

# Fashion Merchandisers' Slash and Burn Dilemma: A Consequence of Over Production and Excessive Waste?

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## *Abstract*

*Luxury merchandisers are burning unsold merchandise valued over \$600 million each year. Destroying clothing is a common practice amongst fashion merchandisers in order to keep the price of goods high and the availability of products low. We examine the improper disposal of deadstock when luxury and fast-fashion marketers slash and burn their unsold goods. First, we describe what fashion merchandisers are doing and why they are destroying goods. Second, we provide brief case studies of fashion firms. Third, we present a conceptualization of social irresponsibility and responsibility. Finally, we offer a set of recommendations for managers to i) better respond to stakeholder demands, ii) enhance forecasting through technology, iii) implement a circular economy model, and iv) improve reporting practices.*

*“While it is hard to resist the allure of the next must-have outfit, consumption research shows that the act of shopping only gives us a short burst of excitement, but no lasting reward. However, the environmental impact lingers and is all too real. Fashion production uses lots of precious fresh water and pollutes rivers and seas with toxic chemicals, long before it hits the shelves... We are also consuming and trashing clothing at a far higher rate than our planet can handle. Fashion retailers have been speeding up the turnaround of fashion trends since the 1980’s, increasing the rate that we use and throw away clothes – the life cycle of consumer goods shortened by 50 percent between 1992 and 2002... This means that, as the situation stands today, every*

*garment we buy will eventually end up as waste, to be burned in incinerators or dumped in a landfill.”*

Dr. Kirsten Brodde, Detox my Fashion Global  
Project Lead at Greenpeace German<sup>1</sup>

### **Burning Deadstock to Create Scarcity**

The burning of unsold goods is a common practice amongst fashion retailers resulting in detrimental environmental consequences. Fashion merchandisers like Burberry, Louis Vuitton, Nike, Zara, Gap, and H&M group have recently been exposed for the improper disposal of deadstock. Motives for fashion firms for engaging in this practice include: maintaining scarcity of luxury brands, overproduction due to poor forecasting, excessive consumption habits of consumers, and securing tax write-offs (at least in the United States and Italy). Burning unsold products has been a common practice by luxury and fast-fashion marketers for years. Destroying deadstock prevents it from being sold at discount prices and preserves the exclusivity of the fashion brand.

The global fashion industry manufactures approximately 100 billion garments per year. Of this massive amount, 92 million tons of solid waste is created due to overproduction.<sup>2</sup> Few consumers are aware of the harmful ecological effects of their desire to keep up with new styles. By the year 2030, it is estimated that the negative climate impact of the fashion industry will double.<sup>3</sup> The long-term consequences of dumping toxins are yet to be determined as there is an influx of air and water pollution from producing more clothes at lower prices. Marketers like H&M and Zara practice the fast-fashion business model by launching new collections rapidly. Fast-fashion merchandisers are retailers who manufacture quickly in order to keep up with changing trends.<sup>4</sup> Thus, in order to produce a large amount of garments inexpensively, many companies utilize massive supply chains across developing economies, making it difficult to monitor if every facility is following proper health and safety regulations. Monitoring the production and disposal of goods is a challenge to many governments and watchdog organizations. There are currently few established decrees that prevent fashion retailers from burning their deadstock for their own reasons.

### **Why are companies burning their merchandise?**

The practice of burning and destroying garments is something that has been going on in the fashion industry since the 1980s. It has been easy to overlook this activity since fashion brands are not required to report their manufacturing processes or how they are disposing of unsold merchandise. However, with the increasing interest in environmental and sustainability

## **Fashion Merchandisers' Slash and Burn Dilemma**

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issues over the past decade, we have seen the media bringing the darkness of unethical practices to light. For example, Burberry declared that in 2017 it burned approximately \$38 million worth of products, triggering a negative chain reaction among its customers.

Burberry was not the only fashion brand to destroy its unsold products. In 2017, a New York Times article revealed that Nike slashed unsold shoes and clothes before throwing them in the trash bins outside its shops to avoid unauthorized sales.<sup>5</sup> In addition, Chanel, Eddie Bauer, Gucci, Michael Kors, Urban Outfitters, Victoria's Secret, and Walmart also have been burning deadstock.<sup>6</sup> At this point, consumers began to realize that this has been an industry-wide practice. After just a few months from the news of Burberry burning clothes, the British luxury fashion house declared in its annual report to be amongst the first firm to implement processes to avoid destroying its deadstock. Many of the top-tier fashion firms followed Burberry's example in publicizing what steps they are taking to reduce, eliminate, or reuse unsold items.

