Dealing with intensifying volatility remains the biggest challenge for 2017. Many lingering issues from 2016 that will contribute to volatile and uneven growth next year – the UK’s exit from the EU and the pending departure negotiations, and a new US government, for example. As volatility becomes the new normal, the apparel industry will see all dimensions of its business affected: overall consumer demand, flows of tourism, price adjustments and exchange rate arbitrage, and labour and resource costs.

The biggest opportunities lie in digitalisation of the value chain – from concept design to the way brands engage with their demanding and connected consumers. In a recent global survey, 62% of executives noted that they will invest in omnichannel integration, e-commerce, and digital marketing.

While 2016 may have been a year in which many businesses focused on costs, the focus in 2017 will be on sales growth – and technology is one of the most significant levers that will be used to achieve it.

Improving the image of the industry is also a big challenge, and part of this works through the ability to better communicate the efforts the industry is taking to create more responsible and sustainable supply chains. Advances in technology and management systems will create opportunities for companies to be more transparent to their customers about their supply chains.

Finally brand identity and distinctiveness will not only be focused on the aesthetics of good design, but also around the values that the brand represents. Mission focused brands, brands that embrace a cause, brands that stand for distinct values, or have a social mission behind them are becoming more and more powerful. Brands like TOMS Shoes, Patagonia and Warby Parker who talk about their causes and link consumption to support these causes give consumers reason to buy, create strong brand loyalty and emphasise doing well and doing good.
Uncertainty in the global economy will pose one of the biggest challenges to the apparel industry in 2017. Apparel business is buyer-driven. A great number of studies have suggested economic growth is by far the most effective and reliable predictive factor for apparel consumption. Unfortunately, it seems apparel companies will have to deal with another year of economic volatility and weak demand in 2017. For example, according to an International Monetary Fund (IMF) forecast released in October 2016, global economic growth in 2017 is only expected to recover to 3.4% from 3.1% in 2016.

There is no particular excitement among major apparel consumption markets either. The outlook for the US economy in 2017 is complicated by the strong US dollar, the Federal Reserve’s monetary policy, and the uncertain trade and tax policy to be adopted by the new Trump administration.

Economic growth in the EU region next year will continue to be hindered by the unknown fallout from UK’s referendum on leaving the EU, pervasive geopolitical uncertainties, high unemployment rates and rising protectionist tendencies. Japan’s economic growth is projected to be as low as 1.0% in 2017 according to the Organization for Economic Co-operation and Development (OECD). And China’s economic growth this year could slow again to 6.5%, which would be the slowest pace in more than 25 years.

Reflecting these trends, we might see a stagnant growth or even a decline of global textile and apparel trade in 2017 as well.

Nevertheless, companies’ continuous investments in technology and innovation will create exciting new opportunities for the apparel industry. Particularly, growing areas in the apparel industry such as 3D printing, wearable technology, digital prototyping and e-commerce have made many ‘non-traditional’ players now interested in fashion, including technology giants like Google and Apple.

I think we can expect the apparel industry to become even more modern and high-tech driven in the years to come.

The changing nature of the apparel industry will also increase demand for talents from an ever more diversified educational background, such as engineering, physical therapy and business analytics.

Mike Flanagan, CEO of apparel industry consultancy Clothesource:

The biggest challenge by far will be the threats to the established apparel industry from the ruling parties in the US and China. Both have set themselves on a collision course with the philosophy that’s underpinned this industry for the past half-century: opening international trade under internationally-shared rules.

- Since June 2016 (before Trump was their party’s nominee as president), America’s Republicans have been campaigning for the US to adopt ‘distance-determined’ profit taxes: a philosophy that disallows the cost of imports when calculating a company’s liability for tax, and typically means most apparel retailers importing direct will have up to 90% of their profits confiscated. Their aim – independently of Trump – is to tax imports out of existence.

- China appears equally determined not to have anyone else influence how it makes trading decisions. In 2001, when it joined the World Trade Organization (WTO), the major Western countries insisted on a special system (one prescribed for non-market economies) for determining appeals at the WTO against allegedly unfairly cheap Chinese exports. China believes that system was meant to expire in December 2016. The US, EU and Japan all agree China’s done practically nothing to reduce its government’s interference. China insists the tougher rules affecting its exports should have expired in 2016, so it has launched a legal challenge. It’s highly unlikely there will be a peaceful outcome.

It’s impossible to determine how quickly this will start to affect US apparel importers or foreign importers of Chinese apparel. But there are huge prospects for damage to almost everyone involved in global trade – and some likelihood of benefits to China’s competitors.

All that, of course, is quite separate from the damage Trump’s policies can do – all of which are likely to cause problems years before Britain finally works out how to leave the EU without destroying its economy.

As far as US imports and Chinese exports are concerned, their governments appear determined to upset the deals the world has developed, mostly through the WTO, over the past 50 years. And it’s highly likely things will start happening during 2017 – but no-one can really envisage what and when.

Rajiv Sharma, group chief executive at Coats:

The wise words of Benjamin Franklin – “by failing to prepare you are preparing to fail” – are as relevant to today’s global brands as the start-up supplier. However, the challenge is understanding what sort of issues to be prepared for. The acronym VUCA (volatility, uncertainty, complexity and ambiguity) was coined originally by the military but is gaining much wider use as it effectively sums up the challenge of identifying challenges, in particular in relation to political, economic and social factors.

From the political and economic perspectives, it will take much of 2017 – and beyond – for the full implications of both Brexit and the US election on international trade agreements, such as TPP, to become clear. European elections during 2017 could well add even further complexity.

From the social perspective, the challenges lie in understanding the changing consumer demands of internet and high street retail and their differences. We are likely to continue to see movement from the bricks and mortar side of the high street to the internet side, and vice versa; the key is responding to the shifting business models and supply chains they each demand.

These external factors are beyond the control of apparel companies, but the pressures they exert on margins that are already squeezed is direct. So the opportunity is in identifying the most efficient and appropriate response. Much of the apparel industry comes down to manufacturing speed and productivity, so closing that gap between manufacturing and consumers by taking time out of the supply chain has always got to be front of mind.

As we enter a new inflationary age in 2017, the opportunities will be most effectively seized by those both able to forecast variations in demand and quick and nimble enough to respond.

