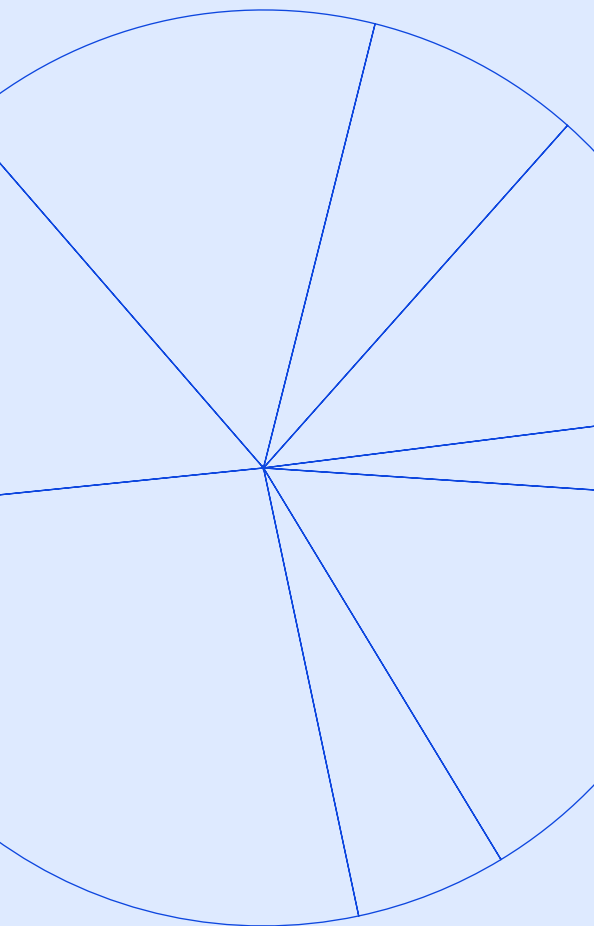


State of Supply Chain Report 2025



Foreword

Innovate Fast, Collaborate Effectively: The Key to Supply Chain Success



Chirag Patel
CEO
Inspectorio

Perhaps never in living memory have leaders faced the level of value chain volatility experienced today. As the Covid-19 pandemic vividly illustrated, a functioning supply chain is foundational—not merely advantageous—for any organization. The reality is clear: if you cannot reliably deliver your product, your business faces existential risk. Today's global trade complexity—driven by factors including geopolitical uncertainty, evolving consumer expectations, emerging production markets, and shifting regulatory landscapes—requires supply chains to meet unprecedented standards of performance, resilience, and adaptability.

Supply chain performance refers to the ability to consistently manufacture products to exacting standards and reliably deliver them swiftly and accurately to end markets. Resilience speaks to the capacity to withstand and recover quickly from inevitable disruptions and shocks within the supply chain. Lastly, adaptability—the agility to swiftly recalibrate and respond to interruptions—is critical to sustaining operations amidst ongoing uncertainty. These three capabilities form the cornerstone of competitive, future-proof supply chains.

Recognizing the urgency and complexity of this landscape, our team embarked on extensive research, surveying hundreds of respondents—including factories, suppliers, brands, and retailers—and conducting in-depth conversations not only with senior leaders from global organizations but also with consultants, independent industry groups, and third-party experts. Crucially, the vast majority of respondents agreed that leveraging Artificial Intelligence (AI) technologies

is now a critical imperative to navigating current supply chain challenges and unlocking future opportunities. We enriched our research with broader market analyses and insights derived directly from organizations managing these daily operational realities.

The result is this State of Supply Chain Report 2025—a comprehensive examination of the industry's current state and necessary evolution.

Faced with accelerating regulations around forced labor, heightened sustainability mandates, and a dynamic geopolitical environment, today's supply chains increasingly depend upon trusted partnerships, integrated strategies, and technological innovation. Our findings underline the importance of adopting a multifaceted approach, integrating compliance, risk management, and strategic sourcing with digital innovation—particularly AI-driven solutions—and measurable ESG commitments, to achieve sustainable, long-term success.

As you explore this report, you'll encounter real-world pain points, proven strategies, and forward-looking insights articulated by those deeply immersed in supply chain realities today. Our goal is to inspire leaders to reassess outdated assumptions, champion integrated, AI-enabled approaches, and cultivate agility that can withstand—and indeed capitalize on—the rapid changes defining the global landscape.

Now more than ever, those who innovate fastest, embrace AI strategically, and collaborate most effectively will not only overcome volatility but thrive amidst it.



Contents

Foreword	01
Executive Summary	03

01	A Shifting Global Terrain: Supply Chain Realities in 2025	06
	Geopolitical & Economic Pressures	07
	Consumer & Market Dynamics	11
	Regulatory & Compliance Environment	14
	Executive Takeaways	16
	Looking Ahead: The Digital Transformation Imperative	16

02	Digital Transformation & AI: From Awareness to Action	17
	Mapping the Digital Adoption Curve	18
	Practical Use Cases for AI & Automation	21
	Overcoming Implementation Hurdles	25
	Executive Takeaways	27
	Looking Ahead: Rethinking Risk & Compliance	27

03	Rethinking Risk & Compliance: Building Proactive, Data-Driven Systems	28
	Integrating Quality, Compliance & Risk	29
	Forced Labor & Due Diligence	32
	Sourcing Transformation & Risk Diversification	34
	Executive Takeaways	36

04	Sustainability & ESG: From Voluntary Ideal to Regulatory Mandate	37
	Regulatory-Driven Sustainability	38
	The Cost & ROI of Green Initiatives	41
	Traceability & Transparency	44
	Executive Takeaways	46
	Looking Ahead: Navigating the Road Ahead	46

05	Navigating the Road Ahead: Strategic Insights & Conclusion	47
	The Road Ahead: Emerging Trends & Future Disruptors	48
	Strategic Insights & Recommendations	50
	Conclusion	52

06	Methodology	53
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Executive Summary

Global supply chains have reached an inflection point where tariff unpredictability, consumer-driven sustainability expectations, and escalating compliance mandates collide with fast-evolving digital transformation. After years of reacting to one disruption after another, 2025 promises an escalated pace of disruptions and demands a more holistic, proactive mindset—one that unifies risk management, operational efficiency, and a deeply embedded ESG focus into the supply chain’s core strategy.

The Reality: A High-Volatility Landscape

Nearly all surveyed executives (95%) cite tariffs as a primary disruptor, prompting rapid shifts in sourcing from China to Vietnam, Cambodia, and nearshoring destinations. Yet this approach comes with caveats: companies that pivot too quickly can face unforeseen trade policies, elevated logistics costs, and complex compliance requirements in new regions. At the same time, more than 75% of organizations have increased compliance budgets to handle emerging rules around forced labor (e.g., UFLPA) and Extended Producer Responsibility (EPR), reflecting a global patchwork of regulations that many leaders find both fragmented and resource-intensive.

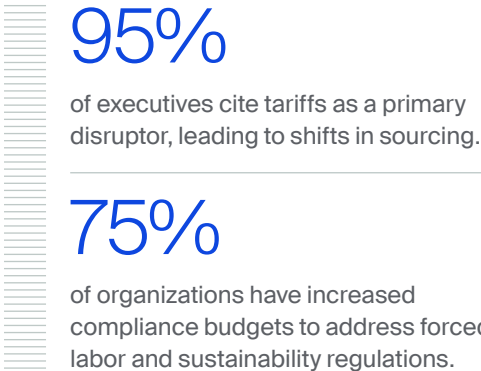
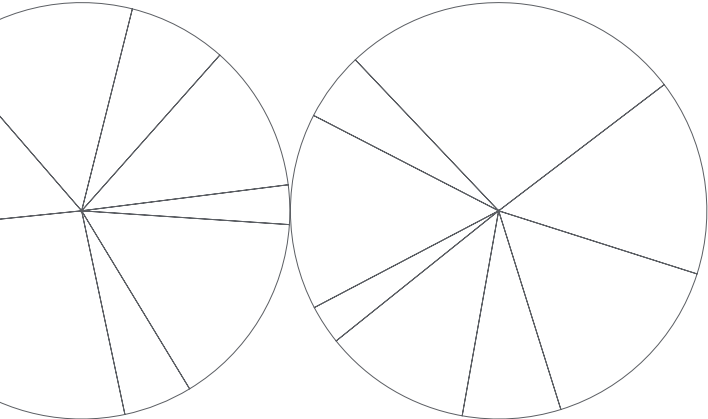
Despite escalating compliance demands, 20% of executives worry they are diverting too much effort from tangible factory improvements toward regulatory overhead. The urgency is real: ignoring forced labor or sustainability mandates can lead to seized shipments, customer backlash, and reputational harm. As a result, traceability tools—for example, digital passports and AI-driven checks—are quickly becoming the new norm for verifying sourcing claims and mitigating legal risk.

The Consumer-Driven Shift: Sustainability as Baseline

Survey data shows over 75% of respondents recognize sustainability as a key purchase driver, yet fewer than 10% see consumers willing to pay a premium for eco-friendly options. This tension forces suppliers to integrate recycled materials, reduce carbon emissions, and adopt greener processes as standard practice rather than a brand differentiator. Retailers, meanwhile, often push sustainability costs upstream, leading to margin pressures for suppliers and a greater focus on operational efficiency and cost neutrality in eco-innovation. Those who excel at balancing these trade-offs—particularly mid-tier and mass-market players—gain a crucial edge in a polarized market where premium and discount segments squeeze the middle.

The Digital Imperative: From Awareness to Action

Less than 10% of surveyed companies have reached near-full automation, revealing a major opportunity gap for digital solutions. Early adopters of AI-driven analytics, automated compliance checks, and real-time risk modeling report notable gains in forecasting accuracy and lower lead times. However, barriers persist: 70% of leaders highlight cultural resistance and a lack of clear ROI metrics as roadblocks to deeper digital adoption. Pilot successes in AI-based compliance or container forecasting can help overcome skepticism—but only if they scale into an integrated digital roadmap that aligns procurement, quality, and ESG objectives under a shared data framework.



Rethinking Risk & Compliance: Toward Proactive Systems

Risk is no longer confined to episodic audits or reactive supplier diversification. As unforeseen events and geopolitical upheavals increase, forward-thinking executives combine **predictive analytics** with multi-tier traceability and robust governance to identify vulnerabilities far in advance. Whether it's forced labor or climate-driven raw material shortages, companies that unify compliance and quality oversight can catch warning signs early, reduce "audit fatigue" for suppliers, and channel resources into real, on-the-ground improvements. Collaboration across brands—through pooled audits, standardized certifications, and shared worker grievance systems—further streamlines these processes and builds credibility with regulators and consumers alike.

Sustainability & ESG: From Ideals to Mandates

Rising environmental urgencies and stricter laws have recast sustainability from a voluntary ideal into an **operational necessity**. Scope 3 emissions tracking, once a nice-to-have, is now demanded by regulators and large retail customers. More than **38%** of companies already deploy digital passports or blockchain to demonstrate product provenance, yet the next wave of legislation—particularly in the EU—may make full product passports mandatory. In this environment, partial visibility will no longer suffice. Leaders that invest in **end-to-end transparency** can swiftly isolate problematic suppliers, preempt forced labor allegations, and credibly attest to carbon reductions or ethical sourcing.

Strategic Takeaways for 2025 and Beyond



Elevate Supply Chain Agility

Geopolitical risks and unforeseen events necessitate ongoing scenario modeling, flexible sourcing, and a willingness to pivot rapidly.



Unify Sustainability, Compliance & Cost Efficiency

Align style (meeting consumer expectations for design and authenticity), performance (ensuring efficient, compliant operations), and impact (reducing environmental harm and upholding human rights) to meet rising ethical demands without compromising margins.



Adopt Data-Driven, Proactive Approaches

Embrace AI, real-time analytics, and automated compliance not as pilot experiments but as fundamental levers for competitive advantage.



