

Sustainability in the Fashion Industry: A Business Perspective

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Fashion is one of the largest industries in the world. For all the glamor that its luxury segment is often associated with, textile and apparel production is also plagued by pollution, water waste, greenhouse gas emissions, labor violations, and short product life spans. The fast fashion industry, in particular, has been criticized in recent years for the environmental damage it causes and the poor working conditions in textile manufacturing firms across the globe. Increasingly, initiatives and business models for more sustainable fashion sourcing and manufacturing have been developed. 'Slow fashion' represents an alternative that may be able to counter many of the disadvantages of fast fashion. However, business models that are innovative and based on responsible and sustainable practices are also more capital-intensive. While the environmental impact of initiatives can often be tracked and measured, the question of whether sustainable fashion is 'good business' from a financial point of view is still under debate. Fashion brands are starting to realize that investment in long-term, innovative initiatives that champion social responsibility and sustainability makes financial sense and is perhaps the only strategy that will support the future of the industry.

This article discusses current challenges in the fashion industry, particularly in the fast fashion segment. It examines the state of sustainability efforts and current trends, analyzes consumer perception and buying behavior, and explains differences between fast fashion and luxury brands. Citing several apparel brands to illustrate innovative initiatives, it highlights the concepts of circularity and B Corp certification. Furthermore, based on existing literature, it examines the Return on Sustainability Investment (ROSI) framework and the relationship between sustainable practices and financial performance in the context of fashion companies.

Industry Overview

Fashion generated about 1.46 trillion U.S. Dollars in revenue in 2020 and is expected to grow to about 2.25 trillion U.S. Dollars by 2025.¹ Around 430 million people are working in the fashion and textile industry (roughly one in eight workers among the global workforce). Most of them are based in Asia. Jobs range from sewing machine operation in textile factories to farming, raw material processing, treating, finishing, logistics, design, wholesale, retail, etc.²

Fast fashion has become a dominant category in the industry. It describes clothing designs that move quickly from the runways to the stores. Taking advantage of new collections presented at events such as Fashion Week, fast fashion brands will tap into trends and quickly mass-produce cheap, disposable clothing.³ Major global fast fashion brands include Zara, H&M, UNIQLO, GAP, Forever 21, Topshop, Esprit, and Primark. Many of these companies are both retailers and manufacturers. Traditional mass-market department stores such as Macy's and Kohl's in the United States operate in a similar way with their private label brands, shortened design and production times. It is noteworthy that, historically, the fashion industry was focused on producing new collections four times a year: in spring, summer, fall, and winter. With the fast fashion model, traditional seasons are no longer sufficient. Since the early 2000s, many fast fashion brands have switched to 'micro-seasons', creating and producing about one new collection a week.

The fashion industry is one of the largest polluters in the world. Approximately 20 to 25% of globally produced chemical compounds are used in the textile-finishing industry, ending up in rivers and streams.⁴ Moreover, because of its excessive water usage, the fashion and textiles industry is a major contributor to what the World Bank has called the 'invisible water crisis.'⁵ More than 8% of global greenhouse gas emissions are produced by the apparel and footwear industries. In addition, almost 60% of all clothing ends up in incinerators or landfills within a year of being produced.⁶ This issue is a direct result of the limited lifespan of fast fashion. Some clothing items are worn only

1 Cf. Statista, 2020b.

2 Cf. Common Objective, n. d.

3 Cf. Hayes, 2021.

4 Cf. Quantis, 2018.

5 Cf. Scott, 2020.

6 Cf. Remy et al., 2016.

ten times or less.⁷ The environmental and social impact of apparel manufacturing is becoming increasingly alarming.

Some companies are pushing back against these trends and are starting to focus more on 'slow fashion.' The objective of this approach is to produce clothes with timeless designs and premium, long-lasting quality.⁸ Slow fashion brands are quick to subscribe to the sustainable fashion business model, but it would be incorrect to assume that all slow fashion brands are sustainable and, conversely, that all fast fashion brands are unsustainable. In the following, the concept of sustainability and its relevance for fashion will be discussed in more detail.

Sustainability in Fashion

There are many definitions of sustainability, depending on context. A broad definition of sustainability that has been widely used stems from the 1987 Brundtland Report of the U.N. World Commission on Environment and Development (WCED). It describes sustainability as "meeting the needs of the present without compromising the ability of future generations to meet their own needs."⁹ The 17 United Nations Sustainable Development goals also help shape our understanding of a sustainable future. They serve as a "blueprint to build a better and more sustainable future for all."¹⁰ They include varied issues such as zero hunger, clean water and sanitation, decent work and economic growth, gender equality, climate action, and responsible consumption and production (just to name a few).

