

A matter of margins

Last month we asked where the pressure on margins will take the corporate clothing industry. The answer, some believe, is that we are already there. And, while the industry's problems are more complex than simply selling itself short, there does seem to be a critical imbalance in the cost versus service equation, writes Lotte Debell.

Imagine the scenario: a customer calls up and asks for a quote. You give him your best price. There are then unforeseen price increases at your end, but your customer refuses to accept an increase to the quote. What do you do? You can either swallow the increased costs and stick to the original quote, which, since you gave the customer your best price to begin with, may reduce your margins to the point where this business is no longer worth your while, but it is still business. Or you can, regrettably, refuse the order.

The latter might be the most sensible option, but in reality many companies do not feel they are in a position to turn down business right now, and although this has been made worse for some by the recession, it has been going on for a long time.

The corporate clothing industry has arguably made a rod for its own back through lower and lower pricing, and now the recession has made the pressure acute. With less business available, competition is inevitably fierce. Buyers have less money to spend, so prices have to come down to win the business – but how far? The question is, are the buyers forcing the prices down, or are suppliers taking it further than it needs to go?

Attitudes to pricing will vary depending on who you talk to. For the sellers, the view is often that they need to offer the lowest price to win the business or a cheaper competitor will prevail. If you ask buyers what they base their buying decision on, they stress that while price is important (now more than ever, true) it is only one part of the equation. There's an obvious conflict in there. Ask yourself

“How often in life have you chosen to go for the cheapest option available?”

this: how often in life have you chosen to go for the cheapest option available, whether it's on something like a new TV or a builder's quote?

The danger in any discussion like this is generalisation. The corporate clothing industry is incredibly diverse and populated by companies of all sizes who are operating with varying degrees of success. Some sectors are suffering more than others, and larger-scale managed service contracts are possibly suffering the most.

For the buyers these contracts represent a massive investment – often several thousand wearers must be kitted out in working wardrobes of multiple garments – and price is critical. But there is so much more involved. Image, for a start, the need for garments of sufficient quality and design to enhance a company's brand. Durability and performance – the look alone is not enough. Garments must

last the length of the contract or money is simply being thrown away. To get all these things from a uniform you have to be prepared to pay for them, and most buyers understand this to one extent or another. The problem at the moment is to what extent they can afford to understand it, and if a seller desperate to win business comes along and offers the world for a pittance, are they to blame for taking up the offer?

Every buyer wants value for money and some will work harder to get it than others. Sellers want to shift their goods and get paid. The higher the costs faced by the supplier – existing debts, staff, offices, warehouses, even cars – then the greater its need to win business. This could lead to a win 'at any cost' attitude, and while this can be helpful in the short term it will lead to financial problems sooner or later.

So, what's a seller to do? With a customer base that has become accustomed to prices going down, and down, and down, it's a brave person who sticks to their premium price guns. Others may applaud them for it, they may praise the looks and quality of the garments, but the worry is how many will buy it? The alternative is to compete in marketplace where margins have gone as low as two





percent on a garment. That doesn't just leave no margin for error; that's no margin at all for all intents and purposes. When you realise that a supplier needs a dedicated team to handle the contract, that they must meet strict delivery times and KPIs, it's not hard to see how this is financial suicide. Some contracts even have built in price reductions year on year, but if there is a fluctuation in currency value, if raw material prices go up, or any number of other costs increase, it can be impossible to maintain the original price let alone the price reductions.

And so the squeeze becomes tighter; the circle more vicious. New business becomes so vital a company will repeat these mistakes to win it, and when going for larger contracts, it is not unusual for price wars to break out among suppliers in a scramble to win.

What sometimes get forgotten in these situations is that extra element – service – that goes into a corporate contract. If it was just about delivering a large number of garments, that would be one thing, but in a managed service contract, with all that entails, the question becomes how you maintain the level of service. Managing

agents developed in the first place because companies were finding that managing their uniform requirements was taking up far too much of their time. It is suppliers' expertise that they bring to the contract. They manage the design, the fabrics, the lead times, the sizing, the forecasting and the special measures. They are there so that when the client needs something at a moment's notice, they get it.

The service level offered by UK corporate clothing suppliers is up there with five star hotels. The problem is they charge the price of

budget hotels. Surely there should be a price/service curve, the higher the level of service, the higher the cost? Some suppliers seem to have been defying this simple principle, and if so they can't continue to forever. But others are out there making money, offering a world-beating service year after year at reasonable but not ridiculously low prices. They prove that there is still money to be made, if the industry can get it right.

As one industry figure commented recently: 'The UK corporatewear supplier is the best in the world at everything except making a profit.' ■

Touching on a tender subject

There are some things that place extra burdens on suppliers, that add to the strain on resources, when perhaps they do not need to. If you ask a clothing supplier what takes up the most of their time, many will say tenders, and for some it is a hugely emotive issue – for several reasons.

