

COVID-19 OPPORTUNITIES

SIX OPPORTUNITIES FOR FASHION EXECUTIVES
TO REBUILD A RESILIENT AND SUSTAINABLE
FASHION INDUSTRY

RAISING EXPECTATIONS ON SUSTAINABILITY IN FASHION

Dear fashion leaders

For decades, the fashion industry has been a powerful engine for economic growth and a major contributor to the creation of millions of jobs globally, shaping cultures, societies and our daily lives.

Today, we find ourselves shaken by a pandemic that is indifferent to borders and sets out to test our solidarity and compassion. While challenging global structures, it is causing a deep economic shock that pushes companies and societies to the point of financial distress, representing a humanitarian and existential crisis.

As our industry begins to grapple with the destabilising effects and long-lasting consequences of this worldwide pandemic, sustainability risks becoming secondary. Whereas short-term measures often become the sole focus during uncertain periods, we believe sustainability provides the organising principle to build our future on.

You as fashion leaders have never before faced challenges of this scale including the disruption of value chains, closed retail locations and heightened public scrutiny. While reforming business as usual to ensure safety and health of employees, many of you are demonstrating immediate and true leadership by re-evaluating cash flows, competitive agreements and business models and by serving public health through donations, the production of hand sanitizer or face masks.

This crisis presents a unique opportunity to re-evaluate the lexicon of fashion and to evolve individual business models and industry systems alike. Only by rethinking and rebuilding systems

in a collective effort, will we find ourselves in a just and sustainable future post-pandemic. The prosperity of each individual business, communities and our planet depend on the decisions we are making today. This crisis is our chance to stand together as global citizens and to join forces in new alliances of political decision makers, investors, business leaders, organisations and media in which sustainability is all-encompassing and inherent to everyday life.

To make the most of the opportunities the crisis presents, Global Fashion Agenda has written this special edition of the *CEO Agenda* with contributions from McKinsey & Company. Based on in-depth consumer and supplier research as well as interviews with sector leaders, we have developed six opportunities for fashion executives to rebuild a resilient and sustainable fashion industry. Over the following 12-18 months we need to adapt to the immediate challenges that surface and in parallel keep our long lens tuned in with the scope of the future. These opportunities provide guidance to rethink and rebuild businesses with greater economic resilience, whilst advancing the critical sustainability transformation that the industry needs to deliver.

Placing sustainability at the core of your business will enhance your capability to navigate uncertainties and allow you to turn potential financial, social or environmental risks into untapped business opportunities.

Eva Kruse, CEO, Global Fashion Agenda

“COVID-19 HAS ELEVATED THE IMPORTANCE OF SUSTAINABILITY. IT IS NOW UP TO INDUSTRY LEADERS TO GRAB THE OPPORTUNITIES FOR THEIR COMPANIES TO ADVANCE WITH SUSTAINABLE BUSINESS MODELS IN AN ENVIRONMENT THAT HAS BECOME EVEN MORE VOLATILE.”

– EVA KRUSE, CEO, GLOBAL FASHION AGENDA

“THE CURRENT CRISIS FORCES ALL OF US TO TAKE DIFFICULT DECISIONS EVERY DAY. AFTER THE CRISIS, HOWEVER, THE TIME WILL COME TO REBUILD. AND I FIRMLY BELIEVE THAT THIS MOMENT OF RECOVERY WILL BE A UNIQUE OPPORTUNITY, TOGETHER WITH ALL STAKEHOLDER GROUPS, TO SET OUR INDUSTRY ON A NEW PATH.”

– HELENA HELMERSSON, CEO, H&M GROUP

“AT PVH, OUR IMMEDIATE FOCUS IS NAVIGATING THE CRISIS AND ITS HUMAN AND BUSINESS IMPACTS, BUT WE MUST ACTIVELY LOOK FOR WAYS TO CAPTURE OPPORTUNITIES THAT CAN ACCELERATE OUR EFFORTS TO CREATE A MORE SUSTAINABLE FUTURE. WE HAVE A RESPONSIBILITY TO HELP SHAPE THE APPAREL INDUSTRY’S ‘NEW NORMAL’.”

– MANNY CHIRICO, CHAIRMAN & CEO, PVH CORP.

“AT TARGET, WE’RE MAKING CONTINUED INVESTMENTS IN OUR TEAM, IN OUR APPROACH TO SUSTAINABILITY AND IN OUR GLOBAL SUPPLY CHAIN. WE WILL CONTINUE TO WORK CLOSELY ALONGSIDE OTHERS IN THE INDUSTRY TO DRIVE SCALABLE SOLUTIONS FOCUSED ON A MORE SUSTAINABLE FUTURE.”

