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FASHION CFO

AGENDA 2026

BUILDING FINANCIAL RESILIENCE THROUGH SUSTAINABILITY

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Executive Summary

Sustainability is increasingly impacting fashion economics, yet executive attention is dropping.

The financial implications of sustainability topics are intensifying. From extreme weather events and sustainability reporting to carbon taxes and employee health and safety, sustainability is reshaping the cost structures of fashion companies. Climate-driven disruptions have already contributed to price spikes of up to twofold for cotton and wool, while fees associated with textile Extended Producer Responsibility could erode net profits by roughly 4% by 2030.

At the same time, there are economic upsides to sustainability: roughly 70% of fashion-sector GHG emissions can be reduced at a low cost or even with cost savings and circular business models for several brands have delivered double-digit top-line growth.

Yet, C-suite focus in fashion has shifted away from sustainability. Analyses of investor relations earnings

calls indicate that sustainability mentions have declined by roughly one third since 2022 as companies focus on more immediate pressures—slowing growth, AI adoption and geopolitical volatility.

This creates a fundamental disconnect in the boardroom: while sustainability may feel less urgent, its financial importance is growing. And that puts it at the core of the CFO agenda.

CFOs who integrate sustainability into finance can master risk and costs and unlock value creation.

In our research, most fashion CFOs reported that sustainability is not fully embedded across the organisation, nor is it properly captured in financial indicators and other performance metrics.

To minimise costs and maximise value creation, fashion CFOs must partner with CSOs to ensure sustainability is integrated into corporate finance. For CFOs, this

includes day-to-day financial control (including reporting, internal KPIs and performance monitoring), financial planning (such as budgeting, forecasting and procurement spend) and strategic capital allocation (including M&A, innovation funds and external financing).

When capital is tight, prioritising sustainability efforts is a must.

Short-term budget pressure is the leading barrier to investing in sustainability, according to our research. This, combined with a vast and expanding sustainability agenda, means that most companies will struggle to address all topics. Focus is critical.

We observe four CFO approaches, depending on a company's sustainability maturity and ambition: risk mitigator, cost optimiser, commercial driver and transformation enabler. Each comes with a distinct set of priorities, from a strict focus on sustainability compliance all the way to fully embedding sustainability into core strategy.

As the economic impacts of sustainability topics intensify, brands may need to shift their approach to stay financially viable.

The CFO can only succeed if others lean in – both within and outside the organisation.

Within the company, board buy-in, strong CFO–CSO alignment and capability building across the organisation are critical. Externally, collaboration with peers to advance collective financing, greater incorporation of sustainability metrics in assessments by financial institutions and implementation of policies that reduce risk and improve the economics of sustainability are needed for CFOs to succeed.

The shift is clear: sustainability is now operational, material and measurable. While the CSO sets the direction, the CFO enables execution.

CHAPTER 1

The Case for Sustainability as a CFO Priority

Sustainability in Fashion is Losing Airtime

Sustainability is receiving less executive attention than it did just a few years ago. Slowing growth is contributing to that trend. The apparel market is forecast to grow 2%–4% per year (CAGR) between 2023 and 2028, a steep drop from the 7%–14% CAGR during the post-COVID rebound.¹ As a result, executive focus has shifted towards managing the immediate margin and budget pressures. In investor communications, for example, tariffs, market volatility, geopolitical topics and AI have increased in prominence since 2022 while mentions of environmental and social topics have declined. (See Exhibit 1.)

The reduced airtime does not mean that sustainability efforts are at a standstill, but it does signal a risk. Current momentum is likely insufficient to address the problem. Consider the fashion industry’s climate footprint (between 2-8% of global greenhouse-gas emissions),² waste generation (a scant 1% of clothing is recycled into new garments)³ and social challenges. Companies are under pressure to meet existing commitments (>50% of the

world’s largest fashion brands have targets verified by the Science Based Targets initiative)⁴ and comply with rapidly tightening regulatory requirements. Failure to address these challenges will come at a cost.⁵

About Our Research

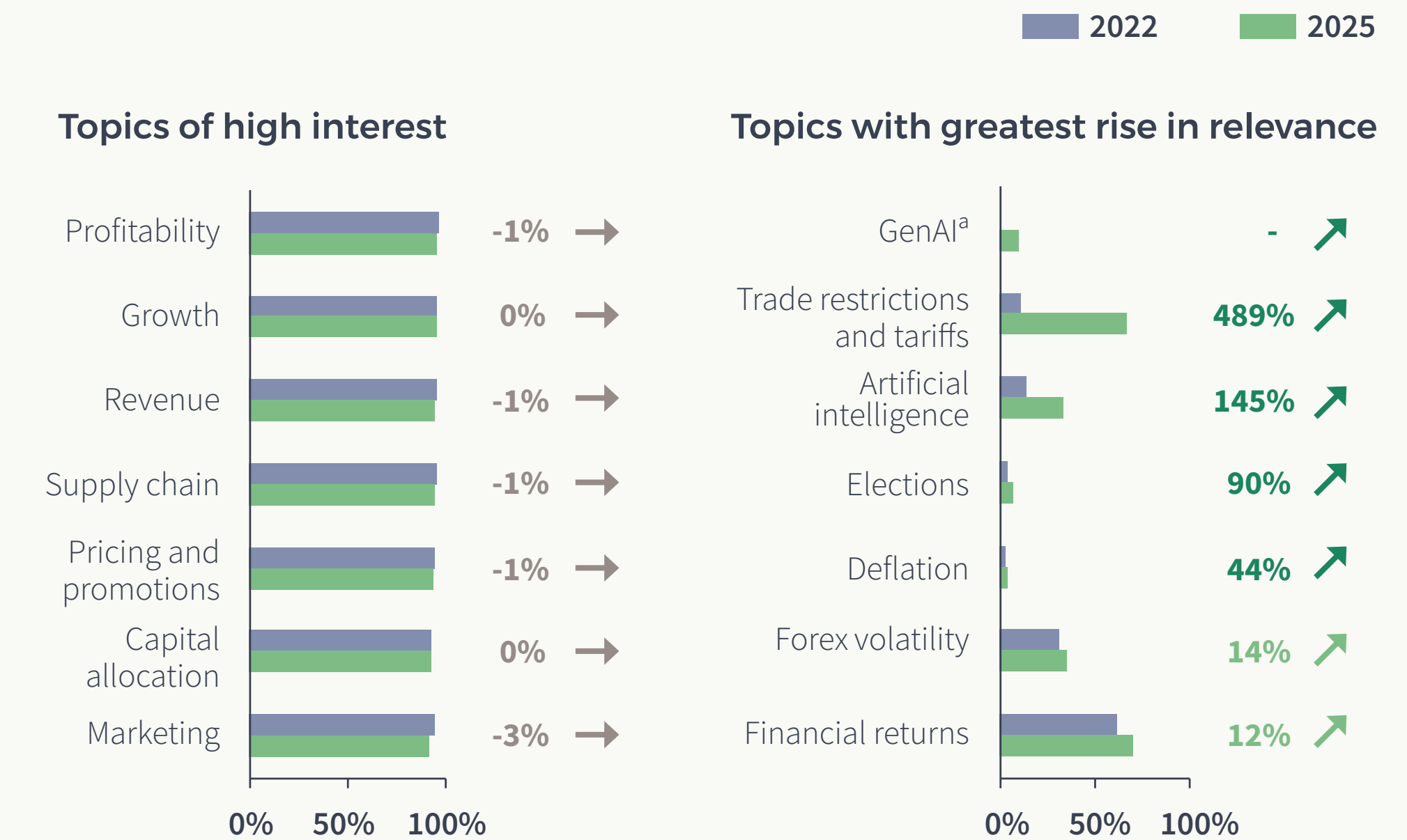
This report is grounded in deep engagement with more than 30 CFOs and senior executives from leading fashion brands. This CFO consultation included in-depth interviews and detailed written input covering sustainability strategy, key barriers, capital allocation, governance and the financial tools used to steer progress.