Sustainability in the fashion industry is about more than just textile production. It considers fashion from the perspectives of a variety of stakeholders, ranging from contemporary producers and consumers to future producers and consumers.¹¹ It involves the entire life cycle, including how an item is produced, who produces it, and how long its life span is before it ultimately gets discarded. Sustainability initiatives in the fashion industry attempt to reduce the large carbon footprint by reducing the greenhouse gas emissions stemming from manufacturing and transportation. Reducing the environ-

7 Cf. Morgan & Birtwistle, 2009.

8 Cf. Marquis, 2021.

9 Brundtland, 1987.

10 UNEP, n. d.

11 Cf. Charpail, 2017.

mental impact of fashion, including air and water pollution, could prevent millions of premature deaths over the next century.¹²

Sustainability: the Consumer Perspective

Consumer awareness regarding sustainability seems to be growing. Consumers are increasingly cognizant of the climate impact of their consumption choices. Many are willing to change their behavior in purchasing clothing when they become aware of how and where an item was made. They might end up buying fewer items, but such of a higher quality. Reusing items is also a trend. For example, Cao et al. found that consumers bought fewer new garments and kept their used items longer if they could adapt and use them in several different ways.¹³ Instead of buying new clothes, consumers are finding alternative ways to get items 'new to them' by either swapping them, buying them second-hand, or renting them. Online clothing rentals have become particularly popular in recent years, with global revenue amounting to about 3.45 billion U.S. Dollars in 2020. This figure is projected to grow to about 7 billion U.S. Dollars by 2025 (Fig. 1),¹⁴ and yet it is dwarfed by the value of the worldwide second-hand apparel market, which was worth about 27 billion U.S. Dollars in 2020 and is projected to grow to 77 billion U.S. Dollars by 2025 (Fig. 2).¹⁵

The trend away from fast fashion seems to have strengthened during the COVID-19 crisis. A 2021 McKinsey survey found that, as a result of the crisis, 65% of respondents were planning to purchase more durable fashion items, while 71% were intending to keep items they already had. Additionally, 57% of respondents were willing to repair their clothes to prolong usage. Some consumers are opting to buy luxury fashion items whenever possible. Marketers are devising new strategies to convince consumers that this may be a desirable way to accomplish sustainable consumption goals.¹⁶ Younger consumers seem to be particularly conscious when it comes to sustainability. Millennials and Gen Z cohorts are more likely than their older counterparts to spend more money on fashion products that have less negative impact on the environment.¹⁷

12 Cf. Ro, 2020.

13 Cf. Cao et al., 2014.

14 Cf. Statista, 2020a.

15 Cf. Thredup, 2021.

16 Cf. Sun et al., 2021.

17 Cf. Kent, 2021.

Sustainability: Noteworthy Companies

Corporations have been taking note as well and are starting to view sustainability initiatives as critical elements of their overall mission. According to a 2019 McKinsey survey, apparel companies regard sustainability and transparency as two of their greatest priorities.¹⁸ The following highlights the results of recent research on the sustainability efforts of fashion companies.

To measure fashion's progress towards more environmentally and socially responsible business models, 15 of the industry's largest fashion companies were examined across six dimensions to develop the 2021 Business of Fashion sustainability index. The dimensions assessed were transparency, emissions, water and chemicals, materials, workers' rights, and waste. The companies were categorized as sportswear, high street, or luxury and were able to earn up to 100 points in each of the six dimensions.

In the sportswear category, Nike came in first place, with an average of 47 points. It scored highest in the area of transparency, which indicates how well supply chains are traced and how impact is measured (71 points). Nike scored lowest in the area of materials: it seems to fall short when it comes to the use of generative and circular materials (27 points). Nike topped Puma, the VF Corporation, Adidas, and Under Armour on the sportswear category's sustainability index.

In the high street category (which includes a number of fast fashion brands), the H&M Group came in first, with an average of 42 points. Like Nike, it scored highest in the area of transparency (54 points). The company scored lowest in the area of waste, seemingly lacking in ways to minimize waste and establish circular business models (26 points). Its competitors Levi Strauss & Co., Inditex (parent company of Zara), Gap Inc., and Fast Retailing rounded out the list in this category.

In the luxury category, Kering scored highest, with an average of 49 points. The luxury conglomerate includes brands such as Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen, and others. It scored highest in the area of transparency (68 points). Its lowest score was for two dimensions that were tied (32 points each): waste and workers' rights (i.e. the protection of human rights and equitable working conditions). PVH, Hermes, LVMH, and Richemont came behind Kering in the luxury category.

