

Top Five Takeaways from the 2017 AAFA Conference—Supply Chain Innovation: The Right Course



Source: twitter.com/apparelf footwear

The Fung Global Retail & Technology team attended Supply Chain Innovation: The Right Course, the 2017 American Apparel & Footwear Association (AAFA) conference held in New York. Our top five takeaways were:

- 1) Change is necessary
- 2) Developing relationships with suppliers is key
- 3) There is a strong business case for sustainability and compliance
- 4) Inventory is often in the wrong place
- 5) Flex Innovation Lab Tour showcased the Internet of Things

The Fung Global Retail & Technology team attended Supply Chain Innovation: The Right Course, the 2017 American Apparel & Footwear Association (AAFA) conference held in New York. Topics of focus at the event included the supply chain, sustainability, innovation, logistics and trade. Here, we share our five key takeaways from the conference.

1. Change Is Necessary

A recurring theme over the two-day event was the need for change by apparel manufacturers. Change can be difficult, and it has to be implemented by management at the highest level. The culture has to support it, and employees need to be incentivized accordingly.

Wolverine Worldwide was cited as an example of a company that has successfully implemented change, despite being a large organization. Senior management set up a change management team that was tasked with evaluating processes throughout the entire company. In 12 months, the company will be redesigned in its entirety.



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Consumers expect to see more frequent newness in stores now, and more frequent collections require more streamlined development processes and a sharper focus on operations. Streamlining decision making and empowering employees to make decisions quickly is also part of a faster supply chain. An executive from Stitch Fix talked about the need to have as few people as possible involved in decision making in order to move the process along. In addition, the executive said that, at times, the company makes decisions without samples, which enables it to be nimble and stay focused on the customer.

There was discussion about finding new ways of manufacturing, given that there has been rapid developments in technology, such as 3D printing, that offers more options for manufacturers. In terms of automating factories, the cost of robots is still high, starting at \$25,000. Impactiva CEO Jose Suarez noted that once that investment is amortized and has to be replaced after three years, it could be difficult to be competitive with factories abroad in the near term. As a result, he believes that volumes produced at automated factories will be low, at least in the near term.

2. Developing Relationships with Suppliers Is Key

We heard repeatedly about the importance of developing relationships with suppliers in order to understand their capabilities—what they are good at and what they are not so good at—so that in a situation where a retailer needs to chase demand, it knows which factory to go to, for white denim, for example. Relationships with suppliers should be based on relationship management rather than on transactions or the lowest cost, as the future of retail will be less about nickel and diming with factories and more about being able to get the customers what they want when they want it so the retailer can sell it at full price. The focus is on the out-the-door margin. In addition, if a retailer does not understand a supplier's capabilities, and gives the supplier something it is not capable of doing, the retailer is the one that suffers in the end, with poor-quality goods that will need to be made again or reworked—both of which require more resources.

Another idea discussed was reducing the number of factories retailers work with. One retailer that reduced its factory base from more than 100 to close to 40 has seen positive results.

3. There Is a Strong Business Case for Sustainability and Compliance

Warren Buffett's famous quote "It takes 20 years to build a reputation and five minutes to ruin it" is especially relevant in the context of sustainability and compliance in the supply chain. An executive from VF Corp. discussed what the company is doing to drive change and improve its own responsibility in sourcing, noting that responsible sourcing is based on four pillars:

- 1) **Worker well-being:** Relates to the safety of workers in the factory—which includes structural safety, fire safety and electrical safety—as well as their right to be safe from harassment and treated respectfully.
- 2) **Product stewardship:** This is about the quality of the product in terms of safety, testing and quality.
- 3) **Environmental sustainability:** Focuses on a company's impact on the environment. (The executive noted that VF Corp. has committed to 100% renewal energy usage by the year 2025.)
- 4) **Creating a sustainable living environment:** This is about helping workers live better lives in their communities.

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The executive from VF Corp. and other presenters made the case that, beyond being the right thing to do from a moral standpoint, there is a strong business case for responsible sourcing. If there is a fire in a factory, for example, production has to halt while the equipment and factory are repaired. In addition, consumers' perception of a brand could suffer if they become aware that the brand is sourcing irresponsibly.

4. Inventory Is Often in the Wrong Place

Some supply-chain inefficiencies include improper inventory positioning. For example, a major US retailer with production in China sells its merchandise both in the US and in China. On the company's Chinese website, a pair of men's pants was almost double the price on the US website, in addition to requiring a \$30 shipping charge, versus free shipping in the US. This makes little economic sense, since the pants were made in China. In another example, goods were shipped by sea from Asia to the US West Coast, then trucked to the Chicago distribution center, only to then be shipped back by truck to retail stores on the West Coast.

5. Flex Innovation Lab Tour Showcased the Internet of Things

As part of the conference, the AAFA organized a tour of Flex's Innovation Lab in New York City. The tour focused on three areas—connected home, wearable technology and supply-chain innovation—and showcased Flex's design and development capabilities. Flex is a subsidiary of Flextronics.

Connected home: Wink is a startup that brings together various smart-home capabilities into one simple platform. Wink partnered with Flex to manufacture various pieces of hardware that enable the smart home. There are three aspects of a smart home. The first is being able to control a home from anywhere (for example, being able to shut the garage door from work). Second, the home can reach out to the resident. An example of that would be a smart-home system alerting the home owner that there has been a leak. Third, the home can do things on its own. Over time, as the smart home begins to recognize the home owner's patterns and way of living, it can begin to do things on its own that the home owner would normally do.

Wearable technology: In the wearable section, there were examples of hardware Flex has made in partnership with Fitbit and an automaker (in that case, a keyfob). For a company like Fitbit, the benefit of partnering with Flex is that Fitbit does not have to build its own hardware team and, so, can focus on its strength—software. Flex also serves as a reliable partner that can scale up production quickly based on the success of a product.

On the tour, we also saw eyeglasses that featured both a map that can be seen while wearing the glasses and a camera that can take videos and pictures.

Supply-chain innovation: This area of the lab is used primarily for building prototypes. We were shown two 3D printers that Flex has had for about two years. The larger machine can print complex prototypes with moving parts that are made out of resin. We also saw a laser cutter, a vinyl cutter and an engineering bench in this section of the lab.



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