Outdoor Apparel Leader Gains Scalability and Visibility, Cuts Costs with ERP Solution

Overview

Country or Region: United States
Industry: Manufacturing—Apparel

Customer Profile
Patagonia is a global, leading provider of clothing and gear for outdoor activities. The company is also firmly committed to advocate and take action on environmental causes.

Business Situation
The company wanted to become more scalable to meet continuing growth, respond more effectively to market changes, and realize the full revenue potential of its brand.

Solution
Patagonia implemented Microsoft Dynamics AX 2009 together with the Apparel and Footwear Template from Sunrise Technologies and made a number of business process improvements.

Benefits
- Achieve scalability, support future growth
- Take control of the business, respond to market change
- Boost inventory turns by 20 to 30 percent, meet demand strategically
- Serve customers effectively, increase fill rates by 5 to 10 percent
- Strengthen environmental mission through enhanced profitability

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Patagonia, a global provider of outdoor apparel and gear, realized its technology and processes were unable to support the company with the scalability and visibility to realize its market and revenue potential. Working with Microsoft Gold Certified Partner Sunrise Technologies, the company implemented Microsoft Dynamics AX 2009 together with the Sunrise Apparel and Footwear Template and optimized key business processes. Patagonia achieved its desired scalability and cut costs associated with growth by two-thirds. Visibility into all aspects of the business gives decision makers the ability to take control and respond to changes in demand and market trends in a timely manner. By improving inventory turns by up to 30 percent and fill rates by up to 10 percent, Patagonia realizes unprecedented double-digit growth and pursues its environmental mission with increased vigor.

Situation

Founded in 1972 to succeed a small company that provided climbing tools, Patagonia has grown into a globally recognized brand. The company designs, produces, and distributes clothing and gear for such pursuits as trail running, skiing, mountain climbing, surfing, and snowboarding. Headquartered in Ventura, California, Patagonia has a strong presence across the Americas, in Europe, and in Japan. The company serves its markets through multiple channels, including international distributors, wholesalers, retail stores, catalog sales, and e-commerce.

For Patagonia, putting its brand and resources to work on behalf of the environment is as important as providing the best possible outdoor products. The company engages on important environmental issues and offers insight and ideas of value to environmentalists. Customers can track the environmental impact of individual Patagonia products throughout their life cycle in an online resource. Patagonia also strives to practice optimal sustainability throughout its business activities.

Many years of successful growth brought Patagonia to a juncture where it became necessary to review the effectiveness of business processes and infrastructures. Rose Marcario, Chief Financial Officer and Chief Operations Officer at Patagonia, explains, "We wanted to ensure that the business could scale to meet global demand and continue to grow without adding significant resources. And, we needed a way to view supply and demand globally, moving away from what had been a silo environment."

Highly Customized Legacy Systems and Lack of Visibility

Some of Patagonia's business software systems were decades old and heavily modified. Says Mike Busch, Global Director of Technology at Patagonia, "Only a couple of longtime employees understood the extent of customization in our largely homegrown business system, exposing the company to risk if they were to leave. Many industry-specific software tools were not integrated, so employees had to enter information several times. And, we did not have good visibility across systems, which meant reporting was hard to do and could take a

> For Patagonia, running a successful global business and supporting environmental causes are inseparable.

it's what we do... PROTECTING HABITAT

patagonia

long time, affecting our ability to make smart, timely business decisions."

The development, design, and production of many Patagonia products involve long lead times of a year or more. Many of the apparel products are technically complex, featuring hundreds of lines in the bill-of-materials. In addition, the company follows exacting quality and environmental standards in developing materials and products and in ensuring compliance from suppliers and contract manufacturers. Especially given those sizeable upfront investments and lengthy lead times, critical functions, such as Patagonia's forecasting, demand planning, and inventory management, did not sufficiently enable the company to react to market changes in a timely manner. "Inventory was firmly assigned to our many channels," Busch describes. "We had minimal visibility across channels, and it was difficult to reallocate inventory from one channel to another. At an organizational level, the people working with the different channels and in various business groups did not have a systematic way of gauging how their actions affected other people and channels."

