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Accenture Global Sourcing Reference

Executive Summary 2022

Retail sourcing transformation

After more than a year of acting in permanent crisis-mode, brands, retailers, and manufacturers are now starting to move their focus beyond the short-term horizon.

Our new global research among sourcing executives provides a clear view on future expectations, challenges, and opportunities to turn sourcing into a critical asset equipped to tackle demand and supply side uncertainty, to scale sustainability, and to successfully compete on innovation and cost.

Brands, retailers, and manufacturers alike have been going through a year like no other. The Covid-19 crisis, starting off with concerns about the supply of products arriving too late from Asian sourcing markets, turned into a massive collapse of demand as Covid-19 arrived across global sales markets.

Throughout the waves of the pandemic, we have seen cancelled orders at suppliers, excessive overstocks at retailers, and a consolidation of companies change the global sourcing landscape.

While more and more of the key demand markets are opening up, and a clear rebound of consumer sales can be observed, many production countries are still severely impacted. In parallel, we see major disruptions of international freight, continued trade tensions, political instability in key sourcing markets, and increasing shortages of materials. Atop these impacts we must not forget the recent series of catastrophic global events from fires to floods continuing to highlight the urgency for action on sustainability and climate change.

In this highly volatile environment, overall sourcing volumes bound for North America and Europe have significantly decreased during 2020, (e.g. by 32% in Europe). Looking at the details of sourcing market shares reveals that far-east sourcing destinations have been losing their foothold (decrease of 34% in import value) while near-sourcing markets like Turkey, Poland, Tunisia, or Romania were less severely hit (decrease of 27%) and even grew in relative market position (see Figure 1). In addition to China's diminishing sourcing value over recent years (now 25.3% of European apparel import vs. 34% in 2014 and over 40% is 2011), we saw Bangladesh, India, Cambodia and Sri Lanka decrease in relative importance during the last year.

	Share of EU15 Imports 2020	Share 2019	Volume Change
China	25.3%	26.0%	-34%
Bangladesh	20.6%	20.9%	-33%
Turkey	11.8%	11.1%	-28%
India	4.7%	5.4%	-40%
Poland	4.5%	4.1%	-25%
Vietnam	4.1%	3.9%	-29%
Cambodia	4.1%	4.6%	-40%
Pakistan	3.4%	3.3%	-30%
Morocco	3.2%	3.3%	-33%
Myanmar	3.2%	2.8%	-22%
Tunisia	2.4%	2.0%	-19%
Romania	2.2%	2.1%	-29%
Czech Republic	1.6%	1.4%	-20%
Sri Lanka	1.6%	1.8%	-40%
Bulgaria	1.5%	1.3%	-24%
Near-Sourcing	29.2%	27.3%	-27%
Far-Sourcing	70.8%	72.7%	-34%

Figure 1: Sourcing market development – example of European imports 2020 vs. 2019

Source: Accenture Global Sourcing Reference 2022

The long-expected move back from farther sourcing destinations to markets closer to Europe or North America seems to be gaining traction in our new environment, where the ability to decide late and react fast is critical to cope with the high volatility and risk on demand and supply side.

Looking at the development of production cost across major sourcing markets, the rapid development of cost increases has slightly slowed down during the pandemic. While Production Cost Index (PCI) values in some markets like Indonesia, Pakistan, India or Turkey have stayed constant or decreased, other markets increased in cost. Particularly, cost differences between China and near-shore sourcing have narrowed, thereby increasing the attractiveness of such markets close to Europe and North America despite the remaining challenges of the material supply chain and a narrower spectrum of capabilities (see Figure 2).

When asked about the expected future challenges for sourcing, retail executives from our global research strongly emphasized risks on supply side with concerns regarding access to sustainable materials and general raw material availability (see Figure 3). It should not be of surprise that following the disruptions of the last year, delivery reliability, transportation cost, capacity, and financial stability of suppliers are still key concerns.

While brands and retailers consider themselves to be relatively well prepared to control Corporate Social Responsibility (CSR) adherence, cope with problems of financial stability of suppliers, and mitigate currency exchange rate risks, they are still largely lacking the confidence

in their preparations for material shortages, transportation cost hikes, and risks of political instability. This emphasizes a clear need for strengthened capabilities to manage and mitigate supply market and transport risks and develop respective contingency plans.

