

BCG x COMITÉ COLBERT

# LUXURY OUTLOOK 2022

Advancing as a responsible pioneer

*Rarity, sustainability, exclusivity,  
new experiences, and new territories*

By Joël Hazan, Sarah Willersdorf, Filippo Bianchi  
and Benjamin Fassenot



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# Introduction

**“Luxury is the richness of craftsmanship, the expression of creative genius, the illustration of ancestral expertise.”**

*Guy Savoy, three-Michelin-star chef at the Monnaie de Paris*

In recent years, the luxury industry has demonstrated its ability to endure and overcome crises, lending weight to market estimates that predict a return in 2022 to pre-COVID-19 levels of value creation and growth of 6% between 2022 and 2026—and French luxury fashion houses are playing their cards right. Now more than ever, in countries where it is most highly developed, luxury is a source of national pride for the general public. This is the opinion of 85% of French respondents and 80% of Italian respondents to a BCG and Potloc survey conducted in April 2022.

Today, consumers view luxury as being defined by quality, craftsmanship, and creativity. They also believe that it bears a certain social and environmental responsibility. Luxury is “to preserve, develop, and pass on to future generations,” according to Laurent Boillot, President and CEO of Hennessy and the newly elected Chairman of Comité Colbert.

But the industry is now facing paradigm shifts across its spectrum of activity. For example, six out of ten consumers say that they incorporate sustainable development into their purchasing decision, almost half are interested in the concept of a virtual store, and 80% believe that luxury fashion houses should commit to product life-cycle management beyond production and sales.

These new demands and aspirations facing luxury fashion houses in France and abroad highlight emerging pressures to which players must respond individually or collectively. Naturally, given its flourishing economic success and its excellence in certain areas (such as product quality and customer relationships), luxury has a responsibility to help drive a larger movement that extends beyond its industry sector. As an international leader in the luxury industry, France should be at the forefront of progress in this area.

After conducting more than 40 interviews with Comité Colbert members, luxury fashion house directors, and industry experts, we identified five challenges and opportunities for the future of the luxury industry:

- 1. Resources and Production.** From excellence in core expertise to responsibility across the entire supply chain, the industry must perpetuate quality and accelerate innovation in view of the scarcity of resources.
- 2. Life Cycle.** From symbolic products to responsibility for the entire product life cycle, it must reconcile sustainability, use, rarity, and novelty.
- 3. Customer Relationship.** From physical experience to digital reconciliation, the luxury industry must translate excellence into new experiences.
- 4. Responsibility.** From competitive advantage to collective imperative, it must lead the environmental, social, and governance (ESG) transition in coalition.
- 5. Globalization.** From unreserved globalization to a reevaluation of geostrategic dependencies, it must navigate new territories and anticipate risks.

By analyzing each of these issues, we hope to demonstrate in this report that **luxury, based on its core principles, can become and is becoming a bold pioneer of change.**

**Bénédicte Épinay,**  
President and CEO of Comité Colbert

**Joël Hazan,**  
Managing Director & Partner at Boston Consulting Group in Paris

*Disclaimer: The results of this report stem from the survey and from analyses conducted by BCG on the basis of interviews with members of Comité Colbert and external experts.*





Resources and  
Production:  
from excellence  
in core expertise  
to responsibility across  
the entire supply chain

## Perpetuating quality and accelerating innovation in view of the scarcity of resources

**“Close collaboration between private players and public authorities is essential. Without it, we risk permanently losing certain expertise.”**

Alexandre Boquel, Director of Métiers d'Excellence at LVMH

In the face of the climate emergency, there is **existing pressure on physical resources**. The imbalance between the need for raw materials and their availability has grown despite efforts to increase demand planning and optimize production.

**Collaboration** among industry players would help to initiate a profound transformation at every level and develop robust standards to deal with environmental challenges. On the one hand, there is a need to **improve traceability** in order to better control and trace the

2/3

proportion of luxury consumers who are convinced of luxury product sustainability

### 1.1 Going beyond optimizing production know-how to establishing standards throughout the sector and the industry.

Luxury fashion houses have been among the first to face the finite nature and scarcity of resources in their production chains. They are also increasingly forced to deal with regulatory constraints (such as traceability) and consumer pressure, and are now aiming to improve their practices across the value chain.

Historically, luxury fashion houses have devoted themselves to optimizing their processes, notably by making greater use of data to anticipate demand and to align production levels. Some fashion houses have also chosen to limit their production in order to guarantee their customers the highest quality; this is the case, for example, with the Saint-Louis crystal glassworks. It is now important that we go beyond the frontiers of expertise and explore each sector with an eye toward transforming the industry at a deeper level. For luxury fashion houses, this means tracing every element of the sometimes-complex supply chain (for example, the leather supply) in order to re-connect the source of the raw materials with the finished product.

The aim is to bring together all of the players involved (farmers, breeders, and so on) and collaboratively define robust standards. *“We work with all of the sectors, taking a scientific approach. This is what we have done for ostrich*

supply chain. On the other hand, there is a need **to accelerate innovation**, which is not yet considered a real industry asset, and to support the search for materials for the future that are in line with environmental constraints and regulations.

