

Second-hand clothing to overtake fast fashion

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Wastage and the ever-growing carbon footprint of the fashion industry make it one of the most pollutive in the world. Around 100 billion apparel items are sold each year, which is about a 50% increase versus 2006¹, largely due to the rise of “fast fashion” – cheap, high-fashion items. In fact, the industry now emits more CO₂ than the aviation and shipping industries combined, and uses 79 billion cubic meters of fresh water a year, while raw material and textile production also contributes to water pollution).

But unfortunately, very little of what the industry produces is recycled and reused, with most items ending up in landfill or incinerated within a year of production.² According to the Ellen Macarthur foundation, the global fashion industry produces about 53 million tonnes of fibre a year, of which more than 70% ends up as waste. Less than 1% is reused in new clothes.³

However, we are now in the early stages of a structural shift in fashion consumption, driven by young consumers and characterised by a shift towards greater awareness of sustainability. Retailers are beginning to embrace the idea of recycling and resale, and governments are building initiatives to support the shift.

The recycling of old clothes and shoes into new items is an increasing trend, as touched upon by global equities portfolio manager Pauline Grange in her recent viewpoint “Fashion eyes sustainability via the circular economy”. Alongside recycling, however, the rise of the re-use and second-hand market is poised to provide investors with an incredible opportunity: it is projected to double over the next five years to \$77 billion⁴ and could be twice the size of fast fashion by 2030.

¹ <https://www.ubs.com/global/en/investment-bank/in-focus/2021/industry-at-risk.html?caasID=CAASActivityStream>

² <https://www.ubs.com/global/en/investment-bank/in-focus/2021/industry-at-risk.html?caasID=CAASActivityStream>

³ <https://www.thredup.com/resale/static/thredUP-Resale-and-Impact-Report-2021-980436a36adc4f84a26675c1fcf2c554.pdf>

⁴ <https://www.thredup.com/resale/static/thredUP-Resale-and-Impact-Report-2021-980436a36adc4f84a26675c1fcf2c554.pdf>

Consumer-driven change

One company that has spotted and taken advantage of this opportunity is Zalando⁵, a fashion and lifestyle ecommerce business. It aims to integrate sustainability and circular economy principles into its strategy, to become a net-positive fashion platform. The company should benefit if consumer preferences continue to shift towards more sustainable products and product resale.

Zalando is focused on promoting circularity and has set a target of extending the life of at least 50 million products and generating 25% of gross merchandise volume from more sustainable products by 2023, up from 16% in 2020. To achieve this, Zalando has introduced a flag and filters system for more sustainable products across its platform, enabling consumers to select items from a range of brands that relate to themes such as environmentally friendly materials, water conservation and worker welfare. To promote circularity, Zalando offers customers the ability to buy and sell second-hand items on their proprietary Zircle platform and it also directly buys second-hand items from customers through the Pre-Owned initiative. Zalando hopes to capitalise on an engendered loyalty, with increased engagement potentially creating longer and better consumer relationships.

Recent activity elsewhere in the economy suggests other major players in the fashion industry expect this long-term structural change. Ecommerce firm Etsy is paying \$1.6 billion for Depop⁶, a UK-based second-hand fashion app 90% of whose users are under 26. H&M has bought a 70% stake in Sellpy⁷, a second-hand marketplace focused on sustainability, and wants to expand across 20 new markets in a major international push. H&M subsidiary COS has launched a digital resale platform called Resell⁸ which will allow consumer-to-consumer resale of COS items. Vinted, a European online clothing resale platform, raised €250 million in its latest investment round, valuing the company at €3.5 billion.⁹ Even luxury conglomerate Kering is involved, acquiring a 5% stake in Vestiaire Collective¹⁰, a peer-to-peer luxury clothing resale platform. These are widespread and structural changes across the industry.

Another move that could ignite the structural shift in fashion consumption is Nike launching its pre-owned sneaker collection and resale pilot – Nike Refurbished. This is an example of a company taking a direct step into the product resale market with potential implications for its own new sneaker sales and for third-party resale platforms. To date, most high profile brands have avoided direct brand involvement in product resale.

Regulatory support

Alongside this there is a regulatory push. The UK and the EU are seeking a shift away from the disposable economy and wastage, setting binding targets for 2030 and 2050. Textiles 2030 is harnessing the knowledge and expertise of UK leaders in sustainability to support the UK fashion and textile industries as they move towards sustainability and systemic change. The initiative is open to all businesses in the fashion and textiles value chain, from retailers to recyclers. This voluntary agreement allows these businesses to collaborate on carbon, water and circular textile targets, and additionally contribute to national policy discussions with UK governments to further regulatory developments.¹¹

⁵ Mention of specific stocks is not a recommendation to buy

⁶ <https://www.bbc.co.uk/news/business-572594>

⁷ <https://www.reuters.com/article/us-h-m-sellpy-secondhand-idUSKBN240224>

⁸ <https://insideretail.co.nz/2020/09/07/hms-cos-launchesreseller-platform/>

⁹ <https://techcrunch.com/2021/05/11/vinted-raises-303m-for-its-2nd-hand-clothes-marketplace-used-by-45mand-now-valued-at-4-5b/>

¹⁰ <https://luxiders.com/kering-stake-vestiaire-collective/>

¹¹ <https://wrap.org.uk/taking-action/textiles/initiatives/textiles-2030>

The UK Department for Environment, Food and Rural Affairs is consulting on an Extended Producer Responsibility¹² plan for fashion, construction, vehicles, food and electronics, and the EU is considering similar EPR schemes, including for fashion, as part of its Circular Economy Action Plan. These will give producers an incentive to make better, more sustainable decisions at the product design stage, making it easier for products to be reused or recycled. For fashion, it would likely require brands and retailers to fund clothing recycling and innovate in materials and textile design.

A third strand of indirect regulatory support comes from national level emissions reduction targets aligned to the Paris agreement, as well as the related corporate efforts to reach 'Net Zero' goals. These should provide a tailwind for the resale trend, as lengthening the lifespan of products has the potential to reduce the fashion sector's emissions footprint.

This consumption pull and regulatory push could lead to unstoppable, long-term structural change – and this change has only just begun. With fashion consumers planning to shift more spend to re-use items than in any other industry¹³, second-hand could prove to be a first-rate investment opportunity.

¹² <https://consult.defra.gov.uk/extended-producerresponsibility/extended-producer-responsibility-forpackaging/>

¹³ <https://www.thredup.com/resale/static/thredUP-Resaleand-Impact-Report-2021-980436a36adc4f84a26675c1fcf2c554.pdf>

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