

Fashionably Resilient

How Fashion Supply Chains are Evolving
and Why Resilience is so Important

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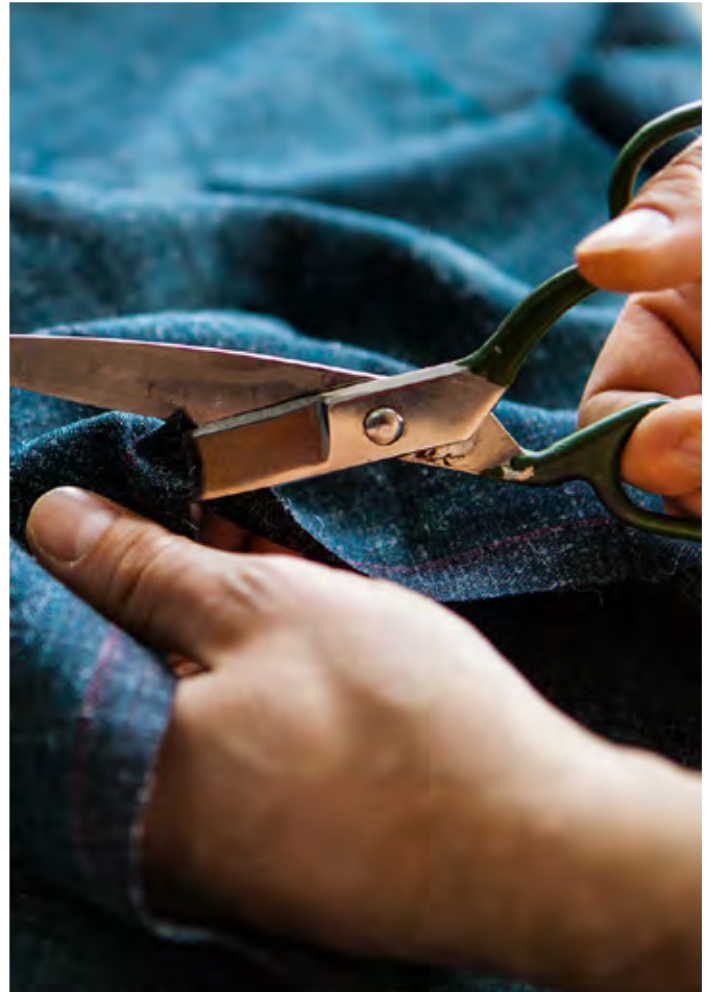
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Executive Summary

With multiple sourcing locations, destination markets, and a growing number of sales channels, fashion supply chains are growing increasingly more complex. At the same time, COVID-19 has highlighted the critical need for more resilience, and in general, more flexibility.

In this report, we speak with Josue Alzamora, Global Head of the Lifestyle Vertical at Maersk, to examine the challenges and trends that fashion logistics is facing today and how businesses can increase the resilience and flexibility of their supply chains.



Key Takeaways

- Fashion supply chains are becoming increasingly complex with a growing number of both sourcing locations and destination markets as well as an increase of volumes across multiple sales channels.
- An adaptive and vertically integrated supply chain ecosystem is essential to ensure that goods keep flowing and companies have the flexibility to speed up or slow down flows and to re-route orders.
- Data integration is a stepping stone towards increased predictability that will enable better decision-making and ultimately lead to more flexible and resilient supply chains.
- While during a disruptive event some actions can be taken on an ad-hoc basis, the best-prepared companies will be those that implement a supply chain resilience playbook as a standard business practice.