18 Cf. Berg et al., 2019.

The Kering Group was the overall winner in the 2021 sustainability index. Companies tended to fare best in the areas of transparency and greenhouse gas emissions (48 points on average each), and worst in the areas of waste (24 points) and workers' rights (27 points). Interestingly, as a group, the five luxury companies had a lower combined score than the five high street companies and the sportswear companies (average of 33 points/luxury vs. 38 points/high street vs. 36 points/sportswear). This unexpected finding questions the assumption that luxury brands are generally more sustainable and fast fashion brands are usually less sustainable. We need more research and a more differentiated view here. However, what becomes clear from these sustainability scores is that there is still a lot of room for improvement in terms of sustainability, regardless of the category.

Sustainability: Noteworthy Initiatives

The following examines a number of specific sustainability initiatives by fashion companies, in particular the concepts of circularity and B Corp certification.

Circularity

The United Nations Environment Programme (UNEP) outlines the principles of the circularity concept and its contributions to the promotion of sustainable consumption and production patterns. Circularity, in this context, can be defined as "a way to achieve sustainable consumption and production and other interlinked sustainable development goals."¹⁹ In a circular economic model, the entire value chain matters (more than each individual stage). All stakeholders are engaged in changing the system and apply life cycle thinking that enables the identification of strategic intervention points. Natural resource use and environmental impact are disconnected from economic activity and human well-being. Circular models keep materials at the highest possible value along the value chain.

In a practical context, circularity can be applied in the fashion industry by using recycled materials (such as polyester from plastic bottles), focusing on repairs, and on business models based on rentals.²⁰ The industry needs to move away, as much as possible, from virgin raw materials (such as cotton or silk) and introduce resale and reuse. This, in turn, will reduce the demand for

¹⁹ UNEP, n. d.

²⁰ Cf. Donaldson, 2021.

virgin materials. Overall, more investments in circularity are needed to bring it to scale. A good example of circularity in the fashion context is Eileen Fisher. This brand has built circularity into its business model, called “circular by design.” Since 2009, the company has taken its clothes back to give them a new life by being resold or remade into new designs, with over 1.6 million pieces so far. There are three distinct stages in this approach to circularity: In the ‘first life’ stage, the focus is on designing versatile and timeless clothes that can be worn for many years. The clothes are made from the highest quality and the most sustainable materials. In the ‘second life’ stage, gently used Eileen Fisher clothes are bought back, cleaned, and resold. Lastly, for the ‘third life’, Eileen Fisher clothes that are returned torn or stained or beyond repair are deconstructed and reimaged into new pieces such as accessories, wall hangings, or pillows. About 25% of the clothes that are taken back fall into this category. Eileen Fisher aims to minimize clothing waste by applying this circularity principle. Customers can purchase first-life fashion items as well as second- and third-life products.²¹ A report by McKinsey estimates that the fashion industry has the potential to become about 80% circular by 2030.²² However, in order for this goal to be accomplished, significant corporate buy-in and investments need to happen.

Certified B Corporation

B Corps is a global certification that measures a company’s social and environmental performance using a formal “B Impact Assessment.” Certified B Corporations meet the highest standards of social and environmental performance, transparency, and legal accountability to balance profit and purpose. Five areas are assessed: environment, workers, customers, community, and governance. By undergoing a B Corp certification process, a company verifies its commitment to social responsibility and sustainability in all of these areas. Prominent examples of B Corps-certified fashion companies include Patagonia, Allbirds, Bombas, and Eileen Fisher.

For the purpose of this paper, Patagonia will be highlighted. It received B Corp certification in 2011. Patagonia is an outdoor and active clothing brand that is known for its minimalist style. The product designs focus on simplic-

21 Cf. Fisher, n. d.

22 Cf. Donaldson, 2021.

ity and utility. The company operates with four guiding principles as part of its environmental responsibility program:

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1. Patagonia's goal is to make durable products to reduce energy and water consumption as well as waste.
2. It aims to provide full transparency to customers ("know how your clothes are made").
3. It provides options, through a program called Worn Wear, to buy used, trade in and fix one's gear.
4. Patagonia pledges 1% of its sales to the preservation and restoration of the natural environment. It is well known for its "don't buy this jacket" advertising campaign in 2011.²³

Challenging the notion of consumerism, the company communicated that even the best product generates greenhouse gases, pollutes fresh water, and produces waste in the production process. Hence, "don't buy what you don't need." The campaign garnered quite a bit of press and attention from the public. Since then, similar campaigns have followed.

