

ESG VIEWPOINT

Putting the brakes on Fast Fashion



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At a glance

- Fast-fashion is the result of demand-driven economics and the human desire to consume
- Both producers and consumers of fast-fashion are price-sensitive; voluntary initiatives are not enough to promote sustainable practice
- Fast changing consumer tastes are encouraging a move toward near-shoring, digital design, proto-typing and printing
- A global move toward supply chain due diligence regulation means companies must take responsibility for environmental and social risks in the extended supply chain

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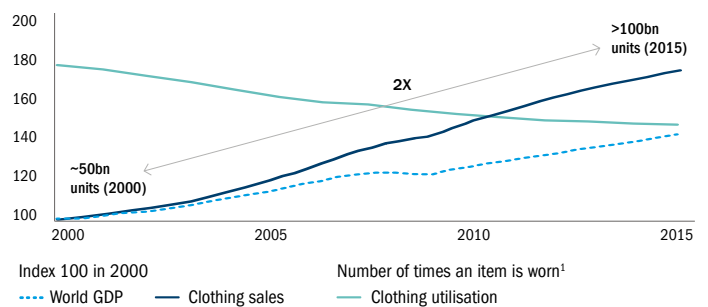


Overview

Fast Fashion – “clothes that are made and sold cheaply, so that people can buy new clothes often”¹

Fast Fashion is fundamentally characterised by cheap garments being made quickly, and this is usually accompanied by exploitative labour practices and unsustainable raw material sourcing. Growth for fast fashion companies comes from encouraging greater clothing turnover by enticing price-sensitive consumers with ever cheaper products and/or playing into their need to wear the latest trends. Hence, the fast fashion business model is inherently linked to over-production for growth. This has engendered a “take-make-dispose” attitude, which has further negative consequences on the world’s natural capital, thus increasing the risk of financial materiality for those companies that are poor stewards of these resources. In contrast, sustainable apparel requires more thought at the design phase, is often more expensive and is directly tied to the concept of consumers buying less.

Figure 1: Growth of clothing sales and decline in clothing utilisation since 2000



Source: Euromonitor International Apparel & Footwear 2016 Edition (volume sales trends 2005-2015); World Bank, World development indicators - GD (2017)

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What are the issues with fast fashion



Our site visit to Fashion Enter



What's the future of fashion?



Summary - the brands need to emphasis sustainability

¹ Cambridge Dictionary - <https://dictionary.cambridge.org/dictionary/english/fast-fashion>



What is fast fashion and where did it all start?

Historically, apparel was made-to-measure with fashion houses designing high-end pieces custom-fitted to their clients.

'High Sewing', or haute couture in French, has links back to the 17th century, and was later followed by the concept of 'ready to wear' where designs were produced in standardised sizes. Building on this concept, it wasn't until the early 1990's when the New York Times coined the phrase 'fast fashion' to describe Zara's first store opening in the city and the Company's mission to complete the design to sale process in just 15 days. By this point, the days of the latest fashion trends being exclusive to the elite were truly in the past and the democratisation of fashion had begun. Brands began to explore and utilise faster production processes to copy the latest catwalk trends, bringing them to consumers at break-neck pace. As such, it is easy to hypothesise that, born out of pure demand-driven economics,

fast fashion brands are meeting the desire of consumers to wear the latest trends, but in doing so have encouraged the increased purchasing and premature disposal of garments.

Fast fashion brands are meeting the desire of consumers to wear the latest trends



What's wrong with Fast Fashion?

We'd all agree that clothes are a basic necessity. In addition, the improved accessibility of fashion has provided an avenue for those with varying degrees of purchasing power to better express themselves.

It is thought that **1 in 8 workers** globally are involved in some form of textile or apparel production, from the farm level where raw materials like cotton are produced right through to retail stores. As such, there is no denying apparel production's contribution to global employment, but this is likely where the benefits of apparel operations end.

Fast fashion business models are inherently tied to over-production. Globalisation and the expansion of international supply chains has helped to perpetuate an over-reliance on cheap sourcing from the Asia-Pacific region. As a result, apparel brands face increased exposure to acute social and environmental risks experienced in the extended supply chain.

