

Fashion forward:

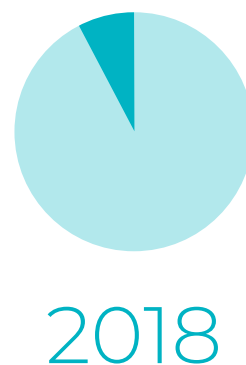
How **data science** drives enhanced in-season execution **2018**

Data science good practice

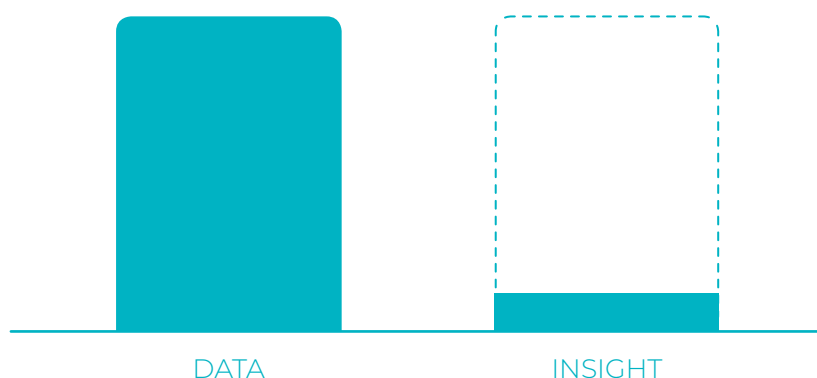
A worldwide survey by analyst group Gartner undertaken in 2018 showed that

91%

of organisations across multiple sectors have not yet reached a “transformational” level of maturity in data and analytics, despite this area being a number one investment priority for CIOs in recent years.



Retail is one of those sectors that is widely considered to be a DRIP industry – in other words it is data rich and insight poor, and so many companies in the sector are looking at ways to make better use of the information they have at their disposal.



The business of data management is keeping leadership teams across retail occupied, as they look at how they can optimise it for the betterment of their respective organisations – but the deployment of new systems might be held up by a fear and distrust of their output.

Retailers need to put these doubts aside.

In fashion retail – the focus of this report – there is significant room for improvement in how companies use data for forecasting and throughout the supply chain.

With sophisticated data science and greater trust in systems and analytics, fashion retailers can manage in-season trading on a more proactive and professional basis, resulting in:

- Faster return on cash
- Higher margins
- Lower execution costs
- More engaged Staff
- And multiple other Benefits.

No excuses

How many times do retailers blame the weather or unexpected / unseasonal conditions for poor performance?

With alternative strategies in place and the ability to execute these plans in-season using the data held within their organisations, they won't have to make excuses any longer.



The 'data as oil' analogy has long been referenced in the business world, particularly as the volume and type of data is increasing at an exponential rate.

Within fashion retail, if this can be extracted appropriately and directed through the right pipes at the right time, there is a huge opportunity for organisations to make decisions that **fuel business success** – they can optimise sales and profit, shift stock whatever the market conditions, and shape in-store operations to match the forecasted demand and service.

"Most organisations should be doing better with data and analytics, given the potential benefits" explains Nick Heudecker, research vice president at Gartner.

"Organisations at transformational levels of maturity enjoy increased agility, better integration with partners and suppliers, and easier use of advanced predictive and prescriptive forms of analytics. This all translates to competitive advantage and differentiation."

According to a Gartner survey, the majority of organisations rate themselves in the lower three levels of data and analytics usage.¹

To reach the desired **transformational level**, Gartner says companies need to tick the following five boxes:



The state of affairs in fashion retail

More often than not in retail, despite the best efforts of all concerned, the plan goes wrong.

In the past, these problems were perhaps not accentuated as much as they are today but businesses are now operating against a very different backdrop to the pre-digital age.

Mistakes in retail today tend to be punished more severely.

There are plenty of alternative, agile, and digitally-led businesses available for customers to choose from if they are turned off by a lack of imagination from clothing and accessories companies on the high street. **Inventory problems** in fashion retail can, for example, result in prolonged markdown / promotional cycles, and some businesses – including H&M – have referenced this as a **core reason for margins dropping** significantly in recent months. In H&M's case, there is too much stock, which is expensive to hold and has resulted in merchandising dominated by money-off deals.²

Retailer learnings

Markdown & promotional activity does drive sales, for example Charles Tyrwhitt's famous four shirts for £100 deal runs all year round and plays a central role in the retailer's overall market proposition – some companies can be known for one deal they always offer but maintain margin by typically keeping wider product ranges at full price. Meanwhile, sales periods to remove excess stock at the end of a season have been a tried and trusted tactic used by the wider fashion industry to great effect for years.

But evidence suggests consumers are growing wary of many retailers always being on sale, and data from BDO shows that July 2017 fashion sales – a period usually boosted by end-of-season discounts – experienced their worst performance for eight years.³

The feeling clearly being why would shoppers buy at full price if retailers selling their goods off-price is the norm?

