

The Sustainability Conundrum: Why supply chain traceability is key.



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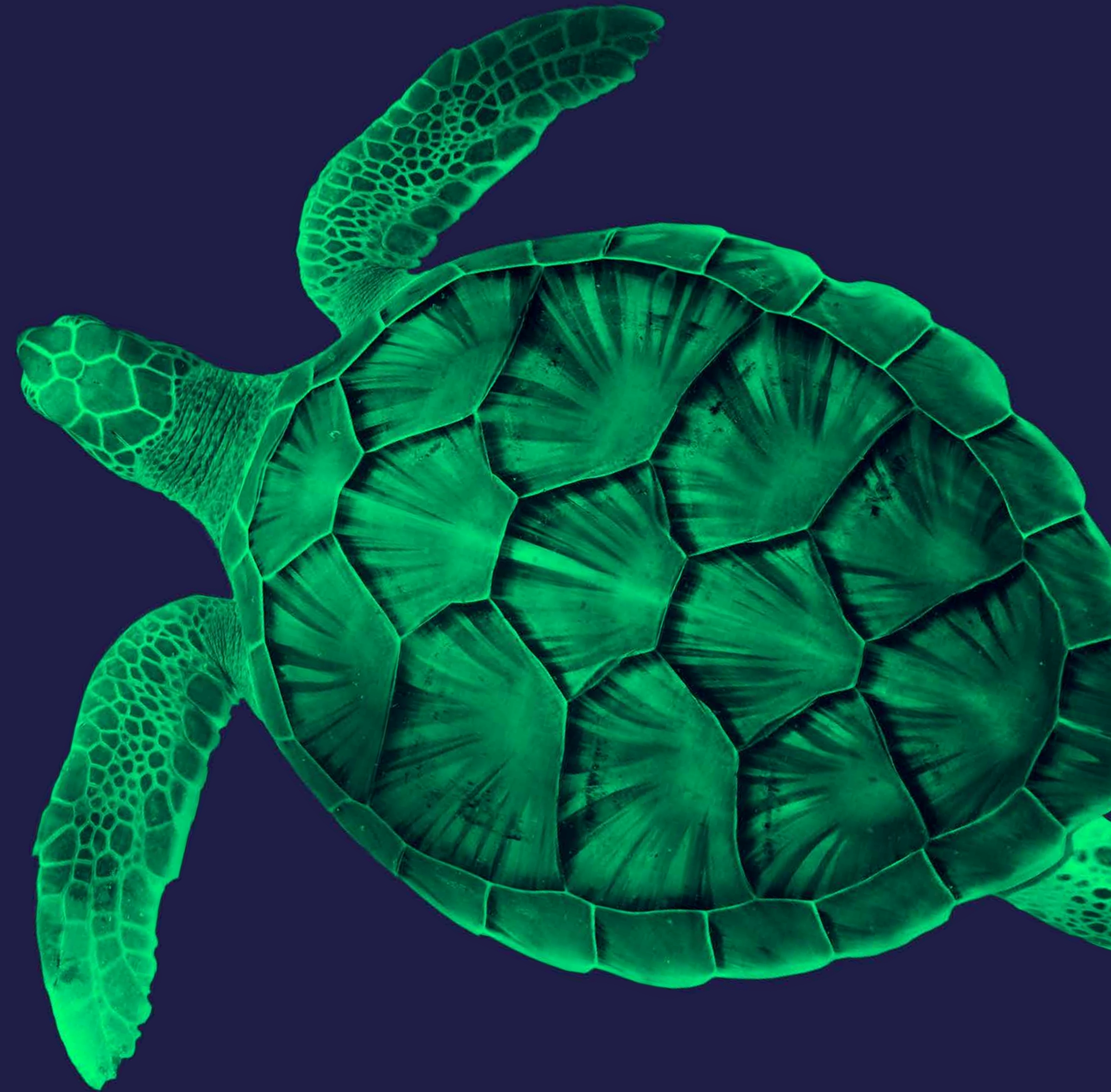
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Methodology and demographics

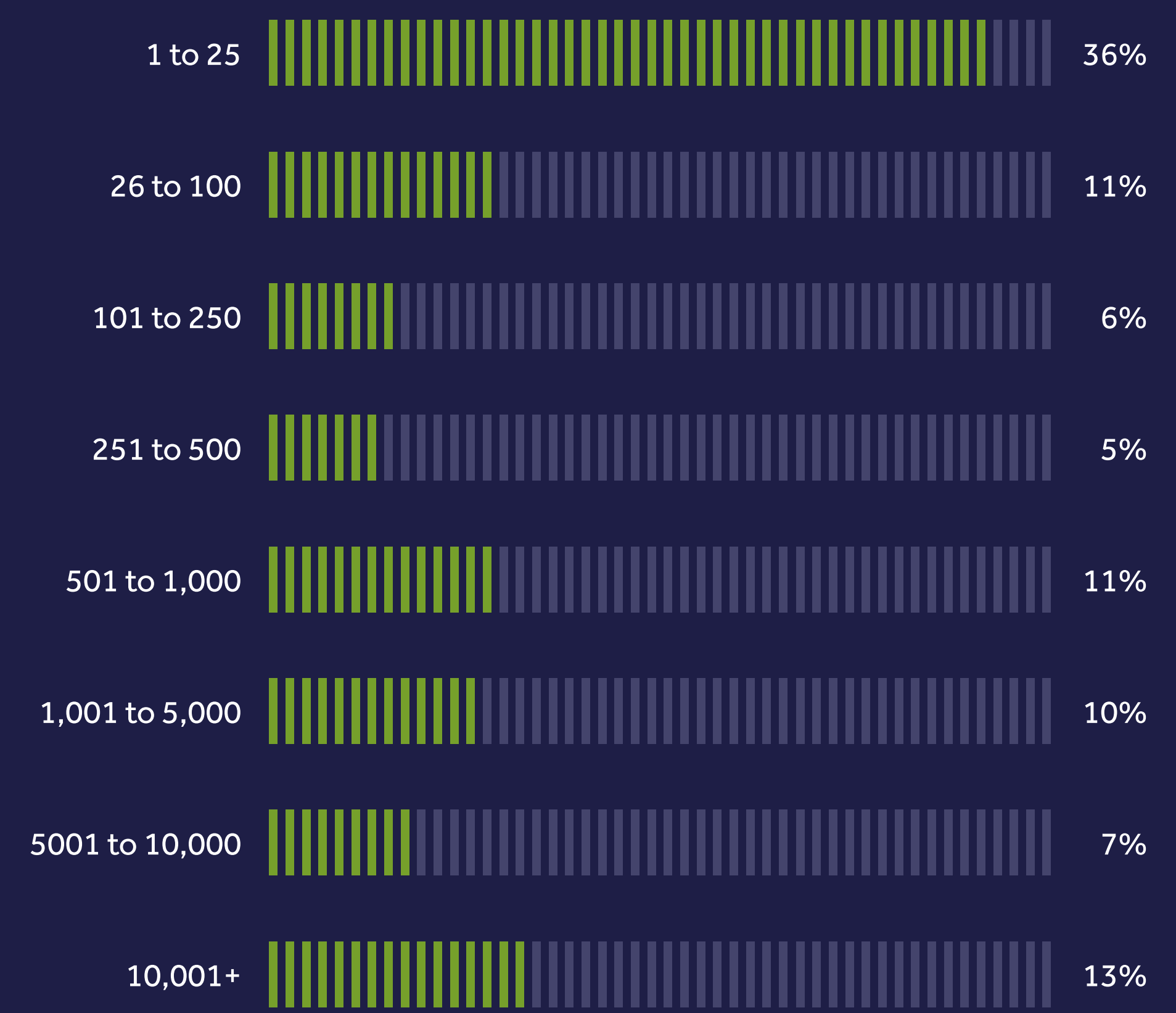
In Q1 of 2022, K3 commissioned a survey of 402 fashion and retail business decision makers (BDMs) throughout the United Kingdom and United States.