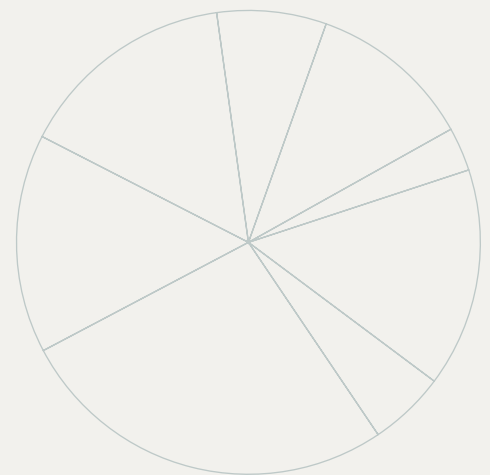
Invest in Traceability & Collaboration

Combat "audit fatigue" by pooling brand efforts, standardizing verifications, and supporting factories with robust worker-voice mechanisms. Collaboration deepens trust between brands and suppliers while credible traceability reduces reputational risks.



Position Compliance as a Catalyst

Rather than viewing forced labor or EPR rules as burdens, leverage them as opportunities to invest in tools and processes that deliver operational dividends, reduce waste, and strengthen brand reputation.



Conclusion

The State of Supply Chain Report 2025 reveals a landscape defined by complexity yet brimming with opportunity for those who embrace agility, digitalization, and ESG integration at every level. Tariffs, sustainability mandates, and forced labor crackdowns have transformed supply chain strategy into a front-line business priority, demanding cohesive, tech-enabled solutions that span risk management, compliance, and product innovation.

By uniting compliance officers, digital teams, and sustainability leaders, executives can build supply chains that are both resilient to external shocks and aligned with the evolving values of consumers, regulators, and investors. This shift not only secures license to operate but creates the foundation for sustainable, data-driven growth in the years to come.

Report Author



Tomas Bayas Erazo

Lead Researcher, Analyst & Author
at Inspectorio

Tomas holds a B.S. in economics and a B.A. in literature from Pennsylvania State University. As part of Inspectorio's Product Marketing team, Tomas leads all market and industry research and analysis projects. Through his analytical expertise, Tomas provides strategic insights to guide product development, marketing outreach, and customer support for leading global brands, retailers, and their suppliers.



01

A Shifting Global Terrain: Supply Chain Realities in 2025



A Shifting Global Terrain: Supply Chain Realities in 2025

Global supply chains have entered a phase of accelerated disruption, where **tariff swings, geopolitical power plays, shifting consumer demands, and regulatory fragmentation** converge to challenge traditional operations. If the last few years were about recognizing vulnerabilities, 2025 is about confronting them head-on. This reveals an industry grappling with significant pressures but also discovering new pathways to resilience.

1.1 Geopolitical & Economic Pressures

Tariff Volatility & Sourcing Shifts

Nearly all surveyed executives (95%) of executives surveyed cite tariffs as having a “significant impact” on their bottom line, driving urgent decisions on where and how to produce goods. Rapid pivoting from one region to another has become increasingly common, especially in apparel and footwear:

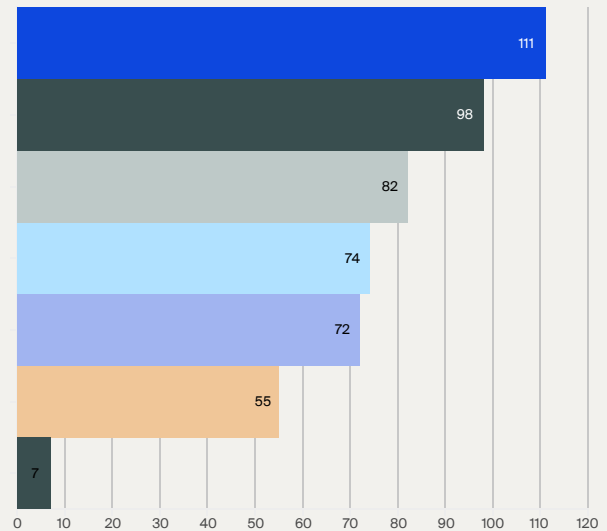
“We cut our China sourcing from 50 to 25 percent in one year. If tariffs on Vietnam and Cambodia happen tomorrow, all that work could be undone.”

David Bobbitt
President of Sourcing & Production,
Komar

Companies Prioritize Supplier Diversification and Production Relocation to Mitigate Trade Tensions

Question

How has your company adjusted sourcing strategies in response to increased trade tensions or potential tariff changes (e.g., potential U.S.-China tariff policies)?



Sourcing Adjustments	# of Responses
Diversifying supplier base	111
Relocating production to alternative regions/countries	98
Shifting sourcing to low-risk regions	82
Negotiating new trade agreements with suppliers	74
No significant changes have been made	72
Increasing inventory to mitigate potential disruptions	55
Other	7

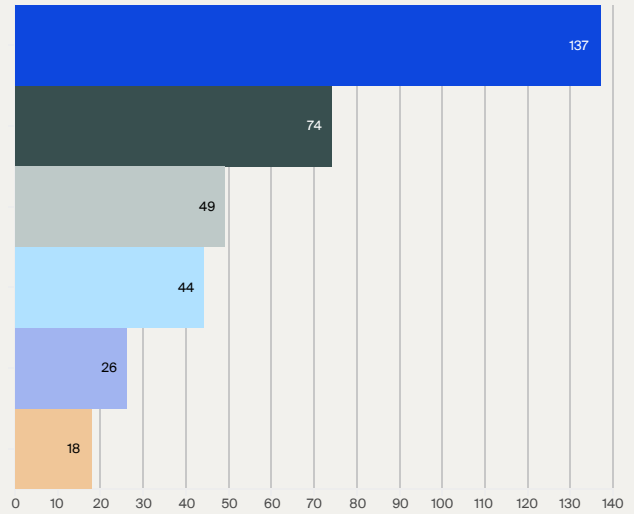


This climate of unpredictability has led **36%** of companies to relocate or plan relocations away from former strongholds—mainly China—toward Vietnam, Cambodia, and other countries in Southeast Asia. Yet leaders acknowledge a potential double bind: diversification can mitigate tariff risk in one geography, only for new policies to emerge in another. Nearshoring efforts—such as shifting production to Mexico or Eastern Europe—offer a hedge against international supply chain chokepoints and shipping uncertainties, but they do not entirely replace the specialized capabilities of established hubs like China.

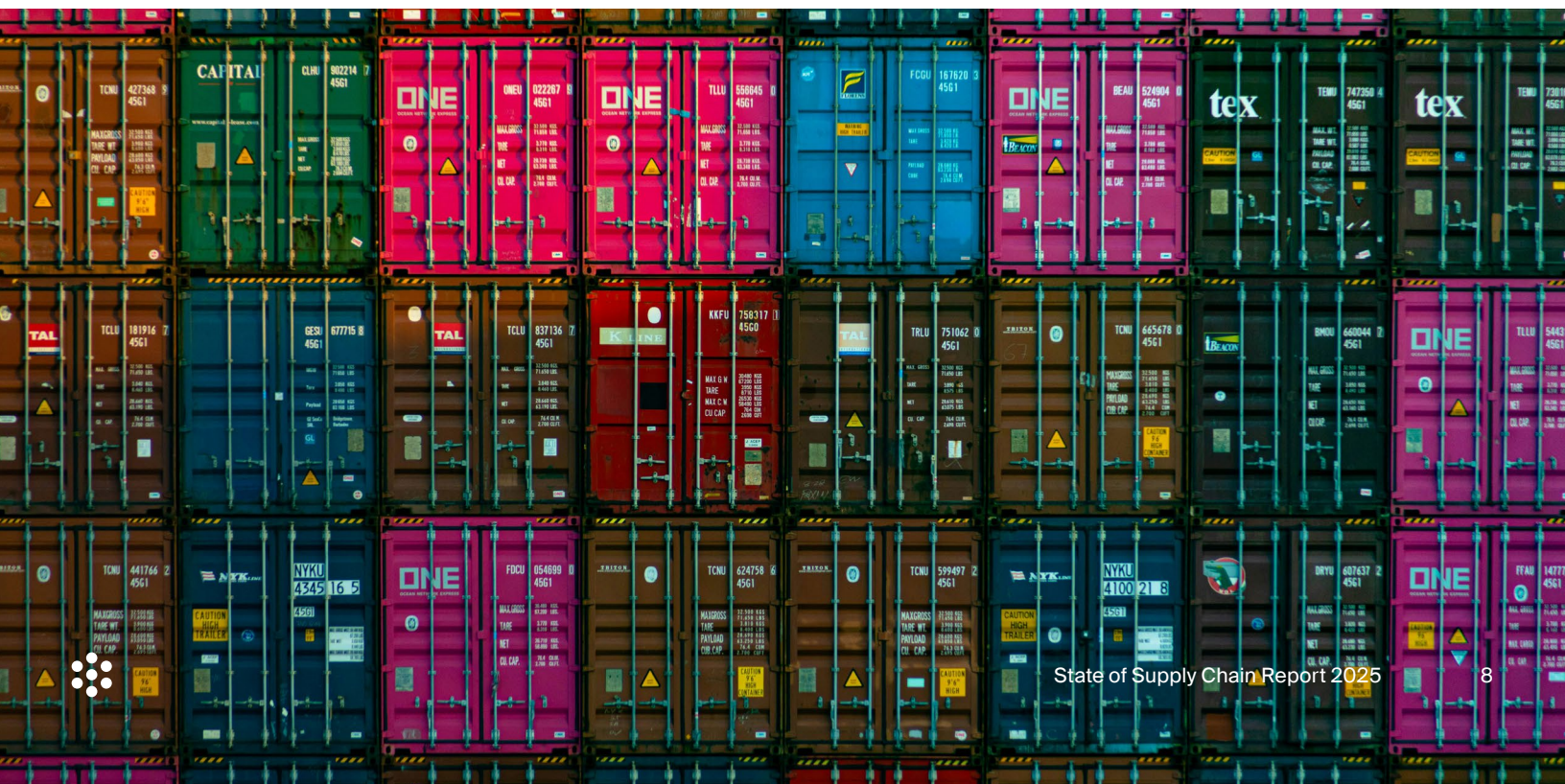
Southeast Asia Emerges as the Top Alternative Sourcing Region Amid Geopolitical Risks

Question

To what extent has geopolitical risk affected your supplier diversification strategy? Please select the regions you have prioritized as alternative sourcing options:



Region	# of Responses
● Southeast Asia	137
● South Asia	74
● Other	49
● Eastern Europe	44
● Latin America	26
● Africa	18

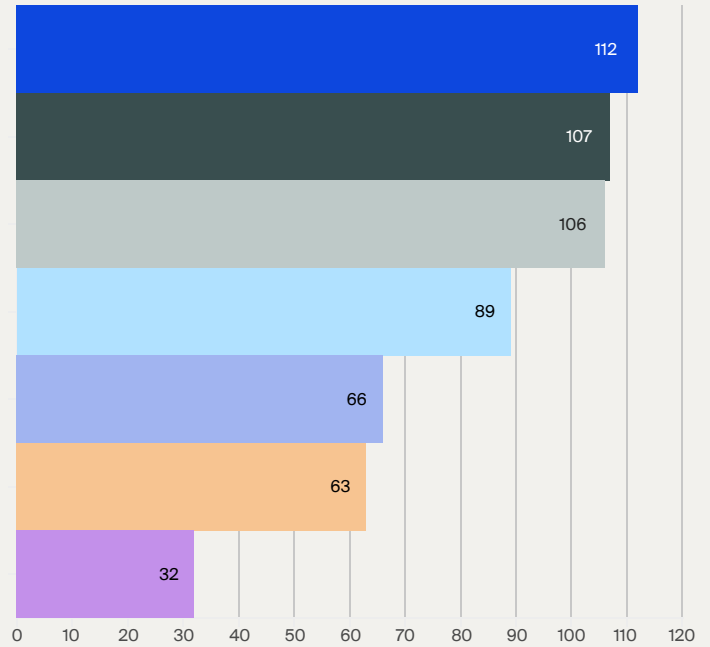


Tariffs Most Heavily Impact Production Costs, Sourcing, and Pricing

Question

What aspects of your business have been most impacted by tariffs?

