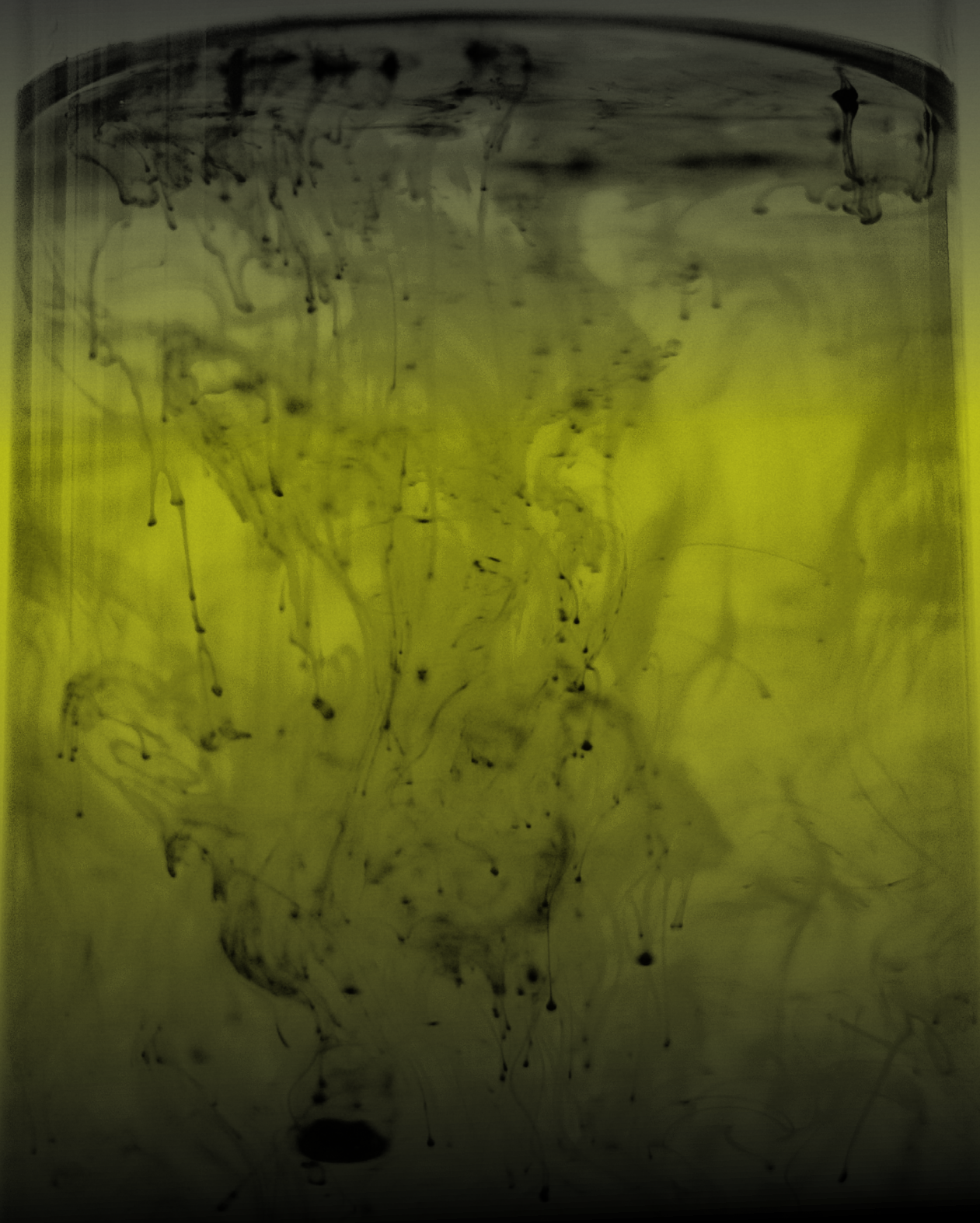




UNLOCKING EQUITY IN INNOVATION

BALANCING THE SCALES IN SUPPLY CHAIN PARTNERSHIPS

EXECUTIVE SUMMARY



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This report was commissioned by Transformers Foundation. Our goal is to help suppliers share their expertise and opinion on industry threats and solutions. Though this report represents the views of the Transformers Foundation only, the Foundation would like to thank all the organizations and people who contributed their expertise and ideas.

