

# Heilan Home Supply Chain Cost Management Analysis

Guirui Zhu

School of Nanjing University of Science and Technology, Nanjing, China

zhuguirui@foxmail.com

**Keywords:** Supply chain cost management, Cost analysis.

**Abstract:** In the mode of mixing sales model and virtual model, Heilan Home coordinates and manages all aspects of the supply chain to minimize the cost of enterprises. This paper analyzes the cost model of Heilan Home and puts forward some cost optimization suggestions.

## 1. Introduction

### 1.1 Company Profile

Founded in 1997, Heilan Home is a large-scale consumer brand operation platform company mainly engaged in brand management, supply chain management and marketing network management. As of the end of the reporting period, the company has brands including men's wear, women's wear, children's wear, professional wear and life home, and the specific circumstances of the main brands and products are as follows:

Heilan Home is an international one-stop men's clothing retail brand, founded in 2002, for the company's main brand, is committed to providing men aged 20-45 with fashionable design and quality products, products are divided into business, fashion, leisure three series, mainly including T-shirts, shirts, pants, suits, jackets and other categories, rich products can meet almost all of men's needs in terms of dress.

Heilan Home brand positioning fast-moving consumer goods, daily necessities, advocating the "high grade, medium price" marketing concept, with high-quality products, rich styles, public prices, intimate service quickly occupy the market, "Heilan Home - men's wardrobe", has been sought after by the mass consumer group.

Other major brands include SANCANAL, HEILANHOME, OVV, Black Whale (HLAJEANS), HEYLADS, YEEHOO.

With the business model of "platform + brand", the company allows every consumer to enjoy the value-for-money products and services by creating a strategic alliance of the industrial chain and building a high-quality marketing network; through the direct management of franchise stores, to achieve unified management and rapid expansion of stores; through the integration of clothing industry chain resources with a win-win concept, driving a virtuous cycle of operation of the entire industrial chain, all parties in the industrial chain bear limited risks, effectively resolve business risks, and maximize the creation of value. At present, the company has formed a brand chain operation and management model with unique characteristics and competitive advantages, which has laid a solid foundation for the company's long-term and stable development.

In 2019, the company achieved operating income of 21.970 billion yuan and net profit attributable to shareholders of listed companies of 3.211 billion yuan. As of the end of the reporting period, Heilan Home was a constituent stock of the CSI 300 Index, the MSCI China A-share onshore index, the underlying stock of the Shanghai Stock Connect, and the sample stock of the CCTV Finance 50 Series Index.

As of the end of December 2019, the company had a total of 7,254 stores, including 5,598 Heilan Home series brands and 1,656 other brands.

## 1.2 Organizational Structure of the Company

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. The specific company structure is shown in the figure:

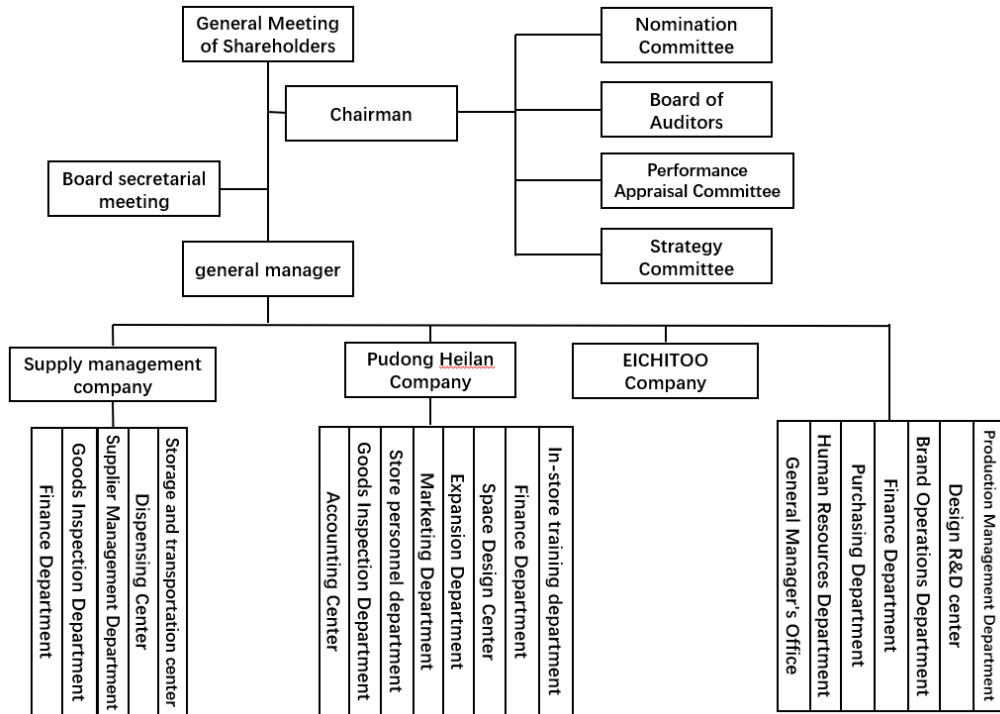


Figure 1. Organizational chart of Heilan Home

## 1.3 Company competition model

According to the above analysis of the competition model of garment enterprises, it can be seen that the competition model of Heilan Home integrates the sales model, the virtual model and the integration mode of supply, production and marketing, forming a hybrid model and a self-produced and self-marketing model that combines the characteristic sales model and the virtual model. Since Heilan Home provides different brand products for different positioning groups, the competition pattern between brands is different. In addition to the "San Kaino" adopts the self-produced and self-sales model, other brands of Heilan Home adopt a hybrid model that combines the sales model and the virtual model.

In the mode of mixing sales model and virtual model, 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 the brand and sales advantages of Heilan Home, it can jointly negotiate and negotiate prices with the upstream raw material suppliers in the procurement of raw materials. 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.

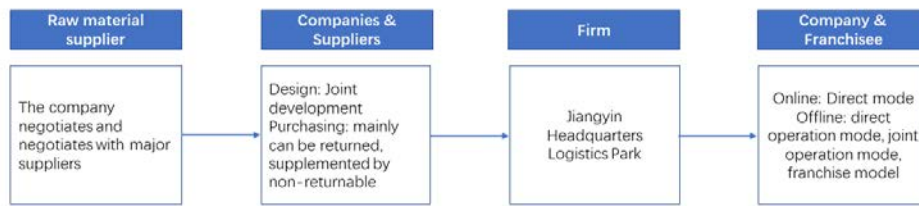


Figure 2. Heilan Home Supply Chain Management FlowChart

## 2. Heilan Home Supply Chain Cost Management

### 2.1 Supply chain cost management means analysis

#### 2.1.1 R&D link - joint research and development with suppliers

In the supply chain, the added value of product research and development is high, and Heilan Home also attaches more importance to the research and development part, invests more in research and development, and has set up a design and development center within the company. The R&D center mainly conducts research on clothing trends, technical processes and quality testing. According to the information disclosed in the company's annual report, in 2018, the number of patent applications of Heilan Home reached 41, and 27 were authorized.

In addition to self-research and development, Heilan Home also conducts joint research and development with upstream suppliers in the R&D process. At the beginning of the international fashion conference, the company will organize clothing designers to participate, collect the latest popular elements, integrate into the new season of products, and keep up with cutting-edge fashion trends. For the selection of suppliers, enterprises select suitable suppliers by publishing product design requirements and public bidding, through layers of screening. The research and development process of cooperation with suppliers, as can be seen from the figure, Heilan Home clothing designers first put forward a plan, and then communicate with the supplier designers on the development plan, and Heilan Home finalizes the plan, 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 listed.