Stephen Taylor, senior manager at Kurt Salmon, part of Accenture Strategy:

One of the main challenges for fashion retailers and brands will be how to protect product margin given the current global economy. Current exchange rates will impact the prices that sourcing teams can achieve. Additionally, in an unpredictable consumer market, businesses will be looking to minimise order commitments, making it challenging for suppliers and retailers to optimise production, orders and prices.
This is likely to result in brands taking less risk with their product development and selection decisions, which could have an impact on the depth of ranges and the innovativeness of designs.

However, brands with strong international sales may benefit from the current exchange rate and any net profit improvement will help to offset stagnant, or falling, sales.

**Julia Hughes, president of the United States Fashion Industry Association (USFIA):**

From the US perspective, the biggest challenge right now is the transition to the Trump administration. Honestly, anytime there is a new administration, there is a lot of uncertainty, though this year there is a bit more than usual considering the rhetoric against trade and imports. Uncertainty is not only unsettling to consumers, but also to the brands and retailers who sell to them.

In addition to the anti-trade rhetoric giving the industry some anxiety, we’ve seen surprise cabinet picks, tension between the new administration and Congress, and questions about which campaign promises will be honoured, and which will not. We know the Trans-Pacific Partnership (TPP) is on the back burner, and brands and retailers wait to see what will happen to NAFTA, one of the most-utilised free trade agreements by our industry, and other trade agreements and negotiations, as well as the US relationship with China.

But, business continues – and there are some opportunities, especially in terms of making regulations more business friendly. For too long, brands and retailers have juggled conflicting rules and regulations in the United States and around the world, in areas such as labelling, testing, and compliance. The new administration has an opportunity to work with business and Congress to untangle the mess of conflicting state and national regulations.

We remain hopeful that the Trump Administration will understand the issues facing our industry – after all, Donald Trump and his daughter Ivanka Trump are in the business of importing fashion and accessories from around the world, too.

**Rick Helfenbein, president & CEO of the American Apparel & Footwear Association (AAFA):**

The biggest challenge for apparel and sourcing in 2017 will be ‘perfunctory versus regulatory.’ The industry will no longer be able to count on what we did in the past as perfunctory. Rules of the road will definitely be changing, along with the regulations that govern them.

Past history for change in the apparel business was generally reflective of how an incoming US president dressed. Eisenhower wore the Lacoste shirt for golf, and casual suddenly was in. President Clinton bought suits off the rack, and ‘dress up’ collided with main street. Flash forward to today, and apparel history will reflect less on how the president dresses, and more on the how the president thinks about trade and taxation. For whatever it’s worth, president-elect Trump is always dressed well, but he’s very consistent and generally has only two ‘looks.’ He either wears an (expensive) suit, white shirt, with a red or blue tie; or if he’s casual, he wears khaki pants with a white knit shirt and a hat (usually red).

The supply chain will disrupt under our new leadership, and the apparel and footwear industries will be forced to adapt.

The lingering questions are relatively easy to understand – but the answers are much more complex:

- Will NAFTA (the North American Free Trade Agreement) become the 23-year-old vehicle that needs to be remodelled, or will NAFTA be sent to the scrap heap? (Unlikely);
- The Trans-Pacific Partnership (TPP) has died a slow, but painful death. Will TPP resurface as 11 mini trade deals for the US? (Possible);
- Supply chain navigation will change. New laws and tariffs will dictate the flow of goods, and thus planners must work on a much longer-term strategy for planning a successful year.

Opportunities in 2017 will be the ‘feel good’ factor of the booming stock market, leading to more consumer purchases at retail.

With additional customers, more online presence, and fewer physical stores (due to additional imminent closures), it seems like 2017 could shape up to be a great year for retail. The real challenge will come in 2018, when everyone will likely have to scramble to develop their new supply chains.

**Robert Antoshak, managing director at Olah Inc:**

In terms of challenges, clothing sales may be a problem in the coming year. Retailers continue to grapple with the best way of luring consumers to purchase more clothing. Nothing has affected consumer attitudes towards clothing more than direct-to-consumer, online retailing. Although internet sales are nothing new, traditional retailers continue to struggle with how best to compete against their online brethren.

Devising an effective formula to keep consumers visiting stores has proved elusive, in part because the competition for consumers' collective attention has become so fragmented. Simply put: the next tech gadget grabs consumers more than the next iteration of a garment. It’s tough enough to compete against other apparel retailers, but now each and every clothing store has to compete against an ever-growing universe of technology and other product offerings.

However, the retail apparel business is not all doom and gloom. Both the high-end and low-end of the apparel business have carved out strong niches. Of course, there will always been a minimum demand for clothing. Products wear out and new fashions command consumer attention. And there will always be high-quality and low-quality products offered for sale, just like there will always be demand for high-priced and discount-priced clothing. It’s the nature of consumerism. The broader challenge for the apparel industry, however, is how much additional clothing are consumers prepared to acquire when there are so many products other than apparel from which to choose in the stores.

**Rick Horwitch, vice president and global retail lead for supply chain strategy at Bureau Veritas Consumer Products Services:**

The biggest challenge continues to be the economics and supporting processes of 'demand' and 'supply.' This will accelerate in 2017. To meet the 'demand,' retailers have been reducing initial purchases and inventories in favour of taking a wait and see approach (especially from e-commerce). This is placing stress on the entire supply chain – from design to production to shipping and ultimately the shopping experience.
Long-standing business models, and processes, need to change in a collaborative manner. The continuing push for shorter cycle times and margin pressure is having an impact on product design and quality. In our highly connected world, where information – especially consumer reviews/comments – is instantaneous, NOT meeting the customer’s expectations could have an immediate, and disastrous, effect.

Moving to a demand and supply model is also a great opportunity and can be highly profitable. It requires a commitment, from the top down, to challenge, change, collaborate and commit. It also requires a commitment to social and environmental compliance, high quality and sustainability.

A good example is Zara. At the core of its success is a commitment to a sustainable business model of social, environmental and economic principles. This includes internal processes and efficiencies, working with the right partners who share this commitment, and active data analysis. There are numerous (profitable) examples around the world of companies re-inventing their business in this fashion to meet the needs of the consumer.

Edwin Keh, CEO of the Hong Kong Research Institute of Textiles and Apparel (HKRITA), and lecturer at the Wharton School at the University of Pennsylvania:

On the world stage, the tension and potential East-West schism is the greatest worry both to the apparel industry and to business in general. If the relationship between the US and China deteriorates, it will naturally have impact on trade and the development of markets.

