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COMPLEXITY MASTERS: C1RCA

Skateboarder Apparel, Footwear Firm Just Wants to Focus on Product Marketing



A small company, Four Star Distribution relies on an on-demand solution to ensure that its C1rca line of products can go head to head with those of the biggest competitors.

Anyone over 25 has probably never heard of Quick Silver, DVS, Vans and C1rca. All are footwear and apparel brands that are among about 200 or so that market to a worldwide generation transfixed by the sport and lifestyle of skateboarding. This surprisingly large brand-conscious market is hotly contested by many small and large consumer goods companies that are tuned into young people all over the world who eagerly buy the latest products showcased by professional skateboarders and countless web sites.

One of the most successful companies in this marketplace is C1rca (pronounced circa), which is a small action sports

footwear company with its U.S. headquarters in San Clemente, Calif. Although its customers know the company as C1rca, the corporate entity behind this brand name is Four Star Distribution, a private Swiss company started in 1991 as a snowboard and apparel business. It sold off the snowboard business in 2004 and has since focused all of its efforts on the C1rca brand of skateboard footwear, apparel and accessories. In fact, its marketing slogan is "we are committed to skateboarding."

The C1rca name actually covers several more targeted brands of skateboarding footwear and apparel. The C1rca main line is sold to thousands of approved dealers in malls and shopping centers world-

wide. The Combat line is only sold to hardcore skate shops that cater to serious skateboarding males between 12 and 20. A new C1rca Select line is directed at an older, high-end market in the 20s and 30s that can afford more expensive fashion-oriented apparel and footwear. All these brands with their own channels creates additional distribution complexity.

What is especially noteworthy about Four Star and C1rca is that a company with only 75 employees worldwide is able to go head to head on a global basis with hundreds of competitors, including such giants as Nike and Adidas, in a market that demands a constant flow of specialty lines and styles.



Extending the Supply Chain

Four Star has made its C1rca brand thrive in this marketplace by masterfully managing a complex global supply chain. And the company itself has distributed its operations around the world. Its financial center is located in Switzerland, mainly for tax reasons. Design, development and other operations for the C1rca brand are in San Clemente, Calif. An office in Hong Kong oversees outsourced production, vendor payment and shipping.

According to Marcus Bohi, CEO of Four Star, the most important aspect of this extended management strategy is the reliance on a network of low-cost suppliers and manufacturers in China. The apparel factories are in South China and the footwear factories are in the Shanghai area.

“We do not want to own factories,” says Bohi. “We want to focus our efforts on marketing and product development.”

Four Star does all the marketing and sales in-house. It also does its own product design, development and testing at its San Clemente location. Using a product lifecycle application, Four Star sends very detailed specifications to its Chinese manufacturers to include materials and precise dimensions down to the millimeter. It even specifies the stitching hangtag location. Based on these specs, the factories make prototypes that are tested in California.

When the company is satisfied with the product, the factories make a limited number of sales samples. As the orders come in, POs are issued to the factories from the Hong Kong office, which maintains close contact with the factories for compliance with the orders. When the finished product is ready to ship and has complied with Four Star’s requirements, the Hong Kong office approves payment

to the suppliers and tracks the goods in transit to their final destination.

For outbound distribution, Four Star relies primarily on freight forwarders and third-party providers to handle its logistics from China to wholesale and retail buyers in the U.S., Canada, Asia and most of Europe. Four Star has one small warehouse in Switzerland, but the vast majority of order fulfillment and shipping to retail stores is handled by 3PLs. In the U.S., Four Star uses AMS Fulfillment based in Los Angeles. The same 3PL is expected to soon handle Canadian distribution as well. In Europe, Munich-based ITG GmbH handles all distribution except for Switzerland. In the U.S., Canada, Austria, Switzerland and Germany, Four Star’s sales force sells directly to retail stores. Elsewhere in the EU, Eastern Europe, the Middle East and Asia, the company sells to distributors who then sell to shops.

On-demand Platform

As the company began to rely heavily on an extended supply chain overseas, Four Star rolled out an initiative with an on-demand supply chain platform called TradeCard that enabled it to maintain control of the movement of goods and money, beginning with automation of sourcing and supply chain finance processes. In 2007, Four Star began transacting with suppliers on TradeCard's supply chain platform.

Four Star's use of TradeCard begins when it electronically sends POs to its vendors. As the vendors start making product, TradeCard provides Four Star with reports and alerts, so it can monitor the progress of the order. When the order is complete, all documentation from the packing list to the invoice are transmitted

were reluctant to change from the paper document system they had been using with Four Star.

"We had to tell one supplier that they had to use TradeCard or we would move on to another supplier," says Bohi. "They finally went along, and now they are very happy. They want to put all of their customers on TradeCard because it saves them time and money."

Not only are the vendors relieved of paying high fees for letters of credit, but vendors participating with TradeCard have an opportunity to improve their cash flow. Buyers on the system, like Four Star, are very strong financially, so the financial institutions on the network are willing to factor their payables to the vendors. The vendors accept a discounted amount of the receivables from the buyers to receive

well. In the U.S. colors are less important, but the materials are key. In all cases, styles change quickly and having the hot product in the stores at the right moment is critical.

