



PRE-RETAIL AND THE FASHION INDUSTRY

A HANGING OFFENCE?

The latest thinking on the role of 'pre-retail' work in the fashion sector may not make the front pages of *Harpers*, *Elle* or *Vogue*, but it is an issue that should be keeping many senior executives awake at night, says Bob Gill, partner at supply chain expert Total Logistics.

Although pre-retailing is not a new buzzword in the fashion retailer's lexicon, there has been renewed focus on this part of the supply chain in recent years. While achieving significant cost reduction in the manufacture of anything from knickers to silk shirts was a trend that swept the UK and Europe in the nineties, the offshoring business model has now matured so that the low cost production is just one of several key issues in the complex process of outsourcing.

Leaving aside the complex issue of where to source garments from, an important element of the outsourcing challenge involves decisions about 'added value' activities such as cubing, labelling and hanging. In a nutshell, the issue for retailers is increasingly not just about the location of manufacture, but how they manage the difficult 'fiddly bits' of the fashion retailing supply chain. Called 'pre-retail' activity in the trade, this includes making sure the correct labels are on the garments, ensuring quality items are on hangers and kept in excellent condition, packing clothes in ratio packs — and all at the lowest logistics cost!

We are seeing a trend within the European fashion sector, whereby businesses identify low cost economies to manufacture garments, only to lose much of these cost savings through poor supply chain planning at the pre-retail end. Often, these oversights result from over-simplistic assessments of the role and added value that pre-retail activities can bring. All too often strategic decisions about their product sourcing are made from a purely procurement perspective. In many instances, once a low cost source for garment manufacture is found, a thorough value analysis is rarely done. If a retailer looked at the relative merits of pre-retail activity as a proportion of total unit sales, it would appear as a negligible element of the total cost. Too often, savings are made by outsourcing manufacture to low cost economies, only to be eaten up by poor management of the pre-retail activity.

While many fashion retailers are failing to see the huge added value that pre-retailing activity can bring, some — such as TK Maxx and Monsoon — are getting it right. This means that they are achieving that careful balance within

the supply chain of really understanding where the true costs are in the complex global logistics process and where they can add most value. In our experience, while many retailers pay lip service to this approach, a high proportion continue to undertake pre-retail activities in the same way they always have, without any formal review of the process.

Before looking at the lessons to be learnt from real-life retailers, there are some basic supply chain principles that need to be considered. In common with many complex decisions, getting pre-retail activity right in the fashion sector is all about supply chain visibility, understanding your offering and achieving a balance between cost and quality.

Without understanding where the true costs of the supply chain are, it's very difficult to make any meaningful decisions about activities such as store preparation of garments, hanging, cubing and labelling and how this impacts on the supply chain. Many retailers are still operating in relative darkness when it comes to any reasonably sophisticated analysis of the



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logistics function. Second, achieving a true understanding of the supply chain and how it supports the retail offer or customer experience is another vital part of the process that is often overlooked. As we will come to explore, establishing a supply chain solution based on purchase cost alone is rarely the best way forward, as other considerations such as product value, type, demand, stock turnover and transport costs all need to be taken into account. Finally, it's important to achieve a balance when considering pre-retail activity. Implementing a lowest cost solution that delivers garments in an unsaleable state — or one that takes shop staff away from customer facing activities — is unlikely to strike this desirable balance.

Likewise, a simplistic analysis of the low cost sourcing model would argue that, from a purely wage cost perspective, all mass market, relatively low value garments should be manufactured in low cost economies. Looking at higher value, hung products, these items are better hung at the point of manufacture, to maintain product quality in transit.

Taking these two premises at face value draws us a useful line in the sand. As a general rule, high value items that need to be delivered in a hung state should be pre-retailed at the place of manufacture. Let's take high value items, for example: if they were simply folded and boxed in China and shipped to the UK, we'd be reducing our logistics costs, but then having to add another activity to the supply chain — steaming the garments to get rid of creases before they are presented in store. Hence, in this instance, it

makes more sense to fully pre-retail these items at the point of manufacture.

Some retailers take this model and employ an interesting hybrid, where garments are tagged and hung in the Far East and then packed prior to shipment to reduce transport costs. It's all about understanding your business and having a true appreciation of the cost/value elements of the supply chain.

If we look at TK Maxx in the UK as an interesting example, we can see how its pre-retail strategy supports its very individual business model. Unlike other fashion retailers, TK Maxx empowers its buyers to make individual decisions on sourcing items, which accounts for the huge range of brand names to be found in their stores. TK Maxx undertakes the vast majority of its pre-retail processing in the UK due to the unpredictable nature of its product range.

The high street retailer also invests a lot of time ensuring that products are 'store ready' on arrival at the outlets, paying special attention to stock identification that enables staff to quickly and easily unpack products directly onto the retail floor. This is a good example of where savvy pre-retail planning is reducing cost and maximizing retail floor space by fulfilling activities that would have traditionally been done in back rooms that are no longer seen in many new stores. Conversely, a retailer such as Monsoon, which sources most of its product range from the Far East, has a far more predictable supply chain which allows it to approach the pre-retailing issue in a strategic way, undertaking some activities overseas and others in the UK.

Thanks to the predictability and volume of the same items, retailers like Monsoon can undertake cost/value analyses, which helps them to develop cost and value driven decisions in this area of the supply chain. This in turn enables them to continually reassess the relative costs and value added contribution of various pre-retail activities as a constantly evolving part of their outsourcing process. So, if production is moved from China to Egypt for a certain product line, an informed decision can be quickly made on where to label, ratio pack and hang the garments, that will ensure that the best cost/value balance is achieved.

In the final analysis, getting the pre-retail balance right is all about understanding where all of the costs are and where value can be best created along the supply chain. Therefore, we see very little hanging and other pre-retail activity taking place in city centre stores, due to the high cost of properties and the relatively small size of store rooms in this type of location.

Clearly, in light of high fuel costs and a worldwide downturn in consumer demand, the fashion sector needs to squeeze out every efficiency from the supply chain. Understanding the key role that pre-retail activity plays in this complex equation is an important, but all too often overlooked part of the logistics challenge. •

For more information

Total Logistics specializes in all aspects of supply chain and logistics consultancy, with a client base that includes Nestlé, Unilever, Adidas, Coty, Tesco and Hema. Total Logistics has offices in the UK and The Netherlands.
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