

# DISRUPTING LUXURY:

Creating Resilient Businesses  
in Times of Rapid Change



# ABOUT THIS REPORT

## ABOUT THIS REPORT

Disruption is becoming increasingly omnipresent as companies face a time of unprecedented change. Environmental risks, technological advancements, rising social inequalities—these are massive issues that companies in all industries are facing currently, and they have specific implications for the luxury sector. Climate change and biodiversity loss are affecting the supply of precious raw materials, as well as the resilience of the sector's infrastructure; new technologies and automation are redefining the manufacturing process, retail experience, and nature of work; and rising economic inequality is changing how luxury brands position the value they offer, particularly in emerging markets. In this volatile environment where luxury brands are fighting to grow and stay desirable, smart business leaders understand that strong environmental and social practices offer a clear path through the disruption toward a brighter future.

This paper examines how luxury companies can respond to the challenges posed by climate change, technology, and inequality and consequently build more resilient businesses—businesses that showcase how social and environmental sustainability can fuel future growth, drive innovation, and strengthen brand equity.

The paper defines three distinct opportunities for luxury companies:

1. Build resilience by engaging in the circular economy.
2. Build a strong, relevant brand by contributing a positive impact on society.
3. Build trust by strongly articulating value to all stakeholders.

These recommendations are intended to complement rather than replace existing strategies related to global frameworks such as the Paris Agreement, Sustainable Development Goals (SDGs), the United Nations Guiding Principles on Business and Human Rights, and the United Nations Women's Empowerment Principles. The recommendations do not cover all luxury brands should do when it comes to sustainability; rather, the authors believe that by capturing these key opportunities, luxury companies will be able to better preserve the unique characteristics of the sector, while contributing to a just and sustainable future.

This report was produced by BSR's Responsible Luxury Initiative™ (ReLI) with additional support from Kering, Swarovski, and The Hongkong & Shanghai Hotels. ReLI is a collaboration of 15 luxury companies dedicated to developing collaborative solutions for emerging sustainability issues in their respective value chains. Members of ReLI include

Cartier, CHANEL, Harvey Nichols Group plc, The Hongkong and Shanghai Hotels, IWC Schaffhausen, Kering, LVMH Moët Hennessy—Louis Vuitton S.A., Michael Kors Holdings Limited, mytheresa.com, OTB, PVH Corp., Ralph Lauren, Richemont International SA, Swarovski, and Tiffany & Co. It is based on publicly available literature and insights from the group members.

**About BSR:** BSR™ is a global nonprofit organization that works with its network of more than 250 member companies and other partners to build a just and sustainable world. From its offices in Asia, Europe, and North America, BSR™ develops sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. [Learn more](#) about BSR's 25 years of leadership in sustainability.

**About the authors:** This report was written by BSR's Managing Director Elisa Niemtzwow with invaluable contributions from Kering experts Dr. Helen Crowley and Christine Goulay. Numerous BSR colleagues provided input and comments as acknowledged below, as well as ReLI members. Eva Dienel provided editorial and research support. For more information about ReLI and this paper, contact Elisa Niemtzwow at [eniemtzwow@bsr.org](mailto:eniemtzwow@bsr.org).

**Acknowledgments:** The authors wish to thank the following people for their review and input: Mich Ahern, Jean-Baptiste Andrieu, Magali Barraja, Ouida Chichester, Elissa Goldenberg, Janice Lao, Dax Lovegrove, Alex McIntosh, Sean McKnight, Aditi Mohapatra, Guy Morgan, Robert Nuttall, Eric Olson, Daniella Vega.

**Photo Credits:** Bottega Veneta, Kering, Swarovski, Marine Photobank. Cover photo: Alex Mustard.

**Disclaimer:** BSR takes full responsibility for this report's contents and conclusions. While the project participants, ReLI member companies, and experts acknowledged above have provided significant input to the development of this report, their participation does not necessarily imply endorsement of the report's contents or conclusions.

**Suggested Citation:**

To quote this report, please use the following reference:

Niemtzwow, Elisa. 2018. "Disrupting Luxury: Creating Resilient Businesses in Times of Rapid Change." BSR, San Francisco. Published July 2018.

# EXECUTIVE SUMMARY

Businesses today are dealing with a rapidly changing world context. The population is growing exponentially. By 2030, one billion people will join the world's population, and two-thirds of them will live in cities in emerging markets.<sup>1</sup> The number of Fortune Global 500 firms coming from emerging economies has exploded to more than 25 percent today from 4 percent in 1992, and China is poised to surpass the United States as the world's largest economy in the decade ahead.<sup>2</sup> To remain successful, businesses also will have to navigate three broad categories of change that affect future resilience: climate change; powerful new technologies that are redefining economic value creation and the nature of work; and structural economic change which produces more pressure to meet the needs of a growing, urbanizing population.<sup>3</sup> How will these changes affect growth in the luxury industry? How can an industry that relies on well-functioning ecosystems for its precious raw materials ensure availability of supply in the context of climate change and increasing volatility? How can luxury protect and ensure well-being for its employees and workers in the value chain in a context of growing inequality? And finally, what is the role of luxury as global influencers and trend-setters to enable and help drive environmental and social progress?

Through the Responsible Luxury Initiative™ (ReLI), 15 leading luxury companies have collaborated for the first time to answer these questions and provide a common perspective on how luxury businesses can create responsible and resilient brands in a time of rapid change, while leveraging the sector's unique strengths. The resulting recommendations are outlined in this paper and offer a luxury-specific roadmap to create resilience, but they do not replace implementing the key global frameworks that define strong environmental and social practices, such as the Paris Agreement, SDGs, and the UN Guiding Principles on Business and Human Rights.

As a starting point, while the luxury sector is poised for growth in the coming years, it also must contend with these disruptive global trends that have specific consequences for luxury brands.

The first trend is climate change and biodiversity loss, which threaten the natural and agricultural systems that luxury companies rely on to produce raw materials such as cashmere, vicuna, or vanilla. Even the hospitality sector, which depends on pristine natural landscapes and seascapes to attract travelers, will be affected as climate change destroys coral reefs and leads to more violent weather patterns. Climate change also will impact luxury value chains beyond the natural world, causing vulnerability in both people and infrastructure, such as cashmere goat herders in Mongolia who already are facing damaged ecosystems and more difficult livelihoods.

## The second trend—the development of new technologies—carries with it both promise and risk.

Artificial intelligence and automation have the potential to increase efficiency, reduce costs, and create new ways to customize the luxury experience for consumers. But new technologies also may lead to the loss of jobs: An estimated 82 percent of hours worked in the apparel, fashion, and luxury sectors could become automated.<sup>4</sup> How should the luxury sector—steeped in a history of tradition based on longstanding production practices and highly skilled artisanry—respond to these technological changes?

The third trend is rising economic inequality, which asks luxury companies to re-evaluate their role in society and how they can contribute in new ways to create a more inclusive luxury. When it comes to emerging markets—where economic inequality is even more dramatic—what does it mean to be a modern luxury brand?

This paper explores how luxury companies can build resilient businesses in the face of such rapid change. Although not encompassing all requirements to build a sustainable business overall, the paper defines three distinct opportunities for luxury which, when taken together, build on luxury's strengths to address the new world context. The paper proposes new ways to create economic, social and environmental value in the luxury sector and articulate this value to stakeholders: companies can engage in the circular economy, a system that endeavors to protect resources by using less, wasting less, and recycling more. They can strengthen contributions to society, using both core business strategies and philanthropic agendas. And luxury companies can articulate their value more boldly to all stakeholders by preparing for transparency and engaging investors and consumers on environmental and social progress.

It is not a coincidence that each of these opportunities intersects with sustainability. Increasingly, business leaders today recognize that sustainable social and environmental practices offer a path through disruptive change. As Kering Chairman and CEO François-Henri Pinault has reiterated over the years, "Sustainable business is smart business."

<sup>1</sup> [https://www.bsr.org/reports/BSR\\_The\\_Future\\_Sustainable\\_Business.pdf](https://www.bsr.org/reports/BSR_The_Future_Sustainable_Business.pdf)

<sup>2</sup> [https://www.bsr.org/reports/BSR\\_The\\_Future\\_Sustainable\\_Business.pdf](https://www.bsr.org/reports/BSR_The_Future_Sustainable_Business.pdf)

<sup>3</sup> [https://www.bsr.org/reports/BSR\\_The\\_Future\\_Sustainable\\_Business.pdf](https://www.bsr.org/reports/BSR_The_Future_Sustainable_Business.pdf)

<sup>4</sup> <https://www.mckinsey.com/business-functions/operations/our-insights/the-great-re-make-manufacturing-for-modern-times-compendium>

Fortunately, in many ways luxury companies are well-equipped to address challenges related to climate change, new technology, and inequality. They can call on strengths such as close relationships with suppliers, the ability to experiment with more flexible manufacturing capabilities than mass-produced goods, and a traditional long-term view of business focused on preserving heritage and brand equity, in order to secure their role as the sustainable brand leaders of the future. To do this successfully, luxury businesses also will need to reconcile some inherent paradoxes, such as a pre-disposition toward agility yet a focus on preserving tradition, which could be at odds with upcoming new technologies, or a tendency toward opacity and secrecy juxtaposed with growing demands for transparency.

This paper outlines key recommendations within each of these opportunities that luxury companies can adopt to fuel future growth, drive innovation, and strengthen brand equity by investing in sustainability. Each section highlights examples of companies playing a leading role, from The Peninsula Hotel's use of recycled wall décor and carpets,

which supports a circular economy; to Swarovski's "The Future is Equal" campaign, which inspires social change; to Kering's ambitious tracking and reduction of its Environmental Profit and Loss account, which provides transparency on environmental impacts in its own operations and across the supply chain.