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* EXECUTIVE SUMMARY

(1) WHAT'S THE REPORT ABOUT?

This year, the Transformers Foundation Deep Dive Report, *Unlocking Equity in Innovation: Balancing the Scales in Supply Chain Partnerships* focuses on innovation pipelines and supply chain equity, exploring the current innovation landscape and highlighting the vital and undervalued role that manufacturers and other suppliers play in scaling new technologies, chemicals, materials, and processes.

The report draws on in-depth, semi-structured interviews with key informants representing 32 global stakeholders across fashion's supply chains, representing global manufacturers, innovators, fiber producers, technology providers, brands and retailers, investors, consultants, multi-stakeholder initiatives, and nonprofits. By teasing out common themes and linking them between each stakeholder group, we have identified three fundamental barriers to scaling sustainable product solutions, the opportunities to overcome these challenges, and case studies on industry initiatives exploring a new way forward for fashion.

(2) WHAT'S THE PROBLEM?

The fashion industry needs to scale products and processes that have the potential to displace incumbent methods in order to reduce its planetary impact. The last decade has seen a boom in innovation racing to solve the industry's biggest climate hotspots, from textile waste to a systemic reliance on fossil fuels for textiles, dyes, and machinery, to air and water pollution and decarbonization of supply chains.¹

Despite a saturating startup market, there are systemic challenges which almost all players are struggling to overcome, including fundamental knowledge gaps between stakeholder groups that lead to misaligned expectations, and an uneven tolerance for risk between these groups that puts undue pressure on a small number of first-movers.

A lack of coherent policy settings and an industry wide ecosystem to support innovation plagues progress. However, at the core of these challenges, is a typically top-down approach to supplier engagement taken by innovation startups, brands and retailers, and investors. Despite being a critical linchpin to the validation and implementation of innovative solutions, supplier expertise can be undervalued, hindering the adoption of climate-related product-level innovation.

(3) THE PURPOSE OF THIS REPORT

Unlocking Equity In Innovation: Balancing The Scales In Supply Chain Partnerships explores the risk imbalances and knowledge gaps between supply chain actors which is preventing meaningful impact in scaling innovation. While it's important to acknowledge existing power imbalances² that lead to uneven capacities for risk and mismatched expectations, this report doesn't seek to point fingers at brands and retailers or label suppliers as victims. We seek to unpack and identify the **complex, often conflicting priorities** that brands and retailers, investors, suppliers, and innovators are facing as they navigate climate, geopolitical, economic and consumer behavior demands.

Innovation comes in many forms, echoing the complex and multi-layered makeup of fashion's supply chains. This report explores innovations such as next-gen and recycled materials, recycling technology, bio-based chemistry, dyes and their associated processes, as well as innovations that seek to reduce the industry's water, carbon and waste footprints. Innovation, for the purposes of this report, is produced by two distinct stakeholder groups: startups and suppliers.

Innovation requires long-term commitment and investment between stakeholders in an industry that traditionally operates on short term demands and transactional relationships.³ Brands and retailers are under pressure to invest, participate, and initiate innovation partnerships, but often lack the in-house technical expertise, internal buy-in, supply chain visibility, and demand foresight, among other obstacles,⁴ to make the right decisions for their business. This is an inherently **unnatural fit** between the two, leading to a glut of short-term pilot projects that don't result in wide-scale adoption, unreliable commitments that can fail to materialize when it matters most, and **a fragile innovation market** where viable solutions struggle to thrive.

Supply chain actors, therefore, typically shoulder considerable risk and burden, be it financial or through time and resources. The report explores this power dynamic to understand how partnerships are negotiated and contributions are rewarded. **It offers opportunities for both radical structural change and realistic adjustments** that all stakeholders can adopt to align the industry on its innovation ambitions.

(4)

A SUMMARY OF FINDINGS

Unrealistic expectations on costs, performance, and speed to market.

Suppliers and innovation startups alike are often collaborating with stakeholders that expect quick results, be it financial or volume capacity. Investors unfamiliar with the climate innovation sector are used to shorter returns on investment, and can lose interest in an innovation that could take decades to reach commercial scale. This can cause innovators to run out of financial runway in the crucial scale-up phase. Similarly, brands and retailers that have set environmental impact reduction targets may put pressure on solution providers to scale quickly, but financing can only speed up processes so much. This points to a broader issue in the landscape:

Fundamental knowledge gaps between collaborators.

