Climate Strategy Analyst Report

next plc

ME50361 Engineering Management for Sustainable Value

Individual Assignment

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INTRODUCTION

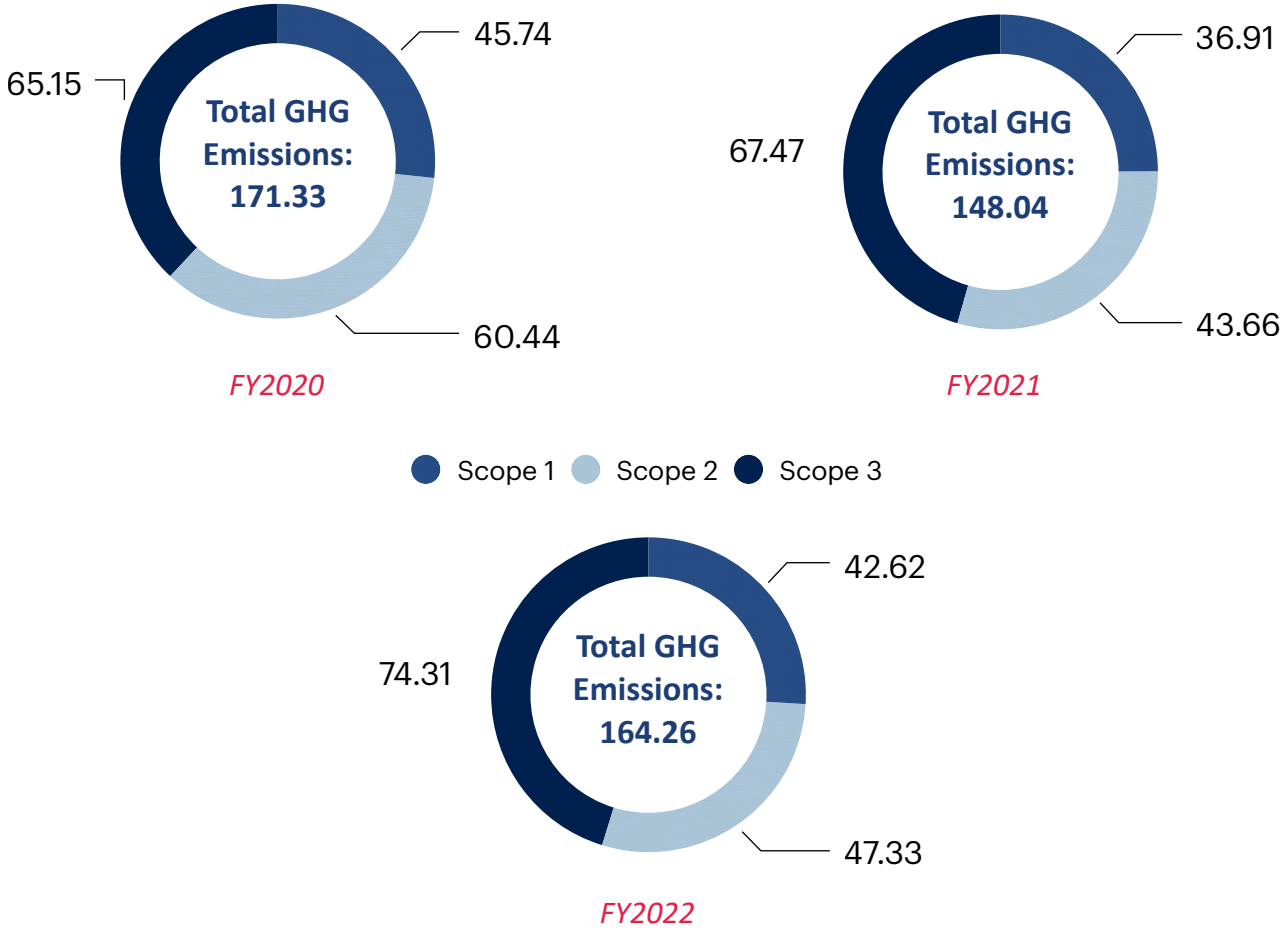
NEXT Plc is a specialty retailer that merchandises and sells clothing, footwear, accessories, beauty, and homeware products through self-owned and franchised stores. The company classifies its business operations into eight reportable segments: NEXT Retail, operating in more than 500 stores around the UK and Ireland, NEXT online, over 8 million active customers globally, NEXT International, having 199 franchised stores globally, NEXT Sourcing, NEXT Finance, LABEL, Lipsy and Property management. NEXT sources products from 35 countries and maintains eight warehouses, two international hubs, and seven depots in the UK [1].

For the fiscal year ended January 2022, the company reported revenues of 4,625.9 million GBP, a 30.9% increase over 2021 [2]. Its online store is ranked first, surpassing Marks and Spencer in the Fashion and apparel category [3].

The company's main vision is to offer its customers a variety of beautifully designed quality products at reasonable prices. Particularly for sustainability, the company wishes to reduce its environmental impact by lowering the carbon intensity of its operations, which includes activities throughout its total value chain as well as the natural resources it uses [1].

