

# Five & Diamond

## Operations Plan

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# Executive Summary

Five and Diamond, a small niche fashion store in the heart of San Francisco, caters to a wide array of fringe fashion enthusiasts and lifestyles. Though technology is a big influence in the bay area, Five and Diamond pushes back with alternatives to the conformity around us. The unique taste and experience that Five and Diamond sells and delivers to their customers is thanks to the current owner of Five and Diamond, Haley Kozlicki. She decides what the store carries, the tone it sets and the people that she works with.

Following up on the previous year's work, it was decided at an early stage that the previous insights and information provided was still relevant to Haley's goals. However, midway through the project, Haley decided that participating in partnership with the DMBA operations project was no longer feasible due to her limited time and other constraints. For the following report, we combined the suggestions from the previous year with certain industry figures to complete our recommendations on how to proceed operationally.

## Changes in 2017

- Expanded production space and capacity in Bali
- New Org structure, new staff (Alyssa), new inventory manager (Morgen)
- Wholesale
- LA store closure

# Introduction

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Based on what was recommended in the previous year, it was good to see that there were a number of things that Haley implemented. Expanding production space, drop shipping and outsourcing were some of the things that she moved forward with, under the advisement of last year's group. Some of the other things that were recommended such as building a stronger online presence, building KPIs and producing a stronger brand either fell short or were not tried. While many of these suggestions and plans from the previous could help Haley and her Five and Diamond business, there are certain core issues that need to be addressed first, as well as, being realistic about the business at hand.

## Goals through 2018

- Re-Brand Five and Diamond to include sub-brands
- Increase visibility of Five and Diamond brand
- Increase web sales
- Begin Wholesaling

Five and Diamond, while unique, is a small boutique shop serving a small segment of the population that is pulling its way out of debt from a recently failed expansion in Los Angeles. When looking into what we could continue working on to assist Haley, KPIs was an area that we were planning on developing for her. However, we soon realized that the QuickBooks tool she was using was able to produce the KPIs she needed but she just didn't use them or had very limited knowledge on how to use them. Having KPIs to track the business was crucial, but it's only useful if they're used and in the context of Five and Diamonds, might only have marginal impact since volume was low. While Haley has considerable domain knowledge, she, along with many small business owners, lack some basic understanding of running a business versus being experts in their field. This was observed when the online and wholesale business opportunities, two areas that would help her push more product in the long run, were abandoned to focus on the short term gains such as applying for small business loans. The purpose of these loans were to help her get more employees, this in turn, would free her up to do the things she liked to do such as purchasing and designing. To the previous point, this doesn't help her address her supply chain issues or do anything to benefit her in the long run, this only serves to benefit herself to focus on the areas that she desires as opposed to focusing on the business as a whole. When looking at this from through the lens of the real world, being in San Francisco is a double edged sword. It's great for targeting her customer base but due to the high cost of living, not too many employees will dedicate the time, energy and loyalty to Five and Diamonds as is expected by Haley. This is a real problem since much of Haley's energy and dedication to the future of Five and Diamonds seems to hinge her perception that having more people helping her at the store will make her business better. If the time and money is invested into her employees, with the high turnover rates, is essentially a resource black hole. It was time to look at the bigger picture.

Without Five and Diamond's current financial figures, we were still able to make good heuristic evaluations on her business from prior figures and industry trends. The areas that could really make an impact on the Five and Diamond business outlined in this report are:

- Downstream
  - Non-financial issues
  - Wholesale/EC outsourcing and growth strategy
- Upstream
  - E-Commerce and competitive analysis
  - Supply chain optimization options

# Downstream

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## Non-Financial Issues

There are a number of factors that influence the Five and Diamond business that are not entirely related to the financial or operational side of things. Since it's a small, privately run business, mostly dictated by Haley, any impact on her would impact the business.

### Store Closure

A few years ago, Haley expanded her business to Los Angeles in attempts to tap into her target demographics in southern California. The business venture proved to be a bust and Five and Diamond was swimming in debt. Was the property managed poorly and not properly advertised as she claims? Or was her research about local demand and assessment of her target demographics in southern California off? It was only recently that Haley was able to dig the business out of the hole that the expansion put her in, and while the business is now profitable, Haley became very cautious about any risky deviations to business as usual. This has caused her to focus most of her efforts on short term gains. Understandably, it's hard to focus on things down the road when there are immediate issues but even with the business making money again, it seems to be hard for Haley to get her mind out of thinking only about the near future.

### Lease Situation

Five and Diamond has been blessed with a grandfathered lease agreement. However, there hasn't been much thought into any contingency plans in case the rent goes up or something with the lease agreement changes. The assumption is that the rent won't go up, this is not a good assumption. With the real estate as high as it is in San Francisco, assuming rent will stay consistently low is like holding up a house on a foundation of matches. Haley needs to consider other options for her store front that is comparable in price or be prepared, financially, for the inevitable price hike.

### Employee Retention

Much of Haley's attention seems to be focused on getting more staff. Originally, her loan proposal was supposed to be used specifically to pay more employees. Her desire is to get two more employees to offload her 80+ weekly work hours so she can focus on the things she's passionate about such as purchasing and designing. Having the right amount of resources is crucial for a business' survival but given Five and Diamond's circumstances, investing time and money into people that might or might not be there after a few weeks can prove costly. A factor in Haley's decision to part ways with the DMBA operations team was due to staff leaving and her having to invest time and effort into training more staff. With the cost of living as high as it is in San Francisco, it's no wonder why staff loyalty is low. The issue with staff is a tough one to solve, on one side, Haley needs more people to run her business and have the manpower to expand. On the other side, she can't afford to pay them very competitive wages and has to constantly spend

