

Sustainability Challenges and Ethical Concerns in the Fast Fashion Industry: A case study.

Abstract

Fast fashion has become a major force in modern consumer culture because of rapid production and availability of affordable, trendy clothes. However, fast fashion industry because of its unsustainable practices has caused significant environmental impact. The industry is the second biggest consumer of water and is responsible for ten percent of global carbon emissions. The case study critically examines sustainable business model of Zara and addresses the question of whether fast fashion companies can ever become environmentally sustainable and ethical. The findings emphasise the critical need for ethical accountability and organisational transformation in the fast fashion industry to strike a balance between economic development, environmental sustainability, and social justice.

Key Words: sustainability, fast fashion, corporate social responsibility, Zara

Introduction:

The current world in which market retailers are operating can be described in one simple word: dynamic¹. Due to changing consumer habits, demands, and buying patterns, it is crucial for the fashion apparel industry to have the ability to follow and adapt to new trends as fast as possible. Zara is a global fashion brand that is part of the Inditex Group, a Spanish multinational clothing company headquartered in Arteixo, Galicia. Founded in 1975 by Amancio Ortega and Rosalía Mera, the company has since grown to become one of the world's largest fashion retailers, with over 2,000 stores in 96 countries^{2,1}.

Zara is known for its fast-fashion business model, which allows the company to quickly respond to changing fashion trends and produce new collections in a matter of weeks. This is achieved through a vertically integrated supply chain, which includes in-house design, production, and distribution². The company's success is attributed to its strong focus on customer feedback and market research. Zara's designers and merchandisers are constantly gathering data on consumer preferences and using this information to inform product development and store layouts. The company divides its product lines into women's, men's, and children's, with a further segmentation of the women's line, considered the strongest, into three sets of offerings that varied in terms of their prices, fashion content, and age targets³.

In addition to its physical stores, Zara also has a strong online presence and operates an e-commerce platform that is available in most countries. The company went under a digital transformation in 2019, which led to an increase in the total revenue of 14%. During the Covid- 19 pandemic when 90% of Inditex's stores were closed, e-commerce sales increased by 50% in the first quarter. and by 95% in April 2020^{4,5}.

The 2.5 trillion-dollar fashion industry is responsible for 2-8% of total global carbon emissions and is the second biggest consumer of water^{6,7}. The business model lacks recyclability and encourages overconsumption for consumers to remain fashionable and the industry to be profitable. Over the course of a year, Zara alone produces about 840 million garments for its 6,000 stores worldwide⁸. About 85% of all the textiles go to the dump each year⁹ i.e., 21 billion tons a year, and washing some types of cloth materials sends significant amounts of microplastics into the oceans¹⁰.

In recent years, Zara has taken steps to improve its sustainability and ethical practices. For example, the brand introduced a "Closing the Loop" program in 2015¹¹, which aimed to reduce waste by collecting used clothing from customers and either reselling or recycling it. Additionally, the brand has also set a goal to use 100% sustainable cotton, linen, and polyester by 2025^{5,3}.

However, one of the key features of Zara's fashion production process is its ability to quickly respond to changing fashion trends. The brand can design, manufacture, and distribute new clothing styles in as little as two weeks, which is much faster than traditional fashion brands. Thus, with the rapid growth of Inditex and its unique business model, including the coinage of vertical integration, this research paper explores the sustainable business model of Zara and addresses the question of whether fast fashion companies can ever become environmentally sustainable and ethical.

Methodology

This research study relies primarily on secondary information sources in the form of academic literature. It involves collecting and analyzing data that has already been collected by other researchers. The secondary data for this research comes from a variety of sources, including government agencies like the United Nations, academic research institutions, Inditex's annual and ESG reports, news outlets, and course-specific literature. Additionally, via, a systematic literature review, scientific research papers are examined, related to the fast

fashion industry and sustainability (SDGs 5,7,8,12, 13, and 14), to answer the potential research question.

Further, the research paper presents a case study to analyze the situation and to demonstrate whether the proposed recommendation could apply to the industry. A qualitative analysis of the company is also conducted to help us understand the current positioning and explore improvement opportunities.

