Consulting-Outsourcing-Capability Building

Weave Services Limited presents:

A practical guide to enabling a successful supply chain engagement strategy in Bangladesh

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"The apparel industry in Bangladesh has not come to this stage easily… The sector had to face and is still facing various challenges"

Siddiqur Rahman, BGMEA President

Source: http://www.bgmea.com.bd/home/about/MessageFromBGMEAPresident

1 There is no more new sourcing destinations

From country-hopping to building long term strategies...

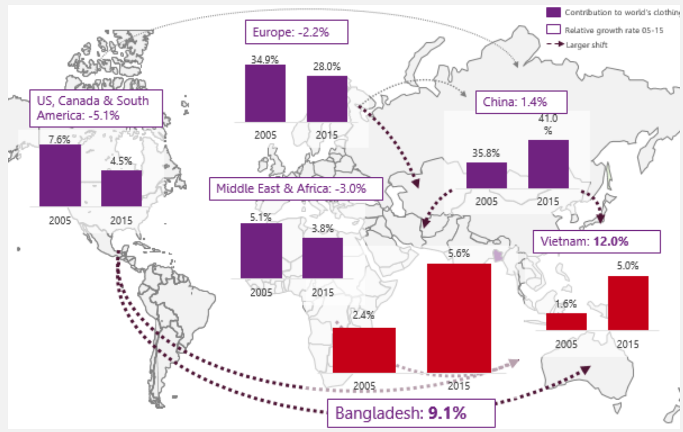
For more than 20 years, sourcing teams have been country hopping from one low cost location to another (Korea to China, China to South East Asia and now to the Indian Subcontinent and Africa). Sourcing teams have a long term decision to make:

- Continue to move towards Africa, *or*
- Equip and support manufacturers in developing countries to meet their requirements.

Upcoming changes in tariffs and trade agreements will trigger a rethink of sourcing strategies and further compound the urgency for action.

How ready are retailers for equipping manufacturers in developing countries to be long term partners?

Figure 1 - **Key apparel markets CAGR (2005-15)[1]**



Bangladesh has a mixed competitive position relative to its competitors

Figure 3 - **Competitor analysis**

● Agreements with key apparel markets ○ No agreements

	Minimum wage (USD / month)[2]	Labor force (M) (% <40yr old)[2]	Trade agreements	Education (years in school)[2]	Cotton export to import ratio 2015 (USD B)[2]
Bangladesh	71	**83.6** (70%)	GSP with US, EBA with EU, MFN with India	6.3	45.0
Vietnam	145	**54.9** (63%)	BTA, TPP with US	9.2	2.1 (Enters BD as cotton, exports as other textile)
India	136	**513.7** (67%)	EU (GSP), Japan (CEPA)	6.5	0.1
Cambodia	128	**6.6** (71%)	TIFA with US EBA with EU	3.1	0.0
Pakistan	119	**65.1** (73%)	GSP with EU	8.7	0.4
Ethiopia	30	**51.0** (64%)	AGOA (apparel, footwear) with US, EBA with EU	2.4	0.0

ATTRACTIVE

- Low cost base due to low minimum wages, being **51% lower** than Vietnam.
- A young and abundant workforce with over **58 million people** in the working age population and under the age of 40.
- Established **favourable Free Trade Agreements** with the largest apparel import markets (i.e. US and Europe).

