lifecycle-led strategies

do you have the correct strategy for your kind of business?

How can one pick an appropriate and winning strategy for one's individual business? Devangshu Dutta lays out a few guidelines.

Business managers usually look for one winning strategy, one benchmark company that shows superlative performance, and then proceed to copy that strategy in hordes, whether it is Wal-Mart's everyday low pricing, Gap's basics or Zara's fast fashion business. They jerk from one strategy to another, and end up with indifferent results.

How can one pick an appropriate and winning strategy for one's individual business?

While there is no set formula, we can lay out some guidelines that might help to identify a broad mix that could be appropriate to your kind of business.

Let's first establish three basic principles:

- Context: When you look to benchmark your strategy against industry leaders, do understand that each of them has grown from and grown within a specific context. It is virtually impossible to replicate conditions identical to those in which a Zara grew up. Be aware of your abilities and limitations, as well as of your operating environment that your strategy has to fit. Any strategic insight you pick from others must be adapted to your context.
- Consistency: Business strategy works if applied consistently – it means that all parts of the business (front-end, back-end and everything in the middle), must be geared to deliver the same operational values.
- Constancy: Understand the time frame that your strategy will need to produce results in your specific situation. Whether it is the quarterly-performance reporting, or an impatience to achieve visibility quickly, in most cases we fall short of our expectations from the strategy adopted. For example, many retailers look up to the well-developed business models of Zara and Wal-Mart hoping to emulate their success quickly. What they forget is that each of these benchmark companies have been around for over 40 years. The best strategy can be undone because of insufficient resources, or inadequate preparation. When you pick a strategy, make sure that you can sustain it over a long period. Patience pays.

Picking your place

While business strategy is related to specific product, market and business context, one useful platform for designing strategy is the "Product Lifecycle" chart.

The product lifecycle follows a typical bell-curve, gradually growing initially, then hitting a faster pace of growth, and an equally quick decline after a peak, and finally following to a trailing end.

Most products follow a lifecycle that is shaped like this. The difference is that for some of these the cycle may be as short as a few hours or days, while others may stretch across years. In some cases, the build-up may be slow, with a steep decline; in others, the peak may actually be a plateau. However, for our illustration, the basic shape provides a good example. It applies not just to apparel and other such obviously "fashion" products, but also to other areas, such as electronics, interior design, health & beauty practices, etc.

At the early stage of the lifecycle are a few customers who are "innovators" (1-3 per cent of the population), immediately followed by the "early adopters" (13-15 per cent of the population). While the group is small in numbers, they are opinion leaders and trendsetters. The innovators pick what seems outrageous, and the early adopters make it acceptable. At the earliest point will be people who might be called funky or even crazy for the products that they adopt. Many of these consumers are always on the lookout for "the next new thing", if they are not creating the next new thing themselves.

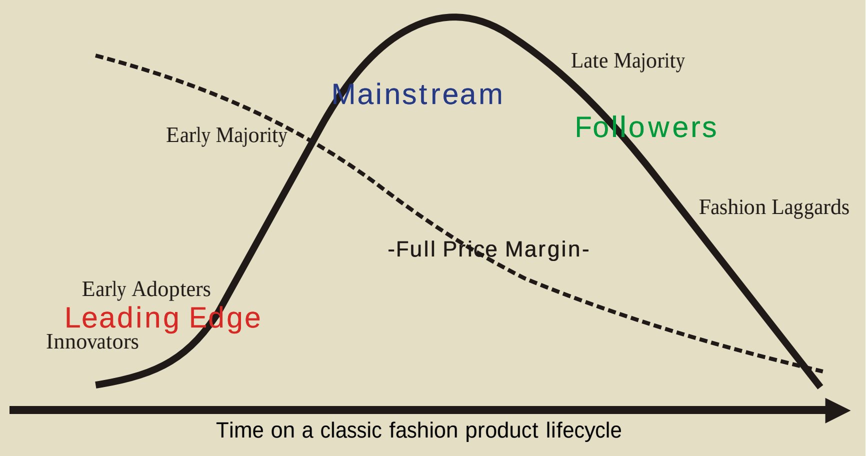
Abercrombie & Fitch picks trends that seem outlandish. It's quarterly catalogue/magazine highlights new fashions every issue, and its customer base happily moves along.