In addition to research papers, Google Scholar has been used in combination with keywords such as fast fashion, vertical supply chain, sustainability, circular economy, SDGs, reusability, closed loop, and competitors in the apparel industry. Statista and the United Nations official website regarding the updates of new regulations under SDG for fashion and economic statistics are also referred to understand the crucial phenomenon of the case under study. The conclusion is driven by critical analysis of the industry and through self-reflection.

Results and Discussion

Company Analysis

Swot Analysis

SWOT analysis involves identifying the key factors that affect the organization and evaluating them in terms of their impact on the organization's performance. The analysis helped to gain a better understanding of the internal and external environment of Zara and helped develop strategies to take advantage of opportunities and minimize threats.

Strengths of Zara

Zara has several strengths that have contributed to its success as a fast fashion retailer. Zara has revolutionized the fashion industry with its fast fashion business model. The company is known for its ability to quickly respond to new trends and bring new designs to the market in a matter of weeks¹². With a team of hundreds of designers and stylists, the company selects the most popular styles for its buyers and modifies them to be more affordable. This allows Zara to stay ahead of its competitors and keep up with changing consumer preferences.

Further, the company produces most of its clothing in-house, which allows the company to have greater control over the quality and production of its products. About 80% of Zara's products are produced in Europe, and half of the production is done in its owned

factories or the factories under its control¹³. This strategy also allows Zara to be more agile, reduce the risk of inventory overstocking, and respond more quickly to changes in customer demand. Additionally, the company's distribution centers are located close to its stores, which allows for faster delivery of new products.

Weakness of Zara

Like any other fast fashion company, the biggest weakness that Zara currently faces is the damaging effect on the environment. The production of clothing has a significant environmental impact, and Zara's fast fashion model contributes majorly to the problem. In 2023, Inditex total water consumption was around 1,767,463 cubic metres¹⁴. According to the World Bank, the apparel and textile industry is a major polluter of water at all stages of its value chain and given the number of apparel produced by the company, Zara is facing a lot of challenges in being one of the biggest contributors to the world water crisis. Due to lengthy supply chains and energy-intensive production, the apparel industry generates about 2-8% of carbon dioxide emission⁶.

Zara has faced criticism for its treatment of workers in its supply chain. The production facilities of Zara in Spain, Greece, Bangladesh, Turkey, and Morocco^{15,16} have dangerous and unhealthy working conditions. Some workers have reported poor working conditions and low wages, which has led to concerns about worker exploitation. The company has also faced criticism for its use of toxic chemicals in its clothing production, which has negative health effects on workers and consumers. Further, according to the Gender pay gap report 2020 by Zara, women have been reported to pay about 16.2% lower than men¹⁷ and many of the decision-making positions are still held majorly by men.

Lastly, Zara faces problems with overexpansion of scale due to high dependence on customers and fashion trends. ZARA has a high expansion rate in the world, with 2,200 franchised stores in 56 countries and regions, 90% of which are ZARA direct sale stores¹². The company's business model is heavily dependent on trends and consumer preferences. Hence, if the company is unable to accurately predict which trends will be popular, it could result in excess inventory or lost sales.

Opportunities for Zara

Despite its already impressive success, there are several opportunities for Zara to further grow and expand its business in the coming years. Zara has already established a

strong presence in Europe, Asia, and the Americas¹⁸. However, there are still many untapped markets, such as Africa and the Middle East, where the company could expand its retail operations. By entering new markets, Zara could increase its customer base and generate new revenue streams.

Investment opportunities in AI would be a great way for Zara to leverage the use of modern-day technology. The third generation of AI algorithms has opened up new possibilities for its application in clothing styling, clothing color matching, garment sampling, and virtual fitting¹⁹, which Zara could invest to further enhance the customer experience. Additionally, personalization is becoming increasingly popular in the fashion industry, and Zara could offer more customization options for its customers. For example, the company could allow customers to design their clothes or offer more options for altering the fit of their clothes.

