

Study of Logistics at a Sports Company Using Sap-Lap Analysis Framework

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Abstract - Logistics is one of the tools that play an important role in the change and improvement of economic indicators and has an important mission in uplifting and improvement of the competitiveness any industry. The paper discusses a case study conducted at a leading sports company which is facing huge losses due to delayed and tampered shipments and overstocked of inventory. SAP-LAP analysis is applied and various improvement strategies are proposed to improve the logistics processes of the company.

Key Words: SAP-LAP Analysis, sports industry, SWOT, RFID, Cross Docking, PLM, logistics

1. Introduction

The retail industry in India is witnessing a revolution. It is one of the biggest sector and is growing at a very fast pace. The BMI India Retail Report states that the retail sales will grow to US \$ 674.37 billion by 2014 from US \$ 392.63 billion in 2011. Sportswear is a niche segment of retailing where by government, federations, manufacturers, sponsors and consumers play a very important role. The sportswear market stood at USD 517 million in 2009. It is the only segment of the retail sector, which has the presence of all the international brands.

The sportswear market in India is dominated by brands like Reebok, Adidas, Nike, and Puma with a collective market share of 84%. To cater to the Indian market, these brands have transformed themselves as lifestyle brands and entered into a larger category known as 'sports inspired casual wear.' The steady growth of this sector is due to the rise in per capita income, mounting popularity of sports, indulgence in fitness, burgeoning middle-class, change in lifestyle and consumer preferences.

The primary activity of sportswear companies is sales and marketing and they invest huge amount of capital in research and development. Therefore, every brand involved in sportswear sector uses outsourcing for processes like manufacturing, transportation, warehousing, packaging so that they can focus on their core competencies. The industry is very labor intensive and that's why most of the production is based out of Asia in low-wage countries like China, Vietnam and India.

Global competitiveness forces the companies to improve their delivery performance of products and services. Also, lead times are high for the footwear category and delay may lead to inventory pile up or loss of sale. Footwear business involves storing a large inventory of products keeping in mind varying consumer preferences, variety due to fast

evolving fashion trends, and the sizes. Therefore, there is a requirement of large working capital and extra effort to manage the logistics. Accessory and apparel industry is fashion and fad driven, so shelf space is of utmost importance in these categories. Therefore logistics plays a pivotal role and the cost of logistics and transportation has a large impact on the company's profitability. This paper is an attempt to study the logistics process adopted in India by one of the major players of the sportswear industry, which will be denoted by ABC henceforth.

2. ABC Group

ABC sports is the flagship company of the ABC Group (The Group). The group was instituted in 1930 in Germany, with an aim to provide every athlete with best possible equipment. Today, the product ranges from footwear and apparel to accessories for all kinds of different sports for men, women and kids. The group is one of the biggest supplier of athletic footwear and sports apparel in the world.

The company has about 42,000 employees all over the world, with virtual presence in every country with about 2270 own retail stores. More than 170 subsidiaries guarantee marketplace presence for the products around the world. Sales and distribution of the products is grouped in four regions worldwide: Europe/ emerging markets, North America, Asia/ Pacific and Latin America. The net sales of the ABC group was € 11990 million in 2010 and that of ABC Sports was € 8.714 billion. ABC Sports contributes to 72% of the group sales.

3. DYNAMIC SAP LAP ANALYSIS

SAP-LAP is an integrated and innovative framework for case analysis, developed by Sushil. It comprises of six basic components i.e. situation, actors, process, learning, action and performance.

Situation is the external and internal environment of the organization and the driving forces, which manages its performance. The situation is influenced by the "actors" who are the individual participants, or group of members. Actors help in defining the organization culture to develop the business processes. The process converts the inputs into outputs which help in creating the situation. Process can be of various types like the supply chain management process, logistics process, distribution process etc. The interface of "actor" and "process" defines the strategy, structure and systems that need to be transformed for organizational change (Sushil, 2012). The interface of "process" and "situation" defines the contingency to be taken care of (e.g.

contingency planning) and adaptation and response of the process to the changing situation (Sushil, 2012).

The interplay and synthesis of SAP leads to Learning-Action-Performance (LAP) (Sushil, 2012). Through the study of situation, actor and process, key learning issues, drawbacks and interdependence is known. Based on the learning, actions have to be taken which will lead to enhanced performance. Superior performance will lead to improved processes, satisfied and motivated actors and better situational parameters. The complete SAP-LAP framework is shown in figure 1.

