

Fashion

Exploring the disconnect between
sustainability and integration



About this report

Circklo's Sustainability Sector Reports are designed to help professionals from a variety of backgrounds understand how to implement and scale circular practices within their own businesses.

Sector reports contain research and information defining the current “state of circular play” in key commercial sectors and offer definitions and practical advice for planning and creating frameworks and processes, understanding resourcing and timelines, implementing activity and measuring results.

In addition, reports contain in-depth, real-world examples of circular and sustainability programmes to help you implement successful projects and transformation in your own business. We have also included links to further reading and useful information.

Above all, this report is designed to showcase how attainable sustainability is within businesses of any size. While the global impact of linear models and waste is well-understood, it can often seem overwhelming, and much of the publicly available information on the circular economy is focused on large projects and ‘big picture’ impact.

At Circklo we firmly believe that circularity is an ongoing practice which can be successfully embedded in every action taken by every member of a business, driving accelerated growth, lower costs, better customer experiences and a more secure future for any business.

Research aim & methodology

The case studies in this report have been compiled to showcase the range of current approaches, adoption and progress towards sustainable models in this sector. In each of our sector reports, we look at businesses both large and small, showcasing attainable, practical and financially successful implementations.

Research methods include desk research and interviews with relevant sector experts and professionals.



About the authors

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About Circklo

Set up in London in 2020, Circklo created the first Business Configurator in the world specialised in digital start-ups for the circular economy. Circklo's main expertise is in developing seed stage start-ups in the sustainability area. It offers start-ups both the opportunity to raise capital and accelerate their business and, also, to configure their business in such a way that purpose and profit can successfully coexist and complement each other in the 21st century digital world, fully using and embracing the principles of circular economy.





Why fashion?

The fashion industry has been one of the key drivers of awareness about the importance of sustainability in recent years. Celebrity talking points, international media coverage, and an increasingly regulated and politicized marketplace have

consistently increased the level of conversation, and shifted consumer behaviour as an increasing number strive to align themselves with more ethical and environmentally friendly brand behaviour.

The fashion industry has been one of the key drivers of awareness about the importance of sustainability in recent years. Celebrity talking points, international media coverage, and an increasingly regulated and politicized marketplace have consistently increased the level of conversation, and shifted consumer behaviour as an increasing number strive to align themselves with more ethical and environmentally friendly brand behaviour.

Despite the regular talking points at runway shows and fashion weeks globally, it remains obvious that there is a huge amount of work to be done. The textile industry remains the world's [second-largest cause of water pollution](#), and the oft-quoted [statistic](#) that a single pair of jeans requires more than 1,800 gallons of water to produce a single pair of jeans highlights the incredible extent of change required.

In some ways this may be a blessing in disguise for businesses keen to increase their sustainability credentials. The textile industry, with its complex supply chains and logistics

functions, is ripe for transformation and modernisation. Perhaps more importantly, even small changes can drive large, headline-worthy effects. According to a [company statement](#), Levi's - long a poster child for sustainability in the industry - made 100,000 pairs of jeans at a 100% recycled water facility in China, saving almost 12 million litres of water in the process.

Outside of the production cycle, Timberland recently revealed its '[sustainable store](#)' initiative, with shopping spaces constructed from industrial waste, and containing 'living walls'. The company is also committed to planting 50 Million trees worldwide by 2025.

Numbers like this are easy for consumers to understand, and underline a commitment to sustainability which drives positive PR and encourages recognition of other projects which may not be as obvious to the average consumer.

While PR is an important part of the mix, this particular project calls into sharp relief the disconnect between sustainability and integration which is currently a major blocker to wider adoption. This is not a problem unique to fashion by any means, but it serves to highlight the 'offset' way of thinking which many companies apply to these projects. Tree-planting in particular is seen as a way to offset the damage that 'business as usual' causes, rather than pushing businesses to change the way they do business at a fundamental level.

Through the examples we have included in this report, we hope to help you build a line between sustainability and profitability which reduces the requirement for offsetting harmful processes, and instead looks to replace them entirely.

Executive summary

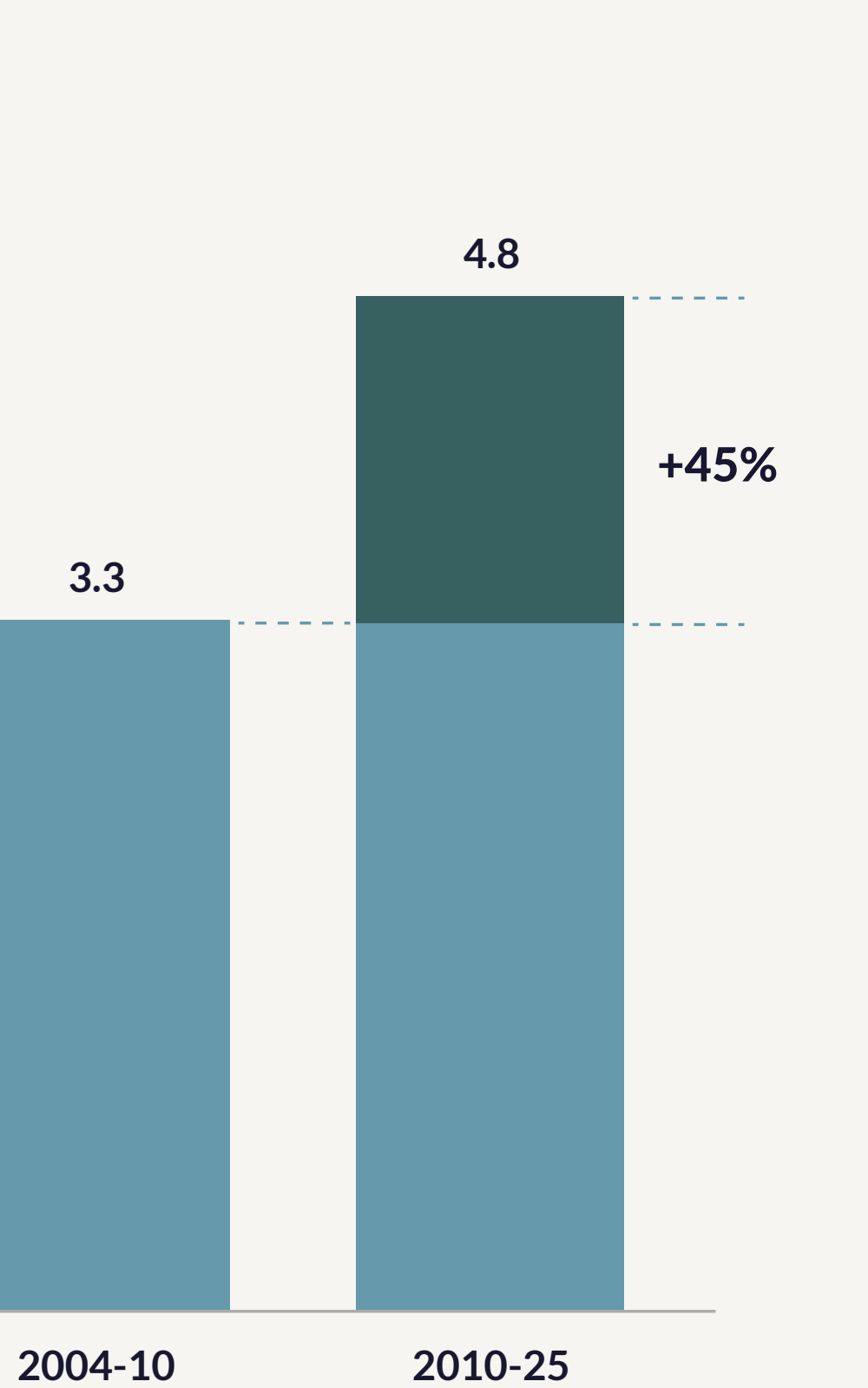
Market size and growth

According to [a report](#) published by Uneco, in 2018 the global fashion industry was valued at approximately \$2.5 Trillion USD, and employed at least 75 million workers. By 2030 global apparel consumption is [projected to rise](#) by 63%, from 62 million tons today to 102 million tons—equivalent to more than 500 billion additional t-shirts.

