An over view of the v f corporation marketing essay

The international apparel industry has been inevitably influenced by the global recession that was precipitated by the credit crunch. However, this situation provided an “ opportunity to overcome old challenges” (Liu, 2009).

Before the economic crisis began, the industry was confronted with “ being over-retailed and over-supplied” (Liu, 2009) throughout the supply chain; this resulted in inefficiency. During the past 10 months, some famous brands were not competitive enough to cope with financial and economic challenges, forcing them to halt their operations. However, this situation has provided chances for an industry consolidation, which “ entails buyers reducing their number of manufacturing suppliers, and manufacturers narrowing their customer bases” (Liu, 2009).

Research on consumers’ shopping habits proved that their focus priorities are price, brand, and style. Hence, clothing and footwear manufacturers aim at producing “ well-made and cost-friendly goods” (Burke, 2009)

Some U. S. clothing and footwear brands were fortunate to keep their competitiveness in international market by making “ their supply chains more efficient and sourcing many of their goods internationally” (Burke, 2009).

Many clothing and footwear businesses started to adopt international production in the early 1970s. This occurred because competitive, global companies transferred their production from the United States to developing countries to maintain high quality and low prices. By 1978, around 53 percent of footwear products sold in the U. S. market were manufactured outside the U. S. The most current data shows that this number has shot up to 99 percent. Until 1991, 50 percent of clothing products originated from foreign and 50 percent from domestic production.

According to trade data from 2008, about 96 percent of outwear sold in the U. S. was made in foreign countries. This sector is a “ buy everywhere, sell everywhere industry” (Burke, 2009) which forces the involved companies to keep their international competiveness. Consolidation strategy has proven to be a key to success if it is accompanied by cost-effective services and proper human resources management (Liu, 2009).

In addition, following new legislative agendas and government regulations became important since it could give advantages or disadvantages to the firms in the apparel industry. Therefore, keep searching for educational opportunities and experts in the clothing and footwear industry is important. Being involved in a trade association gives insights to successfully tide over any kinds of challenges within the industry. For instance, the American Apparel and Footwear Association (AAFA) keeps its members updated on important issues (Burke, 2009).

Being creative and thinking ahead allowed some clothing companies to perform extremely well in international markets. Pleasing one’s consumers is facilitated since an efficient supply chain results in higher efficiency through lowered prices. In order to stay competitive, an apparel company has to constantly ameliorate its supply chain.

3. VF's current international purchasing and production strategy

VF's current strategy uses a mixture of internal manufacturing and international purchasing (" Cut and make"-contracts, CM). Historically, before it acquired The North Face in the late 1990s, VF internally manufactured its products in about 100 factories. Beginning with the acquisition of The North Face, this production strategy had started to change as the company acquired more brands. The reason for this was that the company's existing manufacturing infrastructure was not well fitted to the lifestyle brands such as The North Face. VF's plants were mainly focused on jeans and denim products and thus were not able to properly manufacture the goods of the lifestyle brands. The company needed to outsource its production to Asia to expand into lifestyle brands and international markets. This resulted in the closure of many of VF's production sites. According to the case material, VF produced about 30% of its products in-house and outsourced the rest from independent suppliers by 2009. The proportion between in-house production and purchasing was different across product lines. For example, 60% of its jeans were produced internally while outsourcing 100% of their lifestyle apparel, footwear and backpacks (Pisano & Adams, 2009).

VF has very strong internal manufacturing capabilities. No other company has such efficient and reliable production processes. The lead time to produce a garment in VF's internal factories is far shorter than the industry average; instead of 30 to 50 days, VF's plants need only 10. In terms of quality and reliability, the defect rates of VF's factories were also below the industry average. When it comes to sourcing, VF had to build up a network of reliable high-quality suppliers. By 2009, it had relationships with more than 1600 contractors and 30 distribution centers (Pisano & Adams, 2009).

VF provides only short-term contracts for its suppliers in order to motivate them to keep their prices low. If a supplier cannot fulfill VF's expectations anymore, the company quickly abandons him and turns to his competitors. Recently, VF has also begun to test a new purchasing approach called the " Third Way", which will be covered in section 5.

4. Analysis of the production / purchasing strategy of competitors

In the following section, sourcing/production strategies of VF's main competitors will be analyzed. Most companies tend to either one of the following extremes: No internal production and complete outsourcing vs. vertically integrated production and only limited purchasing activities (See Table 1).

