

# MATERIAL AGGREGATION AND ORDER COMMITMENT





# EXECUTIVE SUMMARY

Complexities introduced by ever-changing macro-economic conditions sand the manual management of enormous data make the task of material sourcing even more challenging for today's apparel companies. It is imperative for apparel companies to have strong global sourcing strategies in place to support their organizational objectives, expand their business and drive growth by seamlessly supplying products to target customers.

To compete in the market, apparel companies need a technological solution that would facilitate their material aggregation and advance sourcing tasks, enabling them to lower material costs and earn higher margins.

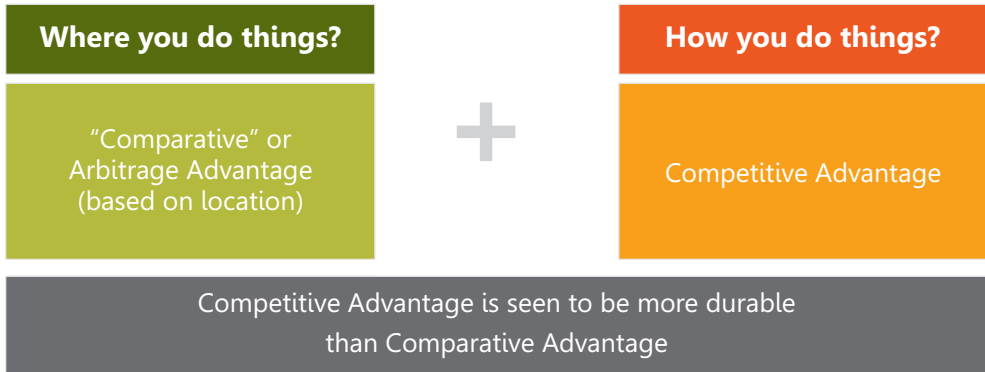
# GLOBAL SOURCING: KEY TO GAINING COMPETITIVE ADVANTAGE

Global sourcing strategy has been one of the most debated management topics for over a decade now. An effective global sourcing strategy helps companies to harness the true potential of different sourcing markets across the globe - be it in the form of skilled or low cost labor, advantage in proximity or cost of raw material, or other economic factors, like tax breaks and low trade tariffs.

In today's business scenario, global sourcing has become multifaceted. Organizations are investing huge chunks of business money in building long term relationship with their suppliers or growing their own capabilities. *It is interesting to note that competition no longer exist so much among organizations, but among their supply chains. This is one of the prime reasons for sourcing strategies to have become defining criteria for obtaining a sustainable competitive advantage in this globalized world.*

In an environment full of uncertainty, it is imperative for an organization to have a clear sense of direction to pursue strategic changes. As the external environment of firms have become unstable and volatile, internal resources and capabilities are viewed as more secure sources for pursuing long term strategies. Organizations create superior value for their customers by managing their core processes better than their competitors. These include product development and supplier management. These activities if performed well can bring in operational efficiencies by unlocking the hidden value in the supply chain.

## Drivers of Advantage in International / Global Business

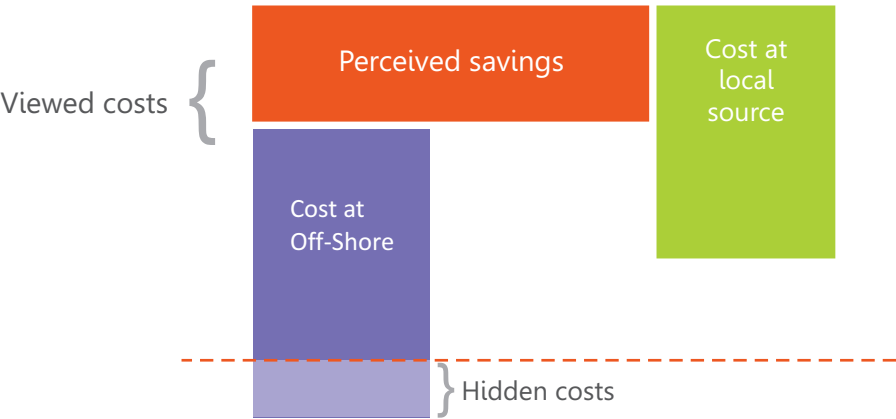




# ERODING PROFIT MARGINS IN RFA INDUSTRY

The textile industry is a mature and cost-sensitive industry operating on low margins. Consumers’ demands for more variety and lower prices usually pressurize organizations to search for newer sources or bring efficiencies in their existing supply chain activities.

We are operating in a highly volatile global market where supply side of markets is constantly on the move in terms of prices and availability. In the apparel industry, fabric constitutes up to 50-65% of the total cost of manufacturing. Hence, getting the lowest price from the best source is essential to keep the manufacturing cost under limits. However, the problems of garment manufacturing do not end up with the selection of right fabric and right vendor. Several times, sourcing offshore results in what can be classified as hidden costs. This is primarily because planning, sourcing and product development processes in an organization are not synchronized well enough. Though sourcing from various locations allows retailers to sell at competitive price points, giving them attractive margins, but these margins are substantially eroded once the hidden costs are quantified. The chart below shows the hidden costs of apparel sourcing in their order of importance:-



Hidden Costs	Degree of importance (%)
Limited ability to change mix or volume of orders shortly before or during the season	37
The requirement of an early commitment to manufacturing before sale trends are clear	25
Irrevocable letters of credit charges	15
Expensive admin travel and quality problems	11
Delays at the port of entry	7
Last minute use of air freight	5

