

## MEASURING UP: USING INDUSTRY- AND REGION-SPECIFIC BENCHMARKING STUDIES TO DRIVE DOWN COSTS AND IMPROVE BUSINESS VALUE

In the present economic downturn and tight credit markets, apparel companies are looking for ways to reduce costs and inefficiencies in order to salvage waning profit margins and survive. Due to the inherent limitations of relationships with retailers and buyers, especially in this environment, apparel companies are limited in their ability to improve profitability through increased sales or higher prices. Instead, they must focus on driving down costs and operating as efficiently as possible.

One key way to reduce costs is by benchmarking—that is, comparing the company's own costs to its most relevant competitors' costs. By measuring their own overhead against that of their direct competition, companies can identify areas where they can better control costs, and thus increase profits. Benchmarking offers a way to see if the prices for basic needs like warehousing are still the best the company can get, using actual industry data as a metric. Perhaps more importantly is that benchmarking has the potential to improve profits without a corresponding sacrifice in other areas of the business. By identifying inefficiencies, benchmarking exposes the low-hanging fruit—the areas where money spent has little effect on quality. That removes the need to reduce in areas that will hurt the company's brand, such as employees, operations, and, ultimately, its value to lenders and investors.

To be effective, benchmarking studies need to be highly specific and built upon data from a group of direct competitors—not just

apparel companies, but apparel companies selling the same products, in the same market subsegment, to the same types of retailers, in the same geography.

### Leverage Your Professionals

In this regard, apparel companies, private equity firms, and management who are working to improve their operations

professionals. Firms that have a dedicated practice serving the apparel industry have many fashion and apparel clients across a broad range of subsegments and market tiers. As a result, your accounting professionals should have nuanced, highly segmented, and immediately actionable benchmarking data at their fingertips to conduct a comprehensive benchmarking study.

---

**Understanding where there are potential cost reductions and moving quickly to pursue them is key for apparel companies looking to make themselves more attractive to their lenders in this tight credit market.**

---

and profitability face a special challenge in conducting a benchmarking study. Because the vast majority of apparel manufacturers are privately held, there's little useful public information on costs, certainly not at a line-item level. By and large, the information needed is simply not available for apparel companies to undertake benchmarking on their own. Private equity firms that are substantially invested in the apparel industry will have a somewhat broader range of data and experience available to them, but this will largely be limited to what data they presently hold in their portfolio. Moreover, a comprehensive benchmarking study involves looking at a multitude of areas and line items where costs can vary substantially on an ongoing basis, so data from prior transactions and due diligence investigations can quickly become dated.

This is one area where companies can get added value from their existing relationships with their accounting and consulting

Since your professionals have a pooled database of benchmarking information, they can inform apparel companies and their investors where costs are above average for their specific part of the market and provide strategies for bringing such costs in line without sacrificing the confidentiality of their other clients.

Understanding where there are potential cost reductions and moving quickly to pursue them is key for apparel companies looking to make themselves more attractive to their lenders in this tight credit market. Private equity firms can use these detailed benchmarking studies to help identify the best investment opportunities as part of their due diligence or to improve the performance of companies already in their portfolio.

### Case Study: Shipping and Warehousing Inefficiencies

Recently, J.H. Cohn's Apparel and Fashion Industry Practice worked through a benchmarking study with an apparel

client based in New York City. J.H. Cohn's benchmarking study uncovered a number of areas where we worked with the client to provide guidance on the renegotiation of their vendor contracts but, most importantly, we helped them achieve significant savings in their shipping and warehousing costs, some of the largest line items on their income statement.

The company was having their product manufactured in China and shipping it to warehouses in Northern New Jersey, where they had long maintained their warehousing and distribution operations. This warehouse was a holdover from a previous phase of the company's growth, and while it was within easy striking distance of the company's office, it was identified as operationally inefficient. The warehousing costs themselves weren't singled out as abnormally high in the study, but we did uncover that the cost of shipping was substantially above that of their direct competitors.

