



# GLOBAL GROWTH



**Contingency suppliers, sourcing differentiation, special incentives, and a host of other strategies generate improvements in supply chains that reach around the world.**

Unreliable delivery. Long lead times. Poor quality. Those are the global sourcing problems cited by more than 60 percent of chief supply chain officers around the world responding to a recent IBM survey.

Globalization has altered the rules of trade for nearly all companies. “Not many companies aren’t touched globally in some way,” says Karen Butner, global supply chain management leader at the IBM Institute for Business Value and architect of the *Global Chief Supply Chain Officer* study.

Although survey respondents say globalization’s benefits outweigh its problems, businesses naturally are looking for ways to increase efficiency and quality, drive down costs, and otherwise improve their global supply chains.

In one recent trend, Butner says, companies are responding to variable

customer demand by continually optimizing their networks.

In the past, companies conducted large projects to optimize for the long term. “They’d make changes, save money, wait five years, then do it again,” Butner says. Today, the best-performing supply chain organizations fine-tune their networks and rebalance inventories almost without ceasing, on both the inbound and outbound sides.

One strategy for continuous network improvement is forging relationships with multiple suppliers in different locations. Supplier A might be the main source of key products or components today. But the company also maintains an agreement with Supplier B, perhaps in another part of the world where it can deliver more effectively to certain markets. “A company can ramp up Supplier B if that emerging market takes



off," Butner explains.

Making contingency arrangements with suppliers in different countries also provides a hedge against marketplace risks, says Jonathan Byrnes, a senior lecturer at the Massachusetts Institute of Technology and president of consulting firm Jonathan Byrnes & Company.

"Currency fluctuates tremendously," says Byrnes, pointing out that currency

Byrnes says. When Zara gets a sudden wave of demand for certain products, it turns to a second set of suppliers.

"It sources the 'wave' in Spain or other countries where manufacturing is much more expensive but very flexible," he notes.

A third strategy for responding to variable conditions is dispersed manufacturing.

flexibility, and low prices, because they're doing everything the right way in the right place," Byrnes says.

For companies that establish their own operations around the globe—whether for sourcing or selling to overseas markets—one big challenge is finding executives and managers who know the local business environment, but also understand the corporation's inner workings.

"Supply chain executives' most urgent need is leadership talent," finds IBM's *Chief Supply Chain Officer* study. "This talent vacuum is most acutely felt in the Asia Pacific region, with nearly nine out of 10 executives citing it as a top challenge."

To gain better leadership talent in new markets, some companies create special incentive packages for managers from developed markets who agree to spend a few years getting new markets off the ground. Then those managers train others to take over locally.

## One big challenge is finding qualified leadership talent in new global markets, especially in the Asia Pacific region.

value is a component of cost. "Tax rates change overnight. Shipping capacity is available or it's not. Companies have to pour enormous time and sophistication into balancing these factors in their international supply chains."

Some companies maintain that balance by sourcing the same goods from suppliers in several countries. With spare capacity in place, a company can quickly switch from one source to another as conditions require.

Another strategy for keeping the supply chain agile is what Byrnes calls sourcing differentiation. "Companies are sourcing differently depending on a variety of factors, such as the type of product and where it is in the product lifecycle," he says.

For example, global fashion retailer Zara, based in Spain, sources products from Eastern Europe while demand for them is steady and predictable. It's inexpensive to produce in that region, but manufacturers there are inflexible,

Around the world, but especially in Asia, companies are working with sophisticated supply chain specialists that contract for raw materials and manufacturing capacity. Byrnes cites the example of Li & Fung, an export trading and sourcing company based in Hong Kong.

"Li & Fung maintains relationships with top manufacturers throughout Asia and around the world," Byrnes says. Retailers contract with them to match their needs with available capacity.

Knowing which factories are expert in which kinds of manufacturing, Li & Fung might use several vendors in different locations to fill an order. Say a U.S. customer wants to produce a toy dog. "The plastic pieces may come from the Philippines, and the fabric from Vietnam," Byrnes says. "The toy may be assembled in yet another country."

