

13TH ANNUAL
APPAREL RESEARCH
STUDY & ANALYSIS:
EXCELLENCE
IN GLOBAL
SOURCING



Next-Generation Sourcing: Winning with Agility and Innovation

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2019 marks the 13th anniversary of the Kurt Salmon, part of Accenture Strategy, and *Apparel* partnership for assessing the global sourcing market. This year's study surveyed more than 180 retailers and distributors, with nearly half of respondents being C-level or Executive Management (Figure 1). The study aims to evaluate what is most important to sourcing organizations and how companies can position themselves to improve their competitiveness and win in an increasingly unpredictable world.

Last year, we looked at the innovative technologies transforming sourcing into a value center. This year, we explore how companies can innovate faster and create agile operations to gain a competitive advantage and drive growth as macro forces, such as trade tariffs and increased cost pressures (Figure 2), create the urgency for change.

As barriers to entry in the apparel sector ease, new and smaller players are readily taking fresh ideas from design, to production, to market. For the larger to mid-tier retailers, simply focusing on cost-cutting will result in being surpassed by the competition.

Sourcing organizations must therefore evolve to become sourcing enterprises of the future by integrating technology

and innovation into their DNA. Companies cannot implement technology that works just for a certain group within the brand or organization — it has to be embedded throughout to ensure success. For example, if a company does not reskill the design and technical teams, it cannot use 3D design tools effectively, leading to low adoption. Similarly, if a company does not have relationships with vendors who are willing to invest and partner in technology, then the technology fails from an integration standpoint. Approaching this evolution with an overarching strategic vision and ensuring scalability is critical.

Successful players will be the ones who rigorously take steps to transform internal organizations as well as establish more strategic external partnerships. In order to differentiate from the competition, sourcing strategy needs to be based on the following foundational pillars (i) Digitization and Technology Innovation (ii) Next Generation Operating Models — streamlining Sourcing Organizations and (iii) Ethical Sourcing — increasing accountability, sustainability, compliance and trust throughout the value chain.

Though not an exhaustive list, these capabilities will be showcased to illustrate how they can be leveraged to holisti-



cally transform the sourcing organization (Figure 3).

- **Digitization and Technology Innovation:** robotic manufacturing and applied analytics.
- **Next Generation Operating Models:** differentiated operating model and vendor collaboration as foundational drivers of future enterprise capabilities.
- **Ethical Sourcing:** blockchain to grow sustainable and traceable sourcing networks.

Digitization and Technology Innovation

Today's tech-savvy consumers expect speed, personalization and convenience, which is forcing retailers to innovate further upstream in the product value chain. Many have done so by exploring new ways of manufacturing and analytically-driven decision-making to enable impactful change. As technology evolves, digital innovation continues to challenge how brands create products and services, and interact with customers. Gut feelings, hand-drawn sketches and sewing machines are being replaced and/or augmented by Artificial Intelligence, predictive analytics, digital design and advanced manufacturing (Figure 4).

Although nearshoring has been a popular approach to enabling more agility and flexibility over recent years, the macro-economic environment is challenging the long-term viability of this strategy. Technology and innovation continue to be critical in enabling transformation. Investment in transforming the end-to-end retailing process has dramatically increased

over the past three years with a focus on alternative methods that can drive both productivity and speed, while reducing operating costs in the face of decreased labor availability. Robotic manufacturing and applied analytics can sustainably unlock this key capability set for sourcing organizations.

Our study highlighted that while investment in analytics has noticeably increased compared to last year, adoption of other emerging technologies, such as AR/VR, 3D prototyping/sampling/fit etc., is still low (Figure 5). Retailers must not overlook these critical investments, otherwise they risk lacking the capabilities needed to gain a competitive advantage in this challenging marketplace. With smaller players embracing new capabilities relatively faster compared to established retailers, it is important that ingrained organizational culture and mindsets do not hold larger retailers back. Organizations that do not collaborate with their vendors and partners to capitalize on ecosystem opportunities will eventually be bypassed by the competition.

