

Heilan Home Supply Chain Cost Management Case Analysis Report

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Abstract: The garment industry has always been an important pillar of national economic development, with the changes in China's market economic system, the gradual improvement of people's living standards, consumers for clothing style, quality, price and so on have put forward higher requirements. Coupled with the impact of economic globalization, more and more foreign brands have also been favored by consumers, which has undoubtedly intensified the competition in the domestic apparel industry, and now the competition between enterprises has gradually transformed into the competition between the supply chain and the supply chain where the enterprise is located. In recent years, driven by the wave of "Industry 4.0" and "Made in China 2025", intelligent manufacturing has become a breakthrough in manufacturing innovation and upgrading. In a smart environment, creating a smart and efficient supply chain is the key for manufacturing companies to gain an advantage in the competition, and the same is true for the apparel industry. Therefore, this paper selects Heilan Home, a leading brand in the domestic apparel industry, to analyze, study its cost management problems in the supply chain and make appropriate suggestions.

Keywords: Heilan Home, Supply Chain Management, Supply Chain Cost Management.

1. Introduction

As an indispensable part of life, the market potential of clothing is huge. With the improvement of people's income level, higher requirements have been put forward for the style and quality of clothing. Economic globalization has also introduced many foreign brands, which have fully attracted the attention of consumers. For example, the famous Spanish brand ZARA and Japan's Uniqlo, the reason why these brands can gain the favor of consumers mainly depends on their collaborative supply chain management model. For example, Zara is a typical representative of fast fashion, with its excellent collaborative supply chain management model, brand building as the core, and information construction as the support, making it a benchmark enterprise in the global apparel industry with responsiveness and flexible management, and quickly ranked among the world's four largest fashion chain institutions in just a few years.

Clothing products have a strong fashion, short life cycle, and increasingly show the characteristics of personalization, small batches, multi-variety, coupled with the rapidly changing market situation and competitors unexpected promotion or other sales strategies, many clothing companies have been greatly impacted. For example, the cost pressure brought about by the growth of labor costs and raw material costs, the competitive pressure caused by new entrants in the industry and the consumer's pursuit of product personalization, diversification and branding. In the garment industry, when enterprises do not have absolute advantages in sales capabilities, how to further reduce the cost of enterprises to make it a key measure to enhance the competitiveness of enterprises is particularly important. In such a fiercely competitive market, the traditional internal cost management methods of the garment industry can no longer bring core competitive advantages to enterprises, in order to ensure that enterprises better operate and develop, the object of cost management is bound to shift from within the enterprise to the entire supply chain, by strengthening close cooperation with the supply chain node, reducing operating costs, and ultimately bringing competitive advantages to enterprises is the development of clothing enterprises. Therefore, this paper takes the leading brand "Heilan Home" in the domestic garment industry as a case, analyzes the problem of enterprise

supply chain cost management according to the company's financial indicators in the past three years, and proposes appropriate solutions.

2. Company Overview

2.1 Company Profile

Heilan Home Co., Ltd. is a large-scale modern clothing enterprise focusing on the operation of brand clothing and the production and sales of high-end suits and professional wear. Heilan Home Co., Ltd. was registered in Wuxi Administration for Industry and Commerce on January 8, 1997. In December 2000, it was listed on the Shanghai Stock Exchange. In 2014, it officially entered the A-share market (stock code: 600398). The company currently owns eight brands, including Heilan Home, San Kaino, Aiju Rabbit, Black Whale, OVV, AEX, Heilan Limited Life Hall and male and female. Among them, Heilan Home, as the core brand of the company, is positioned as fast-moving consumer goods and daily necessities, advocating the marketing concept of "high grade and medium price". According to the 2018 China Men's Wear Market Report released by Euromonitor International, the Heilan Home brand ranked first with a market share of 4.6%, ranking first in market share for five consecutive years.

Heilan Home has realized unified management and rapid expansion of stores through the direct management of franchised stores, and by the end of 2019, the number of stores in the company totaled 6673. Among them, there are 6382 franchise stores and associated stores. By integrating the resources of the apparel supply chain with the concept of win-win, driving a virtuous cycle of operation of the entire supply chain, all parties in the supply chain bear limited risks, effectively resolve business risks, and maximize the ground Create value. At present, the company has formed a supply chain management model with unique characteristics and competitive advantages, and achieved sustainable development under the overall downturn in the industry.

2.2 Company Organizational Structure

The company's general meeting of shareholders consists of the chairman of the board, the secretary of the board of directors and the general manager. Among them, the Audit Committee has an audit department: the general manager has seven functional departments, including the general manager's office, human resources department, procurement department, finance department, brand operation department design and development center, production management department and information department. The company has supply chain management company, Pudong Heilan company and Love Rabbit company. Among them, the supply chain management company is mainly responsible for communication, evaluation and screening with suppliers, and handles business transactions between the company and suppliers. Pudong Heilan Company is mainly responsible for the management and operation of the company's stores, including the location and decoration of the company's new stores, the training and assessment of store personnel, etc.

