



# Future changes in sourcing patterns: 2025 outlook for the Swedish textile industry

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## ABSTRACT

This study analyzes ongoing changes in sourcing patterns in offshoring and reshoring, and the reasons thereof. It is based on a survey of expectations regarding changing sourcing patterns from now to 2025 in a sample of 119 Swedish buyers of textiles and apparels. The research approach supplements previous studies primarily focusing on contemporary and historical changes. The most important findings related to the dynamics of sourcing patterns are: (i) increasing sourcing in Europe, and (ii) decreasing sourcing in China, partly substituted by expansion in Bangladesh and other low-cost Asian countries. Increasing sourcing from Europe stems from ambitions to enhance supply chain responsiveness through nearshoring in relation to customers. The changes within Asia represent another pattern: low cost-seeking companies plan to turn to countries with lower costs than China. This pattern illustrates extended offshoring through far-shoring. Consequently, the study shows that both nearshoring and far-shoring represent important sourcing approaches. The resulting patterns show considerable variety owing to diversity in contextual conditions. Social, environmental, and political factors are expected to become increasingly important for future sourcing decisions. Of the firm-internal factors, capabilities related to flexibility and responsiveness are assumed to have the most significant impact. The study shows how these factors in combination with other capabilities, firm size, product assortment, and attitudes to geographical proximity drive various sourcing patterns.

## 1. Introduction

The late 1900s witnessed massive increases in outsourcing and offshoring (Ashby, 2016; Stentoft et al., 2016). These changes occurred because of expectations of benefits from specialization and global sourcing, as well as advantages from locating operations in low-cost countries. More recently, research shows a tendency in Europe toward “backsourcing or reshoring of once offshored manufacturing capacities back” (Kinkel, 2014, p. 63)—likewise, “nearshoring or reshoring has received a great deal of recent attention” in the US (Ellram et al., 2013, p. 14). Similar observations are reported by several other researchers (e.g., Gray et al., 2013; Foerstl et al., 2016; Hartman et al., 2017).

One of the main reasons behind this reorientation is the changing cost conditions featuring geographical regions. Initial cost advantages from low labor cost in areas to which firms once offshored have been substantially reduced (Fratocchi et al., 2016). Other causes include increased attention to hidden costs, *difficult-to-quantify* risks, and performance challenges related to offshoring (De Treville et al., 2017; Gray et al., 2017). Such hidden costs are exemplified by logistics costs and the handling of problems related to supply chain risks (Tate, 2014).

Moreover, several barriers and obstacles have been observed in global sourcing, thus making researchers address the *dark side* of this approach (Stanczyk et al., 2017). An increased significance of reshoring can be expected, since Tate (2014) found that 40% of the 320 companies in a US survey reported reshoring trends. Such changes do not always involve backsourcing to the situation before offshoring. Therefore, in this paper *nearshoring* is defined as a change implying movement closer to the home base of activities previously subject to offshoring.

However, there is no general agreement regarding dramatic changes in the future trade-off between offshoring and reshoring. For example, Bailey and De Propriis (2014), although acknowledging increasing backsourcing, conclude that this trend is less pronounced than many have claimed. In a similar vein, Cohen and Lee (2015) argue that, as much as companies are returning their operations, there are other situations when they continue to offshore. Baldassarre and Campo (2015) found that the participants in an expert group study indicated that their companies would continue to maintain, or even increase, their sourcing activities from countries that provide the best conditions regarding cost. Bals et al. (2015) confirmed this claim through their finding that the volume imported from low-cost countries to industrialized countries

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was still rising. There is a tendency wherein these efforts to capitalize on low cost make buying firms expand to regions with even lower costs (Robinson and Hsieh, 2016). In this paper, this aspect of extended offshoring is identified as *far-shoring*.

These contrasting views motivate further research regarding the ongoing evolution of sourcing patterns (Fratocchi et al., 2014; Ashby, 2016; Barbieri et al., 2017). Cohen and Lee (2015) ask for more research regarding two particular aspects of the development of sourcing patterns. The first deals with mapping of what changes are actually under way with regard to offshoring and reshoring. The second regards identification of the reasons behind these changes. The overall objective of this paper is to enhance the knowledge of these two aspects of the evolution of sourcing patterns.

Sourcing patterns and their dynamics have been subject to investigation by several researchers. Most studies analyze historical patterns, exemplified by Kinkel and Maloca (2009) and Kinkel (2014), who researched sourcing changes and their drivers in Germany from the late 1990s. Cohen et al. (2018) is representative of more recent studies on these issues. They analyzed the modifications of sourcing patterns, as well as drivers and barriers in relation to these changes, between 2012 and 2015. The research reported in this paper complements these studies by taking a forward-directed perspective. The study builds on a study of expectations regarding future changes of sourcing patterns, as well as the motivations for these changes. It is based on a survey of a sample of more than 100 Swedish buyers of textiles and apparels. More research on sourcing patterns in this industry has been suggested by, for example, Åkesson et al. (2007) and Jin and Farr (2010).

