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# Does Asda's Decision mark a Change in Supply Chain Strategies?

## By Hugh Williams of Hughenden

The UK supermarket chain Asda, owned by Wal-Mart, recently announced that it is switching some of its sourcing for its George clothing range back to the UK. Whilst it is only a small proportion of products to start with, this represents a significant change of direction.

Angela Spindler, the Managing Director of George Global, has been quoted in the press as saying said that *"It obviously makes sense for us to use local manufacturers here in the UK whenever we can, rather than shipping in products from the other side of the world",* adding that the initiative will cut the time it takes to get clothes into stores.

### Does Asda's decision mark the beginning of change?

This focus on speed and responsiveness rather than labour costs is nothing new for clothing designer and retailer Zara, part of the Inditex Group. In a world obsessed with minimising labour costs, often at the expense of high stocks, Zara manufactures up to 60% of its products in factories that are either in or close to their target markets, at a labour cost that can be up to 20 times higher than in far-eastern countries. Yet Zara's Supply Chain is more profitable than most of its competitors whilst being much more responsive to the market. So is Asda's decision a sign that other companies are starting to rethink their Supply Chain?

### The share of costs between labour and raw material

This debate is even more fundamental. Cross-industry research has shown that out of the total cost of a product, labour used to represent about 60% of the costs, whilst raw material was approximately 30% (the rest being overheads…). This was 100 years ago. Back then the focus was on labour costs because, although labour was 'cheap', the lack of technology meant that a lot of people were needed.

In today's environment, it is the other way round. Raw material represents approximately 60% of the total cost of a product, whilst labour is around 30%. So, why are we still obsessed with minimising labour costs, and keeping the unit cost of our products low by making big batches, when the result is large amounts of stock filling our Supply Chains that stretch half way around the world?

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With the war on price being a given nowadays, the real competitive advantages are shorter lead-times and higher flexibility. This requires Supply Chains that are shorter and more responsive, quite the opposite to stock sitting on the water for 6 weeks with no value being added!

Hughenden specialises in Supply Chain Planning and helps companies develop their Supply Chain Practitioners' skills and knowledge, whilst improving the Planning Processes. The Hughenden team offers focussed consultancy and interactive education. Its customers include Marks & Spencer, Kraft Foods, Johnson & Johnson, Nestlé, and Hallmark Cards. For more details, email info@hughenden.net.