

SOURCING STRATEGIES IN CLOTHING RETAIL FIRMS: PRODUCT COMPLEXITY VERSUS OVERSEAS SUPPLY CHAIN

The fashion apparel business is traditionally characterized by intense competition and short product life cycles. Recent marketing literature has also focused on the increasing importance of retailing. Retailers are beginning to assume a central role in the configuration of supplier networks, being operators who act globally either in terms of *market seeking* or *resource seeking*. At this stage a set of problems emerge. In particular, we focus on buyer-seller relationship due to the rise in new formulas in clothing retailing with production management models differing from the traditional systems. These new trends seem to have a significant impact on the upstream relation in the supply chain, due to vertical integration in some industrial functions (designing, sourcing, quality control) by retailers. For this reason, the paper investigates how retailers manage their relations upstream in the supply chain, focusing on the balance expressed in terms of alternatives between lean/agile sourcing strategies, local/overseas suppliers and product/range complexity.

1. Introduction

In the nineties there was a significant shift in the manufacturing of apparel to low wage countries throughout the world. Over the past few years in some cases retailers have sourced products internationally in order to achieve a cost advantage. In other cases, domestic markets have been selected on the assumption that the longer the chain, the more a significant part of the merchandise bought must be cleared out through discounting with a relevant impact on revenue. Recent marketing literature has focused on the key questions in choosing a global sourcing strategy or, instead, a domestic supply chain. The focal position of apparel retailing appears symptomatic of the transition from a production-driven to a market-driven characterization of the apparel manufacturing sector [Taplin 1999]. This observation is in tune with a tendency already noted in diverse geographic contexts, where it has likewise been found to evolve hand in hand with a change in the structure of retailing.

Traditionally, the framework of competition in the textiles/clothing sector is described by dividing operators into two different strategic groups in terms of production management models. Firstly, there is a group identifiable as clothing operators (either manufactures or retailers) characterized by elevated capability of forecasting and

contributing to the molding of fashion trends. Such firms set themselves the task of marketing a product designed and proposed long before the actual time of consumption. Second, there are firms that compete with one another on the basis of their ability to rapidly adjust to the fashion trends imposed by others, thereby ensuring speed to market and supplying products already known to be a market success. These firms compensate for the lack of product planning by virtue of a production management model whose main characteristics are rapidity and flexibility. Thus the key factors for success in these two different groups are different: in the first group, the ability to influence fashion trends is often associated with a strong brand image, while in the second, devising effective time to market formulas plays a much more important role.

In this context, this present paper focuses on a series of problems that emerge from two research hypotheses concerning the trade-off between complexity due to managing the fashion content of the product sold and complexity due to managing the supply chain. As first hypothesis, we assume that retailers faced with a global sourcing strategy tend to diminish the complexity by decreasing the fashion content of the product sold, even from a technological point of view (in terms of raw materials either fabric or yarn). This hypothesis seems to emphasize the retailer's preference in choosing the cheapest sources worldwide in order to maximize gross margin. As second hypothesis we assume that in order to decrease time to market, retailers may choose sourcing alternatives that may not bring the cost advantage of a cheaper supplier but do offer the advantage of diminishing logistics costs and lost sales. Redesigning planning processes to minimize the impact of inaccurate forecast can lead retailers to choose those alternatives which result in a faster supply chain and that are not too distant either culturally or geographically. Attention focuses in particular on the relation between product

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Simone Guercini and Andrea Runfola share the final responsibility for the contents of this paper. However Simone Guercini wrote paragraphs 1, 2, 4, and 6; Andrea Runfola wrote paragraphs 3 and 5.

Table 1 – Share of the main strategic groups of apparel retail in Italy

RETAIL STRATEGIC GROUP	1997	1998	1999	2000	2001	2002	2005 (*)
INDEPENDENT STORES	57.6	56.5	55.7	55.2	55.2	54.0	52
SPECIALIZED CHAINS	13.3	13.7	14.0	14.0	13.8	14.5	16
LARGE RETAILERS (GDO)	15.5	14.8	15.0	15.3	15.1	16.0	18
ITINERANTS	9.5	9.7	9.8	10.2	10.6	10.8	10
OTHERS	4.1	5.3	5.5	5.3	5.3	4.7	4
TOTAL	100	100	100	100	100	100	100

(*) The 2005 data are estimated

Source: Sita Nielsen/Federazione Moda Italia

management and supply chain management in terms of alternatives between lean/agile, local/overseas and product/range. A case analysis referring to the Italian leader in the retail trade is presented in this paper.

2. Buyer-seller relationships and supply chain management in textile and clothing

The textiles and apparel sector (t/a) has long been characterized by an elevated degree of complexity, which is an inevitable part of the framework in which t/a firms have to operate. This complexity can partly be traced to behavioral patterns influencing the final purchaser's buying and consumption models, which cause considerable difficulty in forecasting demand when defining apparel collections, and partly also to the short life cycle of a typical garment. The entire sector is affected by these complex interactions, which have repercussions on the strategies adopted by firms seeking to defend a competitive position, as it can be difficult to create and maintain a sustainable competitive edge in an environment where, among other things, an elevated number of production alternatives can be found.

This framework is further complicated by the process of modernization of the distribution network that has taken place in recent years. New formats have been introduced and large-scale distribution has begun to play a central role in the main European countries and the American market.

This phenomenon has occurred later and with a quite different path in the Italian context. This market is an interesting case, due to additional country-specific factors which need to be taken into consideration, in order to have a more general understanding. With regard to industrial organization, in fact, in the Italian context a striking feature is the considerable number of textile and apparel firms, most of which are fairly small, often bound by local aggregations

corresponding to the model of the industrial district. Also, as regards the structure of distribution, independent and traditional retailing maintains the largest market share, in contrast to the typical model in the other European countries, where one finds an increasing predominance of large distribution chains and specialized chains. For example, new outlet centers formulas developed notably later in Italy than in other European countries like France and UK [Burresti and Guercini 2003].

The relation between industrial organization and distribution structure has been investigated in the literature. Porter [1990] considers the characteristics of Italian distribution as a factor that can account for the competitive position Italian manufacturers have long enjoyed in this sector. Other authors, in more recent debate on this issue, have underlined that "expert demand" can contribute to heightening the innovation potential of firms in local district systems.

As regards the level of apparel retailing in the textile-apparel pipeline, the Italian situation reveals that the strategic group of independent stores still occupies a substantial position. In 2002 it still accounted for over half of the apparel sales for consumption on the Italian market (Table 1). This is a noticeably higher figure than in the rest of the European Union, where as early as 1997 retail sales by independent points of sale already represented little more than thirty percent of the total. During the 1990s, in the European Union the weight of independent retail points of sale lost percentage shares out of the total of apparel sales in favor of specialized chains, department stores, hypermarkets and supermarkets. But in Italy, independent points of retail continue to account for over half of total sales: admittedly, there has been a progressive decline over the years, but much more slowly than in other European countries. According to the same sources, in Italy specialized chains do not appear to have benefited to any greater degree than itinerants.

The continuing strength of independent retail in apparel distribution in Italy is unrivalled in other European countries. While maintaining some strength in Spain and in German-speaking countries, but rather less in France, the incidence of independent points of retail sales in the UK and Ireland out of overall consumption apparel sales in the latter two countries is barely more than one-tenth of total apparel sales, with an incidence that is roughly one-fourth of the same channel in Italy in 2002 [Guercini, Ranfagni, Runfola 2003].

A part from some country-specific factors, as the Italian ones, in a more general context, over the last few years there has been a change in purchaser-supplier relations in the textile-apparel pipeline, and this is of relevance since the textiles-apparel sector has always exhibited marked specificities in the production cycles and the corresponding business-to-business relations [Jones 2002]. For a significant portion of firms, the changes described below have also been accompanied by a change in the buyer profile and sourcing strategies [Gadde, Håkansson 2001, Ford 2001].