In addition to the CFO consultation, findings presented here are backed by analysis of more than 150 fashion brands, including their earnings calls and financial approach to sustainability as well as financial modelling, case studies, literature reviews and expert interviews.

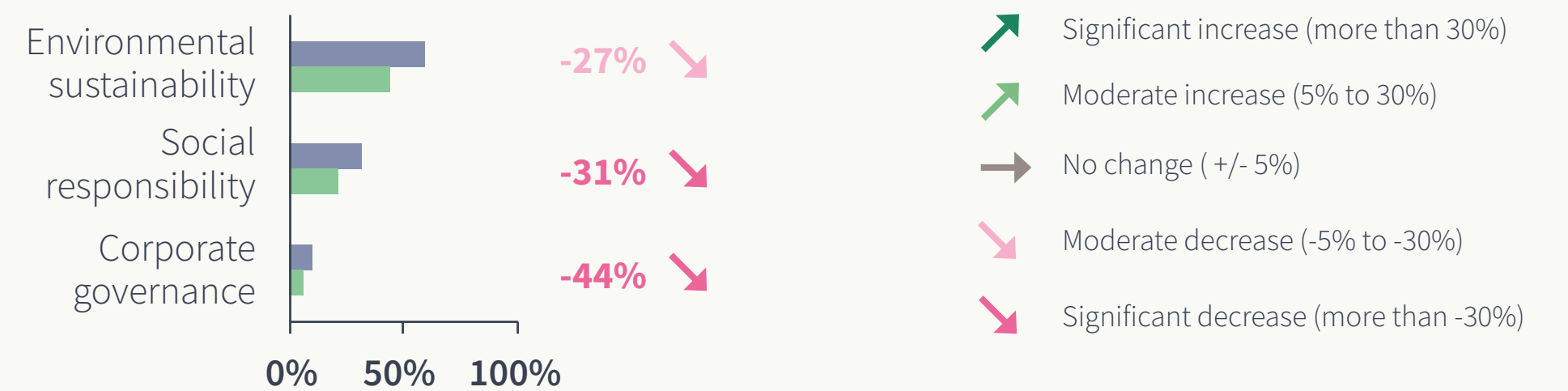
Exhibit 1

Trade and GenAI topics are on the rise while sustainability topics have declined

Share of earnings calls mentioning a topic at least once, average of Q1–Q4 for 2022 and 2025



Topics related to sustainability



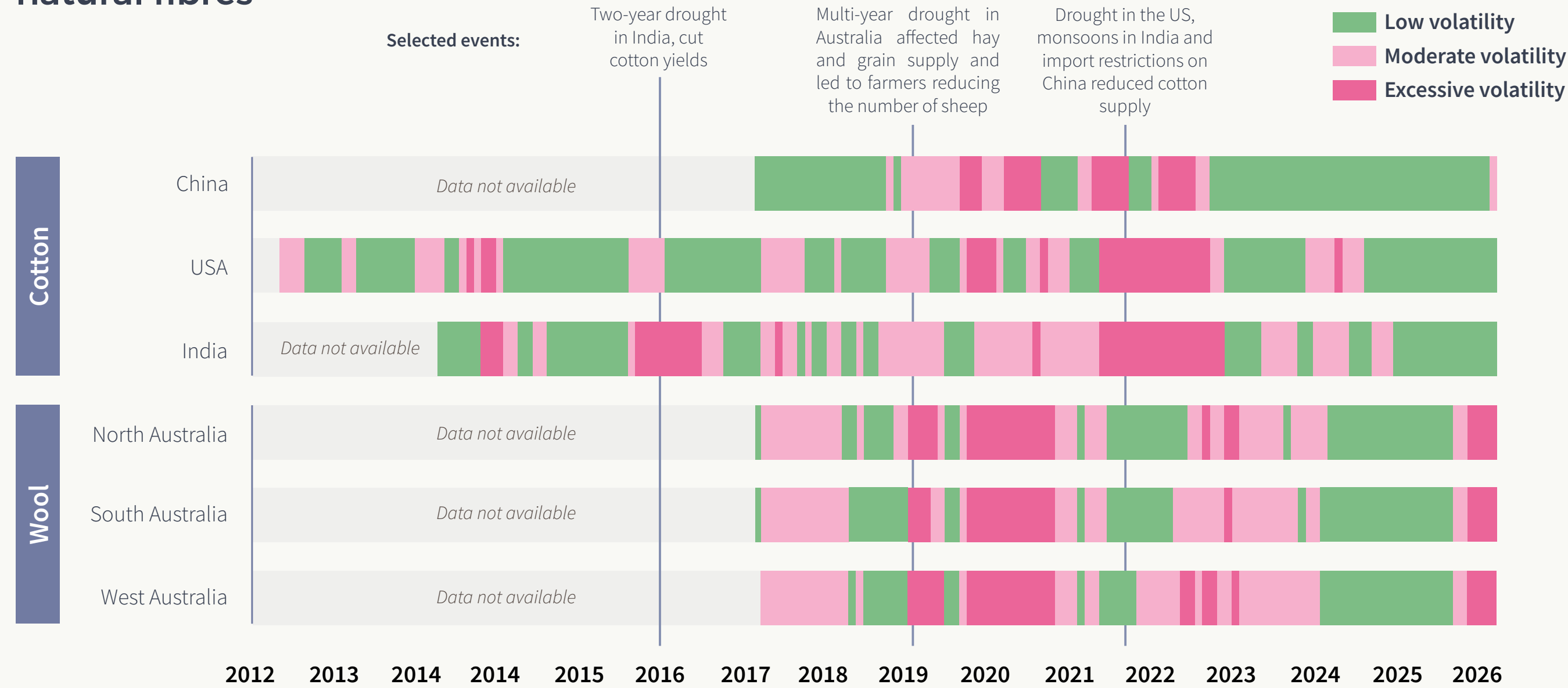
Sources: BCG market sensing tool; BCG analysis.

Note: Includes large, mid, and small cap companies; n = 143; number of analysed topics = 45.

^a For 2022 earnings calls, no mentions of GenAI.