Source:www.tandfonline.com

As illustrated in the table, 62% of the hidden costs are directly related with internal season management and sourcing. Currently, in the area of sourcing, apparel industry operates on manual collation of data from multiple spread sheets across divisions, categories and brands. Collating data on primary material (read fabric) becomes extremely challenging during the various stages of product development. Thus, most of the times retailers fail to leverage the economies of scale. For instance, different divisions of one parent company ends up paying more money for the same fabric sourced from the same factory. This is because many times either the data is not available with the organization or it is manually collated at the end of the season. Thus, organizations without a suitable technological platform face various problems, which include:

- Eroded margins due to hidden costs of material procurement
- Over/under commitment of fabric due to existing gap in the forecasted and actual required fabric quantity
- Low bargaining power of the buyers due to lack of volume/cost visibility
- Lack of visibility of material consumption at the early stages of product planning and development - Because of this, companies are unable to leverage economies of scale from aggregation of material quantities
- Planning, product development and sourcing not in sync with best cost from best source

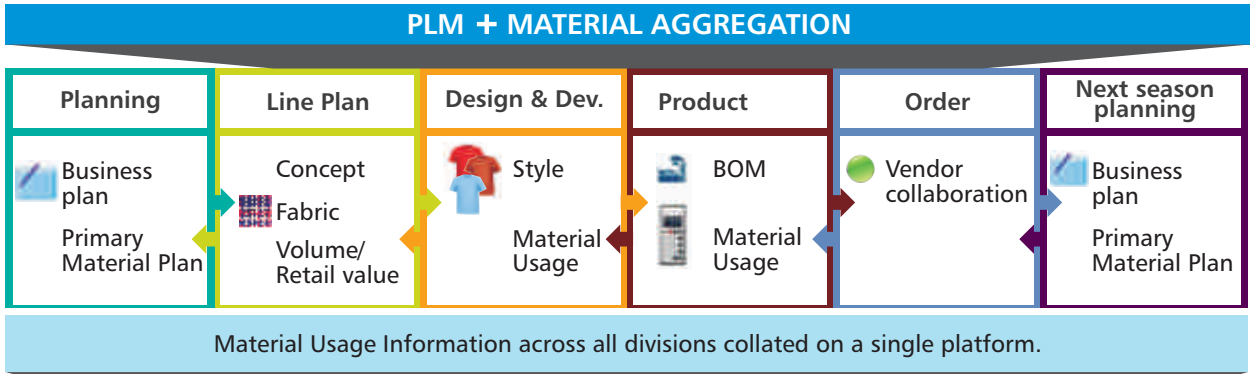
# ROUTE TO PROFITABILITY VIA MATERIAL AGGREGATION

For apparel business, improving operational efficiency is the key to profitability. Therefore, FlexPLM has become the first choice when product lifecycle management investments are considered. As the fashion business is becoming more challenging, buyers are exploring ways and solutions to connect the entire value chain electronically, including sourcing of fabrics and accessories. The textile industry requires a material aggregation solution which can enhance efficiency and enable more transparency in the process of product development.

Companies do not have a single platform where users can easily access the total material consumption in a particular season or even across the season. Material resource planning (MRP) is scattered in the system. Collating data requires a lot of effort and time, and that is why it is ignored most of the times. Organizations need a solution that seamlessly plugs in with the PLM or the ERP data and enables easy access to useful information on a dashboard.

ITC Infotech, a preferred service partner of PTC, has developed a solution - “Material aggregation on order commitment module” to address all the above stated problems and offer end to end process optimization. It is a technology enabled platform giving visibility across all the activities from initial material planning to line planning, design and development, and finally commitment to the supplier. The solution is aimed to unlock the hidden inefficiencies in material sourcing, providing benefits of scale by giving greater visibility and collaboration within the organization.

**Benefits of the solution-** Material aggregation on order commitment module:



- Facilitates visibility of total material consumption in the early stages of product development by collating previous season data
- Gives visibility of gap between the forecasted fabric quantities and actual requirement, leading to more accurate forecast.
- Assures delivery of fabric at Pre-negotiated price. Facilitates relevant material usage through Material Palette/Sub Palette in the FlexPLM.
- Help designers choose fabrics judiciously during the early design stage itself
- Help improve buyer’s relationship with the mills, giving them power to negotiate the fabric prices better
- Minimizes development lead time and cost
- Minimizes fabric cost duplication across departments with the availability of a single platform across multiple users
- More efficient production planning

# WRITTEN BY

## **Rajnish Kumar**- Global Practice Leader- Retail Consulting, Soft Goods

An MBA in International Business, Rajnish has 17 years of experience in manufacturing, sourcing & retailing. He has worked with Wal-Mart for 5 years before joining ITC Limited. Currently, he is responsible for leading a team of business process consultants for FlexPLM that helps organizations in their product development initiatives. His global team works directly with the customers in Retail, Footwear and Apparel Industry to map their current processes and offer future state solutions that drive business strategy goals.

## **Geetanjali Sarna**-Lead Consultant, PLM

An MBA from ISB in Marketing & Strategy, Geetanjali has a total experience of 7 years in Buying and Sourcing. Prior to joining ITC Infotech, she was working with Lifestyle Retailing Business Division of ITC, heading Buying & Sourcing of Accessories.

## ITC Infotech's FlexPLM Practice

ITC Infotech shares a decade-long strategic partnership with PTC, and is a leading provider of FlexPLM and Windchill services. The company has a 200+ strong FlexPLM team with over 500+ person years of experience. The company has worked with some of the largest Retail, Apparel and Footwear (RFA) companies across the globe.

For more information, please write to: [contact.us@itcinfotech.com](mailto:contact.us@itcinfotech.com) | [www.itcinfotech.com](http://www.itcinfotech.com)