Fashion sector road test – Final report

Version 1.0 – 10/2024

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Background and purpose of this document

This document is part of the Assessing Low-Carbon Transition (ACT) initiative and provides the main details of the ACT® Fashion Road test. As part of the development of a new ACT® sector methodology, this roadtest is conducted to improve the existing methodology and adjust the tools and inputs used to assess companies in this sector.

The current report is intended for the owner of the methodology (ADEME, PGF and Le Defi), the steering committee and the roadtest participants.

This report aims to provide the key findings of the assessment and an overview of results for the sector. Additional materials prepared during the assessment process, including detailed company data and feedback, informed the results summarised in this report but remain confidential.

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1. ACT Fashion road test

1.1. CONTEXT OF THE ROAD TEST

FASHION SECTOR

In this document, the Fashion sector refers to the industry devoted to the business of making and selling garments, leather goods, footwear and fashion accessories (textile and leather). For all types of apparel from ordinary everyday clothing to haute couture, the Fashion industry encompasses the following activities: design, manufacturing, distribution, marketing, retailing, advertising and promotion.

According to the UNEP (United Nations Environment Programme) and UNFCCC (United Nations Framework Convention on Climate Change), the fashion sector is not on track to contribute to the global intention of the Paris Agreement or the SDGs (Sustainable Development Goals). This sector has an important role to play in global decarbonization; it is reportedly the third largest manufacturing sector in the world, responsible for between 2 and 8% of global greenhouse gas emissions.

On the one hand, the fashion industry has an extended, complex and fragmented value chain including various raw materials production and manufacturing processes, retail operations as well as logistics in every step of the value chain. On the other hand, the industry's GHG emissions have significantly increased over the past decades and will likely increase given industry growth and observed trends (fast fashion, growing consumption in emerging countries).

According to the last World Resources Institute (WRI) report "A Roadmap to Net-zero Emissions for the Apparel Sector", the main ways for the sector to reduce its emissions is to deploy energy efficiency and renewable energy across the manufacturing processes, and to scale up the use of sustainable materials. However, even if the sector implements all of these technical levers (renewable energy, sustainable materials, energy efficiency…), these efforts are of little or no use as long as the volumes of clothing produced and purchased continue to rise. To do so, companies will need to develop new circular business models (e.g. rental, second-hand) to produce and sell less items, and allow them to decrease emissions.

The fashion sector has never been under such pressure at a global level. And for the sector to reach its targets, all the actors must get involved: luxury and mid-range brands, on the whole value chain from the design to the recycling plant.

In 2023, Paris Good Fashion alongside Climate Chance established a state-of-play report on the advancement of the French Fashion & Luxury players. This study aimed to measure and compare the actions and strategies implemented by twenty-four companies in the Fashion & Luxury sector. The study revealed that, although the transparency of the players on their impact on climate change is globally increasing, there is an important discrepancy of methods, temporality and scope used to set decarbonation targets. It also emphasis the fact that the textile industry is still struggling to formulate ambitious climate transition plans, and states that the development of a sectoral ACT methodology as one of a top priority to support the implementation of credible transition plans.

Since 2015, ADEME and CDP have been working together on developing the ACT initiative (‘Accelerating Climate Transition’, formerly ‘Assessling low Carbon Transitition’), a mechanism for assessing companies that have set climate commitments and want to take climate action in line with the Paris Agreement. The ACT methodologies use a holistic approach to assess a company’s climate strategy and determine its readiness to transition to a low-carbon economy. The ultimate goal is to drive action by companies and encourage them to set their business on a well below 2°C compatible pathway. In order to support and assess companies in the Fashion sector in their transition to a low-carbon world, the ACT Methodology has been developed on the initiative of Paris Good Fashion, ADEME and the DEFI. This is the first time that an ACT Methodology is fully developed jointly by sector stakeholders. To date, the Steering Committee includes: LVMH, Chanel, Richemont, Groupe ETAM, Groupe Galeries Lafayette, Lacoste, Petit Bateau, Kiabi, Le Bon Marché, Fédération Française du Prêt-à-porter Féminin, Fédération de la Maille, Fédération de la Haute Couture et de la Mode, DEFI, Alliance du Commerce, with ADEME, World Benchmarking Alliance and Climate Chance.

ACT’s ambition is to prioritise the most GHG emissions-intensive sectors. This approach implies that tools and methods have to be adapted for each new sectoral development process in order to accurately reflect their impact on climate change. So far, the methodologies for the Auto, Electricity, Retail, Building, Real Estate and Property Developer, Cement, Transport, Oil & Gas, Iron & Steel, Aluminium, Pulp & Paper, Glass, Chemicals and Finance sectors have been released. As of October of 2024, road test for the Agriculture & Agrifood sector is in its final stage.

The stages of methodology development are as follows:

- Stage 1: Methodology development (including a one month-public consultation)
- Stage 2: Methodology experimentation (road test)
- Stage 3: Methodology refinements & release

The Fashion Methodology is designed to assess a company’s climate impacts across its value chain.

In practice, not all companies operate in all stages of the value chain.

GOALS OF THE ROAD TEST

The project’s objectives were:

- to road test the ACT Fashion draft methodology and accompanying tools;
- to provide recommendations to refine the methodology in order to ensure that ACT Fashion is relevant and robust for the sector;
- to engage companies and other stakeholders in the low-carbon transition.

ASSESSED COMPANIES

The ACT methodology relies on the principle of relevance, and therefore only the companies that have both significant climate impact and significant mitigation levers can be assessed with ACT’s approach. In order to assess companies in the most accurate way in regard to their activity and the available benchmark 4 company types have been identified for **the road-test version of the methodology**:

- **Suppliers/Manufacturers** of Fashion products, defined as companies performing at least one out of the three processing and manufacturing activities (raw/secondary material processing, material production, finished production assembly) but that will not be involved in B2C retail activities.
- **Integrated Fashion brands**, defined as companies operating in both activities within the value chain: (1) manufacturing (raw/secondary material processing, material production, finished production assembly) and (2) retail.

- **Non-integrated Fashion brands** that are fully outsourcing their manufacturing activities; defined as companies involved in retailing activities and not involved in processing and manufacturing activities (raw/secondary material processing, material production, finished production assembly).
- **Pure retailers,** defined as companies selling Fashion products from other brands. They are not involved in design and manufacturing activities, and do not distribute products in their own name but in the name of the distributed brands. They may buy stocks from brands, in which case they select products to their own specifications, or they may simply provide retail space, in which case they generally have no control over the selection of products.

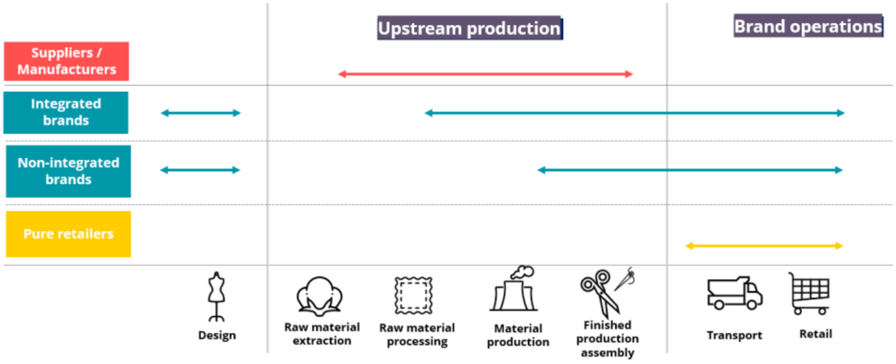


FIGURE 1 – PLAYERS ASSESSED BY ACT FASHION

Conversely, certain activities and subsectors were excluded from the **road-test version** of the ACT Fashion Methodology due to their limited levers and scope of action, or because they are already covered by another ACT Methodology. These include:

- Design
- Marketing & Communication
- Waste collection, sorting and disposal/incineration.

For more information on the inclusion/exclusion of the different economic activities of the Fashion value chain, please refer to section 4. Boundaries of the ACT Fashion Methodology.

