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IN 30 SECONDS

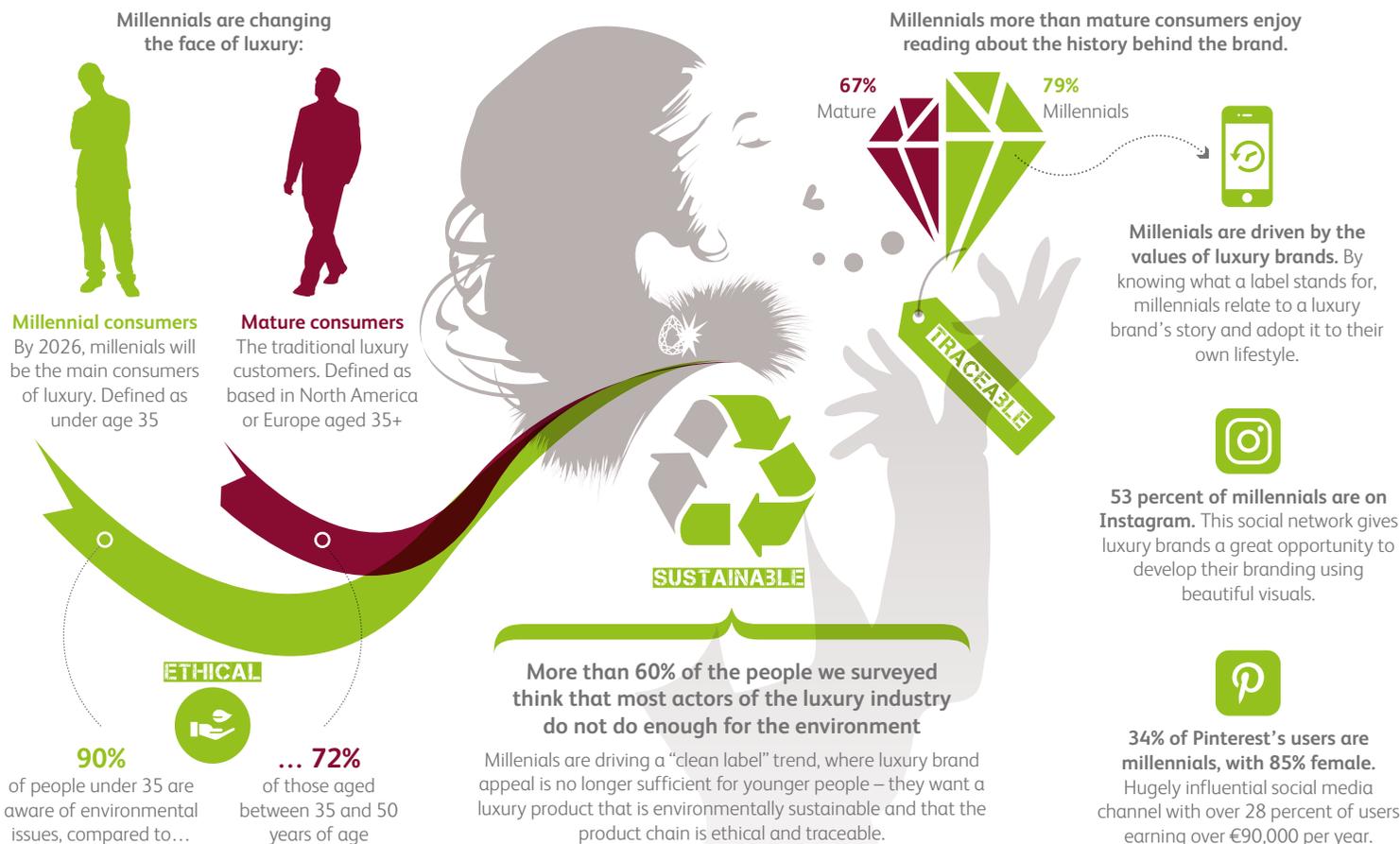
- Consumers, in particular millennials, are basing more of their decision to buy a luxury product on environmental and social considerations
- The 'Sustainability Stress Tests' helps companies to assess whether they are prepared to meet environmental, social and economic challenges over the next 15 years
- A study by ACE group found that the environment was the main financial risk to the luxury industry
- Consumers want guarantees that luxury products are made humanely. Ten years from now, transparency will be crucial

A deeper shade of green

The luxury industry and the environment

Luxury consumers with a conscience

The fashion industry is likely to have harmful impact towards the environment. With affluent millennials twice as likely to buy from companies with strong management of environmental and social issues, luxury brands can no longer ignore the increasing impact of sustainability throughout their product lines and value chain.





