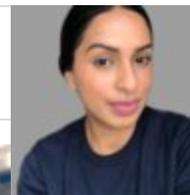


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# Outlook 2023 – Navigating the rapidly evolving sourcing landscape

Sourcing diversification, supply chain agility and sustainable operations are key for brands to navigate the current crisis and successfully sail through 2023.

Hannah Abdulla



**Hannah Abdulla**

A wealth of over 14 years of editorial experience having worked on titles for the John Lewis Partnership and the ITP Group in Dubai, Hannah joined Aroq in 2014 where she started as News Editor on Just Food before landing the role of News Editor on Just Style. Hannah enjoys covering more challenging subjects and exploring the impact of current affairs on global supply chains.



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2023 is around the corner and three years post-Covid; global apparel supply chains are still in limbo. While the initial fallout was a result of dampened consumer demand leading to order cancellations at the supplier end, headlines in the subsequent years have been dominated by higher raw material costs, increased fuel and shipping costs, rising inflation and a cost-of-living crisis that is having a detrimental effect on consumer spending. Following on our Outlook 2023: Challenges and Opportunities feature, we consider the steps brands need to take to ensure survival

including sourcing diversification, creating a more agile supply chain and shifting to a more sustainable operation.

## Lynda Petherick, head of retail for Accenture in the UK & Ireland.

The last few years have been a uniquely turbulent time for the apparel industry, and despite the pandemic feeling like a distant memory for some, the rising cost of living poses a totally different challenge to industry leaders.

Most fashion retailers are navigating spiralling costs and shrinking income, whilst grappling with an inventory crisis as consumers cut back on discretionary spend. The industry has a merchandising challenge on its hands: how to shift existing excess stock in an era of consumer cutbacks, alongside deciding what new stock they may or may not need in the future, all whilst trying to keep their margins as stable as possible to survive the next few months.

This paints part of a broader supply chain picture for the apparel industry, which will continue to play a crucial part in the industry's resilience in 2023. **By ensuring the supply chain is as seamless, cost-effective, and agile as possible, brands stand a better chance of weathering the ongoing storm.**

But despite the cost of living conundrum, another challenge looms: affordable sustainability. Increasing legislation and regulation in this space means the industry is very focused on demonstrating its green credentials and showing the transparency of its supply chain, but when financial uncertainty is top of mind, it's easy to see this as a threat to sustainability.

However, the common misconception is that operating more sustainably comes at a higher cost. **Often, embedding sustainability throughout the business can prove to be more cost effective, for example by removing excess waste throughout the supply chain or improving stock control efficiencies.**

During times of economic uncertainty, the urge to batten down the hatches and ride out the storm is all too tempting. But through times of turbulence can come positive change. The apparel industry showed immense amounts of resilience during the pandemic, and so taking their foot off the pedal now would be a mistake.

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When financial difficulties arise, **there's no better time to take stock of where operations can be revamped across the business, improving efficiencies to remove excess costs and protect margins,** whilst embedding sustainability into everything done.

Brand loyalty has never been more important. At a time when shoppers are reducing their discretionary spend, the brands who deliver a seamless customer experience and who can avoid passing as much excess cost onto the customer as possible, will ensure that the consumers who do want to spend, spend with them.

Finally, an essential but often overlooked piece of the puzzle is the retail workforce, a cohort that has been subject to immense amounts of pressure in recent years. By investing in people's skills, as well as their mental and financial wellbeing, retailers are more likely to have a fighting fit workforce- which doesn't just make sense for the business, it's the right thing to do.

### **Robert P. Antoshak, partner, Gherzi Textile Organization**

Global sourcing will resemble a balloon leaking air. **That noise you'll hear will be the sound of orders seeping out of China to suppliers in places like Bangladesh, India, Vietnam, and other countries in the ASEAN region. At the same time, further diversification of global sourcing will mark increased shipments from CAFTA-DR, the Western Hemisphere, and Africa.**

From a sourcing perspective, China has had its time. **Although China will hardly disappear as an apparel supplier, its traditional role as a sole source of supply will diminish over time.**

Many forces have compelled purchasing companies to diversify their sources of supply away from China. First, of course, we had pandemic-induced supply chain disruptions. But now we have a changing global economy, political frictions, and a rebalancing of production costs. As a result, **sourcing companies look beyond China to not only mitigate risk but also to strengthen sources of supply.**

**Supply chain resiliency will become more critical in 2023 than just-in-time delivery. If the pandemic taught the industry anything, just-in-time supply chains could disintegrate when pressure-tested – which proved a costly mistake for the industry.**

**...n, supply chain resiliency for many companies will come in the form of sourcing closer to consuming markets. In contrast, for**

others, it will come with **greater diversification of sources of supply**. Consequently, look for **regional sourcing to expand in 2023 while sourcing in Asia also expands from a broader range of supplier countries**.

In order to stay ahead, remain competitive and build future resilience, apparel firms and their suppliers should consider taking a course in risk management. For too long, the industry relied upon just a couple of suppliers for its sourcing needs. Foolishly, that was considered a “sourcing strategy.” But it was nothing more than “phoning it in.”

Creativity plays a role in any approach to risk management: conducting new ways of business while assessing potential risks. For instance, working with a new supplier brings an element of risk, but reaching deep into a range of industries and geographies helps to manage such risk. The wider the canvas, the more room to paint a sourcing picture.

**Of course, moving sources of supply around has its challenges and pitfalls. There’s also trial and error; there is no guarantee things will go smoothly. However, the payoff is tremendous and worth the risk if everyone grapples with the known risk from the outset.**

This brings us back to resiliency. As a low-margin business, the apparel industry too often relies on bare minimums — measured by costs or quality — as primary drivers in sourcing decisions. Sure, a product may be sourced cheaply from a country halfway around the world until supply chains buckle. Yet, low costs don’t matter if supply chains prove so fragile that products can’t be shipped in the first place. This is when cheap becomes expensive: cancelled orders, blown sales.