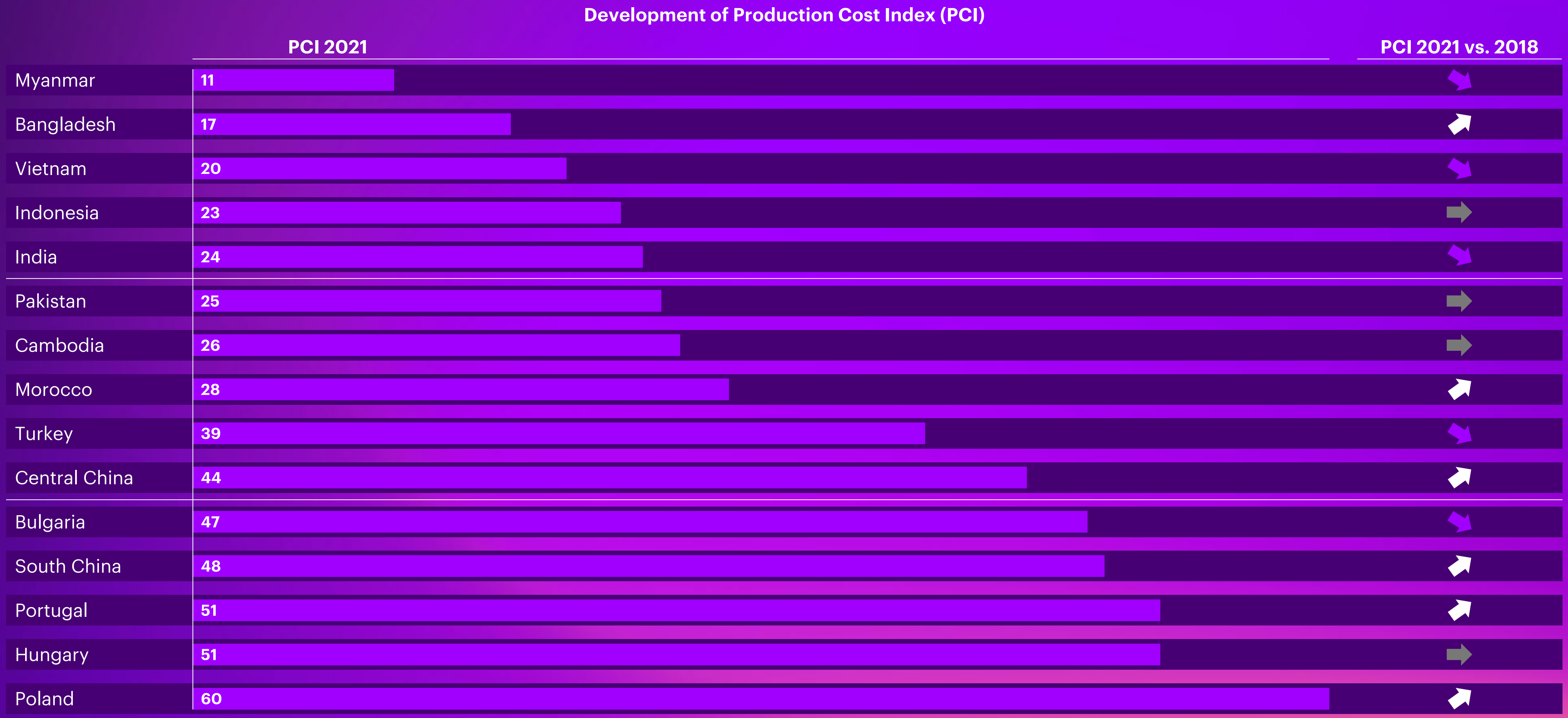

Figure 2: Development of product cost index

Source: Accenture Global Sourcing Reference 2022

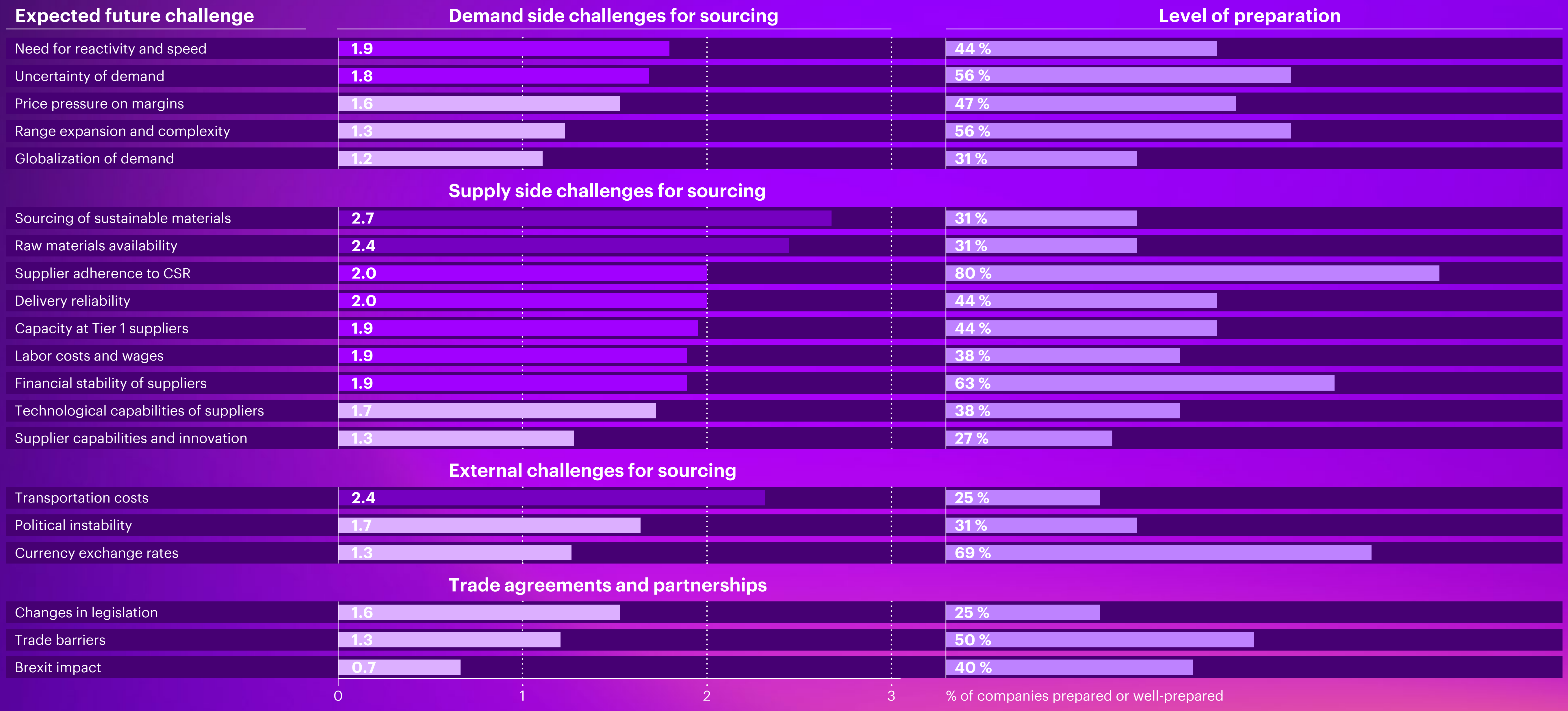

Figure 3: Expected coming challenges for sourcing

Source: Accenture Global Sourcing Reference 2022

So, what's next?

Along with sharing their concerns, sourcing leaders also provided their take on expected future developments following almost two years of the pandemic.

Most executives expect total sourcing volumes and volumes per order to increase while supplier portfolios will be more focused than in the past (see Figure 4). Nevertheless, there is not much opportunity seen for further improving intake margins, but rather pressure on maintaining these in the light of price competition of demand markets and continued increases of production cost. In line with the concerns regarding supply market and supplier stability, material availability, and transport cost, brands and retailers see a likely increase of near-shore sourcing and a stronger involvement of brands in material management, while suppliers are expected to be more closely involved in product innovation. This combination of intensified brand-supplier collaboration and increased near-shoring can provide an effective lever to tackle the continued challenges of demand and supply market uncertainty.

