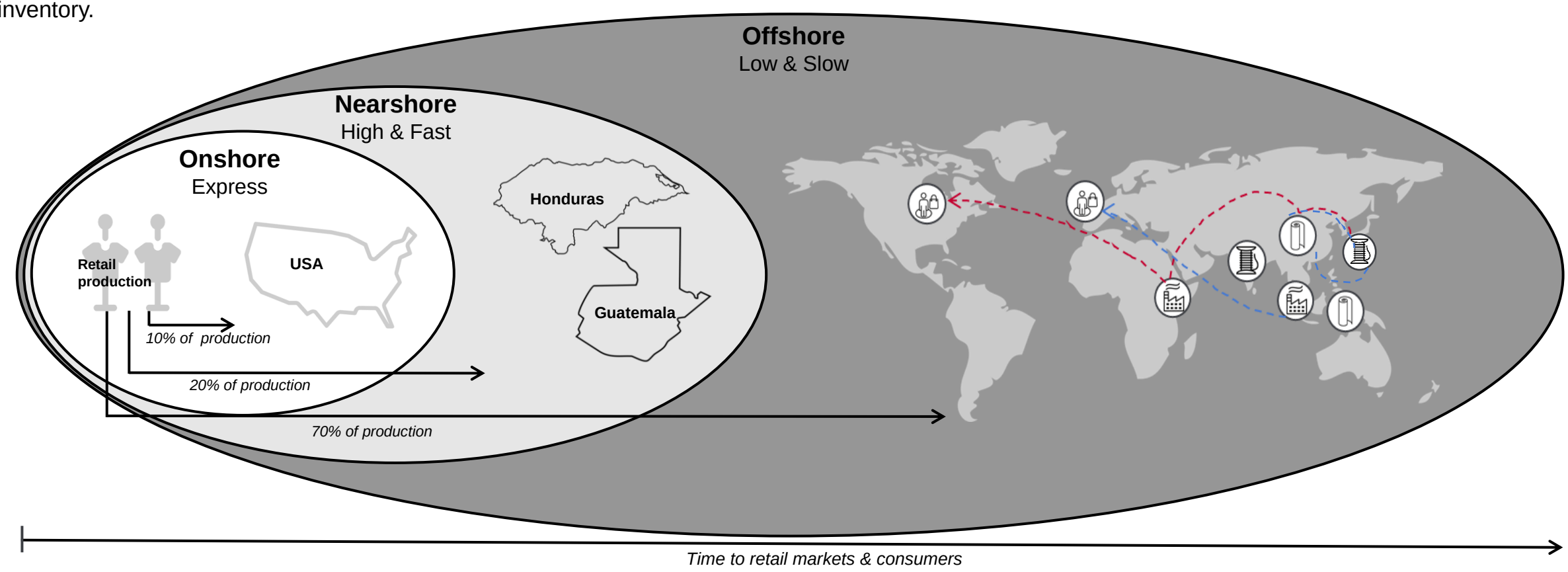
SUPPLY NETWORK

Supply Network

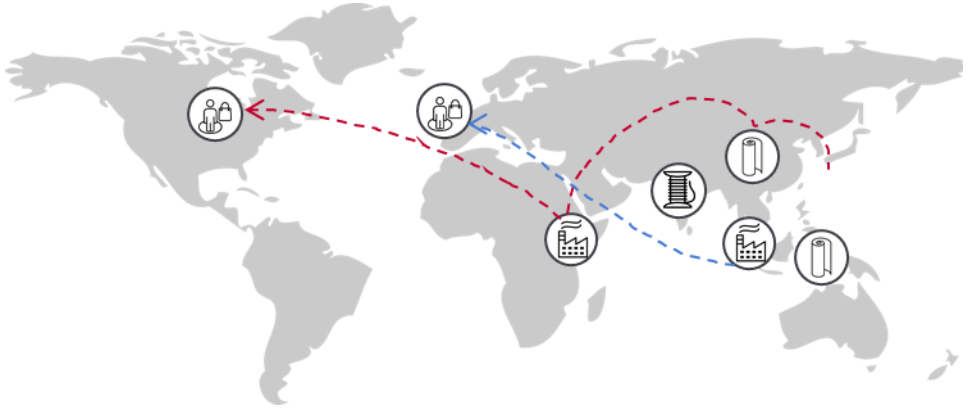
In order for Retailers to get the most value out of the Micro Park, it is necessary to rethink planning, merchandising philosophy, supply chain set up, and costing (move from first cost to program profitability). This can be done – in partnership with Suppliers – by establishing a flexible Supply Network comprising Onshore, Nearshore and Offshore models. Together, these models allow Retailers to dynamically meet consumer demand while optimizing selling opportunity, increasing margins (MMU), reducing mark-downs, and eliminating waste, all on significantly less inventory.



	Onshore	Nearshore	Offshore
PO to Delivery	1 Week	1 Month	4-6 Months
Design to Delivery	2 Weeks	2 Months	6-12 Months

Supply Network: Financial Implications

Products manufactured on shore will have higher first costs; however, margins will increase as a result of lower inventory costs, lost sales and markdowns as well as higher full price sales.



