

March 2017 Newsletter (Copy 01)

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RITA GUNTHER | **MCGRATH**

Author. Speaker. Consultant.

Dear Colleagues,

In a recent newsletter, I wrote about some of the structural changes **upending the conventional retail** market. For this month's look at what keeps executives up at night, I'm doing a deeper dive checking out trends and shifts in the apparel / fashion business.

Getting clothes on your back: A strategists' nightmare

I've often joked that apparel is the conventional strategists' nightmare. To put it in Porter's five forces terms, there are few barriers to entry, race-to-the-bottom supply chain arrangements between buyers and suppliers, lots of rivalry and few ways to sustain advantages. On top of that, are major changes that affect apparel manufacturers and the retailers whose fortunes rise and fall with them. 

The traditional model for mass market apparel was to design and stock by seasons, mark down whatever didn't sell to clear out inventory and start again next season. That model appears to be crumbling.



Disposable and fast

Many of the assumptions underpinning the apparel business were based on seasons, long manufacturing cycles and a belief that people needed to own the clothes they wear. But, lo and behold, innovators are showing how those assumptions no longer hold. Inditex's Zara taught consumers that if they like an item, they better buy it because it may not be there later, challenging the 'stock once a season' presumption that used to dominate the industry. Their clothing, as well as that of other 'fast-fashion' retailers such as H&M and Forever 21, is presumed by their customers to be more or less disposable – certainly not a long-term investment. Instead, buyers like the fresh looks of the latest trends and the fact that the inventory in the stores is constantly changing.

Why buy when you can rent?

Rent the Runway pioneered the idea of renting and returning designer clothes for special occasions. This has now spread to everyday wear with many companies such as, Le Tote, offering what is essentially a subscription model for clothes. Companies such as Stitch Fix and Trunk Club promote wearing clothing chosen for you by an expert and coordinated into a coherent look – no department store, changing room, over-eager salesperson or inefficient hunting around for the right size, thank you very much. Clothing is sent to you, keep what you want, return what you don't with their convenient return service. And best of all, you have the opportunity for a fresh look with every delivery.



The battle for share of wallet

The most significant competition many industries face comes not from other entities within their industry, but from other industries. Apparel is no different. While apparel companies compete with each other, obviously, a far more insidious form of competition is for buyers' disposable dollars (or whatever currency you happen to use). Young consumers, especially, won't think twice about using money they could potentially spend on a new pair of **jeans for cell phone minutes**, services and

experiences. Moreover, the ‘fast fashion’ trend has made clothing inexpensive, contributing to a decades-long decline in the share of wallet that goes to apparel and footwear.

Trade under Trump?

Uncertainty surrounding President Trump’s changes to trade arrangements could stack up to an existential threat to parts of the industry. For instance, American factories churn out textiles, which are shipped to Mexico for cutting and sewing, and then shipped back for final sale. According to some sources, fully **40% of men’s jeans** sold in the United States are sourced from Mexico, adding up to a big number that could be affected by changes in NAFTA.



Conventional retailers being clocked by discounters

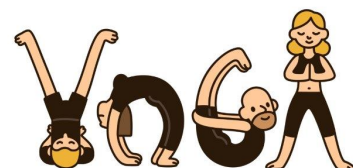
Once dominant retailers, such as Macy’s, J.C. Penney and Sears, are basically going out of business slowly, shuttering stores and shrinking their footprints. Retailers such as Ross Stores, Burlington and T.J. Maxx have been thriving, both in terms of their growth and in terms of investor’s confidence in them. And, unlike the traditional idea that a mall-based location created an advantage, **shopping mall traffic** is way down. Abandoning shopping malls altogether, T.J. Maxx and Marshalls put their stores in inexpensive, easy-in-easy-out strip malls, without the burden of expensive real estate leases to cover.

While new retail formats grab share

On another front, business model innovators, such as Bonobos, are figuring out that customers don’t need a store-full of expensive inventory to meet their shopping needs. Devotees of the firm (including my son, a big fan), can try on clothing in actual ‘showrooms’ but leave empty handed with their purchases being delivered directly to their doors on the following day. Bonobos was founded on the belief that men happily pay for the right fit and the convenience of home delivery, and the bet seems to be paying off.

The onward march of “athleisure”

Who knew that yoga pants might represent a serious competitive **threat to jeans** and Dockers? Well, not the



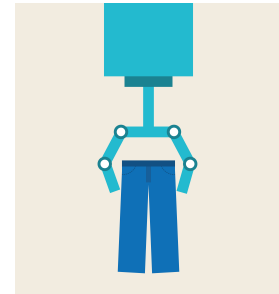
people at Levi's.

"We're scrambling," Bloomberg notes Levi-Strauss, & Co. CEO Chip Bergh told analysts last year. "I mean, there is a big difference between the product that we've got on the floor today and what the consumer is looking for. And we just flat-out missed it."

Missing that trend has cost the company big – sales of jeans nearly halved from their previous volumes. Some observers predict that the athletic leisure wear market will be in the realm of \$83 billion in global sales by 2020. This despite the fact that some people really should not be wearing yoga pants...

