

Supply chain increases the availability of goods



In spite of extensive investments, above all in the field of marketing, an Indian fashion goods manufacturer could not succeed in positioning themselves as the market leader in their industry. The insufficient earning power of the business was in the main caused by structural problems in the field of logistics. Coping with the structural problems and reducing logistics costs a complete restructuring of the supply chain was necessary.

AFL Fashion Limited is one of the largest fashion goods manufacturers in India with three distinct brands. After economically challenging times at the end of the 1990's the management undertook extensive changes in the business, in order to newly present the group of companies to the market place. The aim of these measures was to establish themselves as the leading manufacturer of fashion goods in India.

However, despite all their exertions in market positioning and branding, the owners and the management were not satisfied with the company balance-sheet that had been achieved. Above all in the areas availability of goods, stocks of primary materials and finished goods as well as logistics costs, the targets which had been set were not being met on a regular basis.

In order to solve the supply chain problems AFL defined a restructuring program for the supply chain- but they were not aware of the complexity of such a measure from the beginning. In order to

realize this project the business contacted Miebach Consulting on the basis of their extensive expertise in supply chain optimization and in the fashion industry. The objective was to raise the "bottom line results" to the intended level.

Vision and goals

The three brands in the portfolio of the clothing fashion manufacturer are partly in competition with one another. The company's supply chain covers procurement, manufacturing, as well as the distribution and sale of the goods in their own Retail Outlets (Illustration 01). At the moment these sales outlets are supplied by a central storage location for India.

At the start of the project Miebach Consulting installed a joint task force, which integrated experts from all areas of the business right along the supply chain and for the three brands.

Together with the AFL management a "Supply Chain Vision", including their service-driven and economic goals, was formulated: "To pioneer a sustainable flexible supply chain in the Fashion Industry empowering the AFL Fashion Brands to deliver superior value to its consumers, with operational cost and capital efficiency." Over and above this, based on international benchmarks and the intention of setting new standards in India's fashion industry, the following goals were set:

- Days of inventory held- 60 days maximum (previously it was 120 days)
- Reaching 96 percent reliability of delivery (previously it was 70 percent)

Precise problem analysis makes effective solutions possible

As part of a business process mapping along the supply chain, from the suppliers through to the retail outlets, the task force identified different problems in the field of communication, control, and monitoring:

- Non-homogenous, IT systems which were not integrated
- A lack of data integrity and therefore have false key performance indicators
- Process responsibilities were not clearly allocated

As a consequence measures to remove the interface problems between the IT systems and a standardized data hierarchy were introduced, which for example attributes sales costs and stocks to the respective brand with a more appropriate effort. In this way the causes of the high stocks or of the unsatisfactory availability of goods could be determined in the next step:

- Setting up buffer stocks on each level of functioning, starting with sales planning through to production and up to supply chain management because of non-transparency and unreliability in the supply chain
- A push replenishment system in the retail outlets, controlling stock levels that are too high or incorrect at the POS
- Extensive obsolete stock levels caused by past mistakes
- Significant values for company business objectives such as days of inventory held and availability of goods are not a constituent part of the individual target agreements
- A high number of decentralized supply chain and procurement functions are attributed to the brands and work in isolation from one another

Firstly a key number system was built up, which records the most important key supply chain figures on all levels and is available in a consolidated form to the respective decision-making plans. On this basis indicators such as levels of stock or availability

of goods were accepted into the personnel target agreements. From now on these are essential components of the company business objectives and are published on monitors throughout the entire business.

The key number system takes into account external as well as internal measurement parameters, which include stock levels, the availability of goods as well as the reliability of delivery and ensures that it is consistent across all brands. In addition supplier monitoring was introduced and all suppliers (external as well as internal) were made responsible for any deviations.

With the help of these measures Miebach was able to create a uniform appreciation and awareness of the objectives across all areas of the business. The key numbers system provides the required level of transparency in order to control the levels of stock and availability effectively.

Centrally anchored in the structure of the organization

The fashion business had been organized classically; up until this time according to the brands, which managed all the functions from procurement through to production and up to sales autonomously. With the exception of logistics, which adopted a central position, the supply chain and procurement functions were forced into purely sales-driven objectives. Therefore these areas of functioning scarcely had the opportunity to optimize levels of stock and product availability or to use the potentials for synergy between the brands.

Based on these realizations a new, central supply chain and procurement function was set up, which is now no longer subordinate to the brands and which sees its central task in achieving the new service level and stock level objectives.

