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Dissertation title: The Role of Supply Chain Management in Fashion Companies

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Abstract

Purpose – To define the role of supply chain management, the most important internal elements of supply chain management that determine or support a company’s success in the fashion industry are illustrated. Conditions required to within the company are also being analysed.

Approach – The role definition is approached by analysing the findings of existing literature and contrasting them with four case studies from Dutch fashion retailers: the textile discounter Zeeman, the shoe and sporting goods retailer Scapino, the lingerie chain Hun-kemöller and the department store chain V&D. The analyses support an understanding for the specific situation of supply chain management and the importance it is being granted in fashion companies. From the comparison between primary and secondary research, a model is drawn for each studied company to explain the position of supply chain management and to illustrate its influence onto companies’ performance.

Findings – Derived from the case studies, the most important internal elements of supply chain management that determine or support a company’s success in the fashion industry are (1) a clear definition of the business and supply chain strategy, (2) managements’ acknowledgement of SCM as a strategic weapon and (3) cooperation among internal departments. In terms of supply chain management’s role definition, two tendencies could be observed: first, the more basic the fashion level, the rather supply chain management’s task is to ensure availability of products and to replenish them at lowest cost. Secondly, the more up-market a company is positioned, the more supply chain management becomes a strategic tool to directly support sales in the way that short lead times and agile processes allow a frequent change of collections.

Research limitations – Four companies were examined that serve as examples. Studying a broader range of companies could lead to a more general definition of the role of supply chain management.

Practical implications – The outcomes of this research might support fashion companies in improving their supply chain strategy and processes. They might also find the examples described to be beneficial to structure their own organizations in order to maximise the benefits of supply chain management.

Value – The examples from the case studies deliver a guideline for successful SCM in fashion companies. The study also helps to understand critical paths of versatile supply chains. To a certain extent conclusions are transferable onto companies of other industries with similarly complex and dynamic structures.
Acknowledgements

“No one – not rock stars, not professional athletes, not software billionaires, and not even geniuses – ever makes it alone.”

Malcolm Gladwell in “Outliers”

Though I do not consider myself one of the above-mentioned extremes, I could not have completed this dissertation without the support, guidance and efforts of others.

I would like to express my gratitude to Professor Stef Weijers and Dr Hans-Heinrich Glöckner of the HAN University as well as Dr Henny Jordaan of the Amsterdam Fashion Institute (University of Amsterdam) for entrusting me with this project, introducing me to the world of research and for giving my work valuable impulses. Thanks also for the encouragement towards the end of the project.

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Hartelijk dank to Reinder Pieters, Marlies de Jonge and Niels Meijer of the HAN University for contributing to my motivation with their enthusiasm.

My student life ends with this dissertation which is a great opportunity to say thanks to my family and friends – especially Matthias and Moritz – for supporting me over the years and for being the best part of my life.

I dedicate this work to my parents. Their guidance, support and confidence in me made me to what I am today. Danke ihr zwei!
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## Glossary of Abbreviations

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<tr>
<td>CAPEX</td>
<td>Capital expenditure</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief executive officer</td>
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<tr>
<td>CFO</td>
<td>Chief financial officer</td>
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<tr>
<td>CFS</td>
<td>Container freight station</td>
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<tr>
<td>COGS</td>
<td>Costs of goods sold</td>
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<tr>
<td>CPFR</td>
<td>Collaborative planning, forecasting and replenishment</td>
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<tr>
<td>EBITDA</td>
<td>Earnings before interest, taxes, depreciation and amortisation</td>
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<tr>
<td>ERP</td>
<td>Enterprise resource planning</td>
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<tr>
<td>FOB</td>
<td>Free on board</td>
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<tr>
<td>HR</td>
<td>Human resources</td>
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<tr>
<td>KPI</td>
<td>Key performance indicator</td>
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<td>PLC</td>
<td>Product life cycle</td>
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<tr>
<td>PO</td>
<td>Purchase order</td>
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<td>POS</td>
<td>Point of sale</td>
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<td>ROA</td>
<td>Return on assets</td>
</tr>
<tr>
<td>ROI</td>
<td>Return on investment</td>
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<tr>
<td>SCM</td>
<td>Supply chain management</td>
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<tr>
<td>SKU</td>
<td>Stock keeping unit</td>
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<tr>
<td>SLA</td>
<td>Service level agreement</td>
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<tr>
<td>TEU</td>
<td>Twenty feet equivalent unit</td>
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<td>TIT</td>
<td>Time-in-transit</td>
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1 Introduction and Problem Definition

1.1 Background and Problem Statement

The fashion retail industry serves a highly competitive consumer market with very volatile demand. Trends pressurise companies to continuously develop new products and to quickly send them out to the market in order to gain profits within short product life cycles (Fisher, 2009). The chance of designing bestseller products is always coupled with the risk of missing market requirements in this highly dynamic environment (Christopher et al., 2004). This is why fashion companies traditionally focus on market research and forecasting in order to better meet demand. The emphasis of the industry is undoubtedly placed on design and merchandising (Suleski and Draper, 2010). In contrast, internal fashion supply chain management (SCM) has long been an afterthought and is discussed less intensely. Supply chain strategy seems to play a secondary role in enterprises (Azuma et al., 2009). This is especially astounding since non-price competition through added value is on the rise and time to market is crucial in the industry (McKee and Ross, 2011).

Supply chain processes in the fashion industry are intricate and challenging. Tangible and intangible costs of faulty operations can be significant (Gustafsson et al., 2009). There are several books and studies on challenges of fashion SCM for practitioners, such as by Leeman (2010), and theoreticians, like the ones by Fisher (2010) and Christopher et al. (2009). Nonetheless, the role of SCM inside the organisation of fashion companies, its alignment with the business strategy and its contribution to success are less clearly defined in the literature. Gattorna (2009) and Kim (2007) for example discuss different internal organisation structures SCM but do not link the structure’s significance to corporate performance.

Since time is a very critical factor and high quality and low costs are also very important for most fashion companies, supply chain processes have a decisive impact on the performance of a company in the apparel industry; SCM can be used as a competitive weapon (Ketchen et al., 2008). But how can a company’s success be defined, how can SCM’s impact be measured and where are its limitations? There is no generally agreed on definition for business success but it is believed that “the supply chain is a potential source of competitive advantage” (Gustafsson et al., 2009, p.3) if managed accordingly. Nonetheless, the question to what extent SCM contributes to the performance of fashion companies as well as the question if SCM is really being granted the importance it deserves in the organisation are still left unanswered. Attention for SCM seems to be lagging behind the consideration given to design and manufacturing. Do fashion companies treat SCM as yet another marginal discipline? How is SCM connected to and dependent on the business strategy?

These and other questions about the role of SCM in fashion companies can be summarised by the following problem statement:

Theory suggests alignment of business- and supply chain strategy but there are doubts that fashion companies acknowledge SCM’s strategic value and that they really grant SCM the importance necessary to utilise it as competitive weapon.
1.2 Objectives and Limitations of the Dissertation

From the problem statement, the main research question for this dissertation project can be formulated as follows:

*What are the most important internal elements of SCM that determine or support a company’s success in the fashion industry and under what conditions do they contribute to the success?*

The project’s research design according to the model of Verschuren and Doorewaard (2010) is summarised in Figure 1.

![Figure 1: Research Design](image)

The research question is answered by taking a look at the internal position and interconnection of SCM with other operations. The aim is to define the role of SCM in fashion companies. This helps practitioners, researchers and students to understand the integration of SCM in the organisation of fashion companies and its contribution to a company’s performance. The study shows what can be learnt from successful fashion SCM in order to improve the positioning of SCM in fashion companies. In order to achieve this, the dissertation’s objective is to provide

1. an understanding for the specific situation of SCM and the importance it is being granted in fashion companies,
2. an understanding of the reasons as well as direct and indirect drivers for fashion companies’ success and
3. the detection of the contribution of SCM to companies’ success.

The role definition is approached by analysing the findings of existing literature and contrasting them with four case studies from Dutch fashion retailers. With the textile discounter Zeeman, the shoe and sporting goods retailer Scapino, the lingerie chain Hunkemöller and the department store chain V&D, four different companies in terms of industrial sector, business & SCM strategy, target group and size have been chosen for the investigation. This choice
has deliberately been made in order to demonstrate a diverse range of vertical retailers and to be able to compare different organisational designs to certain business strategies. From the comparison between primary and secondary research, suitable models are applied onto the studied companies. This eclectic approach is chosen to explain the position of SCM and to illustrate its influence onto performance against each company’s background.

The value of this dissertation is that the examples from the case studies deliver a guideline for successful SCM in fashion companies. The outcomes can support fashion companies in improving their supply chain strategy and processes within the company. The study helps to understand critical paths of versatile supply chains. To a certain extent conclusions are transferable onto companies of other industries with similarly complex and dynamic structures. There are, of course, limitations to the research. Due to the time constraint for the dissertation (see project plan, p.57), case studies can only be conducted on four companies and an in-depth investigation of all internal operations or the entire fashion industry is not possible. Also, since each company has its own strategy and very different supply chain operations, there are restrictions to the generalisations of the outcomes of the research.
1.3 Structure of the Thesis

The thesis is designed around the research framework which is summarised in Figure 2 according to the model of Verschuren and Doorewaard (2010).

The literature review of chapter 2 provides the theoretical framework (section A in Figure 2). To build a foundation for the analysis, the fashion industry with specifications of its business, logistics and SCM is introduced first. Subsequently, ways to define and measure a company’s success are summarised from previous research. Based on that, the role of SCM as a driver of success in fashion companies is investigated; models to illustrate the influence of SCM on company’s success are designed (section B, lower part). This finalising step of the theoretical substantiation is followed by chapter 3 which explains the methodology used for the case study research (section B, upper part). Eight managers of four Dutch fashion companies are interviewed in-depth to learn from their business’ organisation of SCM and to investigate what makes their SCM successful. Therefore, critical paths in SCM, operational solutions and the performance of the company are analysed.

The case studies in chapter 4 are grouped by company. Each retailer is briefly introduced with their historical and business background before results of the case study are presented. These include measures of success, supply chain strategies and SCM’s organisation in the companies. Every case is finally analysed and compared to the given theoretical background (section C). Success factors of SCM in particular fashion companies are classified and it is shown how, under which conditions, and to which extent supply chain operations contribute to companies’ success. Since situation and supply chain strategy of each fashion company are different, success factors of SCM and its contribution to a company’s success are different as well. Theoretical models from the literature review are applied to each studied company to illustrate SCM’s influence onto performance. From previous research and from the case studies, conclusions are drawn in chapter 5 on

1. position and degree of integration of managers and departments of SCM,
2. organisation of supply chain operations and their interconnections with other internal operations and
3. interrelation of SCM with the business strategy and success (section D).
2 Literature Review

2.1 Characteristics of the Fashion Industry

The fashion industry is a group of companies producing or trading clothes, shoes and accessories (Curtis, 2004). As part of the apparel industry, fashion should not be confused with apparel because the latter also includes production of textiles and fabrics, a foregoing step for the fashion industry (Hoyndorff et al., 2010). As compared to the textile industry, “the clothing industries are far more fragmented organizationally [...] and far less sophisticated technologically.” (Dicken, 2011, p.302). From 2006 to 2010, the global fashion industry’s estimated value has risen from US$ 1,217 billion to US$ 1,780 billion and is thus one of the largest contributors to world trade (Easey, 2009).

Major driver over the past decades was globalisation which enabled international operations, especially global sourcing, and led to large cost reductions in production. With the economic development of the Chinese and Indian market, the global fashion industry is expected to grow further (Easey, 2009). At the same time, Western fashion companies are fighting a decrease in sales due an increasing number of competitors and the maturity of the North-American and European markets (Hoyndorff et al., 2010). In consequence, the industry becomes increasingly demand-driven and the market is more differentiated which forces companies to respond to trends even faster to maintain their position (Dicken, 2011).

In developed countries, clothes are bought out of desire for the products rather than out of a real need. Customers get easily bored of trends or inspired by new ones which results in a relatively short product life cycle (PLC). Levy and Weitz (2008) describe the fashion PLC as follows: When a new design is created, the trend gets adopted by fashion leaders from where it spreads onto social groups, the consumers. In this phase, sales increase constantly. Once a fashion has been accepted by the majority of the group, the number of adopters of the trend has reached its peak. The fashion becomes boring to many consumers and popularity, i.e. sales, declines until the product becomes obsolete. New trends supersed old ones. The shorter or volatile the PLC, the more SCM has to be able to quickly respond to changes.

Fashion items are very emotional products that consumers use increasingly to express age, gender, lifestyle and personality (Jones and Hayes, 2002). Especially high fashion has veered away from its practical use and towards the satisfaction of emotional needs, e.g. the expression of a lifestyle or creation of an identity (Levy and Weitz, 2008). According to Easey (2009) fashion purchase decisions are “more fragmented and discerning” (p.20) than in the past and as compared to other consumer industries. With the introduction of IT, primarily the internet, customers are well-informed about trends resulting in even faster changing demand and shorter PLCs. In general, the more fashionable the item, the more it is subject to trends and the shorter the PLC, i.e. the shorter the time to sell an item (Levy and Weitz, 2008).

The fashion level has the largest influence on supply chain operations since it determines the length of the PLC and thus the focus on either time or costs. Abernathy et al. (1999) distinguish between 3 levels or types of fashion: (1) basic garments or never-out-of-stock (NOOS), (2) fashion basic garments and (3) fashion garments. Depending on their characteristics described in Table 1 they are handled and marketed differently.
A fashion company can offer product groups with different fashion levels. For example, a designer label often offers high fashion but also holds several fashion basics such as socks or underwear. The fashion level of articles can also change over time and within the PLC: An item like a tank top, for example, can be introduced as high fashion and gradually become a basic product (Hoyndorff et al., 2010).

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1 Revised version based on Hoyndorff et al. (2010, p.14).

<table>
<thead>
<tr>
<th></th>
<th>Basics (NOOS)</th>
<th>Fashion Basics</th>
<th>Fashion Garments</th>
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<tbody>
<tr>
<td><strong>Up-to-dateness</strong></td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td><strong>PLC</strong></td>
<td>Long</td>
<td>Short</td>
<td>Very short</td>
</tr>
<tr>
<td><strong>Merchandise risk</strong></td>
<td>Low</td>
<td>High</td>
<td>Very high</td>
</tr>
<tr>
<td><strong>Target group</strong></td>
<td>Mass market</td>
<td>Mass market / larger groups of individuals</td>
<td>Selected groups of individuals</td>
</tr>
<tr>
<td><strong>Major profit drivers</strong></td>
<td>Large volume</td>
<td>Volume / margin</td>
<td>High margins</td>
</tr>
<tr>
<td><strong>Intended purpose</strong></td>
<td>Serving the purpose</td>
<td>Fashion / purpose serving combination</td>
<td>Focus on fashion</td>
</tr>
<tr>
<td><strong>Replenishment</strong></td>
<td>Regularly</td>
<td>Rarely</td>
<td>None or rarely</td>
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</table>
2.2 The Fashion Supply Chain and its Management

Leeman (2010) identifies shelf availability, transaction costs and lead time, i.e. the time from placing an order with manufacturers until a delivery is received in stores, as currently the biggest concerns of the global fashion supply chain. The often mentioned Spanish enterprises Zara and Mango are regularly used to benchmark lead time. They deliver items in 2-5 weeks as opposed to the industry’s average of 6-9 months (Agarwal and Smith, 2008). Short lead times are important to cope with frequent changes in trends. Customers’ expectation to be offered latest fashion or different items at each store visit led to an increase in the number of collections per year. The Dutch fashion retailer C&A now has 40 collections per year, for example (Glöckner et al., 2011).

For purchasing and logistics this means a decrease in the size of batches and an increase in the order and delivery frequencies which is pressurising operations to be agile, fast and reliable. Another major challenge for SCM in the retail sector is an efficient inventory level: balancing in-stock in order to reduce potential losses of turnover on the one hand and keeping stock levels low in order to reduce capital tied-up and the amount of unexpected markdowns which lower margins on the other hand. Forced markdowns are used to clear inventory at the end of a season as opposed to promotional or planned markdowns which are used to encourage customers to visit stores (Fisher, 2009).

A study of Kurt Salmon Associates (2003) on European consumer behaviour showed that of customers who cannot find what they are looking for in a fashion store, 73% buy at another store. Corsten and Gruen (2003) got similar results. According to them, 4 out of 10 stock-outs result in lost sales to the retailer. This shows how significant potential losses of turnover (and profit) through mismatching demand are and how they even benefit competitors. A responsive or agile supply chain strategy can reduce out-of-stock rates or unplanned markdowns that lower profitability (Fisher, 1997). Forced by competition, innovation rate and number of variants, McKee and Ross (2004) believe the fashion industry to have one of the highest – if not the highest – level of customer responsiveness.

From an operational point of view, a sample fashion supply chain is illustrated in Figure 3. Triggered by research and merchandise planning, the typical material flow in the fashion industry goes from suppliers over production, consolidation centres and DCs to the point of sale, i.e. the clothes shop.

![Figure 3: The Customer Orientated Fashion Supply Chain](Adapted from Azuma et al. (2009) and Kim (2007))

Most fashion companies are retailers since they have outsourced manufacturing to leave technical aspects to experts and rather concentrate on design. Due to lower production costs and textile specialisation, most products and fabrics are sourced in Asia, primarily in China.
which according to WTO (2009) produced a third of the world’s clothing output in 2007. However, the more up-market and up-to-date a fashion label, the likelier it is that products are sourced closer to the European market in order to reduce shipping times. Getting goods manufactured in closer reach to the European market is more expensive but the relatively high margins of high fashion make this trade-off worthwhile (Hoyndorff et al., 2010). In order to further reduce time and costs and to increase control, vertical integration is quite common among fashion companies. The acquisition of suppliers is referred to as backward integration whereas the ownership of retail stores or channels is referred to as forward integration (Leeman, 2010).

Fashion retailers sell through e-commerce, retail stores, flagship stores or factory outlets. Using several of these distribution channels is referred to as multi-channel retailing which is gaining importance because it allows reaching a wider group of customers (Hoyndorff et al., 2010). Christopher et al. (2004) characterise fashion demand as highly volatile, short-lived, driven by impulse purchasing and difficult to predict. Matching supply and demand is even more challenging since clothes can be different in size, colour and style which lead to an exponentially rising number of stock keeping units (SKU) when designing one new product (Sehgal, 2011).

Fisher (2009) names the challenge of retail SCM as “determining what assortment of products to carry in each store at each point in time, at what prices and in what inventory quantities, and eliciting best efforts from store employees to achieve outstanding store execution.” (p.529). Different retail channels need different supply chain strategies so as to meet different customer requirements, e.g. regarding presentation and delivery lead time (Fisher, 1997) or demand patterns for different product groups and business segments (Brun and Castelli, 2008; Towill et al., 2002). Leeman defines three common ways of aligning a fashion supply chain: (1) push, i.e. Supply-driven often found in lean supply chains, (2) pull, i.e. demand-driven like in many agile supply chains, and (3) a push-pull combination (Leeman, 2010). NOOS, for example, are usually the only fashion products which are made to stock and then constantly replenished. More fashionable items, in contrast, are often subject to one-off productions and require a different supply chain strategy (Brun and Castelli, 2008).

Moore (2005) distinguishes between value- and volume-driven supply chain strategies. The value-driven approach or implies that the more unique products are and the higher the brand is positioned, the higher the service level and control over the supply chain need to be. This agile and sometimes leagile\(^2\) approach is often adapted by fashion retailers. With increasing diversification of retail channels, supply chain agility is gaining importance in the strategic organisation (Suleski and Draper, 2010). At the same time, supply chain agility adds to the complexity of logistics operation which is one the main reasons why 80% of companies source those processes out (Hoyndorff et al., 2010). The volume-driven or lean approach, on the other hand, means that the more products are produced for a mass of customers and in large quantity, the higher the need for cost-efficiency of the supply chain. This lean approach is often found in fashion discounters. The more cost-efficient a supply chain is, however, the more susceptible to interruptions and less able to respond to the market it becomes (Gattorna, 2008). Table 2 provides a summary of attributes of the 3 most common retail supply

\(^2\) Leagile is a mixed SC strategy: the SC is agile from the customer to an inventory buffer, i.e. responding to volatile demand in the frontend, and lean from the inventory buffer to the source, i.e. efficient in the back-end (Seuring, 2010).
chain types which is important to later understand the sample companies’ strategies, reasons for supply chain layouts and to match fashion level (Table 1) and supply chain strategy.

Table 2: Comparison of Attributes among Lean, Agile and Leagile Supply Chains

<table>
<thead>
<tr>
<th>Distinguishing attributes</th>
<th>Lean supply chain</th>
<th>Agile supply chain</th>
<th>Leagile supply chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market demand</td>
<td>Predictable</td>
<td>Volatile</td>
<td>Volatile and unpredictable</td>
</tr>
<tr>
<td>Product variety</td>
<td>Low</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Product life cycle</td>
<td>Long</td>
<td>Short</td>
<td>Short</td>
</tr>
<tr>
<td>Customer drivers</td>
<td>Cost</td>
<td>Lead time and availability</td>
<td>Service level</td>
</tr>
<tr>
<td>Profit margin</td>
<td>Low</td>
<td>High</td>
<td>Moderate</td>
</tr>
<tr>
<td>Dominant costs</td>
<td>Physical costs</td>
<td>Marketability costs</td>
<td>Both</td>
</tr>
<tr>
<td>Lead time compression</td>
<td>Essential</td>
<td>Essential</td>
<td>Desirable</td>
</tr>
<tr>
<td>Eliminate muda [waste]</td>
<td>Essential</td>
<td>Desirable</td>
<td>Arbitrary</td>
</tr>
<tr>
<td>Rapid reconfiguration</td>
<td>Desirable</td>
<td>Essential</td>
<td>Essential</td>
</tr>
<tr>
<td>Robustness</td>
<td>Arbitrary</td>
<td>Essential</td>
<td>Desirable</td>
</tr>
<tr>
<td>Quality</td>
<td>Market qualifier</td>
<td>Market qualifier</td>
<td>Market qualifier</td>
</tr>
<tr>
<td>Cost</td>
<td>Market winner</td>
<td>Market qualifier</td>
<td>Market winner</td>
</tr>
<tr>
<td>Lead time</td>
<td>Market qualifier</td>
<td>Market qualifier</td>
<td>Market qualifier</td>
</tr>
<tr>
<td>Service level</td>
<td>Market qualifier</td>
<td>Market winner</td>
<td>Market winner</td>
</tr>
</tbody>
</table>

3 Source: Agarwal et al., 2006, p.212.
2.3 Organisation of Fashion Companies and Integration of SCM

The design of an organisation is highly dependent on strategy, size, culture and history of a business, thus unique to each firm (Levy and Weitz, 2008). Davis and Scase (2000) investigated management styles in creative businesses and found that their practises are antibureaucratic, informal and flexible. This is certainly the case in smaller fashion labels' organisation. The fashion industry, in contrast, “requires that creativity occurs within definite boundaries insofar as merchandise must be designed, produced […] and delivered according to schedule.” (Manlow, 2007, p.130).

Manlow (2007) describes the general structure of fashion retailers as bureaucratic and hierarchical while employees are united in their engagement and passion for the products. They need a certain structure to cope with complexity of the large organisation efficiently. This is why fashion retailers rather have hierarchical structures and are organised around classic business functions, like design, sourcing and sales, as opposed to being organised by product divisions. Grant (2010) also justifies this with retailers' low level of diversification relative to their products (clothes, shoes and accessorises). Management needs to find equilibrium between the extremes of a laissez-faire style allowing creativity and innovation and a dictatorial style needed to achieve business goals (Manlow, 2007). Jacobs and Stockert (2004) are of the opinion that fashion companies still make decisions too much from a top-down approach and prohibit creative solutions and adaptations.

Based on an investigation of 623 companies, Kim (2007) identifies 5 SCM organisation types shown in Figure 4. Out of the sheer need to survive, fashion companies were the first to integrate SCM strategically into their organisation and set up a “team” design, composed of interdisciplinary personnel, all focused on a particular objective and incentivized by joint KPIs⁴. (Gattorna, 2009, 9.138).

