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Fashion MSMEs confronting Climate Change, COVID-19 and Brexit: Key Drivers for Supply Chain Relocation

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Abstract

Purpose

This discussion paper presents findings from a research study which analysed the impact of Climate Change, Covid-19 and Brexit on the drivers and factors underlying fashion Micro/Small and Medium Enterprises (MSMEs) supply chain relocation strategies.

Methodology

The study was based on a mixed methods sequential explanatory research design whereby the quantitative research was followed by the qualitative research. The data collection involved a questionnaire targeting fashion MSMEs in the UK and a focus group with stakeholders.

Findings

A comprehensive list of factors underlying 16 drivers that could potentially impact the relocation of fashion MSMEs due to Climate Change, Brexit, and Covid-19 was produced. Next, our survey recorded a total of 37 usable responses from UK fashion MSMEs and the ensuing findings were complemented with qualitative insights from 5 stakeholders representing fashion MSMEs. In the report, we identify several factors and drivers underlying relocation strategies differentiated by Climate Change, Brexit, and Covid-19. Finally, through the quantitative and qualitative research, we hone in on 4 focal points for policy intervention: costs, environmental and social sustainability, logistics, and risk management.

Policy Implications

A key driver underlying relocation strategies for fashion MSMEs in the UK is cost. Given the importance of MSMEs for the UK economy and local communities, the government could curb relocations by helping MSMEs with the costs of doing business via subsidies, fiscal policy reforms, lenient trade policies, and improvements in efficiency and productivity of government services (e.g., border controls), which would also help overcome factors associated with logistics as a driver underlying relocation strategies. In terms of tackling environmental and social sustainability, facilitating the development of stakeholder networks capable of performing sustainability practices within SMEs and stricter regulation along with rewards in the form of subsidies for compliance would help curb relocations. Finally, in terms of curbing concerns around risk management as a driver underlying relocation strategies, the government could focus on policy interventions that would minimise the risks of doing business in the UK and make provisions for dedicated programmes tailored to improve fashion MSMEs risk management capabilities. It should be noted that for these policy initiatives to be effective, the industry should also proactively engage in complementary activities that would reinforce government interventions.

Contents

- 1. **Introduction**..... 5
 - 1.1 An overview of supply chain relocations 6
 - 1.2 Supply chain relocation due to Brexit, Covid-19 and Climate Change 7
- 2. **Study methodology**..... 10
 - 2.1 Survey 10
 - 2.2 Focus Group 10
- 3. **Findings** 11
 - 3.1 Sample demographics..... 11
 - 3.2 Climate change and supply chain relocations..... 14
 - 3.3 Brexit and supply chain relocations 17
 - 3.4 Covid-19 and supply chain relocations..... 23
- 4. **Conclusions** 28
- Acknowledgements..... 32
- Disclaimer..... 32
- References 33
- Appendix..... 40

1. Introduction

This Discussion Paper defines Micro (0-9 employees), Small (10-49 employees), and Medium (50-249 employees) enterprises (MSMEs) based on the number of employees (Casadei and Iammarino, 2021a). In the past, UK clothing firms have had to rethink their business models and move manufacturing to low-cost developing economies given the turbulent economic climate, rising costs, and falling retail prices (Robinson and Hsieh, 2016). Given the importance of SMEs for the economy, recently, the Foreign, Commonwealth & Development Office published the SME action plan (FCDO, 2022). However, academic research on the impact of Climate Change, Covid-19 and Brexit on smaller firms in the fashion industry, and the relocation strategies of their supply chains is scant.

A survey of 200 industry stakeholders by Fashion Roundtable found that a quarter of British fashion companies are considering relocation (Deeley, 2021). The economic impacts of such moves on unemployment, social issues, and tax revenue (among other factors) can be significant.

Conversely, the widespread use of technology and the ensuing hybridization of many fashion companies is lending itself to the introduction of novel digital practices and innovative business models and therefore geographical location tends to play a secondary role. The widespread implementation of technology is a catalyst for the emergence of innovative business models along with a vast array of collaborative supply chain practices that often transcend the notion of geographical location thereby hindering or heightening the importance of physical space.

On the one hand, we have MSMEs that by increasingly relying on information communication technologies have launched innovative platforms for fashion sharing, rental, second-hand marketplaces and alike. On the other hand, MSMEs have started embracing production on-demand, personalisation and other practices that might require a geographically proximate supply chain to ensure responsiveness or whereby the geographical space might become completely irrelevant as in the case of digital prototyping.

Accordingly, there is a need for an improved understanding of the drivers and factors associated with fashion MSMEs relocation strategies. To accomplish this goal, this Discussion Paper summarises a research study commissioned by the Creative Industries' Policy and Evidence Centre (PEC) and delivered by Fashion Business Research at Fashion Business School, London College of Fashion, University of the Arts London.

1.1 An overview of supply chain relocations

A narrative literature review of 150 academic journal articles was used to obtain a comprehensive understanding of the evolution and current knowledge of supply chain relocation strategies.

Supply chain relocations have taken place for decades (Albertoni et al., 2015) with supply chains becoming more international over the past two decades (Barbieri et al., 2019). This study focuses on the drivers and factors influencing reshoring, near-shoring and offshoring following Climate Change, Brexit, and Covid-19. Offshoring is defined as “any relocation to a host country other than the firm’s home country” (Ancarani et al. 2019, p. 361), whilst the term reshoring encompasses “relocations nearer to the home country of the firm (nearshoring) or within the home country (backshoring)” (Ancarani et al. 2019, p. 360).

Historically, since the early 1990s, offshoring has been an important business strategy (Foerstl et al., 2016; Bals et al., 2016) whilst evidence of backshoring dates to the 1980s (Bals et al., 2015; Fratocchi et al., 2014). However, to date, there is no consensus on what the most popular relocation strategy is. Some researchers have argued that reshoring is rising, while others have found evidence for increasing offshoring (Gadde and Jonsson, 2019; Hilletofth et al., 2019).

Reshoring used to be an under-researched area in academia (Engström et al., 2018b). Nevertheless, various challenges and failures associated with global supply chains have pushed firms to focus on a more localised approach to manufacturing via reshoring (Hilletofth et al., 2019; Hartman et al., 2017) because offshoring is not always beneficial to businesses (Engström et al., 2018a, b). Therefore, the last decade has recorded a growth in research on the relocation of manufacturing back to Europe (Ancarani et al., 2019). In terms of the UK, there is government support for the back-shoring strategy and the UK was once called the ‘reshoring nation’ by the then Prime Minister, David Cameron (Moradlou et al., 2021a).