For the industry, dealing with on-line and international growth will be critical. System integration, last mile fulfilment, and inventory optimisation are all possibilities for margin optimisation.

Our industry will also have to make more tangible progress towards sustainability, circular economy, and a socially responsible supply chain.

For individual brands and enterprises there are new opportunities with wearable systems, smart forecasting, and values-driven branding.

There is a blurring of the lines with wearables. Apparel systems should take a page from our phones and watches. We have crossed the lines between art and science. Our apparel will be smart, connected, and multi-functional. Apparel companies need to think about clothes and the new lifestyle of the consumer. So there are new opportunities with integration.

Data analytics, fashion trend prediction tools, inventory forecasting and other systems to improve inventory productivity, reduce lost sales, and drive margin improvements are all important for the near future. A lot of these tools are at a level of maturity where they will disrupt the traditional way apparel is designed, bought, and inventoried.

Click on the following links to read more comments about the year ahead:

- **Outlook 2017 – What next for apparel sourcing?**
- **Outlook 2017 – Strategies for sourcing success**
- **Outlook 2017 – What else is the apparel industry watching?**
How is the sourcing landscape likely to shift in 2017, and what strategies can help apparel firms and their suppliers to stay ahead? As global politics become more turbulent, moving things closer to home or out of the eye of the storm makes sense, executives say. A balanced and diversified sourcing portfolio is key, with a digitised supply chain also helping to speed decision-making.

Marc Compagnon, executive director, Li & Fung:
The sourcing industry is being impacted by the continuation of shifts in demographics, technology and retail, where demand driven companies such as Amazon and Zara are winning. Manufacturers still need help with upgrading their capabilities including the digitalisation of their processes. Doing so will streamline administrative costs, give them greater control over day-to-day production and capacity and let them make operational adjustments – fast.

Then there is political uncertainty in the UK and US. The British government has yet to publish a roadmap of how it plans to leave the European Union or make significant headway in bilateral trade deals, so we could be well into 2017 before we understand what Brexit means.

As for the US, Donald Trump's new administration is gearing up for some significant changes to the status quo. He campaigned to eliminate the Trans-Pacific Partnership (TPP) trade deal and advocated bilateral trade agreements. I don't think these will have an immediate impact in 2017 because it takes time to renegotiate the terms of trade deals. Regardless of the outcome, companies that have a diverse sourcing strategy from multiple production markets will be well placed to manage this uncertainty.

Guido Schlossmann, president and CEO of Synergies Worldwide Sourcing:
Sourcing will become much more complex and uncertain and, at the same time, there is an increasing push for shorter lead times and lower prices. Multiple sourcing shifts are anticipated due to change or abolition of trade agreements (TPP, NAFTA), geo-political risks (Turkey, Ethiopia), security issues (Pakistan, Bangladesh, Turkey), the transfer of technologies (computerised flat knitting machines are now available in Bangladesh), a shortage of workers (China), volatile currencies (Brazil, Mexico, Turkey etc.) and increasing corporate social responsibility demands.

To address all these challenges a smart multi-sourcing strategy is needed: own offices, virtual manufacturers, low cost sourcing partners, importers, vendor direct. Proper communication flow and leaner decision making processes will be key, and could be achieved by strategic partnerships, physical visits and smart use of online visual communication tools. There are more and more endeavours to digitalise the supply chain and automate production operations by applying available and new technologies.

Due to these increasing sourcing demands the role of the middleman will change dramatically. Agents need to change into low cost sourcing partners and/or virtual manufacturers and/or single service providers such as quality control or social compliance only. We foresee smaller agents will disappear from the market due to the increasing demand in service levels, and traditional large agencies will dramatically lose volume if their commission fees are much higher than the operating costs of their customers.

Edwin Keh, CEO of the Hong Kong Research Institute of Textiles and Apparel (HKRITA), and lecturer at the Wharton School at the University of Pennsylvania:
Consolidation of sourcing will continue. The good will become bigger, and scale will drive value. Unless suppliers hit a critical mass they are in danger.

Suppliers also need to create more value by providing more services, even tighter integration, and probably take on more financial exposure. Middlemen will continue to be squeezed, so these need to find reasons to continue to be part of the supply chain.

With the impending demise of TPP in its current framework, more motivation may now exist to make China work, to try Africa, and to experiment with on-shoring or near-shoring. As global politics become more turbulent, moving things closer to home or out of the eye of the storm makes sense.

All of these changes point to a slowdown and perhaps an impending end to the deflationary era of apparel. In this climate, apparel firms should create capacity to try new sourcing strategies, work even closer with key suppliers, and experiment with new innovative or disruptive ideas.

Borrowing successful ideas from adjacent industries may also be a good way to stay ahead of the competition.

Rick Helfenbein, president & CEO of the American Apparel & Footwear Association (AAFA):
In 2017 expect sourcing to be the 900-pound gorilla in the room. In addition to all the normal creativity that companies will try to achieve (quicker/faster/better), there will be a new element called 'strategic planning' or 'war room sourcing.' Expect to have many meetings with your boss to discuss 'what if' strategies.

Many of our CEOs are already having these discussions and the subjects range from: What if there are additional tariff's placed on China? What if NAFTA crashes? What if a trade war breaks out?

All these questions need to be addressed and back-up strategies need to be in place.

3 If your company is 100% in China, better take another look.
3 If you are 100% in Mexico, better take another look.

The mainstream idea for 2017 is 'diversified sourcing' – a real need to be holding a balanced sourcing portfolio. In 2017, you must be prepared to expect the unexpected. In the year 2000, President Bush might have called this necessary planning process 'Strategery.'
Stephen Taylor, senior manager at Kurt Salmon, part of Accenture Strategy:
Fashion companies continue to conform to the traditional two season collection delivery model. However, changes in consumer expectations and the weather, whereby temperatures increasingly vary within seasons, mean that the model has to be reworked, which will impact the supply base.

Fashion conscious consumers want to buy the designs they see on the catwalk instantly. To address this increasing 'see now, buy now' expectation, brands will need to be highly dependent on collaborative and effective partnerships with their suppliers.

Suppliers will be under pressure to develop concept designs and prototypes with shorter lead times and fine tune their manufacturing to manage smaller initial orders and respond faster to demands for redevelopment and reorders at short notice. The overall shift will be towards a more agile development model. To support this, one option will be for brands to consider making strategic investments in their supply base.