Robotic Manufacturing

Although manufacturing automation has been a focus in most industries for decades, the apparel industry has seen slower advancement in this field due to the unique properties of garment production. The industry is still highly reliant on laborers hand-sorting and hand-cutting fabrics. This manual method of production has traditionally been driven by cost but comes at the expense of agility and speed.

FIGURE 1

PRIMARY BUSINESS

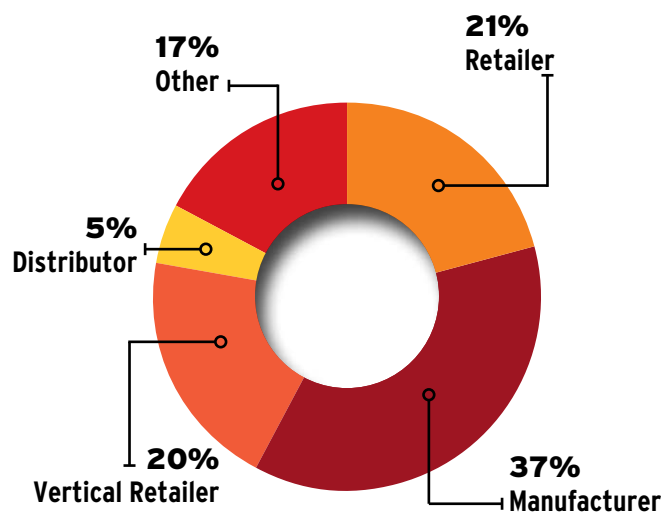
233 responses from **181** companies

46% of respondents were C-suite or executive level management

12% were part of product development or sourcing functions management

16% of respondents have >\$1 billion in annual sales volume

65% of respondents have <\$100 million in annual sales volume

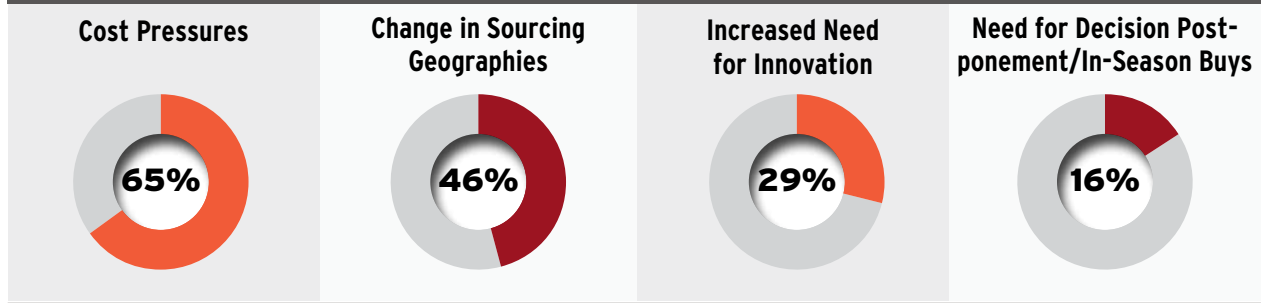


● Retailer ● Manufacturer ● Vertical Retailer ● Distributor ● Other



FIGURE 2

2019 MOST IMPORTANT FACTORS



Steps in the process, such as cutting material or sewing buttons, have been successfully automated, but other steps, such as stitching materials together, have proven tricky. It is difficult to replicate the ability of a skilled worker because it involves manipulating the materials and tools to maintain a good seam. Larger retailers and manufacturers have therefore been reliant on cheap labor markets around the world to manufacture their products for decades. However, as labor wages in traditional sourcing markets increase and the availability of skilled labor shrinks, the cost benefit for automation is becoming more apparent. Adding to the potential financial benefit is the ability to improve speed to market while building sustainable sourcing, manufacturing and supply networks for products.