The clothing and textile industries are recognised as one of the first to engage in relocation to benefit from cost-related advantages, which continue to remain the main consideration for relocation (Gereffi and Memedovic, 2003¹; Pal et al., 2018). However, many offshoring decisions by fashion companies have failed to consider all implications of such moves (Cerruti, 2008) with previous research indicating that reshoring appears to be common in mid-range to luxury fashion market segments (Fratocchi and Di Stefano, 2019b).

The threat imposed by ethical and environmental scandals on the top lines of globalised organisations has transformed environmental sustainability into a reshoring motivation (Orzes and Sarkis, 2019). Therefore, supply chain sustainability

¹ A report by the United Nations Industrial Development Organization

and ethicality are now seen as key considerations for manufacturing relocation (Heikkilä et al., 2018) making it important that future studies focus on the impact of location and relocation decisions on the environmental and social dimensions (Fratocchi and Di Stefano, 2019a; Sirilertsuan et al., 2018). There is also a growing demand for 'made in' and ethical products (Grappi et al., 2017; Yu and Kim, 2018) which forces fashion brands to rethink their location strategies. The drivers underlying relocation strategies specific to the fashion industry were identified through the work of several authors².

Academic literature on SMEs reshoring is scarce in comparison to the offshoring context. Furthermore, research on reshoring has focused heavily on developed economies and high-cost manufacturing environments such as Spain, Germany, Denmark, and the US (Engström et al, 2018b) whilst the UK has not received similar attention.

Researchers opine that during economically challenging times some SMEs may turn to reshoring due to difficulties with quality control owing to physical and cultural distance (Kinkel, 2012), reluctance towards investing in resources for support and learning processes for quality management (Henisz and Delios, 2001; Gankema et al., 2000), and to protect the going concern of the business (Kapitsinis, 2019). Nevertheless, since the emergence of the global economic crisis, relocations had declined significantly whilst backshoring has remained stable (Kinkel, 2012).

1.2 Supply chain relocation due to Brexit, Covid-19 and Climate Change

We uncovered that academic research into the impact of Brexit and Covid-19 on business location decisions is also sparse and in the context of MSMEs almost non-existent.

A survey of 262 UK manufacturing companies showed that over half of the decision-makers were considering building capacity within their home country (i.e., the UK) instead of investing overseas due to Brexit (Godsell et al., 2017)³. However, statistics from 2018 showed that 42 companies had relocated to the EU citing Brexit as the reason (Hope, 2019)⁴. The drivers and factors associated with relocations due to Brexit were identified using both academic and non-academic sources⁵.

² De Brito et al. (2008), Macchion et al. (2017), Fratocchi and Di Stefano (2019b), Sardar and Lee (2015), Pal et al. (2018), Yu and Kim (2018), Andersson et al. (2018) [n.b. A report by McKinsey Apparel, Fashion & Luxury Group], Anson (2016), European Parliament (2021) and Robinson and Hsieh (2016).

³ A report published by WMG, International Institute for Product and Service Innovation at University of Warwick in association with ReshoringUK.

⁴ A report published by GLA Economics

⁵ Casadei and Iammarino (2021a), Esparza (2018), Moradlou et al. (2021b), Whiteman (2021) [A news article published by The Loadstar], Matthews (2021) [n.b. An article published in Raconteur], UKFT (2021) [n.b. A news article published by The UK Fashion & Textile Association (UKFT)], Phillips (2021) [n.b. An article published in the Thred], Butler (2020) [n.b. An

A detailed review of research into the impact of Covid-19 on supply chains can be found in Chowdhury et al. (2021). Pandemics are characterised by unpredictable long-term disruption, ripple effect disruptions throughout the supply chain, and concurrent disruptions in logistics networks and demand and supply (Ivanov 2020; McMaster et al., 2020).

When faced with a pandemic, some researchers note the importance of reshoring to make companies less vulnerable to global shocks (Seric and Winkler, 2020)⁶ whilst others note the downside risk in reshoring as it limits the scope for cushioning shocks that may originate domestically (Anukoonwattaka and Mikic, 2020⁷; OECD, 2021).

A study covering EU industries and the impact of the pandemic concluded that diversification as opposed to reshoring strengthens value chains during pandemics (de Vet et al., 2021)⁸. However, recent studies do cite Covid-19 as a trigger for reshoring decisions (Barbieri et al., 2020a). In the context of the UK, evidence indicates that the pandemic, coupled with Brexit is prompting UK manufacturers to reshore (Butler, 2020).

Overall, the pandemic has highlighted the risks associated with globalisation and offshoring production, prompting governments in advanced economies to nudge firms to reshore their production (Anukoonwattaka and Mikic, 2020)⁷ where a host country was not as brutally affected by Covid-19 as another (Reed and Hille, 2021)⁹. The factors associating supply chain relocations with Covid-19 were identified via various sources¹⁰.

Finally, concerning Climate Change, with global warming (e.g., global temperatures expected to rise by 3°C by 2100) increasing the frequency and severity of climate shocks (e.g., biodiversity losses, floods, droughts, fires, storms, soil erosions and infestations) (Sarkis et al., 2020; Hibberd, 2018), consumers, especially following the onset of the pandemic, are demanding a sustainable and equitable fashion industry that is sensitive to both the environment and society at large.

article published in The Guardian], Hope (2019)⁶, Pirie (2021) [An article published by Fashion Roundtable], Casadei and Iammarino (2021b), and May (2021) [n.b. An article published in the Stylist].

⁶ An article published in the UNIDO Industrial Analytics Platform (IAP)

⁷ A policy brief by the UN Economic and Social Commission for Asia and the Pacific

⁸ A study requested by the European Parliament's committee on Industry, Research and Energy (ITRE)

⁹ An article published in the Financial Times

¹⁰ McMaster et al. (2020), Bilbao-Ubillos and Camino-Beldarrain (2021), Livesey (2021) [n.b. An article published by Pinsent Masons], Barbieri et al. (2020a), Barbieri et al. (2020b), Castañeda-Navarrete et al. (2021), Chowdhury et al. (2021), Elia et al. (2021), Van Hoek and Dobrzykowski (2021), Anukoonwattaka and Mikic (2020)⁷, European Parliament (2021), Wilding (2021) [n.b. An article published at Brink News] and Kajjumba et al. (2020).

