

PULSE OF THE FASHION INDUSTRY



2019 UPDATE

2019 UPDATE



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Global Fashion Agenda, Boston Consulting Group, and Sustainable Apparel Coalition

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PULSE OF THE FASHION INDUSTRY 2019 UPDATE

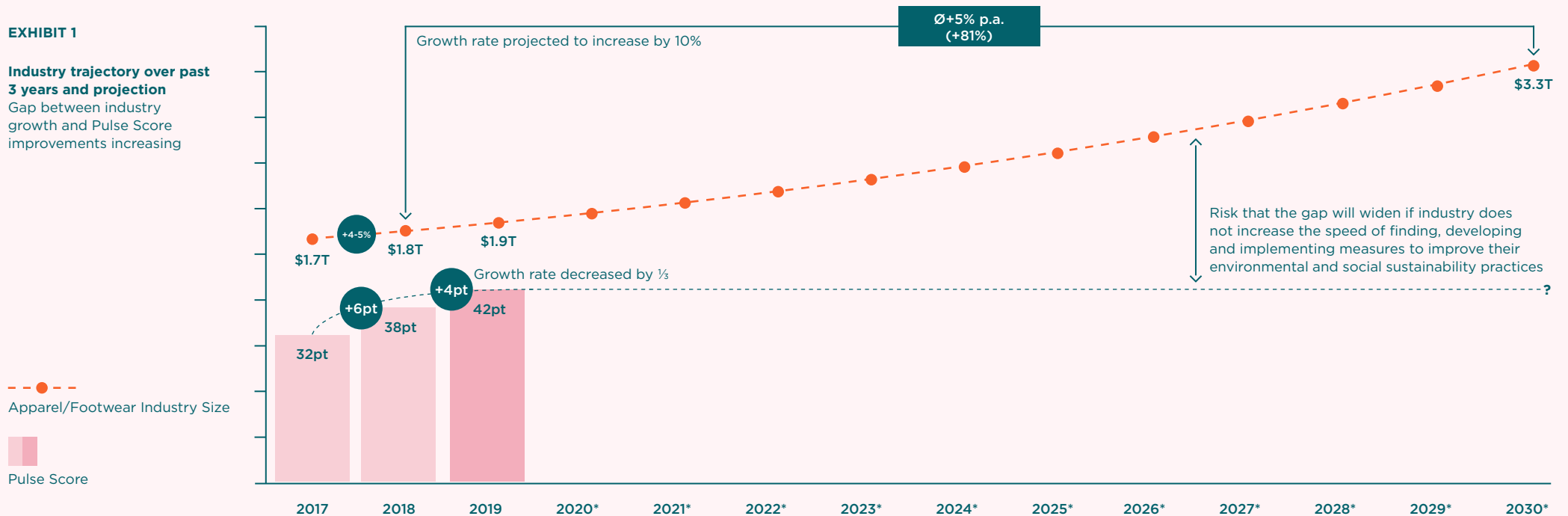
The 2019 Pulse Score¹ shows that the fashion industry has improved its social and environmental performance in the past year, but at a slower rate than the previous year. Despite this improvement, the fashion industry is still far from sustainable. Furthermore, the findings demonstrate that fashion companies are not implementing sustainable solutions fast enough to counterbalance negative environmental and social impacts of the rapidly growing fashion industry. If the Pulse Score stays on its current trajectory, the gap between industry output and the Pulse Score will

widen. About 40% of the industry have not yet reached beyond Phase One of the Pulse Curve.² As a result, if the industry does not implement changes at a faster rate, it will not be able to achieve the United Nations Sustainable Development Goals³ or meet the Paris Agreement.⁴ Global Fashion Agenda, Boston Consulting Group and Sustainable Apparel Coalition call upon industry leaders to increase their pace towards a deeper and more systemic change. Companies must push harder, with more focused and coordinated efforts, to overcome technological and economic limitations that hinder progress.

EXHIBIT 1

Industry trajectory over past 3 years and projection

Gap between industry growth and Pulse Score improvements increasing



*Note: Numbers for years marked with an asterisk mark are projections. Industry size and growth rates for apparel and footwear RSP value in USD based on fixed 2018 exchange rates. Growth rates until 2023 based on Euromonitor data, growth rates between 2023 and 2030 extrapolated based on Euromonitor data at CAGR 5%. Source: BCG analysis; Euromonitor; GFA; CEO Agenda 2018

Pulse Score growth slowed by one third in 2019

The 2019 Pulse Score increased four points from last year, from 38 to 42 (out of 100), compared to six points in 2018, which means that the speed of measurable progress has decreased by a third.

Although the continued progress is encouraging, its decreasing speed is concerning. In the last two years alone the apparel and footwear industry grew between 4 to 5%, in line with projections through 2023 that show annual growth of approximately 5%. This is largely driven by increasing demand in Asia-Pacific and developing countries.⁵ By 2030 the global apparel and footwear industry is expected to grow to 102 million tonnes in volume and USD3.3 trillion in value.⁶ Moreover, the Sustainable Development Goals estimated that global carbon emissions need to be reduced by 45% from 2010 levels by 2030 if global warming is to be limited to a 1.5°C increase and net zero carbon emissions are to be reached around 2050.⁷ Even under optimistic assumptions, the industry's existing solutions and speed of progress will not deliver the impact needed to transform the industry. Fashion needs deeper, more systemic change.

**+4pt
improvement
since past year
but measurable
progress
decreased by 1/3**

Without growth in environmental and social practices through scaling up existing sustainable practices, adopting more efficient business models and implementing transformative changes, the gap between the growth of the industry and the Pulse Score will widen further. This could have a dire effect on the long-term environmental, social and financial prosperity of the industry and planet.⁸

The majority of improvements came from two segments: small-size players in the mid-price segment, and medium and large-size players in the entry-price segment. Efforts spreading among the smaller companies in the entry-price segment are encouraging to see. This movement along the initial phases of the

Pulse Curve was achieved by firms adopting sustainability strategy development and governance, setting targets, implementing best practices and aligning their association affiliations. These important preparatory changes will take time—typically around two years—to translate into trackable success further along the Pulse Curve. Meanwhile, frontrunners displayed lower measurable progress, as their work in scaling up solutions and bringing proven initiatives deeper into the value chain does not necessarily immediately translate into Pulse Score gains. In addition, tackling issues which require innovation or changes in business models require collaborative action.

Consumers more aware of sustainability, an increasingly important driver in purchasing decisions

As news outlets and social media shine a light on social and environmental responsibility in the fashion industry, consumer concern is growing. Mentions of sustainability in social media increased a third faster than overall social media growth between 2015 and 2018. Awareness is highest among younger people, especially Millennials.⁹

This awareness is beginning to have a greater effect on consumer purchasing decisions, with more than a third of survey respondents reporting they have already switched from their preferred brand to another for reasons related to responsible practices. More than half of the respondents said they anticipate that their next purchase decision will be based on these practices. For the first time, this data confirms that most consumers include sustainability considerations in their decision-making framework. These results indicate a shift in importance of these considerations and represent a strong signal to the industry.¹⁰ This clear trend will continue to grow. It is just a matter of time before responsible practices become pivotal to decision-making factors when purchasing a product.

