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FIBER TO SHELF: TRANSFORMATION OF THE INDIAN TEXTILE INDUSTRY

AN A&M APPROACH

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The Indian textile (fabrics, apparel, home furnishings) industry is one of the nation's oldest and employs the second largest workforce after agriculture. As a result, India has the advantage of having the entire value chain within the country and has easy access to raw materials, in addition to cheap and skilled labor. However, it still lags its peers (Vietnam and China) in terms of productivity and cost effectiveness. A fragmented and subscale textile, garment and made-ups industry faces low margins and the risk of an underperforming future.

EXHIBIT 1 - FACTORS OF PRODUCTION: INDIA'S POSITION VS. PEERS

Country	Labor Wages (INR K/month)	Power Cost (INR/KWh	Water Cost (INR/m³)	Avg. Production Efficiency (%)	
India	11.5–13.5	7–9	12–15	50-55%	
China	40-44	11–12	40–44	65–70%	
Bangladesh	8–9	7–9	15–16	45-55%	
Vietnam	13.5–15	6–7	37–58	65–70%	

Note: All numbers converted in INR using USD 1 = INR 73 conversion rate Source: Invest India (July 2020)

To effectively tackle these challenges, the Indian textile industry is faced with the following imperatives:

- 1. Cost Transformation
- 2. Digital Transformation

1. COST TRANSFORMATION

A one-time cost takeout exercise is a thing of the past. A traditional industry such as this needs a year on year, repeated rebasing of cost. A&M's differentiated zero-based budgeting (ZBB) approach is an effective method for this exercise and operates on two fronts: a) a top-down target agreement with the budget-holders and b) bottom-up estimates through a fresh look at each element in the chain. The numbers are then aligned with a forward-looking corporate strategy. This approach ensures better buy-in with key stakeholders and delivers more sustainable results: A well-executed ZBB exercise can result in 10–15 percent lower fixed costs on a sustainable basis.

EXHIBIT 2 - PRAGMATIC ZBB



Virtuous Feedback Loop Drives YoY Fixed Cost Improvement

Key tenets of A&M's ZBB exercise are:

a) People Efficiency

Employee cost accounts for more than 12 percent of revenue for the Indian clothing industry. Simplification of the organization's structure can provide significant productivity gains. At the corporate level, span of control optimization, centralization and outsourcing of support services are the key levers to simplify the organization.

At manufacturing facilities, robust workforce planning that balances full-time versus contract labor, retention of skilled labor, electronic tracking and regular training will help improve utilization and reduce overtime and overall labor cost.

Salesforce effectiveness needs to be tracked for both business-to-business (B2B) channels and at the store level. This involves defining clear roles and responsibilities of team members, reviewing and augmenting the existing key performance indicator (KPI) structure (e.g., collection targets for B2B salesforce, walk-in conversions for store salesforce), redesigning salesforce around channel/dealer lifetime value (LTV) to align cost with opportunity, and developing and implementing a cohort analysis tool to track the performance of each outlet.

EXHIBIT 3 - SALESFORCE EFFECTIVENESS

Beat Planner Tool: Online sales planning tool with functionality to:

- Set targets for retailers
- Create beat plans for sales force
- Track the sales with respect to target
- Automatically generate customized MIS reports at regular intervals

FoS Mobile App: Mobile app for sales force with functionality to:

- Capture sales orders
- Maintain WoD data
- Report issues to distributor



RDS Portal: Integrated portal for RDS with functionality to:

- Manage sales and delivery
- Send demand forecasts
- View rewards, outstanding claims, payables and receivables
- View announcements and schemes
- Raise complaints to HO

Retailer Portal: Integrated portal for Retailer with functionality to:

- View schemes and announcements
- View order status
- View payables and receivables
- Information on handsets
- Raise complaint to distributor

b) End-to-End Planning

- i. Process: Everyday fashion needs a very agile and responsive supply chain. Therefore, an effective sales and operations planning (S&OP) process that operates with a single plan agreed upon by all the key stakeholders is a must. A strong S&OP begins with a robust demand-sensing process that considers evolving fashion trends and consumer preferences. Companies need to invest in digitalization of the supply chain network (internal and external) that integrates demand planning, supply planning, replenishment planning and inventory management. This will ensure a seamless information flow and provide a real-time view of the entire network for more efficient decision making.
- **ii.** Network Optimization: With the advent of e-commerce and fast fashion, changes in consumer behavior and expectations of service levels have made the existing networks redundant. A ZBB approach looks at the network with a futuristic lens. On the inbound side, it calls for retailers to review strategic relationships with suppliers and explore options of co-locating, set compliance standards for shipments and assess freight optimization opportunities with transport management systems. Companies should also review the scope of in-house vs. outsourcing the warehouse and logistics operations. On the distribution front, an "always and anywhere available" strategy needs to be deployed with an ability to service customers from multiple touchpoints, as customers increasingly choose one-day/same-day delivery and display varied buying preferences such as "click and collect" and "try and buy." Companies need to move away from the traditional "shipping from warehouse" approach and be agile in shipping directly from the factory, dark stores, pop-up stores, etc., as needed.