As time passes by, more customers begin to accept the products, and the product begins to move into the mainstream of fashion. The early majority may form maybe 30-35 per cent of the total population. At this stage, typically the leading edge consumers would have started discovering other fashions. At a certain point the product begins to decline in acceptance, but may still be acceptable to the "late majority" of the population, which may be similar in numbers to the early majority.

Beyond this, you have the lagging consumers ("laggards") who invariably follow the fashion at the end, and adopt only those products that have been around for a while and are now widely used. They typically do not experiment, and "play it safe" when making purchases.

Broadly, therefore, we can divide the customer segments into three – the leading edge, the mainstream, and the followers. As we go along the lifecycle curve, we observe that price realisation begins to decline as well. The innovators are likely to be willing to pay high prices to have products and fashions before anyone else, while at the other end followers would want to pay the lowest possible price for the product that they are buying.

Companies in the market typically need to focus on one or the other of these segments – very few examples exist of companies that can span more than one segment successfully, and that too is not possible for an indefinite period as, invariably, the more focussed companies win over.



Riding the leading edge

To target the leading edge, companies need to define fashion trends very early, and make sure that they can translate these into sales very quickly.

Abercrombie & Fitch in the US is a good example. Edgy products and politically incorrect advertising keeps the innovators and early adopters excited about the brand, even as the bulk of society makes disapproving noises. It picks trends that seem outlandish, its quarterly

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Designer brands also follow a similar philosophy – a constant fresh look is important, and since the availability is limited (as is the customer base), prices are high.

Similarly, Zara is another brand that targets the early adopters and the early majority customers. Outside of Spain, it has a clear target to sell products at 30-40 per cent premium to mainstream brands. Zara's strategy is clearly built around quick turnaround of fashion trends. It identifies tens of thousands of style ideas from the catwalk, from nightclubs and university campuses, and its enormous product development and production machinery churns out over 30,000 styles a year. Of these only a third are sold in the stores, and remainder stocks at the end of the season are half of what they are for typical fashion retailers.

Consumers at the leading edge want to buy new products that no one else has yet. However, for each new product that becomes a success in the market, there are hundreds that fail. So obviously your strategy cannot depend on creation of new products only. You must build a system and structure that is able to research trends extensively, and sift through the enormous amount of information to identify the potentially winning trends. The entire culture in your business must be geared to spotting newness from every potential source. Success in this consumer segment can only come if you are prepared to design and develop 8-10 times more products than other companies, and then make the bulk of your profits only from 10-12 per cent of them. That means that you're spending more money than other companies in design, and your "hit rate" is also lower than industry average.

The business must then be geared to transforming the trend into a specific product that is relevant for your target segment, and you must be able to do so quickly. Remember, at this stage, being early is imperative. It might even be better to miss a trend entirely than to be late with it. The leading edge consumer is certainly brand conscious, but not brand loyal. If you are seen to be late with trends, your brand will be out of favour very quickly.

Zara's business model illustrates this "need for speed" the best. Beginning with the store managers, who are equipped with hand-held devices to provide instant inputs to designers at head office, to the ready stocks of fabrics and own production capacity that allows Zara to develop and ship products to stores rapidly – everything in Zara's business is geared to speed.

Once you have managed to translate the trend into a product that is relevant to your customer, you must be able to get the product to the customer very quickly. What information is available to you is also available to competitors and if you are known to be a leading edge brand, your product range will be also watched very closely. So you must also have the capability to reach out to all the potential customers in the shortest possible time. Understand that your leading edge customer is very likely to be geographically spread, and your product must reach all of them practically at the same time, otherwise the element of newness is lost.

