

A hand holding a lit sparkler over water at night. The background is a dark blue, slightly rippled surface of water. The sparkler is lit, with bright orange and yellow sparks radiating outwards. The hand is positioned in the center-right of the frame, with the wrist and forearm visible. The overall mood is celebratory and hopeful.

Next Generation Operating Model

How to shift from surviving to
thriving

April 2023



OC&C
Strategy consultants

uncommon sense™



Executive Summary

- **Traditional operating models are under pressure** from many directions – cost inflation, rising complexity across consumer touchpoints, skills shortages and rising consumer expectations – which is leading to margin pressure
- Increasing consumption, and therefore volumes, has provided some relief to the industry, however as ESG becomes more critical **volumes are likely to stagnate or decline, increasing the pressure on existing models**
- In this new context, it is **essential for brands to start on a journey of evolving their operating model** to be more fit for future
- We see **7 key themes to future winning operating models** –
 - Diversified revenue streams**
 - Purpose-led**
 - Close to Customer**
 - Strong Employee Brand**
 - Circular Economy**
 - Collaboration**
 - Technology Enabled**
- The journey and speed will look different for different brands but **having a clear view on the evolution required is critical**

Traditional retail & fashion operating models are under pressure from all directions



Cost inflation is still at record levels; c.9% in January 2023

The number of consumer touchpoints has doubled in the last 5 years

80% of businesses are unable to meet customer demands due to too few staff

63% of customers seek companies that prioritise things that they care about

These challenges will be compounded as volume growth slows + stagnates; there won't be anywhere to hide



What does the future look like?



Expected US & UK apparel market real decline of c.0-1%pt pa 22-27



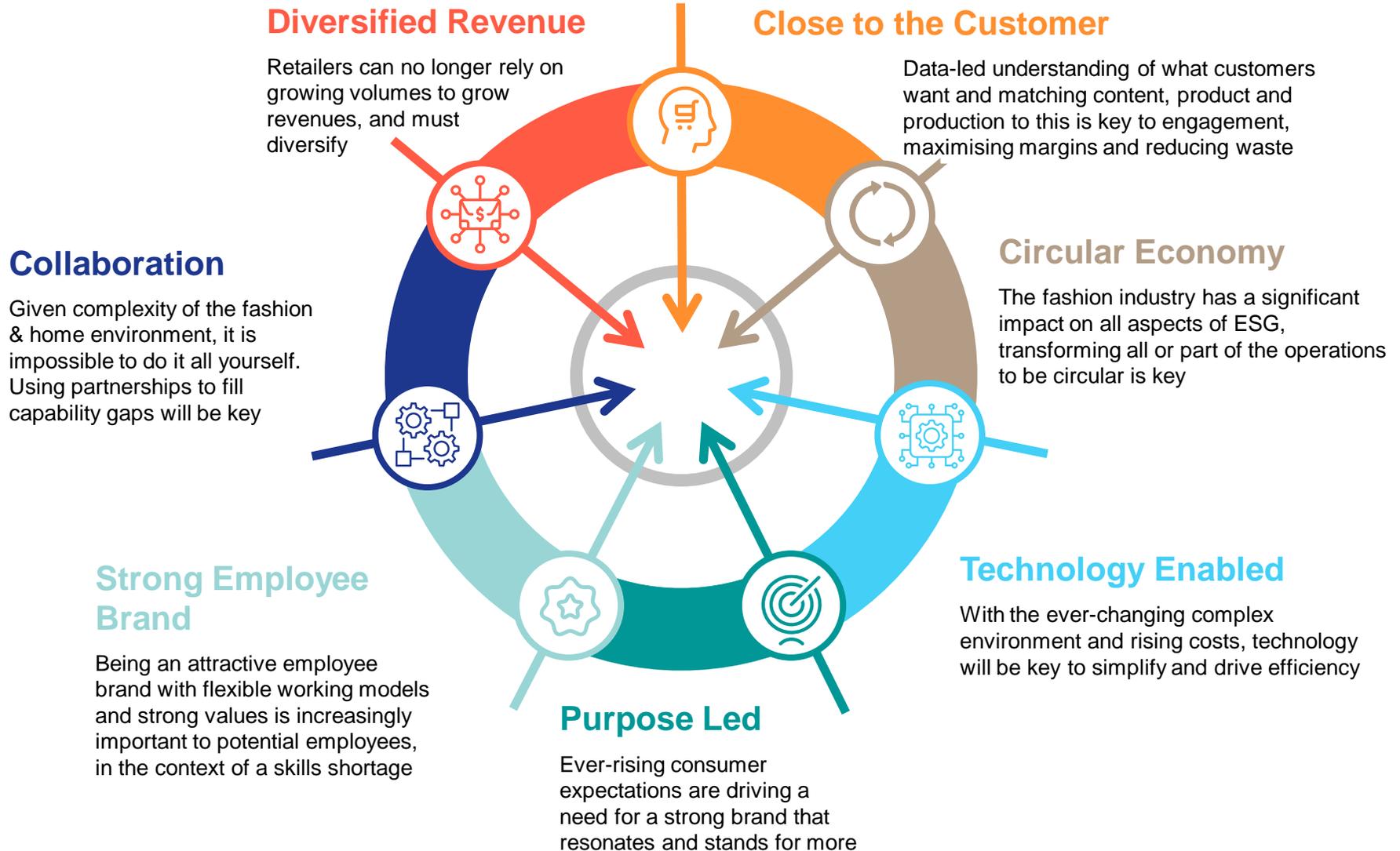
50% reduction in items bought to meet UN emissions targets



