

RESILIENT MANAGEMENT

In the age of responsible retail

**A guide to managing
with an environmental,
social and governance
(ESG) focus to achieve a
sustainable, profitable
and more resilient future**

Responsible Retail



The time for awareness has passed, it is time for action, purpose and resilience.

C-suites across the globe are immersed in a challenge few could imagine. COVID-19 began a maelstrom for people and industry.

The turmoil brought by the virus was soon followed by a social awakening to inequality and systemic racism. As we begin to rebuild and restore our companies, more has changed than stayed the same. Amid this unprecedented era of disruption and rebirth, businesses have an opportunity to rebuild and strengthen their company while mitigating their negative impacts on society. As CEOs metaphorically watched their houses burn down, stakeholders, from investors to consumers, were witness to the broad-scale vulnerabilities of our value chains and the inadequacy of our diversity. They quickly set their sights on our industry leaders' actions. We were simply not prepared. A natural impulse is to control costs and return to business as usual. But that would be a lost opportunity. Leaders are proactively rebuilding the house, fortifying the foundation and restructuring in ways that were impossible to contemplate a short time ago.

Our next era is one of stakeholder capitalism, technology-led transformations powered by the proverbial silver lining presented to us right now—an alignment of purpose, inclusion, restoration and resilience the global economy has never seen.



It is now more important than ever that companies and governments show leadership by standing by their commitments and that we take responsibility together. We now have the chance to truly reconstruct a better future and we collectively need to ensure that the recovery measures taken will safeguard humanity and the planet.

HELENA HELMERSSON
CEO, H&M Group



STRONGER AFTER THE STORM

Decisions made now have the power to rebuild and reshape business long after the influence of the pandemic.



There are some challenges that no single brand can solve alone and that we as an industry need to tackle together. The disruption that the COVID-19 pandemic has caused is significant. But there is an opportunity for us to work together to rebuild global supply chains in a more sustainable way. This paper is the beginning of a roadmap for fashion and retail's collective efforts.

JEFF GENNETTE
CEO, Macy's

As we rebound and restore our social fabric, a strong stance can see us through future obstacles. Companies that seize the moment and carefully invest during a downturn can thrive.

The interconnectedness and reliance society and business ecosystems have on each other has become more evident than ever. Investors are finding that responsible, purpose-driven businesses better mitigate risk. Consumers are voting with their wallets in ways that are radically shifting the retail zeitgeist.

Now, retailers that balance purpose with traditional financial mandates will rebuild and restore their businesses with the resilience necessary to weather the tectonic shifts ahead.

We have entered a new era of responsible retail, in which environmental, social and governance (ESG) factors must be integrated into every department and business unit, fortifying our companies for the future.

In this era, ESG is the new management approach.

EMERGING FROM CRISIS

Before COVID-19, industries and society were already at a tipping point. The world is facing climate change along with the shock—and aftershocks—of a global pandemic.

The pressure of that ticking clock increases now as consumers, the financial markets and regulators react to the scientific community's warnings that we have fewer than 3,500 days to put a stop to the climate crisis.¹ These humanitarian and societal crises reveal many opportunities and we have to change course. Under-resourced supply chains, and unaligned demand chains, can no longer be the standard.



Investors' increasing public demands for traceability and transparency will place further pressure on material issues including the ESG practices that will allow a company to thrive again. From the hardship of this moment, we see a new opportunity to decide not only how businesses will recover, but how they can be future-proofed. The markets tell the story. Investments focused on companies with strong ESG principles outperformed their conventional counterparts in the first quarter of 2020, even as the outbreak sent markets crashing.²

As we witness how operating within the protocols of greater ESG responsibility brings higher valuations and reduced volatility³ while mitigating material risks, it is arguable that rebuilding our businesses accordingly falls within the scope of our fiduciary responsibility. Businesses with high-carbon models, and static and delicate supply chains, that don't place the highest values on consumers, employees, investors and the planet are destined to miss this opportunity to fortify themselves.

This moment of economic recovery is our chance to do it better, to build it stronger and to do less harm. The stakes are now higher. The business opportunity is bigger.



The principles of environmental, social and corporate governance are more relevant now than ever. As we emerge from the COVID-19 crisis, we must ensure that our industry does not slip back to a status quo that fails to adequately protect our people and the planet. The fashion and retail sectors must collectively accelerate climate action and create more sustainable supply chains as a part of our global recovery.

JOHN D. IDOL
Chairman & CEO, Capri Holdings Limited

RETAIL MUST SET THE PACE

While all industries should look at ways to reset and redefine practices that support recovery and purposeful, resilient growth—retail businesses are in a unique position to do so as they are hard-wired for change.



From inventories that change daily, with sourcing that has to follow, to flexible store configurations, and variable workforces, few sectors have a deeper comfort level with radical shifts than the retail sector. And there is much incentive to change as large challenges, left uncorrected, can create significant hurdles in the coming years.

Taking carbon as an example, food and grocery account for 26% of global greenhouse gas emissions. Almost one-quarter (24%) of food's emissions come from food that is lost in supply chains or wasted. Almost two-thirds of this (15% of food emissions) come from losses in the supply chain that result from poor storage and handling techniques—lack of refrigeration, and spoilage in transport and processing.⁴

The fashion industry is also at its own tipping point and is challenging our systems on its current path. By 2030, global apparel consumption is projected to rise by 63%, from 62 million tons today to 102 million tons—equivalent to more than 500 billion additional T-shirts.⁵ Already, the fashion industry produces 20% of global wastewater and 10% of global carbon emissions—more than all international flights and maritime shipping. Textile dyeing remains the second largest polluter of water globally.⁶



While the apparel industry will be uniquely transformed post-pandemic, we have a responsibility to help shape this “new normal” for the benefit of all stakeholders. We are steadfast in our commitments to prioritize climate action, to build tighter, more resilient supply chains, to fight for social justice, and to deliver more sustainable products to our consumers.

EMANUEL CHIRICO
Chairman & Chief Executive Officer, PVH Corp.

SUSTAINABILITY FITS ALL STAKEHOLDERS

Long gone is the notion of corporate sustainability as an “extra”—feel good reports highlighting selective waste reduction within companies or showcasing employees rolling up their sleeves for volunteer days.

