

*Executive Summary*

# **Supply Chain Strategies in the Apparel Industry: The Case of Victoria's Secret**

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This research is an apparel industry contribution to phase one of the MIT-Supply Chain 2020 (SC2020) project, whose objective is to identify and analyze the factors that are critical to the success of future supply chains up to the year 2020.

We provide an overview of the underlying dynamics, drivers, top players, supply chain structure and challenges facing the apparel industry. We present the case of Limited Brands Inc. and describe the positioning of the company within the apparel industry. We then address the business processes critical to the success of the Victoria's Secret business unit of Limited Brands. This research draws extensively on interviews with company officials at Limited Brands. These interviews provided rich insight into a wide range of supply chain practices specific to the Victoria's Secret business. The success of Victoria's Secret can be attributed to a set of important supply chain activities, driven primarily by a collaborative intra-company effort.

We also briefly contrast the business model of Victoria's Secret to that of Zara, a Spanish apparel retailer, and explore the differences in the supply chain strategies followed by the two companies.

Insights gained from this research can also be leveraged to understand other industries such as consumer packaged goods, computers, and electronics industries which face similar supply chain issues.

## **Research Approach**

This research was executed in three different steps. The first step involved thorough research on the apparel industry as a whole, with the help of a literature review of articles from leading trade and academic journals. Additionally, one-on-one telephone interviews conducted with industry experts provided a significant resource. These industry experts came from third party logistics, apparel and footwear software solutions, and supply chain consulting.

The second step, which involved understanding the positioning of Limited Brands within the apparel industry, was primarily researched using available online public information, the company website, and visits to a company speaker event.

The third step, focusing specifically on the Victoria's Secret supply chain, was researched primarily through one-on-one interviews with company officials, both by phone as well as through a site visit to the Limited Brands headquarters in Columbus, Ohio. Additional supporting information was obtained from public sources.

## **Trends and Drivers of the Apparel Industry Supply Chain**

The United States is one of the world's largest markets for apparel products. In 2003, U.S. consumption of apparel and footwear amounted to more than \$311 billion. Most apparel companies in the United States distribute their products through a variety of channels, such as wholesale, catalog, and Internet, as well as through their own retail stores.

The apparel industry has traditionally been driven by low-cost manufacturing, heavy manual labor and low-technology. However, in the past decade, supply chain technologies driven by the Internet have provided companies with considerable competitive advantage.

We note trends in four areas: consumer preferences, such as a trend toward made-to-order as well as branded apparel; increasing outsourcing, often to "off-shore" production in the Far-East; trends in distribution, such as the increase in Internet shopping; and changes in market concentration, through global expansion of apparel brands.

## Limited Brands Case Study

Limited Brands operates more than 3,700 stores in the United States including an apparel business, an intimate apparel business, and a personal care products business. We present the company's history and its evolution along with its current financial performance as well as the performance of its individual business units. We note that the company strategy has evolved over time from a knock-off design, shop-and-copy system prior to 1995, to a strategy focused on developing a distinct brand identity through innovative product development. Limited Brands planned its strategic overhaul, focusing on developing a distinct brand identity, and divested several businesses that it didn't find profitable or aligned toward the overarching strategy. Limited Brands is currently focusing on its star players - Victoria's Secret and Bath and Body Works. Our focus is on the case of Victoria's Secret.

## Victoria's Secret Supply Chain

Victoria's Secret (VS) is the most profitable as well as the biggest revenue generating brand for Limited Brands. Its net sales for the year 2004 were \$4,232 million with an operating income of \$799 million.

Victoria's Secret comprises 3 sub-businesses: Victoria's Secret Stores (VSS), Victoria's Secret Beauty (VSB) and Victoria's Secret Direct (VSD). VSS primarily sells lingerie, including bras and panties, and sleepwear products and VSB sells beauty products, both through a nationwide network of stores. VSD sells VS lingerie, sleepwear as well as third party brands in the categories of apparel, shoes and accessories through its online store and catalogs. This case study focuses on Victoria's Secret lingerie business.

We identify the critical processes that make up the Victoria's Secret's supply chain as: 1) Product Design and Product Launch; 2) Merchandise Planning, Allocation and Forecasting; 3) Production & Sourcing; 4) Logistics; and 5) Store Operations. A design idea, from the point it is conceptualized to the point the product is delivered to the Victoria's Secret Stores, termed by the company as "Concept-To-Market", traverses through each of these processes comprising the supply chain.