The observable trend indicates the emergence of features that diverge from the typical characteristics of the manufacturer client in the past – although in many cases the buyer still retains traditional features as well, since the ongoing change has to date been only partial and has affected certain suppliers more intensely than others. For example, in the field of semi-finished textile products, the tendencies currently observable take on many different forms, and the continued presence of traditional apparel manufacturers is by no means excluded. However, what is beginning to emerge is the figure of the retailer who integrates industrial capabilities [Mulhern 1997]. This affects the market of some textile firms more than others, partly depending on the manufacturer's typological characterization and localization.

Thus the level of retail in the textile-apparel pipeline is becoming more important than it was in the past. The technical competencies typical of the clothing firm are driven towards a role of sub-supplier, and this is accompanied by more pronounced international decentralization, but with design and product image remaining in the hands of the new direct customer.

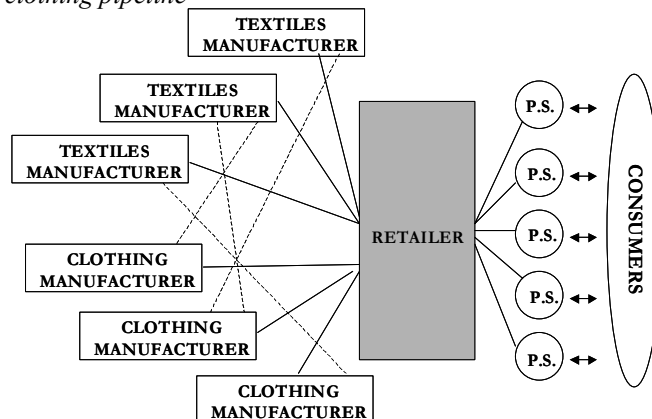
This means that the original situation - whereby proposals for the final customer were formulated on the basis of joint discussions that took into consideration the point of view of the fabric producer, the manufacturer and the retailer - is now giving way to a rather more asymmetric structure with the balance of power tipped towards those who manage the distribution processes (Fig. 1).

The retail buyer puts forward a different set of demands compared to the manufacturer customer (apparel manufacturer) [Johnsen, Ford 2000]. In the new context, the actual garments can in some sense recede into the background, maintaining or recovering their importance to the extent they stand at the center of the process of "image" assertion, evoking "emotions/experiences" that are generated predominantly in the context of the retail point of sales, where such feelings are rendered concrete and translated into genuine aspects of life.

The fabric manufacturer presides over the R&D activities pertaining to the firm's product (materials, new

fibers, new combinations/blends, the various fabric ennobling and finishing treatments). In this framework, the manufacturer's position can be important with respect to the theme of experiential shopping to the extent that the product and its characteristics (comfort, image, history, etc.) become fundamental in stimulating emotions/experience.

Fig. 1 – The central role of the retailer in the textile and clothing pipeline



Source: author's elaboration

The increased role of distribution in the textile-apparel pipeline derives not only from its bargaining power (which comes into play in transactions) but above all from its market power (capacity to orient the final consumer's preferences). The great clothing distribution chains have a fundamental role, albeit considerably differentiated¹, in relations with the client, and they also keep abreast of fashion consumption trends, adapting their own operational requirements to these changing trends. This may, for example, affect the choice to turn to new delocalized suppliers, not always offering productions of equal complexity.

When the textile product is more innovative, the market become highly fragmented and this is one of the major sources of difficulties. It is felt that the concentration occurring downstream in the various phases of the apparel industry is likely to spur yarn firms to be prepared constantly to face unplanned requirements. For this reason, emphasis is placed on the need for tomorrow's suppliers to have two souls: one highly creative, and the other highly flexible and capable of rapid delivery to customers.

In the past, textile and clothing suppliers focused their work on only two seasons: one concerning production, and the other centering on the pattern book. Now they work simultaneously on three or four different seasons. Some of their customers in various parts of the world exhibit traditional forms of behavior, while others act as trail-blazers and are considerably in advance of market trends. In the latter "cutting-edge" situations, the tendency is to produce the

¹ Consider, in this regard, the case of the American company GAP, the Swedish company Hennes and Mauritz (H&M), the Spanish company Zara, to cite only a few examples of recent developments exhibiting different size and features.

collection closer and closer to the time of sales, and with a considerable time gap vis-à-vis the prior proposal by the textiles manufacturer.

Increasingly rapid deliveries are required, and the response to new fashion trends has to be more and more prompt. Demands that previously were distinct and were dealt with in stages each corresponding to different operations are now concentrated in a single customer, who is at one and the same time involved in apparel design, sourcing and distribution.

The new “quick fashion” or “fast fashion” formulas and the processes of vertical integration [Richardson 1996] represent two important tendencies that can be observed in Italian clothing firms. Recent researches highlighted that the large distribution firms had risen to a position of considerable importance among the clients of textile producers [Gereffi 1999, Guercini 2003]. The players involved in large-scale distribution are in direct contact with the final customer, and the distribution firms are considerably larger than their suppliers. Moreover, the large distributors effectively act as players in the globalization process not only on the level of “market seeking” but also on that of “resource seeking”, more specifically in the search for suppliers [Elson 1990].

The retail buyer does not merely purchase apparel, but in the role of a simple intermediary the retailer achieves an integration upstream of the functions of design, textiles sourcing and branding which previously were the exclusive preserve of the apparel manufacturer. In fact, the very term ‘distributor’ risks becoming inadequate, as these firms sell something different from the source articles they purchase, thus combining the competences of various different suppliers.

In the last few years, the business-to-business markets in the textile-apparel pipeline have been undergoing a phase of rapid change that is only partly due to phenomena strictly connected with the textile sector, as they are also influenced by the general economic downswing resulting from the international contraction of consumption. Thus changes in this sphere are to some extent more structural and linked to the general evolution of buyer-seller relationships between retailers and manufacturers.

In contrast to the traditional independent clothing store, the large specialized retail firms and brand-dominated firms do not restrict their activity to actual retail distribution: rather, they go as far as to conceive the project of the collection and thus bring about a process of integration of the research and development functions for production of collections. That is to say, they take over some of the functions that are typical of the apparel industry. The changing status of relations with the supplier of distribution is a structural change, and presents significant implications for firms that manufacture textile and apparel products.

Overall, then, the distribution functions and management of the processes involved in the network of sales outlets have acquired a more central role in the textile-apparel pipeline. This points to the potential rise of retailing competences as a factor of competitive advantage within the pipeline. Accordingly, the acquisition of distributive competences and *trade marketing* [Bursi and Marchi 1992], both of which now

have greater centrality in retail distribution, have become of notable importance not only for the apparel manufacturer but also directly for the manufacturer of semi-finished textile products, who enters into relations with those who control the retail sales outlets.

In other words, as far as retailers are concerned, this change involves a more direct relationship with manufacturers of semi-finished textile products (Fig. 1). Thus when it is a question of formulating marketing policies, greater attention is paid to the needs and suggestions expressed by retailers, whose contribution to supply chain management is becoming more significant². Moreover, for a firm that produces semi-finished textiles destined to the apparel industry, the transition from a “garment manufacturing” client to a “retailer” client leads to quite a different attitude when interacting with these new clients, since although the latter are preparing to create new apparel collections, they actually also possesses retail distribution competences that are a central aspect of their capabilities.

3. Emerging production management models and sourcing alternatives

This brief analysis of the literature seems reveal a movement towards typologies of distributors that may display different organizational models as compared to the traditional apparel retailers. Within such models, one may find organizational units that act as the reference points for functions of an industrial nature (product design, sourcing of semi-finished textiles, quality control of fabric); in addition, the distributor may adopt different production management models which, in our view, can play a role in the retailer’s capacity for innovation and may not coincide with what used to be considered the traditional models.

