

A close-up photograph of a person's face, focusing on the nose and lips. The person is wearing a light blue and white striped shirt with a white bow tie. A branch of cotton with several open cotton bolls is positioned on the right side of the frame, partially overlapping the person's face and the text.

Reinventing Luxury?

Ethics as Value Creation.

2017 COMMERCIAL FASHION
AND LUXURY EXPERTISE



MAZARS

TABLE OF CONTENTS

01.	FOREWORD	05
02.	INTRODUCTION	06
03.	FROM ETHICS TO ETHICAL CAPABILITIES: AN OVERVIEW OF PRACTICES	09
	1. New materials for a sustainable luxury	10
	2. Local involvement by luxury brands: a collective intangible asset?	16
	3 Exemplary working conditions and preserving expertise	20
	4. New consumer requirements	22
04.	ETHICS AND VALUE CREATION: INCENTIVES, VALUE CHAINS AND ECOSYSTEMS	27
	1. From instructing to mobilizing players	28
	2. What are the impacts on value chains?	34
	3. Strategies of firms in the luxury industry	36
05.	CONCLUSION	43
06.	ACKNOWLEDGEMENTS & REFERENCES	44
07.	GLOBAL TEAM	45



01 FOREWORD

Having seen uninterrupted growth and globalisation for nearly thirty years, the luxury sector finds itself in a world shaken by economic instability, ecological issues and ethical and moral injunctions, which are changing consumption patterns and motivations.

One-off charitable or compassionate partnerships aside, in the face of these new challenges brands are starting to act responsibly: respect for the environment, integrity, fairness and operational efficiency are the new buzzwords.

Certainly, ethical activism is gaining ground in the luxury sector and, far from damaging the image of traditional Houses, these issues are being incorporated as an opportunity to reconnect with the timeless values of luxury: expertise, skills transfer, local involvement, preserving natural resources, but above all listening to and respecting the consumer. An avant-garde generation of designers and entrepreneurs are even placing these ethical values at the centre of their designs.

A new luxury for a new world? Or more precisely, how to reconcile respect for the environment and ethical issues with value creation?

Our study aims to provide an overview depicting the dynamics now present in the industry. On an international perspective, the study is based on the practices of 112 enterprises in the industry, and seven federations covering the sectors of leather goods, fashion, jewellery, watchmaking and fur. The range of practices covers innovative materials, local involvement, working conditions and consumer requirements aiming to demonstrate the commitment of the sector's players.

While compliance with regulations or charters and labels is gradually being replaced by a strategic vision, many questions still remain unanswered: how can these practices be implemented more widely and quickly? How to stimulate further innovation and cooperation? How to support transition? Which skills and expertise need to be developed? Which impact measures can be used to assess the sector's contribution to environmental and ethical issues?

With the sector undergoing major change a world is being (re)built, and it's exciting.

INTRODUCTION

Thinking “green”, recycling, improving the sourcing of raw materials and working conditions ... the press has widely covered the actions of the luxury sector with regards to ethics. Preserving the environment, corporate social responsibility and, more generally, ethics and sustainability are now strategic priorities, perhaps in reaction to the various crises (scarcity of resources and energy, ecological, financial and confidence crises) which are proliferating. For example, the largest luxury brands in France have recently decided to create a “charter of good practices in the fashion and luxury sector” which contains guidelines for the sustainable development of the industry.

Business ethics comes down to a vast body of practices which result from principles, values and beliefs which direct the conduct of managers. This new perspective can be regarded as a search for identity, with the aim of distinguishing the right and the wrong way of behaving. This is different from morality which is the responsibility of individual conscience and is mandatory. It is far removed from the Code of Ethics which defines a body of rules specific to each profession and is mandatory by its nature. Ethics applies to multiple environments and sectors and is brought to life practically. This means it is contextual and involves the principles and consequences resulting from a firm’s activities and decisions.

The fact remains that firms are getting mobilised. Some sectors have been overtaken by “emergency ethics”. Since the early 1990s, large groups have been taking steps to make practices more respectful of the environment and social conditions to the extent that these days it has become a strategic direction, with ethics playing a major role in the value proposition aimed at customers and the general public.



The crisis of 2008 marked a new stage in the development of ethical practices. New brands have been created based on a vision of ethical luxury or as Gilles Lipovetski put it a “perfect mirror of our civilisation.”

Having become a major strategic issue, ethics is consequently a significant and even essential motivation for a growing number of firms in the luxury goods industry. But to move beyond philanthropic and image related motivations, firms must build new skills on both an individual and organisational level to change or help new practices to emerge.

Ethical issues can be used to rethink the relationship with stakeholders. But how to reconcile preserving the environment with social relations, sustainability and ethics? And how to make these practices new sources of value creation? Since the 50s, there have been four different value creation strategies.



50s - 70s

From the 50s to the 70s the luxury sector relied on the sustainability and high quality of luxury products and this remains a constant in evolving brand strategies.

90s - 2010

Between the 90s and 2010 the convergence of economic, environmental and social issues resulted in consumers and stakeholders becoming more aware and made the regional aspect of the luxury sector more specific. Value is created by linking an artisanal production model focused on top of the range products with a collaborative work model (sub-contractors, partners etc.).

70s - 90s

Between the 70s and 90s the luxury sector was conflicted, seeking to make luxury products accessible to the largest number of consumers, which stimulated the growth of counterfeiting.



The future

The period which stands before us is one where value chains are being reconfigured to develop business models characterized by new dynamics: ethical requirements, integrating the links in the value chain, collaborative approaches, short supply circuits etc. New brands are emerging, which are more committed and involved in regional projects creating a quasi-political vision on a local level. And the luxury value of large brands is also based on “meaningful production” associated with products and articles.

The interest shown by the luxury goods industry in ethical issues leads us to suggest that a new economic model is being developed. It involves innovating and valuing product sustainability, a long life cycle for the resources used or unique expertise and specific working arrangements to guarantee significant economic profitability.



03

FROM ETHICS TO ETHICAL CAPABILITIES: AN OVERVIEW OF PRACTICES

The luxury industry is displaying its ethical commitment and wants to set an ethical example in terms of social, economic and environmental responsibility. But what are the practices in the different sectors? On an international level? What are the different issues for the value chain? Based on an analysis of the practices of a hundred or so brands, the most representative assessment of practices has enabled five dimensions to emerge which provide an overview of ethical initiatives:

- **The supply of raw materials:** the luxury sector consumes scarce resources and tries to preserve the reproduction of these resources or to find alternatives and innovate in terms of the materials used;
- **The environment and the local region:** the players in the sector are linked to their manufacturing region;
- **The work force and social conditions:** whether the workforce is highly qualified or activities on the value chain involve extensive division of labour, paying attention to working conditions, valuing trades and training are paramount;
- **Respecting the consumer:** traceability or transparency with regards to product quality and manufacturing processes are of growing concern; product longevity is also a key aspect in assessing product quality and a reflection of ethical issues.

1. NEW MATERIALS FOR A SUSTAINABLE LUXURY: A INDUSTRY IN SEARCH OF INNOVATION

The supply of raw materials comes under intensive scrutiny: firms in the luxury goods industry focus on product quality in brand positioning, but also on whether the choice of raw materials has an environmental impact. Unlike “fast fashion”, which is fast and easily copyable, luxury goods manufacturers pay greater attention to the quality of the raw materials, and seek to innovate to develop new products, which affirm their identity. The main raw materials used in the luxury goods industry are leather, fur, natural fibres and precious stones and metals.

The supply of certain materials is becoming more complex. At the same time, the “sustainable” status of materials calls the supply chain into question. For some sectors such as jewellery, fur, and leather goods - and, to a lesser extent, wool - characterised by the scarcity or the controversial nature of materials, securing a sustainable and ethical supply is a major issue. For fur, leather and wool, for example, this means ensuring that breeding and trapping conditions respect animal welfare.

While traditional materials and expertise are still the essence of luxury, the industry is evolving and making more room for innovative materials which stimulate creativity and are in tune with social, economic and environmental responsibility. These days the producers using these new materials, particularly in the case of leather or synthetic fur, are still mainly British: Shrimp, Stella McCartney and Beyond Skin. French brands seem to phase out traditional materials more slowly, despite pioneers such as Tissavel, formerly a major player in the production of synthetic fur, which closed in October 2013.

The complexity of adopting these new materials and expertise is linked to their significant impact on traditional value chains.

Ranked according to their growing impact, three families of practices were identified which meet different requirements: recycled materials, the production of organic and biodegradable materials and the creation of new materials (including synthetic). Whereas the use of recycled or organic materials is still compatible with the production of traditional products, synthetic materials sometimes radically change the nature of the finished product.

This practice constitutes effective renewal for the luxury goods industry and some brands are already completely rethinking their processes to launch themselves into this concept. In 2009 Yves Saint-Laurent launched the “New vintage” collection created from recycled fabrics from previous seasons. And in 2010 Hermes developed the “Petit h” collection (accessories, children’s toys etc.), a line manufactured from rejects from the brand’s workshops (stained material, cracked porcelain etc.).

These new products generate growing income and are designed to attract new customers by playing on conservation.

In addition, changing practices that are more than simply a response to waste, provide a basis for experiments to develop a circular economy. For consumers, recycling helps to respond to growing concern for animal welfare by limiting the ecological footprint of breeding farms and farms growing natural fibres.

Leather

Leather is used in leather goods and also in glove making, footwear and clothing. Globally, between 1999 and 2001, approximately 1,500 million head of cattle produced some 5.7 million tonnes.



Fur

Unlike leather, fur comes from specific breeding farms. Each year, the sector uses the fur of 56 million animals of which 85% comes from these farms.

Natural fibres

Annual production of natural fibres (cotton, silk, wool etc.) amounts to 30 million tonnes worldwide, a significant part of which is used by the textile industry. This production generates a significant ecological footprint: agricultural pollution, discharges from textile processing and water consumption.



Diamonds

Since the crisis of 2008, diamonds have become a safe investment for investors. The global market was estimated at 55 billion euros in 2012. Demand will double by 2020, according to specialists.