GLOBAL CARBON FOOTPRINT

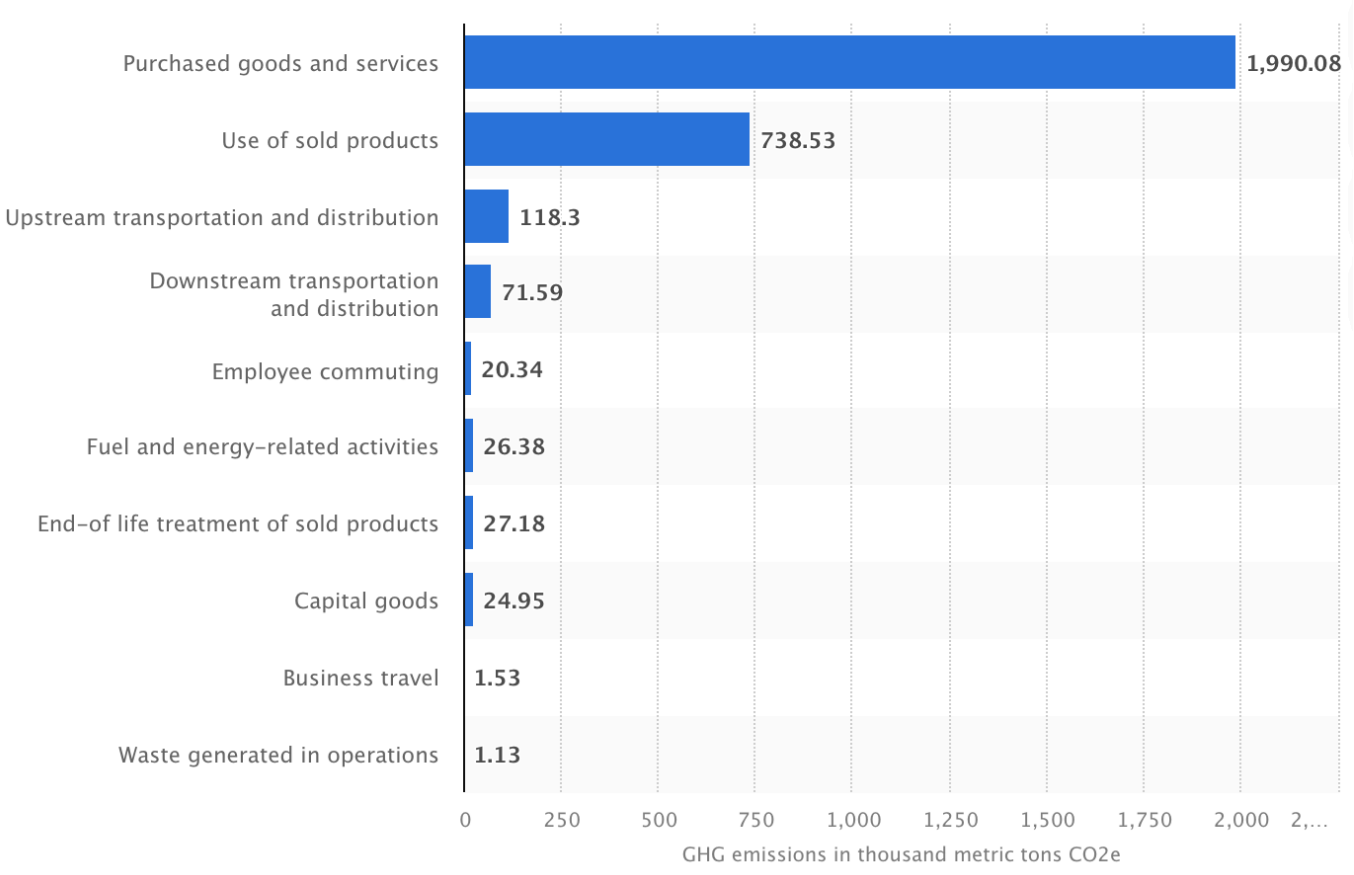
The NEXT group calculates its global carbon footprint by measuring the emissions produced from the activities across Scopes 1, 2, and 3. The majority of carbon footprint that comes under its value chain is outside of its direct control and is reported as Scope 3 emissions [1].



The company's total GHG emissions in 2022 (excluding non-assured Scope 3 emissions) were 164.26 thousand tonnes of CO_2 equivalents, 11% higher compared from 2021. The majority of Next's total GHG emissions come from Scope 3 emissions, which account for about 74.31 thousand tonnes of CO_2 equivalent (45.2% of the total GHG

emissions) and represent an increase of 10% from 2021. Scope 1 and Scope 2 emissions for the company increased over 2021 by 15% and 8%, respectively [4]. The company also measured its total Scope 3 emissions across its total value chain both from suppliers and from customers to be 3,019,997 tonnes CO_2e and these are distributed as follows [1].