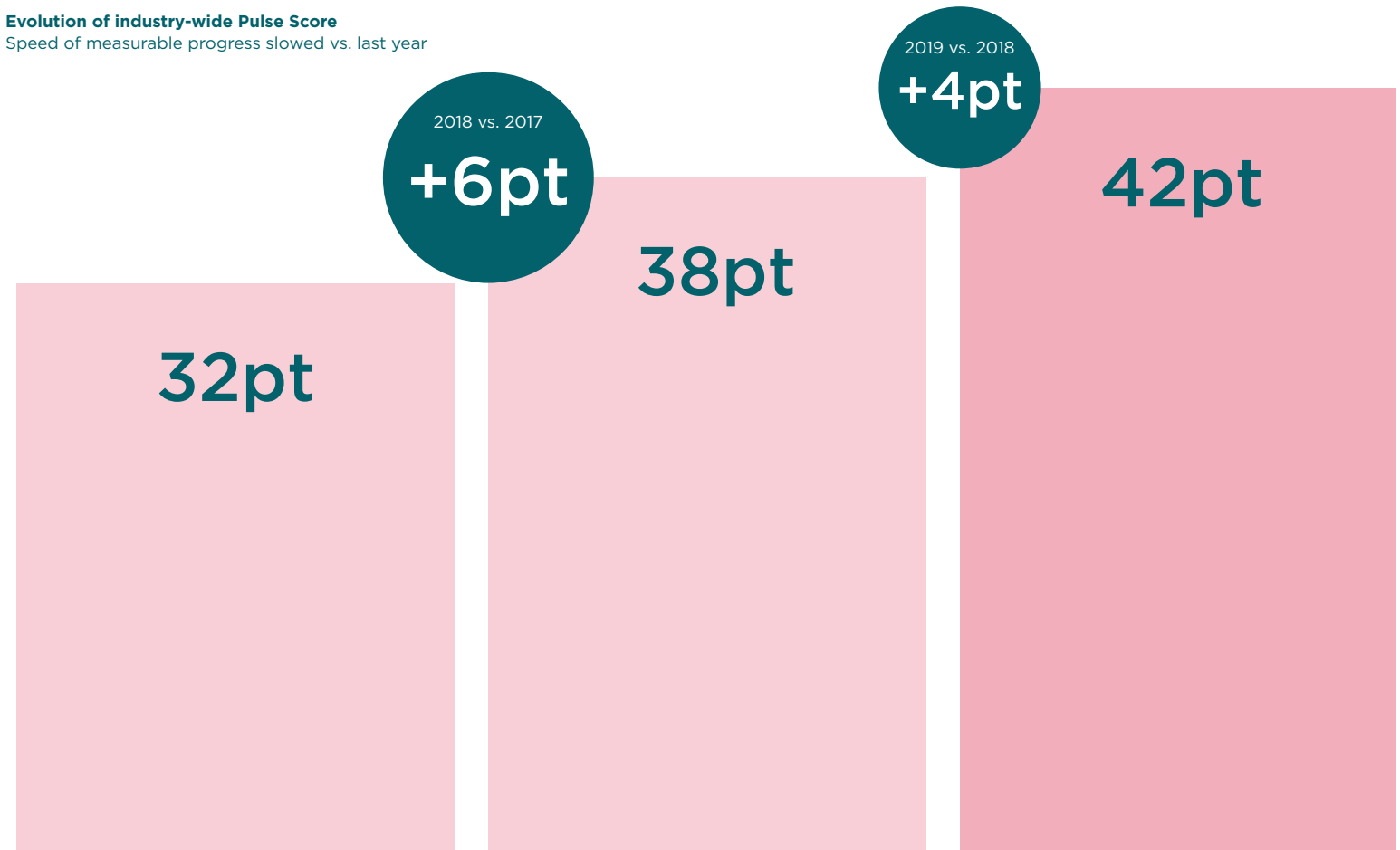
However, consumer considerations of sustainable practices are not yet powerful enough to be the most important driver of purchasing behaviour. Quality and aesthetics still dominate decision making.¹¹ Nevertheless, for 7% of consumers sustainability is the most important decision-making criteria. Yet, the industry cannot wait for the consumer to lead this movement—it is up to fashion leaders to take bolder moves today to transition to a sustainable industry.

TAKING THE PULSE OF THE FASHION INDUSTRY

EXHIBIT 2

Evolution of industry-wide Pulse Score

Speed of measurable progress slowed vs. last year



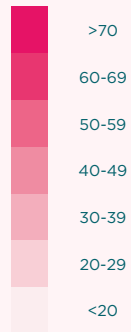
This section takes an in-depth look at the Pulse Score results to examine the main drivers of progress and roadblocks the industry faced during the past year.

In the past year the Pulse Score of the fashion industry increased from 38 to 42 (out of 100), showing progress toward advanced social and environmental performance with companies historically performing lower than average representing the main driver of progress. This four-point improvement represents a slower rate of measurable progress than previous years and indicates the increasingly difficult challenges companies face in advancing their Pulse Scores.

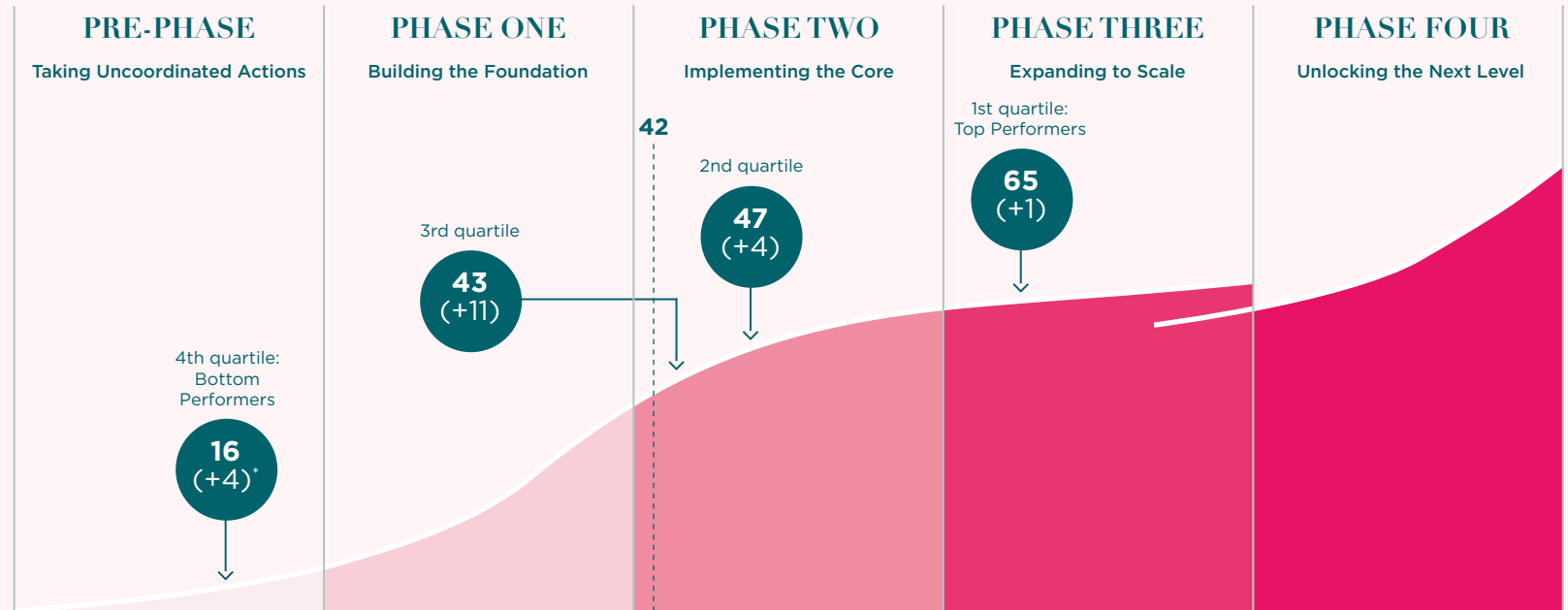
EXHIBIT 3

Pulse Score improvements by performance quartile along the Pulse Curve

3rd quartile with biggest upward development during the last year



*Note: Pulse Score 2019 (vs. 2018)



Pulse Scores by performance quartile

To provide an overview of the industry's progress companies are ranked in performance quartiles based on three segments: premium, mid-price and entry-price, according to their Pulse Scores.¹²

Players in the first and second performance quartiles slowed in improving their Pulse Scores

Companies in the first quartile (the highest performing segment) slowed in their trajectory along the Pulse Curve this year due to increased challenges in scaling up proven measures into deeper tiers of their supply chains, in inventing and scaling transformative technologies and in achieving tangible results from collaborative initiatives. This result, however, needs to be viewed with nuance since players

at this level already have high scores and, historically, have made strong progress. Their ongoing work toward advancing and scaling their proven measures or investing in new technology does not necessarily immediately translate into Pulse Score gains. It will take further investments and time until new transformative technologies are at a stage in which they generate measurable progress at scale.

In the second quartile progress also slowed. Nevertheless, their efforts are visible: companies report that they are dedicated to sustainability, and they are investing in supplier relationships, supply chain traceability, an improved material mix and changes to their business model towards circularity. Yet, they face additional challenges, as the required resourc-

es, capabilities, funding and advanced technologies in the aforementioned areas are not yet fully established.

For both quartiles, finding and deploying scalable technology and identifying the next set of disruptive solutions to facilitate further systemic change has proven elusive. Finding innovations to reach the next phase of the Pulse Curve takes time. It requires the industry to innovate and to invest jointly to target the unsolved challenges in the value chain with new solutions. Fashion companies must join forces with suppliers, investors, regulators, NGOs, academia and consumers to create an ecosystem that supports transformational innovation and disruptive business models.

Players in the third performance quartile saw the largest year-on-year improvements

In the third quartile, improvements were mainly driven by small mid-price and medium-entry-price players. They achieved this movement along the initial phases of the Pulse Curve by adopting sustainable strategy development and governance, by setting targets in energy, chemicals and water savings, and by aligning association affiliations. In other words, those players are putting in place the measures which are part of the first and second phase of the Pulse Curve.

Unfortunately, there is still a significant part of the global fashion industry (10-15%) that has not yet embarked on any advances towards more responsible practices.

Key results by segment and size

For a more nuanced understanding of the industry’s progress, the Pulse Score is broken down by segment and size to reveal patterns and to incorporate tailored recommendations.

