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# For H&M, the future of fashion is both ‘circular’ and digital

Companies that “embrace circularity and digitization at the same time” will dominate the fashion industry, says Vanessa Rothschild, H&M Group’s global sustainability steering and development manager.



Vanessa Rothschild

**H&M Group**, the world’s second-largest clothing retailer, is betting that people will choose and buy clothes differently from the way they have in the past—and it sees itself as a potential catalyst for that change. The company, which operates some 5,000 stores in 70-plus countries, believes it has both the responsibility and a tremendous opportunity to change consumer behavior. So says Vanessa Rothschild, who has helped lead the company’s sustainability efforts for more than four years. Today, as H&M Group’s global sustainability steering and development manager, Rothschild and her colleagues work to define and achieve the company’s sustainability goals, which include using only sustainable materials by 2030 and having a “climate positive” value chain—one that reduces more greenhouse gases than it emits—by 2040.

Rothschild spoke with McKinsey’s Karl-Hendrik Magnus and Monica Toriello about the future of sustainable fashion. The following are edited excerpts of the conversation.

**McKinsey:** Your job title is quite long. What does it mean? What are your primary responsibilities?

**Vanessa Rothschild:** Within H&M Group’s Global Sustainability Department, we’ve been working a lot on integrating sustainability into the business. The “steering” part of my job means my team works on steering mechanisms that help make sustainability a natural part of our everyday decisions: what we are being measured on, our KPIs, and so on. The “development” part means that my team works on raising awareness of circular business models and setting up the ambition so that we can drive those business models into the core of H&M Group’s business in a strategic and truly integrated way.

**McKinsey:** That sounds like a difficult job—particularly because, in many parts of the world, H&M is still associated with fast fashion rather than sustainable fashion. What will it take to shift consumer perception? And, more important, what will it take to shift consumer behavior?

**Vanessa Rothschild:** I think we can play a central role in both of those. H&M Group, and the fashion industry as a whole, has for many years excelled at making fashion desirable and attractive. Today, we have the same kind of responsibility, and also the opportunity, to make “circular fashion” just as attractive or even more attractive. My definition of circular fashion is an industry in which resources and products stay in use for as long as possible before being recycled or regenerated into new products, again and again.

Part of our role is to find the convergence between the digital shift and the circular shift—to make them come together so that it becomes very, very easy for the customer to adopt new ways of behaving and of using fashion. We have had the power to create desire; I think we also have the power to create meaning and well-being.

**McKinsey:** To that end, what are some of the most innovative or highest-impact circular initiatives at H&M right now? And how do you see those initiatives evolving over the next ten years?

**Vanessa Rothschild:** I see three main parts making up a circular ecosystem within the fashion industry: circular supply chains, circular products, and circular customer journeys. There are exciting innovations within each of those parts. For circular supply chains, at the most basic level we need to produce only what we can sell; we need to adjust supply and demand. Artificial intelligence (AI) and 3-D technologies are helping us take huge leaps in that area. For example, algorithmic commerce, or using AI to understand consumer needs in order to produce only the right products in the right amounts and allocate them to the right place, will take us far.

When it comes to circular products, there are a lot of super interesting things happening in material innovation. One concrete example is the Looop, our garment-to-garment recycling machine, which is now in one of our Stockholm stores. Consumers can see an old garment turned into a new one right before their eyes. Another example of material innovation and recycling technology is Renewcell, which is a company that H&M Group has invested in. Renewcell is developing a new material called Circulose, made by gently recovering cotton from worn-out clothes.

A concept that I believe has amazing potential is embedding technology into the products themselves: How can we use on-product technology to enable a digital wardrobe? Product ID is an important enabling technology that will take us very, very far, both in terms of consumer behavior—because it will make it simple for consumers to swap, share, and show garments—and in terms of impact follow-up. Digital enablers will make it much simpler for garments to flow through circular business models such as resale, rental, and repair.

