



A Bamboo Rose White Paper

# Mitigating retail risk and uncertainty through what-if, any-market costing

On any given day, countless factors can impact the landed cost of a product.

In this white paper, we'll explore the various factors that contribute to actual landed cost fluctuations, and the risks these factors pose to the retail community. We'll explore techniques that retailers use today to manage these risk factors, while proposing new tools that can better predict price fluctuations and protect retailers from the unexpected.



**WITH A COMPLICATED GLOBAL ECONOMY AND ENDLESS EXPOSURE POINTS TO RISK, WHAT-IF AND ANY-MARKET COSTING ISN'T A LUXURY – IT'S A MUST-HAVE FOR RETAILERS AND BRANDS EVERYWHERE.**

The world is full of uncertainty driven by long-tail factors like changing world leaders and revamped trade agreements, as well as surprises like labor strikes and natural disasters. Regardless of what's happening in the rest of the world, retailers need to continue putting products in front of their consumers to be successful – and they can't point the finger at a dock-worker strike in India when prices double. Retailers are constantly at risk due to factors out of their control, but there are ways to mitigate and plan for the unknown.

### UNCERTAINTY RISES FROM MULTIPLE SOURCES

Of all the industries on earth, the interconnectedness, speed and variability of retail makes it a risky business. No retailer has the luxury of operating in a vacuum – in fact, there's a vast network of necessary suppliers, merchandisers, sourcing professionals and designers who create an international retail community. And it's complex, multi-touch industries that have the most vulnerability points to disruption and risk. These present themselves in a number of ways.

Here are a few examples from the past two years:

#### **Global economic risks**

Few could have anticipated the major economic disruptions that occurred globally in the last few years. The election of Donald Trump as the 45th president of the United States caught many by surprise, and his lack of concrete policy plans as both a candidate and president-elect in 2016 and early 2017 led to much global uncertainty. In February 2017, Federal Reserve Chair Janet Yellen warned that uncertainty about the president and Republican Party's plans for the economy, taxes and regulations could stifle moves by the Fed to raise interest rates and grow the economy.<sup>1</sup> While many businesses view a potential rollback of regulations as a positive move, the general lack of reliability made investors cautious and resulted in market vulnerability for a time.

Another major shock to the global economy occurred in 2016, when the United Kingdom voted to exit from the European Union in a surprise upset election. Dubbed "Brexit," the unexpected outcome has potential impacts on retailers in both the U.K. and around the world, and with the actual exit still to

come in 2019, no one can confidently predict what the fallout will be. However, initial reactions in the U.K. retail world are mixed. December 2016 and January 2017 were low months, with February sales picking back up.<sup>2</sup> The lowered value of the pound is already raising import costs for U.K. retailers, and additional ramifications are sure to arise over the next two years.

#### **Labor issues**

It's not only the actions of world leaders and governments that can cause havoc on the retail industry. Consider the impact of thousands of dockworkers striking – refusing to work while the container ships sit in port carrying wares that don't make it to market. In April 2017, India's dockworkers flirted with the second major strike in as many years that would impact 12 ports and 70 percent of the nation's container trade.<sup>3</sup> Shortly after, the risk was delayed if not completely defrayed, by joint negotiations with Indian authorities.

The Observatory of Economic Complexity, a project by MIT, ranked India as the 16th largest export economy in the world in 2015,<sup>4</sup> underscoring the impact of a strike on U.S. retailers. But labor issues aren't relegated to overseas countries. In 2002, the Pacific Maritime Association retaliated against perceived intentional slowdowns by the International Longshore and Warehouse Union by locking dockworkers out of its ports, which included Los Angeles and 28 additional high-traffic ports along the West Coast that handled the bulk of U.S.-Asia trade.<sup>5</sup> The shutdown, which lasted 10 days, occurred during the season that is typically a rush with holiday goods – and cost the U.S. economy approximately \$1 billion per day by some estimates.

### ➔ **Source factory problems**

From the manufacturing to the packaging of goods, factories play an integral role in getting products to market. A single factory will often support the development of goods for multiple retailers, so when factories are struck by tragedy, it can mean major delays in the supply chain. Such was the case in Dhaka, Bangladesh – a major hub for garment production, with \$28 billion in annual clothing exports.<sup>6</sup> In a tragic incident in 2012, the Sacar building in Rana Plaza collapsed.