New innovations in robotics mean that retailers should explore partnering with traditional manufacturers on automation and then bring production closer to the consumer, which can drastically shorten lead times and enable a more effective reaction to trends. Robots can offer retailers and manufacturers more control and protection from the uncertainty of trade tariffs.

For example, a \$4 t-shirt imported from China might cost \$5.50 with tariffs and increased labor costs. Using a digital Sewbot workline, the t-shirt can be made domestically for \$3.90. As one of many new robotic manufacturing technologies, the Sewbot is digitizing the production process while still presenting an attractive value case. The Sewbot can perform each step of the apparel manufacturing process from cutting fabric to sewing seams to quality inspection. This combination enables its client retailers to manage costs, shorten production to market cycles, improve execution management and drive sustainability in their sourcing and supply networks.

Technologies such as cut-and-sew robotics enable a labor-less production line for relatively simple SKUs such as t-shirts, pants and shorts. While robotics for apparel production is still a relatively new concept, there has been an uptick this year with 19 percent of retailers surveyed expected to adopt some sort of production automation technology within the next 3-5 years (Figure 6). That timeline could be accelerated as this technology continues to mature, wages keep rising, and companies increasingly seek to diversify sourcing strategies.

FIGURE 3

KEY SOURCING CAPABILITY	EMERGING INNOVATION	INVESTMENT	COMPLEXITY
Digitization and Technology Innovation	Robotic Manufacturing	High	High
	Applied Analytics	Low-Medium	Low-Medium
Next Gen Operating Models	Operating Model of the Future	Low-Medium	Low-High
	Vendor Collaboration	Low-Medium	Low-Medium
Ethical Sourcing	Blockchain	Low	Medium

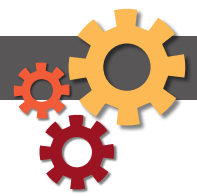
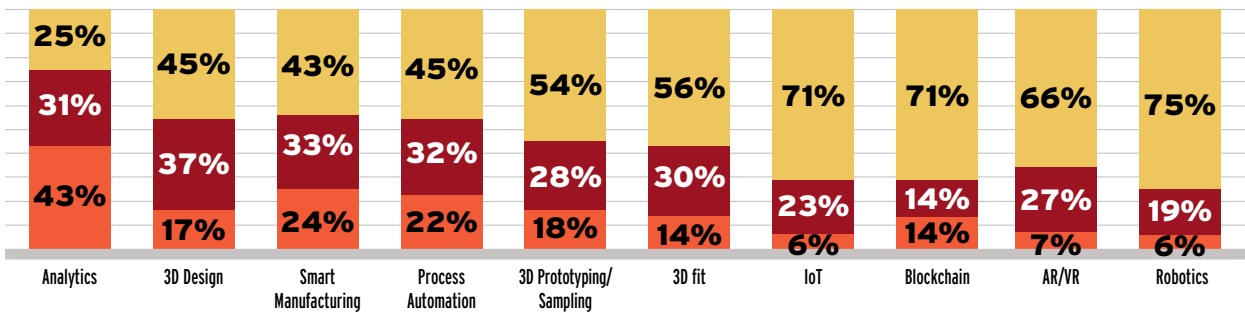


FIGURE 4

PRIORITIES OF TECHNOLOGY AND ANALYTICS STRATEGY

● Implemented ● Planning to Implement ● No Focus



Applied Analytics for Sourcing

Analytics technologies have become embedded in almost every industry, but what does it mean to make data-driven decisions that are grounded in solid analytical frameworks? For a product and sourcing organization that is focused on implementing differentiated sourcing models, analytics must be a central pillar in making the following decisions: where the product is sourced from, at what speed, expected margins, and most importantly, evaluating what is important to the customer. It appears that a larger number of industry players echo this sentiment. Our study finds that a growing number of sourcing organizations compared to last year have implemented applied analytics (43 percent vs. 29 percent), with another 31 percent planning on implementing soon (Figure 7).

