

# Research on Inventory Management of Garment Enterprises

-- Take Heilan Home as an example

Han Chen, Lunzhi Gan, Lihui Wang

School of Management, Sichuan University of Science & Engineering, Yinbin City, 644000, China

**Abstract:** The economic recovery after the epidemic is very slow, the recovery of residents' consumption willingness and consumption ability is hindered, and clothing consumption as an optional consumption has been significantly affected. In this paper, the case analysis method is used to analyze the inventory of Heilan Home. The research finds that there are problems of high inventory balance and low inventory turnover in Heilan Home, and the deficiencies in business model, research and development investment, sales channels and too fast expansion are the causes of the problems. Further, the paper puts forward countermeasures and suggestions such as doing a good job in market research, increasing investment in product research and development, strengthening online sales, and keeping close relationship with franchisees. In the case of increasingly fierce competition in the garment industry, this has certain reference significance for reducing the inventory pressure of the garment industry and enhancing the ability of enterprises to resist risks.

**Keywords:** Inventory management, Inventory overhang, Destocking.

## 1. Introduction

According to the latest PMI (Purchasing Managers' Index) data released by the National Bureau of Statistics in May, entering the second quarter of this year, after the concentrated release of the backlog of demand, the lack of demand has become the core crux of the economic recovery is not as smooth as expected, but very slow. The lack of confidence of residents and private economic entities in future economic growth and income has led to **sluggish domestic demand and reduced people's consumption desire**. The clothing industry is affected by this more obvious, on the one hand, because of the strong seasonality of clothing, affected by climate, style, consumption concept, etc., if the clothing can not be sold smoothly in the season, the subsequent can only be discounted or become sluggish inventory. On the other hand, the clothing industry has the characteristics of low entry barrier, and the competitive pressure from foreign brands will continue to increase. Therefore, in the face of the relatively depressed consumption environment after the epidemic, how to strengthen inventory management is directly related to the survival and development of clothing enterprises.

## 2. Heilan Home Inventory Management Status

### 2.1. Company Profile

Heilan Home Group Co., LTD. (referred to as Heilan Home) is a large professional enterprise group with garment as the leading industry and worsted fabrics as the basic industry. It is one of the largest production bases of high-end men's wear in China. At the beginning of its establishment, with the label of "men's wardrobe", Heilan Home is committed to providing fashionable design and high quality products for the middle and young generations of men. After that, under the guidance of diversified development strategy, Heilan Home continued to expand its business areas, covering many businesses such

as men's wear, women's wear, professional wear, children's wear and living home. Has launched the "Love House Rabbit" women's brand, the national trend sports shoes - black whale brand, "Heilan preferred life Pavilion", women's senior ready-to-wear brand "OVV", high-end children's wear Yingshi and other brands and home furnishing pavilion. By 2022, the total number of stores under the company has exceeded 8,000, the market share has been expanding, the company has developed very rapidly, and has become a leading enterprise in the domestic clothing industry.

### 2.2. Heilan Home inventory management problem

Based on the comprehensive consideration of main business and brand awareness, Taiping Bird, Semma Clothing and Septwolves, three listed companies with high similarity, are selected for comparative analysis with Heilan Home.

#### 2.2.1. High inventory balance

**Table 1.** Comparison of inventory of four enterprises from 2019 to 2022

Indicators	Businesses	2019	2020	2021	2022
Inventory amount (billion Yuan)	Heilan Home	90.44	74.16	81.20	94.55
	Peacebird	18.55	22.57	25.40	21.25
	Semar Apparel	41.09	25.01	40.24	38.47
	Septwolves	10.32	10.08	10.22	9.73
Inventory as a percentage of revenue	Heilan Home	0.41	0.41	0.40	0.51
	Peacebird	0.23	0.24	0.23	0.25
	Semar Apparel	0.21	0.16	0.27	0.29
	Septwolves	0.28	0.30	0.29	0.29

The proportion of inventory to operating income is one of the important indicators to measure the inventory management level of enterprises. The high proportion of

inventory in operating income may mean that the enterprise lacks effective inventory management strategy, inventory overhang, storage costs increase, and there may be problems such as poor sales and expired losses. As can be seen from Table 1, compared with other well-known garment enterprises in the same industry, the proportion of inventory in operating income of Heilan Home is much higher than that of the other three enterprises, and the problem of inventory management is more prominent.

