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Google Cloud

How to help drive sustainability in retail—while protecting margin

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Contents

For two years, the COVID-19 pandemic stopped much of the world in its tracks, and many of us suddenly had more time to reconsider our priorities, how we consume, and the impact we are having on our planet. While much of the world was on pause, we saw dramatic improvements in air and water quality, ecosystems reemerge, and a global decrease in carbon emissions.

Did we learn any lessons from that time on pause? The retail industry thinks so. Out of that renewed sense of appreciation for our time and natural resources, it seems much of society now collectively understands the urgent challenge ahead: How can we help recreate an environment where nature thrives and the planet is protected—without having to completely close up shop? How can we help prioritize sustainable outcomes that are both good for the planet and, in increasingly challenging economic times, good for business, too?

Driving sustainability through technology

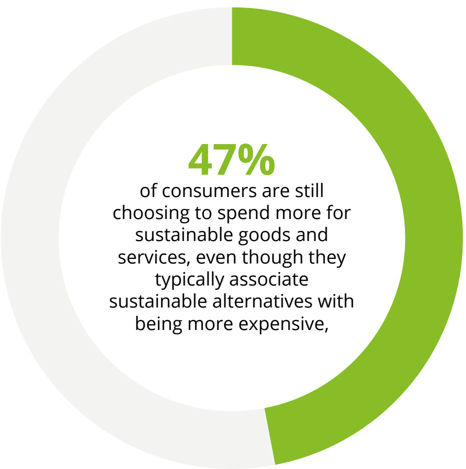
Emerging from the pandemic, we've witnessed the fast-tracked development of technology that's pushing the envelope on sustainability. Today, these tech-enabled tools are helping companies balance the short-term benefits of investing in sustainability, like gaining operational efficiencies, with long-term benefits like differentiation, driving consumer choice, and a bolstered bottom line.

In the retail industry, new technology is helping enable fashion and textile companies to optimize across sourcing and production, operations, supply chain, and logistics/reverse logistics, as well as helping address the imperative for tracking and tracing. Technology has even gone so far as to help power completely new circular business models, like rental and recommerce, and unite disparate data so that companies can have better visibility of their environmental footprint, which can help them make more meaningful sustainability commitments. These new ways of measuring progress can help organizations become more transparent in their sustainability efforts, because both customers and regulators will likely continue to demand action and accountability.

Investing in technology to help drive sustainability can be good for business, and for companies that are already acting today, sustainability is a differentiator. But tomorrow, it will likely be table stakes.

Current and future customers

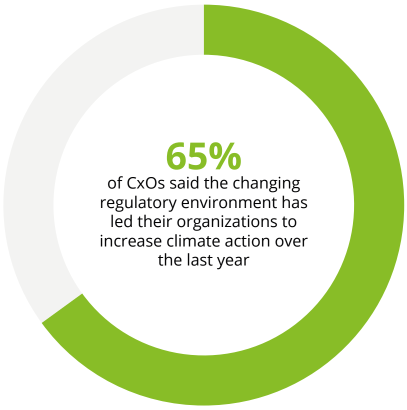
As millennials and Generation Z continue to wield spending power and influence the consumer landscape, newly available data indicates that sustainability matters to these customers—a lot. "In the face of the highest inflation we've seen in decades, 47% of consumers are still choosing to spend more for sustainable goods and services, even though they typically associate sustainable alternatives with being more expensive," says Stephen Rogers, managing director, Consumer Industry Center, Deloitte US. Despite an inflationary economy in Europe, the ongoing Russia-Ukraine conflict, China's pandemic-related closures, and political and economic uncertainty in the US, mounting consumer pressure from younger generations is encouraging many brands to move toward more sustainable practices.



Doing what's required

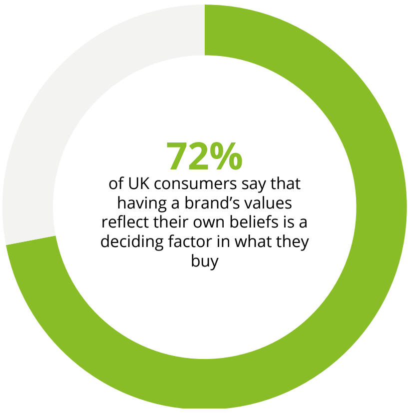
Deloitte US research reveals inaction on climate change could cost the world's economy US$178 trillion by 2070, and governments and regulatory bodies are passing sustainability legislation around the globe that will likely soon require real, verifiable metrics reporting. The European Green Deal, for instance, aims to reduce net greenhouse gas emissions across the continent by 55% by 2030, and while the US is trailing behind, regulatory requirements have begun to roll out in New York and California, with metrics also aimed to be met by 2030. 65% of CxOs said the changing regulatory environment has led their organizations to increase climate action over the last year.

