

# Building Resilience: Rethinking Fashion Sourcing for a Volatile Future



*„Our expertise and impact is exceptionally powerful and has made a meaningful impact on many of our clients. And Inverto’s people and personalities offer a unique blend of belonging and inspiration.” - Gökhan Robold, Managing Director, Hamburg.*

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## Introduction

October 2025 - You have just completed your onboarding as a **Senior Consultant** at **Inverto**, a leading consultancy in **strategic procurement** and **supply chain management**. The company's dynamic, diverse teams deliver real business value through hands-on procurement and supply chain transformations. As part of **BCG**, Inverto complements BCG's broad offerings with comprehensive procurement optimization solutions. The firm balances **cost reduction, sustainability, risk, and quality** to create lasting **competitive advantage**, combining procurement innovation with speed to enhance business performance. Inverto is committed to delivering tangible client value by identifying real needs and seeking competitive advantage, going beyond merely delivering good work. Within hours, your manager, **Christian Horst**, assigns you to a **high-priority project** with direct board access, tight timelines, and a clear mandate to deliver.

The client: **Modena GmbH**, a mid-sized, privately owned **fashion company** based in southern Germany. Operating across the DACH region, Modena has built its model on accessible pricing, frequent collection refreshes, and a lean, **Asia-centric sourcing** footprint. While historically efficient, this model is no longer aligned with the pace and **complexity** of today's fashion market.

Modena has turned to Inverto not to optimize procurement in isolation, but to reassess how the function can enable the company to respond **faster**, manage **complexity** more **effectively**, and regain control over its supply-side performance. In a business model defined by **speed, volatility, and thin margins**, procurement has become both a constraint and the key to competitive resilience.

## Industry Context: Global fashion sourcing under pressure

Over the past few years, the global fashion industry has experienced a series of structural shocks. Once stable sourcing routes have turned volatile. **Freight costs** have soared, with **Shanghai container rates** still more than twice as high as their pre-crisis levels. At the same time, **wage inflation** in key production countries is rising steadily. Geopolitical events, including the war in Ukraine and **blockages of the Suez Canal**, have exposed the fragility of long-distance, cost-optimized supply chains and the risks of over-concentration in a small number of production hubs.

Parallel to this, **the pace of fashion cycles** has intensified. Consumers expect faster access to new styles, more frequent updates, and availability across channels, while also demanding transparency, ethical sourcing, and alignment with broader sustainability standards. **Regulatory frameworks** are tightening, particularly within the EU, placing additional pressure on brands to document sourcing practices and demonstrate control beyond Tier 1. Brands are under pressure to reduce time-to-market without compromising integrity, compliance, or control.

**Leading firms** such as Zara and Mango have responded by investing in nearshoring, integrated planning, and closer supplier collaboration. These initiatives enable faster replenishment, more accurate demand matching, and greater control over landed costs, establishing sourcing as a strategic capability, not a cost-driven afterthought.

For mid-sized brands with **concentrated supply bases** and **limited flexibility**, the traditional sourcing model is increasingly misaligned with market dynamics. What was once efficient has become a point of vulnerability. The shift toward a resilient, regionally balanced sourcing architecture is no longer optional it is a strategic imperative for long-term competitiveness and supply assurance.

## Company Background - Modena GmbH

### Business Model

Modena GmbH is a privately owned, mid-sized fashion company based in southern Germany. It serves the DACH region through a **hybrid distribution model** of e-commerce, own-brand retail, and selected wholesale channels. The company targets **price-sensitive** consumers with frequently updated assortments positioned in the accessible segment of fashion.

This model places high demands on assortment responsiveness, cross-functional coordination, and supply reliability. With over 3,700 styles launched annually and 1,700 different fabric types, Modena manages a **highly complex product portfolio**. Yet only 45% of fabrics are used across more than one style, reflecting **low modularity and high development redundancy**. This fragmentation creates upstream **inefficiencies** and limits the company's ability to adapt assortments without triggering sourcing delays or excess inventory.

In a market increasingly defined by shorter demand cycles, ESG scrutiny, and logistics volatility, Modena's **infrastructure is struggling to keep pace**. What once enabled growth through low-cost, offshore volume sourcing now constrains speed, visibility, and control across the value chain. Core functions from design and planning to distribution are affected by limited procurement responsiveness and inflexible inbound logistics.

