



LOGISTICS 2009

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Today's Sourcing Challenges

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In Challenging Times, Stay Flexible

Flexibility in supply chain and inventory.
Flexibility in the vendor world.

Retail Landscape is Plagued with Challenges

External Pressures

The Consumer

Wall Street

Energy

Labor Instability

Flexibility is crucial to combating the mounting pressure from external sources

The Challenge: The Consumer

External Pressures

The Consumer

Wall Street

Energy

Labor Instability

What's happening:

1. Economic pressures on households
2. Reduced credit availability and spending
3. Increased consumer demands

Implications...

There is a need for:

- Flexible product development capabilities
- Ability to “switch on a dime”
- Adaptable supply chain

The Challenge: Wall Street

External Pressures

The Consumer

Wall Street

Energy

Labor Instability

What's happening:

1. Recession and housing decline
2. Limited capital availability
3. "Cash is King" mentality

Implications...

Pressure to:

- Purchase inventory
- Maintain operations
- Pay down debt

The Challenge: Energy

External Pressures

The Consumer

Wall Street

Energy

Labor Instability

What's happening:

1. Fluctuating oil prices
2. Inflation
3. Energy subsidies

Implications...

- Need to maintain value proposition to consumer
- Greater difficulty in hitting margin targets
- Holistic approach to achieving margin targets is critical

The Challenge: Labor Instability

External Pressures

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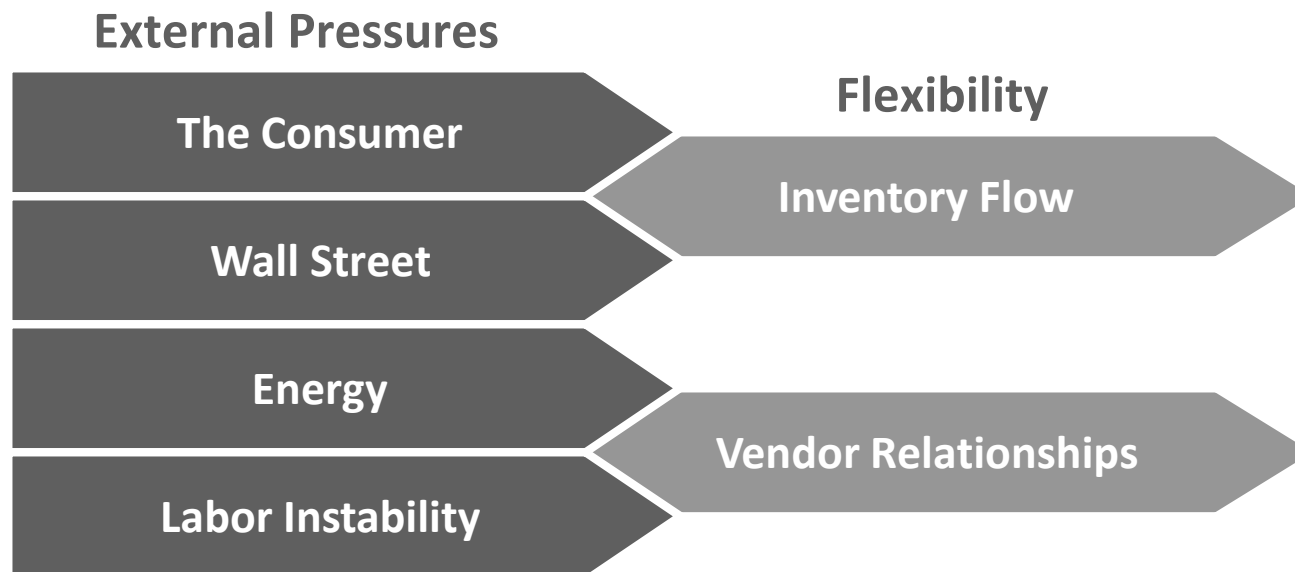
What's happening:

1. Factory closures
2. New presidential administration
3. Uncertainty with protectionism measures

Implications...

