

APPAREL AND ACCESSORIES

Sustainability emerges as top fashion sourcing priority: McKinsey

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Fashion companies are focusing on environmentally sustainable sourcing. Image credit: Stella McCartney

By SARAH JONES

As consumer demand for sustainable fashion accelerates, apparel companies are ambitiously planning to significantly ramp up their offerings and transparency in the coming years.

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According to a McKinsey study of chief purchasing officers, most executives foresee having half of their products fashioned from sustainable materials by 2025. The industry has a long way to go to reach this scale of sustainable sourcing, and companies will have to surpass hurdles including growing costs and material availability to reach this goal.

"The consumer is expecting the brands she/he chooses to embrace her/his values and ensure a sustainable product is being offered," said Karl-Hendrik Magnus, a leader of the Apparel, Fashion & Luxury Group at **McKinsey**. "Especially the Generation Z is a much more woke consumer and will not tolerate to wear clothes that are environmentally or socially negative.

"But it is not only about the consumer. Also, the top young employees want to work for brands that share their values."

McKinsey's report is based on a survey of 64 executives who handle a collective sourcing value that exceeds \$100 billion.

Sustainable sourcing

Fifty-six percent of respondents named sustainability as one of the top three areas they need to address to adapt to macro trends.

Executives in Europe were even more apt than their North American counterparts to indicate a need for sustainability, at 63 percent to 53 percent. European respondents were also twice as likely to have their CEO focused on sustainable sourcing.

Companies are facing growing pressure from consumers to offer socially and environmentally responsible fashion, particularly as values-driven Gen Zers become an emerging economic force.

Aside from pressure from the end consumer, governments are also addressing the industry's environmental impact with tougher regulations. For instance, France is instituting a law that will ban the destruction of unsold goods ([see story](#)).

One of the obstacles in addressing sustainability comes from a lack of standardization in both language and measurements. This not only makes it difficult for brands, but it also leaves consumers uncertain about how to compare merchandise in terms of sustainability.

The term "sustainability" covers both environmental and social responsibility, but fashion companies appear more focused on ecological efforts for the next five years. Resource efficiency is the top priority, followed by transparency and sustainable materials.



Farfetch recently launched a conscious section. Image credit: Farfetch

Among social causes, fair and living wages was the top effort cited.

Sixty-nine percent of executives believe it is at least somewhat likely that by 2025 most companies will communicate information about products' supply chain at the point of sale.

A 2018 report from Fashion Revolution found that a number of luxury fashion labels disclose little to no details about their supply chain, environmental and social policies, leaving room for more transparency in the industry ([see story](#)).

The business still has a long way to go towards achieving its sourcing targets.

While a McKinsey analysis found that the number of fashion items that were labeled as sustainable has grown about 500 percent since 2017, it still stands at just 1 percent of all apparel products.

Fifty-five percent of executives want to source at least half of their materials sustainably in the next five years, and this goal is even more prevalent among billion-dollar companies.

However, fashion firms face obstacles in sourcing sustainable options. At the top of their list is availability of materials, followed by increased costs and a lower quality of material.

Almost two-thirds of respondents expect sourcing costs to rise between 1 and 5 percent by 2025 amid the push for sustainability.



Net Sustain features eco-friendly fashion. Image courtesy of Net-A-Porter

A strive for sustainability may also change how some processes happen.

Combating waste, six in 10 executives think it is at least somewhat likely that there will be enough of a shift to data-driven sourcing that overproduction will be halved.

Eighty-three percent of respondents also believe that virtual samples could become the norm over physical samples.

"The required change agenda to really scale up sustainable sourcing beyond some lighthouse initiatives is very broad," Mr. Magnus said. "The change has to touch all processes as well as the entire organization.

"The two most important starting points are firstly to be serious in defining the sustainability ambition as a core value of the company and support this with ambitious targets and secondly to hardwire the change in incentives, metrics and budgets to ensure accountability internally and to the consumer," he said.

Shifting strategy

While sourcing in recent years has been a race to the bottom, buyers are showing less interest in shifting their sourcing to lower cost locations. In the 2017 version of the report, moving sourcing to a less expensive country was a top three priority, but this year it fell to eighth place with only 20 percent naming it one of their key imperatives.

McKinsey notes that with lessening cost differences between countries, companies are getting smaller returns on moves. The consultancy also argues for more collaborative relationships between suppliers and brands, with a focus on firms that have stronger capabilities to improve both efficiency and sustainability.

The United States' escalating threats of trade wars are worrying fashion companies, with a new report finding that tightening trade is the number one challenge that apparel and accessories executives are facing.

According to a study from the United States Fashion Industry Association, along with concerns about more tariffs, fashion executives are fretting more over increased production and sourcing costs than they did last year. A key target of President Trump's trade disputes is China, which is the top international source for textiles and apparel, leading fashion companies to think about changing their supply model ([see story](#)).

While the garment industry in North America has been reducing its production in China since 2013, the ongoing trade war is expected to further the switch to alternatives.

"Sourcing executives have accepted the new trade context (trade 2.0) as a new reality," Mr. Magnus said. "As a result they will further see to reduce the dependency on China, but they also realize that there are no more countries without trade risks and hence are overall expecting price increases."