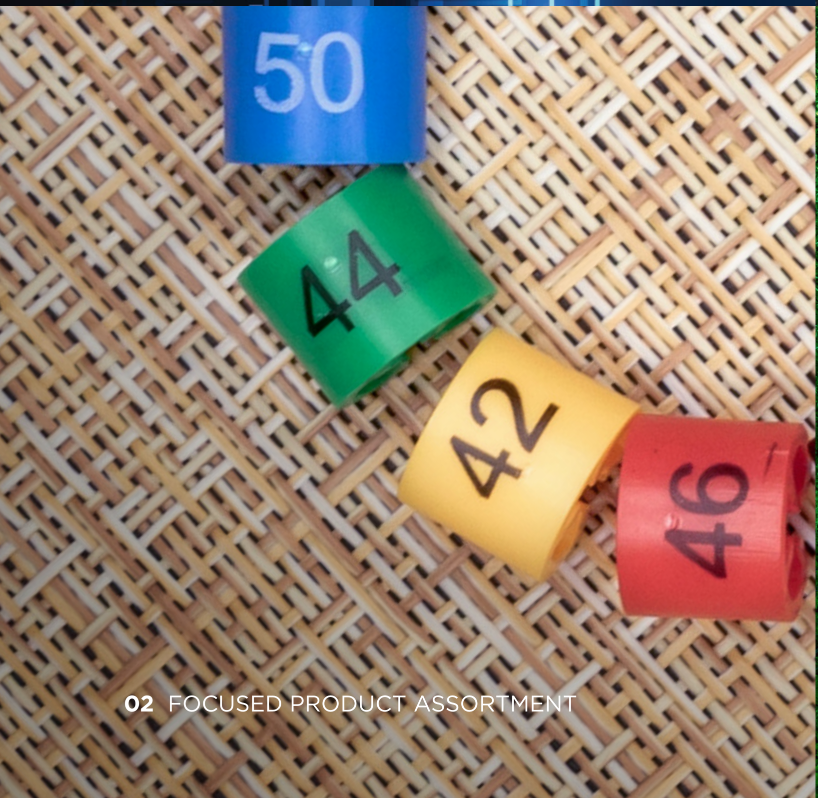
SOURCING JOURNAL AlixPartners

2022 SURVEY REPORT

Fashion in Focus

New Norms and Paradigm Shifts



Dear Reader,

I am proud to present the 2022 Fashion in Focus Survey Report created by Sourcing Journal and our friends at global retail consulting firm AlixPartners.

We subtitled this report New Norms and Paradigm Shifts because our post-pandemic world is anything but business as usual. The consumer is different, production is different, supply chain is different, fulfillment is different, sustainability and ESG legislation are different, and the technology to connect it all is different as well. Better, but still different.

We administered the survey, which was divided into four sections (Digital First, Focused Product Assortment, Productivity Mindset, Sustainability & Social Stewardship), to our vast universe of subscribers. The proprietary data we have compiled gives us unique, data-based insights and a comprehensive view of where we stand, how we got here, and what lies ahead.

As with last year's survey, we wanted to assess what is really happening on the ground and upstream, with data you can benchmark against. But instead of just seeing how companies measure up against each other, we also wanted to see how they are measuring themselves. How are they tracking and measuring their own initiatives up and down the supply chain? Where are they in relation to their targets? Do they even have targets?

We know that a lot has changed in the past few years, but do you know what hasn't changed? Corporate mindsets stuck in their old ways. Brands that still aren't listening to their customers. Sourcing and Production departments that aren't taking full advantage of tech tools that will improve efficiency.

What we found out is that while some brands and retailers are taking positive steps towards transformation and improvement, many are shockingly behind where they want to be, and where they should be. More than 40 percent of companies are not prioritizing digital tools to engage with consumers, even though it is crystal clear that technology drives everything consumers do today (page 8). More than half of companies are still using historical sales data and Excel spreadsheets to plan their business instead of the many Saas (Software as a Service) solutions that are out there. I mean, no offense to Excel, it was a great innovation...in 1985.

But rather than just focus on problems, we want to inspire hope and change. We share essential tips from the trenches from some of the winningest companies in the business. From the technology at Fabletics that has powered meteoric growth (page 12) to American Eagle Outfitters's logistics transformation (page 24) to Pangaia's zero-tolerance ESG policies (page 31), these are success stories that show it can be done.

Best of all, throughout the report are invaluable insights from the team at AlixPartners, the best in the business as far as we are concerned, sharing what companies need to do and how.

We hope you find this a must-read. I do.

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Staying Ahead of Disruption

It's been almost three years since a sudden and unprecedented global pandemic upended the world, changing forever how and where people live, work, learn and shop. Record numbers left cities and spent more time outdoors, getting reacquainted with nature. Many delved into the virtual world, becoming more comfortable with digital tools. Almost everyone took better care of their homes, their families and themselves.

The retail apparel industry, ever resilient, pivoted into new directions, rewriting the rules as it went in order to survive. Leaders emerged. Trends begun before the pandemic accelerated. Retailers who vowed they'd never get into e-commerce decided they had no choice. Empty stores became mini warehouses. Dressy clothing brands got into leisurewear. Designers who had previously eschewed technology started working with digital patterns and samples.

Now, as the pandemic dust finally settles and people head back to offices, malls, restaurants and other old haunts, they are entering a different world than the one they left. Consumers, more tech-enabled, discerning and concerned about people and planet than ever, grew used to convenience and having more free time, and will not go back to the old ways.

Disruptors such as geopolitical unrest, climate change, spiking inflation and rising interest rates are replacing COVID-19 as key causes for concern.

Our industry is at a major crossroads. Not only did the pandemic underscore the vulnerabilities of the apparel supply chain, but every aspect of the business—product development, shipping, marketing, inventory management, human resources—has new imperatives, driven both by the outsized risk inherent in doing things the old way and by the demands of the increasingly powerful consumer.

New Norms

When the leaders of the retail practice at AlixPartners first sat down with the team at Sourcing Journal to design our second annual state of the industry research study, one thing was very clear: this is not a temporary situation. No longer will short-term fixes or just-in-case tactics be acceptable.

More than at any time in the history of our business, uncertainty is the new norm and instability is the new standard. And whether the next disruptor is a global pandemic, economic headwinds, geopolitical unrest, natural disaster or seismic shift in consumer demand, we need to be prepared, resilient and nimble enough to change direction.

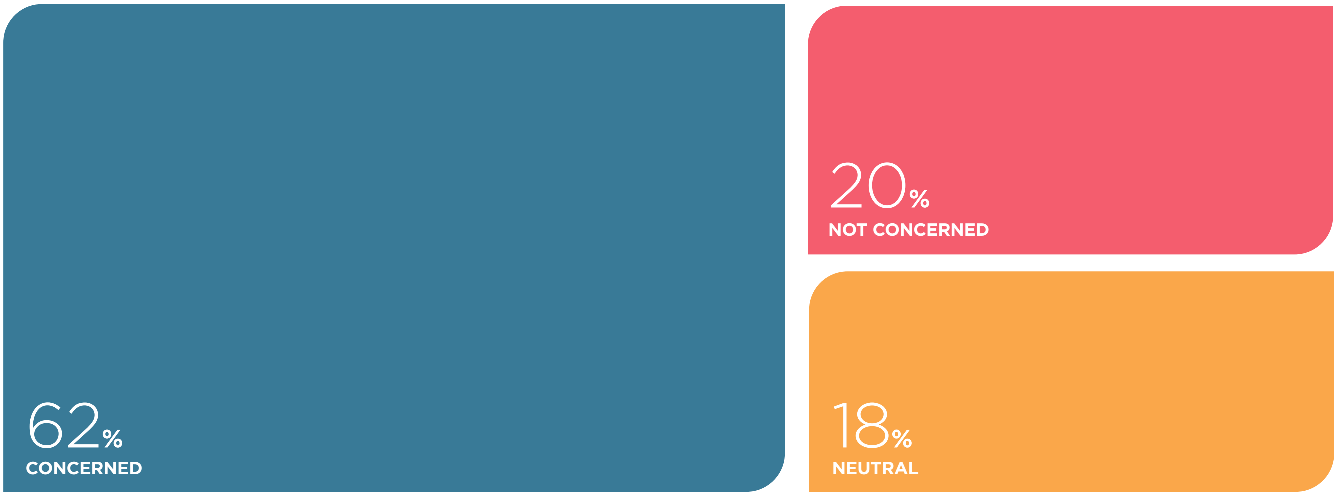
In the pages that follow is the 2022 Sourcing Journal + AlixPartners Fashion in Focus business report. Entitled New Norms and Paradigm Shifts, it is based on data from a comprehensive industry survey administered to hundreds of apparel professionals. With added insight from interviews with top industry executives and thought leaders, plus prescriptive takeaways from the AlixPartners team, it probes the extent to which those in our industry are aware of what's really happening, how much they are doing to prepare for future disruption and an increasingly demanding consumer, and whether those initiatives are enough.

Dealing with Disruption

If companies have learned anything from the past two years, it is the value of disruption preparedness. And as the inevitable uncertainty continues, establishing nimble operations is a strategic necessity.

Still in the shadow of the pandemic, the industry now finds itself grappling with consumer demand shifts as inflation drives down discretionary spending in categories like fashion. It is also steeling itself for economic disruption, with 62 percent of survey respondents[1] concerned about recession coming in the next six to 12 months.

HOW CONCERNED ARE YOU ABOUT A RECESSION IN THE NEXT 6-12 MONTHS?

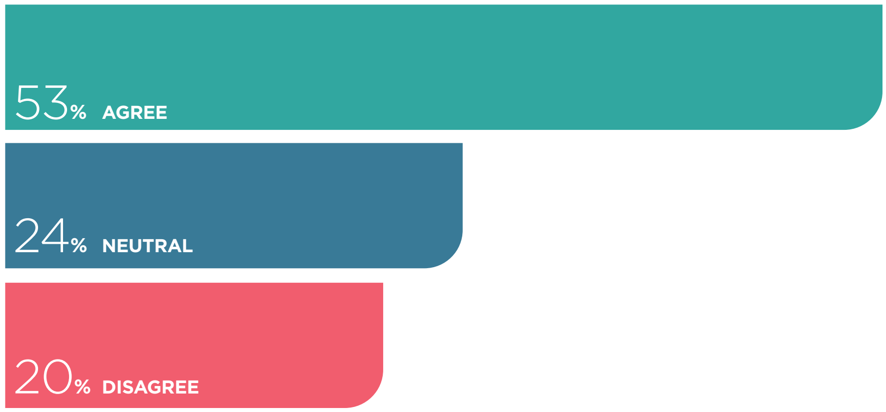


[1] Unless otherwise indicated, the data source for all graphs is the 2022 Sourcing Journal +AlixPartners Industry Survey. Numbers represent percent of respondents in core segments (retailers, brands and wholesalers—i.e., companies that create, produce and distribute apparel, accessories and footwear), and are rounded.

"What we're seeing in our results and hearing from our guests is that they still have spending power, but they're increasingly feeling the impact of inflation," said Christina Hennington, executive vice president and chief growth officer at Target Corporation, in an August earnings call. "And while the recent reduction in prices at the gas pump has been encouraging, guest confidence in their personal finances continues to wane."

Not everyone will feel the impact equally. Producers of higher-priced, premium goods have seen less of a spending dip so far, due to their affluent audience. One survey respondent shared, "Our luxury market has weathered well, in fact, increased significantly. Still, [we] worry about the longevity of that trend!"

MY COMPANY IS SET UP TO NAVIGATE INCREASED DISRUPTION



Recognizing that disruption is the new normal, are companies prepared for market shocks?

"We've been very clear with our partners that our new normal is this disruption and how we mitigate those risks," said Cameron Shayegi, senior vice president for global product supply at Under Armour. "It's no longer about sitting and waiting."

The supply chain is also now front and center consideration for top management. Under Armour has an enterprise risk management process, in which supply chain managers give weekly briefings for executives on the state of global locations. The strategy is "over communicating and keeping people informed as much as possible so we can take a lot of proactive decisions," explained Craig Jones, senior vice president of supply chain at Under Armour.

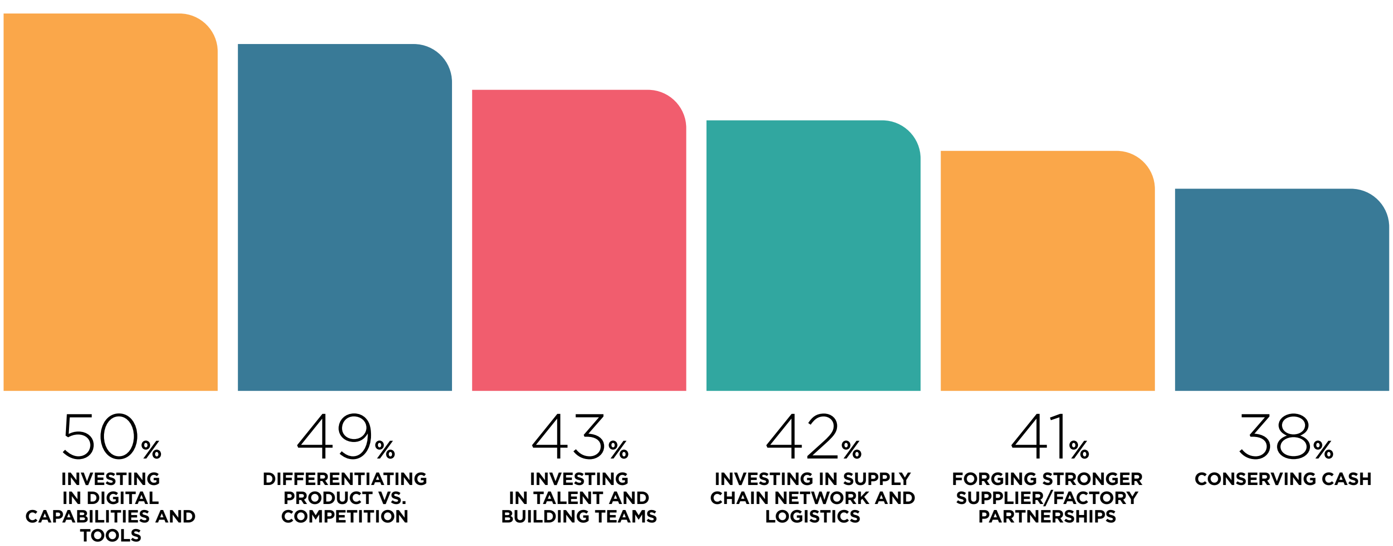
Despite the consensus on an imminent economic downturn, only 53 percent of respondents felt their firm is set up to navigate increased disruption. This leaves almost half feeling ill prepared for whichever unexpected twist comes next.

With economic headwinds looming on the horizon, many companies are not taking the necessary steps to shore up their operations. Too many say their inventories have increased as shopper spending is expected to dip. A surprising number are using historical sales data to plan, with far fewer using predictive models that would yield more accurate buys. And companies are generally not sufficiently prioritizing risk factors in their sourcing decision-making.

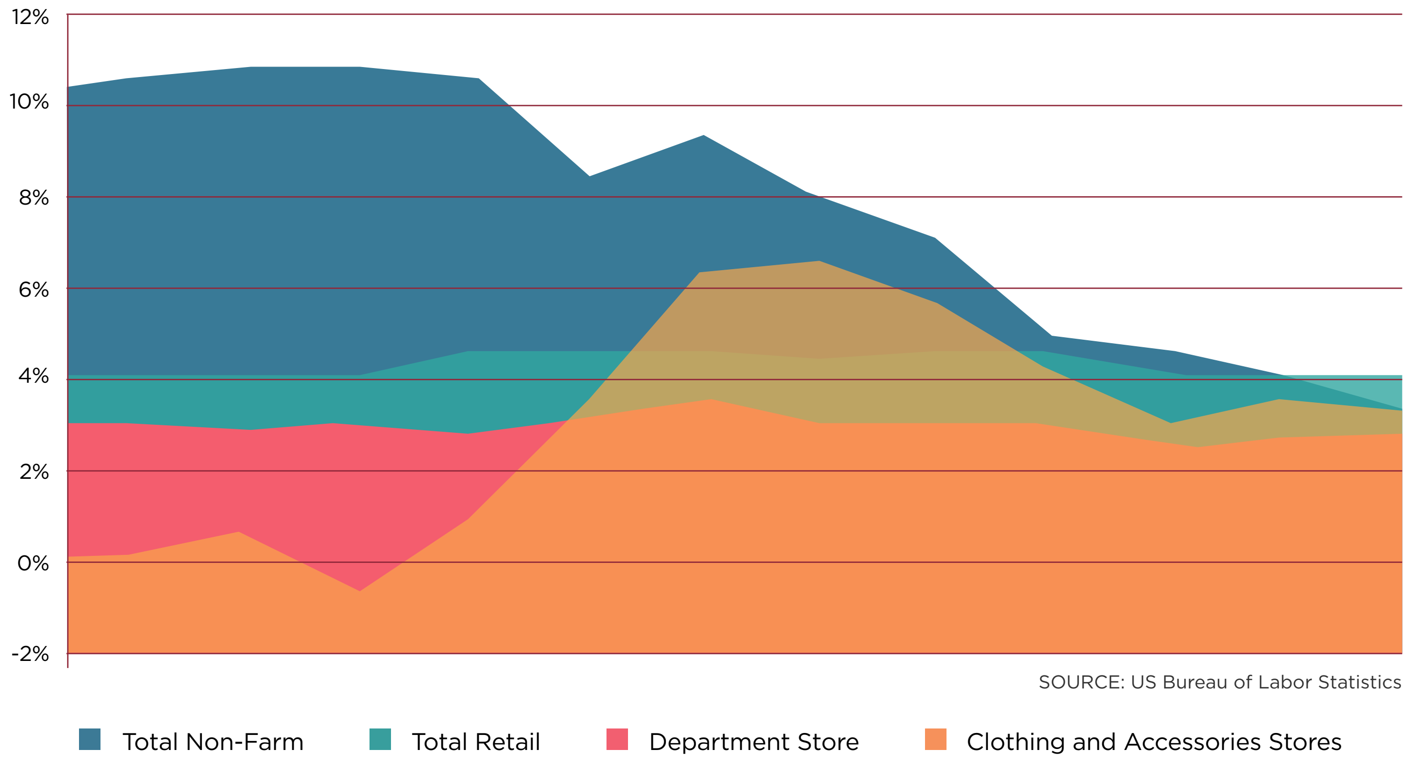
Some forward-looking ones are. "Based on retailers' fears of recession, too much inventory and Xinjiang cotton, we see more emphasis on nearshoring, which for us means more apparel retailers looking for sourcing in Central America or Mexico," said one survey respondent.

