

# 100% LEADING THE CHANGE



Photo credit: James Morgan/WWF.



# Key facts & figures 2018

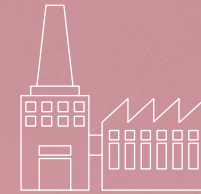
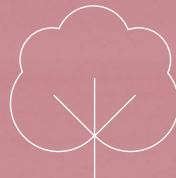


We have accelerated our work with artificial intelligence by creating an AI department within H&M group. This will further help us make the best and most sustainable business decisions possible.

During 2019, H&M and H&M Home are rolling out a new transparency tool in their online stores, enabling customers to trace most of their products to the factory they have been made in, and find further information to make more conscious choices.

H&M Group was ranked amongst top 5 in Fashion Revolution's 2018 index with a score of 55% (highest score 58%).

Because investing in innovation unlocks circularity, we support companies such as Moral Fiber and Colorifix.



Since 2013 we make names of suppliers, addresses and other factory information public. Today this includes 100% of our tier 1 supplier factories and tier 2 factories who make about 65% of our products – and fulfills the requirements of the transparency pledge.



OUR LEADING THE CHANGE AMBITION CONTRIBUTES TO SDG 9, SDG 12 AND SDG 17.





# 100% Leading the Change explained

**100% Leading the Change** is our commitment to catalyse change across the entire fashion industry and improve the way our products are designed and made. To do this, we bring diverse partners together to identify and share the challenges and innovative solutions that will push boundaries and deliver results.

This approach to leadership underpins our entire strategy, helping us fulfil our ambition to become both a 100% Circular & Renewable and a 100% Fair & Equal business. Our work centres on catalysing business and industry-wide change in three focus areas:

- Innovation
- Transparency
- Rewarding sustainable actions



H&M Conscious Exclusive.



The new brand AFOUND, which resells great fashion, is H&M group's most recent business venture.



Weekday collaboration with Peace Force for a non-violent world.

# Innovation

## Innovation is the key to achieving industry-wide change.

Many of the sustainability challenges facing our industry require intense innovation to find solutions. These challenges also present us with business opportunities. For example, there is not yet a viable technology for recycling of blended fibres at scale, which means we cannot make new products from as many old products as we would like. To tackle this, we are currently working with experts who are developing new scalable technological solutions that will transform the way our industry works with materials.

At H&M group, we have a responsibility, as well as an opportunity to identify, invest in and promote sustainable innovations, from digital systems that provide traceability information to new energy-saving solutions. Our size and global reach means we can take the most promising sustainable innovations to scale and help create the transformation our industry needs.

### HOW WE APPROACH INNOVATION

To make our business better, we use innovation to challenge our thinking and give us new perspectives. Across our company, we prototype ideas that

## “Working with innovation is a constant adventure”

At H&M group, we have an internal innovation department called the Laboratory. It is our home for research and development and it exists to challenge our thinking and give us fresh perspectives, turning research into action through co-creation, launching new business and service models. Laura Coppen works as Creative Business Development at the Laboratory.

### What is it like to work with innovation?

Working with innovation is a constant adventure, one has to navigate through a global landscape of trends, both macro and micro, identifying the key areas that will disrupt our industry. For me, working with innovation means collaborating; we work with an external and internal network of experts to support us and make our concepts come to life. In today's ever increasingly complex landscape it's necessary to look at the whole picture, the whole system.

### What trends do you see when it comes to innovation?

The trend I'm most focused on is the rise in responsible businesses and service models. These have an action-driven agenda

towards changing the fashion industry and are transitioning to a circular economy model while building a socially and environmentally positive supply chain. That is a huge shift, and much more than a trend, it is the necessary future. We are proud to be one of the leaders on this journey.

### What projects are you working with right now?

We are working on a concept that is centred around the future of local, smart and circular manufacturing. This model enables us to be faster to customers' demands and test new technologies like custom fit, customization and small batch collections with new machinery. We are also looking into several areas within service models, from remaking, to renting and renewing products. Alongside new packaging solutions and the greater system around online logistics.

### How can innovation help us achieve our sustainability goals?

Innovation is a necessary part of reaching our sustainability goals. With the huge shift that we need to make in the fashion industry, we can't rely on what already exists. We need new materials, processes and busi-



Laura Coppen

ness models, which we are on the journey of creating with many of our partners. Right now, an intrapreneurial spirit is needed – in all companies, including ours – to achieve the sustainability goals. It's an 'all hands on deck' time!



demonstrate – both internally and externally – that our commitment to sustainability demands both a new way of working and a new way of thinking.

