IT'S TIME FOR RETAILERS TO MAKE DATA A DESIGN NECESSITY

The sweeping wave of digitally forward retailers has been raised on constantly thinking about how to serve the consumer better. These digital natives understand the importance of studying online consumer behavior and quickly integrating this knowledge into their product design process.

With one tap on their phones, Stitch Fix customers offer a thumbs up or thumbs down to pieces of clothing and outfits on the app's Style Shuffle feature. It's just the latest way in which the retailer – built on obsessing over user feedback – collects customer data. The analysis is then shared by its data scientists with the internal design team, which quickly incorporates learnings into new private label products and merchandising decisions. The focus on using feedback collected online to make rapid owned brand design decisions seems to be making a measurable difference. In 2019 first quarter earnings, the company said it had set its highest ever rate of items purchased per box among women users.

The real differentiator between winning and losing in today's quick-paced, consumer-centric retail world is being able to create a fast and flexible product-to-market process. The goal is to offer the best product for purchase fast – by testing, digesting customer data and feedback, assimilating these learnings into product development, and producing and delivering quickly.

For legacy retailers, the lesson is in understanding how to strategically and effectively leverage digital channels to drive revenue, margin, and customer engagement benefits. Online has become a more important way for brands and consumers to interact.

In 2017, 27% of all apparel and accessories were **sold on the web** (see figure 1). Retailers are seeing increased traffic to their websites and customers are increasing their frequency of visits.

**FIGURE 1: ONLINE SALES AS SHARE OF OVERALL US APPAREL MARKET**

2015	2016	2017
20.7%	23.5%	27.4%
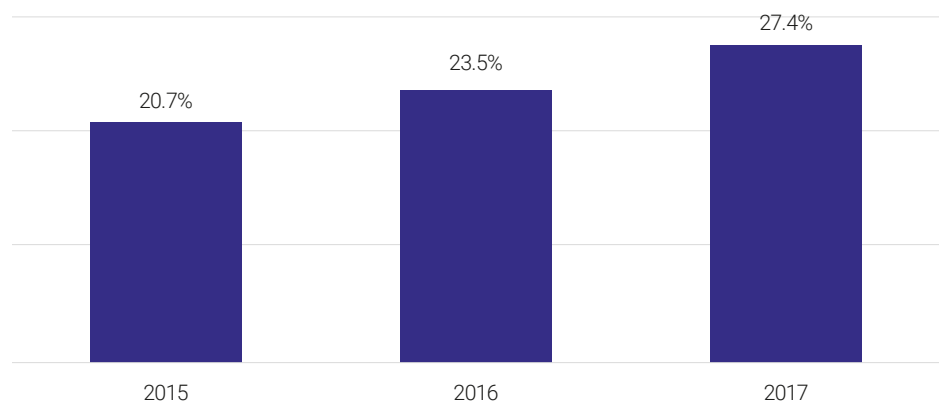
Source: Internet Retailer, https://www.digitalcommerce360.com/article/online-apparel-sales-us/

And our consumer survey[1] shows that when doing research prior to buying, customers turn first to the Internet. Approximately 43% of consumers do online research before half of their purchases made in-store or online. (see figure 2)

FIGURE 2: CONSUMER RESEARCH DONE ONLINE PRIOR TO PURCHASE

Question: What percentage of your holiday shopping do you expect to research online before buying online or in store?

■ 2017   ■ 2018
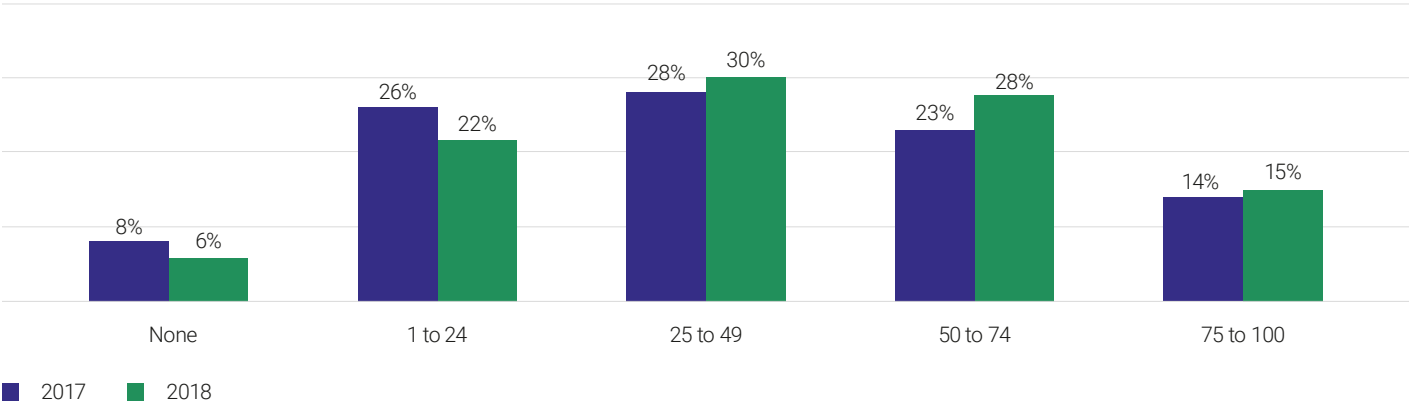
Source: AlixPartners US Retail Holiday Outlook surveys (1,011 and 1,061 US consumers 18 years or older spread across all regions, demographics, and income levels, responded in August 2018 and August 2017, respectively)

