



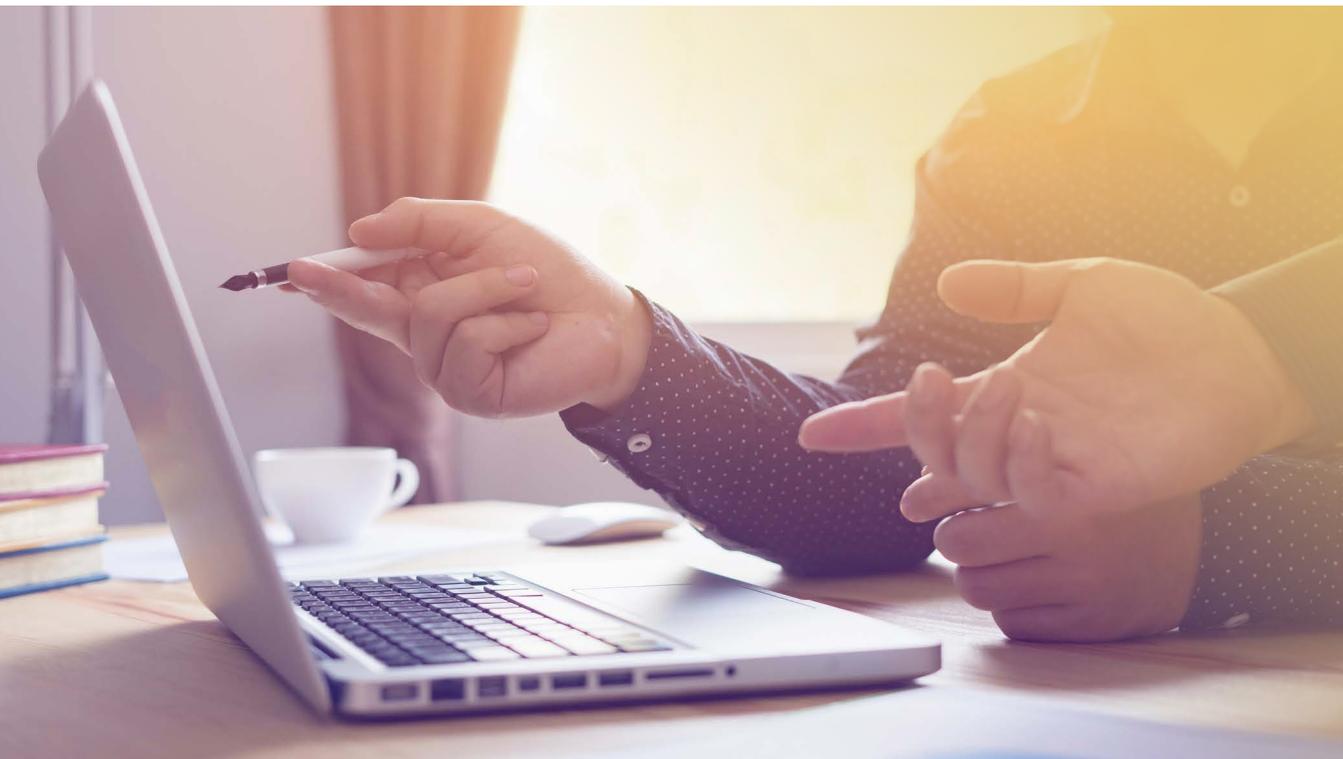
A Guide to Sourcing and Procurement in Fashion Retail

What Will the “New Normal” Look Like?

The fashion retail sector will be reshaped as a result of changes in consumer behavior after Covid-19 and other long-term trends. What should be the priorities for procurement and sourcing professionals in the sector? The impact of the coronavirus pandemic on retail has not painted a pretty picture. Fashion retailers were especially badly hit. There were exceptions, of course: with the home working and casualization trends, if you were selling sweatpants via online

channels, for example, you probably made enough to retire early. But with the easing of lockdown restrictions in North America and Europe there are now good grounds for optimism. With a lot of pent-up demand and a desire for physical retail experiences, fashion retail can look forward to much better times ahead.

Moreover, many of those fashion retailers that succeeded in overcoming the obstacles thrown in their path during the pandemic, such as overstocks, store closures and canceled orders, have



embraced and acted upon changes and innovations that they merely talked about in the past. Some retailers have adopted more conservative buying strategies, which enabled them to ease promotional pressure and improve profits in a challenging climate. Others have looked to rebalance their sources of supply, with some nearshoring after years of reliance on manufacturers in China or India.

If they can adjust to the new realities, sourcing and procurement professionals will play a leading role in moving fashion and other non-essential retail out of the current downturn. Responding

effectively will in large measure depend on applying technology to understand some key trends that we can see unfolding as a result of the long-term impact of the coronavirus crisis and responding intelligently.

