



PROMAT 2015

McCormick Place South | Chicago
March 23-26, 2015
promatshow.com

Why Invest in Distribution?

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Presented by:

Krish Nathan, SDI

Jim DeVeau, Taylored Services

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SDI | A GLOBAL COMPANY



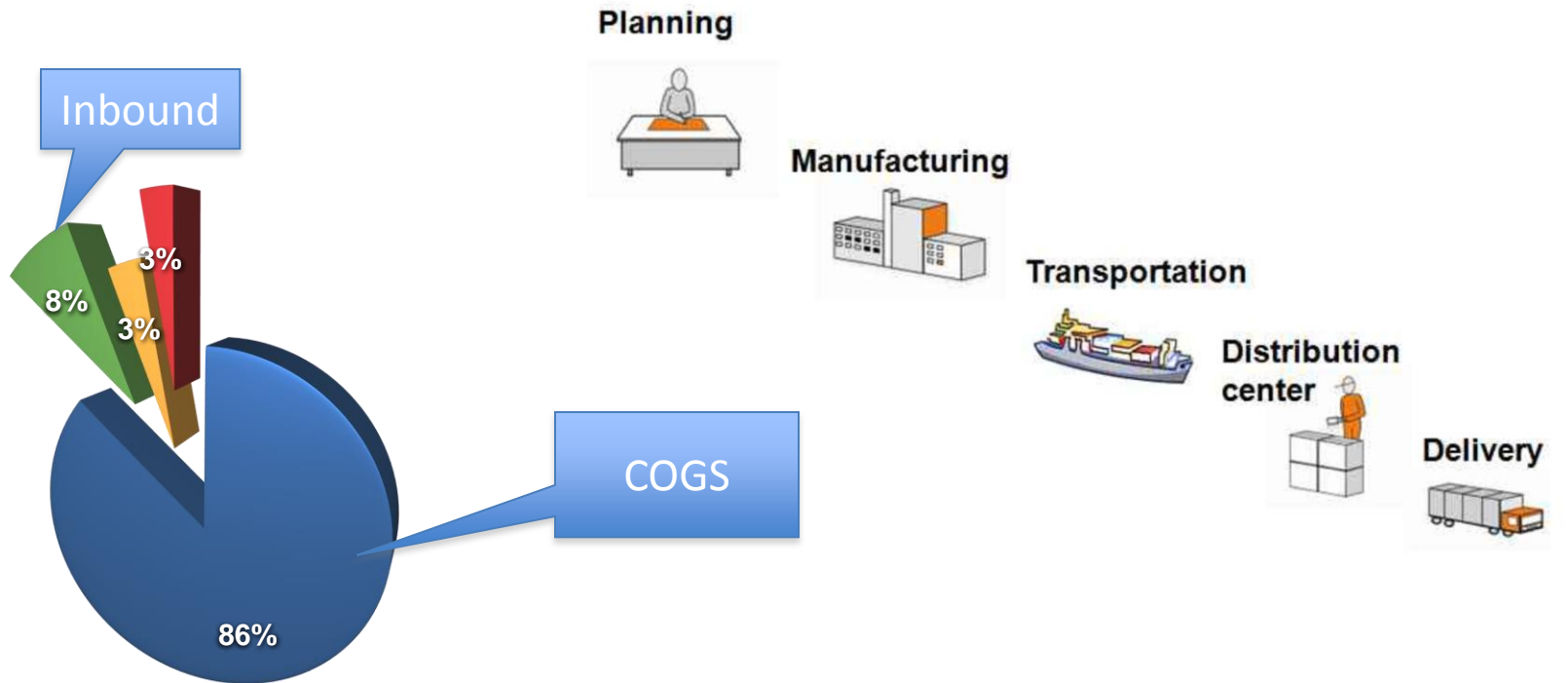
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What we will cover today

- How much do we spend
- How much profit the Supply Chain & Associated Costs
- Costs associated with Distribution
- Distribution & Changing Trends
- Drivers for Investment in Distribution
- Case Study #1 – Flexibility, ReTool
- Case Study #2 – Speed & Service
- Case Study #3 – Cost Saving
- Conclusions

The Apparel Supply Chain



Based on Total Cost \$17.50

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apparelstats overview

ON AVERAGE, EVERY
AMERICAN SPENT

\$898

IN 2012 TO
PURCHASE **62** GARMENTS

U.S. CONSUMPTION

Continuing a trend from 2011, U.S. apparel consumption dropped by 0.1% in 2012, while still remaining well above the decade-low levels experienced in 2009. Led by falling U.S. apparel import numbers, U.S. consumption of apparel decreased to 19.37 billion garments in 2012.

