

# Nearshoring in the Apparel & Footwear Industry

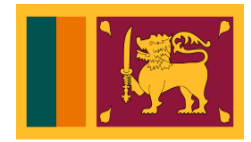
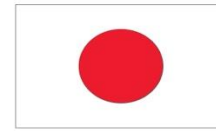
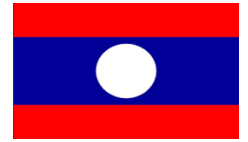
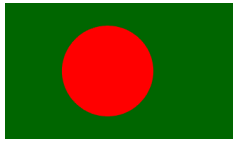
Benefits, Challenges, and Strategic Considerations

By Martino Forcella

Sourcing Director at North Sails Apparel

Date: 3 October 2024

# About me ...





Was it all worth it?

# Fashion Environmental Impact



## Carbon Emissions

10% of global carbon emissions (~1.2 billion metric tons of CO<sub>2</sub> annually).



## Water Usage

- Fashion industry uses 20-200 trillion liters of water annually.
- 20% of industrial wastewater pollution is linked to textile treatments.



## Waste Generation

85% of textiles end up in landfills or are incinerated (~92 million tons annually).



## Energy Consumption

- High energy consumption, especially in coal-dependent regions.
- Some brands switching to renewable energy sources.



## Chemical Usage and Pollution

- 20% of industrial water pollution comes from textile chemicals.
- 9% of global microplastic pollution is from textiles, primarily synthetic fibers.

# J.Crew Will Close These Eight Stores in August

By Ella Chochrek



# British retailer Arcadia Group, owner of Topshop, files for bankruptcy.

## Benetton in crisi: perdita operativa da 100 milioni e piano di rilancio

Luciano Benetton in un'intervista: «Adesso occorre guardare avanti, nei prossimi mesi sarà fatto un piano per il futuro»

25 maggio 2024



BANKRUPTCY

## Sears Gets Green Light to Wrap Up Bankruptcy Case After 4 Years

Judge approves \$180 million settlement with former Chairman Edward Lampert and others, bringing in funds needed to wind down estate, pay suppliers

By Soma Biswas

Aug. 31, 2022 6:41 pm ET | WSJ PRO

news

## American Apparel Is Officially Closing Down

BRB, crying.



BY AVERY MATERA

JANUARY 13, 2017

## Forever 21 files for Chapter 11 bankruptcy protection

30 September 2019

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Retail & Consumer | Bankruptcy

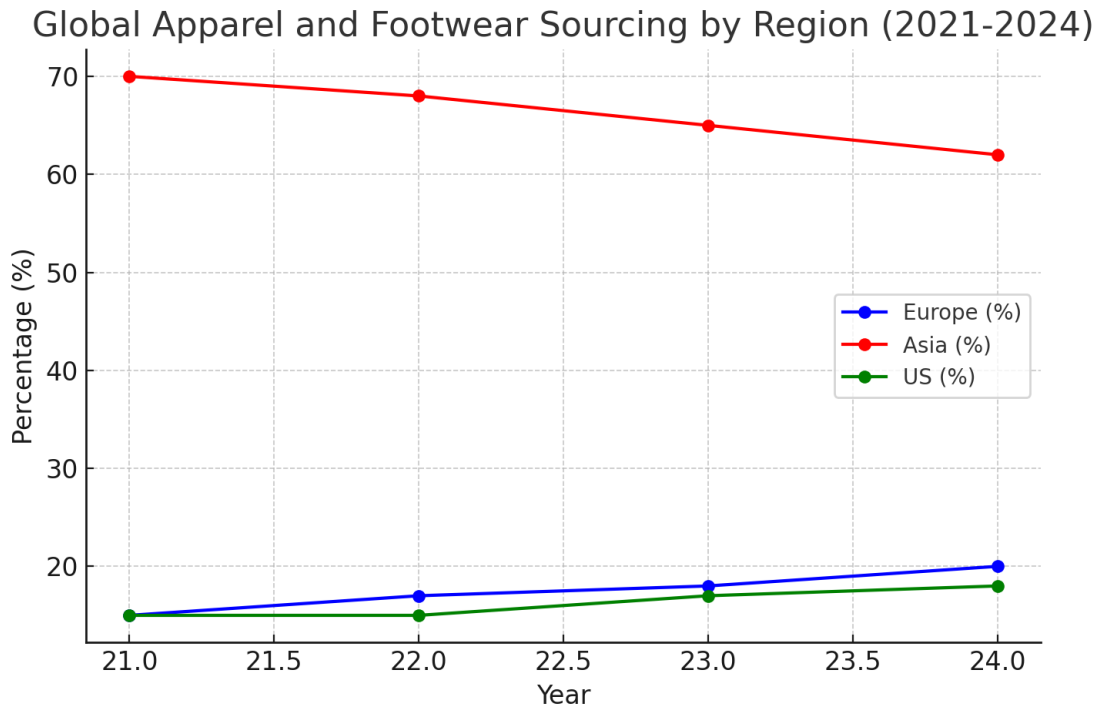
## Fashion brand Esprit files for bankruptcy for its European business