Table 1

Company

VF

Sara Lee

Liz Claiborne

Zara

Strategy

Mixture between Internal Production, International

Purchasing and “ Third Way”

International Purchasing

Now defunct

International Purchasing

Now: Package Sourcing

Internal Production,

only limited Purchasing

Source: Own Illustration

Clothing producers like Liz Claiborne, Levi Strauss and Sara Lee abandoned their internal manufacturing sites several years ago and began to focus on the marketing of externally produced apparel. The main reason behind this was to achieve cost savings by sourcing from markets with low labor cost and to free cash that had been “ tied up in low-margin activities” (Surowiecki, 1997). Outsourcing drastically increases a company’s flexibility: External suppliers can be switched quite easily when they fail to deliver the promised quality, at the agreed prices or at the appointed delivery date or when trade barriers render making business with a supplier of a certain country impossible. Originally low prices of external suppliers might be reduced even further because the well-known apparel companies are relatively large whereas their suppliers mostly are small factories with low bargaining power.

However, this approach also has major disadvantages: Lead times as well as inventories increase and transaction cost does as well since the need for proper coordination is growing. Suppliers have to be identified and sourcing relationship must be managed. The increase in flexibility mentioned above is thus, at least partially, canceled out. Moreover, a company that relies solely on outsourcing can hardly build up any know-how in terms of apparel production.

Due to the pressure on the suppliers to keep prices low, several problems arise. First of all, the creation of trust is prevented and communication between the involved parties might be neglected. For example, three months prior to the relocation of his plant, one of VF's suppliers informed the company about his plans. Due to trade barriers, VF was unable to maintain its relationship with this supplier and had to urgently find another one. Furthermore, suppliers won't work exclusively for only one client, thus there is high risk of losing know-how to competitors. Most suppliers are also forced to keep their margins extremely low. As a result, they are very likely to become bankrupt during economic downturns or if they lose an important customer. In order to reduce cost, some suppliers also offend against laws and regulations that protect worker rights or the environment. For example, it has been recently discovered that a supplier of Levi Strauss had illegally dumped toxic waste (marketing-interactive. com, 2009). Incidents like this one can have negative effects on the reputation of all involved companies.

To conclude, apparel companies that focus on outsourcing can keep their prices at very low levels, but are exposed to higher risks, especially concerning supply chain disruptions. During the last few years, this strategy has become less attractive. Costs cannot be reduced endlessly. As more and more apparel companies purchase from low-cost suppliers, outsourcing ceases to be a competitive advantage. Differences in purchasing prices become smaller. Companies could be forced to pass the price reductions that outsourcing enables to their customers instead of achieving higher margins. Due to a lack of data, evaluating the outsourcing strategies of clothing companies is quite difficult. However, it should be noted that Sara Lee sold its clothing branch only 9 years after deciding to exclusively rely on outsourcing. Competitor Liz Claiborne halted its regular outsourcing efforts in 2009 and adopted the “ package sourcing” approach (see section 6 Managerial alternatives in this paper).

VF uses international purchasing for its lifestyle brands since its internal production facilities are not suited for the manufacturing of those goods. This enables cost savings, but increases lead time significantly. VF’s lifestyle brand are very popular among customers, low prices are not that important to them. Instead, the availability of those products has to be guaranteed. Hence, long lead times and possible supply chain disruptions are threatening the popularity and success of VF’s lifestyle brands.

The outsourcing approach could be suited for VF’s heritage brand goods. Demand forecasts for those goods are much more reliable than for lifestyle goods, therefore long lead times would not be that troublesome. Besides, if using the outsourcing approach, VF could achieve price reductions for its heritage products. Facing intense competition and selling its products for almost double the price that some competitors like Faded Glory charge, VF needs to cut costs in this sector. But in case of outsourcing the production of its heritage goods, VF would have to give up the internally-developed techniques and equipment that enabled its efficient production because, due to a lack of trust, it cannot trust its suppliers.

Spanish apparel manufacturer and seller Zara relies on the second approach. Results have been good but nevertheless mixed; though being well-known and successful in Europe, Zara has not been able to establish itself on the North American market yet (Thoney-Barletta & Hartman, 2005). While basic products are outsourced to low-cost suppliers, Zara manufactures its lifestyle products on its own (Business Week, 2006). Most internal production is carried out close to the company’s headquarters in Spain. Labor is much more expensive in Spain than in those Asian countries to which many competitors outsource their production. Furthermore, as Zara goods have to be transported from Spain to the respective stores, high transportation costs occur. This could be an explanation why Zara is struggling on the North American market. However, since the company is very prosperous in Asia, Zara’s approach may nevertheless work well.

As Dutta (2002) explains, Zara’s main advantage is its “ tremendous amount of flexibility and control”. Zara’s lead times are significantly lower than those of comparable companies. While other apparel companies often have to discount prices drastically in order to sell all their products before their design gets outdated, Zara has never had such problems. Instead of manufacturing high quantities of only a few products, Zara designs about 12.

