OVERCOMING CHALLENGES OF *Global Expansion*

International expansion presents exciting growth opportunities for fashion lifestyle brands. To ensure success, it's important to consider different global sales models and to marry the right technology to the chosen strategy.

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There's no getting around the fact that global sales expansion is complex. For every apparel market, from Canada to China, there are unique challenges, different cultures and new channels to navigate. Yet fashion brands can consult a common set of key decision-making factors as they try to devise a smart international sales strategy.

Courtnay Thomas, a manager in Kurt Salmon's North American Retail and Consumer Products Practice, outlines three questions whose answers will lay the foundation for many global expansion plans.

1) What **level of investment** is the brand prepared to make?
2) How important is **speed of global growth**?
3) How much **control** must the brand maintain?

There are no textbook answers to these questions. No one-size-fits-all formula. In fact, a fashion brand quite often should have a different answer to each question for every single market, Thomas says.

Ron Klein, a director at PricewaterhouseCoopers, agrees. "You could end up in a range of operating models across the globe, completely driven by the reality of competing on the ground in that country," says Klein, who manages the firm's Advisory, Retail and Consumer Practice.

Whatever the chosen approach to global expansion, successful execution depends on sufficient planning and preparation, including readiness of people, processes and systems. Many brands begin with one plan knowing it may well morph into another model down the road. They can plan for that type of transition. Unfortunately, some fashion brands end up abandoning an appealing path to global growth midstream because of ill-equipped operations and infrastructure. With the right resources and technology, that outcome usually can be avoided.

"Before you start looking outward, it's important to look inward and think about the adjustments that need to be made there," says John Talbott, research director, Center for Education and Research in Retailing, part of Indiana University's Kelley School of Business.

Selecting a Target Market

Before deciding *how* to expand internationally, of course, apparel brands must first answer the question of *where* to invest. What country or countries hold the most consumer demand for the brand's products? Where can the best profit be made? Here are a few high-level considerations that can help in the decision-making process.

- Does the brand's product suit the weather of the target market?
- Is the market affluent enough to afford the brand?
- Is the brand's retail segment adequately developed in the country?

Some fashion brands may have quantitative evidence of product demand by country based on e-commerce sales, a great way to start building a global presence. Others might have good market research insights to help them gauge brand awareness and potential in select countries.

In choosing a market for a brand's initial international expansion, it helps to have some common ground or shared affinity between the fashion company and the target country. Canada, with its geographic proximity to the United States and similar demographics, is a popular place to the test the waters.

Some U.S. brands view global expansion as an opportunity to elevate their brand positioning overseas, while others strive to maintain a single brand image and pricing proposition, says Klein.

Choosing a Global Distribution Model

Returning to the "three questions" to ask before expanding globally, Thomas describes three levels of investment: low, medium and high.

Low-level investment in international markets typically involves e-commerce only — an excellent way to initially engage in exporting.

Medium-level investment usually entails local partners, such as wholesale distributors, licensees or franchisees. Distributors accept the brand's product into their inventory and are responsible for selling it into the local retail market through their established connections. "You gain relationships through a single point as opposed to having to develop them yourself," Talbott says.

Licensing agreements go a step further, often giving the licensee rights to make, market and sell the brand in a given country, whether through wholesale channels, branded retail stores or both. So much reliance on a licensee requires considerable trust between trading partners. "A strong review of the financial strength of a prospective licensing partner is very important," says Talbott. ▸

"You need to make sure you have an understandable interface for local users in different countries. Transactional mapping from the front end to the back end is difficult. You want to find systems that are built from the ground up with this functionality in their DNA," says John Talbott, Research Director, Center for Education and Research in Retailing, Indiana University Kelley School of Business.

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EXECUTIVE INSIGHT:

An Interview with Paul Magel, President, Application Solutions Group, Computer Generated Solutions Inc.

Q: Why is now an opportune time for fashion brands to pursue global expansion?

PAUL MAGEL: The U.S. fashion industry faces a highly competitive and mature market. Therefore, many brands are looking to grow more aggressively by expanding internationally. Overseas expansion comes with a formidable set of challenges; however, if the expansion strategy is executed correctly, the rewards can be considerable, with potentially higher profitability than in the domestic business.

With confidence growing in the U.S. economy, brands are looking to expand their international footprint in key rapid-growth markets. They want to take advantage of demand for their products in Europe, Brazil, Russia, India, China, Turkey and the Middle East. For the next five years, we see the greatest potential growth for U.S. fashion and lifestyle brands in the Asia-Pacific and Latin American markets.

One of the most important developments driving U.S. brands toward global expansion is the rise of disruptive technologies. Whether it's e-commerce, social, retail, cloud, supply chain or sales apps, these innovations enable large and small brands to move into international markets without incurring the traditional high costs and risks associated with expanding on a global scale.

Q: What are some success factors and pitfalls to consider when expanding internationally?

