Strategic perspective on the industry and on upcoming trends

McKinsey&Company

Fondo Strategico Italiano

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Market dynamics of the Italian companies

Market size

Furnishings
Eur million

20,9 21,2 20,2 18,1 17,6 17,0

-4%

Apparel
Eur bln

41,6 46,3 50,4 54,4 55,2 57,0

+7%

2009 2010 2011 2012 2013 2014
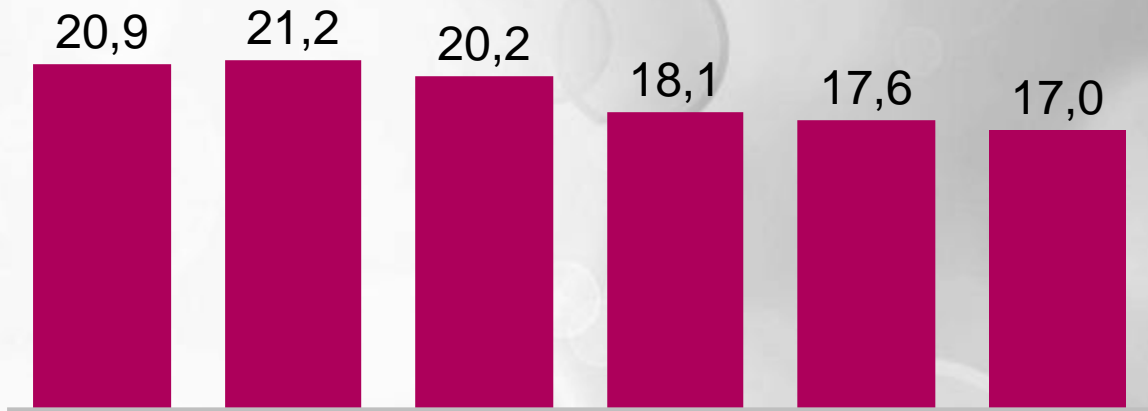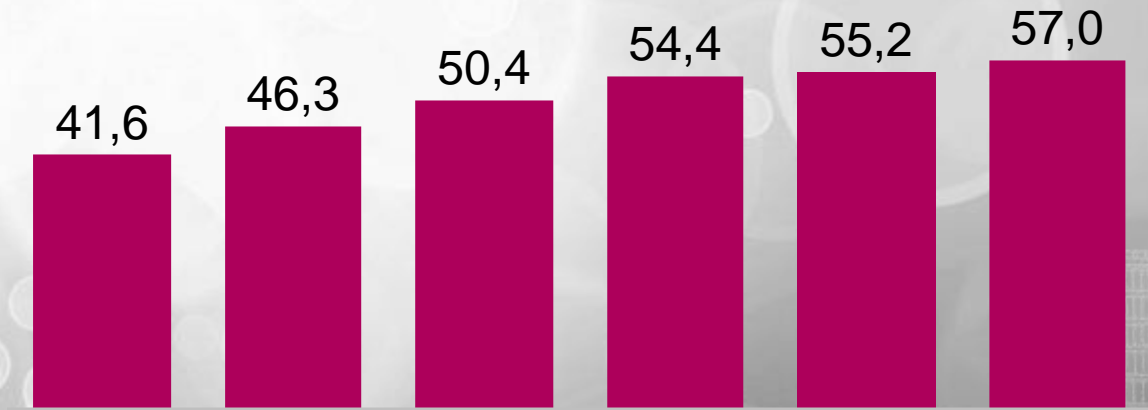
Both sectors are significantly growing export

Exports
Eur million

CAGR 2009-2014

Furnishings

| 45% | 47% | 52% | 58% | 62% | 65% |

| 9,4 | 10,0 | 10,4 | 10,4 | 10,8 | 11,1 |

+3%

Fashion

| 48% | 50% | 53% | 56% | 57% | 58% |

| 20 | 23 | 27 | 31 | 32 | 33 |

+11%

| 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
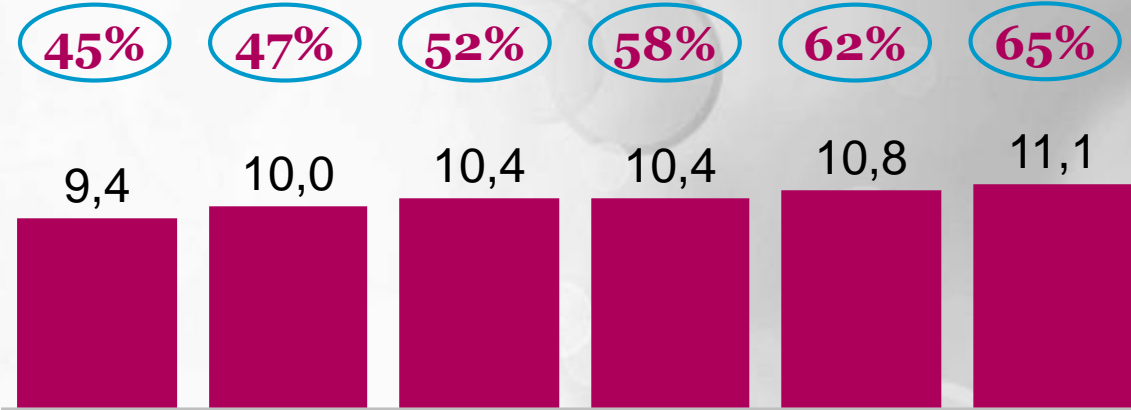
1 Including: home, bath, office furnishings and lighting
2 135 apparel, leather, accessories groups/companies with turnover >100 Eur million
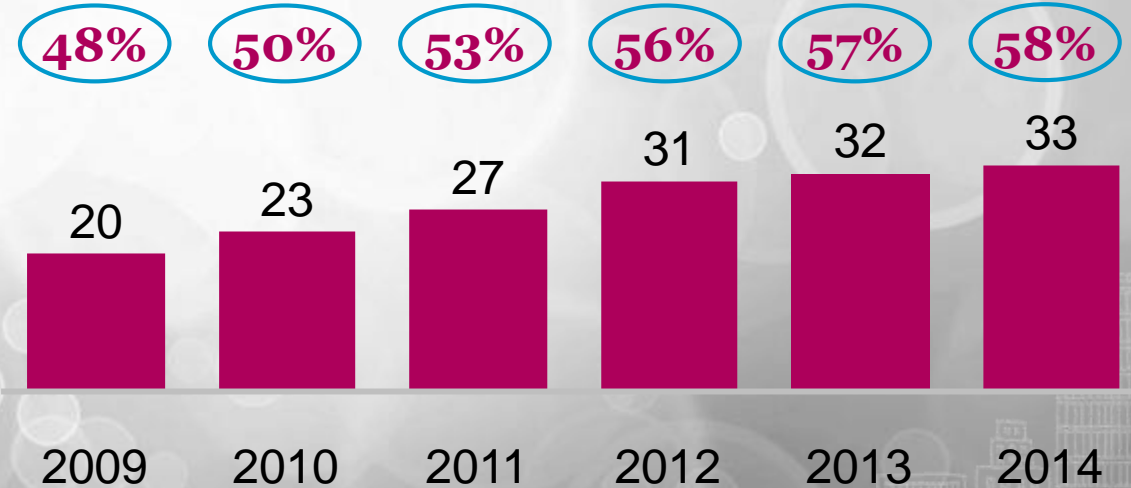
2015 Forecast: Altagamma Consensus

		1st half 2015	2nd half 2015	Full Year 2015
Products	Apparel	2,8%	3,2%	3,0%
	Art de le Table	0,5%	0,5%	0,5%
	Jewelry, Watches, Pens, and Lighters	3,5%	4,5%	4,0%
	Leather, Shoes, and Accessories	3,7%	4,3%	4,0%
	Fragrances and Cosmetics	3,0%	3,0%	3,0%
Markets	Europe	5,0%	5,0%	5,0%
	North America	3,0%	3,0%	3,0%
	Latin America	3,0%	3,0%	3,0%
	Japan	5,0%	5,0%	5,0%
	Asia	2,0%	2,0%	2,0%
	Middle East	4,0%	4,0%	4,0%
	Rest of the World	4,0%	4,0%	4,0%

Five key trends in the market

1 Multi-channel consumer

2 New consumer generations

3 Growth in «megacities»

4 Shortening brand lifecycle

5 Sourcing strategy challenges

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2005

2013

A set of "game changing features"

Mobility

- Smartphones and tablets
- Augmented reality magnifying people's senses
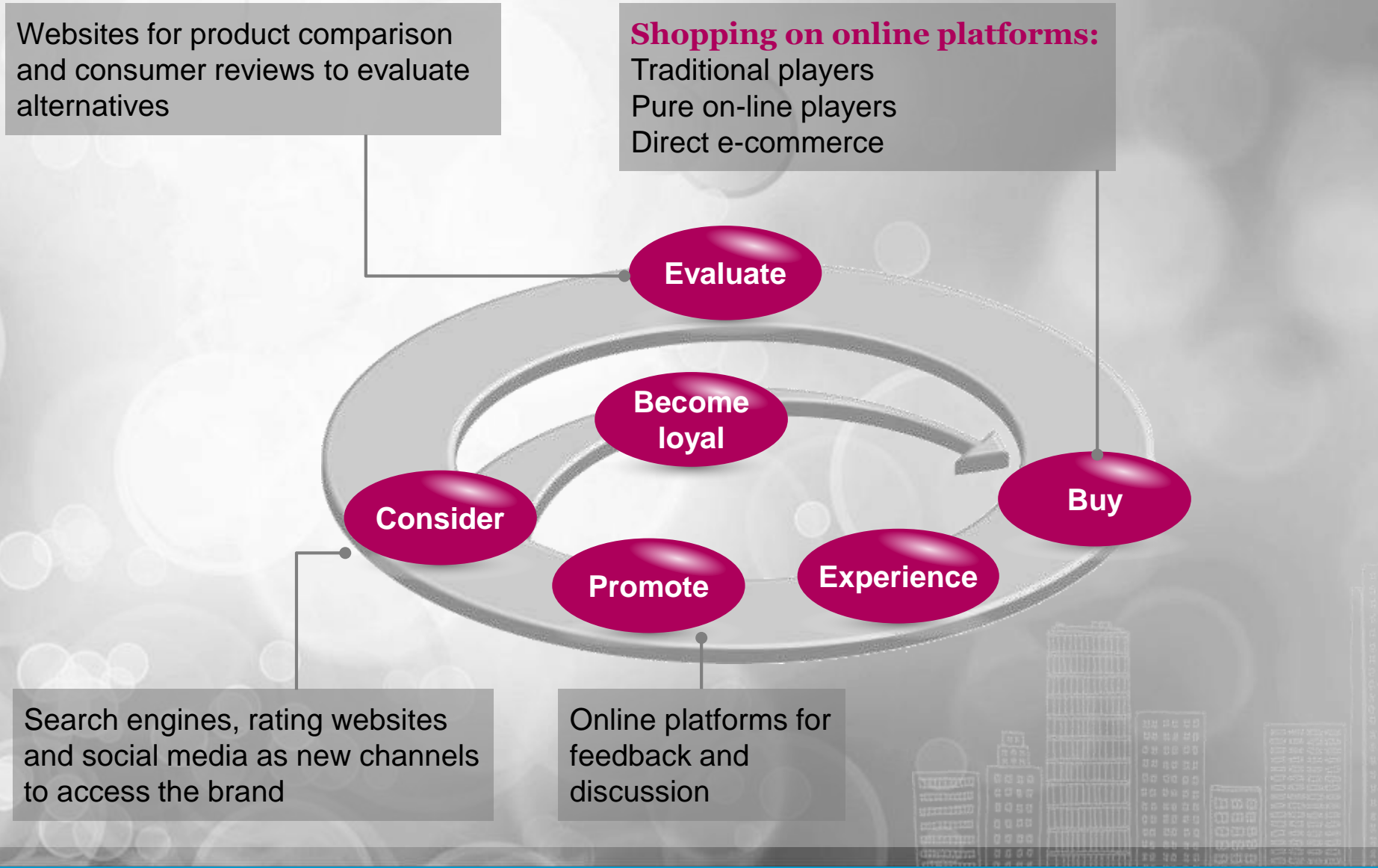
Measurability

