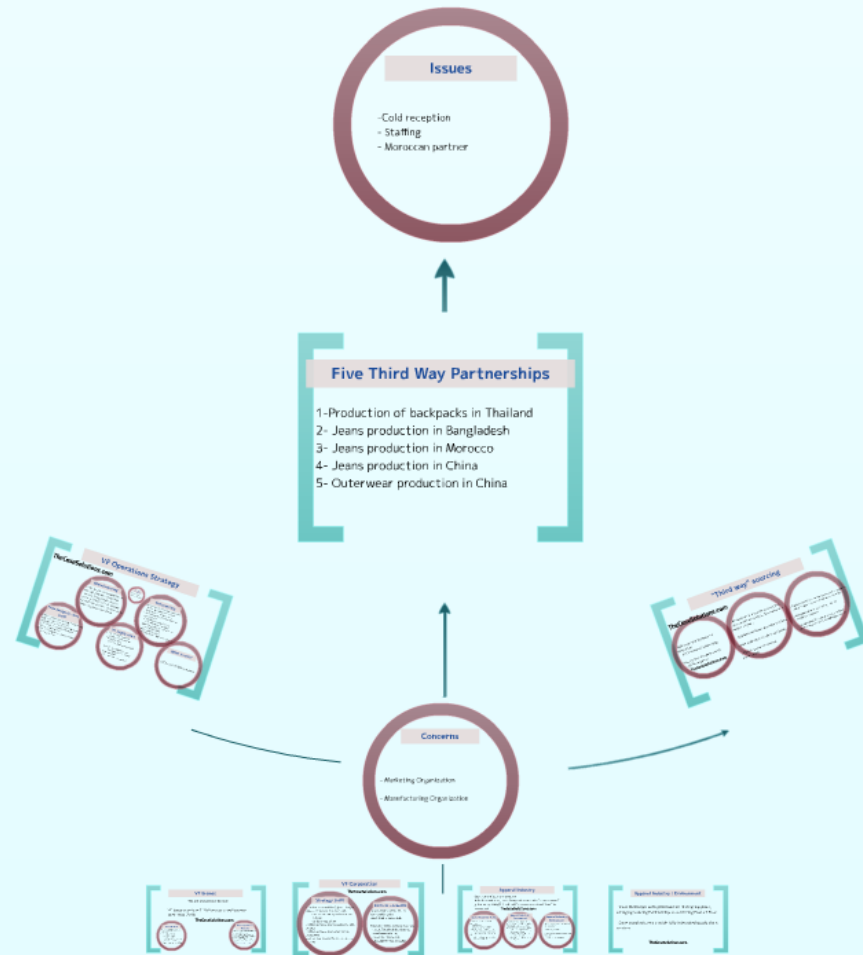


# Outsourcing at Office Supply Inc.

## TheCaseSolutions.com



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# VF Brands

The art and science formula

V.F. Corporation is an \$11 billion apparel and footwear powerhouse.(2013)

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### Introduction

- 30 brands, multiple channels of distribution
- five distinct coalitions:
  - Jeanswear \$2.8b
  - Imagewear \$1b
  - Outdoor & Actions Sports \$2.8b
  - Sportswear \$ 625m
  - Contemporary Brands \$350m

### VF Corporation : History

- 1899 Reading Glove and Mitten Company
- 1914 Expand into Lingerie
- 1917 changed its name to Vanity Fair
- 1969 entered jeans business through the acquisition of Lee Company
- 1984 acquisition of Blue Bell, Jantzen, Redkap  
vertical integration in jeans

# VF Corporation

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### Strategy Shift

- 2004 new "Growth Plan", global lifestyle apparel company with strong brands
  - focus on marketing and source from outside
  - series of acquisition
- 2000, heritage brands accounted for 90% of sales
- 2008, heritage brands 56%, lifestyle brands 44%
- goal; heritage brand 40%, lifestyle brands 60%

### Critical elements

- Expand sales outside the US-Russia, India, China  
2001, 19% vs 2008, 30%
- Expand direct to consumer business
  - 2009, 700 single brand stores
  - web based retailing
  - By 2012, 1300 stores globally(75~100 annually)

# Apparel Industry

design, manufacture, marketing

Include an extremely broad range, from socks to “haute couture”

global sale(2008):\$1.3 trillion! From own traditional “base” to

branch out

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## Apparel Industry: Trends

- Compete with shoes and footwear companies
  - : Nike, Adidas
- Highly fragmented competition
- Substantial, continuous investment
  - : 7~12% of revenues on advertising
- Growing power of large mass retailing chains
  - Walmart- bargaining leverage, PL ( Price competition)

## Apparel Industry : Environment

- Concentrate on design & marketing
- Little or none their own production
- Outsourced to low cost countries ( 49% in 1992 , 12% in 1999 inside US)
  - Labor intensive process offering few scale advantages
  - Relatively low entry barriers
  - relatively generic skills
  - As a result, small manufacturers around globe

## Apparel Industry : Environment

- Subject to complex and ever changing tariffs and quotas
- One country vs another
- Have an extremely broad geographic base of suppliers
  - ex) sweater in the US market

## Apparel Industry : Environment

- Some Challenges with globalized SC :finding Suppliers, managing sourcing Relationship, coordinating Product Flow
- Some manufacturers provide fully-integrated supply chain services

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# VF Operations Strategy

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## Manufacturing

- Unique operation strategy (internal manufacturing and outsourcing)
- manufacturing in 100 Factories with acquisitions in 1990, changed (2009) Produced 30% in-house in its 40 remaining plants, sourced rest

