Survey Report

2021 ALIXPARTNERS + SOURCING JOURNAL

FASHION IN FOCUS

Investing in a Future Forged by Adversity

AlixPartners SOURCING JOURNAL

PARTNERING UP FOR A ROADMAP TO RECOVERY

In many ways, this report has been years in the making. The experienced leaders at retail consulting firm AlixPartners and B2B fashion industry publisher Sourcing Journal have long shared information, offering industry members vital insights to better understand and improve their operations. But the Covid-19 crisis proved a nudge toward channeling our combined expertise into research.

A sudden and unprecedented global pandemic upended everything, in ways never imagined. The industry rewrote the rules as it went, and when the dust settled and companies came up for air, everyone blinked their eyes open to a whole new world. The pandemic touched every point of the apparel business—sourcing, supply chain, shipping, inventory management, consumer purchasing behavior, omnichannel operations, corporate agility, and more.

With the industry still reeling from the fallout, AlixPartners and Sourcing Journal decided there was no better team—or time—to survey the damage and deliver a roadmap for recovery.

A results-driven global consulting firm, **AlixPartners** specializes in helping businesses respond quickly and decisively to their most critical challenges—from urgent performance improvement to complex restructuring, from risk mitigation to accelerated transformation. These are the moments when everything is on the line—a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision.

As the largest, most comprehensive and authoritative B2B resource for executives working in the apparel, textile and footwear industries, publisher **Sourcing Journal** covers the entire supply chain—from raw materials to retail. With a focus on topics such as sourcing, inventory management, logistics and sustainability, Sourcing Journal is the go-to site for industry news and insights. Spanning data, features, analysis and opinions, this content is presented via articles, summits, reports, webinars, fireside chats, podcasts and whitepapers.

Joining forces, AlixPartners and Sourcing Journal crafted an extensive business apparel survey. The high response rate to such an in-depth questionnaire underscored just how eager companies were to explain how they fared post pandemic, share what they learned, and work together for the betterment of the industry. Rising tides really do lift all ships (unless, of course, they're stuck at the Port of LA).

This survey report was gleaned from information provided by apparel and footwear industry executives on how their businesses have been impacted by the pandemic, and what changes they made to their operations to mitigate the disruptions. The survey covered four key areas: Supply Chain Complexity; Assortment Planning; Omnichannel Evolution; and Agility.

The findings—supplemented with one-on-one executive interviews from legacy retailers, smaller DTC brands and the experts at AlixPartners—shed light on the progress made, and still required, for the industry to equip itself for the years ahead.

Entitled "**2021 AlixPartners + Sourcing Journal's Fashion in Focus: Investing in a Future Forged by Adversity**," this inaugural survey report will help the industry better understand itself and combine forces toward a more efficient future.

So, what was irrevocably changed? What was disrupted for the better? What will require a whole new paradigm shift? If necessity is the mother of invention, let's see what she birthed.

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EXECUTIVE SUMMARY

The pandemic has fundamentally changed retail—maybe forever. Suddenly, as consumer spending plummeted amid store closures, inventories had to be meticulously planned to save costs and avoid pileups of unwanted clothes and fabrics. Add logistical and other supply-side challenges to fluctuating consumer demand; and delivering the right product to the right place at the right time became almost impossible. Producing excess, as a rule, was no longer going to work. The big lessons from Covid-19, apparel executives agree, is that there is an urgent need to change the industry's foundational business model.

Early in the pandemic, factory closures and delayed shipments out of China held up production at global factories relying on raw materials. Remote product development and manufacturing management forced companies to trade in manual oversight for digital tools. At the same time, companies reassessed their overreliance on a single country for inputs or production.

A global freight crunch wasn't the only fallout of the virus' continued spread. Rising costs added to the challenge of securing materials. Fashion's sourcing map had already been evolving as tariff pressures prompted companies to diversify away from China. But Covid-19 further forced brands to confront the risks of relying on just one supplier, sourcing country, or region. When asked to rank the biggest challenges for the next two to five years, 40 percent of respondents ranked moving the sourcing map in the top two. Trade-related challenges remain a top-of-mind supply chain problem. But apparel executives did say that they continue to see the most potential in Asia for alternative emerging sourcing destinations.

One of the top tactics companies are considering to become nimbler is better supplier collaboration. Twenty-three percent see the potential to integrate suppliers through joint venture models and are looking to adopt technology that guides business decisions. Technology also plays into the need to speed up product development. More than half of apparel executives are focusing on releasing minimum viable products in service of better efficiency and an improved customer experience.

Streamlining at the design and assortment level is under consideration as well. Companies are cutting back on their SKU count, and 45 percent are developing a greater number of core styles that can have a longer shelf life. As they strategize around logistics issues and aim to restore inventory levels, it is unclear whether sustainability will still be a focus.

Retailers engaged in a variety of omnichannel strategies to meet increased online demand and offer options to each customer's shopping journey. BOPIS/curbside pickup was added as a pandemic convenience. And many deemed stores important enough to open more, even amid industry closings. According to apparel executives, less than 25 percent of online demand is fulfilled from the store. While stores serve as showrooms for potential future digital purchases, they can't compete with digital's endless aisle.

Apparel executives understand that learning and improving as they go is key to agility. Seventy-four percent believe "data-driven decisions support their ability to turn test-and-learn findings into concrete improvements in customer experience, engagement and conversion" and they are investing in digital tools to improve operations, speed and/or customer experience, and to regularly assess and prioritize new investments. Will better use of data be enough to mitigate what's hampering agility in planning and fulfillment? Even if a process is highly digitized, human insight is still essential. Brands and retailers are learning that accurately gathered, measured, and acted upon customer input is invaluable.

ALIGNING SUPPLY & DEMAND

Pre-pandemic, the aim of the industry was to expand quickly, often by making as many items as possible. Deadstock was an inevitable part of the process, and one that was factored into the costs.

Then the pandemic happened, and a business model that revolved around producing excess no longer worked—if it ever had. As consumer spending plummeted, inventories had to be meticulously planned in order to save costs and avoid pileups of unwanted clothes and fabrics.

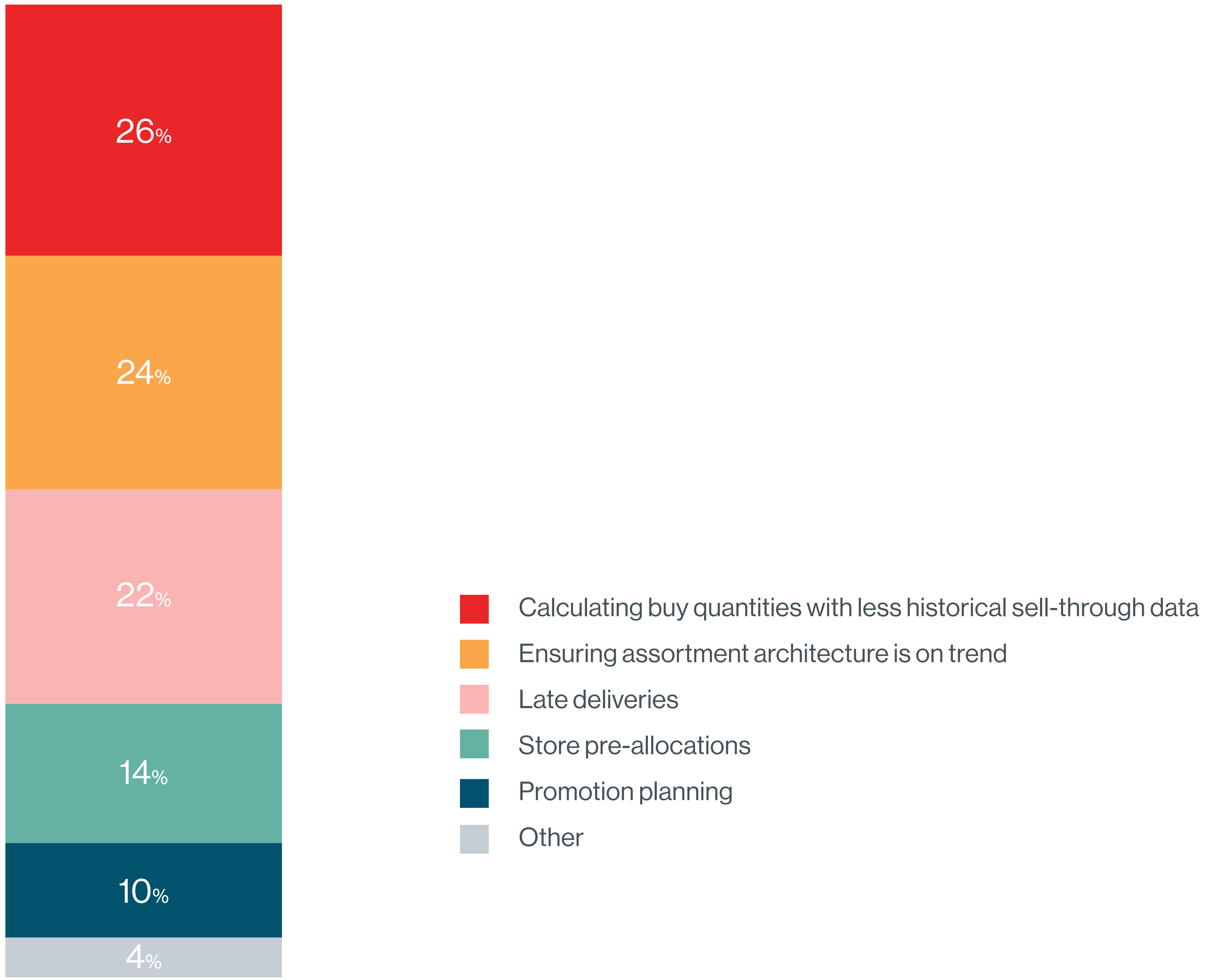
Notably, this happened at a time when warehouse space was at a premium around the world. The cost of storage rose dramatically over the course of 2020, and as a result, brands that manufacture overseas often had to ask factories to hold onto their collections until they decided to ship it to end-market—sometimes for up to a year.

"We have entered a time when it's virtually impossible to anticipate demand with any semblance of lead time, and even if we could, we would probably face supplier and manufacturer obstacles on the other side," said Joseph Schmitt, managing director at global consulting firm AlixPartners.

Survey respondents shared that their biggest challenges when dealing with longer lead times are calculating buys with less historical sales data (26 percent), ensuring assortment architecture is on-trend (24 percent), and dealing with late deliveries (22 percent). Supply-side challenges like these have prompted almost a third (32 percent) to forecast farther out, increase safety stock (28 percent), and make more "blind buys" (22 percent).

In a trend-driven sector like fashion, perfectly aligning

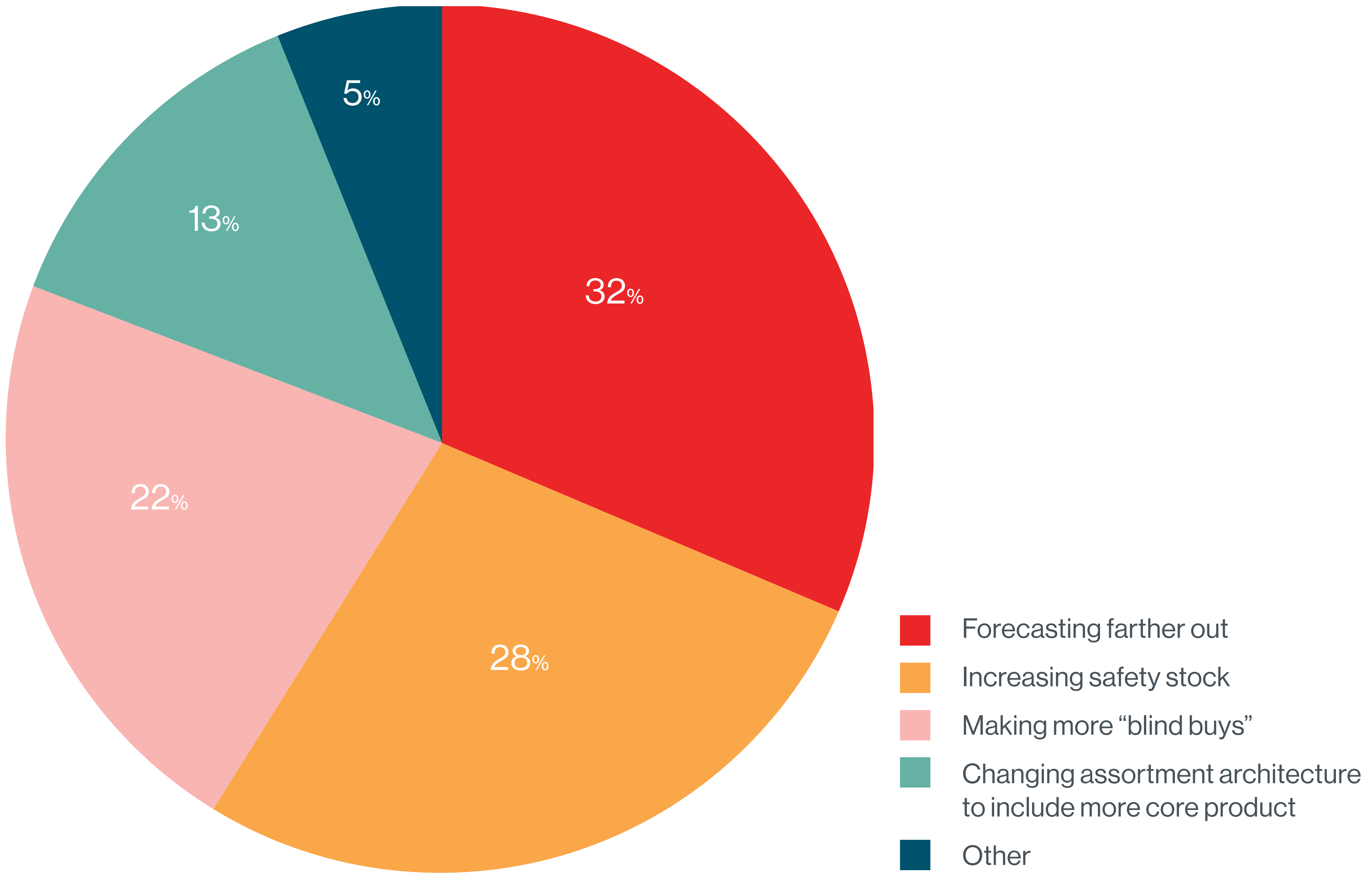
Biggest Assortment Planning Challenges Amid Longer Lead Times



supply and demand is always going to be a difficult task—especially when you have to take a gamble on a product up to 10 months before it is released—but the last two years have brought a growing problem into focus.

Add wildly fluctuating consumer demand to the widely documented logistics and supply-side challenges; and delivering the right product to the right place at the right time has become almost impossible—particularly for companies that have been slow to adopt the latest predictive tools and empower their teams to make the right decisions using a single source of truth. The industry has historically been poor at managing inventory and needs to utilize more than just historical sales data to do so.

Ways Companies are Compensating for Lead Time Challenges and Shipping Bottlenecks



Waste Not, Want More

Prior to the pandemic, brands had their own specific ways of predicting future buying patterns, largely based on historical data.

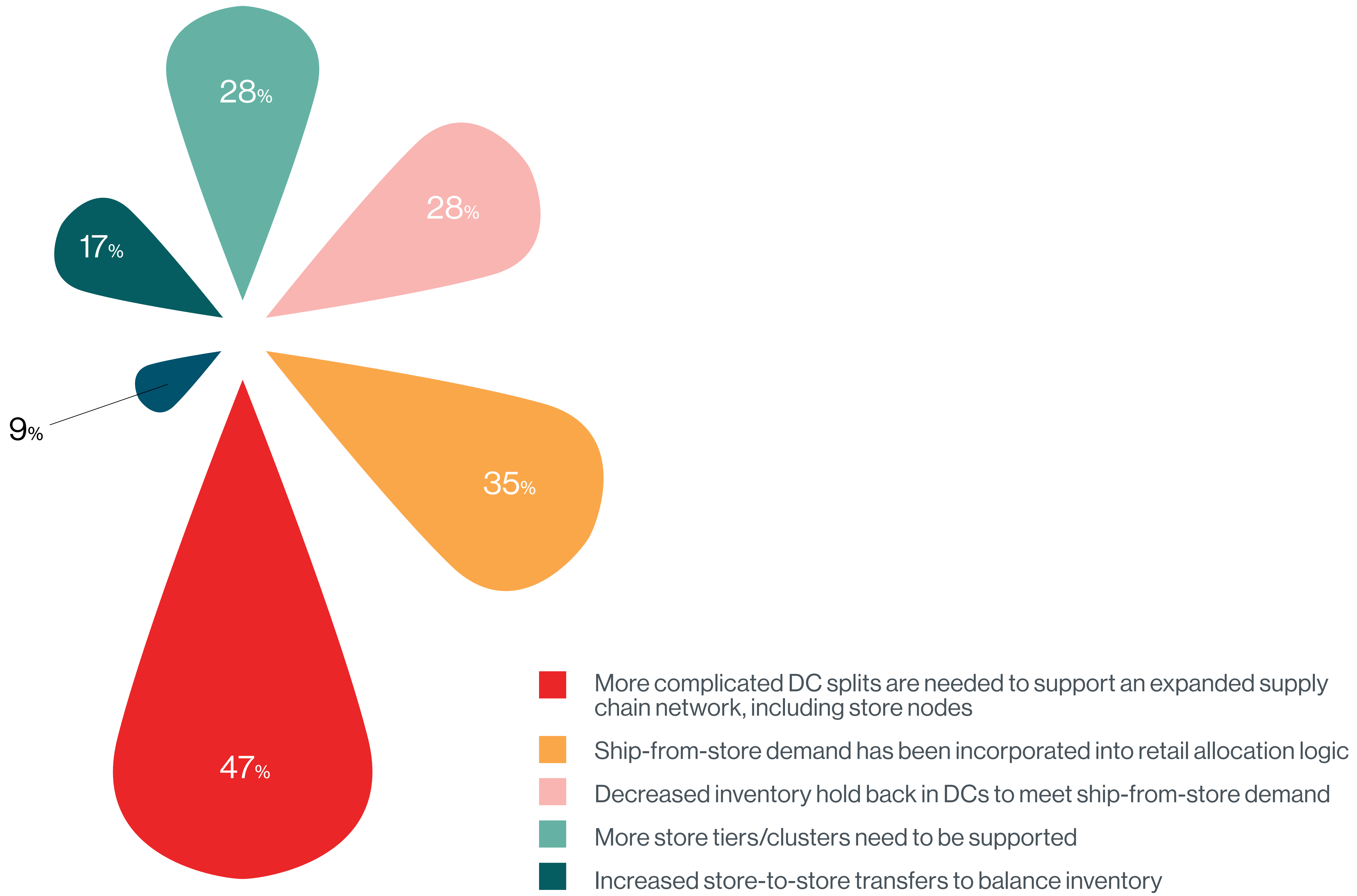
"We looked at a lot of factors to predict demand," said Matt Scanlan, the CEO & Co-Founder of Naadam Inc, a holding company working with brands including Naadam, Something Navy, and Thakoon. "First, we dive deep into customer cohort analysis to reconcile how customers have shopped historically, both as first-time and repeat customers. We then break those cohorts out by variables such as economics, geography, age, etc., and make assumptions based on those variables. As a final step, we add up expected return rates against the cost of acquiring new customers."

But the variables Scanlan refers to here have changed dramatically. The reasons for this are threefold. Firstly, e-commerce sales have rapidly increased in nearly every western country, with no sign of slowing down even now as brick-and-mortar retail have fully reopened. "The days when e-commerce was planned as just another store are long gone; it must be thought of as the nucleus of all customer interactions across all channels, and planned accordingly," said Schmitt. "The complexity associated with the sheer magnitude of different scenarios that need to be considered are necessitating that technology and predictive software applications be leveraged much more heavily than the legacy Excel planning approach."

That complexity is compounded when it comes to allocations. Almost half of the respondents (47 percent) said their distribution center splits are much more complicated as they try to support an expanded supply chain network. Thirty-five percent are grappling with incorporating ship-from-store demand into retail allocation logic.

The spike in the number of fulfillment options calls for greater agility, which survey respondents

Necessary Changes to Allocation Processes Over the Last Year



indicated is still a work in progress. Just shy of a third (32 percent) said the PO phase is the latest point at which they can allocate inventory.

The second reason is that, as the way people shop has changed, so has the way they make returns. Figures show that returns surged by as much as 20 percent year-on-year between 2019 and 2020, as customers ordered multiple sizes of the same item to try on at home. Shoppers choosing to use their bedrooms as changing rooms wreaked havoc on inventory planning—if customers are shopping online and buying clothes in three different sizes and then planning to return two, the company has to overproduce to meet the target, which leads to more waste.

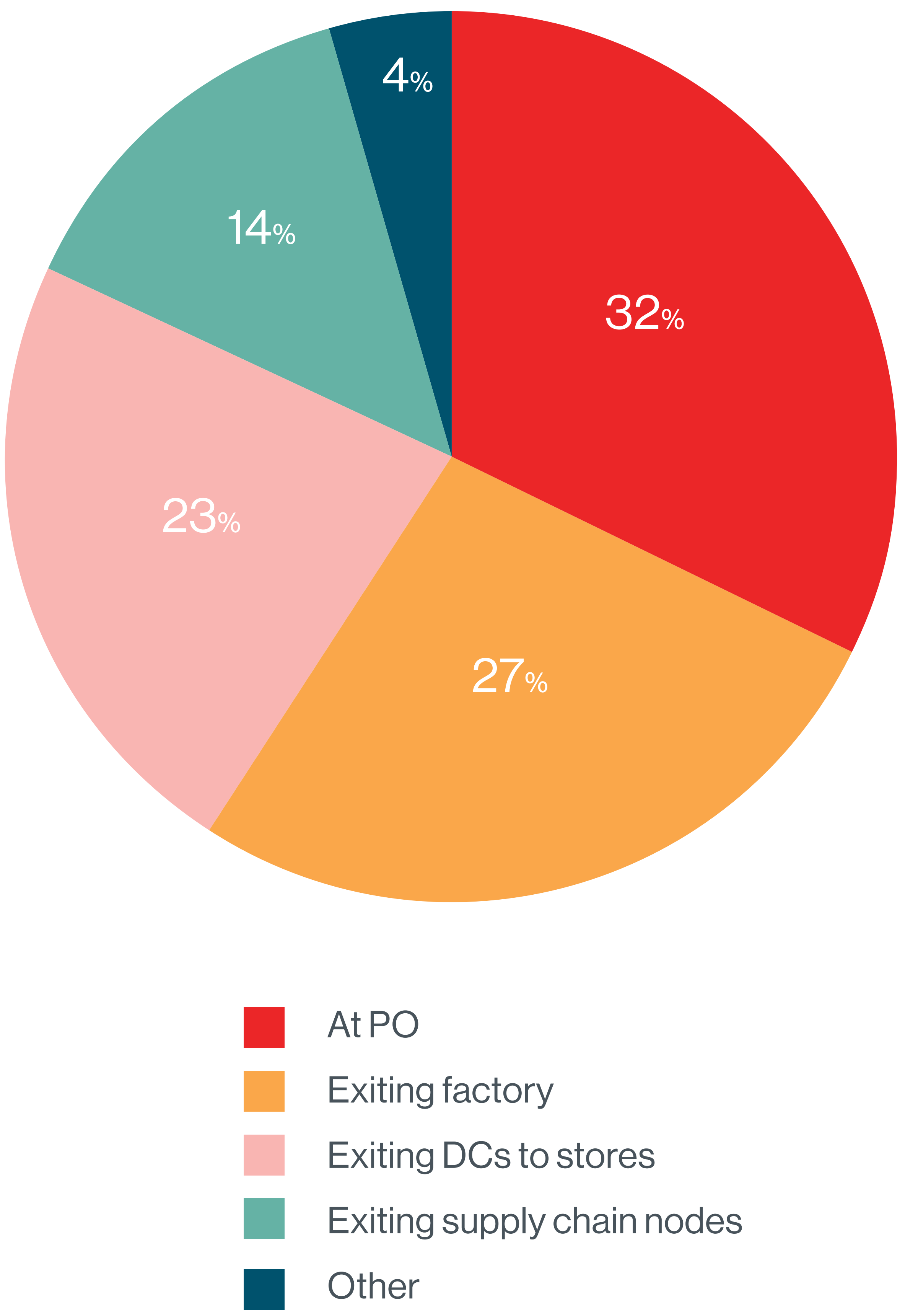
The third reason is that the types of clothing people bought changed dramatically over the course of the last 18 months, making inventory planning even more difficult. As people pivoted towards comfortable clothing and loungewear, the brands that succeeded were the ones that largely ignored the plans they created in 2019 and—depending on how their supply chain was configured—responded quickly to a swift change in demand. This begs the question, does long-term inventory planning work in an era of upheaval?

Keeping up with what shoppers want to buy and how they buy has to be a team effort.

To that end, 77 percent of respondents said their product teams actively collaborate with marketing and consumer-facing groups to develop offerings that are compelling and boost margins.