Customarily, three production management models have been identified, differing as a function of the time scale involved in production and the number of annual collections made possible by time to production [IRPET-Textrends 1991, Guercini 2003]. Thus quick fashion, planned fashion and firms with a mix of both types are generally identified. Moreover, as mentioned earlier, there is an increasing tendency for manufacturers of fast fashion, fashion flashes and quick fashion to assume greater importance than in the past [Azuma 2001, McLaren *et al* 2002]³ and also to assume a significant brand positioning, whereas previously branding was more closely associated with the planned model [Guercini 2003, IRPET-Textrends 1991].

Overall, despite the different production management models, one notes a generalized tendency by the retailer to shift the moment of decision on semifinished textiles forwards closer to the time of sales in shops, in order to move the so-

² However, this contribution does not always award due consideration to all the aspects taken into account in the past, as the retailer may lack the in-depth knowledge of product technology that forms part of the manufacturer’s expertise.

³ The terms fast fashion, flashes and quick fashion are used here interchangeably to delineate a general tendency, that is to say the quest for more rapid time to market. But in actual fact the three terms are not synonymous, as they refer to different production situations.

called uncoupling point further upstream of the supply chain [Ottimo 2001, Christopher 1998]⁴. This may to some extent be achieved by using technological alternatives that make it possible to operate in accordance with the indications of the so-called “quick response” [Richardson 1996]. In this manner, the retailer can act on the layout of the point of sales, for instance by changing the window display much more frequently or by setting up the range on the basis of six seasons, similarly to the situation observed in United States distribution models [Finnie 1992, Taplin 1999], as seen in the case of distribution chains such as the largest department stores. Alternatively, the range may be set up for instant planning of two/three week cycles, as in the case of the Spanish Zara or the Swedish H&M⁵.

Thus the formation of point of sales ranges seems to be related to the different production management models adopted by the distributor. More specifically, the choice of a given production management model as compared to another seems to have at least two important implications. Firstly, it is interesting to note that for the retailer the adoption of a particular model is linked to a number of changes in the organizational structure. For example, in such a complex framework with such a dynamic competitive structure, the type of organizational set-up that was previously valid may no longer achieve organizational effectiveness [Burns and Stalker 1961]. In the literature, it was highlighted as early as Fazzi that the technical aspects are of paramount importance, as there are close links within the production structures themselves between technical solutions and organizational solutions⁶; furthermore, the different production typologies have repercussions on other aspects of corporate management⁷. These observations are supported by other theoretical contributions studying in particular the relation between environmental change and new forms of organization in the textiles-apparel sector [Djelic and Ainamo 1999]. In the literature on organizational aspects it is also underlined that environmental complexity often leads to subdividing the organizational system into subsystems, each of which specializes in portions or subsystems of the environmental/management configuration (for example, in

⁴ One of the major problems of the supply chains, according to Ottimo, is that of having poor awareness of real demand or scanty information concerning prediction of the requirements of subjects closer to final demand. This is why the logistical chains tend in effect to have more than one point of stock formation situated between the moment of production and the markets of destination. The point where real demand intervenes upstream of the supply chain is the uncoupling point.

⁵ According to estimates conducted by a well-known consultancy firm, the traditional planned production model has a time to market of 260 days. In the case of the apparel retailer, it has been ascertained that the retailer The Gap aims for a time to market varying between 120 and 250 days, the Swedish company H&M between 35 and 80 days, while the Spanish company Zara requires only between 5 and 37 days. All these retailers integrate industrial functions.

⁶ Regarded by Fazzi as essential tools chosen by the top corporate management in order to set in place structures that will establish the firm in the organic form of a “system” and manage it in a regime of assiduous variation of relations of strength with the external environment.

⁷ Similar conclusions are drawn by Newman [1971], who puts forward evidence that strategy influences the organizational variables through the techniques adopted, that is to say, through the set of procedures adopted by the firm for processing inputs into outputs.

this case we are concerned with organizational units entrusted with product design, service sourcing, or management of points of sale). It is also emphasized that such a situation naturally raises the problem of how the different organizational units, which act as subsystems of the global organizational system, can be appropriately coordinated [Lawrence and Lorsch 1973].

But what we will focus on here is more directly concerned with the second of the two above mentioned implications, namely how best to manage the supply chains that spring from one rather than the other production management model. When the retailer acquires a central role within the supply chain⁸ as regards relations with suppliers, it is quite possible that the aforementioned resource seeking competencies themselves [Guercini 2003] could influence the ability to innovate the format. That is to say, in our view the distributor’s decision to make use of local (domestic) suppliers, or of a supply chain on a global scale (extended supply chain) rather than integrating vertically in some activities within the pipeline, may in some sense bear a relation to format innovation.

According to this perspective, some authors have argued the pros and cons of a global as compared to a local supply chain, and have pointed out that this distinction is always linked to a trade-off between economic advantageousness of the source (global supply chain) and a reduction in time to market but at higher costs (local supply chain) [Lowson 2003, Mattila *et al* 2002, Cho *et al* 2001, Popp *et al* 2000]. It is suggested that sometimes the retailer has considerable opportunity to change suppliers, while in other cases, as a result of the intensity of exchange processes, tendencies towards mutual adaptation and mutual orientation may develop within the supply chain, leading to situations of interdependency and integration among the actors⁹.

It has also been underlined by numerous authors that recourse to an extended supply chain may be hampered by logistics management problems [Mattila *et al* 2002, McLaren *et al* 2002, Azuma 2001]. King [2001] contends that purchasing decisions are often taken without full knowledge of the true costs of the various alternatives, whereby the logical error, in his view, lies in the fact that the economically most advantageous source may have a significant impact on revenue in negative terms as well (lost sales). The retailer’s capacity to obtain high gross margins and service levels while containing

⁸ Christopher [1998] defines supply chain as “the network of organizations that are involved through upstream and downstream linkages in the different processes and activities that produce value in form of products and service in the hand of the ultimate customer”. On the terminological debate concerning the appropriateness of use of the term ‘supply chain’ and on the emergence of alternative terminologies (demand chain, value stream, supply network), readers are referred to the analysis contained in Tunisini [2003].

⁹ Even though it is not explicitly mentioned in the literature, this seems to us to be a prospect that is in line with the concepts introduced by Thompson’s [1967] organizational literature; according to Rugiadini [1979], the implications of Thompson’s concepts can be suitably adapted and taken as a major reference also with regard to the interdependency between organizational units and external systems operating in the environment (customers, suppliers, for example).