Not only are consumers spending more time and money on digital channels, their behavior is different online as well. Nearly 60% of consumers prefer to shop online because they can shop any time during the day. Moreover, 69% of consumers say it's important or very important for them to see new merchandise each time they visit a store or shopping website. And across the industry, 59% of the top 5% of bestselling products are different every month.

Retailers, then, need to give consumers a compelling reason to visit and shop on their website, including offering a differentiated assortment relative to what is sold on Amazon and at other competitors. If consumers find the same product elsewhere for cheaper or get better service like free shipping, they will abandon their online cart.

1   AlixPartners 2018 US Retail Holiday Outlook Survey, administered August 2018 to 1,011 US consumers 18 years or older across all regions, demographics, and income levels

While digital channels continue to grow in importance, some legacy retailers can make the mistake of making their online product assortment an afterthought. For years, the website has been treated as if it is a smaller store that is unable to carry enough units on its own or warrant its own unique style. However, ecommerce is typically a retailer's largest store when it comes to revenue and customer reach. Retailers must think of their online store and associated data as an input into a faster, more innovative product-to-market development process that can infuse positive change throughout the business. How can they do so?

1

ADD DIFFERENTIATION TO ONLINE ASSORTMENT

Many retailers make the mistake of building an assortment for brick-and-mortar stores and then making everything available online. Instead, they should be more strategic about releasing exclusive product online that is different from what's available in stores – compelling customers to visit and shop both channels. Retailers that are marginally more progressive offer extended sizes and exclusive colorways online, but is that enough to incite more frequent visits, and more importantly, lead to increased conversions?

Launching small runs of unique, online-only assortments can attract customer attention and drive scarcity due to limited availability, leading to more full-price purchases. Retailers that are even more progressive ensure that new product is available each time a consumer shops, maximizing the impact of the increased user visit frequency. Having well-developed online and social channels supported by a data management strategy allows the truly forward-looking retailers to launch products on each channel before they hit brick-and-mortar stores to generate buzz, build excitement, and collect data that can then be used to educate future development.

Successful companies such as Old Navy are bringing a digital-first approach to their assortment by launching products online two weeks before they hit stores. They are, therefore, able to offer products at full price for longer, see higher sell-through rates, and earn better margins.

Of course, being able to provide a differentiated online assortment that changes regularly and generates enough excitement to pique the customer's interest is incredibly challenging. A growing assortment architecture, disruptions in a supply chain not equipped for the unique needs of online, and the struggles of maintaining what could easily balloon into significantly increased inventory are potential pitfalls that can decimate profitability quickly. Additionally, unplanned airfreight costs and minimum order surcharges for small runs (which often characterize these unique online assortments or 'capsules') can also dilute margins.

2

USE ECOMMERCE TO TEST TRENDS AND IMPROVE PRODUCTS

Online stores are ideal sandboxes for new products or different design elements such as silhouettes, features, prints, and colors. Los Angeles-based Revolve successfully uses the model of testing products online, assessing feedback, and quickly reinvesting in the more popular items. The digital-native retailer uses an attributed tagging system that tracks every detail on an item as well as an algorithm that determines what is selling well. If an item is popular with customers, Revolve will have its product designers identify the product's winning attributes, develop new iterations, and launch within weeks.

A common struggle for many retailers when setting up a test-and-react model is ascertaining relevancy of test items and timing. To minimize this, retailers can conduct product testing using virtual, three-dimensional samples prior to committing to production. Using virtual samples can also help improve test accuracy as these are closer in form and feature to real garments than computer-aided designs.

A test-and-react model that does not take timing and speed into account can lose relevancy, especially if it is for trendy or seasonal products with shorter lifetimes. Too many retailers get stuck in analysis-paralysis – they have the data from tests but do not know how to incorporate this quickly into product design. Testing is only as good as your product development model and ability to react to findings in the same season.

3

INCORPORATE CUSTOMER FEEDBACK INTO PRODUCT DESIGN

Using feedback and data from customers to inform the product development process is a great way to not only listen and engage, but also find ways to address consumer needs that are unmet or unknown.

