

WHITE PAPER: The Top 5 Key Challenges for Apparel & Footwear Companies and How Alpargatas Solved Them



To be recognized as a top performing apparel company and brand, there are unique industry-related issues as well as internal company issues that need to be solved. This white paper addresses the top five challenges that most Apparel & Footwear companies face and looks at how Alpargatas USA solved them.

Copyright © 2014 Third Wave Business Systems. The Third Wave logo is a registered trademark of Third Wave Business Systems. All other product and company names mentioned are used for identification purposes only, and may be trademarks of their respective companies.

Introduction

To be recognized as a top performing apparel company and brand, there are unique industry-related issues as well as internal company issues that need to be solved. This white paper addresses the top five challenges that most Apparel & Footwear companies face and goes into detail on how to effectively manage key business processes in order to grow.

#5. Keeping Up with Demand

One of the biggest challenges a growing company in the Apparel & Footwear industry faces is scaling their business. With so many steps involved in processing orders and managing what stock is available to reserve for customers, business processes often need to be reevaluated. As demand for products increase and orders keep coming in, the business is forced to either streamline processes or increase personnel to fulfill the orders, in turn eating away at the desired profits.



The high volume of orders, delivery schedules, and customer management capabilities often spawn complex processes that businesses will struggle to manage. To process large orders from their best clients, which usually contain hundreds of lines of color/style/size combinations with future delivery dates, the process becomes labor-intensive and error-prone.

Moreover, when a competing retail business or website can vie for the same inventory the company promised to its wholesale clients, they realize these challenges are a real part of doing everyday business.

#4. Launching into New Business Channels

An apparel and footwear company has a number of avenues it can take to grow, but one of the fastest ways it to launch into new business channels. Faster isn't always easy though as there are significant obstacles they face as they try to manage key processes while expanding. For example, a company may have all of its processes set up to handle business to business sales as a wholesaler or distributor. The opportunity exists to expand into business to consumer channels such as a catalog by mail, an eCommerce store, Amazon Marketplace, and or eBay. But without the right tools in place, the company won't be able to effectively and efficiently manage inventory across these channels, handle the influx of orders, or manage the various shipping methods for smaller purchases.

In addition, without having insight into the merchandise that's selling across all channels, these companies are missing out on significant gains they can achieve through the business intelligence this

provides. Just being able to determine what sizes, colors or brands sell best across all channels can change the direction of the company.

A company that's only selling through a single channel still faces challenges as the amount of orders increase each day. It becomes more difficult to get the shipments out the door, manage the accounts payable and receivable processes, improve customer service, and effectively target existing customers with new marketing campaigns.

#3. Meeting Your Customer's Requirements and Expectations

Customers expect immediate answers on availability and pricing along with information about their previous orders. Whether they call or email you, you need to have this information accessible so you can respond immediately. Once an order is placed, the expectation is to receive timely status updates, including when a package shipped and the tracking details. In addition, many now expect same day shipment so your processes better be in place to achieve this. After all, if you can't meet their expectations, they will find someone who will. Do you have a system in place that enables you to access inventory information to respond to questions, process and fulfill orders, then ship them out the door? You need to set yourself apart by not only meeting your customer's expectations, but anticipating them so you can quickly respond. This also involves properly managing returns, whether it's by a consumer or large retailer. A company must have processes in place to handle these returns. For bulk returns by retailers, a Return Materials Authorization (RMA) process needs to be in place to help minimize the costs involved with unauthorized returns and ensure that what is returned is accurately processed and dispositioned.

#2. Effectively Managing a Matrix Inventory

In order to successfully run a growing Apparel & Footwear business, it's imperative that companies keep orders and inventory in sync. Not knowing what stock is available to sell or available to promise at any given future date can cause friction in the sales department and frustration with customers. Manual processes prevent sales from making timely decisions regarding delivery dates for their customers, having the right inventory on the shelves, and circumstances occur where delivery dates are missed and customers get short-shipped product. Worse yet it can cause chargeback situations with big-box retail customers or customers turning to a competitor.

Once an order is placed, is the company able to provide warehouse staff with the information for picking and packing? Does the company have



multiple warehouse locations from which the order can be processed? Are there drop ship inventory items? Is kitting involved with any of the orders? Are some items taxable while others are non-taxable items?

As the business continues to grow and the customer base increases, the previously mentioned challenges surrounding color, size, and style of large orders get increasingly complicated as well. Coupled with shipping to multiple store locations, these challenges make complex orders time consuming to process and error-prone.

