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# SUSTAINABILITY ALL THE WAY!

Being set up as a glove and mitten manufacturing company 120 years ago, VF Corp is today a \$9.2 billion company providing diversified products across multiple channels of its distribution in different geographical areas relying on its global sourcing of finished goods from independent contractors. VF has adopted 'Made for change' strategy, and the company aims to achieve significant progress in key areas of sustainability covering people, planet, products, supply chain, raw materials and facilities to create a positive global impact.

by **SANJAY BAKSHI**

**F**ounded in 1899, VF Corp (VF) is one of the largest fashion companies whose operation is diversified across brands, product categories, channels of distribution, geographies and consumer demographics. The group owns a broad portfolio of brands in the outerwear, footwear, apparel, backpack, luggage and accessories categories, its largest brands being Vans, The North Face, Timberland and Dickies.

## BUSINESS

VF is \$9.2 billion company whose recent revenue, compared to FY19,

is experiencing a decline. From \$10.3 billion of net revenue in FY19 to \$9.2 billion in FY21 its sales have dropped at a CAGR of (-) 5.1 per cent. FY20 revenue ended in a positive growth but upward trajectory was impacted by arrival of COVID-19 during FY21, also bringing down with it the gross margin percentage from 55.3 per cent to 52.7 per cent. Net Profit margin also reduced to one-third of FY19 performance, unbelievably declining at a CAGR of (-) 43.1 per cent.

## OPERATIONAL MODEL

VF is able to provide diversified



VF CORP

VF's 'Outdoor' segment constitutes authentic outdoor-based lifestyle brands encompassing performance-based apparel, footwear and equipment.

VF teams located across in its global supply chain and business units work on product design and innovation including fit, finish and quality.



products across multiple channels of its distribution in different geographical areas relying on its global sourcing of finished goods from independent contractors. The company utilises state-of-the-art supply chain technologies to manage inventories and replenishments which enable it to effectively and efficiently achieve the right product assortments matching the consumer demand. The resources are allocated, and performances are assessed based on a global brand view which represents VF's operating segments.

### BUSINESS CHANNELS

VF has three main business operations – Wholesale, Direct-to-Consumer (D2C) and Royalties. Its wholesale channel covers the marketing of its products primarily to speciality stores, department stores, national chains, mass merchants, independently-operated partnership stores and strategic digital partners; while its D2C channel comprises VF-operated stores, concession retail stores, brand e-commerce sites and other digital platforms. Internationally, VF sells its brands through licenses, agents and distributors in Americas, Europe and Asia-Pacific regions. As of FY21, regions of Americas contributed 55 per cent (including 5 per cent from non-US region), Europe 28 per cent and Asia-Pacific rest 17 per cent to VF's total revenue.

TABLE 1 Revenues & margins

VF Corp, Inc.	FY21	FY20	FY19
Revenue (in US\$ '000)	92,38,830	1,04,88,556	1,02,66,887
COGS (in US\$ '000)	43,70,780	46,90,520	46,56,326
GM (in per cent)	52.7	55.3	54.6
Profit (in US\$ '000)	4,07,869	6,79,449	12,59,792
Profit (in per cent)	4.4	6.5	12.3

SOURCE: VF Corp

TABLE 2 Product revenues

(in US\$ '000)	FY21	FY20	FY19	CAGR (2019-21)	Share FY21
Outdoor	41,27,601	46,43,956	46,49,024	(-)5.8%	44.7%
Active	41,60,856	49,19,427	47,21,792	(-)6.1%	45.0%
Work	9,45,680	8,86,419	8,85,748	3.3%	10.2%
Other	4,693	38,754	10,323	(-)32.6%	0.1%
<b>Total</b>	<b>92,38,830</b>	<b>1,04,88,556</b>	<b>1,02,66,887</b>	<b>(-)5.1%</b>	<b>100%</b>

SOURCE: VF Corp

### D2C OPERATIONS

Under D2C, VF operates retail stores for Vans, Timberland, The North Face, Kipling, Dickies, Napapijri and Icebreaker brands. These are full-price stores whose gross margin yields exceed VF averages. They showcase full product line, alongside helping VF wholesale business too, by increasing brand awareness, education and visibility. D2C business globally operated 1,379 stores in FY20, and by the end of COVID-affected FY21 it had 1,374 stores with 56 per cent of them located in the Americas, 24 per cent in Europe and 20 per cent in Asia-Pacific regions. Combined of Vans and The North Face brands, 102 stores were

opened during FY20 and 80 stores in FY21, besides acquiring 12 Supreme stores. Additionally, the number of concessional stores, mostly located in Europe and Asia, also grew from ~800 in FY20 to 900 in FY21.

