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Is Sustainability in Fashion?

Industry leaders share
their views

Written by

**The
Economist**

INTELLIGENCE
UNIT

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Executive Summary

Arguably the fashion and textile industry is not sustainable in its current form. It makes a significant contribution to the global economy, but it uses a disproportionately large amount of natural resources; its waste products pollute rivers and oceans; and when garments and footwear reach the end of their lives, most are burned or placed in landfill. While some multinational brands have benefited from the wave of globalisation—increasing revenues and profits by outsourcing the growth of raw materials and basic production tasks—this practice also has its risks. Firms with long and distant supply chains have traded the traceability of their inputs for lower overheads, and weaker labour laws in many production destinations have left workers and employees with fewer protections.

What can be done to address these myriad and seemingly insurmountable challenges? What will drive the industry to change, how will this change manifest and at what cost? Many players within the industry recognise the scale of the problem and have already made substantial commitments to reduce their environmental impact. However, as the world struggles to cope with the effects of the global coronavirus pandemic, it remains unclear how this cataclysmic event will impact brands' capacity and willingness to implement their sustainability agendas.

This report explores these questions, drawing on the expert insights and observations of key decision-makers at leading brands about the sustainability challenges the industry faces today, and about how to change the industry for the better in the future.



Key findings:

- **Although many forces are driving progress towards sustainability, brands play a critical role.** No firm has a perfect track record, but the majority of executives we surveyed identified sustainability as a key strategic priority for their organisation and are taking action to improve their organisation's sustainability practices. Despite their fast-fashion histories, larger firms such as H&M and adidas have invested heavily in sustainability practices across their supply chains, driving up standards in the entire industry. Newer and smaller firms such as Reformation have gone further, placing sustainability at the core of their business models.
- **The next generation of consumers is another key driver of the sustainability agenda.** 51% of our respondents believe that consumers are driving the increased focus on sustainability issues in the fashion and textile industry. Our interviewees go further, viewing each successive generation as more willing than its predecessors to demand sustainable goods.
- **Brands understand that data can help them to measure progress towards sustainability targets, but most do not collect a wide variety of data. Many brands are also calling for more standardised data collection techniques.** The lack of standardised data means that many brands do not have a clear picture of their sustainability performance in different areas (e.g. the amount of water and energy used to produce their raw materials) or how it compares with others in the industry.
- **Standards, systems and certifications are helping brands to demonstrate their commitment to sustainability.** Although a single set of industry standards is unlikely, better alignment of current standards and certifications across the industry would help consumers to understand the environmental impact of their clothing purchases.
- **There is universal recognition that technology and innovation will transform the industry.** Many brands are exploring how technology can drive change throughout the supply chain, from initiatives designed to improve the sourcing of raw materials, to efforts to redesign the retail experience to reduce inventory waste, to the development of pioneering techniques to enable the reuse of blended and dyed fabrics.
- **Everything comes at a cost.** Many executives continue to express concern about the cost of sustainable practices, especially given the unreliability of consumer demand. However, brands insist that their sustainability plans and targets are pandemic-proof, and that they will continue to advance their sustainability agendas despite the difficult operating environment. Most recognise that more investment is needed to bring sustainable solutions to scale, making sustainability more affordable for producers and consumers alike.



A Global Problem



The fashion and textile industry is not sustainable in its current form. While it makes a significant contribution to the global economy (generating 1-1.5% of global GDP), it also produces around 8% of global greenhouse gas emissions^{1,2}. Were the industry to continue on this path, by 2050 it would absorb more than one-quarter of the total carbon budget associated with limiting climate change to 2°C³. The benefits of the “fast-fashion” model—which sacrificed environmental and labour standards in favour of building profits—have also run their course. According to McKinsey & Company, the industry’s economic profit halved between 2010 and 2016⁴, undermining the case for non-sustainable production.

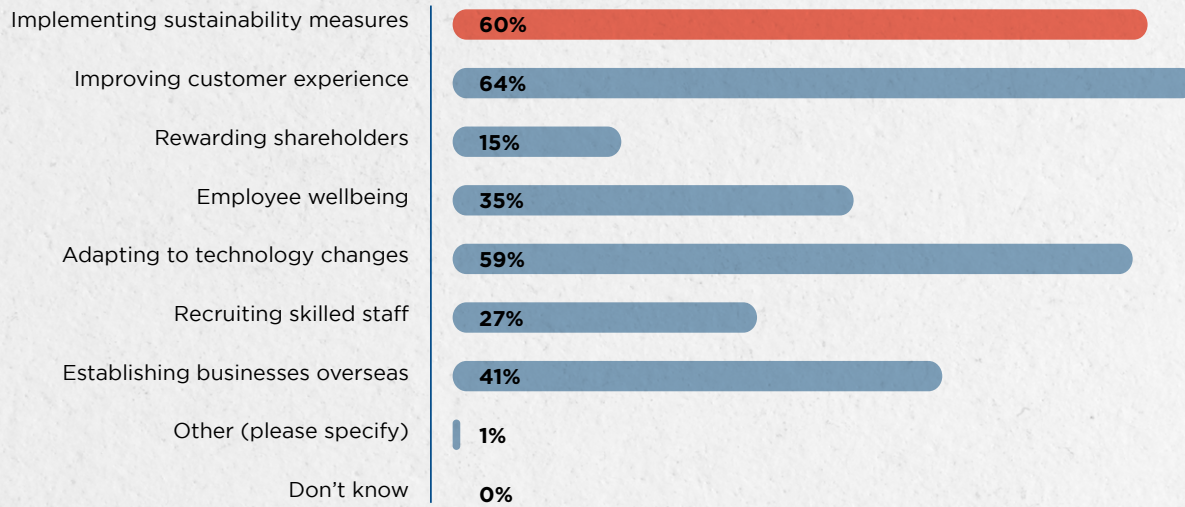
Defining sustainability

For the purposes of this report, we define the fashion industry as the sum of all firms engaged in the production, manufacture, distribution, sales and disposal of clothing and footwear. We have adopted the United Nations’ definition of sustainability, which describes it as “the manufacturing, marketing and use of garment, footwear and accessories, and its parts and components, taking into account the environmental, health, human rights and socio-economic impacts, and their continuous improvement through all stages of the product’s life cycle”⁵. Recognising the importance of all these factors, the primary focus of this study is environmental sustainability.

The industry is responding to this sustainability challenge. Brands have already formed alliances—such as the Sustainable Apparel Coalition (SAC) and the Fashion Pact—to help share knowledge about the scale of the problem, as well as strategies to overcome it^{6,7}. In addition, as many as 60% of the executives we surveyed identified sustainability as one of their organisation’s top strategic priorities. Among our interviewees, each of the main industry players had detailed sustainability plans in place (complete with binding targets) to minimise their environmental impact in the coming years. Kimberly Smith, chief supply chain officer at Everlane, a US clothing brand, described sustainability as “incredibly important and critical for our success. We recognise that for the industry as a whole this is a long journey and change will not happen overnight.” Many of our interviewees expressed similar sentiments. Governments have become more involved, too: France has passed legislation that will ban clothing brands from destroying unsold goods (due to come into force in 2023), and Germany has launched a green-button scheme that guarantees social and environmental benchmarks^{8,9}.

Part of the strategy

Which of the following are the main strategic objectives for your organisation?