Premium segment

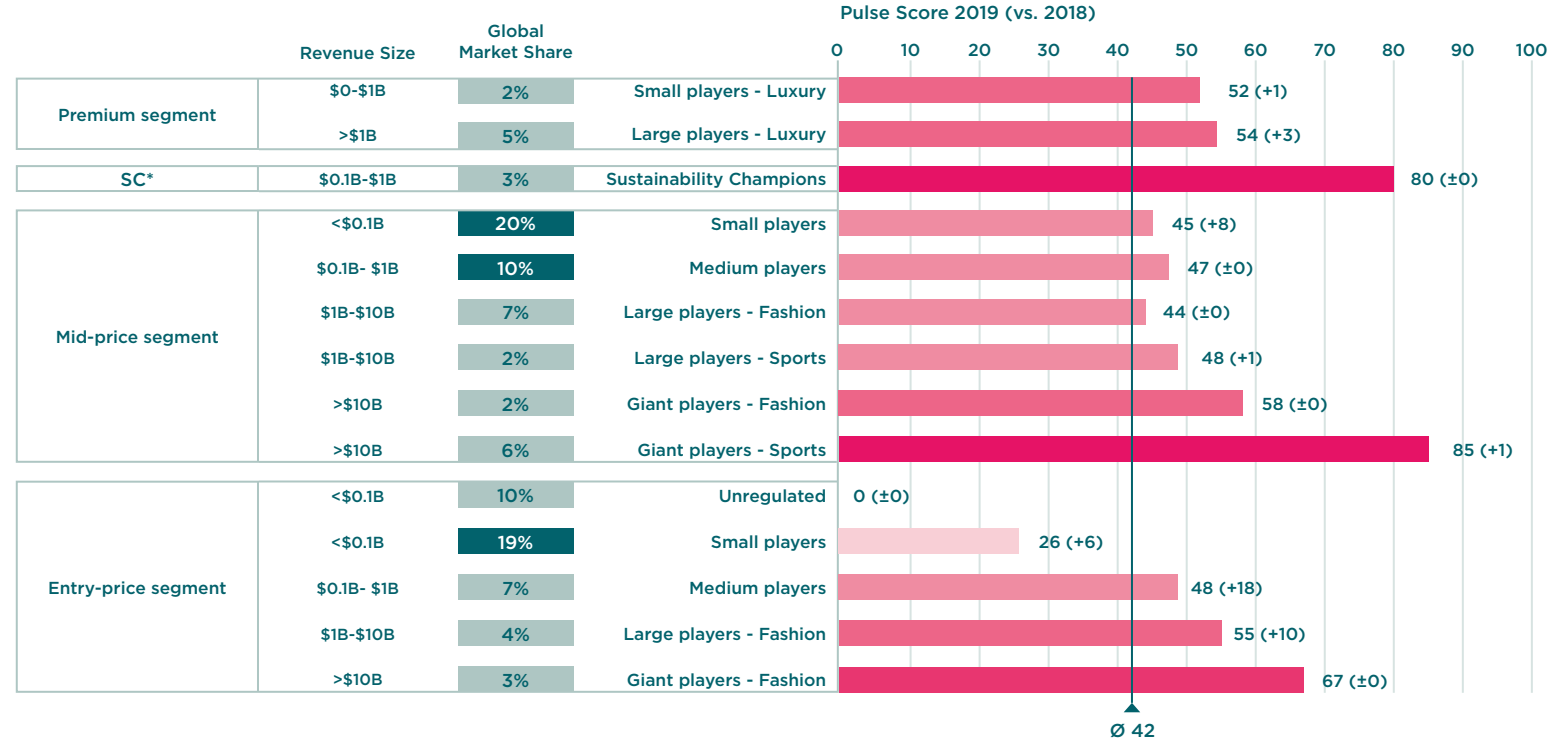
The premium segment saw solid scores of 52 to 54, with Pulse Scores increasing by one to three points over the last year. Innovative brands made notable achievements through collaboration with other fashion players and also other industries, such as the agricultural sector.¹³ Again, some of these advances are not reflected in Pulse Scores, but this does not mean that projects are unsuccessful, but rather that they are at a stage that does not yet yield measurable impact at scale.

Mid-price segment

In the mid-price segment, the Pulse Score shows that many small players caught up. They increased their score from 37 to 45 points in 2019. This is especially encouraging given the large share of the global fashion market (20%) they account for. Their improved score was mainly driven by putting strategies and proven tools in place. The high variation of scores among the different players in this segment is important to note. Giant sports players have a long tradition of focusing on materials and in-depth collaboration with various tiers of their supply chain, which is reflected in higher scores. Giant fashion players, which have the financial means, are already at a stage of scaling up proven initiatives in their supply chains, follow with a score of 58.

EXHIBIT 4 Pulse Scores by segment and size

Strong improvements made in previously low-performing segments



Entry-price segment

Small, medium and large players show the largest improvements in the entry-price segment. The giant companies in this segment are finding it increasingly challenging to improve their Pulse Scores. Finding solutions for the unresolved problems is becoming tougher, and impact and returns are receding. Small players improved their score to 26 (from 20 in 2018), as they built their foundations. Medium-size players increased their score by 18 points (from 40 to 48), while large players improved their scores by 10 points (from 45 to 55).

*Note: Sustainability Champions - Sustainability is part of their core strategy and decision-making framework. These typically smaller companies regard sustainability as a key differentiator in their strategy and align their actions, products, and communications behind it.

Two factors explain the significant progress seen by these segments that increased their Pulse Score more significantly than other groups.

- **The power of foundational steps**
Companies progressed by integrating sustainability in their strategy, corporate identity, decision making, governance, reporting and tracking, which is reflected in the positive leaps in their scores.

- **Association membership**
Given the knowledge building and collaborative nature of associations like Sustainable Apparel Coalition, joining them can strongly contribute to a company’s ability to set targets, define strategies and build governance foundations, which are especially valuable for companies getting started with their sustainability efforts.

Key results by value chain step

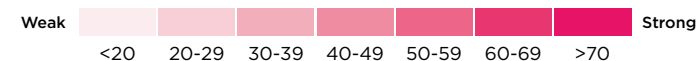
Examining Pulse Scores along specific steps of the value chain that require more attention reveals performance differences. Since the enhancement update of the indicators in the value chain section in the Higg Brand & Retail Module beta version, the scores along the value chain steps in

this section are not comparable to the previous years.

Two steps within the value chain that show above-average performance are Management & Target Setting and Supply Chain. The former covers enabling activities and overarching aspects of

sustainability that involve target definition, strategy setting and governance. The latter step essentially encompasses the production of garments and footwear. As for other steps in the value chain, Product Development showed average performance, whereas Packaging, Transportation, Distribution, Retail, and Use & End-of-Use showed lower performance.

EXHIBIT 5 Pulse Scores by value chain step: Management & Target Setting and Supply Chain show strongest scores



	Management & Target Setting	Product Development	Supply Chain	Packaging	Transportation	Distribution Centres	Retail Stores	Product Use & End-of-Use
Normalised total	56	38	42	32	30	31	28	31
1st quartile	75	53	68	54	46	48	45	47
2nd quartile	68	45	46	23	22	22	28	35
3rd quartile	59	41	42	30	32	33	24	34
4th quartile	21	11	14	19	19	19	17	9
Spread Top/Bottom	54	42	54	35	27	29	28	38

THE PULSE CURVE AND THE ROADMAP TO SCALE

The Pulse Curve showcases a five-phase trajectory of the industry's social and environmental performance, providing guidance for fashion companies as they assess their current standing, locate themselves against their peers and map out their next steps. Each phase defines a set of priorities and milestones for companies to focus on, which are summarised by the *CEO Agenda*.¹⁴ The Roadmap to Scale¹⁵ captures these priorities along the Pulse Curve and offers actionable guidance for the sustainability journey of fashion companies.

Pre-Phase: Taking Uncoordinated Actions

Companies in the weakest performance segment show little progress. With a lack of visibility over environmental and social performance along the value chain, finding the right starting point proves to be a challenge. Most companies here have yet to commit fully to sustainability and lack a clear strategic direction and corresponding internal structure. Many, however, engage in initial actions that are mostly uncoordinated and opportunistic. The Roadmap to Scale does not cover this pre-phase, when companies are still becoming aware of the possibilities for change and lack a clear strategic direction and corresponding internal structure. The roadmap begins with Phase One, after fashion companies have formally committed to improving their environmental and social performance.

Phase One: Building the Foundation

Building the foundation usually starts with a formal commitment to sustainability. Companies in this phase start to build the enablers by empowering dedicated resources, setting targets and directing efforts toward creating visibility in the supply chain. They have mustered the organisational will and resources to initiate activities. Fashion companies in this phase have a clear view of their own performance, responsibilities and overall footprint, while seeking knowledge from outside experts and associations. This foundation lifts the individual Pulse Score and will prove crucial for later success, as it facilitates all efforts undertaken. Companies in this phase focus on key enablers that lay the groundwork for any initiatives implemented along the Roadmap to Scale and determine the brand's ability to scale sustainability efforts later.

Phase Two: Implementing the Core

Targets, dedicated resources, budgeting and established traceability enable the industry to implement collaborative initiatives that address core business processes and impact areas within their supply chain. Both environmental and social issues are preferably tackled using a standardised measurement tool and reporting framework. In parallel, improvements to the material mix are undertaken. All exemplary initiatives create positive momentum in the organisation, unlocking further resources. As they progress, fashion companies start to realise their preliminary positive environmental, social and financial impact.

Phase Three: Expanding to Scale

Companies amplify their efforts and take their initiatives to scale while reaching deep into their value chains. In close collaboration with their suppliers, they implement improvement measures and advanced solutions that increase profitability as well as environmental and social performance. At some point these initiatives also begin reaching their limits and attainable impact. Fundamental, trailblazing solutions are not broadly available. The majority of large sportswear and fashion players operate in this phase. Their efforts to scale up activities in their supply chains have only led to small, incremental returns in Pulse Score improvements.

