



# MODERN SUPPLY CHAIN MANAGEMENT: BALANCING TIME AND PRICE

How Indian suppliers can benefit from  
changing Western requirements

10 October, 2013

# What is the difference between these two products?

*Betty Barclay*

Wholesale brand



**RETAIL  
PRICE**

27,95 €

92 % cotton, 8 % spandex  
about the same weight

- Sourced via importers
- Produced in Turkey



Vertical brand



**RETAIL  
PRICE**

9,00 €

92 % cotton, 8 % spandex  
about the same weight

- Directly sourced
- Produced in Bangladesh

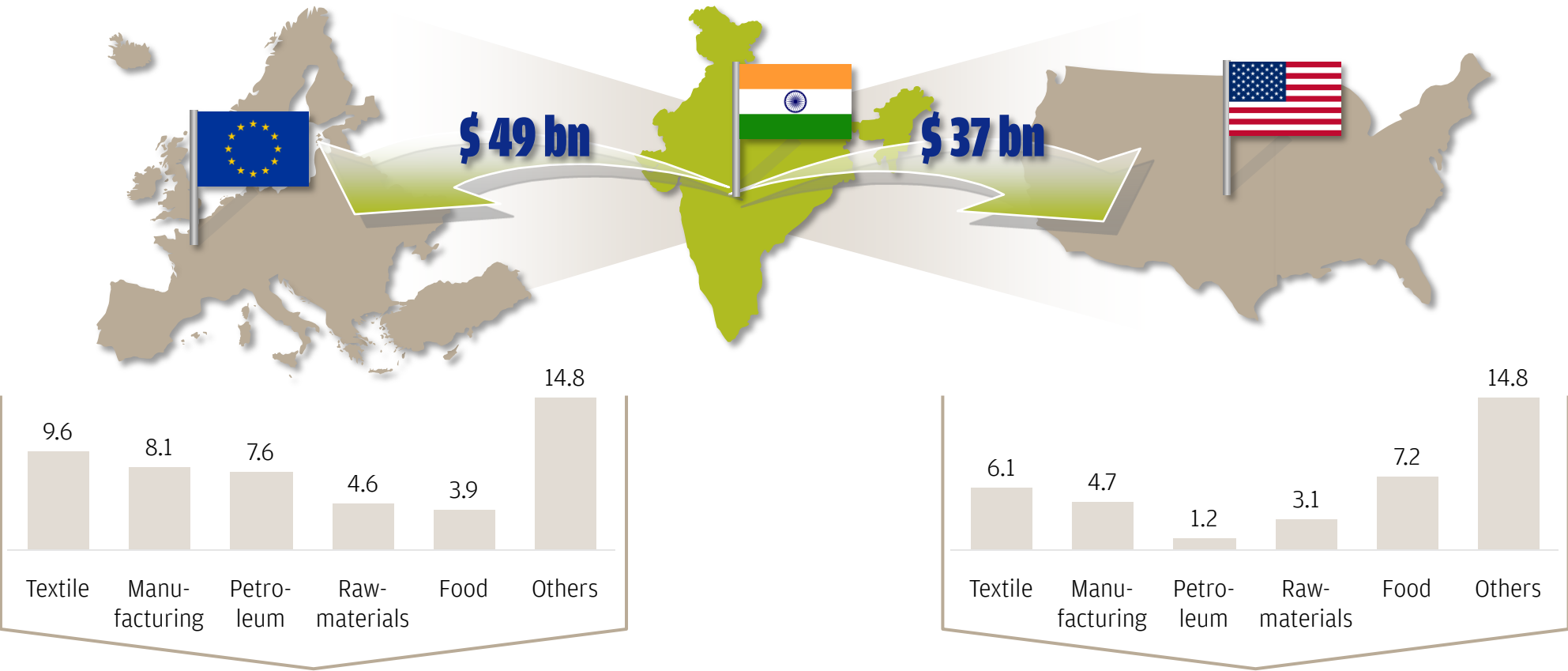
# Modern Supply Chain Management: Balancing Time and Price

## Agenda

- India is already an important supplier for most Western countries
- Western demand patterns and therefore the rules of the game are changing dramatically
- Indian suppliers will be able to further increase their business if they adapt promptly to these changes

# India already accounts for about 2% of Western import volume

Indian exports to USA and EU, 2012  
In US \$ bn



**2% OF ALL EU IMPORTS**

**2% OF ALL US IMPORTS**

# India's positive development is mainly based on its low labour costs and its strengths in the service sector

## India's key success factors

Large work force with relatively low labour costs

Partly well-educated work force (mainly within strong service sector)

Structural changes with broad governmental support

Heavy increase of domestic demand

**GDP<sup>1</sup>**  
CAGR 2007-2012

**6.5%**

**Exports of goods**  
CAGR 2007-2012

**14.4%**

**General  
government  
expenditure**  
CAGR 2007-2012

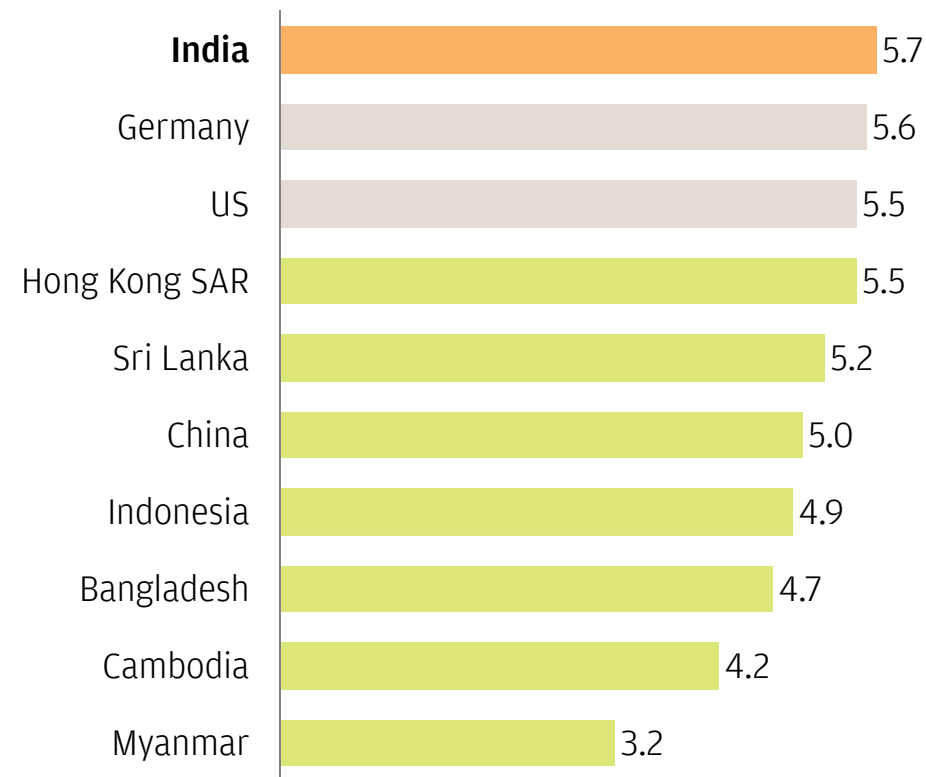
**16.1%**

# However, to further gain, numerous Indian suppliers have to improve their quality level...

## Global competitiveness index – selected supplier criteria

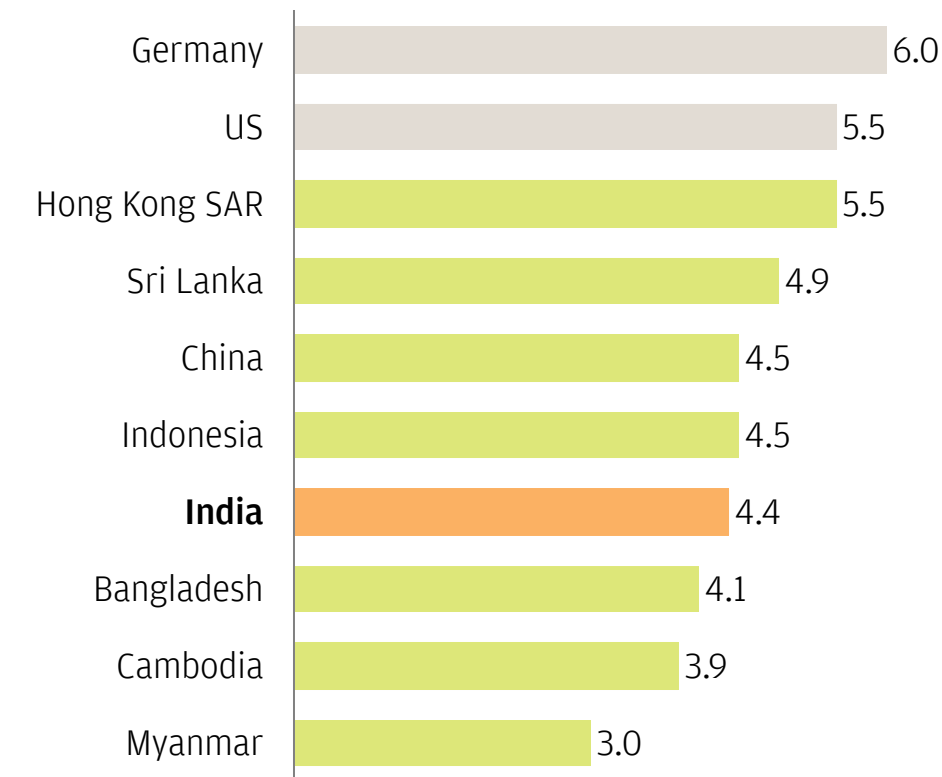
### GCI: Local supplier quantity<sup>1</sup>

Score from 1-7 (best)



