

The background of the slide is a photograph of a fashion show backdrop. It features several mannequins dressed in light-colored, possibly white or light blue, garments. Instead of human heads, the mannequins have large, bushy green plants growing out of their necks, making them look like living trees or plants. The lighting is dramatic, with strong highlights and shadows, creating a surreal and nature-inspired aesthetic. The plants appear to be a type of fern or similar leafy green.

# Future-proofing ESG Perspective in Fashion

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Istanbul Apparel Conference

October 5<sup>th</sup>, 2022



# There is no standard definition of what sustainable fashion means or how to measure it, leading to confusion for brands and consumers

No agreed definition of sustainable fashion ...



***“[sustainable fashion] is a term now so ubiquitous in PR and marketing, so liberally applied to any brand that uses organic cotton or manufactures its goods locally, that its fundamental definition has become obscured.”***

Stella McCartney, FT interview

***“There is this vast array of icons and language and terminology, all of which feed a dynamic where customers don’t question a purchase, it reinforces a purchase”***

European Marketing Director, Patagonia

Source: Lit. Search; Expert Interviews

... and lack of a recognized and shared way to measure impacts

**450+ CERTIFICATIONS** ACROSS THE VALUE CHAIN



**600+ ESG RATINGS & RANKINGS**, BY 70+ FIRMS



**A NUMBER OF SUSTAINABILITY INITIATIVES AND COALITIONS**



# 1 The fashion industry is entering into the **delivery-phase**, where results will be more important than commitments

1950 – 2010

From quality to quantity



- Global fashion **brands emerged** in mid 20<sup>th</sup> century based on the values of **design** and **production excellence**
- By the end of the century, **fast fashion**, based on a **value proposition antithetical to sustainability**, changed the rules of the game

2010 – 2020

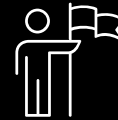
ESG enters the cultural mainstream



- **Consumers and social movements** started to pick up on the many **adverse ESG impacts of the fast fashion industry**
- Discussion of the **social and environmental impact** of the industry **enters the cultural mainstream**
- **New models based on the circular economy** started to emerge (second-hand)

2015-2022

Setting sustainability goals/targets



- **Brands** and value chain players **set goals and commitments for the future**
- Actions and **achievements still mainly focus on brand operations**, while core of the problems are in the supply chain

2020-2030+

Delivering on goals and pledges



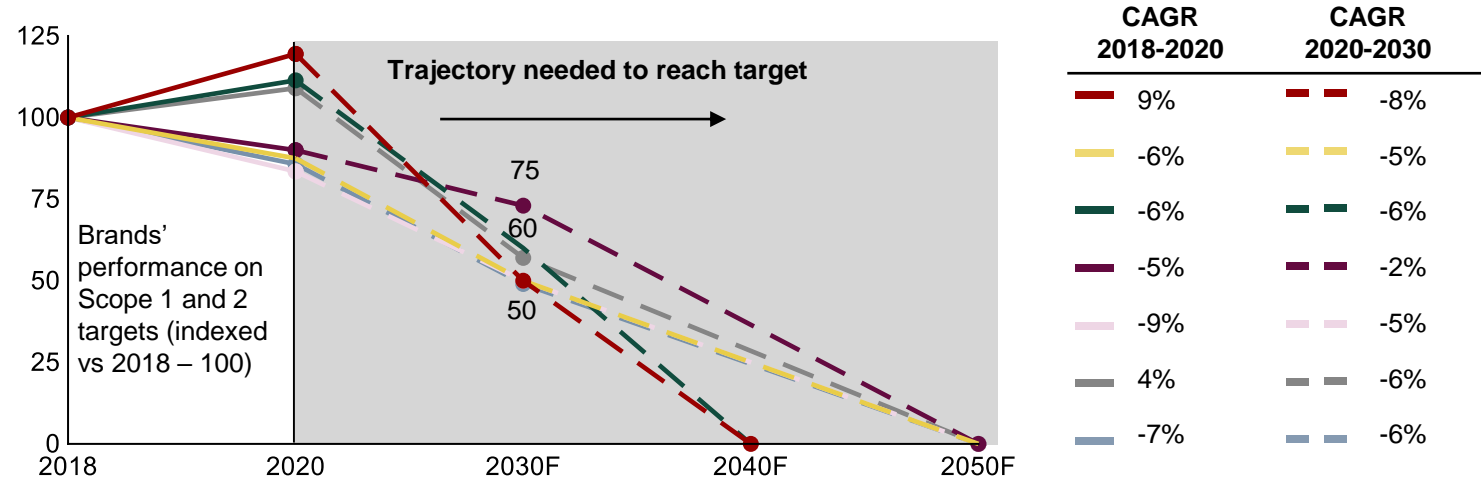
- Brands **will need to act on their pledges**, largely out of economic and regulatory necessity
- The successful players of the future will re-define fashion with ever more **substantial, holistic and cross-value chain** sustainability strategies for **2030 and beyond**