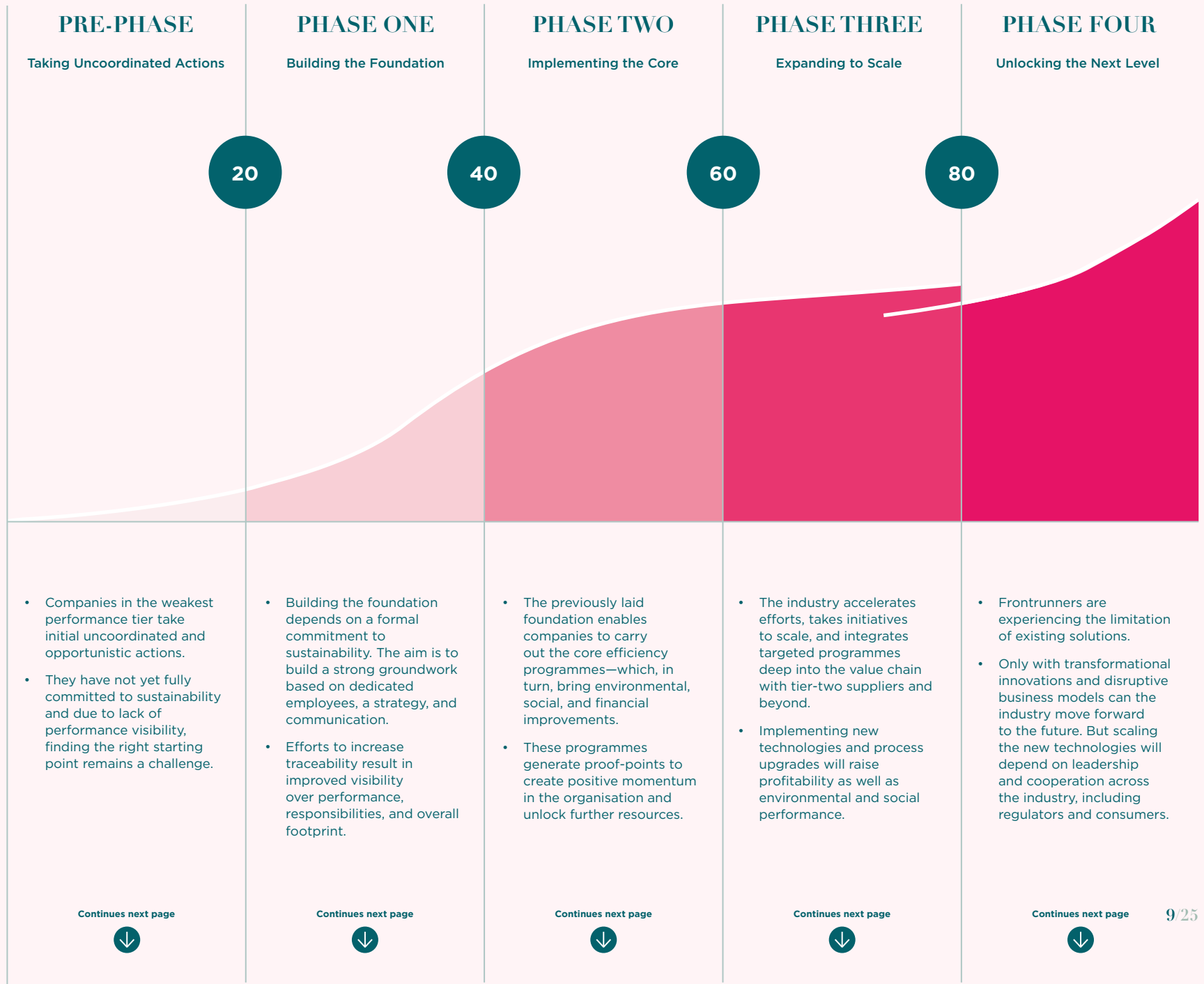
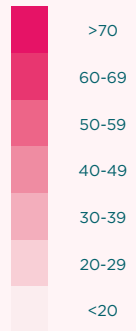
Phase Four: Unlocking the Next Level

Pulse Scores rarely rise above 80 because doing so largely depends on technological and business model innovations that go far beyond what is currently available and what individual companies can accomplish. This further proves that the fashion industry needs to invest in transformational innovations and disruptive business models. Scaling these technologies will depend on leadership, a fit-for-purpose ecosystem and industry cooperation among regulators and consumers. Only with a strong commitment can the industry push the Pulse Curve upward to a greater degree.

EXHIBIT 6

Pulse Curve and Roadmap to Scale

Guidance for brands to benchmark themselves and understand next steps



- Companies in the weakest performance tier take initial uncoordinated and opportunistic actions.
- They have not yet fully committed to sustainability and due to lack of performance visibility, finding the right starting point remains a challenge.

Continues next page



- Building the foundation depends on a formal commitment to sustainability. The aim is to build a strong groundwork based on dedicated employees, a strategy, and communication.
- Efforts to increase traceability result in improved visibility over performance, responsibilities, and overall footprint.

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- The previously laid foundation enables companies to carry out the core efficiency programmes—which, in turn, bring environmental, social, and financial improvements.
- These programmes generate proof-points to create positive momentum in the organisation and unlock further resources.

Continues next page



- The industry accelerates efforts, takes initiatives to scale, and integrates targeted programmes deep into the value chain with tier-two suppliers and beyond.
- Implementing new technologies and process upgrades will raise profitability as well as environmental and social performance.














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- Frontrunners are experiencing the limitation of existing solutions.
- Only with transformational innovations and disruptive business models can the industry move forward to the future. But scaling the new technologies will depend on leadership and cooperation across the industry, including regulators and consumers.

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	 Continued from previous page PRE-PHASE	 Continued from previous page PHASE ONE	 Continued from previous page PHASE TWO	 Continued from previous page PHASE THREE	 Continued from previous page PHASE FOUR
 FOURTH INDUSTRIAL REVOLUTION					
 PROMOTION OF BETTER WAGE SYSTEMS				Joining global platforms to promote better wage systems	
 CIRCULAR FASHION SYSTEM				Training designers, reducing pre- and post-consumer waste and engaging customers	
 SUSTAINABLE MATERIAL MIX			Baselining and improving material mix starting with high volume and high impact materials	Increasing share of non-conventional materials and implementing sourcing guidelines	
 COMBATING CLIMATE CHANGE			Setting science-based targets, implementing efficiency programmes and increasing the use of renewable energy	Collaboration along value chain and with industry peers, manufacturers, investors and policymakers	
 RESPECTFUL AND SECURE WORK ENVIRONMENTS			Implementing collaborative initiatives to enhance working conditions in main facilities	Expanding collaborative initiatives in supplier base and increasing worker engagement and skills	
 EFFICIENT USE OF WATER, ENERGY AND CHEMICALS			Implementing collaborative resource efficiency programmes in main facilities	Scaling efficiency programmes across supply chain and investing in targeted, high-impact initiatives	
 SUPPLY CHAIN TRACEABILITY		TRACEABILITY	Increasing supply chain visibility starting with tier-one/tier-two, gradually extending to tier-three/tier-four		
ENABLER		RESOURCES	Dedicated resources with management mandate growing into a full team embedded in organisation		
		STRATEGY	Measurable targets leading to a full sustainability strategy closely tied to the corporate strategy		
		COMMUNICATION	Internal and external communication with stakeholders		

CONSUMER SENTIMENT

Consumers are increasingly aware and concerned about social and environmental responsibility in the fashion industry. Proprietary research by Boston Consulting Group¹⁶ shows that 75% of consumers in the five countries surveyed view sustainability as extremely or very important. This is further substantiated by an increase in sustainability mentions on social media, which was a third higher than the overall growth of social media posts. As the growth of positive mentions of sustainability is more than proportional, brands have an opportunity to leverage their work toward better practices, contribute to the positive momentum and

75%
of consumers in the five countries surveyed view sustainability as extremely or very important.

maintain a competitive edge with consumers. As more digital and social media natives come of age, with their expectation and desire for information, brands must increasingly connect with them where they are most engaged.

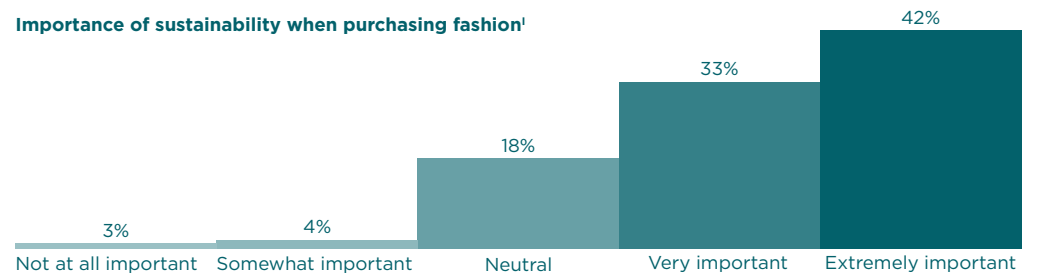
Raising awareness drives consumers to switch to brands they trust

Research shows that 38% of consumers report actively switching from their preferred brand to another because it credibly stands for positive environmental and/or social practices.¹⁷ Drilling down further, young consumers are more interested in social and environmental practices in fashion, with 48% of the Founders generation¹⁸ stating they have switched brands based on these considerations, compared to just 28% of Baby Boomers.¹⁹ More than 50% of consumers plan to switch brands in the future if another brand acts more environmentally and socially friendly than their preferred one. The question is no longer whether it is necessary to improve sustainable business practices, but rather how long it will take before consumers stop buying from brands that do not act responsibly.