Accordingly, it is important to consider to what extent climate change-related factors are driving business relocation decisions within the industry. In the context of the fashion industry, every stage in garment production contributes to pollution and emission problems (Hibberd, 2018), and many companies have historically moved manufacturing to low-cost developing economies with poor wages, poor working conditions and poor employment environments (Robinson and Hsieh, 2016; Hibberd, 2018).

Therefore, it is not surprising that the fashion industry, which was said to be responsible for 5% of global carbon emissions (Bauck, 2017)¹¹ is one of the main industries affected by Climate Change and contributing to social inequalities in the developing world (Hibberd, 2018). Whilst relocation is likely to result from climate shocks, this could lead to too much focus on local needs at the expense of a global perspective and therefore create a negative impact on sustainability and supply chain resilience (Sarkis et al., 2020). At the same time, some responses to climate shocks might result in ignoring social and environmental sustainability given the need to take extreme measures to maintain global economic stability (e.g., avoid loss of jobs in developing nations) (Sarkis et al., 2020).

The work of several authors¹² was used to identify factors associated with Climate Change driving supply chain relocations.

We grouped the reasons for relocation into 16 drivers named cost, environmental and social sustainability, logistics, distance, innovation and technology, quality, access to resources or markets, process improvement, government policies, politics, consumer, risk management, time and flexibility, access to skills and knowledge, managerial decisions, and operational reasons, across Brexit (with 106 directly associated factors in total), Covid-19 (with 83 directly associated factors) and Climate Change (with 120 directly associated factors)¹³.

In terms of the variation in drivers across Brexit, Covid-19 and Climate Change we found that environmental and social sustainability had not been recorded as a driver for offshoring due to Covid-19 whilst distance-related factors did not emerge as an influential driver for relocating due to both Covid-19 and Climate Change. Strategic access was not a driver for reshoring due to Brexit or offshoring due to Covid-19 whilst process improvement was not reported as a driver for relocating due to Brexit. Politics-related factors were not recorded as influential in driving relocations due to Climate Change and also did not influence offshoring due to Covid-19. The secondary research showed that time and flexibility-related

¹¹ An article published in Fashionista

¹² Sarkis et al. (2020), Hibberd (2018), Dasaklis and Pappis (2013), Clark et al. (2000), Ghadge et al. (2020), Kagawa et al. (2015), Boykoff et al. (2021) and Sirilertsuwan et al. (2018)

¹³ A full table comprising all drivers and factors differentiated by Brexit, Covid-19 and Climate Change are not provided here as it was too long to report, but available upon request.

factors were not driving relocation due to Climate Change nor impacting offshoring due to Brexit or Covid-19. Access to knowledge and skills were not a driver underlying relocations due to Climate Change and managerial decisions were not a driver for offshoring due to Covid-19. The only common drivers across the board were cost, logistics, innovation and technology, government policies, consumer, risk management and operational reasons.

2. Study methodology

A sequential explanatory mixed methods research design with a quantitative survey of fashion MSMEs and a qualitative focus group with stakeholders was used.

2.1 Survey

Building on the secondary research, an online survey was designed to analyse and identify the key drivers and associated factors underlying fashion MSMEs' supply chain relocations due to Climate Change, Covid-19, and Brexit.

The sampling strategy employed was both purposive and convenience sampling and had a reach of over 1500 fashion MSMEs. The purposive sampling process targeted access via R&D partnerships, networks, think tanks, and organisations working directly with fashion MSMEs. The convenience sampling process saw the survey link being shared across social media platforms and professional networks for wider reach and inviting fashion MSMEs to respond.

The survey was divided into six sections. To proceed with the survey, respondents had to confirm that the companies they represent are fashion MSMEs headquartered in the UK and that they had the knowledge and/or insight to respond to questions about the company's planned, implemented or potential relocation strategies. Those who said no to either of the questions had to exit the survey.

Next, all respondents were asked to share their attitudes toward the impact of Climate Change on their supply chain relocation strategies. Thereafter, they responded to questions about demographics and were then forced to choose one of the two external shocks that have had the most influential impact on their planned, implemented, or potential relocation strategies – and were routed to the corresponding section based on their response. Those who selected neither of the two exited the survey at this stage.

2.2 Focus Group

Given the low response rate to the survey, the focus group needed to be sampled to represent key stakeholders capable of providing detailed insights into fashion MSMEs relocation strategies. We recruited 5 participants by following a purposive

sampling strategy to ensure insights from experienced participants representing MSME enterprises within the fashion industry (see Table A1 for participant background and experience).

The focus group was conducted on Microsoft Teams to allow multiple people to interact with one another from a distance. This allowed the researchers to capture dynamic interaction, both verbal and nonverbal. The focus group was recorded and transcribed.

3. Findings

3.1 Sample demographics

Out of a total of 98 MSMEs that entered the survey, 61 were not useable either because the company was not headquartered in the UK or the respondents did not have the knowledge to answer questions about their company's relocation strategy or they chose to exit the survey after responding to the screening questions.

Table 1 summarises some sample demographics around size, turnover, market position and period of establishment of the 37 fashion MSMEs that continued with the survey. Overall, the sample consisted of a range of new and established companies. Notably, 16 (48.5%) of the fashion MSMEs that responded were established in the period around the Brexit referendum (2016) and the onset of Covid-19 (2020) which indicates that for these businesses, these external shocks were very much likely to be business as usual.

In comparison to MSMEs within the UK, the useable responses were somewhat representative of the general trend as the latest statistics from Statista¹⁴ indicate that in 2022 approximately 95% of MSMEs were micro ($N=31$ or 83.8% in our sample), 4% were small ($N=5$ or 13.5% in our sample), and only 1% were medium ($N=1$ or 2.7% in our sample) enterprises.

In terms of annual turnover, most of the companies ($N=16$, 48.5%) indicated that their annual income was between £0-£49,000, which was in line with most respondents being micro fashion enterprises. Most of the companies responding were operating in the accessible/middle market ($N=21$, 63.6%) such as in the case of accessible luxury employing sophisticated brand extension strategies whilst the lowest representation was from the mass market ($N=3$, 9.1%). The companies were involved in varied sectors of the fashion industry with the six most popular sectors being womenswear; retail (direct to consumer – online and/or own stores);

¹⁴ <https://www.statista.com/statistics/880155/number-of-smes-in-united-kingdom-uk/>

accessories; product design and development (including sample makers/service businesses); menswear; and resale/takeback schemes.

Table 1. Sample demographics.