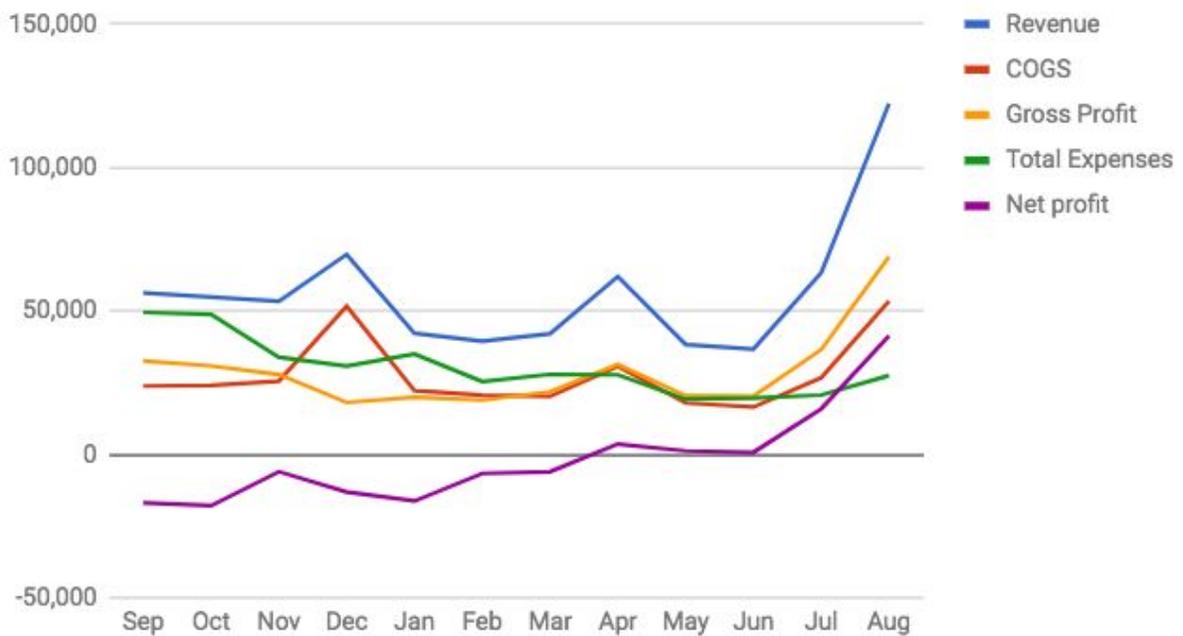
time and money to train new staff. An in-between suggestion that could be proposed to help Haley with this issue is to do profit sharing with her staff. While she might make a bit less on her margins, it allows her to pay her employees what she can afford and at the same time give her employees incentive to be proactive and stick around.

**Seasonal Sales**

Much of Five and Diamond’s yearly revenue comes from the festival season, around the time of burning man and other festivals (See *Key Financials: FY2016*). Much like the low lease assumption, much of the business hinges on the sales during festival times. What happens when these festivals die down? What happens if the fashion trend at these festivals change? What happens when potential competitors see this niche opportunity space and decide to get a cut? These are reasons why Five and Diamonds needs to think about maximizing its operations efficiency and diversifying its revenue stream while it’s still profitable and has the upper hand.

**Key Financials: FY2016**

**Five & Diamond Financials**



## Wholesale/EC Outsourcing and Growth Strategy

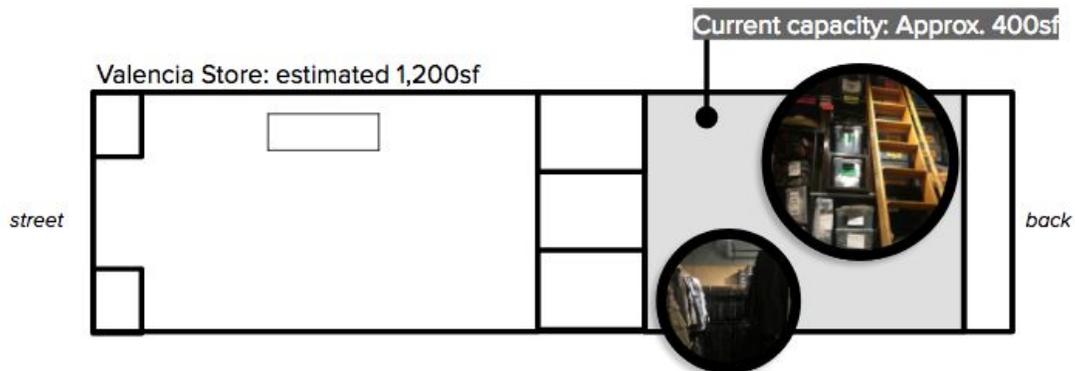
In order to achieve business goal with existing facility and staff, we found wholesale and Ecommerce channels have the most area for growth yet constraints in warehousing capacities and staffing.

Five & Diamond is currently allocating about 1/3 of its Valencia retail space for retail inventories, E-commerce, and wholesale. Although inventories are well managed and organized, in order to drive sales, warehouse space constraints will soon surface. Also, staff retention is one of the biggest challenges that Haley faces in a past couple years. With the all time high housing and living expenses, it would be extremely challenging to attract committed part time employees with reasonable amount of wages in San Francisco nowadays. In fact, during FY2016, Five & Diamond's total payroll expenses accounted for **49.7%** of total business expenses. Although we understand Haley's strategy to hire additional employees to take day to day operations out of her hands, we would like to explore other possibilities to growth business with current headcount leveraging warehouse and wholesale sales rep outsourcing opportunities. Once sales grows with these operational transformation in a year or two, it will be easier to hire additional employees.

### Recommended overarching strategy

1. No additional staff employment
2. Increase warehouse capacity

### As-is warehousing capability



Source: Operations Plan DMBA 2016 group presentation, recreated in 2017

**Payroll expenses**

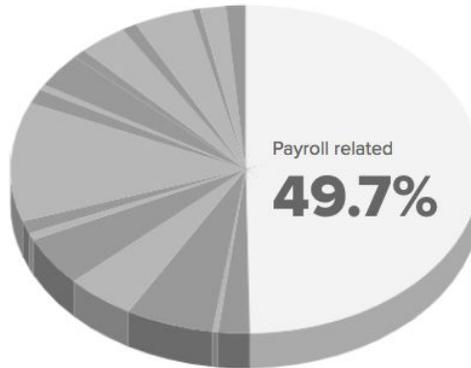
Total Revenue: \$680,700

Total Expenses: \$367,900

Total Payroll expenses: \$182,900

- 26.8% of Total revenue
- 49.7% of Total expenses

- Payrole Expenses
- Contract
- Contract
- Event
- Merchant fee
- Interest
- Professional fee
- Rent NNN
- Other rent
- Travel
- Website
- 8 more



Source: FY 2016 Income Statement / figures are rounded up

## Warehouse



### *In-house inventory management*

Inventory management has been one of the most time consuming operational tasks. As Haley and her assistant Jason continue to spent considerable time on managing inventories, the company hired a new part time warehouse manager, Morgen, on September 2017 to consolidate inventory related tasks and responsibilities.