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‘Elegance is when the inside is as beautiful as the outside.’ So said Gabrielle ‘Coco’ Chanel, the French fashion designer. The woman credited with creating the ‘little black dress’ probably wasn’t referring to the environment, but for an increasing number of consumers buying luxury goods, respect for the environment is an important part of inner beauty.

Consumers, in particular, millennials, (people born between the early 80s and the mid-90s) are basing more of their decision to buy a luxury product on environmental and social considerations. In response, established luxury brands, such as Clarins and newer ones, such as JEM Jewellery (see box out), are putting the environment and ethics at the centre of their products.

Given that many luxury brands use scarce raw materials, such as gold and diamonds, ethically sourced and sustainable luxury goods are in the interests of producers, consumers and the planet.

To help luxury brands adapt to a more environmentally-aware market, BearingPoint has developed a methodology: the ‘Sustainability Stress Tests’ (see box out) to help companies assess whether they are prepared to meet global environmental, social and economic challenges over the next 15 years.

‘Elegance is when the inside is as beautiful as the outside.’ – GABRIELLE ‘COCO’ CHANEL



JEM JEWELLERY (JEWELLERY ETHICALLY MINDED), AN INNOVATIVE BRAND OF ETHICAL JEWELLERY

Created in 2010, JEM Jewellery Ethically Minded is a pioneer of ethical jewellery in France. Its policy is grounded in a ‘constant quest for beauty and fair trade’.

JEM only uses gold from Fairmined certified eco-responsible artisanal mines. The Fairmined label guarantees rigorous standards of environmental protection and economic and social development of mining communities, based on fair and supportive business relations. It also reduces the use of mercury, cyanide and other toxic substance releases that can cause serious environmental damage. All raw materials used by JEM and its suppliers can be traced.

When it’s not possible to meet the strictest ethical standards (for example when white gold is treated with chemicals or if products are transported by airplane between continents), it will tell its customers.

‘The luxury industry is responsible for its first tier suppliers, but also for its nth tier suppliers.’ – BRIGITTE DUMONT, CSR MANAGER

AT ORANGE





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We have also interviewed top luxury brands and industry experts and surveyed 200 consumers in France to examine how brands are trying to become greener, market their green credentials – and what consumers think of luxury brands' environmental claims.

Environmental imperative

In 2007, conservation charity WWF UK criticised luxury brands for their lack of commitment to sustainable development¹. Nine years later, it seems that there has been little improvement, according to consumers we spoke to.

More than 60% of the consumers told us that luxury brands either did nothing for the environment or must do more to protect it².

Consumers are placing more importance on a luxury brand's environmental impact.

37% of consumers we surveyed, said that they consider a luxury brand's environmental impact and ethics before buying it. Nearly eight in ten (78%) said that they will do so in the future.

There is growing demand for 'greener' brands, whether it's the ethical gold jewellery brand JEM Jewellery (which says that its gold products are made by 'artisanal mining communities'), or Jessica Alba's start-up, The Honest Company,



SUSTAINABILITY STRESS TESTS

Our 'Sustainability Stress Tests 2030'[©] focuses on three areas:

- Environmental
Is access to raw materials secured? Is waste treatment controlled? Is energy efficiency guaranteed? Are access to water and water management also guaranteed?
- Social
Are occupational health and safety properly addressed? How about the legal and regulatory framework? Is reputational risk a matter of concern? Are attractiveness and talent retention ensured?
- Economic
Is integrity of business relations guaranteed? Are financial transactions transparent? Do you create local wealth? Are the markets of tomorrow well addressed?

which makes environmentally friendly baby products.

These new brands – the Honest Company is now valued at 1.7 billion dollars³ – may take market share from traditional luxury brands if they do not adapt to consumers' environmental and social concerns.

'In short — and this is the heart of the problem — some of the raw materials required in the luxury industry are clearly endangered.'— DIANA VERDE NIETO, CO-FOUNDER AND CEO OF POSITIVE LUXURY



More than **60%** of the consumers told us that luxury brands either did nothing for the environment or must do more to protect it



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Risk to reputation

Luxury brands' carbon footprint is also under increased scrutiny from environmental pressure groups and activists. In recent years, for example, Greenpeace has claimed that luxury groups such as LVMH, Giorgio Armani and Hermès, have used too many chemicals.

In 2015, PETA (an animal rights organisation) asked Hermès to stop using crocodile and alligator skin and released a documentary showing the mistreatment of these animals.

Hermès promised to take closer control of its treatment of animals⁴.

Criticism about a company's environmental record can damage profits as well as reputations. A study by ACE group found that the environment was the main financial risk to the luxury industry, according to the companies' stakeholders⁵.

Patrick Le Quément, the former senior vice president of corporate design at Renault, told us that pressure for companies to be more environmentally sustainable is not a fad. 'If a luxury brand is a pioneer in sustainable development, its competitors will be forced to align to it', he said.

