

The Business Case for Sustainable Apparel

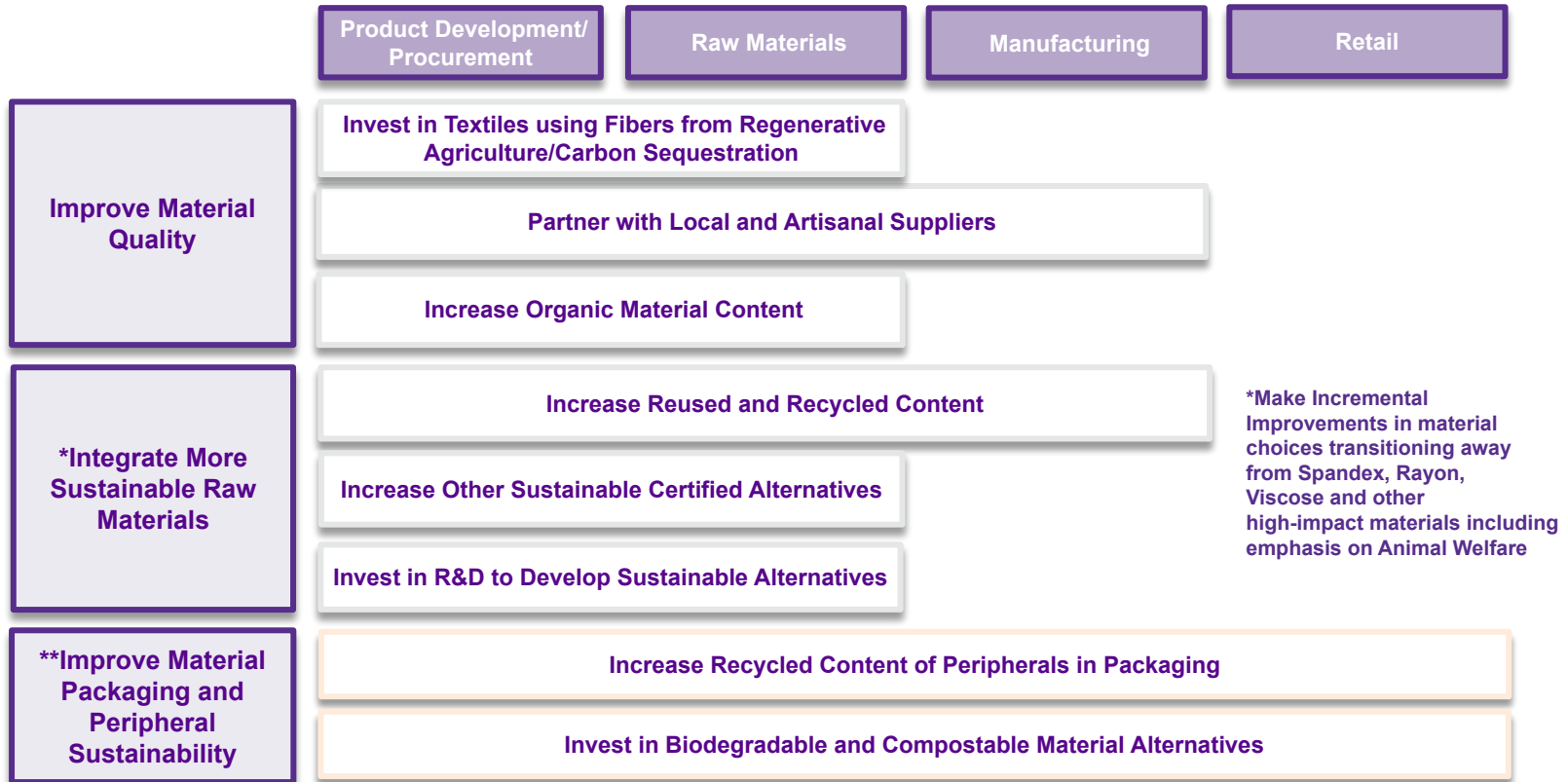
Strategy for Implementing Sustainable Raw Material Sourcing

Phase 1: December 2020

Phase 2: April 2021



Implementing Sustainable Raw Material Sourcing



*Make Incremental Improvements in material choices transitioning away from Spandex, Rayon, Viscose and other high-impact materials including emphasis on Animal Welfare

**Make Incremental Improvements in material choices transitioning away from plastics and high-impact materials including emphasis on FSC Certification

Implementing Sustainable Raw Material Sourcing

Overview of Sustainability Strategy and Relevant Impact Categories

In the following slides, we will be focusing on benefits from the *Implementing Sustainable Raw Material Sourcing* sustainability strategy, which are categorized based on the relevant impact categories highlighted below

Sustainability Strategy Definition

Implementing Sustainable Raw Material Sourcing

Company spurs innovation in new materials development and substitutes more sustainable materials in existing products and packaging

Relevant Impact Categories

Benefits that...

