



Weaving a Better Future:

Rebuilding a More Sustainable Fashion Industry After COVID-19

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BCG

 Sustainable Apparel Coalition

Higg Co

Executive Summary

The COVID-19 pandemic and the resulting societal and economic shutdowns required to contain it present the apparel, footwear, and textile industries with unprecedented challenges. But while this crisis strains their commitment to sustainability, it simultaneously demands that companies accelerate their progress on sustainable initiatives in order to be competitive in the market that will emerge after the pandemic.

This crisis is delivering a shock to the global economy and to the broader fashion industry: retail businesses are temporarily closed, brands are adjusting to declining customer spending, and workers in countries like India, Bangladesh, and China are furloughed because of reduced or cancelled orders. And an impending economic crisis is expected to wipe out more than 30% of the fashion industry's business in 2020 alone.¹

According to a recent survey of Sustainable Apparel Coalition members, 1/3 of decision makers within fashion brands, retailers, and manufacturers felt very unprepared for the COVID-19 crisis.² Concerns that were once dominant within the industry – from sustainable materials sourcing to carbon reduction to workers' rights – have been relegated to secondary considerations while businesses scramble to manage short-term economic distress.

However, surveys with key stakeholders, study of prior global crises, and analysis of economic trends and consumer sentiment make it clear that **fashion risks irrecoverable self-inflicted wounds if it abandons sustainability and value chain partnerships in the face of COVID-19.** While sustainability is in danger in some areas of the industry, companies that embrace it will be among the leaders of a resurgent fashion industry on the other side of the pandemic.

Today, business decision makers and sustainability professionals need practical and actionable guidance to avoid backsliding on progress and to actively prepare for a changing industry:

- **Protect critical assets to survive the economic crisis:** Fashion companies must safeguard workers, employees, capital, value chain partnerships, channels, and the trust and support of their customers. This moment is an opportunity to remove unnecessary complexity and costs, in order to prepare for reinvestment.
- **Solve immediate inventory challenges in partnership with suppliers:** Leaders will recognize the importance of open dialogue and constructive partnership across the value chain in order to find shared solutions for protecting worker livelihood and sustaining trust. Cancellation of completed orders will be a measure of last resort, while cancellation without consultation or collaboration will be an unacceptable practice.
- **Integrate sustainability throughout business recovery strategies:** Sustainability will be an imperative for strong companies after the crisis. Leaders will make sustainability central to post-pandemic decision-making, while laggards will view sustainability as an effort to resume once convenient.
- **Accelerate transparency while increasing sustainability ambitions:** Companies must take advantage of digitalization, innovative business models, and end-to-end solutions – with transparency playing a central role – in order to assess and demonstrate positive environmental and social impact to stakeholders.

The companies that succeed in maintaining their sustainability programs and commitments as they manage the crisis will gain a durable business advantage once it ends, and rebuild a more sustainable fashion industry after COVID-19.

Authors



Catharina Martinez-Pardo & Dr. Javier Seara

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Amina Razvi

The Sustainable Apparel Coalition (SAC) is an industry-wide group of more than 250 leading apparel, footwear, and textile, brands, retailers, suppliers, service providers, trade associations, nonprofits, NGOs and academic institutions working to promote social justice throughout the global value chain and reduce the environmental impacts of products. Through multi-stakeholder engagement, the SAC seeks to lead the industry toward a shared vision of sustainability built upon a common approach for measuring and evaluating apparel, footwear and textile sustainability performance that spotlights priorities for action and opportunities for technological innovation. The SAC was incorporated as a 501(c)6 nonprofit organization and launched the groundbreaking Higg Index suite of tools in 2011. For more information, visit www.apparelcoalition.org.

Higg Co

Jason Kibbey

Higg Co is a technology company that delivers, implements and supports the Higg Index for consumer goods industries. Developed by the Sustainable Apparel Coalition, the Higg Index is a suite of tools that enables brands, retailers and facilities of all sizes — at every stage in their sustainability journey — to accurately measure and score a company or product's sustainability performance. The Higg Index delivers a holistic overview that empowers businesses to make meaningful improvements that protect the well-being of factory workers, local communities and the environment. For more information visit www.higg.com.

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Sustainable Fashion Prior to the Pandemic

Prior to the COVID-19 crisis, ambitious sustainability programs and commitments were becoming the norm in the apparel, footwear, and textile industries across varied segments such as luxury, sport, fast fashion, and value retail. The industry's sustainability efforts encompassed both environmental and social aspects, including water, carbon, and chemical consumption, responsible sourcing, utilization and disposition of material inputs, and workforce health, safety, well-being, and compensation.

These fast-growing initiatives were driven by many overlapping factors. First, consumer preferences have significantly shifted over the last decade,³ with increased awareness and interest among consumers in sustainability of their clothing choices,⁴ and raised expectations regarding the social and environmental responsibility of fashion brands. According to recent consumer research, more than half of consumers would choose more sustainable brands over non-sustainable alternatives.⁵ This is especially true among younger consumers, who desire brands that not only minimize their climate change impact but actually put sustainability and transparency at the center of their brand and product strategies. Employee pressure has grown as well, given that around 50% of employees between ages 20-35 prefer to work for companies they identify as sustainable.⁶ And climate disruption has made the fashion business model itself vulnerable, with supply chains threatened by natural disasters, and the availability and pricing of raw materials at risk.⁷

As a consequence, many fashion companies were embracing sustainable transformation through individual or collective public commitments⁸; through holistic sustainability programs that encompass design and manufacturing; and with measurable targets to improve their practices in the coming decade. These targets

often include carbon reduction, sustainable materials use, improvements in social and labor practices, and circular economy models (where products are designed from the outset to be recovered and materials repurposed).

