Sustainable Fashion Industry

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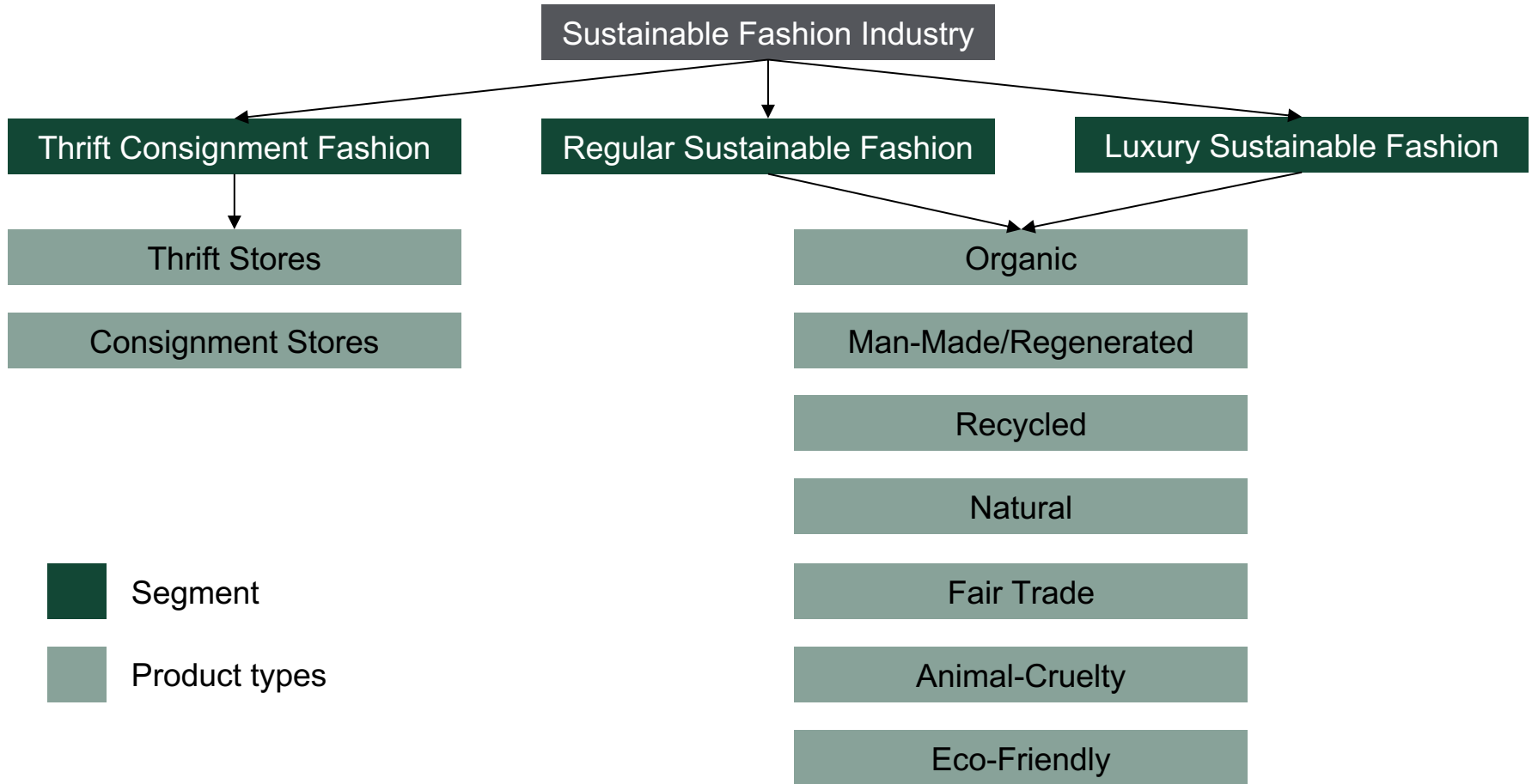
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General Industry Information

$6345m in 2019 with an expected compound annual growth rate of **6.8%** until 2023 with a higher CAGR after that.

Problem #1: Reliance on Disposable Income

- Thrift/Consignment revenue drop due to COVID-19: **$1.38m to $308m** from February 2020 to May 2020 (Statista, 2020)

- Luxury fashion is traditionally heavily reliant on disposable income due to the nature of the product design

- Despite clothes being a necessity, people do not buy at the same rates

- Certain firms have adopted sub-brands that are sustainable

- Potential of merging regular fashion and sustainable fashion is unlikely

Problem #2: Alternatives and Substitutes

- ▸ Sustainable industry competition

- ▸ Fast fashion substitute

- ▸ More niche consumer segments = Loyalty

- ▸ Consumers want **information, commitment, and transparency** from these firms

- ▸ Distinguish your firm through CSR reports, a defined theory of change, and a specific mission

Problem #3: Lack of Regulation

- ► Particularly in the U.S., political and social discourse discourage government regulation

- ► Lack of regulation permits "**green-washing**" or "**pink-washing**"