Global secondhand clothing market worth c.\$218bn by 2026, growing at c.18%pa



The winning model blueprint is not yet clear; there are a number of key themes that will be critical for future successful operating models



Practically, there are an evolved set of processes underpinned by these themes that address some of the major challenges in the model today



Processes that are **circular** and underpin a business that **stands for something**



Resilient and adaptable supply chain that is flexible to pressure and withstands changes



Products that are **made (almost) to order** and in real time based on true customer demand to reduce waste



Underpinned by **robust, automated and data-driven systems** that enable and support staff and brand performance



A collaborative culture throughout the business, within **teams**, with **suppliers** and with **partners** to fill gaps



A number of brands are already bringing this to life

BAUKJEN



Designed for Good



“Champions of slow fashion” – the brand is a top 5% B Corp and aims to balance profit and purpose. They aim to be circular and zero-waste, using sustainable fabrics, plastic free packaging, and with second hand and rental clothing



They support small facilities, and work in partnership with family run suppliers

Ensure all facilities are well-vetted and adhere to codes of conduct



Baukjen has diverse revenue streams including first hand sale, clothing rental model and second hand lines that contribute towards a more circular footprint and insure against future volume declines



MAIDEN HOME



Products are made to order, ensuring no waste and zero excess inventory

Handcrafted to order



Additional revenue streams include design services, partnerships with trade professionals and project management services

Trusted Design Advice

Work one-on-one with an interior designer to bring the vision of your home to life. Our experts can work with you over email, phone, or video call to create a curated space that aligns with your vision.



Affiliates are used for marketing, promoting the brand on socials in exchange for commission of sales

Premier Benefits

Receive early access to new collections and materials, complimentary design services with our team of designers, and affiliate rewards when recommending Maiden Home pieces.



A woman with dark hair and light skin is looking upwards with a thoughtful expression. In the background, a chalkboard is visible with several question marks drawn in white chalk. The top left corner of the image has a white rectangular box containing text.

Although this is a longer term strategic journey, there are a set of key questions to start to build a view on now

- **Are we clear on the shape of our future operating model that will set us up for success?**
- **How will we win in a context of stagnant / declining volume?**
- **Where do we need / want to move faster, vs where can the evolution be at a slower pace?**
- **Where will technology enhance our ways of working and create efficiencies and the greatest ROI?**
- **How are we working with our supply chain to limit our resource consumption and produce more responsibly? How does this flow through our operations?**
- **Where do we want to partner to enhance our capabilities vs deliver ourselves?**
- **Do we have the hard and soft skills in the organisation to take us on this change journey? How do we**

Practically there are some key steps to developing the right approach...



