

“Ten Commandments” for reducing apparel supply chain costs

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Author:

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In the last five years, the apparel supply chain has faced ever-decreasing margins and currently working with less than 5 percent net margins. That means one need to efficiently manage the balance 95 percentages, which is nothing but various costs in the entire supply chain.

A supply chain is defined as a system of facilities and services that procure materials, manufacture and deliver goods to consumers. With cost-control becomes the highest prerogative, organizations need to concentrate to reduce the total supply chain cost of the entire apparel supply chain.

The manufacturing of apparel is a “make to order” manufacturing environment with innumerable steps. Production is outsourced in much of the industry. The sourcing supply chain varies from style to style, season to season and across geographical regions. The market demand of apparel becomes highly fluctuating, leaving little room for apparel supply chain to manage cost.

In this challenging environment, companies from fiber to textile to accessory and garment makers need to focus on reducing system-wide cost considering sourcing, manufacturing and outbound logistics.

The ten directives on reducing supply chain cost:

1. **Total sourcing “Landed cost” instead of “L/c cost”:** Instead of negotiating only on L/c value, organizations need to focus on true costs of sourcing from overseas. Calculate freight, duty, brokerage, and inventory carrying costs to support these lengthened supply chains. Also factor in such items as the costs of engineers flying overseas.

2. **Consistency in Transit time:** Focus on eliminating the variability out of transit times. The more variable the transit times are, the more likely it is that the receiving party is using more premium freight, building buffers of inventory, or ordering more often and more quantity than necessary to compensate for the uncertainty.

3. Tariff engineering: Strategically source and manufacture products to take advantage of classification duty rates and eligibility for special trade programs such as NAFTA. Also using company's self-insurance is more cost-effective than using carriers insurance. If the company is self insured, which most companies are, they should check their insurance policy to see if it covers shipment of goods.

4. Consolidate supply: If an organization has multiple suppliers in one country, consolidate their goods into one shipment. In addition, if it always has LCL (less than container load) shipments out of one country, try to find another LCL importer of goods from that country. You may be able to partner and consolidate to a more cost-effective FCL (full container load) shipment.

5. Informed decision-making and decision propagation: Provide to the decision-makers/customers of your logistics network the cost of freight for each service level, the reliability of each lane for each service level, and the true cost of carrying inventory so they can make informed decisions. Also faster flow of demand information across functions helps organization make better plan keeping minimum inventory.

6. From "Just-in-case" to "Just-in-time" inventory: Inventory management across apparel supply chain plays pivotal role in reducing cost. Most often, companies keep additional inventory assuming variability of supply and demand. Forward buying in anticipation of price increase of raw material also leads to lots of "just-in-case" stock. Companies need to manage inventory considering financial repercussions also.

7. Cost of "product proliferation": Often hidden, cost of product explosion is enormous comprising sampling cost, line change-over cost, delays due to complex scheduling etc. Accessory and apparel makers should judiciously select their product mixes to cost-effectively manage supply chain.

8. Stop "Fire fighting", Do "Planning": Do not send an entire consignment on an express/expedited (highest cost) delivery. The company can determine the amount of goods that are needed immediately and have that amount sent using express/expedited service level, while the balance of the shipment can be sent using a standard (lower cost) service level. Panicking often results in higher costs.

9. Build and leverage "Multi-modal logistical platform": In general, rail is more cost-effective than trucking or air. Water is cheaper than air shipment. No matter the mode of delivery, always try to carefully evaluate all three options. Sometimes, a hybrid option comprising sea and road or air and road might become cheaper than sending everything by air.

10. Navigate international "Trade Barricades": Companies within apparel supply chain need to defend from various non-tariff trade barriers. Violating human rights and various social welfare issues may invoke high penalty besides loosing important customer bases.