Many retailers look to the well-developed business models of Zara and Wal-Mart hoping to emulate their success quickly

Lastly, and most difficult to follow for businesses, is the strategy of letting go of successful products. Conventional business thinking says that you must milk each product through its lifecycle, to gain the maximum revenue and profit. However, that is completely opposite to the strategy that you need to follow to be successful at the leading edge.

The mantra for this consumer segment is “change, change, change”. What is hot and happening this January will be passé in February. This consumer falls deeply in love with a new trend very quickly, and then very quickly discards it as well.

If you, as a brand and a business, cannot follow the same philosophy, don’t even start thinking you can cater to this consumer. If you cannot bear to see design and development effort wasted, you are not geared for success in this segment.

Leading Edge Mantras:

- Identify trends early
- Develop new products constantly
- Get products to the market quickly and in limited quantities
- Let go of products, even when lots of life remains!

Leading Edge Structure:

- Market and trend research
- Design and product development
- Trend setting retail and distribution network

Swimming strongly in the mainstream

The mainstream customer base obviously offers the most opportunity since it consists of the largest customer base. What’s more, this customer is slightly slower to adopt fashion trends, and the trend grows over a period of time, so companies can prepare themselves to ride the wave.

However, this segment also has the most competition for that very reason, since most businesses gauge this to be an easier segment to understand and target.

In this segment, as in the earlier one, it is better to be early in the trend, since prices and margins are higher earlier.

Successful mainstream companies look towards select leading edge companies for product indications. They keep their eyes open to what is happening in the leading edge stores, and also to what their suppliers are doing for the leading edge brands.

Identify those leading edge brands that do products that you can translate into fashions for your customer base in your market. Be aware of the time lag between their (leading edge) market segment and yours, and introduce the products at the right time. Too early, and you are likely to be stuck with goods that your customer is not yet ready for. Too late, and you will be playing catch up with your direct competitors, because they will be watching the same brands.

However successful you are as a mainstream company, leading edge companies would have taken the “cream” of high prices and margins. Thus, the second key to success in this segment is the capability to scale up the trend and reach the maximum number of mainstream customers. Companies with larger distribution networks obviously have an advantage in scaling quickly, but you also need agility. The faster you can get to scale, the greater your ownership of the trend in the mainstream market, and the better your margins.

Finally, since the lifecycle is the longest in this segment, you also need the ability to sustain production and distribution of the product, until it starts becoming commoditised. Thus, working capital becomes a crucial tool for competitive strategy, since the key is not so much in designing new products, as identifying winning products from other companies, scaling them up to

Mainstream Mantras:

- Early adoption
- Push quickly to scale
- Sustain efficiently to attain maximum margin before it becomes a commodity

Mainstream Structure:

- Capability to research and follow trend-leaders
- Large scale of sourcing and production
- Well-structured logistics
- Agile distribution
- Working capital strengths

reach as wide a market as possible, and sustaining the product for several months or until the low-priced companies start nipping at your heels.

Sometimes mainstream or basic products are made fashionable by innovators – among them have been Hush Puppies footwear in New York, Helly Hansen outerwear among the rappers and street gangs, Burberry among the British chavs, etc. In the current marketplace where information travels at the speed of an email or at the click on a website link, it is the capability of these brands to quickly latch on to the trend and scale up to the demand that creates their success. If these brands had not been able to ride the trend, no doubt they would have still been trendy, but far smaller than they are today.

Successful followers

Most business managers say they want to be innovators and set the fashion trend, when in their heart-of-hearts they know that they are best suited to be mainstream brands. Some business managers may even admit that mainstream is where their business should be, selling average and middle-of-the-road fashion.

Rarely will you come across a business manager who will proudly state that he or she is a proud follower or a laggard.

And yet, if done right, this is a business model that can make you tons of money. Consider Wal-Mart as the most successful follower with roughly US$ 300 billion in global sales and approximately US$ 10 billion in profits, not including the unconsolidated results of its minority stakes in other retail businesses. The profits alone are more than the sales of almost any other retailer in the world.

