VF Sourcing Strategies Show Need for Adaptability to Meet Changing Supply Chain Dynamics

As Supplier Base Shrinks, Apparel Giant goes Vertical - with a Twist

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Market, brand and supply chain dynamics can make any given sourcing strategy obsolete today in just a relatively short number of years.

Consider the blue jeans market. Most US "brands" entirely abandoned US manufacturing in the late 1990s and early 2000s. For awhile, this actually worked to the benefit of giant VF Corporation, which still sourced the majority of its denim fabric in the US for production offshore – a strategy that let it avoid sizable duties (17.5%) it would face if it also sourced the denim as well as the finished good from low cost countries. Using its increased leverage with the remaining US textile manufacturers, VF was able to reduce its material costs by some 15 percent by the early 2000s, and keep that advantage through 2006.

That year, however, about half of the US domestics denim supply base left the market, causing the company to rethink its sourcing strategy.

Going Vertical, with a Twist

According to VF Chief Procurement Officer **George Irion,** in a recent interview with CPO Agenda magazine, VF has formed a unique and collaborative relationship with a new denim mill that recently opened in Liberty, SC – the only denim plant that has opened in the US this decade.

The facility was closed but then re-opened by a private investment group. In a unique relationship, the factory's production is 100% dedicated to VF, almost as if it were a vertically integrated part of the company. In turn, VF guarantees the plant volumes, something like 3.5-4.5 million yards of fabric per quarter.

This arrangement also lets VF receive the benefits of a captive factory without having the assets on its books, helping its return on assets (ROA) metrics versus owning the factory outright.

"We have transparency in the relationship, which I think is important. We sit down once a quarter and go through their financials so that we understand where they are and what their needs are," Irion said. "The idea of Liberty was to take a few products where we need a lot of volume, such as Wrangler and Lee, and eliminate the need for huge product development investments that are common at other denim mills."

Naturally, some might ask why VF doesn't just buy the factory. Irion says one basic reason is the company wants to preserve its capital to acquire other brands. Though not mentioned by Irion, this arrangement also lets VF receive the benefits of a captive factory without having the assets on its books, helping its return on assets (ROA) metrics versus owning the factory outright.

In fact, VF is considering a similar strategy with the same investor group with another recently closed mill in North Carolina. The approach would be slightly different though, with the plant making some more specialty fabrics and also selling perhaps 20-30% of its production to other companies

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besides VF.

With the experience of the first plant, this second venture would be even more collaborative, to the point where they really would operate like a single company.

"We would have one of our engineers onsite in the plant who knows as much about their cost structure and day-to-day operations as they do. We would be working collaboratively on virtually every operational decision that's made," Irion told CPO Agenda.

One driver of the strategy is that the plant could produce certain fabrics that once had abundant suppliers, but for which now there are only two.

"When you get down to two, it really does become a threat to your supply," Irion said.