The most important opportunity is the shift towards more sustainable practices. In recent years, there has been a growing demand for sustainable fashion, and Zara has already taken steps towards more sustainable practices, such as its "Closing the Loop" program¹¹. The program, launched in 2015, involves collecting used clothing from customers in Zara stores and then sorting and recycling the garments. The recycled fibres are then used to produce new clothing, creating a closed-loop system. However, specific statistics regarding the success of the Closing the Loop program may not be readily available and hence, the company could further invest in sustainable materials, such as organic cotton, and more sustainable production processes.

Threats for Zara

Zara operates in a highly competitive market and faces competition from both traditional brick-and-mortar retailers as well as online retailers. As more and more companies enter the fast-fashion market, Zara will need to continue to innovate and differentiate itself to stay ahead of the competition. H&M, a Swedish fashion brand, poses the greatest threat to Zara as it shares many similarities with Zara's business model. With prices typically, 20-30% lower than Zara's¹², H&M competes directly with Zara in the fast-fashion market.

Zara's supply chain is complex and involves sourcing materials from around the world. Any disruptions to the supply chain, such as natural disasters, political instability, or transportation issues, could impact the availability and cost of materials, and ultimately impact Zara's ability to deliver products to its customers. During the Covid-19 pandemic, net

sales drop 44% to €3.3 billion in the first quarter of 2020 and the gross profit of the company also fell by 45% to €1.9 billion, indicating that the company is heavily dependent on its supply chain operation.

Zara has faced criticism over its labour practices, particularly concerning its suppliers. The company has been accused of using sweatshop labour and failing to pay workers a living wage in some of its supplier factories. Further, some critics have argued that the company needs to do more to disclose information about its suppliers and the conditions in which its products are made. Additionally, as a fast-fashion retailer, Zara has been criticized for its environmental impact and has been accused of contributing to textile waste and pollution through its production processes, fast-fashion business model, and shipping practices.

Better Business Scan and CSR Strategies

With the growing concerns regarding environmental degradation, sustainable business models need to consider long-term environmental, social, and economic impacts, rather than focusing solely on short-term profits²⁰. According to the latest Inditex sustainability report, the company aims to reach net zero emission by 2040²¹ and 100% more sustainable linen and recycled polyester. However, sustainability was never the intended motivation for Zara as the business model is more driven by providing fashionable, quality, and affordable clothes to people. Hence it can be stated that the company's both primary and secondary motivation that drives its attitude to pursue sustainability can be linked to short-term tactical challenges (triggering a reactive attitude). Further, the company is believed to overstate its sustainability goals and considers it as a threat and a necessity to remain competitive²². Hence, the sustainability approach taken by Zara can be classified as Relatively Reactive. The barriers Zara faces in adapting to a more radical and systemically integrated approach to sustainability are due to the market model (highly competitive industry), ambiguity on the desirable direction of change, cost, time, and lack in the supply of 'green' materials.

Inditex Sustainable Initiatives

In 2015, Inditex launched the "Closing the loop" initiative aimed at reducing waste, recycling textiles, and promoting circularity in the fashion industry¹¹. Under this, Zara partnered with several organizations to collect used clothing and textiles, which are then sorted and processed for reuse or recycling. Partnerships with Maersk, Atlas Air, Repsol, Renfe and Cepsa helped Inditex to thrive on environmental sustainability and business model resilience in the changing world of evaluative, uncertain, large-scale, long-term, and complex

grand challenges. The company also introduced clothing collection bins in its stores, making it easier for customers to recycle their old clothes. As a part of the initiative, Inditex implemented measures to reduce waste in its operations, particularly, in stores and warehouses, by using recycled cardboard and plastic and reducing the use of paper in its packaging²³.

The program was well-received and was recognized as an important step towards creating a more sustainable fashion industry. Inditex obtained a score of 75 out of 100 on the S&P Global Corporate Sustainability Assessment in 2021 (score date: 12 November 2021), ranking Inditex in the 98th percentile in the retail sector². However, overall, the specific statistics regarding the success of the Closing the Loop program are not readily available, indicating that although the program has been successful in raising awareness and making progress toward a more sustainable fashion industry, the ambiguity regarding the incorporation of a more sustainable business model continues.