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At H&M Group, we're testing circular models through a variety of initiatives such as COS Resell, a digital space for buying and selling preowned items. But the really exciting part is when we start to scale these business models, and when we decouple business growth from resource use. By 2030, these initiatives won't just be scattered, sporadic initiatives. They'll become interconnected initiatives that form the core of our business.

Doing business in this way, coming up with all of those innovations, requires diversity of thought. So inclusion and diversity are crucial preconditions for all of this to happen.

**McKinsey:** Has the COVID-19 pandemic changed the way H&M thinks about those initiatives? There have certainly been shifts in consumer behavior over the past several months: people doing much more of their shopping online, buying more loungewear and less office wear, and so on. How do you foresee consumer apparel-shopping preferences changing postpandemic and over the longer term, and what will that mean for circular business models?

**Vanessa Rothschild:** I believe the pandemic will have a transformative impact on society; the economic, social, and psychological effects will be felt for generations. But we're now at a point where we are at least past the shock phase and can start planning for the future. Most of the changes we're seeing right now are major transformations; they are new lifestyle behaviors rather than just short-term trends in the market.

The growth in online shopping, as you said, has sped up. Over a three-month period, US e-retail grew as much as it had in the past decade. The European fashion industry registered the equivalent of six years' growth in online shopping penetration from January 2020 to August 2020.

Consumer demand for comfort, in every sense of the word, is growing: both comfort in terms of styles and fashion trends, but also comfort and convenience in customer interactions. The casual workweek is here to stay. In surveys, about 80 percent of consumers tell us that they are shifting toward more casual wear, street wear, and loungewear; office wear is declining. Consumers are also expecting comfortable, friction-free shopping.

In addition, consumers are making more conscious choices about what they wear, and that's where we see them starting to embrace circular business models. I think the big winners in the future will be those fashion players that can embrace circularity and digitization at the same time. Future winners will be companies that can problem-solve for customers and create long-term relationships with customers—companies that provide solutions and services, not just products.

**McKinsey:** What does that look like a decade from now? How do you see the fashion retail landscape evolving between now and 2030, and what role will sustainability play in that landscape?

**Vanessa Rothschild:** First and foremost, fashion retail will be a very scrutinized market: consumers, stakeholders, and companies themselves will have much higher demands for transparency. Second, it will be a much more cocreated market. Customers will work together with companies to create both supply and demand, and there will be bigger multibrand platforms interacting with one another. Third, partnerships will be even more important in 2030 than they are today. Companies in the industry will need to support one another. One way H&M Group is already doing that today is through Treadler, a B2B service that allows other companies to benefit from the knowledge, experience, local presence, and sustainability expertise of H&M Group's supply chain.

**McKinsey:** Thanks for speaking with us today, Vanessa. One more question: What are your boldest predictions about the next decade in sustainable fashion?

**Vanessa Rothschild:** By 2030, it might be possible to make new products out of postconsumer waste—and maybe even out of carbon emissions! It might be possible to make new products without using any new natural resources at all. Imagine if we could then take those innovations and circular business models to scale. The sharing and resale market will become an even bigger business than the retail market. We as consumers would own a very small percentage of our wardrobe; the majority of our clothing will be shared. Fashion's next normal will be “ownershift” rather than “ownership.”

Another bold prediction: through increased focus on environmental issues beyond climate change—biodiversity, for one—the fashion industry will become a force for change in other industries. For example, the fashion industry could champion regenerative farming and spearhead systemic changes within farming as a whole. In other words, the fashion industry will become a net-positive contributor to the environment and play a crucial role in the transformation of our society into a circular way of living.

**Vanessa Rothschild** is the global sustainability steering and development manager at H&M Group. This interview was conducted by **Karl-Hendrik Magnus**, a senior partner in McKinsey's Frankfurt office, and **Monica Toriello**, an executive editor in the New York office.

[For more from Vanessa Rothschild, see the videos accompanying this article on McKinsey.com.](#)

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