

Apparel PLM Projects Stretch but Don't Fold as Budgets Are Squeezed

by Janet Suleski, Michael Burkett, and Lucie Draper

Even as economic woes slow timelines for rolling out PLM technology, apparel companies' commitment to improving PLM can be measured by the steadiness of the total planned investment. Apparel brands and retailers are forging ahead with bite-sized investments that yield measurable positive results on financial statements and improve their relevance in the eyes of their consumers.

© Copyright 2009 by AMR Research, Inc.

AMR Research[®] is a registered trademark of AMR Research, Inc.

No portion of this report may be reproduced in whole or in part without the prior written permission of AMR Research. Any written materials are protected by United States copyright laws and international treaty provisions.

AMR Research offers no specific guarantee regarding the accuracy or completeness of the information presented, but the professional staff of AMR Research makes every reasonable effort to present the most reliable information available to it and to meet or exceed any applicable industry standards.

AMR Research is not a registered investment advisor, and it is not the intent of this document to recommend specific companies for investment, acquisition, or other financial considerations.

Apparel PLM Projects Stretch but Don't Fold as Budgets Are Squeezed

by Janet Suleski, Michael Burkett, and Lucie Draper

The Bottom Line: Costing capabilities top the wish list as companies lean on PLM technology to enhance their bottom and top lines.

The apparel, footwear, and soft goods (AFS) industry has been deeply challenged by negative macroeconomic forces for a full year now. As a result, technology investments are happening very differently than they were 12 months ago:

- Vast, transformational product lifecycle management (PLM) projects are on the back burner.
- Incremental deployments of applications that streamline processes and help companies get a handle on cost management are king.
- Where company survival is relatively assured, achieving profitable innovation while reducing time to market is the No. 1 reason for adopting PLM technology.

These three shifts will color the landscape of PLM initiatives and technology adoption patterns throughout 2009 and beyond. This is the major finding from the fourth annual *Apparel* magazine/AMR Research survey on the state of PLM technology investment. This year, 101 apparel brand manufacturers and retailers shared their PLM technology spending plans with us.

2009 spending snapshot

Companies made very real progress in adopting PLM technology, as measured by the jump from 19% to 30% in the number of respondents that have invested between \$100,000 and \$500,000 in PLM technology.

But PLM adoption plans have been scaled back, reflecting the challenges and budget constraints faced by many companies. Twelve months ago, the focus was on creating a comprehensive architecture for new product design and introduction. Today, the pursuit of cost-effective creation of consumer-enticing AFS products means that companies have shifted their near-term focus to improved product costing, internal collaboration, and direct sourcing processes. PLM technology backbones have a critical role to play in these three initiatives, though AFS companies continue to press for expanded capabilities in these and other functional areas.

Throughout 2009 we expect companies to choose PLM investments that:

- Generate positive benefits in no more than 12 months
- Have a measureable, positive impact on the income statement or balance sheet
- Require minimum organizational or business process change management

The business case continues to be based on benefits from faster time to market, lower product costs, and better design. Notably, better product design dropped in importance as the first two areas increased in importance, a reflection of the drive for faster cash-to-cash product cycles that fuel measurable improvements.

Economic woes slow PLM investment timelines

PLM technology spending plans reflect the harsh reality that apparel companies are feeling the pinch of consumer spending cutbacks. Fifty-six percent of survey respondents indicate that their companies are curtailing or putting on hold PLM technology spending plans. Nevertheless, outright cancellation of PLM initiatives remains relatively rare as companies move ahead with targeted functionality to help streamline manual processes and gain visibility to cost data and product movement spanning the apparel supply chain.

Instead of canceling PLM projects altogether, companies are stretching the timelines for PLM investments out further than in previous years (see Figure 1). The number of companies expecting to make the bulk of their future PLM investments in the next 12 months dropped from 36% to 23%, indicative of the immediate pressure companies are feeling to closely manage IT budgets. As the economy improves, many, but not all, respondents expect that budget purse strings will be loosened and PLM investments will resume.