Efforts had scaled in measurement as well, leading to improved performance. According to data from the Higg Index, which standardizes measurement for social and environmental impacts for brands and manufacturers, average scores from participating facilities demonstrated a year-over-year increase of 15 - 19%.⁹ This metrics-driven approach has helped companies demonstrate the tangible value of their environmental, social, and corporate governance efforts. As a result, investors have more regularly required ESG/sustainability credentials from companies, realizing the value and return opportunities from investing in more sustainable businesses.¹⁰ Governments were also moving forward with mandatory reporting and transparency requirements, as seen in France, Germany, and the European Commission, and multilateral institutions like the OECD were releasing mandatory guidelines for due diligence.

Buoyed by these trends, sustainability seemed positioned for rapid expansion within the industry over the next few years.¹¹ Recently launched apparel start-ups were pursuing exciting innovations in 'textile tech,' pioneering disruptive approaches to centuries-old manufacturing practices. And dozens of investors were coalescing into a new financing infrastructure for this start-up ecosystem. Within venues like the World Economic Forum, sustainability was a leading priority on the global agenda, and had become a major factor in executive decision-making and point of conversation among top management. Prior to COVID-19, sustainability was gaining momentum as an important consideration for consumers, companies, and investors.



The Fashion Industry During the Crisis

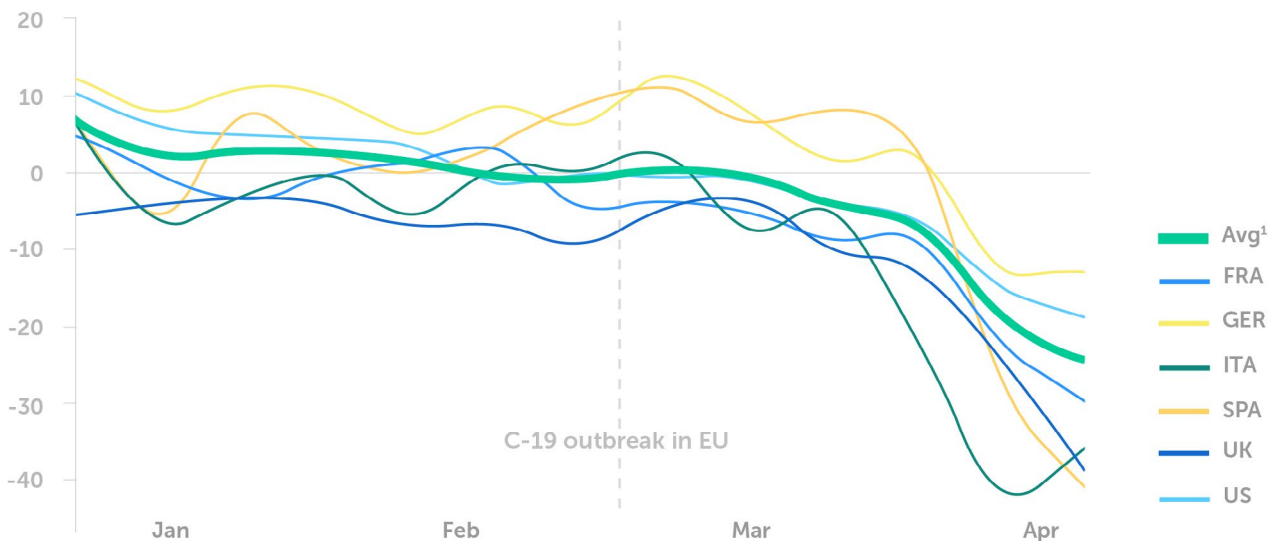
COVID-19 has put the apparel, footwear, and textile industry's sustainability transformations on pause, as businesses reel in response to this pandemic.

According to the International Monetary Fund, 2020 is likely to be the worst year for the global economy since the Great Depression.¹² The initial outbreak in China created delays, closures, and disruption in manufacturing facilities and supply chains within fashion. Lock-downs and shelter-in-place orders in the West have suspended large swaths of economic activity. And as the virus and associated shut-down measures have spread to further countries, the scale of economic impact has extended as well. Forecasts anticipate that the global GDP will be 3% lower than planned in 2020.¹³ In March, retail sales in the U.S.

plunged 8.7%, the largest monthly decline ever.¹⁴ And in China, nationwide retail sales of consumer goods experienced a year-over-year decline of 19% during the first quarter.¹⁵

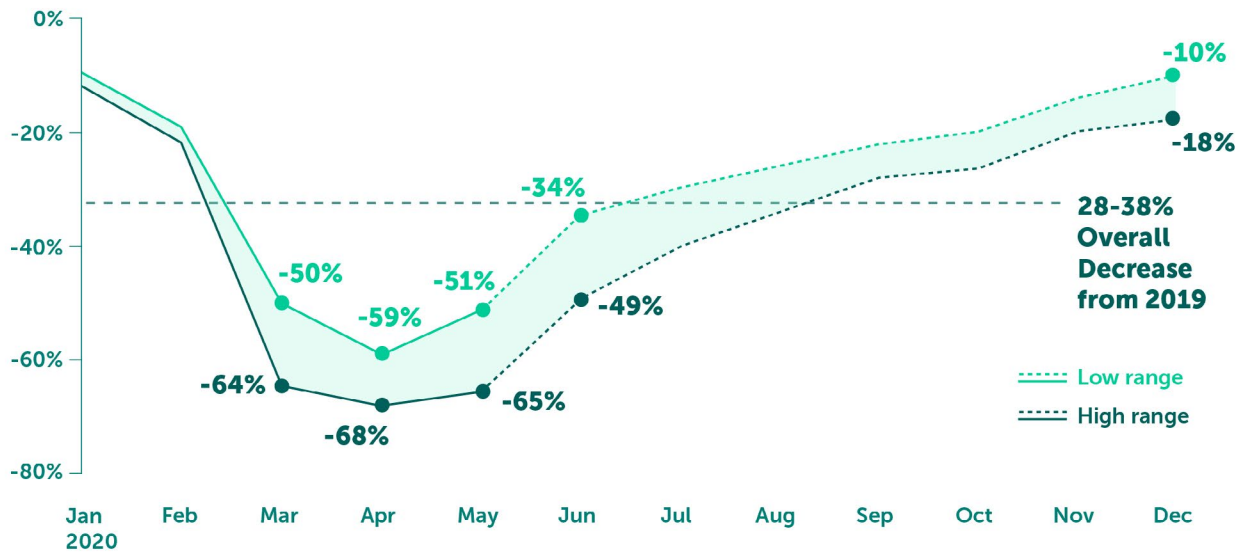
After travel and tourism, fashion and luxury together are the most negatively impacted of all consumer goods and services, as retail stores shutter and consumer purchasing shifts to necessities. (By comparison, hygiene, health, and food are all demonstrating slight growth.) From April to May, sales decreased by 60-70% in the worldwide fashion and luxury industry – with footfall in retail and recreation stores down by 44% in the U.S., 52% in Germany, 78% in India, and 59% in Brazil.¹⁶ Using web traffic as a proxy indicator, volume in mid-March has