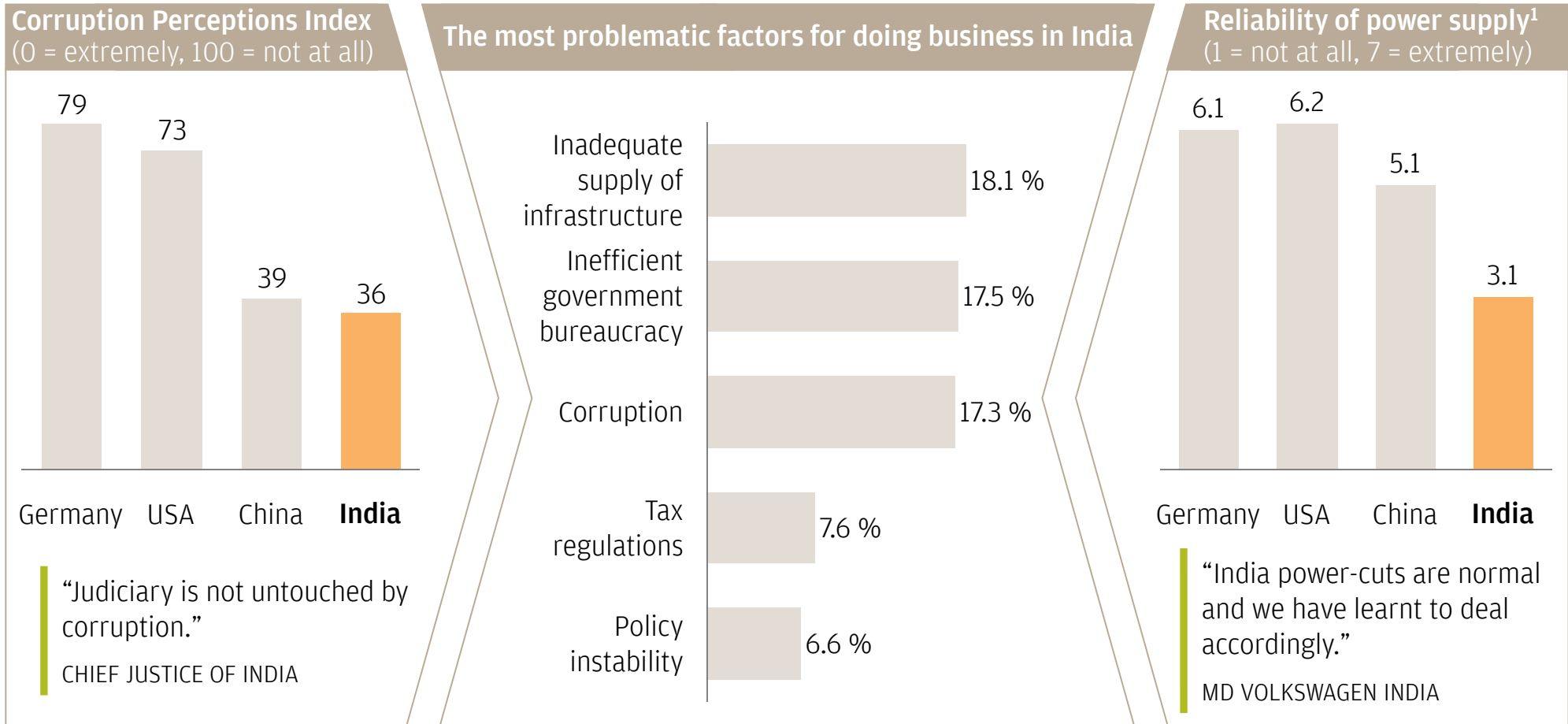
### GCI: Local supplier quality<sup>2</sup>

Score from 1-7 (best)



# ... as well as cope with a quite challenging environment – one of the main challenges are India's infrastructural problems

## Selected economical criteria for doing business in India



# India's trade logistics sector is increasingly under pressure

## India's trade logistics sector

Back-up

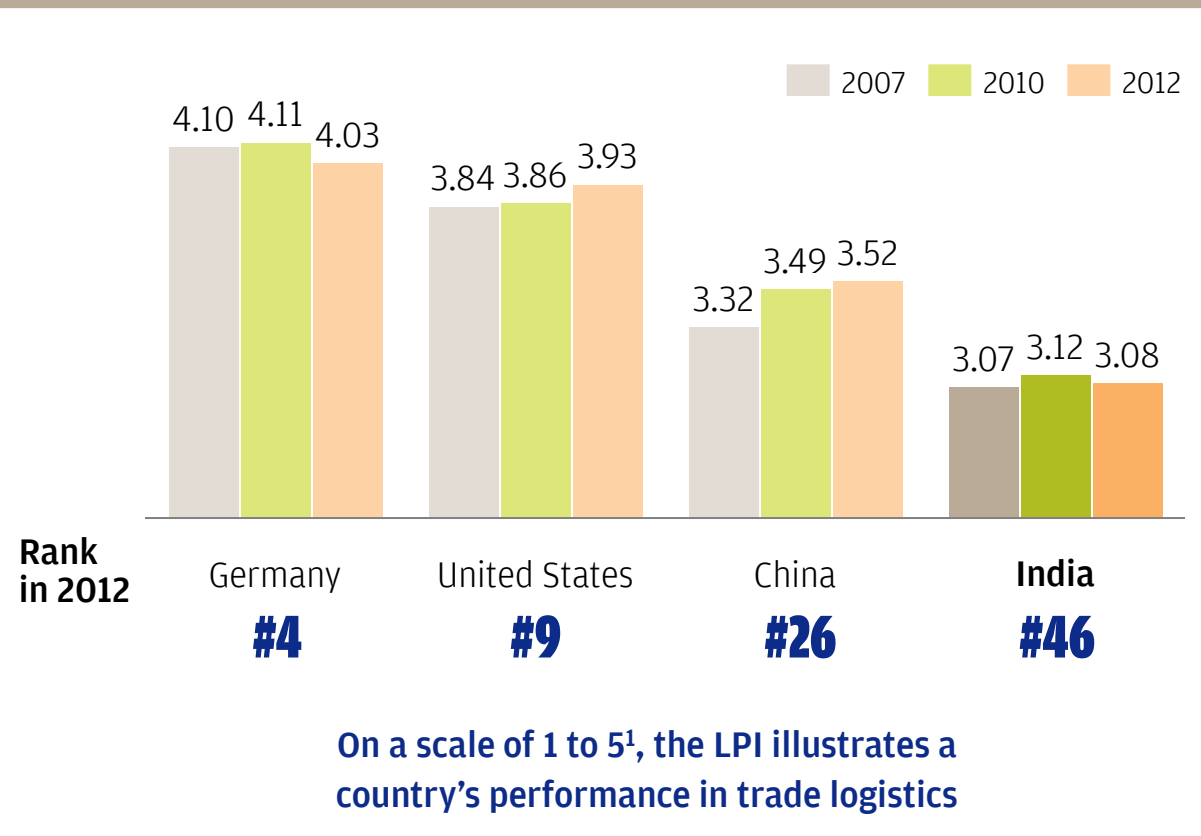
### Status quo

- India's rapid economic growth over the last decade has put pressure on its limited transportation infrastructure
- The sector has received growing attention from the government and the public
- The fulfilment of India's economic growth aspirations would be seriously challenged by this shortage

"India's greatest impediment is its inability to quickly and efficiently move products from inland facilities to its ports."

INBOUND LOGISTICS MAGAZINE

### The Logistics Performance Indicator, selected countries - 2007, 2010, 2012





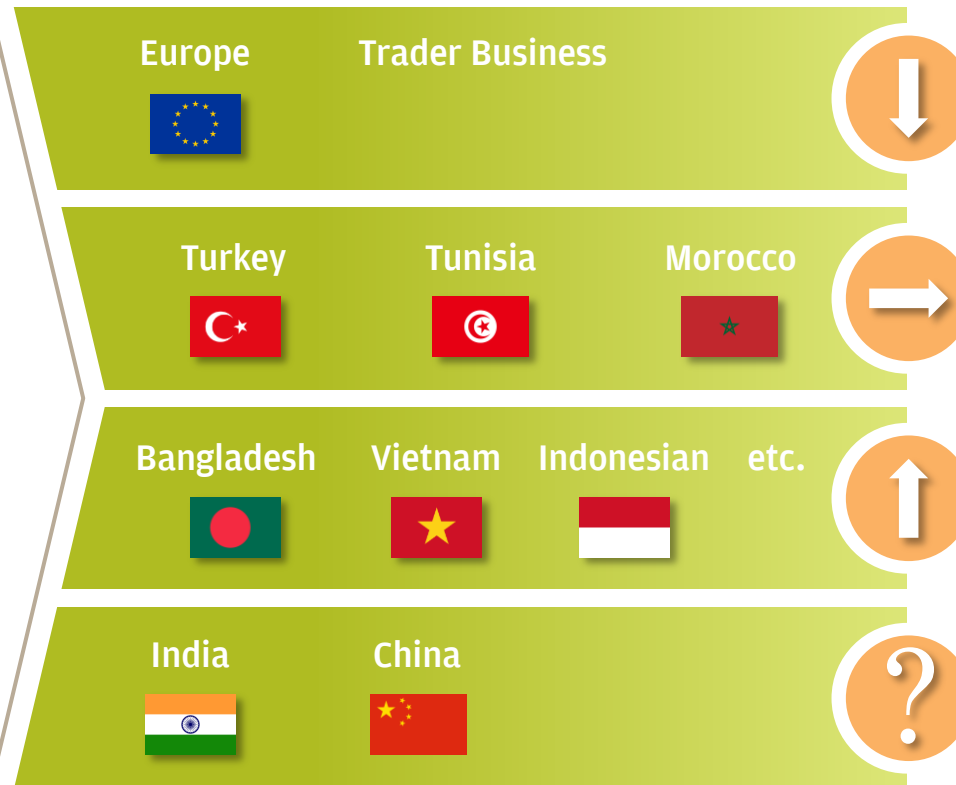
# In its main export industry fashion, India is competing with well-established and fast-developing countries

## Fashion industry – expected volume shift between supply markets

Illustrative

### Volumes are expected to shift because...

- ...customers want to reduce their dependency on a few supply markets
- ...smaller volumes are consolidated
- ...cost benefits are exploited
- ...lead time is of increasing importance



How can Indian suppliers benefit from expected volume shifts?

