OMNI-CHANNEL SUPPLY CHAIN MANAGEMENT: VF CORPORATION

The dual wholesale and retail sales model of global branded apparel company VF Corporation, magnifies the difficulty of successfully operating an omni-channel supply chain, but the company is meeting these challenges on multiple fronts with strategic initiatives ranging from inventory visibility to global talent management.

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ABOUT THIS REPORT
As part of the Supply Chain Management: Beyond the Horizon research project, faculty and staff from the Eli Broad College of Business at Michigan State University conducted in-depth interviews with a number of organizations to develop insights into the development and implementation of various supply chain strategies, practices, and processes. The focus concerned the challenges driving supply chain decisions for the future. The following report summarizes key findings from our investigation of the impact of omni-channel supply chain management obtained during our interviews with VF Corporation.

BACKGROUND
VF Corporation is a global branded apparel company focusing on lifestyle clothing, footwear, and accessories. Since its inception in 1899 as a glove and mitten manufacturer, the firm has grown, diversified, and reinvented itself multiple times. Today, its 30 brands are organized into five coalitions or loose confederations that include outdoor and action sports, jeanswear, imagewear, sportswear, and contemporary brands. The company has approximately 64,000 employees, sales of $12.4 billion (2015), and a consistent track record of annual sales and earnings growth. The company is highly diversified across brands, products, distribution channels, and geographies, which provides a strong competitive advantage relative to single-brand competitors.

Through its focus on lifestyle brands, the firm is driven by its consumers and their evolving behaviors and preferences. The firm has four key components to its business strategy:
1. **Lead in innovation** (drive new products and new technologies to support evolving consumer needs and tastes)
2. **Connect with consumers** (engage consumers in new and meaningful ways)
3. **Serve consumers directly** (reach consumers across multiple channels, wherever and whenever they want)
4. **Expand geographically** (take advantage of scale to reduce risk and drive competitive advantage)

¹VF Corporation 2015 Annual Report.
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STRATEGY
During its 115-year history, the strategic focus of VF Corporation has evolved significantly. The firm originally was a manufacturer of branded apparel. The firm then began to think of itself as an organization of brands supported by manufacturing. Now the firm is evolving into a direct-to-consumer business, driven by the “Amazonification” of the consumer experience.

VF Corporation has recognized that consumer expectations and behavior in the apparel industry are rapidly changing, to a great extent because of consumers’ general awareness of the convenience of Amazon’s business model. As a result, VF Corporation is modifying its current approach to become more connected to its consumers. The supply chain network was originally designed as a wholesale business, with large distribution centers serving as consolidation points to serve retail customers. Today, with owned retail stores and the growth of e-commerce, new logistics and distribution strategies are emerging.

ORGANIZATION TRE
As previously mentioned, the global supply chain organization is home to the firm’s supply chain capabilities, which include purchasing, sourcing, manufacturing, distribution, and planning. The firm uses a unique structure for its supply chain leadership. Supply chain leads, known as “vertical leads,” exist within the coalitions/brands and serve as advocates for business needs within the supply chain strategy. Other supply chain leads also exist, performing functional roles such as transportation and warehousing to drive scale and leverage. These individuals are known as “horizontal leads.” This leadership structure builds positive tension into the system and creates balance between competing interests, helping to avoid the common supply chain problems associated with a reactive posture and functional sub-optimization.

CUSTOMERS
VF Corporation serves consumers through a variety of channels including wholesale sales to retailers (such as Walmart, Nordstrom, Macy’s, and Kohl’s), owned retail stores of multiple varieties (full price, outlets, custom) and direct-to-consumer e-commerce approaches. The consumer experience is critical to reflecting lifestyles, so VF Corporation takes a very active role in managing customer relationships to ensure consumers are served appropriately.

OMNI-CHANNEL SUPPLY CHAIN MANAGEMENT OVERVIEW
Before reviewing VF Corporation’s approach to omni-channel supply chain management, some level-setting may be appropriate. Omni-channel supply chain management is an integrated approach in which two aspects of the ordering process are different from traditional brick-and-mortar retailing. The first, order placement, reflects how the product is ordered. The customer orders either in person or online. With in-person ordering, the customer sees the product and “places the order” (buys the product) physically at the retail location.
Alternatively, the customer may place the order online through a smart device, the Internet, or a kiosk. The order may even be placed in the store (e.g., when the store is out of stock on an item).

The second aspect is order fulfillment, which includes on-site pick-up and delivery options. With on-site fulfillment, the customer must go to a physical location (most often a brick-and-mortar store) to pick up the item. Alternatively, with delivery, the product is delivered directly to the customer at a predetermined location. The combination of these two dimensions is illustrated in Figure 1.

