BroadBranch Advisors

How ESG is catalyzing business growth in Athleisure

The conversation surrounding the business value of ESG factors — environmental, social, and governance – is by no means a new one. ESG was first introduced as a framework for long-term investment returns in a 2005 United Nations report titled "Who Cares Wins — Connecting Financial Markets to a Changing World." Since then, the importance of ESG across industries has continued to grow. A 2022 study conducted by the Capital Group reported nearly 79% of investors in North American markets view ESG as central to investment approaches.

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According to research conducted by Bloomberg, sustainability investments now total nearly $35.5 trillion globally amid increasing public concern for climate change and inequities in working conditions.

The COVID-19 pandemic and national events highlighting social inequity have brought heightened pressure on brand accountability, regulatory scrutiny, and visible disclosure when it comes to sustainability initiatives across industries. Investors and executives are further aware that a strong ESG proposition can safeguard a company's long-term success. Environment-related investments can open firms up to burgeoning trillion-dollar markets such as clean energy and AI-driven technology. A 2019 article by Business Talk analysts states that even food industry giants like Tyson Inc. found realized capital gains through their investment and expansion into the plant-based meat market. Case studies like Tyson's show executives that focusing on a long-term mindset when it comes to ESG strategy can pay off with increased revenue — to the benefit of stakeholders.

One of the major questions surrounding ESG strategy nowadays is a simple one: what does a basic strategy look like? While there is no perfect formula when it comes to the way in which companies craft ESG policies, there are similarities in the companies that find success. Notably, environmental considerations have been the formulaic approach when adopting ESG policy. Companies from LEGO to Ikea have advertised their adoption of environmentally sustainable practices to reduce carbon emissions and source responsible materials for their products. While this has been the dominant focus in the past, industries are also slowly positioning metrics and policy to align with more social focuses.

Athleisure is leading the pack

One industry that has seen robust growth and value creation from the alignment of its ESG and business strategies is athleisure. Athleisure wear is a hybrid product of the apparel industry that combines the technical structure of athletic apparel with the comfort of leisurewear. Though the industry began only eight years ago, experts surveyed by BroadBranch estimate the value of the North American market to be over $100 billion with a CAGR of 6-8%. One former Director of Materials at Nike even predicted that "athleisure will outpace the growth of performance wear."

Vuori is a smaller company in the athleisure space, founded in 2014 that is now valued at nearly $4 billion with its gross sales on track to increase 140% by the end of 2022, according to the San Diego Times. Vuori's resounding success in customer engagement stems in large part from its ESG strategy. A former Gap executive noted that "consumers buy Vuori for the quality and the name" and that quality is something the company has "had time to perfect since sustainability was always a consideration." Not only are Vuori's ESG commitments to recycled materials and ethical manufacturing disclosures attracting new customers, but the company has also displayed balance sheet growth attractive to capital investors and VC firms. Vuori recently received nearly $400 million in funding, further illustrating that ESG alignment can optimize investment and capital expenditures.

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How Adidas has rewritten the script on ESG strategy

As the second largest industry player by revenue, Adidas is a behemoth with nearly $22 billion in revenue as of 2021. Adidas has forged ESG success by leveraging its scale, brand alignment, and inter and intra-industry collaboration. By focusing on these pillars, Adidas has grown profit margins while strengthening its commitment to environmental sustainability.

Adidas began disclosing ESG targets and progress early on. Even before 2000, Adidas set its sights on sustainability goals with the implementation of its Environmental Management System in 1998, far earlier than many of its industry peers. This long-term strategy is what ultimately aided Adidas in adjusting and developing initiatives with great success, such as achieving 100% sustainably sourced cotton by 2018.

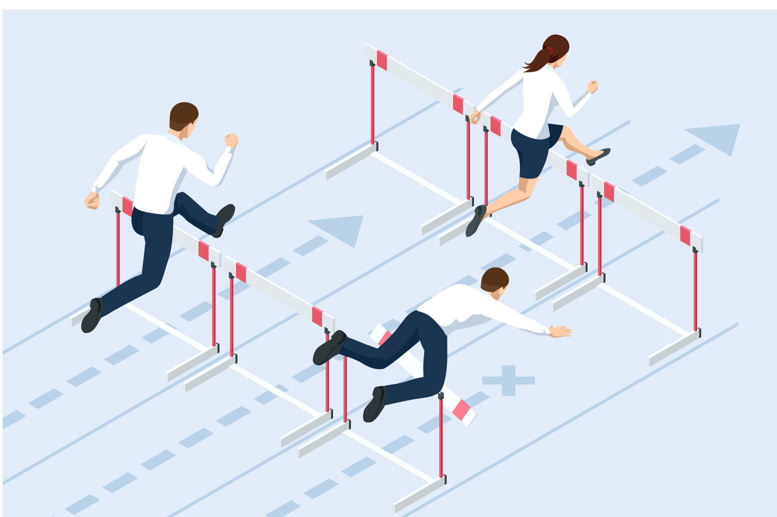
Balancing Adidas' brand identity with its sustainability initiatives required a two-fold approach. First, sustainability has remained a prominent feature of the brand's long-term strategy in organic growth. Second, the company was transparent in its climate and emissions disclosures.