Criteria	N (%)
Nature of Enterprise Micro Small Medium	31 (83.8%) 5 (13.5%) 1 (2.7%)
Annual Turnover £0-£49,000 £50,000-£249,000 £250,000-£999,999 £1m - £9,999,999 £10m - £49,999,999 Prefer not to say	16 (48.5%) 9 (27.3%) 2 (6.1%) 4 (12.1%) 1 (3.0%) 1 (3.0%)
Market Position Mass market Accessible/middle market High end	3 (9.1%) 21 (63.6%) 9 (27.3%)
Period of Establishment 1990s and earlier 2000-2009 2010-2014 2015-2019 2020 and after	3 (9.1%) 9 (27.3%) 5 (15.2%) 9 (27.3%) 7 (21.2%)

Table 2 below presents a snapshot of how the companies perceived the impact of Climate Change, Brexit, and Covid-19 on their supply chain relocation strategies.

Accordingly, 7 of the fashion MSMEs responding had planned or implemented relocations due to Climate Change, 3 of the companies had planned or implemented relocations due to Brexit, and only 1 of the companies had planned relocations due to Covid-19.

Interestingly, a sizeable number of companies responding to the survey had no plan to relocate. In contrast, the focus group participants opined that Climate Change, Brexit and Covid-19 would have major implications on supply chain relocations. *“You're talking about Covid and you're talking about Climate Change and all of those are putting pressure on the bottom line. There's a cost implied to all of those either through a loss of revenue or having to change your behaviour to become more sustainable”* said Jonathan Chippindale (Founder and CEO at Holition).

From the onset, Donald Browne (Co-Founder at THE-CØDED) was of the view that *“costs are going to increase regardless because of legislation and there's no getting around that. I think legislation will change everybody's priorities as well. The problem that small businesses will have is producing in the UK and selling outside of the UK. And all the red tape that goes with that and the differences in VAT, the differences in duties.”*

Jonathan Chippindale shared similar views as he noted that *“it's all about cost and if you can find a way to save money and do the right thing, well then it's an absolute no brainer, but I think you'll find lots of organisations that I speak to are start-ups, entirely regulated by how on earth do I survive my cash flow crisis from one moment to the next?”*

Table 2. Perceived impact of climate change, Brexit and covid-19 on fashion MSMEs supply chain relocation strategies.

	N	Planned	Implemented	Not Planned	Don't Know
Climate Change	37	13.5% N=5	5.4% N=2	75.7% N=28	5.4% N=2
Brexit¹	13	15.4% N=2	7.7% N=1	61.5% N=8	15.4% N=2
Covid-19¹	6	17% N=1	N/A	83% N=5	N/A

Note: ¹At the end of the section on Climate Change, companies were routed into either Brexit or Covid-19 sections based on their choice of the most influential of these two external shocks on their relocation strategies. N refers to the total number of companies responding at a given point of the survey.

3.2 Climate change and supply chain relocations

Out of 37 fashion MSMEs only 7 had either planned, implemented or were likely to reshore due to Climate Change whilst only one of the companies responding had planned, implemented, or was likely to offshore due to Climate Change. A possible reason underlying the sampled companies' failure to indicate a significant movement in supply chain relocations due to Climate Change could be attributed to what Marianna Ferro, Digital entrepreneur at Flair Atelier noted when she said that [many] *“micro and small companies are born with sustainability in their genes. So, they have started to do the right thing with technology and so on”*.

This was further confirmed through the views shared by Prof. Sandy Black (Professor of Fashion & Textiles Design & Technology at London College of Fashion) who believes that there is a lack of recognition for all the good work that small businesses are doing in terms of their social and environmental agendas whilst creating products within the UK. Also, [many] *“small and micro businesses are set up with the ethos of sustainability built-in rather than something that they have to transition to...but obviously they've got all the survival issues that you would normally expect”*.

Table 3 presents the parts of the supply chain that responding fashion MSMEs said were at risk of being reshored or offshored due to Climate Change, Brexit and Covid-19. Within this sample, varied parts of the supply chain are at risk of being reshored due to Climate Change and Covid-19 in comparison to Brexit.

Table 3. Parts of supply chain fashion MSME's had planned, implemented or were likely to relocate due to Climate Change, Brexit and Covid-19.

	Reshore, N=7	Offshore, N=1
Climate Change	Textile producer Apparel maker Warehousing Product design and development Garment making The entire supply chain Raw material supplier Distribution Wholesaler Fibres to yarns Yarns to fibres Colouring and finishing Textile inspection and evaluation Sample development Pressing/finishing/packaging Product delivery	Entire supply chain Headquarters
	Reshore, N=4	Offshore, N=1
Brexit	The entire supply chain Raw material supplier Textile producer Apparel maker Distribution Delivery	Headquarters
Covid-19	<p style="text-align: center;">Reshore, N=3</p> Prototype preparation Distribution Warehousing Wholesaler Retailer Product design and development Sample development Garment making Product delivery	

The survey respondents also identified drivers underlying reshoring and offshoring due to Climate Change. These are presented based on popularity in Table 4. The top three drivers prompting fashion MSMEs to reshore to the UK due to Climate Change were identified as environmental and social sustainability, cost benefits, and quality aspects offered by the UK.

Interestingly, when asked to identify the most important drivers for relocation due to Climate Change, the focus group participants picked environmental and social sustainability and access to resources and markets as the top two drivers.

Even though Orzes and Sarkis (2019) noted that environmental sustainability was not at the top of the list as a reshoring motivator, we find evidence against this claim when fashion MSMEs are faced with the conundrum of Climate Change. However, Jonathan Chippindale was quick to point out that to *“make a change on the climate change issue, you must have cash and you must be a thriving business.”* Therefore, he believed that cost was a crucial driver whilst he also completely agreed on the relevance of access to markets too.

In addition, Marianna Ferro noted that it was not only cost but also risk management that was crucial in the context of supply chain relocations due to Climate Change. In contrast, Chloe Elliott (Studio Designer at Justine Tabak) pointed out the importance of government policy in incentivising sustainable decisions by cutting down the red tape for import/export and day-to-day concerns.

Table 4. Drivers underlying fashion MSMEs planned, implemented or likely relocation strategies due to Climate Change.