But doing what's required may not be the same as doing what's right. Beyond the forthcoming regulatory reporting requirements, something much bigger could be at stake—brand reputation.



Doing what's right

When it comes to sustainability, many of today's consumers want to know that a company has priorities beyond profit, and with sustainability claims around each corner, it can be easy to suspect greenwashing. Now, consumers are challenging brands to be more transparent around their environmental, social, and corporate governance (ESG) footprint. According to a recent Think with Google report, 72% of UK consumers say that having a brand's values reflect their own beliefs is a deciding factor in what they buy, so making a sale can come down to whether or not a consumer feels they can trust what a company claims to be true. Not only that, sustainability has become a driving concern within the workforce, too, as many companies seek to attract and retain employees from a talent pool who care about the environmental commitments of their employers.



Progress in sustainability perhaps hasn't been made quickly enough, due in part to a lack of technology that might have allowed organizations to advance more rapidly. Until now. The stories explored in this paper offer an optimistic view of what's possible now that the industry has better access to tech-enabled tools, solutions, and capabilities that can help drive meaningful change.

By starting now, companies can both get ahead of requirements on the horizon and start doing what's right to help address real climate challenges and drive sustainability—the benefits of which can outweigh the cost, even in an uncertain economic environment.

Start anywhere, go anywhere

Tackling sustainability may seem daunting, but in reality, it can be as simple as adopting a "start anywhere, go anywhere" approach. According to a recent Google Cloud survey, 54% of retailers say they don't know how to become more sustainable, but many companies need not reimagine the entire value chain from end-to-end nor overhaul their whole business model. By simply selecting one aspect of their process and considering the ways in which it could be approached from a more sustainable lens, companies can likely begin to make a positive impact faster than they think. Developing environmentally-friendly materials and finding new ways to be more sustainable in design, production, distribution, and communication can help companies create products that are inherently sustainable, and lead customers to interact with those products in new and unique ways.

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>
> **Maria McClay**
> Director of Fashion & Beauty at Google Cloud

Sourcing

Much of the negative environmental impact in the apparel industry occurs at the raw materials stage of the production process where many brands have little to no visibility. This lack of easy-to-digest, relevant data can become a barrier to taking action Maria McClay, Director of Fashion & Beauty at Google Cloud, says. "It's not that brands have not wanted to make meaningful change, but they have lacked data and scalable tools to help them make more informed choices. Technology as an enabler, and cross-industry collaboration, will continue to be crucial in helping the industry make a meaningful step change and fill in these data gaps." To name just one effort, McClay recently worked in collaboration with the World Wildlife Fund (WWF), Textile Exchange, and leading brands and industry specialists to pilot the Global Fibre Impact Explorer, a tool that provides brands with the information needed to help make more informed sourcing decisions. After uploading the brand's fiber portfolio, this tool uses close to real-time data to assess environmental, reputational, and regulatory risks and provides tailored risk reduction recommendations including opportunities to invest in regenerative agricultural practices, certifications, and how to switch to certified fibers.

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Caroline Laurie
Vice President of Corporate Responsibility at Burberry

Luxury powerhouse Burberry aims for 100% of its key raw materials to be traceable by FY2025/26, a deadline that's around the corner. In Deloitte Global's 2023 Global Powers of Retailing report, Caroline Laurie, Vice President of Corporate Responsibility at Burberry, said sustainability ambitions are no longer enough—it's time for operational delivery: "Traceability will give us absolute visibility from the field to the wardrobe. That means understanding the supply chain, understanding risk and sourcing in the various regions. We have a roadmap to support that, with key milestones. This helps us deliver and report on our targets, both environmentally and socially, and, above all, it is what consumers want."