The Future is Already Here – What's brewing in Silicon Valley today can turn up in your closet tomorrow

Given the size and ubiquity of the apparel business, it's only a matter of time before what seems like science fiction in Silicon Valley today, can become a competitive threat tomorrow. Synthetic biology in textiles, wearables, predictive analytics, 3D printing, artificial intelligence, artificial reality and collaborative consumption are just a few of the new technologies that could change the assumptions underlying how the apparel business works today.



So what is an apparel industry executive to do?

The first step to figuring out your strategy in such a hotly contested space is to get out of the fray for a bit. Step back, and consider what your customer is looking for. To use the idea popularized by Clayton Christensen and Tony Ulwick, what “job” are your customer segments trying to get done? Do a deep dive to discover what are your customers pain points? What taken for granted assumptions in your existing model need to be challenged? Oh, and do this yourself – don’t delegate the critical task of getting personal insights about your customers to someone else.

Then explore how you could help your customers get that ‘job’ done better than anyone else. Start with the question “how might we...? Then follow up with engaging brainstorming sessions with people who can give you honest insight (a process I

particularly like is the **Mach49 “blitz”** approach – see Mach49.com). Sort through the ideas generated to find a few that might be sufficiently bold enough to capture more of that customer job. Then create an incubation process to figure out what the idea really is and move it to acceleration. For more on this process, see my book *Discovery Driven Growth*.

In the meantime, build up your pattern-recognition and imagination ‘muscles’ by creating scenarios that look at the most significant uncertainties you are facing, and seeing what strategies could be utilized in the different possible futures. For instance, the **Forum for the Future** suggests considering four different scenarios for how apparel will be consumed in 2025.



These are:

- 1. Slow is beautiful:** A world of political collaboration and global trade where slow and sustainable is fashionable.
- 2. Community couture:** Where resource crises constrain consumption in a world focused on local communities.
- 3. Techno-chic:** Where high-tech systems deliver for the speed-obsessed global shopper.
- 4. Patchwork planet:** A world of fast consumption in global cultural blocs.

The idea is not to predict – rather, prepare yourself to recognize emerging patterns and adjust your strategies accordingly. We tackle how to make these things happen in my “Leading Strategic Growth and Change” class.

Leading Strategic Growth and Change

Two of the greatest challenges I find my clients face are 1) discovering new sources

of growth and 2) transforming their organizations in order to stay competitive. During this one-week course, we'll cover the latest thinking on these topics, including:

- How to manage the entire cycle of competitive advantage
- How to manage growth portfolios
- Design thinking and inspiration from unusual places
- Two-sided platform strategies
- Managing organizational politics

The program runs in New York City during the week of May 15th. Participants bring a real organizational challenge to the program and work on it throughout the week.

[Click here](#) for more information. Or drop me a line at rdm20@gsb.columbia.edu.

Mastering Corporate Entrepreneurship Online now running

Our Mastering Corporate Entrepreneurship program launched in January, under the flagship of the Forum for Dynamic Innovation at Columbia Business School.

Participants in this 7-week program will learn from myself, colleagues and, in live sessions about how to make corporate entrepreneurship a systematic capability. [Here's the link](#) to find more information.

Recent press coverage:

Will automation [kill jobs](#)? Rita's perspective on nearshoring offers a bright note

What Happens If [Uber](#) Fails? Rita cited the risks facing this high-flying startup

Rita's concept of a [consumption chain](#) cited in this article by Ihrig and MacMillan

How [transient advantage](#) is changing traditional views of R&D and innovation investment

Rita mentioned as being an [original thought leader](#)

How [Discovery Driven Planning](#) is useful for Human Capital Management

Rita's talk at [Kent State](#) described [here](#)

Big **new ideas** at Thinkers50 event in Odense

Upcoming Events:

Digital Business Strategy

Leading the Next Generation Enterprise

April 4-6, 2017 at Columbia University, New York, NY

Columbia Executive Education's **Advanced Management Program**

April 30-May 26, 2017 at Columbia University, New York, NY

Thinkers50 - 2017 European Business Forum

The Davos of Business Thinking

May 9-10, 2017 in Odense, Denmark

Leading Strategic Growth and Change

My revamped Executive Education Columbia Business School program

May 15-19, 2017 at Columbia University, New York, NY

DRUID Conference

Danish Research Unit for Industrial Dynamics

June 12-14, 2017 in New York, NY

Growth & Inclusive Prosperity - The Secular Management Challenge

The 9th Global Peter Drucker Forum

November 16-17, 2017 in Vienna, Austria

As before, where there is uncertainty, there is also opportunity

While the traditional large-scale apparel model is under siege, there are many bright spots nonetheless. **McKinsey** reports that they expect to see sizzling growth in emerging markets. Millennials are just getting to their child-bearing stage of life, a time when

spending on all things family-related is likely to surge. And, whomever can figure out what baby-boomers want, who experts describe as feeling “forgotten” by apparel companies, is likely to discover a windfall.

Here's to your next advantage!

Rita

Password for the “Tools” Section of My Website

To access the tools part of the web site (downloadable diagnostics, quizzes, spreadsheets and other cool stuff) go to the RitaMcGrath.com website and use the password - **mcgr8th!** *(the exclamation point is part of the password).*

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