While U.S. apparel consumption fell by volume, the value of that consumption, as measured by Personal Consumption Expenditures (PCE), grew 4.8% to \$282.2 billion in 2012. Apparel consumption as a percentage of total PCE remained at a relatively low level, with apparel accounting for only 2.5% of total PCE in 2012. For comparison, apparel accounted for 3.5% of total PCE in 1999.

In contrast to the decline in apparel consumption by volume, the increase in U.S. apparel consumption by value was due to a combination of factors. Growing cost pressures throughout the supply chain including labor, commodity, and transportation costs, led to higher prices at the cash register. At the same time, increasing consumer confidence in the post-recession period led consumers to continue their return to their normal, higher price-points.

Amid worries that consumption, at least by volume, is dropping, one must put the U.S. apparel consumption numbers in context. In 2012, the United States had a population of 313,914,040 people. That means that, on average, every man, woman, and child in the United States spent approximately \$898 to purchase about 62 garments.



Average:
\$14.48 / Unit

Courtesy of American Apparel & Footwear Association

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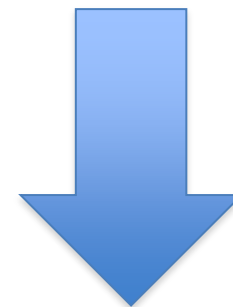
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THE TOP 50

A ranking of apparel companies (with at least \$100M in annual sales) that are publicly traded on the U.S. stock exchange by their profit margin for the most recent fiscal year.

2014 RANK	Last Year's Rank	Company	FY	SALES			NET INCOME			% Profit Margin, Most Recent FY	% Profit Margin, Previous FY
				Most Recent FY	Previous FY	% Change Sales	Most Recent FY	Previous FY	% Change Net Income		
1	2	lululemon athletica	Feb.	1,591.20	1,370.40	16.11	279.50	271.40	2.98	17.57	19.80
2	12	Gildan	Sept.	2,184.30	1,948.30	12.11	320.20	148.50	115.62	14.66	7.62
3	4	The Buckle	Feb.	1,128.00	1,124.00	0.36	162.60	164.30	(1.03)	14.41	14.62
4	1	Zuoan	Dec.	206.80	232.70	(11.13)	29.00	48.20	(39.83)	14.02	20.71
5	3	Francesca's Collections	Feb.	340.30	296.40	14.81	44.80	47.10	(4.88)	13.16	15.89
6	7	VF Corp.	Dec.	11,419.60	10,879.90	4.96	1,210.10	1086.10	11.42	10.60	9.98
7	6	Polo Ralph Lauren	Mar.	7,450.00	6,945.00	7.27	776.00	750.00	3.47	10.42	10.80
8	9	Nike	May	25,313.00	23,331.00	8.50	2,485.00	2223.00	11.79	9.82	9.53
9	10	Urban Outfitters	Jan.	3,086.60	2,794.90	10.44	282.40	237.30	19.01	9.15	8.49
10	15	UniFirst	Aug.	1,355.50	1,256.30	7.90	116.70	95.00	22.84	8.61	7.56
11	19	L Brands (formerly Limited Brands)	Feb.	10,773.00	10,459.00	3.00	903.00	753.00	19.92	8.38	7.20
12	11	Ross Stores	Feb.	10,230.40	9,721.10	5.24	837.30	786.80	6.42	8.18	8.09
13	18	Gap Inc.	Feb.	16,148.00	15,651.00	3.18	1,280.00	1135.00	12.78	7.93	7.25
14	16	TJX Companies	Feb.	27,423.00	25,878.00	5.97	2,137.00	1907.00	12.06	7.79	7.37
15	5	China Xiniya Fashion	Dec.	218.20	225.10	(3.07)	16.10	28.50	(43.51)	7.38	12.66
16	17	Cintas Corp.	May	4,316.50	4,102.00	5.23	315.40	297.60	5.98	7.31	7.25
17	45	Hanesbrands	Dec.	4,627.80	4,525.70	2.26	330.50	164.70	100.67	7.14	3.64
18	21	Under Armour	Dec.	2,332.10	1,834.90	27.10	162.30	128.80	26.01	6.96	7.02
19	27	Zumiez	Feb.	724.30	669.40	8.20	45.90	42.20	8.77	6.34	6.30
20	14	Jos. A. Bank	Feb.	1,032.20	1,049.30	(1.63)	63.30	79.70	(20.58)	6.13	7.60