![Figure 4: SCM Organisation Types according to Kim (2007)]

⁴ KPI = key performance indicator.
Gattorna (2009) refines Kim’s ideas and combines functional specialism with capabilities necessary to satisfy customers’ needs which is useful for this research because it explains organisational structure with its strategic background. Gattorna defines 4 organisation types according to demand patterns and supply strategies. 3 of these designs could be applied in fashion retailers\(^5\) and are of use in the analysis of V&D in chapter 4.4. First, the continuous replenishment supply chain cluster for NOOS (Figure 32, appendix page 58) in which mixed functional teams build a relationship with customers, i.e. retail stores. Second, the lean supply chain cluster suitable for discount fashion (Figure 33) in which cost-efficiency is achieved by building clusters around sourcing, order and order fulfilment processes as opposed to customers. Third, the agile supply chain (Figure 34) as used in fast fashion retailers like Zara. This cluster is designed for quick response to customers or stores by allocating multidisciplinary clusters to product groups. Gattorna’s clusters can be useful to show the embedding of SCM in the organisation and to explain and align the interrelation of SCM and the business strategy of a company. The models are good approaches to link organisational structure to demand and to show role and characteristics of SCM according to different strategies.

In business practise, however, these theories do not seem to be applied by a wide range of companies. “The transformation of an organisation into one with a supply chain mindset [...] requires a lot of effort and [...] time. It is essentially an evolutionary process.” (van Goor et al., 2003, p.490). In their study on more than 150 fashion companies, Suleski and Draper (2010) found, for example, that organisation is often still in its traditional formation characterised by an imbalance in power structure. Retail planning and merchandising – before SCM – are seen as most important to improve efficiency and competitiveness. In consequence, processes that those companies control most are design and sourcing to make sure that demand is being matched and margins are kept on a high level. With declining importance, reducing product costs to increase margins still is key business initiative for most fashion companies have outsourced production. Since the decision of which SKUs to buy and to keep in stock is seen as the activity with the most responsibility, purchasing traditionally is the most powerful department in fashion companies (Fisher, 2009).

\(^5\) The fourth cluster is designed for unplanned events or crises and is composed of part-time members. This cluster is not suitable for this research thus left out because fashion companies’ organisation and structure are designed for permanent business.
2.4 Corporate and Supply Chain Performance

Wanrooy (2007), a Dutch organisation management researcher and consultant, identifies 9 major influences onto performance and ways to monitor them (Figure 5). Market and customer demand (1) that trigger orders and generate sales are the starting point of all activity. An appealing offer of services or products (2) enables business. Next, accurate execution of tasks and operations (3) supported by skilled personnel (4), process standardisation (5) and facilities (6) are important to fulfil demand. Within a frame of standards and values (7), the interaction and cooperation between employees and departments (8) are also success drivers. Financial results (9) finally mirror the company’s performance.

Figure 5: Wanrooy’s 9 Ways to Influence and Control Performance (2007, p.50)

Wanrooy’s model shows his perception of success being primarily driven by the organisational structure and operations rather than by the business strategy. This interpretation can be explained with Wanrooy’s background in human resource management. Since supply chain operations affect almost all operations of a company and Wanrooy offers quite a holistic management view of operations’ influence onto performance, the model can serve as a framework to explain the role of SCM in fashion companies. To further find answers to SCM’s performance contribution, however, strategic dimensions need to be added to Wanrooy’s approach and ways to measure SCM’s actual contribution at each stage need to be found.

For Thompson et al. (2007), general evidence for a company’s success comes from (1) the achievement of financial and strategic goals and (2) from above-industry performance. They identify indicators such as increasing profits, sales and market share, customer loyalty and acquisition of new customers as well as increasing profit margins, return on investment (ROI), financial strength and companies’ stock price. All these KPIs can be measured internally by comparing performance over time or externally by comparing them with competitors. This benchmarking, however, requires the availability of competitors’ data which is not always given.

Out of those KPIs, Levy and Weitz (2008) identify net sales, net profits and the growth performance of both figures as the most important ones to measure retailers’ success. Success can also be demonstrated in growth as shown in the increase in sales, number of products, stores & retail channels or the number of acquisition or mergers as suitable measures for the
growth of a fashion company. For example, vertically integrated fashion companies increase sales by adding retail channels and markets whereas retailers rather increase sales by introducing new products (Suleski and Draper, 2010). Eventually, the emphasis placed on certain performance measures depends on the company’s strategy, business environment and ownership (Kaplan and Norton, 2006). Thompson et al. (2007) refer to five sources for these key strategic performance indicators that need to be measured and monitored regularly: customer data, operations data, employee data, supplier or partner data and financial performance data.

To point out SCM’s contribution to business success, ways to measure supply chain performance need to be defined first. The balanced scorecard as introduced by Kaplan and Norton (1992) is an appropriate tool because it gives a rather holistic view onto operations by analysing the data of all five fields mentioned above. That way, the scorecard does not only monitor financial measures but also supply chain service performance such as on-time deliveries. By sharing information about KPIs among supply chain partners, the tool additionally creates trust, increases visibility and collaboration along the chain and supports supply chain thinking (Kaplan and Norton, 2006). Zimmermann (2002) and van Goor and Weijers (2009) suggest using the scorecard to define and monitor critical supply chain performance measures and to identify improvement potential. From the financial, customer, process and development perspectives, the tool shows “how the [business] unit creates shareholder value through enhanced customer relationships driven by excellence in internal processes.” (Kaplan and Norton, 2006, p.6). From the internal view of a chemical company, Figure 6 exemplifies how SCM creates value, i.e. how it contributes to business success. As part of this dissertation, these cause and effect relationships are later transferred onto the fashion industry by analysing the case studies.

![Figure 6: Relationships between Supply Chain Operations and Strategic Objectives](Source: Zimmermann, 2002, p.408)
The balanced scorecard can be used to internally communicate strategy and to monitor the achievement of objectives. The basic idea of the balanced scorecard is that when people, systems and culture are aligned in order to improve critical processes, customer value is created that eventually pays off and results in satisfaction of shareholder expectations. This is why in the figure the four perspectives are linked in “cause-and-effect relationships” (Kaplan and Norton, 2006, p.6) which emphasise the alignment aspect.

As shown, business performance is influenced and measured by a large number of tangible and intangible factors. They are different by company which makes it impossible to list them exhaustively or to pin-point one particular evaluation method. Figure 7 summarises this chapter’s findings on KPIs used to measure corporate performance, explains how evidence of corporate performance is found and shows supply chain performance’s impact (illustrated by the scorecard pyramid) in this evaluation process.

**Figure 7: Evaluation of Supply Chain- and Business Performance**
(Developed by the author, partly influenced by Ahaus, 2010)

The KPIs used in the figure are a summary of measures found in the literature. In the following – because KPIs and evaluation processes are different for every company – success is being understood as interplay of several figures that need to be seen in every business’ context.
2.5 SCM as a Driver of Success in Fashion Companies

After the general evaluation method for corporate performance has been defined in the previous chapter, this section goes into detail about the actual influence of SCM onto success and competitive advantage. Since each retailer’s supply chain operations are unique and difficult or even impossible to imitate, SCM is a good source for competitive advantage (Levy and Weitz 2008). A well-managed supply chain can increase sales, cash flow and margins by reducing lead times as well as costs per unit. Additionally, markdowns can be lowered by reducing stock-outs on the one hand and providing demanded assortment of merchandise on the other hand (Kaplan and Norton, 2006). Hence, “an efficient supply chain can increase net profit and net sales, while at the same time reducing total assets” (p.320) by lowering inventory levels.

In their research on Italian fashion retailers, Brun and Castelli (2008) found that fashion companies are generally aware of using SCM as competitive advantage. Time is probably the most often mentioned competitive advantage for fashion companies because the closer design is to customers, i.e. the shorter lead times, the higher the likelihood of delivering a best-seller product. Azuma et al. (2009) summarise this customer value by “delivering in-vogue style at the right time in the right place, with increased variety and affordability” (p.89).

To define SCM’s contribution to a company’s overall success it needs clearly defined, measurable and quantifiable goals. Harrison and van Hoek (2011) suggest time, costs and quality and allocate certain KPIs to measure each feature. These KPIs can be metrics such as on-time delivery, order fulfilment, lead time, SCM cost and net asset turn (Simchi-Levi et al., 2008). The advantages that time, costs and quality can have for a companies’ performance are shown in Figure 8. With its focus on monitoring reliability, expenses and assets of the chain, Harrison and van Hoek’s approach might be suitable for lean chains, yet too simplistic for agile or leagile chains that are common in the fashion industry.

Stock and Lambert (2001) notice a greater awareness among firms of SCM as a driver of profitability and competitiveness. They argue that logistics contribute to profitability through cost savings on the one hand and to competitive advantage on the other hand. This competitive advantage is gained by significantly influencing the place constituent of Kotler and Armstrong’s marketing mix (2011), thus adding value. Stock and Lambert (2001) emphasise that the more value logistics adds to a product, the more important is its management. In fashion, this certainly applies to companies with a high fashion level and agile or leagile supply chains.

Nonetheless, a study of the NASDAQ-listed PLM-software company Lawson (2010) showed that most fashion companies’ failures are not due to missing profitability but due to a lack of liquidity. This liquidity deficit is primarily caused by high inventory levels and long time-in-transit (TIT) that tie capital (McKee and Ross, 2004). For most fashion companies, shipping from sourcing locations in Asia to European ports is the most time consuming operation in the entire chain. Shipping and preparation for shipping take more than half the time of the...
delivery from manufacturers to end-customers (Suleski and Draper, 2010). Minimising this turnaround time thus mitigates risks, reduces capital tied up and increases the cash flow.

Lee (2004) criticises, however, that supply chains are traditionally pushed to be primarily fast and cost-effective. In fashion supply chains, the majority of costs are not directly derived from production or logistics but indirectly from forced markdowns. This is why matching demand in manners of style and time is crucial. Successful supply chain operations can control the number of write-offs and discounts and reduce the risk of missed sales opportunities by ensuring timely deliveries, thus contributing to the company’s performance (McKee and Ross, 2004). Looking at supply chains as cost centres only cannot bring competitive advantage for fashion companies; neither does emphasising speed since “time compression in the supply chain is increasingly becoming a de facto standard in the fashion industry.” (Azuma et al., 2009, p.84). SCM has to create additional customer value that differentiates the firm from its competitors.

This value can be created with Lee’s concept of the triple-A supply chain that is agile, adaptable and aligned. Agility is the ability to respond to changes in demand. According to Lee, H&M and Zara became the most profitable fashion companies because of their agile supply chains that allow them to respond to trends even faster and to cope with force majeure. Adaptability is the possibility and readiness to reorganize supply chains if necessary; alignment refers to the consistency of supply chain partners’ collaboration as well as the alignment of their goals and interests. This last characteristic is of particular importance in industries with uncertain demand such as the fashion industry because alignment allows quick response. Gattorna (2008) adds that for optimal supply chain performance even the internal structure of each enterprise which is the basis for all operations needs to be aligned with and reflect the external supply chain strategy.

Collaboration among supply chain partners as well as among an enterprise’s departments is an important factor when trying to improve flexibility in the chain. Exchanging data, coordinating activities and sharing information and risks with partners increases the pipeline’s visibility and allows quicker response to demand. Since collaboration is among others trust-based it requires a lot of effort, is complex to manage and involves risks. In the front end of the supply chain, CPFR (collaborative planning, forecasting and replenishment) helps to forecast and respond to customer demand faster, more accurately and more efficiently. In the back end, software interfaces to exchange forecasts and product specifications help integrating suppliers and monitoring their performance (Suleski and Draper, 2010). Supply chain collaboration is an enabling factor for the reduction of lead times and, according to Fisher and Raman (2010), has an indirect influence on companies’ success.

Ketchen et al. (2008) support Lee’s opinion and add that SCM can be a strategic tool offering added value by being flexible and reliable. Companies can utilise SCM as a competitive weapon by achieving short cycle times (speed), reliable activities (quality), costs reductions or an increase of customer benefits (costs) and by being responsive to changes in demand (flexibility). Human resources, strategic sourcing design and performance monitoring are
seen as enablers for the outcomes of these chains. Christopher et al. (2004) found that it is the degree to which a supply chain is flexible and responsive enabled by short cycle times (Grant, 2009) that determines success or failure of a fashion company. Due to the specific business requirements of the fashion industry, Lee’s triple-A characteristics should be added to Harrison and van Hoek’s model of SCM as driver of success when applied to fashion companies. Based on these six supply chain characteristics, Figure 10 summarises KPIs for supply chain performance (illustrated in green), demonstrates how they general strategic KPIs and how SCM finally influences companies’ success – here simplified as net profit.

![Figure 10: SCM as Driver of Fashion Companies’ Success](Developed by the author)

Authors generally agree that performance measurement and improvement of supply chains can bring competitive advantage by increasing reliability and service as well as by reducing costs (Gustafsson et al., 2009 and Gunasekaran et al., 2004). Due to their high bandwidth of operations - SCM interacts with almost all operations of a business – and ever-changing business conditions, activities offer great potential for improvement. Guercini and Runfola (2010) as well as Azuma et al. (2009) allude to organisational learning that can be achieved by continuous improvement of the supply chain, hence bringing sustainable benefits. Sehgal (2011) states that “almost all supply chain process improvements will directly affect the costs of goods sold (COGS) or impact working capital to enhance the return on assets” (p.106). The major influences on retailers’ return on asset (ROA) are margins and inventory (Stock and Lambert, 2001). The authors point out, however, that managements’ backup for these processes is needed: “It is people and their leadership that matters most if the enterprise is to deliver ever-increasing operational and financial performance.” (Gattorna, 2008, p.41).
3 Research Methodology

3.1 Secondary Research

To achieve the aim of this dissertation, theory on the role of SCM in fashion companies is tested against reality. Therefore, the approach of Hoy (2010) as shown in Figure 11 is being used. An investigation of fundamental literature on fashion and retail SCM as well as articles and reports from logistics and retailing magazines and organisations is carried out in chapter 2. Major findings and models of this previous research are then applied onto case studies during the analyses in chapter 4. The reconciliation and verification reveals similarities and discrepancies of theory and reality and finally allow the formulation of principles on the subject. These could again be tested on theory by further research.

![Figure 11: Approach to Theory Testing](Adapted from Hoy, 2010)

A dilemma observed when carrying out the desk research was finding suitable literature about fashion SCM. On the one hand, academic studies on the subject from universities and research institutes analyse operations in detail but are also very theoretical. Due to the depth and length of research projects information provided is often lagging behind latest trends and developments in the highly dynamic fashion industry. Hence, research sometimes strays too far from the reality of business operations.

Gray literature like reports, papers and magazines, on the other hand, cover more recent topics and trends (Verhoeven, 2008). For SCM in the fashion industry, studies found in apparel, textile and fashion magazines and journals are more up-to-date than common literature, provide practical information and give a good insight into operational challenges and an overview about trends of the industry. Nonetheless, these sources do not always meet academic standards. To make use of these practical articles and trend studies but ensure the reliability of the source at the same time, only those studies carried out by (a) organisations listed on the stock exchange in the United States, Japan or Europe and (b) the largest fashion & apparel industry journals and supply chain & retailing magazines are being used for this research. The assumptions made by these companies and organisations are checked during the interviews with Dutch fashion managers.
3.2 Primary Research

3.2.1 Chosen Methods

Morris and Wood (1991) recommend the conduction of case studies whenever “a rich understanding of the context of the research and the processes” (cited in Saunders et al., 2009, p.146) aims to be gained. Yin (2009) agrees with this statement, advising the case study method to explain current conditions and events. Since this dissertation investigates the role, i.e. the embedment and importance of SCM in fashion companies’ organisation as whole, outcomes of the field research highly depend on the circumstances in each company. This is why for this dissertation a qualitative research method with a case study strategy has been adapted in which four Dutch fashion companies are investigated empirically. Quantitative research is not suitable for this investigation since outcomes are hardly measurable (Proctor and Capaldi, 2006).

This research is explanatory (e.g. why & how organise companies their SCM a certain way?) since the focus is placed on the reasons that companies have for choosing a certain supply chain strategy and organisation. To a certain extent the study is also exploratory (e.g. what kind of operations do companies carry out?). Questions about motives for a strategy choice or the perception of respondents could not be answered by a classic survey but by the case study method (Verhoeven, 2008). An advantage of the case study method over other methods is how detailed and vivid it shows the context (Marshall and Rossman, 2011). This in-depth insight is important in order to check hypotheses and demonstrate the best practise approaches.

By choosing the case study method, existing theory can be rechecked with the experience of those companies and questions for further research can possibly be found (Saunders et al., 2009). According to the differentiation of Yin (2009), the chosen method follows a multiple, embedded case study strategy. The multiple case approach has been chosen because several case studies are used in order to compare the different findings and to allow drawing more general conclusions (Saunders et al., 2009). The embedded case approach means that the situation of SCM is not only looked at from the supply chain perspective but also from its business environment, i.e. from the perspective of other departments of each company. This approach is used because it provides a more holistic view onto the organisational processes and the significance of SCM within the companies.

Conducting in-depth interviews is the technique chosen for the data collection. That way, interviewees can be asked “about the facts of a matter as well as their opinions” (Yin, 2009, p.109). The reasons for choosing the interview technique rather than the formal survey, observation or documentation technique are similar to the reasons for choosing the case study method. Supply chain characteristics investigated for this research are of behavioural and strategic nature and most of the time intangible. To answer the research question of this dissertation it is not only important how companies organise and manage their SCM but also why exactly they operate in a certain way. A simple process documentation or observation would not provide this qualitative data (Robson, 2011).

The in-depth interview method, however, allows a consistent inquiry. This keeps the conversation fluid and gets interviewee partners to tell a story in its context rather than just providing a couple of facts (Rubin and Rubin, 2005). Marshall and Rossman (2011) consequently refer to it as the “conversational interview” (p.144). Even though interviews are open, they are based on a semi-structured questionnaire (see appendix, page 57). Talks develop from them and interview partners are encouraged to explain situations in their context. To gain
suitable results it is crucial to ask open questions that do not bias the interviewees but reveal their real opinion when being asked for their perceptions. Interview partners are managers of the chosen fashion companies.

There are, of course, limitations to the interview technique. Disadvantages of or problems with interviews are that interviewees can be easily biased by questions, their perceptions or by their background. They could also recall situations or facts poorly as well as articulating themselves badly (Yin, 2009; Marshall and Rossman, 2011). The language barrier between the Dutch interviewee partners, the English questionnaire and the German interviewer could lead to misunderstandings. To mitigate these problems and to ensure reliability, data from the interviews is verified by other company information (Verhoeven, 2008).
3.2.2 Research Approach

To answer the research question, this dissertation investigates four leading Dutch fashion companies by interviewing their managers. 12 fashion companies with headquarters or subsidiaries in the Netherlands were asked for their participation. All of these companies had taken part in previous research carried out by the faculty of the HAN University of Applied Sciences on skills of fashion supply chain managers. Contact persons and basic business strategies of companies were already known. Out of the 12 contacted companies, 7 were willing to participate. The discounter Zeeman, shoe and sporting goods retailer Scapino, lingerie specialist Hunkemöller and the department store chain V&D are finally chosen for the case studies in order to provide a diverse range of company size and business strategy. Each interview is based on a questionnaire developed by the author herself (see appendix, page 57). The questionnaire is divided into four parts structured as illustrated in Figure 12.

Except for Zeeman, where capacities were scarce, interviews were not only conducted with logistics or supply chain managers but also with a manager of merchandising (Scapino), e-commerce (Hunkemöller) and finance (Hunkemöller) and a COO (V&D). This avoids over-reliance on one key informant and helps getting a rather holistic view of the organisation. Having several informants also helps ensuring validity of the data (Verhoeven, 2008). With approval by the interviewee, interviews are being recorded to safe accurate information. The minutes of each interview presented in the appendix (starting on page 64) are used to analyse and contrast each company’s data. As far as available, documents from the companies are used to further gather information about business performance and organisational structure. Those data and the results from the interviews explain the organisation of SCM in the context of the respective company’s strategy. In the analyses, the results from the case studies are then compared to the findings of previous literature and tested against eclectic models drawn in chapter 2.

In agreement with academic supervisors and stakeholders of the research project, the typical dissertation structure is adjusted without changing the required context. For reasons of coherence and in order to allow reading fluency, backgrounds, results and analyses are grouped by studied company in subchapters of chapter 4.
3.3 Limitations of the Research

Naturally, there are limitations to the research. Due to the time constraint of the dissertation project, the in-depth investigation of all internal operations of the investigated companies is not possible. Some of the information, especially detailed figures, is kept confidential by the companies so as not to give away crucial information to competitors. Furthermore, case studies can only be conducted on a limited amount of companies. With four, the number of company samples taken is not sufficient to allow conclusions on the entire industry. Since each company has its own business strategy and very different supply chain operations, there are restrictions to the generalizations of the outcomes of the research. All four sample companies are from the Dutch fashion industry which makes the study regionally limited. Operations and the organisation of SCM are likely to be very different depending on the business environment of fashion companies in other countries.

Due to these reasons, the case studies rather give hints and an idea of best practices in the organisation of SCM. The investigated companies’ operations can be seen as examples but not as a standard or target condition that have to be achieved. However, the results should be seen as a guideline and as examples for successful SCM in fashion companies. The dissertation models the influence of SCM on fashion companies’ success, show ways of organising SCM operations successfully and aligning SCM with the business strategy. General recommendations on how to support the companies’ success through SCM can be given. Going deeper into the details about success factors for each business strategy would undoubtedly be interesting but would go beyond the scope of this master’s dissertation.
4 The Case Studies

4.1 Zeeman

4.1.1 Background

Led by his vision that “good clothing and textiles don’t have to be expensive” (Zeeman, 2011a), Jan Zeeman opened his first textile discount store in Alphen in 1967. Jan Zeeman pulled out of the business in 1999 but the family still own the business⁶ and headquarters are still located in Alphen (Zeeman, 2011a). Today, more than 1,200 direct-operated discount stores in the Netherlands, Belgium, Luxembourg, Germany and France serve over 70 million customers per year. Zeeman’s mono-brand products are often displayed in metal baskets and range from home textiles over clothing basics to a number of variable non-textile products (Zeeman, 2011b). This creates a market feeling that is characteristic for Zeeman stores. Shop sizes range from 400-1000m², the design of the shops is equal and the packaging of products is kept similar and very simple, using the flashing yellow and blue colours of the logo. Zeeman’s slogan of being “always sharp” (Zeeman, 2011c) shows the eager price focus of the company. Accordingly, the low-price strategy is formulated as being “Sharp on prices. Sharp on trends. Sharp on details. Sharp on opportunities for improvement.” (Zeeman, 2011c). The company is planning on expanding in all current markets in Central Europe with France being the biggest and most important market with the most prosperous outlook (Het Financieele Dagblad, 2010). Summing up, the discounter is characterised in Table 3.

![Figure 13: Zeeman Store](Source: Zeeman, 2011b)

![Figure 14: Logo Zeeman](Source: Zeeman, 2011a)

Table 3: Characterisation of Zeeman’s Business

<table>
<thead>
<tr>
<th>Core Products</th>
<th>Apparel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>5,100</td>
</tr>
<tr>
<td>Retail channels</td>
<td>Stores</td>
</tr>
<tr>
<td>Number of stores</td>
<td>1,200</td>
</tr>
<tr>
<td>Competitive approach</td>
<td>Cost: discount format</td>
</tr>
<tr>
<td>Target group</td>
<td>Mothers between 25 and 50</td>
</tr>
<tr>
<td>Geographic market coverage</td>
<td>The Netherlands, Belgium, Luxembourg, France, Germany</td>
</tr>
<tr>
<td>Forward integration</td>
<td>Wholly-owned stores</td>
</tr>
<tr>
<td>Backward integration</td>
<td>Outsourced manufacturing</td>
</tr>
</tbody>
</table>

For this research, an interview of 2 hours length was conducted with Frank Keijzer, supply chain manager, at the headquarters (see appendix, page 64).

⁶ Since Zeeman is family-run, the company does not publish an annual report. Hence, detailed information on Zeeman’s financial performance is not available.
4.1.2 Results

Table 4 gives an overview about Zeeman’s supply chain operations. With 5,800 SKUs per year, volumes handled seem to be quite low. This can be explained by Zeeman’s own definition of SKU as a retail pack, i.e. a box with an assortment of items of a particular style and size range based on sales experience and forecasts. The discounter’s lead time of one year is quite long for the fashion industry.