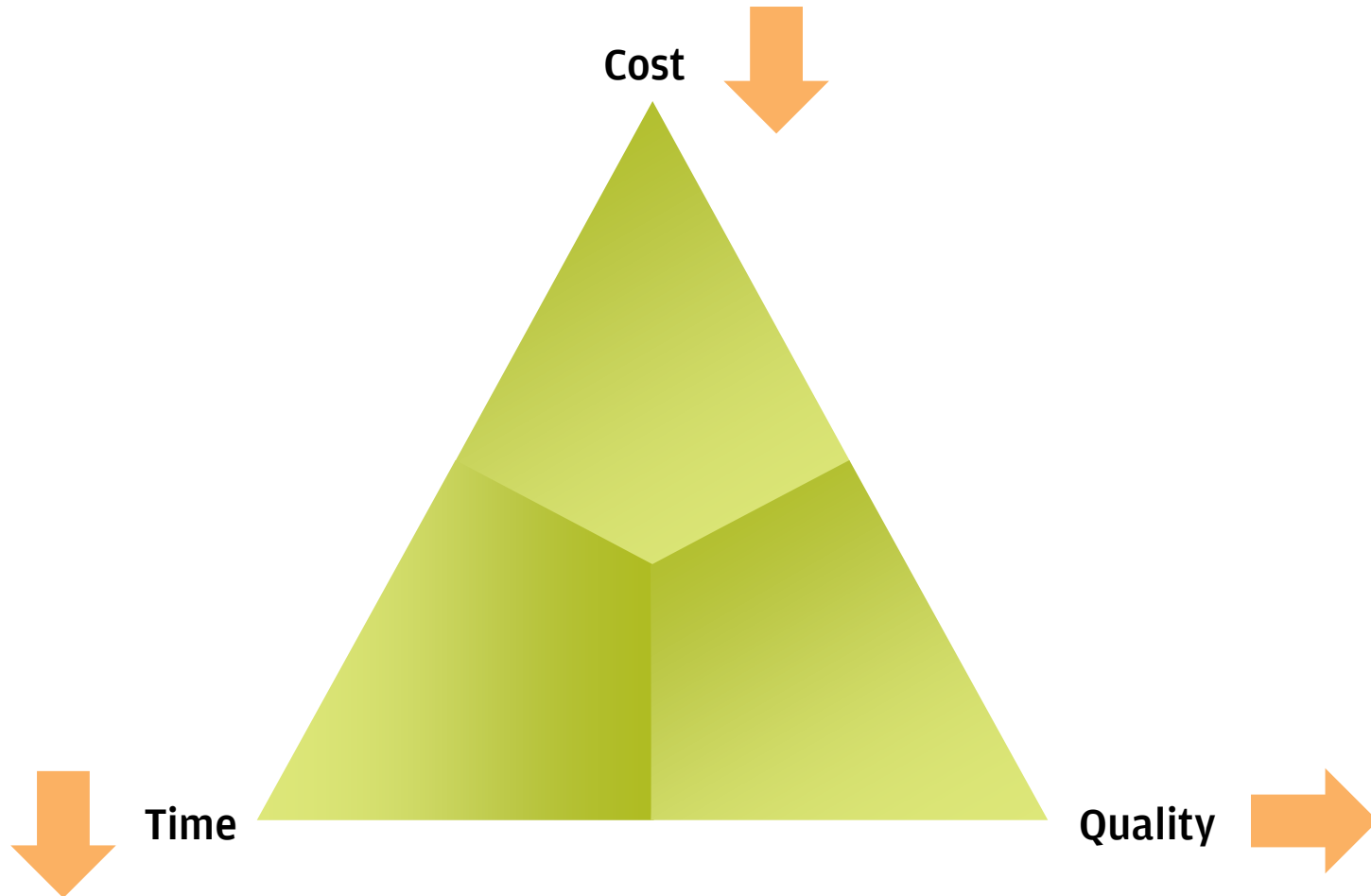
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# To be on the winner side, it is key to understand your customers' needs – is it enough to be just faster and cheaper?

## Supply chain targets



# Your customers' world and therefore their habits are changing dramatically!

## Main consumer trends and consequences for retail business models

### MAIN CONSUMER TRENDS CHANGE THE RULES OF THE GAME...

Faster trend cycles that are more challenging to determine

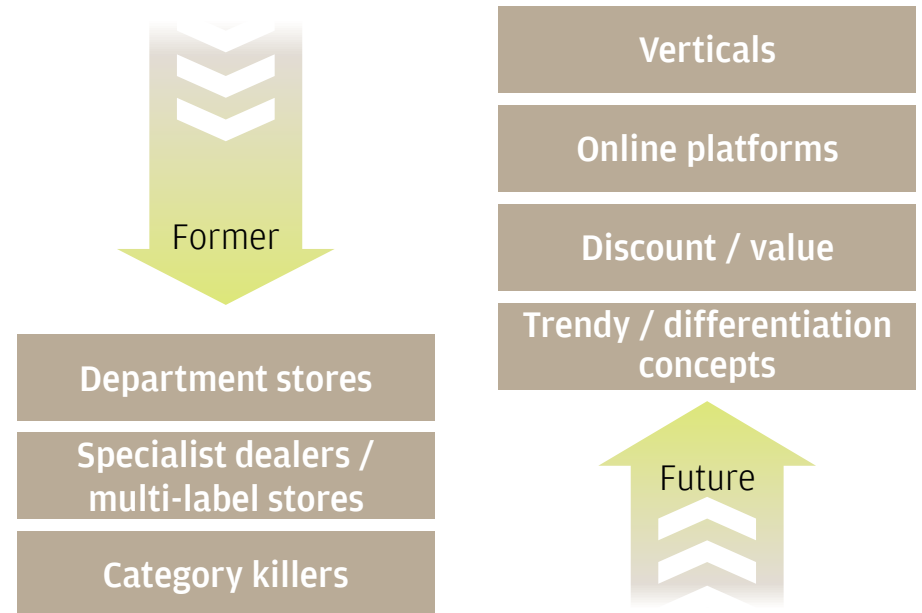
Increasing consumer expectations concerning product offer and its presentation

Better-educated consumers, also with regards to costs

High data based transparency of consumers' behavioural patterns

### ...AND FORCE YOUR CUSTOMERS TO ADVANCE THEIR BUSINESS MODELS

#### Successful business models



# Which business models do your Western clients rely on? The losing or the upcoming ones?

## Successful retail business models – former and future



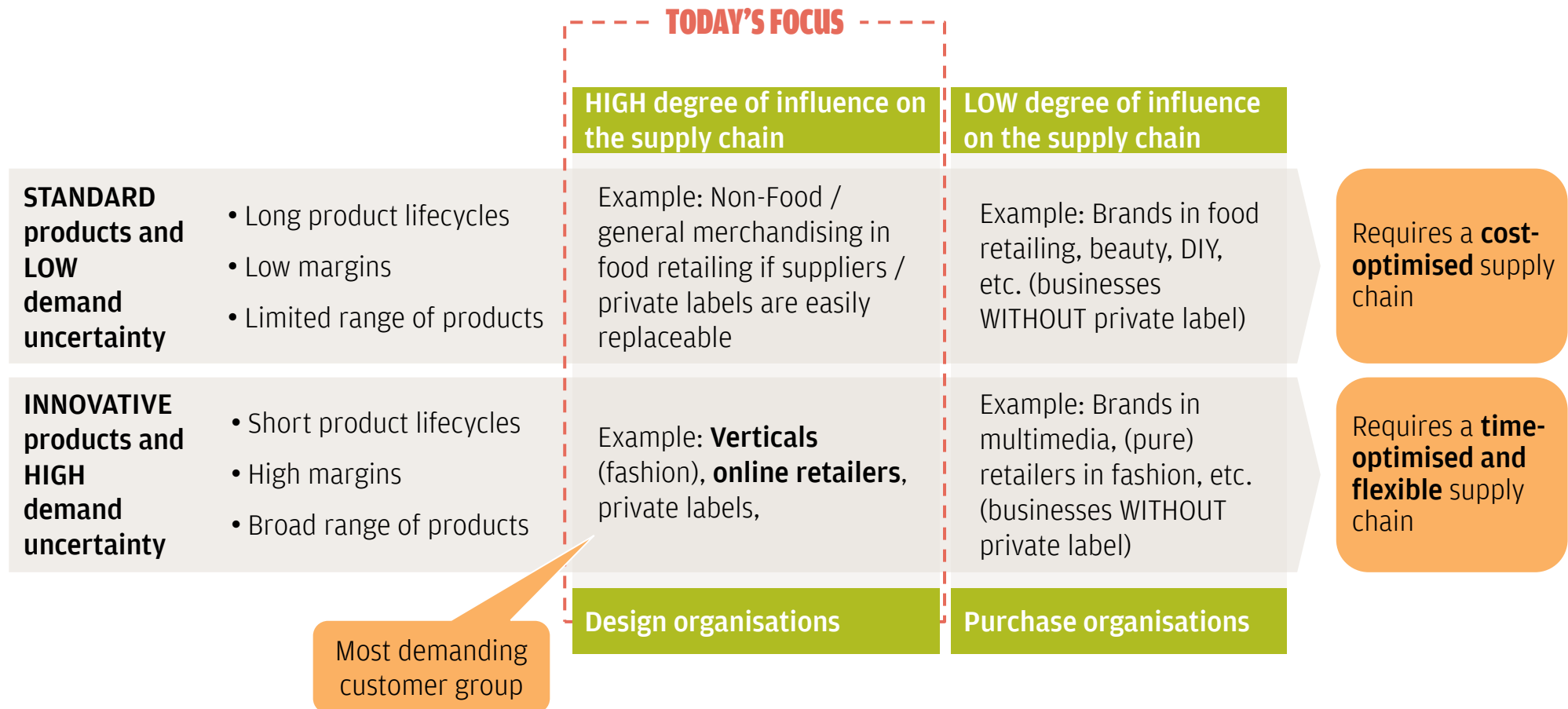
Department stores	   
Specialist dealers / multi-label stores	Wholesale brands
Category killers	  

