

Kurt Salmon ✦

Achieving Strategic Benefits with PLM



The roadmap must include plans for detailed tracking of key metrics in order to ensure the PLM system is working as intended.

Retailers and wholesalers seeking a competitive advantage in today’s ever-changing, increasingly fickle consumer environment are spending millions of dollars over several years to adopt and implement product lifecycle management (PLM) systems. But rather than leveraging the systems to increase their brand equity and make improvements to their bottom line, they end up using them for little more than enhanced data management and transactional reporting capabilities.

One of the core reasons why PLM systems are underutilized is that retailers and wholesalers become so focused on rolling out core PLM functionality that they skimp on the time and effort needed to support more advanced functionalities, those designed to yield strategic benefits, Kurt Salmon found in a survey of leading retailers, manufacturers and brands.

Another reason is that they don’t typically use metrics to track the performance of their various business processes—and, by extension, any PLM-enabled processes—which leaves them unable to calculate the return on their investments. The result is a reduced focus on driving strategic benefits over the long term.

But, ultimately, it all comes down to expectations. Retailers and wholesalers underestimate and in some cases disregard entirely the strategic benefits a PLM system can yield in the form of better collaboration, enhanced product innovation, faster speed to market and lower costs. Put another way, they’re settling on second place before the race even begins.

They need to aim higher, to create and commit to a strategic roadmap that focuses both their implementation plan and their investments on the functionalities that will have the most impact on their bottom line. And the roadmap must include plans

for detailed tracking of key metrics in order to ensure the PLM system is working as intended. Only then will they be able to realize PLM’s full value.

WHAT PLM CAN DO FOR YOU

Consumers want more retail choices than ever, and they want them more often, as the success of women’s apparel maker and “fast fashion” icon Zara makes clear. A PLM system, by enabling a cross-functional, collaborative workflow tied to a global product development calendar, allows retailers and wholesalers to spend more time innovating products and getting them to market faster than ever before.

For example, one women’s specialty retailer used its PLM system’s material management and cross-functional workflow capabilities in conjunction with the implementation of various process changes to reduce the time it took to get its product to market from 55 to 47 weeks. And by adding support for a fast-track program to the system’s workflow function, it shortened the time to market even further, to as little as 30 weeks.

The central source of real-time information a PLM system provides in the form of an online library of materials, styles and colors allows retailers and wholesalers to better plan for and manage their materials needs and leverage their supplier relation-

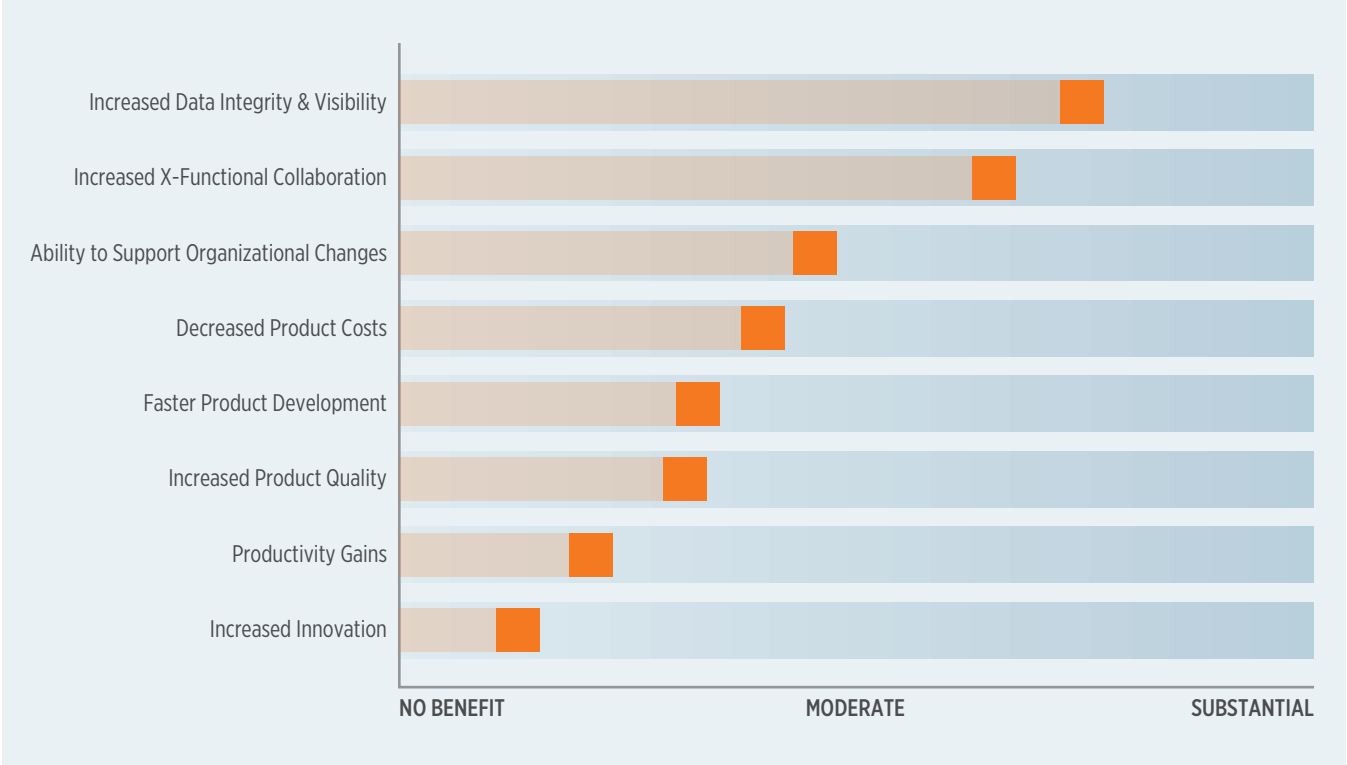
ships more effectively. Footwear maker Deckers, whose brands include Teva and UGG Australia, leveraged its PLM system’s material management capabilities during an extremely turbulent market for sheep skin, a core material in its UGG products. By using the system’s material usage reporting functions, it always had access to the sheep skin it needed. And by leveraging the advanced material-supplier pricing structure, Deckers minimized fluctuations in the price it paid for all of its raw materials, ultimately saving \$1.5 million.