Beyond the recommendations for individual companies, the main purpose of this paper is to call for collective action: Luxury companies have the opportunity to join forces and voices to advocate boldly for a resilient future. BSR's Responsible Luxury Initiative (featured on page 13) provides one such avenue for collaboration, and there are plenty of other partnerships built around specific sectors or issues. The authors urge luxury companies inspired by this vision to seek partners and move forward together.



## SUMMARY OF RECOMMENDATIONS

To address the three disruptive forces of climate change and biodiversity loss, new technology and automation, and the rise of economic inequality, luxury businesses can:

<b>OPPORTUNITY 1: BUILD RESILIENCE BY ENGAGING IN THE CIRCULAR ECONOMY</b>	<b>OPPORTUNITY 2: BUILD A STRONG, RELEVANT BRAND BY CONTRIBUTING A POSITIVE IMPACT ON SOCIETY</b>	<b>OPPORTUNITY 3: BUILD TRUST BY STRONGLY ARTICULATING VALUE TO ALL STAKEHOLDERS</b>
<p><b>1.1. Ensure the availability of precious raw materials:</b> Luxury companies rely on high-quality raw materials derived from nature and agricultural systems that are increasingly threatened by climate change and biodiversity loss. These materials include varieties of wool, leather, exotic wood, vicuna, cashmere, vanilla, and rare essential oils. Even sectors such as tourism and hospitality depend on natural ecosystems such as coral reefs as "raw materials" for their product offerings. To protect and restore the essential natural systems and biodiversity on which the luxury industry depends for raw materials, companies can adopt regenerative sourcing practices and invest in the restoration of important ecosystems.</p> <p><b>1.2. Expand the product life cycle:</b> The high-quality raw materials used in luxury products are "pre-designed" for circularity based on their value and versatility. To expand product life cycles, luxury companies can source recycled and upcycled materials for their products, and can design new business models that enhance the value of luxury products by giving them many lifetimes.</p> <p><b>1.3. Spur innovation of new materials and processes:</b> Many luxury companies have developed long-term, close relationships with suppliers to co-create new materials and products. Companies can build on these collaborative relationships with key suppliers to identify, catalyze, and support innovation in materials and processes. Companies can create solutions that address sustainability challenges at the company level, or they can pioneer new processes that can be used more widely by other sectors.</p>	<p><b>2.1. Align philanthropic and business strategies to support social and environmental progress:</b> Luxury companies traditionally have been very active in supporting philanthropic initiatives, mostly through their foundations. Building off of this history, companies can support social and environmental progress further by assessing how products and services affect society and the planet, then using complementary business and philanthropic strategies to address the issues. Companies also can use charitable giving as a strong voice to influence public opinion and support policies that promote environmental sustainability and social responsibility.</p> <p><b>2.2. Contribute to women's empowerment:</b> Luxury companies are connected closely to women as customers, employees, and workers in the supply chain. In this age of women's empowerment, companies can leverage the credibility of their brand to promote cultural change toward gender equality and develop strategies to advance women's equality in their operations and supply chain. This includes developing initiatives to increase the number of women in leadership positions, ensuring pay equity, and supporting the economic and social empowerment of women in luxury supply chains.</p> <p><b>2.3. Strengthen livelihoods:</b> Using their deep relationships with suppliers and business partners, luxury companies can help ensure that people working in their respective value chains receive fair wages. Luxury companies also can seek to understand how new technologies are affecting the people in their value chain and support a fair transition for workers whose jobs may be eliminated. They also can provide training that gives workers skills they will need for future jobs.</p>	<p><b>3.1. Prepare for more transparency:</b> As consumers and other stakeholders demand more transparency and as technology makes transparency inevitable, luxury companies can set new standards of transparency by providing more details on how their business practices affect the environment and local communities. They can build trust by harmonizing high standards of best practice and creating frameworks that show verifiable progress over time to meet commitments to reduce negative impacts and create positive outcomes for nature and society across their value chains.</p> <p><b>3.2. Better assert long-term value creation strategies with investors:</b> Luxury brands have an important opportunity to capture the attention of a growing number of shareholders who are interested in sustainability and are looking to invest in companies that create long-term value. To do this, luxury brands first must build a resilient business narrative that defines how companies use social and environmental sustainability to fuel growth, drive innovation, and strengthen brand equity as they demonstrate environmental and social performance and best practices. The next step is to engage investors on that vision by reaching out to them proactively through webinars, roadshows, targeted communications and sustainability investor rankings.</p> <p><b>3.3. Engage consumers on sustainability:</b> Luxury brands can take advantage of close relationships with consumers to engage them more deeply on the new value proposition for luxury—one that fully integrates sustainability. There are two key ways companies can do this: First, companies can ensure their products embody sustainability through materials, design, and potential for long life. Second, companies can create new narratives around their products and their commitments that clearly communicate sustainability is at the heart of modern luxury.</p>

Implementing these opportunities will result in strong outcomes for luxury brands, including driving growth and innovation and strengthening brand equity.

# INTRODUCTION

THE LUXURY INDUSTRY IS POISED TO EXPERIENCE GROWTH OVER THE NEXT SEVERAL YEARS, BUT IT WILL NOT BE BASED ON BUSINESS AS USUAL.<sup>5</sup> INSTEAD IT WILL BE BASED ON HOW COMPANIES GRAPPLE WITH THREE BROAD TRENDS THAT ARE CHANGING GLOBAL BUSINESS AND HAVE SPECIFIC CONSEQUENCES FOR LUXURY.<sup>6</sup>

## •Climate change and biodiversity loss:

While the impacts of climate change on business are well-reported in the media, how biodiversity loss affects business is less understood. It is important for the luxury sector to understand its unique vulnerabilities to these interlinked global challenges. Luxury companies rely on precious raw materials sourced from natural eco- and agricultural systems that are threatened by changing climate and biodiversity loss. A recent study shows that climate change already is affecting the availability of prized luxury materials such as cashmere, vicuna, and silk. These impacts are likely to grow over time.<sup>7</sup> Changing agricultural productivity and dramatic climate events also are leading to the degradation of livelihoods of many small-scale producers, who often live in vulnerable rural communities.<sup>8</sup> Further along the value chain, climate change is starting to disrupt the luxury sector's infrastructure, including factories, stores, and resorts.

## •New technologies and automation:

Powerful new technologies such as artificial intelligence and automation are redefining the manufacturing and retail experiences, as well as the nature of work. These technologies present risks including job loss and data privacy concerns. A McKinsey study found that 82 percent of hours worked in the apparel, fashion, and luxury sectors could become automated.<sup>9</sup> This poses some interesting new questions. As Vogue recently asked: "When do people have to touch a product to make it artisanal?"<sup>10</sup> With luxury craftsmanship at the heart of long-standing production processes, how can it be preserved? On the other hand, these technologies also present opportunities, including the creation of new skilled

jobs, improved process efficiencies, raw material traceability solutions, and customization that can enhance consumer-brand relationships. As technology changes how luxury brands craft and deliver products and services, companies will need to consider both the risks and the opportunities.

## •Rise of economic inequality:

With inequality on the rise, there is growing frustration with an economic system that enables a fraction of people to control most of the world's wealth. Often, this same group determines how the world's collective resources are used.<sup>11</sup> Rising inequality has specific implications for luxury: How can a sector that traditionally appeals to the elite embrace inclusion? What does equality and inclusivity mean for luxury brands, particularly when it comes to emerging markets? By 2030, one billion people will join the world's population, and two-thirds of them will live in cities in emerging markets. Many of these markets will struggle to meet the scale of basic human needs, particularly in an environment with dwindling resources.<sup>12</sup> In this context, luxury companies will need to consider how to affirm their value, particularly in markets with rising economic inequality.

In response to these disruptions, luxury brands have begun to embrace sustainability. Many companies are improving performance on environmental, social, and governance issues, and aligning their strategies with the global sustainability agenda defined by SDGs and the Paris Agreement. While a few luxury companies have made significant strides, the sector has an opportunity to drive more profound change through sustainable practices and business models—which are becoming more relevant as an increasing number of stakeholders, including consumers, look for companies whose values and practices reflect their desire for a sustainable world.

<sup>5</sup> <http://www.bain.com/publications/articles/luxury-goods-worldwide-market-study-fall-winter-2017.aspx>

<sup>6</sup> <https://www.bsr.org/en/our-insights/report-view/the-future-of-sustainable-business>

<sup>7</sup> <https://www.bsr.org/en/our-insights/report-view/climate-change-implications-and-strategies-for-the-luxury-fashion-sector>

<sup>8</sup> <https://www.bsr.org/en/our-insights/report-view/climate-change-implications-and-strategies-for-the-luxury-fashion-sector>

<sup>9</sup> <https://www.mckinsey.com/business-functions/operations/our-insights/the-great-re-make-manufacturing-for-modern-times-compedium>

<sup>10</sup> <http://www.vogue.co.uk/article/future-of-fashion-artificial-intelligence-post-material-world>

<sup>11</sup> [https://www.bsr.org/reports/BSR\\_The\\_Future\\_Sustainable\\_Business.pdf](https://www.bsr.org/reports/BSR_The_Future_Sustainable_Business.pdf)

<sup>12</sup> [https://www.bsr.org/reports/BSR\\_The\\_Future\\_Sustainable\\_Business.pdf](https://www.bsr.org/reports/BSR_The_Future_Sustainable_Business.pdf)

At The New York Times' luxury conference in November 2017, fashion director Vanessa Friedman reflected on the disruptive changes with which today's executives must contend. "What new natural disaster is about to hit? What unexpected political event will unfold? What tweet will send ripples around the globe? What will fall from the sky to unsettle the consumer, disrupt exchange rates, and demand new corporate strategy?" she asked.<sup>13</sup>

Smart business leaders understand that strong environmental and social practices offer a path through this disruption. For many years, Kering's François-Henri Pinault has reiterated the mantra, "Sustainable business is smart business." Gianni Versace CEO Jonathan Akeroyd has said that, in the future, "sustainability, flexibility, responsibility, quality, and engagement will be even more important than they are today."<sup>14</sup> In light of global challenges ranging from climate change to inequality, Chloé Chief Executive Geoffroy de la Bourdonnaye said: "The role of the most accomplished brands will be to support and serve a larger community than just its clientele by encouraging the community towards a certain mission."