Business Areas Most Impacted by Tariffs	# of Responses
Production costs	112
Sourcing and procurement	107
Pricing and profitability	106
Market competitiveness	89
Market competitiveness	66
Customer demand and satisfaction	63
Inventory management	32



Moreover, leaders emphasize that shifting production locations does not automatically solve deeper ESG issues:

Many brands are shifting production from China to countries like Vietnam, driven by factors such as tariffs, cost efficiencies, and geopolitical risks. However, in many cases, the manufacturing operations remain under Chinese ownership or management, simply relocated to a new geographic location with a local workforce. While brands may benefit from trade advantages, the core ESG challenges—such as labor conditions, transparency, and environmental impact—can persist if they are not proactively addressed at a systemic level rather than just a geographic one.

Lydia Brearley

Sustainable Fashion Consultant,
Enkel

While pragmatic, these swift relocations come at a cost. **41%** of surveyed respondents say they struggle with higher logistics expenses, extended ramp-up times for new factories, and the complexity of building local compliance infrastructures. Nonetheless, these moves reflect a growing consensus that **agility and adaptability now outweigh the single-minded pursuit of low-cost labor**—a noteworthy departure from past decades of relentless cost optimization.



Executive Insight

Leaders face an era where political maneuvering can dismantle long-held cost advantages overnight. This high-volatility environment intensifies the need for **adaptive sourcing models** and sharper visibility into potential trade flashpoints.

By acknowledging that tariff exposure is no longer a predictable “seasonal” risk, executives accept that supply chain resilience has become an enduring strategic pillar.



1.2 Consumer & Market Dynamics

The Hourglass Effect

A persistent theme across our interviews is the so-called “hourglass effect,” where premium brands and discount retailers thrive at opposite ends of the market, squeezing mid-tier players in between. On the high end, consumers remain willing to pay for perceived quality, authenticity, or innovation. On the low end, price is king, leaving suppliers to absorb the brunt of cost increases tied to sustainability or compliance.

“We used to think ‘green’ was a differentiator worth price premiums. Now consumers just expect it without wanting to pay a premium.”

Barry McGeough

Group VP of Innovation,
Americo

This polarization creates heightened margin pressure for the supply base. Major retailers still demand sustainability commitments, but they are often reluctant to help absorb additional costs.

More than 60% of supplier respondents report that retailers “partially or fully” push compliance and environmental upgrade expenses back onto them. For suppliers, the result is a precarious balance: remain cost-competitive or risk losing high-volume contracts.

60%+

of suppliers say retailers push compliance and environmental costs onto them.

75%+

of respondents say sustainability factors influence consumer purchases—but willingness to pay extra remains low.



Sustainability as a Baseline

Our survey shows **over 75%** of respondents indicating that environmental or social compliance factors strongly influence consumer purchasing decisions. Nevertheless, actual willingness to pay extra remains low. Some experts believe the challenge also lies in educating customers on what these metrics really mean:

“Consumers are becoming more aware, but many still lack a true understanding of fashion’s full impact. We’re sharing data—like carbon footprints—but how much of it is truly resonating with customers? That’s the big education gap we need to bridge.”

Lydia Brearley

Sustainable Fashion Consultant,
Enkel

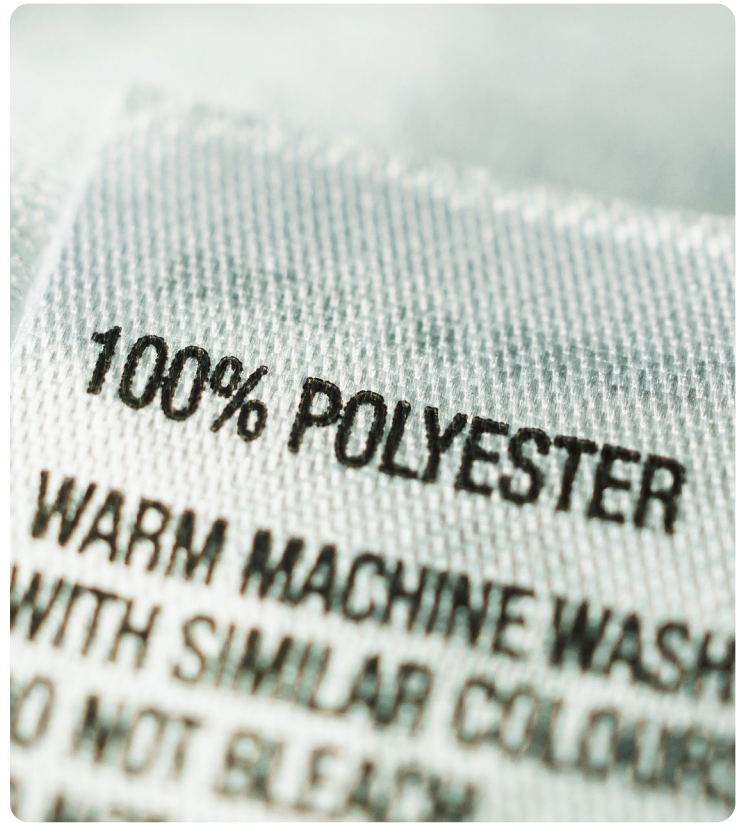


In response, industry leaders have shifted strategies—integrating sustainability metrics into baseline product expectations. Apparel factories increasingly adopt recycled polyester or reduce coal usage, not as a premium feature but as a standard condition of doing business with global brands.

“I don’t think we can ask the customer to pay more for sustainability... They expect brands to already do that.”

VP of Corporate Responsibility
at a global apparel brand

This shift from sustainability as a “value-add” to a “must-have” is also reflected in brand marketing strategies: many now use traceability labels or “green product badges” less as a selling point and more as a basic credential.



The presiding question for leaders: How do we fund the necessary changes in processes and materials when consumer price tolerance is static?



Executive Insight

Brands and suppliers alike face an evolving consumer mindset—one that demands ethical sourcing and eco-friendly materials but refuses to pay a premium. This underscores the **heightened importance of operational efficiencies** and data-driven cost controls. Even for luxury labels, sustainability is fast becoming a non-negotiable requirement, not just a brand differentiator.



1.3 Regulatory & Compliance Environment

Evolving Mandates & Fragmented Standards

The final layer of complexity lies in the regulatory patchwork now governing global production. **75%** of respondents have increased compliance budgets, aiming to navigate laws on forced labor, extended producer responsibility (EPR), and human rights due diligence.

Key hotspots include:

European Union:

Mandatory human rights due diligence and EPR regulations that make manufacturers accountable for upstream ethical conditions and downstream impacts from product end-of-life.

United States:

Strong enforcement of forced labor bans—such as the Uyghur Forced Labor Prevention Act (UFLPA)—which can lead to shipment detentions. State-level EPR laws in places like California, Oregon, and Colorado add another layer of complexity.

By contrast, some regions are still in the early stages of implementing broad sustainability regulations, causing further fragmentation. Factories supplying multiple global brands must juggle a wide array of audits, required certifications, and localized documentation, leading to the well-known issue of audit fatigue.

High Costs, High Stakes

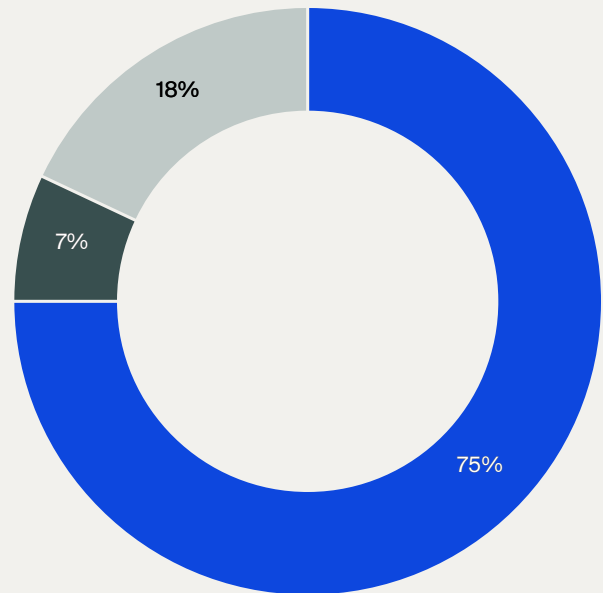
While compliance budgets continue to rise, **about 20%** of executives say they are reaching a tipping point where “regulatory overhead” is crowding out capacity for actual factory improvements. On the flip side, the reputational and financial costs of non-compliance can be devastating: forced labor allegations, for example, can result in lost port access, delisted products, and lasting brand damage.

Interestingly, the **role of technology** is expanding here: many respondents highlight the adoption of **digital product passports**, AI-based forced labor detection, and automated compliance platforms as a path to streamline evidence gathering. The payback, they say, is not only reduced auditing chaos but also improved trust across supplier tiers.

Three-Quarters of Companies Have Increased Their Compliance Budgets Over the Last Two Years

Question

How have budgets for compliance changed over the last two years?



Compliance Budget Trends	# of Responses
Increased	203
Decreased	18
Remained the same	48

“Europe’s ‘duty of effort’ approach vs. the U.S. strict liability laws can sometimes lead to companies feeling pressure to hide forced labor issues rather than address them.”

Avedis Seferian

CEO of Worldwide Responsible Accredited Production



Executive Insight

Mounting regulatory demands have made **comprehensive traceability** and **supplier mapping** indispensable. Rather than viewing compliance as a checkbox expense, successful organizations see credible data collection and real-time oversight as foundations for future innovation. In a world where forced labor or environmental missteps can shut down market access, robust compliance has become a **key risk-reduction strategy** that safeguards growth ambitions.



1.4 Executive Takeaways

- 1 Expect Ongoing Geopolitical Volatility**

Tariff swings and shifting trade policies demand agile sourcing strategies. Relocating production to reduce risk can be costly, yet failing to adapt leaves supply chains vulnerable to sudden policy shocks. Leaders who diversify supplier bases and model “what-if” scenarios gain a critical edge in fast-changing markets.
- 2 Sustainability Is Now a Baseline Requirement**

Environmental and social standards are no longer optional add-ons. Consumers and retailers increasingly view eco-friendly, ethically produced goods as standard—even when they resist price premiums. To stay ahead, executives must hardwire sustainability into everyday operations, using data-driven cost controls and transparent sourcing to meet rising expectations and pending regulations.
- 3 Turn Compliance Complexity into Strategic Differentiation**

Fragmented regulations on forced labor and extended producer responsibility can strain resources. However, brands that adopt comprehensive, technology-enabled compliance programs position themselves to avoid border detentions, legal penalties, and reputational fallout. Robust traceability and supplier oversight also strengthen trust with stakeholders—transforming regulatory hurdles into a competitive advantage.
- 4 Optimize Cost Structures for a Polarized Market**

The “hourglass effect” amplifies margin pressures for mid-tier players. Companies with lean processes and digitized workflows can better absorb expenses tied to sustainability and compliance. Pursuing operational excellence, forging deeper supplier partnerships, and leveraging real-time data insights become vital for protecting margins and strengthening brand value.

1.5 Looking Ahead: The Digital Transformation Imperative

Agility and real-time data visibility increasingly define how businesses cope with these seismic shifts. Manual, siloed processes are too slow for an environment of sudden tariff changes, evolving consumer demands, and multifaceted compliance laws. As we will explore in the next section, digital transformation—particularly AI-enabled risk assessment, automated compliance checks, and integrated supply chain platforms—has become the lynchpin of future-ready operations. Those who invest in robust digital ecosystems gain the speed, transparency, and intelligence required to navigate an ever-changing landscape.