We note that Victoria's Secret's business strategy has evolved from a shop-and-copy system to a branded concept, that of selling innovative, technologically advanced products at reasonably high profit margins. At the same time, the company is somewhat risk averse and does not rely solely on its fashionable bra launches for all of its sales. It distributes risk by having a mixed assortment of fashion and basic goods, which in turn adds complexity, in that the brand has to operate two supply chains; one for each of these types of products. We introduce the underlying operating model, operational objectives and important tailored business activities that drive sustained competitive advantage within the Victoria's Secret supply chain and align with the overarching business strategy.

### ***Supporting Strategy: Victoria's Secret's operating model***

The operating model at Victoria's Secret Stores is to achieve desired brand recognition through innovative product development, glamorous bra launches and high shelf availability of its products. Most of the Victoria's Secret Stores' new product introductions are offered in both fashion (items with less predictable demand) as well as basic (stable demand) styles. This mix of fashion and basic items helps Victoria's Secret to distribute risk, to ensure profitability and to offer compelling value to customers. The company identifies that there is not a single all-in-one supply chain solution for both of these categories of products and therefore it maintains different supply chains for each product category.

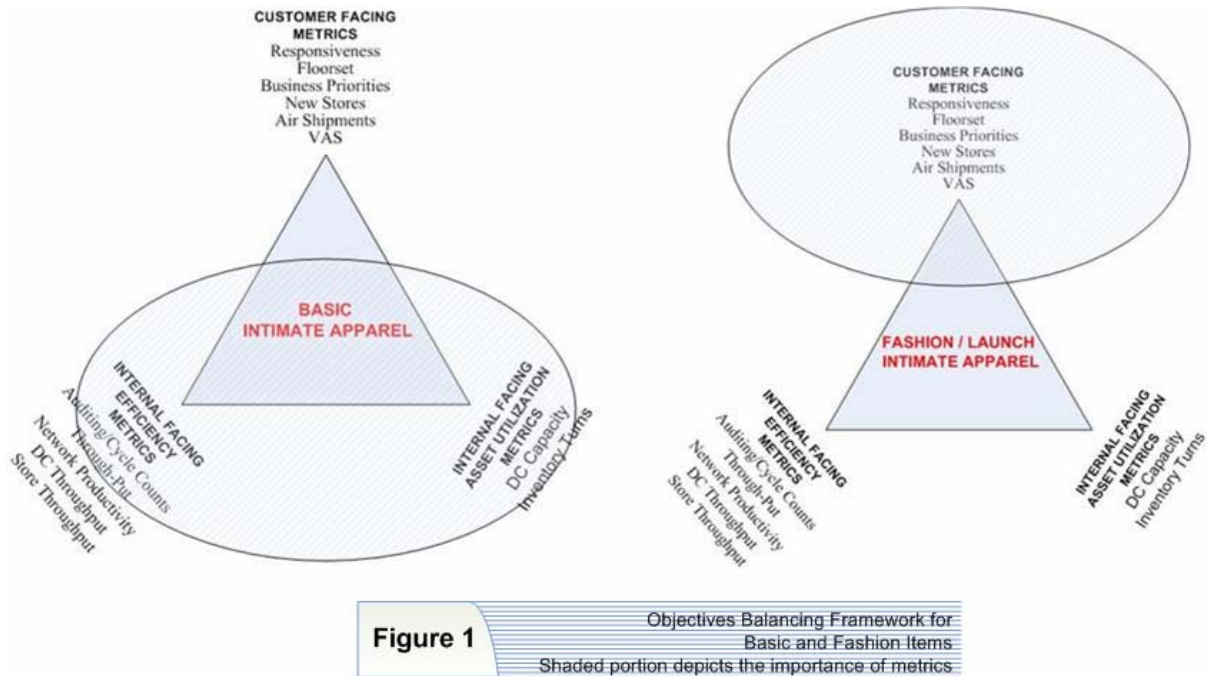
The supply chain for Victoria's Secret's fashion items is driven by "Speed-to-Market" to ensure responsiveness. This supply chain is governed by a sourcing strategy that requires a set of suppliers with an excellent record of product innovation, value-adding capabilities and no minimum volume requirements. For this category of products speed is prioritized over low labor cost.

On the other hand, the supply chain for Victoria's Secrets basic items is driven by factors like asset utilization and supply chain efficiency. As a result, basic goods are manufactured in vertically integrated factories which provide close control over capacity utilization and productivity and better supply chain visibility.