In an increasingly volatile environment where luxury brands are fighting to grow and stay desirable, it will no longer be enough for companies to manage growth on one side and environmental and social risks on the other. Fortunately, luxury brands can leverage their unique strengths to address the challenges posed by climate change, technology, and inequality. And they can do so while building resilient businesses—businesses that showcase how social and environmental sustainability can fuel future growth, drive innovation, and strengthen brand equity. In short, luxury businesses need to become resilient businesses. But what does resilience mean for luxury? What are the unique opportunities in this industry? How can companies apply their strengths to create value for luxury and the world?

To remain successful, luxury companies need to recognize and reconcile the implicit paradoxes in their business. Most companies have the creativity and desire for innovation, but many are hampered by traditional and sometimes conservative supply chain approaches. Furthermore, while many companies recognize the need for transparency, luxury companies also have an instinct to be secretive and protect the industry's *savoir-faire*. Many companies also understand the trends toward ethical and eco-consumerism, but are often hesitant to communicate and build strong narratives around sustainability because these subjects have not always been "fashionable."

<sup>13</sup> <https://www.nytimes.com/2017/11/13/fashion/luxury-consumers-politics.html>

<sup>14</sup> <https://www.nytimes.com/2017/11/13/fashion/luxury-consumers-politics.html>



**In this paper, we define three opportunities for luxury companies—especially those in fashion, watches and jewelry, beauty, and hospitality—to invest in sustainability, fuel future growth, drive innovation, and strengthen brand equity:**

**1. BUILD RESILIENCE BY ENGAGING IN THE CIRCULAR ECONOMY:**

More and more businesses across sectors are investing in actions and business models that contribute to the circular economy by reducing waste and pollution, keeping products and materials in use, using renewable and low-impact materials, and restoring and protecting natural systems. Luxury brands can engage more proactively in circular business models in three key ways: By ensuring the availability of precious materials, expanding the product life cycle, and spurring innovation of new materials and processes.

**2. BUILD A STRONG, RELEVANT BRAND BY CONTRIBUTING A POSITIVE IMPACT ON SOCIETY:**

Global companies are being called upon to address the important social and environmental challenges described above. Luxury companies can build on their strengths to achieve this. They can align philanthropic and business

strategies to support social and environmental progress; capitalize on strong connections to women as consumers, employees, and supply chain workers to support women's empowerment; and leverage close relationships with suppliers to strengthen worker livelihoods.

**3. BUILD TRUST BY STRONGLY ARTICULATING VALUE TO ALL STAKEHOLDERS:**

Luxury brands have reached a watershed moment when it comes to communicating their environmental and social commitments and practices. In a world where increased transparency is expected by all stakeholders—including consumers—luxury brands have an opportunity to articulate their value more boldly. Brands can do this by preparing for more transparency through increased understanding of their supply chains; better asserting long-term value creation strategies with investors; and engaging consumers on sustainability. In return, companies can expect to engage a growing market of conscious consumers, attract and retain top talent, partner with civil society constructively, and cultivate more support and interest from investors.

# LEADERSHIP OPPORTUNITIES

This section describes in detail the three leadership opportunities luxury brands can seize to contribute social and environmental value, strengthen brand equity, and ensure future growth as they reconcile the inherent paradoxes in the luxury business. These opportunities are intended to complement rather than replace existing strategies related to global frameworks such as the Paris Agreement, SDGs, the UN Guiding Principles on Business and Human Rights, and the UN Women's Empowerment Principles. While the sections below mainly focus on opportunities luxury companies can take individually, collective action will drive the transformational change that is needed. By moving forward together, luxury companies can work toward resilience more systemically in their value chains and move more quickly by learning from each other.

## Responsible Luxury Initiative: Collaborating to Build Resilient Luxury Businesses

BSR's Responsible Luxury Initiative (ReLI) is a collaboration among 15 leading luxury companies that are dedicated to creating solutions for emerging sustainability issues in the luxury value chain. The group is defining an action agenda to future-proof luxury brands by fostering brand desirability, innovation, and growth through improved environmental and social practices. Founded in 2012, the initiative's work is closely aligned with SDGs 12 and 15, which pertain to responsible consumption and production and life on land.

In addition to sharing insights and best practices, the group has developed a number of resources for luxury companies, including creating principles and tools for the responsible sourcing of animal-based materials, launching the Southeast Asia Reptile Conservation Alliance (SARCA), and recommending solutions to reduce leather waste in the luxury value chain.

Member companies include Cartier, CHANEL, Harvey Nichols Group plc, The Hongkong and Shanghai Hotels, IWC Schaffhausen, Kering, LVMH Moët Hennessy—Louis Vuitton S.A., Michael Kors Holdings Limited, mytheresa.com, OTB, PVH Corp., Ralph Lauren, Richemont International SA, Swarovski, and Tiffany & Co. [Learn more at bsr.org](https://www.bsr.org)



# OPPORTUNITY 1: BUILD RESILIENCE BY ENGAGING IN THE CIRCULAR ECONOMY

15

BSR  
OPPORTUNITY 1: ENGAGE IN THE CIRCULAR ECONOMY

The circular economy is based on three principles: Design out waste and pollution, keep products and materials in use, and regenerate natural systems.<sup>15</sup>

Businesses across sectors are investing in circular economy practices to reduce the use of finite resources and contribute to a new, more sustainable economic paradigm.<sup>16</sup> Meanwhile, organizations such as the Ellen MacArthur Foundation and the Global Fashion Agenda are providing clear recommendations for companies to implement more circularity by focusing on product design, the use of sustainable materials, and innovative collection and recycling systems.<sup>17</sup>

Luxury companies particularly are well-positioned to capture these opportunities because of dependence on high-value natural materials, focus on quality craftsmanship and design, close relationships with suppliers, and access to flexible manufacturing capabilities (i.e. those allowing for smaller and more bespoke production over mass-produced goods). To engage more fully in circular business models, luxury companies can focus on regenerative approaches to produce their iconic raw materials, expand the life cycle of their precious products and materials, and spur innovation of new materials and processes.

## KEY RECOMMENDATIONS:

### 1.1. ENSURE THE AVAILABILITY OF PRECIOUS RAW MATERIALS:

Luxury companies rely on high-quality raw materials derived from nature and agricultural systems that are increasingly threatened by climate change and biodiversity loss.

These materials include varieties of wool, leather, exotic wood, vicuna, cashmere, vanilla, and rare essential oils.

Even sectors such as tourism and hospitality depend on natural ecosystems such as coral reefs as “raw materials” for product offerings. To protect and restore the essential natural systems and biodiversity the luxury industry depends on for its iconic raw materials, companies can adopt regenerative sourcing practices and invest in the restoration of important ecosystems.

### 1.2. EXPAND THE PRODUCT LIFE CYCLE:

The high-quality raw materials used in luxury products are “pre-designed” for circularity based on their value and versatility. To expand product life cycles, luxury companies can source recycled and upcycled materials for products, and can design new business models that enhance the value of luxury products by giving them many lifetimes.

### 1.3. SPUR INNOVATION OF NEW MATERIALS AND PROCESSES:

Many luxury companies have developed long-term, close relationships with suppliers, with whom they co-create new materials and products. Companies can build on these collaborative relationships with key suppliers to identify, catalyze, and support innovation in materials and processes. Companies also can create solutions that address sustainability challenges at the company level, or they can pioneer new processes that can be used more widely by other sectors.

<sup>15</sup> <https://www.ellenmacarthurfoundation.org/circular-economy/overview/concept>

<sup>16</sup> <https://www.ellenmacarthurfoundation.org/circular-economy/overview/concept>

<sup>17</sup> <http://www.globalfashionagenda.com/ceoagenda/>; <https://www.ellenmacarthurfoundation.org/publications/a-new-textiles-economy-redesigning-fashions-future>; <https://newplasticseconomy.org/>





## 1.1. ENSURE THE AVAILABILITY OF PRECIOUS RAW MATERIALS.

An important element of luxury's core value proposition comes from its use of high-quality raw materials that are primarily derived from nature and from agricultural systems. These materials, which are often rare, include varieties of wool, leather, exotic wood, vicuna, cashmere, vanilla, and essential oils. The tourism and hospitality sectors have a deep dependence on natural ecosystems such as forests and coral reefs. Because of their dependence on these nature-based materials, luxury companies face greater risks related to climate change, ecosystem degradation, and biodiversity loss.<sup>18</sup> At the same time, the luxury sector's dependence on these materials and ecosystems provides specific opportunities for companies to align with circular economy principles and better address global challenges.

Companies can ensure the availability of precious raw materials in two ways: through sustainable sourcing practices, and through investments in nature-based systems.

