Case Study When Tragedy Strikes the Supply Chain

In the wake of a factory collapse, a clothing retailer must decide whether to relocate production. *by Ram Subramanian*

Ram Subramanian is a professor of leadership at Stetson University.

Laura Cronenberg, the CEO of Tots & Teens, sipped her black tea in the lounge of Shahjalal International Airport and took some time to collect herself before her flight departed. The past few days had been a whirlwind, and she was still trying to make sense of how her work life had transitioned so abruptly from celebration to crisis.

On Monday she'd been at the New Jersey headquarters, feting T&T's employees in acknowledgment of the company's strong fiscal-year performance. The children's clothing retailer had increased its profits by 5%, and Laura had gathered everyone for a champagne toast. But then T&T's chief operating officer, Jim Zappa, had pulled her aside to tell her the shocking news: A garment factory in Bangladesh that produced and packaged merchandise for T&T and other retailers had collapsed in the middle of a workday. She and Jim booked flights right away, landed in Dhaka the following morning, and took a car to the disaster site.

It was a horrible scene. Bulldozers were clearing large piles of debris, rescue workers were searching for survivors, and a group of mothers sobbed and held up pictures of their missing sons and daughters. The area looked like the aftermath of an earthquake. According to news reports, the building had been constructed quickly and cheaply with substandard materials on a filled-in pond. More than 2,000 workers had perished, and many others were injured.

Surveying the wreckage, Laura felt queasy. The human loss was devastating, and as a mother herself, she didn't want to imagine what the parents of the dead and injured workers were going through. But she had to stay strong; she had a job to do. The company would have to find a way to support the victims and their families and to tighten up oversight of its supply chain. Even more pressing, it needed to find a replacement facility. The fall line, which typically accounted for 80% of T&T's revenue, was scheduled to go into production in two weeks. Laura had to quickly decide if another Bangladesh contractor could do the work or if she should shift to a factory T&T was already using in China.

Pros and Cons

She and Jim spent the rest of the day touring other facilities, and the next morning they returned to Shahjalal, en route to Shenzhen, where they would visit one of their Chinese contractors. Now Jim joined Laura in the lounge carrying two bottled waters and an extra-large coffee. He looked as haggard as she felt.

"That was rough yesterday," Laura said. "I can't stop thinking about the rubble—and the sobbing."

"Yes," Jim replied, nodding. A Texan and a former Marine, he could sometimes be taciturn.

"What's your view on keeping operations in Bangladesh? Can we be sure this will never happen again?"

"I don't think so," Jim said. "Of course, there are pros and cons. A few years ago, when we decided to stop carrying other brands

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Case Study Teaching Notes

Ram Subramanian teaches the case on which this story is based in his course Corporate Strategy.

WHAT DREW YOU TO THIS STORY?
For most of my American students, events in Bangladesh seem remote and unconnected to their everyday lives. I thought learning about the Rana Plaza disaster would help to bridge this disconnect. The case also encourages a conversation about business ethics, supply chain strategy, and the human cost of a $5 T-shirt.

HOW DO STUDENTS TYPICALLY RESPOND?
Most argue that the company should stop sourcing from Bangladesh. A few recommend that it stay there and help improve the situation.

WHAT DO YOU HOPE THEY'LL LEARN FROM THE DISCUSSION?
I want them to learn about the wide-ranging implications of a strategic decision and to see that the "race to the bottom"—a hallmark of many global industries—affects real people's lives. Strategists who ignore that cost do so at their own risk.

Tell us what you'd do in this situation. Go to **HBR.org**.

and create our own, we chose to manufacture in Bangladesh for the cost and convenience. Labor and transportation are cheap, quality is relatively good, and all the factories are clustered in one small area. The other pro is that Bangladesh has duty-free access to the European Union, which China and the African countries don't have."

Laura nodded. T&T's five-year strategic plan called for expansion into the United Kingdom, France, and Spain, and the tax breaks would be helpful. "What are the cons?"

"Well, obviously, even though Bangladesh has established worker safety standards and regulations, they're often sidestepped or ignored. We had no idea this factory was in such bad condition, but clearly the owners didn't care, and the inspectors looked the other way for far too long. The facilities we saw today appear to be up to snuff. But there are no guarantees—especially when we and other retailers create so much pressure for fast turnover. There's also a lot of corruption and chaos here."

"Can we change things for the better? What about the effort that's under way to pull together an industry coalition for worker safety?"