Considering the high priority on actions to drive carbon reduction and production compliance, it is not surprising that a reduction of air freight and a strong increase of Environmental, Social and Governance (ESG) activities is anticipated. This again also relies on close supply chain collaborations and a strengthened involvement of retailers in earlier stages for ensuring material sustainability promises.

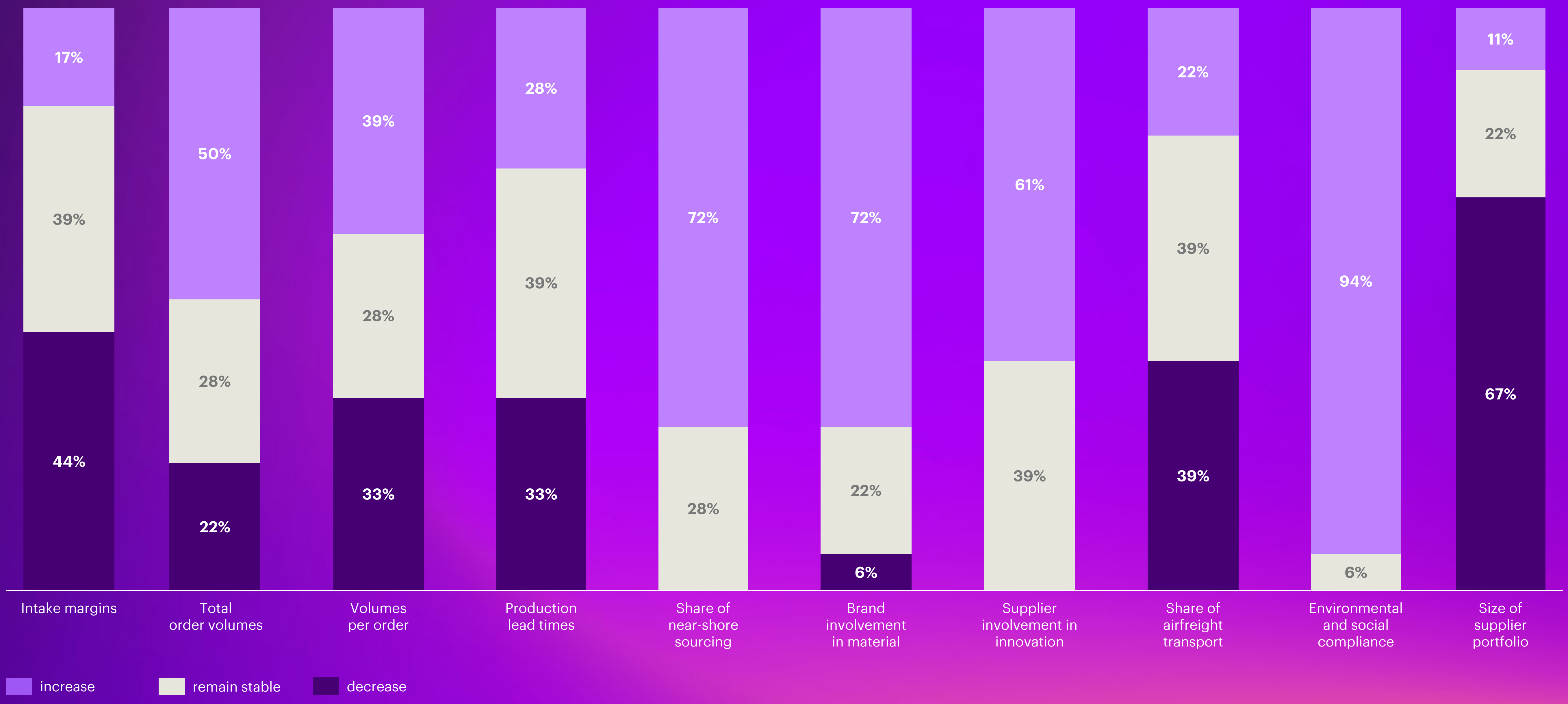

Figure 4: Post-Covid expectations of sourcing leaders

Source: Accenture Global Sourcing Reference 2022

With these expected sourcing developments in mind, brands and retailers are adjusting their sourcing strategies and the global supply market mix. Corporate Social Responsibility (CSR) has now made it to the top of the sourcing market selection criteria, documenting the rise in importance both from a consumer and brand perspective (see Figure 5). Although the other top decision factors for increasing or reducing a sourcing market´s share are the expected ones—reliability, quality, cost and flexibility—a tectonic shifts seems to be at the doorstep. Looking into the future, sourcing leaders expect technological advancement, lead times (production and transport), and vertical integration to significantly increase in importance when selecting sourcing markets.