### Financial Situation

The market environment and the operational rigidity is now mirrored in Modena's financials. In 2024, the company generated **€839 million in sales**, yet **EBIT of €82 million** left the margin **below** ten percent, providing little resilience against rising sourcing and logistics costs. Working capital requirements continued **to rise** as inventories and receivables expanded while trade payables declined, tying up liquidity in a business already exposed to short demand cycles and volatile assortments.

Despite positive operating cash flow of €79 million, cash reserves fell to €24 million, as investments and dividends outpaced inflows. To bridge the gap, Modena raised more than €55 million in **new long-term debt**, more than tripling its financial liabilities in a **single year**.

### Procurement Landscape

Modena's sourcing architecture is shaped by a legacy model built for **scale and unit cost optimization**. As of 2024, 94% of sourcing volume is concentrated in **Asia**, primarily Bangladesh, Vietnam, and China covering core categories such as t-shirts, denim, and flat knits. Nearshoring accounts for **just 6%**, primarily via Turkey significantly below relevant **industry benchmarks**.

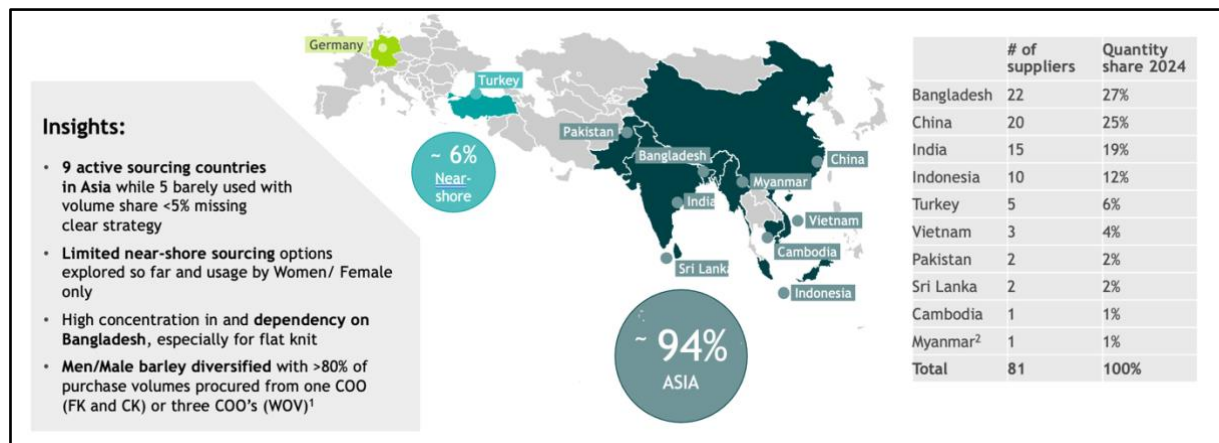


Figure 1: Modena Sourcing Footprint 2024

This **geographic concentration** exposes the company to persistent supply risk: long lead times, shipping disruptions, and external cost shocks. While sea freight remains the operational baseline, forecast inaccuracies and short-term imbalances have made air freight a **regular fallback**, particularly during seasonal peaks. These urgent shipments compress margins and compromise timing-sensitive assortment launches.

Modena manages a **supplier network** of over 80 vendors. However, category consolidation is weak. In several categories, a small number of **key suppliers** cover the majority of spend (around 80%), while a long tail of numerous minor suppliers remains with minimal spend. This combination of few large and many small suppliers creates **high complexity** despite the concentration of spend.

This **fragmentation** limits bargaining power, complicates quality management, and inhibits long-term supplier development.

Strategically, procurement is embedded within the **Operations function**, with limited visibility into financial performance or influence over commercial planning. There is **no structured application** of Total Cost of Ownership (TCO) principles. Decisions are still made based on **FOB prices** despite hidden costs in freight volatility, warehousing inefficiencies, and working capital usage. Internal cost benchmarks suggest significant **savings potential** across both material and non-material cost drivers, but these remain untapped.

**Cross-functional integration** is minimal. Procurement remains **disconnected** from merchandising, product development, and finance, which constrains Modena's ability to align sourcing logic with business strategy or respond flexibly to market shifts. Rather than mitigating operational risk, the current procurement setup reinforces strategic lock-in.