In response, Burberry, Gap, H&M, Nike and Stella McCartney are among the new participants that have joined the Ellen MacArthur Foundation's Make Fashion Circular. The Ellen MacArthur Foundation aims to create a collaborative environment among fashion firms and stakeholders to comply with the main principles of a circular economy. A circular economy business model promotes the process transforming natural resources with zero waste. The circular economy process has limited adverse effects on the environment while restoring, reusing, and fixing those damages resulting from the products' production processes. In spite of this damage control, fashion merchandisers continue to burn and destroy their unsold merchandise<sup>7</sup> for at least four reasons. These are discussed next.

First, the burning of luxury goods ensures scarcity of the brand. Luxury brands are typically fashion marketers that produce high-end products that are bought by individuals with a higher amount of disposable income. Luxury brands' main strength is the exclusivity of their brand name. Luxury firms burn their unsold products mainly because they need to maintain that their brand is elite and only accessible to a few. The act of destroying deadstock prevents them from selling at discounted prices and retains the exclusivity and scarcity of the products. Luxury firms assert that burning merchandise is also a way to protect the intellectual property of their products to prevent counterfeits.<sup>8, 9, 10</sup>

Second, fast-fashion merchandisers burn their products due to overproduction partly as a result of miscalculations of consumer shopping habits. In order to respond to the dynamics of clothing trends, merchandisers have to increase its production levels within a short amount of time. Figure 1

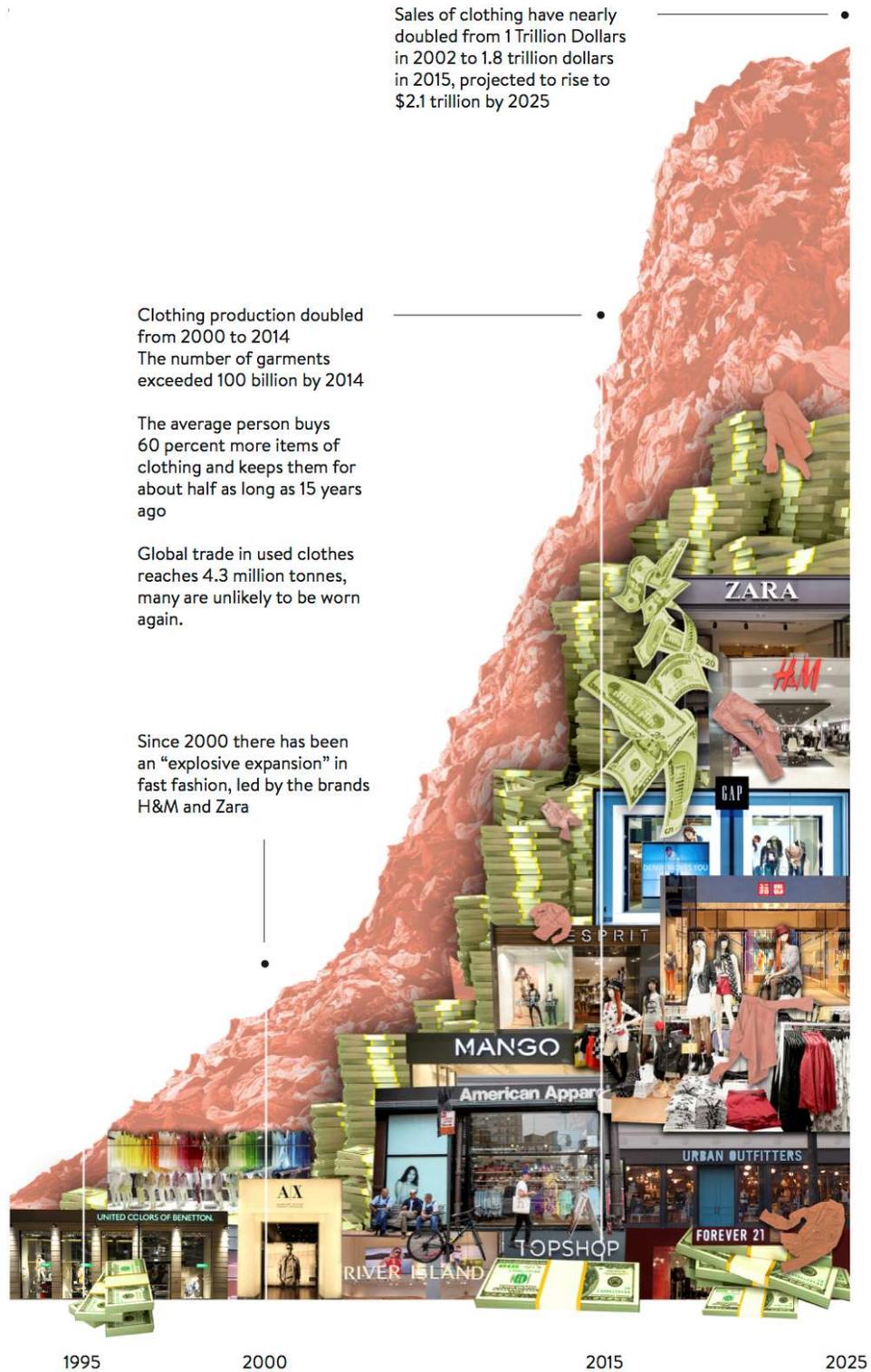
displays the image of the rise of fast-fashion and consumption. For example, H&M and Zara have experienced massive growth since the year 2000, and many clothes are unlikely to be worn again. This trend emphasizes the rapid turnaround of retail and the shortening of the in store merchandise life-cycle. The life-cycle of consumer goods has significantly shortened due to the dumping of inexpensive clothes and the low-quality of garments sold. This dilemma is a result of merchandisers attempting to keep up with fashion trends and reduce the time-to-market.