In addition to these new tracking and tracing tools, companies can now use tools that create digital supply chain twins of garments and fabrics to help reduce logistics, supply chain waste, and inefficiencies that are often affected by unpredictable variables like weather events, a global pandemic, or geopolitical factors. The sharing of information between brands and suppliers can help strengthen the integrity of digital supply chain twins supplemented by third-party data, including near real-time climate information and non-traditional location intelligence sources like Google Earth Engine and Carto to help fill in the gaps. In short, better visibility can enable better scenario planning and strengthen overall resilience for brands.

Design planning and production

Inventory management, or lack thereof, is often a big cost driver in the industry. More effective planning and store allocations upfront can mean lower costs later, whether that be through store-to-store transfers or markdown savings, and can lessen the need to make fewer last-minute decisions. Google is helping companies combat the problem of overproduction and inaccurate forecasting with machine learning via their flexible demand forecasting model. Brands have also been experimenting with digital product design, photo-real, 3D fashion design, and animation to help reduce sample costs, enable more rapid prototyping, and gain end-to-end visibility across their supply chain for planning and inventory purposes. Tommy Hilfiger for example, had such successful results with their digital product design tool, Stitch 3D, that they opened it up to other brands. One of the challenges with this new technology, however, has been translating 2D sketches into 3D. But through new advances in machine learning, it's now possible to more easily create 3D images from a handful of 2D images, and typically much easier to put these changes into place at scale at a reduced cost.

More and more, it seems that for each challenge retailers face, there's a promising solution on its way.

Logistics

Over the past several years, online purchases exploded in growth and created a somewhat false hope of a retail spending windfall. In 2022, however, US$816 billion worth of retail merchandise ordered online was returned as buyers felt the pinch of inflation and became more selective with what they chose to keep, along with the regular practice of over-purchasing with the intent to return (i.e., customers purchasing the same product in multiples sizes or colors to try on at home). Reverse logistics have created a major problem for companies from both a sustainability and sales perspective. New AI-enabled logistics tools can help brands automatically determine where items should be returned, plan efficient shipping between distribution centers, reduce the number of split shipments, and optimize store-to-store transfers. AI-enabled fleet routing is also helping reduce emissions and overall carbon footprint across the industry: UPS gained US$400 million in cost savings and saved 10 million gallons of gas per year working with Google Cloud to create new routing software.

New business models

Brands across various levels of the retail landscape have taken note of the uptick in consumer interest based on a classic shopping trend—resale. From high street fashion to heritage luxury to high-end department stores, almost everyone seems to be in on circularity—even Selfridges currently has a range of vintage designer accessories on display at their London flagship for resale, aptly called RESELFRIDGES.

"We knew there was already a massive market for previously worn lululemon products [...] Now, new and existing guests can come directly to us for these gently used products and let us handle the logistics, while extending the life of the products they love."

Maureen Erickson
Senior Vice President of Guest Innovation at lululemon

Today, circularity is considered mainstream, and estimated to be worth

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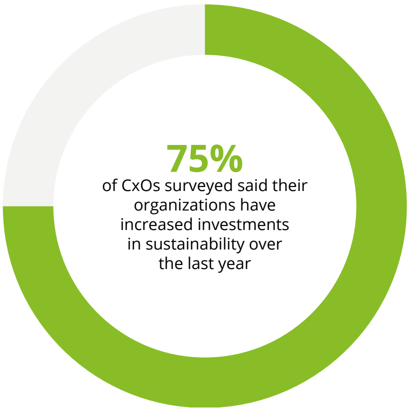
New circular business models are fueling growth across industries and appealing to new consumers, as well as to the needs of more sustainability-conscious customers. Today, circularity is considered mainstream, and estimated to be worth USD$4.5 trillion in economic benefits by 2030. In answering this call from consumers, circular business models like recommerce and clothing rental services have been challenging businesses to scale profitably given highly fragmented stock keeping units (SKUs). Now, AI is helping make it easier for companies to certify genuine products, price them accordingly, and surface them to interested customers. Because of that, companies like Inditex, lululemon, Gucci, and more are now able to control how their products show up in these markets. Rental and recommerce services like Trove, TheRealReal and thredUP are also embracing new technology to help power their circular business models. For instance, clothing rental service Nuuly, owned by Urban Outfitters, began using new cloud-based technology in 2019 to gain visibility across their logistics arm and measure sustainability. It helps them see how far any given piece has traveled, how many times it was rented, and how and where it makes sense to alter deliveries based on geolocation, which helps the company stay on top of their carbon footprint.

