



PSF 2011: Efficiencies essential to offsetting rising prices

4 April 2011 | By: Leonie Barrie

If there's one certainty facing the apparel sector in the years ahead, it's that prices are going to rise wherever garments are sourced. That said, supply chain efficiencies are going to be a major driver going forward, with the front end of the process likely to bear the brunt.

Rising wages, worker shortages, higher freight rates, currency hikes and surging cotton and synthetic fibre prices are among a cocktail of costs currently combining to end more than a decade of price deflation in the apparel industry.

But while the bad news is that higher costs look set to stay, the good news is that there is still plenty of room to offset them by introducing new efficiencies into the apparel supply chain, according to industry executives speaking at the Prime Source Forum in Hong Kong over the past few days.

"It's a good thing to challenge companies to think differently," believes Kevin Burke, president and CEO of the American Apparel and Footwear Association (AAFA).

He points out that despite rising commodity and labour prices, these account for just a small percentage of a product's value. "Think about all the design, product development, administration, retail and marketing costs," he says.

Ed Gribbin, president of Alvanon Inc, agrees that inflation can be an opportunity for companies to do things differently. "We've got to change. We've got so much inefficiency in our product development, merchandising and buying processes."

He adds: "Every CEO knows his full-price sell though, probably by category, probably by country. And if we go in with the idea that 40% or 42% is good, we're saying that more than half we're going to mark down.

"Part of its promotional, part of its bad buying, but there's all this inefficiency and if you can make smaller collections and get them to market faster you can solve part of that problem - which is one of the reasons Inditex has been so successful."

"Buyers have to get more efficient at what they're making because they no longer have the margin to just discount things to sell them off," notes Stephen Forte, managing director of global sales at thread maker Coats. "It's all about sell-through."

While Christophe Degoix, president of The Sourcing Committee at the French Chamber of Commerce and Industry in Hong Kong, adds: "As buyers we have a strong responsibility to 'save' our factories. There's plenty of room to improve. Internally we have to look at our efficiency: number of samples, design changes, raw material deliveries etc."

Efficiency in production is becoming more and more important too.

"We are constantly trying to encourage our suppliers to invest in efficiencies, in internal engineering," explains Veit Geise, VP of Asia Sourcing at VF Asia Ltd. As a retail company with a background in manufacturing, VF still makes two-thirds of its jeans at 25 factories in Mexico.

"When you produce 95m jeans a year, they become a commodity; you don't want to be penny wise and pound foolish later on," Veit notes.

He adds that a recent experiment saw the company put its own layout and manufacturing processes onto three lines at one of its suppliers' factories in Bangladesh - and after six months achieved the same productivity with 40% fewer staff.

"So there's an incredible amount of efficiency that can be saved through thought and engineering. We have 157 engineers worldwide on our payroll, but I see so many factories that don't have even one engineer. And even if they have engineers they don't empower them to really make changes," he laments.

"It's not just the supply chain that's extraordinarily inefficient but also in the line, in the process, where many factory owners and managers hadn't really thought about increasing machine speed by 20-30% to get a much higher yield," adds Stephen Forte.

"Now, with inflation that we haven't seen since the 1970s, we're looking at a new world order and we're planning for a new kind of efficiency in our operations. The average efficiency gain just through process and quality can be around 20%.

"In the past they perhaps didn't move the needle in terms of efficiency because they could throw more people at it, but now they can't."

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