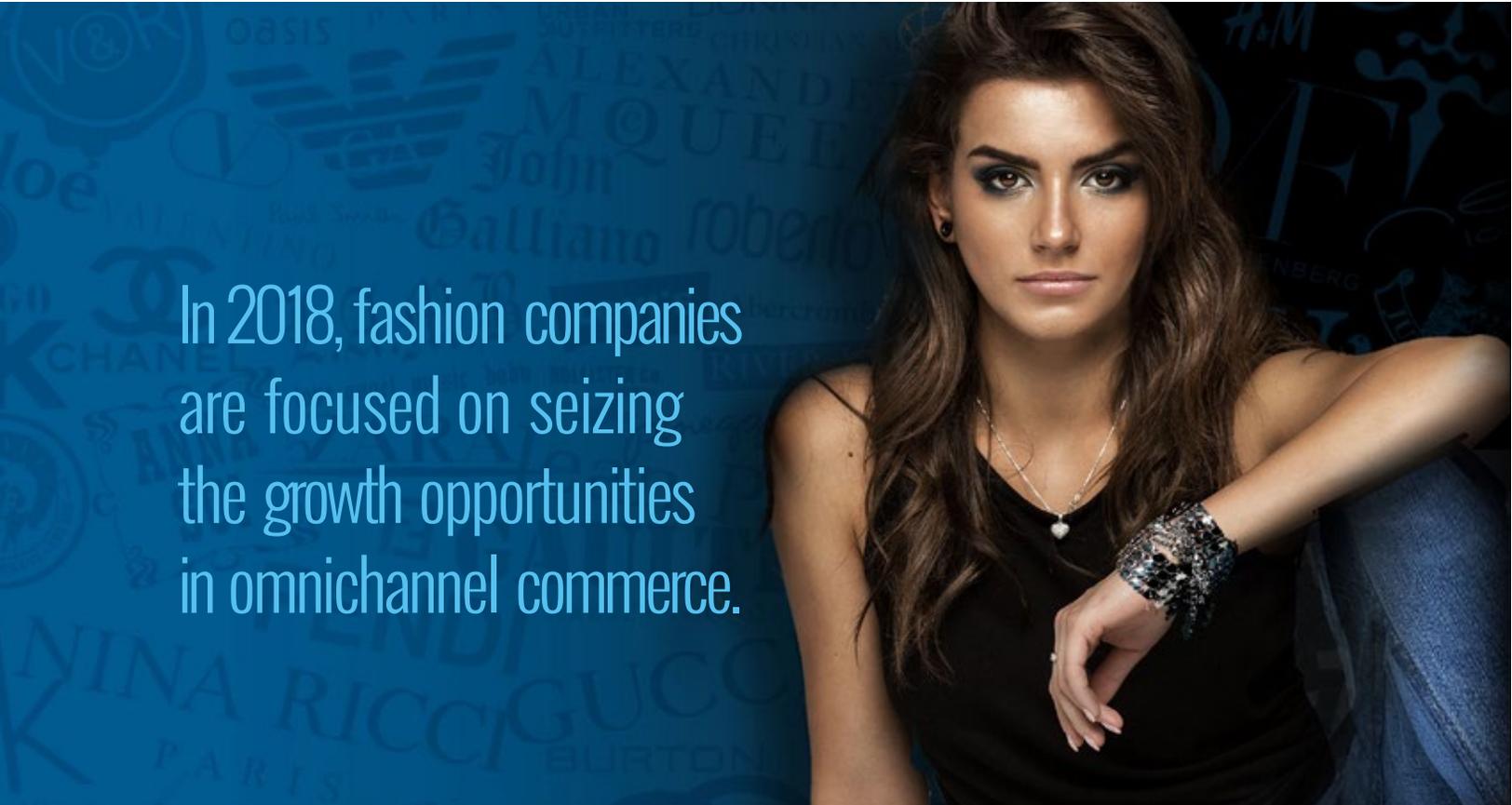




ACHIEVING GROWTH IN THE ERA OF OMNICHANNEL

CGS 2018 ANNUAL
SUPPLY CHAIN TRENDS REPORT:
ENTERPRISE RESOURCE PLANNING



In 2018, fashion companies are focused on seizing the growth opportunities in omnichannel commerce.

Each year, CGS conducts a survey of apparel, fashion and retail business leaders to gain insight into the trends, challenges, best practices and priorities that are impacting their business and supply chains operations.