## Need for Change – Key Drivers

The challenges reshaping the global fashion industry rising input costs, logistics volatility, and growing ESG pressure **are not abstract trends** for Modena. They strike directly at the company's procurement landscape, which remains geared toward unit cost efficiency rather than resilience or adaptability. With **94 percent** of volume sourced from Asia and average lead times exceeding 90 days, the system is structurally **incapable** of reacting to **short-term**

**demand shifts.** Planning instability has become routine, and firefighting through last-minute air freight is no longer the exception but a deeply embedded operational response. The result is inflated logistics costs, delayed assortments, and a widening **performance gap** versus more agile competitors.

At the same time, the company is exposed to a rising wave of **external cost pressures**. Labor, energy, and compliance costs are increasing across all major production hubs, while geopolitical disruptions and bottlenecks **along global trade routes** such as repeated blockages of the Suez Canal have made long distance supply chains **more fragile and less reliable**. Yet Modena remains locked into a concentrated sourcing footprint with limited nearshore leverage and no active steering of total cost of ownership. These **external dynamics** collide with an internally fragmented, low transparency supplier network that lacks speed, optionality, and strategic integration.

The result is not just operational friction but growing **financial vulnerability**. The combination of volatile inputs and rigid procurement processes leads to longer cash conversion cycles, elevated working capital, and limited flexibility. Analysts warn that further cost escalation could push EBIT margins **below five percent** in the next years, leaving Modena with possibly shrinking buffers, increasing leverage, and eroding cash balances. The structural pattern is clear: if the current model is not fundamentally **realigned**, Modena risks drifting into a cost liquidity trap where strategic inaction gradually **undermines** the financial stability of the business.

## Exploring Opportunities - Where and how to build resilience

In response to these challenges, Modena is initiating a strategic review of its procurement network. The aim is to develop a **sourcing model** that maintains cost competitiveness while improving responsiveness, reducing risk exposure, and enabling greater control over total landed costs.

This effort focuses on expanding the supplier footprint to include **alternative regions** in Southern and Eastern Europe as well as North Africa. Countries such as Portugal, Spain, Turkey, and Morocco are under review with respect to their reliability, lead time performance, production capacity, and ESG compliance. While unit prices in these regions are typically higher than those in Asia, a **broader TCO perspective** is being used to assess potential benefits. These include reduced logistics costs, shorter working capital cycles, greater supply stability, and improved alignment with sustainability requirements.

Within this context, Modena is conducting a **category-level analysis** of its product portfolio to identify sourcing candidates most sensitive to lead time and demand variability. Internal cost benchmarks and fabric-to-non-fabric cost structures indicate that **significant value** lies outside of direct material costs particularly in shipment, supplier efficiency, and planning flexibility. This reinforces the need to evaluate sourcing options not only by unit price, but by their **contribution to agility and profitability**.

At the same time, Modena is assessing supplier development opportunities in **nearshore regions**. This includes the onboarding of new partners, joint planning initiatives, and collaborative production models that offer both **transparency and responsiveness**. ESG



compliance, auditability, and reputational alignment are critical evaluation criteria, as Modena aims to position itself as a **reliable and responsible** partner to its retail stakeholders.

Together, these measures mark a strategic departure from **purely** transactional sourcing toward a **more differentiated**, performance-oriented approach. The key will not only be identifying where to source but **designing** a procurement strategy that matches the company's **commercial** **ambition**.

## From Challenge to Competitive Edge - Redesigning Modena's Procurement Strategy

In preparation for the upcoming board workshop, Modena's management has asked **Inverto** to deliver a **future-proof** sourcing concept that addresses the **company's dual challenge**: strengthening resilience while maintaining competitiveness in a fast-moving market.

As Senior Lead on the project, **Christian** has entrusted you and your colleagues with the **development** of Modena's new **procurement strategy**. He clearly stated that:

- Your task is to design a **high-level** sourcing strategy that balances mentioned aspects. This **includes** identifying suitable sourcing regions, evaluating product-category fit, and assessing trade-offs between flexibility and cost.
- Your concept should also **include a high-level** implementation roadmap, outlining key milestones, required partnerships, and a clear transition path toward Modena's **2027** target state.

The management board expects actionable insights, structured thinking, and a clear recommendation on how to **reshape procurement** into a **competitive advantage**.