Need for Increased Process Efficiencies
Employees performed sales and demand forecasting in multiple Microsoft Excel spreadsheets and used a variety of methods and file formats to transfer information, leading to inconsistencies and inefficiencies in decision making and planning. Inventory allocation and forecasting updates happened only three times during each selling season, not in real time. In addition, employees needed to spend too much time rekeying information into the company's separate software systems, which would restrict Patagonia's continuing growth and likely result in an even higher resource overhead.

Patagonia decided to update its business technology with a new enterprise resource planning (ERP) system and, at the same time, use the technology implementation as a framework to enhance key business processes. "I've been through several ERP implementations in my career," says Marcario. "These projects tend to be most successful if you adjust your processes along with the technological change; otherwise, you end up switching software tools without bringing about needed improvements in the way you work." Busch adds, "I wanted to ensure that IT helped position the company for strong growth."

Solution
Patagonia prepared a complex request-for-proposal (RFP) document, which included a requirements spreadsheet with more than 2,000 lines, and shared it with more than 10 global software providers. The company also set up an employee team with participants from a number of business groups and the IT department to manage the selection process and the subsequent implementation. The project team reviewed and weighed the responses and invited the top-three vendors to demonstrate their solutions.

After additional consideration, Patagonia narrowed its choices to two possible solutions: Microsoft Dynamics AX 2009 and SAP. The project team scripted demos for another round of reviews and asked the two vendors to produce them. Sunrise Technologies, a Microsoft Gold Certified Partner, represented Microsoft Dynamics AX and was able to offer its own solution for the apparel industry, the Sunrise Apparel and Footwear Template for Microsoft Dynamics AX. This add-on solution is Certified for Microsoft Dynamics AX by Microsoft and provides a wide range of capabilities that are critical for apparel manufacturers and distributors, easing the

management of seasonality, universal product codes, specific item attributes pertaining to brand, gender, and country of origin, and scales of size and color. Sunrise Technologies developed the solution by following best practices for Microsoft Dynamics AX, using the same type of source code, and embedding it fully into Microsoft Dynamics AX. Mary Looby, IT Project Manager at Patagonia, says, "Sunrise was very thorough in responding to our RFP and in providing a demo according to our script. They proved that they would go to great lengths to make things right."
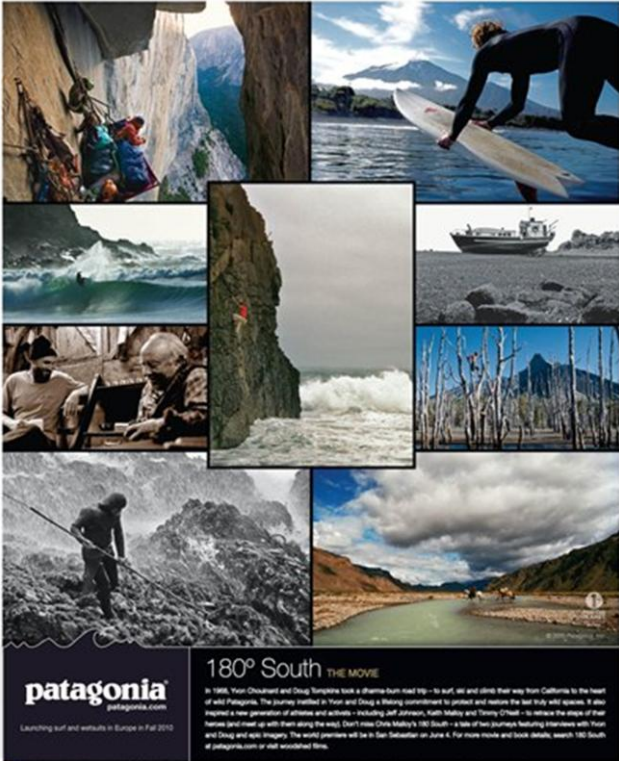
Explaining Patagonia's decision, Marcario says, "We soon realized that Microsoft Dynamics AX had the scalability and flexibility we sought and that it would be able to support our business process changes. And, Sunrise's ability to offer a validated, industry-specific solution meant that we could benefit from proven technology and the company's deep understanding of our business."