Reshoring: Drivers	Offshoring: Drivers
1. Environmental and social sustainability 2. Cost =2. Quality 4. Logistics =4. Access to resources or markets =4. Process improvement =4. Consumer =4. Risk management =4. Managerial decisions	Cost Environmental and social sustainability Access to resources or markets

Note: N=7 for reshoring and N=1 for offshoring. Reshoring drivers are ranked from most popular to least popular based on the number of companies selecting a driver. Offshoring drivers could not be ranked by popularity as N=1.

Next, the survey respondents rated the importance of factors underlying the above drivers for supply chain relocations (Table 5). These factors, in combination with the weighting given to the drivers via the focus group are later used to shape policy directives to curb supply chain relocations due to Climate Change.

3.3 Brexit and supply chain relocations

A total of 13 companies entered the Brexit section of the survey. Out of these, 6 companies had planned, implemented or were likely to reshore to the UK due to Brexit whilst 2 companies had planned, implemented or were likely to offshore from the UK due to Brexit. Interestingly, the parts of the supply chain that firms had planned, implemented, or were likely to reshore due to Brexit were significantly more focused than those for Climate Change (Table 3).

In Table 6 we report the drivers associated with reshoring and offshoring due to Brexit, as per the survey respondents. Here, cost and logistics were the top two drivers for both reshoring and offshoring. In Table 7, we report the factors underlying these key drivers.

In contrast, the focus group participants picked cost and access to resources/markets as the two most important drivers of relocation due to Brexit. Marianna Ferro pointed out how since Brexit, manufacturing in London is now 30% more expensive and that many members of her former seamstress and pattern-making team, mostly originally from Eastern Europe, have relocated following Brexit and the pandemic. In addition to rising inflation of materials and taxes on imports, companies also face rising labour costs now. She further pointed out that it was important to create an environment that attracts the entire fashion supply chain and to create an efficient fashion ecosystem.

Table 5. Key factors driving fashion MSMEs supply chain relocations due to Climate Change.

	Relocation Strategy		Relocation Strategy
Driver	Reshoring: Factors	Driver	Offshoring: Factors
Cost (N=4)	<ul style="list-style-type: none"> ● Transportation costs ● Production costs and prices ● Carbon credits in the UK ● Sustainability costs ● Water shortages ● Energy costs ● Carbon taxes ● Warehousing costs ● Insurance costs ● Upstream operation costs 	Cost (N=1)	<ul style="list-style-type: none"> ● Energy and maintenance costs ● Upstream operation costs ● Production costs and prices ● Carbon taxes ● Carbon credits ● Warehousing costs ● Insurance costs ● Transportation costs ● Oil prices
Environmental and Social Sustainability (N=3)	<ul style="list-style-type: none"> ● Reducing transport gas emissions ● Water pollution ● Air pollution ● Efficient carbon management in the supply chain ● Minimising total emissions ● Low carbon intensity manufacturing practices ● Food pollution ● Supplier transparency on climate change ● Energy efficiency 	Environmental and Social Sustainability (N=1)	<ul style="list-style-type: none"> ● Energy efficiency ● Supplier's willingness to disclose climate change information ● Low carbon intensity manufacturing practices ● Vulnerability of infrastructure and personnel ● Total emissions ● Efficient carbon management across the supply chain ● Air pollution ● Water pollution ● Food pollution

Note: Only the top two drivers that received at least more than 1 company rating factors under either reshoring or offshoring scenarios are reported here. Where the number of respondents selecting a particular driver is greater than 1 (i.e., N>1), factors have only been listed if their mean score when (rounded up) indicated that a factor was at least moderately important on the 7-point scale. Where N=1, only factors which were rated by the respondent as at least moderately important are reported.

“There is a need for a structural change if we want manufacturing to be in this country again. If skilled workers are moving out of the country because the cost of living is too high, most likely, offering a tax break to fashion companies won't be enough to maintain a healthy industry in this country.” (Marianna Ferro)

Table 6. Drivers underlying fashion MSMEs planned, implemented or likely relocation strategies due to Brexit.

Reshoring: Drivers	Offshoring: Drivers
1. Cost 2. Logistics =2. Government policies =2. Consumer =2. Risk management =2. Operational reasons	Cost Logistics Time and flexibility Managerial decisions Operational reasons

Note: N=4 for reshoring and N=2 for offshoring. Reshoring drivers are ranked from most popular to least popular. Offshoring drivers could not be ranked by popularity as each chosen driver was selected once.

Donald Browne presented a different view. He asserted that *“the issue is not necessarily with the UK. The issue is with other manufacturing locations.”* According to Donald, the UK government should be influencing foreign countries (and themselves) to pay *“not just a living wage, but a fair wage”* for those employed in fashion manufacturing. This comment relates somewhat to the debates around a universal basic income and its merits which are discussed in Hobson and Kulakiewicz (2022)¹⁵.

“We will never be competitive until the rest of the world becomes a fair place to produce.” (Donald Browne)

Whilst agreeing with Donald, Marianna Ferro added that implementing technology along the whole supply chain is a possible solution. *“Instead of competing on lower salaries,” the UK should focus on “trying to compete by relying on superior technology to bring added value to the supply chain and use the resources more intelligently.”*

In contrast, Chloe Elliott was more focused on the quality aspect that British manufacturing is known for. She identified a need for an improved training offer by the government and more focus on reducing costs and increasing wages and showcasing the value of British manufacturing as the future generation does not appear to see working in manufacturing as an option.

¹⁵ A research briefing found at the UK Parliament's House of Commons Library

“Retail is seen as far more attractive than manufacturing and we've got to start questioning on the government level, is this what the country wants when you know, arguably the High Street is dying [and] online business is, you know, thriving?” (Chloe Elliott)

Even as a small business sourcing most of its inputs from the UK, for Chloe's company, logistics almost broke them making it the one key driver forcing them to think of sourcing fabrics from different places and opting for a warehouse abroad.

“The communication at the time was awful from [the] government. There was just a lack of clarity and arguably even today, there's still a lack of clarity.” (Chloe Elliott)

Sandy Black agreed with Chloe on the impact Brexit has had on logistics and the paperwork involved.

“I think it's very hard for people to get the information. I don't think the government has given enough thought on how this will impact disproportionately on such small businesses.” (Sandy Black)

Concerning Brexit, Holition and its operations appeared to be a timely case study to represent the possible views of medium-sized fashion enterprises in the UK.