While foundational sourcing functions may be on the slower-to-adopt end of analytical capabilities within the retail industry (Figure 8), tools and emphasis should be placed on adopting analytics end-to-end. It needs to be interwoven from merchandise planning, to supply planning, to up-front design and product development. Processes need to be backed by sourcing decisions that are analytically sound and forward-looking, e.g., understanding materials spend and flow, breakdown of costing and what each supplier provides year over year. Paramount in today's world, analytics can be leveraged to quickly determine duty and tariff impact through algorithm-driven cost models and product value engineering, to help make the right product at the right cost.

By automating insight gathered from structured and unstructured data, such as social, trend watching, voice, and applying analytics, sourcing and product organizations can have greater insight into what the consumer wants, and then tailor and differentiate their sourcing strategy accordingly.

Only then can the organization truly implement and capitalize upon new and innovative sourcing capabilities.

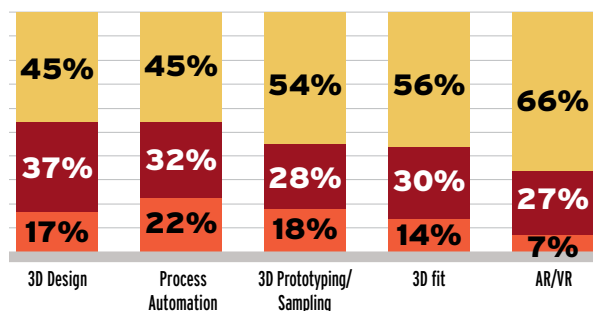
Next Generation Operating Models Operating Model of the Future

According to the study, there is a clear shift in sourcing operating models towards centralized sourcing and consolidation of multiple sourcing models overseas (Figure 9). This means a renewed focus on defining clear responsibilities and measures of success for the sourcing organization and each of the functional areas that it interfaces with (Merchandising, Supply Chain Planning and Operations, Quality Control, Private Brands, etc.) while maintaining focus on product categories' specific nuances for retailers.

FIGURE 5

ADOPTION OF EMERGING TECHNOLOGIES

● Implemented ● Planning to Implement ● No Focus





Retailers are constantly striving to fine-tune organizations to streamline communications with overseas teams and vendors alike with single points of ownership wherever possible and a balanced set of resources to serve the business needs.

There is also a constant focus on making the sourcing organization's role more strategic by enhancing its involvement in the upfront costing and product-related decision-making. This promotes enhanced ownership of vendor relations and cross-functional alignment.

The combination of digitization and evolution of next-generation sourcing operating models points towards the genesis of the next-generation enterprise.

Retailers should be asking themselves: Why is now the right time to make the shift? How can we ride the wave of this transformation?

