



Retail Industry Survey Results: Emerging Market Shift Uncovered in Global Retail Sourcing

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Summary

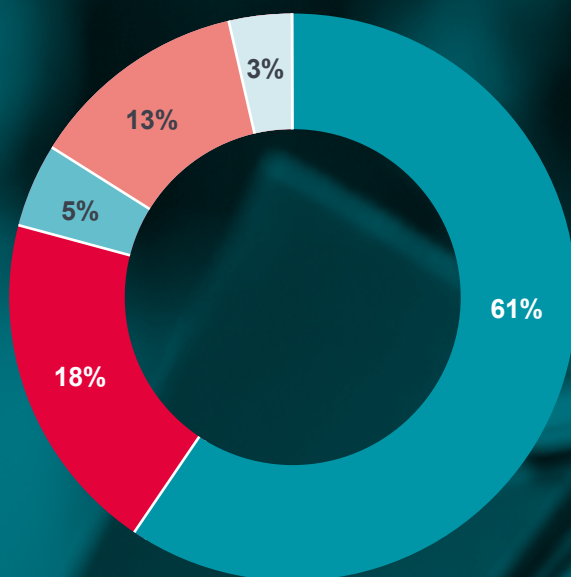
In the recent years, there have been some dynamic shifts in the global retail sourcing industry as evident in a recent survey study conducted by the Global Sourcing Society (GSS). GSS surveyed over 500 retail and CPG professionals, ranging from C-level executives, sourcing, supply chain and quality directors and managers from over 50 of the world's leading retail, CPG, and wholesale organizations. In this white paper, we will uncover why retailers are shifting sourcing to emerging markets, the challenges of setting sights on low-cost sourcing countries and how retail technology disruption is helping to overcome some of these challenges.

Introduction

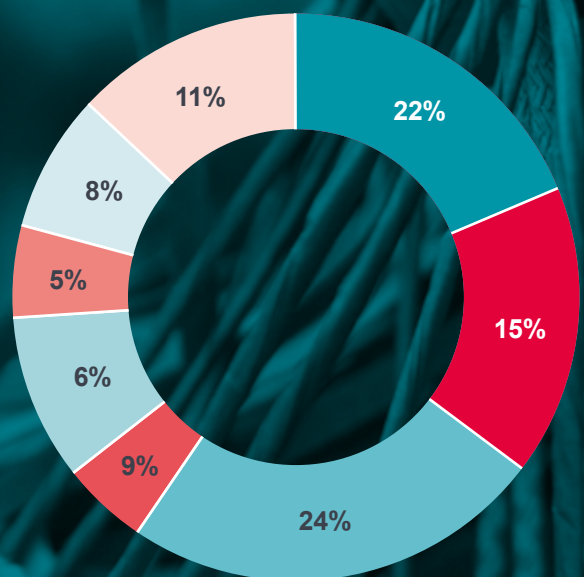
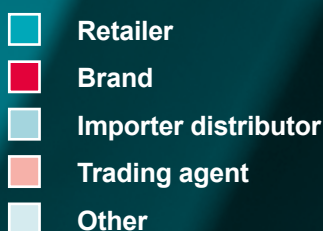
Private label retail sourcing is a procurement strategy for retail organizations aimed at exploiting global efficiencies in private label product sourcing and development. Due to the global nature of this strategy, retailers that rely on global sourcing for private label goods are susceptible to the influences of macro-regulatory changes and disruptive technologies from all over the world. Unsurprisingly, the shifts in the ever-changing retail marketplace are always at the front of industry professional's minds and ensure that they are constantly working to stay ahead of the curve.

For many, this means keeping costs low and anticipating the actions of consumers, competitors and outside influences. It is this ubiquitous desire to stay abreast of the industry that caused a theme of change and uncertainty to appear in the aforementioned market research. The study shows that retail supply chain and sourcing professionals are poised for a market shift in response to industry disruption.

