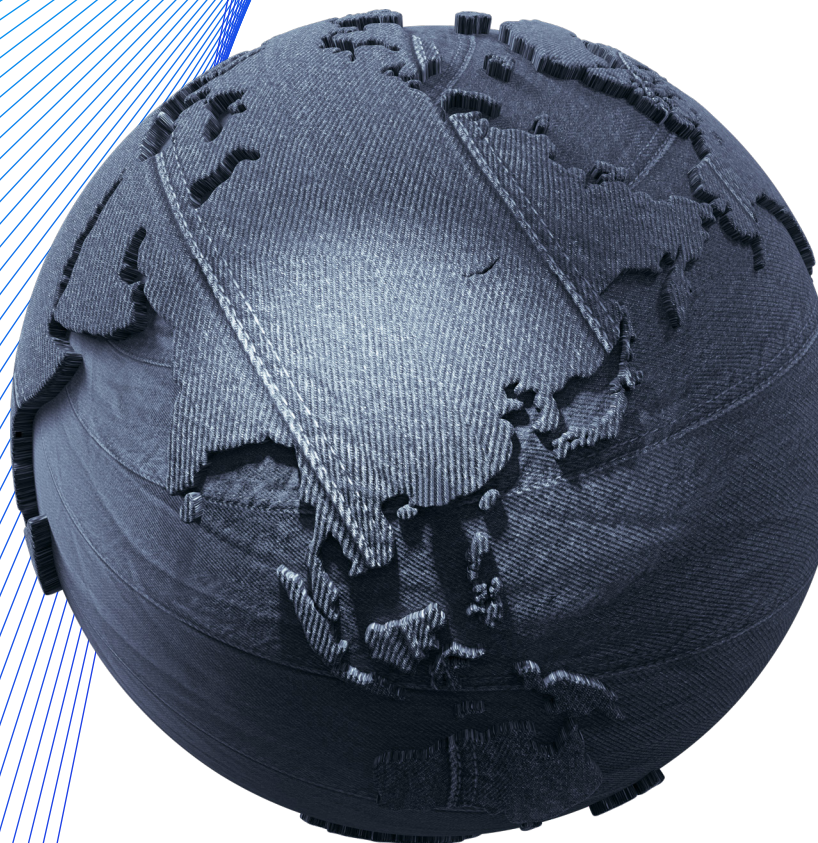


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Time for change

How to use the crisis to make fashion
sourcing more agile and sustainable



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Time for change

How to use the crisis to make fashion sourcing more agile and sustainable

COVID-19 has sent shockwaves through the fashion industry's sourcing and production operations, putting livelihoods and businesses at stake across the value chain. Beyond managing the immediate crisis, however, the industry needs to look ahead to the "next normal"—and fundamentally reshape its sourcing practices.

Before the crisis struck, the fashion industry had started to change its out-of-date sourcing model characterized by long lead times, maximizing order sizes, and relatively low flexibility. It was already clear that transformation was needed, particularly in making sourcing more demand-driven and more sustainable on both social and environmental dimensions. The COVID-19 crisis has brought the structure of the industry into sharper focus, and there has been significant demand and supply-chain disruption across the fashion value chain. Transformation is more important than ever to ensure the industry's future.

In this article, we first assess the impact of the crisis on sourcing operations and spotlight the steps that companies are taking in their immediate response. We then pivot to the longer term and consider the strategies—and the paradigm shift—that will be necessary to reshape sourcing practices moving forward. We suggest two key objectives for this long-term transformation: a demand-driven supply-chain

model and sustainable sourcing. We emphasize that, for every fashion company, getting through this crisis and managing the transformation will require close collaboration at all levels along the value chain.

To inform this thinking, we conducted a large-scale survey among sourcing executives and a broader group of stakeholders—asking both how companies can respond to the crisis now and how they envision the future of the industry. The survey, conducted between April 14 and April 22, 2020, engaged 116 sourcing executives from fashion retailers and brands predominantly in North America and Western Europe; between them they manage more than \$120 billion in sourcing value. We also included insights from more than 230 other Sourcing Journal subscribers, who are stakeholders across the value chain, including suppliers, agents, and academics. The survey was conducted in collaboration with the Sourcing Journal.

These sourcing executives and stakeholders make clear that, beyond immediate crisis management, the industry needs to shift towards a more sustainable and demand-centric future.



CLOSED
DUE TO
CORONAVIRUS

The fashion industry's sourcing operations have been hit hard by COVID-19

From a revenue perspective, 2020 is looking grim for the global fashion industry. Following five years of positive growth, we estimate that revenues for the apparel and footwear sectors will contract by 27 to 30 percent in 2020 year-on-year with even deeper declines in some sub-sectors and geographies.¹ This is in contrast to our pre-COVID-19 growth forecast of 3 to 4 percent.