VF also operates outlet stores in both premium outlet malls and more traditional value-based locations. Carrying specifically-designed merchandise these stores play important role in inventory management and profitability. They allow VF to sell a significant portion of its excess, discontinued and out-of-season products at better prices than otherwise available with outside parties. All through the process and

## TIMELINE

- **October 1899:** John Barbey and a group of investors establish the reading glove and mitten manufacturing company in Pennsylvania
- **1910s:** The company expands into silk lingerie, renaming self as Schuylkill Silk Manufacturing I Lingerie line is branded as "Vanity Fair" – a brand name adopted through a contest, making company change its name to Vanity Fair Silk Mills, Inc.
- **1940s:** Owing to ban on silk material during World War II, the company drops the word "silk" from its name
- **1950s:** The company Vanity Fair Mills goes public
- **1960s:** The company acquires the H.D. Lee company (present day Lee) and, with this acquisition, acquires a diverse product line and changes its name to 'VF Corp' adorning a renewed identity
- **1970s:** VF offers first dividend
- **1980s:** VF's size doubles up with yet another acquisition in the form of Blue Bell Holding Company, Inc. – owner of Wrangler, Rustler, Jantzen, Jansport and Red Kap brands, for \$762 million | VF is now largest publicly held clothing company and one of the two largest jean makers in the world, enjoying 25 per cent share of the \$6 billion market
- **1990s:** VF acquires the Bulwark brand
- **2000s:** VF is on acquisition spree, acquires a fleet of brands namely The North Face, Eastpak, Nautica, Kipling, Napapijri, Reef, 7 For All Mankind, Lucy, Eagle Creek, Ella Moss and Splendid | Vans merges with VF as its wholly-owned subsidiary | VF divests of its Vanity Fair intimates' business
- **2010s:** VF acquires Timberland, expanding VF's Outdoor &



Action Sports coalition | Divests of its licensed sports group, contemporary brands businesses and Nautica brand | Acquires Williamson-Dickie's brands including Dickies, Workrite, Kodiak, Terra, footwear brand

Altra and Walls (2017), and Icebreaker (2018) | Kontoor Brands Inc. spins off from VF as a separate, independent publicly traded company to manage Lee, Wrangler and Rock & Republic brands.

even with glaring price difference the brand's image and integrity is never compromised.

In FY20, D2C contributed 41 per cent of the total revenue wherein e-commerce represented ~28 per cent of D2C business. Things improved the next year and D2C ended FY21 contributing elevated share of 44.5 per cent inclusive of 50 per cent e-commerce share. In addition to D2C operations, independent parties own and operate ~2,900 partnership stores which are primarily mono-brand retail stores selling VF products. Most of them, located in Europe and Asia, belong to Timberland, The North Face, Vans, Dickies, Kipling and Napapijri brands.

### LICENSING

To expand market penetration of its owned brands, VF enters into licensing agreements with independent parties for specific apparel and complementary product categories, only when the arrangement is found to provide more effective manufacturing, distribution and marketing than what could have, otherwise, been achieved internally. To protect its brands' integrity VF takes active part in partner's product designing, quality control, advertising, marketing and distribution of licensed

products. Licensing covers broad range of VF brands in agreements for fixed terms of 3-5 years with conditional renewal options. Licensee pays royalties in the range of 4-10 per cent to VF on its sales of licensed products. Royalty incomes stood at \$57.4 million in FY20 and \$51.7 million in FY21, largely coming from Vans, Dickies and Timberland brands.