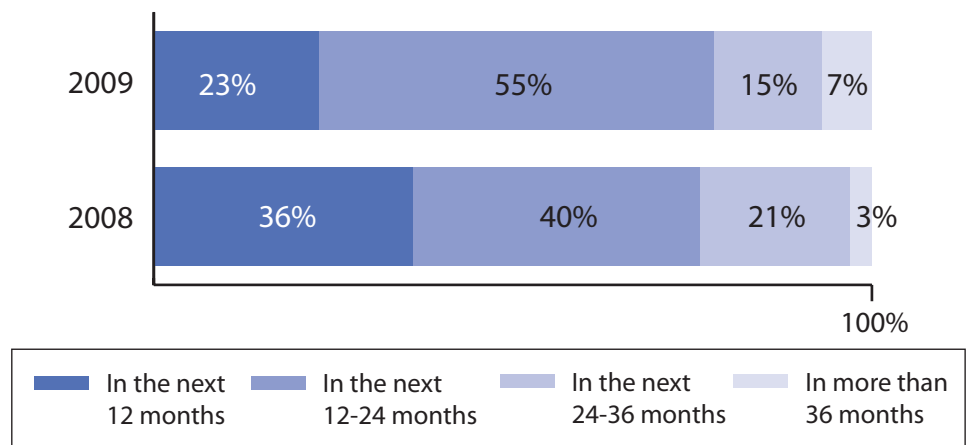
Notably, the number of companies indicating that the bulk of their PLM technology investments would occur in 2012 or later more than doubled from 3% in 2008 to 7% in 2009. While these companies are a minority, they reflect the deep skepticism that some companies have that retail sales will improve, and that those improvements will trickle down to PLM technology budgets, any time soon. Additionally, as buyers become more sophisticated, many see PLM as a long-term strategic investment. As companies balance the need to

deploy enough PLM technology to remain competitive over the next two to three years, they hold the opinion that the bulk of investments will actually occur over a much longer timeframe.

Retailers lead PLM investments to date; vertically integrated retailers and AFS manufacturers spend more cautiously

It is important to recognize that while 56% of companies have curtailed or put on hold plans for PLM initiatives, many of these same companies continue to take small steps. Coming into the economic downturn, many companies were expanding their business models, and PLM processes and supporting technologies became key pieces to the success of those expansions. Brand companies opening retail stores, retailers growing private-label businesses, and companies of all sizes looking for supply chain flexibility to support the globalization of apparel manufacturing and of retail banners all drove many companies to consider PLM for the first time.

Figure 1: Timeline for future investments in PLM technology



Q. When do you plan on making the bulk of these additional investments? (among those who plan to make further investments in PLM technology)

Source: AMR Research, 2009

Adoption rates before the economy slowed varied by market segment:

Vertically integrated retailers

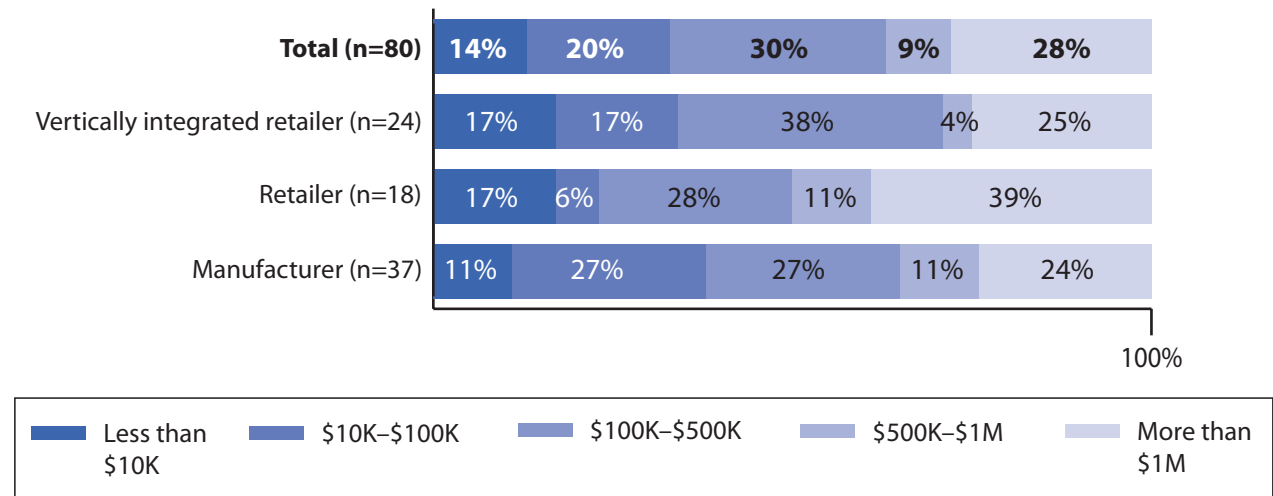
Brands that have entered direct-to-consumer channels, or retailers that have added wholesaling and manufacturing capabilities, have invested in PLM technologies to replace spreadsheets and manual processes. An increasing number are revisiting packaged applications installed five or more years ago to assess whether those systems need to be upgraded or replaced. This emerging replacement cycle combined with the quest to use PLM to remove product variability up and down the supply chain and manage product portfolios more effectively lead to 42% of respondents in this group investing \$100,000 to \$1M in PLM to date, and one-quarter spending more than \$1M (see Figure 2).