Source: EIU Survey

However, maintaining this commitment in the midst of a global recession will be challenging. The coronavirus pandemic has already changed consumer behaviour, and it is unclear how quickly consumer demand will return¹⁰. In the United States, for example, sales at clothing stores fell by around one-third in the first seven months of 2020, compared with a year earlier¹¹. In response, firms are concentrating on minimising losses, rather than making new investments. Inditex—which owns the Zara, Pull & Bear and Massimo Dutti brands—announced in June that it would close up to 1,200 stores, and several other famous names have declared bankruptcy^{12,13}. Supply chains have also been disrupted by a lack of labour in producer countries, slowing the launch of new collections¹⁴. Together, these developments prompted some downbeat assessments regarding progress towards sustainability among our survey respondents, with around two-thirds reporting that consumers will be less interested in buying sustainable goods during the recession.

Despite this, there is cause for hope. Kimberly Smith, chief supply chain officer from Everlane, described the pandemic as “a wake-up call for a lot of people. The whole industry has been hit really hard. But it is also an opportunity to renegotiate contracts and reprioritise spending.” None of the major brands we interviewed are planning to suspend or water down their sustainability targets. Firms such as H&M and adidas¹⁶ have been pursuing their sustainability agendas for more than a decade and are inclined to see the recession as a bump in the road, rather than an insurmountable obstacle. Other players in the industry, such as digital second-hand marketplaces like Vestiaire Collective and Depop, report that lockdown conditions and consumer wariness about shopping in bricks-and-mortar stores offer unexpected chances to connect with new customers¹⁷. The executives we interviewed across the industry appear able to separate the short-term challenge of riding out the coronavirus recession from the long-term imperative of making fashion workable in the decades to come.



About This Report

In this report, we highlight what key decision-makers believe will make the fashion and textile industry more sustainable, as well as the work that still needs to be done. We investigate who is pushing for greater sustainability in the industry, how progress can be measured in a meaningful

way, how the economic effects of the pandemic will affect company strategies and how innovation could help deliver major change. Our findings illustrate the ambitions, frustrations, confidence and anxieties of the industry's leading executives at a time of extreme disruption.



Ever Onwards? _____

Can the fashion and textiles industry become more sustainable? What the leaders say

Decision-makers at leading brands recognise the importance of sustainability. Many have already taken significant steps to change their respective organisations for the better, but more work is needed to enable radical transformation across the industry. Brands need engaged consumers to purchase sustainable goods, as well as support and guidance from policymakers on how best to produce, distribute and recycle these goods. They need better tools and methodologies for collecting sustainability data, and they need

comprehensive standards and certifications to provide evidence of their sustainability commitments to consumers. Finally, brands and retailers of all sizes require capital to cut costs, invest in new technologies and scale up sustainable solutions. In this section, we examine each of these issues in detail, sharing insights from over 150 senior executives around the world on the challenges and opportunities faced by the fashion and textile industry.

Change in Three Parts? _____

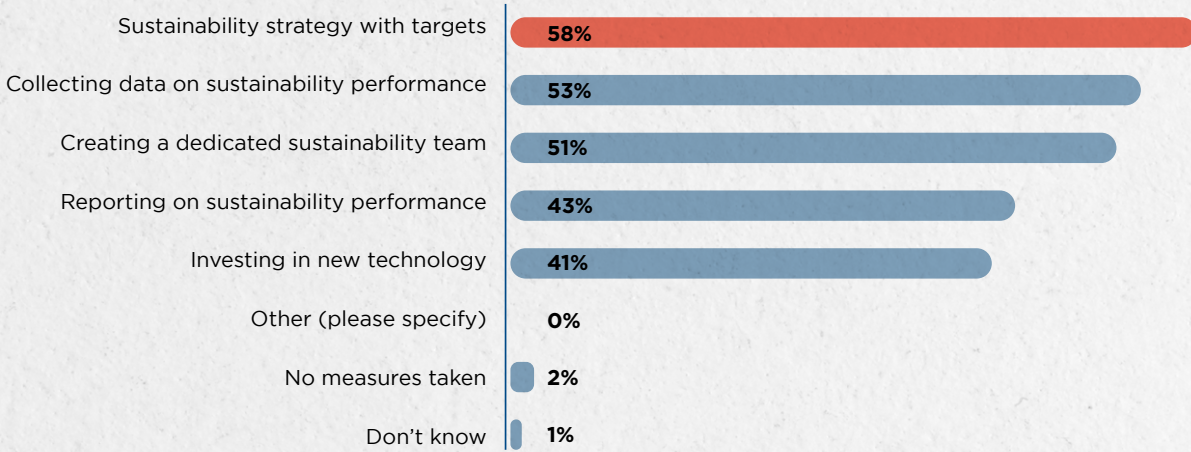
The role of consumers, brands and policymakers

Business as usual in the fashion and textile industry is not sustainable. An overwhelming majority of our survey respondents agree, with most reporting that their organisations are already taking action to become more sustainable. The most common measures that have been adopted to date include developing a sustainability strategy with measurable targets (reported by 58% of

respondents), collecting data from across the supply chain to track sustainability performance (reported by 53% of respondents) and establishing a dedicated sustainability team with its own budget (reported by 51% of respondents). However, the extent and quality of these measures vary widely across organisations.

Made to measure

What is your organisation doing to become more sustainable?



Source: EIU Survey

Embedding expensive sustainable practices in cost-sensitive organisations is hard. For all the publicity and activism around sustainability in recent years, no single driver will push the industry as a whole to change. For all brands, but particularly small or medium-sized enterprises, the cost of embedding sustainability practices will need to be recouped through greater sales. Larger

brands with the capacity to invest in sustainable initiatives need guidance and support from each other, as well as policymakers, to develop and implement sustainability targets successfully. Leading brands tell us that it is a combination of these factors—consumer demand, brand leadership and support from policymakers—that will drive industry-wide transformation.



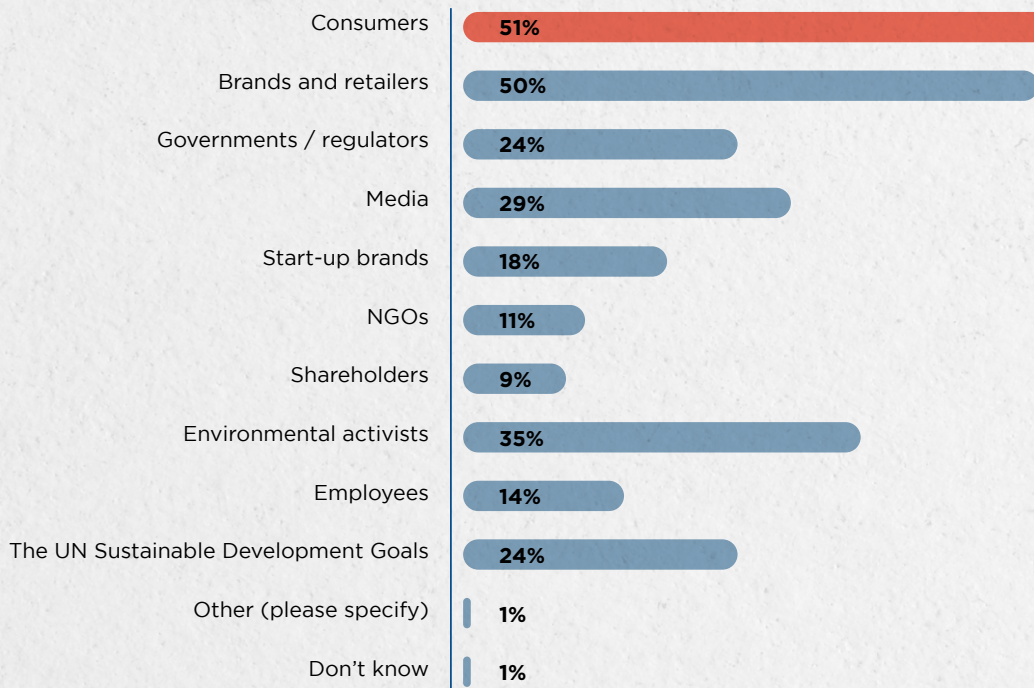
Consumers care, but will they buy?