	On-Shore	Near-Shore	Off-Shore
Cost	$$$	$$	$
Inventory	Zero	Medium	High
Full Price Sales	High	Medium	Low
Lost Sales	Zero	Low	High
Markdowns	Zero	Low	High
IMU (Initial Markup)	Low	Medium	High
Program Profitability	On-Shore **+** Near-Shore **+** Off-Shore = **HIGH** program profitability		
		Near-Shore **+** Off-Shore = **MEDIUM** program profitability	
			Off-Shore = **LOW** program profitability

SPEED MODEL ILLUSTRATIONS

Introduction

DISCLAIMER: All numbers referenced in the following financial illustrations are made up and not based on real costs

The following slides serve as an illustrative financial model for creating 100 units of a dress across each speed model with varying levels of offshore, nearshore, and onshore support.

Baseline Assumptions:
• *Duty onshore is 8% of imported material cost*
• *Duty off and nearshore is 12% of product cost respectively*
• *Material cost is 50% of offshore product cost*
• *Technology cost was not added to the per unit cost calculation*
• *Total unit cost = Product cost + transportation + duty*
• *Benefits of scaling beyond 100 units was not factored into the financial illustration*
• *Lost sales were not factored into the financial illustrations*
• *Planned markdowns vs. actual markdowns were not addressed in the financial illustrations*

Baseline Inputs			
Example product:	Dress	Duty onshore	$0.20
MSRP	$25.00	Duty nearshore	$.90
Deep discount	50%	Duty offshore	$.60
Total bought units	100	Total unit cost onshore	$10.20
Product cost onshore[1]	$10.00	Total unit cost nearshore	$8.70
Transportation onshore[3]	$0.00	Total unit cost offshore	$6.10
Product cost nearshore[2]	$7.50		
Transportation nearshore[4]	$.30		
Product cost offshore	$5.00		
Transportation offshore	$.50		

Speed Model Overview

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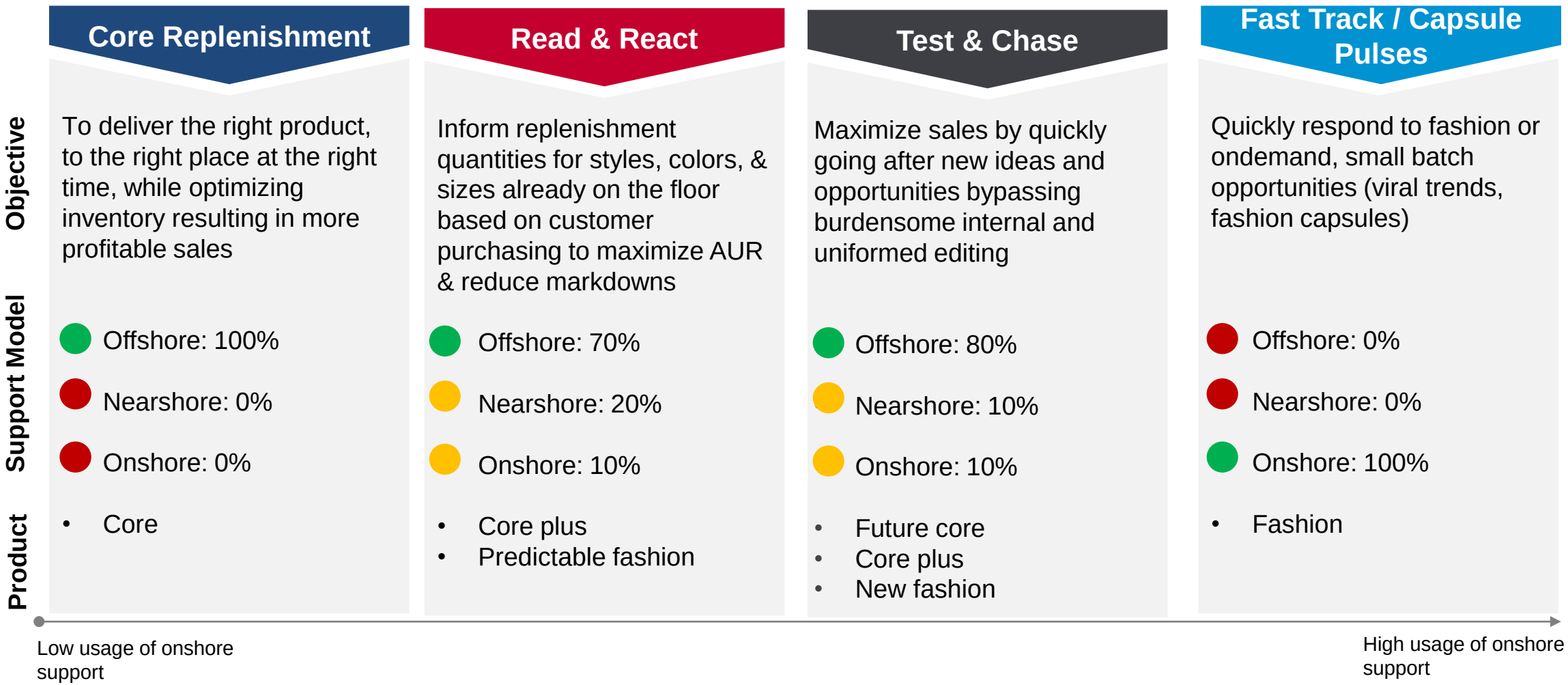