First luxury companies can employ sustainable sourcing practices that promote regenerative agriculture, which restores soil and protects natural ecosystems and biodiversity. In the face of challenges such as climate change, biodiversity loss, and water scarcity, this will support the resilience and availability of raw material production and product offerings, as well as the livelihoods of the people who rely on these ecosystems.<sup>19</sup> Some companies already are embracing this approach. In some parts of Australia, New Zealand, and Argentina, for example, suppliers of high-quality wool are using regenerative approaches,<sup>20</sup> and in Mongolia,

Kering is supporting the Sustainable Cashmere Program, which is enabling the regeneration of rangeland, protecting biodiversity, and enhancing culture and livelihoods. When it comes to sourcing practices, companies can adopt wildlife-friendly sourcing principles that help preserve biodiversity.<sup>21</sup> In addition to responsible-sourcing practices, companies can invest in the restoration of coastal ecosystems or critical forests. Not only does this help ensure the availability of precious raw materials, but it also guarantees investments that form part of a suite of nature-based solutions that help mitigate climate change.<sup>22</sup>

Finally, when it comes to sourcing high-quality non-renewable raw materials such as gold and precious stones, companies can consider implementing and helping to scale up improved and responsible sourcing practices such as sourcing from mines which practice low impact mining and that are certified through Fair Trade, Fairmined or Responsible Jewelry Council, and not sourcing from key biodiversity areas and protected areas. This offers significant opportunities for luxury to deliver positive gains for climate, biodiversity, reduced chemical pollution, and livelihoods.

<sup>18</sup> <https://www.bsr.org/en/our-insights/report-view/climate-change-implications-and-strategies-for-the-luxury-fashion-sector>

<sup>19</sup> [https://www.bsr.org/reports/BSR\\_Report\\_Climate\\_Resilient\\_Supply\\_Chains.pdf](https://www.bsr.org/reports/BSR_Report_Climate_Resilient_Supply_Chains.pdf)

<sup>20</sup> [ies https://www.savory.global/landtomarket/](https://www.savory.global/landtomarket/)

<sup>21</sup> <http://wildlifefriendly.org/>

<sup>22</sup> <http://www.pnas.org/content/114/44/11645>



## 1.2. EXPAND THE PRODUCT LIFE CYCLE.

One could argue that luxury's high-quality raw materials are "pre-designed" for circularity, as their value and versatility present opportunities for recycling and upcycling, which reduce both waste and costs. Some luxury companies already are pioneering these approaches.

Hermès uses leather scraps to create its "Petit H" collection. The Kering brand Saint Laurent has found a new way to give second life to its best leather offcuts by upcycling them into a vintage leather tote bag. The R Collective, sold at Lane Crawford and YeeChoo (Asia's leading clothing rental company), uses discarded luxury waste to make new collections. Tiffany & Co. purchases approximately 55 percent of the silver, gold, and platinum that it uses in its own manufacturing facilities from recycled sources. In its new eco watch line, Baume, Baume & Mercier uses recycled or natural materials instead of exotic materials and precious metals, and it recycles any unused components or materials from the production process.

The luxury sector has an important opportunity to go beyond recycling and upcycling because quality craftsmanship and the inherent value of materials can be used to extend the life cycle for many luxury products. Luxury brands can nurture and enhance the many lives of their products through new offerings and business models. Today, "recommerce" models such as Rent the Runway, Vestiaire Collective, and The Real Real promote the use of products by many owners. Recently, Stella McCartney became the first luxury brand to encourage customers explicitly to resell its goods through a partnership with The Real Real.<sup>23</sup>

<sup>23</sup> <https://fashionista.com/2017/10/stella-mccartney-the-realreal-partnership>

### 1.3. SPUR INNOVATION OF NEW MATERIALS AND PROCESSES.

Luxury brands can play a leading role in developing innovative materials, technologies, and processes that contribute to sustainability and the circular economy. This is due to their relationships with suppliers, as well as supply chains that can handle smaller, more bespoke production, which is not the case with mass-produced consumer goods and fashion. Most luxury companies have developed close relationships with their key suppliers over relatively long periods of time, and have co-created certain materials and products.

These characteristics provide an excellent foundation for luxury companies to experiment and develop new materials and processes. The focus of this can be specific: To solve certain sustainability issues such as developing more efficient forecasting; to optimize inventory plans to avoid product obsolescence; and to ensure more efficient material use. It can also be broad: To innovate processes that can be used in other sectors, such as low-impact tanning and dyeing technologies.

Some companies already are making specific investments to address sustainability impacts at their respective product levels. In the jewelry sector, for instance, Atelier Swarovski is showcasing new materials through the use of created stones in its collections. In the beauty sector, luxury brands are experimenting with green biotech formulations. In the tourism industry, companies are testing new sustainable materials in buildings and interior design. For instance, The Peninsula Hotel in Beijing—which has achieved the BREAMM Good green building certification—uses low-VOC and recycled wall decor and carpets. It also buys sustainable leather and wood furniture and fabric that meets the circular economy standard Cradle to Cradle.

An example of innovation that will deliver broad sector benefit is Kering's co-investment in the UK-based start-up Worn Again, which is pioneering a textile-to-textile chemical recycling technology that is able to separate and extract polyester and cotton from old clothing and textiles. This solution is one that will serve the entire textile sector.

### FASHION FOR GOOD: COLLABORATION FOR SUSTAINABLE INNOVATION.

Launched in 2017, the global Fashion for Good initiative convenes fashion brands, producers, retailers, suppliers, nonprofit organizations, entrepreneurs, and funders to create innovative approaches to sustainability, including new materials and circular business models.

Their innovation platform consists of three focused programs that help innovators at different stages:

- **The Fashion For Good-Plug and Play Accelerator** gives promising start-ups the expertise and access to the funding that will allow them to grow.
- **The Scaling Program** supports innovations that have passed the proof-of-concept phase, with a dedicated team that offers bespoke support and access to expertise, customers, and capital.
- **The Good Fashion Fund** catalyzes access to the finance required to shift to more sustainable production methods at scale.

In its first year, Fashion for Good's programs supported more than 40 start-ups, facilitated more than 300 connections with corporations and investors, and led to more than five production pilots between supported start-ups and corporates.

Organizations and companies involved in the initiative include founding partner C&A Foundation and first founding anchor partner Kering, alongside corporate partners adidas, C&A, Galeries Lafayette Group, PVH, Target, Zalando, as well as organizations including the Cradle to Cradle Products Innovation Institute, the Ellen MacArthur Foundation, IDH—the Sustainable Trade Initiative, Impact Hub Amsterdam, McDonough Innovation, Plug and Play, and the Sustainable Apparel Coalition.

Fashion for Good invites other companies and partners to learn more about the initiative at [www.fashionforgood.com](http://www.fashionforgood.com).

OPPORTUNITY 2:  
BUILD A STRONG,  
RELEVANT BRAND  
BY CONTRIBUTING A  
POSITIVE  
IMPACT ON  
SOCIETY

More and more, global companies are being called upon to address the world's most pressing social and environmental challenges. Like any other industry, luxury must respond to these challenges in a way that also makes sense for the sector. The industry has several defining characteristics that can be used as strengths to contribute solutions. The first is luxury's tradition of giving back through philanthropy and community investment. The second is the sector's close connection to women as consumers, employees, and workers in the luxury value chain. The third is the sector's close relationship with suppliers and connection to workers in the value chain, including highly skilled artisans and workers in mining, manufacturing, agriculture, retail, and hospitality.

Luxury brands can apply these strengths in three ways: By aligning philanthropic and business strategies to support social and environmental progress, by contributing to women's empowerment, and by strengthening the livelihoods of workers in their respective value chains. In addition to the social benefits of these approaches, the business benefits are far-reaching, including strengthening the supply chain through deeper engagement with suppliers, increasing productivity and efficiency, and attracting the growing number of consumers and employees who want to connect with more sustainable brands. This all leads to increased resiliency and business models that are better positioned to meet future challenges.

## KEY RECOMMENDATIONS:

### 2.1. ALIGN PHILANTHROPIC AND BUSINESS STRATEGIES TO SUPPORT SOCIAL AND ENVIRONMENTAL PROGRESS:

Companies can support social and environmental progress further by assessing how their products and services affect society and the planet, then use complementary business and philanthropic strategies to address the issues. Companies also can use their company and charitable giving as a strong voice to influence public opinion and support policies that promote environmental sustainability and social responsibility.

### 2.2. CONTRIBUTE TO WOMEN'S EMPOWERMENT:

Luxury companies are connected closely to women as customers, employees, and workers in the supply chain. In this age of women's empowerment, companies can use the power of their brands to promote cultural change toward gender equality and develop strategies to advance women's equality in both operations and the supply chain. This includes developing initiatives to increase the number of women in leadership positions, ensuring pay equity, and supporting the economic and social empowerment of women in luxury supply chains.

### 2.3. STRENGTHEN LIVELIHOODS:

Using their deep relationships with suppliers and business partners, luxury companies can help ensure that people working in their respective value chains receive fair wages. Luxury companies also can seek to understand how new technologies are affecting the people in their value chain and support a fair transition for workers whose jobs may be eliminated. They also can provide training that gives workers skills they will need for future jobs.

## 2.1. ALIGN PHILANTHROPIC AND BUSINESS STRATEGIES TO SUPPORT SOCIAL AND ENVIRONMENTAL PROGRESS.

Luxury companies have a long tradition of giving back through philanthropy and community investment. Historically, this has been an important way for companies to reflect social commitments, demonstrate sensitivity to important global causes, and preserve arts and culture, which are so closely linked to luxury's heritage. Today, luxury companies are being asked to do more than just give back. Important stakeholders, including employees and customers, want to see brands model exemplary business practices through social and environmental responsibility. These same stakeholders demand more of corporate philanthropy; they want corporate grantmakers to be more active, engaged, and strategic to make a true difference on the world's most important issues.