– BILL FOU DY, SENIOR VICE PRESIDENT AND PRESIDENT, OWNED BRAND SOURCING AND DEVELOPMENT, TARGET

1. MAP SOCIAL AND ENVIRONMENTAL IMPACTS ALONG THE VALUE CHAIN

COVID-19 has heightened the emphasis on tracking the social and environmental consequences of sourcing decisions and inventory levels along the value chain. The ability to track and trace where and how products are made is the first step to assessing risks to e.g. human rights, climate and biodiversity. This visibility can help create a baseline for proactive planning and target setting while helping to improve quality control, reduce inefficiencies and clarify cost benefits.¹ Moreover, it is a prerequisite for offering greater internal and external transparency² and can equip companies with the data needed to credibly communicate about their supply chains.³ Thorough mapping enables companies to collaborate more effectively with partners in navigating current and future crises. The disclosure of information about company values, supply chain policies, supplier base and purchasing practices enables greater accountability and allows frontrunners to exemplify responsible business practices.⁴

This opportunity addresses the *CEO Agenda 2020* priority Supply Chain Traceability.

Two thirds of consumers state that sustainability has become a more important priority to combat climate change following COVID-19.⁵

More than 80% of consumers agree that workers in poor countries need support during this crisis,⁶ while 45% value brands that have made meaningful contributions towards resolving the social and medical impacts of the crisis.⁷

2. BUILD TRUST AND BRAND LOYALTY

Public attention on fashion brands' social practices and safety measures to protect workers and consumers in-store has increased as consumers engage more deeply with the social and environmental actions taken by their preferred brands.⁸ Prior to COVID-19, we already saw consumers ready to switch from their preferred brand to another because of credible and demonstrated sustainability practices.⁹

There is an opportunity to tap into consumers' increasing desire for responsible brands. Be transparent in your communication with your customers and stakeholders about the challenges you are currently facing, how COVID-19 is impacting your business and how this may influence your sustainability efforts. Transparency will enable you to increase engagement and deepen brand loyalty with the 70% of survey respondents expecting to stick with brands that build trust during the crisis.¹⁰

This opportunity addresses the *CEO Agenda 2020* priority Supply Chain Traceability.

3. RAISE THE BAR ON SUPPLIER RELATIONSHIPS AND SHIFT TO EQUAL PARTNERSHIPS

The current crisis is the biggest disruption in the supplier landscape since apparel production shifted from the US and Europe to Asia. It highlights the strong connectivity of the fashion industry, with impacts being felt around the globe and employees in countries with the weakest social security systems being hit the hardest.

Companies have an opportunity to jointly invest in long-term business strategies with their supply chain partners to safeguard and to respect human rights. With 73% of sourcing executives anticipating an acceleration of companies entering closer partnerships with suppliers and reducing transactional supplier relationships,¹¹ this crisis presents the opportunity to work with suppliers to support sustainability agendas and to pre-empt future disruptions. By co-investing in innovation and sharing financial incentives with suppliers, companies can continuously improve their environmental and social impact while positioning themselves for strategic partnerships and consolidation in the supply chain that 60% of sourcing executives expect to likely be a result of COVID-19.¹²

Given that 60% of sourcing executives expect automation trends to continue at an accelerated pace post-crisis,¹³ frontrunners are encouraged to support the transition of workforces at scale to mitigate possible ramifications of technology-driven advances. In light of these factors, the role of governments should not be underestimated as they are substantial in supporting technological innovation and employment on a local and global level. Governments are asked to live up to their duty to protect human rights by enhancing their legal framework and social protection schemes while investing in the capability to ensure that employers adhere to international labour standards.

This opportunity addresses the *CEO Agenda 2020* priority Respectful and Secure Work Environments.

45% of sourcing executives believe that more than half of suppliers will get into financial distress unless their cash flows significantly improve in the next six months.¹⁴

71% of consumers are indicating a shift towards investments in higher quality garments and a deepened interest in circular business models such as resale, rental or refurbishment following COVID-19.¹⁵

4. ADDRESS STOCK LEVELS AND MARKDOWNS BY SCALING NEW BUSINESS MODELS

Today, inventory levels are ballooning in warehouses, the global supply pipeline and retail outlets due to border restrictions, lockdowns and decreased demand,¹⁶ incentivising the industry to foster innovative solutions and champion current best practices to deal with unsold products.