We have already seen a select number of British brands invest in UK manufacturing as a way of managing short to medium term demand, as well as pricing pressures.

Robert Antoshak, managing director at Olah Inc:
There was a time when simply chasing the lowest-cost supplier made sourcing a relatively straight-forward exercise. But today that's less the case, as the wider a supply chain, the longer the list of challenges. For example, there are labour problems, environmentalists criticising the carbon footprint of overseas supply chains, quality problems, and the like. It's not easy, and these challenges represent a range of apparent and hidden costs.

A solution for some is to pull supply chains closer to regional markets. For instance, some apparel brands have pulled sourcing back from Asia in favour of production in the Caribbean and Mexico. This has the benefit of faster delivery times, less environmental impact in many cases and greater efficiencies to manage quality. Others have even gone a step further by returning production back to their home markets. Although still relatively small in relation to globalised apparel production, some companies have successfully carved out niches for Made-in-USA or Made-in-Europe clothing.

And then there are the intangibles of politics. Should protectionist measures gain in Washington and elsewhere, companies with intricate global supply chains may find themselves dangerously exposed. Despite claims to the contrary, it is unlikely that domestic apparel manufacturing will ever return en mass to developed countries like the US. But creative supply chains that include American-made yarn or American-grown cotton, but are made into clothes close to home, could gain primacy, particularly in a world where global trade is discouraged for political reasons.

Dr Sheng Lu, assistant professor at the Department of Fashion and Apparel Studies at the University of Delaware:
Textile and apparel supply chains are becoming more regional-based. For example, data from the World Trade Organization (WTO) shows that 91.4% of textiles imported by Asian countries in 2015 came from other Asian countries, up from 86.6% in 2008. This suggests that Asian countries are together building a more integrated supply chain.

Likewise, in 2015 close to 90% of apparel exported by North, South and Central American countries went to the US and Canada and 81% of apparel exported by EU countries went to other EU countries too.

To be noted, all of these three major textile and apparel supply chains are facilitated by respective free trade agreements in the region such as the North American Free Trade Agreement (NAFTA), the ASEAN-China Free Trade Area (ACFTA) and of course the common market enjoyed by the EU members. On the other hand, fashion brands and apparel retailers often use the western-hemisphere supply chain and EU-based supply chain as a supplement to the Asia-based supply chain for more fashion-oriented or time-sensitive items. I think such a dual-track sourcing strategy will continue in 2017.

Related, supply chain management will play a growing important role helping apparel companies control sourcing cost, improve speed to market and better meet consumer demand in 2017. An interesting phenomenon revealed by the 2016 US Fashion Industry Benchmarking Study released by the US Fashion Industry Association is that around 30% of respondents say they plan to consolidate rather than diversify their sourcing base in the next two years. As one respondent commented: "Our focus right now is really finding efficiencies and maximising productivity in the supply chain. While we won't necessarily move out of any countries, we are consolidating the base within regions."

Last but not least, in 2017 apparel companies will continue to give more weight to sustainability and social responsibility in their sourcing decisions. Building a more transparent and sustainable supply chain is an irreversible trend in the apparel industry.

Julia Hughes, president of the United States Fashion Industry Association (USFIA):
Sourcing trends remain stable. China remains the major supplier to the world. While we do not see that changing, 'China Plus Many' is the strategy of many brands and retailers of all sizes, and we expect companies to continue to diversify their sourcing to help them meet consumers' needs as well as mitigate global supply chain risks.

Vietnam remains the strong No. 2 supplier – and even though president-elect Trump plans to withdraw from the TPP, we expect Vietnam to continue to attract business.

Made in America remains an important aspect of sourcing. In USFIA's 2016 benchmarking study, 52% of companies said they source from the United States, basically no change from the prior year, with 20% saying they expect to increase sourcing from the United States in the next two years.

Social compliance and sustainability are also critical to companies' sourcing decisions. In 2016, 89% of our study respondents said ethical sourcing and sustainability issues are more important to their sourcing decisions now compared to five years ago. "Ethical issues are a top priority – top of mind when making sourcing partnership decisions," said one company. "Customers expect social responsibility and we require our supply chain to adhere," said another. And USFIA plans to expand our work on social compliance and sustainability in 2017, too.

To stay ahead, I am going to repeat a theme from last year. Today, more now than ever, it is important for companies to get involved – and stay involved – in the policy process in Washington, DC. Companies should participate in benchmarking studies to ensure we have accurate data, and participate in advocacy efforts, either on their own, or through associations like USFIA, or both. Government officials need to hear from the brands and retailers who are creating high quality jobs in the US, creating new technologies, and creating the products that consumers need and want.

Rajiv Sharma, group chief executive at Coats:
The overall geographic landscape of sourcing looks unlikely to shift dramatically in 2017. However what is of most interest is what has not changed. China, somewhat against the odds, has remained by far the largest supplier, and is of course also still a growing consumer market.

In terms of strategies that can help apparel firms and suppliers stay ahead, there are two elements that should be integral.
Digital simply has to be in the strategy somewhere and contribute an increasingly more prominent part year-on-year. Whether it is digitising the supply chain to help reduce the number of human interventions along the journey or harnessing digital to provide quicker and more efficient contact and feedback with the customer or end consumer.

The second element is added value services. How can the offer, whatever and wherever it is in the supply chain, be extended? Margins are constantly being squeezed and there is a limit to what costs can be passed on while still remaining both competitive and commercially viable as a business – but a cost effective differentiator is added value or service.

There should be a focus on the immediate customer at all times and a constant search for innovative and value adding ways their lives can be improved, made easier and smoother. But it is also relevant to keep the end product front of mind, regardless of where you sit in the supply chain. It is, after all, ultimately about the demands of the consumer and, as the gap between the manufacturer and end consumer constantly narrows in terms of time and distance, so all apparel firms and suppliers are effectively getting closer and closer to that end finished product.

Dr Achim Berg, partner at McKinsey & Company and co-leader of McKinsey's Apparel, Fashion & Luxury Group:
Sourcing is also a victim of the global volatile landscape and companies will be facing the challenge of doing more with less. Slowing sales experienced by the industry in 2016 and the rise of omnichannel are making it difficult for companies to adapt quickly and move from transactional sourcing to performance-based sourcing.