There is also **pressure on human resources**. Luxury fashion houses face difficulties in recruiting for production, sales, and, in particular, artistic crafts because they are relatively unknown and even **undervalued**. This situation poses a threat to the **transmission of expertise** that is indispensable for luxury to continue to exist.

Industry players could **work with governments** and each other to promote craft occupations among younger generations, and they could **increase their attractiveness** to high-potential talent by investing more in vocational guidance.

7<sup>th</sup>

ranking of the luxury industry in terms of innovativeness

farming” (Olivier Fournier, President of the Fondation d’entreprise Hermès). Some luxury fashion houses—for example, MMPJ and Kering—train and financially support farmers, and set up incentive systems to promote good practices. *“There is a key challenge around supply chain traceability, which is essential to properly influence and re-ward the players in the earlier stages of these chains. It is constraining, but it is how the industry can develop.”* (Marie-Claire Daveu, Chief Sustainability Officer and Head of Institutional Affairs at Kering). To ensure this traceability, the fashion houses could work to develop a digital ID for each product that would record all of the information needed to trace the product’s source and manufacturing stages.

Some luxury fashion houses, especially those that tend to renew their collections more often, are under increasing pressure from stakeholders to address environmental challenges. In recent years, the sector has seen an increasing number of initiatives on innovation and research into materials for the future that can respond to these new challenges. These product innovations were first used in luxury items by foreign fashion houses such as Ralph Lauren, which recently partnered with the startup Natural Fiber Welding to develop the RLX CLARUS which transforms virgin and recycled cotton in new ways to create high performance fabric. Reflecting on this initiative, Patrice Louvet, President and CEO of Ralph Lauren is convinced that *“the luxury industry has an incredible responsibility to play a role in sustainability.”*



French luxury fashion houses are now in step; Kering, for instance, created its Material Innovation Lab in 2021, piloting projects based on innovative raw materials and biotechnology research.

Such scientific research currently faces some technical limitations that it must overcome in order to scale up. *“Today, it has become essential to innovate and make environmentally responsible products, but the process is still constraining, and we face difficulties to produce on an industrial*

*scale”* (Philippe Bénacín, Cofounder, President, and CEO of Inter Parfums). This suggests that fashion houses should not pursue these efforts separately, but rather that all players in the sector should come together to develop and create sustainable materials for the future. For example, replacing plastic requires the collaboration of all players in the sector. With this in mind, Kering wishes to use its Material Innovation Lab to develop pilot projects involving innovative raw materials that incorporate insights from biotechnology research projects, going beyond the luxury sector.

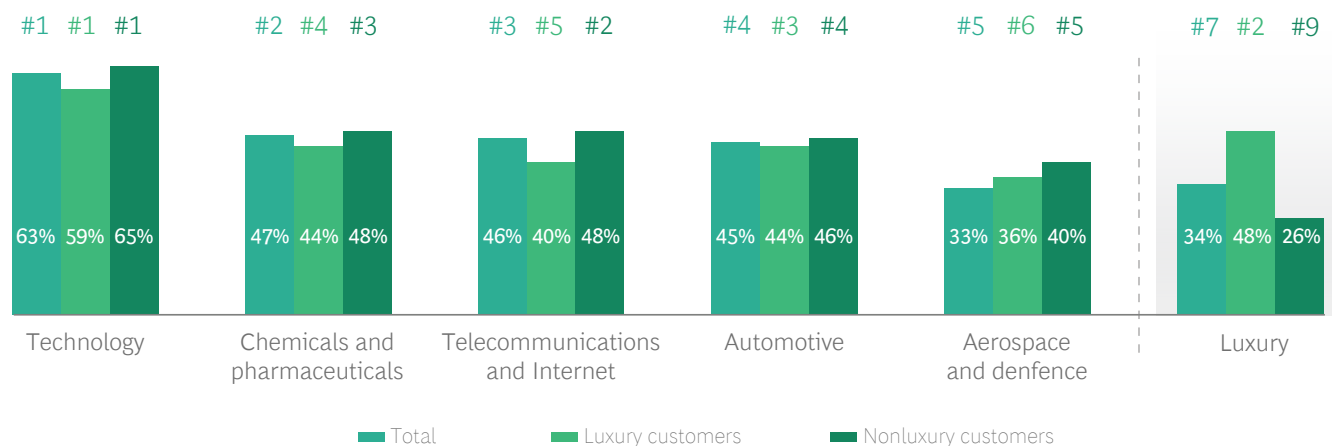
## Exhibit 1 - Production and Resources

The luxury industry is perceived as lagging behind others on innovation, with only a few brands and collections thoroughly engaged

The luxury industry appears in seventh place among the most innovative sectors, although luxury clients rank it higher

### Industries perceived as the most innovative<sup>1</sup>

Industry ranking:



Nonexhaustive

### Examples of product innovations in the luxury industry

2001

**STELLA McCARTNEY**

**All Collections**

Vegan clothing and accessories (e.g., biodegradable jeans, yeast-based silk)

2019

**PRADA**

**Collection Re-Nylon**

Clothing and leather goods made of nylon created by recycling plastic waste from the ocean ("econyl" technology)

2021

**CARTIER**

**Watch TankMust Solar Beat**

Bracelet made of apple residue with a dial powered by solar energy

2021

**KERING**

**Material Innovation Lab**

Pilot projects using innovative raw materials and integrating biotechnology research

Source: BCG x Potloc survey conducted in April 2022 in France, the US, and Europe.