• FROM RECYCLING MATERIALS TO UPCYCLING: “CREATING LUXURY FROM OLD MATERIALS”

Recycling is not new, but the luxury goods industry has been able to move beyond the apparent contradiction between luxury and sustainable development. Valuable materials, such as gold have always been recovered; but now techniques are evolving to involve different sectors. Recycling can also be used to limit the environmental impact of luxury products which are destined to be destroyed.

Recycling reduces waste, but upcycling goes even further with a higher standard of recycling to give a product a new lease of life. In practical terms, the practice of upcycling consists of upgrading waste to create superior quality objects.

“ The aim is to move beyond simple functionality for clothing or accessories, and give them a magical power, like pre-modern totems, by giving them a long history. This is the significance of luxury, which can be reduced to an archaic form, in the Greek sense of the term: arch, which means fundamental. It remagnifies the world ”.

Michel Maffesoli

1. Recovering and reusing waste from the manufacturing process to make accessories.

The petit h initiative from Hermès reuses waste leather and silk for its designs.

Examples of the materials concerned:

Any type of material

Examples of players

Petit H - Hermès, Loewe Madrid, (LVMH Group)



2. Supply from stocks of unused fur.

Harricana supplies itself from immense existing stocks and saves 650,000 animals.

Examples of the materials concerned:

Furs, fabrics

Examples of players

Harricana



3. Reusing materials from end-of-life products.

The New Vintage collection from Yves Saint Laurent used textiles made from woven cotton and recycled plastic bags.

Examples of the materials concerned:

Bottles, orphan socks, recycled thread, plastic bags

Examples of players

Linda Loudermilk, Yves Saint Laurent
- New Vintage collection, Carmina Campus



4. Recovering materials, often gold, by re-buying products from customers.

Offer to recycle gold from old jewellery to use in ordered watch cases or offer discounts depending on the amount recycled.

Examples of the materials concerned:

Gold

Examples of players

Stowa



5. Recovering worn or defective clothing along with unlikely finished products from different industries.

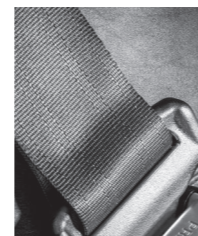
Tauko recovers linen that hotels can no longer use for their guests. 959 uses seatbelts to make its bags.

Examples of the materials concerned:

Seatbelts, jackets, linen from luxury hotels.

Examples of players

Aura Que, Ultrashoes, Martin Margiela,
Reet Aus, Linda, Vintage for a Cause



6. Recycling skins from fish industry waste.

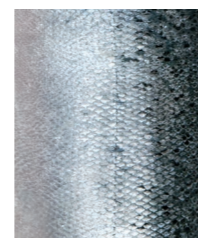
One of the pioneers, Stiven Kerestegian, uses the skins of Chilean salmon to make top of the range leather.

Examples of the materials concerned:

Salmon skins

Examples of players

Atlanticleather, Stiven Kerestegian



• ORGANIC AND BIODEGRADABLE MATERIALS FOR SUSTAINABLE LUXURY

Above and beyond recycling which extends to different sectors in the industry, the luxury goods industry is moving towards environmentally friendly activities.

Consumers are increasingly aware of issues regarding toxic materials, discharges and pollution. The luxury goods industry's heightened awareness of reputation has generated a significant increase in the demand for organic and biodegradable leathers, furs and natural fibres.

While organic materials are well established in fashion, they have become de rigueur in the luxury sector. The major brands in the industry now have their collections in organic cotton and some even highlight this with Global Organic Textile Standard (GOTS) certification.

Firms in the textile and clothing sector, which are directly involved are taking action in several ways: the supply of natural materials, growing natural fibres, transforming and processing natural fibres, such as wool and silk. For leather and fur, the preferred actions concern processing hides and tanning in particular: eco-friendly tanning uses natural tannins, such as bark tannins that do not contain heavy metals.

Using these materials is also a strategic choice: these organic and non-toxic materials are good for the health of consumers (vegetable tanning is a guarantee of excellence and natural processing) and opportunities for value creation. In fact, increasingly there are also designs related to the artistic and playful side of original natural materials.

“ In our industry, there is no future without sustainable development [...] 13% of buyers have sustainable development as one of their purchasing criteria. That may not seem very high but it is a lot if you consider that two years ago the figure was 2% ”.

Carlo Capasa
president of Chamber of Italian Fashion

However, at this stage it is still difficult to measure the scope of these commitments sector wide (few firms have followed the example of Kering and developed an Environmental P&L). In line with this, a model of the circular and sharing economy is gradually taking shape making it necessary to think and operate in new ways. The brands which are likely to prosper are those that know how to adapt.

Practices

Growing organic

cotton, flax and hemp: using natural compost instead of chemical fertilisers and pesticides, not using GMOs, water consumption for organic cotton reduced by half compared to conventional cotton.

Examples of the materials concerned:
All natural fibres: cotton, linen, hemp etc.

Cotton fibre bleached in hydrogen peroxide instead of chlorine.

instead of chlorine.

Examples of the materials concerned:
Cotton

Using dyes made without heavy metals or other carcinogenic substances.

Examples of the materials concerned:
Leather, natural fibres

Eco-friendly tanning

using natural tannins, such as bark tannins which do not contain heavy metals.

Examples of the materials concerned:
Leather

Using bioplastics

bioplastics (made from renewable resources such as corn, sweet potato, wheat, sugar cane or castor oil) and/or biodegradable plastics.

Examples of the materials concerned:
Plastic

Using new natural materials

Examples of the materials concerned:
bamboo, soybeans, algae, cork

Examples of players

Veja

Ultrashoes

Marc Jacobs - Save My Pole line

Laboratorio Lavgon

Acting Together

PURE

Camilla Norrback, Osklen,

Stoffrausch

Salvatore Ferragamo

- "Eco Ferragamo"
(small range of five bags)

Company6

Stella McCartney

Gucci, Kering

Linda Loudermilk, Aura Que



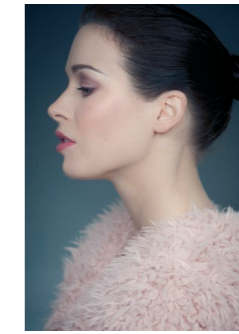
• FROM SYNTHETIC TO HIGH TECH: MATERIALS FOR REINVENTING LUXURY

To overcome the scarcity of resources, reduce costs and / or reduce the ecological footprint, the luxury goods industry is developing the use of synthetic materials.

Substituting traditional materials with synthetic or artificial materials responds to the issue of sustainability, particularly for clothing, fur, leather and jewellery. Fur and leather are affected by the growing concern for animal welfare, veganism and the ecological footprint of animal breeding. Jewellery is faced with a scarcity of precious stones, whereby extraction methods have become even more complex and often harmful to the environment. Added to this are concerns about the ethical and fair supply of stones.

Replacing the extraction of diamonds with the production of synthetic stones induces externalities, and has minimal environmental and social impacts compared to those of mining. In addition, there is no ambiguity whatsoever regarding the provenance of the gems. However, the reluctance of consumers, towards the idea of synthetic diamonds or artificial leather or fur, may constitute a major limitation for these types of practices. Consumers are attached to natural materials and traditional expertise.

Synthetic materials have nevertheless seen continued development and they drive innovation whether this relates to design or production methods. In clothing we can cite: colour, texture, resistance and cut, but also drying, wrinkling, stain resistance and intelligent textiles.



Using fake fur.

The industry is capable of producing luxurious and realistic fake fur from "kanekalon," a fibre used as early as 1957 to replace the asbestos in fire-fighters' uniforms.

Materials affected by synthetic substitution:
Fur

Players:
Shrimps

Using synthetic stones.

The industry is capable of synthesising real diamonds, some of which are extremely rare in nature (red diamonds).

Materials affected by synthetic substitution:
Diamonds

Players:
General Electric, De Beers, ASAE, Sumitomo Electric Industries, Diamond Foundry



Using vegan leather.

Eco Alter Nappa, made from polyester and polyurethane, has a coating made with over 50% vegetable oil, which is a renewable natural resource.

Materials affected by synthetic substitution:
Leather

Players:
Stella McCartney, Beyond Skin

Using synthetic fibres from natural sources.

Generally made from the industry's 'surplus', they are produced from natural resources but using chemical processes. These cellulose materials include bamboo, soybeans, algae, Eucalyptus pulp (Lyocell), etc. or milk fibre. The start-up Qmilch produces milk fibre which is made with no added chemicals, low energy consumption and is fully compostable. The T-shirts, made from a protein called casein, are degradable in only six weeks, without being damaged by the washing machine. But above all, casein produced for purposes of clothing is 100% from recycled sources: substandard batches from dairies, out of date milk from large retailers, cows which have just calved.

Materials affected by synthetic substitution:
Natural fibres

Players:
Start-ups: Qmilch





2. LOCAL INVOLVEMENT BY LUXURY BRANDS: A COLLECTIVE INTANGIBLE ASSET?

The presence of luxury brands in certain regions helps to define their identity. The local region is often the cradle of expertise. On the one hand, many in the sector have developed regional ecosystems using local partners and / or sub-contractors. On the other hand, for nearly twenty years or so, luxury brands have been committed to limiting the negative risks in the regions where they operate at the very least.

Regions therefore compete to be attractive. The origin of luxury brands with recognised expertise contributes to creating a link with the region that can be regarded as a "collective intangible asset". Companies in the sector are seeking to respond to the expectations of their customers, but also of the various players be they sub-contractors, employees, consumers, the environment or the local region.

The luxury goods industry has benefited from the specific nature of its model based on the practices of co-designing sustainable, rare and even unique products and mobilising craftsmanship which adds to the value of each article. Machines are there to be used by craftsmen and not the other way round, this is how the production of luxury goods differs from mass production. The development of the luxury goods industry is not based on cheap labour or mass production. Value comes in part from local involvement, i.e. establishing a system of stakeholders who can guarantee product traceability and manufacturing quality.

Therefore, brands have to respond to a double challenge. Firstly, the challenge to preserve the local region, which takes on a special importance in the luxury goods industry for the sake of consistency with the values they claim to hold. Secondly, an opportunity to recognise the value of the local region as a lever for value creation specific to luxury.

• FROM CONSERVATION OF THE LOCAL REGION...

