A Study on Sustainable Fashion and Customer Centricity in UK: H&M

H&M

Submitted By: Harsh Bathia

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S P Jain
School of Global
Management

DUBAI • MUMBAI • SINGAPORE • SYDNEY

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Special thanks to Dr. Balakrishna Grandhi, the Dean of S P Jain's Global MBA programme for nudging me in the right direction and for pushing me to achieve better quality research outcomes.

Sincerely- Harsh Bathia

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EXECUTIVE SUMMARY

The project is done with a twofold objective: To understand customer sentiment and imply demand for sustainable fashion, and to measure in-store buying behaviour of the customers in the post-pandemic era.

Fast fashion is responsible for about a fifth of world's wastewater and a tenth of the world's carbon emissions. It is clearly one of the most polluting industries of the world driven by insatiable hunger for newness in fashion. Is there a way to satisfy the ever-changing and growing needs of the customer while ensuring environmental sustainability?

The research is aimed at establishing relations between age, income level, demography, and a need for sustainable fashion products. H&M is one of the most prominent fast fashion brands that claims to actively tackle environmental issues and promotes social welfare. But are its UK customers aware of its initiatives? What can H&M do more to further eco-sustainability while continuing to serve its customers profitably? These are a few questions that are addressed and studied as a part of this project.

Covid-19 has disrupted many industries, and the aftermath of the pandemic would bring in surmountable uncertainties with respect to customer preferences and buying behaviour. There has been a drastic growth in digital sales and digital as a medium for people to communicate, shop, share, and experience. With a steep fall in footfall in physical stores, what factors would encourage the buyers to return to the stores? As with all major fashion brands, H&M saw a decline in its Q2 and Q3 profits and growth rates due to government-imposed lockdowns and emphasis on social-distancing.

A studious attempt has been made to understand the aforementioned scenarios to provide data-driven recommendations to H&M.

Table of Contents

1. INTRODUCTION

1.1. Industry Insights

Shareholders invest in various ventures and spend hours worrying about their returns. But if there is one industry that has kept customers and investors happy and invested at the same time, it is the fashion industry. Not only has the fashion industry been one of the most rewarding industry for the investors, but also the most interactive and evolving for its consumers.

The pandemic has changed a lot around the globe. Economies, operations, jobs, mind-sets, etc. Most industries have seen significant shifts in trends and deviations from pre-pandemic forecasts. Fashion industry too has observed a stint in consumer demand and a swing in consumer behaviour.

The following chart shows the global shareholder returns from various industries that are affected by Covid-19
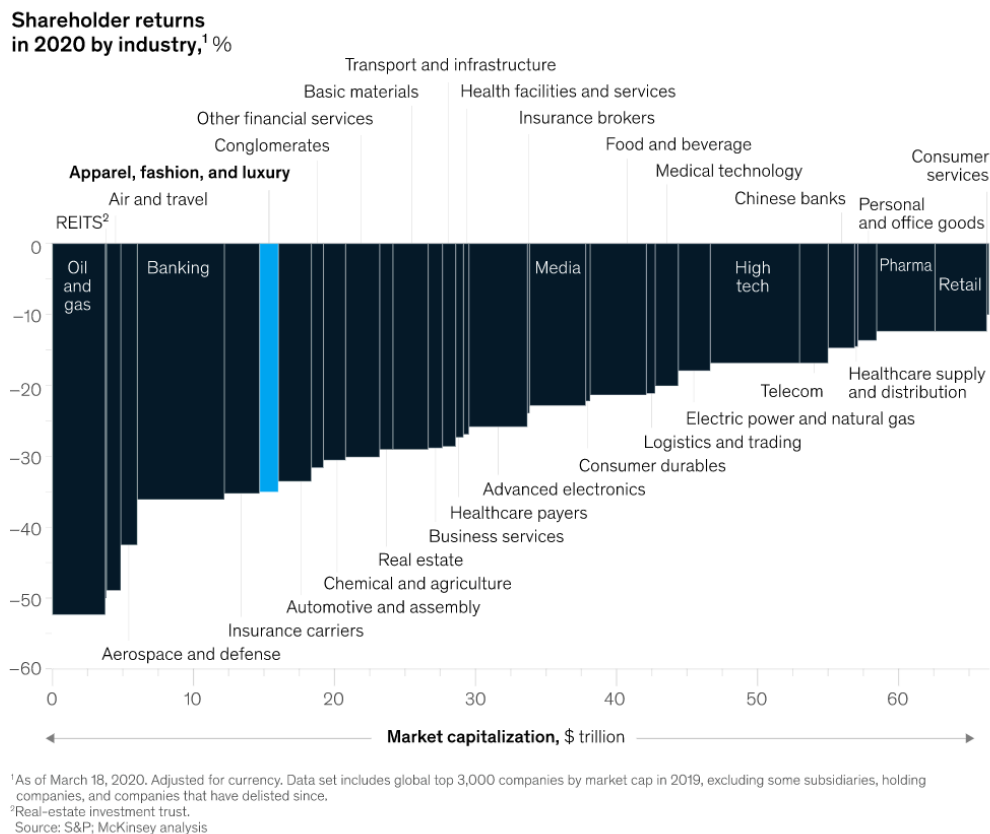
SOURCE: (Matt Bereman, 2020)

Although it would be ideal to benchmark shareholders' yield to return to the pre-pandemic era, the very manner in which it should happen should be carefully planned, keeping in mind **the environment and the consumer** at the centre. On one hand, fast fashion has caused surmountable damage to the environment while on

the other hand, rapid digitization and social media have left the consumers expecting more from fashion brands in terms of personalization and higher interactivity.

This research will focus on the need and market for sustainable fashion and the factors that customers consider before returning to physical stores for shopping clothes.

Is AI the Future of Fashion?

AI in the Fashion Industry is expected to grow at a CAGR of 39.17% between 2020 and 2026. (Infoholic Research LLP, 2020)

3-D printing and machine learning has made it possible to design complex machineries used in rockets, space tech, medical, and other industries. Can it be used to innovate cloth making to minimize environmental degradation caused by the fashion industry?

Need for personalization has increased dramatically since the OTT revolution. Netflix and Amazon Prime provide recommendations based on consumers' tastes. Apparently, the personalized recommendation trend is here to stay and will be carried forward to the future of fashion industry.

62% of consumers expect businesses to send personalized offers based on items they have already purchased from the store. (Morgan, 2019)

Companies like Stitch Fix and Amazon Fashion are already working on AI based fashion recommendations for its consumers.

Going forward, we see the importance of enhanced customer centricity as more brands establish their omnichannel presence and focus on mass-personalization/ customization for their customers using technology (AI and AR) as their tools.

Omnichannel presence

Dr. Martens established an experimental store in London that offers exclusive limited-edition designs, features art, and an area for customers to personalize their Dr. Martens shoes.

Eileen Fisher's Brooklyn store has hybrid retail store in Brooklyn which hosts a myriad of events for its customers including new artists performing every fortnight, mindfulness programme, gallery shows, workshops, etc.

Stores of brands such as Reformation, Everlane, and Warby Parker derive most of their revenues from their digital platforms. However, they acknowledge the value of being present

1.2. Geography

London has been one of the world's prominent fashion capitals of the world. What sets it apart is its genuine sense of eccentricity as per the Editor of GQ and BFC Menswear chair, Dylan Jones. (Broeke, 2019)

Not only is UK the inventor of fast fashion, but also the country that sent 300,000 tonnes of textile to be burnt or dumped in 2018. (Siegle, 2019)

UK buys more clothes per person than any other country in Europe. (Abelvik-Lawson, 2020)

Although North America is the early adaptor of AI in Fashion, Europe comprises of the second largest market with major fashion brands collaborating with tech leaders. The following table shows revenues (in GBP million) from apparel market in UK from 2012 to 2025 (forecasted).

One noteworthy feature of the **UK apparel market** is that the estimated revenues remain strong despite the pandemic slowing down the global economy.
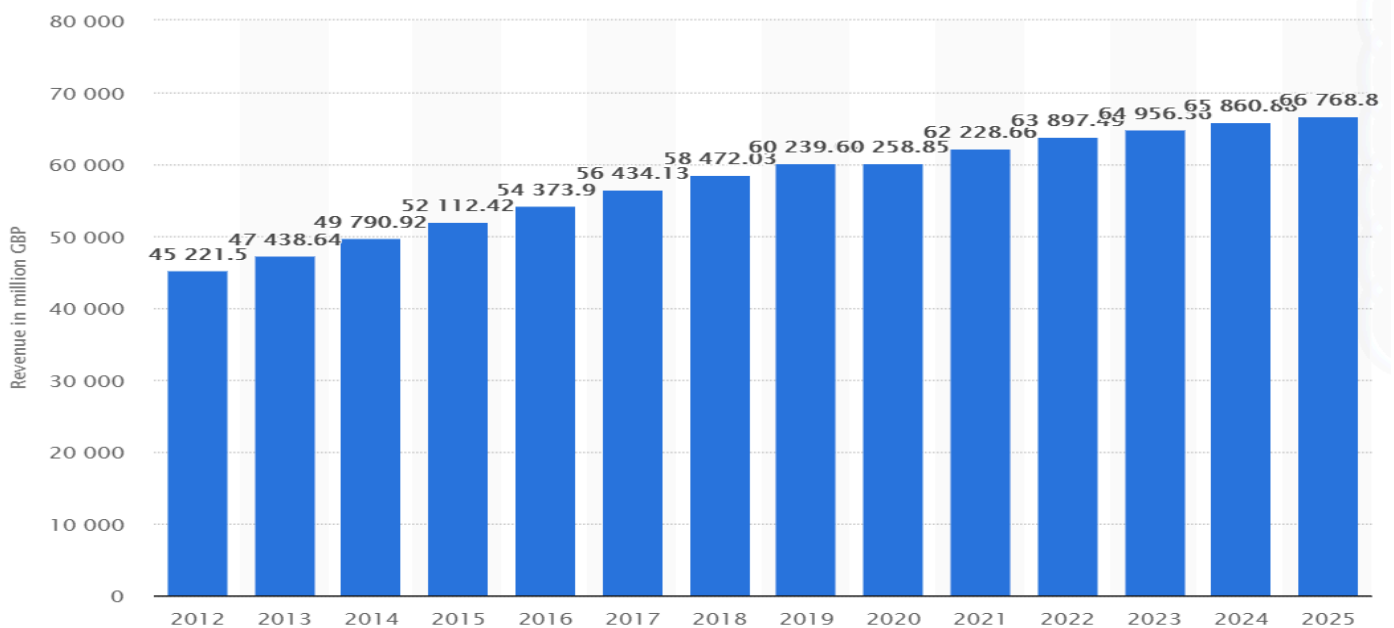
Source: (Statista Research Department, 2020)

Sustainable Fashion designer Stella McCartney said that equivalent of one garbage truck of textiles is either burnt or landfilled every second. 99% of all textile and fashion goes waste since it is not recycled, ***a waste of about 100 billion dollars annually. CITATION HEL20 \l 1033*** (Abelvik-Lawson, 2020)

1.3.   Company Overview- H&M

H&M comes under most valued brands of 2020 as per the following graph

Brand value of the leading 10 apparel brands worldwide in 2020

(in million U.S. dollars)
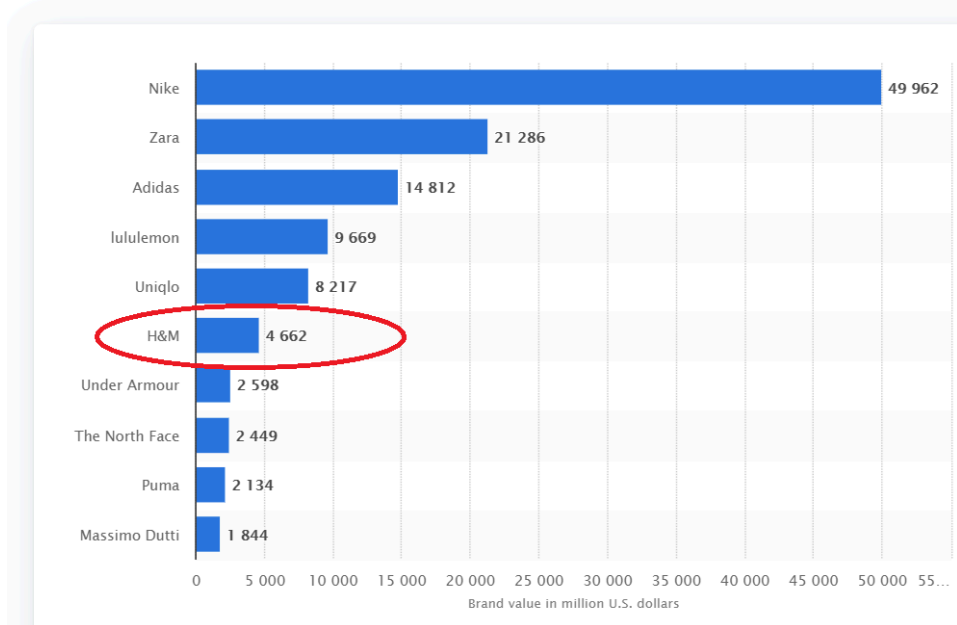
Source: (Shahbandeh, 2020)

The company's brand image is strong, and its products are known to be of 'good quality' at 'affordable prices'.