Exhibit 3

Extreme weather events and the social agenda influence price volatility of natural fibres



Source: TexPro Sourcing Intelligence; BCG analysis.
 Note: Graph shows periods of excessive price variability (i.e., price variability that exceeds a pre-established threshold).

towards food production rather than natural fibres. For finance leaders, the result is increasing cost and earnings volatility and additional pressure on working capital, inventory levels, contingency planning, and supplier diversification.¹⁰

• **Operational efficiencies and cost reductions:**

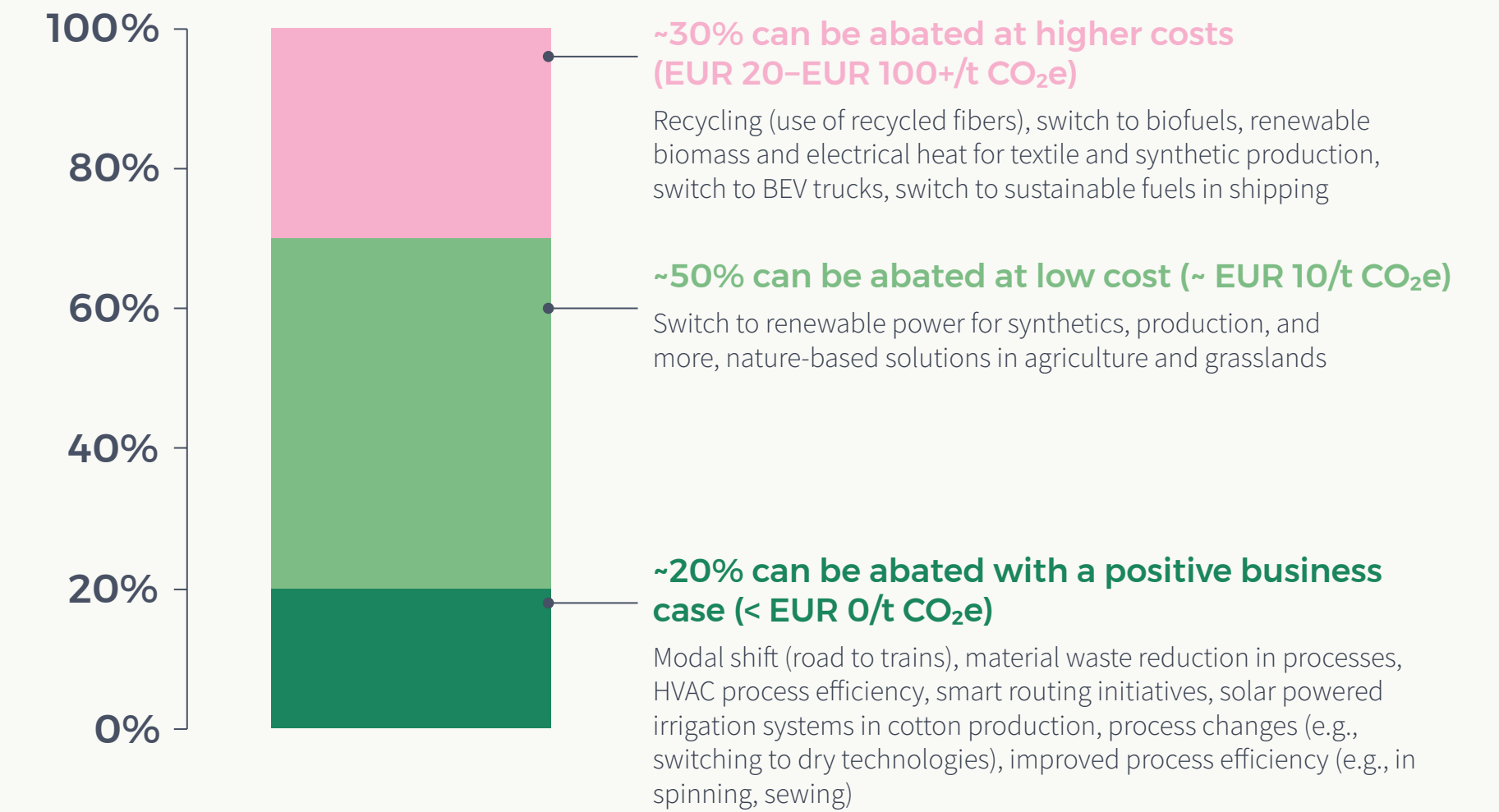
As green technologies mature, they not only offer environmental upsides but, in many cases, also generate cost savings. About 20% of fashion-sector greenhouse-gas emissions can be reduced through actions that come with a

positive business case. (See Exhibit 4.) These actions include improvements to energy efficiency and reductions in material waste. At the same time, as much as 70% of emissions can be abated at a very low cost, estimated at below EUR 10 per metric tonne of CO₂e – for example by switching to renewable power in production. While the direct cost savings are most often captured by suppliers, brands can indirectly benefit from the lower production costs and lower exposure to carbon pricing.

Exhibit 4

20% of supply chain emissions for fashion can be abated while saving costs

Supply chain emissions for fashion split by abatement costs (% , 2030)



Sources: Updated from World Economic Forum and BCG report *The Supply Chain Opportunity*, January 2021; BCG analysis.

- **Topline growth and innovation:** Sustainability initiatives can become powerful engines of growth, differentiation and resilience through diversification of income. For example, second-hand fashion has outperformed the overall market amid the current slowdown¹¹ and is projected to grow at 10% CAGR from 2025 to 2030.¹² Similarly, lower-impact materials such as certified organic cotton can attract new consumer segments and thereby tap into new revenue streams. In children’s clothing, for example, customers are more willing to pay for organic or ‘chemical-free’ alternatives.¹³

- **Valuation, financing and capital access:** Sustainability leadership has been shown to be associated with higher valuations and enhanced access to capital.¹⁴ For example, recent data from CDP¹⁵ show that climate leaders for apparel have 14% higher market capitalisation than laggards.¹⁶ In addition, financial institutions are moving beyond sustainability as a broad topic, assessing risks with greater granularity across climate, water, supply chains, labour and more. Consequently, to gain access to better financing terms, companies are expected to conduct quantitative, financially-grounded assessments, including credible contingency and climate transition plans.¹⁷
- **Indirect value creation and synergies.** The CFO consultation revealed that sustainability also brings benefits that can be tricky to quantify. For example, a company's sustainability record can impact brand equity, employee engagement as well as talent attraction and retention, especially for younger employees. Furthermore, sustainability can generate second-order benefits. For example, robust transparency and reporting can strengthen oversight of supply chains and internal operations, enabling additional non-sustainability-related cost savings and value capture.

Sustainability is Now a CFO Mandate

As the airtime for sustainability declines and the direct economic impact on company financials increases, a fundamental shift is taking place. Sustainability is evolving from a 'high visibility' topic to an operational and financial discipline to ensure company resilience. As a result, it must be embedded across all areas of the business, particularly within the finance function.