- Volume, granularity and velocity of "big data" available
- Internet of things (sensors and actuators connected to the net)

Agility

- Cloud systems providing computing resources directly over the internet (faster implementation, higher flexibility less capital)

The new digital consumer decision journey

Websites for product comparison and consumer reviews to evaluate alternatives

Shopping on online platforms:
Traditional players
Pure on-line players
Direct e-commerce

Evaluate

Become loyal

Consider

Buy

Promote

Experience

Search engines, rating websites and social media as new channels to access the brand

Online platforms for feedback and discussion

In 2012, more than 15% of worldwide sales of luxury goods were directly generated by digital and another 25% were influenced

Percent of market, 2012

Pure online sales

Offline sales **directly generated**[1] by **online** experience

Offline sales **influenced**[2] by online experience

4%

12%

25%

16%

1 Researched online, product decision changed online and purchased offline
2 Researched online, product decision confirmed online and purchased offline

Online trajectories follow a clear S-curve

PLATEAU

SCALE-UP

2025F

2020F

Tipping point

RAMP-UP

2009

2014

≫ €70bn in 2025
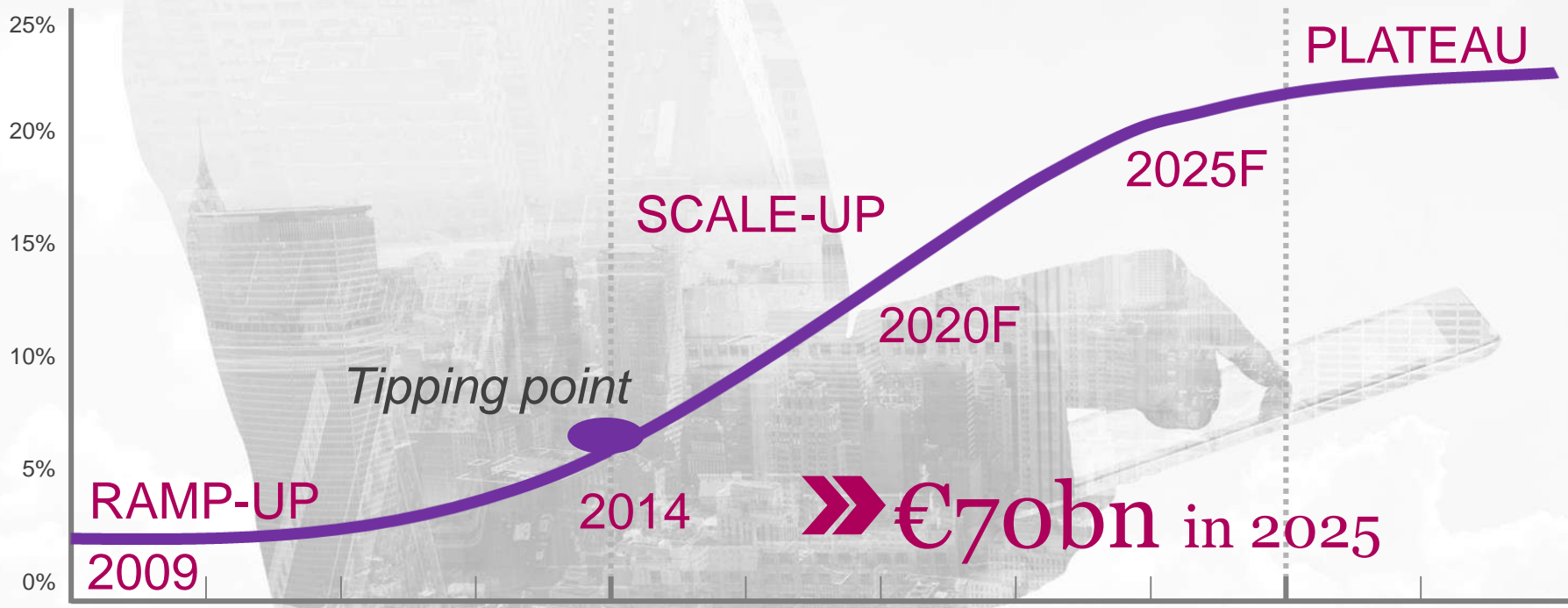
Online purchases are mostly driven by convenience …

Top 6 reasons for buying online

1
I like being able to shop whenever it is convenient for me

2
I like being able to compare items and prices

3
A broader selection is available online than in stores

4
Online shopping is less time consuming than conventional shopping

5
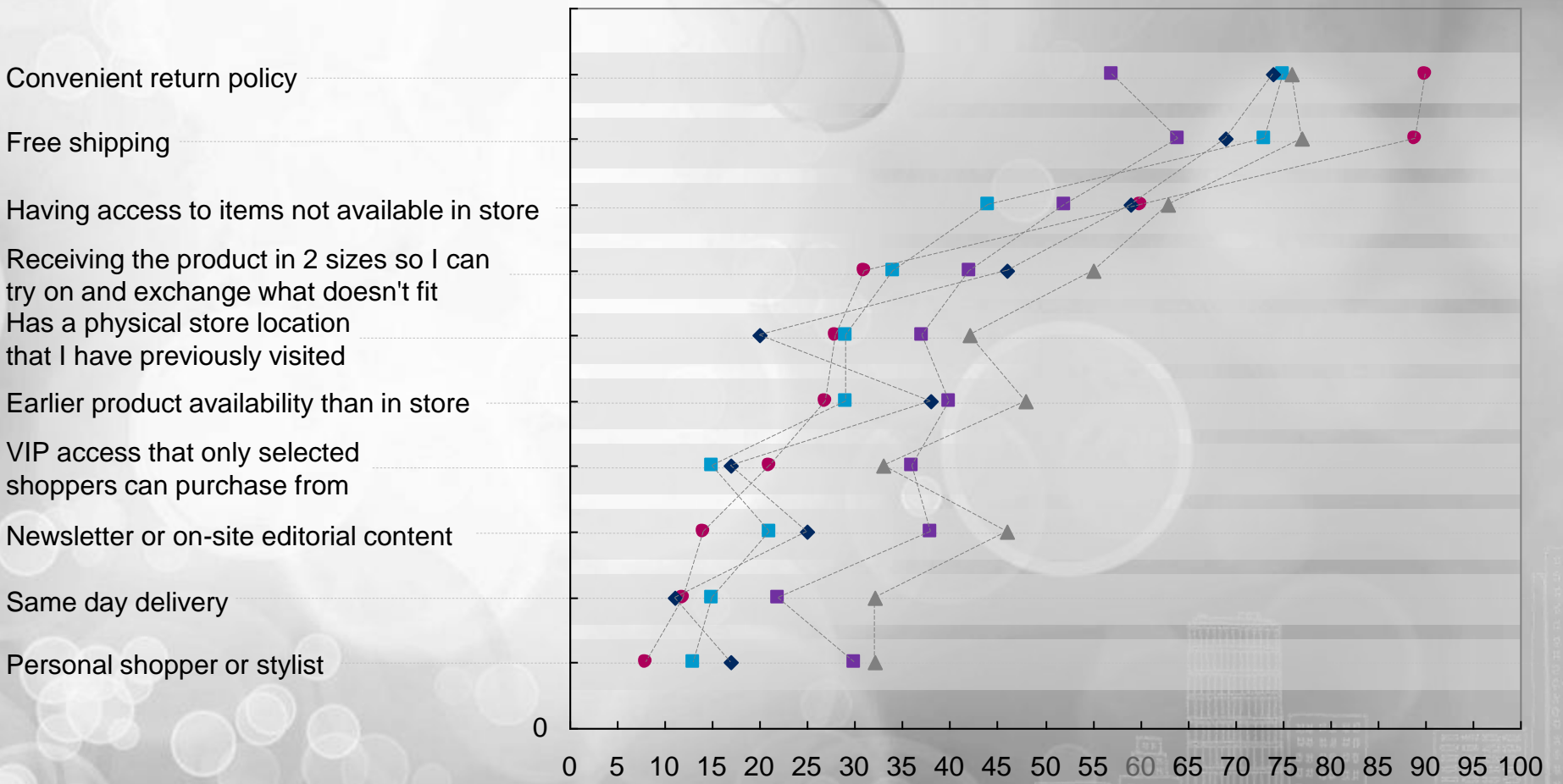I can get products that are only available online

6
I feel I can postpone my purchases until later

Online shopping makes shopping experience more flexible

# … with convenient return policies being most important to vast majority

Factors influencing the decision to shop online, Percent[1]

Categories (top to bottom):
- Convenient return policy
- Free shipping
- Having access to items not available in store
- Receiving the product in 2 sizes so I can try on and exchange what doesn't fit
- Has a physical store location that I have previously visited
- Earlier product availability than in store
- VIP access that only selected shoppers can purchase from
- Newsletter or on-site editorial content
- Same day delivery
- Personal shopper or stylist

X-axis: 0 5 10 15 20 25 30 35 40 45 50 55 60 65 70 75 80 85 90 95 100

1 Question: How important are each of the following in your choice of shopping and buying from an online luxury shop?, share of respondents that answered "very important" and "important"

Physical stores will continue to play important roles

Experiencing brands and products
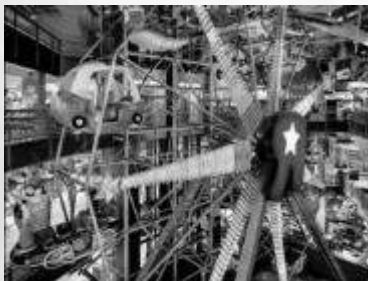
Convenience and proximity

Entertainment and social interaction

Finding a solution

Buying more cheaply

Instant gratification

Are you ready to …

… Define an **omnichannel experience (on own and 3rd party touchpoints)** at par with your brand reputation – focused on differentiating factors that will make the experience exceptional?

