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Ask the Experts

Leveraging the Supply Chain to Offset Rising Raw-Material Costs

By Alison A. Nieder *Executive Editor*

Imagine this scenario: A manufacturer lands an order with a major retailer based on the current cost of the raw materials. The actual purchase order doesn't show up for three months—but by then, the price of the raw materials has climbed 30 percent. The manufacturer, who had originally planned for a 25 percent margin on the order, goes back to the retailer to try to renegotiate the price. The retailer refuses and threatens to never do business with the manufacturer again.

"So they have to go out there and produce this order, go through all this work and heartache and tie up all this capital—and make nothing," said Mark Burstein, president of sales and marketing for **New Generation Computing**, who relayed the anecdote.

Cotton prices have more than doubled in the past year, and the cost of other fibers, including polyester and silk, is also increasing. The rapidly rising price of cotton and other raw materials is upsetting the flow of production, in some cases, forcing manufacturers to change prices between the time they first showed the sample line to the retailer and the time they finally land the order.

Some apparel makers are looking for alternative materials. Others are considering whether they can pass on the price increases to their retailers. It remains to be seen whether retailers or consumers will accept higher prices, but it's clear the industry is looking for answers.

Online sourcing site **Alibaba.com** saw a 441 percent increase in global buyer inquires for cotton resources between

SOURCE: ALIBABA.COM

December and January, just as news hit that India, the No. 2 supplier of cotton, banned exports of the fiber.

"When cotton prices more than doubled in the last year, cotton buyers from the U.S. are now more aggressively seeking to expand their suppliers based globally," said Annie Xu, general manager of **Alibaba.com U.S**. "Searches for raw cotton by U.S.-based buyers on our site increased by over 300 percent in the 12-month period from March last year to February this year."

The website, which has 44 million products listed, draws from a base of 61 million members from more 200 countries and territories.

Cotton and other raw materials are just part of the sourcing equation for apparel makers, who must take into account increased labor costs and other international concerns when making their production decisions.

"The one thing that I haven't really heard too many people talk about is the issue with the devaluation of currency [in China] and the inflation in the domestic market," said Steve Ritchey, president of **Seattle Pacific Industries**, the Seattle–based manufacturer of the **Unionbay** brand. "Not just in China but also in Cambodia and Vietnam, where most of the ready-to-wear sportswear is being produced. Cotton is one thing—it's commodity based, but you're also having to increase labor cost. We're also having to compete with domestic markets that we normally never had to before."

Despite the challenges, Ritchey also sees opportunity and innovation.

"If you really think of it, it's a really good time to be in the apparel business," he said. "There's a lot of innovation. You're getting closer to your customers and consumers to make things work. Fortunately for us, fashion changes, so you're not going to be sitting here forever trying to figure out how to work on low margin and deliver a high quality. Things will change, and the cycle will start up again. It's a really interesting time if you can take advantage of it."

In that spirit, we put the following question to several industry insiders: With raw-material prices expected to increase, what can apparel makers do to secure and tighten their supply chain to keep costs manageable?

Take a position

The most obvious solution—for those who can afford it—is to buy early before prices rise further. For large companies, this starts with the yarn.

"People are going out and buying cotton yarn and positioning cotton yarn because they don't know what fabrications they're going to produce—whether it's a jersey, a rib or a pique," said NGC's Burstein. New Generation Computing produces product lifecycle management software. Other companies are nominating mills, giving them commitments. They'll go to a company and say, 'I'm going to commit to you 800,000 yards and my vendors are going to be purchasing against the commitment, so my customer needs to know what the drawdown is."

NGC's line-planning tool lets manufacturers forecast by style and by color. "When they put together a line plan, it will generate a raw-material requirement for a particular season," Burstein said.

But with tighter credit, this is an especially challenging proposition, said Bruce Berton, executive vice president and chief operating officer of **Roochi Traders Inc.**, a City of Commerce, Calif.–based manufacturer of knitted apparel.

"People who are in the cotton business, like we are, are trying to find the best price for the raw materials, mainly yarn, and purchasing it upfront and warehousing it at their vendors," he said. "The problem is yarn [suppliers] used to accept everything on letters of credit. Now they are requiring cash. A lot of the mid-sized and smaller people, we cannot afford to have our cash tied up—and the banks are not going to front it. The only thing we can try to do is get orders in earlier, take the goods earlier and hope that the person that we're selling to will keep their orders. The trick is, you're going to have to buy earlier and gamble on the price."

