

Van Heusen Shirts to Market: Vertical Integration and Supply Chain Management: New Ways of Doing Business

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What I am about to present may surprise some of you. I will be talking about a company that owns and operates the largest commercial building in the world—twice the size of the Pentagon; a company that each week moves over 3,000 tons of automobile parts from 28 different plants and locations in Europe to five different plants in Latin America for one of the big three automobile makers in the United States as a total logistics package; a company that for the last 7 years has had the marketing contract to manage the Trans-Siberian Railway for the government of the former Soviet Union. That company is called Sea-Land Services.

The theme that I heard being put forth by previous speakers was that we need to be much more customer-oriented, much more customer-focused, if you will, in order to improve the supply chain and reduce cost. You cannot do that by simply having functional expertise. For the total logistics business to be successful, you need to have a perspective, which is the customer's perspective.

I am quite sure you did not think I would use a Van Heusen shirt to present a case study on intermodalism, but there are some key drivers in the garment company called Van Heusen. Van Heusen is tasked with moving their operations from one part of the globe to another, finding new sources, reducing their costs, and further improving their supply chain. Some of their drivers are the rising costs in Korea, which is becoming more industrialized, has a maturing middle class, and whose economic expansion over the years has been phenomenal. With that have come labor problems and, as a

result, rising costs. At the same time, the quota system is having an its impact on Van Heusen. In addition, they are having to respond to style changes more quickly than they perhaps did in the past.

Two flows are involved in this process. The first is the primary flow of raw material, in this case cotton, which comes from the United States, mainly from Texas, and moves by truck and rail and ultimately by sea and then truck again to the fabric maker in Korea. Once there and made into cloth, it moves by truck and sea again, this time to Guatemala, where the cutting, styling, button placement, packaging, and labeling all take place. The product then moves to the port in Santo Tomás and by sea to either New Orleans or Port Everglades and then into Van Heusen's North American distribution centers. From there it goes by truck and air parcel to the commercial retail customer and ultimately to the consumer.

Several subtransportation systems are involved as well. One deals with samples, which have to move from the fabric maker in Korea to Guatemala to be cut and styled in order for the buyers to accept the product that Van Heusen is ultimately going to put on the retail shelf.

Some of the required skills and knowledge in today's environment that deal with supply chain management are discussed in the following paragraphs.

Fundamental economics includes knowledge of supply and demand, international currency and banking, financial ratios, and letters of credit.

Purchasing services and moving products through the supply chain require a very delicate understanding of supply and demand economics as it relates to the purchase of raw materials, contracting for labor, and

movement of goods, whether by truck or rail or by sea or other modes. Supply and demand is a key tool for business managers of the future and facilitators to understand in every transaction.

With regard to international currency and banking, if you don't think recent events in Southeast Asia had an impact on Van Heusen, had an impact on Sea-Land, and had an impact on you, then you were asleep. People who are going to function well in this changing global environment really have to be able to understand how sways in international currency and how international payment facilities can affect their cost of doing business and the quality of their product.

In choosing a mode and a carrier within that mode, as well as in choosing a company that will sew on buttons or a company that will cut fabric for you or a farmer who is going to grow and ship cotton for your base product, it is critical to know what the return on invested capital is, what your suppliers' financial operating ratios are, and how to predict their effectiveness in the future and in applying technology and change in their part of the supply chain.

An understanding of how letters of credit are constructed and transacted and the costs of various facilitations and the overall banking and funds flow transfers as we move cargo, information, and money through the supply chain is essential.

Modes of transportation constitute the second area of knowledge. There are obviously tradeoffs in using different modes. A previous speaker talked about the velocity/price issue—service versus cost. You can get tremendous service, but can your product pay for that service? How reliable is that mode and how does reliability help you to reduce the safety stock in your overall logistics chain? It may be more critical to pay a higher price for reliability to take the supply of stock out of your chain than traditional thinking may have led us to believe.

Product sensitivity and time versus cost—how perishable is your product? For example, you can move a trailer load of Van Heusen shirts for \$2,700 from Korea to Cleveland, Ohio, but if it takes you 5 weeks to do that, the shirts are going to be out of style by the time they get to the market. This is less critical for some of the more traditional commodities such as resins, cotton, waste paper, craft liner board, and so forth; however, it is a lot more critical for products like VCRs, Nike shoes, and Van Heusen shirts.

Geography and cultural learning are important. For example, Sea-Land just moved its headquarters from around the world down to Charlotte, North Carolina, and hired 350 people locally. Very few of them understood the metric system. Very few of them understood geography; for example, they knew nothing about the smaller countries in Europe.