000 different goods per year, but produces only small amounts of each. If one of those products does not meet the taste of consumers (which happens quite often in the apparel industry), the economic damage would be low and the product could be replaced rapidly. Additionally, each product is scarce and thus more valuable to customers. The drawback of this approach is that economies of scale cannot be achieved at any point in time.

All in all, the company can quickly react to changing customer demands and achieve higher customer satisfaction. As a result, it sells more of its products and at higher prices, thus offsetting the high manufacturing costs. Also, the advantages of completely controlling the facilities in which one's products are manufactured should not be underestimated. Especially in the apparel industry, some low-cost suppliers use " sweatshop labor". When being made public, those conditions can cause a massive loss of reputation, not only for the supplier itself but also for its clients. Due to its internal manufacturing, Zara is able to avoid those issues (CNN, 2001).

Could VF successfully adopt Zara's strategy? Dutta (2002) judges: " While it may not be possible for another company to exactly duplicate the conditions under which Zara grew and flourished, we can certainly try and learn from its business experiences, its processes and its business structure". Indeed, flexibility is most important in the apparel industry. When dealing with external suppliers, VF faces high inventory costs and long lead times. VF's own plants use elaborated technologies and have low defective rates. But those plants are only suited for the production of the " heritage" goods.

Another major difference between Zara and VF is that Zara does not do any advertising, thus even with high manufacturing costs Zara still has lucrative margins. In contrast to that, since VF's success depends heavily on advertising, the company has to keep manufacturing costs as low as possible. Yet, as Chris Fraser puts it, building more plants or vertically integrating suppliers would not be consistent with VF's internal policies and, from a capital point of view, might not make sense.

5. Analysis of the " Third Way"

The idea behind the " Third Way" is to create extremely close long-term supplier relationships that yield significant benefits for both parties. The " Third Way" is a mixture between Internal Production and Outsourcing and combines the advantages of both approaches.

VF's main benefits would be lean inventory (which would be a sharp contrast to the current excess inventory), lower lead times and lower production cost. The latter would be achieved in three ways: First of all, instead of a VF plant, a supplier produces the goods, thus reducing the labor cost. Secondly, VF would provide the supplier its internally-developed techniques, therefore making the production process much more efficient. This production facility upgrade would also be supported financially by the supplier. Thirdly, VF and the supplier would join forces to procure raw materials as cheap as possible. Since the supplier would commit himself to producing exclusively for VF, the threat of losing know-how to competitors would vanish. In contrast to internal production, the supplier would have to manage the work force, thus the " Third Way" results in lower transaction costs for VF. There is also huge potential for shortening the design process of new products (Pisano & Adams, 2009).

The supplier would face significantly lower risk and uncertainty since he would get long-term contracts and volume forecasts for several years. Moreover, VF would also guarantee to buy back any unused raw materials. As the supplier would be remunerated on a cost plus basis, he would always be able to meet his ROA goals. The long-term contracts also reduce the frequency of renegotiations, leading to a decline in transaction costs for both parties (Pisano & Adams, 2009).

Despite the mentioned advantages, this strategy also has flaws that should not be neglected. Compared with internal manufacturing, VF would be less flexible when using the “ Third Way”. It also requires the supplier to share information about his costs and processes with VF. The biggest drawback of the “ Third Way” is that it cannot be enforced without appropriate, knowledgeable human resources (Pisano & Adams, 2009). VF either has to transfer its staff to the supplier or hire new, local staff. In the first case, VF would need to find willing employees and have to transfer them to the supplier, resulting in searching costs and travelling expenses. In the second case, talented locals have to be identified and trained, leading to searching and training costs. Those are no major barriers to implementing the “ Third Way”, but they should be taken into account when comparing the profitability of each approach.

So far, VF has gained only limited experience in dealing with “ Third Way”-relationships. Some attempts went well, others failed. However, those failed tries showed another strength of the “ Third Way”: If a supplier cannot be part of a “ Third Way”-relationship anymore, VF could either return to the regular cut-and-make contracts or integrate the supplier’s plant into its own operations without having wasted large amounts of money or resources.

6. Managerial Alternatives

Managing one’s supply chain requires not only a lot of resources but also experience in dealing with suppliers worldwide. If a company lacks the necessary resources or competence, it can use the so-called “ package sourcing”. This involves hiring an external company that manages purchasing activities, supplier relationships and the supply chain as a whole.

In February 2009 Liz Claiborne, one of the biggest competitors of VF Brands, and Li & Fung, the world’s largest system integrator for apparel, agreed on an extensive packaged sourcing contract (Yun, 2009)

The advantages of this deal are obvious: Li & Fung gains a profitable customer, Liz Claiborne outsources its procurement activities to a specialized integrator profiting from Li & Fung’s huge network of low cost production facilities. Furthermore, price discounts can be realized due to mass sourcing over the various Liz Claiborne brands. By bundling the apparel orders of the brands, synergies in terms of time scheduling and transport costs can be achieved. With this foundation of a long term relationship between both partners, Li & Fung can develop deep insider knowledge for the handling of Liz Claiborne brands, thus enhancing the product quality.