As-is Inventory management Role & responsibility (before Morgen joined):

- Inventory manager - Haley
- Inventory receiving - Jason
- E-commerce shipping - Allyssa

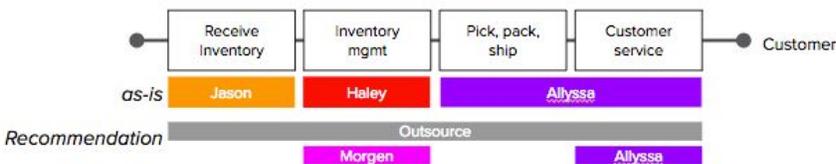
To be Inventory management (our recommendation):

- Valencia store- Morgen
- E-commerce & Wholesale - Outsourcing

### WHOLESALE



### E-COMMERCE



### *Capacity*

While in-house management reformation proceeds, we are also concerned with the capacity of Valencia store warehousing space. Based on the current market rate of commercial rent at Valencia and Melrose where LA store was located and financial data, we have estimated the Valencia store square footage to be around 1,200 sf. Assuming  $\frac{1}{3}$  space is currently allocating to warehousing, the capacity would be 400sf.

### *Demand forecast*



### **Seasonal sales fluctuation**

The size of space required for storing inventories is proportional to the total sales. Five & Diamond started wholesale operations with Bali line in 2017. Dolls Kill brand for example has been placing big orders, which proves Bali line's potential to attract many more new retailers. With current Bali workshop's capacity, we assume Five & Diamond's client base to be small to midsize businesses at least for a first several years. These businesses are not likely to have distribution facilities where merchandises could be directly shipped from Bali. E-Commerce is another area that the company continues to invest to grow further. E-commerce operations, on the other hand, would raise staff's capacity concerns. Assuming the inventory manager could allocate 3 hours a week for E-commerce merchandise picking, packing, and shipping. If the person could handle 15 items per hour, 45 items per week would be the maximum capacity of E-commerce operation. Furthermore, as the Ecommerce and wholesale sales grow, inventory management operations would become too time consuming and complex to handle everything with in-house warehouse space and staff.

### *Reference: cost of outsourcing*

To mitigate space and time constraints discussed above, we recommend to use outside warehousing and fulfillment service to manage wholesale and E-commerce inventories and shipping. There are number of businesses offers such services and below, Medallion Enterprises is one of the examples that we found specialized in apparel inventory management and E-commerce platform integration. The rates varies with required space and SKUs, however, it typically costs small apparel business \$600-1,000 a month for warehousing and \$1-2/item for E-commerce fulfillment. We found Amazon fulfillment service pricing chart below is very helpful to understand how it works and approximate costs.

## Resources

- Medallion Enterprises
  - Warehouse, Fulfillment services
  - [http://www.medallionenterprises.com/ad/CA-fulfillment.html?qclid=EAlalQobChMI0ciR6vvk1wIVVJ7ACh039gSdEAMYASAAEgJDgPD\\_BwE](http://www.medallionenterprises.com/ad/CA-fulfillment.html?qclid=EAlalQobChMI0ciR6vvk1wIVVJ7ACh039gSdEAMYASAAEgJDgPD_BwE)
- Amazon fulfillment service
  - Pricing chart
  - [https://services.amazon.com/fulfillment-by-amazon/pricing.htm/ref=asus\\_fba\\_snav\\_p](https://services.amazon.com/fulfillment-by-amazon/pricing.htm/ref=asus_fba_snav_p)

## Wholesales Sales Rep



### *Current situation*

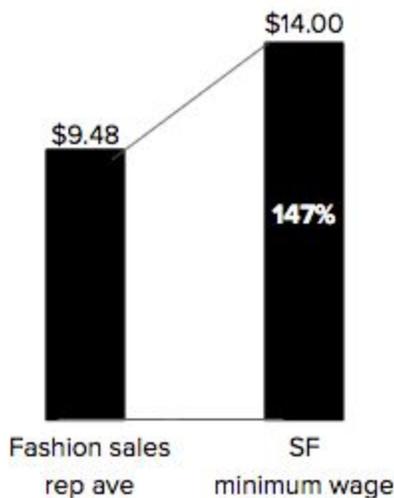
As stated earlier, we have learned that Five & Diamond has successfully launched its wholesale operations with Bali workshop line in 2017. Currently, most of operation is managed by Haley, no staff has been assigned to the sales role of wholesale operations nor back office operations as of

September 15th. She feels wholesale would not grow without additional staff. As Bali manufacturing capacity has been added in the past year, we think it is great timing to reach out potential customers.

Ref: "Five & Diamond Task List/Organizational Chart" 9/15/17 update and future plan, provided by Five & Diamond

### Hiring staff

According to Payscale, a Sales Representative in fashion/apparel/clothing earns an average wage of \$9.48 per hour with sales commissions. It sums up to the range of \$16,850 - \$71,469. San Francisco's minimum wage in 2017 is 150% of the average wage \$14/hour and estimated to go up to \$15/hour in 2018. Taking these figures, If Five & Diamond would hire a part time sales representative for 2018 minimum wage of \$15/hour and 20 hours a week, wage itself will be \$14,000. Adding payroll tax and employee benefits of 20%(assumption), it comes to approximately \$17,500 + commissions. Although in-house staff would be ideal in the long run, other non financial costs such as cost associated to training, it will be \$20,000 + commissions investment to hire a sales staff.



Source: Sales Representative, Fashion/Apparel/Clothing

Salary [https://www.payscale.com/research/US/Job=Sales\\_Representative%2C\\_Fashion%2FApparel%2FClothing/Hourly\\_Rate](https://www.payscale.com/research/US/Job=Sales_Representative%2C_Fashion%2FApparel%2FClothing/Hourly_Rate)

Office of labor standard enforcement San Francisco

<http://sfgov.org/olse/minimum-wage-ordinance-mwo>

### Reference: cost of outsourcing

Alternatively, we recommend hiring outside fashion sales representatives for several years . We especially recommend to select a fashion rep who have showrooms in the fashion trade buildings to increase Five & Diamond brand visibility towards wholesale buyers. These reps are

typically carrying several lines that are not competing each other yet has similar price point so that they could attract buyers with similar tastes. New York and Los Angeles are the two most important hub for the fashion industry. Typically, sales reps are charging brands monthly retainer and showroom rent of \$500-600 a location, NY showroom are slightly higher, with 15-20% commission when they sold items. Not only the cost efficiencies, we see a benefit to leverage fashion rep's existing relationship with retail buyers and their knowledge in wholesale industry to establish foundation of Five & Diamond wholesale customer base. The line might also attract outside of "steam punk" populations where the brand has not reached out with existing touch points.

