

The Fashion Supply Chain:

Lessons and Strategies to Move Fashion Forward Amid Disruption



Introduction

“Clothes mean nothing until someone lives in them.”

This is a quote attributed to fashion designer Marc Jacobs. It’s a sentiment that seems especially visual—and poignant—given the trapped and delayed inventory sidelined by COVID-19.

The pandemic and global shutdown have hit a number of industries hard. But more than any other, the fashion industry is in desperate need of a reset. Between the start of the new year and the end of March, fashion and luxury players were hit hard—shedding almost 40% in market capitalization. Beset with challenges even before the Coronavirus came on the scene, the global outbreak has served to expose pre-existing industry shortcomings. As a result, fashion brands are now pressed to unlock innovation and redesign operating models.

This white paper will put the lessons of 2020 in the context of the fashion industry, to help businesses understand how to emerge stronger and position themselves more competitively in the new economy. With volatility expected to become a fixture in the landscape, the blueprint to succeed is centered around mending the fractures and fragility of supply chains. But more than that, to replace the aged concept of efficiency with resilience and agility.

Making COVID-19 So Last Season: Understanding the Implications

Not only has COVID-19 cast a shadow over the fashion industry, it has accelerated the onset of other unfavorable trends that were already beginning to dot the landscape. And while some might think it's just a temporary blip and goods will start selling sooner or later, fashion is a lot like food. It must be sold and put into consumers' hands while it's still fresh. Otherwise, the value goes out the window.

As the health crisis has spread globally, three overarching themes have emerged to upend the industry, each posing its own set of issues.

1. Uncertainty in trading

With analysts and economists trying to predict whether the global economy will take the shape of V, U, L, or something else, there has been a profound lack of clarity. As a result, businesses have incurred lost opportunity tied to seasonal fashions. And, with the plethora of surplus inventory, businesses are being forced to apply significant discounts to move goods and salvage some degree of revenue opportunity.

As a result, many are taking a second look at their supply and logistics networks as the fragility of these supply chains has been spotlighted. Efficiency, which was once the name of the game, is now being eclipsed by redundancy and diversification, to avoid the risk of relying on a single source.

2. Consumer shifts

Historically, major eras of disruption have led to notable societal shifts. During times of uncertainty, consumers have modified habits and consumptions, in favor of being more frugal, more value conscious.

In line with that, higher-end brands have had to make adjustments to remain competitive, including dropping prices and not just for limited-run sales. For instance, upscale clothing company Rag & Bone posted a letter from its founder on its website to explain why it was lowering prices.

“...Like the rest of the world and the rest of our industry we are doing our best to navigate our way through this, acknowledging that we need to do all we can to support and protect our employees, our company and our customers. To that end we have decided to lower our retail prices across the board until this is over, or until we are allowed out of our homes and back to work...”

And while price reductions might tease up some consumer interest, we can expect more pressure on brands to come through with seasonless collections that can allow buyers to get more mileage out of their purchases. In addition, with the expectation that ‘intermittent social distancing’ will be part of our world for the foreseeable future, in-person shopping will likely take a hit. Instead, an ecommerce revolution will likely rise up, which will shape how businesses hold and manage inventory.

3. Supply volatility

With manufacturing and supply chains suspended at different stages during the COVID-19 pandemic, businesses and the suppliers who cater to them have been weathering difficulties. Air freight capacity has been sidelined as urgent shipments of personal protection equipment have dominated the availability of aircraft. At the same time, ocean carriers have been implementing blank sailings as economies went temporarily offline due to government-mandated business closures. And, while these two conditions impacted companies, frustrating their ability to ship goods, market conditions got tighter, forcing cancelled orders and putting suppliers under intense pressure.

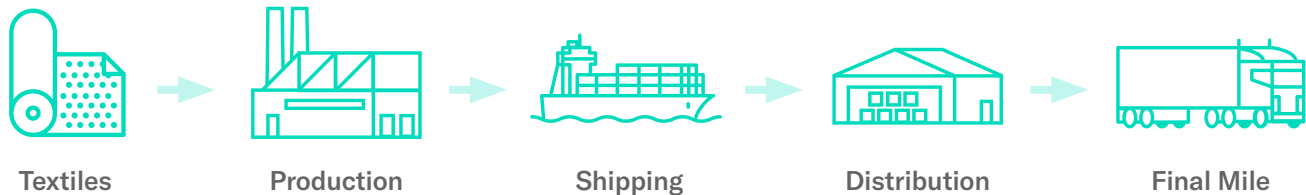
The Call for Digital Transformation

As the trends of COVID-19 have left their imprint, three key approaches have surfaced to help guide the way for fashion-focused organizations following lessons learned from the pandemic—and all are dependent on technology and data:

1. Rethink inventory
2. Revisit supply and logistics processes
3. Re-examine supply chain and financial controls

Organizations that undergo digital transformation are able to gain greater visibility and control to help brands better weather economic setbacks and disruptions. Moreover, the right technology platform connects players throughout the supply chain with real-time information, to ensure business continuity and more powerful collaboration. By integrating data and technology into the overall global trade process, companies create a more agile operating model that allows smarter forecasting and planning.