Significant pressures continue to mount from demand and supply-side forces. Demand forces include lost sales due to store closures, shifts in consumer sentiment, and growth in e-commerce. In the long run, discretionary categories such as fashion suffer most from shifts in consumer sentiment. The industry is also seeing a channel shift as consumers increasingly get used to online shopping during confinement. Many retail players will experience inventory misalignment, with excess spring/summer product requiring additional discounting.

While retailers and brands have initially focused on securing their survival, they also face humanitarian challenges for both their own employees and those of their suppliers and partners at a scale never

before experienced. Fashion's interconnected global value chain has been severely disrupted as countries around the world go into lockdown. With suppliers moving into distress, millions of workers in some of the poorest countries face loss of income, and the real danger of poverty and hunger. Fashion retailers and brands need to act with responsibility in this time of crisis while also ensuring the survival of their businesses.

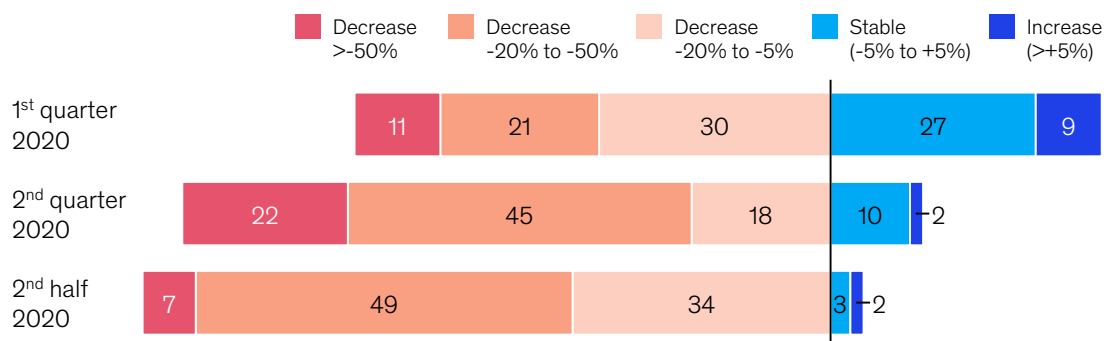
As COVID-19 developed into a pandemic, supply disruptions and a drop in demand led to steep cuts in sourcing volumes. Sourcing executives have been challenged to respond quickly to the impact of store closures, a slump in consumer sentiment, old stock clogging the system, and production lockdowns. The impact will hit sourcing volumes fully in the second quarter of 2020, when two-thirds of fashion sourcing executives expect a cut in volumes by at least 20 percent. Nearly a quarter (22 percent) expect their sourcing volumes to be slashed in half, while only 18 percent expect a smaller decline of between 5 and 20 percent. A slight easing is expected in the second half of 2020, when only 7 percent of sourcing executives expect a cut in volumes by more than half (Exhibit 1).

Exhibit 1

Supply disruptions and the drop in demand led to steep cuts of sourcing volumes

"What is the expected impact on your sourcing volumes vs. last year?"

Percentage of respondents



Source: Fashion sourcing survey 2020, n=116 sourcing executives of fashion retailers and brands
NOTE: Rest of respondents ticked "I don't know"

¹ McKinsey Global Fashion Index (MGFI) in The State of Fashion 2020: Coronavirus update <https://www.mckinsey.com/industries/retail/our-insights/its-time-to-rewire-the-fashion-system-state-of-fashion-coronavirus-update>



Immediate sourcing responses to COVID-19

To manage this unprecedented situation, businesses are scrambling to ensure their survival by balancing cash flow and inventory, meeting their commitments, and securing demand going forward. With continuing uncertainty regarding demand and supply-chain disruptions, sourcing executives have had to focus on four immediate priorities: (i) securing inventory and managing the ramp-down and ramp-up of supply chains; (ii) optimizing cash flow along the supply chain and ensuring the optimal trade-off between cash position, profit impact, and supplier stability; (iii) proactively managing financial risk across the entire supply chain, with particular attention to supporting suppliers; and (iv) adjusting internal costs, including open commitments and operating expenses of the sourcing function.

Secure inventory and manage the ramp-down and ramp-up of supply chains

For sourcing executives, the initial priority during the early days of the crisis was creating transparency of existing inventory in finished goods and raw material, orders in shipment and in production, and orders not yet started. This created sleepless nights and massive manual workloads in many companies, highlighting the need to improve transparency, traceability, and inventory analytics. With ongoing shutdowns, old products clogging the system, and uncertainty about the trajectory of demand, the focus turned to balancing three factors—minimizing inventory build-up, ensuring newness in their assortment, and securing future supply—all while being mindful of the financial and humanitarian impact of these actions in the countries of production. This is a delicate balancing act.

Most sourcing executives are adopting a mixed approach to managing existing orders through a combination of reducing the number of orders, reducing the quantities per order, and canceling finished-goods orders. Almost half of respondents (49 percent) have canceled less than a quarter of their existing orders of finished goods, while 22 percent have not canceled any orders at all.

European fashion players are using cancellations less often than those from North America.