The road test companies were carefully considered to ensure that different regions and steps in the value chain were represented. 15 companies were assessed for the road test (see Figure 2):

- Among them, 12 volunteered (11 were fully assessed, and 1 could not complete its assessment but shared significant and very detailed feedback on the relevance of the methodology)
- 3 additional companies were assessed using publicly available data. One of the three assessment was not considered for the road test due to lack of consistency with the other data (data was not available at the brand level but at the parent company level and therefore made the results not relevant for the road test. However, this specific case helped us to define additional guidance for future assessors or assessed companies.

FIGURE 2 – COMPANIES ASSESSED DURING ACT FASHION ROAD TEST

Despite the effort made to find companies illustrating each of the 4 types developed in the methodology, no company exclusively positioned on the Manufacturing step (Suppliers/Manufacturers category) were found. However, most of the indicators developed specifically for Suppliers/Manufacturers could be assessed thanks to the Integrated brands.

The assessments have been planned and conducted following the steps described in **Erreur ! Source du renvoi introuvable.**3 :

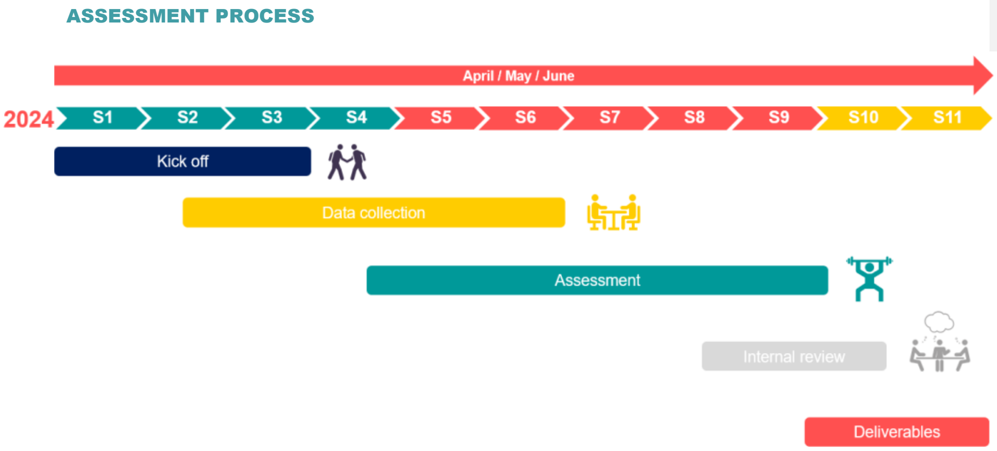


FIGURE 3 – ACT FASHION ROAD TEST PROCESS

The main inputs for undertaking the assessment were the following:

- **The ACT Fashion v2.0 (dated March 2024)**. This document contains the scoring criteria for each of the indicators and lists how the scores are calculated and weighted. The methodology also provides relevant context for each of the indicators and an overview of the main goals of each Module.

- **The Excel data collection tool** (also called ACT Questionnaire). Involved companies had two options:
  - directly filling out their answers to the ACT questionnaire, which is an Excel data collection tool, with the assessor assistance. Once completed, analysts reviewed the answers and reported them into a tool which calculates the score as defined in the ACT Fashion methodology. The analysts kept track of their comments in this same tool.
  - providing relevant documents and data to the analyst who fills the data collection tool for the company before reporting the answers to the calculation tool to calculate the scorings. Meetings were conducted with the company to make sure of the completeness and the understanding of the inputs used for the assessment.

  Note that for the companies assessed on public data, the analyst searched the company's public documentation before filling out the questionnaire.

- **The narrative scoring tool**. This is a Excel-based tool which includes the narrative scoring maturity matrix (as per the methodology).

- **The trend scoring tool**. This is an Excel-based tool which includes assessment guidance based on the scoring of some indicators of the ACT questionnaire.

In addition, analysts used the ACT Framework and Analyst Guide to ensure consistency with other ACT methodologies.

For each company, as detailed in Figure 3,

1) The road test started with a kick-off call between the companies and an analyst in order to explain the assessment process and the type of data that was going to be asked
2) Then, during a one-hour working meeting, the companies' teams were given a brief explanation of the ACT initiative, the expected timeframes and deadlines, a general description of the relevant inputs, and an overview of the Excel data collection tool.
3) Companies were subsequently sent the Excel data collection tool and the methodology documents and were encouraged to send questions via e-mail or through follow-up calls. Company questions were collected in a spreadsheet accessible to all analysts to ensure shared learnings, and consistency in the responses.
4) Several checkpoint meetings were organised to track the progress of the data collection process and support the company in the data collection process. These meetings allowed the companies to share their feedback and challenges regarding the data collection, the tool and some methodological aspects.
5) Once companies submitted the completed Excel data collection tool with their inputs, as long with supporting documents, analysts reviewed the responses and began the scoring process. Analysts listed their scoring questions and additional questions sent by companies in a 'post-review' company-specific spreadsheet. These questions were then answered by the "Technical" team to come up with customised solutions to improve the methodology.
6) After the analysts finalised a company assessment, a critical review was conducted by another analyst toto ensure scores gave a consistent and accurate reflection of the company response but also to ensure the consistency of the scoring between the different analysts.

1.2. THE ACT FASHION METHODOLOGY

GENERAL APPROACH

While each ACT methodology is sector-specific, they are all based on the ACT Framework and as such there are fundamental commonalities among all of them. The assessment's main goal is to evaluate past, present and (anticipated) future company performance to determine the company's maturity level with respect to its transition to a low-carbon economy. The ACT initiative focuses on five guiding principles to determine company performance:

1. **Commitment**: What is the company planning to do?
1. **Commitment:** What is the company planning to do?
2. **Transition plan**: How is the company planning to get there?
3. **Present**: What is the company doing at present?
4. **Legacy**: What has the company done in the recent past?
5. **Consistency**: How do all these plans and actions fit together?

These principles and guiding questions are assessed through a series of Modules composed of key performance indicators and sub-indicators, all of which are specifically designed for each sector. For the Fashion sector, there are a total of 27 indicators distributed within nine Modules **for the road-test version** of the assessment.

Erreur ! Source du renvoi introuvable. shows how these indicators assess company performance at different points in time.

FASHION					
			PAST	PRESENT	FUTURE
		1. TARGETS	FA 1.4 Achievement of past and current targets		FA 1.1 Alignment of scope 1 and 2 emissions reduction targets
					FA 1.2 Alignment of scope 3 emissions reduction targets
					FA 1.3 Time horizon of targets
CORE BUSINESS PERFORMANCE	INVESTMENT	2. MATERIAL INVESTMENT	FA 2.1 Trend in past scope 1 and 2 emissions intensity from m Investment FA 2.3 Pre-consumer waste reduction		FA 2.2 Trend in future scope 1 and 2 emissions intensity from material investment
		3. IMMATERIAL INVESTMENT	FA 3.1 R&D spending on low-carbon technologies		
		4. SOLD PRODUCT PERFORMANCE	FA 4.1 Trend in past emissions for sold products		
			FA 4.2 Product-specific interventions: raw materials		
			FA 4.3 Product-specific interventions: durability		
			FA 4.4 Inbound and outbound transportation emissions performance		
			FA 4.3 Unsold item quantity reduction		
		5. MANAGEMENT		FA 5.1 Oversight of climate change issues	FA 5.3 Low-carbon transition plan
				FA 5.2 Climate change oversight capability	
				FA 5.4 Climate change management incentives	

			FA 5.5 Climate change scenario testing	
INFLUENCE	6. SUPPLIERS	FA 6.2 Activities to influence suppliers to reduce their GHG em		FA 6.1 Strategy to influence suppliers to reduce their GHG emissions
	7. CLIENTS	FA 7.2 Activities to influence clients to reduce their GHG emiss		FA 7.1 Strategy to influence clients to reduce their GHG emissions
	8. POLICY ENGAGEMENT		FA 8.1 Company policy on engagement with associatio alliances, coalitions or thinktanks	
			FA 8.2 Associations, alliances, coalitions or thinktanks supported do not have climate-negative activities or positions	
			FA 8.3 Position on significant climate policies	
			FA 8.4 Collaboration with local public authorities	
	9. BUSINESS MODEL	FA 9.1 Changes to business models		

TABLE 1 – FASHION METHODOLOGY INDICATORS, MODULES AND TIME HORIZONS ASSESSED (VERSION 2.0)

The assessment is carried out based on the information provided for each of these indicators by the company. The Fashion Methodology uses a combination of quantitative and qualitative indicators. Purely quantitative indicators are scored according to a formula and based on the data provided by the company. In these cases, analysts must ensure the calculation is correct and the information provided by the company is consistent and, to the extent possible, verifiable. However, given the granularity of quantitative data required and the confidentiality of this information, it wasn't always possible to verify the data provided. Qualitative indicators are evaluated by the scorer using the company responses and indicator-level maturity matrices with up to five scoring levels: Basic (0 points), Standard (0.25 points), Advanced (0.5 points), Next Practice (0.75 points), and Low-Carbon Transition Aligned (1 point). Maturity matrices provide scoring criteria per indicator for each of these levels.