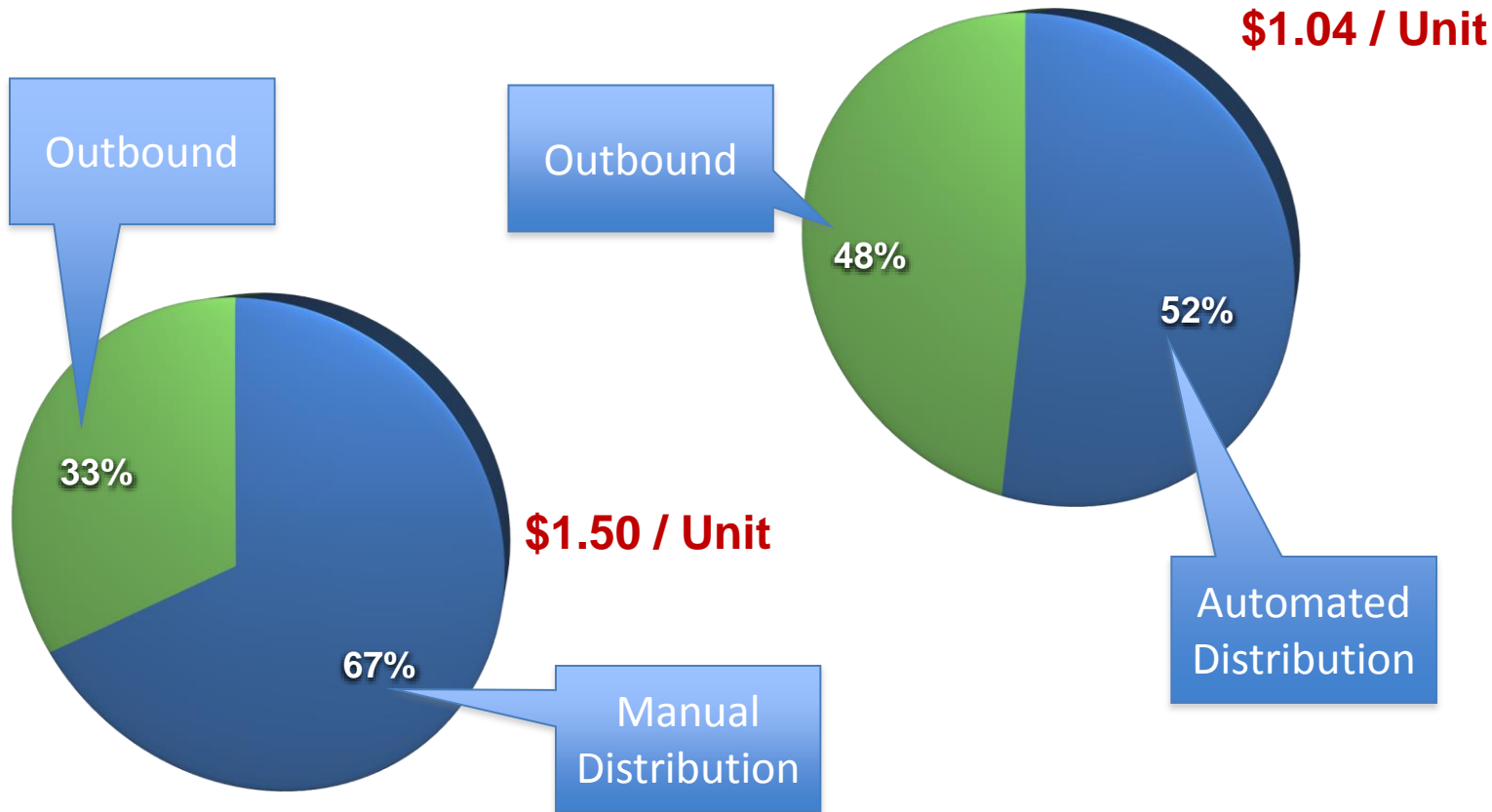
Average 6% Profit Margin



That's \$0.88c / Unit



The Importance of Distribution



Based on Unit-Level, Specialty Apparel



\$0.46 / Unit Saved = \$4,600,000 / 10M Units

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Typical Scenario

Increased Demands of E-Commerce

E-Com Volume	2013	2014	2018
Brand A	3,000,000	4,000,000	12,000,000
Brand B		220,000	1,200,000
Total		4,500,000	13,000,000