# Delivering long-term commitments will not be easy














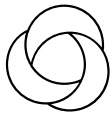






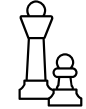
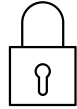
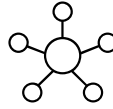

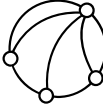

of retailers and brands say that they are **below or far below expected progress in sustainability efforts**<sup>1</sup>

Although progress has been made, **an accelerated emissions reduction strategy is needed** for brands to reach their reduction targets<sup>2</sup> and become net-zero by 2050



Source: 1) Bain Sustainability Transformation Survey Results 2021 (n=292, retailers and CP n=30), 2) SBTi progress report (July 2021); 2018 data has been interpolated in some cases from 2017 data. 7 apparel retailers with SBTi targets were considered for this analysis

# 2 ESG encompasses a broad range of topics...

<div><div>E</div><div></div><div>Environment</div><div>Living within our planetary boundaries</div></div>	<div></div> <div>GHG emissions</div>	<div></div> <div>Water stewardship</div>	<div></div> <div>Material use, waste &amp; circularity</div>	<div></div> <div>Hazardous substances</div>	<div></div> <div>Air quality</div>	<div></div> <div>Land and ocean use</div>	<div></div> <div>Biodiversity &amp; ecological welfare</div>
<div><div>S</div><div></div><div>Social</div><div>Committing to equitable outcomes</div></div>	<div></div> <div>Human rights</div>	<div></div> <div>Labor practices</div>	<div></div> <div>Diversity, equity &amp; inclusion</div>	<div></div> <div>Health &amp; wellness</div>	<div></div> <div>Customer safety and access</div>	<div></div> <div>Cyber security &amp; digital privacy</div>	<div></div> <div>Community partnership</div>
<div><div>G</div><div></div><div>Governance</div><div>Demonstrating responsible conduct</div></div>	<div></div> <div>Governance foundation</div>	<div></div> <div>Business ethics</div>	<div></div> <div>Transparency &amp; risk management</div>	<div></div> <div>Third-party relationships</div>	<div></div> <div>Tax practices</div>	<div></div> <div>Indirect economic impacts</div>	<div></div> <div>National and intl. policy</div>



... however, **5 ESG topics** will remain **highly material** for fashion brands

### GHG emissions

- **Hot topic across industries**, with broad implications across multiple business areas
- **Ambitious targets set** by brands (net-zero), requiring **bold choices** to meet goals
- **Scope 3** accounting for the **majority of emissions**, requiring an **improved control along the supply chain**



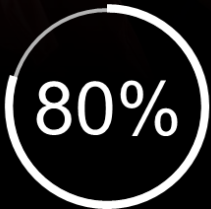
### Diversity, equity & inclusion

- **Increasing scrutiny** from public opinion posing relevant **reputational risk**
- **Responsibility** extending **beyond own employee base** (DE&I procurement)



### Human rights & good work

- **Long and opaque supply chains** with **relevant exposure to low-regulated countries** exposing brands to severe risks
- Increasing requirement for **brands to ensure fair labor conditions** (minimum wage, no child labor, trade union rights, ...) along the **entire supply chain**