Over half of our respondents (51%) reported that their consumers are driving the focus on sustainability issues in the fashion and textile

industry. The fashion search engine, Lyst, has noted a 66% increase in searches for sustainable fashion and associated keywords since 2018¹⁸.

In the driver's seat: Consumers

What drives the focus on sustainability issues in the fashion and textile industry?



Source: EIU Survey

However, other data does not necessarily bear this out. McKinsey & Company's report on *The State of Fashion 2020* found that a majority of respondents considered sustainability when making a luxury purchase, but only small numbers were willing to pay more for sustainable products (from around 30% of Generation Z to just 12% of baby boomers¹⁹). Frank Henke, senior vice president of sustainability at adidas, explained that "consumers are catching up with the idea [of sustainability] but this does not automatically lead to a change in their final buying decisions at the point of sale. Products also have to have the right functionality, price and quality. They want the full package."

Nonetheless, Henke is optimistic that sustainability will become more important in consumer

decision-making, noting that "younger consumers are much more aware of the challenges of growth, the state of the planet, the fragility of our ecosystems. They are more conscious and they are asking more questions." This is consistent with McKinsey & Company's findings, which show a steady increase in the proportion of consumers who are willing to pay more for sustainable goods among each successive generation. Stefan Seidel, head of corporate sustainability at PUMA, agrees, highlighting that schoolchildren's Fridays for Future environmental protests have raised awareness among their own cohort and forced brands and retailers to take notice. As Henke observed, "the kids who were protesting in the street are their potential future customers."

Other executives also expressed cautious optimism. Kathleen Talbot, chief sustainability officer and vice president of operations at Reformation, a women's clothing brand that prides itself on its sustainability practices, reported that "given the urgency around the climate, the impact of Generation Z and shifting consumer behaviour as a result of the [coronavirus] pandemic, we are definitely starting to see consumers actually change their habits." Kimberly Smith of Everlane, a unisex retailer, agreed: "The younger customer is a lot more informed and is choosing brands that are pushing sustainability

and transparency." Younger consumers' interest in sustainability bodes well for brands that are looking to justify investments in this area. However, consumers can be fickle, and demand alone cannot push forward an industry-wide transformation, particularly in the face of a global recession. As Indi Davis, head of programme strategy at Zilingo, a fashion technology and e-commerce platform, explained, "there is a sentiment amongst younger consumers that they would like to buy more sustainably. But will their purses allow that? Will they be able to afford it?"

Brands as change agents

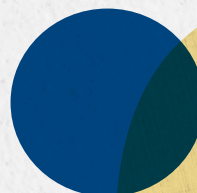
This is where brands and retailers come in. Katrin Ley, managing director of Fashion for Good, argues that while consumers have a role to play, they will not create "huge change" in the industry; this role will be filled by brands themselves. It is, after all, brands and retailers that determine the selection of goods available for purchase. Ley believes that if higher proportions of garments on the rails are sustainable, consumers will purchase these goods in greater volumes.

Many of our survey respondents agreed with this viewpoint, with 50% identifying brands and retailers as the driving force behind the sustainability agenda. There was widespread acknowledgement that a group of large brands is already leading the way—including (but not limited to) H&M, Patagonia, adidas and Nike—along with a group of smaller firms, such as Veja and Reformation, whose business models are built with sustainability at their core. It makes sense that industry giants are moving first, as they have the budgets to experiment with various ventures and initiatives. Juergen Janssen, a manager at the German Sustainable Textile Partnership, explained that "With certain approaches it is not yet clear if it really pays off. Being too early with something could cost you. But the risks associated with [sustainability] are becoming more and more manageable because the data is getting better."

Large brands are also well positioned to drive the industry forward because, in the words of

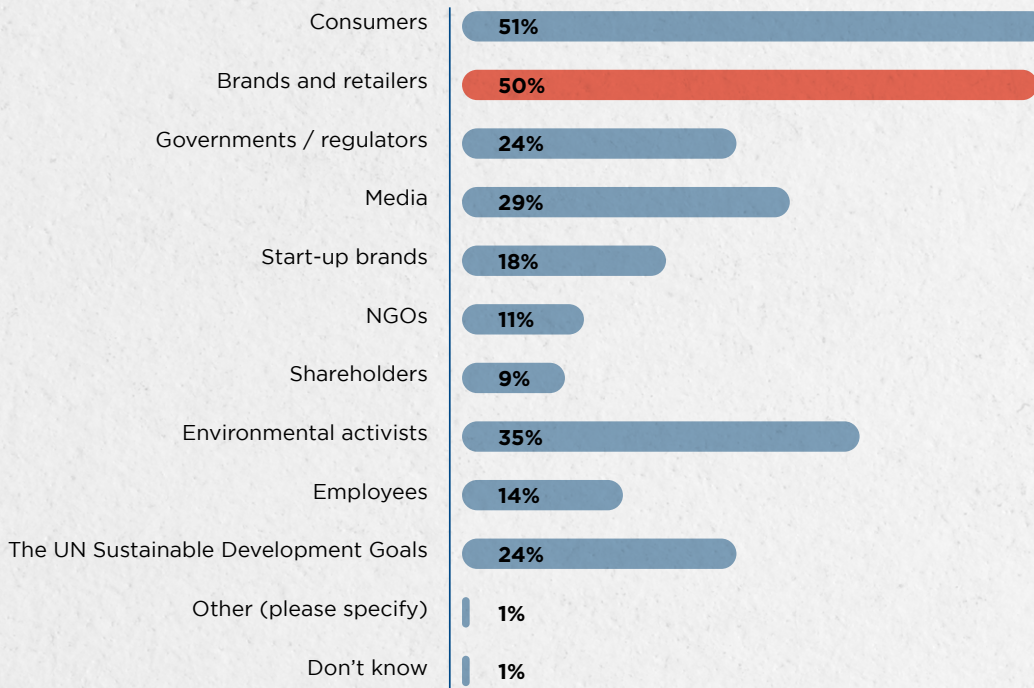
Katrin Ley, "they have the size and magnitude [to understand] what types of solutions they are looking for, be it recycling or digital traceability." However, she cautions that "few of them have the expertise to scale new solutions alone. The knowledge exists further upstream. If you think of raw material solutions, you need to bring the big chemical companies and the big cotton producers along too."

Brands also need to consider the risk of doing nothing. Several of the industry's major players were left embarrassed by the 2013 Rana Plaza disaster in Bangladesh, and during the pandemic a group of young, fast-fashion brands were caught out by investigations into poor working conditions in the British garment industry. (Some garment factories stayed open throughout the pandemic, forcing workers to come into work even when showing flu-like symptoms²⁰.) One of these retailers, Boohoo, saw its share price fall by more than one-third in the aftermath of the allegations, and it has yet to fully recover²¹. This experience should serve as a cautionary tale for other industry players. In the coming years, pressure from consumers and campaigners will make it more difficult for firms to dodge the issue of sustainability, especially if their lack of transparency can be linked to environmental degradation. The ease with which reporting and investigations can be shared on social media amplifies this risk by making it harder for brands to control unfavourable narratives.