Benefits of Next Generation Enterprise

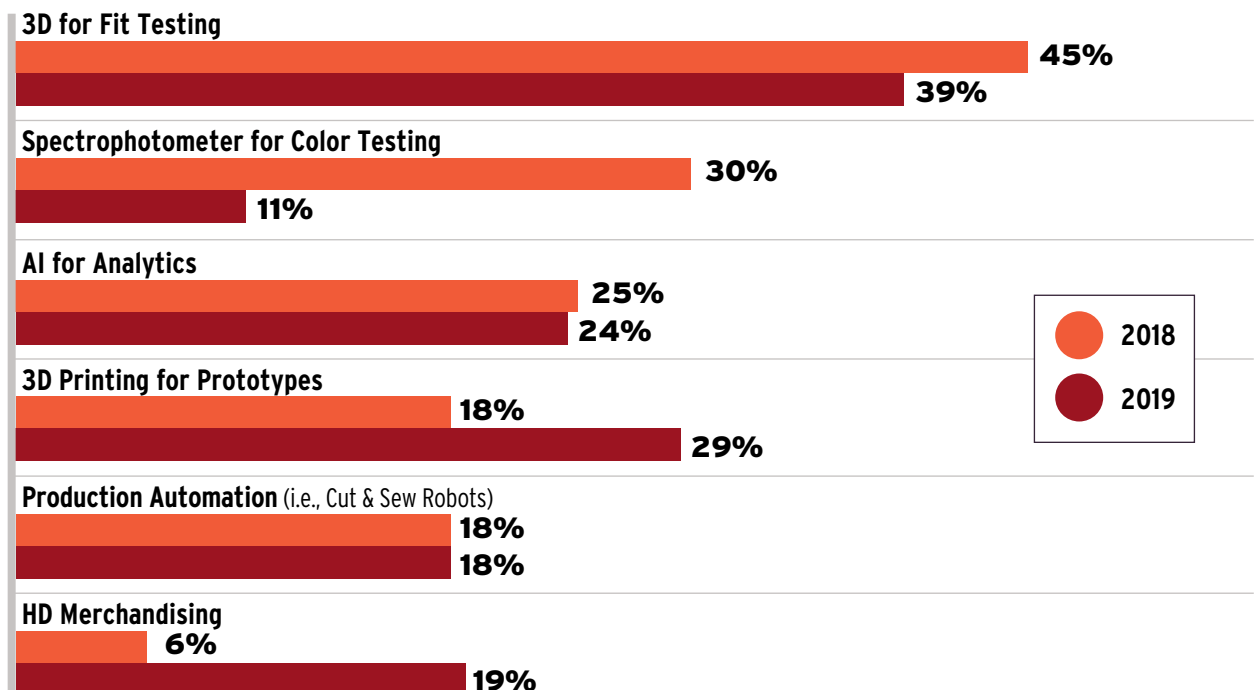
Being digital from concept to consumer has financial, operational and other benefits that consumers care about, while also enabling enterprise connectivity. The next-generation enterprise approach, which combines the focus on digitization and evolution of operating models, can realize the following benefits:

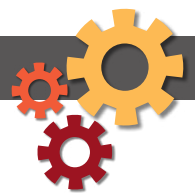
- **Product Accuracy:** Increase trend-right assortments by about 90 percent through advanced analytics. Provide more accurate and relevant product for consumers resulting in a 5 percent-10 percent revenue increase.
- **Speed & Flexibility:** Bring product to market 30 percent-50 percent faster and achieve +10X flexibility through use of digital toolsets and working on what matters most for consumers.
- **Sustainability:** Cut waste by producing about 25 percent of physical prototypes and samples that are produced today.
- **Long-Term Costs:** Reduce costs by around 5 percent-10 percent across product creation and around 30 percent in creative marketing to continue to fuel growth.
- **Organizational Efficiency:** Shift 20 percent-40 percent of employees' focus from manual execution to data-driven innovation.
- **New Revenue Channels:** Open the door to engage consumers in new ways from digital avatars, communities and inventoryless shopping.

While the realization of these benefits may vary among retailers, the case is clear that the shift towards next-generation enterprise is necessary for brands to stay relevant to

FIGURE 6

TECHNOLOGIES BEING EXPLORED IN THE NEXT 3-5 YEARS





consumers. Next-generation enterprises are evolving. Staying relevant to consumers and talent while being more efficient will challenge retailers on this next wave of innovation and position them for growth.

Evolutions in Vendor Collaboration

To prepare for an uncertain macroclimate, organizations that are leaders in sourcing practices are leaning towards increased collaboration with existing vendors and elevating them as strategic partners rather than focusing on tactical vendor base rationalization exercises. The study found that two-thirds of respondents are planning to stay with the same vendor and build deeper relationships with them (Figure 10). These partnerships are built on a foundation of trust and mutual benefit, from efficiency gains upstream in the product creation cycle. Some examples of how vendor partnerships and ecosystems are enabling an agile operating model are:

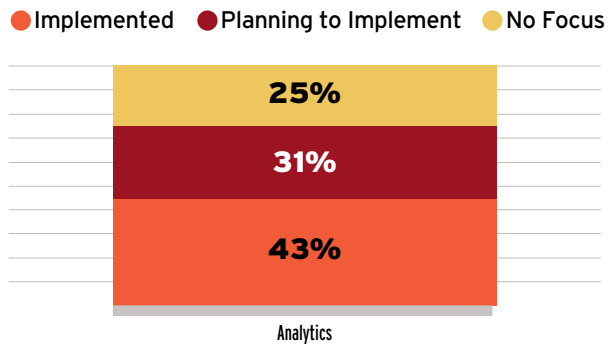
- Vendors are being asked to own raw material sourcing and the managing of inventory.
- They are investing in emerging technologies such as 3D sampling and digital color evaluation to help improve approval processes.
- They have started self-managing color and fit approvals through the aid of technology. Some organizations are even relying on vendors to provide design assistance.

The top expectations of vendors are their ability to manufacture a wide assortment of products and to be able to scale and flex production capacity (Figure 11). In addition to enabling speed and efficiency, sourcing leaders are tapping their vendor partners to drive cost bidding exercises and double down on resourcing efforts, therefore augmenting a sense of healthy competition in the vendor pool.

Overall, expectations of vendor performance and capability are heightened as retailers themselves experience increased

FIGURE 7

ADOPTION OF ANALYTICS



cost pressures, faster speed-to-market expectations and higher demand for agile operating models.

Ethical Sourcing

Sustainability is increasingly at the forefront of consumers' minds in every aspect of their purchasing habits. From food to gadgets and apparel, people want to know that their dollars are going to companies that ethically source and produce their goods through sustainable means. Consumers are placing greater emphasis on preferring environmentally friendly products and buying from retailers that they perceive as socially responsible. Labor relations has been an important aspect of global sourcing for some time, but sustainable materials and traceable textile chains are rapidly becoming vital aspects of sustainability strategies. Respondents indicated that improved labor relations is still an important priority, but 67 percent of respondents said that they are addressing (or planning to address) the need for a