### Circularity

- Fashion industry generating **150 billion new items** manufactured every year<sup>1</sup> with **73%** of them ending their life in a **landfill or incinerated**<sup>2</sup>
- Increasing traction of **circular business models** (e.g. second-hand, rental, recycling, upcycling) to progressively reduce brands impact



### Biodiversity

- **The battle of the next decade**, given **critical levels** already reached vs. the “planetary boundary”
- **Fashion particularly exposed** to the topic, given **high reliance on agriculture and farming**



of brands that have each topic as a sustainability pillar in their ESG report

**Expected to grow exponentially**

Note: If no report available parent company was used. See appendix for data back up. | Source: Company ESG reports and Literature review: 20 apparel retailers reviewed; 1) World Economic Forum; 2) Ellen McArthur Foundation

# 3 Recently, the regulator (e.g. EU Commission in Europe) started taking bold steps to fight greenwashing and to promote a circular fashion system

A few regulations currently under discussion are set to impact the industry in the next 24 months



## NEW YORK FASHION ACT

- It would require all companies with **>\$100M revenues doing business in New York** to **map >50%** of supply chain and commit to SBTi
- **2% fine on global turnover if not compliant**



## EU STRATEGY FOR SUSTAINABLE TEXTILES

- Target setting for **reuse** and **recycling**, with obligation of separate collection of textile waste by 2025, as well as other principles of **Extended Producer Responsibility** (downstream impact assessment, right to repair, ecodesign, ...)



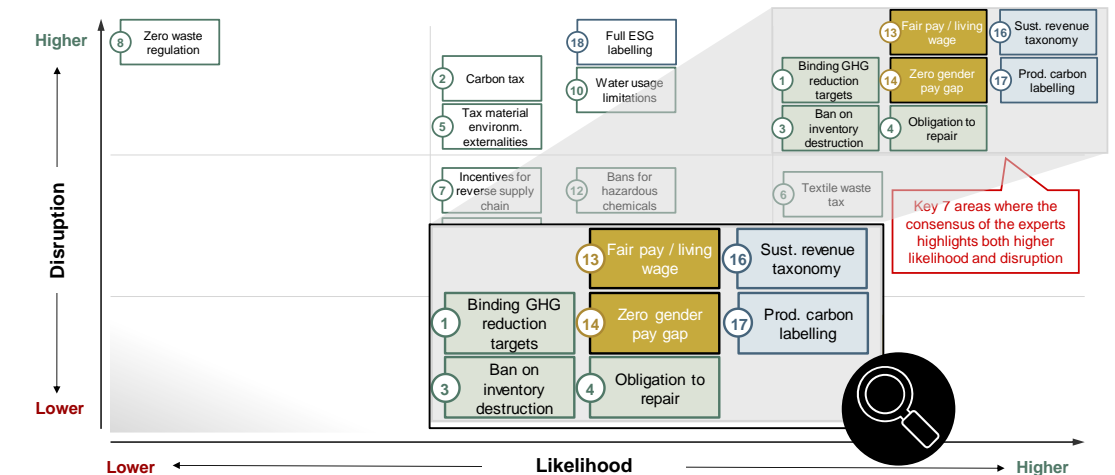
## BAN ON DESTRUCTION OF UNSOLD INVENTORY

- Prohibition to destroy unsold inventory and to ship it abroad for destruction

Note: (\*) Year of entry into force of law  
Source: Lit. search

A Bain research highlighted 7 additional areas where regulation is likely to disrupt fashion

### Bain research on most likely ESG regulation in fashion in the next 5-10 years



Source: Bain elaborations based on expert interviews, available literature and Bain proprietary knowledge