Many retailers directly ask customers to help develop their latest products. For example, Lego Ideas lets customers "share ideas for new products, enter cool contests, and vote for your favorites", while Starbucks invites consumers to submit new drink suggestions, propose improvements to existing products, or make requests to bring back old products. This increases customer engagement and, if the feedback is incorporated the right way, can drive topline revenue growth. For instance, Nike's Express Lane program takes in consumer insights related to materials, prints, and colors and quickly infuses these learnings into the manufacturing process. Express Lane products accounted for 10% of the company's revenue in the third quarter of 2018. Retailers need to create a structured process to get customer feedback to designers and fix any broken lines of communication to the design team.

FIGURE 3: LEGACY PRODUCT-TO-MARKET PROCESS VERSUS NEW PRODUCT-TO-MARKET PROCESS

Legacy process: customer data does not feed into product design
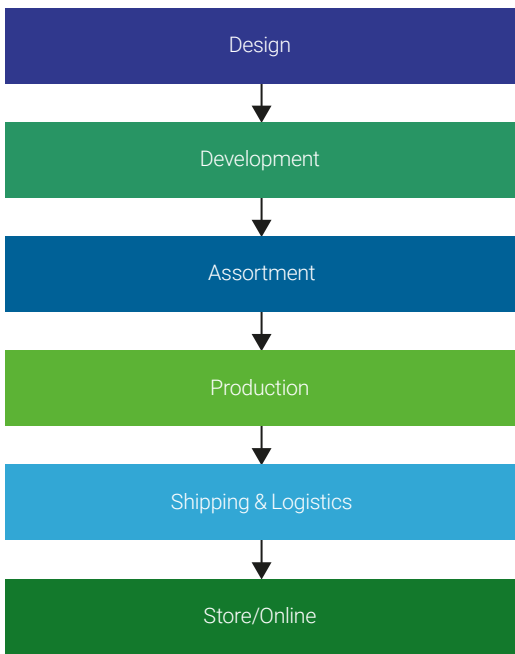
New process: the customer is at the center and data feeds back
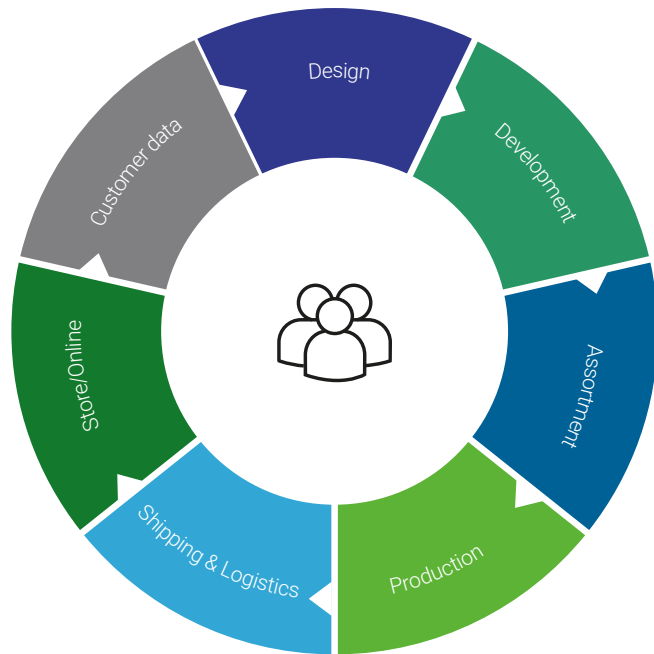
Source: AlixPartners insights

Of course, there are some common conundrums in this process. Many retailers make the mistake of fast-tracking products on an ad hoc basis using brute force. This often creates a huge disruption for internal teams and strains suppliers, who are already concurrently working on overlapping seasons. A haphazardly created fast-track push creates a downstream ripple effect that causes resource constraints, increases costs, and can often compromise or delay even normal seasonal product development.

Additionally, retailers with online segments that are large enough to support broader assortments are few and far between.

A majority of retailers aren't there yet, which means that the solution lies in developing a fast and flexible product-to-market process with multiple product creation and product delivery models to provide the right quantities of the right product. The requirements to be successful include, but are not limited to, the following:

- A network of strategic vendor and third-party partnerships that allow for smaller runs through pre-planned and last-minute capacity availability.

- Lightspeed development processes that leverage digital technology for everything from design to sampling to fit approvals.

- Ready access to fabric and raw materials or pre-positioned greige.

And the biggest piece of the puzzle is seamlessly connecting design, merchandising, product development, and sourcing teams with clearly laid out decision-making rights, streamlined product touchpoints, and a distinct demarcation of responsibilities and goals.

As online penetration grows in retail, speed takes on a new meaning and accelerates to new levels. With everything revolving around the consumer, retailers need to utilize the value of leveraging online channels and infuse learnings into every aspect of the product-to-market process. The magic is in winning the online consumer and seeing rich returns through higher margins and full-price sales.

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ABOUT US

For nearly forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.