'It is the low demand that hinders the development of responsible gold supply chains. Jewellery brands are not yet ready to accept an additional cost of around 10%.'- DOROTHÉE CONTOUR, ENERAL MANAGER OF JEM JEWELLERY ETHICALLY MINDED



After LVMH (Moët Hennessy Louis Vuitton), a luxury-goods company, developed a 'green supply chain' scheme for its leather business⁶ (using the environmental certification ISO 14001 for its supply chain), its competitors also reviewed their supply chains.

Luxury with a conscience

More than 90% of people under 35 we surveyed were aware of environmental issues, compared to 72% of those aged between 35 and 50⁷.

Grégory Casper, co-author of Génération Y et le Luxe (Dunod Publishing House), told us that brand appeal is no longer sufficient for young people. They want a luxury product that is 'authentic' and environmentally sustainable, including information about its contents and origins.

Diamonds aren't forever: The scarcity of luxury raw materials

As luxury brands are well aware, many of the raw materials in their products are rare and being depleted due to climate change and environmental degradation.

'We are almost short of gold (almost everything we use is recycled), many of the additives used in cosmetics are harmful for the environment' said Diana Verde Nieto, co-founder and CEO of Positive Luxury, a trust mark for luxury brands that have a positive impact on society and the environment. 'It is harder and harder to find diamonds, and the use of exotic hides is increasingly controversial ... in short — and this is the heart of the problem — some of the raw materials required in the luxury industry are clearly endangered⁸.

Criticism about a company's environmental record can damage profits as well as reputations



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Consumers want guarantees that luxury products are made humanely

Transparent supply chains

Consumers want guarantees that luxury products are made humanely. 'Ten years from now, the main challenge that [it] will face will be the traceability,' Casper told us.

Identifying and auditing suppliers in large supply chains of contractors and sub-contractors in different continents can be difficult. Nevertheless, as Brigitte Dumont, CSR manager of Orange Group, told us 'the luxury industry is responsible for its first-tier suppliers, but also for its nth tier suppliers'.

In 2010, three European telecommunication operators, Deutsche Telekom, Orange and Telecom Italia, created an association to check and improve environmental and social standards in their supply chain. This network, the Joint Audit Corporation⁹, now includes thirteen telecom operators.

Tristan Lecomte, founder of Pur Projet, which 'helps companies regenerate and protect ecosystems upon which they depend' emphasises the importance of a method it calls 'insetting'.¹⁰ This process integrates the socio-environmental commitments of a company at the heart of its sectors and professions, in contrast to conventional carbon compensation – including "offsetting" – which does not involve any sustainable change in its activities.



'Ten years from now, the main challenge that the luxury industry will face will be traceability.' – GRÉGORY CASPER, CO-AUTHOR OF LA GÉNÉRATION Y ET LE LUXE, DUNOD PUBLISHING HOUSE



FIVE STARS: TIPS FOR MAKING YOUR LUXURY BRAND GREENER

Design:

- use widely available 'authentic' materials
- use synthetic materials

Production:

- use a (socially and environmentally) responsible supply chain

Marketing/sales:

- create specific product lines designed to include these alternative products
- create capsule collections
- move from the sale of an item to its lease (i.e. sale of a service)

Some luxury brands are putting this method into action. Clarins, the luxury skin care company is contributing to the preservation and study of thousands of plant species. It also finances the planting of medicinal plants in a botanical garden in Peru managed by women from local communities¹¹.

Changing raw materials can also help the environment.

In 2015, Swedish retail giant IKEA became the first major retailer that uses only "sustainable" cotton, as part of the 'better cotton initiative' (<http://bettercotton.org/>) while at the same time increasing the income of producers, even though it's profit margins are well below those of luxury brands.



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Gold Standard

Action on the environment isn't a luxury and can make good business sense. Take, JEM Jewellery Ethically Minded, only uses gold that is produced in independent, responsible, artisanal and small-scale mines. Dorothee Contour, general manager of JEM, notes that it is the low demand that hinders the development of responsible gold supply chains. But why such poor demand? According to her, jewellery brands are not yet ready to accept an additional cost of around ten percent.

Barbara Coignet, founder of 1.618 Sustainable Luxury, told us that consumers will pay more for an exceptional product with an inspiring history. She gave the example of Kimberley Sciaky-Yeshi yak hair scarves and sweaters as an example. The scarves are made in a workshop in Tibet, which employs more than a hundred nomads.

Some luxury brands are developing environmentally friendly raw materials. In 2013, champagne brand Veuve Clicquot created the first 100% biodegradable and isothermal packaging, made from a material derived from potato starch.

Environmental innovation can also come through new product lines, as BMW has shown with its BMWi electric cars.