#### Benefits of hiring fashion sales representative

- Cost efficiency: \$500-600/mo + 15-20% Commissions
- Increase visibility in the industry
- Leverage rep's existing relationships
- Establish wholesale customer base



#### Resources

- LA fashion district
  - <http://fashiondistrict.org/wholesale-business/>
- NYC Garment district  
[http://garmentdistrict.nyc/fashion/fashion-directory/?q=&showrooms=&showrooms=&trade\\_categories=124&trade\\_categories=124&page=21](http://garmentdistrict.nyc/fashion/fashion-directory/?q=&showrooms=&showrooms=&trade_categories=124&trade_categories=124&page=21)
- Rep Hunter  
[https://www.rephunter.net/industry-apparel-for-principals.php?gclid=EAlalQobChMIhIDW4r7k1wIVEqrsCh3h8wSiEAMYAyAAEgllz\\_D\\_BwE](https://www.rephunter.net/industry-apparel-for-principals.php?gclid=EAlalQobChMIhIDW4r7k1wIVEqrsCh3h8wSiEAMYAyAAEgllz_D_BwE)

## Financial Simulation with Proposed Outsourcing

Below, financial assumptions of two growth scenarios. In order to simplify, used the following assumptions and simulated exclusively the portion increased from FY2017. Also, assumed additional revenues are generated with existing staff headcount and resources with warehouse and rep oursource implemented.

### Assumptions

Scenario 1: 20% Revenue growth from FY2016. 10% from Wholesale, 10% from E-commerce

Scenario 2: 30% Revenue growth from FY2016. 15% from Wholesale, 15% from E-commerce

- COGS: 49% of the revenue, from FY2016 financials
- Warehouse retainer: Scenario 1 \$500/month, Scenario 2 \$600/month
- Fulfillment: \$2/piece, Scenario 1 1,000 pcs/year, Scenario 2 2,000 pcs/year
- Sales rep retainer: \$600 a month
- Commission: 15% of wholesale sales

<i>N: thousand</i>	FY2016	Scenario 1	Scenario 2
Revenue	681	136	204
COGS	333	67	100
Gross Profit	348	70	104
Ops Expenses	368	-	-
Warehouse & Rep			
Warehouse		6	7
Fulfillment		2	4
Rep Retainer		7	7
Commission(15%)		10	15
Total expenses	368	<b>25</b>	<b>34</b>
<b>Net profit</b>	<b>-20</b>	<b>44</b>	<b>71</b>

# Upstream

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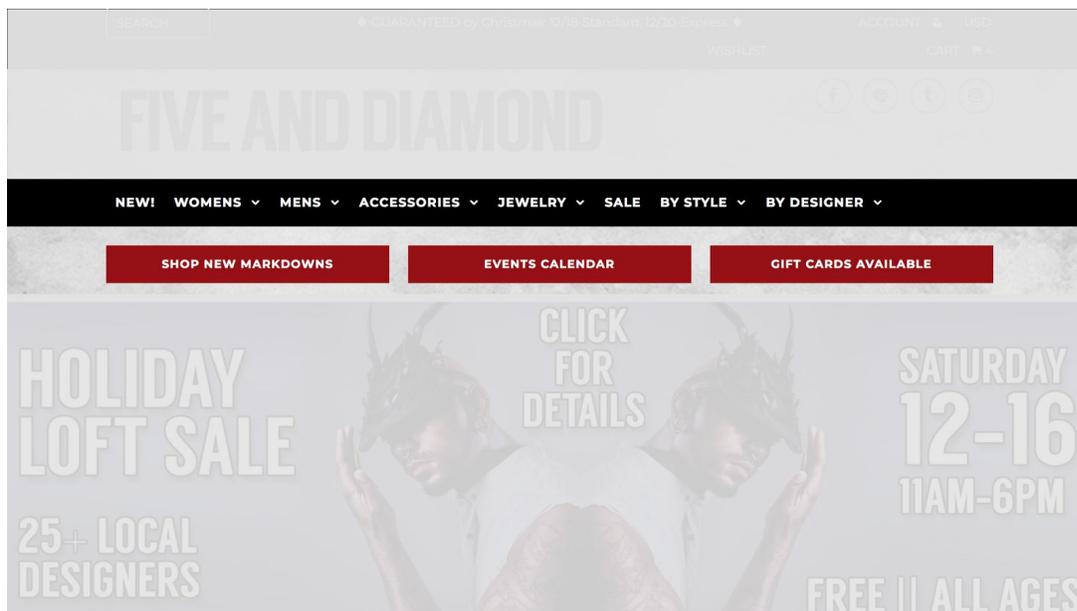
## E-Commerce & Competitive Analysis

### E-Commerce Analysis

E-commerce retail has become the fastest growing trade sector and has outpaced every other trade and manufacturing sector. As technology, e-commerce, and globalization become more intertwined, buyers and sellers are increasing their connectivity and the speed with which they conduct sales transactions.

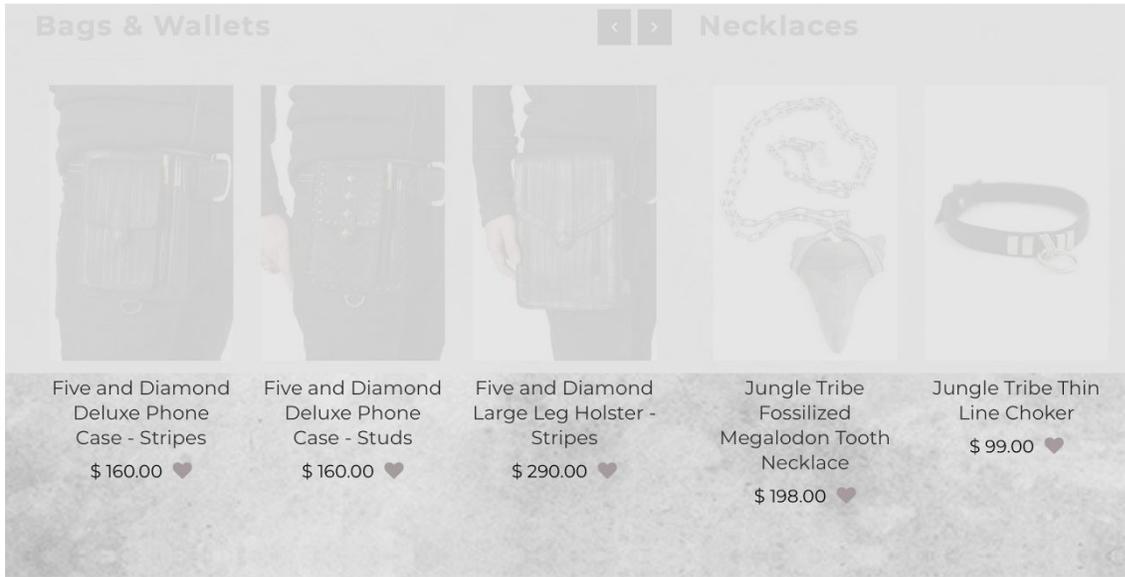
When you walk through the website of Five and Diamond, you will see interesting factors that keeps customers engaged. There are minor details that can affect the business if they go wrong.