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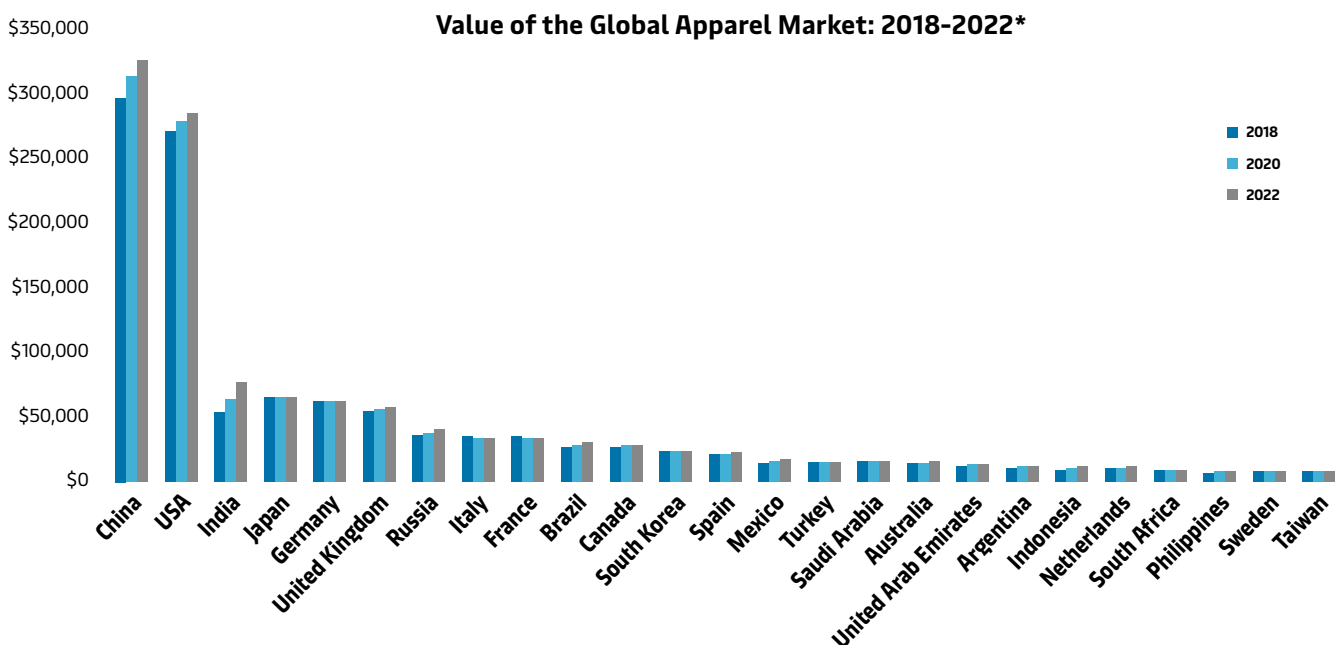
The Changing Face of Fashion Logistics

Fashion supply chains are some of the most dynamic in the world crisscrossing the globe in a race to deliver the billions of new items of clothing consumed each year worldwide. Fashion supply chain managers must contend with a complex web that includes multiple products, manufacturers, origins, destination markets, and sales channels. While on average apparel businesses can have between 1,000 and 2,000 primary suppliers, with sub-suppliers included, that figure can balloon to between 20,000 and 50,000.¹

Globally, China remains the world's biggest clothing manufacturer by a significant margin contributing some 36% of global apparel exports – more than triple that of its closest competitor, Bangladesh.² At the same time, China also represents the world's largest consumer market with apparel sales alone estimated to reach US\$325 billion by 2022, 15% larger than the US.

Despite this, the US and Europe collectively remain the world's biggest clothing importers with some US\$200 billion of imports a year combined. However, that landscape is rapidly changing with the rise of imports to emerging economies and the Indian fashion market, for example, is set to become the world's third-biggest clothing importer by 2022.^{3,4}

\$ million USD, current price



*Source: Euromonitor, Passport, 2018

¹ <https://www.mckinsey.com/industries/retail/our-insights/the-state-of-fashion-2019-a-year-of-awakening>