Exhibit 1: Observed decrease in relative weekly web traffic, 2020 v. 2019.



¹ Weighted average for US and top 5 European countries, including fashion, apparel, luxury, jewelry, beauty, and cosmetics. Source: SimilarWeb; Google trends; BCG Analysis

Exhibit 2: Expected impact of the COVID-19 pandemic on worldwide fashion and luxury sales in 2020.



Fashion and luxury sales fluctuate throughout the year, down 59-68% in April to 10-18% in December, compared to 2019.

drastically decreased by 50% in France, Italy, the UK, and Spain, compared to the pre-crisis months.¹⁷

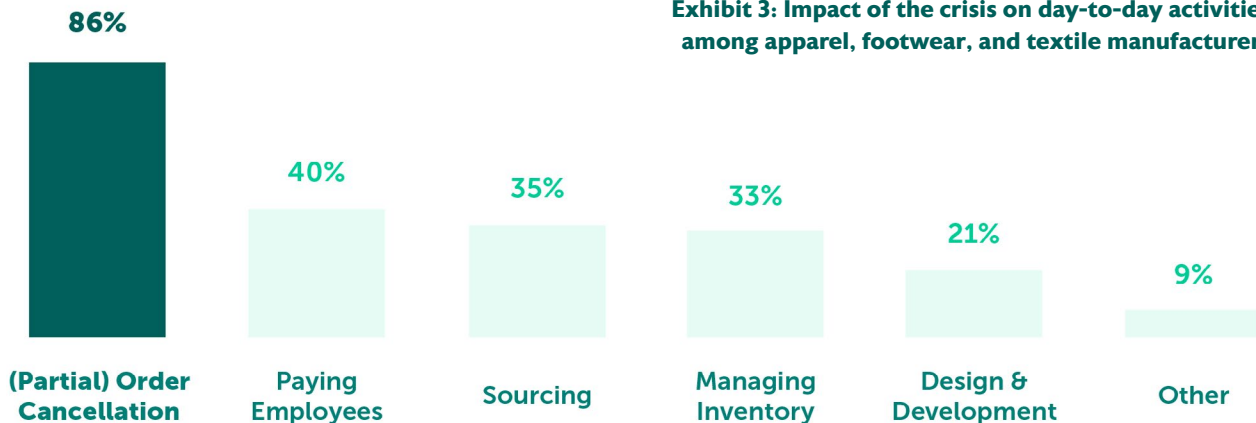
Looking ahead towards the rest of 2020, fashion and luxury can expect a drop in sales of at least 28-38%, according to a BCG analysis conducted in March.¹⁸ Half of fashion and luxury executives believe that the impact of the crisis will last about twelve months, and that their companies will fall short of pre-crisis targets.¹⁹ And while an increase in online sales can be expected to persist after the current shock relaxes, this offers only small relief. Within a market that depends around 80% on offline sales, the impact of continued shelter-in-place orders and store closures will be tremendous.

As a result, liquidity and cash preservation are now top priorities among all fashion companies, even financially strong ones. Current response measures include cost cutting, staff furloughs, working capital optimization, and sales pushes (with some heavily clearing their inventories with discount strategies or emphasizing online sales). For many brands, non-essential spending is currently frozen or being reevaluated, which in many cases includes their

sustainability programs and teams. In circumstances where sustainability teams are furloughed, there is the risk that selective rehiring or permanent departures will lead to a slow down in progress. And without budget prioritization and leadership, the industry could face significant knowledge gaps in the future.

Concurrently, manufacturers all over the world face cancellations of completed and near-complete orders, which is already causing devastating ripple effects. According to a survey of over 500 facilities across all main production regions, 86% of these facilities have been impacted by cancelled or suspended orders. As a direct consequence, 40% now struggle with paying employees, which is leading to layoffs and factory closures. With livelihoods jeopardized in some of the poorest nations in the world, the human toll of the pandemic is expanding out further, eliminating incomes and threatening food, shelter, and security for those at the start of the value chain. And given that the growth of textile and garment manufacturing sectors is historically a fundamental early step in the economic maturation of developing countries, the closure of textile factories could also have devastating

Exhibit 3: Impact of the crisis on day-to-day activities among apparel, footwear, and textile manufacturers



Order cancellations have an immense direct impact and lead to subsequent challenges.

long-term consequences for the overall economic stability and growth of these countries.