1 Percentage of respondents ranking the industry in the top five most innovative industries out of a total of 16 industries.

## 1.2 From preservation of craftspeople to a widespread talent war

The pressure on physical resources extends to human resources, since the transmission of expertise and of manufacturing processes is critical to guaranteeing the quality of luxury products, which in turn is key to the viability of the industry. Quality and expertise are the two attributes that best define luxury, according to the European and American consumers we surveyed.

Today, some artistic and crafts trades have lost their prominence, putting the availability of expertise at risk. People of all ages left more than 20,000 positions vacant in 2021, almost twice as many unfilled openings as there were in 2019. Various factors have contributed to this situation: jobs are undervalued in career guidance processes, there is a lack of knowledge of them, sometimes they are remotely located, and career prospects may be limited. As a result, in France, 65% of all positions for leather and textile crafts workers are unfilled, according to the 2021 Labor Requirements survey conducted by the French government employment agency Pôle emploi—almost three times as many vacancies as for certain positions in the services sector. *“Our business is limited by our workforce, and the balance remains fragile. The transmission of expertise is therefore an absolute necessity to ensure a sustainable future for our company”* (Vincent Frey, General Manager at Pierre Frey).

It is therefore essential that we preserve and promote these professions. The luxury fashion houses have understood this well and have created their own schools, such as the LVMH’s Institute of Métiers d’Excellence, the École Hermès des savoir-faire, and Van Cleef & Arpels’ L’École, School of Jewelry Arts. These schools aim to create training courses that optimize skills development and state recognition. Van Cleef & Arpels has also developed *De mains en mains* (“from Hand to Hand”), a career path discovery program for students in middle schools within French priority education zones, to offer access to skilled trades and provide long-term guidance to interested young people. For its part, Chanel opened 19M, bringing together 11 *maisons d’art* and 600 artisans with the goal of turning it

into a hub for creation and innovation, but also for transmitting expertise by welcoming professionals, students, and young apprentices. In collaboration with the Institut Français de la Mode, Chanel has also created an academic department to develop a center for research and instruction in fashion expertise, for the purpose of preserving artistic crafts. In the field of gastronomy, the Ritz Paris works to pass on expertise through the École Ritz Escoffier, which offers professional cooking and pastry courses, as well as courses and workshops open to everyone.

To ensure that the work carried out by the luxury fashion houses has a lasting impact, *“it is now vital that we see close collaboration between private players and public authorities. Without this, we risk permanently losing some expertise”* (Alexandre Boquel, Director of Métiers d’Excellence at LVMH). To this end, local authorities, incubators, companies, and training centers in Paris created the Campus d’excellence des métiers d’Art et du Design. Its aim is to make these *métiers d’excellence* (areas of expertise) more visible and the training more accessible.

For a long time, luxury fashion houses have quite rightly focused on preserving areas of expertise. However, the need to recruit now extends beyond this effort. For the first time, fashion houses face difficulties in attracting and retaining high-potential talents across all sectors. For this reason, companies must now work toward changing the image of their employer brand. The war for talent is mainly a result of younger generations’ desire for very flexible and meaningful work. It is felt particularly strongly in such areas of the company as sales-related roles (for example, retail outlet management and sales advice) and digital design roles. As a result, luxury companies must differentiate themselves through tailored offerings that take into account the needs of new generations (for example, flexibility in their career path, strong internal mobility, and customized training).



## Comité Colbert Outlook

Influencing regulations on the luxury fashion houses' production methods, for better and for worse

—Laurent Dhennequin, Chief of Staff of the Comité Colbert

### What are the different regulations in the luxury industry, and how have they evolved?

From the start of the millennium, the first decrees and directives on environmental, social, and health matters began to multiply. They came from a wide variety of players (the EU, local authorities, and others) and notably included nonfinancial reporting, measuring environmental footprints, and banning certain chemical components. The luxury fashion houses also face increasing numbers of international regulatory constraints (such as specific taxes, unrecognized appellations, a diverse range of conformity tests, and country-specific requirements). Given that the sector has a strong focus on exports, this further complicates the country-specific responses.

### How do the luxury fashion houses need adapt to these regulatory constraints?

Generally, regulations have a positive purpose and ensure that environmental issues are taken into account. However, they do not sufficiently account for the particularities of the sector. The fashion houses have not waited for these regulations to come into force to ensure the sustainability of their products. For several years, some of them have been redesigning their various chains to ensure the quality of raw materials.