In our 2018 survey, we significantly increased the number of survey participants to include more than 90 executives, stakeholders and influencers that are responsible for delivering operational excellence and mastering omnichannel fulfillment through Enterprise Resource Planning (ERP), Product Development, Production, Supply Chain Management, Warehousing and Logistics technologies and processes.

What you will learn in this report:

- What **business improvements** are most needed now
- Why **efficient growth** has become the new top strategic goal
- The **major challenges** to omnichannel fulfillment success
- **Key drivers, plans, and priorities** for IT investment in 2018
- **The importance of capturing information** to drive your digital transformation

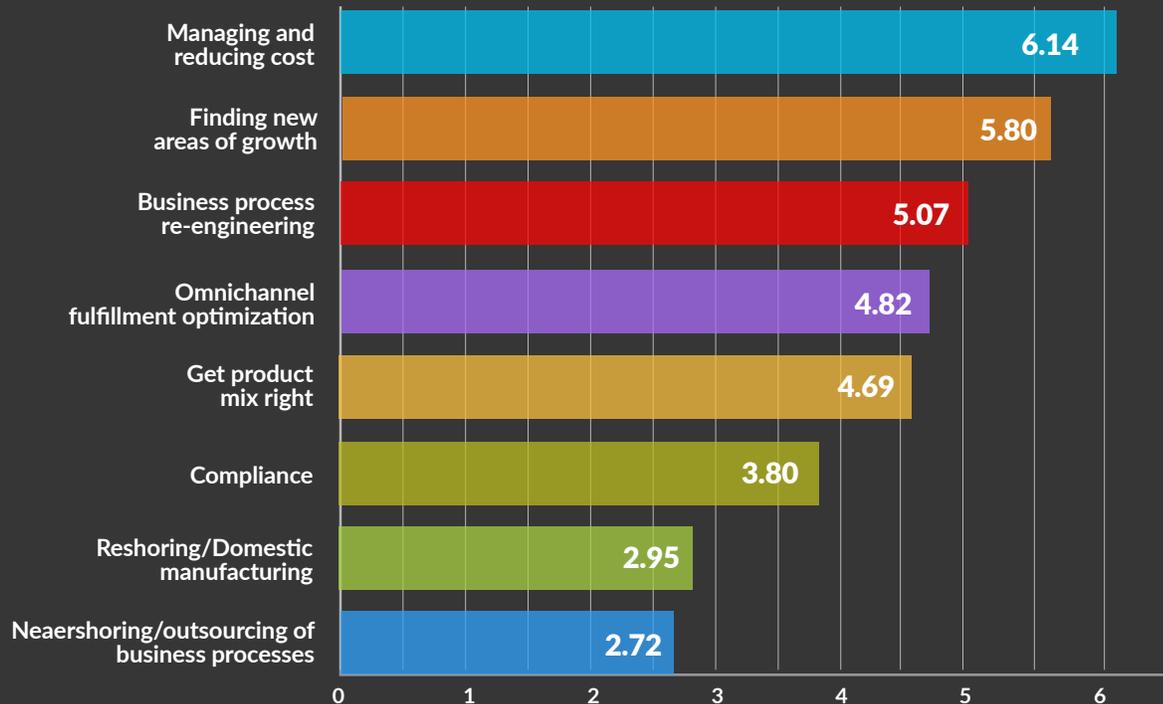
TOP STRATEGIC GOALS FOR 2018

In 2018, achieving Efficient Growth (collectively growth and cost reduction) has become the top strategic goal for our survey respondents. While New Growth ranked about the same in our past two annual surveys, Managing Costs has replaced Business Process Re-Engineering as the single most cited strategic goal for the new year - representing the most notable shift in strategy.

Over the history of our survey, managing and reducing costs has consistently ranked among the highest priorities for our industry. Efficient growth is critical to success in the apparel, fashion, and retail industries in the face of increased competition and new demands on omnichannel commerce

This shift also signals that a considerable number of companies have successfully streamlined and integrated their business processes through earlier investments in Product Development, Business Intelligence, Supply Chain, Mobile and other technologies/processes.

Strategic Goals: Ranked in Order of Importance



#1 COST-EFFICIENT GROWTH: A DELICATE BALANCE

Is it possible to drive top-line and bottom-line business growth simultaneously? As witnessed by our survey results, most fashion-related businesses are very focused on cost-efficient growth. It is a goal pursued across all industries, yet infrequently achieved.

Indeed, 90 percent of respondents to a recent CFO Signals survey by Deloitte said a top priority was increasing revenue or market share in their current markets, and almost 75% placed reducing direct or indirect costs at the top of their priority lists.