FIGURE 8

USE OF ROBUST ANALYTICS

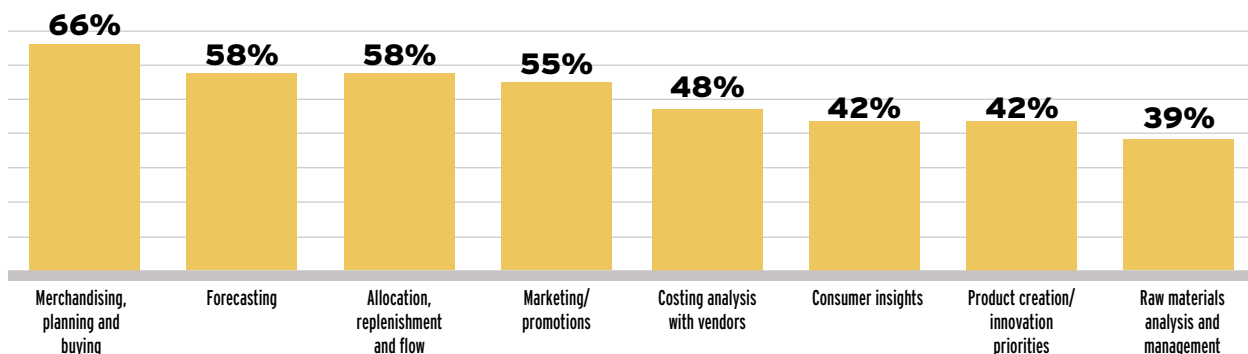




FIGURE 9

SOURCING ORGANIZATION TYPE

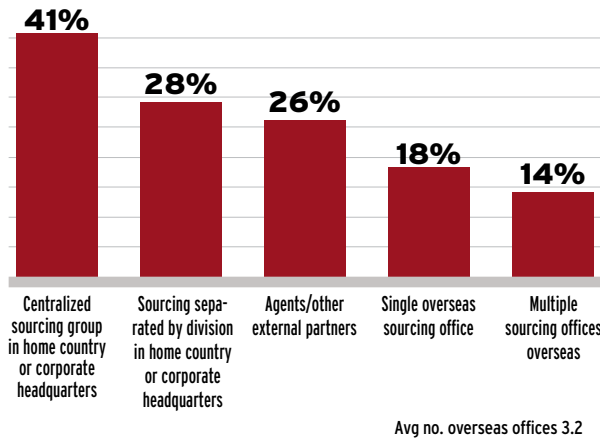
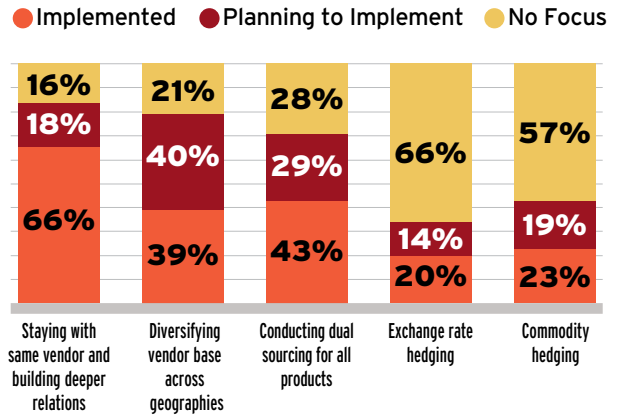


FIGURE 10

PRIORITIES OF RISK MANAGEMENT STRATEGY



100 percent trace-and-track textile chain (Figure 12).

Sustainability and compliance have always been key focus areas in retail, with companies continuously pushing and marketing new plans forward. One technology that has shown promise across all industries and could become a true disruptive force in the sourcing world is blockchain.

Blockchain

While many may only associate blockchain with cryptocurrencies such as Bitcoin (the underlying technology that enables cryptocurrencies), it is emerging as a technology that can transform retail across supply chain and sourcing organizations, bringing new potential such as:

- New visibility into products in the supply chain.

- Transparency to trade relationships between retailer and manufacturers.
- Prevention of counterfeit products from reaching customers.
- New payment systems for the unbanked.
- More targeted customer engagement.

Transportation companies, manufacturers, CPG firms and retail players are enabling blockchain-backed transactional ledgers to ensure the quality, compliance and origin of the product that they intend to buy. The capabilities of this technology are still growing, but blockchain, an immutable, distributed ledger, is already helping retailers increase visibility and reduce risk across the end-to-end supply chain. Given its potential business value, this year's study indicates that a growing num-