In the driver's seat: Brands and retailers

What drives the focus on sustainability issues in the fashion and textile industry?



Source: EIU Survey

Brands that have made the most progress in implementing their sustainability agendas all report a common trait: they have devoted time and money to understanding the environmental impact of their supply chains and have gained visibility over their processes. Everlane's Kimberly Smith explained why this work is so important: "To move sustainability beyond the superficial you need to push all the way up to the mill, the dye houses, the farms. You need that visibility all the way up, and the industry has not been set up for that. For example, a lot of suppliers buy cashmere from auctions, which doesn't give you that transparency. Many factories are also unclear and you don't know who they are working with or what prices they are

paying. That part is a lot of work. You need to restructure the way you operate and build the expertise on your team and find the right people to share information."

Reformation went through this process and learned that two-thirds of its environmental impact occurs before its clothes have even been made, as a result of the growing and harvesting of raw materials. PUMA found the same thing, prompting the firm to shift to more sustainably grown and produced versions of the materials it uses most, such as cotton, polyester and leather. Adidas is in the midst of a multi-year plan to end its consumption of new polyester in favour of recycled polyester.

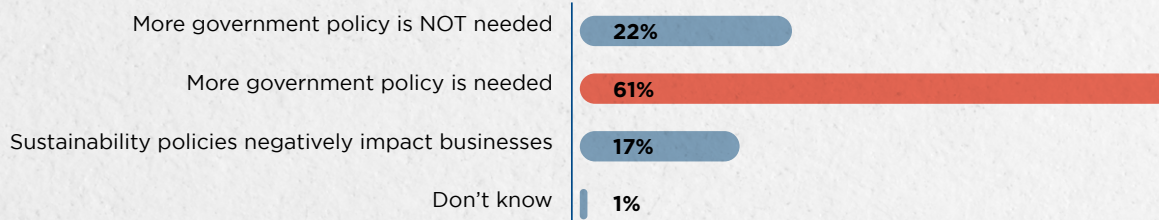
Good policy, good guidance

This is where policy comes in. Almost 60% of survey respondents, together with the majority of interviewees, reported that they wanted guidance from policymakers to support company initiatives. A former sustainability executive at H&M explained that a joint approach is critical: “Both industry and governments need to be at play. Our aim has been to lead in the industry in settling best practice, but that is not enough. These need

to be the standards for everyone; you can’t be a clean fish in a dirty pond.” Kathleen Talbot from Reformation agreed, arguing that without government support, the private sector may continue to treat sustainability as “more of a marketing focus,” rather than making deeper changes to structural elements like “planning, sourcing or costing”.

Good government

Which statement reflects the impact of policy on an organisation’s willingness to adopt sustainable practices?



Source: EIU Survey



However, governments cannot simply click their fingers and watch the industry fall into line. H&M’s representative warned that policies will need to be well designed and as universally applicable as possible. Taking Italy as an example she observed, “each [region has] their own waste system and tax structure. They can’t... ship their clothes for recycling. There is a lack of administrative structure even in a country that incentivises greener textiles and recycling.”

Industry-wide transformation will not be driven by one single factor; instead, each factor highlighted in this section will play a critical role in driving and supporting change in the industry. Experts tell us that the interplay between consumer demand, brand leadership and policymaker support will enable the industry to become more sustainable.

Raising the Standard

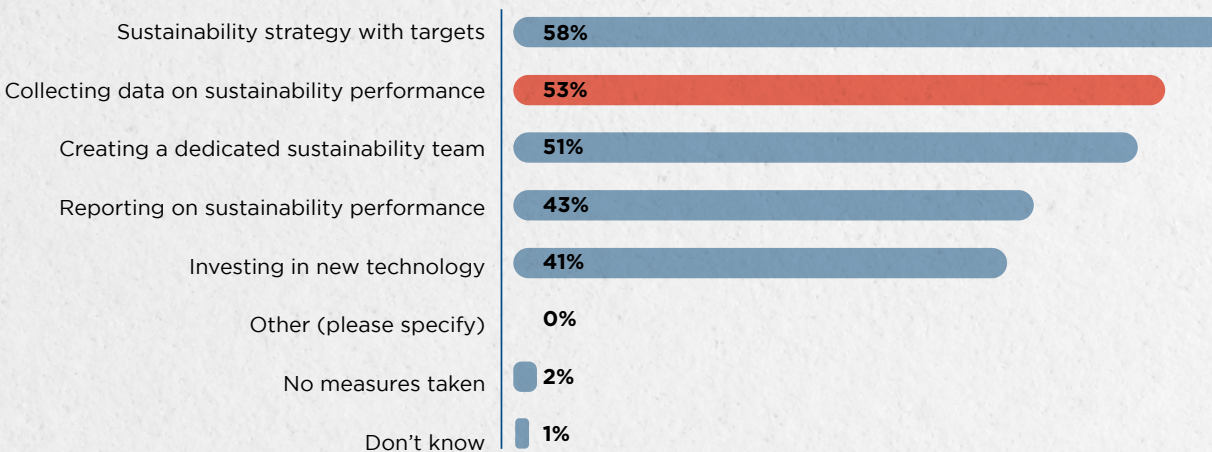
The need for better, more consistent data

The lack of access to high-quality and comparable data is a critical obstacle in the drive to become more sustainable. Without complete visibility over every stage in a supply chain—many of which cross continents, cultures and codes of ethics—it is impossible to measure the sustainability of a garment. Many of the firms that made the earliest commitments to sustainability, such as H&M and Nike, were forced to collect their own data, as no

third-party support existed. More and more companies have since followed suit. However, if each firm continues to adopt its own approach, the resulting data will not be comparable and it will be difficult to assess industry progress as a whole. Consumers will also be unable to compare the environmental impact of two similar garments when making purchasing decisions.

Made to measure

Which measures is your organisation implementing to be more environmentally sustainable?



Source: EIU Survey

Quality and quantity

Interviewees reported that in addition to ramping up data collection efforts, brands need a set of standard methodologies for collecting sustainability data. An executive at the VF Corporation explained, “We need standard metrics across the industry because right now there are various approaches and methodologies. We all want to reduce climate impact, we all want to use water more efficiently. No-one is going to argue about that. But when it comes down to

implementing and measuring these things, there are 500 ways to do each of them. We should agree on one or a handful at most.” Fashion for Good’s Katrin Ley also made the case for greater comparability: “We need more data, but, more importantly, we need aligned methodologies.”

In this area, the industry is already moving in the right direction. Many of our interviewees represent companies that have signed up to the

Sustainable Apparel Coalition, a decade-old organisation formed by Walmart and Patagonia employees to measure the industry’s environmental impact. The SAC ultimately developed the Higg index—a set of tools that helps to measure and score a product’s or company’s sustainability performance. This index may represent the industry’s best hope of achieving something close to data standardisation.