02

Digital Transformation & AI: From Awareness to Action



Digital Transformation & AI: From Awareness to Action

Supply chain leaders are moving beyond theoretical appreciation of digital tools to more concrete, **ROI-focused deployment**. High-profile disruptions—from tariff policy swings to rapidly evolving sustainability mandates—have exposed the limits of manual processes and siloed data. As a result, many organizations now view **digital transformation** and **AI** not as optional enhancements but as core components of future-ready operations. Still, adoption remains uneven, with a **widening gap** between those pursuing aggressive automation roadmaps and those struggling to integrate even basic systems.

2.1 Mapping the Digital Adoption Curve

Current Digitalization Levels

Our survey data reveals that **fewer than 10%** of respondents have achieved near-full automation in key supply chain functions, while **over 45%** remain below the 25% digitalization mark. These findings underscore an industry in flux: early adopters are scaling beyond pilot programs and investing in advanced analytics, while the majority continue to labor under outdated infrastructures and minimal cross-departmental data sharing.

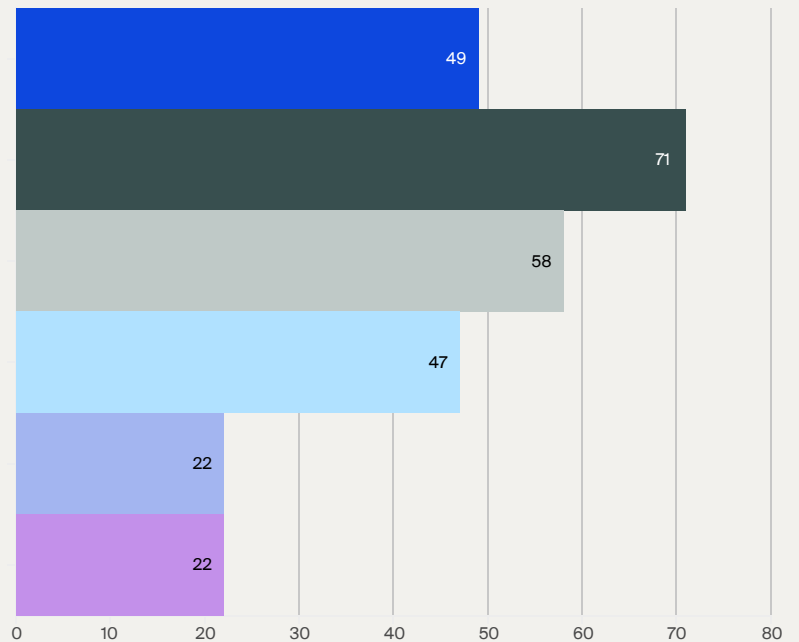
Companies that identify as “leaders” in digital maturity often set explicit targets for reaching **75–100% digitalization** over the next three to five years. In contrast, **14%** have no formal roadmap at all, citing competing budget priorities or a lack of digital expertise. This mismatch translates into stark operational differences: digital frontrunners demonstrate shorter lead times, more proactive demand planning, and quicker responses to disruptions such as port closures or labor strikes.

Two-Thirds of Companies Have Digitized Less Than Half of Their Supply Chain Processes

Question

What percentage of your supply chain processes (e.g., compliance processes, quality control, sourcing, etc.) are currently digitized and automated?

Extent of Supply Chain Digitization	# of Responses
Less than 10%	49
10-25%	71
26-50%	58
51-75%	47
76-90%	22
More than 90%	22



Organizational Readiness & Cultural Barriers

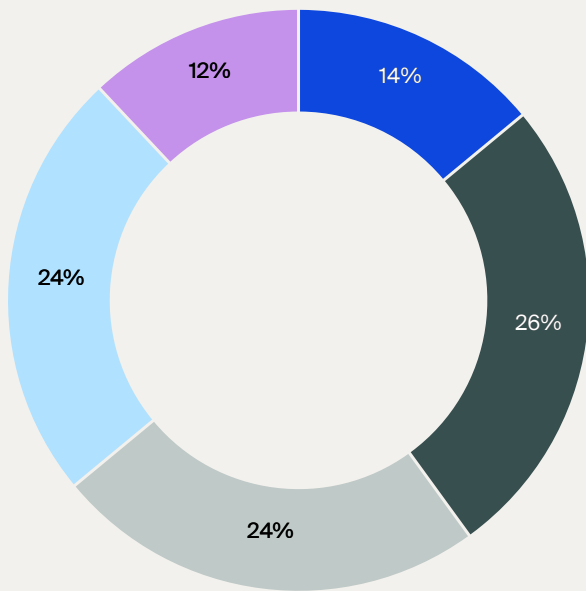
Even among firms intent on digitizing, cultural and structural barriers frequently slow progress. Mid-level managers can be reluctant to overhaul long-standing processes, particularly when manual audits and spreadsheets are “good enough” to get the job done day-to-day. **70%** of respondents rate emerging technologies as highly impactful but acknowledge internal tensions—fear of job displacement, data security concerns, and unclear return on investment.

In these environments, siloed decision-making and lack of cross-functional leadership lead to scattered pilot projects with minimal organizational benefit. Some executives note that gaining C-suite buy-in is comparatively easy—translating that enthusiasm into **company-wide adoption** is where the struggle intensifies.

Nearly Half of Respondents Aim to Digitize a Majority of Their Supply Chain Within 3–5 Years

Question

What is your target level of digitalization and automation over the next 3-5 years?

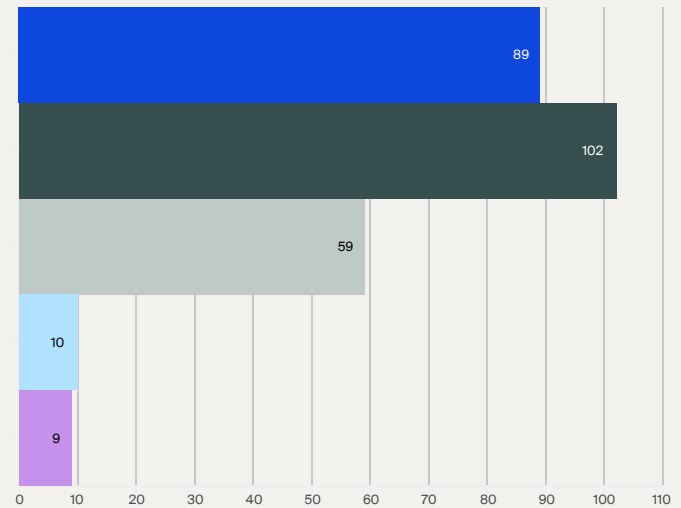


Target Digitalization & Automation Level (3-5 Years)	# of Responses
0-25% of supply chain processes	37
26-50% of supply chain processes	71
51-75% of supply chain processes	64
76-100% of supply chain processes	64
We have no specific target for digitalization and automation	33

70% Expect Emerging Technologies to Have a Significant or Extreme Impact on the Supply Chain

Question

On a scale of 1 to 5, where 1 indicates not at all significant and 5 indicates extremely significant, how would you rate the impact of new and emerging technologies on the supply chain over the next five years?



Rating Levels	# of Responses
Level 5	89
Level 4	102
Level 3	59
Level 2	10
Level 1	9

3.92
Average Rating



Executive Insight

Many leaders face a **cultural gap** that undermines digital acceleration. Overcoming inertia requires not just top-level endorsement but also concrete success stories that resonate with frontline teams—highlighting efficiency gains, fewer errors, and real-time visibility that spreadsheets cannot match.



2.2 Practical Use Cases for AI & Automation

Predictive Analytics & Forecasting

Companies that have integrated AI emphasize **forecast accuracy** and **risk identification** as top benefits. In fact, **22%** of AI adopters report improved demand forecasting as their leading success story, while 20% cite stronger risk mitigation. By analyzing past sales trends alongside macro factors—such as economic downturns or holiday shopping fluctuations—these systems enable more precise production planning and inventory allocation.



“AI is an accelerant for everything. We have moved rapidly from text-to-text, to text-to-image, to text-to-everything and now to large-scale analytics that optimize demand planning. It’s all about speeding up decision-making.”

Barry McGeough

Group VP of Innovation,
Americo

Real-time insights can prove especially valuable in turbulent markets. Some apparel brands run “what-if” simulations that layer tariff changes or shipping bottlenecks onto predictive models, allowing them to reroute orders or adjust capacity before disruptions materialize. Other experts highlight how advanced forecasting can help address overproduction—a rising concern given mounting EPR obligations:

“We’re producing too much stuff as an industry. Forecasting technology is going to be huge: if brands can get a better guarantee that they’ll actually sell what they make, it reduces waste and cuts future EPR costs.”

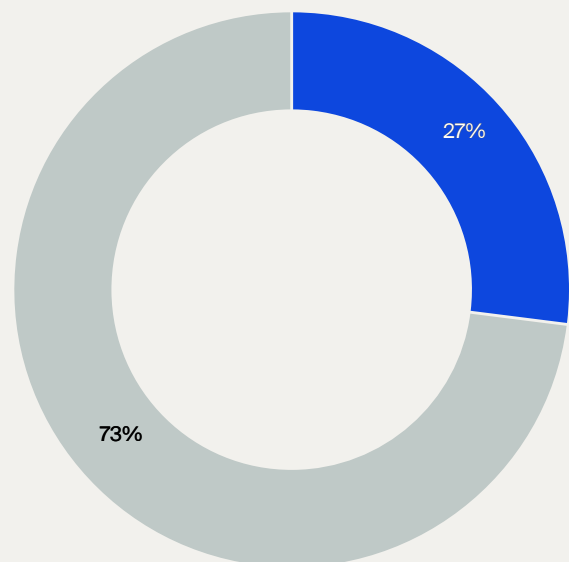
Lydia Brearley

Sustainable Fashion Consultant,
Enkel

Only Around a Quarter of Companies Have Integrated AI into Their Supply Chain Processes

Question

Is AI integrated into your supply chain processes?



AI Adoption in Supply Chain

- Yes
- No

of Responses

74
195



Beyond forecasting and upstream data collection, a growing area of focus is broadcasting that data downstream—particularly for resell or recycling channels. By incorporating AI to track products across their entire lifecycle, brands can provide transparent information not only for manufacturing partners but also for customers and post-consumer stakeholders:

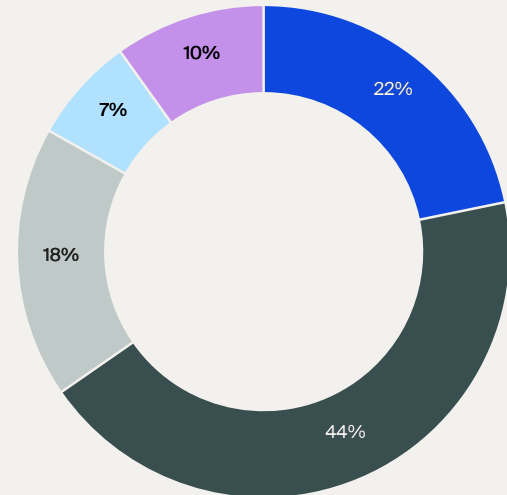
“Brands have so many initiatives upstream to collect data. Now we’re seeing an interest in how they broadcast that data downstream—to customers, resell partners, or recyclers—and create a truly end-to-end lifecycle of the product.”

Natasha Franck
CEO,
EON

Lack of AI Tools and Security Concerns Are the Top Barriers to AI Integration in the Supply Chain

Question

Why is AI not integrated into your supply chain processes?



Reasons for Not Using AI	# of Responses
IT policy (security/privacy risks)	43
Do not have AI-powered tools	87
Lack of compelling AI tools in the market	35
Do not see the value of AI	14
Other	19

This full-spectrum approach to data usage signals a new wave of innovation: Harnessing AI not just for predictive analytics and risk mitigation, but also to enable circular economy models and more responsible consumer engagement.