Third, consumers are now purchasing more than ever, perhaps disproportionately, as a result of the excessive consumption phenomenon. According to Greenpeace International, on average, a typical consumer purchases about 25 pounds of clothing each year resulting in 975 pounds of carbon emissions. This is equivalent to driving a car for 1,500 miles! Furthermore, in 2014, the average consumer bought 60 percent more clothing as compared with the year 2000, and kept each item half as long. The production and procurement of just one cotton shirt requires 2,700 liters of water. This is about how much water one person drinks in two and a half years. Cotton is also responsible for 24 percent of insecticides, 20 percent of industrial water pollution, and 1.3 trillion gallons of water a year for dying fabric.<sup>11</sup> In addition, polyester production released about 706 billion kilograms of greenhouse gases in 2015. This is approximately equivalent to 185 coal-fire powered plants annual carbon emissions. Thus, we can assert that as consumers are buying more, it is compelling fashion merchandisers to produce more, resulting in an enormous amount of toxic waste.

Fourth, fashion firms in certain countries receive tax write-offs for getting rid of unsold merchandise. In fact, this sanctions fashion marketers to incinerate their goods and even requires them to provide videos as proof for monetary returns. Specifically, in Italy and the United States there are dedicated laws that regulate the destruction of goods. According to the Italian Presidential Decree 441/97, mandate n. 193/E of 23/7/98, firms have the choice to itemize deductions for tax incentives. Parallel to this, the United States government has established a certain return on specific import-related taxes. The United States Customs and Border Protection Agency states that “if imported merchandise is unused and exported or destroyed under customs supervision, 99 percent of the duties, taxes or fees paid on the merchandise by reason of importation may be recovered as drawback.”<sup>12</sup>

## Fashion Merchandisers' Slash and Burn Dilemma

Figure 1. The rise of fast fashion



Source: Greenpeace<sup>13</sup>

In summary, fashion firms tend to burn and destroy deadstock with little concern for the long-term effects on the environment. This has not gone unnoticed; there is now an increasing awareness of unethical business practices that are compelling fashion firms to adapt more responsible behaviors. As consumers become more aware of the negative effects of their purchasing habits, many stakeholders are demanding progressive reactions from fashion firms to produce and dispose clothing in an ethical and environmentally conscious manner. While some firms assume leadership by better managing their supply chains, others have lagged behind in responding to proactive initiatives.

