PRESS RELEASE

JUST FASHION TRANSITION

THE EUROPEAN HOUSE – AMBROSETTI STUDY OF THE FASHION SUPPLY CHAIN

The analysis was presented today at the Venice Sustainable Fashion Forum

VENICE, OCTOBER 27, 2022 – A global market characterized by significant growth, but in which only a small fraction implements circular economy models. In Italy, sustainability management is affected by the small size of companies. On a global level, the lack of precise data hampers the measurement and assessment of the sector's environmental and social impact. This is a brief synopsis of "Just Fashion Transition", the study coordinated by **Carlo Cici**, Partner and Head of Sustainability at The European House – Ambrosetti, which focuses on the problem areas and opportunities of the sustainable transition in the fashion sector. The study, presented today at the Venice Sustainable Fashion Forum, examined the economic-financial performance of 2,700 companies in the supply chain, assessed the sustainability of 167 companies in the Italian supply chain and analyzed the sustainability management tools of 100 of the largest European companies.

The three main factors driving output volumes in the fashion sector over the coming years will be Fast Fashion, digital technologies and young people. It is expected that the sector's annual global growth rate will be around 6% (actually, +7.9% annually as of 2026 taking only Fast Fashion into consideration). Over the last thirty years, the acceleration in production times has been phenomenal, going from nine months in Nineties to three days in 2020. At the same time, prices have dropped. In Great Britain alone, from 1995 to 2014, garment costs decreased by 54%, while for other consumer goods they have increased by 49%. Overall circular economy practices in the sector—resale, rental, repair and remaking—remain within 3.5% of the global market.

There is no standard data regarding the environmental and social impacts of the fashion sector. Currently, only estimates that are widely divergent are available. For example, there is no comprehensive figure regarding the climate-altering emissions generated by the sector, which range from 2% to 8.1% of global emissions. The same is true for water consumption, where the highest estimate is three-times greater than the lowest (215 compared with 79 billion cubic meters), and looking at the specific case of the water required to produce a pair of jeans, the discrepancy is five-fold (20,000 liters compared with 3,781 liters). In Europe, where consolidated sets have been created, environmental data is much more reliable and shows that 75% of the negative externalities is produced outside the European Union.

Considering the social aspect, it is estimated that, on a global level, between 60 and 75 million people work in this sector, most of whom live in developing countries where inequality, child labor, exploitation and unhealthy and dangerous working conditions are more frequent.

The regulators—international institutions—are the ones pushing for sustainability, in particular the European Union, through the introduction of mandatory or voluntary measures whose goal is to standardize measurement of company and product sustainability. Measures which increasingly look to increase the level of brand transparency and responsibility with regard to the specific supply chain. The reason why regulators must intervene lies in the limited effectiveness of rating certification systems. The over 600 ESG ratings available on the market do not seem capable of producing the changes expected, also because consumers do not seem inclined to bear on their own the weight of environmentally- and socially-responsible purchasing behavior. A study carried out on 19,000 consumers showed that while 80% declared they were concerned about sustainability, only a small portion (between 1% and 7%) had purchased products that were more expensive because they were sustainable. In other words, consumer interest in sustainability is 24-times greater than their willingness to pay for having it.

In Europe the leading fashion companies are focused on environmental issues, especially climate, with accountability and specific goals for CO_2 emissions and the use of raw materials. The European House – Ambrosetti carried out a survey on the margins of over 2,000 Italian companies in this sector and found there is a prevalence of small companies where about one-half had annual billings of less than €5 million and only 3% exceeded €50 million. The survey showed that brand margins are higher, but more volatile than those of supply chain companies. In addition, for the first time, an assessment was made of the sustainability of 167 companies in the Italian fashion supply chain (utilizing the Crif questionnaire based on "Synesgy", the CRIBIS D&B platform for information regarding supply chain ESG sustainability). What emerged was as company size increased, so did the adoption of sustainability management tools: monitoring of sustainability performance, personnel, process and product certification, materiality assessment, emission measurement, and accountability and assessment of supplier human rights.