Several trends are reinforcing sustainability as a CFO priority. Sustainability responsibilities are increasingly moving from centralised teams into core functions, including finance. At the same time, sustainability oversight and impact evaluation increasingly require capabilities such as data management, tracking, forecasting and capital allocation – areas typically within the purview of the finance function.¹⁸ And, finally, the CFO role has evolved to encompass overseeing not only finance but also operations heavily influenced by sustainability such as risk, capital allocation and long-term value creation.¹⁹

As a result, the CFO, in addition to the CSO (or other lead of the sustainability function), is a crucial stakeholder in ensuring sustainability efforts deliver maximum financial, environmental and social impact.

Sustainability sharpens how we run the business. When you start measuring impact, you uncover inefficiencies. The real cost isn't only emissions; it's also the operational waste they reveal.

– Adam Karlsson, CFO, H&M Group



DEEP DIVE 1

Extended Producer Responsibility for Textiles

Extended Producer Responsibility (EPR) for textiles is a legislative framework that shifts end-of-life costs to fashion companies.

Under EPR schemes, producers pay fees on products placed on the market. In the EU, Member States must establish textile EPR systems by April 2028. Other jurisdictions – including US states such as California and countries such as Canada, India, Kenya, Chile and South Korea – are moving in the same direction.²⁰ As systems mature, EPR fees are expected to rise to reflect the real costs of collection, sorting and recycling – with the potential to erode already strained industry margins.

Quantifying the Exposure

While EPR fees in many countries are not yet finalised, the ultimate cost to companies may be significant. Consider the impact on a mass-fashion brand with USD 5 billion–USD 10 billion in revenue (200 million–400 million garments sold per year) across EU (50%), the USA (30%) and Asia (20%). Annual EPR fees could hit up to USD 60 million by 2030, assuming full implementation across the EU and partial implementation across the USA and Asia. (See exhibit across.) This translates into an estimated 1.1% increase in COGS and a 4% reduction in net profit. (See Appendix for details.)

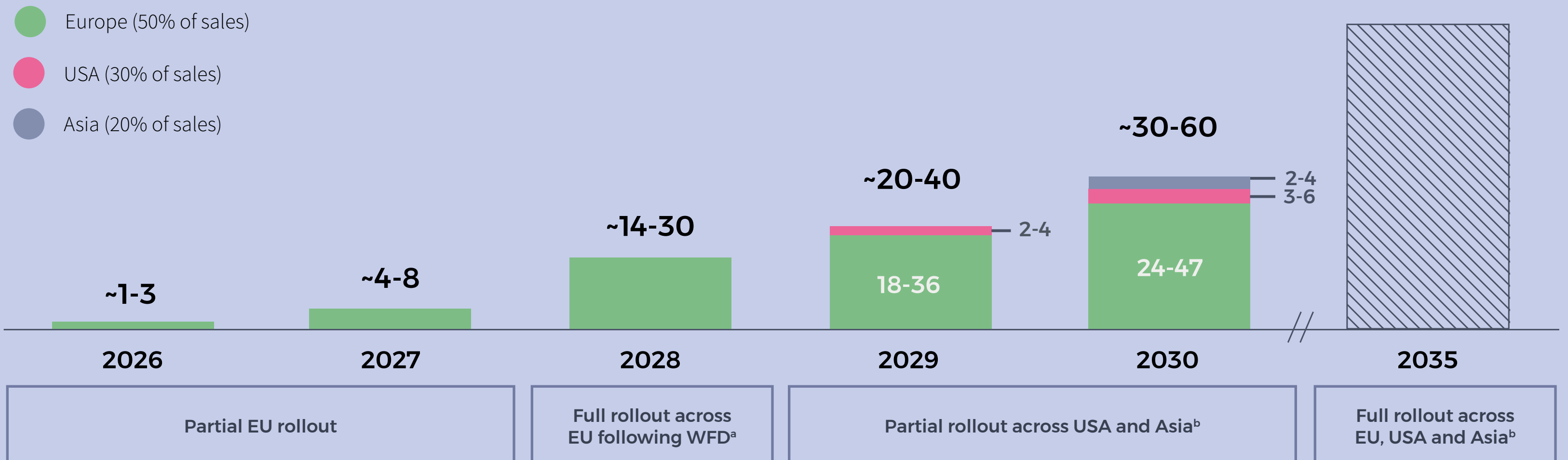
Ultimately, the cost of EPR to an individual brand is driven by multiple factors. Revenue concentration in markets such as the EU that are implementing EPR, large volumes of low-priced items, and hard-to-recycle designs all increase exposure.²¹

(Continued on next page...)

EPR fees and decreases in net profit can be significant, especially for mass-fashion players

Example: EPR cost for a large mass fashion player

Cost exposure for a company with ~ USD 5B–10B in sales (USD M)



Sources: WRAP Textile EPR Status report; Revised EU Waste Framework Directive (2025); BCG analysis.

^a Waste Framework directive.

^b EPR deployment possible, driven by EPR momentum in other product categories, but textile EPR

2030 impact on P&L

~1.1% increase in COGS

~4% decrease in net profit

USD 0.15 average EPR fee for garments in scope



DEEP DIVE 1 (continued from previous page)

Mitigating the Impact

Although EPR exposure cannot be eliminated, it can be reduced. To prepare for the inevitable impacts, CFOs, CSOs and other C-suite executives need to work closely together to prepare, monitor, mitigate, strategise and shape textile EPR. In doing so, it is possible to capture additional benefits such as increased transparency and enhanced opportunities for cost reductions.

In the short term, brands can reduce EPR costs by adjusting their product mix toward items that are rewarded more favourably under ecomodulated fee structures. Eco-modulation is a mechanism to further adjust fees to reward circular or lower impact designs while penalising less sustainable ones. While the final details of how eco-modulation will work are being discussed in the EU^a, current examples of features that may lead to lower fees include durability, recycled content and easy recyclability. In practice, this could encourage brands to adapt product design and portfolio mix, for example by developing mono-material garments, increasing recycled content and reducing trims.

In the longer term, costs can be reduced by limiting the volume of garments needing end-of-life treatment, including by scaling new business models, for example, rental, repair, resale and designing for longer product lifetimes.

Key actions to prepare and mitigate impacts of textile EPR

- 1 **Prepare** ➤ Ensure streamlined reporting and robust product-level data infrastructure to support EPR compliance
- 2 **Monitor** ➤ Assess and monitor category- and region-specific exposure and margin impact
- 3 **Mitigate** ➤ Develop short- and long-term levers to reduce exposure (e.g., eco-modulation, portfolio shifts, new business models)
- 4 **Strategise** ➤ Decide how to manage unavoidable EPR costs (absorb, pass on to consumers, pass on to suppliers)
- 5 **Shape (optional)** ➤ Engage with industry, policymakers and PROs to shape EPR systems and push for harmonised standards

Sources: Expert interviews; BCG.



CHAPTER 2

The CFO is the Strategic Custodian of Financial Resilience and Sustainable Value Creation

CFOs Can Leverage Finance to Make Sustainability a Reality

The CFO's role in sustainability is crucial, and fundamentally different than that of the CSO's. CFOs add unique value by embedding sustainability directly into their operations. By leveraging their expertise in financial rigor, data ownership, organisational oversight and capital gatekeeping, CFOs can ensure that initiatives deliver social and environmental benefits without needlessly sacrificing financial performance. In doing so, they build the connection between sustainability and finance, creating the incentives and momentum needed for meaningful progress and long-term resilience.