This presents an opportunity for luxury companies, since so many in the sector already have established grantmaking programs. Beyond pressures from stakeholders such as customers and employees, responsible business and philanthropy can be leveraged jointly to strengthen the natural ecosystems from which luxury companies source and the communities where they operate. To begin, companies should assess how their products and services affect society and the planet. For instance, some jewelry companies have identified issues related to mining communities, while beauty companies have considered how cultivating a precious ingredient affects important ecosystems and how they can endeavor to source more sustainably.

Next, companies should envision the changes they want to create, the time required to make those changes, and the business and philanthropic resources they can contribute to achieve their vision. On the business side, these resources might include procurement spend and supply chain policies and practices. On the foundation side, these resources might be charitable contributions, local or technical expertise on an issue, and connections with other influential grantmakers. The combination of resources also depends on local laws, which may be more or less permissive of how company foundations can directly contribute to issues related to business operations.

The last step is for companies and corporate foundations to use their platforms to influence policymaking and cultural change that supports progress on these issues. On the business side, corporate affairs teams can support laws and regulations that protect people and the environment.<sup>24</sup> Luxury brands also can more strongly leverage their social and cultural influence by publicly advocating a bold point of view on the laws or cultural changes that need to happen to achieve sustainability.<sup>25</sup>

Tiffany & Co. provides a good example of these three steps in its approach to philanthropy. The Tiffany & Co. Foundation has supported conservation work for almost two decades, with a current focus on two program areas, responsible mining and coral conservation. More than 10 years ago, Tiffany became one of the first jewelers to stop using coral, a living organism that is essential to ocean ecosystems and is increasingly threatened due to climate change and human activities. Today the Foundation also leverages strategic grantmaking to promote the protection of coral reefs and their ecosystems.



Since making its first grant to support coral conservation in 2000, the Tiffany & Co. Foundation has awarded more than US\$20 million in grants for coral and marine conservation. The Foundation awards grants strategically to protect coral through the expansion of marine protected areas; research that will support future conservation; and education and awareness-raising that influences behavioral change and policy. The Foundation educates and promotes awareness of the importance of corals and underwater marine ecosystems through outreach to targeted constituencies such as the jewelry and home décor industries, consumers, and select marine-tourism providers. For example, in 2016, the Foundation supported Conservation International in the production of the virtual reality film *Valen's Reef*, about efforts to protect one of the world's most biologically diverse reef systems in Raja Ampat, Indonesia.

Importantly, Tiffany & Co. works collaboratively as a company and through its foundation, partnering with others to take collective action and raise awareness, and pooling grantmaking dollars with other funders to make a greater impact on coral and ocean conservation.<sup>26</sup>

<sup>24</sup> <https://www.bsr.org/en/our-insights/report-view/redefining-sustainable-business-management-for-a-rapidly-changing-world>

<sup>25</sup> <https://www.bsr.org/en/our-insights/report-view/redefining-sustainable-business-management-for-a-rapidly-changing-world>

<sup>26</sup> <https://www.tiffany.com/sustainability/CSRFullReport.aspx#>

## 2.2. CONTRIBUTE TO WOMEN'S EMPOWERMENT.

Luxury brands depend on women, who make up the vast majority of their consumer and employee base. In 2015, women accounted for 85 percent of luxury sales.<sup>27</sup> In fashion, the role of women is significant: Women are not only the primary consumers of fashion, they represent about 40 percent of designers<sup>28</sup> and the majority of people who are entering the industry.<sup>29</sup>

Today, luxury companies demonstrate their close relationship with women through efforts to improve various aspects of women's lives, from health to financial independence to safety from violence. Brands can build on this important work by using their unique voice to promote culture change. Companies can also advance gender equality in their operations and supply chains by increasing the number of women in leadership positions, ensuring pay equity, and supporting the economic and social empowerment of women working in supply chains.

First, luxury can use its cultural authority and influence to change mindsets about the role of women in society and at work, supporting a new narrative around women as leaders and changemakers. Brands have a range of tools to do this, including changing how women are portrayed in marketing and advertising campaigns and supporting or funding public-awareness initiatives on equality and inclusion. Swarovski did this through its "The Future is Equal" campaign to inspire public action to advance equality and create an inclusive world. Meanwhile, Dior's first female artistic director, Maria Grazia Chiuri, has made feminism a bold theme of her shows and creations, referencing powerful muses like Georgia O'Keeffe and Niki de Saint Phalle and cultural movements like the 1968 Paris protests.<sup>30</sup>

<sup>27</sup> <https://www.nytimes.com/2015/12/02/fashion/in-luxury-the-female-factor.html>

<sup>28</sup> <https://www.businessoffashion.com/community/voices/discussions/how-can-fashion-develop-more-women-leaders/a-womans-work-how-women-can-get-ahead-in-fashion>

<sup>29</sup> <https://www.businessoffashion.com/community/voices/discussions/how-can-fashion-develop-more-women-leaders/less-female-fashion-designers-more-male-designers>

<sup>30</sup> <http://www.scmp.com/magazines/style/fashion-beauty/article/2135198/dior-celebrates-womens-rights-paris-fashion-week>



## KERING, LVMH PARTNER TO IMPROVE WELL-BEING FOR FASHION MODELS.

In 2017, Kering and LVMH joined forces to launch a charter to ensure high standards of integrity, responsibility, and respect for the well-being of the models working with both houses. The charter, which goes beyond legal requirements, covers a broad set of standards. These standards include working conditions, nudity and appearance, health and care, food and drinks, transportation and accommodation, young models, hours and compensation, and complaints and audits.

To ensure the charter is being respected, the houses set up a monitoring committee comprising representatives from brands, agencies, and models. This committee will meet once a year.

In establishing the charter, executives from both companies emphasized the importance of respect and well-being for all people in the fashion industry. "Respecting the dignity of all women has always been both a personal commitment for me and a priority for Kering as a group," said Kering Chairman and CEO François-Henri Pinault. Antoine Arnault, who is the head of communication and image for LVMH, Chairman of Loro Piana, and CEO of Berluti, added that he hopes other fashion companies follow suit. "We have the responsibility of building new standards for fashion and we hope to be followed by other players in our sector," he said.



Luxury brands also have a significant opportunity to advance women in their own operations and supply chains. One way they can do this is by ensuring that women are paid equally and that they are well-represented in management and leadership positions, including in highly visible and influential creative director roles. The fashion industry provides an illustrative example: While the rate of women entering fashion outpaces men, the representation of women in top positions still lags. According to a 2015 survey of 50 major fashion brands, only 14 percent were run by women,<sup>31</sup> and most fashion houses are still led by male designers.<sup>32</sup> Another 2015 study found that, on average, women comprise only 25 percent of board directors at fashion and luxury companies.<sup>33</sup> Recently, a new British law requiring companies to disclose gender pay data revealed that fashion and beauty brands were among the worst offenders in paying men more than women.<sup>34</sup>

Several brands are taking steps to increase gender equality in leadership positions. Kering is committed to empowering women and has clear targets to ensure gender parity at all levels and salary equality in all functions by 2025. Already 7 out of 11 of Kering's board members are women, which is a greater percentage than other luxury companies on the CAC 40. LVMH introduced its gender diversity initiative, EllesVMH, in 2007, to support professional development and opportunities for women at every level. Over 10 years since launch, LVMH has been able to increase the percentage of women in key positions to 40 percent from 23 percent.<sup>35</sup> At De Beers, which has made a commitment to achieve gender parity in senior leadership, the company is investing in talent attraction and development, unconscious bias training, a mentoring program, and enhancements to its policies and recruitment guidelines.<sup>36</sup>

<sup>31</sup> <https://www.businessoffashion.com/community/voices/discussions/how-can-fashion-develop-more-women-leaders/less-female-fashion-designers-more-male-designers>

<sup>32</sup> <https://www.businessoffashion.com/community/voices/discussions/how-can-fashion-develop-more-women-leaders/a-womans-work-how-women-can-get-ahead-in-fashion>

<sup>33</sup> <https://www.nytimes.com/2015/12/02/fashion/in-luxury-the-female-factor.html>

<sup>34</sup> <https://www.nytimes.com/2018/04/05/fashion/uk-fashion-companies-gender-pay-gap.html>

<sup>35</sup> <https://r.lvmh-static.com/uploads/2015/01/ellesvmh-reasonwhy-en.pdf>

<sup>36</sup> <https://www.debeersgroup.com/en/news/company-news/company-news/de-beers-group-partners-with-united-nations-to-empower-women-in.html>

These examples represent progress, but luxury brands can take their commitment to equality further by disclosing and eliminating gender pay gaps.

Lastly, luxury brands have the opportunity to support women's social and economic empowerment in their respective supply chains. Luxury supply chain workers include diverse groups of women, such as cashmere goat herders in Mongolia, diamond polishers and miners in Botswana, and factory workers in Eastern and Western Europe. Given the high concentration of women workers in luxury supply chains, brands can invest in solutions that address the challenges these workers face related to health, harassment and violence, poor worker-management relationships, lack of asset ownership, and more. Companies can invest in women through partnerships with suppliers and local organizations to tailor their approach to the local context and needs. De Beers, for example, signed a US \$3-million partnership with UN Women to empower women in its key diamond producing countries of Botswana, Canada, Namibia, and South Africa. Brands also can use a gender lens in supply chain management programs by making adjustments to raw material standards, supplier codes of conducts, audit protocols, and capacity-building programs<sup>37</sup> to recognize women's unique needs and situations.