H&M's issues are the tip of an iceberg – the fast fashion chain is typically a well-run business that is very much in international growth mode; there are multiple examples of fashion retailers that have fallen by the wayside in recent years due to an inability to cope with managing costs, stock and new retailing models – for example Bhs, East and Store Twenty One, which have all now collapsed.

In what is becoming an increasingly non-seasonal sector, fashion retailers should be looking to develop more accurate forecasting to drive greater full-price sales, and a premier service, while also maintaining their margins.

More sophisticated use of data can help here.

A step change is also required for the good of fashion retail's future – it's crucial retailers regain a reputation for compelling products, innovation or great service, and are not just perceived as 'another place to pick up cheap items'.

It feeds into the need to avoid a homogenous high street, and the ability to optimise the value of the store over the 'cheap and available' nature of online.

Fashioning success

Reading the retail media in recent years, observers might be forgiven for thinking that soon there will be no shops left in the UK, but there are clearly many retailers successfully navigating their path through a new industry landscape. It just looks different to before.

In fashion, the success stories include ASOS, Fat Face, Joules and Ted Baker, and one common factor uniting them all is their resistance to get caught in the continuous cycle of markdowns. This policy was even referenced in trading statements in early 2018.⁴

"Fat Face has outperformed the market in the first half while maintaining a full price trading stance"

– Fat Face CEO Anthony Thompson talking in January 2018 after impressive like-for-like and total sales growth over the crucial festive period.

All retailers know that the ability to be flexible within season is hugely important for the health of their business, but only a few of them are developing the appropriate strategy to build in that agility.

Using data to create better forecasts is now a key target for many retailers, as shown by the Gartner research, but it's only of value if they can take appropriate actions with the information at hand.

Diagnosing the problem



Inventory, sales & markdown forecasts are typically based on historical trading patterns at the same time each year, with no real leeway for unexpected events such as an unseasonal March snow storm, a warehouse fire, a spontaneous celebrity craze, a specific local event, or merely a sharp shift in consumer behaviour.

Retailers stick to their initial plans, with little or no flexibility, because their systems, mentality, and financial model dictates so, perhaps **because this is the way they have always done it, and they are afraid of making a mistake by trying new techniques.**

Lord Wolfson, the CEO of high street mainstay and traditional retail bellwether Next, acknowledged that many of the reasons for the company's sales shortfall in 2017-18 were self-inflicted and due to product ranging errors and omissions made by the senior team.⁵ He also said, in many ways, it was the most challenging period in the last 25 years due to what was described as *"a difficult clothing market"* combined with the need to manage costs, systems requirements, and deal with accelerating structural shift in spending from retail stores to online. He's not alone in facing these challenges.

Data-driven decision-making drives results

In today's always-on world, the change of pace and speed of the retail market have become incompatible with just human-driven decisions.

Data-driven decisions have become the differentiating factor between the strong, forward-looking retailers and those that are being left behind, helping successful companies shift to more demand-led supply chains that can react to new trends.

The likes of ASOS, Boohoo and Missguided have changed the fashion market's dynamics, providing **new digital routes to market** and fresh customer propositions. These companies tend to see the retail market differently to traditional players, and use data analytics at a sophisticated level. Missguided, for example, is exploring ways it can use artificial intelligence to reduce some of the more mundane operational retail tasks – making people's jobs more than just administrators of data.⁶

If Lord Wolfson's comments are indicative of the wider industry, traditional retailers certainly need some assistance when it comes to making their core business decisions, if they are to become the agile, flexible and proactive operators they need to be in today's market.

What's the cure?

Those leading the charge in fashion retail today are data science converts.

ASOS has recruited hundreds of technologists and engineers, and it plans to add similar numbers in 2018 and beyond, as it looks to develop systems and software that allow the business to function in a fast and efficient manner, and keep customers happy.⁷

The online retailer is also establishing a whole new merchandising system which will inform its decision making around markdowns, so that it sells at the optimum price throughout the course of the year.

But for traditional retailers, this type of internal investment isn't always possible – especially when they have extensive store estates to run and other mounting costs.

There's a need to outsource this work or collaborate with a technology provider that can generate the required level of expertise to help them keep pace with the successful digital players.

Actionable insight

Retailers need a solution that avoids them having to say: *"If I knew this, I could have done that."* The systems and technology now exist to enable better flexibility and in-season execution, forecasting demand, predicting stock and optimising prices, to squeeze the best profitability out of any situation.

A data science approach is needed here – it is the solution which provides the ability to dramatically improve forecasts, and to learn more as time passes, but it must be aligned with applications that improve the retailer's ability to execute, whether in pricing, allocation or in-store processes.

The perfect solution should also include applications that produce actionable results, based on the insight from the forecast.

Inovretail provides this solution, and can empower store assistants with up-to-the minute information and suggested actions, delivered to wearable devices on the shopfloor and integrated with all in-store processes. It is a powerful proposition for the modern-day retailer and one which can deliver significant ROI.