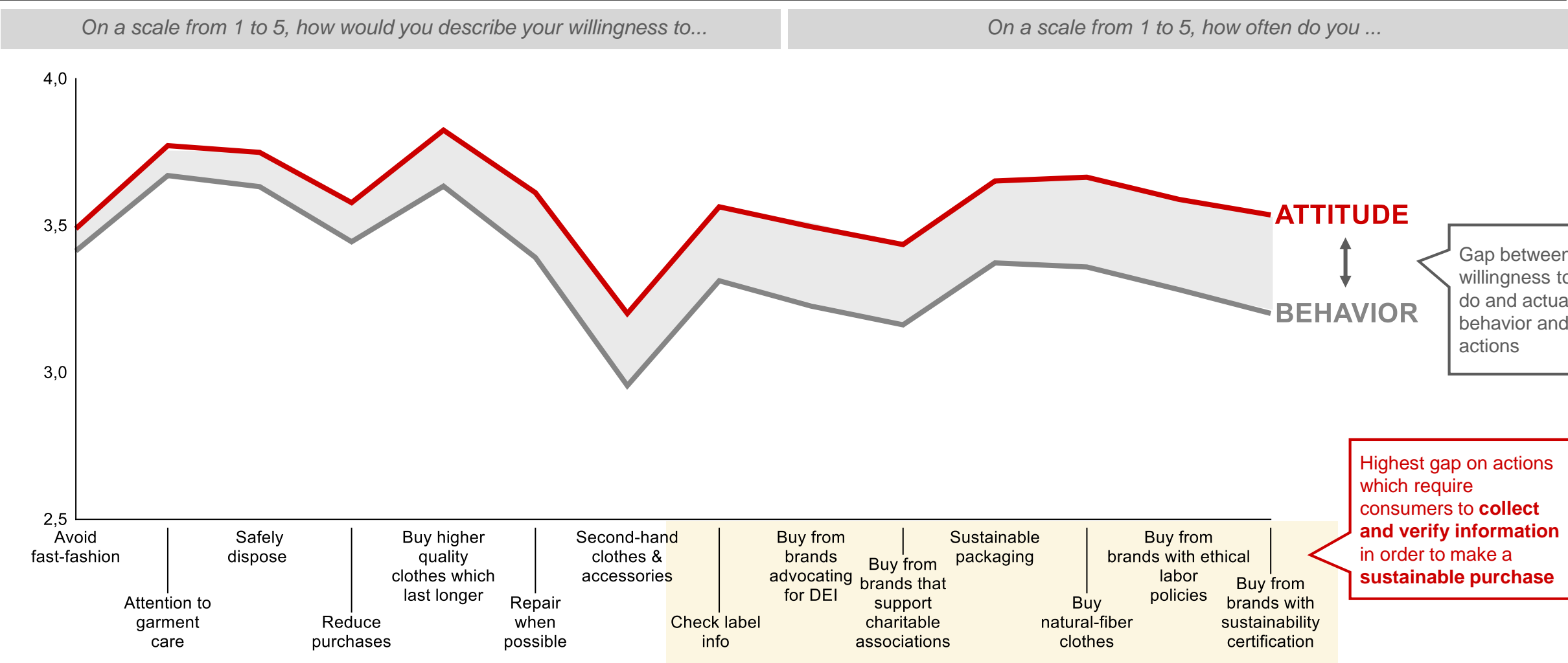
This information is confidential and was prepared by Bain & Company solely for the use of our client; it is not to be relied on by any 3rd party without Bain's prior written consent

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Regulation is likely to be the key accelerator of ESG in fashion, driven by European Union

# From a demand perspective, there is still a general ‘say-do-gap’ for fashion consumers, whose **purchasing behavior is not always aligned with declarations**