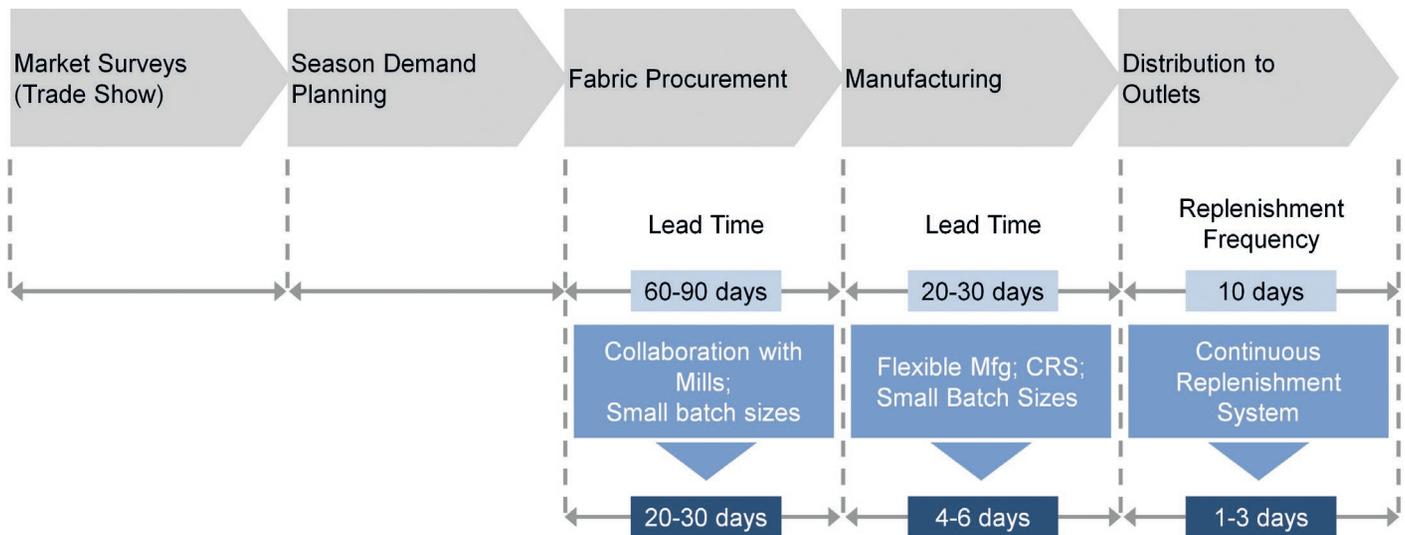
Breaking away from the past ways of thinking

The AFL Sales Team - as in almost every Indian retail business - out of conviction trusted the Indian saying "Jo dikhtha hai, woh bhikhtha hai", which freely translates to „One buys what one sees“. As a consequence this traditional approach meant that the retail outlets were often filled with goods far above the maximum levels of capacity for the sales stands.

In order to break with this ingrained tradition, with the help of a pilot study in 20 retail outlets the capacity was lowered by 30 percent in each case and the goods were displayed in a new and clearly visible way. The results had a positive outcome and in part led to higher sales, so that the principle could be rolled out across the board and the company.



01 The existing supply chain indicates problems in the field of communication, control and monitoring



02 Following restructuring the supply chain is flexible and can respond to the large changes in the market environment of the fashion industry

A further change in paradigms arose through introducing product sales covering all seasons. The fashion industry works world-wide in at least two and up to four seasons or collections. At the end of one season the goods are marked as EOSS (End of Season Sales) and sold off. The remaining levels of stock are returned, in order that they can possibly be sold off in the next season, usually however they remain as obsolete stock in the warehouse.

Especially in India it does not make a lot of sense to have an end of season sale, in large parts of the country there are no real differences between the times of year. For this reason Miebach only introduced the new principle in selected regions with the result that the costs of retrieval and the obsolete stock levels were reduced.

One of the most difficult steps was the reduction of obsolete stock from the past, as in the short term this leads to considerable write-offs and would have a negative effect on the profit and loss account. From experiences in European online business, Miebach Consulting set up a pilot study to sell goods which could not be sold outside of the national market. In spite of this it was unavoidable that a part of the stock from this time would have to be written off as unsalable.

Supply chain initiatives

The global fashion industry is highly volatile, making market forecasts and predictability of trends difficult – to forecast the demand for an item exactly requires almost prophetic talents. In such a market environment a supply chain must be flexible and able to respond (**Illustration 02**), in order to prevent stocks of unsalable goods building up and at the same time to prevent “stock outs”, where items the customer wants sell out.

The existing push replenishment system used by AFL regularly led to excessive levels of stock in the retail outlets, however often also to stock selling out in individual sales outlets, because whilst the goods were available in the overall system, they were however not available locally. For this reason a conversion was made to a continuous replenishment system according to the pull principle from retail via the storage warehouse through to production. The push part in the initial delivery was reduced to between 30 and 40 percent.

By proceeding in this way the supply chain could be synchronized with the market needs, and alongside a reduction in stock lev-

els as well as above all a higher product availability at the POS could be achieved.

It was certainly more difficult to organize the change in production with respect to a “late fit” philosophy. On the grounds of the economic and technical limits of reducing the batch sizes and the throughput times, an improvement here could only be achieved by integrating the suppliers. A more intense networking of information as well as committing the suppliers to stock up with sufficient levels of the primary and intermediate products led to a reduction in the throughput times and to higher flexibility.

The outcome of the restructuring measures was that improvements could already be achieved in the first year of the changes supported by Miebach Consulting:

- Reduction of days of inventory held to below 90 days (60 days)
- Increasing product availability to 90 percent (96 percent)
- Reducing Supply Chain costs by 15 percent (25 percent)

In the first year of the project the fashion goods manufacturer already managed to achieve a „turn around“ and this had a positive effect on cash generated. The free liquidity from that point on can be invested in further growth and the successes up to now give confidence that the objectives set out shall be achieved in full.

Pictures: lead photo Fotolia, 01 – 02 Miebach Consulting

www.miebach.com

About Miebach

Miebach – The Supply Chain Engineers – deliver their services worldwide across 20 offices from Bangalore to Santiago de. With 320 employees and a yearly turnover of 38,6 million Euros (2014) the company is one of the leading consultancies for logistics, production and supply chain design. Miebach’s worldwide network in key regions of Europe, North and South America and Asia provides effective international support for clients.