### Three Levels of Firm Response

From the actual experience of firms, we delineate three levels of responsiveness to the fashion merchandisers' slash and burn dilemma. Let us describe the responses more precisely by providing three collective case studies to explore the differences between each level. First, we examine the fashion merchandiser Urban Outfitters as an example of a firm that is failing to take any action towards a more sustainable business model. This 50-year-old retailer from Pennsylvania has given rise to much debate in the last decade with its products that frequently offend various religious, racial, and ethnic minorities. Urban Outfitters' main response to recent stakeholder dissatisfaction was to take the products completely off the market. What exactly Urban Outfitters did with those number of goods is not yet clear.<sup>14</sup> We suggest that a more responsible action would have been for managers to think about the consequences of consumer responses, while being able to better judge what could be perceived as offensive.

In addition, Urban Outfitters sales associates and employees are instructed to destroy, by means of cutting or pouring paint, the unsold merchandise.<sup>15</sup> The main reason behind this activity is that consumers should not have the chance to wear Urban Outfitters clothes for free. Thus, the firm prefers to damage their products, instead of reusing or donating them. The "Global Community Initiatives" page on Urban Outfitters website implies that the firm is taking actions to become more responsible. In reality, there is no action. The claim is made, but the action is inadequate and fails in reflecting sufficiently responsible actions to implement supply chain sustainability. Sustainability is meeting the needs of the present without compromising the ability of future generations to meet their own needs.<sup>16, 17</sup>

An example of an intermediate and reactive response is H&M group. H&M group includes Weekday, Cheap Monday, H&M Home, MONKI, ARKET, & Other Stories, and AFOUND. The fast-fashion firm incinerated tons of waste as well as unsold garments due to overproduction.<sup>18</sup> This

## **Fashion Merchandisers' Slash and Burn Dilemma**

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practice reflects the merchandiser's low respect for their goods and the processes behind their production. In response to negative media coverage, H&M group also recently joined the Make Fashion Circular initiative by the Ellen MacArthur Foundation. However, the majority of firms' participation to the initiative have not yet done something tangible. Apart from studying their surrounding environment and planning their next steps, we have yet to see many firms actually implement zero waste practices. Even though they are starting to address the issue, there are still many fundamental steps towards a completely sustainable supply chain for a circular economy business model. Numerous fashion firms are struggling to repair their reputation and resolve consumer boycotts. Even though H&M group announced its objective to become 100 percent circular and climate positive in its Sustainability Annual Report of 2017; the group still needs to clearly define the next steps and identify concrete sustainability measures.

As part of its environmentally friendly goals, one of H&M groups' most successful actions is the "Back in Store" project. This initiative consists of placing recycling bins in every store so that customers can put their unwanted clothes and receive a voucher in return. Accordingly, in 2016, H&M group was able to collect 17,771 tons of textiles and use about 35 percent of its pieces of goods made of recycled materials.<sup>19</sup>

However, even if H&M group is one of the brands with a significant focus on sustainability, or at least this is what it is perceived, it is still burning its deadstock as a consequence of overproduction. The firm claims that it gives materials to a power plant in Vasteras, situated northwest of Stockholm, which aims at becoming a fossil fuel-free facility by the year 2020. The head of communications for H&M group declared that it was only burning textiles exceeding from production or clothes with mold or not complying with chemicals restrictions. H&M group seems to be putting a lot of effort in approaching a circular economy principle, with reusable and recycling materials, but it still has to get involved into stronger actions and ensure that its whole value chain complies with those sustainable initiatives.<sup>20</sup>

Perhaps the more complete level of proactive effort is illustrated by clothing retailer Patagonia through its Worn Wear campaign. This initiative is based on the idea that, to help the environment, everyone should be able to use their clothes for an extended period and therefore limit consumption. Extending the wear of apparel leads to lower consumption and lower use of energy. The central aim of Patagonia is to make consumers more aware of their excessive shopping habits. This project consists of various steps. First, it starts with producing high-quality clothing that lasts for long periods of time. Second, customers that visit Patagonia stores can trade their used clothing and receive credit to purchase other items. Third, people can buy

second-hand goods and thus participate in reducing waste. Worn Wear is an excellent example of responsible action towards sustainability issues. This initiative focuses on both the customer as well as the retailer, and aims to increase awareness while reducing waste at the production level.<sup>21</sup>

Due to an increasing stakeholder awareness of wasteful and polluting business practices, fashion merchandisers are suffering from damaged reputations and boycotts. In response, some firms are donating part of their unsold goods to countries in Africa, Latin and South America, and Asia. However, giving unsold goods for charity often disrupts the natural equilibrium of local businesses. As a response to preserve their local economies, many countries in Africa are restricting the import of secondhand clothing from Western nations. There are stark differences between firms that react to the evolving market and those that utilize proactive environmental strategies on the front-end of production and sales.

