

Analysis of Supply Chain Cost Management of HLA

Xiaomin Chen*

Department of faculty of Economics and Management, Nanjing university of science and technology
University, Nanjing, China

*Corresponding author: chenxm_117@163.com

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Abstract: At present, my country's apparel industry is in a stage of transformation and market-oriented diversification. This is undoubtedly a good opportunity for apparel companies, but the problems and challenges that follow are also ensuing, such as labor costs and the cost pressure caused by the increase in raw material costs, the competitive pressure caused by new entrants in the industry, and consumers' pursuit of product personalization, diversification, and branding. In the apparel industry, when a company does not have an absolute advantage in sales capabilities, how to further reduce the cost of the company has become a key measure to enhance the competitiveness of the company. In such a fiercely competitive market, the traditional internal cost management methods of the apparel industry can no longer bring core competitive advantages to enterprises. In order to ensure better operation and development of enterprises, the object of cost management must shift from the internal enterprise to the entire supply chain., By strengthening close cooperation with the nodes of the supply chain, reducing operating costs, and ultimately bringing competitive advantages to enterprises. Therefore, this article uses the leading brand "Hailan Home" in the domestic apparel industry as a case to discuss the impact of apparel enterprise supply chain cost management on performance.

1. Introduction

In the apparel industry, due to the low barriers to entry, the influx of a large number of new entrants has made the competition in the saturated apparel industry more intense, while the cost of raw materials and labor has risen instead of falling. Because of the existence of the above problems, changes in the market environment have higher requirements for the management model of clothing enterprises. This model should not only reduce product costs, but also be sustainable. It is best to strengthen the core competitiveness of enterprises and make enterprises in A place in the competitively motivated apparel industry. With the increase of production cost and labor cost, the cost advantage and core competitiveness cannot be achieved only through the management of the internal cost of the enterprise. It is against this background that HLA takes the lead in applying supply chain cost management in the apparel industry, and jointly manages with upstream and downstream suppliers in the supply chain and downstream franchisees to reduce operating costs and enable the company to grow rapidly and become more successful in men's clothing. Take the lead in the industry.

2. Case analysis

Hailan Home Co., Ltd. is a large-scale modern clothing enterprise mainly engaged in the operation of branded clothing and the production and sales of high-end suits and business wear. 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. In December 2000, it was listed on the Shanghai Stock Exchange and officially landed on the A-share market in 2014. The company currently has six brands, including HLA, SANCANAL, OVV, AEX, HEYLADS, and YEEHOO. Among them, HLA, as the company's core brand, is positioned as fast-moving consumer goods and daily necessities, and advocates the marketing concept of "high quality, medium

price". HLA realizes unified management and rapid expansion of stores through the direct management of franchise stores. By the end of 2021, the company has a total of 7,381 stores, including 6,579 franchise stores and affiliated stores. Through the integration of clothing supply chain resources with a win-win concept, a virtuous circle of operation of the entire supply chain is driven, and all parties in the supply chain bear limited risks, effectively resolve business risks, and maximize the creation of value. At present, the company has formed a unique and competitive supply chain management model, which has achieved sustainable development under the overall downturn of the industry.

2.1 Company competition model

The competition model of HLA integrates the sales model, the virtual model and the integrated model of supply, production and sales, forming a hybrid model combining the characteristic sales model and the virtual model and the self-produced and self-sold model. Under the mixed mode of sales mode and virtual mode, HLA has advanced control over all aspects of the supply chain. Coordinate management to minimize business costs. HLA originally had no direct business dealings with the most upstream suppliers, but due to HLA's brand and sales advantages, it can cooperate with upstream suppliers to negotiate and negotiate prices with the most upstream raw material suppliers in the supply chain in terms of raw material procurement. In product design, HLA reduces R&D costs through joint development with suppliers. In the procurement process, the enterprise and the supplier sign a contract mainly based on products that can be returned and supplemented by non-returnable products. In terms of warehousing and logistics, HLA has established a headquarters logistics park in Jiangyin City, Jiangsu Province, which improves the company's inventory control and product turnover. As shown in Figure 1.