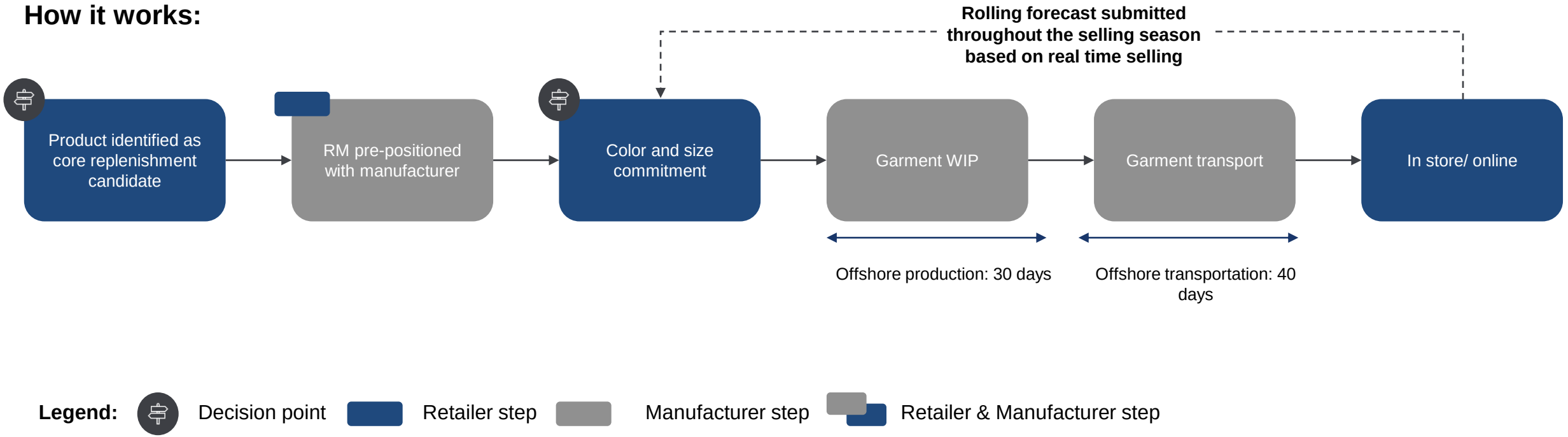
Core Replenishment

DISCLAIMER: All numbers referenced in the following financial illustrations are made up and not based on real costs

Definition:

Core Replenishment Programs are programs that run continuously for more than 12 months with the same raw material components in the same style, manufactured by the same garment factory, larger quantities in a continuous flow. By prepositioning RM and materials (est. 3 months of supply) the model results in reduction of PO to DC lead-times for continuous core programs. Ex: suppliers maintain up to 3 months' supply of raw material components (fabric + trim) based a 12m rolling forecast provided

How it works:



Core Replenishment

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Illustrative financial model

Narrative:

- Produce 100% offshore with rolling forecast and prepositioned goods for shorter lead time (e.g. 3 months)

	Revenue	COGS	Net Profit	Margin
Onshore	-	-	-	-
Nearshore	-	-	-	-
Offshore	$2,462.50	$610	$1,852.50	75%
Total	**$2,462.50**	**$610**	**$1,852.50**	**75%**

	Cost per unit	Units bought per model	Units sold full price ($25)	Units sold discounted ($12.50)	Units liquidated
Onshore	$10.20	-	-	-	-
Nearshore	$8.70	-	-	-	-
Offshore	$6.10	100	98	1	1

* Discount = 50%
* Liquidated inventory = $0 revenue

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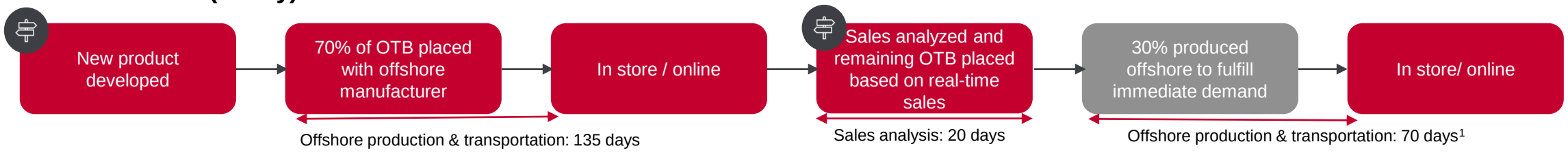
Read and React

Definition:

The ability to react **up** on product the customer wants, and react **down** on product they do not. Increase topline sales while reducing unplanned markdowns by placing about 70% of buys upfront and reacting with the balance demand, using real time selling to inform quick response replenishment orders.

How it works: **(Today)**



Offshore read and react model tends to fail as long offshore production and transportation times limit the time remaining to sell in season