The company website showcases the following figures:

Source: (H&M website, 2020)

Impact of Covid-19

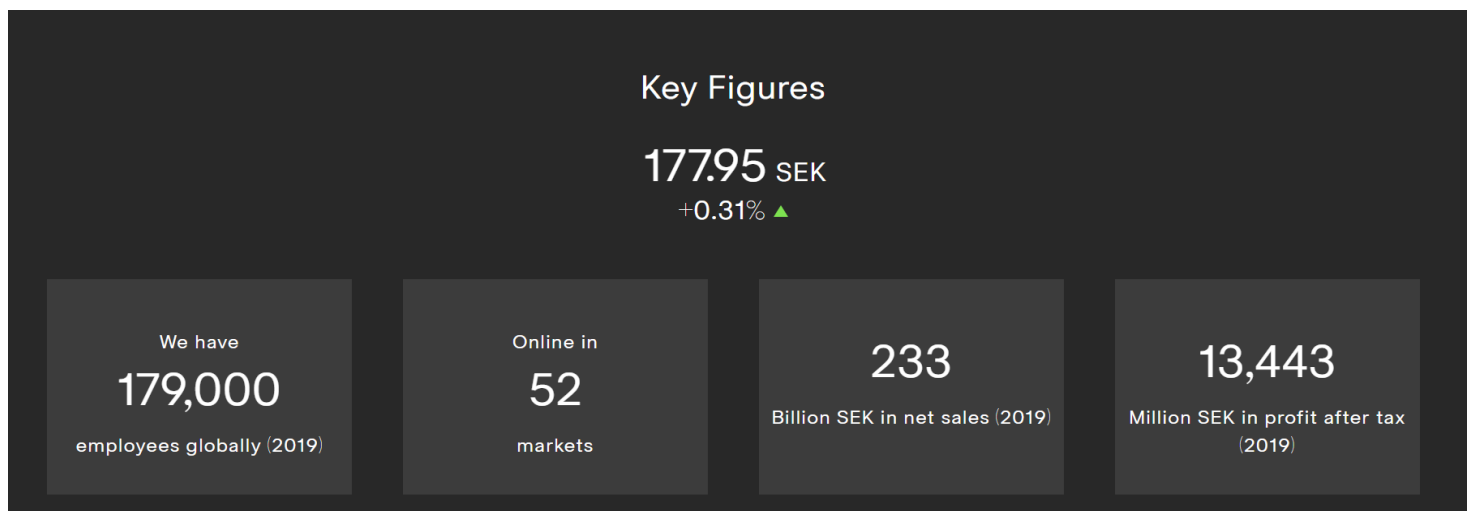As per a McKinsey consumer sentiment survey conducted in April 2020, the purchase intention of North American and European shoppers dropped 70-80 percent (offline store purchases) while a 30 to 40% drop was seen in online purchase intention.

As per the company's published financial data for half year i.e., the first two quarters of 2020, online sales in the first half of 2020 registered a 40% SEK growth due to the pandemic.

Net sales, however decreased 23%. A strong recovery in the third quarter of 2020 trickled into the fourth quarter.

Between 22 October and 30 November, sales decreased by 22 percent compared with the corresponding period last year, owing to the pandemic's second wave. (H&M website, 2020) When about 70% of their thousands of stores were shut due to the virus outbreak, H&M was forced to scrap the earlier decided dividend for its investors. (Reuters, 2020)

H&M's weekly year-on-year sales growth of H&M Group worldwide in the first half of 2020 can be seen in the figure below:
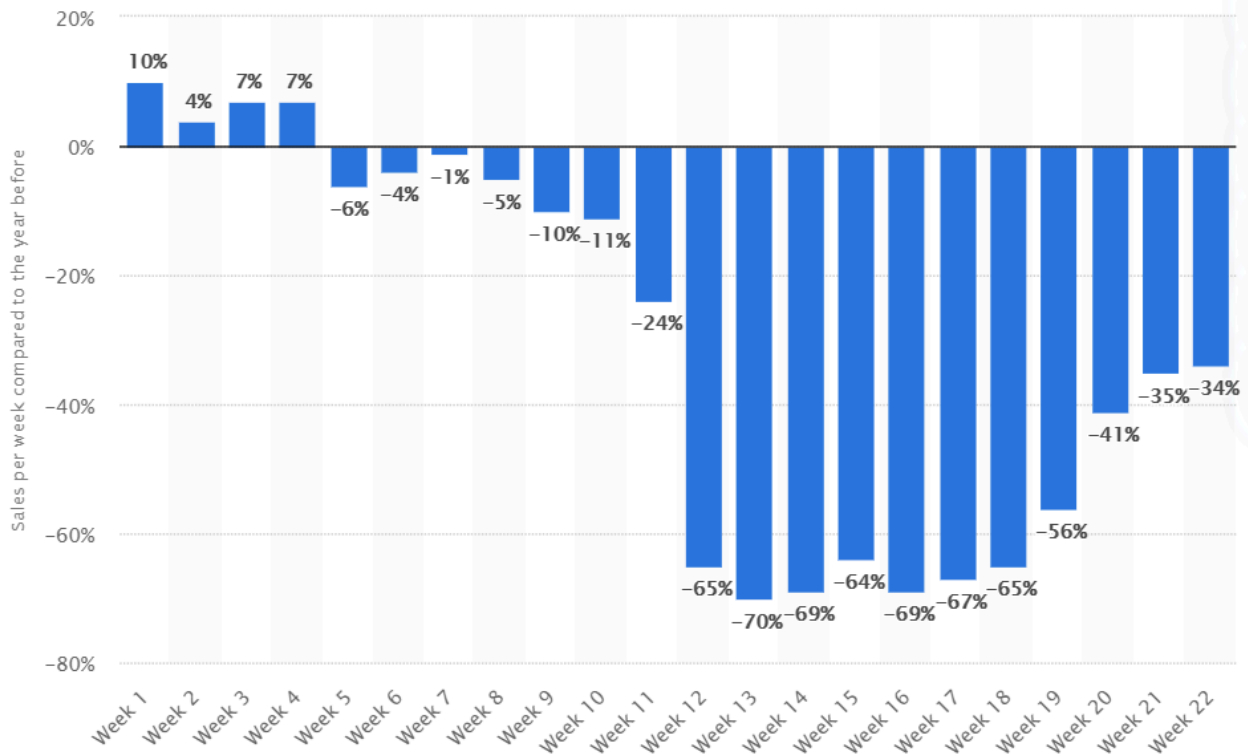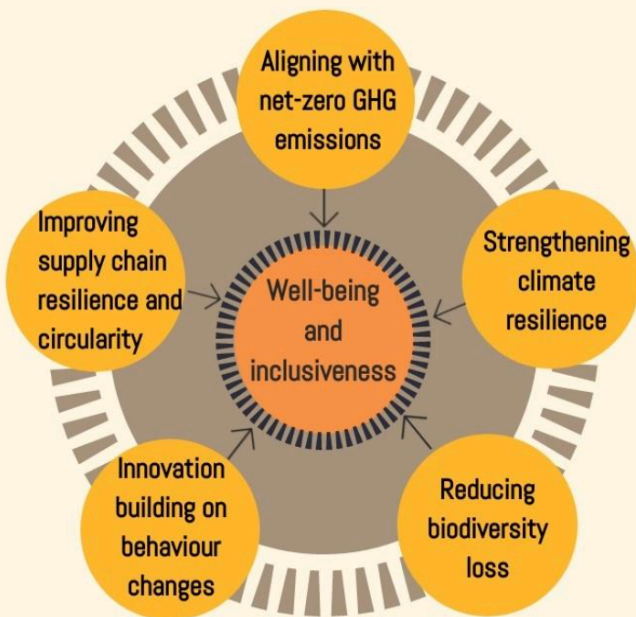
We saw how the pandemic had a significant financial impact on the company. However, there was something that the world gained, the realization that climate change needs to be tackled on an urgent basis.

COVID-19 intensified the urgency to expand global sustainable energy solutions.

OECD is urging governments to warrant economic recovery passage keeping in mind to 'build back better', meaning to move away from inefficient greenhouse gas causing practices and to invest in renewable energy.

Three of the five elements of building back better framework suggested by OECD are based on sustainability and environmental measures.

Fashion executives expect Covid-19 and the economic crisis to be the biggest challenge in 2021 and digital to be the biggest opportunity

TOP THREE ANSWERS, % OF RESPONDENTS WHO MENTIONED THE WORD

Covid-19 and the economic crisis
45

Changing consumer demand and behaviour

Digital
30
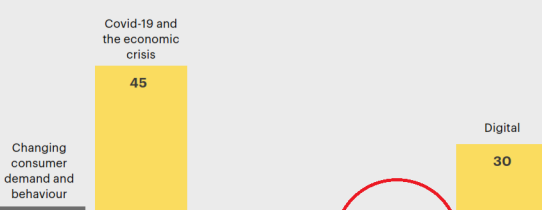
The pandemic forced people to stay indoors and

think about what they consider 'normal'. As reports of lesser pollution started making rounds in news channels, sentiment of the masses skewed towards need for sustainability in fashion. Consumers got time to reflect on their actions towards environment. (Tugba Sabanoglu, 2020)

Fast fashion has been a major cause of pollution and waste-generation. And with Government-imposed lockdowns and curfews, H&M was forced to mull about shutting 250 (approx.) of its physical shops worldwide.

In an April 2020 survey, 83 percent of UK consumers agreed that 'clothing should be designed to last longer and be repairable' and that 'fewer plastics should be used in the production of clothing'. (Tugba Sabanoglu, 2020)

Although online sales of H&M grew drastically, it was not enough to mitigate actual as well as the opportunity loss of the sales that it could have made sans the pandemic. Its pre-tax profits fell to £210 billion for nine months ending 31st August 2020. (BBC, 2020)

H&M's efforts towards Sustainability

Bottle2Fashion

Plastic pollution is the number one cause of ocean water pollution. In the last few decades, it has reached destructive levels and has caused marine ecosystems to collapse.

H&M's Bottle2Fashion initiative makes clothes from PET bottles. These bottles are collected on the islands of Indonesia, cleaned, shredded, and recycled into wearable polyester clothes for kids by mixing it with organic recycled cotton.

BCI Cotton

Most of H&M's cotton is sourced from BCI which is the world's largest global non-profit organization that trains farmers to grow cotton using water and other resources judiciously to prevent wastage and harm in the form of pollution-causing pesticides and fertilizers. The organization also ensures fair wage treatment for all the farmers who are an integral part of their supply chain.

Recycled Materials

The company recycles a long list of materials including but not limited to cotton, polyester, polyamide, lyocell, wool, linen, glass, plastic, wood, paper, etc.

It also follows a Material Ethics Policy to ensure minimum damage to the environment while maximizing profitability.