3. Heilan Home Supply Chain Cost Management

3.1 Heilan Home Supply Chain Management Process

Heilan House While building corporate brands, we sell in physical stores and online, and focus our business on the links with high added value in the downstream of the supply chain. Heilan Home mainly regards the brand and sales part of the downstream supply chain as the core business of the enterprise, and also cooperates with upstream suppliers to sign the terms of refundable unsold products and deferred payment of the payment, so that the company has sufficient cash flow, has a large amount of funds to operate the core business, and rapidly expands the scale of the enterprise. Heilan Home coordinates and manages all aspects of the supply chain to minimize the cost of enterprises. Heilan Home originally had no direct business dealings with the most upstream suppliers,

but due to its brand and sales advantages, it can negotiate and negotiate prices with the upstream suppliers of raw materials in raw material procurement with the most upstream raw material suppliers in the supply chain. In the product design process, Heilan Home reduces the expenditure on R&D costs through joint development with suppliers. In the procurement process, the enterprise and the supplier sign a contract with the product returnable as the main and non-returnable as the supplement. In the warehousing and logistics links, Heilan Home has established a headquarters logistics park in Jiangyin City, Jiangsu Province, which has improved the company's inventory control and product turnover. In the sales process, Heilan Home adopts the direct operation mode online and the direct operation, joint operation and franchise mode offline.

3.2 Analysis of Supply Chain Management Means of Heilan Home

(1) R&D link - joint research and development with suppliers

As can be seen from the above figure, Heilan Home adopts the method of joint research and development with suppliers in the research and development process. First of all, the designer of Heilan Home proposes a plan, and then communicates with the supplier designer, and then the supplier designs and proofs according to the finalized development plan, and the company screens and tests the samples and selects qualified samples to be delivered to the supplier for production, and finally the new product is launched.

(2) Production link - business outsourcing

Heilan Home chooses business outsourcing in the production process, on the one hand, because the added value of the manufacturing link is low and the profit margin is small. On the other hand, because garment manufacturing enterprises have developed more maturely, many outsourcing suppliers can reach the demand level of Heilan Home in the process of product manufacturing. At the same time, because Heilan Home is a well-known domestic clothing brand and the demand is large, for the manufacturing mode as the main garment processing enterprise is a large customer, Heilan Home can choose more outsourcing service enterprises, and has a great advantage in bargaining power. Not only that, outsourcing of production links can also reduce the operational risks of enterprises.

(3) Procurement link - can be returned to the main, cannot be returned as a supplement

In the procurement process, Heilan Home signed a product returnable agreement with upstream suppliers through its own advantages, and adopted a combination of returnable and non-returnable as a supplement. For the mainstream brands under Heilan Home, the company adopts the returnable mode, and for the branch brands, the enterprise adopts the non-returnable mode. The signing of this clause seems unreasonable, but in essence, Heilan Home can reduce the financial pressure on suppliers. In terms of payment methods in the procurement link, in order to avoid dependence on upstream suppliers, Heilan Home only pays 30% of the payment in the early stage, and the remaining payment is paid according to the sales situation of the company in the later stage, which greatly reduces the pressure of the company's payment.

(4) Sales link - hosting franchise

Enterprises increase the cash flow of enterprises by charging franchise fees, and the lower threshold for joining makes the scale of enterprise stores expand rapidly, and the impact of enterprise supply chain cost management is wider, forming a scale effect, thereby saving a lot of costs. In addition to the franchise fee, the franchisee only needs to pay the store rent and the daily operation and management costs of the store, and Heilan Home and the franchisee form a commoner of interests. Franchisees do not bear the risk of slow inventory, this kind of hand-throwing franchise method attracts a large number of investors to join, so that the scale of the enterprise rapidly expanded, the scale effect also brings higher profits to the enterprise, so that Heilan Home in the clothing market depression environment, still maintain high returns. The franchisee's franchise fee investment makes the internal liquidity of the enterprise sufficient, and there is more capital to expand the scale of the enterprise, resulting in a virtuous circle.

3.3 Analysis of supply chain management level of Heilan Home

(1) Total cost of operations as a percentage of operating income

Table.1. 2017-2019 The total operating cost of listed companies in the apparel and home textile industry accounted for the proportion of operating income

| Years | 2017 | 2018 | 2019 |
|------------------|--------|--------|--------|
| Heilan Home | 76.19% | 75.33% | 79.52% |
| Semir clothing | 88.38% | 82.44% | 85.93% |
| Septwolves | 91.57% | 83.25% | 83.3% |
| Industry average | 92.05% | 90.64% | 91.99% |

For the overall level of Heilan home costs, from table.1., it can be seen that in the past three years, the proportion of Heilan home's total operating cost to operating income has remained at 75%-80%. Whether compared with enterprises in the same industry or compared with the industry average, the proportion of Heilan Home is relatively low, indicating that Heilan Home has a good cost management in the entire supply chain and is at a leading level in the industry.