<table>
<thead>
<tr>
<th>SKUs p.a.</th>
<th>5,800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thereof replenished</td>
<td>12%: 600 (NOOS)</td>
</tr>
<tr>
<td>Product design</td>
<td>In-house</td>
</tr>
<tr>
<td>Sourcing Locations</td>
<td>Far East &amp; Turkey</td>
</tr>
<tr>
<td>Communication with suppliers</td>
<td>Manual</td>
</tr>
<tr>
<td>Deliveries from sourcing location to the Netherlands</td>
<td>Freight forwarder, full container loads From Asia: sea transport; from Turkey: road or sea</td>
</tr>
<tr>
<td>Number of DCs</td>
<td>1 DC + flexible locations</td>
</tr>
<tr>
<td>Distribution</td>
<td>Own fleet &amp; drivers</td>
</tr>
<tr>
<td>Communication with stores</td>
<td>Adapted ERP system</td>
</tr>
<tr>
<td>Lead time</td>
<td>12 months</td>
</tr>
</tbody>
</table>

Zeeman is forward integrated; all stores are wholly-owned. Production is outsourced to manufacturers in various countries in the Far East; trendier items are produced in Turkey. There is no automated flow of information in the front-end of the supply chains. Zeeman places and tracks orders manually since suppliers change regularly, often on a 6 months basis. The frequent change is reasoned by Zeeman’s constant search for lowest prices. Only a few bestseller basics get manufactured by the same producer for a couple of years.

Goods are either sent via sea freight or road transport but never flown in. Freight forwarders consolidate shipments in sourcing regions and deliver them to DCs in the Netherlands. Zeeman operates one warehouse at the headquarters in Alphen. During peak times, the discounter rents external warehouse capacities to buffer high volumes. Zeeman carries out its own warehouse operations in its DC and has its own fleet of trucks and drivers in order to better monitor the efficiency of distribution processes.

Zeeman is wholly-owned by the Zeeman family who are part of the advisory board. The discounter is organised by functions (Figure 15).

Figure 15: Organisational Structure of Zeeman
Together with the CEO and CFO, all supply chain managers – sourcing, logistics and sales – are part of the board and have the same rank on the second level in the hierarchy. Purchasing is the most powerful department having the most influence on decisions because sourcing is the critical path in the supply chain. Main interfaces are between buying and logistics. Internal functions – including stores – are connected via an ERP (enterprise resource planning) system. However, shops are barely involved in planning and execution because products get pushed to stores which are always kept on high levels of utilisation. Capacity utilisation is one of the most important indicators for SCM at Zeeman since the discounter keeps their shops full at all times. Zeeman is family-run, which means that the capital base is broader than in private equity firms. Availability of products is much more important for Zeeman’s management than stock turn or stock levels.

Zeeman is leading in price, primarily enabled by low cost operations. EBITDA, turnover and margins are the most important performance indicators. In SCM, reliability of processes, speed-to-market and efficient operations ensure gaining targeted margins which are very tight. This makes supply chain planning, low costs and low purchase prices crucial. Control over the supply chain’s backend, i.e. suppliers and deliveries, is seen as key to supply chain reliability. However, since the majority of suppliers changes regularly, Zeeman has few ways to monitor their performance. This year, Zeeman will introduce a new workflow system to improve monitoring manufacturers’ performance, increase supply chain transparency and to speed up processes.

The discounter does not have a web store but a dense network of stores in the Netherlands. Potential is seen in Southern and Eastern European markets. This would enlarge the distribution network and add to lead times. Zeeman’s real challenge will be more in the front-end of the supply chain, though. Due to rising labour costs and since Asian consumers will take up much more production capacities for themselves, prices are expected to increase in Far Eastern sourcing areas. For the cost-focused Zeeman, it will be difficult to maintain profitable margins.
4.1.3 Analysis

During the interview of the logistics manager, consolidated knowledge of Zeeman’s strategy could be observed. The reasoning of strategic decisions indicated a strong strategic awareness of SCM’s importance and an alignment of business- and supply chain strategy. Triggered by competition forcing the discounter to increase operations’ efficiency, power has shifted from purchasing towards logistics over the past eight years. The discounter literally tore walls down between purchasing and logistics and has them work together in one office to enable close cooperation. A largely adapted IT system, which according to Zeeman is state-of-the-art, ensures smooth and efficient information flow between supply chain departments.

Merging purchasing and logistics shows strategic supply chain-thinking and the acknowledgement of the significance of cooperation among internal departments. Moreover, managers of all supply chain functions are part of the board showing the strategic importance SCM is being granted. With a functional organisation, Zeeman chose a structure with low hierarchies that reduces the level of bureaucracy and enables faster and more efficient processes. Today, purchasing decides on style, quality and suppliers and needs to make sure that margins can be achieved. Logistics took over the responsibility for quantitative merchandise planning as they are forecasting sales, deciding on how many products are needed and allocate them to stores. Logistics is used as a valve regulating the flow of goods to stores. Efficiency is key to achieving profitability despite low margins. As finally evaluated in Table 5, supply chain operations are lean with a tendency towards leagile.

<table>
<thead>
<tr>
<th>Market demand</th>
<th>Volatile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product variety</td>
<td>High</td>
</tr>
<tr>
<td>PLC (compared to other industries)</td>
<td>Short</td>
</tr>
<tr>
<td>Customer drivers</td>
<td>Cost</td>
</tr>
<tr>
<td>Profit margin</td>
<td>Low</td>
</tr>
<tr>
<td>Dominant costs</td>
<td>Physical costs</td>
</tr>
<tr>
<td>Eliminate muda [waste]</td>
<td>Essential</td>
</tr>
<tr>
<td>Robustness</td>
<td>Desirable</td>
</tr>
<tr>
<td>Quality</td>
<td>Market qualifier</td>
</tr>
<tr>
<td>Cost</td>
<td>Market winner</td>
</tr>
<tr>
<td>Lead time</td>
<td>Market qualifier</td>
</tr>
<tr>
<td>Service level</td>
<td>Market qualifier</td>
</tr>
<tr>
<td>Supply Chain Strategy</td>
<td>Lean (tendency towards leagile)</td>
</tr>
</tbody>
</table>

For Zeeman’s basic product categorisation (see evaluation in Table 6), matching latest trends is less of a concern since customers’ focus is on price rather than on up-to-dateness of fashion. The lead time of one year is not problematic because low costs through bulk shipments are given priority. At very low margins, high volumes, i.e. EOS, and process efficiency are major profit drivers for Zeeman which is why the trade-off between time and costs is always decided in favour of costs. Reducing time is usually accompanied by increasing costs, e.g. by flying goods in, and would mean a loss of profitability. The discounter goes as
far as having their buying agents in the Far East organise transport routes from one supplier to
the other or have trucks meet on the highway to consolidate freight.

Table 6: Evaluation of Zeeman's Fashion Level
(According to Hoyndorff et. al. (2010) and as shown in Table 1, chapter 2.2)

<table>
<thead>
<tr>
<th>Up-to-dateness</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLC (for fashion)</td>
<td>Long</td>
</tr>
<tr>
<td>Merchandise risk</td>
<td>Low risk of mismatching trends, focus on gaining profits with low margins</td>
</tr>
<tr>
<td>Target group</td>
<td>Mass market: price conscious families, especially mothers</td>
</tr>
<tr>
<td>Major profit drivers</td>
<td>Large volumes</td>
</tr>
<tr>
<td>Intended purpose</td>
<td>Utility</td>
</tr>
<tr>
<td>Replenishment</td>
<td>Regularly</td>
</tr>
<tr>
<td>Result: Fashion Level</td>
<td>Basics</td>
</tr>
</tbody>
</table>

The retailer's strategic alignment of lean operations (Table 5) and basic fashion level (Table 6) proves the tendency described in the literature: the more basic the products and the more discount-orientated the retailer’s concept, the rather a lean strategy is useful to support keeping costs at a minimum (Leeman, 2010;Gattorna, 2008; Agarwal et al., 2006). In the extreme, Zeeman's supply chain is seen as cost centre, though, only which was criticised by Lee (2004) as being too one-sided. In contrast to Lee’s opinion, cost efficient SCM is the only option for a discount format like Zeeman’s. The high level of replenishment allows standardisation of processes and realisation of EOS that are inevitable to gain profits despite low margins. By eliminating any kind of waste in its activities by leading in operational efficiency, the retailer manages to use SCM as a strategic weapon.

80% of the supply chain-flow is push-driven. Next to gross-margins, sell-offs and inventory levels of NOOS, the most important figure is stores’ capacity utilisation measured in cubic metres. Stores are kept at the highest possible level of utilisation. Pushing volumes into the stores makes processes easier and more foreseeable but also has its challenge. Annually, 600 SKUs are being replenished but weekly 100 new and varying SKUs need to be allocated to stores. Logistics closely monitor the amount of open-to-buy positions in order to avoid bullwhip effects of delivering more goods than can be sold in store. Planning and flexible reaction to utilisation levels are crucial.

Storage space flexibly acts as a low-cost buffer for peaks and lows. In the port of Rotterdam, the discounter has negotiated a demurrage free time of 40 days which is taken advantage of until products can be shipped to stores. If more capacity is needed after that period, Zeeman stores goods in containers on 3PL’s premises around the Netherlands. Locations change regularly because contracts are short-term oriented and usually signed for just 6 months. The storage in containers allows Zeeman full flexibility and is a very cheap option to reduce bullwhip effects. The DC’s capacities in Alphen are limited with 40,000m² which is why it is rather used to store NOOS only. Basic fashion gets cross-docked at the DC.

Due to the low margins, there is little scope left for end of season reductions. Again, Zeeman absorbs overcapacity by storing goods in containers. Unsold products are taken out of stores at the end of each season, stored in containers on Zeeman’s premises in Alphen and offered again in the following season. Even though it means capital tied, this long-term storage solution is more profitable for the discounter than reducing prices and suffering profit losses. The
solution is special to Zeeman and probably only possible because the business is family-run. The kind of ownership is characterised by long-term orientation and opts for sustainable growth rather than short-term profits and high cash flows gained by high inventory turn.

Reliability, i.e. quality of supply chain processes, and availability of products are enablers of SCM's success. Having products on time for promotions and never running out of stock are key concerns of supply chain managers. With its flexible storage solutions, Zeeman achieves an agility that is unusual for the long lead times of discounters. Of course, the supply chain is agile at quite a late stage in the supply chain. Still, Zeeman has found a way to control the pipeline like this. Though the customer perspective plays a minor role and activities are barely adaptable to shifts in the market, Zeeman’s strategy works. With a faster growth in sales than in stores and employees (Figure 16), Zeeman can be considered successful. The financial record is solid; net earnings have never been negative.

![Figure 16: Performance Development of Zeeman from 2006-2010](Developed by the author)

The theories of Harrison and van Hoek (2010) and Lee (2004) mention costs, reliability, time, agility, alignment and adaptability as attributes to use SCM as competitive advantage. Based on these ideas, Figure 17 summarises the findings of this analysis: the bubble size indicates the importance of each strategic attribute in Zeeman’s SCM.

![Figure 17: Zeeman’s SCM as Competitive Advantage](Developed by the author)
Conclusions

Zeeman’s formula for success is the combination of cost-efficiency and volume. The strategic triangle of logistics, purchasing and IT is the backbone of this success, making the retailer benchmark in lean operations. Flexibility in contracts and variable storage space reduce risks of bull-whip effects and are the discounter’s unique reasons for SCM’s success. Zeeman’s management acknowledge SCM as driver of profitability and for that reason make sure that business- and supply chain strategy are aligned.

- The role of Zeeman’s SCM is efficient regulation of the flow in the pipeline to ensure availability at lowest costs.
4.2 Scapino

4.2.1 Background

Offering 10,000 pairs of shoes, Berend Zings opened his first Scapino in Assen, the Netherlands, in 1974. These days, the headquarters of the retailer is still located in Assen but the product range has been broadened with multiple-brand fashion and sporting goods and the warehouse now holds more than 2 million articles. With 3,500 employees, Scapino is the biggest retailer of its kind in the Netherlands, operating an online shop and 226 direct-operated stores in Germany (1) Belgium (30) and the Netherlands (195) (Scapino, 2010). In 2006, the company got taken over by the Macintosh Retail Group⁷, a Dutch trading firm (NRC Handelsblad, 2006).

The retailer does not understand itself as setting trends but quickly following them (Scapino, 2010). Target group are women between 25 and 50, who shop for the whole family and cannot or do not want to spend a lot on fashion but who want to wear fashionable clothes anyway. The slogan “Scapino, dat loont” (“Scapino pays off”) indicates the company’s price focus (Scapino, 2011). With a new expansion strategy, the company aims at opening small shops of around 350m² in rural areas with a minimum of 15,000 inhabitants catchment (Het Financieele Dagblad, 2011). According to Scapino’s CEO Steven de Raat, the company does not only want to grow by opening new stores, though, “but mainly by increasing the turnover in existing stores” (Scapino, 2011). Finally, the business is characterised in Table 7.

Table 7: Characterisation of Scapino’s Business

<table>
<thead>
<tr>
<th>Core Products</th>
<th>Shoes &amp; apparel</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>3,500</td>
</tr>
<tr>
<td>Retail channels</td>
<td>Stores, e-commerce</td>
</tr>
<tr>
<td>Number of stores</td>
<td>226</td>
</tr>
<tr>
<td>Competitive approach</td>
<td>Price-value combination</td>
</tr>
<tr>
<td>Target group</td>
<td>Women between 25 and 50</td>
</tr>
<tr>
<td>Geographic market coverage</td>
<td>The Netherlands, Belgium, Germany</td>
</tr>
<tr>
<td>Forward integration</td>
<td>Wholly-owned stores</td>
</tr>
<tr>
<td>Backward integration</td>
<td>Outsourced manufacturing</td>
</tr>
</tbody>
</table>

Two interviews of 1.5 hours each were conducted with the logistics manager, Geert Mulder (see appendix, page 64), and the merchandising manager, Egbert van den Berg (see appendix, page 73), at Scapino’s headquarters.

⁷ Macintosh does not publish a separate business report for Scapino but an annual report on its entire fashion formula only. Hence, detailed information – other than a brought overview – on Scapino’s financial performance is not available.
4.2.2 Results

Scapino sells A-brands such as Adidas, Levi's and Ecco as well as its own products that are partially designed in-house. Agents of the retailer’s mother company Macintosh take over all sourcing activities. Production is outsourced to manufacturers in the Far East that send goods out in retail packs similar to Zeeman’s ones. Tracking on-time deliveries is to the most part outsourced to APL Logistics who are also responsible for shipments to the DC and the stores in the Netherlands. Stores and warehouse are wholly-owned by Scapino. Headquarters get point of sale (POS) data via an ERP system that has been developed by the retailer over 10 years and communicate via the same IT system with key suppliers and agents. Forecasts are made by merchandise and planning department. Critical paths that interviewees described were those in the backend, i.e. the processes over which Scapino has least control. On-time delivery of goods and documents is most critical because they cause delays in the deliveries to stores. Major supply chain characteristics are summarised in Table 8.

### Table 8: Scapino’s Supply Chain Characteristics

<table>
<thead>
<tr>
<th></th>
<th>Scapino</th>
</tr>
</thead>
<tbody>
<tr>
<td>SKUs p.a.</td>
<td>42,000</td>
</tr>
<tr>
<td>Product design</td>
<td>In-house and external designers</td>
</tr>
<tr>
<td>Sourcing Locations</td>
<td>Far East</td>
</tr>
<tr>
<td>Communication with suppliers</td>
<td>Own ERP system</td>
</tr>
<tr>
<td>Deliveries from sourcing location to the Netherlands</td>
<td>APL Logistics, full container loads Sea transport, rarely air freight</td>
</tr>
<tr>
<td>Number of DCs</td>
<td>1 DC</td>
</tr>
<tr>
<td>Items handled p.a.</td>
<td>17 million</td>
</tr>
<tr>
<td>Distribution</td>
<td>APL Logistics</td>
</tr>
<tr>
<td>Communication with stores</td>
<td>Own ERP system</td>
</tr>
<tr>
<td>Lead time</td>
<td>6-7 months</td>
</tr>
</tbody>
</table>

The management team of Scapino consists of the CEO and purchasing, management services and sales managers. Scapino’s organisation is divided by functions (Figure 20), though particular functions, including logistics, finance and IT, are under supervision of the management services director.

*Figure 20: Organisational Structure of Scapino*
Purchasing, sales and merchandising are closely collaborating but the buying department is seen as most powerful as they are responsible for identifying trends and buying accordingly. Purchasing and sales are seen as drivers of success since purchasing ensures right styles and margins and sales are the interface with customers. SCM's direct contribution to success is seen as delivering the right supplies through short time to market. Continuous improvement processes in the supply chain are seen as indirect contribution to increase efficiency and to lower costs in order to stay competitive.

Scapino's employees are described as committed to the company's following values:
1. passionate drive (we love what we do)
2. pragmatic smartness (we find easy but clever solutions)
3. straight talking (we say what we think)
4. human ease (we respect each other)
5. customer focus (we put the customer in the centre of all activity)
6. we're aiming at being surprising beyond (low prices, good services)

Scapino's managers emphasise employees' passion for products and commitment to their work as an important driver of success. EBITDA, turnover and margins are Scapino's KPIs to judge performance. The retailer carries out extensive market research and also measures rather “soft” factors such as brand awareness and customer or employee satisfaction. Scapino measures supply chain performance since a couple of years and only after the company's usually good performance suffered from intensified levels of competition. Today, sales, margin, stock turn and aging degree of stock are KPIs. In the supply chain's front end, Scapino primarily monitors store productivity – i.e. sales by employee and hour – and customer satisfaction. The company perceives itself as successful in supply chain visibility and as a leader among shoe retailers in having state-of-the-art alignment for an industry as traditional as the shoe industry. On the sports discount market, Scapino is market leader with a market share of 46%. In future, supply chain operations are expected to be primarily influenced by the shift towards e-commerce.
4.2.3 Analysis

From the evaluation in Table 9, Scapino primarily fits the characterisation of the basic fashion level but has a tendency towards fashion basics since profit is equally driven by margins and volume. In general, the retailer has problems clearly defining its business strategy. Interviewees could recall values and mission but hesitated to define Scapino’s competitive advantage over other retailers.

Table 9: Evaluation of Scapino's Fashion Level
(According to Hoyndorff et al. (2010) and as shown in Table 1, chapter 2.2)

<table>
<thead>
<tr>
<th>Feature</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up-to-dateness</td>
<td>Low to medium</td>
</tr>
<tr>
<td>PLC (for fashion)</td>
<td>Long</td>
</tr>
<tr>
<td>Merchandise risk</td>
<td>Medium, dependency on weather due to sales of sports products</td>
</tr>
<tr>
<td>Target group</td>
<td>Mass market</td>
</tr>
<tr>
<td>Major profit drivers</td>
<td>Volume / margins</td>
</tr>
<tr>
<td>Intended purpose</td>
<td>Utility</td>
</tr>
<tr>
<td>Replenishment</td>
<td>Partially</td>
</tr>
<tr>
<td>Result: Fashion Level</td>
<td>Basics (tendency towards fashion basics)</td>
</tr>
</tbody>
</table>

Products are low to medium priced but the service level in stores and the number of collections per year make Scapino neither a discounter nor a fashion retailer. The lack of a clear positioning also makes it difficult to clearly define Scapino’s supply chain strategy. It is generally leagile but has a tendency towards lean because of its focus of efficiency (Table 10).

Table 10: Evaluation of Scapino’s Supply Chain Strategy
(Based on Agarwal et al. (2006) and as shown in Table 2, chapter 2.2)

<table>
<thead>
<tr>
<th>Feature</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market demand</td>
<td>Volatile</td>
</tr>
<tr>
<td>Product variety</td>
<td>High</td>
</tr>
<tr>
<td>PLC (compared to other industries)</td>
<td>Short</td>
</tr>
<tr>
<td>Customer drivers</td>
<td>Cost &amp; availability</td>
</tr>
<tr>
<td>Profit margin</td>
<td>Medium</td>
</tr>
<tr>
<td>Dominant costs</td>
<td>Physical &amp; marketability costs</td>
</tr>
<tr>
<td>Lead time compression</td>
<td>Essential</td>
</tr>
<tr>
<td>Eliminate muda [waste]</td>
<td>Desirable</td>
</tr>
<tr>
<td>Rapid reconfiguration</td>
<td>Desirable</td>
</tr>
<tr>
<td>Robustness</td>
<td>Essential</td>
</tr>
<tr>
<td>Quality</td>
<td>Market qualifier</td>
</tr>
<tr>
<td>Cost</td>
<td>Market winner</td>
</tr>
<tr>
<td>Lead time</td>
<td>Market qualifier / winner</td>
</tr>
<tr>
<td>Service level</td>
<td>Market winner</td>
</tr>
<tr>
<td>Supply Chain Strategy</td>
<td>Leagile (tendency towards lean)</td>
</tr>
</tbody>
</table>

Nonetheless, Scapino’s supply chain is clearly structured. A few years back, suppliers used to deliver according to their own plans and the retailer had to react to unpredictable volume
The Case Studies

peaks and lows. Those days, Scapino did not monitor supply chain performance with KPIs. The retailer then had the American logistics service provider Expeditors analyse and optimise operations to increase visibility in the supply chain. Getting the support of experts seems to have been the right decision: Power got shifted from the backend to the frontend of the supply chain. Part of the optimisation was the outsourcing of most of the order tracking, shipping and distribution to APL logistics. The strategic alliance saves Scapino time-intensive processes and gives the retailer time to focus on its core-business – selling shoes and sports goods.

For its industry, Scapino has a state-of-the-art IT system that was developed in-house to make sure that the solution really fits the business. Since suppliers are also connected to it, the system increased supply chain visibility tremendously making it easier to match demand. The IT interface allows more control and a more strategic collaboration. From headquarters in the Netherlands, Scapino can even track inventory levels of raw materials on-site of connected suppliers. Supplier relationships have also become more strategic for Scapino tries to shift as many value added services as possible to manufacturers in the Far East where operational costs are lower. The standardisation of retail packs, for example, has two advantages: on the one hand, costs are saved because boxes are packed in the Far East instead of in a country with high labour costs like the Netherlands. On the other hand, already consolidating retail packs at the supplier eliminates several handling steps at once. Goods do not have to be unpacked, checked or repacked on Scapino’s premises in Assen.

Due to Scapino’s growth, DC capacities in Assen became too small. Instead of extending or relocating the facilities, the retailer increased automation levels. This included new software and conveyor belts that allow saving space, e.g. needed for forklifts. By enabling Scapino to send out 4 batches a day, the automation of the DC is expected to allow reducing cross-docking time from 3 days to 2.5 hours in the near future. Scapino also gains efficiency by combining sourcing activities with other retailers from the Macintosh Group. EOS and cost effectiveness gained through this consolidation supports Scapino in competing with cheaper online retailers. Even though stores are located in the Netherlands and Belgium only, on the internet the retailer competes globally nowadays. This relatively new competition has shortened Scapino’s PLCs and requires even shorter lead times and on-time deliveries. In order to improve visibility, reliability and speed, the emphasis in relationships among supply chain partners is put on control rather than communication. Communication is not seen as crucial by managers, though.

Internally, Scapino monitors POS data with the ERP system on a daily basis and discusses developments during weekly management meetings. That way, indices that exceed or undercut certain values are recognised early, giving the managers time to react. The company perceives itself as a trendslator, i.e. a fashion follower rather than a fashion leader. This means that processes need to be fast in order to match trends while they last. However, Scapino struggles with conflicting goals among departments. The trade-off between supply chain departments’ goals is often solved by purchasing. Collaboration is needed because purchasing primarily focuses on style and price but not on logistics terms and conditions. Logistics need to get more responsibilities to negotiate directly with suppliers. Consequently, Scapino offers potential for cooperation improvements among departments.

According to interviewees IT support and personnel’s passion are seen as contributing the most SCM’s success. Yet, a supply chain view from purchasing to sales is missing. At present, departments primarily look at their own performance and activities. This might be due to Scapino’s background in the shoe industry which in general is described as quite traditional.
The missing clarity in and alignment of the organisational structure also have to be taken into account, though. Even though Scapino has developed a much more strategic view onto the supply chain in which the logistics manager now is responsible for the entire material flow from suppliers to stores, logistics is seen as a marginal discipline. Logistics are looked at as cost creating distribution and less as a source of competitive advantage. The traditional dominance of purchasing does not seem to change.

To finally express Scapino’s connection of values and performance, the model of Wanrooy (2009) as shown in Figure 5 in Chapter 2.4 is suitable. In the adaption shown in Figure 21, nine influences onto performance and its control are added from Scapino’s SCM view and as result of this analysis. Wanrooy’s model is useful to organise Scapino’s internal functions and to define their influence onto operations. From the interview it seemed that the retailer is lacking this clarity. The continuous improvement process managers mentioned as being an important strategic element is added as the tenth way to influence performance for it is crucial in order for Scapino to remain competitive. Market and demand are illustrated with dotted lines on the left side of the chart because as a trend follower (trendslator) Scapino’s operations have a limited customer focus.