Phased, Tested Implementation
In the next step, Patagonia asked Sunrise to produce a detailed implementation scope document. Once Patagonia approved that deliverable, people from both organizations collaborated in planning the implementation. In a carefully phased deployment approach, Patagonia performed several go-live test runs to identify and address any issues. Next, the companies implemented the solution for general ledger, accounts payable, and forecasting. Several months later, the company added many other capabilities, including accounts receivable, production planning, inventory management, purchasing, and wholesale order management. Sunrise worked closely with Patagonia's business process consultants to match the technology with the company's process optimizations. Says Marcario, "Sunrise Technologies deserves a lot of the credit for our successful implementation. Their technologists worked tirelessly to resolve issues and always maintained the confidence and goodwill of Patagonia employees. It was also critical that our project team included representatives from the company's business groups, not just IT staff."

An adventure of Patagonia Founder, Yvon Chouinard, served as the basis for a movie the company produced.

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Most employees using Microsoft Dynamics AX today work at Patagonia's headquarters in Ventura or at the warehouse and customer service center in Reno, Nevada. They perform wholesale support, production planning, contract management, finance, and inventory management. A number of employees also have inquiry access to the solution solely for business analysis and planning. Says Busch, "Our people quickly became familiar with Microsoft Dynamics AX because it is very similar to software they use every day. Because of this, adoption was very smooth."

Central Hub for All Business Information
By replacing a number of its disparate systems with a single instance of Microsoft Dynamics AX, Patagonia was able to generate a single, unified view of all business information, including finances, products, inventory, planning, demand management, forecasting, and channel management. The solution facilitates the financial management of 54 discrete organizational entities. Supported by Microsoft BizTalk Server to help bridge technologies, Microsoft Dynamics AX also serves as the hub with which Patagonia connects most remaining legacy systems, which include a warehouse management system, a product life-cycle management system, a third-party dealer portal, and others.

Through the ERP solution, Patagonia reviews business activities in all channels and moves inventory from one channel to another in response to demand changes. Says Looby, "Today, we run inventory allocations every night. We have the flexibility to reallocate inventory among channels according to multiple criteria." Forecasting with the solution is a monthly—soon to be weekly—task that keeps the company's business planners

close to actual market events. Transactions appear immediately in the general ledger, enhancing managers' prompt visibility of business events.

In managing the solution, Patagonia finds Microsoft Dynamics AX and the Sunrise Apparel and Footwear Template, which share the same programming environment, remarkably easy to adjust to business requirements. "We worked closely with the Sunrise Technologies team to identify areas where configuration and customization were needed and when solutions such as the Sunrise Apparel and Footwear Template were also needed to meet our unique industry-specific needs," says Busch.

By continuing to use a single instance of Microsoft Dynamics AX, Patagonia plans to extend the full functionality of the solution to all business operations in Japan and Europe in the future.

Benefits
Today, with vastly enhanced business insight and agility, Patagonia is ready to pursue strong, consistent growth and take the company to the next level of accomplishment. "We've achieved several groundbreaking changes with Microsoft Dynamics AX," says Marcario. "Now, we can integrate these big wins into our business and focus on achieving our strategic plan during the next three to five years. And, when our European and Japanese operations come online with the solution, the entire company will work with a single, consistent enterprise infrastructure that embraces a streamlined way of doing business."