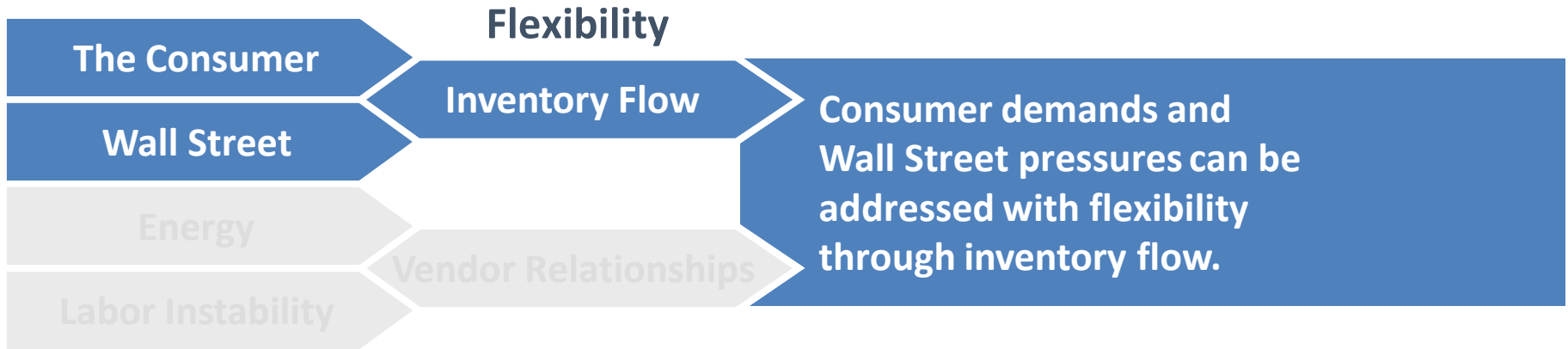
- Selecting the lowest-cost supplier is no longer the primary approach
- Having a robust sourcing mix provides stability

Flexibility Creates Competitive Advantage



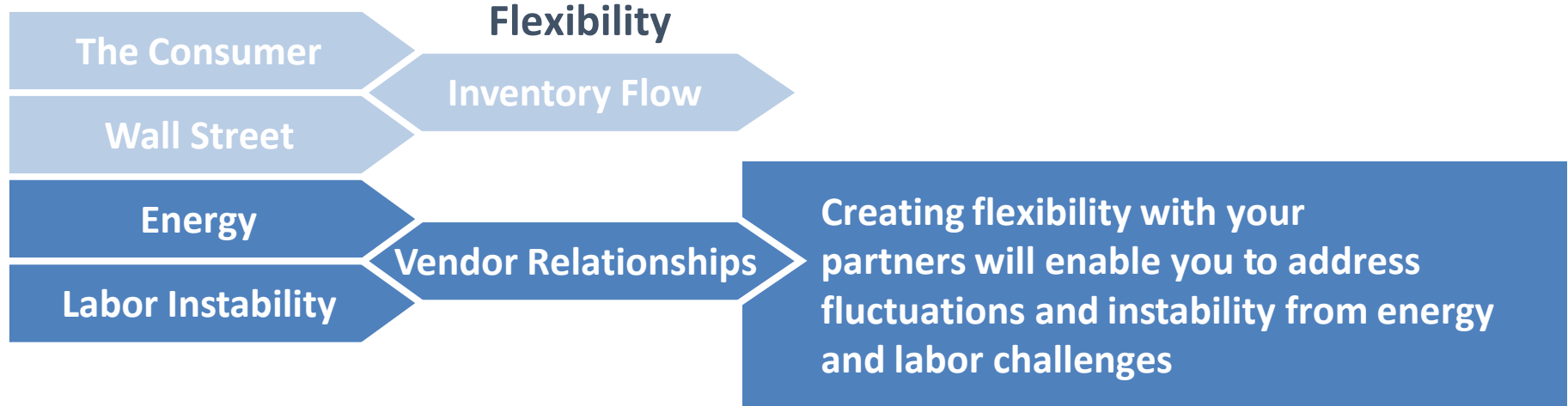
Flexibility Through Supply Chain and Inventory

