

SOURCE DIRECT

Shoppers increasingly want their purchases delivered at speed to different places, meaning retailers need greater control over sourcing. How are they achieving this?

Words by JAMES KNOWLES

One are the days when finding a new sourcing region was the simple answer to getting ahead of the competition. For one thing, there is no one country poised to be the 'new China' and it is no longer about delivering bulk orders but aiming to provide a customised item to single individual, anywhere in the world.

Sue Butler, director at consultancy Kurt Salmon, says that success in a multichannel world relies on having production flexibility within an integrated supply chain, with the merchandising, design and logistics functions and fabric and accessory suppliers more involved in the process than ever before. "There also needs to be a greater use of analytics and investment in technology that will assist in the planning, production and speed of delivery," she says.

According to one department store boss, investment in the right systems is vital. "International ambitions are changing our supply chain strategy significantly, and this is where the investment in systems comes in because quite often you can't do things in the supply chain that you want to do without a clever system," he explains. "The way the supply chain is changing is that we want to be able to send products directly from our manufacturers to international markets as opposed to products being sent to the UK and then shipped back out again to an international market."

The choice of where to source production is in itself complex, with 66 countries all able to serve the fashion sector, according to Kurt Salmon. And with production costs in classic sourcing regions in southern China having increased by more than 160% since 2005, bringing them level with those in some Eastern European markets, everyone is looking at other options.

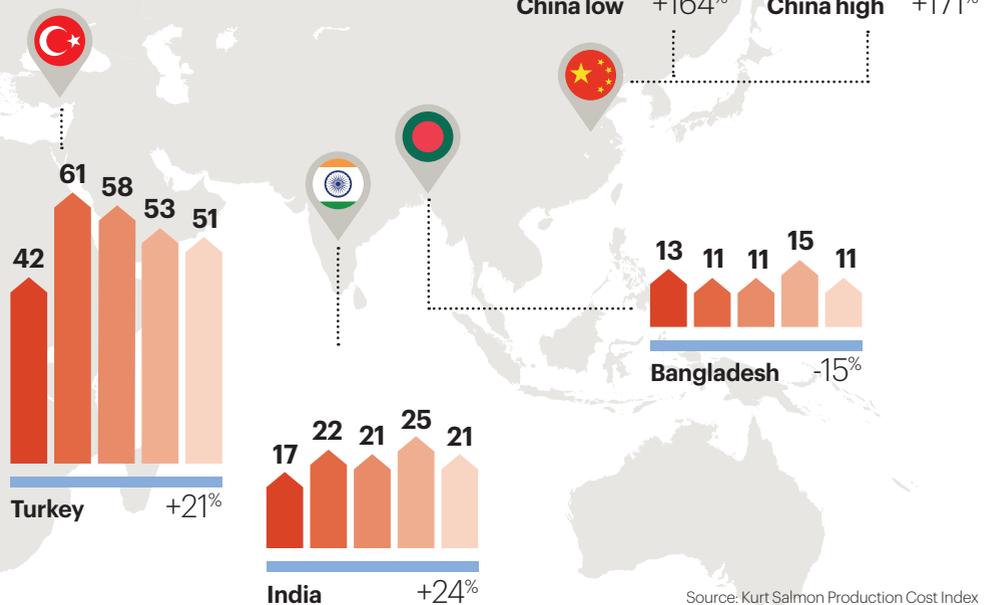
China's significance as a main sourcing country will persist due to its integration into the textile value chain, but a shift to other countries will continue with Cambodia, Bangladesh, Poland and Vietnam the

Production Cost Index (PCI)

Indicator for relative cost advantages of a country per standard allowed minute, compared with UK baseline PCI cost of 100. Percentages below show change in costs over eight years

Key

■ 2005 ■ 2007 ■ 2009 ■ 2011 ■ 2013



Source: Kurt Salmon Production Cost Index

main beneficiaries. However, most countries with low labour costs still lack the infrastructure and production competencies required to deliver similar volumes as China.