Compliance Automation & Document Processing

Heightened regulatory scrutiny around forced labor and sustainability is also fueling AI adoption. More than **35%** of respondents are testing or using automated compliance tools, from **digital passports** to **document scanning** that flags anomalies in wage records or worker documentation. This approach is particularly relevant in regions facing new forced labor mandates—**UFLPA** in the U.S. or human rights due diligence laws in the EU—where the penalty for non-compliance can be severe.

Poor data quality remains a notorious obstacle. If factories under-report working hours or misclassify raw materials, even sophisticated AI systems can produce misleading signals. As such, leaders stress the need for robust data governance and clear accountability from Tier-1 through Tier-3 suppliers.

Risk Modeling & Real-Time Visibility

A further **18.5%** of participants rely on collaborative planning and AI-assisted dashboards to track supplier performance. These tools can alert decision-makers to anomalies—such as unexpected cost surges or transport delays—hours or even days ahead of manual processes. Early adopters envision an integrated

environment where all supply chain nodes exchange data in real time, enabling a single “source of truth” that steers everything from material procurement to last-mile delivery.

“Technology is just a tool; it must be used properly. It’s only as good as the data you feed it.”

Avedis Seferian

CEO of Worldwide Responsible Accredited Production

35%

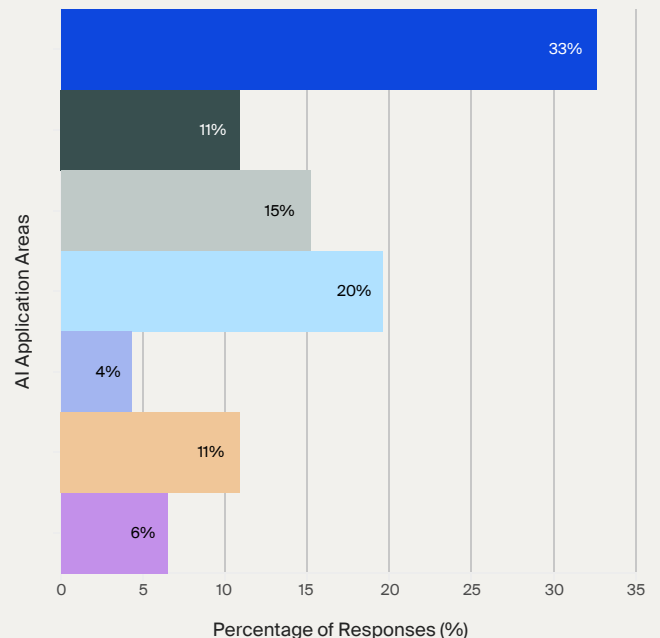
are testing or using AI-driven compliance tools.

18.5%

use AI-powered dashboards for supplier tracking.

Efficiency & Optimization Leads as the Top AI Application in Supply Chain Processes

AI Application Areas in Supply Chain	% of Responses
Efficiency & Optimization	33%
Demand Forecasting & Inventory Management	11%
Risk Management & Compliance	15%
Automation & Digitalization	20%
Sustainability & Environmental Impact	4%
Decision-Making & Strategy	11%
Communication & Collaboration	6%



Executive Insight

Practical AI applications are no longer limited to conceptual pilot programs. Demand forecasting, automated compliance checks, and dynamic risk modeling **demonstrate tangible ROI** for early adopters. The challenge ahead is scaling these solutions while ensuring consistent, high-quality data across extended global networks.



2.3 Overcoming Implementation Hurdles

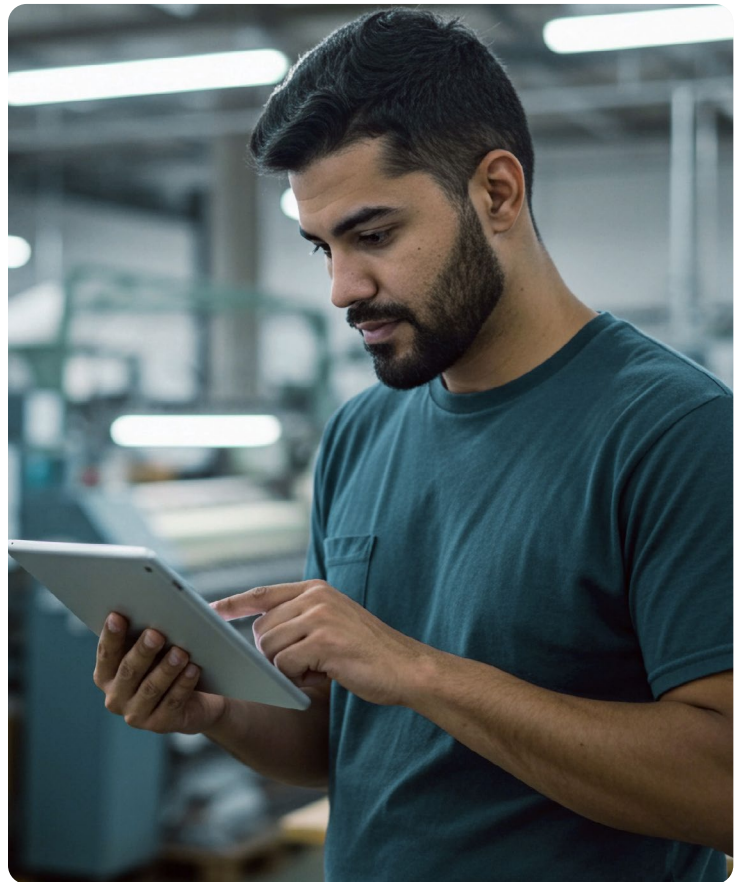
Budget & ROI Uncertainty

Despite the clear potential, many executives remain cautious. **7%** do not perceive immediate value in AI, while over **21%** voice concerns around data security and privacy. For mid-sized firms—making up **66%** of the survey—investing in new digital tools often competes with ongoing compliance obligations and squeezed margins, especially when retailers resist cost-sharing.

Pilot projects can help build momentum. Several executives note that **targeted AI pilots**—like automating invoice processing or forecasting container demand—yield quick wins that demonstrate measurable value. By reinvesting cost savings or efficiency gains into broader technology rollouts, leaders can counter skepticism about long-term returns.

Bridging the Digital Maturity Gap

As more companies allocate a higher share of budgets to technology—**20%** invest at least 75% in digital tools—the digital maturity gap continues to widen. Industry leaders emphasize **scalable, modular** solutions that plug into existing systems. They also highlight the importance of cross-training staff, ensuring that procurement, operations, and compliance teams collaborate under a unified digital strategy.



“By 2026, we want full digital traceability and automated EPR reporting. But right now, we’re scrambling between spreadsheets and partial systems. This is a big lift.”

David Bobbitt

President of Sourcing & Production,
Komar

7%

of executives do not see immediate value in AI.

21%

express concerns about data security and privacy.



Executive Insight

Overcoming budget hesitations and cultural pushback involves showcasing **quick, tangible wins** to transform naysayers into advocates. However, leaders must align pilot successes with an overarching vision—pursuing ad-hoc projects in isolation risks fragmenting the supply chain further, rather than building an integrated ecosystem.



2.4 Executive Takeaways

- 1 AI Turns Proactive Risk Management into a Competitive Edge**

Early adopters of AI-driven forecasting, compliance checks, and multi-tier visibility reduce guesswork and avoid last-minute firefighting. By modeling political or market fluctuations in real time, they safeguard profitability while seizing new sourcing or distribution opportunities faster than reactive competitors.
- 2 Data Governance Holds the Key to Meaningful ROI**

Even the best AI platform cannot overcome flawed, incomplete, or siloed data. Leading firms invest in robust data protocols—standardized supplier inputs, clear ownership structures, and frequent audits of data integrity—so that automation yields reliable insights rather than compounding hidden inaccuracies.
- 3 Compliance Integration Accelerates Broader Digital Transformation**

Rising demands for traceability and labor transparency are driving adoption of digital passports, automated audits, and advanced risk monitoring. This compliance-driven momentum can extend to other supply chain functions, unifying processes that once operated in silos and promoting a culture of continuous improvement.
- 4 Scalable Strategies Require a Unified Vision, Not Just Pilots**

Tactical wins from small pilots demonstrate feasibility and help overcome internal skepticism, but executives who stop there risk a patchwork of disconnected tools. A cohesive digital roadmap—complete with cross-functional leadership, future-proof architecture, and clear success metrics—ensures every digital upgrade contributes to an agile, resilient supply chain.

2.5 Looking Ahead: Rethinking Risk & Compliance

With digitalization and AI proving their value as catalysts for greater visibility and responsiveness, the next step is transforming how organizations anticipate and manage risk. In the following section, we examine how a data-driven approach—powered by real-time analytics and unified compliance frameworks—can shift risk management from a reactive, audit-heavy chore to a proactive, integrated strategy that fosters brand protection and operational excellence.



03

Rethinking Risk & Compliance: Building Proactive, Data-Driven Systems



Rethinking Risk & Compliance: Building Proactive, Data-Driven Systems

As supply chain pressures mount, organizations are increasingly **shifting from reactive firefighting** to comprehensive, **proactive risk management**. Traditional approaches—episodic audits, siloed compliance teams, and fragmented data—no longer suffice in a landscape defined by **stringent forced labor mandates**, **tariff unpredictability**, and **evolving sustainability regulations**. Instead, leading companies are forging a new model that integrates **quality, compliance, and risk** into a single, data-driven framework, enabling them to **anticipate disruptions** and safeguard their operations more effectively.

3.1 Integrating Quality, Compliance & Risk

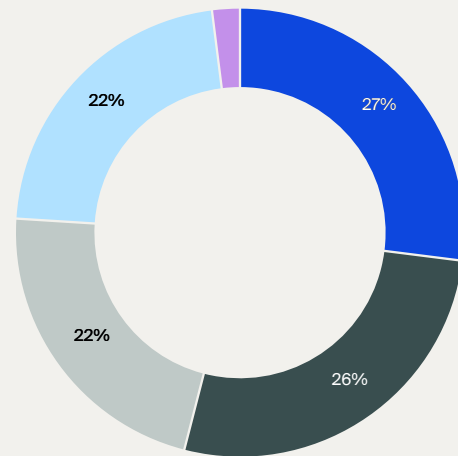
A growing number of respondents—**over 60%**—report at least partial integration of **quality, compliance, and risk management**. According to interviews, unifying these areas **drives efficiency** in factory oversight, eliminates redundant audits, and streamlines data collection. Still, some companies admit they operate each function in isolation, a potentially serious vulnerability when forced labor allegations or regulatory changes can disrupt business overnight.

Such silos foster “compliance chaos,” where factories face separate audits for each brand or department. **Audit fatigue**—echoed by multiple executives—both suppliers and internal teams alike, often failing to address deeper issues like labor practices or environmental impact. On the flip side, integrated programs facilitate **shared responsibility**: compliance teams feed real-time data to procurement, operations, and even finance, enabling faster interventions and more strategic planning.

Quality and Compliance Management Are the Most Frequently Unified Functions in Product Integrity Frameworks

Question

Which of the following functions are integrated into a unified product integrity framework within your supply chain?