Adidas innovated in its sustainability story messaged to the consumer. The company used product labeling to share with their customers the origin of products and materials. As Adidas saw sustainability success, the company delivered detailed and transparent information to its consumers, earning their trust and business.

Adidas and the New-Zealand footwear company Allbirds recently collaborated to scale their sustainability technology. By engaging with a competitor, Adidas leveraged its established brand image to create innovative sustainable solutions: in this case, a sneaker with the lowest carbon footprint in the market today. By pooling sustainability resources across businesses, Adidas set a critical example of an innovation that can help the industry as a whole scale production of sustainable products. Partnerships that leverage sustainability resources will help reduce average unit costs and sales prices and ultimately make products, like the Allbirds x Adidas sneaker, more accessible to consumers while reducing carbon emissions.

Nike, for example, achieved a 3.5 million lb reduction in production waste across five years, following the launch of its lightweight Flyknit material in 2012. Nike is also working in research and development to perfect the treatment of natural fibers to scale with polyester. According to a former VP of Materials at Nike, these developments can make such materials as affordable as polyester, the most prominently used material in the market. Water and carbon reduction are among other common initiatives in the athleisure space. Puma, for instance, has partnered with water technology company Xylem to implement its "Dope Dye" manufacturing process and reduce the amount of water used in the apparel dye process by up to 17.4%.

Athleisure companies have also utilized ESG strategies to ease regulatory intervention and adverse government action. For companies that have yet to begin ESG development, potential legislation — especially in North America — wields stricter emission, chemical, and waste regulations. These new regulatory standards become less of a concern for those companies, like Nike, which have made significant strides in sustainability already, getting out and ahead of these regulations. By discovering efficiencies in production and manufacturing, Nike is a prime example of how ESG initiatives create a solid foundation to adapt to sustainability pressures. The company's streamlined sustainability practices ultimately benefit the consumer while following regulatory standards.



Nike and Adidas are definitive ESG strategy leaders in athleisure, followed by mid-sized players like Athleta and Lululemon. These players are slowly making progress with environmental strategy by incorporating practices to reduce their carbon footprints like utilizing more recycled fibers in manufacturing. Smaller companies like Girlfriend Collective and PANGAIA have also found resounding market potential by differentiating via environmental strategy adoption and implementation.

Lessons for other industries

As the athleisure industry continues to grow, there remains an opportunity for players to enhance or implement ESG practices in their strategic development plans:

- **Inter-industry partnership**: Companies across industries should seek out partnerships with ESG goals in mind. Collaborations between major companies across industries may help. One former Nike employee asserts that “Even ‘Nike’ is small potatoes when compared to other industries like food packaging.” Inter-industry collaboration could provide an abundance of resources and innovation opportunities for new product development, improving product impact and helping companies effectively implement and scale their ESG policies.
- **Transparency:** Broad industry analysis suggests that thoughtfulness and transparency in ESG developments enhance long-term value for companies as it leads to stronger customer relationships. Visibility leads to an understanding of ESG initiatives which in turn leads to a strengthened customer relationship.
- **Aligning strategy with vision:** The athleisure industry has shown that there is no ‘one size fits all’ ESG strategy. Companies should ensure that their unique sustainability plans accommodate their growth goals and align with the company’s vision. As best put by a consumer strategist interviewed, “(ESG) is most impactful when actions align with the company’s vision.”

BroadBranch Advisors works across a variety of industries with companies who seek answers for demanding strategy questions. From analysis of industry partnerships to scaled business strategy with an ESG focus, BroadBranch is always striving to offer strategic expertise. If you are facing a critical juncture in growth, development, or the strategic direction of your organization and want to learn more about how BroadBranch Advisors can help, please reach out to one of our Partners Courtney Matson (courtney@brbradv.com) or Greg Thompson (greg@brbradv.com). You can also read other market perspectives written by our team here.

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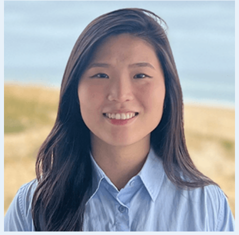

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