To stay ahead, apparel firms and their suppliers must answer the question of how digitalisation can drive efficiency and improve service in both procurement and throughout the value chain. Advances in virtual design, digital printing, robotics, and automation are transforming the way companies design and make their products. The apparel industry is still at the early stages of this adoption. The shift in 2017 will be to spot the opportunities for including automation in production in order to drive up flexibility, while still optimising traditional non-digital sourcing to prepare for digital procurement.

Supplier collaboration will also become more important, as ensuring long-term success requires supporting suppliers in order to build skills for the digital future.

Matthijs Crriete, secretary general at the International Apparel Federation (IAF):
There is the geographic and the organisational angle. Organisationally, more collaboration and a longer-term outlook in sourcing relations will enable both buyers and suppliers to reap financial benefits from better functioning supply chains. Companies are starting to own factories again, or they are implementing programmes to work closer with key suppliers. Also, large apparel manufacturing conglomerates are gaining market share because they are able to invest in factories.

Geographically, ‘new’ production locations will continue to quickly or slowly grow their market share. And interestingly, even without more restrictive trade deals and political power play, the importance of ‘local for local’ production will grow. This is the case in big and growing markets such as China, India and Turkey, where local demand is crowding buyers out of factories that prefer the higher margins of the local market. And to a much lesser extent it will be the case in high cost economies in Europe, North America, Asia and Australia where reshoring will again be an important issue in 2017.

Rick Horwitch, vice president and global retail lead for supply chain strategy at Bureau Veritas Consumer Products Services:
With a new US administration coming in, and elections taking place in key Asian and European countries including India, South Korea, France, Germany, Hungry, Czech Republic, Slovakia, Portugal and the Netherlands, a lack of clear direction will make 2017 a challenging year.

While TPP may be dead, there is still positive news for retailers and brands doing business in Vietnam. In 2016 the EU and Vietnam signed a free trade agreement. In Asia there will be a significant push to approve RCEP (Regional Comprehensive Economic Partnership). This covers all ten ASEAN (Association of Southeast Asian Nations) countries plus the six countries that ASEAN has FTAs with (Australia, China, India, Japan, New Zealand and South Korea). This group represents nearly 50% of the world’s population and 30% of global GDP. The big winners will be US and EU retailers and brands who have significant global distribution (in the EU and throughout Asia – especially China).

Strategies will continue to be built around the big issue of demand and supply: speed/time, cost/efficiency, country balance and transparency. The days of ‘chasing the cheapest needle’ are over. Collaboration, commitment and trust across the entire demand chain are critical.

Key points will be:
- Vietnam will continue to grow both in manufacturing and textiles (fibre, yarn and fabric), taking share from China.
- Retailers and brands will look to accelerate sourcing from countries/regions with FTAs. Jordan, sub-Saharan Africa (especially Ethiopia and Kenya) will continue to see growth and Egypt will see resurgence.
- China for China and Vietnam for China (assuming RCEP is approved) will be important – especially for US and EU brands and retailers with distribution in China.
- Regional/reshoring sourcing closer to the consumer will expand (Asia for Asia, EMEA for EMEA, Americas for Americas).

Mike Flanagan, CEO of apparel industry consultancy Clothesource:
For the past eight years, forecasting exercises have been dominated by constant, ungrounded, claims of the imminent collapse of Chinese exports due to alleged declines in China’s competitiveness that have simply never materialised.

2016 saw little change in the problems the apparel trade had suffered the previous year: Static rich-country apparel markets; Western retailers still struggling with over-investment in stores; Western brands and retailers mostly looking at continuing losses in unsuccessful overseas expansions; net losses from movements into e-commerce; and retail prices tumbling both because of overcapacity throughout the supply chain and price-cutting due to the internet.

But according to Clothesource Tradetrek, for the first nine months of 2016 these problems led to almost no change in how apparel importers ran their businesses. Fractional increases in the proportion of US and EU imports coming from their neighbours, and a slight increase in EU imports from Vietnam and Bangladesh were almost the only changes on 2015. Africa continued to attract much bolstering – but sub-Saharan Africa still exported fewer clothes to the West than Portugal.

Most exporting countries saw prices tumble, meaning stable or slight increases in the number of garments exported looked like a decline in sales values.

However, there is a real prospect three looming superpower earthquakes – China’s belief it can remain a non-market economy while retaining free access to Western markets; the US Republican party’s goal to tax imports out of existence; and Trump’s determination to negotiate imports out of existence – will result in real changes to the sourcing map.

Click on the following links to read more comments about the year ahead:
Outlook 2017 – Strategies for sourcing success

10 January 2017 | By: Leonie Barrie

What should apparel firms be doing now if they want to remain competitive into the future? Diversified supply chains, new technologies in both sourcing and product development, and a focus on speed, productivity and innovation are among the strategies that will help to separate the winners from the losers in 2017 and beyond.

Marc Compagnon, executive director, Li & Fung:
The direction for many companies in recent years has been to narrow and tighten their supplier base as well as where they do business. These are the most vulnerable to disruption.

Companies need to diversify their supply chains now as the best hedges against uncertainty. They need to enable speed and focus on integrated supply chain strategies rather than on cost alone. If they can also recognise the value of having the right processes that deliver the right product at the right time, then it's possible that disruption will have less of an impact.

Guido Schlossmann, president and CEO of Synergies Worldwide Sourcing:
Process re-engineering remains key, including delegation of decisions and/or setting proper authority levels to adjust and react faster to unforeseen market changes both in retail as well as sourcing.

Also important are: Smart collection, interpretation and use of customer data to design and anticipate specific product and service needs (style, colours, size, delivery options). Converting social media potential into business and experimenting with new business retail models (such as subscription service, curated internet). Operating a flexible and faster supply chain by applying a smart multi-sourcing channel approach. Testing/using available technology to digitise the supply chain where it makes sense. Investing and experimenting more in R&D and design (such as Under Armour's Lighthouse facility).

Edwin Keh, CEO of the Hong Kong Research Institute of Textiles and Apparel (HKRITA), and lecturer at the Wharton School at the University of Pennsylvania:
The critical ingredients for success are powerful global brands, critical scale, an innovation pipeline, and a powerful, motivated talent pool working in a collaborative culture of excellence. All of these have to be present for sustainable success.