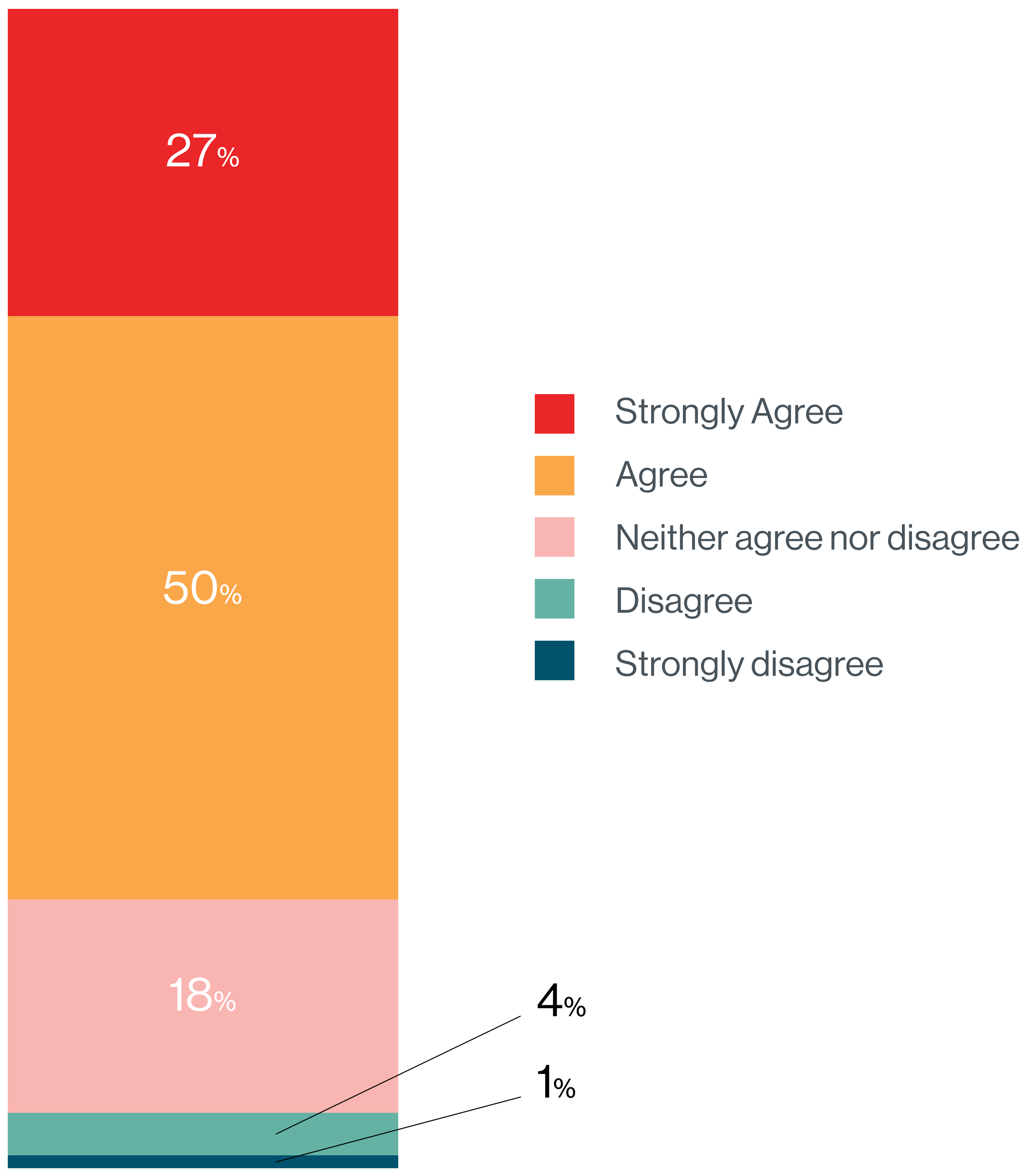
That collaboration could be a double-edged sword. Some respondents noted speed, in particular, is hampered by "indecisiveness of buyers to decide what and when to place the orders" and "still too much lag to decision." A solution posed by one respondent: "a proper CRM system that all parties (design, production, distribution and sales) use."

Final Point for Inventory Allocation



Optimizing Product-Focused Teams Throughout Development

Agree or Disagree: Product-focused teams work collaboratively with marketing and consumer-facing teams throughout the development process, with shared goals to deliver a compelling offering to consumers and maximize margin.



Getting to the Data Point

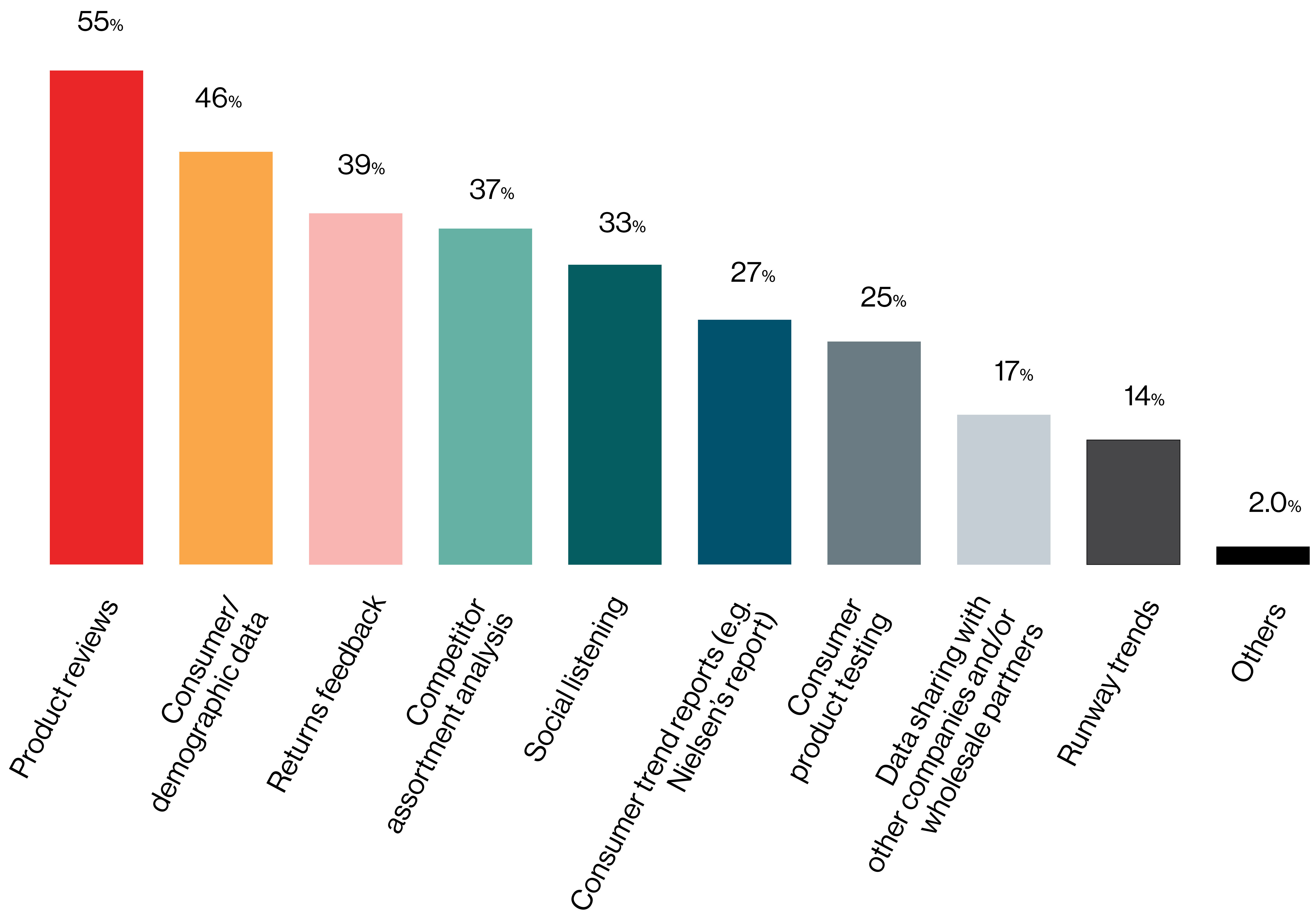
Data analytics is becoming an essential arm in the planning process for retailers, and CEOs are increasingly using it to transform inventory management, profitability, and consumer targeting.

There are three central types of data analytics used in the fashion industry. These are descriptive analytics, which summarizes data to explain what has already happened; predictive analytics, which uses historical and market data to predict what might happen; and prescriptive analytics, which advises on possible future outcomes without analyzing what has come before.

Increasingly, commentators are arguing that highly agile prescriptive analytics have the greatest chance of success in a post-pandemic world.

Given the quantity of change needed, how important can historical data from pre-2020

Sources for Assortment Decisions Beyond Historical Sales & Inventory Data



now be in planning? "Retailers and brands are realizing that a heavy reliance on historical data as a predictive tool is a strategic risk and are beginning to supplement them with market and consumer trends," said Adam Pressman, a managing director at AlixPartners. "Success not only depends on the data mix but also on insights gleaned, and actions taken in response to them."

Companies are now recognizing the need for data beyond historical numbers, with product reviews topping the list of alternative data sources for 55 percent of respondents. They're also looking to sources like consumer data (46 percent), returns feedback (37 percent), and competitor assortment analysis (37 percent).

This push for more and better data could be transformative, leading to stronger channels of communication between manufacturers and brands.

It would also mean that retailers can start adjusting their forecasts week-on-week rather than month-on-month and share these changes with suppliers at every step.

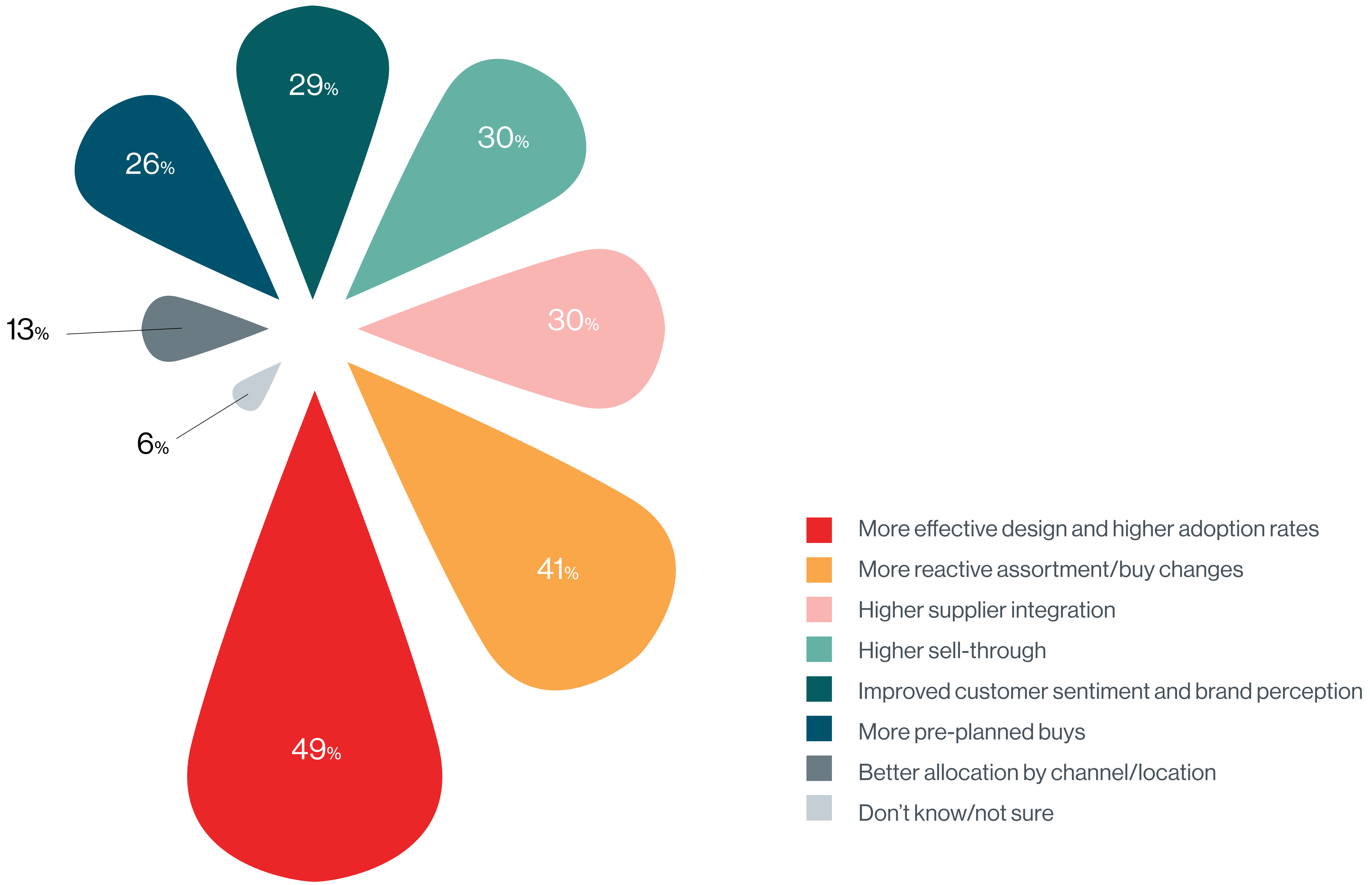
Survey respondents noted that putting data to work has clear benefits. Almost half (49 percent) cite more effective design and higher adoption rates as a result of integrating their various data streams into their assortment planning decisions.

More than 40 percent also note they make more reactive assortment/buy changes. And the list goes on, including higher supplier integration (30 percent).

Zara's parent company Inditex has ploughed $2.7 billion into technologically integrating its stores, tagging every article of clothing with a radio chip. This will allow it to get mass data on its clothes—including which pieces are taken to changing rooms but not bought—and allow it to streamline supply and demand.

Although what brands do with this mass data will determine how

Impact from Alternative Data Sources on Assortments



much the fashion industry actually changes.

"Almost all retailers and brands have a glut of consumer data at their disposal," said AlixPartners' Schmitt. "But few have a defined approach of how and when to integrate it into the product to market cycle. Ineffective companies can convince themselves of anything they want by spinning data one way or another; the winners will separate themselves by embedding a unified approach to use and interpret consumer data into their organization."

And with organizations increasingly comprised of channels like e-commerce, in-store, social and more, applying data and exacting its benefits is a giant challenge.

The good news is that 71 percent of respondents said their cross-functional teams have a clear understanding of managing inventory and working capital in an omni world.

Further, 71 percent said old KPIs like topline growth and comp store sales have expanded to include consumer-focused metrics and omni profitability.

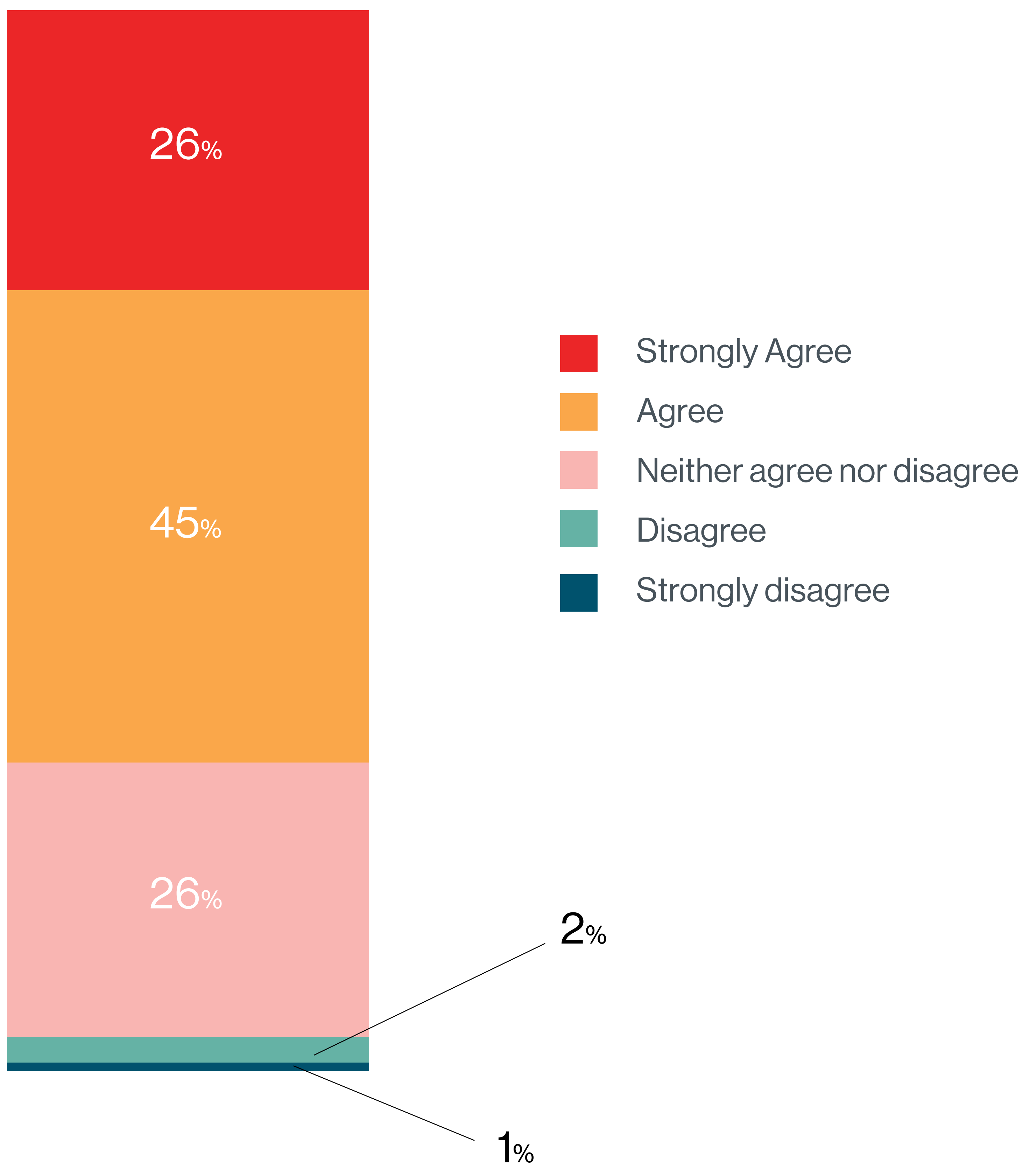
Specifically, 59 percent said sales growth is the top metric they're trying to optimize for with gross margin percent as a close second at 52 percent. For 30 percent of respondents, the full cost of selling product including supply chain, or adjusted GMROI, is a top focus.

Interestingly, in recent years, we have also seen the emergence of an entirely new business model: the designers who have decided to do away with inventories altogether.

Misha Nonoo wanted to create a radical shift in her supply chain and decided to introduce an order-on-demand service across her clothing range. Working with factories in Hong Kong, Peru, and Los Angeles, Nonoo can now produce, dispatch, and deliver her collection to customers in a week or two, all without generating any wasted inventory.

Shifting Key Performance Indicators

Agree or Disagree: The business has actively reshaped KPIs to include consumer-focused metrics and omni profitability vs. focusing solely on topline and comparable sales as dominant performance metrics.



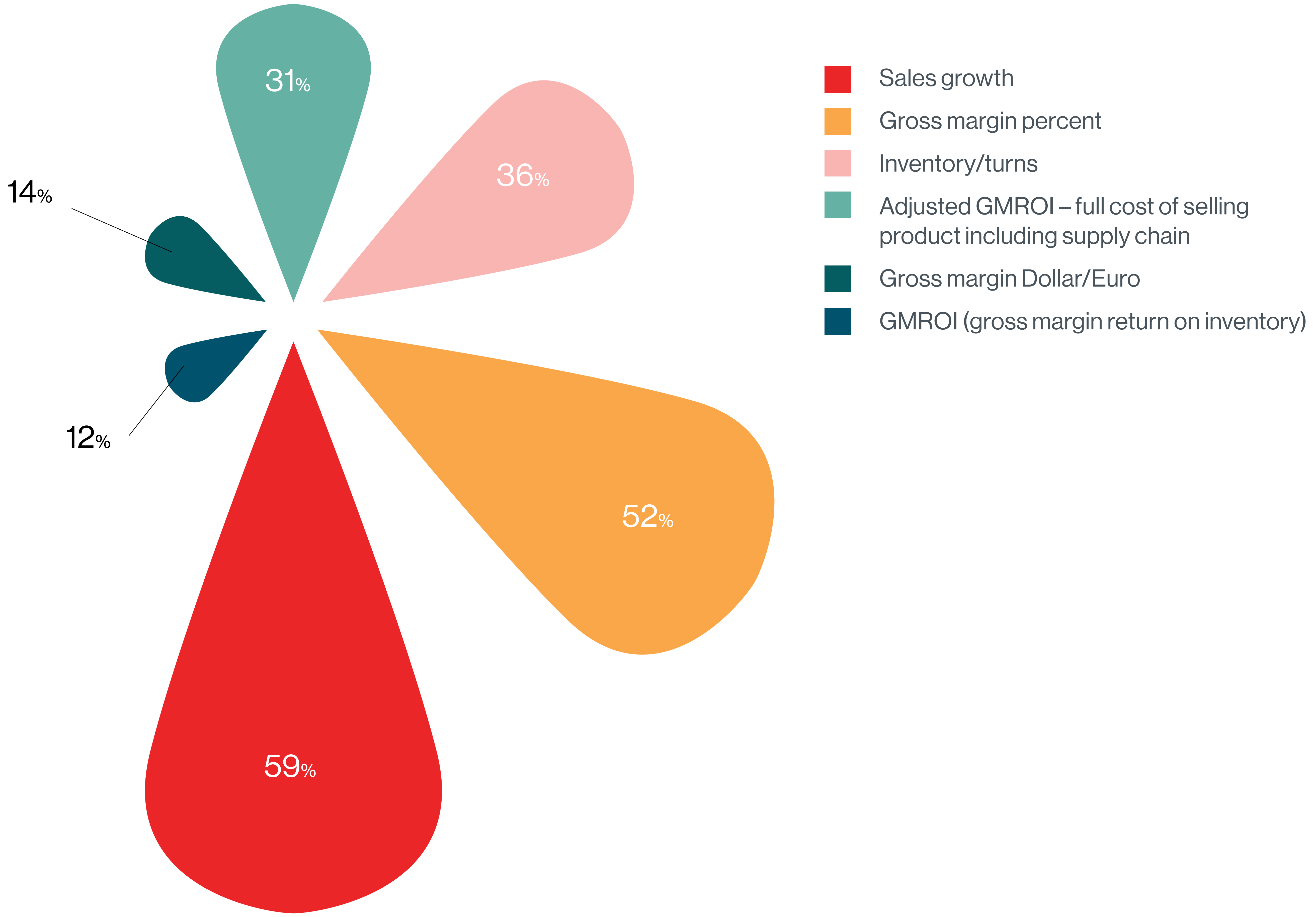
Building such a business takes time and patience—it means viewing manufacturers as partners, not suppliers, and finding a client base that is unlikely to return items and also willing to wait a few weeks to receive an order.

And while this model would be an impossibility for most bigger brands, that smaller companies are moving toward it, is illustrative of a rapidly changing industry—one that is increasingly difficult for many CEOs to stay ahead of.

"Managing inventory in today's environment is like a game of chess, whereby even the best up-front strategy may have to be completely changed multiple times over based on changing conditions," said Schmitt. "Effective brands will need to be bold and decisive when reacting to these changes, in the past, this could be a 'get to it next week' type decision, where today, hours can matter."

Data analytics is, increasingly, the only way to achieve this.

The KPIs Product Teams Optimize for Today



Sorting Out Assortment

Better use of data is not the only thing necessary to mitigate what's hampering agility in planning and fulfillment. Survey respondents specifically called out cash flow, citing "investment is limited and more capital is needed" and an "old school mentality" as factors.

In reaction to these headwinds, respondents highlighted the assortment strategies that have been so successful they intend to continue them going forward with 44 percent saying they're "maintaining a clear focus on good/better/best assortment tiers." In some cases, fashion firms are finding results with contradictory methods. For instance, while 39 percent plan to continue to offer more categories, 24 percent said they're actually planning to offer fewer. Even so, 31 percent indicate they'll continue to lean into core product.

"I don't think anyone was really prepared for the last two years but we took a chance and as a small business, we were able to act quickly," said Joel Jeffery, the co-founder of cotton pajama brand Desmond & Dempsey. "Going forward, we have taken time to build our supply chain for flexibility, which enables us to reduce waste and make smarter buying decisions; we now buy our seasonal collections to sell out, so we don't have to worry about overstock."

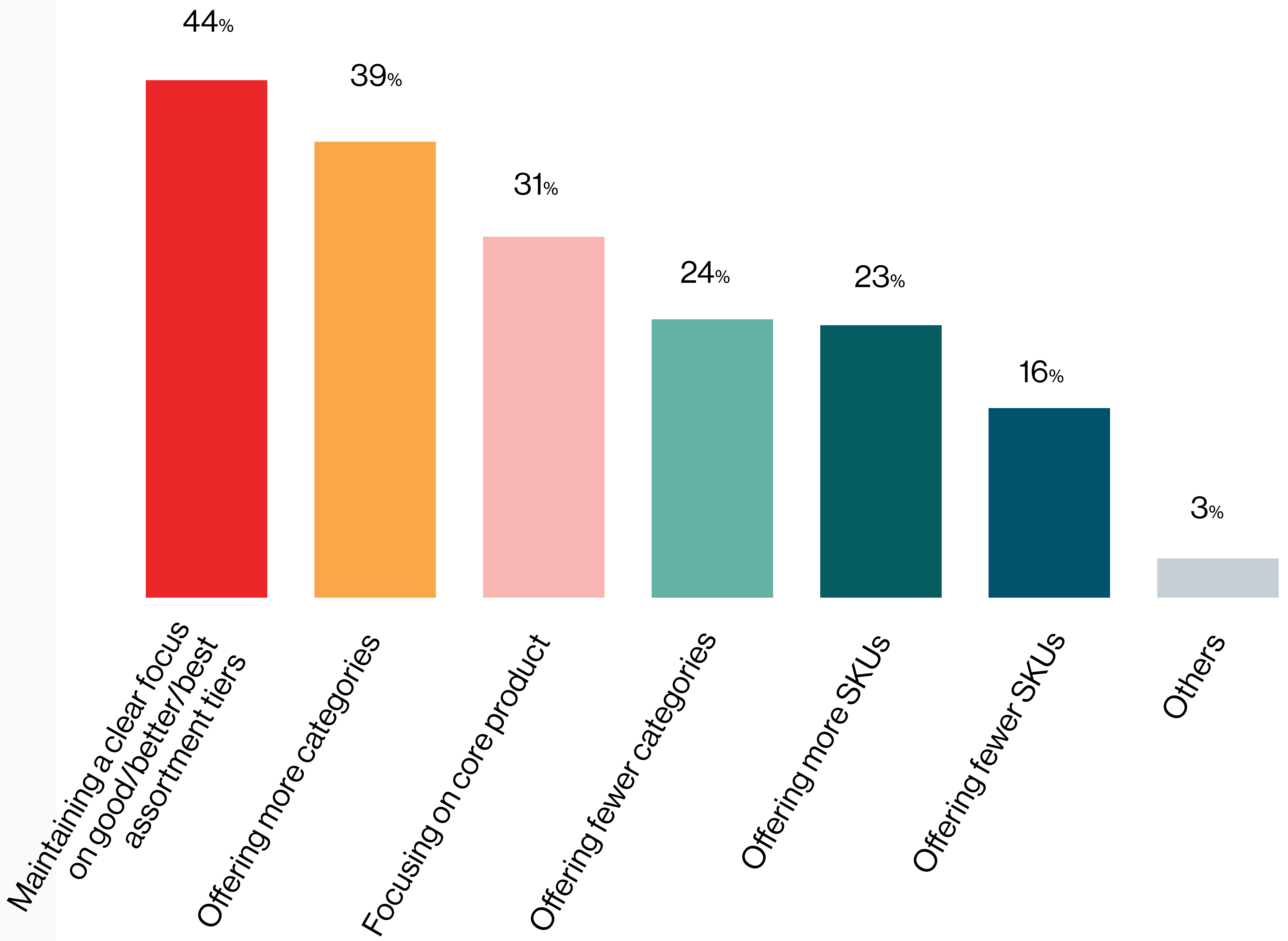
Schmitt agrees with aspects of this outlook, adding that "unknowns" are impacting both the supply and the demand side of the inventory equation.