![Figure 21: Scapino’s 10 Ways to Influence and Control Performance (Adapted from Wanrooy, 2009)](image)

**Conclusions**

Scapino’s success is primarily owed to planning, forecasting and purchasing that guarantee profitable margins. The commitment of employees is an indirect driver of this success as well as Scapino’s excellent supply chain visibility. Hence, IT and collaboration with external partners also indirectly contribute to the retailer’s performance. Recent introduction of supply chain KPIs shows awareness of SCM’s strategic value but Scapino struggles to turn operations into real competitive advantage: Management does not actively encourage internal cooperation among departments which hinders alignment of goals. Due to a lack of clear definitions, supply chain strategy does not entirely mirror business objectives.

- The role of Scapino’s SCM is assuring availability of products in order to reduce the amount of markdowns.
4.3 Hunkemöller

4.3.1 Background

In 1886, Wilhelm Hunkemöller opened his first *Corset and Bustle Shop* in Amsterdam. Today, with more than 3,000 employees in 15 countries, Hunkemöller is Europe’s largest lingerie chain and market leader in the Benelux countries with a brand awareness of nearly 100% (Hunkemöller, 2011). As presented in Table 11, around 500 stores in Europe, Saudi Arabia, Egypt, Aruba, Curacao, Russia, Kuwait and Israel are either branded under the name of Hunkemöller or Bodique. Besides lingerie, products include nightwear, swimwear and accessories, generating sales of €300 million in 2010. All products are mono-branded (Hunkemöller, 2010).

Headquarters are located in Hilversum, the Netherlands. The chain’s mission is to provide fashionable products at affordable prices. Target group are women aged 12-50 with majority of sales generated by women in their 20s and 30s (Hunkemöller, 2010). The French investment group PAI Partners\(^8\) took the company over from the Dutch Maxeda group in 2010 (Prokasky, 2010). Hunkemöller (2010) aims “to be the market leader in all the countries [they] operate and develop from a store to a global, multi-channel brand by 2014” (p.3). E-commerce is expected to grow by 40% annually over the coming years (Hunkemöller, 2010). Hunkemöller was awarded best lingerie store in the Benelux countries four years in a row and was recently awarded best lingerie retailer in Germany by the retailing association HDE and the financial newspaper Handelsblatt (Sieper, 2011).

Table 11: Characterisation of Hunkemöller’s Business

<table>
<thead>
<tr>
<th>Core Products</th>
<th>Lingerie</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>3,000</td>
</tr>
<tr>
<td>Retail channels</td>
<td>Stores, e-commerce, shop-in-shops, outlet stores</td>
</tr>
<tr>
<td>Number of stores</td>
<td>500</td>
</tr>
<tr>
<td>Competitive approach</td>
<td>Price-value combination / differentiation: specialisation</td>
</tr>
<tr>
<td>Target group</td>
<td>Women between 12 and 50</td>
</tr>
<tr>
<td>Geographic market coverage</td>
<td>The Netherlands, Belgium, Luxembourg, France, Germany, Spain, Denmark, Saudi Arabia, Egypt, Aruba, Curacao, Russia, Poland, Kuwait, Israel</td>
</tr>
<tr>
<td>Forward integration</td>
<td>Wholly-owned and franchised stores</td>
</tr>
<tr>
<td>Backward integration</td>
<td>Outsourced manufacturing</td>
</tr>
</tbody>
</table>

For this research, three interviews of 1 to 1.5 hours each were held with the logistics manager, Hans Hoefnagels (see appendix, page 7764), the manager of financial controlling, Hanno van Vuren (see appendix, page 81), and the manager of e-commerce, Marco van der Hulst (see appendix, page 85), at Hunkemöller’s headquarters.

\(^8\) PAI Partners does not publish an annual report. Hence, detailed information about Hunkemöller’s financial performance is not available.
4.3.2 Results

Hunkemöller follows a specialist format and adapted a most varied multi-channel concept. 85% of products are produced in Southeast Asia; other manufacturers are located in the Middle East. To become more agile, Hunkemöller seeks to relocate sourcing to manufacturers in Turkey to significantly shorten lead times. Hunkemöller places purchase orders with Damco, a Danish freight forwarder that is part of the Moller-Maersk Group. Damco is responsible for the delivery of goods from suppliers to the DC in Hilversum. Since April 2011, Hunkemöller has service level agreements (SLA) with its suppliers that specify everything from product specifications over packaging to communication. Damco is also responsible for efficient loading of containers. Capacity utilisation is at roughly 95%. Orders that do not fill an entire container get sent to a container freight station first to wait for consolidation. In case of time sensitivity, products do not get sent via sea- but air freight which is the case for roughly 5% of the volume.

All stores, even the ones in Overseas, are supplied from the DC in Hilversum. DC operations as well as the truck and driver fleet belong to Hunkemöller. Exceptions are warehousing and distribution of products sold through e-commerce. These operations differ to great extent from regular activities and are outsourced to Hellmann Logistics with their own DC in Osnabruck, Germany. Hunkemöller’s regular lead time is five months, though most collections are planned one year ahead. Suppliers are connected via a platform on which they can monitor orders. Table 12 summarises major supply chain characteristics. Critical paths are on-time deliveries and container availability because space guarantees are subject to negotiation and can cause delays.

<table>
<thead>
<tr>
<th>Table 12: Hunkemöller’s Supply Chain Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>(SKUs p.a.) 35,000</td>
</tr>
<tr>
<td>Thereof replenished 51%: 18,000 (NOOS &amp; fashion)</td>
</tr>
<tr>
<td>Product design In-house and external designers</td>
</tr>
<tr>
<td>Sourcing Locations Far East</td>
</tr>
<tr>
<td>Communication with suppliers Supplier platforms</td>
</tr>
<tr>
<td>Deliveries from sourcing location to the Netherlands Freight forwarder, full container loads</td>
</tr>
<tr>
<td>Sea transport, 5% air freight</td>
</tr>
<tr>
<td>Number of DCs 1 DC</td>
</tr>
<tr>
<td>Items handled p.a. 32 million</td>
</tr>
<tr>
<td>Distribution 3PL</td>
</tr>
<tr>
<td>Communication with stores Adapted ERP system</td>
</tr>
<tr>
<td>Lead time 5 months</td>
</tr>
</tbody>
</table>

Internally, Hunkemöller is organised by functions (Figure 24). Purchasing, logistics and retail managers rank on the third level in the hierarchy. Purchasing and planning & merchandising are seen as the most powerful departments because they are responsible for style, margin and quantity of products. Supply chain departments collaborate with IT and finance. Daily team meetings of 15 minutes are held per department as well as regular cross-functional meetings to discuss latest performance developments and improvement potential. SCM is seen as an enabler for sales that needs to keep costs low.
Hunkemöller’s perceived advantage lies in latest design at a reasonable price and the specialty store concept which is why operations focus on service and customer orientation. EBITDA, turnover, margins, markdown and sell-off percentages are the most important performance indicators. Just after the economic recession, Hunkemöller achieved its highest EBITDA in history in 2010. Since Hunkemöller is owned by a private equity firm, development of the company’s value is also an often used indicator. These are internal measures, kept secret and thus not used for benchmarking. KPIs that are used for the comparison with other companies are market share, expansion of stores and rather “soft” factors such as brand awareness and customer or employee satisfaction. In the BENELUX, market share in lingerie is around 15%. In the front end, Hunkemöller monitors the customer/visitor ratio per store, store productivity, i.e. sales by employee and hour; opening of new stores and member card use.

Apart from these attributes, managers mentioned employees’ passion for products and commitment to their work as an important driver of success. Employees work by the company’s mission of being inspiring and by the vision of becoming the Netherlands best lingerie chain. In the supply chain, stock availability, on-time deliveries and DC productivity are measured. SCM’s direct contribution to success is seen as delivering the right supplies at the right time through short time to market. Low logistics cost additionally support competitiveness. Hunkemöller calls process improvement a major driver of success.
4.3.3 Analysis

Hunkemöller’s extensive market research and focus on a specific product group allow the retailer to set trends in lingerie design. The specialisation makes it much easier to stay up-to-date as compared to the diversified V&D, for example. Hunkemöller cannot be considered being on the level of high fashion, though, because the retailer serves a mass market and still has a high ratio of 51% by SKU that are basic replenishment items. The evaluation in its entirety is shown in Table 13.

<table>
<thead>
<tr>
<th>Up-to-dateness</th>
<th>Medium to high</th>
</tr>
</thead>
<tbody>
<tr>
<td>PLC (for fashion)</td>
<td>Shorter</td>
</tr>
<tr>
<td>Merchandise risk</td>
<td>Higher, focus on meeting trends</td>
</tr>
<tr>
<td>Target group</td>
<td>Mass market and larger groups of individuals</td>
</tr>
<tr>
<td>Major profit drivers</td>
<td>High margins</td>
</tr>
<tr>
<td>Intended purpose</td>
<td>Combination of utility and emotional value through design</td>
</tr>
<tr>
<td>Replenishment</td>
<td>Regularly</td>
</tr>
<tr>
<td>Result: Fashion Level</td>
<td>Fashion basics (slight tendency towards fashion)</td>
</tr>
</tbody>
</table>

The fashion level requires short lead times and Hunkemöller’s supply chain needs to be able to quickly respond to changes. The lead time of 5 months is quite long for this challenge, though. As the evaluation in Table 14 shows, activities rather classify as leagile than as agile meaning that the responsiveness of the supply chain strategy is lagging behind the requirements of the higher fashion level.

<table>
<thead>
<tr>
<th>Market demand</th>
<th>Volatile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product variety</td>
<td>High</td>
</tr>
<tr>
<td>PLC (compared to other industries)</td>
<td>Short</td>
</tr>
<tr>
<td>Customer drivers</td>
<td>Lead time &amp; availability</td>
</tr>
<tr>
<td>Profit margin</td>
<td>Upper medium</td>
</tr>
<tr>
<td>Dominant costs</td>
<td>Physical &amp; marketability costs</td>
</tr>
<tr>
<td>Lead time compression</td>
<td>Essential</td>
</tr>
<tr>
<td>Eliminate <em>muda</em> [waste]</td>
<td>Arbitrary</td>
</tr>
<tr>
<td>Rapid reconfiguration</td>
<td>Essential</td>
</tr>
<tr>
<td>Robustness</td>
<td>Essential</td>
</tr>
<tr>
<td>Quality</td>
<td>Market qualifier</td>
</tr>
<tr>
<td>Cost</td>
<td>Market winner / qualifier</td>
</tr>
<tr>
<td>Lead time</td>
<td>Market qualifier</td>
</tr>
<tr>
<td>Service level</td>
<td>Market winner</td>
</tr>
<tr>
<td>Supply Chain Strategy</td>
<td>Leagile (tendency towards agile)</td>
</tr>
</tbody>
</table>
The combination of market-driven shortening PLC and rising number of SKUs and stores has made Hunkemöller’s SCM become much more complex over the years. The design of one bra can equal 40 SKUs, for example. Allocating these in the right number and at the right time to more than 500 stores is challenging. A more agile-oriented supply chain strategy is needed to increase the chances of matching unpredictable demand. With the expected shift of sales towards e-commerce, the PLC will become even shorter and more collections per year will be required to keep customers interested in visiting online shops. The PLC in Hunkemöller’s e-commerce is 4 weeks as opposed to around 8 weeks in the retail stores.

Purchasing and logistics will need to be able to speed up processes to meet this demand; efficient and agile supply chain strategies for each retail channel will need to be found to master future challenges. Managers observe resistance against change from employees that have long worked with the retailer. The chain has a history of 125 years making processes and structures well attuned but also rigid. The age of the company certainly has an impact on the flexibility of Hunkemöller’s organisation. Management needs to support change to break established routines and mind-sets.

In efficiency, however, Hunkemöller’s operations are excellent. The retailer managed to improve stock availability and reduce inventory levels at the same time with a new IT system that allowed the reduction of safety stock. A supplier platform was introduced as well as an IT solution for stores and the warehouse which delivers accurate information about products at each stage in the pipeline. With increasing supply chain visibility, the retailer decreased inventory levels in stores and consolidated them in the DC in order to postpone distribution which allows allocating products more to actual demand in shops. Since availability of products is one of the biggest concerns for fashion supply chain managers, suppliers are required to keep a certain level of stock on their premises so that Hunkemöller can replenish faster if sales are unexpectedly higher. Shifting the inventory risk to the supplier is part of the SLA.

Shortening delivery times and reducing inventory levels also shows SCM’s successful contribution to lower the amount of markdowns. Lowering markdowns by decreasing inventory is significant because stock gets cleared with 30% discount in outlet malls after it has been in store for six months. Online, products that did not sell after four weeks are sold in retail stores to avoid marking them down. The reduction of markdowns leads to (over)achieving targeted margins, increase profitability and have positive influence onto the EBITDA. By reducing the number of markdowns and slightly increasing prices, Hunkemöller managed a historical EBITDA growth of 30% in the past two years. The retailer is a fitting example for the financial influence of successful SCM. Hunkemöller does not knowingly use the scorecard of Kaplan and Norton (1992). However, with the information from the interviews, the model used by Zimmermann (2002) for the chemical industry can be transferred onto and exemplified for the fashion industry. The result is shown in Figure 25.

Internal and external collaboration among supply chain partners is highly valued to achieve the company’s goals and to improve efficiency. Cooperation along supply chain gets supported by holding regular workshops with buyers and suppliers. Internally, meetings of departments involved in SCM are considered a chance to discuss strategic directions and to make decisions. Supply chain performance and improvement potential are also discussed; budget plans are monitored and forecasts adjusted if necessary. Hunkemöller’s logistics and purchasing department daily come together for brief team meetings of 15 minutes. Time invested is very little compared to the outcome of everybody involved being informed about latest developments and changes. Briefings help to make sure that the supply chain is aligned with goals and that targets are being achieved.
Based on these findings, Hunkemöller’s close monitoring of supply chain performance (pyramid with scorecard measures) and the influence onto overall performance are illustrated in Figure 26 (based on Figure 7, chapter 2.4). General KPIs used by Hunkemöller as well as EBITDA and sales as overall performance indicators were added. The model points out IT and collaboration as supportive functions for improving corporate performance.

As a trendsetter in lingerie, Hunkemöller’s success is based on latest design that allows high margins and relatively high volume. Even if not anchored in the organisational structure, Hunkemöller adapted an internal supply chain view, is aware of SCM’s financial influence onto corporate performance. Management acknowledges the value of multi-disciplinary collaboration among supply chain departments and continuous improvement of operations as an important enabler of success.

- The role of Hunkemöller’s SCM is guaranteeing availability at low inventory levels to lower markdowns and to make sure that financial goals are achieved.
4.4 V&D

4.4.1 Background

V&D was founded in Amsterdam in 1887 by Willem Vroom and his brothers in law Anton Dreesmann (V&D, 2011a). Today, V&D is the largest department store chain operating a web store, 62 wholly-owned branches throughout the Netherlands and employing roughly 12,000 people (Sun European Partners, 2011). With the introduction of a new logo in 2007, V&D modernised its stores and gave them a younger, more fashionable image. Since 2010, the company is owned by the Sun European Partners which is part of the American investment company Sun Capital Partners (V&D, 2011b).

V&D’s vision is to be the department store of the Netherlands; its mission is to become the most respected, admired and profitable Dutch retailer known for inspirational products, outstanding service and market leadership (V&D, 2011c). The chain claims to offer best quality and service at affordable prices and with regularly changing collections (V&D, 2011a). Stores sell a wide range of clothing, shoes, jewellery, cosmetics, books, home entertainment, electrical goods, stationery, furniture and homeware that on average attract 1.7 million visitors per week (Sun European Partners, 2011). V&D sells its own fashion articles as well as international top brands, some of them through a shop-in-shop concept (V&D, 2011a). V&D’s business characterisation is summarised in Table 15.

Table 15: Characterisation of V&D’s Business

<table>
<thead>
<tr>
<th>Core Products</th>
<th>Fashion and living</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>12,000</td>
</tr>
<tr>
<td>Retail channels</td>
<td>Stores, e-commerce</td>
</tr>
<tr>
<td>Number of stores</td>
<td>62</td>
</tr>
<tr>
<td>Competitive approach</td>
<td>Differentiation through service and assortment</td>
</tr>
<tr>
<td>Geographic market coverage</td>
<td>The Netherlands</td>
</tr>
<tr>
<td>Forward integration</td>
<td>Wholly-owned stores</td>
</tr>
<tr>
<td>Backward integration</td>
<td>Outsourced manufacturing</td>
</tr>
</tbody>
</table>

Two interviews of 1.5 hours each were held with the logistics manager, Raymond Tukker (see appendix, page 887764), and the COO, Theo Heemskerk (see appendix, page 92), at V&D’s headquarters.

\(^9\) Sun European Capital does not publish a separate business report for V&D. Hence, detailed information – other than a general conspectus – on V&D’s financial performance is not available.
4.4.2 Results

V&D’s business was still spoiled by the booming economy after World War II when competition intensified in the 80’s and 90’s in the Netherlands. The department store chain lost customers, sales and profits until it was reorganised and redesigned in 2003. Part of the renewal was the closure of 12 stores, introduction of A-brands to the portfolio, design of a new logo and a makeover of the store design. At the same time and as part of a stricter cost control, sourcing was shifted to manufacturers in Asia. The image changed from conservative to attracting a much wider range of younger customers and the chain broke even just one year after the restructuring.

V&D manages supply chain processes for their own brands and for some A-brands with lower volumes. Supply chain characteristics are summarised in Table 16; remarkable is the short lead time of 6-8 weeks. The retailer has its own agents in the Far East and Turkey that find suppliers once an order is sent by headquarters via SAP. The Hong Kong based service providers Li & Fung receives orders via EDI and consolidates shipments from different suppliers in Asian ports. Except for e-commerce, V&D carries out its own operations in three DCs across the Netherlands. 3PLs are used for distribution to department stores which are wholly owned by the chain. From there, POS data gets send to headquarters via connected IT systems. For information flows in the backend, however, V&D uses platforms with key suppliers but has no direct connection to them.

<table>
<thead>
<tr>
<th>Table 16: V&amp;D’s Supply Chain Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SKUs p.a. (fashion only)</strong></td>
</tr>
<tr>
<td><strong>Items handled p.a.</strong></td>
</tr>
<tr>
<td><strong>Product design</strong></td>
</tr>
<tr>
<td><strong>Communication with suppliers</strong></td>
</tr>
<tr>
<td><strong>Sourcing Locations</strong></td>
</tr>
<tr>
<td><strong>Deliveries from sourcing location to the Netherlands</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Number of DCs</strong></td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
</tr>
<tr>
<td><strong>Communication with stores</strong></td>
</tr>
<tr>
<td><strong>Lead time</strong></td>
</tr>
</tbody>
</table>

Managers described the critical path as getting the significance of cooperation acknowledged by every employee involved in SCM. According to them, this is vital yet difficult to implement because of the large size of the organisation. Despite its size, V&D tries to operate as customer-driven as possible by emphasising the importance of stores. Buying was traditionally in the lead. With the renewal of the concept, however, this has changed and power among departments in the organisation is much more in equilibrium now. Information is exchanged in weekly meetings of purchasing, logistics and sales. The board weekly discusses sales data with store managers and includes them in assortment planning. V&D recently introduced the position of a supply chain director who will not be directly responsible for sourcing, logistics and sales but will rather have the role of an advisor and observant. V&D is divided into a food and non-food division and has a matrix organisation which includes multi-disciplinary teams.
that meet weekly with buying and merchandising. Figure 29 shows the organisational structure of the non-food division.

![Organisational Structure of V&D's Non-Food Division](image)

**Figure 29: Organisational Structure of V&D’s Non-Food Division**

To measure their company’s success, managers mentioned EBITDA, turnover and margins as most important performance indicators. V&D perceives itself as successful by achieving its goals every year and – in fashion – growing by 20% annually which is far above the Dutch market growth of 4%. Managers of V&D attribute success mainly to the collections’ designs that need to match trends. They add that speed to market is important to deliver those collections while trends last. For this, collaboration among supply chain partners and departments is seen as crucial. Barriers mentioned are insufficient IT links on the one hand and conflicting goals on the other hand.

Supply chain KPIs used at V&D are on-time deliveries, handling times and DC productivity. SCM aims at efficiency by achieving high stock turn and low stock levels to lower tied capital. SCM’s direct contribution to success is seen in cost efficiency and the reduction of markdowns through timely matching demand. Indirectly, SCM adds value by increasing transparency of the pipeline and reducing time to market. Management aims at having a customer-driven and agile supply chain. The logistics manager views SCM as the backbone operation that supports stores which are the interface with customers and finally generate sales. Together with IT, SCM is looked at as a facilitator for success. Managers were convinced that their SCM excels in operational excellence and chain optimisation.

In future, V&D expects operations to be primarily influenced by the shift towards e-commerce. Sales via e-commerce are believed to grow from 0.6% of overall turnover in 2009 to 10% in 2012. Since their network of department stores is quite dense, few opportunities to open new stores are left.
4.4.3 Analysis

With the makeover of the company’s branding, V&D also updated its fashion level from rather conservative basics to fashion basics (see evaluation in Table 17) to serve demand of a younger target group. Product range and target group are much broader now, forcing the retailer to follow a large number of trends.

### Table 17: Evaluation of V&D’s Fashion Level

(According to Hoyndorff et. al. (2010) and as shown in Table 1, chapter 2.2)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Up-to-dateness</strong></td>
<td>Medium</td>
</tr>
<tr>
<td><strong>PLC (for fashion)</strong></td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Merchandise risk</strong></td>
<td>Higher, focus on meeting trends</td>
</tr>
<tr>
<td><strong>Target group</strong></td>
<td>Mass market</td>
</tr>
<tr>
<td><strong>Major profit drivers</strong></td>
<td>High margins</td>
</tr>
<tr>
<td><strong>Intended purpose</strong></td>
<td>Combination of utility and emotional value through design</td>
</tr>
<tr>
<td><strong>Replenishment</strong></td>
<td>Regularly</td>
</tr>
<tr>
<td><strong>Result: Fashion Level</strong></td>
<td>Fashion basics</td>
</tr>
</tbody>
</table>

Demand patterns are much more volatile and the PLC is shorter than before, requiring a more responsive supply chain strategy. Today, the retailer’s supply chain is much more agile (see evaluation in Table 18), has a higher visibility and is more efficient. With the change, the number of collections and SKUs has increased significantly. 80% of SKU’s are subject to one-off production which shows an affinity with fast fashion retailing and challenges V&D’s SCM to remain efficient.

### Table 18: Evaluation of V&D’s Supply Chain Strategy

(Based on Agarwal et al. (2006) and as shown in Table 2, chapter 2.2)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market demand</strong></td>
<td>Volatile</td>
</tr>
<tr>
<td><strong>Product variety</strong></td>
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<td><strong>PLC (compared to other industries)</strong></td>
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<td><strong>Customer drivers</strong></td>
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<td><strong>Eliminate muda [waste]</strong></td>
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<td><strong>Robustness</strong></td>
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<td><strong>Quality</strong></td>
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<tr>
<td><strong>Lead time</strong></td>
<td>Market qualifier</td>
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<td><strong>Service level</strong></td>
<td>Market winner</td>
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<tr>
<td><strong>Supply Chain Strategy</strong></td>
<td>Agile (slight tendency towards agile)</td>
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One of V&D’s solutions to the trade-off between availability and stock levels is the consolidation of DCs and the postponing of distribution to stores for as long as possible to be able to allocate products to stores that sell an item best. By now, three quarters of items get pulled from the stores, allowing lower inventory levels in the warehouse, simplified planning processes and lower risks of losses of margins through markdowns. For the same reason, the retailer plans to source logistics activities for e-commerce back in. Aim of V&D is to consolidate warehouses for e-commerce and department stores to flexibly allocate products to stores depending on demand. After consolidation, V&D’s operations are considered more efficient than their 3PL one’s at present.

Since the renewal, logistics cost got cut by a third and lead time could be reduces by three weeks, primarily by consolidating shipments, improving scheduling, optimising warehousing processes and by connecting suppliers to V&D’s IT system. For example, the three warehouses in the Netherlands are strategically located. The DC for fashion is located in the centre so that time-sensitive items can quickly be delivered to stores whereas bulkier goods like furniture or bikes are stored in the north of the Netherlands where property costs are lower and labour is cheaper. To shorten lead times for fashion even more and to make sure products are shipped to the stores on time, logistics’ employees often work during the weekend – despite higher costs for the company.