Before diving into the results of the research, it is important to understand the demographics and backgrounds of respondents who participated. As seen in figure 1.1 the bulk of the respondents came from retail and CPG with the majority of roles ranging from C-level executives to sourcing followed by supply chain personal as shown in figure 1.2. Additionally, over 75% of the respondent's companies are headquartered in either the U.S. (29%) or Europe (46%)



COMPANY TYPE



ORGANIZATION ROLE



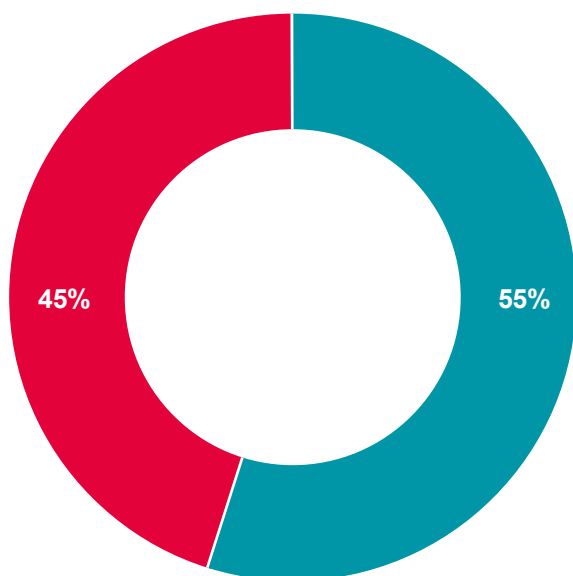
Moving Out of China

This study revealed a reaffirmed dedication to low-cost sourcing countries among industry insiders. As explained in the definition, sourcing is a strategy aimed at exploiting global efficiencies in retail private label sourcing and production, which, by the very nature of the term, does not mesh well with laws and regulations set to improve worker conditions. Over 65% of respondents replied, “yes” to the question, “Will low-cost country sourcing be the dominant sourcing business model for the next five years?”. This attitude has significant economic implications for China as it continues to reform its laws in an effort to better protect their workers and the environment.

This is important because China has long been the staple country for the sourcing needs of western retail organizations.

China’s commitment to increase worker protection laws as well as environmental regulations have, in turn, immediately increased company’s manufacturing costs. Addressing this issue, survey respondents answered the question, “Please indicate the following drivers’ for different levels of impact on sourcing shift within the next 12 months” 55% of respondents listed wage increases and 45% listed China’s Anti-Pollution Policy as “high impact” respectively. The negative economic effects of these positive social changes are already visible for Chinese suppliers, as the country made just 19% of Adidas’ footwear volume in 2017, down from more than 30 percent in 2012. This trend is not expected to shift anytime soon as more than 56% of respondents expected their sourcing percentage from China to decrease in the next three years, with an additional 14% expecting a strong decrease.

Companies are not bashful about the fact that China’s improved protections for both their workers and the environment are the main reasons for them leaving. Over 62% confirmed this fact by responding to a question that asked, “Has China reached a ‘turning point’ for your products resulting in a decline in sourcing there in the past 12 months? (Turning point meaning the era of ultra-low wage production is over. Facing rising labor costs, firms exit the region, source regions with cheaper labor and landed costs.)” For industries such as retail, which operate on razor-thin margins, many would like to support these social improvements in China but it just does not prove to be financially feasible at this point in time.



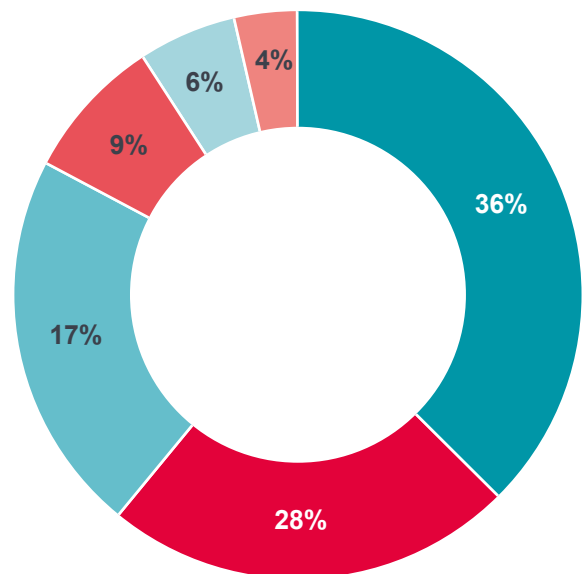
DRIVERS FOR THE SOURCING SHIFT OUT OF CHINA