“We will continue to see an increased separation between winners and losers as more companies head for bankruptcy and radically downsize.

Retailers have been putting plans in place to drive in-store pickup, omnichannel growth, e-commerce expansion and the like.

In 2018, they had better deliver. Retailers like Walmart and Nordstrom that have been investing heavily in infrastructure will reap the benefits as customer behavior catches up to technology investment.”

Neil Stern, Sr. Partner, McMillanDoolittle

MAJOR OBSTACLES TO GROWTH

Survey respondents were asked to provide an open-ended response to the following question:

Q: What is the biggest challenge your organization faces in managing daily business needs?

1. Order Management
2. Inventory Management & Omnichannel Fulfillment
3. Data / Information Management
4. Production & Manufacturing
5. Raw Materials Management



While most of these responses also ranked high in the past two years, we have seen Supply Chain Management rise from 4th position to 1st since 2016. A closer look at the responses indicates that growing pressures for accelerated time to market and SKU proliferation are key drivers in Supply Chain Management issues. Logistics, which was ranked high in previous surveys has dropped out of the top 5 for 2018.

Taking a deeper look at the responses around Inventory Management and Order Fulfillment, respondents feel that these processes have become more complex due to the explosive growth of e-commerce. Integrating multiple inventory positions and managing small order sizes are key drivers here.

In addition, respondents cite that Raw Materials Management is top-of-mind due to SKU expansions required for greater product innovation/variety/personalization.

#2 OMNICHANNEL: DEMANDING RETAIL AND SUPPLY CHAIN TRANSFORMATION

When discussing “omnichannel,” retail-facing professionals most often bring up the rapid rise of e-commerce sales or the challenges involved in creating a more compelling and consistent customer experience across sales channels.

But for fashion brands and other supply chain stakeholders – the majority of our survey respondents - the conversation usually turns to the many ways this ‘new normal’ of doing business is impacting the entire product concept-to-order fulfillment process.

What is clear in these responses is that omnichannel is changing the way our entire industry does business. Omnichannel success is enabled by technology that integrates a variety of sales, supply chain, customer service and fulfillment tasks.

Retailers must better connect with, and empower consumers, while suppliers must provide strong and flexible order management and supply chain processes. These processes must be able to rapidly and efficiently fulfill orders to meet current consumer expectations. **This means not only mastering many sales channels, but also the volumes of data generated by sales and supply chain transactions.**



HOW ARE YOU SOLVING ORDER FULFILLMENT CHALLENGES?



“BlueCherry® has streamlined the order fulfillment process, with EDI that makes us a lot more productive. We now process more orders in a day than we could in half a year with our old system.”

- Theresa D'Alesandro,
Director Operations and IT, Sheex



“CGS helped us overcome [fulfillment] challenges by helping reduce chargebacks; by giving us the confidence and data to show what was picked, packed and shipped was ultimately correct.

BlueCherry advanced warehouse system (AWS) has been a big factor in making sure these things were approved.”

- Greg Morris, Sr.
Director IT & Operations, alice + olivia

OMNICHANNEL LEADERSHIP IN PRACTICE

Let's take a step back from the raw data and think about how to apply these omnichannel best practices by shining a light on Nordstrom, an American chain of 349 luxury department stores with a suite of online e-commerce sites, that is being recognized among the top traditional retailers that have embraced e-commerce.

Nordstrom

While optimizing each channel is important for business performance, for the visitor it's never been about the channel — it's about the experience. According to James Nordstrom, President of Nordstrom Stores, "We don't think the customer is loyal to channels. Customers value experiences, and so the more successful we're at in creating a great shopping experience, no matter how they're choosing to shop, I think the better our business will be."

Nordstrom has made it possible to buy items from Instagram and find items based on Pinterest favorites. Items for sale from the retailer's feed are displayed as an elegant grid of photos. Shoppers can scroll and "like" items, which are curated into a personal wish list or shopping cart.

This type of omnichannel ordering is made possible by a strong backbone. The Wall Street Journal reports that in recent years Nordstrom invested millions of dollars into technology tools that help manage inventory. Investing in your product information management (PIM) not only loosens up cash flow but also reduces costs and gets products out the door faster, improving business performance.



OMNICHANNEL TRENDS IN 2018: THE ANALYST VIEWPOINT



“Retail is fundamentally changing. To execute current and future customer journeys, retailers need a new unified customer experience architecture that will provide a seamless composition of customer services leveraging information, processes, and channels consistently.”