Cambodia is showing strong double-digit growth in six out of 10 product categories including shirts, blouses, skirts and dresses, according to research conducted by Kurt Salmon for its latest Global Sourcing Reference (which analyses production costs in key regions globally), but its market share remains relatively low. Within China, the movement from the coastal regions into the inland areas where labour is cheaper continues for various product groups, from denim to pullovers to shirts and blouses.

Turkey, which remains the third biggest apparel exporter to the EU behind China and Bangladesh, is also shifting production to cheaper regions to try and keep costs low. The country's core strengths remain

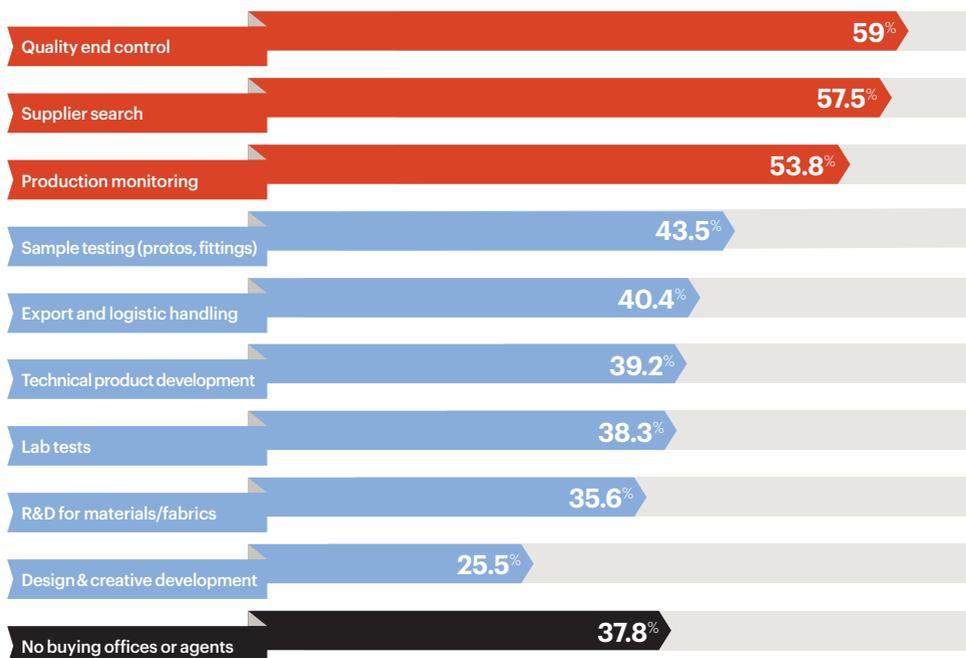
its vertically integrated production facilities and high productivity levels, and buyers will continue to pay the price of having these options.

INDIA'S IMPORTANCE as the fourth biggest exporter to the EU is slightly diminishing. To hold its ground in the medium term, Kurt Salmon says it has to master the challenges of infrastructure, productivity and business environment if it is to regain its importance as an alternative to Bangladesh.

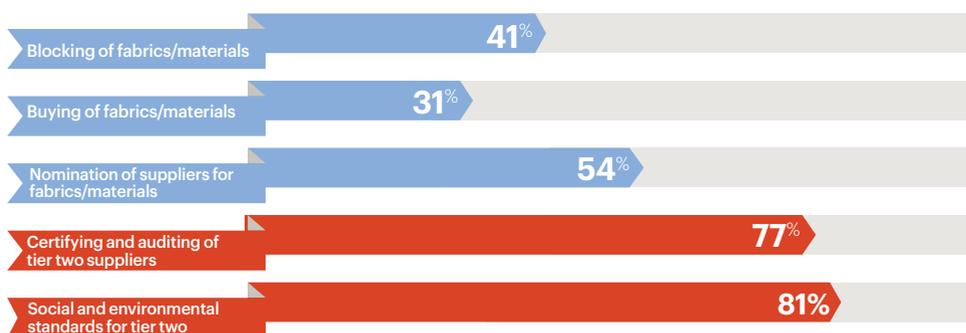
With brands such as H&M, Primark, Tesco and Walmart involved in pilots in Ethiopia, there is growing interest in sub-Saharan Africa. Chinese and Turkish producers are building vertically integrated production facilities there to take advantage of the local cotton availability and low labour cost. The parallel infrastructural investments such as the new railway from Addis Ababa to the port of Djibouti, due

SUPPLY CHAIN SOURCING

What importance will own buying offices or agents have in your future sourcing organisation?