The interviews were conducted online by Sapio Research in December 2021 using an email invitation and an online survey.

At an overall level, the results are accurate to + 4.9% at 95% confidence limits assuming a result of 50%.

The respondents were split equally between the UK and US. The majority of those surveyed (89%) work in the retail industry and the remaining respondents (11%) work in the fashion sector.

The BDMs surveyed were comprised of managers (59%), CEOs (30%), VP or Directors (7%) and CIO/CTOs (3%).



COMPANY SIZE
by number of employees

Introduction

It is a little-known secret that fashion and apparel have a serious waste problem. In fact, the fashion industry – and any sector linked to it – contributes 10% of all carbon emissions worldwide.


Over the last few years, consumers and businesses have increasingly realised that the time to adapt and ditch their wasteful practices is now.

Research conducted by K3 last year, which surveyed 2,000 UK consumers, discovered that 30% had boycotted a retailer for a lack of environmental awareness. This figure rose to a staggering 54% for consumers aged between 18 and 24.

Clearly, sustainability is front of mind for consumers. Brands who fail to acknowledge this crucial sentiment are likely to lose their customers if they do not adapt.

Wood pulp, used as the base material for viscose and rayon, is often taken from trees in endangered or ancient forests. The loss of these habitats is endangering biodiversity and contributing to climate change.





Cotton has become one of the most unsustainable crops on the planet. It uses so much water to produce which contributes to the freshwater shortage across the globe.

But it isn't just consumers that businesses need to worry about. Legislation is increasingly being proposed and implemented across the world that is forcing brands to go green.

One such example is Germany's Supply Chain Act which will apply to companies with 3,000 employees from 2023 and will later include companies with 1,000 employees. It aims to strengthen the protection of human rights by ensuring:

- Companies respect human rights throughout their supply chains.
- Companies establish grievance mechanisms.
- Companies report on their activities.

In the midst of eco-friendly consumers and emerging legislation, it's clear that fashion businesses must start taking sustainability seriously. But just how well equipped are they for the coming months?

According to our research, recent events like COP26 have changed the majority's thinking on how their brand tackles sustainability; however, this is not reflected in their IT resource allocation.

And while many have said supply chain transparency is a core focus, they don't have the necessary technology in place to track their supply chains effectively.

We hope you enjoy the read!

Key stats

65% say supply chain transparency is a focus for their sustainability efforts

Only **29%** have all the supply chain technology they need to manage their supply chain more ethically and sustainably

67% said that recent events such as COP 26 and the Climate Red report have **changed their thinking** on how their brand tackles sustainability

For those who have not changed their thinking on sustainability due to recent events, the top reason for this is lack of funding

Only **31%** place environmental sustainability in their top two IT budget priorities

47% use IT resources to manage CSR or company sustainability objectives

Summary and overview

Recent events, like COP26, have changed the majority's thinking on how their brand tackles sustainability.

Some 67% said their thinking on sustainability has changed – including three quarters of UK respondents. More than a quarter said sustainable initiatives will become a priority for their brand moving forward. Out of those who said their thinking has not changed, 37% stated that sustainability was already a priority. US respondents were more likely than UK respondents to say their thinking hasn't changed due to a lack of funding or because sustainability isn't important to their brand.



Crabs, lobsters, fish, turtles, penguins, seals, manatees and sea otters are affected by microfibre ingestion. These artificial fibres can block the digestion tract and damage stomach lining leading to reduced feeding and starvation.



Sustainability is not a focus, at least according to the allocation of IT resources

Despite this shift in thinking, only three in 10 have placed environmental sustainability in their top two IT budget priorities. Less than half use IT resources to manage Corporate Social Responsibility (CSR) or company-wide sustainability objectives. For the smallest companies, this drops to just 16%. While three in five have implemented some technology or IT solutions for managing their sustainability efforts, and have specific allocations for this in their 2022 budget, less than a quarter have fully implemented these solutions. 27% have separate budget allocations for CSR. UK respondents were less likely to have fully implemented IT solutions for sustainability than US respondents.

Supply chain transparency is a focus, but the technology is lacking

Almost two thirds said supply chain transparency is a focus for their sustainability efforts. Only 29%, however, said they have all the supply chain technology needed to be more ethical and sustainable across their supply chain – including less than a quarter of UK respondents. Two in five believe their supply chain technology could be improved and 17% stated that it needs to be improved. 14% don't know if their current supply chain technology can manage their supply chain more sustainably.