Thirty-eight percent of AFS manufacturers responding to the survey have invested less than \$100,000 in PLM technology. More companies in this category operate solely in response mode by manufacturing to

product specifications developed further downstream. Of companies taking a more proactive role in the AFS supply chain, 38% have invested between \$100,000 and \$1 million in PLM, with the goal of becoming more competitive supply chain partners for brands and retailers by offering product design, development process management, and trading partner collaboration capabilities.

Half of the retail companies responding have spent more than \$500,000 on PLM technology to date. In recent years, retailers expanded private-label operations as a means of differentiating their assortments and driving higher profit margins. Many invested in PLM technology to fill a critical gap between assortment management and supply chain processes and help reach ambitious profitability goals for these operations. With many initiatives in place, retail respondents are the largest group reporting that they do not expect to make any additional PLM investments in the near future, even though integrating sourcing technology and workflow with PLM capabilities remains a challenge for many retailers.

Figure 2: Investment in PLM technology to date by AFS market



Q. What amount of investment have you made on PLM technology to date? (excluding those that have not yet invested)

Source: AMR Research, 2009

The search for cost control and visibility frame initial technology rollouts; line planning joins PDM as a key starting point

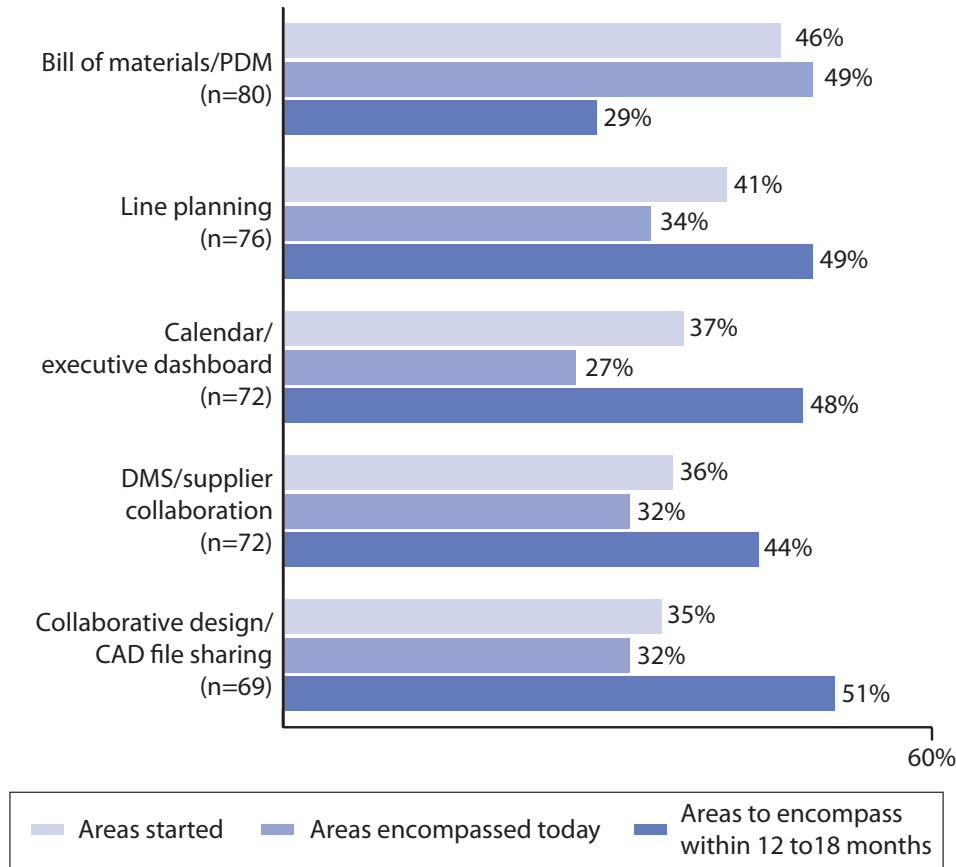
Apparel companies placed the highest priorities on cost control mechanisms, followed closely by process visibility, when choosing starting points for PLM technology rollouts in 2008 and early 2009. In prior years, most survey participants stated that their PLM initiatives began with the implementation of product data management (PDM) technology. In 2009, many more indicated that line planning was included in the first phase of PLM technology adoption (see Figure 3).