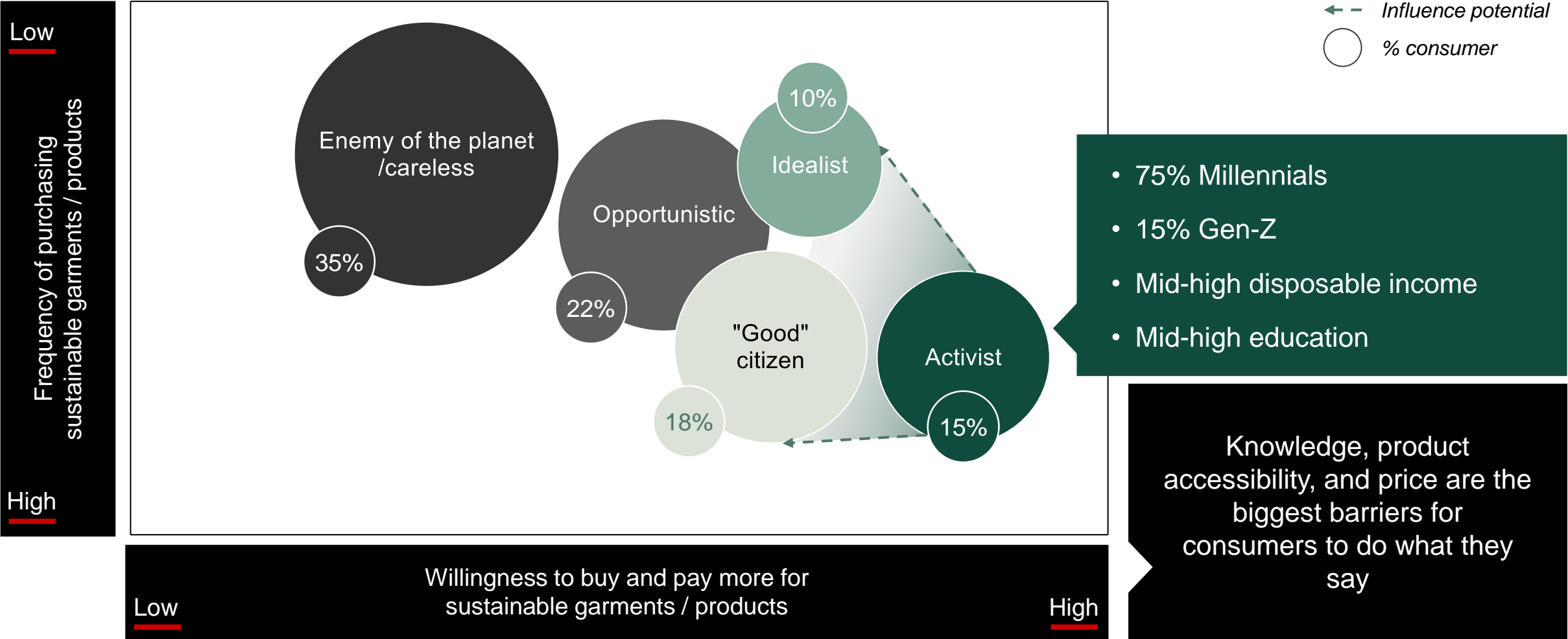
Attitude-behavior gap on actions towards sustainable fashion | Avg. score by action



