

# How to Get the Investment You Need for Product Transformation

## Five Reasons Why it's Hard to Justify – and Six Ways to Make it Easier

by Steve Riordan and Will Yester

After several years of challenging business conditions for traditional retailers and apparel/footwear manufacturers, circumstances are finally beginning to improve. As a result, product leaders are suddenly experiencing renewed demand to improve all aspects of their end-to-end product development lifecycles. But despite improved financial results, these leaders are finding it is as difficult as ever to provide a persuasive business case to get new projects approved and funded.

True product differentiation is the most sustainable, long-term source of competitive advantage for a retailer or apparel/footwear manufacturer.

### FIVE REASONS WHY IT'S SO HARD

There are five key reasons leaders with responsibility for product innovation, design, development, sourcing and/or production are challenged with getting their programs approved and funded:

1. **Time to Benefit** – In a perfect world, product leaders would prefer to introduce improvement programs into the product development lifecycle at the beginning of a new season. Most product development timelines for a season range between 42 and 52 weeks, and a transformational program takes as long as 39 weeks to complete, meaning the total time to benefit could be as long as 18 months. In contrast, investments in digital commerce, digital marketing and retail stores may achieve meaningful benefits as quickly as 3 to 6 months. Organizations that prioritize by payback period and use shorter ROI horizons will be consistently challenged when compared to these competing initiatives.
2. **Isolation of Benefits** – Product-related programs help support top-line growth, margin improvement, better product costs, operating cost leverage, shorter product development lifecycles and increased levels of compliance. But many other programs sponsored by adjacent functional leaders in supply chain, merchandising and marketing also seek to take credit for these same metrics. It is very difficult to assign sole responsibility for these quantitative benefits to just product leader-sponsored programs.
3. **Cross-Functional Commitment** – Most effective product-related improvement programs require participation across product innovation, design, development, sourcing and production. It can often be a challenge to gain alignment and sponsorship across these five or more functions at a level of commitment required to seek meaningful funding.
4. **Quantification of Strategic Benefits** – Product leaders often cite strategic impacts as the most important reason for pursuing a program. These reasons may include:
  - Enabling brand and product differentiation
  - Creating a step-change improvement in product development competence
  - Attracting and retaining a new generation of talent
  - Enabling new business models and other strategic programs

### Examples of Product-Related Programs:

1. Product Lifecycle Time Reduction
2. Strategic Sourcing
3. Product Lifecycle Management Technology
4. 3D Digital Product Creation
5. Product Lifecycle Intelligence/Machine Learning
6. Voice of the Customer
7. Mass Customization/Personalization

- Improving product quality and reducing risk

Although these reasons may be the most compelling justification for programs, they lack the clear and indisputable connection to the income statement, which is often required to gain funding.

5. **History with Digital Technologies** – Most of today's product-related programs include the use of new, product-related digital technologies such as 3D design, machine learning, augmented and virtual reality, smart-connected products and supply chains, and more. Unfortunately, the industry has limited history and experience with these digital technologies, especially at a large scale, and few quantitative benchmarks and qualitative success stories exist in the public domain as a result.

In the annual Adoption of Leading Product Development Practices in a Digital World survey in 2017 sponsored by Kalypso, Indiana University Kelley School of Business Center for Education & Research in Retail and Product Innovation Apparel, 49% of product leader respondents agreed that "We keep losing budget for digital and related initiatives for design, development and sourcing to digital and related initiatives for web/mobile commerce, marketing, stores" versus those that disagreed (29%) or had no opinion (22%).

## SIX WAYS TO MAKE IT EASIER

Fortunately, there are six leading practices to overcome these obstacles and improve the likelihood of gaining funding and approval for a product-related program:

