Part 4: A ‘fast fashion’ shift – Seven rules of China-specific fast fashion supply chain
No doubt fast fashion is now dominating – if not disrupting – the global apparel industry. Famous for offering chic and accessible fashion items with rapid turnaround time, a number of international fast fashion retailers such as Zara, H&M, Uniqlo, Gap, etc. have seen explosive growth globally over the last decade (see Exhibit 1). The strong presence and extraordinary growth of international fast fashion brands have ignited the fast fashion phenomenon in China and driven local fashion players towards a fast fashion model. In recent years, a number of homegrown fast fashion companies such as Handu, Inman, La Chapelle and MJstyle are fast growing in popularity (see Exhibit 2).

Exhibit 1  Company profile of selected international fast fashion players

<table>
<thead>
<tr>
<th>Founded</th>
<th>Headquarter</th>
<th>Sales/ turnover</th>
<th>Stores</th>
<th>Year entering China market</th>
<th>Market share in China, 2016***</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zara</td>
<td>Spain</td>
<td>2016: 15,394 million euros</td>
<td>2016: 2,213</td>
<td>2006</td>
<td>0.4%</td>
</tr>
<tr>
<td>H&amp;M</td>
<td>Sweden</td>
<td>2016: 222,865 million SEK*</td>
<td>2016: 3,962</td>
<td>2007</td>
<td>0.4%</td>
</tr>
<tr>
<td>Uniqlo</td>
<td>Japan</td>
<td>2016: 1,455.2 billion yen</td>
<td>2016: 1,795</td>
<td>2002</td>
<td>0.8%</td>
</tr>
<tr>
<td>Gap</td>
<td>U.S.</td>
<td>2016: US$15,516 million**</td>
<td>2016: 1,319</td>
<td>2006</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*These sales figures include H&M Group’s brand portfolio: H&M and H&M Home, COS, & Other Stories, Monki, Weekday and Cheap Monday
**These sales figures include Gap Inc.’s brand portfolio: Gap Global, Old Navy Global, Banana Republic Global, Athleta, and Intermix.
***Including apparel and footwear products

Source: Respective companies’ annual reports, official websites, Internet sources, Euromonitor’s report on Apparel and Footwear in China published in February 2017; compiled by Fung Business Intelligence
Exhibit 2 Company profiles for selected Chinese fast fashion companies

### LaChapelle
- A fast fashion retailer focused on womenswear
- Founded in 1998 in Shanghai, China
- Running around 1,855 stores nationwide, covering about 2,230 department stores and shopping malls across 31 provinces, autonomous regions and municipalities in China
- Revenue in 2016: 10.2 billion yuan
- Selling its products through both online and offline stores
- Online storefronts on Tmall ([https://lachapelle.world.tmall.com](https://lachapelle.world.tmall.com)) and JD.com ([http://lachapelle.jd.com](http://lachapelle.jd.com))
- Brand portfolio: La Chapelle, Puella, Candie’s, 7m, La Babité, Vougeek/Pote, MARC ECKÔ, La Chapelle Kids, UlifeStyle, JACK WALK/O.T.R, Siastella, OTHERMIX/OTHERCRAZY

### Handu
- A pure-click online fast fashion retailer with no brick-and-mortar operation
- Founded in 2006 in Shandong, China
- Started out as an online sourcing agency for South Korean womenswear; later established its first and most famous Tao brand Hstyle in 2008
- Evolved from a Tao brand towards an online brand operation ecosystem
- Revenue in 2016: 1.431 billion yuan
- Offering womenswear, menswear, childrenswear and sportswear, with womenswear taking the majority
- Key brands: Hstyle, Souline, Nana Day, For Queens, Soneed, Dequanna, Nibbuns, Cherry Town, R Maker, Honey Pig

### Inman
- Started out as an online fast fashion brand on Taobao
- Founded by Guangzhou-based online fashion company Huimei Group in 2008
- One of the hottest Tao brands
- Expanding its presence offline by opening about 420 physical store across China
- Aiming to open 10,000 stores across 1,000 cities nationwide
- Revenue in 2015: 537.64 million yuan
- Offering womenswear, menswear, childrenswear and sportswear, with womenswear taking the majority