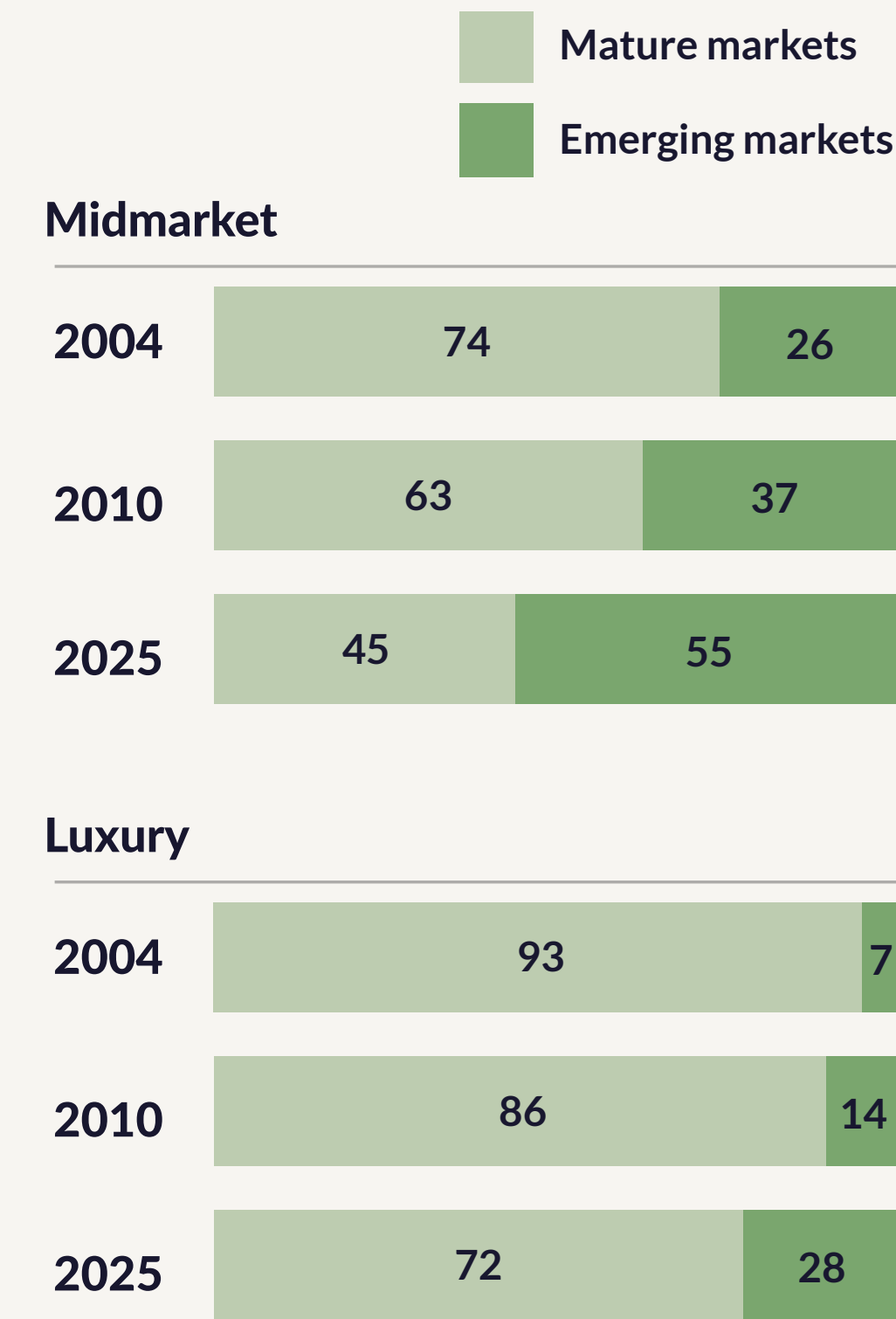
While North American markets continue to dominate, accelerated growth is expected in emerging markets, particularly in womenswear. According to [McKinsey](#) in 2004 emerging markets accounted for just 7% of the global market, but this will grow to at least 25% by 2025, not including international purchases made by Russian and Chinese consumers who tend to have intensive shopping habits when travelling. It is estimated that 70% of top growth cities for women’s apparel will be in these territories.

The growth of the global women’s apparel will accelerate, driven by a shift to the faster growing, emerging markets.

WOMEN’S APPAREL MARKET GROWTH
CAGR, percent



WOMEN’S APPAREL MARKET SIZE
Percent of sales





Customer trends and conversation

Sustainability has never been higher on the agenda for the conscious fashion consumer. Indeed, the [State of Fashion Report](#) labelled 2019 as ‘the year of awakening’. Companies are increasingly expected to reveal the true environmental and social impact of their activities.

It’s important to underline how cynical consumers have become of bold claims, however. Greenwashing has very much had its day, with customers unlikely to respond to initiatives which over-promise or offer only superficial benefits. Likewise, consumers are increasingly looking to businesses that take a holistic approach to sustainability. This means that having a product built from sustainable raw materials, or offsetting carbon through tree-planting is no longer enough. Initiatives like the [#LowestWageChallenge](#) – where fashion companies are called on to reveal the lowest wage they pay anyone globally – also demand that companies reveal their entire social impact.

Sustainability Performance

There are some positive signs that brands are moving in the right direction here. Circklo’s own 2020 Sustainability Index ranked both Nike and Inditex highly for sustainability, financial performance and digital maturity, indicating a push to transform systems across the business to reduce waste and impact.

“Inditex reports reveal a maturity and an understanding of supply chain like no other company in this index. The investment in digitalising the business has been consistent over the years and since 2018 the company embarked on a process of digital transformation and sustainability-driven innovation with the objective of becoming a fully sustainable digital platform for customers worldwide”.
– CSI 2020

Nike in particular has long been a standard-bearer in sustainability. It is one of the only global fashion producers which regularly demands and [reports on emissions](#) data from its Chinese factories.

Conclusion

There is no doubt that the fashion sector is taking sustainability seriously. There is a clear commercial imperative, and in the majority of cases there seems to be a genuine desire to ‘do the right thing’. People and companies want to feel good about the products they produce and use every day. For many businesses however, there are issues with the extreme complexity of supply chain partnerships, making transparency difficult to obtain internally, let alone relate to customers accurately. As we’ll see later in this report, many businesses are operating under the auspices of false assumptions and information which are directing initiatives in the wrong direction. Worse, businesses may be underestimating the sheer scale of change required to adopt truly circular practices. However, perfection is often the enemy of progress. Fashion is well-placed to adopt increasingly sustainable practices as it grows, ensuring that the outdated mistakes of the past are not repeated as it forges into new commercial territories. When coupled with new processes and technologies, this expansion offers the industry a chance to adopt a test-and-learn model without fundamentally affecting the bottom line. Coupled with the desire to grow awareness among customers, fashion has a real opportunity to become the genuine steward of sustainable business in the next decade.





The key technologies impacting sustainable fashion

Advanced Materials

The past decade has seen the fitness wear market grow at an exponential rate, with exercise-as-a-lifestyle becoming thoroughly mainstream in western markets and beyond. The market for smart fitness wear alone is set to reach [\\$4.5Bn by 2023](#), and with customers demanding ever-more advanced integrations and functionality, it's no surprise that this sector is leading the way in materials science for consumer goods.

One particularly salient innovation is the emerging trend towards stain and odour-resistant fabrics for sportswear. Consumers are increasingly demanding that clothing be both stain-resistant and durable. From a sustainability point of view, investment in this type of textile decreases the requirements for raw materials, and impacts water-use on the consumer-side, with breathable fabrics requiring less washing.

[Abyl](#) is one business taking advantage of this trend. Founded by fashion veterans Raj and Akhil Shah, the company uses a proprietary treatment called Filium™, which allows natural fabrics to repel liquid, stains and odours without affecting the breathability or comfort of the fabric.

By making natural fibres more durable and usable, the process reduces the need for production of resource-intensive man-made fabrics and the company estimates it can reduce post-purchase water usage by as much as 75%.

In addition to processing for existing materials, many companies are developing [new methods](#) of sourcing fibres for raw production. One area showing particular promise is the development of wood-based textiles.

The sustainability of cotton as a raw product has always been questionable due to land and water requirements, while cellulose-based fibres such as viscose involve many harmful chemicals during the production stage. It is estimated that the cellulose fibre market is [set to double](#), reaching a value of \$39Bn by 2024 unless a sustainable alternative can be found. Wood-based pulp fibres are inexpensive, and offer a genuine alternative, requiring less chemicals and land than traditional clothing materials.

