Op-Ed: Is Sourcing The Next Great Disruptor?

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Nike recently formed a strategic partnership with affiliates of Apollo Global Management to create a new supply chain company designed to greatly enhance regional manufacturing capabilities and enable quicker delivery of more customized product to consumers, while driving investment in sustainability.

This partnership was initiated in a series of transactions where Apollo acquired two existing regional suppliers to Nike, New Holland Apparel and ArtFX, both companies represented by MMG Advisors.

These suppliers, both located in the Western Hemisphere, bring onshore and nearshore manufacturing and embellishment capabilities to Nike. The new venture, which will encompass additional acquisitions, is intended to become an end-to-end solution for the sports apparel market by linking entities spanning textile manufacture, garment production, embellishment, distribution and logistics.

The success of this new model may not only revolutionize the way sports apparel is produced and distributed, but may also hasten a fundamental change in the way the apparel industry thinks about sourcing and distribution.

From Nike's perspective, Eric Sprunk, the company's chief operating officer, says the objective is to, "Rethink a new supply chain model to revolutionize apparel manufacturing in the Americas. The new company, under Apollo's leadership, is committed to embedding sustainability and transparency into the business, investing in new technology, vertically integrating critical elements of the supply chain and delivering the best Nike performance product to our retail and sports partners."

What both Apollo and Nike understand is that there is a need to integrate nearshore and onshore capabilities in order to provide speed to market, highly customized product and an ability to service evolving demands from the ultimate consumer.

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“We see a tremendous opportunity to meet the rising demand for responsive apparel manufacturing to serve increasing consumer expectations for products delivered when and where they want them,” Josh Harris, Apollo co-founder and senior managing director, said.

A key to the development of this new supply chain model is the commitment and cooperation of Nike which made possible Apollo’s willingness to invest.

“While Nike has not made a capital investment in the company, this strategic partnership is a testament to Nike’s commitment to increasing regional manufacturing capabilities, driving investment in innovation and creating long-term growth,” Harris noted.

The development of the Nike/Apollo supply chain partnership represents a potentially major advancement in rethinking the world of sourcing.

For far too long, our industry has developed longer supply lines in an effort to pursue the lowest possible labor cost. The consequence of this industry-wide strategy has been an increasing reliance on vast quantities of inventory as well as longer lead times between product development and actual delivery to consumer facing outlets.

Industry insiders know all too well the high cost of disposing excess inventory. Retailers know all too well the amount of sales they omit when they are unable to supply consumers with products they want when they want them. The answer to the inventory conundrum clearly requires new ways of conceptualizing how to match supply to meet demand. The old model of creating supply and then selling it is simply too inefficient for today’s retail economies.

One answer to this problem has been the approach taken by fast fashion retailers.

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Forgoing cheap labor as a strategy, they turned to higher cost labor located much closer to their markets. This enabled them to defer the assortment decisions until much closer to the time they needed the inventory and they demonstrated that the reduction in markdowns substantially outweighed the higher labor cost.

The Nike/Apollo model potentially goes much further.

Investing in nearshore and onshore capacity built to profitably produce and customize product in small lots with the ability to fill-in orders in days will dramatically alter the economics of today’s changed marketplace.

Apollo’s Harris sees this regional supplier as positioned to service “the needs of a wide variety of customers.” However, for this model to work as planned, there will need to be investments in development of technical fabrics in this hemisphere, investments in labor-saving technologies and methodologies to redesign the sewing floor, superior logistics and information systems to provide transparency to the entire model. Many of the elements of this model exist, but as is the case with Apollo’s investment, it took the commitment from a customer such as Nike to justify the investment necessary to make this a reality.

The potential win for brands, suppliers and retailers that can master this reimagined supply chain is vast.

There is no question that such a supply chain would enable servicing a wide array of consumer demands requiring fast turns without the huge costs associated with inventory risk. This is by no means limited to the needs of the sports apparel business. On the contrary, the greatest potential benefit may well be in having the ability to service digital commerce which requires short runs, fast turns, increasing customization and quick product changes.

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Low labor factories built to service long runs may be willing to produce short runs, but their economics are not designed for the new needs. Increasingly brands want to service markets with supply much closer to need with the flexibility to service quickly evolving consumer tastes.

The Nike/Apollo venture may very well be a precursor to new, shorter, more technologically sophisticated supply chains built for where the market is going rather than where it has been. Having helped to create this initial venture, it is our considered opinion that future efforts to build new supply chains will be most feasible where there is cooperation between major buyers and companies throughout the distribution chain to justify the investment in new technologies necessary to profitably service today’s marketplace.

By Andrew Postal, managing director at MMG Advisors.