SOURCING AND PRODUCTION

The aim of sourcing and production activities of HUGO BOSS is to source products of utmost quality at competitive cost while observing strict social and environmental standards and deliver them on-schedule to retail partners and the Group’s own stores. To achieve this, HUGO BOSS works incessantly to ensure zero-error, efficient and sustainable sourcing and production processes by carefully selecting suppliers, continuously strengthening its existing supplier relationships and observing the most exacting production-related standards.

As a company with international production activities and business operations, HUGO BOSS relies on well-rehearsed, standardized and system-enabled sourcing and production processes as a key success factor. This is the only way to ensure the timely availability of goods on the shop floor and the outstanding quality that customers of HUGO BOSS products are accustomed to. 20% of the total assortment of products is manufactured by HUGO BOSS’ own factories (2012: 20%), 80% of the assortment is manufactured by independent contract suppliers or sourced as merchandise (2012: 80%). As the Group produces a substantial part of its classic tailoring range in-house, it has and continually expands critical know-how and optimizes quality standards and the availability of goods.

In-house production facilities are located in Izmir (Turkey), the Group’s largest production facility, Cleveland (USA), Metzingen (Germany), Radom (Poland) and Morrovalle (Italy). The Izmir plant mainly produces suits, trousers, jackets, shirts and classic womenswear. At its Cleveland factory, HUGO BOSS produces suits for the American market. Apart from prototypes, sample pieces and individual orders, the Metzingen site mainly produces suits, jackets and trousers in small series. This is also where HUGO BOSS tailors its Made to Measure suits. Production activities in Radom and Morrovalle focus on making shoes.

Given its broad spectrum of apparel and accessories for the premium and luxury segment, HUGO BOSS draws on an adequately sized network of specialist suppliers. Through the optimal use of capacity it was possible to concentrate the sourcing volume on a reduced number of suppliers in the past year. In the areas of merchandise and contract manufacturing, for instance, the Group partnered with less than 300 suppliers in 2013 (2012: 320). The sourcing volume is generally distributed among a global network of suppliers in order to spread risk and maintain the greatest possible independence from individual sourcing regions and producers. Indeed, the largest single independent supplier only made up 7% of the total volume sourced by the HUGO BOSS Group (2012: 8%).

Suppliers are selected based on clearly defined production-related specifications. The most important criterion is the ability to meet the high quality and finishing standards. Additional criteria factored into the selection process include supplier reliability, technical equipment and innovation power, financial robustness and the cost efficiency of each supplier. Strict adherence of production sites to the social standards contractually agreed upon is a non-negotiable precondition for the establishment of a business relationship.
Sourcing activities break down into the procurement of raw materials, contract manufacturing and purchased merchandise. The raw materials sourced are mainly fabrics but also include additional items such as lining, buttons, thread or zippers. The majority of raw materials processed in-house or under contract comes from Europe. Fabrics are preferably sourced from long-standing fabric suppliers in Italy.

It is primarily suits, jackets and trousers that are made under contract manufacturing arrangements. In these product groups, HUGO BOSS mainly works with companies in Eastern Europe. For products made under contract manufacturing, the supplier is provided with the requisite patterns as well as the fabrics and other components. By contrast, sourcing in the area of sportswear has a greater focus on merchandise, which is mostly sourced from Asia and Eastern Europe. With this kind of sourcing, suppliers get patterns from HUGO BOSS as necessary but independently source their raw materials. With the exception of the classic shoe collection that is produced at the Company’s own factories in Italy and Poland, the product category shoes and leather accessories is mainly sourced from business partners in Asia and Europe.

Measured by value, almost half of all HUGO BOSS products are produced in Eastern Europe and Turkey (49%; 2012: 52%). The Company’s own factory in Turkey plays a leading role in this context, making up 15% of the total volume sourced (2012: 15%). Asia is the source of 32% of products (2012: 31%). China is still the most important supplier country in this region. The remaining goods stem from Western Europe (10%; 2012: 10%), North Africa (6%; 2012: 4%) and the Americas (3%; 2012: 3%).

The Group has a keen interest in maintaining long-term collaboration with its suppliers. Joint efforts to enhance manufacturing expertise are essential in order to ensure the excellent finishing quality for which HUGO BOSS products are renowned the world over. Precise synchronization between the production companies and the technical development departments within the HUGO BOSS Group is of fundamental importance in order to allow a quick response to market trends and minimize lead times. Production-related considerations are factored into the product development process at a very early stage for instance. Moreover, feedback from suppliers on the fabrics and patterns processed in the last collection is taken into account in new designs. ➔ Research and Development
In order to effectively counter cost increases in the sourcing processes, especially due to increased labor costs, continuous efficiency improvements are needed along the entire supply chain. A key lever to this end is ensuring a seasonally balanced utilization of supplier capacity and ordering large volumes where possible. In this context, the core range and the associated reduction of a collection’s complexity play an important role. Indeed, the complexity of collections has been reduced by almost a third over the past few years. A 10% year-on-year reduction was possible in fiscal year 2013. In addition, the Group continually reassesses the regional optimization of its sourcing activities in light of diverging labor cost trends and changing industrial structures and manufacturing competencies in individual markets.

Furthermore, the Group continues to work on the system-side optimization of its planning, production and logistics processes. To this end, the uniform electronic integration of suppliers in the Company’s organization was driven forward in the past few years, thereby improving the transparency of merchandise flows along the entire supply chain. For instance, an online supplier platform simplifies communication with suppliers. System-side exchange of information also enables bundling of orders based on requirements and by customer as well as the early and cost-effective reservation of the production capacity needed from suppliers. Real-time status reporting enables priority-driven control over orders and on-schedule delivery of goods. Moreover, closer integration with suppliers also allows the placement of follow-up orders at short notice and quick response times. This is especially relevant for the replenishment business, which ensures the supply of business partners at short notice, especially with the basic never-out-of-stock assortment.

HUGO BOSS sets exacting standards on the quality of its products. To meet these, quality assurance starts its work where the product begins to take shape – at suppliers. For instance, production companies are provided with standardized quality and processing manuals that document standards. At HUGO BOSS’ own factories, the key processes of relevance to quality are described in a process manual and are subject to continuous optimization under ISO 9001 certification.

In order to meet the high quality standards while minimizing manufacturing tolerance, the manufacturing process is automated to the extent economically viable. In addition, compliance with manufacturing standards is ensured using fixed, technology-enabled controls that are always performed at specific steps within the production line. Individual steps are also regularly reviewed on a sample basis.