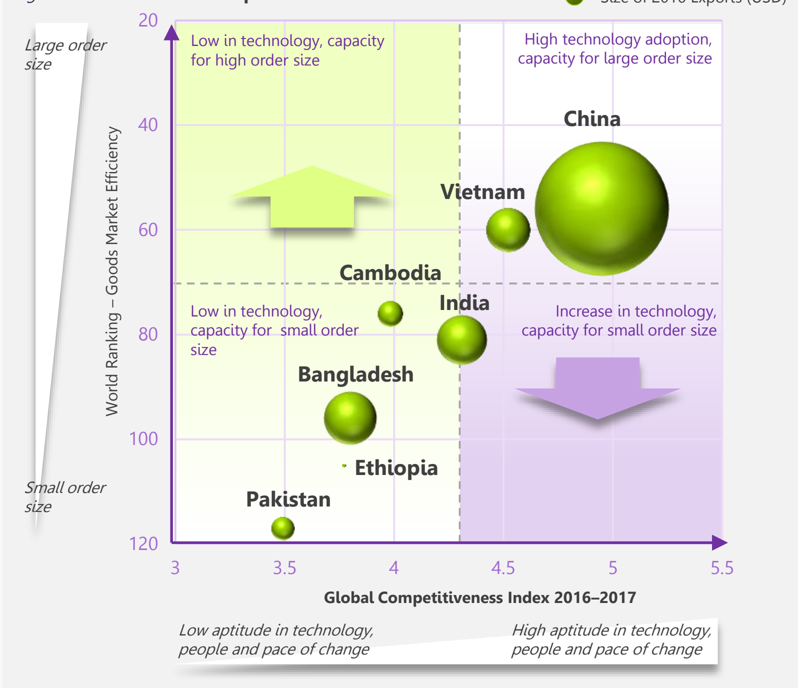
ROAD BLOCKS

- The average education level is low. Women workers (80% of apparel workforce) are 46% uneducated[2].
  - ➢ **Implication:** Vendors cannot adopt advanced manufacturing techniques.
- Raw materials are dependent on imports.
  - ➢ **Implication:** Limits ability to compete with *'Speed to Market'* demands of fast fashion retailers.

Source: 1 – WTO, 2 - World bank, CPI 2015, CIA labor force (2016), UNESCO – 2013 – Ethiopia education, Bangladesh Labor market profile 2014 from Danish Trade Union Council for International Development Cooperation, APO productivity Data book 2015, Trade agreement – European Commission, Office of US trade representative, World bank 2015, manufacturing real GDP

2 Bangladesh is investing in large volume, low technology segment

Figure 4[3] - **2016 Global Competitive Index**



Looking at the Global Competitive Index (Figure 4), data indicates that different countries are on different trajectories. We see two key groups beginning to emerge:

Small order size with a focus on technology:

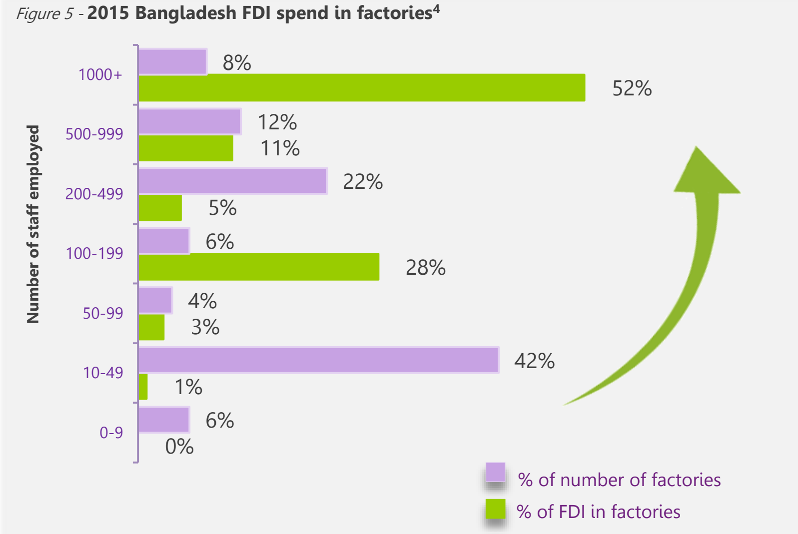
- Due to the rapid increase in minimum wages, countries like China and Vietnam are investing in technology and systems to automate labor intense activities.
  - **Implication:** These countries will focus on *technology integration* and *advanced manufacturing techniques* (including Industry 4.0).

Large order size with a focus on volume:

- Investment is spent on increasing capacity, with the intention of gaining larger orders.
  - **Implication:** The focus is on getting the most out the facility, so *LEAN tools* and *advanced planning methodologies* will fuel progress.

In Bangladesh, both foreign and local investments are being made to support volume manufacturing

Figure 5 - **2015 Bangladesh FDI spend in factories**[4]



In Bangladesh in 2015, Foreign Direct Investment (FDI) data indicates that 52% of the investment was spent in factories with more than 1,000 employees (Figure 5).

Looking at local investment, there are companies like DBL Group, Dird Group and Mahmud Group that are using profits to build more capacity into their operations.

As a retailer with operations in Bangladesh, we need to ask ourselves:

How do you cope with factories who do not know how to adapt?