… Select the **right touchpoints** to activate by geography, category, consumer segments?

… **Revisit the role of each touchpoint** in the integrated consumer experience and **be ready to refine your omnichannel experience** as touchpoints evolve and consumers' expectations rise?

… Strive for **excellence in eCommerce,** with the right analytics, operations, and IT systems in place?

How many of you…

… discuss technology in your Ex-Com or Board meetings?

… can claim to have a some "digital fluency?

.... changed recruitment, training and development processes to build a digitally fluent organization?

… has hardwired insights from big data and analysis on core business processes

… have developed partnerships/JVs to bring necessary expertise?

… is organized to engage consumers and customers through the digital channels?

… have create new, dedicated units (e.g., in-store prices, digital channel management, insights from big data)?

… can claim they have a generation of digital talents in the organization?

… have the CIO or the CTO as member of the Ex-Com or of the Board of Directors?

Five key trends in the market

1	Multi-channel consumer
2	New consumer generations
3	Growth in «megacities»
4	Shortening brand lifecycle
5	Sourcing strategy challenges

2 "new premium" consumer generations change existing patterns

Millenials/Generation Y

- **500 million people** with a total income of EUR 10 trillion (will almost double by 2020)
- Open to **new retail models** (e.g., collaborative consumption like Zipcar, renting over buying like renttherunway)
- Value privacy but are **willing to share some private information** in exchange for added benefits (e.g., convenience, personalized service, discounts)
- **Expect retailers to be "green" and socially responsible** but not necessarily willing to change their purchasing habits if they are not
- **80% prefer offline to online,** but ~ 30% will follow social media recommendations and ~ 70 % demand a seamless multichannel experience

HENRYs (high earners not rich yet)

- **24.3 million households** in the US (grew 11% from 2010 - 13); household incomes range from EUR 70,000 to 150,000
- HENRYs have enjoyed good education and have **well-paid jobs**
- **Driving growth in luxury,** especially in the US
- **Lower spending limit** but two times as many Henry's as "ultra-affluents"
- **Rely heavily on social media and** do most of their shopping **online**
- **Buy small leather goods or accessories** of accessible luxury brands **first** until able to buy more often or more expensive products

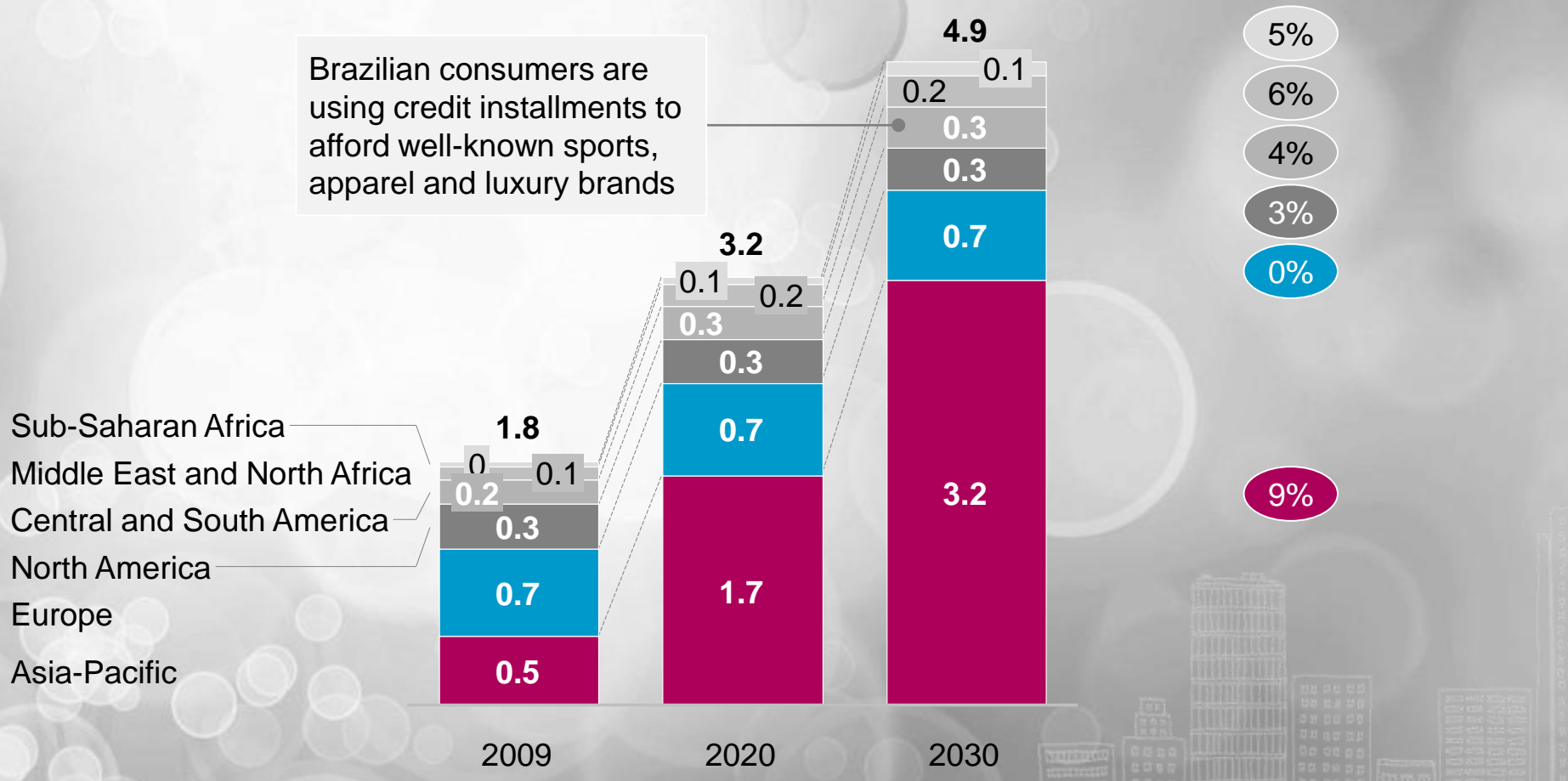| **Common expectations regarding consistent brand communication (storytelling, image)** | **Different expectations in terms of retail format and service level** | **Multichannel excellence crucial to optimally serve the multifaceted consumers** |

The global middle class is growing and will increase the share of HENRYs

Global middle class
Millions of people

Absolute growth, 2009 - 20
Millions of people

Brazilian consumers are using credit installments to afford well-known sports, apparel and luxury brands

Sub-Saharan Africa
Middle East and North Africa
Central and South America
North America
Europe
Asia-Pacific

2009 — 1.8
- 0.5
- 0.7
- 0.3
- 0.2
- 0
- 0.1

2020 — 3.2
- 1.7
- 0.7
- 0.3
- 0.3
- 0.1
- 0.2

2030 — 4.9
- 3.2
- 0.7
- 0.3
- 0.3
- 0.2
- 0.1

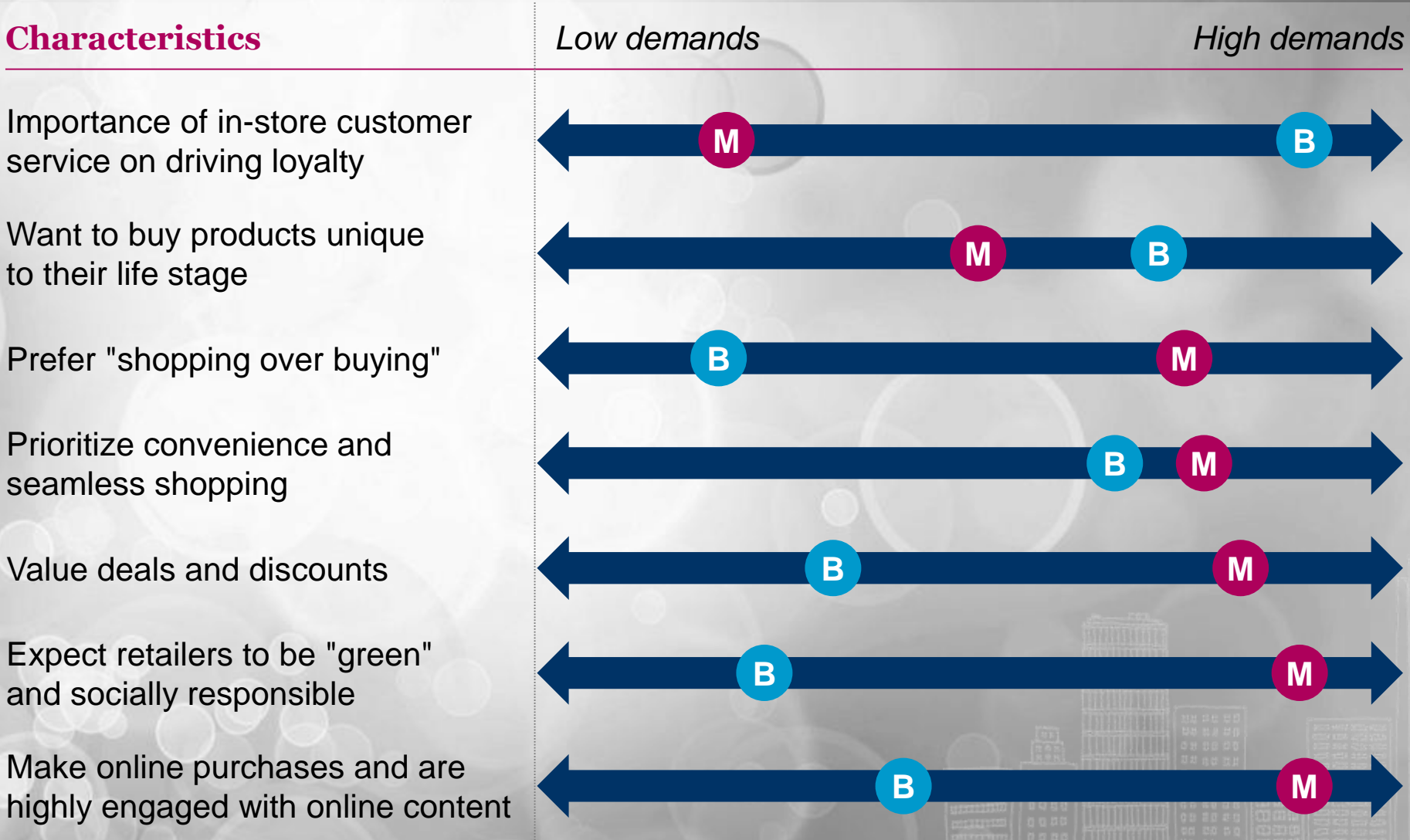Absolute growth percentages:
- 5%
- 6%
- 4%
- 3%
- 0%
- 9%