We now know that sustainability, when integrated within all business functions, can unlock new opportunities for growth. It is also what consumers, employees and investors have begun to mandate from businesses.





Investors

Sustainability is reshaping finance and business. In January 2020, BlackRock chief executive officer Larry Fink unveiled his updated vision for sustainability as the "new standard for investing" and encouraged companies to report on ESG issues using the Sustainability Accounting Standards Board (SASB) framework.

The world's largest asset manager has become the world's largest sustainable investor, confirming his belief that sustainability topics have a material effect on the financial condition or operating performance of a company. And under the topic of transparency, Bloomberg terminals already assess the ESG disclosure metrics of companies, sharing performance more readily than many realize.



Sustainability will drive the way we manage risk, construct portfolios, design products, and engage with companies.

LARRY FINK
Chairman & Chief Executive Officer, BlackRock





Consumers

People's values are becoming infused in their shopping habits. Consumers are more environmentally and socially conscious, turning to brands that not only talk about responsibility—but demonstrate it. Our research indicates that 81% of global consumers plan to buy more environmentally friendly products over the next five years.⁷ Even before COVID-19, 47% of internet users worldwide had ditched products and services from a brand that violated their personal values.⁸

As we emerge from the pandemic, we see these values and behaviors not eroded, but reinforced. Sixty-one percent of consumers are making more environmentally friendly, sustainable or ethical purchases, and a huge 89% of these are likely to continue with this behavior post-outbreak.⁹ In this newly complex social and economic scenario, defined by consumer trepidation and hesitancy, sustainability and brand purpose emerge as critical factors to rebuilding a brand.

81%

of consumers plan to buy more environmentally friendly products over the next five years.

Source: Accenture Chemicals Global Consumer Sustainability Survey 2019





Employees

Employees want to work for ethical, responsible companies. People increasingly care about workplace culture and believe it's important to help them thrive in the workplace (as reported by 77% of women and 67% of men).¹⁰

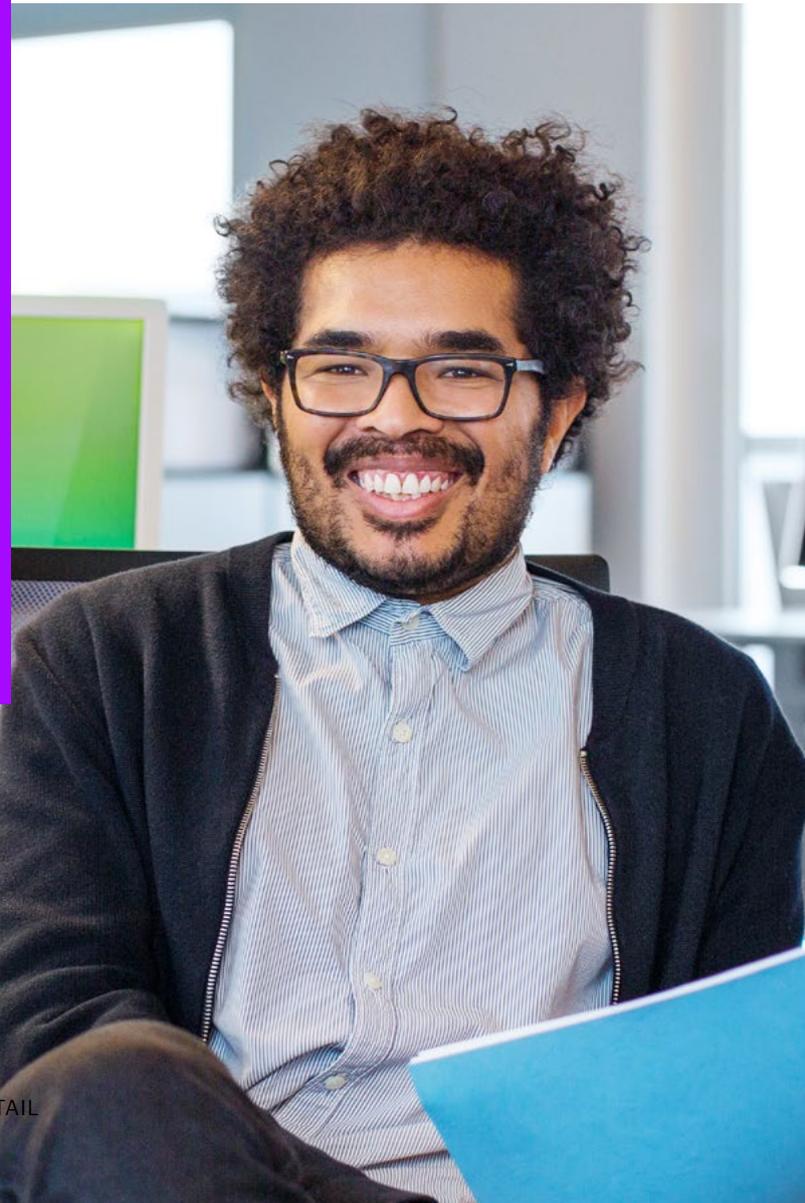
This has financial implications. Ethisphere, which annually ranks the World's Most Ethical Companies, chooses businesses that have met rigorous criteria across five categories. The group tracks how the stock prices of publicly traded honorees compare to the Large Cap Index and found that companies listed outperform the sector over five years by 14.4% and over three years by 10.5%.¹¹

What had already begun to transform the retail sector before the pandemic will now accelerate, as we will see more and more consumers, employees and investors favoring companies that have an authentic ESG strategy across all business disciplines.

67%

of people agree or significantly agree that—
Companies will 'build back better' by investing in longer-term, sustainable and fair solutions.

Source: Accenture COVID-19 Consumer Pulse Research 2-8 June 2020



A NEW AND INCLUSIVE WAY FORWARD

Every CEO in America, and perhaps the world, has a new mandate. Societal upheaval has changed the game.



It's no longer possible to feign ignorance to the injustices of racism. CEOs who continue to do so will suffer backlash—internally from employees and externally from customers and investors. Addressing inclusion and diversity in clear ways will require consistent conversation, intense and earnest listening, decisive action and a commitment to change.