"We have been able to improve order cycle time by one week," says Bohi. "That is a huge selling advantage because we are the first in the shop with the new lines. Kids always want to have the newest. Speed to market is important, and everything goes faster with TradeCard."

For a small company like Four Star and all of its small vendors, using an on-demand platform is the only cost-effective way to electronically support such an extended supply chain. None of the trading partners needs to install software. All any party needs is an internet connection. All commercial, transportation and cus-

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— *Marcus Bohi of Four Star Distribution*

on TradeCard. Four Star's Hong Kong office is alerted by TradeCard whether these documents are in compliance with the PO. After the Hong Kong office resolves any discrepancies TradeCard's compliance engine has identified with the vendors, it releases payment electronically on a highly secure platform.

Four Star's first transactions with TradeCard went through in June 2007, so it is still in the ramp-up phase. According to Bohi, the company will soon be scanning product at the factory level and tracking shipments online. It has about 20 percent of its suppliers on the TradeCard platform, but these represent the largest part of its volume.

"We expect to have all of our vendors on TradeCard," Bohi says.

The Chinese vendors have been using the TradeCard platform for only one or two seasons. According to Bohi, most

cash immediately instead of when the accounts are due. For the vendor, this capability can bring down the weighted average cost of capital.

Speed to Market

Four Star does not rely on a demand forecasting system mainly because the product sales cycles tend to be very short. When it receives actual orders from sales reps and distributors, the company places purchase orders and relies on its shortened lead times to meet market demand.

"We may increase inventories of certain items if we think they will be hot sellers, but we are wrong more than we are right," says Bohi. "Fast order turnaround is better for us."

The same C1rca products are sold worldwide, but they don't perform the same everywhere. In Europe, colors are very important for determining what sells

tom documents can be handled electronically. Four Star's freight forwarder is not yet online, but that is coming soon.

According to Marshall Gordon, senior vice president for TradeCard, footwear and apparel companies like Four Star are ideal for TradeCard's on-demand supply chain platform because their supply chains dynamically expand and change all year long. Vendors are added or subtracted so often that conventional software is impractical because of the time and cost of implementation. With TradeCard, there are already hundreds of vendors on the network that many different buyers may be using. Just as important, all of the other parties involved in a supply chain, from carriers and forwarders to 3PLs and financial institutions, can be on the electronic system as well.

The sourcing operation is automated, so all paper transactions are removed

from the process. There is no need to dedicate staff to handling routine transactions such as inspecting the freight cargo receipts, POs, packing lists or invoices. Only if there is an exception does anyone have to get involved in the processes.

According to Gordon, the first 30 to 60 days can be challenging for buyers and vendors coming onto TradeCard for the first time. The automated system alerts both parties to the exceptions in the order and will not let it go through until either the buyer excuses the exception or until the vendor corrects the problem.

“The first PO or invoice may have 37 exceptions, the second 20 and the third six until the vendors see how to use the system to avoid exceptions,” says Gordon. Very soon, things get straightened out. Typically, it takes 45 to 90 days to get the vendors using the system properly.

Eliminating LCs

Bohi says that one important advantage of TradeCard is the elimination of letters of credit (LCs), which are cumbersome, time-consuming, error-prone and

extremely expensive. Electronic LCs over TradeCard eliminate the cost of sending documents via courier, and the bank fees for the LCs and all the revisions that often are required.

For Four Star, eliminating LCs saves one half of one percent on the invoice amount, which can translate into substantial financial benefit. While that one half of a percent savings based on process automation and fee elimination may seem small, for CPG companies such ongoing savings can grow the bottom line very quickly beyond an improvement in revenue. That 0.5 percent goes directly to a corresponding increase in gross and net margin. Net margins in the apparel and footwear industries are extremely lean, rarely exceeding two or three percent, so an ongoing improvement of 0.5 percent in margin may translate into as much as a 20 percent increase in net earnings. Four Star is privately owned, but for publicly owned companies, this improvement is even more significant. A company's valuation is often measured as a multiple of its net earn-

ings, and top sector performers are rewarded with increased multiples.

“When we sit with CFOs, they immediately do this type of math and grasp that TradeCard can improve both margins and cash flow,” says Gordon.

Advantages to eliminating letters of credit go beyond reducing transaction costs, Gordon says. Purchases involving letters of credit tie up either cash or bank lines of credit, which restricts using that money for other purposes. TradeCard is an open-account platform. Instead of tying up their cash and their balance sheet with LCs, TradeCard clients use the cash or credit facility to grow their businesses. Some buy more merchandise, others expand distribution and some even make acquisitions. All simultaneously improve both financial and operating efficiency.

Resource Links

TradeCard, www.TradeCard.com

AMS Fulfillment, www.AMSfulfillment.com

ITG GmbH, www.ITG.de