Guess Who's a Sourcing Innovator

Guess Inc. has winnowed its vendor pool down to a core group of high-performing companies. Collaborating with them through two key technology platforms helps keep costs down and quality high.

One of the best-known and most profitable apparel companies, Guess Inc. built an empire on sexy jeans. With worldwide sales amounting to nearly $2.7 billion in the past fiscal year, the 30-year-old company now has about 1,400 Guess stores in 87 countries (some operated by third parties) and also sells through wholesale, e-commerce and licensing channels.

Guess's far-flung, diverse operations are challenging to manage. After buying back most of its international licenses several years ago, the company launched an effort to impose order on its supply chain, centralizing vendor selection in its Los Angeles headquarters and reducing its total number of vendors by about half. The remaining vendors constitute a strong core group, each of which has multiple factories in multiple locations and can supply a variety of products to different parts of the company.

At the same time, in response to rising prices in China, Guess is trying to diversify its sourcing base geographically. Though China is still "the place to be" for many types of garments, needlework-heavy items are often sourced from India, and an increasing amount of product is now sourced from Vietnam and Cambodia, which have become more competitive. Denim for North America is usually produced in Mexico because of that country's proximity and faster turnaround times (as well as NAFTA benefits). Denim for Europe is usually produced in Turkey, which offers similar advantages for the European market. "You have to bal-

ance cost with fuel rates — which are going up — and with lead times," explains Mike Relich, CIO of Guess.

Reducing the overall number of vendors has helped Guess keep costs down, because larger orders command better prices. With a smaller number of vendors, the company can also devote more time to improving each vendor's performance. The sourcing group holds periodic meetings with groups of vendors to communicate new initiatives and requirements. It also instituted a vendor scorecard, which is based on objective criteria such as accuracy, timeliness and product quality as well as on subjective criteria such as responsiveness; it holds regular one-on-one meetings with vendors to review their scorecards and discuss strategies for improvement where needed.

Collaborating is the name of the game

Two technologies have been critical in helping Guess collaborate with its vendors to keep prices down and quality high: product lifecycle management (PLM) and automated payment and settlement processing.
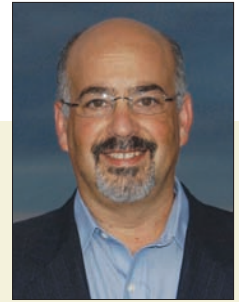
Dassault Systèmes' ENOVIA PLM system is used for processes leading up to a purchase order, and the Tradecard plat-

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VENDOR VIEWPOINT

Kurt Cavano, Founder, Chairman and Chief Strategy Officer, TradeCard

Apparel: As the cost of labor rises in China, the "China price" has taken on a whole new meaning, and the question of whether to shift production within China or move out significantly is nagging at a lot of sourcing executives. What advice do you have for evaluating a China strategy under today's circumstances?

CAVANO: Production costs continue to be a challenge in China and other regions. Labor costs, oil prices, raw materials costs and various other risks pose a threat to retailers and brands today. Most of these are beyond your control. It's important to take advantage of the things you can control to counter rising costs. If you produce the type of product that can be manufactured in Sri Lanka or Central America instead of China, then the cost savings opportunities are there for the taking. But if you produce complex garments or high-end goods that require a structured sourcing locale, then you have to find other ways to remove costs. Last year, retailers and brands began battling rising cotton costs by implementing raw materials programs such as consolidation, which allowed suppliers to obtain cotton at lower costs. Now that cotton prices have stabilized we're seeing similar trends in other raw materials. The latest is the rising price of down filling. There are three options for companies being impacted by rising production costs: 1. Try to pass the costs along to consumers; 2. Switch to an alternative locale; 3. Find costs elsewhere in production and your supply chain, and remove them. We encourage the brands and retailers we work with to remove capital-related costs from the supply chain by deploying early payment programs to suppliers in exchange for invoice discounts. We also help them remove inventory and DC-related costs by shipping direct to store. And others are customizing goods close to the source to keep costs down.

Apparel: Choice of production locale is very important from the perspective of trade agreements, infrastructure, political culture, etc. but ultimately a retailer's partnership is with individual factories. What are some of the forgotten but important elements to evaluate when determining if a factory is up to the task of joining an enterprise-class supply network?

CAVANO: Your supply network is an extension of your business. It's essential to partner with organizations and factories that have the capabilities and resources to meet your needs. If you compete on quality, your supply base has to support that. If you're a fast-fashion retailer with short seasons and high demands for new lines, your supply base has to support that. Some of the key issues to consider when looking at suppliers in a new locale are capacity availability, materials availability, infrastructure to produce and deliver goods in a timely manner, and compliance and sustainability. It's important to know as much as you can about your trading partners. Their performance track record. Their social compliance policy. Their financial situation. And their core competencies.

Apparel: The loss of supply chain visibility as a result of production outsourcing can pose many difficulties, but even more challenging is the subsequent loss of control when it comes to coordinating the entire spectrum of supply chain activities that surround it. Is there a way to achieve a truly transparent and collaborative end-to-end global supply chain?