Those involved in the industry have been able to reduce their production costs through the controlled consumption of materials and energy, the vital resource being expertise and experience.

Among the practices developed, firms have mobilised themselves to control discharges and emissions.

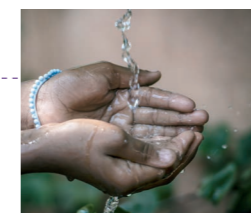


Responsible mining:

Developing monitoring programmes for pollution and energy efficiency, recycling various materials used during the process or preserving the ecosystem by replacing the top layer of soil and planting it as soon as the operation is complete.

Materials concerned
Diamonds, gold and other precious stones and metals

Examples of players
Tiffany & Co, John Hardy,
Chopard - Green Carpet collection,
Forevermark, Cartier,
members of the RJC



Managing the water used for dyeing.

Dyeing processes which do not discharge used water and pigments into the soil.

Materials concerned
Textiles, fur and leather

Examples of players
Valentino, Camilla Norrback

With a consumption of four billion tonnes per year, fashion industry processes are particularly concerned with controlling water and pollutants, as in tanning and tawing. Growing organic fibres and processing materials are the main contributors to water consumption and pollutants.



Tanning without using heavy metals.

Materials concerned
Leather, fur

Examples of players
Salvatore Ferragamo - "Eco Ferragamo"
(small range of five bags)



Optimising logistics flows.

Maritime transport as an alternative to air cargo; selecting suppliers according to geographical criteria or promoting carpooling among employees are some of the symbolic practices.

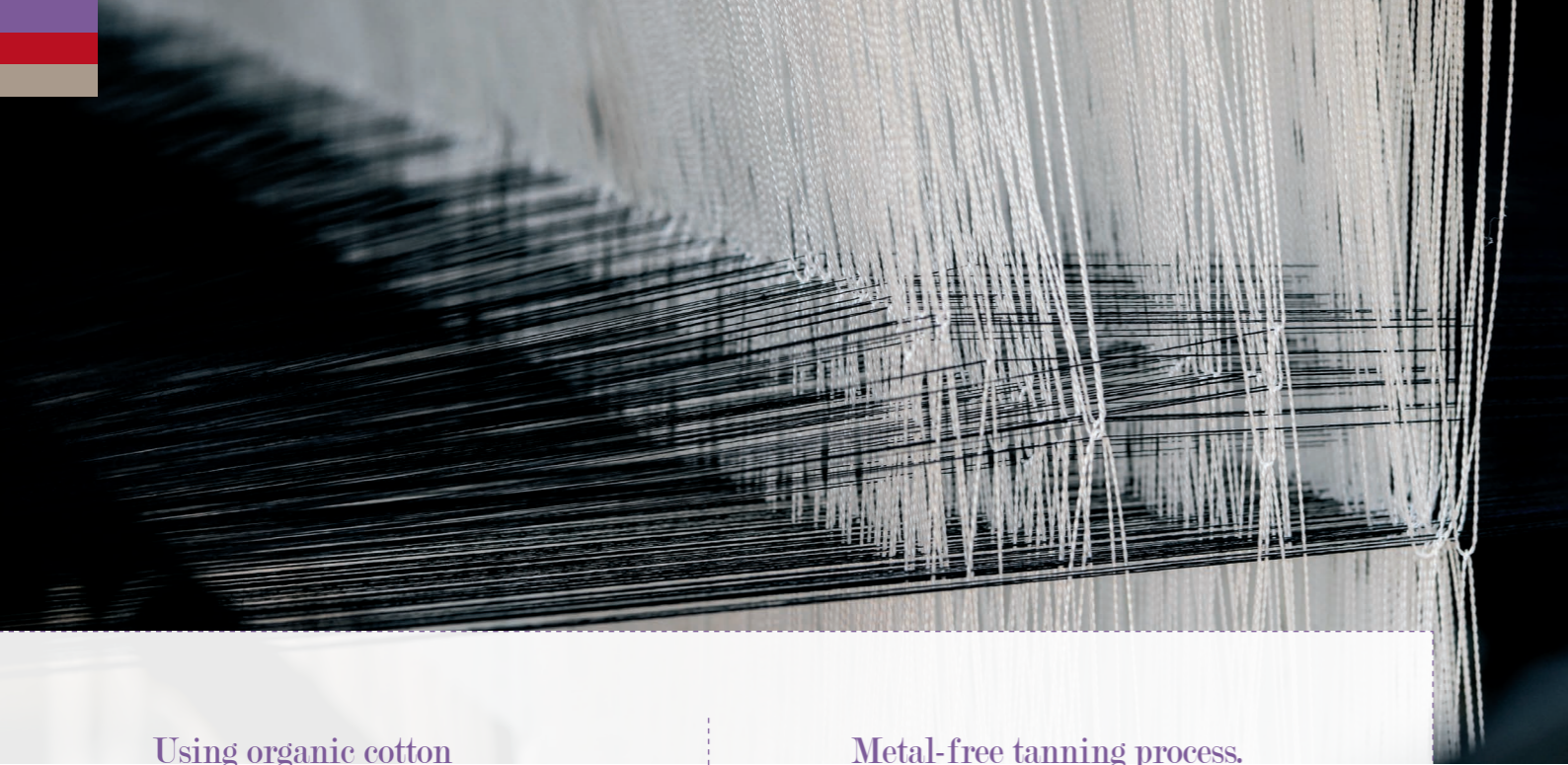
Examples of players
LVMH, Dior.



Producing carbon footprints.

LVMH, the French leader in the Carbon Disclosure Project, has modified its organisation since 2004 to reduce greenhouse gas emissions according to the sustainable development report.

Examples of players
LVMH, Kering, Armor Lux



Using organic cotton

with a footprint 80% less than conventional cotton.

Examples of players
Kering

Metal-free tanning process.

Gucci's metal-free tanning process reduces water consumption by 30%.

Examples of players
Gucci

Reducing water consumption for washing jeans.

Examples of players
Bonobo

Reducing water consumption during dyeing.

In five years Hermes has decreased the consumption of water used for dyeing its scarves by 37%.

Examples of players
Hermès

The attention given to energy savings is developing with a rapid and significant impact.

Other initiatives to promote eco-friendly packaging are widespread. In view of the number of products sold by the sector and the care taken with customer relations, packaging represents a substantial tonnage generating a significant environmental footprint. The preferred initiatives concern reducing waste and using environmentally friendly materials for packaging. Using eco-friendly packaging is one of the most common practices in the Corporate Social Responsibility (CSR) policies of those involved in the industry.

• ...TO PROMOTION OF THE LOCAL REGION THROUGH A COMBINATION OF EXPERTISE AND INNOVATION

Local regions provide the luxury sector with its traditions and expertise. Conversely, the luxury sector can be a tool for economic development in the local region. Luxury is therefore territorialised. For example, we usually associate the production of men's suits with British and Italian expertise and glove making with French craftsmen. Vitale Barberis Canonico, Loro Piana and Ermenegildo Zegna are all companies involved in suit making whose names embody the traditional expertise of transalpine craftsmen.

To promote their local involvement, brands are committing themselves to developing their historical places of production. In France, the "Living Heritage Company" label which was created in 2006 rewards businesses which have an "economic asset, consisting in particular of rare or ancestral expertise, based on the mastery of traditional or high-tech techniques and restricted to one region". But since the crisis in 2008, the relationship with local regions is changing again to adopt an ethical approach by playing a decisive role in developing the region. Several experiments, in Asia or South America, testify to the emergence of what some are now calling "New Luxury". Some players in this new luxury are setting up where expertise is still under-exploited. By providing work for local populations, they are ambassadors of an ethical and sustainable luxury for new places of production. Kim Yeshe, founder of Norlha textiles: "We discovered that there was a local market, on the Tibetan Plateau, our production site. The population has fallen in love with our creations and our company's spirit. It is not unusual to see Chinese people, interested in the ethical nature and the quality of our products, to come to the Plateau to buy our designs".

Oskar Metsavaht, founder and artistic director of the Brazilian brand Osklen, intends to fly the flag for a new luxury which is beautiful, sustainable, ethical and slow - as opposed to "fast fashion". Osklen is developing in a region which is currently in the midst of a crisis. Yet, paradoxically, it is this same crisis which led the -Brazilian population to question a dying development model. Consuming less, but consuming better, knowing the true value of what you are buying is a response to the luxury of tomorrow.



Using local resources and craftsmen.

Loewe Madrid is committed to zero kilometre manufacturing by using local raw materials and craftsmen.

Examples of players
Loewe Madrid, Norlha Textiles, Givaudan, Atelier Bartavelle

Investments in the dynamism of the local economy,

valuing the potential of domestic producers and promoting the cultural wealth of countries around the world.

Examples of players
Master & Muse – Gucci, Armo Lux, Misericordia

3. EXEMPLARY WORKING CONDITIONS AND PRESERVING EXPERTISE

Treating workers and, more generally, communities responsibly is an important issue for the luxury goods sector. There are many factors involved: developing local regions and communities, fighting discrimination, good working conditions and well-being at work, personal development, etc.

In the luxury industry these issues are particularly territorialised. Depending on the geographical area of production, brands show their commitment in two different ways:

- In poor and developing countries, priorities are more material. The emphasis is on wages: a decent wage is the first step towards development for these populations and regions. Some luxury brands are already relocating their production to the East or Asia, where there are poor working conditions and low minimum wages.
- In developed countries, there is more of a desire to value local regions and communities by preserving local expertise. Brands from countries traditionally associated with luxury goods attempt to redeploy craftsmanship and make it part of their heritage. This model refocuses production on the worker as a craftsman which, ultimately, leads to improvements in the way workers are treated. But rich countries can also have problems with working conditions: sub-contractors for luxury brands are dependent on a small number of major clients.

Industrialisation in the luxury sector causes an imbalance when it comes to sharing the value chain equitably. Fast, mass production as part of a cost reduction initiative is often incompatible with decent wages and healthy working conditions.

• CRAFTSMANSHIP AND TRAINING: SUSTAINING EXPERTISE AND DEVELOPING NEW COMPETENCES

Above and beyond the basic criteria related to wages and working conditions, brands are committed to valuing craftsmanship and trades. Craftsmanship is associated with a brand and its history: being traditionally hand-made is seen as a guarantee of quality and uniqueness. In addition, by valuing the skills of craftsmen, craftsmanship contributes to well-being at work and better living conditions.