Our approach to innovation always starts by looking at our customers' needs alongside the macro and micro trends that are changing our industry and the world around us. We then employ a design and system thinking approach to problem solving and innovation. Finally, we take the best and most promising innovations and use our size to help them scale.

This involves looking at the wider systems and trends we are a part of – both now and in the future. We have an opportunity to rethink how we organise global production and consumer demand, and to access cutting edge technologies and innovative business models. We have a wide network of partners that help us identify and pilot innovation and take them to scale.

### ALGORITHM-DRIVEN RETAIL

To further secure an organization that drives innovation and optimizes business decisions which enable sustainable choices, H&M group is working with advanced analytics and artificial intelligence. Our new AI department supports various processes across our entire value chain – from design to customer experience. For example, by amplifying the decision making of our designers and buyers we can ensure that we are designing the right products. We also use advanced analytics and AI to better forecast trends, make sure the right products are in the right stores, and to give our customers even more relevant and customized recommendations and offers. Used right, AI is one of the most powerful tools we have to secure that we meet our future in a sustainable way through the lens of a circular economy.

## Moving towards sustainable fashion with the help of AI

### Arti Zeighami, Head of Advanced Analytics and AI at H&M group: How are your colleagues using AI tools in their work?

When we talk about AI at H&M group, we mean Amplified Intelligence. Advanced analytics and machine learning are tools that enhance our human intelligence. Amplified intelligence is the collaboration between machines and humans – between science and art, data and gut feeling. We are creating solutions that help our colleagues make more precise decisions, and enable them to focus on the most relevant and creative parts of their work.

### What is the connection between AI and sustainability?

Circularity is ultimately about using resources sustainably, where one central aspect is to avoid over-production. With the help of



Arti Zeighami.

advanced analytics and AI, we can be much sharper in aligning supply and demand. This could also entail less transport and warehousing, which means less energy is used. It's really a win-win situation: while creating an

even more relevant offering for our customers, we are reducing the environmental impact of our operations. AI and advanced analytics are great tools for reaching our sustainability goals, and it is equally important to have a sustainable and ethical approach when we work with AI. This is a high priority for us, and our work on sustainable and ethical AI is part of the overall vision of leading the change towards circular and renewable fashion while being a fair and equal company.

### If you look ahead, what part do you think AI will play in the journey towards a circular business model?

I think it is one of the most powerful tools we have in the transition towards a circular and sustainable fashion system. With AI we can make sharper and better decisions that impact our world in a sustainable way.

### PROGRESS

- We have created an AI department within H&M group and are setting strategies on how to advance algorithm driven retail technology in a sustainable way.
- H&M group's the Laboratory joined IDEO's Circular Economy CoLab, a collaborative innovation lab with member companies interested in exploring the potential of circular economy business models. We worked in a human-centered design process, building

prototypes together as cross-company and cross-industry teams.

- Our company's extensive prototyping and testing of new ideas means that different functions sometimes come up with the same ideas. To capitalise on this culture of innovation and ensure we're all pulling in the same direction, we have streamlined our processes and put cross-functional teams in place that can identify and push the best ideas forward.

- We are in the process of identifying key stakeholders and partners to drive ethical AI work within our field.

### LEARNING

- Advanced analytics and AI are great tools in helping us reach our sustainability goals, and it is important to have a sustainable approach when we work with AI. Sustainable and ethical AI is at the top of our agenda and we appointed a Head of AI Policy in 2018.

## Investing in fashion future

H&M CO:LAB is a business area which invests in companies that can add value to our business. During the last few years, we have invested in innovative companies such as Worn Again, Re:newcell, TreeToTextile, Thread, amongst others. In 2018, we have further expanded our portfolio with the following investments:

**Moral Fiber** was among the first winners of the Global Change Award in 2016. The American innovation company focuses on chemical recycling of polyester fabrics. Our investment in Moral Fiber helps us speed up the acceleration of recycling technologies available at scale.

**Colorifix** has developed the first commercial biological dyeing process to help the textile industry reduce its environmental impact by using fewer chemicals, and less energy and water. The technology is scalable and does not require existing infrastructure to be rebuilt. We will work closely with Colorifix to support their pilot projects in the textile supply chain.



## H&M Foundation's Global Change Award

The Global Change Award is one of the world's biggest challenges for early-stage fashion innovation. Initiated by the non-profit H&M Foundation, it calls for ideas that accelerate the shift from a linear to a circular fashion industry. This means changing the way garments are designed and produced, shipped, bought, used, and recycled, by adding disruptive technology or new business models.