As a leader, avoiding the difficult conversations and taking an overly cautious path will only weaken your credibility at a time when all of your company's stakeholders are looking for your authenticity, listening for the signals that you will be intentional, purposeful and transparent about how we can—and will—collectively contribute to change.

Being purposeful is the new starting line. The analysts and regulators we once feared are no match for the employees, customers and social media who no longer have the patience for inaction. Making clear what the company stands for beyond profit will be critical for anyone hoping to thrive in this new mindful economy.

COVID-19, along with society's awakening and focus on racism, have ignited a revolution. The next incarnation of leaders populating the C-suite will understand how to balance doing what's right and doing well, knowing profitability and purpose are not mutually exclusive. Learning how to connect to this renewed passion for a fair and equitable future can help power your success. Ignore it, or operate your business as usual, and the decisions will likely be made for you.



COVID-19 has tested us in ways we never imagined, but it has also shed light on the importance of continuing to take care of our communities. 2020 has marked one year since Abercrombie & Fitch Co.'s commitment to the United Nations Global Compact, and we are proud to stay on track with our goals during such a challenging year. This report is an opportunity to come together and ensure we're promoting a more sustainable industry moving forward, even in unprecedented times.

FRAN HOROWITZ
CEO, Abercrombie & Fitch Co.

Even before the national discourse shifted, the facts were there:

Getting it wrong can be costly

- 25% of individuals who experienced unfairness through discrimination on the job say their experience strongly discourages them from recommending their employer to other potential employees.¹²
- Companies are paying millions of dollars to resolve lawsuits filed by the EEOC related to discriminatory hiring practices. Expect it to increase.¹³
- \$64 billion is the annual estimated cost of losing and replacing the more than 2 million American workers who leave their jobs each year due to unfairness and discrimination.¹⁴
- US companies are leaving \$1.05 trillion dollars on the table by not being more inclusive. That missed financial opportunity comes down to not enough companies prioritizing inclusion.¹⁵

Getting it right is priceless

- Each 1% increase in the rate of gender diversity resulted in an approximate 3% increase in sales revenues.¹⁶
- A recent long-term study attributed about 25% of GDP growth per capita to a more inclusive and diverse workforce.¹⁷
- Diverse teams out-innovate and outperform the competition; they are 45% more likely to improve market share.¹⁸
- Leaders who give diverse employees equal airtime and an opportunity to 'speak up,' cause diverse employees to be 3.5 times as likely to contribute their full innovative potential and productivity.¹⁹

TECHNOLOGY TURNS THE KEY

The digital frameworks, analytics, artificial intelligence and machine learning that have created greater transparency will also ensure the fastest route to recovery.



Sustainability at its heart is about managing waste, reducing impact and building systems capable of regeneration. Combined with advances in data, algorithmic programming and increasingly precise tools, sustainability becomes the path to restoration, while fortifying your processes to build a more resilient future. Progressive CEOs are experiencing the enormous benefit of harnessing the speed of these innovations to improve sustainability outcomes. Nearly two-thirds (63%) said technology will be the single most critical accelerator of the socioeconomic impact of their companies.²⁰



Partnership and collaboration have made us a manufacturing leader in the apparel industry and are at the heart of our vision to accelerate sustainability and innovation throughout our supply chain. Our RFID technology, for example, is opening the door for new possibilities around transparency, supply chain performance and other elements that are key to advancing stronger environmental, social, and corporate governance practices. In the wake of COVID-19, we are especially committed to partnering with others to accelerate transformative, industry-wide efforts to create a more sustainable apparel industry.

MITCH BUTIER

Chairman, President and CEO, Avery Dennison Corporation

The revolution has begun:

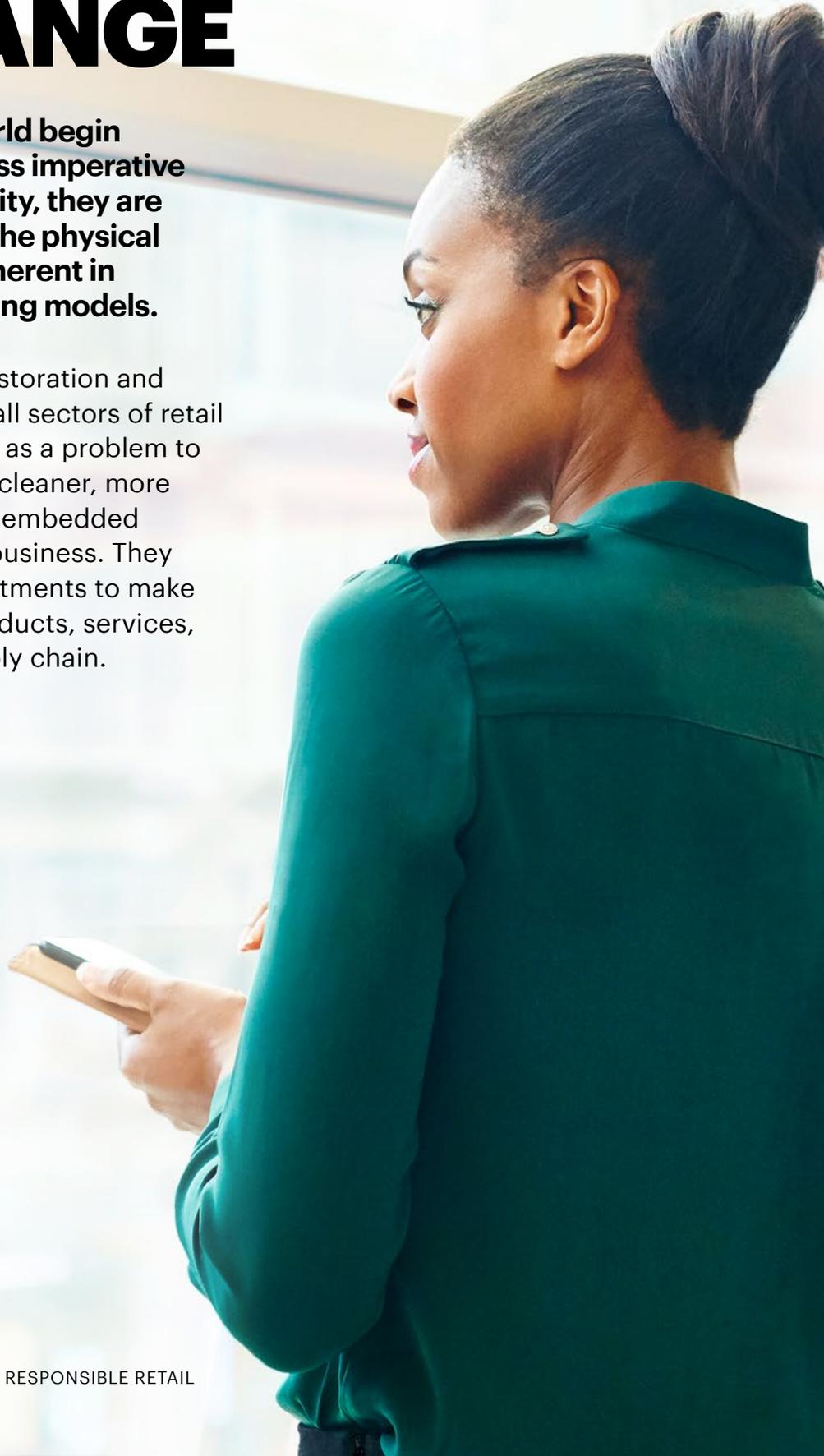
- **Risk and opportunity modelling tools** overlay different risk factors onto your supply chain maps to model long-term scenarios for strategic operations and sourcing planning—supply chain efficiency through an ESG lens.
- **Sustainable materials innovation**, such as bio-based and materials derived from waste byproducts, advance circularity and reduce waste.