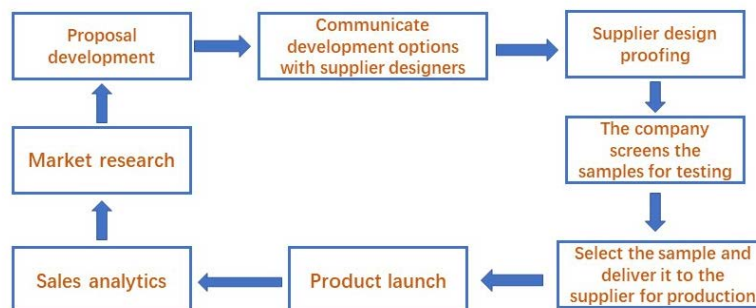


Figure 3. Heilan Home product development flow chart

#### 2.1.2 Production link - business outsourcing

In the production process, Heilan Home chose to outsource its business. In the entire garment industry chain, the production link belongs to the lowest added value of the link, garment processing enterprises must be necessary equipment, plant and labor need a lot of funds, the space for profits obtained is the smallest, the non-core business outsourcing, so that more funds can be invested in the development of the core business of the enterprise, but before that, the key is to distinguish the core business of the enterprise itself and the non-core business. Heilan Home will leave the high-profit R & D and sales links, and outsource the production and processing links with low added value, and other supply chain cost management methods, which have gradually become the competitive advantage of enterprises.

### 2.1.3 Procurement link - can be returned as the main, non-returnable 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 brand of Heilan Home, the company adopts the returnable model, the company and the supplier signed a purchase contract with the return clause of unsalable goods, after the product is sold, it will settle the payment with the supplier every month, and after the seasonal clothing season, the company can return the unsold seasonal clothing to the supplier, reduce the inventory pressure of the enterprise, and pass the risk to the supplier. For branch brands, the enterprise adopts a non-returnable model, and when the product purchased by the enterprise from the supplier occurs, all the risks of the product are passed on to the enterprise itself, and the unsold products can only be digested and processed by themselves.

The upstream supplier and Heilan Home signed seemingly unreasonable terms, on the one hand, because Heilan Home in order to reduce the financial pressure of suppliers, for the products returned to the supplier, after the design modification, the company will carry out a second procurement, on the other hand, when the supplier purchases raw materials from its upstream raw material suppliers, Heilan Home will jointly negotiate with suppliers and raw material suppliers, because the image of Heilan Home's well-known brand and the advantages of a large number of product demand, usually suppliers can get higher discounts, Reducing the cost of raw materials, Heilan Home's bargaining power has been improved, and the two sides have achieved a win-win situation. At the same time, in the payment method of 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.

### 2.1.4 Sales link - hosting franchise

Lan home in recent years the rapid development and enterprise "custody franchise" method has a lot to do with the enterprise by charging franchisee franchise fees to increase the cash flow of enterprises, the lower threshold for joining makes the scale of enterprise stores expand rapidly, the scope of enterprise supply chain cost management is wider, forming a scale effect, thereby saving a lot of costs.

Heilan Home implements unified management of franchise stores, from the choice of store location, to the decoration of the store and the later operation are in accordance with the unified standards, which is conducive to the management of brand image. In addition to the franchise fee, franchisees only need to pay the store rent and the daily operation and management costs of the store, and Heilan Home and the franchisee form a community of interests, the franchisee does not bear the risk of slow inventory sales, this kind of hand-throwing franchise method attracts a large number of investors to join, so that the scale of the enterprise expands rapidly. 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.

## 2.2 Supply chain cost management level analysis

For the overall level of Heilan Home's costs and expenses, it can be seen from Table 1 that heilan home's total operating cost from 2015 to 2019 accounted for about 60% of operating income, of which the total operating cost in 2019 accounted for 60.54% of operating income; the total cost of operating cost in the past five years accounted for more than 70% of the industry average of operating income, of which five listed companies in 2019 accounted for between 70% and 100%. It can be seen that the proportion of Heilan Home's total operating cost to operating income is significantly lower than the industry average, which is at the leading level in the industry, and it can be speculated that Heilan Home's supply chain management means have a significant effect, which greatly reduces the cost and expenses of enterprises.

For the total cost composition of Heilan Home in 2019, it can be seen from the figure that the total operating cost of Heilan Home in 2019 is mainly composed of operating costs, sales expenses and management expenses, accounting for 59.1%, 12.19% and 7.45% of the total cost expenses,

respectively, and these three costs and expenses together account for 96.14% of the total cost expenses. R&D expenses and financial expenses account for a relatively small proportion, both less than 1%. It can be speculated that Heilan Home's supply-connected management may have a greater impact on operating costs, sales expenses and administrative expenses, but less on R&D expenses and financial expenses.

