



***How Fashion Meets Impact:
A Blue Ocean Investment Strategy
for the Global Textile & Garment Industry
75 Minutes for Impact Investors***

**Team Impact Economy
Milan, November 17, 2016**



WHAT IS THE APPAREL INNOVATION CONSORTIUM

Who We Are and What We Do

About Us



- Non-profit association
- Based in Geneva, CH
- Founded in June 2016

What We Want to Achieve

- Help raise factory performance socially, environmentally, and economically;
- Offer guidance on simple, practical solutions to factory upgrading;
- Knowledge and action hub for expertise and grants, loans and other sources of funding to speed up efficiency with the right kind of financial engineering, which in its turn leads to higher performance and better working conditions.

FACTORY-LEVEL GOALS

Reconcile Growth with Social and Environmental Performance

With best available technology and knowledge transfer



- Reducing energy consumption in the manufacturing process by 20 percent;
- Reducing water use by 25 percent;
- Reducing the use of chemicals by 10 percent and eliminating non-approved harmful chemicals entirely;
- Reducing waste especially in the garment assembly stage; and
- Improving the quality of working conditions with measurable positive outcomes in terms of productivity, worker safety, worker turnover, and resulting take-home pay.

SOLUTION: “EVERYONE WINS” APPROACH

A True Win-Win for Brands, Suppliers, Workers and Investors



STEP 1: SELECTION PROCESS

Pre-assessment of brand recommended factories reveal the factories' upgrade potential.



STEP 2: FINANCING FACILITY

Fund improvements in manufacturing infrastructure incl. analysis, technical selection and implementation.



STEP 3: UPGRADE SELECTED FACTORIES

Invest in low-hanging fruits with payback under one year: cleaner production, higher productivity.

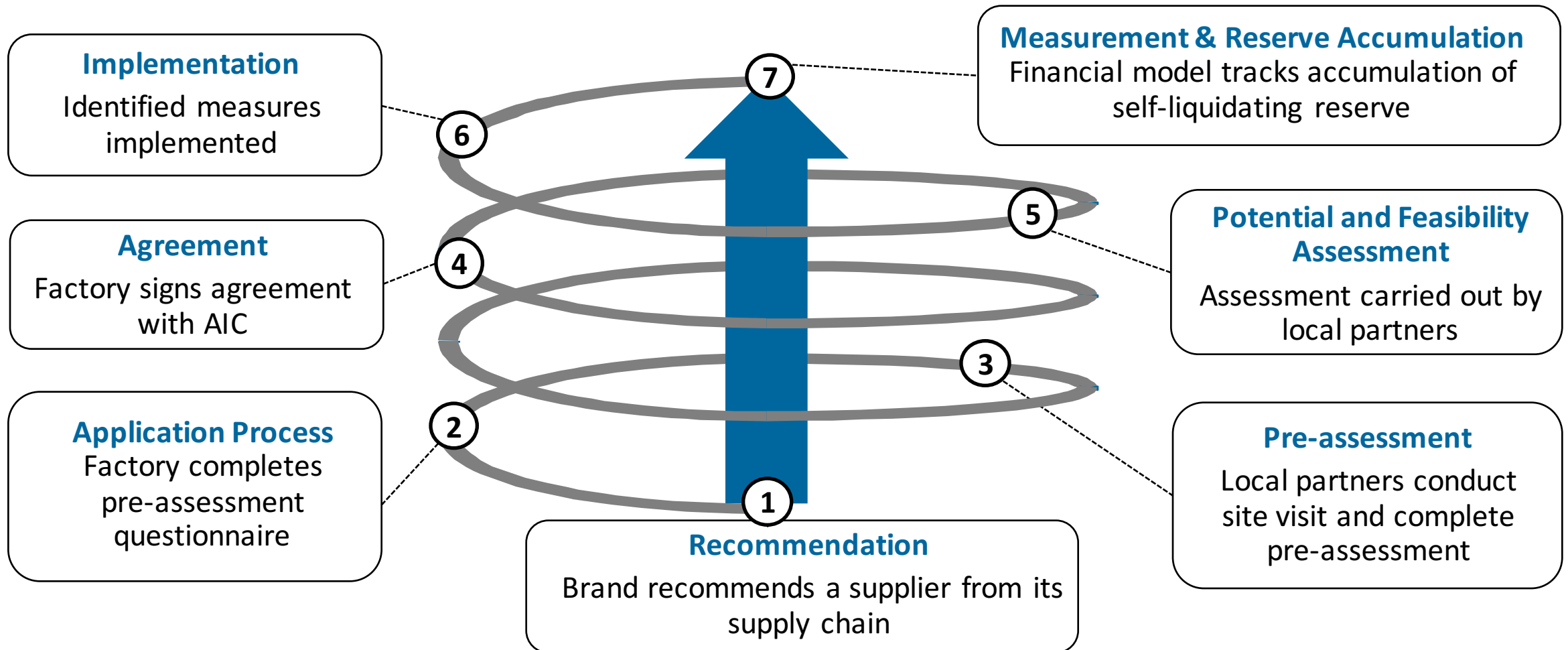


“EVERYONE WINS”

- More competitive factories;
- Better working/environmental conditions;
- Healthy returns for investors;
- Improved brand reputation.