With almost 15,000 entries from 182 countries since its inception, the award is the go-to competition for circular innovation and has been called the Nobel Prize of fashion.

The award's five annual winners are selected by a panel of international experts. Amongst this year's innovators was a company making sustainable bio-textiles by using left-overs from food crop harvests. As well as their share of the € 1,000,000 grant, winners are invited to an innovation accelerator provided by H&M Foundation, Accenture and KTH Royal Institute of Technology in Stockholm, which offers focused support to further develop their innovations.

During the fourth year of Global Change Award, H&M Foundation kept an extra eye on digital innovation. "Digital innovations can make significant impact on efficiency planning and resource use – all the way from making



H&M group's CEO Karl-Johan Persson together with the winners of Global Change Award 2018 at the ceremony in the Stockholm City Hall.

raw material to a garment's end of life. Digitalization has the potential to disrupt at the root, reinvent how things are done and help producers, sellers and customers to become circular", says Erik Bang, Innovation Lead, H&M Foundation.

Neither the H&M Foundation nor H&M group take any equity or intellectual property rights in the innovations. The aim of the challenge is to find innovations that allow major change for the entire industry, and the winners can collaborate with whomever they want.



# Transparency

Transparency is the key to build trust and enable customers to make conscious choices. It is also an important driver for improved performance and creation of stronger impact across our value chain. Beyond disclosing where and by whom our products are made, we also work to make the impacts of how they are made measurable and comparable.

We are convinced that transparency is the foundation for gaining trust and building strong relationships – with our customers, colleagues, investors, business partners and other stakeholders. That's why we provide transparent information about our business and value chain through various channels and dialogues – this report being just one of them. By sharing our ambitions, challenges, solutions and progress in an open and honest way, we can collaborate more effectively with others, and gain mutual trust.

However, we believe there is more to be done. We want all the players in our value chain to be able to make conscious and informed choices. That means we need to make it easier for consumers to understand where and how the products they buy have been made. It also means we need to create even greater traceability in our value chain, and make impacts

measurable and comparable across the industry. In this way, transparency becomes a key tool to lead the change towards a sustainable fashion industry.

We are working on transparency in two key areas:

## 1. TRANSPARENCY TO EMPOWER THE CUSTOMER'S CHOICE

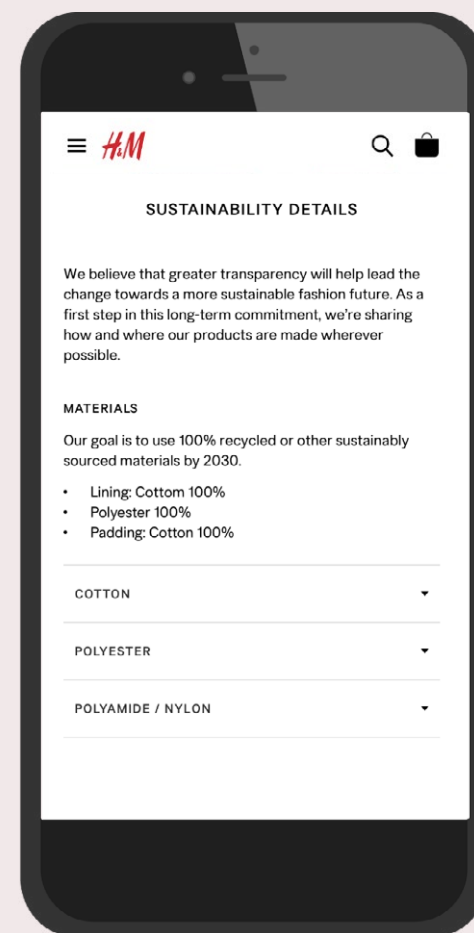
We are committed to inspiring our customers to make more sustainable choices. One way we can do that is by bringing the story behind the product closer to the customer, which means being transparent about exactly where and how it has been made, the materials used, and its social and environmental impacts. In recent years, we started sharing product stories for H&M's Conscious Exclusive collection and ARKET's regular assortment. For some ARKET products, we also share the material supplier's name. In 2019, we will take this a step further and

## Helping our customers make conscious choices

During 2018, a tight-knit team of sustainability experts, IT architects, business developers and other experts from across H&M group has worked intensely to develop a solution through system integration and automation. Combining this solution with the results of our in-depth customer research, during 2019 we will be offering the following in our online stores:

- Information about each product's material, including how sustainable it is, and our specific sustainability goals for it.
- Where each product is produced, down to a country, supplier and factory level.
- Information about how to recycle the garment and why it is important to do so.

