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BUSINESS

Retailers' Inventories Pile Up as Lead Times Grow

As production cycles stretch to more than a year, retailers are having a harder time matching supply with demand

By Suzanne Kapner Follow

June 18, 2022 5:30 am ET

One culprit for the inventory piling up at many retailers is long lead times that are getting even longer.

Factory closures, shipping delays, port backlogs and other supply-chain bottlenecks wrought by the Covid-19 pandemic are prompting chains from Target Corp. to Gap Inc. to start designing new products and placing orders with overseas factories further in advance, making it harder to match supply with demand.

Production cycles—typically the time it takes to design products such as apparel and footwear and have them hit shelves—are stretching to over a year, up from about eight months before the pandemic, according to industry executives and analysts.

"The longer the lead time, the less accurate you are going to be," said Lena Phoenix, co-founder and president of Xero Shoes, which sells sandals, shoes and boots on its website and through other retailers. As a result of the pandemic, Xero Shoes has been placing orders with Chinese factories two months earlier than normal, stretching its production cycle to 19 months.

"We have to guess more than a year-and-a-half in advance," Ms. Phoenix said. She added that some of the delays are due to larger retailers getting preference over Xero Shoes on production lines, and that recent lockdowns in China added four weeks to production times for certain fall styles.

The supply-chain delays of the past few years inadvertently allowed retailers to sell down excess stock and reduce discounts as they raced to keep pace with soaring demand. They vowed not to return to the pattern of overbuying and discounting that had plagued the industry before the pandemic.

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— American Fashion Network CEO Jackie Ferrari

While some companies say they are looking at moving production to the Western Hemisphere, they are finding it hard to break up with their Asian factories. Central American production costs are higher than in Asia, where decades of experience in garment and other types of production remain a huge draw, the executives said.

“Covid was a time to rethink how you do things, but I don’t see many retailers making fundamental changes in their supply chains,” said Jackie Ferrari, founder and chief executive of American Fashion Network LLC, which makes clothes for many large chains through a network of factories around the world. “They got intoxicated by people rushing back to stores, and went back to their old habits.”

Consumer buying habits shifted faster than retailers could adapt to the changes. Shoppers started snapping up dressier garments and spending more on travel and dining out in lieu of the casual clothes and home items they bought earlier in the pandemic. In recent months, inflation has led consumers to shift more of their income to necessities such as food and gas.

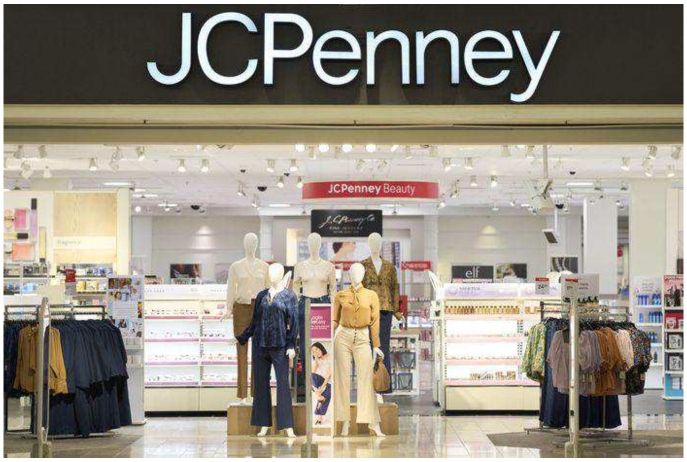
Those changes also happened as supply networks started to loosen, leaving many chains sitting on piles of goods they are having trouble selling, from sweatpants and fleece to TVs and kitchen appliances. Target warned earlier this month that its profits would drop as it canceled orders with suppliers and offered discounts to clear excess merchandise.

Lee and Wrangler jeans parent Kontoor Brands Inc. was able to react faster to demand swings because it produces one-third of its goods in the Western Hemisphere, mainly Mexico, where lead times are about half those in Asia.

“You’re not putting the goods on a boat, and you don’t have to deal with getting them through the ports,” said Chief Executive Scott Baxter. “You are able to respond to consumer desires much quicker.”

JCPenney now starts its new-product design process three to eight weeks earlier than it did before the pandemic, said Michelle Wlazlo, its chief merchandising officer. The earlier timetable allowed the retailer to receive much of its spring merchandise on time. The downside was that it had less ability to react as customer buying changed.

“If the crystal ball had shown how much bigger dressy clothes were going to be, we would have pulled back more on casual clothes,” Ms. Wlazlo said, though she added that the company has less inventory now than before it filed for bankruptcy in 2020.



Russia’s war against Ukraine and an uncertain U.S. economic environment is making it difficult for companies to forecast across a range of industries. Those that rely on overseas manufacturing are facing particular challenges because of the longer lead times, executives said.

Even before the pandemic, the long lead times of traditional retailers opened the door to fast-fashion players like Zara and Shein, which can restock within weeks instead of months. Before the pandemic, some larger and multinational chains borrowed a tactic from these fast-fashion chains by producing smaller batches of certain items and then quickly reordering bestsellers. That has become harder for companies to do with the longer lead times, the executives said.

“If we launch a new style in the spring, we have to place our order for fill-ins before we have even started selling the new shoes,” said Ms. Phoenix of Xero Shoes.

Some brands are reacting by carrying more basics and less fashion, which is more seasonal and has a higher risk of being a money loser if it doesn’t sell.

Home-goods retailer Pattern Brands has cut back on the number of spatulas it stocks in summer colors such as pink and aqua and is ordering more in red, its bestselling color year round. The company is launching fewer new products and instead adding extensions to existing lines, which are quicker and less costly to produce, said Suze Dowling, its co-founder and chief business officer.

“We’ve cut back orders in fashion categories just enough to meet factory minimums,” Ms. Dowling said.

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