### Product Details -



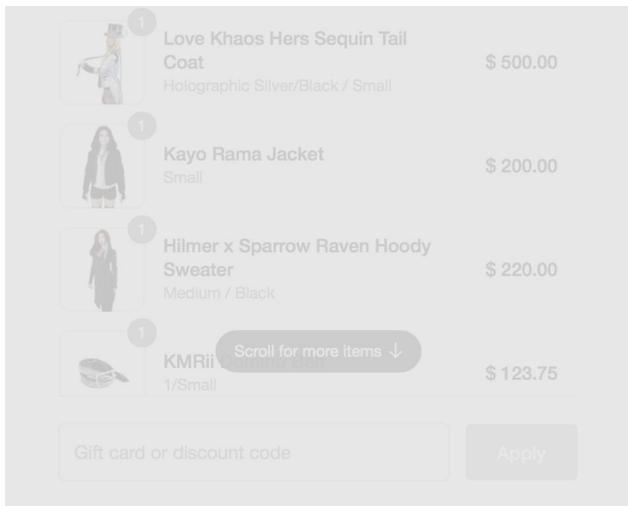
The Five and Diamonds have lots of options for both men and women. The website has easy browsing that helps customers to sort by sizes, by style and by designers. It has separate section for jewelry and accessories. This helps customers to search for a specific product and with a few simple clicks customers can gain access to a variety of goods/products 24 hours a day, seven days a week.

**Product Cost -**



It is one time purchase. Customers shopping here are not regular customers or do not buy the same product multiple times. So the cost is reasonable as compared to other competitors.

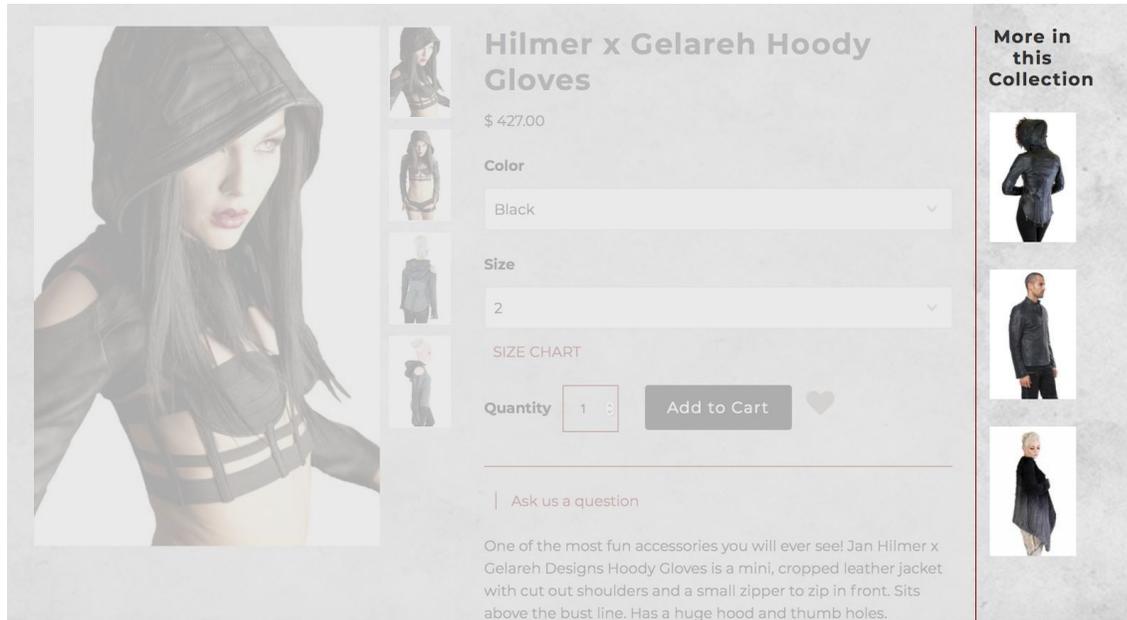
**Fulfillment cost -**



Subtotal	<b>\$ 1,710.75</b>
Shipping	-
Taxes	<b>\$ 149.69</b>
<hr/>	
<b>Total</b>	<b>USD \$ 1,860.44</b>

An order fulfillment fee is defined as the cost associated with a particular service that relates to the order fulfillment process, such as receiving, inventory storage, order processing (pick/pack), and returns processing.

### Basket Building -

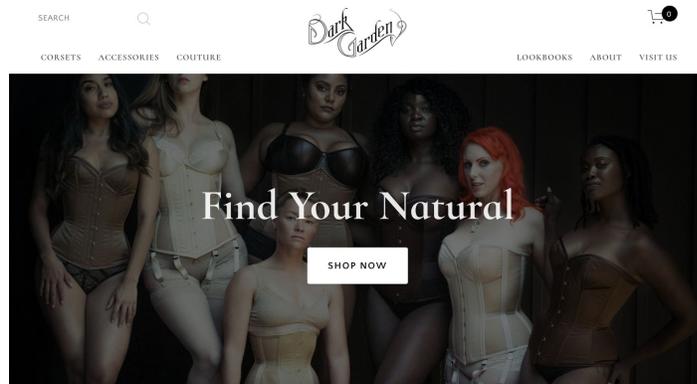


Five and Diamond suggest customers add on recommendation that is similar kind of products when they shop/add at the time of adding to cart. That encourages people to explore more products and this results in buying more products. The also take care of the way sites indicate that customers have successfully added an item to their shopping baskets and usher them towards the checkout. They make sure that they Move the shopper to buy other items, which is best served by keeping visitors on the product page with a strong notification of the 'basket building'.

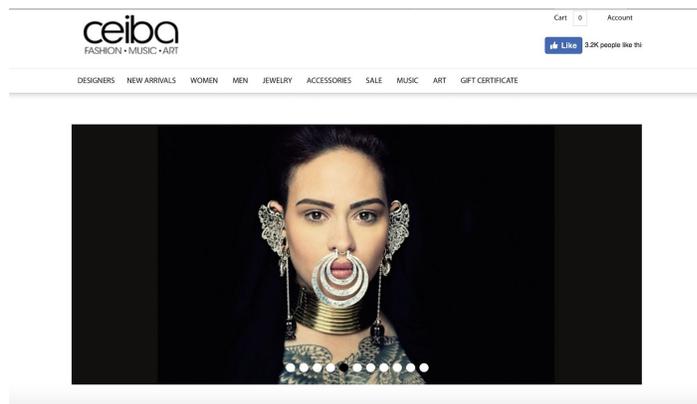
- It keeps the shopper away from the product page.
- Clearly confirms what has been added to basket.
- It does tell you the total value of your basket.