However, the index is reliant on users’ own reported inputs, which can cause problems, as three interviewees explained. Stefan Seidel, from PUMA, told us how his firm collects data on finished products and their component fabrics. PUMA is a SAC member and uses the Higg index: “That in theory should provide an aligned industry approach for collecting data in the supply chain. However, there are different methodologies, different tools and that makes it hard to compare and limits what we can achieve.” Everlane’s Kimberly Smith discussed what greater engagement with sustainability and the associated data collection can mean in practical terms: “You need to work with your suppliers. Not on the basis of a pass or a fail if they don’t implement a particular measure. If you put too much pressure on [suppliers] it becomes easy for them to start lying and falsifying records. You need to tell them that you are on a journey together; that you

are there to support them if they have issues. Many are very nervous to provide information as they don’t know what the consequences will be.” Kathleen Talbot from Reformation noted that the process also needs to become more efficient: “There are real gaps in primary data, and a lot of the reporting process is manual and burdensome for both brands and supply chain partners. It will take more widespread adoption of these standard reporting requirements so all tiers in the supply chain can be more easily mapped and included in impact reporting.”

Despite these difficulties, interviewees were broadly optimistic that the industry is getting closer to aligning in a consistent way to measure the sustainability of their supply chains. Juergen Janssen of the German Sustainable Textile Partnership describes the SAC as “a crucial organisation for data-driven sustainability management” and believes that more organisations should sign up to use the Higg index. Fashion for Good’s Katrin Ley explained, “What the SAC is doing makes total business sense. It reduces costs and aligns what you are measuring. If you could eventually use this data for consumer storytelling it would really help shoppers understand what products are sustainable.”

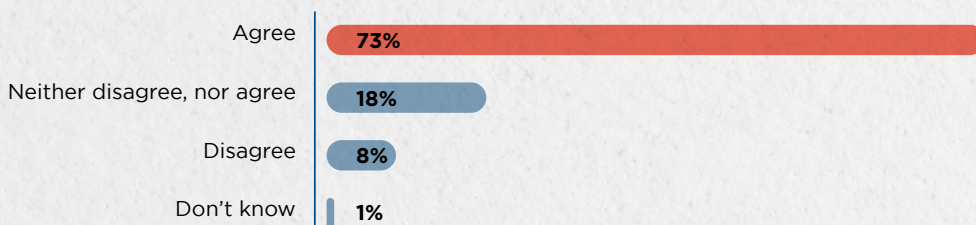
On target? The importance of measuring progress towards goals and commitment

One of the reasons brands collect data on their supply chain processes is to demonstrate progress towards their sustainability targets.

Common, aligned standards and certifications are a good starting point for monitoring progress, and 73% of our respondents agree.

Gold standard

Global standards / certifications help measure and evidence a brand’s level of sustainability for consumers.



Source: EIU Survey

Although there is growing support for the Higg index as a mechanism for tracking internal company performance, there is no single effort to provide consistent, comparable labelling for consumers. As a result, firms have been pursuing their own initiatives. Although these initiatives are important—and in many cases credible—this approach can cause problems, both for consumers who want to compare products, and for the brands themselves, which have to create their own consumer-facing measuring tools.

Reformation's Kathleen Talbot described her firm's approach: "We have created a quantitative tool called RefScale, which tracks our environmental footprint by adding up the pounds of carbon dioxide we emit, gallons of water we use, and pounds of waste we generate. We then calculate how Reformation's products help reduce these impacts compared to most clothing bought in the US. We share this information on every product page, and have also added a personalised dashboard to each customer's account page giving them the ability to track their RefScale, or their environmental savings, with every purchase."

The U.S. Cotton Trust Protocol

The U.S. Cotton Trust Protocol sets a new standard for more sustainably grown cotton by bringing quantifiable and verifiable goals and measurement to sustainable cotton production. It provides verified data, enabling brands and retailers to track and report their progress towards sustainability goals and report farm-level data.

Members of the U.S. Cotton Trust Protocol benefit from the following:

- Access to previously unavailable field data on six key sustainability metrics: land use, soil carbon, water management, soil loss, greenhouse gas emissions and energy efficiency.
- The ability to use Trust Protocol metrics for sustainability reporting; environmental, social and corporate governance audits; and Global Reporting Initiative standards reporting, among others. A unique credit accounting system and the

Permanent Bale Identification system enable transparency throughout the supply chain, from field to finished product. Together, these benefits provide members with critical assurance that their cotton is more sustainably grown, enabling them to meet consumer and investor expectations and play their part in encouraging more sustainable growing practices.

Cotton produced through the U.S. Cotton Trust Protocol has been added to the Textile Exchange's list of preferred fibres and materials, which are defined as resulting in improved environmental and/or social sustainability outcomes in comparison with conventional production. The U.S. Cotton Trust Protocol builds on over 30 years of continuous improvement in the sustainability of US cotton and has been designed to complement existing sustainability programmes and support the United Nations' Sustainable Development Goals.

While the efforts made by Reformation and Zalando (and others, such as Everlane) have undoubtedly increased consumer awareness about the environmental impact of the garments they purchase, companies' sustainability data is not comparable. It is impossible to know, for example, whether a white cotton t-shirt bearing Reformation's RefScale data is more or less sustainable than a similar product emblazoned

with Zalando's sustainability flag. It is understandable that some brands are resisting a single, comparable labelling system; adopting their own approach to labelling allows them to promote their own efforts without revealing whether their competitors are performing better. However, developing and implementing industry-wide standards is important to help level the playing field and inform consumers.

A sustainable journey

Standards and certifications are helpful, but they are not the only way for brands to communicate their sustainability credentials. Interviewees made it clear that brands should also embed sustainability in their brand identity and marketing efforts, as Fashion for Good's Katrin Ley explained: "Brands should decide what they want to stand for, pick those battles and go deep. If you want to be the brand for transparency then prove that along the supply chain. Make it easy for consumers to see." Kathleen Talbot from Reformation agreed, arguing that marketing should be as ambitious as efforts to drive up standards in the supply chain: "The brands that are standing out are those who don't just publish massive end-of-year reports, but those who have integrated their messaging into the customer experience and journey. Eileen Fisher, Allbirds and others are doing a really excellent job of translating impact reporting into something accessible." Everlane's Kimberly Smith explained that her firm tries hard to integrate production processes into its brand identity. However, she noted that much of the data is highly technical, and that the challenge is to "take all that information and make it easy to digest for consumers".

Over the past decade the industry has made progress in collecting, collating and analysing data on supply chains, and reporting on the industry's environmental impact is more widespread and thorough than it has ever been. However, there is still room for improvement. Respondents reported that there are still gaps in their knowledge, and that some suppliers remain suspicious about the business impact of disclosing their practices.



The industry is moving closer to a universal system for measuring sustainability and will benefit from access to more data throughout the supply chain. The next step is to align existing standards to make them clearer and more consistent and then develop an industry-wide labelling system. This will enable consumers to make informed purchasing decisions and allow brands to gain the cachet their efforts merit.

Financial Realities

The true cost of sustainability

Despite major technological developments and investments in the past 20 years, cost continues to be cited as the primary barrier to industry-wide sustainability. With the coronavirus pandemic and ensuing recession expected to have a significant impact on the industry's financial performance, concerns about the cost of sustainability initiatives are likely to persist. However, developing sustainable products has become significantly

more affordable in recent years, especially when done at scale. Kimberly Smith from Everlane explained, "We have been doing this for 24 years now—and costs have come down. At first it was so expensive because so few people were doing it... But now it's a lot more approachable from a price perspective. Brands have a lot of power because they're bigger businesses and can push suppliers to change—cost can't be used as an excuse."

The bottom line

The fast-fashion era was only made possible by pushing down the costs of the main inputs, such as raw materials and labour²². After years of fast fashion, changing course to embrace sustainability is a hard but essential task.