By Reuters

May 15, 2024 5:16 PM GMT+2 · Updated 5 months ago

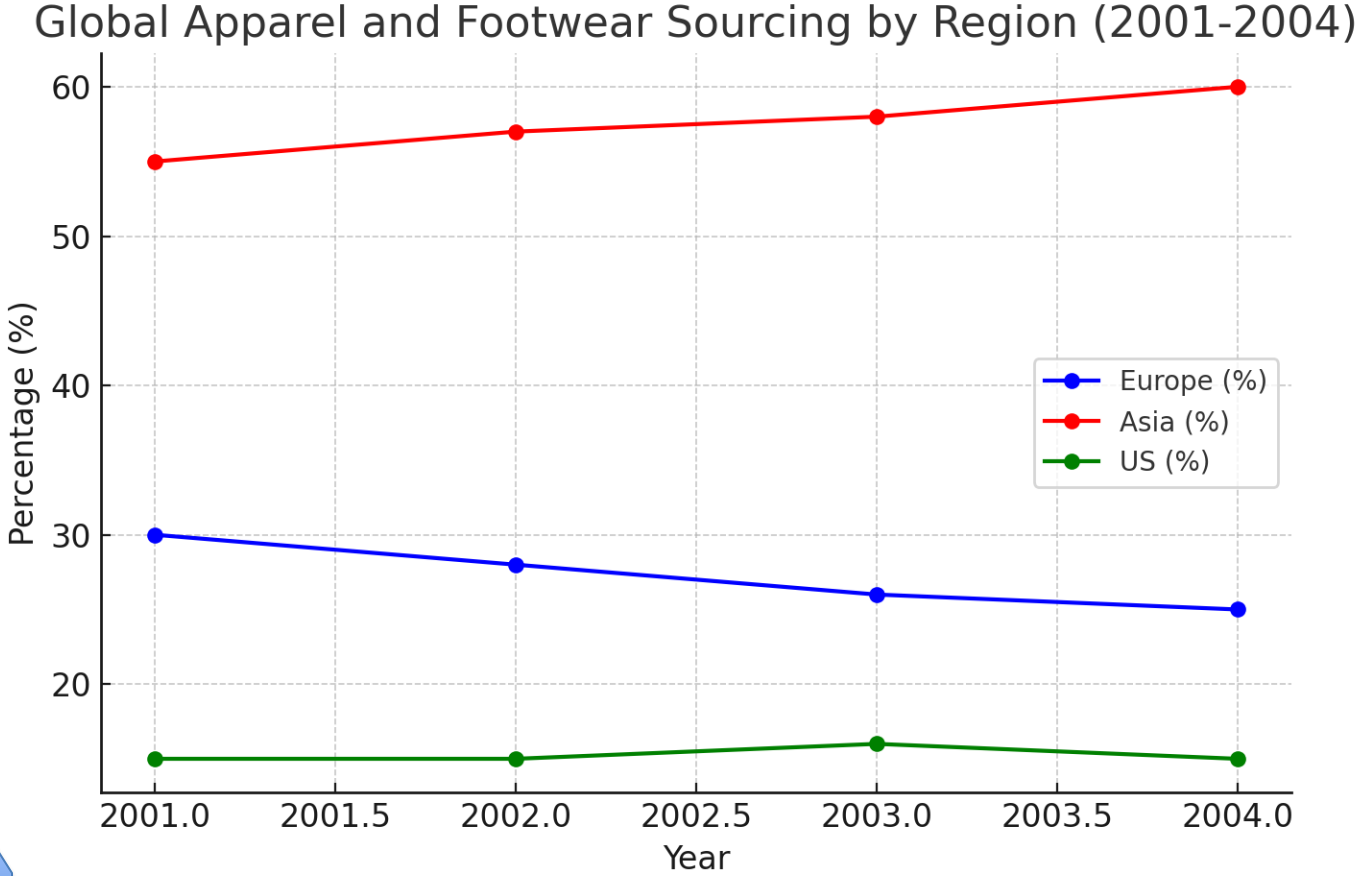


# Global Apparel and Footwear Sourcing by Region (2021-2024)

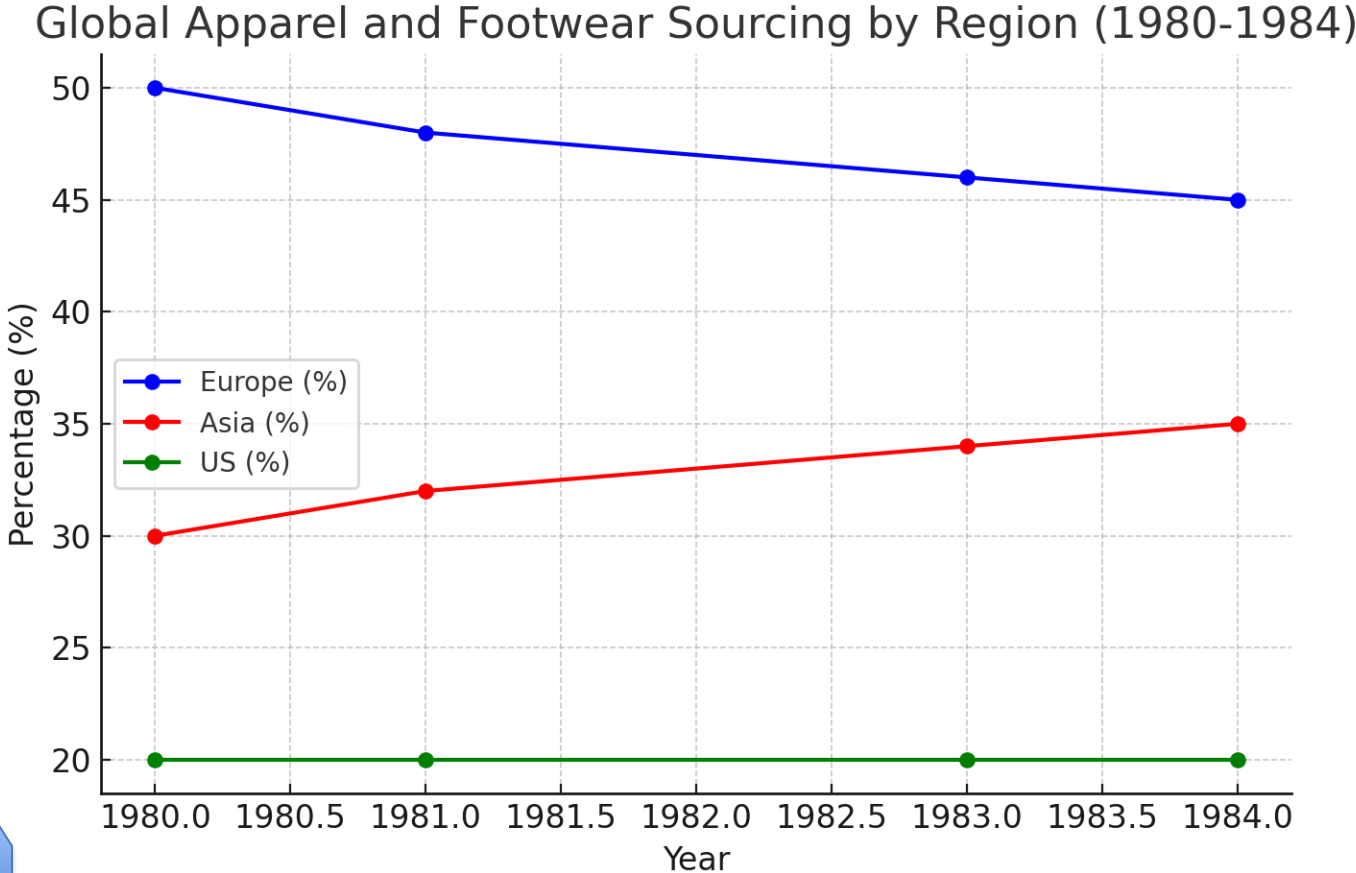


Year	Europe (USD Trillion)	US (USD Trillion)	Asia (USD Trillion)
<b>2021</b>	▲ 0.255	▲ 0.255	▲ 1.190
<b>2022</b>	▲ 0.306	▲ 0.270	▲ 1.224
<b>2023</b>	▲ 0.313	▲ 0.296	▼ 1.131
<b>2024</b>	▲ 0.356	▲ 0.320	▼ 1.104
<b>'23 to '24</b>	▲ 0.043	▲ 0.025	▼ -0.027

# Global Apparel and Footwear Sourcing by Region (2001-2004)



# Global Apparel and Footwear Sourcing by Region (1981-1984)





# Key factors driving Asia's rapid growth in apparel sourcing from the 1980's onward:

**Low Labour Cost**

**Infrastructure Development**

**Trade Agreements and Globalization**

**Vertical Integration and Economies of Scale**

**Government Policies and Incentives**

**Technological Advancements**

**Rise of Fast Fashion**

**Shift Away from Domestic Production in the West**

**Environmental and Regulatory Factors**

1980 China opens up and the Rise of Low Cost Asian Producers

**China's Economic Reforms (1978):** Deng Xiaoping's reforms opened China to foreign investment, with Special Economic Zones (SEZs) attracting garment manufacturers due to cheap labor.

**Rise of Southeast Asia:** Countries like Thailand, Malaysia, Indonesia, and Vietnam emerged as low-cost alternatives for textile and apparel production.

1990 Globalization and the Spread of Fast Fashion

