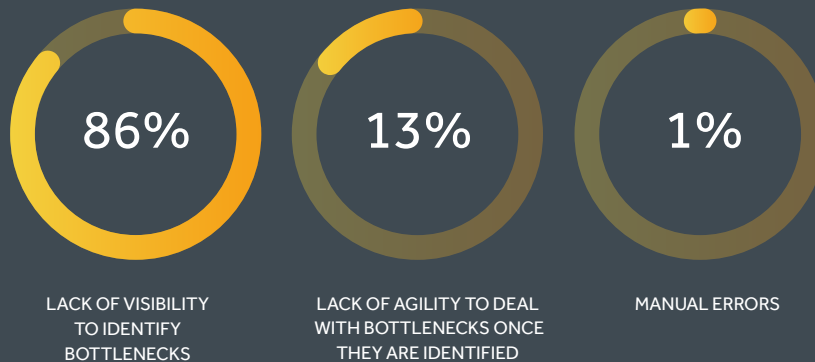

QUICK CASE STUDY

REBBECA MINKOFF

After several accounts in the fashion industry of hidden messages sewn into clothing by mistreated workers, retailers have been pressed to address issues of provenance and supply chain visibility.

Rebecca Minkoff launched a spin-off brand Little Minkoff that uses blockchain technology to ensure its products are sustainably and ethically produced. The technology tracks production of the childrenswear range providing data-led oversight of the supply and production chains. The brand can backtrack all materials as far as the fibres used to manufacture them. Crucially, all these processes are digitised meaning consumers can trace the provenance of any single item.

SIMPLIFYING VISIBILITY

What is the biggest internal cause of bottlenecks?

86%

LACK OF VISIBILITY
TO IDENTIFY
BOTTLENECKS

13%

LACK OF AGILITY TO DEAL
WITH BOTTLENECKS ONCE
THEY ARE IDENTIFIED

1%

MANUAL ERRORS

Here's what our respondents had to say...

FRANCE

"Being insightful is not always possible because data comes in fragmented, and this causes bottlenecks in making quick and informed decisions."

"We cannot identify certain risks because there is no real-time visibility from the data that we collect."

GERMANY

"Customer expectations change faster now, and we have very little time and limited visibility to develop new products and expect them to raise revenue."

"Most of the bottlenecks are in inventory where lack of real-time insights has presented challenges and bottlenecks."

UK

"It's the real time visibility of inventory that causes most of the issues, but we are getting there with better digital solutions."

"Analytical data hasn't made its way through successfully and we had delays in making business decisions."
"Lack of real-time visibility did lead us to over-stock as the demand dropped this time last year."

86% say the #1 cause of internal bottlenecks is lack of visibility into inventory and operations
It's been estimated that acquiring new customers costs anywhere between 5 to 50 times as much as retaining existing customers. Yet retail budgets consistently fail to reflect this truth. Furthermore, studies have found that a negative experience with a brand is a much more powerful decision maker than a positive one. Inconveniences like out-of-stock products threaten a smooth customer journey and could result in loss of loyal customers. If fashion brands truly prioritise a cost-efficient customer retention model, then they must devote more budget in order to avoid these negative experiences, rather than prioritising attempts to "wow and delight" customers with positive experiences.

Bottlenecks are poisonous to the seamless customer journey. And with very little margin for error, having enough visibility to see and react to bottlenecks is critical. Fashion brands can't afford to move forward with a fragmented view of their data, and risk negative experiences that drive loyal customers to their competitors.

KEY TAKEAWAY
Retailers need to focus on retaining customers. Preventing bottlenecks that drive customers to competitors is a more effective use of budget than acquiring new customers. Visibility will be key in ensuring customer journeys are seamless – and retailers must use data analytics solutions to turn insights into actions.

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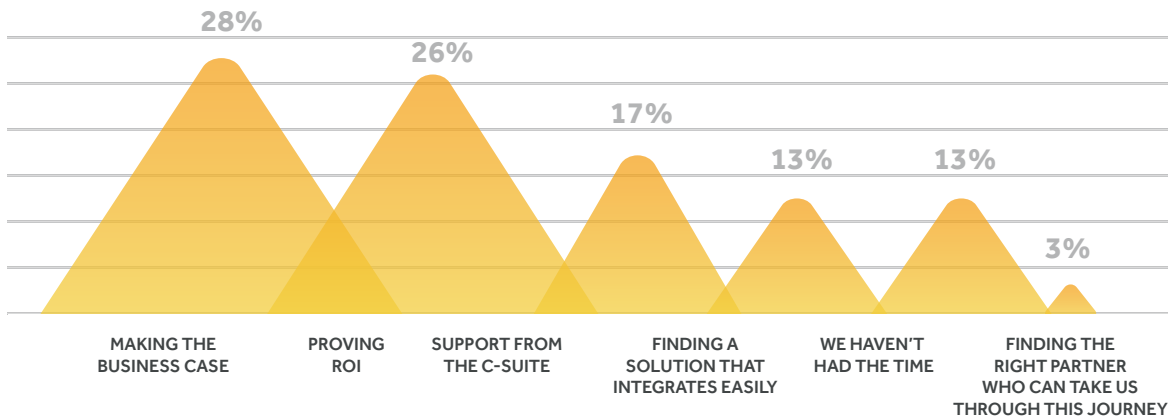
CHALLENGES TO DIGITALISATION

While less than a fifth of respondents have most trouble getting support from the c-suite, **building a business case (28%) has proven to be the most difficult hurdle.** Our research has already shown that fashion brands thrive on a solid digital foundation, and any business serious about meeting customer demands in the long term is prioritising a single view of their data.