Legend: Decision point | Retailer step | Manufacturer step

[1]Production duration is shortened due to usage of pre-positioned goods

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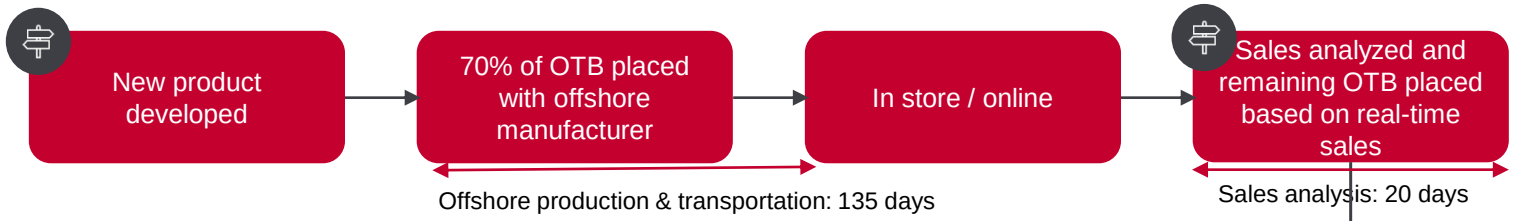
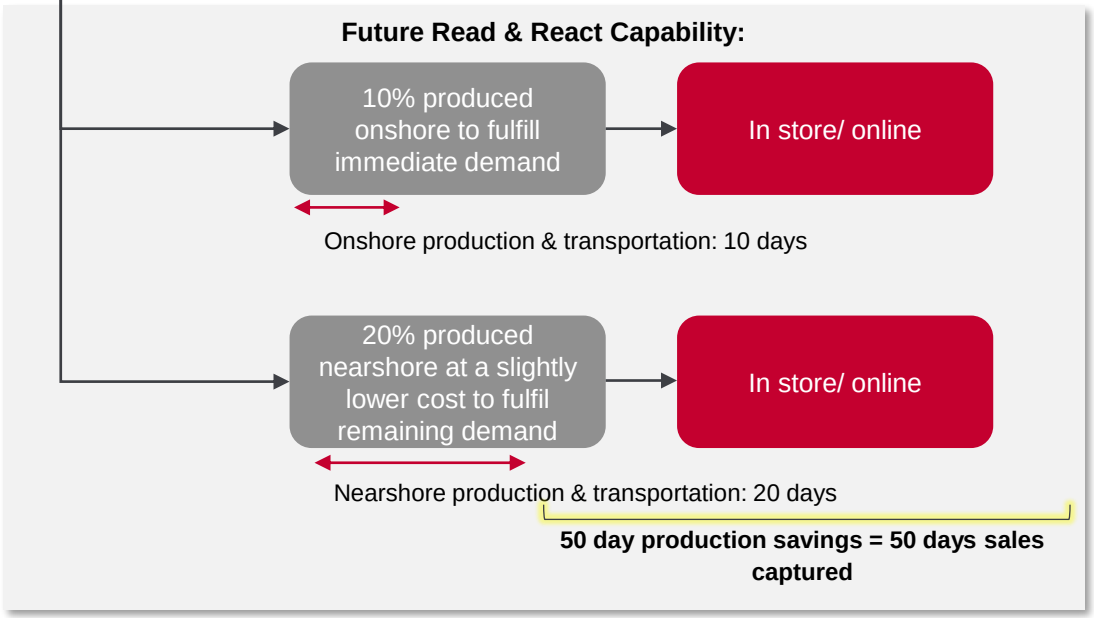
How it works: (In the future)



Onshore and nearshore capabilities enable rapid response production, allowing retailers to capture previously missed sales



Legend: Decision point | Retailer step | Manufacturer step

[1]Production duration is shortened due to usage of pre-positioned goods

Read and React: TODAY

DISCLAIMER: All numbers referenced in the following financial illustrations are made up and not based on real costs

Illustrative financial model

Narrative:

- Both initial and replen orders are placed offshore
- Bulk of buy is produced upfront (70%)
- Winning products are quickly identified
- Replenish sales with pre-positioned goods offshore (30%)

	Revenue	COGS	Net Profit	Margin
Initial	$1137.50	$427	$710.50	62%
Replen	$562.50	$183	$379.50	67%
Total	**$1,700.00**	**$610**	**$1,090.00**	**64%**

	Cost per unit	Units bought	Units sold full price ($25)	Units sold discounted ($12.50)	Units liquidated
Initial order (70%)	$6.10	70	35	21	14
Replen order (30%)	$6.10	30	18	9	3

* Discount = 50%
* Liquidated inventory = $0

Full price sell through averages out at 55% in todays model, suffering due to time that product takes to reach consumer

Read and React: FUTURE

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Illustrative financial model

Narrative:

- Bulk of buy is produced upfront, offshore
- Winning products are quickly identified
- Quick response supply channels are then utilized to catch sales and maximize full price sell through

	Revenue	COGS	Net Profit	Margin
Onshore	$250.00	$102.00	$148.00	59%
Nearshore	$475.00	$156.60	$318.40	67%
Offshore	$1,365.00	$422.73	$942.27	69%
Total	**$2,090.00**	**$703.00**	**$1,387.00**	**66%**

	Cost per unit	Units bought per model	Units sold full price ($25)	Units sold discounted ($12.50)	Units liquidated
Onshore	$10.20	10	10	-	-
Nearshore	$8.70	20	18	2	-
Offshore	$6.10	70	50	10	10

* Discount = 50%
* Liquidated inventory = $0

With the addition of onshore and nearshore quick response, full price sell through increases to 87%, leading to an improvement in profit and margin

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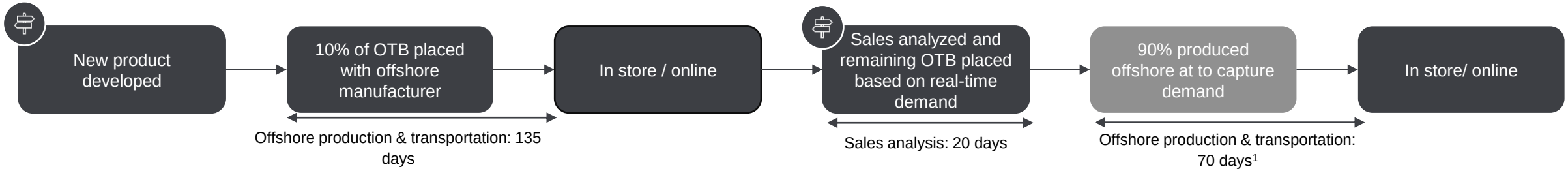
Test and Chase

Definition:

Buy small market quantities or design and produce small quantities to be tested in-store, online, or through other channels. Strategically plan materials and lead-times to place bulk order based on test sales results. Ex: new silhouette from a market trip, a vendor style, new collars on polo programs, or new wash on denim.