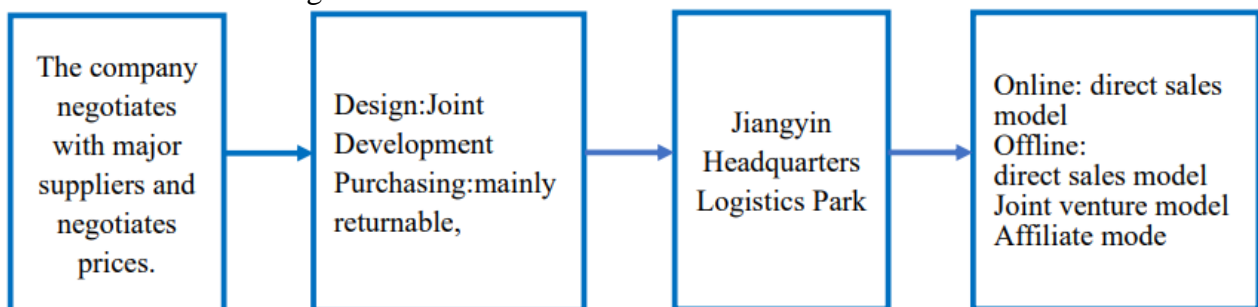


Figure 1. Flow chart of supply chain management

2.2 HLA Supply Chain Cost Management

2.2.1 Production processes

In the production process, HLA chooses business outsourcing. In the entire clothing industry chain, the production link is the link with the lowest added value, and the non-core business is outsourced. HLA keeps the high-profit R&D and sales links, and outsources the low-value-added production and processing links and other supply chain cost management methods, which have gradually become the company's competitive advantage. HLA chooses business outsourcing in the production process. On the one hand, it is because the added value of the production and manufacturing process is low and the profit margin is small. On the other hand, because the clothing manufacturing enterprises have developed more maturely, many outsourcing suppliers can achieve the product manufacturing process. The level of need for HLA.

2.2.2 Purchasing link

HLA's products take the form of direct procurement from suppliers, and the procurement cooperation model includes non-returnable and returnable models, as shown in the figure below. Under the returnable mode, the company signs a purchase contract with the supplier with a returnable clause for unsalable goods. After the product is sold, it will settle the payment with the supplier month by month. The product that has not been sold after the end of the marketable season can be returned after

the label is cut. To suppliers, who bear the risk of slow sales. Under the non-returnable mode, the company signs a non-returnable purchase contract with the supplier, and settles the payment according to the purchase contract. Products that have not been sold after the end of the marketable season cannot be returned to the supplier, and the company bears the risk of slow sales of the products. During the reporting period, the procurement model of HLA brand was "mainly returnable, supplemented by non-returnable", and other brands currently mainly adopt the non-returnable procurement cooperation model. As shown in Figure 2.

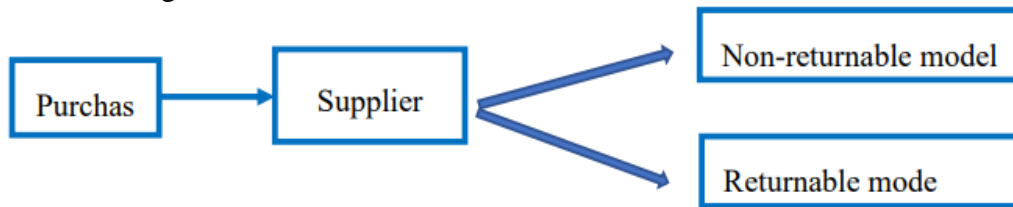


Figure 2. HLA procurement flow chart

2.2.3 Warehousing and logistics links

HLA has established a headquarters logistics park in Jiangyin City, Jiangsu Province, equipped with advanced logistics warehousing equipment and SAP information system, responsible for the unified delivery and storage of all goods. The company's SAP information system effectively connects store sales, logistics park storage, suppliers' production and other information to realize intelligent warehousing, storage, distribution, picking, and delivery, which not only improves the company's inventory control and product quality. It can also predict the shortage of goods and provide sufficient data support for upstream suppliers, thereby driving the efficient operation of the entire industry chain. As shown in Figure 3.

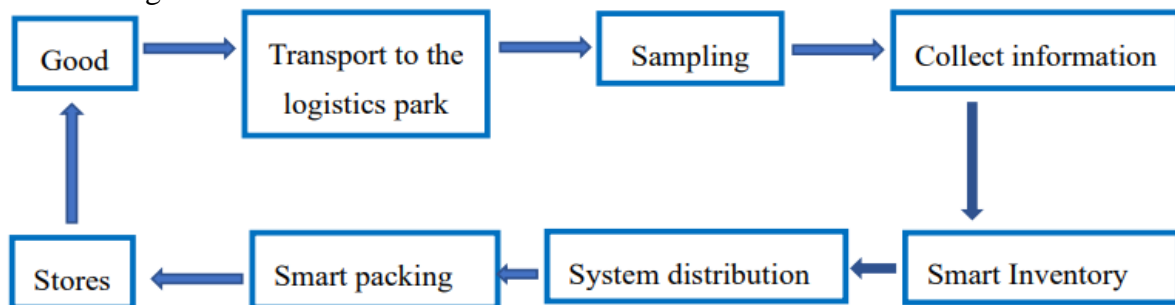


Figure 3. HLA warehousing logistics flow chart

2.2.4 Sales links

The rapid development of HLA in recent years has a lot to do with the company's "custodial franchising" method. Enterprises increase corporate cash flow by charging franchisee franchise fees. The lower franchise threshold enables the rapid expansion of the scale of corporate stores, and the impact of corporate supply chain cost management. Wider scope, resulting in economies of scale, resulting in significant cost savings. HLA's offline stores are mainly franchise stores. HLA implements unified management of franchise stores. From the selection of store locations, to store decoration and later operations, they are all in accordance with unified standards, which is conducive to the management of brand image. In addition to the franchise fee, the franchisee only needs to pay the rent of the store and the daily operation and management expenses of the store, and HLA and the franchisee form a community of interests, and the franchisee does not bear the risk of unsalable inventory. This franchise method attracts a large number of investors to join and makes the enterprise scale rapidly. Expansion and scale effects also bring higher profits to enterprises.