Roochi does not sell directly to retailers but instead acts as a distributor or wholesaler to companies that, in turn, sell to retailers.

"We buy almost a year upfront prior to what's going to be sold. We buy the yarn, then we put it into greige goods, hold the greige goods, and have it cut and sewn and shipped in as we need it. The screen printer or enhancer of T-shirt-type product … buys our blanks. We haven't presold it to them—all we do is we have it in-house, and they call up when they need it."

To offset rising prices, Roochi cut back the number of styles and colors. "We've knocked our SKUs way down," he said. We working in our core products and making sure we're servicing our existing customers the best we possibly can.

Designer Jade Howe, founder and creative director of contemporary men's line **Howe**, a division of SPI, is seeing prices change daily. But as a division of a larger company, Howe benefits from SPI's buying clout.

"SPI negotiates for the entire company on fabric commitments," he said. "We are buying cotton earlier. We are quoting line item prices to retailers. However, if the retailer misses the order in deadline, for the first time in my 25-year career, we are re-quoting new pricing based upon market value. We're trying to do it on a seasonal basis to avoid a yo-yo effect—as well as potentially having different pricing on the retail floor for the same item."

Focus on quality

Buying yarn and fabric early may help companies secure the best possible price, but some industry executives warn that they may be taking a risk with quality.

"As long as the price keeps being pushed down, the raw materials that are used will continue to deteriorate in order to absorb the rising cost," said David Sasso, vice president of international sales for **Buhler Quality Yarns**, based in Jefferson, Ga. "A better solution is to look at the supply chain with a magnifying glass" to find ways to maximize efficiency and quality. "Everyone tends to look at what's the price of yarn and what's the cost of knitting. We want to produce a better quality; we want to see how utilizing better raw materials and best practices can offset the cost of goods."

The full impact of the high cotton prices has yet to be seen, said SPI's Ritchey. "Much of the product that's hitting the floors now are a result of previous commitments," he said. "Fall is really the first season when all of this is really going to hit."

Manufacturers who sacrificed quality for price may find a backlash when the product reaches the sales floor.

"You're seeing short-staple cotton being mixed together to fake long—and that's all great until it hits the washing machine, and then it looks like crap," Ritchey said. "Not everyone is doing that. But certainly, you see people entering the market with ridiculous prices being quoted. You know what labor is. You know what materials cost."

Ritchey said he's counting on consumers' demand for consistent quality. "Our bets across all divisions is that the consumer is going to want more for their money," he said. "Even though [prices are] going up, they're going to want more, not less."

With high prices across the board—and impacting every segment of the market—this is the time to innovate, Howe said.

"Increased cotton pricing will push everybody to adjust their business models," he said. "There will be a strong push to create and innovate in order to stand out—from fiber on up. This may not end up being a bad thing—unless you're a knockoff company that was undercutting the market based on a lower-price business model. Those people are absolutely going to feel the squeeze as margins continue to erode. It's not going to be as easy to knock it off at a cheaper price."

Howe said he's seeing increased interest from specialty retailers looking for special items and better product.

"Many of our key specialty retailers have been requesting more aspirational product, higher-quality goods," he said. "In New York, Boston, Las Vegas, certain parts of Arizona, Orange County [Calif.] and Los Angeles, they want the party jacket again, the premium T-shirt. There's a certain segment of the market that will always reward innovation and quality product no matter what the price."

For Howe, it's about finding a balance between strong-selling items and those with a higher margin and a more-discerning customer.

"At Howe, we have our key item business that we sell day in and day out. Yet to remain relevant, we're making much-cooler product that is reminiscent of the clothes I designed when I launched Howe 10 years ago. Price was not a major consideration in the design process. The cooler it is, the more guys want it and the more we can charge for it. I'm not talking about price gouging. I'm talking about staying in business."

Eliminate the errors

Finding efficiencies within the supply chain could be a matter of simply eliminating errors.

Buhler's Sasso said some of the mills he works with are finding they can run their knitting machines at 30 percent to 40 percent higher production rates—if they eliminate errors by using higher-quality materials.