The company has pledged that by the end of 2025, 100% of all wood used in its products, including man-made cellulosic materials, will be sourced from well-managed and FSC™ -certified forests. (H&M's website, 2020)

2. LITERATURE REVIEW

2.1. PESTEL Analysis

Political

European Union (EU) is the biggest export market for UK. The EU allowed tariff free import of fashion products from UK. ***However there remains unclarity whether there will be tariffs on the same post Brexit.*** The UK Trade Policy Observatory has flagged concerns regarding UK's manufacturing sector due to a plausible drop in exports to EU. Other manufacturers in EU fear that UK will have an unfair advantage if allowed to have zero tariffs on their exports.

The UK's top clothing and apparel trading partners in 2018

£ billions

Source: (Arnett, 2020)

Exports

Germany	1.52
Republic of Ireland	1.02
France	0.66
Italy	0.45

Imports

Adam Mansell, CEO of UK Fashion and Textile Association said to Vogue Business that (zero) tariffs will be the absolute number one priority for UK. (Arnett, 2020)

80 percent of respondents from Fashion Roundtable, a body formed to advise the UK government on Brexit related matters said that they felt Brexit would be harmful for fashion in the UK and the EU. The prospect of Brexit has already started to affect fashion companies in other countries that are being paid in GBP, which has fallen by around 12 percent against the Euro and 10 percent against USD since the Brexit referendum. (Imran Amed A. B., The fashion market and 'Trade 2.0', 2019)

The growth of fashion industry will recover slower in UK in comparison with global average (expected to recover by 2023) due to Brexit implications on the industry.

Although the last-moment Brexit deal of 2020 secured £7.4 billion fashion trade with the EU, the customs, logistics, lack of garment workers and creatives would definitely cause some damage to the £35 billion British fashion industry. (Vogue Business, 2021)

Environmental

The graph below shows the quantity of apparel collected by H&M's reuse and recycling scheme worldwide from 2013 to 2019

(in tons)
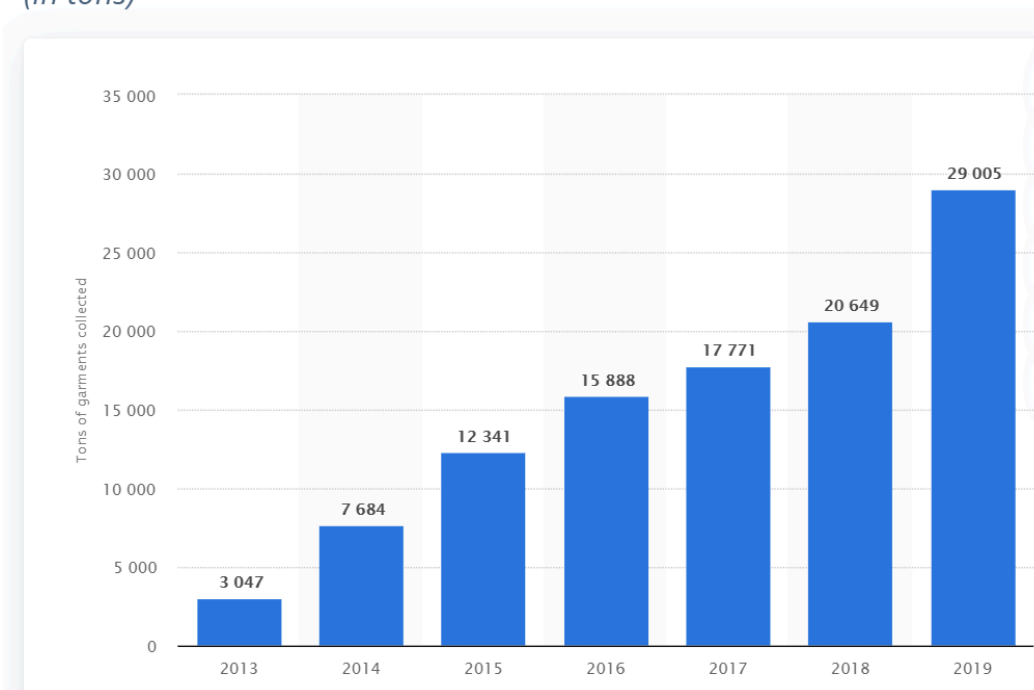
Fashion industry is one of the most polluting industries in the world. Fashion industry is solely responsible for 10% global emissions, about 20% of global wastewater, and use of more energy resources than the airline and shipping industry combined. (Ro, 2020)

Source: (M. Shahbandeh, 2020)

About 300,000 tons of clothing is thrown away annually in the UK of which 80% is incinerated while the rest ends up in landfills as per a report published by a cross-party group of UK lawmakers. (Kent, 2019)Details of how the industry is causing irreversible trauma to our planet is elaborated in Perils of Throwaway Fashion. H&M has been one of the pioneers in reusing and recycling.

Social

The trend that is booming globally is to rent things instead of owning them. Think of Spotify as a replacement of record stores, Netflix replacing CD stores, etc. Similarly, when it comes to fashion, consumers are shifting their focus away from the traditional ownership model of clothes.

The consumers want fast fashion, but in a sustainable manner. Young people today crave newness. (Imran Amed A. B., 2019) One in seven people surveyed feel it is unfashionable to be photographed in the same in two separate occasions. This booming demand will be met by not mass production and mass sales, but by mass market for pre-owned and rented fashion.

Industry respondents view preowned and rental business models as increasingly relevant for 2019.

Expectations on consumer appetite for new ownership models in 2019, % of respondents

Preowned goods

| More relevant | 44 |
| Less relevant | 22 |

Rental goods

| More relevant | 41 |
| Less relevant | 28 |

McKinsey&Company | **Source:** Business of Fashion–McKinsey State of Fashion Survey

The adjoining figure shows increasing relevance of preowned and rental goods among respondents in a McKinsey survey.

Source: (Imran Amed A. B.,
The end of ownership for fashion products?, 2019)

Technological

Bioengineered fabrics impact the environment considerably lesser than natural fabrics. The problem lies in scalability and to make it available for mass production. VOICES is Business of Fashion's annual gathering for big thinkers in partnership with QIC Global Real Estate. The November 2018 session of VOICES had a roundtable of industry insiders leading the sustainability conversation, one of whom said that the fashion industry survives on 10 widely used fabrics, most of which were engineered centuries ago. (Sherman, 2019)
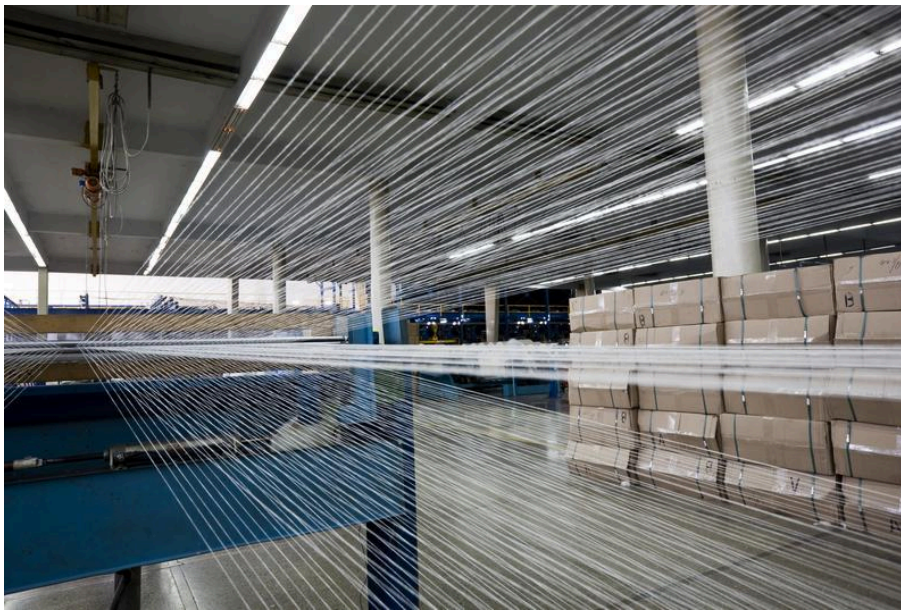
Textile industry was one of the first industries to navigate the industrial revolution. Inventions such as ginning machines, synthetic dyes, synthetic polymers, etc were the need of the hour and was well-fulfilled in the times post the industrial revolution. (Scaturro, 2008)

If technology could cater to the need of fast fashion, it can also cater to the need of sustainable fashion.

Technology can solve the problem of reducing footfalls in physical stores. For stores to have a holistic omnichannel presence, it is important that Technologically innovative and disruptive solutions be adopted to provide customers unique and lasting happy in-store experiences.

Economic

UK is one of the leading countries in consumer spending in fast fashion. In a McKinsey survey, one out of three women considered clothes old after one or two uses. As mentioned earlier, **_AI in Fashion is expected to grow at a CAGR of 39.17% between 2020 and 2026._** (Infoholic Research LLP, 2020) Consumers spent £59.3 million on clothing in UK in 2019 across 11,600 specialised clothing stores across UK. (Statista Research Department, 2020) As per BoF-McKinsey State of Fashion 2020 Survey, expectations of industry experts with regards to recovery of fashion industry in 2021 vis-à-vis 2020 depicts the following:

Fashion executives are divided on the outlook for the industry in 2021

% OF FASHION EXECUTIVE RESPONDENTS, EXPECTATIONS FOR THE CONDITION OF THE FASHION INDUSTRY IN 2021 RELATIVE TO 2020

BY SEGMENT

Legend: Worse | Same | Better

Segment	Worse	Same	Better
Luxury	39	30	31
Mid-market	55	23	22
Value	41	23	36

BY GEOGRAPHY

Geography	Worse	Same	Better
Europe	47	23	30
North America	41	35	24
Asia	36	20	44
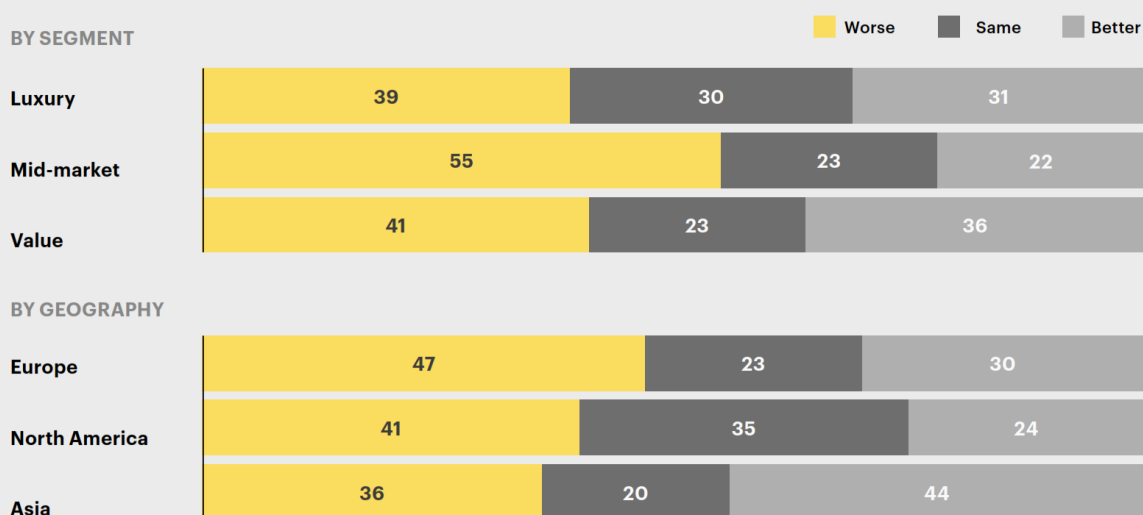
SOURCE: BOF – MCKINSEY STATE OF FASHION 2021 SURVEY

Source: (Imran Amed A. B., 2020)

Legal

UK Parliament's Environmental Audit Committee urged the government to assist fashion brands that actively participate in curbing their carbon footprint with financial incentives while penalizing those that indulge in practices that harm the environment. The report by a cross-party group of UK lawmakers stated that although many brands are working towards sustainability, the increased volume of clothing sold is neutralizing that effort thereby creating a need for stricter norms for fashion producers. (Kent, 2019)