### MJstyle
- An emerging fast fashion retailer
- Founded in 2011 in Shanghai, China
- Running about 500 stores under two fast fashion brands Mjstyle and Topfeeling, and a lifestyle brand Fishop
  - Mjstyle – featuring womenswear, menswear, childrenswear and sportswear, homeware and café with a competitive price
  - Topfeeling – offering fashionable leisurewear targeting younger customers
  - Fishop – focusing on lifestyle & home furnishing products

Source: Respective companies’ websites, Internet sources; compiled by Fung Business Intelligence
What are the secret to the success of these local fast fashion players?

Chinese fast fashion companies share some common features with their foreign counterparts. Adopting a fast, flexible and agile supply chain is one of the most critical and important key success factors. This enables fashion retailers to offer fresh-off-the-runway fashion at affordable price. Frequent inventory replenishment also allows the companies to introduce wide variety of products and hopefully increase traffic and sales.

During Alibaba’s 11.11 Global Shopping Festival (or the Singles’ Day) in November 2016, fast fashion brands continued to take up the top spots in the best-selling women’s fashion brand category, with Uniqlo coming first on the list, while Handu and La Chapelle came third and fifth respectively. Exhibit 3 shows the top 10 best-selling women’s fashion brands on Tmall on the Single’s Day in 2013-2016. The success of both international and local fast fashion brands on the biggest online shopping campaign suggests the strong demand for fast fashion products among Chinese customers.

### Exhibit 3  Top 10 best-selling women’s fashion brands on Tmall on the Single’s Day, 2013-2016

<table>
<thead>
<tr>
<th>Ranking/Year</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Inman</td>
<td>Handu</td>
<td>Uniqlo</td>
<td>Uniqlo</td>
</tr>
<tr>
<td>2</td>
<td>Handu</td>
<td>Uniqlo</td>
<td>Handu</td>
<td>ONLY</td>
</tr>
<tr>
<td>3</td>
<td>Artka</td>
<td>Artka</td>
<td>Bosideng</td>
<td>Handu</td>
</tr>
<tr>
<td>4</td>
<td>Liebo</td>
<td>Inman</td>
<td>ONLY</td>
<td>Led’in</td>
</tr>
<tr>
<td>5</td>
<td>Ochirly</td>
<td>Bosideng</td>
<td>Liebo</td>
<td>La Chapelle</td>
</tr>
<tr>
<td>6</td>
<td>Bosideng</td>
<td>Ochirly</td>
<td>Ochirly</td>
<td>Ochirly</td>
</tr>
<tr>
<td>7</td>
<td>ONLY</td>
<td>Toyouth</td>
<td>Vero Moda</td>
<td>Vero Moda</td>
</tr>
<tr>
<td>8</td>
<td>Gloria</td>
<td>Elf Sack</td>
<td>Led’in</td>
<td>Bosideng</td>
</tr>
<tr>
<td>9</td>
<td>Vero Moda</td>
<td>ONLY</td>
<td>Inman</td>
<td>Peacebird</td>
</tr>
<tr>
<td>10</td>
<td>Toyouth</td>
<td>Liubo</td>
<td>Artka</td>
<td>Eifini</td>
</tr>
</tbody>
</table>

Source: Ebrun.com; compiled by Fung Business Intelligence
Seven rules of China-specific fast fashion supply chain

Adopting a fast fashion model is important for traditional Chinese apparel companies to lure fashion-conscious customers, especially the millennials, which represent the largest demographic for apparel spending in China.

Fung Business Intelligence has monitored the development of several emerging Chinese fast fashion companies over the years and we found that these companies share seven common supply chain features, namely high product variability, quick new product introduction cycles, small-lot production based on market demand, consumer-centric, data-driven, establish in-house production capabilities or form close partnership with suppliers, and smart logistics and automated warehousing (see Exhibit 4).

