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# Dress to impress: the benefits of natural capital accounting in the apparel sector

## Key opportunities

The fashion sector contains significant environmental risks and dependencies which, when internalized, threaten profitability and the ability to operate at already squeezed margins.

### Leading apparel brands who recognize these risks are responding by:

- Building trust through greater transparency of environmental and social challenges
- Enhancing corporate sustainability strategies with clearer targets and robust prioritization
- Increasing stakeholder relevance by putting a financial figure on the 'value at risk'
- Developing more sustainable garments by enhancing lifecycle analysis data
- Building the business case for investment in innovative sustainability initiatives
- Informing strategic decisions including material substitution, processing changes and sourcing locations.

Natural capital accounting has a wide range of applications for companies in the apparel sector which can improve business and environmental performance. This briefing outlines the main opportunities identified in the Sustainable Fashion Academy's white paper on natural capital accounting written by Trucost following feedback from a range of brands within the apparel industry.

The relevance of natural capital accounting for apparel companies is being driven by factors such as water scarcity, which is threatening crop production as demonstrated by cotton slumps and price hikes following droughts in China and the US, and reputational risk, as witnessed by campaigns over factory working conditions and hazardous chemicals. Apparel firms have responded positively, with many setting challenging goals to improve environmental and social performance. Natural capital accounting offers the chance to take these initiatives to the next level.

Natural capital refers to the planet's resources and services such as land, forests, the water cycle and a stable climate which companies depend on to provide raw materials and energy inputs for their business activities. Yet our economic system greatly undervalues natural capital, or even treats it as free, meaning we use it in an unsustainable way.

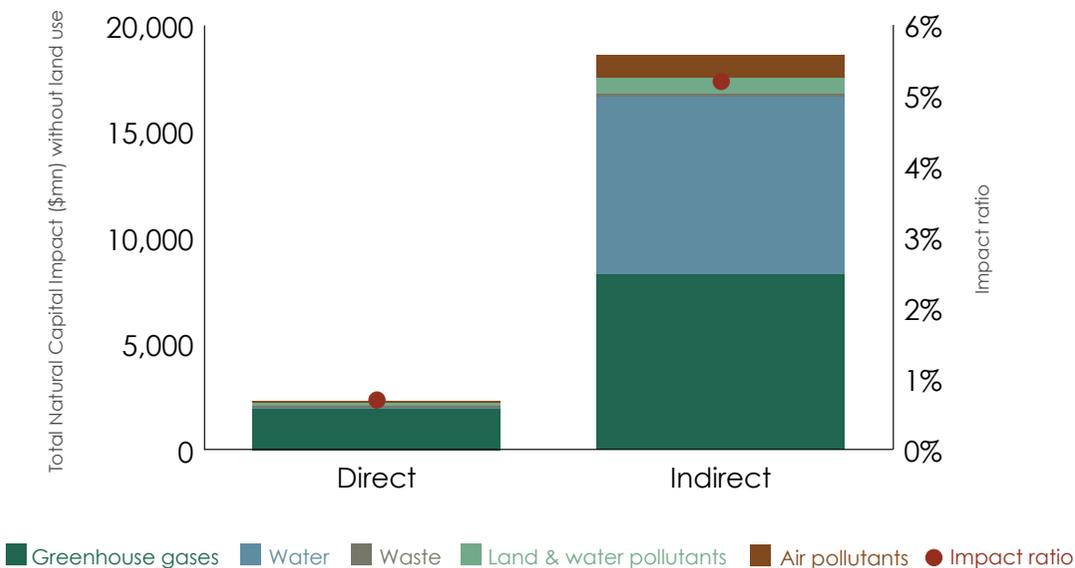
## Reduce supply chain risk

One of the main benefits of natural capital accounting is as a tool that apparel companies can use to understand environmental risks facing their businesses such as water scarcity, land degradation, greenhouse gas emissions and chemical use.

Trucost calculated the apparel sector's total natural capital cost to be more than \$40bn per year, equivalent to more than 6% of the sector's revenue. Unless apparel firms take action to minimize these risks, tighter environmental regulation such as higher water abstraction charges and carbon prices could force companies to pay some or all of these costs in future years. For example, the Otto Group calculated its environmental costs to be the equivalent of 10% of its turnover, with textile manufacturing as the most significant source of its impacts.

The figure also illustrates how apparel companies are exposed to most of these risks through their supply chains, from suppliers of raw materials such as cotton in developing countries such as India and Bangladesh which are most vulnerable to climate change.

FIGURE 1: APPAREL SECTOR DIRECT AND INDIRECT IMPACTS



By putting a monetary value on natural capital, it can be genuinely integrated into business decision making, empowering companies to protect and enhance it and ensure future prosperity for all.