Table 2 - Sourcing strategies in some international clothing retailers

RETAILER (COUNTRY)	MAIN FEATURES	SOURCING STRATEGIES
Marks and Spencer (United Kingdom)	<ul style="list-style-type: none"> Marks & Spencer is one of the UK's leading retailers of clothing, foods, homeware and financial services, serving 10 million customers a week in over 350 UK stores. The Company also trades in 30 countries worldwide and has a Group turnover in excess of £8 billion. In total M&S has 544 stores around the world. 	<ul style="list-style-type: none"> In 1999 M&S changed part of its policies in order to transform and adapt itself to the evolutions affecting the entire textile apparel industry. Rationalized its supplier base, with efforts for sourcing and the acceleration of the design to store lead time. However, these initiatives bring new challenges as, with suppliers. M&S now manages a complex international supply chain involving 650 factories worldwide. Their priority is to maintain the quality of fabrics and clothes wherever they are manufactured. To support this objective, M&S has established 'quality' audit teams in Morocco and Sri Lanka, and will introduce them over the coming year in China and Turkey, and all their main centres of manufacturing.
Hennes and Mauritz (Sweden)	<ul style="list-style-type: none"> H&M is an expansive Swedish company. Over the past three years, H&M has increased the number of stores by nearly 40 per cent, turnover by nearly 60 per cent and profit after tax by 150 per cent. Turnover SEK 57 billion. At the end of the year 2003 there were 945 stores in 18 countries (number of stores in Sweden 123; number of stores outside Sweden 822) 	<ul style="list-style-type: none"> H&M has 21 production offices: ten in Europe, ten in Asia and one in Africa. Around 700 people work at the production offices, by far the majority of whom are drawn from the local population. They are responsible for contacts with the approximately 750 suppliers (primarily Bangladesh, China, Turkey) that manufacture H&M's products. The production offices ensure that the buyer places his order with the right supplier, that the goods are produced at the right price and are of good quality, and controls that production takes place under good working conditions. Ensuring the safety and quality of the goods largely takes place at the production offices and is the result of extensive testing, including checking for shrinkage, twisting, colourfastness and dry rubbing. In H&M lead times vary from two to three weeks up to six months, depending on the nature of the goods. In recent years H&M has reduced the average lead time by 15–20 per cent through developments in the buying process.
Inditex (Spain)	<ul style="list-style-type: none"> The Inditex Group comprises mainly companies engaging in the manufacturing and marketing of textiles and footwear, managed on a centralised basis by applying policies and strategies at group level. At 2003 Inditex operated with 1,922 stores in 48 countries (Spain 46%, Rest of Europe 34.1%, Americas 13.2%, Rest of the world 6.8%), through eight different concepts: Zara, Kiddy's Class, Pull & Bear, Massimo Dutti, Bershka, Stradivarius, Oysho and Zara Home. Net sales reached €4,598.9 million (+16% over 2002). Zara, the main brand (sales €3,219.6 - stores 626) is present in 40 countries. 	<ul style="list-style-type: none"> A significant proportion of the production takes place in the factories belonging to Inditex, which fundamentally carry out the manufacture of the garments containing a greater element of fashion, and through external suppliers. In the case of in-house production –between 40 and 50 percent of the total– Inditex directly carries out the supply of fabrics, the marking and cutting and the final finishing of the garments, subcontracting the garment-making stage to specialised companies located mainly in the north-west of the Iberian peninsula. As regards external suppliers, a high percentage of which are European, in many cases they are also supplied by Inditex with the fabric and other elements needed for the production of the garments. For Inditex, time is the main factor to be considered, above and beyond production costs. At Zara, design is conceived as a process that is very closely linked to the public. In the case of Zara, distribution takes place twice a week, always including new models in each consignment, thus allowing constant renewal of the offer in the stores. Orders to stores in 24-48 hours. Mix of sourcing: external fabrics sourcing 60%; internal fabrics sourcing 40%; in-house manufacturing 50%; external manufacturing 50%.
Gap (Usa)	<ul style="list-style-type: none"> Gap is a leading international specialty retailer offering clothing, accessories and personal care products for men, women, children and babies under the Gap, Banana Republic and Old Navy brand names. Gap operates with more than 4,200 stores worldwide. Customers can shop at Gap stores in five countries outside of the United States: Canada, France, Japan, Germany and the United Kingdom. Banana Republic and Old Navy stores are located in the United States and Canada. In 2003, net sales grew to \$15.9 billion, increasing 10 percent—double the prior year's growth rate 	<ul style="list-style-type: none"> Gap has world headquarters in the San Francisco Bay Area, product development offices in New York City and distribution operations and offices coordinating sourcing activities around the globe. Design and merchandising teams are working more closely from the beginning of the product development cycle, resulting in a more efficient process and, over time, faster speed to market. Gap will be building more strategic relationships with vendors, including sharing more planning and forecasting information, to further leverage sourcing capabilities. Located around the globe, employees in Gap's sourcing and logistics group, along with buying agents, draw up production schedules and place orders with approved third-party factories in the more than 50 countries that produce goods. Third-party manufacturers ship merchandise to Gap distribution centers, which sort and redistribute it to the stores. Strategically placed throughout the United States and in Canada, the United Kingdom, the Netherlands and Japan, distribution centers are the backbone of Gap's worldwide operations. Gap has a list of countries approved for product sourcing, located in five main area: Africa/MiddleEast, Europe/Mediterranean, Southeast Asia, East Asia, Americas.
C&A (Holland)	<ul style="list-style-type: none"> C&A was founded in 1841. Under the C&A brand there are 10 exclusive subbrands such as Clockhouse, Westbury and Your Sixth Sense. C&A has 498 branches, 82 Kids Stores, 19 Clockhouse shops, Women Stores in 12 European countries with a total number of 30,000 employees. C&A had 5 billion euros turnover in Europe in 2000. Over 100 Stylists work together with 360 buyers. The European headoffice is located in the north of Brussels. 	<ul style="list-style-type: none"> It has 1,200 suppliers, monitored by Socam. The name Socam reflects the concept "Service Organisation for Compliance Audit Management" and its purpose is to oversee and monitor responsible business standards in merchandise buying on behalf of the C&A retail companies, which operate in Europe. In 2003 auditing was carried out in a total of 40 countries. Visits were made to 1,572 production units: 67% of audits were conducted in the Far East and India – the remainder in Europe and North Africa. Because the Far East is a significant supply market and because many of the key issues tend to be more prevalent in that part of the world, Socam also operates through a subsidiary company - Socam Services Pte. Ltd - located in Singapore. Socam has full and independent authority to monitor the standards which are defined by the C&A Code of Conduct for the Supply Merchandise.

Source: author's elaboration on Firm's Annual Report (2003) and Internet Site

unsold stocks to the lowest possible levels [Mattila *et al.* 2002] derives from precision in forecasting demand [Fisher *et al.* 1994], so that the advantage of a global supply chain in terms of lower cost has to be set against the reduction in logistic costs, as well as the decrease in lost sales and reduction in the amount of merchandise sold at discounted prices that could derive from choice of a faster local supply chain¹⁰.

In order to testify to the different performance levels that arise from a decision among the various alternatives described, a number of indicators have been proposed in the literature [Moore and Fairhurst 2003, Mattila *et al.* 2002]¹¹.

As regards the meanings to be attributed to the concepts of “global” and “local”, it has been underlined in the literature that these terms can be proposed as the extremes of a classification, on a geographic basis. Starting from the concept of “local” supply chain, to be understood as use of suppliers of a specific area (district), one can talk of a “domestic” supply chain when sourcing is carried out within the firm’s country of origin, or a regional supply chain when purchasing is conducted within the geographic area of countries that are linked by commercial treaties (NAFTA, EU), or an international supply chain involving recourse to suppliers of more than one country, right up to the global supply chain which extends worldwide [Sturgeon 2000]. Table 2 shows the sourcing strategies of some emblematic international apparel distributors (M&S, H&M, Inditex, Gap, C&A) and their relation with the management production model. It is interesting to note that in addition to the geographic criterion, choice of a given supply chain as opposed to another kind also seems to be influenced by the specific corporate strategy. In a more general sense, the local/global balance need to be integrated by others conceptual frameworks in order to fully explain new trends in the retailer’s sourcing strategies.

4. Sourcing strategies and strategic trade-offs in clothing retailing

Sourcing activities have once more acquired a central role as part of the clothing retailer’s functions. The importance of sourcing is at least in part attributable to the effort made in recent years to open up new sources of supplies, and it is testified also by the significant position of sourcing strategies in identifying the major strategic groups of apparel retail and in defining relations with the corporate strategy [Moore 2002, Fiorito *et al.* 1998].

Apparel firms operating in retail trade can adopt two distinct sourcing strategies in order to proceed to purchasing their requirements:

- (1) purchase of already made garments from manufacturers who integrate research and

development of collections (sourcing by the pure retailer);

- (2) purchase of semi-finished products (fabric and yarn) and manufacturing services (woven garment-making or knitwear) integrate with the firm’s capabilities (sourcing by the industrial retailer).