Alongside these changes in priorities comes a strong need to further evolve sourcing capabilities. Sourcing leaders are critical when it comes to their organization´s current maturity of core processes compared to requirements of the future (see Figure 6).

Across all end-to-end capabilities from demand to creation & development, supply & production, and collaboration & control there are significant gaps to be closed. Particularly in supply and production, major steps must be made when it comes to planning and optimizing materials and production capacities, and more analytically steering supplier selection and allocation processes. But change does not start in production. Sourcing leaders also highlight key gaps when it comes to 3D design and development, differentiated ways of working, and the ability to predict cost. Concerning costing, many retailers still struggle with analytics-based costing models which can support the process at any stage of the seasonal calendar whether it is during design, technical development, or ultimate quotation for a specific article and quantity.

Sourcing leaders also highlight transparency and collaborative planning as critical factors to gain a better ability to act early and effectively on new developments across demand and supply markets. In addition, cross-value chain collaboration on sustainability is seen as a key area for improvement with pressure not just coming from consumer and investors, but also competitors who are accelerating their efforts to differentiate with more sustainability and transparency along all pre-stages down to tier 2 suppliers.

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Decision criteria for choosing sourcing location or new supplier

How important are the following performance criteria regarding the selection of a sourcing country or a new supplier for your core business?