2.2. PORTER's Five Forces:

Bargaining Power of Buyers- High

Buyers, especially millennials and Gen Z make more conscious decisions while making purchases and the trend is expected to stay. Due to internet and social media, voices of activists like Greta Thunberg are amplified which then becomes not just a trend on social media, but also a part of people's lifestyle to be mindful of their carbon footprints. The graph below shows the share of consumers in UK who prefer purchasing clothes from sustainable brands in 2020, by age and gender. H&M has made remarkable strides in becoming an environmentally positive brand.
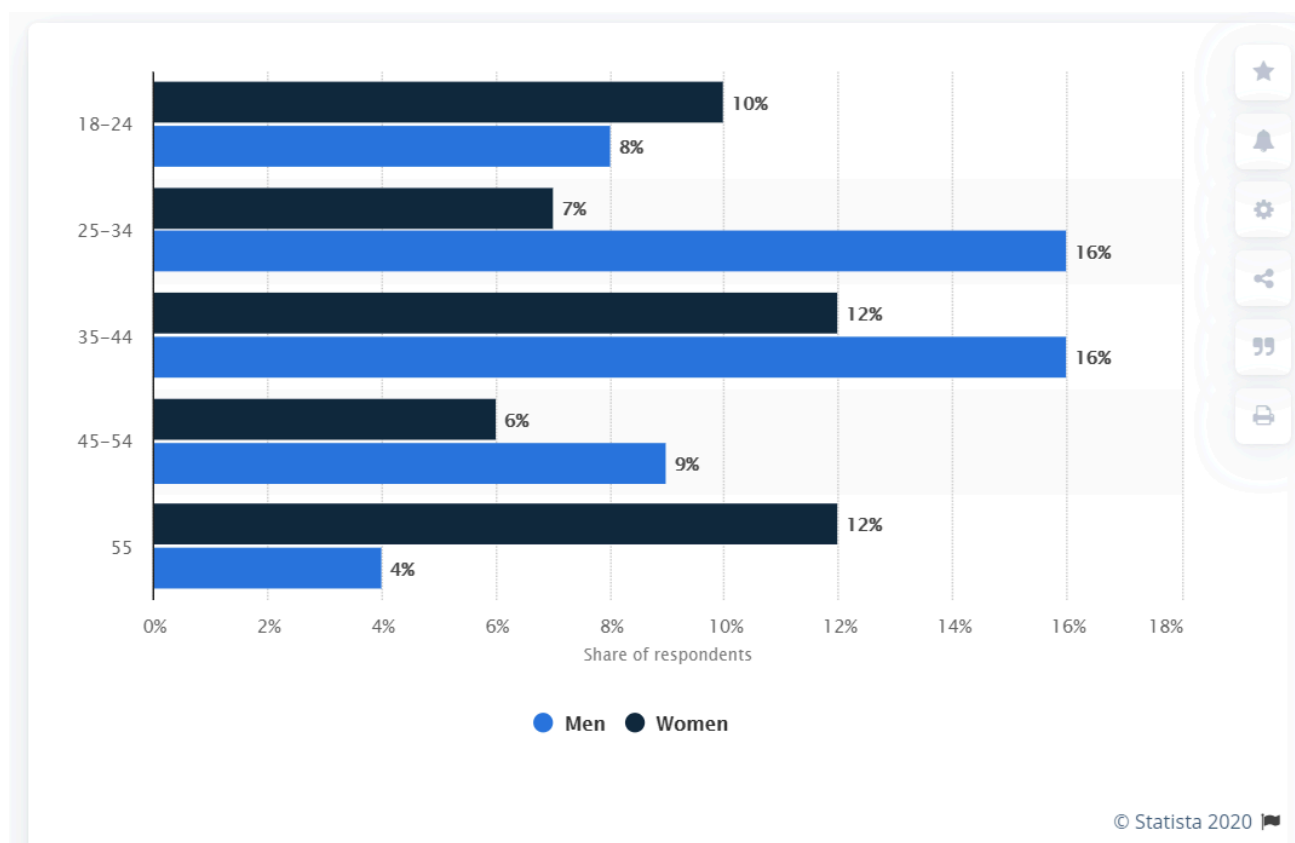
Sources: (Statista Research Department, 2020)

Bargaining Power of Suppliers - Low

H&M has pledged to source 100% of its cotton, by the end of 2020 from Best Cotton Initiative (BCI), an NGO that trains farmers to use water and pesticides sparingly and efficiently to avoid casting a bigger carbon footprint. Looop is H&M foundation's initiative to recycle old fabrics using a machine that breaks down used clothes to their basic component. By reusing old fabrics, H&M is not only creating a carbon-neutral source of raw materials, but also saving in costs. Other raw materials are widely available, and their supply is not limited, thereby giving H&M an advantage.

Competitive Rivalry- Moderate

Other popular fast fashion brands like Zara, Levi's, GAP, etc. have also stepped towards sustainable fashion. This causes H&M to lose out on its differentiation since every brand is moving towards sustainable fashion. By 2025, 80% of all energy used by Zara in its factories and otherwise will be from renewable sources. (Conlon, 2019) To keep up with the progress, bigger steps towards sustainability need to be taken.

Threat of Substitutes- High

H&M products are of superior quality in comparison with other brands that sell the same quality for a bigger margin. So, thanks to the scale of operations, pre-emptive steps towards fashion sustainability, and years of successful inventory turnover, H&M does not face a huge threat of substitutes. But availability of moderate-quality cheap products eats into H&M's market share.

Threat of New Entrants- High

Tech-unicorns such as Rent the Runway and Renew are more likely to sprout in the post pandemic era due to their lean models, clear mission and vision statements, and brand resonance with the modern customer. So, threat of new entrants remains high for H&M since the probability for a new entrant to establish and have a blue ocean strategy in the post pandemic era using disruptive technologies is high.

2.3. TOWS Matrix Analysis

TOWS ANALYSIS	WEAKNESSES • High dependence on suppliers • Volatile fashion trends • Increasing customer expectations • Lesser footfalls in stores due to digitization	STRENGTHS • Economies of scale • Brand positioning- Quality and affordability • Multinational presence • Large financial reserves
THREATS • Slowdown of economic activity due to the pandemic • Fashion-tech startups • Growing consumer awareness about social issues such as fast fashion	**T/W Analysis & Strategic implications** • The pandemic can cause disruption in **the heavily relied upon supply chain** which can shrink the top-line. • The woke customer is impulsive in spreading negative word in case of a mistake.	**T/S Analysis & Strategic implications** • H&M has had consistent strong financials to **survive the pandemic**. • H&M can use the growing social awareness among people to **target new audiences** using its huge social media presence. • **Acquiring AI-based tech startups** using its pool of resources.
OPPORTUNITIES • Entering into emerging markets • Acquiring innovative startups for implementing blue ocean strategy • Increasing e-commerce activity in developing countries	**O/W Analysis & Strategic implications** • The supply chain has to be ready to cater to new demand in case of entry into new markets • Changing fashion trends can be met **with AI-enabled mass production** • AI can also help deal with enhancing **in-store customer experiences** and interactivity.	**O/S Analysis & Strategic implications** • The strong financial position and multinational presence can **make it easier** for H&M **to enter emerging markets.** • Availability of resources gives H&M a **head-start** in being the trend-setter of future of fashion.

2.4. Reducing Footfall

Physical stores form an essential part of omnichannel marketing. However, UK fashion retailers are struggling. The footfalls were already reducing due to increased digitization coupled with lack of substantial changes made by retail shop owners, but the pandemic has wreaked havoc and the footfalls in UK retail shops are as under:
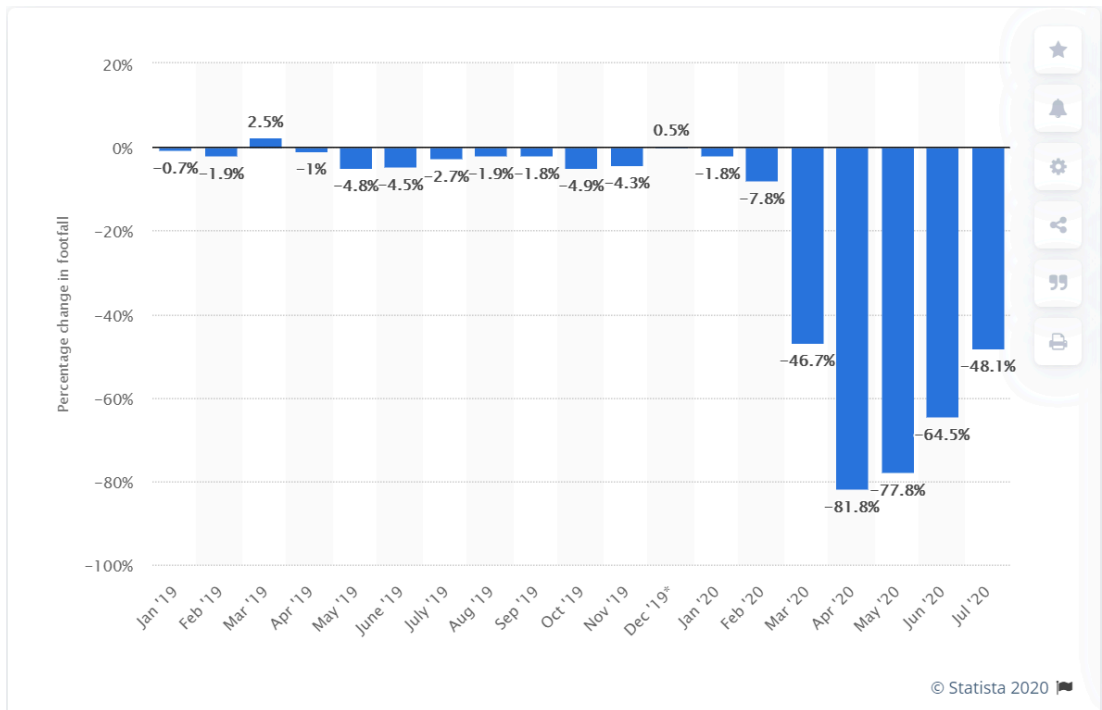
Source: (Tugba Sabanoglu, 2020)

This concern can be addressed by bringing innovation to in-store experiences. This research will also gauge the need for better interactivity in stores while making purchases. Customers in the post pandemic era are reluctant to move out of their houses due to new strains of the virus and repeated lockdowns in many parts of the world. Brands need to figure out a way of addressing the mental block instilled in the customers' minds and continue expanding, solidifying, and perfecting their online presence.

In 2020, UK retail footfall plummeted 43% due to the pandemic. (Deeley, 2021)

As per H&M's 2017 financial report, "Profit during the year was negatively affected by a weak sales development in the physical stores of the H&M brand. This is mainly due to the ongoing shift in the industry, in which sales are increasingly taking place online but where the group's online share does not yet compensate for the reduced footfall to stores."

Source: (Charlton, 2020)

2.5. Perils of Throwaway Fashion

Unlike the fickle fashion trends that keep evolving regularly, the growing awareness amongst regarding the ills of fast fashion is the highest it has ever been.

As per a McKinsey survey that studied consumer sentiment on fashion sustainability post Covid-19, about two-thirds of shoppers said that preventing the effects of climate change is more vital to them now than before the pandemic. (Anna Granskog, 2020) The following chart depicts the impact of apparel industry on biodiversity:

Source: CITATION Gra20 \l 1033 (Anna Granskog, 2020)
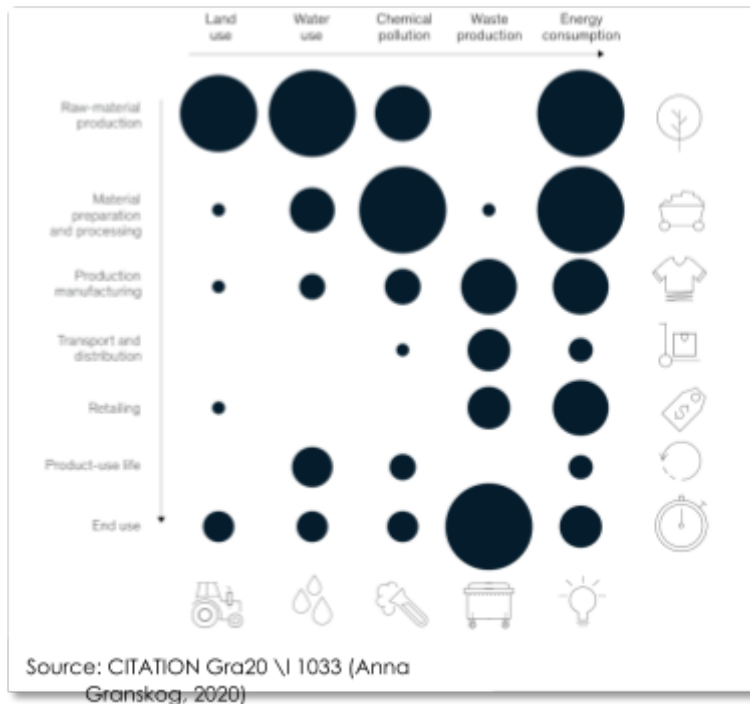
Major form of wastage occurs in raw material processing and end use. So, to inculcate sustainability in the fashion and apparel realm, we need to revamp not only our pattern of consumption, but also limit the overproduction of fashion and apparel accessories.