The Fashion Supply Chain



From sourcing textiles and materials to create fashion goods, to shipping, to warehouse, to final mile, the opportunity for things to go off plan is immense—and especially so during times of major disruption, such as a pandemic. While the fashion industry has been behind the curve on digital adoption, today's unprecedented volatility has upped the ante: For apparel companies to remain viable in today's market, digital transformation has become a must-have, not a nice-to-have.

Implementing technology with real-time data into the supply chain process helps businesses:

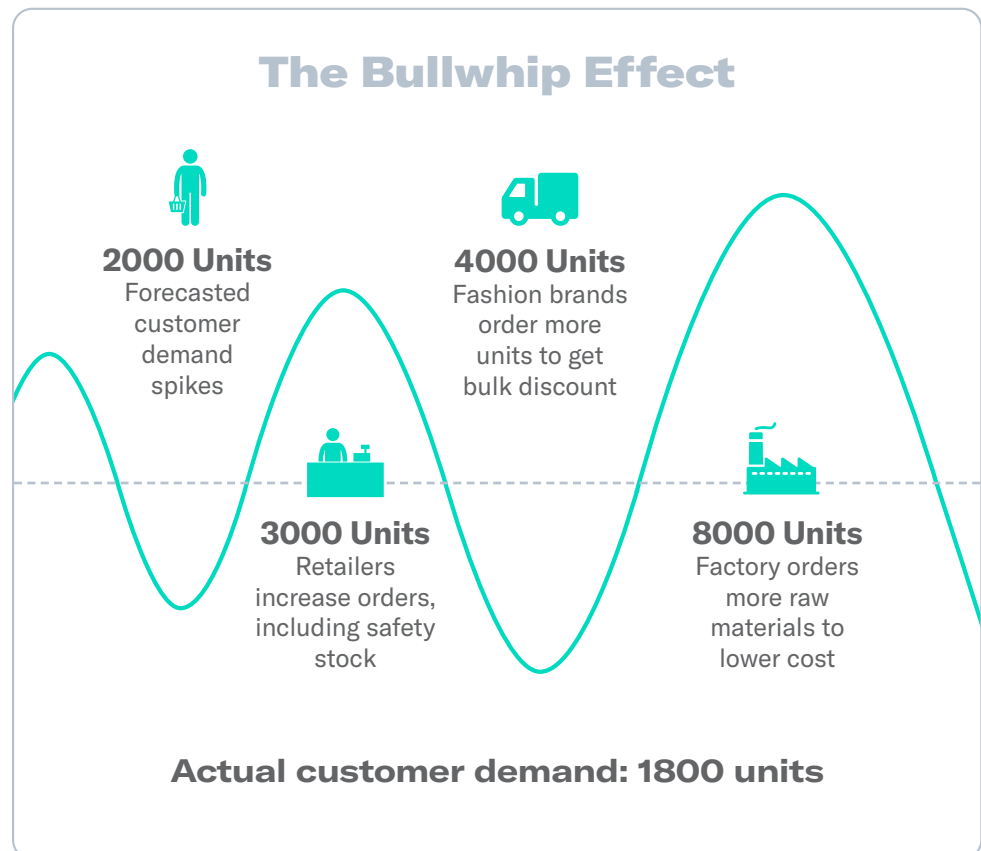
- Improve visibility into status of inventory to avoid lost sales
- Increase efficiency with supply chain management to reduce operating costs
- Accelerate decision making
- Optimize supply and logistics opportunities for improved productivity
- Preempt issues and create quick contingency plans to mitigate risk

New Approaches for a New Era

Plan Inventory Effectively to Mitigate Risk

If there's anything we've learned from the pandemic, it's that demand can change at any time and supply has become more volatile than ever. For fashion, these lessons underscore the need for businesses to rethink how they hold inventory.