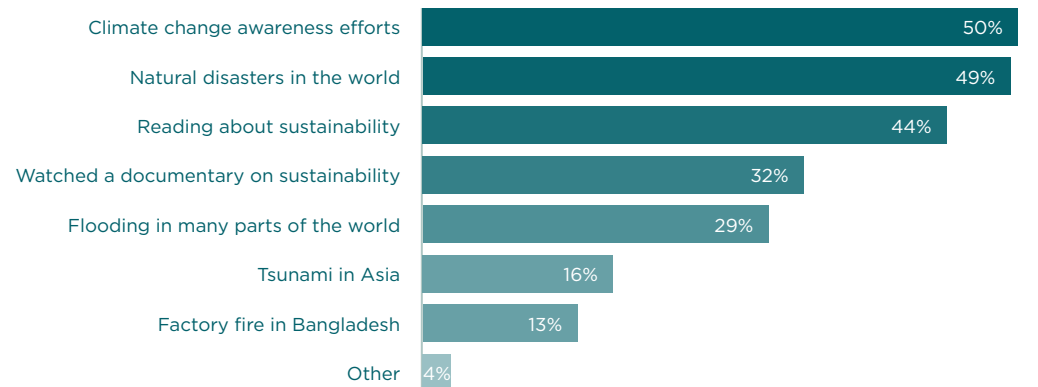
EXHIBIT 7 Importance of sustainability for consumers and its triggers

Importance of sustainability mostly triggered by climate change and natural disasters

Importance of sustainability when purchasing fashion^I



Triggers of sustainability^{II}



I. Question: How important is sustainability to you when purchasing fashion products, on a scale of 1 to 5?
 II. Question: Which of the following, if any, triggered you to become conscious of sustainability as an issue?
 Source: BCG Sustainability survey March 2019, N = 703 (US) ; 703(UK) ; 529(FR) ; 514(CN) ; 523(BR)

For **7%** of consumers, sustainability is the key purchasing criterion, but

23% prioritise high quality,

17% looking successful and

16% receiving good value for money

Overall consumer expectations can be divided into table stakes, or basic requirements, and the differentiating attributes they are willing to pay a premium for. Taking a stand against child labour, animal cruelty and unsafe working conditions, for example are aspects that consumers expect as a baseline. Examples of differentiating attributes that consumers potentially find worth paying more for include the use of responsibly sourced and recyclable materials, and biodegradable packaging. Consumers expect brands to be concerned about those issues and act accordingly.

However, sustainability considerations are not yet powerful enough to be the most important purchasing criterion. For 7% of consumers, sustainability is the key purchasing criterion, but 23% prioritise high quality, 17% looking successful and 16% receiving good value for money. Consumers nevertheless expect brands to be concerned about environmental, social and ethical issues and to act accordingly. Sustainability considerations are seen as a prerequisite rather than a driver of purchasing decisions.

The strongest triggers for conscious behaviour concerning sustainability are climate change efforts (50%) and natural disasters (49%). Consumers mostly acquire information about sustainability issues through online search (35%), social media (31%) and non-digital print media (29%).

Sustainability carries different meanings and associations, depending on the fashion category. For clothing (excluding outerwear), the strongest associations are

to change lives for the better, reduce the carbon footprint and be a role model. For outerwear, the strongest association is to establish oneself as a community leader.²⁰ Furthermore, the importance attributed to various aspects differs geographically. For example, in the US social aspects have a relatively higher importance, whereas in China, environmental aspects have a relatively lower importance.

Three consumer segments and six nested subgroups²¹

Three broad segments emerged in the survey data regarding consumer perception on the importance of switching to a brand with more responsible practices.

Open (16%): These are consumers who have a high interest and knowledge about production conditions. Their knowledge goes beyond the superficial, and they ask

brands difficult questions, for example how a brand ensures that labelling requirements are met. For these consumers, responsible practices are a key purchasing criterion, on par with style and quality. The demographics of members of this group range from high-income Gen Xers with graduate or professional degrees and retired Baby Boomers with medium income to Millennials who are employed full-time with medium income. Geograph-

ically, the open segment has a proportionally strong representation in Brazil (20%) and the US (18%).

This segment can be further broken down into three subgroups: The **enthusiasts** (3%), for whom sustainability is a key purchasing driver; the subgroup **high involvement** (10%), where sustainability plays a major role in purchasing decisions; and the **believers** (3%), who take

sustainability into account in purchasing decisions.

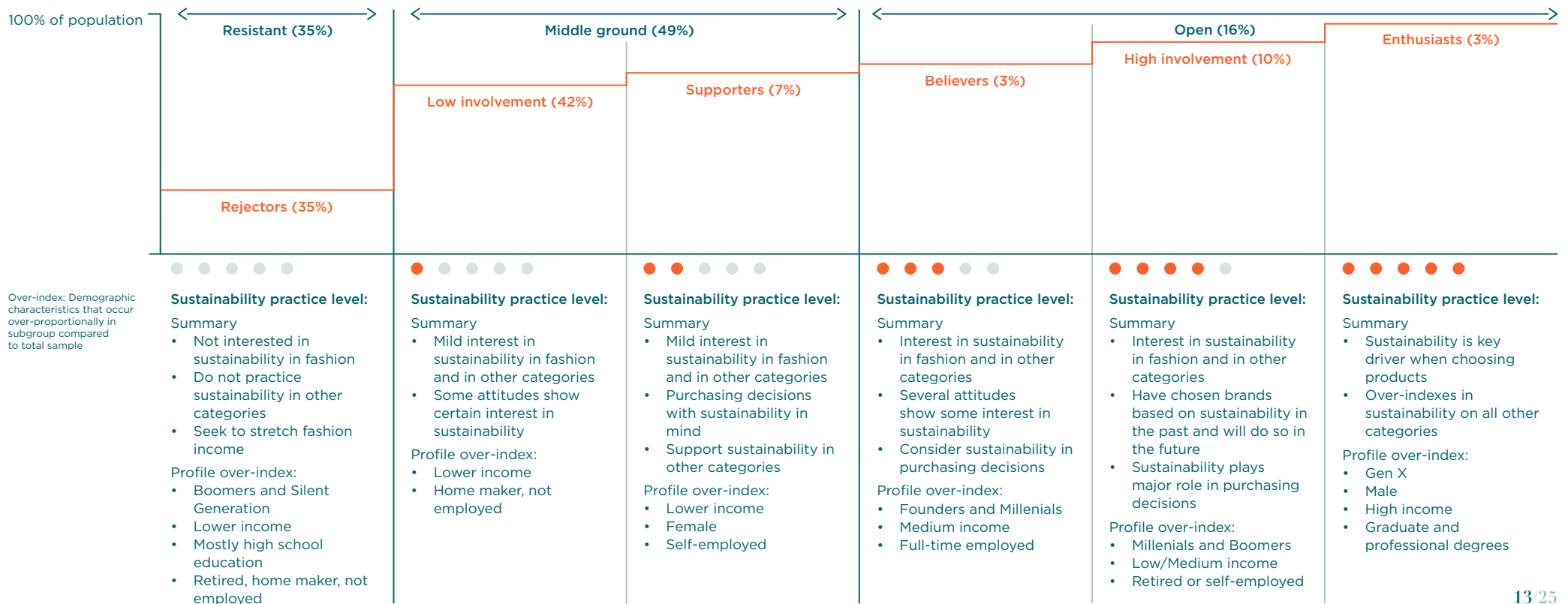
Middle ground (49%): These consumers express a mild interest in sustainability in fashion and other product categories. Their knowledge about it is superficial, and they view sustainability as a nice-to-have factor. They also expect brands to take action and communicate about it. These consumers follow the recom-

EXHIBIT 8 Six key segments of sustainability consumers

Majority of fashion consumers are in the middle ground

— The exhibit shows an aggregated percentage of population in subsegments

● The circles are an indicator for sustainability practice level i.e. how important sustainability is for the consumer segment



Over-index: Demographic characteristics that occur over-proportionally in subgroup compared to total sample

recommendations of brands or people they trust. For this middle ground, a common standard (which does not yet exist) would ensure that the recommendations they follow are backed by action. In terms of purchasing practices, they view a company's attitude about responsible practices as being important, but the key purchasing drivers are aesthetic and price. Typical members of this segment have medium income, are often female and may be self-employed, homemakers or otherwise not employed. They have a proportionally strong representation in China (54%).

The middle ground can be broken down into two subgroups: **supporters (7%)** and **low involvement (42%)**. While the former supports sustainability in fashion and other categories but does not consider it upon purchase, the latter pays attention to the topic without concretely supporting it.