² UN Comtrade

³ Euromonitor, Passport, 2018

⁴ <https://www.ft.com/content/62dc687e-d15f-46e7-96df-ed7d00f8ca55>

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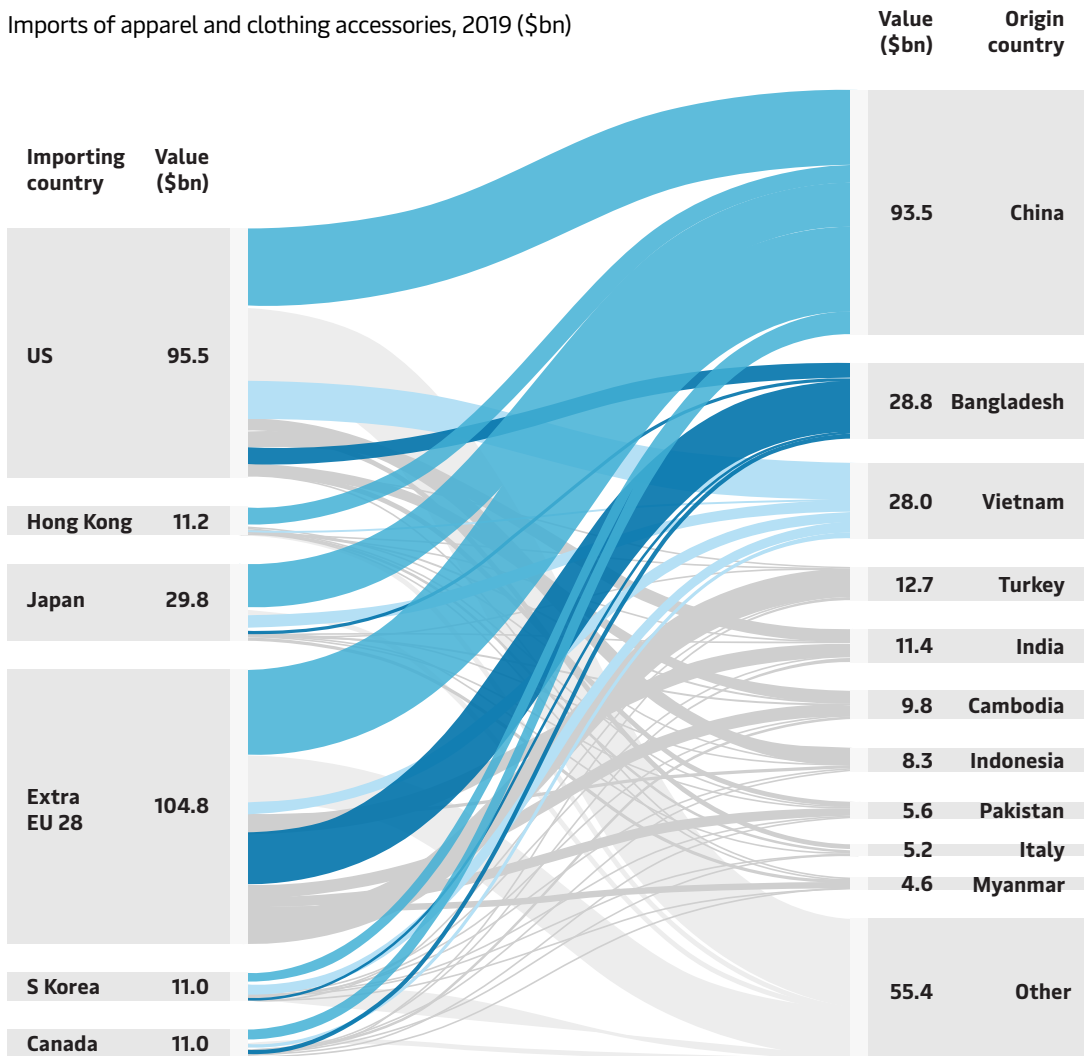
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These projections must be tempered by the fact that the fashion industry has also been one of the hardest hit by COVID-19. Apparel and Footwear global retail revenue estimates for 2020 have been downgraded by US\$319 billion and the industry as a whole is expecting to post a double-digit decline this year as a result of global retail lockdowns.⁵ The extensive level of disruption has exposed vulnerabilities in global logistics and, as a result, businesses are now increasingly focused on improving the resilience, flexibility, and predictability of their supply chains.