Sourcing off-shore has allowed brands to capitalise on lower production costs, less stringent labour standards and a lack of social protections. This has meant that some brands have inadvertently contributed to the exploitation of supply chain workers and failed to fully grasp the depth of sustainability responsibilities across their operations. Brand supply chains remain opaque beyond core tier one suppliers. This lack of oversight into the extended supply chain has left brands exposed to human rights and forced labour risks, leading to the potential for reputational damage and increased investor scrutiny.

Poor supplier relationships and a lack of responsible purchasing practices is another key issue, with many brands failing to consider how their operations might negatively impact a supplier's ability to meet the basic needs of workers, including issues such as health & safety and fair wages. Similarly, with suppliers for the most part being left to decide on, and bear the financial risks associated with, raw material sourcing, it is difficult for brands to oversee and mitigate risks relating to pollution, waste creation, biodiversity loss and other environmental issues.

Brands often fail to consider how their operations negatively impact a supplier's ability to meet the basic needs of workers.



Our visit to Fashion Enter, a UK based garment factory

Fashion Enter is a not-for-profit social enterprise which strives to be a centre of excellence for UK garment production.

They pride themselves on being sustainable but competitive, having a maximum turn-around time of 6 weeks to go from undyed fabric to finished product and produce garments for clients including **Asos** and **Tesco**. They also manufacture garments for several high-end brands.

We were invited to tour Fashion Enter's North London factory as part of an investor site visit. Our hosts provided insight into the challenges faced by them and industry peers, relating to their exposure to the negative impacts of fast fashion business models. Brand orders can be unpredictable, and this coupled with a lack of commitment to future orders creates uncertainty within the business. They are reliant on skilled sewing machinists and are proud that most staff are permanent, and many earn above the national living wage, however this exacerbates their exposure to fixed overhead costs. Retailers maintain greater power in this dynamic – they may cancel orders or demand long payment terms, usually 30, 60 or 120 days, thus shifting further burden and financial risk onto factories. Whilst some suppliers can push back on these terms, it is clear that retailer purchasing practices can have a negative impact on the effective management of supplier operations, often to the detriment of workers. In our view, apparel production cannot become fully sustainable without improved contract terms from retailers.

An assault on the Fast Fashion business model

Fast fashion business models are predicated on the ability of brands to predict consumer purchasing trends in advance. That said, times are changing. Consumer trends are increasingly

influenced by social media, and it is becoming more difficult to predict consumer tastes ahead of time or capitalise on reactive trends. As we saw with the pandemic, the war on Ukraine and the ensuing supply chain crisis, external factors that cause delays to a brand's ability to identify, replicate and deliver the latest trends to consumers can have a detrimental impact on business margins.

Further, with consumers feeling the pinch from recent increases to the cost of living, retailers are feeling the knock-on effects in terms of a decrease in sales. They are continuing to use deep-discounting to entice consumers as warehouse shelves struggle under the strain of the merchandise that was stuck at sea during the heights of the supply chain crisis, including seasonal styles that are months out of date.

With consumer demand predicted to not tick up until well into 2023 or later, and this not being the first time in recent history that retailers have been susceptible to the exogenous shocks of catastrophic events, the changing economic environment or consumer purchasing habits, we should question the long-term viability of fast fashion business models and its reliance on off-shore production.

Consumer trends are increasingly influenced by social media - it's difficult to predict consumer tastes ahead of time.

We believe there needs to be a mindset shift in how retail buyers think about costing.

Insights into the future of fashion

What are the drivers of change for Fast Fashion business models.

Near-shoring – Given the above context, are we likely to see a return to near-shoring? Near-shoring, in this case focusing on the UK, has several competitive advantages:

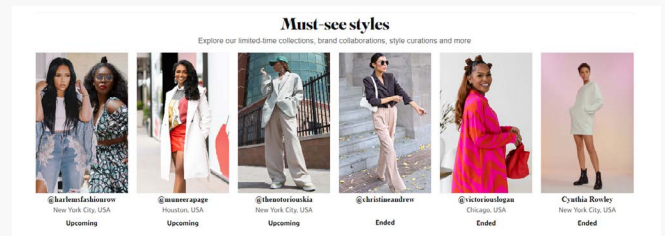
- Less need to buy in bulk as shipping times are no longer a significant part of the process
- Smaller minimum orders create less waste, i.e. a reduction in unsold garments going to landfill
- Short turn-around times mean brands can change designs at short notice and adapt to consumer trends.