In the post-COVID world, fashion brands need to devise strategies to mitigate risk from a supply standpoint and with the recognition that consumer habits are shifting. As demand see-saws, creating a bullwhip effect, businesses are left trying to bridge the gap between cancelled orders and excess or backed-up inventory.



[1 The State of Fashion 2020/ Coronavirus Update, McKinsey & Company and BoF.](#)

According to McKinsey & Company and BoF, more than 65% of consumers in Europe and the US expect to decrease their spending on apparel.¹ Should this come to pass, it is expected that inventory—particularly seasonal fashion items—will pile up, neglected, in warehouses.

Recommendations

- **Be Proactive and Preventive:** Disruptions like the COVID-19 pandemic have shortened the planning horizon, requiring greater foresight. Organizations that run their supply chains with technology platforms are able to take advantage of capabilities that put team members across the globe on the same page with real-time data and rich analytics. This arms them with information to create scenarios that let them stress-test various potential outcomes. Such advantages power more strategic decisions and quash reactive behaviors that lead to riskier bullwhip effects.
- **Speed Up or Slow Down:** Look at strategies to speed up or slow down cycles to gain better control and predictability. Make use of analytics that can help you identify buying patterns with an overlay of potential disruptions. This can help inform inventory management and how to choose between just-in-time inventory versus holding stock. In addition, a digital platform provides greater visibility into supply chain operations, upstream and downstream. Such transparency can shorten supplier communication feedback loops for faster decision making, as well as close the visibility gap upstream of the warehouse. With that kind of intel, businesses can better manage operations and stock, knowing when to push or pull inventory and time cycles for best results. And, it can help inform choice of transit mode: Ocean options, for instance—particularly premium services—can be a great way to slow down inventory while still offering some degree of control.

Rethink the Supply Chain for Sourcing and Logistics

The pandemic has shown the fragility of fashion supply chains. Fashion can no longer rely on past principles and strategies. The long-heralded concept of just-in-time supply or manufacturing is no longer a smart bet in the name of efficiency.

On top of that, airfreight as we've known it has changed for the foreseeable future. Passenger traffic, which drives most of the airfreight in the UK and the US, has been grounded by the pandemic, pushing up rates 2-3x what they were before the health crisis. The days of having multiple daily flight options between most city pairs is a thing of the past—and it may take three years to get back to that level of flexibility.

From a sourcing standpoint, the pandemic has taught businesses that the new economy calls for redundancy—of suppliers and inventory. In this new era, resilience trumps efficiency.

In fact, industry analysts are challenging the viability of fashion's typical sourcing model even as the World Trade Organization (WTO) continues to believe China will remain a key sourcing region for fashion. For instance, more than half of CFOs surveyed in an April 2020 study indicated that they plan to seek alternative sourcing options.² And, around one third expect to change strategies to increase visibility into supplier networks to understand risk. Similarly, respondents also plan to put tools in place to improve speed and accuracy of decision making.

The reality is, there's no single right answer in terms of sourcing and fashion leaders must evaluate what works best for them as a sourcing model.

² [PwC's COVID-19 CFO Pulse, PwC.](#)

Recommendations

- Before changing suppliers, look carefully at all facets of the issue. With the long lead time inherent in switching sourcing partners, it's important to not do this reactively.
- Be clear on your sourcing goals: Are you trying to mitigate risk by diversifying? Or are you trying to shorten lead time?
- Assess the risk in your supply strategy: Will you be able to rely on your supplier when demand intensifies? Are you too reliant on a single source? Do any of your suppliers have built-in business continuity?
- Be aware that supply resilience will increase the complexity of supply chain management. Look for technology solutions that can streamline and simplify communication and operations throughout the supplier network.
- When looking at transit options, plan ahead for air and explore alternative modes of ocean and rail. Keep in mind that transit times and costs have shifted since before the COVID-19 outbreak.
- Examine all contracts carefully. Supply volatility may have invalidated existing contracts. In addition, rates and capacity may be subject to hidden terms. Have a Plan B at the ready.

