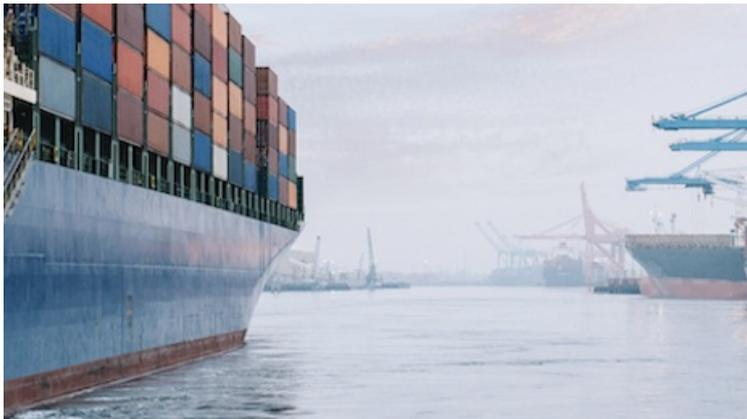


COMMERCE

Fashion turns to nearshoring as supply chain becomes top priority

November 30, 2021



Supply chain disruptions are at the top of the agenda of fashion executives around the world. Image credit: McKinsey

By NORA HOWE

As supply chain disruptions continue, more fashion companies are looking to source their materials and inventory from nearby countries to combat the crisis.

Subscribe to **Luxury Daily**
Plus: Just released
State of Luxury 2019 **Save \$246 ▶**

According to McKinsey and Company, 75 percent of fashion companies or brands see shipping disruptions as the greatest threat to flexibility and speed, followed by demand volatility. As shipping costs have increasingly become the biggest cost driver, 71 percent of apparel companies plan to increase nearshoring shares by 2025, while 25 percent look toward restoring.

"Harbor shutdowns, port congestion, container shortages and capacity issues in sea and air freight are putting the fashion industry under massive pressure," said Karl-Hendrik Magnus, senior partner of apparel, fashion and luxury at **McKinsey Germany**. "For the first time, shipping disruptions are becoming the biggest cost driver."

Bettering the supply chain

According to McKinsey, 82 percent of sourcing executives cite shipping costs as the biggest driver, while labor costs in source countries are mentioned by only 21 percent.

To remain competitive, speedy response times and supply chain resilience are integral for recovery and success among fashion companies.



Harrods turfed off-season inventory to an outlet store as to not waste merchandise. Image credit: Harrods

Some businesses have reported dips in earnings due to late merchandise and replacement arrivals, assortments failing to appeal to consumers and increased markdowns on overstocks.

Introducing shorter transport routes via nearshoring or reshoring the sourcing of apparel from nearby countries can help fashion brands be more flexible with their responses to supply chain issues while managing production.

Despite the higher sourcing costs, nearly three-quarters of respondents are planning to grow their nearshoring share.

For the first time, Turkey is one of the top three most promising source countries for the future, behind Bangladesh and Vietnam.

Turkey is particularly appealing to European-based fashion companies. For instance, goods can travel from Turkey to Germany in less than six days compared to the 30 day trip from southeast Asia by boat.

For the U.S. market, Central America has become more of a focus, as companies also look to relocate production back to the domestic market.

Additionally, more than half of company executives plan to reduce the number of options in their assortment in the next few years by focusing more on analytics to deliver more intelligent and customer-centric design.



Kering began tracing the source of organic cotton across the supply chain in an effort to enhance its sustainability credentials with end-consumers. Image credit: Kering

Reshoring could benefit them in these efforts.

McKinsey sees this trend as benefitting all parties, with customers owning products that are better tailored to their needs, businesses with better full-price sales and the environment with less product surplus and waste.

Sustainable supply

The industry's ability to shift to demand-driven, consumer-centric supply chains will hinge on strong partnerships, as brands and retailers cannot go at it alone.

McKinsey suggests fashion companies brands and retailers are revising their network of suppliers and moving toward closer partnerships to fulfill new models and achieve sustainability goals while balancing cost and organizational efficiency.

With limited awareness contributing to unsafe or dangerous working conditions, transparency and traceability are powerful tools for locating trouble spots in existing supply chains.

In 2019, French luxury conglomerate Kering partnered with Albini Group, Supima and Oritain to develop a more sustainable business model through 100 percent traceable organic cotton. With the help of forensic science and statistical analysis, the aim is to tackle traceability of plant- and animal-based raw material, which is a challenge for fashion's complicated global supply chains ([see story](#)).

Throughout the pandemic, retailers have been challenged with what to do with old inventory, even as most reopened with spring products during the summer.

U.K. department store Harrods found a creative way to offload its off-season and unsold inventory that piled up over the COVID-19 lockdown period: open an outlet store in a separate location to handle the crowds.

The Harrods Outlet in West London included fashion, beauty and accessories stock leftover from the season and hosted the Harrods Sale, complementing online efforts at Harrods.com ([see story](#)).

Ultimately, shifts in sourcing practices can help businesses' sustainability practices and bottom lines.

"Another advantage of nearshoring is that the shorter transport routes increase sustainability while lowering greenhouse emissions," said Saskia Hedrich, coauthor of the report. "Nearshoring also allows more flexible in-season production."

© 2021 Napean LLC. All rights reserved.

Luxury Daily is published each business day. Thank you for reading us. Your [feedback](#) is welcome.