### What are the limits of these regulations?

Although the regulations are well-intentioned, there is still a significant gap between how public authorities see the sector and how it works in practice. As a result, certain laws use benchmarks that are ill-suited or wholly unsuitable for the industry. For example, displaying the environmental footprint of products does not sufficiently convey the sustainability of luxury products, as there are times when some fast fashion products achieve the top environ-

mental scores. In addition, some regulations are too restrictive because they are too heavily based on the precautionary principle. For example, the presence of certain substances is now measured in parts per billion (ppb), whereas it was previously measured in parts per million (ppm) and before that as a percentage. This leads to over-measuring substances that can already be found everywhere in small quantities. Furthermore, some laws, such as the Digital Services Act (DSA), cover many subjects simultaneously in a very horizontal way, which has a negative impact in specific situations. As a result, issues surrounding intellectual property protection in the fight against counterfeiting have not been dealt with in this context with the efficiency needed to protect consumers.

Another example is the implementation of restrictive regulations, particularly those linked to certain materials whose alternative is not necessarily better in terms of health (for example, silver versus stainless steel). This may unfairly impact certain areas of expertise and even lead to the end of an industry (such as ironwork). To address these pitfalls, Comité Colbert is in active discussions with legislators to remind them of the particularities of the industry. It is also working with similar entities from other countries to enforce its message within the European Union. Nonetheless, it is now essential for luxury fashion houses to form coalitions around these collective issues, among themselves but also with other sectors impacted by industry regulations (plastic, silver, leather, and the like) so that progress can be made on these issues.



## Focus

Kering, a role model for ecosystem preservation through sustainable redesign of its supply chains

Kering is now committed to proactively redesigning its supply chains and is sustainably investing throughout its value chain so that it can perfectly trace most of its raw materials. The luxury fashion house has also set itself the goal of achieving full traceability of its key raw materials by 2025. The group has already launched several technologies to support progress toward this objective, such as developing organic cotton that is 100% traceable through analyzing the natural chemical properties of individual fibers that can link them to the field in which they grew. Kering is also expressly committed to preserving the climate, nature, and ways of life through a fund that *“supports the transition to more regenerative practices through scholarships awarded to groups of farmers, project leaders, NGOs, and other players willing to test, corroborate, and develop agricultural practices in harmony with ecosystems.”* Launched in January 2021, the Regenerative Fund for Nature emphasizes the urgent need to act for the future of the planet. Through these efforts, Kering has positioned itself as a leader in best practices. Using the example of leather, in 2021, the fund notably invested in the Solidaridad project in Argentina, which *“aims to promote sustainable management of pastures in the Gran Chaco region. It also aims to restore native forests and the vegetation within them. By the end of this pilot project, Solidaridad hopes to triple the income of local farmers.”*





# Focus

## The Institut des Métiers d'Excellence works to preserve expertise

**F**ounded in 2014 by LVMH, the Institut des Métiers d'Excellence (IME) is committed to training and passing on expertise in 27 trades ranging from crafts and design to excellent customer service. For example, it is possible to train in sewing, culinary arts, or even sales advice. This work/study training is offered to career-changing professionals and to young people, including those with no qualifications, and yet it applies extremely rigorous selection criteria.

The IME aims to be part of a comprehensive learning pathway that combines theory and practice, and ultimately offers qualifications ranging from CAP (*Certificate d'Aptitude Professionnelle*, a vocational French qualification) to Master's. Apprentices enroll in technical and theoretical courses in any of 24 partner schools and can gain practical experience in one of the 39 luxury fashion houses linked to the program. The IME works with reference schools that are certified and recognized by the French State, such as the Compagnons du Devoir or the Haute Ecole de Joaillerie.

The group has already trained nearly 1,400 apprentices in six different countries (France, Switzerland, Italy, Spain, Japan, and most recently Germany). In September 2021, the institute had a record 339 students at the start of the academic year. This sector of excellence, which focuses on human side of the sector, guarantees a 99% success rate for the various qualifications, and 75% of young people secure a job with LVMH or its external partners.





Life Cycle:  
from symbolic  
products to  
responsibility for  
the entire product  
life cycle



## Bringing together sustainability, usage, rarity, and innovation

**“The first way to help the environment is to have products that last a long time.”**

*Jean Cassegrain, CEO of Longchamp*

**“Buying second hand shows respect for our creativity. It’s how fashion and luxury can come together.”**

*Lionel Vermeil, Director of Fashion and Luxury Intelligence at Kering.*

Together, the quality of the raw materials used and the expertise of the industry mean that luxury products tend to be **inherently sustainable**. But this idea of sustainability raises the issue of **how products are actually used** and what their stylistic life span is. How they are used is more important than how they are produced.

80% ▶

luxury consumers who think luxury fashion houses must be involved in the product life cycle

### 2.1 From putting sustainability at the heart of luxury DNA, to considering how products are actually used

The concept of sustainability lies at the heart of luxury fashion houses’ DNA. This is due in the first place to the fact that their products combine high-quality raw materials and extensive expertise, meaning that they effectively last longer. *“The first way to help the environment is to have products that last a long time”* (Jean Cassegrain, CEO of Longchamp). Second, the relative rarity of luxury products, particularly in connection with their exceptional quality, reflects their limited production. *“Our products are produced in a limited number to ensure their quality and craftsmanship”* (Guillaume de Seynes, Executive Vice-President Manufacturing and Equity Investments at Hermès). Quality and rarity thus provide luxury fashion houses with a theoretical competitive advantage in dealing with new environmental challenges.