## Best practice of national brand

### Competitors 1



### Competitors 2



Nation Brand explains how the concept and techniques of branding can be adopted to the context of nations as opposed to more usual context of products, service or companies. Nation branding means now more and more nations are attempting to compete on global stage. Current practice of nation branding is examined and future horizons traced.

Thus, in order to expand the business, Five and Diamonds should not only focus on local market and compete with local competitors but also work nationwide or globally. Brands like Ceiba, Dark Garden and The Leather Man (NYC) and many such competitors are already creating an impact globally.

As we see, competitors are focusing on purveying a consummate polysensory experience through music, art and fashion, sourced from local and international artists, and inspired by a visionary global movement, emerging from Burning Man, Symbiosis, Lightning in a Bottle, Goa, and many more microcosms of culture. Customers are aware of these brands and appreciating the products (highest ratings on social platform). They create an impact by having well known designers in their team and promote them through their websites.

Almost all the small business competitors collaborates with local designers and outsources, that build trust in customers and assurance that their product can be customized and can be a perfect

fit and delivered on time. This helps companies to increase sales.

### **Recommendation & Implementation Plan**

The financial markets and some supply chain networks, speeding up sales transactions can be a very positive attribute when small market corrections are taking place.

- Hire a designer work can work on the website layout and make it more appealing to the customers and can drag more crowd and help increase revenue by ecommerce.
- During the time of check out the more information you ask can lead to more drop off is.
- As the customers are not regular buyers Save login is not actually required. Guess checkout/ one time login is the best option as this will not consume lots of time of the customers to go through all the process.
- Hire temporary a marketing person who can help her to market her products to right targeted customers also attract new customers.
- Need to open stores at other location (states).
- Local designers, outsource and manufacturers.
- It's important to note here that a large portion of B2C sales come through mail-order houses, many of which have an online presence as well as traditional storefront outlets.
- Contrary to popular opinion, mail-order houses still have a very strong online presence, and until just recently their sales outperformed online-only retailers. Five and Diamond can consider mail-order houses as one of the option in the initial stage to create the brand awareness.
- Can explore other channels for selling as well, such as amazon, ebay This will help her to make brand awareness and cover wider range of customers.
- As we know Five and Diamond have a section that mention 'By Designers'. Adding exclusive well known designers who create designs only for 'Five and Diamond' can create a bigger impact on her brand.
- Should not just focus on designers but get inspiration from other artist and musicians what other competitors are doing right now.
- She need celebrities which can be artist or celebrate who represent her brand very well which not all the competitors consider this point.

## Supply Chain Optimization Options

### “As Is” Bali Supply Chain

The Bali Factory supply chain consists of six phases:

1. Receiving Tech Pack Patterns created by designers or the development of Tech Packs based on an existing sample.
2. Sourcing of Parts and Fabrics.
3. Pre-Production Sample.
4. Final Production.
5. Quality Control.
6. Shipment of products to the Valencia store.

Within this process, there are two steps that we like to highlight for improvement:

- **Sourcing Parts and Fabrics** - Haley personally buys fabric in the U.S. and hand carries it to Bali each year. Finding good sales and the right fabric is key since Five and Diamond doesn't have any guaranteed contracts.
- **Shipment of products to the Valencia store** - Final production items are made in small batches (e.g., one size each small, medium, and large for a leather jacket) and shipped whenever completed rather than in regular intervals.

### CURRENT BALI SUPPLY CHAIN



### “As Is” Supply Chain Cost Structure

Even though the Factory is a key partner, Bali is considered as a vendor to Five and Diamond, so financials are not connected directly. Instead, costs are sent to Haley separately from the Bali Manager. The recorded expense information is transferred informally on Excel, and inconsistencies prevent us to create a competent analysis of the cost structure of Bali and the supply chain.

These inconsistencies in the data from the manufacturing operation in Bali, as well as unpredictable prices for shipping and materials, creates difficulties in tracking the cost structure.

Specific areas for improvement of cost information and cost reduction in Bali are:

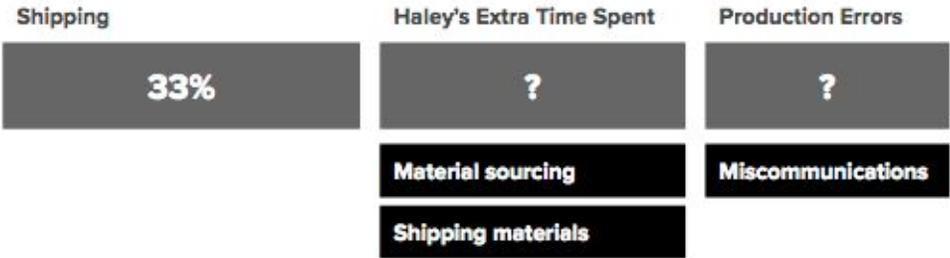
- **Workshop Expenses (Overhead)** - Factory overhead adds 33 percent to the base cost (labor + materials) of every item produced in Bali.
- **Shipping** - Shipping adds another 33 percent to the base cost (labor + materials) of every item produced in Bali. Shipping costs are not tracked by item and are also difficult to predict.
- **Labor** - Labor accounts for approximately 20 percent of the base cost of a typical item produced in Bali. There are opportunities to reduce labor costs per item, both by increasing the output of salaried workers, and by outsourcing some labor to less skilled workers.

With the information above, we derived the cost of goods (COGS) for the Bali supply chain in the chart below:

**TYPICAL COGS**



**HIDDEN SUPPLY CHAIN COSTS**



The biggest logistics cost is shipping from Bali to the retail store on Valencia. Rates for individual shipping companies undergo fluctuation greatly throughout the year due to inconsistent demand for shipping on the island. This makes setting up a regular shipping contract difficult so Haley changes her shipping provider regularly, evaluating various rates at the time of each shipment to determine the most cost effective. However, there might be an opportunity to negotiate lower costs.