**Global Retailers:** Brands like Zara, H&M, and Gap expanded globally, favoring Asian countries like China, Bangladesh, and Vietnam for their ability to meet fast, high-volume production needs.

**Bangladesh Rise:** Bangladesh became a key exporter due to low labor costs, favorable trade agreements (e.g., EU's GSP)

2001 China joins the World Trade Organization

**WTO:** China's WTO entry opened its economy to the global market, making it a key destination for low-cost, high-volume apparel manufacturing.

**Largest Apparel Exporter:** China quickly became the largest apparel exporter due to its infrastructure, labor force, and scalable production capabilities.

2005 Expiration  
of the  
Multi-Fibre  
Agreement  
(MFA)

**End of Quotas:** free textile and apparel trade, boosted China's exports and increased Vietnam and Bangladesh's market shares.

**Consolidation in Asia:** The MFA's end consolidated apparel production in Asia, marking China's dominance as Western brands sourced freely without quota restrictions.

2010 Rise of  
South East  
Asia  
Alternatives  
to China

**Rising Labor Costs in China:** As wages rose in China, brands shifted to cheaper alternatives like Vietnam, Cambodia, and Myanmar, making them key sourcing hubs.

**Bangladesh Apparel Industry:** By the 2010s, Bangladesh became the second-largest apparel exporter, especially in fast fashion, after China.

2013 Rana Plaza  