Beyond their inherent sustainability, luxury products also have a stylistic lifespan and a pattern of usage. From a stylistic point of view, it is necessary to distinguish between timeless luxury and fashion.

On the one hand, timeless luxury has a seemingly never-ending stylistic lifespan thanks to iconic products that remain just as desirable in later years as when they were first made. The Louis Vuitton Keepall bag has never left the catalog since its debut almost a century ago in 1930. Other luxury fashion houses that continue to offer their original

In the face of the climate emergency, luxury fashion houses must commit to extending or even multiplying how long the product is supposed to last over its entire life cycle. To this end, fashion houses must invest in **new usage-optimization models** that take multiple scenarios into account: **repairing**, to ensure the durability of products; **second hand**, to increase the number of uses; **recycling** or **upcycling**, to give existing products a second life; and **renting**, to limit consumption and maximize usage.

The **second-hand** market is currently experiencing **strong growth**. As a result, it now represents an opportunity for luxury fashion houses to align themselves with the needs and preferences of younger generations, as well as to encourage sustainable consumption. In this context, product **traceability** and **authentication** are key issues in this market.

€50 billion ▶

predicted value of the second-hand market by 2025 (+13% per year vs. +5% per year for the first-hand market)

product ranges today include Hermès, an artisan saddler since 1837, and Saint-Louis, a former royal glassworks founded in 1586. *“With the end of overconsumption, our strategy is to make our products iconic without racing for innovation”* (Cyrille Vigneron, President and CEO of Cartier).

On the other hand, fashion represents new trends and the constant search for creativity. *“Luxury survives the seasons; fashion marks a season”* (Lionel Vermeil, Director of Fashion and Luxury Intelligence at Kering). Many companies in the ready-to-wear industry released two collections in the past year (Fall-Winter and Spring-Summer), but the so-called fashion houses now offer as many as four collections, as relatively season-specific models have become increasingly popular and recognizable. The same is true in the fragrances and cosmetics sector, which continues to release more and more new products every year. In the early 1990s, about 100 launches would be expected per year, compared to more than 3,700 in 2019.

Creating iconic products is a potential solution to the sustainability issue. But even iconic products today are often accompanied by new ones: variations on the original model in different colors, shapes, materials, sizes, uses, and so on. Consequently, the entire luxury industry must consider how its products are actually used. Today, 70% of luxury customers view commitment to the environmental impact of products as a basic criterion to consider when choosing a product to buy.

## Exhibit 2 - Life Cycle

Intrinsic value and frequency of use need to be taken into account when assessing the environmental impact of luxury goods



The scenarios above are theoretical and for illustrative purposes only.

### French silk versus Chinese polyester sweater:

We estimated the number of potential uses on the basis of product quality and the garment's ability to survive seasons and trends.

### French versus Bangladesh leather shoes:

The French leather shoes are owned by someone who has several pairs of shoes and who wears that pair only on special occasions. The leather shoes from Bangladesh are worn every day for a few years.

## 2.2 A duty to join forces and excel at optimizing usage

Based on this observation, the luxury fashion houses must consider how consumers use their products throughout the products' life cycle. Considered in this light, four major optimization models emerge.

### Offering repair services to ensure product longevity

Repair services are the first lever that fashion houses can use to ensure the longevity of their products. At Hermès, as Robert Dumas once said, "*luxury is that which can be repaired.*" Every year, customers bring more than 12,000 Hermès items back to stores to give them a second wind. Similarly, Chanel offers repair and restoration services for its iconic bags as part of a dedicated program called *Chanel & moi*.

### Developing the second-hand market to multiply life cycles

The second-hand market offers another way to multiply the uses of luxury goods over time. Beyond its positive impact on products' ecological footprint, the second-hand market

can give some fashion pieces a second life decades after their first appearance. "*The second-hand market demonstrates respect for our creativity. This is where fashion can be closer to luxury*" (Lionel Vermeil, Director of Fashion and Luxury Intelligence at Kering).

The second-hand market also presents a unique opportunity to move a portion of the population toward better-quality and therefore more sustainable products; some people would prefer a single second-hand luxury product to a number of new products designed by mass-market brands with a lower intrinsic lifetime. The second-hand market can thereby limit overconsumption, reduce the ecological footprint, and help drive the transition toward sustainability.