“The separation of front-end from back-end systems becomes a limitation of traditional retail IT architectures. So, the retail omnichannel commerce platform becomes the key enabler of both short-term omnichannel business goals and future innovation with the insights, speed, and business model agility required to lead retail in the next decade.”

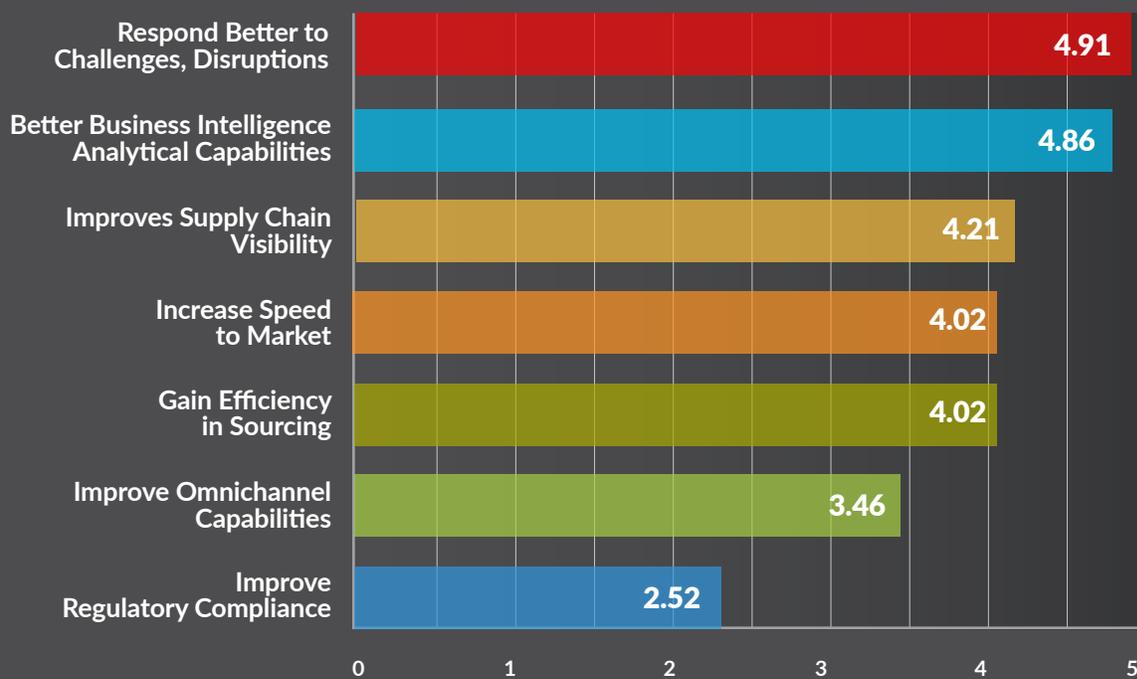
- Ivano Ortis, VP, IDC Retail, Manufacturing, and Financial Insights, IDC Europe

#2 TOP 2018 BUSINESS IMPROVEMENT PLANS

While the apparel, fashion, and retail industries have undergone a number of profound changes in recent years, most business leaders and experts agree that 2018 will see new disruptive trends for the industry. Some of the most discussed challenges include slow retail store traffic, rapid e-commerce growth, rising sourcing and production costs, more orders in smaller quantities, shorter lead times, the impact of fast fashion, among others.

With this backdrop, and the top strategic goals for 2018 we learned from our survey respondents, let's break down the action plans for accomplishing these goals.

Top Business Priorities 2018: Ranked in Order of Importance



Rankings varied only slightly between mid-market and large enterprise companies. Larger companies did, however, identify somewhat lower priorities for Better Response to Disruptions, Sourcing Efficiencies, and Better Business Intelligence. The reason could be a result of their early actions to invest in new technologies and processes.



“Brands and retailers and the companies that partner with them cannot stand still.

They need to continue to evolve quickly, move faster and be more innovative to meet the changing marketplace. Otherwise, progress will be challenged.”

Marc Compagnon,
Group President, Li & Fung

THE OUTLOOK ON TECH INVESTMENT

The vast majority - 92% - of survey respondents projected that their companies would either boost or keep overall IT spending steady in 2018. Companies that expect budget increases are planning an average 19% increase in IT budgets. These solid investment plans come as no surprise considering the business goals, challenges, improvements, and other drivers for digital transformation presented in this report.

To gain greater insight, we ask participants about their spending plans for 10 of the historically most active IT categories.