Brands can focus efforts on key sourcing countries by striving to understand and address the unique challenges women face in those countries. In Italy, for instance, where many brands in luxury fashion source and manufacture their goods, women face deeply rooted cultural norms that can prevent them from taking on leadership positions. For instance, fewer than half of working-age Italian women are in employment and the percentage of women in top decision-making positions is relatively low, both in the public and in the private sector. Not only are these norms limiting the advancement of women, they are limiting the future growth of the luxury industry. Many of Italy's traditional, smaller suppliers face challenges to modernize their businesses and preserve their craft. By training women on craftmaking skills and encouraging more women to take the leadership reins in business, Italy's luxury companies could capture an important talent pool that can help them ensure the future of their business, while supporting women's equality in the sector.

Given that so many companies in the luxury sector depend on women, there is a prime opportunity for collaborative action to support women's empowerment across this industry. The case study in this section highlights two opportunities for collaboration through BSR.

<sup>37</sup> For more information, please see <https://www.bsr.org/en/our-insights/report-view/gender-equality-in-codes-of-conduct-guidance>

## BSR COLLABORATIVE INITIATIVES TO ADVANCE WOMEN

BSR believes one of the best ways to advance progress on women's empowerment is through industry collaboration, and the organization is using its Collaborative Initiatives platform to support this work for companies across business and for companies in the jewelry sector more specifically.

### BUSINESS ACTION FOR WOMEN

BSR launched Business Action for Women—a coalition of 14 leading companies, including Chanel, Kering, L'Oréal, Swarovski, The Hongkong and Shanghai Hotels and Tiffany & Co.—to identify opportunities to invest in women as a critical driver of success and global prosperity. The group aims to improve women's access to essential resources; challenge adverse cultural norms; and create opportunities for women to thrive in the workplace, marketplace, and communities. By sharing insights, pooling resources, and making joint commitments, these companies are scaling up the most effective solutions and aligning their work with the strongest industry initiatives.

Business Action for Women has identified three critical women's empowerment issues for business: advancing women in the supply chain, eliminating harassment and violence against women, and empowering women to lead on climate resilience. The group believes that if more companies dedicate strategies to advance women, this will pay off for women and business by expanding opportunities for innovation, new products, new services, and new markets.

### EXPLORING A JEWELRY AND WOMEN COALITION

Given that women drive demand for more than 90 percent of the world's jewelry, this sector in particular has an opportunity to embed gender equality and women's empowerment into sustainability and ethical sourcing strategies. Several large jewelers and mining companies have taken steps to do this, making commitments linked to SDG 5 on gender equality. However, most of this work is focused on increasing women's representation in executive positions. Much less attention is devoted to addressing the challenges facing women in the supply chain, particularly lower-income women involved in precarious work.

In 2017, BSR launched a project and published a white paper exploring how the jewelry sector can improve lives and economic opportunities for women in the jewelry supply chain. Together with funding partners the Ministry of Foreign Affairs of the Netherlands and Swarovski, BSR is exploring interest in a new Jewelry and Women Coalition, modeled after the Sustainable Apparel Coalition, with an explicit focus on women's empowerment in the jewelry sector. BSR would like to define a collective vision for improving conditions for women workers, and work toward that vision through industry-level collaboration to address the biggest risks and opportunities facing women in jewelry supply chains.

For more information about BSR's collaborative initiatives focused on women, contact [amohapatra@bsr.org](mailto:amohapatra@bsr.org).

## 2.3. STRENGTHEN LIVELIHOODS.

Luxury brands depend on the workers and artisans in their value chains, whether they be herders raising vicuna in Chile, leatherworkers in Italy, or staff in luxury hotels. Some of these workers and artisans can face challenges to their livelihoods, including unfair working conditions and vulnerability to climate change. While all companies have the responsibility to ensure that workers in their supply chains have dignified working conditions and wages, luxury companies' focus on quality and close relationships with suppliers means that the brands are well-placed to address these social challenges.

The sector already has a strong track record in promoting sustainable livelihoods. Many luxury companies encourage the transmission of craftsmanship to new generations and support small or financially fragile suppliers who possess the savoir-faire essential to creating exceptional products. Companies that manufacture their own products or deliver their own services can—and should—ensure quality working conditions for employees. For example, Tiffany & Co.'s vertical integration model allows it to ensure that jewelry is crafted and diamonds are cut and polished to its standards in a clean, safe, and productive workplace. The model also ensures that the process contributes to economic development along the supply chain. In its manufacturing facilities in developing countries (Botswana, Mauritius, Cambodia, Vietnam, and the Dominican Republic), Tiffany & Co. hires the vast majority of employees from the local communities, providing training opportunities and paying a living wage to its skilled workers.

Some companies, such as those in the tourism and hospitality sector, have opportunities beyond their businesses to support people in the communities where they operate. For instance, The Hongkong and Shanghai Hotels offers a five-week internship program for secondary school students from ethnic minority backgrounds in Hong Kong. These minority students, who face many barriers and steep competition to enter university, are given the chance to gain real work experience and learn about the hospitality industry as a potential future career path.

Luxury brands can build on these good practices in two ways: by proactively partnering with suppliers to ensure that all value chain workers can lead dignified lives; and by adapting responsibly to the new technologies arising in creative, manufacturing, and retail processes that may put workers at risk of losing their jobs.

In the first instance, rising inequality and demographic shifts can leave workers in luxury supply chains more vulnerable—especially women and migrant laborers or subcontractors, who are disproportionately affected by risks including low wages, bonded labor, and poor working conditions.<sup>38</sup> Migrant workers and women are more likely to take on informal or

precarious jobs that don't offer labor protections. Many of these workers don't know their rights. This is of particular risk for undocumented workers, such as the Chinese migrant communities who have been known to work in luxury fashion manufacturing in Tuscany.<sup>39</sup> Luxury brands can help address these issues by working closely with manufacturing partners to ensure they pay fair wages. Some companies have worked with experts to create sophisticated approaches to calculating a living wage that is relevant for different regions of the world. Other companies have leveraged their close relationships with suppliers to ensure better working conditions and wages.

The second aspect of strengthening livelihoods relates to how technology is affecting jobs in the luxury value chain. Here brands should consider both risks and opportunities. Opportunities include improving productivity, efficiency, and innovation. Brands also should manage risks by ensuring fair transitions for workers who may lose their jobs and training them in skills they will need for future jobs.<sup>40</sup> Companies also can create new brand narratives around craftsmanship by talking about how they are promoting strong livelihoods that integrate new technologies.



<sup>38</sup> <https://cleanclothes.org/resources/publications/italian-living-wage-report>

<sup>39</sup> <https://www.newyorker.com/magazine/2018/04/16/the-chinese-workers-who-assemble-designer-bags-in-tuscany>

<sup>40</sup> For a full discussion of actions brands can take, please see [https://www.bsr.org/reports/BSR\\_Automation\\_Sustainable\\_Jobs\\_Business\\_Transition.pdf](https://www.bsr.org/reports/BSR_Automation_Sustainable_Jobs_Business_Transition.pdf)

# OPPORTUNITY 3: BUILD TRUST BY STRONGLY ARTICULATING VALUE TO ALL STAKEHOLDERS

27

BSR  
OPPORTUNITY 3: STRONGLY ARTICULATE  
VALUE TO ALL STAKEHOLDERS

As with any business, luxury brands can and should take considered strategies and try to engage with all of their stakeholders, such as employees, civil society, regulators, NGOs, etc. Historically, the luxury sector has been reticent about doing so, taking a position where communication was focused almost exclusively on product and image. In light of the macro global trends cited throughout this report, luxury brands need to re-think this strategy and set a new standard of transparency with their key stakeholders as outlined below.

Although all stakeholder groups are important beneficiaries of open and transparent communications from luxury brands, the recommendations below focus on two stakeholder groups in particular—investors and consumers—due to luxury's unique positioning vis-à-vis these groups relative to their non-luxury counterparts. For investors, luxury brands traditionally have maintained a long-term view to value creation, steeped in their heritage and craftsmanship; they now can build on this practice to share with investors how they are creating resilient brands. For consumers, luxury brands always have placed customers at the heart of their product and service offerings, positioning them well to create a new narrative about environmental and social practices and progress. When done in partnership with brand and creative teams, luxury brands can stay true to their image while also incorporating rising consumer expectations on well-being for people and planet.

## KEY RECOMMENDATIONS:

### 3.1. PREPARE FOR MORE TRANSPARENCY:

As consumers and other stakeholders demand more transparency, and as technology makes transparency inevitable, luxury companies can set a new standard of transparency by providing more details on how their business practices affect the environment and local communities. They can build trust by harmonizing high standards of best practice and creating frameworks that show verifiable progress over time to meet their commitments to reduce negative impacts and create positive outcomes for nature and society across their value chains.

### 3.2. BETTER ASSERT LONG-TERM VALUE CREATION STRATEGIES WITH INVESTORS:

Luxury brands have an important opportunity to capture the attention of a growing number of shareholders who are interested in sustainability and looking to invest in companies that create long-term value. To do this, luxury brands first must build a resilient business narrative that defines how each of them uses social and environmental sustainability to fuel growth, drive innovation, and strengthen brand equity as they demonstrate environmental and social performance and best practices. The next step is to engage investors on those visions by reaching out to them proactively through webinars, roadshows, targeted communications, and sustainability investor rankings.

### 3.3. ENGAGE CONSUMERS ON SUSTAINABILITY:

Luxury brands can take advantage of close relationships with consumers to engage them more deeply on the new value proposition for luxury—one that fully integrates sustainability. There are two ways companies can do this: First, companies can ensure that their products embody sustainability through materials, design, and potential for long life. Second, companies can create a new narrative around products and commitments that clearly communicates sustainability is at the heart of modern luxury.