This alternative between different strategies is actually an alternative that more generally concerns the entire corporate strategy of operators involved in clothing distribution. Thus firms in the first group clearly appears as genuine retailers, in the sense that they function as “pure” intermediaries who sell the same categories of merchandise as they purchase. Firms in the second group, on the other hand, certainly are involved in retail apparel sales, but in some sense they tend to integrate the typical functions of the manufacturing operator such as design and, in particular, sourcing of semi-finished textiles.

Now, if we turn to an examination of the enterprises operating in distribution, we find that the two above-mentioned sourcing strategies can in many cases be seen more as the possible extremes along a continuum than as clearly distinguished and readily recognizable situations. For example, in the first case an activity such as designing a piece of apparel can more clearly be seen as being performed by the supplier, while in the second case it can be performed by the customer. But in actual fact there is a far greater range of possibilities than can be drawn on. These may include situations in which third party operators also play a role (style bureaux, consultancy agencies, freelancers), who take on the function of designing the apparel collection proposed by the retailer, or integrate at least in part the resources made available by the retailing firm. Furthermore, if a firm engages in purchasing of ready-made garments, this does not necessarily exclude the purchase of semi-finished textiles, and it is perfectly possible that a mix of the two sourcing typologies may be adopted. In other words, the two typologies are not necessarily in opposition to one another, but potentially they may be jointly present in certain situations as a response to different interests in terms of the range policy and the associated purchasing operations.

The existence of situations of partial integration of manufacturing functions and the possibility of creating a mix between the two alternatives does not imply that they cannot be conceptually recognized and distinguished. A firm engaged in apparel retailing may be the decision-maker as regards the purchase of garments included in the pattern book of industrial enterprises, or decision-maker in the purchase of semi-finished textiles by integrating apparel design (or possibly even manufacturing). This alternative is directly connected with the degree of vertical integration of the operators who are concretely involved in apparel retailing.

In this context, the choice in favor of vertical integration is strongly affected by the possibility of increasing geographic diversification of the firms’ production or supply chains. This phenomenon has acquired particular importance in the clothing product sector [Hunter *et al.* 2002]. From a conceptual perspective, the corporate strategy is situated above the sourcing strategy, as the latter refers to the level of

¹⁰ According to some authors [Mattila *et al.* 2002], in order to make this choice the classification of sold garments should allow for a distinction between “commodity products”, for which an extended supply chain should be envisaged, and “elevated fashion content products”, for which a swift time to market is fundamental.

¹¹ Among the indicators proposed, one may cite the level of service, lost sales, replaced products, gross margins, stock turn, GMROI, GMROILS, the sell through percentage [Mattila *et al.* 2002, Westwood 1999].

functional strategies. But it is also true that on account of the possibilities that have been opened up by geographic diversification of supplies (in clothing as in other sectors), sourcing takes on the character of an essential aspect when it is a question of choosing which parts of the chain of value should be undertaken within the boundaries of the firm and which should be undertaken outside, or indeed outside of the national boundaries.

In the Italian situation, in which the retail sector is characterized by the significant presence of vertically integrated operators deriving from industry [Guercini 2004], the sourcing of semi-finished products integrated with the management of points of sales can hardly be considered a surprising novelty.

In any case, the process of geographic diversification of suppliers is already widespread, as has recently been observed in connection with geographically proximate situations such as Eastern Europe (Romania) and North Africa (Tunisia). This phenomenon has arisen partly in association with direct foreign investments by large groups [Jones 2002; Guercini, Ranfagni and Runfola 2003], but cases of small-scale operators devising specific sourcing strategies are also known [Baden 2002].

In this framework, sourcing can be considered as one of the guiding functions for obtaining a competitive advantage. Furthermore, the expansion of sourcing requires an ever increasing body of knowledge in order to effectively carry out the sourcing function itself, as the activities involved in this function can more and more be seen as relationship marketing applied to purchasing, and must also be able to respond to the intercultural integration that may become necessary in a geographically diversified supply chain.

Equally important is the need for integration between the sourcing function and the other functions present within the retail firm, such as sales outlet management (merchant function) and the function performed by the style bureau, the latter being particularly important when the retailer integrates apparel design capabilities. Furthermore, during the purchasing process, the retailer may take into account a fundamental trade-off between unit purchasing costs (whether of semi-finished or finished garments) and the cost of unsold garments. The latter may prove to be a particularly important component for articles with an elevated fashion content.

If suppliers are capable of manufacturing the same product/article, they can be distinguished according to critical success factors which are based on the following capabilities:

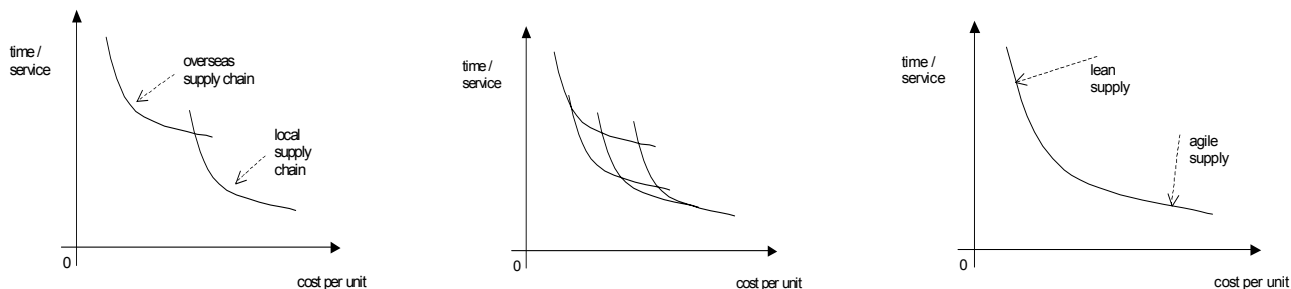
- (a) ability to provide supplies more cheaply (cost leadership);
- (b) ability to provide supplies within a very short time span (service capability).

These capabilities, which are of notable importance on the level of business strategy and are also a means of competitive advantage for the supplier of semi-finished textile products or apparel products/apparel manufacturing services, also play a major role when potential customers find themselves faced with the choice between a “lean supply chain” versus an “agile supply chain” [Mason-Jones et al. 2000, Fisher 1997].

The lean supply chain springs from the supplier’s ability to offer the lowest unit price. Such a situation is generally found in the presence of commodities when the market demand is predictable, product variety is low and the product life cycle is long. The lean supply is thus associated with predominance of the average cost of the purchased product units; the forecasting methods are algorithmic and the retailer’s margins on the products are likely to be fairly low [Christopher and Towill 2002]. In the interaction between purchaser and supplier, penalizations deriving from stock breakages (stockout penalties) are considered on the basis of long-term contracts. The lean supply is successful when price is the main customer driver.

The agile supply chain, on the other hand, typically refers to products with a higher fashion content (fashion goods), in the context of a changeable market and an elevated variety of products (in-depth range). With the agile supply chain the product life cycle is far shorter than that expected with the lean supply chain, and the most important factor that tips the balance in favor of choice of the lean supply is the possibility of limiting the quantity of unsold stock (marketability), while achieving relatively elevated profit margins per unit sold. In this case, ensuring a rich flow of information is a must, while the forecasting mechanism is of a consultative type. In the interaction between the purchaser and the seller, penalizations deriving from stock breakage are immediate and changeable (volatile). The agile supply chain is successful when product availability represents the major customer driver [Sabath 1995, Shewchuck 1998].