A significant contribution to achieving agility is V&D’s organisational structure. The moderate level of formalisation and centralisation entrusts managers on lower hierarchical levels with certain responsibilities and allows creativity needed to respond to volatile demand. Additionally, supply chain activities are coordinated across functions, supporting a supply chain view and a smooth information flow. In the characterisation of organisation types of Kim (2007), V&D fits the matrix channel organisation (Figure 4, Chapter 2.3). This type allows organisations of any size to quickly respond to changes in demand.

The challenge for V&D is to keep their supply chain agile, i.e. highly responsive and able to anticipate developments, despite the size of the organisation of 12,000 employees. The bureaucratic and hierarchical structure often found in fashion retailers and criticised by several authors (Chapter 2.3) does not get confirmed by V&D’s example, though. Instead of top-down decisions as observed by Jacob and Stockert (2004), V&D’s board has found numerous ways to involve departments in decisions from the frontend to the backend of the supply chain. To keep in touch with the frontend, for example, the CFO weekly discusses developments with six randomly chosen store managers. The board has changed from pushing decisions onto stores but actually involving them in strategic decisions.

V&D successfully managed to transfer its strong customer focus onto the internal structure by linking the agile approach of the supply chain to flexible and responsive teams. The organisation matches the agile supply chain cluster as described by Gattorna (2009) and as shown in the appendix in Figure 34, page 58. The matrix organisation with multi-disciplinary teams allows quick response to changes in demand by efficient communication as well as creativity in finding solutions because team members have different backgrounds and can give valuable impulses. The newly introduced SCM director could be promoted from having a passive role to actively leading those teams. Adapting Gattorna’s model onto V&D, the organisational structure could look as illustrated in Figure 30. Note that finance and IT’s contribution is indicated in dotted lines because their role is rather supportive.
In companies owned by private equity firms, the collaboration among departments gets hindered by the strong focus on financial figures and short-term profitability which leads to conflicting goals among departments. These conflicts, e.g. the buying department’s aim to buy in bulk to achieve EOS versus logistics’ goal to keep inventory levels low to reduce capital tied, slow down the process of decision making. V&D’s managers were the ones mentioning these internal conflicts openly even calling complete collaboration a “theoretical phenomenon” that is surreal because of every department’s eager ambition to achieve its targets. The conflict of goals in corporations like this is inevitable.

Nonetheless, V&D has found a structural solution to introduce a supply chain view that is certainly needed to keep pace with competition. Managers not only have their own goals in mind but also adapt a helicopter view and are aware that it is the effort of all functions involved that make SCM and V&D successful. This way, the department store chain is much more responsive to volatile demand despite the fashion level’s lower necessities. Combining the evaluations of Table 17 and Table 18, the supply chain strategy is ahead of the requirements given by the level of fashion, serving V&D as strategic weapon. The advantage V&D can take from its supply chain is the faster reaction to trends to match the demand of its target group even better.

**Conclusions**

V&D’s success is based on the excellent alignment of customer focus, business strategy, organisational structure and supply chain strategy. A cross-functional supply chain view and customer-driven supply chain agility actively support success by ensuring a smooth flow of goods. SCM’s contribution to V&D’s success is not only the availability of products but also the accuracy with which demand is being matched. By introducing a supply chain director, management underlines the strategic value of SCM.

- The role of V&D’s SCM is to serve as a competitive weapon by keeping the customer focus and being responsive to changes in demand.
5 Conclusions and Recommendations

To answer the research question and to attain the aim of this dissertation, conclusions are grouped by the objectives described in chapter 1.

Objective 1: Illustration of the specific situation of SCM and the importance it is being granted in fashion companies.

Contrasting the analyses of the background and supply chain operations of the case studies in chapter 4 with the ones of the literature review shows that the situation of SCM and the strategic importance it is being granted in internal organisations are very different. The example of Scapino and partially Hunkemöller suggest that strategic thinking in SCM is not always applied sufficiently. Zeeman’s and V&D’s management, on the other hand, value SCM as a strategic weapon.

Objective 2: Detection of the reasons as well as direct and indirect drivers for fashion companies’ success.

Fashion companies’ success depends on matching volatile demand. Direct driver of success for any fashion retailer is a design-price combination that fits the target group. Indirect drivers, however vary according to the company’s background and seem to a great extent be influenced by perception. Resulting from the case studies, direct and indirect drivers of success are illustrated in Figure 31.

Figure 31: Direct and Indirect Drivers of Success

Objective 3: Detection of the contribution of SCM to companies’ success.

The definition of direct and indirect contribution of SCM to a fashion companies’ success equally depends on the business strategy and the customer target group. Most often mentioned influences in theory and interviews are cost-efficiency, availability that generates sales and reasonable inventory levels that keep the number of markdowns on a minimum in order to assure profitable margins. As exemplified by Zeeman, SCM’s influence on profitability as cost leverage increases with decreasing margins. For more trend-orientated companies like Hunkemöller and V&D, SCM directly influences performance by being agile and responsive. A fashion company is only as successful as it can match demand, i.e. – among others – it is as successful as its delivery performance allows. Fast SCM can help reduce risks of product failure resulting in lower markdowns and lost sales. These lost sales are major cost drivers in the industry that every fashion company seeks to avoid. SCM can thus contribute to increasing sales, lowering the number of markdowns and increasing profitability.
Conclusions and Recommendations

**Research question:** What are the most important internal elements of SCM that determine or support a company’s success in the fashion industry and under what conditions do they contribute to the success?

Derived from the case studies, the most important internal elements of SCM that determine or support a company’s success in the fashion industry are as follows:

1. **Clear definition of business and supply chain strategy**
   
   The strategy of the company is the basis for operations. The thicker this fundament, the rather SCM is able to support successful business. With a clear definition, SCM’s importance can grow from being a facilitator to becoming a strategic tool. This is exemplified by V&D’s excellent alignment of strategies.

2. **Managements’ acknowledgement of SCM as a strategic weapon**
   
   The more of a strategic significance SCM has for an enterprise, the higher it should be on agendas in the organisations and the more resources and power it should be granted. Acknowledging the significance of SCM as a strategic weapon is the responsibility of top-management. Supply chain managers on their own are powerless if they do not have the support of management in the next hierarchy level up. Scapino’s example shows how logistics’ efforts to get more influence in sourcing decisions are without effect because they are not supported by management.

3. **Cooperation among internal departments**
   
   Collaboration among departments is required to speed up processes, increase efficiency and to meet companies’ overall business objectives. This is exemplified by Hunkemöller’s example. To provide the conditions necessary for SCM to tap its potential, power should flexibly be shifted to those departments adding the most customer value. For fashion basics and discounter, the emphasis on purchasing in bulk and low-cost logistics helps keeping costs low. For faster fashion, the emphasis should be in the front-end of the supply chain, i.e. on sales since stores are the actual connection to customers. In this case, logistics is required to be responsive to changes in demand and able to buffer peaks and lows.

**Research aim:** Definition of the role of SCM in fashion companies

A very simplistic portrayal could define the role of SCM in fashion retailing as to make sure that products are available at the right time and in the right place. A narrower but generalizable definition cannot be deduced from the case studies because the role of SCM strongly depends on the business strategy and management’s perception of its strategic value. What could be observed, though, are the following two tendencies: first, the more basic the fashion level, the rather SCM’s task is to ensure availability of products and replenish them at lowest cost (see Zeeman). Secondly, the more up-market a company is positioned, the more SCM becomes a strategic tool to directly support sales in the way that short lead times and agile processes allow change of collections (see V&D).
Limitations of the outcomes

Supply chains are as unique as they are complex. Each company’s example matches one theoretical model or the other. However, due to the small sample size and the regional limitation of this project to the Netherlands, findings have no theoretical or normative validity. No company’s supply chain solution can directly be applied onto any other company without adaptations which means that the development of a definite model for success is not possible but needs to be found individually. Further research is needed involving a larger sample size of a more varied regional background to support the generalisation of the outcomes of this research. Moreover it would be interesting to investigate an observation made during this research that could not be studied in depth: there are differences in the supply chain focus of the family-run Zeeman and the other three companies that are part of private equity firms. Further research could investigate the extent to which ownership influences the role of SCM in fashion companies.

Recommendations for companies:

Fashion SCM can be a competitive weapon for every business strategy if it is aligned with and integrated into that strategy.

✓ Executives need to regard SCM as a source of competitive advantage and not as yet another hotspot of operational difficulties. Management’s commitment is inevitable in order to implement a supply chain view among departments, to develop employees’ understanding of strategic SCM and to also ensure their commitment.

✓ Implementing this mind-set needs effort because structure, practises and culture are most difficult to change in organisations. Change that is supposed to be sustainably improving operational and financial performance is only possible with excellent leadership.

✓ Monitoring performance on a regular basis is necessary to improve performance, gain sustainable competitive advantage and to extend a company’s lead.

✓ Departments involved in the supply and distribution of goods need to act in concert in order to achieve competitive advantage. The supply chain needs to be seen in its entirety and not from just one department’s perspective.

At the end of the day, it is the fashion company that notices the competitive value of SCM and knows how to make use of it that will excel in the market.
References


References


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B  Gattorna's Supply Chain Clusters

Figure 32: Continuous Replenishment Supply Chain Cluster (Gattorna, 2009, p.140)

Figure 33: Lean Supply Chain Cluster (Gattorna, 2009, p.140)

Figure 34: Agile Supply Chain Cluster (Gattorna, 2009, p.141)
### C Questionnaire

#### Basic Information

**Company**
- Date of interview
- Address
- Headquarters
- Core business

**Interviewee**
- Name and position
- Phone
- e-mail
- Tasks & responsibilities
- Reports to
- Operates mainly O nationally O in Europe O globally

#### Performance

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#### Product categories

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#### Part A – Organisational structure

(Questions in this section are to be answered by the manager of the respective department only; 30-40 minutes)
CEOs

1. Brands:
2. Brand positioning / degree of fashion (luxury, basics, high fashion):
3. If not already done in previous research: Where in the graph would you position your company? (When stating more than one business field, please add shares in overall activity in %)

4. Market description and market share:
5. Major competitors; if possible incl. estimated size and market shares:
6. How is your company organised (functional, matrix, by product type, etc.)?
7. Degree of vertical integration (suppliers, retail channels):
8. Which operation(s) does your company place the emphasis on (e.g. production, design, logistics,...) and why?
9. What were major challenges with SCM in your position as CEO within the past five years and how did you face those challenges? What was the outcome / what changed / what did you learn?
10. How do you work with / manage logistics & SCM, what are the biggest challenges?
11. What are the critical paths in your SCM operations and how do you improve SCM over time?
12. What were the main differences in the fashion industry’s SCM operations five years ago compared to today?
13. Where do you see the main challenges for SCM in the fashion industry at the moment?
14. Where do you see the main challenges for SCM in the fashion industry in the future?
15. What were the main differences in your SCM operations five years ago compared to today?
16. Where do you see the main challenges for SCM in your company at the moment?
17. Where do you see the main challenges for SCM in your company in the future?
Human Resources

1. How many employees work in SCM?
2. What are the most important skills and attitudes of those employees?
3. What kind of training do they have and get?
4. How is personnel capacity being planned?
5. What are your KPIs? What are the ones of SCM and how do you contribute to them / how do they contribute to yours?
6. How do you collaborate with logistics / SCM? What are the interfaces, what are challenges?
7. What were major challenges for your department in collaboration with SCM within the past five years and how did you face those challenges? What was the outcome / what changed / what did you learn? Please give examples.

Marketing / Design

1. Market segmentation
   a. Targeted age group:
   b. Gender:
   c. Lifestyle:
2. Number of collections per year:
3. Time from selection of fabrics and patterns to retailers and time to market (from design to retailer):
4. How closely do design, marketing and SCM department collaborate?
5. How do you collaborate with logistics / SCM? What are the interfaces, what are challenges?
6. What are your KPIs? What are the ones of SCM and how do you contribute to them / how do they contribute to yours?
7. What were major challenges for your department in collaboration with SCM within the past five years and how did you face those challenges? What was the outcome / what changed / what did you learn? Please give examples.

Sourcing

1. How many suppliers do you have and how do you collaborate with suppliers (audits, information exchange (IT?), ...)?
2. What are your sourcing locations, delivery times and frequencies?
3. How flexible are your suppliers, how flexible do suppliers have to be and why? How do you measure supplier performance?
4. What are your KPIs? What are the ones of SCM and how do you contribute to them / how do they contribute to yours?
5. How do you collaborate with logistics / SCM? What are the interfaces, what are challenges?
6. What were major challenges for your department in collaboration with SCM within the past five years and how did you face those challenges? What was the outcome / what changed / what did you learn? Please give examples.
Appendices

Production

1. Which parts of production are outsourced and why? How is the cooperation with the producing company organised?
2. Where are production sites located? What are delivery times? What are the lead times for repeat orders?
3. Do you make use of decoupling points (e.g. postpone design decisions)? Where and how?
4. What are your KPIs? What are the ones of SCM and how do you contribute to them / how do they contribute to yours?
5. How do you collaborate with logistics / SCM? What are the interfaces, what are challenges?
6. What were major challenges for your department in collaboration with SCM within the past five years and how did you face those challenges? What was the outcome / what changed / what did you learn? Please give examples.

IT

1. What kind of software is being used for SCM? How are POS data connected to the company, how do they get analysed?
2. What are the interfaces among departments and with suppliers, production, DCs and shops?
3. What are your KPIs? What are the ones of SCM and how do you contribute to them / how do they contribute to yours?
4. How do you collaborate with logistics / SCM? What are the interfaces, what are challenges?
5. What were major challenges for your department in collaboration with SCM within the past five years and how did you face those challenges? What was the outcome / what changed / what did you learn? Please give examples.

Distribution & Logistics

1. How many SKUs do you have?
2. How many DCs do you have and where are they located?
3. How and how often are sales forecasted? How are deliveries scheduled and routed?
4. What kind of VAS are carried out within distribution, where and how?
5. What parts of the supply chain are outsourced or backward integrated (suppliers) / forward integrated (retailers) and how?
6. How do you collaborate with retailers (demand and delivery forecasts, customer feedback, IT interfaces, etc.)? Do you view SCM from your perspective only or do you have a rather holistic view?
7. What are the major trade-offs, e.g. speed vs. costs, availability vs. stock and how do you face them?
8. How is the supply chain organised? Please indicate material flow in blue, information flow in red, country borders in dotted lines, delivery times, main processes & operations at each stage and anything else that is of importance to you.
9. What are the critical paths in your SCM operations?
10. What are your KPIs (+ numbers)? In what way do you rely on other departments to reach your goals and in what way do you contribute to them reaching theirs?
11. How do you improve SCM over time?
12. What were the main differences in the fashion industry's SCM operations five years ago compared to today?
Appendices

13. Where do you see the main challenges in SCM in the fashion industry at the moment?

14. Where do you see the main challenges in SCM in the fashion industry in the future?

15. What were the main differences in your SCM operations five years ago compared to today?

16. Where do you see the main challenges in SCM in your company at the moment?

17. Where do you see the main challenges in SCM in your company in the future?

Part B – Business strategy and success definition

(15-20 minutes)

1. What are your company’s values and vision? To what extent is being worked by them (flexibility, process descriptions,...)? How does that affect your everyday work?

2. What is your company’s (unique) value proposition? Where do you see your company’s competitive advantage?

3. What are order winners (directly help to win an order in the marketplace) and order qualifiers (‘entry ticket’ to the market) for your business?

4. How and why do you think your company is successful? How do you measure that success?

5. Which operations determine that success primarily / what does your company focus on (facilities, financial results, HR, customer demand, service, standardisation, etc.)? Why and how does that relate to the vision and to the strategy?

6. What is the contribution of your department to the company’s success?

7. Where do you see growth opportunities for your company?

Part C – SCM’s integration and contribution to success

(15-20 minutes)

1. What do you think is the contribution of personnel, design, marketing, sourcing, production, logistics, sales, IT and finance onto SCM’s success? What are the SWOTs of these relationships?

2. To which extent do you see your company creating logistics advantage through quality, time and costs?

3. In which way do you consider your company to be a good example (benchmark) for SCM? What operations are you benchmark in / what do or could other companies copy from you?

4. In your opinion, how does SCM contribute to competitive advantage in the fashion industry in general and in your company specifically?
Appendices

D  Transcripts of Interviews with Managers of Fashion Companies

a)  In-person Interview with Zeeman’s Supply Chain Manager

Frank Keijzer works for Zeeman since 8 years. He is responsible for all supply chain operations starting with purchase planning and ending with deliveries to stores. Frank Keijzer supervises 250 employees, is board member and reports to the CEO. The interview was conducted on 28 July 2011 at Zeeman’s headquarters in Alphen aan de Rijn, the Netherlands.

[Wiebke Dittert] How is Zeeman organised and what are the main interfaces you have within the company?

[Frank Keijzer] We are wholly-owned by the Zeeman family who are part of the advisory board. Together with the CFO and the purchasing, logistics and sales directors, the CEO builds the board of directors which reports to the advisory board. Below that, we have the senior management of all other departments like IT, transport, HR, etc. We are in close collaboration with the purchase department that is responsible for developing products, sourcing suppliers and planning. We decide when, where and how many products we need; buying decides on what products Zeeman buys. We make our own forecasts based on past sales of a particular product group, trends and store performance.

How would you describe your supply chain?

We source mainly in the Far East, like China (45% of volume), Bangladesh (30%) and Pakistan (5%). We source more complicated products or products that require a shorter lead time in Turkey (10%) and India (10%). From Turkey it takes 5 days or 2 weeks depending on whether we use road transport or go by sea. All other products are shipped from any port in Asia to Rotterdam, which takes roughly 35 days including on- and offloading at the ports. In Rotterdam, products are stored until we actually need them. That is why we have an agreement with the port in Rotterdam that we get up to 40 days of free storage at the port. If we exceed those 40 days, we contact service providers and store goods in containers with them and at very low cost rather than paying the quite expensive prices for storing in the port of Rotterdam. Storing those containers with service providers costs us only a couple of Euros per day. We only have 40,000sqm of space in our warehouse here in Alphen so we rather use the DC for cross-docking than for storing goods. We cross-dock boxes with fashion items at our DC and sometimes store NOOS before we distribute them to stores.

Our stores are always full. We closely monitor the capacity utilisation of the stores which we measure in cubic metres. 20% of our volume is pull but the remaining 80% are push-driven. So if stores are full we – in the supply chain – have to slow down to let shops sell things first. Our sales’ success also depends on the weather. Like now, for example, when the weather is that bad we do not sell any summer clothes and have to slow down and fall back onto the free storage in Rotterdam or when we use 3PLs for storing. The stores themselves do not have any influence on what they get. They receive deliveries twice per week and have to handle the volume. We do have a store plan that shows sales personnel where to place items in store but it is not very detailed. For distribution, we have our own trucks and drivers. Transport and warehousing is all carried out in-house, even for our stores abroad. Our providers change regularly, though, because we always negotiate anew. We also change our shipping companies frequently, depending on their offers. Typically, a contract with a service provider is for six months only. After that period, we negotiate again and if we find a cheaper offer, we take a new provider.

How do you manage the trade-off between time and costs?

We do not care about time that much. We are a discounter so for us it is all about the lowest price. We never fly in goods because with the volume of products that would be too expensive for the margins that we have.
How many collections do you have per year and how are they being planned?

We do not really have a certain number of collections per year even if we divide the year into the four basic seasons. We rather have a continuous flow of goods that are being pushed into our stores. That is about 100 new items per week. We are not like the fashion retailers that design up-to-date products and have them in stock. Our lead time is up to a year. We now already bought 60-70% of the products for summer 2012. We design a collection, we source the products, we push them into our stores and we produce the next collection. When we have new items, we look at past sales of that particular product group in the stores and allocate products to stores based on the sales history. It is a continuous one way flow. We have 600 SKUs of basic products like white t-shirts that we have in stock and that are automatically being replenished based on POS information. Those basic collections can run over several years but all others more trendy items are one-off productions. That is roughly 80% of our products or 4,000 SKUs per year. In logistics, we do not work on single item level. One SKU for us is a box of a particular item in different sizes and styles with a ratio that is based on our sales experience. We call that a “retail pack”. So if you would break our SKUs down to colours and sizes, it would be much more.

How do you handle inventory?

Seasonal items are being marked down at the end of the season. If products do not sell, we first keep them in the backrooms of the stores or take them back to the headquarters immediately. That depends on the volume. At the end of the season we take all clothes of that season back and store them here at the headquarters in sea containers. All boxes are labelled with the number of the store they came from so that they can be returned to that store in the next season. The second season that items are in the stores is the last chance for us to sell them. Otherwise we write them off and donate them or sell them at very low prices, e.g. to countries in Africa. We never throw anything away. Having capital tied up during the storage time of one year is more efficient for us than reducing the margins. Our margins are quite low already since we are a discounter focusing on volume. We have to penny-pinch.

What IT interfaces do you have?

Within the Zeeman network we use TMAS as IT system. That is also how we collect the POS data. We have changed and adjusted the software that much, though, that you can pretty much call it in-house developed. Our suppliers are not connected to that system. Actual purchase orders (PO) are placed manually because we often change suppliers and have a large number of them so there is a lot of fluctuation. Since our suppliers for 80% of our products are constantly changing, it is not efficient for us to connect them to our system. Costs for that would be too high.

How is sourcing organised?

We have buying agents who coordinate the sourcing process in the country of origin. They also follow-up the POs and inform us about the ETDs. Whenever products are ready for shipping, they get shipped according to the agreed ETD. The agents make sure that containers are packed efficiently because – again to safe costs – we only ship in full container loads. Any waste is money. Therefore, the agents even organise transport routes from one supplier to the other or that trucks meet on the highway and consolidate their freight. We now work on an IT connection between purchasing, finance, supply chain department and those agents. At the moment, the agents need to log onto a system to enter and view POs. That is rather an electronic order form which is less interactive than the system we are working on at the moment. The follow-up on the PO and the communication is too complicated at present. In the new workflow system, agents can communicate with us; it is less rigid, faster and more efficient. That system will also send out warnings if processes are not carried out in time. That means that we will not have to monitor processes and deadlines manually anymore. We can save time and effort and processes are more reliable. We will go live in 2 months.

What are the KPIs you are using to monitor the supply chain’s performance?

We monitor the occupancy of the stores because that determines the volume that we have to push through. We also monitor gross margins, sell-offs and inventory levels of NOOS. In the warehouse we
usually have a stock cover of maximum four weeks for NOOS and half a week for all other products. Availability is much more important to us than stock turn. That is due to the fact that we are a family-run company that is much more interested in sustainable growth and that is long-term orientated. If you look at private equity, they are always concerned about capital tied up because money could be invested more profitably elsewhere. We do not have that pressure. Also, the open-to-buy performance is a very important KPI because it shows what we are planning on buying. We need to match those figures with recent sales to reduce bull-whip effects of overcapacities which are a major challenge for us. We measure these KPIs and monitor them together with purchasing. We have a close collaboration because supply chain planning is the link between buying and the executional part of the supply chain.

**What processes do you think are most important for Zeeman to achieve its goals?**

I think that is purchasing together with supply chain management. If they fail, we have a major problem. What we buy is what we are going to sell. So if we buy the wrong products or if we buy at the wrong price with the wrong margin, we will not be able to make up for it.

**In what ways do you think Zeeman is a successful company? What processes contribute to that success the most?**

I think we are very successful: we have a very solid financial record. Look at our net earnings, for example; we never had any losses. What makes us successful our backbone: the triangle of logistics, purchasing and IT. It is not our stores because we are not located in the best areas, we do not have a fancy design and we do not have the best sales personnel.

**What is your company’s strategy?**

Offering good quality at the lowest price. In order to achieve that, we need to have volume because that gives you buying power and economies of scale. You have to have the lowest costs, lowest prices and best planning. If you do not, a competitor will.

**How do you think SCM contributes to Zeeman’s success?**

Reliability and availability of the supply chain are very important because if we have a promotion – and those promotions are planned some 6 weeks in advance – we need to have those products in store when the promotion starts. Promotions are promises to customers that you want to satisfy. I think a lot of companies underestimate the significance of SCM and what the impact of bad SCM can be. If you do not have products on time, if you have too much stock or if you are out of stock, the costs of that are huge. The biggest “costs” you can have are those of lost sales! I think that is still not obvious to everyone in fashion. At Zeeman you can see how important SCM is when you look at our position in the hierarchy. We are part of the board, strategically positioned below the CEO.