Taking these underlying issues into account, the overall goal of increasing revenue while keeping staffing levels consistent, is almost impossible to achieve. Unless new automated processes are introduced, the organization becomes burdened by inefficiencies and costly chargeback penalties.

While most Apparel & Footwear companies see managing the above factors as an issue without a solution, or one that is too costly, the reality is these challenges prevent them from focusing on their core business initiatives to increase revenue and brand awareness.

One of the biggest obstacles in successful growth is the inability to promise delivery dates with certainty, which strains the supplier-customer relationship.

#1. Streamlining and Automating Business-Critical Processes

We've seen it time and time again with countless clients. They've run into bottlenecks and roadblocks with their existing business systems because they aren't scalable. Maybe they're running QuickBooks with an inventory management solution. But as the orders come in, business-critical processes take longer to complete. The volume slows everything down and they're unable to open new business channels because the solutions don't integrate. Or maybe they're using an ERP system that has not kept up with the changing needs of a business. It was fine when they sold a specific type of products through a single channel to one customer group but their systems don't have the flexibility to keep up with the speed of change. Without the streamlining and automation of processes, a company must continue to add headcount and create workarounds in order to keep up with the growth. This doesn't just occur in order processing and inventory management, but also in the back office. As the number of invoices increase, payment processes become bottlenecks, leading to more business issues. That's why the number one business challenge we've seen is having a scalable solution to manage your business-critical processes.



An ERP Can Do All That?

Solutions to complex problems require a solid foundation to ensure long term organization-wide success.

A typical Apparel & Footwear company that's growing most likely already has an accounting program like QuickBooks and then starts to look at different solutions for the challenges they face. For example, they may look to implement an order or inventory management solution that is integrated with their accounting software. It seems like the less expensive route to take but acts more like a band aid than a true solution. Once the company starts growing even more and launching into more channels, the limitations of the accounting program and order management solution become clear. Instead of a solution, they are now obstacles again.



As Apparel & Footwear companies look for a true solution that is scalable, they realize that a business management or ERP system is the right move. Many have the misperception that a solution like SAP Business One is too big or too complex. As a result, they often choose solutions that are inadequate for their business. Additionally, because the industry has specific needs regarding client/channel management, sizes/styles/colors, and distribution, it's important to

look for a complete solution that is targeted to meet these challenges. Most industry-specific solutions are not extensible and/or they are often lacking in functional areas, this forces Apparel & Footwear companies to create their own processes, which are usually complex and time consuming.

Fun, Fashion Forward, and Full of Brazilian Flair

As every fashion fan knows, a shoe is not just a shoe. It's a statement. And shoes from Havaianas make statements as spectacular as the personality wearing them. Pink soles and yellow straps? No problem. Emerald heels? It's done. Terrifically turquoise toes? Coming right up. Thanks to SAP® software, Havaianas delivers footwear as individual as the foot it frames.

Established in 2007, New York-based Alpargatas USA Inc. distributes Havaianas flip-flops, espadrilles, and sneakers across the United States. Manufactured in São Paulo, Brazil, by parent company Alpargatas S.A., Havaianas footwear has become a high-end fashion must-have, attracting followers among Hollywood's stars.