Decide where you want to play on the scale of fast adopter to follower



Map your operating model & identify pain points



Understand cost to serve, ROI and areas of greatest need & financial benefit



Define strategic options and prioritise



A hand holding a lit sparkler in the ocean at dusk. The background is a calm sea under a twilight sky, with the sparkler's light reflecting on the water's surface.

Appendix: Data & Examples

Driving new revenue streams will likely insulate businesses from contractions in industry volumes



Rental & Resale

- Some brands are already offering **integrated reselling platforms** for second hand clothing in good condition
- Multiple brands are **partnering with rental platforms** for additional, more circular revenue streams



Services

- **Repair** services are an increasingly common add-on service, either offered through **partnerships** with repair apps
- Additional **services such as styling and food**
- Brands can also offer their **technology / platform** as a service to other brands, listing their products on their website



Virtual Realm

- Brands are starting to launch **virtual** fashion shows, where **virtual models exhibit new clothes and technologies**. Virtual allows brands to interact in more detailed ways and to showcase products in ways that are impossible to replicate in reality
- Brands are also expanding into NFT sales



Credit Options

- **Orders paid on account**, and interest paid on payments not paid off at the end of each month
- Allows users to **delay payment** up to a year, paying interest on cash payments not made before end of delayed payment period



Staying close to the customer through data and flexible supply chains is essential for ensuring reduced waste, better margins and customer relevance

In order to produce only products that customers want...

c.20% of excess stock was written off altogether by apparel sellers in 2022, with dangerous ramifications for cashflow

Improving buying processes can lead to +1-3% contribution margin, and 5-15% reduction in overproduction

Improving planning, buying and sourcing can cut CO₂ emissions by c.3%

... Brands must be demand led, and reconfigure the planning, buying and sourcing model

boohoo
FASHION NOVA
SHEIN

- Boohoo and Fashion Nova use test and repeat model, creating small ranges to test customer demand before ordering large batches
- Shein has **grown to c.40% market share** in the US using small batches on c.1 week lead times, combined with analytics scraping socials / shopping websites

ZARA

- Zara operate a fully integrated end to end planning platform, which enables automated store level range planning with **lead times of c.2-3 weeks**
- New ranges are created monthly with short lead times and each merchandiser is responsible for overseeing c.60 stores

støffa

- At the extreme end of the spectrum, Støffa luxury menswear produces **c.90% of its clothing to order**
- Requires relationships with manufacturers who are willing to work in this way, which is different to majority of current supply chains
- Growth has been **25-70% YoY**

Traditional fashion brands and retailers are starting to test circular customer proposition across the full model, or on specific elements eg hangers



Gives clothing and accessories a new lease of life, e.g. **repairing holes, cleaning and restructuring products** to reduce need to replace

Clothing engineered in **50 sizes** to ensure customers find perfect fit, quality is high and styles are designed in capsule style to reduce the number of items needed

H&M offers a third party service with **collection bins** for customers to recycle apparel; Nike customers can drop off apparel and trainers from any brand to recycle



THE
RE STORY

10
tentree

Re-sale platform called Circularity allows customers to buy **overstock and used items** at reduced prices

A S K
E T

VIVAIA

Vivaia uses **plastic bottles** to create sustainable shoes and handbags, so far recycling over 1.8m plastic bottles

PANGAIA

Created "infinite tee" out of 100% Infinna, a textile made from 100% textile waste, broken down to a molecular level and then re-used

Enhanced technology, data and systems is at the heart of transformation and enabling more efficient management of the rising complexity



PRADA LVMH RICHEMONT
Luxury brands have formed the **Aura Blockchain Consortium** to prevent counterfeit products reaching the market

Levi's
Laser technology allowed Levis to create washed look jeans **50x faster** than before

VARNER
Brought 11 retail chains under one centralised automated warehouse, operating with 224 robots, conveyors and sorters, and only c.80 employees in 500k sq. ft.

