Luxury Daily®
The News and Intelligence You Need on Luxury

APPAREL AND ACCESSORIES

How luxury brands should streamline their supply chain in case of another pandemic

July 14, 2020

Luxury brands should rethink their supply chains post-COVID-19. Image credit: Navio Group

By DIANNA DILWORTH

COVID-19 slammed the fashion industry in challenging ways, as global shutdowns meant that important infrastructural parts of the supply chain were locked out of the system overnight when lockdowns hit some parts of the world and not others.

As the world rebuilds and begins to imagine what a new normal will look like, luxury brands should review their supply chains and opt for more agile and localized options to avoid delays and setbacks.

"Luxury brands would be wise to streamline their supply chains in case of a COVID resurgence or another pandemic," said Toopan Bagchi, senior advisor at The Navio Group, Minneapolis, MN.

"To accomplish this, they should first simplify their assortment and focus on the highest-volume items, especially classic items that won't go out of fashion quickly," he said. "The proliferation of multiple styles and sizes increases supply chain complexity and the risk of building up unwanted inventory if consumers pull back.

"Second, they should consider near-shoring or on-shoring production that has been offshored to reduce shipment time and produce closer to the time of purchase when forecasts might be more accurate," he said.

"Lastly, they should continue to refine their forecasting models and demand planning process, capturing as many market signals as possible to improve accuracy."

Louis Vuitton supply chain office. Image credit: LVMH

Producing closer to home

When the pandemic hit China earlier than the West, many Western brands saw delays in fulfilling orders. When it hit Italy, the luxury business came to a halt.

One way to overcome these issues is to produce products closer to home so that any manufacturing shutdowns will be lined up with any delays and shutdowns with the home office design teams.

"To bring production centers closer to the market, luxury brands should review options both domestically and in nearby geographies," Mr. Bagchi said.

"Within the U.S., it may be possible to retrain or upskill talent," he said. "Shinola watches was able to do this in Detroit, for example. Mexico and other Latin American countries may also be an attractive option as many industries transitioned there before eventually moving to China.

"Similarly, for Western Europe, there may be attractive talent pools and infrastructure in Eastern Europe and North Africa, where brands like Zara produce many of their goods."

Overseas manufacturing can also create issues with goods being locked out in tariff wars.

"Overseas production has its challenges, recently with tariffs and now with travel restrictions, but will likely not go away completely," Mr. Bagchi said.

"Basics that can be sold season after season should be fine even if the shipments take longer," he said. "To get around travel, many brands are adopting digital tools to design and review product."

Toopan Bagchi is senior advisor at The Navio Group. Image credit: The Navio Group

Following up on commitments

When manufacturing around the world shut down, many luxury brands did what they could to support the smaller players in the supply chain. This action helped keep these small businesses that the fashion and accessories industry relies on from going out of business.

"To support their partners, brands should commit to the agreements they enter," Mr. Bagchi said.

"The practice of moving away from contracts has left many smaller partners exposed as orders have been cancelled," he said. "This will not bode well for future growth or challenges.

"Beyond that, investments in training, health and safety practices, and equipment to streamline production should help prepare for a future pandemic."

Despite a booming stock market and active global economy, 2020 has taught the luxury business, and fashion, in particular, that the world can turn on its head without much notice.

As luxury brands review their supply chains, it is also important to remember that there are many elements that could impact their business and try to build resilience into the agenda.

"A pandemic is not the only driver of a potential business disaster," Mr. Bagchi said.

"In order to prepare for anything, it's vitally important to maintain a strong balance sheet," he said. "Many companies, especially in retail, have accumulated significant debt as a result of private equity transactions.

"Selling off non-critical assets or brands might be a way to improve the financial health of these companies," he said.

"In addition, luxury brands should engage in richer scenario planning or wargaming, develop plans and options for extreme events, and improve the monitoring of signals to read and react to changing conditions swiftly."