Operational Efficiency (OE)

Optimize corporate and supply chain efficiencies to lower cost and increase profits

Innovation (IN)

Create new revenue streams using sustainable business models

Customer Loyalty (CL)

Attract an increasing community of conscious buyers & consumers, while reducing retention costs

Sales & Marketing (SM)

Increase volume of sales through brand and marketing policies

Risk Management (RM)

Encourage resilience within the supply base by decreasing supplier dependency

Stakeholder Engagement (SE)


Improve goodwill amongst the broader stakeholder community (i.e. NGOs)

Supplier Relations (SR)

Improve upon the relationships between the company and its suppliers

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Overview of Benefits and Monetization Methods (1/3)



Practice	Sub-Practice	Proposed Benefits	Impact Categories	Proposed Monetization Methods	Financial Impact Priority
Improve Material Quality	Invest in Textiles using Fibers from Regenerative Agriculture/Carbon Sequestration <i>*In partnership with suppliers or third-party and should include certifications such Climate Beneficial</i>	Reduced fabric costs by sourcing through regenerative agriculture, pulling down carbon and sequestering it into the soil (such as little-to-no tilling in plant farming and responsible migration practices of animals for materials including wool, alpaca, mohair, cashmere) <i>*Long-term investment approach with fiber production as more 'sustainable' and should see costs savings over time</i>	OE SR	Calculate the cost differential between usage of raw materials cultivated by regenerative agriculture practices (including investment costs in infrastructure to sequester carbon from the atmosphere, tax incentives for usage of sequestered carbon and increased crop yield) and traditional agriculture practices (including costs for pesticides and crop yield) <i>*Company should see reduction in Fabric Costs (over time)</i>	
		Increased brand value from investing in regenerative agriculture/carbon sequestration	CL SM	Calculate incremental profit to the company from sales spurred by the usage and marketing of materials generated from regenerative agriculture using carbon sequestration	
		Increased opportunities and potential partnerships	SE	Calculate annual profit from business opportunities associated with investing in regenerative agriculture/carbon sequestration	
		Reduced risk for future carbon regulations	RM	Calculate cost differential of before and after sourcing more from suppliers using regenerative agriculture methods and use NPV to determine future cost savings on increased material costs and taxation	



= If implemented, this benefit can realize substantial financial impact

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Overview of Benefits and Monetization Methods (1/3 Cont.)

Practice	Sub-Practice	Proposed Benefits	Impact Categories	Proposed Monetization Methods	Financial Impact Priority
Improve Material Quality	Increase Organic Material Content <i>*In partnership with suppliers and should include certification such as Organic Cotton Standard (OCS) and Global Organic Textile Standard (GOTS)</i>	Reduced fabric costs by sourcing more organic materials (such as cotton, linen, jute, silk, ramie, wool) with improved supplier working relationships <i>*Long-term investment approach with organic production as more 'sustainable' and should see costs savings over time</i>	OE SR	Calculate cost differential of material costs before and after sourcing inputs using organic farming methods versus traditional methods (based on incremental revenues for increased cost savings) quantified by using less wasteful production methods, reduced chemical inputs and improved labor conditions and working relationships <i>*Blockchain technology should be implemented for traceability to ensure fibers are cultivated using organic methods *Company should see reduction in Fabric Costs (over time)</i>	
		Increased sales from using more organic material content	CL SM	Calculate incremental profit to the company from sales spurred by the usage and marketing of increased organic material usage (minus costs for marketing certifications and change in material costs/margins)	
		Increased customer loyalty and brand value from offering more organic material content	CL SM	Calculate increase in customer lifetime value (CLV) due to the increase in customer frequency and customer retention; additionally, calculate the incremental profit as a result of the increase in CLV	
		Decreased costs associated with reputational damage for not using organic vs traditional and/or high impact materials	RM	Calculate estimated reduction in # of potential reputational issues before and after increased usage of organic material contact multiplied by cost per reputational issue	
		Reduced impact for future supply chain disruptions due to land degradation (and use of pesticides) in traditional cotton farming <i>* Based on existing limited supply of organic material</i>	RM	Calculate estimated reduction in # of supply chain disruptions before and after increasing organic material content by cost per disruption (or loss of sales per disruption) to achieve estimated cost savings	





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Overview of Benefits and Monetization Methods (1/3 Cont.)