When asked how their company is fortifying itself against consumer spending shifts, no one tactic was employed by more than half of survey takers. The top strategies, investing in digital capabilities and tools, followed closely by differentiating products from the competition, were each cited by about half the respondents.

WHAT ARE YOU DOING TO FORTIFY AGAINST INCREASED DISRUPTION AND SHIFTS IN CONSUMER SPENDING?



TOTAL U.S. AND RETAIL EMPLOYMENT Y.O.Y. CHANGE - SEPT 2021 - 2022



In preparation for a demand downturn, only 4 in 10 companies are investing in talent. Employment growth at clothing and accessories retailers has steadily dropped over the past year as industry players reduced their workforces as a cost-cutting strategy. But as one survey respondent noted, trimming staff is less than ideal. "Our most important asset is our workforce, and in these difficult times we need to do everything in our power to preserve their jobs by looking into new ways of doing business, where jobs at risk can find a new road at the company."

Only about 40 percent of survey respondents are spending on logistics capabilities or forging stronger supplier relationships. As we will see in the pages that follow, failure to connect levels of the supply chain will make it very difficult—and prohibitively costly—to serve consumers what, when, how and where they want.

So how exactly will companies survive and thrive? By understanding that disruption will continue, and by using the available tools to connect with consumers to better understand their needs, and with suppliers to serve those consumers faster, more efficiently and more responsibly.

The report explores the interrelation between four paradigm shifts and tells the inspiring stories of how some of the most innovative companies are navigating the new normal.

As the apparel industry continues to struggle with challenges from ongoing uncertainty, it is more important than ever to keep up with what the successful companies are doing to prepare themselves for the inevitable continued disruption, to learn what strategies are working, and to move away from those which are not.

Staying put is not an option. Whether the findings make you feel safely ahead of the curve, woefully behind it, or exactly where you need to be, we all must do a better job to prepare for the future and keep customers happy.

Consumers are telling you exactly what they want. Are you listening?

Paradigm Shifts

The report discusses four paradigm shifts, or fundamental changes, that companies must address in their operating models:

1. Digital First
Rethink your operating model to cater to how today's consumer typically first experiences a brand: digitally

2. Focused Product Assortment
Meet the discerning demands of a confident customer by means of a focused assortment that remains true to the brand and enhances the consumer experience

3. Productivity Mindset
Develop a razor-sharp focus on productivity across the value chain to protect margin and invest in the quality and service that the consumer demands

4. Sustainability and Social Stewardship
Make ESG not just a buzzword, but a core value that consumers, who are smart enough to know the difference between hyperbole and reality, can expect.

PARADIGM SHIFT

01

Digital First: Engaging A Digital Consumer

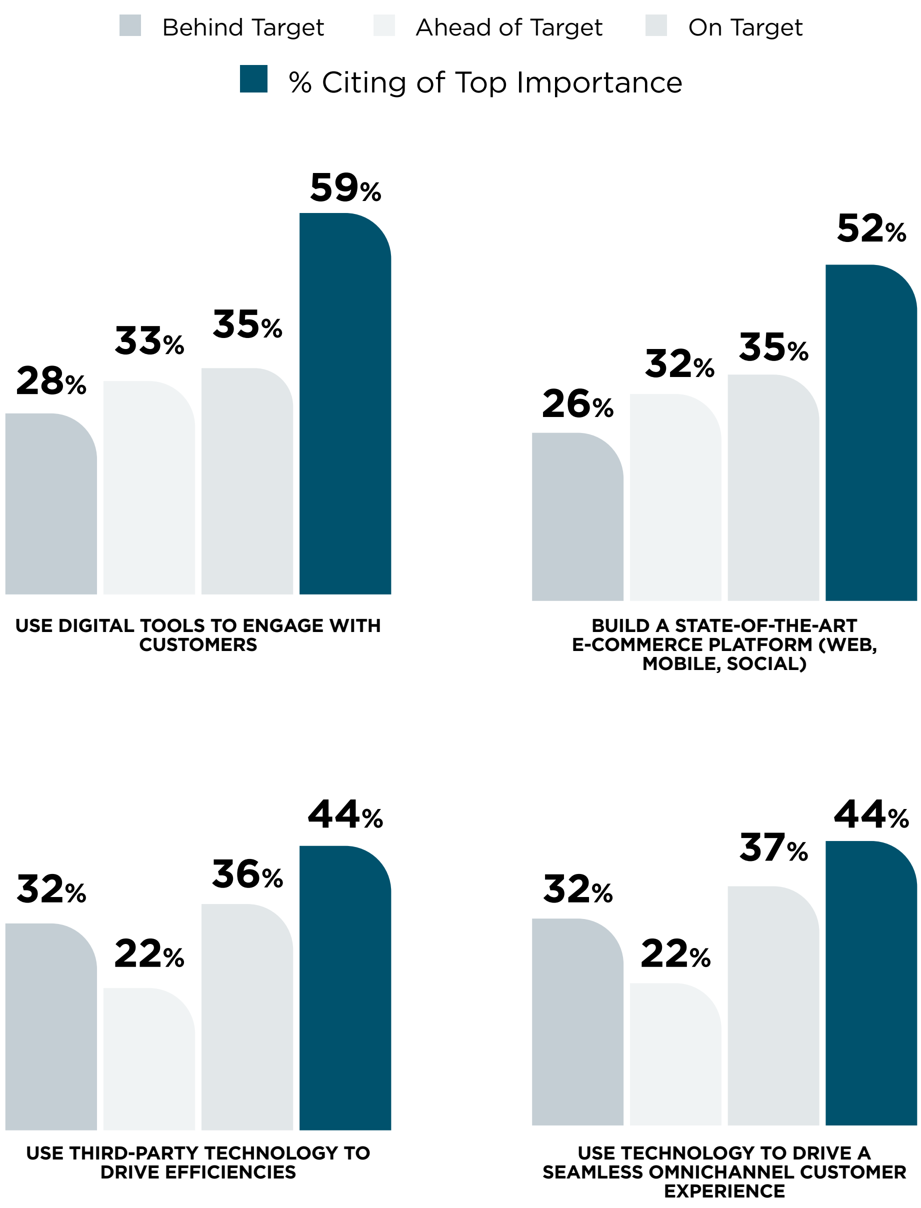
Whatever their demographic bucket, consumers are firmly in charge, and increasingly digital. We are all Gen D! And to reach this population at every touchpoint, companies must fit into consumers' digital lifestyles. This doesn't mean merely building a robust e-commerce site or implementing the latest technology. It means focusing on capturing every customer engagement—digital and physical—and leveraging that information to continually refine products and services. It's a continuous loop powered by the consumer and driven by data.

"Being a digital-first retailer or brand does not mean being digital-only," said Bryan Eshelman, managing director at AlixPartners. "Instead, it's a shift in mindset that resets how the organization thinks about everything from customer acquisition and customer lifetime value to the relationship between marketing and sales and where the buying team sits and to whom it reports. In practice, this means changing conventional KPIs for every part of the business into digital-first benchmarks."

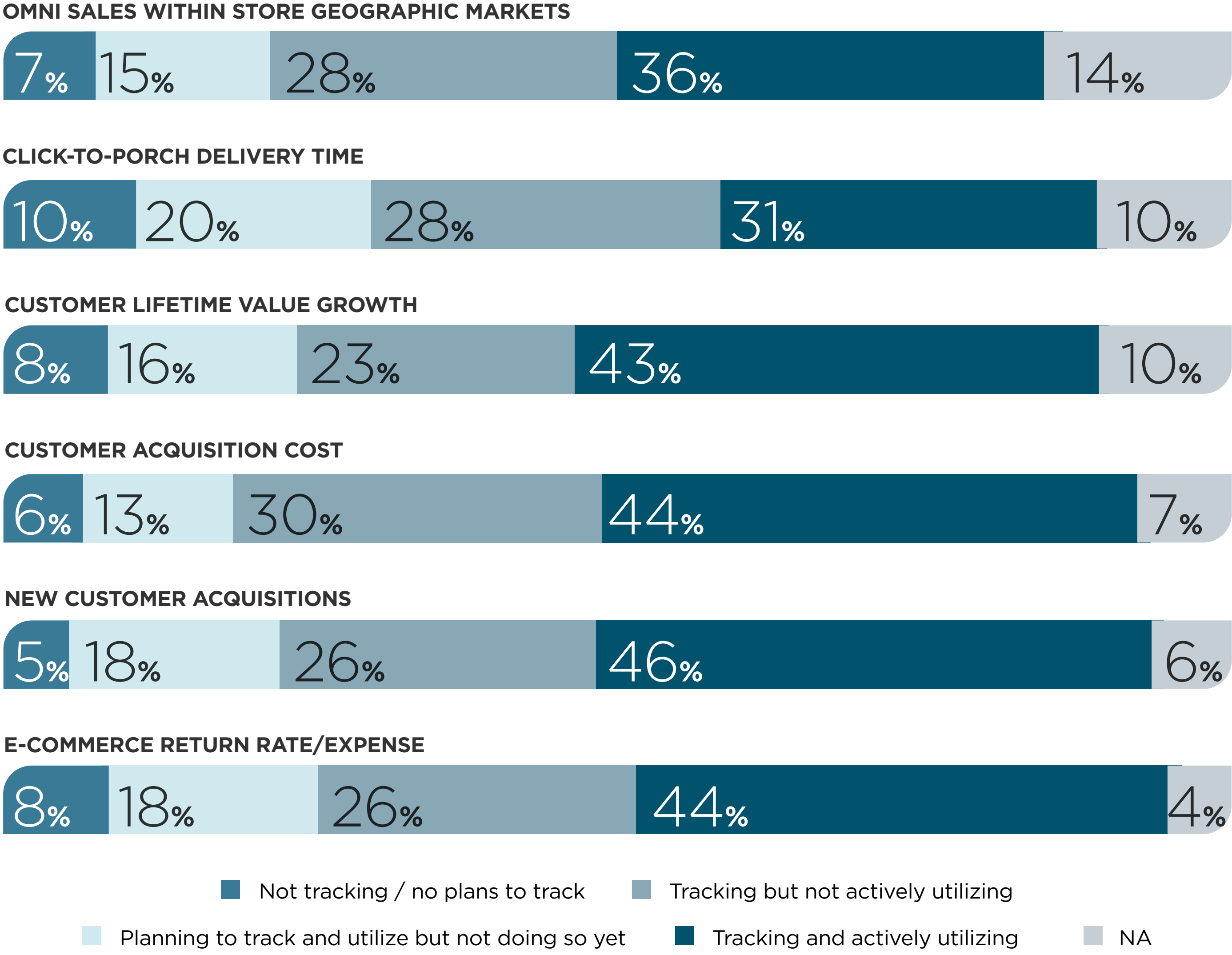
But while consumers are living a digital lifestyle—expecting easy paths to research, purchase and engage with brands via technology—are brands and retailers up to speed? Almost half the companies surveyed did not rank consumer-facing digital tools as critical initiatives. Many said their progress in using digital tools to engage consumers was behind target, with even more saying they were behind on using technology tools to drive a seamless omnichannel customer experience.

Survey respondents reported embracing digital technology like "using AI for a better 360-degree customer view," or "integration across digital partner agencies," but they also remain concerned about tech's vulnerabilities, with some respondents stressing the need to "ensure that all digital presences remain secure."

PROGRESS ON KEY DIGITAL INITIATIVES



DIGITAL FIRST KPI TRACKING AND UTILIZATION



Although 59 percent are using digital tools to engage with customers, more than 40 percent of respondents are not, a shockingly low figure in today's digital age. And for many of the companies for whom these initiatives are top priorities, progress has been in many cases elusive. Almost a third indicate they are behind target in said key digital initiatives, suggesting widespread recognition of the need for actual actions.

Digital tools are useless if not applied correctly, and indeed the fashion industry often finds itself drowning in data yet starving for information.

An average of 70 percent of companies reported they are tracking critical metrics, with only around 35 percent on average actively utilizing them, so there's quite a distance to go in becoming more data-driven and incorporating data into decision-making.

Diving deeper, respondents were paying more attention to tracking new customer acquisitions than to the rising costs of doing so. And only 43 percent of companies are tracking and actively using data around customer lifetime value growth.

Customer acquisition cost (CAC) rose significantly after Apple's iOS started letting users opt out of app tracking in 2021, with only 5 to 15 percent of iPhone users opting in. And just as easy click-and-conversion data capabilities went by the wayside, Google has hinted about the end of third-party cookies as early as next year.

There's not a retailer or brand that hasn't been impacted by the changes in the privacy ecosystem. But as CAC goes up, companies must get more lifetime value, and earn the loyalty of their customers, to offset some acquisition costs and make the economics and transactions work. Providing value to consumers is one way to get there.

When preparing for a possible consumption pullback, it's all the more crucial for companies to keep the shoppers that they do have. Loyalty gets tested during inflationary periods as shoppers become open to new brands that will save them money. Establishing or enhancing loyalty programs can not only engage consumers on a more regular basis and drive sales, but can also give brands more insights into their customer base.

Too many companies are failing to use customer lifetime value information in their operations. As one respondent put it, "Inefficient companies without great retention metrics won't survive. The rest will survive and thrive."

In-store foot scanning system Volumental, for example, builds robust retailer customer lists directly in store, as consumers must provide emails to receive their scan info. "This is authentic," said Volumental president Alper Aydemir, adding it builds loyalty as well. "Consumers give out their real emails because not only do they want the scans sent to them, but once they create an email profile in the store, they can get personalized recommendations of shoes that will fit them perfectly. Most retailers put a $20 to $35 value on [getting real emails] because they often have to give discounts and free items to acquire them."

Digital Marketing: A 360-Degree Connection

When it comes to consumer engagement, brands need to digitally connect with their customers where they live—on their screens. Social media, being used by 69 percent of respondents, followed by email marketing (56 percent), were the most popular ways our respondents engage with consumers.