Line planning’s role as a process and cost visibility tool is taking on a new level of importance as apparel companies seek to manage product costs while pursuing cycle-time reduction initiatives to stay competitive. As the touch point between PLM and assortment man-

agement processes, line planning has emerged as a key technology to support vertically integrated companies, whether they be retailers expanding their private-label development initiatives or brand companies opening retail stores. Its role in top-line growth initiatives and cost monitoring and control means an easier time creating the business case for investments as IT spending comes under an extraordinary level of scrutiny by top management and boards of directors.

Slightly less than half (46%) of survey respondents indicated that their PLM initiatives started with PDM and bill-of-materials (BOM) management. PDM’s role as the standard library of materials and components shared across planning and development can help drive cost containment through material and trim re-use across seasons and product lines, allowing apparel companies to negotiate more bulk discounts with their materials suppliers.

Figure 3: PLM technology starting points and pains



Q. Please indicate the areas where your PLM efforts began, what it encompasses today and what you expect it to encompass within the next 12-18 months.

Source: AMR Research, 2009

Companies seek bite-sized improvements via automated design collaboration and calendaring capabilities

Apparel companies expect to invest in collaborative design and CAD file sharing, calendar synchronization, executive dashboards, and expanded line-planning capabilities over the next 12 to 18 months, squeezing value from earlier PDM investments. Automating resource-intensive internal and external collaborative processes fit into the category of improvements that require modest business process change management while delivering measurable productivity improvements.

Fully half of survey respondents expect new or additional investments in collaborative design applications over the next year and a half. Over the last decade, the increasing number of seasons, rapid turnover in styles, and the improved linkages to consumer data in the form of POS, loyalty, and third-party demographic data have conspired to drive up the complexity and variation of products. The result? In many cases, previously reliable manual systems become limiting factors to a company's ability to keep up with the competition with fresh, high-quality, and timely products. Automating complex connections between internal and external collaboration partners will improve productivity, speed, and accuracy—impacting the top and bottom lines in measurable, positive ways.

Global calendar visibility and management also addresses the increasing level of complexity, and allows for exception-based management of problematic conditions. With 66% of AFS companies managing between 3 and 10 product development calendars, and 14% managing a remarkable 20 or more, calendar- and dashboard-based management tools are increasingly prioritized in PLM budgets. In fact, the number of survey respondents that include calendar and dashboard applications in the first phase of their PLM initiatives increased from 13% in 2008 to 37% in 2009. Others are keeping calendaring and executive dashboards on their to-do lists, either delaying implementation until PDM, line planning,

and other more pressing needs are met, or planning to upgrade existing capabilities further down the line.

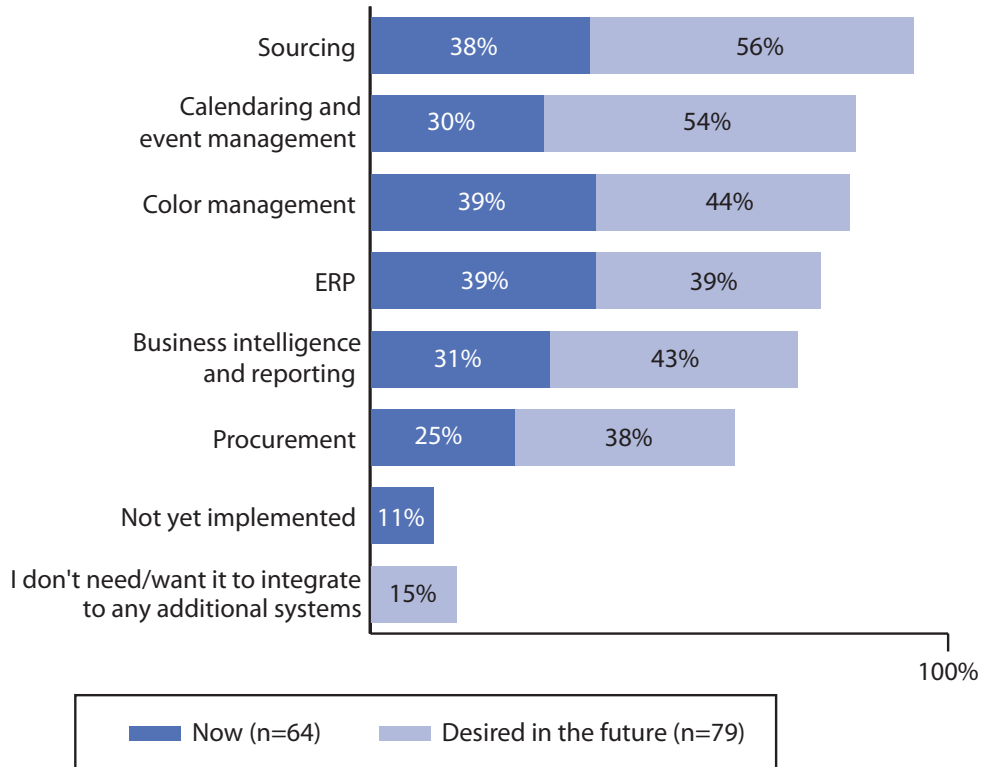
Integration to direct materials sourcing still a missing cost visibility link