How it works: **(Today)**



Offshore test and chase model tends to fail as the production time requires you to test ahead of the season leading to inaccurate test results

Legend: Decision point Retailer step Manufacturer step

[1]Production duration is shortened due to usage of pre-positioned goods

Test and Chase

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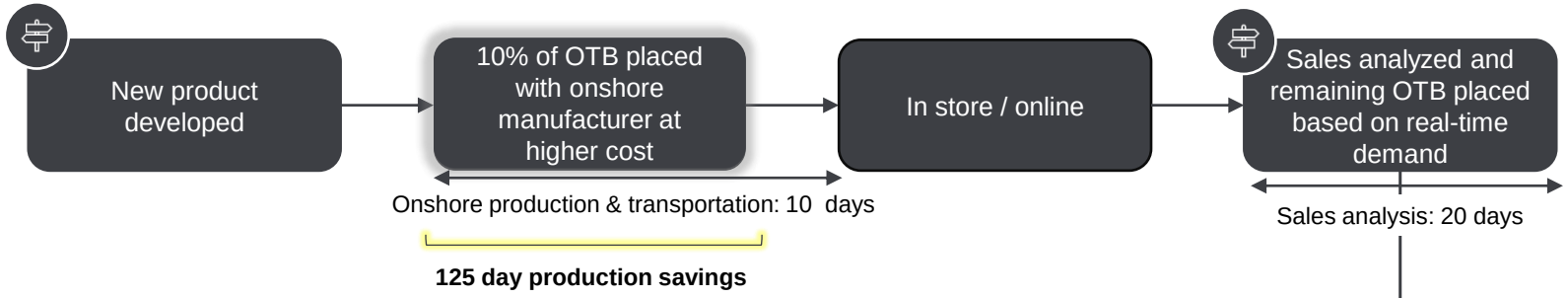
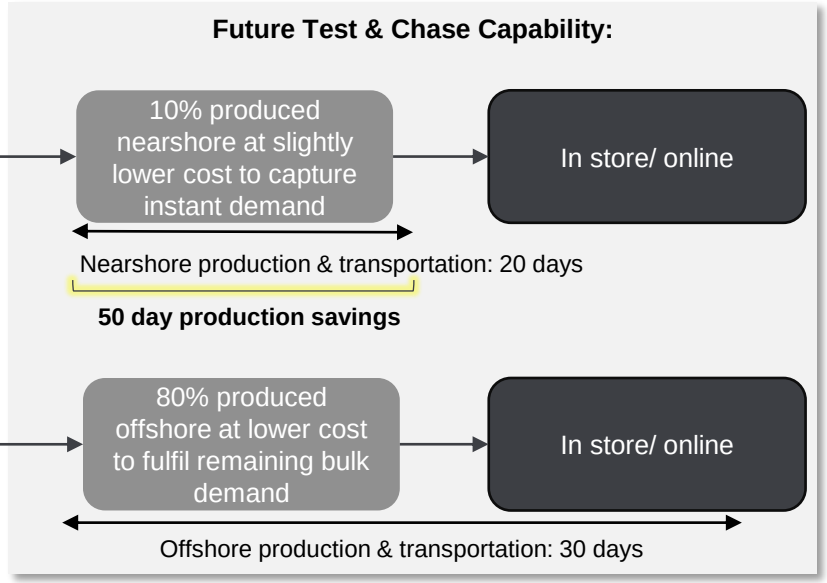
How it works: (In the future)



Onshore and nearshore capabilities enable you to test and respond quicker to capture demand at the right time



Legend: Decision point Retailer step Manufacturer step

[1]Production duration is shortened due to usage of pre-positioned goods

Test and Chase: TODAY

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Illustrative financial model

Narrative:

- Both initial and replen are placed offshore
- Small batch of test products are placed into sales channels months ahead of intended selling season
- Winning products are identified
- Bulk order is produced, influenced by outdated selling data

	Revenue	COGS	Net Profit	Margin
Initial	$250.00	$61.00	$189.00	76%
Replen	$1,631.25	$549.00	$1,082.25	66%
Total	**$1,881.25**	**$610**	**$1,271.25**	**68%**

	Cost per unit	Total units bought per channel	Units sold full price ($25)	Units sold discounted ($12.50)	Units liquidated
Initial order (10%)	$6.10	10	10	-	-
Replen order (90%)	$6.10	90	54	23	14

* Discount = 50%
* Liquidated inventory = $0

Sales indication on the test is outdated by the time product is produced and reaches consumer, resulting in lower full price sell through

Test and Chase: FUTURE

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Illustrative financial model

Narrative:

