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. However, despite improved financial results and demands for improvement, these same leaders are finding it is as difficult as ever to provide a persuasive business case to get approval and funding for new product-related 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
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 responsible for product innovation, design, development, sourcing and/or production are challenged with getting approval and funding for new product-related programs:

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 completing a transformational program can take as long as 39 weeks. These long timelines mean that benefits from an improved product program may not be realized for at least 18 months. In contrast, investments in digital commerce, digital marketing and retail stores may achieve meaningful benefits as quickly as three to six months. Organizations that prioritize budget allocation based on payback period and shorter ROI horizons will be consistently challenged to commit financial investment in product initiatives whose performance metrics are inherently opposite to that of the overall organization.

2. **Isolation of Benefits** – Top-line growth, margin improvement, better product costs, operating cost leverage, shorter product development lifecycles and increased levels of compliance are important indicators relied upon to evaluate performance. While product-related programs factor into all of these indicators, many other programs, sponsored by adjacent functional leaders in supply chain, merchandising and marketing, also seek to take credit for improvements in 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. Establishing alignment and sponsorship across these five or more functions at the level of commitment required to seek meaningful funding is often a challenge.

4. **Quantification of Strategic Benefits** – Product leaders often cite strategic impacts as the most important reason for pursing 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
   - 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 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 a limited history and experience with these digital technologies, especially at a large scale. As a result, few quantitative benchmarks and qualitative success stories exist in the public domain.

In the annual Adoption of Leading Product Development Practices in a Digital World survey in 2018 sponsored by Kalypso, Indiana University Kelley School of Business Center for Education &
Research in Retail and Product Innovation Apparel, 54% of product leaders responded that they would “most likely fund a digital initiative for product design, development and sourcing” by seeking new funding as opposed to funding an initiative from an existing budget under their control or within their circle of influence (30%) or from another function’s existing budget (16%). Additionally, 27% of respondents agreed that one of the most significant barriers to leveraging digital technologies in 3D product creation is “justifying an investment in a program like this given the current business model, margin, and/or products.”

**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 strikes a balance between the passion for improving the business with the 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; therefore, 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 of performance to use when measuring 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, in order to gain approval from the CFO, they are almost always quantitatively justified by an improvement in cost of goods, i.e. first costs or FOB. There are two strong arguments to demonstrate reduced costs. First, improvements in first costs are believably attributable to a product program. Second, the magnitude of product cost improvements dwarfs any improvement in headcount or operating expense. 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 the benefits of product-related programs tend to have a long timeline, several types of improvement efforts can quickly demonstrate a tangible ROI. By frontloading these improvement efforts, product leaders create strong momentum, building the financial support needed for a broader transformation program. The improvement efforts with the strongest ability to generate nearer term benefits include: strategic sourcing and 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 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. Once future state goals have been set, these maturity model
benchmarks assist in identifying, prioritizing and quantifying efforts required to close gaps between the current and future state.

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 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 the number of business units and/or functions involved, the degree of executive sponsorship and alignment, the general availability of 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, 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 clearly agreed upon.

2. **Standard Version** – This type of common business case 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. Completing this survey also provides the qualitative “sound bites” needed to tell the story that frames a 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 include 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 provide 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, like business leaders improving confidence through a clear plan and detailed analysis that withstands 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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Topics: 3d digital product creation, apparel, business case, footwear, footwear and apparel, innovation, investment, ip, kalypso, machine learning, mass customization, personalization, pli, plm, plm technology, product development, product development lifecycle, product innovation, product lifecycle intelligence, product lifecycle management, product lifecycle management technology, product lifecycle time reduction, product transformation, project approval, project funding, retail, retailers, strategic sourcing, strategy, technology , voice of the customer

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