Verticals	   
Online platforms	   
Discount / value	  
Trendy / differentiation concepts	 



# Most of those upcoming business models benefit from increasingly influencing their supply chain

Success factor “degree of influence on your supply chain”



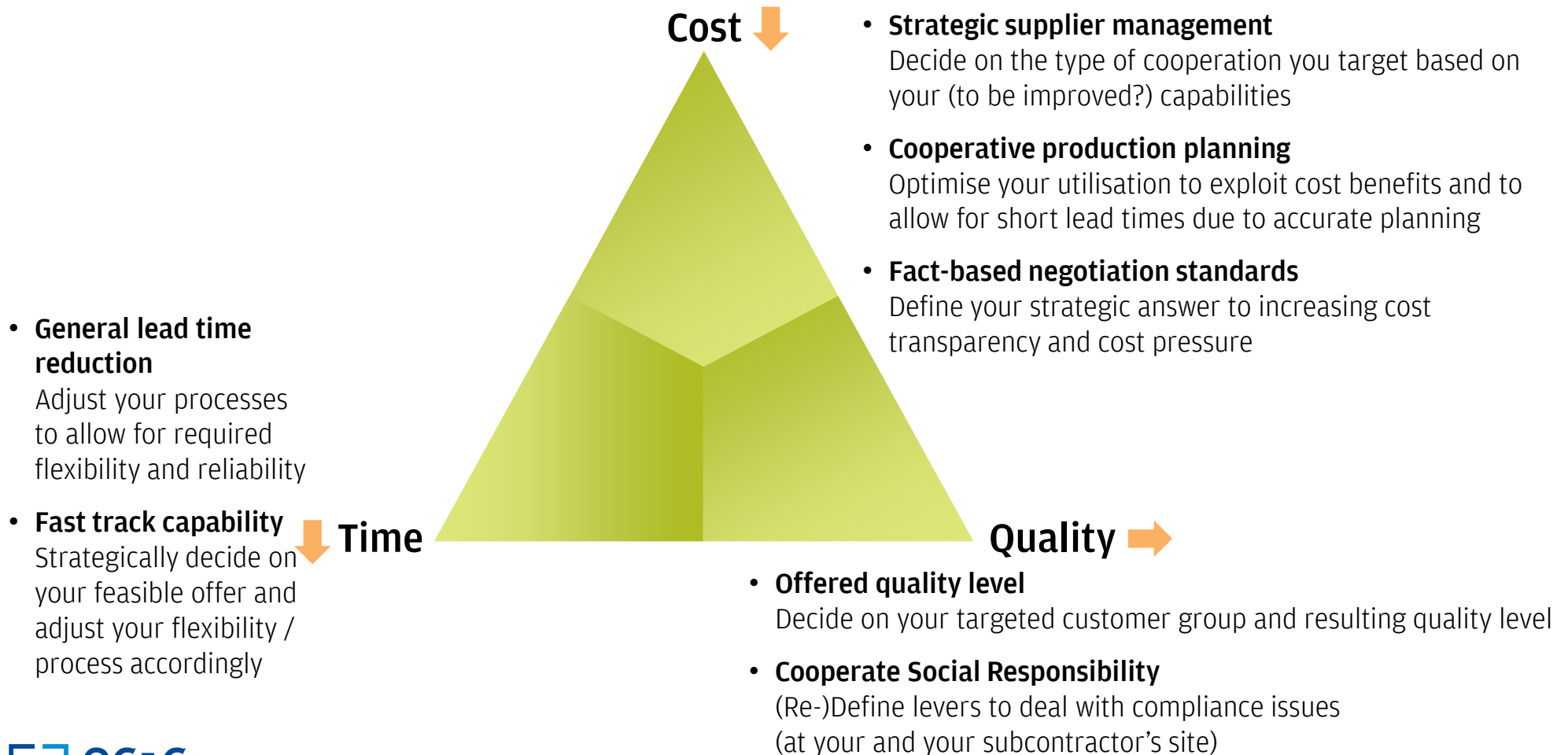
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## Levers to optimise supply chain targets





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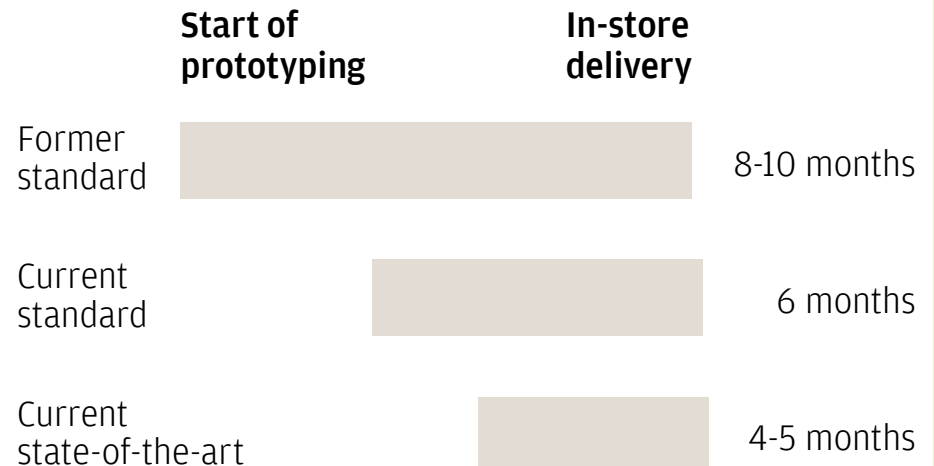
# Advanced fashion brands have shortened their lead time expectations dramatically

Fashion industry – changing trend cycles and resulting lead time expectations (lead time = Asia to Europe)

To best meet current trends, advanced fast fashion brands and their followers...

- ... decide about product details as late as possible to be able to consider latest trends and internal sales data
- ... aim to present their consumers new products every week

...have shortened their lead time expectations radically



**WHAT IS NEEDED FOR INDIAN SUPPLIERS  
TO FULFILL THOSE REQUIREMENTS?**

# Shorter lead times enable brands to better predict demand and lower their cost resulting from incorrect forecasting

## Effects of shorter lead times on rate of incorrect forecasting and stock level

Back-up

### Orders vs. sales

#### Inventory development



### Total costs due to „forecasting errors“

#### Out of stock costs In € m

€ 58 m

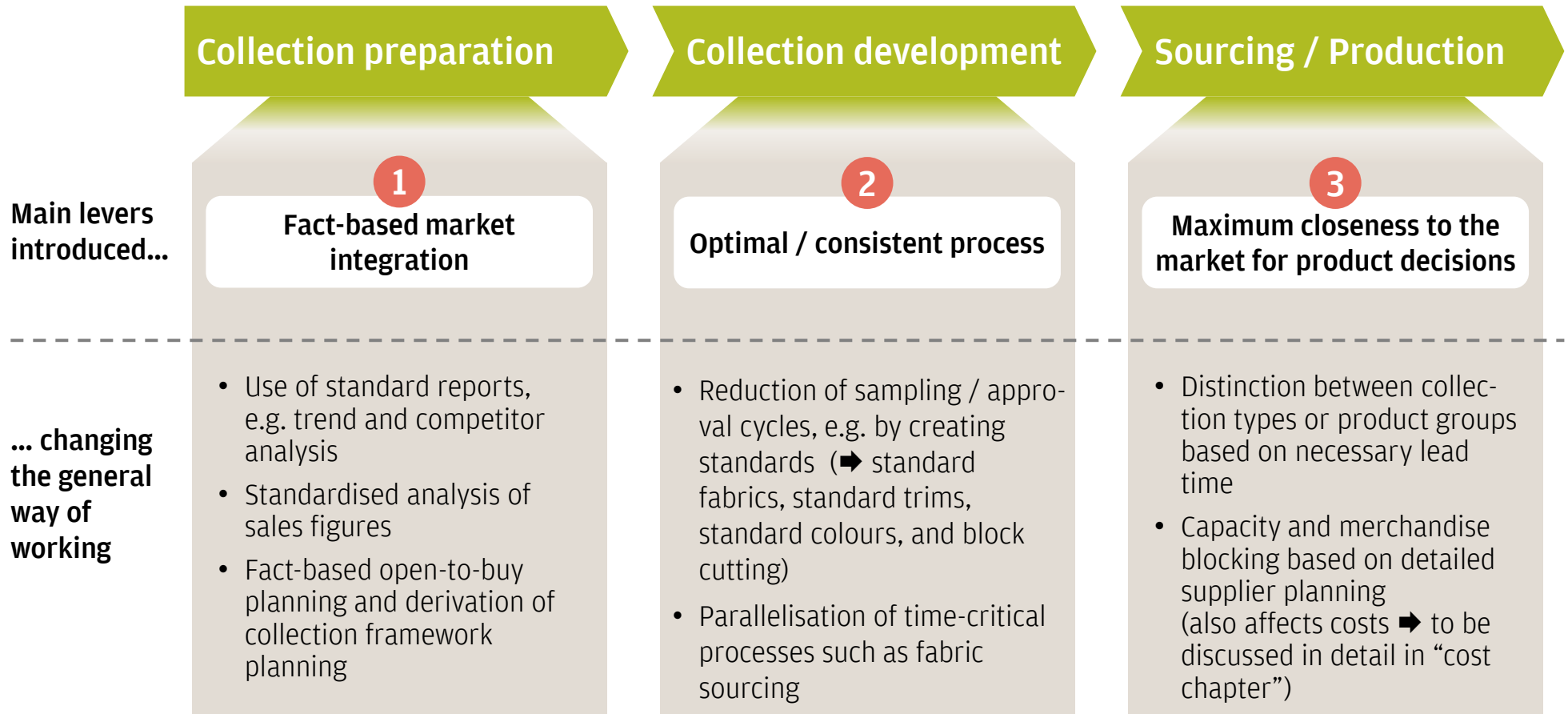
#### Costs due to high inventory levels In € m