ACT FASHION METHODOLOGY ASSESSMENT

Like all ACT assessments, the Fashion Methodology generates a three-parts score that allows companies to understand how they scored based on the key performance indicators, how their overall strategy is rated with reference to a low-carbon (below 2°C) transition scenario, and if their strategy is being effective in reaching a low-carbon pathway. The final score is described below:

1. **The performance score** ranges from 0 to 20 and is the result of the sum of all points achieved and weighted according to the company's classification (Suppliers/Manufacturers, Integrated brands, Non-integrated brands, Pure retailers). The road-test version of the Fashion Methodology includes four different fixed weighting profiles for Suppliers/Manufacturers, Integrated brands, Non-integrated brands and Pure retailers.

2. **The narrative score** is the result of the scorer's evaluation of the overall response, complemented by an external data review for the company in question, and graded from E (lowest score) to A (highest score). The narrative score is assessed using a maturity matrix developed by the ACT initiative and composed of 4 dimensions (Business Model and Strategy; Consistency and Credibility; Reputation; and Risk). In the Business Model sub-section, particular attention is given to how the company intends to move away from the logic of high-volumes sales in the future.

3. **The trend score** evaluates whether a company is increasingly aligning itself with or distancing itself from a low-carbon transition pathway. The trend score is indicated by a "+" sign (best score, reflecting increasing alignment), a "-" sign (worst score, reflecting reducing alignment), and an "=" sign (indicating no projected change in its alignment, or no possibility for the analyst to define a clear trend). A specific tool was developed by ACT for the trend score. This tool has been used as a guidance for the analyst, but the outcome could also be influenced by the analyst's final judgment. The inputs for this tool were taken directly from the Chemicals Methodology using a simple grading scale from -1 to 1 that analysts assigned based on the results of the following indicators:

- FA 1.1 Alignment of Scope 1 and 2 emissions reduction targets
- FA 1.2 Alignment of Scope 3 emissions reduction targets
- FA 1.3 Time horizon of targets
- FA 2.2 Trend in future Scope 1 and 2 emissions intensity from Material investment
- FA 2.3 Pre-consumer waste reduction
- FA 3.1 R&D spending on Low-carbon technologies
- FA 4.2 Product-specific interventions: raw materials
- FA 4.3 Product-specific interventions: durability
- FA 5.3 Low-carbon transition plan
- FA 5.5 Climate change scenario testing
- FA 9.1 Changes to business models

The results shown by the tool implied positive scores (>0) were more likely to be trending in a carbon-aligned pathway, while negative scores (<0) were more likely to be diverging from a carbon-aligned pathway.

On completion of the assessment, two main outputs were available:

1. The Excel calculation tool with the company's response and analyst score. This file includes the scores per indicator and sub-indicator, as well as explanations of the scorer's rationale. This file also contains company comments and questions about the methodology and the tool.

2. An ACT company feedback report (PowerPoint) summarising the results and providing a brief overview of the challenges and opportunities the company may be facing. This presentation is shared with the company involved and Paris Good Fashion and is built based on a template generated by ACT.

FOCUS ON THE ACT FASHION SCORE

The Fashion questionnaire is structured according to nine Modules presented in the table below:

TABLE 1: LIST OF ACT PERFORMANCE MODULES IN THE ACT FASHION ASSESSMENT

Modules
1. Targets
2. Material investments
3. Intangible investments
4. Sold product performance
5. Management
6. Supplier engagement
7. Client engagement
8. Policy engagement
9. Business model

Modules 1 to 4 contain mostly quantitative indicators that are evaluated by the scorer based on the results of a quantitative calculation. These Modules rely on companies entering internal data.

Another element specific to the ACT Fashion Methodology and scoring is the weighting system used to adjust the scores according to company activities along the value chain. Four company profiles were defined in ACT Fashion for which different weightings are applied per indicator (see Table 2).

Modules 1, 5, 8 and 9 have the same weightings for all categories. As regards the other Modules, weightings can differ per indicator. Important differences need to be highlighted:

- **Module 2. Material investment** is focused on the actions of the company to reduce its Scope 1+2 emissions. Therefore, Suppliers/Manufacturers and Integrated brands have a higher weighting as they own assets (production sites) and could represent a high source of emissions.
- **Module 3. Intangible investment** is focused on R&D expenditures and patent activity for low-carbon innovation. This is considered important for Suppliers/Manufacturers and Integrated brands who operate in the Manufacturing step of the value chain. The weighting was set to 0% for Non-integrated brands as well as for Pure retailers who do not have Manufacturing business activities.
- **Module 4. Sold product performance** is focused on the actions of the company to reduce its Scope 3 upstream emissions. This Module carries by far the largest weight out of all the modules as it holds most of the information about the company's actions to reduce emissions on its products, where most of the emissions lie. Therefore, there is a high potential for mitigation and also a high impact of variation in this indicator. The weighting is higher for Non-integrated brands and Pure retailers who have more action levers regarding the rest of the value chain (clients and suppliers).

- **Module 6. Supplier engagement** is focused on relationship with supplier, which is material for Suppliers/Manufacturers, Integrated and Non-integrated brands but even more strategic for Pure retailers which can have a high level of influence on the upstream part of the value chain.
- **Module 7. Client engagement** is focused on relationship with client, which is not considered as very material for chemicals companies. However, Non-integrated brands and Pure retailers are expected to have a higher level of influence on the downstream part of the value chain.

TABLE 2: FASHION SCORE WEIGHTINGS

	Suppliers/Manufacturers		Integrated brands		Non-integrated brands		Pure retailers	
Module	**Weighting**	**Rationale**	**Weighting**	**Rationale**	**Weightings**	**Rationale**	**Weighting**	**Rationale**
1. Targets	15%	Fixed weight across all sectors	15%	Fixed weight across all sectors	15%	Fixed weight across all sectors	15%	Fixed weight across all sectors
2. Material Investment	15%	Owned assets (production infrastructure) represent the highest source of emissions	15%	Owned assets (production infrastructure) represent a significant source of emissions	5%	These players do not own assets	5%	These players do not own assets
3. Intangible Investment	5%	R&D investments are important for the decarbonation of the Manufacturing step	5%	R&D investments are important for the decarbonation of the Manufacturing step	0%	These players do not operate in the Manufacturing step	0%	These players do not operate in the Manufacturing step
4. Sold Product Performance	25%	Several levers	25%	Several levers	35%	Numerous levers and critical stake	35%	Numerous levers and critical stake
5. Management	10%	Fixed weight across all sectors	10%	Fixed weight across all sectors	10%	Fixed weight across all sectors	10%	Fixed weight across all sectors
6. Supplier engagement	10%	Low influence on the upstream suppliers	10%	Lower influence on the suppliers midstream/upstream as partly integrated	10%	Lower influence on the suppliers midstream/upstream as partly integrated	15%	High level of influence on the upstream
7. Client engagement	5%	Little leverage on clients	5%	Little leverage on clients	10%	Higher leverage on clients	10%	Higher leverage on clients
8. Policy engagement	5%	Average weight compared to the other sectors	5%	Average weight compared to the other sectors		Average weight compared to the other sectors	5%	Average weight compared to the other sectors
9. Business Model	10%	Fixed weight across all sectors	10%	Fixed weight across all sectors	10%	Fixed weight across all sectors	10%	Fixed weight across all sectors
	100%		**100%**		**100%**		**100%**	

1.3. RESULTS OF THE COMPANIES ASSESSED

INTRODUCTION

This section presents the results of the ACT Fashion Methodology Road test. It includes an overall comparison of results per Module and a brief overview of indicator-level results per company.