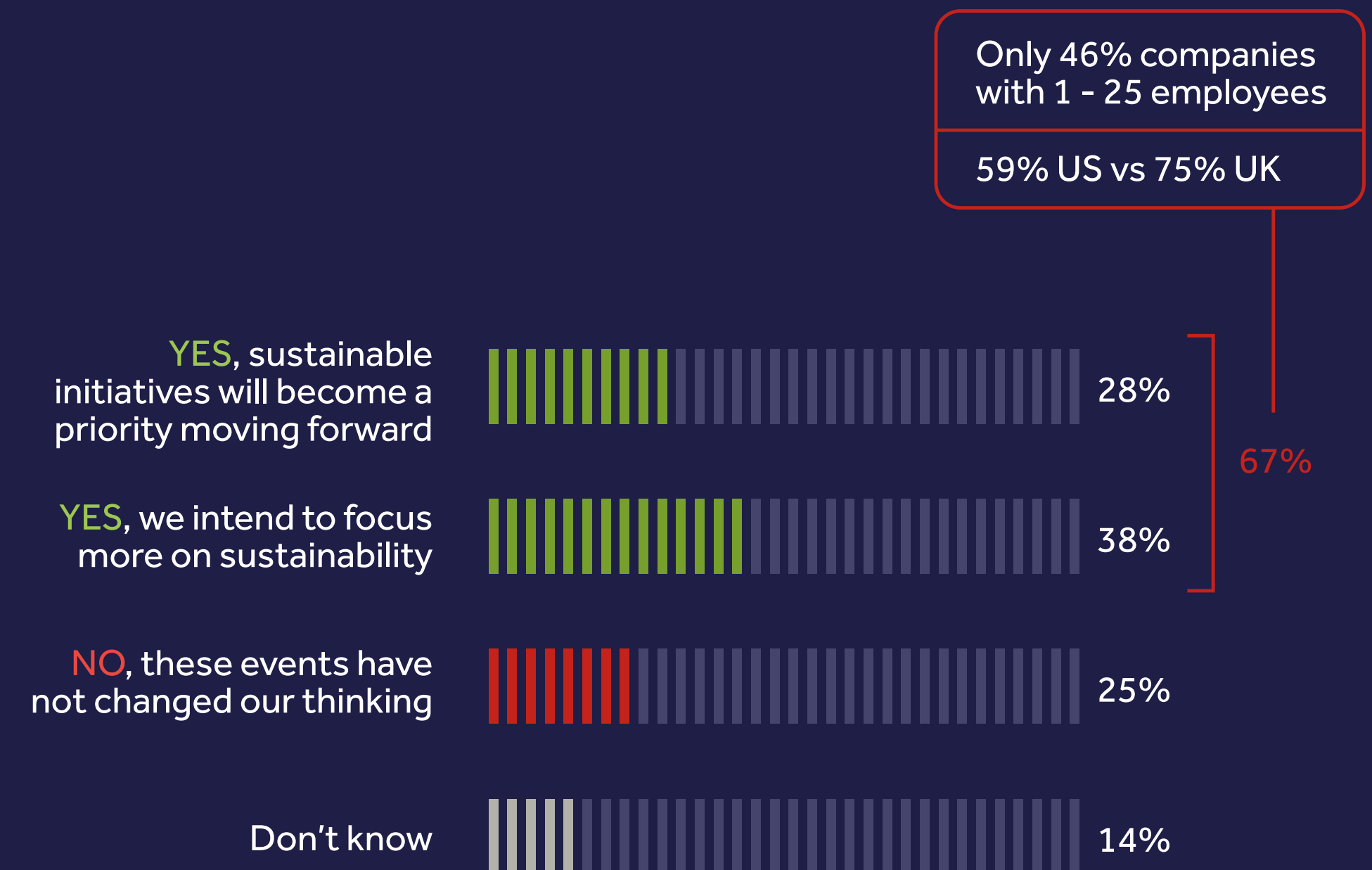
The Sustainability Conundrum


While sustainability has been a hot topic for several years now, it is only now starting to really heat up in the fashion industry. This shift in thinking has been largely catalysed by recent events like COP26 and the Climate Red report.

Out of 402 respondents, two thirds (67%) of fashion business decision makers (BDMs) have rethought how their brands prioritise tackling sustainability following these events while 25% said the events had not altered their thinking and 8% didn't know whether their thoughts had changed at all.

Interestingly, UK respondents (75%) were more concerned with sustainability following COP26 and the Climate Red report than US respondents (59%). This highlights a stark contrast between UK and US businesses' perceptions on sustainability.

Two thirds (67%) of fashion and retail decision-makers said that recent events such as COP26 and the Climate Red reports have changed their thinking on how their brand tackles sustainability





The Mexican Alligator Lizard is on the endangered list due to deforestation and agricultural practices that have led to the destruction of its habitat

Those who indicated their thinking had not changed on sustainability were subsequently asked why this was so. Some 39% revealed they were not able to fund more sustainability initiatives – showcasing how many brands have yet to allocate sufficient resources for their sustainability goals. However, and more positively, 37% said their thinking had not changed because sustainability was already a top priority.

Surprisingly, 20% of BDMs reported that sustainability isn't important to their brand. Once again, the results showed that UK respondents were more inclined to focus on sustainability than their US counterparts. Only 13% of UK BDMs said sustainability wasn't important to their brand compared to 25% of US BDMs.