That said, a move by the apparel industry back to near-shoring still comes down to price. When the supply chain crisis was at its peak Fashion Enter saw their demand surge, but when supply chain pressures abated retailers returned to Asian sourcing, where apparel production returned to being cheaper. Ultimately, we believe there needs to be a mindset shift in how retail buyers think about costing. Most retailers focus on input/entry margin i.e. direct production costs – and on these metrics, the UK is more expensive than Asia, particularly when labour and raw material costs are considered. However, we believe that retailers should take a more holistic approach and consider their exit margins too, which would include product waste, customer returns and store discounting, which are direct outcomes from fast fashion’s reliance on over-production. With this perspective, the UK is becoming increasingly competitive.

Make to order – We are seeing the emergence of “make-to-order” business models. As noted above, the impact of social media on

consumer tastes is increasing. A key driver is the rise of Tik-Tok, Instagram and YouTube influencers- many of whom either have their own merchandise or fashion collections that their followers can buy. If the make to order movement gains traction (several brands (including H&M) are already experimenting with this), near-shoring could lead to a competitive advantage, as brands benefit from faster and more flexible production processes.

Amazon Drop: [Welcome to The Drop](#)

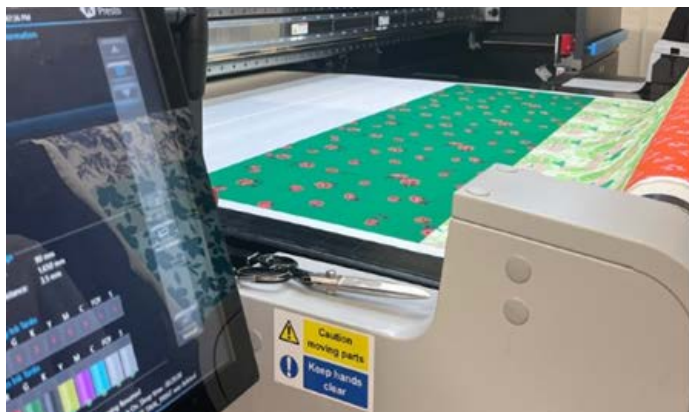


Make-to-order could replace the classic seasonal model and initiate a move away from retailers to a direct-to-consumer, via influencers, model.

As part of The Drop, influencers create a collection of ~10 pieces which Amazon put online for consumers to buy for a specific amount of time. Once that time is over, they make the clothes to order, which will arrive approximately 6 weeks later.



Tech innovation – Traditionally in garment manufacturing the fabric dyeing process would take a couple of weeks and would be done by specialist suppliers offsite. Virtual design, proto-typing and digital printing techniques are some of the technological innovations that are likely to become more pervasive in the future, particularly in a “make-to-order” environment. Through our visit to Fashion Enter, we were able to see first-hand the application of digital printing technology utilising Kornit Digital printers (pictured below). Specific benefits include a reduction in lead times and a reduction in waste as the printers are designed to encourage the efficient use of fabric. That said, take up of this technology is slow with smaller manufacturers as they are unable to afford these million-pound machines utilising Kornit Digital printers (pictured below).



Sustainability trends – It is fair to say that consumer awareness of the negative impacts associated with apparel production has increased. According to a McKinsey study “Of surveyed consumers, 67 percent consider the use of sustainable materials to be an important purchasing factor, and 63 percent consider a brand’s promotion of sustainability in the same way.”²

However, according to the insights we received from our factory site visit, retailers are not choosing more sustainable

options. Fashion Enter note that conversations around the use of sustainable fabrics have dropped in recent months, particularly as costs have increased. With a host of brands and retailers making sustainability commitments as part of their 2025/30 agendas, it is difficult to see how they will meet their climate and environmental stewardship goals without addressing raw material sourcing.