€ 52 m



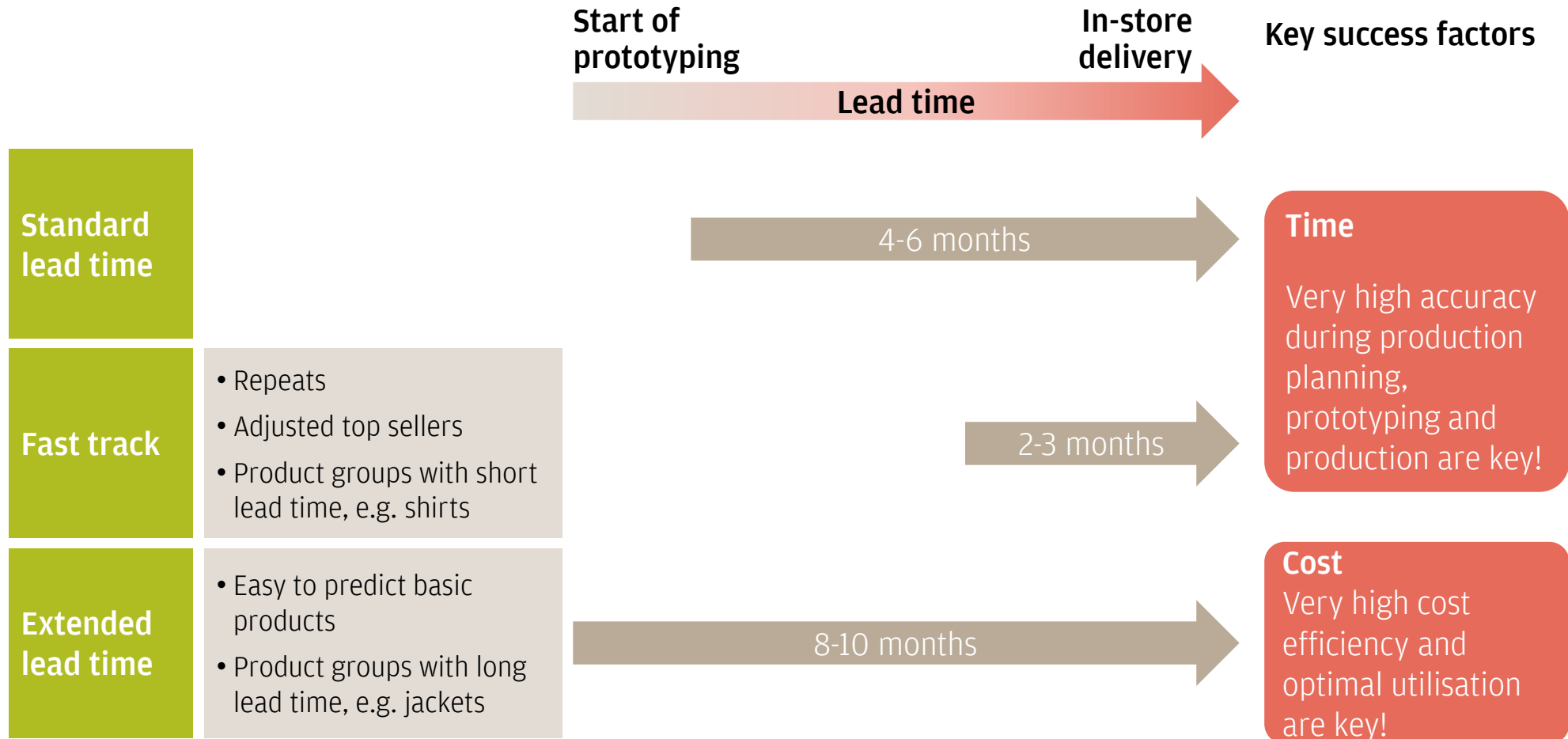
# To enable lead time reduction, advanced fashion brands have adjusted their general way of working

## Overview of levers for process optimisation



# Some fashion brands have started to decouple their product-related processes – are you fast track capable?

## Different lead times in a decoupled product-related process



# In summary, the changing way of working requires high flexibility, accuracy and reliability of suppliers

## Main requirements for suppliers resulting from shortened lead times

### Main requirements during production process

- ✓ **Fast and on-time prototype delivery** as prerequisite to be considered during product selection process
- ✓ **High quality prototypes** reflecting all worksheet details and meeting brand's fitting standards
- ✓ **Very fast delivery of lab dip** to ensure approval of lab dip together with prototype at the latest for prototype meeting
- ✓ **Final approved lab dip required for Selection / Costing meeting** to ensure to be considered during order process
- ✓ **Fast and on time delivery of 100% appropriate samples** as pre-condition to be considered during order - some brands products might not need a sample as they only work with protos
- ✓ **Immediate start of fabric production and sourcing of time critical trims** after order and before final approval of size set to ensure on-time delivery
- ✓ **Immediate start of production** after final approval of size set to ensure on-time delivery (Western brands plan potential production capacity with suppliers in advance)

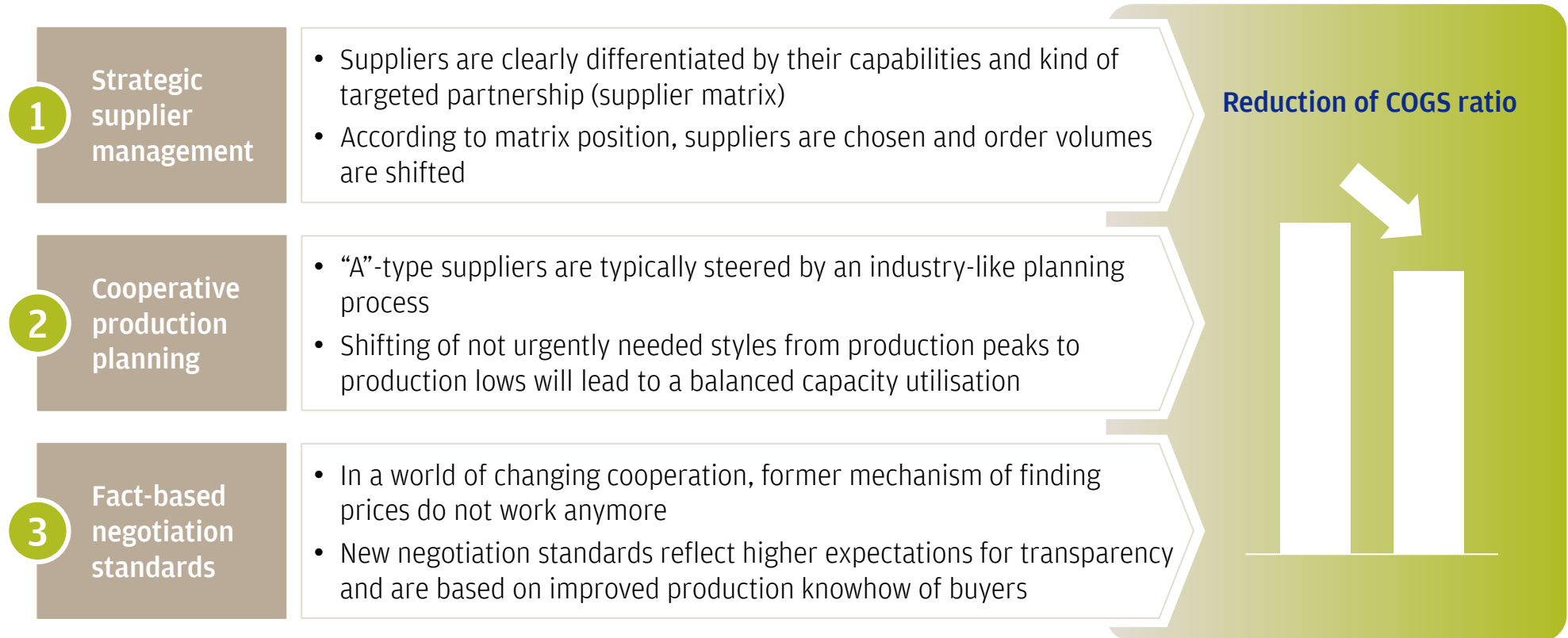
# To supply upcoming models, it requires more than reducing costs: Strategic thinking, flexibility & reliability are key!

## Levers to optimise supply chain targets



# Main levers to reduce COGS are (1) strategic supplier mngmt., (2) production planning & (3) fact-based negotiation standards