- ► Misinformation problem regarding carbon footprint in fashion industry

- ► Third-party auditors

- ► Caveats of increasing government regulation

SWOT Analysis

Strengths	Weaknesses
▸ Social and Environmental Impact ▸ Loyal Customers ▸ Popular with Younger Generations ▸ Benefits of being an early adopter	▸ Too Expensive ▸ Too hard to find ▸ Unsure of actual brand impact ▸ Lack of Options ▸ Inconvenient
Opportunities	**Threats**
▸ Regulation ▸ Focus on Storytelling ▸ Competitive Pricing ▸ Leverage Social Media ▸ Increase Celebrity Involvement	▸ Crises and Recessions ▸ Politicization of ethical consumption ▸ Greenwashing

Sustainable and Ethical Fashion

Background

Sustainable fashion is still a relatively new industry, and it has grown significantly in recent years as the conversation around climate change has entered social and political discourse. The fact that this industry is so new poses issues because the segmentation is still being defined and some sources choose to leave out thrift and consignment stores, while some include it.

While the general industry figures and statistics in this paper exclude thrifting and consignment stores for the sake of consistency, the industry analysis is still applicable to that segment and includes specific segment figures. Industry segmentation can be divided into entity type: thrift/consignment stores, luxury sustainable fashion, and regular or necessity sustainable fashion goods. However, there can also be segmentation by product type: organic, man-made/regenerated, recycled, natural, fair trade, animal-cruelty free, and eco-friendly (The Business Research Company, 2020).

Ethical consumption plays a large role in driving individuals to engage in the sustainable fashion industry as opposed to the alternatives: the regular fashion or fast fashion industries. The overall industry was worth $6345m in 2019 with an expected compound annual growth rate (CAGR) of 6.8% until 2023, and the growth rate is expected increase further up until 2025 (The Business Research Company, 2020). However, the three major issues facing this industry are the fact that it is reliant on disposable income, there is often a cheaper and "easier" alternative, and the lack of standardization/regulation.

Reliance on Disposable Income

This industry is heavily reliant on disposable income, which is evident from the large decrease in revenue due to COVID-19. COVID-19 has also negatively affected the growth rate of the industry across all segments. In the thrift/consignment segment alone, which is the least reliant on disposable income, there was a drop from $1388m to $308m between Feb 2020 to May 2020 (Statista, 2020). While this segment has recovered somewhat, the other segments are expected to fare worse since they are more reliant on disposable income, particularly the luxury sustainable fashion segment. The regular luxury fashion industry is already heavily dependent on disposable income and the sustainability portion of this industry segment only further distinguishes it outside of necessity expenditures.

Fashion in general is a difficult industry because people need clothes, but as is evident from COVID-19, people do not buy at the same rates during a recession or crisis like they do for buying food, toiletries, or gas/oil. However, certain firms in the regular fashion industry have launched lines or smaller sub-brands that are sustainable such as H&M Conscious or Levi Strauss & Co. This allows them to be early adopters of the sustainable fashion industry while maintaining their initial consumer bases that make them less vulnerable to disposable income. Ultimately, this is an unsolvable problem unless the sustainable fashion industry were to absorb the regular fashion industry and all brands were engaging in ethical consumption activities. It would be a great feat to achieve the eradication of the regular fashion industry but unlikely. Regulation is great for setting the bottom-line but not great at pushing firms to go above and beyond. While ideally consumers will continue to push for more ethical brands,
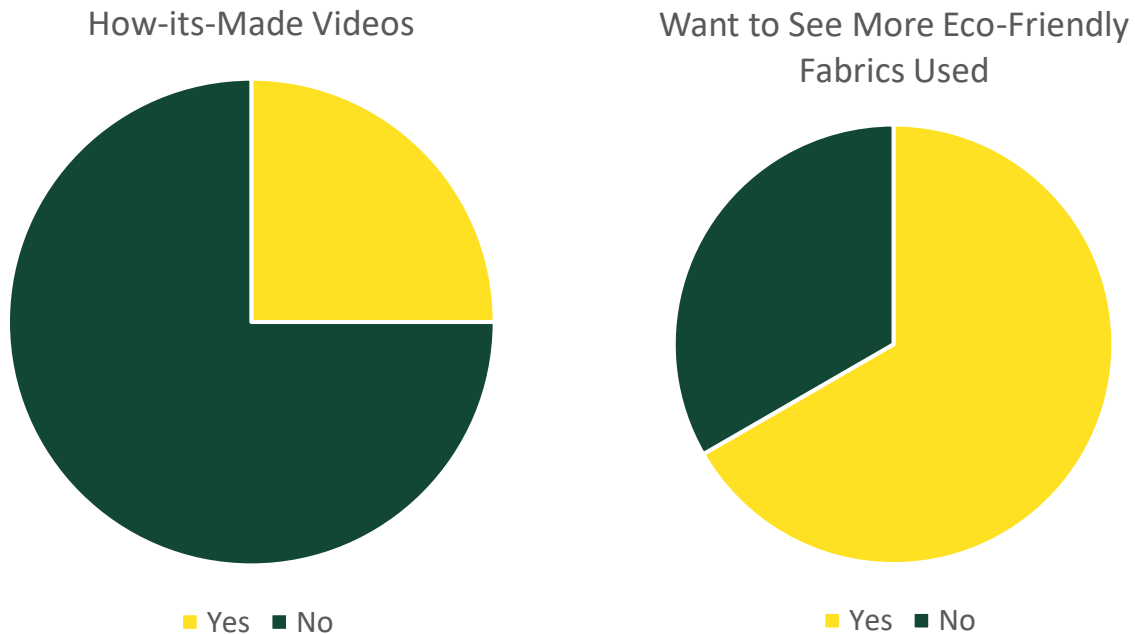
there will always be firms who do solely what is legally acceptable and that will differentiate sustainable fashion companies from regular fashion companies.