Beyond investors and brands & retailers misunderstanding of typical timelines of innovation, knowledge gaps exist at all stages of stakeholder relationships. Often, early-stage innovators lack access to or familiarity with fashion supply chains, creating solutions that don't fit the market. Investors that are unfamiliar with the nuances of the fashion industry might finance solutions that are not aligned with the industry's collective targets, spreading funding dollars too thinly without creating meaningful impact. Because suppliers are often excluded from industry target setting initiatives, they aren't always able to share their knowledge or contribute to conversations that directly impact their work. This is a missed opportunity because:

Suppliers are the catalyzers and value creators of the industry.

Suppliers bring technical knowledge, networks, funding, and other resources that are leveraged by innovators, brands and retailers to realize their ambitions. In recent years, they have been increasingly viewed as strategic partners by the climate innovation startup scene, while continuing to independently invest in in-house innovation.

Despite this, a cohort of leading suppliers, notably vertical mills and manufacturers, often fuel innovation research and development with sweat equity—with both financial and human capital—with no guarantee that this investment will be rewarded with orders or long-term commitments. It's also uncommon for suppliers to be compensated for testing and sampling, which can disrupt or delay their production lines. Pressure to produce a novel or comparable product for a cost-competitive price means that suppliers are faced with conflicting demands from brands and retailers.

Suppliers are innovators in their own right. All of the suppliers interviewed for this report shared details of their company's internal innovation departments, many of which reinvest millions of dollars annually into resourcing experts and developing sustainability-linked solutions. Suppliers see this as necessary for maintaining a competitive advantage, irrespective of whether brands and retailers ask for or adopt these developments. It speaks to the untapped knowledge held by suppliers that, if given a seat at the decision making table with brands and retailers and innovators, could help drive faster and more effective solutions into the market.

Low brand appetite for price premiums, investment and risk is stalling progress. Most interviewees acknowledged the brand and retailer-led power dynamic that shapes the industry. Brands and retailers set more than fashion trends—they have the power to shore up supplier adoption and investor confidence through their commitments. Even what some in the industry might view as largely symbolic commitments, like letters of intent, signal to the broader market that an innovation has commercial potential, but many brands and retailers still favor short-term flexibility over long-term commitments. This pushes the bulk of the risk and costs further into the supply chain and impacts a solution's capacity for scale.

Financing isn't evenly distributed through the supply chain. Suppliers based in manufacturing regions are typically self-funding the testing of new solutions, while innovators that sit in 'consumer' markets like the U.S. and European Union⁵ have access to a wealth of funding channels from venture capital to accelerators, schemes, banks, and brand-related investment funds. However, despite proximity to financing mechanisms, some innovators interviewed expressed frustration at the investment world's interest in seed funding new inventions instead of supporting viable solutions through the scaling process. There is a clear funding gap in the 'Death Valley Curve'⁶ between proving a solution's potential and reaching commercial scale.

More equitable pathways for scaling innovation exist. Each stakeholder interviewed for this report made it clear: the barriers preventing progress are not insurmountable, but they will require radical structural shifts in these relationships to enable a more equitable distribution of risk. New partnership models that bring all stakeholders into decision making processes can unlock the true potential and value of the climate innovation sector, and enable a just transition for all of the industry. This report will explore not only theoretical solutions, but real-world examples of initiatives that seek to address these barriers to scale.

(5) THE CASE STUDIES

To provide real-world examples of solutions and collaborations that illustrate our findings, this report is supported by a series of case studies. Each case study aligns with a barrier identified in the report to demonstrate that efforts to address these exist, being put into practice by forward-thinking coalitions and companies.

(6) THE READINESS CHECKLISTS

One way to plug the knowledge gaps is to understand each stakeholder's drivers, risks and expectations. We have developed three readiness checklists for this purpose. One for brands and retailers, suppliers and innovation startups. If you're a brand, do you know what to consider when asking your suppliers to provide innovative solutions? If you're a supplier, are you communicating the costs of in-house R&D with your brand customers and startup partners? If you're an innovator, have you established what investment—resource and capital—your solution requires from suppliers? Use these checklists to facilitate transparent decision making and collaboration.

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