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# Sustainability chic: How Prada Group is using its ESG commitments to enhance its profitability

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**Abstract**

The fashion industry is under increasing pressure to move towards more environmentally sustainable production and retailing. However, this poses a challenge to luxury brands that have built an image of exclusivity and bespoke manufacturing. Navigating the tightrope of sustainable but exclusive is a path that most luxury fashion brands will need to take in the near future. Prada Group is one such manufacturer that has integrated sustainability into its core business strategy. The company is integrating sustainable practices across its supply chain. It is also creating exclusive sub-brands whose core identity is about lowering the environmental impact of luxury clothing. This paper looks at how Prada Group is leveraging its Environmental, Social and Governance commitments to enhance its brand image and improve profitability.

**Introduction**

In recent years the fashion industry has been recognised as a significant contributor to environmental harm. Several aspects of the fashion industry damage the environment, beginning from the production of raw materials such as cotton, leather, or synthetics, all the way to the dumping of textile wastes in landfills.

Textile production is a major source of water pollution. Wastewater from textile processing, dyeing and leather tanning facilities can contain toxic chemicals. In poorly regulated countries this toxic wastewater may be released untreated into water bodies. The European Parliament estimates that textile production is responsible for about 20% of global clean water pollution (European Parliament). These pollutants can harm aquatic life, disrupt ecosystems, and even contaminate drinking water sources.

Another form of water consumption due to the textile industry is in the cultivation of natural fibre crops, primarily cotton. Cotton cultivation demands substantial water resources, with estimated annual global water consumption of about 230 trillion litres (Kranthi, *WATER FOOTPRINT IN COTTON 2020-2024: A GLOBAL ANALYSIS*) Cotton cultivation often involves the heavy use of pesticides which can further pollute water, with an average of over 15,000 tonnes used annually between 2018 and 2022 (Kranthi, “Usage of Highly Hazardous Pesticides A Cotton Perspective”)

The fashion industry is also a major contributor to greenhouse gas emissions, with estimates projecting an annual output equivalent to 2.1 billion tonnes of $CO_2$ by 2030 (Li et al.) The production of synthetic fibres derived from fossil fuels, such as polyester, is particularly energy-intensive. In addition, the transportation of garments across the globe adds to the industry's carbon footprint. Even natural fibers like cotton have a significant carbon footprint due to the energy required for cultivation, processing, and transportation. As a result, the average EU citizen generated 270kg of $CO_2$ in 2020 through clothing and textile purchases alone, according to the European Environment Agency (European Parliament).

Another critical environmental concern is textile waste. Fast fashion encourages consumers to buy large quantities of cheap clothing, which often ends up in landfills after only a few uses. The US Environmental Protection Agency estimates that Americans discard over 30 kg of clothing and textiles per person annually (Claudio). As these textiles decompose, they can release harmful chemicals into the soil and groundwater. Incineration, another disposal method, releases greenhouse gases and air pollutants. The European Parliament notes that under 50% of used clothes are collected for reuse or recycling, and only 1% of used clothes are recycled into new textile products (European Parliament).

Microfiber pollution is a problem that has gained increasing attention in the last decade. Washing synthetic textiles releases tiny plastic fibers into wastewater, which eventually flows into rivers and oceans. These microfibers are ingested by marine life and can enter the food chain (Plastic Pollution Blogger) .

In response to the wide range of impact that the fashion industry is having on the environment, there is a pushback from both regulatory agencies and consumers towards more sustainable products. High volume and fast fashion brands are being forced by both the market and by regulators towards more sustainable practices, including reducing consumption, using less harmful materials, improving waste management, and developing closed-loop production systems.

**Sustainable luxury fashion**

However, this shift runs counter to the way luxury fashion brands operate. Luxury fashion brands have traditionally associated themselves with exclusivity and high-quality materials. The push towards sustainability is at odds with the exotic materials and resource intensive manufacturing that give luxury goods their exclusivity. Yet, the push for sustainability in luxury fashion also holds interesting opportunities for luxury marques. The financial outlook for the sustainable luxury goods market reinforces this strategic shift. The market is projected to reach $51.4 billion by 2027, a substantial increase from $30.6 billion in 2020.5 The broader luxury fashion market, encompassing apparel and footwear, is similarly expected to grow from US$115.90 billion in 2024 to US$131.67 billion by 2028(BSI) .With as many as 43% of Gen-Z customers claiming to actively seek out brands with a reputation for sustainability, many brands are embracing the challenge and wading into waters unknown (Scandariato).