Image source: https://www.statista.com/statistics/1315724/next-plc-emissions/

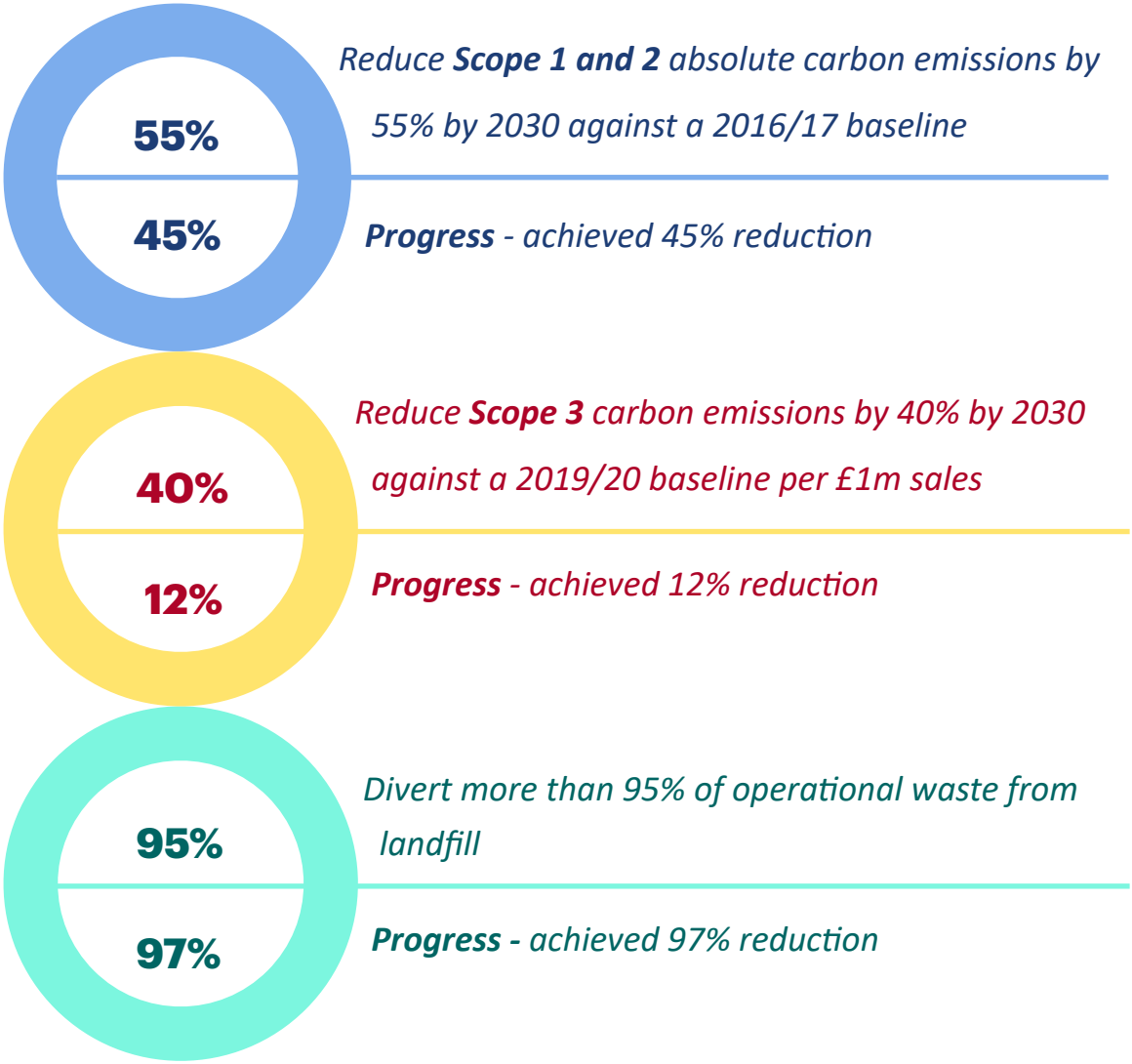


Volume of Scope 3 greenhouse gas emissions released by NEXT plc as of 2022, by activity type (in 1,000 metric tons of CO_2e)

	2022	2021	% Change
Electricity usage kWh	208,842,211	179,492,824	16
Gas usage kWh	54,675,195	49,207,109	11
Total kWh	263,517,406	228,699,933	15
Tonnes CO_2e	**57,348**	**52,703**	**8**

Table: CO_2e emissions relating to electricity and gas usage across the NEXT Group [1]

NEXT's SUSTAINABILITY TARGETS AND PROGRESS



Source: Next corporate responsibility report 2022

THE COMPANY's APPROACH & ITs ANALYSIS

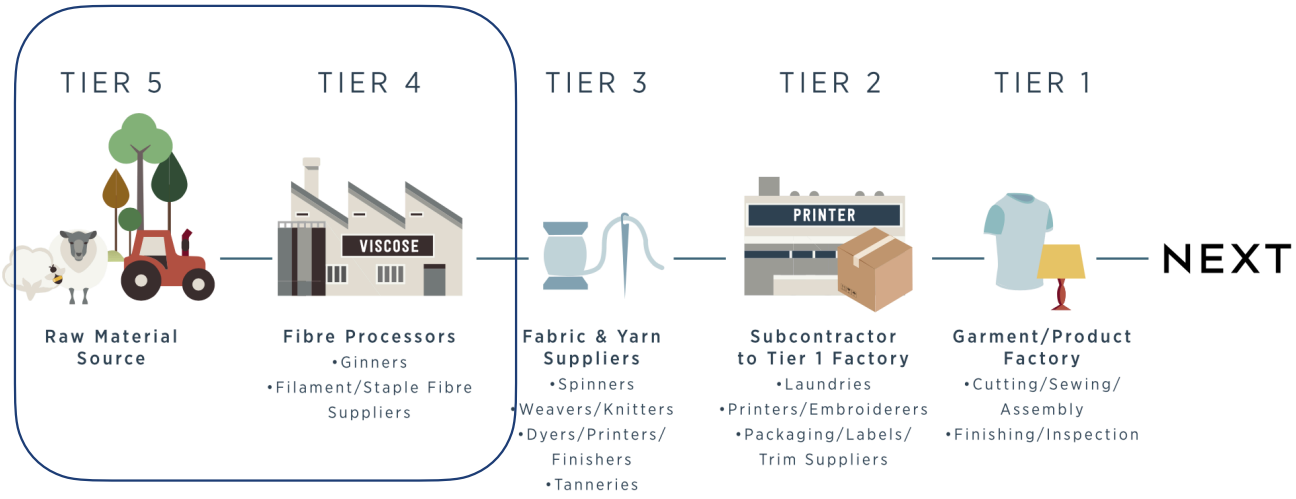
To meet the aforementioned targets within the deadlines, the key operational activities on which NEXT group is focusing are as follows:

- Responsible sourcing
- Improve energy efficiency in their buildings
- Work to increase the amount of waste diverted for recycling
- Increase the efficiency of their owned delivery fleet and may be introducing electric vehicles for delivery in future
- Identify opportunities to reduce packaging waste such as circular packaging

NEXT's Scope 1, 2, and 3 targets are consistent with the approach and methodology of the Science Based Target Initiative (SBTi). Its Scope 1 and 2 target is consistent with achieving a 1.5°C reduction in accordance with the SBTi pathway, and its Scope 3 target is consistent with achieving a 2°C reduction in accordance with the SBTi's requirements at the time of approval (July 2021) [1]. Although it has set science based targets to reduce greenhouse gas emissions generated from its own operations and supply chain, it is uncertain whether it is on track to meet its targets [5].

Sustainability in the garment clothing and fashion industry is only possible by ensuring sustainability at all stages of the industry's supply chain [6]. NEXT aimed to reduce its Scope 3 carbon emissions by 40% by making reference to a 2019/20 baseline per £1m sales, but the group has only achieved a 12% reduction as of now (2022). Although the

company launched its Responsible sourcing strategy in 2018, which claims that the company will source 100% of its main raw materials through certified routes by 2025, it is struggling with supply chain transparency. To enable more accurate traceability of raw materials, it is still investigating traceability tools and testing technologies [1]. NEXT has defined 5 tiers in its overall supply chain in its ESG report, but only the first three tiers' supplier lists are made available to customers. NEXT received a 40% score on the 2021 Fashion Transparency Index based on how much information the company discloses about its social and environmental policies, strategies, and impacts [7].

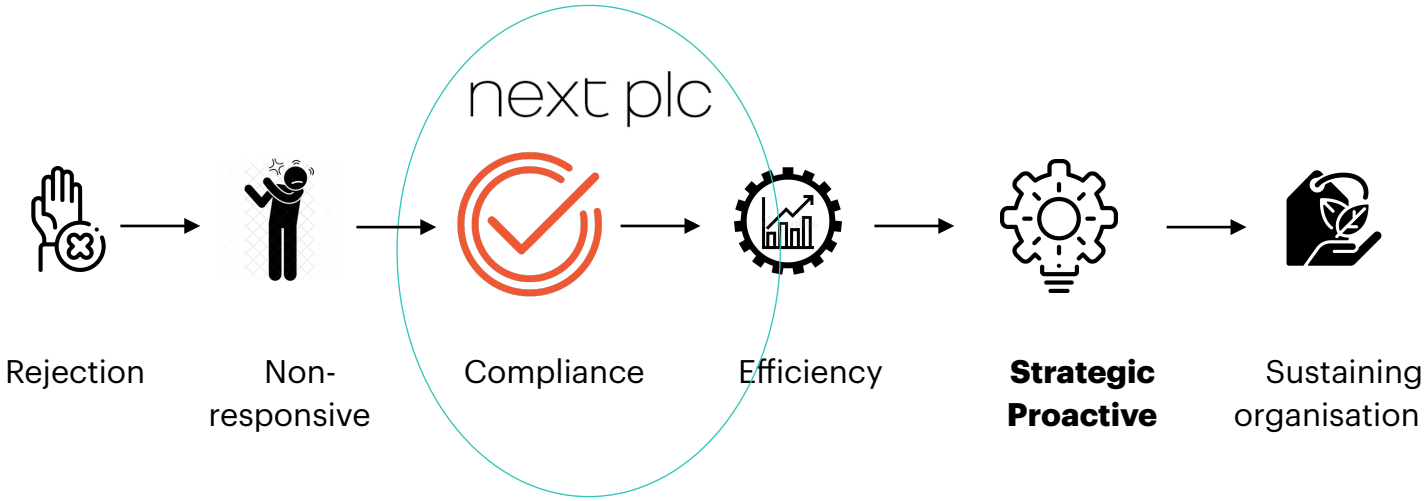


Company still working to gain visibility across Tier 4 and 5, and aim to deliver this by 2025 [1].

Source: Next corporate responsibility report 2022

Overall, it's looking from the company's ESG report that the company is dedicated to improving resource efficiency and minimising its operational carbon footprint [7]. It has done collaborations with several leading initiatives such as Textile Exchange, canopy and Sustainable Apparel Coalition (SAC) to develop more sustainable ways of working. However, NEXT under SAC focused on measuring from its Higg index

and does not show any significant work or action. The company also mentioned about its long term horizons which are in accordance with the British Retail Consortium commitment to net zero by 2040 [1]. Regarding Dunphy's levels of engagement (Figure 1, Appendix 2), sustainable supply chain management is increasingly being recognised as critical to the strategic phase, in which organisation is proactively engaging across its supply networks to ensure sustainability is built into its business model [8]. NEXT is working to improve the traceability across its supply chain as currently only the the first three tiers' supplier lists are made available to the customers. From the company's ESG report, it seems as if some of the actions taken by NEXT to improve on Environmental, social and governance matters are due to the country's legislation in which the work is being done. According to my analysis, NEXT is currently operating at a Compliance level, but a slight shift towards Efficiency is apparent, after considering all the positives and negatives for the company.