Zara is also taking steps to reduce its carbon footprint. The company has set a goal to net-zero greenhouse gas emissions by 2040. To achieve this, Inditex is investing in renewable energy sources, such as wind and solar power, to power its stores and distribution centres. The brand has also set a goal to use 100% sustainable cotton, linen, and polyester by 2025²⁴. For this, Zara is investing heavily in its Sustainability Innovation Hub, to find sustainable and environmentally friendly alternative fabric materials, approaches, and processes^{5,7}.

The company has also undertaken actions to make a positive impact on more than three million people working at non-exclusive suppliers and factories for Inditex. Since the company has always been criticized for unhealthy working conditions and insufficient information about the production facilities, Inditex has partnered with organizations such as IndustriALL²⁵, the international trade union organization to achieve strong worker satisfaction and industrial relations.

As evident, Inditex is actively working towards sustainability with a focus on SDGs 7, 8, 12, 13, and 14 to remain competitive and be compliant with the growing environmental and social concerns. Further, Inditex is planning to invest more heavily in long-term collaboration with the Ellen MacArthur Foundation for the development of a circular economy and sustainable materials. The circular design approach aims to maintain a product's highest value for as long as possible through effective maintenance and repair, while its subsequent journey downhill involves strategies to "retain value" through practices

such as reuse, redistribution, refurbishment, remanufacturing, and recycling. The 'Closing the loop' program was launched with the intended mission of pushing Zara towards a circular economy.

However, the core business model, which is producing clothes swiftly with the changing fashion trends, adapting to customer demands, and providing affordable fashion remains unchanged. Even if Inditex tries to undertake several initiatives as a reactive response to the environment, it is difficult for it to be highly sustainable given its core business model. Limited statistics on the impact of the initiatives undertaken by Zara support the argument.

Conclusion

To sum up, fast fashion can never be sustainable because it relies on a business model that prioritizes speed and volume of production over ethical and environmental considerations. Fast fashion brands like Zara produce clothing in large quantities, using cheap materials and labour, and selling them at low prices to consumers who are encouraged to frequently buy new clothes to keep up with constantly changing trends. This results in an unsustainable cycle of overconsumption, exploitation of workers, and significant environmental damage, including excessive waste and pollution.

Furthermore, in the fast fashion industry clothes are quickly discarded and end up in landfills or incinerators, contributing to the growing problem of textile waste. Therefore, fast fashion can never be sustainable because its entire business model is based on overproduction, overconsumption, and the human psychology tendency of keeping themselves updated with the latest trends around them.

Additionally, fast fashion companies have incorporated sustainability goals to create a set of standards for evaluation purposes. Although these standards have the potential to drive change, they often result in hollow promises from companies. Sustainability reporting has been criticized for being 'greenwashing' - a corporate practice that lacks coherence between rhetoric and action. This disparity between reporting and actual sustainability practice is concerning. Instead of using reporting as a means to enhance their image, as seen in the case of Inditex, there should be a significant shift towards action-oriented measures. Inditex should strive to make a long-term impact on the environment by being more transparent and vigilant of its operations and business model.

Recommendation

For Inditex/Zara to be part of the greater environment good, there has to be a shift towards a more sustainable business model which is, the “Degrowth of Fast Fashion”. The degrowth of fast fashion is important for several reasons. Firstly, the fast fashion business model has a significant environmental impact, from the production of textiles to the disposal of clothing in landfills. Therefore, reducing the amount of clothing produced and consumed would help to reduce this impact.

Secondly, fast fashion is often associated with poor working conditions and low wages for workers in developing countries. The degrowth of fast fashion would help to reduce the demand for cheap labour and promote more ethical and sustainable practices in the fashion industry.

Finally, the degrowth of fast fashion could help to promote more sustainable and durable clothing options, such as second-hand and vintage clothing, which are already produced and do not require additional resources to be manufactured. Thereby, unless Inditex, incorporates in its mission to make a long-term shift to this business model, no matter how many sustainable initiatives it targets, the company or fast fashion industry can't be ethically and environmentally sustainable.

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