One-third of European players indicated that they have not placed any cancellations at all, compared to 13 percent of their North American counterparts. North American companies are also canceling a larger share of orders—11 percent have canceled more than half of their orders compared to only 2 percent of European respondents.

A possible reason for this discrepancy is the difference in the assortment structure and sourcing mix between the two regions. Smaller European players often draw on a more varied set of sourcing countries, including significant nearshoring options. Some are also more advanced than their North American peers with regard to flexibility and in-season reactivity.

At the same time, the majority of suppliers are facing difficulties in fulfilling orders. More than half (53 percent) of respondents reported that their suppliers are only partly able to deliver orders in the second quarter of 2020, and 38 percent are likely to partially deliver in the second half of the year. 7 percent indicated that their suppliers cannot fulfill orders now.

As delays become more common, most fashion retailers and brands (90 percent of respondents) are accepting shipping delays for at least some of their orders. Around two-fifths of respondents are accepting delays for more than half of their orders. The picture is very similar across headquarter regions and companies of all sizes.

The most frequent reasons given by suppliers for delays in production include lockdowns, shortages of raw materials, lack of labor, cash flow issues, and difficulties in reaching shipping ports. As the coronavirus moves across the globe, the resulting policies to manage the crisis are impacting different sourcing countries at different times. Furthermore, the lack of integrated setups and the globally dispersed value chain of raw material and fabric supply contributes to raw material delays. This highlights the interdependency ingrained in the global garment value chain. In this environment, uncertainty for sourcing executives is rife. Transparency across suppliers will be key in managing the ramp-down and ramp-up of supply chains during this time.

Optimize cash flow along the supply chain

Sourcing executives are under pressure to optimize their cash flow, navigating trade-offs between cash position, profit and loss impact, and ensuring supplier stability. The trade-off is clearly visible in the mixed model being applied to payments of existing purchase orders as sourcing executives segment and tailor their approach to different orders and suppliers.

Only a fifth of sourcing executives report that they are paying for more than 75 percent of their orders as agreed. Some fashion retailers and brands are fighting for their existence and 18 percent are not paying as agreed at all.

More than half (55 percent) of respondents are taking responsibility for raw material liabilities. Some brands and retailers have committed to pay production workers' wages of their suppliers, with 13 percent doing so for more than half of their orders. This compares to 41 percent of sourcing executives who are renegotiating terms on more than half of their orders and 25 percent who are deferring payment on more than half of their orders.

Proactively manage financial risk across the entire supply chain with an approach tailored to suppliers

As the shock increases, upstream cancellations and order reductions are putting the survival of suppliers at risk. To limit the potentially devastating consequences of cash-flow-optimizing measures, it is essential that sourcing executives proactively manage financial risk across the entire supply chain and tailor their approach to support their suppliers. This is crucial, not only in securing future supply, but in light of the humanitarian impact that loss of income and employment will have in production countries.

Sadly, more and more companies will be moving into distress unless their cash flow is secured, resulting in a possible shakeout of retailers and fashion brands.² Many of their suppliers may not survive either. Most fashion retailers and brands report that at least 25 percent of their suppliers are facing financial distress. The situation is set to get worse, with 45 percent of sourcing executives expecting more than half of their suppliers to be in

financial distress in six months' time.

Supporting the critical supplier base is therefore becoming essential. Fashion brands and retailers need to responsibly reduce the financial distress of their suppliers, and well-known brands and retailers are taking steps to do so. However, 22 percent of sourcing executives report not taking any support measures at all. Only 19 percent of respondents say they are providing pre-payment for orders, even though 64 percent rate the impact this would have as significant. A larger share are taking responsibility for payment of raw material and fabrics, while the majority are focusing on collaborative cost reduction efforts (Exhibit 2).

Adjust internal costs

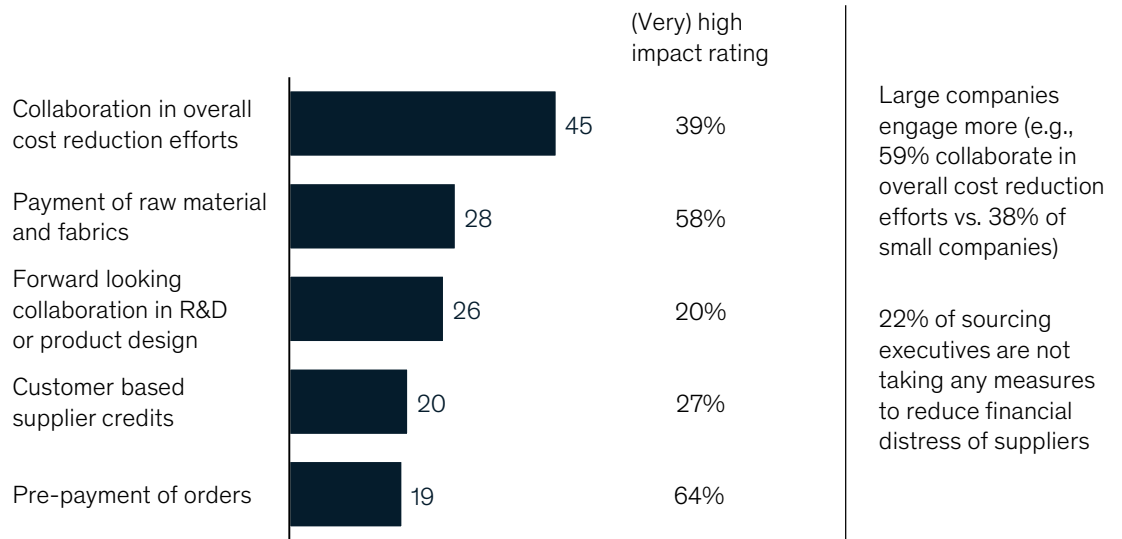
Beyond managing open commitments, cost containment measures include the operating expenses of the sourcing function itself. More than half of sourcing executives have applied temporary staff measures in their sourcing offices to help manage operating costs. While around a third of respondents reported no impact to employment of sourcing office staff, 56 percent have had to take temporary measures such as salary reductions (18 percent), furlough (17 percent), temporary layoffs (9 percent) and deferred compensation (3 percent). Permanent layoffs were only mentioned by 9 percent of sourcing executives.

