

2019 SUPPLY CHAIN OUTLOOK: **APPAREL**

52% of apparel businesses say cost-cutting is one of their top supply chain priorities over the next three years.

ACCELERATING SPEED TO MARKET

Few supply chains are as dynamic as those relied upon by the fashion industry. From retailers to manufacturers, apparel supply chains crisscross the globe in a race to outfit customers with the latest styles and beat the competition on driving—and supplying—the latest trends. Speed and cost efficiency are both critical as apparel businesses juggle myriad products and suppliers, and growing industry pressures are underscoring the importance of a well-run supply chain.

The global fashion industry was worth \$2.5 trillion in 2017,¹ yet the top 20 companies make 97 percent of the profits, with most apparel businesses squeaking by on razor-thin profit margins. Those margins could become even thinner in 2019, with McKinsey estimating an industry growth rate of 3.5 to 4.5 percent, down from 4 to 5 percent the previous year.² Along with cost considerations, sky-high product turnover rates present major supply chain challenges for organizations. Whether apparel businesses are constantly refreshing fast-fashion styles or offer just a few collections a year, a streamlined supply chain is fundamental to getting huge volumes of ever-changing SKUs to market quickly.



Meanwhile, changing consumer expectations and fulfillment models are hitting apparel businesses particularly hard. With e-commerce reaching 10 percent of all U.S. retail sales in 2018,³ the rise of unified commerce is emphasizing the need for speed and agility among apparel retailers. A Gartner study found that 73 percent of the top 100 retail brands now offer same-day or next-day shipping, as they also explore last-mile fulfillment models like click-and-collect and locker pickup.⁴ With the U.S.-Chinese tariff battle still brewing, global trade uncertainty is also forcing apparel businesses to reexamine their sourcing and logistics strategies.

Against this backdrop, supply chain is a prime area for innovation in the apparel industry. By optimizing efficiency, visibility and responsiveness when things don't go as planned, businesses can drive customer acquisition and loyalty in a fiercely competitive marketplace. While the sector has been relatively slow to adopt supply chain technology, Gartner reports, businesses have a growing interest in implementing tools and processes to transform their operations.

“

Apparel supply chains are some of the most dynamic and complex, making them ripe for innovation as businesses look to manage today's global pressures. Organizations that take a high-tech, high-touch approach to supply chain management will be well-positioned to succeed in this competitive industry.

Jon Slangerup, Chairman and CEO, American Global Logistics

”

The Rise of Retail Tech

In AGL's latest industry outlook, here are the top five trends poised to shape apparel supply chains in the coming year:

1. An Even Greater Focus on Efficiency

Long known for their cost-consciousness, apparel businesses are tightening their belts even further amid worries of an impending economic downturn. Industry executives cite “dealing with volatility, uncertainty and shifts in the global economy” as their top challenge for the third year in a row,⁵ and 52 percent say cost-cutting is one of their top supply chain priorities over the next three years.⁶ As they work to balance costs with speed, a centralized supply chain platform can help apparel businesses gain a better understanding of end-to-end operations and identify opportunities to run more efficiently.

2. Doubling Down on Digital Transformation

Many apparel businesses continue to rely on outdated or homegrown supply chain tools, thanks to small IT budgets and a “that’s how we’ve always done it” mentality, Gartner reports.⁷ Reliance on email and Excel to manage complex supply chain requirements also remains common practice among a significant number of apparel organizations.⁸ Savvy organizations are recognizing they can no longer wait to innovate, however, with businesses that undergo digital transformation achieving significantly higher performance levels than those who merely focus on continuous improvement. Nearly half of retailers have already deployed artificial intelligence,⁹ with applications that include machine vision to spot imperfections on garments. Warehouse robotics to automate picking processes are another fast-growing supply chain innovation, with one-third of retailers already using the technology and another 55 percent planning to deploy them by 2020.¹⁰

3. Sourcing Shifts

The typical apparel business has a vast sourcing network—potentially even more vast than many realize. While apparel businesses report having between 1,000 and 2,000 suppliers on average, that figure can balloon to between 20,000 and 50,000 with sub-suppliers.¹¹ Between the need to move goods quickly through the supply chain, customer preferences for sustainable goods and growing tariff pressures, apparel businesses are taking a close look at their supplier mix to maximize efficiency and resilience. The industry could see an uptick in nearshoring soon, with 54 percent of U.S. and EU purchasing managers saying that proximity of manufacturing operations to customers is becoming more important.¹² In another survey, 60 percent of apparel procurement executives said they expect 20 percent of their goods will come from nearshore facilities in the next five years.¹³ As they adjust their networks, a combination of technology and industry expertise can help businesses map their supply chains accurately to determine the best sourcing and transit strategies.