Other costs that might have been taken to consideration, but were not provided or recorded are:

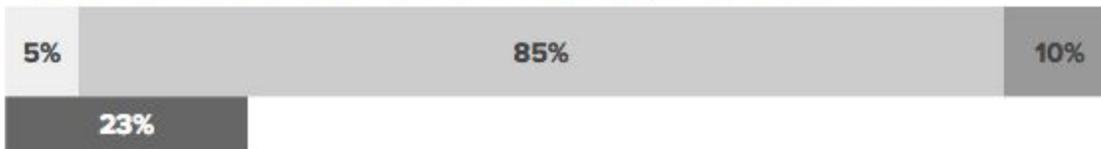
- **Cost of Production Errors from Miscommunication** - when using an overseas vendor like the Bali factory, there is an additional language and cultural barrier to take into consideration even if they can understand English. Cultural minutiae that seems obvious to us might not have the frame of reference, and can lead to miscommunication and errors in production. These errors can lead to quality rejections in production, which leads to lost production time and potential revenue.
- **Cost of Time Haley Spends Searching, Sourcing, and Shipping Materials.**
- **Customs, Taxes or any other Red Tape** - Even when making goods overseas, regulations and standards still need to be considered if they are sold in the United States or when bringing Goods from the United States to Bali (like how Haley had delivers the U.S. leather when she travels to the factory).

In order to understand the impacts of these costs, we did a comparative COGS analysis with another leather and textile manufacturer from Bali as well as a leather goods manufacturer in the United States. As a note, These ratios were derived from found reports and analytics in the leather goods market specifically, and are only assumptions.

**CURRENT BALI FACTORY - FULL TIME EMPLOYEES 8, PART TIME EMPLOYEES ?**



**COMPETITIVE BALI FACTORY - FULL TIME EMPLOYEES 5, PART TIME EMPLOYEES 13**



**UNITED STATES FACTORY**



## Current Bali Location

CURRENT BALI FACTORY - Avg 104 pieces exported monthly

### Shawna Hofmann Double Breasted Jacket

- 100% leather (sourced from U.S.)
- zipper pockets

Retail Price

**\$570**

	Overhead	Materials	Labor
COGS	\$62.70	\$89.30	\$38
	<b>\$62.70</b>		

MARGIN

**66.7%**

MARGIN (when factoring shipping)

**55.7%**



Source: <https://fiveanddiamond.com/products/shawna-hofmann-double-breasted-jacket-leather>

With the ratios established above, we can perform a cost analysis using a similar product. The product we used for this analysis is a jacket that has been made of 100% leather and with a few zippers. For the case of Five and Diamond, we used the [Shawna Hofmann Double Breasted Jacket](#). As a note, we performed the analysis based on the purchase recorded in the data we received earlier in the semester.

## Alternative Location 1: Other Bali Factory

COMPETITIVE BALI FACTORY - Avg 400 pieces exported monthly (80%)

### Men's Jacket

- 100% leather (sourced from Bali)
- zipper pockets

Retail Price

**\$550**

	Overhead	Materials	Labor
COGS	7	\$119	14
	<b>\$16.28</b>		

MARGIN

**74.5%**

MARGIN (when factoring shipping)

**68.7%**



Source: [http://s.globalsources.com/CSRPROFILES\\_LIVE/PDF/DSRILP.PDF](http://s.globalsources.com/CSRPROFILES_LIVE/PDF/DSRILP.PDF)

The competitive Bali factory, in comparison to the current one, has a couple of key differences. For one, they source their leather within Bali, which is more expensive comparing to the US. Second, they have a much higher output and product capacity, producing around 400 pieces a

month. This is close to 80% of their capacity output. This higher output lessens the cost of overhead. Finally, Labor is less than half the cost of the current factory due to the workers being paid per hour or per product, compared to the salary workers in the current factory.

### Alternative Location 2: United States

#### UNITED STATES FACTORY

#### Rogue Men's Leather Jacket

- 100% leather (sourced from U.S.)
- zipper pockets

Retail Price

**\$740**

COGS

**\$326**

MARGIN

**56%**



MARGIN (when factoring shipping)

**55.99%**



Source: <https://www.schottnyc.com/store/made-in-america>

With the San Francisco store having a majority of sales within the United States, as well as purchasing the raw leather from the States, there could be an opportunity to find a leather goods manufacturer within the U.S. to design, produce, and ship a leather product all within the border.

A downside would obviously be labor costs, so producing a less complex product that requires minimal labor would be ideal (possibly the leather knuckles from Steam Trunk for example). Upsides like an established shipping and delivery system would provide less hassle and more consistency with prices, not to mention the lack of shipping raw leather overseas to then ship it back.

Despite the high price tag and cost of labor, our analysis provided a surprising discovery with the resulting margin being similar to the margin from the Bali factory when shipping was considered.

Resources:

Competitive Bali Leather Goods Supply Chain

- [http://s.globalsources.com/CSRPROFILES\\_LIVE/PDF/DSRILP.PDF](http://s.globalsources.com/CSRPROFILES_LIVE/PDF/DSRILP.PDF)
- <http://www.developingcountrysourcing.com/indonesia-country-page/indonesia-sourcing-leather-products-vertical/indonesia-sourcing-leather-products-industry-overview/#.WiWvdLQ-e34>
- <http://siteresources.worldbank.org/DEC/Resources/VolumellCh4.pdf>

Competitive United States Supply Chain

- <http://www.esa.doc.gov/sites/default/files/ApparelandLeatherIndustryProfile.pdf>
- <https://www.schottnyc.com/products/nubuck-leather-jacket.htm?catID=19>

## Recommendations and Implementation Ideas for Bali Factory

- **Use the seasonal purchasing information as a driver to forecast what products to produce from Bali in the future.**
  - The data from revenue has potential to be used to forecast future inventory. If the data from quickbooks can create monthly revenue and inventory reports. Five & Diamond can organize products based on category *and* find which types of products are selling more based on the month or season (as an example, glove sales double in August). Acquiring this information can speed up the reordering process instead of reordering at a reactionary level.
  - This establishes key seasons when additional inventory of specific categorized products need to be in the store or available online.
  - Acquiring the necessary revenue and inventory reports are a possible challenge (based on our difficulty reading the raw purchase data on excel spreadsheets). Quickbooks should have the capability to create both inventory and revenue reports, as well as providing details on what is a popular item and when inventory is low. There is a possibility that the POS (Point of Sale) cash register and software aren't directly communicating with quickbooks, and the act of "double data entry" is in full effect. Using POS products and software that automate this should provide Haley and her team valuable time away from entering the data manually and keeping track of inventory.
- **Track product lead times in order to align that product's availability for the desired season(s).**
  - Having approximate lead time information for each product (or type of product) can ensure the products are on the shelf based on the key season(s) of sale mentioned above.
  - Creating product based on key season(s) provide the opportunity to ship products at a more consistent rate. This should also provide the use of shipping in bulk batches instead of individually.
- **Create a relationship with a leather tannery to ship the leather to Bali directly.**
  - The time Haley uses to personally find, source, purchase and ship the raw leather to Bali is time consuming, and can be better used if a solid relationship can be created with a tannery.
- **Specifically for all leather goods: Track the necessary square footage and color for each product in tech packs.**
  - Having square footage information in all tech packs to the Bali factory can provide beneficial logistics information when purchasing leather in advanced. Doing this will ensure that the leather order to the aforementioned tannery will be used efficiently. Tracking colors of the entire Bali product library can be useful as well since some products might use the same leather and color.
- **Re-Evaluate the need to go to Bali for in-person quality control annually.**
  - The need to go Bali annually for sample quality-checks seems a bit trivial. Most of this communication can be done digitally through images and email. Having

quality relationships with key partners are a must, but one could question personally shipping over the raw leather every year as a justification to simply *be* in Bali. Shipping leather can be done by the tannery mentioned above.