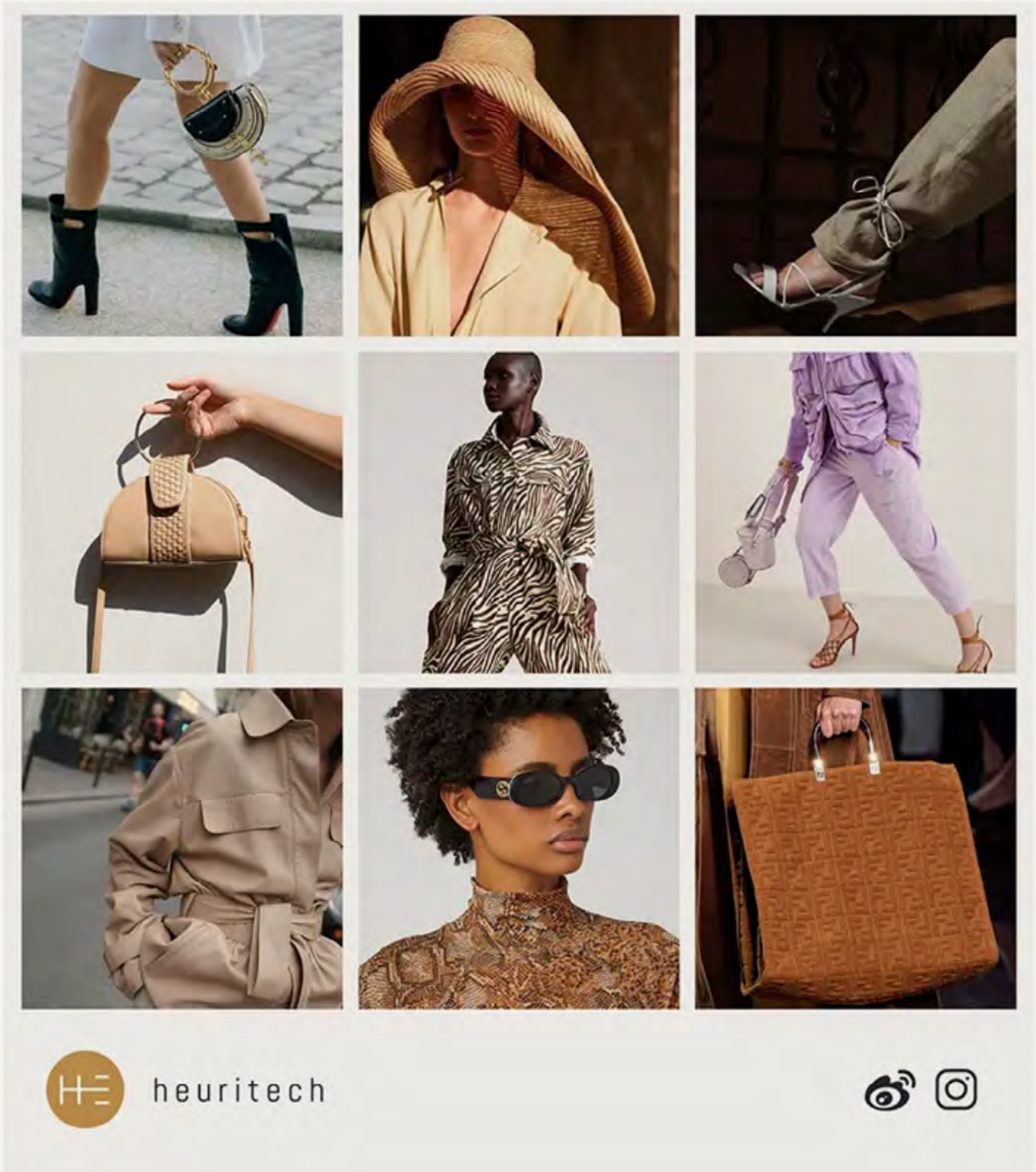
Artificial Intelligence

It’s estimated that the global textile industry has more than doubled in the past 15 years, producing almost 1.2Bn tons of CO2 annually -more than the international air and sea shipping industries combined.

More pressing from a commercial standpoint is the sheer amount of waste that fashion produces. Forecasting errors and unsold inventory are a major source of lost revenue and represent a considerable environmental impact. AI offers a potential solution.

[Heuritech](#) is one business shaping the future of fashion. Using AI to gather and analyse massive amounts of data from public platforms like Instagram, the system is able to provide accurate forecasting and planning data which businesses can utilise when planning new lines.

It’s estimated that by using AI to detect emerging trends, forecasting errors can be reduced by as much as 50%, with linewide overproduction reducing by 20-30% on average.



Internet of Things & Blockchain

In the past few years, multiple retailers and fashion producers have implemented beacon and RFID technology, aiming to track the movement of goods and the flow of users in retail spaces. While this provides extremely useful data and increases security during transport, this trend is now evolving as sellers look to identify and track the entire lifecycle of a product.

This approach has multiple connotations during production, sale and post-sale. On the customer side, making data available allows consumers to truly understand the brand's commitment to sustainability. Data can be used to identify where garments come from, how much water and energy is used in their production and transportation, how this compares to other, similar brands – and so can be a significant market differentiator – and how a garment can and will be disposed of at the end of its useful life.

[Eon](#) is a business which is hoping to extend this traceability to all clothing, making circular models more attractive and viable for larger producers through its CirculariD protocol.

Speaking to Circklo in 2020, founder Natasha Franck also underlined the utility of traceability for producers:

“It actually gives brands and retailers the control of their products after point of sale such that they can monetize that product again and again.

That original brand who created the product benefits from the resale of that product, the rental of that product, and the recycling of that product, which means they have more opportunities to monetize that one product that they produce, then they are more incentivized to make a higher quality product and a more durable product”.

By connecting individual pieces of clothing, producers can begin to claim end-to-end visibility of complex supply chains, and also partner with retailers to optimise order fulfilment at an individual store level, further reducing waste.



3D printing

When 3D printing began to make headlines a few years ago, it came with the promise of a revolution in manufacturing. That promise - allowing consumers to print their own clothes at home – may not have come to fruition so far, but 3D printing is still quietly revolutionising fashion’s go-to-market strategies, and bringing commensurate savings and optimisations with it.

While individual printing promised endless customisation, the same principle can be applied at scale, allowing mass producers to adapt to trends faster than ever before.

3D Printing company [Materialise](#) are helping businesses adopt this model with their innovative approach to fashion eyewear. Companies applying a 3D design can update and tweak design files in real time, with no risk to stock. This allows fast adaptation to ensure that display models remain on trend, while on-site printing reduces the amount of inventory required – the sales point prints only what is purchased.

Speaking to [Fashion United](#), Valérie Vriamont, business developer and innovation consultant at Materialise spoke about the increasing importance and adoption by forward-thinking manufacturers:

“There is a very interesting dynamic going on in the industry. The number of material and machine suppliers has been very limited but the last couple of years have seen a lot of new entrants. I think it will evolve much faster than in the last 20 to 30 years. Now, both machine manufacturers and material suppliers see the potential markets in 3D printing and are willing to invest and develop new materials”.





Key challenges for sustainable brands

New skills are required by businesses

With all of the conversation and focus on sustainability in the fashion industry, it begs the question; What's stopping sustainability? The answer, unsurprisingly, is complex. Internally, fashion and textile businesses face the same issue as every other industry: Driving true change is hard.

We have touched on the issue supply chains represent throughout this report. Although increased traceability is a business focus, supply chains rely heavily on partnerships, and the ability to ratify the sustainability credentials of partner organisations represents a huge challenge for even the most dedicated organisations. Transformation in this area requires investment in change management skillsets internally, and a remodelling of business departments to support more collaborative ways of working.

In other industries, we've discovered that relatively few businesses are partnering with authoritative bodies when planning sustainability initiatives. For example, in retail, IKEA was the only business with a [sustainable forestry plan](#) that was supported and vetted by the WWF.

Other businesses had tree-planting and carbon-reduction programmes in place, but these did not involve official bodies, leaving a wide margin for error or under-performance. This perhaps explains why, of all the businesses included in our 2020 Sustainability Index, 70 was the highest score achieved by any company – meaning there is still a huge margin for improvement, even among high-performing businesses.

Integration is imperative

In the majority of cases, these issues can be traced back to a lack of integration. Sustainability is still seen very much as a separate department, which leads to initiatives which are well-meaning, but separate from 'business as usual'.

In our 2020 sustainability survey, professionals placed emphasis on the environmental impact of their businesses, while relatively few looked beyond this to include social impact:

By far the largest proportion of responses made specific mention of protecting the environment (49%). Only 22% of this group broadened their definition to include social or community concerns, and only 6% of the overall responses included these in their definition, with 4.3% specifically mentioning the circular economy or triple bottom line approaches.

Creating specialist teams and 'centres of excellence' certainly has a business function, especially at the beginning of the sustainability journey. However, as customers increasingly demand ethical approaches to production, this approach leaves businesses with a narrow view of their negative impact and restricts the flow of sustainable practice throughout the company.

Without integration and top-down implementation, these businesses are destined to fail in their sustainable transformation efforts. Worse, well-meant programmes will continue to meet accusations of greenwashing, and have a limited overall ability to drive positive impact.

The consumer challenge

The past five years have seen a huge shift in consumer responses and awareness of sustainability. According to [Nosto](#), 52% of customers want businesses to be more sustainable, while 28% would switch brands for a more sustainable option.

The issue however, is that customers do not truly know what 'sustainable' means. There is a huge hunger for brand stewardship here, and there is some evidence that changing demand is being driven by brands themselves, keen to latch on to a new market driver, rather than originating from customers. [A report](#) from Coventry University contains the following, telling quote from a fashion industry consultant:

'Consumers will come at these things from different angles. Some will be very concerned about animal welfare and whether or not they'll use clothes that have leather or whatever. Others will be more into knowing that their clothes are sweatshop-free or child labour free, and others are concerned about the environment'.

There are other factors that must also be considered here. Market research around customer desires is often unreliable when it comes to predicting actual buying behavior. While there are undoubtedly some inherent bias in marketing research, there is also [evidence to show](#) that customers are not as knowledgeable about their own behavior and buying habits as they might believe.

In fashion, and particularly on the high street, price continues to be the major driver for customers – something surely set to increase during the post-Covid 19 period of economic instability. A focus on price has led to the true cost of clothing being under-realised in consumer markets, and is particularly prevalent in fast fashion brands, with obsolescence built into many cheap fashion brand offerings.