**What are the critical paths in your supply chain?**

Production is the most critical path because it is very complex and often subject to delays. The availability of raw materials is critical, for example. We do not really have a lot of influence on our manufacturers, like their production capacities for example. All processes that we do not have any influence on are critical. The planning process in the supply chain is the key to success. That is why we are investing in a new workflow system so that we can measure the performance of our suppliers and have more control over them. We will be able to see how long it takes them to produce, to check samples or whether they have enough raw material. The software will certainly increase the visibility in the pipeline which at the moment is more of a black box at the supply end.

**How has SCM changed for Zeeman and the fashion industry in the past?**

When I started at Zeeman, there was no SCM and there was a big wall between purchasing and logistics execution. You still see in many fashion companies that buying is dominant, does their thing and logistics and all other departments need to cope with it. Zeeman has changed a lot, though. We literally took the wall down, turned the whole floor into one office and connected our IT. Our SCM is much more strategic now and there is a much higher awareness of its significance.
Where do you see challenges for Zeeman in the future?

I think sourcing will become more difficult because of increasing prices of raw material and pressure on production capacity. If you look at India and China, the upcoming markets, they will take up huge capacities for themselves because their middle class is rising and consuming. Also the costs for transport will most likely rise, so closer sourcing markets will become more appealing. We are already looking for new sourcing areas in Eastern Europe and North Africa.

Where do you see growth opportunities for Zeeman?

Our network of stores in the Netherlands is quite dense but we only have 150 stores in France, for example. I think we have potential in Southern and Western Europe, like on the Spanish, French and Italian markets. Competition in Germany is too high with KiK, Takko and NKD. In Wibra traditionally is our competitor in the BENELUX. We also compete with department stores like Hema and grocery stores like Aldi and Lidl. Primark has just started opening stores in the Netherlands and they will definitely become a tough competitor for us. They have a very good mix of being low price and trendy. If you mix Zara and Zeeman, you get Primark. They attract a lot of people and will be very powerful. Our concept is a little different though because we target convenience. We are located where people actually live and that is our advantage.

What operations do you excel in?

We are benchmark in cost efficiency in our operations. We focus on efficient logistics and compromise on matching the exact demand in stores. We are also very good at automating systems and thanks to investments, our IT systems are state of the art. That enables us to achieve better results.
b) In-person Interview with Scapino’s Logistics Manager

Since 12 years, Geert Mulder works with Scapino. He is responsible for the physical flow of goods from harbours in Asia to the backdoors of Scapino’s stores in the Netherlands and Belgium. Geert Mulder supervises 85 workers in the warehouse and reports to the CFO. The interview was conducted on 11 July 2011 at Scapino’s headquarters in Assen, the Netherlands.

[Wiebke Dittert] What is Scapino’s positioning in the market?

[Geert Mulder] Scapino started off as a shoe retailer. Today we also sell clothes and leisure items like tennis rackets. We sell medium fashionable products for a mass market at compatible prices. We’ve got our own collection of basics but we also sell A-brands such as Adidas, Levi’s, Ecco, etc. Our major competitors are Dutch shoe retailers such as van Haaren which is part of the German Deichmann company, Bristol which belongs to the Belgian Euroshoe group, and family-run Schoenenreus. Even though the majority of people still associate Scapino with shoes, only 7 million out of the 17 million goods that are delivered to stores every year are shoes. The majority of goods sold are clothes, accessories and sports goods. Our competitors in clothing are rather small Dutch companies. Our share on the discount market in the Netherlands and Belgium is roughly 46%. The Netherlands are our main market. We target the Belgian market with our partner Brantano who is also part of the Macintosh group.

How are warehousing and distribution organised at Scapino?

We have got one DC which is located at our headquarters in Assen, the Netherlands. 75 workers work there. We grew rapidly over the past couple of years and started getting capacity problems with the facilities that became too small. Our mother company, Macintosh, decided to increase automation levels instead of extending the warehouse facilities. We bought new computers, new software and a new conveyer belt system and have plans to stay here in Assen for at least another five years. 17 million products leave the warehouse every year. We handle 42,000 SKUs annually, which makes 21,000 SKUs per season. We get delivery forecasts from our merchandise department that has an overview about the demands in our stores. We have got 29 stores in Belgium, 204 stores in the Netherlands and the online store. Every store gets deliveries twice per week according to a weekly delivery plan. Average time until goods are being sent from the DC to stores is 3 days. We are planning to lower that down to 2.5 hours by shipping four batches per day. This would lower down the time from our DC to the store from 5 to 2-3 days.

What kind of VAS do you carry out on-site?

In order to safe costs, we try to do all VAS at production sites in the Far East. At the Asian manufacturers, everything gets pre-packed for the European stores already. Goods are delivered in boxes according to the size of the destination store. We have got A-, B- or C stores and boxes. A is for stores with the highest sales volume, B is for medium volume and C for the smallest shops. An A shop would for example get 12 pairs of a certain style of a shoe. The box would contain different sizes based on our sales experience. That means that in the DC, we do not have to repack goods and do not have to do more handling with the boxes than booking them into and out of the system, putting them onto conveyer belts and shipping them out to the stores.

How is Scapino’s supply chain forward or backward integrated?

Scapino is forward integrated; our retail stores are wholly-owned. Even though we design 60% of the apparel and 15-20% of shoes ourselves, production is outsourced. Our manufacturers are located in Asia, mainly in China but also in Vietnam, India, Bangladesh, Indonesia and Pakistan. We order through the sourcing office of our mother company, Macintosh. The office is located in Hong Kong and the agents there find suitable suppliers and check the product quality for us. Before Scapino got taken over by Macintosh, we had our own suppliers and contacts.
How is Scapino’s supply chain organised?

We work together with a global freight forwarder, APL logistics, who delivers from manufacturers all over Asia to container freight stations (CFS) in the ports of Shanghai or Hong Kong. We operate with a two weeks shipping window: within 14 days after the PO has been placed, goods need to be sent to the CFS. So when APL Europe gets our POs which include the manufacturer’s name and scheduled delivery date they forward this PO to their office in Shanghai, where the supplier is notified. APL checks if the manufacturer confirms the shipment. If the shipment does not get confirmed, APL informs us and calls the supplier again a week later. This time, our buying department will also contact the supplier in order to increase pressure. Then, on the day the goods should be sent to the CFS, APL checks on the supplier again and informs our purchasing and this time also the logistics department if the order does not get confirmed so that we can react. But most of the times, suppliers deliver reliably. They are used to producing goods one to two weeks before they need to be shipped.

APL collects the goods from suppliers, brings them to the CFS, sends us a shipping suggestion that purchasing has to confirm. Then they ship it to Rotterdam which takes roughly 22 days. For the shipping on sea we have a contract with Evergreen. The shipping used to take 19 days but due to high fuel prices, vessels run on slow steaming, which means reducing speed in order to save energy. Rough weather conditions like storms can also cause delays in the delivery. The time from arrival and customs clearance in Rotterdam to the DC is usually 3-4 days but can take up to 7 days. Again we use APL for the forwarding from the port in Rotterdam to the DC in Assen. From there, depending on the delivery schedule and the location of the store but after a maximum of five days, goods finally arrive in our stores. So the entire flow of goods from the manufacturer to the stores takes roughly 42 days or 6 weeks.

What are the critical paths in this supply chain?

The main problem is definitely the on-time delivery of goods and documents. Suppliers cannot always deliver on time because they have got capacity problems, machine failures or a lack of raw material. The further we go to the back-end in the supply chain, the more difficult it is for us to control operations. In my opinion, control is one of the most important factors in order to make the supply chain work. This is why now we are as pro-active as possible in order to reduce these problems. We can even see what is going on in the factories. I could track if suppliers’ raw materials are being delivered on time.

What is also critical is the delivery of correct documents. When goods arrive in Rotterdam and do not have the right documents, they will not be able to go through customs and we will not be allowed to forward these goods to our DC or stores. In the past, suppliers would send us the documents and we would forward them to our 3PL. That took time. Now suppliers send documents directly to APL who forwards them to the authorities in Rotterdam. So when APL doesn’t have the documents 7 days after goods have left the Chinese ports, they give us notice because we need to have the documents five days before goods arrive in Rotterdam. When the documents are too late, goods will be late as well.

How do you measure supply chain performance?

In the past we did not really have any KPIs to measure the performance because we were profitable anyways. With the recession and increasing competition this has changed and monitoring KPIs has become much more important. Since we are part of Macintosh, we have started using KPIs and measure suppliers’ performance to see if we can find potential for improvements. We measure delivery on time and delivery of the whole PO. Partial deliveries are not accepted. We weigh all boxes and take quality samples to make sure that the content of the boxes is correct.

What are the developments in the supply chain during the past five years? How did and how do you improve operations?

Our biggest problem five years ago was that we did not really plan the shipment of goods. They would just be sent out by suppliers. So every time we needed goods for a promotional offer and they were too late, for example, we would have to pay extra to quickly get them to Assen and then from Assen to
the stores. We would also have to pay extra to schedule these deliveries separately from the twice-
per-week deliveries. That was very cost-intense. The supply chain has changed and is organised
much better now. The American logistics company Expeditors helped us plan our supply chain opera-
tions and increase the visibility along the pipeline.

Now we want to take the next step, where we can control the supplier even better and get warning
about delays even earlier in the supply chain. So when marketing has already designed brochures
with advertisements, we can inform them early and tell them to change the layout because on-time
arrival of goods is critical. Acceptance of the delay is of course no long-term solution and we need to
work on supplier performance but the warning system is one of the ways to react to the delays. In
general, we scrutinise our operations regularly and we know that we still need to speed up processes
in our own distribution centre. We want to change our distribution from 2 per week to 2 hours after
goods have been booked in our warehouse. So in future, we want to change from a static to a dy-
namic system.

Where do you see current and future challenges in the internal communication along the sup-
ply chain of Scapino?

At this moment our level of acceptance of delays caused by the suppliers is very high. I want to
change this so that the suppliers carry the financial risks of sending goods via airfreight. At the mo-
ment, the purchasing department is against this, though, because shifting the financial risks to the
suppliers would require very good negotiation with them. At Scapino as well as in many other fashion
companies, the purchasing department is traditionally very powerful. I think there is going to be a
change here. With the shortening of time to market and the PLC, on-time deliveries become more and
more important and difficult at the same time. That is why I believe that in future, logistics will be gain-
ing further importance in the fashion supply chain. It is possible that in future we [logistics] will be the
ones communicating with suppliers instead of the buying department. The problem with the purchas-
ing department sending out POs and controlling the on-time delivery of goods is that from the design
decision to delivery of goods to the stores it takes more than half a year. So when actual deliveries are
being scheduled, purchasing is already busy with sourcing suppliers for a different collection and has
different priorities. Another problem is that purchasing’s focus is on the style and price but not so much
on logistics terms & conditions when they negotiate with suppliers. Now, when the supplier’s delivery
is delayed, they call the purchasing who usually accepts the delay. If we could communicate with sup-
pliers directly, we could be much stricter. There is potential in the allocation of responsibilities and in
the ways we communicate internally.

How do you collaborate with internal and external partne-
s along the supply chain?

5 years ago, we did not look at the production sites of our suppliers. We only reacted on what goods
actually came in and then we needed to find storage space and send goods out to stores. We were
reacting. This has changed completely. The power has shifted to the front end of the supply chain:
today we are organising production in order to get everything into our stores on the date Scapino has
set. So now it is us who tells the manufacturer when we need certain goods in the CFS. In the past we
did not have the power or control to organise this. It would happen that we would get a call from our
suppliers who would ask us where we wanted a container load of goods that they had produced. To-
day we are much more organised, more strategic. You can see this in the incoterms as well: in the
past we bought LC, now we buy everything FOB, so that we know if goods are on time and so on.
When we have a delivery scheduled, we can see at a very early stage in the supply chain when there
is no booking at the manufacturer, for example. This is much safer when it comes to delivery dates.

In general, do you see a trend of a power shift from purchasing to logistics in the fashion in-
dustry?

There is certainly a general trend that we are lagging behind at Scapino. The classic fashion industry
is much further than the shoe industry which is still very traditional. Fashion leaders like Zara, for ex-
ample, have a time to market of a few weeks. In the shoe industry this is still 6 months even though
today, making 2,400 pairs of shoes doesn’t take longer than 2 days. We need to reduce time to market to be able to respond to trends. So in the future, we’re aiming at reducing this time to 6-7 weeks.

**Would you say that due to the increased transparency of the supply chain, the focus has shifted from a strict cost perspective to a broader view onto costs, time and services?**

Yes because the more efficient your supply chain is, the lower is the potential to improve it cost-wise. We still can and want to improve visibility, though. We track the on-time shipments of suppliers, for example. If suppliers deliver too late over a certain period of time or for several times, we can escalate the matter with managers of logistics and purchasing at Scapino and can try to find solutions like shipping per airfreight instead of going by sea transport. The extra transport costs have to be paid by the supplier. If we can’t find a solution and performance does not improve, we will have to change the supplier.

**What are the values and the vision of Scapino?**

At Scapino we work with passionate drive (we love what we do), pragmatic smartness (we find easy but clever solutions), straight talking (we say what we think), human ease (we respect each other), customer focus (we put the customer in the centre of all activity) and we’re aiming at being surprising beyond (low prices, good services). Our purpose is to provide smart buying for smart people. Our vision is making life easy through smart trends-lating which is copying trends from upscale brands. We’re not a fashion leader, we’re a fashion follower. We want to remain market leader in shoes and sporting goods. We’ve got meeting two times per month in which we discuss if we are working according to these standards.

**How did the market environment change in the past and what does that mean for your operations?**

Consumer behaviour is very difficult to predict nowadays. It is hard to foresee when, why and what customers are going to buy at Scapino. With the internet customers can now search for a shoe online and compare prices and styles at every shop before making the final buying decision. They might decide to buy at Scapino but they might as well find a suitable shoe online or at a competitor’s store. Dutch used to buy from Dutch stores but online the world is flat and people can now easily buy in the UK or in the USA. I can see this development at home as well: My own sons buy video games from Singapore or China, for example. The market changed with the new generation that grew up with the internet: their market is the whole world. So even though we’ve only got shops in the Netherlands and Belgium, online we’re now competing globally. I think in future, customers won’t buy in stores in their area anymore but online because everything gets delivered within 2 or 3 days.

**What is Scapino’s competitive advantage then?**

Five years ago it was easy to pin-point the price-quality-combination as Scapino’s specialty. But now with the internet competition has changed and we compete not only locally or nationally but also globally and with online stores. Our advantage today is that we are part of Macintosh. We have got several other shoe companies in the group so we can combine purchasing volumes and gain economies of scale. That fits in our strategy of cost-effectiveness. The focus on competition will still be on price and quality. I don’t think that will change. Combining activities in the group offers a lot of potential in order to compete with cheaper online retailers.

**How do you measure success at Scapino and in your supply chain?**

I think we use profit, the number of stores and speed of expansion as general indicators for success but I am not sure. We also measure customer satisfaction through surveys. In the stores we measure how many customers came into a store, how many of them bought products and for how much. We also have a mystery shopper that checks every store twice per year to see if stores are clean and service is good. In the supply chain, productivity is an important success indicator. We mainly look at working hours and throughput in our DC. Since we’re a discounter, we’ve got a strong focus on efficiency.
How do you support Scapino’s success with logistics?

By increasing the visibility of the pipeline and shortening time to market better meet customer demand. Also, we save costs on the transportation side with our contracts with APL and Evergreen and with automated and efficient processes in the DC.

Where do you see growth opportunities for Scapino?

Our average store size is 800sqm but there are hardly any places left where we can open such big stores or where we would attract enough customers. We started building stores of 350sqm in smaller towns to increase our network density and to attract a new group of customers. This change in strategy has no impact on logistics, however.

How do you rate departments’ contribution to SCM and vice versa?

From my perspective, the supply chain means the physical flow of goods. It’s not so much communication but the question about how can I get deliveries on time and how can I improve visibility. Thus I think the contribution of personnel, IT and logistics to SCM is the highest. The departments that are dependent on our collaboration on the other hand are mostly sourcing, sales and marketing.

How important is sustainability in logistics?

Stakeholders, especially consumers put a lot of pressure on us to improve the sustainability of our processes. Sustainability is certainly gaining importance. For example, we offer customers to take back their worn shoes. We send them to developing countries where the shoes are being used a second time. At the same time, we have got NGOs controlling us to check if we are using child labour or if working conditions are acceptable. In logistics, we had to send containers back a couple of times because the smell of rubber and glue from production was so intense that we couldn’t have any of our workers unloading them. Now containers are being ventilated. Using recycled materials is also an issue but for Scapino it is too expensive to use those materials for now.

What operations do you consider Scapino to be setting benchmarks in?

When I meet colleagues from other companies and compare our operations to theirs I can say that we excel in supply chain visibility within the shoe industry. We worked together with Expeditors who analysed our operations and then optimised and reorganised our processes. The power of the supplier was much too high in the past. The only thing I was worried about was my operations in our DC. Today this is much better. Now I am responsible for all processes from manufacturing till delivery to the stores. We discuss efficient supply chain solutions and the view of logistics has broadened; the supply chain has developed and is much more strategically aligned. We changed from a supply-driven market to a demand- and cost-driven pipeline.
Appendices

c) In-person Interview with Scapino's Merchandising Manager

Egbert van den Berg works with Scapino since more than 25 years. He is responsible for the commercial product- and flow planning from supplier to the stores. Egbert van den Berg supervises 15 employees and reports to the purchasing manager. The interview was conducted on 11 July 2011 at Scapino’s headquarters in Assen, the Netherlands.

[Wiebke Dittert] Could you describe the tasks of your department and the organisational structure of Scapino?

[Egbert van den Berg] Scapino is part of the Macintosh Group. The management team of Scapino consists of the CEO, CFO, the purchasing and the sales manager. Management services include logistics, personnel & organisation, ICT and finance. The sales manager supervises the area-, regional and store managers. The purchasing manager is responsible for the 7 buyers and their assistants as well as for merchandising which is my department. Merchandising is divided into store and product merchandising. Store merchandising allocates products to stores and organises replenishments. Three factors determine that supply of goods: turnover potential of a store, available space in the store and DC capacity. Product merchandising assists and advises buyers on quantities and product selection and collection. Based on the results from the current and last year and future expectations on fashion we forecast future demand. We then advise the buyers on how much to buy and they usually follow our recommendations. We are not responsible for their final decisions, for sales or for margins, though. We also monitor performances of products and prices.

What operations does Scapino put an emphasis on?

You have to understand that in the fashion industry and especially at Scapino, the buyer is the most important person, not the marketer or designer. This emphasis can best be shown by the amount of people working in purchasing and merchandising: 40% of the staff employed at the headquarters is in purchasing and merchandising. Marketing is responsible for catalogues and for producing commercials and advertisements. Of course they are also doing some research but marketing and purchasing are not directly collaborating. The “real” market research for coming collections is done by the buyers and stylists. We are a retailer that buys and sells products but does not set trends with own designs. We are a fashion follower, not a fashion leader! So buyers need to know what is happening on the market and what is going to be in fashion next year so that they can buy accordingly. Purchasing sort of invents the company every season by buying products.

What KPIs do you use in your department?

We look primarily at sales, turnover, margin, stock turn, average stock and aging degree of stock. Normally we have stock from three seasons: current season, last season and the fore-last season. Each season we need to sell out the old stock so we also monitor that performance.

What do you do with old stock then?

We sell everything that’s older than 1.5 years at reduced prices and through our stores. At the end of August 2011, for example, the products of summer 2010 should be sold. If not, we lower prices to such a level that pretty much anybody would buy it. We never sell anything to another country, another company or trash anything. We sell everything!

What are major interfaces that you have in the company, what people do you primarily work with?

The collaboration with buying and sales is very close due to the reasons explained before. We also work closely together with logistics. Other interfaces are e-commerce and the maintenance & building departments. Maintenance & building buy, rent, sell and plan new stores. When we open a new store merchandising is responsible for the assortment in the new shop which is why we also work with that department.
How and how often do you forecast sales?

We forecast sales 4 times per year. The challenge is to anticipate fashion. Take wave boards, for example. Two years ago you hardly saw them in the streets in the Netherlands, now they are all over the country. According to our forecasts we adjust the budgets for products. We want to increase our market share in comfort shoes, for example. So with advertising we are promoting those articles and increase the number of offers. Therefore, our budget for comfort shoes will of course be bigger than the one for trekking shoes. We set budgets and make sales forecasts twice per year and check after 3 months if we are still within those targets. If sales or budget deviate too much, we adjust our plans and take action, e.g. reductions, in order not to run out of stock or store too many goods. Usually we stay within the targets, though.

What is your time to market and how do you plan seasons?

It takes us 6 months from making a buying decision to the delivery to stores. We are now already buying for summer next year and expect the first delivery by November. We do not store goods in the DC for more than a week but we try to do cross-docking with 15 trucks per day. It’s in and it’s out. Products that are delivered end of November have a sales opportunity in December, January, February and March. We start selling summer clothes in January already. We used to start with t-shirts in March but the market has changed. We even sell shorts in February now and because the weather was really good this spring, sales figures were very positive. But you never know. If it is colder early next year, shorts will not sell that well.

How do you collect sales data from stores and how do you plan replenishments?

Every night we get data on sales, bestsellers and margins by store, group and articles via our own software. This ERP system has been developed in-house over the past 10-15 years. So when I enter the office tomorrow morning, I will have the data from today and can compare the performance over time. We have got warning systems and indices, which means that whenever figures exceed certain values, which can be good and bad, they trigger an alarm in our system. If we sell more products, we will have to adjust the purchasing budget and have to make sure that goods for replenishment get delivered faster than planned. We analyse figures weekly. If items sell badly, we lower prices. We have got a system for that, which suggests price reductions based on the time goods spent in stores. For example, if products are not sold for 2 weeks, we get a warning. We measure this by total stock because 70-80% of items in stock are in the shops already. We do have some products that have replenishment levels but most goods are being sent at once from the DC to the shops.

What are major trade-offs and challenges your department has to deal with?

Our big problem is delivery times. We are so focused on costs that delivery times often get out of sight. We need to be fast and keep costs low at the same time. For the coming years, keeping the speed up and reducing delivery times will be crucial. Our time to market of 5-6 months is too long and should be lowered to maximum 2-4 months. Clothing companies, e.g., buy products with delivery times of 5-6 weeks. Scapino is not there, yet. We need to get there, so that we can buy later and so that we are closer to customer demand because we will know what is in fashion. The shorter the time to market, the higher the chance of being successful in selling a product.

How are you planning on reducing this gap?

In Macintosh we have a global purchasing department and buying agents. All subsidiaries of Macintosh, like the retailers Hoogenbosch and Brentano, have the same problem with speed because we all source in Asia and need to get everything shipped to Europe. Therefore the Macintosh buying department is trying to make agreements with suppliers about pricing, time delivery, collection who benefit all companies.

Have you thought about relocating production and about sourcing closer to the Netherlands?

Yes, you need the opportunities, though. At the moment, we look at a couple of suppliers, e.g. in Portugal, but one of our problems with changing suppliers is Scapino’s size. We do not just order 500 but
3000-5000 products at a time. That is often too much for the capacities of production companies in Europe. They can do large quantities but not such high quantities that we need. For now, we have not found the supplier that can deliver the quantities we need in 5-6 weeks. In order to increase our negotiation power and to speed up processes, we want to consolidate orders on Macintosh level with other subsidiaries. So we are trying to combine our sourcing activities to find suppliers that can deliver large quantities in a short period of time. Their quantities are lower than ours, though. They have formats with 30-60 shops but we’ve got more than 200. So the quantities are different.

If you compare SCM operations from 5 years ago to today, what has changed, what were the challenges and what are today’s challenges in SCM?

5 years ago we had already off-shored production from Europe to Asia. We are always on the hunt for the best deal. Today we source in Asia but are looking for opportunities to shift sourcing back to Europe again because of time-issues. When it comes to organisation, our planning system is much better today. That is mainly due to a stricter focus on strategy and improved ICT. Also, we now have a shipping partner who manages and tracks deliveries so we are using the expertise of external partners. Finally, the visibility has increased and we are sharing data along the supply chain. Overall, the cooperation is much better.

Why has the importance of the delivery time increased over time?