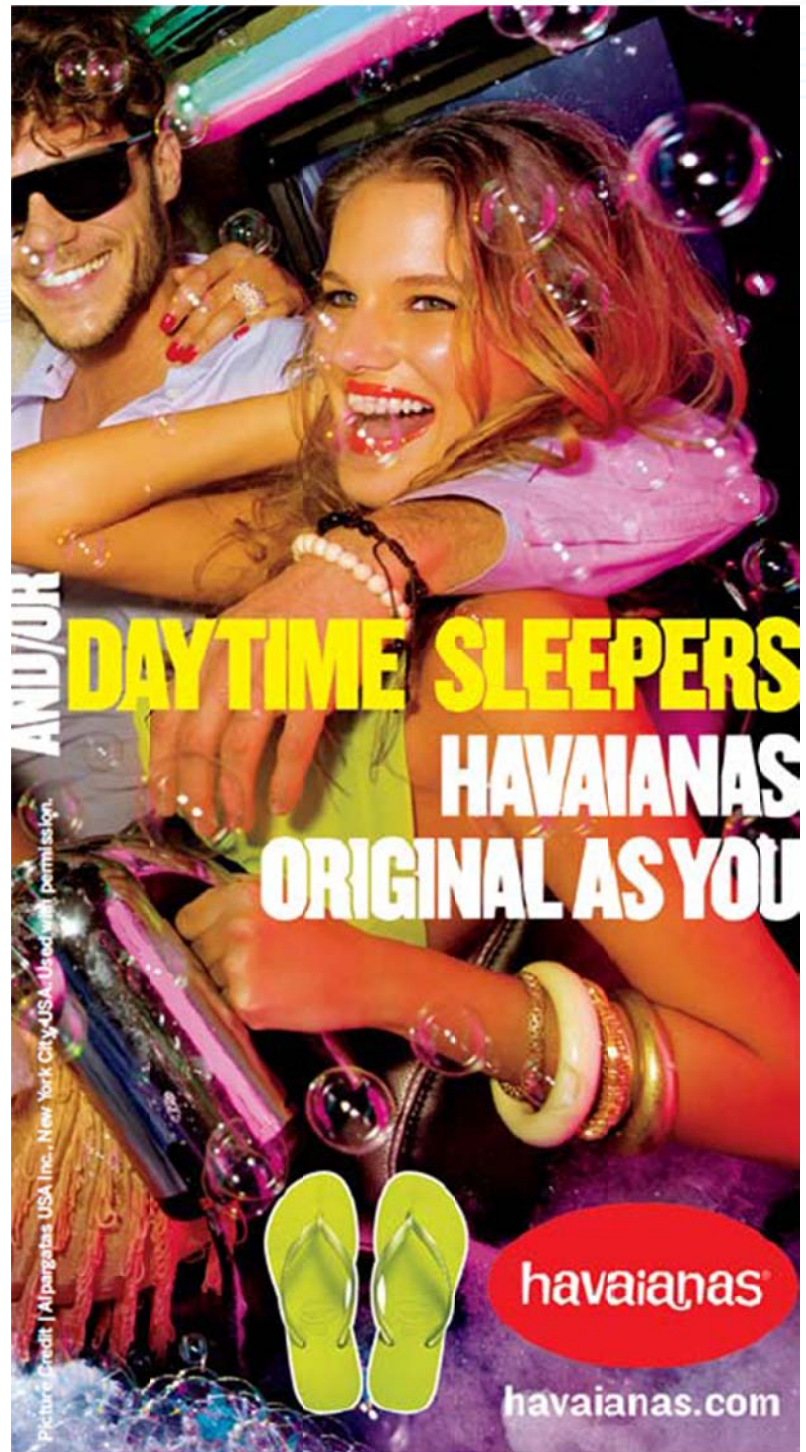
The U.S. subsidiary has come a long way since it began trading five years ago with a staff of just four. Recognition from the fashion world and growing popularity with a wide range of consumers has boosted sales and caused it to increase its staff.

A key enabler of this success has been the SAP Business One application, which continues to play a pivotal role at the heart of the company's operations. The recent addition of an SAP software-based solution for the footwear and apparel industry helps Alpargatas USA to manage the high level of product complexity required to deliver the breadth of choice that is delighting its customers.

Staying Ahead of the Fashion Curve

There is no doubt that offering a wide choice of style options has helped to set the Havaianas brand apart from its competition. But to deliver this choice, Alpargatas USA must manage up to 3,000 product variations at all times, reflecting different styles, colors, accessories, and sizes. And with new collections released every season to keep products fresh and ahead of the fashion curve, managing this complexity presents Alpargatas USA with a significant challenge.

"To run our operations efficiently, we need to analyze our stock quickly," explains Vito Dileo, senior IT manager at Alpargatas USA. "It's vital that we understand what products are



available to offer customers and keep this information up-to-date and accurate.”

The company needed a specialized solution that would integrate with SAP Business One to help it manage this complex product data. And the existing outdated software did not offer the level of automation required to ensure smooth and efficient operations.

“Going forward, we wanted to find a robust solution that would help us handle the level of complexity involved in our inventory management, without requiring time-consuming manual intervention,” comments Dileo.

Search for an SAP Software-based Solution

As Dileo explains, Alpargatas USA was eager to find a solution that would integrate with its existing SAP software. “As a start-up company, SAP Business One has worked very well for us, giving us the flexibility to set up processes to suit our precise needs as our business evolved,” says Dileo. “Because of the positive experience we’ve had with SAP, we wanted a solution from within the SAP ecosystem.”

The company turned to Third Wave Business Systems for help. The SAP gold partner, who worked with Alpargatas USA on its initial SAP software implementation, recommended a specialized solution for the footwear and apparel industry based on SAP Business One from SAP partner Argentis Consulting LLC.