Successful brands work hard to build these with a sense of urgency. On the other hand companies at risk are those that are not differentiated, with contentment for past successes, and a stubborn commitment to stay the course without regular honest reflection or observation about the changes in the marketplace.

Stephen Taylor, senior manager at Kurt Salmon, part of Accenture Strategy:
Technology has become a key requirement for efficient apparel sourcing and product development processes, and will provide the competitive edge.

We will see more companies adopt product lifecycle management (PLM) technology. More advanced companies will trial and adopt 3D solutions to expedite product concept and prototype development.

As the introduction of technology in both sourcing and product development becomes an operational priority for many brands, we will see the development of IT teams that have deep domain expertise and sufficient autonomy to rapidly evaluate, develop and implement new solutions to deliver the agility that the business requires.

Robert Antoshak, managing director at Olah Inc:
Simply put: be nimble. We live in changing times. Our industry isn't immune to broad economic, demographic and political forces. What worked last year or even last season may not work in the next – that really needs to be the attitude of clothing companies.

It may be stating the obvious that winning firms will be those who can most closely meet the demands of their customers, although how the demands are met will be key for survival. 'How' is at least as important as 'why' when it comes to sourcing, product design and attracting consumer interest. There are times when a global supply chain may not be the most efficient way of making products in demand by consumers. Companies shouldn't be afraid to look for production and replenishment alternatives.

The retail business is a crowded place these days. Although it is critical to stand out and attract consumers on a variety of levels – such as price, quality and design – it is equally important to manage sources of supply in a fluid manner. And plan. Take the time to plan out strategy and then plug in supply chains as necessary to execute on those plans.
Dr Sheng Lu, assistant professor at the Department of Fashion and Apparel Studies at the University of Delaware:
To remain competitive into the future, apparel companies need to be prepared to change and be willing to try something new. Indeed, revolution is coming for the apparel industry, including the way products are made and sourced (3D printing and various digital manufacturing tools); how consumers shop (the 'see-now-buy-now' trend); and where and how to sell (e-commerce and omnichannel retailing).

In the past, small and medium sized companies (SME) were regarded as more vulnerable than big players in the apparel industry for business survival. Nowadays, however, without embracing the spirit of innovation and entrepreneurship, even large companies can quickly become dinosaurs and find their business struggling.

Rajiv Sharma, group chief executive at Coats:
There are five key imperatives for our industry, and apparel firms need to keep them constantly front of mind if they are to remain winners or become them in the future.

The first, quality, is an absolute must, a hygiene factor. Consumers demand first class quality of product and punish any lapses in standards.

After quality, what will separate the winners from the losers is their response to three other imperatives, which are the true differentiators: speed, productivity and innovation.

Speed is now about much more than having the flexibility to respond to in-season changes in demand. It is continuous and relentless improvement. If something is not working, apparel firms need to fail fast in order to move on and keep learning.

Productivity has to be maintained at optimum levels and constantly reviewed to ensure it maintains those levels. Another differentiator is innovation. This can be either an innovative addition or application to the product itself or form the foundation of delivering another differentiator. For example applying digital innovations to parts of the supply chain will enhance speed and possibly also productivity.

Finally, corporate responsibility (in terms of sustainability, ethics, community engagement and compliance) is increasingly seen as both the right thing to do AND a source of real consumer loyalty.

What will separate the winners from the losers is being able to stand out on at least one, or more, of these differentiators.

Dr Achim Berg, partner at McKinsey & Company and co-leader of McKinsey’s Apparel, Fashion & Luxury Group:
If companies want to remain competitive going forward, they need to be aware of – and address – changes in the global economy, the consumer, and the fashion system itself.

When it comes to the global economy, beyond managing volatility, winners will rethink their strategies in China and apply a city-level focus, expecting increased competition from local brands.

When it comes to consumer shifts, winners will likely need to rethink the future of the store and focus on a consumer experience redesign. This may take the form of stores being reshaped to resemble the online experience more closely (or amplifying the mobile and digital connections available in-store) and introducing the notion of community-based retail. Furthermore, it could entail recognising opportunities among not only millennial buyers, but also the elderly and retiring, and the new lifestyle trends around wellness.

And when it comes to the fashion system, investments in upstream technology and how companies respond to the consumers’ desire for instant gratification will further separate winners and those not yet there.

Matthijs Crietee, secretary general at the International Apparel Federation (IAF):
There is less and less room for the suboptimal. Within the context of the competitive position a brand or a retailer has chosen, it must be best of class to remain in business. This requires more knowledge and more investments. Winners have a holistic and long term view of their business. For example, to be able to fulfill omnichannel consumer demand they must not only invest in the downstream side of business, but they also must invest in their supply chains.

Winners also have an overall innovative attitude to doing business. I am thinking of companies that, for instance, develop new exciting products and that at the same time own a pilot plant to try out new production management techniques. How companies are able to manage innovation is becoming more important. Investments in new techniques and in the people that must work with these techniques are crucial. Perhaps 2017 will be the year that the digitalisation of the product development process will really kick off?

Julia Hughes, president of the United States Fashion Industry Association (USFIA):
Sustainability, sustainability, sustainability. It’s no longer about price; in fact, for the best companies, finding a socially compliant and sustainable product at an okay price is much better than finding a non-compliant product at a cheap price.

In USFIA’s 2016 benchmarking study, 89% of companies said social compliance and sustainability are more important to their decisions now than they were five years ago – and the 11% who said "no change" are most likely some of the companies who have been at the forefront of these issues.

Companies need to build their sustainability network, and proactively reach out to their peer brands and retailers, their suppliers, their service providers, and especially third-party organisations with expertise in these issues, like Worldwide Responsible Accredited Production (WRAP), the Sustainable Apparel Coalition, the Better Cotton Initiative, and the Conflict-Free Sourcing Initiative, to name just a few that USFIA will work with next year. There are many resources available – and many companies who are now sharing what they are doing through these organisations – so companies just need to reach out.

An internal network is necessary, too. The sourcing, compliance, customs, and government affairs teams can no longer remain in their own silos; everyone must work together and share information to ensure a compliant, sustainable business practice.
Rick Horwitch, vice president and global retail lead for supply chain strategy at Bureau Veritas Consumer Products Services:

To remain competitive in 2017, and into the future, companies need to encourage collaboration (internally and externally) and innovation (materials, technology and processes). Develop efficient processes that support speed, transparency and quality and a great customer experience. Embrace data and analytics – especially around product and production transparency, and consumer trends.