Meanwhile, funding for sustainability-focused start-ups will likely become more precarious over the course of 2020. In the first three months of 2020, VC funding has dramatically decreased, down approximately 20%.²⁰ Financing for growth-stage companies is especially hit, with the majority of investors suggesting that COVID-19 will have a negative (32%) or somewhat negative (36%) impact. And while government-sponsored loan programs may provide a lifeline to some businesses, it's anticipated that many start-ups won't have the financial resources to make it through this crisis. This will unfortunately occur in fashion innovation as well, as the financing gap won't close fast enough for many.

However, the news isn't all bad. During this crisis many in the industry are stepping up to contribute to immediate COVID-19 response and public health needs. Brands are finding resourceful ways to contribute to PPE needs on the frontlines. For example, Barbour is repurposing production facilities to manufacture medical gowns, Migrolio is producing free face masks on behalf of the Italian government, and LVMH is producing hand sanitizer within their perfume facilities. And at the facility level, ten sneaker factories in Putian are now

producing more than 200,000 breathing masks per day, instead of the footwear they previously manufactured for brands like Nike and Puma. Efforts like these and others are particularly noteworthy, considering how much strain individual companies and the overall industry are facing.

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The priority now has been to maintain cash flow as our facilities have not been able to operate and our customers stores are also closed. Since the commencement of the pandemic we have focused on addressing the social needs of our associates. We have also been gearing up our facilities with the health and safety requirements that will now be necessary.”

Nikhil Hirdaramani
Director, Hirdaramani Group



“

The metrics we use to measure the health of our businesses should also include the health of our planet. All of us have to double-down on sustainability, reducing environmental impacts, and increasing social justice.”

Rick Ridgeway
VP of Public Engagement, Patagonia

What COVID-19 Means for Sustainability

Currently, most apparel and footwear companies are focused on the urgent business challenges outlined above, with manufacturing, sourcing, inventory management, and order fulfillment as priority concerns.²¹ But as we have seen over the last century, periods of global crisis have consistently accelerated transformational societal shifts, and can be strategic inflection points for businesses.

The 1918 flu epidemic transformed personal hygiene and cleanliness habits, increasing the frequency of clothes washing and use of electric washers.²² Women's domestic employment during World War II changed the nature of female workforce participation even after the war.²³ And health events such as the 2003 SARS outbreak drove lasting changes in retail consumption patterns, given that much of the population hesitated to venture outdoors and instead shifted to online shopping.²⁴ Accordingly, the recovery from COVID-19 will hasten previously emerging trends across industries – from the prevalence of remote work, to adoption of e-commerce and home delivery services, to the importance of purpose and values in major brands.

And specifically for apparel, footwear, and textile, all trends point to sustainability solidifying as a basic expectation across the industry. Early signals suggest that a global health crisis will increase overall consumer demand for products closely associated with trust, well-being, and the collective good – particularly in categories such as food and nutrition, but also in beauty and fashion, which are considered 'close to the body.' As consumers spend less money but more consciously, the expectation for sustainability, fair working conditions, and ethical action within supply chains will become absolute table stakes. Already consumers across different countries are raising their expectations of apparel brands during the pandemic, and responding positively when brands demonstrate social responsibility, give back to communities in need, and prioritize environmental sustainability.²⁵

After the pandemic, factors such as quality and durability will become more important, given expected economic uncertainty and high levels of unemployment among consumers. It's also important to note that the underlying drivers for environmental transformation on the manufacturing side (namely that environmental pollution and inefficient processes are simply unsustainable in the long term) will persist throughout the current crisis. The reduction in human mobility and consumption caused by shelter-in-place and lockdowns reveals the benefits of environmental renewal, as cleaner air and restored waterways have been documented from Los Angeles to Venice, offering a glimpse into how a low-carbon future might look.²⁶

Despite the struggles of the moment, macro-trends demand significant action for sustainability within the industry. After COVID-19, fashion leaders will reshape what it means to be a sustainable business, with a unified approach that integrates environmental, social, and purchasing considerations into core business practices, with the development of sustainable products as an area of innovation. And expectations for the entire industry will be reset around greater collaboration, more equitable partnerships, and collective responsibility across all parts of the value chain.

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COVID is no excuse to back off from sustainability. Moreover, sustainability will be among key product priorities, together with quality and durability.”

Luis Casacuberta
Managing Director Women's & Kids', Mango

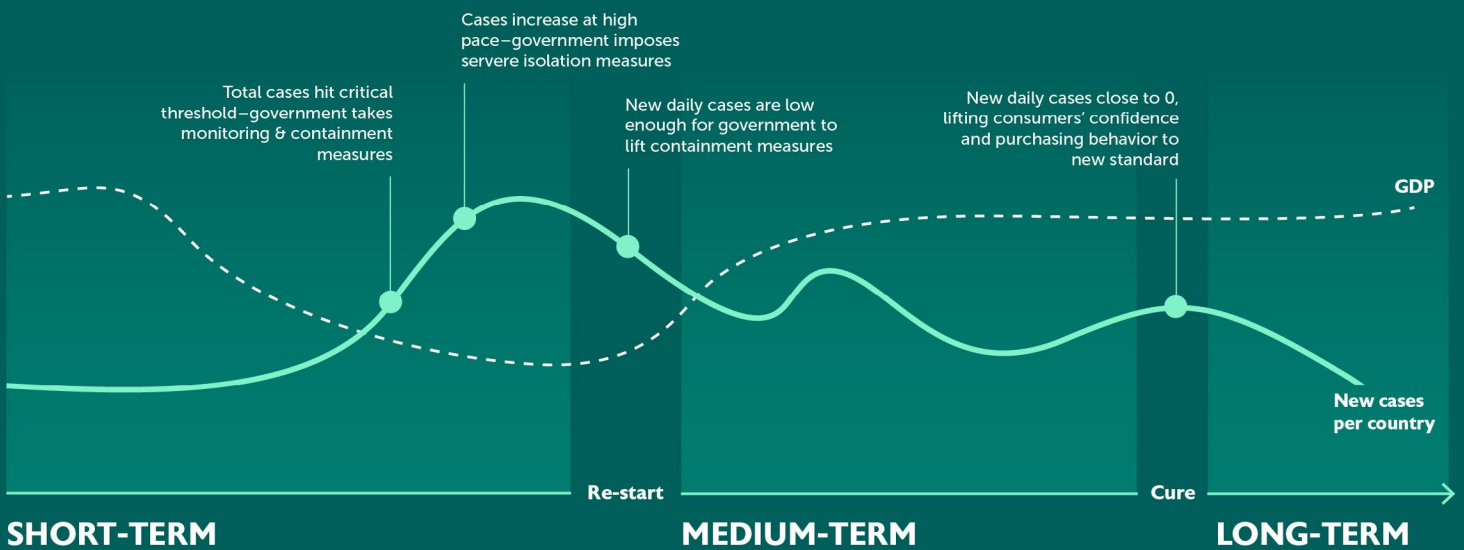
Recommendations for the Industry Across 3 Phases of Pandemic Response