OVERALL RESULTS

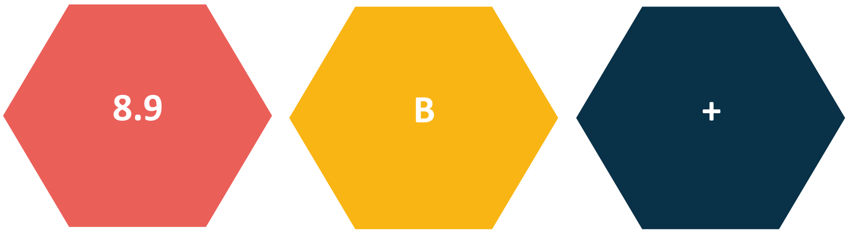


FIGURE 4 - OVERALL RESULTS

The average final score for each score dimension is **8.9B+**, where 12.6A+ was the best one and 5.5B+ the worst one amongst assessed pilot companies.

The average performance score is 8.9 where 12.6 is the highest and 5.5 the lowest score. The top performer's score is driven by its effective supplier engagement strategy and by its efforts in deploying low-carbon business models. The best scores are also the result of GHG emissions reduction targets aligned with the low-carbon benchmark (the latter being the Absolute Contraction Approach benchmark under ACT Fashion) as well as great management practices around the climate topic.

No significant difference was observed, in terms of scoring, between the different Retailers categories (Pure retailers, Integrated and Non-integrated brands) B companies and Integrated companies. As a reminder, no company from the Suppliers/Manufactuers category was represented, which prevented the road-test from assessing the difference in the low carbon strategy maturity that could occur between Suppliers/Manufacturers and Retailers.

OVERALL PROFILE OF THE 5 ACT DIMENSIONS

Like all ACT road tests, the Fashion road-test provides a snapshot of sector performance in each of the 5 ACT dimensions (see Figure 5). The following paragraphs summarise sector-level trends and challenges in these 5 elements. These insights do not apply uniformly to all participant companies and should not be interpreted as indicative of company performance. This is a high-level analysis of common trends identified throughout the road test. Company-specific insights are given in the confidential company feedback reports.

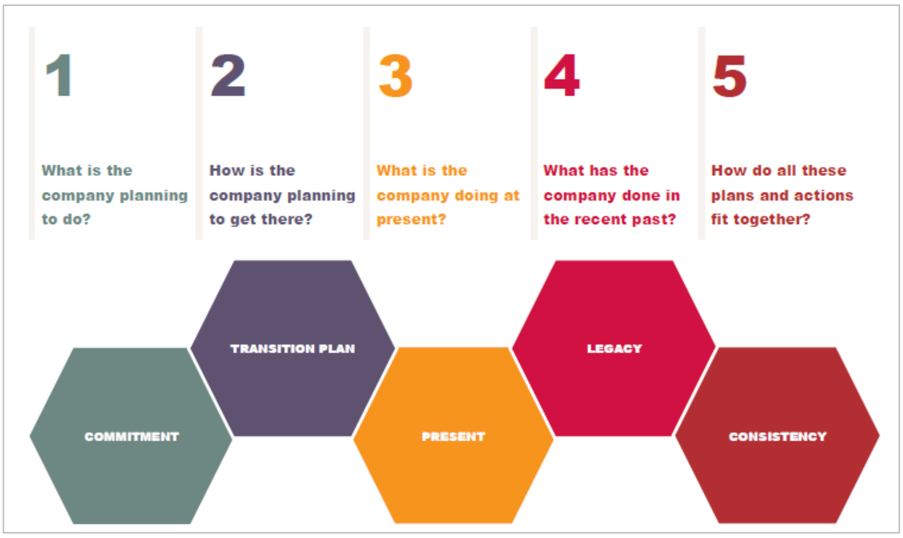


FIGURE 5 - ACT ASSESSMENT FRAMEWORK

Commitment

Companies in the road test have for the most set emissions reduction targets. However, most of the objectives set by the companies do not explore the long-term horizon (2050). The road test highlighted the lack of low-carbon aligned targets for Scope 3 emissions, which is particularly critical for Fashion brands as the majority of their GHG footprint lies in their scope 3 emissions.

Transition plan

The level of maturity regarding low-carbon transition plans varies greatly from company to company. Indeed, if some companies have not adopted a transition plan, some have a robust and detailed one that details the different actions planned on the different time horizons to transition to a low-carbon aligned world. One of the conclusions from the road test was that companies still need to strengthen their low-carbon transition plans to achieve the climate goals they set.

Present

Most companies have developed sustainability strategies and report current targets to tackle their climate impacts. Current levels of data availability are still below ACT's standard, and this is an overall challenge for most companies in the sector. Most of the companies are exploring at least one low-carbon business model (e.g. second hand).

Legacy

Past performance varies between companies. Some companies in the road test have not yet made their low-carbon strategies public and are just starting their sustainability journey. However, the sector has already started to tackle the climate change topic and it can be illustrated by the numerous sector-specific incentives to reduce the impact of Fashion (e.g. durability working groups, strong engagement along with associations specialized in eco-design). Moreover, brands have already started implementing incentives on the raw materials and durability areas and some brands have demonstrated cutting-edge practices in these fields.

Consistency

Overall, assessments have shown that climate strategies were consistent for each company and fairly reflected the level of maturity of the company. However, some incoherencies and gaps have been identified between companies' commitments and their transition plans. This has been reflected in the narrative score.

AVERAGE RATINGS PER MODULE FOR THE PERFORMANCE SCORE

Overall, the sector had an average performance in the ACT assessment (see Figure), with most Modules scoring below 50% on average. Only **Module 5. Management** and **Module 8. Policy engagement** had average scores above 50%. The lowest scoring Module was **Module 3. Intangible Investment**. The poor overall results in the quantitative Modules (especially **Module 2. Material Investment**) were in part caused by a lack of available data.

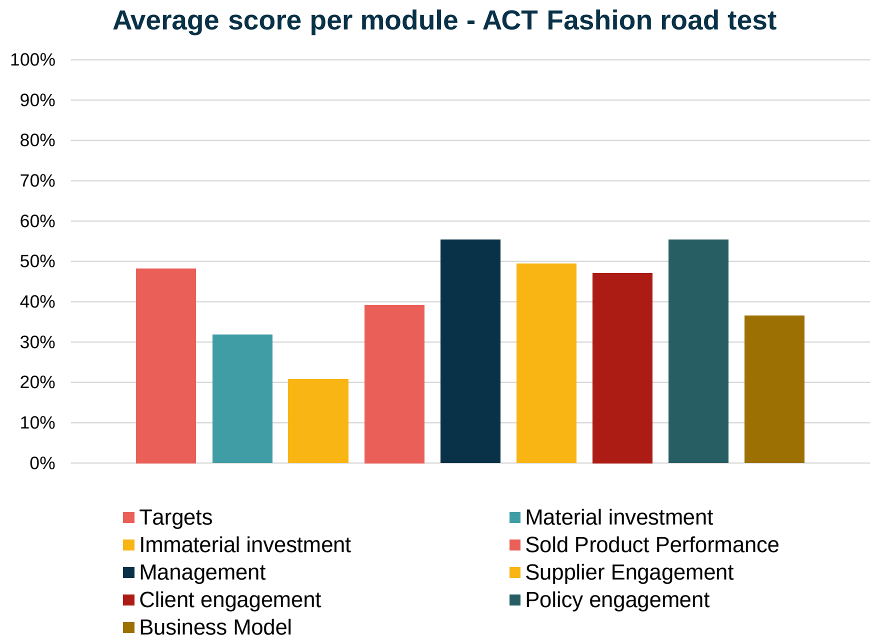
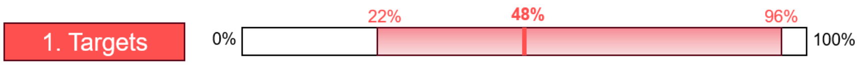


FIGURE 6 - AVERAGE SCORES PER MODULE - ACT FASHION ROADTEST

Disclosure for the qualitative Modules (5-9) was more complete, especially for companies already disclosing to CDP. Higher achievement in the qualitative Modules indicates that many companies have implemented and are reporting on their sustainability strategies. High scores in Modules **5. Management** and **8. Policy engagement** show that the sector has begun to adopt a governance structure whereby commitments related to climate actions are addressed at the top levels of management.