Here are some of the trends and challenges to act on:

01 | The collapse of the urban workplace and its impact on procurement

The shift from working in a town-center office to working from home spells disaster for many retailers, and the degree to which people are working from home has shifted inexorably. This stood at about five percent of the workforce before the pandemic, peaked at around 35 percent, and is now falling back to somewhere between 15 and 20 percent. HR departments are figuring out the right mix but around [40 percent of work](#) can be done from home. This also implies a shift from buying clothes and other items during your lunchbreak or after clocking off, which will have a major demand-driven impact on supply chains. With consumers more dispersed and shopping locally or online, sourcing professionals, who have made major efficiency gains over recent years, have been forced to do a major rethink. Distribution networks are finding that they now have to restructure.

Regional patterns of economic activity are also changing, with people leaving the higher cost areas such as New York, Los Angeles and San Francisco and relocating to work in areas with more affordable housing and perhaps a better lifestyle such as shorter commute times (e.g., Tampa and Boise). Sourcing and procurement professionals will need to work even more closely and intensively with retail location planners to mitigate the hit taken to existing store locations and help with the move out to the high-growth areas.





02 | You must develop a reliable and consistent online presence

If you were not online during the pandemic, you were not in the game. Online commerce leapt by 49 percent in the USA in April 2020. Coronavirus reinforced a trend that was already well underway and killed off many brands that had not adapted. However, this brings added risk for sourcing and procurement. With all your competitors (and new market entrants) going online, it becomes harder for retailers to differentiate themselves, and consumers will base their buying decisions on price and availability more than ever.

Retailers must therefore have a pipeline of competitively priced and high-quality goods constantly on tap or expect to lose business, while at the same time, they try to reduce inventory to contain costs (see below). This means that sourcing the right products with the right suppliers, while implementing operational efficiencies, will become more crucial than ever. The ability to keep pace with fluctuating consumer tastes will be especially important in sectors such as apparel. One of the upsides for retailers in such areas is that sourcing trade fairs are themselves moving online, making it easier to build a strong and extensive global supply network.



03 | But the physical store will revive in new formats

However, leading high street retailers are also challenged to offer consumers good reasons to visit their physical stores. As retail brands look to develop attractive new store concepts, procurement professionals will need to collaborate closely with marketers and PoS specialists on the indirect sourcing of not-for-sale-goods providing instore entertainment and other features.

04 | You need to rethink your supply chains

The trends that were accelerated during the pandemic such as the buy online pickup in store (BOPIS) model, together with supply chain uncertainties, have forced fashion retailers to rethink how to bring manufacturing and warehousing closer to consumers to improve speed of service and minimize the risks of sourcing from far-flung regions of the world. The very term “supply chain” is beginning to feel outdated in fashion retail – it is no longer a linear chain but rather a messy network, and managing it calls for more sophisticated technology. Some retailers established or expanded their local and domestic manufacturing sources during the pandemic, but it remains to be seen if this is a long-term trend. What is more likely is that companies will diversify to rebalance their supply and reduce risk.

Looking to rebalance the supply chain after the disruptions of the past months? Find out what your peers are thinking – and doing – in procurement, in this [2021 CPO Study](#).

Are you making truly value-based decisions about your suppliers?

[This checklist](#) may help you take all factors into account.



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05 | Sourcing will be more reliant on predictive analytics

During the early days of the pandemic, supermarket and drugstore retailers struggled to meet the demand for certain items. One of the reasons was that both retailers and their suppliers were still relying on data reflecting traditional consumption patterns and therefore lacked the agility to meet changing needs of their own consumers. We are now seeing something similar in fashion, as it is difficult to predict what's coming next after the pandemic. For one thing, the predictable fashion week-led seasons were upended by the pandemic, and it will take some time to return to normality, though some analysts believe things will never be the same. Volatility in market demand will be with us for some time, or

will permanently be the new reality, and sourcing decision-makers will therefore rely more heavily on predictive artificial intelligence that can reveal emerging trends very quickly. As [McKinsey recently stated](#), "The requirements for supply-chain speed and flexibility will continue to increase. Digital and analytics will play a critical role in helping companies emerge stronger from the crisis." Procurement and sourcing leaders need to be more agile than ever, able to capture and act on trends in demand, and ideally see them coming before they occur.

[Looking to increase savings by enhancing your sourcing capabilities?](#)



