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The Value of Time

Unlocking the Puzzle of Speed vs Costs
Increasing Sales – Reducing Markdowns

Is there some inherent value in Speed-to-Market for apparel brands or retailers? The concept has been debated endlessly and Fast Fashion companies put an exclamation mark behind the concept but the question remained, can the value of market speed be measured?

Selling more product at full price should lead to higher profits and minimize costly unwanted inventory. Apparel and home furnishing retailers and brands, both on-line and brick and mortar, have been wrestling with finding the formula for having the right product at the right price at the right time for today’s consumers.

Delivering the “right product at the right time” is about **accuracy** – and retail/brands percentage sell-through rate is one measurement of accuracy (conversely the % of markdowns is a measure of inaccuracy).

While intuitively, brand/retail executives feel “speed to market” has value, putting a metric on the “Value” of time has proved elusive. In the past, brands/retailers have used lowest IMU (Initial Mark Up) as the metric for accuracy and the cost of inaccuracy was minimized by discounting. However, this is not working and today’s mobile enabled “on demand” consumer is further exacerbating the problem.

COTTON USA, in collaboration with WWA Advisors, has taken on this challenge of helping the textile and apparel supply chain develop a metric for increasing accuracy and suggests

the following model to help decision makers evaluate the VALUE of time in making product development, merchandising, and sourcing decisions.

The assumption is that making final decisions on a products fabric, color, cut, and style closer to the time of purchase will make the product more accurate.

The key to this is identifying what point in time is close enough to accurately forecast true CONSUMER DEMAND, therefore, resulting in the desired % of sell through. In lieu of made

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to measure, a brand/retailer must balance when they feel they have the best forecast of Consumer Demand to increase accuracy and at what cost to achieve desired profits. While it may cost more upfront, sourcing closer to known demand can increase sell-through, offset that premium, and generate more profits

over time via a more responsive retail that reacts to demand, reducing markdowns and stock-outs.

The Zara model has been reported widely by the press as the king of sourcing models with 85% full price sell through and high inventory turns. While everyone may not want to turn into “fast fashion”, increasing more full price sell through can be achieved with more accurate product development, merchandizing, and sourcing.

The model below offers a way to manage inventory mismatch (too much of the wrong product/too little of the right product).

THE MODEL

Quantifying inventory mismatch costs with specificity is next to impossible; however, COTTON USA, working with WWA Advisors, found a model that we believe will help brands/retailers improve their accuracy for today's "see now buy now" mobile consumers. The model is based on the **Cost Differential Frontier** by the University of Lausanne's Operations Lab.

On COTTON USA's behalf, WWA has applied this model to the apparel sourcing world to help brand/retailer executives evaluate the price range that can be paid in relation to the time of product commitment. We are hypothesizing that if brands can make the final decision closer to the selling point, they can better predict what consumer demand will be and thus increase their sell through rate and better manage inventory levels. Brands must determine what that product commitment point is for them (given their product development, merchandising, sourcing, and distribution center efficiencies).

To use this model, brand/retailer executives must determine a few things:

1. **How accurate do they want to be (i.e. % of desired Full price sell through)?**
2. **What point in time they can achieve the desired accuracy (i.e. when commitment is made)?**
3. **Full Retail Sales Price of Product?**
4. **Estimated Product Demand?**
5. **Cost of Product from Long Lead time source (assume this is the lowest cost)?**
6. **Mark Down Value?**

We have 2 examples of product information put into this model to demonstrate the ease of use.

Example One: Fashion T-shirt sold over 10 week time including 2 peak sales times that are 2 times the average weekly sales. The Retail Price is \$14.99. The retailer wants to have a 75% Full price

sell through and believes they can achieve this if they make the commitment 50 days out. The Long Lead Time (over 100 days) cost is \$6.90.

The retailer can pay up to 12.5% more (or up to \$.86 over the long lead time cost) from a nearby supplier who can meet the 50 day commitment.

If the order size is 100,000 units, the **profits are increased 11%** by reducing the lead times despite paying more for the product.

Example Two: Men's Polo sold over 10 week period including a 1 time Father's Day promotion that is 3 times the average weekly sales. The Full Retail Price is \$30. The retailer wants to have a 75% Full price sell through and believes they can achieve this if they make the commitment 50 days out. The Long Lead Time (over 100 days) cost is \$9.

They can pay up to 21% more (or up to \$1.47 over the long lead time cost) from a nearby supplier who can meet the 50 day commitment.

If the order size is 100,000 units, the **profits are increased 6%** by reducing the lead times despite paying more for the product (vs a 30% sell through because of inaccuracy with the longer lead times).

It is important to note that in order to meet the 50 day commitment, communication with the entire supply chain was critical in order for the yarn, fabric, and garment suppliers to be available and prepared to meet the required cycle time. Product development and merchandising/sales data collaboration with product sourcing is crucial to decreasing cycle time.

CONCLUSION

Today's volatile consumer market demands a change from "selling what has been made" to "making what is selling." Using the Value of Time formula could help a retailer or brand in this organizational transformation. To learn more, and to use the Op Lab Value of Time Model for your products, please contact Vaughn Jordan at vjordan@cotton.org.