Complete digital overhauls can be costly, time intensive, and risky. It's important to account for the main concerns when building a business case, so we asked respondents what the most important features of a digital ERP are for them.
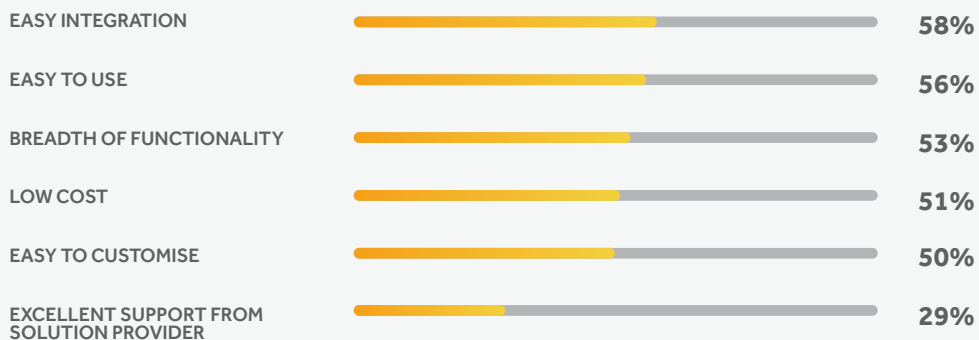
The most important feature in an ERP is easy integration (58%) and usability (56%) – integration is particularly important in the UK (70%) – whereas in France, customisability is top priority (58%).

It's clear that a strong business case depends on finding a partner who can minimise the initial hurdles. Instead of changing to fit a new system, fashion brands need a solution that can build on their existing digital strategy. This means that rather than relearning a new system, employees can expand on their existing knowledge.

What is the biggest obstacle to digitalising ERP?

28%	26%	17%	13%	13%	3%
MAKING THE BUSINESS CASE	PROVING ROI	SUPPORT FROM THE C-SUITE	FINDING A SOLUTION THAT INTEGRATES EASILY	WE HAVEN'T HAD THE TIME	FINDING THE RIGHT PARTNER WHO CAN TAKE US THROUGH THIS JOURNEY

What is the biggest internal cause of bottlenecks?

EASY INTEGRATION	58%
EASY TO USE	56%
BREADTH OF FUNCTIONALITY	53%
LOW COST	51%
EASY TO CUSTOMISE	50%
EXCELLENT SUPPORT FROM SOLUTION PROVIDER	29%

Respondents were asked to select three options.

KEY TAKEWAY
Finding a solution that builds on your digital strategy will cut out initial hurdles. Implementing a solution that is dedicated to the Fashion retail industry will save you time and money, make sure that your partner talks your language.

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CONCLUSION

Investments have been oriented mainly towards eCommerce due to the COVID-19 crisis. However, a lack of visibility into operations and inventory has been a spanner in the works for growth. Retailers must now think about the foundations of their digital strategies by making sure that their ERP solution is solid enough to support an efficient and agile omnichannel experience.

While many fashion brands feel that their ERP strategy is lagging, plenty of retailers are currently working on building a single source of data to enable growth, visibility, and quicker time-to market. Fairly soon, this will be a non-negotiable for any fashion brand serious about meeting customers where they are.

At a time when no fashion brand can afford to lose business, increasing visibility means avoiding the bottlenecks that drive customers to competitors who offer a more seamless experience.

Investing in avoiding these negative experiences will increase customer retention in the short-term, while providing the agility to meet changing customer demands across channels in the long-term. In fact, an overwhelming majority believe digital ERP will play a key role in implementing the circular and sustainable initiatives customers increasingly demand.

And yet, despite a clear list of benefits, fashion executives are still struggling to build the case for a more modern digital ERP. The time intensive integrations and difficulty customising and using software are major stumbling blocks – so it's crucial that any solution brought to the table minimises these hurdles and strikes a balance between easy and agile implementation over a shorter time frame, with a partner that has specialist knowledge of fashion and apparel retail.

ABOUT
K3 FASHION SOLUTIONS

K3 Fashion Solutions, a leading supplier of fashion business technology with more than 30 years of experience, develops industry-specific tools to support fashion workflows, improve customer experiences, and deliver sustainable growth throughout the supply chain.

Our solutions, K3 Fashion and K3 Pebblestone, are fully embedded in Microsoft's Dynamics 365 ERPs offering enterprise-grade support from design and production through to retail.

As a top 20 GISV with a global footprint delivered through our network of Microsoft implementation partners, we are committed to supporting brands of all sizes.

To find out more visit **www.wearefashion.tech**

ABOUT
HITACHI SOLUTIONS

Hitachi Solutions understand what it takes to digitally transform organisations, harnessing the power of the latest technologies and seamlessly integrating them into businesses. As a global consultancy firm working across the private and public sectors, we specialize in user-friendly business applications based on the Microsoft cloud.

If you would like to find out more about K3 Fashion – an easily integrated cloud-based solution, specialized for the fashion industry, get in contact today.

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