## Levers of Western brands to reduce COGS (summary)

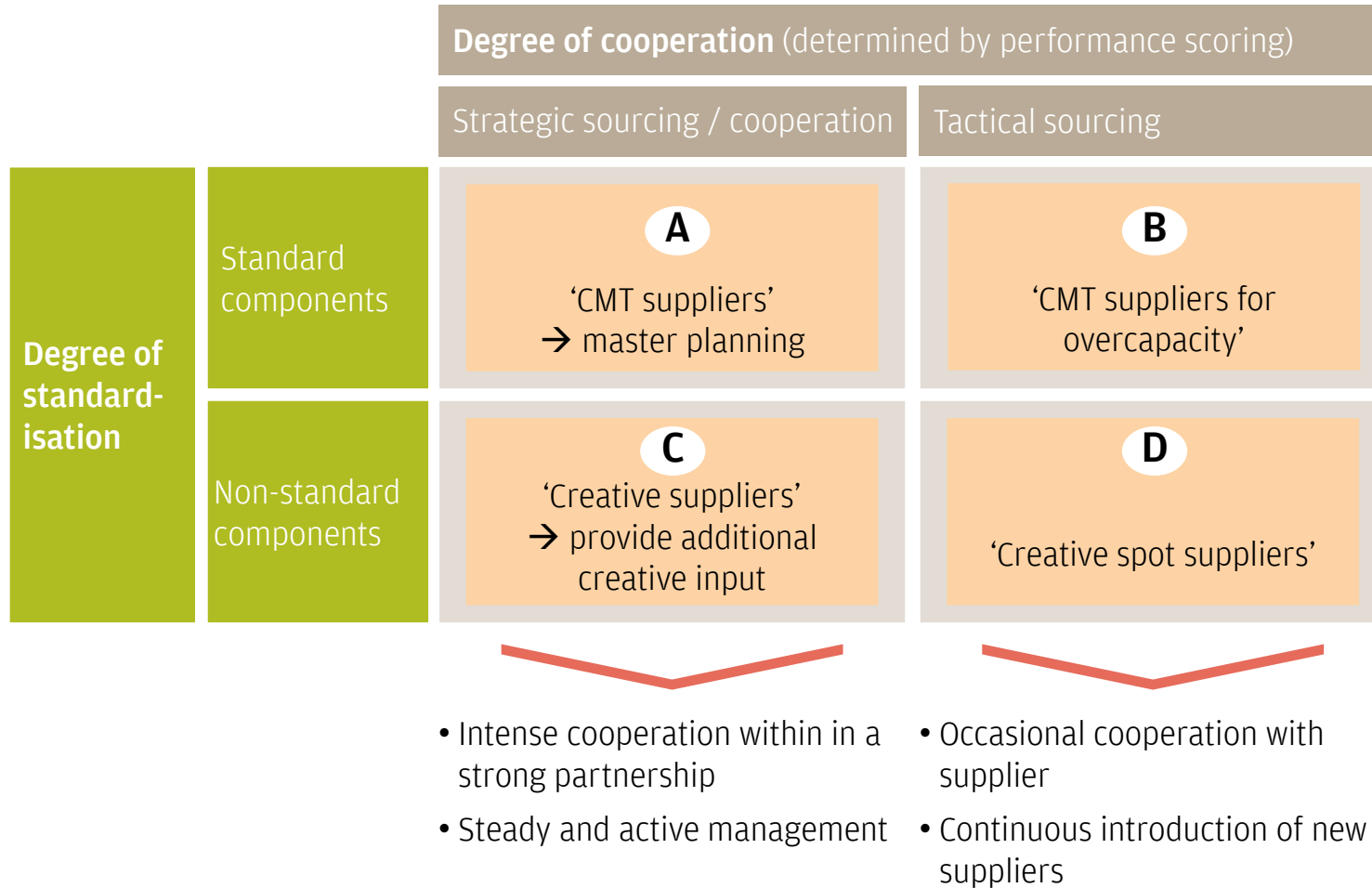


**HOW CAN INDIAN SUPPLIERS BEST DEAL WITH THE INCREASING PROFESSIONALISATION AND RESULTING PRICE PRESSURE?**



# Active portfolio management: Suppliers are differentiated by their capabilities and kind of targeted cooperation

## 1 Strategic supplier management – supplier matrix



### Key Questions

- How do you perform in your customers' scorings?
- Based on your capability, where are you positioned within the matrix? From a strategic view, where do you want to be positioned?
- Is it an option to invest in more integrated offers including design / R&D to defend against low cost competition? → C-supplier

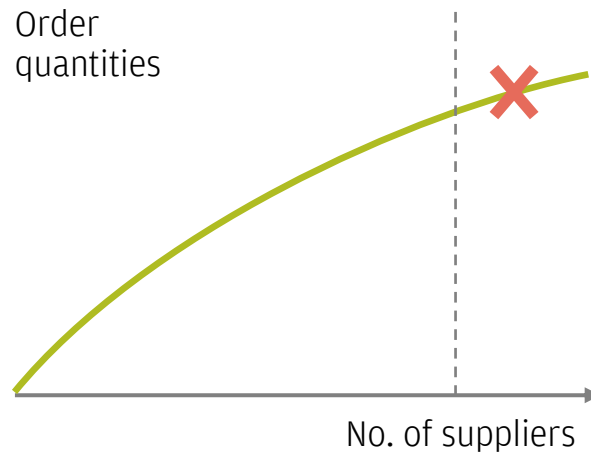
# According to matrix position, order volumes are shifted

## 1 Strategic supplier management – options to adjust order volume by supplier

### Adjustment of order allocation according to...

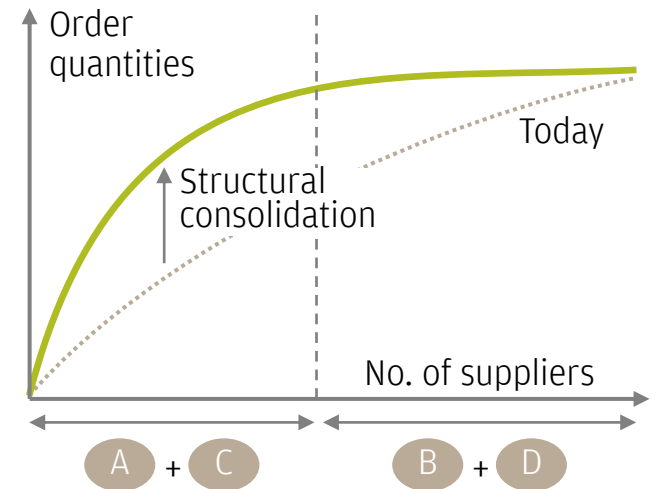
- ... results of scoring suppliers' performance (horizontal position in supplier matrix)
- ... their capabilities (vertical position in supplier matrix)

#### Option 1: NEGATIVE selection



- Elimination of sub-average suppliers ('out' candidates) does not have significant consequences

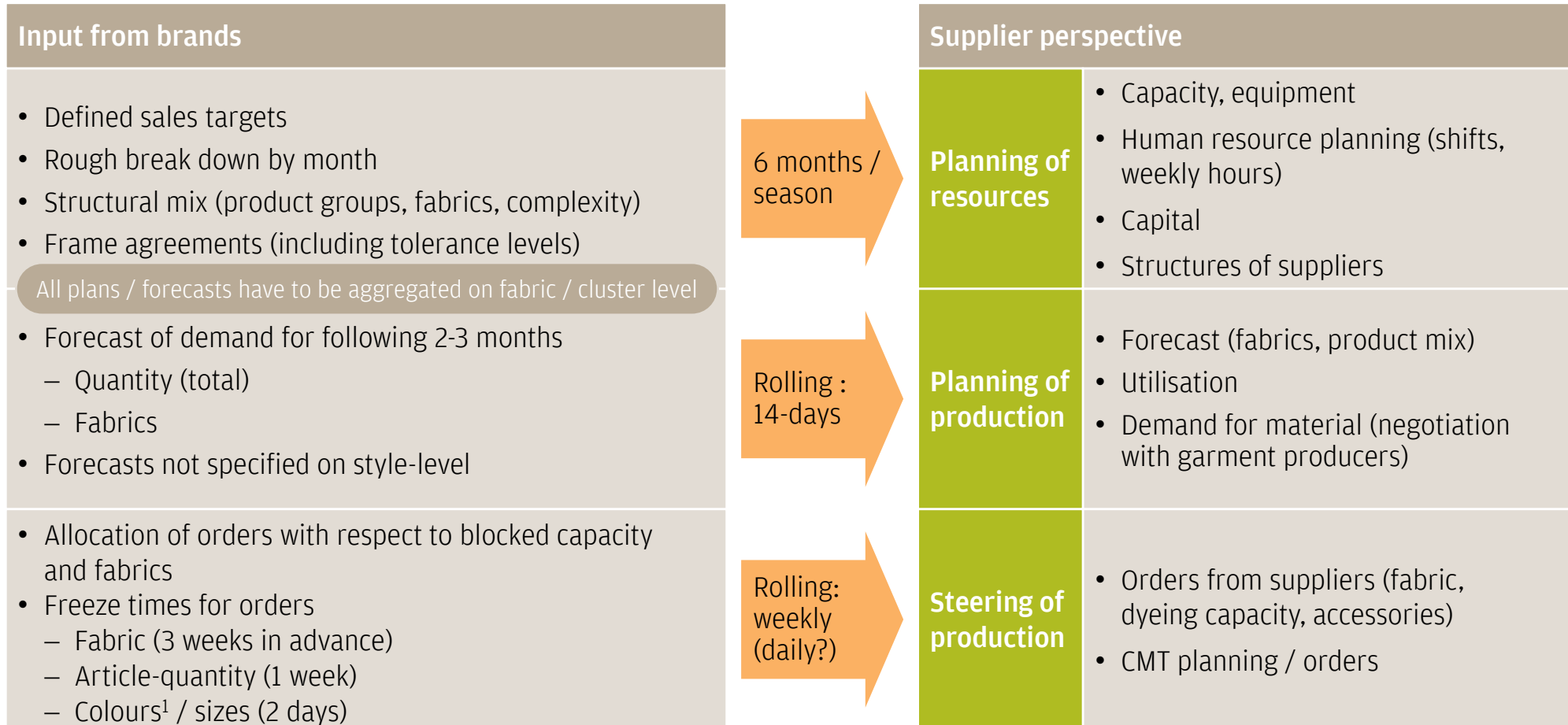
#### Option 2: POSITIVE selection



- Structural optimisation
  - Few large suppliers
  - Reasonable consolidation of order volume