## 2. Frame of reference

Section 1 shows that two main patterns can be identified in today's sourcing dynamics. One favors reliance on low-cost country sourcing and even extended offshoring through far-shoring. The other approach is prioritizing reshoring through nearshoring. Firms that maintain and eventually increase sourcing from low-cost countries are those that emphasize the relevance of low labor cost, which always has been a driver of such arrangements (Hartman et al., 2017). However, Ellram et al. (2013) observed a tendency in the US—firms began to move beyond narrow cost saving calculations to consider the effect on total cost when determining preferred regions for location. The continuing relevance of low cost in sourcing decisions is pointed out by, for example, Kinkel (2014) and Robinson and Hsieh (2016).

Other firms have reversed their previous sourcing pattern and moved operations closer to the home country and their customers. One of the first steps in this evolution was pointed out by Christopher et al. (2004) in the claim for agile supply chains in the fashion industry, further emphasized by advocates of *fast fashion* (e.g., Runfola and Guercini, 2013). The reasons behind these changes relate to insufficient flexibility and delivery reliability, as well as quality problems and hidden costs in offshoring (Kinkel and Maloca, 2009). Ellram et al. (2013) analyzed the factors that influence US firms' choices of regions for sourcing in the past three years and in the coming three years. The main finding was that the factors that impact these decisions change over time and differ by regions. Moreover, the study showed that supply chain-related aspects are becoming increasingly important, with dominance on supply chain responsiveness to enable value creation in relation to customers. Similar conclusions regarding the impact of supply chain factors are presented by Barbieri et al. (2017) and Benstead et al. (2017).

On this basis, Fig. 1 presents the basic framing of the study. Two main sourcing patterns are identified, and are labeled *low cost seeking* and *supply responsiveness*. Like many other studies (e.g., Fratocchi et al., 2016), the research model in Fig. 1 distinguishes between the impact of internal motivations (firm-specific factors) and external motivations grounded in the conditions in potential host countries.

### 2.1. Internal factors

Previous research shows that some basic company attributes impact decisions on sourcing patterns. The relevance of size was pointed out by Åkesson et al. (2007), Swoboda et al. (2008), and Barbieri et al. (2018). The significance of the type of products and assortments was illustrated in studies by Hartman et al. (2012) and Ashby (2016). The distinction between manufacturing and non-manufacturing firms is motivated by general differences in buying behavior between production firms and those specializing in marketing and sales (Gadde and Håkansson, 2001). The propensity to move operations was included in the model because previous research indicates that firms with experience of moving operations develop knowledge that is important for successful outcome of coming changes (Van Wijk et al., 2008; Gerbl et al., 2016; Barbieri et al., 2018).

The two last factors on the internal side reflect attitudes and perceptions. The geographical proximity to the home base has been found to be an important determinant of locational decisions. Several dimensions of this proximity have been pointed out, for example, to the market (Johansson et al., 2018); to manufacturing (Kinkel and Maloca, 2009; Tate, 2014); and to research and development (Bailey and De Propriis, 2014; Cohen et al., 2018). In this study, these aspects were supplemented with proximity to warehousing and headquarter.

The study also investigated what capabilities firms perceive to be crucial when it comes to locational decisions. Previous research indicated the relevance of six major factors. First, cost seems to be on top of the agenda in these situations at all times, as pointed out by, for example, Kerkhoff et al. (2017) and Cohen et al. (2018). Second, the impact of quality is also highlighted in most studies, among others, Fratocchi et al. (2016) and Martinez-Mora and Merino (2016). Third, reliable deliveries are important in studies conducted by, for example, Ellram et al. (2013) and Bailey and De Propriis (2014). Fourth, McKeller (2014) and Cohen et al. (2018) illustrated the role of flexibility as a factor impacting locational decisions. Finally, the perceptions of the importance of two aspects of time were investigated. Short time from idea to production start was pointed out by Cohen et al. (2018), while several authors emphasize the role of short time from order to delivery (Christopher et al., 2004; Di Mauro et al., 2018; Wiesmann et al., 2017).

### 2.2. External factors

The review of the literature discussing influential external factors revealed four main aspects: economic, social, environmental/political, and technical/logistical. Within these four groups, 17 individual factors were identified. In the text below, we report two references for each factor. The complete account for references related to external factors is provided in Appendix A.

Among the economic factors the cost of *labor* was emphasized by Kim and Johnson (2009) and Hartman et al. (2017), while Meyer (2008) and Kinkel (2014) pointed out the relevance of *transportation* costs. Moreover, costs for *energy and water* are important in studies conducted by Fratocchi et al. (2016) and Edström (2013). Finally, the role of *currency fluctuations* was highlighted by Bailey and De Propriis (2014) and Tate (2014).

Regarding social factors, McKeller (2014) and Meyer (2008) indicated the relevance of *workforce conditions*. Fratocchi et al. (2016) and Tate (2014) showed that the existence of *competent personnel* was an important determinant of locational decisions. Foerstl et al. (2016) and Tate (2014) pointed out the *cultural conditions* in potential host countries as a significant factor. The role of *supplier relationships* in sourcing patterns was highlighted by Foerstl et al. (2016) and Hartman et al. (2017). Finally, the impact of the *presence of firms from the same home country* was studied by Kinkel and Maloca (2009) and Gray et al. (2013).

In relation to environmental/political factors, the role of *trade barriers* was analyzed by Shelton and Wachter (2005) and Gray et al.

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