This function will be available for all our own textiles, footwear, and accessory products in our online store at H&M and H&M Home. Looking ahead, we want to see an industry standardised index for each product that makes it even easier for our customers to make sustainable choices.





make it possible for H&M and H&M Home customers to see more specific information for most of our products. This includes information such as in which factory a product was made and what materials were used to make it.

Creating this transparency is a big and important step, but it doesn't immediately show how sustainable a product is. To answer this question, we need a common measurement for fashion products that allows consumers to compare in a simple and trusted way. This is why we have been involved in developing the Higg Index.

H&M group is one of the founding members of the Sustainable Apparel Coalition (SAC), an industry-wide alliance that, among other activities, is developing the Higg Index – a tool to help create a more transparent and sustainable fashion industry. The Higg Index aims to score sustainability performance, making it easier for customers to benchmark brands, manufacturers and individual products so that they can make more sustainable choices.

Creating the required alignment within the fashion and design industry is taking longer than we expected. We have been pushing for this alignment from the beginning but, as with other collaborations, bringing many actors together is a significant challenge. Nevertheless, we are confident that the Higg Index will become a trusted tool for consumers.

## Enabling informed decisions through consumer-facing transparency

### **Sarah Ditty, you are a Policy Director at Fashion Revolution: What is consumer-facing transparency for you?**

For Fashion Revolution, transparency means credible, comprehensive and comparable public disclosure of data and information about brands and retailers' supply chains, business practices and impacts of these practices on workers, communities and the environment. Transparency is not just sharing the good stories, nor disclosing only compliant, well-performing suppliers. It's about presenting the full picture, both good and less good, in the effort to allow for greater scrutiny and to help drive faster improvements. There is power in sharing the challenges we all face, as well as where progress has been made.

### **Why is it important?**

Transparency information allows consumers to make more informed decisions about the impacts of the products they buy. If companies truly want to build sustainable businesses for the future, they need their customers to act more responsibly and sustainably and that requires awareness, information and education. This is what consumer-facing transparency can do. Companies can literally help create better future customers.

### **How do you see H&M group's role and performance in this area so far?**

H&M was one of the first major brands



Sarah Ditty.

to publish a list of its manufacturers and suppliers, a crucial step towards greater accountability. This information helps trade unions and other civil society organisations to better understand where products are being made. H&M scores within the ten highest brands in our annual Fashion Transparency Index, and this shows that H&M is striving year-on-year to provide more information about its sustainability policies, practices and impacts. We hope to see even more comprehensive, compa-

table, easy-to-use and verifiable data and information about H&M group's practices and impacts in the future. We are excited to see transparency information provided at the product level. This is a huge step forward, enabling customers to make more informed decisions about the products they buy from H&M. Hopefully in the future this sort of transparency will be available to consumers on every product they purchase from any brand or retailer, big or small.



## PROGRESS

- We were ranked in the top 5 of Fashion Revolution's Fashion Transparency Index, scoring 55% (highest score 58%). While we acknowledge this recognition, we know there is more for us to do.
- Scaling our transparency work, we developed a solution that will provide our customers with sustainability information on products for H&M and H&M Home.
- We arranged a Transparency Hack in Los Angeles, USA, bringing together future generations, thought leaders and change-makers with tech, sustainability and fashion expertise for a day full of ideation sessions. The aim was to present scenario solutions for a transparent fashion future. We believe that if we collaborate across the industry and use new technologies such as blockchain and AI, we can push the fashion industry towards becoming fully transparent.
- ARKET has conducted a pilot project to better understand the usage of blockchain in connection to transparency. Blockchain is a ledger or table that businesses use to keep track of their credit and debit. The distinguishing feature of block chain is that it cryptographically chains verified data into blocks. That means once info is added into the system it can't be modified without everyone connected into the chain being informed.

## LEARNINGS

- We are working hard to promote a consumer-facing Higg Index so our customers can compare a product's sustainability performance across brands. SAC has a



H&M group hosted a Transparency Hack in Los Angeles.

diverse membership, each with their own commitments and timelines. While we are confident that the Higg index will deliver as a ground-breaking tool for transparency and comparability, we acknowledge that creating a common standard for so many actors takes time.