MODULE 1. TARGETS (15%)



Module description for ACT Fashion: Module 1 assesses a company's long-term targets and aims to compare these with future projected emissions values.

Materiality for the Fashion sector: This Module is material in the definition of a climate strategy with a weighting of 15%.

Main feedback / conclusions: All companies reported a target and received a score for this Module. However, the level of ambition differs from one company to another. Also, if the companies assessed during the road test got great scorings on the indicator related to their scope 1 and 2 targets (1.2 Alignment of scope 1 and 2 emissions reduction targets), one company out of two scored 0% on the indicator related to scope 3 targets (1.2 Alignment of scope 3 emissions reduction targets), meaning their targets did not cover scope 3 emissions or were not aligned with the low-carbon benchmark (ACA). The companies having long-term targets (2050) were also very few.

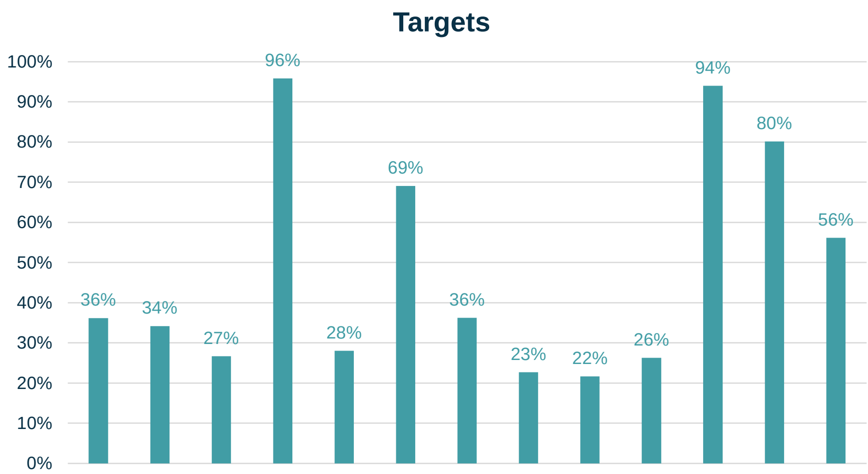
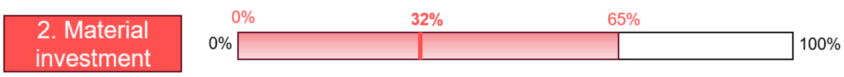


FIGURE 7 - MODULE 1. TARGETS - BREAKDOWN OF SCORES

MODULE 2. MATERIAL INVESTMENT (5-15%)



Module description for ACT Fashion: Module 2 measures material investments in low-carbon activities and technologies, also referring to Scope 1&2 emissions. It compares the trend of past emissions to what would have been required by the benchmark reduction's slope. It also requires figures for the impact of upcoming

CAPEX investments at asset level to see if the level of ambition is consistent with the actual transition plan in terms of future emissions.

Materiality for the Fashion sector: This Module assesses the consistency between a company's investment plan and the targets that have been set. The Module has a weighting ranging from 5 to 15%, depending on the position the company have within the sectoral value chain (emissions from owned assets are more material for companies operating in the Manufacturing stage, i.e. Suppliers/Manufacturers and Integrated brands).

Main feedback / conclusions: Module 2 received rather low scores (32% on average), mostly due to the Trend in future emissions indicator (2.2). Indeed, several companies did not have enough data for the calendar of asset modernization, as well as the impact of such as future modernization on the carbon intensity of assets. In addition, the asset-level table was time-consuming to complete, particularly for big companies. As for the Targets module, the discrepancy between companies was very important regarding the trend in past scope 1 and 2 emissions (2.1). Either very low or very high scores were attributed to this indicator. The new indicator, assessing incentives to reduce pre-consumer waste, could be tested properly, and the scores of the companies concerned by this indicator (2.3) were rather high.

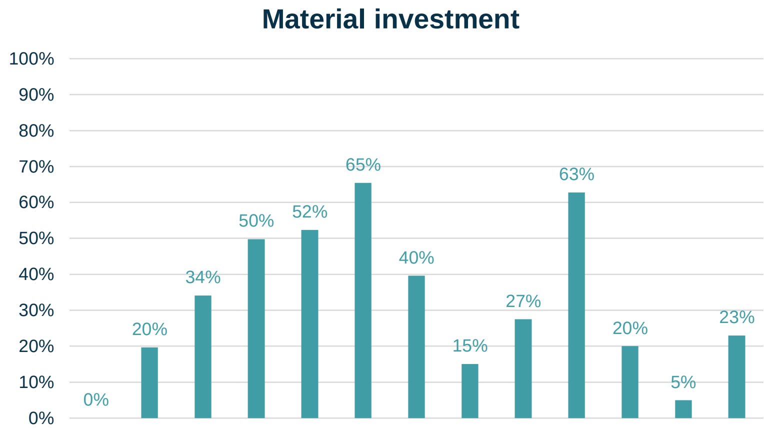


FIGURE 8 - MODULE 2. MATERIAL INVESTMENT - BREAKDOWN OF SCORES

MODULE 3. IMMATERIAL INVESTMENT (0-5%)

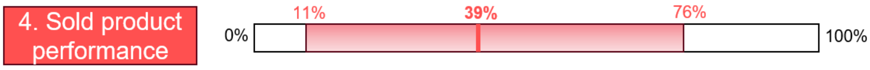
Commenté [MP1]: Pas assez d'entreprises évaluées pour communiquer sur la moyenne

Module description for ACT Fashion: Module 3 measures investments in the research and development of low-carbon and mitigation technologies.

Materiality for the Fashion sector: To enable the transition, the Fashion sector relies on the development of low-carbon solutions to reduce the impact of the Manufacturing step of the value chain. This Module is only assessed for Suppliers/Manufacturers and Integrated brands – indeed, given the lower amount of environmentally related R&D undertaken by Pure retailers and Non-integrated brands and the fact that relevant R&D technologies usually derive from other sectors, this module is not relevant for these actors.

Main feedback / conclusions: Not enough companies were assessed on this Module during the road test, which does not allow to provide average data or trends. The companies involved in the road test discussed the relevance of the indicator since the actions evaluated are assessed in other modules of the methodology.

MODULE 4. SOLD PRODUCT PERFORMANCE (25-35%)



Module description for ACT Fashion: This Module is very specific to the Fashion sector: it analyses the trend in companies' past product intensities, as well as the interventions put in place by the assessed companies to reduce the carbon impact of raw materials and increase sold products' durability. Efforts in reducing transportation emissions and unsold item quantity are also valorised under Module 4 in ACT Fashion.

Materiality for the Fashion sector: This Module is not homogeneously material for the sector with a weighting ranging from 25% to 35%. Indeed, this Module is the most critical for Non-integrated brands and Pure retailers while the methodology focuses on direct emissions, assessed in Module 2, for Integrated brands and Suppliers/Manufacturers. However, this Module has a significant weighting for every company assessed under ACT Fashion as it captures major stakes specific to the sector (e.g. durability).

Main feedback / conclusions: The companies assessed during the road test got quite low scores on the indicator relative to products' past emission intensity (24% on average). This is mainly due to a lack of past data on scope 3 (e.g. change in calculation methodology or scope within the last five years), and one of the major highlights from the road test was that this indicator needed to be updated to capture better companies' efforts in this field. The maturity of the companies on transportation and unsold item quantity reduction was also noteworthy.