As per a survey carried out in Britain, one in three young women deem their clothes get 'old' after one or two uses. (Imran Amed A. B., The end of ownership for fashion products?, 2019)

Using a piece of clothing for at least nine months reduces its respective CO2 emissions by 27%, water utilization by one third, and other waste by 22%. (Anna Granskog, 2020)

Making 1 kg of fabric creates an average of 23 kgs of greenhouse gases while washing 1 kg of clothing (over its entire life cycle) generates 11 kg of the gases. (Nathalie Remy, 2016)

Making one T-Shirt requires **2700 litres** of water
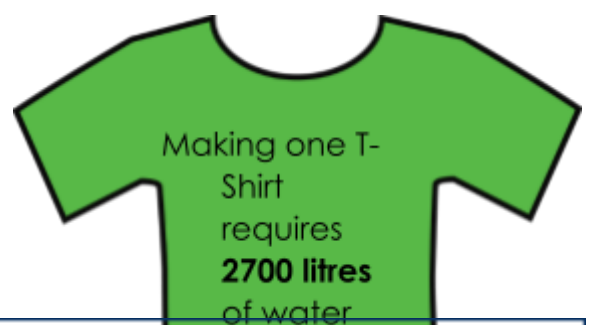
"For fashion players, the ones who will succeed will have to come to terms with the fact that in the new paradigm that is taking shape around them, some of the old rules simply don't work."

(Imran Amed A. B., 2019)

It is thus important for fast-fashion brands to not only understand, but

also act upon their business models and supply chains to ensure minimum damage to the environment.

2.6. The End of Fast Fashion?

London Fashion Week 2020 was plagued with controversies due to protesters, industry representatives, environmental activists, and designers lining up to voice their concerns against rapid production of fashionwear at the expense of workers and the environment. (Compare Ethics, 2020)

Today's consumer buys 60% more products than what they did fifteen years ago but use if for only half as long as what they did back then. (Imran Amed A. B., The end of ownership for fashion products?, 2019) However, the industry is witnessing paradigm shift in buying patterns, as well as an increase in consumer awareness regarding how their lifestyle choices dictate how big of a carbon footprint they leave.

In the Paris week of September 2019, just a few days after Gucci announced plans to go carbon neutral, fashion giants LVMH, Dior, and other luxury brands gave their climate action updates. (BoF Team, 2019)

Gen Z along with the millennials are leading the eco-friendly movement by being mindful of their carbon footprint and ways to reduce the same. As a result, resale market is estimated to dominate the first-hand ownership model of fashion in the next ten years. Focus on expanding the life span of clothes is growing. Business models carrying out activities of renting, refurbishing, selling used clothes, etc. are booming.

Industry respondents view preowned and rental business models as increasingly relevant for 2019.

Expectations on consumer appetite for new ownership models in 2019, % of respondents

Preowned goods

More relevant	44
Less relevant	22

Rental goods

More relevant	41
Less relevant	28
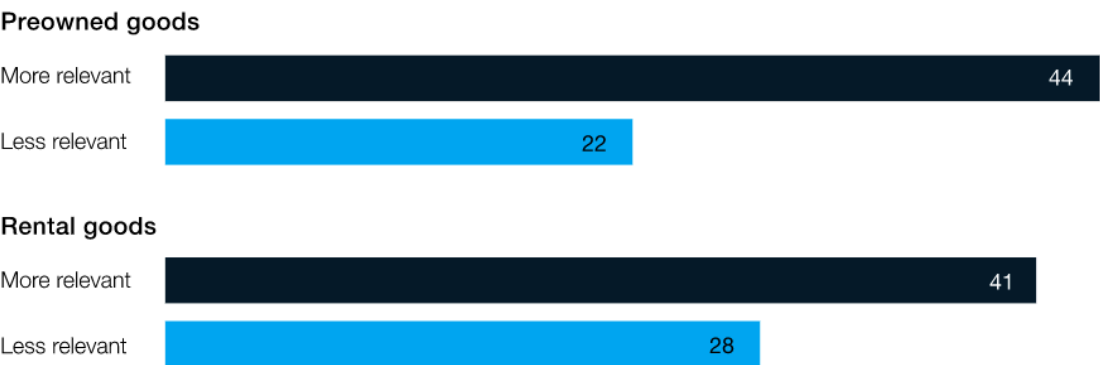
McKinsey&Company | **Source:** Business of Fashion–McKinsey State of Fashion Survey

Source: (Imran Amed A. B., The end of ownership for fashion products?, 2019)

Following is a brief description of some business models that are fast-fashion averse:

Patagonia:

This brand is the first fashion brand to print a controversial advertisement in a major newspaper (Ney York Times) which said, 'Don't Buy This Jacket' as a part of its anti-Black Friday Sale campaign.

However, it sold more items that season than earlier, *such irony!*

In a world full of greedy capitalists compromising the environment for monetary gains, this company is hell bent on promoting sustainable fashion. The business model comprises of the largest fabric repair facility in North America and mobile mending services across Europe and U.S. Their loyal customers support their vision strongly, which resonates in the company's profits which have reportedly tripled between 2008 and 2014. With a steady revenue of $1 Billion a year, Patagonia aims to inspire other big brands to follow suit. (The Economist, 2018)

The company is best known for offering outdoor garments. What might amaze you is the fact that they also sell a small repair kit alongside the garments to outdoor adventure enthusiasts so that minor incidental damages to the fabric can be fixed on the go. The quality of garments offered by the brand is so good that the customers encouraged to restore minor damages to their garments. This increases the life cycle of such garments and is in line with their brand's mission and vision statements.

The brand's efforts towards sustainability do not end here. It has tied up with E-bay to allow customers to sell their old Patagonia garments. Consumers can thus be satisfied and assured knowing their purchase is not ending up in a landfill.

35% of plastics entering the ocean are released through washing of textiles. Washing or laundering garments releases microfibres into the ocean which enter the food chain and is destroying marine ecosystems. To tackle the problem, the company also sells wash bags that significantly reduces the flow of such microfibres into water bodies. (Debbie Moorhouse, 2018)

The holistic approach that Patagonia has adopted to combat throwaway fashion is a prime example of how brands must not just do the bare minimum towards sustainability and market the same but should also look at the whole picture (above and beyond their P&L figures) in order to truly make a difference.

Eileen Fisher (Renew)

Eileen Fisher took sustainability seriously a decade before most major fashion brands did. Eileen started her 'Green Eileen' initiative (later rebranded as Renew) way back in 2009 wherein her company sold slightly used clothes at a discount after minor repairing.

Renew made about $3 million in 2018 itself. Eileen Fisher markets itself as a high-quality brand that makes simple yet elegant designed clothes. The fabric chosen to make clothes has always been of such a quality that enables the company to buy them back from their consumers for giving them fresher designs every time! CITATION Eil \l 1033 (Eileen Fisher, 2020)

About 2,000 pieces of clothing are returned to the store every week which are sorted to be either sold as is, or to be reworked into something new.

The company also owns a felting machine that enables the company to turn Fisher garments into bucket hats, bags, acoustic panels, wall fixtures, and pieces of art. CITATION Rea19 \l 1033

Rent the Runway (RTR)

New York based start-up, Rent the Runway offers high end clothing line to its customers for 4-8 days on a rental basis. This exponentially increases the number of uses of clothes before they are finally dumped while solving the problem of ravenous consumer appetite for new fashion products.

The company is disrupting the fashion industry and had about 10 million members by end of 2018. It also boasts of owning world's largest dry-cleaning facility. CITATION The18 \l 1033 (The Economist, 2018)

As per RTR, a clothing item is rented 30 times before it is sold at a discount. CITATION Ele15 \l 1033 (Real, 2015)

While buying individual pieces of garments might not seem costly, keeping up with the rapidly evolving fashion trends surely is.

Express:

MEMBER BENEFITS

✓ **STYLE THAT'S ALWAYS FRESH**
Enjoy access to hundreds of the best Express styles with unlimited exchanges. We're always adding new pieces.

✓ **CURATE YOUR BOX**
With our Dart feature, you can handpick the 3 items you want in each box for a small fee.

✓ **UNLIMITED FREE SHIPPING**
Get free USPS Priority shipping both ways. Pre-paid return envelopes are included in every box.

✓ **FREE DRY CLEANING**
We do the dirty work for you so you can simplify your schedule.

✓ **EARN MORE REWARDS**
As an EXPRESS Insiders Member you can earn rewards with Style Trial.

✓ **SAVE ON FAVORITE STYLES**
Find a piece that fits just right? Purchase it directly from your Closet at a discount.

This company allows its customers to rent a certain number of clothing every month for a certain monthly membership fee. (Express Style Trial, 2020) This combines the two future-proof concepts of subscription model and sustainability. In an interview with CNBC, Express's chief customer-experience officer, Jim Hilt, states, "The consumer who is more interested in access versus ownership is happening across many industries. We looked at this evolution and asked, 'How do we participate?'"

Stella McCartney:

Stella McCartney is a luxury sustainable fashion brand that has managed to retain sustainability in its products while not compromising on fashion trends. The brand has also tied up with their Italian production mills in *'Clean by Design',* an initiative to significantly reduce water and electricity use while also eliminating the use of pvc in their manufacturing process. The sheer transparency of the brand has shown has attracted many Hollywood celebrities to walk the runway at numerous fashion shows. The brand has taken a long-term approach towards sustainability by using eco-conscious materials, non-toxic dyes, polyester recycled from plastic

STELLA McCARTNEY
A story of Sustainable Viscose

bottles, bioengineered spider silk, mushroom leader, recycled oceans plastic, and so on. It has successfully proven wrong those who believed that luxury fashion can not do without fur and animal cruelty materials. (Rodrigues, 2019)

2.7. Innovations for enhanced customer centricity

According to the McKinsey and Business of Fashion report for 2018, "75% of retailers plan to invest in AI over the next two years." These business models can be taken as inspiration by H&M to introduce innovation into their business model.

Stitch fix:

Stitch fix is one of the most successful fashion brands that use technology to create a blue ocean environment for themselves. The company uses AI along with a team of fashion experts to recommend and sell fashion products to their customers by tracking and taking into consideration their previous purchases, likes, and preferences. It sold $977 million worth products in 2017 alone. The company has successfully faced people's negative inhibitions about inaccuracy in size, colour, or the style. Stitch fix had a customer base of 2 million active clients in the United States. (Lake, 2018)

Smart Mirror Technology

A smart mirror is exactly what you think it is when you think of a regular mirror with real-time editing features. But the only difference is that instead of a mirror, it is a tall mirror-shaped hi-res LED screen with two ultra-high-quality cameras to capture every aspect of your body and project them on the 4k or higher LED display! The system would have a processor and would be stacked with depth sensing, advanced computer visual algorithms, and augmented reality technology. (Luce, 2018)
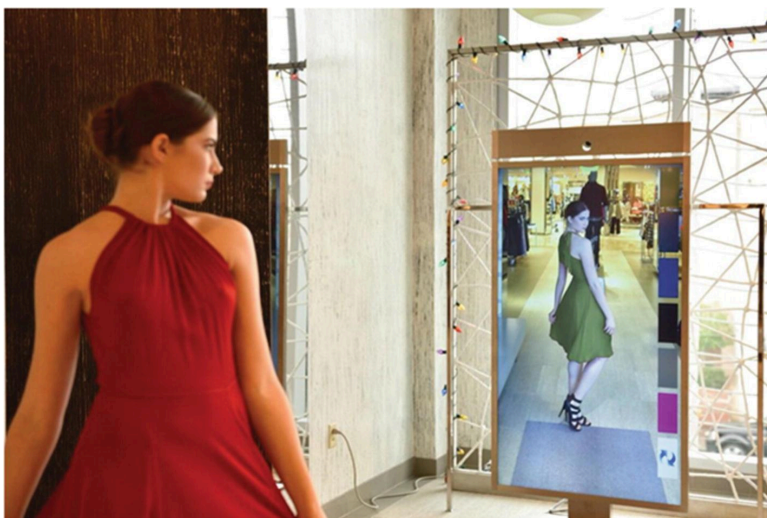
Why Smart Mirror?