SKU Count	2014	2018	Net Growth
Retail (Brand A)	6,000	8,000	2,000
E-Com	10,000	15,000	5,000
Retail (Brand B)	1,100	5,000	3,900
Total	17,100	28,000	10,900

Retail, eComm



+ 60%



Typical Challenge

- Inventory Growth = Space!
- SKU Growth
 - Picking labor
 - Picking Cycle time
 - Accuracy
- Order Profile = Units not cartons



Drivers for Investment

- (1) Reduce Cost
- (2) Reduce Inventory
- (3) Increase in Store Count
- (4) Increase in eCommerce Volume
- (5) Increase in SKU Count
- (6) Speed to Market
- (7) Customer Service



Changing Drivers

Exhibit 2

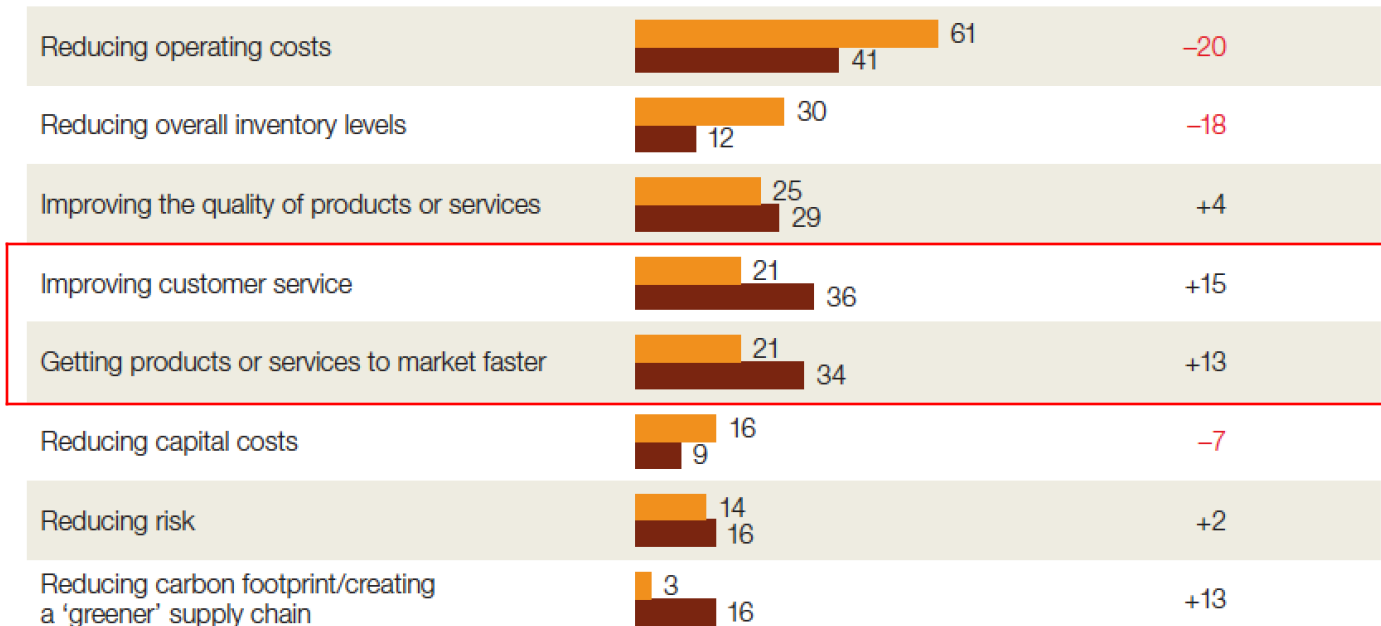
Shifting priorities

% of respondents,¹ n = 639

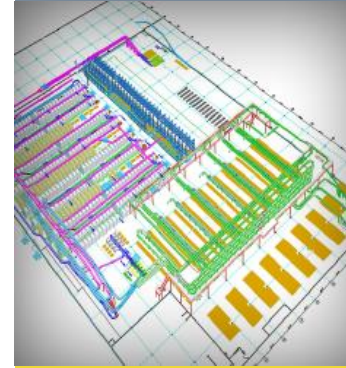
Companies' top 2 goals for supply chain management