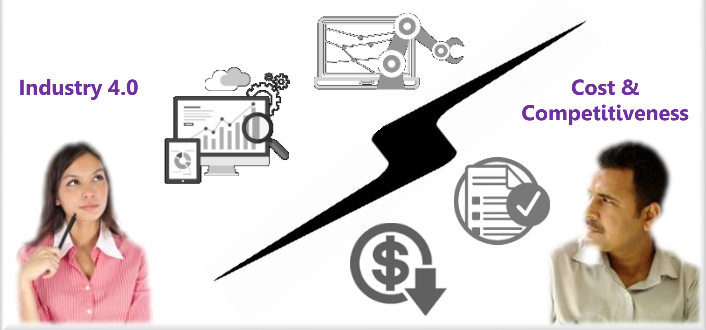
How do the best in class retailers and brands drive change?

What can we practically do within our own control to adapt?

Source: 3 - World Economic Forum: Global Competitiveness Report 2016-2017, 4 - Bangladesh Labor market profile 2014 from Danish Trade Union Council for International Development Cooperation, APO productivity Data book 2015, BTMA, http://www.thefinancialexpress-bd.com/2016/03/04/19248, International Human Development Indicators, WTE website, http://unctad.org/Sections/diae_dir/docs/diae_G20_Bangladesh_en.pdf

3 Retailers and brands need to re-think their role in the supply chain

Currently in Bangladesh, the retailers and manufacturers have contrasting priorities, leading to a disconnect.



Who is going to drive the change?

Government? Manufacturers? Industry?

Responsibility for driving this change will fall to the **retailers**. The next question we need to ask then is - how good are retailers at driving change?

How good are retailers at driving change?

The high profile **CSR programs deployed** in Bangladesh can be used as a **proxy to evaluate the ability of retailers to drive change** in Bangladesh. Accord and Alliance initiatives, which are Bangladeshi and foreign led respectively, how effective have they been at driving change?

Figure 6 - **2016 Accord & Alliance data**

Lead for initiative	Engaged	Original inspection progress[5]	Corrected	In progress	Not started	Completion %
Bangladesh Trade Union led: ACCORD on Fire and Building Safety in Bangladesh (>200 signatory companies, >1600 factories, >2 million workers)	H&M, Kmart, Carrefour, Fast Retailing, Arcadia, BOSS Hugo Boss, adidas, PVH, Inditex	Structural Action Plans (n= 1646 factories)	3,854	15,936		19.5%
		Fire Action Plans	14,756	18,138		44.9%
		Electrical Action Plans (July 2016 data)	23,403	10,210		69.6%
Foreign Entity led: ALLIANCE for Bangladesh Worker Safety	Fruit of the Loom, JCPenney, Giant Tiger, Costco Wholesale, Nordstrom, Target, Macy's, Walmart	Structural Action Plans (n= 790 factories)	3,334	3,073	300	49.7%
		Fire Action Plans	8,851	4,570	701	62.7%
		Electrical Action Plans (October 2016 data)	11,569	4,766	489	68.8%