Table.1. From 2015 to 2019, the operating costs of 11 listed companies accounted for the proportion of operating income

Company name	2019	2018	2017	2016	2015
Heilan House	60.54%	59.16%	61.05%	61.01%	59.73%
Seven wolves	53.11%	57.40%	59.34%	56.07%	57.15%
Nine Shepherd King	87.72%	97.03%	97.20%	91.90%	95.69%
Chinur	85.68%	83.39%	76.21%	80.03%	72.36%
Annunciation bird	97.67%	85.95%	78.40%	87.08%	75.62%
Red bean shares	69.47%	72.09%	74.72%	77.04%	75.64%
Youngor	45.10%	45.16%	47.86%	58.27%	62.15%
George White	51.96%	52.82%	53.31%	52.47%	51.84%
modern	51.50%	58.54%	45.35%	50.43%	42.20%
Busen	90.21%	113.95%	103.99%	110.72%	106.59%
Melya	95.38%	106.02%	104.49%	106.12%	100.91%
Industry average	71.67%	75.59%	72.90%	75.56%	72.72%

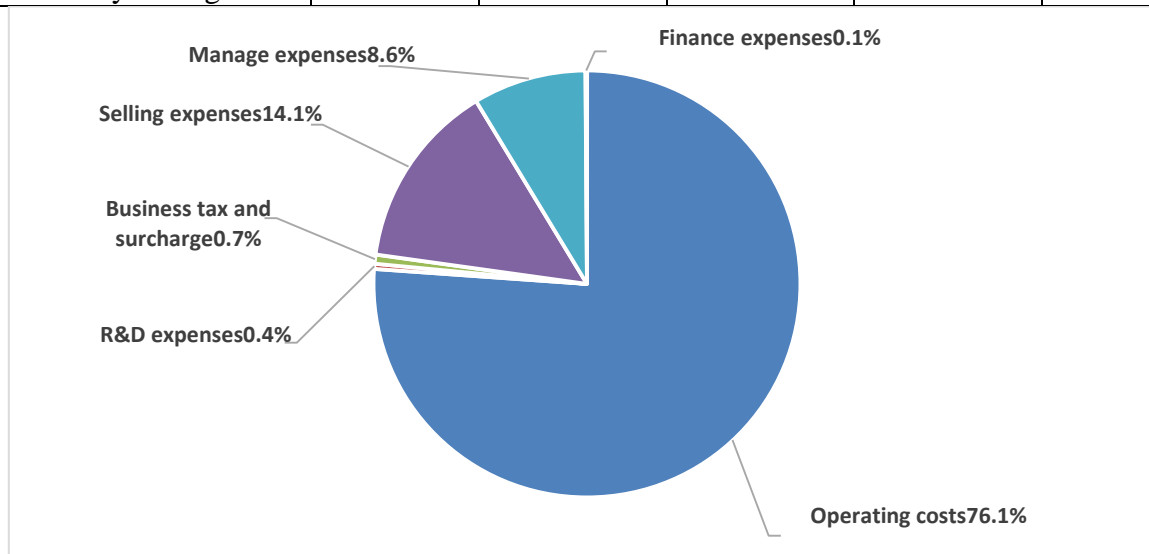


Figure 4. Heilan Home operating cost composition ratio

### 3. Cost and profit analysis under heilan home supply chain cost management model

#### 3.1 Cost Analysis

It can be seen from the table that Heilan Home's operating costs, sales expenses, management expenses, financial expenses and research and development expenses in 2017-2019 are in a relatively stable state, of which sales expenses show a gradual upward trend, and management expenses show a stable trend. Compared with the industry average, Heilan Home's R&D expenses and industry average gaps are the largest, the industry average in 2019 is 1.39%, Heilan Home's R&D expenses are 0.39%, which is 71% lower than the industry level, which can be speculated that it is related to the management of upstream suppliers by enterprises.

Specifically, Heilan Home's financial expenses were negative in 2018, and far below the industry average, indicating that the company's interest income is higher, and it can be speculated that it is

related to Heilan Home's management of franchisees, and the franchise fee invested by franchisees makes enterprises have a large amount of monetary funds, and enterprises may obtain higher interest on bank deposits. Heilan Home's sales expenses and R&D expenses accounted for a higher proportion of operating income, of which the proportion of sales expenses increased by 12.5%, the proportion of R&D expenses increased by 12%, and the proportion of R&D expenses in operating income increased significantly, indicating that enterprises increased R & D investment, wanted to enhance R & D capabilities, and enhance the core competitiveness of enterprises.