Exhibit 4 Seven rules of China-specific fast fashion supply chain

<table>
<thead>
<tr>
<th>Rule</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>High product variability</td>
</tr>
<tr>
<td>2</td>
<td>Quick new product introduction cycles</td>
</tr>
<tr>
<td>3</td>
<td>Small-lot production based on market demand</td>
</tr>
<tr>
<td>4</td>
<td>Consumer-centric</td>
</tr>
<tr>
<td>5</td>
<td>Data-driven</td>
</tr>
<tr>
<td>6</td>
<td>Establish in-house production capabilities or form close partnership with suppliers</td>
</tr>
<tr>
<td>7</td>
<td>Smart logistics and automated warehousing facilities</td>
</tr>
</tbody>
</table>

Source: Fung Business Intelligence
1. High product variability

In response to increasing consumers’ demand for immediacy and constant newness, fast fashion retailers keep refreshing their store inventory and launching new items frequently. Through establishing lean and agile supply chain practices, many Chinese fast fashion players are capable of launching thousands of distinct items per year.

Chinese pure-click fast fashion retailer Handu is a case in point. The online fast fashion player, which has successfully evolved from a purchasing agency to a brand incubator, focuses mainly on womenswear, menswear, childrenswear and sportswear. The retailer produces 30,000 new designs each year and that is to say, more than 80 new items are launched every day. The number far exceeds Zara’s 11,000 new designs each year on average and the 2,000 - 3,000 new styles by traditional fashion brands per year 1. Thanks to its unique “merchandising team” model, Handu is able to achieve numerous product designs and faster production cycles. There are over 260 individual merchandising teams in Handu. Each of the teams is operated independently and comprised of 3-5 employees responsible for different tasks, including product designs, procurement, sales, purchase orders, etc. Unlike the conventional practices in traditional companies, Handu adopts a decentralization management approach, under which each merchandising team can make their own purchase decision and determine product pricing, production volume, promotion period and discount pricing, among others (see Exhibit 5).

Exhibit 5 Structure of Handu’s merchandising team

![Structure of Handu’s merchandising team diagram]

In charge of overall planning and operation of the team

Team leader

Performing office clerical and administrative tasks

Clerk

Responsible for processing customers’ orders, managing inventory and interacting with suppliers

Staff responsible for order management

Visual designer

Developing visual merchandising solutions

Buyer

Responsible for product designs, sourcing and product development

Source: Handu.com, CMS, Ebrun; compiled by Fung Business Intelligence research
Another example is local fast fashion player MJstyle. The fashion house, which operates fast fashion brands MJstyle and Topfeeling, rolls out more than 3,000 distinct fashion items every season. Taking into account consumers’ feedback and comments, the retailer refreshes its stock with around 100 new items every week, appealing to customers’ desire for new designs and individual tastes.

2. Quick new product introduction cycles

With a highly responsive supply chain, Chinese fast fashion retailers are able to bring a new product from scratch to sale in around 4-6 weeks. Handu provides a good illustration. For every piece of product from Handu, it takes just 3-4 weeks on average from designing to being sold in the market. With sufficient fabric in stock, orders in Handu are manufactured within 20 days on average; most of the products are manufactured within 7-15 days, while the lead time for winter products might be a bit longer. In extreme cases, the manufacturing can be done within one day.

Domestic online fast fashion brand Inman also reacts fast to new market trends with its agile, consumer-centric supply chain. The retailer currently takes about 7-15 days for manufacturing summer products and 20-25 days for winter products3 (please refer to later section for more details on Inman’s consumer-centric supply chain). Local fast fashion player Urban Revivo provides another illustration. Founded in 2006 and headquartered in Guangzhou, the company is one of the emerging fast fashion retailers in China, offering womenswear, menswear and kidswear with more than 160 stores nationwide. The production/replenishment lead time for its best-selling items takes around 10 days, while the manufacturing for other regular products can be done in 60 days on average.

Exhibit 6 shows the average production lead time (from design to store) of selected fast fashion retailers.