Heilan Home has a long history of inventory problems. With the continuous increase in the number of stores, high inventory is a major hidden danger for Heilan Home. First of all, Heilan Home as a clothing company based on offline sales, the normal operation and sales of stores need to hold the corresponding inventory to ensure supply and demand, and the enterprise implements the trusteeship franchise model, under this model franchisees do not have to bear the risk of unsalable products, although it is conducive to expanding the market share of Heilan Home, but also leads to the company's high inventory. Secondly, in recent years, the company has been cultivating new brands, subdividing children's wear, women's wear and other clothing fields, and has launched a number of sub-brands in the field of living and home furnishing, generating a certain amount of inventory. Therefore, the company blindly carries out market expansion and cultivates many new brands, which will lead to a great increase in the order quantity. However, clothing such goods are greatly affected by seasonal changes, once the season is

out of season, the unsalable goods will be overstocked in the warehouse, and the goods of the new season will arrive again, so the cycle is repeated, a large number of stockpiled goods will lead to the continuous reduction of the value of clothing inventory. Therefore, the company should start to deal with the problem of inventory hoarding and improve the inventory management.

### 2.2.2. Low inventory turnover

From the data in Table 2, it can be seen that the average annual turnover days of Heilan Home's inventory in 2019-2022 are 261 days, and the average annual turnover rate is 1.385. Obviously, the inventory turnover rate of Heilan Home has not reached the ideal level, and it is lower than other clothing companies at the same level in the industry, and the inventory realization speed is very slow. Fast fashion, sports and leisure clothing industry attaches great importance to time, every "season" clothing companies will launch new models, as consumers on the style of clothing, quality requirements to improve, as well as domestic and foreign counterparts competition, will cause a large number of inventory backlog unsalable, and Heilan home brand has been insisting not to discount as a means of promotion, more aggravate the inventory backlog. A large amount of inventory is overstocked in the warehouse and turned into sluggish inventory, which not only increases management costs, enhances the difficulty of management, but also slows down the speed of capital flow of enterprises and reduces the ability of enterprises to realize cash.

**Table 2.** Inventory turnover rate of four enterprises from 2019 to 2022

Indicators	Businesses	2019	2020	2021	2022
Days of turnover (days)	Heilan House	250	263	233	298
	Peacebird	179	166	168	189
	Semar Apparel	138	131	133	181
	Septwolves	186	192	193	203
Turnover rate (times)	Heilan Home	1.44	1.36	1.54	1.21
	Peacebird	2.01	2.17	2.14	1.91
	Semar Apparel	2.61	2.74	2.71	1.99
	Septwolves	1.93	1.87	1.86	1.77

## 3. Causes of Heilan Home Inventory Management Problems

### 3.1. The defects of purchasing and sales model easily lead to inventory overstocking

Most brands of Heilan Home adopt the non-refundable purchasing mode. In this purchasing mode, the company shall settle the payment for goods according to the purchase contract, and the products that have not achieved sales after the end of the marketable season cannot be returned to the suppliers. The company shall bear the risk of unmarketable products, bear the risk of inventory price decline, and make provision for inventory price decline for such inventories. In addition, the main brand Heilan's products are sold for two seasons, that is, the sales period of Heilan's products is within 24 months after the seasonal models are put into the market, so the quantity of purchased clothing products must meet the needs of the two seasons of sales, which makes the company's purchase scale relatively large, and Heilan's brand always insists on not using discounts as a means of promotion. This also greatly reduces the sales of clothing in the current season.

For the clothing industry with short timeliness, when the market environment changes or competition intensifies, this purchasing and sales mode may lead to a large inventory scale of the company, the corresponding inventory management cost is higher, and the inventory realization difficulty and the risk of inventory price decline are intensified.

### 3.2. Weak product competitiveness leads to sales obstruction

**Table 3.** Proportion of total R&D investment to operating revenue of the four enterprises (%) in 2019-2022

Enterprises	2019	2020	2021	2022
Heilan Home	0.31	0.46	0.62	1.05
Peacebird	1.36	1.24	1.39	1.37
Semar Apparel	2.14	1.92	2.06	2.22
Septwolves	1.52	1.74	2.22	2.35

With the younger consumers and the enrichment of

material living standards, consumers' demand for products tends to be high-quality, diversified and differentiated. Excellent clothing design requires clothing enterprises to attach importance to research and development, invest more resources into research and development activities, build high-quality, high-yield research and development team, and provide strong technical support for the sustainable growth of enterprises in the future. However, because the design and development part has been outsourced to suppliers for a long time, Heilan Home has gradually exposed its shortcomings in clothing style and style. Generally, the style is relatively simple, and it has been labeled as "old-fashioned", "earthy" and "straight male aesthetic". It has even been caught in the "plagiarism" controversy. R&d expenditure is the driving force that can serve new products. Although Heilan Home

also tries to change the "production-oriented" supplier structure to "development + production", and chooses to design and develop products together with suppliers, it can be seen from Table 3 that the company's investment in R&D expenses is relatively small, far lower than other enterprises in the same industry. When other enterprises of the same type are increasing the proportion of total R&D investment in operating income year by year, striving to exceed 2%, Heilan's total R&D investment in operating income will exceed 1% by 2022. It can be seen that Heilan Home has not paid enough attention to improving research and development capabilities.