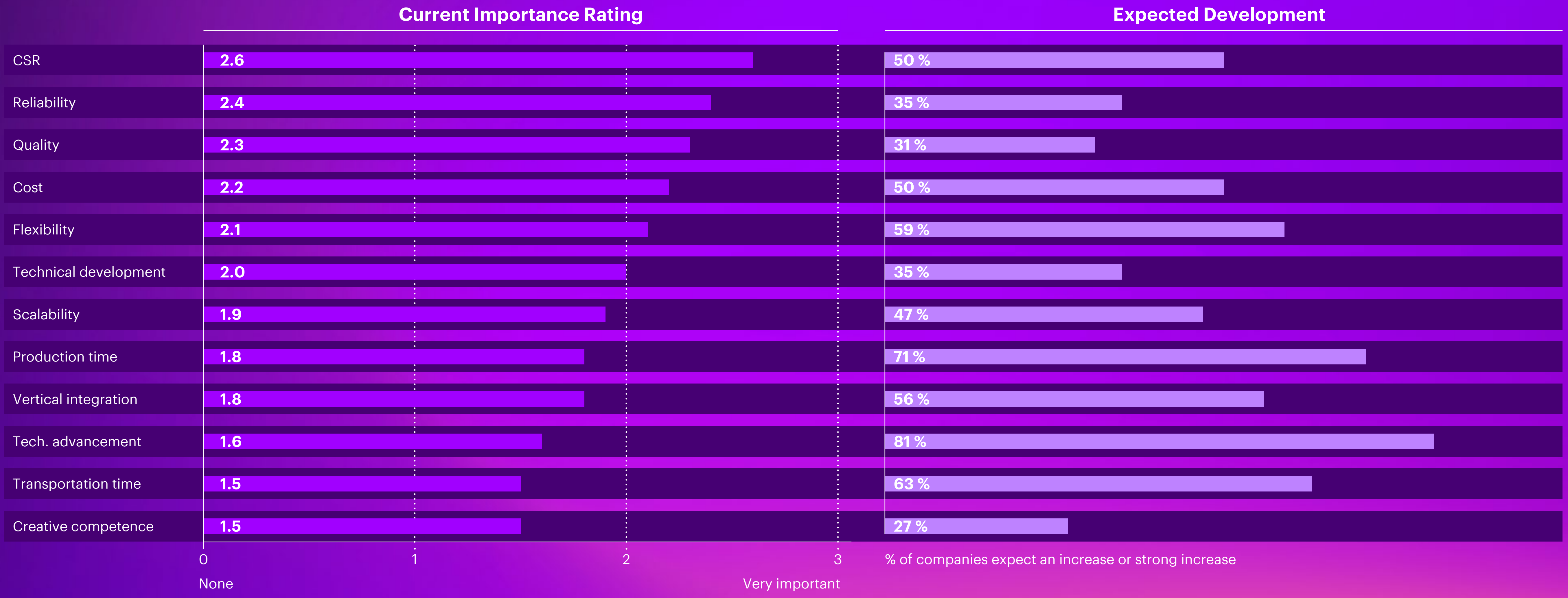

Figure 5: Sourcing market selection criteria

Source: Accenture Global Sourcing Reference 2022

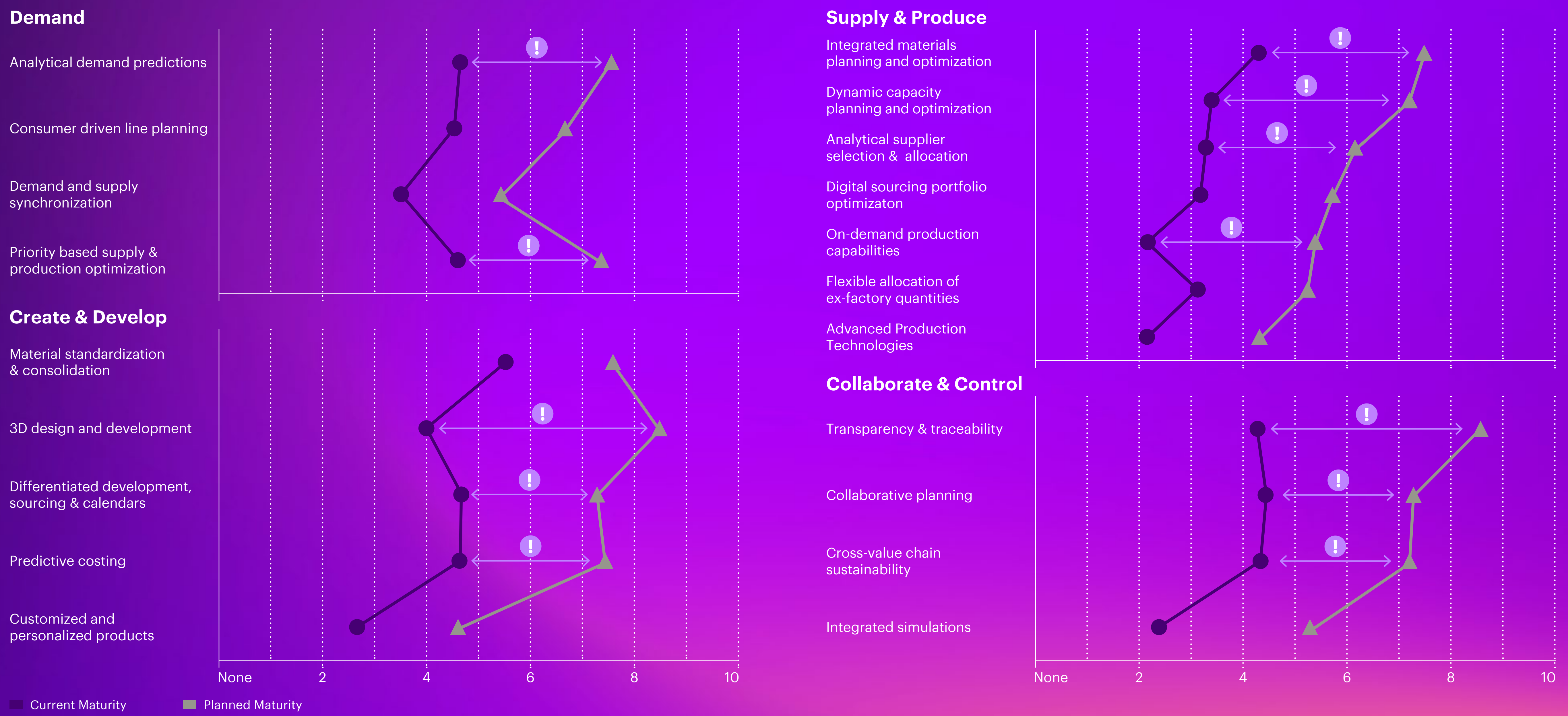

Figure 6: Current and planned maturity of digital capabilities

Source: Accenture Global Sourcing Reference 2022

Future-ready retail sourcing transformation

The extent of change that brands, retailers, and manufacturers need to tackle to build such future-ready sourcing practices shows that this is not just about improving selected processes, but completely transforming the role sourcing has in a company.