² The State of Fashion 2020: Coronavirus update <https://www.mckinsey.com/industries/retail/our-insights/its-time-to-rewire-the-fashion-system-state-of-fashion-coronavirus-update>

Supporting the critical supplier base is becoming essential

“What measures have you taken to reduce distress at your suppliers?”

Percentage of respondents



Source: Fashion sourcing survey 2020, n=116 sourcing executives of fashion retailers and brands

NOTE: Rest of respondents ticked “I don’t know”



How to reshape sourcing for the future

Looking beyond the immediate crisis and the focus on survival measures, the industry needs to move towards the next normal. In recent years, industry discussions about the need for a fundamental shift in fashion sourcing have amplified. However, thus far the industry has been slow to adapt and make the changes needed to solve decades-old problems. The COVID-19 pandemic may offer an opportunity for reshaping.³ The current disruption has accelerated the need for a fundamental shift—a truly systemic transformation—to a demand-driven and sustainable sourcing model.

A demand-driven, flexible supply chain is more important than ever

As uncertainty about demand prevails, and sales volatility increases, supply chains need to become more demand-driven and flexible. The overstock issue of pre-COVID-19 times has been exacerbated and will likely result in a slow recovery and vicious cycle of discounting. Simply put, a revision of the fashion calendar is needed.

Fashion brands will need to operate more flexibly across the value chain—including the product development process—to cut down lead times and adapt more responsively with a deeper understanding of consumer trends and needs. Crucial ingredients in a demand-driven supply chain include segmented assortments with smaller batch sizes, increased transparency, removal of functional silos, utilizing highly efficient processes supported by tools and analytics, and making use of dual sourcing and nearshoring.

Our survey revealed that 76 percent of the international sourcing community believe that the COVID-19 crisis will accelerate flexibility and speed over the next year. Of these respondents, 52 percent expect to see a high acceleration of more flexible product development with shorter lead times and smaller batch sizes. On-demand production through (semi-) automation will increase, though at a smaller

scale, with 32 percent of experts anticipating a high acceleration in this trend, and 28 percent anticipating a slight acceleration. For fashion companies to tackle the prevalent overstocking issue and provide an attractive assortment to customers, they will need to invest in these areas as a key priority.

Digital escalation is another repercussion of the crisis—as online channels gain share, they will contribute to a more volatile sales curve in the future. In this next normal, it will be paramount to improve full-price and product margin, while managing sourcing costs, and this will require fashion companies to achieve the demand-driven paradigm shift.

This bodes well for the future as research has shown that fashion companies can achieve significant economic improvement through demand-driven sourcing. Based on our work helping fashion companies with their demand-driven transformations, we have seen how this shift can result in a 5 to 10 percent improvement in full-price sell-through and over 3 percent profit margin.

Sustainability is top of the agenda

Though sustainability has moved down the executive agenda in recent weeks as fashion retailers and brands struggle to secure their existence, it is expected reemerge at the top of the executive agenda—and stay there. Sustainable sourcing at scale was a new must-have pre-COVID-19; social and environmental sustainability is becoming mainstream in the next normal.⁴ The pandemic has shone a spotlight on companies' commitments to the safety of their customers, staff, and those working in the global value chain. It has also brought ecological issues such as climate change to the fore.