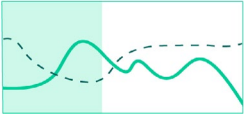
To navigate the current crisis and position for business advantage in a transformed industry, companies should approach their sustainability initiatives across the following three phases:

- **Short-term:** as an immediate response to surviving the economic turmoil caused by COVID-19
- **Medium-term:** as governments reopen and stabilize specific regions, while continuing to manage spread of the coronavirus
- **Long-term:** as governments, health authorities, and communities move past the pandemic, and industries enter a new era.

In each phase, apparel, footwear, and textile businesses that embrace an integrated approach to sustainability and business stability will emerge stronger. Companies can also use this time to rethink and adjust their approach to enterprise risk and business continuity, particularly in regards to environmental and social decisions.

COVID-19 Evolution & Fashion Impact





Short-term: Protect to Survive

Trends

New daily COVID cases increasing globally.

Regulatory measures to close non-essential businesses, and work from home in many sectors.

Plunge in overall consumer spend, with rebound in e-commerce.

Priorities for Fashion Companies

Defend business and its critical assets. Protect human capital, financial capital, and supply chain relationships.

Manage orders while preserving supply chain relationships. Avoid cancelling completed orders to prevent factory closures and impacts to workers. Engage in collaborative conversations and respectful dialogue with suppliers on how to address issues together.

Maintain key social and environmental programs. Focus on fewer core activities, if needed (prioritize workforce protection, health and safety, and key environmental programs), and continue to collect social and environmental data.

As part of their immediate response, apparel, footwear, and textile companies have reacted by focusing on protecting their balance sheets and the safety of their workers, including corporate staff and facility workers. According to the Sustainable Apparel Coalition's membership survey, 30% of fashion brands, retailers, and manufacturers felt extremely unprepared for the COVID-19 crisis, with significant unplanned effort now required to weather the disruption.²⁷ Liquidity and cash preservation are top of mind for all companies. To avoid potential bankruptcy, they are optimizing working capital, leveraging financing instruments to reduce short-term financial stress, and beginning to tightly manage their costs and workforce setups.

Many players (including brands, retailers, and manufacturers) won't survive this period of low demand because of the cash needed to sustain operations. Scale will be a determining factor: smaller players without a healthy balance sheet, clear proposition, and established consumer equity will face bankruptcy, while mature sizable companies will have

the resources to weather the crisis. Extreme polarization will occur across the market, with value and luxury retailers performing best, and mid-priced businesses facing the most strain. And pressures on the supply base will lead to numerous closures and a decline in supplier capacities over the coming months. Although smaller suppliers will be hit the hardest, the larger multi-country suppliers will be in a better position to survive (and actively drive consolidation).

However, companies with a forward-looking mindset will still maintain key social and environmental programs, even while defending business and protecting core assets during this downturn. Some businesses may need to refocus on fewer activities related to their sustainability initiatives, while others will have the resources to continue their full programs. Only in rare cases should a company add any new sustainability commitments during a period of dramatic economic uncertainty.

Consumers expect that a brand's ethical commitments won't be paused during this pandemic. In a survey of almost 6,000 consumers in US, UK, Germany, Italy, and



It is the time to see how agile a company is in reacting to new market demands. And being a sustainable manufacturer with sustainable products should still be a strategic advantage. With this perspective in mind, I believe it is time to innovate! We can ask questions like ‘what is a sustainable face mask?’”

Delman Lee
President & CTO, TAL Group

China, consumers indicated that they very favorably viewed brands that paid their furloughed employees, repurposed facilities to produce PPE, or donated to their communities.²⁸ Additionally, environmental programs were valued by the survey consumers, especially in those regions that are already slowly showing recovery from the crisis. Given that many customers are facing tremendous personal economic instability and strain, brands should develop consumer relationships that move beyond transactions and instead showcase how they are acting on purpose during this time. Effective consumer engagement on sustainability will require brands to provide more transparency, demonstrate clear supply chain knowledge, and document follow-through on their promises during this time.

Of importance to both sustainability and supply chain trust are norms around purchasing practices. While a number of fashion brands have cancelled completed orders from their manufacturing facilities, it is becoming a basic expectation that such cancellations are only a measure of last resort. As previously noted, order cancellations are particularly devastating to factory workers and manufacturers, who have a more fragile social safety net and few employment alternatives. Factory closures set off a series of devastating consequences from which the entire apparel industry supply chain will struggle to rebound – from inability to manufacture products, to difficult supplier selection, to mistrust across industry partners. Advocacy organizations and media have begun drawing attention to brands that have cancelled completed orders without advance discussion with suppliers and manufacturers, and pressuring is being applied through negative consumer attention.