How retailers and brands respond to these challenges will ultimately affect their ability to build and maintain brand and store loyalties. I believe the keys to winning are:

- Understanding the data and analytics around your business model and customer habits. Use the data to identify trends, and problems, and develop solutions.
- Quickly interpreting trends into products and processes that can feed consumer demand and drive efficiency.
- Always raising the quality of your product and consumer experience. Do not assume quality happens.
- Understand and streamline your processes by adopting Lean or Value Stream Mapping methods; communicate and collaborate internally and externally; use data to drive smart, quick, decisions.

Click on the following links to read more comments about what to expect in the year ahead:

- Outlook 2017 – Apparel industry challenges and opportunities
- Outlook 2017 – What next for apparel sourcing?
- Outlook 2017 – What else is the apparel industry watching?
Outlook 2017 – What else is the apparel industry watching?

11 January 2017 | By: Leonie Barrie

In the final part of our Outlook 2017 report we asked industry executives what keeps them awake at night – and other issues the apparel sector should be keeping a close eye on in the year ahead. Not surprisingly, the future of trade policy and free trade agreements – and the risk of trade war breaking out – were top of the list, along with finding opportunities to achieve growth, health and safety, and preparing for the unexpected.

Marc Compagnon, executive director, Li & Fung: With the current macro conditions, 2017 is likely to be another challenging year for the apparel industry. They key thing keeping us awake at night is the pace of change. We want to recognise the opportunities when they arise, such as the digitalisation of the supply chain. It’s a fundamental requirement for today’s business, and we want to be at the forefront of that and to help our customers navigate the pace of change.

Edwin Keh, CEO of the Hong Kong Research Institute of Textiles and Apparel (HKRITA), and lecturer at the Wharton School at the University of Pennsylvania: Interest rates will go up in 2017; unemployment, while down, may result in more but lower paying jobs. Meanwhile China is slowing down and getting older. We should be cautious, agile, and on the lookout for opportunities. It won’t be business as usual for a while.

The world is more polarised than ever. Many more extreme personalities are leading nations. We run the risk of returning to a Cold War era stance. This would dampen global trade, adversely impact consumer sentiments, and reduce consumption. None of these are healthy for trade or industry.

There are also the possibilities of new and unexpected disruptions. What if Apple decides to introduce smart clothes that functions as phone, watch, and apparel? And what if Foxconn decides to manufacture this for Apple? From the brand to the retailer to the manufacturer, all current stakeholders in the apparel supply chain have just been disrupted. Remember Kodak, Blockbuster Video, buggy whip manufacturers?

Dr Sheng Lu, assistant professor at the Department of Fashion and Apparel Studies at the University of Delaware: Trade policy is one area that keeps me awake at night. Trade policy matters for the apparel industry because it affects the quantity, price and availability of products in the market. Specifically, in 2017 I will be closely watching the following trade agendas:

- The WTO Trade Facilitation Agreement (TFA), which is close to coming into force. TFA aims to make customs and border procedures easier, speed up the passage of goods between countries and lower cost of trade.
- Negotiation of the Regional Comprehensive Economic Partnership (RCEP), a proposed free trade agreement between the ten countries that are in the Association of Southeast Asian Nations (ASEAN), plus the six countries that ASEAN has free trade deals with (Australia, China, India, Japan, New Zealand and South Korea). In 2015, these 16 countries together exported $369bn worth of textile and apparel (50% of world share) and imported $124bn (34% of world share). Since the Trans-Pacific Partnership (TPP) won’t be implemented anytime soon, RCEP has the potential to influence and reshape the textile and apparel supply chain in the Asia-Pacific region.
- A possible revision of the North American Free Trade Agreement (NAFTA). NAFTA is a critical factor facilitating and maintaining the western hemisphere textile and apparel supply chain. A recent study of mine shows that ending the NAFTA would significantly hurt apparel manufacturing in Mexico and textile manufacturing in the US, largely because apparel ’Made in Mexico’ today often contains yams and fabrics ’Made in USA.’
- Trans-Pacific Partnership (TPP) and Trans-Atlantic Trade and Investment Partnership (T-TIP). Although many people think these two agreements are dead, I disagree. TPP and T-TIP are NOT conventional free trade agreements (FTAs) that deal with tariffs and non-tariff barriers only. In the same way that we need traffic rules, TPP and T-TIP address our needs to update international trade regulations on 21st century trade agendas such as digital trade, state-owned enterprises, labour and environmental standards, small and medium sized enterprises, and trade related investment. On the other hand, both TPP and T-TIP still have a solid and broad support base, which includes the fashion apparel industry. If trade politics is why TPP and T-TIP are in trouble, for the same reason we should expect a reversal of the fate of these two agreements when the time comes. Plus, we should never underestimate the creativity and wisdom of trade policymakers.

Another thing that keeps me awake at night as a professor is what needs to be changed or updated in our curriculum to better prepare our students for the needs of the apparel industry. Fashion programs like ours directly prepare future professionals for the fashion apparel industry. This also means we are not immune to big shifts in the industry either.

For example, our course offerings currently include textile science, product development, merchandising, branding and sourcing and trade. But in addition to these conventional topics, what else should be added to the curriculum? What new skill sets or knowledge points will the apparel industry expect of our students in the future? Personally I think talent training is a critical area that the apparel industry, and our fashion educational programs can and should form closer partnerships. And the outcomes will be mutual beneficial too.
Julia Hughes, president of the United States Fashion Industry Association (USFIA):

Last year I said that I was lying awake at night thinking about the 2016 elections and the impact on trade policy and especially the TPP and the TTIP. Wow, did that turn out to be an understatement! Now, the uncertainty following the election remains the top concern – about the future of trade policy and free trade agreements, about potential gridlock in DC, and potential problems with China and other nations, and of course, about consumers’ confidence in the economy and the impact on the industry.

We’ll all be getting a little less sleep until we know more about the new Administration. Nonetheless, USFIA is prepared to work with the new Administration and Congress to find opportunities to eliminate tariffs and open markets, to expand activities with US Customs and Trusted Trader Programs, and to provide resources to help companies source in cost-effective, efficient, and ethical ways.