Gains of up to

25%

in conversion rates can be achieved by using dynamic intra-day targets for retail stores sales associates, delivered to them through smartwatches.*

There can be a reduction in conversion rates of up to 40% when the in-store temperature rises above

26°C

because it is uncomfortable for customers.*

Change of technology and mindset required

A change of mentality is needed, but so too is a change in retailers' relationships with technology

Talking in March 2018, Next's Lord Wolfson said he wished he'd made more investment in technology three years ago, and this is a scenario representative of many retailers.

They now realise they are behind the curve, and the longer this goes on, the more retailer results and performance will illustrate his point

– Those which digitally transform will prosper while those who fail to invest in the right systems will be left behind. **But it's not just about getting a new execution system.** Without making use of all available data, without better forecasts, without a forecasting system that learns over time, new technology will not make a difference.

Outside of fashion, Toys R Us is a prime example of this point – it introduced staff tablet devices across UK stores but the lack of insight and strategic thinking at the top arguably led to its demise. It wasn't quick enough to react to what competitors in the market, such as Smyths, The Entertainer and Amazon, are doing.

The way forward in a digitally transformed era

Retailers must recognise that one of their biggest assets is their army of store staff

The more they use technology and data science to provide insights that empower people to do their jobs better, the more likelihood there is for improvements in customer service and staff engagement.

Significant cultural changes are required within traditional retail for this to become a reality, and for these businesses to reflect the success of some of the digitally-minded operators referenced above.

Trust in Data Science is one major example

Just as consumers now assume the satnav knows better than them when driving, as opposed to treating its advice with suspicion, retailers should trust that forecasting systems can make more informed decisions – if fuelled with the right data at the right time.

Retail Data Science:

The Art of the Possible

Approximately **80%** of weather-related impacts in fashion retail sales are observed in weather transition periods (spring and autumn).
Retailers aligning promotional activity with weather insights generate up to **40%** higher ROI *

Over **80%** of shoppers show some type of behavioural change in their interactions towards the retailer before leaving a store.
Identifying these changes can be critical for customer retention *

Using blank-bullet promotions, defined as strong communication with low to none commercial discounts, on high-intensity promotional periods from the competition including Black Friday and Christmas trading, can generate up to **30%** margin gains with break-even on quantities *

Find out how Inovretail can use data science to bridge the gap between planning & execution in your retail business
at www.inovretail.com/usecases

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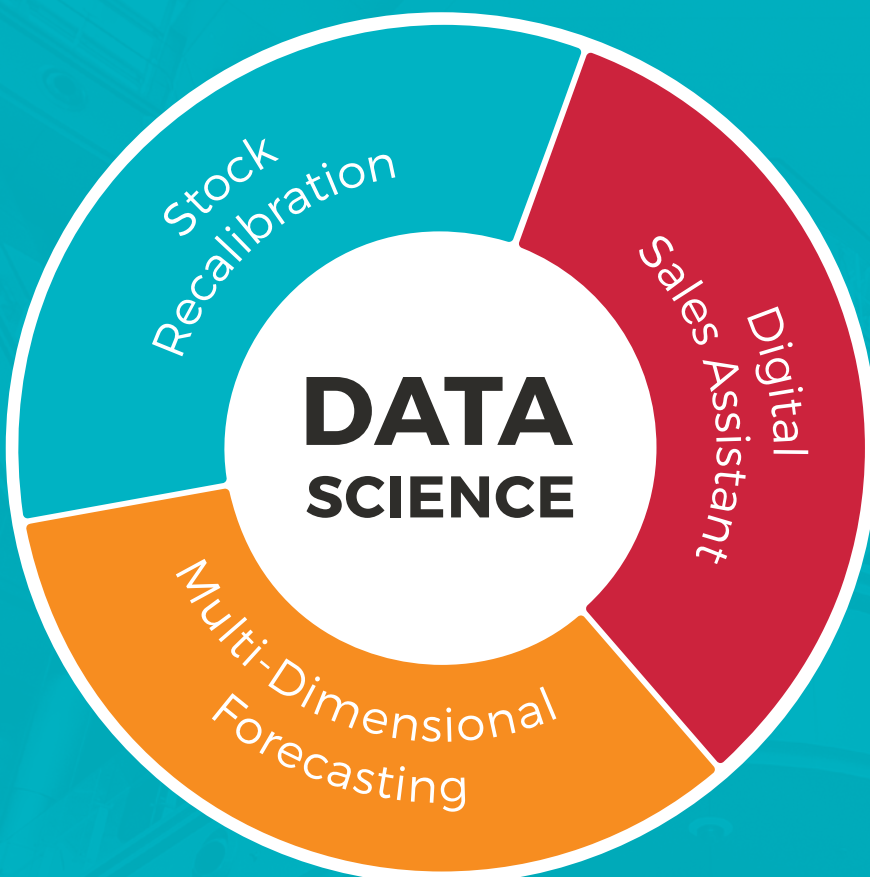
About Inovretail

We are a **retail innovation** company on a mission to democratise **data intelligence**.

We provide data science solutions and digital tools

that deliver quantifiable insights and actionable recommendations

with direct and sustainable impact on key metrics. Our solutions are SaaS based, fast to deploy, easy to use and help retailers in three key areas.



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for a free demonstration
of our technology
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