"If you have fewer defects on the fabric and higher throughput," Sasso said, "normally, that means you're doing proper blending of your fiber, you're getting consistent dye uptake on your fabric, you have less barres and fabric hairiness and shrinkage. All these issues tend to be minimized when you use better raw materials. And that's a huge reduction in costs right there. If you do the right things, you produce a better product without increasing costs."

Some mills and manufacturers are looking at lighter-weight goods to offset the raw-material costs, but for SPI, which does its main business in bottoms, this is not an option, Ritchey explained.

"The majority of our production is done with heavier fabrics because we put a lot of finish on them," he said. "So we get extremely hit hard with weight. There's no real substitute for that. In menswear, the trend had gotten to be a little lighter and softer. But you get too light and all of a sudden you're busting seams."

For companies that manufacture most of their goods overseas, the challenge is locating the error before it ships.

"Have people go in and do an inspection on the quality of the goods before they leave the factory," NGC's Burstein said. "And have a way to track and manage all those details. Because if the goods leave the factory, by the time they get over to the states, it's too late to do anything. Inspecting it over there is a huge win as opposed to hoping it shows up with the right quality."

Turn it quicker, ship it slower

By keeping a close eye on the supply chain, Burstein argues, manufacturers can react quickly to changes from the retailer. He called it "lead-time optimization."

"[With lead-time optimization, you] position the raw materials and wait until the last minute to dye the colors that are required, wait for the last minute to determine which styles to cut and which size breaks to cut them into," he said.

Retailers don't want to invest in inventory—and they want to turn the inventory they have quickly.

"For retailers, one thing that's finite is the

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Los Angeles Apparel Exports Climb

By Deborah Belgum *Senior Editor*

In the last three years, apparel exports from the Los Angeles area have climbed 40 percent as manufacturers look to overseas markets to boost sales. And the opportunities are only growing.

In 2007, $465.8 million in apparel, including accessories, left various seaports and airports in the Los Angeles Customs District. That mushroomed to $653.2 million in goods in 2010.

"U.S. trends are clearly passing borders," said Ilse Metchek, president of the **California Fashion Association**, which organized a fashion export seminar on April 12 at the **Grammy Museum at LA Live**. "What you see on the streets of Venice [a Los Angeles neighborhood] or in U.S. colleges you can see on the streets of Shanghai and Mumbai. Hollywood star power is creating the fashion trend, not the Paris runway, and we make it."

Ilse Metchek

Los Angeles apparel manufacturers with an eye on exporting will find that China and India are the two main markets that show the most promise.

With 10 percent of India's 1.13 billion people classified as middle-class, that translates into a huge market. "That is 100 million people who can afford product made in the U.S.A.," Metchek said. "The opportunity is clearly there for U.S.-branded merchandise at moderate or lower prices."

In China, there are several kinds of new consumers. There is the "aspirationalist," who is part of the thrifty middle-class and whose favorite brand is **Nike**. Then there are the "chuppies," or Chinese yuppies, who are professionals at the forefront of the middle class. Chuppies are interested in Western products, and their favorite brands are **Apple** and **Polo Ralph Lauren**. The "big stylers" are the up-and-coming big earners and spenders who are brand-conscious and consume labels such as **Prada**, **Burberry** and **Chanel**. The "parasite singles" live with their parents and have lots of disposable income to spend on brands such as **Gucci** and **Louis Vuitton**.

If you took away various non-tariff trade barriers in force around the world, then Brazil, Turkey, Russia, Argentina and the United Arab Emirates would be prime apparel markets, too.

Government help

With the Obama administration pushing to double exports in the next five years, the U.S. Department of Commerce and its U.S. Commercial Service have a panoply of tools available to help companies start an export program. "We assess export readiness and identify key markets, determine sales potential and implement an export plan," said Julie Anne Hennessy, a Commerce Department director in Los Angeles.

The Commerce Department, which has a fleet of experts based in embassies and consulates around the world, helps exporters identify the various import regulations and trade barriers they need to negotiate. In addition, commerce officials help set up meetings with key buyers and distributors and identify various markets.

"We are doing many, many trade missions to markets around the world, and we encourage you to participate," Hennessy said. "We do receptions and networking one-on-one."

The government runs a number of websites that provide export information and help. Those include *www.export.gov, www.buyusa.gov* and *http://otexa.ita.doc.gov*, which has an export section under the Office of Textiles and Apparel.

