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How sustainable are 'fast fashion' businesses?

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Find out how some major fashion companies rank in our sustainability analysis.

What exactly is 'fast fashion'?

The expression 'fast fashion' is used loosely by both consumers and investors. For some, it means clothes that are worn once or twice and then discarded. For others, it means brands that respond quickly to the latest trends and get the right clothes in stores before the fashion changes. Depending on your view, this could be positive or negative for fashionistas, workers in the supply chain, and the planet.

Breaking the situation down:

- The fashion industry emits more carbon than international flights and maritime shipping combined, according to an article by the *Business Insider*.
- One garbage truck full of clothes is burned or dumped in a landfill every second.
- The fashion industry is the second-largest consumer of water worldwide. A single pair of jeans uses about 2,000 gallons of water; it would take 10 years for one person drinking eight cups of water a day to drink the equivalent.

And that's just the environmental side of things.

- From a social perspective, labour standards in the garment manufacturing industry are frequently woeful. Many brands or subcontractors still exploit cheap labour, paying garment workers well below the minimum living wage. A living wage is considered a human right and represents the minimum a worker needs to earn to cover the costs of their most basic needs.

Sustainability is increasingly driving consumers' choices of brands and investors' choices of stocks, so it is important for us to develop a consistent and robust framework to appraise this industry.

As with other sectors, and indeed sub-sectors, an investor has myriad nuances to contend with. For every stock investors choose to buy, hold or sell, they need to be comfortable with their reasoning. That requires deep examination.

Judging by Boohoo's share price crash after the emergence of a labour rights scandal in 2020, time spent discussing these issues is more than justified. During this scandal, it was revealed that workers at 'dark factories' in Leicester were being paid just £3 to £4 per hour versus the UK's £8.20 minimum wage for workers aged 21 to 24 years, and the £8.72 national living wage (as at April 2020). But trying to assess the true impact a fashion company makes on the environment and society is not straightforward. As investors, we are faced with varying levels and quality of data and information.

Source: Schroders, July 2021. 602014

Past performance is not a guide to future performance and may not be repeated

Besides wages, there are broader issues with working standards and health and safety. One particularly sad aspect is that child labour is rife in the industry. Over 100 million children are affected in the garment and footwear supply chain globally, as workers, or children of working parents and community members near farms and factories, according to a 2020 UNICEF report.

The reality is that when clothes are sold at knockdown prices, someone in the supply chain is paying the price.

How we're assessing which fashion businesses are most sustainable

While this paints a dismal picture (and may put you off your next shopping spree), it's important that investors are active in this industry, and we use our financial clout to drive positive change. We can do this by allocating capital to companies with genuinely sustainable business models, those that are focused on contributing to social and/or environmental solutions. This will enable them to expand and take market share. We also need to identify and actively engage with laggards to push for positive change.

While ultimately, we want to engage with companies to improve their business practices, the first step is often asking for better disclosure and greater transparency to enable us to better identify leaders versus laggards.

As investors, we need to be asking the tough questions, in particular when it comes to complex and opaque supply chains.

Even the biggest of fashion houses don't have 100% visibility on how responsibly all the members of its supply chain are acting – or even who they are beneath layers of contracting and subcontracting. More and more companies produce impressive-looking reports on their Tier 1 suppliers, but this barely scratches the surface.

Fast fashion framework

To address these challenges, we created a framework to help us assess how sustainable fashion companies are.

We've picked a selection of environmental and supplier-focused metrics to focus on. For the environment, this includes emissions, water and hazardous chemicals, and the use of sustainable materials. We also appraised companies' efforts around creating a circular fashion ecosystem, whether via recycling or encouraging reuse.

For suppliers and human rights, it's about the standards the brands hold their suppliers to, the extent to which the supply chain is transparent and audited, and the whistleblowing and remediation measures in place for when things go wrong.

When it comes to the "disposability" factor, we recognise that we will never know exactly how many times consumers use different products. This is an area where non-governmental organisations (NGOs) such as the Ellen MacArthur Foundation are developing metrics and evidence, but it is a nascent area of investigation.

We do know that some products are worn more times than others and we have done our best to find a proxy for this, using a number of objective and subjective metrics. We are not saying that our measure is definitive, and it will be revised over time as new evidence emerges, but we believe we have formulated a meaningful overlay for our appraisal as described below.

Take the hypothetical example of a T-shirt that has -100 units of negative impact on the environment. If that T-shirt is worn twice then the negative impact is -50 units per use. If it's worn 20 times, then that drops to -5 units per use. The difference is massive.