At the same time, brand-owning fashion companies have been focusing on direct-to-consumer sales across both physical stores and eCommerce. From a supply chain perspective, these brands are now dealing with much greater complexity as they increasingly assume responsibility for destination fulfilment volumes and last-mile delivery.

Where the biggest importers source their clothes*

Imports of apparel and clothing accessories, 2019 (\$bn)



*Source: <https://www.ft.com/content/62dc687e-d15f-46e7-96df-ed7d00f8ca55>

⁵ <https://www.euromonitor.com/apparel-and-footwear--quarterly-statement-q3-2020/report>

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Interview



Josue Alzamora
Global Head of Lifestyle Vertical
Maersk

What are the current challenges for fashion supply chains?

As brands become more globalised they experience an increase in the number of both sourcing locations and destination markets which results in increasingly complex supply chains. There is an intricate web of suppliers and outlets across multiple countries with diverse consumer needs, different regulations, and varying degrees of infrastructure. All this must be navigated with precision so that products reach the right outlets at the right time.

If you're an international fashion brand with a specific line coming out, those products are coming from multiple sources but all need to reach the market simultaneously. And, of course, like many industries, COVID-19 has added an extra layer of complexity for the fashion sector and exposed a number of challenges related to the lack of resilience and flexibility across supply chains.

What has COVID-19 shown us?

The fashion industry was one of the hardest hit by COVID-19. While the initial impact was on production and the pre-manufacturing supply chain, especially across China, Southeast Asia and the Indian Subcontinent, the subsequent impact was related to consumer demand; how rapidly it changed and how completely at odds it was with forecasts. Demand forecasting failed and many brands were left with large amounts of stock that they were unable to sell in the expected timeframes. This has also made it difficult for them to store the surplus in inventory, as their pre-defined warehouse networks were full in many cases. These combined challenges then reverberated back upstream to suppliers, many of whom suffered order cancellations leading to severe financial challenges.

On the face of it, fashion supply chains should be fairly resilient to disruption since they are comparatively more diverse than other industries in terms of the spread of sourcing, destinations, and sales channels. However, what COVID-19 exposed was a lack of fit-for-purpose business continuity plans to deal with large-scale disruptions and, because of this, a number of fashion companies struggled to provide a swift supply chain response to a rapidly changing situation and volatile consumer demand. In contrast, companies that were already focused on becoming more resilient years prior to the pandemic were able to cope better. This is because they had embedded processes to swiftly re-plan which goods to store and where to store them in the supply chain, as well as decision trees or algorithms helping to define which SKUs to re-direct to the different sales channels across locations.



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How can fashion supply chains become more resilient?

In some ways, COVID-19 has re-written the resilience playbook or, at least, it has added some new chapters; health and safety of staff and the impact of physical distancing, for example, are concerns that now need to be incorporated. However, some lessons remain the same and one of those is to plan ahead. Whether it is a pandemic, a volcano, or the trade war, future disruptions are inevitable, and companies need to be prepared to pivot quickly. Considering the complexity of players and IT systems involved in fashion logistics, it is not recommended to simply improvise during a disruptive event, if that can be avoided. Businesses who have been the most successful during COVID-19 have been those that, for example, had pre-established alternative transport modes and/or routes to market that were easy to activate during the crisis. This type of resilience planning takes both time and financial investment but provides a much more robust platform to tackle challenges that, if not dealt with properly, are going to lead to a much bigger financial risk.

It is clear that international businesses can no longer run on rigid, unidirectional, supply chains. Having a resilient supply chain entails exploring different transport modes and alternative routes to market with logistics partners that can support the kind of flexibility required to pivot when needed. However, it is not only about transport modes and routes but, more importantly, about constructing the entire supply chain ecosystem so that it not only has the flexibility to cope with disruptions but also actively contributes to growing the business.



How are consumers changing and how is that impacting fashion supply chains?

The power of consumers has been growing for many years and this is something that has been seen across the consumer industry. The way in which a consumer perceives a brand has fundamentally changed in the past few decades fueled primarily by increasingly easy access to information. Now more than ever, consumers have the ability to benchmark products and prices as well as decide where to buy them, with special emphasis on the increased adoption of online purchasing. So, businesses are reacting to this and building their strategies primarily around consumer needs and looking sensibly at key consumer concerns, including those related to sustainability which is another key trend driving the fashion industry to take action.