- Small batch of test products are placed into sales channels
- Winning products are quickly identified
- Near and Off shore supply channels are then engaged to produce the bulk of the wining product

	Revenue	COGS	Net Profit	Margin
Onshore	$250.00	$102.00	$148.00	59%
Nearshore	$237.50	$87.00	$150.00	60%
Offshore	$1,800.00	$488.00	$1,312.00	73%
Total	**$2,287.50**	**$677.00**	**$1,610.50**	**70%**

	Cost per unit	Total units bought per channel	Units sold full price ($25)	Units sold discounted ($12.50)	Units liquidated
Onshore	$10.20	10	10	-	-
Nearshore	$8.70	10	9	1	-
Offshore	$6.10	80	64	16	-

* Discount = 50%
* Liquidated inventory = $0

A boost in profit and margin is gained through the utilization of rapid response channels, allowing retailers to maximize sales on trend items in season

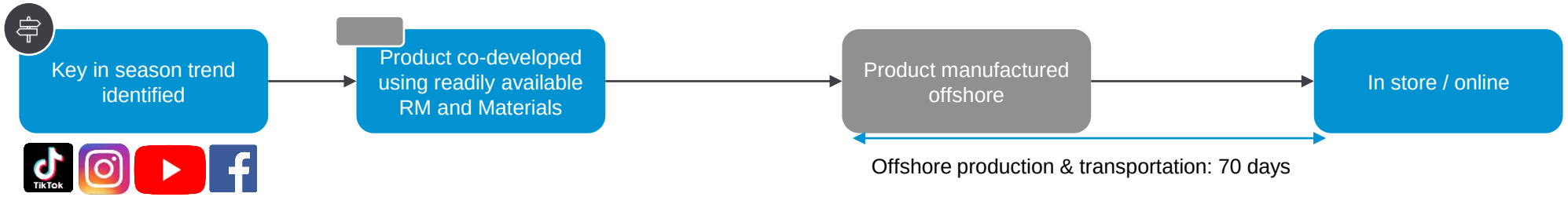
Fast Track / Capsule Pulses

DISCLAIMER: All numbers referenced in the following financial illustrations are made up and not based on real costs

Definition:

Fast track capability that allows new concepts, styles, colors or prints to be brought to market as quickly as possible and unattached to any specific seasonal calendar. This protects the business from missing any key fashion trend or missed opportunities.

How it works: **(Today)**



Success of Fast Track / Capsule Pulses models are limited in today's offshore model

Legend: Decision point | Retailer step | Manufacturer step | Retailer & Manufacturer step

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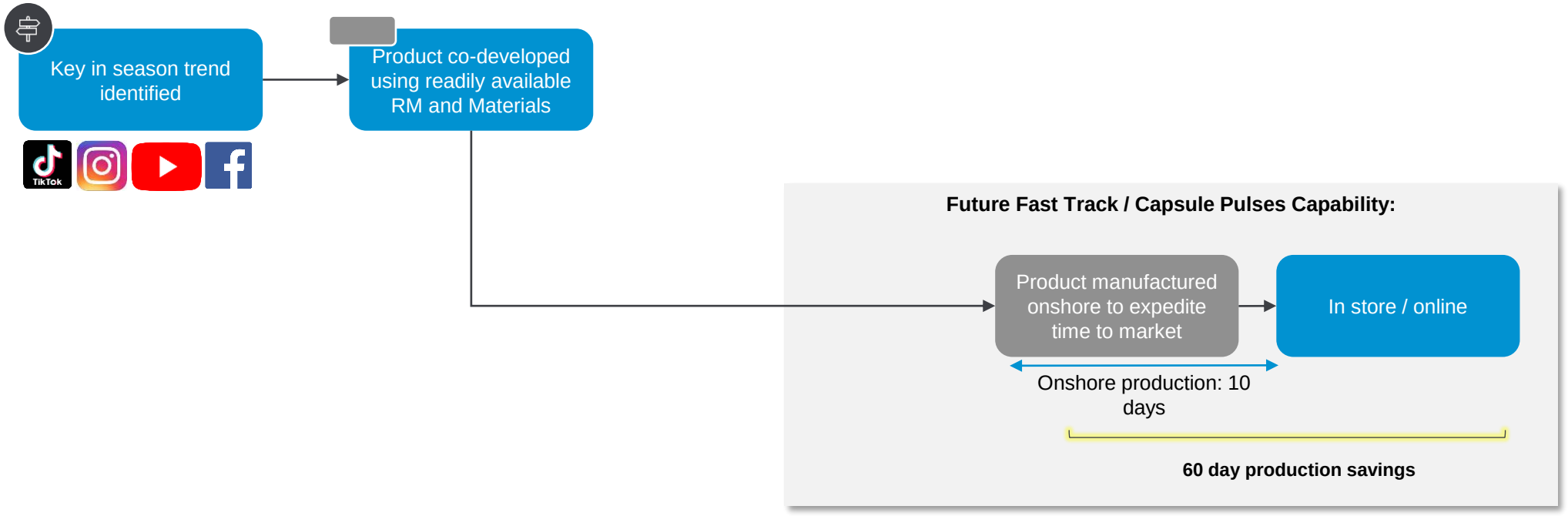
How it works: **(In the future)**



Co-development and expedited production unlocked via onshore capability

Legend: Decision point | Retailer step | Manufacturer step | Retailer & Manufacturer step