Sustainability is not treated as a standalone business decision. It's embedded in our way of working.

– Mia Zhou, CFO, eBay UK

There is a Gap Between Ambition and Integration

Most of the respondents in our CFO consultation rated sustainability as very important or critical to company strategy. However, few reported that sustainability was fully integrated across their organisation, including finance.

The implications are material. Without financial integration, sustainability efforts are significantly less likely to succeed.²² Costs are absorbed rather than actively managed, risks are addressed reactively and upside opportunities remain untapped.



Incorporating Sustainability Into Day-To-Day Finance

To ensure that sustainability is prioritised, monitored and financially enabled, CFOs must hardwire it into all areas of their remit. This includes day-to-day financial control, annual financial planning and long-term deployment of strategic capital allocation. (See Exhibit 5.)

Exhibit 5

Sustainability must be integrated across all CFO areas of responsibility



Mechanisms for integrating sustainability

Foundational	<ul style="list-style-type: none"> Sustainability reporting and transparency Sustainability metrics in BU KPIs Sustainability integration into investor communications 	<ul style="list-style-type: none"> Clear decision frame and standardised business cases for sustainability Green capex carve-outs in annual budget Sustainability procurement initiatives Subsidies and support schemes (e.g., for more sustainable materials) 	<ul style="list-style-type: none"> Marginal abatement cost curve (MACC) creation Sustainability KPIs in investment strategy and evaluations of current investments and financing
Advanced	<ul style="list-style-type: none"> Environmental P&L (EP&L-style models) Sustainability-linked bonus structures 	<ul style="list-style-type: none"> Sustainability risk (including climate, water, social) scenario modelling in FP&A Internal carbon pricing (e.g., carbon shadow pricing and internal carbon fees) Sustainability-adjusted IRR or hurdle rates 	<ul style="list-style-type: none"> Sustainability-adjusted valuation models, business case or portfolio strategy Sustainability-linked finance mechanisms, earn-outs or debt covenants Blended and concessional finance

Source: BCG analysis.

DEEP DIVE 2

Better Decision-Making Through Finance-Linked Sustainability Data

Since 2015, **Kering's** environmental profit and loss statement (EP&L) has quantified and assigned a monetary value to environmental impacts such as carbon emissions, water use, pollution, waste, and land use across the entire value chain. This EP&L approach elevated environmental reporting to a finance-led steering mechanism rather than a parallel sustainability disclosure tool.²³

To ensure success, Kering has continuously assessed the entire supply chain, up to raw material production and refined and expanded the EP&L approach. The company aligned EP&L reporting with financial cycles and established a Sustainable Finance department to bridge nonfinancial performance and financial planning.

The EP&L has made it possible for Kering to identify high impact areas, design effective programs, and better integrate supply chain resilience into business decision-making. This transparency and improved decision-making have helped Kering reduce EP&L intensity by 58% between 2015 and 2023.²⁴ Specifically, the EP&L has allowed Kering to identify and prioritise the most material sustainability hotspots, particularly in raw materials and upstream supply chains, where both environmental exposure and financial risk are concentrated.²⁵ Furthermore, it laid the foundation for ambitious initiatives, such as long-term renewable energy procurement contracts, an investment of EUR 100 million in the Climate Fund for Nature, and support for the Regenerative Fund for Nature, which aims to scale up the use of materials sourced from regenerative practices for Kering Houses and beyond.²⁶

Finally, the experience in tracking and quantifying sustainability has been instrumental in responding to and reducing costs of complying with new regulation such as the Corporate Sustainability Reporting Directive (CSRD), European Union Deforestation Regulation (EUDR), and the French AGEC Law (Anti-Waste Law for a Circular Economy), without creating a significant additional burden for reporting teams.

DEEP DIVE 3

Topline Growth From Circular Business Models at Scale

Circular business models (CBMs) are becoming a growth strategy, not just a sustainability ambition. While many fashion brands face slowing markets, leaders are proving that when CBMs are supported by the right infrastructure, capital and financial accountability, they can outgrow the core business and boost resilience through diversified revenue streams.

H&M Group has embraced CBMs, leveraging resale to prolong the life of their products and decouple revenue from resource use. To ensure the company could effectively move from niche to scale, H&M spent the past decade strategically investing in the requisite enabling infrastructure.

As an example, through staged investments starting in 2015 via H&M Group's business area New Growth & Ventures (formerly named H&M CO:LAB), the Group has increased its ownership in Sellpy, a managed recommerce platform that handles the end-to-end resale process for consumers, including sorting, pricing, photography, listing and logistics. H&M Group became majority owner in 2019 with a stake of approximately 70% and has since then increased its share. From 2023, Sellpy was fully consolidated into H&M's financial reporting.

The result is measurable scale. Sellpy's turnover more than doubled from SEK 754 million in 2022 to SEK 1,844 million in 2025, enabling H&M's share of turnover from resale to grow from 0.4% in 2023 to 0.8% in 2025.²⁷

Financial control. Sustainability must be embedded into the company's financial reporting architecture, internal controls and performance dashboards. This ensures that sustainability is trackable, comparable and measurable. Among other benefits, this can help companies avoid earnings hits from non-compliance with regulations or reactive cost absorption.

- **Where to start:** Set up sustainability reporting, tracing and appropriate internal controls to ensure compliance. Align sustainability data and reporting structures with financial cycles and integrate a limited number of sustainability KPIs into business units (BU), management dashboards and investor communications.
- **How to advance:** Use mechanisms such as environmental P&L and an expanded set of sustainability KPIs as strategic steering tools. (See Deep Dive 2, p.11.) Link selected metrics to incentives at the BU and individual employee level. Danish fashion company BESTSELLER, for example, paid out bonuses in 2025 tied to the achievement of selected key sustainability goals.²⁸

Financial planning. The planning cycle is where sustainability priorities are translated into resource allocation decisions and embedded into budgeting, procurement, pricing and target setting. Embedding sustainability here enables the CFO to gain clarity on financial and social risks and opportunities, ensures capital is directed towards the most material initiatives and empowers business units with the right mechanisms to execute.

- **Where to start:** Standardise financial decision and evaluation frameworks for sustainability including business case requirements to improve financial planning. Earmark resources to dedicated efforts, for example via CAPEX carve-outs for green or social initiatives. Implement tools and processes to quantify or incentivise sustainability across business operations. These can include product management, planning and design tools as well as sourcing and supplier decision evaluations. For example, several brands are working to implement sustainable

purchasing practices which not only improve working conditions in the supply chain but also reduce reputational risks as well as risks of supply chain disruptions for the brands.^{29,30}

- **How to advance:** Build robust modelling and exposure assessments covering current and future environmental and social risks and opportunities, and leverage these in the annual budgeting process. For example, VF Corporation conducts water risk assessment across its 300+ suppliers to identify local exposure hotspots and guide prioritisation of efforts and resources.³¹ In addition, implement more advanced mechanisms, such as sustainability-adjusted hurdle rates or internal carbon pricing, to better reflect the benefits of sustainability initiatives and create stronger incentives.