With collaboration enabled across the design and product development groups and with external design partners, many companies shift gears to consider the integration of sourcing, the next step in their product development process. For successful product development, it's critical to connect product design, data management, sourcing functionality, and supplier selection and analytics. Connecting these pieces results in faster time to market for new products (a goal of 83% of survey participants), higher product quality as a result of effectively communicating product specifications with partners, and better cost control through visibility to the supply base and product costs tradeoffs as design decisions are being made.

Adoption of direct materials sourcing remains a challenge for AFS companies. 44% of survey respondents expect to tackle sourcing capabilities in the next 12 to 18 months, the same percentage as fell into this category in 2008. Because 42% of survey respondents indicated that they expect to get sourcing functionality from their PLM technology providers, delays and suspensions of PLM projects translates into stretched timeframes for sourcing initiatives as well.

The imperative for adoption of sourcing technology has not gone away; in fact, the new legal requirements outlined in the Consumer Product Safety Improvement Act (CPSIA) mean that closer attention needs to be paid to the goods AFS companies source from their often remote suppliers. And, as apparel retailers increasingly tune into consumer demand signals and respond with localized assortments, seasonal complexity and product churn at increasingly granular levels will put intense pressure on manual or legacy sourcing systems to keep up with the fast-moving flow of product designs. It is no surprise that sourcing systems top the PLM integration wish list (see Figure 4).

Figure 4: Application integration—current and desired



Q. Does your PLM system currently integrate with any of the following applications?
To what applications would you like your PLM applications to integrate to in the future?

Source: AMR Research, 2009

A look ahead

Spending plans for PLM technology remain strong

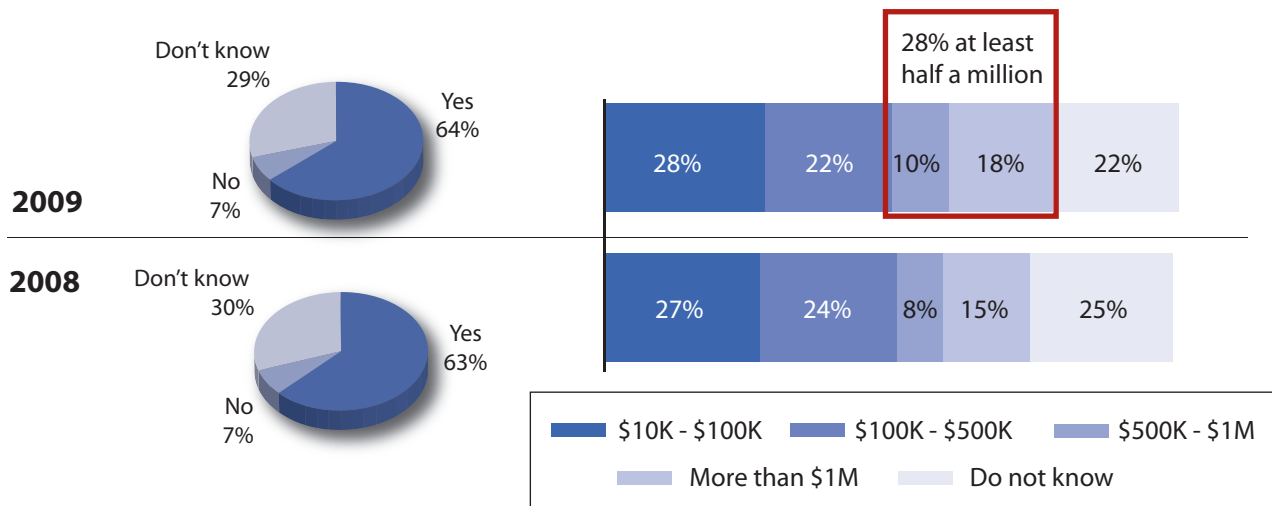
AFS companies are taking a longer term view of PLM initiatives and the applications needed to support them as they wait for signs the economy is improving. They are not, however, just passively standing by. Industry participants are spending carefully meted-out dollars on targeted capabilities to speed product design and launch cycle times, and calendar management, direct materials sourcing, line planning, and portfolio analytics are high on companies' wish lists.