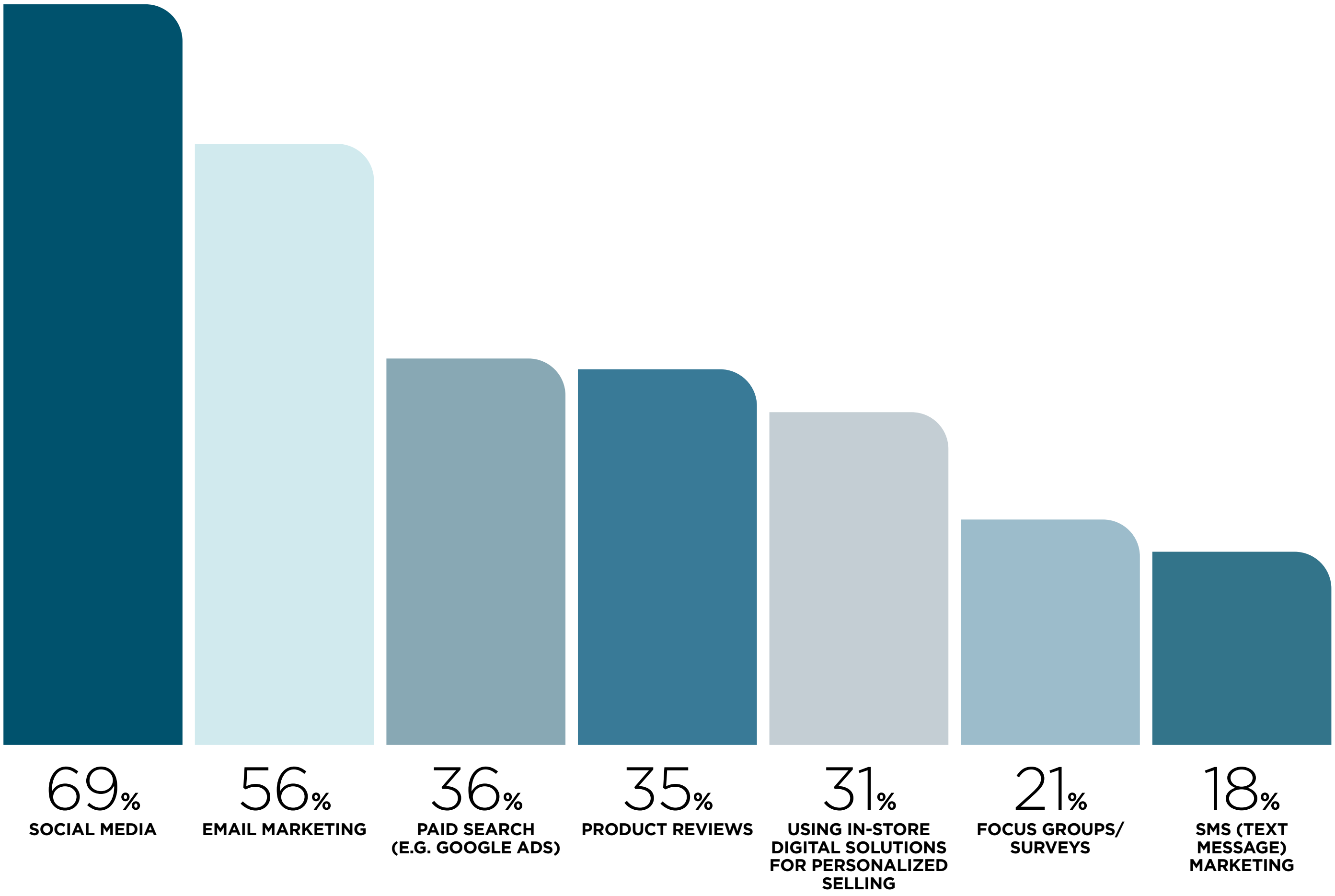
On social media, video has become increasingly popular. Instagram and TikTok platforms each have over a billion users—Instagram with a broader reach and TikTok with greater engagement, says consumer experience platform Emplifi. Both platforms have shown upward engagement trends over the past six months.

Authenticity is essential, and sometimes unpolished is best. "Before placing any ad spend into a new channel, we make it a priority to establish our brand presence with a strong content strategy," said Nicole Weiss, VP of marketing at contemporary bag label Dagne Dover. "As a brand, there is always a fine line between casual content and polished creative, but Tiktok has helped us learn where to draw that line."

Dagne Dover's testing revealed that its "more produced" campaign editorial videos weren't met with the same response as its user-generated content (UGC) style videos or product highlights. In fact, the brand's most viral video was shot by co-founder and CCO Jessy Dover in her room at home, simply walking viewers through her favorite bags. The video garnered over 10 million views.

Self-deprecating humor also channels

DIGITAL TOOLS BEING USED TO ENGAGE WITH CONSUMERS



authenticity—just ask Crocs. After careful social listening revealed that the footwear brand was already going viral (a user-generated "Shaving Cream Challenge" had people jamming their feet into Crocs filled with shaving cream that would comedically ooze out the holes), the company jumped in with #ThousandDollarCrocs, challenging users to reimagine their $35 Crocs in swanky incarnations. With 45,000 videos created in 36 hours of launch, Croc walked away with 100,000 new followers in one week, and consumers had closets filled with blinged out casual footwear.

Consumer Power on Rocket Fuel

It's clear that power has permanently transferred from brands to consumers, but have brands and retailers fully realized the extent of this shift? Consumers now have almost unlimited access to information and products, which makes loyalty hard to earn and easy to lose.

According to data from eMarketer, e-commerce is projected to be one-third of retail sales by next year, and is driving all of overall retail growth. More than half of U.S. consumers shopped at a new retailer during COVID-19. Even for store-based sales, an overwhelming majority of all purchase journeys start online. A study by GE Capital Retail Bank found that 81 percent of brick-and-mortar shoppers conduct online research before buying, and 77 percent use a mobile device to search for products and services.

"Customers today are like no other customers in history," said Joel Bines, managing director at AlixPartners. "They understand the old marketing game, and they've rewritten the rules. They're the ones creating the stories about your products, they're the ones setting the trends, they're the ones deciding where to buy and how much they're willing to pay. Success now requires developing a whole new kind of relationship with your customers."

The trick is to gather consumer input actively, not passively. Many brands and retailers still "push" one-way social media or email messages at customers. Social media is helpful to identify and clarify trends, but far too few brands (21 percent) engage through "two-way" marketing research activities such as focus groups or surveys, which are critical to drive deeper insights.

"Marketing can't be just about promoting a sale or new product; it needs to be used to understand the customer and gather feedback that can be funneled back into more productive uses," said Jeremy Lambert, director at AlixPartners. "Bottom-of-funnel activities will always be focused on product and price. There must be differentiation between top-of-funnel and brand/community-building efforts and lower-funnel activities."

In-person or virtual focus groups offer a deeper feedback dive than reviews and ratings, but the insights gleaned must be channeled back into data for current product assortment and longer-term strategies. Though only 21 percent of respondents prioritized focus groups, smart companies are taking note.

"While we use our partners like NPD and WGSN for data and trend analysis, we also have an internal consumer panel which we talk to on a monthly basis," says Yossi Nasser, founding partner of intimates manufacturer Gelmart and Full Stride Ventures. "This group of over 500 women (and growing) helps us identify trends/white space and product opportunities. For example, for our Kindly brand, a sustainable line of intimates which is in 3,300 Walmart stores, we have used our consumer panel to help shape future collections. The panel unearthed a need for a new hybrid bra which combines the support of a wired bra with the comfort of a wire-free bra—all while using recycled fabrics and our plant-based bra pad."

Savvy brands also use digital channels to speak directly to consumers, such as Victoria's Secret's CEO posting a hand-written note on Instagram to address an issue or Dagne Dover giving advance notice (and explanation) of a price hike. This gives the brand an opportunity to tell their story without feeling like they're selling.

That Human Touch

Digital offers endless opportunities for companies to connect with their consumers, and winning brands and retailers said they are adding helpful services like "7-day a week live person chat," "one-to-one video and concierge" and efforts to "visit consumer regularly and inform complete product details." Such messaging, like SMS text marketing, replying to company Instagram DMs, or even personally texting a customer photos of new-in-stock merchandise she would particularly like, can feel like a trusted friend offering advice. All are valuable actions, but they must be managed, with careful consideration paid to cost and customer lifetime value.

Despite the dominance of digital marketing or digital chat, winning brands and retailers are also layering on IRL (in real life) activations like consumer-facing "community activation and events" or B2B "monthly get togethers" with dealers and customers—all efforts appreciated after an isolating pandemic and years of remote work. Small store pop-up concepts in department stores—like Nordstrom's rotating Pop-In@Nordstrom activations to Neiman Marcus' Loewe and Prada pop-ups complete with complimentary manicures and custom cocktails—build community and engagement.

"This builds the store as a service center for the digital customer while also using it as a place to ensure that shopping remains a social sport," said Murali Gokki, managing director at AlixPartners.

ASK YOURSELF

Is your company doing enough around Digital-First initiatives?

- [ ] Are you behind or ahead of target when it comes to executing key digital initiatives? What efforts and shifts in strategy and capabilities is your company taking to accelerate progress?
- [ ] What strategic levers are you deploying to effectively track and utilize consumer data to combat/offset rising CAC and increasing cost to service?
- [ ] Are you exploring/experimenting with innovative digital marketing tools and approaches to drive engagement and loyalty? Are you authentically meeting consumers where they are?
- [ ] Can you clearly connect your customer's digital and physical journeys?
- [ ] Are you putting enough emphasis on incorporating direct feedback from focus groups and in-person activations to gather valuable consumer data points?

How Fabletics Uses Data Science to Win with Assortment and Retention

When a fashion brand is created by a tech company, data science is built into its DNA, impacting every stage from product development to assortment planning to consumer-facing initiatives. With a membership model like Fabletics, it's even more crucial.

"We've invested in our own proprietary technology stack that hits all parts of the customer journey and all parts of our supply chain—from our e-commerce engine to our warehouse management software to supply chain fulfillment, customer service, etc. We bring the power of that scale and data to all of our brands," said Meera Bhatia, COO of Fabletics. "This infrastructure, which acts as the globally integrated service provider for Fabletics, Savage X Fenty and JF Brands, allows Fabletics to leverage trends and buying patterns using algorithms for inventory optimization. "

Data underpins everything at Fabletics, and is used across all functions of the business from supply chain to the website. As an example, on the front end, its 1:1 personalization recommendations analyze over 70 billion records daily to match products to customers.

Data is especially important for the Fabletics subscription model, which thrives on consumer retention. "With consumer acquisition costs rising due to new privacy laws, you need more lifetime value," said Bhatia. The membership model offers an advantage in that they only have to pay to acquire once.

That said, Fabletics is "one of the biggest performance marketing advertisers out there, beta testing every new product, every new API, every new everything," said Bhatia. TikTok has become an increasingly important channel, and brands have invested in nano- and micro-influencers who can connect with "more authenticity" than some flashier mega names. "Fabletics is for 'every body' and extended sizes are a part of who we are. We want influencers to talk to all parts of the spectrum."

With annual revenue of $500 million, and a VIP membership of 2.3 million, the Fabletics formula is obviously working.

Leaning into Learnings

The digital style quiz every new customer takes instantly gathers data points to influence what shoppers see when they log on and shop, and the system gets smarter with every click. "The more she shops the more we learn," said Bhatia. "We are constantly analyzing every touchpoint to see how we can bring it into a more relevant shopping experience."

Other Retailers

UP TO **40-50%** RETURNS

5-6% RETURNS

Fabletics

These learnings pushed Fabletics to add loungewear during the pandemic, a new men's category, YITTY shapewear by plus-size musician Lizzo, and a year-old resale partnership with ThredUP that has already seen 200,000 Fabletics listings. "We're very engaged with listening to our members, whether by listening to customer service calls, surveys or focus groups," said Bhatia.

Building Loyalty

Online learnings spill into brick and mortar too, as the company grows its 85 stores to over 90 stores globally by year end. "We are one commerce experience integrated across in-person and online," said Bhatia.

The result is strong customer loyalty and a reduced return rate. "While some retailers have up to 40 or 50 percent returns, we have an industry leading return rate of 5 to 6 percent, which is really, really strong," said Bhatia, noting how a system that constantly learns from repeat member buyers can get really good at sizing and tailoring results to what the customer needs. "It also creates a lot less waste in the ecosystem, which is good for our inventory buying and good for returns."

Staying Agile

Fabletics' tech stack also helps with agility. The warehouse management system supports the membership-based business' peaks and spikes at certain times of the year, with real-time inventory data integrated into e-commerce and inventory systems, allowing for better visibility.

"We can read this predictive panel and know we're going to need to buy 10x of that color to fill in," said Bhatia. "That type of predictive buying and opportunity to add on more colors or sizes as needed allows Fabletics to take a predictive buying panel and have what we call a 'chase strategy' with our vendors."

Fabletics' inclusive approach creates apparel for 'every body.'

Photograph courtesy of Fabletics

PARADIGM SHIFT

02 Focused Product Assortment

Fashion is both an art and a science, and aligning the product portfolio to the customer's needs—be it through a more focused, narrower sku breadth or through expanded categories and assortments—is no small feat. Companies must use all the information gleaned from social listening, customer feedback, sales reports and predictive analytics to ensure the assortment is right for the customer and for what the brand represents.

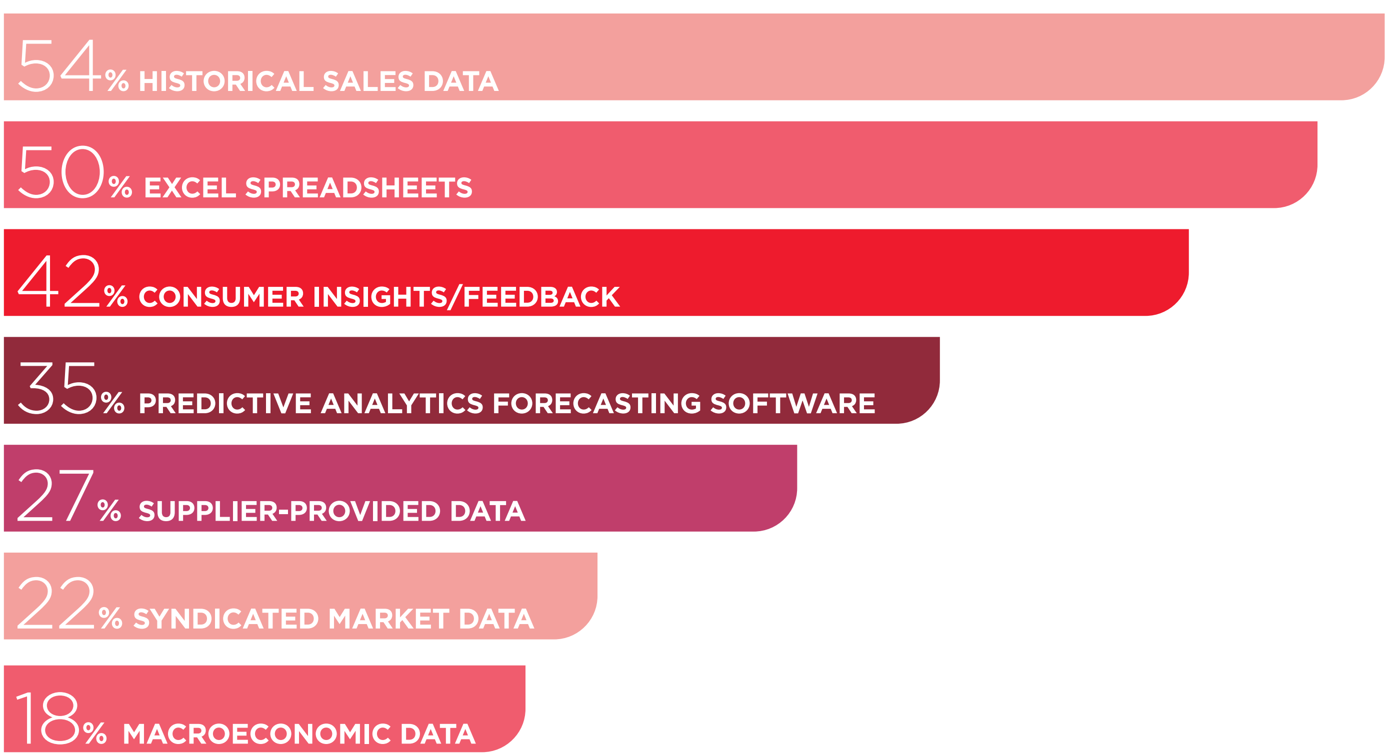
The survey found that most companies are not using the available tools to quickly interpret data and help drive the best assortment planning decisions. Without predictive insights into inventory that capture rapidly evolving consumer habits and preferences, fashion companies are at a huge disadvantage, becoming less agile at a time when consumer preferences are shifting rapidly.

Historical sales and Excel spreadsheets were named as top data and technology tools to plan buys/orders for more than half the companies surveyed, despite the growing availability of fashion industry-targeted Saas (Software as a Service) platforms. The potential pitfalls of this approach are well known. Dependence on prior-year data has not been a reliable measure since way before the pandemic flipped the script and ongoing disruption in the markets and economy make it unlikely to be a trustworthy benchmark any time soon. With 54 percent of companies reporting they rely on historical data to plan buys/orders, there is tremendous room for improvement.

Less than half (42 percent) are using the consumer insights and feedback that should be essential to any development process. "Having been in business for 70 years, we have a lot of experience in managing our inventory," said Gelmart's Nasser. "Whether we look at past sales, or even ask [the customer's] opinion on certain styles we are producing, we try to get as close as we can to what she wants, and with that provide insights to our [brand and retail] partners as well."

Third-party data tools can also help retailers plan future buys. "Through the analytics dashboard we provide our customers, they can see size distribution per region down to the store level that allows them to optimize merchandising, as well as go back to their vendors for more precise assortments for the future," said Volumental's Aydemir.

DATA AND TECHNOLOGY TOOLS BEING USED TO PLAN BUYS/ORDERS



Inventory Conundrum

Almost 60 percent of the companies surveyed reported higher inventory levels than two years ago, with most reporting they did it intentionally to have a buffer against potential supply chain issues, a popular pandemic tactic that has left many brands and retailers with excess inventory that needs to be worked down.

Although this is by now old news, the inconvenient truth is that if it's not a pandemic, or a recession, it will be a major shift in fashion trends, or some other disruption. Companies that have not been able to fundamentally adapt their supply chains to become more agile and responsive are at risk to tie up large amounts of cash in "just in case" inventory based on outdated projections, ending up at a distinct disadvantage compared to their more-nimble peers.