Strategic capital allocation. Companies must consider where they might want to lead sustainable change, where they prefer to follow and how much to invest. CFOs play a key role in validating these decisions from a financial perspective, assessing how these will impact long-term resilience and enabling such initiatives through strategic deployment of capital, including large CAPEX investments, M&A transactions and innovation funds.

- **Where to start:** Define long-term sustainability targets and the financial pathway to reach them. For example, marginal abatement cost curves can guide plans for reaching climate targets. Furthermore, start embedding simple KPIs and targets (for example, GHG emissions or water use) into major investment decisions.
- **How to advance:** Adjust internal investment evaluation methods (including ROI and payback thresholds), valuation models and business cases to account for benefits of sustainability. Complement this with sustainability-linked financing and dedicated vehicles such as large CAPEX investments, M&A transactions and innovation funds. H&M Group, for example, established a New Growth and Ventures function to enable investments in key sustainability topics including circular business models. (See Deep Dive 3, p.12.)

CHAPTER 3

CFOs Must Prioritise Efforts to Make Capital Most Impactful

When Budgets are Tight, Prioritisation of Sustainability Efforts is Critical

The sustainability agenda in fashion spans a wide topic map, from data, reporting and regulatory compliance to decarbonisation investments, fair working conditions, and scaling circular business models.³² This breadth makes it increasingly difficult for companies to address all dimensions at once. At the same time, insights from the CFO consultation highlight that short-term budget pressure is the leading barrier to sustainability investment, making trade-offs unavoidable.

In this environment, CFOs play a critical role in ensuring that resources are directed towards the initiatives that deliver the greatest combined sustainability impact and financial return. Regulatory developments further reinforce this shift, with double materiality requirements pushing companies to identify and focus on the issues that are most financially and environmentally material.

Four Financial Approaches Can Guide Prioritisation

The research conducted as part of this report revealed four distinct financial approaches to sustainability. (See Exhibit 6.) These are shaped by the company's strategic sustainability

ambition, the degree of sustainability maturity, and the overall business and market context.

Together, the four approaches – **risk mitigator**, **cost optimiser**, **commercial driver** and **transformation enabler** – provide a practical lens for CFOs together with CSOs to determine which sustainability topics to invest in and how to manage them financially. Moving from one approach to the next involves adding new priority topics while maintaining focus on existing ones. It also implies moving from efforts primarily focused on internal operations to initiatives with a stronger external orientation.

The approaches offer a starting point, not a prescription. Priority topics should always be assessed in light of the company's specific context (such as geographic footprint, supply chain setup and business model) and aligned with formal requirements, including the double materiality assessment mandated by CSRD.³³

Finally, the selected priority topics across the four approaches are consistent with priorities outlined elsewhere. In particular, the Fashion CEO Agenda 2025, which lays out key priorities across critical areas: respectful and secure work environments, better wage systems, resource stewardship, smart material choices and circular systems.³⁴

In a market under pressure, prioritisation is critical. (Double) materiality assessments have helped us stay focused, and they remain an essential tool in ensuring we allocate resources and capital where we deliver the greatest impact and value. As we navigate an increasingly complex landscape, it is essential to balance short-term performance with long-term value creation.

– Dorte Rye Olsen, Head of Sustainability, BESTSELLER

Exhibit 6

Four financial approaches to steer prioritisation of sustainability efforts

Increasing sustainability ambition level, maturity and external focus →



Risk mitigator

Focuses on meeting current and upcoming regulation while limiting risk

- **Basic sustainability compliance** by reviewing infrastructure and internal processes related to mandatory sustainability reporting, traceability and transparency as well as compliance with other sustainability regulation
- **Phase-out of harmful substances** (including PFAS) across own operations and suppliers, by conforming to a recognised Manufacturing Restricted Substances List
- **Environmental risk assessment and planning** in areas such as climate, carbon pricing, chemicals, water, raw material supply and volatility; estimate the financial impact and define contingency plans
- **Basic labour conditions** through alignment with global standards for human rights due diligence across own operations and in the supply chain, ensuring employee health and safety, social protection, fair compensation, no child or forced labour

Cost optimiser

Focuses on proven sustainability efficiency investments to reduce operating costs

- **Resource efficiency** (energy, water, chemical) through investments in low-CAPEX measures across own operations (e.g., LED lighting, heat recovery and logistics optimisation) and supporting suppliers to do the same
- **Textile waste reduction** in manufacturing and deadstock (e.g., via advanced demand forecasting)
- **EPR* cost strategy** including financial planning and cost minimisation related to emerging EPR^a schemes
- **Scope 1+2 decarbonisation** through renewable energy procurement mechanisms, electrification of machinery and vehicles, etc.
- **Improved working conditions** that go beyond minimum requirements, through targeted initiatives such as efforts to close the gender pay gap in own operations and beyond

Commercial driver

Recognises sustainability as growth and differentiation driver

- **Eco-conscious designs** using certified or lower impact materials (for example reduced water usage, CO₂ or methane emissions) or certain design principles (circularity, durability, repairability)
- **Scope 3 decarbonisation and supply chain resource optimisation** through supplier incentives (e.g., offer to pay a premium or provision of low-cost capital) on topics such as decarbonization, water and chemicals
- **Shared circular infrastructure** to enable collaboration with other actors on piloting new business models
- **Advanced transparency** including through public impact metrics to improve oversight and performance management of suppliers related to environmental and social issues

Transformation enabler

Sees sustainability as a core organisational value and driver of future resilience

- **Circular business models** implementation at scale across a significant share of the business
- **Next-gen materials and textile-to-textile recycling** through investments such as long term off-take agreements
- **Responsible purchasing practices** including arrangements that support improvements in living wages, fair compensation and working conditions
- **Community support** by ensuring the wellbeing of affected communities (e.g., around production areas)
- **Thought leadership and education** via initiatives to increase sustainability knowledge and awareness

Selected priority topics

Sources: SASB; GFA fashion company materiality assessments; CFO interviews; expert interviews; BCG analysis. *EPR = Extended Producer Responsibility.

Today's Approach May Not Be Sufficient Tomorrow

As regulatory intensity, technology maturity, and sustainability risks continue to rise, an approach that is financially viable today may not necessarily remain so in the future. Over time, brands will likely need to progress through the sequence of approaches to stay financially viable. Certain events or trigger points can accelerate this. (See 'Four Trigger Points to Watch', p.15.) CFOs should therefore monitor trigger points such as:

- Mandatory EPR rolled out across most company markets
- Carbon pricing materially increasing input costs
- Geopolitical instability and climate volatility disrupting supply chains
- Heightened scrutiny on responsible purchasing practices

For all trigger points outlined here companies would need to increase their ambition level and therefore recalibrate their approach. However, some forces may temporarily push brands in the reverse direction. Continued market softening or a tightening in capital markets, for example, may prompt companies to move from a **commercial driver** to a **cost optimiser** or **risk mitigator**.