Overcoming non-tariff barriers

Exporting doesn't mean simply placing a container of goods on a boat and waving them off to their new destination. There is a sheaf of paperwork and regulations as well as logistical problems that can delay shipments or hinder exports.

In 2010, West Coast exporters found there was a shortage in vessel space because ocean carriers took ships off their trans-Pacific routes and diverted them to Europe after U.S. demand for goods slumped in 2009. There was also a shortage of transportation equipment, said Vincent Iacopella, president of the **Los Angeles Customs Brokers and Freight Forwarders Association**. He is also the managing director of customs brokerage company **Janel Group Inc.**

U.S. Customs and Border Protection is now taking a new look at export activity and doing random on-dock inspections of cargo containers to improve security, verify that counterfeit goods aren't destined for overseas markets and apprehend dual-use equipment that could be employed for unauthorized activities such as clandestine weapons programs. However, that customs inspection can cost an exporter, who often doesn't get the inspection bill until months down the road, Iacopella said.

In addition, the European Union now has a security requirement that manifest papers must be filed before imported goods arrive at their port of entry.

Intellectual property protection

Trademark protection is vital when exporting to new destinations, said Richard Wortman, a Los Angeles attorney with **Grunfeld, Desiderio, Lebowitz**, **Silverman & Klestadt**.

Exporters need to shore up protection of trademarks and copyrights before even shipping their first boatload of goods. "Some of the pitfalls [in IPR protection] include believing your mark is selling a gazillion units here and that the protection filed here is helpful anywhere else in the world," Wortman said. "Second is assuming the laws and procedures for intellectual property rights protection will be the same from country to country."

Other pitfalls include not checking whether the trademark is already registered in the export country. "I had a client who had a great mark and sold to 500 stores in the United States," Wortman said. "We were horrified to find out that in most of Europe, that name had been trademarked by someone else 27 years ago, and my client didn't have the right to bring in their own work."

Also, exporters need to make sure their trademark and the name is appropriate for a certain market and how it is translated into the local language or slang. "I have had clients who had to change the illustrations in their trademarks when they go abroad because they were not suitable," Wortman said. "You would think that sending something from California to England would be safe. But we had a label whose name was innocuous here, but in England, the local slang meant to have sexual intercourse. And that seemed very inappropriate for childrenswear." ●

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MyBestFit Targets Research, Sales

Since its debut in September, the **MyBestFit** body-scanner kiosk has scanned nearly 15,000 women from its perch at the **King of Prussia** mall outside Philadelphia. It is currently the only MyBestFit scanner in operation, but plans call for as many as 15 locations in malls across the country to launch by the end of the year—and this time, men will be part of the equation. The expansion into new markets and the addition of men have the potential to give MyBestFit's data new importance.

The scanner, developed by Nova Scotia, Canada–based **Unique Solutions Inc.**, uses millimeter-wave technology—the same kind used in airport security screenings—to determine a person's body measurements and pulls from a list of participating brands to create a shopping list of garments that may best suit a person's unique body type. The kiosks, which debuted with the women's denim category and have since added men's denim and men's and women's casual bottoms, will eventually be able to recommend garments across all categories for men and women, said Tanya Shaw, Unique Solutions' president. The scanner in King of Prussia began scanning men in February.

As new kiosks come online and begin scanning men and women for a wide variety of apparel categories, the data the scanners collect could make MyBestFit an important new sales and research resource for brands and retailers, Shaw said. The scanners have the potential to give brands and retailers a clear view of the shoppers in their malls and compile reports on gender, ethnicity, age, shopping budget and, perhaps most importantly, size.

"Brands don't know when they didn't make a sale because they didn't have the right size in stock," Shaw said. "They also don't necessarily know that their sizing could be limiting the consumers that fit into their garments. For some brands, by adjusting their grading, they can accommodate a wider range [of body types and sizes]." The data can potentially also help new brands develop fits that will flatter a wide variety of shoppers, Shaw said.

The company, which envisions operating 400 MyBestFit kiosks across the country over the next three years, is gearing up for its first major expansion.

Shaw said the bulk of the 15 new scanners planned for 2011 will be clustered in Philadelphia, south New Jersey and Delaware, with five new scanners slated for West Coast locations in Los Angeles and Orange County, Calif. "We are in the process of finalizing the locations and negotiating with various properties," Shaw said. A license with a Chinese company will take the MyBestFit concept to China this fall.