### MANUFACTURING, SOURCING & DISTRIBUTION

VF teams located across in its global supply chain and business units work on product design and innovation including fit, finish and quality. VF's centralised global supply chain organisation is responsible for producing, procuring and delivering products to its customers by professionally managing recurring complexities associated with global supply chain. Products are primarily obtained from approximately 265 pre-certified independent contracted manufacturing facilities in 36 countries. No single supplier represented more than 7 per cent of VF's total cost of goods sold during FY21. During the same fiscal, VF produced 295 million (364 million in FY20) units across its brands. Its global supply chain is competently served by 29

distribution centres and 1,374 retail stores it operates. Complexities of such magnitude are efficiently managed using a network of information systems for product development, forecasting order management and warehouse management along with its core enterprise resource management platforms. VF uses contracted production of different geographical regions and cost structures to acquire a flexible approach to product sourcing.

Independent contractors generally own the raw materials and ship finished, ready-for-sale products to VF. These contractors are engaged through VF sourcing hubs in Hong Kong with satellite offices across Asia, and Panama. Manufacturing management, product procurement, supplier oversight, product quality assurance, sustainability within supply chain, responsible sourcing and transportation and shipping functions are the main responsibilities that lie with these sourcing hubs. VF management monitors political risks and developments related to duties, tariffs and quotas. It also toes with the line of the US State Department by not sourcing, directly or indirectly, products from suppliers in prohibited countries.

Products are shipped from

TABLE 3 VF Corp product portfolio

SEGMENT	BRANDS	PRODUCT	MARKETING CHANNEL
OUTDOOR	The North Face*	High performance outdoor apparel, footwear, equipment, accessories	Brick & mortar: Speciality outdoor and premium sporting goods stores, independently-operated partnership stores, concession retail stores and 200+ VF-operated stores Third party: Independent distributors Online: Brand websites with strategic digital partners and at www.thenorthface.com
	Timberland*	Outdoor lifestyle footwear, apparel, accessories	Brick & mortar: Chain stores, department stores, speciality stores, independently-operated partnership stores, concession retail stores and 230+ VF-operated stores Third party: Independent distributors and licensees Online: Brand websites with strategic digital partners and at www.timberland.com
	Icebreaker	High performance apparel based on natural, plant-based and recycled fibres	Brick & mortar: Premium outdoor and speciality stores and over 30 VF-operated stores Third party: Independent distributors Online: Brand websites with strategic digital partners and at www.icebreaker.com
	Smartwool	Performance Merino wool and other natural fibres-based apparel and accessories	Brick & mortar: Premium outdoor and speciality stores Third party: Independent distributors Online: Brand websites with strategic digital partners and at www.smartwool.com and
	Altra	Performance-based footwear	www.altrarunning.com
ACTIVE	Vans*	Youth action or culture sports-inspired footwear, apparel, accessories	Brick & mortar: Chain stores, speciality stores, independently-operated partnership stores, concession retail stores and over 700 VF-operated stores Third party: Independent distributors and licensees Online: Brand websites with strategic digital partners and at www.vans.com
	Kipling	Handbags, luggage, backpacks, totes, accessories	Brick & mortar: Department stores, speciality and luggage stores, independently-operated partnership stores, concession retail stores and more than 75 VF-operated stores Third party: Independent distributors Online: Brand websites with strategic digital partners and at www.kipling.com
	Supreme	Streetwear apparel, footwear, accessories	Brick & mortar: Over 10 VF-operated stores Online: www.supremenewyork.com
	Napapijri	Premium outdoor apparel, footwear, accessories	Brick & mortar: Primarily in European department and speciality stores, independently-operated partnership stores, concession retail stores and more than 25 VF-operated stores Third party: Independent distributors Online: Brand websites with strategic digital partners and at www.napapijri.com
	Eastpak	Backpacks, luggage	Brick & mortar: Primarily through department and speciality stores across Europe Third party: Throughout Asia by distributors Online: Brand websites with strategic digital partners, and at www.eastpak.com
	JanSport	Backpacks, luggage	Brick & mortar: Sold in North America through department, office supply and chain stores as well as sports speciality stores Third party: Independent distributors Online: Brand websites with strategic digital partners and at www.jansport.com
	Eagle Creek	Adventure travel gear, luggage, backpacks, accessories	Brick & mortar: Sold through speciality luggage, outdoor and department stores primarily in North America Online: Brand websites with strategic digital partners and at www.eaglecreek.com
WORK	Dickies	Work and work-inspired lifestyle apparel and footwear	Brick & mortar: Mass merchants, speciality stores, independently-operated partnership stores, concession retail stores and over 25 VF-operated stores Third party: Independent distributors and licensees Online: Brand websites with strategic digital partners and at www.dickies.com
	Timberland PRO	Protective work footwear, work and work-inspired lifestyle apparel	Brick & mortar: Speciality stores, chain stores, most of domestic VF-operated Timberland stores Third party: Independent distributors Online: Brand websites with strategic digital partners and at www.timberland.com