66

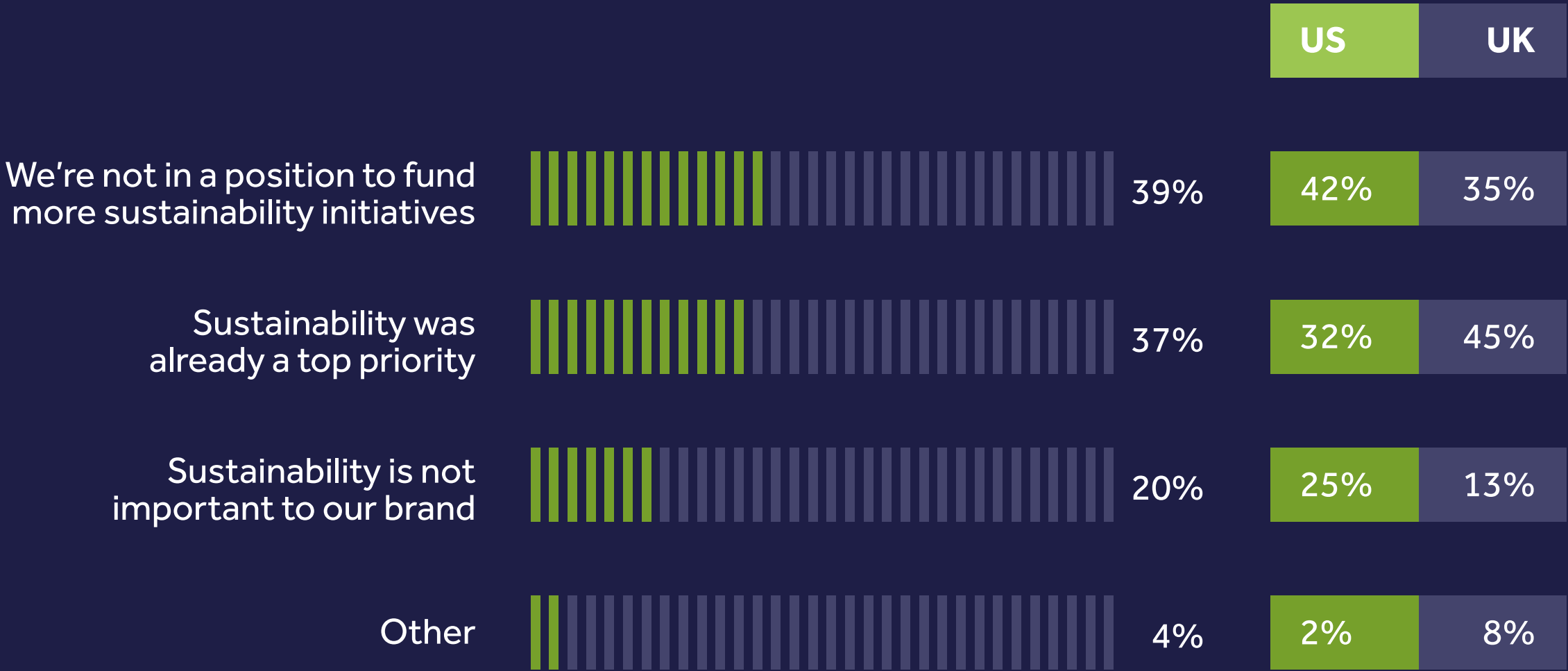
It is clear from the research that there is a disconnect between retail and fashion BDMs' attitudes and their actions when it comes to sustainability practices.

Casey Potenzone,
Chief Commercial & Strategy Officer at K3

“It’s not good enough that there is still a fifth of retailers stating that sustainability is not important. We need to act now and demand change to make a real difference to our planet.”

The major talking point here is that 39% of businesses are not able to fund more sustainability initiatives – a key factor that is also reflected in the respondents’ budgets for 2022. **Only three in 10 (31%) BDMs have placed environmental sustainability in their top two IT budget priorities.** According to our research, businesses predominantly prioritise customer experience (CX) and cybersecurity in their IT budgets.

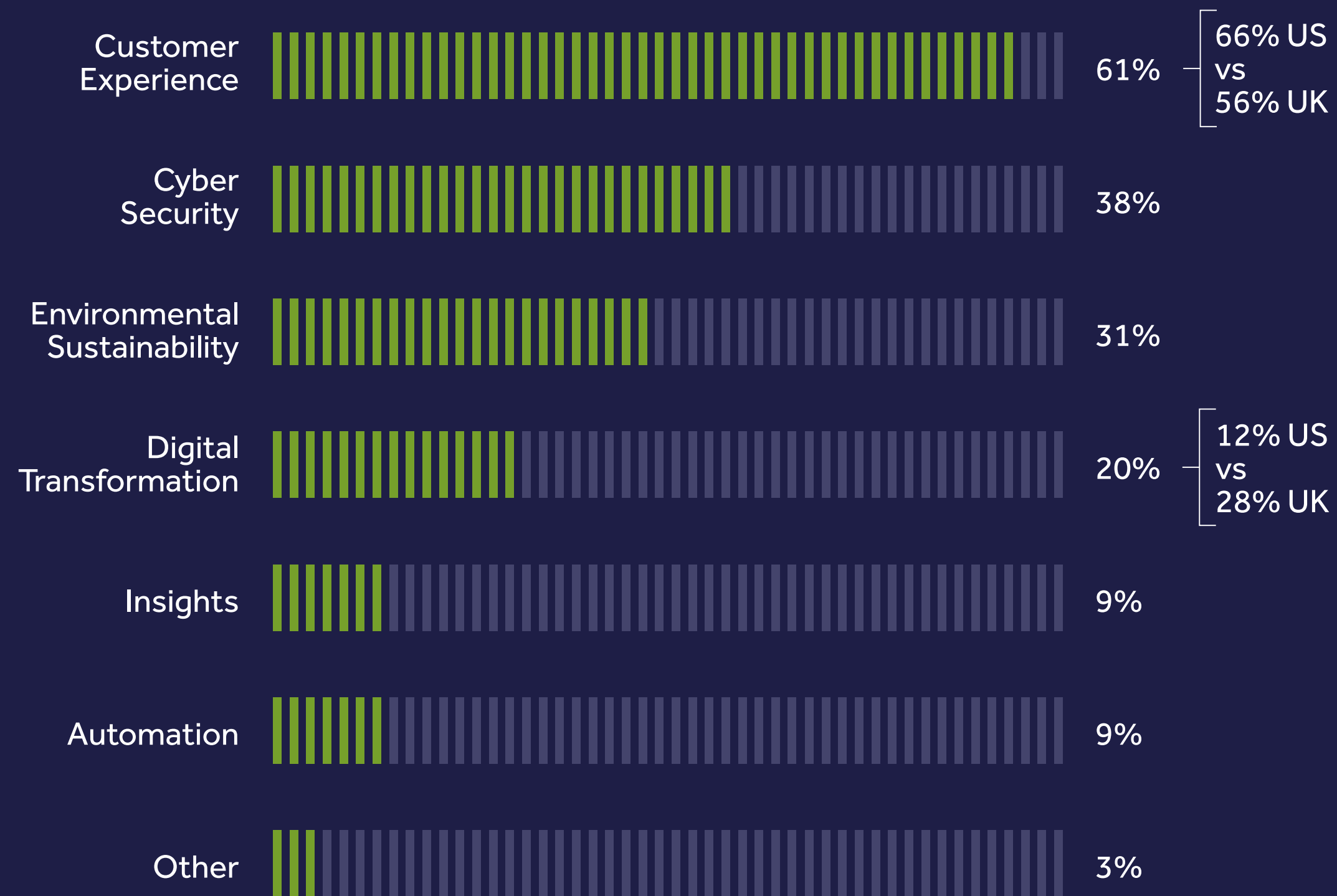
Compared to previous questions, this is where UK and US respondents start to align more equally. By a significant margin, UK and US businesses both place CX at the very top of their IT budgets.