Dispersed manufacturing offers the brand owner many advantages. "It gives them certain supply, enormous

### SQUEEZING LEAD TIME

For companies trying to receive their overseas orders faster, technology that supports online collaboration can help compress lead time, says Nathan Pieri, senior vice president, marketing and product management at Management Dynamics, a Rutherford, N.J., firm that provides hosted global supply chain management solutions.

Often, lead times are extended because it's hard for trading partners 13 time zones apart to manage a project together. If a partner in Asia sends an e-mail about a problem, the U.S. partner might not get the message until the next morning.

Management Dynamics offers a supplier portal that integrates with its compliance and logistics applications. Because it establishes standard operating procedures and creates formal

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## Technology keeps shipments moving by improving customs clearance and security compliance management.

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routines, companies using this platform can solve problems faster, Pieri says. Users are more likely to check the portal outside of normal business hours and respond to problems right away, because the technology offers a formal process for responding.

Also, because the system implements policies that users establish—for example, when it's permissible to send a partial shipment—overseas partners can keep orders moving, rather than waiting for special instructions.

Technology also helps keep shipments moving by improving the way companies manage customs clearance, security compliance, and adherence to other government regulations.

### COMPLEX COMPLIANCE DEMANDS

Compliance with international trade regulations poses serious challenges. "Global trade regulations are continuously changing," says Adrian Gonzalez, director, logistics viewpoint at ARC Advisory Group, Boston. Shippers, carriers, and their partners need to stay up to date on requirements for submitting information and creating documents.

While international shipment volumes continue to rise, not every company conducting global trade is prepared to address the complex demands of compliance, says Bob Heaney, senior research analyst, supply chain management at Boston-based Aberdeen Group. "Many companies still manage compliance manually," says Heaney.

Others rely entirely on brokers, 3PLs, and other partners, glossing over the fact that shippers are legally responsible for complying with government regulations.

The market offers some solid technology tools for managing global trade compliance. Management Dynamics' compliance solution, for example, helps by making sure shippers and their partners generate documents correctly.

"Shippers only issue compliant purchase orders to their suppliers," Pieri says. With fewer errors, a shipper endures fewer delays in customs, allowing it to maintain lower inventories.

Shippers also can save 25 to 30 percent on entry fees if they provide data electronically to their customs brokers. "And they can save another 25 or 30 percent if they self-file," Pieri notes, using the electronic data to do customs filing without a broker for goods they routinely bring into the country.

Some shippers gain improvements by taking advantage of value-added services that carriers, especially ocean carriers, have started to provide. Wallenius Wilhelmsen Logistics (WWL), for example, created customizing centers where it adds finishing touches to vehicles after it transports them.

"WWL brings in vehicles from abroad in a base form, then accessorizes them to meet demand," Byrnes says. "That sort of service allows vehicle manufacturers to change business strategies. They consider how flexibly and quickly carriers can respond to demand."

### GETTING CLOSER TO CUSTOMERS

Besides postponing the final step of manufacturing until product reaches the market where it's sold, some companies have decided to move the entire manufacturing process closer to the customer. "Many companies are considering locating manufacturing in Mexico, Costa Rica, and South America,

and some are coming back to the United States," says Heaney.

Other companies have never gone offshore at all, because they've successfully exploited the advantages of foreign trade zones (FTZs). Heaney cites a Japanese copier maker with U.S. subsidiaries that are located in FTZs. They don't pay tariffs on components they import from overseas, and U.S. law exempts the finished copiers from tariffs, saving significant money.

"The company operates seven U.S. plants and never has to go overseas to stay competitive," he says.

### SAMPLING THE MARKET

Nearshoring is not as prevalent as people might think, says Butner. Companies in Western Europe have been looking to Eastern Europe, and U.S. companies have tried manufacturing in Latin America. But sometimes companies that move into new regions run into problems there.