While there are numerous credible reports on the fashion industry's social and environmental impact, we have added this critical concept of "disposability" to reflect the way products are used.

On the objective side, we considered the average price point of each brand's range – higher price points suggest the item will have to be worn more times. On the subjective side, we took survey data covering consumers' perception of the quality and fashionability of products – higher quality products would tend to be worn more often and more fashionable products might go out of style quicker and hence be worn fewer times.

Of course, none of these measures is perfect right now and we should expect them to develop over time. However, without developing some kind of proxy the scorecard would fail to reflect one of the most fundamental differentiators between these firms as other targets become more standardised (e.g., CO^2 reductions).

What did we find?

Of the businesses we scored, Adidas was the leader and Primark/ABF came in last. The table below ranks how companies scored based on our chosen social and environmental metrics and adjusted for our disposability measure. The raw score is the score without the disposability adjustment.

How companies rank based on our raw and adjusted scores

Rank	Environmental and social score adjusted for disposability	Raw environmental and social score
1	Adidas	Adidas
2	Next	H&M
3	Inditex	Inditex
4	Nike	Next
5	H&M	Primark
6	Fast retailing	Nike
7	Primark	Fast Retailing

Sources: Schroders, company reports, MSCI, Morgan Stanley, Bernstein, Know the Chain, Fashion Revolution, Good on You, Ellen MacArthur Foundation. 602015

This sample aims to take an initial view on some of the biggest listed apparel and sporting goods names by market capitalisation, creating a relevant snapshot of the most widely discussed names by both investors and consumers alike. Owing to their size, these names also provide the most complete data sets (through their own reporting and third-party assessments) to facilitate an effective assessment framework. We will continue to expand the list over time.

For the most part, companies scored within a pretty tight range when assessing social impact, perhaps unsurprising given the pressure exerted by investors on large names to improve disclosure and performance here. A certain level of standardisation has emerged as a result.

One interesting finding was that we noticed a change in score for Primark when adjusting for disposability.

Primark has taken significant steps to improve supply chain standards since the Rana Plaza crisis in 2013. This was an incident in which a building containing five garment factories in Bangladesh (including one that manufactured apparel for Primark), collapsed. Over 1,100 people were killed and more than 2,500 injured as a result, including women and child workers.

The improvement measures implemented by Primark result in a strong social score according to our model. This serves to offset the company's poor environmental performance somewhat, where it is ranked bottom of the pile.

Having developed a separate disposability score, we used this to act as a multiplier to increase the importance of what we feel is a fundamental issue often missed by company reporting, with scores leading to a range of 0.85x-1.15x the raw score being applied.

Using our multiplier to account for the high degree of disposability associated with Primark, we're left with an adjusted score that is worse than the raw score. This signals to an investor that this name requires monitoring despite potentially better-than-expected raw present performance.

This impact is also noticeable with a name like H&M. The brand is regarded by many as an ESG leader due to its favourable environmental practices but given consumer perceptions and behaviour regarding disposability, H&M falls from second to fifth place in our rankings.

Of course, the ranking can serve to signpost opportunities as much as flagging sustainability risks.

Adidas ranks first on the basis of raw scoring, but we feel the extra push provided by the disposability multiplier is an accurate representation of the company's approach to genuine sustainability. It is committed to producing high-quality, long-lasting clothes and has ambitions to further develop new products using innovative materials like mushroom leather.

In isolation, this score cannot give us full confidence in the strength of Adidas' product strategy. However, we believe it backs up the company's sustainability claims.

The fashion industry, and 'fast fashion' in particular, has a significant impact on the environment and society. That's why we developed an objective way to assess how sustainable companies' practices really are. Our own research is an important part of our decision-making process. Where we feel companies fall short of our expectations, we'll engage with them to encourage change.

Glacier Research would like to thank Charles Somers for his contribution to this week's *Funds on Friday*.

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Charles joined Schroders in 1998. He is currently co-portfolio manager for Global Sustainable Growth strategy and several specialist institutional global equity portfolios. He is also the global sector specialist with responsibility for the consumer sector. Charles joined the Global and International Equities team in 2008 as a sector specialist covering both consumer sectors, returning to Schroders after two years as a fund manager at Intrinsic Value Investors. Since joining the team, he has assumed responsibility for the Global Sustainable Growth Fund and a number of specialist mandates. Before this, from 2002, Charles worked as an analyst with Schroders' Pan European research team where he had responsibility for consumer staples. In 2001, he was seconded to the New York office, responsible for covering the healthcare and financials sectors. In terms of his qualifications, he holds degree in Classics from Oxford University. He is also a CFA charter holder.