Source: Global consumer survey N=5.820



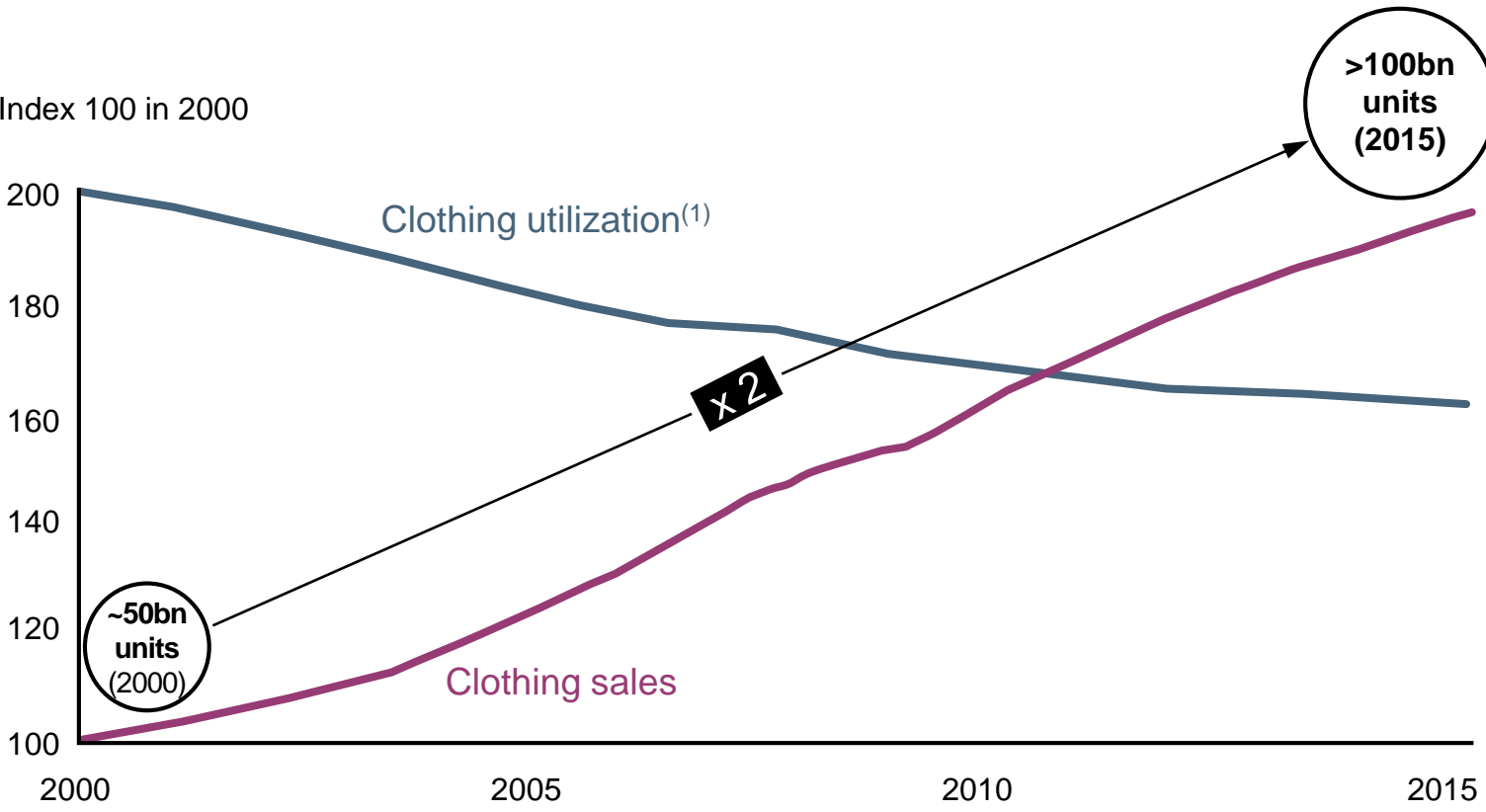
However, ~15% of fashion consumers already make purchasing decisions based on sustainability and this cohort is likely to become 50% in the next 5Y



Note: Size of the bubble proportional to the number of respondents belonging to the cluster | Source: Bain analysis on consumer survey

# Clothing utilization has been declining sharply since the rise of fast fashion in early 2000, contributing to a proliferation of garments in landfills

Clothing utilization has decreased 20%, while sales have increased 2x<sup>1</sup>



Note: (1) Average number of times a garment is worn before it ceases to be used  
 Source: 1) Euromonitor International Apparel & Footwear 2016 Edition (volume sales trends 2005-2015); World Bain, World development indicators – GD (2017);  
 2 [Fashion Revolution](#); 3) WWF Consumer Survey (Product quality is highest KPC when buying fashion, durability is the fourth one (following price and product fit))

## Comments

- Items are increasingly worn less frequently
- In fact,  

3

out of

5







 fast fashion garments end up in a landfill within a year of purchase<sup>2</sup>
- This leads to increasing externalities and lower sustainability e.g., increasing waste and carbon emissions<sup>2</sup>
- But an increasing number of consumers is receptive to be engaged on durability and quality<sup>3</sup>

# 'Impact per wear' is a key metric to assess the sustainability profiles of products, often overlooked by brands and with enormous storytelling potential

ILLUSTRATIVE EXAMPLE

	P R O D U C T A		P R O D U C T B
			
TOTAL COST (including all environmental and social externalities)	€10	<	€1,000
TOTAL # of USES (durability – including after resale)	1	>	100
IMPACT PER WEAR	10€/wear	=	10€/wear

AFTER 100 USES...