The pandemic has actually increased consumer interest in sustainability. During lockdowns, consumers have been rethinking their consumption

3 Not only for sourcing, but also for the industry overall as discussed in The State of Fashion 2020: Coronavirus update, <https://www.mckinsey.com/industries/retail/our-insights/its-time-to-rewire-the-fashion-system-state-of-fashion-coronavirus-update>

4 More on the broader discussion of sustainability drivers and on scaling sustainable sourcing can be found in our report Fashion's new must-have: Sustainable sourcing at scale, <https://www.mckinsey.com/industries/retail/our-insights/fashions-new-must-have-sustainable-sourcing-at-scale>

habits as purpose and values have been put into focus. We see that consumers are demanding sustainable behavior from companies. For example, a recent consumer survey showed that more than 40 percent of consumers in Europe and North America look favorably upon brands that are showing concern and contributing to the social or medical agenda around resolving the crisis.⁵ More than 20 percent of consumers indicated that they would like to support local businesses and they plan to buy more products locally as well as indicating that they want to reduce their clothing consumption. Additionally, 16 percent of consumers in Europe, and 13 percent in North America indicated that they will be buying more socially and ecologically sustainable clothing going forward.

The move to a new, and possibly better, normal has begun and executives need to bring sustainability back onto the agenda now. Close supplier partnerships will be key to harnessing and scaling up the innovation necessary to achieve this. With consumerism put to question and COVID-19 highlighting the social impact on the value chain, the time is ripe for reshaping a course for sustainability in the fashion industry.

The majority of fashion stakeholders and Sourcing Journal subscribers believe that some core sustainability trends have been accelerated by the current crisis. Our survey indicated that more than 70 percent see closer partnerships with suppliers increasing and more than 60 percent believe that sustainable materials will become mainstream.

The crisis has disrupted old ways of working and given rise to new tools and processes being piloted out of necessity. This presents an opportunity for fashion companies to learn from these unprecedented times and reshape their sourcing practices—instead of reverting back to the old ways post-crisis.

There are four elements that fashion companies need to tackle to enable the systematic reshaping of apparel sourcing:

1. **Re-mapping the sourcing mix**, to better balance risk, cost, and flexibility. This includes diversifying sourcing country strategies,

implementing nearshoring and dual sourcing, and moving towards an integrated value chain.

2. **Forging stronger supplier partnerships**, to drive innovation, secure supply, and support suppliers. This includes moving away from transactional relationships to partnering with suppliers for end-to-end process improvement and finding new investment models.
3. **Digitizing the value chain**, and keeping many of the recent innovations as common practice after the crisis, including holistic digital and analytics strategies and providing roadmaps for the full value chain.
4. **Adapting operating models—and mindsets**, including adapting company cultures, implementing new collaborative models, and taking an agile approach to transformation.

Re-mapping the sourcing mix

Fashion players need to re-map their sourcing mix to better balance risk, cost, and flexibility of supply. Fashion stakeholders and sourcing executives indicate that sourcing volume will likely shift from China to other Asian countries over the next year. At the same time, the need for agility and risk reduction is boosting nearshoring and regional supply chain development. 60 percent of the broader group of fashion stakeholders and Sourcing Journal readers indicated that they expect at-scale and highly capable apparel manufacturing clusters will emerge more quickly in nearshore markets, for example in Eastern Europe and Central America. Slightly more believe that more integrated regional supply chains will be developed, reducing dependency on international fabric imports.

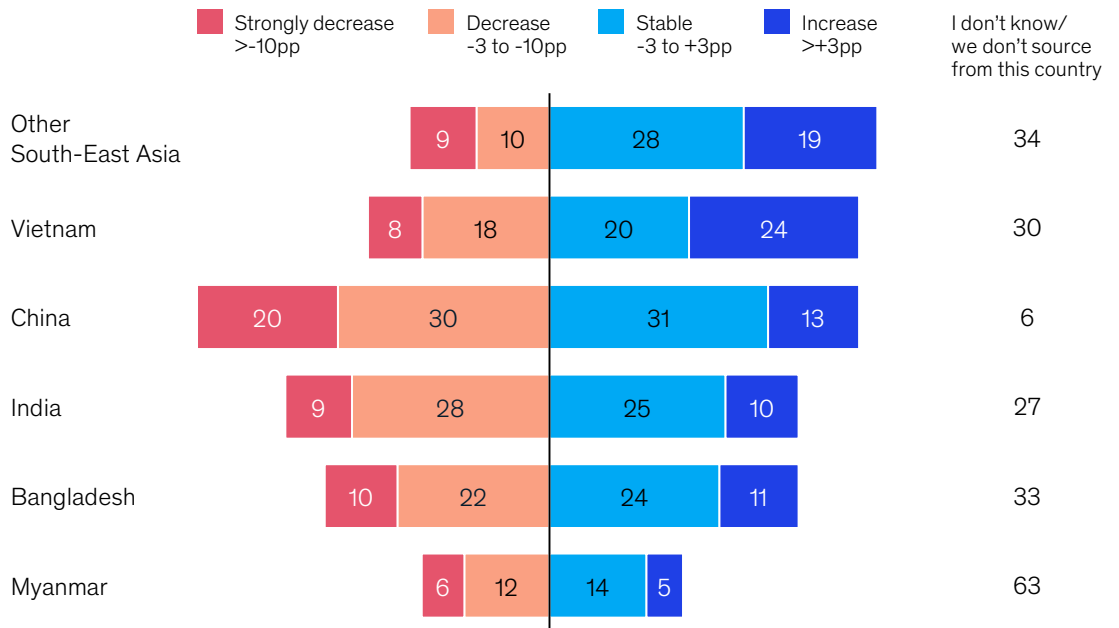
The impact of COVID-19 has already led to short-term sourcing mix disruptions. Compared to the five-year sourcing plans we analyzed, pre-COVID-19 in 2019, sourcing plans have changed this year.⁶ For example, according to our pre-COVID-19 survey, no respondents planned to increase sourcing from China for the next five years, whereas now 13 percent of sourcing executives expect an increase in value share from China (Exhibit 3).