This would not ultimately be an issue if these brands committed to recycling and reusing materials, however this behavior may be out of their control. Research shows that recycling needs to be established as a norm within families at a young age in order for customers to consistently practice it. While brands can help by offering clothing return schemes and pick-ups, without wider societal change (typically driven by government policy), recycling of materials will struggle to accelerate and reach wide-scale adoption.

Finally, a softer, but no less influential factor. Clothing purchases are not typically made according to a customers' ethical beliefs. While there are outliers to this behavior (Particularly in the vegan clothing market), at a fundamental level, people buy clothing which aligns with their personality. This behavior is being magnified by the entry of Gen Z into the marketplace. This generation of consumers has a huge appetite for highly individual clothing, but is also [demanding more](#) from brands.

This desire for thousands of customised, individual pieces does not fit well with a drive to sustainability, where product lines are typically limited and overwhelmingly focus on casualwear (jeans and T-shirts), instead pushing the production of wider product lines, leading to increased issues with overstock and wastage.

The answers to all of these issues are not easy. On the production side, demand for better reporting from cultivators, manufacturers and suppliers can help standardize ESG targets within the industry and drive change.

On the consumer-facing side, the answers are harder to implement and require long-term commitment to marketing and design which push a sustainability message. Limited ranges can offer exclusivity and charge a premium because of it, and this may drive greater change than advertising products as 'sustainable' at point of purchase.



A photograph of an H&M store at night, featuring large windows displaying the brand's logo and interior merchandise. The building is a multi-story structure with classical architectural details. A street sign for '5th Ave' is visible near the entrance. The scene is illuminated by streetlights and the store's internal lighting.

CASE STUDY

H&M

Code of Conduct

COMPANY STATS:

Founded: 1947

Locations: Stockholm, Sweden

Employees: 125,000

Revenues (2019): \$26.6bn



H&M (Hennes & Mauritz) is a multinational fashion retailer which currently operates more than 5,000 stores in 74 countries, and employs more than 125,000 staff. It's the world's second largest fashion retailer, behind Zara owner Inditex.

As well as H&M, it operates seven other fashion brands, including & Other Stories, COS and Monki.

H&M is synonymous with fast fashion, which is characterised by short lead times from production to the store, designed to latch on to catwalk and other trends, as well as being cheap.

As such, it can also be seen as more disposable than some other fashion items. From a sustainability perspective, this can be problematic, as it drives greater consumption and potentially more waste.

However, brands like H&M, which command huge market share, also have the potential to drive change within the industry, and to make a big difference with their sustainability initiatives.

Objectives and targets

H&M launched its Code of Conduct back in 1997, which aimed to make its supply chain more sustainable.

It has ramped up efforts more recently, launching its Sustainability Commitment which aimed to make sustainability 'an integrated part of all our global business relationships'.

This commitment covers standards expected of suppliers and partners, covering workplace issues such as health and safety, environmental impact, and animal welfare.

In 2017, H&M launched its most recent, and most ambitious sustainability strategy, which is organized into three main areas.

Leading the Change

- Promote and scale innovation
- Drive transparency
- Reward sustainable actions

Circular & Climate Positive

- Take a circular approach to how products are made and used
- Use only recycled or other sustainably sourced materials
- Create a climate-positive value chain

Fair & Equal

- Provide fair jobs for all
- Champion inclusion and diversity



Pascal Brun, Global Sustainability Manager, H&M
Image courtesy of H&M

Within this programme, H&M has set out a range of sustainability goals covering climate, source materials and water usage.

Climate

- By 2025, to reduce electrical intensity (kWh/sqm per opening hour) by 25% compared to 2016.
- By 2025, to reduce transport-related emissions by 30%, compared to 2018. baseline).
- Source 100% of electricity from renewable sources by 2030.
- A 40% reduction in scope 1 and 2 GHG emissions by 2030, compared with 2017.
- A 59% reduction in scope 3 GHG emissions from purchased raw materials, fabric production and garments by 2030, compared with 2017.
- To achieve a climate positive value chain by 2040.

Chemicals

- To achieve zero discharge of hazardous chemicals from its textile and leather supply chain by 2020.

Materials

- To source only 100% sustainable cotton by 2020.
- To collect 25,000 tonnes of garments a year through our collection initiatives by 2020.
- To source only virgin wool from farms certified to the Responsible Wool Standard (RWS) by 2022.
- By 2025, all wood used in H&M products and packaging will be made of Forest Stewardship Council (FSC) certified materials, or fibres from alternative sources such as agricultural residues and post-consumer textiles.
- By 2025, to only source from producers of viscose and other MMC fibres that have good environmental practices, such as closed-loop processing of water and chemicals.
- All H&M's animal-based leather will be chrome-free and originate from more responsible sources by 2025
- Only use 100% recycled or other sustainably-sourced materials by 2030

Packaging

- All packaging designed and produced by the H&M Group will be reusable, recyclable or composted by 2025.
- To reduce packaging across the value chain by 25% by 2025, compared with 2018.
- To reuse or recycle 100% of packaging waste from H&M Group sites.
- 100% of our packaging will be made from recycled or other sustainably-sourced material with a preference for recycled materials by 2030.

Water

- By 2020, 100% of the facilities in H&M Group operations will have water-efficient equipment.
- Reduce water usage in production by 25% by 2022 compared with the 2017 baseline.
- To recycle 15% of the total water consumed during production by 2022.

Organisational and value chain challenges

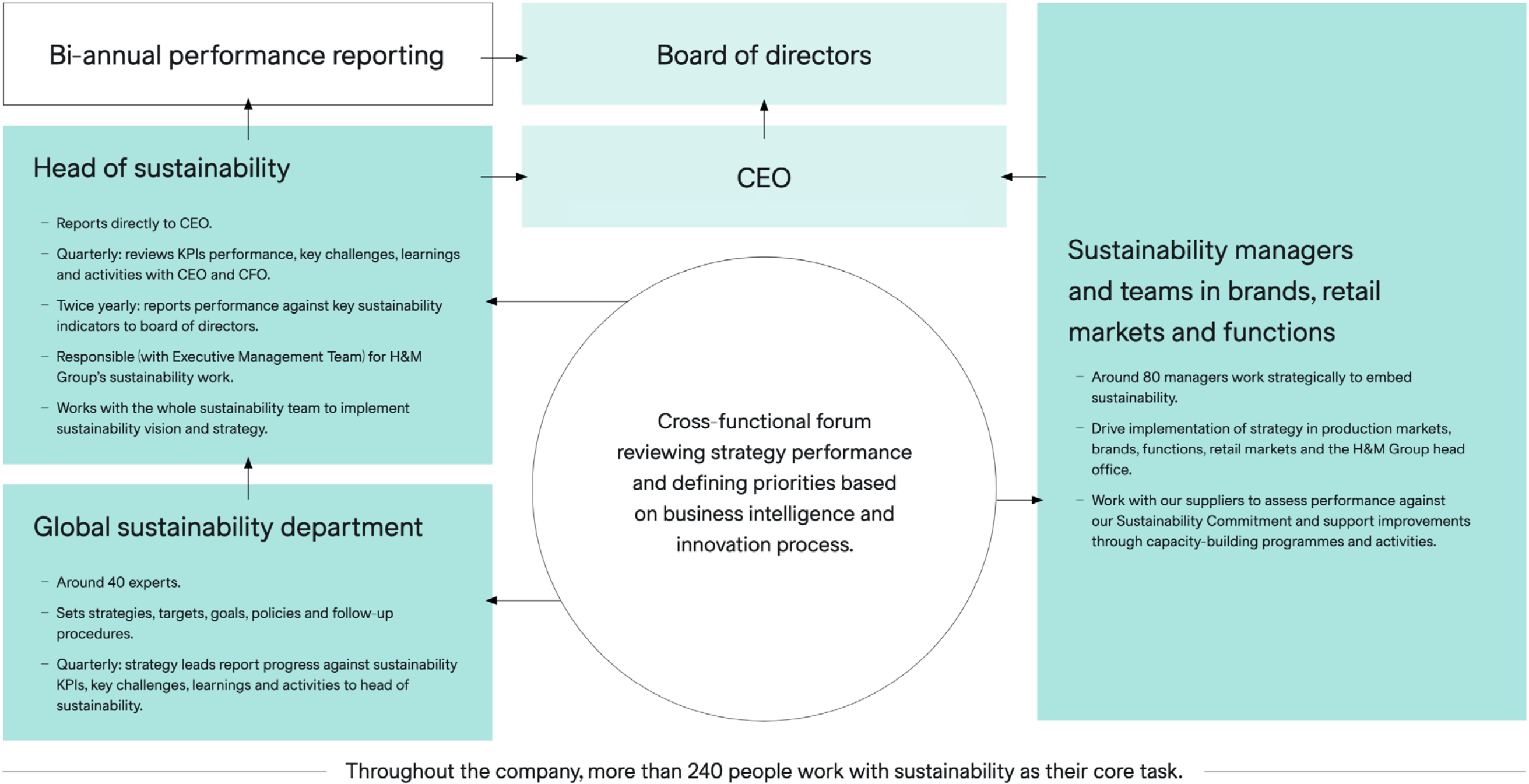
The challenge for H&M in looking to become more sustainable is that its business model is based around value for money and speed of production and transport. Some would say that its business model could be incompatible with sustainability.