### A Conceptualization for Responsible Action

What can be learned from the three case studies? Based on an analysis of these practices, we can conceptualize three types of responses on the part of fashion merchandisers. These are: (i) *No Action*, (ii) *Reactive Responses*, and (iii) *Proactive Responses* (See Table 1). *No Action* refers to firms who continue to exploit natural resources and the destruction of unsold goods. *Reactive Responses* refers to firms who have just begun to utilize initiatives to improve sustainable supply chain practices, yet who lack tangible results. *Proactive Responses* refers to those firms who have successfully integrated circular economy practices into their business model and are promoting environmentally friendly products.

#### *No Action*

Despite growing awareness, firms still ignore or simply do not respond to the negative side effects of slashing and burning deadstock. Contributing to *No Action*, are also the tax incentives set by governments promoting the improper disposal of unsold merchandise. In addition to Urban Outfitters, department store JC Penny requires employees to destroy Ralph Lauren products.<sup>22</sup> Also, Juicy Couture employees were instructed to rip up track suits to prevent sales to outlet stores.<sup>23</sup> Many fashion retailers have yet to take the first step towards a circular economy model. Sooner or later, we predict that these merchandisers will suffer a huge market share loss as the new generation of Millennials and Generation Z's are concerned with the ethical production and disposal of material assets. Fashion merchandisers will need to show how they are reacting to these type of stakeholder demands.

## Fashion Merchandisers' Slash and Burn Dilemma

**Table 1.** Social Irresponsibility and Sustainable Social Responsibility

No Action	Reactive Responses	Proactive Responses
<i>Urban Outfitters</i> employees were required to destroy deadstock.	<i>Louis Vuitton</i> organizes twice-a-year sales for their staff (the only sales they agree to do before burning their unsold products)	<i>TOM'S</i> Planet Approved shoe line made from recycled materials, with organic cotton, and without any animal products.
<i>JC Penney</i> required employees to destroy specific <i>Ralph Lauren</i> merchandise.	Make Fashion Circular Initiative by <i>Ellen McArthur Foundation</i>	<i>Compagnie Financière Richemont SA</i> melts down and reuses materials from previous season's products
<i>Juicy Couture</i> instructed employees to destroy track suits that could not be sold to the outlet store.	<i>Zara</i> and <i>H&amp;M's</i> back in store initiative.	<i>Patagonia</i> Worn Wear initiative: customers return used gear and receive credit; company repairs, reuses, or recycles it.

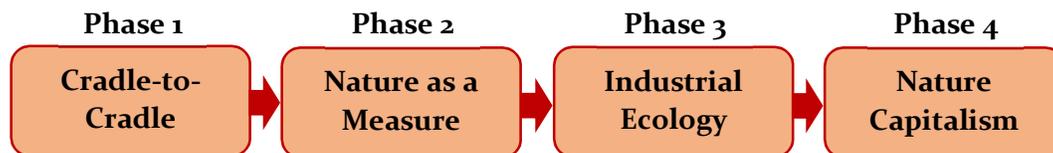


### *Reactive Responses*

Reactive responses often come too late or are a result of a damaged reputation or consumer boycotting. Many fashion merchandisers invest in end-of-pipe technologies where limited resources are used to solve environmental problems and only to meet the minimal governmental standards.<sup>24</sup> For example, pollution prevention is a reactive strategy to comply with regulatory standards that reduce liabilities and retain cost leadership. Reactive responses often require limited action from the fashion merchandisers. For example, Louis Vuitton has private sales to its employees twice a year before burning deadstock and Hermès uses left over scraps for

new clothes.<sup>25, 26</sup> Also, Zara, and H&M have installed in-store collection bins to support recycling initiatives after the publication of their burning and slashing practices.<sup>27</sup> While reactive strategies are a form of damage control, consumers generally respond negatively to these types of greenwashing initiatives. Fashion merchandisers need to find proactive ways of protecting their brand, instead of reactive strategies to boycotts and negative media attention.