SWOT ANALYSIS OF SUSTAINABILITY STRATEGY

STRENGTHS

- **ESG Governance framework** - NEXT's governance structure for ESG-related activities is fairly straightforward, allowing decision-making matters to be escalated quickly. Since the Audit Committee is responsible for supervising ESG activities on the Board's behalf, this can result in an increased focus on the potential risks associated with climate change in particular [1].

- **Science based targets approved by SBTi** to reduce Scope 1 and 2 carbon emissions by 55% (2016/17 baseline) and Scope 3 emissions by 40% (2019/20 baseline) by 2030 [1].

- **Collaborations and Memberships** - To reduce its environmental impacts, NEXT has collaborated with various leading initiatives. For example, NEXT is a signatory to RE100, a global initiative led by The Climate Group in collaboration with CDP (Carbon Disclosure Project) that has established a target of 100% renewable electricity for its global operations by 2030 [1].

- **Waste and Recycle** - One of the company's target was to divert more than 95% of the waste from landfill and during the year 2021/22, NEXT was successful in diverting **97%** of the waste materials it created to recycling or for reuse [1].

Textile Exchange · Textiles 2030 · ZDHC · RE100 | CLIMATE GROUP | CDP · SCIENCE BASED TARGETS DRIVING AMBITIOUS CORPORATE CLIMATE ACTION · BRC CLIMATE ACTION ROADMAP

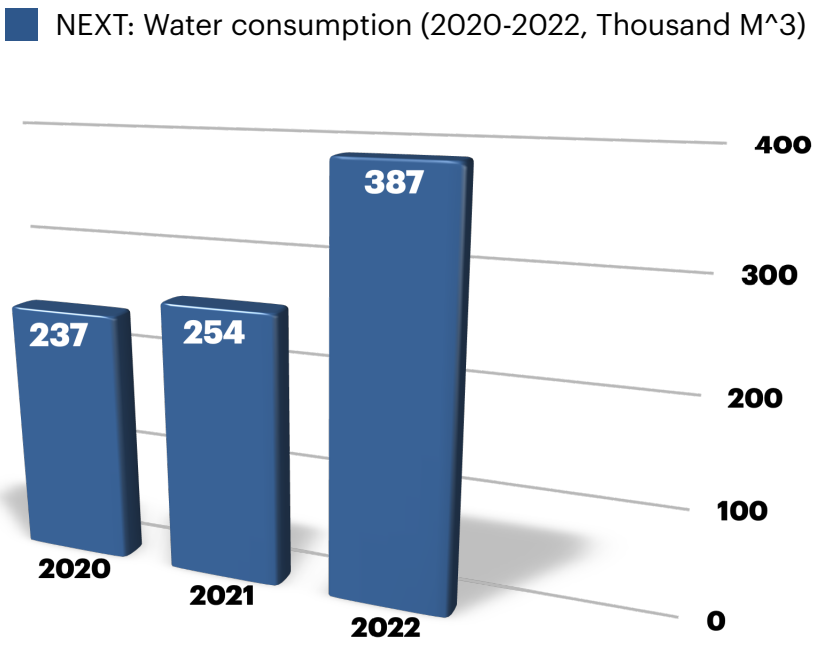
Source: Next corporate responsibility report 2022

WEAKNESSES

- NEXT only uses a **small percentage of organic materials** like organic cotton and hemp, as well as recycled materials like recycled polyester and regenerated nylon [7]. NEXT has sourced US cotton for years and is a signatory to US Cotton Trust Protocol (USCTP), which allows it to measure the reduced environmental impact of this cotton, but during this year the company sourced only 1% of its cotton in this way and is still working to increase the amount of cotton sourced as USCTP [1].

- **Traceability** - NEXT has defined 5 tiers in its overall supply chain in its ESG report, but only the first three tiers' supplier lists are made available to customers. It's still working to gain visibility across Tier 4 and 5, and aim to deliver this by 2025 [1].

- **Water Management** - NEXT direct operation is not a major consumer of water but raw material sourcing and operations like laundries, mills and tanneries use large quantities of water [1]. The company used 387 thousand cubic metres of water in 2022, a 52% annual increase in water consumption [10].