'I hope that the technological innovations designed for the prestigious America's Cup boat race will re-boost sailing boats and even lead to the design of hybrid boats – powered by the wind and the engine.' –
MARC VAN PETEGHEM, NAVAL ARCHITECT



GLOBAL WARMING THREATENS THE RAW MATERIAL SUPPLY FOR THE LUXURY INDUSTRY

The luxury industry uses many exceptional raw materials. Yet most of these materials are fragile and highly dependent on their natural environment. Global warming and human stress on the environment threaten the sustainability of these resources.

The wine and spirits industry is one of the most affected. Climate change alters the quality of soils and will lead to significant changes in products. For instance, the wine production in Aquitaine could be threatened by 2050. In fact, a temperature rise of just a few degrees leads to a decrease in the content of polyphenol, which is indispensable to the maturation of wine. This phenomenon was already noticed during the 2003 heat wave. To anticipate this change, some retailers already invest in new vineyard located further north. Taittinger has already bought 69 hectares of land in Kent, UK.

The wine and spirits industry is not the only one threatened, the perfumes and cosmetics will also be affected. The Bulgarian rose, whose essence is one of the most popular in the world, could disappear. The exceptionality of this rose lies in the warm, overcast and rainy climate in the valley where it grows. In response to this cloudy climate, it develops a thin layer of wax that prevents the formation of harmful acids in the essence. Less frequent rains in this region cause a change in the quality of the rose and lower yields. This lower yield and the associated increased costs could have significant consequences for the cosmetics industry –in particular for Guerlain, a luxury beauty product company, which buys more than 10% of the Bulgarian rose production.



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Persuading designers to consider the environment when designing products is not an easy task, partly because not all of them are aware of environmental issues. Some designers claim that environmentally-friendly design is incompatible with performance or being visually appealing.

The naval architect Marc Van Peteghem rejects this idea, citing the 'rigid wing' sails developed for America's Cup. The sails are genuine wind engines fitted on the boats and prove that yachts can boast both beauty and high performance.

Van Peteghem hopes that the technological innovations designed for this prestigious race may even lead to the design of hybrid boats (powered by the wind and the engine) that will be easy to use through rig tuning automation.

Nieto of Positive Luxury calls for a "transition from natural to synthetic" to reduce damage to the environment. There are two main challenges: one, creating new materials which are as interesting and beautiful as natural materials but which also have a smaller environmental footprint. The synthetic must be desirable.

As Karl Lagerfeld once said, "you cannot fake chic but you can be chic and fake fur".

METHODOLOGY OF THE STUDY



- Our industry knowledge, based on helping some of the world's biggest luxury brands
- Twelve interviews with experts from the luxury industry and/or environmental experts
- A consumer survey of 200 customers at Paris luxury stores
- Bibliographic research and press clippings

Given the diversity of the luxury industry sectors and for consistency purposes, we restricted our study to the following areas: wines and spirits; fashion and leather products; watches and jewellery; and perfumes and cosmetics. Therefore, hotels and restaurants are excluded from this study, as they provide services and not goods, as well the 'heavy' industries, such as the automotive industry, because we believe that the challenges they face are of a different nature. Also, we decided to limit our reflections to environmental matters.

Conclusion

'Sustainable development is not a constraint,' said François-Henri Pinault, the French luxury goods magnate. 'It is an opportunity if it is integrated with your business.'

Brands such as JEM Jewellery Ethically Minded have shown that being green can be profitable. Traditional luxury companies have begun to experiment with their CSR and become more transparent about their environmental credentials.

But despite some progress, pressure groups and consumers say that many luxury brands aren't doing enough to embed environmental sustainability into their exclusive products. Failure to act could result in the gradual decline or even demise of some brands.

As Tristan Lecomte¹² puts it, the future of luxury will be 'ethical and responsible, or it will not be at all'. 🍷

'The future of luxury will be ethical and responsible, or it will not be at all.' –
TRISTAN LECOMTE, FOUNDER AND CEO OF PUR PROJECT





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At the BearingPoint Institute, our ambition goes beyond traditional 'thought leadership'. We aim to contribute original ideas to the science of business management whilst equipping decision makers with practical advice gained in the field and through our research projects.

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About BearingPoint

BearingPoint consultants understand that the world of business changes constantly and that the resulting complexities demand intelligent and adaptive solutions. Our clients, whether in commercial or financial industries or in government, experience real results when they work with us. We combine industry, operational and technology skills with relevant proprietary and other assets in order to tailor solutions for each client's individual challenges. This adaptive approach is at the heart of our culture and has led to long-standing relationships with many of the world's leading companies and organizations. Our global consulting network more than 10,000 people serves clients in over 75 countries and engages with them for measurable results and long-lasting success.

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