It all becomes a bit “chicken and egg”, as consumers, by definition, like to consume, and fast fashion consumers in particular are price sensitive – so how do you reduce consumption or get consumers to pay more for sustainable apparel? Similarly, fast fashion retailers have built businesses around the over-consumption of apparel sold at cheap prices. Both groups understand the potential negative impacts of their habits on people and the planet, but whose responsibility is it to promote better behaviour? Whilst consumers can change their purchasing habits, for this to have a tangible impact all consumers would need to change and that is not feasible for some and not desired by others. As responsible investors, we seek to encourage brands and retailers to do more to consider the circularity of production processes. For example, ensuring sustainable attributes are considered in the design phase to promote recycling and limit waste, as well as do more to limit the negative environmental impacts associated with the production process.

Traceability Technology – As discussed below, regulation is one of the myriad reasons brands are moving toward more robust supply chain due diligence. Scrutiny over raw material sourcing, environmental stewardship efforts and potentially poor labour practices is increasing. Whilst brands have often placed the burden of proof of sustainable production on to factories (factories are often required to pay for sustainability audits to secure the business of brands) the utilisation of digital traceability technology is somewhat nascent. However, from our visit to Fashion Enter, traceability technology has benefits beyond simply knowing the origin of raw materials, it can help to prevent sub-contracting and allow for more efficient capacity management by factories.

² From <<https://www.mckinsey.com/industries/retail/our-insights/survey-consumer-sentiment-on-sustainability-in-fashion>>



The impact of regulation

It is being increasingly understood that voluntary initiatives are not sufficient to make the global fashion industry more sustainable.

On the environmental side, apparel companies have focused mainly on environmental stewardship, with topics such as recycling, and energy efficiency broadly discussed. On the social side, human capital management is a key theme, but usually only for direct operations. In contrast, the business/physical risk associated with, for example, sourcing from climate-vulnerable countries such as Indonesia, Vietnam, Cambodia, Bangladesh, and Pakistan, is rarely highlighted, and social due diligence rarely extends beyond factory audits.

In the last few years, we have seen the proliferation of national supply chain due diligence. Broadly speaking, they seek alignment with the UN Guiding Principles for Business on Human Rights and the OECD Guidelines. It is likely that the European Commission's proposal for an EU Corporate Sustainability Due Diligence Directive will have far reaching impacts in terms of disclosure requirements, civil liabilities, and public enforcement. The punitive nature of these regulations is a trend, just this year the German supply chain due diligence act came into effect and non-compliant firms can be subject to fines of €800,000, or up to 2% of their average annual global turnover, whichever is higher.

We are also seeing apparel sector specific legislation in the form of the New York Fashion Act, which also focuses on environmental and social due diligence, and the UK government's potential implementation of a 'Clothing Trade Adjudicator' to address

the inequitable balance of power between apparel brands and suppliers. This is similar to the Groceries Code Adjudicator, which aims to stop supermarkets from abusing their purchasing power – e.g., limits the fines they can levy on suppliers and specifies responsible contract provisions.

There is consensus that, whilst better than voluntary approaches, these regulations still do not go far enough, particularly in terms of the scope of companies covered. Nonetheless, the implementation of such proposals highlights the importance being placed on supply chain due diligence and the likelihood of more punitive action against companies. As investors with a long-standing heritage of responsible investment, we seek appropriate disclosure of ESG risk mitigation approaches by our investee companies.

In the last few years, we have seen the proliferation of national supply chain due diligence legislation.



Summary

It could be considered premature to say that fast-fashion is on its way out. While consumers have become more cognisant of the negative impacts of their consumption habits this seems unlikely to lead to a change in behaviour, at least on any large scale.

The onus currently lies with brands to produce more sustainably and mitigate the risk of poor labour standards born out of a lack of widespread responsible purchasing practices. Investor scrutiny and the requirements of global due diligence legislation is unlikely to abate, meaning that brands will need to better understand their supply chains, take action to address risks or face increasingly punitive action. Further, as consumer apparel trends are changing at a faster pace, apparel brands should start to question if the off-shoring model they have relied on for so long still has the same advantages given technological innovation and an environment of smaller order quantities, reactive/viral fashion trends and a move toward full raw material traceability.

There will always be a need for affordable clothing, and right now fast fashion feels more affordable. However, with changes to consumption habits and developments in near-shoring and technological innovation, sustainable fashion could become increasingly affordable, and hence competitive, over time.

Investor scrutiny and the requirements of global due diligence legislation is unlikely to abate - brands will need to better understand their supply chains.

Get to know the authors



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