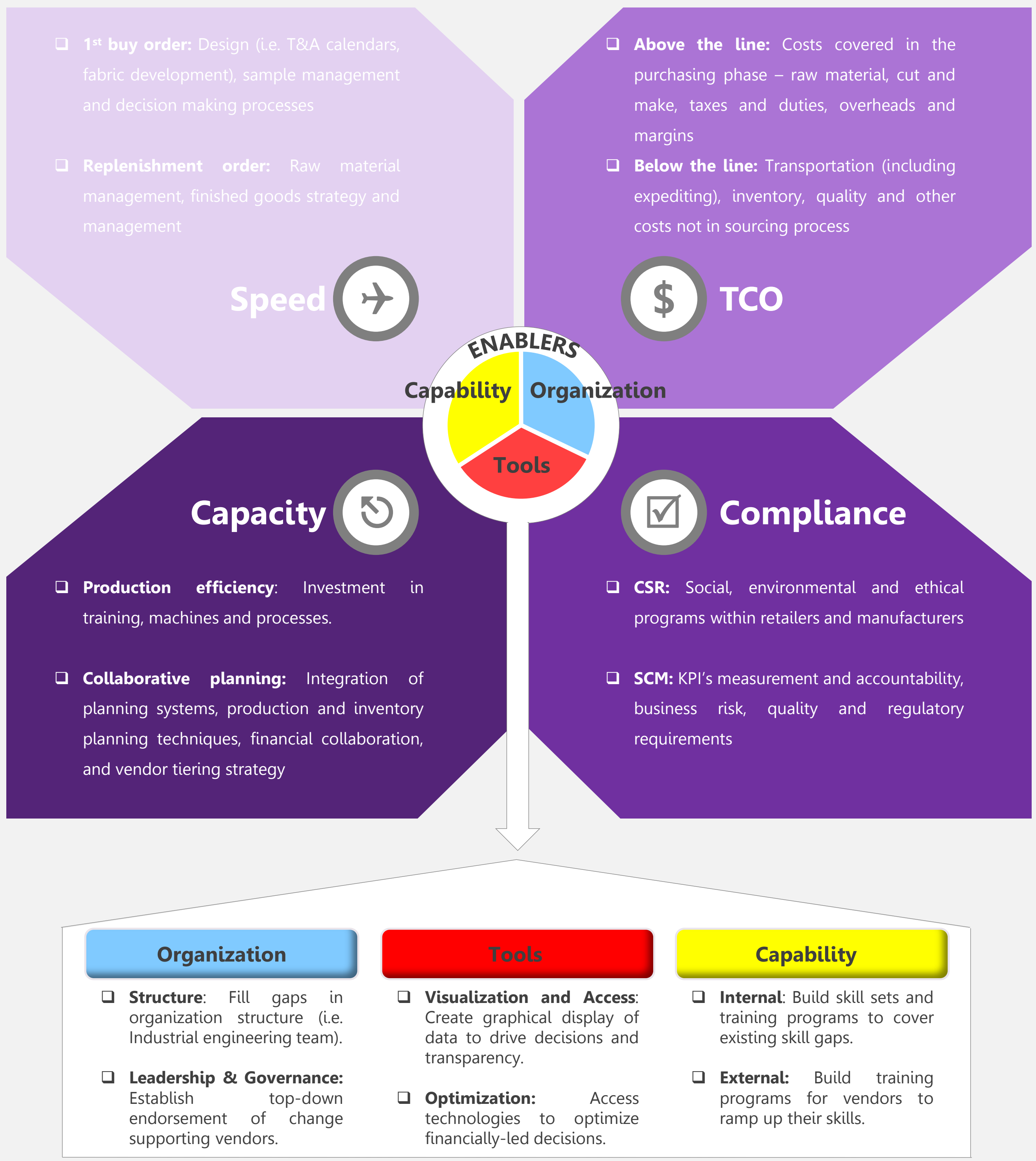
The results are mixed, with only 53% of actions complete since Accord & Alliance started[5]. There is a lack of evidence to show successful change being driven by retailers in Bangladesh. **Something is holding back the change**.

Source: 5 - http://www.bangladeshworkersafety.org/, http://bangladeshaccord.org/

4 Retailers who rethink their role will be able to create a sustainable sourcing strategy

At Weave, we work with retailers to deliver their mission statement of creating a **Sustainable Sourcing Strategy**. This is represented by Figure 7 below. The **4 levers** of Total cost of Ownership (TCO), Compliance, Capacity and Speed are the initial focus, with each segment having its own sub-sections.

Figure 7[6] - **Sustainable supply chain framework**



Source: 6 – Weave Internal Analysis

5 Enablers driving effective outcomes to make supply chains sustainable

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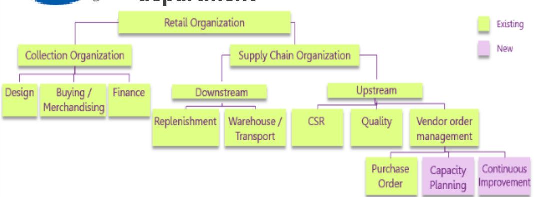
Looking at the CSR example on page 4, all the efforts and energy put into these initiatives are not driving results. Evaluating some of the **enablers** may provide the key to driving effective impact. The enablers are: **Organization, Tools** and **Capabilities**.

Organization

Case

VF connects its manufacturers through a centralized manufacturing excellence and technical service department[7]



- The 3rd way distributes knowledge in manufacturing best practice from VF factories to 3rd way factories
- The program also contributes to the development of the manufacturing community

Impact

Cutting costs ↓ 23%

Sewing costs ↓ 41%

Defect rate ↓ 9%

Application for retailers

Evaluate
- ❑ Assess level of effectiveness in vendor improvements
- ❑ Assess depth of projects currently in place

Design
- ❑ Establish governance and meeting cadence for Head 2 Head
- ❑ Create specialist team with 'Industrial' background (i.e. IE)
- ❑ Set measureable KPI's to track progress and ROI

Implementation
- ❑ Set phased road map with vendors, by level of priority
- ❑ Agree resources and time needed for each initiative
- ❑ Develop report from factory to board

Tools

Case

FCI GROUP

FCI Group have used capacity planning tools to increase capacity utilization by 5%[8]