To bear the additional costs generated by a local and non-industrial work force, brands value the specific and rich nature of intangible capital which comes from local involvement and local manufacturing. Consumers are no longer simply buying the product, they are buying its history as well. It is precisely this history and this expertise that brands can emphasise in their communications.

The Whispered Directory of Craftsmanship by Fendi, an ABC of Hermes Crafts or Chanel's Métiers d'Art shows are all different approaches to highlighting a brand's intangible assets: special features of the manufacturing processes, the provenance of raw materials, the origin of the techniques used. The intrinsic value of the product and its production is celebrated.

To sustain this type of model, brands are investing in educating and developing the skills of its workforce populations. Once again, the luxury industry is showing its interest in sustainability with regards to the value chain and ethical issues: to ensure that expertise is reproduced, brands must ensure that they offer education and training thereby preserving local craftsmanship and trades.

Improving the skills of workers contributes to the socio-cultural evolution of communities and to overall development.

These practices take place in developed countries, to safeguard traditional expertise, as well as elsewhere in the world, where access to education is unavailable to large sections of the local population. In this last case,

the interest is twofold: brands immortalise often neglected or endangered expertise in unusual and original collections; they participate in the development of local communities by importing expertise and rewarding jobs in places where the level of education offers little future.

Responsible mining

in Colombia and Peru, used in particular by Chopard in its Green Carpet collection.

Examples of players
Kering

Artisanal production model.

John Hardy defends an "artisanal approach to design" where the work of the craftsman is seen as a work of art. As for the craftsmen themselves, they get better treatment: idyllic working environment, organic food etc.

Examples of players
John Hardy, Norlha Textiles

Sourcing by meeting craftsmen all over the world.

Atelier Bartavelle makes every item in their workshops in France and goes out to meet craftsmen all over the world in India, Kenya and Peru to get inspiration for their collections.

Examples of players
Atelier Bartavelle

Training workers and transferring expertise.

Examples of players
Norlha Textiles, Myomy Do Goods, John Hardy

• VALUING DIVERSITY AND FIGHTING DISCRIMINATION

Concern for the workforce and communities is expressed through fighting discrimination, a major issue with regard to a brand's image. This concerns distribution in particular, which is the stage most on view to consumers, and is often more important than image management to become part of a deeper approach. These days brands are developing a whole host of virtuous practices to help communities on their production sites.

In fact, brands are even working locally with different communities. They help these communities by valuing their differences and reducing inequality. Access to a decent job has become a key way of taking action: for example, providing work for African women, reintegrating women who have escaped from prostitution, or hiring and rehabilitating people with disabilities are good practices which are formalised with the adoption of diversity charters. For example, the My Paper Bag collection from Myomy Do Goods is produced in India by craftsmen from the lowest castes.

Help for communities on production sites.

Access to a decent job: providing work for African women; reintegrating women released from prostitution; hiring and rehabilitating people with disabilities.

Examples of players
Yves Saint Laurent - New Vintage collection, Myomy Do Goods, LVMH, Kering

Adoption of diversity charters

and non-discrimination principles when hiring.

Examples of players
LVMH, Kering



4. NEW CONSUMER REQUIREMENTS

Consumer-related problems are becoming increasingly strategic for the luxury goods industry. There is a move away from the product-based approach, to a universe which welcomes operational excellence and the best service in the context of omni-channel distribution.

In this context, product longevity and information transparency are the criteria of choice for demanding and informed consumers who tend to favour objects whose added value goes way beyond the simple brand logo. In fact, these new requirements endorse product quality and the ethical and sustainable commitment of brands.

• CONSUMERS LOOKING FOR DURABLE GOODS

The growing concern of consumers with regards to product longevity is a move towards long term quality-based consumption: consume less, but consume better. This perspective is embodied in the Slow Fashion Movement which advocates high quality, slow, local and personalised designs as opposed to the superficiality of Fast Fashion. The Ipsos World Luxury Tracking 2016 study shows that consumers associate luxury less with fashion and accessories and seem to prefer the value of goods in the long term.

This vision is not entirely new. In luxury watchmaking, longevity is a real leitmotiv. A typical example is the slogan for the Patek Philippe Generations campaign: "You never actually own a Patek Philippe. You merely look after it for the next generation." This shows how the brand's niche is the continuity of its founding values: unequalled tradition, quality, durability and value.

At the same time, the success of vintage luxury goods shops highlights consumer interest in iconic and timeless designs, magnified and immortalised by time. Most vintage luxury clothes and accessories continue to increase in value. Recently, a study conducted by Bagshunter, an online sales platform for leather goods, confirmed that the Hermès Birkin bag is a better investment than gold or the stock exchange.

Manufacturing products with a long life

Examples of players
Patek Philippe

Luxury vintage product distributors

Examples of players
WGACA, TheRealReal, MaterialWorld

• FROM TRANSPARENCY TO TRACEABILITY: INCREASINGLY COMMITTED CONSUMERS?

Informed consumers are looking for information about their potential purchases. However information is still quite limited: product transparency and traceability is a major issue in the relationship between brands and consumers.

In fact, in addition to growing concerns regarding product quality, there are ethical and environmental concerns. In the sectors where materials are controversial, like precious stones and metals, exotic fur and leather, informed consumers pay attention to practices, and the role of social networks comes into its own with regards to these aspects.

Brands are not required by law to specify the information required to understand product quality. For example, customers can rarely read on the label of a leather jacket whether the leather is chrome or vegetable tanned. However, the type of tanning determines the quality of the leather and whether it is safe or not, as well as how it will age and how it should be cared for. With regards to brands or groups, communications about a group or a brand's policy regarding tanning are still lacking in both clarity and availability.

Transparency is becoming a real issue with regards to value creation and customer loyalty. The results of the World Luxury Tracking studies in the last few years suggest that knowledge about the practices of luxury brands might be proportional to the degree of brand loyalty. This shows how important it is for these brands to train staff, pass on knowledge and inform their customers to acquire "innate" loyalty. Honest By, whose name refers to their policy of total transparency, has understood this and positioned itself where the offering is still under-developed.

But above and beyond the degree of transparency observed by brands, material traceability is indicative of how much they control the supply chain. This is why brands these days use a host of standards and self-assessments.

In the jewellery sector, the question of traceability has become an image-related issue due to concerned public opinion regarding the sourcing of diamonds. The film Blood Diamonds has enshrined global awareness of diamonds as a source of funding for armed conflicts in Africa. Since then, steps have been taken internationally, but the Kimberley Process, whose member countries represent 99% of global production, cannot operate without conscientious mobilisation and transparency on the part of all the professionals in the sector. Furthermore, diamonds are the only stones covered by this international process: rubies, sapphires, emeralds and precious metals such as gold are hardly controlled at all, whereas the political and economic problems are almost the same.

Brands are seeking to address these weaknesses by developing new practices.

- For example Chopard, one of the leaders in the sector, has made its Green Carpet collection using ethical gold whose provenance can be certified.
- In another example, the Forevermark brand from De Beers aims to provide diamonds which respect a large number of criteria and whose provenance is certified. Philippe Mellier, CEO of the Group: "Customers want to be sure, first of all, that they are buying a natural diamond and, secondly, that it comes from a responsible source, that its origin is known. They need a guarantee, because it is a very important purchase, with great emotional value. In our opinion, only brand name diamonds meet these expectations, not any old diamond, which comes from who knows where. ».

In the same way, in other sectors, particularly fur and leather, concerns regarding traceability drive corporate practices.





Codes of conduct signed by suppliers and partners

including REACH and SA8000 standards.

Materials concerned
All materials

Traceability of stones and metals. Ability to ensure the ethical origin of gems.

Materials concerned
Diamonds, gold

Examples of players
Chopard - Green Carpet collection,
Forevermark - De Beers

Procedural audits.

Saga Furs farms are inspected regularly by external independent experts.

Materials concerned
Fur

Examples of players
Saga Furs

Certificates of origin

given to customers. Every Forevermark diamond is engraved with the logo to signify it complies with the brand's quality, ethics and traceability standards.

Materials concerned
Diamonds

Examples of players
James Newall, Forevermark - De Beers

Traceability of skins. Ability to identify the farms where the skins come from.

Materials concerned
Fur, exotic leather, leather

Examples of players
Saga Furs, Ermenegildo Zegna,
Versace, Kering

Sourcing in countries which are members of the Kimberley Process.

Materials concerned
Diamonds

Examples of players
The vast majority of brands.

Total transparency for products.

Materials concerned
All materials

Examples of players
Honest By





04

ETHICS AND VALUE CREATION: INCENTIVES, VALUE CHAINS AND ECOSYSTEMS

The overview of practices demonstrates the will of players to engage in favor of the environment and to establish principles on ethical actions. The analysis of these practices enables us to answer several questions:

- What are the incentives that push industry players to mobilize in order for practices to evolve? Be they external or internal, numerous systems contribute to introduce new materials or to develop new processes such as bioplastic, eco-responsible tanning... The external incentives progressively give place to internal dynamics or to an ecosystem.
- What are the impacts on value chains? The identified practices historically concern the upper part of the value chain, but nowadays spread to all activities. The environmental and ethical concerns incentivize players to develop interests across all parts of the value chain, in order to spread good practices.
- What are the strategies? Three ecosystems eventually emerge: the first applies to a risk management approach and middle sized players; whose position is reactive and practices are developing to meet standards; the second ecosystem is typical from groups and companies who invest to make ethics a strategic focus; finally, the third ecosystem is the one from pure players looking to reinvent luxury with new practices.



1. FROM INSTRUCTING TO MOBILISING PLAYERS

Two types of incentive can be seen as motivations for players in the sector:

- International or national obligations, charters and labels force businesses to respect regulations or establish implicit standards with which businesses must comply.
- In addition, each firm develops its own initiatives and contributes to disseminating new practices which gradually establish new standards in the profession and the ecosystem.