Indeed, the second-hand market grew twice as fast as the first-hand market, driven by the younger generations (83% of Gen Z survey respondents said that they would be willing to own clothes temporarily). The second-hand luxury market was estimated to be worth around €33 billion in 2021 and is expected to exceed €50 billion by 2025. Given this enthusiasm, luxury fashion houses are adopting different positions, depending on their size, their value-generating potential, the preexistence of

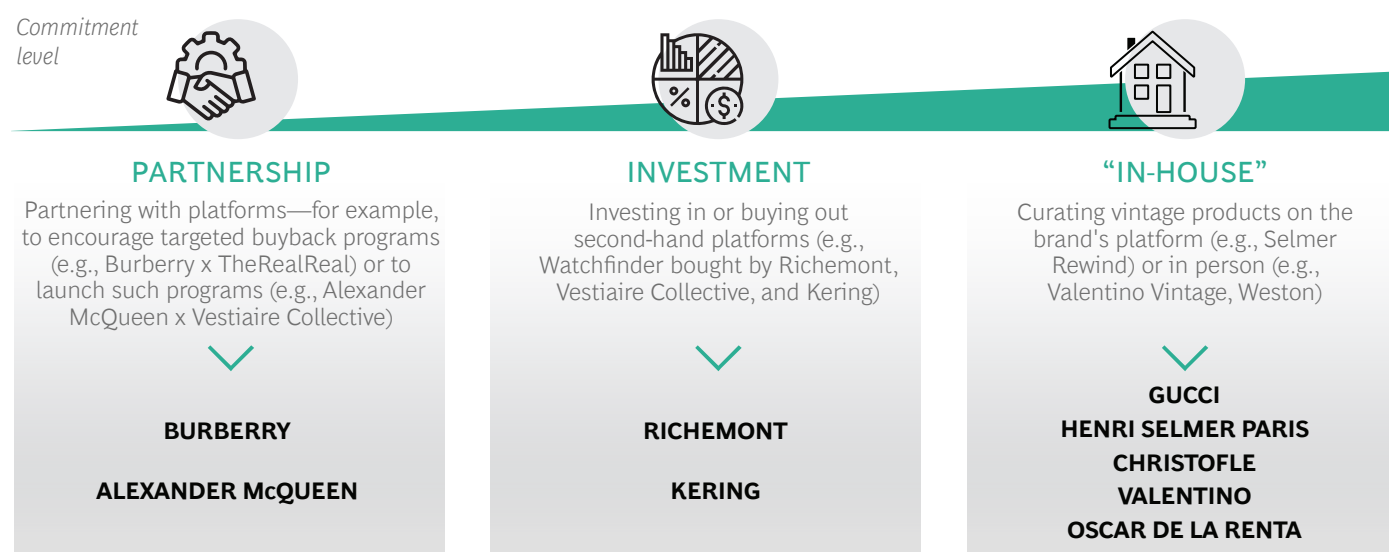
relevant platforms, and their operating philosophy. Those that favor participating in second-hand markets can do so in several ways: they can establish partnerships with existing platforms; they can acquire a pure-play company in the market; or they can develop their own in-house model like Christofle and Selmer, which plan to offer their customers old restored models, thus strongly affirming their commitment to a circular and responsible economy. *“We chose to start an internal second-hand business. For customers, there is extra value in buying iconic vintage pieces that are guaranteed by us, and for us, the economic value is*

*positive”* (Thierry Oriez, Executive President of Henri Selmer).

Although investments made by luxury fashion houses in the second-hand market demonstrate their commitment to meeting emerging customer expectations and enable them to control their image, luxury brands must be attentive to the need to maintain customers’ dreams and emotions—the differentiators in the industry—in both the first- and second-hand markets, while clearly distinguishing between the two markets.

## Exhibit 3 - Life Cycle

### Three main engagement models for luxury players to adopt in developing the second-hand market



#### Recycling or upcycling products to give them a second life

To preserve or increase the emotional value of used or outdated products, some luxury fashion houses rely on recycling or upcycling. These techniques, which involve transforming existing pieces or materials, give products a second life. For example, the fashion houses of the LVMH group, such as Louis Vuitton and Ruinart, are increasingly engaged in recycling or upcycling efforts. During his Spring/Summer 2021 fashion show, designer Virgil Abloh, Louis Vuitton Artistic Director, created LV Trainer Upcycling from the first LV Trainer models, in partnership with the company’s shoe factory in Fiesso d’Artico. The original models were deconstructed and transformed to bring a new generation of LV Trainers to life.

On a broader scale, in 2021, LVMH teamed up with Weturn, a textile recycling startup, to give unsold clothes a second life. Twelve of the group’s fashion houses will begin selling their unused fabrics on the Nona Source platform by the end of 2022.

#### Maximizing use through rental

Yet another way to limit environmental impact while maximizing the use of luxury pieces is through rental. This market is relatively small (projected to reach €2 billion by 2025) and is still struggling to achieve the expected success. Although consumer expectations are high, rental remains focused on certain product categories, such as leather goods (29% of rentals are handbags). Several projects, such as The Lauren Look (Ralph Lauren), Tulerie launched by Violet Gross and Merri Smith, Vivrelle for jewelry, Daytime or Yourse for designer furniture, are exploring different rental models. So far, however, none have stood out, and retailers who have attempted them have failed to achieve their goals.

These still-nascent initiatives underscore the economic necessity of finding the right model. An innovative environmental approach is sustainable in the long run only if it is financially viable. To achieve this, sharing ideas and initiatives between luxury fashion houses within the same group (as in the case of Kering’s investment in Vestiaire Collective) as well as between fashion houses of different groups (for example, product authentication via the Aura Blockchain) may be sound strategies, enabling participants to accelerate change and make the necessary investments.