"The brands that are weathering the storm the best are ones that have given themselves the most flexibility to be able to react—such as reducing the number of seasonal items to be able to focus safety stock in the core, bolstering owned manufacturing capabilities, pre-positioning raw materials when they are available at a good price, and establishing effective joint business planning with key customers," he said.

As for the product development pipeline—the last 18 months have taught us that we still need to be more agile to be insulated from future shocks and changes in consumer behavior.

"The race for data-rich insight further intensified during the pandemic, but many companies are still required to cover a lot more ground in terms of being able to make real-time decisions and improve their agility quotient," added AlixPartners managing director Murali Gokki.

Pandemic-Induced Assortment Strategies Set to Continue into 2022



New Procedures Meet Old Habits

Factory closures, raw material shortages, delayed shipments, outbreaks, overstocks—the list of pandemic pain points for apparel supply chains stretches long. But amid all the disruptions and challenges, one positive effect of Covid-19 was the push for companies to finally ditch outdated or inefficient processes that were holding them back.

Remote product development and manufacturing management required companies to trade in manual oversight for digital tools. At the same time, companies reassessed their sourcing map, particularly the overreliance on a single country for inputs or production.

These forced changes are gleaning results. A year-and-a-half into the Covid-19 crisis, almost half (49 percent) of companies describe their production as more efficient now than it was in 2019. Meanwhile, for 36 percent, efficiency has stayed level with 2019, while only 15 percent indicated a drop in efficiency.

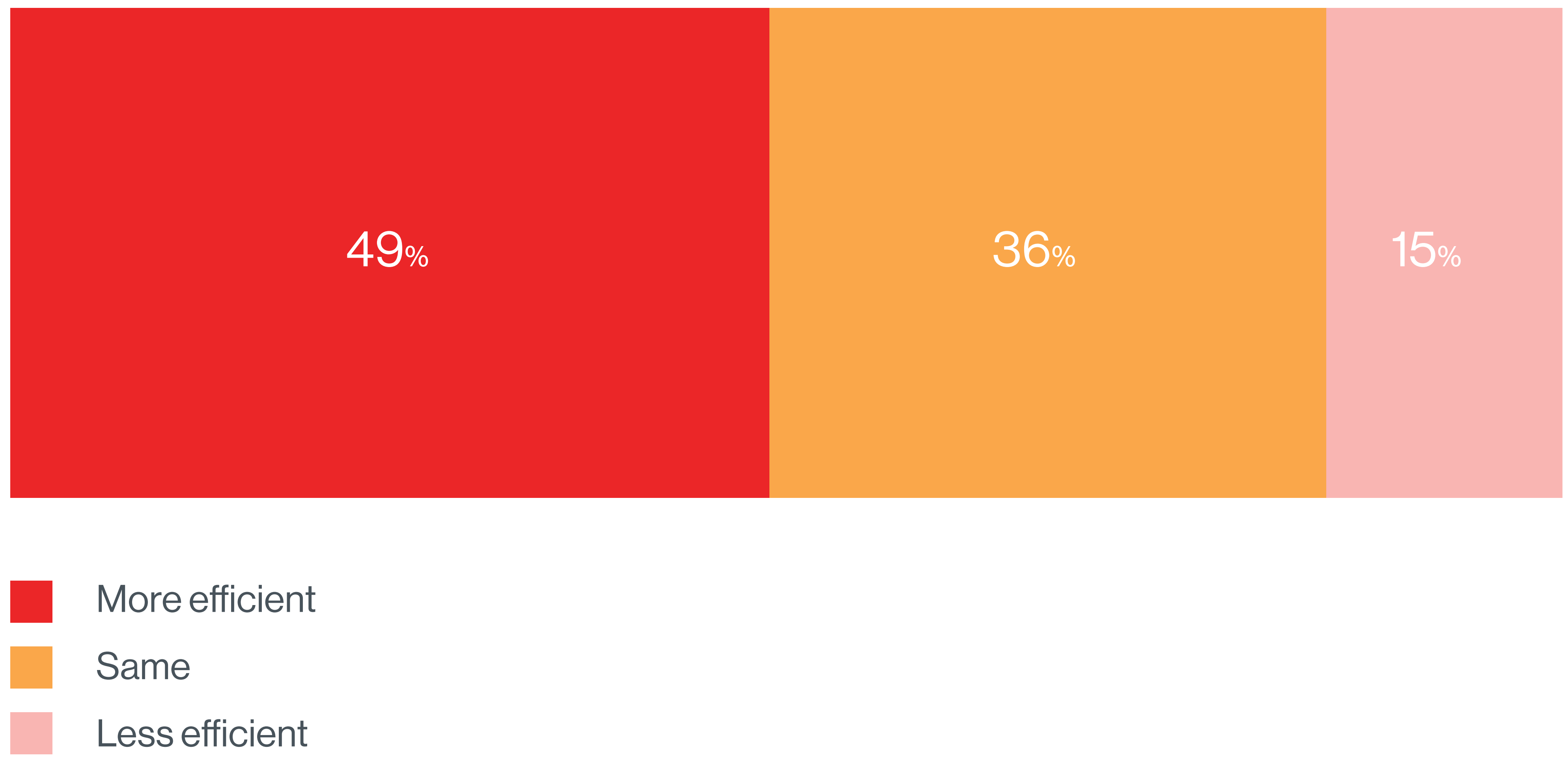
"In terms of agility and nimbleness, we are in a better place today than we were two years ago, and a lot of that just comes from having gone through a period where we had to get creative and work in different ways," said Marcus Chung, vice president of manufacturing and supply chain at intimates brand ThirdLove. "And the teams are now wired to be able to be flexible in a way that we weren't before."

The pandemic created an impetus for change, but once the pressure of the virus subsides, will companies stick with new procedures or revert to old habits?

Those surveyed are keen to keep virtual design and development tools in place, with 61 percent planning to retain these tools post-pandemic. Looking ahead, respondents also most frequently chose design and prototyping solutions as the tools that will rise in prominence over the coming two years, with 62 percent agreeing.

Companies' Production Efficiency Today vs. 2019

Compared to 2019, how would you characterize your company's production efficiency today?

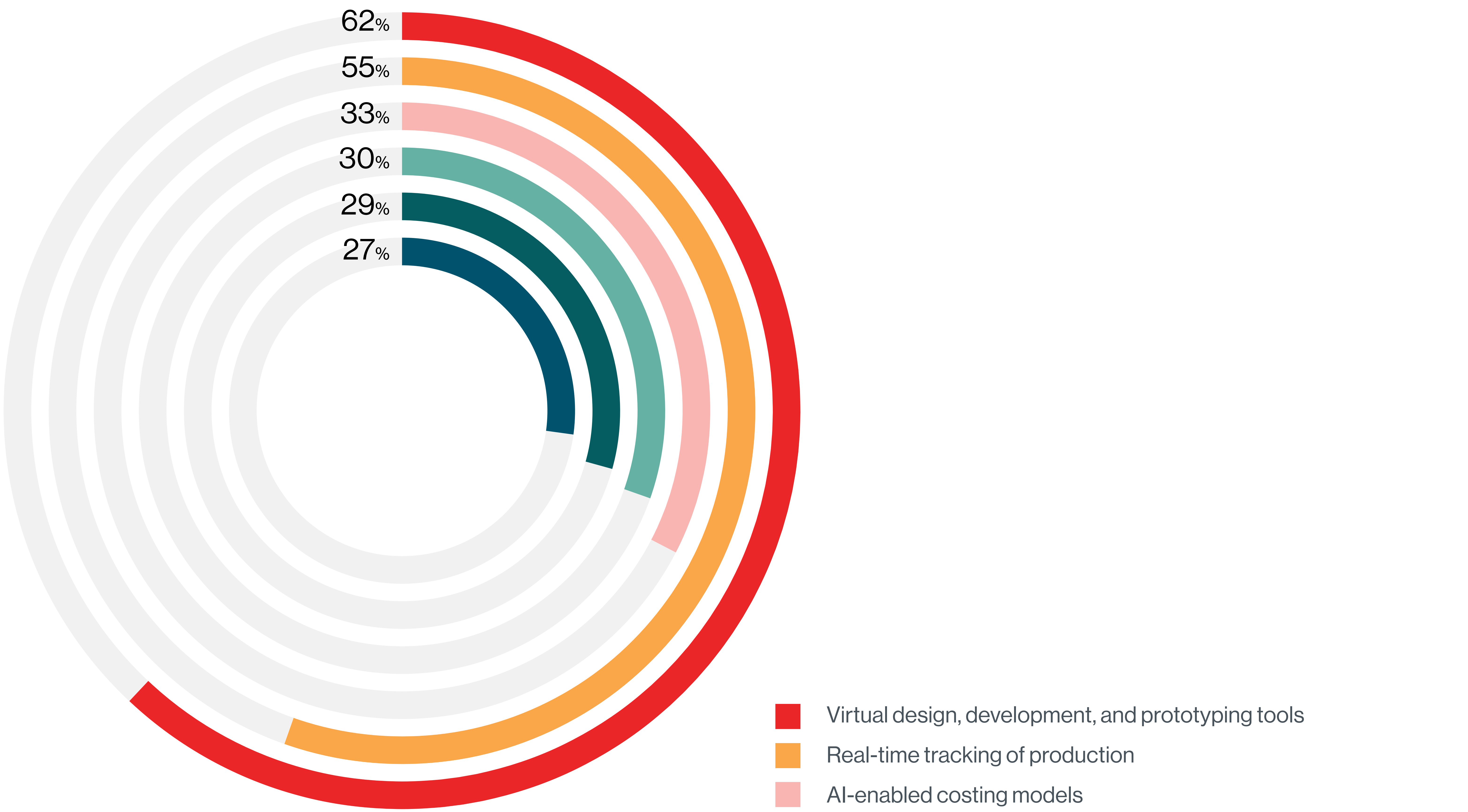


Those whose work centers on sourcing were even more apt to say digital design tools will grow over the next couple of years, with 71 percent expecting an uptick.

Covid-19 was a digital catalyst for some companies, but others were embracing tech in a bigger way pre-pandemic. In 2019, Tommy Hilfiger announced that its entire Spring 2022 collection would be designed using its 3D platform. Ahead of that, the Fall 2020 men's dress shirts were developed without physical samples. "The difference will be almost indistinguishable from styles designed and presented historically," said Daniel Grieder, CEO of Tommy Hilfiger Global and PVH Europe, in a statement about the shirts. "This is the future."

The majority are bullish on the potential for virtual design, but limits remain that prevent 3D from supplanting analog processes. Chung explained that for the intimates category, there is far less room for error in fit than there is in clothing that skims the body, and digital platforms don't allow for the

Supply Chain Tech Set to Gain Relevance Over the Next Two Years



precise millimeter measurements needed for undergarments.

In addition to product development, manufacturing management has also been upended and digitized. As the factory visits that were common before Covid-19 halted, companies had to manage quality and compliance audits remotely.

Even as some travel is resuming, 57 percent of respondents see fewer on-site visits and more virtual collaboration. Additionally, 55 percent of all executives and 57 percent of sourcing personnel believe real-time production tracking tools will accelerate in the next two years.

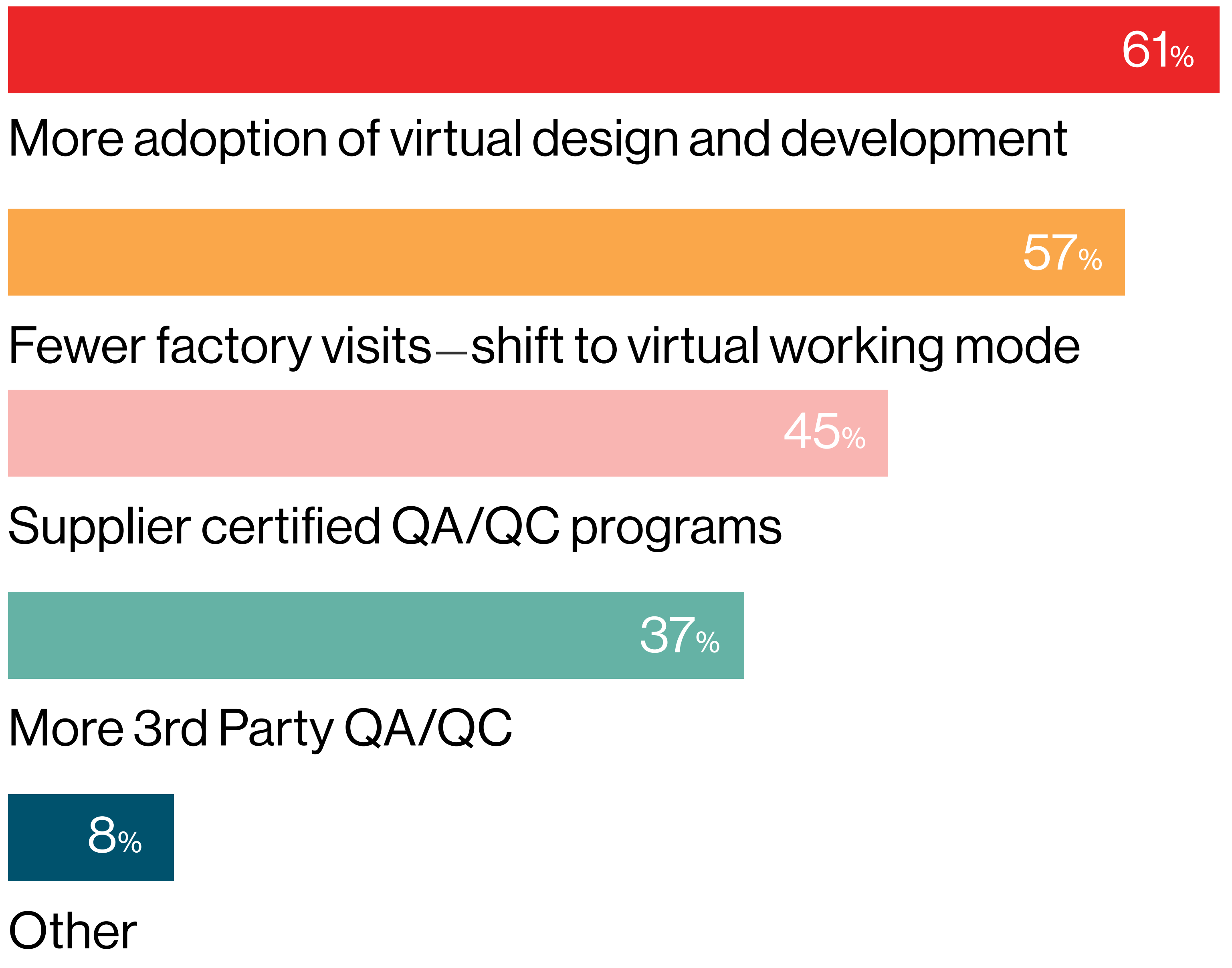
ThirdLove went from relying on factory visits and email exchanges to having more frequent, conversational check-ins with suppliers, helping to quicken decision-making.

Remote work also accelerated adoption of the PLM system put in place pre-Covid. However, post-pandemic, Chung still sees a place for factory visits. "There's a lot that we weren't able to replicate remotely; there's a lot that requires touch and feel, especially when you're managing and developing product."

To reduce travel, another opportunity is leveraging third-party quality assurance firms to have boots on the ground.

"If you can reduce your factory travel but still maintain the same quality levels and same performance out of those manufacturers, you're going to get efficiency and even potentially reduce headcount, but definitely reduce costs," said AlixPartners' Gokki.

Pandemic-Era Strategies Expected to Persist Post Crisis



Resiliency with a Capital R

Despite vaccinations and infection rate dips, surges and outbreaks have shown that apparel is not out of the woods yet.

One fallout of the virus' continued spread is a global freight crunch. With containers in short supply, port backlogs, and trucking delays, getting goods to their end destination on time is posing a challenge. The imbalance of supply and demand in equipment, bookings, and labor is also driving up costs.

When respondents were asked to rank which change has had the most significant impact on their business, about half (49 percent) pointed to shipping modes and constraints as number one, surpassing raw materials supply and costs as well as tariffs for the top spot.

"Covid has reinforced that notion of the need for resiliency in supply chains, as we all experienced almost rolling blackouts from various countries around the world during the early stages of the pandemic," said Doug Lindner, senior vice president sourcing and procurement at sock manufacturer Renfro Brands. "Now, with the disruptions in the global transportation network, a diversified and redundant supply chain remains a key element in our strategy."

To navigate the "transportation crisis," Renfro has expanded its network of freight forwarders.

Although the congestion is unlikely to clear by the holidays, Edwin Keh, CEO of the Hong Kong Research Institute for Textiles & Apparel (HKRITA), believes it will normalize by the 2022 holidays as the demand spike ebbs. "The problem with logistics is that there's always a three-year lag. It takes that long to build ships and get port capacity up," said Keh. "We are forever solving last year's problem."

Biggest Changes Impacting Global Supply Chains (In Order of Importance)

1. Shipping mode and transportation constraints
2. Tariffs & Raw material supply and costs
3. Stability of supplier base
4. Near shore production
5. Increased scrutiny on sustainability
6. Increased product offerings
7. Need to drive more newness

Securing Essentials

Following logistics hurdles, raw materials supply and costs came in as the second most impactful change in the apparel supply chain, with 23 percent ranking it first and 48 percent putting it in the top two.

Early on in the pandemic, factory closures and delayed shipments out of China held up production at global factories.

More recently, the freight delays have disrupted the usual timelines for transporting materials. In light of these factors, it is critical to work with factories that can source the needed materials.

"Positioning with manufacturers that have a good ability to get a consistent supply of raw materials to support the manufacturing processes is very valuable," said Gokki.

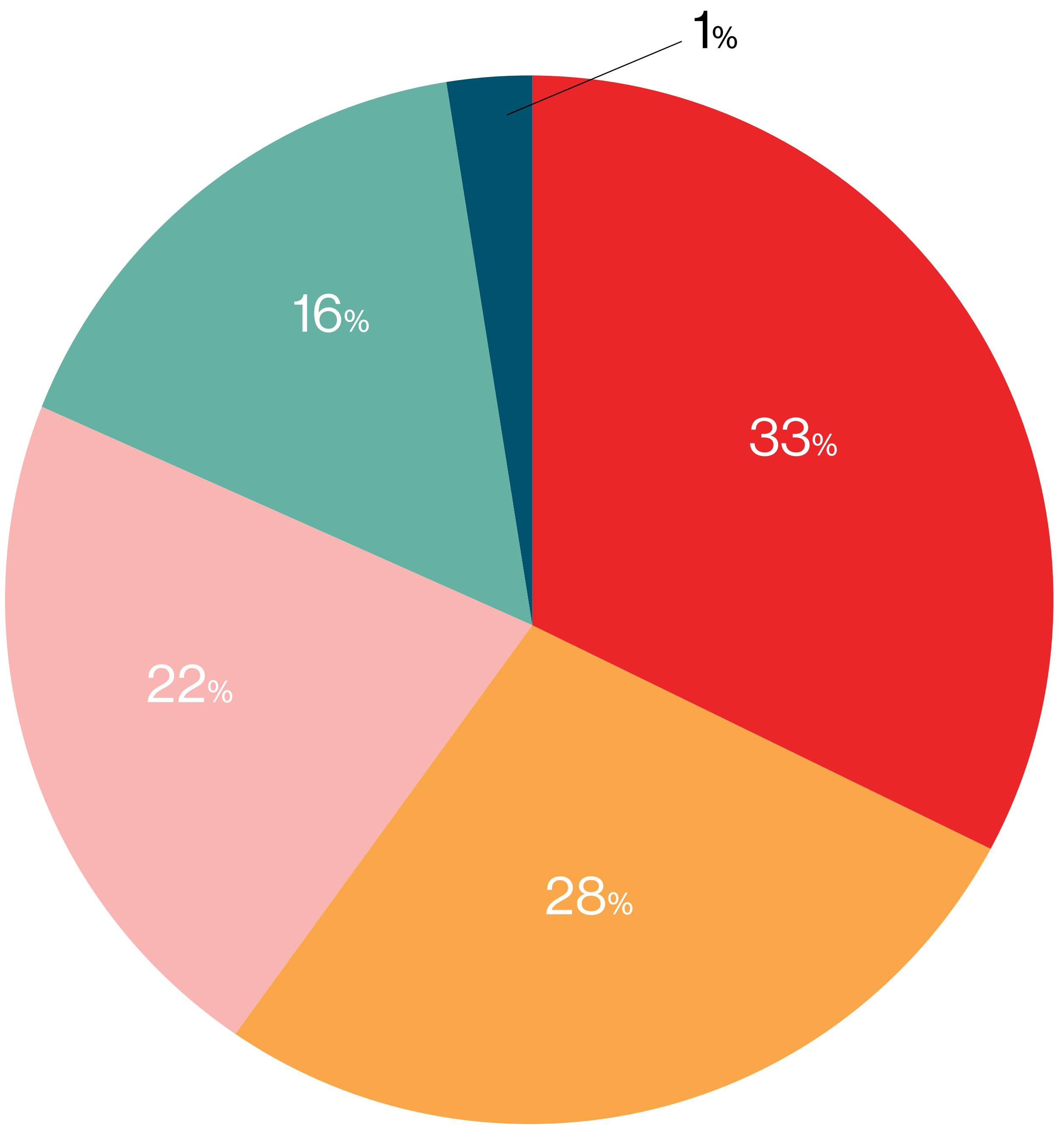
Along with securing materials, the other challenge related to inputs is rising costs. Fifty-one percent of respondents rank commodity and other supply-side cost increases as the number one challenge for the next half-decade. An additional quarter of those surveyed see it as the second biggest hurdle.

In response to this challenge, one-third said they are managing upstream raw material sourcing, ahead of all other tactics including consolidating or standardizing raw materials.

Predictions for the Biggest Challenges Over the Next 2-5 Years

1. Rising commodity and other supply-side cost increases
2. Geopolitical environment hindering cross-border commerce
3. Supplier stability
4. Cost of sustainability
5. Shifting sourcing country mix

Strategies for Dealing with The Predicted Major Challenges



- Managing upstream raw material sourcing
- Consolidating/shifting supplier base
- Increasing supply chain integration (e.g. JV)
- Consolidating/standardizing raw materials
- Other

SOURCING DESTINATIONS NEAR AND FAR

Fashion's sourcing map has been evolving in recent years as tariff pressures prompted companies to diversify away from China. The survey shows that trade remains a top-of-mind supply chain challenge. Tariffs were the third most popular choice for the top change affecting apparel businesses, with 13 percent indicating it had the most impact. An additional 25 percent ranked it in second place.

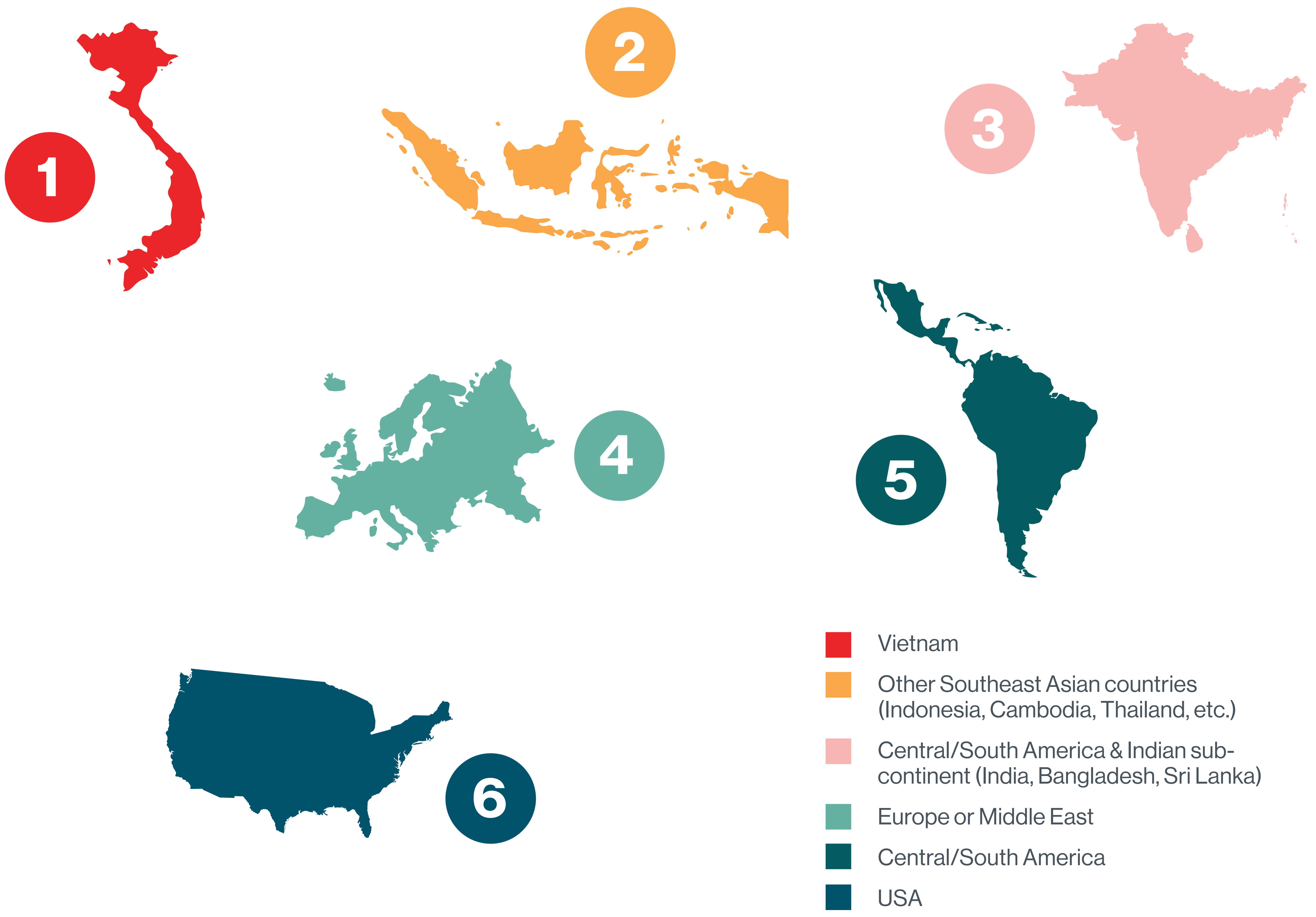
Covid-19 accelerated this move, forcing brands to confront the risks of relying on just one supplier, sourcing country, or region.