Keen to set an example, the luxury industry has gradually incorporated a number of regulations and developed virtuous environmentally friendly and socially responsible practices. Ethical concerns are becoming a strategic variable. But whether this means taking into account external incentives related to regulations and a code of good conduct or a deliberate choice, these requirements still oblige organisations to make changes, to develop new skills or build new collaborations, and to measure their compliance with obligations.

• SPECIFIC REGULATIONS AND INITIATIVES: IS THE LUXURY GOODS SECTOR CONSTRAINED?

Local, national and international regulations overlap and create variable levels of constraint for businesses. These widespread standards are in no way specific to luxury. While luxury brands deploy global strategies, the scope of these regulations is crucial. Alongside these legal constraints, labels and charters are also being developed to better understand each sector's challenges to incorporate ethical and environmental issues. But above and beyond what is playing out on a regional level, businesses face increasing pressure from NGOs.

Regulations: default global standards and developing a normative framework for the industry

Regulations impose legal constraints on businesses and determine at the very least what the rules are. Brand initiatives are therefore developed, above all, on the basis of current regulations. However, requirements vary according to countries and regional groupings, and are rarely specific to luxury. Brands are subject to multi-sectorial constraints. For example, in France the New Economic Regulations Act, passed in 2001, requires all listed companies to publish a sustainable development report. On a European level, REACH regulations control the risks to health and the environment by regulating the use of chemical substances.

The rare cases of more specific regulations affect two sectors where materials are particularly risk prone: jewellery and fur.

- The only initiative of this kind on a global level, the Kimberley Process, sets standards for the diamond trade within the signatory countries. It covers 99% of global production, and is the only real standard specific to jewellery and, by extrapolation, luxury, and is used as a reference in the sector.
- Legislation concerning the rearing of fur-bearing animals is much more inconsistent. It varies according to the country and the species: in the United Kingdom, breeding is totally prohibited; in Croatia it will be prohibited in 2017; in Austria, it is prohibited in six out of nine states; in the Netherlands, it is permitted for mink until 2024; in Switzerland, restrictive standards have made it economically unviable; in Canada, China and many other countries, production is hardly regulated or not at all. This inconsistent legislation leaves brands free to choose their area of production according to their own standards.

These regulations, which are still rare and inconsistent, are limited in the light of current expectations and are not very stringent for businesses.

Charters, labels and certifications: preferred initiatives

Charters, labels and certifications have recently become the initiatives and tools favoured by businesses and encouraged by NGOs to transform practices. Generally only valid for a limited period, these initiatives are remarkable for their precise criteria specifically aimed at the industry concerned. For the most part they directly affect the production process. Some international labels are used as reference in their field or sector of application. The "Responsible Jewellery Council" (RJC) label, created in 2005, today has more than 500 members and promotes ethics, the respect of human rights and the environment throughout the entire jewellery value chain. It involves third party auditing and independent verification based on an approved code of practices. Similarly, the Cosmetic Valley Charter is an eco-responsible initiative in the perfumery and cosmetics sector.

In other sectors, and particularly the textile industry, the benchmark labels (GOTS, Bluesign, Max Havelaar) coexist with more confidential or territorialised labels (European Ecolabel, Ecocert, Biore, Biogarantie, Okö Tex 100, Naturtextil). The level of practices deployed varies significantly according to the label under consideration. For example GOTS certifies organic cotton whereas Bluesign guarantees environmentally friendly dyeing processes.

In general, most of the international labels are aimed at respecting environmental criteria. They promote eco-design or fairer trade and contribute to a better distribution of value between the stakeholders. Social criteria are still a minimum requirement with self-limiting clauses which respect the International Labour Organisation's (ILO) fundamental conventions, namely non-discrimination, the abolition of forced labour and freedom of association.

Labels enable players to show their commitment to a number of well-defined criteria that they can subsequently communicate to their consumers. Yet, in most of the cases encountered, while luxury brands produce more and more environmental and ethical reports, there is hardly any communication about the labels or certifications which they possess, with the exception of the RJC and Fairmined labels. For example, for the most part, companies which have signed the Cosmetic Valley eco-responsible charter communicate very little about this. Conversely, the RJC label and the Kimberley certificate are mentioned frequently in the communications of certified companies.

The efforts made by companies respond to a regulatory institutional approach without responding convincingly to the issues: methodological issues and the choice of indicators and their measurement appears sometimes to be considered an “exercise in style” in the face of presentation and communication requirements. These initiatives, however, appear to enable companies in the sector to engage in an approach whereby they raise awareness among their stakeholders before putting in place more targeted practices with an improved impact.

NGOs: an increasing role in the luxury ecosystem?

Since 2005, NGOs have been particularly interested in the impacts of the textile, ready to wear and luxury industries. There are several incentives and ways of inciting action:

- NGOs are quick to rank brands according to specific criteria. In its Fashion Duel, Greenpeace ranks 15 brands according to three categories: the use of leather, paper packaging and water pollution. Greenpeace also started the Detox campaign which distinguishes trendsetters, laggards and greenwashers in terms of toxic-free clothing.
- They also started the debate on issues relating specifically to luxury brands and clothing. Greenpeace deals with the toxic underworld of fashion and the World Wide Fund for Nature (WWF), in its Deeper Luxury Report, justifies the importance of real commitment.
- They also offer specific tools, like the WWF, which dissects the eco-design of textile and clothing products.

What with alerts, controls, expertise, advice and support, incentives from NGOs are numerous and complementary. They act where the sector is lagging behind, in particular with regards to chemical substances in clothing and controlling breeding practices for fur-bearing animals.

The few rare strategic partnerships between NGOs and brands help to support the setting up of CSR initiatives. For companies, it is an opportunity to get a different view of their activities and benefit from the expertise of NGOs in specific areas of competence.

• A MOBILISED AND PROACTIVE SECTOR TO DEVELOP NEW RESPONSIBLE, SUSTAINABLE AND ETHICAL PRACTICES

Above and beyond the constraints and pressures related to their ecosystem, brands are getting mobilised to define new practices.

Certain brands are showing an interest in ethical and environmental issues and confining themselves to increasing brand awareness by investing in limited actions known as “glamour philanthropy”. Mainly for the media, the impact on the value chain is limited and has little impact on operations and the economic model.

On the other hand, a growing number of companies are engaging more in an approach that requires transformation involving third parties (NGOs, business partners, certification and labelling bodies) whose expertise contribute to rethinking the value chain.

Finally, the most invested brands choose, in the long term, to put in place an organisation devoted to implementing their ethical and sustainable approach and getting governance on board.

Green marketing and sponsorship: the issue of reputation and image

When the desire to limit reputational risk does not coincide with a genuine commitment to invest and transform, brands initially turn to “greenwashing” to show how sympathetic they are to environmental issues. This approach differs from ethics, in that greenwashing is often a reaction to improve brand image following bad publicity. Green marketing revealed by NGOs fuels consumer mistrust: in France, for example, 54% of respondents say that they mistrust corporate rhetoric with regards to sustainable development (Ethicity).

Looking specifically at the luxury sector, WWF, in its report Deeper Luxury, denounces “philanthropy glamour”, which often translates into big media-friendly events where celebrities take centre stage.

But brands also invest in another form of more engaged commitment: sponsorship. This often translates into the creation of foundations (the Louis Vuitton Foundation for Art and Culture, the Kering Foundation to improve women’s lives) and creating partnerships with NGOs.

Unlike green washing and glamour philanthropy, the actions undertaken are institutionalised and long term. The partnership between Gucci and UNICEF is characteristic of this type of approach. Gucci supports UNICEF programmes helping orphans and children affected by HIV / AIDS. The “Schools for Africa” programme has enabled them to collect more than 9 million euros since 2005. This partnership is truly philanthropic (25% of the sale price is given back to the humanitarian association), and it improves over time, going beyond opportunistic and commercial initiatives.

However, although less “opportunistic” than glamour philanthropy, sponsorship promotes actions that remain independent of actual business operations.



Federations: anticipating changes to the sector

Federations take pragmatic positions with regards to ethical and environmental issues, despite being all too aware of the importance of these issues. "Today, it is expected that individuals and businesses alike will take into account of the needs of future generations. Sustainable development has become a societal challenge of primary importance within which the Luxury sector must play a major role", Françoise Montenay, President of the Colbert Committee from 2006 to 2010. While the rhetoric is converging, the initiatives are extremely inconsistent.

The French leather sector represented by the French Federation of Tanners is the only one which has been working for the last 2 years at an international level on its societal commitments in the context of ISO 26000 relating to CSR. The Federation is involved in two commissions:

- A Technical Commission uniting the French Federation of Tanners and the CTC, mainly in the field of environmental monitoring.
- A Cross-sectorial Commission involving the whole of the French leather sector, from upstream to downstream, to create a CSR repository for the whole sector.

The role of Federations is therefore to support and anticipate change in sectors. They do not use force, but they encourage their members to use innovative practices. Their influence is nevertheless limited by the diverse range of businesses represented and by their strong local involvement: Federations rarely move beyond the national level.

The influence of the ecosystem: a virtuous cycle to promote new practices

The decision to change practices also comes from the relationship with stakeholders who influence or even choose the brands with which they collaborate according to ethical and sustainable criteria. Brands, traditionally the clients, may thus be encouraged to adapt to meet the expectations and the new standards of suppliers, auction houses or distributors.



Certain players have a cross-disciplinary position in the value chain, giving them the means to pressurise and make their contacts take action.

- In the fur sector, auction houses are an indispensable intermediary between producers and brands. Saga Furs, the Finnish auction house, has been working since 2005 to improve breeding conditions for fur-bearing animals. Its approach is two-fold. On the one hand the auction house raises awareness and collaborates with brands to define new standards which go beyond local regulations. On the other hand, it goes to breeding farms with the brands to teach them about these new requirements. Breeders are invited to comply with the animal welfare standards of the auction house in order to remain as suppliers and sell their skins.