Achieve Scalability, Support Future Growth

With a new business management solution and redefined business processes, Patagonia continues to build on a record of continuous growth. "We furnished the company with a level of scalability we did not have before. After years of growth in the single digits, we're now achieving double-digit, top-line growth," says Marcario. "This may well be the best year the company has ever had."

Patagonia was able to eliminate redundant data entry and other manual tasks. The people in these roles can now make a bigger difference in driving the company's growth. At the same time, the costs of scalability have decreased. Marcario explains, "Whereas we used to incur 30 points of cost whenever we produced additional incremental revenue, I estimate that cost to be closer to 10 points today." A large share of these savings results from reductions in selling, general, and administrative expenses (SG&A) and inventory management.

Take Control of the Business, Respond to Market Change

New visibility into business events makes it possible for Patagonia to respond quickly to demand changes and market trends. "I have unprecedented visibility into order fulfillment rates, inventory movement, and other areas that were not transparent to me before," says Marcario. "We can now perform sophisticated profit-and-loss and operational analyses. What's more, our forecasting is far more meaningful and accurate and lets us match actual demand with the right products, even given long product lead times and limited supply."

Business managers now receive, within a day, the forecast results that used to take a couple of weeks to get to them. As

Marcario comments, "Instead of reacting to market changes, we can now perform long-term, strategic business planning. At all levels of the organization, people are aware of the operational context and can take action that benefits the company as a whole, not just a single channel or business initiative."

Boost Inventory Turns by 20 to 30 Percent, Meet Demand Strategically

Inventory management is one critical area of Patagonia's business that illustrates the value of the new ERP solution. The company set up Microsoft Dynamics AX and the Sunrise Apparel and Footwear Template to match its fulfillment priorities with existing inventory and future products in a holistic manner. In allocating inventory to demand, business planners can effectively consider such factors as customer retention or margins to achieve the best profit and highest customer satisfaction from the company's inventory. "Inventory is no longer channelized, which makes it much easier to reassign and capitalize on it," says Marcario. "We've improved inventory turns by 20 to 30 percent already."

Serve Customers Effectively, Increase Fill Rates by 5 to 10 Percent

With increased visibility and agility, Patagonia is poised to compete with greater impact and serve its reselling trading partners more effectively. Says Marcario, "Microsoft Dynamics AX is an excellent product to help us realize the full revenue potential of our brand. We are now in a position to support the growth in the market with the needed information and process refinements." Customers benefit directly from the company's enhanced ability to meet demand with the appropriate products. "Resellers, and therefore customers, receive more of the products they want. Within just a few

months, we have boosted fill rates between 5 and 10 percent, which is a huge incremental improvement," Marcario adds. "We'll get even better results as we become more sophisticated in using our new technology tools."

Commenting on Patagonia's increased competitive strength, Busch explains, "We can take action and meet demand in situations where we might have lost sales in the past. With early visibility, we see very clearly where we have too much of a product or lack supply. Then, for example, we can increase our purchasing of high-demand products and reduce buying of slower sellers."

Strengthen Environmental Mission Through Enhanced Profitability
Business success enables Patagonia to practice its environmental values with greater impact, and Microsoft Dynamics AX serves as a powerful enabling factor for this cause. "We now have a platform to expand our mission," states Marcario. "Without question, when I consider the costs of implementing Microsoft Dynamics AX and what we will get out of it in terms of future scalability and profitability, I realize the more good we can do for the environment. That is a big part of why we are here. I also hope that our experience of running a successful business on the basis of great products and putting it to work for the greater good serves as an example for other companies."

Additional Resources

- Learn about Microsoft Dynamics for global organizations.
- Take advantage of Microsoft Dynamics service and implementation support.
- Participate in Microsoft Dynamics communities.
- Read about the Environmental Sustainability Dashboard for Microsoft Dynamics AX.
- Visit the Patagonia employee volunteer blog, The Cleanest Line.

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