However, companies such as H&M, Nike, Target, VF Corp, Inditex, and PVH have all been recognized for their purchase of completed orders,²⁹ which is shifting expectations towards responsible communication and respect for partners across the value chain. In this tough time, it’s essential that all parties engage in solutions-based discussions to minimize order cancellations and adjust their planning. Brands with strong supply chain partnerships will be able to recover quickly as economies begin to rebound.

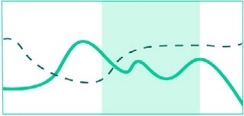


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We see a clear link between sustainability and continued commercial success. Our sustainability ambitions will help us stay ahead of customer demand after this crisis caused by the coronavirus. Both our current and future customer base are calling for more sustainable choices in fashion.

Nine out of ten Generation Z consumers believe companies have a responsibility to address environmental and social issues. By committing to sustainability, we can secure our long-term growth, stay relevant to our customers, and establish market-leading differentiation against our competitors.”

Kate Heiny
Director, Sustainability, Zalando SE



Medium-term: Manage and Reopen

Trends

Decrease in new daily COVID cases allows governments to lift some measures.

Stronger recovery measures and governmental support available to boost the economy.

Consumer spending slowly increases, with heavy reliance on e-commerce and low recovery of footfall.

Price point polarization (luxury and mass-brands preferred).

Shift in consumer preferences towards casualization of fashion (e.g. athleisure, athletics, and beauty benefit, in contrast to occasion wear, accessories, or bags).

Consolidation and bankruptcy of struggling brands, retailers, and manufacturers (increasing opportunity for M&A).

Priorities for Fashion Companies

Re-evaluate all decisions and actions taken under duress.

Clarify or revise decisions on purchasing or cancellation made at the height of the crisis. Review furlough and budget/cost-saving measures.

Shift marketing and communications to strengthen and rebuild customer trust.

Optimize the entire consumer journey with trust in mind (e.g. communicate about crisis management, signal ethical behavior, cater to the need for purpose and personalization). Demonstrate the continual meeting of obligations to one's supply chain and social and environmental commitments.

Continue to manage excess inventory, engage in 3-season merchandising, and strengthen supply chain collaboration.

Companies need to find responsible solutions quickly to manage current stock, create space in stores, and plan for upcoming seasons.

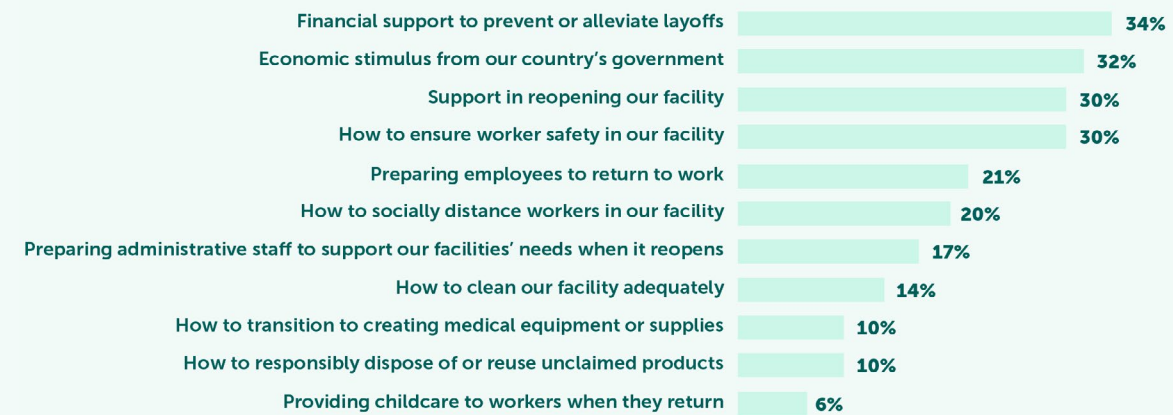
Although not perfectly comparable, with major crises in Asia (SARS, MERS) consumption strongly rebounded approximately 3-9 months after the crisis.³⁰ However, with COVID-19, markets will experience a phased recovery – lifting of shelter-in-place orders, modified reopenings of some businesses, and incremental expansion of public gatherings as vaccines, treatments, and testing strategies for the coronavirus are developed. Initial positive momentum in China can already be observed in certain areas, as Chinese city traffic in the last few weeks has increased 80%, though from a very small base.³¹

As companies adjust to a cautious reopening or rebound of business, they should continue to put health and safety first. In terms of customer engagement, marketing and communications teams will need to focus on consumer trust – sustaining or rebuilding, depending on their circumstances coming out of the crisis. Brands will need to optimize

the entire consumer engagement and journey by signaling responsibility and ethical behavior in their communications, adjusting the store experience, and catering to a greater desire for transparency, purpose, and personalized interactions. Marketing and insights teams should pay close attention to emergent consumer preferences, which may suggest new products and market segments as well as shifts in category preferences (particularly in athleisure and lounge, as many consumers will have adjusted to a more casual remote work lifestyle³²).

Consistent signals to the supply chain will also be a requirement for fashion companies during this period. Already, many brands are clarifying or revising their positions on purchasing or cancellation decisions, which were made during the outset of the pandemic. These brands have been positively recognized by their suppliers and stakeholders for their corrections, as steps towards rebuilding trust in the value chain. Winning brands will also review and further adjust their

Exhibit 4: Support measures needed by fashion and textile manufacturers.



Percent of respondents rating the selection among their top 3 choices.

supplier line-up to ensure alignment on sustainability, and will also provide significantly more transparency (including traceability of materials).

In the months ahead, fashion companies will also face massive stock at hand³³ – with most of their spring and summer lines unsold in parallel with limited demand and a shortage of cash. Companies, especially those with publicly stated zero waste and circularity goals, will need to find solutions to manage their current stock, create space as stores reopen, and manage upcoming seasons. This will be an opportunity to work closely with key supply chain partners: to stretch current offerings, understand how upcoming seasons can be managed, and postpone some stock in following seasons. Collaborative solutions must be also found that make use of raw and already procured materials.