Top 7 IT Spending Priorities

- 1. Business Intelligence/Big Data Capabilities.....#2 in 2017
- 2. Supply Chain IT#3 in 2017
- 3. Warehouse Management/Fulfillment.....#6 in 2017
- 4. Merchandising/Planning.....#5 in 2017
- 5. Product Development/Design.....#1 in 2017
- 6. Data Security/Cyber Security.....New in 2018
- 7. Mobile Applications.....#4 in 2017

Compared to last year, Warehouse Management/Fulfillment had the most significant increase in importance, rising from #6 to #3 in spending priority for 2018. (see Focus on Omnichannel Fulfillment section of this report).

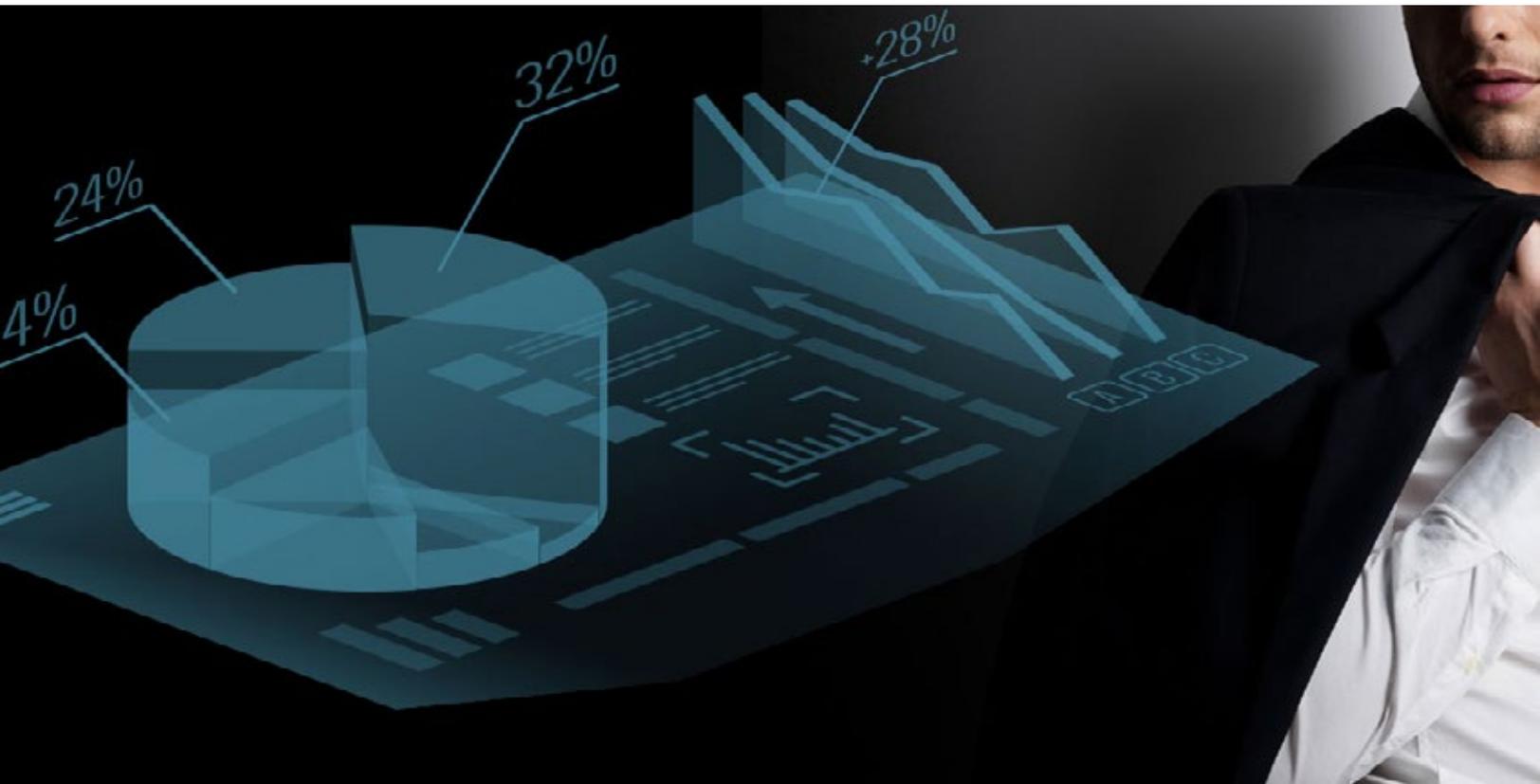
After ranking at the top of the list last year, Product Development/Design category declined to #5 this year.