External Pressures



Flexibility in the Vendor World

External Pressures



In Challenging Times, Stay Flexible

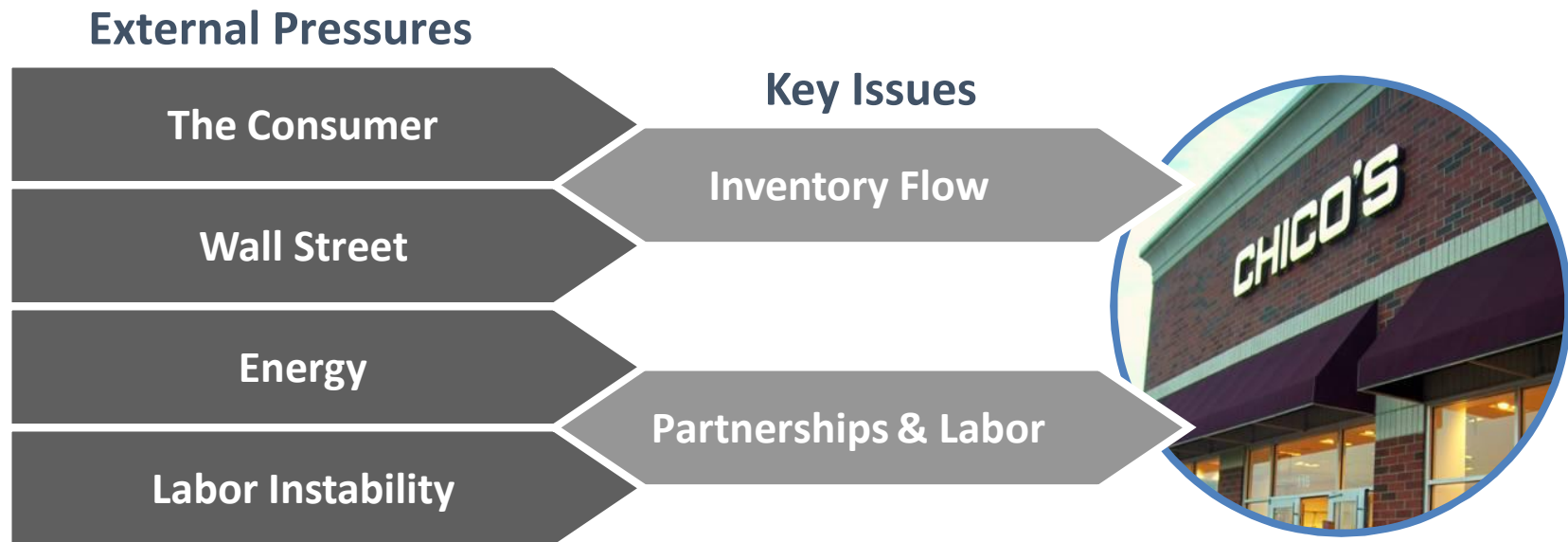
Flexibility in supply chain and inventory.
Flexibility in the vendor world.

Jennifer Pritchard

VP Design Operations and Sourcing, Chico's

Where Did We Come From?

- A knick-knack store grew into a 1,086 store cross-brand portfolio (Chico's, Soma Intimates, White House | Black Market)
- Mounting external pressures required an overhaul of their current product development and sourcing processes



To better control brand and better manage profitability, Chico's established an in-house design and development team.

Current Challenges

External Pressures

The Consumer

Wall Street

Energy

Labor Instability

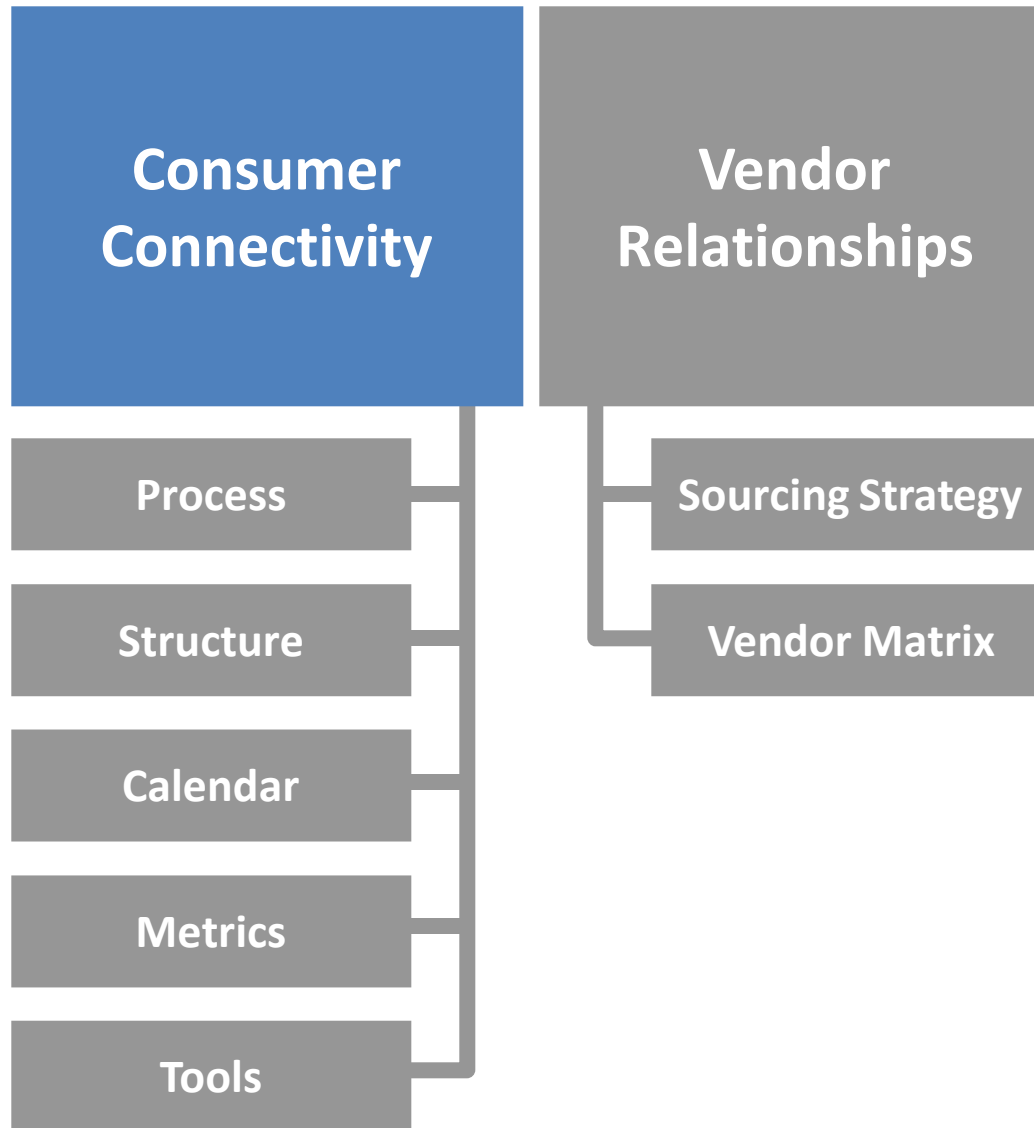
Chico's situation:

