

Crocs' supply chains



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Crocs

Question 1: One of Crocs core competencies is a highly responsive supply chain. How does this give Crocs the advantage over its competitors? And, describe the three phase supply chain development strategy that Crocs used to achieve their flexible supply chain.

To satisfy its mission and comply with growing consumer demands, Crocs has built a strategic business concept around maintaining flexibility to offer retailers timely fulfillment while capitalizing on the efficiencies and cost advantages. Consequently Crocs operates a distribution model which is unparalleled in the retail footwear industry. The revolutionary supply chain allowed replenishment system which strengthens its relationships with customers by allowing the company to accurately track and rapidly respond to fluctuating consumer demands while the traditional industry practice was for retailers to place bulk orders for each season's inventory many months in advance without the ability to adjust 2 changes during the selling season.

By ensuring the speed and flexibility Crocs supply chain excellence has been the driver to the business growth and created its market added value over its competitors.

Crocs supply chain went through 3 phases to get its flexibility:

Phase 1: Taking over production

- * The immediate purchase of the Canadian manufacturer in June 2004.

- * The acquisition of the proprietary resin croslite (odor resistance and comfort).

Phase 2: Global production using contract manufacturers

- * In early 2005, Crocs started production in China, using a large product manufacturer.
- * It began to enter Asian & European markets in spring 2005 in order to launch worldwide.
- * Snyder and his team expected the same contract manufacturing benefits in their new business (high responsiveness to consumer demands) but it wasn't the case in the manufacturing industry, because all of manufacturers outside of Asia couldn't work with their new flexible supply chain model. This led them to the third phase.

Phase 3: Bringing the global supply chain In-House

- * Development of owned manufacturing operations in all of Mexico, Italy and Brazil.
- * Use of contract manufacturer in Romania to serve the European customers and the consideration of many options to replace the contractor.
- * Crocs also kept the Florida manufacturer for the made in USA label.
- * Continued to manufacture in Canada as well for duty considerations (there is no duty between Canada/Israel with crocs sales 1.2 million pairs in 2006 in Israel)
- * Continued the compounding in Italy but it resulted in supply chain inefficiencies in the phase of crocs development.

* In 2006 Crocs controlled the compounding activities; by creating state of the art compounding facilities in Canada, China and Mexico (moving compounding in-house provided an IP protection for croslite compound).

* Crocs changed its warehousing model: from contract warehousing in Colorado to company own warehousing – which were added to each of the factories- with direct shipment from manufacturer's premises to big clients.

Question 2: What are Crocs other core competencies? And explain how these also give Crocs a competitive advantage.

Other than a responsive supply chain Crocs has many core competencies:

* They thought huge: after the runaway success of their funny looking shoes, Crocs executives took the local company multinational. They purchased many manufacturers plants in Canada and Mexico as well as signing contract manufacturing in Italy Romania and China.

* Their scale allowed them to set up just in time manufacturing in response to the demand.

* Their huge manufacturing base allows them to produce a diversified product line.

* Instead in focusing on fashion, they focused on their core strength: croslite.

Waterproof, light weight and boasts anti-microbial properties, as they have believed that the quality of their unique material and not the look is what would be sustainable in the market place. In case of crocs it s not about a trend, it's about a highly effective material that can be remade into other hundred products.

* Their distribution strategy allowed them to penetrate multiple worldwide markets in a short time.

Question 3: The three founders of Crocs hired Ronald Snyder, A college buddy and an outsider to the shoe industry, as a part time consultant to the company in October of 2003 and by January of 2005 he was the CEO. What was his management style? What strategies did he develop for Crocs that he used in the electronics industry? What was his attitude toward dealing with suppliers and the normal way of doing business in the shoe industry?

Snyder joined Crocs officially in 2004 as its president after the part-time consultancy role since 2003 (due to the rapid growth)

Snyder has experience managing growth due to his background as an executive at the electronics group Flextronics because this previous work needed high responsiveness to customer demands and quick ability to increase or stop production as required which ensure a high level of flexibility – to produce what the customer needed, when needed and responding rapidly to changes in demand- and implementing these strategies for Crocs leads to an excellent supply chain which guaranteed flexibility, adaptability, speed, better costs and innovation.

Snyder influenced the strategic development of Crocs company because of his leadership and his international & growth oriented management style: thinking big, and as a result Crocs has emerged as an international lifestyle brand, now selling in a multitude of countries.

Snyder expected that the benefits in the electronics industry would also be present in this shoe business but quickly realized it wasn't the case because only Asian manufacturers were responding to their new model supply chain showing flexibility, moving quickly, taking risks with Crocs company and

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encouraging them to grow the business while all other third parties weren't willing to cooperate because they wanted every detailed information and forecast in a very advanced time because the new way of dealing that Crocs introduced was unheard of in the footwear industry.