Case Study: Holition

Jonathan Chippindale spoke of how Brexit resulted in both an emotional and rational response. His company (Holition) also thought of leaving the UK at one point mainly owing to concerns around costs associated with Brexit. These included:

Increasing recruitment costs - 75% of Holition employees have come from overseas. There were concerns that in future such people will not be allowed into the UK and that the people themselves would no longer feel welcome. Such an effect would further augment the costs of recruiting talent. Chloe Elliott backed up this argument by noting that *“a lot of international people did not feel welcome to come now. There’s so much more red tape for them to get through.”*

Additional bureaucracy - which would create more friction and add to the costs.

Loss of attractiveness – given the variety of choice out there whether people would want to continue using UK companies.

Other concerns for Jonathan influencing his offshoring mindset included, being near the core markets (e.g., Europe), markets that were offering technology skills and creative skills, markets that offered interesting and nice places to live and work and governments that had sympathetic policies towards MSMEs that were struggling to remain a going concern.

“We probably could have sucked up the emotional side, but in the end, it was cost.” (Jonathan Chippindale)

However, over time, they realised *“there's more of a swell than turbulence and we've managed to sort of live with it and we recognize that we can get people over here [in the UK]. But there are still significant cost increases and that has put pressure on our business, and it is something that we talk about from time to time.”* It is not possible to rule out that Holition would consider offshoring in future unless there are significant

Table 7. Factors driving fashion MSMEs supply chain relocations due to Brexit.

	Relocation Strategy		Relocation Strategy
Driver	Reshoring: Factors	Driver	Offshoring: Factors
Cost (N=4)	<ul style="list-style-type: none"> • Trade costs for market access • Delivery costs (including freight costs) • Overheads • Taxation • Tariffs and quotas • Non-tariff costs (e.g., border delays and inventor levels) • Manufacturing costs • Eroding cost advantage post Brexit • Transaction costs • Hidden costs 	Cost (N=1)	<ul style="list-style-type: none"> • Labour costs • Prices of products • Cost of imported raw materials • Overheads • Manufacturing costs • Delivery costs • Taxation • Tariffs • Quotas • Trade costs for market access • Anti-dumping duties • Non-tariff costs • Customs fees and duties • Subsidies • High fixed costs • Strict labour regulations • Favourable tariff costs for exporting to rest of the world • Higher than expected transaction costs • Energy costs • Rental prices • Working capital/pipeline costs • Total cost of ownership
Logistics (N=2)	<ul style="list-style-type: none"> • Longer delivery times 	Logistics (N=1)	<ul style="list-style-type: none"> • Delays in product delivery due to new border controls

Note: Only the top two drivers that received at least more than 1 company rating factors under either reshoring or offshoring scenarios are reported here. Where the number of respondents selecting a particular driver is greater than 1 (i.e., N>1), factors have only been listed if their mean score when (rounded up) indicated that a factor was at least moderately important on the 7-point scale. Where N=1, only factors which were rated by the respondent as at least moderately important are reported.

3.4 Covid-19 and supply chain relocations

A total of 6 companies entered the Covid-19 section of the survey. Out of these, 3 companies had planned, implemented or were likely to reshore to the UK due to Covid-19 whilst no companies indicated they had planned, implemented, or were likely to offshore from the UK due to Covid-19. Table 3 above summarises the supply chain parts that fashion MSMEs had planned, implemented, or were likely to relocate due to Covid-19.

The survey respondents chose five drivers as those underlying relocation strategies due to Covid-19 (Table 8). The associated factors are identified in Table 9. In contrast, the focus group participants picked cost, logistics, risk management, government policies and consumers as the key drivers. Even though the survey identified cost as the most important driver there was consensus that in the context of Covid-19, risk management should be the key driver.

Donald Browne opined that *“cost became a side issue during Covid because everybody understood, you must survive rather than make a profit.”*

Initially, it appeared as if Donald was giving more prominence to logistics which he said was *“an absolute nightmare, particularly anyone producing in China where the factories were closed, deliveries were held up, containers were stuck so logistics was a massive problem by thus forcing people to produce nearer to home. So regardless of where we decide to relocate businesses or even our manufacturing, we're still reliant on imports. And that becomes a big problem.”*

Sandy Black had some thought-provoking insights as she said that the micro businesses she has been working with managed to be 'surprisingly' resilient. She further went on to state that their size allows them to be agile but that they also have some family-related support systems in place.

“So maybe [they] don't have an overt risk management strategy, but the nature of their operations has meant that some of them have been able to pivot much more quickly.”

Table 8. Drivers underlying fashion MSMEs planned, implemented or likely relocation strategies due to Covid-19.

Reshoring: Drivers
Cost Logistics Government policies Risk management Time and flexibility

Note: N=3 for reshoring. Drivers are not ranked as each driver was selected only once.

Chloe Elliott also agreed that risk management should be at the top in terms of drivers of reshoring as a result of Covid-19 and she added that it links with logistics, operational reasons, and access to resources and markets. She further highlighted the prominence given by consumers to the 'Made-in UK' brand with the onset of Covid-19. Thus, fashion MSMEs manufacturing in the UK experienced a "huge boom" in consumer demand. *"So, I think I've noticed a lot of small businesses popping up since [Covid-19] and a lot of people moving their manufacturing to the UK as opposed to relocating out."* None of the companies that responded to the Covid-19 section of the survey had indicated any intentions of offshoring.

The change in consumer behaviour is positive for fashion MSMEs as *"in terms of consumer mindset, I do think people have, you know, much more awareness now of where things are made, and shopping local is so important to people."* For Chloe, government policies aimed at supporting smaller local businesses and local manufacturing growth would be key for increasing reshoring. But she was quick to add that it is useful to monitor the situation to determine whether this is a one-off Covid-19 effect or a long-term trend.

Donald Browne agreed with Chloe's views as he said *"this is an opportunity for the government to back Made in UK fashion. They've never done it before. As I said at the beginning, I had factories in the UK in London. For 16 years I ran those factories. The competition. The unfair competition that we suffered. Because the government didn't back our industry. It was ridiculous and that was the failing of UK manufacturing back in the 70s and 80s. They didn't support us, didn't subsidise us, didn't help and we lost our manufacturing. Now they've got an opportunity to really help. The people and resources are here to manufacture. I do think there are plenty of people willing to help if the government supports the industry. So, I think the message from us is - It's alive and kicking, but it needs support."*

Sandy Black said micro and small businesses have for a long time been “*victims of an unfair and unlevel playing field*” not only in terms of competition but also incentives.

Table 9. Factors driving fashion MSMEs supply chain relocations due to Covid-19.