THE IMPORTANCE OF ANALYTICS

A lot of focus has been placed on the impact of e-commerce and other customer-facing technologies on the retail and fashion industry. Less attention has been placed on how supply chain modernization, data analytics, IoT, and other information technologies are streamlining and modernizing operations for greater efficiency. **Why?**

Next-gen ERP technology can handle enormous amounts of data and make it readily accessible to decision-makers in a centralized system. Other enterprise technology, like product lifecycle management (PLM), manufacturing shop floor control (SFC), IoT, and electronic data interchange (EDI) further enable large-scale management of critical data and analytics.

Armed with these systems, data and predictive analytics can provide the business intelligence needed to gain supply chain visibility, make better-informed and timely decisions, and make changes on the fly to increase profit margins. When coupled with industry-specific KPI's, BI software can help fashion leaders and managers understand how to increase inventory turns, optimize product allocation, manage sourcing and production processes, improve vendor score-carding, and more.



ANALYTICS DRIVE SUCCESS FOR XCEL BRANDS

To further illustrate the importance of analytics, let's look at how one fashion company analyzes business information to improve both consumer-facing and supply chain aspects of their business.

Data and trend analytics plays a significant role in the success Xcel Brands, a brand management and media company with a portfolio that includes Isaac Mizrahi, Judith Ripka, C. Wonder, H. Halston, and Highline Collective. According to CEO Robert D'Loren, "We can use it to quickly learn about customer interests and preferences, anticipate trends, and understand where the market is moving. Our supply chain model allows us to capitalize on that knowledge, and meet demand when it is at its peak, not when the trend starts losing steam."



“At Xcel, the speed of our supply chain is incredibly important to our success, and it’s one of the driving forces behind the structure of our model and the decisions we make as a business.

One of the outcomes of having a speedier supply chain is that we’re able to rethink seasonality as 52 seasons, not two or four seasons.

That means we can motivate customers to visit the store every week to see new product.”

Robert D'Loren, CEO, Xcel

HOW DRIVERS FOR ERP INVESTMENT ARE CHANGING

The need for increased functionality drives a majority of new ERP investments. In other words, when current systems no longer adequately address changing or growing business requirements. Poor system usability (a common thread in several of the drivers listed below) is also a significant painpoint in today's fast-moving business environment and changing workforce.

Regardless if a company's current system is a simple accounting package, a combination of various point solutions and off-the-shelf office software, or an integrated package, **there are many reasons why companies shop for a new ERP solution.**

1. **FUNCTIONALITY** - System lacks or is weak in critical capabilities
2. **AGE** - Old, outdated legacy system (i.e. AS400)
3. **INTEGRATION** - Hard to integrate with other systems
4. **OUTGROWN** - System is inflexible or not scalable
5. **MANUAL** - Requires too much data entry, lacks task automation
6. **NEW COMPANY** - Company is new, has merged or acquired, or added a new division
7. **EXPENSIVE** - System (including 3rd party integrations) is too costly to maintain
8. **UNFRIENDLY** - Difficult to use or train/gain workforce acceptance
9. **SUPPORT** - Poor or no vendor support available
10. **END OF LIFE** - System being retired by vendor

TOP 10 ERP REQUIREMENTS

With the massive changes taking place in fashion-related industries, more than 18% of survey respondents indicated they are looking for new ERP technology in 2018 (up from 11% in 2017).

When asked to rate the impact each of the following items would have on the decision-making process, the following responses shed light on what product and vendor capabilities businesses are most looking for in an ERP solution.