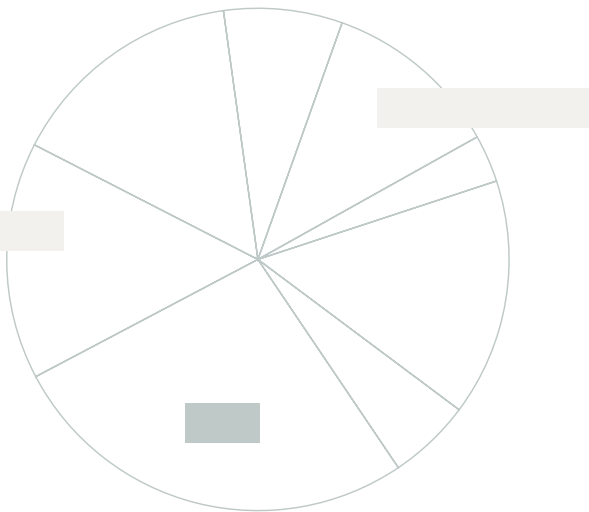
Functions	% of Responses
Quality management	27%
Compliance management	26%
Sourcing and procurement	22%
Risk management	22%
None of the above	3%



Yet even with a more unified approach, data can quickly become overwhelming if organizations attempt to collect every metric without a clear objective.

“We always ask: What data do you need, and why? It’s important for brands to be strategic, rather than gathering every possible data point with no clear end use. You want to invest in data that drives real compliance, real efficiency, and real ROI.”

Natasha Franck
CEO,
EON



Beyond Traditional Audits

Collaboration is emerging as the new norm. From **shared worker grievance hotlines** to **pooled environmental audits**, brands are **aligning requirements** to reduce duplication and costs. This shift is especially relevant in industries like apparel, where **39%** of respondents identify overlapping brand standards as a major burden on factory partners. The push toward **standardized certifications**—e.g., WRAP for social compliance, Higg Index for environmental metrics—also reflects this growing desire for common benchmarks. While not a perfect solution, these collective efforts help factories focus on real improvements rather than juggling multiple, sometimes contradictory, codes of conduct.

“I feel like we’ve acknowledged the burden of audit fatigue when you’re looking at social compliance audits. I don’t feel like we’ve yet really understood the scope of the other burdens factories are getting hit with—worker grievance systems, worker hotlines, remediation programs—it’s duplicative and overwhelming.”

VP of Corporate Responsibility
at a global apparel brand



Executive Insight

Many leaders see integrated programs as a **competitive advantage**. By streamlining compliance and quality under a unified risk framework, they not only reduce operational friction but also create clearer accountability. This holistic view helps identify systemic issues—like poor subcontractor controls or outdated worker training—that one-off audits often miss.



3.2 Forced Labor & Due Diligence

Heightened Scrutiny

Few compliance challenges loom larger than **forced labor**. This heightened scrutiny stems from a wave of **mandatory human rights due diligence** laws, particularly in the EU and United States. Under **19 USC 1307**, for instance, U.S. authorities can detain shipments if there is evidence of forced labor anywhere in the product's supply chain.

European regulations adopt more of a “duty of effort” approach, acknowledging that finding and remediating issues is a process. Yet, the U.S. regime imposes **strict liability**: if forced labor is discovered, implied, or even suspected, the onus is on companies to prove the absence of wrongdoing—a burden many find daunting. This divergence often compels global brands to **default to the strictest standard** to avoid legal or reputational risk.

Toward Independent Verification

Relying solely on internal audits can be perceived as “the fox guarding the henhouse,” especially when entire product lines hinge on passing compliance checks. Executives across apparel, home goods, and multi-category retail emphasize **third-party verification** as a growing trend. **DNA testing** for raw materials—like cotton—gives brands more credible proof against forced labor allegations. Similarly, **external compliance bodies** (e.g., WRAP) provide independent oversight to bolster brand reputation and reduce risk of consumer backlash.

Leading companies also **train sourcing teams** to detect subtle forms of coercion—like withheld passports or irregular wage deductions—well before they escalate into headline-grabbing scandals. Digital worker-voice platforms further amplify direct input from employees on the factory floor, helping uncover hidden abuses.

“Mandatory human rights laws mean self-audits aren’t enough to protect a business. If a brand gets flagged for forced labor, the entire shipment might be blocked at the port. That’s existential.”

Avedis Seferian

CEO of Worldwide Responsible Accredited Production



Executive Insight

Compliance officers increasingly function as **strategic partners** rather than mere box-checkers. Early detection of labor issues can avert catastrophic brand damage, lost market access, and legal battles. Consequently, **robust, credible audits**—coupled with real-time data oversight—are evolving into key pillars of business continuity.



3.3 Sourcing Transformation & Risk Diversification

Adapting to Tariff Shocks

Tariffs remain a crucial element of risk management, as underscored by 65% of survey participants calling them a significant factor in strategic decisions. Komar’s rapid pivot from **50% to 25%** reliance on China highlights how swiftly sourcing geographies can shift when tariff threats loom. However, executives caution that new U.S. tariffs on Vietnam or Cambodia could render these moves moot—forcing yet another scramble to alternative regions.

Even as companies hedge through nearshoring or expansions into **South Asia** or **Africa**, many maintain partial operations in China for **cost-competitive fabrics** and advanced manufacturing. The survey also reveals that **40%** of organizations diversify suppliers specifically to handle trade tensions. While this strategy dilutes geopolitical risk exposure, it adds complexity—from logistics planning to **cross-border compliance** with varying labor standards.

“If [the U.S.] slaps tariffs on Vietnam and Cambodia, we don’t know what we’re going to do. We’ve reduced our China footprint, but we could end up right back where we started.”

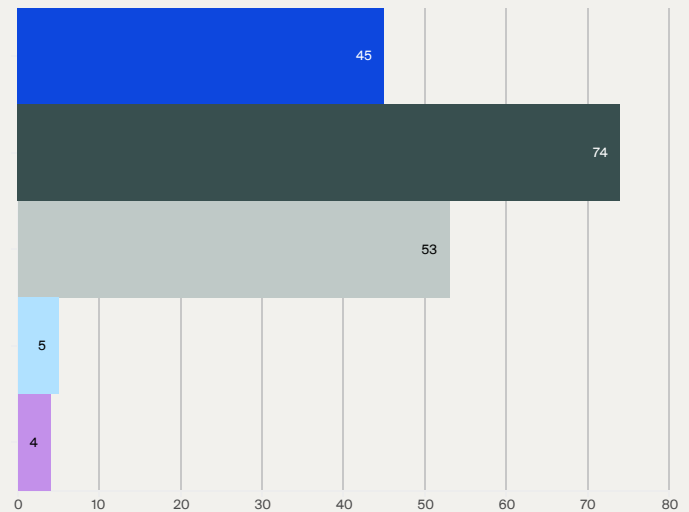
David Bobbitt

President of Sourcing & Production,
Komar

Nearly All Respondents (95%) Rate Tariffs as Highly Influential (3–5) on Strategic Decisions

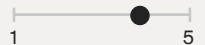
Question

On a scale of 1 to 5, where 1 indicates not at all significant and 5 indicates extremely significant, how would you rate the influence of tariffs on your company’s strategic decisions?



Rating Levels	# of Responses
● Level 5	45
● Level 4	74
● Level 3	53
● Level 2	5
● Level 1	4

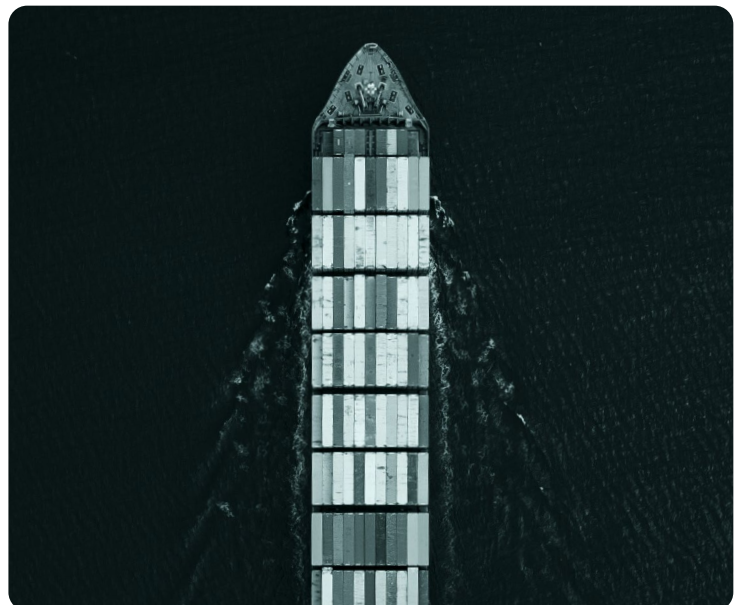
3.83
Average Rating



The Reality of Multi-Region Supply Chains

Balancing the benefits of nearshoring (e.g., faster delivery, fewer customs hassles) against established hubs’ efficiencies is an ongoing challenge. Factories in Vietnam or Bangladesh may excel at certain categories (like cotton basics or footwear assembly) but lack the specialized machinery or expertise found in China. Quality oversight, training costs, and regulatory compliance can compound quickly when sourcing spans multiple geographies.

Moreover, each region presents its own mix of social and environmental mandates. Africa, for example, offers duty-free benefits under trade agreements but might have weaker infrastructure or higher transparency risks. Leaders who juggle these complexities tend to adopt robust risk modeling—combining predictive analytics with on-the-ground intel to gauge how policy changes, logistics disruptions, or local labor disputes could ripple across a multi-region network.



Executive Insight

Sourcing diversification mitigates certain risks but introduces others. By layering real-time compliance data (e.g., forced labor checks, factory audits) onto **multi-tier supplier maps**, decision-makers can weigh cost, lead time, and brand protection simultaneously. In effect, sourcing choices become **dynamic, data-driven** strategic bets rather than purely cost-based calculations.



3.4 Executive Takeaways

- 1 Integrated Compliance Structures Deliver Greater Resilience**

Moving beyond siloed audits or stand-alone risk teams unlocks efficiency and deeper visibility. Companies that unify quality, compliance, and risk under one roof can detect and rectify vulnerabilities—whether forced labor indicators or environmental lapses—before they spiral into crises.
- 2 Forced Labor Demands Heightened Vigilance**

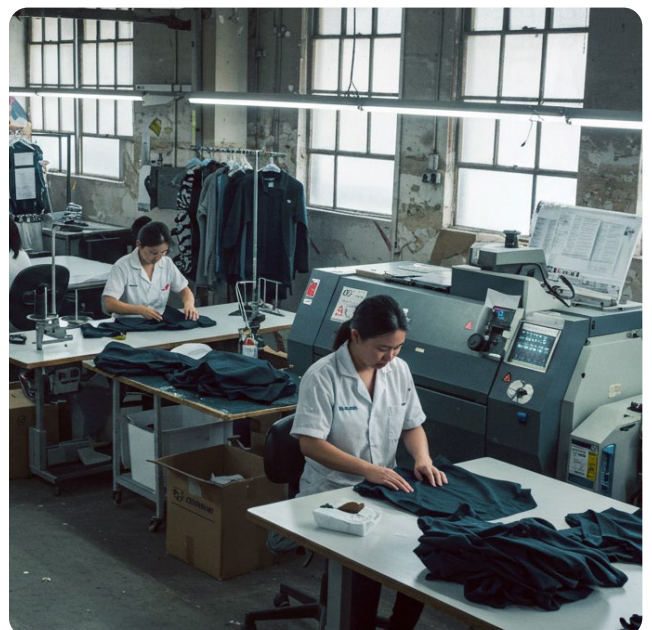
With nearly half of experienced respondents citing forced labor as their top concern, organizations must adopt independent verifications, rigorous supplier engagement, and robust worker voice platforms to maintain credibility. Self-audits alone leave brands exposed to both reputational hits and potential shipment detentions.
- 3 Strategic Sourcing Offsets Tariff Volatility, But Complexity Rises**

Pivoting production to secondary regions can mitigate tariff surges or political uncertainties. However, each new manufacturing base introduces fresh quality, compliance, and logistics challenges. Strong data governance and risk modeling help leaders balance these trade-offs while preserving brand standards.
- 4 Collaboration & Standardization Streamline Oversight**

Shared frameworks—like WRAP or the Higg Index—and collaborative auditing can reduce “audit fatigue” and operational redundancies. Factories that adhere to unified standards also tend to maintain better working conditions, reducing the likelihood of forced labor or high defect rates.