- Limited infrastructure to handle growth
- Increasing competition from other companies chasing the baby boomer consumer segment
- Limited flexibility over product and inventory decisions

We needed to shore up the fundamentals!

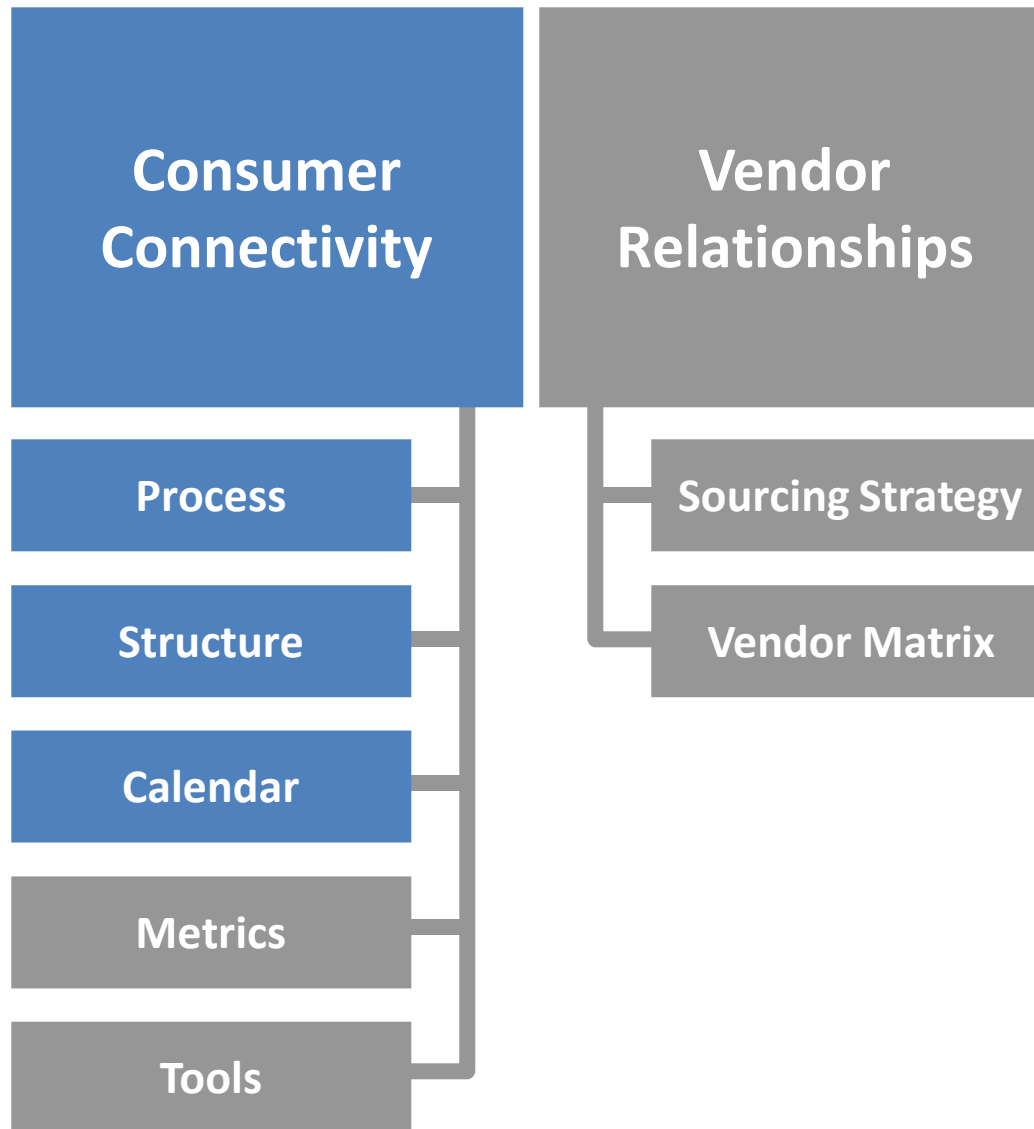
- Improve connectivity to our consumer
- Strengthen our vendor partnerships to increase our supply chain flexibility and improve cost structure