1 The global middle class includes individuals with daily expenditures of USD 10 - 100 in purchasing parity terms

New consumer generations have different demands towards luxury/brands…

● Boomers
● Millennials

Characteristics	Low demands .... High demands
Importance of in-store customer service on driving loyalty	M .... B
Want to buy products unique to their life stage	M ...... B
Prefer "shopping over buying"	B .... M
Prioritize convenience and seamless shopping	B M
Value deals and discounts	B .... M
Expect retailers to be "green" and socially responsible	B .... M
Make online purchases and are highly engaged with online content	B .... M

… and differ only slightly across countries due to the cultural context

Also called	Birth years	Description
Generation Y	1980 - 95	More positive and upbeat than older adults (despite high levels of student loan debt and unemployment); ethnically diverse, socially tolerant, masters of self-expression
Generation Y	1980 - 89	Born during the height of the UK's economic boom, spoiled on the "good life" early on; highly educated and independent, but have low tolerance for stress
八零后[1]	1980 - 89	First generation of single children (one child policy); considered individualistic and confident but also self-centered and rebellious; regarded as innovative and open-minded
Yutori	1995 - 2000	Product of liberal education due to reforms; perceived to lack the focus and discipline of earlier generations while also demonstrating greater individualism
Generation Pu	1983 - 2000	First truly post-Soviet generation to enter the workforce under the presidency of Vladimir Putin; have grown up in an unpredictable and fast-changing environment, which drives them to live in the present, not in the future

1 English translation: post 80 or post 1980

Brands need to offer a brand experience which meets consumer needs

Recognition — Feeling unique at every interaction (e.g., being welcomed by your name by both sales associates and digital tools)

Personalization — Acceding to products/experiences tailored to the customer (e.g., personalization of products tags)

Services — Answering to customers' needs – even when they are not directly related to what the brand offers (e.g., conciergerie)

Exclusivity — Getting access to things money cannot buy (e.g., private interactions with the brand designer)

Seamlessness — Having a consistent experience globally and across all touchpoints – not hindered by technology (e.g., trying in store and purchasing online)

Meaningful — Offering experiences that transcend the brand and its products (e.g., visiting the brand's private archives)

Time saving — Adapting the experiences to customers' time constraints – facilitating life for those who have limited time (e.g., pre-selecting products to be tried)

Digital calls for a complete shift of luxury brands' approach to engage with consumers on the above customers' expectations

Five key trends in the market

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3 Growth in «megacities»

4 Shortening brand lifecycle

5 Sourcing strategy challenges

Paris

4 ⟩ 7

Mexico City

24 ⟩ 22

Shanghai

25 ⟩ 3

3 insights about growth…

Growth **is shifting**

Growth **is happening in cities**

Growth **is granular**

» What does it mean for you?

The "Next 15" are driving the economic rebalancing

Mature (blue legend)
Emerging (magenta legend)

GDP

55%

China
India
Brazil
Russia
South Korea
Indonesia
Mexico
Turkey
Iran
Egypt
Philippines
Nigeria
Pakistan
Bangladesh
Vietnam

GDP GROWTH

80%
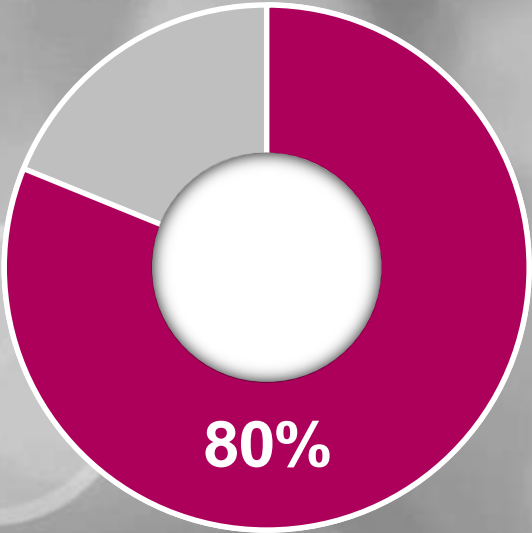
An important but less talked-about trend…
… the growing power of cities

600 cities = 65% growth

2/3 of the top cities are from the Next 15

Rise of the mega cities…

Pune **7** million population

Harbin **8** million population

Luanda **9** million population

▶ **From 25 to 60 mega cities**

▶ **~1/4 of the global wealth**

▶ **Istanbul> Austria**

Growth in the ***400*** *emerging middleweights =*

… but middleweight cities are increasingly important too

LuxuryScope

2,600 cities

Urban World app

CityScope - a proprietary methodology

Early insights on Luxury across 3 categories : Fashion, Beauty, Spirits

20 largest growth cities for luxury women RTW

1	Paris	Beijing	11
2	Moscow	Mexico	12
3	London	Shanghai	13
4	Milan	Dallas	14
5	Seoul	Chicago	15
6	New York	Sao Paulo	16
7	Los Angeles	Sydney	17
8	Singapore	Miami	18
9	Rome	Tokyo	19
10	Saint-Petersburg	Washington	20

8 emerging markets cities

7 in Next 15

20 largest luxury women RTW cities in 2025

Mature **Emerging**

1	Paris	Singapore	11
2	Tokyo	Dallas	12
3	Milan	Chicago	13
4	London	Madrid	14
5	New York	Nagoya	15
6	Moscow	Miami	16
7	Osaka	Sydney	17
8	Los Angeles	Mexico	18
9	Rome	Washington	19
10	Seoul	Saint-Petersburg	20

Top 5 = mature cities

No Chinese city in top 20

20 highest growth cities for apparel

Mature | **Emerging**

#	City	#	City
1	Beijing	11	Shenzhen
2	Shanghai	12	Rio de Janeiro
3	Moscow	13	Los Angeles
4	Sao Paulo	14	Wuhan
5	London	15	Tokyo
6	Tianjin	16	Dongguan
7	Hong Kong	17	Foshan
8	Chongqing	18	Nanjing
9	Guangzhou	19	Chengdu
10	New York	20	Paris

20 largest apparel markets in 2025

#	Mature/Emerging	#	Mature/Emerging
1	Tokyo	11	Hong Kong[1]
2	London	12	Milan
3	New York	13	Chicago
4	Moscow	14	Tianjin[1]
5	Sao Paulo	15	Rio de Janeiro[1]
6	Shanghai	16	Guangzhou[1]
7	Beijing[1]	17	Dallas
8	Los Angeles	18	Shenzhen[1]
9	Paris	19	Randstad
10	Osaka	20	Chongqing[1]

1 New to the top 20 list

Some urban markets will be as large as countries…

Shanghai = Poland + Portugal

Moscow = 4 Ireland

New York = 3 Denmark

Paris = Norway + New Zealand
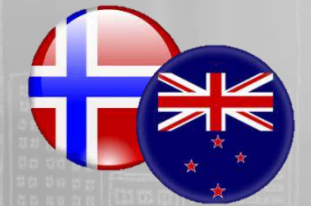
Growth concentration in top 600

Luxury apparel — 85%

Consumer spending — 62%

Mid market apparel — 60%

Consumer goods — 40%
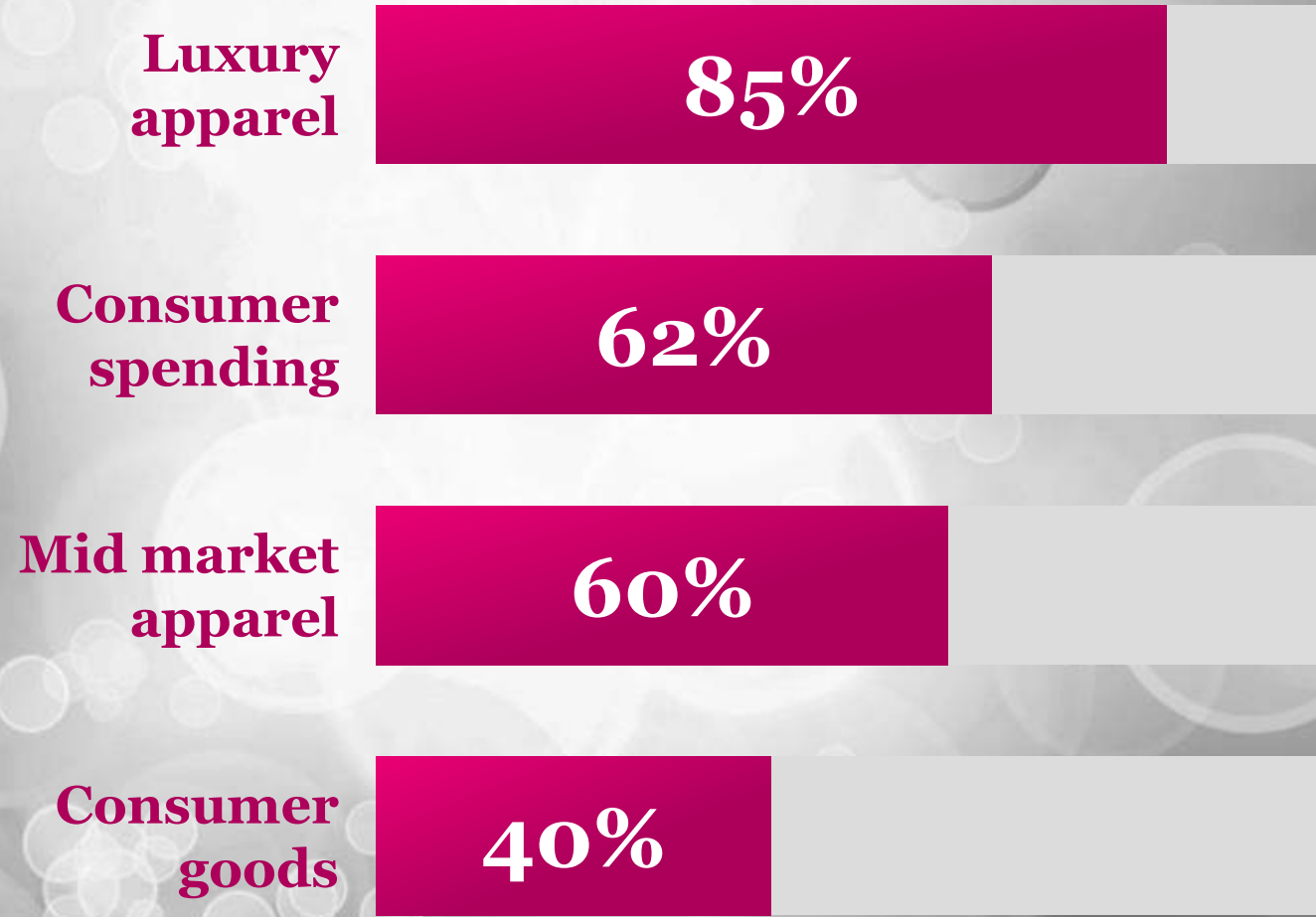
Departing thoughts
What does it mean for you?