Sustainability: the Financial Piece

In 2019, the Global Fashion Agenda, a sustainability advocacy group, noted for the first time that climate change can contribute to financial risks. Changes to the climate were already having a negative impact on crucial raw materials like cotton and wool, causing fluctuations in quality and price. The luxury sector is said to be particularly vulnerable because of its reliance on access to high-end materials.²⁴ For some companies, even though sustainability initiatives bring lots of benefits, they also come with high costs.

Measuring the value of sustainable practices for the apparel industry has recently been facilitated by the development of the Return on Sustainability Investment (ROSI) framework. This framework helps companies such as Eileen Fisher, REI, and Reformation in their Environmental, Social, and Governance (ESG) strategies. For example, Reformation promotes circularity by partnering with ThredUp, an online consignment and thrift store. Customers send their gently used clothes to ThredUp for resale or donation. If ThredUp

23 Cf. Patagonia, n. d.

24 Cf. Kent, 2019a & 2019b.

accepts clothing for resale, the customer can earn shopping credit on Reformation's website. Using the ROSI framework, Reformation was able to realize a net benefit of 1.5 million U.S. Dollars in 2019 from its partnership with ThredUp (in part from purchases made with credits earned).

Recent research by Medcalfe and Miralles Miro investigated whether there is a relationship between sustainable practices and financial performance in fashion firms.²⁵ The authors examined publicly available financial data and information on sustainable practices from the Baptist World Aid Australia Ethical Fashion Reports. Their research showed that there is a strong positive correlation between sustainable practices and financial performance in fashion firms. The results of this research are promising in that they provide support for financial benefits that are often challenging to measure. More research is needed in this area.

There is no doubt that the need for sustainability has risen to the forefront of fashion firms' agendas. According to Boger et al., disruptive innovation is needed in the form of new materials, processes, technologies, and business models.²⁶ With its almost 2 trillion U.S. Dollar market size, the fashion industry offers major untapped opportunities for investors and companies. To bring the necessary innovations to scale, fashion brands, supply chain partners, investors, and others need to step up to create the conditions that accelerate innovation. Financing will flow into the fashion industry when investors are presented with manageable risk, attractive returns, and measurable impact.

Conclusion

Companies are realizing that the environmental and social impacts of the industry are too high to ignore. This article examines the state of sustainability efforts and current trends in the fashion industry, the state of sustainability efforts and current trends in the industry, as well as consumer perceptions and buying behaviors. Using various apparel brands to illustrate innovative initiatives, the concepts of circularity and B Corp certification are highlighted. The Return on Sustainability Investment (ROSI) framework and the relationship between sustainable practices and financial performance in the context of fashion companies are also discussed. Overall, more innovative practices and large-scale investments are needed to make a long-term impact.