Of those who have not changed their thinking on sustainability, almost two fifths (39%) say this is due to lack of funding, whilst 37% say sustainability was already a top priority for their brand.

A fifth (20%) say sustainability isn’t important to their brand, including a quarter (25%) of US respondents.

Only 3 in 10 place environmental sustainability in their top 2 IT budget priorities (31%)



It is at this point where we can start to clearly see the sustainability conundrum. On the one hand, businesses must retain their customers in order to stay afloat. Therefore, it makes sense that many businesses would prioritise CX; however, the consumer, as was previously known, has changed.

There is much evidence that illuminates how customers increasingly want to shop or do business with socially and environmentally responsible companies. Last year alone, **30% were boycotting retailers for a lack of environmental awareness (54% for the 18–24-year-old demographic)** and this is only going to continue growing.

Fashion and retail must not underestimate the significance of this generational shift in mindsets – particularly when considering the younger generations will soon have considerably more spending power.

In 2020, the Bank of America published a report on 'The Great Wealth Transfer'. Gen Z – those born between 1996 and 2016 – is believed to have the fastest growing economic power of all generational cohorts. **By 2030, it is predicted Gen Z will have an income totaling \$33 trillion as they enter the workplace – accounting for more than a quarter of global income.**

"Gen Z is going to bring broad disruptions to economies, markets and social systems," said Haim Israel, Head of Thematic Investing for Bank of America's Global Research division. "If they haven't done so already, businesses and investors need to start adjusting their strategies to reflect Gen Z's growing political, social and economic influence."

Given that more than half (54%) of Gen Z shoppers have already stated they boycott retailers for a lack of environmental awareness, it's clear **fashion and retail must adapt to the new consumer.** Crucially, this will not only help keep their profit margins tight, but it will help protect our planet as well.



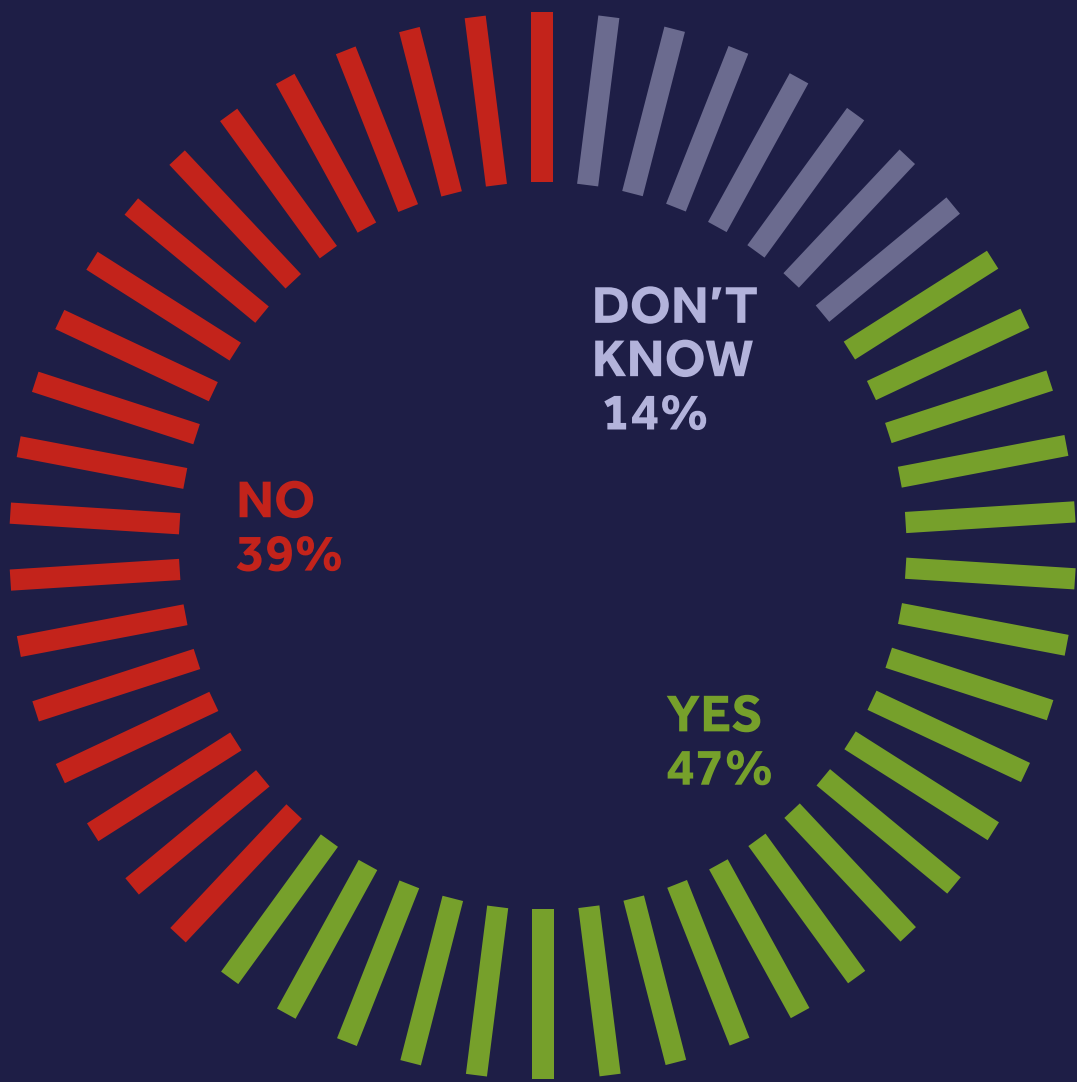
50% of macaw and parrot species are under threat due to pollution, climate change and loss of habitat

It's time to embrace new technology

Brands must adapt their processes to cater for the new consumer; however, there is still an obvious disconnect between their sustainability goals and their use of technology. It is essential businesses align their technology with their sustainability goals – yet less than half of respondents (47%) utilise IT resources to manage CSR or company-wide sustainability objectives.