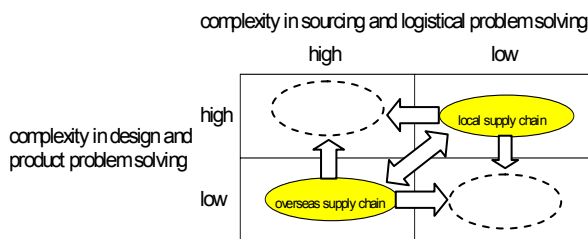
Fig. 2 – Trade-off between lean and agile supply and indifference curve



Source: author’s elaboration

It could be hypothesized that individual retailers who are customers of textiles-apparel manufacturing industries adopt either the lean or agile supplier chain exclusively on the basis of the characteristics of their range and the demand. But it is more realistic to assume that the two alternative types of sourcing are both available to apparel retailers and may in fact both be present at the same time, to a different degree, as components of the retailer's sourcing mix [Bruce *et al* 2004]. Directing the focus of attention exclusively to one or the other of the two factors characterizing these supply models (lean or agile) means dealing with the complexity implicit in the failure to solve the other aspect of the problem; in effect, the other aspect does not disappear but simply becomes less salient in the eyes of the purchasing decision-maker and in the purchaser-supplier interaction [Håkansson 1982; Ferrero 1992]. This complexity can be described as the *cognitive cost* that has to be sustained in order to engage in certain activities. The complexity the retailer has to manage is associated with activities such as (a) design and problem solving in apparel manufacturing; (b) sourcing and problem solving in the supply-related logistical processes.

Fig. 3 – Trade-off in the deployment of cognitive resources



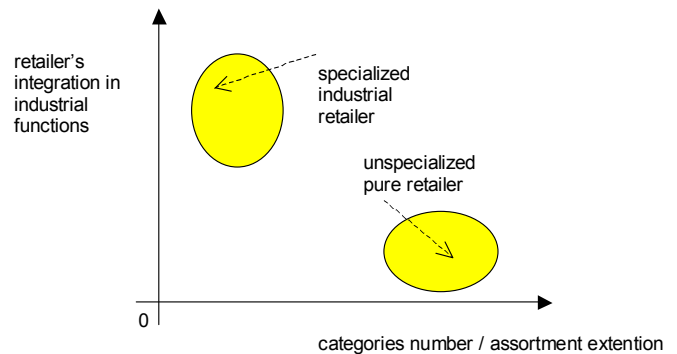
Source: author's elaboration

The limit represented by available cognitive resources may result in a trade-off in deployment of available resources. Choice of one or the other of the two supply alternatives can therefore lead to different characteristics of the range. For example, if price is the customer driver, the retailer may achieve greater success by abstaining from the attempt to manage products associated with a more uncertain demand and elevated fashion content. Firms operating in the framework of unspecialized distribution, which present apparel products as part of the structure of their range, cannot acquire in-depth knowledge of an individual category, in contrast to the specialized retailer. Unspecialized distribution firms mainly buy ready made garments, a procedure that enables them to reduce the extent of the complexity they have to manage.

This strategy in turn has repercussions on the relation with the supplier, influencing the profile of the interaction. Furthermore, in the case of the unspecialized retail firm it can be hypothesized that investment in design is limited and not undertaken directly: thus in this case purchasing focuses on finished garments, the interaction also centers around basic

products and involves a predominance of the lean supply in the composition of the sourcing mix.

Fig. 4 – Trade-off between integration in industrial functions and assortment extension



Source: author's elaboration

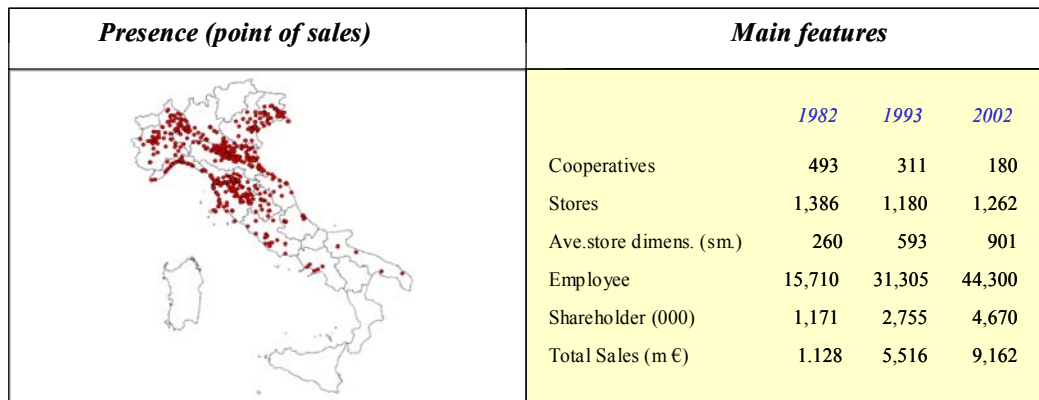
5. Clothing sourcing in the unspecialized retail channel: the case of the Italian leader

Coop Italia is the leading distributor in the grocery market in Italy, with 1262 sales outlets and a turnover in 2002 approaching 9.162 million Euro. There are 180 cooperatives belonging to the Coop Italia consortium, but nine of these represent roughly 93.8% (8,601 million Euro) of turnover¹² (Fig. 5). Coop Italia is the specialized national consortium that deals with the commercial management and effectively represents an associative marketing center operating in five main areas: a) definition of the commercial and strategic policies to be adopted for the sales outlets; b) management of product referencing and the associated sourcing policies; c) development and management of the private labels; d) development and management of quality policies both as regards finished products and the production pipelines; e) corporate communication policies and management of the media at a national level¹³. The major areas of Coop Italia's activities concern both the grocery and the non-food components of the range proposed by the grocery retailer. Figure 6 shows the company organization chart, with reference to the top corporate management. More specifically, with regard to sourcing policies, i.e. the topic considered here, the organizational structure of sourcing policies shows a division into two components, headed by the Sourcing Management, which constantly interfaces with the Hypermarket Division and with the Supermarket Division, the latter being the

¹² One important point is that for the cooperatives, Coop Italia represents a cost center, rather than a profit center, given that the entrepreneurial responsibility remains at the level of the individual cooperative.

¹³ It should be noted that the cooperatives linked to Coop Italia have to devote attention not only to their own commercial trade but also to the shareholder management.

Fig. 5 - Some structural data on Coop Italia



Source: author's elaboration on Coop Italia data

organizational expression of the commercial products that are predominant in the activity of the cooperative¹⁴.

When seeking to analyze the management of the textiles-clothing sector within the overall very extensive range of this retailer and to gain insight into the sourcing dynamics, it is useful to focus on the process of definition of the objectives at the level of the national consortium. Here one finds extremely intense links not only with the referents of the individual cooperatives but also with those in charge of the points of sale. In particular, it can be noted that definition of the objectives is based on analysis of future scenarios (in terms essentially of demand, the macro-marketing environment, production/supply markets). The scenarios are then taken as the basis on which to formulate specific hypotheses of growth, maintenance or shrinking of sales; such hypotheses are, in turn, necessary to define the target objectives of the national consortium and the individual cooperatives. As regards the textiles-apparel section, for example, the analysis focuses on such aspects as the overall trend of the apparel market, the main textile product innovations, the dynamics of the distribution structure, in order to formulate a profitability target that can be achieved by adopting a series of concrete policies: eg. range extension, rationalization of the stock of suppliers, reduction of purchasing costs, change in pricing policies.

These objectives defined at a general level are then further analyzed in the light of the type of competition faced by individual cooperatives in each area, making use of information obtained by involving a staff of referents in the structure of the overall top management. Such referents come partly from the Hyper and Super Management Teams (General Manager but also category managers), where they are responsible for interfacing with the sales outlets; therefore in

such cases the information they convey is mainly concerned with demand seen from a sales marketing perspective [*demand side*]. Other referents come from the Purchasing Management, in which case they convey information and aspirations coming from the (effective or potential) upstream relations in the supply chain, which reflect a purchasing marketing perspective [*supply side*]¹⁵.