Source: GlobalData

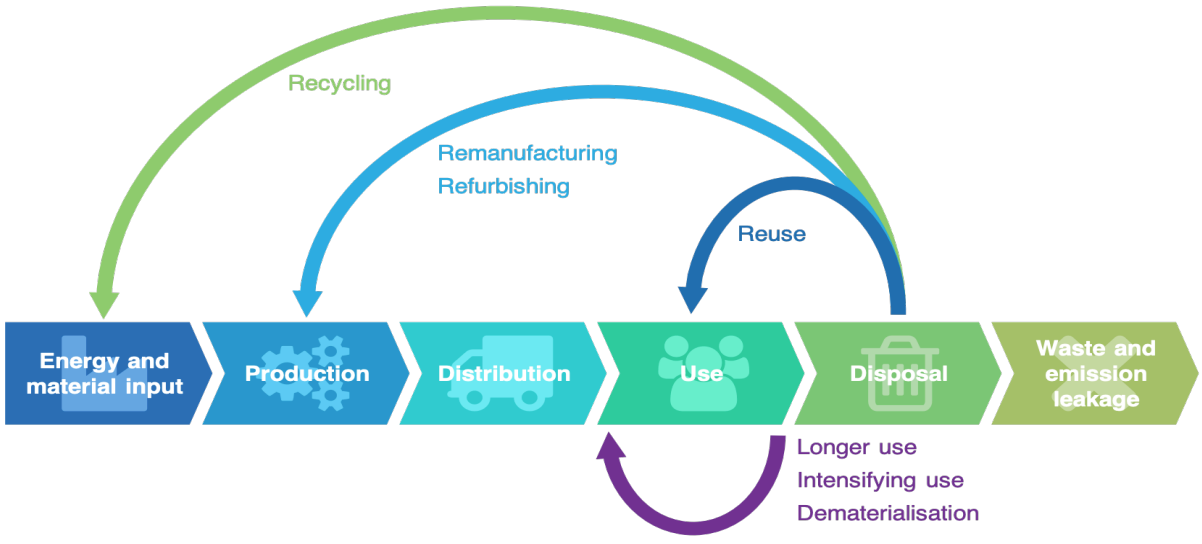
OPPORTUNITIES

- **Invest in R&D to explore new technology in clothing industry** such as Robotics and intelligent manufacturing, 3D printing and 3D knitting, Virtual and augmented reality, Artificial Intelligence. These technologies can improve efficiency and customisability by reducing manual labour and production processes [11].

- **Explore modern techniques to reduce the adverse affects of leather production on the environment** - Due to the number of chemicals and dyes used in traditional leather production, the traditional method is highly toxic, and while new techniques reduce the effects of these hazardous chemicals, Piñatex offers a nature-based, renewable, and non-toxic alternative that can be used [12].

- **Material Substitution** - switching out a material for a lower-GHG substitute, such as virgin polyester for rPoly made from bottles or textiles. A subset of this could be the goal of collecting pre- or post-consumer clothing waste and turning it into new material, such as H&M's pledge to use only recycled or sustainable materials by 2030 [13].

- **Circular Packaging** - Currently, NEXT plc is not practicing packaging design for the circular economy, wherein resources are used for as long as possible, get the most out them and then, at the end of each service life, recover products to reintegrate them into the supply chain [14].



Source: Wikipedia Circular Economy

THREATS

- **Majority factories based in most vulnerable countries to climate change** - Businesses can identify high-risk environmental areas by collaborating with their wider supplier network, particularly for activities taking place in countries with poorly enforced environmental legislation [12]. 32% of the NEXT brand products are sourced in Bangladesh with 189 working factories in the country [1]. Bangladesh is one of the countries which is adversely affected by climate change [9]. This is one of the potential threat to the company.

- **Raw Material and Labour costs** - Raw materials such as oil and water are becoming scarce, raising the cost of apparel manufacturing. The European Commission warns that as the manufacturing industry has declined, skilled labour has decreased and become more expensive, potentially risking the apparel industry's competitiveness [15].

- **Reputational risk** - About 15% of all consumers of fashion around the world are already very concerned with sustainability and consistently make decisions to lessen their impact [16]. As a result, consumers may prefer brands that are more committed to sustainability, such as H&M and Levi's, to NEXT plc.

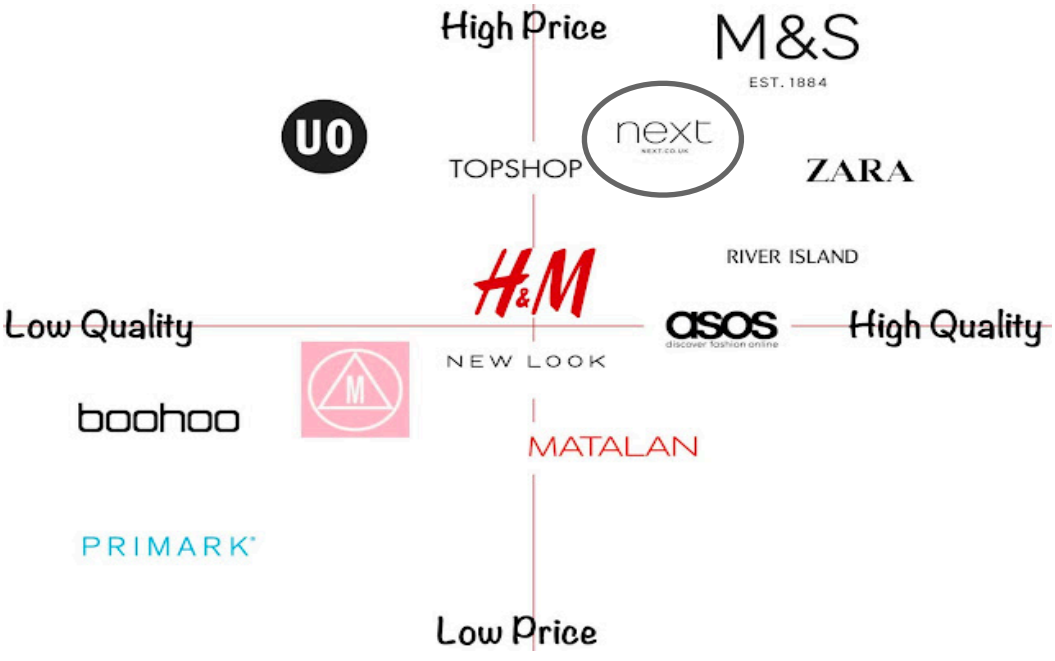


Image Source: http://fmckeiraobrien.blogspot.com/2019/02/brand-positioning-map.html

STRATEGIC RECOMMENDATION TO THE FIRM

Textile and clothing is one of the oldest manufacturing sectors and a very complex area, as it includes a large number of sub-sectors that cover the entire manufacturing cycle, from raw materials to the elaboration of final products. This makes traceability nearly impossible [17]. **Transparency** and visibility in all information shared among supply chain actors have become critical characteristics of a sustainable supply chain [18].