Steve Madden produced about 90 percent of its goods in China a few years ago, but the company has been reshaping its sourcing map. Even though this process slowed during the pandemic, the company picked up its diversification efforts in 2021. During an earnings call in July, Steve Madden CEO Edward Rosenfeld said about half of the fall women's line is being produced in Mexico and Brazil.

Pre-pandemic, ThirdLove had also begun diversifying its supplier base, including to Vietnam, which proved beneficial for navigating factory closures. It has recently begun manufacturing in Mexico, Nicaragua, and the United States. "Having that diverse country of origin base and vendor base already in place has helped us to be able to manage these shocks a little bit better," said Chung. "It's not to say that it's perfect and that we're not being impacted by capacity and delivery challenges, but at least we have options."

Kontoor Brands—which includes Wrangler and Lee—has a manufacturing footprint that spans both hemispheres. The group's executive vice president global supply chain Karen Smith credits diversification as a "distinct competitive advantage in scale and speed."

Emerging Sourcing Regions, Ranked by Most Promising



Among emerging sourcing destinations, survey respondents see the most potential in Asia. Vietnam is particularly popular, with a quarter placing it as their top choice. Close behind was the Indian subcontinent, with 24 percent considering it most promising. Continuing the focus on the region, other nations in Southeast Asia, such as Indonesia, Cambodia, and Thailand, were most commonly ranked as the second choice, with 27 percent selecting one of these as the runner-up.

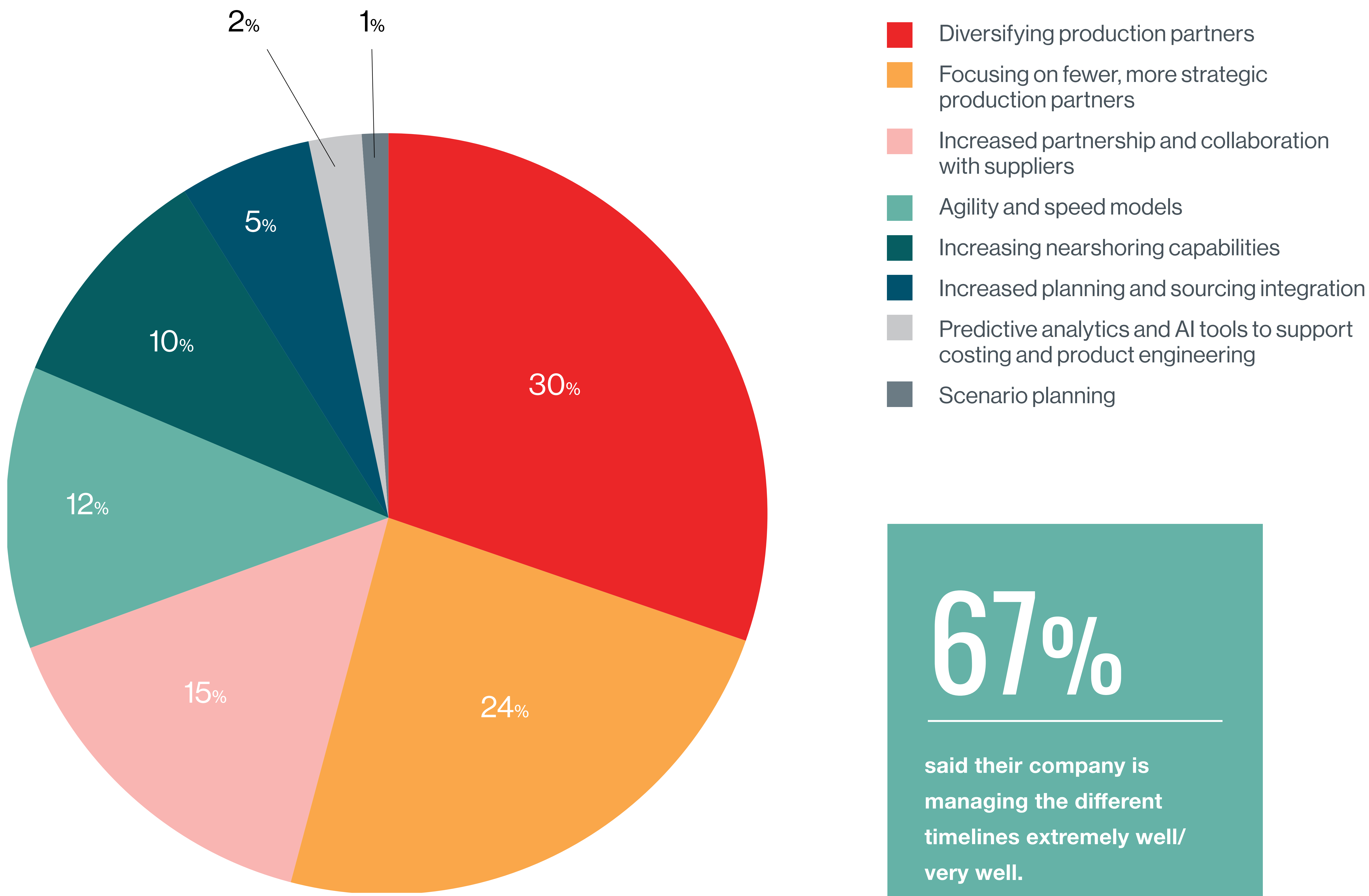
Between pandemic delays and logistics concerns, nearshoring has been a hot topic lately. A quarter of those surveyed put Central and South America in third place, and 48 percent placed it somewhere in the top three. Despite the nearshoring buzz, onshoring appears to be a more difficult sell. The U.S. was the region most commonly ranked last by respondents, with 35 percent putting it in seventh place and 69 percent selecting it among the bottom three.

Gokki has seen some clients increase production in Mexico and Central America, but he has witnessed less onshoring. He noted nearshoring is a better fit for certain brands and categories. Products with higher price points in which labor is a smaller portion of cost have more of a strategic argument for shifting production to a destination with comparably higher labor costs since it would be less impactful on margins.

With inflation driven largely by transportation price hikes, nearshoring can help circumvent costly freight while also guarding against some risks. "Cost is a massive factor...but for many, it's as much about just securing the capacity and making sure they have the products arriving in North America for the upcoming peak and beyond in their longer inventory build strategy," Gokki explained.

Renfro Brands, which produces labels like Polo, Carhartt, and Fruit of the Loom, has long invested in domestic manufacturing. Starting

Strategies to 'Future-Proof' the Supply Chain



67%

said their company is managing the different timelines extremely well/ very well.

in 2013, it began ramping up personnel and capacity at its U.S. plants in Tennessee and Alabama. Coupled with diversified raw material sourcing, this localized production enabled the company to keep products moving. “The trend toward nearshoring or reshoring production, I believe will continue to be a key advantage for our customers who demand a steady flow of goods,” said Lindner.

In the case of raw materials, sourcing domestically or in the Western Hemisphere can be a challenge. ThirdLove’s Chung explained that certain key components are only available in a few countries, and raw material supply chains are still far more developed in Asia.

According to Keh, nearshoring may not be the panacea for apparel’s supply chain pains since it doesn’t get at root operational issues. “You just shifted your problem by one hemisphere,” Keh said. While shipping times get trimmed, he noted that this is not the main hurdle.

“The pandemic has shined a spotlight on technical inadequacies and issues that exist within a lot of brands and a lot of organizations,” he said. Keh added that in recent decades, brands have focused on consumer-facing activities like marketing and retail, while outsourcing practices like logistics and manufacturing. This has left companies without in-house engineering and manufacturing expertise to get at root problems and improve sourcing and visibility.

When asked to select their top supply chain future-proofing strategic priority, companies most commonly chose to expand their production partners, with 30 percent picking diversification. However, coming in as the second most favored game plan was establishing fewer, more strategic sourcing partners (24 percent).

Gokki sees the opportunity for firms to expand to different sourcing countries while keeping supplier counts in each of these locations tighter. Spreading factory numbers too wide could make managing production and QA more challenging, particularly via remote means.

At Guess, these strategies of diversification and consolidation coexist. Between the 2020 and 2021 fiscal years, the company’s portion of tier 1 sourcing from China fell from 42 percent to 27 percent.

In the same time period, the share coming from Guess’ second and third largest sourcing nations—Bangladesh and India—grew respectively from 15 percent to 23 percent and from 14 percent to 18 percent.

The brand also sources from locations including Guatemala, Vietnam, Myanmar, Turkey, Pakistan, and Tunisia. “The global nature of our supply chain enables Guess to drive efficiency and quickly respond to changes in customer demand,” the company wrote in its sustainability report released in July.

Guess also explained in the report, “We consolidated the global vendor count, and streamlined and simplified global operation processes, resulting in greater efficiencies for the business.”

Moving the sourcing map comes with its own set of challenges. When asked to rank the biggest challenges for the next two to five years, changing the sourcing country mix was the second most popularly named problem, with 40 percent ranking it in the top two.

“Whereas in the past, perhaps we’ve focused more on efficiency rather than redundancy, now we continue to rethink the supply chain through partnerships which ensure geographic diversity,” said Lindner. “Diversification does come at a cost, and for our industry, which imports 75 percent of its product from China, it will not be a quick transition.”

Top Factors for Vetting Production Facilities Today (In Order of Importance)

1. Core capabilities
2. Costs
3. Speed & Capacity
4. Verticality
5. Level of digitization

Factory Matchmaking

Sourcing decisions may begin with location, location, location. But within their chosen sourcing destination, retailers and brands often have numerous options for factories. In many cases, they are looking for a production partner that brings more than technical ability to the table. "Suppliers want to be irreplaceable," said Keh. "If you're just the labor component, you're eminently replaceable. But if you provide services, technical support, product development know-how, and a deep understanding of the customer, you're a true value-added partner."

When asked to rank the importance of factors used to vet suppliers, a third of companies placed core capabilities in the top position, making it the most popular leading decision point. Respondents overseeing sourcing find capabilities even more crucial, with 43 percent ranking it first.

After capabilities comes costs, which 28 percent ranked first and more than half (54 percent) considered in the top two.

Even with the growing demand for technology—from 3D design to remote quality assessments—companies were most apt to rank digitalization at the bottom of their factory criteria. Thirty-six percent of all respondents deemed it least important, and 46 percent of sourcing executives placed digital development in last place. Also low on the wish list was verticality, with about two-thirds (67 percent) placing it in the bottom two positions.

At ThirdLove, factory needs change depending on what product is in question. Chung explained that the company has strong development teams for its core products—bras and underwear—but when branching into new categories, it might lean more heavily on a factory that has design or product development capabilities. For its staples, execution, capacity, and raw material accessibility could be bigger factors.

Even though there is some variation in priorities, some trends appeared when respondents were asked to discuss how factories are falling short of expectations: capacity, efficiency, speed, and quality were mentioned by many surveyed, highlighting a need for improved supplier partnerships.

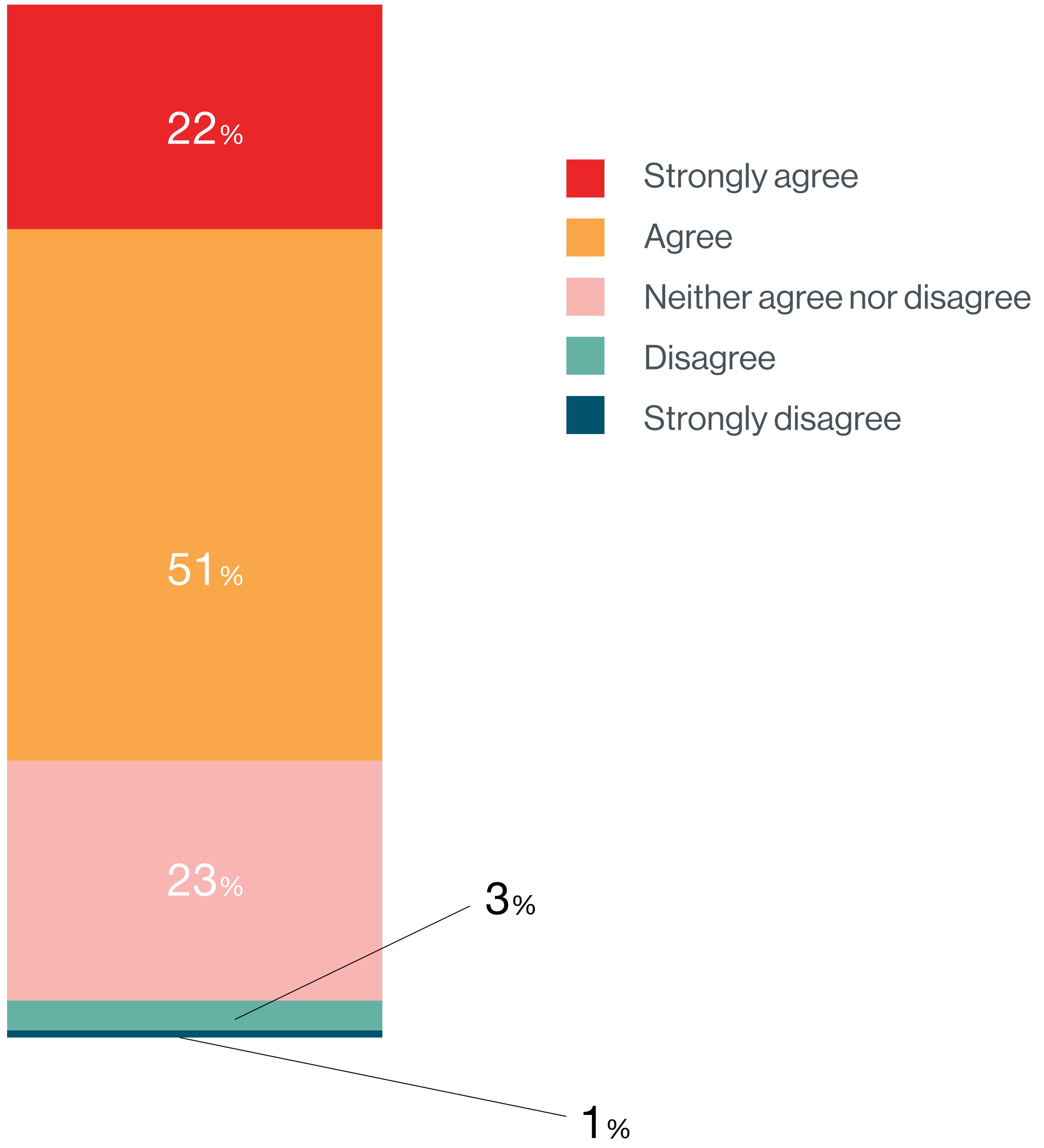
Speaking on capacity issues, one executive noted he has seen factories "running out of capacity and calling it out last minute." Another expressed frustration at seeing an "inability to guarantee capacity and schedule," adding that facilities also "prioritize other customers' orders." Others were concerned about efficiency and speed, citing "late delivery" and issues with "timely production."

Some respondents pointed to raw materials accessibility, including issues like the "lack of a stable yarn supplier" and "raw materials availability within budget cost." Another indicated an "inability to secure sustainable materials."

A few also pointed to shortcomings in technological prowess. One said, "The equipment is not very advanced, and the update is slow," while another griped about suppliers who are "slow to change."

Partnering with Business for Shared Goals

Agree or Disagree: Finance, operations, and technology (IT) are effectively partnering with the business to determine and achieve commercial and consumer goals.



It Takes Two to Tango

When it comes to supplier relationships, many companies are seeking quality over quantity. And after a period of upheaval that tested partnerships, they are looking to shore up these alliances.

Speaking about how their company is set up for success, one respondent noted, "By having transparent conversations/ communication with the entire supply chain, from garment manufacturing to raw material suppliers. It's all about supplier relationship management."

Another stressed the importance of communication, noting, "We've established strong relationships with suppliers and have developed good communication for both parties to meet one another's needs. We've set ourselves up to take care of the people in our supply chain."

During the pandemic, having frequent collaboration with suppliers has been even more important. "We have to communicate our priorities clearly as we know it's not 'business as usual' and we are not likely going to get everything we need exactly when we need it," said Smith. "We have to dance together better than we ever have."

One of the top tactics companies are eyeing to become nimbler is better supplier collaboration. Twenty-three percent see an opportunity in integrating suppliers more, potentially through models such as a joint venture.

Per Keh, the pandemic highlighted that the fashion industry remains highly "transactional" and relationships lack "stickiness." "If we don't have true partnerships, nobody's going to talk about long-term investments, about commitments, about taking risks, and there's fundamentally a lack of trust in that relationship. And that is not the foundation for a sustainable business," he said.

Keh sees the opportunity to move from a linear supply chain model to one that is more collaborative. In practice, this would include peer-to-peer roundtables for sharing insights between manufacturers and brands.

Part of strategic partnerships is committing and taking responsibility for vendors. "Renfro Brands remained committed to paying our vendors—even when we were not being paid—and working with those who've had cash flow issues to ensure that both workers and production were secure through the pandemic," said Lindner.

For Chung, this relationship building is also about making vendors feel they are "part of the journey" by "helping them to understand our business strategies, where our growth opportunities are, and what role they play in that future of the company."

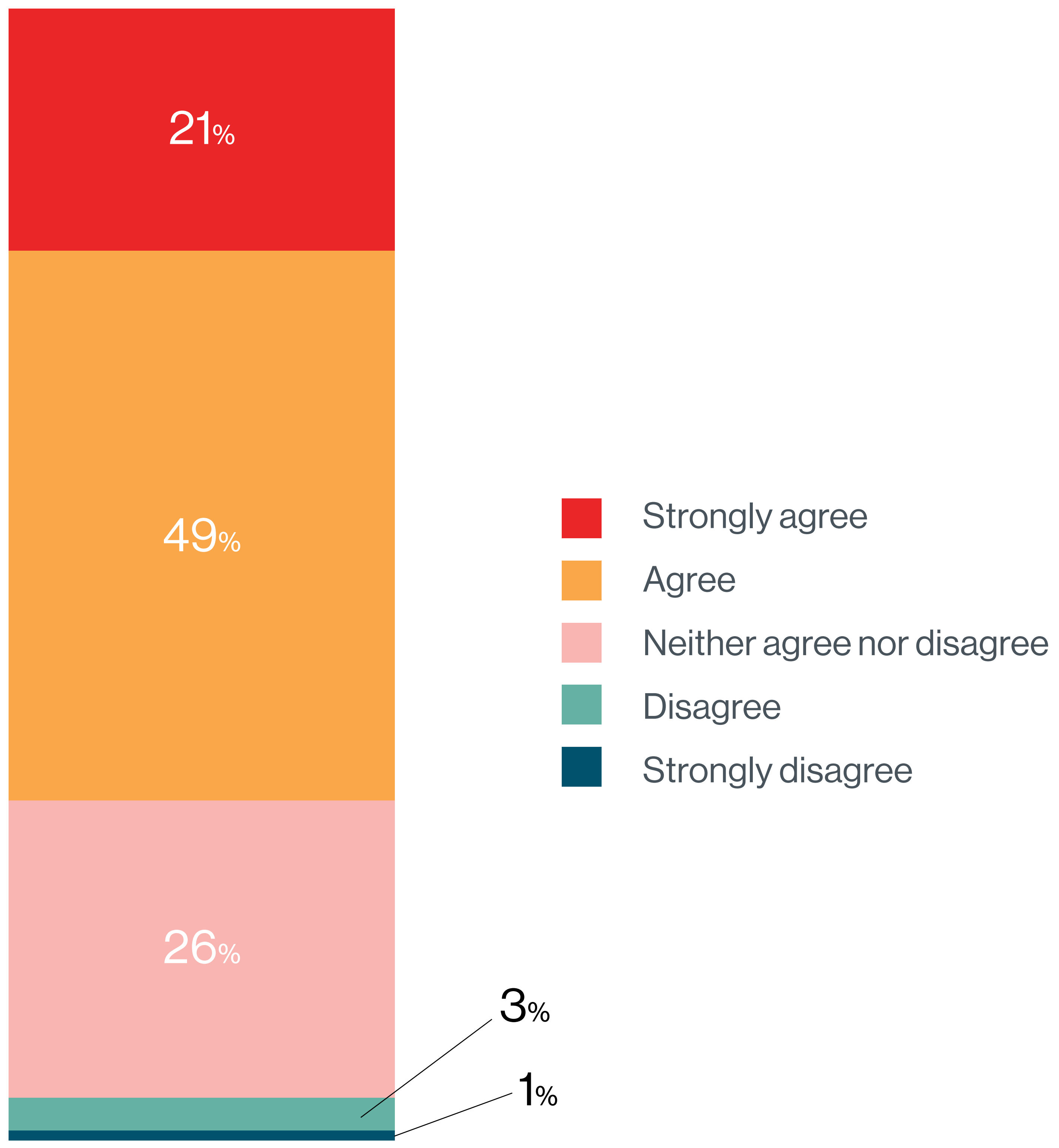
One of the stressors in the brand-supplier relationship during the pandemic has been volatile demand and associated unpredictable forecasts.

AlixPartners' Schmitt noted that leading up to discount extravaganzas like Prime Day, wholesalers ramp up order sizes with tight timelines. But then, the volumes drop off after the sale is over.

Speaking of the supplier-side pain points, one of those surveyed said, "Shortcomings are actually more on the brand side, where the major footwear brand still has limited ability to predict or control demand volatility, commit to long-term capacity growth, administer the source base consistently and lack of manufacturing understanding."

Building Effective Speed Models

Agree or Disagree: Speed models exist to effectively link all areas across the end-to-end process to support new product introductions, rapid replenishment, product tests, etc.



Faster and Nimbler

Shopping and fashion cycles continue to speed up. Consumers can click 'buy' on an e-commerce site and have merchandise arrive in mere hours. And social media is quickening the introduction—and fall—of new trends.

The survey indicates that the need for speed is also having an impact on product development. Seven in 10 respondents said their company has end-to-end speed models that can be used for testing, replenishment, or bringing new products to market. Sourcing executives are slightly less likely to agree, with a smaller majority of 59 percent having speed models in place.

Prior to the pandemic, ThirdLove was focused on seasonal collection development. But as consumers shifted their wardrobes to loungewear in 2020, the company decided to fast-track certain styles like wireless bras and sleepwear to bring them to market sooner to meet demand.

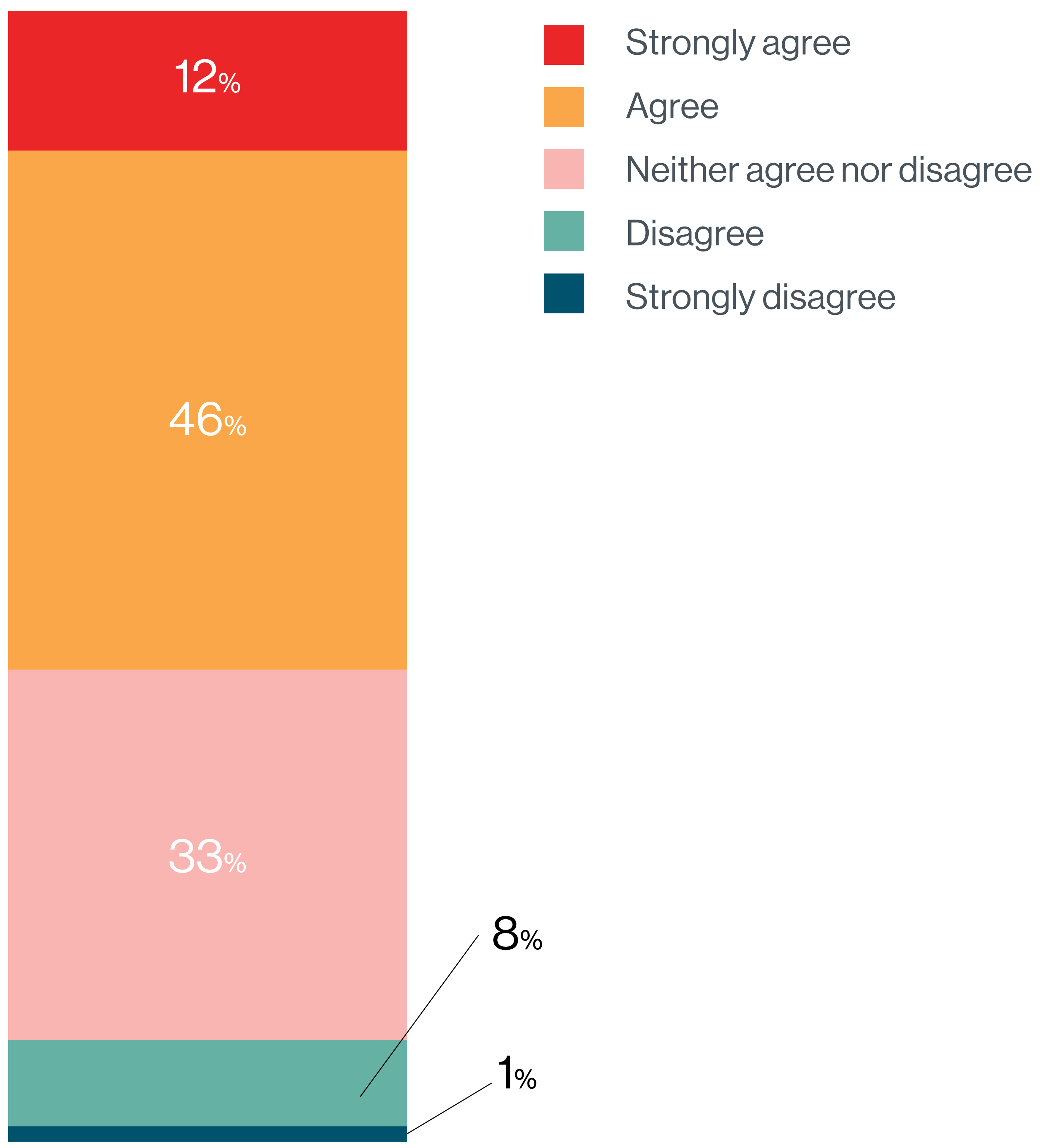
This idea of speed also translates to technology rollouts. Fifty-eight percent of all respondents and 51 percent of sourcing executives said they have focused on releasing minimum viable products in service of better efficiency and an improved customer experience. In this strategy, new products are introduced at an early stage and then tweaked based on feedback and field testing, rather than waiting until something is perfected to launch.

"Perfection should not be the enemy of trying something different or trying something new or improvements," said Keh. "One thing to build into future business models may be these perpetual experiments and small tests that are going on in the background."

For one survey respondent, moving fast and "having a start-up mindset" is the recipe for success. "I believe that the result of this will be more action than research and testing over analysis. Establish a brisk cadence to encourage agility and accountability."

Launching Minimum Viable Products for Process Evolution

Agree or Disagree: We have focused on launching minimum viable products vs fully perfected initiatives across the enterprise to continually evolve and improve business processes to drive efficiency, profitability, and superior customer experience.