"Companies are sampling," Butner notes. "They try locating in a new area, then determine the infrastructure's not sufficient and it is difficult to do business there. So they try other locations."

Businesses have learned that it can take up to two years to start manufacturing in a new country. "They don't take these moves lightly and they don't flood certain areas," Butner says.

But they are definitely interested in bringing production closer to end customers. "Companies are more carefully evaluating how and why to move than they were five years ago," she adds.

Companies will continue to travel the globe, however, drawing and redrawing their networks to gain ever-greater supply chain advantage. ■



## CASE STUDY

# Bigger Global Footprint, Smaller Transportation Staff

Serving a global market is a complex puzzle. That truth became abundantly clear at Abercrombie & Fitch (A&F) in the late 2000s, as the youth-oriented retailer started expanding into Europe and Asia.

"We had traditionally been a North American-based, single distribution point business, where all our products moved through Columbus, Ohio, to our stores in the United States and Canada," says John Singleton, the company's senior vice president, supply chain. Today, the Columbus supply chain operation orchestrates shipments to Abercrombie & Fitch, Hollister, and Gilly Hicks stores on three continents from three DCs.

It's a high-turnover business that generated about 55,000 purchase orders in 2010. "We ship by air and ocean freight from 13 countries and 35 ports," Singleton says. All the stores under each A&F banner are supposed to display the same merchandise in the same way. So it's crucial to let planners know when new shipments will arrive, and to alert them when one is delayed.

"We try to put a structure in place that allows us to manage exceptions," Singleton says. "To do that, we need a visibility tool."

A&F's homegrown logistics management system wasn't up to the global challenge. "The system required spreadsheets, e-mails, and phone calls," he says. "It was not automated, the information was always wrong, and we had to deal with a 12-hour time difference from our trading partners."

Those difficulties started to vanish in September 2009, when A&F converted to the *Supply Chain Visibility* solution from Management Dynamics, East Rutherford, N.J. Gathering data from A&F's vendors, forwarders, brokers, and other trading partners via electronic data interchange (EDI), the solution displays information that gives A&F up-to-date insight into its orders.

"In the past, the first time we knew we had cargo was when we received an e-mail on a cargo receipt from our freight forwarders or ocean consolidators," Singleton says. That cargo was already in transit.

Today, A&F gets notice of inbound shipments about 10 days sooner, when the vendor books transportation. With this added visibility, merchant teams don't need to manage 100 percent of inbound shipments. "They can manage the shipment that didn't happen and try to fix it before it misses the boat," Singleton says.

*Supply Chain Visibility* is a hosted solution, which proved an advantage as A&F got the system up and running. With a major project to install a new enterprise resource planning system also underway, the company had no information technology staff to spare. Because A&F didn't need to install the visibility software on its own computers, that wasn't a problem, Singleton says. Software upgrades, security, and other ongoing

concerns also are the responsibility of Management Dynamics, not A&F.

The visibility A&F has gained through the new solution allows it to manage its expanding international footprint without expanding its staff. "We increased international sales by 87 percent, and grew from one store internationally to 40 stores," Singleton says. "And we have fewer people working in transportation today than we did when we were located only in the United States."

The system also makes it easier to evaluate carrier performance. Forwarders and consolidators used to provide their own performance data, all in different formats, making it difficult to draw comparisons. *Supply Chain Visibility* collects the same data points for all service providers, so it's simple to do an apples-to-apples comparison.

Based on the results, A&F might shift certain trade lanes to different carriers to get better service. Also, the ability to monitor performance at any time keeps carriers on their toes. "They're more accountable now," Singleton says. "They never know which data we'll be able to compare and contrast."

**SHIPPER:** Abercrombie & Fitch (A&F)

**PARTNER:** Management Dynamics

**GOAL:** Gain visibility into global shipments.

**OUTCOME:** With global trade management software, A&F receives notice of inbound shipments about 10 days sooner than it used to, and can monitor transit and performance.



Converting from a manual system to a global trade management software solution facilitated Abercrombie & Fitch's expansion into global markets.