Despite such notable strategic benefits, however, few retailers or wholesalers realize them all. Some, it turns out, don’t realize any of them.

SURVEY RESULTS: THE PLM VALUE RETAILERS AND WHOLESALERS ARE ACTUALLY REALIZING

The strategic benefits that a PLM system is designed to enable often serve as the motivating factors for retailers and wholesalers to adopt one in the first place. But as Exhibit 1 makes clear, once implementation gets underway, their expectations undergo a significant shift toward the tactical. For example, the retailers and wholesalers we spoke with didn’t think their PLM systems would yield higher product quality or increased innovation, but they did expect to see substantial improvements in the integrity and visibility of their data.

EXHIBIT 1: EXPECTED PLM BENEFITS



Advanced costing and sourcing functionalities generate savings by way of the increased visibility and data analytics they enable.

And as shown in Exhibit 2, although the results varied, every survey respondent—even those whose PLM implementation was still underway—said use of the system had enhanced their functional capabilities. (Notably, “reporting” is here defined as transactional reporting and basic progress tracking; true data analysis, such as for material consumption and planning, is rare.)

Few, however, said that their PLM system had yielded benefits that could truly be considered strategic. Just one said it subsequently completed “a major process redesign, which shifted development work from internal resources to third-party partners,” and one other respondent said it had realized “raw material cost savings as a result of better visibility.”

THE ROADBLOCKS TO REALIZING THE FULL VALUE OF PLM—AND HOW TO OVERCOME THEM

Retailers and wholesalers who adopt PLM systems spend a tremendous amount of time and money designing and implementing their core functionality. When it comes to putting in the effort necessary to enable the more advanced and impactful functions, however, the ones specifically designed to yield higher ROI, they fall short.

To be sure, the core functionality of a PLM system is important, but its implementation serves only to lay a foundation. A highly customized tech pack, for example, is unlikely to yield significant financial benefits. Advanced costing and sourcing functionalities, on the other hand, generate savings by way of

PLM software vendors and consulting partners are critical to realizing the system’s full value.

the increased visibility and data analytics they enable, such as when they’re used to tie price quotes back to the bill of materials or to generate advanced cost reports, which allow for enhanced price negotiation processes across the entire product line.

PLM stakeholders need to ensure that their implementation plans and investments are focused on such value-creating functionalities. Specifically, retailers and wholesalers and their implementation partners should:

- » Allocate investments to areas that support strategic functions.
- » Pilot value-driving functionality early in the implementation process, as doing so will

increase the likelihood of the functionality going live and increasing ROI.

- » Refrain from spending customization funds on small usability enhancements and instead invest in functionality that supports evolving business processes to create a competitive advantage.