## Boost brand value

How customers perceive brands is of crucial importance in the apparel sector. Campaign groups have targeted apparel companies over issues such as harmful chemicals and factory working conditions.

Natural capital accounting can help protect and enhance brand value by ensuring the company's approach to managing its environmental responsibilities is robust and transparent. An opinion poll of companies in the apparel sector and their stakeholders conducted by Trucost for the white paper found that three quarters agreed that natural capital accounting can boost a company's reputation.

## Enhance corporate sustainability strategy

Many companies in the apparel sector already have well-developed sustainability programs. But these are often built on conventional assessments of a company's impacts using traditional environmental metrics such as tonnes of carbon dioxide and cubic meters of water used.

While this is an excellent start, putting a monetary value on environmental impacts gives the data much greater clarity and relevance for the business. It creates a strong evidence base on which to refine plans and set tough yet achievable performance targets. It also enables decision makers to compare a range of options, assess their relative importance and prioritize action.

### Stakeholder engagement and communication

Natural capital accounting can be used by companies in different ways. One is an ‘environmental profit and loss account’ – a company-wide assessment of a business’s environmental costs and benefits that mirrors traditional financial accounts.

An EP&L provides a clear and succinct way to communicate what sustainability means for your company to customers, suppliers, employees and board members. For example, being able to put a figure on the ‘value at risk’ facing a company as a result of its environmental challenges can help gain the company board’s support for action.

### Product optimization

Natural capital accounting can be used to improve the performance of products. Many companies already conduct lifecycle analyses of products to identify their main impacts and where they occur in the raw material sourcing, manufacturing, use or disposal phases.

LCA data can be enhanced using natural capital accounting to enable comparison of different impacts such as waste and carbon emissions. The analysis uses country-specific data, so the natural capital cost of water use in country at risk of water shortages is higher than a country where the risk is lower.

FIGURE 2: PUMA INCYCLE BASKET SHOE



Sportswear company PUMA has been part of a recent project with Trucost and the Cradle to Cradle Products Innovation Institute investigating how natural capital accounting can demonstrate improvements in product design such as for the brand’s new ‘Incycle Basket’ shoe.

### Build on existing sustainability initiatives

Natural capital accounting can build on existing apparel industry initiatives such as the Sustainable Apparel Coalition’s Higg Index by monetizing environmental performance. It could also support moves towards integrated financial and sustainability reporting by the IIRC by providing investors with the quantified environmental data they require.

The Natural Capital Coalition is developing a protocol for natural capital accounting supported by sector specific guidance for the apparel sector. The aim of the protocol is to encourage natural capital accounting by introducing a more standardized approach to existing methodologies. By gaining experience of natural capital accounting now, apparel companies can help shape the future of how it is applied.

## Recommendations

Natural capital accounting is being driven forward by companies, investors and governments which recognize its potential to help develop more sustainable business models that enhance and protect natural capital. The apparel sector is on the frontline of many environmental challenges and could benefit most from exploring the opportunities that natural capital accounting offers.

“Until we begin to assign monetary values to environmental and social externalities, market dynamics will continue to devalue nature and social welfare. But if we use the language and tools that markets and financial actors understand, we significantly increase our ability to demonstrate where real value lies,” says Mike Schragger, director of The Sustainable Fashion Academy.

“Yes, many fundamental aspects of nature and human existence are priceless. But until we assign meaningful numbers to these values, they will continue to be invisible to the economic paradigm that drives development today.”

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## ABOUT THE AUTHORS

*Caroline Bartlett, senior research analyst, author of the SFA white paper*

Caroline is the senior research analyst and textile specialist at Trucost who authored the SFA white paper. She specializes in consumer goods and services, with particular focus in textiles, having gained valuable experience at the Sustainable Clothing Action Plan where she was based for five years. Caroline is a member of the European Outdoor Group and has worked on many projects reviewing means to improve resource efficiency within the clothing retail sector supply chain, and mapping the flow of textiles in the UK. Caroline was responsible for reviewing product use and end-of-use models for the Higg Index on behalf of the SAC. She has a BSc in environmental biology.

*Jacqueline Jackson, account director, sustainable fashion specialist*

Jacqueline is responsible for account management at Trucost in the retail, textiles, fashion and footwear sectors. She has extensive experience of working with public and private organizations to assist with business strategy, delivery and global communications. Jacqueline worked with Pants to Poverty in developing the world's first 3D P&L which takes into consideration both social and financial valuation. In 2011 she founded an ethical e-commerce site, providing designers who up-cycle with the portal to promote sustainable fashion and arts to a global market. Jacqueline has an MFA in fine art from the University of Oxford.

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