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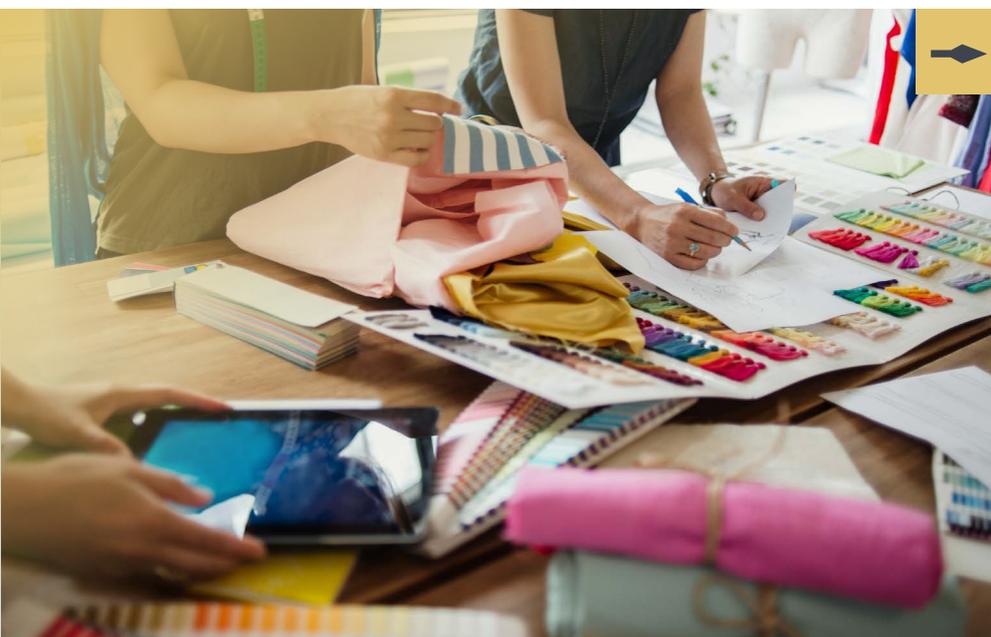
- McKinsey

06 | Sustainability and CSR issues are here to stay

Another long-term trend that has been reinforced by the pandemic, demographic trends and other developments such as the Black Lives Matter movement is consumer (and institutional buyer) interest in supplier diversity, sustainability and, more broadly, social responsibility. Many companies, especially in fashion or non-essential retail, are realizing that paying a little extra to get products that are sourced ethically (and often locally) is an effective way to future-proof their supply chain and at the same time build customer loyalty.

Environmental sustainability remains a key priority for fashion brands and their suppliers, but issues such as forced or exploited labor have pushed social responsibility even more to the forefront, especially among millennials and younger demographic cohorts, who are nonetheless also price conscious. You can add to this increasing governmental pressure. The fashion industry has a lot to do to help the world achieve the Paris Agreement targets and bring emissions down by a minimum of 50%. Part of the answer is technology that allows retailers to flexibly integrate CSR factors into RFPs and sourcing events.

Sustainability starts with procurement! Guest speakers share their thoughts on how to achieve sustainability in supply chains [in this webinar](#). We also recommend this [research paper](#) from Gartner.





07 | Closer collaboration with suppliers

Partnerships between brands and vendors will be crucial to unlock greater opportunities to optimize operations. The industry has been talking about strategic relationships (as opposed to transactional ones) for years. The pandemic provided an impetus to put this into practice. Priority areas for consideration include joint planning of strategic goals, co-investment to optimize distribution and other end-to-end processes, and collaboration on digitalization. Action on these fronts will not only enable retailers to secure production capacity but also drive innovation.

Unsure how to commence or advance your digital transformation of supplier relationships? There is some good advice in this [JAGGAER webinar](#).



08 | Greater emphasis on risk mitigation

Supply chain and supply management professionals have prioritized cost savings and lean supply networks to cut costs and maximize margins, for example by consolidating vendors and suppliers. However, this also limits supply and the ability to respond to unexpected events with agility. As supply networks stabilize, retailers and their first-tier and second-tier suppliers will reexamine their lean practices and give greater emphasis to risk mitigation strategies while protecting cost savings where possible. Here too, retailers are going to be more reliant than ever on data and new predictive technologies to study supply chains, understand dependencies and make the optimum trade-offs between cost savings and risk mitigation. The most common risks are dealt with at greater length [in our white paper](#).

Discover the [ten golden rules](#) of supplier risk management and a [step-by-step](#) approach to mitigating risk.

09 | Managing with lower inventory levels

Factory closures and supply chain disruptions forced fashion retailers to manage with lower inventory levels. The smarter ones, with agile sourcing teams, learned to make the best of this and, as Fran Horowitz, CEO of Abercrombie & Fitch Co. Inc. put it, “chase into what we need.” The leaner inventory reduced an item’s average cost over time. Other companies such as American Eagle and Macys also plan to remain conservative with inventory levels going forward. The same applies to apparel companies. “Holding less is the way to go. Companies learned from the pandemic that this has become critically important because too much inventory can make you sick. It’s far easier to maneuver when you are cleaner and have less to deal with,” according to Mike Zuccaro, apparel credit analyst at Moody’s Investors Service.

Learn how you can increase your competitive advantage by [speeding up fulfilment](#). Technology is also available to help you [manage inventory](#) more effectively.



The Bottom Line

There is no doubt that as fashion retailers and apparel manufacturers look to accelerate out of the crisis, they will need to cope with long-term changes in consumer spending habits and, in consequence, changes to the products they offer, the sales channels, where the goods are produced, how they move through the supply chain, and how and in what quantity they are stored and warehoused.

The key takeaway is the importance of speed and responsiveness. Fashion retailers and their suppliers really need to stay tuned to where the consumer

is heading in the post-pandemic environment and adjust their sourcing and supply management strategies not only to follow trends but to lead them.

JAGGAER has extensive experience working with sourcing and procurement teams in retail fashion and apparel. Contact us to discuss your needs and priorities.

[Read our white paper, Procurement in Retail: Making the Case for Digital Transformation.](#)



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Notes



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