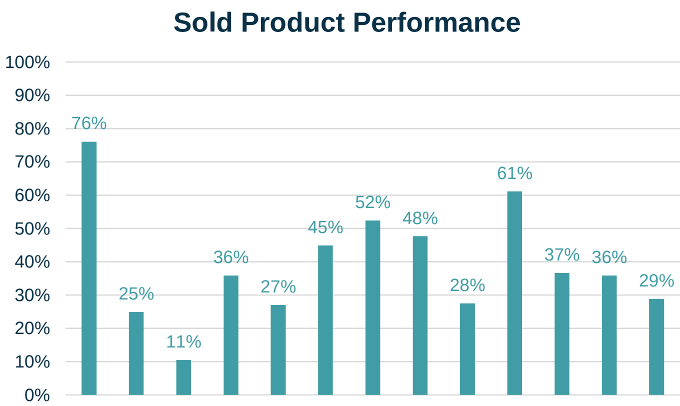
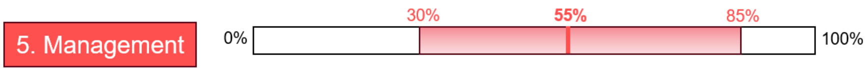


FIGURE 9 - MODULE 4. SOLD PRODUCT PERFORMANCE - BREAKDOWN OF SCORES

MODULE 5. MANAGEMENT (10%)



Module description for ACT Fashion: Module 5 evaluates whether companies have sound policies, structures, and oversight on climate-related issues. It incorporates many sub-indicators that together draw a picture of the company's management and strategic approach to the low-carbon transition.

Materiality for the Fashion sector: This Module assesses companies' ability to carry out their transition plan and meet ambitious science-based targets. It is therefore material with a weighting of 10%.

Main feedback / conclusions: The Management Module was one of the highest-scoring Modules, with an average score of 55%. However, the dispersion of the score (ranging from 30% to 85%) shows that companies from the road test are at different stages along their low-carbon transition journeys. Some already display active management and leadership in this area (detailed transition plan, monetary incentives, oversight of climate change issues, etc.), while others are further behind.

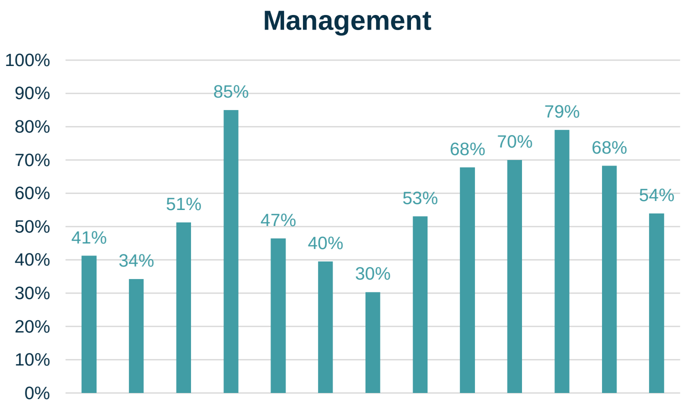


FIGURE 10 - MODULE 5. MANAGEMENT - BREAKDOWN OF SCORES

MODULE 6. SUPPLIER ENGAGEMENT (10-15%)

Module description for ACT Fashion: This Module scores companies' strategies and actions for influencing their suppliers to improve their sustainability performance and decrease GHG emissions.

Materiality for the Fashion sector: This Module is not homogeneously material for the sector with a weighting ranging from 10% to 15%. Companies operating on the Manufacturing step (contract manufacturing) are not expected to have strong levers on their own suppliers, while the issue is crucial for Pure retailers.

Main feedback / conclusions: As was the case with most qualitative Modules, almost all companies were able to provide answers for Module 6. However, the dispersion of the scores (ranging from 4% to 88%) shows variation in the level of supplier engagement maturity between companies. Most of the companies have CSR clauses with their suppliers but are not actively discussing with them to reduce emissions along the value chain. Most performing companies develop specific partnerships with their suppliers, encouraging them to improve their carbon performance (e.g. by phasing out from coal or submitting a SBTi target) and increasing the weight of “best suppliers” in their procurement.

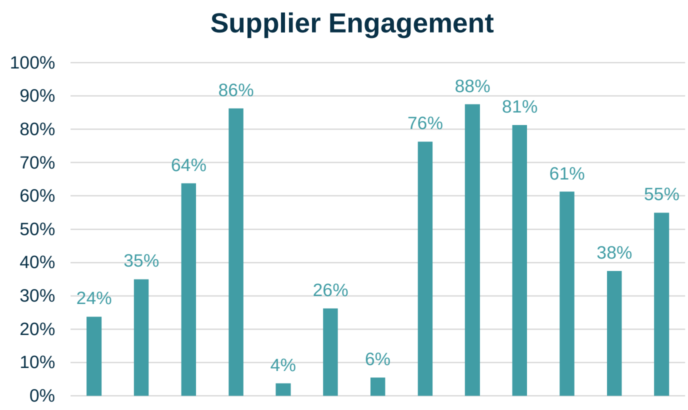


FIGURE 21 - MODULE 6. SUPPLIER ENGAGEMENT - BREAKDOWN OF SCORES

MODULE 7. CLIENT ENGAGEMENT (5-10%)

Module description for ACT Fashion: The client engagement Module is focused on the companies’ efforts to promote low-carbon products and behaviour (e.g., circularity).

Materiality for the Fashion sector: Pure retailers and non-integrated brands have more influence over the final consumer than Suppliers/Manufacturers and Integrated brands. Thus, 10% are allocated to Pure retailers and non-integrated brands and 5% are allocated to Suppliers/Manufacturers and non-integrated brands.

Main feedback / conclusions: The criteria for this Module require companies to implement a mix of actions to encourage customers to decrease their climate impact, including awareness and education campaigns, monetary incentives, low-carbon products offer, etc. For the companies having Retail activities, valorizable actions were not always easily quantifiable as brands have a business-to-consumer sales model. However, the companies assessed were all able to valorize at least one action in the education or in the low-product offer field. The average score (47%) hides a high dispersion of results (ranging from 17% to 89%). It illustrates the high variation of the maturity of client engagement between companies.

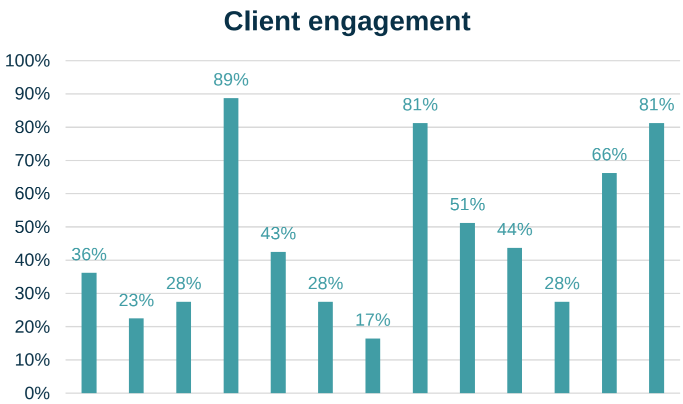
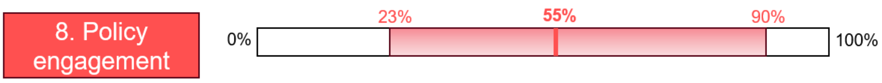


FIGURE 32 - MODULE 7. CLIENT ENGAGEMENT - BREAKDOWN OF SCORES

MODULE 8. POLICY ENGAGEMENT (5%)



Module description for ACT Fashion: The Module evaluates companies' engagement with trade associations and their public positions on climate policies. Indicator 8.1 requires companies to disclose their internal policies and processes for joining, interacting with and influencing trade associations. Indicator 8.2 asks if companies support trade associations with climate-negative positions. Similarly, indicator 8.3 asks companies to disclose their position on significant climate policies. Finally, indicator 8.4 questions the company's collaboration with local public authorities.

Materiality for Fashion sector: The policy engagement indicators provide a narrative about the company's stance on climate change and how the company expresses this in their engagement with policymakers and trade associations. The materiality of this Module is therefore medium with a weighting of 5%.

Main feedback / conclusions: Companies performed well in this Module, which was the highest-scoring Module along with Module 5. Feedback from companies revealed that more guidance was needed regarding both how to fill out the maturity matrices, and the specific topics they should address. Besides, some companies found it difficult to have an impact through public policy. The companies assessed during the road test, except for a few exceptions, did not collaborate with local public authorities which questioned the relevance of this indicator (8.4).