- FCI (BD) Ltd implemented a capacity planning tool that gives interactive dashboards to aid decision making

Impact

Forecast variation ↓ 15%

Factory utilization ↑ 5%

Reduction in air freight costs

Application for retailers

Evaluate
- ❑ Assess accuracy of 1st buy and replenishment orders
- ❑ Measure inventory management performance
- ❑ Appraise capacity and production planning effectiveness

Design
- ❑ Design a 3-tier horizon schedule for forecasting
- ❑ Create agreed way to exchange plans
- ❑ Enable capacity alignment between retailers and manufacturers

Implementation
- ❑ Lead data-driven meetings, with focus on clear decisions
- ❑ Drive pro-active reviews of meetings and set up coaching for key members
- ❑ Reward teams who use tools to improve

Capability

Case

GAP

GAP dedicates to empower 1M women to become the change agents in their families and factories by 2020[9]

- GAP launched PACE (Personal Advancement & Career Enhancement) program to >45,000 women in 12 countries

Impact

Efficiency improvement ↑ 1.2x

Retention rate ↑ 66%

Career advancement ↑ 58%

Application for retailers

Evaluate ***(for new Capacity Planning team)***
- ❑ Assess capacity planning skills of each team within current retail organization
- ❑ Appraise planning skills across the manufacturers organization

Design
- ❑ Design training program to upskill planning teams internally
- ❑ Design with manufacturers, training programs to upskill planning teams to retailer standards

Implementation
- ❑ Implement training plans and establish on-the-job application sign off & reviews
- ❑ Enable continuous review cycle to review learning progress and establish next step that matches career path

Source: 7 - just-style article ID126825, VF official website, News article from Fashion World, Ethical Corporation, 8 - http://www.fastreact.com/assets/case_studies/pdfs/Fast_React_Evolve_FCI.pdf , 9 - https://www.icrw.org/wp-content/uploads/2016/10/PACE_Report_PRINT_singles_lo.pdf

Evaluate your sourcing strategy and drive tangible impact

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USE OUR PROPRIETARY SELF-EVALUATION TOOLS

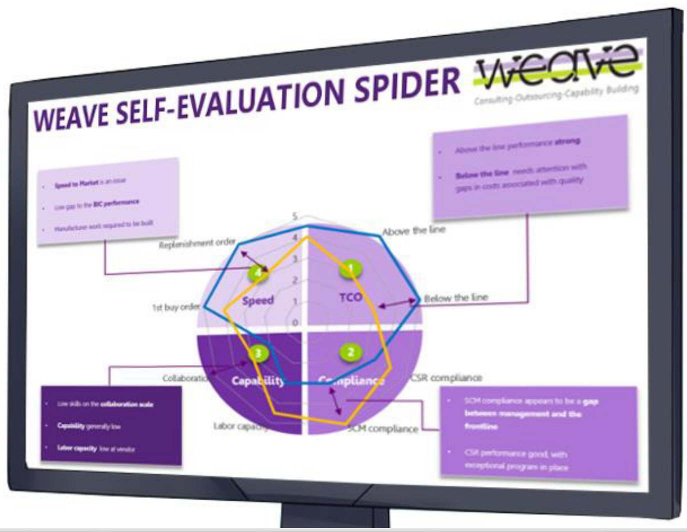
Weave operates a clear assessment framework that enables you to build a specific action plan for your sourcing needs.

Evaluate your supply chain across core levers of TCO, Compliance, Capability and Speed .

Analyze results to identify opportunities and prepare change enablers.

Create actionable plans based on Organization, Tools and Capability.

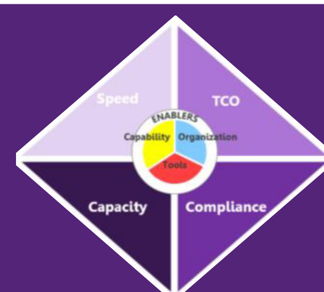
Execute to plan, measure performance and adjust as required to get tangible impact.



3 enablers for a *sustainable sourcing strategy*

Retailers need to lead change within their supply chain partners to make impact.

- Create an Organization structure to support effective improvement activities
- Use Tools to enable transparent and timely decisions
- Build Capability within the organization



To find out more about enabling a successful supply chain engagement strategy in your business, or to evaluate your supply chain, please contact Weave Services .

Our perspective:

- Managing risk without adding buffer
- Understanding read & react in a fast fashion context
- The future of Chinese manufacturing
- Quality as a Competitive Advantage

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