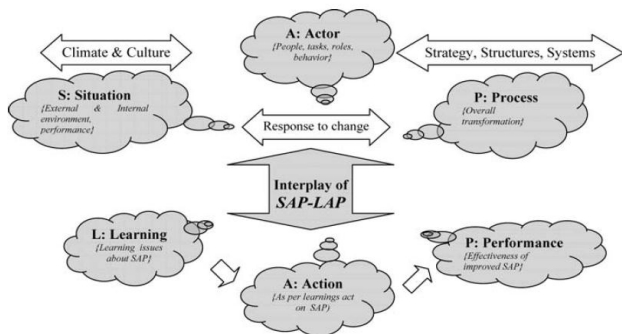


Fig-1: SAP – LAP Framework

Source: Garg and Deshmukh (2009)

4. Application of SAP-LAP at ABC Sports

Sap Lap analysis is a very effective tool to analyze the case study and to explore the logistics process at ABC Sports. SAP leads to various learning issues about the processes adopted, problem encountered, competitive forces in the market. Based on these learning issues, SWOT analysis is applied to the company. SWOT analysis will help suggest corrective action for the present processes so that the encash on the opportunities. The impact of these proposed actions will help the company to improve its performance. The SAP synthesis is as follows:

4.1 SAP Analysis

4.1.1 Situation

1. The ABC Sports entered the Indian market in the mid-nineties. Till 2010, the company had 950 exclusive franchise owned stores across 325 cities and towns with 53% market share and about 325 million customers. The net worth is approximately 3500 crores.
2. The competitive edge of the company is that about 300 outlets cater to lower end of the market. It offers 80 stock keeping units (SKUs) which are priced under Rs.2590. About 70% of the sales volume comes from low end product, which constitutes 50% of the revenue.
3. ABC Sports sold approximately 3 million pairs of shoes and approximately 8 million pieces of apparel in 2009.

4. The core competency of the company is sales and marketing with a lot of focus on research and development (R&D). Activities like manufacturing, logistics, warehousing, transportation and packaging are outsourced.
5. Mission of the company is to become the market leader globally.
6. Priority of ABC Sports is to deliver quality products and services at best possible prices.
7. Ideal inventory for a sportswear company if of six months, but the company is facing a brunt with more than twelve months of inventory.
8. The retail set-up comprises of 900 exclusive branded outlets (EBOs), 1500 multi branded outlets (MBOs) and factory outlets. The company also supplies it products to Key Accounts like Shopper's Stop, Planet Sports and Lifestyle. The International market includes Sri Lanka, Pakistan and Bangladesh. There are two warehouses one for footwear and one for apparel. Twenty five distributors are present PAN India.
9. The company bears a lot of loss due to delayed, tampered and short shipments.

4.1.2 Actors

1. Managing Directors, Directors and all the employees of the company.
2. Business rivals as a source of inspiration.
3. Customers specially young people as opportunity providers
4. Government agencies
5. Suppliers, vendors, distributors, key accounts, international markets, franchisees
6. Factory owners
7. Warehouse managers and staff
8. Logistics service providers like Safex, Future Supply, DHL and TNT.

4.1.3 Processes

1. The product team develops products according to the market trends, customer requirements and new technology developed as shown in figure 2.
2. The designs are sent to all the buyers and a trade show is then organized where all the products are displayed.
3. Buyers place the orders and based on the orders received, merchandize assortment and planning is done.

4. Orders are placed to the factories and contracts are made. If the delivery time exceeds lead-time specified, then the factory owners bear the penalty.
5. The final product is delivered to the warehouse by the factories and quality checks are done. Rejected material is returned to the factories.
6. The billing is done as per the pre-orders by the warehouse.
7. As shown in figure 3, the warehouse ships the products to the distributors, international markets and the key accounts. The EBO's and the MBO's receive their orders through the distributors, from where the product reaches the final retail point.
8. At the end of the season, a stock-clearing sale is put up where products are offered to the customers at discounts.
9. The products, which do not get sold, are send back to the warehouse as 'returns'. The returns are picked up by either the company-authorized transporter or sent on 'To Pay' basis. It is then sent to the factory outlets and stores in small towns and cities and are sold at lower prices.

4.2 LAP Synthesis

4.2.1 Learnings

The learnings from the SAP analysis is presented in the form of SWOT analysis.

a. Strengths

1. ABC sports has 53% market share with 325 million customers.
2. It has a presence in 325 cities with 950 franchise owned retail outlets.
3. Strong, motivated and experienced team.
4. High brand recognition
5. Large network of dealers, vendors and suppliers.
6. Broad and strong product portfolio, to establish a robust retail footprint.
7. Strong focus on research and development to develop new and innovative products.

b. Weaknesses

1. Dependence on third party manufacturing
2. As logistics and manufacturing is outsourced, monitoring becomes difficult.
3. The company is carrying more than twelve months of inventory.
4. Poor infrastructure of the country which leads to high logistics costs and delayed delivery.
5. Due to lack of coordination between sales team, stores or key accounts and warehouse, deliveries are done in multiple attempts.
6. The sales get concentrated at the end of the month, leading to high logistics cost.
7. The company has to pay the cost of full truckload for small orders due to insubstantial orders.
8. The company has to bear the cost of tampered, short and delayed shipments.
9. Careless attitude of warehouse staff.
10. Increase in the use of air freight

c. Opportunities

1. Growth in global footwear and apparel market.
2. Growing awareness for health and fitness.
3. Increasing spending power of consumer.
4. Increase in the number of sports events.
5. Unsaturated market.