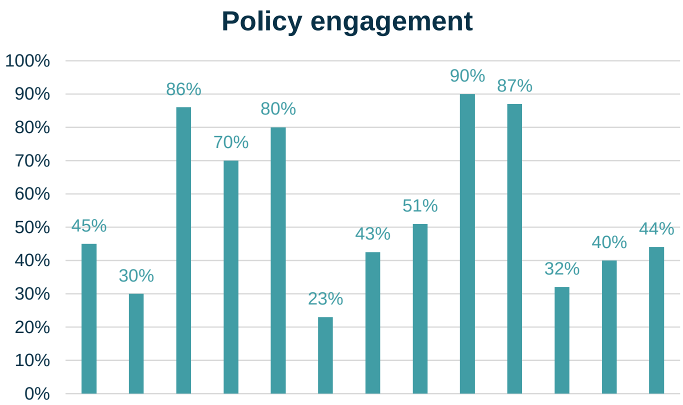
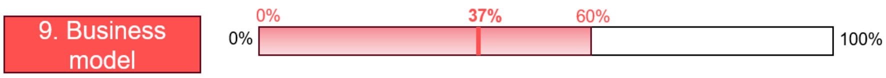


FIGURE 43 - MODULE 8. POLICY ENGAGEMENT - BREAKDOWN OF SCORES

MODULE 9. BUSINESS MODEL (10%)



Module description for ACT Fashion: This Module aims to evaluate new business activities that are being undertaken for the low-carbon transition. It evaluates the development of low-carbon businesses and activities as well as the company's effort to phase out from high-carbon business models (e.g. overproduction).

Materiality for the Fashion sector: This Module is future-oriented since it asks companies about their narrative on specific changes to business models and strategy that the sector can/must make to transition. As this is an important aspect of long-term future planning, it is material for the sector with a weighting of 10%.

Main feedback / conclusions: Results suggest that most companies are investing in at least one of the business activities targeted by the Module (e.g. circular business models such as second hand). The average score is quite low compared to the average scores that are obtained in other ACT sectoral roadtests, lying around 50%, which might illustrate a scoring method too stringent. Indeed, with the current scoring method, the companies listing several business models of different maturities from high to low were penalized compared to a company listing only one mature business model.

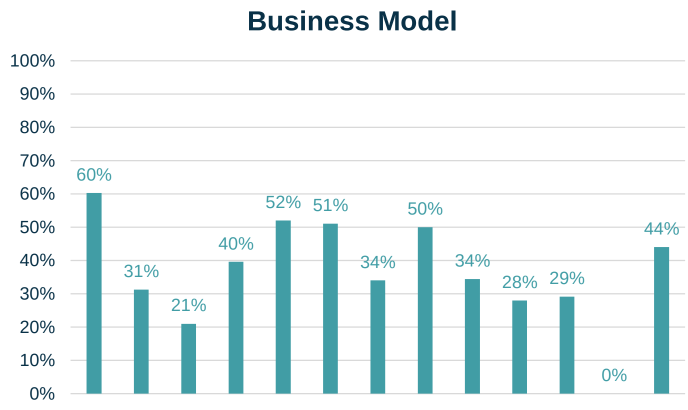


FIGURE 54 - MODULE 9. BUSINESS MODEL - BREAKDOWN OF SCORES

AVERAGE ASSESSEMENT RATING BY CRITERIA FOR THE NARRATIVE SCORE

The narrative score assesses the overall response of the company on four dimensions: Business Model and Strategy, Consistency and Credibility, Reputation, and Risk. Once a company's response was reviewed and scored, analysts completed the narrative score in the tool provided by ACT. This includes the scoring criteria for each dimension using the same achievement levels as other maturity matrices, from Basic (0 points) to Low-Carbon Transition Aligned (4 points), as shown in Figure .

		Basic	Standard	Advanced	Next practice	Low-carbon transition aligned
1	Business model and strategy	The company does not seem to be able to be profitable in a low-carbon economy and there is no sign of internal efforts.	The company has begun to seek profitable activities in a low-carbon economy.	The company has identified profitable activities in a low-carbon economy, and climate issues have been integrated into its business model and strategy.	The company is in transition toward profitable activities in a low-carbon economy and there is evidence that mechanisms are being put in place for this purpose.	The company's activities seem to be profitable and its short-term strategy and targets are compatible with the low-carbon transition.
2	Consistency and credibility	The past and present actions, and transition plan if there is one, do not demonstrate overall coherence and the company does not seem to be able to achieve its climate objectives. Important efforts are needed for the implementation of a low-carbon transition plan.	The past and present actions are not in line with the company's potential climate objectives. However, there is some evidence that the company already begun to consider mechanisms to implement a low-carbon transition plan.	The past and present actions demonstrate that the company has a climate ambition, but additional efforts may still be needed to achieve climate targets. The company has started to establish an action plan to improve its climate performance.	The past and present actions are coherent with the company's transition plan. Additional efforts are needed but the company has always demonstrated the will to implement the needed mechanisms to stay aligned with its climate goals.	The past and present actions are coherent and already in line or beyond with a low-carbon transition.
3	Reputation	Existence of serious or several environmental controversies harming the company's climate commitments. There is no evidence that the company is addressing or taking the controversies seriously.	Existence of minor environmental controversies. There is no evidence that the company is working to avoid this kind of controversy.	Existence of minor environmental controversies. The company has made reliable commitments to address these types of controversies.	Existence of negligible environmental controversies that do not hamper the company's climate commitments. The company has always resolved environmental controversies with due importance.	No environmental controversies.
4	Risk	There are serious risks that could undermine the company's profitability and its ability to successfully implement a low-carbon transition plan. The company does not consider climate issues related to its activities and remains passive in the face of climate risks.	There are minor risks that could undermine the company's profitability and its ability to successfully implement a low-carbon transition plan. The company has begun to consider climate issues related to its activities.	There are minor potential risks that could undermine the company's profitability and its ability to successfully implement a low-carbon transition plan. However, there is evidence that the company is directing efforts to reduce these risks.	Risks that could undermine the company's profitability and its ability to implement a low-carbon transition plan are very limited. In addition, the company has always addressed and considered climate risks in its strategy.	No potential risk to the future profitability of the company or its ability to implement its transition to a low-carbon economic model.

FIGURE 15: NARRATIVE SCORING MATURITY MATRIX (FROM ACT FRAMEWORK V1.1)

The final average narrative score for the sector lies at B, suggesting companies display an overall good performance but still need efforts to be aligned with a low-carbon pathway. This score is calculated by assessing each scoring dimension with a maximum score of 4 points. Reputation was the highest-scoring dimension with an average score of 3.2. The dimension Risk obtained the lowest average scores, with 2.0, suggesting that the relative recent nature of their transition strategies might pose some risks regarding their achievement.

Business Model and Strategy

This dimension obtained an average score of 2.3. One company obtained the maximum possible score, 3 companies obtained a score of 3 and 8 companies obtained a score of 2, and one company obtained a score of 1. This suggests that most of the companies are adapting their business activities to a low-carbon economy, by investing and taking advantage of low-carbon market opportunities. However, only one company proved a relatively high level of maturity regarding their low-carbon transition strategy. The company that received a lower score (1, since no company received 0) reported limited investments for developing a low-carbon offering or have not yet begun implementing a low-carbon strategy. In this strategy, particular attention is given to how the company intends to move away from the logic of high-volumes sales in the future.

Consistency and Credibility

The average score for this dimension was 2.2. This dimension evaluates past, present and future performance and how it drives companies' low-carbon plans and commitments. The maximum score was 3 for this Module, achieved by three companies, which were able to provide some track record on their previous achievements regarding decarbonization and detailed measures to keep on improving their performance. Most companies (10 companies, out of 15) have a Basic (1/4) or Standard (2/4) achievement, indicating that they are not yet taking sufficient climate action to transition to a low-carbon economy. It also reveals some mismatches between targets set and actual plans to achieve those targets.

Reputation

This is the highest scored dimension of the narrative score, with 3.2 points. Eight companies have obtained the maximum score possible (4) as research indicated they have no controversies or reputational issues related to climate impact. One company obtained a score of 3 and three companies received a score of 2. Although no company received 0, one company received a score of 1, illustrating environmental controversies, which affects the credibility of the low-carbon transition strategy.

Risk

The average score for this dimension is 2.0. As well as for the "Consistency & Credibility" pillar, most of companies received "Basic" or "Standard" scores, which suggests that companies are still exposed to transition risks as they have not implemented scenario testing or have not prepared sufficiently for alignment with a low-carbon economy. Most companies need to develop more advanced processes for identifying climate-related transition risks, and better strategies to mitigate them.