1. **"Pain and Passion" Business Case** – Most private brand and/or product development teams are attempting to drive greater and more frequent rates of innovation, develop in much shorter cycles and substantially grow their businesses, all while gaining even more cost leverage. This represents both incredible opportunities to lead the company forward but also inevitable and significant growing pains. A persuasive business case needs to strike a balance between the passion for improving the business with the likely pain of scaling to achieve these improvements.
2. **Benefits Segmentation** – Product-related programs generate three types of benefits: strategic, operational and financial. Benefits associated with all three types must be clearly stated.
  - Strategic benefits may be difficult to quantify, so product leaders must clearly demonstrate the link between corporate-level strategic objectives and initiatives, and the strategic value of product-related programs.
  - Operational benefits, such as cycle-time reduction, development ratios, compliance rates and/or data entry error rates tend to be quantitative, but only indirectly linked to financial statements. It is important to establish a baseline level or performance to use to measure the quantitative improvements attributable to the product program.
  - Financial benefits have a direct link to financial statements, most often the income statement. In a product-related program, these benefits may include headcount avoidance, reduced sampling (and related shipping costs), fewer markdowns from poor assortment choices, increased revenue and margin from better consumer uptake, and lower cost of goods.
3. **Something for the CFO** – Although product programs have an impact on many of the key performance metrics described above, they are almost always quantitatively justified by an improvement in cost of goods, i.e. first costs or FOB to gain approval from the CFO. First, these cost improvement benefits are more believably attributable to a product program to claim "credit". Second, the magnitude of product cost improvements dwarfs any likely headcount or operating expense improvements. Product leaders should feel confident submitting a business case for approval, justified by a 1% to 5% reduction in cost of goods.
4. **Frontloading of Key Efforts** – Although product-related programs tend to have a relatively longer time to benefit, several types of improvement efforts can generate quicker ROI. By frontloading these improvement efforts, product leaders create strong momentum and can create the ability to finance the balance of a broader transformation program. The improvement efforts with the greatest ability to generate nearer term benefits include: strategic sourcing, voice of the customer analytics and machine learning applied to existing data sets, anchored by product lifecycle management (PLM) data.
5. **Comparison to Industry** – A stronger case for the numbers can be made with relative comparisons to the industry via quantitative benchmarks, leading practice maturity model benchmarks and competitor case studies. Maturity model benchmarks can be especially powerful for documenting the current state and associated issues, aligning on a future state and then identifying, prioritizing and quantifying efforts required to close these gaps.
6. **Informed by Digital** – To gain a deeper understanding of the potential business impact of these technologies, product leaders can sponsor and execute a series of strategic experiments with these technologies. These strategic experiments offer an opportunity to demonstrate the use of digital technologies in certain business scenarios, a.k.a. use cases. When properly constructed, these strategic experiments can provide quantitative evidence of both costs and potential benefits of digital technologies.

You cannot have a digital strategy for retail without including a digital strategy for product.

## THREE OPTIONS FOR BUILDING THE BUSINESS CASE

The type of business case required depends on several factors such as number of business units and/or functions involved, the degree of executive sponsorship and alignment, the general availability investment budget and capital, and the rigor for investment approvals.

Three types of business cases to consider are:

1. **Lite Version** – When there is high degree of support and alignment, reasonably available capital and operating expense budget, and concrete understanding of the qualitative and quantitative outcomes for the program, a straight-forward financial model with cost and benefit ranges and an associated executive presentation will suffice. Most companies have predefined templates to capture the assumptions and output financial metrics. These basic templates can be sufficient to justify the program in rare cases when the decision is non-controversial and the benefits are clearly agreed upon.
2. **Standard Version** – This common business case type is more rigorous in detail and analysis than the Lite version, but is scoped to a limited set of brands, business units, categories or functions. To do this business case well, a thorough survey of the organization should be completed to gather metrics and assumptions that will be inputs to the financial model, and to gain the qualitative “sound bites” needed to tell the story of the compelling case for investment. This business justification should have all the standard elements: detailed benefits, costs (including people, consulting, capital, travel), NPV and ROI outputs, and sensitivity analysis to highlight the most critical drivers of a successful outcome. Ideally, this business case is communicated as a story: the current situation, the challenges, the solution to these challenges (a.k.a. the program for which funding is requested) and finally the benefits for executing the plan as depicted in the business case.
3. **Assessment Version** – This detailed analysis is driven by a highly complex organization and an initiative that will cross multiple brands, business units and functions. In programs this complex, the financial model is one of several critical deliverables that also includes a capability maturity assessment, an implementation roadmap/timeline, and a transformation plan that includes technology, infrastructure, process and organizational elements. The business case model should be very flexible to changing assumptions and should include multiple options that can be toggled as the team weighs different investment scenarios, strategic options and implementation timelines. In many cases all or some of the financials will be modeled on a more granular time scale (quarters or months rather than years) to give finance a clear picture of cash outlays in the upcoming fiscal year. This level of analysis is typically reserved for the most complex and strategic investments, when business leaders need confidence through a clear plan and detailed analysis that must withstand the scrutiny of the company’s senior financial leaders.

## CONCLUSION

Product-related programs are some of the most strategically important programs any retailer or apparel/footwear manufacturer can undertake. By applying leading practices and approaches to the program justification process, product leaders can successfully obtain approval and funding for these efforts.

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