Product lifecycle management's importance as a process enabler, a means to improved cost visibility and management, and a cycle-time reduction tool is not lost

on the 63% of survey respondents that have plans for further investments in PLM technology. The majority of all groups surveyed have plans for future investment, but vertically integrated retailers lead the way with 78% planning further investments, followed by AFS manufacturers at 60% and retailers at 57%.

Expectations for future PLM investments remain very consistent in the face of economic headwinds. The portion of companies expecting to spend an additional \$10,000 to \$500,000 remained virtually unchanged between 2008 and 2009, while the number expecting to spend \$500,000 or more increased slightly (see Figure 5). In short, the economy is impacting the timeline for planned investments (as discussed earlier) rather than the scope of planned investments, a clear sign of a maturing market and recognition of the role PLM capabilities play in the long-term success of AFS companies.

Figure 5: Anticipated investments in PLM technology



Q. Do you plan to make further investments in PLM technology?
 Approximately how much do you expect to invest in PLM technology?
 (among those who plan to make further investments in the PLM technology)

Source: AMR Research, 2009

As in years past, we asked companies whether they source or intend to source their PLM software from packaged application providers or have systems custom-built. The preference for custom-built systems also remained steady at 25% of companies surveyed. Thirty-three percent of retailers expressed interest in custom-built applications, an outcome of many retailers' perceived uniqueness in their approach to private-label operations. Continued interest in custom functionality indicates dissatisfaction with commercial applications in those processes retailers feel will distinguish them in the marketplace. With a legacy of building their own applications, many retailers still believe that only customized functionality, rather than standardized best practice functionality, delivers value and differentiation to their organization. But retailers may be missing the chance to use commercially available applications to

quickly gain benefits from standardized industry best practices, such as reuse of product components, while they wait for consumer spending to improve.

At the opposite end, just 17% of vertically integrated retailers source or intend to source PLM technology primarily from custom-built systems. AFS companies in general are able to take advantage of the increasing number of outsourced solutions, whether through software as a service (SaaS) or other hosted models of deployment, to outright business process outsourcing, a model that more companies are beginning to explore.

Regardless of PLM technology choices, AFS companies' expectations for fast ROI increased from 2008. Last year, 25% of companies had the patience to wait more than two years for ROI; that number dropped to 13% in 2009 (see Figure 6).

The largest change in expected or achieved time to benefit came from companies looking for positive ROI within 18 months of implementing a PLM technology. While AFS companies continue to view PLM systems as a long-term business investment intended to strengthen the lifetime performance of the company, the requirement to achieve fast time to benefit has increased as pressure on the top and bottom lines of AFS companies everywhere has ratcheted up dramatically in the last 12 months.

Costing functionality tops the 2009 functional wish list

As business priorities have shifted, so has the systems functionality AFS companies are seeking the most. Costing capabilities sits squarely on top of the list, with 61% of responding companies saying they would like to see PLM technology providers add new or enhance existing functionality in this area (see Figure 7). Increasingly, AFS companies want to calculate the total landed cost for their products to the store shelf or fixture, meaning that costing must span the product lifecycle from design through sourcing, shipping, and distribution.

Enhancements to collaboration are second at 39%, and business intelligence and reporting are third. These latter areas can close some of the gaps in costing capabilities with better sharing of product information up and down the supply chain while improving visibility and performance measurement. In keeping with the adage, “you get what you measure,” companies are seeking to get better visibility to current conditions so they can identify areas for improvement, particularly as part of cycle-time reduction initiatives. The business intelligence category includes customer intelligence, an area that AFS companies would like to exploit more

effectively to connect with shoppers and create products that elicit improved full-price sell through and expanded share of wallet.