69%

of respondents said they regularly develop partnerships to supplement their fulfillment capabilities

On the Road to Agility

To become more agile, companies must reconsider their organizational and team structure. When asked how they aim to become nimbler, 23 percent of firms said they're looking to adopt technology that enables better collaboration.

The majority of firms said they have improved cross-functional collaboration and speed by breaking down silos, with 69 percent having made this move over the last three to nine months. Among sourcing professionals, this was slightly less common, with 64 percent reorganizing teams.

"We have streamlined and consolidated processes, removed silos, and increased internal communication, focused on what we do best and set up to do more of it," explained one executive.

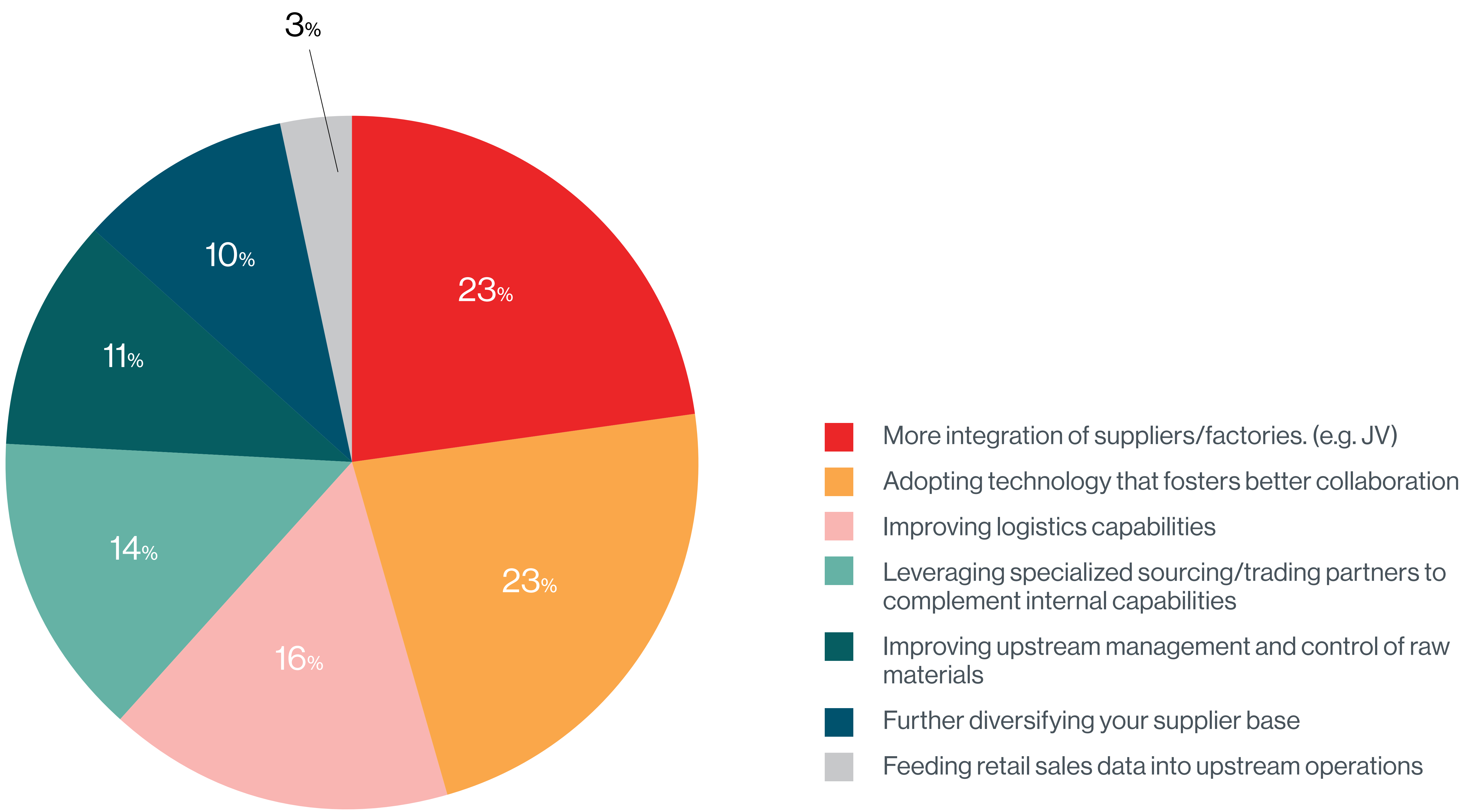
"We're seeing the sourcing and distribution or fulfillment teams working closer together than they ever have before because of the need of speed to quickly react, move product through and the lack of inventory to support the demand of the end consumer," said Bryan Eshelman, a managing director at AlixPartners.

Firms are also using technology to ease collaboration and guide business decisions. Sixty-seven percent of respondents said they have prioritized platforms that offer a single source of truth.

"We're transforming to a synchronized, data-driven global supply chain that can identify and quickly respond to customer and consumer demand and optimize our inventory," said Kontoor Brands' Smith. "Through our use of our new global ERP platform along with enhanced data analytics capabilities, we are improving speed and agility within our global supply chain."

According to AlixPartners director Chris Considine, the majority of companies are still "playing catch up" when it comes to visibility solutions. While a few are forging

Strategies Employed to Become More Nimble



ahead with tech like blockchain, artificial intelligence, and supply chain "control towers," most are just upgrading the basics like ERP and PLM systems. "The workarounds and the manual work required if you don't have effective infrastructure and systems in place has become more prevalent," he said. "Many are reacting to try and improve that now."

When asked how they have simplified their operations, the top tactic for supply chain executives was technology adoption, according to 51 percent.

However, among all respondents, the leading response was reducing the number of suppliers to manage, with 45 percent indicating they have pared back vendor numbers.

Streamlining is also happening at the design and assortment level, 45 percent said they have developed a greater number of core styles that can have a longer shelf life. Companies are also cutting back on their SKU count.

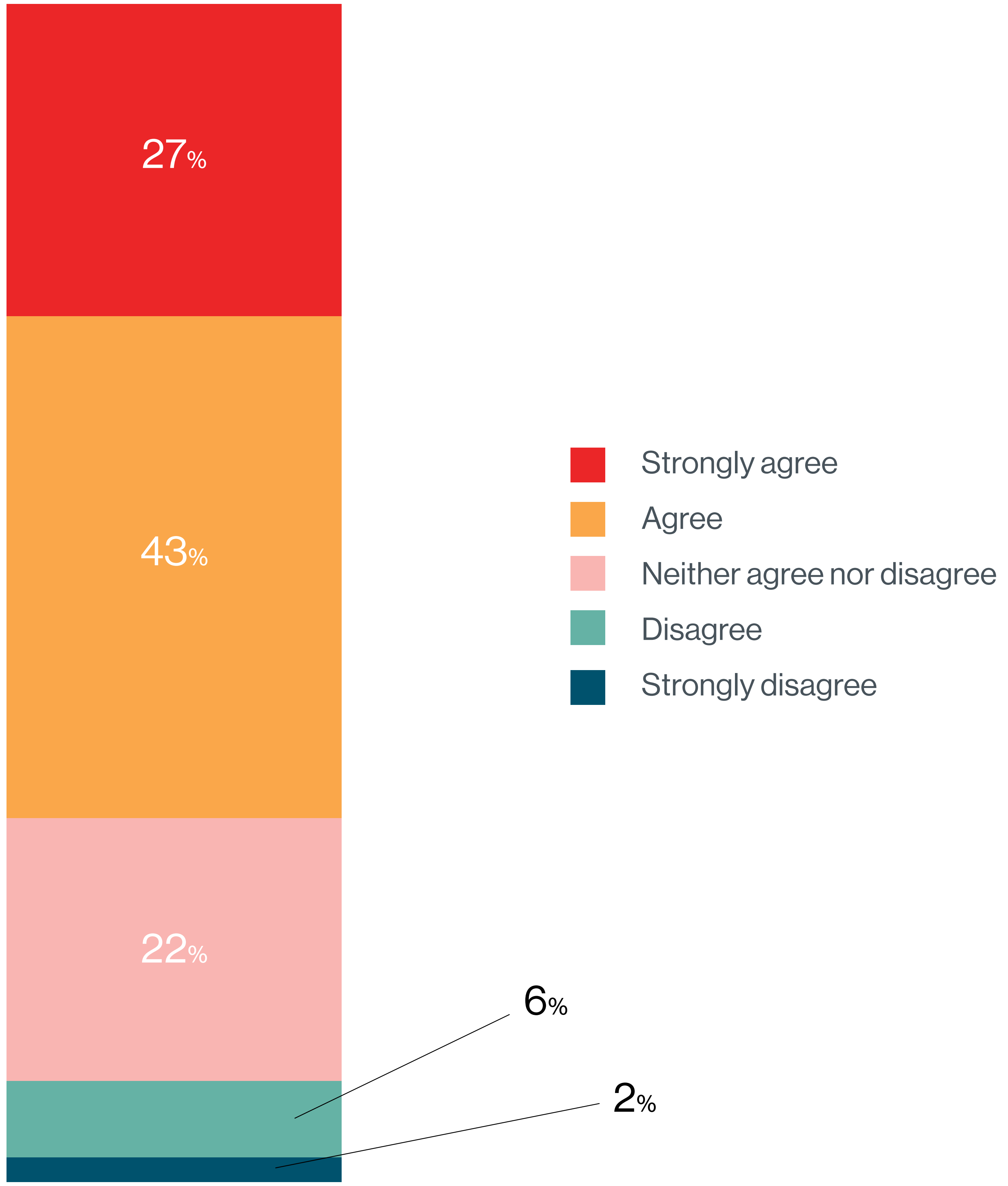
"Cost control and optimized processes with fewer SKUs give a better position to succeed post-pandemic," noted one respondent. Another explained, "We have very carefully managed our inventory, with a combination of continuous sales promotions and lean purchase models."

Last year, many firms had no choice but to reduce the number of styles as stores closed and supply chains were backlogged. But an executive warned about backsliding into expansive style ranges post-pandemic. "We are forgetting to trim our SKUs; we did a good job of that during the pandemic, and now SKU proliferation is back."

Part of Tapestry's Acceleration Program involves reducing SKU count by 30 to 50 percent across its three brands—Coach, Kate Spade, and Stuart Weitzman. At the close of the fourth quarter on July 3, the company reported it slashed SKU count by 40 percent and improved the productivity of its assortment, which drove better inventory turn.

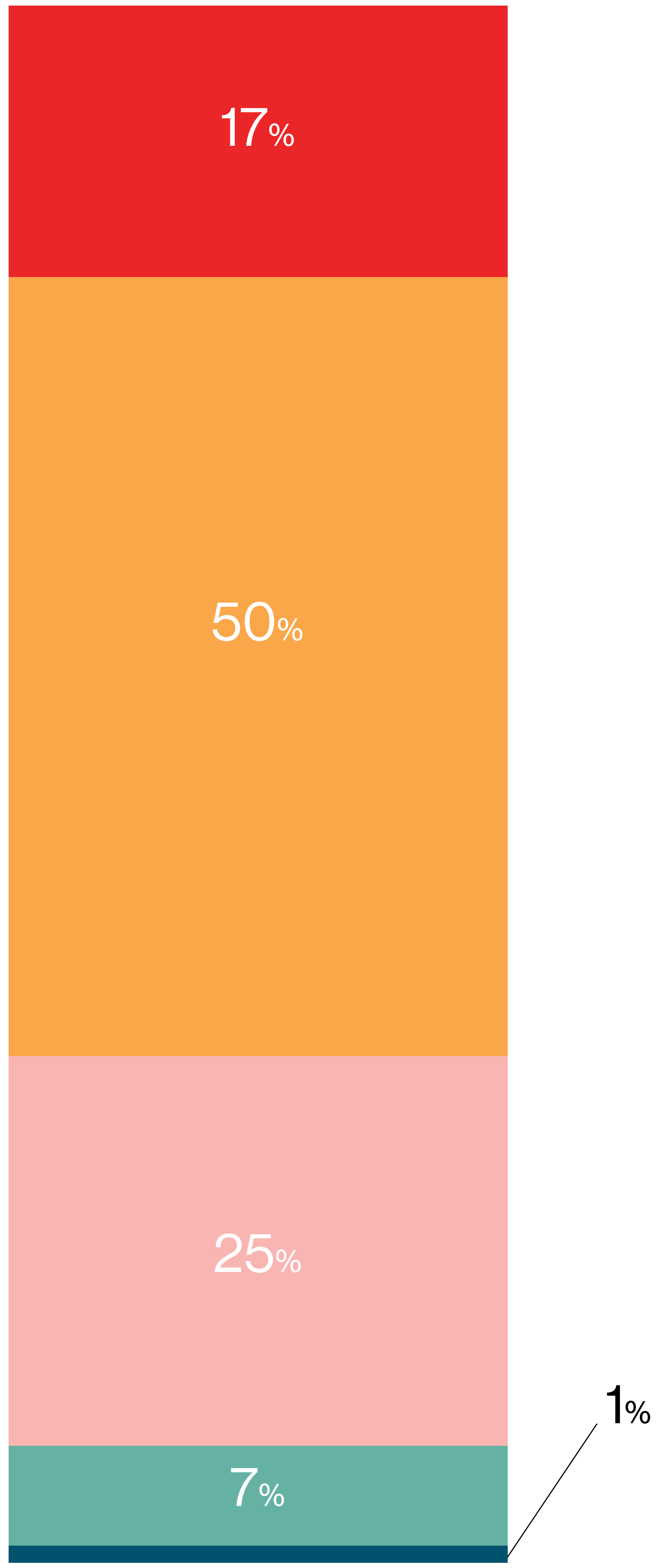
Reorganizing Teams for Maximum Collaborative Output

Agree or Disagree: We have recently (3-9 months) reorganized teams across the company and effectively collapsed functional silos to enable collaboration and speed.



Optimizing Business Decisions with Centralized Information

Agree or Disagree: We have prioritized flexible tools and developed interactive dashboards that provide a single-source of truth for better business decisions.

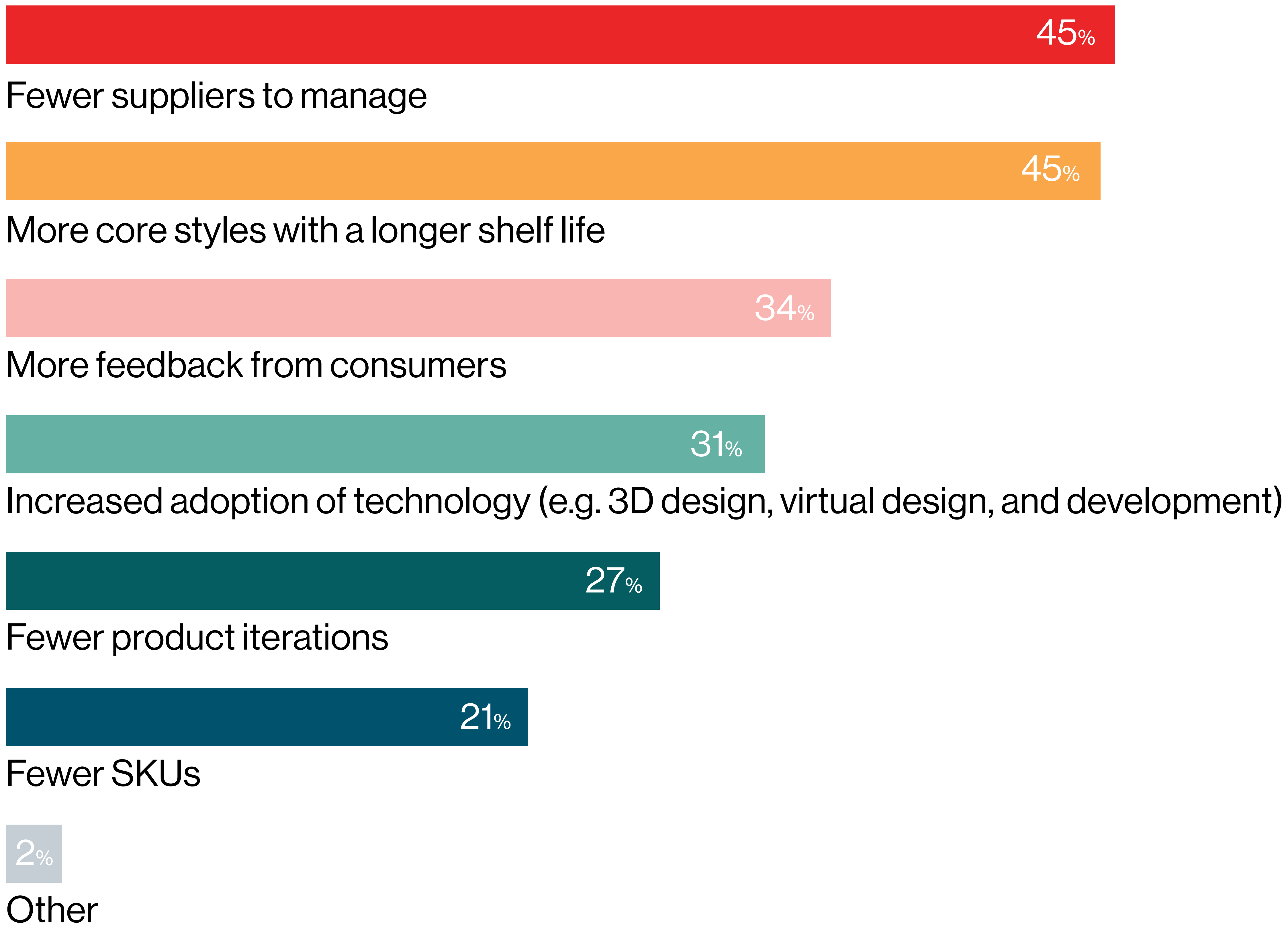


Similarly, Hanesbrands has been undergoing an initiative to shrink its SKUs by 20 percent so that it can prioritize its "highest-volume, fastest-growing, and most profitable products."

Keh noted that with inflation, mass companies will have to focus on delivering value rather than low prices. And across the board, promotions should be avoided by better reading consumer demand.

"You're discounting because it's the wrong stuff that is not attractive, and you're desperately trying to find a consumer for it," he said. "And you're not making money as the discounts go higher anyway, so why make it in the first place and waste that resource?"

Strategies Used to Simplify Operations



Bottom Line, Sustainability

Today, sourcing decisions are often guided by sustainability goals. But eco-minded choices can have a simultaneous financial impact.

For instance, reducing SKUs is not only good for margins and sell-through, it's also a means to reduce waste. Likewise, moving manufacturing closer to the end consumer can cut down on monetary logistics costs, but it can also shrink the environmental cost of transportation.

From a raw material perspective, ThirdLove recently launched its first collection using organic cotton, and it is exploring recycled synthetic materials for future designs. To tackle waste, the brand has a partnership with Texaid to keep unwearable returned bras from landfills.

Additionally, fabric and foam are used for products like insulation and filling, while hardware is destroyed to generate energy.

Renfro is also embracing recycled polyester—currently used in 30 percent of total production—and sourcing sustainable cotton. Furthermore, the sock maker is among the companies tackling the impact of packaging with recycled materials. After use, 92 percent of its packaging can also be recycled.

In 2020, Kontoor launched its first global sustainability goals and report, which includes the aim of saving 10 billion liters of water by 2025. The company's Indigood program includes innovations such as foam-dyed denim that save on water.

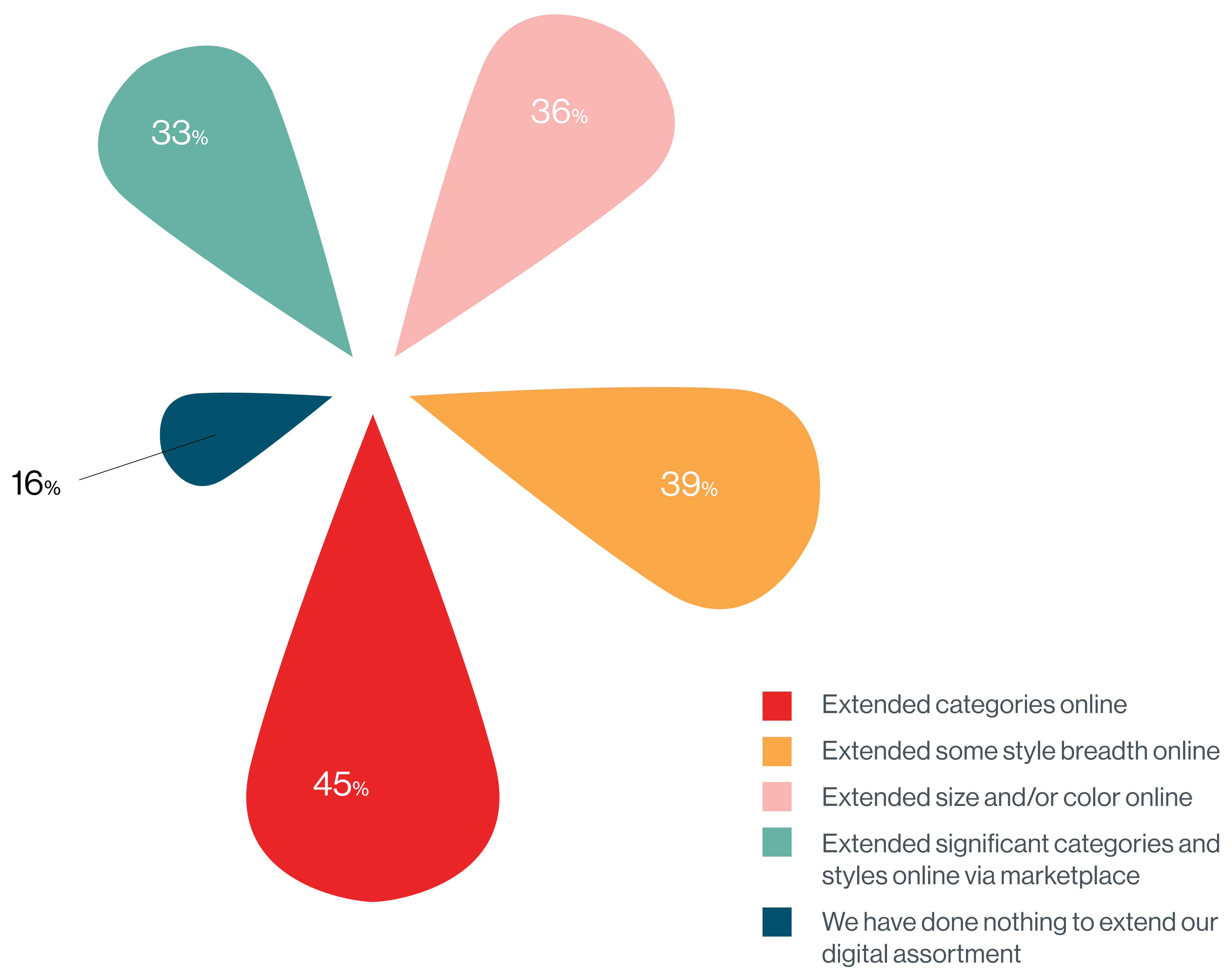
With every disruption thrown at supply chains since the start of Covid, some companies may have temporarily lost sight of sustainability as they prioritized survival.

But as they strategize around logistics issues and aim to restore inventory levels, sustainability should be a focus.

"Brands will have to be part of the solution, otherwise they're going to be part of the problem," said Keh. He added that take-back programs and recycled content are now expected rather than differentiating.

"The gestures have to be bigger, and more aggressive."

Strategies for Extending Digital Assortments



Online Sales or Bust?

Following Covid, companies should now be prepared to expect the unexpected.

Companies must establish backup plans, redundancies, and flexibility within their supply chains. Keh suggests companies take stock of each decision point in the supply chain so that they can pivot if necessary. This might be altering which pattern to cut from fabric or which destination goods are allocated for.

“We have developed optionality in all parts of the supply chain and the skill set to do rapid scenario and data analysis that enables us to collaborate with our business partners and accounts and make decisions quickly,” said Kontoor’s Smith. “We remain focused on being agile and responsive while working to mitigate disruptions.”

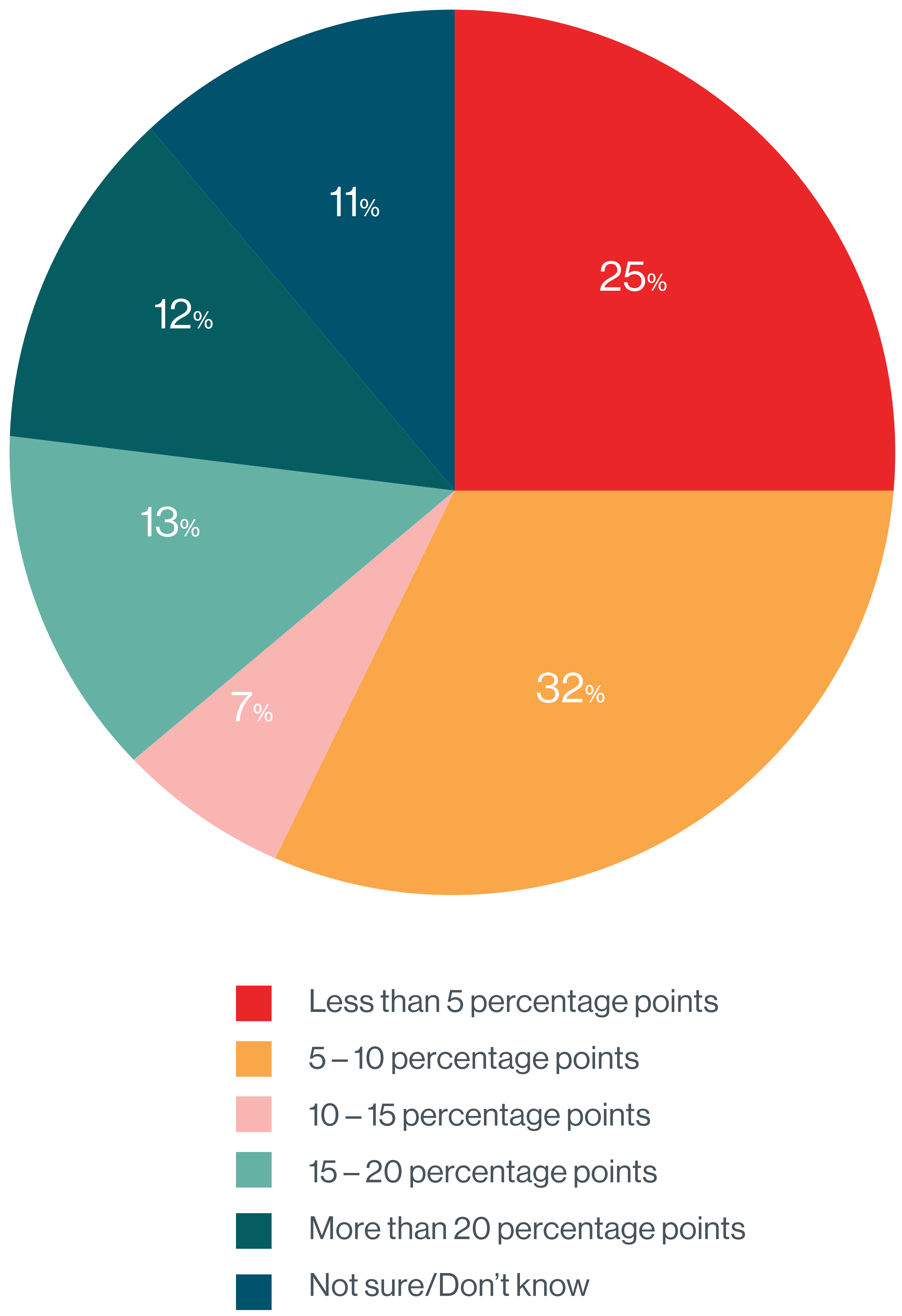
Per Keh, what has separated companies that were successful during the pandemic is that they focus on tactics rather than strategy. “In a more dynamic world, what we all should be is much more opportunistic and more observant of what is going on and what changes are going on and where the markets are opening up so that we can very quickly respond to the demand changes and market opportunities,” he said.