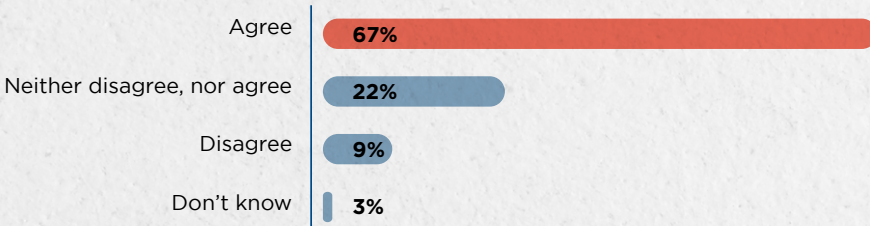
One key barrier to change is higher costs. Two-thirds of our survey respondents believe that implementing sustainability measures always results in higher operating costs. Given the uncertainty about consumer willingness to pay more for sustainable products, this means that reducing environmental impact poses a direct threat to firms' profit margins. Where governments have stepped in to ensure minimum standards—in areas such as wages and working conditions—firms have had no choice but to accept these higher costs. In other areas, such as recycling, firms have no such obligation. However, increased regulation around emissions and waste is likely in the coming years, and investing in these areas now can reduce the cost of compliance in the long term and reduce environmental degradation more quickly.

The trick is to find areas where these investments can be made scalable. Frank Henke of adidas explained, "Back in 2014 we made a commitment to replace all new polyester with recycled material by 2024. Once you start scaling up, you bring the costs down. Whenever you find a highly innovative, sustainable solution, it often comes with a price tag. Then you learn to generate cost efficiencies." This is easier for large firms such as adidas or H&M, which place large orders with suppliers and have the power to push their suppliers to adopt more sustainable practices.



The bottom line

Implementing sustainability measures always results in higher operating costs



Source: EIU Survey

As Fashion for Good’s Katrin Ley noted, “If you look at the industry leaders they are all investing in innovations—adidas, Patagonia, H&M, Kering, they are all spending time with pioneering innovators, piloting and investing in innovations.” She explained that more capital is needed, and that brands themselves would be in a good position to provide it: “We need more venture capital [VC] arms of brands because that is what draws further financing in this space. A small investment works wonders to pull in other investors... Microsoft and Google have VC arms—we need to see more of that with brands.”

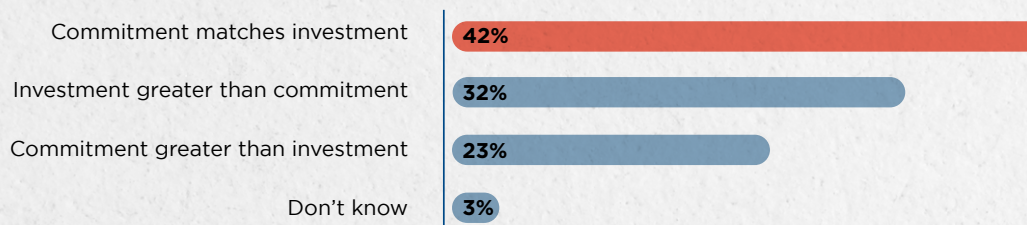
However, only 42% of survey respondents believe that organisations across the industry are actually making these investments, despite their expressed commitment to doing so. For the VF Corporation, which owns brands such as North Face,

Timberland and Vans, a critical barrier is return on investment: “We might want to invest in a regenerative rubber farm, which could significantly reduce our emissions. But there is no evidence or no data on the actual benefits of regenerative agriculture. The company has to then decide to take on the risk to invest in an unknown. VF is willing to do that to an extent but companies that don’t have the extra cash lying around will need more evidence that such moves will provide them with a concrete value-add.” Kathleen Talbot from Reformation echoed this sentiment: “There are other opportunities to leverage technology to further our sustainability practices, for instance using blockchain or other methods for supply chain traceability. However for a brand our size and more limited R&D [research and development] budgets, these solutions are still early stage, and we’re not ready to invest until there’s more proof of concept.”



Making an investment

In your opinion, which of the following best reflects the fashion and textile industry's level of commitment to sustainability?



Source: EIU Survey

Building back better?

For many, the global recession brought about by the coronavirus pandemic appears likely to exacerbate the financial constraints faced by the fashion and textile industry when it comes to embedding sustainability practices. However, respondents were unanimous that their firms would not respond to the recession by watering down their sustainability targets. They consider these targets to be long-term goals, intended to withstand the vagaries of economic cycles. Frank Henke from adidas explained this in simple terms: "Since we started our sustainability strategy we have already been through ups and downs, like the global financial crisis of 2008-09. We continue to have a very clear plan and we are confident of meeting all of our targets for 2020."

A former sustainability executive from H&M was similarly emphatic: "It is hard to see how coronavirus will impact environmental initiatives. They are about long-term investments, to manage to pay and charge for different textiles and different chemicals until they can become competitive with the traditional options." Stefan Seidel reports that the pandemic will not have a major impact on PUMA's sustainability targets, and Zalando has not adjusted its new sustainability plan (introduced in 2019) following the outbreak of the pandemic. Jurgen Janssen, who acknowledges that the members of his association (the German Sustainable Textile Partnership) are more engaged with sustainability than the average company,

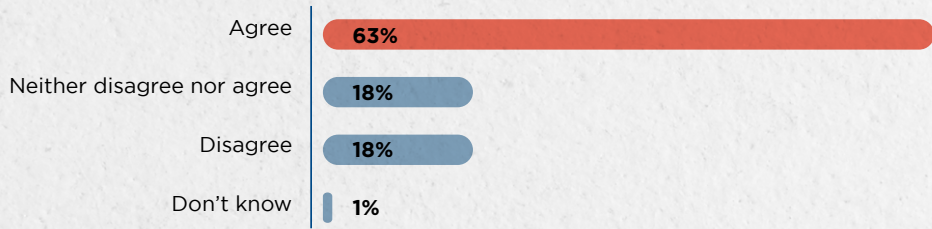
observed that "despite complaints about a very challenging business environment – beyond COVID-19, firms are still keeping sustainability high on their strategic agendas."

Nevertheless, the impact of the recession on the industry is real, with Janssen anticipating a contraction of 20-30% in the textile sector over the next two years. As Indi Davis from Zilingo explained, "many are just trying to get orders in the door. The sheer volume of orders has dropped dramatically." H&M's representative noted that "Online doesn't compensate for loss of in-store sales. There is a huge hit to the bottom line." Reflecting the level of distress in the industry, *Vogue* and the Council of Fashion Designers of America set up a pandemic relief fund for small designers in April, with almost US\$5m of funding to distribute; the fund received more than 1,000 applications²³.

Beyond the precipitous fall in sales, the pandemic has also brought practical problems. Stefan Seidel from PUMA explained that if he is not able to visit his suppliers because of travel restrictions and social distancing, he cannot audit their performance in the same way. Everlane's Kimberly Smith reported that fewer sales also means holding on to raw materials and garments that they had hoped to phase out: "We wanted to exit some fabrics, but now we have extra inventory that we hadn't planned on."

Hard times

If there is an economic recession consumers will be less interested in purchasing sustainable goods.



Source: EIU Survey

It will not be easy to measure if and how the pandemic affects sustainability agendas, as there is no single indicator to monitor impact. However, Lewis Perkins, president of the Apparel Impact Institute (which acts as a “technical clearing house” for sustainable initiatives in the industry), told *Vogue* that “the people running sustainability in businesses 10 or 15 years ago were coming out of marketing, rather than in a standalone department or embedded within others. It is easier to cut marketing budgets in times of distress than people working at the core of procurement or managing supply chains. If your sustainability programmes are deeply entrenched into your core business, it’s less likely to go.”