Final narrative scores

The average narrative score obtained was 12,2/20, which is equivalent to a B letter score.

TREND SCORE

Almost all of the companies received a positive trend score (12 out of 13 companies). This shows a remarkable dynamic coming from the companies participating in the roadtest, as they have reported relevant information on low-carbon business models deployment as well as proof of their efforts towards GHG emissions reduction. These companies are also showing a high level of incorporation of their suppliers into their sustainability strategies and the analysts were confident in the positive evolution of these companies towards a low-carbon aligned world.

Only one company obtained an equal trend score and none of the companies assessed received a negative trend score, illustrating the fact that the Fashion sector is at an advanced stage of its decarbonization journey and that strategies are being developed, even if current efforts are not already enough to align with low-carbon pathways and practices.

FEEDBACK FROM PARTICIPATING COMPANIES

At the end of the assessment, analysts shared a form with participating companies to collect insights and feedback. The answers have been gathered to identify key findings. Several topics have been addressed through this form:

Key topics	Feedback from companies
Data collection process	• The companies assessed were satisfied of the working sessions • It would be great if the questionnaire could be collaborative (shared document, online questionnaire) so that several people from the assessed company could help fill the questionnaire and so that the analyst could check the data/add more in real time. • It is complicated for companies involved in several sectors (e.g. Retailers) to collect the Fashion-specific data. • The guidelines provided on the durability criteria allow companies to easily fill the corresponding tables.
ACT Assessment	• The scores obtained reflect the actual maturity of the assessed companies according to them • The questions on the traceability system could be detailed further.
ACT Methodology	• Examples could be added in the methodology, especially for the Client engagement Module. • Assessing the emissions at a product level (indicator 4.1) is not relevant as changes in methodology occur over time. • The sector-specific challenges are taken into account in ACT Fashion.
ACT Framework	• Some companies shared that ACT might become a supportive tool in the reporting. • Some companies thought that the questions of the questionnaire could be linked to the CSRD datapoints in addition to the CDP questions. • The questionnaire was not easy to fill and for some questions, the level of detailed required was not very clear. • Guidances could be given to companies on how to communicate internally and externally around their ACT Fashion assessment.

2. Conclusion and Outlook

SUCCESS OF THE ROAD TEST

- **An important number (12) of companies were voluntary to participate in the ACT Fashion road test**. Only three companies needed to be assessed through public data. A majority of the companies that were involved in the road test showed to be highly engaged and provided, in many cases, feedback on the data collection tool and indicators.

- The analysts believe that with the improvements made to the tool and methodology after the road test, the **ACT Fashion assessment will provide a fair reflection of a company's readiness to transition to a low-carbon economy**.

- **Beyond the roadtest, members of other companies or initiatives within the Fashion sector were invited to participate in methodology.** Their contributions were constructive and insightful for key methodological points, especially on the durability indicator. The ACT initiative aims to be complementary and compliant with other existing initiatives. During this road test, this has been completely aligned with what ACT aims to do for the low-carbon transition.

- **The current assessment methodology allows companies to point out with clarity where the main gaps / areas** for improvement can be found, and encourages much greater transparency on climate performance, strategies, and transition plans. This will help to raise the bar for the Fashion sector.

- **Clear process and good coordination with key actors.** The road test process has been clear for the assessed companies and the latter believe it would be beneficial for their transition.

LIMITS OF THE ROAD TEST

- **Usability of the data collection tool:** without making the data collection tool more user-friendly, companies will continue to find it challenging to use the tool and provide the data needed for the assessment. Companies are expecting more guidance directly available in the tool, and a more detailed explanation as to what is expected from companies, especially in maturity matrices.

- **Companies are also expected a mapping between ACT indicators and CSRD datapoints.**

- **Sample of companies:** Most of the pilot companies are operating in the downstream part of the sectoral value chain (integrated and non-integrated brands, pure retailers). It would have been interesting to assess a few more companies to represent Suppliers/Manufacturers. Consequently, the weighting system for this type of players could not be tested properly.

MAIN CHANGES AND RECOMMENDATIONS TO EXTEND THE METHODOLOGY TO THE REST OF THE SECTOR

The methodological enhancements as well as improvements to the questionnaire have already been implemented before releasing the methodology (v3.0).

All inconsistencies or issues experienced by the analysts and companies during the road test have been gathered in a logbook and integrated at the end of the road test after discussion with the Steering Committee. The following points summarise the key recommendations that have been addressed:

- **Creation of an indicator to capture the company's strategy regarding volumes**: a new indicator (9.2) was created in Module 9 – Business Model to assess the company's potential to move away from a high-volumes sales strategy. Indeed, if Fashion companies multiply their efforts in developing low-carbon products (i.e. reducing products' carbon intensity), another lever is to reduce the sold volumes.

- **Need to consider absolute emissions for some indicators:**
    - The road test showed that the assessment of indicator 4.1 was not relevant – indeed, companies assessed in the road test were not able to provide data at reporting year minus five years because of recent methodology changes or were not able to gather data at the required granularity. Thus, the indicator was updated and now assesses the trend in absolute scope 3 emissions over the five last years. The indicator has been split in two dimensions to allow the analyst to capture the quality of the data and methodology used by the company.
    - Indicator 2.1 was also modified to consider trends in absolute scope 1 and 2 emissions (rather than intensity trends). Indeed, trends in emission intensity are not relevant as the emissions are normalized which cannot ensure a reduction in absolute emissions (a reduction of the intensity per sold product could result in an increase in absolute emissions if the sold volumes increase over the considered period). The indicator has also been split in two dimensions to allow the analyst to capture the quality of the data and methodology used by the company.

- **Better capture of the durability dimension:** The road test version of indicator 4.3 did not fully allow the analyst to assess the maturity of the durability interventions. Indeed, as every intervention was scored individually, a company listing one mature intervention would obtain a better scoring than a company listing several interventions of variable maturity. In the updated version of the indicator, the analyst will only fill one maturity matrix per durability sub-dimension (extrinsic durability, repairability, intrinsic durability) and will assess in each of these matrices the overall maturity of the company on this dimension to better reflect the company's dynamic in this field.

- **Irrelevance of Module 3 – Immaterial investment:** The road test showed that this module was not relevant for the Fashion sector as the actions evaluated are assessed in other modules of the methodology.
    - Indeed, suppliers/manufacturers' R&D efforts are mostly directed towards scope 1 and 2 emissions reduction, which is already assessed in Module 2 - Material Investment and are relying more on existing technologies than in innovation technologies that would support the industry decarbonisation roadmap.
    - For brands, R&D investments are mostly directed towards eco-design or durability which are already considered in Module 4 - Sold product performance and in Module 9.
    - In addition, this module has been tested during the road test of ACT Fashion's methodology and it has brought to light the fact that Fashion companies do not have a harmonized way of accounting for R&D expenditures which make it hard to include it in the qualitative assessment. Fashion companies assessed under ACT Fashion will thus not be evaluated on Module 3 - Immaterial investment.

- Other technical points have been addressed:
  - Clarification of the list of Supplier engagement and Client engagement activities that are rewarded by the methodology
  - Update of the maturity matrices of indicators 2.3 and 4.5
  - The weightings for Integrated brands brands were modified. In the updated version of the methodology (v3.0), they are not fixed as they are distributed according to the weighted average of their emissions coming from Manufacturing activities and from Retailing activities
  - Change in the scoring system of indicator 9.1
  - More guidance were integrated within the tool

CONTRIBUTION OF ACT TO ENGAGING COMPANIES IN THE LOW-CARBON TRANSITION

This report concludes that the companies in this sector must strengthen their decarbonisation ambitions and efforts and increase their transparency to better allow stakeholders to understand companies' impacts and the extent of their future ambitions and action on climate change. Current activities and expected future performance are not aligned with a low-carbon pathway yet, exposing companies in this sector to climate and market risks.

Throughout the road test, most companies showed interest in completing the assessment and acknowledged the role of ACT in encouraging greater shifts within the sector, in relation to increased transparency and ambition around low-carbon transition plans. In addition, companies provided feedback on the assessment methodology and tools. Pilot companies demonstrated they are working towards developing and implementing effective sustainability strategies, but that there is still a long way to go before reaching the level of ambition required to align with a low-carbon pathway, and complementing strategies with real action, for example in transforming their business models.