100 products for waste

>

1 product for waste

- Impact per wear is a key sustainability metric to understand the true impact of a product
- The EU regulator is expected to require brands to add information about durability on product label
- Brands have an opportunity of building thought leadership with consumers by
  - Assessing impact per wear and measuring through a scientific approach
  - Embedding impact per wear in their communication (e.g. engage the customer on durability)
  - Educate the customer becoming a reference point on the topic



# Bain research highlights 14 areas where innovation is more likely to be disruptive, mostly within alternative materials, processes and technology


## 1.Creativity & product development


Circular / Eco-design / Cradle to Cradle


Virtualization of design, product development and sampling


Tech-enhanced fashion

## 2. Raw material sourcing


Regenerative farming practices for natural fibers


Next gen fibers / materials


Sustainable leather / leather alternatives


Recycled fabrics from non-fashion waste (e.g. plastics)

## 3. Raw material Processing


Sustainable dyeing


Sustainable / performing coating & finishing (e.g. carbon-capture)


Alternative tanning


Chemical Waste and Waste-Water Management solutions


## 4. Manufacturing

Automated fabrication (cutting / sewing / welding / knitting...)


3D Printing (Additive manufacturing)


On-Demand manufacturing (MTO 4.0)


Manufacturing waste efficiencies

Technology assisted Quality Management


## 5. Distribution


VR / AR showroom for buyers, wholesalers and other B2B

Digital store innovations (online-offline)


Packaging solutions


## 6. Consumption


Consumer education and ESG impact awareness systems

Sustainable usage and treatment solutions


## 7. End of (first) Life


Re-Business models for extended product lifespan

Automated sorting


Fabric to Yarn / raw materials technologies

## 8. Transport & Logistics

Electrical / smart transportation network


Reverse logistics (home-to-factory)

## 9. Branding, marketing and communication


Virtual events (VR / AR / digital animated...)

## 10. Cross-value chain areas

Lifecycle assessment standards and technologies

Tech tools and solutions for traceability (e.g. blockchain)

AI enabled demand forecasting / management solutions

Digital Couture & Fashion

# 6 Today real innovation is in the hands of start ups, creating both a barrier to scale and a great potential for brands

/ NOT EXHAUSTIVE

Brands w/ proprietary sustainability technology



Sustainability innovation-focused companies



- Bio-material fabric (e.g. FLWRDWN – 100% natural animal-free, petroleum-free insulation material)



- Renewable biomaterials (e.g. from trees, sugar)



- Thread from recycled plastic bottles
- Twice-recycled threads
- 3D knitting



- 100% plant-based, zero plastic fabrics



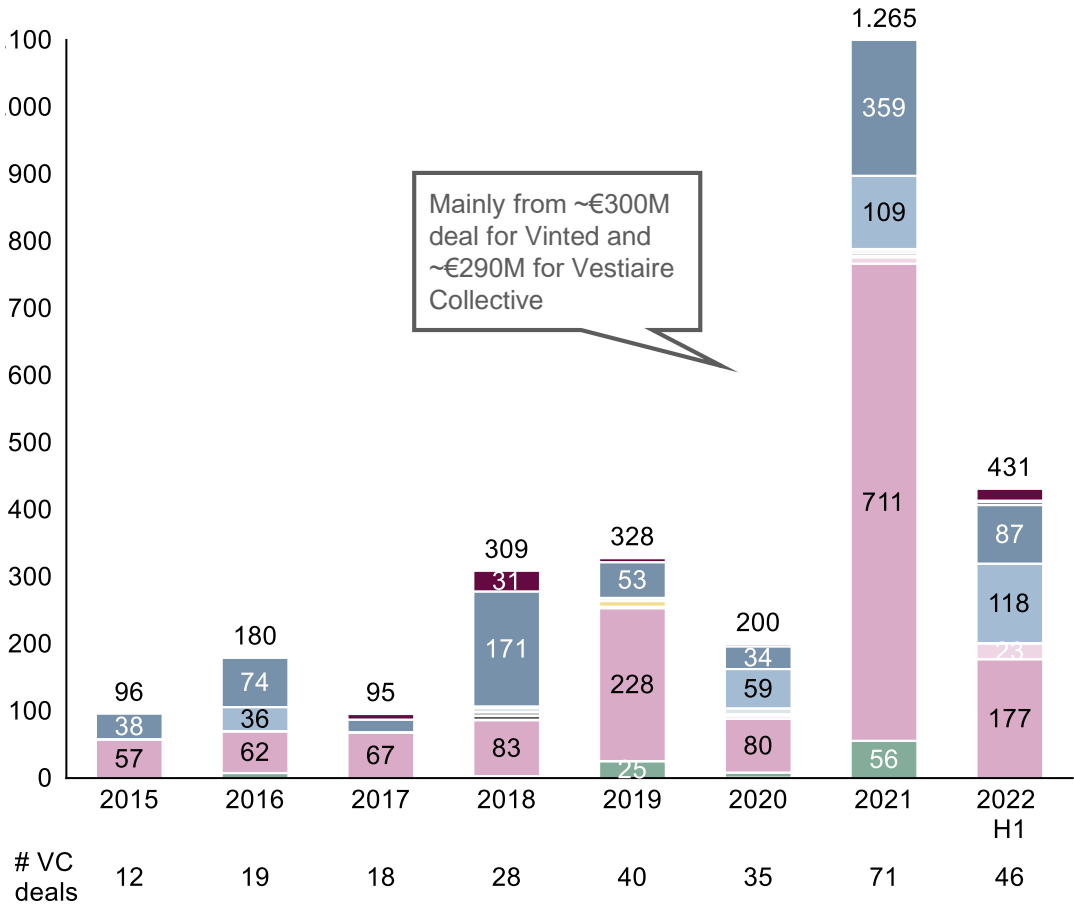
Logos of sustainability innovation-focused companies categorized by lifecycle stage:

- Creativity & product development:** LALA LAND, everywhere, Spintex, gtt, GREEN THEME TECHNOLOGIES, INC., Tailored INDUSTRY, BIO-LUTIONS, Sojo, NINETY FIVE, Spinnova.
- Raw material sourcing:** PETIT PLI, BOLT THREADS, Colorifix, sei, Kornit Digital, HATCH, ORDRE, Vestiaire Collective, worn again, R recover, THE RENEWAL WORKSHOP.
- Raw material processing:** burco, Modern Meadow, We aRe SpinDye, TEKYN, HILOS, QUEEN OF RAW, VNTANA, RePack, Vinted, CIROOS, The RESTORY, THREDUP, Lizee, BIODECOTORE, circ, EVRNU.
- Manufacturing:** Italian Artisan, PINATEX, MATERRA, DyeCoo, \*EVOLVED BY NATURE, NANO TEXTILE.
- Distribution:** (No specific logos listed).
- Use phase:** (No specific logos listed).
- End of (first) Life:** (No specific logos listed).

Source: Industry participant interviews, Lit. search, Press releases, Bain proprietary knowledge

# In fact, VC investments in sustainable fashion have grown significantly

VC funding in fashion innovation ('15-'22, global, €M)



Note: Only including deals with known deal size  
Source: Bain elaboration on Pitchbook, selection of global VC backed deals in the fashion and sustainability innovation area during January 2015-June 2022. Sustainable fashion brands which do not apply a peculiar innovation are excluded

Creativity & product dev.	<ul style="list-style-type: none"><li>Circular / Eco-design / C2C</li><li>Virtualization of product development</li></ul>	
Raw material sourcing	<ul style="list-style-type: none"><li>Sustainable farming practices for natural fibers</li><li>Sustainable fibers</li><li>Alternative leather</li><li>Recycled fabrics from non-fashion waste</li></ul>	
Raw material processing	<ul style="list-style-type: none"><li>Sustainable dyeing</li><li>Sustainable / performing coating &amp; finishing</li></ul>	
Manufacturing	<ul style="list-style-type: none"><li>On-Demand manufacturing</li><li>Manufacturing waste efficiency</li></ul>	
Distribution	<ul style="list-style-type: none"><li>Packaging solutions</li></ul>	
Consumption	<ul style="list-style-type: none"><li>ESG impact awareness systems</li><li>(Re)Business models</li></ul>	
End of First Life	<ul style="list-style-type: none"><li>Automatic sorting</li><li>Fabric to Yam</li></ul>	
Cross-value chains areas	<ul style="list-style-type: none"><li>Traceability solutions</li></ul>	



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