The immediate overstock crisis presents an opportunity to move towards and test circular material and product flows. A cross-industry transition in fashion's seasonality can include shifting collections to future seasons, pushing forward upcoming drops or setting up collection schemes across peers. Frontrunners can work with supply chain partners to identify untapped pathways, potentially reskilling garment workers in the long run to remake products or expanding the capacity of facilities to upcycle and recycle products. These shifts will require a push in regulation to enable better recycling infrastructures and industry-wide consumer engagement to accelerate shifts in mindsets on circular business models. Whereas 65% of surveyed consumers are supportive of fashion brands delaying the launch of new collections by up to year as a result of COVID-19,¹⁷ consumer considerations may not be powerful enough to drive systemic transitions alone, calling on you as fashion leaders to take bold moves to speed up this transition.

This opportunity addresses the *CEO Agenda 2020* priority Circular Fashion System.

3D design collaborations and video conferences for sample approval are the most promising trends, with around 45% of executives expecting them to become part of the digital transformation. 37% expect virtual prototyping to become common practice.¹⁸

5. ACCELERATE THE DIGITALISATION OF BUSINESS PROCESSES

Fashion's operations can ignite a positive disruption in its entire system through implementing end-to-end digitalisation from design to sales, using virtual showrooms and samples, scaling made-to-order approaches and enhancing the use of AI. These advancements can benefit cash flow, inventory management and reduce waste creation through e.g. fewer physical samples. Lean and demand-driven business models will allow more accurate demand predictions and fewer markdowns, as well as in-season retail and smaller batch sizes to support decreasing inventory levels, which 76% of the international sourcing community foresee an acceleration in.¹⁹

The current pause in retail presents an opportunity to reinvent the cadence of the fashion system, to realign seasons and to reduce overproduction. The crisis allows industry leaders a unique moment to evaluate the lifespan of current collections and relax seasonal drops to minimise price reductions, wastefulness and inventory costs.

This opportunity addresses the *CEO Agenda 2020* priority Fourth Industrial Revolution.

6. SHAPE THE E-COMMERCE INFRASTRUCTURE OF THE FUTURE

COVID-19 has accelerated the industry's channel shift towards e-commerce and it is anticipated that around 35-40% of sales from April to September 2020 will come through online channels.²⁰ Additional behavioural shifts are expected to manifest changes in store networks and a reduction in overall store floor space, further embedding a structural transition in the industry. This development is driven by growing consumer segments that will continue to shop less in physical stores following the crisis as well as new customer groups starting to use online channels due to the lockdown.²¹

This generates a clear opportunity to lead the sector's recovery by building resilient, efficient and robust e-commerce models of the future that are low carbon, allow safe and secure workplaces and hold involved parties accountable. Improved sizing algorithms and the digitalisation of logistics and operations offer vast potential for value efficiency and sustainability in setting up e-commerce infrastructures, considering transportation methods, packaging, last-mile efficiency and return minimisation.²²

This opportunity addresses the *CEO Agenda 2020* priority Fourth Industrial Revolution.

40% of consumers, who did not shop online previously, started using online channels during COVID-19²³ and 26% expect to shop less at physical stores following COVID-19.²⁴

A MORE RESILIENT FASHION INDUSTRY

The impacts of the pandemic have exposed the limitations of prevalent systems to absorb shocks or to adapt to volatile environments while highlighting the inherent interdependence of the global fashion industry. In addition, the inability to rapidly respond to unfolding disasters due to a lack of coherent governance forms an undeniable threat for the economy and global development, as the consequences of resource scarcity, biodiversity loss and climate change await our near future. This crisis is a powerful wake-up call to industry leaders and governments to look beyond short-term measures and to transform current market mechanisms and business models.

Given the global nature of the industry, coordinated action is essential to overcoming the current crisis. Businesses, governments and worker representatives have to work collaboratively to establish shared roadmaps to create a more resilient industry. This includes an overall policy approach that promotes sustainability along the value chain and facilitates the emergence of new business models and a transition to a more circular economy. Reshaping and rebuilding the industry will require ambitious recovery plans and adequate support from governments where political frameworks exist to develop alternative models of prosperity.

This moment presents an opportunity to emerge as a resilient fashion industry that is future-proof for crises to come. Together, we aim to build a thriving industry that creates prosperity for people and communities by working within planetary boundaries, reversing climate change and protecting biodiversity.

Only collectively can we shape our common future.

IMPRINT

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ABOUT GLOBAL FASHION AGENDA

Global Fashion Agenda is the foremost leadership and advocacy forum for industry collaboration and public-private cooperation on sustainability in fashion. The non-profit organisation is on a mission to mobilise and guide the fashion industry to take bold and urgent action on sustainability. Global Fashion Agenda is behind the leading business event on sustainability in fashion, Copenhagen Fashion Summit, which has been spearheading the movement for over a decade.