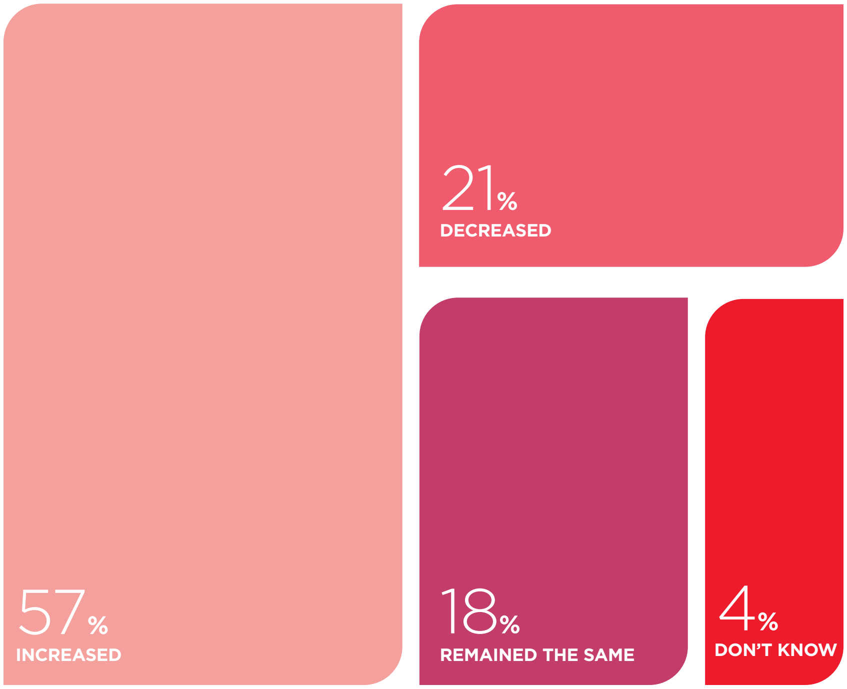
All inventory excess is not created equal, however. Due to recent supply chain events, one activewear company found itself heavier in core inventory, but is using it to their advantage. "Core doesn't go obsolete, doesn't get marked down, and it just flows through from one season to the next," said the brand's VP of global sourcing. "That's helping provide some buffer and some relief on delivery challenges."

Increasing inventory to reduce out of stocks was another popular strategy, but with the potential to backfire when anticipated shipping delays didn't materialize. "We built an average of an additional 40 days of transit time into our production schedule and as a result have approximately 40 days more supply of inventory than we did pre-COVID," said the chairman and CEO of a major footwear brand back in August about the company's $306 million inventory stockpile.

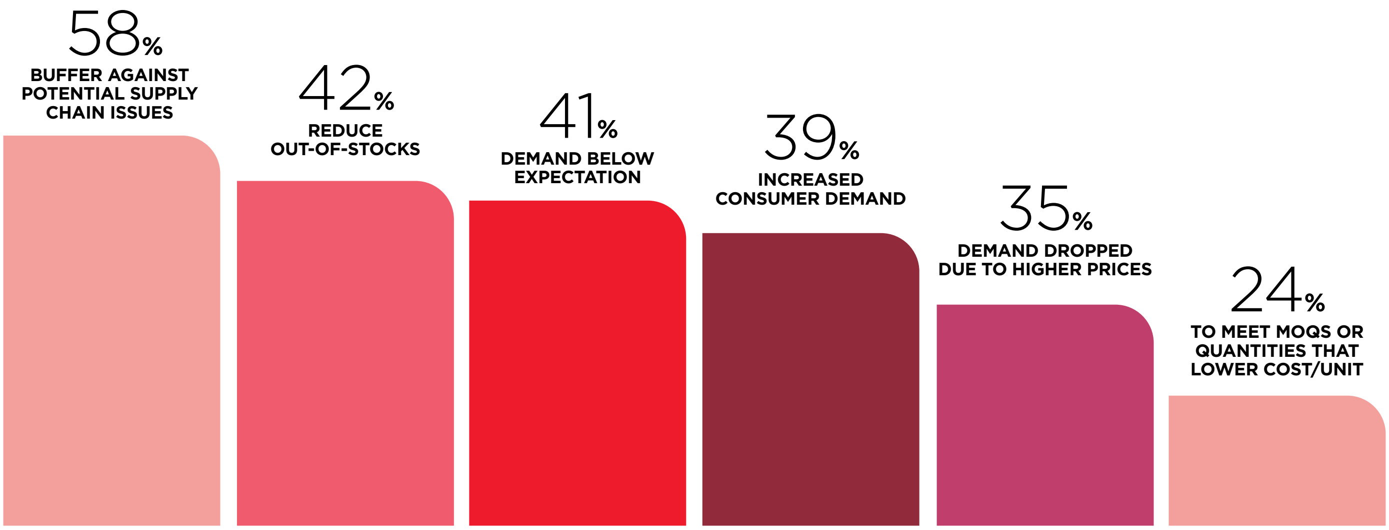
Whether overconfident retailers over-ordered merchandise based on last year's click-happy shoppers, or whether they're just left holding the bag (and shoe) because inflation-weary shoppers are pumping the brakes on shopping, the result is the same: a glut of inventory that isn't going to sell itself without deep discounts.

Over-buying causes overstock of older inventory that hasn't sold, resulting in discounting, margin pressure, and the cancellation of goods that customers actually want. Too often, these overstock goods will crash into off-price and outlet retailers, both online and in-store, creating competition for already discounted wares. Said one merchandiser for a major off-price outlet: "It's going to be an ugly discount fight for share of wallet through the end of the year."

INVENTORY LEVELS COMPARED TO 2 YEARS AGO



REASON FOR INCREASE IN INVENTORY



Expanding Categories

More than half of the companies surveyed increased the size and breadth of their product line in the past two years, and most did it in order to offer more to existing and potential customers, whether broadly, by gender or with new niche-specific categories.

Lululemon has proven itself a winner in the expansion camp. The women's activewear line turned heads when it expanded into men's in 2014, but the extension has been so successful, this year it moved into footwear, golf and tennis. After the women's footwear launch "exceeded expectations" (and was awarded Best Women's Specific Shoe by Runner's World), men's running shoes are planned for 2023.

Fabletics, in addition to its co-branded tennis extension with Universal tennis, has also been "courting" men, not just with great men's product, but with membership. "Men are joining Fabletics every day," said COO Meera Bhatia about the Fabletics Men rollout in 2020. "It's not just women buying for men. Men love a deal!"

Although some extensions can seem niche at first, time changes everything. Many companies (45 percent of respondents) are still heavily focused on traditional models like seasonal collections, with newer product assortment strategies such as limited product drops, rental or resale being used by less than 15 percent. However, companies are starting to satisfy the growing consumer appetite for environmentally conscious and inclusive offerings.

Sustainable offerings have grown and are now cited by almost 40 percent as a key product assortment strategy, making it the second most popular. Twenty-five percent of companies have integrated some form of inclusive/adaptive offering into their assortment strategy. Though this seems low, it's still early in the game, with lots of room for growth. With more than half of respondents reporting an increase in size offerings per sku, it's clear this is a trend that won't go away.

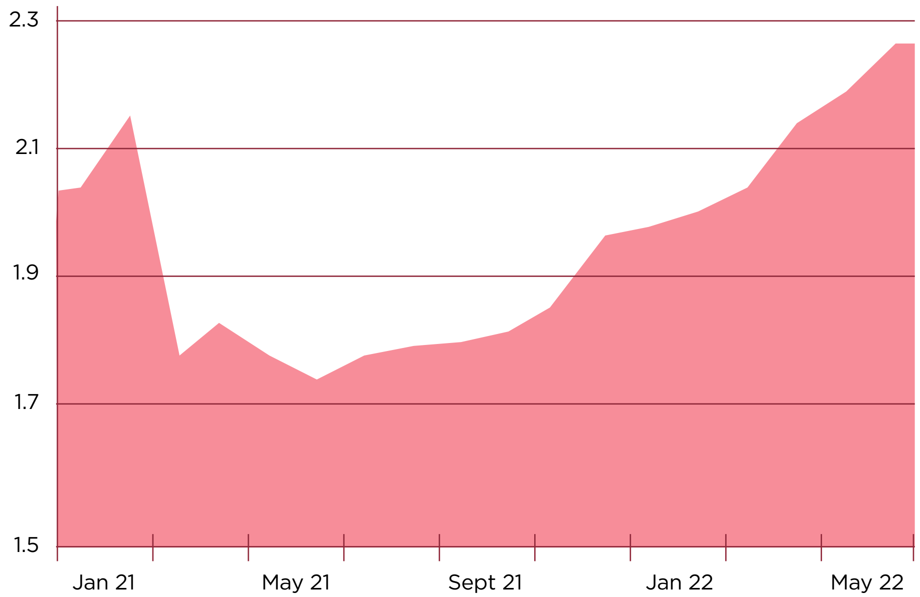
"Driven in part by an aging baby boomer population, the percentage of companies embracing extended sizes should increase as inclusivity becomes table stakes, much like sustainable offerings were a niche category just five years ago," said Anita Wu, director at AlixPartners.

Also within inclusive offerings is "genderless fashion," and 70 percent of consumers want apparel brands and retailers to be more inclusive in both their products and their advertising, according to a 2019 Cotton Incorporated Lifestyle Monitor Survey.

Adding new products isn't always the right thing to do, however. Retailers and brands should be thoughtful about where to expand breadth and make sure the move is a strategic choice that supports a core initiative.

Careful attention should also be paid to execution. Gap Inc.'s Old Navy division says it launched its "democracy of style" BODEQUALITY extended-size line too broadly and too quickly. "We over-planned larger sizes with customer demand under-pacing supply, leading to an excessive inventory across stores," said a Gap Inc. officer on a quarterly earnings call earlier this year, adding that the issue was exacerbated by out-of-stocks in core sizes due to supply chain disruption and inventory delays. Old Navy canceled a "significant portion" of extended sizes from Q3, with plans to optimize replenishment around demand.

INVENTORY TO SALES RATIO — DEPARTMENT AND APPAREL SPECIALTY RETAIL | JAN 2021 - JUN 2022



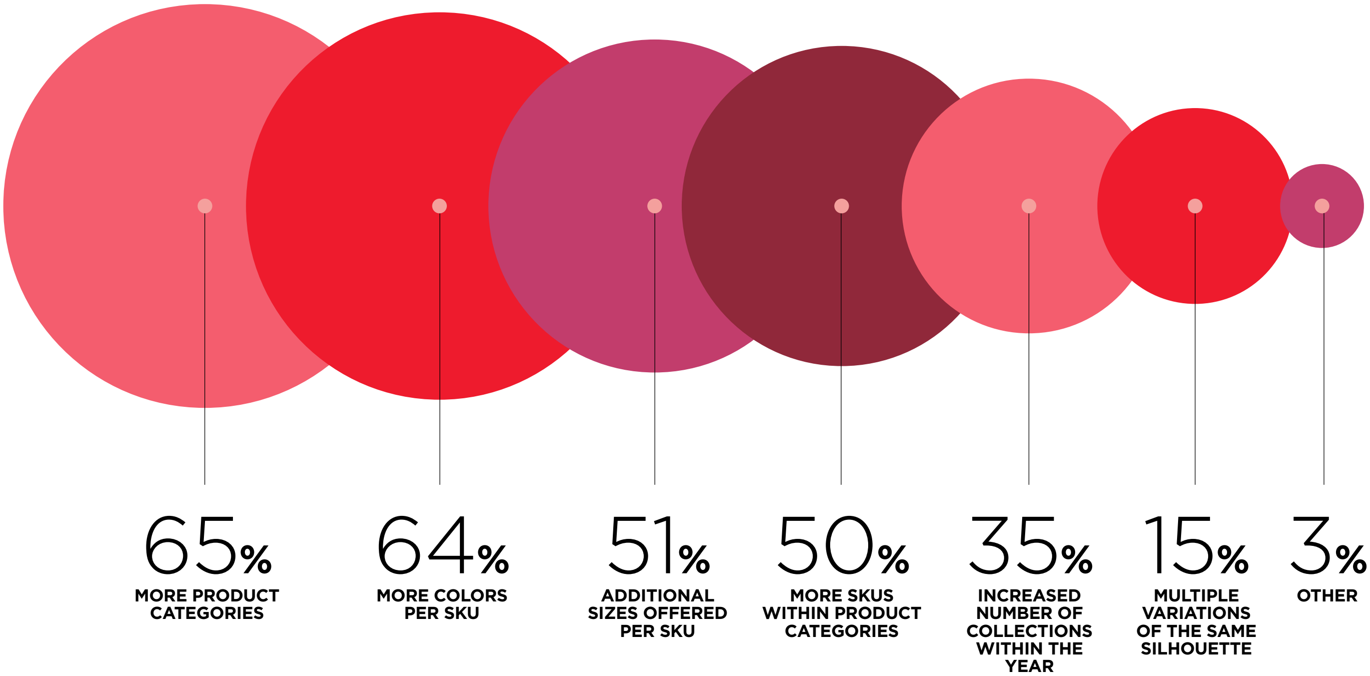
SOURCE: US Department of Commerce

SIZE/BREADTH OF PRODUCT LINE COMPARED TO 2 YEARS AGO

The 'Less is More' Approach

Though remaining in the minority, 21 percent of companies reported a reduction in inventories compared to two years ago. Though 38 percent of this resulted from trouble sourcing enough product, half was due to stocks being intentionally lowered as a hedge against a drop in demand or markdowns. Still others (43 percent)

REASON FOR INCREASE IN SIZE/BREADTH OF PRODUCT LINE



reduced inventory to create scarcity and stimulate demand.

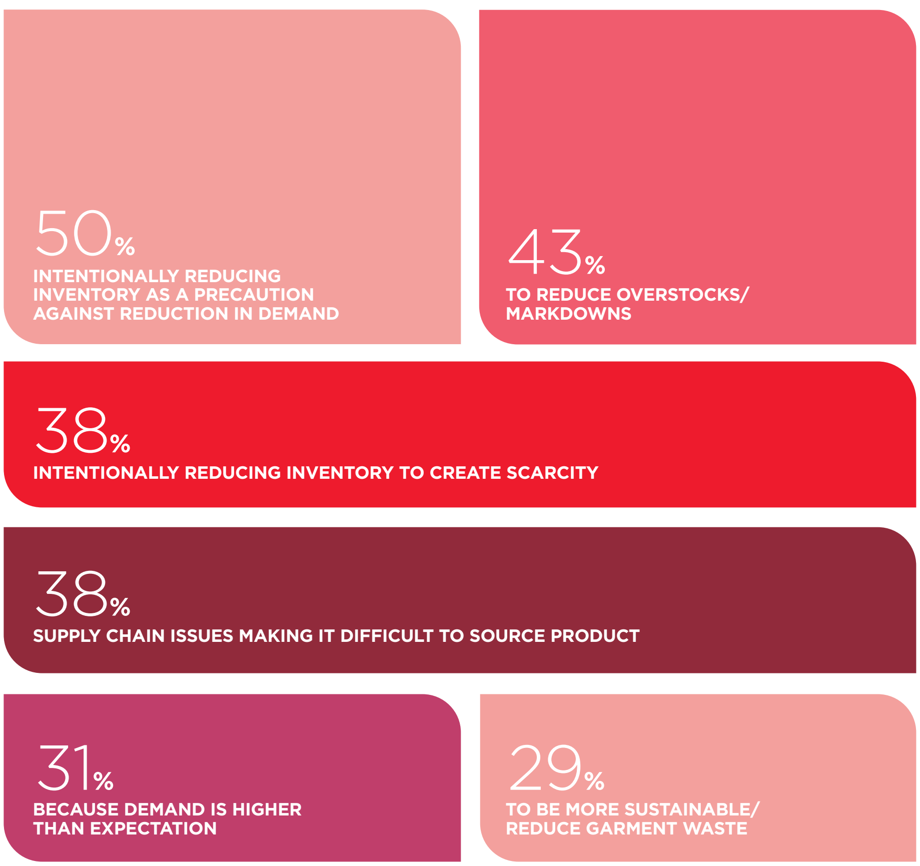
Most of the companies that tightened the size and breadth of their product assortment did it by cutting skus, but this must be done smartly by effectively collecting—and analyzing—customer data from all touchpoints.

Leading brands who are narrowing skus are focusing on what really matters to their customers and funneling investments into key categories/styles versus trying to be "everything to everybody." Broader assortments can drive up costs, dilute brand ethos, and make the customer shopping experience less efficient and enjoyable. "Big items should be even bigger if there's a pullback in inventory," said Ryan Poole, director at AlixPartners. "Companies should look harder at tertiary items to continue to fund growth here."