- Wage increase
- Anti-pollution policy

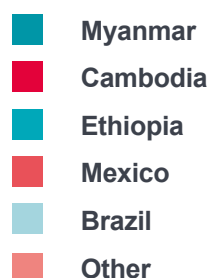
Challenges of Low-Cost Sourcing Countries

With manufacturing jobs leaving China in droves, new low-cost sourcing countries are being identified to fill the need. Respondents identified Myanmar (**36.5%**), Cambodia (**28%**), and Ethiopia (**17%**) as the major new sourcing countries that they have utilized in the past two years that were not included in their 2017 sourcing strategy. However, using these low-cost countries for manufacturing brings with it auxiliary issues of their own. From a list of five current challenges associated with sourcing from low cost countries: (Unskilled labor, Lack of Road and Port Infrastructure, Cultural differences, Lack of local raw materials, Technology disruption)

15% of respondents see lack of local raw materials to be the highest challenge they faced while another 38% marked it as a high challenge. Additionally, respondent's ranked unskilled labor at 31% as a high challenge and 13% said it was their highest challenge. Lack of road and port infrastructure also ranked highly among the listed problems. This shows that there is a significant trade-off between the cost and benefits that come with using low-cost countries for manufacturing. However, as the market research clearly indicates, sourcing professionals still heavily favor the low-cost model and plan to continue to do so for the foreseeable future.



MAJOR NEW SOURCING COUNTRIES EXCLUDING
IN 2016 STRATEGY



Technology Disruption

Technology disruption is at the forefront of every sourcing professional's mind. In today's world, an entire industry can be disrupted overnight, and preparation for such an event is key for sustained survival. The market research indicates that the respondents had a clear understanding of the imminence of technology disruption with 65% using one of their two answers to respond that they are, "excited – can't wait" to the question, "What are your thoughts about the technology disruption and revolution? Chose 2 answers". However, the seriousness and inevitability were not lost upon them either, as 55% also stated that they were "anxious – must react fast" 13% claimed to be "fearful – can't keep up" and 34% admitted to being "disoriented".

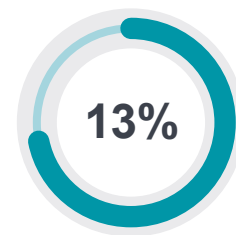
One of the main tools respondents agreed upon as being important for organizations to stay relevant in today's disruptive environment was supplier collaboration. Over 36% of those surveyed said that their organization has worked with between 100-400 suppliers in the past year alone. This is an enormous number that carries with it so much complicated logistical communication that it sends the mind spinning.

The massive number of suppliers that organizations must work with also backs up the need for collaboration with, and among, these suppliers. Not all of the participants were as firm in their stance for collaboration when they were pressed further with a third of respondents responded that they "neither agreed nor disagreed" with the statement, "We are willing to transfer technologies to the supplier." To be fair, the remaining two-thirds affirmed this statement with either agreement or slight agreement. However, with the volatility and unpredictability of today's global marketplace, it is important for those organizations that are hesitant in supporting collaboration with suppliers to work on their relationships, or build new ones, because flexibility and agility are absolutely necessary traits to compete today.

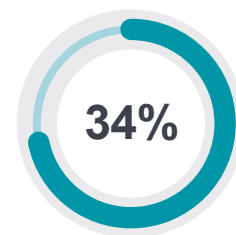
Understanding the imminence of technology disruption



**Anxious –
must react fast**



**Fearful – can't
keep up**



Disoriented

One of the main tools respondents agreed upon as being important for organizations to stay relevant in today's disruptive environment was supplier collaboration.



Case Study: Kmart Australia



About Kmart Australia

Kmart Australia Ltd. opened Australia's first discount department store in Burwood, Victoria in 1969. It was the beginning of a proud Aussie icon that has revolutionized the way Australians and New Zealanders shop. Today, Kmart has more than 214 stores across Australia and New Zealand and is recognized as one of the most profitable discount department stores in Australia with over \$5 Billion in revenue.

Kmart leads the pack of Australian retailers by offering consumers a wide range of low priced men's, women's and children's goods as well as entertainment, automotive, home and garden and other everyday products.

The retailer operates in Australia and New Zealand with offices in five countries and in four different time zones. Kmart also sells online and through a catalog and sourcing efficiency is one of the key strengths of the company. With business expanding across the region, the company wanted to improve their purchasing and sourcing efficiency and scale private label operations.