3.5 Looking Ahead: Sustainability & ESG – From Voluntary Ideal to Regulatory Mandate

Companies now recognize that **risk management and compliance** cannot be divorced from **sustainability goals**. As environmental impacts and human rights practices face growing scrutiny—from both regulators and consumers—businesses are forced to adopt **ESG principles** as a central pillar of supply chain strategy. In the next section, we explore how sustainability has evolved from a marketing slogan to a **regulated, non-negotiable** imperative, driving a new wave of product innovation, traceability efforts, and global benchmarking.



04

Sustainability & ESG: From Voluntary Ideal to Regulatory Mandate



Sustainability & ESG: From Voluntary Ideal to Regulatory Mandate

Sustainability has long been framed as a differentiating factor for forward-thinking brands—a “good to have” rather than a strict necessity. But in 2025, **tightening legislation**, **heightened consumer scrutiny**, and **rising environmental urgencies** have catapulted sustainability into the core of supply chain strategy. Once voluntary or marketing-driven, ESG commitments are now embedded in the fabric of everyday operations, with **data-driven evidence** and **regulatory compliance** playing increasingly decisive roles.

4.1 Integrating Quality, Compliance & Risk

EPR & Scope 3 Emissions

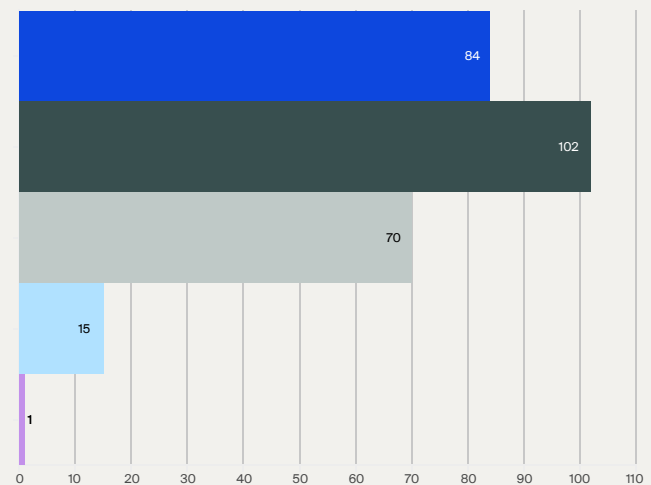
Survey data shows **69%** of respondents rating new sustainability regulations at 4 or 5 out of 5 in terms of impact on supply chain management, while **85%** say meeting these standards has grown markedly more difficult. This surge in complexity stems from evolving mandates, such as **Extended Producer Responsibility (EPR)** laws that hold manufacturers accountable for a product’s entire life cycle—from the raw materials used to the disposal or recycling processes.

Compounding the challenge is the need to measure **Scope 3 emissions**, encompassing indirect emissions across multiple tiers of the supply chain. A significant **42%** of companies report lacking standardized sustainability KPIs—a critical gap when regulatory bodies demand verifiable carbon metrics. Executives also note **data lags** in established frameworks like the Higg Index, where factories submit information annually, often yielding environment performance metrics based on data that can be **two years**. This outdated insight hinders real-time carbon management and complicates strategic planning.

Over 90% Rate Recent Regulatory Changes as Moderately to Extremely Significant

Question

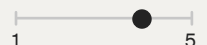
On a scale of 1 to 5, where 1 indicates not at all significant and 5 indicates extremely significant, how would you rate the effect of recent regulatory changes on your supply chain management?



Rating Levels	# of Responses
Level 5	84
Level 4	102
Level 3	70
Level 2	15
Level 1	1

3.93

Average Rating



“We had to act fast. Even the people enforcing these regulations don’t know exactly how to apply them.”

David Bobbitt

President of Sourcing & Production,
Komar



Compliance vs. Proactive ESG Management

Despite mounting external pressure, many organizations still adopt a **compliance-first** mindset, doing the bare minimum to avoid fines or reputational damage. Yet interviews reveal a cohort of **proactive innovators** that see sustainability as a driver of product and process innovation. For instance, **Komar** disallows coal usage outright and sets annual carbon and water reduction benchmarks for its factories, while **Americo** invests in Tier-2 and Tier-3 energy-saving initiatives.

This shift to a **proof-based** approach goes hand in hand with traceability efforts and explicit supplier requirements. However, **35%** of companies with existing sustainability KPIs still do not track Scope 3 emissions, illustrating how many remain stuck between a minimal compliance posture and truly integrated sustainability strategies.

35%
of companies with
sustainability KPIs do not
track Scope 3 emissions.

“We won’t just talk about sustainability –we’ll prove it. If a factory is using coal, they either fix it or we stop using them.”

David Bobbitt
President of Sourcing & Production,
Komar



Executive Insight

EPR laws, forced labor mandates, and Scope 3 reporting confirm that sustainability is no longer optional. Brands that continue treating ESG as a peripheral compliance burden may miss out on **innovation opportunities**—like waste reduction technologies or renewable energy investments—that ultimately enhance cost-efficiency and brand equity.



4.2 The Cost & ROI of Green Initiatives

Consumer “Green Expectation,” Not Premium

A persistent theme—reinforced by 77% of respondents rating consumer sustainability demands at 4 or 5 out of 5—is that buyers expect ethically and environmentally responsible products but resist paying more. This tension is especially pronounced in cost-sensitive sectors like mass retail, where over 60% of suppliers say retailers push sustainability costs back upstream rather than absorbing them or passing them to consumers.

For many brands, this dynamic means balancing thin margins against the rising expense of eco-friendly materials. 42.9% of companies have adopted recyclable or biodegradable packaging, while 30.8% are optimizing packaging efficiency. However, bridging the gap between conventional and 20–25% more expensive organic cotton remains a challenge. Industry insiders liken this to a “must-have baseline” akin to safety or quality control: essential for market entry but not a direct revenue driver.

42.9%
of companies have adopted recyclable or biodegradable packaging.

30.8%
are optimizing packaging efficiency.

“Consumers now expect sustainability as table stakes. It’s an expectation, not a premium.”

Barry McGeough
Group VP of Innovation,
Americo

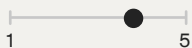
Over Three-Quarters Rate Consumer Expectations as Highly Significant in Shaping Supply Chain Strategy

Question

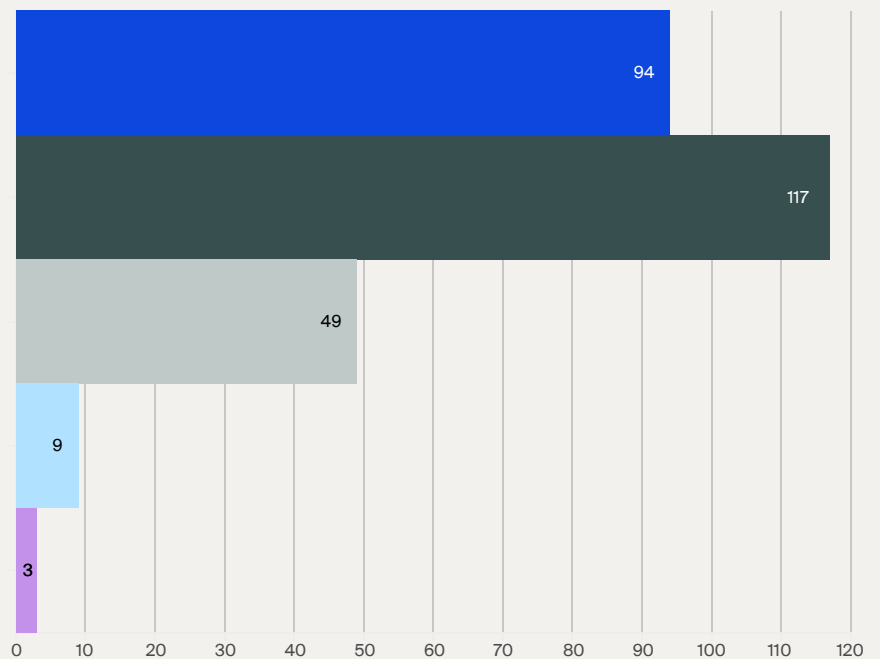
On a scale of 1 to 5, where 1 indicates not at all significant and 5 indicates extremely significant, how would you rate the effect of consumer expectations on shaping your supply chain strategy?

4.07

Average Rating



Rating Levels	# of Responses
Level 5	94
Level 4	117
Level 3	49
Level 2	9
Level 1	3



Material & Process Innovation

In response, firms are seeking **cost-neutral** paths to sustainability. Recycled polyester, for example, has become an accessible alternative with stable prices, enabling companies to reduce their carbon footprint without dramatically increasing product costs. Meanwhile, advanced solutions—like **textile recycling** or **closed-loop** manufacturing—are still hampered by scalability limits, infrastructure gaps, and technology maturity.

“There is tremendous progress being made at the molecular recycling level which should bring recycled polyester to commodity pricing in the near future. Until then, applied innovation - finding the most cost neutral ways to deliver innovations to brands and consumers - is the key to building the economies of scale that will drive down costs.”

Barry McGeough

Group VP of Innovation,
Americo



Leaders in the apparel sector highlight that collaborations—whether with new material startups, energy providers, or research institutions—can speed adoption of next-generation fabrics and processes. More recently, digital IDs on products are expanding this innovation beyond manufacturing.

“By embedding resale or repair services through a product’s digital ID, brands can maintain a relationship with the customer post-sale and even track when items are resold. It’s a new way to capture value while promoting circularity.”

Natasha Franck

CEO,
EON

Importantly, almost 60% of companies are actively collaborating with suppliers on sustainability, reflecting a shift from a purely transactional approach to a partner-driven model, where both brand and factory share the risks and benefits of going greener. Some experts warn that standing still is no longer viable.

“Business as usual is not an option. Any business that carries on in a linear way just won’t be here in the next five years. The ones investing in responsible materials and future-proofing their supply chains are the ones that will survive.”

Lydia Brearley

Sustainable Fashion Consultant,
Enkel



Executive Insight

Persistently low consumer tolerance for higher prices underscores the need for **innovative solutions** that blend sustainability with cost-efficiency. Companies gain a twofold edge when they successfully embed greener materials, renewable energy, or advanced recycling at near parity pricing: brand loyalty rooted in authentic ESG commitments and operational resilience protected from regulatory or reputational threats.



4.3 Traceability & Transparency

Digital Passports & Blockchain

With forced labor and carbon regulations escalating, **38%** of surveyed businesses have embraced digital passports to map and verify supply chain origins. Tools like TextileGenesis or ORITAIN help confirm raw material sources—particularly crucial for commodities like cotton, where forced labor concerns are prevalent. Early adopters say **digital passports** reduce greenwashing risks by providing credible, timestamped data on each production step.

Some experts see the potential of digital product passports as extending well beyond compliance.



“Digital Product Passports are the Internet of Things for products—it’s like when e-commerce first emerged. You can treat it as just another compliance box, or you can see it as the next big disruption in how customers engage with your brand and products.”

Natasha Franck
CEO,
EON

Yet while over a third of companies have tried blockchain or similar platforms, large-scale adoption is tempered by data quality and supplier readiness. Smaller factories often lack the technical infrastructure or training to reliably input accurate data. Nonetheless, executives note that stakeholder demands—from regulators to socially conscious consumers—are pushing universal traceability forward, signaling an eventual tipping point where such systems become the industry norm.

“Customers don’t choose between sustainable and non-sustainable products—they choose between brands they trust.”

VP of Corporate Responsibility
at a global apparel brand

“Blockchain won’t help solve forced labor if bad data is entered. Tech is a tool, not the solution itself.”