Working together, CFOs and CSOs should treat their sustainability approach as part of an ongoing strategic portfolio review. This review should evaluate whether the current approach remains fit for purpose, how internal and external developments may challenge its effectiveness, and which adjacent approach – and associated capabilities – may be required to ensure financial resilience.

Four Trigger Points to Watch

Trigger Point 1: Mandatory EPR Rolled Out Across Most Company Markets

Mitigating move: From **risk mitigator** to **cost optimiser**

If EPR fees become material to EBIT, focusing on compliance alone might not be a viable option. Companies may need to actively manage cost exposure by reducing textile waste, redesigning products for eco-modulation, and structurally optimising portfolio mix to lower EPR liabilities. Certain brands will feel greater pressure to mitigate impacts by changing approach – for example, low margin, high-volume players or brands with a significant presence in the EU or other geographies rolling out EPR.

Trigger Point 2: Carbon Pricing Materially Increases Input Costs

Mitigating move: From **cost optimiser** to **commercial driver**

If carbon pricing, now covering approximately 28% of global emissions,³⁵ continues to expand to more directly target fashion,³⁶ the cost of supply chain emissions will flow directly into COGS via Scope 3 passthrough effects for brands. Companies may need to increase supply chain transparency, accelerate Scope 3 decarbonisation, and shift to lower-carbon inputs to protect margins. Pressure to adapt will be greater for companies with certain characteristics, for example those with a large carbon footprint in geographies exposed to carbon pricing for fashion – most notably the EU.

Trigger Point 3: Geopolitical Instability and Climate Volatility Disrupt Supply Chains

Mitigating move: From **commercial driver** to **transformation enabler**

If climate shocks and geopolitical shifts, including tariffs, continue to drive excessive raw material price spikes, cost pressure will move directly into COGS and EBIT. Companies may need to localise supply chains, scale circular models to diversify and reduce reliance on virgin inputs, while securing alternative materials to stabilise costs and protect margins. Among the brands likely to face greater pressure to adapt their approach are those with global supply chains and reliance on a small number of suppliers in climate-sensitive or geopolitically unstable regions.

Trigger Point 4: Heightened Scrutiny on Responsible Purchasing Practices

Mitigating move: From **commercial driver** to **transformation enabler**

If enforcement, litigation risk or investor pressure intensifies, purchasing practices can translate into direct financial exposure. Companies may need to establish responsible purchasing requirements, integrate social criteria into supplier evaluations and strengthen governance to protect enterprise value. Factors such as highly diversified, complex supply chains, limited long-term supplier agreements or weak contractual safeguards increase the likelihood that a company will need to change their approach.

CHAPTER 4

CFOs Can Deploy Capital Most Effectively When Others Lean In

The CFO Cannot Win In Isolation

The CFO consultation was clear: the strongest catalysts to boost sustainability investment are a clearer business case and hard evidence of ROI. Board level and executive prioritisation and sponsorship also ranked highly, as did stronger and more predictable regulatory incentives. Many other factors were highlighted, including stronger sustainability demand signals from customers and investors, and stronger collaboration between the finance and sustainability functions. These findings reinforce that CFOs need internal support and external enablement to succeed.

Internal Alignment Accelerates Execution and Protects Financial Discipline

Organisations differ in how they structure and integrate sustainability into core functions, including finance. However, the most successful approaches involve cascading vision and strategy from board and executive level down to action and empowerment at the operational levels:

- **Board: Ensure buy-in on how sustainability is financed and governed.** The board must understand how sustainability

affects risk, returns, long-term value creation and support financial measures and mechanisms to account for this. This includes recognising that certain sustainability investments may require adjusted payback periods or hurdle rates to account for hard-to-quantify benefits compared to conventional projects.

- **Executives: Integrate sustainability in C-suite discussions.**

The CSO and CFO must work closely together to ensure that sustainability topics and their financial implications become a natural element of C-suite discussions. This includes strategy, growth, capital allocation, performance and operations. The CSO or other lead of the sustainability function sets the ambition, defines targets, pathways and KPIs, and clarifies operational implications. The CFO validates the ambition, targets and pathways, ensures transparency and measurability, assesses risk-adjusted returns and quantifies the cost of action versus inaction. The CFO also ensures that approved initiatives are embedded within capital allocation processes, budgeting cycles and performance management systems. One way to enable the C-suite dialogue is by establishing a dedicated forum that meets regularly, for example every quarter, to accelerate sustainability decisions and cut through organisational friction.

For most companies, investments in sustainability are still largely driven by economic fundamentals such as cost predictability, supply security, and effective risk management. However, as market mechanisms and regulatory frameworks increasingly internalise these factors, a stronger foundation is emerging for sustainability investments to become a natural and integral part of core business strategy.

– Engin Mete, Chief Growth Strategy Officer & CFO, Re&Up

- **Business functions: Establish ownership and capabilities on sustainability-business interplay.** Different functions have important roles in advancing sustainability and therefore must ensure they have the requisite capabilities and tools. **Sustainability teams** play a leading role and must understand commercial and financial mechanics to develop investment-grade business cases that compete for capital on an equal footing with other projects. **Finance functions** must have sufficient sustainability literacy to engage on prioritisation, assess emerging risks and opportunities, and secure financing. For the latter, establishing a dedicated function focused on securing and structuring sustainability financing can help boost such capabilities. **Other functions and BUs** must understand both the financial and sustainability implications of their decisions. Procurement, for example, must look beyond the short-term cost impact of selecting a lower impact, but more expensive, fibre. It also needs to assess the longer-term effects, including potential savings from lower EPR fees, improved security of supply through longer-term agreements and how these impact margin and cash flow over time. Inspiration for how to embed sustainability across the organisation can be found in companies outside of fashion: Unilever, for example, has created dedicated sustainability teams in finance, R&D, customer operations, supply chain and business operations to support delivery.³⁷

External Forces Shape Economics of Sustainability

Externally, stakeholders including peers, financial institutions and regulators can improve the economics of sustainability efforts. Key actions include:

- **Peers: Collaborate on high-risk or high-capex initiatives.** Brands hold a central role in catalysing infrastructure and supply chain initiatives that come with elevated risk or hefty capex requirements. By working collectively, brands can improve bankability and reduce balance sheet exposure, enabling scale that would not clear hurdle rates on a stand-alone basis. This includes supply chain decarbonisation via blended finance structures, textile-to-textile recycling enabled by long-term aggregated offtake commitments and circular business models supported through shared infrastructure. (See Deep Dive 4, p.18.) Collaboration is also essential in other areas such as alignment on common industry standards.



DEEP DIVE 4

Derisking Supplier CAPEX Through Collective Mechanisms

Brands play a key role in advancing upstream decarbonisation, including by helping suppliers access financing. Due to the elevated risk associated with supplier decarbonisation, innovative mechanisms are emerging to address this challenge.³⁸ When structured well, they not only help brands catalyse supply chain decarbonisation but also reduce exposure to carbon pricing and lower production costs.

Future Supplier Initiative (FSI) is a collaborative financing mechanism led by The Fashion Pact, Guidehouse, Apparel Impact Institute and banking partners.³⁹ As of 2026, it supports seven brands investing in supply chain decarbonisation and engages more than 50 suppliers in Bangladesh and India. Participating brands nominate shared suppliers to assess energy efficiency and clean energy opportunities, evaluate technology feasibility and develop investment proposals.

