

# PD4.0 THE NEW NORMAL

It is said that when you shine a light, you expose what was once in darkness. The pandemic has shined a light on Product Development and Sourcing operations, and what has been exposed should be frustrating and concerning to leaders.

Most PD and Sourcing teams had a head start on working in the time of COVID-19. Suppliers and other operations in Asia and Italy were among the first to shut down. U.S. based teams were making regularly scheduled trips for sample costing and fabric shows and returned to forced quarantines before being allowed back in the office. Initially it was workable, especially because we are so used to travel and working remotely. PLM, Creative Cloud, and other tools that made it so we could work from hotels in Dongguan made working from home relatively effective.

*“The current system worked because the conditions allowed it”*

Supply contingency plans were drafted to deal with what seemed like temporary disruptions at factories, material suppliers and overseas offices. In some ways, it was similar to dealing with Chinese New Year or Europe summer vacation shutdowns. For the first few weeks of the pandemic, things worked generally like they have in PD for the past couple of decades – long hours with frustrating constraints, and ultimately able to execute on the needs of the stakeholders.

As days became weeks and then months, getting the job done became a lot more difficult, if not impossible for many. It turns out that PD teams are well prepared for travel and temporary periods of remote work, but not when the situation calls for a more permanent change in working conditions. What has become clear is that most of the investment made in PD teams has been on documentation and data entry, and little, if any, focused on transforming how the actual work is completed. In fact, ways of working generally look the same for these teams as they did for their peers a generation prior.

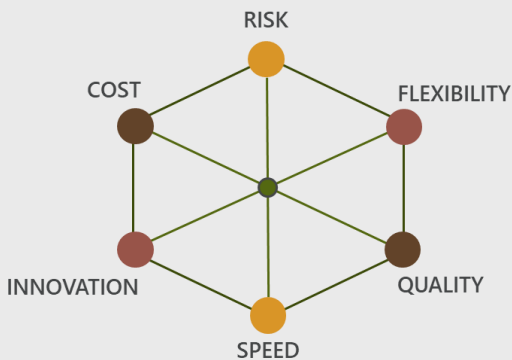
The pandemic proved what we inside of PD and Sourcing have long suspected, that the current system worked because the conditions allowed it– long periods of relative stability, strong consumer spending, and a close proximity to the necessary people and “things” shielded us from the growing risk of not embracing technological advances and shoring up operations to be able to deal with major and minor disruptions.

In reality, PD operations have largely been static by design for the past couple of decades. There have been a few overarching goals like general cost reduction, improving productivity, sharing work globally, and improving speed to market but for the most part, they have been both incremental in nature and inconsistently implemented. While we have seen many PD organizations identify initiatives to address various issues, too often, between other organizational priorities taking precedence or a lack of a tangible business case, PD has been notoriously slow to make substantive changes. This has been tolerable because there really has not been a burning platform for change - PD departments are relatively cost effective and generally able to respond to the needs of merchants and designers reasonably well, and little to no value was assigned to the risks that inaction created.

We are now seeing the platform on fire and living through the pain of having not addressed these issues - the bottom fell out on the economy, the lockdowns fundamentally changed how we work, and we were not adequately prepared. It is no longer optional – changes must be made to make PD and Sourcing operations more resilient and effective in times of instability.

## THE CURRENT STATE WORKED UNTIL IT DID NOT

Setting a Product Development strategy is about making tradeoffs between several things, primarily cost, speed, quality, flexibility, and risk. While there are certainly exceptions, the average Product Development and Sourcing approach can be characterized by the following:



- A relentless **emphasis on operating cost reduction** which has resulted in lean teams with a lack of skills in some critical areas like patternmaking, product/cost engineering, and analytics
- A diversifying supply base (at least diversifying away from China) with a laser **focus on speed to market and cost**
- A larger share of critical tasks (e.g. detailed BOMs, patterns/markers, 3D renders) being singularly entrusted to the suppliers **with little attention paid to risk mitigation**
- Processes that leverage technology to document and share information, but still fundamentally **rely on physical assets** – primarily material swatches, lab dips, strike offs, and samples – to make decisions
- Under prioritization of PD and Sourcing relative to cross-functional partners, leading to **misalignment in direction, sponsorship, and resources** required for the expected level of execution against evolving product strategies
- An **increasing focus on flexibility**, despite the constraints above. Pandemic aside, the expectations put on PD and Sourcing to rapidly and seamlessly shift between product types, move units up or down, and change sourcing regions are frequently at odds with how they have been structured

And while we are all hopeful that the pandemic is a once-in-a-lifetime scenario, it has shown us that there are real costs to inaction in modernizing PD approaches and that risk must be quantified and contemplated in business cases for required investment.

## **NO ONE KNOWS EXACTLY WHAT TOMORROW WILL LOOK LIKE, BUT WE KNOW IT WILL NOT BE LIKE YESTERDAY**

As we begin to think about getting back to “normal”, we need to accept that there are new rules of the road that must inform how we operate. These new business realities have been forced upon us, and they are going to be in place for the foreseeable future.