- **Advances in combined digital technologies allow traceability**—end-to-end visibility to streamline partners, provide land-to-market tracks, authentication services and enable more sustainable processes.
- **Reusable, recyclable, compostable** and even edible packaging minimizes materials and collection expenses.
- **Artificial intelligence/predictive analytics** is honing the art and science of planning, deciphering customer interests, scraping social sentiment, and slicing point of sale (POS) data to focus merchandising decisions and drive significantly higher sell-through.
- **3D product printing at scale** provides on-demand production models that align to demand and eliminate waste.

COMMITTING TO CHANGE

As CEOs all over the world begin to recognize the business imperative of profitable sustainability, they are responding to address the physical and transitional risks inherent in non-sustainable operating models.

Especially in this time of restoration and rebuilding, leaders across all sectors of retail are thinking about ESG not as a problem to solve, but as the solution—cleaner, more efficient, less wasteful and embedded within all functions of the business. They have publicly made commitments to make changes in operations, products, services, culture and the entire supply chain.



Raw material sourcing

Sustainably source 100% of key materials by 2025

Sustainable material procurement can reverse damage to the ecosystems where they are produced, while helping to fortify future supply and control cost increases.

Chemicals management

Achieve zero hazardous chemicals by 2025

This is one of the most readily manageable goals, with obvious environmental and social benefits. It also mitigates risk, as both consumers and regulators begin to push back.

Supply chain

Reduce 30-45% of greenhouse gas emissions by 2030 and 100% by 2050

This is highly achievable, cost-saving and the baseline for reversing the climate crisis. It will also future-proof against likely extensions of carbon taxation.

Consumers

Communicate brand values and transparent reporting on ESG issues

Transparency improves disclosure scores and invites investment. Shifts in consumer sentiment are adding pressure to voice the company's purpose.

Labor

Educate the 80% of women in the supply chain and commit to 100% responsible recruitment by 2025

Ethical and supportive companies trade higher, and compliant recruitment mitigates material risks.

Energy management

Procure 50% renewable energy by 2025 and 100% by 2030 in owned and operated facilities

This will save costs, potentially generate revenue, and is a principal path to green house gas (GHG) reduction.

Data security

Improve cyber security

Nearly two-thirds of the world's institutional investors rank the impact of cyber security threats on their investments, making it investors' foremost ESG risk.

Product sourcing and packaging

Eliminate single-use plastics by 2030

Plastics are a principal contaminant in our oceans, and have increasing regulatory and consumer opposition.

What does ESG look like in retail?

ESG-led retailers

- **Work to eliminate waste and CO2 emissions** at every stage of the value chain—from raw materials to processing to transportation and end-of-life-use
- **Actively procure more sustainably sourced and produced materials** e.g. via global sustainability standards and explore options for using more recycled materials
- **Seek to improve the transparency of the supply chain** and be transparent about how, where and in what conditions their products are made
- **Explore circular business models**
- **Collaborate with global initiatives** to ensure workers are paid and treated fairly across the value chain and champion inclusivity
- **Help customers make informed choices** about what they buy and how to prolong the usability of their purchases

The means and ways of achieving these commitments exist. Companies that address these issues directly will not only meet their sustainability targets, but also enable operating efficiencies, avoid significant risks, bring innovation to their processes and raise long-term valuation.

Assets in sustainable investment strategies jumped by 34% between 2016 and 2018, reaching \$31 trillion—industry is lagging at great risk.²¹ Accenture surveyed and interviewed more than 1,000 CEOs to examine business' contribution to these efforts, using the UN Sustainable Development Goals as a reference. CEOs offered that business can—and should—step up, however, just 21% feel business is playing a key role today.²²

HOW TO GET IT DONE

So, how can you make significant and impactful changes that find the nexus of profit and sustainability across multiple functions of the enterprise?

Honoring the commitments and meeting the ESG targets is a strong place to begin. The strategies outlined in this guide show how retailers can accelerate enterprise-wide transformation, rebuild a resilient business and succeed in this new era.



01 Conduct honest I&D assessments

Having responsible and fair Inclusion & Diversity practices helps create opportunities for growth and it nurtures an equitable, inclusive culture from top to bottom. It's always been a critical element of the "S" in ESG and its long-overdue time has come. A spirit of inclusion and celebration of diversity should seep into all business functions.

Retailers and brands need to ensure basic protections are in place by auditing near and far, headquarters to factories, and C-suite to hourly employees, plus safeguarding the organization against discrimination and racial bias and demonstrating equitable wages and good working conditions.

02 Empower your workforce

As we saw at the onset of the pandemic, retail workforces had to quickly adapt to changing global and local conditions, ensuring business continuity whether in person or virtually.