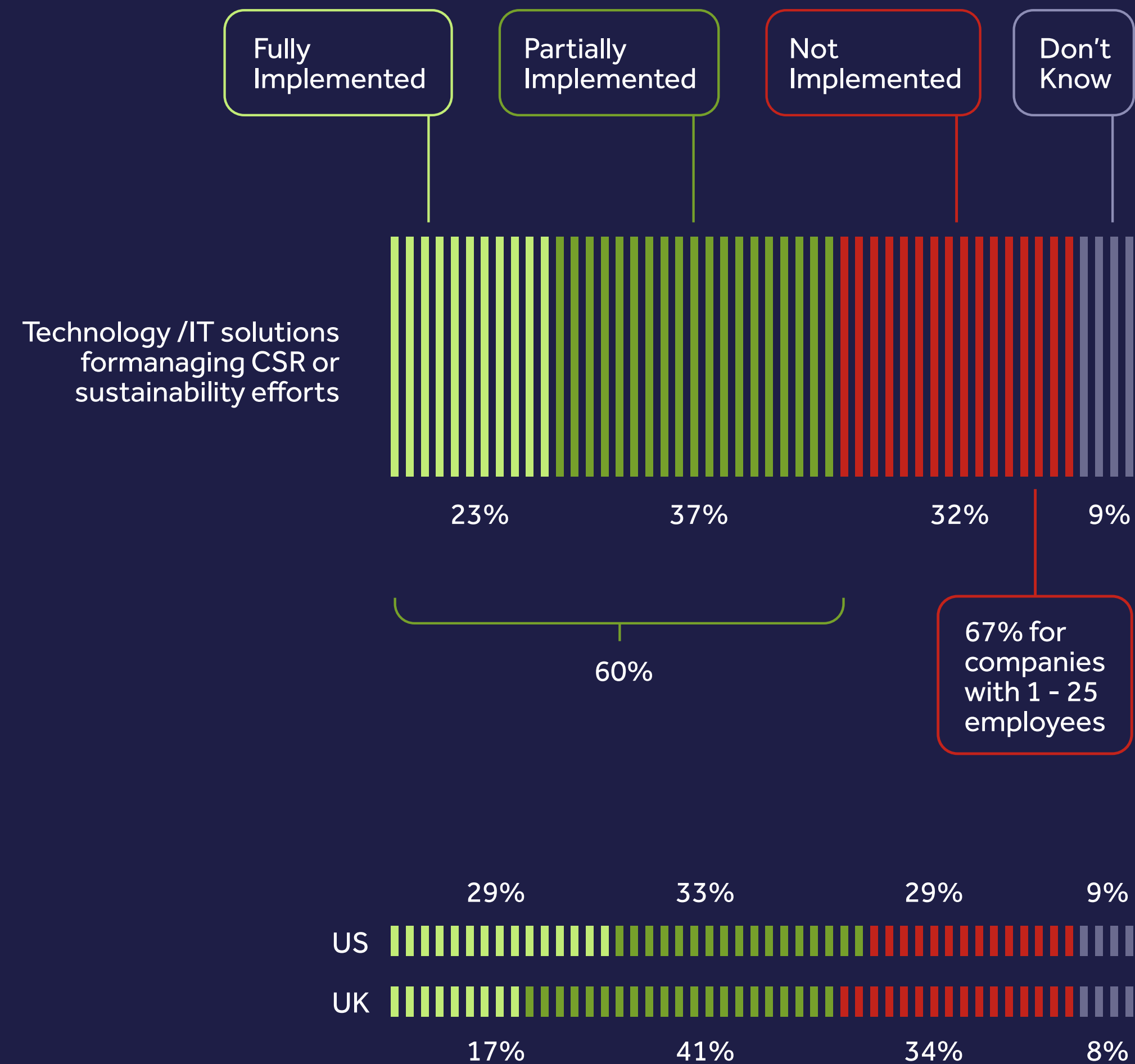
The smallest companies (those with one to 25 employees) are least likely to use their IT resources to manage CSR or sustainability; however, this seems somewhat natural given their notable lack of resources. It is positive to see middle to larger-sized organisations committing their IT resources in the name of either CSR or sustainability but the biggest companies (those with more than 10,000 employees) seem more hesitant to pledge such resources.

Less than half (47%) use IT resources to manage CSR or company sustainability objectives. This includes only 16% of the smallest companies.



Company Size	% Yes
1 to 25	16%
26 to 250	72%
251 to 1,000	68%
1,001 to 10,000	64%
10,001+	45%

While, 3 in 5 (60%) have at least partially implemented technology or IT solutions for managing CSR or sustainability efforts, only 23% have fully implemented them
US respondents were more likely to have fully implemented them



This is perhaps indicative that larger companies care less for sustainability but there is another explanation: it isn't always easy to implement technologies that enable the management of CSR and sustainability goals.

Three in five respondents have at least partially implemented technology or IT solutions to manage their efforts; however, only 23% have fully implemented them. This suggests that many businesses are struggling to adopt technology that supports their sustainability endeavours which may explain why less than half of businesses do not use their IT resources to manage CSR or sustainability goals.