Exhibit 6 Average production lead times of selected fast fashion retailers

<table>
<thead>
<tr>
<th>Fast fashion brands</th>
<th>Average lead times</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zara</td>
<td>2-3 weeks</td>
</tr>
<tr>
<td>H&amp;M</td>
<td>3-6 weeks</td>
</tr>
<tr>
<td>Uniqlo</td>
<td>10-14 weeks</td>
</tr>
<tr>
<td>Handu</td>
<td>3-4 weeks</td>
</tr>
<tr>
<td>Inman</td>
<td>2-4 weeks</td>
</tr>
<tr>
<td>Urban Revivo</td>
<td>2-9 weeks</td>
</tr>
</tbody>
</table>

Sources: Internet sources; compiled by Fung Business Intelligence
3. Small-lot production based on market demand

Chinese fast fashion retailers, alike their foreign counterparts, tend to produce and source in small batches. Through small-lot production based primarily on market demand, fast fashion retailers can test the market reaction to their products before proceeding to mass production. Such an approach helps retailers better control their inventory, while reducing obsolete and excessive inventory.

For example, with its some 260 individual merchandising teams, Handu is able to adopt short-cycle manufacturing and engage in small-lot production. The company produces on average around 300 pieces per order for each new item – usually 100 pieces for market testing; however, in some cases, the smallest order can be around 30 pieces, while replenishment for popular hot items can reach 1,000 to a few thousand pieces. Small-lot production enables Handu to get rid of non-selling products and obsolete inventories more easily.

Merchandising teams working in Handu’s head office

Source of photo: Fung Business Intelligence
4. Consumer-centric

Unlike the business model of traditional fashion industry in which supply chain activities are mainly centered around retailers and handling large orders, fast fashion retailers are leading a consumer-driven supply chain model. Under this consumer-centric model, supply chain activities across upstream and downstream are focused around consumers and their expectations.

Inman is a case in point. The fashion retailer has adopted a consumer-driven supply chain model, in which customers are more connected with front-end and back-end operators, while activities across the supply chain ranging from product and service designs, merchandising, manufacturing, warehousing, replenishment and inventory control are mainly driven by consumers.

As shown in Exhibit 7, Inman’s consumer-driven supply chain has three major processes:

i. Connecting upstream with consumers – leveraging consumer insights and sales data to determine business decisions such as predicting market trends and designing products and services. Sales data, together with comments and feedback of consumers are used in analysis and trend forecasts. Inman aligns these information with its product designs and merchandising plans.

ii. Connecting front-end with back-end – data sharing among upstream and downstream parties. This enables Inman to utilize back-end demand information to optimize its front-end product and service designs, while information shared by front-end operators can also help back-end operators better manage current resources and plan for future needs.

iii. Connecting back-end with consumers – getting closer to consumers and keeping track of changing market demand. Back-end operators utilize sales data and consumers’ comments and feedback to better manage their supply chain activities, including sourcing, manufacturing, warehousing and logistics. The more connected consumers and back-end operators become, the more efficient Inman can react to the changing consumer demands.

Unlike the business model of traditional fashion industry in which supply chain activities are mainly centered around retailers and handling large orders, fast fashion retailers are leading a consumer-driven supply chain model.
Apart from Inman, Chinese Internet fashion celebrity incubator Ruhnn, which assumes the role of supply chain manager and e-store operator for a number of local online fashion influencers and key opinion leaders (KOLs), also adopts a consumer-centric approach when it comes to operating its supply chain.

Very often, Ruhnn and its partnering online fashion celebrities or KOLs will adopt a “pre-ordered approach” to improve the accuracy of demand forecasting.