### Internal manufacturing

- Very best in the world in terms of quality, efficiency and reliability
- Set the standard in the industry

## Outsourcing

- Require an enormous investment in time
- Need to be visited and assessed
- Strict policy of doing business
- 1600 contractors and 30 distribution centers by 2009
- 2000~2009, increased 15 fold to \$ 1.8 billion in Asia alone
- Sheer complexity of the product line :over 600,000 SKUs
- Widely differing needs and priorities of the brand coalitions

## From design to store shelf

- 2008. 6~9 Design and marketing decision making
- 2008. 9~12 Identifying suppliers, obtaining price quotes and producing samples
- 2009. 1 Contract signed for all products
- 2009. 3~6 Products made
- 2009. 7 From suppliers to retailers in the US Season begins, sales

## VF Supply chain

- "Cut and make" contracts  
Mostly for heritage lines
- "Package sourcing"  
Mostly for the lifestyle brands
- Lack of coordination & trust  
Little loyalty to one another
- Time consuming
- Lack of process improvement

## What is next?

Let's move on the next page

# "Third way" sourcing

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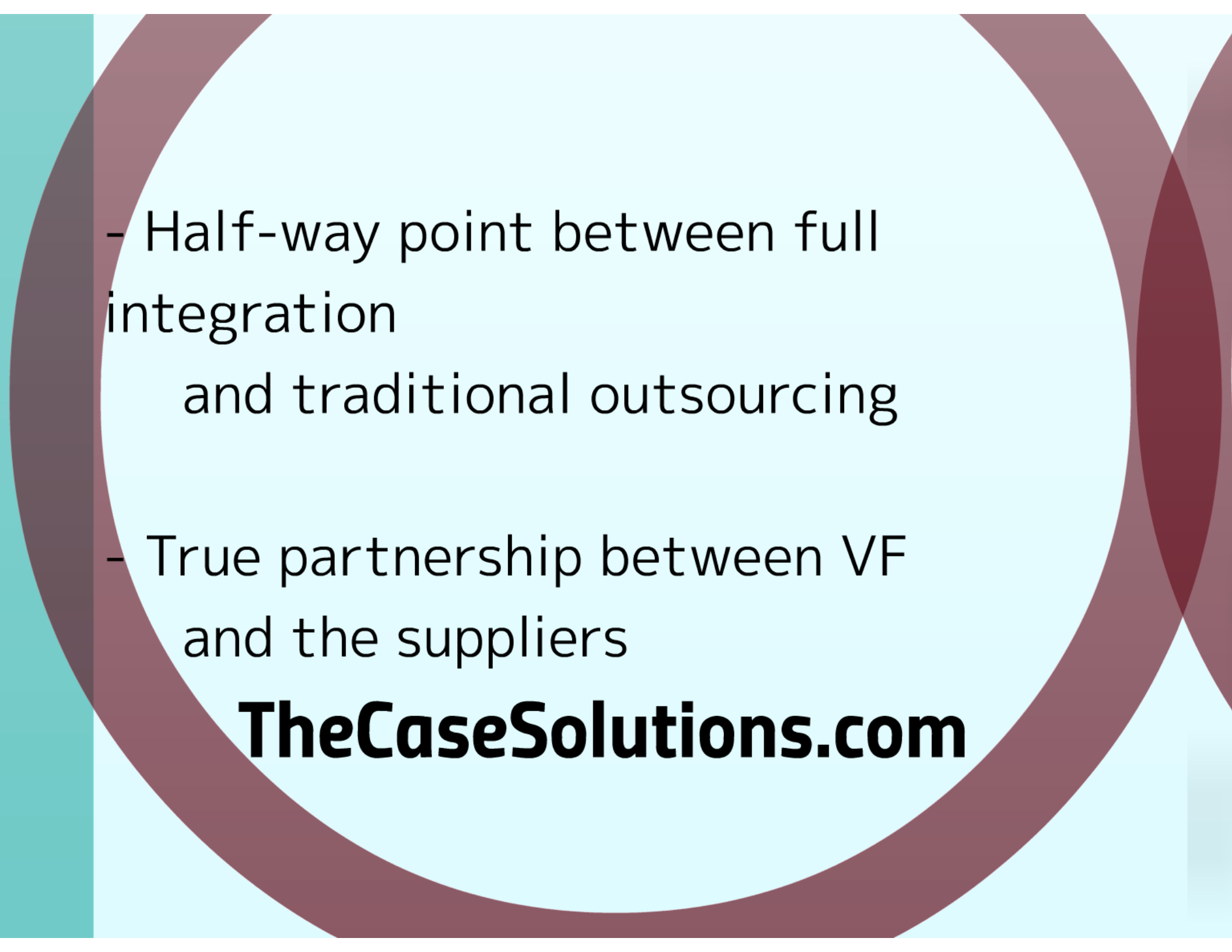
- Half-way point between full integration and traditional outsourcing
- True partnership between VF and the suppliers

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- Agreement for a specific product line and commit to a volume forecast over a number of years
- Suppliers would set up production lines
- Develop production schedules jointly
- Work together on process improvement

- Suppliers would own the factory and the equipment and be responsible for managing the work force
- VF would utilize its purchasing capacity to help the suppliers
- Suppliers would be paid on a cost plus basis with a margin to meet its ROA requirements





- Half-way point between full integration and traditional outsourcing

- True partnership between VF and the suppliers

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