By de-risking loans through guarantees or credit support mechanisms, brands support supplier decarbonisation and enable access to lower-cost finance. Through supplier overlap, brands share costs and create a scalable model for decarbonisation finance. Early estimates from two loans currently under issuance (covering approximately USD 3 million in CAPEX) indicate an expected annual emissions reduction of 12kt CO₂e. This translates into an abatement cost for brands of approximately USD 4–5/tCO₂e for the brands, well below the current industry average of USD 30/t CO₂e.⁴⁰

Fashion Climate Fund (FCF), an initiative launched by Apparel Impact Institute in 2022, aims to help brands cut 100 million metric tonnes of CO₂e from their supply chain by 2030. Structured as a pooled philanthropic and brand-supported fund, the FCF aims to mobilise USD 250 million and unlock USD 2 billion in blended capital as contributions from industry and philanthropic partners grow.

Capital is allocated to four priority interventions:

- Grants for proven solutions that suppliers can access and deploy
- Carbon and energy benchmarking
- Targeted industry engagement
- Sustainable finance to de-risk investments

Within sustainable finance, several approaches are supported to help suppliers test and adopt new technologies.⁴¹ These include blended finance approaches like IFC's D-TAFS (Decarbonization of Textile, Apparel & Footwear Suppliers) fund and guarantee-backed structures like FSI to lower the risk and thereby the interest on supplier loans, as well as emerging concepts such as revolving funds.⁴²

- **Investors and lenders: Embed sustainability into underwriting, valuation and frameworks.** Financial institutions must increasingly evolve credit models and valuation frameworks to systematically account for both sustainability risks and value creation opportunities – not just for the greater good but to improve returns and limit risks. S&P Global, for example, is now assessing granular sustainability risk factors in their credit ratings when they believe they are material to creditworthiness.⁴³ Financial institutions must also actively explore their role in alternative financing structures – including layered debt and equity tranches, risk-sharing instruments and blended finance mechanisms – to mobilise capital, reduce perceived risk and enhance project returns. (See Deep Dive 4, p.18.)
- **Government: Strengthen the financial case for action.** Regulatory frameworks and public policy play a significant role in shaping the economic incentives associated with sustainability. They have a powerful toolbox at their disposal – subsidies, penalties, bans, taxes and standards – that directly shapes corporate business cases. Instruments such as carbon pricing and forced labour bans shift relative cost positions and internalise externalities, enabling CFOs to justify capital reallocation towards lower-impact solutions. In addition, targeted public funding and development finance can materially lower investment barriers. By providing grants, guarantees or first-loss capital, public actors can de-risk projects, improve return profiles and unlock private investment at scale.

Conclusion

For fashion companies, sustainability is a core financial issue that increasingly affects cost structures, risk exposure and value creation. From regulatory costs and raw material volatility to emerging opportunities in efficiency and circular business models, the financial implications are becoming both more immediate and more material. In this context, the CFO plays a critical role. Positioned at the intersection of performance management, capital allocation and risk oversight, the CFO translates sustainability from ambition into financial reality and ensures that it contributes to resilience and long-term value creation.

Yet, despite this growing importance, most organisations have not fully embedded sustainability into financial processes,

KPIs and decision-making. As a result, companies risk treating sustainability as a parallel effort rather than a core business discipline – absorbing costs reactively, underestimating risks and failing to capture new sources of value creation.

Closing this gap requires a deliberate shift. The most effective CFOs embed sustainability across financial control, planning and capital allocation, ensuring it is measurable, comparable and actively managed. They also work in close alignment with the CSO and broader organisation along with external stakeholders. By focusing on what is most material and integrating sustainability into the core of financial decision-making, CFOs can turn an increasingly complex risk landscape into a source of competitive advantage and sustainable growth.



Appendix: Model Assumptions for Extended Producer Responsibility for Textiles

This appendix provides the modelling assumptions and details behind "Deep Dive 1" on p.8-9.

Scope

- Analysis estimates absolute EPR cost exposure of a hypothetical global textile brand, accounting for region-specific regulatory rollout, evolving fee structures over time and the impact of eco-modulation on total company costs.
- Business model: A global mass-market fast fashion brand, representative of high-volume, short-lifecycle apparel players.
- Portfolio mix reflects broad apparel (top, bottom, outdoor) and footwear exposure, with high share of low-to-mid price garments, with average selling price of USD 25.
- Analysis period: 2026–2035.
- Total annual gross revenue range of the company studied: USD 5 billion–10 billion (Garments sold p.a.: 200 million–400 million).

Sales Split

- The scenario assumes the brand sells its garments unevenly across regions, with 50% of sales in the EU, followed by the USA (30%) and Asia (20%).
- Selling prices are assumed to be consistent across all regions.

General Modelling Assumptions

- Selling price per garment and fibre material costs are assumed to remain constant (i.e., no inflation) over the analysis period.

EPR Scheme Deployment Pace (assumed)

- Model factors in different EPR starting years per region, as soon as EPR is enforced in the given countries, sales in the region automatically get exposed to the EPR fees.

Region	2026	2027	2028	2029	2030
Europe	France Hungary Netherlands	Italy Spain Sweden	European Union (all)		
US states				USA (CA, CO, ME, NJ, NY, OR, WA)	USA (IL, MD, MA, MN, RI, TN, VA)
Asia (East & Southeast Asia)					South Korea, Vietnam, China, India, Japan, Indonesia

EPR fee costs assumed per region

- Europe: French EPR system (Refashion) is used as a proxy for EU given the maturity of the system. Fees are assumed to increase structurally after enforcement, up to three times 2026 fee levels (based on expert interviews).
- USA: Fees are assumed to be higher than in Europe due to new system build-out and greater logistics complexity but remain constrained by political and consumer pressure limiting fee pass-through. As a proxy, US fees are assumed to be 30% higher than French levels, consistent with relative cost differentials in packaging EPR schemes.
- Asia: Fees are assumed to be approximately 60% lower than French EPR fees (at 2026 levels) by the year of enforcement, reflecting the lower fee levels observed in packaging EPR schemes across Asian markets.

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Global Fashion Agenda (GFA) is a non-profit organisation accelerating fashion's transformation to a net positive industry. It drives impact by mobilising, inspiring and influencing thousands of stakeholders across the fashion ecosystem. Since 2009, GFA has been at the forefront of the global sustainability movement in fashion. It brings together leaders at the Global Fashion Summit, advances policy through advocacy and publications, and produces influential thought leadership, including *The GFA Monitor*, *Fashion CEO Agenda*, and the *Fashion Impact Toolkit*. GFA translates insight into action through programmes such as the Global Circular Fashion Forum in key manufacturing regions, delivers accessible educational resources to guide sustainable practices, and helps to scale innovation by connecting companies with solution providers via the Innovation Forum. Partnering with a broad ecosystem of organisations across the value chain, GFA spearheads the fashion industry's transition to a more sustainable, circular and responsible future.



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