The successful follower does not design or develop new products. It follows product trends that are well established in the market. This is a risk-free product strategy, since the styling and product features would be well known and accepted by the customer group. At the same time, production technology would also be widespread, thus providing a large choice in the supplier base. This enables the follower to closely control product development and sourcing costs.

However, the successful follower goes beyond this and brings cost-control to every aspect of its operation be it communications costs, or hotel bills. The follower could even be smaller than another competitor, and yet make more money despite low prices due to this keen focus on costs.

The successful follower also follows through each product to its logical end. If there is profit to be made from a product months (or even years) after it was first introduced, the follower will make it.

Decisions in a successful follower business will be typically data-driven rather than driven by gut-feel. Since volumes are likely to be high in each product that the follower adopts, initial mistakes can be very expensive, especially as margins are very low. Therefore, product sourcing, supply chain and merchandising decisions must be supported by adequate number crunching. And since there is no pressure of adopting a fashionable new product, the follower typically has the lead-time available to make detailed analyses.

Strategic shifts

Of course, business models are rarely so clear-cut in real life, and neither do they remain static.

For example, to gain extra margin mainstream companies and followers are now aiming to get in earlier in the lifecycle so that they can achieve better prices. A good example is Debenhams, the leading department store chain in the UK, which has moved to 75 per cent private label merchandise, including 25 per cent contributed by designers at Debenhams, which gives its

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customer base a well-designed, unique and stylish product earlier in the fashion cycle, and gives Debenhams higher prices than its competitors. Only 25 per cent of its product range is contributed by international brands that can also be found at other department stores and on the high street.

Another example is Asda, now owned by Wal-Mart, which decisively moved from being a discounter to providing mainstream, good value product through its George range of merchandise. So successful was George in the UK, that Wal-Mart began extending the brand to other markets, and is now also opening exclusive George stores. What Wal-Mart's own US-based labels could not provide is now being provided by the somewhat more fashionable George.

At the same time, leading edge companies are also trying to learn the tricks of scale and leanness from their larger competitors. They are beginning to focus on strategies that can help them to scale up their businesses, and help them build supply chains that offer cost efficiency without sacrificing quality or speed.

However, while you may learn from competitors in the other segments, do make sure that the core of your business is structured around the key success factors that are appropriate to your business segment, be it in the leading edge, in the mainstream or at the following end.

Final thought

Let us close with a truism that we often forget: no matter what the strategy, execution is what wins the day.

It is not the position on the lifecycle curve that determines whether a company is a winner or a loser. Would you consider Wal-Mart less successful that Zara because Wal-Mart is less fashionable? Or is Versace less successful than Gap because it sells fewer pieces per style compared to the thousands that Gap sells for each style? Not at all – at each point on the lifecycle there are winners and losers.

It would be more correct to compare similar companies. The difference between Wal-Mart and K-Mart is obvious. Though both are discounters and followers in the product lifecycle, Wal-Mart has clearly been a more successful discounter than K-Mart has been. A clear vision of its strategy (discounting), a ruthless approach to costs (product costs, promotion, travel – you name it), and consistent execution is underlined Wal-Mart's success, even as K-Mart lost control over costs and went into bankruptcy.

So, as a business owner or manager, first ask yourself: where is my business placed on the lifecycle, in my market and product? Secondly, outline those steps that are relevant to creating a successful business at that point on the lifecycle. That will provide you with the answers of how you need to direct and operate your business.

Follower Mantras:

- Tested, proven commodities
- Low product technology, lots of supply choice
- Ever lower costs
- Squeeze the last penny worth of life in the product

Follower Structure:

- Lean business model, and low cost oriented business practices
- Efficient financial systems
- Keen supply chain focus
- Data-rich decision-making

Devangshu Dutta has international experience in consumer products, retail and the fashion sector in both business strategy and operations. As an entrepreneur, consultant and manager, he has worked with some of the most progressive and largest companies in these sectors. (Please see www.3isite.com for more information)