Table.2. From 2017 to 2019, Heilan Home and the industry average cost and expense accounted for the proportion of operating income

Project		2019	2018	2017
Proportion of operating costs	Heilan House	76.65%	79.32%	81.74%
	Industry average	69.36%	70.92%	70.56%
Percentage of selling expenses	Heilan House	14.22%	12.64%	11.40%
	Industry average	19.48%	18.17%	17.00%
Percentage of overhead	Heilan House	8.64%	7.73%	7.75%
	Industry average	8.51%	8.32%	9.48%
Proportion of finance expenses	Heilan House	0.10%	-0.03%	-0.89%
	Industry average	1.26%	1.32%	2.05%
Proportion of R&D expenses	Heilan House	0.39%	0.34%	-
	Industry average	1.39%	1.27%	-

### 3.2 Profitability Analysis

Profitability can directly reflect the operating effects of enterprises, in the garment enterprises, the sales link in the value chain in a high value-added position, so it is necessary to analyze its profitability. In the profitability measurement index, this article mainly selects the sales gross margin and the return on net assets for analysis.

Table. 3. 2017-2019 Heilan Home and industry average profitability indicators

Project		2019	2018	2017
Gross margin on sales	Heilan House	39.02%	40.85%	38.95%
	Industry average	40.32%	42.54%	42.57%
Return on equity	Heilan House	23.60%	28.70%	32.51%
	Industry average	3.02%	3.41%	6.83%

#### 3.2.1 Gross profit margin of sales

Gross margin on sales is determined by comparing gross margin to sales revenue. The reaction is the relationship between sales revenue deduction of sales cost and sales revenue. Gross margin on sales reflects the relationship between net revenue from sales and cost of sales. Calculating the gross profit margin, we can know the amount of expenses and final profits that can be used for subsequent expenses such as sales expenses and management expenses after deducting the cost of revenue. The higher the gross profit margin of sales, the lower the cost required by the enterprise to produce the product, and the higher the profit it obtains if other expenses remain unchanged.

Compared with the industry average, Heilan Home sales gross profit margin has been lower than the industry average, the general sales gross profit is due to the higher cost of sales, but through the above Heilan Home cost level analysis can be seen that heilan home costs are far below the industry level, cost advantage is obvious, so it can be speculated that Heilan home sales gross margin may be affected by sales revenue, enterprise sales ability is poor.

#### 3.2.2 Return on Net Assets

Return on net assets is the percentage of net profit to average shareholders' equity, which is the percentage ratio of the company's after-tax profit divided by net assets, which reflects the level of income from shareholders' equity and measures the efficiency of the company's use of its own capital.

The higher the indicator value, the higher the return on the investment. This indicator reflects the ability of its own capital to achieve net returns.

Heilan Home's return on net assets is much higher than the industry average, indicating that Heilan Home's overall profitability is strong. However, from 2017 to 2019, Heilan Home's return on net assets showed a downward trend, of which Heilan Home's return on net assets in 2019 was 23.60%, the lowest point in the past five years. From the average level of the return on net assets of the apparel industry, it can be seen that the industry level is showing a slow downward trend, so the profit reduction trend of Heilan Home, in addition to its own operating ability, is likely to be related to the sluggish environment of the entire industry.

#### **4. Heilan Home supply chain cost management optimization suggestions**

##### **4.1 Strengthen inventory management**

Heilan Home's operating capacity is poor, and the inventory turnover rate of Heilan Home in 2019 is 1.44, which is far lower than the industry average, indicating that the company has a large inventory backlog and needs to strengthen the management of inventory. Although Heilan Home adopts the clause of "returnable clause as the mainstay and non-returnable as a supplement" clause signed with upstream suppliers through supply chain cost management, which greatly reduces the risk of unsalable products, for some non-returnable products, it has accumulated for a long time, and the unsold unsalable products have increased the inventory of enterprises.