Working sometimes with very low margins, fast fashion brands do face a challenge in sourcing more materials, reducing the environmental footprint of transport and production, while still producing fashion that customers want to wear.

For H&M, as for many brands, the challenge needs to be met by rethinking relationships with suppliers, looking into the value chain to see where savings can be made and efficiencies found, as well as looking at innovation to find more sustainable materials and practices.

It also involves business transformation. For sustainability to be more than just a talking point, it needs to involve the whole organisation, and to involve key stakeholders.

In H&M’s case, the current CEO Helena Helmersson, appointed in January 2020, had worked in the company’s sustainability team for the previous five years.



H&M has more than 240 employees for whom sustainability is their core task, with teams looking to set goals and policies, and others working to implement this strategy in the company’s operations and relationships with suppliers.

The company’s efforts in this area are driven and overseen by a Head of Sustainability, Pascal Brun, who reports directly to the CEO.

H&M puts the importance of a circular business model at the centre of its sustainability strategy. [According to the company:](#)

“We believe that an industry-wide shift from a linear to a circular business model is the only solution. In a circular model, resources stay in use for as long as possible before being regenerated into new products and materials, resulting in a reduction in waste and negative impacts.”

The use of recycled materials plays a key part here, with the company committed to using 100% recycled or sustainably sourced materials by 2030.

For example, H&M's Fall 2019 Conscious Collection featured clothing produced using recycled materials, or those with a lower environmental impact, such as recycled polyester made from used PET(plastic) bottles.

from recycled materials or materials with a lower environmental impact, such as recycled polyester made from used PET bottles and organic cotton.

It also uses TENCEL™ lyocell, a fabric which is made using wood cellulose, and a material which is one of the [more sustainable](#) and environmentally friendly fabrics.

Global Sustainability Manager Pascal Brun says the collection 'helps to make fashion sustainable, and sustainability fashionable, which ultimately could encourage our customers to make conscious choices.'

The drive to create fashion from sustainable materials requires work in sourcing materials and recycling materials, but also innovation from the company and partners to create sustainable alternatives to materials traditionally used in the production of fashion.

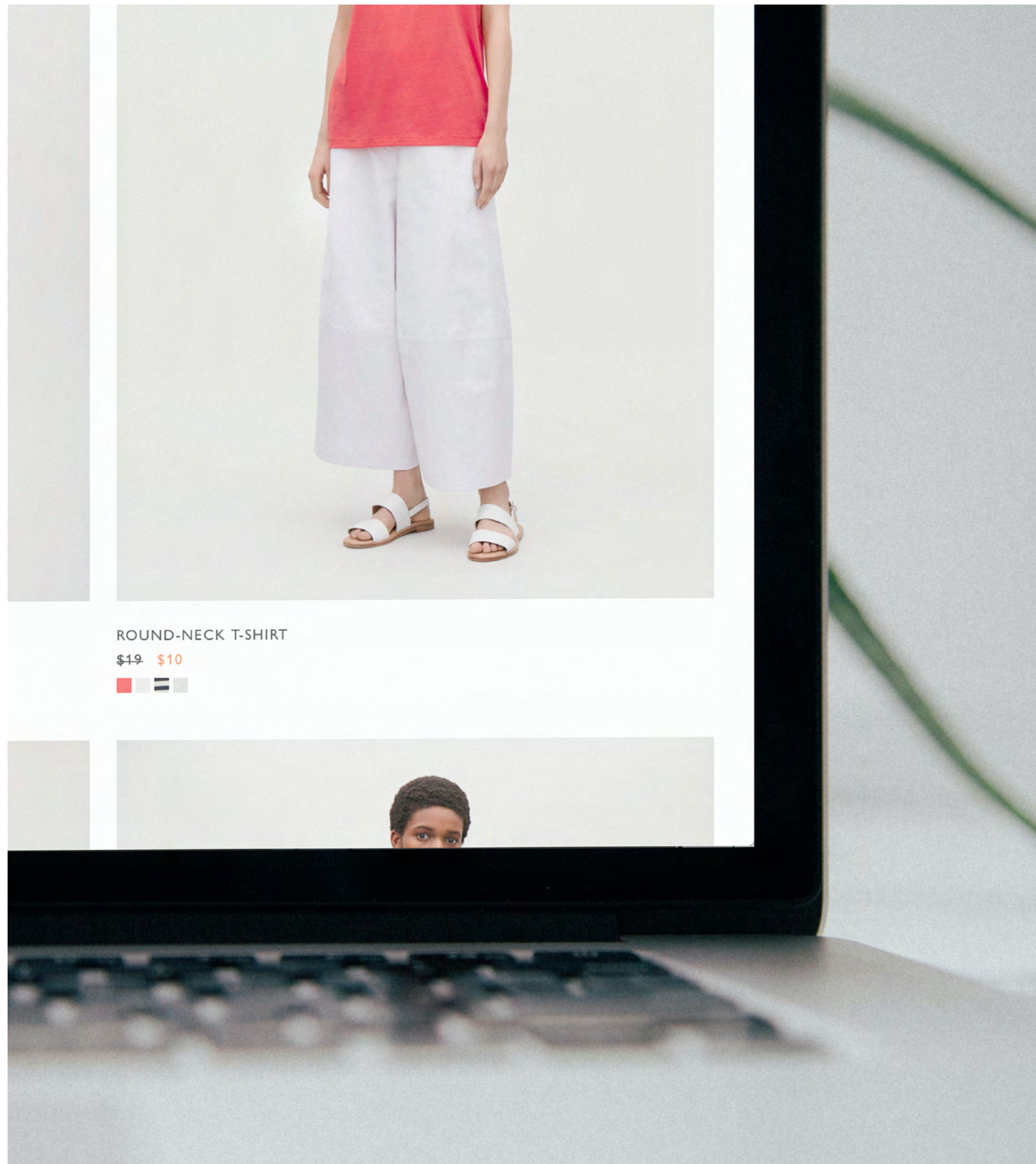
As Brun says:

“Material innovation such as garment-to-garment recycling is still limited today, but will definitely be a game changer for the industry”.

The [H&M Foundation](#) was set up to drive in 2013 to work with companies working towards sustainability and other goals through innovation.

The Foundation has 23 partners, with some working on more sustainable materials for use in H&M clothing. One such example is [Orange Fiber](#), which produced materials using citrus by-products, and [Grape Leather](#) which produces synthetic leather using leftover materials from wine-making.





The importance of digital transformation

Sustainable goals are great, but to achieve them the company needs to have a sound business footing to be able to meet its goals while continuing to be profitable.

It's in this area where digital transformation matters. With ecommerce having grown rapidly over the last decade, and with more growth to come, any retailer needs to be active online to achieve continued prosperity.

H&M was initially a little slow to embrace ecommerce, and instead was concentrating on [expanding its store footprint](#) from around 2000 onwards, only slowing in the mid 2010s.

Like some other low margin fast fashion brands like Zara (and perhaps Primark), H&M has been wary of how the business model would translate online.

However, the examples of online-only brands like ASOS and Boohoo have shown that this model works online and indeed, that's where much of the target audience likes to shop.

H&M's [2017 annual report](#) identified this shift:

“Profit during the year was negatively affected by a weak sales development in the physical stores of the H&M brand. This is mainly due to the ongoing shift in the industry, in which sales are increasingly taking place online but where the group's online share does not yet compensate for the reduced footfall to stores”.

In 2017, H&M were only selling online in 43 of the 69 markets where it had stores. At this time, then CEO Karl-Johan Persson announced that H&M would be [accelerating its digital transformation](#) in response to changing customer behavior.

This transformation was to include an expansion online, but also the integration of digital channels into its stores. It's an area where H&M is still playing catch up compared to some retailers. For example, it only offers click and collect in 14 countries, and the ability to return online purchases to store in 16.

The 2019 report shows that the digital transformation is bearing some fruit. H&M is now online in 51 of 74 markets where it has stores, and the company reported online sales growth of 24% in SEK (18% in local currencies). Overall sales growth was 11% in SEK (6% in local currencies).

Impact and results

Many of H&M's sustainability targets are for 2022 and beyond, but the company does report progress towards these targets in its 2019 annual report. Some goals are very much a work in progress, while H&M has some achievements to report in other areas.



Materials

- In 2019, 57% of materials used by H&M Group were recycled or from sustainable sources, an increase on 2018.
- H&M reached 97% recycled or other sustainably sourced cotton.
- Sourcing of BCI cotton contributed to:
- 32.7 billion gallons of water saved.
- Avoided the use of 80,000kg of pesticides.
- H&M was ranked third in the [Sustainable Cotton Ranking](#)
- Phased out the use of mohair from products and increased our use of [RWS compliant](#) wool to 11.6%.
- Around 57% of footwear, bags and belts were produced with chrome-free tanned leather.