HOW DOES THIS WORK

A Seven-Step Process



ASSESSMENT & IMPLEMENTATION

A Modular Approach

Resource Efficiency and Environmental Performance (Module A)

Step 1 - Technical Assessment

Determination of baseline. Installation of meters, measuring, benchmarking and gap analysis.

Step 2 - Improvement Plans

Development of improvement plans to enhance eco-efficiency.

Step 3 - Implementation

Upgrade of machinery and determination of process modifications. Optimization of chemical management and waste reduction.

Step 4 - Follow-up

Analysis of actual savings.

Productivity and Social Performance (Module B)

Step 1 - Diagnostic

Evaluation of the current state across various key performance indicators.

Step 2 - Improvement Plans

Development of improvement plans including various tools of lean manufacturing.

Step 3 - Training

Training on best practices including various tools of lean manufacturing.

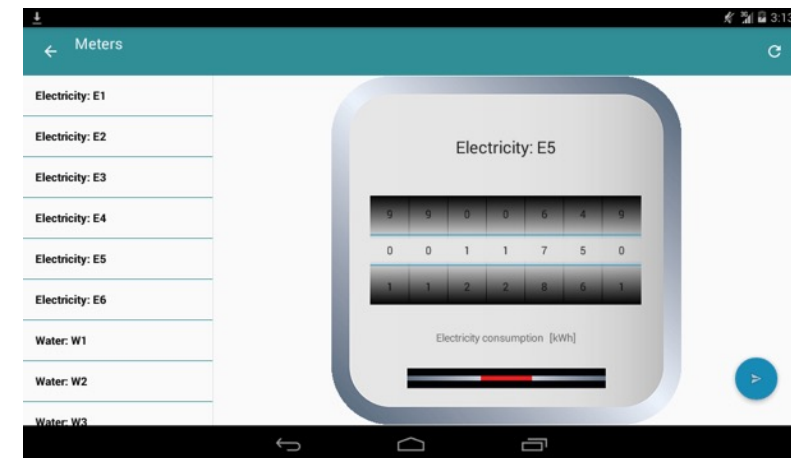
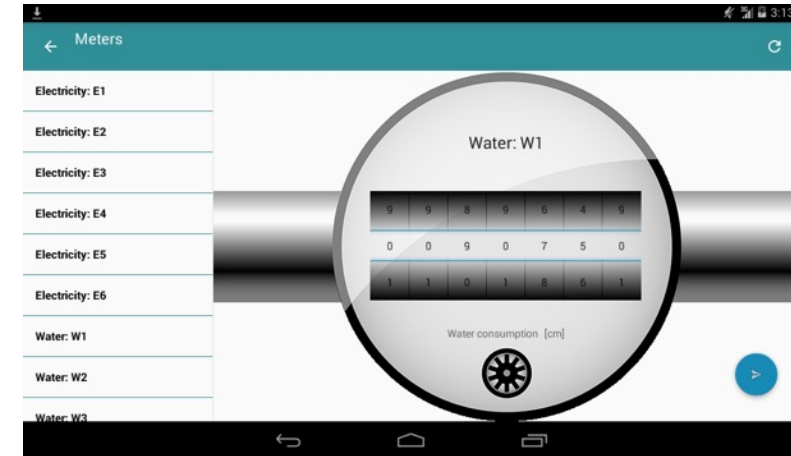
Step 4 - Follow-up

On- and off-site support from consultants.

AIC APP & PROCUREMENT PLATFORM

Data Collection and Analysis

- Verification of data through time stamps and photos minimizes sources of errors;
- Automatized data analysis reduces assessment costs;
- Daily meter readings performed by the factories via smart phones or tablets deliver the necessary data to assess the saving potential.



MODULE A

Resource Efficiency and Environmental Performance

Goal: Improve energy efficiency and other resource costs to drive competitiveness

Optimization of energy management

- **Process Improvements:** Energy efficient technology or machineries and process modifications, for e.g. low temperature soaping etc.
- **Equipment Improvements:** Servo motors for sewing machines, VFD for compressors, LEDs, EGB for generator etc.
- **Waste Minimization:** Heat recovery, boiler efficiency increase, economizer, air pre-heater, insulation, steam trap repair, leak repair, air trigger nozzles, etc.