European law states that any contract for goods over £156,442

must go out to tender and be published in the Official Journal of the European Union. That's a relatively low figure, given that corporate clothing contracts can run into the £millions. However, the law does not require tenders to be hundreds of pages, to be overcomplicated, time-consuming affairs where even the pre-qualification stage can seem as long as the tender itself. Not all are

like this. Some do their job very well, but many, many don't, and not only can the process waste suppliers' time and money but, if done badly, a tender also won't achieve what the tenderer wants in the first place.

A major issue is a lack of knowledge and resources on the part of the company putting out the tender, says Steve Lancaster, an independent apparel and textiles

consultant who assists companies with the tender process. Very often the result is a document that is not tailored to the industry or product and is either too vague or largely irrelevant, or both. The reasons are two-fold, he explains. When companies are awarded tenders they are usually invited to update the document to make it more relevant the next time it goes out, ►►



Some suppliers say they now spend most of their time filling in documents from customers.

➤➤ which they often do not do or keep things very vague with the intention of ensuring that the contract is more likely to stay with the incumbent. And the company putting out the tender doesn't have the resources to update it and just puts it out as it is. If a contract lasts for three years, and is sent out three times without really being updated, it will be nine years out of date.

'A lot of problems with tenders are in the actual document preparation,' says Steve. 'Often the tenderer doesn't allow sufficient time for things – something I commonly see is a request for samples within three weeks. This is completely unrealistic, especially as there is insufficient information given out about what is required, and many samples will be made in the Far East. The result is that no one gets what they want.'

Steve advises no one to apply for a tender if they have not been in contact with the tendering organisation beforehand, preferably

“Buyers need to understand exactly what they are asking for and why”

for a couple of years. 'That way you should already know the sort of thing they are after and you can suggest enhancements. More importantly, you are already on their radar.'

But even if companies have been in contact, if the supplier understands the buyer's requirements, they can still fall at the first hurdle. The pre-qualification stage of restricted tenders is often used to eliminate companies on a particular basis, such as financial scoring, but it doesn't always get this right. There was well-known case a few years ago where the pre-qualification questionnaire was aimed at eliminating companies with directors who had previously wound up companies. The contract

ended up going to a company with a director who had closed down several businesses. 'When other companies see this kind of thing they wonder what the point is,' says Steve.

If not thought through, this part of the process can also exclude companies that would otherwise be perfectly suitable for the contract. Anthony Page from Durham Businesswear has found this to be the case on more than one occasion, and it is not only frustrating but can take valuable business away from suppliers for no better reason than they could not tick one box.

Durham Businesswear has felt this most acutely in local government procurement, finding itself left out in the cold because, as a small company of just seven people, it doesn't have an Investors in People award, or can't provide evidence of 'two projects carried out into sustainability'. In some cases this has resulted in the loss of business that has been done successfully and with satisfaction on both sides for 20 years.

'The government says that it wants to encourage SMEs to get involved in government procurement, but the reality is that these tenders are biased towards big companies. Implementing a quality management system for a company like ours is prohibitively expensive and time-consuming, yet without one you lose points and won't make it through to the shortlist. Often we are a local supplier; we have provided them with an excellent service, but the business is lost because we couldn't tick a lot of meaningless boxes. That contract ends up with a large supplier who could be several hundred miles away and is just not capable of providing the same level of service.'

Anthony is not alone in his frustration with the 'tick box' approach on tenders, and this is particularly prevalent on issues such as corporate social responsibility. The raised awareness of CSR is one of the triumphs of the last decade. Companies should be making an effort to ensure that their suppliers are compliant with ethical sourcing

practices, but they also need to understand what they are asking for and why. A blanket approach designed to cover off the tenderer's responsibilities can be both unnecessarily burdensome on suppliers and a flawed way of achieving the aim, which is ethically and responsibly sourced products.

In a world where effectively monitoring compliance is notoriously difficult, the best way for suppliers to ensure they are doing the best they can is to develop strong relationships with suppliers, to work with them over the years to steadily improve. For end users to benefit from this they need to become a part of that relationship, and to understand that the ability to tick boxes is not always the same thing as behaving in a socially responsible manner.

One of the problems with ethical sourcing is that it is just not that simple. Nothing is black and white, not even issues such as child labour. Companies need to understand the impact that imposing certain standards can have on local economies and social systems. 'If the end user is going to ask these questions – and they are, and should be – they need to understand what they are asking for and why, and they need to follow it up,' says Susanne Malim. 'The blanket imposition of Western values cannot be the best approach and asking a lot of standard questions on the tender document can't begin to address this. And the danger is that many companies feel that just by asking the questions they have done all they need to.'

There is no easy answer to how best to approach this problem, nor even to the tender issue as a whole. It is certainly a subject that provokes intense feelings from people, and one that both buyers and suppliers would probably love to spend less time on. So, *Company Clothing* would like to hear what the industry thinks, and your comments are invited. Email l.debell@hgluk.com. ■

Please note, we may contact you to ask if we can publish your comments.