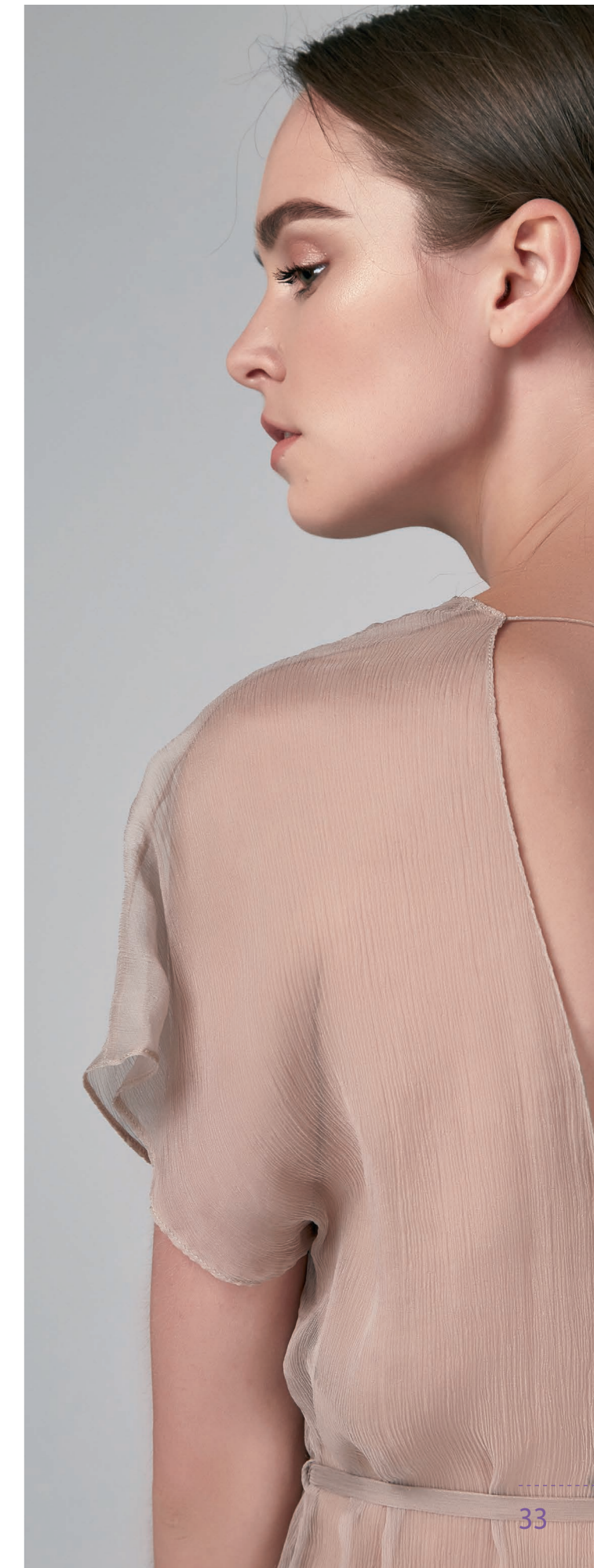
- In the same way, distributors position themselves in relation to the practices of the brands that use them. NJAL (Not Just a Label), a London-based online sales platform, connects independent designers with consumers by showcasing ethical and sustainable products. Known for having launched the careers of designers Mary Katrantzou and Damir Doma, the distributor can select labels according to its own criteria.

Organisation and governance devoted to putting ethics on the strategic agenda

The most invested brands choose to develop specific skills and build an organisational structure to implement a progress-oriented approach. CSR departments can be found at LVMH, Kering and L'Oréal, for example.

These companies have numerous steering and monitoring initiatives: an ethical charter formalising the spirit of the initiative and promoting good practices to be respected; analysis and risk assessment tools; a reporting system for each country, as well as regular audits. Among the governance tools are charters standardising supplier relationships, stringent procurement charters, an internal ethics charter, sustainable expertise, reports regarding ethical commitments, committees devoted to ethics, projects and initiatives relating to social responsibility. They may be used to help create a global green accounting system - the first step towards certification. Also known as an environmental balance sheet, this is an innovative tool that enables companies to manage their impact on the environment. It can be used to analyse the environmental footprint of the group's activities, from the production of raw materials to the sale of products to customers, not forgetting logistics. This assessment provides a deep understanding and good overview of the group's different activities.

One of the the most iconic examples is the Kering Group's initiative, which uses green accounting in a desire to make the methodology behind its Environmental P&L public. This then provides an "open source" tool to encourage other companies to have a better understanding of the overall impact of their activities on natural resources.



2. WHAT ARE THE IMPACTS ON VALUE CHAINS?

The range of practices relating to the environment, sustainability and ethics is vast. But what is the impact on value chains? Each practice can be characterised to assess its strategic scope: is it about limiting negative risks (reactive mode) or creating value by introducing new processes? The development of these practices requires the need to reconfigure the value chain at the very least.

• SUPPLY: NEW REQUIREMENTS WHICH STIMULATE THE CREATION AND DESIGN OF PRODUCTS IN THE LUXURY SECTOR

The adoption of responsible practices for procurement introduces constraints.

Searching for new raw materials, guaranteeing their traceability, promoting local supply and demanding transparency in terms of supplier practices is becoming complex for brands seeking to reconcile everything.

The major brands in the sector are gradually incorporating these issues into the upstream section of their value chain or can put pressure on their stakeholders. Other players are adopting a more selective approach and ranking their priorities: environment, ethics, production area, etc.

The constraints on supply have a positive impact on creation. Adopting new materials, while it may take time to adapt, is a real stimulus when it comes to designing products. It is an opportunity for brands to innovate and stand out. A responsible supply chain prepares the way for ethical and original designs, which is good for the environment.

The design no longer necessarily chooses its materials: it is the materials which give rise to the design. Some brands and some design reverse conventional logic by choosing responsible, sustainable, innovative, rare and high quality materials before even thinking about the design: this is secondary, inspired by the materials themselves. Norlha Textiles, founded by Kim Yeshi, developed from her desire to use a unique and noble material: the wool from Yaks on the Tibetan Plateau.

• PROCESSING AND MANUFACTURING: INVESTMENTS TO DEVELOP NEW PROCESSES AND CHANGE WORKING CONDITIONS

The processing and manufacturing stages are impacted differently depending on the types of practices. Some bring about a change in the process like vegetable tanning or synthesising artificial fibres. Others simply modify them: using non-polluting products, non-toxic dyes. Finally some minimise or make the processing stage obsolete by recycling or upcycling. In addition, companies invest in cross-disciplinary practices which affect their production activities and transform the value chain upstream (procurement, design) and can thus change distribution and their commercial partnerships. Ultimately, the nature of the product is significantly altered and the brand is forced to reposition itself: synthetic textiles do not interest the same audience as traditional natural fibres.

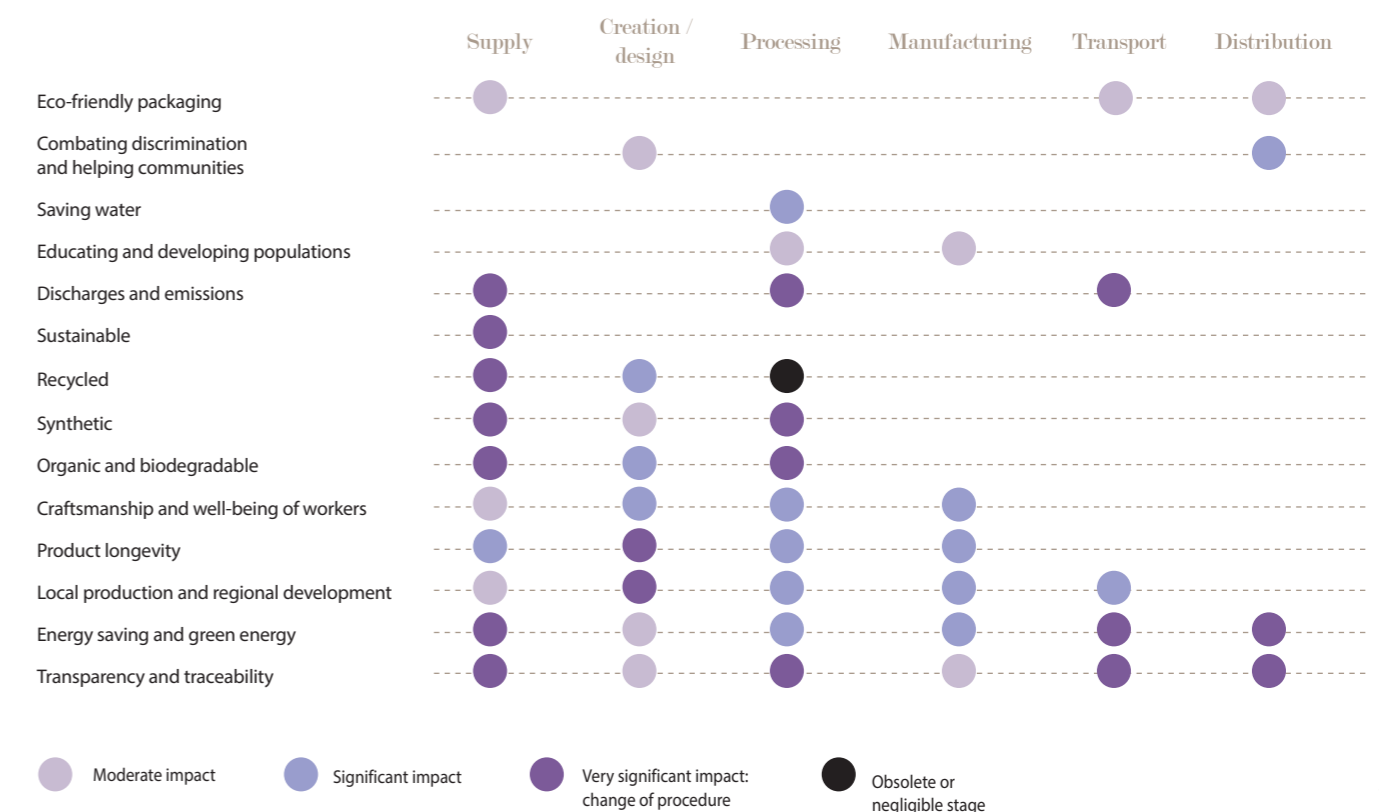
• TRANSPORT AND DISTRIBUTION: ARE PRACTICES MORE REACTIVE THAN STRATEGIC?