## ***Victoria's Secret's Focus on operational performance objectives***

With the help of Limited Logistics Services (LLS), Limited's logistics arm, Victoria's Secret has drafted a Service Level Agreement that defines various performance metrics for services to Victoria's Secret Stores. These performance metrics can be divided into three categories: customer-facing, such as Responsiveness, Floor-Set, Business Priorities, New Stores, Value Added Services (VAS), Meeting Cadence, Reporting, and Air Shipments; efficiency-based, such as Auditing/Cycle Counts, Through-Put, Network Productivity, DC Metrics, DC Throughput, and Store Throughput; and asset utilization-based, such as Capacity Utilization and Inventory Turns.

The focus placed on each of these metrics varies by whether the product is basic or fashion. For example, in the category of basic products, asset utilization metrics like capacity utilization and efficiency objectives like supply chain costs and productivity carry more weight than responsiveness. On the other hand, in high-margin product categories of fashion goods, particularly in highly promoted launch-related fashion goods, which are most often a result of innovative product development and have a relatively short-product-lifecycle of just one season, responsiveness metrics are seen to carry more weight overall. Figure 1 below illustrates the company focus on metrics, based on type of product being considered. The shaded portion reflects the critical metrics for each product type.



### ***Three tailored supply chain practices***

At the operational level, we identify a set of three tailored business activities that provide significant competitive advantage to the Victoria's Secret supply chain and place Victoria's Secret in a unique position in comparison to its competitors. These activities are aligned to the overarching strategy, which is to deliver an assortment of innovative fashion products and less-risky basic products.

The first tailored activity emanates from the company-wide open innovation model. The decentralized design culture within Victoria's Secret and inter-company operating ties add unique capabilities to its supply chain design, enabling several pathways for product innovation. The second tailored activity has to do with the sourcing model that Limited Brands has adopted as a whole. The presence of Mast Industries as a wholly-owned subsidiary of Limited Brands is of tremendous value to the company. Mast carefully selects its vendors based on capabilities to manufacture and deliver fashion versus basic products. Mast works with a set of vertically integrated factories as well as raw material suppliers to create a product that is hard to replicate. For example, in the case of the IPEX<sup>®</sup> product development, Mast worked with raw material suppliers who were experts on foam manufacturing for a leading automotive manufacturer to

create a padded bra which is incredibly light and comfortable. The light weight of the product also makes it a good candidate for air-shipping at lower cost per unit. Finally, the Limited Logistics Services' (LLS) "shared service model" plays a critical role in the smooth operation of its supply chain. The dynamic ability of LLS to constantly evaluate and re-evaluate its performance against external agencies helps Victoria's Secret to stay ahead of the competition. LLS incorporates the requirements of fashion versus basic products into its logistics design

## **Contrast Victoria's Secret with Zara**

Zara's supply chain capabilities have been much discussed, particularly Zara's ability to be "super-responsive" and to develop marketable products from concept to shelf at speeds which are unmatched by its competitors. However, it is important to be mindful that supply chain operations of any kind are only subsets of the overarching business strategy and should not be evaluated in isolation.

There are interesting contrasts between Victoria's Secret supply chain and the supply chain of Zara. Zara's business strategy is to target customers who want fashionable but cheap clothing and Victoria's Secret, on the other hand, is looking to "trade up" while maintaining a distinct brand image. According to an industry observer, Zara's clothing has a premier look, as they are often copies from top designers. This resembles the shop-and-copy strategy that Limited Brands adopted prior to the early nineties.

We first address a few important points of comparison between the two companies in the areas of on-shelf availability, product-type (fashion versus basic), lead-times, proximity to customer, and SKU proliferation. We then attempt to identify if there are any supply chain strategies that have been successful for Zara that may be applied at Victoria's Secret and vice-versa.

## **Conclusion**

We conclude that Victoria's Secret and Zara operate based on different business models, which are well suited to their individual requirements and geographical locations. Both Victoria's Secret's and Zara's strategies are supported by specific supply chain operations which work well for their needs.

Victoria's Secret works with an overarching strategy of being a product innovator as well as a risk averse producer, and thus does not solely rely on its new bra launches for all of its sales. The three tailored business practices identified above help align Victoria's Secret's supply chain to its overarching strategy.

Both companies' business strategies have their own blends of success elements. In order to capture best practices from one another, both companies would have to significantly adapt their processes, potentially compromising their individual strategies.