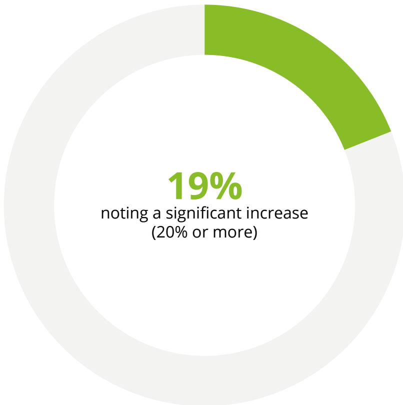
Just launched in 2023, Gucci Continuum uses the brand's archival fabrics and unsold accessories to create new and unique garments that promote circularity. Canadian tech apparel brand lululemon piloted their "Like New" recommerce program in select parts of the United States in 2021, which offers their clientele an opportunity to trade in their gently worn lululemon apparel and accessories for a credit to put towards new gear. Maureen Erickson, Senior Vice President of Guest Innovation at lululemon told us, "We knew there was already a massive market for previously worn lululemon products [...] Now, new and existing guests can come directly to us for these gently used products and let us handle the logistics, while extending the life of the products they love." She also noted the program's ability to help the company connect to a new audience, "Like New has enabled us to reach a younger audience, as our premium product is offered at a more affordable price point." Beyond that, 100% of profits from the program are reinvested into the company's sustainability initiatives, which currently includes circular product design, renew and recycle programs, and environmental impact programs for their brick-and-mortar stores.

Spain's Inditex, parent company to brands including Zara, Massimo Dutti, and Oysho embeds sustainability across the organization, including the shop floor, HQ, and many places in between. Javier Losada, the company's Chief Sustainability Officer, is working to make sure all employees feel in charge of change, no matter where they sit within the organization. Inditex recently started a program called 'Changemakers' that empowers employees to find new, innovative ways to help make sure sustainable practices reach each store. "Our employees have the connection to our products and customers every day," says Losada, adding that the Changemakers program gives employees the opportunity to "work on feedback, ideas, and concerns from our teams and customers." The program is currently up and running across 53 markets and, in time, will likely extend to Inditex stores around the world. Employees were also the first customers of the "Zara pre-owned" circularity program, which helps extend the life of garments through repair, donation, or recycling. Since the employee pilot, in-market customers are now also enjoying the opportunity to help transform the life of their clothing through Zara pre-owned.

Across the board, these initiatives are helping stimulate innovation throughout the industry, increasing differentiation and competition in the market, and helping reduce pressure on the environment.

Bolstering the bottom line





Becoming an authentic, sustainable brand can pay dividends—with your customers, in the market, and in the boardroom. Beginning with cloud-based tools and solutions that help enable digital tracking and reporting capabilities, companies can start attaching verifiable metrics to sustainability that satisfy regulatory reporting requirements on the horizon. But investing in and adopting these new tools can lead to much bigger benefits like overall cost savings, operational efficiencies, increased customer loyalty, selling more at a higher price and higher margins... or all of the above.

Deloitte Global's 2023 CxO Sustainability Report shows that some 75% of CxOs surveyed said their organizations have increased investments in sustainability over the last year, with 56% of CxOs noting a slight increase (between 6-19%) and 19% noting a significant increase (20% or more). And beyond the positive impact it's having on our planet, CxOs are seeing the benefits of these investments expand into areas like brand recognition, customer satisfaction, and increased supply chain efficiency and resilience.

The truth is, no single retailer has it figured out—nor any industry, for that matter. But optimism abounds, as 84% of leaders agree that both their organizations and the global economy can continue to grow while also making real progress in achieving climate change goals. Focusing on progress–not perfection–has already begun to pay off for many key industry players as evidenced in the brand stories above. Having a purpose beyond profit is an opportunity to drive meaningful connection with consumers, and enacting positive change can only stand to benefit a company long-term both in and out of the boardroom.

As the retail industry works together to become more sustainable, companies should continue to shift the consumer mindset toward trust by connecting with their audiences more authentically and with greater transparency. Combined with the tech-enabled tools that can help drive sustainability faster, a company's efforts can mean higher margins, higher revenue, and more ROI across the board.

Ultimately, what's good for business can be good for the planet, too—and that seems like a win-win for everybody.

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