Among executives, complaints about the short-term operating environment were dwarfed by a desire to see the pandemic as an opportunity. Maximilian Bittner, from luxury re-seller Vestiaire Collective, told a McKinsey & Company roundtable in June that “this event is changing our world and what people think is important. It’s a wake-up call. Sustainability is becoming a bigger part of the decision-making process. People are more conscious of what they buy and what impact that product has—the ethical side is coming to the forefront.²⁴” The VF Corporation explained that “once [industry leaders] got over the initial shock of the pandemic, they [began] developing even bolder sustainability strategies.” According to our interviewees, too much work has already been done—and the impact of doing nothing is too great—to consider putting sustainability to one side.



Turbocharging Change

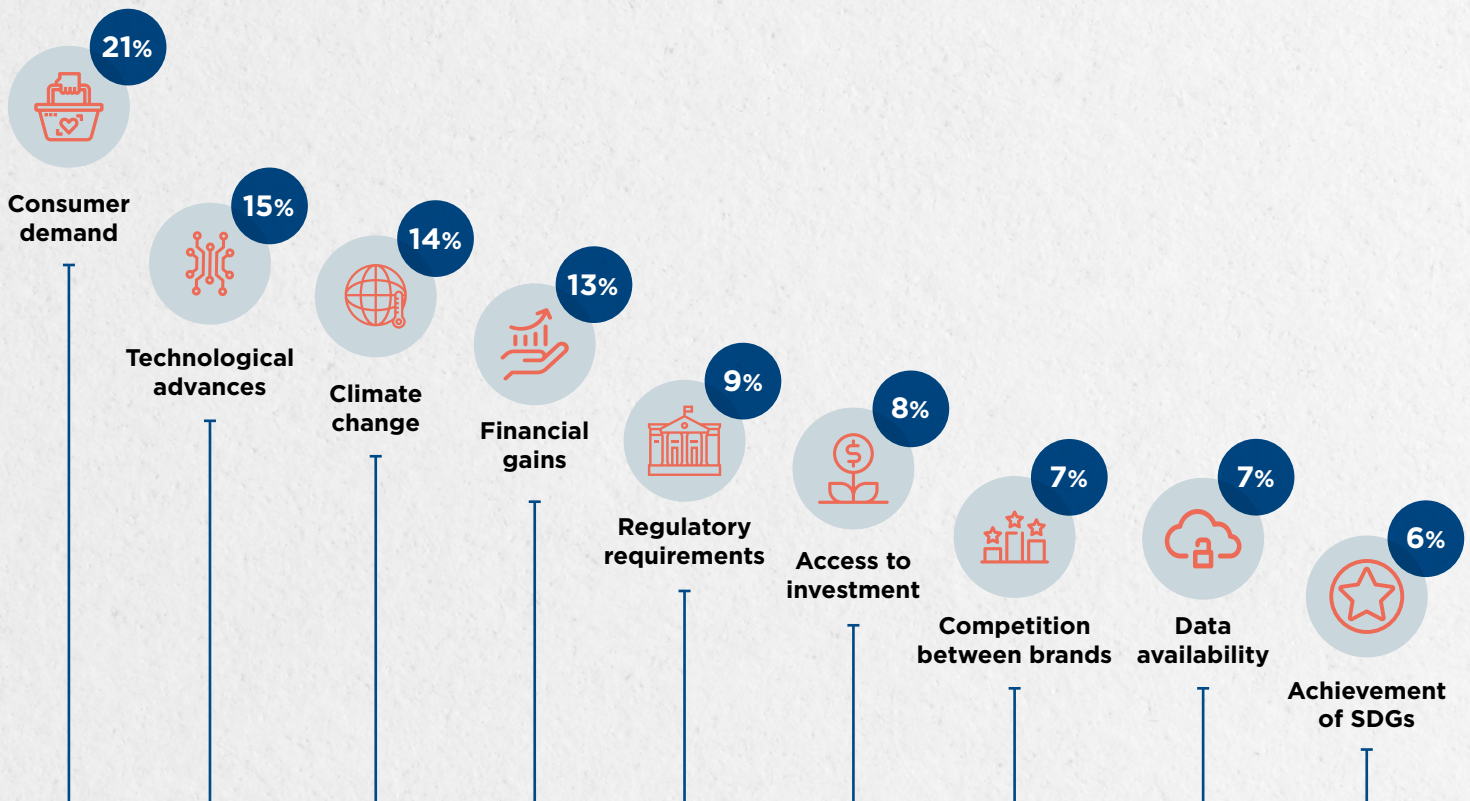
Does technological innovation hold the key?

While technology is not a silver bullet, it may help the fashion and textile industry to achieve its loftiest sustainability goals. Four in ten of our survey respondents reported that their organisation is investing in technology in order to drive environmental sustainability. Even more significantly, respondents reported that they believe that improvements in technology will have one of the largest impacts on driving

sustainability over the next decade, second only to consumer demand. Interviewees described innovations that are already taking place across every stage of the supply chain, from using blockchain to improve the traceability of raw materials, to retailer–designer collaborations focused on making clothes to order and reducing waste, to new recycling schemes.

The road ahead

What will drive sustainability in the industry over the next ten years?



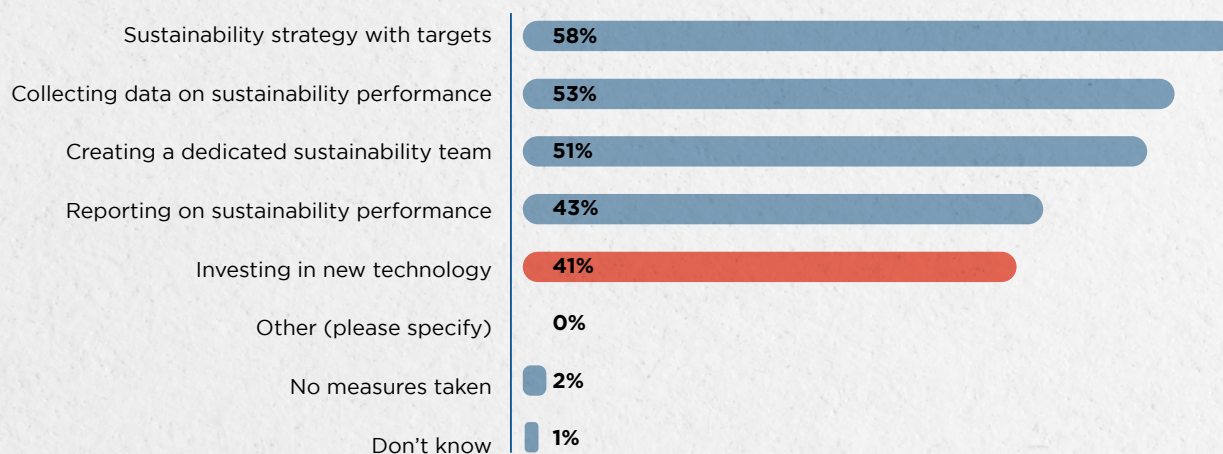
New approaches to drive change

Particular attention is focused on solving three of the industry's biggest problems: reducing the amount of non-renewable, natural materials that the industry consumes; identifying where this waste is coming from; and lowering the volume

of discarded garments that are either incinerated or sent to landfill. Technology is at the heart of how the industry is approaching each of these challenges.