Where to go when?

...TO SUCCESS

Go to market model

Offer tailoring

Global customer service

Organization and Talent

Resource reallocation

FROM STRATEGY...

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The speed at which new modes for apparel shopping are gaining scale is unprecedented…

Year of incorporation

1893	1902	1937	1952	1975	1968	2007
sears	TARGET	Columbia Sportswear Company	Timberland	ZARA	H&M	GILT GROUPE

Years to reach $500M Sales

70	67	63	42	19	15	5

… however the life-span of these cycles is reducing

Profitability growth rate, 3-year CAGR

Legend:
- 1965-75
- 1976-80
- 1981-85
- 1986-90
- 1991-95
- 1995-2000
- 2000-2005
- 2005-2010

No. of years after reaching $100 million in sales
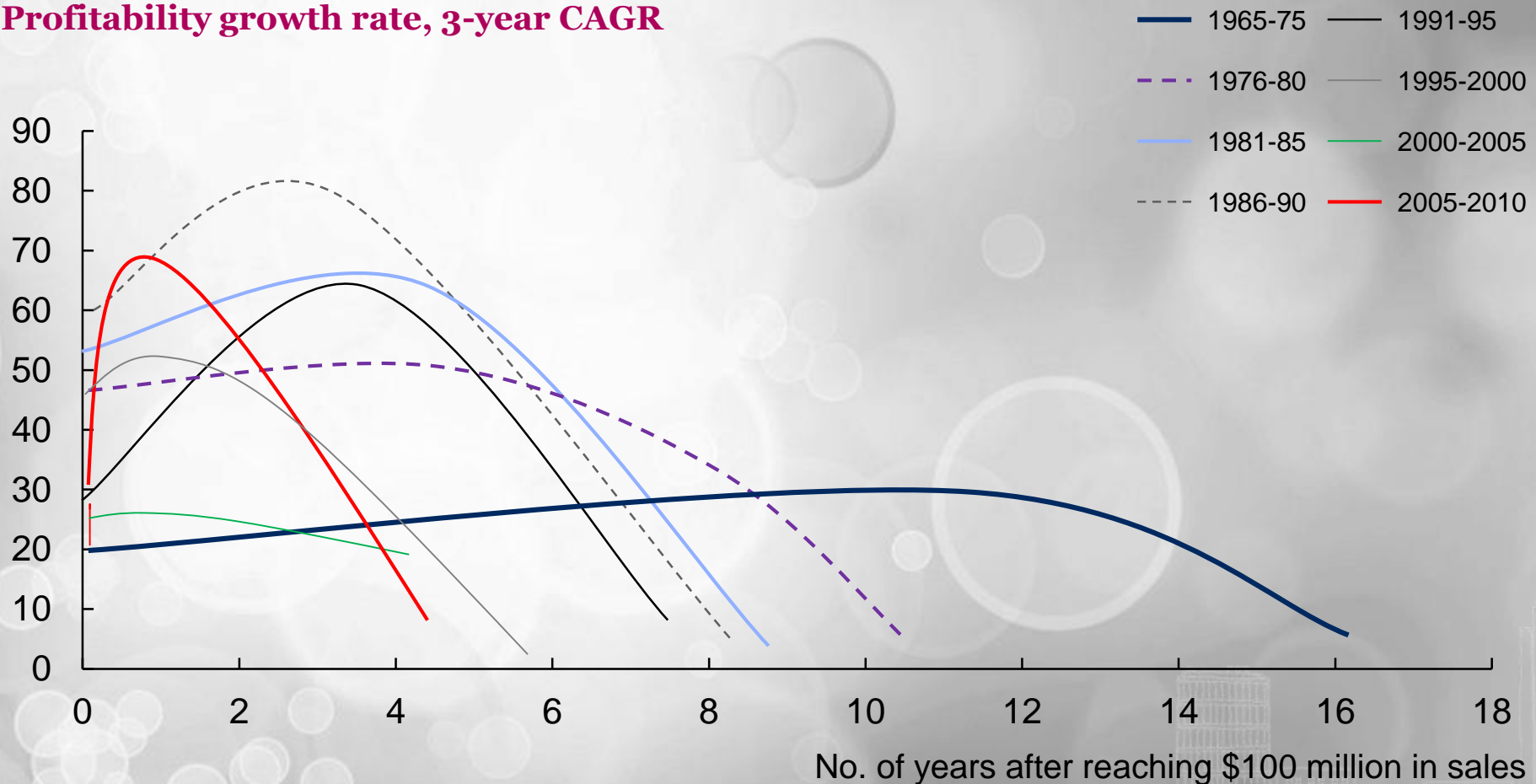
Note: Curves are smoothed using Year 0, peak and point at which earnings growth fell below 10%; based upon individual analysis of 15 largest single-concept retailers that reached $100 million in sales in each of the periods. Earnings defined as EBITDA

Michael Kors experienced 2 distinct phases of growth

Financial performance1, USD millions

— Revenue   – – Gross margin   - - - EBITDA

Step out: new categories, subbrand, and consumer segments

Explode: emphasis on new geographies and owned retail

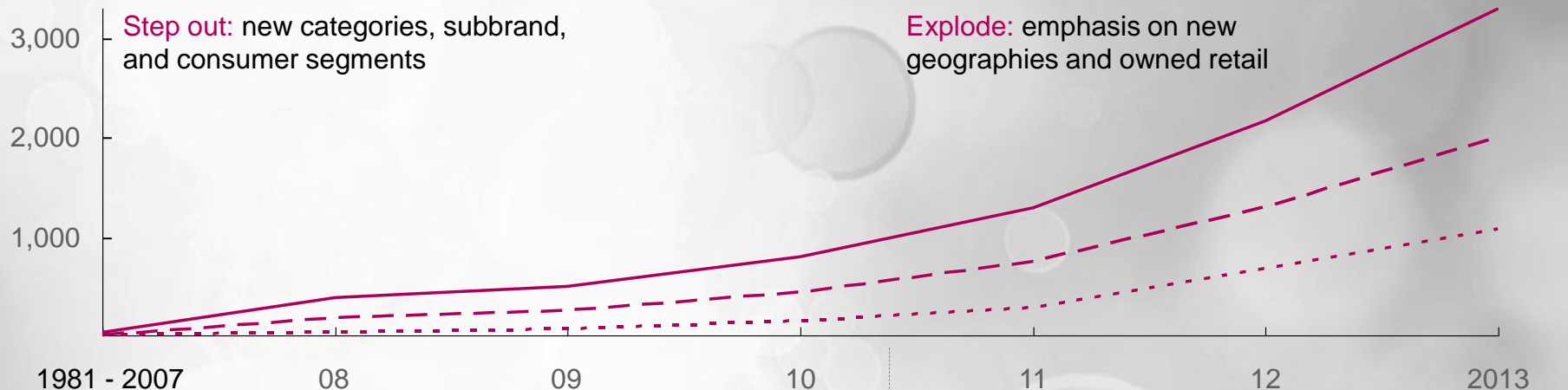|	1981 - 2007	08	09	10	11	12	2013
GM (Percent)		47.5	52.5	55.5	57.8	59.9	60.9
EBITDA (Percent)		10.8	14.8	20.4	22.1	31.4	32.9

- Launches new sublines quickly to expand into new price tiers
- Extends product across 5 core categories, e.g., bags, footwear, SLG, sunglasses, women's RTW
- Pursues licensing deals with key branded manufacturers (e.g., Estée Lauder for fragrances)
- Establishes strong, wholesale presence with primary emphasis on higher-end department stores

- Continues expansion across adjacent categories
- Gains strong brand awareness (from 11% in 2004 to 71% in 2011)
- Ramps up focus on international expansion with select market entries via both wholesale and retail locations
- Retail presence expands significantly (from 106 stores in 2010 to 237 stores in 2012)

1 Financial data not available prior to 2008 due to status as private company. Graph lines prior to 2008 are illustrative only

Michael Kors' strength is largely driven by the founder and the offering

Brand attributes

1 Brand personality and health

- Michael Kors is a global affordable luxury lifestyle brand that celebrates broad, known-for attributes and stands for "glamorous jet-set luxury"
- The brand personifies a wealthy individual who travels around the world in style
- Luxury at affordable price is one of the brand's strengths
- Michael Kors was a forerunner in affordable luxury and was able to convey a consistent brand image across price points, combining sophisticated, glamorous and exclusive luxury with more accessible prices and thus is particularly successful serving the HENRY customer

2 Distinctive look

- Michael Kors products feature distinctive designs with a jet-set aesthetic that combines stylish elegance and a sporty attitude
- Michael Kors advertising remains consistent with this ideal
- Deliberate confusion between Michael Kors Collection and affordable luxury line MICHAEL Michael Kors

3 Category authority/ design leadership

- The item that is most well-known is leather handbags

4 Prominence

- Kors won 2 CFDA (Council of Fashion Designers of America) awards in 1999 (women's wear) and 2003 (menswear)
- In 2010, Kors was the youngest recipient of the CFDA's Geoffrey Beene Lifetime Achievement Award
- In 2013, Kors was selected for The Time 100, the magazine's annual list of the 100 most influential people in the world
- Kors appears as a (guest) judge on the Emmy-winning Project Runway show
- Celebrities endorsements : Michelle Obama, Heidi Klum, Angelina Jolie, Catherine Zeta for their red carpet appearances

5 Iconic figure

- Brand success heavily relies on the founder/designer
- Michael Kors himself personifies the jet-set lifestyle that the brand promotes; "Michael Kors is an all-American designer known for his luxurious, jet-setting fashions, creating clothes that combine minimalism and wearability"
- "Kors thinks of what the average, fashion-conscious American woman wants to wear and brings out a hidden sexiness that's casual and classy"

Michael Kors' operational excellence stems from multiple sources

MICHAEL KORS

6 Price point stretch	7 Category	8 Geography	9 Distribution	10 Brand/sub-brand architecture
Superaffluent	Single category	Single market	Owned retail, online/catalog	Single brand
			Concessions in retailers	
Affluent			Wholesale – upscale channels	
	Adjacent, related categories	Few markets – tier-1 luxury markets	Wholesale – mainstream dept. stores	Endorsed brand (e.g., "by brand X")
"Aspirational" stretch consumers			Wholesale – specialty	
			Wholesale – other (e.g., duty free)	Separate, sub-brands (can be exclusive to a retailer)
Mass	Adjacent and radiating categories (lifestyle)	Full global penetration	Wholesale – mid-tier, mass, and off-price	

Operational elements of the business

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Sourcing is changing year by year through volatility both on a macroeconomic level due to consumer and channel trends

Sourcing in a volatile world

Macroeconomic trends that effect sourcing

- Currency exchange rates volatility
- Drastic oil price decrease
- Historically low interest rates
- Political disputes
- Labor cost increases
- Changes in free trade agreements

Consumer and channel trends

- Retail sales stagnation in developed countries
- Omnichannel and fast fashion driving flexibility trend
- Strong focus on compliance

Labor costs are still a key driver, but FX rates are the top-of-mind issue for European players today

"Which drivers do you expect to have the highest impact on sourcing cost development within the next 12 months?"