• Over the years we have learned that it is very difficult to find solutions that suit customers' needs for sustainability information. There is currently little knowledge available on how exactly customers want further information. That is why, amongst other things, we are conducting further

research to address this gap. H&M joined an insight study with several other fashion brands in SAC to learn more about customer expectations in China, Europe and the US.



## 2. TRANSPARENCY TO DRIVE SUSTAINABILITY IMPACT IN SUPPLY CHAIN

In 2013, we were one of the first fashion retailers to make our supplier list public. This list includes tier 1 manufacturing supplier factories for 100% of H&M group products and tier 2 factories, which account for 65% of our products. Creating greater traceability in our supply chain means knowing exactly where our products (and their materials) come from. One of the biggest challenges in creating greater traceability is collecting trusted data throughout our supply chain. We see that new emerging technologies such as blockchain can potentially help us tackle this challenge.

Mapping the apparel industry's complex supply chains is both a joint effort and a groundbreaking and unparalleled initiative. Within the frame of SAC, the sharing of data for brands, textile manufacturers, mills and material suppliers' locations and sustainability performance on a joint platform is a significant step towards public transparency. However, because of some unanimity issues within SAC membership, the timelines for developing a transparency platform for data sharing are somewhat delayed.

H&M group recently joined the Executive Board of SAC to further drive industry-wide transparency of the fashion and apparel industry. This is needed now more than ever, with the increased expectations from customers, stakeholders and legislators for

transparent supply chains and disclosures on the impact on people and the planet. SAC's Higgs Index creates a 'common language' for transparent product information, allowing comparability across brands.



### PROGRESS

- H&M group signed the [Transparency Pledge](#) and added more detailed information to our public supplier list. Our supplier list covers 100% of our tier 1 and 65% of our products with tier 2 suppliers. We have also added strategic tanneries this year.
- 100% of our tier 1 and tier 2 supplier factories\* used the Higgs Index Facility Environmental Module during 2018, making us one of the widest users of the first tool developed by SAC. For more information on the performance, see page 96.

\*Apparel and footwear supply chains excluding factories with less than 25 employees.





# Rewarding sustainable actions

We believe it is important to encourage and empower sustainable actions throughout our value chain. Because we know incentives and reward systems help achieve long-term, positive behavioural changes, we are using them to engage our business partners, colleagues and customers to accelerate progress towards our sustainability vision.

We have developed and are using different reward systems, tailored to the needs of our three changemaker groups.

## BUSINESS PARTNERS

We are working with our business partners through our Sustainable Impact Partnership Programme (SIPP) to raise their environmental and social performance. We reward high-achieving and ambitious partners with more orders, training opportunities and long-term contracts. This helps drive environmental and social progress across our whole industry. Read more about SIPP on page 95.

## COLLEAGUES

We want all our colleagues to contribute to our sustainability work and we reward them for doing so. This involves implementing and measuring sustainability goals at different levels and

across functions within H&M group. Crucially, this includes goals set at an executive level. We include sustainability goals in our overall management evaluation process and we regularly follow up on function specific goals.

We encourage colleagues to contribute to change in the workplace and in their communities through a range of strategies and activities.

## CUSTOMERS

To achieve our sustainability ambitions and drive change across our industry, we also need active participation from our customers. We offer our customers incentives for sustainable actions, which can increase customer interest and knowledge in sustainability and create positive behavioural change. In this way, we encourage our customers to re-wear, reuse and recycle unwanted clothes whenever possible.



H&M Paris.



& Other Stories.

## Rewarding customers for garment collecting

**H&M** All H&M stores around the world encourage customers to bring unwanted garments and textiles for recycling, re-wear or reuse. Customers can use the in-store garment collecting scheme to return garments from any brand, in any condition. As a reward, we offer a voucher towards their next H&M purchase.

**& OTHER STORIES** As well as collecting textiles via H&M group's partner-

ship with I:CO, & Other Stories also encourages customers to return the brand's empty beauty containers for recycling. Customers are rewarded for sustainable behaviour with 10% off their next purchase.

**MONKI** All Monki customers are rewarded with a "10% off your next purchase" voucher when they bring a bag of unwanted textiles for the garment recycling service.

These can be found in all Monki stores, anywhere in the world.

**WEEKDAY** All Weekday stores in Sweden currently offer garment collecting. This initiative will be rolled out worldwide during 2019 and will offer customers who bring in their unwanted garments a 10% discount on their next purchase.

**AFOUND** Offers garment and shoe collecting in all physical stores.