The Fundamentals: In-House Design Team



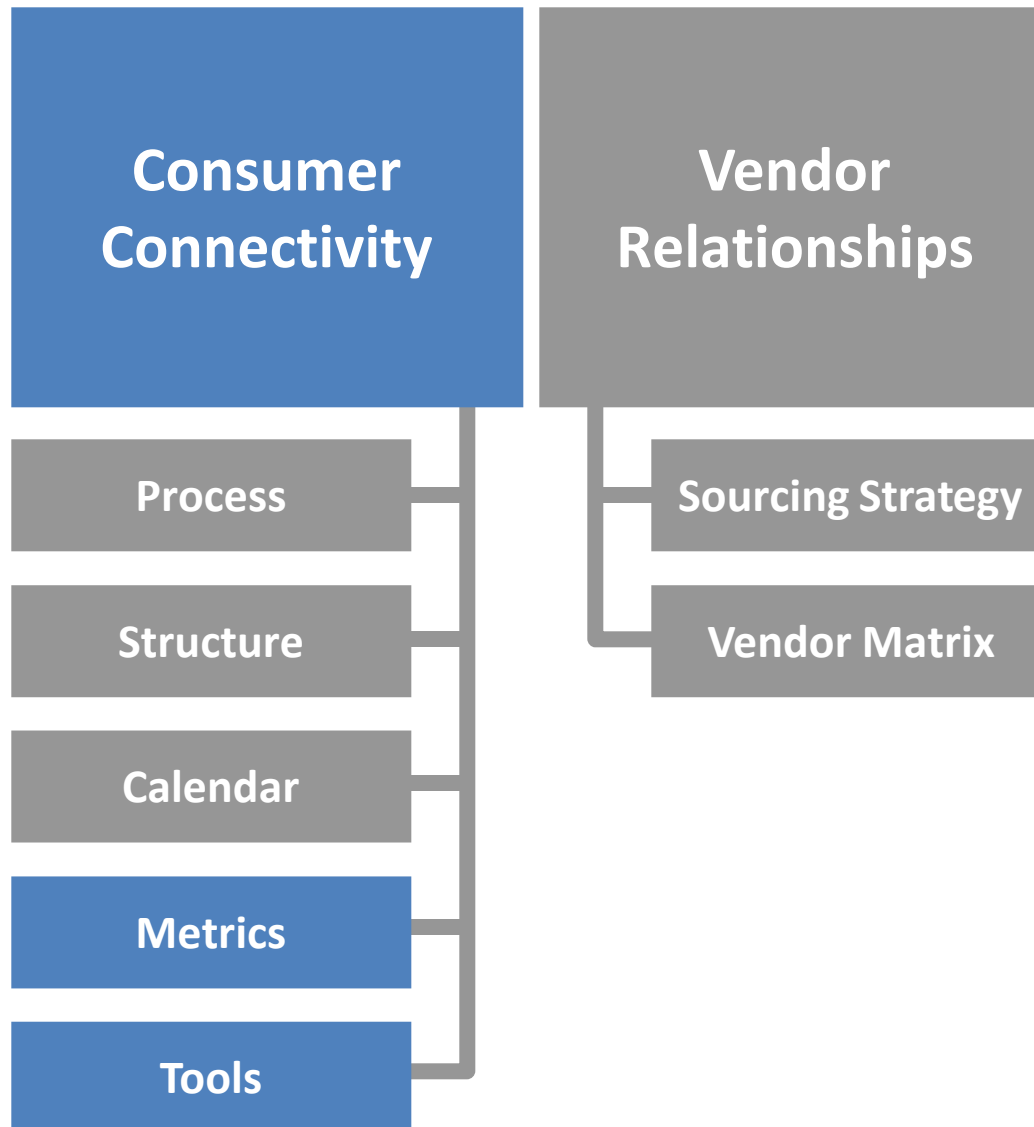
“Our in-house team gives us the flexibility to work closer to store performance, quickly react to sales, and build those learnings into current development.”