"That won't be easy or quick," Jim said. "Moving everything to China would be more expedient and less risky. But I worry about what will happen if we just pack up and leave. I think—"

Interrupted by their boarding announcement, he broke off. "That's us," he said, picking up his bag.

But Laura knew exactly what he meant. If T&T exited, and others followed, where would that leave Bangladesh and its workers? She'd seen the stats. Work from the apparel industry had helped cut poverty in the country by a third and now accounted for a third of its GDP. A mass exodus by retailers would be devastating to its economy. But what if T&T stayed, and nothing substantial changed? The company might have to face another disaster.

When Laura had decided that T&T should launch its own clothing lines and engage more directly with the supply chain, she'd never imagined that anything like this could happen. Now, as she and Jim walked down the tunnel to their plane, she was at a loss. In her five years as CEO, she'd successfully managed stock market crashes, layoffs, a recession, strikes, downsizing—but nothing had prepared her for this.

Costs and Risks

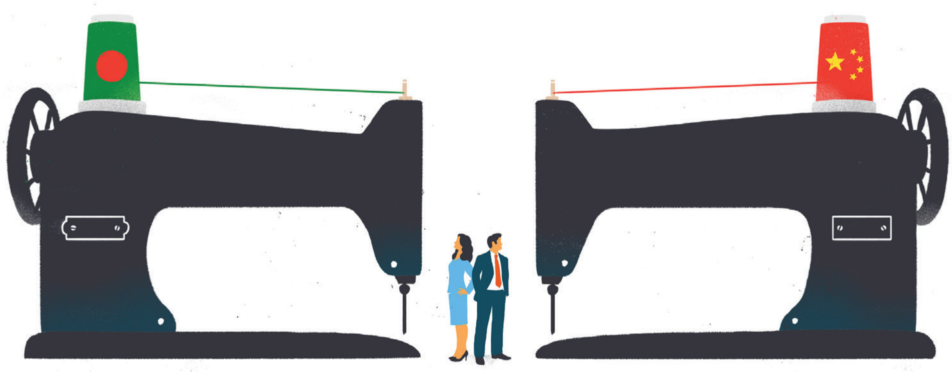
"We can expand operations, no problem," Kevin Chen, the owner of the Shenzhen factory, told them.

A graduate of Wharton who spoke fluent English, he was a gracious and gregarious host. And he'd been a great partner. Tots & Teens was currently producing 36% of its merchandise in China and had never had any problems there. The hangarlike factory—full of humming sewing machines and workers wearing face masks—was both pristine and efficient. Still, Laura wondered whether Kevin could execute on the promises he was making.

As she and Jim were chauffeured to their hotel in downtown Shenzhen, she picked Jim's brain again. "Kevin says they can ramp up their operations, but do you really think they can do it as fast as he says?"

"I have no reason to believe otherwise," Jim replied. "But I suppose there's no guarantee."

Laura wasn't satisfied. "I need more than that," she said.



"We already use China for a large percentage of our manufacturing, and so far we've been happy," Jim said. "They've been doing this for a long time, and they're good at it."

"But with an increased production load, will they be able to handle quick turnarounds?"

This was a big issue for T&T. Formerly, it took about six months for the company to design a piece of clothing, send it into production, and get it into stores. But now, because of competition from fast-fashion retailers and the capricious demands of buyers, many T&T lines were restyled every four weeks. The Dhaka factory had manufactured those products.

"I think so," Jim said, but without his usual confidence.

Laura's phone pinged with new e-mails. She saw a note from T&T's head counsel, who was drafting language for the worker-safety coalition, and one from the company's communications chief to alert management that a protest group had announced plans to assemble outside T&T's headquarters the following afternoon.

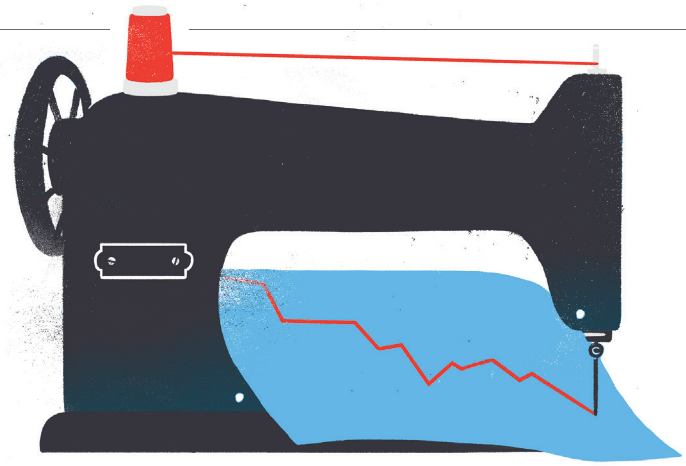
Laura sighed. She could answer those when she got to her hotel room. She turned back to Jim. "What else do we need to consider?"