At the first glance this approach seems to be very efficient, leading to lower costs and sustaining high quality. However, this deal also has shortcomings for Liz Claiborne.

By concentrating on only one supplier operating the total brand portfolio, Liz Claiborne heavily depends on Li & Fung. This threat is even catalyzed by the fact that Li & Fung serves many apparel retailers. Corporate intelligence could get to competitors via Li & Fung. With having so much power over the supply chain of Liz Claiborne, Li & Fung may think about a backwards integration, considering the acquisition of US bag producer Van Zeeland in 2008 and the marketer Wear Me Apparel LLC in 2009. “ Li & Fung, which sources products for U. S. retailers such as Abercrombie & Fitch Co. and Kohl’s Corp., in recent years has been keen on expanding beyond its core sourcing operations and into higher-margin businesses in segments such as retail and brand licensing” (NG, 2009).

Another, not that obvious disadvantage of the deal is brand dilution. By synchronizing the sourcing of all brands from one integrator the brands might be equalized by using similar manufacturing sites and the same product developers of Li & Fung. Liz Claiborne should have a close look at those often indirect shortcomings of such full scale integrations.

Compared to VF’s “ Third Way” sourcing, Liz Claiborne can realize cheaper prices, save costs by outsourcing its supply chain competence and thereby only concentrating on their main competence of marketing and selling. In comparison to that, VF has to invest in relationships with many single suppliers and developing insight knowledge by sending out engineering teams to its suppliers. However, in contrast to Liz Claiborne, VF still has full and direct power over its suppliers. It is also easier for VF to enhance the quality of its products. Moreover, VF has internal production plants that perform very well. Closing them would not only be inefficient, but is also impossible in the near future. Thus, VF could not rely completely on package sourcing. Bundling demands would only be possible to a smaller extent; price reductions might not come true at all. Additionally, VF has build up an internal department that successfully manages its supply chain. Using package sourcing from now on would render this department useless and the competencies that have been achieved there would vanish. Thus, package sourcing would not be efficient for VF at all.

7. Recommendations

VF’s brand lines can be divided into two segments based on the characteristics and requirements of the production processes: Heritage brands, including Wrangler and Lee, and lifestyle brands such as The North Face, Vans, Nautica, Reef, Kipling, Eastpak, Majestic, Napapiri, Eagle Creek, John Varvatos, and 7 for All Mankind.

As analyzed in earlier sections, each segment has distinctive key success factors. For the heritage brands, quality and price are the key for success. Being highly responsive to demand fluctuations is not that important since demand is quite stable and the product design doesn’t “ get old”, i. e. the customers will demand the same type of jeans every year. For these reasons, VF’s concern should go along with how they could reduce cost while maintaining the quality of the products. Therefore, VF needs a solution that provides low costs whereas lead times are not that important, but should nevertheless be considered too. A comparison between the lead times and costs of each approach yields at the “ Third Way” as the best approach. Since VF can share its internally-developed technologies and processes with its “ Third Way”-suppliers, their production processes will be almost as efficient as those of VF, but much cheaper. Package sourcing or regular outsourcing is no option here. However, VF could itself consider the construction of new plants in low-cost countries instead of using the “ Third Way”. But this would require a change in the company’s policies.

For lifestyle brands, which require extremely quick responses in order to replenish inventory continuously throughout a season, it would be best for VF to manufacture these products internally. Internal production does not only yield at the lowest lead times, it is also very likely that VF is able to further improve its production processes, leading to even lower lead times and even lower default rates. When buying lifestyle products, customers care about the design and quality of the goods, prices are secondary. Therefore, the fact that internal production is more expensive than the other approaches should not influence the decision at all. Again, package sourcing or regular outsourcing is no option here, as we have discussed in our analysis above.

To conclude, as low-cost competitors endanger VF’s heritage product lines and the company is not flexible enough to fulfill retailer requirements when it comes to lifestyle products, VF is under heavy pressure to adopt new production and sourcing strategies. Any further cost reduction in regular international purchasing is virtually impossible. Because of the financial crisis, more supplier bankruptcies are to be expected. VF’s current strategy had been quite successful for many years, but cannot secure a competitive edge for the company any longer. For the lifestyle product lines, VF should replace its regular international purchasing relationships by " Third Way" relationships. Since the suppliers as well as VF have to get used to this new way and this approach will constantly improve, VF should embed this change in a process that takes care that the transactions will occur smoothly. VF should start to enter " Third Way" relationships with the most important and the most promising suppliers and then expand it to the remaining ones.

Appendix

List of Tables and Figures