The Fundamentals: In-House Design Team



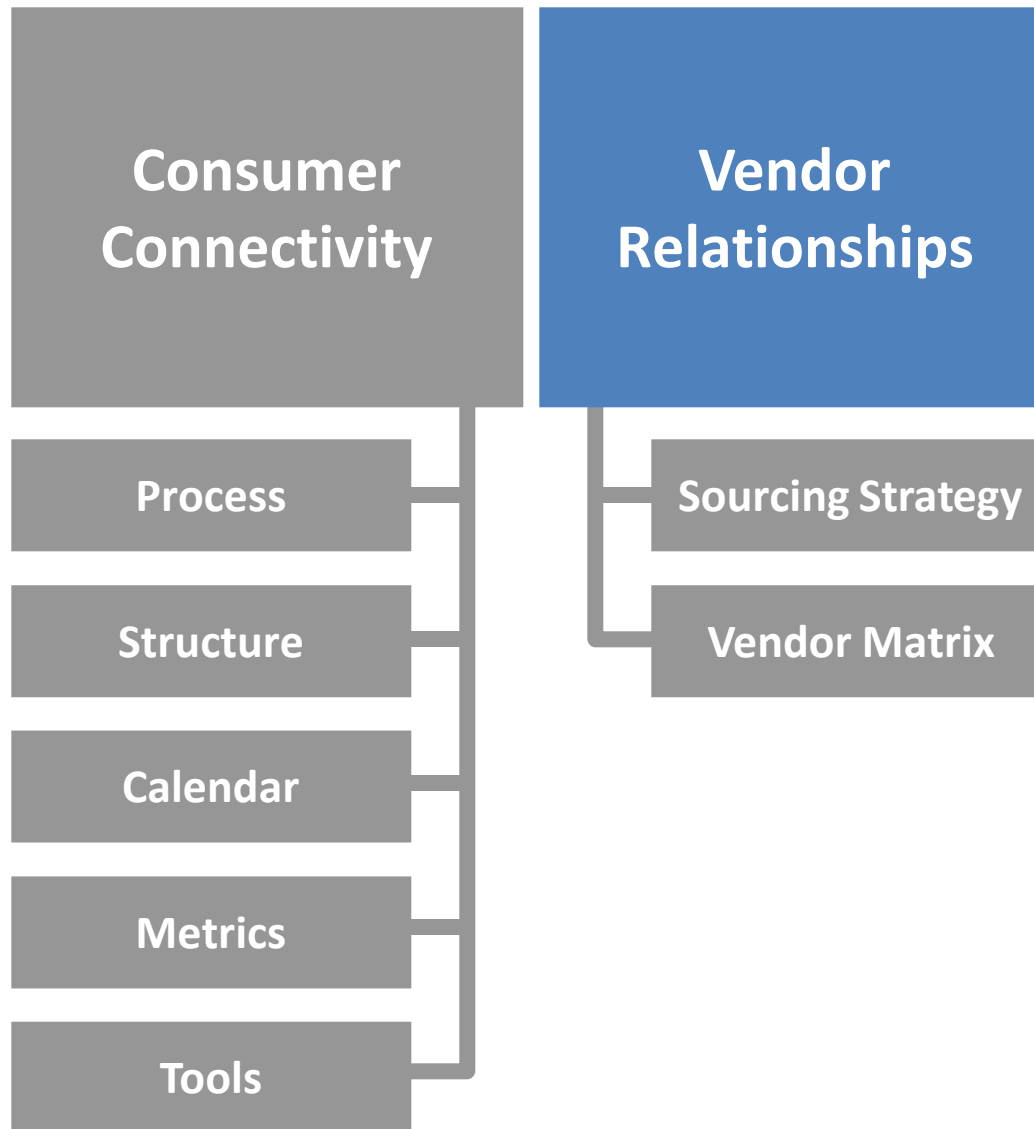
“Now, we are able to get a read on what’s happening in stores and with competitors and we have the flexibility to work this into our product development.”