Robert Antoshak, managing director at Olah Inc:

Trump’s trade policies are most worrying for me. Although he ran on an anti-trade platform, it is unclear how he would specifically deliver on the populist message once in office. With his attitudes toward trade and globalisation, there’s a great chance of a trade war breaking out. For instance, he could impose unilateral tariffs on apparel imports from China and elsewhere, which would only invite retaliation. It’s hard to know how far Trump is prepared to go under those circumstances. What begins as higher tariffs could end up as fixed import quotas.

Besides my hand-wringing about trade policy, I remain concerned by the decline in cotton consumption. Somewhere along the line, cotton fell out of favour with designers, manufacturers and, most importantly, consumers. The industry has bravely rallied its troops to champion the benefits of cotton, yet cotton continues to be saddled with weak demand. Of course fashion has played a role and consumer preference for synthetics continues to be strong. Athleisure is the most significant threat to the denim and jeans industries. And if the jeans business remains weak, so will cotton consumption.

Mike Flanagan, CEO of apparel industry consultancy Clothesource:

What keeps me awake at night? The risk of real war; and the risk of the Eurozone’s obsession with no borders and a volatile currency causing events that crystallise instability in Europe.

In the year ahead we all need to watch economies, the mass movements of populations, and the extraordinarily complex legal reactions of the world’s major trading nations.

Matthijs Crietee, secretary general at the International Apparel Federation (IAF):

Just as we don’t want terrorists to win by making us stop visiting Christmas markets, soccer games and rock concerts, I would not want the apparel industry in vulnerable countries to suffer unjustly when terrorist attacks seem to make them unsafe. It is understandable and unavoidable that companies must sometimes take tough decisions to protect their personnel, but I hope the industry remains its cool-headed self when dealing with this issue.

I also hope that new governments, through trade policy, will not force a romantic notion of self-sufficient production blocs upon an industry that has developed totally globalised supply chains. Supporting reshoring is good, forcing it through over regulation is not.

I hope that 2017 will also be the year when the industry’s initiative to avoid the huge duplication in social audits along with other harmonisation projects will come to fruition.

Dr Achim Berg, partner at McKinsey & Company and co-leader of McKinsey’s Apparel, Fashion & Luxury Group:

The apparel industry is increasingly complex and, more often than not, we talk about changes within it as isolated events. What keeps me awake at night is how all the moving parts are interconnected and how different the implications are for the various market segments - luxury players versus mid-market players versus discount players - and for the various product categories from clothing to sports to bags and luggage.

The McKinsey Global Fashion Index suggests that the fashion industry will grow by 2.5% to 3.5% in 2017, up from 2.0% to 2.5% in 2016. While this represents a slight recovery, it is not yet at the historical 5.5% annual growth it enjoyed for many years. Therefore, the apparel industry needs to keep a close eye on how each of the key shifts in 2017 impacts their particular segment of the industry and their consumers, ensuring that there is a clear value proposition in their offer.

Guido Schlossmann, president and CEO of Synergies Worldwide Sourcing:

According to the recent fashion report published by McKinsey, 2017 is supposed to be better due to an increase in global GDP and purchasing power in major economies. With a strong US currency and new US politics, higher oil prices and increasing mid-income groups, it is very likely that the US, Russia, China and India could spur the demand for apparel. In addition to omnichannel and a multi-channel sourcing strategy there is a need for a multi-region sales strategy to utilise the potential of China and India as well as worldwide emerging mega cities.

Stephen Taylor, senior manager at Kurt Salmon, part of Accenture Strategy:

The biggest concern for brands remains: how are we going to achieve growth? With margins and volumes remaining flat, growth will have to come by capturing market share from other players, being more agile and operating more efficiently.

2017 is also going to be marked by lots of restructuring as brands look to get leaner, leaving behind segments and business units that are not profitable or growing.

Building sales internationally is realistically not a silver bullet. For many years, venturing into new markets has been a strategy to help luxury brands, in particular, to fuel their growth; however, this is becoming increasingly expensive.

Rajiv Sharma, group chief executive at Coats:

The thing that keeps me awake, and should keep everybody in our industry awake, is health and safety. Until we as an industry reach zero accidents we must not rest on our laurels. We must all do all that we can to mitigate against the constant risk of a mass accident and the impact it would have on our industry.
Aside from that, the apparel industry should look more widely at what other sectors are doing, particularly around the shift from the industrial to the digital age. What digital applications can we ‘steal with pride’ and apply to our own industry? How and where can we better harness digital?

In comparison to other more cyclical sectors with erratic shifts in demand, the apparel industry is a stable industry with global consumer demand for products generally growing consistently with GDP.

That said, 2016 was a tough year. There are glimmers of hope for 2017 but we live in particularly interesting and roller coaster ride times. The apparel industry cannot fully prepare for every VUCA (volatility, uncertainty, complexity and ambiguity) related factor, and to an extent nor should it. But all companies must keep a constant eye on the road ahead to stay alert to small potholes that have the potential to become huge sink holes.

**Rick Horwitch, vice president and global retail lead for supply chain strategy at Bureau Veritas Consumer Products Services:**

A main concern related to the next generation of industry leaders, is increasingly poor communication skills and a lack of analytical skills and process knowledge.

- Clear and effective communications skills are of utmost importance. In a world that is wired and connected 24/7, the lack of interpersonal communications is often the root cause of most problems. While social media tools are important, verbal communication is invaluable. My concern is that current, and future, generations of business leaders are not learning the importance – and value – of verbal communication and personal connection.
- Technical training in areas like manufacturing, sourcing, product engineering and quality management has become a lost art. As products, demand chains and consumer demands become more complex, the need for a high level of technical understanding becomes increasingly important.

The real winners will be those industry leaders (and companies) who are willing to evolve and adapt to rapidly changing consumer needs, and emerging opportunities, in 2017 and beyond.

**Rick Helfenbein, president & CEO of the American Apparel & Footwear Association (AAFA):**

I do think 2017 will be better than 2016. We are entering an improved economy and, because of the many store closures in 2016, brick and mortar retail space is starting to fall more in line with demand. Retailers and mall operators are working very hard to rethink the how space is utilised, and shopping is becoming a significantly more enjoyable experience. There will be more going forward on quality design and less on commodity production.

What keeps me awake at night is all the pending (potential) changes for trade and for the supply chain. However, that being said, sometimes change is good!

*Click on the following links to read more comments about what to expect in the year ahead:*