CAVANO: We've found that the best way to ensure multiparty visibility across multiple layers in the supply chain is to connect all parties on a single network that provides one accurate set of data, documents or purchase orders. Cloud technology is an ideal fit for making this happen. Brands and retailers today are establishing a true system of record in the supply chain to maintain control of goods by obtaining visibility into production, capital and data throughout the transaction. The next wave of innovation will be extensive social media tools for the supply chain that enable communication and collaboration between all parties. For the brand or retailer, this means true visibility into every step of the transaction lifecycle.

Apparel: Connectivity and visibility together deliver a powerful one-two punch to redundancy and inefficiency. For a company with limited resources to fix everything at once, what are some prominent bottlenecks along the supply chain that apparel companies can address relatively quickly and easily and still achieve significant positive results to the bottom line?

CAVANO: The key is don't try to tackle this alone. If your core business is selling intimate apparel, stick to what you do best. Instead of setting up offices throughout Asia and asking your IT staff to build a system of patchwork portals and solutions, find the right partner who knows your business, knows the local ins and outs of the sourcing locale you're working with, and has the ability to be an extension of your organization. This is essential in places like Bangladesh. You might not have a local presence there. But the company you partner with to deliver supply chain visibility should have local feet on the ground to visit factories in your supply network — within hours — if needed.

Vendor Viewpoint is a regular Apparel advertorial feature.

form is used for payment and settlement processes following a purchase order. (Purchase orders are actually written using ERP systems, which are not uniform companywide and are not shared with vendors.)

The PLM system is used companywide to assign style numbers and maintain data about styles, trims and fabrics. Guess' North American designers use the system for all their product development activities, and the European designers will also use it to create specifications starting later this year. The sourcing group in Hong Kong also relies on the system, which Relich calls "the main vehicle for collaboration" between design and sourcing.

Vendors, too, are now using the PLM system. Until recently, fabric vendors sent their data to designers via spreadsheet, and the designers re-entered it into PLM — a labor-intensive and error-prone process. Now, the vendors enter data directly into PLM, and as a result, the system has become a rich repository for fabric data, lab test results, trim specs and factory profiles that can be used for vendor compliance purposes.

According to Dr. James Xu, chief system architect at Guess, the company has also begun to post documentation on the PLM system to make it more readily available to vendors. Technical manuals, vendor guides and important company announcements are all available for vendors to retrieve — and Guess can verify through the system which vendors have opened them (though, as Xu notes, discovering whether they've actually read the documents is beyond even ENOVIA's powers).

Guess recently added a custom-built module to its PLM system for fabric tracking. Even though the company buys finished products rather than fabric, it commits to mills that its manufacturers will purchase certain amounts of their fabric. "We're on the hook if they don't buy it all," Relich explains. Now, through the PLM system, the company can keep track of vendors' fabric orders and better manage its commitments to the mills. When garment makers are left with excess fabric, Guess knows what they have and can instruct them to reuse it for subsequent orders.

Once a purchase order is written, Tradecard becomes the key platform. Guess sends purchase orders via the platform to vendors, who can obtain credit from Tradecard financing partners to pay for the materials and manufacturing to fulfill the order. This eliminates the need for (and the cost associated with) letters of credit, and because vendors borrow based on Guess's credit rating, their cost of capital is much lower. The cost savings are split between Guess and the vendors, Relich says, making it a win/win solution. (In fact, vendors who were being paid through Tradecard for purchase orders issued in the United States and Asia demanded to know why the company couldn't process European orders in the same way. Guess' European region is scheduled to convert payment operations to the platform in the third quarter of 2012.)

Other documents, including the advance shipping notification (ASN) and the invoice, are also generated by or uploaded to Tradecard, as are chargebacks. A vendor can submit an invoice electronically based on the ASN. Tradecard compares the invoice with the purchase order and ASN and rejects any invoice that is inconsistent with the pre-existing documents. Close to 100 percent of invoices are now submitted electronically, compared with only about 5 percent five years ago, and more than 80 percent of them are processed and paid "without being touched by human hands," Relich says.

This streamlined processing allowed Guess to set up an early payment program, in which it pays vendors in 10 days and takes a discount from the 30-day price. "That probably paid for Tradecard four times over," Relich comments.

This transparency has many other benefits. For example, the system maintains a full history of every purchase order, showing the dates and authors of any amendments. This reduces the probability of a vendor's fulfilling an early version of a purchase order that was later amended — and, if nothing else, it settles any arguments about whether the vendor received the latest version of the purchase order.

In addition, confirmed-on-board notifications are sent through the system, which helps Guess manage its accrual processes.

Transparency also makes chargeback processing more accurate. Previously, chargebacks were handled through "a spreadsheet in someone's drawer," Relich says, and they were applied inconsistently. Now, if goods are late or defective, chargebacks are applied automatically, following rules set up in the system. The knowledge that chargebacks will certainly be applied is an incentive for vendors to avoid incurring them.

Guess is expanding its use of the platform — not only by bringing the European region into the system but also by enhancing the platform to use it for additional processes. For example, processing of customs invoices was performed manually until recently, and has now been converted to the platform. Ordering of product samples — a fairly large expenditure — was also handled manually, and now can be tracked and paid through the system. ∎

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