![OMNI-CHANNEL SUPPLY CHAIN MANAGEMENT AT VF CORPORATION](image)

In some organizations, each of the cells in Figure 1 represents separate and distinct inventory and ordering approaches. With online retailing and showroom, the firm normally relies upon fulfillment from warehouses with last mile delivery to customers. With local delivery, the firm uses inventory located at the store (as it would with traditional retail), or ships inventory from a warehouse to the store for customer pick-up. The concept of omni-channel supply chain management is to unify these cells into a seamless whole. Omni-channel approaches use all inventory, regardless of location, to satisfy customer needs.

Driving omni-channel strategies is based on a simple premise: satisfying the customer irrespective of the way in which the order is placed or where the inventory is located. Ultimately, omni-channel operations provide ultimate flexibility for the customer. The challenge of omni-channel, then, is integrating the four approaches, which often means significant investments in technology that offers real-time inventory visibility. Such complexity has been a challenge for many organizations and forms the basis for the remainder of this discussion.

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**OMNI-CHANNEL SUPPLY CHAIN MANAGEMENT AT VF CORPORATION**

One of VF Corporation’s key strategic initiatives is developing and leveraging its global supply chain capabilities in support of multiple retail and wholesale channels, in addition to direct-to-consumer sales. The initiative, known as “product flow and fulfillment,” is designed to take VF Corporation’s traditional warehouse distribution model—with centralized inventory, inbound consolidation of freight, and retail payment of transportation costs—and make it more accommodating to direct-to-consumer sales and e-commerce. This is important, since omni-channel is not an initiative but a fundamental and accepted reality of business today.
The current distribution network was designed to help consolidate inventory from Asian sources on the West Coast of the United States and then distribute case quantities to retailers across the country. This network is not optimized to serve direct-to-consumer sales and e-commerce, where shipping of individual items is critical and the majority of the population is located in the eastern United States. The current system results in extended lead times and higher freight cost because of the necessity of making long-distance small shipments.

The firm has identified a number of challenges in its quest to build an integrated omni-channel supply chain capability. One of the key challenges is changing customer expectations. These changing expectations have led to the launch of four key initiatives to support an omni-channel environment. First, we describe the changing expectations, followed by a discussion of the four initiatives.

CUSTOMER EXPECTATIONS
VF Corporation serves two very different customer types: (1) end consumers (i.e., through online and owned retail stores), and (2) retailers buying through traditional wholesale approaches. Customers in each of these two categories are redefining their expectations and requirements.

Consumer expectations are always changing, but it’s the pace of this change that is creating the most significant challenges for VF Corporation. One such change is how consumers shop. Consumers are purchasing less in the traditional brick-and-mortar retail model, demonstrated by the dramatic annual declines in “Black Friday” in-store sales and the growth of online shopping. However, consumers still often want to browse in brick-and-mortar stores—meaning that retailers must have substantial product in stores, even if consumers end up purchasing online. The ability to adequately support these new shopping/buying patterns and to be able to do it at a seasonal scale is challenging.

Further, this pattern is not restricted to the US environment, but is truly a global phenomenon (e.g., Singles Day in China and the emerging growth of Black Friday in Europe). For VF Corporation, significant volume remains in brick-and-mortar retail (94 percent of sales). However, given that millennials represent one of VF’s target consumer groups, it is expected that future growth will be in the online environment (5-to-1 sales growth).

Among the key initiatives designed to accelerate an e-commerce environment is establishing a roadmap for a premium home shopping experience (providing the right choices at check-out, delivery certainty, retail-friendly service level agreements, and easy returns). This initiative requires VF Corporation to develop new capabilities such as web design, but also tasks the supply chain to be able to serve both traditional brick-and-mortar and online channels simultaneously.

For retailers, service expectations are also changing. Retailers are demanding three-day delivery (versus the previously common nine-day delivery time frames). This requires the ability to rapidly move inventory, much of which is coming from locations outside the US, through the supply chain and distribution network. Simultaneously, the quantities demanded by retailers are declining as retailers manage smaller quantities to keep on-site inventories low (which further impacts the traditional warehouse distribution model). In addition,
the retail model is not homogeneous. Some retail formats are winning, whereas others are not. According to Doug Stevens, retailers that provide high fidelity and focus on experience-based shopping (e.g., Zara, H&M) or provide high utility and focus on value (e.g., Uniqlo, Walmart, Target, Amazon) continue to see growth opportunities. However, retail formats that fall into the “pit” and don’t excel at either are at significant risk (e.g., Macy’s, Sears, The Sports Authority).

**Initiative 1: Inventory Visibility and Management**

In order to serve both channels simultaneously, VF Corporation needs to develop comprehensive capabilities to manage inventory throughout its domestic and global network. The historical development of the firm’s business and distribution network has become a barrier, though. The company has grown through acquisition, so multiple systems and multiple networks co-exist within its supply chain ecosystem. While this initially was a great benefit for serving the brands and their unique requirements, it has created additional complexity with respect to increasing visibility into thousands of individual shipments of small quantities or “eaches” when serving the online market. High seasonality in demand also creates challenges, including overcoming temporary labor shortages and wage increases in distribution centers.