### ➔ **Natural disasters**

While man-made tragedies can have an enormous impact on retailers, Mother Nature can also derail the supply chain in the blink of an eye. From earthquakes to drought to forest fires, natural disasters have cost the U.S. economy more than \$2.5 trillion since 2000.<sup>7</sup> Hurricane Sandy struck the east coast of the U.S. in 2012, causing severe damage as far north as New York, triggering delays in fuel delivery, power and port entry. The storm cost retailers on the east coast an estimated \$4 billion in November 2012 alone.<sup>8</sup>

Ninety percent of global trade happens on the ocean, but some companies are gravely affected by disruptions to air transport. In 2010, Iceland's Grimsvotn, the island's most active volcano, sent a cloud of ash into the atmosphere, grounding 100,000 flights over the course of a week. Thankfully, there were no human lives lost from the eruption, but the cost to the European economy totaled \$5 billion.<sup>9</sup>

### ➔ **Variations in resource prices**

The price of basic commodities, like oil, cotton and sugar, can vary greatly – and with those variations come huge impacts on retailers. Oil prices drive inconsistency in transportation costs, which if not accounted for up front, can greatly impact the landed cost of a product. The price of raw materials, like cotton for instance, can drive up (or down) the cost of a finished garment. In 2017, the price of cotton has already increased by about nine percent over 2016 prices; though a lot of factors determine the cost of a final garment, the fabric contributes a whopping 66 percent – which means a nine percent increase in cotton has a huge impact on the cost of clothing.

## MANAGING UNCERTAINTY AND RISK WITH WHAT-IF COSTING

We've barely scraped the surface of factors and situations that can impact landed costs in retail – the list of hypotheticals could go on for pages – and already, the task of predicting and accounting for any possible contingency seems daunting. Unfortunately, the complexity of accounting for risk and uncertainty can convince many retailers not to do it at all, while others take approaches that provide only marginal insights. A small number of innovative, forward-thinking retailers and brands are taking a robust, holistic approach to calculating first versus landed costs – and they're reaping big benefits from it.

### THE "DO NOTHING" APPROACH

First, let's delve into the challenges. The number of retailers who neglect the process of calculating the actual landed cost is quite high due to several factors:

- It's hard to do. We've outlined the vast number of considerations that need to be taken when calculating impacts on landed costs, and there is no guarantee as to what will happen at any given time. When managed improperly, what-if costing is an imperfect science, especially when the necessary data isn't available or is hard to harvest. Therefore, many retailers may decide it isn't worth the effort for what could be inaccurate data.
- It's time-consuming. Determining what-if costing can be an arduous process, and retailers are often too strapped to allocate the manpower for an exercise that they've been successfully existing without for years.
- They keep thinking in terms of initial cost. Retailers spend a lot of time negotiating the purchase of goods from around the world, and therefore are used to focusing on what suppliers are charging. If they secure a good price from a supplier, they may fail to recognize that they still aren't set up to be profitable until after the product is on the shelf – way too late to make cost adjustments.

### THE “DO A LITTLE BIT” APPROACH

Retailers who recognize the value of what-if costing don't necessarily know how to effectively implement it in their organizations. Techniques include:

- Forcing Microsoft Excel to do something it's not designed for. Excel is a great tool, but it isn't designed to flexibly manage complex simulations. Consider the example of the West Coast port closures in 2013, right before the holiday shopping season. Calculating the effect on shipments and margins in Excel, across 100,000 products, with multiple variables, would be nearly impossible.
- Blanketing every item with a 30 percent markup. Some retailers recognize that the first cost isn't their only cost, but rather than spend the time and energy in determining exactly what additional costs will be applied, they add a set markup – say 30 percent – to the first cost. While this may help retailers account for some hidden costs, it doesn't do much for them in terms of increasing price accuracy.
- Reviewing cost data on an annual basis. As we've outlined, cost factors can change overnight. While it may be convenient to review cost information annually and plan according to historical data – as many companies do – it isn't a practical approach in our always-on, digital, connected world. What-if costing should be conducted under all circumstances, at least once every 60 days (and preferably every 30 days).