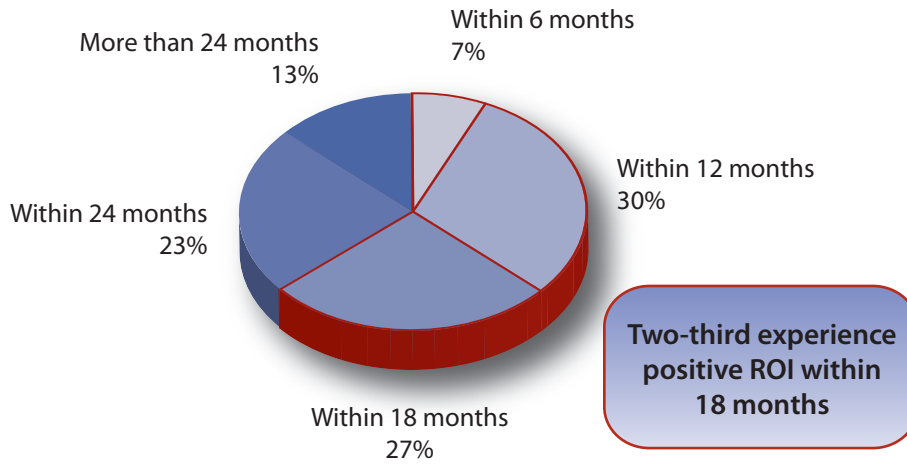
AFS companies look to PLM needs to help execute during 2009 and beyond

Faster time to market, lower product costs, and better designs will never go out of style in the AFS market. While achieving all three requires many factors coming together, many of those factors (will) rely on some element of PLM technology to speed the process.

Prior to the downturn, many PLM initiatives had gained considerable momentum as companies responded to the need to better manage globalization, an increased number of selling seasons, and intense competition. The PLM investment landscape has changed substantially in the last 12 months as AFS companies have absorbed cutbacks in consumer spending. Investment timelines have lengthened, with some companies looking to 2012 and beyond for making the bulk of their PLM investments. Companies that can continue to invest in PLM will shift their focus to PLM’s ability to improve cost management, link to direct sourcing initiatives, and expand visibility to product up and down the supply chain.

Two years ago, AMR Research wrote that many PLM software vendors were stepping up to the challenge of increasing functional needs to meet AFS companies’ demanding requirements. PLM vendors joined AFS business and technology leaders to close functional gaps. This alliance, transformational in itself, is essential to executing the cost, product performance, and supply chain orchestration needed to survive and even thrive in 2009 and beyond.

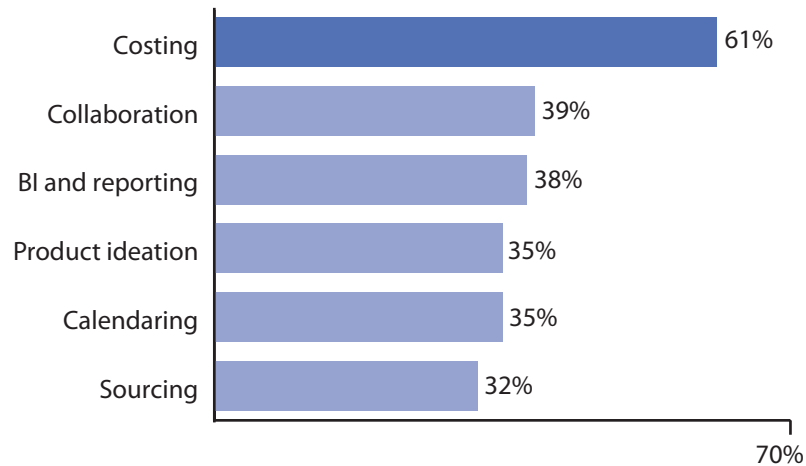
Figure 6: Timeline for anticipated ROI on PLM technology investments



Q. When do you expect (or when did you achieve) a positive ROI from your PLM investment? (excluding those that have not yet invested)

Source: AMR Research, 2009

Figure 7: Interest in added/enhanced software capabilities



Q. What capabilities would you most like to see PLM technology providers add to or enhance within their applications in the coming year? (n=72)