(2) Proportion of total cost of operations

Table.2. Heilan Home 2017-2019 total operating cost composition ratio

| Year | 2017 | 2018 | 2019 |
|------------------|--------|--------|--------|
| Operating costs | 64.78% | 68.95% | 63.75% |
| Selling expenses | 16.28% | 20.32% | 25.48% |
| Manage expenses | 7.36% | 9.02% | 9.28% |
| Finance expenses | -1.63% | -0.78% | -1.28% |
| R&D expenses | 1.51% | 1.6% | 1.83% |

From Table.2., it can be seen that in the past three years, the proportion of Heilan Home's operating cost to total operating cost has fluctuated slightly, and the overall stability is about 65%; sales expenses, management expenses, and research and development expenses are on the rise, which can be speculated to be related to the management of upstream suppliers by enterprises. And it shows that Heilan Home wants to improve its research and development capabilities and enhance the core competitiveness of enterprises. Heilan Home's financial expenses are negative, indicating that the company's interest income is higher, which can be speculated to be related to the management of Heilan Home's franchisees, and the franchise fee invested by franchisees makes the enterprise have a large amount of monetary funds, and the enterprise may obtain higher interest on bank deposits.

4. Analyze the cost management of Heilan Home's supply chain from the perspective of financial indicators

There are 57 listed companies in the garment and home textile industry, and this paper selects the financial data of Heilan Home for three consecutive years from 2017 to 2019, as well as the industry average and industry ranking for comparative analysis.

4.1 Profitability indicator analysis

(1) Return on equity

Table.3. Heilan Home Return on Net Assets 2017-2019

| Year | 2017 | 2018 | 2019 |
|-------------------|--------|--------|--------|
| Return on equity | 30.99% | 27.71% | 23.66% |
| Industry average | 8.69% | 4.50% | -0.51% |
| Industry Rankings | 4 | 3 | 3 |

(2) Gross margin on sales

Table.4. Heilan Home sales gross margin for 2017-2019

| Year | 2017 | 2018 | 2019 |
|-----------------------|--------|--------|--------|
| Gross margin on sales | 38.95% | 40.84% | 39.46% |
| Industry average | 42.22% | 41.91% | 41.66% |
| Industry Rankings | 30 | 29 | 30 |

(3) Net profit margin on sales

Table.5. Heilan Home 2017-2019 sales net profit margin

| Year | 2017 | 2018 | 2019 |
|----------------------------|--------|--------|--------|
| Net profit margin on sales | 18.29% | 18.10% | 14.42% |
| Industry average | 8.12% | 4.69% | 3.18% |
| Industry Rankings | 7 | 7 | 9 |

From the perspective of profitability indicators, in the past three years, the profitability of Heilan Home has declined slightly, and the three indicators as a whole have shown a downward trend.

Gross margin on sales has been fluctuating around 40%, still slightly up in the last two years compared to 2017, but overall it has been below the industry average and ranked lower. Usually the sales gross margin is low because the cost of sales is higher, but from the previous analysis of the cost and expense level, it can be seen that Heilan Home has obvious cost advantages, so it can be speculated that the sales gross margin may be affected by sales revenue, and the sales ability of enterprises is poor. Although the net profit margin on sales is in a downward trend overall, it is far higher than the industry average, and this indicator has been ranked in the top ten of the industry for three consecutive years. The decline in return on net assets is large, with an average annual decline of about 4% for three consecutive years, but it has also been in a leading position in the industry, maintaining the third place in the industry, and the decline may be related to the industry downturn. On the whole, the profitability of Heilan Home is still relatively good, in a leading position in the industry, but at the same time it needs to be appropriately adjusted to prevent profitability from continuing to decline.

4.2 Solvency indicator analysis

(1) Flow ratio

Table.6. Heilan Home 2017-2019 Current Ratio

| Year | 2017 | 2018 | 2019 |
|-------------------|------|------|------|
| liquidity ratio | 1.42 | 1.69 | 1.74 |
| Industry average | 2.74 | 2.51 | 2.52 |
| Industry Rankings | 48 | 43 | 40 |

(2) Quick ratio

Table.7. Heilan House 2017-2019 quick ratio

| Year | 2017 | 2018 | 2019 |
|-------------------|------|------|------|
| Quick ratio | 1.01 | 1.01 | 0.99 |
| Industry average | 2.01 | 1.72 | 1.73 |
| Industry Rankings | 50 | 47 | 45 |

