The crisis of La Chapelle's operations - a comparative analysis with HLA

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Abstract. Supply chain management(SCM) includes five major parameters, customer satisfaction, cash, cost, sustainability and asset. Customer satisfaction, cash and cost are the most significant factors in the fast-fashion industry. So, how does SCM affect fast-fashion companies to achieve great success? In this case, two representative companies (La Chapelle and HLA) are selected to be compared to present the influence of SCM. The study results reveal that the decline of products' customer satisfaction directly leads to a dip in operating income. Too much money is wasted, increasing costs. Consequently, La Chapelle has to face the lack of cash and a large debt. Based on the discussions, some appropriate recommendations will be made to improve these problems in three aspects, which are beneficial to solve La Chapelle's crisis and reducing the possibility of business failure.

Keywords: Supply chain management; Customer satisfaction; La Chapelle.

1. Introduction

With the development of China's economy, China's per capita GDP keeps rising, and Chinese people are willing to spend more money on clothes. In 2021, China's per capita GDP up to 80976 yuan, and the clothing consumption per capita in China is rising to 1419 yuan (Data source: National Bureau of Statistics of China). In conclusion, even though COVID-19 seriously impacted China in 2020, China's economy still keeps rising, and the size of the Chinese clothing market is becoming larger and larger. However, La Chapelle, a well-known listed clothing company in China, faced a vast operational crisis.

La Chapelle was founded in Shanghai in 1998. Its principal founder is Jiaxing Xing, who had already left La Chapelle some years ago. In 2014, it was listed in Hongkong and Shanghai in 2017. Its main customers are women aged 20-30, and it aims to provide customers with the newest style products at a low price as soon as possible. These are the reasons why La Chapelle has had great success before. However, La Chapelle's operating income has declined from 10.2 billion yuan in 2018 to only 0.43 billion yuan in 2021, its net profit has remained negative for four years, and La Chapelle is facing a large amount of debt, about 3.86 billion yuan, which is Significantly more than its total assets (Data source: La Chapelle's annual report). Because of the bad operation situation, the stock price of La Chapelle declined very quickly, and La Chapelle had to exit the Shanghai stock market in May 2022.

Why has La Chapelle been stuck in such big trouble? The failure in supply chain management plays the most crucial role. In this case, much attention will be paid to the three parts of its supply chain management, customer satisfaction, costs and cash. With the decline in customer satisfaction, La Chapelle's products can not be sold out, directly leading to an increase in inventory costs; besides, wasting too much money on brick-and-mortar stores makes the total prices of La Chapelle so high. As a consequence, with high costs, the fast drop in operating income and net profit make La Chapelle lack cash. Therefore, La Chapelle is facing bankruptcy.

Regarding the methods, La Chapelle will be compared with HLA, a famous listed clothing company in China that has had great success in China, to discuss the problems in La Chapelle. Data from La Chapelle and HLA will be used to prove our conclusion. At last, some measures will be given to solve these problems.

2. Literature review

Supply chain management plays a significant role in company operations, especially in the fast fashion business. Leaders have been considering supply chain management as a support activity for their business[1]. Effective SCM has become a potentially helpful way of securing the competitive advantage of graphic and production companies as well[2]. In the pharmaceutical industry, SCM has been proven essential in reaping and retaining customer satisfaction[3]. SCM also greatly influences customer satisfaction and shareholder value; firms recognized by peers and experts for superior SCM competency exhibit higher levels of customer satisfaction and shareholder value than their respective industry averages[4]. In fast-growing industries, companies need to develop their supply chain efficiency to face new customers with new situations and needs[5]. The effect of agility in supply chains on customer satisfaction has been represented[6]. Inventory management and the role it plays in improving customer satisfaction is of great significance [7]. by small to medium enterprises, the adoption of supply chain management practices is critical to the provision of quality products and services as well as the satisfaction of customers [8], and SCM is essential to deliver the products and services to end customers[9].