## Expert Interview

Vestiaire Collective and the relationship with luxury fashion houses in the second-hand market

—Maximilian Bittner, CEO & Chairman of Vestiaire Collective

**In theory, the second-hand market allows a product to be used multiple times, thus limiting its environmental impact—but is it not sometimes a catalyst for increased consumption?**

Vestiaire Collective is an online marketplace for buying and selling second-hand luxury fashion products, and therefore aims at finding new life cycles for products, to better amortize their environmental costs. The durability, the quality, and the iconicity of our inventory's pieces make them attractive for a large audience. Pieces find a second or even a third life, regardless of seasons, sometimes even from one generation to another. We are trying to educate consumers against overproduction and overconsumption, by incentivizing them to "buy better," preferring quality over quantity, reconciling these values with a certain financial affordability. Namely, consumers can afford products of higher quality through the second-hand market, than they could have afforded buying new. As recently published in our impact report, we are convinced at Vestiaire Collective that second-hand creates a virtuous circle fighting against overconsumption and having a real positive impact on the environment. By purchasing on Vestiaire Collective, a given customer reduces by 90% the environmental cost linked to buying a new one.

**What relationship do you have with the luxury fashion houses?**

We are positioning ourselves as a real partner of luxury brands by offering a tailored resale solution. The circularity process of Vestiaire Collective also naturally supports the iconization of luxury products. Having some items available for sale several years after their release prevents them from falling into oblivion and guarantees them a perpetual presence in the wardrobes of current and future luxury customers.

**Why are some luxury fashion houses still opposed to the second-hand market?**

Luxury products are intended to live forever and to pass through new generations. The second-hand market must be at the heart of luxury brands' strategy to reduce their environmental impact. Engaging in the second-hand market would allow luxury brands to have power over their resale pricing and to control the products' traceability and authenticity more effectively. On the other hand, second hand should also be perceived as a catalyst for creativity. In fact, once the second-hand circuit is well controlled, it should allow brands to innovate more and launch more exclusive collections to differentiate their new products from their historical ones.



## Expert Interview

Re-SEE: the ultra-luxury second-hand platform

—Sofia Bernardin, Co-founder and President of ReSEE

### Can you tell us a little more about what Re-SEE is and how it is positioned in the second-hand market?

Founded in 2012, Re-SEE is an ultra-luxury second-hand platform for women. Our model is a mix of C2C and C2B2C, but in all cases the products pass through and are stored in our workshops before being resold to collectors or enthusiasts looking for exclusive pieces. On the platform, the brands live through the enhancement of products and, behind each piece, the heritage of the brand and the collection is told. The pieces displayed are therefore the retelling of a unique moment in the history of a luxury fashion house.

Today, only around 5,000 pieces are offered on the site per year, because each piece is rigorously chosen by our experts. Of course, we aim to increase this figure in the coming years, with an ambitious goal of increasing it tenfold in five years, but we want to maintain a very high standard of curation in all cases—the average basket being around €12,000. In addition, we strive to capture the luxury experience. For example, on the seller side, we have a concierge system in place to collect pieces directly from their homes, and sometimes we use stylists to help sellers sort through their closets and choose the pieces they want to sell. For buyers, we systematically repair damaged pieces and offer maintenance accessories.

### How is the ultra-luxury second-hand market doing?

The second-hand market is booming. Our growth is doubling every year, driven mainly by handbags and clothing, though the proportion of high jewelry in our income is growing. We are also soon entering the watch segment. Second-hand models are becoming increasingly integrated into the consumption patterns of ultra-luxury customers, whether they are sellers or buyers. All customers are taking the plunge, and we are working hard to address the untapped potential of women's closets.

### How is your platform perceived by the luxury fashion houses?

We hope to position ourselves as a partner of the luxury industry. In fact, brands are very interested in our platform because we apply the same discipline in terms of standards and DNA, whether it be in the curation of our products, in the online experience, or in the selling or buying experience. We are therefore a partner of choice for fashion houses that have not yet integrated the second-hand market into their internal growth model and that would like to start selling old pieces or historic collections.





# Customer Relationship: from physical experience to digital reconciliation



## Translating excellence into new experiences

**“Digital is a great opportunity to deliver an improved experience to our in-store customers.”**

*Jérôme de Lavergnolle, President and CEO of Saint-Louis*

**H**ampered by certain **limitations of Web2**, notably **leading to a certain level of content standardization**, luxury brands are not yet able to translate the excellence of the physical experience of their products to the digital world. In addition, mass-market brands, having invested in digital ahead of time, have **diminished the historical differentiation** that existed with luxury brands. Luxury brands must therefore continue along the road to **omnichannel service** and use data to translate the excellence of the physical experience to the digital world.

The luxury segment must also **continue to reinvent the physical customer experience** (particularly through services) to defend its values of excellence, exclusivity, and community among its customers. Some luxury fashion houses have already invested in technological innovation to make themselves more experiential and unique.