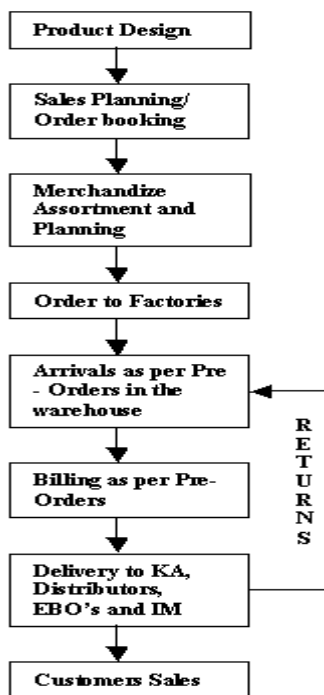


Fig-2: Process followed by ABC Sports



Fig-3: Product Movement at ABC Sports

6. Increased organized retail space with increasing number of shopping malls and departmental stores.
7. Growth in e-commerce.
8. Evolvement of India as a footwear manufacturer.

d. Threats

1. Competition from unorganized players.
2. Various taxes of the government.
3. Low sports participation.
4. Poor infrastructure of the country.

4.2.2 Actions

1. Adoption of product life cycle management (PLM) helps to manage product information in one central location for real time viewing by all the supply chain partners.
2. The company should adopt the use of radio frequency identification (RFID) for reducing the working capital by enabling reductions in inventory and lowering the inventory write-off from the returns goods and items that are un saleable at the end. RFID is very effective in reducing the stock levels and improving the management of inventory. Product can be easily tracked through RFID, so losses will also reduce.
3. To liquidate the inventory, the company should adopt the 'pop-up' store format. They can reach the smaller towns where company stores are not present, create a pop up store and sell the products at discounted prices. A lot of cities and towns can be covered through this.
4. Proper trainings should be arranged for warehouse managers and staff.
5. Cross Docking will help to reduce the delivery problems of the company.

4.2.3 Performance

The integration of PLM, RFID and cross docking will revolutionize the logistics operation of the company. Through PLM, the company will be able to gain visibility into when the product goes into production, when it is shipped, and when it will arrive. RFID will help to track the movement of the shipment and reduce the operating costs. Cross docking refers to moving product from the factories and delivers it directly to the distributors with little or no material handling in between. Cross docking not only reduces material handling, but also reduces the need to store the products in the warehouse. Initially the supply to the international markets and key accounts should be continued

through the warehouse only. But later on these can also be supplied through the factories.

By implementing this strategy the company will save on the material handling, warehouse space, staff salaries, maintenance of stock, transportation etc. With only two warehouses catering to the demand of more 2000 retail points (EBOs, MBOs, Key accounts and International market), lot of pressure is mounted on the warehouse. Through cross docking, the distribution activity will be shared by the factories and warehouse both leading to fast operations. The returns will be sent to warehouse only and will be delivered to the factory outlets and small stores through the warehouse.

Also, liquidation of the present inventory is of utmost importance. Pop- up stores will help to serve new markets, new customers and creating brand awareness. By implementing these strategies, the logistics performance of the company is bound to improve with a lot of savings in the logistical costs.

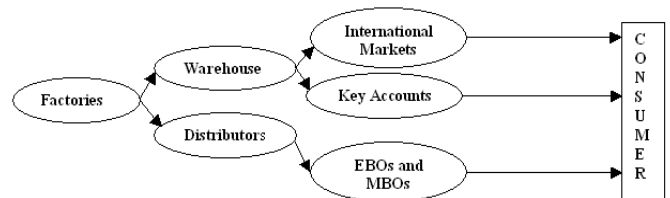


Fig-4: Product Movement Proposed

6. Conclusion

Omnipresence of logistics is undeniable in all types of businesses. It is the most important factor that facilitates that all businesses operate well. This case study is carried out to study the logistics processes at ABC Sports, a leading sportswear company. SAP-LAP model has been applied to understand the logistics processes completely and the learning is represented with the help of SWOT Analysis. To improve the current logistics system, few strategies are proposed, which if implemented, will revolutionize the logistics operations of the company. This paper can be extended further for simulating the proposed strategies and for also calculating the Return on investment, if these strategies are applied by the company.

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