### 3.3. Insufficient expansion of online channels affects product sales

**Table 4.** Operating income and proportion of online sales of four enterprises from 2019 to 2022

Enterprises	2019		2020		2021		2022	
	Revenue (billion yuan)	Proportion (%)	Revenue (billion yuan)	Proportion (%)	Revenue (billion yuan)	Proportion (%)	Revenue (billion yuan)	Proportion (%)
Heilan Home	13.25	6.19	20.50	11.75	27.26	14.02	28.56	15.95
Peacebird	23.12	29.52	28.04	30.52	33.64	31.06	27.32	32.03
Semar Apparel	53.35	27.59	58.09	38.20	64.58	41.88	64.54	48.41
Septwolves	5.33	14.71	14.53	43.64	14.35	40.83	14.14	43.79

In the short term, the epidemic has given birth to the "home economy", and consumer demand is more inclined to new retail, network broadcast marketing, community operation and other online. In the case of more intense market competition in the service industry and increasing industry concentration, if the sales channel structure is too single or the distribution is unbalanced, it is extremely vulnerable to major impacts. In the long run, with the rapid development of e-commerce and the continuous improvement of online shopping after-sales service, people are more fond of online shopping, and online sales has become one of the important sales channels for enterprises. As can be seen from Table 4, Heilan Home's online sales from 2019 to 2022 continue to increase, but the growth rate of online operating revenue is declining. The proportion of online sales in operating revenue is much lower than that of other enterprises in the same industry, indicating that Heilan Home still does not pay enough attention to online sales channels and has not yet given play to the unique advantages of online sales. At present, Heilan Home has a very good foundation of offline sales channels, and its stores have covered most cities in the country. With the transformation of the entire market environment to online shopping, the company can consider slowing down the opening of physical stores, putting more energy on the growth of online channels, and solving the problem of overstocking through multiple channels and platforms. Online sales can alleviate the inventory pressure to a large extent, and it is an important channel to increase the inventory turnover speed and solve the inventory overstocking.

### 3.4. Excessive expansion of the company will increase the risk of inventory overhang

Heilan home in the rapid growth of enterprise scale, on the one hand is not charged franchise fees, franchisees do not bear the risk of inventory unsalable and high visibility to attract more and more franchisees, but franchisees are not

responsible for operation and management, if ultimately unable to sell goods, Heilan home will recover goods, franchisees will not face the risk of unsold goods. This model reduces the enthusiasm of franchisees to participate in sales, and increases the risk of inventory overstock. On the other hand, it is because enterprises in order to expand market share, find new economic flashpoints, and constantly cultivate new brands, for children's wear, women's wear and other clothing segments and living home fields to launch a number of sub-brands, and constantly segment the market, such as OVV women's wear, Heilan preferred, boys and girls, Ying's baby children and other new brands.

By 2022, the total number of stores under all brands of the company will reach more than 8,000. In order to meet the needs of stores, enterprises will increase production, in the face of fierce market competition, the production of enterprises far exceeds the market demand, supply exceeds demand, resulting in a large inventory backlog, and the backlog of inventory can not be quickly cleared, into a vicious circle. Therefore, the scale of enterprises in the continuous expansion of the same time also brought its severe inventory problems, increasing the difficulty of inventory management.

## 4. Suggestions to Improve the Company's Inventory Management

### 4.1. Take the market as the orientation and strengthen market research

The most important feature of the clothing industry is that the timeliness of the product is relatively short, the current consumers tend to be more rational and reasonable, their personalized and differentiated consumption demands are becoming increasingly strong, and they are more and more inclined to choose products that reflect their own status, personal style and cost-effective in the process of purchasing

products. Therefore, first of all, the relevant sales personnel of clothing enterprises should enhance the sensitivity of the market popular elements and try to meet the diversified market demand of consumers. Secondly, in the process of stocking, it is necessary to strengthen the supervision of the market, ensure that the expected order and the actual sales order are close to each other, reduce the inventory pressure, and realize the optimization of the inventory structure of the enterprise. Finally, clothing enterprises should also increase publicity and sales efforts within the optimal sales time limit of seasonal clothing, reduce the number of seasonal clothing into sluggish inventory, efficiently deal with inventory problems, reduce inventory costs and storage costs. Therefore, in the sales link, the specific can be taken to optimize the product packaging, improve product quality, enhance service awareness, improve after-sales service quality and other ways to increase sales and reduce the risk of unsalable products.