⁵ The McKinsey COVID-19 Apparel & Fashion Survey included 1,000 consumers per country in France, Germany, Spain, the UK, and the US in March 2020. Participants were asked about overall shopping sentiment and purchasing behaviors regarding apparel and fashion over the past, and the next, four weeks.

⁶ In our report Fashion's new must-have: sustainable sourcing at scale <https://www.mckinsey.com/industries/retail/our-insights/fashions-new-must-have-sustainable-sourcing-at-scale>

COVID disrupts country trends

Expected development of sourcing value share from selected Asian sourcing countries for 2020
Percentage of respondents



Source: Fashion sourcing survey 2020, n=116 sourcing executives of fashion retailers and brands

This underlines the assessment by the broader group of Sourcing Journal readers that the trend to move volume out of China has been slowed slightly by COVID-19. Risk considerations, and different national lockdown policies, have contributed to this development. Another factor is the strong value chain integration in China that makes raw material access less disruption prone than the globally interconnected value chains fashion production countries depend upon. The role of China as the linchpin for raw material supply was felt strongly in the first quarter, when raw material delays led to broader supply disruptions, and emphasized the need for stronger backward integration of regional supply chains. At the same time, the first quarter was a wake-up call for some fashion companies who have not yet diversified their sourcing mix, as they are still highly dependent on China for finished goods.

So far, South-East Asian sourcing markets have been less disrupted and are expected to gain share compared to the pre-COVID-19 five-year trend. In contrast, COVID-19 has led to a reversal of the medium-term trends in Bangladesh with about a third of sourcing executives expecting volume decreases.

Sourcing managers are also looking closer to home to fill demand. When asked about proximity sourcing/nearshoring developments over the next year, 46 percent of sourcing executives indicated they expect this trend to increase. The question will be how quickly this shift can happen, as it takes time to build capacity and implement changes. Capacity allowing, Turkey stands to benefit most from the search for closer alternatives, with 43 percent of European sourcing executives expecting an increase in value share there.

To leverage the speed and flexibility opportunities inherent in nearshoring, companies will need to set up an integrated value chain to avoid delays and disruptions in raw material supply, balance higher labor cost, and take advantage of potential sustainability gains.

For this to happen, fabric and garment supply chains will have to be co-located nearshore, but there may be inertia in making this move and scaling up production. Full speed and flexibility will likely be reached once fabric production follows CMT. Specifically, this model offers far more speed and full flexibility in design by eliminating long lead-times in design processes due to shipping and allows for greater freedom

in material choices. On the sustainability front, nearshoring reduces shipping and enables regional efforts to close the loop.

But this model has challenges too, one being the varying local supply of fibers. There is a fair supply of cotton fiber available nearshore, particularly for North American players, but the vast majority of polyester is produced in Asia and will prove a bigger challenge in the short term. Another challenge is the high capex requirement. Generating investment will be a major challenge as yarn-spinners and fabric mills are high volume and capital intensive. Additionally, a move to an integrated value chain will require streamlining and innovation, especially in design and production, to fully leverage any potential benefits.

Forging stronger supplier partnerships

Collaboration across the value chain is crucial for achieving a flexible, consumer-centric supply chain and making industrywide progress towards social and environmental sustainability. Moving closer to strategic partnerships—as opposed to transactional relationships—has been talked about for years, however, the industry has not yet put this into practice. True strategic partnerships are relationships that encompass joint strategic goals with potential (co-)investments for optimization of end-to-end processes, and require collaborative innovation to drive digitization.

Pre-COVID-19, apparel retailers and brands were still shying away from making longer-term commitments or sharing strategic plans with their suppliers. According to the McKinsey Apparel CPO Survey 2019, the transactional model accounted for about 28 percent of supplier relationships.⁷ Moving forward, strategic partnerships with advanced suppliers will be crucial in the demand-driven, sustainable sourcing paradigm.

Fashion retailers and brands can't achieve flexibility, agility, and sustainability alone. Advanced suppliers are partners in collaborative design driving process innovation and technical and product R&D. Almost three-quarters of the broader group of Sourcing Journal readers expect an acceleration of fashion retailers and brands forging partnerships with these suppliers. And 60 percent of respondents believe

that the supplier base will consolidate, meaning the number of suppliers will be reduced over the coming year as fashion companies move to larger, more advanced suppliers with an international footprint.