Retailers and wholesalers who implement PLM systems don’t do so in isolation; their PLM software vendors and consulting partners are critical to realizing the system’s full value, so there needs to be an ongoing discussion among all parties to ensure that the customer’s implementation roadmap stays focused on ROI. Moreover, software vendors need

EXHIBIT 2: FUNCTIONAL CAPABILITIES ENHANCED BY PLM

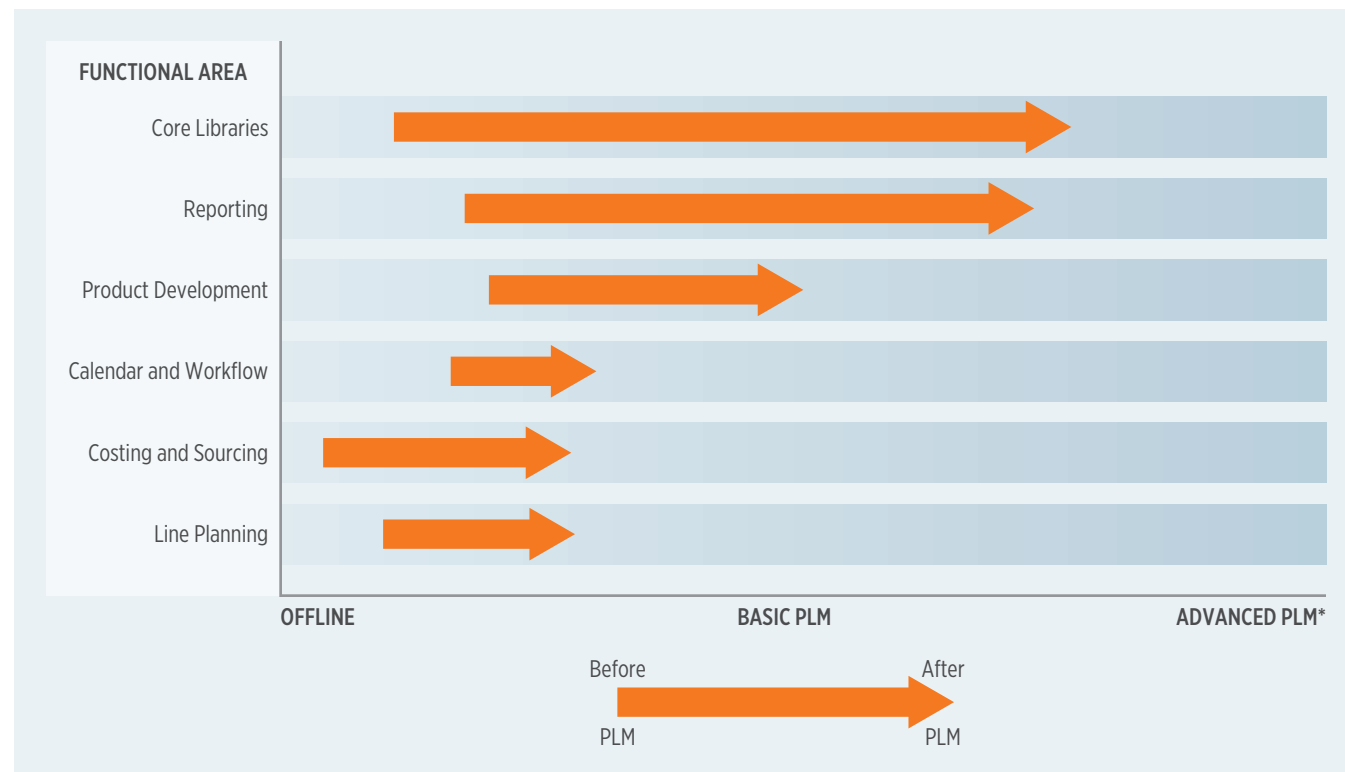
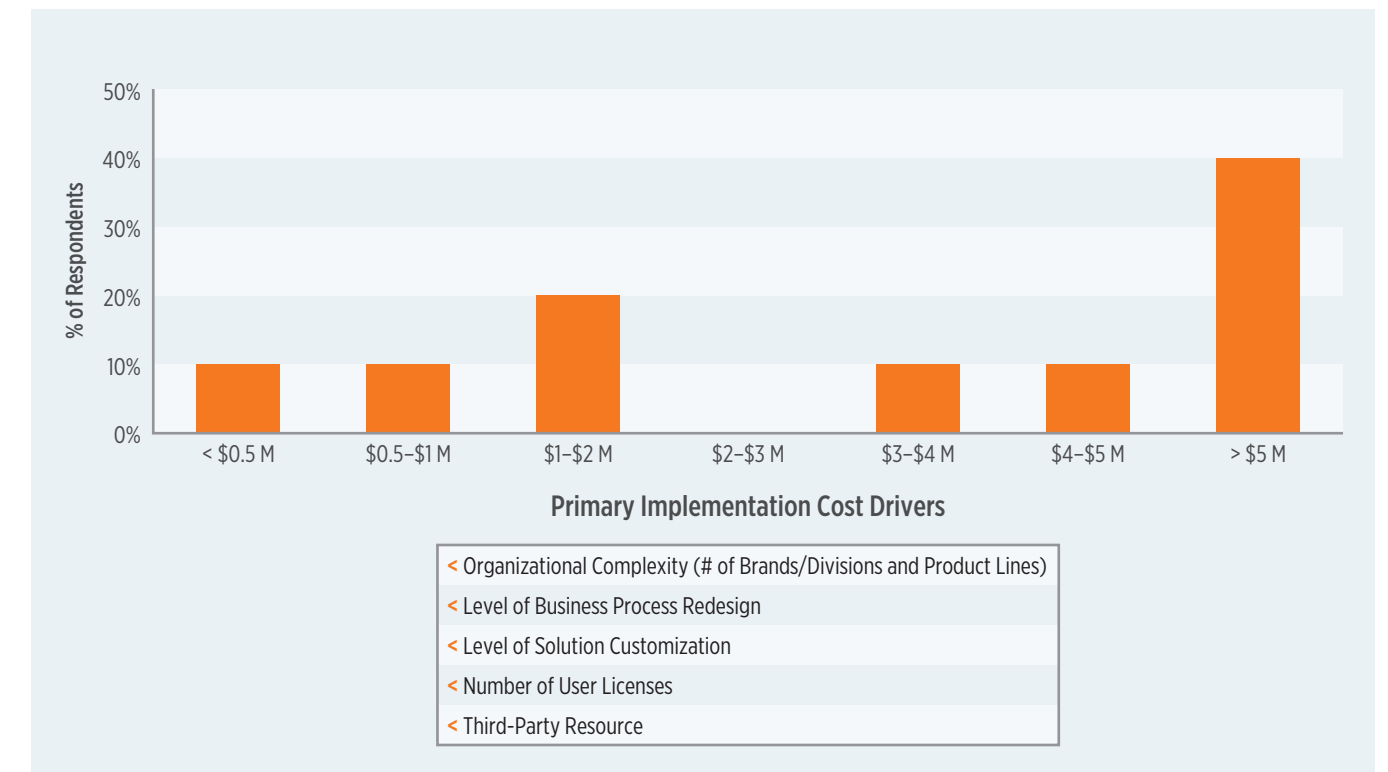