#### **4.2. Increase investment in research and development to improve product competitiveness**

Product research and development is the source of service for new products. Heilan Home, as the leader of the domestic men's wear market, has sufficient strength and sufficient funds to carry out research and development, which will not have a great impact on the overall operation of the enterprise. Therefore, in view of the existing problems such as outdated styles and serious homogenization, the company needs to focus on brand positioning and consumer demand. Market-oriented product design, increase research and development investment, improve the design level, enhance the uniqueness of the product, to young, high-end development, the formation of their own product style, to avoid homogenization. For example, in the early stage of product research and development, various forms of consumer demand research can be carried out to design and improve products according to market demand; Choose to cooperate with outstanding designers at home and abroad as well as foreign high-end brands in product development and promotion, enrich product structure and enhance brand influence; To build a high-quality R & D team as an important strategic task in the future, according to different brands, hire independent designers, set up a design R & D team by product, master more intangible assets and other asset-light resources, in the future fierce market competition, can quickly respond to consumers' rapidly changing fashion clothing cultural needs. When the product design of the enterprise is accepted and loved by consumers, then there will be no large overstock of goods, because the sales of the enterprise's products increase, the inventory will naturally come down, and there is no need to worry about the problem of inventory depreciation.

#### **4.3. Strengthen online sales and expand sales channels**

With the rapid growth of mobile Internet and the popularization of emerging technologies such as 5G, big data, cloud computing and VR, online shopping is bound to be on the rise in the long run. The company can train professional sales personnel and management personnel for online sales, and set up a special online sales department. Through the integration of industry communication resources, combined with the positioning, development vision and market promotion needs of each brand, brand communication strategy formulation, implementation and supervision;

Through long-term cooperation and communication with high-quality media, to obtain more communication resources, to achieve a reasonable distribution of brands, and to promote the maximization of brand marketing value. All these are conducive to improving the sales of products and solving the problem of long-term inventory overhang. Specific measures include the use of the company's reputation advantages of independent live delivery of goods, to create a unique style of delivery, the formation of their own sales advantages, you can learn coconut Tree Group, New Oriental, Liu Yonghong and so on these characteristics of live delivery of goods; In the e-commerce platform to find fan groups and brand positioning fit the quality anchor, establish a long-term cooperative relationship, not only can improve the brand in the target audience exposure, but also can constantly improve the quality of publicity content, create a unique brand communication content, increase sales, solve the inventory problem at the same time, further expand the brand communication effect; Adopt the way of small profits and quick sales, actively participate in the promotional activities of the major shopping platforms, make full use of the "38 Goddess Festival", "520 season", "618", "double 11", "double 12", tens of billions of subsidies and other large-scale consumer activities, efficiently improve product sales.

#### **4.4. Close relationship with franchisees, reduce the risk of brand cultivation**

Franchisees have a close relationship with consumers. At the sales end, franchisees can directly communicate with consumers about the style, style and quality of goods, and can also more directly understand consumers' choice needs and receive suggestions from consumers. Then, Heilan Home can apply the information feedback from the franchisee to the subsequent clothing design, so as to keep up with market information, keep up with the trend and consumer preferences. Therefore, Heilan Home can develop a series of punishment and reward system to stimulate the sales enthusiasm of franchisees, enhance the sense of ownership of franchisees, achieve information sharing between the two sides, and avoid the problem of clothing unselling and inventory backlog caused by information imbalance.

Cultivating a new brand is a link with greater added value, but the brand cultivation time generally takes 3-5 years, and the early promotion costs are large, and whether the cultivation of success is uncertain, so the risk of cultivating a new brand is also high. To this end, the company needs to sort out the brand under cultivation, strengthen the brand positioning of each segment, and clarify the target customers; Keep up with market trends, product development in line with consumer demand; And innovative marketing forms to improve brand awareness and promote brand sales. Strive to be able to integrate Heilan Home into all aspects of public life, so as to reduce the risk of brand cultivation.

### **5. Epilogue**

Inventory is a bridge connecting products and sales, and the level of inventory management will directly affect the profitability of enterprises. This paper takes the relevant theoretical knowledge of inventory management as a guide, analyzes and studies the inventory management problems of Heilan Home, finds out the main problems existing in the inventory management process and puts forward targeted suggestions. Of course, how to strengthen the management of

enterprises, better destock, enhance inventory liquidity, is still a topic worthy of in-depth study.

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