For the future, each retailer needs to assess its readiness to operate an elastic digital workforce, ensuring the organization is equipped to allow employees to work from remote locations, with the right digital collaboration tools in place and clear guidelines on using personal or company-owned devices.

By building an elastic workplace, retailers can create a highly extensible environment that allows scale at speed. Technology helps make this possible. But as intelligent technologies become part of the workforce, retailers have a responsibility to guide employees through this revolution. Most seem open to the change. In fact, our research indicates that more than half (54%) of the retail workforce believes intelligent technologies will create opportunities for their work.²³

03

Build a sustainability SWOT team

To improve sustainability efforts, you must know where you stand today—the strengths, opportunities, weaknesses and threats that can support you or stand in the way of operating sustainably and profitably. A short internal sprint can go a long way toward prioritizing next steps and clarifying the ROI. Establishing a holistic, prioritized action plan can maximize the efficacy of the work to come— all while reducing costs and inefficiency.

04

Reset the expense and operating model

All expenditures have an impact on the bottom line—and on the environment. Retailers have long focused on traditional store, business unit or functional P&Ls rather than looking at a consistent and deeper level of detail that tracks change and impact on the environment. Engaging a zero-based approach can help you spend smarter “should costs” and identify bold choices that free up cash for growth initiatives and lower-impact operations. Overlaying subsets of expenses within SG&A and COGS with industry-specific ESG benchmarks gives companies new cost and sustainability visibility. And right now, too many companies are failing to use sustainability innovations to shift their cost curves.

They’re also missing out on zero-based approaches that integrate ESG metrics to help them achieve goals faster. Next-generation zero-based programs are transformative—identifying synergies between cost-efficiency initiatives and sustainability and trust outcomes.

Key actions include:

- **Get visible:** Not unlike the Sustainability SWOT, establishing a baseline for expenses is a critical first step, as is assessing the environmental and employment impact of that spend baseline. This means a forensic evaluation of all costs—start with a clean sheet to enable transformation by shifting internal mindsets from perception and organizational myths to realities about the state of operations—establishing one version of the truth upon which to drive all efforts.

- **I.D. value targets:** This effort is about strategically reallocating resources in areas such as sales and marketing and operations to align your company's resources with its strategic priorities. Replacing low-value-added activities (non-working money) with high-value-added activities (working money) can boost efficacy and efficiency, improve revenues and reduce costs. Along the way, value targeting creates a culture of continuous innovation around new value levers that can improve cost-efficiency and sustainability.
- **Assign category ownership:** Develop a governance model that forges a shared responsibility between a budget manager and cost category owners. This pairing drives a dual perspective on every resource decision. In the process, it creates a healthy tension that defines and sustains improvement and keeps the new model working. Think of the category owner as a coach who helps stay the course on the newly adopted healthy lifestyle.
- **Lock targets into the budget:** So, you've brought forensic visibility to every cost in the company. You've nailed your ambition for resetting spending through value targeting. And you've assigned category ownership to drive new levels of accountability into the culture. Now you're ready to lock your ambitious targets into the budget. A zero-based budget links resources to strategic priorities across the organization—like operationalizing the ESG commitments on the previous pages. In effect, the budgeting process is a glue that enables planning, motivation, evaluation and coordination that gets everyone pulling on the same oar. Ultimately, in this phase you're connecting top-down ambition with bottom up operational plans, enabling your organization to quickly and efficiently scale to meet challenges and, in the process, gain a competitive advantage.
- **Execute initiatives:** Now comes the hard part. Translate your ambitions into organizational action that can include process, policy, pricing, people and technology interventions. You may discover you have hundreds of these initiatives, each aimed at closing the gap between the current and desired states. What you're spending versus the "should" spend. What does it look like?

Along the way, leverage advances in sustainability-enabled analytics to track every dollar spent, whether in SG&A or in COGS, and its associated impact on the environment and society. By combining granular financial data with detailed sustainability industry sector benchmarks, you can gain new cost and sustainability visibility.

This holistic view enables you to assess future opportunities across multiple dimensions and prioritize those initiatives that significantly reduce exposure to environmental risks (e.g., by reducing consumption of high-impact categories such as travel, energy or raw materials) or that support employment (e.g., through the choice of sourcing location).

05 Shape a sustainable supply network

Until quite recently, the standard ingredients for developing supply network strategies had been an amalgam of age-old elements like cost, asset utilization, delivery, quality and inventory reduction.

Over time, these models stripped away the agility and any leeway to absorb disruptions brought to bear by COVID-19. As a proxy, it served well as a dress rehearsal for the coming pressures and potential disruption of climate change, water stress, geopolitical risk and even future pandemics. The evidence is clear that few companies were aware of the vulnerability of their supply network to material shocks.

The businesses that will successfully emerge from this moment will be those that rebuild with these lessons in mind, developing new supply network designs with a revised set of metrics and indicators. In addition to the traditional considerations, agility, resilience and a modular flexibility that allows an on-demand reshaping of the network will become prerequisites for a future-proofed operation.

Supply network leaders need a new toolbox—one that contains innovative technology for modelling risk scenarios. Operational efficiency will require mapping existing supply chains against a range of variable levers, from raw materials availability to transportation routes, referencing everything from weather and migration to border accessibility. These on-demand insights will help hedge supply and operations planning using predictive analytics to assess the best near-term path for logistics that can pivot, not break, when potential challenges become material interruptions.

This deeper level of data insights will not only accelerate your impact reduction, but also create the basis for understanding and measuring the impacts of your decisions going forward. Precedent shows us supply networks are a primary source of waste in most retail industries, and now we also know where they break. Leverage this moment, your ESG goals, and advanced data insights to redesign and reshape a supply network that's actually fortified by its flexibility.

