

The Cotton Crisis – Softlines Material Management

by Gary M. Barraco, Director-Product Marketing, ecVision

The flooding disaster in Pakistan is probably the icing on the cake for softlines retailers and brands who were already struggling to source cotton this year. Cotton yarn availability has been on the decline since early October 2009, making the commodity scarce and expensive.

Today Pakistan, the world's fourth largest producer of cotton, lies under flood waters that have left more than 1,800 people dead and over 2 million homeless. The impact on the world's cotton market is crippling supply chains around the globe. Flood waters cover 35% of the country but the hardest hit provinces are home to 12,000 textile mills and more than 6,500 ginning operations and the decimation of cotton crops will reduce annual output estimates by 700,000 bales. Furthermore the loss of roads, bridges, trucks, and communications will make it difficult to get the surviving cotton to market.

Apparel buyers are now left to scramble to divert Christmas orders and seek out raw materials suppliers in other countries for 2011. The result will translate into higher prices for apparel and footwear as the costs are passed on to the consumer.

I reached out to two industry-leading advisory organizations who we often work with for their input about this dilemma – Kurt Salmon Associates (KSA) and AMR Supply Chain Leaders, Gartner Inc. Just a few months ago, KSA's Jessica Roberti had a contributing article in *Apparel Magazine*. Writing about sourcing strategies for raw material and providing the best advice to retailers as they "battle" for market share, Jessica clearly states, "By proactively managing their fabric early in the development season through negotiations and positioning with mills, these leaders have further insulated themselves from the next unexpected chink in the supply chain." AMR/Gartner's Mickey North Rizza referenced current and past research that points out "a multi-pronged sourcing strategy can avert danger".

The chink in the supply chain has escalated to a dangerous situation for retailers and consumers alike at this point.

Hindsight is 20/20, Now What?

Sourcing and design teams need to react quickly. Here is a summary of ways retailers can achieve visibility into the supply chain and collaborate with raw material and production vendors as a means of mending this break and mitigating risk in the future.

Position: Best-in-class retailers make firm commitments to allocate production capacity throughout the season/year. This reservation can be for raw materials or finished goods and gives all parties involved the ability to forecast supply and demand cycles. The benefit of guaranteed capacity for the retailer is the ability to chase trends and replenish fast-selling products, hedge emerging trend styles and reduce lead times – ultimately improving speed to market.

If you already have a position on your materials, it will enable you to react in most situations. The truth of the matter is – even with a material reservation in place, you can't fool Mother Nature.



In the case of Pakistan's production stoppage, the reservation process would at least provide you with the ability to identify your material reservations to determine where you will come up short. The ability to view capacity at mills or dye houses can also be used to determine where to re-direct your efforts to fulfill orders.

Design: By identifying where the affected materials are used in line plans, whether in current production or future plans, adjustments to material composition and fabrication can be made, if possible. For example, when material shortages occur designers can substitute alternative blends and maintain product cost where applicable.

Price: Sourcing teams need to determine estimated costing for each product and utilize multiple costing scenarios to yield the highest return. Sourcing or costing technology tools offer robust, collaborative, on-line Request for Quotation (RFQ) tools that bring a higher level of efficiency to the sourcing process. With the use of electronic costing sheets that handle multiple scenarios and suppliers, automation is employed to maintain negotiation histories and generate a comparison matrix of the responses. Tools to calculate fabric price changes can provide a simple mechanism to re-price your entire line with alternative blends or consider the up charges from the current demand.

Utilization: Visibility through strong reporting tools will enable retailers to track usage of materials – decrementing from original allocation numbers (obtaining the data from design specifications for yield and order management systems for units placed). Armed with this information you can determine where unused materials exist to shift production to those factories or re-route them to others.

Process Changes: In a Gartner publication dated April 7, 2010 (Raw Materials Sourcing Strategies Are Critical to Revenue and Profit Margins, ID Number: G00175415), Mickey North Rizza points out the complexity of raw material sourcing and the need to close the loop around the “entire business process” with “advanced optimization and contract management capabilities”.

Diversification: Quite simply – don't put all your eggs in one basket. In order to mitigate future risk North Rizza stands firmly on the need for retailers to follow best practices that consider geo-environmental, financial instability and quality of goods when building supplier relationships. In the above noted report, Gartner found that “26 of the 31 companies interviewed found a total of \$28 billion in savings” where best practices exist and due diligence is imperative to risk management.

The Tide Has Turned, Again

To protect margins while lowering prices, retailers seek the lowest-cost sources for apparel. The past year has seen shifts towards sourcing of cotton-dominant apparel from Southeast Asia. Sourcing decisions relied heavily on raw materials production in a country now mired under water, and retailers – in turn the consumers – will pay the price. Along with a natural disaster of epic proportions, risky sourcing strategies and a lack of technology and process to manage supply chains have led to a global crisis. Apparel, footwear and other soft goods retailers are scrambling to re-group and preserve their business without increasing costs to already strapped consumers.

The best response retailers can take is to adopt a software solution that makes dramatic improvements by improving collaboration among the distinctive internal and external groups by standardizing processes and documents, and acting as a central knowledge base to store and share all related data that provides visibility into the entire supply chain process. Unifying all of the people and data in a single solution will result in a realistic raw material sourcing process that will maintain margins, reduce cycle times and improve time-to-market speed.

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Its flagship software solution, ecVision XpressCommerce, is a configurable, web-based solution for private label owners and manufacturers to facilitate better relationships with trading partners through standardized documents and process flow from product concept to receipt. The end result is minimized risk, lower supply chain costs, improved speed to market and the protection of brand quality.

Jessica Roberti is a Manager in the Retail and Consumer Products Group at Kurt Salmon Associates (www.kurtsalmon.com). While at KSA, she has worked on a number of product development and sourcing projects in North America and Europe. Prior to joining KSA, Jessica worked in the retail industry for 12 years with a focus on production, sourcing and product development for well known specialty retailers. She has managed teams in the US and Asia and has traveled extensively throughout Asia, Southeast Asia and Central America.

Mickey North Rizza is a director in the Gartner Research Supply Chain team (www.gartner.com), covering supply management. She works closely with her clients to communicate effective supply management strategies, including procurement, strategic sourcing, contract management, supplier collaboration, and supplier performance and risk management.