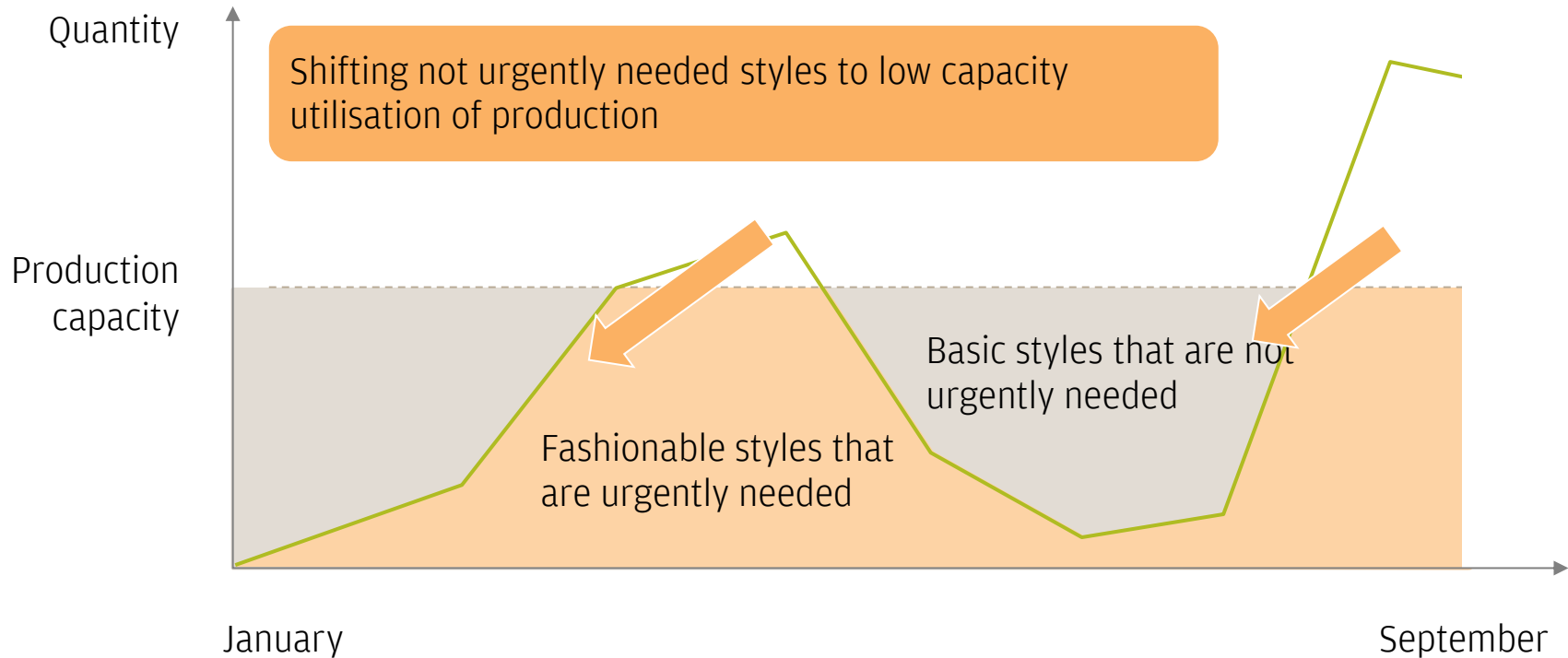
# “A”-type suppliers are typically steered by an industry-like planning process

## 2 Cooperative production planning – planning and steering of “A”-type suppliers



# Shifting non-urgent styles away from production peaks will optimise and balance overall utilisation rates

## 2 Cooperative production planning – balanced capacity utilisation



### Goal

- Balanced capacity utilisation / avoidance of utilisation peaks
- Reduction of inventory (e.g. for NOS)

# To maximise results, best practice Western buyers apply a well-prepared, fact-based, proactive, dynamic negotiation approach

## 3 Best practise for negotiating with suppliers – process

### Maximise results

#### Thoroughly prepare

- Define ambitious top-down targets and differentiate for category and supplier
- Define multiple scenarios (walk-away vs. dream deal)
- Be prepared for the most negative outcomes and identify alternatives
- Determine the value of “exchange money” for the supplier
- Define mandates and roles for different negotiators



#### Negotiate based on facts

- Analyse historical data and developments to build a fact base for each claim
- Understand the economics of both the category and the supplier and use it to support own claims
- Focus on joint value creation
- Share data and analyses to underline your position
- Demand a solid underpinning for each counter-bid



#### Seize and maintain the initiative

- Set the agenda, rules and pace of the negotiations
- Make opening-bid yourself
- “Quid pro quo”: offer the supplier attractive but leveraged counterparts to realise benefits
- Base discussions on own analyses and presentations
- Confirm agreements using own (standardised) templates



#### Continuously adjust tactics

- Control the negotiation process across suppliers centrally from a ‘war room’
- Update the status of the negotiations on a daily basis and assess the implications in a detailed financial model
- Adjust negotiation tactics (‘tone of voice’, roles and mandates, negotiation pace)



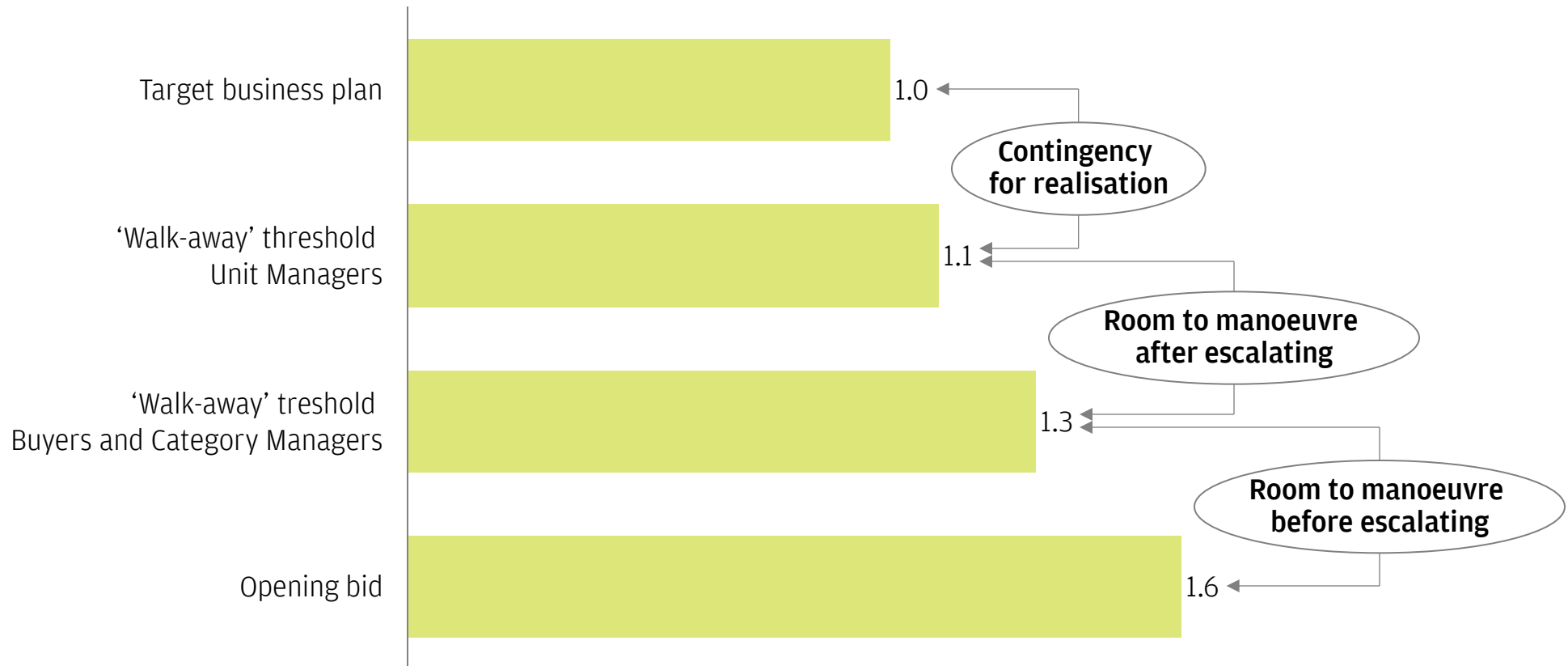
Apply negotiating models suiting best your requirements and your suppliers’ situation

# Thoroughly prepare: Formulate multiple scenarios based on top line targets and current terms and conditions

## 3 Best practise for negotiating with suppliers – scenario setting improvement targets 2013 % of buying value







Project example

Back-up



# As the way of cooperation has changed, applicable negotiation models have changed

## 3 Best practises for negotiating with suppliers – negotiation models

Supplier type		B2B auctions	Open book	Outside-in price determination	Fact-based negotiations
					
Standard components	Planned volumes	Classic auction or package auctions (might contradict production planning)	<ul style="list-style-type: none"> <li>Open book usually very effective, might even be best option</li> </ul>	Outside-in possible	<ul style="list-style-type: none"> <li>Fact-based negotiations as simple and basic solution with a focus on operational improvement</li> <li>Potential can not be realized in full</li> </ul>
	In excess of planned volumes	B2B auctions as best alternative (to find price point)			
NON-standard components	Product design by brand	Possible, based on worksheet details	<ul style="list-style-type: none"> <li>Implementation requires relevance with existing suppliers</li> </ul>	Outside-in possible	
	Product design by supplier				

How can Indian suppliers best deal with increasing price transparency?