Sustainability is a particularly important topic for the fashion industry with a large amount of media attention, several high-profile cases related to labour conditions at suppliers, and the environmental impact of the industry at large. Again, consumers are becoming more informed and demanding much more transparency from fashion brands, especially in regards to workers' rights and climate change, and the impact of this should not be underestimated. With brand loyalty at stake, those companies that fail to take positive action to improve their sustainable practices are likely to see a negative impact in the long run.

It is worth noting that, many of the initiatives that increase supply chain resilience can also lead to a positive impact on sustainability. Increasing visibility, for example, is not only a prerequisite for the flexibility needed to navigate disruptions - it also provides some of the information needed to give a much clearer picture of the carbon footprint and point towards any hotspots. With access to detailed carbon footprint data across their supply chain, companies can make much more informed decisions about how to reduce their environmental impact. At Maersk, we have developed a number of low-carbon and carbon-neutral transport options to support customers in tackling this very challenge. The recommendation to fashion companies is to work closely with their transport and logistics partners for tangible joint action plans towards achieving their sustainability goals.



For more on sustainability in fashion supply chains, see our report "Fashionably Sustainable" featuring an interview with Kaisa Tikki, Senior Global Sustainability Advisor at Maersk.

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What other trends are we seeing in fashion supply chains?

One of the most notorious developments in the past few years is the rebalancing of sales channels. There has been a conscious drive from fashion brand owners to increase direct-to-consumer sales across their own physical stores and online stores, in turn decreasing the share of goods they sell via multi-brand retail outlets. However, while this strategy translates into higher margins, it also means that brands need to take a higher share of the logistics responsibility to ensure goods make it timely to their stores or, in the case of online sales, directly to the consumer.

Another trend we have seen is the continued rise in multi-sourcing. This has the added benefit of increasing resilience by reducing dependency on a small number of manufacturing locations or countries. This trend has primarily evolved from companies that have a broad range of fashion goods and who are continuously looking for the best mix of affordable and quality production-at-scale. The largest geographical implication here is the continued shift of production from China to Southeast Asia and the Indian Subcontinent, and in smaller proportions to various other geographies. Some of these sourcing locations are a lever for companies in their quest for speed due to its proximity to specific destination markets.

At the same time, we already see some companies either acting on or looking into more vertical integration across their business, including their supply chains. This allows companies to reduce friction in how they go from design to sales with greater visibility throughout the process. Tied to this, more sophisticated systems and tools are enabling improved predictability, for which data and process integration becomes a basis to enhance the control that companies have over their supply chain. This trend will certainly grow in the future and we are likely to see brands look more closely at how their logistics partners can contribute to a vertically integrated business.



For more information on how data integration will enable more flexible and resilient supply chains, see our report "Logistics' Digital Revolution".

What advice do you have for fashion companies seeking more resilient supply chains?

It is fundamental that brands go beyond thinking of supply chains as being simply about moving goods from location A to location B, or mostly a topic about the transactional costs involved. Instead, the supply chain should be strategically seen, and designed as, an enabler for business growth.

Beyond the physical aspects of logistics and transport, improving the level of visibility over the entire supply chain ecosystem can be a competitive advantage in itself however the subject is less about "having visibility" (as that is not a goal in itself), than about "having the ability to use technology that can collate and correlate data". This capability can then enable insights that contribute to better predictability, leading to more agile and assertive decision-making.

Businesses will benefit from investing in proper continuity plans to manage disruptions that incorporate both internal processes and systems as well as consideration of external providers. Alternative processes, storage locations, routes, and transport modes can be tested and piloted as measures for continuity but also provide added flexibility to cope with demand peaks and other common business dynamics.

Fashion companies can benefit from developing strong strategic partnerships with leading logistics providers who are able to play an active role in consistently managing and optimising supply chains, providers that can be an integral component of their overall supply chain resilience playbook.



ALL THE WAY