One key area of focus is the sourcing of sustainable materials. Many luxury brands are shifting away from conventional materials that have significant environmental footprints. For example, Stella McCartney has long been a pioneer in using innovative, eco-friendly materials, including recycled polyester, regenerated nylon, and plant-based alternatives to leather (Burney). Gucci is also working towards 100% traceability of its raw materials and aligning with sustainable standards set by its parent company, Kering (TBS Education Barcelona, "Luxury and sustainability: can they coexist in the fashion industry?"). Similarly, Chanel is shifting toward local sourcing, particularly for leather goods, thereby reducing transportation emissions and supporting local craftspeople (Birch). This emphasis on sustainable sourcing helps to reduce the negative impacts associated with resource extraction and conventional material production.

Another important step is the reduction of greenhouse gas emissions. Like most globally distributed industries, the luxury fashion industry contributes to climate change through energy-intensive production processes and global supply chains. To address this, some brands are investing in renewable energy sources. Gucci has committed to using 100% renewable energy in the near future (TBS Education). Balenciaga is reducing its emissions by using recycled fabrics and avoiding hazardous chemicals in its leather production (myGemma). In 2023, Chanel achieved a 98% transition to renewable electricity across its operations. Thirty sites produce their own green energy, reducing operating costs and carbon footprint (Chanel; Deepak, “Chanel Sustainability”). These efforts aim to minimize the industry's contribution to climate change.

Waste reduction is also a crucial aspect of sustainability. With a focus on maintaining exclusivity, many luxury brands choose to destroy unsold products rather than sell them at reduced rates to clear stock. However, brands are now adopting more circular approaches. Burberry, for example, has stopped burning unsold products and is instead focusing on recycling and donating them (Haus von Eden). Some brands are also exploring circular design models, creating products that can be recycled or reused at the end of their life cycle (TBS Education).

**Prada Group: A case study for sustainable growth**

Whether a pivot towards sustainability would end up diluting a brand’s exclusive image is a source of concern for both brand managers and potential consumers. However, some major brands are dealing with this challenge successfully. Prada Group is one such luxury brand that is not only moving towards sustainable production, but is also integrating sustainability into its brand image.The company views sustainability not as a mere add-on or marketing tactic, but as a fundamental pillar of its long-term vision.

Overview of Prada's Comprehensive Sustainability Strategy

Prada's commitment to sustainability is deeply embedded across three primary pillars: Planet, People, and Culture.(Prada Group) This holistic approach ensures that environmental responsibility, social equity, and cultural preservation are considered in all facets of its operations.

Specific initiatives under this strategy include:

- **Planet:** Prada has embarked on an ambitious three-year roadmap aimed at converting key raw materials to lower-impact alternatives. The company has also initiated water risk assessments across its value chain in collaboration with prominent partners such as WWF. Continuous investment in green initiatives is a priority, contributing to significant reductions in greenhouse gas (GHG) emissions.(Prada Group)

- **Circularity:** A strong emphasis is placed on product circularity. Prada has actively expanded its Re-Nylon Collection, which utilizes regenerated nylon like Econyl, derived from abandoned fishing nets. Similarly, the "Upcycled by Miu Miu" initiative has been strengthened throughout the year, giving new life to existing materials.[1]
- **Ethical Governance:** Prada's dedication extends to strong ethical governance, evidenced by its commitment to ESG principles and its pledge to the United Nations Global Compact (UNGC).(Jin) Prada aligns with frameworks such as the UN SDGs and the Fashion Pact, and prioritizes transparency, including the use of environmental profit and loss (EP&L) accounting and blockchain for material traceability (Deepak, "Prada Sustainability").

This integrated approach to sustainability creates synergistic benefits across the organization. For example, the use of recycled materials under the "Planet" pillar not only reduces environmental impact but also enhances brand image and appeals directly to eco-conscious consumers, thereby contributing to the "Culture" and "People" pillars. This can translate into higher full-price sales volumes, as observed in Prada's performance (Prada Group). Furthermore, robust ethical governance fosters improved employee morale, strengthens supply chain relationships, and leads to operational efficiencies, ultimately mitigating risks and enhancing overall business performance.[7] This multi-faceted strategy builds a robust competitive advantage that is difficult for competitors to replicate, fostering greater brand credibility, customer loyalty, and investor confidence, which then translates into sustained financial performance and resilience against market fluctuations.(Jin)

Prada's Financial Performance Context

Prada Group's financial results underscore the efficacy of its strategic focus on sustainability. The company achieved four consecutive years of double-digit growth, with net revenues increasing by 17% in 2024.[1] This performance is particularly remarkable given that the broader luxury sector experienced deceleration and even contraction during the same period (D'Arpizio et al.) . The strong performance of Prada's Retail channel, which saw an 18% year-over-year increase driven by full-price volumes, is a critical indicator. This suggests robust brand desirability and pricing power, which can be directly linked to the brand's positioning, including its strong commitment to sustainability (Prada Group) .

**Quantifying Prada's Success Story**

Prada Group's financial statements for 2024 provide clear evidence of significant profit increases, demonstrating how its strategic investments in sustainability have translated into tangible financial gains.