"Labor costs in China are significantly higher than in Bangladesh and rising. But my main concern is supplier risk. Right now we're spread out between the two of them and, to a lesser extent, Vietnam, Cambodia, and a few other countries. If we move more manufacturing into China, 50% of our production will be there and we'll be..."

Laura finished his sentence: "Exposed."

Jim nodded. "I worry about what will happen if costs spike further. We can't afford to have the margins drop on half our merchandise. Even worse, there could be a worker strike—or a natural disaster. Half our goods would be delayed or destroyed." The same scenarios had already occurred to Laura.

The car pulled up to the hotel entrance. After checking in, parting ways with Jim, finding her room, and replying to e-mails, Laura called room service for a hamburger. But by the time it arrived, she'd lost her appetite. All she wanted to do was lie down and close her eyes.



A Son's Question

Laura had never been so happy to see the Newark airport. A 15-minute taxi ride later, she was at home in Summit and surprised to see her son, Devon, a sophomore at Columbia, sitting at the kitchen table eating chips and guacamole.

"I took the train down," he said. "Dad told me you could use some cheering up. And I was sick of dining-hall and takeout food." He grinned.

Laura asked about his classes; Devon was a political science major with a focus on international relations. Soon the conversation turned to the disaster in Bangladesh.

"The whole thing is messed up," Devon said. "My professor says that U.S. companies are exploitative and care only about themselves. He says they're trying to shirk their responsibilities. Is that true? I can't believe T&T is involved in this."

His words stung, but Laura understood. Devon reminded her of herself as a college student: passionate, idealistic, confident, and, well, naive. If only life were so simple...

"I'm sorry, Mom," Devon said quickly. "I didn't mean to freak out. I know this situation isn't easy for you. If it's any consolation, I'm sure you'll make the right decision. You always do."

Laura smiled. Unfortunately, the "right decision" had never before seemed so elusive. What would be best for the company? For its employees and customers? For the workers all over the world who made its dresses, shirts, and sweaters?

Should T&T relocate its production from Bangladesh to China?

See commentaries on the next page.

HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the Ivey Business School Case Study "The Children's Place, Inc.: Challenges in a Post-Rana Plaza World" (case no. W15231-PDF-ENG), by Ram Subramanian, which is available at **HBR.org**.

The Experts Respond

John Manners-Bell
is the CEO of Transport Intelligence, a global market research organization; an adviser to the World Economic Forum; and a visiting professor at London Metropolitan University.

LAURA SHOULD keep Tots & Teens in Bangladesh. The company has a moral responsibility to support factory workers, give them safer workplaces, and contribute to the community. It would be unethical to pull out in the wake of the building collapse.

The question is where to start. Forming an alliance with other companies is a good first step. That's exactly what U.S. and European retailers did after the 2013 Rana Plaza disaster, on which this case is loosely based. They formed two groups to help victims and improve safety conditions.

But if T&T wants to make real changes in Bangladesh, it has to do a lot more, beginning with ensuring that workers make a decent wage. Higher pay will raise the standard of living, and GDP will grow as a result. Once that happens, the government should have the funds to improve the country's infrastructure—a win-win for both Bangladesh and the companies that do business there.

T&T should also improve relations with its contractors. The best way to do that is to stop jumping from one to the next, in an effort to reduce costs and manage demand, and instead work to establish meaningful and long-lasting partnerships. That will lead to better communication and discourage factories from using subcontractors that operate outside T&T's purview.

None of these things will be easy. But many companies, including Marks and Spencer, Tesco, and Walmart, could be models for T&T. And Switcher, a clothing retailer based in Switzerland, started an experiment in 2014 in which it donated 1% of all its purchases from one Chinese supplier directly to factory workers. Tots & Teens could do something similar in Bangladesh.

> T&T should recommit to Bangladesh. It's the ethical thing to do.