The emphasis on time is much bigger now because the PLC has become shorter, too. That means that when deliveries have delays, the time that we have to sell goods is also much shorter. Products are quickly out of fashion, trends are replaced by new trends. Costs are still important but even if costs are a little higher we can still make enough profit with a good product as long as we get it on time. So sometimes it is worth paying extra to get goods flown in in order to reduce time to market. All our competitors have the same problem: time.

How do you live and work by Scapino’s values?

I was part of the development team in 2003 so I strongly work by them. I am definitely passion-driven in what I do. I always want to do more work in less time, I like finding low-cost solutions that can be adapted easily. Another important point is the “straight talking” and “customer focus”. The customers’ needs are the way to success. To be “surprising beyond” is the most difficult value to work by or to achieve, though. Surprising customers or co-workers every day is almost impossible but does not mean that you cannot try.

Where do you see Scapino’s competitive advantage?

In the past that was easy to define: good products for a good price. We did not necessarily have the lowest price but a good price. At present it’s very difficult to define Scapino’s competitive advantage. A lot of competitors have the same strategy and the business environment has changed. We now compete with discount supermarkets like Aldi and Lidl and gardening and DIY stores like Tuinland and Praxis. They sell shoes at even lower prices and margins than us because they use shoes for attraction purposes only. They make profit with their regular products. Still, I would say that the main reason to buy at Scapino is the combination of product quality and price.

How do you think is Scapino successful? How do you measure success at Scapino?

Every year we do market research. We measure brand awareness which is currently around 92% and we estimate market shares by analysing 10,000 sample customers. Both figures are very positive. We also get judged in external employer rankings and do exit interviews. That means that we ask customers about their shopping experience at Scapino. Of course we also measure turnover and margins, EBITDA and employee productivity. I would say that Scapino is successful in turnover, sales and EBITDA as well as in employee and customer satisfaction. The latter is important because when you have got satisfied customers you know that they will come back in the next season and boost your sales.
How do you and your department contribute to Scapino’s success?

Every day we do our utmost. We constantly improve processes and review them every half year, sometimes every three months even. Retail is detail! So with sales, IT and purchasing we always check what we do and what we can do better. We check if we reached the goals that we had set us 3 or 6 months ago. If we have not achieved them, we check why and react. Checking our performance regularly is very important in order to achieve goals. We directly contribute to the company’s success by supplying every shop with what they need, i.e. what they will sell. If shops do not have stock that they would not be able to sell, we have less capital tight-up and higher margins because we do not have to reduce product prices.

What departments do you think contributes most to the success? What do you think is the contribution of a good SCM?

Purchasing is the most important department at Scapino. If they would buy the wrong products over a couple of seasons, we would be bankrupt. Sales are also important because they are our interface to the customers. We need to establish a supply chain thinking from sales to buying, though, and include IT. We need to work even closer together and tell each other (department-wise) what we should do in order to make operations easier for each other and finally more efficient.

Are you good at controlling demand variability?

Creating logistics advantage through controlling variability in demand is a problem because the demand needs to be considered at the end of our chain. And additionally to trends, demand varies a lot due to weather conditions which are unpredictable for us. If purchasing buys too many products, logistics has to deal with it without having an influence on the volume.

What operations do you consider Scapino to be setting benchmarks in?

We are very good at low cost operations; we live the “pragmatic smartness” anchored in our values. Our logistics cost are therefore very low.
Appendices

d) In-person Interview with Hunkemöller’s Logistics Manager

Hans Hoefnagels works with Hunkemöller for over 30 years. In his position as logistics manager, he is responsible for all inbound processes to the DC, warehouse operations and outbound operations. Hans Hoefnagels supervises 120 employees and reports to the CFO. The interview was conducted on 15 July at Hunkemöller’s headquarters in Hilversum, the Netherlands.

[Wiebke Dittert] What are your KPIs in logistics?

[Hans Hoefnagels] We measure stock availability of NOOS which account for 35% of turnover. They should always be available in stores as well as in the DC. We also monitor on-time deliveries and DC productivity, like picks per employee and hour or the success rate in freight loading.

How would you describe your supply chain?

85% of products, which account for 50% of the flow volume, are sourced in Southeast Asia. We have around 80 suppliers, mainly in China but also in Indonesia, India and Bangladesh. All our POs are forwarded to our service provider Damco in China who is responsible for the delivery from suppliers in Southeast Asia to the ports in Shanghai or Hong Kong. It is important that the 3PL looks after the container utilisation which is currently around 95%. Orders that fill less than one container are sent to a CFS before loading where orders are consolidated to full container loads. 14 days before scheduled shipment, Damco checks if orders are in time for booking and if orders get confirmed by suppliers. If they cannot be booked, we get a message that we will have to take action. That means that we might have to make a decision if we want to change from sea to airfreight which is probably the case in 5% of shipments. Everything gets shipped FOB in full container loads to Rotterdam. That takes roughly 21-28 days. Once a vessel has left the harbour, we get information about the content of the delivery. From Rotterdam, 3 different service providers bring 20-30 containers per week to our DC in Hilversum. Actual time of arrival is 1-5 days. The forwarding to our stores depends on the delivery schedule and can take between 1 and 5 days. We distinguish between NOOS which are 100% replenishment and fashion items of which 75% are unique orders and 25% are being replenished out of the DC. We have got 35,000 SKUs of which we hold 5,000 in the DC. All others are kept in store. 32 million products are handled in our warehouse every year. Within the Netherlands we deliver to stores with our own trucks and drivers. In all other countries we use service providers. In total, the shipping of goods from suppliers to the DC takes roughly 40-45 days.

What are currently the major challenges for your operations?

The availability of containers and on-time deliveries are our biggest problems and we need to chase our service providers. Our big advantage is that we only sell our own brands so we have control over our suppliers and have greater chances of getting goods to our stores on time. We plan one year ahead and when we have a new collection, time to market, including design, sampling and sourcing, is 5 months.

How do you share information across the supply chain?

Our 3PL gets POs with all information about the supplier, articles, delivery dates, etc. Hunkemöller gets information about the container load and additional information like supplier performance and TEUs per harbour, or kg for airfreight. It is especially important for us to monitor suppliers’ performance. If a manufacturer sends us an invoice for goods that have not even been delivered yet and we pay the bill but will not get the products until 3 months later, that would of course be disastrous for our working capital.
What main interfaces do you have internally and externally?
We work with our 3PLs, customs our print partners for the labelling and our personnel, IT, finance and sales departments. HR is important because they ensure that we have the right people at the right place.

What are the critical paths and challenges in your supply chain?
Contracts with our freight carriers about space guarantees are subject to negotiation and are critical. We need an assurance that they have the capacity for our deliveries so that they do not get postponed which causes delays.

What changed if you compare the development of the supply chain over time?
The supply chain has changed a lot! Today, logistics’ responsibility covers all processes from the back-end, the supplier, all the way to the store and our customers. In the old days, we would only be responsible for the transportation and distribution. Everything became much more strategic and organised over time. Since April 2011 we have a supplier manual that specifies everything about the cooperation from the sample procedure and product specifications over labelling and packaging to communication channels. Our suppliers are much better integrated into our processes. They can, for example, access our order portal and view the POs.

So has the visibility within the pipeline increased as well?
Yes, definitely! We know where goods are at any stage. The whole warehousing processes and inventory levels are much more accurate and up-to-date thanks to ICT. We also connected the information channels of our stores to the warehouse to monitor stock. For now we use barcodes but are planning to change to RFID within the coming two years.

What are the reasons for the increased strategy orientation in SCM?
That has to do with money. Take bras, for example, which are our backbone article. 1 basic bra design can equal 40 SKUs due to different styles and sizes. If we want to send those items to our 500 stores you can imagine how difficult the right allocation of products is. Also, the longer we store goods, the longer they are simply tied-up capital. So the better the SCM strategy, the better we match what we actually need in the stores and the lower we can keep costs.

What do you consider the most important operations at Hunkemöller?
We put an emphasis on planning and merchandising processes which is reflected in the manager being a board member. These processes are important because it is where we plan the product level by store and where we match or mismatch the demand. Our stores are divided into top-stores, mid-stores and all-stores. One of our most important figures is the sell-off percentage. This KPI measures what we have sold after a certain period of time.

What do you think is SCMs contribution to Hunkemöller’s success?
I think SCM contributes enormously! Our job in logistics is to carry out the strategy of the merchandising and planning department. So I would say that we enable success. Our goal is to keep costs in the supply chain low. Keeping delivery times short and inventory levels low are two important factors to achieve that goal. If we have high inventory levels we will need much more markdown % in order to get rid of stock. The higher the markdown, the lower the EBITDA. We lowered our stock age clearing stock after it has been in store for half a year. We sell those products with a 30% discount on the initial selling price through high-end outlet malls in Germany, Belgium and the Netherlands. We also send goods to high-street outlets and we do factory sales. On the other hand, we cannot afford 0 stock levels either. Over the past two years we have improved our stock availability and accuracy and decreased of stock levels at the same time. Especially in the NOOS, we went from a stock cover of initially 12-13 weeks down to 6 weeks. With improved ICT high we could reduce safety stock. Now that the intelligence of ICT increased, we can work much more efficiently. We also had external people
advising our staff and improving processes. We are convinced that these SCM improvements were an important factor that led to our EBITDA increase of 30% over the past two years.

Some companies still discuss to put supply chain topics on the agenda of board meetings. For us that is out of question since these subjects are one of our priorities. We discuss the performance of the previous and current week and the plans for the coming two weeks every Monday morning. That way we are always up-to-date and can react quickly. We will soon introduce Torex as a new interface with SAP. That will help us improve stock capacity planning even more. We use SAP since 10 years already but their planning tool is not sufficient.

**What are major trade-offs for your department and what are the solutions?**

Availability in store is the biggest challenge. If you do not have NOOS in store, you lose customers. We have got an SLA with suppliers that specifies general purchase conditions, the code of conduct, packing methods, sampling procedures, fines for delayed deliveries etc. This SLA also states that suppliers need to keep a certain amount of products in stock so that we can replenish quickly if our sales are unexpectedly higher. In the worst case scenario we decide by product if goods have to be flown in on our account. This is very expensive so the trade-off is availability versus costs.

**How do you deal with uncertainty and variability?**

About 50% of our total flow is replenishment which can be forecasted to an extent. We deliver replenishment items to stores twice per week. The amount of goods that needs to be shipped is calculated automatically by SAP. On a daily basis and with fashion goods, however, if actual demand differs, dealing with variability is difficult. One way to deal with variability is employees that can work at flexible times.

**How would you define Hunkemöller’s success? What are the main drivers?**

When PAI bought us they paid a very good price for us. As private equity, the company’s value is always a very good indicator and apparently our value is very high. Our vision is to be the best lingerie specialist in Europe. Our main drivers are a good strategy, performance monitoring and the improvement of processes supported by ICT and multi-channel retailing. For instance, our member cards which we introduced 3 years ago are used by 1.5 million customers. Customers are informed about sales and new collections and they get special offers which are good for customer loyalty. The use of social media also gains importance.

**Where do you see trends for SCM in the fashion industry?**

Corporate social responsibility will gain importance. The reduction of the time from design to stores and relocation of suppliers closer to Europe will also be issues. We are looking for suppliers closer to our market. We are searching in countries like Turkey, for example. We want to reduce the time to market as much as possible but that always has to be in balance with the increased production costs.

**How does Hunkemöller gain competitive advantage through SCM?**

Main factor is the cooperation along the supply chain. We have got regular workshops with our buyers and our suppliers in the Far East to make them understand why we ask them to do things a certain way. We sometimes have to change the labelling or packaging for just 4 franchise stores. So you can imagine how much of an effort that is. So the better we work together with purchasing and suppliers, the more efficient we can face those smaller or bigger challenges. We also share delivery forecasts with them and plan strategically. Respect and appreciation are also very important in this cooperation. There is potential to improve this cooperation but the potential is much less than it was a couple of years ago. We are very good at monitoring our own processes: costs, utilities, etc. We have got daily team meetings of 15 minutes to discuss our work. We also have less frequent meetings during which we discuss continuous improvement processes, open points and other things of concern. Continuous improvement is very important for SCM’s and company’s success, I think.
What do you think will be the challenges in the future?

E-commerce, improvement of store performance, marketing niche products and customer service will be most challenging for us. The company is more than 100 years old and we have got staff that has worked with Hunkemöller for more than 20 years. It is difficult to change their attitudes or convince them of new fashions or working styles. It happened, for example, that a certain collection did not get presented in store because employees did not believe in it. For our regional managers it is difficult to control all 20-30 stores that they are supervising.
e) **In-person Interview with Hunkemöller’s Financial Manager**

Hanno van Vuren works with Hunkemöller for over 12 years. His department makes investment analyses, writes the annual report, does strategic calculations and controls the annual as well as the 5-year strategic budget. Hanno van Vuren supervises 6 financial controllers and reports to head of finance and controlling. The interview was conducted on 14 July at Hunkemöller’s headquarters in Hilversum, the Netherlands.

**[Wiebke Dittert]** Please describe the background of Hunkemöller’s takeover by PAI.

**[Hanno van Vuren]** We were part of the Maxeda group before we got taken over by PAI in 2010. Maxeda had developed the company, increased profits and sold Hunkemöller just like V&D, Bijenkorf, M&S Mode etc. because they had added value to the organisation and wanted to cash this added value. That is normal for private equity. And now we are again in the hands of a private equity company so I guess in 5 years we will be sold again.

**How would you define Hunkemöller’s business environment?**

We offer fashionable and affordable lingerie. We target the middle class but we are trying to move more upmarket. We have got 200 stores in the Netherlands including 62 franchised stores and 33 shop-in-shops at V&D. We have 85 stores in Belgium and Luxembourg. Our network of stores is quite dense and there are hardly any white spots or opportunities to open new stores left on the map. In the long term, our main market is likely to be shifted to Germany because of its potential. At present, we have got 130 stores there, including 8 shop-in-shops at the department store chain Karstadt. In the BENELUX countries, we have got a 15% market share; in Germany our market share is probably around 2%. Our main competitors in the Netherlands are local stores and Dutch chains like Livera, V&D and Bijenkorf. In Germany specialty stores like Hunkemöller are not very common, so competition is different. Palmers has a similar format as Hunkemöller, though. In the more southern countries we compete with Women’s Secret and Etam Lingerie. In those countries, our market share is lower than 1%; we have got less than 20 stores per country. We have got online stores in the Netherlands, Belgium and Germany which generate 3% of sales. This is likely to increase in future.

**Why did you open stores in quite exotic markets like in Curacao or Saudi Arabia?**

We have got franchise stores in Egypt, Saudi Arabia, Poland, Russia and the former Dutch Antilles (Aruba, Curacao and Sint Marten). A few years ago, we had plans to accelerate the expansion and enter new markets. But since we neither know these markets nor their customers we used franchise partners. We were actually just looking for reliable partners not really for certain regions. So if a partner’s concept sounded good, we agreed. It was not that we really wanted to go to Saudi Arabia it rather happened by accident. Now we are busy with South Africa, for example, which is also far off our key markets. We do not have a strategy to develop certain regions; it always depends on where the franchise partners are located and where they want to go.

**One would think that Saudi Arabian customers, for example, are more conservative... do you produce differently for those markets?**

No. The contrary is the case, actually. We do sell less of our basic NOOS collection to those countries. Customers over there rather buy fashionable items.

**Where do you see growth potential for Hunkemöller?**

We see our biggest growth potential in opening stores all over Germany. The market is huge compared to the Netherlands and at present we have almost half as many stores in Germany as in the Netherlands. A big city here is a small or average sized city in Germany. In 2000 we broke even with our German stores and now we are becoming more and more profitable. In the past we targeted the area around Berlin, the North and the West of the country. Now we will be moving further south. Product-wise, we will try to increase our sales of larger sizes, especially for our core-product – bras. We
understand ourselves as a specialty store but up until now, we did not have a sufficient offer of larger sizes. We are trying to change this.

What are Hunkemöller’s KPIs?

We are driven by our strategy and our KPIs derive from it. We mainly look at sales, net margin (absolute and in %), expenses & profit. We have also got these indices for our stores that show the actual, levelled performance. We split our stores in (1) like-for-like which are stores that were open all year round last and this year. These are the majority of stores and thus most important. In-growth stores (2) are the ones that opened last year and operate fulltime this year. Expansion stores (3) are stores that opened this year. And finally, there is (4) e-commerce. We also monitor in-take margin, price range, number of visitors per store, market share, conversion of visitors to customers (how many people who visit the store actually buy something), productivity of stores (sales by employees per hour), number of openings of new stores, net sales, EBITDA, CAPEX, brand awareness, use of our member cards (how many products per purchase, how often are cards being used, basket value, etc.). Today, almost 70% of sales are gained through customers who have our customer card. Every month we send our KPI report to our investors.

What interfaces do you have with stores?

We directly control the performance of all wholly-owned stores. They are the ones reporting to us. The international franchise stores report basic figures about their performance to our franchise department but they are not obliged to report to us. At the end of the day we only need to know how much they want us to deliver to their stores. That is also a way for us to measure their performance.

What interfaces do you have with SCM?

From our (the financial) perspective it is important that we do not reduce product prices too much in order to keep margins up. Getting products at the right time at the right location is actually our main focus to achieve our targeted margins. Our merchandise & planning department forecasts sales and delivery quantities, logistics need to plan warehouse capacity and distribution accordingly. The challenge is to level high sales of successful products with lower sales of less popular items. With logistics we also monitor the productivity of the warehouse, e.g. processed items per hour or stock level of NOOS. Fashion items are being cross-docked, only NOOS get stored. We also investigate age of inventory: We compare the sales of products in store and if they do not perform well over a certain period, we reduce prices or sell products in outlet stores. Another important KPI that we need to keep track of and that we discuss with purchasing is the intake margin, i.e. the difference of the purchase and the original selling price. The intake margin gets calculated with the originally set selling price as opposed to the net margin which is calculated with the actual selling price that might include reductions. Close collaboration along the supply chain is very important for us in order to achieve our goals. We try to make processes more professional and improve them constantly. Every month I discuss all numbers with logistics.

What do you think is the contribution of SCM to other internal operations and what is their support to SCM?

Design has quite an influence on SCM because if the collection is good, we sell well, the age of inventory and the amount of tied capital are lower, we have got a higher stock turnover, etc. The impact of supply chain management is very big. Actually every mistake in the supply chain process will probably end up in costs due to reductions on the selling prices.

What operations does Hunkemöller focus on?

Purchasing is the most powerful department because they are responsible for the collections’ success and the margins. Merchandise & planning is also very important because they decide on the purchase volumes and allocation of products to stores.
What are the major trade-offs for Hunkemöller?

Quality is very important because it is our calling card. Customers only come back if they are satisfied with our products and services. So we test our products extensively and usually do not have problems with product quality. Time is much more important but because we source in the Far East this is difficult. We need to ship for low costs so we cannot just fly clothes in by plane. It is always a challenge to balance time vs. costs.

What has changed in SCM during the past years?

The period from sourcing till selling and thus the supply chain has become much shorter. It takes us a year from making the sourcing decision until a collection is in stores. But we need to make sure that we do not miss a trend. Customers are more fashion-orientated and individualistic today because they are much more exposed to information about trends and because fashion is a way to express who you are. It is not that customers necessarily buy what we put in store. We have to match demand by keeping up with trends. With the internet and social media, bad news and dissatisfaction also spread much faster than in the past where we only had newspapers. So that is an additional risk or pressure.

How do these trends and changes influence your and Hunkemöller’s work?

The shortening of the chain has put pressure on the manufacturers and the entire pipeline because of a lack of time buffers. In the past, a week’s delay did not matter that much because the entire delivery process took much longer than today. But now a week is much more in relation to the entire process. You can say that the supply chain has become more vulnerable. The positive side for me is that there is less tied capital, i.e. less money involved in the chain. From the financial perspective, that is a good development but cost-efficiency that I mentioned earlier still is a big challenge.

How did and does Hunkemöller perform?

Last year we broke all records. That was partly because business during the financial crisis was not too good so of course in comparison to the years before our performance was better. Our EBITDA was the best we have ever had, even when compared to the years before the crisis. The reasons for that? Of course, the collection seems to have been good, we matched the demand and had very high sales. But we also improved our margins and costs were in control. That had great impact on the EBITDA, too. This year business goes up and down. The past five weeks have not been good at all. We should be selling swimwear at the moment but the weather is very bad and sales lag behind. Our expectation is that the second half of this year will be better than the first. We still make good profits, though, and we are very successful when it comes to margins and EBITDA. Our intake margins are very good despite high cotton prices and increasing manufacturing costs in our sourcing areas.

How did you increase margins?

By slightly increasing selling prices, by lowering the number and amount of reductions and markdowns and with EOS. We have a large number of stores and high sales compared to competitors. Our purchase volume is getting bigger every year and we have a very good negotiation position by now.

What were the challenges for fashion SCM in the past and where do you see challenges in the future?

In my opinion, fashion SCM is all about planning. You need to have the right amount of the right product in the right location at the right time. In every industry’s SCM that’s a challenge but when combined with the unpredictability of fashion demand and the speed of changes in trends, that becomes a real challenge. What we changed in the past is that we increased stock in the DC but decreased stock in the shops so that we can allocate products to the stores that sell better than others. That helps to keep markdowns low and the margins up. In my opinion, our markdowns are still too high, though. The better we plan the less reductions are needed and the better the margins because when sales are declining and stock is increasing the only way to respond is with price reductions. SCM has control over planning and inventory levels and I think their strategic planning will gain importance. Also, in future
we will probably need to make more regional design differences in order to match demand even better.

**Where do you see Hunkemöller’s biggest challenge?**

Planning and controlling demand variability is most difficult. Now that we hardly sell any swimwear due to the rainy weather, we will most likely have to give discounts to clear stock. We have got two months to sell everything because nobody is going to buy swimwear later. You cannot predict the weather and once you have ordered a product or already have it in store, you cannot return it to manufacturers. We adjust our budget planning five times per year: twice in the first half and 3 times in the second half because we are then already getting closer to the plan for the coming year. And of course when business is going really well or really badly, we adjust our forecasts in between. For coming years, our expansion plan will be our biggest challenge. We will open a lot of stores in Germany, but we will also enter new markets. Of course planning and controlling this expansion plans will also be a big challenge.

**What is Hunkemöller’s competitive advantage?**

What makes us special is our price/value combination that we achieve with EOS and our unique concept of being a specialty store with a high service level and helpful personnel.
f) **In-person Interview with Hunkemöller’s E-commerce Manager**

Marco van der Hulst works for Hunkemöller since 2009. He is responsible for the technical operations of the online shop and the home deliveries. Marco van der Hulst manages outsourcing partners and is the link to internal merchandising and logistics operations. He reports to the sales director international. The interview was conducted on 15 July at Hunkemöller’s headquarters in Hilversum, the Netherlands.

[Wiebke Dittert] Please describe your work and Hunkemöller’s e-commerce.

[Marco van der Hulst] We have a web shop for the Netherlands since 10 years, since 1 year for Belgium and since 2 years for Germany. We outsourced transportation and distribution for the web shops so we do not have any information about the shipments ourselves but get them from our partners. In Germany we use Hermes for the transportation; in the Netherlands we use Selektvracht for the shipping. Hellmann Logistics is our 3PL and manages everything from warehousing over routing & scheduling of home deliveries to the return of goods. We get a report on sales through our web application to our ERP system. We only get anonymous data about sales and returns sent to our SAP. Our main KPIs are the turnover of the web shop and Hellmann’s stock level. In Hellmann’s warehouse in Osnabruck, Germany, inventory for the web shop is kept separately from the inventory for our stores which is kept in our DC in Hilversum. All customers of the online store, including the Belgian and the Dutch ones, are served through that German warehouse. Our suppliers already wrap products for e-commerce individually. Those products go through our DC in Hilversum before they are sent to Osnabruck. We do not have to handle them any further. It is only when goods are sent back to Hilversum that we have to unpack them. Working with a 3PL was a strategic decision because we see Germany and especially the online store as a growth market. The cooperation with Hellmann helps us to focus on more strategic operations other than deliveries and returns.

**Do you think the online shop will be more important than the actual stores in Germany in future?**

At present, we have 200 stores in the Netherlands, 4% of sales are gained through e-commerce. In Germany we have 135 stores and the contribution to sales is a little more than 5% there. In future we expect e-commerce to gain importance and we see the market growing rapidly. Because competition is fierce in Germany it is much easier to grow online than through retail stores. Our contract with Hellmann is going to end next year and we will have to rethink our collaboration. We might decide to insource those operations again to consolidate web shop and retail store inventory. The advantage of the consolidation would be that we could allocate products to stores and customers easily and could reduce the total amount of stock. The costs for that would be lower than using the outsource partner but of course the advantage of having the partner is that fixed costs are turned into variable costs and they operate different steps from the e-commerce value chain as an integrated service.