(3) Equity ratio

Table.8. Heilan Home 2017-2019 equity ratio

| Year | 2017 | 2018 | 2019 |
|-------------------|--------|--------|--------|
| Equity ratio | 125% | 133% | 115% |
| Industry average | 59.26% | 60.53% | 76.75% |
| Industry Rankings | 5 | 6 | 7 |

From the perspective of solvency indicators, Heilan Home's long-term and short-term solvency is not very strong. Although the current ratio has grown in the past three years but has not reached the standard ratio 2, and is far below the industry average, the overall ranking in the industry is also very low; the quick ratio has been maintained at about 1 is relatively stable, but because the average value of the industry is very high, so it is basically ranked in the bottom ten in the industry; the property ratio from high to low ranks very high in heilan home, but the property ratio is usually lower, the stronger the long-term solvency of the enterprise, from the above table it can be clearly seen that the property ratio of heilan home is too high. Much higher than the industry level or even almost doubled, indicating that shareholders' equity is very small for liabilities. Overall, Heilan Home's solvency is very weak and it is also very backward in the industry.

4.3 Operational capability indicator analysis

(1) Inventory turnover days

Table.9. Heilan Home's inventory turnover days from 2017 to 2019

| Year | 2017 | 2018 | 2019 |
|-------------------------|--------|--------|--------|
| Inventory turnover days | 277.44 | 286.35 | 250.62 |
| Industry average | 203.00 | 204.45 | 206.71 |
| Industry Rankings | 15 | 11 | 16 |

(2) Accounts receivable turnover days

Table.10. Heilan Home's accounts receivable turnover days in 2017-2019

| Year | 2017 | 2018 | 2019 |
|-----------------------------------|-------|-------|-------|
| Accounts receivable turnover days | 12.27 | 12.07 | 11.95 |
| Industry average | 51.92 | 54.45 | 59.39 |
| Industry Rankings | 53 | 56 | 56 |

From the perspective of operational capacity indicators, Heilan Home's operating capacity is poor. Heilan Home's inventory turnover days rank relatively high in the industry are arranged from high to low, and are much higher than the industry average, so it shows that the company's operating ability is poor. Usually, the smaller the inventory turnover days, the less inventory backlog the enterprise has, and the better the sales situation. The number of turnover days in the past three years has gradually become shorter, indicating that enterprises are making adjustments, but they still need to continue to work hard. The same is true of the number of days of turnover of accounts receivable, the smaller the value of this indicator, the higher the efficiency of the use of the company's liquidity, reflecting the ability of Heilan Home's receivables to convert into cash is very good, far ahead in the industry.5. Heilan Home supply chain management optimization suggestions

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5.1 Strengthen inventory management

From the above analysis, it can be seen that the operation capacity of Heilan Home is poor, indicating that the enterprise has a large inventory backlog and needs to strengthen the management of inventory. Although Heilan Home has adopted the clause of signing products with upstream suppliers as "mainly returnable clauses and supplemented by non-returnable", which greatly reduces the risk of unsalable products, for some non-returnable products, for a long time, the unsold unsalable products will still be Make the enterprise inventory continue to increase.

In addition, Heilan Home uses the means of hosting franchise to expand the scale of the enterprise, but at the same time may also neglect the management of sales. Detailed measures can be taken to examine the performance of the store, analyze the performance data of the store, and find out the shortcomings in operation management and sales and improve it. The tail-end elimination system can be implemented, the performance of each region can be ranked periodically, the corresponding reward and punishment system can be constructed, the motivation of store sales personnel can be increased, and the purpose of improving performance and digesting inventory can ultimately be achieved.

5.2 Increase investment in research and development

From the above analysis, it can be seen that Heilan Home's investment in research and development has increased in recent years, but it is still insufficient and needs to continue to increase efforts. In such a competitive market environment, only innovation is the core competitive advantage of enterprises. Heilan Home adopts the means of joint research and development with suppliers in supply chain management, although it saves a lot of costs, but the innovation of independent research and development has also been restricted. Therefore, in terms of cost control, the saving of R& D expenses is not necessary, but enterprises should increase investment in R & D expenses and create their own core competitive advantages, so as to promote sales, create greater profits, and stabilize market positions.

5.3 Leverage the integration effect

The scale of Heilan Home has entered a stable period after experiencing a period of rapid growth, although it is in a leading position, it cannot be relaxed, and it should further strengthen the cost management of the supply chain and exert the integration effect. In the research and development process, the research and development ability of the enterprise is improved by introducing professional talents; in the procurement link and production link, it should keep in touch with the supplier at any time to eliminate information asymmetry; in the sales link, the store should be upgraded and the sales staff should be professionally trained. It is not only necessary to optimize each single link, but also to carry out comprehensive management from the whole, coordinate management of upstream and downstream enterprises, and exert the greatest integration effect.

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