Therefore, Heilan Home should start from many aspects, take detailed measures, 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. At the same time, the end-of-line elimination system can be implemented, the performance of each region can be ranked periodically, the corresponding reward and punishment system can be built, and the motivation of store sales personnel can be increased, and the purpose of improving performance and digesting inventory can ultimately be achieved.

##### **4.2 Strengthen investment in research and development**

Heilan Home's R&D expenditure has shown an upward trend in recent years, but the overall level is far lower than the industry average, and Heilan Home's R&D investment needs to be strengthened. Since Heilan Home uses supply chain cost management, most of the products are jointly developed with suppliers in the upstream of the supply chain, and the suppliers are responsible for the production of ready-to-wear while contracting part of the research and development of clothing styles, saving a lot of costs.

According to the data disclosed in Heilan Home's 2019 annual report, Heilan Home's research and development expenditure was 67.74 million yuan, accounting for only 0.4% of the operating costs, and in the company's annual report, it was indicated that the company's research and development expenses were mainly used for the labor costs of clothing designers, and the company did not carry out specific research and development projects. Heilan Home should pay attention to its own R & D capabilities, increase investment in R & D expenses, improve R & D capabilities is a powerful measure to enhance Heilan Home's scientific and technological innovation and original design, but also an important measure to enhance the core competitiveness of enterprises.

##### **4.3 Strengthen supplier management**

Through Heilan Home's supply chain cost management methods and performance analysis, it can be seen that Heilan Home has a close commercial cooperation relationship with upstream suppliers in multiple links such as research and development, procurement and production. This alliance allows the two sides to achieve a win-win situation, but it also poses some potential risks for Heilan House. In the process of cooperation with suppliers, if the enterprise is too dependent on the supplier, the bargaining power of the enterprise is reduced, which will increase the additional cost to the enterprise. Therefore, multiple suppliers should be selected, and some suppliers should be selected as backups,

and in the event of an unexpected situation, the enterprise can still calmly cope with it and always have the right to speak. At the same time, for long-term cooperative suppliers, as business partners, suppliers are very familiar with the business model and philosophy of the enterprise, on the basis of production experience, suppliers are likely to learn the business model of Heilan Home, so that the two sides from partners to competitors. Therefore, it is necessary to strengthen the management of suppliers and immediately understand the changes in all aspects of suppliers, so as to avoid the leakage of trade secrets.

#### **4.4 Exert the integration effect**

In an increasingly competitive environment, how to gain a competitive advantage and maintain it is a problem that many companies are facing now. Through the supply chain cost management means in the research and development link, procurement link, production link and sales link and the supply chain upstream and downstream enterprise alliance, the cost advantage is significant, whether it is the overall level of cost or the cost and expense detail level, are far lower than the industry average. The scale of the enterprise has entered a stable period after experiencing a period of rapid growth, although it is in a leading position, it cannot be relaxed at this time, and enterprises should further strengthen the cost management of the supply chain and exert the integration effect. In the research and development process, through the introduction of professional talents to improve the research and development capabilities of enterprises; in the procurement link and production link, enterprises should keep in touch with suppliers at any time to eliminate information asymmetry; in the sales link, enterprises should upgrade stores and carry out professional training for sales personnel. Not only optimize each single link, but also carry out comprehensive management from the whole, coordinate management of upstream and downstream enterprises, and exert the greatest integration effect.

#### **References**

- [1] WANG Yuying. Research Progress of Supply Chain Finance [J]. Cooperative Economy and Science and Technology, 2019 (04): 62-64.
- [2] Zhu Changxiang. Research on supply chain management optimization strategy of A foreign trade company [D]. Shanghai Foreign Chinese University, 2019.
- [3] WANG Chao. Problems and countermeasures of enterprise supply chain cost management [J]. Enterprise Management, 2019 (01): 7-14.
- [4] Zhu Dan, Lin Tao. The Transformation Road of China's Foreign Trade Textile and Garment Supply Chain under the Industrial Service Platform Strategy [J]. Logistics Technology, 2015, 34 (03): 234-237.
- [5] Zhao Xiaomin, Hu Shuhui. Research on optimal decision-making and coordination mechanism of B2C supply chain [J]. Chinese Journal of Management, 2019, 16 (02): 309-316.