SOURCE: VF Corp; \*VF's core brands

independent suppliers to distribution centres or even directly to customers in some instances. Most of the distribution centres operated by VF support multiple brands. A portion of VF distribution needs are met by contract distribution centres. VF's largest fully operational distribution centres by region are located in Visalia in California, Prague in Czech Republic and Shanghai in China. In total, VF operates 29

owned and leased distribution centres mainly located in the US besides the ones located in the UK, Belgium, Netherlands, Canada, Mexico, Israel, Japan and France.

**PRODUCT SEGMENTATION**

VF combines its global brands into 3 reportable segments of Outdoor, Active and Work for the purpose of financial reporting. While 'Outdoor'

segment constitutes authentic outdoor-based lifestyle brands encompassing performance-based apparel, footwear and equipment, 'Active' segment is a group of activity-based lifestyle brands, and 'Work' segment consists of work and work-inspired lifestyle brands. Outdoor and Active segments have equal contribution in total revenue.

The growth of all 13 brands constituting these 3 segments is the



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result of product innovation, extended new product categories, growth in D2C business, digital presence, expansion in wholesale channel partnerships, geographical penetration and timely acquisition of additional brands.

**COMMUNITY OUTREACH**

VF spent \$608.1 million, 7 per cent of its revenues, in FY21 on advertising. It advertised in consumer and trade publications, on radio and TV and through digital mediums including social media and mobile platforms on the internet. It also undertakes cooperative advertising with major retailers on a shared cost basis, using print and digital media, radio and TV. Additionally, VF sponsors sporting, musical and special events as well as athletes and personalities who promote VF products. Marketing sciences are employed to identify the types of spending that provides the greatest return on its marketing investments. Advertising support is also extended to VF's wholesale customers and independent partnership stores in the form of POS fixtures and signage to enhance the product presentation and brand image. There is a good participation share in shop-in-shop and concession retail arrangements too, to

highlight and differentiate VF products. VF keeps organising community outreach programmes and initiatives through various charities both at the company and individual brand levels.

**COVID 1.0 (FY21)**

COVID-19 pandemic arrived in March 2020 disrupting global economy and VF's business operations and financial performance of FY21, making VF to focus on health and well-being of its employees, customers, trade partners and consumers around the world. In response to health advisories and government actions and regulations to contain virus spread, VF modified its business practices including temporary closure of offices and retail stores, instituting travel bans and restrictions, and, implementing health and safety measures of social distancing and quarantines. These measures were also extended to ensure health, safety and well-being of its associates employed in its distribution, fulfilment and manufacturing centres around the world.

Temporary store closures over varying periods and geographies impacted the VF's global performance during the fiscal. All VF-operated retail stores in Asia-Pacific reopened in the

first quarter (Q1) with most of them remaining opened during rest of the year. At the same time in Europe, majority of the stores reopened by the end of Q2 and certain among them reclosed again during Q3 and Q4. Approximately 50 per cent of stores in Europe region were closed at the end of Q3 and 60 per cent of stores were closed at the end of Q4. North America region also followed Europe's trend with majority of the stores reopening by the end of Q2 and many reclosing during Q3 and Q4; about 15 per cent of stores (most being Vans based in California) were closed at the end of the Q3. By the end of Q4, less than 5 per cent of aggregate stores stayed close.

COVID-19 also impacted some of VF's suppliers, third party manufacturers, logistics providers and other vendors resulting in isolated product delays. This made VF actively work with them to minimise disruption. VF also took benefits, amounting to \$81.4 million, of various government programmes available in US and abroad to use employer payroll tax credits for wages paid to those employees who were unable to work during the pandemic.

