

Sourcing at the limit

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Shorter, more expensive, later. With the war in Ukraine, supply chains have been completely disrupted. Rising costs, rising prices and the limited ability to plan processes put a strain on business. And the end is not yet in sight: the schnitzel for 35 euros, the tank filling for 95 euros. Soon a sandwich for 10 euros? Fashion will also become more expensive in the future and may no longer be available in the familiar abundance. Industry experts assume that supply chains will not be relieved anytime soon. The first price increases for the coming fall goods are apparently just a small taste. At the end of 2021, there was already price pressure in production, part of which has been included in the calculations for the new collections. But now the spiral continues. Erfo boss Hauke Schmidt says: "We have never experienced such a cost development." Calculation models are starting to falter across the board. The cost side is only one part of a whole series of bottlenecks. No one really wants to fully communicate what the overall situation really looks like. However, it's no secret that the challenge is huge. "We have never been in a situation like this with such great difficulties. I don't know what to do anymore," says a womenswear purchasing manager, who does not want to be quoted with his company at the moment. The reason is obvious: the fear of finding out that part of the ordered autumn goods can not be. In any case, you can't ignore it nowadays. To ensure that retail customers do not jump off, the companies involved are currently doing everything they can to get the supply chains back on track and at first not to communicate. the situation? March and April are strong production months as orders are on the books and mostly now being processed. During the Covid pandemic, the industry has already had to restructure creatively, break new ground and absorb setbacks. Now there is also the failure of the Ukrainian production facilities Silvia Jungbauer, General Manager of Gesamtmasche, explains: "The war in Ukraine has pushed supply chain chaos to its limits. In combination with the consequences of the pandemic, this is the last straw." Broken logistics chains are the challenge of globally changing production and procurement markets. The more complex and longer the chain, the greater the risk of being hit by sky-high freight rates and unpredictable transit times. The delivery conditions and purchase prices in the Far East have long been less and less attractive, especially for medium-sized companies with their small batches.

Anyone who has settled in Ukraine for ready-to-wear or denim equipment is now looking for new production facilities in Europe and encountering fully booked factories. Due to the many cancellations in the past two years, capacities have generally been reduced. Even in North Macedonia, Bulgaria or Portugal there is no longer enough qualified personnel. There are currently additional absences due to illness due to Covid. Abilities fall like dominoes. And the pressure of more customers on the remaining producers, especially the well-known ones, is increasing. This situation of scarcity is leading to a turning point in sourcing. Anyone who can currently offer a functioning production can increase their prices. Where money has been bickered for years, a new power structure is being created. With far-reaching consequences. If you can afford it and/or want to strengthen your position in the market, you suddenly pay twice as much for sewing or equipping your models. As a result, weaker and smaller competitors are pushed out. And it's not just them, even the big ones fear their often complicated supply chain and must fear being booted up by others.

However, the production side is only part of the canon of problems. This goes hand in hand with rising energy costs, which don't stop at a bill. This also makes yarns, fabrics and accessories more expensive. An Italian denim producer admits: "We are at the end of our business. We have worked on the threshold for a long time, but now our costs are much higher than the prices the market is willing to pay." Jungbauer says: "All the bottlenecks result in a higher level of production and procurement costs in the long run. Internally, no value chain can compensate for this." Especially cheap products are affected. Jungbauer follows up on her role as the association's representative, saying, "If politicians take the new due diligence seriously, it's going to be extremely expensive."

Fashion providers are already struggling with falling profits. For example, Vitali Frizler, general manager of Casamoda, calculates: "We currently have a higher cost of sales ratio of about 2% on average compared to 2019. This is also the decrease in margin that we expect for the entire collection. For individual products, the margin can be reduced by up to 20%." 2% doesn't sound dramatic at first. But based on the annual turnover, that would be 1.2 million euros, Frizler calculates, which is missing from the contribution margin. Transport is quite a risk. Everyone is talking about logistics becoming more and more expensive. The abolition of Russia as a route makes all types of traffic more difficult. Longer delivery times mean that goods are sold later and are no longer as coordinated as usual.