Avedis Seferian
CEO of Worldwide Responsible Accredited Production

Consumer-Facing Transparency

Some leading brands have developed programs where labels outline a product’s environmental impact. Still, leaders concede that **only a fraction** of consumers actively review detailed supply chain metrics. Instead, buyers more broadly want reassurance that a product meets baseline ethical standards. That said, impending regulations, particularly in the **EU**, are likely to mandate **comprehensive product passports**, forcing companies of all sizes to publicly disclose materials, labor practices, and emissions data as a condition of gaining EU market access.

Looking ahead, experts predict that **“label fatigue”** could be mitigated by consistent, regulated labeling frameworks, akin to nutritional facts on food packaging. Such approaches could foster cross-industry alignment, reducing duplication and building consumer confidence at scale.



Executive Insight

Traceability tools—whether blockchain or data dashboards—anchor brand credibility in a hyper-vigilant market. As **forced labor** and **ESG** laws tighten, partial visibility will no longer suffice. Companies that lead with comprehensive transparency will gain **regulatory resilience** and stand out from competitors that remain opaque about their sourcing practices or environmental performance.



4.4 Executive Takeaways

- 1 Regulatory Pressure Makes Sustainability Non-Negotiable**

With **69%** reporting major impacts from new regulations and **85%** struggling with compliance, sustainability has evolved from a “voluntary nice-to-have” into an operational mandate. Companies effectively balancing EPR, forced labor laws, and Scope 3 disclosures stand to avoid penalties and future-proof their supply chains.
- 2 Sustainability at Cost Parity Is the Holy Grail**

Consumers demand eco-friendly products but resist higher prices, creating intense margin pressures. Forward-thinking brands invest in cost-neutral materials, energy-saving processes, and supplier co-innovation to mitigate financial burdens while advancing their green agendas.
- 3 Traceability Emerges as the Bedrock of Credibility**

Over a third of companies already deploy digital passports or blockchain, reflecting the industry’s move toward transparent, verifiable supply chains. As forced labor scrutiny intensifies, brands with robust traceability can swiftly isolate problematic suppliers and reassure regulators, investors, and customers.
- 4 Consumer Engagement Focuses on Trust, Not Detailed Data**

While some buyers examine carbon scores or water usage, the majority rely on brand integrity signals. Programs like “Real Good” illustrate how accessible labeling can reinforce trust, even if most consumers do not dig into granular metrics. Mandated passports may soon drive universal disclosure, benefitting companies that invest in **comprehensive data accuracy** now.

4.5 Looking Ahead: Navigating the Road Ahead

Sustainability’s move from **voluntary ideal** to **regulatory backbone** underscores a broader supply chain reckoning. Executives must integrate **environmental goals, compliance mandates, and technological enablers** to address emerging threats—from climate shocks to shifting consumer values. The next section examines how leaders are leveraging **AI, risk intelligence, and collaborative frameworks** to unify compliance, ESG, and digital transformation—paving the way for agile, future-proof supply chains.



05

Navigating the Road Ahead: Strategic Insights & Conclusion



Navigating the Road Ahead: Strategic Insights & Conclusion

A convergence of forces—**geopolitical volatility, rising regulatory demands, shifting consumer values, and accelerating digital innovation**—has redefined what it means to run a modern supply chain. Throughout this report, we have seen how businesses are adapting to new tariff realities, due diligence mandates, and sustainability requirements, all while grappling with unprecedented expectations for speed and transparency. As we look beyond 2025, the challenge for executives is **not merely to react** to today's pressures but to **anticipate tomorrow's disruptions**, turning them into catalysts for competitive advantage.

5.1 The Road Ahead: Emerging Trends & Future Disruptors

Advanced AI & Augmented Reality (AR)

Having penetrated pockets of the supply chain—like forecasting and document automation—AI is poised to **expand** into more holistic functions. Leading brands increasingly experiment with AI-based design optimization, dynamic risk assessments, and **real-time scenario planning** that integrate external data (e.g., climate events, socio-political unrest). Coupled with augmented reality (AR), we can envision a future where **virtual showrooms** replace physical product lines and where supply chain managers simulate entire production networks before making major decisions.

While promising, **data integrity** remains a crucial hurdle. AI and AR technologies amplify existing gaps or misinformation in supply chain records. As supply chains become more **immersive** and data-hungry, businesses must prioritize robust data governance frameworks to fully realize the benefits of next-generation digital tools.



Black Swan Scenarios & Supply Chain Resilience

From abrupt tariff hikes to pandemics and natural disasters, “black swan” events highlight the fragility of globally dispersed networks. Notably, **95%** of companies continue to rate tariffs and geopolitical shifts as a significant strategic factor. While many have tried nearshoring or diversifying suppliers, the **decentralized nature** of modern supply chains can introduce new layers of risk—especially if these secondary hubs face regulatory complexity or untested logistics routes.

To stay resilient, executives must adopt **continuous scenario modeling** that accounts for extreme variables, from climate-related disruptions such as floods and droughts to sudden policy reversals. Businesses that embed these simulations into product development, procurement, and capacity planning will pivot faster and more economically when crises inevitably arise.

Climate Imperatives & Carbon Neutrality

Sustainability mandates are broadening from forced labor and minimal EPR compliance to **ambitious net-zero targets**. A growing wave of legislation aims to curb emissions at a systemic level. Consequently, **Scope 3** tracking—already a thorny challenge—will likely become more prescriptive. Additional carbon taxes or consumer pressure may drive even mainstream retailers to demand **low-carbon, traceable** components across the entire supply chain.

Climate change also intensifies unpredictability in raw material availability (e.g., water scarcity in cotton regions, temperature extremes impacting distribution). Forward-looking executives must integrate **climate risk** into standard risk assessments, exploring alternative materials, investing in climate-resilient operations, and forging alliances with suppliers that share decarbonization goals.



5.2 Strategic Insights & Recommendations

1 Embed Sustainability & Compliance into Core Strategy

Why It Matters

With **69%** reporting major impacts from new regulations and **85%** struggling with compliance, sustainability has evolved from a “voluntary nice-to-have” into an operational mandate. Companies effectively balancing EPR, forced labor laws, and Scope 3 disclosures stand to avoid penalties and future-proof their supply chains.

Strategic Implications

Unify ESG, Risk, and Procurement

Create cross-functional task forces that integrate sustainability milestones with sourcing decisions, ensuring every new factory or material aligns with forced labor mandates, carbon reduction goals, and cost targets.

Adopt Authentic “Proof-Based” Approaches

Tools like DNA testing for cotton, digital passports, and third-party social audits build credibility. Reticent markets—like discount channels—will likely follow these standards as consumer expectations and regulations intensify.

2 Harness Advanced Analytics for Real-Time Decision-Making

Why It Matters

Despite progress, fewer than **10%** of companies claim near-full digitalization, and **26%** have actually integrated AI. As supply chain complexity grows, manual processes fail to keep pace with rapidly shifting market conditions.

Strategic Implications

Move Beyond Pilot Projects

Demonstrate ROI with targeted AI interventions (e.g., predicting container shortages) but quickly expand successful pilots into enterprise-wide solutions.

Establish Data Governance & Standards

Ensure Tier-1 through Tier-3 suppliers follow consistent data protocols. A strong data backbone underpins any advanced analytics or AI initiative, turning raw information into actionable insights.

3 Develop Multi-Layered Risk Contingencies

Why It Matters

Geopolitical tensions, unpredictable tariffs, and black swan events will not subside. Over **40%** of surveyed executives cite tariff disruptions as a major strategic concern, and forced labor laws can instantly shut down market access.

Strategic Implications

Institutionalize Scenario Planning

Incorporate what-if modules into standard sourcing reviews and forecasting cycles, letting teams preempt disruption or quickly pivot sourcing.

Balance Nearshoring with Existing Hubs

While nearshoring can cut lead times, it can also raise labor costs or compliance overhead. A dual- or tri-shoring strategy retains the benefits of established hubs (like China’s advanced fabrics) while mitigating concentrated geopolitical risk.



4 Scale Traceability & Transparency Efforts

Why It Matters

With **38%** already using digital passports, traceability is fast becoming the baseline for verifying labor practices, raw material sourcing, and carbon footprints. Looming EU rules on product passports will turn “optional” transparency into a regulatory requirement.

Strategic Implications

Go Beyond Commodity-Level Traceability

Expand digital tracking to every major input—fabric, packaging, subcontractors—and tie that data to each purchase order.

Market & Monetize Trust

For consumer-facing segments, brand marketing can leverage traceability stories—especially for high-stakes categories like cotton or cocoa. Even in B2B contexts, robust traceability fosters trust among retail partners, regulators, and investors.

5 Elevate Collaboration with Suppliers & Industry Peers

Why It Matters

Compliance overlap, rising ESG demands, and worker voice systems create a **heavy burden** for factories, leading to “audit fatigue.” Meanwhile, no single brand can address forced labor or climate resilience alone.

Strategic Implications

Engage in Multi-Brand Auditing Platforms

Pool audits, share due diligence data, and unify worker grievance lines to reduce duplication. This also allows broader resource allocation to actual improvements in labor or environmental conditions.

Co-Invest in Innovation

Partnerships with key suppliers on energy efficiency or advanced materials can yield cost-neutral sustainability. Consider co-funding R&D, pilot lines, or specialized certifications that benefit all parties.



5.3 Conclusion

From tariffs to labor rights to carbon footprints, **supply chain challenges are intensifying** in scope and speed. The companies that adapt quickest share three fundamental traits: **data-driven decision-making**, **cross-functional integration**, and **proactive strategic planning**. Rather than addressing tariffs, sustainability, or forced labor each in isolation, they weave these imperatives into a single operating blueprint—one that marries **compliance, risk management, ESG, and digital innovation** under unified leadership.



Visibility & Collaboration

sit at the heart of modern supply chain solutions. Real-time traceability tools, AI-driven compliance checks, and integrated supplier dashboards can streamline oversight and promote transparent partnerships.



Predictive Intelligence

empowers leaders to model future disruptions such as political upheavals and climate-driven raw material shortages, or evolving forced labor legislation—and fortify their networks in advance.



Industry-Wide Standards

and third-party certifications help reduce duplication and enable factories to focus on meaningful improvements rather than repetitive audits. Brands that push for harmonized requirements foster a healthier, more reliable supplier base.

Ultimately, supply chains in 2025 and beyond will be judged by **adaptability, ethical performance, and resource efficiency**, not just near-term cost metrics. In a world of fast-evolving regulations and consumer scrutiny, executives must embrace **supply chain agility** as a defining advantage. By acting now—investing in robust compliance frameworks, forging collaborative and data-rich supplier relationships, and aligning ESG targets with bottom-line results—leaders can transform risk into resilience, disruptions into innovation, and compliance into a **strategic competitive edge**.



6. Methodology

This report draws on a blend of quantitative and qualitative research carried out by Inspectorio. A total of 269 supply chain professionals responded to our survey, encompassing factories (45%), suppliers (30%), brands (14%), retailers (8%), and other organizations (3%). These participants primarily represented the apparel & footwear (39%), home & furniture (15%), food & beverage (13%), multi-category retail (4%), outdoor & sports (3%), and additional (26%) sectors. They operated across Asia Pacific (44%), North America (17%), Europe (17%), South America (3%), Africa (2%), the Middle East (1%), and other regions (15%). Over 70% of respondents held management or senior management positions, half had more than 15 years of industry experience, and 80% came from organizations with annual revenues exceeding \$10 million.

In addition to the survey, we conducted structured interviews with senior leaders, consultants, independent industry groups, and third-party experts, using a consistent question set to explore the challenges, innovations, and trends shaping the sector. Notes and quotes from these interviews appear throughout the report with the participants' permission; some interviewees requested anonymity, which is reflected in their attribution. The data collected was analyzed both quantitatively—examining survey results for patterns and benchmarks—and qualitatively—assessing interview insights to provide context. This two-pronged approach ensures a robust understanding of the current state and future trajectory of global supply chain operations.