EXHIBIT 4 - TYPICAL SAVINGS ACHIEVED THROUGH ZBB

	SG&A Functions				Production/			
	Finance	HR	Marketing	ІТ	Legal	Supply Chain	Maintenance	Total
FTE Cost	10–30%	15–20%	15–40%	10–20%	10–15%	10–15%	15–30%	10–30%
Third Party Spend	5–10%	8–12%	10–15%	5–10%	8–10%	10–15%	10–15%	5–15%

iii. Inventory and Markdown Management: Range and demand planning should be supported by both historical analytics and research on changing consumer preferences. Inventory norms must be statistically derived by SKU (by size) and by distribution point. Clothing brands should also set up processes and systems that facilitate complete visibility on secondary sales and stock levels to avoid unexpected stock returns or collection delays from channel partners. One key focus area is to accelerate sell- throughs, especially of slow movers. Apart from end of season sale (EOSS) planning, a markdown cadence matrix based on SKU aging and sell-through rates should be established to maximize "full value in season" sales. Implementing b) i correctly is key to track and manage inventory across channels and to help manufacture "right first time."

EXHIBIT 5 - KEY CONSIDERATIONS IN INVENTORY LIQUIDATION

INR Mn		AGING								
		0–3	3–6	6–9	9–12	12–18	18–24	24–36	36+	Total
Time To Sell	0–3	New Inventory (current season) not considered for STR analysis	53.0	24.5	15.7	9.8	2.6	0.6	0.1	106.4
	3–6		149.1	99.0	29.3	18.8	6.6	1.0	0.2	304.1
	6–9		72.1	84.5	25.9	11.1	6.7	0.9	0.2	201.4
	9–12		28.6	60.2	18.8	8.2	4.8	0.8	0.2	121.6
	12–18		27.1	57.0	21.8	11.0	5.5	1.4	0.3	124.1
	18–24		13.0	17.4	10.6	5.1	3.8	1.1	0.3	51.3
	24–36		15.8	10.8	9.3	6.1	2.8	1.5	0.5	46.8
	36+		10.8	15.7	16.7	16.7	23.8	18.6	13.6	115.9
	Total	1,375.8	369.2	369.2	148.2	86.7	56.6	25.9	15.5	2,429.5

Inventory Liquidation Planning

A&M recommended inventory for liquidation

Typical approach for liquidation based on aging

Avoiding liquidation of 9+ month aged items with lower time to sell can prevent losing margin on items which will anyway get liquidated in the coming 3–6 months

Triggering liquidation of new items with high time to sell will prevent SKUs from slipping into high aging buckets. Further, a lower discount can be offered on these items when they are fresh, thereby conserving margins in the long run (i.e., clear-as-you-go concept).

Key Points to Consider Seasonality AW stock cannot be liquidated in SS season **Failed Innovations** Can failed designs be identified early enough for discounting? Store Freshness Is this store giving a forever discounted look? Very Old Articles May already be on heavy discounts but not displayed

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 iv. Sourcing: ZBB drives holistic spend optimization across raw materials, consumables and packaging materials. Companies can benefit from significant cost reduction by applying typical strategic sourcing levers including price discovery, standardization, value engineering and vendor consolidation. Rigorous application of the levers can result in a ~5 percent savings in direct procurement and 10–15 percent cost reduction in indirect spending.

A continuous improvement process must be implemented with a focus on:

- Optimal buying channel strategy (agent vs. direct)
- Country mix from a holistic perspective of cost, quality and development
- Negotiation on "should-be cost" and "fact-based cost"
- Value engineering in core SKUs or packaging materials

Companies need to develop a supplier base that can respond to dynamic quantity and lead time requirements. Hence, the supply chain needs to be reviewed to understand key suppliers' risk profiles and a mitigation plan needs to be worked out.

In addition, companies need to adopt sustainable sourcing practices to remain competitive as customers increasingly demand fiber-to-shelf traceability of products. Shifting to green/sustainable materials such as jute, bamboo and hemp in fabric can be starting points toward enhancing the sustainability quotient.

c) Operational Excellence

Given the production cost-disadvantage, the Indian Textile industry needs to revamp its manufacturing processes and systems:

- i. Make vs. Buy: A comprehensive, SKU-wise assessment can help determine the type and quantum of SKUs to be produced in-house vs. contract manufacturing. This helps reinvest capital in areas where the manufacturer has an advantage and leads to better value creation.
- ii. Delayed Differentiation: As customer preferences are evolving from "low cost" to "shortest possible lead time," clothing companies need to relook at operations to meet the needs of retailers. Firms must review the key stages of differentiation and identify ways to defer processes that are most impacted by dynamic demand. For instance, dyeing of fabric over yarn, dyeing of garment over fabric, 3-D printed garments over garment-dyed, are some examples of processes that can be pushed to a later stage to accommodate new design preferences in the season and closer to the buying decisions of customers.
- iii. Manufacturing: Adopting lean principles at each step of the manufacturing process can minimize waste. Operational excellence for a clothing manufacturer would focus on nine elements. By working on these areas, companies would be able to establish a culture of continuous process improvement. Given the highly labor-intensive nature of Indian industry, the key to a successful program lies in ensuring shopfloor employee engagement which, in turn, drives sustainable improvements across various elements.

