

RETAIL

Sustainable startups need more funding for lasting impact

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Online retail platform *Shopify* invests \$5 million in climate startups each year through its Sustainability Fund. Image credit: *Shopify*

By NORA HOWE

Sustainable startups have become an integral part of pushing the fashion industry forward with material innovation and responsible design, but they need financial investments to continue driving transformative change.

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According to Boston Consulting Group and Fashion for Good, \$20 to \$30 billion per year is needed to make a substantial impact, however, investment in areas like supply chain and organic farming is falling behind. During a panel led by *Vogue Business* executive Americas editor Hilary Milnes at the [Vogue Business and Shopify Sustainability Forum](#) on May 26, industry leaders explored what areas of sustainable innovation are gaining traction and how investment funding can help drive sustainable innovation in retail.

"I would not underestimate the focus that the investment community is placing on sustainability right now," said Olivia Markham, managing director and portfolio manager at [BlackRock](#), London. "Going forward, I would expect companies themselves to have to disclose more, as investors and consumers will continue seeking more information."

Betting on sustainability

The United Nations' Sustainable Development Goals provide a guideline for progress by 2030. They have determined that between \$3.3 and \$4.5 trillion is needed per year to achieve these goals, which at current investment levels, leaves a \$2.5 trillion funding gap.

When assessing where funding should go, investors look at a number of variables.

"When I look at opportunities, I look from the lens of can this be adopted in the current supply chain, does it require meaningful infrastructure change or investment to have it get to place of scale?" said Caroline Brown, managing director of [Closed Loop Partners](#), New York.



Vestiaire Collective raised \$216 million in its latest round of funding. Image credit: Vestiaire Collective

First, investors typically look at whether or not a startup has the potential to solve a meaningful problem. As there are numerous problems of different sizes in the world, investors seek out the companies who aim to tap a large addressable market.

Second, they examine how aligned the company's solution is to consumer demand at the moment, especially considering how adamant consumers can be towards certain environmental problems.

Third, investors strongly consider how much capital it will realistically take for a startup to bring a viable product to market.

Finally, how a team operates hugely impacts how investors will get involved. A startup's track record, knowledge and ability to work effectively as a team is critical for crossing over from startup to a growth business.

"There are so many areas that need to be affected, so businesses need to look across that spectrum, choose their priorities and change things at the pace they are able to," Ms. Brown said. "On the other side, consumers need to understand that large companies cannot change everything overnight."

Beginning in 2019, retail platform **Shopify** committed \$5 million each year towards what it considered to be the most promising sustainability solutions and technologies that are emerging globally to fight climate change.

"In our first year, we invested in 13 companies, mostly climate tech companies who are trying to de-risk the research and science and prove their concepts for solutions that actually capture carbon dioxide and greenhouse gases from our atmosphere," said Stacy Kauk, director of Shopify Sustainability Fund, Ottawa. "These are the types of cutting edge startups in the climate space we're looking to support.

"We are trying to make sure the merchants and brands that use our platform thrive in the long term."

While many companies around the world have quickly implemented new strategies and initiatives to combat climate change, there are still concerns over the investment cost.



Companies are beginning to focus on circularity as they look to create a more sustainable fashion and retail industry. Image courtesy of Kering

"Many sustainable solutions do require a greater upfront investment, however there are a number of valuable financial benefits, such as eliminating waste and aligning with consumer values enabling loyalty that justify the initial investment," Ms. Brown said. "If you look at the history of a linear economy, companies were making products, using products and wasting products, however, in a circular economy they have the benefit of recapturing

their raw materials."

Secondhand growth

The second hand fashion sector is forecast to be worth more than \$60 billion by 2025. The growth is being accelerated by younger consumers who keep sustainability top of mind, as well as more interest in online communities and social shopping.

Vestiaire Collective has announced another successful funding round, backed by French luxury conglomerate Kering, as growth in the pre-owned fashion sector continues to accelerate amid the COVID-19 pandemic.

Kering was joined by U.S. investment firm Tiger Global Management in the financing round worth 178 million euro, or \$216 million at current exchange. Vestiaire Collective's transaction volume grew 100 percent year-over-year, and it will use the funding for its next cycle of growth ([see story](#)).

In April, Vestiaire Collective launched an Earth Day initiative in its continued effort to fight fashion waste.

Through the "Collective For Change" campaign, the platform made a donation to [The OR Foundation](#) for every new item listed on the Vestiaire Collective mobile app from April 17 to April 25. The effort promoted Vestiaire Collective's circular model while drawing attention to fashion's impact on the planet ([see story](#)).

"Having Kering around the table means a lot to us," said Dounia Wone, chief sustainability and inclusion officer at Vestiaire Collective. "Both of our values are completely aligned, so for us, it was a huge step and confirms the vision we had when we started 12 years ago about changing the way people consume fashion."

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