ABOUT MCKINSEY & COMPANY

McKinsey & Company is a global management consulting firm, deeply committed to helping institutions in the private, public and social sectors achieve lasting success. McKinsey supports clients in fashion and beyond on a wide range of sustainability related themes with a strong impact orientation. This ranges from executing broader sustainability transformation programmes to more targeted efforts on decarbonisation, circular business models and sustainable packaging. McKinsey & Company is the Strategic Knowledge Partner to Global Fashion Agenda, with the joint aim to accelerate the pace and impact of the fashion industry's transformation towards sustainability.

APPENDIX

METHODOLOGY

The *CEO Agenda 2020 COVID-19 Edition* is a response to the current pandemic and spotlights the importance of sustainability in times of crises.

The first survey was the [McKinsey & Company](#) COVID-19 Apparel & Fashion survey, conducted 27-29 March 2020 with over 6,000 participants. The next one, conducted in collaboration with the Sourcing Journal, was the McKinsey & Company Apparel Sourcing in the Age of COVID-19 survey, which was carried out 14-22 April 2020 and engaged >116 sourcing executives from fashion retailers and brands from predominantly North America and Western Europe; between them they manage more than USD120 billion in sourcing value. The survey also included insights from more than 230 other stakeholders across the value chain, including suppliers, agents and academics. The third one was the McKinsey & Company post COVID-19 consumer survey, which took place from 24-28 April 2020 among a sample of >2,000 consumers aged over 18 from across UK and German markets who have bought apparel/footwear in the last six months.

[The Pulse of the Fashion Industry 2017](#), published in May 2017 set the framework for the first *CEO Agenda* in 2018. The report presented a baseline for the fashion industry in terms of sustainability performance, represented by the Pulse Score.²⁵ It also outlined a landscape for change, comprising 42 impact levers with a high potential to improve the industry's management, target setting and implementation of sustainability initiatives. The *CEO Agenda 2018* was based on the insights from this first-ever baseline of industry sustainability performance, as well as on the combined experience and insights of Global Fashion Agenda's Strategic Partners. To shape the annual *CEO Agenda*, these quantitative and qualitative insights are combined with the perspectives of industry experts, representing various manufacturers, investors, academics and NGOs.

ENDNOTES

- 1 IUCN (2016). Biodiversity Risks and Opportunities in the Apparel Sector.
- 2 According to the Fashion Transparency Index (2019), transparency involves credible, comprehensible and comparable public disclosure of data and information about a fashion brand's supply chain, business practices and the impacts of these practices on workers, communities and the environment.
- 3 Aula, P. and Heinonen, J. (2016). *The Reputable Firm – How Digitalization of Communication Is Revolutionizing Reputation Management*.
- 4 Fashion Revolution (2020). *The Fashion Transparency Index 2020*.
- 5 McKinsey post COVID-19 consumer survey, N=>2000, April 2020.
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- 7 McKinsey & Company COVID-19 Apparel & Fashion survey, N=> 6000, March 2020
- 8 Fashion Revolution (2020). *The Fashion Transparency Index 2020*.
- 9 Global Fashion Agenda, Boston Consulting Group and Sustainable Apparel Coalition (2019). *Pulse Update*.
- 10 McKinsey post COVID-19 consumer survey, N=>2000, April 2020.
- 11 McKinsey & Company Apparel Sourcing in the Age of COVID-19 survey, N=>116 sourcing managers and executives of fashion retailers and brands
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- 15 McKinsey post COVID-19 consumer survey, N=>2000, April 2020.
- 16 Circle Economy (2020). Covid-19 and the circular economy: opportunities and reflections.
- 17 McKinsey post COVID-19 consumer survey, N=>2000, April 2020.
- 18 McKinsey & Company Apparel Sourcing in the Age of COVID-19 survey, N=>116 sourcing managers and executives of fashion retailers and brands.
- 19 McKinsey & Company Apparel Sourcing in the Age of COVID-19 survey, N=>116 sourcing managers and executives of fashion retailers and brands
- 20 McKinsey Global Fashion Index (MGFI).
- 21 McKinsey post COVID-19 consumer survey, N=>2000, April 2020.
- 22 MIT Center for Transportation & Logistics. Environmental Analysis of US Online Shopping.
- 23 McKinsey post COVID-19 consumer survey, N=>2000, April 2020.
- 24 McKinsey post COVID-19 consumer survey, N=>2000, April 2020.
- 25 The Pulse Score is a global and holistic baseline of the sustainability management, target setting and implementation of sustainability initiatives of the fashion sector. Based on the Sustainable Apparel Coalition's proprietary Higg Index, its scope extends to extrapolating its findings to the entire industry. The Higg Index is the most extensive and representative existing transparency measurement tool of the industry.

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