4. Demand-Based Supply Chains

When it comes to getting the latest fashions into customers’ hands, every minute counts. One Goldman Sachs study found a direct inverse correlation between supply chain lead times and like-for-like sales growth, putting pressure on businesses to keep shaving time off production and transit. It takes 4.5 months on average to move products from design to transit to stores, and shipping is the biggest chunk of that timeline, with 49 percent of retailers saying it takes 30 days or more.¹⁴ To be more responsive to changing customer preferences, many apparel businesses are integrating product line management more tightly with supply chain strategy to reduce time to market and enable quicker decision-making.

5. The New Look of Last Mile

As customers embrace new shopping models like rent-and-return and subscription boxes, perfecting their omnichannel fulfillment is at the top of the list for apparel businesses. Fifty percent of fashion retailers now offer click-and-collect, where shoppers purchase online and then pick up in store, and options like locker pickup are also gaining steam rapidly.¹⁵ When executed correctly, new fulfillment models can pay big dividends for retailers. In one Gartner study, Target attributed a 5.3 percent same-store sales increase to click-and-collect.¹⁶ For businesses expanding their last-mile capabilities, an experienced supply chain partner can help scale new fulfillment methods more rapidly.

True Optimization Requires Technology and Support

As the apparel industry faces growing supply chain pressures, a combination of technological innovation and industry expertise is essential to achieve supply chain optimization. Businesses should consider what they're optimizing for, whether it's cost, time or a combination, and review historical data to set benchmarks and goals for improvement. With sprawling apparel networks particularly vulnerable to disruptions, organizations should be prepared to face what-if scenarios and have the visibility and resources to handle issues when—or before—they arise. By coupling a centralized supply chain platform with hands-on support, apparel businesses can accelerate digital transformation and position themselves for long-term success.

SOURCES:

- ^{1,2} Amed, Imran and Anita Balchandani, Marco Beltrami, Achim Berg, Saskia Hedrich, and Felix Rölkens. "The State of Fashion 2019: A year of awakening." McKinsey & Company, 2019, <https://www.mckinsey.com/industries/retail/our-insights/the-state-of-fashion-2019-a-year-of-awakening>.
- ³ U.S. Department of Commerce. "Quarterly Retail E-Commerce Sales, 4th Quarter 2018." U.S. Census Bureau News, March 13, 2019, https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf.
- ⁴ O'Connor, Thomas and John Johnson. "Supply Chain Brief: Retail Supply Chains React to Changing Consumer Shopping Patterns and Delivery Demands." Gartner, March 12, 2019, <https://www.gartner.com/doc/3904563/supply-chain-brief-retail-supply>.
- ⁵ Amed, Imran and Anita Balchandani, Marco Beltrami, Achim Berg, Saskia Hedrich, and Felix Rölkens. "The State of Fashion 2019: A year of awakening." McKinsey & Company, 2019, <https://www.mckinsey.com/industries/retail/our-insights/the-state-of-fashion-2019-a-year-of-awakening>.
- ^{6,7} Gartner, Inc. data prepared for American Global Logistics, LLC.
- ⁸ Meyer, Ben. "Reality Check: Supply Chain Technology Innovation Benchmark Study." American Shipper, December 2018, <http://digital.americanshipper.com/publication/frame.php?i=549982&p=1&pn=&ver=html5&pp=1&view=issueViewer>.
- ^{9,10} Gartner, Inc. data prepared for American Global Logistics, LLC.
- ^{11,12,13} Amed, Imran and Anita Balchandani, Marco Beltrami, Achim Berg, Saskia Hedrich, and Felix Rölkens. "The State of Fashion 2019: A year of awakening." McKinsey & Company, 2019, <https://www.mckinsey.com/industries/retail/our-insights/the-state-of-fashion-2019-a-year-of-awakening>.
- ¹⁴ Gartner, Inc. data prepared for American Global Logistics, LLC.
- ¹⁵ Amed, Imran and Anita Balchandani, Marco Beltrami, Achim Berg, Saskia Hedrich, and Felix Rölkens. "The State of Fashion 2019: A year of awakening." McKinsey & Company, 2019, <https://www.mckinsey.com/industries/retail/our-insights/the-state-of-fashion-2019-a-year-of-awakening>.
- ¹⁶ O'Connor, Thomas and John Johnson. "Supply Chain Brief: Retail Supply Chains React to Changing Consumer Shopping Patterns and Delivery Demands." Gartner, March 12, 2019, <https://www.gartner.com/doc/3904563/supply-chain-brief-retail-supply>.



© 2019 American Global Logistics, LLC. All Rights Reserved. CORWP04032019