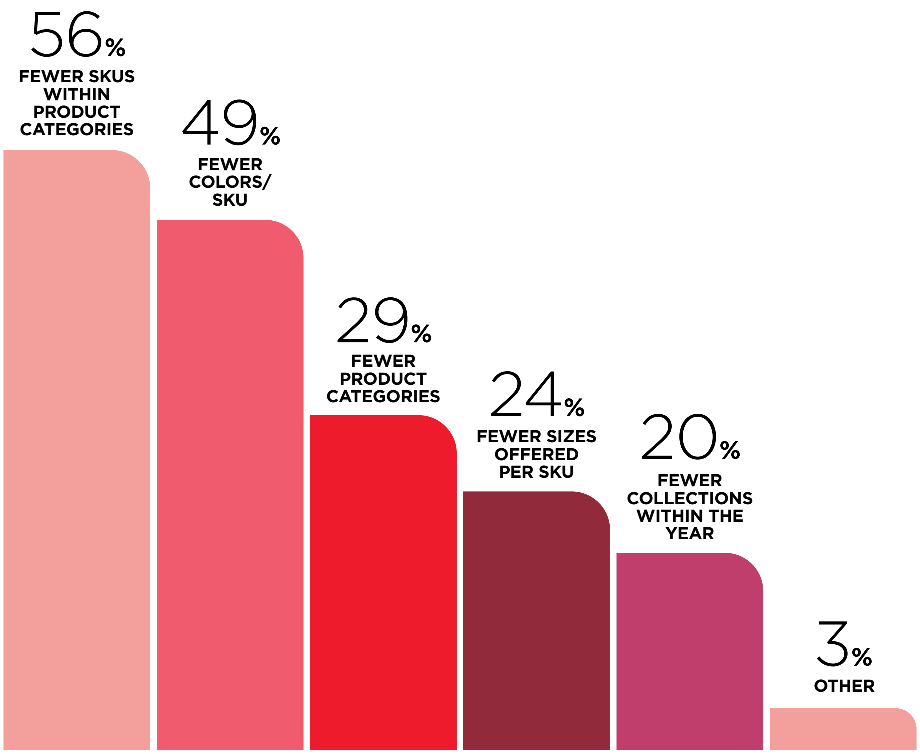
Caleres initiated an "edit to win" strategy across its brand portfolio that includes Naturalizer, Ryka, Veronica Beard and Franco Sarto. This meant tightening overall brand sku count by 10 to 15 percent "to enhance productivity and lower costs, while building on the successful in-demand products that consumers want," said CEO Diane Sullivan, adding the company is looking to cut an additional 10 percent of its skus.

HanesBrands also took steps to reduce its "bloated" inventory and make room for new product, announcing plans to cut 30

REASON FOR DECREASE IN INVENTORY



HOW COMPANIES ARE REDUCING SIZE/BREADTH OF PRODUCT LINE



percent of skus and temporarily reduce factory productions shifts to shrink inventories. This follows a 35 percent sku cut from 2021.

The Challenges of Assortment Planning

Fashion rollouts require delicate equilibrium. Offerings must give consumers what they request and what they don't know they want. They must be not too early and not too late, they must be broad enough to supply multiple options without ending up in the markdown bin, and they need to ensure the customer always has a new reason to shop.

Getting the formula right is always a challenge, and too many companies are still looking backward for future insights, using old methods to plan buys and orders instead of utilizing predictive analytics forecasting software. This is unsustainable.

"Consumer shopping patterns are changing rapidly, and this puts brands and retailers behind the 8-ball, especially when combined with development cycles that have likely grown to hedge against supply chain disruption," said Sonia Lapinsky, managing director at AlixPartners. "The key is to make the long-lead time process as efficient as possible, while building agility into process to go after emerging ideas."

"

The key is to make the long-lead process as efficient as possible, while building agility into process to go after emerging ideas."

ASK YOURSELF

Is your company implementing enough Product Assortment initiatives?

- ☐ How are you integrating external data points/views of customer/path to purchase data into your assortment decisions?
- ☐ How well do you know your core/target customers' preferences? Are they buying certain items only because they're on sale and will likely switch to a competitor if the discount is removed? Is a certain brand or product primary to their shopping intention and you'll likely lose the customer entirely if you edit it?
- ☐ How much real newness do you have in your assortment, while keeping the right balance and proximity to what your customer is already buying from you?
- ☐ Do you cover your most important sales drivers in your assortment process when planning out the next innovation? Are you making the middle and tail of the assortment the last decisions you make?
- ☐ Are your suppliers/retailers truly good partners? Do both parties have a voice and share in assortment decisions and risk? Or is it purely transactional? Are you testing new approaches to fully unlock the potential of this partnership?
- ☐ How much front-loading is built into your product flow? Are you delivering significantly more than you will sell? Don't forget that early adopters get bored easily. Flowing newness is a good idea both for cash flow and customer engagement.

How Shein Gets Assortments Right Every Time

Shein is a tech company dressed as a fashion retailer. The China-based online store with the $20 dresses has been running circles around other fast-fashion companies, and it's using Big Data to produce and assort exactly what its consumers want.

Despite no physical locations and little name recognition beyond Gen Z early on, revenue at the 10-year-old "ultra-fast fashion" giant rose an astounding 250 percent from 2019 to 2020, with $15.7 billion in estimated sales today. In 2021, Shein (pronounced "She-in") bested Amazon as the most downloaded shopping app, and in 2022 was named one of Ad Age's Hottest Brands. Even H&M and Zara's combined U.S. sales can't top Shein's receipts.

Testing, Testing 1-2-3

Shein's secret sauce to capturing trends isn't runway down, but rather customer up.

The consumer-listening champ meticulously monitors social media with AI software, then feeds discovered micro trends directly to its factories. Items are produced and tested on its own site and social channels (Shein has 25.8 million followers on Instagram and 5.2 million on TikTok, many posting #sheinhaul videos).

If real-time consumer feedback is negative, the item is cut. If an item strikes a chord and goes viral overnight, the company turbos the production. The bets are small, the winnings huge.

Controlling Agility

This is all possible because Shein controls its own production chain—including design facilities, procurement and thousands of smaller-sized factories. Turnaround times are said to be three days from design to production, with production minimums of under 100, much smaller than what other brands must contend with. Laser-focused production is also Shein's counterargument to sustainability skepticism, citing it produces only what data confirms will sell, eliminating the excess inventory and rampant markdowns that plague its competitors.

Such agility is what enables Shein to have launched 150,000 new items in 2020 (10 times more than Zara), and an average of 2,000 new products daily in March 2021 alone, according to Harvard Business Review. Shein consumers who check the app daily receive points that can be converted to coupons, with purchases triggering a steady stream of new product (that consumers must wait 7-15 days for), and new data for the company.

And while a "consumer profile" might seem like an oxymoron to a global company that sells in over 150 countries, Shein has it down to a (data) science.

$15.7 BILLION
in estimated sales today

(250% increase from 2019 to 2020)

Shein has a highly engaged customer on social media platforms like Instagram and TikTok.

PARADIGM SHIFT

03 Productivity Mindset

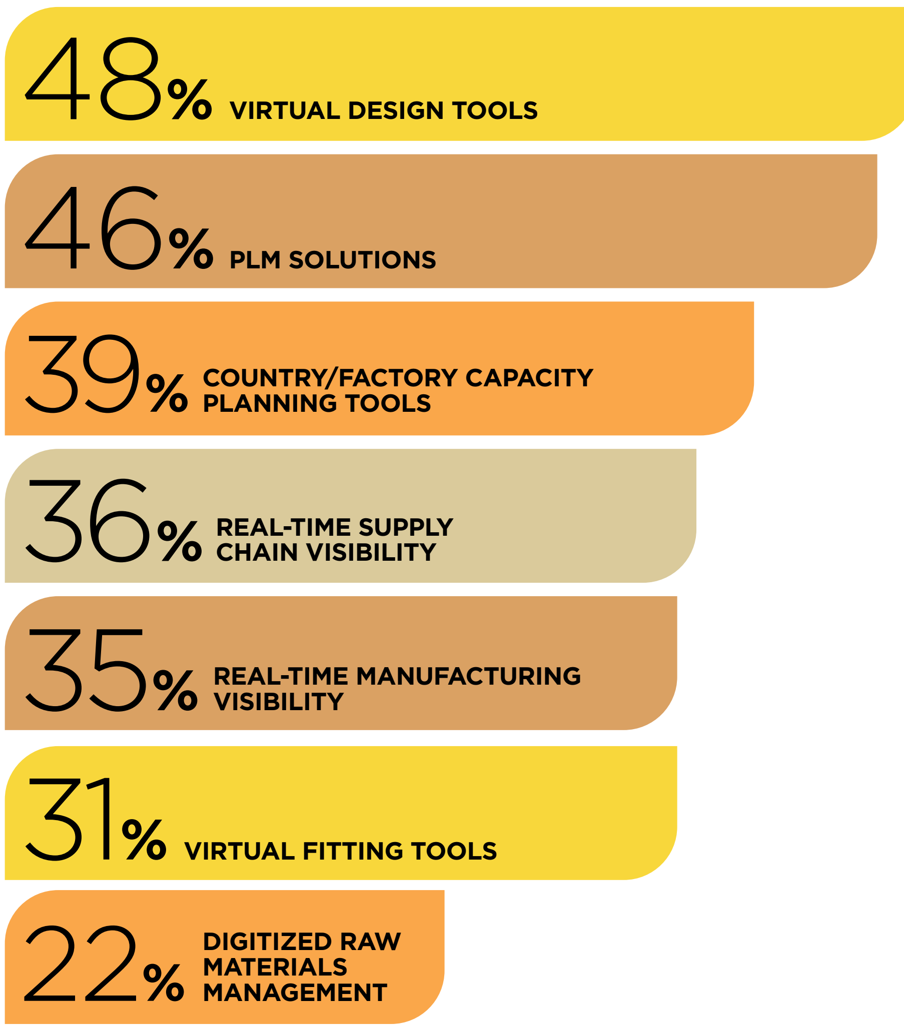
Consumer engagement and product assortment planning are designed to tap into shoppers' wants, but actually delivering on these demands comes down to production and logistics.

In recent decades, apparel sourcing strategies have centered largely on cost cutting. But this focus prevents companies from exploring opportunities that, though perhaps costlier up front, will benefit everyone in the value chain in the longer run.

Companies should be reexamining their cost structure to protect margin and fund product and service innovations that build customer loyalty. For the initiatives to be enduring, companies need to adopt a productivity improvement mindset.

For fashion supply chains to reach optimal efficiency, they must be willing to embrace a new way of working: one that is collaborative, data-driven and digitally connected. Supplier relationships must evolve from transactional, imbalanced deals to strategic partnerships. And logistics, both upstream and downstream, must be remodeled for today's digital-first customer experience.

COLLABORATION/PRODUCTION/TECHNOLOGY TOOLS BEING USED TO IMPROVE EFFICIENCY



Digitizing Development

We're living in a digital age, but fashion supply chains are still playing catch up when it comes to upstream technology. The adoption rate for major collaboration and production tools among survey respondents was, sadly, less than 50 percent.

Product Life Cycle Management, or PLM, which covers all aspects of product development, establishing a single centralized source of data and design plans for all parties, is used by fewer than half of the companies. This means most are still manually managing the product pipeline with tools like Excel. This leads not only to more work and delayed decision making, but also to inevitable data disparities and errors.

Clear communication is crucial between designers and factories. "There are a lot of components in our tech packs," explained Julia Handleman, vice president of design and product development at shapewear brand Honeylove, in a Centric Software case study. "Once you start to introduce bonding or different, more technical features, you're packing so much more information in there, so the tech packs have to be really clear. With Excel, you can have accidental miscommunication and that makes the timelines longer."

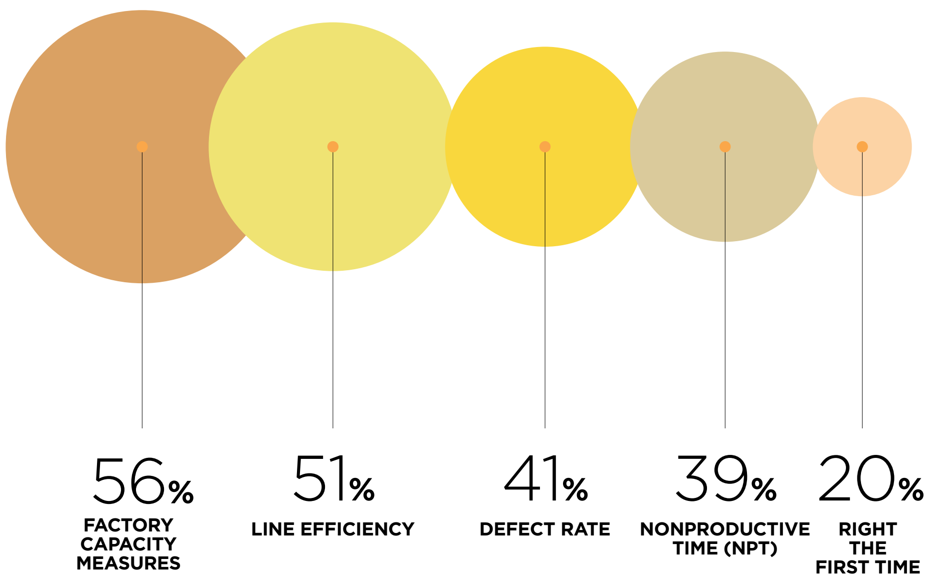
For global teams, technology helps keep everyone on the same page. "As we expanded our sourcing regions and took on developers and material designers underneath us, we realized miscommunications or mistakes would not translate from the development team to the factories," said Courtney Simpson, director of product development at Pact, in a Backbone PLM case study.

There are other opportunities to streamline product development. Virtual design tools (48 percent) are more commonly used than virtual fitting tools (31 percent), suggesting that designers are creating initial digital prototypes and then constructing physical samples for sizing. But by moving more sample activity to the virtual environment, companies can not only speed time to market but also reduce the environmental impact of product development.

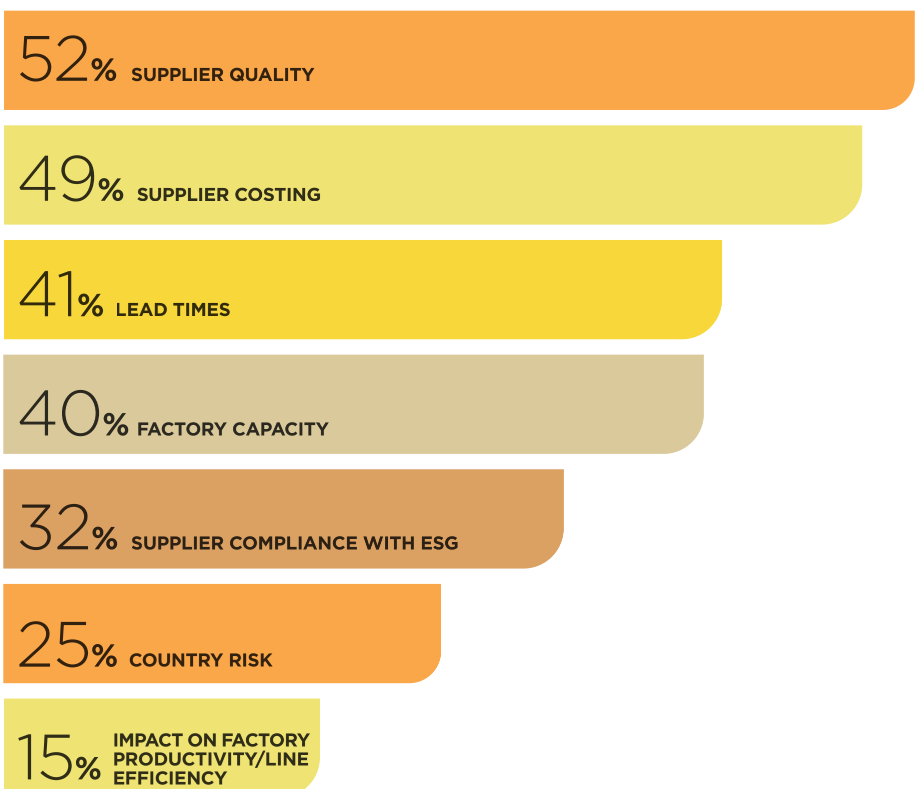
Under Armour has grown its use of virtual tools for designing and sampling. "Now the tools and systems are a lot more powerful, so it's a lot more photorealistic," said Shayegi.

Another area where adoption lags behind is in collaboration technology that provides visibility. Almost two-thirds of brands and retailers lack real-time supply chain visibility tools (64 percent) and real-time manufacturing visibility (65 percent).

KEY PRODUCTION METRICS SHARED BY FACTORIES



KEY INFORMATION (FACTORS) USED TO MAKE PRODUCT ALLOCATION DECISIONS



Planning is a crucial piece of improving efficiency, but the majority of brand and retail respondents are not leveraging technology for these activities. Just 39 percent of companies are using country or factory capacity planning tools, which compare production demand with available capacity at particular locations. Some of these platforms can even model scenarios using analytics. Also hindering planning is the fact that only 21 percent are leveraging digitized raw material management to know what inputs they need, and to see what materials exist in their supply chain and where.

Decision-Making: Data Insights over Gut Instincts

Many brands and retailers lack access to key production metrics from their manufacturing partners. Almost half (44 percent) do not have insight into factory capacity, and 49 percent are not provided with line efficiency metrics. Additionally, 59 percent are missing data on the defect rate at suppliers, 61 percent lack insight into nonproductive time, and 73 percent are unaware of factories' Right the First Time KPIs.