Collapse

**Tragedy in Bangladesh:** The Rana Plaza collapse killed over 1,100 workers, highlighting poor working conditions in Asia's garment factories, especially in Bangladesh.

**New Safety Standards:** Initiatives like the Bangladesh Accord/Alliance improved factory safety and accelerated responsible, ethical sourcing practices.

2017 Trade War  
US-China

The trade war between the U.S. and China resulted in tariffs on apparel and textile products, pushing brands to diversify their sourcing away from China to countries like **Vietnam** and **Bangladesh**.

2020 COVID 19  
Global  
Pandemic

The pandemic severely disrupted global supply chains, including apparel. Factory shutdowns in China and Southeast Asia exposed the risks of relying on a single region for production. As a result, brands started exploring **nearshoring** options.

2021 Uyghur  
Forced  
Labor  
Prevention  
Act

Allegations of forced labor in China's Xinjiang region, where a large portion of the world's cotton is produced, led to global brands reducing their reliance on cotton from this area. The **Uyghur Forced Labor Prevention Act** in the U.S. further complicating sourcing from China.

2022 Russia-  
Ukraine war  
& Suez Canal  
Houthi  
attacks

**The Russia-Ukraine war triggered** has driven up global energy prices, especially for **natural gas** and **oil**, which led to increased production costs across apparel and footwear.