In executing all of the above, industry collaboration will be essential. In recent years, many companies have maintained bespoke sustainability programs, with company-specific codes of conduct, unique social and environmental assessments, and investments with the cost entirely paid by individual companies. While some of these programs are very impactful and should be continued, others may achieve the same results with a shared approach. Companies facing cost pressure could consider shifting from these

individual programs to shared industry-wide sustainability initiatives. By sharing costs and benefits more broadly across multiple partners, companies can adopt more robust and holistic sustainability programs than can be pursued on their own.

There is no shortage of collaborative efforts from which to choose. For example, instead of using a proprietary social assessment, a company should shift towards an industry-wide assessment, such as WRAP, SLCP, SMETA, or BSCI. Likewise, a company should engage with efficiency programs such as the Apparel Impact Institute's Clean by Design, which is funded by pooled resources from multiple companies. Lastly and significantly, many manufacturers and suppliers made their initial sustainability investments at the request of their brand and retail customers. In order to encourage continued investment in sustainable practices by their supply chain partners and facilities, brands and retailers should be consistent in their sustainability strategies. This expanded degree of collaboration must be accelerated to solidify commitments for the future and bring sustainability ambitions to scale.

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After the crisis, however, the time will come to rebuild. This moment of recovery will be an opportunity to rethink our industry and, even if not overnight, build a new model of value and growth. And this is where I see our sustainability strategy and vision being more important than ever.”

Anna Gedda
Head of Sustainability, H&M Group



Long-term: Embrace New Reality

Trends

Almost no new daily COVID cases and availability of treatments/vaccine allow governments to lift most measures.

Overall level of discretionary spend lower going forward, and a prevailing shift in category preferences, despite increasing consumer confidence.

Work from home as the new normal for employees in many countries.

Shift in channel preferences for digital and personalized experiences. Increasing share of direct-to-consumer channels and e-com (e.g. 55% of US consumers plan to increase e-com spend).³⁴

Consumer focus on health and well-being (40% of US consumers to pay more attention to well-being and exercise).³⁵

Priorities for Fashion Companies

Anchor trust into the brand and practices. With more transparency, purpose-led decision-making, and 360° collaborative communication to all internal and external stakeholders.

Invest in new business models and innovation. New approaches in social, environmental, digital, and transparency help to future proof business models.

Build advantage through technology, data and digitization. End-to-end digitization including consumer pathways, as well as enable AI, data-driven decision making, and greater transparency for consumers and other stakeholders.

Rebuild sustainability programs for impact and resilience. When resetting sustainability after COVID, many sustainability leaders in fashion already recognize that they should not restart programs in the same manner. Sustainability needs to be an integral part of all business practices.

As governments and public health systems manage the pandemic and reduce outbreaks (whether through reliable treatments, a vaccine, or otherwise), society and business will adapt to a 'new reality,' characterized by reshaped trends and modified consumer habits.

By this time, fashion companies should have meaningfully incorporated sustainability and purpose into their forward looking strategies. Emergent consumer trends will solidify: a premium on trust, purpose, and values-led brands; a shift in channel preferences for digital and personalized experiences; and an increased share of direct-to-consumer brands. Companies that have incorporated these trends into their earlier planning will of course be best positioned to act quickly in this 'new reality.'

New norms will be established across the value chain, defined by better partnerships, rebuilt trust, and deeper

collaboration. The experience of a global pandemic will create awareness of supply chain fragility, and leaders will build flexible supply chains in order to be less dependent on a single geographic region. And given that some manufacturers and facilities will face severe financial strain during the initial months of the pandemic, the recovered fashion industry may feature a consolidated supply base. This offers a chance for more consistent collaboration across the value chain, and a focus on 'equal partnership' between brands and these larger consolidated manufacturers. As a result, apparel industry systems will move from an emphasis on lowest-cost to a focus on quality and agility. Additionally, any sustainability efforts among consolidated facilities will have broader impact, more lasting effects, and offer higher technical performance.

In order to enable transparency and sustainability impact at scale, brands and retailers must embrace digitalization and new technology in their sustainability

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The pandemic has forced all of us to take a step back and reset our priorities. One key takeaway that has clearly emerged is that a new transparent model that showcases verified sustainable practices will have an edge over other traditional business models.”

Sanjeev Bahl
Founder and Chief Executive, Saitex

programs, just as they have in other parts of their business. Technologies such as pollution sensors, real-time energy monitoring and reporting, digitized and standardized social audits, and phone-based worker surveys allow for new ways of measuring, managing, and reporting sustainability. The industry must upgrade its sustainability tracking and management, moving from audit PDFs and Excel spreadsheets to an embrace of standardized, scalable, comparable, digital data. Only by enabling widespread transparency to all of its stakeholders will companies be able to adapt in a rapidly changing market.

Companies that successfully adjust to this ‘new reality’ will be positioned to look further out on the horizon – and put their resources into the investments that will determine the future of this industry. The experience of remote work during the pandemic will provide proof for much wider adoption of digitally-driven collaboration, which will reduce team travel to suppliers. End-to-end digital creation and collaboration with suppliers will be established as a new normal, further emphasizing the importance of trust and communication across the value chain in all directions. Promising trends in sustainability – such as circular design and processes that use clean energy for production – will be prepared for wider adoption, particularly as companies reassess their business at a high level. Given the importance of provenance and handling materials during the pandemic, more companies will look at traceability and full lifecycle assessments as areas for investment. Lastly, on the consumer side, in the event of a protracted recession or prolonged economic recovery, new business models in rental, resale, and sharing will help fashion brands serve new customer needs in ways that suit the moment, while also improving environmental impact in the industry.