Cost and cash are other factors that need to be considered seriously. The implemented IT, and the degree of integration can reduce transaction costs in supply chains[10]. Networking places several demands on cost management[11]. Much attention has been paid to Interorganizational cost management[12]. Many models have been built to present the importance of clash in SCM. The value of cash pooling can be significant when demand increases and the internal transfer price is low[13]. The Cash Conversion Cycle is a powerful performance metric for assessing how well a company manages capital[14]. Cash flow strengthens the chain of effects that link customer satisfaction to shareholder value[15].

In this case, we will compare La Chapelle with HLA to discuss the problems in La Chapelle's SCM and the relationship between the supply chain and enterprise performance. Some methods will also be provided to solve the issues.

3. Case analysis

3.1 Customer satisfaction

Table 1 shows a comparison of the operating income of La Chapelle and HLA from 2014-2018. In the past five years, the operating income of La Chapelle as a whole showed a continuous rise, with a small decline in 2018. And the operating income of HLA has been on an upward trend from 2014-2018.

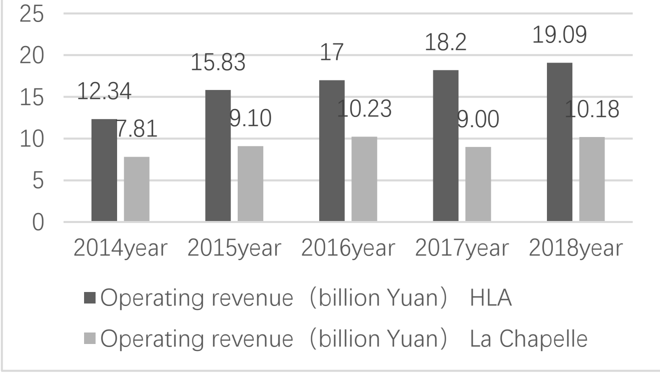

Fig. 1 The operating income of La Chapelle and HLA from 2014-2018

Table 2 shows the R&D expenses of HLA from 2014-2018. HLA has been investing heavily in R&D, and the R&D expenses have increased yearly since 2014. HLA is more concerned about product development and innovation. On the other hand, La Chapelle has no R&D expenses, and all of the products are manufactured in OEM factories. Large-scale production outsourcing has established La Chapelle's cooperation with hundreds of domestic ready-made garment manufacturers and formed a large-scale supply chain [16].

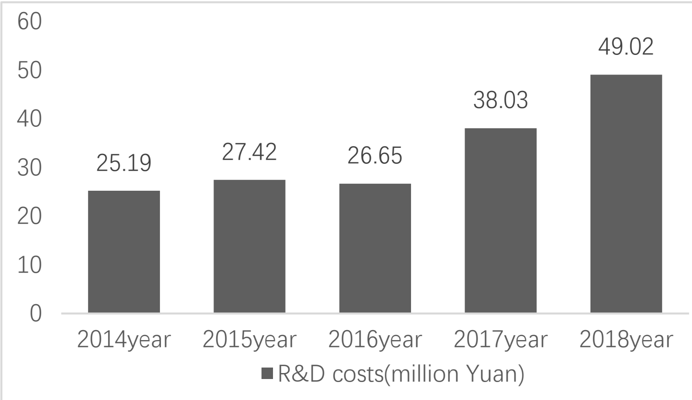

Fig. 2 R&D expenses of HLA

Operating income can most intuitively reflect customer satisfaction, La Chapelle's operating income is much lower than that of HLA, and the low operating income reflects La Chapelle's low customer satisfaction. The vast supply chain of La Chapelle makes the feedback of information and quality supervision appear to be problems. It also greatly slows down the dissemination of information so that the feedback information obtained by the terminal cannot be immediately applied to improving products. The shortage of supply chain management, the short production cycle of La Chapelle's products, and the short time to produce many products led to the defect in quality. Faced with all the OEM factories, La Chapelle could not carefully supervise the selection of fabrics and garment production, and it wasn't easy to control the quality of garments and outer packaging. As a fast fashion brand, although the main focus is on quick, more to ensure quality, increase the supervision of clothing workmanship, ensure the quality of clothing, the fabric is the most direct experience of the human body dressing.