## Appendix

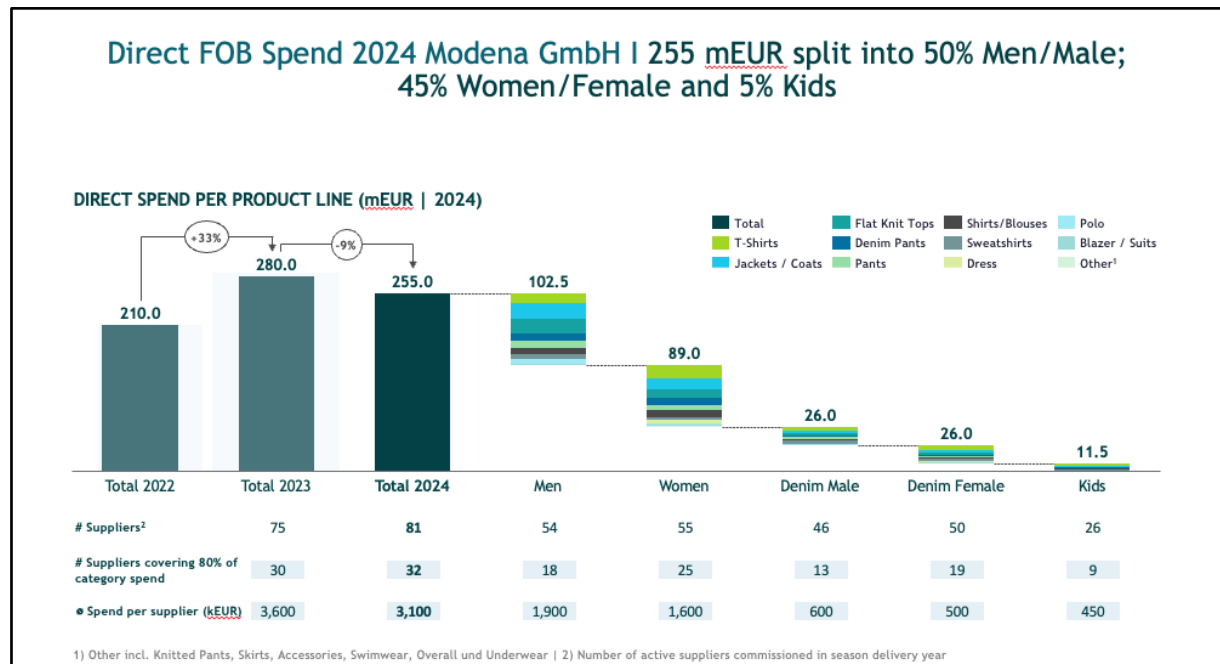


Figure 2: Direct FOB Spend Breakdown 2024 Modena GmbH

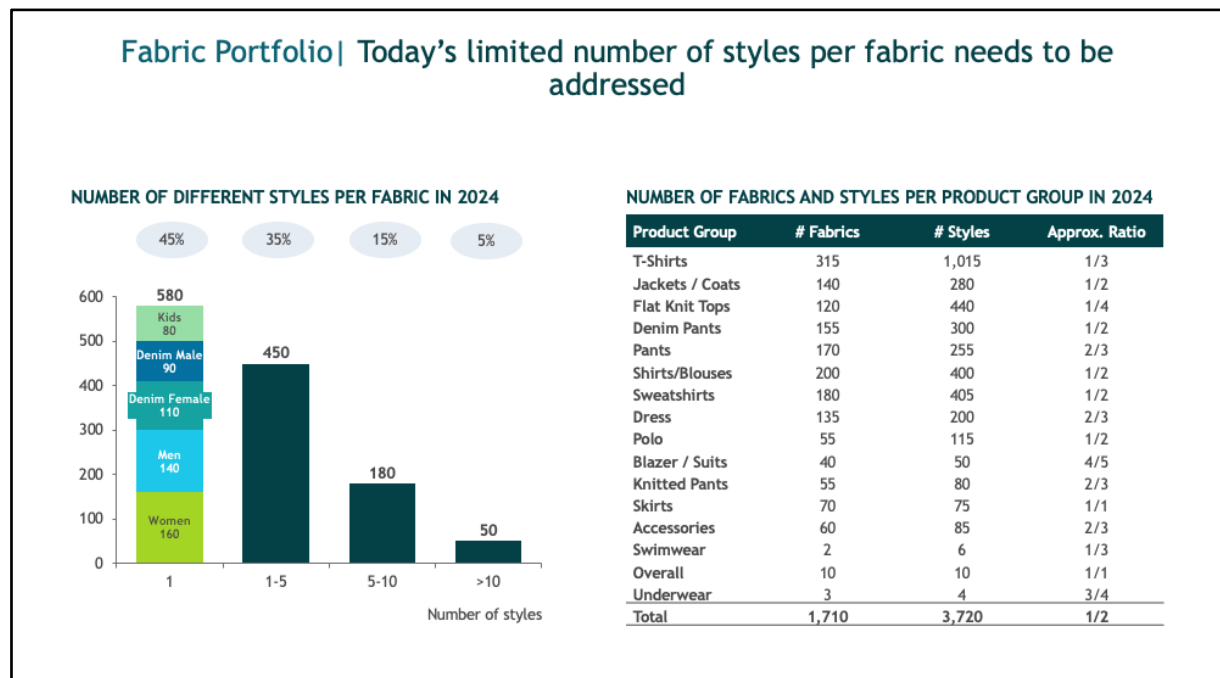


Figure 3: Fabric Usage 2024 Modena GmbH

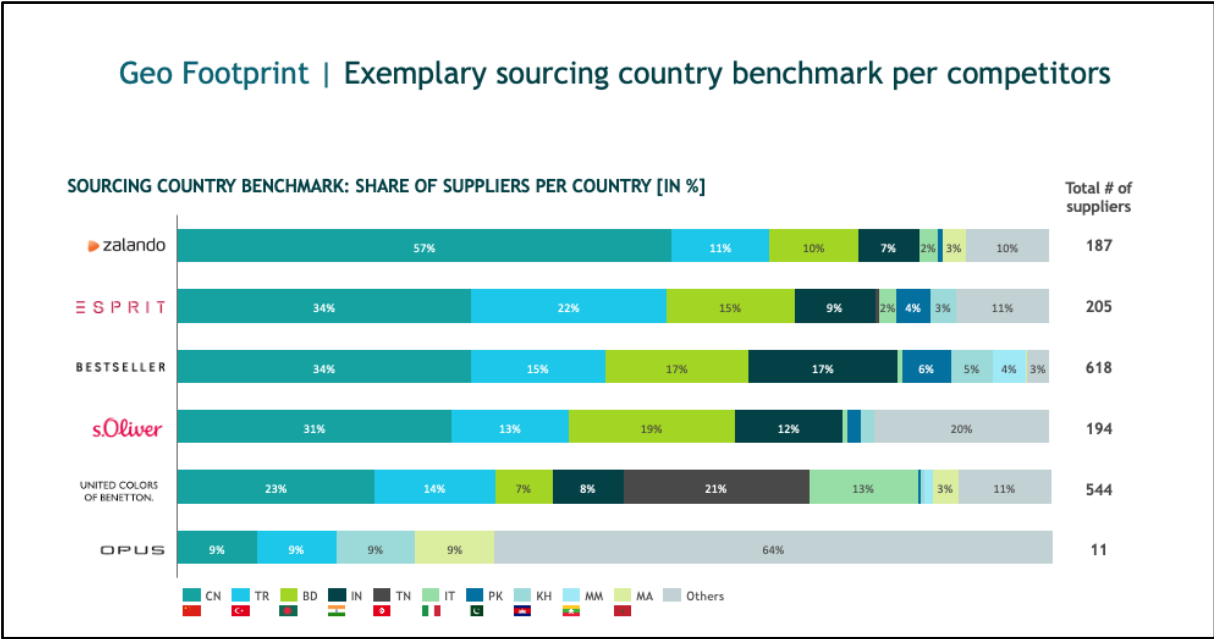


Figure 4: Sourcing Footprint

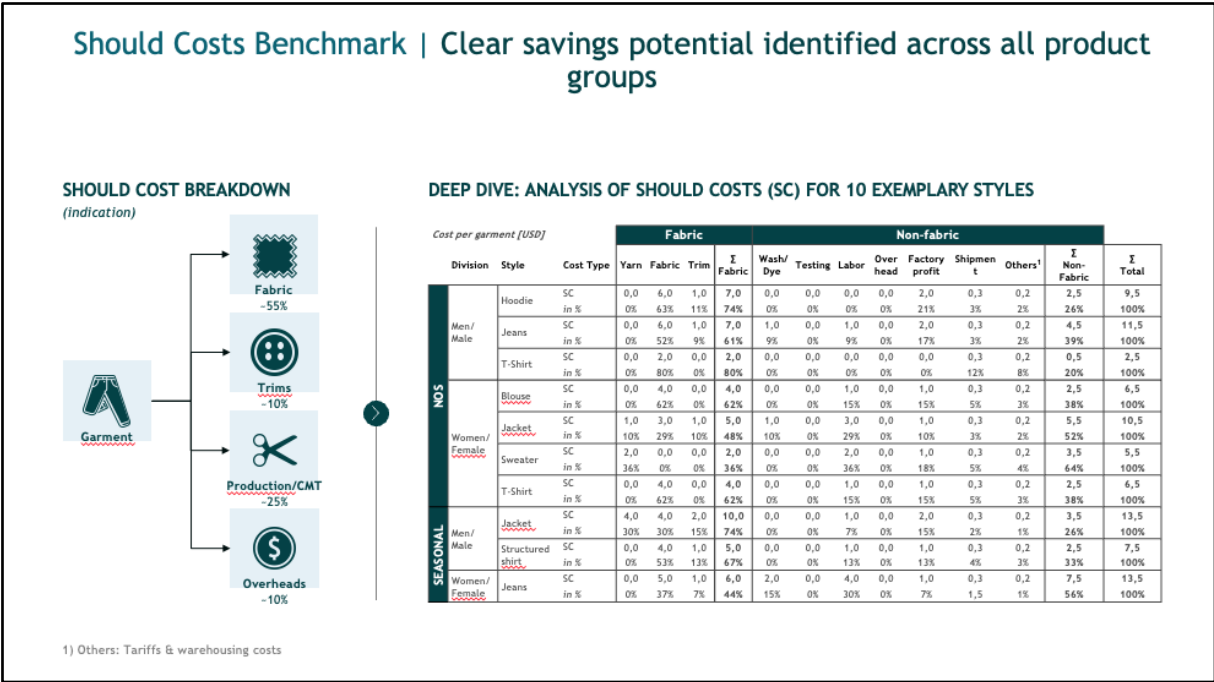


Figure 4: Should Cost Analysis 2024



## Supply Market Situation | Overall supply market with declining price trend

### MACRO ECONOMIC TRENDS

COMMODITY	CURRENT VALUE	1 Y CHANGE	-12 MONTH TREND
Min. Wages [USD/month]	370.94	↑ +2.30%	
Producer Price [Index]	108.4	↓ -2.95%	
Inflation [%]	-0.50	↓ -131.25%	