Based on the number of orders and consumers’ feedback for the pre-ordered items, Ruhnn can forecast consumers’ demand more accurately and stock enough fabric and textile in advance of manufacturing. After understanding consumers’ preferences and needs, the incubator will directly look for suitable fabric suppliers and partnering factories from its self-managed supply chain platform for product manufacturing. More than serving as a database for fabric suppliers and factories, Ruhnn’s platform also allows front-end and back-end parties to interact and pair up with suitable partners in the supply chain. The collaboration vastly speeds up the sourcing, purchasing and manufacturing processes along the supply chain, allowing Ruhnn to quickly fulfill pre-sales and flash-sales orders.
5. Data-driven

In the digital era, some fast fashion retailers have embraced a data-driven approach, tying their business decision to analytics insights. Through gathering a wide range of data, from sales data of every item and consumers’ feedback to data of key rivals and latest trends, the fashion players are able to translate data into meaningful and actionable insights, get closer to the customer and gain a clear picture of real-time demand.

A typical example is Handu. The company makes decision based on real-time selling data. Backed by a strong IT system (Handu Intelligent system: OMS, WMS, ERP, DI), the company is able to collect and analyze real-time selling data of every single item, and respond quickly to dynamic market demand with follow-up actions, including placing replenishment orders and modifying product designs. Sales performance of every single design, customers’ preferences and comments/feedback are recorded in the system and the data are used for analysis and demand forecast.

Handu also shares some data and information with its key vendors to synchronize manufacturing activities with retailing. Factories can also access customer comments/feedback on the products they produced via the database system provided by Handu, and adjust the products accordingly when replenishment orders are placed. Suppliers of fabric and accessories can also forecast demand based on the data provided by Handu.
Huimei Group, the holding company of Inman is also leaning to a data-driven approach to advance its supply chain management. The company has recently announced that it will increase the use of RFID technology in its businesses. It plans to insert a micro RFID tag to every Inman-branded clothing item displayed in Inman's physical stores to track the frequency of each clothing item taken into fitting rooms by customers. In addition, Huimei Group will also apply RFID technology in supply chain activities, including product manufacturing, distribution and sales to enhance its supply chain efficiency and reliability.

Another local fast fashion retailer MJstyle has also set up a data analytics team to collect and analyze data of in-store sales as well as customers’ preferences and spending habits. Based on the information collected, the company’s purchasing department will forecast demand, outline major designs and create merchandising plans. After finalizing all the design details and sourcing strategies, the company will send the orders to external suppliers/factories for product manufacturing.

Exhibit 8 shows the major benefits of adopting RFID technology in supply chain management.

**Exhibit 8  Major benefits of adopting RFID in supply chain management**

- Fast locating of products
- Improve accuracy, transparency and efficiency
- Faster stock counting
- Lower labor costs / less manual tasks
- Collect more information

Source: Nordicid.com; compiled by Fung Business Intelligence
La Chapelle, one of China’s emerging fast fashion retailers for womenswear, also utilizes RFID technology to increase its entire supply chain efficiency. The retailer started to implement a RFID scanner system in 2016 and planned to fully launch the system in 2017. As shown in Exhibit 9, La Chapelle has adopted RFID technology in different stages of the supply chain, including production, containerization and shipping, distribution and retailing.

**Exhibit 9  La Chapelle’s RFID technology implementation in different stages of the supply chain**

- **Production**: Insert RFID laundry tags on every product; this helps improve the tracking and handling of the products.

- **Containerization and shipping**: By using RFID tags and readers, products can be counted in seconds. Compared with the traditional way to do the counting manually, the application of RFID technology helps improve information accuracy, efficiency and speed of completing the process, while lowering labor costs for manual tasks.

- **Distribution**: Use of RFID speeds up the authentication process and greatly accelerates the speed of product delivery. It also ensures accurate inventory control.

- **Retailing**: The RFID system also tracks the try-on rates for different products; this helps identify the best-selling products and improve front-end product planning.

Source: La Chapelle’s 2016 annual report; compiled by Fung Business Intelligence
6. Establish in-house production capabilities or form close partnership with suppliers

To adapt to the fast-moving trend in the world, some global fast fashion retailers are keeping a large part of their production in-house or through forming close relationship with suppliers, as this provides them more flexibility in production and reduce the time it takes to go from design to final product on shelves.