For the problems in La Chapelle, the supply chain management should be improved, and for product supervision to achieve good product quality and a strong ability to update products. The fast response mechanism of fast fashion brands is the hot point to attract consumers and test a company's supply chain. Achieving such a state requires a high degree of cooperation throughout the supply chain, enhanced communication and collaboration between all parties through the network, and the use of computers for planning production to save time in undifferentiated segments. And we are raising the standards in selecting suppliers and strengthening the management and supervision of production outsourcing in enterprises. Or build factories and invest in R&D to improve corporate innovation, cater to public preferences and increase customer satisfaction.

3.2 Costs

During 2014-2018, La Chapelle's total operating costs were mainly composed of operating, selling, administrative, and financial expenses. In the past five years, the proportion of selling expenses exceeded that of operating costs, and the total operating costs of La Chapelle were mainly concentrated in operating costs and selling expenses. Meanwhile, the company adopts the outsourcing method and uses the production capacity of third parties to commission processing and purchase garments. The company's operating costs are mainly based on the purchase of ready-made garments products. Due to the adoption of the direct sales model, the company's expenses are mainly based on selling fees. In recent years, the proportion of selling expenses in the total operating costs of La

Chapelle has increased yearly, and the reliance on selling expenses has been growing. As shown in figure 3, the overall trend shows that selling expenses are growing faster than operating costs.

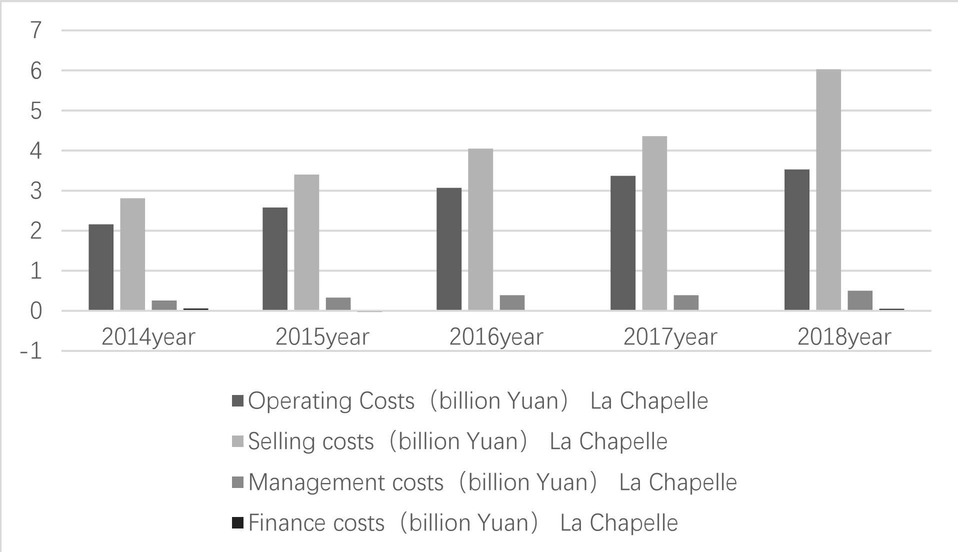

Fig. 3 Total operating costs of La Chapelle

Cost of sales accounts for a relatively large portion of total operating costs, exceeding 50% of total operating costs, and the increase in the number of its expenses significantly impacts total costs. While operating income has increased in recent years, La Chapelle's selling expenses have also risen considerably. As shown in figure 4, compared with the selling expenses of HLA, La Chapelle's selling expenses are much higher than those of HLA.