Assessment of respondents, 1 = no impact, 5 = very high impact, n = 40

	Average
FX rates	3.7
Labor costs	3.5
Cost of raw materials	3.0
Change in trade agreements	2.7
Compliance costs	2.6
Shift in purchasing power	2.5
Financing costs/cost of capital	2.3
Transport costs	2.3
Cost of dyestuff	2.1

US   Europe
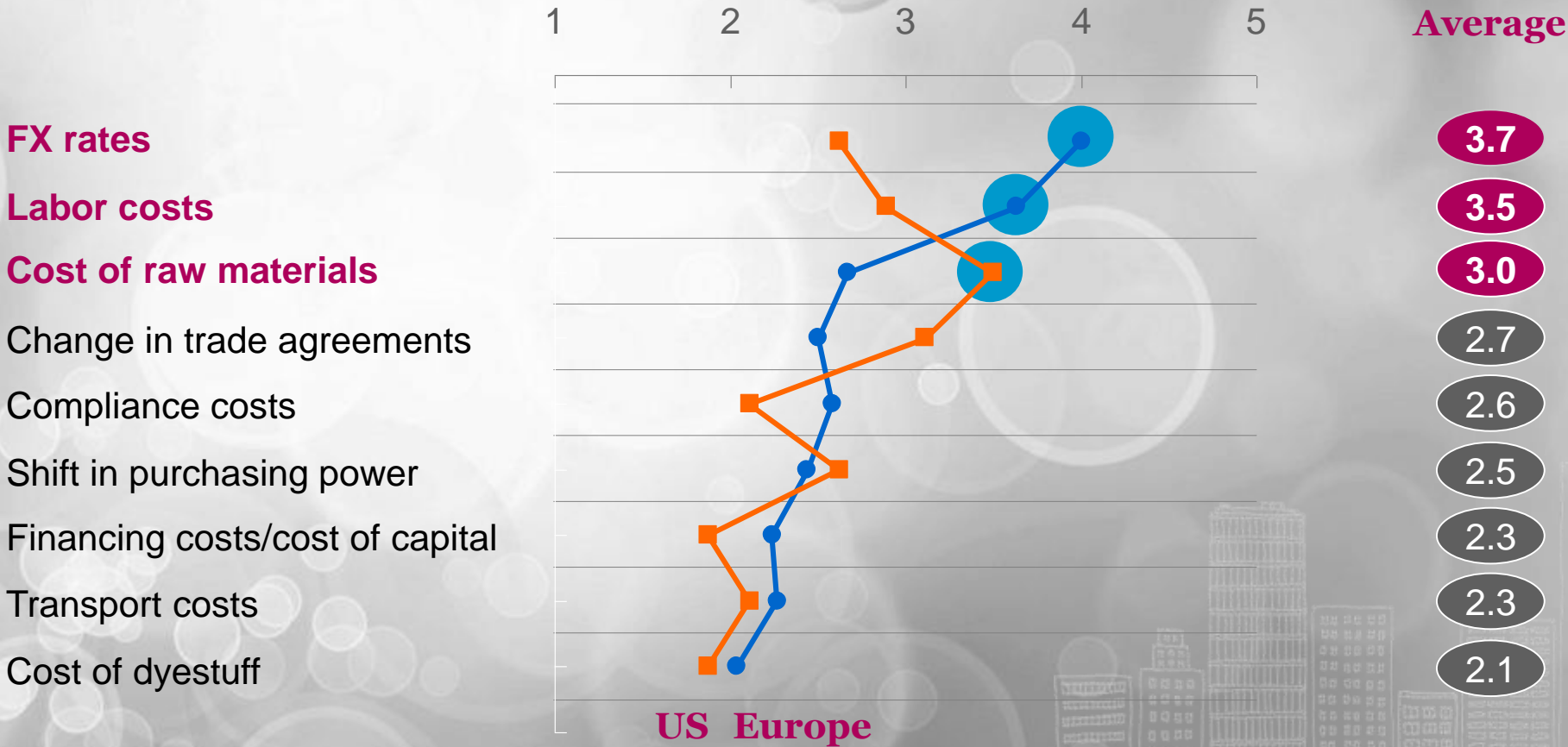
In recent years, there has been an awakening of emerging Asian sourcing countries, but China remains dominating

"Garment export markets by country[1], 2013
USD billions, ranked by export value

	2009	2013	CAGR 2009-13
China[2]	130	199	11.3
Bangladesh	12	24	**18.6**
Vietnam	9	17	**19.2**
India	12	17	8.8
Turkey	12	15	7.5
Indonesia	6	8	6.8
Cambodia	2	5	**20.2**
Malaysia	3	5	10.1
Pakistan	3	5	7.9
Mexico	4	5	2.4

Sum 61% of total (2009)

Sum 65% of total (2013)
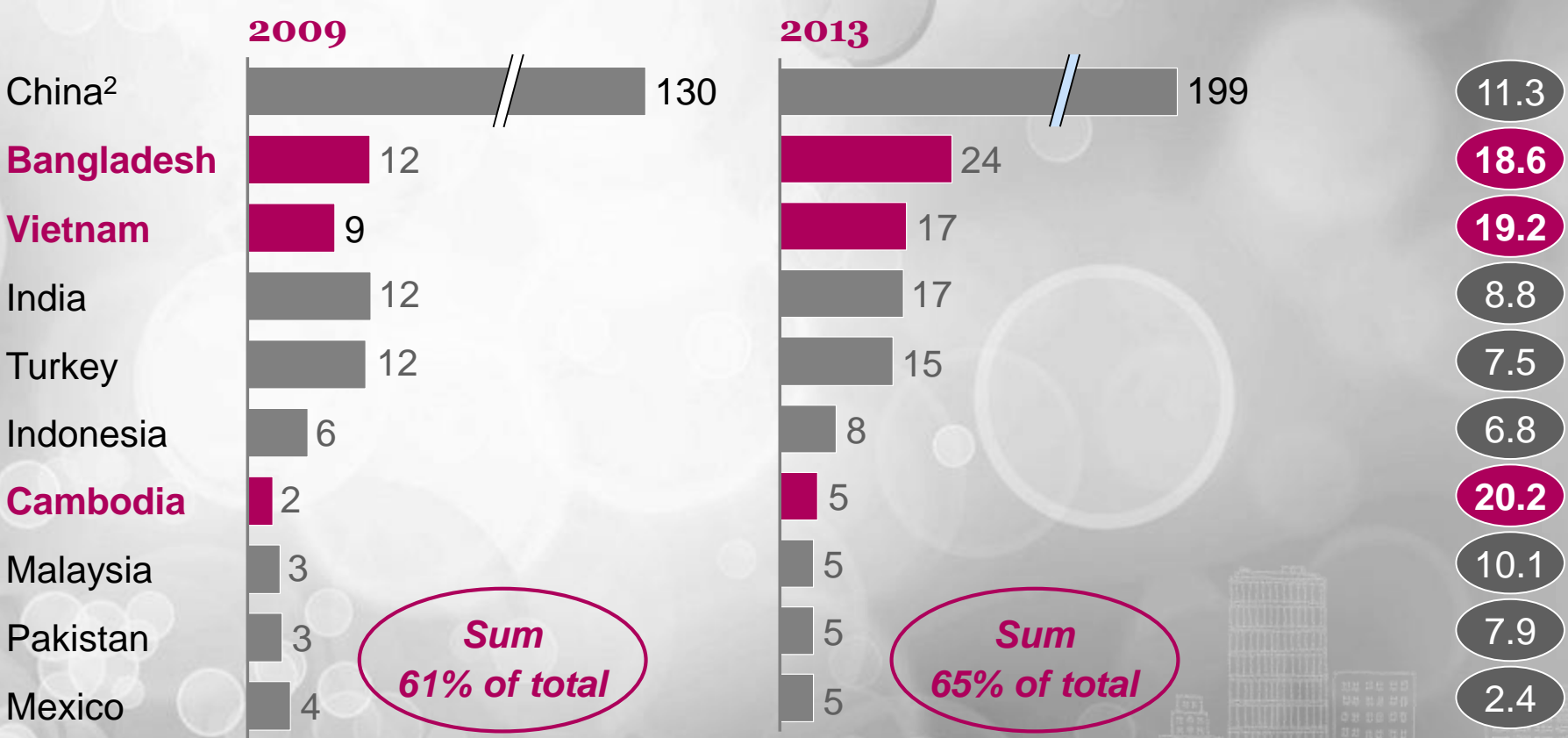
1 Excl. EU-28 and US   2 Incl. Hong Kong

Sub-Saharan Africa is seen a potential "watering hole" for the industry, but few players have concrete plans

"Will sub-Saharan Africa gain importance over the next 5 years?"