The Fundamentals: In-House Design Team



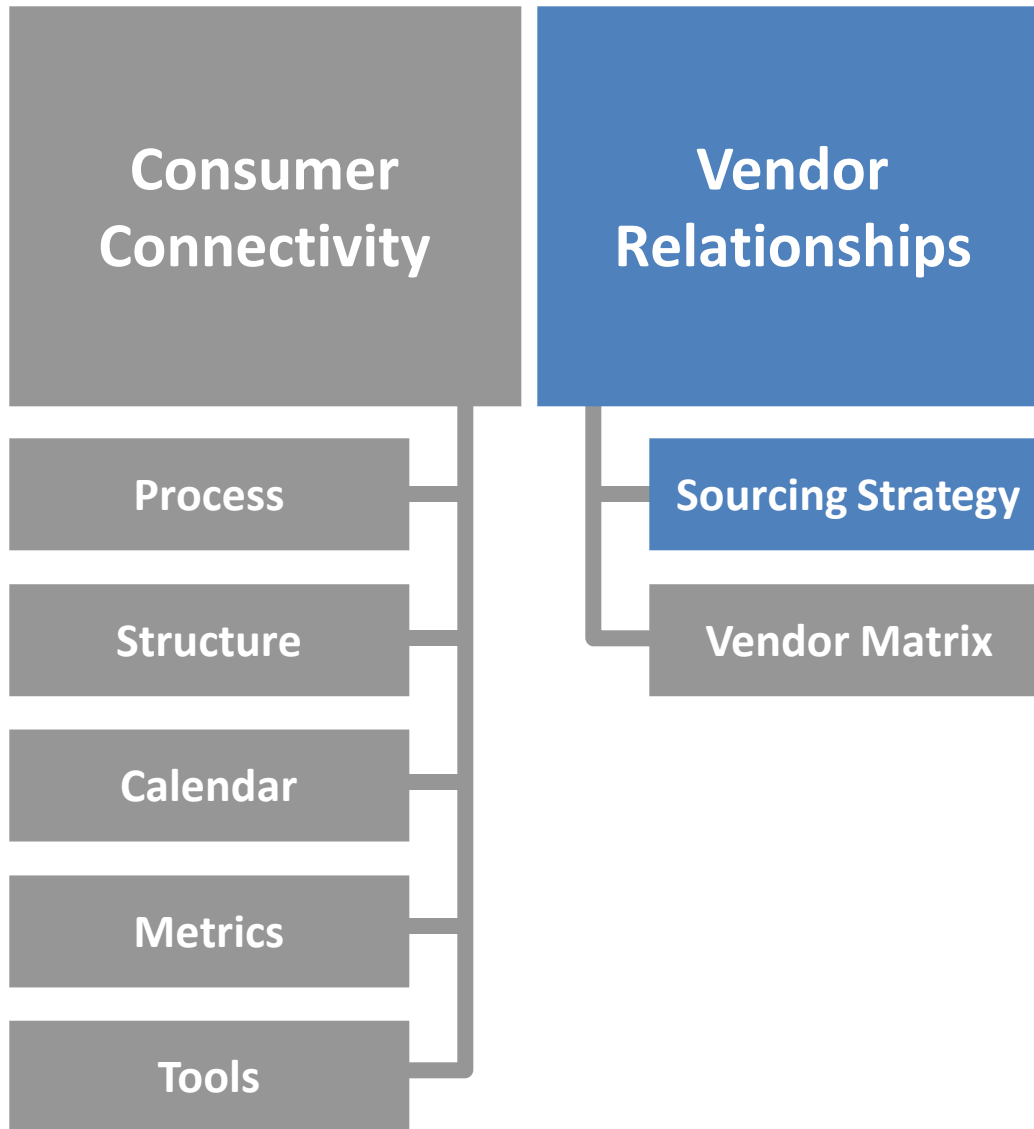
“Without the visibility and up-to-date information, we wouldn’t have the flexibility to react to market trends in that way. But we still have work to do.”