PRADA Dior
Prada and Dior have worked with **virtual influencers Lil Miquela & Lu do Magalu** with 2.9 and 6.1m followers

YOOX
Yoox Net-a-Porter uses AI to analyse fashion content and identify indicators of emerging trends and shorten the design lead time

ZARA
Zara's integrated planning platform reduces need for humans, uses technology to predict and plan budgets, allocate stock to stores and reduce waste
The number of garments Zara produces has grown significantly, while waste has decreased

CREW CLOTHING COMPANY
Crew clothing use hand held tablets to serve customers in store, allowing customers to pay at any point

UNI QLO
Uniqlo uses RFID tag technology to improve UX at checkouts; RFID can **increase sales from 1.5-5.5%** and reduce stock loss by 15%

SKIMS
Skims uses autonomous robots in fulfilment centres, and has recently **doubled** valuation to \$3.2bn

FashFed!
Multiple brands use chatbots for customer service, with some eg The Body Shop and FashFed using questions and AI to make tailored recommendations to customers, which can result in **sales increases of >50%**

Reduced costs

Shorter lead times

Fewer staff needed

More accurate decision-making

Better & faster CX

Higher customer satisfaction

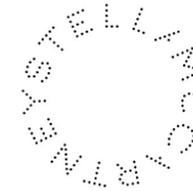
Fewer Returns



Blockchain could also provide an exciting avenue for using technology to protect intellectual property, and allow customers to see product lifecycles

Supply Chain Transparency

- Fashion brands could use blockchain to track the movements of raw materials to finished products, allowing them to verify the origin and authenticity of materials
- Records are collected in a blockchain with a unique cryptographic code, linked to the previous block in the chain



Partnered with Bolt Threads to create a dress made from sustainable, lab growth fabric, that allows customers to trace through to source

Anti-Counterfeiting

- Blockchain can create digital certificates of authenticity tied to each unique product, that cannot be duplicated or altered
- This allows customers to verify authenticity, and prevent counterfeiting of e.g. luxury goods



H&M and Givenchy have partnered with VeChain to prevent counterfeit

LVMH have formed a blockchain based platform called Aura

Loyalty Programmes

- Blockchain technology can increase the security of a loyalty programme, ensuring that rewards are earned and redeemed in a transparent manner, with no need for banks or credit card intermediaries



Louis Erard have a blockchain based loyalty scheme with Qiibee that allows fans to track transactions, and pick rewards

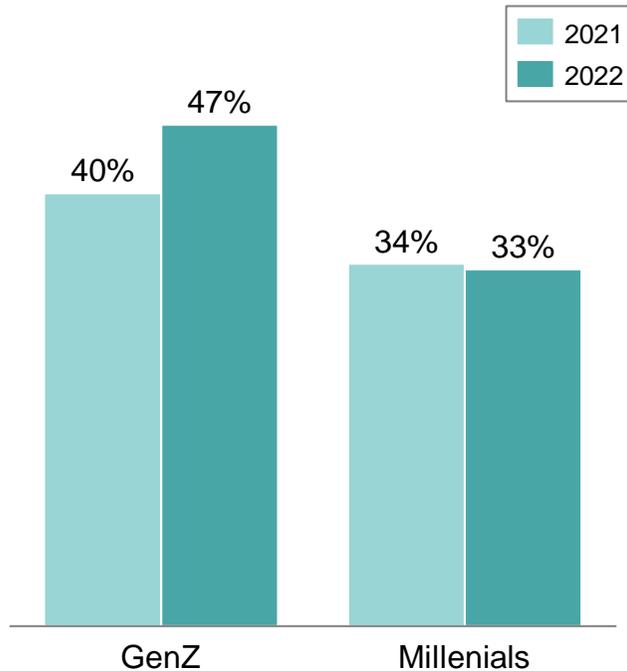
Consumers care about brands aligning with their values, such as diversity, sustainability, and community



Consumers of today care more than ever about a brand's values...