Percent of respondents, 2013: n = 29, 2015: n = 40

	Yes, most certainly	Maybe	No

In the industry

	Yes, most certainly	Maybe	No
2013	24	52	24
2015	40	53	7

For your sourcing strategy

	Yes, most certainly	Maybe	No
2013	17	38	45
2015	20	45	35
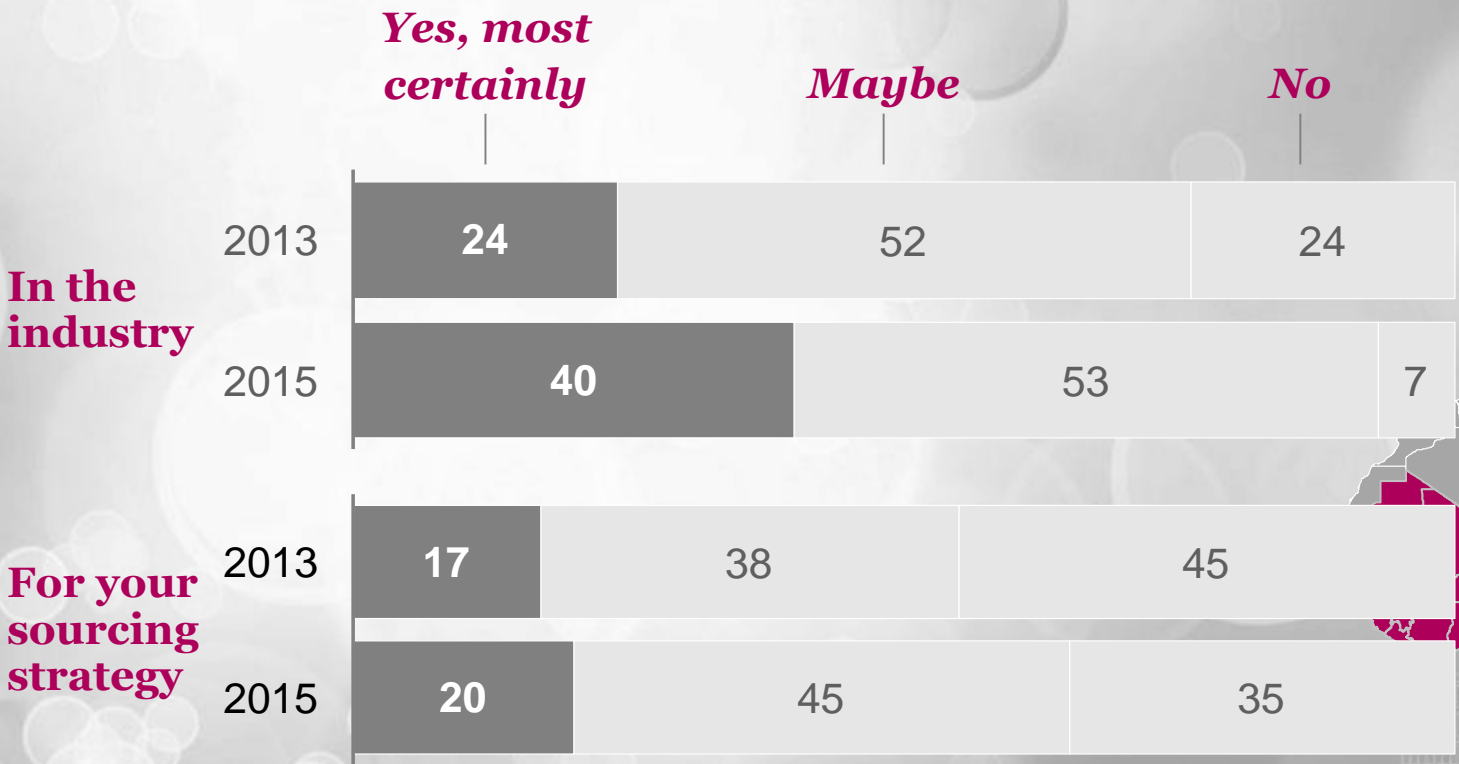
Respondents expect to increase their sourcing share from sub-Saharan Africa from 0.3% to 2.8% by 2020[1]

1 Excluding responding CPOs from South Africa – including them increase from 1.3% to 3.6% by 2020

Africa must be looked at on a granular level, sub-Saharan Africa with great potential that is largely untapped

Export value of clothing from Africa
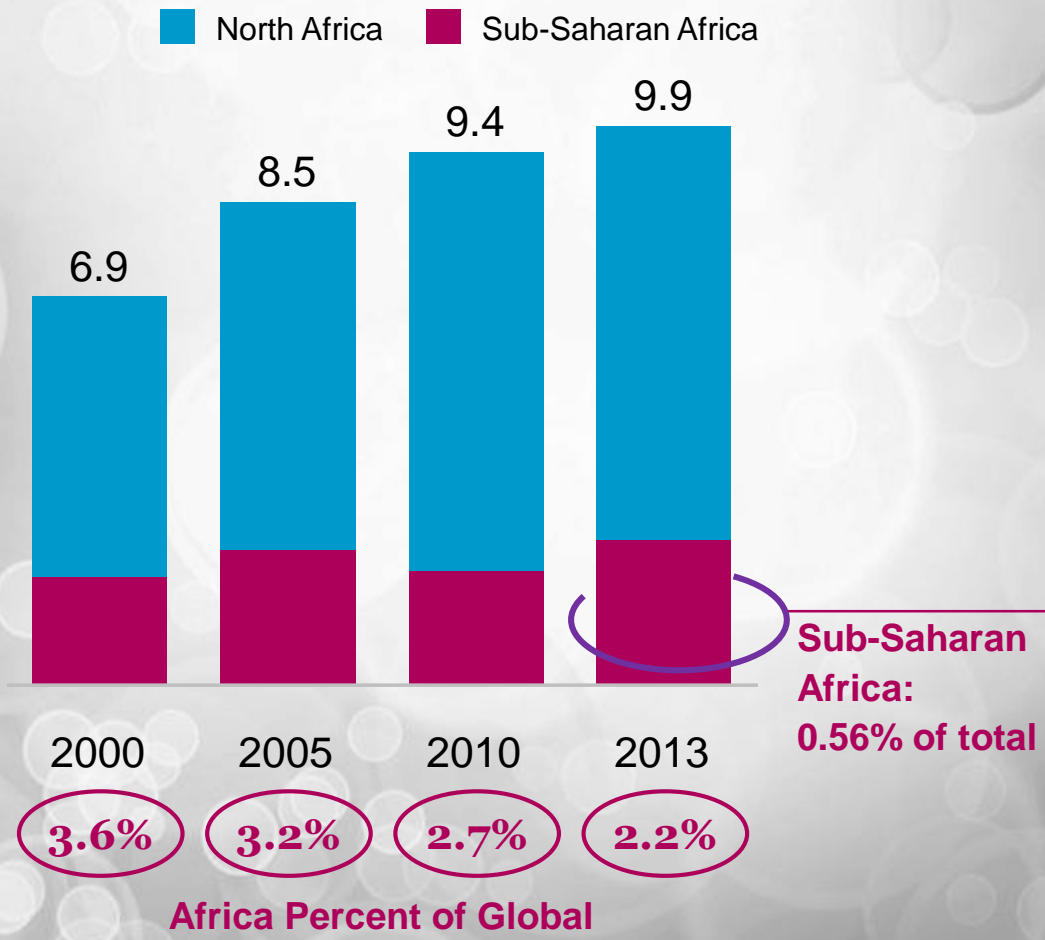USD billions

■ North Africa   ■ Sub-Saharan Africa

Year	Value
2000	6.9
2005	8.5
2010	9.4
2013	9.9

Sub-Saharan Africa: 0.56% of total

2000	2005	2010	2013
3.6%	3.2%	2.7%	2.2%

Africa Percent of Global

Africa's largest suppliers   CAGR[1]
Percent

	Supplier	CAGR Percent	Region
🇪🇬	Egypt	2.2	**North African**
🇲🇦	Morocco	1.3	
🇹🇳	Tunisia	-3.2	
🇪🇹	Ethiopia	44.2	**East Africa**
🇰🇪	Kenya	13.9	
🇹🇿	Tanzania	13.3	
🇲🇺	Mauritius	5.0	**Islands East of Africa**
🇲🇬	Madagascar	3.1	
🇿🇦	South Africa	70.6[2]	**Southern Africa**
🇸🇿	Swaziland	2.4	
🇱🇸	Lesotho	-1.2	
🇧🇼	Botswana	-20.5	

1 Compounded annual growth rate from 2010 to 2013   2 Driven mainly by exports to neighboring countries

East African countries are the most dynamic for global apparel sourcing

African apparel sourcing opportunity map

Dynamic of garment export industry (vertical axis, − to +)

Sophistication of garment export industry (horizontal axis, − to +)

- **East Africa** — Kenya, Ethiopia, Tanzania, Uganda
- **Islands East of Africa** — Mauritius, Madagascar
- **Southern Africa** — South Africa, Lesotho, Botswana, Swaziland
- **North Africa** — Egypt, Morocco, Tunisia
- **West Africa** — e.g., Ghana, Nigeria
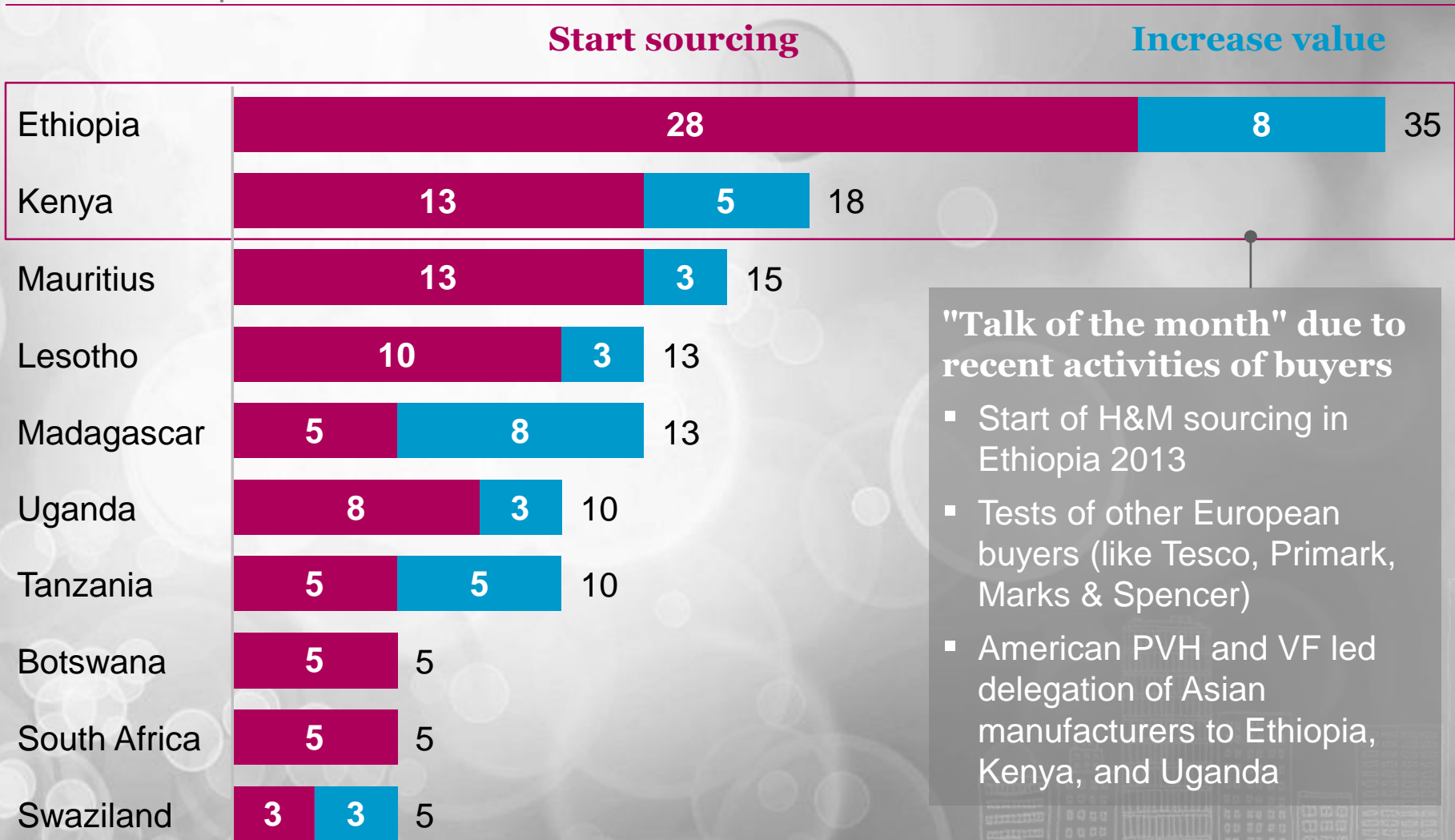
Ethiopia and Kenya on top of the list for global buyers

"How do you expect your sourcing value share to develop until 2020?"