This organizational set-up also holds true for the textiles-apparel section, which reveals a similarity with the organizational structure of some specialized distributors, such as the American companies The Gap or Ann Taylor. In the latter two companies, however, the *demand side* component [points of sale] and the *supply side* component [purchasing office] are accompanied by a strong relation with the figure of the *designer* [design] of apparel collections in referencing choices¹⁶. In Coop Italia this third component does play a role, but it is bought in from outside through recourse to suppliers, mainly national suppliers. Range management in the sales outlets, on the other hand, is under the direct responsibility of the category managers, who answer to the Hypermarket Management: the category managers act as an interface with the Sourcing Office since they are in effect responsible for the entire process involved both in purchasing marketing and sales marketing¹⁷. There are five category managers in the garment section (menswear, ladies' apparel, children's clothes, lingerie and hosiery, sports and footwear),

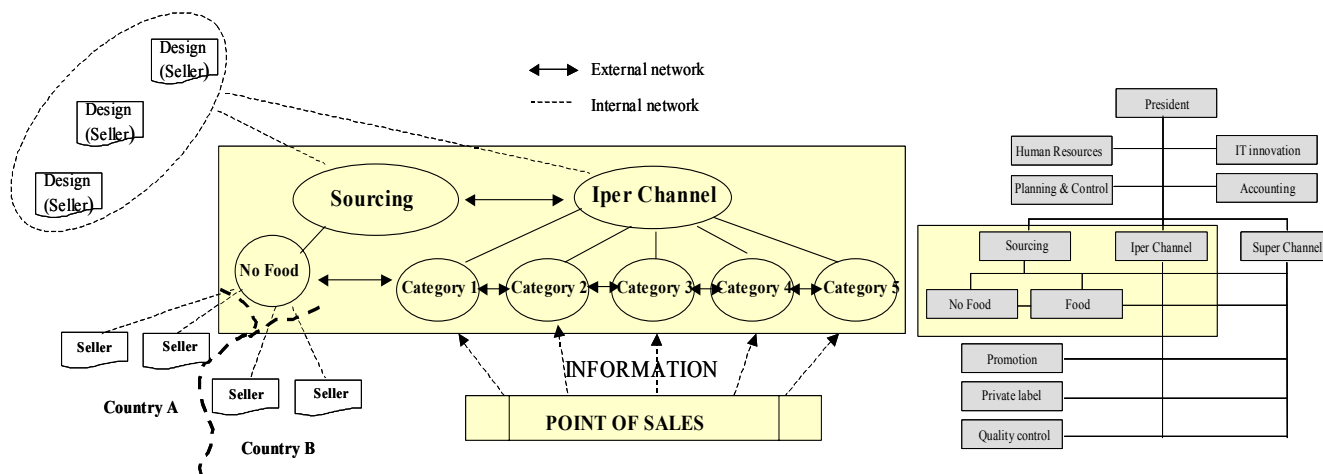
¹⁵ Note, therefore, the absence of a research staff specifically entrusted with the task of analyzing market trends, and, instead, the presence of interfunctional internal referents. This presence seems to be justified by the unspecialized nature of the Coop Italia assortment.

¹⁶ For an in-depth investigation of the organizational structure of some specialized apparel distributors, see Guercini, Ranfagni and Runfola [2003].

¹⁷ The category managers' responsibility for processes is evaluated in terms of targets-results, defined according to a degree of detail which, at the highest level, starts out from the objectives of the consortium, and then descends to the Hyper level, then to the 'person' sector, then to the category and finally the subcategory. In evaluating the entire process, clearly it is necessary also to take into account the responsibilities of the individual functional components (purchasing office, for example).

¹⁴ With reference to 2002, 57.0% of total sales was accounted for by supermarkets/superettes, 39.1% by hypermarkets and only 3.9% by discount outlets. On the concept of commercial product utilized here, readers are referred to the numerous contributions available in the literature [Lugli and Pellegrini 2002, Dupuis 2002].

Fig. 6. - Structure of the top management and the external and internal subjects involved in the textiles-apparel range of the sales outlet



Source: author's elaboration

out of a total of non-food category managers numbering about thirty .

Before conducting a more detailed analysis of referencing policies and the associated sourcing policies, it is necessary to take a careful look at the structure of the textiles-apparel range and its relation with this retailer's overall range.

Firstly, the percentage weight of this element of the Coop Italia range out of total hypermarket sales amounts to 8-10%¹⁸; it is also worth noting that the non-food component accounts on average for about 30% of hypermarket turnover. Of the aforementioned 8% of textiles-apparel sales, roughly 60% is composed of lingerie and hosiery (men's, women's and children's), and roughly 30% of menswear, ladies' apparel and children's clothes. The structure of the textiles-apparel range clearly derives from the unspecialized nature of the retailer, in the sense that sales of such products represent a complementary aspect of purchases by a consumer who visits the hypermarket, or an afterthought, rather than being the object of a specific trip to a shop to purchase precisely that article. That is to say, according to the interpretation put forward by the grocery distribution group, clothing does not represent a specific element of attraction for the sales outlet (hypermarket or supermarket), since it does not correspond to the natural vocation of the grocery sector.

The contribution of textiles-apparel to corporate turnover remains substantially stable over time, although it also appears that during the past few years this stability has been the result of two opposing trends. Namely, on the one hand, a rise in the volume of sales of such products has been observed, while on the other, there has been a systematic reduction in the average value of the price of articles sold. It would seem that this phenomenon can be ascribed above all to

two causes, involving both the upstream relations with the other players in the pipeline, and also the more general trends involving the behavior of the final consumer. In particular, as regards upstream relations, the managers of the cooperative have noted not only a decrease in costs of raw materials as a consequence of technological innovation incorporated into the production processes, but also a drastic shift in the supply channels, which have been transformed from a local or nationwide supply chain to a global, i.e. offshore, supply chain, as part of a process justified by a significant decrease in purchasing costs. As regards demand trends, on the other hand, what seems to be emerging is a growing preference by the consumer who wishes to buy apparel of average positioning to purchase such garments in large distribution stores rather than through specialized retailers¹⁹. In other words, according to the managers interviewed, the consumer's expectation of a drop in the amount of resources to be allocated for personal expenditure seems to be causing a change in the composition of the typical 'breadbasket'. For example, the non-food sector also covers other categories of merchandise which the consumer may not wish to forsake (eg. mobile phones, leisure commodities), and in a perspective of scarcity of resources it may be precisely the textile-apparel product that is sacrificed, or at least the threshold of trivialization - beyond which greater care and attention is required for purchase of apparel compared to simply taking an item off a supermarket rack and putting it in the trolley - is now higher than it was in the past. This new tendency is also favored by the fact that with regard to apparel of medium positioning, the quality of Hypermarket/Supermarket goods is now roughly comparable to that of the specialized channels.

¹⁸ Analysis of the textiles-apparel sales is conducted here by focusing exclusively on sales achieved through the Hypermarket commercial product, which is representative of the greater contribution to turnover with reference to this product typology.

¹⁹ As regards the profile of the textiles-apparel purchaser, it is nevertheless underlined that this purchaser represents a subset of the population that goes to the hypermarket; therefore the average profile of such a purchaser reflects that of the population resident in the catchment basin of the individual sales outlets, and it is a profile that is in effect "a little more educated, a little better off, a little younger...".

In terms of display area, the textiles-apparel section occupies between 700 and 1500 sq. m., depending on the overall size of the sales outlet. This area typically represents 10-15% of overall display space²⁰. As far as the structure of the range is concerned, the textiles-apparel section is part of the macrocategory “person”, within which it is subdivided into menswear, ladieswear, childrenswear. The amount of space devoted to these three dimensions of the range is stable in the medium-long-term, with an average of about 140 articles in each sales outlet. Below the level of the above threefold subdivision, the articles are organized by “line of tendency”, which corresponds to a style and reveals the season’s range policy. The number, extension and depth of the “lines of tendency” are frequently modified from season to season as a function of the fashion trends, with the result that while the number of articles within the point of sale remains substantially stable over time, there may nevertheless be a frequent variation in their composition (in terms of number of shirts, skirts, trousers, for example).