EXHIBIT 3: PLM IMPLEMENTATION SIZE & COST



Commit to tracking at least a handful of *metrics that tie PLM benefits to tangible business value.*

to be prepared to make additional investments in costing- and sourcing-related functionality, which retailers and wholesalers are continually evolving and tying into their overall process workflow, in order to best support those customers over the long term.

THE POWER OF TRACKING

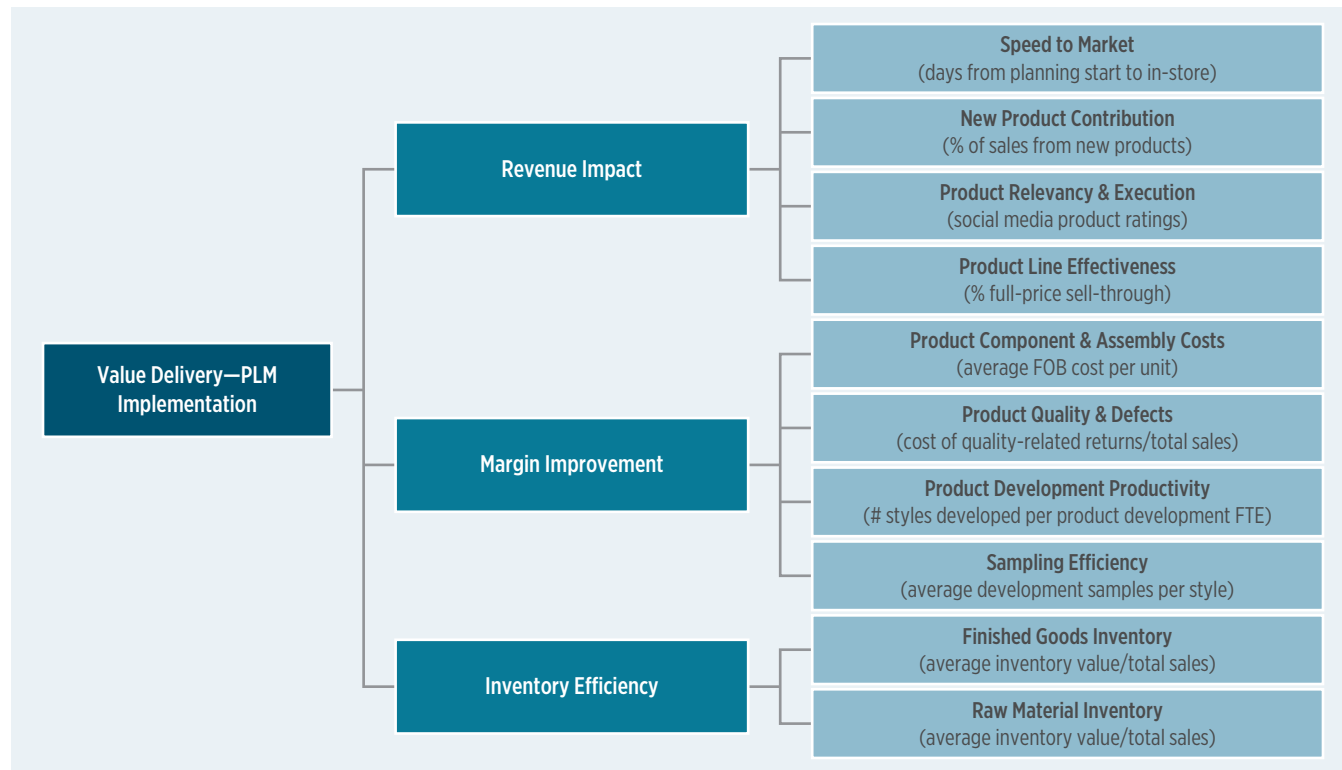
Despite the time and money that it takes to implement a PLM system—the retailers and wholesalers we spoke with were spending, on average, some \$3 million, and in many cases more than \$5 million, over a period of more than five years—few take the added step of setting up a way to track its effectiveness.

They have, in other words, no way of quantifying the return on their investment. Such measurement is key, as it makes clear where they should focus future efforts so as to extract the most strategic value.

Retailers and wholesalers, both those still preparing to implement a PLM system and those already deep in the implementation process, need to commit to tracking at least a handful of metrics that tie PLM benefits to tangible business value.

All metrics must be baselined, regularly measured against targets and not overly complex. And while each company must tailor metrics to suit their individual business model, all metrics should be tied to revenue, costs or assets. A speed-to-market metric,

EXHIBIT 4: CORE PRODUCT DEVELOPMENT METRICS



By using metrics, it quickly becomes clear which PLM-enabled processes need to be maintained as they are and which ones need to be adjusted.

for example, should tie directly to the generation of revenue; inventory turns would be tied to asset efficiency. Exhibit 4 suggests a range of metrics and the area of business value to which they should link.