Question4: What were the key moves that Snyder made that led to Crocs success? How should Crocs plan its production and inventory? How do the company's gross margins affect this decision?

Snyder made some key moves that led Crocs to the big success:

- * The purchase of Finproject and renaming it 'Foam design' which meant owning the formula for proprietary resin 'croslite' that gave the shoes their unique properties of extreme comfort and odor resistance.
- * The encouragement of the company to think big.
- * Launching the product worldwide, he wanted a sustainable brand with a funky strange look and his objective was to launch the world pretty much at once.
- * The sales efforts: participating in trade shows in every industry that could benefit from the product (garden shows, boat shows...), as the presence in a wide range of events (concerts, festivals...). These efforts intended to increase awareness of the potential users about the product uniqueness and benefits.
- * The development of a non-traditional supply chain that provided a competitive advantage. The company could fill new orders within the season, quickly manufacturing and shipping new products to the retail stores.

* Bringing the global supply chain in-house, because contractors outside of Asia weren't ready to adopt the company's new supply chain model, Snyder developed co-owned manufacturing operations in all of Mexico, Italy, Brazil and India and only kept the contract manufacturers that could meet Crocs needs for flexibility and responsiveness.

* Having the compounding done in Italy led to the supply chain inefficiency so he moved the compounding in-house so he can have more control over the production and time as he will protect the IP for Croslite compound.

* Crocs changed the warehousing model from contract manufacturers in Colorado to company own warehousing which allows in specific cases direct shipments.

Crocs was planning to control all of the Asian order activities he wanted to be sure the whole activities concerning warehousing were done in the best possible way and knowing that no one will do it perfectly as Crocs by itself, they've decided to adopt this mission.

And after Crocs growth they replaced the home grown database system with a more suitable ERP system which was bought online. This allowed a global view of the inventory and all the required information for the planning system which eliminates the possibility of excess inventory.

To decide on the amount of products to be manufactured concerning each model, Crocs had to analyze the retailers pre-books and the model expected sales. In fact Crocs kept total manufacturing capacity at about 1 million pairs per month beyond the actual production plan.

All the moves done by Snyder were to increase Crocs profit margin. In order to achieve this objective, he has adopted a strategy that boosts sales (he launched worldwide, he diversified to many product lines, he created the replenishment system) and minimizes costs (acquisition of the proprietary Croslite, bringing the compounding in-house, adding warehousing operations to each factory, new ERP system).

Question 5: What is Crocs relationship with their customers (both big and small)? Describe how they treated their customers differently than their competitors and what was the customer's reaction to this?

Crocs saw small retail customers as important to building the brand because of many reasons:

They were willing to take more risks.

They were willing to work with Crocs on problems such as stock out and shipment delays while large retailers charged penalties.

Small retailers were important for brand building and presence after majority of sales went to large retailers. (By mid 2007, 75% of sales went to large retailers like department stores and sports grand sales).

Crocs looked at the supply chain from a very different perspective than the traditional shoe industry does, they provided their customers with a highly flexible supply chain which allowed the company to make new orders which would be fulfilled rapidly within the same selling season, allowing them to respond to unexpected high demand. Their model was focused on the customer needs: when a customer needs more products they would get it.

This way they have reduced the big risks taken by retailers while forecasting the demand and placing their large orders.

All of this gave them a competitive advantage over their competitors where the retailer should guess which product would be hot and couldn't get more of a product that was in higher demand than they have guessed.

By this strategy they have surprised everybody because the replenishment system was unheard of in the retail footwear space.

As a conclusion retailers have established efficient & just in-time relationships allowing for more effective inventory management and reduced inventory risks which is a positive relationship which lead to many benefits for Crocs as well like the suggestion of retailers to increase their presence (bringing new apparel, accessories..)

Question 6: Crocs has been very successful in its first four years. How can they best build on its success? Give some specific strategies or ideas.

For Crocs to become a sustainable, long term story, the company must continue to broaden and introduce new products (style shoe using leather and other materials) because the footwear industry is global and full of competitors so diversifying its product offerings (seeking popular and professional customers) should help it keep up with the changing fashion trends and attract new customers.

In addition success has invited imitation; competitors have launched copycat products, which could be an inconvenience for Crocs future growth that's why it should increase the awareness for the targeted customers of the benefits original Crocs shoe with the unique croslite resin.

Moreover Crocs may use a selling online system to increase sales by reaching more customers with different needs, strengthen the brand and maintain its sustainability.

The last idea consists of developing international distribution as international markets can represent an important opportunity (Eg: South America and Africa) if they continue establishing a sales presence in the major foreign markets through direct sales or third party distributors.