On the topic of opportunities, digital certainly swooped in to save the retail day during the pandemic’s dark times of store shutdowns and stay-at-home orders.

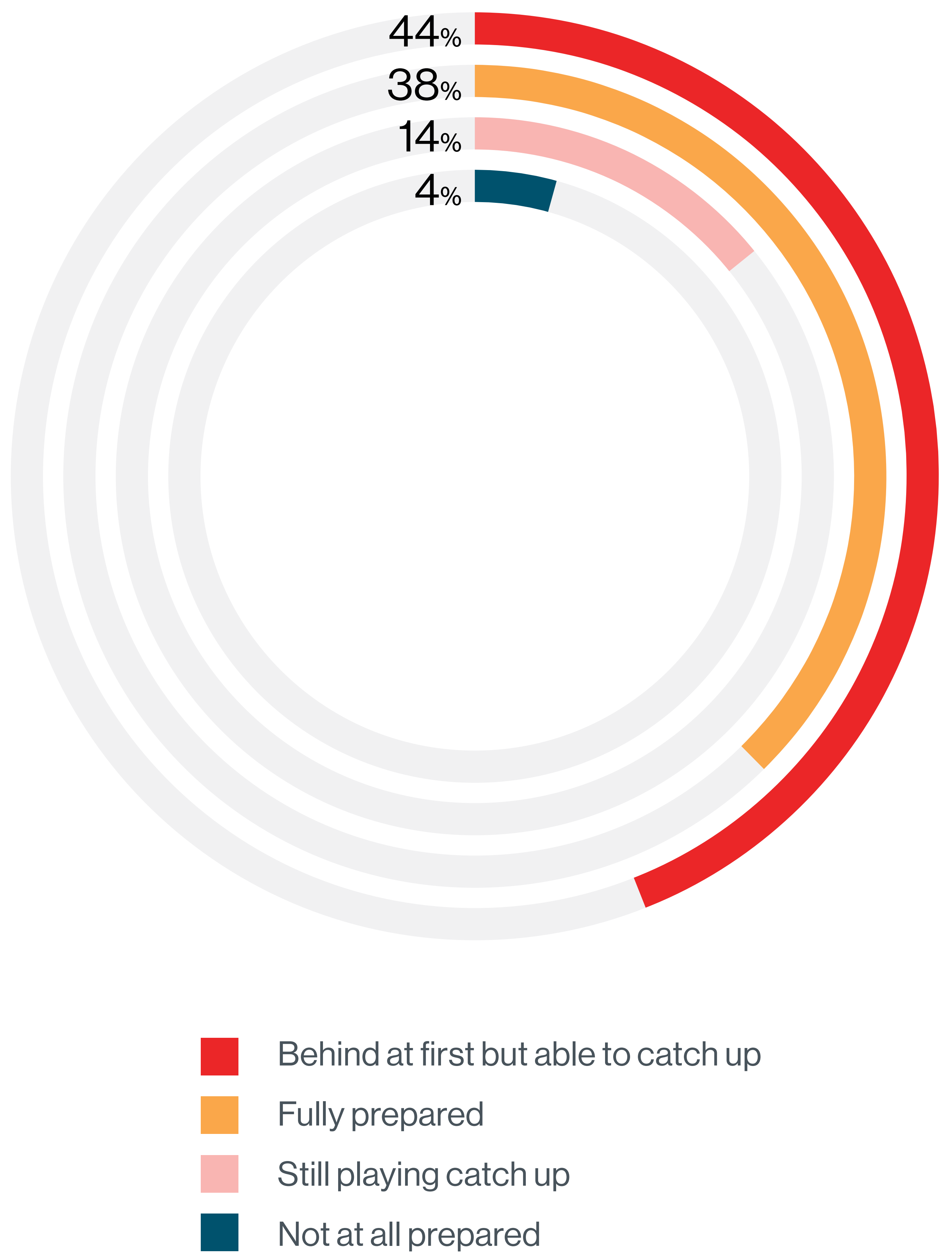
Nearly 32 percent of respondents said online sales increased more than 10 percentage points in 2020 over 2019, while more than half of respondents (57 percent) said they increased less than 10 percentage points. Most (81 percent) said they were fully prepared for the boost, or at least able to catch up.

Even so, the online surge wasn’t necessarily a panacea. Respondents were split on the impact more online sales had on their organization’s overall bottom line. While 38 percent said the

Pandemic-Related Online Sales Increase over 2019, as a Percentage of Total Sales



Preparedness for the Increase in Online Penetration



boost was accretive/strongly accretive; an almost equal 36 percent said it was strongly dilutive/ dilutive, noting the growth came with "costs," "inventory/supply problems," and "competition/ cannibalization" of brick-and-mortar sales.

Now with re-opened stores and consumers itching to shop again in person, this heightened level of e-commerce consumed during the pandemic won't become the new normal.

About half (48 percent) of respondents speculated 2022+ levels would be "above pre-pandemic levels, but lower than during the pandemic" when shuttered stores removed consumer choice, 27 percent said it "would remain the same as during the pandemic," and 26 percent felt it would revert to "pre-pandemic levels."

More online sales also mean more returns [online returns more than doubled in 2020 over 2019, as consumers returned an estimated $428 billion of merchandise, according to the NRF], and 16.9 percent of respondents said they employed returns partners such as Narvar and Happy Returns for efficiencies and consumer satisfaction.

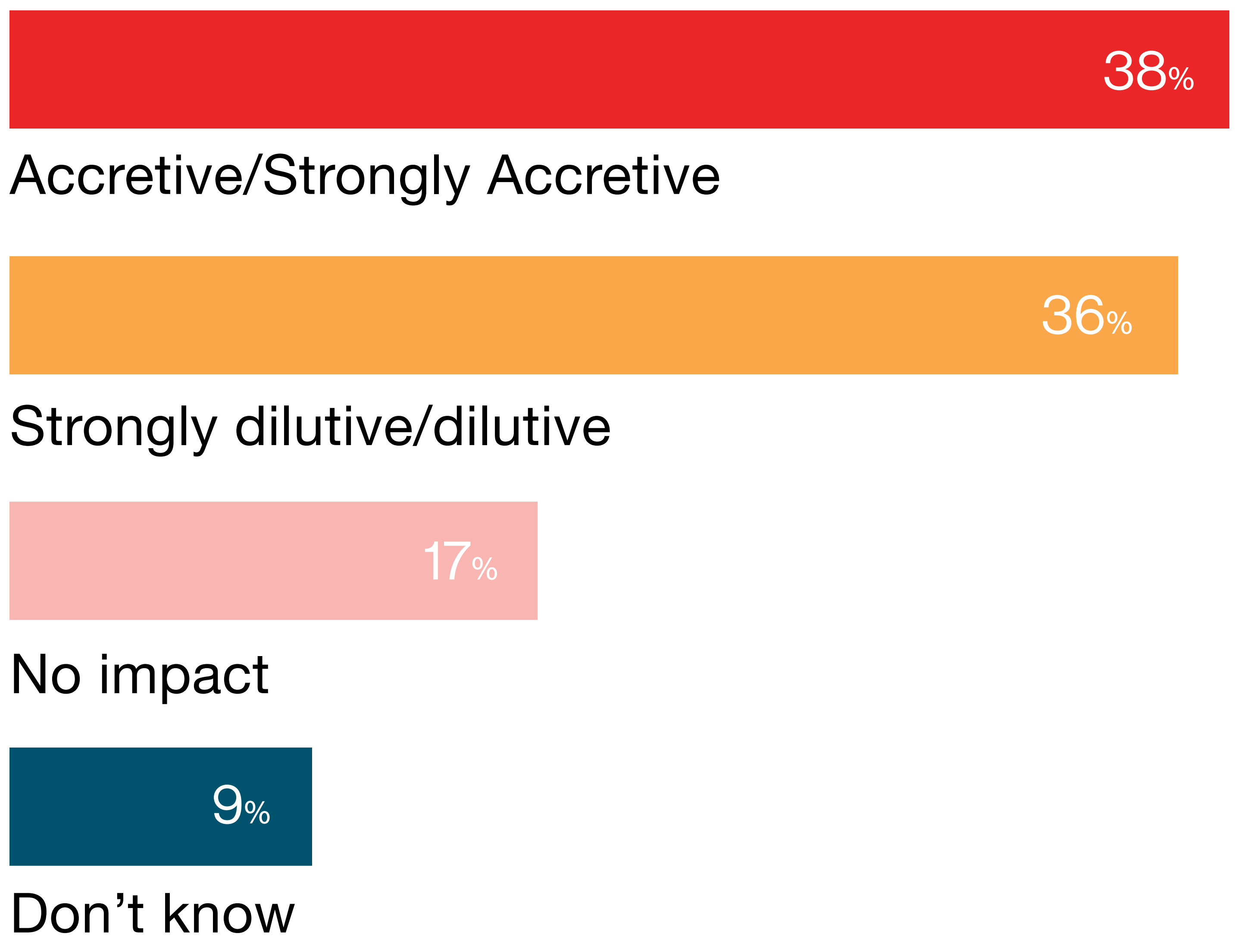
Ultimately, the key is not to grow online sales haphazardly.

"Forcing growth in an online business without understanding the ramifications can be detrimental to the business," said Michele Pascoe, senior vice president and chief financial officer of retailer Rue21.

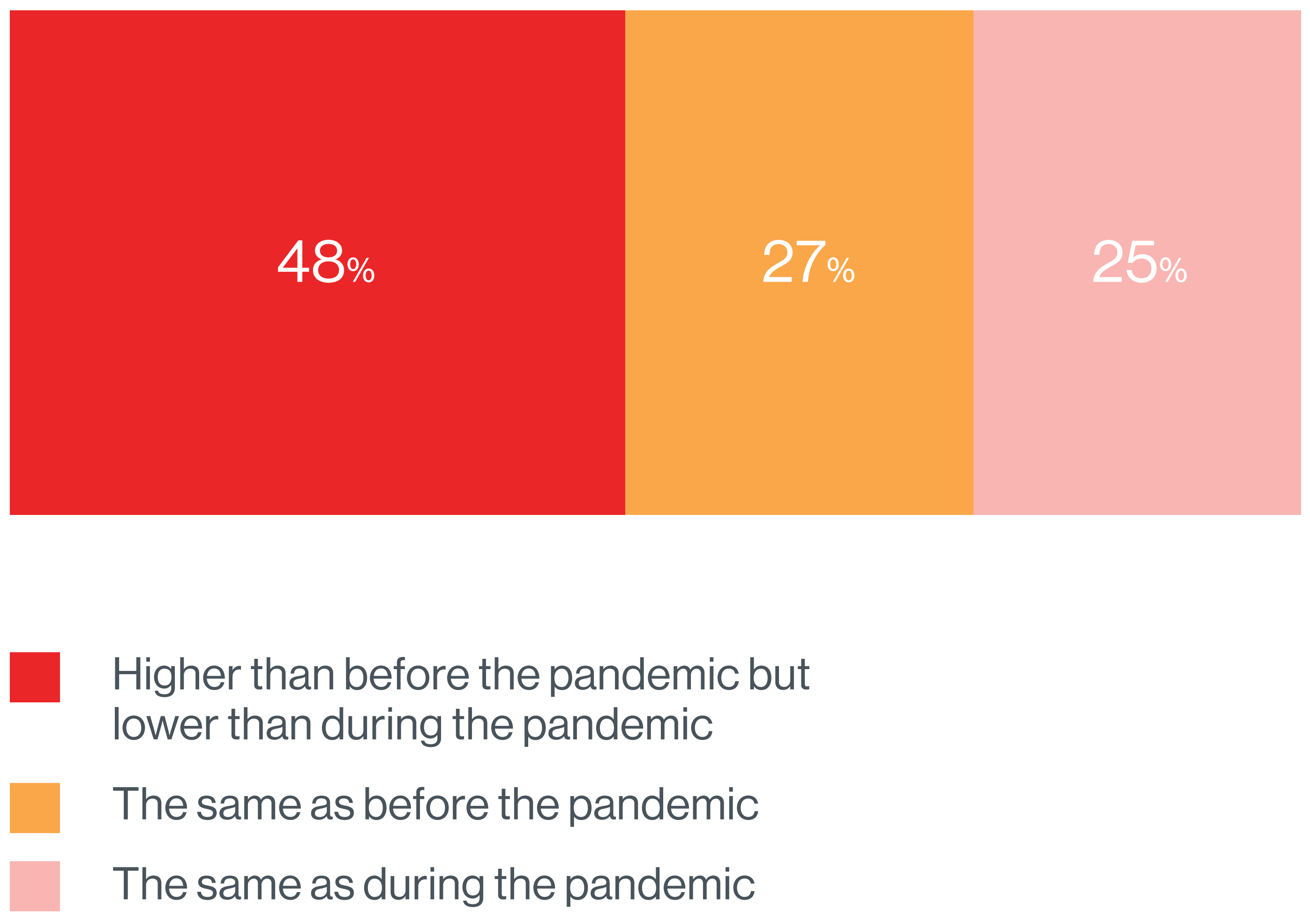
"The devil is in the details," she added. "At Rue, we have always been gross margin and bottom-line focused. If we wanted to generate 25 percent topline growth, we certainly could do this, but it would significantly erode profitability."

Online Sales Impact to the Bottom Line

How more online sales impact your organization's overall bottom line:



E-Commerce Growth Rate Prediction for 2022 & Beyond



The Seemingly Endless Aisle

If a customer sees a shirt on Instagram, purchases it on the website in two sizes later that week, keeps one and returns the other at a store, how do retailers/brands "count" the transaction? Does online get the sale while the store gets penalized for the return? Does this throw off accurate and holistic accounting?

Despite 2020's retail carnage of closings and bankruptcies, brick-and-mortar is far from dead, but it forced companies to re-analyze what their store fleet brings to the table, both as four-wall entities and omnichannel contributors.

Quantifying can be tricky. When asked if they truly understand the economic value of a store in their omni-network, 60 percent of respondents said they do—well enough to influence open/close/relocation or other store decisions—while only 26 percent said they understand that value down to the penny.

Stores can also be unfairly "penalized" within omni-operational accounting.

"A store might have $100 worth of sales going out the door, but if customers are returning $25 [from online], that store is viewed as only generating $75," said AlixPartners' Pressman. "Meanwhile, another store might sell less, but get fewer returns, or it might be a higher fulfillment provider. It all needs to be factored in as part of the overall network so retailers understand the omni economic value and role of each node."

Even advantages are tough to quantify. When asked the hardest factors to measure when assessing the economic benefit of a store fleet, product discovery topped the list (58 percent), as these indirectly contribute to both long-term branding opportunities and future online sales. This is particularly relevant for DTC brands, where the brand and store name are one and the same.

Half of respondents cited the halo effect as hardest to quantify, whereby physical stores give a boost to online sales for customers within a certain radius.

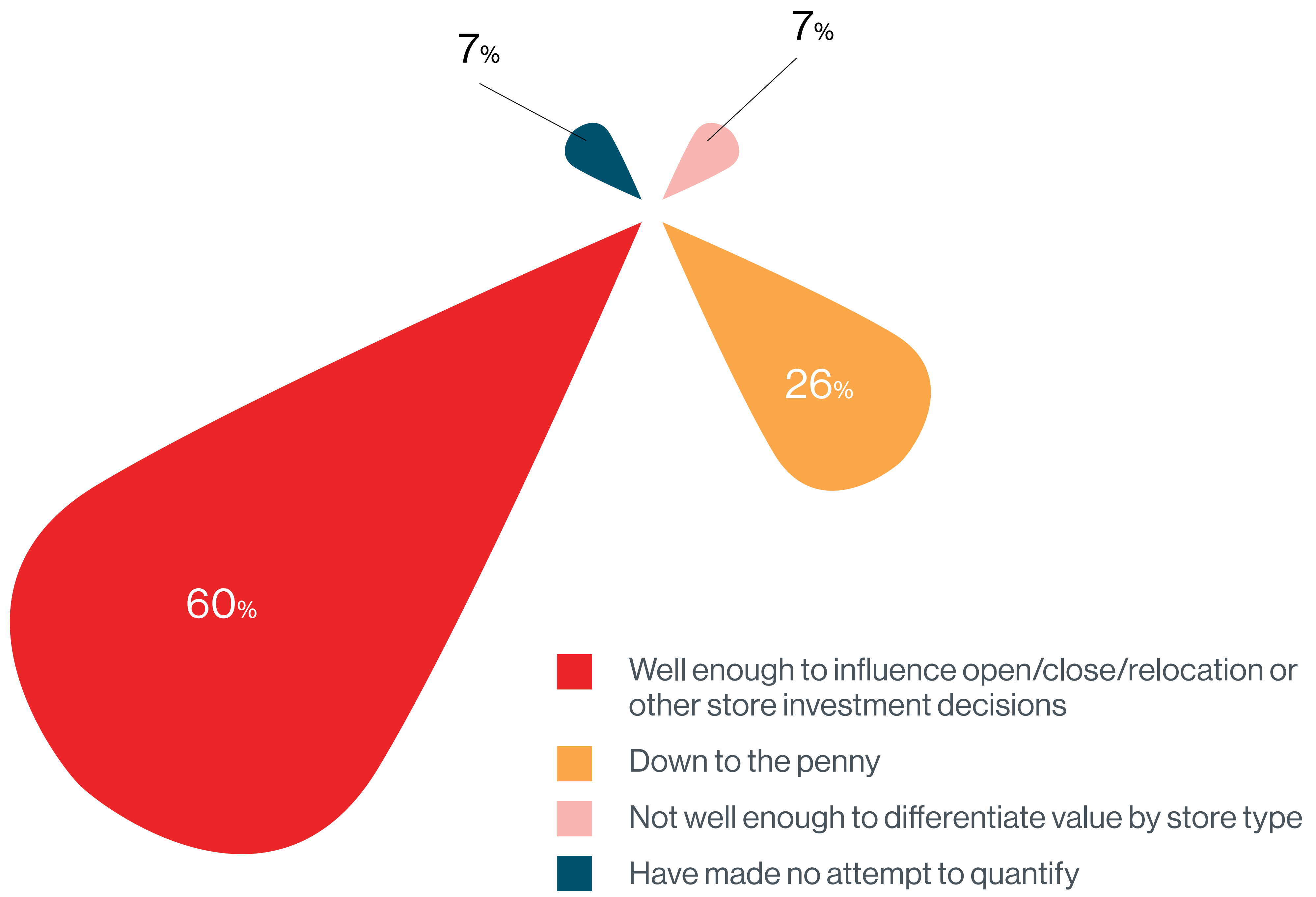
Online business can influence local stores, too.

"We open stores in markets where we see a high volume of shipped e-comm orders," said Alberto Corral, vice president, marketing for digitally native apparel brand UNTUCKit, which now has 80 stores in the U.S. He noted that even after opening those stores, UNTUCKit saw continued growth of e-commerce shipped orders in those zip codes, especially after customers "learned" the brand.

Stores also serve as showrooms for try-ons for future digital purchases, but not all stores carry reduced inventory as compared to digital's endless aisle.

"Being DTC, we have created a language with our consumers that help to drive understanding with online product. Our stores carry

Ability to Assess a Store's True Economic Value



almost everything that is on our website," said Gus Harris, design and sourcing director of DTC apparel brand Mizzen+Main.

Other areas that respondents said made it harder to quantify stores' benefits were promotions/events (47 percent), as they artificially and temporarily boosted traffic, and market share gain from faster delivery service levels (36 percent).

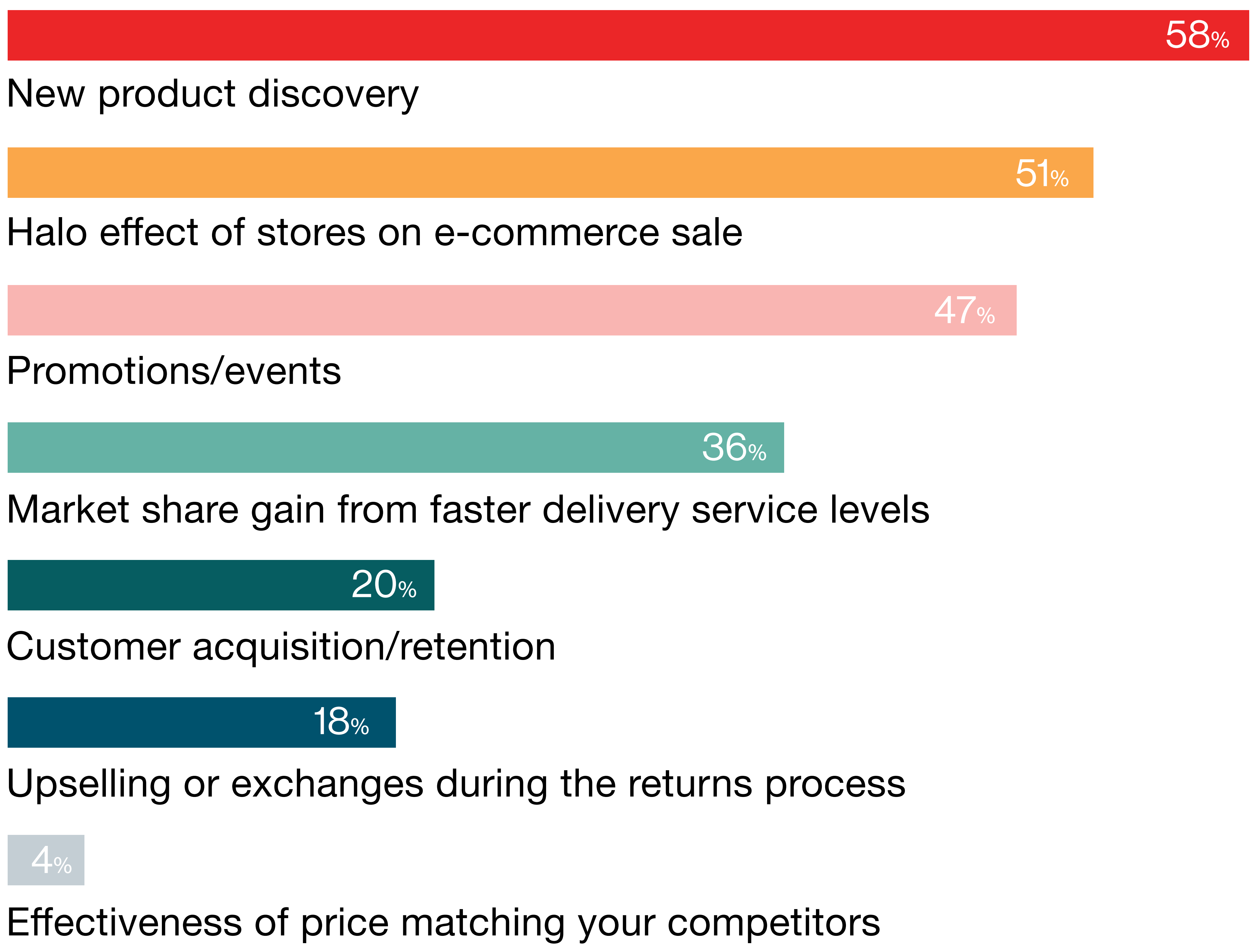
Many retailers have deemed stores important enough to open more, even amid industry closings. Rue21, a post-bankruptcy success story, has been aggressively opening stores (15 by end of 2021, with about 20 planned for 2022, which would bring the final store count closer to 700), using analytics to carefully plot a course.

"We developed an artificial intelligence model based on our most successful stores—customer profile, demographics, market area, density—and we integrate that model into our store mapping solution," said Rue21's Pascoe. "Now when we have a proposal for a new store, we can map the location and predict the store's sales volume based on the predictive analytics modeling that we built. Thus far it has been very accurate."

Target also doubled down on brick and mortar, following 30 store openings in 2020, including a record 29 new small-format stores in a single year, with 30 to 40 planned annually to meet community needs in urban centers, college campuses and dense suburban cities across the country.

"Our performance [market-share gains of more than $1 billion in the first quarter, on top of $1 billion in share gains a year ago], showcased the power of putting our stores at the center of our strategy," said Brian Cornell, chairman and CEO, Target Corp., noting Q1 store comp sales grew 18 percent, even as they also fulfilled more than three-quarters of Target's digital sales, including more than 90-percent growth of its same-day services.

Hardest-to-Quantify Factors Impacting a Store Fleet's Economic Value



Destination Shop

Retailers continue to add ways for stores to "service" omni customers. Many built on earlier momentum and added BOPIS/curbside pickup as a pandemic convenience, and the services haven't peaked yet.

More than half the respondents (56 percent) said BOPIS/curbside fulfilled less than 10 percent of online demand, while just a third (36 percent) said it was more than 10 percent. Almost 70 percent said this penetration will increase post-pandemic.