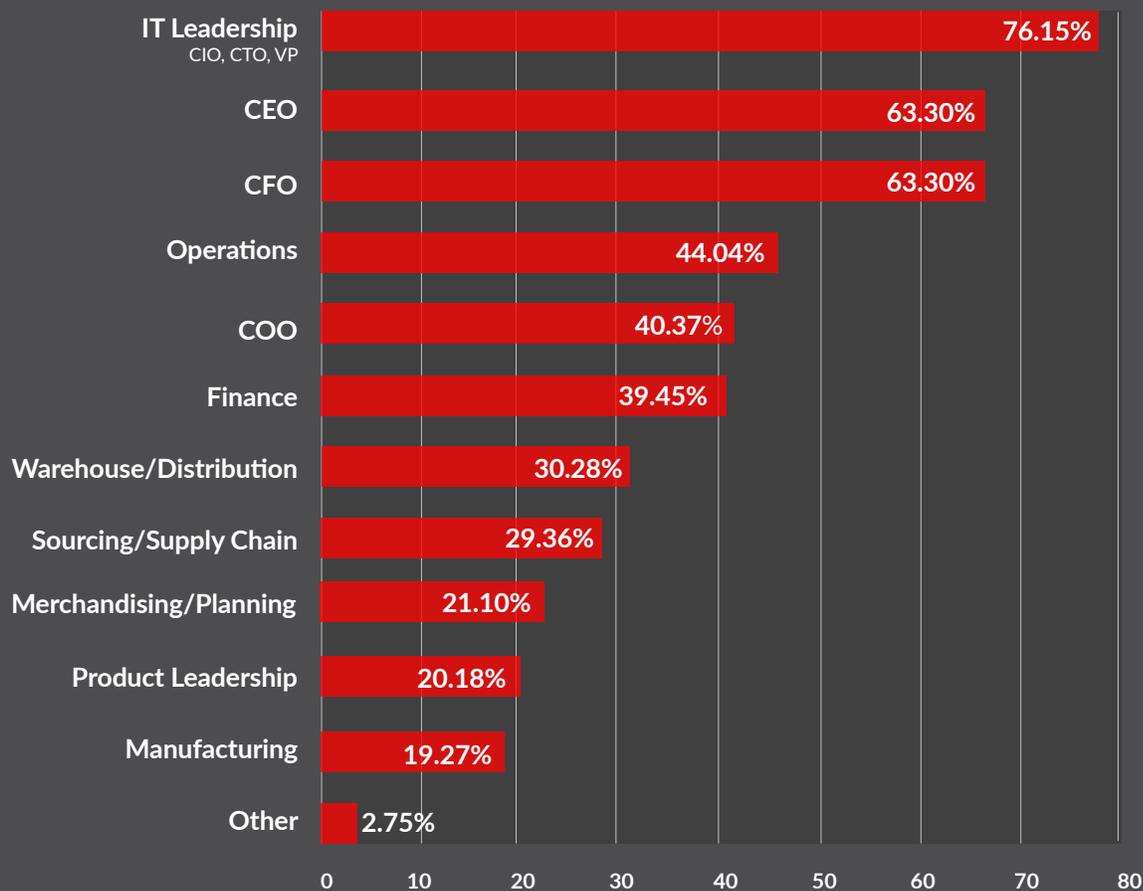
1. Reporting Capabilities/Actionable Intelligence
2. Knowledgeable Support Staff & Resources
3. Ability to Integrate Business Processes
4. Integrated EDI
5. Deep Industry Expertise
6. Third-party Integrations
7. Product Roadmap/Innovation
8. Cloud Capabilities
9. Mobile/Application-based Technology
10. IoT Integrations

WHO MAKES THE ERP BUYING DECISION?

As indicated in this report , ERP is a key enabler for overcoming obstacles, achieving strategic goals, and driving efficient growth. With so much at stake, there is little wonder why C-level, IT, and line of business managers are actively involved in the selection process.

The following chart identifies how survey respondents ranked the individuals and teams most actively involved in their ERP evaluation and selection process.

Which stakeholders in your organization are actively involved in the decision-making process for ERP solutions?



SPEED REQUIRES IMPROVED VISIBILITY

The need for speed is nothing new to the apparel, fashion, and retail industries. But, in recent years, the time required to bring new products to market, as well as lead times for delivering customer orders, have been compressed to new lows. With consumer demand continuing to grow for instant gratification, better shopping experiences, and greater product innovation, there is no doubt that even greater velocity will be required to sustain success into the future.

With little room for errors and delays, businesses and supply chains must provide all stakeholders with the technology they need to gain visibility into end-to-end business processes and to make faster, better-informed business decisions.



“SPEED is the top buzzword
for apparel executives going into 2018.

The pressure to respond with
even shorter and more flexible lead times
is proving to be both
a challenge and opportunity.”

State of Sourcing Survey
JustStyle Magazine, 2017

LI & FUNG'S COMMITMENT TO DIGITAL TRANSFORMATION

Speed-to-market is a big part of Li & Fung's Three-Year Plan, with the end goal to build an end-to-end digital supply chain.

According to Spencer Fung, Group CEO at global trading and sourcing firm Li & Fung Ltd., speed and getting the right product helps retailers and brands avoid costly markdowns that reduce margins. "Fast-fashion companies have realized this a long time ago, and most brands and retailers are now catching up with this business model," he said.

But Fung is also quick to emphasize that the speed-to-market trend is different from the concept of fast fashion. He explained that where time can be compressed is on the design side via virtual samples, thus eliminating the need to produce and ship physical samples for review. Condensing that stage has another benefit for the industry, according to Fung: "With speed-to-market, our customers can postpone their fashion decision for a few months and they can make more accurate buys, so it actually helps the fashion side."

