

# Managing Private Label Products with PLM

PLM INDUSTRY TRENDS IMPACTING THE RETAIL, FOOTWEAR & APPAREL, AND CONSUMER PRODUCTS INDUSTRIES

In this series of topic sheets on industry trends affecting product development, PTC's Vice President of Product & Market Strategy, Kathleen Mitford, analyzes the benefits of using enterprise Product Lifecycle Management (PLM) to support Private Label initiatives.

## What is Private Label?

To increase profitability and enhance customer loyalty, many retailers have turned to private label products. By definition, private label is the practice where retailers offer products in their stores with their own branded label. While private label has been a widely deployed practice in apparel for some time, it recently has gained traction across a broader range of product categories, including home goods, tools, furniture, appliances and food.

## Why are retailers increasing their percentage of Private Label floor space?

Private label products are highly attractive to retailers because these products can boost gross margins. Retailers have recognized that profit margins on products designed and sourced by their own teams are significantly higher than on branded products. The trend correlates to recent estimates from AMR Research showing that a current private label market share of 15–16% in relevant distribution categories will rise to 21–22% within five years<sup>1</sup>. While the potential profitability of private label products is appealing, achieving success involves a set of challenges that many retailers have not had to confront in the past. These include:

## Building Brand Loyalty for Private Label Brands

Many consumers are label-driven, and tend to purchase brands that are well established. For private labels to compete, retailers must build their private label brand over time, so it's recognizable as a household name, and synonymous with quality, value and trend-right fashion. For many retailers, the current economic environment has helped their private label brands grow, as shoppers are increasingly looking for value by trading high-end labels for retailers' branded products.

## Managing Assortments of Private Label & Branded Products

While many retailers strive to increase private label products to over 50% of floor space, they still offer branded products in their stores. The private label products must complement—and not compete with—branded products.



Private label products are growing in many retail product categories.

<sup>1</sup>AMR Research – Industry Value Chain Strategies, May 2009

## Supporting Multiple Product Development Processes

The level of product development maturity among retailers' in-house product development teams can vary greatly, based on product type. For soft-goods products, such as apparel and home, retailers' product development teams have a wealth of experience, and can fully develop and source products in-house.

For more complex products, such as tools, appliances, food and furniture, many retailers don't have in-house product development expertise, and therefore must turn to their suppliers for product development knowledge and to serve as an extension of their design team. This reliance on suppliers creates additional challenges for retailers since they'll need to manage multiple processes for one brand, whose products are designed either in-house or outsourced.

## Developing Product Development Teams

To offer private label products that are designed by an in-house team, retailers must build up product development teams with skill sets outside of their typical area of expertise. This is one of the reasons why retailers deploy multiple product development processes (as noted above) while they gain the knowledge required for in-house design.

Successful retailers recognize that the benefits of private label products, when managed properly, outweigh the potential challenges. To achieve success with their private label products, leading retailers have turned to Product Lifecycle Management (PLM) solutions to enable the product development and sourcing processes.

## What product development processes are impacted most by going Private Label, and how can PLM enable these processes?

When implementing PLM, retailers often target unique business needs, based upon the type of private label products they are producing: either sourced products or in house-designed products. Products designed by an in-house team require deeper support for creating a product specification, while sourced products focus more on sourcing processes. Regardless of which product development processes are deployed for developing private label products, PLM is a proven technology that enables both streamlined product development and sourcing. Here are the areas most impacted by PLM:

## Merchandise Planning

Retailers need to have the right product mix at the right time. PLM supports the merchandise-planning process of defining the product assortment by product type, price point and trend. In addition, PLM enables retailers to view the product line by brand, for both branded and private label brands. This approach helps retailers ensure that both private label and branded product offerings complement rather than compete with each other.

## Line Planning

As the line develops, most retailers develop one or more product options for each 'placeholder' or 'slot' in the line plan. For products developed by the supply chain, the suppliers may present multiple options of products that can be branded as the retailer's. PLM is an efficient technology for managing and analyzing the multiple product options, whether developed internally or by an external resource.