Laura may face an uphill battle. To T&T's board, China probably looks like an inviting option, especially since the company needs to solve its problem as quickly as possible. Laura must therefore make an economic as well as a moral argument. By staying in Bangladesh, being socially responsible, and managing an ethical supply chain, T&T could develop a competitive advantage over other retailers. It would be better positioned to identify and avoid risks, sparing itself uncertainty, surprise, and unexpected costs. And it would increase the value of its brand among socially conscious consumers, boosting sales. It might even be able to start selling its clothing at a premium and using some of the profits to further improve its supply chain, creating a virtuous cycle.

Bottom line: T&T should recommit to Bangladesh. It's the ethical thing to do, and it's in the best interests of the business.

Comments from the HBR.org community

Move Production to the West
Laura should also consider moving production to the United States or Europe—closer to the UK market expansion. If labor costs in China are increasing, bringing production closer to the end customer would cut logistics costs and limit supply-chain risk.

Euan Granger, *community and content manager, Procurious*

China Is Equipped to Handle Production
Laura should relocate to China for these reasons: The fall line accounts for 80% of T&T's revenue, and it's just two weeks away from launch. China already manufactures 36% of T&T's production, so it's equipped. And Bangladesh is good for manufacturing costs but not for safety.

Andrew Naveen Kumar, *software engineer, Accenture*

Don't Run Away
T&T should remain invested in Bangladesh. Yes, the company has had a setback, but running

away may not be the best option. Strategically speaking, Bangladesh is ahead of China on costs, access to Europe and the key growth markets being targeted, and the ability to execute a variety of designs quickly. These are keys to T&T's long-term success.

Umang Bhatnagar, *vice president, strategic sourcing, specialty chemicals business, SRF Limited*

Adam M. Kanzer is a managing director and the director of corporate engagement and public policy for Domini Social Investments.

SHOULD TOTS & Teens stay in Bangladesh or leave? The answer is extremely complicated. But one thing is certain. Doing business in any emerging market is rife with difficulties, so whatever T&T decides, it needs to do a much better job of managing its supply chain.

The more controversial option is to leave Bangladesh. But there's precedent for that. In 2013 Disney decided to pull out of several high-risk countries, including Bangladesh, after a series of fires and safety lapses. By exiting so publicly and recommending implementation of the International Labour Organization's Better Work program, Disney sent a strong signal that government officials should clean up their act. Having engaged with Disney about its supply chain for many years in my role at Domini, I thought the decision to leave was a good one. T&T could use Disney as a model.

T&T shouldn't take this decision lightly, however. Its presence in Bangladesh is more substantial than Disney's was, and it therefore has a much greater responsibility to the community. At the very least, it should provide money and support to the victims of the building collapse. Cutting and running is not an option.

But if factory owners in Bangladesh aren't serious about making changes, and if government officials don't enact and then enforce stronger worker protections, then T&T would be well within its rights to leave. Lines must be drawn, and one company can do only so much. If, ultimately, T&T doubts that it can operate in Bangladesh without subjecting workers to unacceptable risks, it should not be doing business there.

The more credible option is to stay in Bangladesh. But if T&T decides to go this route, it must conduct a top-to-bottom review of its supply chain and select factories that are safe, compliant, and accountable.

It must also advocate for factory workers. This is a crucial point. After the Rana Plaza disaster, I and my colleagues at the Interfaith Center on Corporate Responsibility worked to pull together a coalition of investors representing $3 trillion, which urged apparel companies to sign the Accord on Fire and Building Safety in Bangladesh, a legally binding agreement that made companies accountable for improving safety conditions—and, more important, for strengthening labor unions. At Rana Plaza, factory workers saw cracks in the wall but didn't refuse to work out of fear of losing their jobs. A strong labor union could have changed that dynamic. Unfortunately, a lot of U.S.-based companies, unlike their European counterparts, were reluctant to sign the accord out of concern about potential liability and a general discomfort about working side-by-side with labor unions.

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T&T must reform its fast-fashion practices as well, though that will be extremely difficult. Customer preferences can't be changed overnight. However, apparel companies need to take a hard look at how their business and design decisions affect workers on the floor. It's no secret that cheap prices and quick turnarounds place a lot of pressure on factories, which demand overtime from workers or use subcontractors to help fulfill orders. Incentives to cut corners on worker health and safety often start at the top. That needs to change.

It's important to note that the priorities I've outlined aren't unique to one country. No matter where T&T does business, it must work to implement these changes. Disasters on the level of Rana Plaza are unacceptable. Companies can no longer overlook safety issues in the pursuit of cheap labor. They need to uphold higher standards. ⛉

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