The **Houthi rebels** in Yemen have attacked shipping vessels in the **Red Sea**. Significant logistic disruptions occurred.

2023 Turkey-Syria  
earthquake  
& Hamas-  
Israel war

The Turkey earthquake caused a humanitarian tragedy and unprecedented damage to textile production facilities in the country. Many operations shifted to other areas (i.e. North Turkey, Egypt).

Potential escalation of the Hamas-Israel conflict could impact transportation and logistics in the area.

2024 Bangladesh  
Unrest

Recent violent protests over the job quota system, have prompted new considerations over the need to diversify global sourcing in order to mitigate further disruptions.

# Hope for the BEST but prepare for the WORST

Are manufacturing costs likely to reduce in the coming years?

Is the global uncertainty and market volatility expected to ease out?

Is political/social instability across the world likely to improve in the coming years?

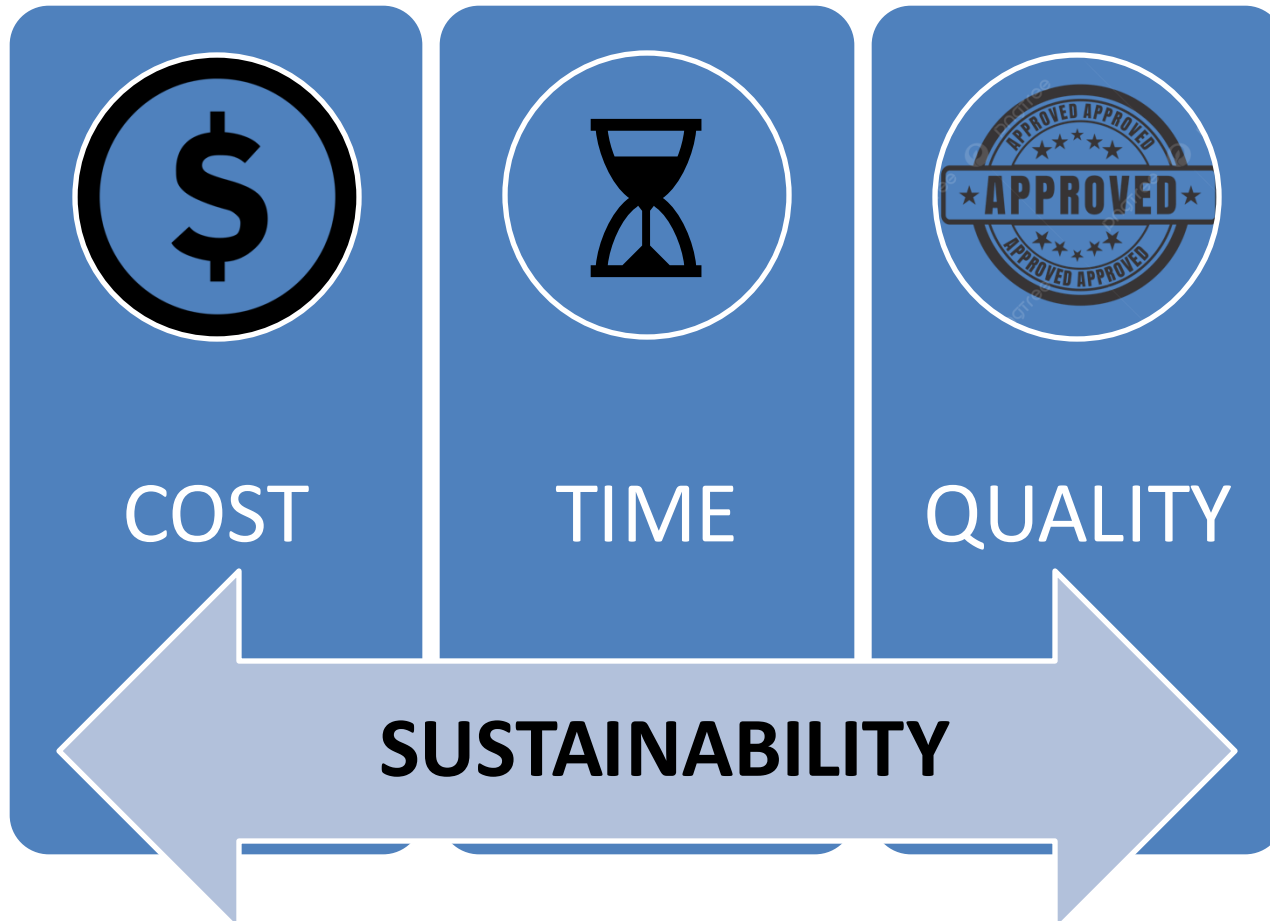
Are brands likely to accept higher costs and lower profits in the coming years?