**For apparel companies, sourcing in 2023 should include a reassessment of risk, proximity to the market, diversification of sources of supply, and — some common sense.** Wake up! Your supply chain just slapped you in the head. Brush yourself off, and get back in the game. Change is the order of the day. Embrace it or be left behind.

## **Steve Lamar, AAFA president and CEO**

**Sourcing diversification – probably the biggest in a generation – continues to be a priority.** We are seeing fundamental changes not just where products are made but where the inputs from those **markets** and suppliers while avoiding supply chain disruptions and

risks. **The buyer-supplier partnership continues to evolve as supply chains become transparent, traceable, and sustainable**, and with that evolution we will see evolution in sourcing patterns as well.

Mixed messages from governments, combined with global capacity and capability constraints, make it difficult to predict who the winners and losers of these historic sourcing shifts will be. Conventional wisdom suggests that the US Government has been encouraging the industry to diversify away from China, and many have chosen to do so, especially when programs like the Generalized System of Preferences (GSP) has provided duty-free access to the US for travel goods and fashion accessories from some of China's biggest competitors. Yet, Congress allowed this program to expire at the end of 2020 and has refused to extend it, erasing and reversing the diversification incentive.

Likewise, many companies have been looking to expand trade and investment in Central America or Africa. **But expected delays on renewing the successful African Growth and Opportunity Act (AGOA) – especially given Congressional inaction on the GSP program – and a political reluctance to make the US/Central American Dominican Republic Free Trade Agreement more attractive will stymie efforts to direct new long term sourcing to those regions.** Even Made in USA initiatives are harmed by US trade policy as continued high tariffs, magnified by China 301 tariffs, raise the cost of imported inputs that are not found domestically.

“First Mile Thinking” is key in 2023. While we continue to solve for the “Last Mile” of a product’s journey, companies must be equally laser-focused on what happens before the product – from concept to consumer – begins its development journey. **This First Mile thinking will take on an increasingly important role in the supply chains of the future as companies assess how products are designed, made, used, and reused.**

**Building stronger relationships with supply chain partners will remain a vital part of this equation**, particularly as all players accelerate their traceability and transparency efforts to combat climate change and to ensure that our products are free from forced labour. **Technology will continue to feature heavily in these transformations** as companies look for more efficient ways to communicate with their stakeholders, document their supply chains, and tell their product and company stories.

## **Rick Horwitch, chief of supply chain & sustainability strategy – global retail lead, Bureau Veritas Consumer Product Service**

Based on discussions with sourcing executives in the US, Europe and Asia, I do not believe there will be any significant shifts in the sourcing landscape in 2023. **Movement away from China and regional nearshoring will continue. This does not mean 2023 will be a “quiet” year. In fact, 2023 will be as challenging (if not more so) than previous years.**

Geopolitical surprises will continue to fuel global economic upheaval and disruptions. This will require retailers and brands to develop strategies to address a shift from insufficient demand to insufficient supply. Preparing for these major disruptions and shifts will require a better understanding of the interconnectivity between the various players within one's supply chain.

In addition, navigating new regulations (in the US, EU, UK and others countries) focused on supply chain and ESG transparency, and traceability will drive the need for mapping of the various tiers of the supply chain.

[Bureau Veritas](#) recently surveyed many of our customers to better understand their strategies, and concerns, related to traceability, resiliency and ESG. All have made ESG commitments, but many expressed that they need help prioritising where to start, and tools to help assess, manage, map and measure impacts. **Most listed a lack of visibility, and traceability, (beyond their Tier 1 suppliers) as the number one risk to supply chain resiliency.** In addition, **most said navigating new regulations in the US, EU, UK (and other countries) requiring supply chain and ESG transparency, traceability and reporting, is a major concern.**

To assess and measure ESG and Resiliency risks, companies need a comprehensive technology platform to collect and manage the information. This will enable the necessary mapping and traceability of the data collected. All of which will need independent verification.

Some of the key questions to be addressed are: Do you know who you are really doing business with (T1 – T4)?; Do you have visibility and mapping to their interconnectivity?; Do your suppliers (all tiers) have active programs related to business continuity, data and cybersecurity?; Is there responsible and ethical production, biodiversity,

chemical/water/waste management, climate change, health and safety governance program in place?

The challenge is to effectively **define and implement a verifiable Resiliency and ESG strategy so that the actions and efforts are impactful – to your company, to your customer and to society.**

The winners in 2023, and beyond, will find ways to **develop and integrate innovative, collaborative communications, and process analytics that provide the necessary visibility and transparency to manage current and future disruptions. A value chain approach will help improve speed and margin.** This will have a positive impact on society without sacrificing quality.

The push for speed, sustainability, reduced inventories and margin pressure can have a negative impact on the entire process if left unchecked. **Digitising processes, harnessing the power of data and collaborative communications, and verification, when appropriate, will drive significant improvements in speed, cost, quality and customer satisfaction.**

I believe 2023 will continue to see an acceleration in:

- Chinese, Korean and Taiwanese suppliers continuing to invest and expand abroad (Vietnam/SEA, AGOA, and Americas) to verticalise these regions.
- Regional sourcing closer to the consumer will continue to expand.
- Enhanced collaboration and communication, through the adoption of digital tools for every aspect of the chain (design, samples, fit, colour, product development, quality, etc.).
- A greater need for digital tools and/or platforms that provide visibility and verified (actionable) data to help manage across the entire supply chain (Tier 1 to Tier 4) related to Supply Chain Risk and Resilience, and ESG commitments.

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