**Figure 2.** The Evolution to a Circular Ecosystem - Best Supply Chain Practices



### *Proactive Responses*

Proactive responses require a deeper understanding of what consumers want and how to properly implement a sustainable supply chain for a circular economy business model. Specifically, investment in sustainable and ethical processes lowers firm risks to avoid negative outcomes.<sup>28, 29</sup> It requires industry leaderships that is ahead of the minimum standards that governments require. We propose that total quality environmental management processes to take into account the design of the products as well as manufacturing technology.<sup>30</sup>

Total quality environmental management processes are corporate strategies that attempt to meet stakeholder expectations via sustainable social responsibility (SSR). SSR activities go beyond the basic regulatory standards and advocate for an ecological balance throughout the history, legacy, and culture of the business. Proactive responses encompass investment in product stewardship as a form of product differentiation to minimize environmental degradation throughout the products' entire life-cycle. This requires research and development in manufacturing technologies, employee skills, and organizational processes.

For example, initiatives set by Worn Again and Close the Loop bring unused garments to the store for recycling and reuse. However, since retailers are not explicitly required to explain what they do with this material afterward, there are doubts on whether the recycled and reused textiles is legitimate.

Furthermore, the Compagnie Financière Richemont (a Swiss luxury conglomerate owner of luxury brand Cartier) is the one merchandiser that

## **Fashion Merchandisers' Slash and Burn Dilemma**

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seems to have reached the most substantial impact on recycling. They rebuy, melt down, and reuse the materials of previous seasons' unsold items to produce new jewelry. Unfortunately, not everything can be reused in the fashion industry, and the repurposing process frequently requires more working hours than the production itself. As a result, firms have to come up with a perfect alternative way for all those components and fibers which are difficult to discard and use for the production of new items for zero waste.

### **The Progressive Response – A Circular Economy Approach**

A circular economy model is a comprehensive and ideal solution to the slash and burn dilemma of fashion merchandisers. It is a solution rather than merely a piecemeal response. As a matter of fact, even proactive responses, which we referred to as strongly advanced, can be considered as unsystematic showing little advancement over time.

A circular economy refers to the life-cycle production process of products. The central aim of this approach is not merely reacting to regulatory standards in reducing the negative effects of production, but proactively giving a second life to textile and goods. Such an approach sustains long-term resilience, generates business and economic opportunities, and provides environmental and societal benefits.<sup>31</sup> Together, the Ellen MacArthur Initiative with the Global Fashion Agenda 2020 Commitment sets standardized processes to improve recyclability strategies, increase collection of unused merchandise for reuse.<sup>32</sup>

Sustainability is increasingly important as consumers have recently become more aware than ever of supply chain practices.<sup>33</sup> Social responsibility and sustainability is evaluated by three measures: (i) the natural environment, (ii) society, and (iii) economic performance.<sup>34</sup> Fashion merchandisers are faced with the predicament to deliver concrete results to their stakeholders while abiding by the utmost ethical practices.

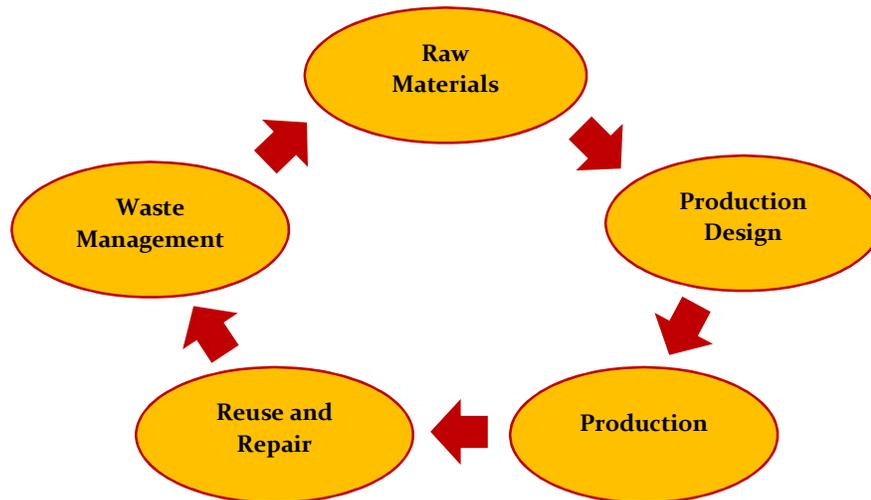
The circular economy model displayed in Figure 2 represents how firms can integrate these basic practices throughout their supply chain to generate economic and societal benefits in tandem. Instead of the take-make-dispose system that have become the norm for fashion merchandises, it should be the make-use-return axiom. There are several paradigms for integrating circular economy throughout the supply chain: (1) cradle-to-cradle, (2) nature as a measure, (3) industrial ecology, and (4) natural capitalism.<sup>35</sup> These are described briefly below.