Evolving the role of sourcing is the key to solving retailers' most pressing challenges. These include managing uncertainty within demand and supply markets, scaling sustainability, and driving consumer relevance with innovation as well as competitive prices and cost.

We see five core areas for building future-ready sourcing capabilities embedded into retailers' value chains (see Figure 7). This includes actions for enhancing the surety of supply, scaling sustainability, more predictive costing, strengthened partnerships, and transforming capabilities of sourcing teams.

Required changes across these five areas all share a common theme—they all strongly rely on building new technology capabilities and ways of working with data and analytics. Only this will enable brands, retailers, and manufacturers to move beyond a backward looking and reactive approach to steering sourcing and tackling risks. Effectively building and using these new capabilities will also require product development and sourcing teams to assume a new role. Today, sourcing professionals are often experts in day-to-day hands-on management of suppliers, orders, and exceptions with a lot of effort going into manual tasks like the maintenance of data.

To effectively drive change, sourcing will no longer be an executional back-end function, but will take a seat in the C-suite.

In the future, a practical hands-on attitude will still be important, but needs to be complemented with analytical skills to drive decision-making led by integrated data across various supply chain partners.

Ultimately, the changes that must be made mean that sourcing will no longer be an executional back-end function, but will take a seat in the C-suite to effectively drive change and become a critical enabler to protect and grow a business.

	From	To
Digitized sourcing	Significant time spend on **manual tasks and data maintenance** Sourcing teams with **profiles ensuring reliable day-to-day execution**	**Automation** to shift focus on **value-added decision making** Sourcing teams combining **hands-on approach with analytical acumen**
Profitable sustainability	**Sourcing vs. product silos as obstacles** for sustainability at scale **Few insights on sustainability levers** during design and development	Cross-functional planning for **sustainable assortments from the start** **AI aided decision-making for creation** of sustainable new products
Surety of supply	**Ad-hoc reactions** after supply chain risks have materialized **Experience driven assumptions** on capacity, materials, and markets	**Predictive risk identification** and mitigation based on E2E transparency Analytical **optimization of capacities, materials, markets** and suppliers
Category champion partnerships	**Supplier portfolios historically grown** rather than purposefully defined **Transactional relationships** and traditional retailer-supplier roles	**Streamlined supplier portfolios** balancing near-shore and far-east Intensified partnerships and **integrated technological capabilities**
Shared success through the ecosystem	**Internally focused optimization** of individual brands, finished goods suppliers, tier 2s **Cost-driven** relationship of brands and suppliers	**Trust-based end-to-end collaboration** on innovation, service, cost, and flexibility **Value-driven relationship** across full value chain to drive collaborative opportunities

Figure 7: Focus areas for future sourcing

Source: Accenture Global Sourcing Reference 2022

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Global Sourcing Reference (GSR) is a comprehensive bi-annual report providing key insights to sourcing executives at global apparel brands and retailers, to inform strategic decisions in retail sourcing.

Covering 25+ countries, GSR covers market developments, country profiles and industry thought leadership, and highlights trends on production costs, imports and exports, and initiatives that drive future sourcing opportunities.

GSR includes our research among global sourcing executives, which shows what is top of mind for sourcing leaders and explores their challenges, priorities and predictions.

The thought leadership articles within GSR focus on how retailers and brands can create profitable sustainability, the role of sourcing within the future of product design, how retailers and vendors can enable growth from collaboration, and the impact of future product personalization on sourcing.

This Executive Summary is an extract from the Accenture Global Sourcing Reference 2022. To request a copy of the full report, please contact:

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About Accenture

About the research

For the Global Sourcing Reference 2022, data was collected between November 2020 and May 2021. For the global executive survey, research was conducted among retail sourcing executives from North American and European companies with a combined revenue of more than US$180bn in June 2021 and July 2021. For the Sourcing Cost Index, logistics costs were collected in October 2021.