Optimization of water use in wet processing

- **Process Improvements:** New technology or new machinery; for e.g. low liquor ratio, high fixation dyes, etc.; process modifications; re-use water in washing and rinsing operations
- **Waste Minimization:** Water trigger nozzles, condensate recovery, reusing cooling water etc.

Optimization of chemical management

- Chemical storage, handling procedures and management systems;
- Ensure compliance with hazardous/harmful chemical list;
- Ensure use of proper personal protective equipment for safe chemical handling;
- Review compatibility of stored chemicals;
- Training on chemical management and handling.

Waste reduction

- Solid waste management;
- Reuse and recycling.

MODULE B

Productivity and Social Performance

Goal: Achieve owner-manager-worker co-benefits via increased revenue and enhanced profitability due to lower operation costs and higher employee morale

Assessment revealed:

- Average existing efficiency of the assessed sewing lines stands at < 50% (industry benchmark 65%);
- The average monthly staff attrition rate is between 3%-5%;
- Cut to Ship Reconciliation at 96% against the ideal 100% in the case of robust control systems;
- The Man Machine Ratio for the assessed factories is > 3.0. Bangladesh has an average of 2.2, the global standard is 1.8;
- The defects found per hundred units (DHU) is 7-8 DHU as against an acceptable industry average of 4-5 DHU;
- Multiple formats of Management Information Systems (MIS) are in use for production and quality;
- No production incentives and social performance measures;
- The overall usage of work aids and handling equipment was negligible.

Measures to be taken:

- Improvement in efficiency (in scoped lines) by establishing key concepts of lean manufacturing such as VSM, 5S, Kanban, Andon, Jidoka, SMED;
- Improvement of quality by developing measures of quality performance;
- An efficiency-based, Excel model for the calculation of the production incentive;
- Strengthening of the MIS by coordinating a single page MIS from the various formats being followed in the factory;
- Introduction of variable worker compensation schemes (with the goal to ultimately result in higher take-home pay);
- Recommend the use of work aids and work handling equipment as applicable.

WHAT MAKES THE AIC APPROACH DIFFERENT

Data Driven, Efficient and Scalable

Isn't this already happening?

- Assessment of real consumption data through the installation of energy and water meters;
- Better baseline: More comprehensive data through daily meter readings;
- Automated data analysis leads to a better selection process and decreases assessment costs;
- Synergy effects through standardized assessment and implementation process;
- From assessments to implementation, the AIC provides a full package that enables the factories to improve not only in theory but also on the ground.

WHY IS IT SCALABLE?

Advantage for Each Party



- Increased competitiveness;
- Increased profits through higher productivity and lower operating costs;
- Improved energy efficiency and other resource costs;
- Shorter lead time;
- Better customer satisfaction;
- Better environmental footprint.



- Better working conditions;
- Higher wages;
- Improved worker safety;
- More ergonomically sound workplaces.



- Better sourcing partners that meet compliance requirements;
- De-risking of sourcing setup;
- Improved reputation.



- Attractive returns for investors;
- Higher social and environmental performance;
- Measureable impact.

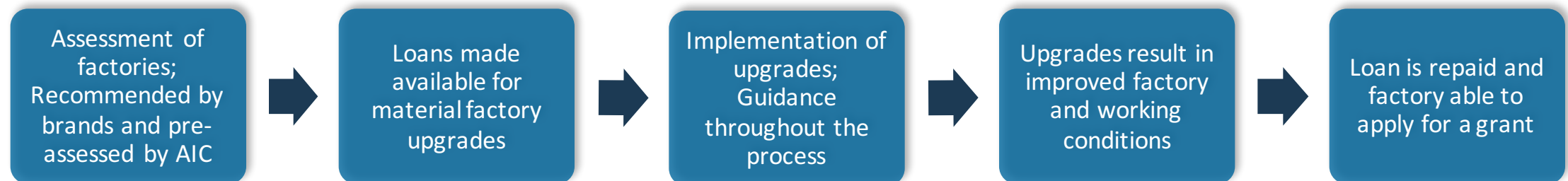
A simple and efficient approach leads to the best results

RECAP: SOLUTION IN A NUTSHELL

The Full Package

We are building a scalable financing and technical solution that:

- Drives the right upgrades in the right factories (achieving competitiveness as well as higher social and environmental performance);
- Mobilizes capital from multiple sources;
- Is financially attractive to the factory;
- Is “factory-owned” rather than only retailer or regulator enforced;
- Minimizes credit default and execution risk;
- Become scalable across industry and go viral.



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