



Executive Brief

Maximizing Your Relationship with Sourcing Agents

Increasingly, retailers are turning over their sourcing operations to agents. In the past few years, we found that about a quarter of our clients were working with agents for some or all of their sourcing programs and that the success of using agents for these retailers was directly linked to their ability to clarify their sourcing strategy, establish the right sourcing operating model and optimize their side of the relationship.

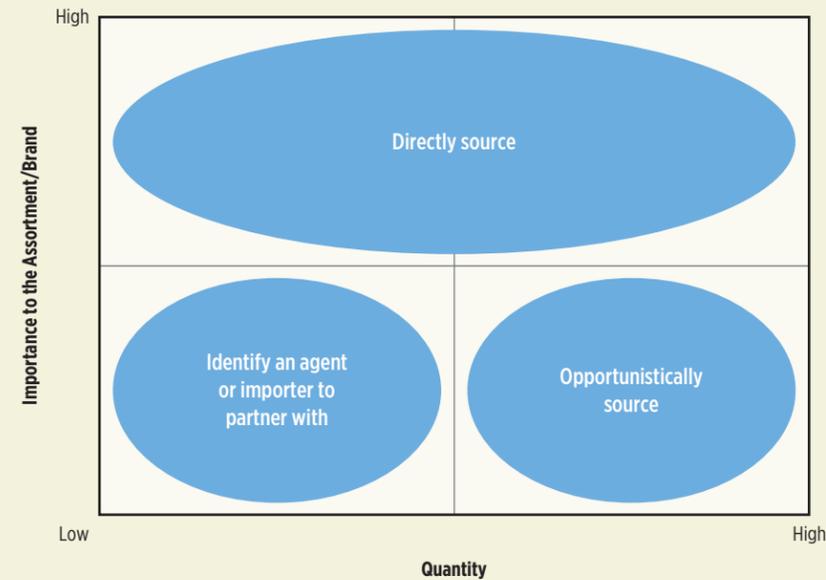
Defining Your Outsourced Sourcing Strategy

The first question, of course, is whether to turn over sourcing in the first place. Chains that need much stronger cash flow and are beset by high sourcing complexities are better candidates. In addition, retailers who have many product lines (and thus many sources of supply), a compelling need for increasing their private-label offerings and weak sourcing operations should strongly consider farming out sourcing to an agent.

But that doesn't necessarily mean shifting sourcing of all products to agents. Products that are critical to a retailer's brand are less likely candidates to be turned over to agents. In addition, products that are not important to a retailer's brand, especially those that sell in low volumes, are far better candidates. (See Exhibit 1.) Retailers should retain sourcing of products that give them a major advantage over rivals—especially those that customers favor because of their design and components. Consider REI and North Face. Both companies have attracted legions of rabid admirers for their outdoors clothing and equipment because of the materials, capabilities and fit of their products. Those products are critical to their overall brand image.

Sourcing activities for products that sell in lower volumes and represent a small percentage of a retailer's total sales are more likely candidates for outsourcing. This is especially the case for products with high technical requirements for manufacturing. An apparel chain that takes on a jewelry line is a good example. Manufacturing is highly complex and volume is likely to be low, at least in the first few years. Many apparel chains have turned over to agents the sourcing of products with high technical skill requirements such as bras. For example, Mast has picked up sourcing of many retail bra lines because of the expertise it has gained from managing production of the parent company's bra lines (Victoria's Secret and others).

EXHIBIT 1: To Source or Not to Source Directly



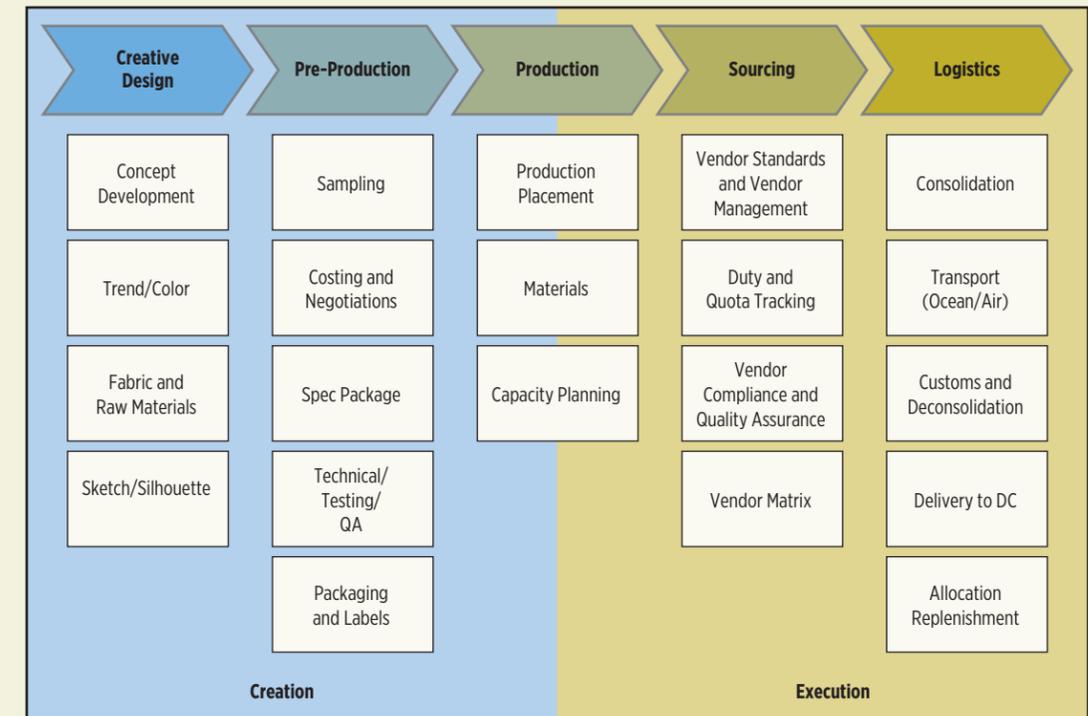
In addition to choosing what products (if any) to hand over to a sourcing agent, retailers must also decide what processes to farm out besides the management of manufacturers. A retailer could outsource technical design, product development, product costing, strategic partnerships or R&D to a third party. (See Exhibit 2.) Sourcing agents are improving their capabilities in each of these areas. That increases the prospect of turning over everything—save for coming up with a product concept—to a sourcing agent. For highly technical, low-volume products that do not differentiate a retailer, the prospect of farming out design, development and sourcing might be highly appealing.