DISCLAIMER: All numbers referenced in the following financial illustrations are made up and not based on real costs

Fast Track / Capsule Pulses: NEW

Illustrative financial model

Narrative:

- Fashion/ trend opportunities are identified
- Onshore supply channel is engaged to develop quick response small batch buy
- Production is done using the readily available RM onshore
- Assumption of 100% sell through based on real time demand (FT programs are designed to sell fast and sell out)

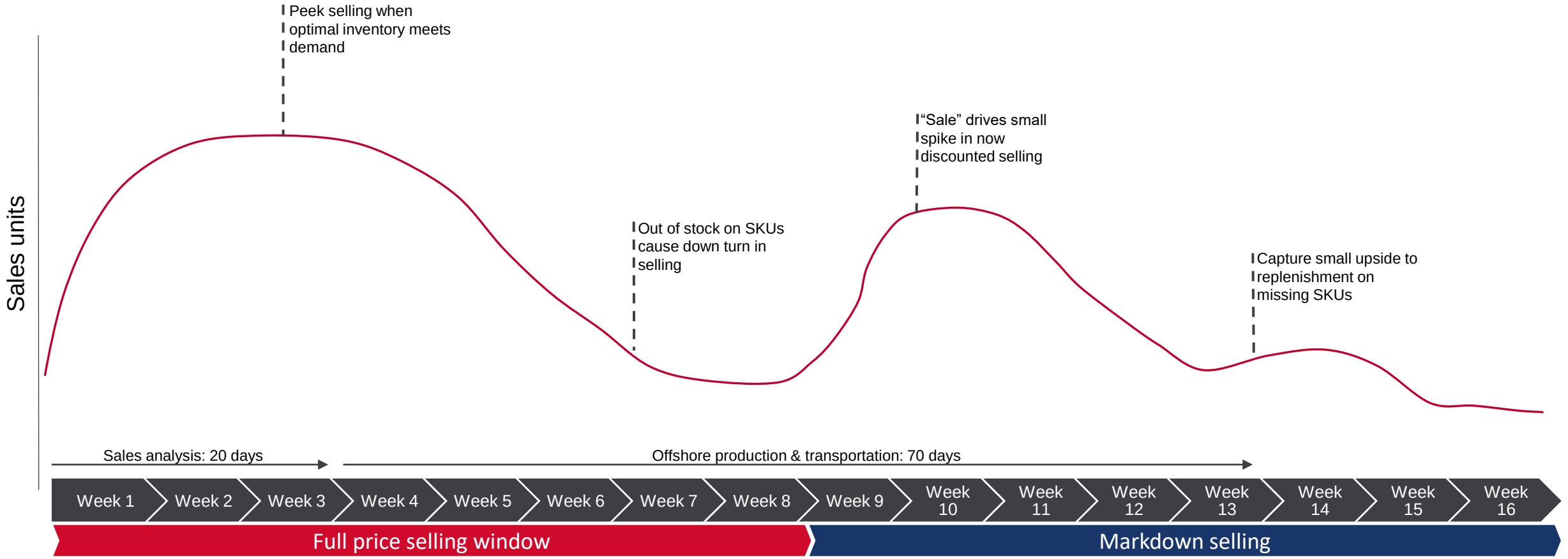
	Revenue	COGS	Net Profit	Margin
Onshore	$2,500.00	$1,020.00	$1,480.00	59%
Nearshore	-	-	-	-
Offshore	-	-	--	
Total	**$2,500.00**	**$1,020.00**	**$1,480.00**	**59%**

	Cost per unit	Total units bought per channel	Units sold full price ($25)	Units sold discounted ($12.50)	Units liquidated
Onshore	$10.20	100	100	-	-
Nearshore	$8.70	-	-	-	-
Offshore	$6.10	-	-	-	-

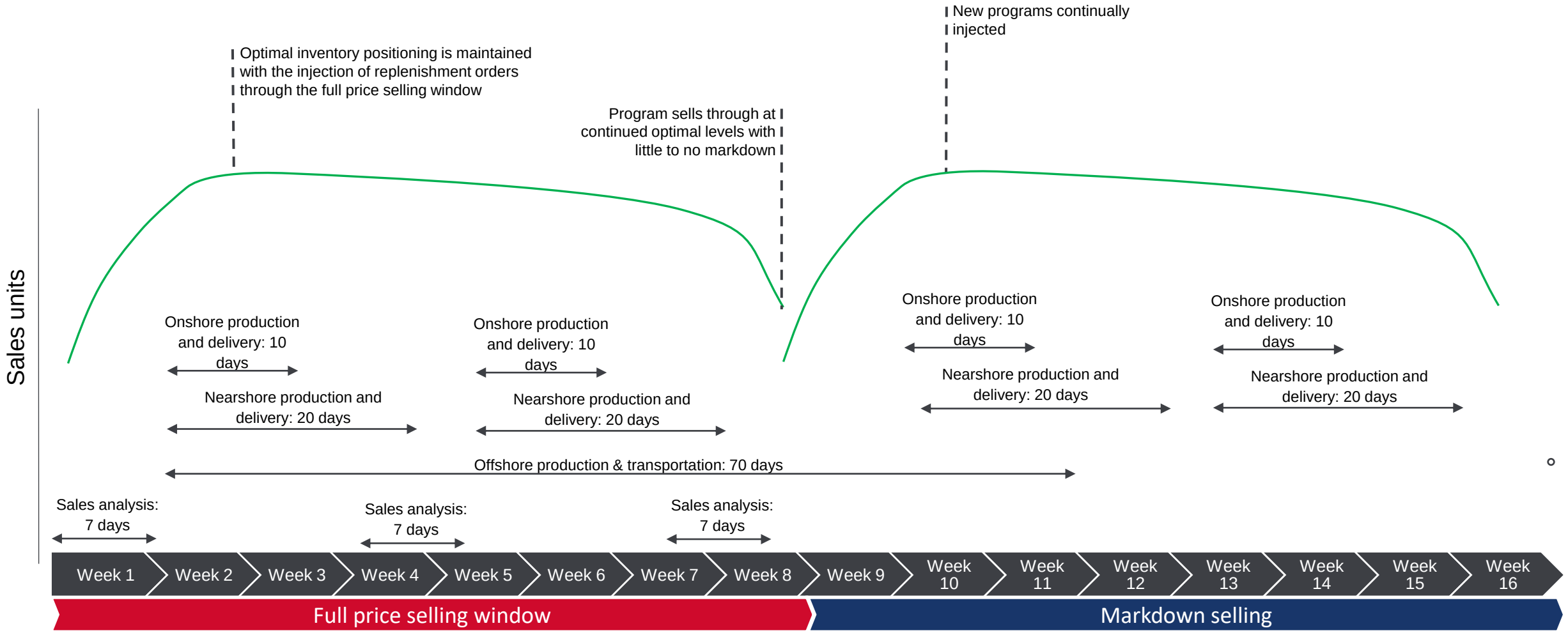
* Discount = 50%
* Liquidated inventory = $0