The younger audiences are demanding more and more engaging experiences but not in the 'old fashion' (pun intended). Apropos to the common perception of future that would be ruled   Source: (Luce, 2018)

by Digital Marketing alone, the fact is that in reality, the future would be dominated by omnichannel marketing. Smart mirror using AI is the answer to 'how to save our physical retail shops from dying

off completely. It would be the norm to build ultra-interactive tech zones where the consumers of these services would hang out inside of, just like the malls of yesterday. The technology allows companies to offer hassle-free try-ons and take pictures of their try-ons which will later be shared with them in their social media inboxes (encouraging them to share the same on their feeds to increase engagement). The Book 'Artificial Intelligence for Fashion: How AI is Revolutionizing the Fashion Industry' by Leanne Luce explains in detail how the technology exactly works.
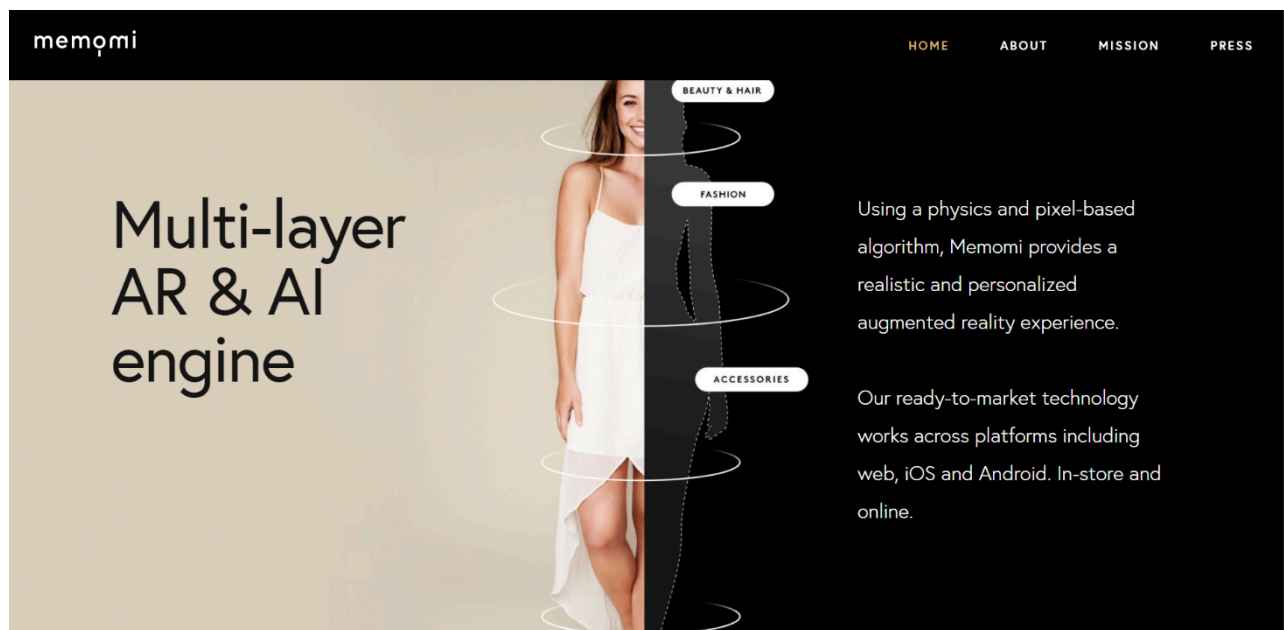
Source: (memomi homepage, n.d.)
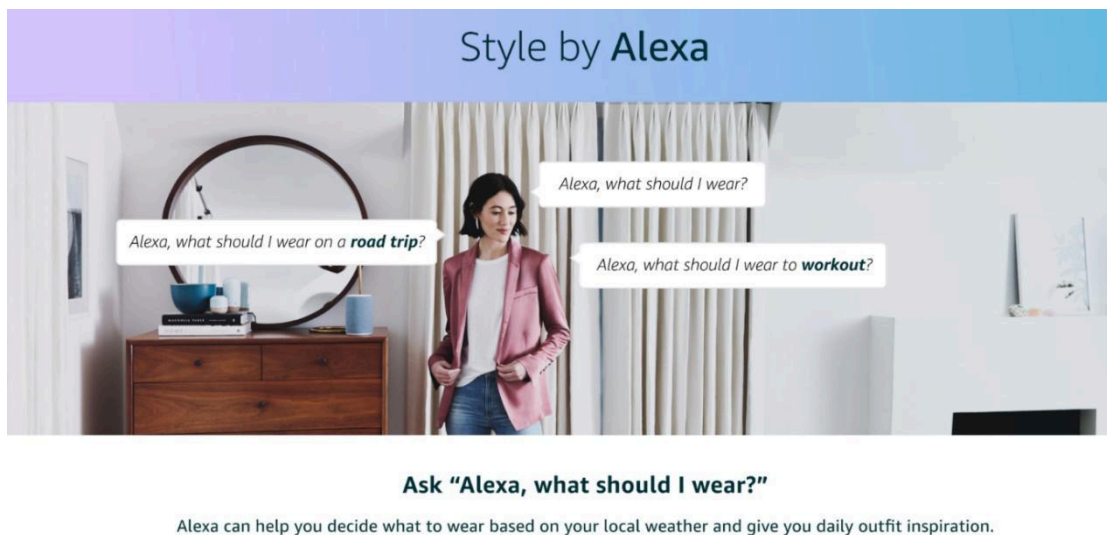
By giving customers a unique experience- catering to their convenience while also collecting data regarding the customers' tastes and preferences, companies can feed two birds with one scone.

MemoMi is the world's most advanced AI powered digital mirror and is widely used across apparel industry. Some famous brands using MemoMi are L'Oréal, LVMH and Estee Lauder.

Amazon Echo Look:

Style by Alexa

Ask "Alexa, what should I wear?"

Alexa can help you decide what to wear based on your local weather and give you daily outfit inspiration.

Amazon's Echo Look was introduced in 2017 as a personal fashion stylist assistant. It uses AI to find out whether two pieces of clothing go well together. The Echo Look camera is like any other Alexa device that can set reminders, play music, give weather updates, etc. But additionally, it can also take floor-length picture of you and recommend similar products to you. The device has depth-sensor camera that can capture high definition photos as well as videos to allow users to analyse their outfits from every angle, something that a regular mirror would fail to do. (Fashion & YouTube, 2017) It also allows users to create a history of items worn and recommends what will suit your taste based on those outfits (Luce, 2018)

North Face

North Face is an American brand that started as a provider of winter jackets and outdoor gear. It became one of the first brands to use IBM's Watson artificial intelligence technology in a retail environment for better customer experience. The technology asks customers where they are planning to travel as per which it will give personalized recommendations of coats to buy. This also aids collection of Big Data such as customer's size and preferences which the company can later use to target the customer.

2.8.   Conceptual Framework

Majority of the big fashion brands have enjoyed exorbitant profits at the cost of environmental sustainability till now.

- However, with growing consumer sentiment towards a sustainable future, we will see a paradigm shift in the fashion industry, and it is up to big brands whether to continue following fast-fashion or pause to re-evaluate their business models.

- Through qualitative and quantitative data collection, an attempt to tap into consumer sentiment is made.

Purchase of Sustainable fashion products/

Rented/ Remade products

Dependent Variable

Impact of brand awareness on sustainable fashion purchases

Annual Income of customers

Price Sensitivity of Sustainable Products

Independent Variables
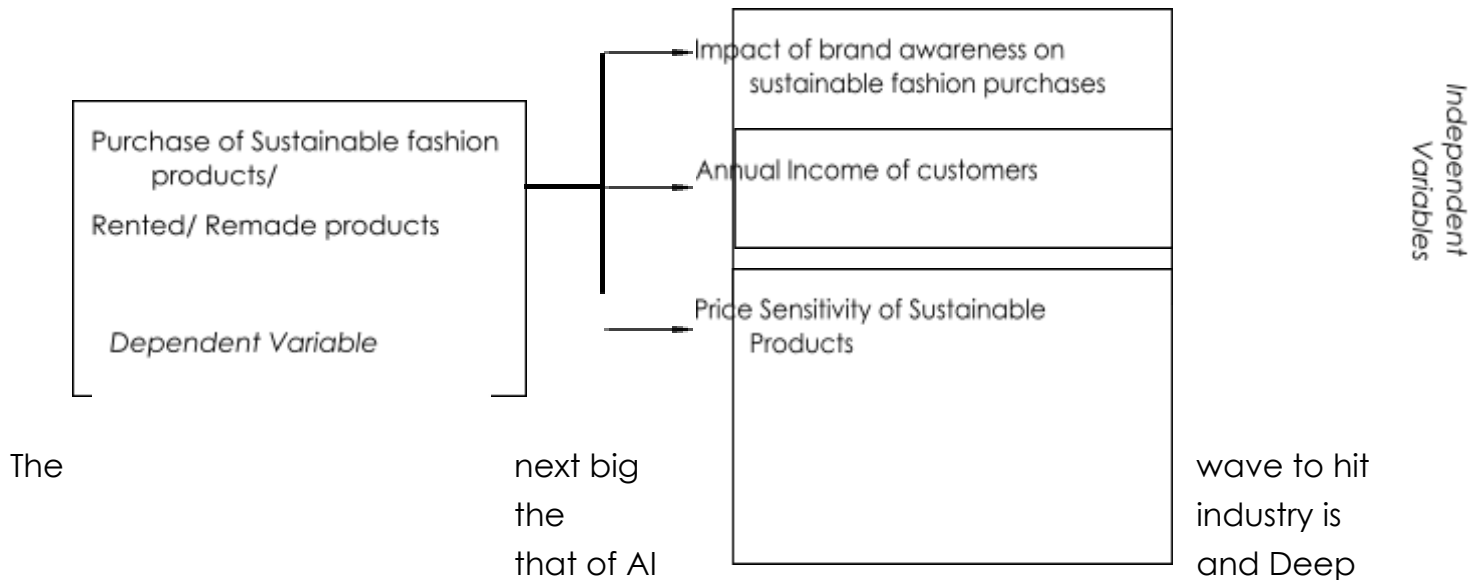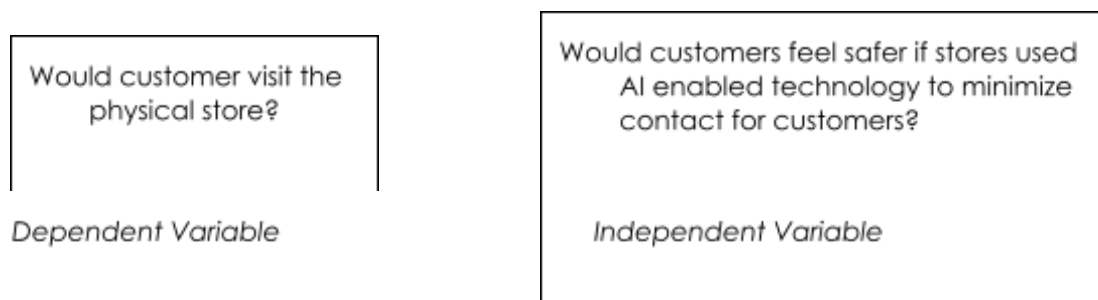
The next big wave to hit the industry is that of AI and Deep Learning. It would be unwise to expect the customer of tomorrow to enter a traditional brick and mortar store, pick up a pair of jeans and walk away without expecting more.