- **Look into a leather goods manufacturer in the United States for a trial run**
  - The results of the analysis provided an opportunity to look into manufacturing in the United States. This doesn't have to be an entire shift from the Bali factory to the United States per se, but we believe that running a sample of products that are simple to make and use small amounts of leather to keep both cost of materials and labor down can be promising. A contending product to be made could be Steam Trunk's [Grip Glove](#) or [Leather Knuckles](#).
  - Our initial scan of possible vertical manufacturing locations included [Softline](#) as well as smaller batch manufacturers that can be found on [Maker's Row](#).

## Conclusion

Haley and Five and Diamonds certainly has some long term challenges ahead of them. With so many variable factors involved that are not at all addressed in her business planning yet, it would be highly recommendable that she begin having a longer forecast as opposed to just focusing on the short term.

In our report, we have recommended a number of things to reduce her long term risk. Looking at some of the factors she can't really control, rent, employees, her way of thinking, these things can be thought of on a deeper level so she can build plans to mitigate the scenarios of when they happen.

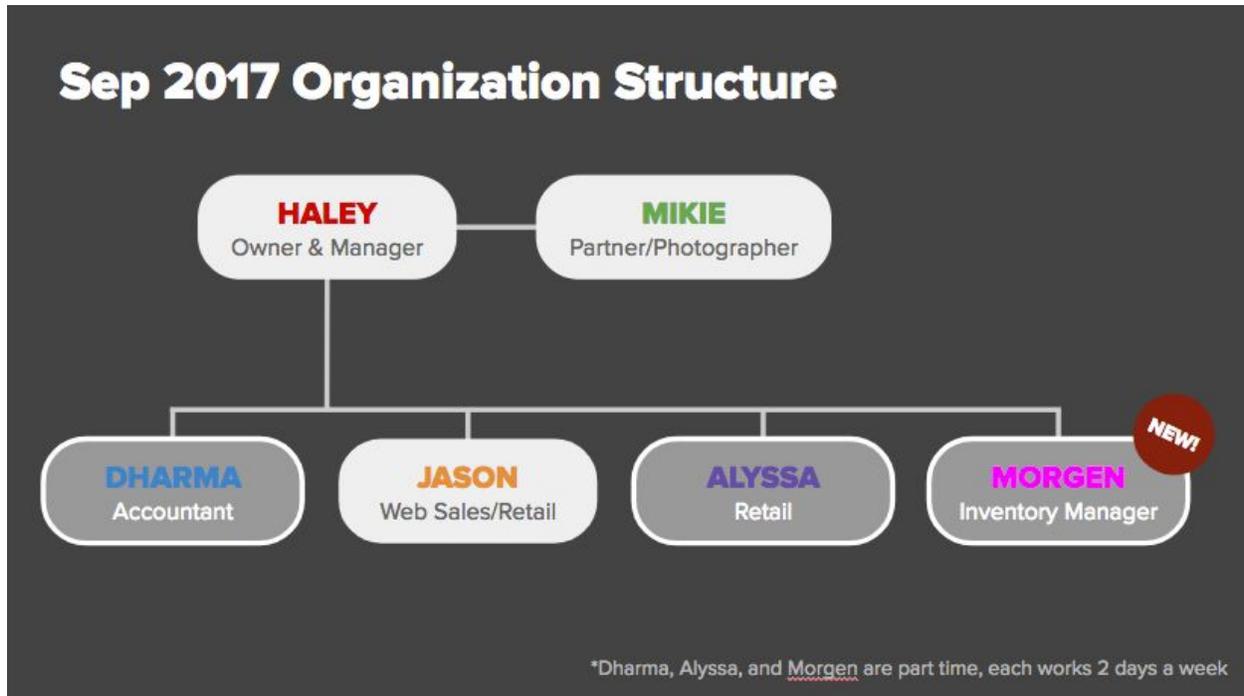
Without expanding her business into the areas of wholesale or e-commerce, Haley is really limiting her exposure and revenue potential by not tapping into the bigger picture of her business. While she's tried and seemingly unsucceeded, there are always growing pains of a new revenue stream and it was not clear if she looked past that or not.

The area of most improvement could be in her supply chain. There wasn't really a rhyme or reason why she exports her leather and imports her finished goods other than personal reasons. With so many inconsistencies and uncontrollable variables in outsourcing to a foreign country at her volume, Haley needs to take a step back and look at what is best for her business as opposed to what might be best for herself.

In summary, there are many emotional factors that ties Haley with the Five and Diamond business that shouldn't be there. What's beneficial for the individual might not be beneficial for the business and vice versa. Haley needs to look at her business from an outside perspective to make the decisions that will benefit the business and do the things necessary to keep that business afloat for the long run.

# Appendix

September 2017: Updated organizational Structure / Role and responsibility



STAFF	HR	MARKETING	OPERATIONS	SALES	PRODUCTION	FINANCE
Events	Floor Manager	Website Manager	Merchandising	Customer Service	Bali Operations	Bookkeeping
Floor/Events	Staff Training	Social Media	Inventory	Offsite Vending Coordinator	Bali Workshop Management Design Production	Bank Deposits
Floor/Events	Floor Staff Training	Newsletter	Outsourcing	Offsite Vending		Accounting
Floor		Visual Merchandising	Event Coordination			
		Photoshoot Coordination	Store Maintenance			
		Graphic Design	Inventory Receiving			
		Listings	Website Returns			
		Photographer	Shipping			
		Window Display	Mailing List			
		Website Updates				
<b>HALEY</b>						
<b>MIKIE</b>						
<b>JASON</b>						
<b>ALYSSA</b>						
<b>DHARMA</b>						
<b>MORGEN*</b>						

\*Updates are required to factor in Morgen as new Inventory Manager.