Implementing a true fast track, on demand capability allows for a completely additive channel of revenue

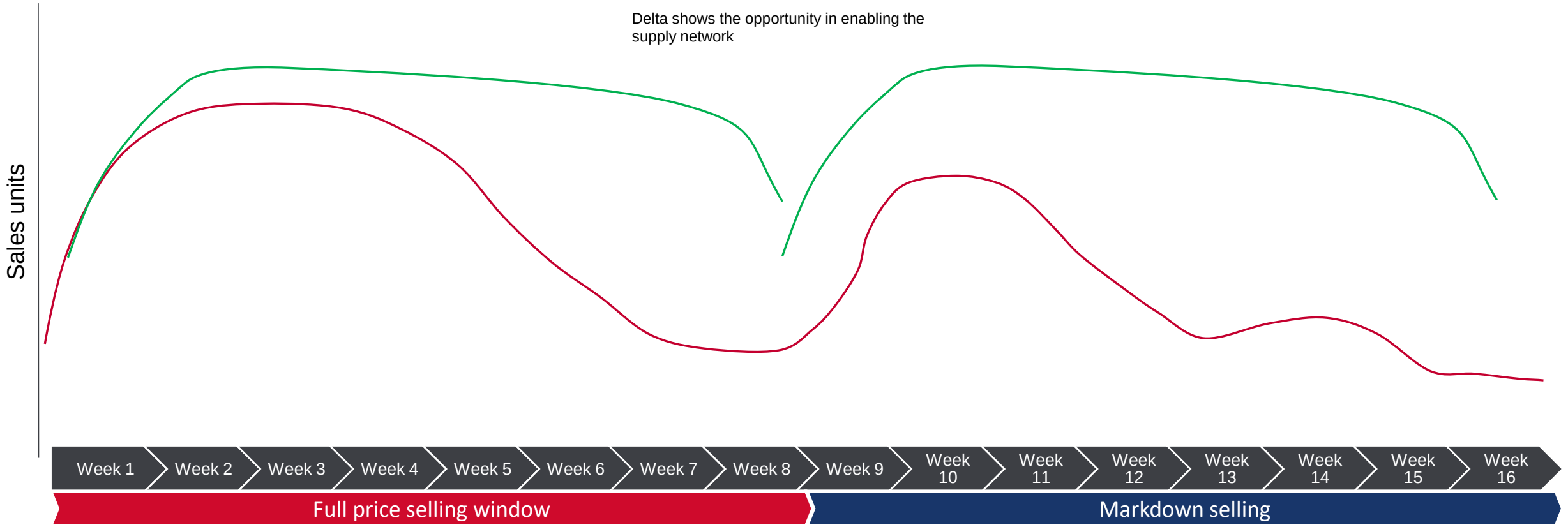
Sales trend before network



Sales trend after network

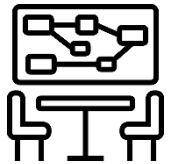


Sales trend opportunity



Retailer opportunities

Retailers often ask “Why can’t we get the product faster, cheaper, on time and at better quality levels?” The reality is that our supply chain is a direct consequence of the actions of our operations. If we want to improve our supply chain, we need to make internal changes first.



Planning tools

Dynamic planning tools that can algorithmically optimize a 3 channel supply network

Cost

Products will now live with 3 costs

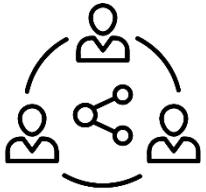
First cost vs. Program profitability

Inventory

Finished garment inventory to RM inventory management

Skills

Planning, finance, merchandising, design, all develop new understanding and tools to optimize 3 supply channels



Pre- comp collab

Collaborate to elevate: Where can retailers align on fabrics, trims, and other efficiency unlocks