Challenge

A key challenge Kmart Australia faced was the lack of a central repository of information. That meant it could not easily compare vendors, QA and QC results, or rapidly access information regarding vendor accreditation, locations and profiles, and performance. Information on samples, suppliers, quotations and quality assurance was held in a variety of locations in different formats ranging from spreadsheets to paper and emails.

Kmart's merchandising division required an effective solution to support global collaboration for information required in launching new product lines across various departments. At the same time, Kmart wanted to reduce costs, ensure quality and shorten lead times for product launches. To stay competitive, Kmart realized they needed to update their entire IT infrastructure.

CBX Software simplifies sourcing and merchandising



Solution

Kmart turned to CBX Software to implement the new IT architecture. The CBX Retail Sourcing and Supply Chain Platform is cloud-based and accessible globally with any web interface. With CBX, Kmart is able to quickly create projects using standardized templates prior to the buying trip to maximize the buyer's time.

Multiple supplier quotations for each project can be received, supporting reduced costs and buyers can review and compare quotes via a quote summary sheet. Other features include real-time visibility of quality assurance information throughout the lifecycle of the product.



Result

The entire solution for Kmart was fully tested and completed on time. CBX provided a centralized sourcing location for all overseas sourcing information for the global operations. Telephone calls, emails, spreadsheets and paper printouts are minimized as information is available electronically through a web interface to all stakeholders, in all markets, all over the world.

Communication between buyers, merchandisers and suppliers now occurs much faster and more accurately, shortening the lead times to launch new product lines, and improving shipment times and tracking. Data errors were dramatically reduced and the entire sourcing process became more efficient, accelerating time-to-market with ongoing cost savings achieved throughout the supply chain.



Key Benefits

- ✓ Increased volume by 3.5x with almost no additional headcount.
- ✓ Standardized project and style templates to save time.
- ✓ Improved workflow processes, shipping and tracking times across functions.
- ✓ Reduced lead times to launch new products.
- ✓ Greater efficiency and accuracy of quotes and purchase orders.
- ✓ Cost and resource savings at multiple points in the supply chain.
- ✓ Improved internal and external communication and collaboration.
- ✓ Reduced data errors and multiple versions of documents.
- ✓ Expanded sourcing operations all over the world, including onboarding new suppliers and sourcing from new low-cost countries.

About The Authors



Christopher Ryan

MBA Candidate – Rady School of Management, UCSD / Global Sourcing Society Research Coordinator

Christopher Ryan is a full time MBA student working to advance a future career in marketing. With a background in market research methodologies, Chris works as a research coordinator in order to simultaneously advance his professional knowledge of the retail sourcing market with what he has learned in the academic setting.



Mark Hudson

Vice President, Global Marketing & Communications, CBX

Mark Hudson holds an MBA in marketing, is a Retail GS1 Standards Professional and holds a CIMdata certification in PLM Leadership. Mark has over 20 years of experience in Retail and CPG including product innovation and supply chain strategy for both private label and national brand products. Recently, Mark's focus has been on the connection and collaboration between retailers, manufacturers and their trading partners.





CBX Software simplifies sourcing and merchandising

About CBX

CBX Software is the world's leading Total Sourcing Management solution provider from concept to delivery – combining people, processes, and solutions. CBX helps retailers and brands streamline product development and sourcing all the way through order, production and delivery. Through innovative Sourcing Management, Product Life-cycle Management (PLM), and Production & Order Management technology solutions, CBX empowers the supply chain network by driving collaboration to over 15,000 retail & supplier partners, and 30,000 users in more than 50 countries.

About Global Sourcing Society

Since its launch in 2011, Global Sourcing Society (GSS) has become a Retail industry leader in research and insights and aims to deliver information packed with exclusive news, interviews, analysis, and insights from our growing community of experts. Our staff of contributors takes pride in linking senior level sourcing and supply chain retail executives, to share information and best practices with their peers.

Global Sourcing Society members are encouraged to share information on the issues they face in providing tips, strategies and questions relating to, working with suppliers, managing supply chain cost, emerging markets, managing labor costs, speed-to-market, among many other sourcing and supply chain topics relevant to the retail/CPG industry.

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