**Where are the differences in operations in the web store compared to the retail stores?**

When articles do not sell in the online store we take them out after 4 weeks already and sell them through the retail stores. That way we do not necessarily have to put clothes on sale and can keep our margins up. Online we move much faster because customers are much more often online (once per week) than they visit our stores (every three weeks on average). Each time they log onto the store they want to see new products. So the PLC online is around 4 weeks, offline it is around 8 weeks. Online we sell around 70% fashion items and 30% basics; offline the ratio is 40% / 60% even if you would expect customers to rather buy known and proven products like basics online where they have to rely on pictures. So the PLC and target group online are different to the ones of the stores. The handling of the articles is also different. All articles for the web store are individually wrapped in foil and labelled differently because our outsource partner asks for it. If we would insource distribution, we could save the costs and time for this because we would only wrap the products that we actually send.
to private customers. If we would insource the operations, it would also be able to follow-up customers that do not pay.

**What are Hunkemöller's core competences?**

We are very good in design and development and even though our suppliers are located in the Far East, our logistics costs are low compared to our competitors'. Our customer services as well as our branding, marketing and selling expertise are also unique for the industry. What we need to develop further, though, is our social media activities and online customer service.

**Where do you see growth potential for Hunkemöller?**

Our average customer is 28 years old and we are losing customers in the range of 30-39. We definitely need to win back those customers. It is difficult because customers in that age often have children and prefer time-saving one-stop-shopping at department stores, for example. Also, we see Germany and e-commerce having high potentials. For me, our growth potential is in the multi-channel retailing. We need to be open to other European countries as well. If we see that a market is growing, we need to be flexible.

**What are the most important KPIs for you?**

We use traffic and conversion which is the number of customers visiting the stores contrasted against the ones that are actually buying products, order or basket value and the return rate. Returns are definitely a cost driver. Based on value, our return rate in the Netherlands is 22%, in Germany it is 36%. The higher rate in Germany is because we are new on the market and Germans have a different online shopping behaviour. Customers do not know us yet and do not know their sizes with us. But if you benchmark this, 36% is quite normal in Germany. Germans are used to ordering via mail so they order more and chose at home. We also measure the number of customer calls per 100 orders. Customers call to ask for their parcel or their money, for example. That KPI is 16% in Germany which is very good; it is the same as Esprit’s. In the Netherlands we are at 26% which is too high. Many customers order pre-paid so when they return items, they need to get a refund which is not always smooth. We will have to work on that because it is a bad calling card for our service.

**What interfaces do you have within the company?**

We are part of the marketing to make sure that we have the same identity all over our channels. Other departments that we work with is buying and merchandising in order to plan promotions or sales. Logistics, IT and administration support us. What is still difficult is the return of goods that didn’t sell back to the DC. They have to be sent to our DC to be stored and allocated to stores or outlets. The replenishment of goods for the warehouse in Osnabruck is also time-intense because we have to wrap these goods here and send them out.

**Where do you see Hunkemöller’s biggest challenge?**

We are looking for online shop-in-shop solutions, i.e. we are planning to collaborate with the web shops of department stores like V&D, for example. They are competitor and retailer for us at the same time. That is a very good opportunity to reach a wider range of customers but it also means that we have to accept their promotional strategies and their packaging instructions. If you have 80-90 suppliers in the Far East, making them follow all these instructions is quite challenging on a daily basis. The more steps you have in a supply chain, the more difficult it is to handle that chain.

**How do you measure Hunkemöller's success?**

By turnover, EBITDA and customer satisfaction. We measure customer satisfaction with online and offline surveys, the ratio of customer calls is also very important and we follow our reputation on social media, mainly Hives [a Dutch Facebook equivalent], Facebook, twitter and YouTube, we have our own social media correspondent who monitors this, manages our blog and reports to the marketing manager. We introduced that position around two years ago. I think we are a very successful company if you look at our sales and profit figures and at the expansion of stores.
What is Hunkemöller’s vision?
We want to become the #1 lingerie specialist in Europe.

What is Hunkemöller’s competitive advantage?
We have a very good price-value-offer, we have fashionable products and we are setting trend instead of just following them. We are inspiring.

What are the major success drivers for Hunkemöller?
We offer products that people really want and we have passionate employees who like their job and our products. We are a family.

What are the operations that influence your business’ success the most?
The reliability of our distribution is very good and definitely enables success. Also, our merchandising and planning is important. The combination of good collections and well-positioned promotions determine success for me.

What do you think is the contribution of SCM to competitive advantage? What do you think you excel in?
Our delivery times to the stores are very good and reliable and our replenishment works well. We hardly have problems with running out of stock. I do not know what we would be benchmark in but I always look at very successful internet companies such as Bol [Dutch online bookshop] and Wehkamp [Dutch online department store] and analyse their supply chain integration. They have their warehouse right at the parcel delivery service, for example. That gives them a competitive advantage because they can ship faster.

What do you think is the role of SCM at Hunkemöller?
Making sure that we have the right articles in the stores on time and in an efficient way. Merchandising are the ones who should keep track of what is in stores and in the warehouse to keep inventories and markdown levels low at the same time.

Where do you think Hunkemöller’s challenges will be in future?
I think it will be difficult to keep the same image and branding throughout all retail channels. Keeping all channels equally successful and profitable will also be a big challenge in the future. For now it is still more expensive to sell through the online stores because of picking and packing and because of storing, online marketing and delivery costs. You have to pay money in order to show up first in the search engines and to get found by people. You have to have the right wording and product descriptions on your site. If customers get curious and click on your site they should actually stay there. If they return to the search engine within 10 seconds, that means that the search was not successful and the search engine will make you show up lower in the list the next time. When it comes to advertisements, the more relevant your ad is, i.e. the longer people stay on your site, the lower is the price for the ad. Search engines are also just companies doing marketing and wanting satisfied customers. So they want their customers to find what they are looking for so that they return to their search engine’s site.

If multi-channel retailing will become more important, how will that influence SCM?
I am sure that SCM will become a little more complex from the technical and the administrative perspective because of the increased number of channels. But operations will be more difficult from the IT and strategy perspective. There will be several targets that we want to achieve by channel and once those targets interfere with the ones of another channel, prioritising will get difficult.
g) In-person Interview with V&D’s Logistics Manager

Raymond Tukker has worked for fashion companies such as Calvin Klein, Mexx and Crocs before joining V&D in 2011. In his position as senior logistics manager, Raymond Tukker is responsible for the entire material flow from suppliers to stores. He supervises roughly 250 employees and reports to the COO. The interview was conducted on 9 August 2011 in Amsterdam at V&D’s headquarters.

Wiebke Dittert: Please describe your supply chain for fashion items.

Raymond Tukker: We have several supply chains which can vary by product type (fashion, furniture, luggage etc.) by region (production in Far East or Europe), sales channel (own stores (bricks) and e-commerce (clicks)) and by the way goods are sold in stores. We distinguish between concession, consignment and own brands. There are brands that get delivered directly to our stores and are sold via our own personnel; there are brands that are sold via a shop-in-shop concept with that brand’s own personnel and we have our own brands that we sell with our own personnel. A-brands like Adidas, Mexx and so on are usually brought to stores without being handled by us. Our own brands like yes or no and Soho are delivered by us. Operational processes and managing those supply chains are very different. We only manage the inflow of our own goods and only keep track of those SKUs. Our buyers or agents source in the Far East or Turkey and place the PO in SAP. The more up-to-date the items the rather we source them in Turkey in order to reduce lead times. Our service providers in Asia – Damco and Li & Fung – receive the orders via EDI and consolidate deliveries from different suppliers in the ports according to destination in the Netherlands before shipping them. The 3PL also manage relationships with suppliers. We have one warehouse near Groningen for bulky goods, one in Utrecht which is mainly for fashion and one here in Amsterdam. The warehouse for fashion is in the centre of the Netherlands so that the average distance to our stores is shorter. That allows us to deliver faster. Other goods are less sensitive when it comes to lead times so we decided to store them in the warehouse in the North where property and labour are cheaper. From the warehouse, we use our own fleet of 23 trucks to distribute to our stores. Our biggest store has approximately 100,000 SKU’s on hand, e-commerce 30,000 to 40,000 SKUs whereas our warehouses only hold around 10,000 on average.

How else is the fashion supply chain at V&D different to the chains of other products?

Fashion goods traditionally come from the Far East, primarily China, whereas stationary etc. are also sourced from national or European suppliers. So of course, fashion has longer lead times even though the demand is much more volatile and we have got new collections every month. The dynamics of both chains are totally different. Fashion needs fast replenishment and the hold back inventory is growing every year so that we can allocate items to stores that sell those particular items best. For fashion, there is less of a push strategy but more of a pull strategy.

Where do you see the difference in your supply chain operations to the ones of pure fashion retailers?

Compared to pure fashion retailers we have a disadvantage when it comes to EOS. Only 60% of fashion that we sell is labelled with our own brand, the rest of what we sell is A-brands. That means that we have less buying power compared to fashion retailers and that we do not get the deals they get. Our volume is lower.

What KPIs do you primarily look at?

In logistics we monitor deliveries on time, handling times, turnaround time and so on. With Damco we have several KPIs like arrivals on time, for instance. EBITDA, turnover, margins and budgets are used to monitor V&D’s overall performance.
How do you think does SCM contribute to V&D’s success?

Every retail business is sales driven. All back-office operations, incl. SCM, support the business, i.e. our stores. It is not the other way round. What I think is excellent SCM is when you can keep up with fashion’s fast rhythm and when you deliver what is demanded. You need a lot of discipline to meet the market demand. Consumers only spend their money once and that one time should be at V&D. Logistics, IT, purchasing, etc. are enablers for our stores to generate sales. I think it is this backbone of operations that differentiates the successful from the unsuccessful company.

How does SCM make V&D successful?

SCM is recognised as an enabler. Of course, we are not the driver of our business but getting the recognition to be a performance supporter gives us the platform to operate. Also, I think our team and our warehouse management are very good. Our warehouse operations are reliable, flexible, and efficient. Having flexible staff is very important in order to respond to the volatile market. With the new warehouse that we are currently building, I think we will also be one step closer to becoming best in class with our SCM.

What interfaces do you have internally? How do V&D’s departments collaborate?

Primarily we work with finance, IT, buying & merchandising and stores. HR is also quite important because we need to allocate employees flexibly. I think the collaboration among departments at V&D is very good because we communicate and exchange information regularly. We have weekly meetings with our purchasing and merchandising to look at the inflow, availability and allocation of goods and to check if stores are still able to receive goods. E-commerce becomes more important because we want to source those logistics back in again. Now we have meetings with them twice per week and are seeking ways to manage all logistics operations in-house because we want to consolidate our inventory and we think that we can operate cheaper or more efficiently than our 3PL. We can, for example, allocate products to stores or e-commerce depending on demand; at the moment switching between inventories is rather complicated. It is easier to react to demand changes when we do it ourselves rather than getting it done by somebody else.

Which operations do you think drive V&D?

We are very sales driven and it is part of the retail environment that stores and merchandising are emphasised because they are the connection to customers. But it is the combined effort of all departments that makes us successful and I think we have a very good understanding that it is our total brand that we represent and that we need to be profitable with.

Where does SCM come then?

We are a facilitator. The retail companies that perform best are the ones that excel in delivering to demand. A supply chain is never a one size fits all model and each company needs to find their own strategy. Not even the supply chain for different products has to be the same. We are being heard and we do have a say but in the end, it is about our products and their sales.

What are the major trade-offs for V&D?

For the entire company it is a trade-off between sales and costs. The more sales we want to generate, the higher the costs that we have.

How do you react to changes in demand?

By closely listen to our customers: We look at demand patterns, we talk to store managers, forecast sales and look at our procedures in order to continuously improve our processes. The procedure for e-business, for example, is quite complicated at the moment. When a customer order comes in, our 3PL gets the order and forwards that to our systems. We then send those products out from our warehouse and the 3PL consolidates shipments at their facilities. By sourcing distribution for e-commerce back in, we can track customer orders ourselves, skip the cross-docking step and save a day or two. This process is currently just a bypass of our 3PL process we had to implement because of the rapid
growth of e-commerce. The regular e-commerce logistics process is quite straightforward, though. That also takes volume from our warehouse because safety stock levels can be reduced. In one or two years, we expect the web store to be our biggest store.

**How do you think SCM in fashion retailing has changed over the years? Where do you think it is headed?**

Looking at the future supply chain, I am afraid that we might miss the chance to play the role we could and maybe should play. ECR and other concepts that we are using are several years old now. They were presented as the tool to bring SCM into the boardroom and to get a supply chain view. Big organisations move slowly, though, and I think the big change never happened. The ideology of those concepts is to reduce inventory levels by sharing information, collaborating and making an ideal and efficient supply chain. Whenever money is being saved, everybody wants the biggest part of the pie. So there is always one party dominating the chain. From my experience, a truly smooth end-to-end supply chain is theory. Companies are just not willing to share critical information. There is no trust.

**Why is there no trust?**

We are all financially driven and we all want to increase profits. So naturally there is competition among partners in the chain. Maybe I am too pessimistic but even within the company, departments are competing. Money is a scarce commodity so we have to fight for budgets and attention to achieve our goals. There are always choices to be made that involve trade-offs in favour or to the disadvantage of a partner. The more companies and parties are involved in a decision, the less likely it is that you will find a solution that all partners are happy with. That is why achieving real collaboration in complex supply networks like in retailing is difficult. Goals in a company are contradictory already. Take a NOOS program, for example. From logistics’ perspective you would serve demand for those items with continuous replenishment. The buyers, on the other hand, want to buy in bulk to gain EOS. The toughest decision that you have to make is when to switch from bulk to replenishment and vice versa.

**How is that trade-off being solved?**

In the end, that is a board’s decision. That is what also makes SCM’s role challenging in the company. If there is a SCM department then it is involved in buying, finance, IT, logistics and sales but it is rarely a department that actually makes decisions. SCM has to convince other departments rather than force collaboration with or decisions from them. SCM has introduced a process- and cross-functional perspective in retailers that are traditionally organised in silos. SCM has brought visibility, efficiency, speed-to-market and so on but there are also limitations to it. SCM will not deliver the answers to all our questions.

**What is your supply chain strategy?**

In fashion retailing, you want to be agile but from a logistics / SCM point of view there is always a focus on cost and efficiency which means a focus on lean operations. At V&D we are doing our best to constantly make a trade-off between these two strategies. At the end of the day, my work is being judged by total costs per unit and total logistics cost. For instance, when we work flexibly during weekends or during the night that costs extra and of course that collides with management’s targets. So we are trying to push our agility as far as possible before we need to step onto the cost break.

**To what extent is your supply chain pull- or push-driven?**

We handle 46 million items per year, excluding A-brands. In our business analysis, we divide logistics flows into put-away (14.5 million), cross-dock (5 million items) and flow-through (26.5 million items) which are items that we push to the stores 100%. Flow-through levels went down by 2 million compared to the previous year. Now we push about 60% of our items to our stores. That is primarily basic fashion. We increased our inventory with put away and cross-docked items. Three quarters of items get pulled from the stores. We increased pull-driven items so that we can allocate products to different stores based on POS data. Depending on the location of the store, customer audience and sales patterns are different. The pull-concept allows us to better match demand.
What are critical paths in your supply chain?

Getting the chain concept fully understood by every employee involved in all disciplines in supply chain operations is very difficult. We need to fine-tune supply chain- and end-to-end thinking. We need to get it on the agenda and make sure that our newly introduced supply chain director gets the responsibilities and respect needed to fulfil that position.

What supply chain operations do you think V&D excels in?

Chain optimisation and operational excellence. Our inbound flow is very efficient because our team has made tremendous effort to increase visibility and collaboration with our 3PL and suppliers. Once we have our new warehouse, I think we will also excel in operations. Currently it is a lot of manual work but we will increase process automation and skip a consolidation step by combining two warehouses. That will speed up our chain and bring a competitive advantage over other department stores.

How do you think V&D is successful?

V&D is a company with a long history. In the board, we have made an enormous effort to get back in touch with our consumers because we were seen as being too conservative in the second half of the 20th century. We changed the logo and our design and we introduced A-brands, for instance. That transition from being a traditional department store to a more fashionable store has attracted many new, younger customers to our stores. Hema and De Bijenkorf are our direct competitors and we used to have problems positioning us between the two of them. I think the board succeeded in positioning V&D in the centre of the market.

Where do you see growth opportunities?

Definitely in e-commerce. We will also open new stores because there are still some blind spots on the map.
h) In-person Interview with V&D’s COO

Theo Heemskerk has extensive experience in the retail industry and has among others worked with HEMA (Dutch department store) before joining V&D in 2005. In his position as COO, Theo Heemskerk is responsible for operations, sales and logistics. He supervises roughly 6,000 employees and reports to the CEO. The interview was conducted on 9 August 2011 in Amsterdam at V&D’s headquarters.

[Wiebke Dittert] What are the major KPIs you work by and how important is fashion as a sales driver?

[Theo Heemskerk] EBITDA is the most important indicator for us. It gets a lot of attention since we struggled with our profitability at the beginning of this century. You have to see it from a historical perspective. The department store market boomed after the war. But then in the 80’s and 90’s, competition – also from outside the Netherlands – increased and our operations became less profitable. The moment of truth for us was in 2003 when we reorganised the company, closed 12 stores and laid-off a lot of people. In 2004 we started with a new strategy and finally broke even again.

What did you do?

We included A-brands into our portfolio, renewed our assortment, increased margins by sourcing in the Far East, kept a stricter cost control and expanded the food assortment which now is very profitable. We also had a huge reformating and refurbishing program for our stores during the past 4 years to modernise our image. We changed from a rather conservative store to attracting younger customers. Since our stores are quite big, that was very capital intense. Today, 80% of V&D’s turnover is generated by non-food articles. Out of these non-food sales, 65% of turnover is gained by fashion & accessorises. A-brands account for 40% of these sales and our own brands for 60%.

How did that makeover change your work?

Changing the image of a company the size of V&D, refurbishing and introducing new brands is quite intense. We built a new logistic strategy in which we considered also to outsource our logistic activities and are now also acting as 3PL for some A-brands like Sephora that do not have any logistics operations in the Netherlands and use our facilities for cross-docking. For buying and merchandising it is not only buying and selling but it is also coordination of consignment and concessions. By adding our web store we also became a multi-channel retailer two years ago. That is a whole new dimension for V&D. Every two weeks we have our brochures to 70% of the households in the Netherlands. We need those leaflets to be on the mind of customers and to attract people. We also use social media like Twitter and Facebook. That influences our work, too. In general, I would say that business became less predictable through the change in our target group. We have to be able to anticipate changes and react to them rapidly.

How is V&D organised and how do you operate internally?

We have a matrix organisation with a board and with multi-disciplinary teams that work together on an operational level like on design and commercials, for example. They get together with buying and merchandising every week. We as the board are leading from the front. Every Monday morning we study, evaluate and discuss POS data and adjust the plan for the week. After that, we meet with our teams to discuss our performance and the week’s plan. There is no distinction among product groups or stores; we really try to lead from the front-end – the customer perspective.

How do you adapt that customer perspective?

We have mystery shoppers, conduct surveys to investigate our customers’ shopping experience at V&D and we have 22,000 loyal customers that tell us quarterly what they think about our stores. We also get feedback from the stores. Every week I have telephone conferences with 6 randomly chosen store managers to get their feedback as well. Together with the sales data from the web, we use this
information to adjust our commercial planning. We want to be as responsive as possible in order to keep unplanned margins at the lowest possible level.

**How does that customer focus influence SCM?**

Of course we have a long-term plan but in SCM you need to be flexible and constantly adjust operations. If margins are low anyways, you cannot afford high stock levels resulting in forced markdowns. On the other hand, if stock levels are good, i.e. quite low already, we can probably hold back markdowns longer. We need an agile supply chain for this which I think we have. Over the past couple of years, we put effort into reacting faster to changes in demand. Sometimes we need to speed up processes in logistics when an item is very popular. We flexibly shift priorities in the supply chain in order to match that additional demand. With 12,000 employees we are quite a rigid organisation. Constantly adjusting and improving processes is a challenge in an organisation of our size.

**Does the increase in agility mainly have to do with the younger and more fashionable target group that you are aiming at now?**

Of course! The market was much more predictable before. Until four or five years ago, we had two seasons. Inflow of goods could be planned way ahead. Now we have at least 6 seasons per year. That development is driven by our A-brands which made us speed up, too. We can now replenish our most successful items because we have suppliers in Turkey and the Far East that can deliver within 6 weeks.

**How is power distributed among departments at V&D?**

The buying department was always in the lead. We changed a lot by introducing the customer perspective and our organisation is much more in equilibrium now. A good example is the collaboration between the board and the stores: we changed from forcing our decisions onto the stores to having an actual collaboration with our POS. They are much closer to the customer than we are here in the headquarters. Today the store managers also have a say when it comes to layout and assortment planning. Also, in the past, marketing was very much driven by promotions but is now rather driven by building and maintaining our brand-image. So roles and directions of disciplines changed.

**How do think is V&D successful?**

We achieve our goals every year and increase our market share by 8% annually. In ladies fashion we grew by 20% which was far above the market growth of 4%. We are still recovering from our makeover, though. We are not the best retailer in the Netherlands yet. Competition in tough; our major competitors on the fashion market are C&A, H&M, Etam, Sting and all the bigger fashion retailers.

**How much and in what way does SCM contribute to that success?**

If you look at SCM from the supplier to the customer, there is still room for improvement in the margin management, in the open-to-buy processes in the allocation of goods, in the in-season markdowns, etc. From the logistics perspective, we are adding value on the inbound side of the supply chain. In some time, I think we will also have state-of-the-art processes on the outbound side in deliveries from DCs to our stores. We cut our logistics costs by about a third during the past five years by getting more efficient. We improved our transport schedule, by consolidating DCs and improving warehousing processes. I think that is a direct contribution. Indirectly, I think we also added a lot of value by increasing the transparency of the inbound pipeline. We managed to reduce the lead time by 3 weeks by working with our suppliers and 3PLs, for example on shipping volumes, through an IT platform that is connected to our systems. That is a global system for all our overseas suppliers. We also save a lot through bulk shipments and EOS. We also improved our in season markdown management which saves money. That is also an indirect influence on the performance.

**How do you manage trade-offs in the supply chain like inventory versus capital tied up?**

We do that budget-wise: we set a budget and then stick to it. We always look at the impact of our decisions on the working capital. We are owned by private equity which means we are managing our own working capital and look much more at stock turns and stock levels than at availability.
we have 300,000 SKUs of which 80% are seasonal or one-off productions. Delivery to stores on time is a big issue. If we can manage that, we are successful. After that step SCM is pretty much stock management only. Before, as part of the Maxeda Group, working capital was not the biggest issue.

What is V&D's business- and supply chain strategy?

We want to be the most respected and most profitable retailer of the Netherlands. If you look to our strategy plan, you can see that we divided key value drivers (margin, A-brand profitability, multi-channel growth, expansion, cost control) and enablers (brand revival, store improvements, people and sustainability).

How has SCM at V&D changed in the past and what do you think will be future developments?

Retailing has become a multi-channel world. We will include e-commerce in our own operations and will integrate SCM much more to react even faster. We will try to buy as late as possible and try to come closer to Zara's agile supply chain and their fast fashion model. We will also add click & collect, i.e. customers order online and collect in our stores.

How can V&D as an organisation support a more responsive supply chain? What are internal enablers?

What we are now building is a new facility, a new warehouse and software, that can combine all channels and that support these flows. As an organisation, the whole multi-channel thinking is adapted on our board and SCM is part of our daily discussions. Since we have several retail channels, our challenge is to manage all of them successfully, i.e. reliably. We have a close eye on our inbound flows. We need to shorten our throughput times and we need to implement over-night shipments. For buying, of course, it is getting the right products that have a demand. In future, e-commerce will drive the business.

Where do you see growth perspectives for V&D?

In our e-commerce. When we started with e-commerce two years ago, 0.6% of our total sales came from the web store. The year after we were at 1.5%; today we are at 4% which equals the turnover of a medium-sized store. We are aiming at reaching 10% within the coming two years. We want to improve margins, A-brand profitability and private label density, we want to expand and keep costs in an optimum.