Percent of respondents, n = 40

	Start sourcing	Increase value	
Ethiopia	28	8	35
Kenya	13	5	18
Mauritius	13	3	15
Lesotho	10	3	13
Madagascar	5	8	13
Uganda	8	3	10
Tanzania	5	5	10
Botswana	5		5
South Africa	5		5
Swaziland	3	3	5

"Talk of the month" due to recent activities of buyers

- Start of H&M sourcing in Ethiopia 2013
- Tests of other European buyers (like Tesco, Primark, Marks & Spencer)
- American PVH and VF led delegation of Asian manufacturers to Ethiopia, Kenya, and Uganda

In recent years, Kenya and Ethiopia industry development supported by government initiatives and manufacturer investments

Government initiatives

Kenya

- Garment industry as one of the focus industries in "Kenya Vision 2030" – policy for addressing poverty
- Setup of Cotton Development Authority

Ethiopia

- Ethiopia Growth and Transformation Plan launched 2010 – with goal of > USD 1 bn garment exports in 2015 to drive job development and export earnings
- Launch of Textile Industry Development Institute (TIDI) in 2010
- New Ethiopian Industrial Inputs Development Enterprise (EIIDE) founded recently

Manufacturer investments

Kenya

- Mombasa Apparels opens USD 25 m garment factory (2014)
- Plan to build textile city – attract 100 textile investment firms create 200,000 sustainable textile jobs by December 2016
- Delegation led by PVH/VF for Asian investors

Ethiopia

- Angel Cotton & Textiles Production (Turkey) (2014)
- Bole Lemi investment project with 11 manufacturing sheds
- Eastern Industrial Zone (Chinese investors)
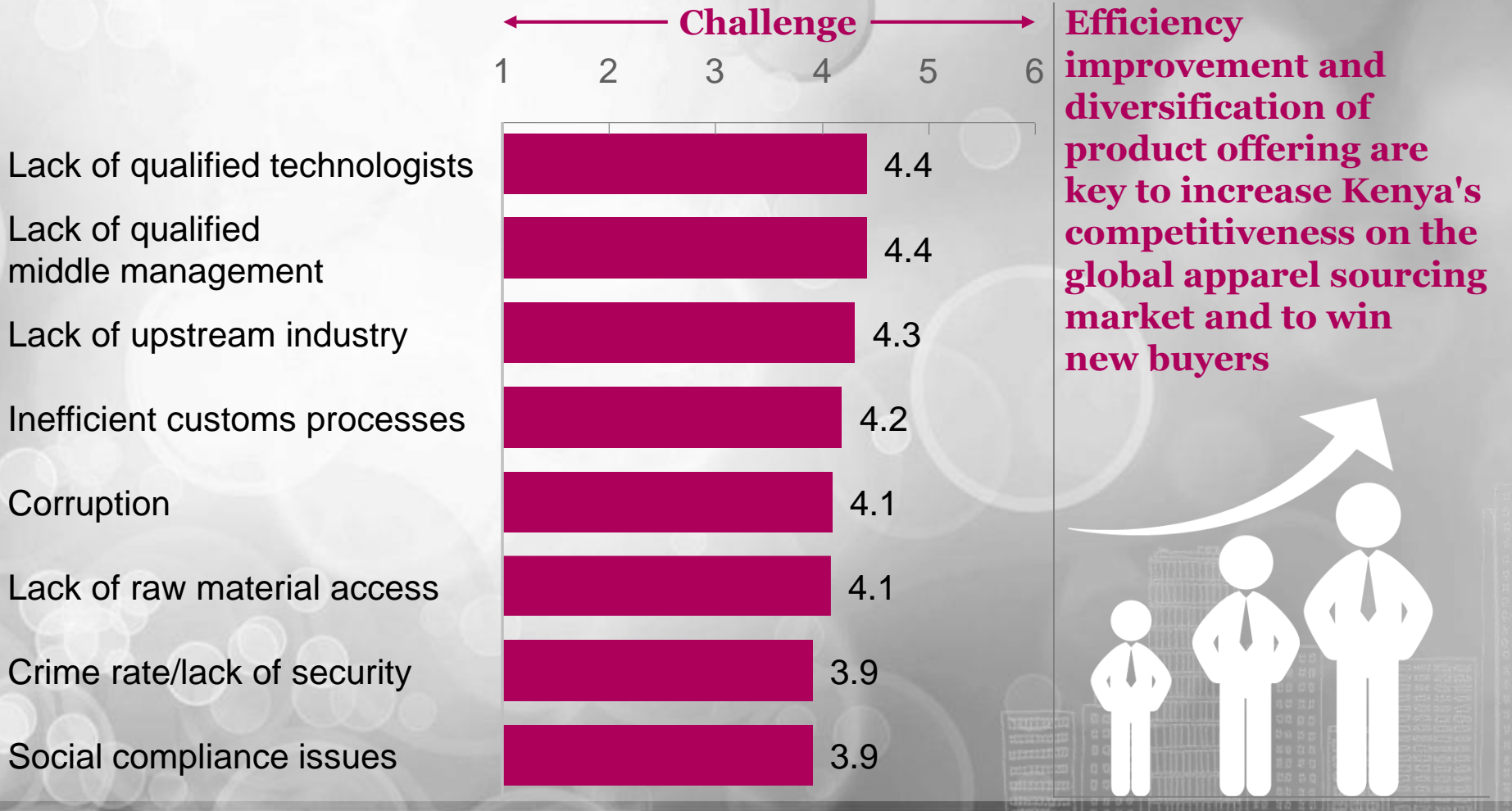- Delegation led by PVH/VF for Asian investors

3 scenarios for the future of East Africa as a sourcing spot are possible

	SCENARIO 1 **"Niche market"**	SCENARIO 2 **"The new alternative"**	SCENARIO 3 **"Towards next mainstream"**
Description	Continued volatility of the markets, quick capacity buildup with FDI as long as free trade agreements provide advantage, limited sustainable investments. Buyers with existing presence extend volume, others as pilot	Darling for a few – East Africa will work out for selected large players for basics, remains largely untapped for most players – more than doubling its export	Turbo charge – if industry upgrading happens, more players from different regions will open a sourcing office there until 2020 raising the potential to grow 4 - 5 x up to USD 1.2 bn in 2020 and USD 3 bn in 2025
Potential (usd bn)	2020 ~ 0.5 2025 ~ 0.7	2020 ~ 1 2025 ~ 1.7	2020 ~ 1.2 2025 ~ 3
Evaluation	While no substantial impact on the worldwide sourcing landscape, the industry's importance for East Africa still on the rise	More and more large international companies see the value from East Africa sourcing and strategically invest in partners/infrastructure	East Africa with growth rates like Bangladesh over many years. Size can almost reach level of today's Mexico or Pakistan. However, in total the importance of world exports stays moderate (< 1% of export volume)

To revive the positive trajectory and remain competitive closing the skill gap, improving efficiency and security is key

"What are the challenges for growth in apparel sourcing from Kenya?"
Average rate, 1 = no challenge to 6 = very high-impact challenge, n = 11

← **Challenge** →

Efficiency improvement and diversification of product offering are key to increase Kenya's competitiveness on the global apparel sourcing market and to win new buyers

	Value
Lack of qualified technologists	4.4
Lack of qualified middle management	4.4
Lack of upstream industry	4.3
Inefficient customs processes	4.2
Corruption	4.1
Lack of raw material access	4.1
Crime rate/lack of security	3.9
Social compliance issues	3.9

To realize its potential for growth, Ethiopia needs to over-come the skill gap, improve efficiency and infrastructure

"What are the challenges for growth in apparel sourcing from Ethiopia?"
CPO survey, average rate, 1 = no challenge to 6 = very high-impact challenge, n = 15

← **Challenge** →

Growth goals and satisfaction of inflowing buyers can only be achieved while simultaneously to strengthening of the backbone

Challenge	Rating
Lack of qualified technologists	4.8
Inefficient production	4.6
Weak logistics infrastructure	4.6
Inefficient customs processes	4.6
Social compliance issues	4.4
Lack of raw materials	4.4
Corruption	4.4
Lack of qualified middle management	4.4
Lack of upstream industry	4.3
Lack of law enforcement/ legal security	4.3

Stakeholders are working together to tap the full potential of sub-Saharan Africa

GOVERNMENT "Execute vision"

- Follow through with long-term plan for steady growth
- Diversify FTAs and support trade marketing
- Invest in infrastructure
- Foster local entrepreneurs and long-term FDIs
- Support backward integration and supply industries
- Establish market-oriented educational institutions

SUPPLIERS "Think beyond"

- Improve productivity with new machinery and increase worker/management training
- Upgrade beyond CMT and diversify product portfolio
- Establish long-term partner-ships with buyers
- Invest in backward integration

LARGE BUYERS "Get real"

- Move beyond tests or insignificant shares
- Evaluate Africa as strategic option thinking beyond 2 - 3 years
- Proactively support supplier capability building (e.g., development, training)
- Establish optimal local sourcing setup to meet company objectives

Overarching recommendations

- Make every effort to ensure social and environmental compliance
- Work together to move from a short hype to a sustainable future

Five key trends in the market

1 Multi-channel consumer

2 New consumer generations

3 Growth in «megacities»

4 Shortening brand lifecycle

5 Sourcing strategy challenges