Alternatives/Substitutes

Any sustainable industry is going to have to compete with their non-sustainable alternative, however fashion proves particularly competitive. Fast fashion provides people with immediate, inexpensive, and convenient substitutes. Audrey Stanton states "fast fashion can be defined as cheap, trendy clothing, that samples ideas from the catwalk or celebrity culture and turns them into garments in high street stores at breakneck speed." Fast fashion is the antithesis to this industry and is notable for the large amount of waste that industry produces. The sustainable fashion industry has a more niche consumer segment that is very loyal due to their strong values and sentiments that are intertwined with consumption, the issue is that sustainable fashion struggles to appeal to people who either are against climate change and social justice

issues or even those who do not actively oppose it but do not have strong feelings

towards it (Granskog, Lee, Magnus, & Sawers, 2020).

This poses further issues. Because of the limited consumer segment size that is

interested in this industry, there are high barriers to entry for incoming firms. However,

How-its-Made Videos	Want to See More Eco-Friendly Fabrics Used

best practices, such as producing an annual corporate social responsibility or

environmental impact report, can help the consumers that are interested to know they

are making the right choice in brand.

The charts above show that 25% of consumers between the age of 20-24 want to

see how-its-made videos of the products and 66% want to see more eco-friendly fabrics

(Dumitru, Mak, & Green, 2018). Those are just a few examples of how consumers

would like for sustainable fashion brands to distinguish themselves. Another anecdotal

example is how Everlane describes their factories overseas on their site and how they

operate a D2C (direct to consumer) model that cuts out middleman costs and minimizes

the supply chain (Everlane). Other best practices are like that of nonprofits, such as having a defined social or environmental mission, valid theory of change, and key performance indicators to show their actual metric impact. These can all help new entrants to distinguish themselves from both non-sustainable and sustainable substitutes.

Lack of Regulation

Perhaps the largest future issue facing this industry is the general lack of regulation that stems from political and social discourse. The U.S. largely trends towards free market, but there has been an increase in greenwashing from non-sustainable firms. Greenwashing is a term that, in this instance, means the firms are marketing themselves as sustainable but the data does not support that they are. The fashion industry in general has a terrible misinformation problem and the most cited facts on the fashion carbon footprint are not from peer-reviewed sources (Wicker, 2020).

Third-Party auditors (i.e. SASB or GRI) have tried to rectify this in sustainability, but the implementation of governmental regulation could go a long way in at least establishing a bottom-line for what distinguishes this industry from regular fashion. Furthermore, strong regulation could eventually merge the two industries. If the regular fashion industry is regulated due to their large carbon footprint, it will become more important for sustainable firms to highlight how they go above and beyond the regulations.

Conclusion and Considerations

Fear of climate change and societal shifts towards ethical consumption have been the most influential factors for creating this new industry. Even during the time of COVID-19, a study from McKinsey found that 57% of consumers have made significant lifestyle changes to reduce environmental impact and that 60% "report going out of their way to recycle and purchase products in environmentally friendly packaging" (Granskog, Lee, Magnus, & Sawers, 2020).

The consumer base for this industry will only continue to grow, but there are a variety of niches that have been unexplored. As with the fashion industry, there are a variety of segments that go beyond generic clothing (lingerie, work gear/uniforms, outdoors clothing, men, women, children, high fashion/luxury, accessories, bags) and all of them can potentially have a sustainable counterpart. The important warning for new entrants is that these consumers care about impact, and they are likely to negatively react to a firm that lacks or obscures information but makes sustainability claims. Appendix 1 summarizes the findings of this report into a Strengths, Weaknesses, Opportunities and Threats analysis to provide a reference point for these new entrants.

Appendix 1: SWOT Analysis

Strengths	Weaknesses
- **Social and Environmental Impact** - **Loyal Customers** - **Popular with Younger Generations** - **Benefits of being an early adopter**	- **Too Expensive** - **Too hard to find** - **Unsure of actual brand impact** - **Lack of Options** - **Inconvenient**
Opportunities	Threats
- **Regulation** - **Focus on Storytelling** - **Competitive Pricing** - **Leverage Social Media** - **Increase Celebrity Involvement**	- **Crises and Recessions (See Disposable Income Section)** - **Politicization of ethical consumption** - **Greenwashing**

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