Creating the Right Operating Model

Having decided what products and processes to turn over to a sourcing agent, senior retail executives then need to structure the sourcing arrangement carefully. Saying that one side will do design and development and the other side will order raw materials and finished product is still at too high a level to avoid misunderstandings.

A retailer must determine and document what each side is responsible for at a detailed level. This will not be simple to do because of the nature of the product design-to-manufacture process. Where does the creative work end and product development begin? Giving a sourcing agent wide latitude to interpret a design and decide on its components increases the chances that product samples will be unsatisfactory. Forcing the agent to come back with more sample iterations lengthens time to market. That, of course, will curtail a retailer’s ability to be on-trend.

EXHIBIT 2: Product Development and Supply Chain Operations That Can Be Outsourced



While agencies and importers capable of taking on the entire product process exist throughout the industry, retailers and brands must analyze their capabilities and competitive advantages to decide if they want to outsource their decision-making or solely the execution functions.

How much latitude to give a sourcing agent over determining product materials and negotiating with suppliers of them can be another bone of contention. Many apparel retailers have had to manage this closely. Agents often are competent at sourcing whole garments but may not be as good at pre-positioning: alerting fabric, trim and other piece-goods suppliers to the quantities and timing they need to ensure they are ready when the garment factories order. Retailers who order large volumes of similar materials or who have very specific product needs must recognize that their success may rely more on the sourcing and negotiating of these piece goods than on the finished garments.

Getting clarity on who is responsible for what—and getting it in writing—is crucial to making the sourcing deal work for the retailer. Retailers should take the lead in writing the contract and not abdicate it to the agent, which we’ve seen many times. While they may not be willing to reduce their commissions, agents are otherwise flexible—especially about which side does what in the cross-functional process of product design to product delivery.

Optimizing Your Side of the Relationship

Retailers must recalibrate themselves so that the new joint process for product design, development and manufacturing remains built for speed. Design, development and procurement managers need to anticipate where handoffs with the agent could go wrong. With products that differentiate a retailer and whose components are important to customer satisfaction, a retailer must keep a strong hand in, and retain veto power over, the selection of raw materials suppliers. One major discount department store chain is known for closely managing its agent's raw materials suppliers.

Outsourcing sourcing may also require a retailer to build in more time for product design and development. The example in the previous section of the retailer who gives a sourcing agent more say in product design and materials shows what a chain must do to deal with longer times to develop product samples. The retailer could start product planning earlier than it is accustomed to. It could also shorten its processes. In product design and development, this will demand process simplification of the type that product lifecycle management (PLM) systems can enable.

The last area a retailer must improve before turning over sourcing is its capabilities in managing sourcing agents. After letting a third party manage a significant portion of the supply chain, retailers have found that planning and facilitating the process become all the more important. Agents typically require retailers to forecast their volumes by product category for six- and 12-month timeframes. While this is good practice for all retailers, the move to an agency makes it a contractual requirement. In addition, it forces a retailer to not only get visibility to the progress its suppliers are making, but also its agents.

The need to raise cash, reduce fixed costs and manage mounting supplier complexity forces all retailers to consider turning over sourcing to agents. But the decision can be a monumental one over the longer term. If it isn't done with a clear understanding of how to manage product development and supply with a new partner, a retailer could find itself locked into a deal that puts it at a competitive disadvantage. The right due diligence is necessary for retailers to turn a sourcing agent into a marketplace advantage.

LEARN MORE

You will find the first part of this article on scrutinizing outsourced sourcing at www.kurtsalmon.com/outsourcedsourcing1.

Kurt Salmon Associates

Kurt Salmon Associates is the leading global management consulting firm specializing in the retail and consumer products industry. We leverage our unparalleled industry expertise to help business leaders make strategic, operational and technology decisions that achieve tangible and meaningful results.

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