Secondary activities, sometimes sub-contracted and actions related to transportation are limited, in an exaggerated way, to optimising logistics flows and reducing greenhouse gas emissions. Brands play primarily with choosing the means of transport and reducing the volume of packaging. Strategically committed players have a more integrated and mature, but also a more complex, approach: bringing production sites closer to consumers. This vision goes beyond simply reducing discharges and emissions to incorporate strategies for developing regions and populations.

But above all, distribution, although not directly related to the heart of activity, is one of the most strategic stages. The stores are spaces which give an opportunity to convey brand image. Yet while a demonstration of customer relations may be less important these days, brands have the opportunity to go further than setting up a relationship of trust to promote their ethical doctrine.

Transparency and traceability are among the key aspects. In effect, the practices developed also promote a clean, responsible and consciously adopted value chain: with nothing to hide.

• THE GLOBAL IMPACT OF PRACTICES ON THE VALUE CHAIN



3. THE STRATEGIES OF FIRMS IN THE LUXURY INDUSTRY

Firms in the luxury industry have a complex relationship with ethics and sustainability. Practices depend on the characteristics of the sector (size of the market, consumer demand etc.), the value chain and even the specific nature of the company (its positioning, its history, its size etc.). Two dimensions can be used to characterise three ecosystems.

- The first dimension concerns the position of firms with regards to the environment, sustainability and ethics. We can look at two types of behaviours that take into account the strategic importance that may be given by firms to these issues at any given time:
 - A "risk reactive" type approach aimed at developing practices to limit negative spillovers;
 - An activist approach seeking to create leadership by introducing virtuous practices and to change standards in value chains.

- The second check-list differentiates between two sources of value creation to account for the impact of practices:
 - The creation of tangible value, understood to be the sum of the economic and financial values;
 - The creation of intangible value, resulting from local involvement and valuing work and expertise.

If we consider these two approaches, three ecosystems account for the trajectories of firms in the luxury sector:

- First, the **"Risk Management"** ecosystem brings together independent brands. Their approach is often reactive and they engage in ethical and environmental approaches to meet the requirements of their stakeholders, rather than on their own. Their practices are therefore aimed at reducing negative spillovers, and the added value created marginally changes the processes.

Sustainability strategies as ecosystems

Risk management

- A risk management approach mainly devoted to reduce negative spillovers.
- The additional CSR / sustainability value comes from stakeholders and does not significantly change internal processes.

Transformation

- Practices are strategic and give rise to new value creation enablers which transform the value chains and establish new standards.
- New (transversal) functions and sustainable competences are developing.

Social entrepreneurs

- Practices result from the « raison d'être » of luxury firms.
- Alternative value chains involve new stakeholders (cf. Osklen, NJAL cases...).
- Collaborative business models disrupt traditional luxury approaches (local vs global...).

Specific roles and postures of stakeholders

	Risk management	Transformation	Social entrepreneurs
NGO	Warning, audit Studies and reports to increase sense of urgency	Trusted advisors Advisory for Maisons and groups on best practices	Contributors Involvement with social entrepreneurs and innovators
Federations	Information Representatives provide sector-based data on CSR and ethics membership	Communication Federations highlight virtuous practices of Maisons and stakeholders	Promotion Federations provide toolkits to develop practices and ethical projects
Clients	Awareness Development of customers standpoint	Increasing CSR and ethical value Clients value CSR and ethical practices in the purchasing of luxury items	Activists Operational involvement of customers on the value chain and brand development
Suppliers and sub-contractors	Mobilisation Implementation of practices to lower CSR risks	Reconfiguration Involvement in transformational projects to support new practices of well-known brands	Leadership Commitment to entrepreneurs
Academia	N/A	Expertise Input to bring knowledge from design to implementation of sustainable practices	Innovation Research transfer / joint research program: new materials, manufacturing processes
Other stakeholders	Supervisory bodies Third parties disclosing information to develop awareness of stakeholders	Mass market Management of brand reputation	Local authorities Regional councils, clusters...

- Secondly, the **"Transformation"** ecosystem brings together the major groups and "Maisons" for which the brand reputation is fundamental. Often subject to increasingly demanding regulation, including the publication of extra-financial indicators, they understand that ethics could be a strategic lever for value creation. They have the resources to define and control their standards. Moreover, their scope allows them to impose these standards on the entire value chain. Thus, practices are strategic and generate new levers to create additional value, transforming value chains and setting new standards.
- Finally, **"the militant"** entrepreneurs, who placed ethics at the heart of their model. They are built on best practices and therefore do not have to rebuild or adapt their value chain. Supported by NGOs, they also benefit from the sales force of platforms such as NJAL, which make their production known internationally.

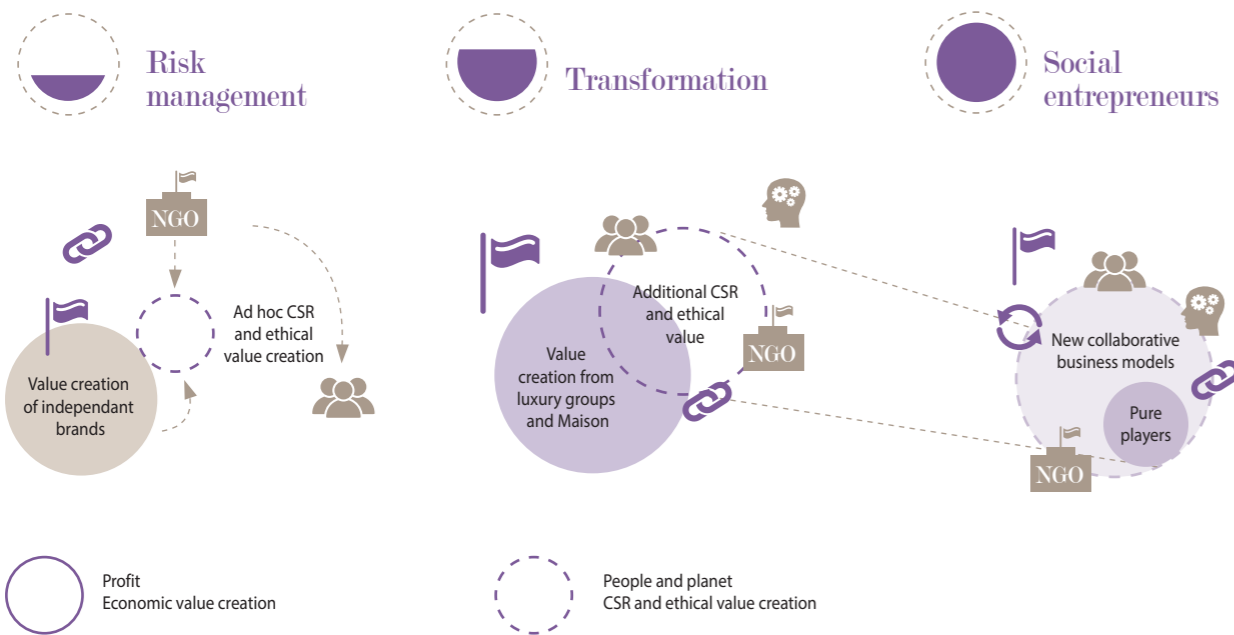
Pioneers of "slow fashion", they may foreshadow, for the luxury sector, the business model of tomorrow. Militant entrepreneurs have succeeded in demonstrating that ethics and sustainable development are not only levers of value creation, but that they are a fundamental requirement. Within this ecosystem, the added value results in new, more collaborative economic models for sector players.

Above and beyond the attitude of firms and value creation associated with developing environmentally friendly and ethical practices, the role and the behaviour of NGOs, Associations, Federations and trade partners differs according to the ecosystem in which they are involved.

For example, the attitude of NGOs is not the same when faced with players in the three ecosystems. Greenpeace, Peta and the WWF choose their targets among players who are well known to the public. However, unlike the large groups looking to set an example, independent brands have not always achieved the investments required to establish a responsible value chain. Hence forceful action on the part of NGOs within the first system to make the least developed players react.

Nevertheless, NGOs can support companies in changing their value chain. Large organisations such as Greenpeace or the WWF suggest partnerships with brands (WWF US and Tiffany & Co) and create reports and specific tools identifying sustainable initiatives like the “toxic underworld of fashion”, the Deeper Luxury Report, or the eco-design of textile and clothing products etc.

Competing ecosystems to create sustainable value



• THE “RISK MANAGEMENT” ECOSYSTEM

Independent brands adopt a position of risk management. These ethical and environmental issues. In other words, their commitment results more from the pressures and requirements of their stakeholders than their own initiatives.

Federations contribute to this awareness and organise brainstorming sessions on environmental topics. But it is mainly concern for reputational risk, a tool to exert pressure used by NGOs, which calls for change. These NGOs push (Peta, Greenpeace, WWF) and support (WWF: Deeper Luxury Report, eco-design of textile guide) brands to adopt responsible practices.

Independent brands then gradually incorporate best practices. Two key factors explain why it is so difficult to move beyond this basic approach to engage in a strategic approach.

- The intermediate size of these companies does not always enable them to commit to the significant investments required to reconfigure the value chain.
- Production processes are fragmented and partially outsourced: the adoption of responsible practices internally is limited, and the relationship with trading partners does little to influence practices.

• THE “TRANSFORMATION” ECOSYSTEM

Reputation is a major importance to groups and large Houses. The collapse of the Rana Plaza in Bangladesh in April 2013 shows how vulnerable these players are to scandals and boycotts, as was the case for the Fast Fashion brands involved in the disaster. In the luxury sector, the large groups keep well away from resorting to practices that could damage their image. In France, they are also required by law, because of their size, to publish social responsibility and sustainable development indicators as well as their carbon footprint.

Yet, beyond the required risk management, the large groups make sustainable development and ethical practices strategic levers for value creation.

- Firstly, the dynamics of vertical integration observed for example in the LVMH and Kering groups facilitates control over the value chain and implementing ethical and sustainable practices.
- Then, the weight of the sector’s giants makes them capable of negotiating (or even imposing) these new standards with their suppliers and subcontractors. For example, 87% of the turnover of Ateliers d’Armançon, one of Louis Vuitton’s sub-contractors, depends on the trunk-maker.