Resistant (35%): These are consumers who are not interested in the topic of sustainability in fashion, or in other categories, such as food and furniture. They might even feel deterred from purchasing products marketed as more responsible,

because they expect them to be more expensive. Price is their first purchasing criterion. Among the other criteria they use to make purchasing decisions, sustainability is not one of them. The typical member of this segment is a Baby Boomer, has low to medium income, usually has a high school education, and is either retired, a homemaker or unemployed. They have a proportionally strong representation in the UK (42%).

Implications for brands: Take further action and openly share progress

Improving social and environmental conditions in their value chains is becoming a table stake for brands. Not only is taking action inevitable, communicating about the actions is also essential. Brands need to understand how to target the right consumers with their communication regarding their efforts to address social and environmental issues.

Brands can use these segments to refine their messaging, with the goal of making their communications relevant to the broader middle ground and the believer subset of open consumers. Together these groups make up 52% of consumers.

In addition, although the fact that 35% of consumers in the resistant segment reject sustainability outright appears to be an insurmountable hurdle, the industry cannot afford to take the same view. Since the responsibility for driving change falls to brands, so too does the job of figuring out how to get resistant consumers on board to see sustainable products as a new and necessary normal. To do this, brands will have to understand the specific needs of these consumers and create an overlap between them and sustainability drivers.

For both messaging as well as actions, brands need to understand the use cases and business models that their customer groups are most interested in. Additionally, brands need to understand exactly what consumers expect from their products in terms of social and environmental responsibility. Building onto their actions, brands must create offerings and messages that respond in alignment with their customers' interests and main drivers for sustainable purchasing practices, hence promoting more responsible practices that resonate with their customers.

PRIORITIES TO DRIVE TRANSFORMATIONAL CHANGE

The fashion industry must overcome its roadblocks to achieve more substantial improvements that lead to a systemic change. Solving the challenges of scaling and innovating disruptive technologies is a necessity for future progress. Collaboration is therefore a prerequisite to advance the sustainability performance of the industry, which requires not only fashion companies but the wider eco-system to be on the same playing field.

A closer look at the playing field reveals that about 40% of the industry did not move beyond the Pre-Phase and Phase One of the Pulse Curve, highlighting the urgent need for these players to laying the foundation and move toward targeting core business processes and impact areas for improving their social and environmental performance. The critical initial steps for these companies have been identified. Key enablers are the first step to lay the groundwork for any sustainability initiative as they determine the brand's ability to scale their initiatives down the line. These enablers include dedicated resources, strong support from top management, measurable targets closely

aligned with corporate strategy, communications that clearly convey efforts internally and externally, and the use of standardised reporting frameworks.

Once these fashion companies have laid the foundation, they can then focus on the four core priorities in the *CEO Agenda* by:

- Increasing supply chain traceability by tracing tier one and two manufacturers
- Combating climate change by implementing measures that reduce greenhouse gas emissions
- Improving efficient use of water, energy and chemicals by implementing efficiency programmes in processing stages
- Deepening efforts to establish respectful and secure work environments by upholding standards for the respect of universal human rights for all people employed along the value chain

40%
of the industry that **did not move beyond the Pre-Phase and Phase One** of the Pulse Curve has to address the key enablers and the four core priorities of the *CEO Agenda*

60%
of the industry **should focus on scaling up** core priorities **and accelerate efforts** on transformational priorities of the *CEO Agenda*

The other 60% of the industry, which already has the aforementioned enablers in place, should focus on scaling up their impacts on the core priorities for immediate implementation.

As a next step for companies moving forward with the core priorities, the industry should accelerate collective action to the next level of transformational priorities, also described in the *CEO Agenda*, to create fundamental change by:

- Establishing a sustainable material mix by reducing the negative effects of existing fibres and developing new innovative, more responsible fibres
- Building circular fashion systems by designing, producing, selling and collecting products that enable the reuse and recycling of post-consumer textiles at scale
- Promoting better wage systems by collaborating with industry stakeholders to explore opportunities to develop and implement better wage systems
- Leveraging the fourth industrial revolution, by embracing the opportunities in the digitalisation of the value chain and engaging with other brands, manufacturers, and governments to prepare for the transition of workforce.

Calling on the broader ecosystem to step up to the challenge

Even the most advanced brands face limits to what they can achieve in isolation. To master the significant roadblocks lying ahead, a strong ecosystem of collaboration is required to drive impact by identifying best practices and inspiring innovative solutions.

Two of the key players in the eco-systems are **governments** and **policymakers**. While there is much to be done, there is also increased momentum to create a supportive regulatory framework, which the industry should seize and seek to further develop.

Governments and policymakers are increasingly keen to play a more dominant role in advancing the environmental and social practices of the fashion industry, for two reasons. The first is that the call for sustainability comes from citizens, or more specifically, the electorate (e.g. the Global Climate March). The second is that the pace of the fashion industry's work toward better practices is not happening fast enough— policy intervention can help accelerate it by, for example, applying incentive structures in favour of sustainability actions.

Some governments have already launched national initiatives. To name two examples, the multi-stakeholder initiatives in Germany²² and the Netherlands²³ led by governing bodies bring together numerous stakeholders. Governments in

partnership with companies, business associations, trade unions, civil society groups and standards organisations provide a platform from which more progress toward sustainability can emerge and scale. However, the question is whether national approaches are the right answer to an international issue. Instead of asking brands to join a separate initiative in every country, which often involves different approaches, creating unnecessary burdens for industry, government action needs to align with businesses and take a more international approach. Moving forward, coordinated action is crucial to overcoming the challenges of the fashion industry, given its global nature. An overall policy approach, timelines and incentives must thus be aligned at an international level. Progress is already underway to align these initiatives with the industry using OECD Due Diligence Guidance for Responsible Business Conduct²⁴ as the backbone, as for example, the Sustainable Apparel Coalition joining forces with the Dutch and German national initiatives.²⁵

To pave the way for **effective policy**, governments and businesses need to work together. As a prerequisite for close collaboration, policymakers need to be clear on what the role of governments should be. Business should define its commitment to change. One factor that contributes to the ongoing lack of clarity in this area is the traditionally low overall policy engagement from the fashion industry itself. Active political scrutiny emerged after the Rana Plaza disaster;²⁶ the industry should seize this as an opportunity to

contribute their knowledge to help shape incoming legislation. A smart political approach will ensure a level playing field and clearly define sustainability measures. It will avoid additional reporting and auditing initiatives, instead incentivising socially and environmentally responsible business practices, assisting in proving the business case. Helpful policy measurements could entail competition regulation as part of future trade agreements to ensure human rights are respected. Or tax incentives to create reward systems for the use of sustainable materials to generate demand.

The industry itself can proactively approach regulators on the supranational level and call on national regulators to engage in international cooperation, helping these policymakers understand the need for common frameworks and rigorous standards. Other industries within the European Union, such as packaging²⁷ and consumer electronics,²⁸ have achieved common standard setting.

NGOs and media must continue pushing businesses and consumers to support this transformation strongly by encouraging consumers to find and exercise their voice and urge businesses to supply high-quality sustainable products. NGOs focused on consumers have a significant role to play in educating them via tools such as the Fashion Transparency Index²⁹ or Good On You.³⁰ These tools provide consumers with ethics ratings and sustainability information about factories and suppliers involved in the manufacturing of garments from the brands and retailers they purchase from.

Similarly, **investors** have important responsibilities. They can serve as a catalyst for change toward better ways of doing business if they prioritise sustainability in their investment decisions. Investors should agree to standard disclosure requirements, driving impact and helping to push for common reporting frameworks. For example, by joining the consortium of investors led by Mirova, which has called for such a framework³¹, and support the Sustainable Apparel Coalition and Global Reporting Initiative's efforts toward common sustainability reporting frameworks³² In addition investors should engage their investees on the topic of improved social and environmental practices and ask them to join the push for a common framework, potentially working together with legislators.

As for co-investment, the **fashion industry** can learn from the best practices of other sectors to inspire them on ways to collaborate. For example, the car manufacturers BMW and Daimler teamed up to jointly confront new players and regulation by working on five joint ventures at the same time.³³ This offered them a level of scale they could not achieve on their own to address disruptive businesses, such as car and ride-sharing and electromobility, but also the regulation that is likely to ensue.

Given the plateau where the industry finds itself—with 60% of companies struggling to find a way past the technological and economic hurdles, and 40% still working to catch up— the call for players in the ecosystem who have all core priorities in

place to take a bold stand is urgent. The situation demands that industry players both jointly lead and push these efforts toward common standards and collaborative efforts on transformational priorities. This will unleash the forces that the fashion industry needs to be able to close the gap between its own growth and its effort to achieve a neutral, or even positive footprint, moving toward more sustainable business practices.

FOR A WORLD BEYOND NEXT SEASON

We call on industry leaders to react now to the findings highlighted in the *Pulse of the Fashion Industry 2019 Update* and use them as a driving force for immediate action.

The fashion industry has shown progress toward better social and environmental performance over the year, but the slackened pace is alarming. We must increase the momentum to establish lasting impact. Businesses need to solve

the challenges of scale and utilise disruptive technologies that will lead to new ways of doing business. Governments and businesses must also collaborate closely to establish widespread policies, and investors should engage their investees on the topic of improved socially responsible practices. Fashion players who have all the foundational priorities in place to take a bold stand should both lead and push these efforts toward common standards and work with others to tackle the transformational priorities. The industry should also harness the increasing prevalence of sustainability in the consumer consciousness by communicating their developments, which will encourage consumers to actively purchase more responsible products.

