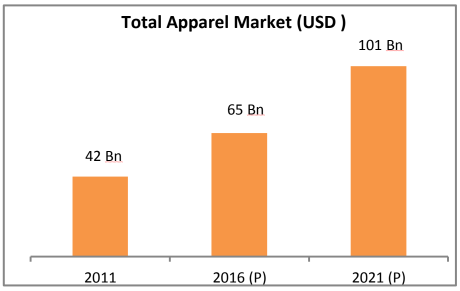
Increasing concerns on supplier reliability

Apparel Retail Scenario:

The retailers all over the world have been trying hard to ensure business profitability. Most retailers are trying to figure out innovative ways to lure the consumer to buy more. Some of them have moved to providing fast fashion, while others try to offer affordable fashion to the consumers, hence the number of SKU's is on the rise with order per style on the decline resulting in different challenges for the supply chain.

The challenge for the brands and retailers is between being generic or specialized, maintaining what the brand has stood for in the past or redefining the identity based on current trends. In either of the case, it is very important for the retailer to work on the consumer preferences far more closely than earlier. The loss being in form of unsold inventory on one side and poor replenishment for faster selling products on the other side are two significant challenges for any retailer. Global retailers who have a long history of operations are also struggling to meet the current changes being posed by the consumer.

The domestic apparel industry has been estimated at USD 42 Bn in 2011 and is expected to grow to USD 65 Bn by 2016.
The Indian retailer is also redefining itself. Typically the retail scenario has been dominated with men's clothing which large retailers chose to manufacture in owned factories. However, with the international retailers coming to India, they chose to focus on the front end and rely on their global supply chain suppliers for the merchandise. However, global sourcing increases the cost and with retailers choosing to offer value pricing they are forced to source locally rather than all merchandising being sourced through the global supply chain.



Changing dynamics of manufacturing set-up:

In the past, the apparel manufacturing industry has largely been export driven. Since the entry barriers of setting a garment business were low, a lot of factories got made in India. As time progressed the requirements of the global retailers changed and there were increased pressures on cost, scale, quality, and compliance etc. Some of these smaller factories did not have the bandwidth to live up to those pressures and chose to align themselves with domestic retailers due to an organic growth model rather than a structured plan for addressing challenges posted by current market scenario.

Restructuring of vertically integrated set ups:

Major domestic manufacturer-retailers with vertically integrated set up restructured themselves from vertically integrated composite set-up to horizontally aligned configuration to meet up the challenge. Greater organizational and process flexibility to cater to volatile market demand was the basic reason that gravitated the transition from vertical to horizontal structure. Also improved productivity and high cost of manufacturing make it increasingly risky to underutilize the entire range of production facility under one roof. This splitting-up of once vertically aligned organizations into many independently working apparel companies, each having a separate operation, enabled efficient coordination among them a must to sustain increased competition. Also large, vertically oriented organizations had to coordinate their entire supply chain in light of growing inter-unit competition for productivity, often disregarding market priority.

Concerns with supplier reliability:

Till about 8-10 years back, the domestic retailers were also largely doing base product categories. However, today almost all retailers in the pressures to lure more customers have added product lines. They also want the suppliers to work on shorter lead times to reduce their speed to market and hence the inventory holding costs. Core categories are getting narrower and fashion is taking big leaps.

Retailers are facing increasing price pressure with ever increasing competition and are forced to look for new inexpensive suppliers. However, sourcing from low cost suppliers (emerging economics in case of global retailers) brings significant risk, firstly in the form of variable quality and secondly in the form of unreliable supply chain. Skilled manpower, working conditions, compliance, technology and seasonal nature of business augments the risk while sourcing from most low cost suppliers. This results in poor adherence to delivery schedules as well as variable (inconsistent) quantities. Most of the suppliers are not geared to adapt to quick response requirements of retailers, which have become a necessity, with retailers working close to the season with short cycle times and smaller quantities.

With respect to domestic retailer's sourcing, apparel clusters played a decisive role in determining supplier's risk. Bangalore, Mumbai, New Delhi and Tirupur have ability to take up small orders or large orders at short notice based on cluster specific product competencies. They are also able to produce the entire range of woven and knitwear at reasonable cost with reasonably good quality within specified schedules. However, suppliers are constrained by occasional delays in delivery. The small manufacturer are not able to attract (and maybe can also no afford) good talent and hence the preproduction is also normally weak. Their own supply chain is not streamlined enough, which becomes the biggest reason for the delays.

Most of the low cost suppliers carry additional risk of poor or non-existing product development (innovation) and design development capability. With very little value addition in terms of product innovation, the retailer carries entire responsibility of product life cycle management from development to point of sale function. Lack of structured approach and slow pace of reforms are the main reasons for failure to reap the full benefits of a cluster.

Retailers also face challenge to differentiate themselves in terms of better quality and design, better negotiating power, superior forecasting and shortened lead time. Increasingly, winning brands and retailers have tacked these problems through planning in collaboration with their strategic global supply chain partners and use of IT as a process and information enabler at the retail platform.

Conclusion

With the immense opportunities on the Indian retail front, Brands needs to engage constructively to develop synergies with supplier base for cost and process optimisation. Also, a key focus on the product engineering coupled with supply chain realignments on lines with global retailers will help to optimise the "COGS" for the required products. This will help the retail space to the next level. Suppliers on the other hand needs to be process driven to address key challenges emanating from market situation on cost pressure, low order qty and lead times.

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