Understand the effect of time zones; don't pick up the phone in North Carolina at 4:00 p.m. Eastern Standard Time and call somebody in Hong Kong, because you're going to wake them up, which won't make for a great business relationship.

Professionals in transportation and in the supply chain business really need to have a keen understanding of currency, which is an area you do not know about until you experience it. You do not know the effect of currency on your product until you are changing your dollars in a foreign market where the currency is being devalued and experience the impact of this on your own life.

Transportation and logistics professionals need to understand that mode capabilities differ by geographic area. Barging in China or on the Rhine River is a lot more reliable than you may think it is. It is more reliable than trucking or rail in certain sectors of the United States today. Know your geography—we once had a shipper move a product from Santo Tomás, Guatemala. They manifested it on the bill of lading, and we carried it to St. Thomas, Virgin Islands. St. Thomas and Santo Tomás sound alike, but they are 1932 km (1,200 miles) apart—and believe it or not, the only way you can get from one to the other is through Miami.

Knowledge of *data transfer and electronic commerce* is also important. Electronic commerce encompasses supply chain management and the compatibility of system architecture. For example, what is the base technology platform upon which your system is running? What is the platform upon which your suppliers' information is being moved? Are they compatible? One also has to be knowledgeable about web-based technologies and about the economies of information technology, not only electronic data interchange (EDI), as somebody pointed out this morning, but also electronic funds transfer.

In the area of *government regulations and customs*, for a product to move, people need to understand how duty drawback actually works. What is required in order to participate in those programs? What is the impact of issues like child labor? If you are selling these Van Heusen shirts to U.S. soccer Moms, what are their concerns about the assembly of these products in areas where child labor may have been or is an issue?

The quota system—how does that affect your ability to move the product? If you have a hot item constructed in one country that suddenly takes off and you run up against a quota system in another country, how do you move your raw materials and your manufacturing process to another location and not affect your business?

Finally, labor, which is a key issue for Van Heusen, has been dealt with in Korea and in Guatemala in a very effective way. However, Van Heusen has also done so in consultation with their ocean carrier, Sea-Land.

Transportation professionals in the future must have education and training in *distribution and delivery*

skills. The Sea-Land building in Hong Kong that I mentioned earlier is 557 418 m² (6 million ft²). We do warehousing, bar coding, and just-in-time inventory there as well as multicountry consolidation. We do all the distribution in Asia for McDonald's, Nike, and Reebok, and we run the quality program for Hallmark cards in this facility. It is a lot more than just single-mode transportation.

Knowledge of *costing and pricing* includes activity-based costing (ABC), a technique that transportation professionals need to understand. They should also have knowledge about cost-based pricing. In our industry pricing has traditionally been market based; you charge what the market will bear. As you start to customize products and services, you need to charge for them on the basis of cost, not the market, because unless you differentiate, you will price yourself into the ground.

On the subject of conferences and tariffs, as mentioned by previous speakers, I would also make a big push for deregulation. You cannot operate in the kind of environment where the traditional conference system dictates how much you are going to charge a customer for the ocean portion of your transportation link.

Understanding of *transportation and logistics strategy* is critical—understanding capacity and how capacity-supply relationships drive costs. For example, look at the industry consolidation that is occurring in ocean transportation now, with two or three major consortiums coming together with nine carriers. What impact does this have on terminals, on information and information systems, on planning? How will deregulation of the ocean industry, following that which has occurred in

the truck and rail sectors, affect the ability to move products through multiple geographies to the ultimate consumer?

With regard to revenue management, are you going to be exposed to suppliers' charging a higher price during the typical rush out of Asia during May to October, or are you going to be able to sit down and contract with the carrier for a rate that is going to allow you to price that product and sell it in the marketplace throughout the year?

Finally, there is market segmentation: in your suppliers' minds, how are your various products segmented?

The whole concept of supply chain management is changing, moving from a situation in which there are stacks of products for which invoices are cut, accounts receivable are made, payments are cashed through banks, and so forth. Supply chain management is going to become much more fluid, and the flow of goods, information, and funds through the system is going to be critical.

From our perspective at Sea-Land, the learning strategies that need to be in place include corporate internships, that is, the ability to educate the educators, if you will, and that is not meant to be derogatory, but rather a challenge to keep those who are in the educational environment up to date with trends. Transportation professionals need to understand the capabilities and limitations of the transportation network in managing products through international trade; this will involve partnerships with universities, job rotation and experience, and personal learning, even if it is on the web, and understanding the transportation network itself.