These players are able to follow their own approaches and create their own appropriate tools and bodies, like Cartier (Richemont) and the Diamond Trading Company (De Beers), two of the fourteen founding organisations of the RJC, the main certification body for value chains in the jewellery sector.

The power and the weight of these groups enables them to lead numerous initiatives: buying pioneering brands with ethics in their DNA (Stella McCartney), launching responsible collections (Save My Pole Collection from Marc Jacobs) or developing creative and brainstorming workshops based on sustainable materials (Matières à penser - the eco-material handbook from LVMH). In addition to promoting eco-design within companies, these initiatives are the laboratories for a new model in the luxury and fashion industries. They enable brands to transcend traditional expertise and develop new skills.

• THE “SOCIAL ENTREPRENEURS” ECOSYSTEM

This homogeneous ecosystem prefers initiatives: the levels of commitment merge between companies, their trading partners and the NGOs. Activist designers are represented at events like the Ethical Fashion Show in Berlin whose website refers to 120 committed brands; their products are sold throughout the world on online platforms like Not Just a Label promoting original, ethical and sustainable designs. In addition, these small businesses are looked on kindly by NGOs, some of which promote and support their projects. In Brazil, Osklen and the NGO Instituto E are working hand in hand searching for environmentally friendly materials and participating in regional and community development.

In addition, their commitment is born as soon as the company is created. In other words, they are built on ethical practices. It is therefore not necessary to change a pre-existing value chains: investments are less substantial and significant commitment is easier to implement and can even be the spring that makes the company tick.

This explains why the small players in the sector are the major pioneers of new luxury. These brands are creating a new vision of the future of their sector. They are often part of what some call “slow luxury,” whose values are not new: until in the 80s, luxury was centred on the product. The product had to be exclusive, rare and of exceptional quality. The following decades saw marketing and communication triumph in brand strategies, sometimes abandoning the real value of the product. This is why some are analysing the recent development of “slow luxury”, based on the

essential qualities of the product, as a return to “true luxury.” A true luxury seen as respecting the environment, valuing expertise and workers, fair remuneration etc. In short, a luxury whose price is justified.

It is in this context that entrepreneurs in the sector are developing new business models with ethics in their DNA. Their value chains are radically transformed to incorporate sustainable practices. While small players start out aiming at niche markets, it is not rare to see them develop as demonstrated by NJAL, Honest By, Veja and Stella McCartney.

Today, it is not unrealistic to envisage a future where the models supported by these pioneers are prevalent.



05

CONCLUSION

Understanding the high environmental stakes and the promotion of ethical practices are not easy tasks and take time to make a positive impact on value creation. Certainly, we understand that it is the responsibility of each enterprise to maximize the economic value and, more specifically, shareholder value. But the wider considerations are equally important, including accounting value and fair value, the client's value, the organizational value, as well as the partnership value of all stakeholders globally. In addition, by taking into account environmental and ethical impacts, the levers of value creation also evolve and lead to the development of new competences and capabilities: innovation, research and development, as well as the introduction of new materials or the re-engineering of production process... But creating value for who and how?

The overview of practices presented in this study demonstrates the growing interest of players towards the preservation of the environment and the development of an ethical strategy. The partnership approach is progressive in that it takes into account the interests of every legitimately-recognized stakeholder, be they directly or indirectly involved. It is an approach that widens the scope of responsibility of players in the luxury industry.

Importantly, it allows for created value to not only be redistributed to shareholders and employees, but also clients, suppliers, subcontractors, and local communities. In addition, a set of ethics appropriate to each firm or Maison instead of House can readily emerge as a response to questions that are raised: How can we manage the risks (chemical waste, greenhouse gas...)? How can we improve the working conditions? How can we build and promote ecosystems sharing the same environmental and ethical concerns.

The spreading of environment-respectful practices emerge first from expert committees and take the form of white papers, of charts and code of conducts or even laws.

But the overview of practices also demonstrates that the industry is moving ahead in terms of understanding the environmental impact by acting to reduce the negative risks. The ethical concerns are now on the strategic agenda of firms to become powerful levers of value creation.

The analysis enables us to establish the impact of practices on the whole of the value chain. Three strategies emerge from this overview: the ecosystems of the independent players that focus on risk management; the ecosystem of groups and Maisons who, beyond the required risk management, make sustainable development and ethical practices strategic levers for value creation and finally the ecosystem of the creators and entrepreneurs who are developing new business models with ethics in their DNA and incorporate sustainable practices into their value chains at the outset.

The spreading of practices and the creation of value resulting from interest in environmental and ethical concerns depend primarily on the capacity to resolve "cognitive" conflicts between the stakeholders who defend "different conceptions of the world". Indeed, the development of a base (cornerstone) of shared values and the spreading of those to the stakeholders constitute a precondition to the establishment of ethical skills that create values. The luxury industry does not represent a precursor to address the environmental and ethical issues. But the engaged dynamics is strong and seems irreversible. The luxury industry is changing and offers a new paradigm through four dimensions: rethinking the supply chain; preserving the environment and local manufacturing regions; respecting the workforce and improving working conditions, as well as considering new customer expectations. The question now is how quickly each sector of the industry will progress.

To be continued!

06

ACKNOWLEDGEMENTS & REFERENCES

Thank you to Isabelle Massa and Fabien Seraidarian for their contribution to this global report.

Academic Research:

- Michael E. Porter, Mark R. Kramer, The Link Between Competitive Advantage and Corporate Social Responsibility, Harvard Business Review, 2006, pp. 78-92
- Michael E. Porter, Mark R. Kramer, Creating Shared Value, Harvard Business Review, 2011, pp. 62-77
- Abrahamson, Eric. 2011. "The Iron Cage: Ugly, Cool and Unfashionable." Organization Studies 32: 615-29.
- Carroll, A.B., 2008. The history of corporate social responsibility: concepts and practices. The Oxford Handbook of Corporate Social Responsibility, Crane, A., Matten, D., McWilliams, A., Moon, J., Siegel, D. (eds). Oxford University Press: New York
- Elkington, J., "Cannibals with Forks: the Triple Bottom Line of 21st Century Business", Capstone, 1997
- Jem Bendel, Anthony Kleanthous, Deeper Luxury report, WWF, www.wwf.org.uk/deeperluxury
- Brun, A., Castelli, C., 2008. Supply chain strategy in the fashion industry: Developing a portfolio model depending on product, retail channel and brand. International Journal of Production Economics, 116 (2), pp. 169-181.
- Annamma Joy, John F. Sherry, Jr, Alladi Venkatesh, Jeff Wang, Fast Fashion, Sustainability, and the Ethical Appeal of Luxury Brands, Fashion Theory, Volume 16, Issue 3, 2012, pp. 273 – 296
- Amina Béji-Bécheur, La responsabilité sociale des entreprises du luxe : de l'image à la fabrique de normes. De Lassus C. et Briot E. Marketing du luxe, aux éditions EMS, pp.45-67, 2014, Marketing du luxe

Institutional Reports:

- European Commission, 2011. Promoting a European Framework for Corporate Social Responsibility. Green Paper. (Commission of the European Communities, Luxembourg).
- Jonathan Kendall, Responsible luxury, A report on the new opportunities for business to make a difference, CIBJO, 2010
- The global diamond report 2014, Diamonds: Timeless Gems in a Changing World, Bain & Company, Inc. and Antwerp World Diamond Centre private foundation (AWDC)
- Sustainability in the leather supply chain, research for MVO Netherlands, final report, 2013
- Guide d'écoconception des produits textile habillement, WWF, 2011
- <http://www.thefashionduel.com>, Greenpeace
- Mazars (2014), Les savoir-faire dans la mode et le luxe : quels enjeux pour la filière française, <http://www.mazars.fr/ccueil/Secteurs/Distribution/Luxe/Les-savoir-faire-dans-la-mode-et-le-luxe>.

All rights reserved.

07



GLOBAL TEAM

Isabelle Massa
isabelle.massa@mazars.fr

Fabien Seraidarian
fabien.seraidarian@mazars.fr

NORTH AMERICA

US
Audrey Fauroux
audrey.fauroux@mazarsusa.com

Canada
Lucette Poliquin
luccette.poliquin@mazars.ca

EUROPE

Switzerland
Franck Paucod
franck.paucod@mazars.ch

Italy
Sylvain Rousmant
sylvain.rousmant@mazars.it

Alessandro Motta
alessandro.motta@mazars.it

UK
Samantha Russell
samantha.russell@mazars.co.uk

France
Isabelle Massa
isabelle.massa@mazars.fr

Fabien Seraidarian
fabien.seraidarian@mazars.fr

Russia
Florence Pinot
florence.pinot@mazars.ru

AFRICA & MIDDLE EAST

UAE
Roula Bitar
rbitar@mazars.ae

ASIA & PACIFIC

China
Julie Laulusa
julie.laulusa@mazars.cn

Korea
Julien Herveau
julien.herveau@mazars.kr

Malaysia
Yap Sim Yee
sim-yee.yap@mazars.my

Singapore
Chris Fuggle
chris.fuggle@mazars.com.sg

Hong-Kong
Stephen Weatherseed
stephen.weatherseed@mazars.hk

India
Ankur Wahal
ankur.wahal@mazars.co.in

Japan
Bruce Darrington
bruce.darrington@mazars.jp

MAZARS IS AN INTERNATIONAL, INTEGRATED AND INDEPENDENT ORGANISATION, SPECIALISING IN AUDIT, ACCOUNTANCY, ADVISORY, TAX AND LEGAL SERVICES. AS OF JANUARY 1ST, 2017, MAZARS OPERATES THROUGHOUT THE 79 COUNTRIES THAT MAKE UP ITS INTEGRATED PARTNERSHIP. MAZARS DRAWS UPON THE EXPERTISE OF 18,000 WOMEN AND MEN LED BY 950 PARTNERS. WE ASSIST CLIENTS OF ALL SIZES, FROM SMES TO MID-CAPS AND GLOBAL PLAYERS AS WELL AS START-UPS AND PUBLIC ORGANISATIONS, AT EVERY STAGE OF THEIR DEVELOPMENT.

WWW.MAZARS.COM - WWW.LINKEDIN.COM/COMPANY/MAZARS - TWITTER.COM/MAZARSGROUP