Relocation Strategy			
Driver	Reshoring: Factors	Driver	
Cost (N=1)	<ul style="list-style-type: none"> ● Lack of containers for shipping ● Trade costs ● Logistics and freight costs ● Raw material costs ● Transaction costs ● Eroding cost advantage ● Labour costs ● Tariffs ● Country factor costs 	Logistics (N=1)	<ul style="list-style-type: none"> ● Delays in shipments of inputs ● Cancellation of orders ● The collapse of transportation services
Government Policies (N=1)	<ul style="list-style-type: none"> ● Policy interventions ● Tax benefits ● Reducing dependence on imports of basic raw materials ● Government support for manufacturing ● Tax reductions and exemptions ● Less bureaucracy ● Development of production infrastructure (e.g., industrial areas, scientific parks) ● Increased trade barriers ● Increased non-tariff barriers ● Research and development taxation regulations ● Weakening of foreign institutions and agreements ● UK developing supplier's capabilities ● Supportive innovation policy (e.g., collaboration with universities and support services for innovation technology) ● Rise of protectionism in the UK ● Excessive paperwork abroad ● Minimum wages ● Forming clusters with different types of suppliers and service providers related to the clothing industry ● Support for business collaboration ● Laws relating to country-of-origin identification in advertising 	Risk Management (N=1)	<ul style="list-style-type: none"> ● Reduce exposure (e.g., have a back-up production) ● Supply chain interruption risk ● Reducing dependency on few highly concentrated suppliers ● Intellectual property (better protection) ● Willingness of suppliers to disclose sensitive information about their risk exposure ● Exchange rate risk ● Risk of losing know-how ● Risk of customer perception of brand value ● Non-compliance risks ● Unpredictable global economic conditions ● Weak patent enforcement abroad ● Risk of public relations disasters ● Higher control and visibility of supply chain ● Political risk ● Social risk

Time and
Flexibility (*N=1*)

- Improve speed to market
- Source more products locally
- Greater flexibility to respond to demand changes
- Need for shorter lead times
- Just-in-time business model

Note: Factors have only been listed if their mean score (rounded up) was at or above 5 (i.e., moderately important).

Overall, across all three external shocks, cost was seen as a key driver influencing fashion MSME's supply chain relocations, not only by the survey respondents but also by the focus group participants. This finding was in line with previous studies that identified cost to be a key driver underlying relocation (Gereffi and Memedovic, 2003; Pal et al., 2018). A closer look at the factors underlying attitudes towards cost showed that several factors were related to government intervention.

This message came across within the focus group as well as participants felt that government intervention across these three areas would be necessary with Jonathan Chippindale pointing out that regardless of whether you are a small organisation or a large organisation, being a viable business requires cashflow and keeping costs to a minimum and that the reality is that businesses are always looking for government intervention in any of these areas.

4. Conclusions

This research makes a significant contribution to knowledge around supply chain relocation by developing a comprehensive list of drivers and factors that could potentially influence fashion MSMEs supply chain relocations due to Climate Change, Brexit and Covid-19. In conclusion, our findings revealed that MSMEs operate with social and environmental agendas at heart.

In terms of supply chain relocations due to Climate Change, Brexit and Covid-19 the survey findings revealed cost and logistics to be common drivers across all three external shocks. However, the low response rate to the survey meant that it was more prudent to interpret these findings along with the very rich information flowing via the focus group. This provided valuable nuances over what would have been otherwise a rather static picture. Accordingly, by drawing on the evidence from both quantitative and qualitative data, we have identified the following four areas as focal points for policy intervention. These are namely:

1. Costs
2. Environmental and Social Sustainability
3. Logistics
4. Risk Management

Concerning costs, fashion MSMEs would welcome any policy initiatives seeking to mitigate the eroding cost advantage of doing business in the UK. Addressing cost-related concerns is of vital importance for the government to ensure MSMEs are not forced to relocate to benefit from cost advantages abroad. Should such relocations occur, then the UK economy would suffer in the long run in terms of

the negative social and economic implications on local communities and government revenue. Policy interventions could be targeted at reducing trade costs for market access, production costs, inflation, taxation, tariffs and quotas, non-tariff costs (e.g., border delays and inventory levels), manufacturing costs, transaction costs, and energy costs. Examples of what policy mechanisms might look like include the Energy Bill Relief Scheme¹⁶ launched by the UK government in September 2022 which will help MSMEs cushion the impact of rising energy bills on their bottom lines. Secondly, the government could consider opting for more MSME-friendly fiscal policies that help reduce the burden of taxation on operations. Given the ongoing global economic downturn, it is imperative that the government directly or indirectly (as in the case of fiscal exemption) subsidises MSMEs in the short run to ensure their going concern, supporting them to maximise their productivity and contribution to the economy, which in turn will allow the government to reap long term economic and social benefits. Thirdly, efforts should be taken to cut down on the red tape causing border delays¹⁷ and this requires government intervention both internally and externally with the EU to boost border operations' agility. Finally, inflationary pressures are impacting production, manufacturing and transaction costs. Whilst managing inflation is a continuous struggle between interest rates and unemployment, the UK Government could consider easing import restrictions (including quotas and tariffs) to allow MSMEs to source cheaper raw materials to remain competitive in the local and global markets. Finally, the provision of dedicated training programmes for upskilling MSMEs cost management capabilities would be useful. Cost management is an important capability that is crucial to develop the strategic priorities of MSMEs to ultimately boost their domestic and global competitiveness. As such, this capability needs to be adequately nurtured through the provision of dedicated training.

Concerning environmental and social sustainability, again many policy initiatives could be implemented to reward those MSMEs that are implementing sound sustainable practices. For example, the UK Government could consider identifying core areas of concern out of transport gas emissions, water/air pollution, efficient carbon management, energy efficiency, supply chain transparency, and worker and infrastructure conditions (which our research uncovered as important to fashion MSMEs) and bring laws that make it mandatory to report on these aspects with the prospect of being rewarded financially for meeting targets. Such moves would require a broader consensus of the fashion industry to ensure MSMEs do not see it as regulation alone but in line with the sustainability agenda of the industry at large. This could aid with the

¹⁶ <https://www.gov.uk/guidance/energy-bill-relief-scheme-help-for-businesses-and-other-non-domestic-customers>

¹⁷ <https://committees.parliament.uk/committee/127/public-accounts-committee/news/160856/clear-increase-in-costs-paperwork-and-border-delays-for-uk-business-since-brexit-not-helped-by-repeated-delays-to-new-import-regime/>

growing concern around the need to enhance the social and environmental performance of SMEs¹⁸, seen as key actors in efforts to achieve national sustainability goals¹⁹. However, certain barriers impede the integration of sustainable development in SMEs including limited awareness of the impacts and benefits associated with sustainability, a lack of time and resources, and a lack of skills and expertise. Literature shows that stakeholders play five different and complementary collaborative roles in supporting sustainability practices within SMEs, namely that of a trainer, analyst, coordinator, specialist, and financial provider (Journeault et al., 2021). These five roles can be performed by a wide range of local stakeholders and can contribute to overcoming different barriers to the integration of sustainability practices within SMEs. One key way for governments to improve the sustainability performance of MSMEs may be to facilitate and shape the development of stakeholder networks capable of performing these five critical roles as part of efforts to promote sustainability adoption within firms. In addition, fashion MSMEs would welcome government initiatives to support the curbing of air and water pollution, and promote low-carbon intensity manufacturing practices and energy efficiency.