In addition, one of the key challenges in line development is adhering to a product calendar. PLM software solutions include robust calendar management capabilities, not only for managing calendars for different product development processes, but also for managing different product types, ensuring that the product is delivered to the store on time.

## Specification Development

For products designed by a retailer, creating a product specification is vital to the in-house process. PLM efficiently manages the product specification process of both simple and more complex products. For many private label products, the specification may consist of a product brief or design card, and product images. For more complex products, the specification may include a full product specification, including images, construction information, bill-of-materials, bill-of-labor, testing requirements, and 3D CAD images. PLM can efficiently manage the entire product specification for a variety of product types.

## Supplier Management

With the increased dependency on the supply chain to serve as an extension of the retailer's in-house design team, retailers need a system to control vendor information in a user-friendly manner. PLM manages robust supplier information, including a supplier profile, audit information and past performance. Supplier profiles include information such as capabilities and negotiated capacity, as well as the supplier's compliance with social, environmental and technical standards.

In today's environment, delivering quality products is critical, and PLM allows you to track any supplier's past performance, making it easy to evaluate suppliers when making placement decisions. Because the supplier's information is housed in the same system as the product requirements and specification, retailers can simply search for suppliers that are able to produce the required product.

### Early Sourcing and Costing

In order for a retailer to achieve the best cost for a product, the sourcing process is vitally important. PLM allows a retailer to place a product out to RFQ with one or more suppliers. As the quotes are received, the retailer can compare quotes to make the best product placement decisions.

### Product Commitment Management

As the sourcing process moves beyond the RFQ stage, PLM provides a comprehensive, digital platform for negotiation not only of product commitments, but also of unit volume, delivery dates and transportation methods. PLM's automated archiving and capturing of discussion threads provides seamless visibility between retailer and the supply chain. Once a commitment decision has been made, PLM tracks which products have been awarded to which supplier. The 'commitment' created within the PLM system can automatically be sent to an ERP system to generate a purchase order.

Robust workflow and calendar management tools within the PLM solution enable work-in-progress (WIP) tracking and production tracking. WIP tracking is a combination of statuses from ERP and PLM, with PLM providing a single, central repository that integrates the two workflows. Reports are easily generated for viewing the status of not only an individual product, but also all purchase orders for that product. Flexibility is key during the product development process, as purchase orders can be generated in a variety of ways.

### What are the benefits of using PLM for Private Label product development?

Whether a retailer's private label brand is designed in house or sourced, PLM enables retailers to coordinate the complex processes of planning, selecting, sourcing and ensuring consistent quality across diverse product categories. PTC has seen this coordination achieved consistently across its diverse portfolio of retailers worldwide, which includes JC Penney, Mexx, Decathlon, AEON and Li Ning.

PLM is the proven collaborative tool that reduces cycle time by allowing all resources—from merchandising/design, product development and sourcing, to the supply chain—to all work in harmony on the same, web-based system. The early collaboration between all resources in the product development process can root out inefficiencies and accelerate the overall process. With PLM, retailers benefit from cycle-time reduction, but also other important bottom-line metrics, such as reductions in excess inventory and eventual markdowns, as a result of analytics managed in PLM that can capture key performance data on product winners and losers from the previous season.

More difficult to measure, but just as important, is the increase in brand loyalty that retailers can experience when leveraging PLM to design and develop private label products. Building brand loyalty requires that retailers consistently offer trend-right, quality products at competitive prices. PLM is the proven technology to manage the interrelated processes, from creating a line to interacting with the supply chain. With PLM, PTC's retail customers, such as JCPenney, have achieved their PLM goals of achieving greater profitability, reducing cycle time, and strengthening customer allegiance through coordinated private label development.

**"In recent years, retailers expanded private label operations as a means of differentiating their assortments and driving higher profit margins. Many invested in PLM technology to fill a critical gap between assortment management and supply chain processes, and help reach ambitious profit-ability goals for these operations."**

AMR—Apparel Retail Strategies Report, June 2009

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