Key actions include:

- **Rebuild equitable and agile manufacturing partnerships** appropriate for today's demand and supply network. Maintaining a linear supply chain only maintains the fragility. Consider new models that include partnerships, collaborations, shared services and/or multiple, overlapping functions in proprietary facilities that create flexibility across functions, categories and geographies. A diversified, cloud-managed supply network will give your business competitive superpowers, while exceeding most of your ESG commitments.
- **Assess the materiality and risk of the various elements at each node of your supply network.** Understanding the exposure of finished goods, components or delivery systems will allow you to calculate the value at risk in a potential disruption and clarify your priorities. Upstream commitments like raw materials rise to the top in these assessments, allowing shifts to manifold sourcing opportunities that mitigate future risks while bringing you closer toward your sustainability goals.
- **Improve the environmental performance and processes at manufacturing facilities** with a focus on energy and water efficiency. In general, measures to increase resource efficiency across the supply chain have net positive financial implications.
- **Build risk and opportunity scenario models** that map your manufacturing and supply chain against the forces likely to interrupt it. Build or engage advanced technologies that improve end-to-end visibility across the supply chain, giving you the foresight to avoid or the faculty to resist the disruptions. In the long-term, risk response will need to become an integral part of business-as-usual protocols.
- **Redesign your supply chain to look less like a chain and more like an asset-light network,** untethered to classic organizational silos and with full, end-to-end visibility. The network should be connected at all levels of input, leveraging IoT, robotics where applicable, AI and 5G to go beyond a functioning delivery mechanism to an intelligent system that forecasts its own potential inefficiency or interruption, whether that's a pandemic, changes in demand or trade regulations.

06

Use data for smart sourcing sustainable development and merchandising

Manual methods that succeeded previously have become a risk in a market of growing complexity, and analytics has become key to teasing out growth from mature retail models while calculating the ESG implications that have begun to guide our choices.

As we move beyond building plans by prior sales and begin to count on data, the retail sector can expect increasing accuracy—which will be necessary to stay competitive.

Margins were already short for many retailers before COVID-19, and the near constant transition to lower-cost countries of origin was coming to the end of its runway. Demand volatility would often crater product sell-throughs in models that relied on traditional forecasts executed with poor speed to market. Already, the industry was desperate for new platforms that could trim the guesswork and lag, attempting a more demand-based sourcing model. Data-driven, sustainability-enhanced sourcing protocols are answering that call with improved efficiencies and reduced impacts.

As we rebuild revenue and re-establish cost basis and margin goals, next-generation product creation, development and sourcing can embed lean, responsible ESG practices and agility from the outset. Programmatic solutions in lead-time management, responsible vendor partnerships, onshoring, traceability and land to market ecosystem strategies will be added to circular product opportunities, reductions in chemicals and water, and other mitigators of negative impacts to reshape our product chain.

Key actions include:

- **Begin a transition to sustainable materials:** Beyond the obvious reduction in environmental and social impacts, the inherent traceability of sustainable or preferred materials reduces volatility in your sourcing base, aligns you with a fast-growing consumer interest in clean materials, and raises the value of your products (and your company) as disclosing your ESG efforts strengthens investor confidence.

- **Embrace advanced analytics to enable precision at scale:** Actionable data insights can direct your merchant's curation and segmentation of merchandise selections. AI and predictive analytics tools can help maximize sell-through and minimize waste, allowing you to optimize processes and operate with better precision from the customer all the way back through the supply network, significantly improve the prediction of what consumers will buy, as well as when, where and how they will purchase. Then, AI can help you get to market faster and deploy inventory more efficiently and effectively across all channels. The investment pays off. Research shows that companies embracing analytics and AI have significantly more growth than those that lag in adoption. In fact, 81% of all companies identified as AI leaders experienced more than 10% growth in the past year compared with 36% of laggards.
- **Employ next-generation product creation:** Minimizing time-to-market and controlling costs are critical to success in retail. Advances in digital prototyping, PLM extensions and software integrations can provide a single source of product and process information, add modules for sustainable material lists and pricing targets, and enable cross-functional design and development teams to validate new products digitally, while connecting all stakeholders to the design process. This reduces need for physical prototypes, shortens timelines and can assist product teams in assessing ESG factors at the front end of the process.
- **Recognize the shift in channels happening now and understand it is never going to be the same:** The rebalancing of points of sale will mean addressing the shifting priorities through an assessment/optimization of physical spaces, and the expense structure and offerings of online. Considerations include IoT for energy efficiency management, utilization of renewables to reduce carbon footprint and expense, analyses/tactics for hybrid models such as BOPIS, and efficiencies related to e-commerce packaging, green last mile optimization and more.

07 Stop guessing, unleash the power of data

Data is what drives the powerful analytics and insights that will help brands and companies identify new products, decipher patterns, and learn how to better serve customers and improve operational efficiencies.²⁴ A full 84% of C-suite executives believe they must leverage data and AI to achieve their growth objectives.²⁵ Nearly all view it as an enabler of their strategic priorities.

And an overwhelming majority believe achieving a positive return on these investments requires scaling across the organization. Yet 76% acknowledge they struggle when it comes to scaling it. What's more, three out of four C-suite executives believe that if they don't scale AI in the next five years, they risk going out of business entirely.

It is unsurprising that embracing data analytics is good for business and that data-forward businesses have significantly more growth than those who lag. But while leaders are reaping the rewards, challenges persist. Many executives still rely more on experience and advice than data in making decisions.

Data, combined with the resilience-building power of ESG considerations, will make all of the above referenced improvements possible. The sustainable analytics borne from the data will help forge an ongoing capture to record your ESG progress and the implications of your decisions as you build predictive and prescriptive models.

Most retailers have data in droves, but it is often in outdated or in impractical formats. Capabilities and security are lacking. Legacy systems housing the data are often outmoded and inefficient, making it difficult to maximize its insights. Having your data in flexible, modern, digitally decoupled and API-enabled systems is critical to understanding customer and product insights as they relate to sustainability.

To gain intelligent insights and unlock new sources of growth, make your data visible, transparent, trustworthy and accessible. This can be difficult with traditional on-premise data management solutions, so consider moving your data to intelligent platforms on the cloud.

Take the data journey:



Break down silos

Starting out, enterprises often lack a product mindset and treat data as a "second-class citizen." Data may be tightly coupled with applications, with limited capacity for internal sharing due to architecture, delivery or risk management.



Start to organize

Recognize the value of your data as an asset and decouple it from applications. Develop a data-product mindset through a business vision and data strategy.



Get tactical

Standardize the tools, templates and methods to create an essential foothold as a data business.