Global Fashion Agenda, Boston Consulting Group, and Sustainable Apparel Coalition hope the fashion industry will respond to the call for future collaboration and innovation. This research was conducted with the aim to ultimately advance the sustainability agenda and consequently help to safeguard the future of the fashion industry, our people and our planet.

ENDNOTES

- 1 See *Taking the Pulse of the Fashion Industry* in Appendix.
- 2 See Global Fashion Agenda and Boston Consulting Group (2018). *Pulse of the Fashion Industry*. Retrieved 16 April 2019, from <https://www.globalfashionagenda.com/publications/#pulseofthefashionindustryreport>
- 3 United Nations (n.d.). About the Sustainable Development Goals. Retrieved 16 April 2019, from <https://www.un.org/sustainabledevelopment/sustainable-development-goals/>
- 4 United Nations Climate Change (2015). Paris Agreement. Retrieved 16 April 2019, from https://unfccc.int/sites/default/files/english_paris_agreement.pdf
- 5 Boston Consulting Group calculation based on Euromonitor data (worldwide apparel and footwear industry production value, historic 2018 fixed exchange rate, USD). Projection until 2023 based on the same Euromonitor data; projection until 2030, Boston Consulting Group analysis by extrapolation of Euromonitor projections.
- 6 Global Fashion Agenda and Boston Consulting Group (2017). *Pulse of the Fashion Industry*. Retrieved 10 April 2019, from https://www.globalfashionagenda.com/wp-content/uploads/2017/05/Pulse-of-the-Fashion-Industry_2017.pdf
- 7 IPCC (2018). Global Warming of 1.5°C. Retrieved 11 April 2019, from https://report.ipcc.ch/sr15/pdf/sr15_spm_final.pdf
- 8 Global Fashion Agenda and Boston Consulting Group (2017). *Pulse of the Fashion Industry*. Retrieved 10 April 2019, from https://www.globalfashionagenda.com/wp-content/uploads/2017/05/Pulse-of-the-Fashion-Industry_2017.pdf
- 9 Consumer sentiment survey conducted by Boston Consulting Group in March 2019 for the Pulse of the Fashion Industry Update with 2,900 participants from Brazil (523 participants), China (514 participants), France (529 participants), the UK (703 participants) and the US (703 participants). Survey complemented by a social media listening analysis based on posts on Instagram, Twitter, reviews, blogs etc.
- 10 Ibid.
- 11 See exhibit 9 in Appendix.
- 12 The top quartile comprises 25% of the market with the highest Pulse Scores, the other three quartiles following in succession.
- 13 Stella McCartney (2019). Circular - regenerative farming. Retrieved 13 April 2019, from <https://www.stellamccartney.com/experience/en/sustainability/circularity-2>
- 14 Global Fashion Agenda (2019). *CEO Agenda 2019*. Retrieved 12 April 2019, from <https://www.globalfashionagenda.com/ceo-agenda-2019/#>
- 15 See Global Fashion Agenda and Boston Consulting Group (2018). *Pulse of the Fashion Industry*. Retrieved 13 April 2019, from <https://www.globalfashionagenda.com/publications/#pulseofthefashionindustryreport>
- 16 Research conducted in March 2019 with almost 3,000 participants spread out between Brazil (523 participants), China (514 participants), France (529 participants), the UK (703 participants) and the US (703 participants). To complement the results, a social media listening has been conducted.
- 17 Ibid.
- 18 Founders are defined as being born between 1997 and the mid-2000s. The survey sample only includes individuals aged 18 or older and the Founders in the survey were born between 1997 and 2001.
- 19 Baby boomers were born between 1947 and 1966.
- 20 See exhibit 10 in Appendix.
- 21 See exhibit 11 in Appendix.
- 22 Partnership for Sustainable Textiles (n.d.). Socially and Environmentally - we're on the right track. Retrieved 16 April 2019, from <https://www.textilbuendnis.com/en>.
- 23 The Social and Economic Council of the Netherlands (2016). Agreement on Sustainable Garment and Textile. Retrieved 16 April 2019, from <https://www.ser.nl/-/media/ser/downloads/engels/2016/agreement-sustainable-garment-textile.pdf>
- 24 OECD (n.d.). Retrieved 16 April 2019, from <http://www.oecd.org>
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- 30 Good On You (2019). Who made my clothes? And other important questions. Retrieved 18 April 2019, from <https://goodonyou.eco>
- 31 Mirova (2018). Sustainability requirements in the apparel industry Retrieved 10 April 2019, from <https://www.mn.nl/en/publications/sustainability-requirements-in-apparel-industry/>
- 32 GRI (n.d.). GRI Standards. Retrieved 18 April 2019, from <https://www.globalreporting.org/standards>
- 33 BMW Blog (2019). BMW and Daimler Confirm Five Joint Ventures for Mobility Services. Retrieved 10 April 2019, from <https://www.bmwblog.com/2019/02/22/bmw-and-daimler-confirm-five-joint-ventures-for-mobility-services>

APPENDIX



Taking the Pulse of the Fashion Industry

WHY A PULSE SCORE?

The Pulse Score is a global and holistic baseline of the sustainability management, target setting and implementation of sustainability initiatives of the fashion sector. It is based on the Sustainable Apparel Coalition's (SAC) proprietary Higg Index and extends its scope to extrapolate its findings to the entire industry. The Higg Index is the most extensive and representative existing transparency measurement tool of the industry.

The Pulse Score creates transparency and a common understanding of the industry's most critical issues. This serves as a foundation for the landscape to change, channeling investments and innovation into those areas that smart businesses will capture and benefit from.

METHODOLOGY

The Pulse Score was developed based on:

SAC Higg Index Brand & Retail Module (BRM) as the underlying data source, clustered into segments to detect patterns¹ and is complemented by:

1. Expert interviews going through Higg BRM questions to test patterns and validate and pressure testing answers live with sustainability managers
2. Pulse survey answers to reconfirm sustainability patterns and performance to increase sample size and fair market representation further
3. Expert sounding board to validate and discuss results

To get a representative view of the entire market, results were analyzed by company size and price positioning, and re-weighted according to the overall market structure based on revenue contribution.

ABOUT THE HIGG INDEX

The Higg Index, developed by the Sustainable Apparel Coalition, is a suite of sustainability assessment tools that empower brands, retailers, and facilities of all sizes, at every stage of their sustainability journey, to measure their impact on environmental and social dimensions and to identify areas for improvement. The Higg

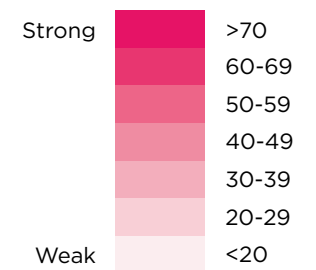
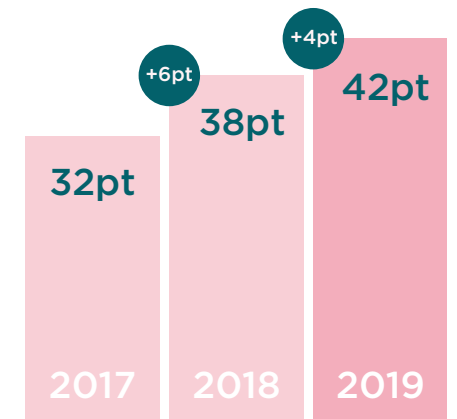
Index has a brand, a facility, and a product module.

Last year, the Brand & Retail Module has been renewed, incorporating the users' feedback and experiences. The new version is holistic, provides an understanding of key impacts, is actionable and supports business integration in clarifying internal interdependencies.

This version sets a new benchmark, with results by value chain step not being directly comparable to the previous years. The overall scores remain comparable.