To what extent do you plan to manage tier two suppliers (eg fabrics, trims, production accessories) yourself in future?



Source for both graphs: Kurt Salmon Global Sourcing Reference 2013

to open in 2016, can provide a basis for future growth. However, production there is still in its infancy.

“Just as fashion goes in cycles, so too does the way in which retailers and brands manage their sourcing. Spurred on by the need to feed online sales and to deliver in super-quick time, retailers and brands are once again looking at the balance of own sourcing offices versus using a buying house or agent and some are even rethinking the advantages of owning their own factories,” explains Butler.

“There can be significant cost advantages if the business has sufficient scale of volume going through its own sourcing office, but once volumes drop below a critical mass then the cost of running the office starts to erode any margin advantage. If an organisation has product produced across many different geographies that would need to be managed by more than one sourcing office, or if it is working in new geographies where there is risk and the market is unknown, then the preferred option might be to use agents.”

According to the boss of one high street chain, his company is taking a similar approach. “As international [sales] grow, we are putting more focus into the international supply chain and looking for cheaper and more efficient routes to get products to market quicker.”

Alek Adamski, head of Kurt Salmon’s supply chain practice, says retailers and brands need to better aggregate their production.

“We have numerous examples of companies putting their production in the incorrect location – they need to make sure they have the right geographical balance to achieve an overall better margin. This is based upon a basket of costs such as volume discounts, logistics savings, smarter routing and storage options and better flow planning and markdown processes.”

The majority of companies interviewed for Kurt Salmon’s Global Sourcing Reference, including fashion brands, retailers and suppliers, are planning investment in technology that will better integrate

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Alek Adamski, head of supply chain practice, Kurt Salmon

suppliers. While only 31% of the interviewees were already using product lifecycle management (PLM) systems – which manage the lifecycle of a product from inception to the finished article – 54% plan on utilising them in the future.

“To operate a successful multichannel business, there is a need for common master data across channels with product information management (PIM) systems that can add ecommerce-specific data (such as pictures or Google search keywords). There is also a need for solutions that use inventory availability to route orders based on business goals and customer preference,” explains Adamski.

ANOTHER TREND IS THAT as online retailers push their offline competitors into same day or next day delivery, this is impacting heavily on the location of distribution centres [DC]. In this anytime, anywhere environment, physical retailers need to use their biggest asset – their stores – to help reduce costs.

“While using a store to fulfil the DC function is probably only a temporary measure as it adds complexity and cost, it can delay the need to open a new DC to relieve lack of capacity at already stressed facilities, which at around £60m each is no insignificant expense,” says Adamski. “If retailers can encourage customers to ‘click-and-collect’ this can also help save on transportation costs, which is especially important as fuel costs remain high and show no sign of coming down.”

He adds that retailers and brands need to ensure that each product is being fulfilled from the smartest location as it relates to both customer experience and profitability. “Electronic tags will be instrumental in enabling this which is why retailers from Macy’s to C&A are using RFID [radio-frequency identification] tags,” says Adamski.

Not surprisingly, as a reaction to Bangladesh factory disasters, sourcing experts interviewed for the Global Sourcing Reference also reported an increase in importance in attention to corporate social responsibility (CSR), along with greater control of sub-suppliers. However, only 35% of retailers and brands questioned had standards established for tier two suppliers, although 50% planned on introducing them.

Despite the increased focus on CSR, the boss of one fashion chain cast doubt on the real impact of incidents like Bangladesh on people’s shopping habits: “What I have noticed is that in any scandal involving what you put in your mouth, customers will vote with their feet. But not necessarily if the scandal involves something you wear.”

However, as the chief executive of one department store sums up: “Supply chain transparency is higher on the agenda than ever.”