- **Cradle-to-cradle:** All materials involved in the procurement and manufacturing of the product are natural. This model focuses on efficiency and the positive impact on reducing toxic byproducts.

- **Nature as a measure:** This model uses a connection with nature to judge innovation from sustainability. Firms need to account for their detrimental and unsafe practices on the surrounding community and environment in which they operate.
- **Industrial ecology:** This model analyzes materials and energy through the flow of manufacturing systems. Specifically, it creates closed-loop processes whereas waste serves as an input thereby eliminating toxic by-product. This system takes into account local ecological limitations to limit negative environmental impact.
- **Natural capitalism:** This idealistic model aims to increase the production of natural resources by shifting to biological production processes. Their by-product is either harmlessly returned to the environment as a nutrient or is an input for another procurement process.

Managers need to focus on where their supply chains are in the spectrum of zero waste using Figure 3 as a reference to circular economy manufacturing practices. By correctly identifying what phase their business model is in, managers can set clear goals for social responsibility and sustainability practices going forward. Ideal business models utilize closed-loop processes whereas waste serves as an input. This eliminates output of negative byproducts that are harmful to the environment.

**Figure 3.** Circular Economy Overview



### Conclusion

Many managers do not have a clear idea of where their company stands in toxic byproducts or how to solve environmental pollution problems without negatively affecting the financial bottom line. As evident in the cases discussed above, many fashion merchandisers find it cheaper and more convenient to slash and burn deadstock than actually recycling and reusing the unsold stock. In a world of dwindling natural resources and overconsumption, fashion retailers need to adopt better business initiatives to account for their unacceptable practices. Improper disposal of fashion merchandise has reached colossal proportions. The root causes of these practices include the desire to preserve reputation and elite positions and excessive production. In our study, firms have exhibited at least three levels of responses: *No Action*, *Reactive Responses*, and *Proactive Responses*.

In this paper, we examined the magnitude of detrimental environmental effects of burning deadstock and unethical supply chain practices. We provide alternative solutions for sustainable business and propose a circular economy model as a responsible action. There are many ways in which fashion companies can adhere to green business; yet regulatory standards have not caught up to controlling the burning of unsold goods. It is surprising to find that some governments even promote this type of practice. Fashion products require an astonishing amount of fresh water resulting in toxic runoff and environmental pollution. To keep up with consumer shopping habits, retailers are producing high volumes of clothing that often go unsold. Fashion firms need to operate more sustainably and ethically in order to reduce detrimental impact of their practices on the environment.

Despite the initiatives proactively adopted by companies such as Toms and Patagonia, fashion merchandisers have a long way to go in order to attain a zero waste production and sales system. We suggest that consumers and managers alike should increase their awareness of fashion merchandisers' improper disposal of deadstock as well and the negative effects burning textiles are having on the environment. We contend that this awareness will encourage more companies to integrate a circular economy approach into their supply chains as well as inform consumers of better and more limited shopping habits.

In closing, we would like to advocate several strategies for managers to consider for future action. First is the sharing of responsibility and proactive collaboration among the three fundamental parties to this problem: the public sector, fashion merchandisers, and consumers. Overcoming the dilemma and moving towards more sustainable activities need to see a team effort with responsibilities shared among these three main actors. Second, public policy makers should rethink incentives that promote alternative ways

of waste and merchandise disposal, while disincentivizing those practices that have negative effects on the environment. Third, fast-fashion firms need to utilize contemporary management tools to better forecast in order to reduce overproduction. Fourth, luxury firms can also utilize knowhow and tools to reduce production voluntarily as a strategy to maintain their elite positioning and premium prices. Fifth, consumers need to be made aware of the amount of resources required to produce fashion merchandise and be willing to change their consumption habits for the sake of the environment. Finally, we advocate proactive responses from all stakeholders to adopt a zero waste approach, a call for greater transparency, as well as higher mandated reporting requirements.

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*The authors gratefully acknowledge the guidance and insights provided by Professor S. Tamer Cavusgil of Georgia State University during the development of this paper. They would like to express their sincere gratitude for Professor Cavusgil's unwavering support and encouragement. Elizabeth and Francesca are extremely grateful for his invaluable advisement and constructive feedback throughout their studies in academia.*

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