Chemicals

- 100% of the H&M Group textile and leather supply chain (more than 600 suppliers) are now enrolled in the Zero Discharge of Hazardous Chemicals (ZDHC) programme.
- Achieved 99% H&M Group Chemical Restrictions product compliance.

Packaging

- Collected data and set a baseline for all packaging, measuring packaging circularity using a tool developed with the Ellen MacArthur Foundation.
- H&M no longer uses plastic shopping bags and has replaced them with 100% Forest Stewardship Council (FSC) certified paper bags.
- To reduce usage, we charge for the paper bags in many markets, and several brands offer reusable alternatives.

Minimising waste

- 29,005 tonnes of textiles was collected in H&M Group stores, compared to 20,649 in 2018. This is equivalent to more than 145 million t-shirts.
- Of the garments collected:
- 50–60% are sorted for re-wear or reuse.
- 35–45% are recycled to become products for other industries or made into new textile fibres.
- The 3–7% that can't be reused or recycled are destroyed (prioritising incineration for energy recovery where possible).
- 62% of H&M Group stores have sufficient recycling systems in place.

Key Takeaways

- A collaborative approach is essential. No one company can achieve a sustainable business model on its own. A whole range of partnerships is essential to work together towards common sustainability goals. For example, H&M has worked with IKEA on a large-scale study to review the chemical content in pre- and post-consumer textile recycling.
- The importance of defining clear sustainability targets for partners and suppliers. A lot of the work carried out towards the group's sustainability goals involves finding new sources of sustainable materials and encouraging existing suppliers to be more sustainable. To achieve this, companies need to set expected standards, and to educate and encourage suppliers.
- Digital transformation is key. Alongside a shift towards a more sustainable business model, H&M also needed to make its business more customer focused, improving its online channels. H&M still has work to do in this area, but this approach is already bearing fruit, and will make the business more profitable in the long-term.
- Encouraging recycling is a key challenge. The fast fashion industry can produce a lot of waste, and effective recycling is only possible with the cooperation of customers. Customers need to be encouraged to recycle, which is where marketing can help, but it also needs to be easy for them. This is where in-store recycling collections and incentives such as discounts can help.
- Innovation is needed to make fast fashion more sustainable. The raw materials used, and their suitability for recycling and re-use is a big challenge for retailers like H&M. New materials and methods of production are needed, and thus is where innovative companies such as Orange Fiber can make a difference,
- Digital transformation is key. Alongside a shift towards a more sustainable business model, H&M also needed to make its business more customer focused, improving its online channels. H&M still has work to do in this area, but this approach is already bearing fruit, and will make the business more profitable in the long-term.



CASE STUDY

Levi's

Let's make things better

COMPANY STATS:

Founded: 1853

Locations: HQ in San Francisco, USA

Employees: 15,000

Revenues (2019): \$5.8bn



Images courtesy of Levi's

Levi Strauss & Co is one of the world's biggest apparel companies, and the most famous jeans brand.

It designs and markets jeans and other apparel under the Levi's, Dockers, Signature and Denizen brands.

It sells to more than 110 countries worldwide through its own stores, websites and through a range of department stores. It has approximately 3,000 retail stores and shops within other shops.

Objectives and targets of The Climate Pledge

A global brand with a footprint as large as Levi's has the opportunity to make a big impact by pursuing a more sustainable strategy.

To this end, it has been working on sustainability initiatives for the past decade or more, and has recently set some ambitious goals.

Levi's has picked out four key areas for its focus on sustainability - water, climate, chemicals and people - with the aim of creating a more circular economy for its products.

These are some of its targets, set out in various reports, including its Climate Action Strategy report of 2018, and the 2019 Water Strategy Report.

Climate

Levi's had already reduced GHG emissions by 25%, having set this goal in 2012, and was sourcing 20% of its energy from renewable sources in 2017.

It set further goals in 2018, to be achieved by 2025:

- 90% absolute reduction in GHG emissions in all owned-and-operated facilities.
- 100% renewable electricity in all owned-and-operated facilities.
- 40% absolute reduction in GHG emissions across our global supply chain

Cotton

Cotton makes up more than 90% of the raw materials sourced by Levi's, and the company has been working to source this material more sustainably, and to drive the adoption of the Better Cotton Initiative more widely.

Goals for 2020:

- 100% of cotton to be sourced by Levi's from more sustainable sources.
- Working to help Better Cotton reach 30% of the global cotton supply.

Water

The ultimate aim is for Levis' to use only as much water as can be replenished naturally, wherever the company operates.

Specific goals for 2025 include:

- To reduce water use in manufacturing by 50% against 2018 levels.
- All key fabric and garment suppliers to meet the company's Water<Less targets. These targets are contextual, based on the region and the stress level of the water situation there.

Organisational and value chain challenges

Sustainability initiatives require a range of approaches from companies like Levi's.

One key factor is that the strategy is driven from the top, and that there are dedicated roles to help oversee the company's sustainability strategy.

Levi's has a sustainability team which answers to the board, with a new Chief Sustainability Officer, Jeff Hogue, [appointed earlier this year](#).

The role of this team is to support various aspects of the business to deliver more sustainable products, and to build a recognition of the importance of sustainability within the business, through each employee.

As Jeff explains, sustainability needs to be pragmatic, led from the top, and for each function to have ownership over its part of the task:

“Creating approaches that are pragmatic, efficient and with clear ownership are key to increasing performance over time. Through previous experience, the best sustainability approaches are both backed by visible leadership commitment and are embedded into the organization – both in terms of aligning with business priorities and by creating ownership within every function.”

On a practical level, achieving ambitious targets requires a whole range of partnerships and initiatives, involving the entire value chain.

Innovation is one way to reduce consumption. For example, the 'finishing' of denim products which gives them the broken-in look and feel can require a lot of water. Since 2011, Levi's has been using Water<Less techniques, and has saved more than 3.5 billion litres of water from this finishing process through a series of simple changes. These include reducing the number of washing machine cycles and combining multiple processes into a single wet process, and removing water from the stone wash.

In seeking to reduce water consumption, Levi's has also set targets according to water stress levels for all key suppliers, which collectively account for 80% of its materials.

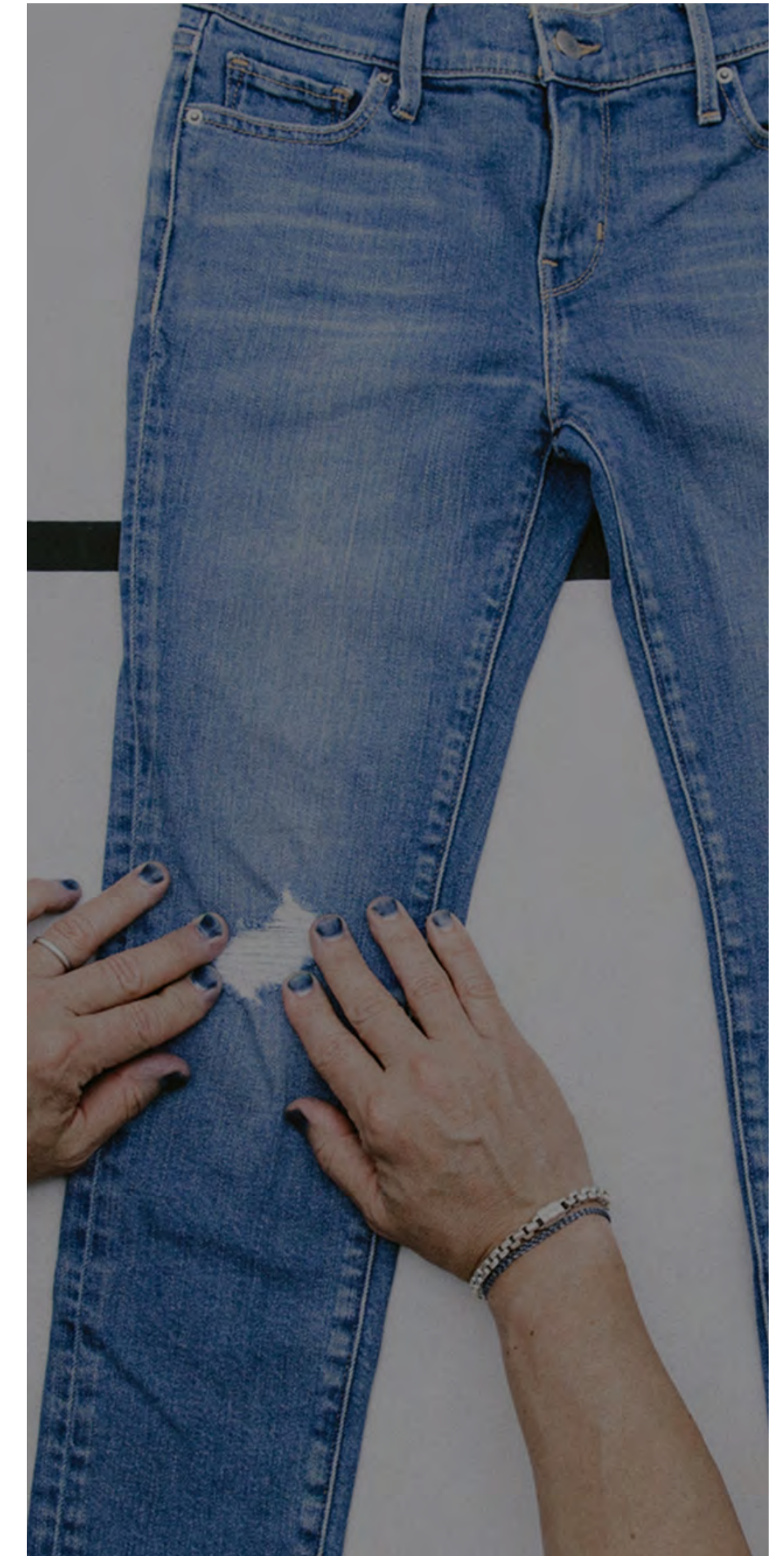
The thinking behind this is that it's far more valuable to save water in areas where it is scarce, and so a one size fits all approach would not address the nuances of different geographical areas, nor would it lead to a more efficient use of resources. Levi's therefore used to use the water data and processes it has to focus more strategically on local water challenges to improve water usage in key areas.