In terms of policy interventions around logistics, fashion MSMEs would benefit from government interventions that can help speed up delivery times by enhancing the productivity of border control and ensuring the continued smooth functioning of transportation services, and where possible, investing in new transportation links across the country.

As for risk management, policy initiatives could entail twofold initiatives aiming at directly reducing the business risk associated with the entrepreneurial activity, and indirectly at the provision of dedicated programmes for ultimately improving fashion MSMEs' risk management capabilities. Public policy should support the widespread adoption of basic risk management tools along with their key features. For instance, many qualitative risk analysis tools exist, and some of them possess explicit quantitative analysis capabilities. The use of appropriate software tools may enhance operations and reduce costs, especially when the user is an MSME (see, Brooke 2023)²⁰. Some specific areas of intervention could be around strengthening intellectual property regulations, ensuring exchange rate stability, strong patent enforcement, and maintaining political and social stability in the UK.

The fashion industry too has a significant role to play to complement the efforts made by the UK government to address relocation concerns. First, the industry should take responsibility for educating and hence empowering the fashion

¹⁸ <https://www.oecd.org/environment/outreach/Binder%20English.pdf>

¹⁹ <https://oecd-development-matters.org/2019/04/23/smes-and-sdgs-challenges-and-opportunities/>

²⁰ An article published by sage.com

consumer to further value those ethical aspects that are traditionally associated with “local consumption”. With the emergence of the circular economy, consumers seem more in search of meaning and transparency from fashion brands. More and more sectorial organisations and companies in the industry are speaking out and raising awareness of more ethical fashion and consumption. For instance, following the collapse of the garment factories at Rana Plaza in 2013, the Fashion Revolution movement has significantly attempted to raise public awareness by making citizens question the manufacturing of the clothes they wear. Where are they made, under what conditions, and with what material? The clothing industry involves complex supply chains that are of increasing interest to consumers. As a result of the Covid-19 pandemic, emerging consumer trends have been exacerbated, and local consumption is one of these key fashion-conscious consumption trends. Consumers are moving more towards locally designed and/or manufactured products. However, this shift should be further nurtured by the industry via further engaging and educating consumers to ultimately support local businesses. Second, from a cost perspective, the industry should focus on coming together to educate fashion MSMEs and empower them with opportunities to benefit from and see value in investing in cost-cutting technologies aimed at curbing manufacturing, warehousing, upstream operations and transportation costs. There is also scope to engage with the banking industry to tailor finance packages for fashion MSMEs that would ensure more friendly lending terms and conditions and healthy repayment terms for investments in technology. Third, from an environmental and social sustainability perspective, it is pivotal that the industry takes a tougher stance on the expectation of transparency and traceability of the output so that manufacturers and suppliers alike are forced to rely on ethical and sustainable sourcing and production processes in the future which would complement the proposed government initiatives. Such moves would help curb reputational risks.

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Appendix

Table A1. Summary of focus group participants background and experience.

Participants	Background	Experience
Chloe Elliott	Studio Designer at Justine Tabak	Experienced designer, with a premium British womenswear SME brand manufacturing exclusively within the UK. Experience in previous roles working directly with garment manufacturers in Asia and Europe to design and develop clothing, including living and working in India for a luxury designer brand. A creative collaborator and entrepreneurial team manager, driving change through innovative and sustainable business practices. Extensive experience working with a variety of UK-based SMEs within the fashion industry, deep and considered knowledge of practical concerns for domestic and global strategy.
Donald Browne	Co-Founder at THE-CØDED, Formerly Production Director and the Senior Director at Ted Baker	A wealth of experience in global manufacturing - supplier relationships, quality and technical, CSR - ethics, sustainability and circularity, global brand protection - design rights, trademarks and IP, global shipping and logistics, apprenticeship schemes, community projects and charitable projects.
Marianna Ferro	Digital entrepreneur at Flair Atelier and The Materialist, strategy consultant	Experience in the design and implementation of innovative business models, combining a strong financial background with a deep knowledge of sustainability practices and impact investment. She assists management teams in the fashion industry to adapt to economic and consumer shifts, introducing digital tools and strategies across the value chain to future-proof their business models and achieve financial and environmental sustainability. A mentor, lecturer and public speaker, she collaborated with some of the most talented people in start-ups, companies and government organisations, while working across Europe, China, and South America.

Sandy Black	Professor of Fashion & Textiles Design & Technology at London College of Fashion, and formerly Designer and Director of Sandy Black Knitwear label.	Professor of Fashion & Textiles Design & Technology at London College of Fashion, Centre for Sustainable Fashion. Sandy has extensive experience in both the fashion industry and academia. She sold inventive fashion knitwear to prestigious stores internationally and developed the successful Sandy Black Original Knits yarns and pattern kits. Sandy researches and publishes widely on fashion, textiles and knitwear design and their intersection with technology and sustainability, with a current focus on micro and small businesses.
Jonathan Chippindale	Founder, CEO, Board Chair at Holition, Mentor, and Innovation Advisor. Chair of the London Fashion Fund, which is a London mayor-supported organization helping to support start-ups in the London area with a strong emphasis on sustainability.	Digital entrepreneur, with a creative technology start-up turned SME, and wide experience in mentoring and advising business and academic institutions around the world. International Marketing Director with over twenty-five years of experience in luxury goods, with an emphasis on digital, and a proven track record of creating value and driving sales using insights, creativity, innovation, collaboration and cultural sensitivity. Strong knowledge of consumer markets from the United States, across Europe, the Middle East and Asia-Pacific, and has lived and worked overseas.