**COVID 2.0 (Q1, FY22)**

COVID 2.0 represents VF's first quarter



VF's products are primarily obtained from approximately 265 pre-certified independent contracted manufacturing facilities in 36 countries.

of FY22 from March to June. The quarter witnessed virus mutating into more variants in different parts of the world, continuing with business disruption that forced VF to continue with earlier measures of tackling COVID-19 spread including store and office closures, travel bans and restrictions, and implementation of other health and safety measures. By July 21, majority of VF supply chain got operational.

Though VF suppliers also complied with required COVID protocols amidst health advisories and government restrictions, isolated product delays continued during the quarter too, owing to resurgence of lockdowns in key sourcing countries, manufacturing capacity constraints, and additional impacts of port delays, equipment availability and other logistics challenges. In continuation of Q4, FY21, the Q1, FY22 began with less than 5 per cent of stores in North America and 60 per cent in Europe, Middle East & Asia (EMEA) region staying closed. However, nearly all of VF-owned stores in Asia-Pacific region including Mainland China remained open. As the COVID's global uncertainty continues till date despite mass vaccinations taking place across many affected nations, VF continues to

TABLE 4 Growth FY21 vs FY20

Revenue	(-)11.9%
Profit	(-)6.8%
Outdoor	(-)11.1%
Active	(-)15.4%
Work	6.7%
Other	(-)87.9%

SOURCE: VF Corp

TABLE 5 Revenues & Margins (Q1)

(in US\$ '000)	FY21	FY20	(+/-)
Revenue	21,94,557	10,76,293	104%
COGS	9,55,551	5,06,951	88%
GM%	56.5%	52.9%	-
Profit	3,24,245	-2,85,613	-
Profit%	14.8%	-26.5%	-
<b>Product Revenues (Q1)</b>			
Outdoor	6,17,754	3,41,228	81%
Active	13,02,068	5,71,316	128%
Work	2,74,735	1,62,430	69%
Other	-	1,319	-

SOURCE: VF Corp

comply with guidance from government entities and public health authorities to prioritise the health and well-being of all concerned.

**SUSTAINABILITY**

Being one of the largest apparel, footwear and accessories companies, VF aims to achieve significant progress in key areas of sustainability covering people, planet, products, supply chain, raw materials and facilities to create a positive global impact. Its sustainability strategy 'Made for change', targets three key pillars to drive transformational change and create value for its business and focuses on new circular and sustainable business models to (i) harness retail opportunities in new sectors (ii) scale foundational, social and environmental programmes to lead the industry towards greater progress at a faster rate, and (iii) empower its brands, associates and consumers to act with purpose and impact with intention. VF works to bring measureable improvements in the lives of 2 million supply chain workers and others within communities by 2030. To accomplish that it has launched the Worker & Community Development Program in the areas of water & sanitation, health & nutrition, and childcare & education.

VF maintains traceability maps to demonstrate the end-to-end i.e. farm-to-front door traceability of nine of its iconic VF-brand products.

VF has also adopted industry's most ambitious science-based targets, carbon emissions being one of them, which include an absolute reduction of Scope 1 & 2 greenhouse gas emissions of 55 per cent and reduction of Scope 3 gas emissions of 30 per cent (keeping 2017 as baseline) by 2030. Including raw materials too in its efforts, VF aims to source 50 per cent recycled nylon and polyester for its products by 2025, with a targeted 35 per cent reduction in negative impact of key materials. Adhering to its policies of Animal-Derived & Forest-Derived Materials, VF has completely banned use of fur in its production. The company has also laid down a visionary path for environmental impact reduction by committing 100 per cent of its top nine materials, which account for ~90 per cent of its materials-related carbon emissions, to originate from regenerative, responsibly sourced renewable or recycled sources by 2030. During FY21, VF announced the elimination of single-use plastic packaging by 2025, strengthening the case for use of non-plastic packaging

originating from sustainable sources.