Levi's used publicly available tools and datasets, such as the WWF Water Risk Filter to understand where its own value chain overlapped with areas of high water stress.

Levi's could categorise suppliers in terms of low, medium and high stress areas. Targets could then be set according, so suppliers in higher stress areas would be assigned more ambitious targets for the reduction of water use, and efforts could be focused where the greatest impact could be achieved.

So, in areas with high water stress, Levi's has been participating in collective action projects to gather more data and improve performance. For example, [Levi's partnered](#) with the World Wildlife Fund, Earth Genome and Arizona State University (ASU) to identify and diagnose sources of water stress in the Ravi River basin, Pakistan.

This enables local stakeholders to use findings on water levels, supply and demand, and forecasted stress to bring the basin back into balance.





The part played by digital transformation

For long-term sustainability projects to work effectively, and to be carried out over time, it's essential that the business is healthy.

This can often involve digital transformation, a process that can benefit organisations in terms of generating greater revenue online, but also in terms of creating a more agile company which can carry out sustainability strategies more efficiently.

Levi's has focused on a range of digital strategies, to expand its online presence, to connect the online and offline experience, and to use technology to improve both. For example, the company has [introduced enhanced customisation and personalization](#), both in-store and online.

It has also added omnichannel features which allow customers to move between physical and online channels more easily. These include the ability to order online and pick up in store, multichannel returns and for sales staff to place orders in store if certain fits and sizes are unavailable.

An RFID inventory management system helps to improve operations, allowing for effective stock management and the optimisation of store layouts and stock levels,

Ecommerce growth has been another key focus, with expansion into new markets, and a focus on improving the existing customer experience online.

Their tech based transformation also applies to the value chain. For example, Levi's [Project F.L.X.](#) digitises the denim finish design and enables a responsive and sustainable supply chain at scale.

According to Levi's:

“Project F.L.X. is a radical breakthrough that will shape the future of how jeans are designed, made and sold. We believe it is possible to make iconic apparel with authenticity, agility and sustainability at the forefront – all while protecting the quality craftsmanship consumers know and love us for”.



Impact and results

With some of the company's targets set for beyond 2020, some are still a work in progress. However, the company has provided updates on its progress in various areas in its 2019 Sustainability Review.

Climate

- Levi's achieved 72% renewable electricity in all owned-and-operated facilities by the end of 2018.

Cotton

- 83% of cotton was sourced by Levi's from the Better Cotton Initiative, organic cotton farms, or recycled cotton suppliers.
- Levi's introduced Wellthread, which uses cottonseed hemp to create a more sustainable material.

Water

- 68% of Levi's products were made using Water<Less techniques.
- 3.5 billion litres of water have been saved since the introduction of Water<Less.
- More than 5.7 litres of water have been recycled in product and fabric manufacturing.
- Water use in high water stress areas has been reduced by 50%.

Digital transformation

- The impact of Covid-19 can be seen in Levi's results with Q3 2020 revenues down by 27%.
- This was offset partly by its online growth, with ecommerce revenues growing 52%.
- In its 2019 Annual Report, Levi's put ecommerce at 5% of total revenue, so there is still room for growth through digital channels.

Key Takeaways

- The importance of data and localised strategies. Sustainability projects are underpinned by accurate data which enables savings to be made, and for efforts to be targeted where they can be most effective.
- This approach is apparent in Levis' approach to reducing water usage. By identifying and targeting the greatest efforts towards high water stress areas, it can find solutions to suit each individual location best.
- The importance of Innovation to find new materials. The fact is that, for many companies in the fashion industry, the very materials they use are the problem. This means that, as well as finding more sustainable sources, companies need to find alternative materials.
- The use of cottonised hemp - essential hemp made to look and feel like cotton - is one such innovation which has helped the company to find a new sustainable source of materials for its products.
- Innovation in terms of process is needed. Levi's was using processes which were dependent on water use, so it was necessary to look at ways to change this.
- Digital transformation is key. Levi's long-term growth is dependent on being able to increase its presence in, and profits from, digital channels. Levi's is one of many brands which has been so accustomed to a physical retail strategy that it has been perhaps slower than many to grow online.
- However, the company is addressing this, and starting to improve its online experience and grow ecommerce sales.



CASE STUDY

LVMH

Initiatives For the Environment



COMPANY STATS:

Founded: 1987

Locations: Paris, France

Employees: 145,000

Revenues (2019): \$8.37 million



Images courtesy of LVMH

LVMH (Moët Hennessy Louis Vuitton), is a French multinational corporation which specialises in luxury goods.

It owns 75 brands (or Maisons as LVMH refers to them), covering wines and spirits, fashion, jewellery and watches, perfumes, cosmetics and more.

Famous brands include Louis Vuitton, Hublot, Guerlain, Moët & Chandon and Christian Dior. With such varied brands, LVMH is accountable for many different value chains which each have their own environmental impact.

Objectives and targets

LVMH has been working towards becoming more sustainable for some time, setting up an Environmental Department back in 1992, and, more recently, setting goals through its LIFE (LVMH Initiatives For the Environment) Program.

The most recent set of environmental targets were set in 2016, under the LIFE 2020 program:

Product objectives

LVMH set goals with the aim of improving the environmental performance of all its products.

- To improve environmental performance of 100% of products by 2020.
- To improve the Environmental Performance Index (EPI) by 10% for all product packaging by 2020.

Supply Chain objectives

With a range of supply chains for many different products, LVMH set the goal of monitoring raw materials used and ensuring a greater proportion are sourced sustainably.

- To apply the highest standards across 70% of procurement chains by 2020, reaching 100% by 2025.

CO2 objectives

- To reduce LVMH Group CO2 emissions related to energy consumption by 25%, against the 2013 baseline.

Site objectives

Objectives were set for all LVMH sites, for 2020:

- Reduce water consumption by 10%.
- A 10% reduction in energy consumption.
- To reduce waste production by 10%.



Organisational and value chain challenges

The sheer range of products sold under the LVMH group, and the vastly different supply chains for each present some challenges when looking to implement more sustainable policies across the group.

A company such as Levi's or Carlsberg for example, can find solutions which work across the whole group as the products they produce all have similar production methods and value chains. For example, Levi's was able to introduce water saving measures which could be put into practice across different locations.

In the case of LVMH, multiple solutions are needed, according to the unique challenges of each value chain. Practices involved in increasing the sustainability of the value chain for wines & spirits do not necessarily cross over to the perfume & spirits sector, and so on.

These challenges increase the importance of effective management of the group's sustainability initiatives, as well as the ability to oversee practices across multiple product divisions, brands and supply chains.

To this end, LVMH created the Group Environmental Development Department, which acts as intermediary between the Executive Committee and senior management of each house / Maison, and is designed to 'unify without standardizing the environmental policies put in place by the Maisons'.

This department is responsible for formulating overall environmental strategy for the group, setting targets and initiatives like the LIFE program, overseeing the implementation of policies to meet these commitments, and coordinating and reporting on group-wide programs.

