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Case #1 VF Brands: Study Guide

Questions	Answers (including pages/quotations/key terms)
(a) What has been the strategy in supply chain management in the apparel industry in the last couple of decades?	Chasing low cost labor from one country to the next. (pg. 1) Having a broad geographic base of suppliers so that production could be shifted in response to changes in tariffs and quotas (pg. 4).
(b) What are the benefits and drawbacks of outsourcing in the apparel industry?	The production of garments is labor intensive, offering few advantages. By outsourcing production, companies are able to take advantage of cheap labor sources in other countries because there are fewer barriers/regulations, while also taking advantage of tariffs and quotas imposed by trade deals on fabrics and textiles and finished goods (Pg. 4). The drawbacks of outsourcing includes the lack of coordination and trust between suppliers and apparel companies that lead to higher inventories and long lead times (pg.1).
(c) What has been VF Brand's strategic growth plan adopted in 2004?	Growth plan called for a transformation of Vanity Fair (VF) from a company focused on basic apparel (like jeans), into a global lifestyle apparel company with strong brands. Instead of focusing solely on what they could manufacture themselves, they decided to focus on marketing and source products from the outside. This included diversifying their portfolio and acquiring different brands. Also expanding sales outside the U.S., in rapidly developing countries and to expand its direct to consumer base by opening single brand stores and expanding its web-based retailing.
(d) What products does VF Brands sell?	Jeans and image wear, lingerie, sportswear, uniforms, shoes, outdoor and action sportswear, and contemporary brands.
(e) What are the characteristics of the apparel industry?	Apparel companies typically concentrate on design and marketing, performing very little or none of their own production; Very labor intensive market, extensive outsourcing; highly fragmented industry with illogical supply chain (pg. 4).
(f) What is meant by "chasing quota" and what are its consequences?	Chasing quotas means apparel companies are seeking out low-cost producers from countries that have not yet hit their quotas for importing into a certain country; the consequence of this is a highly fragmented industry with an illogical supply chain. In chasing quotas and/or cheaper tariffs, the process of production has been extended due to raw materials being sourced in one country, spinning, dying, and/or knitting in another, and assembly/production instill another country, which has resulted in extended lead times.

(g) How have changes in international trade laws affected the garment industry?	Tariff and quotas on textiles and garments were reduced and/or eliminated in an effort to further open the market, however, this has resulted in the loss of market shares for previously dominant regions (CAFTA -Central America, the U.S. and the Dominican Republic) to China. "It's getting harder to maintain apparel production in places where you cannot get cheap and speedy supply of fabric (pg. 5).
(h) What mix of in-house production and outsourcing does VF Brands have? What are the benefits and drawbacks of each approach?	They currently internally produce about 60% of their jeans inhouse, as well as internally sourcing Image Wear which requires a higher turnaround. Products such as Lifestyle apparel, footwear and back packs continue to be outsourced. Benefits of internal production include better quality, efficiency, and reliability in production, as well as shorter production time and lower defect rates, also improved technical and engineering capabilities, developing 'novel techniques,' and proprietary equipment for manufacturing jeans. Could also be highly responsive for products managed in its own plants. The drawbacks of outsourcing were, "Enormous investment in time," as relationships with manufacturing companies had to be established, by visiting and establishing capabilities, and ability to adhere to international standards of worker safety and protection (pg. 6).
(i) What difficulties and complexities does VF Brand face managing its supply chain?	Complexity of the product line and widely differing needs and priorities of brand coalitions, with an emphasis on product design for more fashion oriented products, and low cost and rapid replenishment for others. For examples, in order to minimize inventory costs, some retailers demanded that VF be able to replenish store inventories within 8 days; Also, significant differences in production requirements.
(j) What are the steps required to bring an apparel product to market?	(1) Sketch preliminary designs, (2) create physical prototype, (3) Forecast prices, margins, and volumes for sales, (4) Once design has been committed to and sales orders placed, operations take over. (1) Develop sourcing strategy for each product (identify suppliers, obtain price quotes, produce samples); (2) once suppliers have all necessary raw materials and fabrics, production of garments can begin, (3) completed products are shipped from manufactures to regional distribution centers where they are sorted and packed for bulk shipping to target markets; (4) From the port, products clear customs and are sent to the apparel company's distribution center where they are then sent to the store(s).
(k) What types of contracting relationships does VF Brands have and what are the difficulties of its contracting relationships?	(1) Cut and Make contracts-VF would strike separate contracts for suppliers at each stage of the production process (fabric, components, cutting, sewing, washing, finishing, etc.) *Allowed VF to maintain very tight control over costs at each stage; (2)Package sourcing-a single supplier takes responsibility for the entire process from raw materials to finished goods and shipping into the market, paid on a piece basis and are responsible for paying sub-contractors, raw material suppliers, and logistic costs. *VF did not have ownership of the materials along the way. (pg. 9)

(l) What is “third way” sourcing and what benefits might it provide? What does the evidence show about its benefits?	“Designed to be a half-way point between full integration and outsourcing (pg. 10).” Creates a true partnership between VF and the supplier. Relationship involves (1) Striking an agreement with a supplier for a specific product line and commit to a volume forecast over a number of years instead of a season. The supplier would commit to not producing the same category of product for competitors; (2) Supplier sets up production lines dedicated to VF products, investing in the building, machinery, equipment, labor supervision, logistics servicing, and administrative infrastructure to manage operations; (3) VF and the suppliers develop production schedules to meet each partner’s needs, including the sharing of information on order forecasting and production capacity; (4) VF and supplier work together to improve processes, including VF making available the use of its engineering resources to improve processes; (5) Supplier owns factory and equipment, and responsible for managing workforce; (6) VF utilizes its purchasing capacity to help suppliers procure fabric and other raw materials at a discounted price, also agrees to buyback any unused fabric or raw material from the supplier; (7) Supplier paid on a cost plus basis with a margin to meet its ROA requirements. The evidence shows that third-way resourcing creates greater benefits through enhanced internal manufacturing competencies, which in turn leads to benefits like speed to market, material utilization, lower inventories, less work in process, and lower cost to quality.
(m)Who is involved in producing an apparel product for VF Brands? That is, try to imagine who the company and its	Management, designers, marketers, product and technology engineers, suppliers
(n) What are VF Brands’ annual revenues? Which brands accounted for the most in sales revenues?	\$7.64 billion dollars, with jeans (Wrangler, Lee, and Rustler), and Outdoor and Action Sportswear (Jansport, Eastpak, The North Face, Vans, Reef, Napaijri, and Eagle Creek) accounting for the most in sales revenues, with \$2.7 billion dollars in revenue per coalition.