# Project example: In order to increase bargaining power, Western brands focus increasingly on bundling of volumes

## 3 Best practices for negotiating with suppliers – rules for order size and frequency

Back-up

### Minimal order size

Evergreen



3.000 / article

Chase



2.400 / article

Planned one-shot



1.800 / article

Read & React



Initial: 500<sup>1</sup>/1.000<sup>2</sup>,  
Repeat: 1.150<sup>3</sup>

**Goal:**  
**Bigger order size**

### Order frequency

Evergreen



1-3 times per season<sup>4</sup>

Chase



1-2 times per season<sup>4</sup>

Planned one-shot



1-2 times per season<sup>4</sup>

Read & React



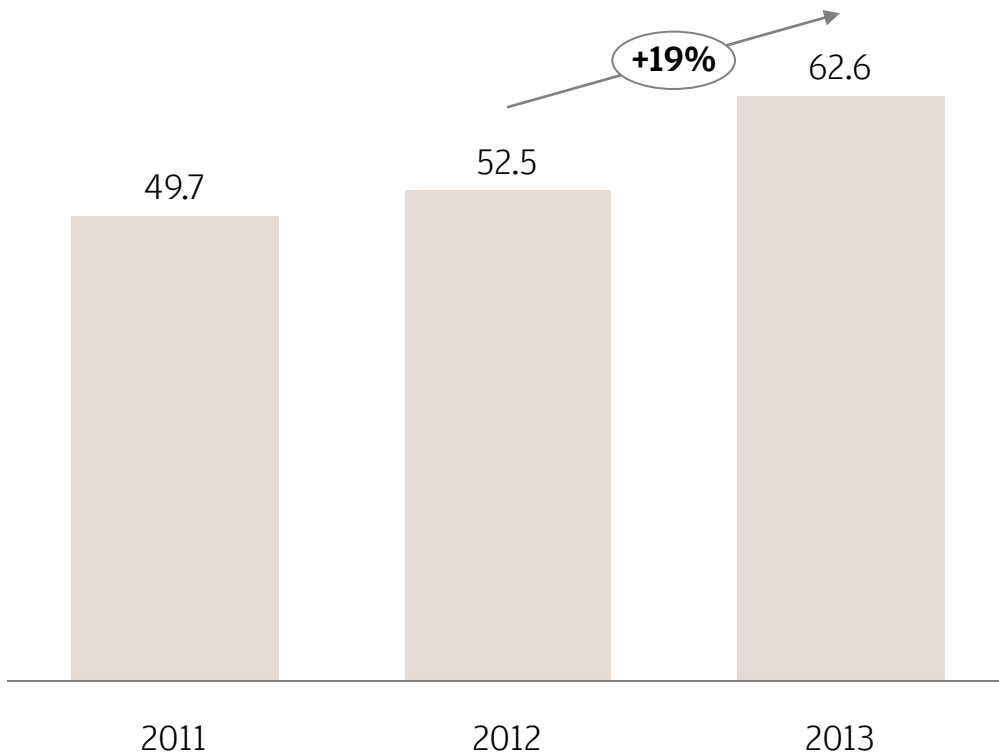
Higher flexibility of  
order process<sup>4</sup>

**Goal:**  
**Lower order frequency**  
consistent with  
higher order size



# Indian's cost competitiveness benefits from recent devaluation – how to best position this during negotiation process?

**Devaluation of Indian Rupee**  
1 US\$  $\triangleq$  x Indian Rupee (1st October)



Positive effect on Indian pricing competitiveness

➡ Indian suppliers should have become more attractive for international customers

**But...**

... how to deal with required imports for manufacturing?

... how to best position devaluation during negotiation process?

# To supply upcoming models, it requires more than reducing costs: Strategic thinking, flexibility & reliability are key!

## Levers to optimise supply chain targets



# Not all of your customers expect the same quality level – quality has to be in-line with brand proposition

## Brand examples for different required quality level



What is your offered quality level and therefore your targeted customer base?

# All of your Western customers expect a quality level corresponding to their CSR guidelines

Negative press can seriously damage Western brand's image

## BBC finds Bangladeshi workers locked in on 19-hour shifts

BBC secretly filmed workers making clothes for the supermarket **Lidl**, who were locked inside a factory in the middle of the night. They started work at 7am and were eventually let out at 2.30am. But when reporter Richard Bilton visited the factory posing as a Western buyer, he was given timesheets that falsely claimed the shift ended nine hours earlier.

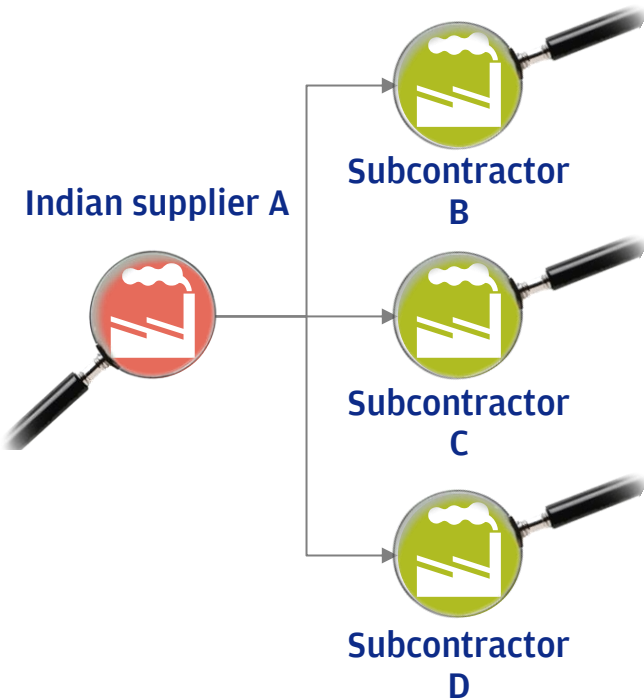
The programme found another factory, making clothes for retailers like **GAP** and **H&M**, that was also hiding long working hours.

Therefore, Indian suppliers liable not only for their own misbehaviour, but also for their subcontractors' ones

### BSCI Code of Conduct

1. Legal compliance
2. Freedom of association and right to collective bargaining
3. Prohibition of discrimination
4. Compensation
5. Working hours
- ⋮
10. Management systems

Indian supplier A



## HOW TO BEST DEAL WITH COMPLIANCE ISSUES?

# Aside from strategic repositioning and redefining internal processes, internationalisation might also be an effective way

## Required skills

### ARE YOU PREPARED?

Design competency

Planning / steering  
competency

Sourcing competency

Cost / production  
efficiency

**Acquisition** of creative  
units located in Western  
world and therefore  
close to end consumer?

**Core competency?**

**Acquisition** of Asian  
suppliers in low labour  
cost countries with  
sufficient  
infrastructure?

...own creative units  
in Turkey and  
Western Europe

...acquired suppliers  
and production sites  
in surrounding  
countries

**FOR EXAMPLE  
SOME CHINESE SUPPLIERS...**

# Asmara is not only well established in all relevant sourcing markets, but also covers front-end function by joint ventures

## Example for verticalisation and internationalisation: Asmara International

### Product development: Close to Western consumers

Western head of design located in Hong Kong

Several designers partly with Western background

Sales office in Turkey

Joint Venture with Western brands  
(TT Sourcing ➔ Tom Tailor, Bonita)

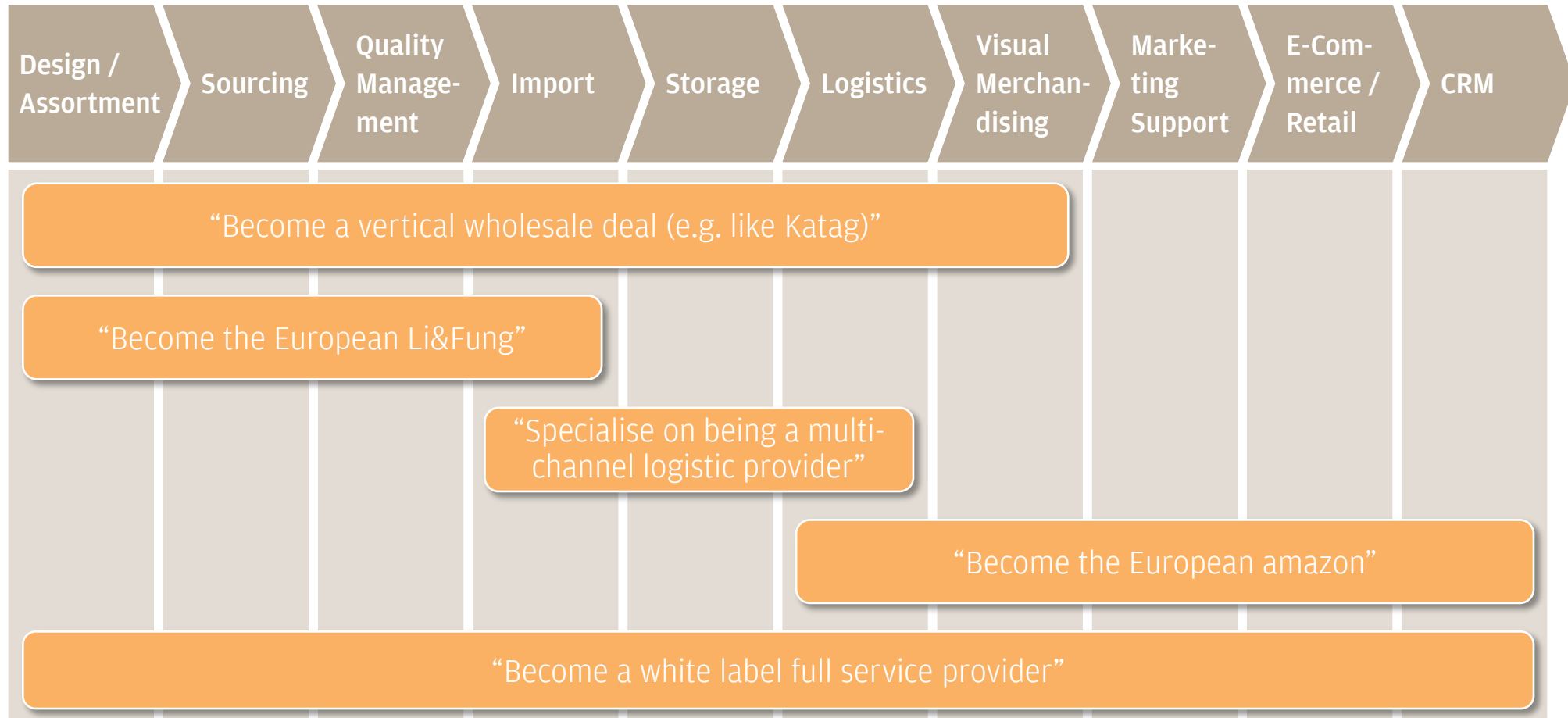


### Production: Present in all relevant sourcing markets



# Also European multi-channel retailers target to further internationalise to become more vertically integrated

Project example: Options for verticalisation / internationalisation of an European multi-channel retailer



Your challenge! Your opportunity!

**THINK STRATEGICALLY!**

**BE FLEXIBLE!**

**BE RELIABLE!**

**GO INTERNATIONAL!**



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SHANGHAI  
WARSAW**



**Thanks for your attention**

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