Between the lack of planning tools and dearth of detailed factory-level data, companies are often making sourcing decisions based on gut rather than on current, reliable information. How can you drive improvements without adequate visibility?

Sourcing allocations have traditionally been decided on cost and quality, and these aspects still come out on top, with about half of respondents indicating quality (52 percent) and costing (49 percent) as key factors in product allocation decisions. Lead times and capacity were also popular, each selected by about four in 10 executives.

Even in today's disruptive environment, fewer companies say they frequently weigh factors like ESG compliance (32 percent) and country risk (25 percent). Health crises, extreme weather and geopolitical upheaval all have the potential to upend production—or worse, harm workers. And overlooking these risks could lead to trouble. For example, as Vietnam battled COVID-19 outbreaks in 2021, factory closures impacted the supply funnel for multiple footwear brands, suddenly reducing their inventory.

Logistics Lessons

No matter how near or far goods are produced, they have to be transported to the end market. And logistics have generally become costlier and more complex to manage due to disruptions ranging from capacity issues to port strikes and factory closures during outbreaks. To navigate delays, some brands turned more towards air freight to expedite transportation of goods.

At Under Armour, air freight has been used strategically. "We have increased air freight the last two years, but it's very targeted for specific selling events: anything through our go-to-market program, anything that's critical to complete a full set launch," Jones said.

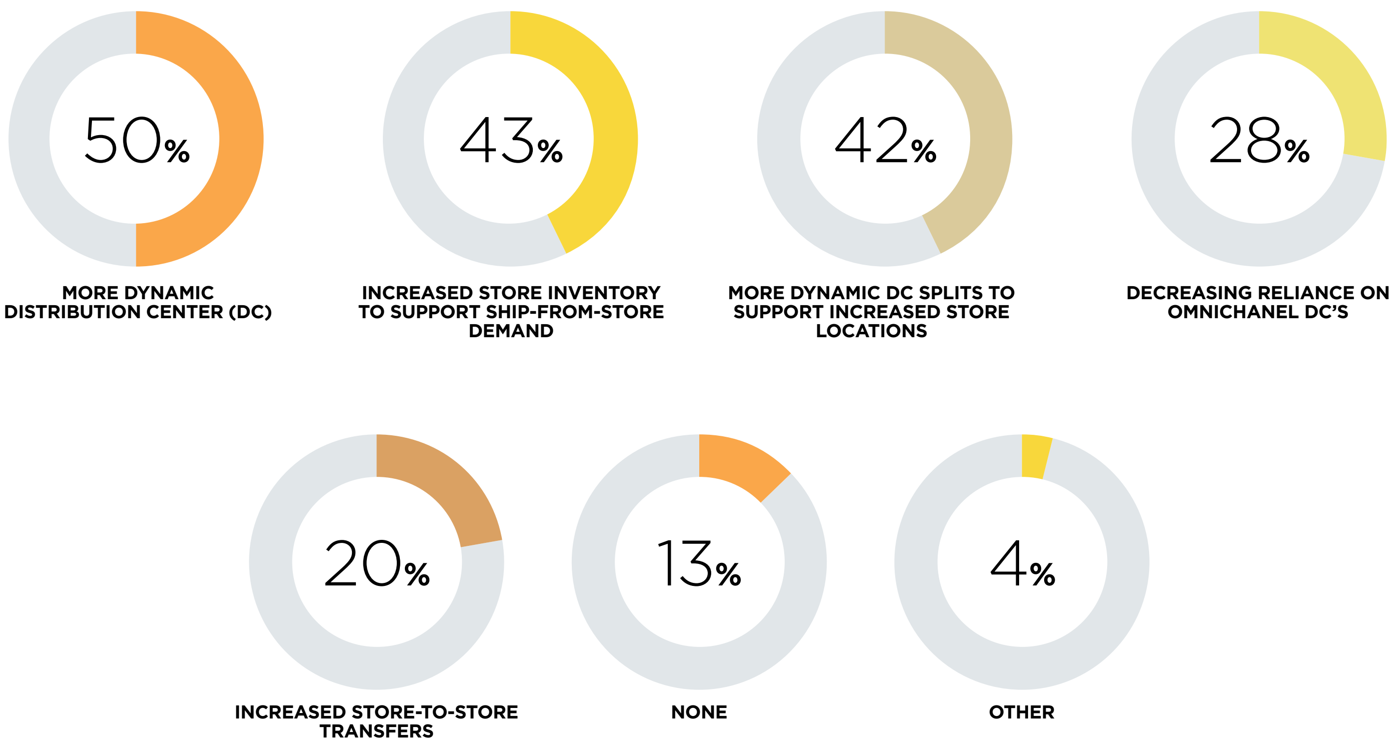
Under Armour is working towards a "control tower principle" in supply chain visibility, in part to meet consumer demands for more transparency. Jones described this as "rudimentary," but said the company has adopted technology like purchase order management that is connected to a transport management system, enabling teams to see when products reach particular points in their journey, and creating nimbler operations.

"We've gone from a very systemic-driven supply chain with lead times and milestones to 'Okay, we have a situation in a particular region. By working together across the enterprise, how can we now drive agility through that inventory and move inventory to the right location?'" Jones explained.

Fulfilling on Fulfillment

Fulfillment in particular has been reshaped by the COVID-19 crisis. Temporary store closures moved more buying to online, accelerating e-commerce and creating new distribution requirements. To facilitate, 50 percent of survey respondents have established more dynamic fulfillment center splits to support an expanded supply chain

FULFILLMENT/DISTRIBUTION CHANGES BEING MADE



network. Forty-two percent are also making dynamic DC splits due to growth in store locations.

Another popular tactic is ramping up store inventory to meet rising demand for ship from store, mentioned by 43 percent of respondents. By leveraging brick-and-mortar locations, which are often located in close proximity to shoppers' homes, companies can cut down on delivery times.

Having just the right amount of inventory where you need it, when you need it, is easier said than done, but more possible than ever with the right mindset and using today's many available tools.

In recent years, Target has been beefing up its store fulfillment capabilities. Last year, more than 95 percent of its physical and online sales were fulfilled by stores. The retailer has been building sortation centers that receive goods that were picked and packed in stores, and sorting them by address and carrier for local delivery.

"Our unique stores-as-hubs operating model offers unmatched flexibility in how we can fulfill guest demand," Brian C. Cornell, chairman of the board and CEO of Target Corporation, said on the company's second quarter earnings call. "Whether a guest wants to make a conventional in-store shopping trip, place a drive-up order, arrange a Shipt delivery or simply have a box delivered to their front door, stores can fulfill every one of those needs quickly and reliably, allowing our guests to choose what works best for them in that moment."

To make ship from store work, omnichannel retailers need robust digital tools with inventory visibility to know what they have and where it is. But often, this is lacking. Without visibility into what merchandise sits where, an order might be flagged for fulfillment at a store that is out of stock. This leads to inefficiencies, including the time it takes associates to find goods that are not present, and the delay in rerouting order fulfillment.

Courtesy of retailers like Amazon, consumers now expect all products to arrive quickly (and often free of charge). Merchants are responding with supply chain efficiency investments designed to keep up with shoppers' demands.

Macy's is spending $584 million on a 1.4 million-square-foot fulfillment facility in North Carolina, set to open in 2024. This distribution center will cover almost a third of the company's digital supply chain capacity and will feature advanced automation and technology for sorting and picking to improve efficiency.

Some retailers are also streamlining fulfillment through drop shipping, letting vendors own the delivery process to cut out intermediate transportation steps. For instance, Under Armour is looking to grow direct shipping with its wholesale accounts to drive shorter lead times. As it has shifted more to direct-to-consumer fulfillment, one thing that Jones said changed is focusing on availability. "Through things like RFID, having accurate inventory, accurate availability, that will make a difference from a sale or not in the store or on the web," he said. "We're really looking at where do we best place inventory so that we have the best experience for the consumer."

The decision on how to fulfill, to get products to customers at the expected time and at the right cost, should be made carefully. Understanding all the elements of fulfillment costs, not just shipping, is crucial. In some cases, store fulfillment makes more sense, in others it's much more costly than

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Disruptions are the new normal, things that come out of the blue are the new normal. So how do we build our supply chains to be more resilient and able to respond?"

shipping from a warehouse or drop shipping from vendors.

Country-of-Origin Strategies

In recent decades, the apparel industry has relied on far-flung sourcing destinations. Globalization of apparel production was the result of a multi-decade chase for cheap labor, fueled by trade-friendly policies and high investments in global logistics infrastructure. Although globalized production remains the norm, the makeup of the apparel industry's sourcing map is evolving to limit exposure to potential production delays and disruptions.

"We are always in our short-, medium- and long-term strategy shaping our vendor portfolio to manage risk and ensure that we are diversified globally," said an activewear brand's VP of global sourcing. "It's an ever-evolving, changing process."

China has long been number one in apparel production. It still led the pack in U.S. apparel imports in dollars in 2021, with a 24 percent share, per OTEXA data, but this was down from a 30 percent share in 2019 and a 39 percent share in 2015. At the same time, the share of U.S. apparel imports from second and third place Vietnam and Bangladesh have grown.

There are several reasons why companies have reduced their reliance on China in recent years. Increased tariffs and more protectionist trade policies started the shift away from the country, after which the pandemic and resulting factory closures highlighted the risk of having all their eggs in one basket.

Before the pandemic, Under Armour's Jones noted that it was previously unheard of for a whole country to lock down. Now, Under Armour is identifying where it might be depending on a single country or vendor and acting to reduce risk. For instance, this might mean leveraging a factory partners' multi-country presence to strengthen diversification.

"Disruptions are the new normal, things that come out of the blue are the new normal," said Shayegi, senior vice president for global product supply at Under Armour. "So how do we build our supply chains to be more resilient and able to respond?"

Geographic diversification has become a popular strategy, as has moving the needle closer to the end consumer to create greater efficiencies.

Apparel imports to the U.S. from countries within the Central American Free Trade Agreement (CAFTA) rose 23 percent year-over-year in the 12 months ended July 2022. In the same period, United States–Mexico–Canada Agreement (USMCA) related imports of apparel grew 22 percent and goods from the Caribbean Basin Initiative (CBI) were up 20 percent. All three regions saw their share of U.S. apparel imports grow in the 12-month period.

Under Armour's production is spread across Asia, Latin America and the Middle East, and the company tries to manufacture the majority of products near to the end market. The active brand is working to build up its Tier 2—or material—infrastructure in these regions to shorten lead times.

While the brand has nearshored some of its apparel production, footwear has been more of a challenge. Under Armour has explored some localized footwear manufacturing, but the majority of its shoe production remains in Asia since it hasn't found factories outside of Asia with the capacity to produce at the scale needed. Additionally, the capabilities and Tier 2 infrastructure around footwear components are not readily available in other markets, meaning inputs would still have to come from Asia.

Also important is the industry's reliance on key production markets for raw materials. For instance, cotton-centric manufacturing is accessible in the Western Hemisphere, but synthetic production is harder to come by in the Americas. For now, focus is diversifying in Asia, with Western Hemisphere expansion coming later. "We are very much trying to lean into vertical opportunities and close-to-needle opportunities," said the VP of global sourcing for an activewear brand. "The industry is heavily rooted in raw materials out of Taiwan and China, so it starts there, and we've got efforts underway to help balance and diversify our raw materials."

ASK YOURSELF

Is your company implementing enough productivity improvement initiatives?

- [ ] To what extent is your company embracing digital technologies and tools to simplify processes and enhance collaboration? Do you have a standardized process and approach to rolling out new technologies so that they are adopted by users?
- [ ] Are you working with your key suppliers as strategic partners, sharing data, jointly planning capacity, and leveraging their capabilities to co-produce product?
- [ ] Is your operating model agile enough to be responsive to the never-ending stream of disruption the industry is facing?
- [ ] Are you building your country sourcing plan to withstand continued disruption? Do you have a mitigation strategy in case a country/supplier cannot deliver product for an extended period of time?
- [ ] Are you optimizing inbound and outbound logistics?
- [ ] Do you have visibility into where inventory sits to ensure product gets to the consumer as quickly as expected?

How American Eagle Outfitters is Streamlining Shipping

What is the solution for moving product in a more efficient way? According to American Eagle Outfitters EVP and chief supply chain officer Shekar Natarajan, the answer is data analytics and pre-competitive collaboration.

Predictive Modeling

American Eagle has invested in data science to build predictive models that use factors such as port delays and country of origin to estimate when containers will arrive in the country to upwards of a 95 percent accuracy. "We built a lot of pattern recognition software internally as microservices, which actually bolt onto existing tools that we have. This helps us better predict the arrival times, the schedules and the ability to manage the flow into different legs of the supply chain," said Natarajan. "That has been our secret success."

On the inbound side, the retailer previously used either air or ocean transportation. "Innovation is not new to American Eagle Outfitters and is part of company's value system," Natarajan said. More recently, it has adopted multimodal shipping, combining ocean and air to "find the right balance of speed and cost based on the type of merchandise that we have," per Natarajan. Compared to the 32 days it would take for a traditional ocean freight model, goods can now arrive between four and 16 days depending on the mode used. It is, however, 30 to 40 percent more expensive than ocean alone. With rising freight costs for container shipping, what didn't "make sense" before became "more interesting."

Decentralizing Domestic Fulfillment

Just as multimodal has sped up international transportation, a decentralized inventory management move has made the brand's domestic fulfillment faster. American Eagle went from having just two distribution centers in the United States to operating seven locations—and eventually it will have nine DCs. The old "stack it high and let it fly" model meant that goods often had to travel over 1,000 miles from the middle of the country.

"Now, because we have a decentralized inventory pool model, we are able to locate both the store inventory and e-commerce fulfillment inventory closer together. As the demand is read, it's fulfilled and it is actually on the way to the store next day," said Natarajan.

Store replenishment time is down 80 percent, allowing American Eagle to greatly reduce the weeks of backstock it used to hold in stores. Now, the only inventory carried is for the sales floor. Shipping costs for e-commerce fulfillment have also been reduced.

20-30%
increase in e-commerce orders

17%
decrease in number of packages

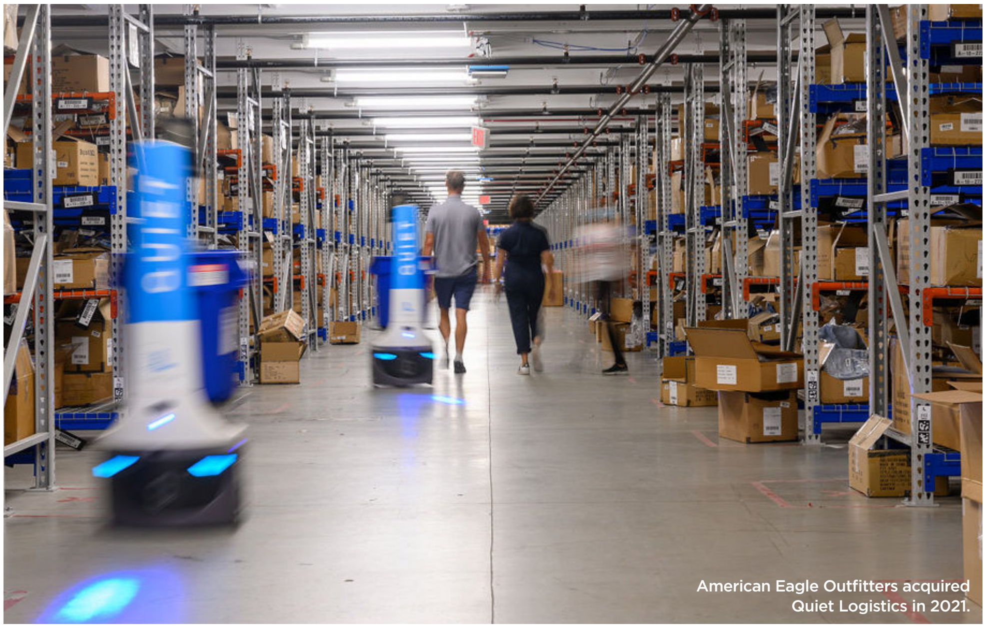
Measuring Success

Among the logistics KPIs that AEO tracks is its shipments per order ratio, which has fallen from around 1.4 to 1.15, meaning that orders are more consolidated. At the same time that e-commerce orders rose around 20 to 30 percent, the number of packages dropped by 17 percent. The company also pays attention to cancellation rate and click to delivery, focusing on the moment the package reaches the end consumer.

As American Eagle has adopted a decentralized model, it began monitoring the percent of shipments handled by regional versus national carriers. Whereas before, 80 percent went through a national carrier, today that stat is less than 17 percent, and the regionalization figure is 62 percent. Natarajan noted this is important since it indicates that a number of links in the chain ran smoothly, including allocating the inventory correctly at first.