The following table summarizes Prada Group's key financial performance metrics for fiscal year 2024 compared to 2023 (Prada Group) :

| Metric | FY2023 Value (€ Million) | FY2024 Value (€ Million) | Year-over-Year Change (%) |
|---|---|---|---|
| Net Revenues | 4,615.4 | 5,400.0 | +17.0% |
| EBIT | 1,061.7 | 1,279.6 | +20.5% |
| Net Income | 671.2 | 838.9 | +25.0% |

As the table illustrates, Prada's net revenues increased by 17% to €5.4 billion in 2024.1 More significantly, its profitability metrics showed even stronger growth. Earnings Before Interest and Taxes (EBIT) rose to €1,279.6 million in 2024, marking a 20.5% increase from €1,061.7 million in 2023.2 The EBIT margin reached 23.6%, indicating robust operational profitability.[1] Furthermore, net income reached €838.9 million in 2024, reflecting a substantial 25.0% year-over-year increase (Fibre2Fashion).

Attribution of Growth to Sustainability

Prada Group explicitly attributes its strong growth momentum to a combination of brand desirability, innovation, disciplined execution, and crucially, "enhancing sustainability efforts". The company's forward-looking statements reinforce this, outlining an ambition to achieve "solid, sustainable, and above-market growth," thereby cementing sustainability's integral role in its future strategy (Fibre2Fashion).

This observed financial performance, particularly the faster growth in EBIT and net income compared to revenue, suggests a dual contribution from sustainability initiatives. On the revenue side, by aligning with eco-conscious consumers and enhancing brand image and desirability through its sustainability efforts, Prada appears to be commanding a "sustainability premium." (Jin) This allows the brand to maintain or even increase full-price sales volumes, reducing reliance on discounting and protecting or expanding gross margins (Prada Group). On the cost side, sustainability initiatives often involve optimizing resource utilization, reducing waste, and improving supply chain efficiency. These operational improvements directly contribute to lower costs and enhanced gross margins, ultimately leading to higher EBIT. For example, Stella McCartney, another luxury brand focused on sustainability, cited "waste reduction initiatives" and "operational efficiencies" as contributors to reduced losses and a trajectory towards profitability (Soule). This dual impact—revenue growth driven by desirability and margin expansion driven by efficiency—positions sustainability not merely as a compliance measure but as a powerful lever for superior financial performance, enabling brands to thrive even when the broader market faces headwinds. Academic research supports this, indicating that Prada's commitment to ESG principles enhances its reputation, fosters customer confidence, and strengthens its competitiveness, ultimately leading to "better financial performance" (Jin).

**Broader Implications for the Luxury Industry**

Prada Group's success provides a compelling case study that extends beyond its own financial performance, offering significant implications for the entire luxury industry.

<u>Sustainability as a Differentiator and Resilience Builder</u>

Prada's trajectory demonstrates that sustainability is not a luxury for listed companies, but rather a crucial element for achieving long-term success. It enhances competitiveness and enables luxury firms to flourish while simultaneously making a positive impact on society and the environment (Jin; Barge and Schmedders). The brand's ability to achieve robust growth amidst a challenging market underscores that embracing end-to-end sustainability can serve as a powerful differentiator. This approach allows brands to meet evolving consumer behaviors and regulatory demands, setting a new benchmark for excellence within the industry (BSI). By proactively addressing environmental and social concerns, luxury brands can build greater resilience against market volatility and reputational risks.

<u>Challenges and Opportunities for Continued Sustainable Growth</u>

While Prada's achievements are significant, it is important to acknowledge that challenges persist for the luxury sector. Brands, including those committed to sustainability, continue to face inflationary pressures on materials and salaries (Soule). There is also an ongoing need for substantial investment in retail infrastructure, industrial capabilities, and technological advancements to support future growth.[1]

However, the projected significant growth in the market for sustainable luxury goods [4] indicates substantial opportunities for brands that commit to genuine, integrated sustainable practices. The contrasting performance of brands like Gucci, part of the Kering Group, highlights a critical nuance. Despite its stated sustainability initiatives, such as reducing its carbon footprint and banning fur, Gucci experienced significant revenue declines in the first quarter of 2025 (Cole; World Footwear). This suggests that while sustainability is a necessary component for enhancing brand image, fostering customer confidence, and improving competitiveness, it acts more as a powerful mitigator against market headwinds and a catalyst for long-term resilience rather than a standalone guarantee of immediate profit increases(Jin). Other factors, such as overall brand desirability, continuous product innovation, effective marketing, and flawless market execution, remain vital.

The key takeaway for the industry is that sustainability must be deeply integrated into a comprehensive business strategy. Prada Group demonstrates that integrating sustainability into core business practices adds significant value and contributes to a competitive edge, but it must be supported by strong operational execution and a compelling product offering to translate into consistent financial gains, especially in a volatile market. Brands that fail to execute on other core business fundamentals, even with sustainability efforts, may still struggle.

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