As in its first location, the recommended brands and styles at each kiosk will be limited to what is available in each individual mall. Shaw said 45 different brands have opted into the MyBestFit scanner at the King of Prussia location and expects to grow participation in the new scanners to approximately 200 widely distributed brands by December.—*Erin Barajas*

Centric Lands $7.5 Million in Venture Capital

Centric Software announced a deal that closed on $7.5 million in venture-capital funding that has been earmarked to "fuel ongoing product- and business-development efforts," said Chief Executive Officer Chris Grove in a statement.

Centric plans to create more product lifecycle management functionality, add mobile capabilities, grow its luxury-sector solutions, and expand its presence in New York, France, Italy and the United Kingdom via dedicated resources and subsidiaries.

Oak Investment Partners led the funding round for the Campbell, Calif.–based provider of PLM solutions, with support from **Masthead Venture Partners** and **ABS Ventures**.

The mobile-app market, PLM market and luxury sector continue on a path of rapid growth, Groves said. "We are excited about the market opportunity to extend our PLM product leadership for fast-moving consumer-goods companies and to expand our corporate presence in the luxury and fashion centers of North America and Europe."

Centric has introduced the **Centric 8 Collection Book for Fashion iPad** app, an interactive, patent-pending mobile app that replaces paper lookbooks with an electronic version that directly links data from the Centric 8 PLM system to customers through an interactive mobile device. A second mobile app allows users of Centric's PLM software to use a smart phone to upload images directly to the database for a variety of purposes. To maintain the mobile-app momentum, Centric has hired a five-person team of programmers dedicated to mobile applications.

"Centric has proven that its Centric 8 application suite is unique and compelling in the fashion and consumer-goods markets," said Bandel Carano, managing partner at Oak Investment Partners.—*E.B.*

Gerber's Giles Replacing Hancock

Gerber Scientific, parent company of **Gerber Technology**, has announced a reorganization of its executive ranks.

Gerber Technology President John Hancock will vacate his post on April 30, according to a release from the Tolland, Conn.–based company.

Marc Giles, president and chief executive officer of Gerber Scientific, will step in to take over leadership responsibilities of Gerber Tech. Additionally, Gregg Williams has been brought onboard as vice president of marketing, product management and service. The position is a new post for the company.

The company, Giles said, is focused on slashing costs and speeding up its new product development. Gerber Technology produces equipment and software solutions for the apparel industry. Gerber Scientific's other units are **Gerber Scientific Products**—which develops and manufactures computerized sign-making and specialty graphics systems, software, materials and accessories—and **Spandex**, which supplies products for the sign-making and display industries.—*E.B.*

Buhler Quality Yarns Corp. provides ringspun yarn with 100 percent Supima, 100 percent Micro Modal, 100 percent Micro Tencel, and 50/50 blends of Micro Modal or Micro Tencel with Supima cotton. Yarn count ranges from 12/1 Ne to 90/1 Ne. New fabrics include Micro Tencel and fashion slub yarns in Supima and Supima Micro Modal that are super-soft, comfortable, durable, bright, and extraordinarily strong. Popular counts and blends are inventoried, and there are no minimums for samples. Buhler provides service, quality, innovation, and flexibility. *www.buhleryarns.com sales@buhleryarns.com*

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NGC Software's Extended PLM helps companies cope with the rising cost of raw materials. Apparel prices are up 10 percent, and cotton prices are at an all-time high—but many NGC customers utilize PLM to control materials costs and increase profitability. They use NGC's PLM to forecast raw-materials requirements, place commitments with multiple suppliers, and draw down the commitments as POs are issued and the materials are consumed. As a result, customers have experienced improved speed to market by an average of three weeks and reduced markdowns/closeouts by 33 percent or more. Raw-materials prices may be up— but NGC can help you improve gross margins and reduce costs throughout your supply chain. Visit *www.ngcsoftware.com* for more information on NGC's PLM software.