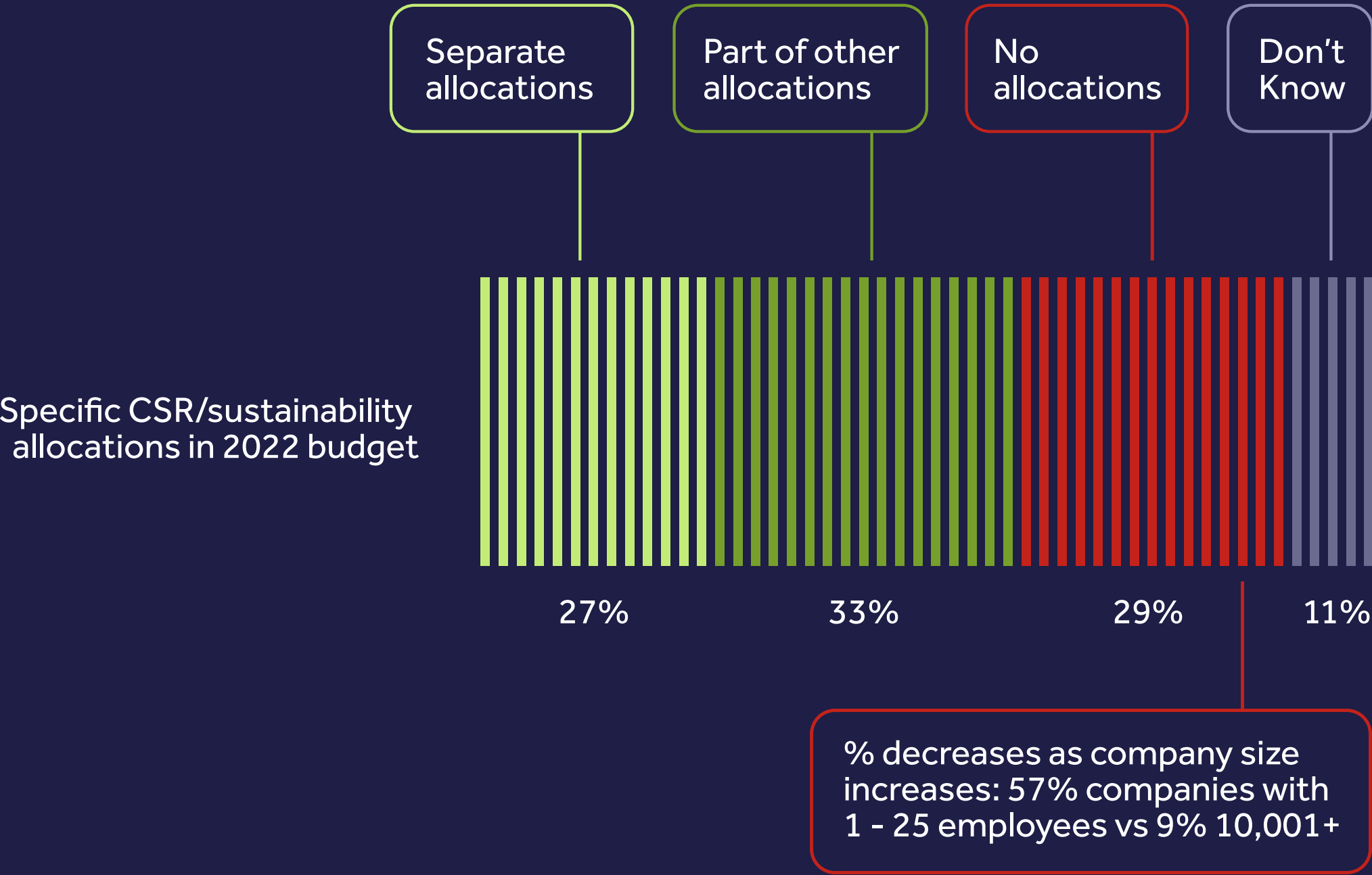
Three in five respondents have specific allocations in their 2022 budget for CSR or sustainability while 27% have separate allocations for them. Once again, these figures alter dramatically depending on the size of the company.

For companies with one to 25 employees, 57% have no allocations for CSR or sustainability. In contrast, only 9% of companies with more than 10,000 employees have no allocations for either area. This suggests that larger businesses are starting to commit part of their budget towards becoming more socially and environmentally friendly.



Bees and other insect pollinators have seen an alarming decline in this century through loss of habitat and insecticide misuse.

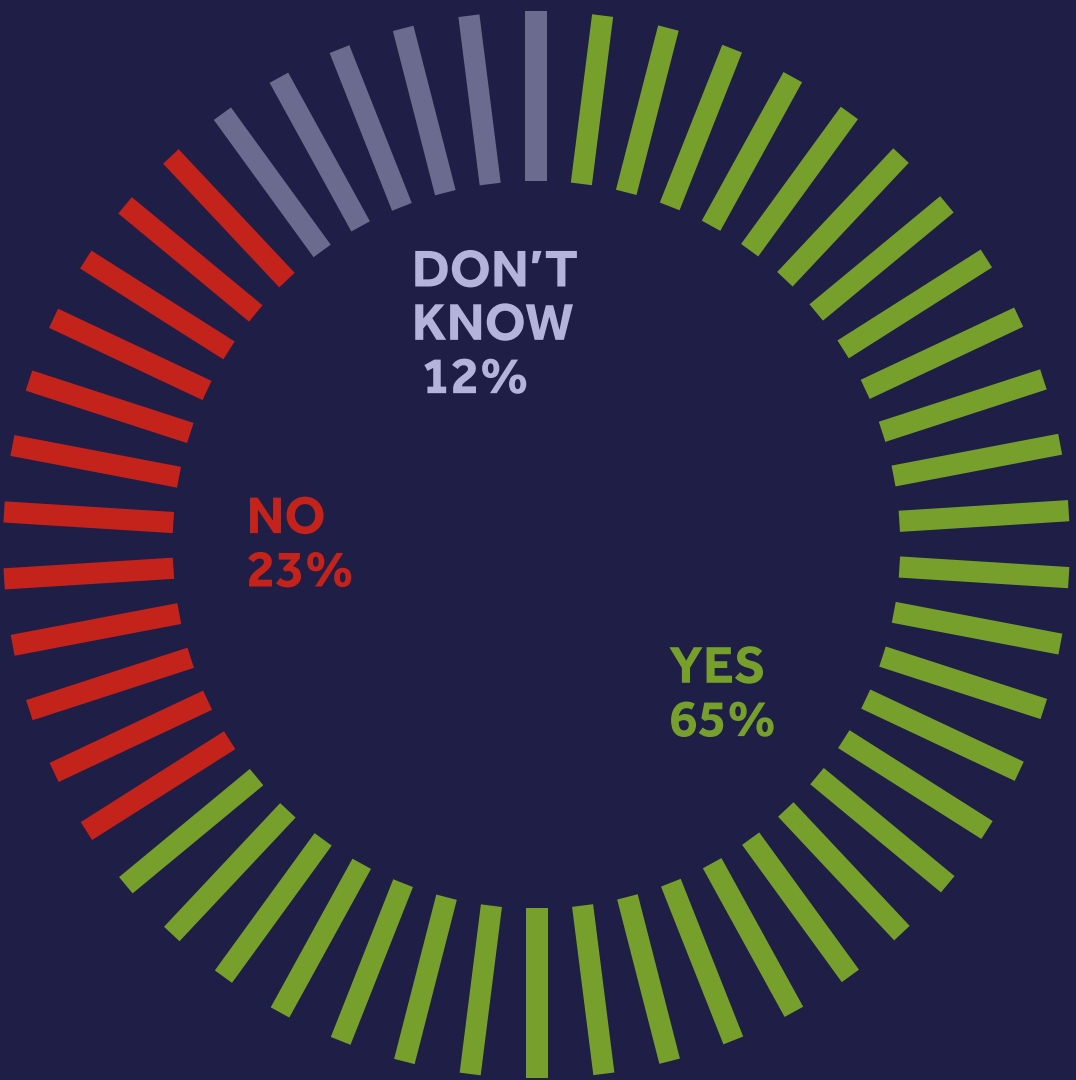
Similarly, 3 in 5 (60%) say they have specific allocations in the 2022 budget for CSR or sustainability, with only 27% having separate allocations for this