The seasonal cycles characteristic of the planned model (fall, winter, spring, summer) are thus the first key to interpreting the composition of the assortment. Then, during the season, some of the references present an elevated renewal rate, while there is another portion that remains basically unchanged. This is because the seasonal assortment is composed of some basic products that remain as part of the range throughout the entire period, while there are other types of product with a higher fashion content that have to be renewed more frequently, generally every forty days (i.e. three times during the season)²¹. The need to propose a certain portion of references that reflect a seasonal trend is linked to the hypermarket consumer’s purchasing behavior, in that a consumer who frequently goes to the hypermarket is more likely to complete the shopping trip with the purchase of an item of clothing if the garment presents some element of novelty, since this kind of purchase is generally characterized as a high impulse purchase.

Finally, as far as the composition of the range in terms of brands is concerned, the distributor operates with recognized brand labels only for lingerie and hosiery, where it often makes use of top brands, having a qualitative positioning and price close to the leading industrial brands. But for apparel one finds fantasy brand names, which the distributor uses for imported goods.

Let us now look at the sourcing strategy used by the distributor for branded products (whether recognized brand labels for lingerie and hosiery or fantasy brands for apparel). The distributor mainly utilizes an offshore supply chain. However, it should also be noted that Coop Italia presents itself as a pure unspecialized retailer, free from the characteristics of the industrial retailer that were as described in the earlier paragraphs. That is to say, the branded product

sourcing policies exclusively concern the ready-made garments, and do not include semi-finished textiles (fabric, yarn), unlike the case of the industrial retailers. We also noted that Coop Italia does not have its own organizational component specifically entrusted with designing the collection of ready-made apparel; rather, this activity is outsourced to an external supplier, who may or may not coincide with the supplier of the actual manufactured finished garments. The integration in functions that lie upstream of the pipeline concerns activities involved with aspects of finished garment wholesale and quality control. In particular, such activities involve carrying out quality control on the fantasy brand products in the supplier’s country, and carrying out more thorough quality control, including quality control on the production process, in the case of products with a recognized brand label.

Overall, the supply chain shows the kind of composition depicted in Figure 7, depending on the product typology (basic/elevated fashion content) and on the possibility of forecasting demand (volatile/planned). The majority of products purchased are of the basic type, and the basic product supply chain extends more or less world-wide, with China, India and Bangladesh²² being the dominant foreign countries by virtue of the advantage they offer in terms of price/quality ratio. It is also worth pointing out that with regard to the type of clothing considered here, the garments produced by firms in these three countries reach qualitative standards that are not far from those which could be purchased from a local supply chain. Therefore the economic advantage is a fundamental driver in sourcing the supplier, and it is not balanced out by the geographic distance (logistics, transport etc.) or by costs connected to cultural distance (management of orders, etc.). Global sourcing is justified both by the nature of the product, which is essentially basic and can be planned 7-8 months before it actually goes on sale at the outlet, and also by the product’s positioning on the textiles-apparel market, which remains at a medium position.

When it is necessary to include products with a higher fashion content in the range, then European sourcing is adopted (Italy, Mediterranean coastal countries, Eastern Europe), since for this product typology the driver for choice of supplier shifts from the cost factor to the time/service factor because the distributor needs to be able to offer products renewable at a rate of three flows per season.

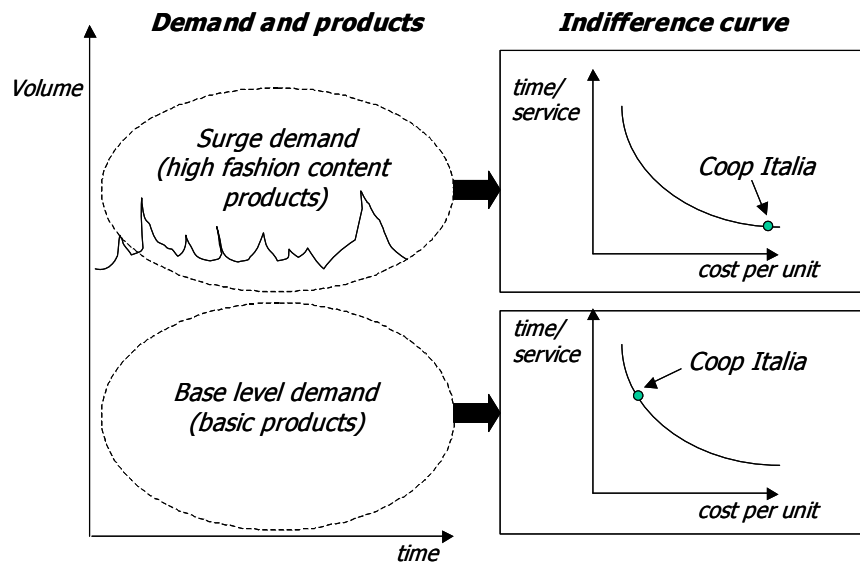
Therefore the time factor represents an element that seems capable of reallocating competitive advantage to the local supply chain as compared to the offshore supply chain. In contrast, choice of one supplier as opposed to another does not at present seem to make use of specific performance indicators (GMROILS, etc.) that could act as a guide in the choice among alternative supply chains, such as estimates of the

²⁰ It should be considered that the non-food sector accounts for 40-50% of the total display area. It is evident that this proportion of the display area does not necessarily imply an analogous contribution in terms of sales, but rather, in terms of contribution to the margin; this reveals a management rationale that is substantially different compared to the grocery component of the assortment.

²¹ Obviously, this does reach the speed of renewal of operators specialized in fast fashion such as the Spanish firm Zara or the Swedish H&M.

²² But estimates for 2005 by referents of the cooperative point to the hypothesis of a growing weight of foreign purchases from China, the country which, together with India, remains the main source of supplies.

Fig. 7 – Indifference curve in Coop Italia



Source: author's elaboration

contribution of each source in terms of reduction of lost sales or of loss leader sales.

Clearly, in this regard the unspecialized nature of the retailer must be taken into account: the level of sophistication of these indicators would not be in accordance with the rationale of managing the entire assortment by adopting a rather different approach from that of a specialized industrial retailer.

6. Final remarks

In the clothing sector, retail firms are acquiring growing importance within the T/A pipeline, which is characterized by increasing internationalization not only in market seeking but also resource seeking. In particular, today these firms can buy from suppliers who are localized in different areas and have a variety of different capabilities. This means that sourcing is becoming a central process in the context of corporate functions. The decision to integrate industrial functions (design, purchase of semi-finished products) is directly related to the sourcing strategy adopted by clothing retailers and to the chosen production management model, with its attendant choices affecting the range.

Our paper outlines these relations with respect to the merchandise offered for sale by the retailer in terms of product complexity (which concerns both the collection and the assortment) and the supply chain. The characteristics of the sourcing strategy depend on, but at the same time also contribute to shaping, the characteristics of the merchandise offered by the retailer. We examine several dimensions through which these characteristics may be defined, in terms of trade-off and mix. The relations between sourcing attributes on the one hand, and characteristics of the assortment as well

as the type of production management model on the other, are by no means static; instead, the situation is in constant flux. Certain specific aspects are highlighted by the case analysis proposed here, which suggests that a greater complexity of the supply chain limits the possibility of managing elevated product complexity, both as regards the collection and the range. This balance is expressed in terms of a lean, agile or lean-agile supply chain. Our data provide evidence that the current supposed correspondence between agile/lean supply chain and local/overseas supply chain is a not stable correlation; equally, the trade-off between product complexity and supply chain complexity does not necessarily remain unchanged over time. Rather, the present status of these alternatives seems to be the outcome of the current phase in the evolution of industry-distribution relations within a strongly globalized context.

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