Practice	Sub-Practice	Proposed Benefits	Impact Categories	Proposed Monetization Methods	Financial Impact Priority
Improve Material Quality	Partner with Local and Artisanal Suppliers	Reduced transportations costs (by more efficient transport with less distance between local producers and garment manufacturers)	OE	Calculate cost differential of shipping costs before and after shift from local producers (minus costs associated with product supplied by local artisans and suppliers such as embroidery and embellishment) to achieve avoided cost savings	✓
	<i>*This sub-practice focuses on sourcing with local suppliers for materials and trims with a focus on quality – such as embroidery and embellishment. It can also apply to stand-alone artisanal products.</i>	Increased sales by converting customers to purchase through partnership with local and artisanal suppliers (improved workmanship/ quality and more desirable specialty product)	CL SM	Calculate incremental profit to the company from sales spurred by the specialty products produced by local artisans and suppliers (minus associated costs from marketing and change in material costs/margins) and estimated increase in customer lifetime value	✓
		Reduced supply chain disruption, given less dependency on resources impacted by future risks (such Climate, and Geopolitical risk implications) <i>*May not apply to local, U.S.-based artisans</i>	RM	Calculate cost differential of before and after sourcing more from local suppliers and use NPV to determine future cost savings on increased material and transport costs and taxation (including carbon regulations or weather related to climate change)	
		Increased unpaid earned media	MC	Calculate cost per media exposure multiplied by # of unpaid media exposures (given program visibility) to achieve avoided cost savings	

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Overview of Benefits and Monetization Methods (2/3)

Practice	Sub-Practice	Proposed Benefits	Impact Categories	Proposed Monetization Methods	Financial Impact Priority
Integrate More Sustainable Raw Materials	Increase Reused & Recycled Content <i>*Can be achieved in partnership with suppliers or done by developing in-house capabilities</i>	Reduced material costs by increasing recycled content <i>* Can be achieved by increasing the ratio of recycled-to-traditional fibers in existing products And increasing the % of products that incorporate recycled materials)</i>	OE	Calculate the cost differential between Virgin material content and Recycled material content (minus associate costs) for the same quantity of products to achieve cost savings <i>*May need to account for upfront technology investment if in-house</i>	
		Increased sales from using more recycled content	CL SM	Calculate incremental profit to the company from sales spurred by the usage and marketing of recycled content (minus costs for marketing and change in material costs margins)	
		Increased customer loyalty from offering product created from recycled resources	CL SM	Calculate increase in customer lifetime value (CLV) due to the increase in customer frequency and customer retention; additionally, calculate the incremental profit as a result of the increase in CLV	
		Reduced impact for future supply chain disruptions due to land degradation and use of pesticides, given less supplier dependency on virgin materials	RM	Calculate estimated reduction in # of supply chain disruptions before and after increased recycled content multiplied by cost per disruption (or loss of sales per disruption) to achieve avoided cost savings	
		Reduced impact for future regulations on high-impact materials (such as polyester and other synthetics)	RM	Calculate cost differential of before and after using more recycled content and use NPV to determine future cost savings on increased material costs and taxation	



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Overview of Benefits and Monetization Methods (2/3 Cont.)

Practice	Sub-Practice	Proposed Benefits	Impact Categories		Proposed Monetization Methods	Financial Impact Priority
Integrate More Sustainable Raw Materials	Increase Other Sustainable Certified Alternatives <i>* This sub-practice includes making incremental improvements in material choices transitioning away from Spandex, Rayon, Viscose and other high-impact materials including emphasis on Animal Welfare * It should include additional certifications such as BCI, Fairtrade Cotton, GCS Certified cashmere</i>	Reduced material costs by increasing other sustainable certified materials and prioritizing fewer synthetics	OE	SR	Calculate cost differential of material costs before and after sourcing inputs using sustainable certified material (based on incremental revenues for increased cost savings) quantified by using less wasteful production methods, reduced chemical inputs and improved labor conditions by prioritizing few synthetics <i>*Cost savings and improved supplier relations acquired over time</i>	✓
		Increased sales from increasing other certified alternatives (by transitioning away from spandex, rayon, viscose, and other high-impact materials including an emphasis on animal welfare)	CL	SM	Calculate incremental profit to the company from sales spurred by the increased usage of sustainable certified materials minus associated costs (marketing and change in material costs/margins)	✓
		Increased customer loyalty and brand value from offering sustainable certified materials and moving away from high-impact materials	CL	SM	Calculate increase in customer lifetime value (CLV) due to the increase in customer frequency and customer retention; additionally, calculate the incremental profit as a result of the increase in CLV	
		Decreased costs associated with reputational damage for not using certified sustainable materials vs high-impact materials including an emphasis on animal welfare		RM	Calculate estimated reduction in # of potential reputational issues before and after increased certified sustainable material multiplied by cost per reputational issue	
		Reduced risk for future carbon regulations (based on continued use of high-impact/synthetic materials)		RM	Calculate cost differential of before and after increasing sustainable certified materials and use NPV to determine future cost savings on increased costs on synthetics and taxation	