EXHIBIT 6 - OPERATIONAL EXCELLENCE



Pillars of Operational excellence

In addition, as highlighted in b) iv, manufacturers need to make a conscious move toward sustainable production practices, as customers increasingly demand products that are produced responsibly. This is imperative for manufacturers in the export space as more international retailers push for partnerships with sustainable firms. Companies should look at setting sustainability goals in operations and achieve those through shift toward better demand estimation to reduce wastage, switch to renewable energy and effective waste disposal practices.



2. DIGITAL TRANSFORMATION

As described in the A&M thought paper, "Transformation of Indian Retail – Digital Necessities," digitalization in the textile industry is not only disrupting the traditional supply chain processes but also unlocking newer ways of enhancing customer delight. Thus, it has become imperative for manufacturers to invest in following technologies and digital tools after a comprehensive cost transformation exercise to strengthen the overall process.

a) Customer Relationship Management (CRM)

As customers increasingly make online purchases across different mediums, there is a requirement for companies to track customer behavior and journey at different stages and make sure that their messaging is standard across platforms. Leveraging AI-based software to understand real-time fashion trends, granularly define customer needs and track changing preferences is critical. In addition, the growing concept of "Fashion on Demand" that allows customers to co-create designs based on their preferences requires brands to invest in a well-integrated CRM.

b) Smart Operations: "A&M's critical 5 S's"

- i. Smart Planning: After setting up a thorough S&OP process as discussed in 1. b) i, strengthen planning process through a "Supply Chain Control Tower" that leverages real-time data and artificial intelligence (AI)/ machine learning (ML) engines. Advanced ML algorithms can estimate demand even for new product launches and predict lifecycles based on historical product attributes and sales data. Further, companies can invest in getting a real-time snapshot of goods' movement along the value chain with the help of sensors, RFID tags and cloud-based data analysis software.
- **Smart Channels:** "Always, Anytime, Anywhere." Post Inventory and Network optimization exercise, as mentioned in 1. b) ii and 1. b) iii, focus on:
 - a. Channel Mix: Review the current channel strategy and its relevance, considering changing customer behavior, channel profitability and market coverage.
 - **b. Channel Terms:** Defining optimal terms of trade with trade partners has significant impact on profitability and working capital efficiency. Channel-wise assortment planning and discount strategy also has become key to avoid online-offline cannibalization and to ensure that offline channel partners do not feel the online threat.

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- **iii. Smart Sourcing:** To support the sourcing practices described in 1. b) iv, the entire order-to-pay procurement process (from centralized data collection to e-bidding processes) can be digitalized to enhance transparency for better informed decision making. Affordable AI-based tools facilitate spend analytics to optimize direct and indirect spends.
- iv. Smart Factories: In continuation of 1. c) iii, traditional factories can be converted to smart factories through use of digital technology for monitoring of physical systems and processes, and enabling decentralized decisions. Smart machinery with artificial intelligence can also guide users toward machine maintenance, thus reducing downtime and improving asset life. These smart factories can help enhance efficiency, reduce lead time and improve product quality, making Indian players competitive in the global marketplace. By digitalizing the labor management process, companies will benefit through dynamic workforce management for better plant utilization.

EXHIBIT 7 - SMART FACTORIES



v. Smart Stores: Advanced digital technologies are not only enhancing customer delight but also making stores smart and agile through better in-store management. Technology is being used to offer virtual 3-D environments for online shoppers and Augmented Reality (AR) experiences in-store for enhancing the "buyer experience." Virtual try-ons, access to digital content of various in-store items, 3-D body scans and self-checkouts are only the start of a purchase revolution.

New age digital tools also help in better store management by providing store-level actionable insights. These tools help retailers develop effective store-level strategies by reviewing store performance across locations, monitoring SKU-level metrics, identifying best practices across stores and helping fix sales leaks through targeted initiatives. Further, merchandizing analytics tools can support in optimizing store-level promotional strategies and providing feedback on in-store presentation of merchandize by employing cameras, RFID tags and AI software.

A&M CONTACTS:

NITIN JAIN Managing Director

+91 22 6129 6009 njain@alvarezandmarsal.com

KAVYA RAMANATHAN SENIOR MANAGER

+91 9833591715 kavya.ramanathan@alvarezandmarsal.com

PRANAV SINGH

+91 80106 18028 psingh@alvarezandmarsal.com

SHREYA BANERJEE Manager

+91 9654449995 sbanerjee@alvarezandmarsal.com



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