Source: AMR Research, 2009

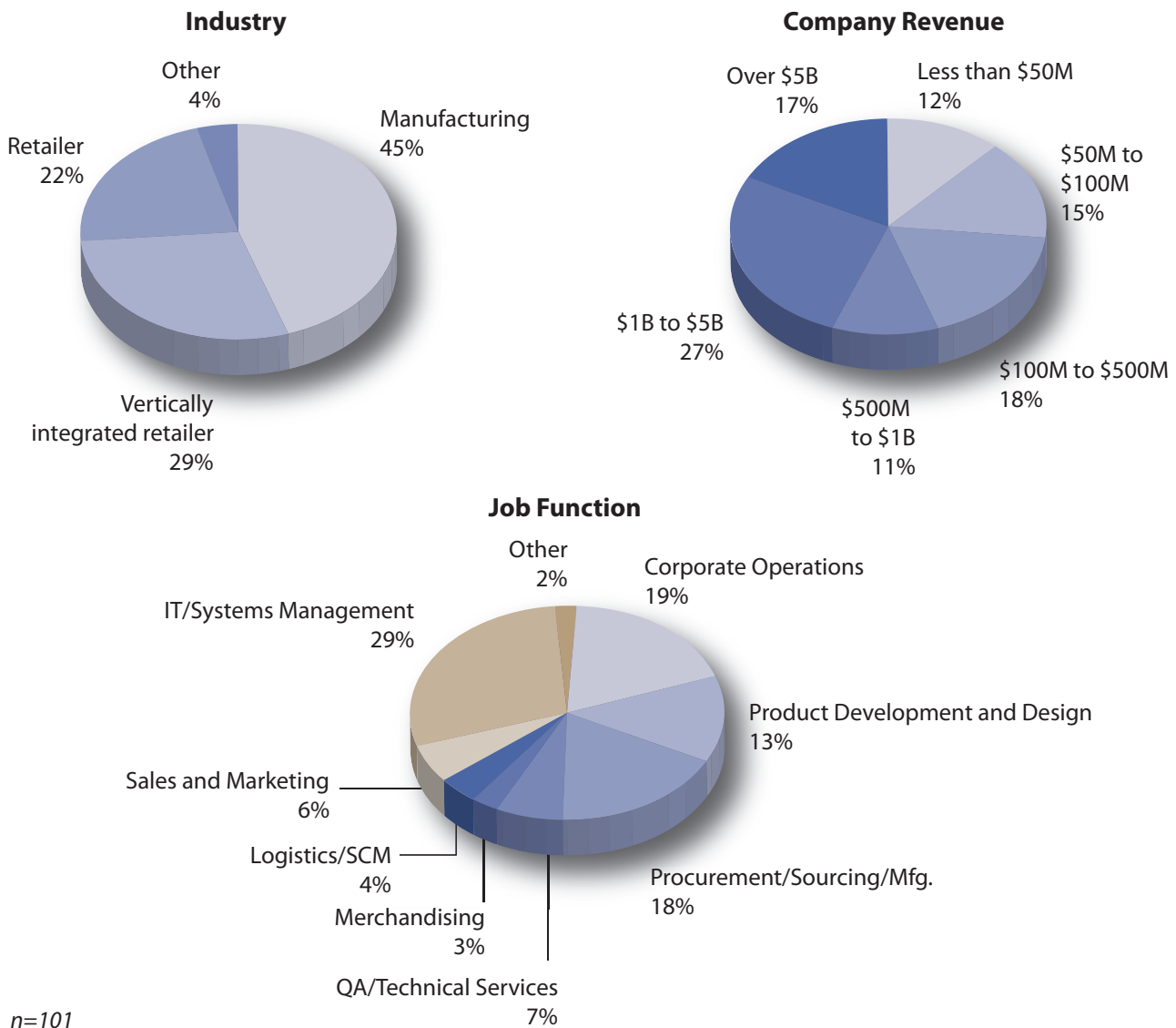
Appendix A: Respondent demographics

Apparel magazine and AMR Research conducted the survey in February and March 2009, seeking the perspective of business leaders involved in the design, manufacturing, and retailing of apparel and footwear merchandise.

101 companies participated and shared the current status and future plans for their PLM initiatives. Forty-

five percent of respondents were brands and manufacturers, 29% were vertically integrated companies producing and selling their own apparel brand, and 22% were retailers offering branded apparel merchandise or some combination of branded and private-label merchandise. Companies of all sizes contributed perspectives on their PLM technology. Forty-four percent of survey respondents had annual sales of more than \$1B, 29% had sales of \$100M to \$1B, 15% had sales of \$50M to \$100M, and 12% had sales of less than \$50M.

Figure 8: Demographics



n=101

Source: AMR Research, 2009

Research and Advice That Matter

AMR Research is the No. 1 independent advisory firm serving supply chain, operations, and technology executives. Founded in 1986, AMR Research focuses on the intersection of business processes with value chain and enterprise technologies. We provide our clients in the consumer products, life sciences, manufacturing, retail, and technology sectors with subscription advisory services and expert-led Peer Forums. To learn more about our research and services, please visit www.amrresearch.com.

More information is available at www.amrresearch.com. Your comments are welcome. Reprints are available. Send any comments or questions to:

AMR Research, Inc.
125 Summer Street
Boston, MA 02110
Tel: +1 (617) 542-6600
Fax: +1 (617) 542-5670