Consider the cloud

Efficiently manage large data sets in the cloud, with innovation at pace, and scale everything from product innovation to data security and fraud protection.



Move to production

Build well-defined and automated methods for developing your data products. Establish a well-structured data product catalog and provide self-service capabilities across the organization. Then your data will be transformed into an independent digital asset for the business, expanding its use into the connected ecosystem.



Differentiate with data

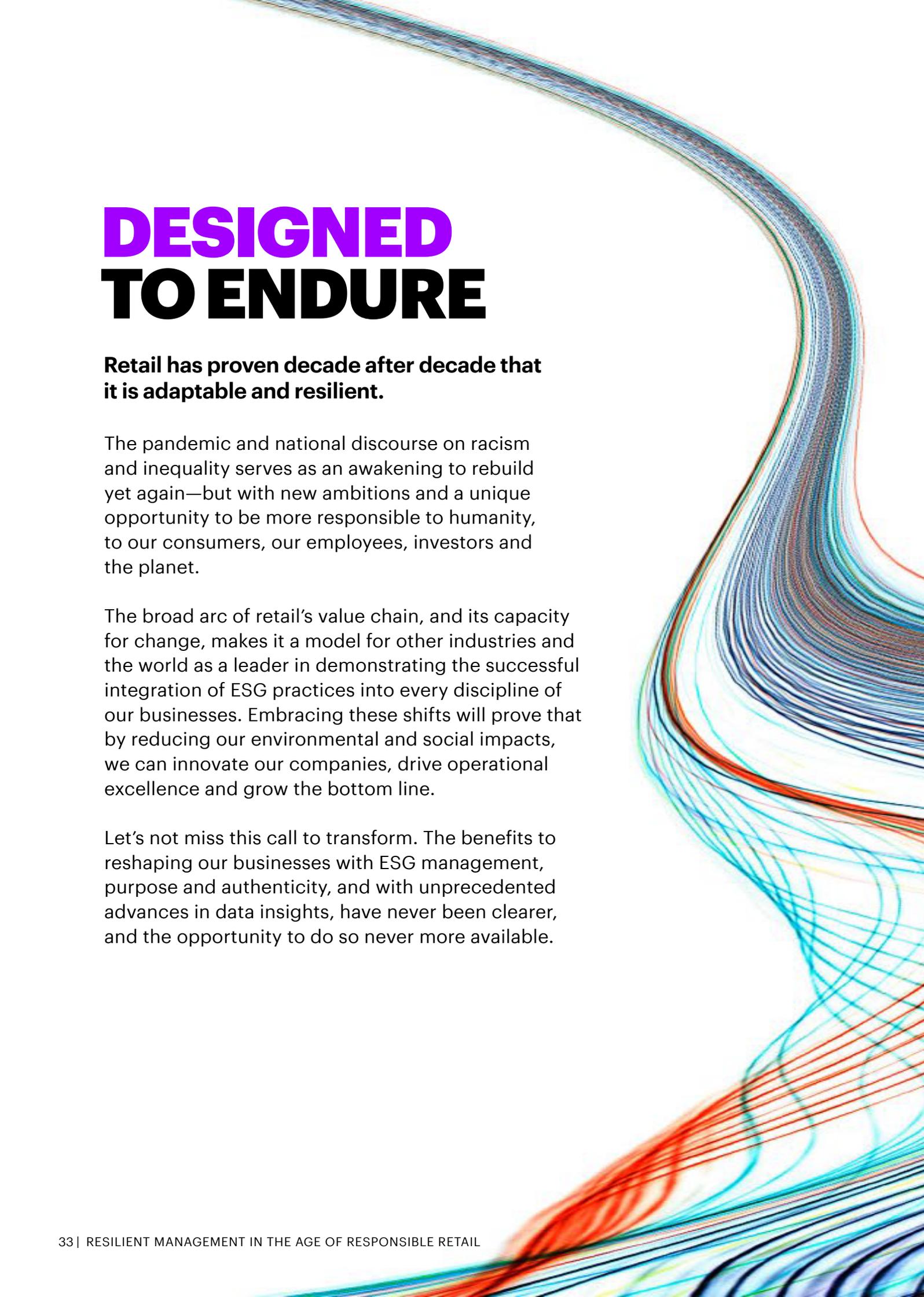
Data treated as a first-class citizen can drive optimal outcomes. The competitive positioning of the enterprise will be differentiated by the quality of its data products in the digital ecosystem.



Technology has given our industry access to better data than ever available before. Our data platform has always been at the core of Farfetch and how we empower the industry. This includes environmental impact and in particular the ways in which we help better match supply and demand in fashion. At Farfetch, data enables us to constantly review and evolve our offer to customers, providing a happy medium between providing a unique offering, whilst maximising opportunities to sell through existing supply networks. Over time, this, along with models like pre-order or made-to-order will help us, and our partners, to tackle over-production in the industry.

JOSÉ NEVES

Founder, CEO and Co-Chairman of Farfetch



DESIGNED TO ENDURE

Retail has proven decade after decade that it is adaptable and resilient.

The pandemic and national discourse on racism and inequality serves as an awakening to rebuild yet again—but with new ambitions and a unique opportunity to be more responsible to humanity, to our consumers, our employees, investors and the planet.

The broad arc of retail's value chain, and its capacity for change, makes it a model for other industries and the world as a leader in demonstrating the successful integration of ESG practices into every discipline of our businesses. Embracing these shifts will prove that by reducing our environmental and social impacts, we can innovate our companies, drive operational excellence and grow the bottom line.

Let's not miss this call to transform. The benefits to reshaping our businesses with ESG management, purpose and authenticity, and with unprecedented advances in data insights, have never been clearer, and the opportunity to do so never more available.

How Accenture can help

Few periods in history have called for the kind of systemic transformation required at this moment in business and society.

Cross-sector collaboration, innovation at scale and collective action—while always a winning combination—have coupled with data-driven ESG to become an existential recipe for survival and the regrowth of our industry.

Accenture has partnered with the Responsible Business Coalition to delve deeply into the heart of the unique issues facing the fashion industry. With a focus on the intersection of sustainability and profitability, the aversion of material business risks, and the development of innovation at scale, our global and local teams have the depth of subject matter expertise, use-case precedent and game-changing data tools to bring fundamental new insights to your business, giving you the opportunity to capture this unique moment in time, and build a responsible, resilient future.