### 3.1. PREPARE FOR MORE TRANSPARENCY.

Luxury brands have reached a watershed moment when it comes to communicating their environmental and social commitments and practices. Indeed, a number of companies already have increased their transparency to external stakeholders through sustainability reporting. For instance, Kering's ambitious Environmental Profit & Loss accounting covers the group's impacts in terms of its own operations and the impacts created across Kering's entire supply chain. Other companies have enhanced consumer communications by sharing their product commitments, such as De Beers Forevermark sourcing commitments, or by taking a stand on social issues, such as Gucci's advocacy for gun control. This has begun to open up a sector that traditionally has been more opaque and protective of what goes into the "luxury dream."

Indeed, the world around luxury brands has changed, with rising expectations from stakeholders for greater transparency—particularly on environmental and social standards and practices across supply chains. These demands—combined with technologies such as blockchain,<sup>41</sup> increasing benchmarking and ranking by NGOs, enhanced ESG demands from investors, and the rise of advocacy groups—are making more transparency inevitable. Additionally, whereas sustainability reporting so far has been voluntary, with content choices lying at the discretion of companies themselves, there is an increasing emphasis on ensuring companies report on defined key practices and commitments through regulation such as the U.S. Dodd Frank Act and France's 2017 law requiring companies of a certain size to report on environmental and social performance.<sup>42</sup> Luxury companies no longer can afford to be opaque, which stakeholders may perceive as disengagement or lack of action. Rather, brands can use transparency to engage key stakeholders and shine a light on the industry's strengths and good practices, real challenges, and opportunities for improvement.

Companies across industries already are doing this. Several mainstream fashion brands are beginning to map and disclose suppliers in the top tiers of their supply chains.<sup>43</sup> Supply chain mapping is the first and essential step companies can take internally to allow them to report externally on key actions. Other companies are using pollution maps to identify where their biggest impacts lie. In the beauty sector, companies are disclosing ingredients lists, and civil society organizations are publishing searchable online guides that make it easy for consumers to check the safety and environmental impact of ingredients. The dramatic increase in start-up technologies and platforms focused on verifying the traceability of materials through supply chains,

such as the Stockholm Environment Institute's Trase project, is evidence of the growing desire for clarity on where and how things are made and sourced, to, in turn, have visibility to promote best practices and sourcing guidelines.

To establish themselves as leaders, luxury companies should report not only on commitment and intention, but also on impact and practice. To do this, companies should use a framework that shows its verifiable progress over time to reduce impacts and create positive outcomes. Examples of this kind of reporting are found in Kering's Environmental Profit & Loss accounting and other non-luxury companies' reporting on natural capital. In addition to working on their own impact assessments, supply chains, and communication strategies autonomously, luxury companies also can come together to harmonize standards and identify and implement best practices, which helps to move forward the sector as a whole. An example of this is ReLI where brands have collaborated on defining animal sourcing principles and certain animal welfare standards. When brands provide transparency, it also provides guidance for less mature brands to follow the lead and move up the maturity curve of sustainability practices, such as improved sourcing and manufacturing processes.

In sum, luxury companies have a great opportunity to build trust and deep fidelity across their constituency groups by providing more details on how their business practices affect the environment and local communities. Such transparency can help build employee motivation and loyalty, satisfy consumer demands for information related to sustainability practices, and reduce risks associated with civil organizations such as advocacy groups because a dialogue has already been created proactively. Chanel represents a luxury company that recently decided to embrace transparency, publishing its first "Report to Society" detailing its perspective and performance related to sustainability, alongside its first publication of full-year earnings.<sup>44</sup>

<sup>41</sup> <https://www.bsr.org/en/our-insights/blog-view/we-need-to-talk-about-blockchain-together>

<sup>42</sup> Anne-Gwenn Alexandre, published in *Droit de l'environnement* (April 2018), entitled "Reporting RSE, le positionnement du secteur du luxe et de la mode sur les aspects environnementaux".

<sup>43</sup> <https://www.greenbiz.com/article/supply-chain-traceability-steps-level-gap-target-others-map>

<sup>44</sup> [http://services.chanel.com/i18n/en\\_US/pdf/Chanel\\_CSR\\_0305\\_Proof\\_180620\\_for\\_web.pdf](http://services.chanel.com/i18n/en_US/pdf/Chanel_CSR_0305_Proof_180620_for_web.pdf)

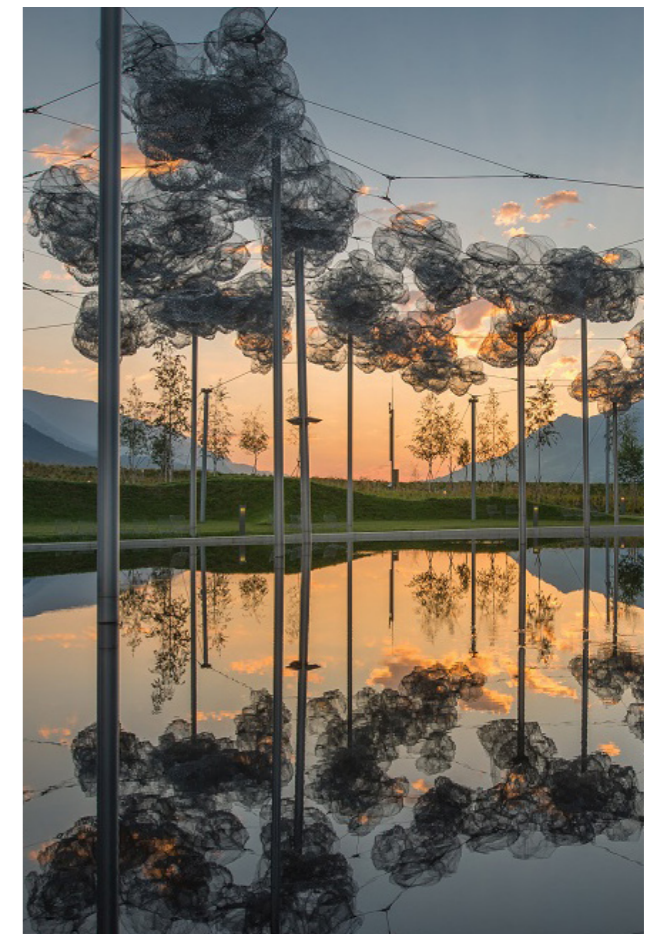
### 3.2. BETTER ASSERT LONG- TERM VALUE CREATION STRATEGIES WITH INVESTORS.

A growing number of shareholders have a clear interest in sustainability and long-term value creation. Luxury brands have a natural legitimacy in this area because they historically have maintained a long-term vision to preserve brand equity, building on their heritage and history. Companies can attract shareholders with longer-term and more sustainable agendas by creating resilient business narratives and engaging investors on their visions.<sup>45</sup> This approach moves beyond providing responses to ESG ratings and rankings, demonstrating to investors that each individual company is building resilience in the context of volatility and the big global challenges discussed in this paper.

The first step is to create a resilient business narrative that defines a better future as a sustainable one. Brands build this kind of story by incorporating sustainability into core business strategies, as Baume & Mercier has done with its new eco watch line, described earlier. These companies embrace products and services as sustainability solutions. They use sustainability as a strategic lever for innovation and risk management. Luxury brands could, for example, demonstrate how they are maintaining supply chain security for climate-affected precious raw materials 20 years from now, how they are preparing for forthcoming environmental regulations or how they are keeping up with competition in terms of more efficient production practices. Some companies might demonstrate how they are reinventing their business models to address sustainability challenges through circular economy approaches, such as partnering with up-and-coming "recommerce" sites as discussed above.

The next step is for companies to use these narratives proactively to engage investors in their respective visions for resilient business. This approach combats the constraints instituted by investors who only focus on the short term. Using their stories about long-term value creation, companies can reach out to investors through webinars, roadshows, or other communications targeted at specific analysts. Proactive communications can be more effective than reactive responses to questionnaires and related reports that require a large amount of time and resources. This approach also allows the brands to "own" their narratives. Over time, companies should prioritize communications with the asset managers that hold the companies' shares and the longer-term investors who share company interests in good governance and long-term value creation.

Tiffany & Co. engages investors directly in its resilient business narrative by including language in its annual report about what the company calls brand stewardship: "The actions taken by management to maintain, in the minds of consumers, strong associations between the Tiffany & Co. brand and product quality, craftsmanship, luxury, the highest levels of customer service, compelling store design and product display, and responsible product sourcing practices." In this definition, Tiffany underscores its values of responsibility and quality as core to the luxury experience. The company makes a commitment to sustainability, even as it acknowledges the tension between short- and long-term goals: "Management must balance expectations for annual earnings growth and cash flow generation with its focus on brand stewardship and sustainable growth."<sup>46</sup>



<sup>45</sup> <https://www.bsr.org/en/our-insights/report-view/redefining-sustainable-business-management-for-a-rapidly-changing-world>

<sup>46</sup> <http://investor.tiffany.com/static-files/6b06ec33-3f12-4f0f-a908-b90dbc2db82a>

### 3.3. ENGAGE CONSUMERS ON SUSTAINABILITY.

The luxury sector is known for its customer-centric approach, which is apparent in its highly personalized service, customized offerings, and the feeling of distinction or specialness that luxury brands confer to consumers. Despite this, luxury brands today face new challenges staying relevant and desirable in the minds of consumers. An IPSOS and Nelly Rodi study of 1,000 female luxury customers in France, the UK, the U.S., and China revealed two trends that may pose a threat to luxury brands: the emergence of “middle” luxury brands that feel more accessible, and the “millennialization” of customers who are more tech savvy and who want to associate with brands that are meaningful to them. As a result, more customers say that traditional luxury brands often miss the mark.