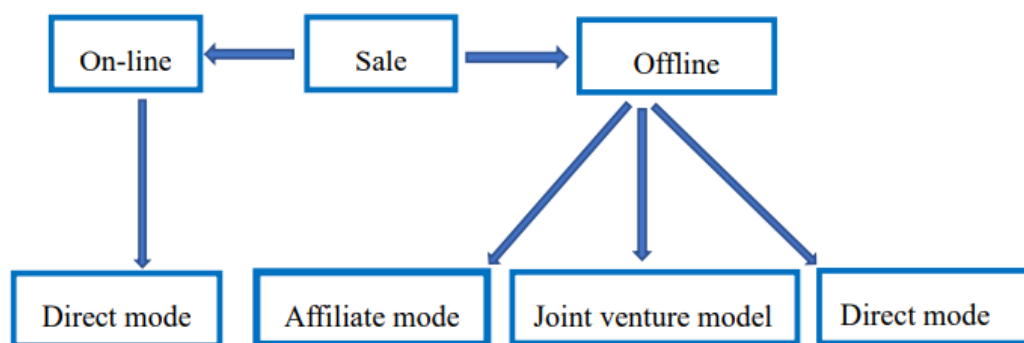


Figure 4. HLA sales flow chart

2.3 HLA Supply Chain Management Cost Analysis

For the overall level of HLA costs, it can be seen from Table 1 that HLA2015-2019 Although the proportion of annual total operating costs to operating income is increasing, this is mainly because HLA has continued to expand the number of stores and improve the quality of sales staff in recent years, resulting in an increase in HLA's total operating costs. However, the overall rate is below 80%, of which the total operating cost in 2019 accounted for 79.52% of operating income. In the past five years, the total cost of operating costs accounted for an average of more than 90% of operating income in the apparel industry. In 2019, two listed companies accounted for between 90% and 100% of total operating costs, and one listed company accounted for than more than 100%. It can be seen that the proportion of HLA's total operating costs to operating income is significantly lower than the industry average, and it is at the leading level in the industry. It can be speculated that the HLA supply chain management method has a significant effect, which greatly reduces the cost of enterprises. However, due to the increasing trend of HLA's total operating cost to total operating income, in order to prevent this ratio from rising, HLA should continue to increase investment in cost control over the original supply chain management level.

Table 1. Apparel Industry 2015-2019 Financial Indicators Table

Company	2015	2016	2017	2018	2019
HLA	75.15%	76.28%	76.19%	77.33%	79.52%
Hongdou	96.57%	94.72%	94%	94.38%	95.20%
Mailyard	100.91%	104.49%	106.12%	106.02%	100.03%
Average	94.39%	96.2%	97.17%	94.77%	98.25%

3. Sugestions

3.1 Increase investment in R&D

According to financial performance analysis, HLA's R&D spending has been on the rise in recent years, but the overall level of much lower than the industry average, HLA's R&D investment needs to be strengthened. Because HLA uses supply chain cost management, most products are jointly developed with suppliers upstream in the supply chain. While the suppliers are responsible for the production of ready-to-wear garments, they also contract some of the R&D links for clothing styles, saving a lot of costs. According to the data disclosed in HLA's 2020 annual report, HLA's R&D expenditure is 49.02-million-yuan, accounting for only 0.5% of operating costs, and it is indicated in the company's annual report that the company's R&D expenses are mainly used for the labor costs of clothing designers. research project. HLA should pay attention to its own R&D capabilities, increase investment in R&D expenses, and improve R&D capabilities is a powerful measure to enhance HLA's technological innovation and original design, as well as an important measure to enhance the core competitiveness of an enterprise.

3.2 Improve the punctuality of purchasing

The timely supply of fabrics and accessories is the premise for garment enterprises to manufacture. If the effective transmission of purchasing information cannot be achieved, it is very likely that the supply will be chaotic, and the manufacturing and sales needs cannot be met. Therefore, HLA can choose to apply JIT procurement technology, the basic idea of which is to supply the right quantity, the right quality of items to the right place at the right time. JIT technology enables enterprises to face the needs of users directly. On the premise of meeting the procurement needs of enterprises, it ensures the smooth progress of production activities, and at the same time saves inventory and reduces waste for enterprises. The figure below compares traditional procurement methods with JIT procurement techniques:

4. Conclusions

After analyzing the cost management of HLA's supply chain above, under the HLA supply chain cost model, the overall level of corporate financial performance is good, profitability and solvency are strong, operating ability is poor, and inventory turnover rate is well below the industry average. In the future development, enterprises need to strengthen the management of inventory, from various aspects, refine the inventory management measures of supply chain cost management, and optimize the operation management of downstream stores, so as to improve the digestion ability of enterprise inventory. Due to the close cooperation with upstream suppliers under the HLA supply chain cost management model, the speed of cost increase has been greatly reduced, and the operating performance is getting better and better. Therefore, on the whole, HLA is still in a high position in the industry, and the continuous improvement of its supply chain management has brought positive significance to enterprises.

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