Chemicals [Index]	130.46	↓ -5.67%	
Cotton [USD/kg]	3.33	↓ -2.91%	
Polyester [USD/kg]	1.07	↗ +0.50%	
Viscose [USD/kg]	2.70	↓ -11.67%	
Elastan [USD/kg]	5.45	↓ -17.17%	
Polyamid [USD/kg]	2.43	↑ +10.96%	
Exchange rate [USD-CNY]	7.13	↑ +5.53%	
Transportation <u>Logistics Harpex</u> Container [Index]	1,093	↗ +1.25%	
Drewry World Container Index (WCI) [USD/FEU]	3,781	↑ +91.83%	
Shanghai Container Freight Index (SCFI) [USD/TEU]	2,192	↑ +123.48%	

Figure 5: Supply Cost Outlook 2024

### Modena Annual Report 2024

Consolidated Income Statement (in EUR thousand)

	2024	2023
<b>Sales</b>	<b>839.492</b>	<b>730.276</b>
Cost of sales	(323.321)	(279.010)
<b>Gross profit</b>	<b>516.170</b>	<b>451.265</b>
Selling and marketing expenses	(348.988)	(307.701)
Administration expenses	(85.115)	(76.480)
<b>Operating result (EBIT)</b>	<b>82.067</b>	<b>67.084</b>
<b>Net interest income/expenses</b>	<b>(8.972)</b>	<b>(4.776)</b>
Interest and similar income	196	440
Interest and similar expenses	(9.168)	(5.216)
<b>Other financial items</b>	<b>(1.717)</b>	<b>(5.249)</b>
<b>Financial result</b>	<b>(10.690)</b>	<b>(10.025)</b>
<b>Earnings before taxes</b>	<b>71.378</b>	<b>57.059</b>
Income taxes	(17.420)	(12.688)
<b>Net income</b>	<b>53.958</b>	<b>44.372</b>