The Fundamentals: Vendor Relationships



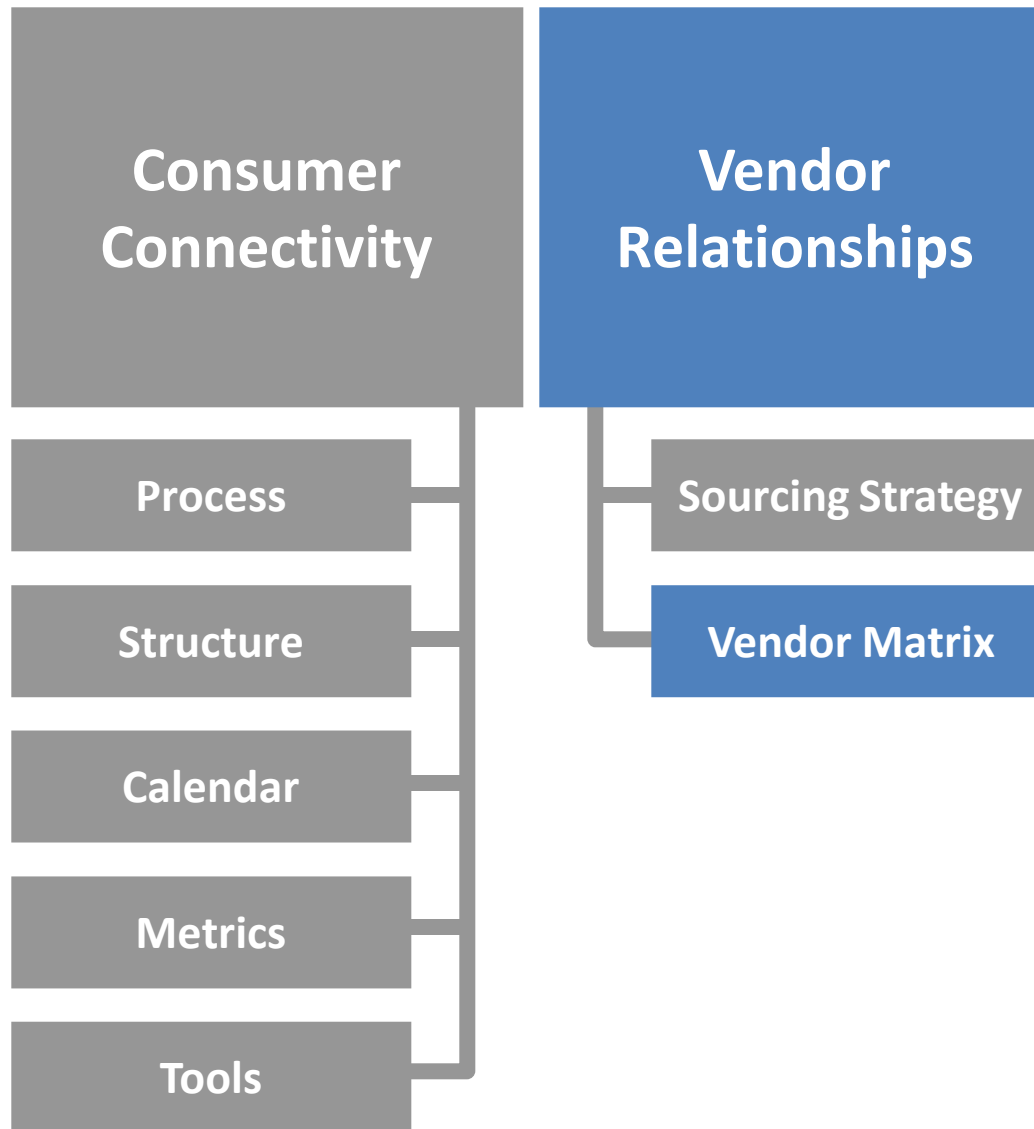
“Our intent with bringing design in-house was not to cut off our vendors but rather strengthen our relationships with them while changing the way we worked together.”

The Fundamentals: Vendor Relationships



“The sourcing strategy we employ is to maximize our flexibility, weighed against cost implications.”

The Fundamentals: Vendor Relationships



“Because of their factory diversification, our vendors are able to flex with us as needed when we need to switch regions, chase orders or adjust the production spigot.”

Chico's Vision

Migration Plan

Yesterday

- Vendor-designed product, Chico's-influenced
 - "Product-picker" merchandising mentality
 - Heavily cost-focused vendor selection process
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Today

- Chico's design team, vendor supported design
 - Product Development process and calendar
 - Shifting vendor relationships
 - Basic tracking tools
-

Future

- Chico's design team, vendor supported design
 - Product Development process and calendar
 - Robust vendor relationships
 - Systems-supported tools and metrics
-

Progress to date

Benefits achieved thus far

- Decreased reliance on air freight based on improved calendar adherence
- Improved calendar adherence by 36%
- Conceptual planning process that rationalized SKUs down by over 20%

Benefits expected in the future

- Improved sales comp and sell-through via shorter lead times and fast track process
 - Continued decrease in air freight
 - Increased efficiencies due to more robust systems support
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Q&A