So does retail have to deal with gaps in the assortment? Absolute. Like others, P & C Düsseldorf points to the first gaps. A spokesperson said: "Since last year, there have been problems in global supply chains caused by the current global crises. Pandemic-related production shutdowns, fluctuating energy supplies, scarcity of raw materials, low freight capacities, staff shortages and also the tense situation in Ukraine are the most important factors." Delays remain the rule and are included in the planning for the coming period. seasons, delivery takes four to six weeks, which means that fewer goods are available in the stores and in the web shop than planned. P&C is in constant contact with its suppliers to find solutions. For example, orders for the coming season are placed very early.

The situation in the shoe market is even more explosive. Carl-August Seibel, Chairman of the Board of Directors of the German Association of the Shoe and Leather Goods Industry, recently said at the Shoes Düsseldorf trade fair: "Almost three quarters of the shoes come from Asia. A container used to cost 2,000 euros, now sometimes 12,000 to 15,000 euros. If you had one euro in transport costs for a pair of shoes, it can now be five to seven euros." A look at the future. Trade must take into account that there will be a shortage of goods in the autumn. One or the other provider will not be able to maintain itself with its conditions in the shrinking market. As mentioned, the galloping price development ensures that the margin problems are getting bigger and bigger. After all, the order obligations for the trade are linked to agreed prices. Reinhold Richter, owner of Marc Aurel, agrees on behalf of many others: "It will be more expensive for us, we can't pass that on at the moment. But we certainly want to provide our customers with our quality standard." This indicates that retailers will initially be spared the major price shock in the autumn.

No one can predict at this point how long the tense situation will last. Optimists assume that the situation could improve in two to four seasons. However, hardly anyone expects prices to return to pre-war levels. The industry can probably deal with declining margins for a season or two. But longer? Very big question mark. The entry price in the specialist trade could therefore thin out further. The architecture of genres is already changing anyway. Many from the mainstream look to premium and try to put capsules or new collections on it. For example, in the trousers market, where Angels is launching the Ængels by Angels collection, Brax will soon launch a premium line and Gardeur is looking at retail for 150 euros with the G1920 line. to bloom. Consumer confidence will initially remain volatile as private households suffer from rising energy and food prices

What will sourcing look like tomorrow?

No one will admit it publicly, but some suppliers will try to save on the use of goods somewhere in the chain. With consequences for quality. Instead of expensive own production, there is an increasing trend towards complete purchase. Going forward, merchant buyers will need to look very closely at what is offered by previously reliable suppliers. Especially when it comes to commitments in the field of sustainability. After all, shortages and price increases are particularly severe here. Collaboration with prepress is becoming more important than ever. There are advantages when fashion providers are also producers. This is the case with women's clothing brand More & More: "The fact that we sell directly to our parent company's own or affiliated production facilities in Turkey gives us a lot of leeway when it comes to prices and deadlines. In the run-up to production, we are already blocking essential yarns and fabrics, bundling volumes and working hard on a collection that remains efficient and in line with the market."

Others try to spread their orders widely to protect themselves from risk. Yet everyone is currently dealing with price increases and transport delays, with a view to the calculation, reconsideration is the order of the day. Thomas Ballweg, purchasing expert at the German Fashion Association, has taken a close look at the surcharges for a 99-euro pair of trousers: "It is clear that the first retail price cut, which is usually 20%, the manufacturing and material costs exceed that." In concrete terms: it costs 10 euros to sew trousers in Eastern Europe, for example, and the material costs are approximately 10 euros. The industry sums the purchase price including transport and handling to plus/minus 40 euros, then the traders add up to 99 euros, including expected turnover. In the future, new planning models are conceivable that aim to produce much more accurately and in a shorter period of time - and to align quantity and price in such a way that value-decreasing depreciation is taken into account from the outset.

Digitization in the supply chain is on the way. More and more companies are participating and trying to become more efficient and powerful. Franziska von Becker, sourcing and sustainability expert at

Hachmeister & Partner says: "There are always 30% of the goods on the market that are wrong or too planned. If we can produce differently, we can become more efficient." Also for the future, nearshoring is an important topic. You have to take the freedom to rethink many things. This is a challenge for companies with complex structures, many are already doing it: to be able to respond more flexibly to market demand, you have to plan long and hard. Smaller collections, specialization and concentration on strengths will continue to pay off. Nevertheless, it is important for a number of industrial, pre-stage and trade companies to manage this pandemic and war-marked crisis economically in a reasonably stable manner. and then come to a new normal