Implement Supply Chain Controls

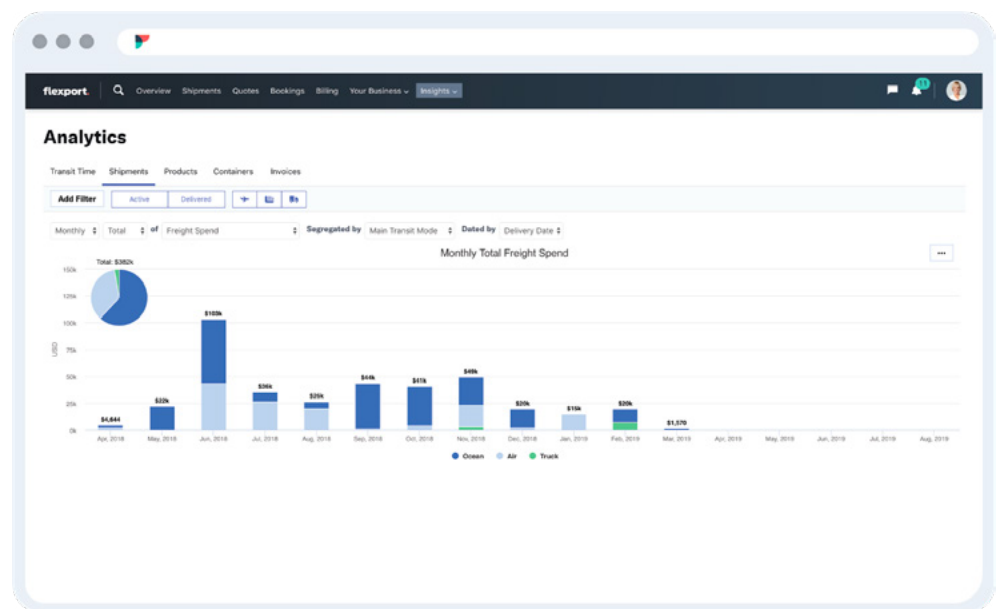
Fashion industry players have operated through a variety of business models: ecommerce, retail, third-party brands, wholesalers, or hybrid omnichannels. Those that stick with limited or traditional options will find themselves on a steeper slope. To survive, they will need to double down on their profitability.

For many, opportunity lies in buying, merchandising, and purchase order placement, where 30%-35% of costs are tied up. Other areas to examine: ROI of retail versus ecommerce, as inventory handling costs can range from 40%-50%; and costs associated with last-mile trucking, especially since landed costs are difficult to calculate.

Beyond direct costs, fashion-focused businesses must also consider how to optimize operational expenses through more efficient planning and processes. As supply chain complexity increases with each new supplier and logistical option, the cost efficiency challenge becomes greater. Ultimately, apparel brands must identify fresh ways to introduce visibility and collaboration into their supply chains. Doing so will ensure faster decision making and stronger partnerships.

Recommendations

- Take advantage of technology that makes it easy to run reports, track costs, and easily calculate landed costs.



[³ TechValidate
Research on Flexport,
TechValidate](#)

[⁴ TechValidate
Research on Flexport,
TechValidate](#)

- Determine how much time is spent chasing down emails to keep the supply chain running. A 2019 TechValidate survey estimates that 78% of clients save time on booking shipments after onboarding their suppliers to the Flexport platform.³ And, nearly 90% of clients surveyed say that with Flexport, easy access to reporting and analytics helps them make more data-informed supply chain decisions.⁴
- Assess frequency of errors and clogged decision making due to manual handling of important information and lack of automation. With a strong digital dashboard, greater visibility of data helps streamline communication flows between internal functions, logistics providers, and suppliers.

Conclusion

COVID-19 has changed the landscape for the fashion industry: Market uncertainty, consumer behavior shifts, and supply volatility have created new challenges for the supply chain. As the industry questions everything—from sourcing, to inventory management, to logistics models—digital transformation has emerged as a key solution to remain competitive. And with that, operating more efficiently has become an imperative.

Through modern technology, global infrastructure, and supply chain expertise, Flexport provides fashion customers with logistics services and tools to succeed, disruption or not. As a leading digital freight forwarder globally, Flexport empowers fashion brands to transform their supply chains for:

- Data and visibility down to the SKU level
- Integrated collaboration and communication throughout the supply chain in real time
- Greater control of processes and shipments in transit
- More efficient buying and logistics operations
- Faster decision making

To learn more about how technology can be used to optimize your supply chain, [watch this video](#). Or, speak with one of [our experts](#).

Each year, leftover apparel production goes to waste globally. For businesses that have excess inventory, solutions are available that provide tax benefits while helping those in need. To learn more, please contact org@flexport.com.

About Flexport

Flexport is the modern freight forwarder. Companies use Flexport to move freight, clear customs, and make smarter decisions about their supply chain - all on one digital platform powered by a unique combination of technology, logistics infrastructure and expertise. Today Flexport connects almost 10,000 clients and suppliers across 116 countries, including established global brands as well as emerging innovators. Flexport offers a full range of services, including ocean, air, truck and rail freight, drayage and cartage, warehousing, customs and trade advisory, financing, and insurance.

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