25 Cf. Medcalfe & Miralles Miro, 2022.

26 Cf. Boger et al., 2020.

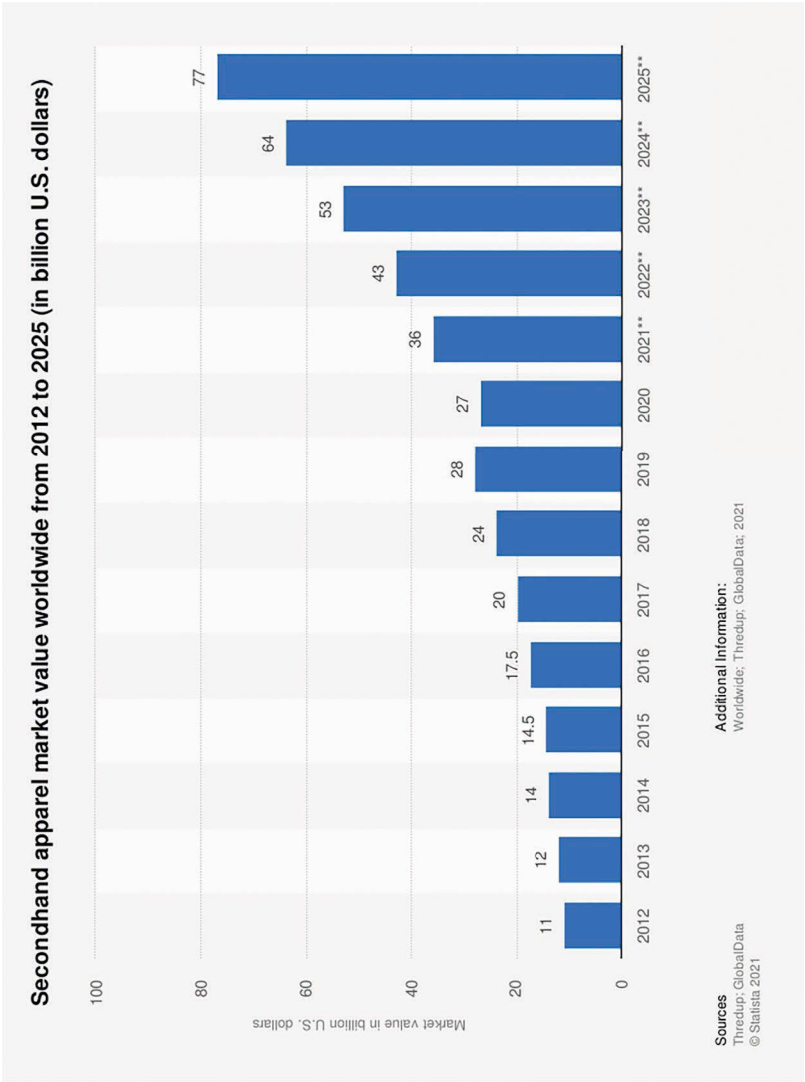


Fig. 1

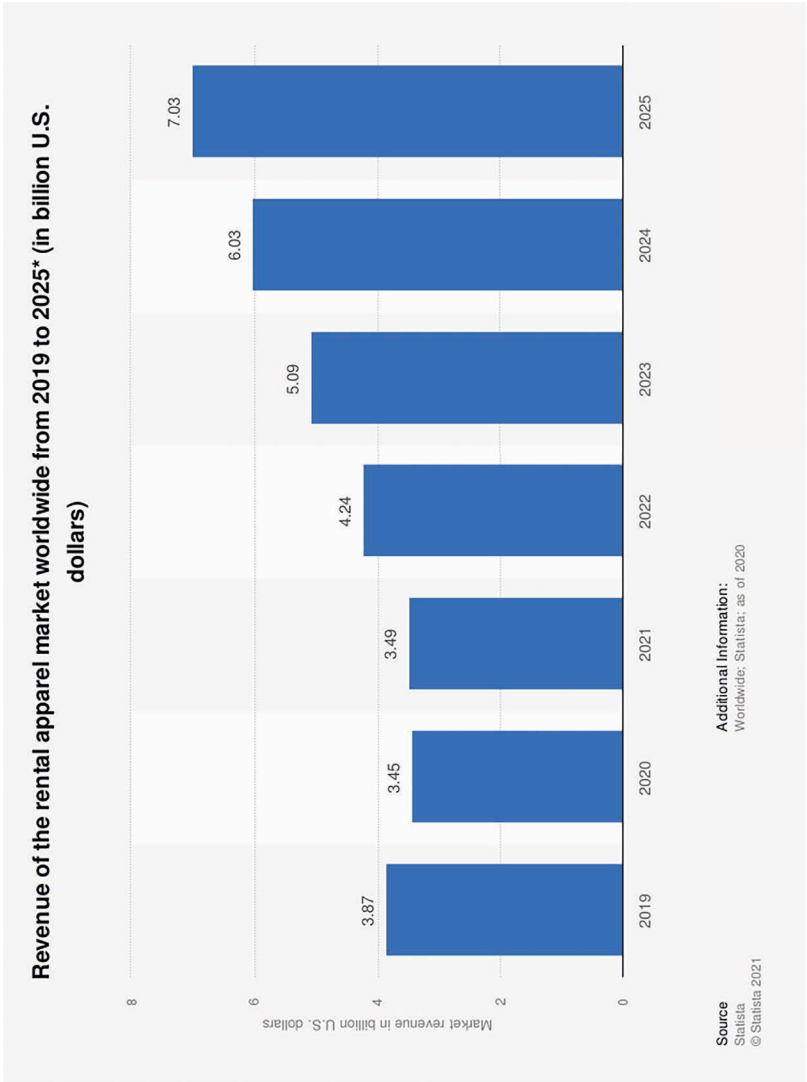


Fig. 2

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Figures

- Fig. 1: Revenue of the rental apparel market, <https://www.statista.com/forecasts/821415/value-of-the-global-apparel-market> [30 Sep. 2021].
- Fig. 2: Secondhand apparel market, <https://www.statista.com/statistics/1195613/rental-apparel-market-revenue-worldwide/> [1 Dec. 2021].