One of the growing technology in the clothing industry, Blockchain apparel solutions can allow brands to communicate traceability and ethical sourcing to its stakeholders [19]. **Blockchain technology** has the potential to provide significant advances in supply chain management as it can be used to track product from the raw materials all the way to the consumer, increasing transparency [20].

- **How do Blockchain Technology power transparency, and in turn sustainability in clothing industry?**

Digital provenance has become a tool for apparel brands to show their commitment to sustainability and advance in that direction. By giving each product a unique digital identity its entire life cycle can be tracked on the immutable blockchain, from raw material to design and sale, and then resale and recycling, depending on the needs of the brand [19].

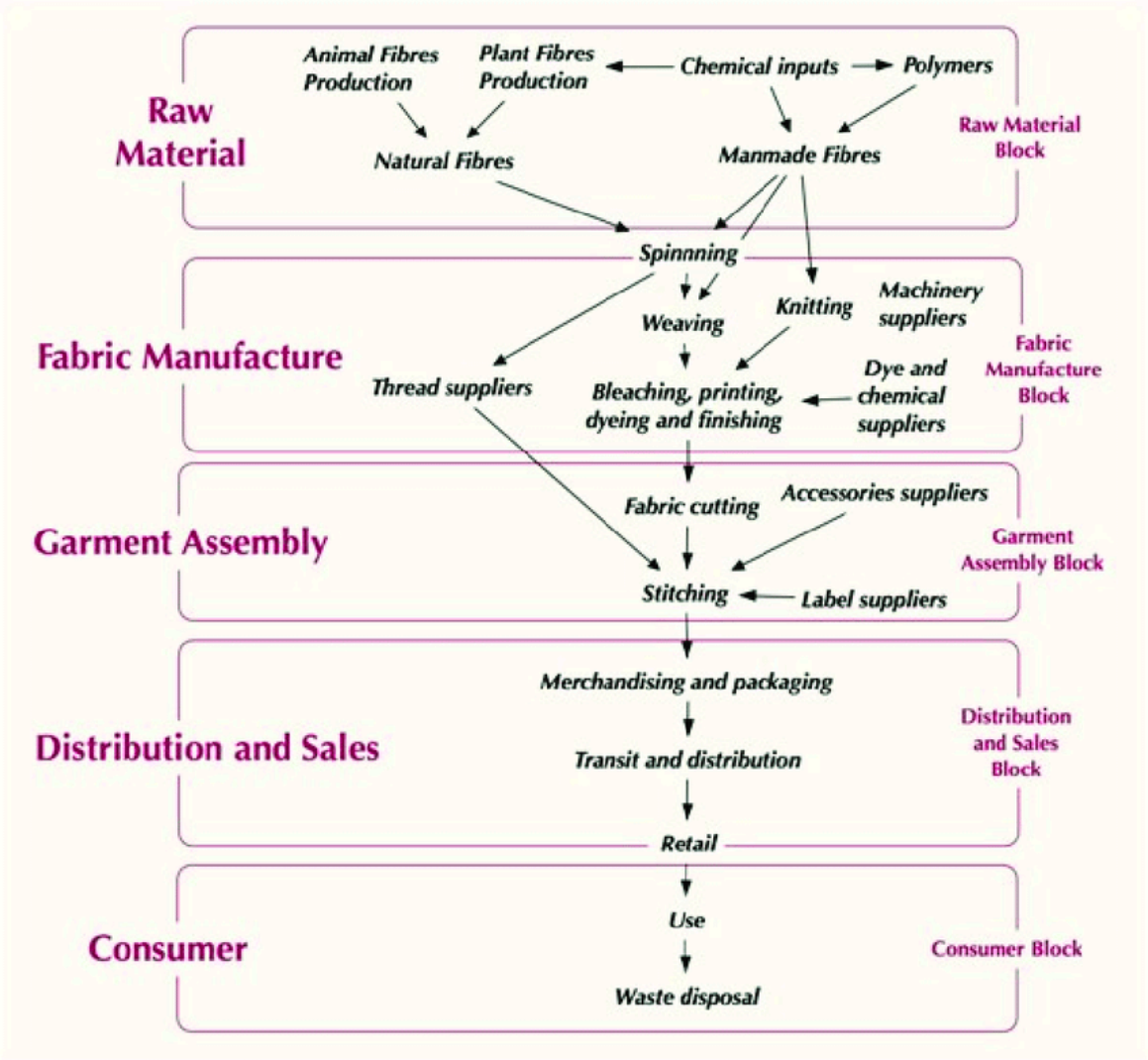


Fig. Ready-to-wear clothing supply chain [18]

Blockchain connects the apparel supply chain with a real-time data flow, replacing fragmented data with a single, immutable ledger visible to all authorised parties [19]. In this way, the company can exactly monitor what block/blocks in its supply chain is/are contributing how much to the total Scope 3 carbon emissions. A sustainability expert at the Ellen MacArthur Foundation, an environmental non-profit working to improve the fashion industry's environmental record said

“With blockchain it is impossible to manipulate the results, and once you have transparency within your supply chain, then you can reduce your environmental impact and improve overall quality” [21]. Although there are still difficulties to be overcome in the widespread adoption of blockchain, it offers too many potential uses for the future to be ignored [22].