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Overview of Benefits and Monetization Methods (2/3 Cont.)

Practice	Sub-Practice	Proposed Benefits	Impact Categories	Proposed Monetization Methods	Financial Impact Priority	
Integrate More Sustainable Raw Materials	Invest in R&D to Develop Sustainable Alternatives	Reduced material costs based on development of sustainable alternatives <i>*Company can invest in R&D to develop sustainable alternatives that are brand specific and appropriate</i>	OE SR	Calculate cost differential of material costs before and after development of sustainable alternatives (minus associated costs such as expenditure for R&D and production of material alternatives) to achieve avoided cost savings <i>*Long-term investment approach with savings in fabric input costs</i>		
	<i>* Can include products made from animal-based materials and transitioning to more sustainable alternatives. Applicable to down, leather, fur, and others. Should continue to transition away from high-impact materials/synthetics</i>	Increased Opportunities and potential Partnerships		SE	Calculate annual profit from business opportunities associated with investing in R&D to develop sustainable alternatives	
		Reduced brand reputational risk by investing in R&D to develop sustainable alternatives		RM	Calculate estimated reduction in # of lost sales and opportunities before and after R&D investment in development of sustainable material alternatives multiplied by cost per loss (or loss of sales per opportunity) and use NPV to determine future cost savings	
		Reduced risk for future carbon regulations (based on continued use of high-impact/synthetic materials without investing in developing sustainable alternative)		RM	Calculate cost differential of before and after increasing sustainable certified materials and use NPV to determine future cost savings on increased costs on synthetics and taxation	

Implementing Sustainable Raw Material Sourcing

Overview of Benefits and Monetization Methods (3/3)

Practice	Sub-Practice	Proposed Benefits	Impact Categories	Proposed Monetization Methods	Financial Impact Priority
Improve Material Packaging and Peripheral Sustainability	Increase Recycled Content of Peripherals in Packaging	Reduced costs associated with periphery and packaging materials (i.e. recycled polybags and hangers) <i>*Other recycled items could include boxes and mailers (for small packages) but might not achieve cost savings based on increased cost for specific recycled content</i>	OE	Calculate the cost differential of packaging & peripheral material costs before and after the increase in recycled content (i.e. polybags and hangers) to achieve cost savings	
	<i>*Increase impact with participation in Recycling program –listed under Circularity and Innovation</i>	Increased customer loyalty from using more sustainable alternatives for packaging and peripherals (recycled content)	CL SM	Calculate increase in Customer Lifetime Value (CLV) due to the increase in customer frequency and customer retention; additionally, calculate the incremental profit as a result of the increase in CLV	
		Reduced impact for future regulations on plastic use	RM	Calculate cost differential of before and after increasing recycled content of peripherals and packaging and use NPV to determine future cost savings on increased material costs and taxation	
	Invest in Biodegradable and Compostable Material Alternatives	Reduced Waste Disposal Costs for Packaging and Peripherals due to biodegradable materials (including stickers) <i>*Company can invest in R&D to develop alternatives that are brand specific and appropriate and should focus on reduced waste disposal as a bi-product of investing in biodegradable and compostable material alternatives</i>	OE	Calculate the cost differential of waste disposal & associated fees before and after development of biodegradable and compostable material alternatives (minus associated costs such as expenditure for R&D and production of material alternatives) to achieve avoided cost savings <i>*Long-term investment approach with savings in waste disposal and associate fees</i>	
		Increased Opportunities and potential Partnerships	SE	Calculate annual profit from business opportunities associated with investing in R&D to develop biodegradable and compostable material alternatives	