Made to measure

Which measures is your organisation implementing to be more environmentally sustainable?



Source: EIU Survey

Many brands are already exploring how best to recycle and reuse fabrics that have been manufactured, sold, worn and discarded. However, this is not a straightforward problem, particularly where materials have been subjected to a number of processes and are difficult to reuse. Stefan Seidel from PUMA is among many executives who are frustrated by the industry's inability to crack the recycling and reuse challenge: "The typical thing that happens at the moment is that garments are collected and the good items are resold in developing markets. The actual recycled percentage of 'recycled' clothing items is minute. There are still big technological problems with how you get the colour out, how you separate blends."

However, start-ups are making progress in this area. Fashion for Good's Katrin Ley cited the example of a UK firm, Worn Again, which initially focused on manufacturing footwear from recycled materials and has since progressed to developing techniques to tease apart multiple textiles in the same garment, and to remove dyes and other chemicals.

Ultimately, Worn Again aims to be able to send reusable PET plastic and cellulose pulp back to manufacturers to create whole new garments²⁵. The start-up has already caught the eye of bigger companies; both H&M and Kering have invested in it, demonstrating how innovative start-ups and industry giants can collaborate to develop promising processes²⁶.

Brands are also identifying technology that could help to solve fashion's traceability problem. A key contender is blockchain—a database that can be used to store information about anything, rather like a digital passport²⁷. Since blockchain emerged as the system underpinning the Bitcoin virtual currency, the fashion industry has been considering the opportunities it offers. Blockchain is decentralised, which means that information can be added at every step of a supply chain. For example, information on the origin of a cotton crop could be entered and stored, and the data could then be revised as that crop is processed, treated, manufactured into a garment, shipped

to a retailer and hung on a rack. This would help brands to track and document the true sustainability of the production process for consumers, using a tamper-proof ledger. A number of firms are racing to build a universal platform for this data, including Provenance, a UK company, which uses blockchain to track different products across the fashion and textile sector²⁸.

Brands are also using technology to address the problem of textile waste, particularly unsold stock that cannot currently be recycled or reused. This issue has become increasingly urgent in 2020, as the coronavirus recession has left retailers with large amounts of unsold clothing stock. While there are options for managing this unsold stock—for example, paying to store it, or selling it at heavily discounted prices or via online resale sites—none are especially attractive. Many retailers are thought to have used a combination of all three options, choosing to store basics but sell of-the-moment items at discounted prices²⁹.

One possible way to reduce waste is to expand the proportion of items that are made to order—an option that some firms were already considering, thanks to its efficiency benefits. For example, H&M reports that it is “investing in things like made-to-order clothing with brands such as Monki. Customers buy a specific t-shirt with a certain print and we only make as many as people want to buy. But those business models will need to emerge as profitable enough to take hold.” New technology will be needed to make this a reality. Unmade, a UK-based company, offers a software platform that helps consumers customise items they want to purchase, based on parameters set by the brand. It also collects data on consumer preferences, enabling brands to produce more targeted outputs and reduce waste³⁰. Despite the opportunities offered by made-to-order garments, brands will have to work hard to persuade consumers that they can have a smaller environmental impact if they are willing to wait to receive their goods. While this may work at the luxury end, it could be a challenge for former fast-fashion retailers. However, the fact that a retailer such as H&M is considering this approach demonstrates that a shift is already underway in the industry.

Reformation has other ideas about how to use technology to reduce waste: “Our tech-driven stores feature one of each item on the floor with touchscreen monitors throughout, where customers can add items to their dressing room, continue to browse while the items are loaded behind the scenes into a ‘magic wardrobe,’ and



check-out entirely in the privacy of their room. This streamlined experience allows us to be smarter about our merchandise and inventory decisions, and better track the stock so we can be more intentional about sending shipments to different stores.”

It is clear that the industry is in the middle of a period of major disruption. There is also widespread agreement that the industry will benefit from collaboration between start-ups with new ideas or expertise (such as Worn Again and Provenance) and large players with economies of scale and the ability to fund research. The challenge is ensuring that firms persist with this research during a very challenging economic period. Firms such as Reformation warn that some technological solutions, such as blockchain, “are still at an early stage”, and that they are unwilling to invest until there is greater proof of concept. Similarly, H&M wants to see more evidence demonstrating that different ways of selling, such as made-to-order clothing, can be profitable. There are many encouraging stories about the industry’s commitment to greater sustainability, but firms will need to persist with this commitment at an extraordinarily difficult time in order to benefit from technological gains.



The Last Word

2020 is likely to prove a defining year for the fashion and textile industry. Brands that were already struggling in a changing landscape have been pushed into bankruptcy by the pandemic^{31,32}, and stalwarts of the industry have suddenly found themselves unable to pay rent³³. Even with lockdown restrictions lifted, clothing sales in the United States remain down by 20%, year on year³⁴. The combination of pauses to production, shop closures, job losses and consumer caution has led to collections being delayed, and landmark industry events such as London Fashion Week have been forced to move online, with many star names staying away³⁵. A majority of the executives we interviewed expect a very bad year for their bottom lines. They also believe that straitened economic circumstances will weaken consumer interest in sustainability.

Despite these challenging conditions, many firms have demonstrated remarkable resilience and an ongoing commitment to their existing sustainability plans. All of the major brands we interviewed remain full-throated in their support for ongoing investments in and targets for sustainability, and in their conviction that the coronavirus recession could provide an opportunity to become more (rather than less) sustainable. However, the current pressure on the industry is unlikely to slacken. The short-term crisis that is forcing firms to focus on meeting day-to-day costs will be replaced by a long-term, existential crisis as firms try to operate in a world riven by climate change, where environmental degradation is increasingly unacceptable.

Industry leaders with the greatest foresight are already aware of this looming challenge and have identified a number of major steps that will need to be taken. First, the traceability of supply lines will need to be improved. Some firms, such as adidas, have extensive knowledge of the environmental impact of their raw materials, but many others do not³⁶. Executives highlighted the importance of collecting and analysing robust and comparable data on the sustainability of their manufacturing processes, and developing high-quality sustainable products that meet growing consumer demand. There is excitement about younger consumers'

engagement with sustainability, and firms are trying to respond by increasing standards for natural materials and using emerging technology to raise recycling and reuse rates for existing garments^{37,38}.

Second, companies need to encourage consumers to pay the necessary premium for more sustainable goods by adopting clear, coherent and inspirational messaging that brings customers along on the sustainability journey. Younger cohorts report that garment sustainability is an important factor in their purchasing decisions, and firms need to make sure that they push their credentials in a straightforward and persuasive way. Creating an industry-wide labelling system would help to cement sustainability as a consideration among consumers.

Finally, interviewees highlighted the importance of government support in setting minimum thresholds to help level the playing field.

Our respondents reflected on both the size of the challenge faced by the industry and the progress that has already been made towards sustainability. Continuing with this work during a time of economic distress will be hard, but the commitment to sustainability remains strong among many of the industry's main players.



Appendix

Methodology

This study draws on an online and phone survey of 150 executives working in the fashion and textile industry. Respondents were based in Europe and the United States and were drawn from a mixture of multinational and domestic-only firms. Over two-thirds of respondents were C-suite

executives. The survey was conducted by The Economist Intelligence Unit between July 9th and July 28th 2020. The survey was complemented by qualitative insights from interviews with ten professionals in the fashion and sustainability space, as well as a comprehensive literature review.

End-notes

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