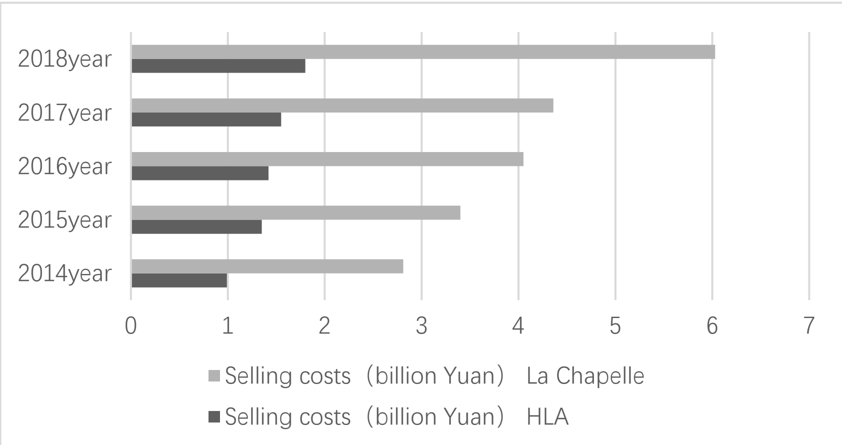

Fig. 4 Comparison of La Chapelle and HLA selling costs

La Chapelle's business development model of "multi-brand, directly managed" includes high fixed costs such as store personnel, rent, and shopping mall costs. The lack of sales growth led to the company's earnings declining significantly. Even though sales expenses such as advertisements played a significant role during the company's period of business expansion, its excessive growth speed made La Chapelle's higher operating income only bring lower profits in the end. La Chapelle is not sufficiently aware of cost management, such as operating costs, warehouse management, inventory turnover, etc. The cost management system is incomplete and mostly stays at the "cost accounting" stage. The middle and senior managers pay more attention to the awareness of cost control. Still, the understanding of other employees is weaker, and they lack the mechanism of full participation in cost management. The company has prioritized the progress of expansion in the development process but has not given enough consideration to the cost drivers in terms of cost composition. Less consideration is given to the impact of operating costs and selling expenses during the company's expansion, and less consideration is given to administrative fees and fixed cost expenses during establishing and closing offline stores.

The sales model of La Chapelle is divided into online and offline, and offline is divided into monopoly sales and counter sales. Most clothing companies are currently using similar sales models. However, counter sales still account for the most significant proportion of its offline sales, so La Chapelle should now mainly improve the cost of sales in the counter model while also paying attention to the cost control of the exclusive sales model since the selling expenses of the counter sales model are mainly incurred by the sales staff and the shopping malls. The company should focus on training sales staff in business operation skills, improving the quantity and quality of orders and services completed, improving customer satisfaction, and increasing the rate of repurchase to relatively reduce the cost of sales staff and bring more revenue. Based on the company's business model of omnichannel sales, using a collaborative supplier management system, an inventory management system, and a real-time management system between each outlet and the headquarters that meets the company's needs. It can accelerate the efficiency of La Chapelle's business operation and better implement the strategy and implementation. The company has put more effort into consulting and upgrading systems to find a scientific and intelligent management system that fits the company's development model.

3.3 Cash

In terms of accounts receivable turnover, La Chapelle's turnover management level of accounts receivable has gradually decreased over three years. In 2018 it was slightly below the industry average, but the difference is not significant overall. Regarding inventory turnover, La Chapelle's inventory turnover level has been declining yearly and has been lower than the industry average for the past three years. La Chapelle does not have the advantage of scale; its lack of fashion knowledge, and large-scale product updates, result in a large backlog, inventory turnover cycle becomes long, taking up many funds. And the constant market expansion has resulted in many inefficient stores, giving birth to ineffective products and eventually dragging down cash flow. Table 5 analyzes the inventory turnover efficiency and accounts receivable turnover ratio for the past three years.

Table 1. Three Scheme comparing

Index	2016 Year	2017Year	2018Year
Inventory turnover rate (times)	1.77	1.66	1.45
Industry average (times)	2.51	2.88	1.88
Inventory turnover days (days)	203.36	216.70	248.89
Accounts receivable turnover ratio (times)	8.16	8.55	9.76
Days of turnover of accounts receivable (days)	44.14	42.12	36.89
Industry average (days)	46.13	39.37	41.81

The current ratio, quick ratio, and cash ratio mainly reflect the short-term solvency of the enterprise, and the gearing ratio mainly reflects the long-term solvency of the enterprise, as shown in Table 2.