FIGURE 11

NUMBER 1 EXPECTATION OF VENDORS

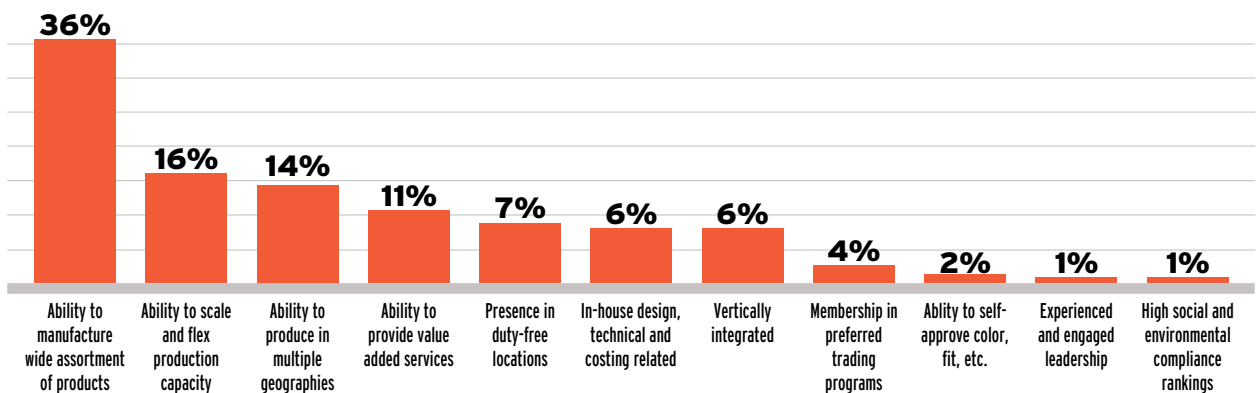




FIGURE 12

PRIORITIES OF SUSTAINABILITY STRATEGY

● Implemented ● Planning to Implement ● No Focus

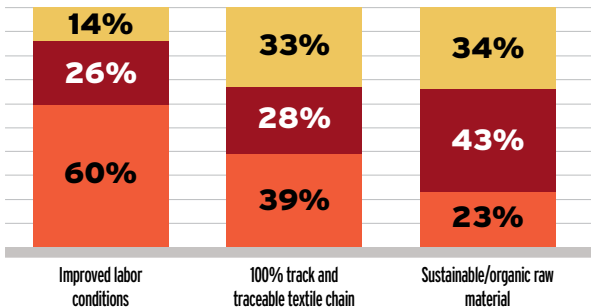
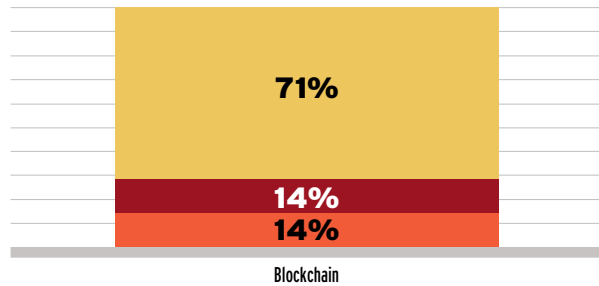


FIGURE 13

ADOPTION OF BLOCKCHAIN

● Implemented ● Planning to Implement ● No Focus



ber of companies (14 percent versus 4 percent last year) have implemented a blockchain solution and another 14 percent are planning to implement in the next 3-5 years (Figure 13).

For an apparel retailer, blockchain can help ensure that the silk dress they have sourced is truly comprised of 100 percent Chinese silk, or that the shirts they have ordered from a specific factory were not actually outsourced elsewhere for cheaper labor or poorer quality.

End-to-end supply chain visibility and authenticity of goods have always been major issues for retailers, particularly now given the current global trade climate and higher expectations from consumers. Blockchain can help retailers reduce risk, ensure quality and brand integrity, and differentiate from competitors by demonstrating their commitment to a sustainable future.

Summary

Although enabling agility, optimizing efficiency and driving sustainability are not new value-driving capabilities, technologies such as robotics, analytics, digitization and blockchain are critical to enabling these capabilities for next-generation sourcing enterprises. Adopting new technologies requires up-front and targeted investments, but equally important are the behavioral changes required to implement and usher in these new technologies. Furthermore, transforming how people in the sourcing organization work can be one of the toughest hurdles to realizing a return on investment. Therefore, a robust, comprehensive and timely sourcing strategy and implementation is required to achieve the intended benefits. **APP**

About the Authors



Praveen Kishorepuria, Managing Director at Kurt Salmon, part of Accenture Strategy, has more than 20 years of consulting and industry experience and has served global clients in the areas of competitive agility, zero-based strategies, margin and profit improvement to fuel growth, restructurings and turnarounds, and end-to-end supply chain. He is a visionary developer of solutions to drive sustainable growth and advises clients in retail and consumer industries on business transformation.



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The authors wish to give credit to Brian Ehrig (Managing Director), Tulika Trivedi (Senior Manager) and Wendy Chen (Strategy Consultant) Kurt Salmon, part of Accenture Strategy for additional point of view contribution, research assistance and article editing.