MAGEL: Brands must consider a wide range of issues and challenges to make the most of global growth opportunities. Areas that require in-depth research and attention include product range, fit, price, service, packaging, quality and image. Cultural differences can trip up even the biggest brands, so it's imperative to know the local lifestyle. Consumers around the world are radically different in their behavior and aspirations; therefore, we cannot assume they all want to purchase exactly the same thing in exactly the same way. Successful international brands have a very good understanding of local requirements and demands and have developed sophisticated business models that are very customer centric. Furthermore, larger markets such as those in Asia present greater logistical and supply chain complexity, unfamiliar regulatory and compliance environments, complex content translation requirements and increased competition from domestic brands.

Q: How can the right technology make a big difference, especially in curtailing overhead costs during an international growth phase?

MAGEL: We have seen many brands launch globally into new markets and try to grow too quickly without having the right processes and operational structure in place, resulting in a negative impact on their bottom line. It's important to allow time to adapt your product offer to local cultural needs and to align technology and digital transformation initiatives. These are crucial factors for sustainable success. Many brands outrun the capital with which to grow due to high overhead costs associated with global expansion. Technology can help overcome this challenge. For example, more fashion companies are adopting an "end-to-end" solution and a unified set of processes, consisting of a fully integrated set of merchandise planning, design, product and materials development, sourcing, production and distribution capabilities. This approach eliminates functional and visibility gaps across their in-house and extended supply chain operations, enabling companies to manage the entire fashion lifecycle in a single centralized system. With these solutions, brands can meet fast-changing customer demand for more innovative products and more frequent new product releases, with increased productivity and operational efficiency and a reduction in product and overall business costs. When expanding globally, it's important for enterprise software to offer greater visibility and control over supply chain operations, resource rationalization, efficient inventory and fulfillment management and a centralized view of financials.

It's also advantageous to use a sales management application to connect with retail buyers on a 24/7 basis, anywhere in the world. These solutions streamline the sales process, enabling brands to cost-effectively leverage new channels in new geographic areas. This technology also provides great convenience and cost savings for international buyers.

Lastly, when a brand pursues a high-level investment approach to market entry, it takes full ownership of its entire presence in the country, from e-commerce to wholesaling to owned retail stores. The brand's skin in the game might include regional product development hubs, a local salesforce, distribution centers and retail real estate.

There can be many hybrids and variations of each of the three investment levels. Third-party logistics providers, customs brokers and other specialists may play an important role in all of the distribution models.

After gaining greater knowledge and experience in a market, many brands opt to acquire their distributors or licensees, making them wholly owned subsidiaries of their U.S.-based corporations.

There will always be tradeoffs with any investment decision, Thomas says. For example, high-level investment can be associated with much greater brand control, which in turn can slow the growth pace. By comparison, signing on with a distributor or licensee relieves a lot of the brand's day-to-day responsibilities and can lead to quick sales growth. At the same time, the brand must relinquish much of its decision-making power on the international scene.

Marrying Technology to the Strategy

Just as the brand needs trusted distributors and other partners, it also relies on technology providers who are ready to go where the brand wants to go. "You want to be sure the technology partner has global capability," Talbott says.

There are a couple of IT categories that globally minded brands should evaluate, Klein says. First, it's important to have a robust financial system engineered to support the myriad facets of global commerce. Secondly, brands should have a strong supply chain and inventory management solution. Apparel companies will benefit from a software vendor with significant international experience and proven functionality to support:

- International currencies
- Diverse payment methods (including consignment sales, different credit card security protocols, lay-away programs and emerging mobile pay methods such as Apple Pay)
- International clothing sizes and labeling
- Country-specific pricing
- Global taxes and duties
- Customs compliance
- Intercompany transfers of inventory and funds
- Supply chain visibility and tracking

This is just a sampling of software capabilities that are essential to support a fashion brand's global expansion. Flexibility to mold the technology to fit the local market is important, especially for the front-end user interface, Talbott emphasizes. "You need to make sure you have an understandable interface for local users in different countries," he says. "Transactional mapping from the front end to the back end is difficult. You want to find systems that are built from the ground up with this functionality in their DNA."

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Systems also should offer strong supply chain visibility. "The more expansive your business internationally, the greater your need for global visibility of data throughout the value chain," says Thomas.

For example, global merchandising and assortment planning systems must be capable of capturing regional nuances when brands plan their global product range. Moreover, brands that successfully enter global markets must make the leap from managing by spreadsheet to using tightly integrated PLM and sourcing applications. Some newer solutions offer end-to-end functionality to encompass the entire spectrum of requirements for international expansion.

Taking the First Step

Global sales growth takes time. It requires a great deal of strategic planning, asking and answering tough questions, researching potential partners and distribution models, and sometimes, dipping a toe in the water only to pull it back and regroup before taking the plunge.

Beyond the infrastructure and technology, international sales growth depends on people, their attitudes, skillsets and performance. On the ground in the local market, "a lot of investment needs to happen in people to make sure that they're bringing the right values to the company and representing the brand well," says Klein.

A similar focus is important at home. "Internal competencies must be in place in terms of logistics, communication and a willingness to welcome different types of individuals who will be engaging with the company on a day-to-day basis," concludes Talbott. "Are the brand and its people ready to culturally embrace the challenges they will face in dealing with diverse geographic areas and colleagues from different countries, often speaking different languages? It can be tough enough to move from a strong base in New York City and the East Coast to the West Coast. Internationally, it only gets harder. Make sure you're ready!" ■