Table 2. Analysis of solvency indicators of HLA and La Chapelle

Solvency	Year	2014	2015	2016	2017	2018
Current Ratio	HLA	1.67	1.51	1.55	1.42	1.69
	La Chapelle	1.80	1.73	1.50	1.35	1.11
Quick Ratio	HLA	0.96	0.74	0.84	0.74	0.95
	La Chapelle	1.29	1.03	0.87	0.73	0.57
Cash Ratio(%)	HLA	82.15	63.48	73.11	63.00	81.69
	La Chapelle	77.09	44.71	25.76	24.91	12.82
Gearing ratio(%)	HLA	61.66	64.36	58.53	55.47	55.75
	La Chapelle	45.78	43.60	44.31	48.31	59.01

La Chapelle's solvency improved significantly when it went public in 2014 and continued declining. By 2018 the current and quick ratios were only 1.11 and 0.57, only half of the ideal value. The cash ratio decreased significantly to 0.13, the short-term debt-servicing ability continued to deteriorate, and the short-term debt-servicing risk increased. The gearing ratio rose rapidly to 59% in 2018, and long-term debt servicing capacity was declining. In contrast, the short-term solvency indicators of HLA showed fluctuating changes after 2014, and the overall operation was relatively stable. Regarding indicator values, the current and quick ratios are close to the ideal values of 2 and 1. The cash ratio also fluctuates within the excellent value of 0.8, and the gearing ratio shows a continuous downward trend.

La Chapelle is in the mass fashion casual clothing field, which has the industry characteristics of solid style and rapid change of season. It puts high demands on the company's product turnover. However, La Chapelle's inventory turnover is low, which is prone to the inventory backlog risk, leading to an increase in storage costs, and also increasing the cost of warehouse leasing and the risk cost of inventory obsolescence and devaluation. In addition, due to the slow turnover of inventory, the time interval between the investment of the company's capital into stock and the completion of sales becomes more extended, which increases the time that money is spent on merchandise, reduces the speed of capital recovery and increases the opportunity cost of capital. For the performance of inventory turnover ratio, on the one hand, the company's sales and inventory management ability is reflected; on the other hand, it is also related to the company's product positioning and sales policy. In recent years, La Chapelle's inventory management has been slightly inadequate, which may affect current assets and the speed of capital turnover. For the comparison of solvency, La Chapelle's debt structure is less reasonable than that of HLA, and the risk of debt service, especially short-term debt service, is significantly higher than that of HLA. For the cash problem, a central store can be built to buffer and transfer the distribution of nearby radiation stores, which can effectively reduce the transportation time and cost while solving the problem of high inventory and stock turnover rate. It can also increase the profitability of the leading business through online stores and sales revenue through live banding.

4. Conclusion

With the development of economics, Chinese clothing consumption keeps rising, which means the Chinese clothing market is becoming more and more prosperous. However, La Chapelle, a famous Chinese clothing brand, is facing an insolvency crisis. La Chapelle wants to imitate Zara, a renowned international clothing brand, providing the latest fashionable clothes at a low price. But La Chapelle does not pay much attention to product design and depends too much on OEM factories. Besides, La Chapelle's excessive pursuit of quantity also has adverse effects. Therefore, customer satisfaction with La Chapelle's products keeps declining, directly leading to a significant decrease in operating income and net profit. From 2018 to 2021, the operating revenue of La Chapelle declined from 10.2 billion yuan to 0.43 billion.

When it comes to the costs, La Chapelle wasted too much money on opening new stores. From 2012 to 2018, the number of La Chapelle's stores kept rapidly increasing. Nonetheless, these new stores do not earn enough money for La Chapelle. Online shopping significantly affects offline brick-and-mortar shops, especially in 2020; Covid-19 led many offline brick-and-mortar shops to be closed, and La Chapelle suffered significant losses. Moreover, horrible sales also lead to a long inventory cycle, which means more inventory costs. The declining operation income and high expenses lead to the lack of cash; La Chapelle's currency has declined sharply in recent years. In 2021, the debt of La Chapelle will be up to 3.86 billion. As has been analyzed, we can conclude that evil customer satisfaction leads to a decline in operating income; secondly, excessive expansion wastes too much money. Therefore, La Chapel is facing a lack of cash and high debt. There are three methods to solve these problems, first of all, a high degree of cooperation throughout the supply chain is needed; second, more effort is into consulting and upgrading systems to find a scientific and intelligent management system that fits the company's development model; at last, La Chapelle needs to build a central store to buffer and transfer the distribution of nearby radiation store.

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