Please contact Cara Smyth, Managing Director, Sustainability at cara.smyth@accenture.com to discuss your future retail business.

References

- ¹ United Nations; Seventy-third Session, High-level Meeting on Climate and Sustainable Development, March 2019
<https://www.un.org/press/en/2019/ga12131.doc.htm>
- ² "Sustainable Funds Weather the First Quarter Better Than Conventional Funds," Morningstar; April 2020
<https://www.morningstar.com/articles/976361/sustainable-funds-weather-the-first-quarter-better-than-conventional-funds>
- ³ ESG Matters; Harvard Law School Forum on Corporate Governance; January 2020
<https://corpgov.law.harvard.edu/2020/01/14/esg-matters/>
- ⁴ "Environmental impacts of food production;" Our World in Data; January 2020
<https://ourworldindata.org/environmental-impacts-of-food#note-1>
- ⁵ UN Sustainable Development Goals; Goal 12: Ensure sustainable consumption and production patterns
<https://www.un.org/sustainabledevelopment/sustainable-consumption-production/>
- ⁶ "Putting the brakes on fast fashion;" UN Environment Programme; November 2018
<https://www.unenvironment.org/news-and-stories/story/putting-brakes-fast-fashion>
- ⁷ Accenture Chemicals Global Consumer Sustainability Survey 2019
<https://newsroom.accenture.com/news/more-than-half-of-consumers-would-pay-more-for-sustainable-products-designed-to-be-reused-or-recycled-accenture-survey-finds.htm>
- ⁸ "High-Stakes Leadership in a Post-B2B World;" Hotwire; March 2019; <https://www.emarketer.com/chart/228374/internet-users-worldwide-who-have-switched-productservice-company-violated-their-personal-values-jan-2019-of-respondents>
- ⁹ Accenture COVID-19 Consumer Research 16-22 June 2020
<https://www.accenture.com/us-en/insights/retail/coronavirus-consumer-behavior-research?>
- ¹⁰ Accenture Getting to Equal Research 2020
<https://www.accenture.com/us-en/about/inclusion-diversity/culture-equality-research?>
- ¹¹ Ethispere; World's Most Ethical Companies
<https://www.worldsmoethicalcompanies.com>
- ¹² Select Task Force on the Study of Harassment in the Workplace
<https://www.eeoc.gov/select-task-force-study-harassment-workplace>
- ¹³ Significant EEOC Race/Color Cases (Covering Private and Federal Sectors)
<https://www.eeoc.gov/initiatives/e-race/significant-eeoc-racecolor-casescovering-private-and-federal-sectors>
- ¹⁴ Center for American Progress
<https://www.americanprogress.org/issues/lgbtq-rights/reports/2012/03/22/11234/the-costly-business-of-discrimination/>

References

- ¹⁵ Accenture Getting to Equal Research 2020
<https://www.accenture.com/us-en/about/inclusion-diversity/culture-equality-research>
- ¹⁶ Diversity Linked To Increased Sales Revenue And Profits, More Customers
<https://www.sciencedaily.com/releases/2009/03/090331091252.htm>
- ¹⁷ The Allocation of Talent and US Economic Growth
<https://web.stanford.edu/~chadj/HHJK.pdf>
- ¹⁸ HBR: How Diversity Can Drive Innovation
<https://www.sciencedaily.com/releases/2009/03/090331091252.htm>
- ¹⁹ Ibid
- ²⁰ UNGC—Accenture Strategy CEO Study on Sustainability, September 2019
<https://www.accenture.com/us-en/insights/strategy/ungcceostudy>
- ²¹ “Global Sustainable Investments Rise 34 Percent to \$30.7 Trillion;” Bloomberg, April 1, 2019
<https://www.bloomberg.com/news/articles/2019-04-01/global-sustainable-investments-rise-34-percent-to-30-7-trillion>
- ²² UNGC—Accenture Strategy CEO Study on Sustainability, September 2019
<https://www.accenture.com/us-en/insights/strategy/ungcceostudy>
- ²³ Accenture Retail People Power 2018
<https://www.accenture.com/us-en/insights/retail/retail-people-power>
- ²⁴ “120 AI Predictions For 2020;” Forbes; December 2019
<https://www.forbes.com/sites/gilpress/2019/12/09/120-ai-predictions-for-2020/#65c6e0f450cf>
- ²⁵ “AI: BUILT TO SCALE;” Accenture; November 2019
<https://www.accenture.com/us-en/insights/artificial-intelligence/ai-investments>

Contact the Authors

JILL STANDISH

Senior Managing Director,
Global Head of Retail
jill.standish@accenture.com

CARA SMYTH

Managing Director, Sustainability
cara.smyth@accenture.com

FRANK ZAMBRELLI

Sustainability Advisor, Accenture
frank.zambrelli@accenture.com

Executive Director,
Responsible Business Coalition
Fordham University, Gabelli
School of Business
fzambrelli@fordham.edu

Stay Connected!

 @AccentureRetail

 www.Accenture.com/retail

 www.Fordham.edu/RBC

About Accenture

Accenture is a leading global professional services company, providing a broad range of services in strategy and consulting, interactive, technology and operations, with digital capabilities across all of these services. We combine unmatched experience and specialized capabilities across more than 40 industries — powered by the world's largest network of Advanced Technology and Intelligent Operations centers. With 513,000 people serving clients in more than 120 countries, Accenture brings continuous innovation to help clients improve their performance and create lasting value across their enterprises.

Visit us at www.accenture.com

About the Responsible Business Coalition

Established at Fordham University's Gabelli School of Business, The Responsible Business Coalition (RBC) is a pioneering network of private sector executives, educators, researchers and non-profit leaders working collectively to redesign business as a compassionate and regenerative force for prosperity. The shared vision and commitment of the RBC is to improve the environmental, social and governance (ESG) impact of industries worldwide and contribute to the achievement of the UN Sustainable Development Goals.

About WWD

For more than 100 years, WWD has been the media of record—and the industry voice of authority -- for senior executives in the global women's and men's fashion, retail and beauty communities and the consumer media that cover the market.