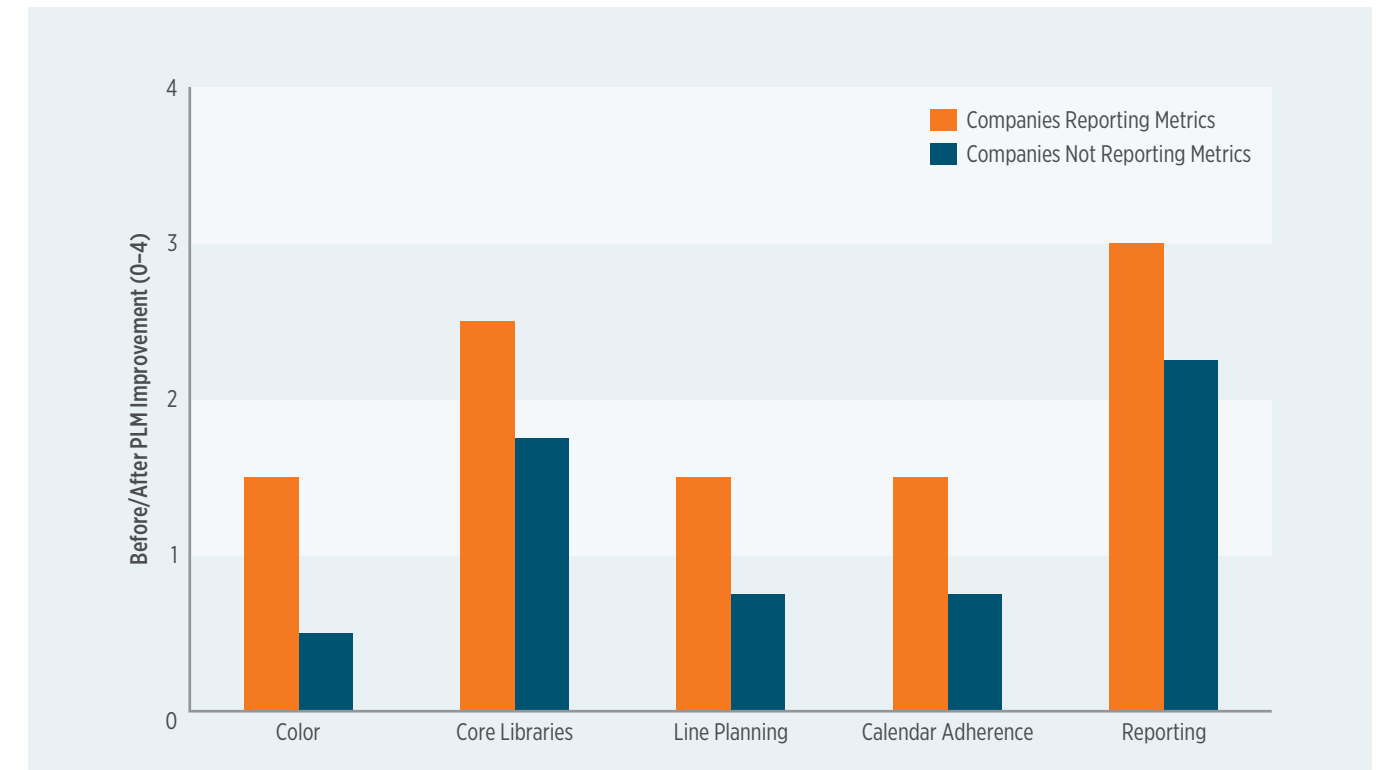
By using metrics, it quickly becomes clear which PLM-enabled processes need to be maintained as they are and which ones need to be adjusted, sometimes by way of additional investment, in order to extract their full value and, in turn, realize the full value of the PLM system overall. Of the few retailers we spoke with who were tracking metrics, all said that doing so had produced substantially higher benefits than those who had not tracked metrics, as seen in Exhibit 5.

IT'S NEVER TOO LATE

While ideally retailers and wholesalers should start out by designing PLM roadmaps and implementation plans that focus on the most advanced and therefore strategically beneficial functionalities, as well as metrics to track the implementation process overall, it's never too late. Those whose PLM system implementation is already underway can still make deeply impactful changes that will help them realize the system's full value, as the systems can be adjusted and evolved over time as needed.

They should start with an assessment of their existing PLM design and supporting processes and be sure to leverage industry benchmarking. The next step

EXHIBIT 5: CAPABILITY IMPROVEMENTS ENABLED BY PLM



is to identify PLM capabilities that have the largest value-creation potential, such as costing, sourcing, workflow and line planning. They then need to create a roadmap aimed at capturing strategic benefits and driving ROI. Finally, they need to set up core business metrics to track alongside the PLM implementation so as to accurately measure its success.

Just having a PLM system in place isn't enough. Long-term strategic planning, a commitment to necessary investments and careful performance tracking of the processes it enables will yield significant strategic benefits in the form of better collaboration, enhanced product innovation, faster speed to market and lower costs, all of which will add to a retailer's or wholesaler's bottom line. ❖

AUTHORS

Together, Cort Jacoby, Adi Zukerman and Andrew Billings have more than 50 years of experience advising the world's leading retailers and consumer products companies on their product development and sourcing strategies. They can be reached at cort.jacoby@kurtsalmon.com, adi.zukerman@kurtsalmon.com and andrew.billings@kurtsalmon.com.

Kurt Salmon is the leading global management consulting firm specializing in the retail and consumer products industry. We leverage our unparalleled industry expertise to help business leaders make strategic, operational and technology decisions that achieve tangible and meaningful results. For more information, go to www.kurtsalmon.com.