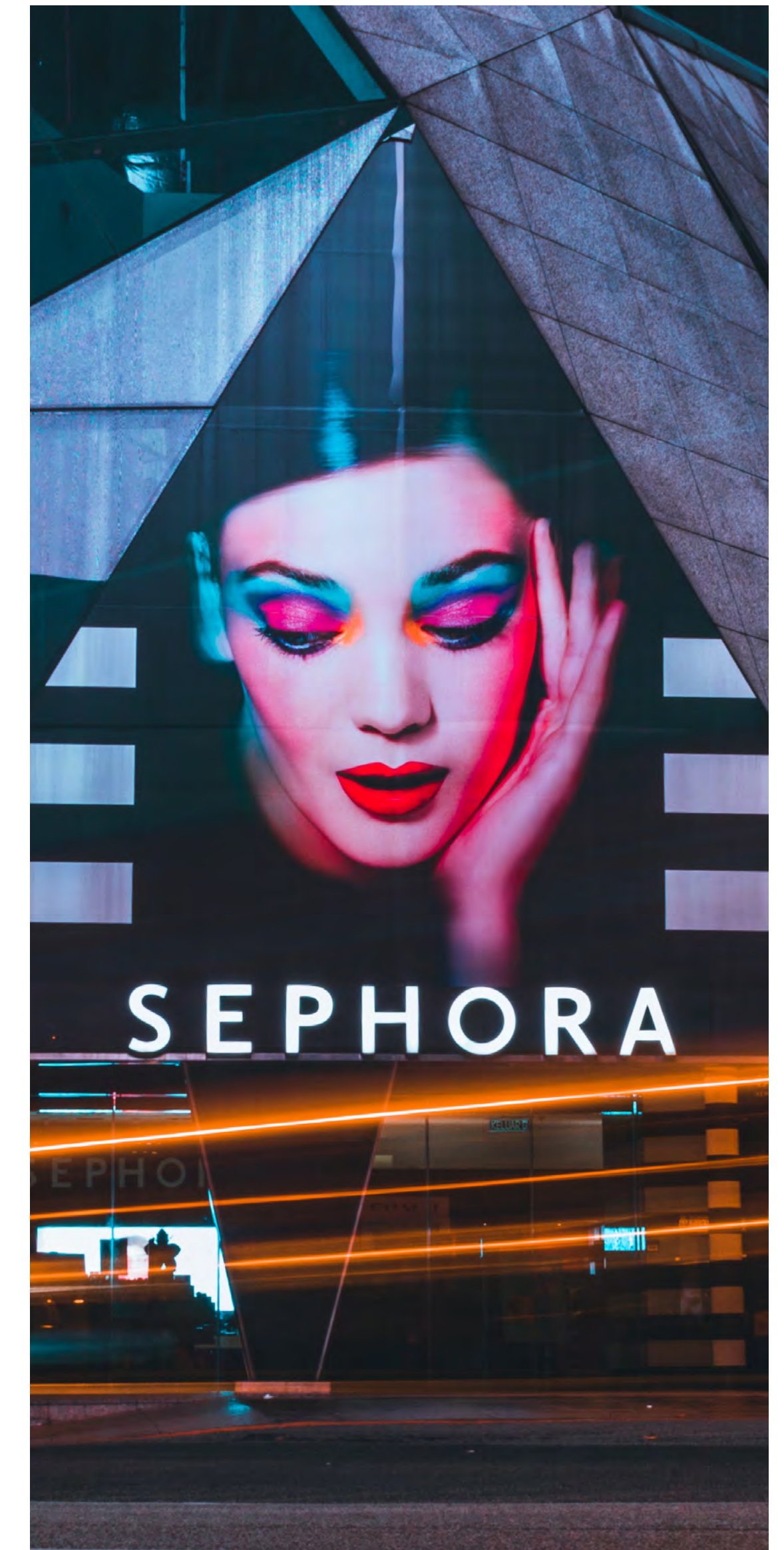
This department also acts as an intermediary between the Executive Committee and the Maison's senior management. It also seeks to enhance collaboration with other departments throughout the Group on environmental issues.

The Environmental Development Department consists of 12 specialists who help the Maisons to develop more sustainable policies, developing foresight tools, measuring impact, and encouraging dialogue with stakeholders throughout the company.

A network of environmental managers reports to the department, and each of these are responsible for promoting, relaying and implementing the LIFE program within each Maison.

Each Maison has some degree of independence and freedom of action in terms of how they meet the goals, enabling them to develop solutions that work within their own value chains. This overall structure allows the various LVMH maisons to find the best ways to meet sustainability challenges, while providing oversight and ways to share best practices around the group.

For example, Guerlain launched [an initiative](#), in partnership with UNESCO, to encourage working practices which protect bees. The scheme was designed to foster high quality beekeeping which respects the environment yet remains profitable.





The importance of digital transformation

Digital transformation often takes place alongside sustainability initiatives. This is partly because greater adoption of technology can help companies become more sustainable, by allowing more effective monitoring of value chains, or finding efficiencies in production processes for example.

It can also be about long-term business profitability. The drive for brands to become more sustainable has coincided with the growth of the internet and associated digital technology. This adoption of digital by shoppers sets a challenge for companies which have sold via more traditional channels for the majority of their history.

Many LVMH products have traditionally been sold through boutiques and department stores, something which is common for many luxury brands. With the growth of online channels, and changing preferences for younger luxury buyers, companies like LVMH have needed to pay more attention to digital. The market now demands it. Luxury ecommerce grew by 24% in 2017 and is predicted to make up 25% of the luxury retail market by 2025, according to data from Bain & Co.

Deloitte's Global Powers of Luxury Goods report also finds that young luxury consumers are increasingly preferring online channels when shopping for luxury goods, with 58% making the majority of their luxury purchases online.

LVMH has been looking to become more digital and responsive to the customer, though as is the case with implementing sustainable practices, the company's structure, being made up of many Maisons, can be a challenge when looking to become more digital. With this in mind, LVMH hired Ian Rogers, who had previously worked for Apple, as the company's first Chief Digital Officer in 2015, and has now been in the role for more than five years,

Ecommerce has been seen as tricky for luxury retail, partly because the advantages of luxury stores, the exclusivity, personal touch and great customer service associated with physical are harder to reproduce online. LVMH's digital transformation has centred around creating an omnichannel experience for shoppers, allowing customers to shop for luxury goods however they prefer.

The group has been experimenting with digital technology across its brands, using augmented reality at its Sephora stores, AI to help customers create bespoke tasting experiences at Moët Hennessy, and using augmented reality (AR) to enable shoppers to 'try on' jewelry.

One major ecommerce initiative was the launch of the 24 Sèvres website (now 24S), which presents a curated selection of womenswear brands (including Louis Vuitton, Christian Dior and Valentino) and which aims to set 'new standards for the sale of luxury products online'. The site reproduces the store experience and personal touch though live, one-to-one video consultations with stylists on the site or through its mobile app, while offering delivery to more than 75 countries, and click and collect options.

According to Ian Rogers:

"We felt it was time to take our expertise in visual merchandising, which our Maisons have long brought to their stores, and transform it online."

LVMH also recently acquired tech company OneStock to enable customers to see real time stock availability across the group's stores, and to choose the one which has the available stock and can deliver the fastest.

The importance of digital transformation for LVMH was brought into sharp focus by the Covid-19 pandemic, with store closures and restrictions contributing to a 27% fall in group revenue during the first half of 2020.

The company does report significant growth in online sales across the group, without providing numbers, which has helped to partly offset the decline in physical revenues.

Impact and results

LVMH reported on progress towards its 2020 targets in the 2019 Environmental Responsibility Report.



Product objectives

- Improved environmental performance for perfumes & cosmetics by 90%.
- Environmental performance in wines & spirits up by 90%.
- For fashion & leather goods, performance improved by 66%.
- Packing Environmental Performance Index (EPI) improved by 12% for perfumes & cosmetics, above the 10% target.
- EPI packing up 5% for champagne and 19% for cognac.

Supply Chain objectives

- 100% of LVMH-owned vineyards in France achieved sustainable viticulture certification.
- 58% of LVMH-owned vineyards around the world achieved sustainable viticulture certification.
- RSPO sustainable palm oil certification achieved for 86% of products, beating the 70% target for 2020.
- GOTS and BCI certified cotton accounted for 54% of the supply chain, against the 2020 objective of 70%.
- RJC COP gold certification achieved for 82% of jewelry supply chain.

CO2 objectives

- The main 2020 target of 25% reduction in CO2 emissions was achieved by 2019.
- The use of green energy increased by 36% (2020 target was 30%)
- Energy consumption in LVMH stores reduced by 21%, beating the 2020 target of 15%.

Site objectives

Objectives were set for all LVMH sites, for 2020:

- Site water consumption was reduced by 1.1% (2020 target is 10%).
- Site energy consumption reduced by 6.5% (2020 target is 10%).
- Waste production reduced by 8.7% (2020 target is 10%).
- 91% of waste was recycled, converted into energy or reused.
- 2,450 metric tons of waste processed or recovered at the CEDRE recycling platform.

Key Takeaways

- The importance of direction coming from the top. The Group Environmental Development Department at LVMH, which sits between the board and the brand / Maison senior management has the vital task of setting direction in terms of sustainability. This approach ensures that the group's sustainability initiatives move forward, providing reporting and a platform for sharing ideas and best practices between the different LVMH brands.
- Digital transformation is vital for long-term growth. Sustainability is only possible when the fundamental business is sound, and digital transformation is one key way to achieve this. LVMH has some way to go here, but has recognised the changes in buyer behaviour and the importance of providing a great shopping experience for customers across all digital and physical channels.
- Different value chains require different solutions. The 75 brands within the LVMH group are widely varied and have many different challenges in terms of the way their value chains work, and differing business practices. This has needed a hybrid approach, with some central leadership, but also by allowing the flexibility for different brands to find their own ways to meet overall sustainability targets. The value chains challenges, between viticulture and clothing for example, are so different that a one size fits all approach wouldn't work.



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