... so brands must stand for something more, and create a community for customers

Abandoned Fashion Purchase as Brand Did Not Reflect Values, % Respondents



MORE THAN YOUR BEST WORKOUT CLOTHING

Strong social media use (brand and user generated content) and community focussed on exercise (e.g. Gymshark app & World Tour) Now reaches c.10 million customers, and is valued at c.\$1.4bn

Charlotte Tilbury

TO EMPOWER EVERYONE IN THE WORLD TO BE THE MOST BEAUTIFUL VERSION OF THEMSELVES

GIVE EVERYONE THE RIGHT MAKE-UP & THEY CAN CONQUER THE WORLD

Brand focussed on inclusivity and the founder's vision / story on the "transformative power of make-up" on self-confidence

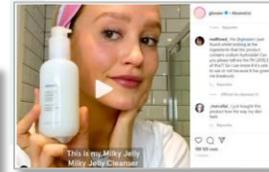
allbirds

- INITIATIVES
- Reversing Climate Change
- How We Operate
- Carbon Footprint
- Regenerative Agriculture



Footwear brand focused on sustainability of materials (provenance, recyclable) without compromise on performance or style

Glossier.



Strong use of user-generated content (brand reps), co-creation of products with most engaged fans, marketing focussed on community
70% of online sales come from peer-to-peer referrals

Source: Desk research, Allure, Drapers, OC&C analysis



It is more important than ever to have a purpose and more flexible models that appeal to potential employees; the best talent is key to success



Hiring and retaining staff is increasingly challenging...

Retail vacancies have increased by >70% from Feb 2020 – Aug 2022

Retail pay in the UK has risen at double the national average in 2022 (5.5% vs 2.7%)

LVMH is looking to fill 30,000 positions by 2024 driven by specialised personnel leaving the fashion sector

... as employees demand more from a flexible model of work



Flexible Working



Choose your own working hours, every other Friday off, and childcare facilities on site (and nannies on company trips) are all offered by Patagonia to support parents



Retail managers can work their hours over 5 days, over a 4 day week, or a 9 day fortnight to allow increased flexibility. Job Share finder to improve access to shares



Additional Benefits



Offered flexible working since 2013, 32 days of holiday, adoption leave and enhanced parental leave, share options. Currently 66/100 top flexible companies



Assessment of employees is based on overall potential, not experience, and thus teams are motivated and fluid, providing broader opportunities for talent to thrive



Standing for Something



Launched "7 women, 7 causes" line of 7 tote bags, each supporting a different cause, e.g. mental health, children affected by war, and women's education



Founded to support all women to look and feel their best while working out, no matter their size. Donate c.\$5m pa to charities that focus on lifting up women

The most complex challenges will be difficult for brands to solve by themselves; moving quickly to establish partnerships will be key

Brands will need to decide where it makes sense to partner vs. going alone...

... and the type of partnership that will help them achieve their ambitions

Could you easily achieve it by yourself?	YES	Compare relative merits of partnership vs. DIY	Do it yourself
	NO	Partner for success	Enter exclusive / strategic partnerships if possible And look to build or buy capability over time
		NO	YES

Could it be a potential source of differentiation?

Challenge	Partner type	Example
Controlling complex value chain	Suppliers	 Training and support to drive compliance with both environmental and social standards in the supply chain
Drive sales and acquire customers in stagnant volume market	Peers	 Designers such as Victoria's Secret and Reiss launched on Next Label to grow brand awareness, access a new customer group & grow sales
Specialist capability / resource	Different Industry Players	 Fashion brands partner with other brands such as food retailers to drive awareness sales in new audiences to counteract stagnant volumes
R&D and Technology	3rd Party Service Providers	 Support services to drive towards circular models, including waterless washing, reverse logistics, recommerce
	3rd Party Tech Providers	 Walmart has partnered with Zeekit to allow customers to upload pictures of themselves and virtually try on clothing items in different sizes

Source: Desk research, OC&C analysis