OptiTex's apparel-specific software includes a suite of preproduction and production tools featuring 2D flat pattern design, 3D garment simulation, animated garment simulation, fabric texture, and colorway variation. Entire lines can be created virtually, eliminating wasted material and speeding products to market. OptiTex now offers 3D to 2D garment flattening, 3D digitizing, updated models, and the ability to create animated 3D cloth and virtual fitting simulations, as well as improved integration with PDM/ PLM systems via a newly developed API. Services include full production pattern design, grading, marker making, nesting, file-conversion services, 3D design, 3D flattening, animation services, and 24-hour online support. OptiTex is fully Windows-based, uses an open architecture, and integrates seamlessly with hardware and software already on the market. It offers a user-friendly nature, highly customizable on-screen environment, and environmentally friendly efficiency. All design modules exist within the same application; no conversion is needed between modules. *www.OptiTex.com*

Philips-Boyne Corp. offers high-quality shirtings and fabric. The majority of the line consists of long staple Egyptian cotton that is woven and finished in Japan. Styles range from classic stripes, checks, and solids to novelties, oxfords, dobbies, voiles, Swiss dots, seersuckers, ginghams, flannels, and more. Exclusive broadcloth qualities: Ultimo®, Corona®, and Superba®. Knowledgeable customer-service team, immediate shipping, and highest-quality textiles. Philips-Boyne serves everyone from at-home sewers and custom shirt-makers to couture designers and branded corporations. *www.philipsboyne.com* or *sales@philipsboyne.com*

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amount of retail floorspace," Burstein said. What they want on that floorspace are goods that are turning quickly and are selling at full price. They don't want the floor taken up with a bunch of markdowns. And the brands don't want to have slow-moving merchandise that people aren't reordering and that they're eventually going to have to closeout."

By waiting until the last minute to dye, cut and sew goods, manufacturers can adjust to retailers' latest sales figures and cut only the styles and colors that are most in demand.

"It's even cheaper if goods are not selling and are at risk of cancellation," Burstein said. "Don't even bring the goods in. Tell the factory to liquidate them and take a $2 or $3 loss. It's much cheaper than trying to bring the goods in and going through all the motions on it."

There are also opportunities to save money on freight—provided you can wait a while.

"A lot of times, the vessel is leaving twice a week and one vessel is loaded to the gills and the other vessel is half-loaded," Berton said. "If [the manufacturer doesn't] need it, if they bought on time, they can have their freight forwarder go to the cheaper-price vessel. That's one way of saving a little bit of money."

Another option, Berton suggested, is to forego shipping landed duty paid in order to negotiate better shipping rates.

"Over the last five or six years, everybody said, 'I don't want to have the risk factor. I don't want to have the import problem. I don't want to have the QC problem. I'm going to buy it landed duty paid through the Chinese or Indian broker,'" he said.

But, Berton said, the brokers are earning commissions for placing production at certain factories and for shipping through certain carriers. "I advise [manufacturers] do not buy landed duty paid. Deal directly with manufacturer or the agent of the manufacturer and work out a quick response," he said. "They can firm up the order, get it produced, get it here. They work with their own freight broker. They could save themselves 10 percent or 15 percent, maybe."

Another option is free-trade zones. "If they are buying early, they can bring in the goods and put it in a bonded storage area," Berton said. "They have to pay rent on [the bonded storage], but they don't have to pay the applicable duties until they are ready to ship it out. That's another way—if you can get a good rate—of not having to put up the anywhere from 5 percent to 30 percent duties on apparel until you need it. But unless you're a big boy, it might not be cost-effective." ●

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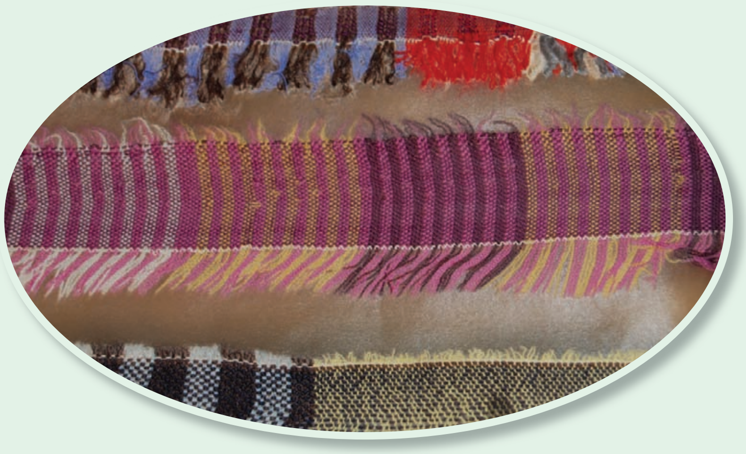

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