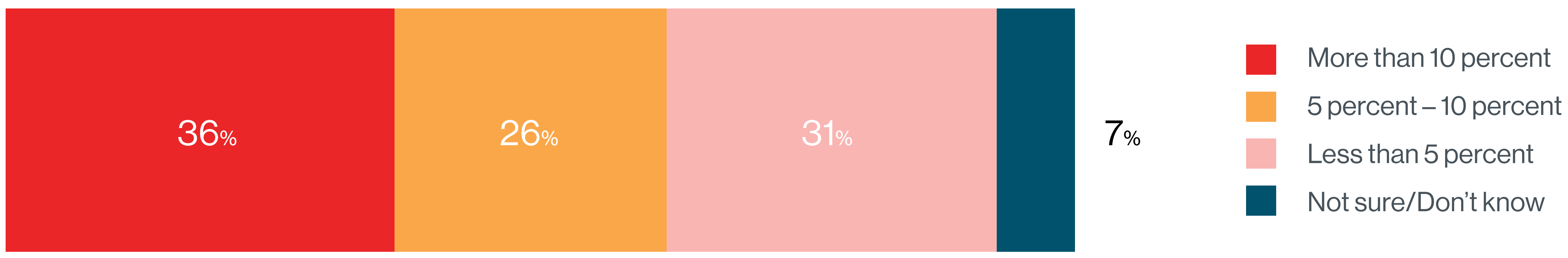
"We continue to expand pickup and delivery capacity from stores," said Brett Biggs, executive vice president and CFO at Walmart. "Customer trip consolidation led to nearly 10 percent increase in average basket size, with 3 percent fewer transactions."

BOPIS is also a win-win strategy, as it brings customers inside the store, where they can be enticed to linger and shop more.

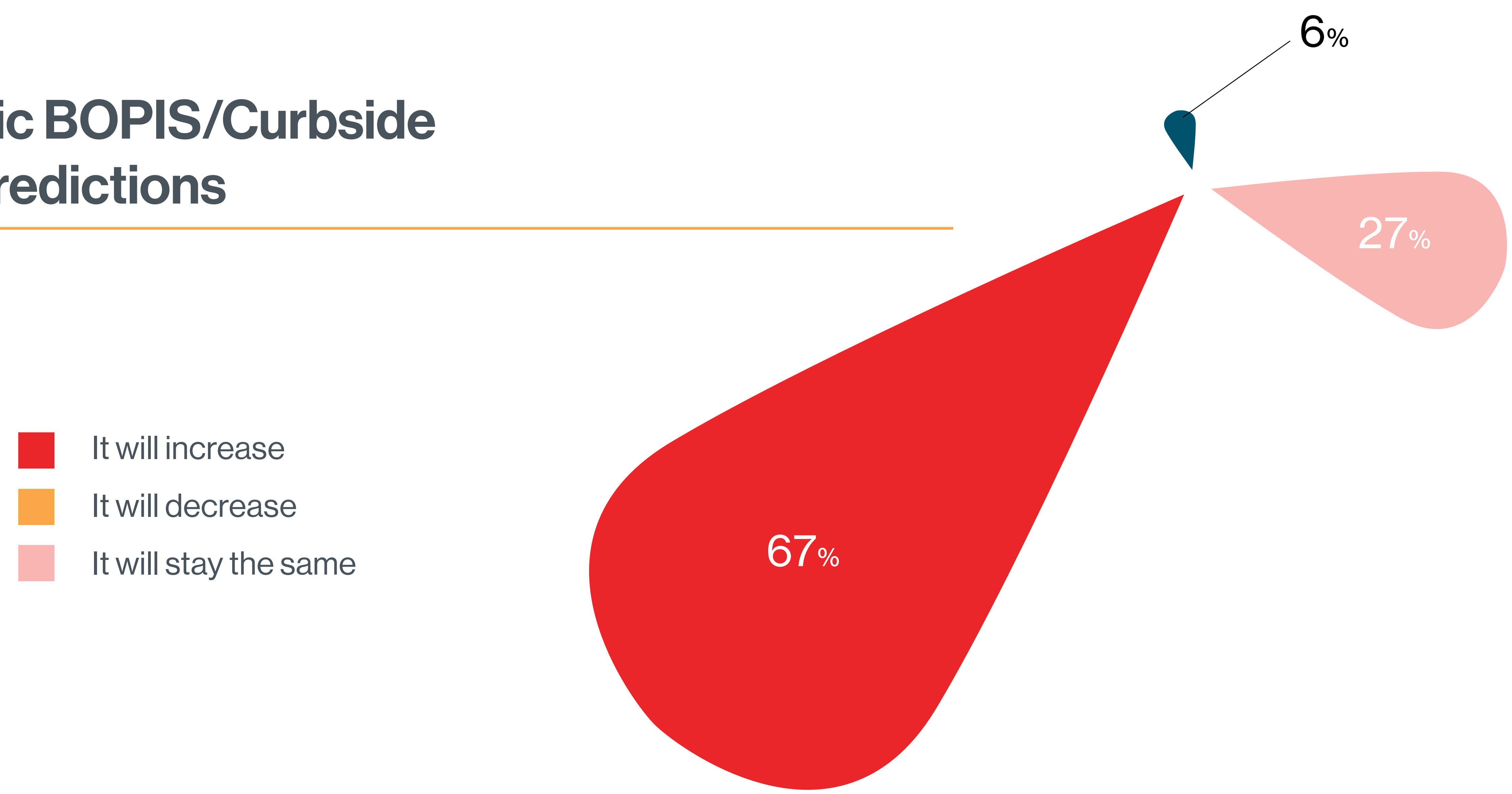
UNTUCKit fills orders via its BOSS (customer Buys Online, Product Ships from Store) system.

"When the warehouse cannot fulfill the entire order, we rely on our geotargeting logic to fulfill entire or partial orders," said Corral. "This helps to reduce shipping costs, speeds delivery, and offers a greater assortment of products to customers no matter where they are shopping. BOSS has also enabled us to surface those 'last chance to buy' styles sitting in our stores (product sold out in our warehouse, with only limited sizes in select stores available) and sell through our website."

Portion of E-commerce Sales Fulfilled Via BOPIS/Curbside Today



Post-Pandemic BOPIS/Curbside Penetration Predictions



OPTIMIZING SHOPPER EXPERIENCE

Retailers are engaged in a variety of omnichannel strategies to meet increased online demand and offer options to each customer's shopping journey.

The main strategy among respondents was to use promotions/incentives to encourage returns to store (26 percent). Also known as BORIS (Buy Online, Return In Store), this BOPIS cousin boosts sales as consumers will often replace that return, whether as a 1:1 exchange or with higher ticket items. "It almost feels like you have a gift card," said AlixPartners' Eshelman. "You want to spend that money after a return."

Respondents cited delivery partners like Instacart and DoorDash (24 percent) and regional parcel carriers (24 percent) as second and third tactics, respectively.

Target so believes in shipping partnerships, that after acquiring Grand Junction and Shipt in 2017, it bought Deliv in 2020. It also plans to add four regional distribution centers by the end of 2022.

Other omni-tactics respondents cited were backroom conversions/ mini WMS (19 percent), Returns partners (17 percent), Dark stores (14 percent), Promotions/ incentives to encourage BOPIS (14 percent), Hub stores (13.6 percent), RFID (11.5 percent), Fewer stores (11.5 percent) and Lockers (8.6 percent).

But fulfilling online orders from stores is not without logistical and service challenges.

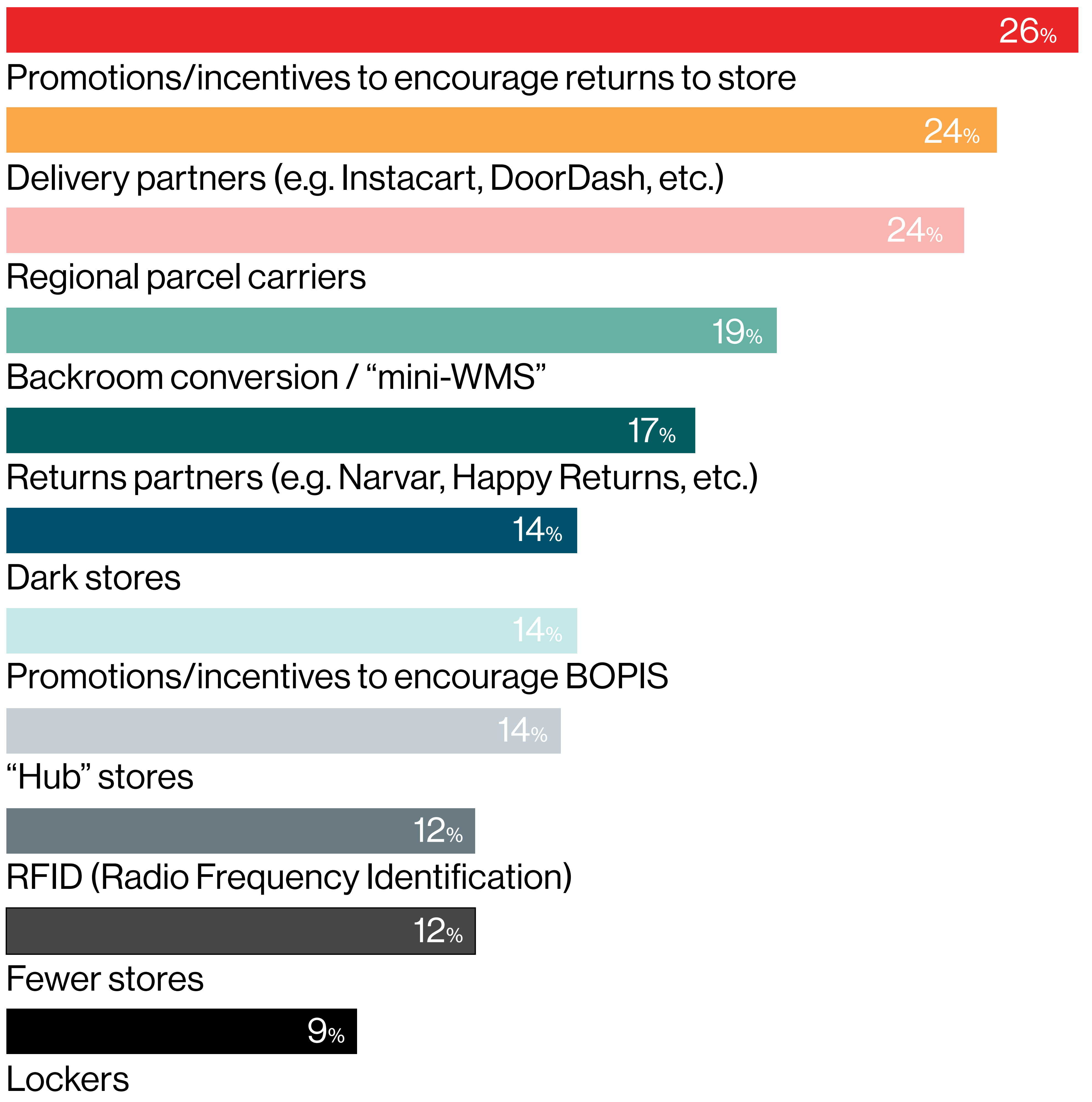
"The in-store customer has to come first in a store," said Eshelman. "You can't have salespeople picking merchandise for online orders in a store at the expense of customers standing right there. It can hurt customer service, while empty shelves lead to frustration."

Another fulfill-from-store issue, he says, is split orders, where a retailer has to ship from multiple stores to fulfill an online order due to inventory deficits. Not only might it take longer for the items to arrive together, but "a company can't make money on an order shipping from three different locations."

And while omni-fulfillment requires precision inventory visibility and accuracy, only 11.5 percent of respondents said they are using RFID.

When asked what's hampering their company from creating/supporting a true omnichannel operation, respondents expressed frustration on many levels. Within operations, "fewer markets and fewer customers," "time and money," "product development" and "quantity of production equipment" all came into play.

Omnichannel Strategies to Meet Heightened Online Demand



Fulfilling Fulfillment

Stores might augment online fulfillment, but it's still a minor segment.

Two-thirds (62 percent) of respondents said that less than 25 percent of their online demand is fulfilled from store, while a quarter (25 percent) said more than 30 percent is.

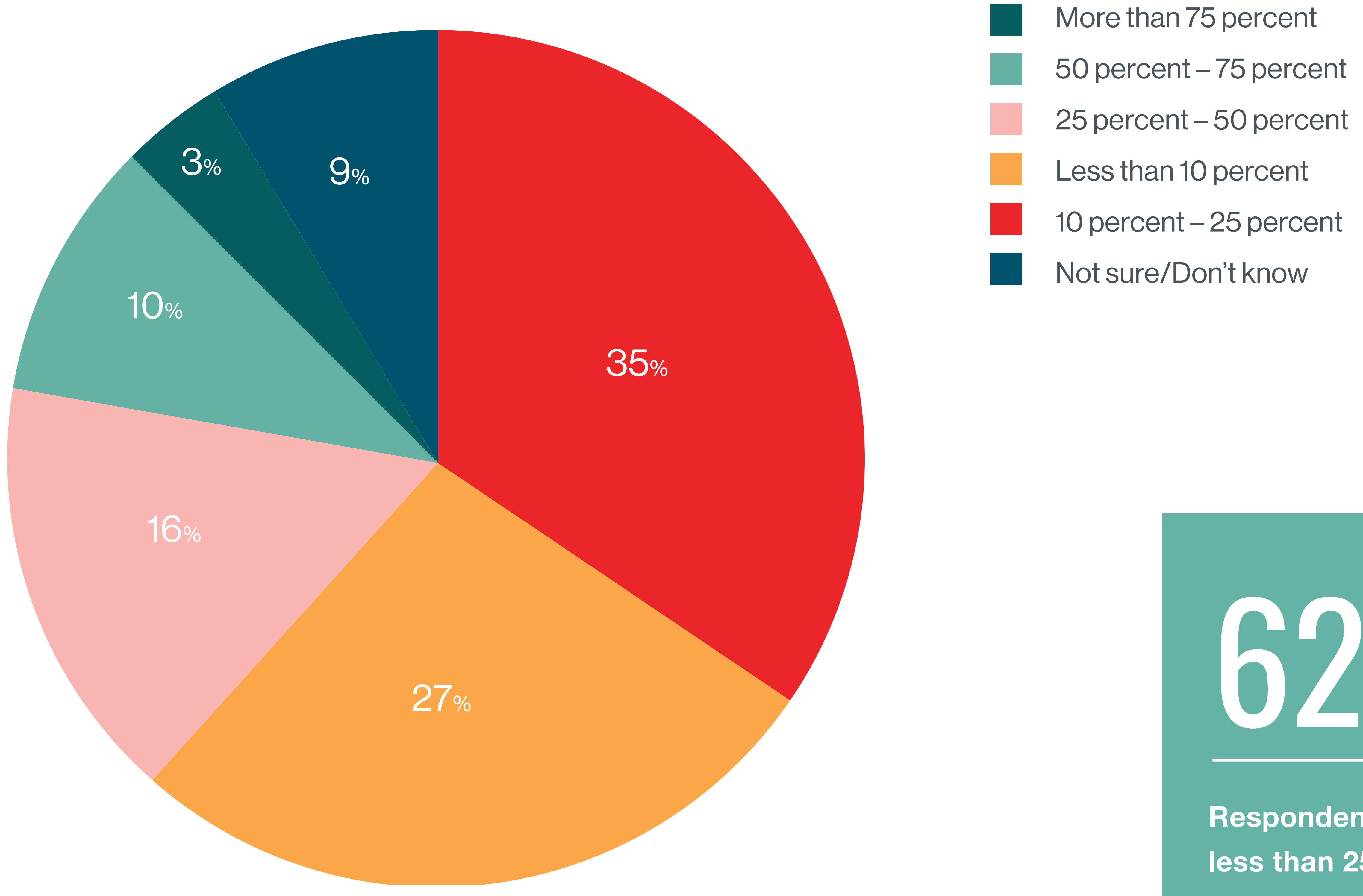
Rue21 didn't have ship-from-store capability during the pandemic's eight-week store shutdown period, but it does now. "We launched ship-from-store late in the fourth quarter of last year, and it has been very successful," said Pascoe.

"It's been a significant benefit because we have fewer disappointed customers when we sell out of a great item online." In fact, noted Pascoe, the item still registers as in stock when it ships from store. "Access to store inventory for online order fulfillment eliminates out of stocks and optimizes our inventory turn."

Same-day fulfillment is also gaining traction, as customers demand immediate gratification.

"We've long known that our same-day fulfillment options would be popular with our guests, but their growth over the last few years has been far above our expectations," noted John Mulligan, chief operating officer of Target. "This is most evident in our Drive Up service, where first-quarter [2021] sales volume was nearly 21 times higher than it was two years ago, amounting to nearly $1.3 billion of incremental sales volume over that period."

Portion of Online Sales Fulfilled—in Any Way—from Stores



62%

Respondents who said less than 25 percent of their online demand is fulfilled from store

The Customer is Always Right

Brands and retailers are learning that customer input is invaluable, as long as it can be accurately gathered, measured, and acted upon.

To get there, most (71 percent) respondents actively reshaped KPIs to include consumer-focused metrics and omni profitability rather than focusing solely on topline and comp sales as dominant performance metrics.

Meanwhile, 77 percent of respondents said they positioned product-focused teams working collaboratively with marketing and consumer-facing teams throughout the development process.

Mizzen+Main prioritizes consumer data and research for all its decision-making. "It is here where we can stay in touch with the customers' pulse and apply many things that drive consumer engagement," said Harris.

UNTUCKit opened a direct line, literally, to measure consumer input every step of the way.

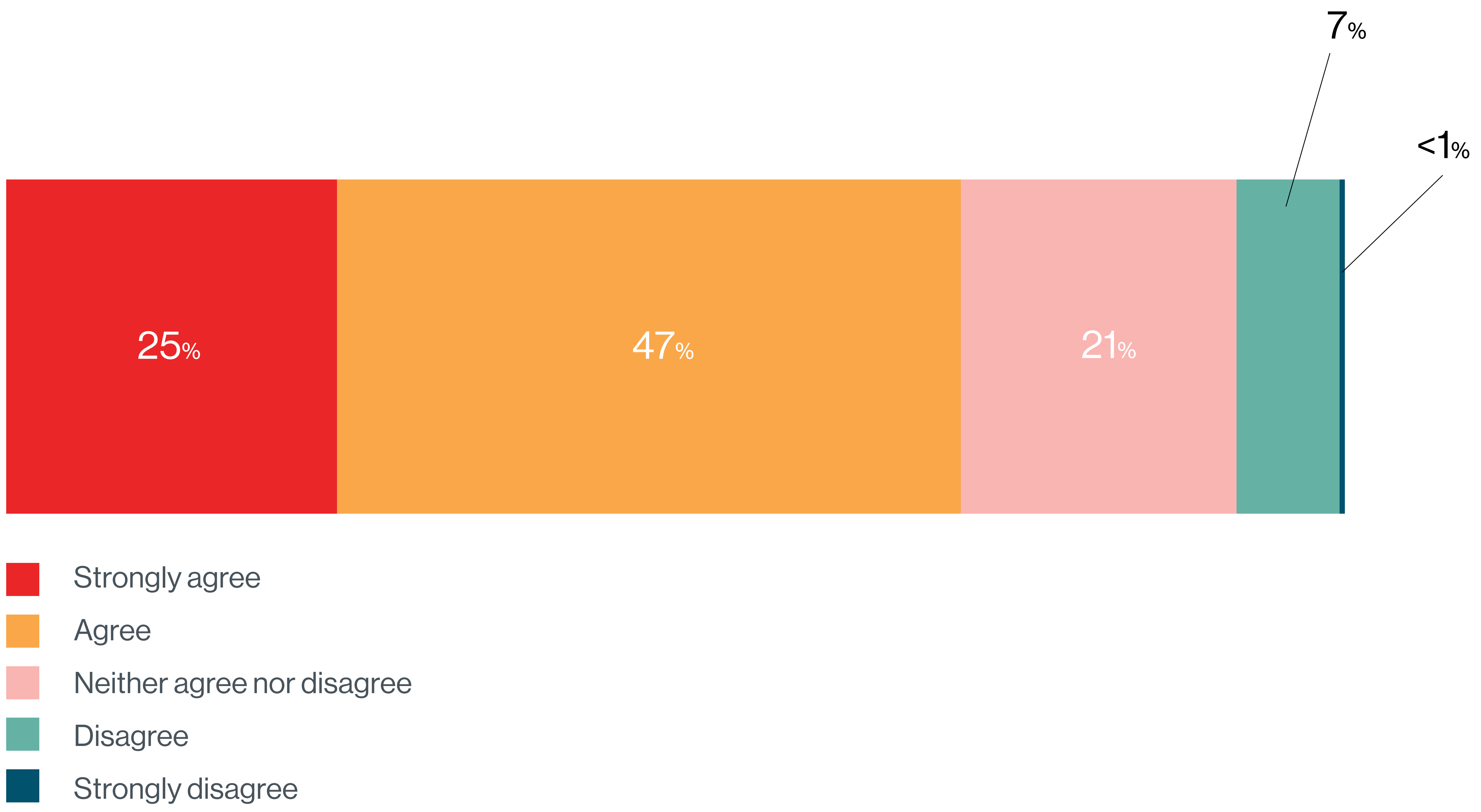
"During the pandemic, we enabled conversational commerce so shoppers can chat online with an in-store associate," said Corral. "We capture all sources of in-store orders based on the start of the customer journey. Online chat results in pick-up or store-send, or pick-up-in-store results in additional purchases. It's all recorded in the same POS system."

In order to boost efficiency, visibility and optimize communication, it became necessary to smash silos.

Most respondents (68 percent) went into reorganization mode over the past 3-9 months, collapsing functional silos to boost collaboration and speed. They steered company heads away from micromanaging in order to streamline processes and decisions, "allowing owners for execution-related tasks to do what they do best and rewarding them for channel-agnostic metrics."

Optimizing Cross-Functional Teams for Omnichannel

Agree or Disagree: Cross-functional teams have a clear understanding of the puts and takes of managing inventory and working capital in an omni world.



AlixPartners SOURCING JOURNAL

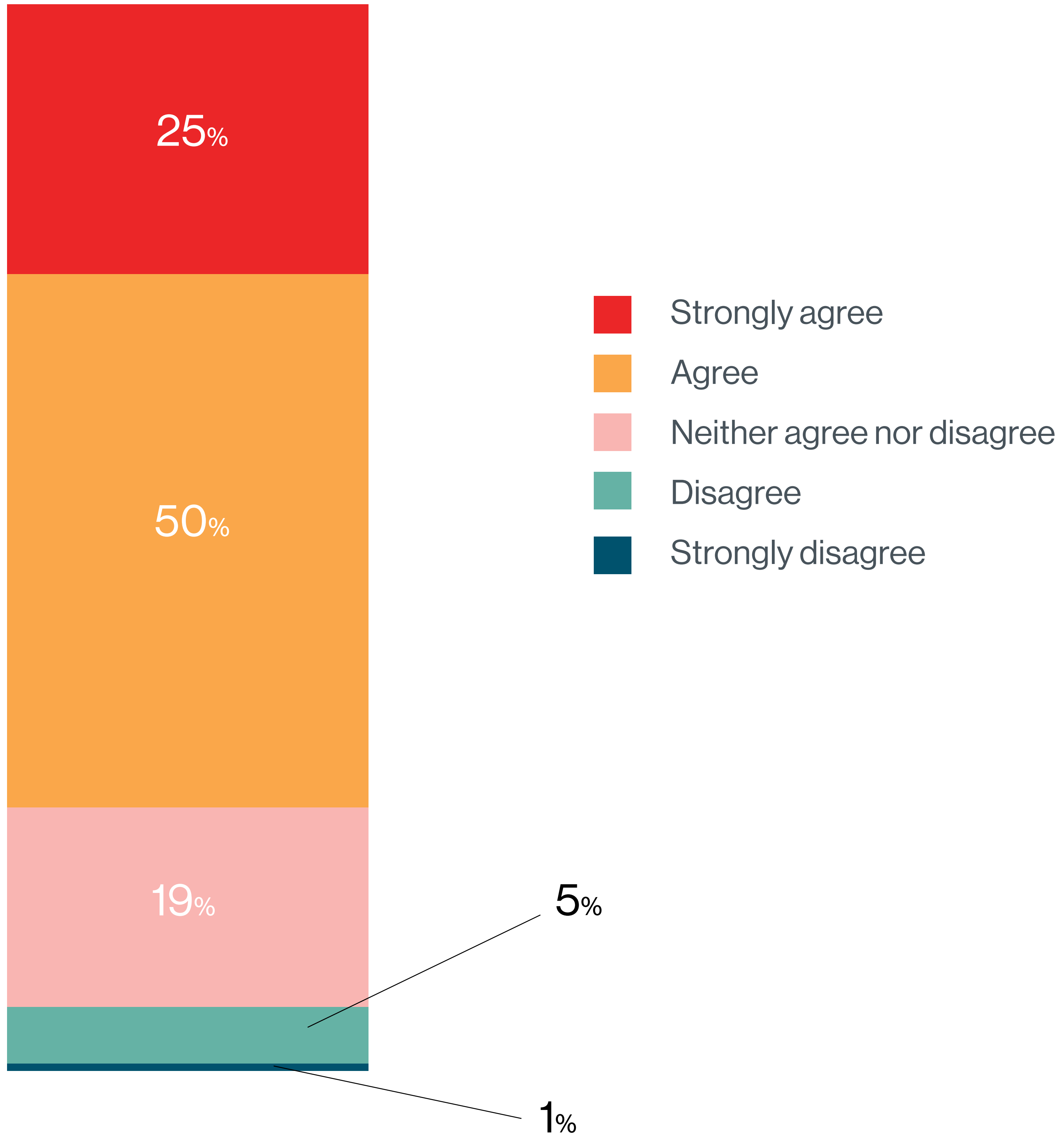
Roughly two-thirds (62 percent) of respondents incentivized channel and consumer-focused teams based on channel-agnostic metrics designed to maximize omnichannel performance and customer experience.

But can channels ever be fully agnostic?

“Stores are a fixed cost business while online is a linear cost business with more variable costs, but there are certainly things that retailers can do to incentivize behavior that they want to see in their customers, such as free pickup for BOPIS, or free ship to leverage inventory that’s already at the stores so [the company] doesn’t have to pay for an extra parcel,” said AlixPartners’ Eshelman.