Over the past 3 years
Over the next 5 years

Percentage-point change between responses on past and future goals



SDI | CASE STUDY #1



Challenges / Opportunities

- SKU Growth (35,000)
- E-Commerce Growth
- Wholesale Order Profile Changes
- VAS
- Multi Channel (Growth of Retail)
- Space, legacy infrastructure

Solutions

- Additional & Ergonomic VAS
- Flexible MHE Solutions
- Additional Unit Sortation Capacity
- Simpler solution – less maintenance
- Increased productivity from new SW Solution
- Maintained infrastructure, added 30% storage & processing capacity

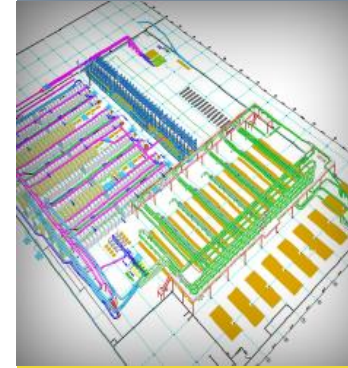
Integration Specialist

Major Denim Brand

600,000 Sq. Ft Facility

Remodel Existing Facilities

CASE STUDY #2



Challenges / Opportunities

- Local Market, significant growth – South America
- Existing infrastructure, challenges
- SKU growth
- RFID, unit level store concept

Solutions

- Change in storage media, Case not Pallet
- Change in picking techniques, Batch not Order Level
- Increased UPH by 40 %
- Storage density 20%
- Accuracy 99.5% from 98%
- Improved service time

Integration Specialist

Specialty Retailer in Apparel Magazine Top 50.

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CASE STUDY #3



Challenges / Opportunities

- In-House
- Fixed Expense Structure
- Dated WMS solution
- Multi Brand Infrastruttura
- Single Channel

Solutions

- Switch to outsourced model
- Variable Expense Structure
- Best in Class WMS, WCS Solution
- Single brand Focus
- Multi Channel

Outsourced Logistics

Taylored Services



CASE STUDY #3

Distribution Costs:

- Receiving: \$500.00 per FEU strip to put-away (.02 per unit)
- Pallet storage: assumes one sku per 40" x 48" x 65" pallet; 75% cube utilization; 55 cubes per pallet; 20 cartons per pallet; 600 units per pallet; .20 per cubic foot per month; \$11.00 per pallet per month; 12 weeks of supply; \$30.50 cost for storage (.05 per unit)
- Processing space: assumes 30% of pallet space (.02 per unit)
- Automated Unit Fulfillment (Bombay sorter): .35 per unit
- Automated Case Fulfillment (conveyor / Panda): .075 per unit (assumes 12 units per full case carton)
- Special projects / value added services: 2% of total units (.02 per unit on average)
- Supplies and Materials: .04 per unit on average
- Total DC Cost: .50 per unit



CASE STUDY #3

Capex Recovery:

- \$4,000,000 investment
- 5 year amortization schedule
- 8% per total DC cost (.04)
-

Total DC Cost with Capex Recovery

- .54 per unit

Outbound Transportation / Delivery Costs (B2B):

- Wholesale shipments paid by retailers with 100% of LTL / TL pick-ups a DC
- Retail shipments via parcel carrier (average zone 3 / 4) at .50 per unit



CASE STUDY #3

Conclusions:

- Distribution “Cost” Matters– Think Dimes
- Significant opportunity for real savings
- Drivers for Investment Vary
- Analyze & Project
- Plan
- Partnership & collaboration

Questions?

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Thank you!

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For More Information:

Speaker email: knathan@sdiindustries.com

Website: www.sdi.systems

Speaker #2 email: jtd@tpservices.com

website: www.tpservices.com

Or visit ProMat 2015 Booth 3947