Figure 6: Modena's Consolidated Income Statement

**Modena Annual Report 2024**

Consolidated Statement of financial position (in EUR thousand)

<b>Assets</b>	<b>2024</b>	<b>2023</b>
Property, plant, and equipment	120.707	94.236
Intangible assets	39.154	35.324
Right-of-use assets	144.420	141.640
Deferred tax assets	26.099	30.127
Non-current financial assets	5.327	5.295
Other non-current assets	411	341
<b>Non-current assets</b>	<b>336.119</b>	<b>306.963</b>
Inventories	213.209	194.712
Trade receivables	75.124	51.286
Current tax receivables	4.630	4.615
Current financial assets	10.826	8.268
Other current assets	25.373	29.996
Cash and cash equivalents	23.665	29.481
Assets held for sale	5.387	0
<b>Current assets</b>	<b>358.215</b>	<b>318.357</b>
<b>Total</b>	<b>694.333</b>	<b>625.320</b>
<b>Equity and liabilities</b>		
Subscribed capital	14.080	14.080
Own shares	(8.473)	-8472,6
Other capital reserve	821	316,4
Retained earnings	240.153	204428,4
Accumulated other comprehensive income	11.951	12.964
<b>Equity attributable to equity holders of the parent company</b>	<b>258.533</b>	<b>223.316</b>
Non-controlling interests	3.623	3.770
<b>Group equity</b>	<b>262.155</b>	<b>227.087</b>
Non-current provisions	21.760	18.379
Non-current financial liabilities	63.286	17.779
Non-current lease liabilities	124.847	120.986
Deferred tax liabilities	3.794	2.067
Other non-current liabilities	463	341
<b>Non-current liabilities</b>	<b>214.149</b>	<b>159.551</b>
Current provisions	18.490	24.529
Current financial liabilities	4.744	6561,4
Current lease liabilities	33.802	39858
Income tax payables	1.443	4081,4
Trade and other payables	114.364	123422
Other current liabilities	41.314	40230,4
Liabilities held for sale	3.872	0
<b>Current liabilities</b>	<b>218.029</b>	<b>238.683</b>
<b>Total</b>	<b>694.333</b>	<b>625.320</b>

Figure 7: Modena's Balance Sheet

**Modena Annual Report 2024**

Consolidated Statement of cash flows (in EUR thousand)

	2024	2023
Net income	53.958	44.372
Depreciation/amortization	68.339	69.005
Gain/loss on the monetary positions under IAS 29	226	(146)
Unrealized net foreign exchange gain/loss	2.626	2.586
Other non-cash transactions	740	1.767
Income tax expense/income	17.420	12.688
Interest expenses/income	8.972	4.776
Change in inventories	(19.918)	(72.256)
Change in receivables and other assets	(24.694)	(16.702)
Change in trade payables and other liabilities	(10.193)	36.415
Result from disposal of non-current assets	1.045	(1.234)
Change in provisions for pensions	(1.954)	(909)
Change in other provisions	(3.686)	6.162
Income taxes paid	(14.152)	(15.071)
<b>Cash flow from operating activities</b>	<b>78.729</b>	<b>71.452</b>
Investments in property, plant, and equipment	(49.477)	(30.279)
Investments in intangible assets	(10.025)	(7.770)
Equity investments	0	(886)
Cash receipts from sales of property, plant, and equipment and intangible assets	(322)	37
Interest received	296	558
<b>Cash flow from investing activities</b>	<b>(59.528)</b>	<b>(38.340)</b>
Dividends paid to equity holders of the parent company	(13.803)	(9.662)
Dividends paid to non-controlling interests	(2.289)	(1.687)
Proceeds from current financial liabilities	400	0
Repayment of current financial liabilities	(12.111)	(2.162)
Proceeds from non-current financial liabilities	55.895	0
Repayment of lease liabilities	(44.315)	(43.178)
Interest paid	(8.265)	(4.771)
<b>Cash flow from financing activities</b>	<b>(24.489)</b>	<b>(61.460)</b>
Exchange-rate related changes in cash and cash equivalents	(527)	890
<b>Change in cash and cash equivalents</b>	<b>(5.815)</b>	<b>(27.458)</b>
Cash and cash equivalents at the beginning of the period	29.481	56.939
<b>Cash and cash equivalents at the end of the period</b>	<b>23.665</b>	<b>29.481</b>

Figure 8: Modena's Cash Flow Statement