Supply Chain Optimization At Niche Apparel Producer: Rapid Inventory And Supply Chain Cost Structure Diagnostic

The Challenge: Since its launch as an independent company 11 years ago, GarmentCo had achieved ten-fold sales and EBITDA growth while establishing a strong market position and reputation. Contributing to this significant growth was the company's strategic re-positioning to capture market shift from "simple, one-style" to "fashion-oriented". GarmentCo's strong financial performance led to its recent acquisition by a leading private equity firm. While GarmentCo's growth and top-line focused culture had served it well in the past, with PE ownership came an increased attention to cost and inventory. GarmentCo had increased its top-line from $120MM to $170MM over the past 3 years; however inventory performance had remained flat at a relatively low 2.5 turns and overhead operating expenses had increased in concert with the top-line remaining at about 20% of net sales. GarmentCo's CEO brought Gotham in to conduct a 4-week diagnostic of its supply chain to gain a better understanding of the operations potential of the company and to quantify inventory and cost reduction opportunities.

The Partnership:
Analysis: As a starting point for understanding operations enhancement opportunities at this increasingly complicated company, Gotham initially focused on establishing a solid fact base. GarmentCo's factories were situated in 11+ countries in Latin America and Asia and its product mix included a private label program for a large retailer and 10+ product lines for independent retailers. To establish this inventory and cost performance baseline, Gotham collected and analyzed key operational data and interviewed operations personnel. Our analysis included:

- Detailed mapping of key supply chain processes (e.g., merchandising, forecasting, production, distribution)
- Dissecting and segmenting inventory to build a profile of on-hand inventory and inventory performance
- Building a department-by-department, detailed overhead expense profile for last 3 years
- Profiling freight cost (inbound and outbound), including cost of moving raw material/WIP between factories in U.S., Latin America, and Asia.

Product Complexity Is Driven By Wide Variety Of Fabrics, Colors, And Styles

			Independent Retail Products		
		Total Medical	**Core**	**New/Fashion**	**SCE**
	LTM Sales ($MM)*	$144.7	$38.4	$15.1	$3.9
Fabric	Fabric Type	29	11	21	17
	Solid Colors	258	52	158	80
	Unique Prints	655	62	369	78
Styles	Tops	176	25	112	38
	Bottoms	139	42	80	39
	Warm-up Jackets	34	12	23	11
	Lab Coats	27	9	11	11
	Others**	8	-	3	4
# of SCIs	RM Fabric	750	96	425	137
	Finished Goods	**2,676**	**782**	**1,166**	**339**

From this supply chain assessment, we identified significant initial reduction opportunities – inventory ($11+MM), freight ($0.4-1.2MM), and overhead ($1.2-1.9+MM) – and found that these excesses were symptomatic of broader operational issues that were constraints to growth and barriers to further savings. The root causes of these constraint barriers were:

- Under-managed complexity, no clear merchandising strategies, and no rigorous product introduction and retirement process
- Locally optimized, monolithic, and overly simplistic supply chain processes
- An outgrown, functionally-oriented organizational structure that failed to leverage GarmentCo's new scale.

Strategy: To capture initial savings opportunities and support GarmentCo's strategic growth initiatives and ensure solid cost, inventory, and service performance in the future, the Gotham team recommended three broad initiatives:

- Robust complexity management: (1) clean up the current product portfolio and inventory; (2) establish rules for new product introductions that learn from "post-mortems"; (3) create an explicit product retirement process; (4) learn a clear merchandising strategy for each key market segment; and (5) put in place mechanisms/tracking metrics to ensure that unnecessary, non-value-added complexity does not creep in
- Redesigned supply chain processes: (1) integrated processes, with an SOP process (sales and operations planning) that translates the sales plan into a proactive capacity plan; (2) more sophisticated tools that leverage demand stability; (3) market-segment-tailored planning processes (replenish-to-stock, make-to-order, and responsive); and (4) key performance indicators (KPIs) that measure results against "internal" financial objectives and "external" customer requirements
- Evolved organization structure: (1) a supply chain executive who "owns" all processes across the full supply chain; (2) a more sophisticated management structure; and (3) regular, actionable reporting based on robust supply chain metrics.

Execution: To implement this strategy, Gotham recommended beginning with two simultaneous efforts—one focused on managing complexity and the other on developing required supply chain processes—with each designed to deliver quick-wins and prioritized actionable work plans for the longer term solutions. Further, on the organizational side, we recommended that the search for a supply chain executive begin immediately.

The Outcome: The CEO and the Board immediately started the process to hire a supply chain executive and have directed GarmentCo to begin pursuing near-term savings opportunities.

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