Looking beyond AEO's own operations, Natarajan noted that as e-commerce continues to grow, labor won't be able to keep up, and costs for everything from fuel to warehouse space will increase. To battle rising prices and other challenges, he suggested the industry must be willing to share. American Eagle has entered into logistics operations with recent acquisitions of third-party fulfillment firm Quiet Logistics and parcel shipping solution AirTerra.

"We intended to solve or create an innovation pathway for American Eagle. Along the journey, we found that basically, this is a chronic industry problem," he said. "Now as we were solving the industry problem, it makes the world a better place, which we are very proud of. And what we realized is American Eagle and the innovation of American Eagle is not sustainable unless and until we change the things around us in the world."



American Eagle Outfitters acquired Quiet Logistics in 2021.

Photograph courtesy of American Eagle Outfitters

PARADIGM SHIFT

04 Sustainability and Social Stewardship (ESG)

Ask five people what it means to be sustainable and socially conscious, and you'll probably get five different answers, but apparel companies are finally starting to define and prioritize these issues.

Seventy-eight percent of survey respondents said they have specific, measurable sustainability objectives, indicating that companies are making pledges to do their part in helping the planet, with most respondents aiming to hit those goals within four to five years.

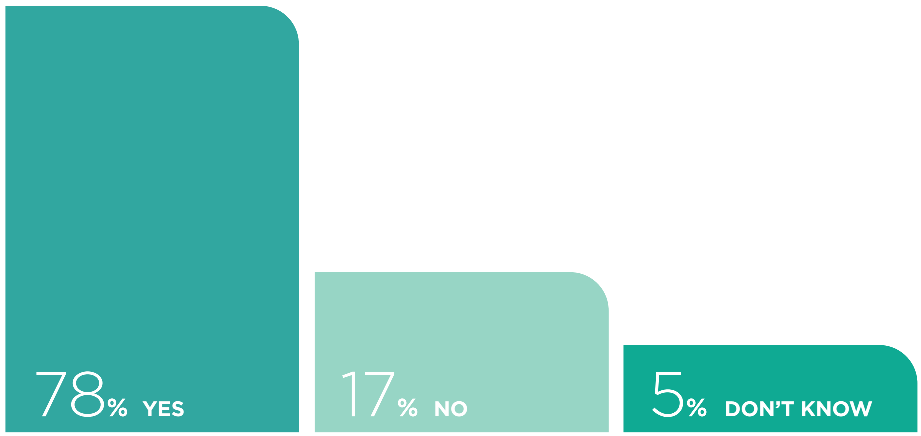
"Sustainability has been a buzzword and conference agenda item for more than a decade, but it's totally apparent that retailers have no choice but to embrace sustainability now," said Matt Clark, managing director at AlixPartners. "The biggest barrier to change has been access to data, metrics and transparency around sustainability initiatives, which can often answer the question of cost versus benefits. Retailers need the right tools and measures to embed new ways of working and ensure sustainability becomes 'business as usual' across their value chains."

Finding ways to reduce carbon footprint is increasingly top of mind for companies, with varied approaches. Most reported using more recycled/sustainable raw materials and packaging, underscoring how brands are looking at both upstream and downstream ways to tread more lightly.

Even so, with only 56 percent of companies using more recycled/sustainable raw materials and only 46 percent using sustainable packaging, there is a long way to go before the industry fully integrates these critical elements into its way of working. Ditto with moving production closer to markets, which ranked lowest, but has a promising start at almost a third of respondents.

Companies that persist in sticking their heads in the shifting sands could find themselves at a serious competitive disadvantage. "Archaic processes have a massive impact on sustainability, and

DOES YOUR COMPANY HAVE SPECIFIC MEASURABLE SUSTAINABILITY OBJECTIVES?



WHAT IS YOUR COMPANY DOING TO REDUCE YOUR CARBON FOOTPRINT?

today's consumers care about this," said AlixPartners' Lapinsky. "We no longer have the luxury of time or ignorance to fly hundreds of thousands of samples and even production volumes all over the world. Consumers will notice and respond with their dollars."

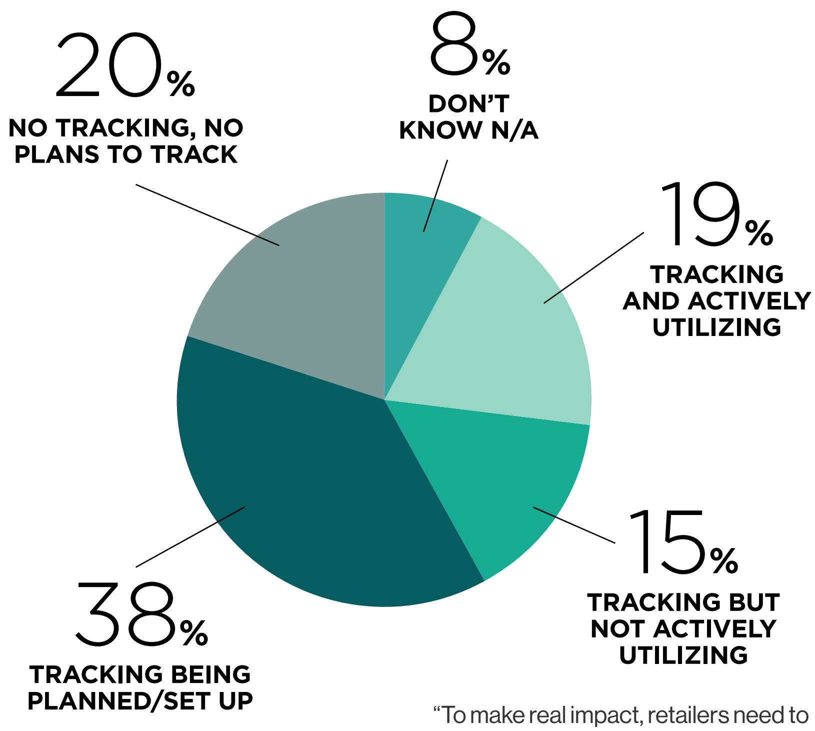
Tracking and Reporting Progress

The problem is companies seem to spend more time talking about tracking their carbon footprint than actually doing it. Almost 80 percent of companies are making public pledges towards sustainability goals, and only 19 percent are actually tracking and using the data to make changes. More than half (53 percent) are either planning on tracking, or tracking but not yet using the data.

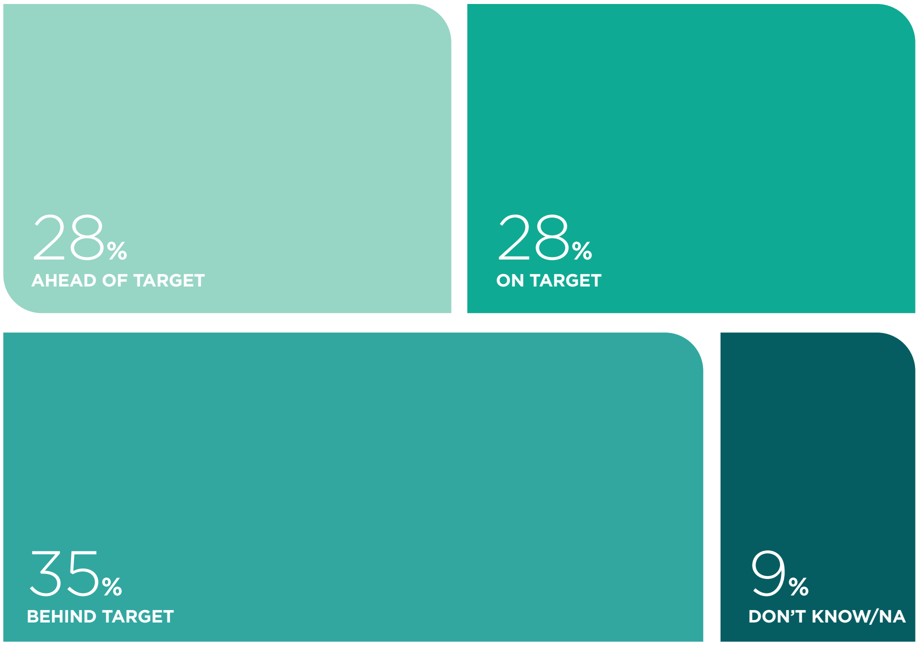
This doesn't prevent them from feeling good about what they are doing, however. More than half (56 percent) of the companies surveyed said they are on or ahead of target (although how would they know if they don't measure it?), and 35 percent are behind their stated targets.

Clearly, the next step in the industry's sustainability journey is to build tracking and reporting of their sustainability achievements. And this will require making sustainability a core piece of their business model.

CARBON FOOTPRINT TRACKING/ MEASURING ACTIVITY



COMPANY PROGRESS RELATIVE TO SUSTAINABILITY TARGET



"To make real impact, retailers need to embed sustainability topics in their operating models and in daily decisions," said AlixPartners' Wu. "When it comes to day-to-day decision making, retailers must consider the implications of their sustainability goals not just on long-term strategic planning but also on the yearly budgeting process. Sustainability doesn't need to come at a cost but may require a shift in priorities to allow companies to meet their carbon reduction goals."

The slow progress in this area stems from both a lack of standards and a dearth of well-understood and tested solutions. Though most companies have baselines and plans in place to improve their directly controlled Scope 1 and 2 emissions, the biggest challenge centers around effectively managing carbon reduction in their supply chain, or what is typically categorized as upstream Scope 3 emissions, which represents the majority of carbon emissions in the apparel supply chain.

Solutions have begun to emerge to help the industry decarbonize. For example, the AlixPartners Should-Carbon Methodology helps companies cut through the task of measuring data and developing a plan that makes it easier to measure, map and reduce supplier carbon. Through a system of collaboration and transparency, brands can build a roadmap with a lasting time horizon.

Sustainable Offerings...for All

Many in the fashion industry maintain that consumers aren't willing to pay more for sustainability. However, sustainability can be a cost reduction strategy, whether through cutting materials usage, lowering product cost, reducing packaging, or reaping commissions from letting customers resell your product.

Although less than 60 percent of survey respondents aren't prioritizing sustainable offerings as key to their assortment strategies, suggesting a misalignment with what customers are looking for, some very large players are taking some big steps.

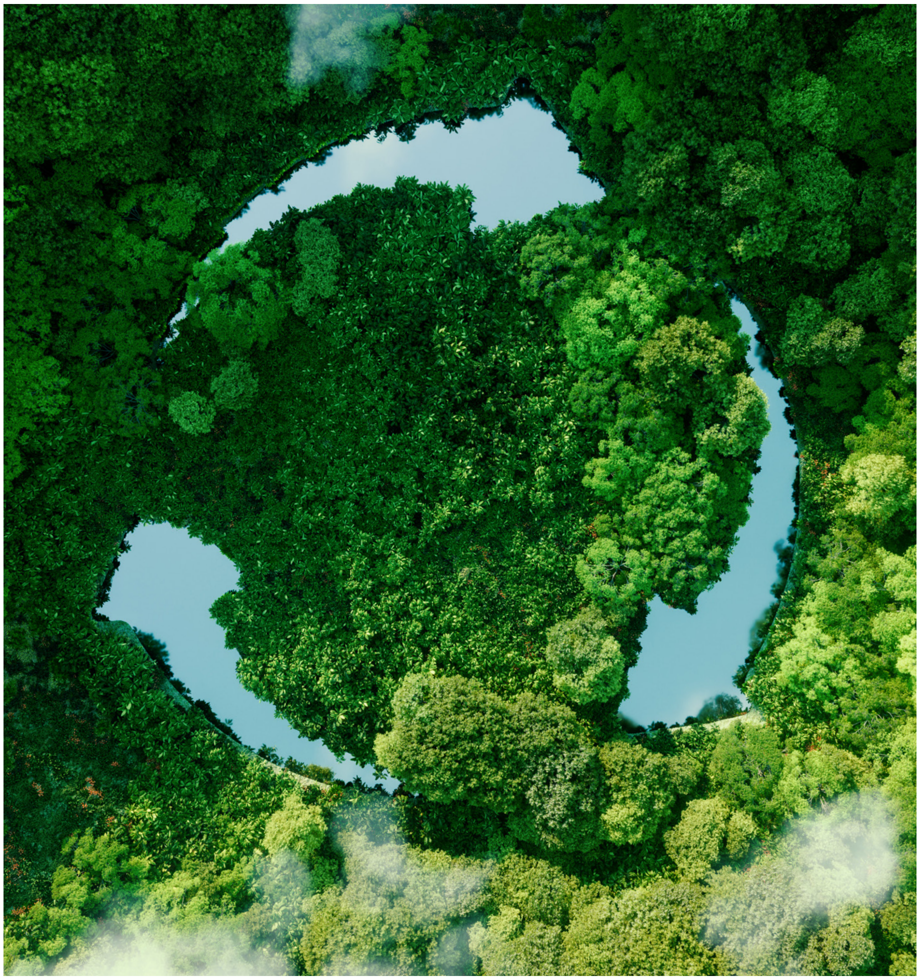
Gelmart debuted its first-ever bra cup made from sugarcane-based materials, rolling out the aptly named Kindly at Walmart at a very accessible price point of $14.

"One of our biggest objectives in developing the Kindly brand was to make sustainability accessible, and not just aspirational," said Gelmart's Nasser, adding that consumers are responding. "We've heard our customers say, 'Kindly is proving that sustainable products don't have to be expensive.' For sustainable practices to really be sustainable, the impact needs to occur at the mass level. The mass market consumer is certainly as concerned, and although more price conscious, is willing to pay more. Up to a point."

Irish retailer Primark has also made sustainability a key component. In 2021 the company launched its Primark Cares sustainability commitments, after a decade of preparation. Tracking its progress, the company notes that: 39 percent of all Primark clothes are now made from recycled or more sustainable materials, a 14 percent increase in just six months; one-third of the cotton used in Primark clothes is now recycled, organic or sourced from the Primark Sustainable Cotton Program, up from 27 percent at launch; and the company has trained approximately 150,000 farmers in more sustainable farming practices.

"Our Primark Cares commitments are far-reaching and require transformational changes within our own business and in how we work with our suppliers," said Lynne Walker, director of Primark Cares. "We have been working hard since launch to put these changes in place."

The program supports the Primark commitment that 100 percent of the cotton in Primark's clothes will be sourced from the Sustainable Cotton Program, organic or recycled by 2027, with commitment to make all its products from recycled fibers or more sustainably sourced materials by 2030.



Sustainable Resale and Rental

Resale and rental have become a buzzy sector of retail, keeping used garments out of landfill longer and giving participating brands and retailers a "feel good" element to their operation. They are also part of a growing circular economy that will continue to scale and should absolutely be on the radar as part of a company's sustainability initiatives.

Though still a relatively small portion of the industry, with only 13 percent of respondents saying that either rental or resale is a very important part of their business, these sectors are growing, especially with third-party resellers facilitating the process.

According to ThredUp's 2022 Resale Report, 84 percent of retail executives say they understand the resale landscape more now than they did 3 years ago, and getting stakeholder buy-in is less of a roadblock than it was in 2020.

"When we first launched Resale as a Service (RaaS) in 2018, it was difficult to get brands and retailers to talk to us," said Anthony Marino, president of ThredUp. "Fast forward to today, and we're speaking with hundreds of the world's leading brands who are coming to us to help them figure out how to enter the resale ecosystem in a way that works for their brand and their customer."

Dagne Dover, which has had "great success" with its Almost Vintage resale platform, jumped into the mix when it saw its customers were already reselling their Dagne Dover bags through informal channels like Facebook groups.

"We thought it would be great to be able to own that customer experience through our own resale platform," said co-founder Deepa Gandhi, adding that resale's ability to add a "second life" also hits the brand ethos of being eco-friendly. "Lastly, we view resale as a great entry point for new customers whether they are looking for a low-risk way to try out the brand or looking for a limited-edition style or colorway that is now sold out."

How Selfridges' Project Earth Commits to Materials, Models and Mindsets

Selfridges isn't shy about its mission to change how consumers shop.

Photograph courtesy of Selfridges

Luxury retailer Selfridges has always been a climate and social activist, banning fur in 2005, launching Project Ocean in 2011, converting to 100 percent renewable electricity in stores in 2017, removing all exotic animal skins and launching resale in 2020, with many other milestones in between. Two years ago, the retailer launched Project Earth, a massive initiative aiming to transform how its consumers shop, and last year, after signing the Climate Pledge, the retailer doubled down on its 2050 Net Zero target and pushed that deadline up by 10 years to 2040.

Reinventing Retail

"In creating our store of tomorrow we must commit to a fundamental shift in the way that we do business and use the Selfridges platform for change," said Andrew Keith, Selfridges managing director. "Our vision is to reinvent retail and create a more sustainable future, and Project Earth and our new targets underpin this."

Through specific Project Earth commitments, Selfridges is addressing Materials (re-evaluating what's in its products), Models (rolling out new retail models such as repair and resale) and Mindsets (inspiring shifts by engaging with teams, partners and customers).

Two years in, the numbers are reassuring. Selfridges has increased sales of "pre-loved" items through Reselfridges by 240 percent, facilitated more than 28,000 repairs, rented out more than 2,000 items, and sold more than 8,000 refills.