### THE “DO IT COMPREHENSIVELY (AND EXPEND LITTLE ENERGY)” APPROACH

There are a few retailers who do consistent, comprehensive what-if and any-market costing, and those companies have distinct advantages over their competitors. Retailers use cost simulation software like Bamboo Rose to calculate real, accurate landing cost estimates that take into account any possible contingency, allowing them to predict, control and manage their risks. The benefits to this approach include:

- You have the ability to make strategic business decisions. What-if and any-market costing tools allow companies to cut the administrative work and

still gain an apples-to-apples comparison of various scenarios, which can drive more strategic decisions. For example, what would the landed cost look like if I ship to the east coast versus the west coast? What if I need to have this garment made in India because the Bangladesh factories are predicted to suffer from record flooding this year? What-if costing tools quickly and accurately calculate the various scenarios, including components and variations, and “what if” and “should” costing and analysis at the component, material, style, product, market and channel levels. It allows cost comparisons and recommendations for products designed for any geography, channel, franchise or customer.

- You stay up-to-date with geopolitical and economic changes. Robust what-if costing tools, like Bamboo Rose, are integrated with the government's Harmonized Tariff Schedule (HTS), which are updated quarterly by the U.S. International Trade Commission. Essentially, users of Bamboo Rose get updated tariff information as soon as it's available, without having to lift a finger.
- You can improve margins and have more suppliers. With what-if costing, there are many ways to improve efficiencies and raise margins. For example, one customer was using a trading partner to help manage complexities, but with Bamboo Rose, the company was able to cut the middle-man, allowing them to retain the fees that typically equaled 30 percent of margins. Another company broadened its supplier base – down to a woman who made baby shoes in her garage in the Netherlands – because of the confidence they had in their ability to calculate and mitigate risks typical of this type of relationship.

Every retailer dreams of having more visibility into risk and uncertainty, while increasing margins and expanding their supplier base. With a complicated global economy and endless exposure points to risk, what-if and any-market costing isn't a luxury for the most innovative retailers – it's a must-have for retailers and brands everywhere.

To learn more about Bamboo Rose costing solution, digital sourcing and Global Trade Management, email us at [info@bamboorose.com](mailto:info@bamboorose.com).

<sup>1</sup> <https://www.ft.com/content/c41e1c98-f2c4-11e6-95ee-f14e55513608>

<sup>2</sup> <https://www.theguardian.com/business/2017/mar/23/uk-retail-sales-brexite-february-ons>

<sup>3</sup> [http://www.joc.com/port-news/longshoreman-labor/indian-dockworker-strike-postponed\\_20170417.html?destination=node/3328416](http://www.joc.com/port-news/longshoreman-labor/indian-dockworker-strike-postponed_20170417.html?destination=node/3328416)

<sup>4</sup> <http://atlas.media.mit.edu/en/profile/country/ind/>

<sup>5</sup> <http://www.nytimes.com/2002/09/28/us/dockworkers-locked-out-of-west-coast-terminals.html>

<sup>6</sup> <https://qz.com/389741/the-thing-that-makes-bangladeshs-garment-industry-such-a-huge-success-also-makes-it-deadly/>

<sup>7</sup> <http://www.businessinsider.com/natural-disasters-and-business-infographic-2015-2>

<sup>8</sup> <https://www.usnews.com/news/articles/2012/11/29/superstorm-sandy-sinks-november-retail-sales>

<sup>9</sup> <http://www.telegraph.co.uk/finance/newsbysector/transport/8531152/How-the-2010-ash-cloud-caused-chaos-facts-and-figures.html>

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#### About Bamboo Rose

Bamboo Rose is the leading platform connecting the retail community to discover, develop and deliver products @ consumer speed. Our company is made up of retail experts with decades of experience at some of the largest global retailers. Our collaborative B2B platform combines modern **PLM, Sourcing, GTM and P2P**. We help retailers and suppliers simplify the product creation and delivery process to bring great products to market faster, more efficiently and at higher margins. Bamboo Rose serves over **85 major retailers and 400 brands** (American Eagle, Family Dollar, Lowe's and more) and **connects 35,000 suppliers and 150,000 user members**.

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