This is interesting when considering that only 45% of respondents who said yes to utilising IT resources to manage CSR or sustainability objectives with technology were companies with more than 10,000 employees. It implies that large businesses are indeed focusing on sustainability but without the use of technology.

To further explore how businesses will tackle sustainability, we quizzed respondents on the areas they are targeting. We found the majority (65%) are targeting supply chain transparency as a means to identify areas in their operations where they could become more socially and environmentally responsible.

Is supply chain transparency to focus for your sustainability efforts?



Company Size	% Yes
1 to 25	48%
26 to 250	73%
251 to 1,000	78%
1,001 to 10,000	77%
10,001+	68%

Almost two thirds (65%) say supply chain transparency is a focus for their sustainability efforts, but only 29% say they have all the supply chain technology they need to manage it more ethically and sustainably

Have you got the supply chain technology in place to monitor and manage your supply chain more ethically and sustainably?



While this is positive to see – especially in light of Germany's Supply Chain Act – only 29% said they have all the supply chain technology needed to manage it more ethically and sustainably.

This once again showcases the disconnect between business' use of technology in relation to their sustainability goals. Some 40% said they partly have all the technology needed but it could still be improved.

17% believe their supply chain technology needs to be improved while 14% don't know whether they can trace their supply chains effectively with their current tech stacks.

It seems clear that fashion and retail businesses are increasingly realising the importance of sustainability; however, several factors are hampering their ability to achieve their goals.

In some cases, businesses simply do not have the resources to make genuine strides in their sustainability endeavours. In others, companies are willing and want to become more sustainable, but they lack the knowledge or technology to do so.

"While constrained by budgets, pandemics and a struggle to survive, retailers have to look beyond the next weeks or months, embrace new technology and put in solutions now that will reduce waste, water consumptions and carbon emissions, without comprising the user experience," added Casey Potenzzone.

"This begins with the supply chain."

However, it is not all doom and gloom. There are solutions available in the market that are both cost effective and offer businesses a simple way to manage their supply chains and become more sustainable.



The true sustainability story for your products

The next generation of supply chain traceability technology is here and it has arrived at a pivotal moment for fashion and retail. Climate change has become far more than a talking point – it is a problem that impacts us all.

Today's consumer is huge on sustainability and so they should be. There is no greater time for brands to align their values with their customers' than right now.

Chemicals, dyes, salts and heavy metals from the fashion industry in Bangladesh and Indonesia are discharged directly into rivers, creating toxic environment for humans and wildlife.





ViJi, the supply chain traceability solution recently acquired by K3, is being integrated with our core products and we will soon launch a beta version of the application. When we have finalised development, it will allow businesses to track the entire lifecycle of a product from raw material through to the finished good.

Effectively, the solution will, once complete, give insight into the product supply chain and details about all suppliers involved that add to the creation and delivery of the product. The idea behind it is simple: to empower businesses and consumers by giving them the insights to support choices that make them more sustainable and ethical.

Previously, fashion companies could only dig one or two levels deep into their supply chain and were unable to drill down further – but this will soon change. With enhanced visibility, retailers and fashion companies can start to identify any areas in their supply chain which are not sustainable and begin to find alternatives.

All the information gathered from the entire supply chain can subsequently be made available for consumers to check via the B2C tool called *ViJi Clic* – a plugin that allows businesses to easily access and share CSR details about an individual product or supplier online.

In essence, it empowers businesses to become greener while also directly appealing to the new-age consumer who values socially and environmentally friendly practices.

“Investing in the supply chain is no longer a nice to have, but a requirement for any retailer or fashion business,” said Casey Potenzzone. *“Whilst our research reveals that fashion and retail businesses are committing to sustainability, this needs to be transferred into action, with bigger budgets and more transparency in the supply chain.”*

“Only by using technology to have full visibility over their operations will retailers be able to adapt quickly and create processes and products that don’t compromise our natural resources. It’s time for retail and fashion BDMs to put the planet before profits and commit to a world with technology and sustainability at its core.”

If you would like to learn more about K3’s integrated supply chain traceability solution, please [click here](#).



Thank you for reading!

About K3

As a Microsoft Cloud for Retail launch partner, K3 champions but one ideal: to foster an ethical and socially responsible world driven by sustainable practices.

We have innovated retail technology for the last 30 years, but today, we simply aim to empower others to make greener choices – and that starts with our solutions.

K3 blends its own IP with third-party products to create platforms that are truly transformative and enable forward-thinking brands to unlock enduring value and trust from intelligent, agile and sustainable business practices.

With purpose and pace, K3 will permanently transform fashion, apparel and select retail markets into a model of good business, transparency and ethical sustainability.

To learn more about K3 and how we can help your business, visit our website *here*.