Adhering to just-in-time production, Zara, for example, designs and manufactures around 40% of its fashion items internally through its own factories. The fast fashion giant has set up around 22 self-operated factories in Europe, of which 18 are in Spain, with most of its manufacturing performed by its production bases in Europe. In line with Zara’s quick new production cycles, its partnered factories have also set up their operation in Europe. Such vertical integration allows Zara to be nimble in amount, frequency and variety of new products, quickly answering the drastic market demand.

In China, increasing numbers of fast fashion retailers have sought to establish their in-house production capabilities. Local fast fashion retailers Urban Revivo and Inman are cases in point. Both Urban Revivo and Inman possess self-operated production bases in China. Akin to Zara, self-operation allows the two local players to have greater flexibility in production and can ensure that the right type and quantity of products are able to reach the market at the right time as requested. It also provides the retailers higher autonomy when it comes to quality control and speed-to-market.

On the other hand, instead of establishing in-house production capabilities, some Chinese fast fashion companies opt to form close partnership with suppliers. Handu provides a good ground for this case. Through conducting a quarterly assessment on partnered suppliers based on production standard, lead time, cost, compliance, etc., the retailer can identify well-performing strategic partners. The company will lock up a major part of the manufacturing capacity of these suppliers, making Handu a very prominent client to the suppliers. For some outstanding suppliers, Handu even takes up nearly 100% of their capacity. To strengthen the relationship with its suppliers, Handu also provides training and management support to its key suppliers.

In China, increasing numbers of fast fashion retailers have sought to establish their in-house production capabilities.
Some Chinese fast fashion retailers have stepped up efforts to enhance back-end supply chain management to accelerate product distribution and enhance storage efficiency.

La Chapelle is a case in point. The company currently operates three warehouse logistic centers in Taicang, Chengdu and Tianjin. The company has long been eager to strengthen its back-end supply chain capabilities. In 2016, La Chapelle implemented the “Smart Sorting System” to speed up the sorting and distribution of goods and increase labor efficiency of the back-end operation. Moreover, it has also set up an automatic 3-dimensional warehouse in its Taicang distribution hub. The automatic system, scheduled to kick-start operation in the first half of 2017, is expected to optimize storage of goods and distribution efficiency.

Urban Revivo has also established automated warehouse systems to achieve higher throughput storage. With RFID tags attached to products, containers, equipment, etc., the retailer can manage, monitor and locate the products in real time, thereby significantly reducing the time for scanning, sorting and counting the products. Moreover, the real-time location system supported by RFID technology can optimize warehouse management and enhance accuracy and efficiency in storage, retrieval handling and distribution of goods. It can also lower labor costs for the company by reducing the workforce required for tracking and warehouse management.
Conclusion

The trend towards fast fashion is increasingly evident in China’s apparel market. The changing dynamics of the apparel industry have forced companies to look for flexibility in design, low cost and speed to market in a bid to better meet the changing needs of consumers.

Fashion companies are striving to speed up and modernize their supply chain to quickly react to the constantly evolving market demand. To better fulfill consumers’ expectation for customization, immediacy and tailored delivery, fashion brands are turning to a consumer-centric supply chain model with the help of advanced technologies and integrated systems.

Unlike the forecast-based supply chain model adopted by traditional fashion retailers, the consumer-demand driven model is more connected, intelligent, scalable and rapid in each stage of the supply chain – design, manufacturing, distribution and retailing. Through integrating all front-end and back-end activities along the supply chain to enhance interaction between manufacturing and retailing, fashion retailers are able to reduce lead time from conventionally taking up to 9 months to just a few weeks. The enhanced end-to-end visibility also helps streamline and accelerate supply chain process that allows fashion retailers to place order in small batches and attain rapid and frequent reordering of popular products.

Going forward, with the advent of technologies and data analytics systems, fast fashion retailers will be in an even better position to adapt to the fast moving fashion cycles. To ensure that the supply chain runs smoothly and remains highly responsive, retailers need to remove operational silos between the different stages in the supply chain.
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