We worked with the client to switch to a warehouse and distribution center on the West Coast, which allowed for more efficient, lower-cost distribution within the United States while allowing them to

avail themselves of the alternative of surface shipping at substantial savings. In balance, delivery time was only marginally impacted and was more than offset by the substantial cost savings—a cost reduction that had no negative impact on product quality and didn't negatively affect relationships with retailers. This strategy required an increased capital outlay in the short term, but the cost savings in shipping charges were realized immediately and will continue to be realized on an ongoing basis.

As in the above example, benchmarking studies can lead to changing the way a company operates.

If the same New York-based apparel company habitually turns around its inventories quickly, it can achieve a high volume of business and keep cash flowing in. However, because it needs its products to reach the United States quickly, it must air ship ensuring that shipping prices stay high. In fact, some companies become trapped by this situation because they could not afford to convert to boat shipping without an infusion of new capital. A new investment could have a dramatic and immediate positive effect on the profits of such a company.

## Gain, No Pain

Cutting costs is always a good idea, but when times are tough, it's an essential strategy to evaluate costs for both businesses and their investors. Benchmarking offers an opportunity to identify where those savings can be had and reduce costs without trading down or unnecessarily sacrificing quality or brand cachet that many companies have worked hard and invested substantially in building. The financial savings can also free up capital that businesses badly need in the current credit market. Working with knowledgeable professionals who are deeply involved in a specific industry can help increase profitability, generate value for investment partners, and identify other attractive opportunities. ■

*Stanley Joseph, CPA, is a J.H. Cohn partner and director of the Firm's Apparel and Fashion Industry Practice. He can be reached at [sjoseph@jhcohn.com](mailto:sjoseph@jhcohn.com) or 212-297-0400.*

For more information on J.H. Cohn's Apparel and Fashion Industry Group, [click here](#).

### California

#### San Diego

4180 Ruffin Road, Suite 235  
San Diego, CA 92123  
858-535-2000

#### Los Angeles

Good Swartz Brown & Berns,  
A Division of J.H. Cohn LLP  
11755 Wilshire Boulevard, 17th Floor  
Los Angeles, CA 90025  
310-477-3722

#### Warner Center

Good Swartz Brown & Berns,  
A Division of J.H. Cohn LLP  
21700 Oxnard Street, 7th Floor  
Woodland Hills, CA 91367  
818-205-2600

### Cayman Islands

P.O. Box 1748 GT  
27 Hospital Road  
George Town, Grand Cayman  
877-704-3500 x7839

### Connecticut

#### Glastonbury

180 Glastonbury Blvd.  
Glastonbury, CT 06033  
860-633-3000

### New Jersey

#### Roseland

4 Becker Farm Road  
Roseland, NJ 07068  
973-228-3500

#### Eatontown

27 Christopher Way  
Eatontown, NJ 07724  
732-578-0700

#### Lawrenceville

997 Lenox Drive  
Lawrenceville, NJ 08648  
609-896-1221

#### Metro Park

333 Thornall Street  
Edison, NJ 08837  
732-549-0700

### New York

#### Manhattan

1212 Avenue of the Americas  
Suite 1200  
New York, NY 10036  
212-297-0400

Charles Brucia & Co.,  
A Division of J.H. Cohn LLP  
1212 Avenue of the Americas  
New York, NY 10036  
212-682-2459

Frederic Kantor & Company,  
A Division of J.H. Cohn LLP  
1212 Avenue of the Americas  
New York, NY 10036  
212-727-2300

#### Long Island

100 Jericho Quadrangle  
Suite 223  
Jericho, NY 11753  
516-482-4200

#### White Plains

1311 Mamaroneck Avenue  
White Plains, NY 10605  
914-684-2700

 **J.H. COHN** LLP  
Accountants and Consultants since 1919

877-704-3500  
[www.jhcohn.com](http://www.jhcohn.com)

The Apparel and Fashion Industry Practice Newsletter is published by J.H. Cohn LLP for the general information of its clients, friends, and business associates and should not be acted upon without prior professional consultation.