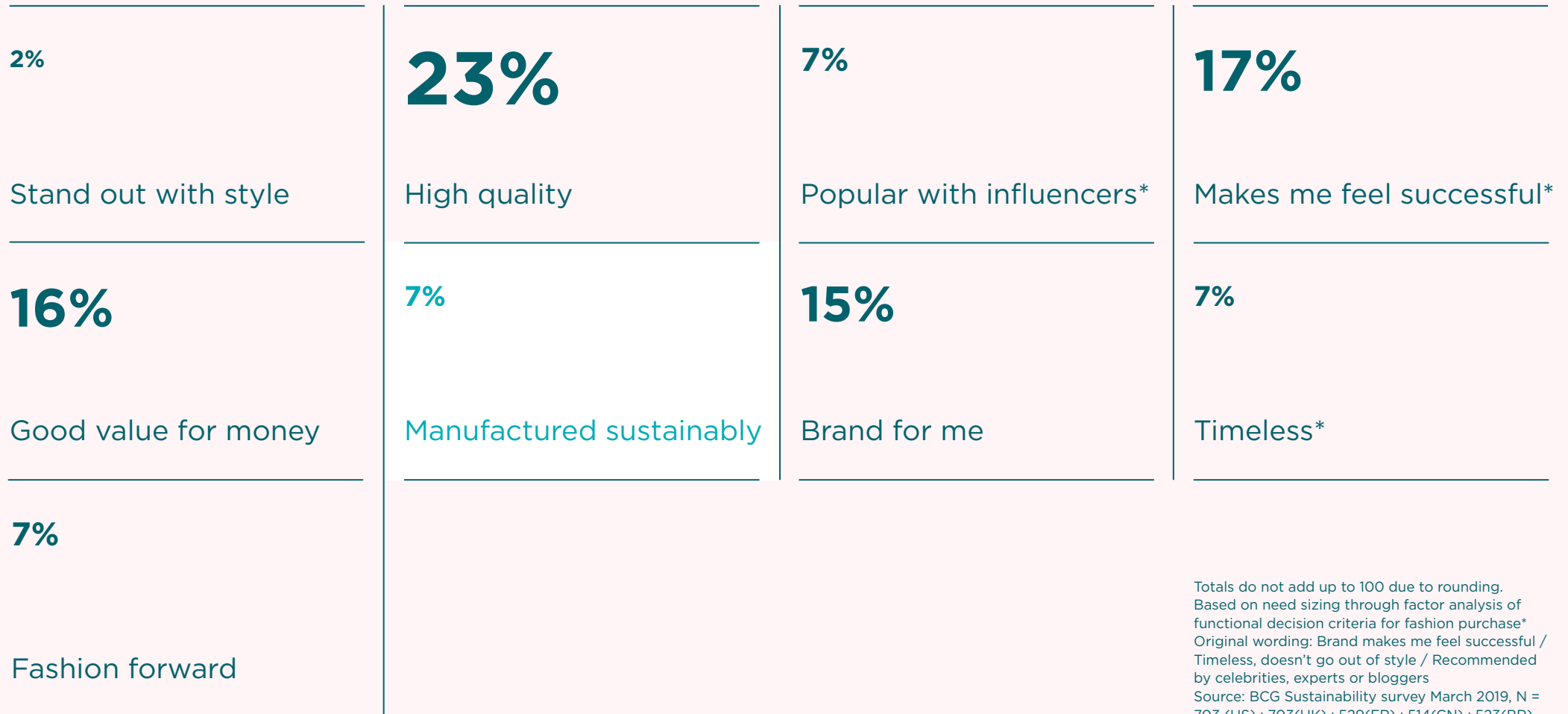
The Pulse Score

The Pulse is a baseline score, powered by the Higg Index, for measuring and tracking the sustainability management and target setting of the global fashion industry on key environmental and social impact areas. It is measured on a scale from 0 to 100².



The Higg Brand & Retail Module beta module is unverified, meaning in this context that it is based on a self-assessment that has not been audited or reviewed externally. By design it is impossible to achieve a score of 100 on sustainability, as this is intended to be aspirational.

EXHIBIT 9 Top fashion purchase criteria
 For 7% of consumers, Sustainability is their top criterion when making a fashion purchase



Totals do not add up to 100 due to rounding.
 Based on need sizing through factor analysis of functional decision criteria for fashion purchase*
 Original wording: Brand makes me feel successful / Timeless, doesn't go out of style / Recommended by celebrities, experts or bloggers
 Source: BCG Sustainability survey March 2019, N = 703 (US) ; 703(UK) ; 529(FR) ; 514(CN) ; 523(BR)

EXHIBIT 10 Emotional factors of sustainability
Quantitative analysis deconstructs sustainability into 11 emotional factors

Question: Thinking about sustainability, which emotional fulfillment do you seek when purchasing products in fashion categories?
Source: BCG Sustainability survey March 2019, N = 703 (US) ; 703(UK) ; 529(FR) ; 514(CN) ; 523(BR)

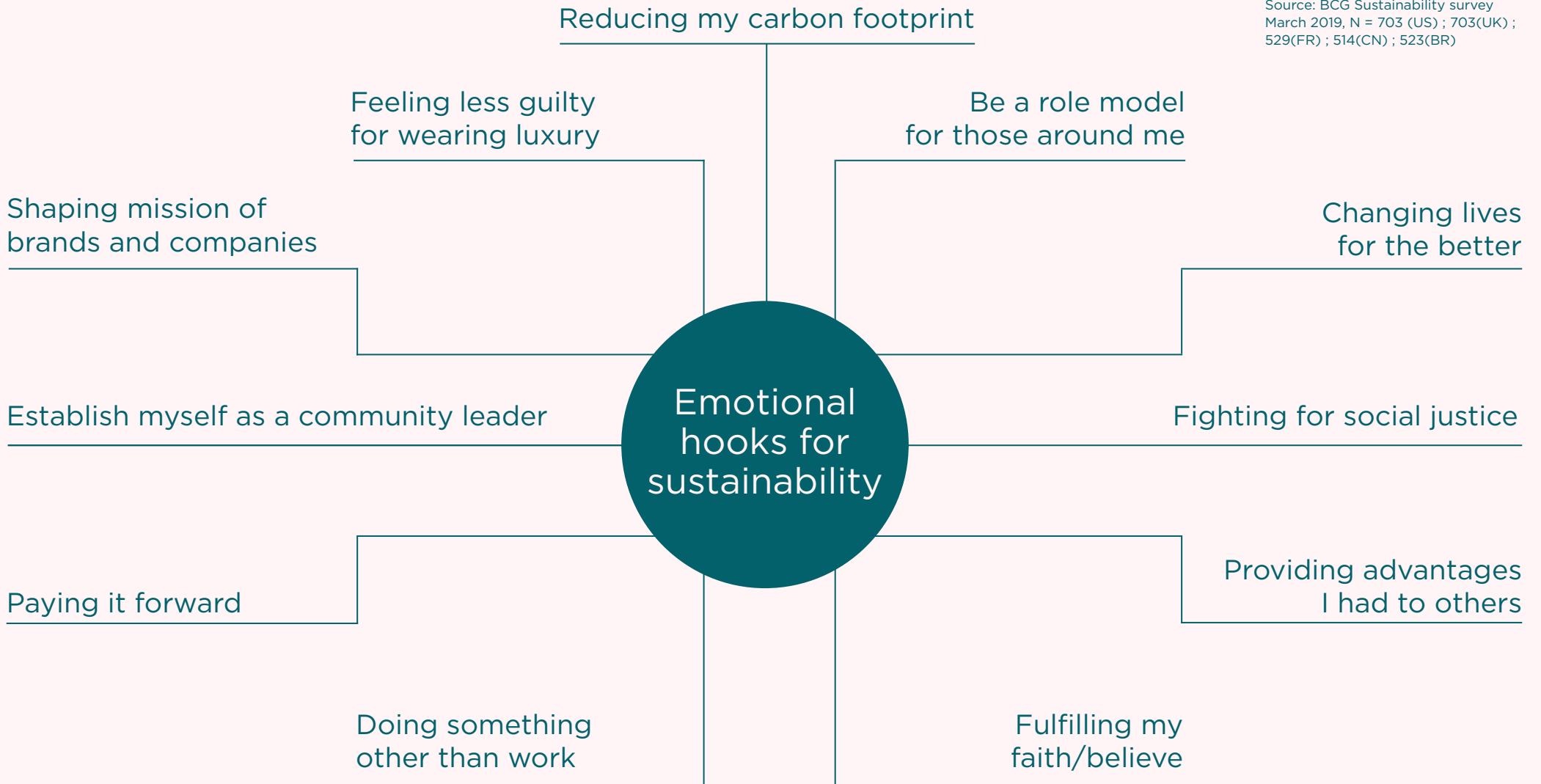

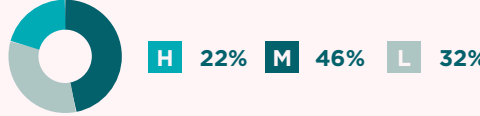



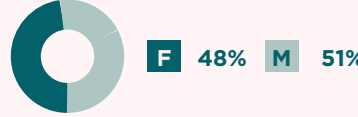


EXHIBIT 11 Emotional factors of sustainability
Quantitative analysis deconstructs sustainability into 11 emotional factors

Source: BCG Sustainability survey March 2019, N = 703 (US) ; 703(UK) ; 529(FR) ; 514(CN) ; 523(BR)

Average descriptors	Resistant (35%)	Middle ground (49%)	Open (16%)
Age	47 years	41 years	42 years
Income			
Gender			
Segment sizes per country	US 36% UK 42% FR 35% CN 31% BR 30%	US 46% UK 45% FR 50% CN 54% BR 50%	US 18% UK 13% FR 15% CN 15% BR 20%
Top table stake attribute	No child labor, 46% Cruelty free, 43% No animal testing, 39%	No child labor, 50% No animal testing, 48% Cruelty free, 47%	No child labor, 62% Safe working conditions, 58% No animal testing, 58%
Top differentiator attribute	Sustainably sourced materials, 36% Manufacturing w/o excessive waste, 35% Biodegradable packaging, 34%	Made in country known for sustainability, 39% Manufacturing w/o excessive water usage, 39% Brand donates rev. share to charity, 38%	Brand donates rev. share to charity, 42% Only natural/organic ingredients, 40% Recycled materials, 40%

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