Committing that 45 percent of transactions across online and brick and mortar will come from circular products and services by 2030, with the rest meeting strict environmental and ethical standards by 2025, the company began tracking material to establish a baseline. Selfridges also added two new synthetic material commitments: 50 percent of polyester used across the business and in products sold will come from certified recycled sources by 2025, and 50 percent of nylon used across the business and in the products sold will come from certified recycled sources by 2027.

240%

INCREASED SALES OF "PRE-LOVED" ITEMS

28,000+

REPAIRS FACILITATED

2,000+

ITEMS RENTED

8,000+

REFILLS SOLD

Helping Consumers Make a Difference

To measure and improve mindsets, Selfridges conducted research and found that half of its customers want to make more sustainable choices but don't know how. To help, Selfridges dedicated Project Earth appointments to teach consumers to re-style existing wardrobe pieces, explore earth-conscious beauty, and learn about sustainable denim.

"The scale of our ambitions cannot be underestimated but we are inspired by what lies ahead and how we bring this to life for our customers," said Keith. "We don't have all the answers, but we are committed to finding solutions, through a continued imaginative approach to retail innovation."

Evaluating Social Conditions

In the alphabet soup of industry acronyms, ESG (environmental, social and corporate governance) has catapulted to a top concern, with the "S" (as in social responsibility) increasing in importance. Many companies have stepped up efforts with impact teams, vendor manuals, third-party audits and lists of "non-negotiable" behavior.

Twenty-seven percent of those surveyed reported changing at least one supplier in the past two years because of ESG issues. A Mango spokesperson told Sourcing Journal that it is working to reduce and eventually phase out production in Myanmar, where, now under military control, worker rights are suffering. And both Benetton Group and C&A have said they will not place any new orders in the nation.

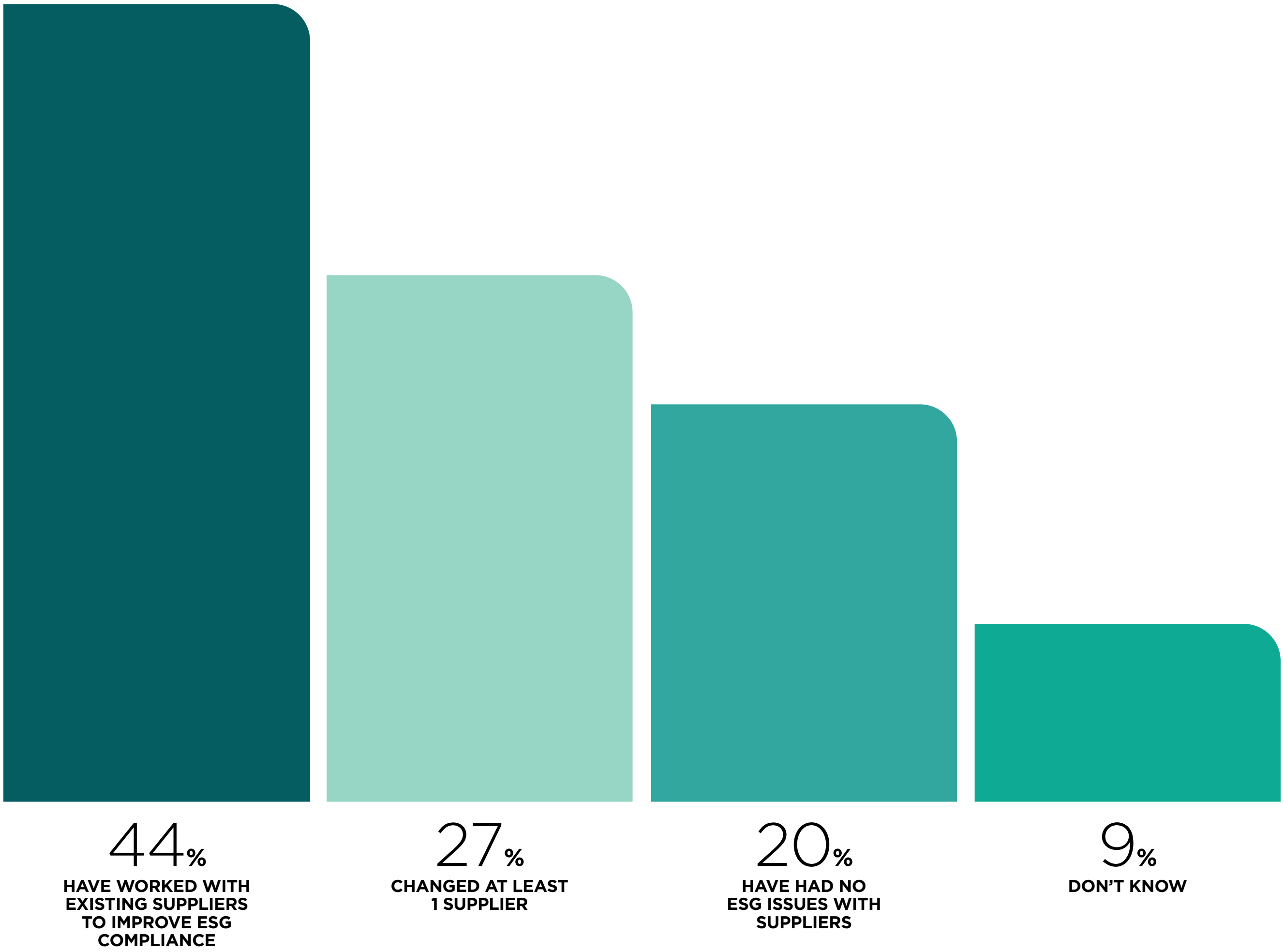
Beyond considering social welfare in allocation decisions, playing an active role in driving positive conditions supports the workers in the value chain. In a move to protect worker safety, Nike has joined forces with the International Labour Organization's (ILO) Vision Zero Fund to reduce transportation-related injuries among garment workers. The ILO notes that these employees are particularly vulnerable to road accidents since many commute long distances to work, often by motorcycles or walking.

"At Nike, we know a world-class supply chain is grounded in standards that demonstrate respect for the people who make and move our product, and the principles of a healthy and safe workplace," said Sittichoke Huckuntod, director for health and safety at Nike.

Brands and retailers are going to great lengths to help their suppliers be ESG compliant, versus jumping ship and finding a new supplier when transgressions arise. In the past 12-24 months, 44 percent of respondents have worked with existing suppliers to improve their ESG compliance, illustrating the importance of building, and keeping, strong relationships.

As laws vary from country to country, suppliers without strict mandates aren't always clear on what they need to do, nor what is expected of them, and ESG compliance issues that are "non-negotiable" for one brand are often accepted by others who turn a blind eye. To avoid misunderstandings, companies are increasingly spelling things out in clear terms for their suppliers.

CHANGES MADE WITHIN SUPPLIER BASE IN THE PAST 12-24 MONTHS BECAUSE OF ESG



ESG-Focused Investments

Some companies are taking their ESG efforts a step further, investing in green bonds that finance environmental projects or other ESG-focused investments.

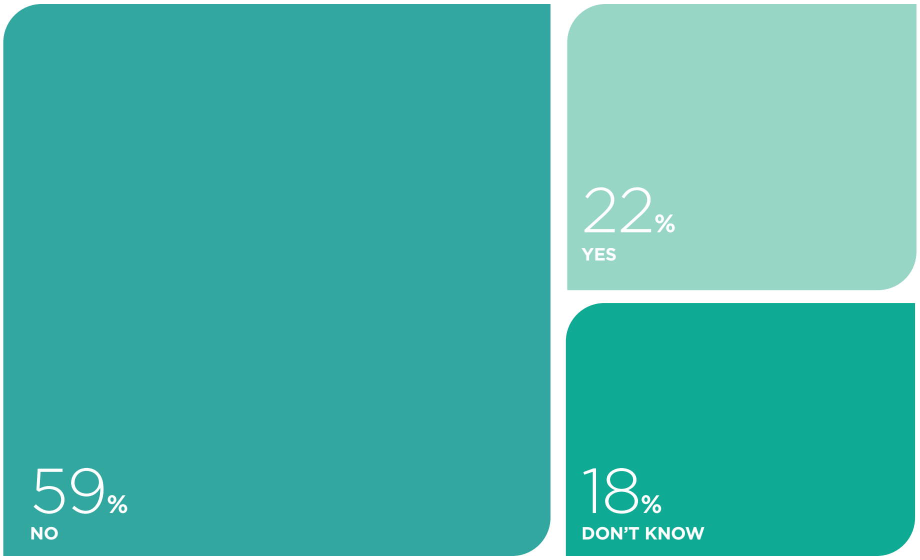
However, despite growing investor interest and availability of capital, less than a quarter of respondents have leveraged such instruments to fund their business. A surprisingly high number didn't even know if their company was doing so.

"With the rising interest rates and the high debt/sales ratio, having access to capital is more important than ever for retailers looking to grow and invest in their business," said Jon Langman, director, AlixPartners. "By focusing more on ESG, they will not only be able to participate in the fight against climate change, but will also have more access to capital."

Tying ESG progress along its supply chain to financial investments has proven to be a winning strategy. Prada was the first luxury firm to secure a sustainability-linked loan back in 2019, inking a deal with Credit Agricole Group. Today, Montreal-based Gildan Activewear (Gildan, American Apparel, Comfort Colors, Goldtoe, Ped) highlights how this is a viable path for companies of all types.

"We are the first apparel manufacturing company in Canada to tie financing costs to the achievement of important ESG targets," said Peter Iliopoulos, senior vice president of taxation, sustainability and governmental affairs at Gildan. "In March of 2022, Gildan's $1B revolving credit facility was up for renewal and the company felt the timing was right to further integrate ESG into its financial strategy by converting its revolver into a sustainable linked loan."

HAS YOUR COMPANY LEVERAGED GREEN BONDS OR OTHER ESG-FOCUSED INVESTMENTS?



ASK YOURSELF

Is your company doing enough around ESG initiatives?

- [ ] What methods are you using to measure your progress against sustainability goals? What efforts and shifts in strategy and capabilities is your company taking to accelerate progress?
- [ ] How transparent are you with your end customer on sustainability and ethical sourcing? Is your communication specific and substantiated?
- [ ] Who leads your ESG initiative? Is this person high enough in the organization to make a real impact?
- [ ] How are you ensuring that ESG values become core to your company culture? Is this part of the recruiting and interviewing process?
- [ ] What proportion of your product line is made with sustainable materials, and what are your three-year targets?
- [ ] Is circularity a potential strategy in your business? Is buying back product for resale an option?
- [ ] How are you auditing your supply chain to monitor social and environmental impact?

How Pangaia's 'Non-Negotiables' Regard People & Planet

Pangaia uses new technologies to promote responsible production.

Photograph courtesy of Pangaia

The pandemic and the ensuing supply chain issues shined a spotlight on the people behind the seams, bringing wages and worker conditions to the forefront. Materials science and apparel company Pangaia turned its ESG attention to wages and livelihoods as a key focus for developing timelines around "people" targets. "We will be developing a living wage and living income roadmap in 2022 that will have our milestones and objectives for the next 10 years," said the Pangaia leadership team.

Spelling Out a Zero-Tolerance Policy

To make sure suppliers understand and abide by the company's commitment, Pangaia introduced a Vendor Manual in 2021 that includes key policies, guidance, and instructions and processes vendors must follow to be onboarded, as well as Pangaia's Code of Conduct based on internationally agreed principles in the UN Charters, International Labour Organization's Core Conventions, and the ETI Base Code. Pangaia is very clear about its "zero-tolerance approach" to certain issues, including modern slavery of any form (including forced or bonded labor), child labor, abusive harassment, the risk to life or limb, the non-payment or payment under the legal minimum of wages, extreme environmental degradation, and bribery or corruption.

Training to Preempt Problems

"While we are not naive to these practices existing in the fashion industry, we believe in having a strong stance that we shall not tolerate this type of exploitation if uncovered in our supply chain," stated the company. "We are developing tailored escalation and remediation processes and will be conducting Pangaia-wide training on these topics to ensure our teams are well-equipped to adequately respond to such violations."

Pangaia also stepped up auditing. Introduced in 2021, all Pangaia Tier 1 (direct supplier) production sites must have third-party social audits annually to ensure ethical trading and fair labor standards are met, as outlined in the Code of Conduct. So far, the company has reportedly received third-party audits for 63 percent of such sites, and is working towards having 100 percent coverage of audits.

Preference is given to suppliers who are on a similar journey of monitoring social and environment impact areas to heighten awareness and be a source for change.

Conclusion

ARE YOU READY?

No one can predict the future, but preparing for the worst-case scenario will serve companies even in the best of times. Having strategies in place that allow for more nimbleness and flexibility enables brands and retailers to pivot when necessary and reduce their financial, reputational and environmental risk.

Digitalization is valuable in all areas of the business—from assortment planning and supplier collaboration through to final delivery—but companies still have room to grow in embracing technology. The digital world offers more opportunities for two-sided consumer connections, which can provide valuable insights on areas like product design and demand, preventing inventory pileups due to misjudgments. And technology can power better communications up and down the supply chain and smarter decision-making within it—whether it is choosing where to source, which production partners to work with, or how to fulfill an order. Companies are collecting data, but in many cases, these metrics are not being utilized, or they're being stored in siloed spreadsheets rather than centralized, cloud-based platforms that would establish an accessible, single source of truth.

As companies seek to mitigate risk, they also must consider their environmental and social impact. Truly sustainable action involves not just setting goals, but actively measuring carbon footprints. It also means prioritizing social responsibility. Regarding worker treatment, companies indicate they are working with suppliers to create improvements, rather than cutting ties when labor issues arise, placing value on their relationships, and helping all ships rise in this effort.

With most executives bracing for a recession, there is never a better time to think digital-first, improve inventory planning, enhance efficiencies, and embrace sophisticated ESG strategies. Disruption is here to stay, but after a few historically tumultuous years, the strategies for success are clearer than ever.

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Murali leads apparel and fashion services as part of the retail practice at AlixPartners. He has more than 20 years of experience in delivering high-impact, strategic, and innovative solutions for global retail and wholesale companies, including high-end fashion retailers. His clients benefit from his expertise in the product development processes, sourcing, operations, merchandising, design, product-life-cycle management, cost-of-goods-sold reduction, and G&A optimization.

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Lauren has spent her entire career in B2B fashion publishing covering a wide range of industry topics, from trend forecasting to manufacturing to retail. Prior to joining Sourcing Journal, she was editor-in-chief of Accessories magazine. Her work has also appeared in trade publications like FootwearPlus, EyeWear, National Jeweler, Earnshaws, JCK, and more, as well as in newspapers like The New York Times and Washington Post. She holds a B.S. in Communications from Cornell University.

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Survey Methodology

The survey on which this report is based was created by Sourcing Journal in partnership with AlixPartners to ask apparel, footwear and accessories industry executives what they are doing to key areas of their business such as digitalization, product assortment strategies, production efficiency improvements, disruption preparedness, sustainability and social compliance.

The participants were recruited via email invitations which were sent to Sourcing Journal subscribers. A sweepstake drawing for two $250 Amazon gift cards was used as an incentive.

The quantitative survey included 31 questions in 5 sections. The survey was fielded online and took an average of 15.73 minutes to complete; 432 surveys were received over 8 weeks between July 13, 2022 and September 9, 2022. The confidence level at a 90% confidence level is +/- 4.00%.

The survey results were analyzed and the report written by industry experts at the Sourcing Journal and AlixPartners.

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.

Just over a fifth of respondents (21 percent) are in the C-suite, 32 percent identify as top management and 30 percent as management. Respondents represented a cross section of the industry with 12 percent wholesalers, 16 percent brands, 17 percent retailers and 17 percent factories/manufacturers. Among the retailers, 34 percent are specialty stores, 27 percent department stores and 22 percent DTC or pure-play etailers.

The majority of respondents reported apparel as their company's primary product category (22 percent), followed by 20 percent footwear and 18 percent accessories, with the balance in fabrics, trims and fibers.

Most (61 percent) work for companies that have gross sales or revenue less than $500 million, 22 percent report $500 million to $2 billion and 9 percent $2 billion or more.

About Sourcing Journal

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, we make sense of an increasingly complex sourcing landscape via up-to-the-minute news, in-depth features, insightful analysis and revealing data. More than 95,000 readers rely on our coverage 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. Sourcing Journal offers a dynamic mix of analysis from all angles: opinion pieces from industry thought leaders, vital statistics on materials, trade, sales and wage data impacting market performance, plus unique insights including state of the industry reports, whitepapers, industry summits, webinars, fireside chats, podcasts and research reports.

About 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 offices in 11 countries, PMC is how global influencers are informed, connected and inspired.

About AlixPartners

For over 40 years, AlixPartners has been 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.

Our highly qualified professionals come from a wide range of backgrounds, allowing us to bring diverse ideas and knowledge as well as specific industry experience and functional expertise to the table. We form customized teams for each project drawing upon talent from across our global network to incorporate a richer range of thinking. Giving you not only the right team at your side, but also a combination of resources you won't find anywhere else.

The way we work with our clients and with 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.

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.

We measure our success by the results we deliver, not just the advice we give. 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.

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