For now, Li & Fung's build-out of its end-to-end digital supply chain "will help our customers move at the speed of the new consumer," Fung concluded.



TAKEAWAYS

2017 was a year of great disruption. Executives and decision-makers are walking away asking many important questions: Does disruption signal the death of brick and mortar retail or just reshape it? Is omni-channel about the shopping experience, order fulfillment, or both? Is the race for operational speed over or just beginning? Is a digital transformation important to the future?

As an industry, we begin the new year with these and many other questions, but one thing is clear – even more change is coming to the way we must do business to succeed in 2018 and beyond.

As a summary, here are some key takeaways for your consideration:

- **52% of survey participants ranked Efficient Growth** as their most strategic goal for 2018
- **22% identified Omnichannel Fulfillment Optimization** as their top focus
- **26% of respondents** (large & midmarket companies alike) **rated Responding to Challenges and Disruptions as their #1 business challenge**
- **29% cited Sourcing Efficiency and Supply Chain Visibility** (combined) as key challenges
- **93% expect their ERP investments to remain the same** (63%) or increase (30%) in 2018
- **62% designated Reporting Capabilities/Actionable Intelligence** as having the greatest impact on their ERP decision
- **56% indicated the ability to Integrate Business Processes** as a key driver in their ERP selection

These and other Survey responses confirm the importance of digital supply chain transformation for building and sustaining business success moving forward.

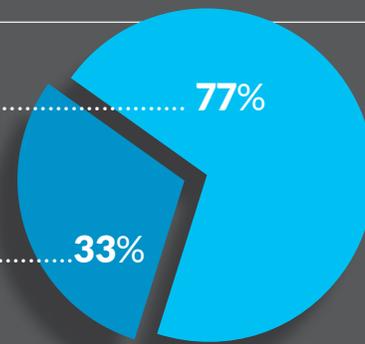
We hope you enjoyed our report and wish you great success in 2018. You don't have to wait for the next annual research report to gain real-time advice, tips and thought leadership on what's happening in the industry. Visit www.cgsinc.com/bluecherry to stay up-to-date on trends in the industry.

ABOUT THE SURVEY RESPONDENTS

Our 2018 survey respondents represent a mix of Mid-market and Large Enterprise companies and serve in a diverse cross-section of business roles.

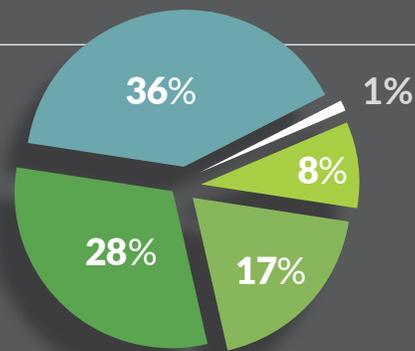
COMPANY SIZE

- Mid-Market** 77%
- \$250M to \$1B+ revenue
- Large Enterprise** 33%
- \$250M to \$1B+ revenue



OPERATIONAL PROFILES

- IT 36%
- Operations 28%
- Executives 17%
- Finance 8%
- Sales/Other 1%



ABOUT CGS BLUECHERRY

CGS's BlueCherry® Enterprise Suite provides clients with a powerful, comprehensive set of tools to drive their fundamental business processes.

Focusing on the needs of high-growth organizations operating in the consumer lifestyle products and retail industries, our solutions have the built-in capacity to address the needs of all core management, planning, product development, manufacturing, logistics, finance and sales functions.

A flexible solution that is available in the cloud and on-premise, BlueCherry Enterprise Suite empowers omnichannel businesses globally with over 600 integration partners ranging from retailers, eCommerce, logistics, third-party warehouses and manufacturing facilities.



With end-to-end capabilities, the BlueCherry Enterprise Suite includes:

- B2B eCommerce
- Business Intelligence
- Business Integrations
- Enterprise Resource Planning
- Omnichannel Mdse. Planning
- Omnichannel Warehouse Mgmt
- Product Lifecycle Management
- Shop Floor Control



With a network of 500+ customers collectively delivering more than \$40bn in annual retail sales, 250,000+ active users and implementations in more than 20 countries, we've built and actively facilitate a collaborative community of CGS experts and client users that's unmatched in the industry, providing an open forum for clients to share strategies and best practices with each other and with us -- which we, in turn, incorporate in our software roadmap.

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