- Wide-scale acceptance and implementation of AI will not only improve the online shopping experience, but also will address the ongoing problem of reducing footfalls in physical stores. AI-enabled interactivity will lure the at-home customer to engage in modern-store experiences which. These experiences will be shared on and will become an indispensable part of social media and social media shopping.

Would customer visit the physical store?

Dependent Variable

Would customers feel safer if stores used AI enabled technology to minimize contact for customers?

Independent Variable

However, in the foreseeable future, focus remains on brands

to make their customers feel safe in the stores since social distancing remains a norm.

3. RESEARCH METHODOLOGY

3.1. Problem Statement

To evaluate the shifting fashion trend from ownership to other business models, study the customer sentiments regarding , and to benchmark sustainable brands as trend-setters for big brands.

3.2. Research Scope

Following is the broad scope of the research based on which hypothesis will be framed:

- To understand the **impact of the pandemic on the buying behaviour** of consumers of the fashion industry with respect to their preferences for sustainable fashion
- To understand the impact of fast fashion on the environment and to gauge consumer awareness regarding the same
- To identify and study the market for remade clothes as well as rented fashion
- To draw an analogy between **emerging brands and established brands** to propose operational and marketing strategies based on sustainable business models

3.3. Data Collection

Secondary data

Data from published journals, articles, surveys, and websites would be used to support the hypothesis.

Primary data

The approach to collect data would be to conduct a survey based on Qualitative as well as Quantitative Research regarding consumer sentiment and perception regarding:

- Sustainable fashion
- Rented/ remade fashion
- AI enabled store experiences

⬜ Need for Personalization

Target Audience: UK residents of all age groups and demographics are considered at first. Question regarding frequency of shopping would aid segmenting the population. The upside to this survey is the fact that clothing is as essential as well as a luxury so any sort of response (whether frequently shopping or rarely shopping) would not go unutilized to draw hypothesis.

Convenience sampling was carried out for collection of data.

A sample questionnaire for the same would be:

⬜ Age

⬜ Gender

⬜ Pronouns

⬜ City

⬜ Income bracket

   (0-10,000; 10,001-25,000; 25,001-50,000; >50,000)

⬜ How frequently do you purchase clothes?

   (Once a week, every 2 weeks,3-4 weeks, 5-12 weeks, less frequently)

⬜ One word that comes to your mind when you hear 'H&M'.

⬜ Are you aware of H&M's initiatives towards sustainable fashion such as using BCI cotton, recycling fabrics, etc.?

⬜ Did you know that fashion retail is responsible for 10% of global carbon emissions, 20% of global wastewater, and consuming more energy resources than airline and shipping industry combined? (Yes/No)

⬜ Would you switch to sustainable fashion if:
- Your favourite brands started sustainable fashion lines at little higher prices?
- Brands other than your favourite brands offer carbon efficient fashion products?
- Your preferred brands started renting clothes on say, weekly basis which would be dry-cleaned by the brand regularly? (Space for comments)

⬜ How much more (in terms of GBP) would you feel comfortable spending for sustainable fashion products over and above the regular fashion products for you to choose the sustainable products?

- Do you think that you would visit physical stores (after lockdowns are lifted) to shop more often than currently if along with implementing adequate social distancing measures,
    - the store had AI technology to aid your purchase?
    - the store ensured minimum physical contact with the help of AI and technology?
    - Would not go out to shop for foreseeable future.
- Anything specific you would like fashion stores in the post-pandemic era to follow that has not been mentioned above? (Optional)

4. Key Findings

4.1. Growing emphasis on sustainability among activists & industry leaders

Customers are becoming increasingly aware of their purchases and are more conscious regarding brands they want to support vis-à-vis the brands they dislike. Founder of De Mellier, Mireia Llusia-Lindh, said that customers are expecting brands to not only offer great products, but also demonstrate social responsibility. (Debbie Moorhouse, 2018)

The Extinction Rebellion group conducted protests throughout London and also outside the London Fashion Week event premises. The group demanded industry leaders to cancel fashion events that are mongering artificial demand for fast-fashion and instead form a committee to address the alarming and sorry state of unsustainable

fashion.

This is what some of the industry veterans had to say at the London Fashion Week 2020:

> *"Some of the world's larger brands have not been built on a sustainable framework so changing their entire supply chain and way of working is not going to happen overnight. We have started as a purely sustainable brand from the ground up, it's part of our DNA."*

> *"Sustainability is something that every brand has to embrace. Because in two to three years if a brand is not sustainable, it will be out of business."*
>
> *-Tommy Hilfiger* (Compare Ethics, 2020)

Co-Founder of Fashion Revolution, Orsolo de Castro said that we (as humans) have used technology to produce more pieces of clothing and have found ways to efficiently and economically do so. Rapidly redesigning the system to reach where fashion needs to be which is ethical and sustainable. (Compare Ethics, 2020)

Pinar Dincer, the Head of Fashion at Intelistyle, in an interview with Euromonitor said that the disruption to fast fashion caused by the pandemic should be perceived as an opportunity to change the current cycle of wasteful production . Focus should shift from selling more fashion products quickly to selling fewer quality products that are better targeted to specific customers. This would downsize the entire supply chain of the fashion industry for good. (Ivanilova, 2020) Environmental sustainability and fair wage payment would take the spotlight in the near future of post pandemic fashion industry.

4.2. Survey Findings

A total of 105 respondents of the survey are taken as the representative sample. The key findings can be summarised in the word cloud as under:
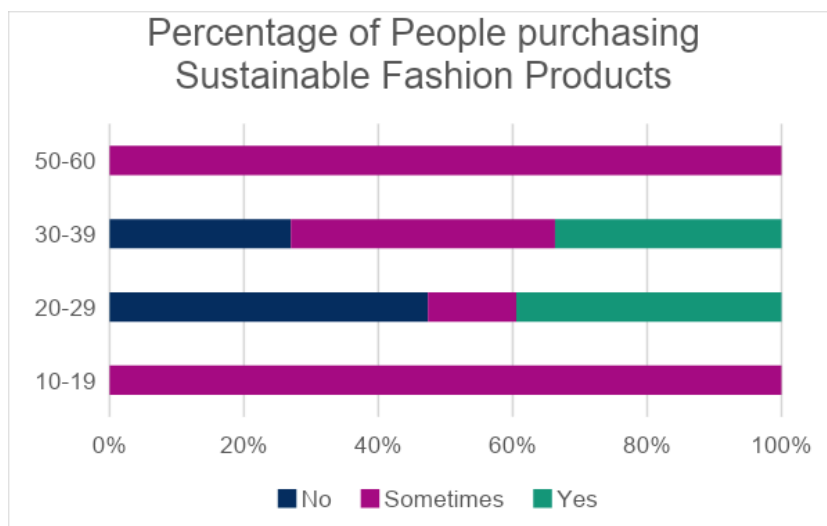
A deeper dive into brand sentiment analysis showed that most

millennials find H&M to be trendy and associated with fast fashion.

Further, data showed that teenagers and elders sometimes purchase clothes from fast fashion brands, while about 40% of surveyed individuals of the age 20-29 and about 35% of those aged 30-39 said that they regularly purchased from sustainable fashion brands. (The participants were given the definition and meaning of sustainable fashion before they answered this question)
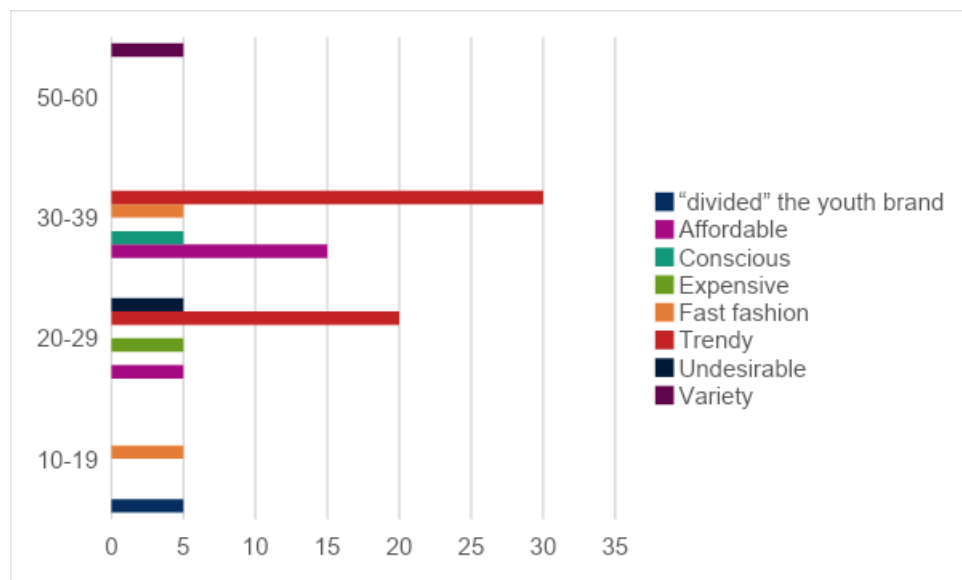
When participants were asked if they were aware of H&M's initiatives towards sustainable fashion, these were the responses. This shows the level of brand awareness customers have about H&M, there definitely is scope for improvement.
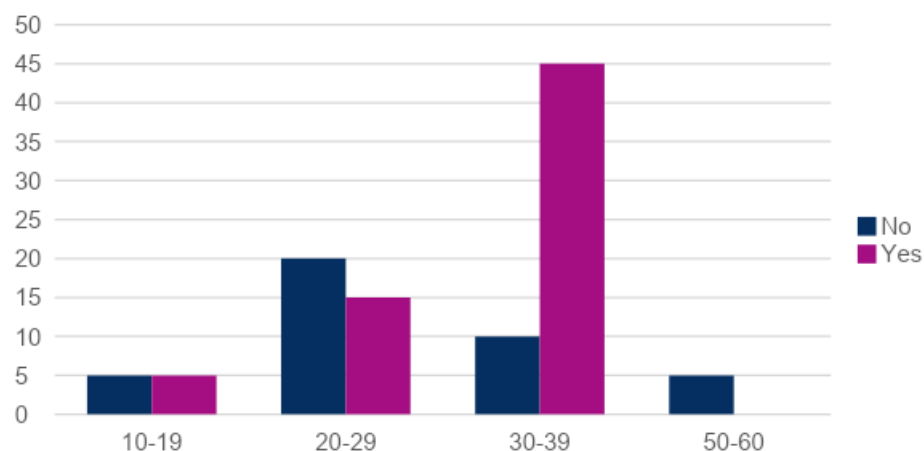
People lying in the income bracket of £10,001-£25,000 are willing to pay £5 to £20 more for 100% sustainably sourced and eco-friendly fashion products.

Social distancing remains a priority for UK customers as 95% of respondents wanted stores to ensure minimum physical contact over other experiences.