Crucial innovation is driven by suppliers, but only a few fashion brands and retailers are willing to co-invest to ensure future capacity. Co-investing in suppliers is not about merely securing production capacity or helping suppliers make it through the current shakeout. It is about supporting the innovation needed for a demand-driven and sustainable sourcing transformation. Suppliers play a leading role, for example, in driving innovation in R&D and sustainable production processes and technology, Industry 4.0 for traceability and efficiency improvements, and in technology for mass customization. But when sourcing executives were asked whether they expect their organization to (co-)invest in suppliers to secure future capacity, only 17 percent found that somewhat or highly likely and almost half (46 percent) found it highly unlikely.

Digitizing the value chain

Companies have been forced to innovate in their processes and practices during the COVID-19 crisis. Players previously bound by physical borders are discovering the efficiency of cross-functional virtual teams and, as a result, will continue to break down silos between product teams and rethink the necessity of in-person meetings and travel going forward. For innovations to stick, brands need to strategically anchor them in their roadmap and operating methods, making substantial business model and process changes to harmonize pre- and post-pandemic era approaches.

Innovation has been scaled up along the entire fashion value chain: from design (3D design, AI planning) to merchandising and planning (virtual sampling, video signoffs); B2B sell-in (digital sell-in, virtual showrooms); sourcing and supply chain (nearshoring, vendor integration) and consumer engagement (virtual shows, social selling), innovation is here to stay. This innovation imperative is a crucial theme in surviving in a post-COVID world.⁸

Technologies and processes successfully implemented during the crisis will have a profound effect on the industry's future. Fashion

⁷ Fashion's new must-have: sustainable sourcing at scale <https://www.mckinsey.com/industries/retail/our-insights/fashions-new-must-have-sustainable-sourcing-at-scale>

⁸ See "Once the dust settles" in The State of Fashion 2020: Coronavirus update as one of the crucial themes to succeed in the post-COVID world.

players need to identify, prioritize, and scale up innovations that worked and benefited them the most during the crisis. Implementing a test-and-learn approach will be critical in a new world where agility and sustainability is of the essence.

The vast majority of fashion stakeholders and Sourcing Journal readers responding to our survey (74 percent) anticipate that digitization of product development and sourcing processes will accelerate and 60 percent agree that on-demand production through (semi)-automation will be a key driver in enabling new business models.

With travel bans in place, and in an environment of high uncertainty, retailers and brands are testing digital and analytics tools. Product development collaborations and the utilization of video conferences for sample approvals give an indication that reduced levels of business travel may be sustained into the future. Product development has been given a digitization boost that will become common practice after the crisis is over. For example, 3D design collaborations and video conferences for sample approval are the most promising trends, as nearly half of sourcing executives plan to make this common practice in their organizations (Exhibit 4).

Historically, intelligent sourcing supported by advanced analytics has been implemented only by more progressive fashion companies. With increased use of nearshoring and dual sourcing to balance sourcing cost and final product margin, advanced analytics are emerging as crucial tools to capture the full value of moving to a demand-driven supply chain. Two-thirds of fashion stakeholders and Sourcing Journal readers surveyed believe that the wide adaptation of intelligent sourcing will accelerate over the next year.

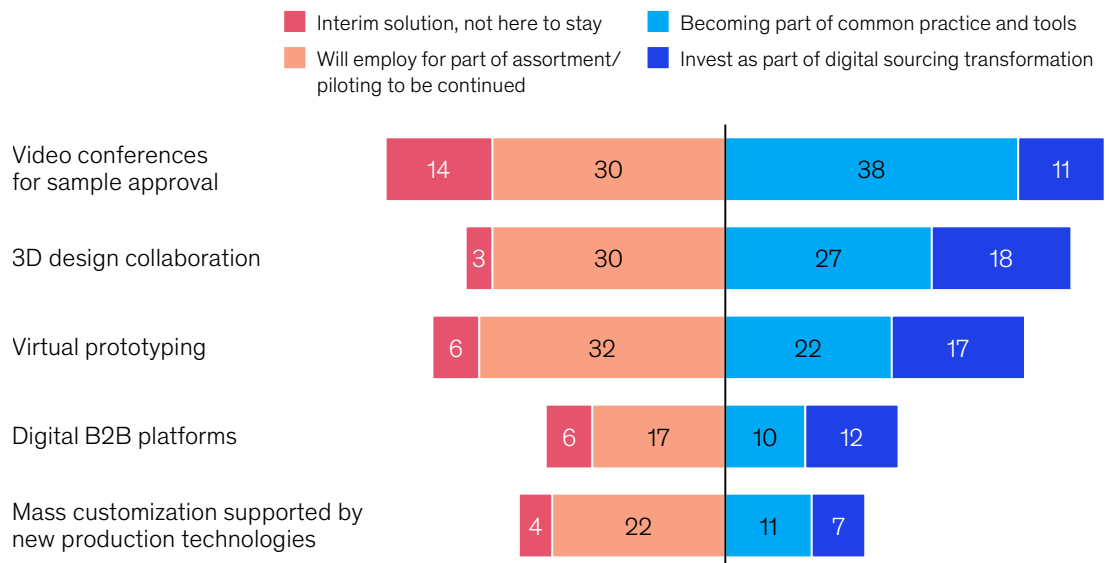
So far, however, many companies are still in the piloting phase. Only 20 percent of sourcing executives plan to make advanced intelligence for country and supplier selection a common practice and only 8 percent plan to invest in this as part of a digital sourcing transformation.