Simultaneously, VF has set sustainability goals for its internal facilities too which include sourcing of 100 per cent of electricity from renewable sources by 2025 and achieving zero waste at 100 per cent of VF internal distribution centre locations during FY22. VF partners with several international organisations to advance rooftop solar installations and energy efficiency improvement projects across its supply chain. VF issued a €500 million green bond in FY20, the first in the apparel and footwear industry. Even its brands' power is utilised to create sustainability culture as in case of Timberland brand that launched an industry-first regenerative leather boot. The North Face expanded its iconic Base Camp Duffel line made with 100 per cent recycled fabrics and webbing and also its 'Renewed' programme by introducing 'Remade' – a collection of recycled garments, reducing textile waste.

**FUTURE FORWARD**

In May 2021, VF announced its launch of Venture Platforms – an innovation pillar that will focus on identifying and investing in new, future-focused opportunities. It is newest component to VF's overall brand portfolio strategy and complements company's existing brand portfolio pillars – Core Brands which are VF's large global brands including Vans, The North Face and Timberland, and, Emerging Brands comprising the remaining 10 brands. The announced platform has two reinforcing arms –

**VF Venture Foundry:** This internal business model incubator was established to focus on new and evolving business models, platforms, experiences and services within VF's existing brand portfolio as well as to address disruptive opportunities outside of its current operations.

**Base Layer Ventures:** VF has provided the anchor investment into this new venture capital fund which tightly aligns with VF Venture Foundry. This will provide critical seed and A stage capital to concepts that originate inside VF as well as external start-ups.

Venture Platforms is led by a small team of existing VF associates who

work in close coordination with VF's brands and Entrepreneurs-in-Residence, supported by a venture advisory board that includes representatives from VF brands and functions, in addition to select external venture experts.

**GOING DIGITAL**

No doubt that pandemic took online commerce to a whole new level. Even before the arrival of COVID-19 VF consumer spending had begun shifting to brand e-commerce sites and other digital platforms. This trend accelerated owing to the changed retail landscape brought about by pandemic-induced lockdowns. VF's digital D2C business accounts for 22 per cent and grew 67 per cent compared to FY20. In fact, combining D2C and wholesale digital businesses, VF's total digital penetration has reached nearly 30 per cent against 18 per cent in FY20. These figures show how fast the world is embracing online, also imparting an incredible speed and agility on the part of VF teams to adapt to the changed retail dynamics. During a five-month period, VF's digital technology teams engineered homegrown solutions to enhance its e-commerce platform and erect new omni-channel capabilities that included Buy Online Pickup In-store (BOPIS), Ship-From-Store (SFS) and Reserve Online Buy In-store (ROBIS) programmes. These new offerings further simplified the shopping experience for VF consumers and supported retail inventory turnover through its digital channels when stores were closed, helping in generating incremental revenue. Now VF continues to strategically expand its e-commerce initiatives by rolling out additional country-specific brand sites in Europe and Asia to deliver a superior, localised consumer experience.

**FOCUS CHINA**

In FY21, China contributed 61 per cent of VF's Asia-Pacific revenues. Buoyed by the projection that China would become the world's number one apparel market by 2023, VF sees China contributing 80 per cent in its Asia-Pacific business by 2024. To convert this expectation into reality, VF has bolstered China operations by appointing VF's first-ever



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president for Greater China region. Bolstering also includes restructuring of entire Asia-Pacific operations by moving its brands' regional centre from Hong Kong to Shanghai, enabling brands to strengthen their in-country presence and gain deeper insights into Chinese consumers. Therefore, as part of this restructuring, VF is also transitioning its Asia product supply hub from Hong Kong to Singapore. This leads to redeploying some of its product supply talent and resources throughout its primary sourcing countries so that they can work more closely with key suppliers and drive greater efficiency.

**OUTLOOK 2022**

With acquisition of Supreme brand, VF expects to gain additional \$600 million in its FY22 revenues of \$12 billion, eyeing a minimum of 30 per cent growth. In terms of segments, Outdoor is expected to increase 24-26 per cent, Active 37-39 per cent and Work 16-18 per cent. The company is also estimating a 25-27 per cent growth in international revenue basis 29-31 per cent increase in EMEA region, 18-10 per cent in Asia-Pacific region and 28-30 per cent in non-US Americas region. VF has high hopes from D2C which is projected to grow by 39-41 per cent including a 29-31 per cent growth in its e-commerce arm. **FF**