- We can no longer rely on in-person, in-office collaboration (internally and externally), even in a post-pandemic environment. Overseas trips and visits from suppliers should be considered supplemental/complementary, and not essential to the workflow.
- Unfortunately, economic challenges have resulted not only in significant reductions in force throughout the industry, but smaller budgets overall. There will be ever-increasing pressure on every dollar spent, whether that is in operating expense, capital, or in cost of goods.
- Whether it is due to a virus, trade wars, or some other unforeseen factor, there is a need for flexibility to be a priority to be able to respond to the unknown. Countries that are open today, could be in lockdown tomorrow. Popular product categories today (e.g. suits) can be replaced with new ones tomorrow (e.g. masks). Demand can suddenly shift from one channel (in-store) to another (e-commerce).
- We need to have as much control over our own destiny as possible. Where feasible we need to replace, or at least supplement, physical samples and tests coming from suppliers with digital representations. Those deliverables created by third parties (e.g. patterns, print specifications, tooling blueprints, etc.) must be owned and accessible by us. Single points of failure must be identified and eliminated.

## **ANY PATH FORWARD NEEDS TO START WITH AN HONEST EVALUATION**

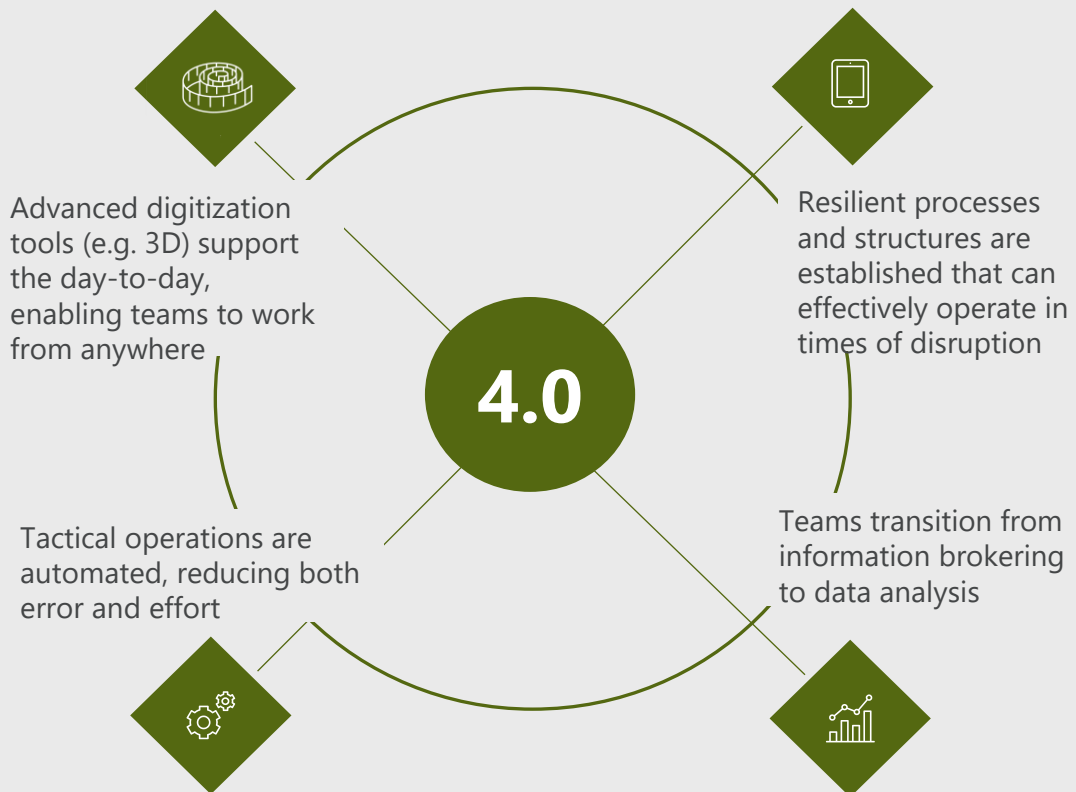
The pandemic caught us all by surprise and even if it could have been predicted, the operational impacts manifested in unique ways that were near impossible to plan for. Due to the scale and speed of the spread, ultimately most operations focused teams got a “pass” from their leaders, peers, and customers for any missteps. With what we know now, nobody should expect to be able to use that excuse again. Operating models must evolve quickly – resetting and clearly defining new objectives, fortifying weak points, and strategically building purposeful redundancy.

The first step that Product Development and Sourcing leaders must take is a thorough examination of the risks they face:

- What exposure do we have if internal teams must continue to work remotely? How does that impact differ between HQ, design/development studios, and overseas sourcing offices?
- What new incremental risk are we facing from the supply base? What are our options when a factory, country or entire region goes on lockdown? How are the economic challenges impacting my suppliers? What about their suppliers?
- How will economic challenges impact my teams? Where do we require new investment or resources to execute in this new environment? How are COGS/IMU expectations changing?
- How can shifts in the consumer and market impact my teams? Are we able to flex units up and down quickly? What about shifts in product categories and types – can the existing teams and assets shift to meet the demand or are changes required?

## THE FOURTH GENERATION OF PRODUCT DEVELOPMENT

The situation that we find ourselves in is unique, but the need for change is not. From our perspective, our industry has gone through multiple evolutions in PD, each bringing its own generation of approaches and models. In the first generation we were manufacturers and everything we did was centered around the needs and deliverables to support our own lines. Next, we outsourced, and shifted our model to support manufacturers thousands of miles away that could be contracted on-demand. Our third, and current, generation is focused on collaboration, bringing in tools like PLM and Illustrator. Now we are ready for our fourth generation, what we are calling PD4.0, where the emphasis is on further digitization, increased resiliency, automation of rote tasks, and data-driven decision making. In the next entries in this series, we will lay out our vision for PD4.0, including the capabilities, approaches, and benefits that it brings. The pandemic did not create the need for the next generation, but it has made it clear that we no longer have time to wait to embrace it.



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