- **How is it practically possible? - An example**

MCQ, a fashion label relaunched by Alexander McQueen last year, serves as a useful case study. Everledger (a digital transparency company) has developed tech integration throughout the brand's supply chain, products, and online consumer experience under the leadership of MCQ. And a collaboration with Temera, a leader in IoT technology for the fashion industry, has furthered the adoption of a seamless technology that accelerates the journey to more circular and sustainable fashion [19].

As mentioned earlier, NEXT's supply chain accounts for the majority of its carbon footprint. Additionally, the company is currently having difficulty tracking down its supply chain. By utilising Blockchain technology, NEXT can guarantee the traceability of clothing during the manufacturing process and, as a result, track and improve the supply chain segments with the highest carbon emissions.

CONCLUSION

From the extraction of raw materials to the production, distribution, wear, and disposal of clothing, the global fashion industry has a significant impact on the natural environment. To respond to global environmental challenges, the fashion industry will need to change at the system level and create a new fashion system based on a sustainability paradigm [12].

The NEXT group is taking steps to address the challenges that climate change has posed to the entire clothing industry, but its efforts are insufficient, and it can do better. NEXT has got a poor-average sustainability rating on various platforms available online [5,7]. It has to focus on reducing Scope 3 emissions in particular as the majority of footprint comes from its supply chain. Using new technologies to get a better traceability across its supply chain such as Blockchain which is described in the report can be a beginning for this change.

APPENDIX 1 : BIBLIOGRAPHY

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APPENDIX 2 : ADDITIONAL FIGURES

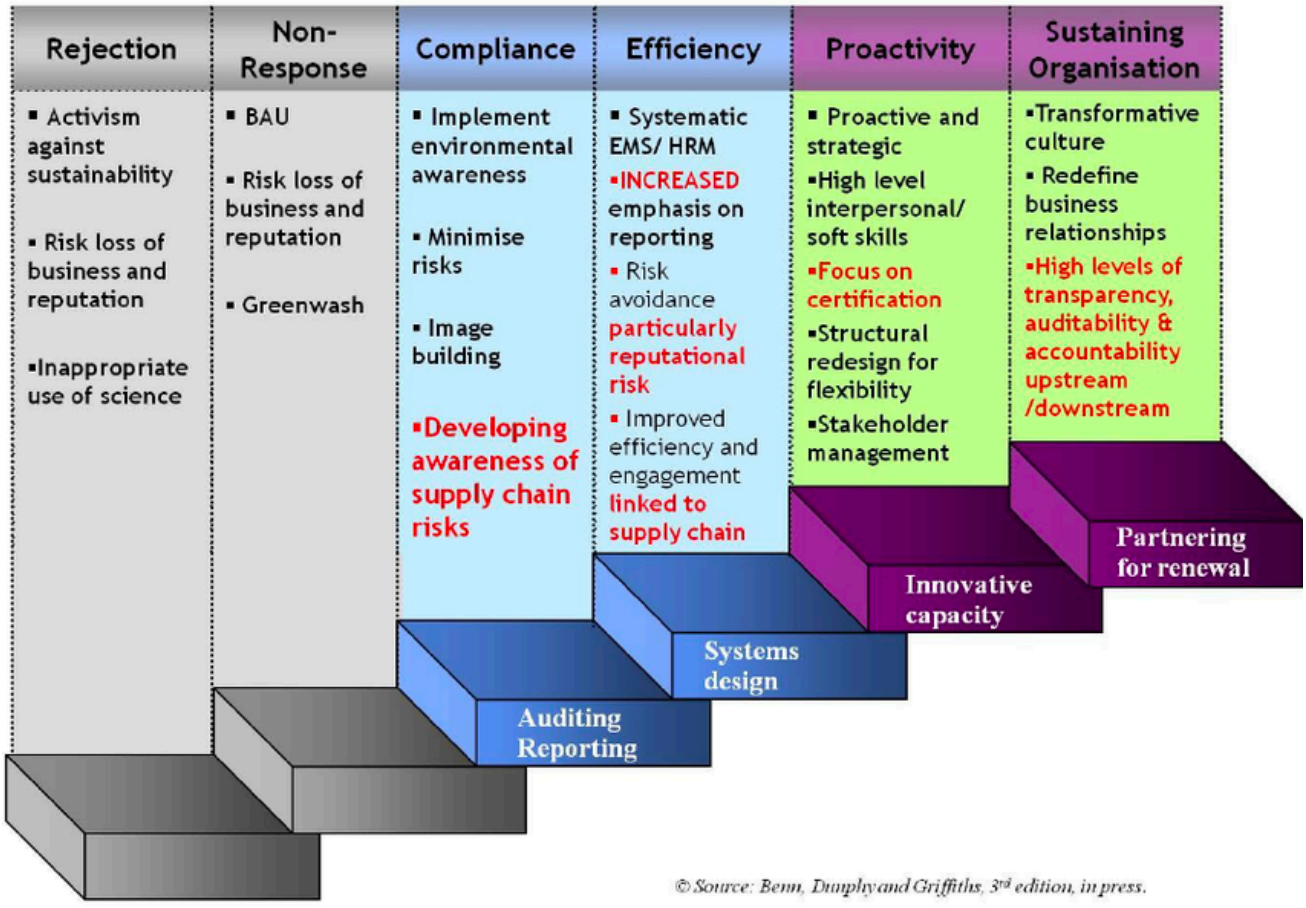

Figure 1: Dunphy's levels of engagement