“The SAP software-based solution provided all the functionality we were looking for,” says Dileo. “We were also impressed by the high level of support offered by Argentis Consulting.”

Trouble-free Changeover

A rapid implementation saw the software deployed to 32 users within a two-month period. With so many of the workforce using the new software, the project team was mindful of the importance of a smooth transition. “We’re in an environment where we can’t afford to make mistakes,” comments Dileo. “Any prolonged disruption to our systems could have resulted in lost sales, so it was critical that everything went as smoothly as possible.”

The project team – incorporating personnel from Third Wave Business Systems and Argentis Consulting as well as in-house IT staff – realized that careful planning and preparation would be key to a troublefree changeover. Working closely together, they developed a detailed project plan including a series of tests to ensure they could identify and resolve any issues before the date set for going live with the software.

In addition, Argentis Consulting undertook a thorough and precise data conversion process to make sure the migration of data from Alpargatas’s legacy solution proceeded just as planned.

“By mapping everything out in detail, we were able to identify and eliminate possible risks ahead of time,” says Dileo. “For this reason, the implementation went very smoothly for us.”

Matrix-based Approach

With the specialist product data management solution in place, employees at Alpargatas USA can quickly and easily set up products with multiple attributes in the software, a process that used to require time-consuming manual input. Now, the solution from Argentis Consulting generates a segmented code automatically. Each segment stores information about numerous factors such as style, size, or color, building up a matrix of the different attributes that each piece of footwear possesses.

Thanks to this segmented code, staff can immediately access information about product characteristics. And tight integration means that when employees use SAP Business One for a specific process such as entering an order or raising an invoice, they are better informed about the types of products they are dealing with, helping them to work more efficiently.

The new matrix-based approach makes it possible to run more granular stock reports than previously. “Because of the way the data is structured, it’s much easier to extract detailed reports about the characteristics of the stock we have,” says Dileo. “So we have better visibility of what products we have in our inventory and what stock is available to promise people.”

More Choice, Better Service

Dileo is in no doubt that the product data management solution based on SAP software is helping Alpargatas USA to run its operations more efficiently. Thanks to the segmented product codes, complex orders – for major footwear resellers based in numerous locations, for example – can be set up automatically with minimal manual intervention.

“The solution from Argentis Consulting has drastically cut the amount of time we take to set up orders. In addition, the process automation it enables reduces the risk of errors,” comments Dileo. “This means we can deliver a faster, higher-quality service to our customers.”

Improved visibility of its inventory is helping Alpargatas USA to keep resellers informed about new product lines and eliminate stock-out situations so that deliveries can be dispatched without delay. “We can give retailers more advance notice about what’s available so they can promote it in-store,” says Dileo. “And by making sure our products hit the shelves sooner, we can increase our sales significantly.”

The tools that Alpargatas now has in place to manage complex product data effectively are supporting exciting initiatives that offer customers more choice and variety than ever before. “We now have a ‘Make Your Own’ section on our Web site, where customers can put together their own unique signature pieces by choosing from different colors, styles, and embellishments,” says Dileo. “It’s the product data management solution from Argentis Consulting that makes this service possible. So, powered by an SAP software-based solution, our service helps customers to be ahead of the curve and wear a flip-flop as original as they are.”

Supporting an Innovative Approach

The winning formula of fun, individuality, and variety offered by Alpargatas USA has taken it from strength to strength. Supported by SAP software-based solutions, the company is now operating in all 50 U.S. states and is set to open its own retail stores soon.

The product data management software from Argentis Consulting, together with SAP Business One, is the core of its solution, but just one of a number of solutions based on SAP Business One deployed by the company. As a result, Alpargatas USA has established a solid IT foundation that supports streamlined processes to keep it running efficiently and competitively.

“We’ve always been a very innovative company, and we’re taking the same approach with our technology – pushing it to fit our exact needs,” concludes Dileo. “We’ve built a strong infrastructure around SAP Business One.”

Meeting the Key Challenges

As highlighted in the Alpargatas USA story, at the core of a complete solution for Apparel & Footwear companies is SAP Business One - a world-class software product with over 35,000 installations. SAP Business One can be deployed on-premise or in the cloud. Partner products transform SAP Business One to an Apparel & Footwear-specific solution, taking into account the need to process orders from Big-Box retailers, distributors and consumers.