Among the key initiatives designed to accelerate an e-commerce environment is creating an “endless aisle” inventory model that moves from segregated reservations for different channels to pooled inventory, creation of decision trees, and delivery of seamless consumer experiences. As discussed earlier, this pooled approach to inventory reduces risk and provides improved inventory availability across all channels by putting the consumer’s interests first. But it also increases complexity because inventory is disaggregated into many more locations, which means much more safety stock is required.

Today, VF Corporation is driving a multi-channel approach through a common network. Eventually, though, the organization may benefit from a bi-coastal strategy with split inventory. A similar issue exists in Europe, too. Overall, the company is moving toward an end-to-end supply chain solution and business that is consumer-centric, agile, and demand-driven.

**Initiative 2: Brand Requirements**

As alluded to previously, the individual brands exert strong influence and value the ability to provide unique solutions to serve their specific consumers. For instance, packaging requirements are driven by the brands in support of their desired image, sustainability profile, bags, box sizes, etc. The packaging issues concern the use of cardboard versus plastic packaging and which sizes of packaging will reduce complexity. While cardboard is more sustainable, plastic is more flexible and reduces shipping cost. These opposing forces make a single, unified approach much more elusive.

Also, VF currently lacks the capability to link UPS or FedEx information through to customers, so a comprehensive web strategy initiative is underway to connect with consumers to make the desired information always available to both consumers and VF Corporation. These unique requirements are both a strength in terms of consumer preferences and a challenge in terms of cost and supply chain efficiencies.
Initiative 3: Key Performance Indicators
One of the essential elements of this strategy is to measure success from the consumer’s perspective through development of new key performance indicators. These indicators are in three areas: friction measures (order visibility, ease of returns), process measures (adherence to promise), and consumer satisfaction (in-moment surveys). This level of engagement is significantly different from the existing performance models used in support of the traditional retail environment.

Initiative 4: Talent
The other key initiative enabling VF Corporation to support its omni-channel supply chain efforts is human resources and global talent management. In essence, the firm believes that the only real differentiator for an organization as complex and ever-changing as VF is its people. Products will change; brands will be added and divested; processes will evolve. As a result, VF Corporation continues to invest in talent development initiatives focused on global-ready leaders, diversity, mobility, and capability development, as well as organizational health focused on agility, speed, innovation, and change management as cultural enablers. VF Corporation understands that the development and deployment of omni-channel capabilities requires building a growth-enabling talent ecosystem, leveraging organization capabilities, and creating a learning culture marked by a global mindset, high collaboration, inclusion, coaching, development, transparency, and accountability.

Summary
As VF Corporation works to address these challenges, new and emerging expectations are being placed on its supply chain organization. For instance, developing a more centralized approach to engineering and network strategy is essential to making omni-channel supply chain management a reality. Network planning has become a key opportunity to think creatively about these challenges. While cost is always a consideration, in this case, the ability to effectively serve consumers with varying service expectations is the factor driving these changes.

CONCLUSION
Because of its business model, VF Corporation is taking a unique approach to omni-channel supply chain management. The evolution of consumer expectations and preferences is causing a reexamination of the existing network and approach to managing distribution, inventory, and returns. The size, scale, and complexity of the organization in some ways limit its ability to make dramatic shifts quickly. At the same time, this size, scale, and complexity provides competitive advantage by spreading risk and keeping the organization from being overly dependent on any one channel, brand, or product.

As is the case with many other organizations, the question is not whether to pursue an omni-channel supply chain strategy, but how to implement this capability in a way that supports VF Corporation’s unique business model and core market differentiators.
ABOUT APICS

APICS is the premier professional association for supply chain management and the leading provider of research, education and certification programs that elevate supply chain excellence, innovation and resilience. The APICS Certified in Production and Inventory Management (CPIM), APICS Certified Supply Chain Professional (CSCP), APICS Certified in Logistics, Transportation and Distribution (CLTD) and APICS Supply Chain Operations Reference Professional (SCOR-P) designations set the industry standard. With over 45,000 members and approximately 300 channel partners, APICS is transforming the way people do business, drive growth and reach global customers.

ABOUT ELI BROAD COLLEGE OF BUSINESS

Michigan State University's Eli Broad College of Business prepares students to make business happen through an innovative curriculum and collaborative culture, guided by a distinguished faculty. The hardworking, team-oriented students of Eli Broad College acquire deep knowledge of their chosen disciplines and a broad understanding of how global businesses work, enhanced by study abroad and real-world projects in research centers and experiential labs. The college, consistently ranked among the top business schools, offers undergraduate, graduate, and executive development programs. Broad graduates are ready to tackle business challenges around the world, part of an unparalleled peer and alumni network.