“

The pandemic has drawn the world into a closer community. In the process, we seem to have become more empathetic, and realize the skies look cleaner and the birds do chirp. I would encourage the world at large to preserve this moment, and continue being empathetic and responsible in the future too.”

Sanjeev Bahl
Founder and Chief Executive, Saitex

Conclusion

Even before the COVID-19 crisis, sustainability did not come easily for many companies in fashion. But to survive this pandemic and emerge stronger, leaders in apparel, footwear, and textiles must incorporate sustainability within stabilization and new growth strategies, rather than retreat from commitments. The post-COVID consumer will prioritize trust and purpose, and will likely evaluate companies based on how they acted during and after the crisis. Transparency will be highly relevant for all stakeholders. Sustainability will be enabled by technology and can be leveraged to drive innovation across design, supply chain management, and new business models. Scale, integration, and industry agility will demand collaboration and standardization. This crisis is a rare chance to accelerate and build on collective efforts.

Companies that have not yet prioritized sustainability must use this moment to transition, as a way to establish competitive advantage in a recovering economy with refreshed consumer priorities. For those further along on the journey, now is the time to safeguard progress, maintain essential practices, and recommit to central goals. And for the trailblazers who encourage collaboration and lead industry-wide sustainability initiatives, their vision and action will hasten transformation within the entire sector.

While the road ahead is not yet clear and open questions remain as governments and society navigate the pandemic, a major lesson of the COVID-19 era will be that health, safety, and prosperity are intrinsically collective pursuits rather than individual ones. And the apparel, footwear, textile, and fashion industries are no different. It won't be easy to manage a once-in-a-generation economic crisis while taking aggressive action on behalf of environmental and social concerns. But leaders who successfully weave sustainability into their business strategies will leave a lasting legacy: that of a rebuilt and more sustainable fashion industry.

Endnotes

¹ BCG scenario analysis of future scenarios, based on triangulation of multiple data sources including Euromonitor, Hong Kong Census and Statistics Department, US Census Bureau and expert interviews.

² Sustainable Apparel Coalition Member Survey. April, 2020.

³ Pulse of the Fashion Industry Report 2019; BCG Sustainability Survey March 2019, N=703 (US), 703 (UK), 529 (FR), 523 (BR).

⁴ Based on SAC, Higg, Globescan report (based on 12 focus groups in 6 countries). February, 2019.

⁵ Pulse of the Fashion Industry Report 2019; BCG Sustainability Survey March 2019, N=703 (US), 703 (UK), 529 (FR), 523 (BR).

⁶ Nielsen Global Survey of Corporate Social Responsibility, Q1 2014. Validated through interviews with 52 fashion companies in 2019.

⁷ Pulse of the Fashion Industry Report 2018 and 2019; interviews with 52 fashion companies in 2019.

⁸ Collective commitments include Fashion Pact, UNFCCC Fashion Industry Charter for Climate Action, Circular Fashion System Commitment, and ACT MOU on Living Wages.

⁹ Higg.org analytics data. 2020.

¹⁰ Deutsche Bank 2019, Blackrock 2019, BCG publication "Total Societal Impact: A new lense for strategy." October, 2017.

¹¹ Fashion for Good and BCG Report "Financing the Transformation in the Fashion Industry." January, 2020.

¹² blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/

¹³ www.imf.org/en/Publications/WEO/Issues/2020/04/14/weo-april-2020

¹⁴ www.businessinsider.com/us-retail-sales-took-record-setting-plunge-in-march-2020-4

¹⁵ www.chinabankingnews.com/2020/04/22/retail-sales-of-consumer-goods-drop-19-in-first-quarter-of-2020/

¹⁶ Based on Google community reports and BCG analysis.

¹⁷ Based SimilarWeb data.

¹⁸ BCG scenario analysis of future scenarios, based on triangulation of multiple data sources including Euromonitor, Hong Kong Census and Statistics Department, US Census Bureau, and expert interviews.

¹⁹ BCG and AB Bernstein analysis based on ad-hoc BCG & BERNSTEIN survey developed for C-level executives in luxury brands; BCG analysis based on ad-hoc BCG survey developed for C-level executives in top fashion brands.

²⁰ PitchBook reports that dealmaking was down -26% in March, compared to February's weekly average. <https://techcrunch.com/2020/04/22/6-investment-trends-that-could-emerge-from-the-covid-19-pandemic/>

²¹ Sustainable Apparel Coalition Member Survey. April, 2020.

²² www.instyle.com/fashion/coronavirus-will-change-fashion-depression-era-style

²³ www.bcg.com/en-us/publications/2020/8-ways-companies-can-shape-reality-post-covid-19.aspx

²⁴ www.bcg.com/en-us/publications/2020/8-ways-companies-can-shape-reality-post-covid-19.aspx

²⁵ BCG COVID-19 Consumer Sentiment Survey. April 17-20, 2020.

²⁶ www.greenbiz.com/article/what-happens-corporate-sustainability-amid-covid-19-crisis-some-reflections

²⁷ Sustainable Apparel Coalition Member Survey. April, 2020.

²⁸ BCG analysis based on BCG COVID-19 Consumer Sentiment Survey. April 17-20, 2020 (N=5,729 across China, Germany, Italy, UK and US)

²⁹ www.workersrights.org/issues/covid-19/tracker/

³⁰ IMF; EFE; NCBI; BEA; WEF; HK Government; SCMP.

³¹ Tencent Foot Traffic data for key traffic points in Shanghai, Beijing, Shenzhen, Hongzhou, Chongqing, and Chengdu.

³² Based on data from SimilarWeb and Google Trends.

³³ Currently >60% vs. typical average of 30-40%.

³⁴ BCG Covid-19 consumer Sentiment Survey, April 2020.

³⁵ BCG Covid-19 consumer Sentiment Survey, April 2020.

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