

APPAREL AND ACCESSORIES

Digitization essential for luxury brands to prevent supply chain, overstock issues

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Louis Vuitton supply chain office. Image credit: LVMH

By SARAH RAMIREZ

With retailers and brands hoping to start the holiday shopping season early, many continue to face challenges with excess inventory after the coronavirus pandemic led to lockdowns and dramatic sales drops.

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Brands have moved inventory by selling into off-price or holding onto stock for upcoming seasons, but either strategy puts a strain on supply chains. As consumers become more concerned about brands' sustainability efforts, it is becoming more important for companies to reevaluate inventory strategies going forward.

"COVID-19 has made a major impact on global supply chains by causing new inventory challenges for retailers and brands, and highlighting underlying pre-pandemic issues," said Ronen Lazar, cofounder/CEO of [Inturn](#), a software solution that manages inventory. "Volatility within the supply chain has made it harder to keep up with demand while relying on traditional forecasting models."

"Luxury brands have been slower than mass market brands to adapt to the changing landscape, especially when it comes to turning to digital innovation for managing excess," he said. "This became an added challenge for luxury retailers when brick-and-mortar stores closed and eliminated in-person sales."

Overstock challenges

Prior to the pandemic, some brands had faced criticism for how overstock, or excess inventory, was handled.

Swiss conglomerate Richemont and British fashion house Burberry are among the luxury companies that had previously come clean about destroying finished goods to prevent items from being sold in the "gray market," a strategy used to avoid diminishing their brands. High-end brands have also cited protecting intellectual property and preventing counterfeiting as the main motivations for destroying their own goods ([see story](#)).

As brands become more weary of consumer backlash for destroying overstock, offering discounts or moving excess inventory to off-price retailers have become more appealing options to recoup losses from the pandemic.



Luxury houses face a dilemma: Should they make short-term business decisions by discounting goods or defend their brand images for long-term sustainability? Image credit: Delvaux

As shutdowns ran March through June or into July, retailers have been challenged with what to do with old inventory, even as most reopened with spring product during the summer. Some retailers strategically canceled orders back in March, which were likely fall transitional deliveries, intended to be sold in July and August.

Discounting could help retailers free up cash by liquidating inventory, likely at a higher margin than a retailer would gain by selling it off to liquidators. It could also be a way to increase market share during a time when many consumers are holding off on discretionary purchases ([see story](#)).

U.K. department store Harrods found a creative way to offload its off-season and unsold inventory that piled up over the COVID-19 lockdown period: open an outlet store in a separate location to handle the crowds. The Harrods Outlet in West London includes fashion, beauty and accessories stock left over from the current season and host the Harrods Sale, complementing online efforts at Harrods.com ([see story](#)).

"With the amount of excess inventory luxury retailers are currently dealing with, we are also seeing more luxury brands embrace ecommerce to capitalize on excess inventory and cut back on waste," Mr. Lazar said. "If luxury brands remain reluctant to sell into the off-price market, the best way to cut back on waste is to get ahead of the problem."

Reducing waste is an important first step, as materials do have an expiration dates. Fabrics that have been sitting for too long without proper care can lose elasticity or be more susceptible to tears.

Raw materials that are past their prime will go to waste, while brands that struggle to move inventory will hesitate to manufacture new clothing which creates more ripple effects across the supply chain.

"Current inventory strategies need to be revamped to allow for better insight into their supply chain," Mr. Lazar said. "By digitizing and streamlining inventory management, brands can save time, increase productivity and efficiency, and remain profitable amid a highly competitive environment."

Sustainable supply chains

Digitization also allows brands to better trace and source sustainable materials across their supply chains, and some luxury brands have been prioritizing this investment.

In 201, U.S. fashion marketer Ralph Lauren Corp. announced plans to use Digital Product Identities to track merchandise across the supply chain to track orders and inventory. The unique QR code will appear on the label of each Ralph Lauren product ([see story](#)).

Kering has partnered with Albin Group, Supima and Oritain to develop a more sustainable business model through 100 percent traceable organic cotton. With the help of forensic science and statistical analysis, the aim is to tackle traceability of plant- and animal-based raw material, which is a challenge for fashion's complicated global supply chains ([see story](#)).

Managing waste, however, is the start of using technology for sustainable inventory management.

"The ability to plan and accurately forecast inventory from the start is the best sustainability option for luxury retailers," Mr. Lazar said. "In order for luxury brands to thrive both during and after the pandemic, they will need to embrace digitization spanning from optimizing excess inventory and digitizing their supply chain to using advanced data for forecasting volatile demand."

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