Eighty percent of the supply chain reports it has received pressure from brands to adopt sustainability strategies, and pressure from brands induced 53% of the companies to certify products and processes. Financial pressure is not perceived as a driving force for the sustainable transition, not even for larger companies. But, at the same time, pressure from banks triples the propensity of companies to release a sustainability report.

The European House – Ambrosetti study concludes with six recommendations for managing, and not just enduring, the sustainable transition in the fashion sector.

ATTACHMENT

Six recommendations for the Just Fashion Transition

The broad-ranging analysis of the fashion sector carried out by The European House – Ambrosetti includes six recommendations to accompany the sector toward the goal of sustainability. Ambrosetti offers a series of initiatives that range from adopting standard guidelines to the reinvestment of a fixed annual quota of brand margins to develop sustainable supply chains.

The first recommendation, explains **Carlo Cici**, Partner and Head of Sustainability at The European House – Ambrosetti, involves advance adoption of the voluntary and mandatory measures the EU is in the process of introducing to test and provide feedback and recommendations to improve their application. Companies must be kept constantly updated on the evolution in European policies and those of the main international institutions regarding this question.

It is up to governments to develop an annual agenda that defines the priorities, the players involved and the main areas for action, through channeling public funding to SMEs and working to promote a partnership with private sector financial institutions.

Going it alone is no longer enough, a team effort will pay off. For this reason (third recommendation), alliances among the various supply chain players will be crucial. More specifically, in addition to overcoming the barriers to financing innovation, the creation of professional communities is expected to contribute to spreading good practices and expert advocacy.

The fourth Ambrosetti recommendation involves one of the key nodes that emerged from the study: the lack of standard, shared data. To solve this problem, a permanent observatory needs to be created in collaboration with sector associations and industrial partnerships, to gather, process and spread data about the sector. The European House – Ambrosetti proposes to prepare the calculation methods and launch data collection on a set of baseline data: minimum wages, water consumption, chemical products, greenhouse gas emissions and recyclable raw materials.

Opening the discussion to a broader audience—through events dedicated to social and environmental issues, use of the universal language of music and integration of school and university programs to promote a broad-based cultural change—is the heart of the fifth Ambrosetti recommendation. The goal is to translate the public's concern about the environment into coherent consumer behavior.

Finally, the sustainable transition will be facilitated if companies in the luxury supply chain (found predominantly in France and Italy) become the cutting edge, capable of working together and creating the agenda in European and international institution working groups. The final recommendation suggests the need to reinvest fixed quotas of brand margins to promote the scalability of circular business models and sharing of sector best practices.

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The **European House – Ambrosetti** is a Group of approximately 280 professionals operating since 1965, which has grown significantly over the years, thanks to the contributions of many of its partners, developing numerous activities in Italy, Europe and the rest of the world. The Group has three offices in Italy and a number abroad, in addition to other partnerships around the world. What distinguishes it is its ability to provide support to companies in the integrated and synergic management of the four critical aspects of value-creating processes: Seeing, Planning, Achieving and Optimizing. For over 50 years it has been working alongside Italian businesses and each year it provides consulting to about 1,000 clients, including more than 200 strategic scenarios and studies aimed at Italian and European institutions and companies, and around 120 projects for family-run businesses. In addition, each year about 3,000 Italian and international experts are involved in the 500 events it organizes for over 10,000 managers whom it follows in their personal and professional paths to growth. The Group vaunts an invaluable international network of contacts on the highest level in the sectors in which it operates, including top-level decision-makers within multinational institutions and on an individual country level. For the eighth year running, again in 2021 The European House – Ambrosetti was named—in the category "Best Private Think Tanks"—the no. 1 think tank in Italy, no. 4 in Europe and among the most respected independents in the world out of 11,175 on a global level in the latest "Global Go To Think Tanks Report" of the University of Pennsylvania. The European House – Ambrosetti was recognized by Top Employer Institute as one of the 112 Top Employers 2021 in Italy. For additional information, please visit the website www.ambrosetti.eu and follow us on twitter.com/Ambrosetti

For more information: **T.W.I.N srl** | Serena Gasparoni – serena@twin.services – +39.340.5601016
Tommaso Pesa – tommaso@twin.services – +39.347.0735670
Stefano Campolo – stefano@twin.services – +39.329.0894649