Luxury companies can respond to these trends by engaging consumers more deeply on the new value proposition for luxury—one that fully integrates sustainability. While a handful of luxury brands have integrated environmental and social issues into consumer communications, it is still rare for luxury companies to do this. This is due to a few factors. For starters, luxury executives have felt reticent about communicating too boldly on sustainability, fearing accusations of greenwashing or concerns over not meeting consumer expectations of robust practices. Second, until fairly recently, influencers and celebrities weren't talking about sustainability, and many luxury companies followed their lead, not wanting to burst the “luxury dream” with discussions of environmental and social problems.

This is changing. Cultural influencers such as Emma Watson, Amber Valetta, Lily Cole, and Leonardo DiCaprio increasingly are vocal about social and environmental causes. Many affluent consumers see sustainability as part of an appealing way of life centered around personal affirmation and well-being. Even fashion and high-end lifestyle magazines have had a sort of socially conscious awakening. It's not uncommon for Vogue to print stories about sustainable fashion and ethical brands, and InStyle magazine editor Laura Brown is famously outspoken about issues ranging from women's equality to immigration to gun control. In the August 2018 issue, InStyle magazine features a cover story on “Badass Women” who are defying traditional gender stereotypes and advancing progress on important social and environmental issues.<sup>47</sup>

For luxury brands, enhanced communications on

sustainability may or may not drive consumer purchasing behavior, but it can help build a foundation of trust with consumers who want to spend their money with companies that have strong practices and share their social and environmental values.<sup>48</sup> It can also encourage dialogue and establish a sense of community, where there is more openness between the company and the consumer. Today's luxury consumers want to feel part of the brand's future. They want companies to listen to their opinions and feedback and respond to or implement their suggestions. As the Business of Fashion put it recently, “Consumers want to be part of the conversation. Enlightened brands will let them in.”<sup>49</sup>

For luxury brands to speak in the right way about sustainability, they can neither be too quiet nor too brash. Rather, they can consider how to bring sustainability more squarely into the brand's creative space (i.e. products and communications), then create a new narrative around products and commitments that clearly communicates sustainability is at the heart of modern luxury. What is meant by bringing sustainability into a brand's creative space? A pre-requisite involves companies directly involving brand and creative teams in both the substance and the marketing of sustainability. For instance, companies can invest in internal workshops that build the sustainability capacity of their design or product development teams. They also can set up a materials library that includes more environmentally friendly options and they can train designers and developers on circular principles, including enabling products to live “multiple lives.”

Brands can take this a step further by giving designers some control over what constitutes sustainability and letting them decide methods to embed sustainability into their work. Some companies have done this by having designers lead or co-create sustainability programs and tools. This presents sustainability as a design opportunity rather than a perceived constraint. Brands also can foster co-creation between creative and sustainability teams by having the teams sit together, as they do at Selfridges' offices.

<sup>47</sup> <http://www.instyle.com/tag/badass-women>

<sup>48</sup> <https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/consumer-business/deloitte-uk-young-luxury-shopper-2017.pdf>

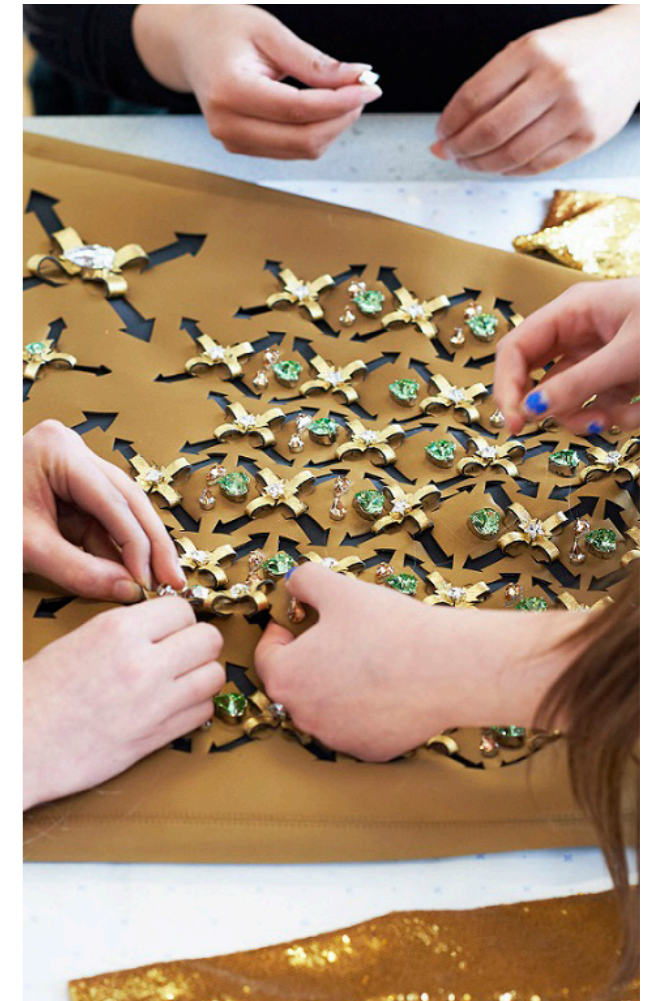
<sup>49</sup> “The Business of Beauty,” Special Report from The Business of Fashion, May 2018

Once brand and creative teams have helped craft the sustainability attributes of products and services, they can help ensure that sustainability communications speak using the brand's voice. For example, Gucci's new Equilibrium website discusses the brand's mission to “bring positive change to secure our collective future”<sup>50</sup> using the brand's codes and aesthetics and accessible language for an interested audience. One way to strengthen this approach in the future is to ensure that discussions on environmental and social commitments not only have a dedicated website, but also feature in the places where consumers spend a lot of time, such as e-commerce websites, in-store, and on social media.<sup>51</sup>

In another example, Guerlain, which incorporates sustainability into its sourcing practices, uses the Ecocert label to ensure that customers know about the company's commitment to biodiversity. The company worked with Ecocert to create the “Biodiversity and Climate Commitment” label and became the first perfume and cosmetics house to use it.<sup>52</sup> “Too many companies are pretending to do something and don't, so we want evidence of what we are doing,” Guerlain CEO Laurent Boillot told Forbes. “There is total transparency. It's a competitive advantage: It's good for the product, it's good for the planet, and it's good for the business.”

Regardless of whether they are explicit or subtle, there is a big opportunity for brands to put sustainability at the heart of a new narrative about modern luxury, making the narrative relevant and engaging for consumers. To do this, some companies have tried to elicit an emotional connection by inviting consumers to participate in the story.<sup>53</sup> Hermès invited consumer participation in a unique way at its HermèsMatic pop-up store. The store brought sustainability to life by offering clients a complementary, fun, and original way to extend the life of their iconic silk scarves by dyeing them in blue or fuchsia.<sup>54</sup> Other brands use consumer insights to understand what matters to their clients and how to position sustainability information. For instance, Selfridges found that consumers appreciate information on how to make better purchases, but they don't like preachy messages. In its “Buying Better” labeling initiative, Selfridges uses positive, simple language like “problem” and “solutions” to help consumers make better choices in categories such as cotton and denim. Another recommendation is to keep primary messages focused on the benefits of the brand, the product, or the service, and use sustainability information in secondary messages to add value.<sup>55</sup>

As luxury brands increase communication around sustainability in the future, it will be important for companies to use a common language and similar metrics so that consumers understand messages and can make better choices.<sup>56</sup> Luxury can draw inspiration from the Sustainable Apparel Coalition's ambition to display information about the environmental impact of clothes to consumers in a consistent way across the sector.



<sup>50</sup> <http://equilibrium.gucci.com/>

<sup>51</sup> Interview with Alex McIntosh, Creative Director, Create Sustain

<sup>52</sup> [https://www.guerlain.com/sites/default/files/pdf/RA\\_DD\\_Guerlain\\_UK.pdf](https://www.guerlain.com/sites/default/files/pdf/RA_DD_Guerlain_UK.pdf)

<sup>53</sup> <https://www.bsr.org/en/our-insights/report-view/big-brands-big-impact-a-marketers-guide-to-behavior-change>

<sup>54</sup> <http://www.glamourparis.com/mode/news/articles/le-lavomatique-hermes-debarque-a-paris-en-juin/52685>

<sup>55</sup> <https://www.bsr.org/en/our-insights/report-view/big-brands-big-impact-a-marketers-guide-to-behavior-change>

<sup>56</sup> Interview with Alex McIntosh, Creative Director, Create Sustain



## CONCLUSION

As luxury executives consider the changes disrupting the future of this sector, sustainability provides a path to ensure growth, drive innovation, and strengthen brand equity in a context of rapid change. As highlighted in this paper, luxury businesses can seize three big opportunities: engage in the circular economy, contribute a positive impact on society, and boldly articulate the value of luxury to all stakeholders. These opportunities allow luxury companies to preserve the unique characteristics of the sector, even as they promote a vision of a just and sustainable future in which luxury brands create value.

This report provides a number of examples of individual companies taking action, and many of the recommendations focus on actions at the company level. While it's important for all companies to act individually, much more progress will be made if luxury companies think globally and move forward together. A collective effort and voice are much stronger than anything one company can do on its own. Already, there are signs of this happening, with luxury brands working together to drive systemic change, as illustrated by Kering and LVMH joining forces on the Models' Well-Being Charter and the 15 leading luxury companies that have partnered with BSR through ReLI.

It's now time for luxury companies to deepen and broaden collaboration and use their voices and influence to advocate boldly for a resilient future. By working together, luxury leaders have an opportunity to seize the moment and use this report's recommendations to help create strong, resilient businesses and a brighter future in a time of disruptive change.

# CONCLUSION