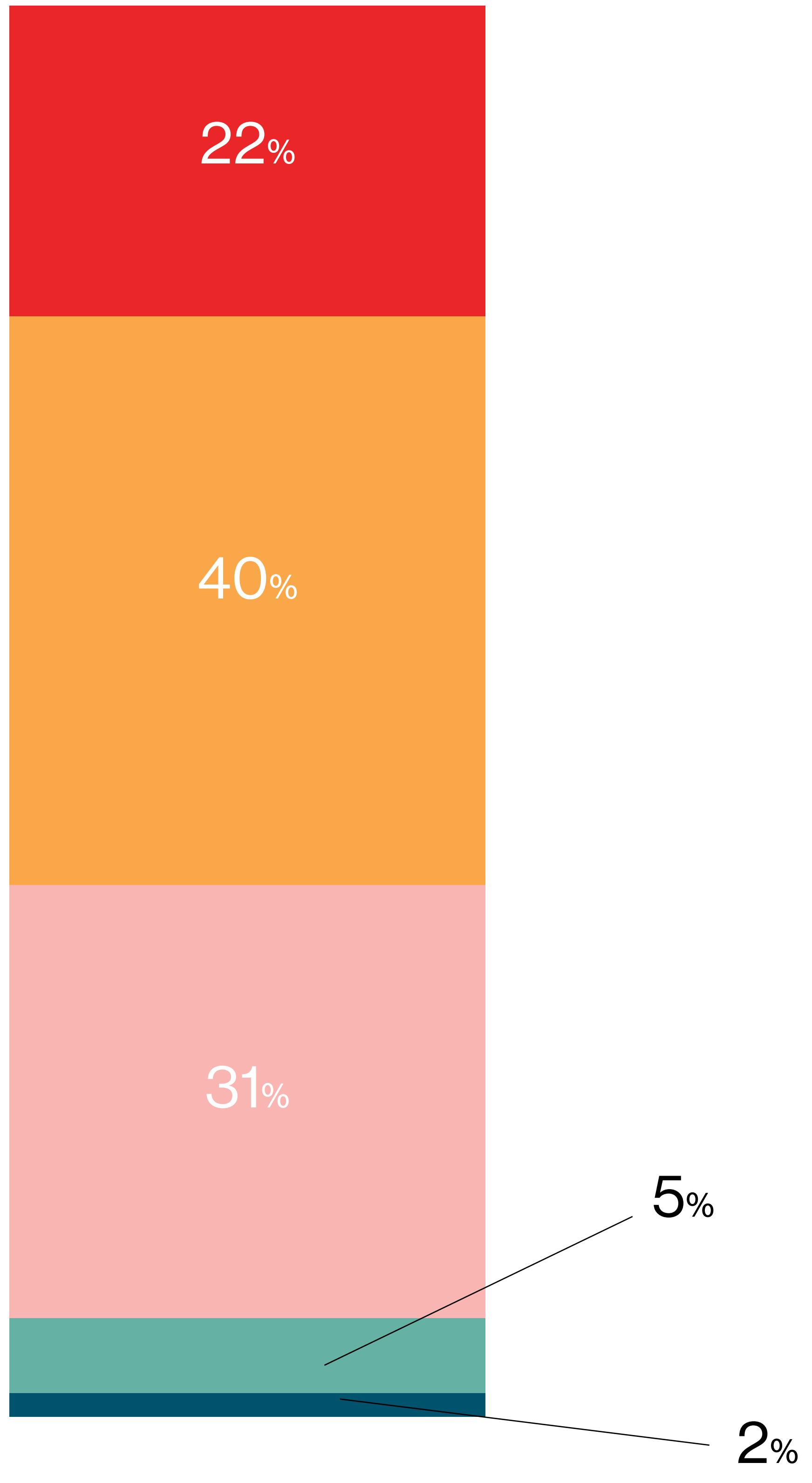
Empowering Rightful Owners for Execution-Related Tasks

Agree or Disagree: We empower rightful owners for execution-related tasks, thus streamlining processes and decisions, while leadership is focused on macro strategic decisions and direction.



Incentivizing Teams for Omnichannel Focus

Agree or Disagree: Channel and consumer-focused teams are incentivized based on channel-agnostic metrics designed to maximize omnichannel performance and customer experience.



AlixPartners SOURCING JOURNAL

The Art & Science of Retail Data

Retail is an art and a science, but data reigns supreme. To that end, 74 percent recently invested in digital tools that have improved operations, speed and/or customer experience, regularly assessing and prioritizing new investments.

"UNTUCKit defined key metrics and developed reporting that provides statistical insights as to how the channels work together and how emerging channels such as one-on-one SMS or conversational chat can provide a more personal experience that will drive lifetime value," said Corral.

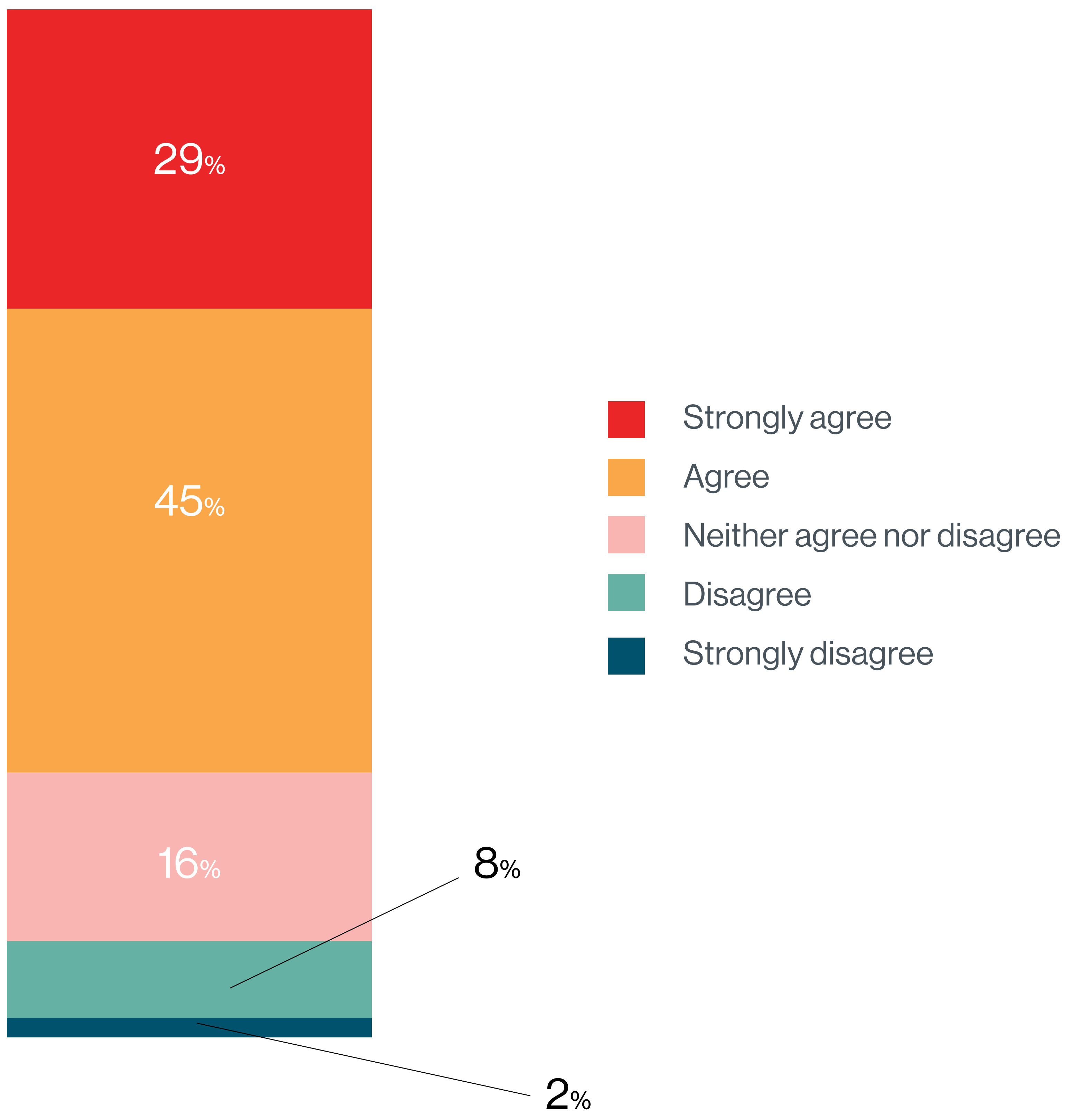
The goal is to take a step back from the pandemic's survivalist "sink or swim" mode and translate the best learnings into permanent procedures.

But being data-rich and data-driven aren't the same thing. Companies must be agile enough to learn and improve as they go, and 74 percent of respondents said: "data-driven decisions support their ability to turn test-and-learn findings into concrete improvements in customer experience, engagement and conversion."

UNTUCKit's Corral agrees: "Omnichannel operations require us to engage with the shopper at any point of their journey, online or in-store, leveraging various technologies which require additional training for store associates to understand the end-to-end customer experience. To optimize the experience, we need all data points aggregated to have a true picture of the entire customer experience."

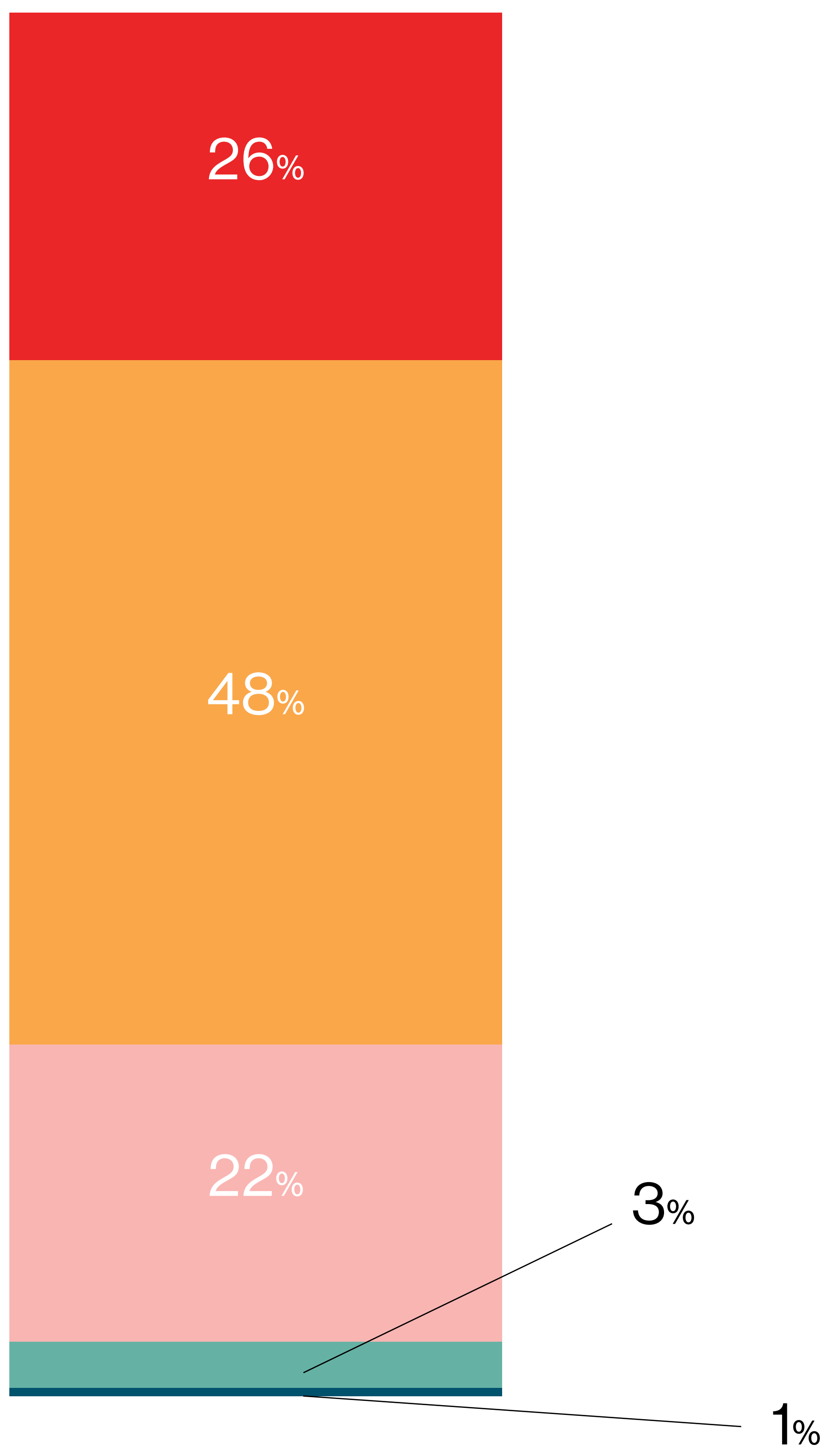
Investing in Digital Tools to Optimize Operations

Agree or Disagree: We recently (3-9 months) invested in digital tools which have improved operations, speed and/or customer experience. We regularly assess and prioritize new investments.



Utilizing Data-Driven Decisions

Agree or Disagree: Data-driven decisions support our ability to turn test-and-learn findings into concrete improvements in customer experience, engagement, and conversion.



Where's the Loyalty Love?

It's harder to win a customer's loyalty these days.

To get it, 70 percent of respondents use customer lifetime value to support ongoing investments (like a loyalty program), then leverage that behavioral data to more effectively connect in a win-win situation.

Rue21 launched its Rue Rewards loyalty program just a year ago and has already reached 6 million members.

"Preliminary indications found that loyalty members spend more and shop more frequently, and therefore have a higher lifetime value than non-loyalty members," said Pascoe. As repeat customers get more familiar with sizing and fit, they buy more confidently online.

Rue21 also offers bonus points for filling out a customer profile, so the retailer can develop additional insights into customers.

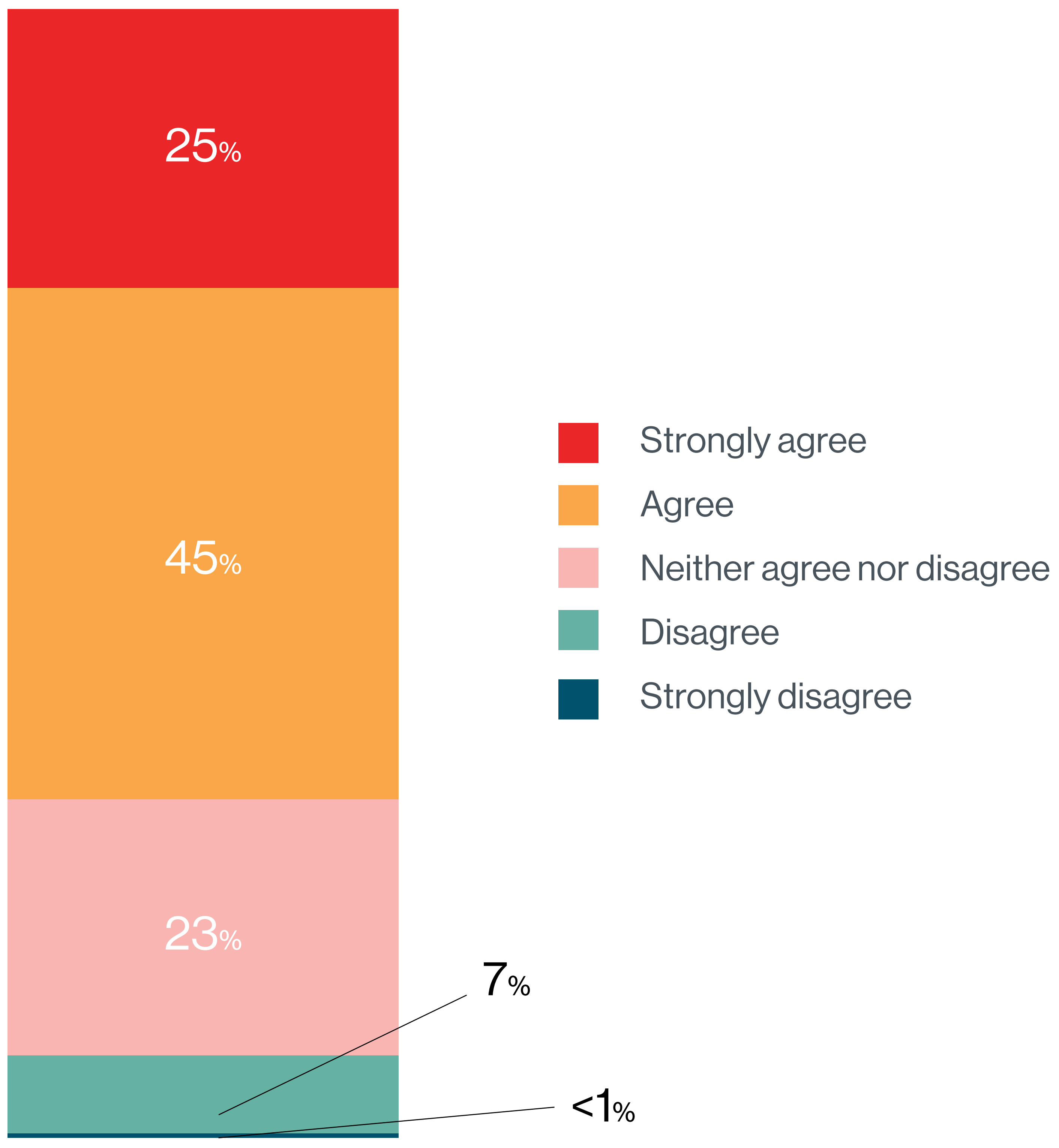
Silver Linings & Caveats

More than three-quarters (78 percent) said that pandemic-related challenges made the company more focused on managing costs and cash. And it might've just trained consumers to spend full price.

"A retailer told me they're actually below 2019 in unit volume, but higher in sales because they're not experiencing any markdowns—due to stock shortages and high demand," said Eshelman. "If retailers can resist the temptation to overbuy and not get too greedy, they won't get too promotional when they don't have to."

Leveraging Customer Data to Customize Experiences

Agree or DIsagree: We effectively deliver an integrated and personalized customer experience by using customer lifetime value to support ongoing investments (e.g. loyalty program) and leveraging behavioral data and inferred preferences to more effectively connect with our customer.



CONCLUSION

The retail carnage of closings and bankruptcies throughout 2020 forced companies to re-analyze what their store fleet brought to the table, both as four-wall entities and omnichannel contributors.

While stores augmented online fulfillment, digital sales were not the panacea they seemed and are yet to become a major portion of total sales.

Brands and retailers continued to learn the value of customer input but struggled to accurately gather, measure, and act upon it. If and when they use this, mass data will determine how much the fashion industry actually changes.

But being data-rich and data-driven aren't the same thing.

One of the stressors that impacted brand-supplier relationships during the pandemic was unpredictable forecasts associated with volatile demand. The push for more and better data could lead to stronger channels of communication between manufacturers and brands, and to retailers sharing week-on-week, rather than month-on-month, forecast adjustments with suppliers.

In the end, keeping up with what shoppers want to buy and how will have to be a team effort.

As for the product development pipeline—the last 18 months showed that more agility is necessary to insulate from future shocks and changes in consumer behavior.

Now that companies have finally ditched outdated or inefficient processes, they can focus on other areas that are holding them back, like freight delays that disrupt the usual timelines for transporting materials.

When it comes to supplier relationships, many companies are seeking quality over quantity and production partners that bring more than technical ability to the table.

After a period of upheaval that tested partnerships, companies are looking to shore up alliances. In order to weather future storms sure to come, companies must establish backup plans and flexibility within their supply chains, reconsider their organizational and team structures, and regain sight of sustainability in order to prioritize survival.

ABOUT ALIXPARTNERS

AlixPartners has worked with clients around the world for more than 40 years, helping businesses respond to challenges when everything is on the line—from urgent performance improvement to complex restructuring, from risk mitigation to accelerated transformation.

Each project is different, but they all have one thing in common—a need for decisive, informed, and often urgent action. And because that need is at the heart of everything we do, it has come to shape every aspect of our business.

The way we work—with our clients, as well as each other—is as much a part of who we are as what we actually do. It's what makes us different, and what makes us the partner of choice for some of the world's most successful and challenged companies, when it really matters.

Experience from the start

We recruit the most highly qualified professionals in the business from a wide range of backgrounds, so when we take on a project, we bring diverse ideas and knowledge as well as specific industry experience and functional expertise to the table. But if we feel we can't make a difference, or if we think there are other advisors who might be a better fit for what you need, we'll say so up front. We'll even point you in the right direction. We won't just tell you what we think you want to hear. As trusted advisors to companies, business leaders, owners and boards, candor is one of our greatest assets.

On your side, at your side

We're not just in your corner. We're in the ring with you. We work shoulder to shoulder with you to ensure the work we do is completely integrated with your vision, culture and formula for success. You have invested time, energy and experience into creating, growing, and managing your business, and while we bring a lot of experience to the table, we know it's your table, and we feel privileged to sit at it with you.

Fast forward

Because we only work with clients when it really matters to them, time is often a factor—so we have to hit the ground running. Our people are assured problem-solvers, and our distinctive breadth and depth of experience means we've dealt with most situations before, which means we move quickly from analysis to action, working in small, agile teams.

A perfect fit

Working together also applies to the way we work at AlixPartners. We form bespoke teams for each project that can quickly draw upon talent from across our global network, which means we incorporate a richer range of thinking. So you have the right team at your side, not to mention a combination of resources you won't find anywhere else.

A committed relationship

We measure our success in real terms—by the results we deliver, not just the advice we give. So unlike many consultancies, we don't make recommendations and walk away, we stick around until the job is done. We're accountable for a practical, sustainable outcome designed not just to help you succeed today, but to leave you ready to build on that success in the future—when it really matters.

ABOUT SOURCING JOURNAL

From raw materials to the racks

If it affects how consumers shop, retailers sell, designers create, raw materials develop, sourcing directors buy, sustainability professionals influence, apparel brands operate, goods travel, markets fluctuate, products are governed or trade evolves, you'll find it on Sourcing Journal.

Owned by Penske Media Corporation (PMC) and part of the Fairchild Media Group (SJ, WWD, Footwear News, Beauty Inc.), Sourcing Journal is the largest, most comprehensive and authoritative B2B resource for executives working in the apparel, textile and footwear industries. With continuous updates on global market conditions, Sourcing Journal makes sense of an increasingly complex sourcing landscape via timely news, insightful analysis and revealing data.

More than 70,000 readers rely on Sourcing Journal to navigate every aspect of this dynamic, complex and vast business, including supply chain, raw materials, sustainability, logistics, fulfillment, product development, compliance, retail and technology.

Coverage that counts

Sourcing Journal offers a dynamic mix of up-to-the-minute news, in-depth features, timely analysis from all angles, opinion pieces from industry thought leaders, and vital statistics on materials, trade, sales and wage data impacting market performance.

Events & Offerings

Sourcing Summits—New York & Hong Kong: The industry's must-attend events, drawing an impressive roster of apparel executives representing the entire supply chain and featuring dynamic keynotes, panels, discussions and exclusive networking opportunities.
Webinars: Educational and informational, webinars provide the industry with the opportunity to take a deep dive into topical issues and walk away with tangible tools and action items.
Fireside Chats & Podcasts: Dynamic one-on-one video/audio discussions with in-the-know C-Suite executives, who add context to today's top concerns while offering actionable solutions.
Research Reports: SJ's research reports are a rich data-driven resource that provide a pulse on the industry's current practices, stumbling blocks and opportunities.
State of the Industry Reports: A deep dive on a range of topics facing modern supply chains. Through features, Q&A's, spotlights, statistics and infographics, SJ provides fresh perspectives on the innovations, strategies, opportunities and obstacles related to today's apparel and footwear markets.
Whitepapers: An in-depth look at how companies address and solve industry problems, complete with case studies and examples.
Rivet: From mills to runways, this print and digital "blueprint of the denim industry" has a pulse on the game-changing designers, innovators and retailers influencing the future of the global denim market.

SJ Founder

From a decade in sourcing spent traveling to major manufacturing hubs like Pakistan, Bangladesh and China, Edward Hertzman leads Sourcing Journal from the perspective of one who's been exactly where his readers are on any given day. This experience, coupled with his often humorous, always off-the-cuff demeanor, makes him a prominent figure in the industry who's frequently tapped to speak at, moderate and headline events.

Penske Media Corp.

Sourcing Journal's parent company PMC is a leading digital media and information services company whose award-winning content (Rolling Stone, Billboard, ArtNews, Art in America, Variety, WWD, Footwear News, Robb Report, The Hollywood Reporter, Stylecaster, Vibe, IndieWire, SHE, Deadline, TV Line, Spy, Sportico, and more), attracts a monthly audience of more than 180 million and empowers more than 1 million global CEOs and business thought-leaders in markets that impact the world. Dynamic events, data services and rich content entertain and educate today's fashion, retail, beauty, entertainment and lifestyle sectors. Headquartered in New York and Los Angeles with additional offices in 11 countries worldwide, Penske Media is the way global influencers are informed, connected and inspired.

BACKGROUND & METHODOLOGY

The survey was created in partnership with consulting firm AlixPartners to ask apparel and footwear industry executives how their businesses have been impacted by the pandemic and what changes they have made to their operations to mitigate the disruptions. The survey covered four different areas: Assortment Planning; Omnichannel Evolution; Supply Chain Complexity; Agility.

The survey was fielded online. Respondents were recruited via email invitations, which were sent to Sourcing Journal newsletter subscribers on June 28, July 8, and July 15, 2021. A sweepstakes drawing for five $100 Amazon gift cards was used as an incentive. The survey closed on July 22, 2021.

All respondents answered questions 1-4 and then, based on question 5 (Which of the following best describes your area of responsibility?), were segmented and served a customized version of the survey. This was done in an attempt to understand perceptions at a more detailed level. A total of 588 respondents answered questions 1-5.

Respondents were not aware they were being segmented and served different survey experiences based on how they answered Q5. Because all respondents did not receive the exact same set of questions, the total number of respondents who completed the survey is NA. The measured segments were FP&A, Operations, Product, Sourcing/QA, Stores, and Supply Chain. There were a total of 361 survey responses across the different segments.

The segments were defined as follows.

1. FP&A areas of responsibility: Financial Auditing; Financial/Accounting; IT
2. Operations areas of responsibility: Production
3. Product areas of responsibility: Analytics; Buyer/Planner; Designer; General Management; Merchandiser; Marketing/PR; Product Development
4. Sourcing/QA areas of responsibility: Global Trade; Inspections; Lab Testing; Procurement; Quality; Sourcing
5. Stores areas of responsibility: Store Operations
6. Supply Chain areas of responsibility: Logistics; Supply Chain

About the Respondents: All respondents were required to provide job title, company function and specialty, area of responsibility, and company size based on revenue or sales. A total of 588 respondents answered these questions.

Just over a quarter of respondents (26 percent) are in the C-suite, 30 percent identify as top management, and 27 percent as management. Respondents represented a cross section of the industry with 23 percent hailing from suppliers, 20 percent as fashion brands, 16 percent retailers and 15 percent factories. The majority of those who participated (70 percent) work in the apparel industry with 34 percent in accessories, 27 percent in footwear, 16 percent in textiles, 15 percent in fabrics, 11 percent in raw materials and 11 percent in hard goods.

More than half (56 percent) work for companies that have gross sales or revenue less than $500 million, 28 percent are employed by firms that report $500 million to $2 billion in gross/sales revenue, and 9 percent say their company's gross sales or revenue is $2 billion or more.