

Experts on Sourcing: What to Expect in 2015

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Sourcing is in a constant state of flux, and 2014 was no different. Rising costs led to discussions about new sourcing destinations, lack of labor rights forced further conversations about compliance, and an increasingly savvy consumer pushed brands to become more transparent about their supply chain processes and practices.

In order to dissect the shifts that took place last year and gain some insight into what sourcing will look like this year, Sourcing Journal spoke to three industry experts: Marc Compagnon, executive director and president of Li & Fung sourcing, Munir Mashooqullah, president and founder of Synergies Worldwide, and Michael Gilson, vice president global sourcing operations, finance and wholesale for Hudson's Bay Company and Lord & Taylor.



While sourcing trends may not play out overnight, or even over one year, here's a look at which shifts experts expect will continue, and the changes we may see in sourcing in 2015.

How do you expect rising costs to affect sourcing and supply chains in 2015? Do you expect costs to rise even further this year?

Compagnon: We expect commodity prices to stabilize over 2015. What we will need to consider however is wage inflation because it's real and it will continue. China has mandated wage increases, Bangladesh is investing in its workforce in terms of wages and health and safety, and we see a number of other markets like Vietnam and Cambodia increasing wages. So while we don't think inflation will impact commodities, we do think it will have an impact on wages.

Mashooqullah: Yes, I do expect wage and energy costs to rise by another 15 percent, however, raw material prices such as cotton and polyester will remain low enabling suppliers to negate inflation with lower raw material prices.

Gilson: There are two constants in rising costs; one is labor. There is always a social and political focus on increasing the minimum wage in developing countries. The other constant is the cost of capital to invest in technology and the demands of global compliance.

How will compliance shape businesses in 2015? What efforts will companies undertake in the New Year to maintain compliance?

Compagnon: Compliance has been growing in importance in the last few years and it's still working its way through the system, growing more robust each year. It's a process that takes time, but in terms of how it will shape businesses moving forward, it's only going to become more prominent and that will impact the actions and behaviors of the sourcing community and everyone in the supply chain. There is already increased collaboration of industry players working together to address compliance challenges and this will continue. It's too early to speculate about an industry solution, but we're heading in the right direction and hopefully the increased collaboration is just the beginning of a more focused approach.

Mashooqullah: Compliance is here to stay. If retailers increase their compliance level in China, we may see serious ramifications in supply. As of now, compliance in South Asia is more strict than in China.

Gilson: Simply, brands will discontinue doing business with suppliers that do not meet their corporate social responsibility policies.

Transparency has been a key trend as more and more companies reveal their supplier lists and let their supply chains be completely traceable—do you think more companies will be revealing this type of information in the New Year? Will it become standard? Will the consumer demand it?

Compagnon: Yes, absolutely. Consumers are demanding more transparency from companies – they want to know more about where products come from and how they are made. There is a growing amount of research showing that more and more consumers care about buying from socially responsible companies and brands and that they would consider paying more for products that are sourced ethically. This is becoming increasingly important to our customers and this trend will certainly continue.

Mashooqullah: No, this will not become a standard as many retailers will avoid disclosing names. Further, they may resort to buying via local import companies to avoid such a level of transparency.

Gilson: The trend is disclosing supplier or manufacturer lists and I am in favor of this. The key is how far down in the supply chain you go, that is, fabric, yarn and trim suppliers. I do not see companies revealing this information.

What will brands be doing to increase speed to market in the face of fashion and an increasingly demanding consumer?

Compagnon: Speed to market is definitely bringing change to our sourcing and procuring practices in order to cope with the demands of getting products to the market faster. For instance, what's interesting about nearshoring, is that it is a challenge for markets like the US or North America in general, because there is very little fashion production capability nearby. In contrast, Europe was able to meet the fast fashion requirements for Inditex by using local production facilities. In terms of the fast fashion model, our view is that not all brands or retailers need to mimic Inditex's fast fashion model in order to get their products to the market faster. There are tactics – like nearshoring or fabric platforming – that can help reduce lead times.

Mashooqullah: Speed to market is a cultural mindset within an organization. While general interest prevails with every retailer to bring goods closer and faster to their need, it is, in the end, the level of delegation buyers are given to make such decisions and also to own mistakes in the event they make a bad call on fast fashion or delay in receipt of goods on the shelf.

Gilson: There are limited number of days you can take out of production and transportation. Many companies are realizing excellent efficiencies in these areas. To get closer to their customer, I think brands will now look for new distribution channels including moving abroad to a new customer base.

How will sourcing in 2015 be different from 2014? What trends can we expect to see take shape?

Compagnon: On the whole, we don't typically see any drastic changes in sourcing trends over a single year period, so a number of trends we saw in 2014 will continue.

For example, the steady, mild erosion of mass, lower-end products that were made in China moving to other markets in the ASEAN region, and China moving higher up the value chain and taking on even more higher-value production.

There has been a small incremental increase of nearshoring which we're already seeing in some of our production markets in Central America, including Guatemala and Nicaragua, where brands and retailers look to manufacture closer to their end consumer.

The importance of speed to market will continue to accelerate a change in our sourcing and procurement practices. We'll have a greater use for certain tools and practices, like fabric platforming or nearshoring, to mitigate the complex inventory challenges that many in the industry face.

In terms of what companies like ours can do to help suppliers stay ahead, it's all about capability building. To enhance supplier productivity for example, requires investments in IT (software systems can help measure efficiency) as well as people (training, capacity-building, etc.) to help upgrade knowledge and skill sets. Productivity goes hand in hand with sustainability. If we enhance the productivity and capabilities of our supplier base, we build a more sustainable, robust supply chain that benefits everyone. It just makes good business sense.

Mashooqullah: We do see less demand from U.S. retailers—this may be caused by Sears, Aeropostale to name a few—and less demand means more opportunities. We will also see an increase in imports from Chinese, Brazilian and Indian retailers from countries like Bangladesh. Since we may be entering a knit cycle, sourcing will be easier as global resources of knits are far greater than woven.

Gilson: Outside of the obvious, i.e., buyer's IMU [initial markup unit] requirements, speed to market and compliance; companies that can get ahead and take advantage of free trade agreements and other trade preferences will be a major factor in sourcing decisions. I also see international mergers and acquisition continuing to be an important trend in 2015 and beyond.