With current demand and supply uncertainty, and the need to implement control towers to manage the supply chain in the crisis, predictive analytics for production and capacity planning has been underscored. Almost 40 percent of sourcing executives plan to hardwire predictive analytics into their processes.

Exhibit 4

Epecially product development gets a digitization boost in the crisis—leading to changes in common practice beyond COVID

Usage of selected digital tools and approaches
Percentage of respondents



Source: Fashion sourcing survey 2020, n=116 sourcing executives of fashion retailers and brands
NOTE: Rest of respondents ticked "I don't know"

Adapting operating models—and mindsets

Supporting the organization, people, and partners to move towards a new way of working is imperative. Roles and organizational models along the product development process need to be readjusted, while in-country sourcing offices may need to develop deeper supplier relationships, allowing for global flexibility. Such radical industry upheaval will require a change in mindsets.

Over the last years, many companies failed in their efforts to move to new calendars, operate with more flexibility, or make social and environmental sustainability an integral part of their operations when little attention was given to changing the operating model or shifting mindsets. Only with this important element in focus, will true and long-lasting transformation be attainable.

Some of the actions fashion companies and their sourcing companies need to take to move to a demand-driven and sustainable sourcing model next normal are detailed in our previous reports

covering digitization of sourcing⁹, the shift towards more agility and an intelligent sourcing model¹⁰, and sustainability.¹¹ It is our hope that the wake-up call of the COVID-19 pandemic will accelerate industrywide transformation in these areas.

Companies and their sourcing organizations need to take action now to foster cross-functional collaboration between people and businesses to ignite transformation. Redefining roles and responsibilities along the product development and sourcing process is a good place to start. Companies can also begin to reskill and retrain employees, and identify new talent to close the skills gap, especially in the promising new practices that have come to light in the period of COVID-19 innovation, such as virtual prototyping and analytics.

Many of these changes will require a rethinking of corporate culture, and measures can be put in place to drive accountability and incentivize new ways of working. Most importantly, companies should redouble their efforts to develop ecosystems with innovation partners and experiment with new collaboration models.

Conclusion

The fashion industry faces a tough remainder of 2020 as it continues to deal with the repercussions of the COVID-19 crisis on the global apparel supply chain. Many brands and retailers will be fighting for survival while suppliers in sourcing countries fight for theirs—with potentially devastating consequences for millions of workers.

While the immediate priority is to navigate through this crisis with as few losses as possible, executives should not lose sight of the imperative to reshape sourcing practices for the long term. Oversupply, trends in sustainability, and digitization will continue to change customer behavior and disrupt traditional business models. Companies that have been slow to

embark on a transformation journey may now have little choice but to embrace the changes needed to succeed in the next normal, beyond COVID-19.

Tough questions need to be asked and answered to understand exactly how this next normal looks and operates in practice. Old thinking will need to make way for new ways of working, where fashion players join hands with suppliers and invest in strategic partnerships with tech companies. As difficult as the changes may be, and as unwelcome as this tragic crisis is, the industry should not waste this opportunity to completely reshape sourcing for a demand-driven, sustainable future.

⁹ The apparel sourcing caravan's next stop: Digitization <https://www.mckinsey.com/industries/retail/our-insights/digitization-the-next-stop-for-the-apparel-sourcing-caravan>

¹⁰ Measuring the fashion world <https://www.mckinsey.com/industries/retail/our-insights/measuring-the-fashion-world>; Is apparel manufacturing coming home? <https://www.mckinsey.com/industries/retail/our-insights/is-apparel-manufacturing-coming-home>

¹¹ Fashion's new must-have: sustainable sourcing at scale <https://www.mckinsey.com/industries/retail/our-insights/fashions-new-must-have-sustainable-sourcing-at-scale>

Strategic questions to address for the next normal

Example questions

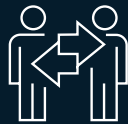


Re-mapping the sourcing mix

How can we prepare for continued country disruptions in the short term?

What should the future supply footprint look like?

How can we enable a continuously higher degree of flexibility?



Forging stronger supplier partnerships

How can the disruption be used to adjust the supplier base and intensify the collaboration?

What should the new Tier 2/3 strategy look like?



Digitizing the value chain

How can we implement step-change transparency and flexibility in order and inventory management?

Which digital and analytics solutions need to be accelerated?



Adapting operating models and mindsets

What should be the revised role of the sourcing office?

How can we shift towards new ways of working, especially in terms of collaboration and agility?

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