What would it take for customers to return to physical stores to shop clothes?
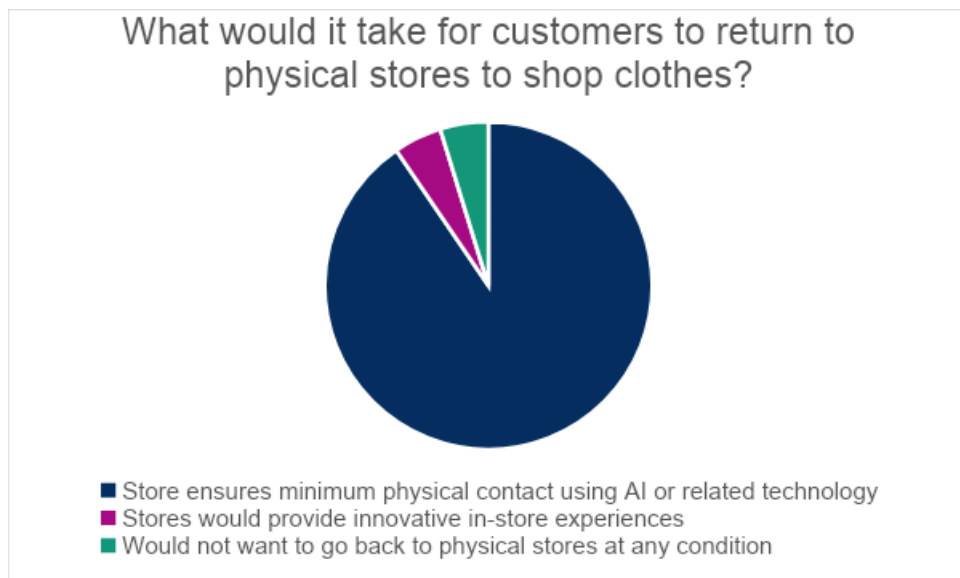
- Store ensures minimum physical contact using AI or related technology
- Stores would provide innovative in-store experiences
- Would not want to go back to physical stores at any condition

4.3. Fundamental shift in offline shopping psychology

The pandemic has completely altered consumer mentality for visiting physical stores anytime soon. The figures below depict consumer preferences as per data collected by YouGov UK. The sample size was 2,152 adults and was carried between 22nd to 28th

Half of Brits less likely to buy clothes in-store since COVID
When it comes to buying clothes, are you more or less likely to do the following than you were before the COVID-19 outbreak? % (Excludes people who don't normally buy clothes this way)

More/less likely

51   4   53   7

July 2020 across UK. (Nolsoe, 2020) Shoppers are more likely to purchase fashionwear online than in physical stores.

Also, ability to socially distance has taken over convenience and other factors for UK customers while shopping in physical stores as shown below:

Source: (Nolsoe, 2020)

Primary data collected through survey also showed that 100% of participants preferred ability to socially distance themselves over any other parameter while shopping in physical stores in future.
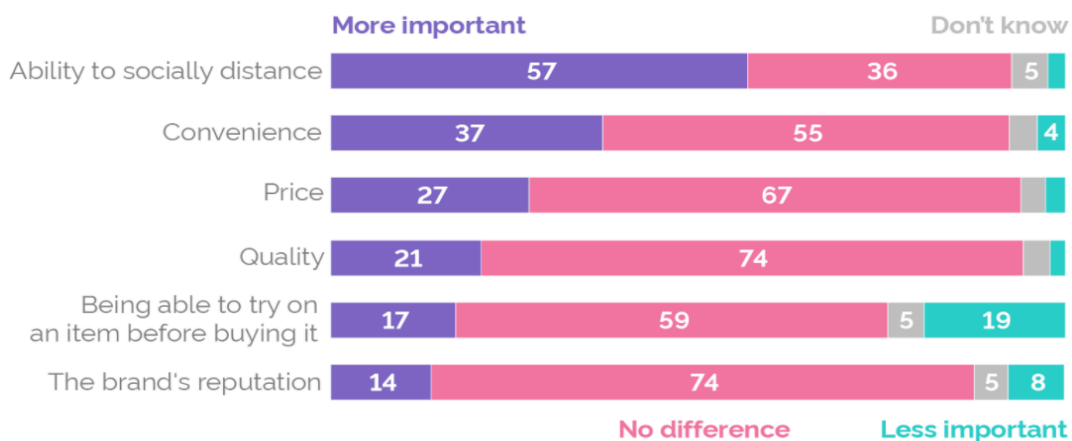
5. Recommendations

5.1. Designing a Sustainable Brand Strategy

H&M is lauded for bringing fashion sustainability into the limelight of the customer. 75% of the surveyed participants were aware/ had heard of H&M's efforts towards environmental sustainability. The brand is excellent at educating its customers about its improved wage policies for its workers, better price for the cotton growers, more use of recyclable fabric, etc. However, it fails to address the underlying problem of

Social distancing and convenience matter more now, say clothes shoppers
What impact, if any, has the COVID-19 crisis had on how important you consider the following when buying clothes? %

	More important	No difference		Less important	Don't know
Ability to socially distance	57	36			5
Convenience	37	55		4	
Price	27	67			
Quality	21	74			
Being able to try on an item before buying it	17	59	5	19	
The brand's reputation	14	74	5	8	

YouGov   22nd - 28th July 2020

selling newness and creating an unsustainable demand. By addressing the symptoms, many brands are overlooking the root cause of the problem of throwaway fashion.

An easy statement every brand can and would make to counter the aforementioned argument is that there is a huge market for newness, and if their brand stops exploiting that, then probably some other brand will.

Design thinking approach would help brands innovate their products to meet higher sustainability standards than they currently provide. Design thinking reckons innovators

to immerse themselves in the status-quo to deeply understand the pulse of the problem. In this case, brands must first comprehend the extent of problems and study individual factors that are responsible for negatively impacting the environment. A detailed map of their processes would help brands isolate and tackle key problem areas that are causing the most damage to the environment.

Product must be designed in either one of the two ways:

- At the end of the product's life, it is returned back to the soil without causing disturbance in the natural ecosystem
- At the end of the product's life, it is disintegrated and reused so that it keeps providing value and does not end up in landfills (Debbie Moorhouse, 2018)

Instead of using design to create new styles for customers every two weeks, brands must use design to innovate and provide customers what they want, using fabrics that have more than one life so that it does not end up incinerated or in a landfill. (Debbie Moorhouse, 2018)

The book **Business Model Generation** talks about the Nine Building Blocks that are integral part of the Business Canvas.

The Canvas should be used to regularly assess the business model, just how we visit a doctor for routine check-ups. (Pigneur, 2010) Accordingly, the model can be used as a base to trace and assess individual areas of any business. In this case, the model is used to assess the extent of environmental sustainability of H&M and to ask relevant questions that would help do the same.

Business Model Canvas- H&M

Drafted by Harsh Bathia

Key Partners

- BCI Cotton suppliers
- Logistic Partners
- Team of Fashion Designers
- Are the key partners taking measures to reduce their carbon footprints?

MOTIVATIONS FOR PARTNERSHIPS:
  Tie-up with NGOs and experts in sustainable fashion to redesign current processes

- Can H&M intervene and design a more sustainable process with its partners?
- How can H&M's key partners become carbon neutral for H&M's entire supply chain to become 100% sustainable?

Key Activities

- Procuring raw materials
- Manufacturing garments from cotton and other materials
- Collecting and sorting used or returned garments from customers
- Selling through online as well as offline stores and updating inventory while forecasting demand
- Designing fashionwear
- How can all these activities be made so as to leave zero impact on the environment?

Key Resources

- Brand Value
- Supply chain network (Gartner's top 15)
- Market Share

TYPES OF RESOURCES:
Human resources, Financial Resources

How can H&M ensure none of its key resources are derived from or cause disturbed sustainability?

Value Propositions

The brand is delivering quality and affordability to a huge section of consumers.
It is selling newness to the consumer.

CHARACTERISTICS:
Newness, Performance, Customization, Getting the Job Done, Design, Brand/Status, Price, Cost Reduction, Accessibility, Convenience/Usability

  Include awareness and actions towards sustainability in the value propositions

Customer Relationships

- Loyal customer base evident from a good market share.
- Customers return used garments which are processed into new fabric.
- Customer touch points should be analysed.
- How can H&M encourage more of its customers to return used fashionwear?
- Can there be a system in place to schedule pick-ups of used fashionwear?

Channels

H&M has a strong omnichannel presence.
However, its increasing online sales should be seen as an opportunity than a threat.

Customer Segments

- The brand targets mid and high-income group customers
- How can H&M cater to fast fashion seekers in the most sustainable manner
- Should H&M design its products in a manner that all fast fashion items have zero waste and zero ill impact on the environment?

Cost Structure

Revenue Streams

Procurement and processing of cotton and raw materials is the most expensive key activity conducted by H&M.

Dependence on renewable source of energy should increase as compared to burning fuel which will be financially profitable for the company in the long run.

- ☐ Sale of fast fashion through online and offline mode
- ☐ Should H&M opt to offer renting fast fashion?
- ☐ Should H&M charge a premium for products that are not sustainable so as to cover the environmental cost of that product?

5.2. STP Framework

H&M has a diverse customer base in terms of demography. However, as per the research findings above, many are unaware of the brand's sustainable initiatives. The pandemic has caused an elevation in people's conscience regarding the environment. It is essential that H&M communicates its sincerity and dedication towards sustainability, not only in its ad campaigns, but also in their long-term marketing strategy.

Brands such as Eileen Fisher are positioning themselves as brands with sustainability woven into their genomes. Thus, merely advertising milestones achieved in the realm of eco-sustainability will be a duck-tape to the leaky water bucket kind of a solution.

Thus, once H&M designs its business model in line with best practices of sustainability, it should first ensure that their efforts are observed by their customers and make efforts to use their consumers' emotions and reactions to this change in their marketing strategy. There is indeed a pride factor and a 'feel good' emotion knowing that you are leaving a smaller carbon footprint on the planet as a responsible global citizen.

Marketing campaigns would then be like, "We made it!", which would be H&M announcing its success to the world in becoming a truly sustainable fast fashion brand. Another Ad campaign could be "Fast-fashion & Fast degradation" emphasising on the use of recyclable and eco-friendly materials (fibre, fruit peels, pure cotton, etc.) that could decompose quickly when buried after use.

The awareness regarding its sustainable endeavours is low amongst millennials and Gen Z who comprise of a vast majority of consumers of the present and near future. It is therefore of utmost essence for H&M to effectively communicate the same to those audiences. It is also observed that millennials earning more than UKP 20,000 would not mind spending UKP 1-5 more if the product were sourced sustainably. Special attention and disclaimer would be required by H&M to be published on their website and social media handles explaining what percentage of their product is causing what percentage of sustainable input. Informational marketing would make their customers feel acknowledged and respected as more the information, more the customer confidence in the brand. This phenomenon is seen in other industries such as skincare wherein customers are becoming increasingly aware of the product ingredients and their implications on their skin before investing in a skincare product. This is also enabled by experts/ professionals in various fields sharing their knowledge on social media and YouTube such as doctors (Dr.Mike), skincare experts (Skincare by Hyram), hair experts (Brad Mondo), etc.

The reason informational and educational content does well is because it adds value to viewers in an entertaining manner. H&M can include environmental experts to

comment on their business model to validate their efforts and to add integrity to the brand's image towards sustainability.

The future of fashion is digital and an amalgam of omnichannel marketing strategies. Brands would need to upscale their marketing as digital marketing and traditional marketing merge and evolve as a holistic form of marketing and not give into the threat of the pandemic falling into the digital pigeonhole.

5.3. Strategizing around customer centricity

Based on survey findings we found that customers are hesitant to shop in physical stores due to the pandemic continuing to wreak havoc in various parts of the world. H&M should think beyond wanting to bring back the customer in their shops and think about ways in which it can communicate with their customers in the most proficient manner.

Customer centricity should be looked at as something beyond 'What customer wants.' Their channels should strategize around new customer touch points arisen due to the pandemic. For example, a food delivery service in the US tied up with Netflix to show Netflix watchers a popup in between their movies and shows of a few food options amongst which the person could choose. At the tap of a button, the movie watcher can now enjoy a tasty snack sitting at the comfort of his home, and all this is done without targeting ads to his smartphone.

Thus, newer ways and channels of communicating with the customer should be strategized as a part of their focus on customer-centricity. Further, efforts can be made to bring in-store experiences to the customers using AR and VR technologies. The emphasis of AI and AR/ VR is discussed earlier, and H&M can leverage the pandemic to work on a business model that is not heavily reliant on customers entering their brick-and-mortar stores.

Use of VR is already seen in many industries including fashion, cosmetics, furniture, real estate, etc. With vaccines being rolled out in many parts of the globe in 2021, H&M must ready itself to provide better and unique experiences to its customers. The time during which shops are forced to remain shut must be utilized to inculcate AR mirrors, and AI enabled assistants, recommendations so that once the shops open, there is an instant buzz amongst customers in the market about H&M's innovation. Since the brand has the resources to exercise innovation, it can absolutely benefit from the first-mover advantage and gain the reputation of being a tech-sustainable fashion brand rather than a brand that sells new fashion every two weeks.

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