Third Wave Business Systems brings extensive Apparel & Footwear industry experience in order to efficiently and effectively implement a complete SAP Business One ERP solution. Third Wave also integrates its own SAP Business One add-on solutions to streamline the multi-sales channel and order-to-fulfillment processes, allowing companies to focus on their core business initiatives.

Third Wave’s solutions also allow inventory to be distinguished by color, style, and size during the order and delivery process, enabling labeling capabilities for multiple store locations. Finally, enabling the business to understand what is on hand and available to sell and to promise meets their needs of better overall visibility, while easily committing product to large wholesale customers.

Third Wave has achieved success with multiple Apparel & Footwear organizations. In one example, Third Wave’s solution has allowed a client to increase its revenue by 40%, while maintaining a consistent level of staffing.

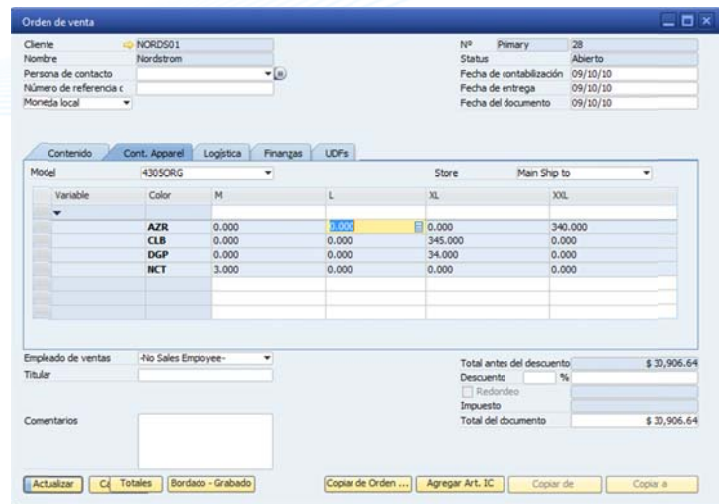
The Steps for a Successful Solution

The Third Wave and SAP Business One Solution begins with a business system that provides a strong foundation for accounting and inventory transactions. This foundation gives Apparel & Footwear companies an extensible system that is still affordable.

The next step is building upon this strong foundation by integrating SAP certified solutions. These powerful solutions add features that seamlessly integrate with SAP and present users with a matrix view of their inventory. Additionally, they allow sales the ability to give definite answers to the questions:

- 1) What is available to sell?
- 2) What inventory can I promise to my customers?
- 3) How can my customers view my inventory and place their own orders?

These features alone allow Third Wave's customers to manage a retail relationship with some of the largest big box retailers in North America. The challenges of processing large sales orders that are delivered to multiple locations are easily met. Inventory deliveries are matched with future orders, allowing sales to keep their customer base informed.



For Apparel & Footwear distributors and wholesalers, solutions such as Business to Business (B2B) websites and EDI are the next logical step in the growth path of an emerging Apparel & Footwear company. Third Wave helps provide the expertise for integrating these solutions, enabling clients to move up the value chain with their customers. B2B websites allow businesses to order stock themselves, eliminating order entry and ensuring that the customers' orders are fulfilled without error. Furthermore, EDI tightens the link between supplier and customer, integrating the two systems and expediting the order process.

These turnkey solutions can take place just weeks after SAP is implemented, increasing overall ROI. These solutions are examined thoroughly in a test version of the company's implementation before turning them on in the live system. The resources required by the client are minimal to process the electronic transactions.

Conclusion

There are many ways that Apparel & Footwear companies approach acquiring business systems. Third Wave's experience dictates that purchasing a complete solution, with a phased approach to implementing modules, is the most effective. This approach builds the financial foundation for the system to report from and greatly reduces training costs incurred when switching software platforms. Through experience and by knowing the processes required at every stage, Third Wave Business

Systems has successfully implemented full ERP systems in the Apparel & Footwear industry, enabling clients to quickly achieve an ROI and grow even more.

About Third Wave Business Systems

Third Wave Business Systems specializes in the implementation of business management systems to provide clients with a competitive advantage in their industries. It is a leading developer of SAP Certified Integrations that extend the power of the SAP Business One platform. These solutions are being used worldwide by SAP Business One customers to streamline their operations and improve their return-on-investment. Third Wave Business Systems is recognized as a Microsoft Silver ERP and Development Partner, SAP Business One Gold Partner, and SAP Pinnacle Award recipient. It has been recognized by both Microsoft and SAP for high levels of customer satisfaction due to the high quality of their consulting staff. For more information, please visit the company's web site at www.twbs.com.