ADOPT A BALANCED  
RATIO NEARSHORE VS  
OFFSHORE IN  
CONSIDERATION OF RISK  
LEVEL AND GLOBAL  
LOGISTIC DISRUPTIONS

REMEMBER THAT  
BRANDS ARE  
RESPONSIBLE AND  
ACCOUNTABLE FOR ANY  
PRODUCT THAT IS  
SOURCED ... «FOREVER»

PROFIT IS ON BALANCE  
SHEET IS MORE  
IMPORTANT THAN  
INITIAL GROSS MARGIN.  
INNOVATIVE DESIGN  
PRODUCTS WILL  
CONTINUE TO WIN

# What does matter really matter?



# Key Aspects of Sustainability

1. Circularity: Recycling, upcycling, take-back programs

2. Cradle to Cradle: Fully recyclable or compostable design

3. Regenerative Agriculture: Soil health, biodiversity

4. Organic and Natural Fibers: Organic cotton, hemp, bamboo

5. Water and Chemical Management: Water-saving, toxic-free production

6. Low-Impact Dyeing and Finishing: Natural dyes, ozone washing

7. Recycled and Reclaimed Materials: Recycled polyester, post-consumer waste

8. Carbon Neutrality: Reducing carbon footprint, climate-positive goals

9. Zero-Waste Design: Pattern efficiency, modular design

10. Biodegradable Materials: Natural rubber, compostable fibers

11. Ethical Labor Practices: Transparency, fair wages

12. Rental and Resale: Fashion as a service, sharing economy



# Key factors that are going to shape the future of global sourcing:

**Speed to Market & Flexibility**

**Consumer Centric Supply Chain**

**Sourcing Diversification**

**Sustainability & Ethical Sourcing**

**Digitalization & Technology**

**Automation & Smart Manufacturing**

**Innovative and sustainable materials**

**Produce what customer wants**

**Product Passport**

# Successful nearshoring strategies

**Moncler:** Although nearshoring in Europe comes with higher labor costs compared to offshore locations like Asia, Moncler compensates for this through premium pricing and the value placed on European craftsmanship.

**Inditex (Zara):** Moved production to Portugal, Morocco, and Turkey to reduce lead times and to respond quickly to fast-changing fashion trends.

**H&M:** Increased sourcing from Turkey and Eastern Europe to reduce lead times for certain product lines while maintaining a strong balance between offshore production and nearshore flexibility.

**Bestseller (Jack & Jones, Vero Moda):** Increased its nearshoring from Turkey, Portugal, and North Africa. With nearshoring Bestseller achieved its sustainability goals.

**Mango** has successfully nearshored part of its production to Morocco, Turkey, and Portugal.

While **Nike** is traditionally known for its offshore production, the brand has been increasingly investing in nearshoring by setting up production facilities in Mexico and Central America for the US market.

**PVH (Tommy Hilfiger, Calvin Klein)** has been actively pursuing nearshoring strategies, particularly in Mexico and Central America, to serve the North American market more efficiently.

**Levi's** has invested in nearshoring by setting up production in Mexico and other Central American countries, bringing production closer to the U.S. and reducing reliance on Asia.

## Key Takeaways:

1. Faster Response to Market Demand
2. Sustainability and Reduced Carbon Footprint
3. Supply Chain Resilience
4. Cost Efficiency in Logistics

# The Future of Nearshoring and Sustainability in Apparel and Footwear Supply Chain

- Balancing Efficiency and Sustainability
- Resilience in Uncertain Times
- Innovation as a Competitive Advantage
- A Call to Action

To stay competitive in a rapidly changing global landscape, companies must adopt a balanced approach that integrates nearshoring strategies with sustainable practices. By embracing flexibility, innovation, and ethical sourcing, businesses can create resilient supply chains that meet the demands of the future.

If we want to create a better future for this industry, **we've got to earn it!**

# THANK YOU!