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Kissing Frogs…Low Cost Mentality in 2018

Original Goal: To develop Western Hemisphere sources that deliver on cost, quality or speed

Focus on Cost

- **Haiti** – cashflow & delayed China fabric deliveries led to sub-30% on-time delivery performance for 2 years
- **Guatemala** – Supplier that went bankrupt in 2018
- **Mexico** – small supplier with local market experience, did not meet US market quality & safety expectations

Focus on Quality

- **Honduras** – Major supplier onboarded for expertise but could not meet price requirements or manage complexity
- **Nicaragua** – WH extension of a proven Asia partner (knits & tees), fabric from Asia

Focus on Speed

- **El Salvador** – Major supplier delivering tees as part of the graphics postponement program and with quick turn domestic printing and blanks capabilities, costing is 10-15% higher than Asia
- **Mexico** – on-boarded tees supplier partnered with a large WH mill with potential for other knits categories, pricing concerns

Findings

- Must be a **margin play** – Speed has been successful, not lowest cost
- **Willing partners exist** but requires brand investment in resources to increase footprint
  - Quick acceptance of stringent quality/safety requirements, both in implementation & investment
  - Eagerness to partner on engineering projects to drive efficiencies & reduce cost
- **Local Mills & Trim suppliers are available** however brand needs to accept subtle differences in fabrics as well as onboard additional suppliers

Next Steps

- **Change the narrative: Its either a margin/speed play or simple risk mitigation**
- **Imbed within a segmentation strategy** & develop a resource plan for the region to deliver speed & quality
- **Move all Graphics to WH** to capitalize on speed/margin and blanks capabilities
- Identify key partners to **develop other product capabilities**, including cost engineering & safety protocols via **JV or Supplier Agreements**
- **Onboard local mills & trim suppliers** to support WH growth
- Continue to **research potential new vertical suppliers**

New Mentality in 2022 – Go for Best Cost

Why did the El Salvador Partnership work for us?

3 Core Benefits:

Speed and agility opportunity leading to greater profitability. Reduced production lead-time (30 - 60 days) and transit time (14 - 21 days) which allows for later decision making in development process to drive margin.

Expanded access to raw materials & production outside of Asia. Established mill partnerships creating a foundation for greater expansion in the region. Opens possibility of fabric availability for other programs. Drives towards ESG goals with Cotton LEADS certification on all product.

Provides product supply risk mitigation. Allowed for duty-free product in the West, which alleviates capacity constraints with key suppliers in the East for higher volume/cost products. Improves costing stability/predictability with fact-based cost drivers. Operates in a less constrained freight environment (cost & capacity).

What is working against us in Asia?

- Constrained capacity at low-cost suppliers; raw material constraints globally
- Longer transit times for raw materials & finished goods
- Container availability causing unpredictable, global shipping delays
- Inability to chase back into best selling product efficiently and effectively
- SRM: Transactional instead of Strategic relationships
- Geo-political turmoil (Myanmar, China, Ethiopia)

TCO Costing Model to find the Best Cost

How do we factor speed and risk mitigation into costing scenarios?

Thank you!

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