2/3 ▶

luxury consumers who think that luxury lags behind when it comes to digital

### 3.1 The luxury fashion houses are widening their lead in terms of physical customer experience...

The luxury segment is maintaining its leadership position in the excellence of the physical experience, which reflects the standards and values of the luxury fashion houses and is one of the best assets for creating and strengthening a sense of community. The fashion houses have always managed to surprise their customers and reinvent experiences to continually differentiate themselves and guarantee the feeling of exclusivity to their communities. On the experiential luxury side, the Ritz Paris has opened a new Ritz Bar offering guests a light show and the projection of constellations onto the ceiling, accompanied by a menu of 12 cocktails, one for each sign of the zodiac, in reference to the Belle Epoque when astrology was very fashionable.

Other luxury fashion houses are developing stores that offer unique experiences: Hermès is testing a multiform immersion around silk, offering visitors different activities related to the creation and design of its iconic fabrics. Parfums Christian Dior is developing olfactory and multi-sensory experiences (makeup sessions, DJ sets, perfume consultations, and more) combined with temporary stores

**Web3** (NFTs and the metaverse) represents a new field of opportunities to **differentiate** and strengthen the sense of **community**, notably by reintroducing the concepts of rarity and ownership and by revolutionizing digital creation.

The luxury sector must engage in a **test-and-learn process** on Web3 to express its creativity and reinvent on-line customer engagement. This effort will include developing digital expertise and providing tools for co-creation with the communities engaged in this new space.

**“Luxury and NFTs rely on several common concepts that make them compatible: rarity, innovation, a sense of belonging, and, more generally, a link with culture.”**

*Pierre-Emmanuel Angeloglou, Strategic Missions Director Fashion and Leather Goods at Louis Vuitton*

60% ▶

18- to 34-year-olds who see the metaverse as an alternative to social networks

like the Miss Dior Millefiori Garden pop-up in the heart of Los Angeles.

Luxury brands go beyond excellent products and services in inventive ways. They combine discoveries and emotions, fostering links with and between their customers, who in turn become more like a community. In this context, LVMH is diversifying its offering with the Cheval Blanc hotel in the heart of Paris. Some products from the group's brands are on display there, conveying a sense of total immersion in the diversity of its luxury fashion houses.

### 3.2 ...but are still looking for the perfect omnichannel strategy

Despite a preference for in-store buying, which remains at the heart of the luxury fashion houses' strategy, customers have begun to adopt an omnichannel process: although 80% of customers make their purchase in store, 50% start their product search online. Having, for the most part, turned toward digitization later than mainstream manufacturers did, the luxury fashion houses have had to catch up in order to provide a seamless experience between physical and digital points of sale.

Carrying this standard of excellence over into digital channels remains a challenge, however. A perfect omnichannel system has not yet been achieved, most notably as a result of technological limitations (IT system interconnectivity) and skill level (vendor training). For example, 64% of consumers believe that luxury brands are falling behind when it comes to the digital market, and 67% believe that the digital experience of luxury brands does not meet the standard of the in-store experience. With this in mind, some luxury fashion houses are trying make up for the lack of a suitable sensory experience over digital channels by implementing new initiatives. Frank Madlener, the Director of IRCAM, which

developed online “perfume sound” experiences, believes that “*sound is a powerful way to engage the senses during the digital experience.*”

Other innovative approaches attempt to connect the physical and digital worlds while maintaining the concept of a unique experience. For example, in its Paris store, Saint-Louis offers the opportunity to visit its crystalware factories, via a 360-degree virtual reality experience. Jérôme de Lavernolle, President and CEO of Saint-Louis, argues that “*digitization is a great opportunity to offer an enhanced experience to our in-store customers.*”

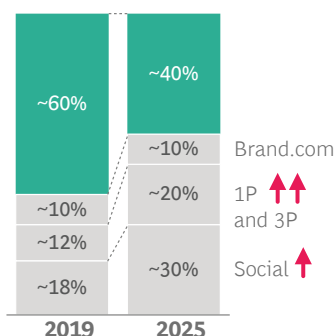
## Exhibit 4 - Customer Relations

### Moving toward greater importance of social and e-commerce platforms

#### INSPIRATION



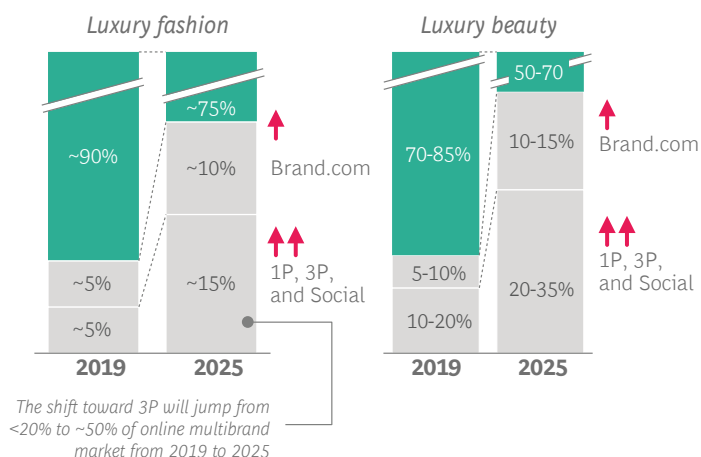
A growing share of the decision-making process is moving online—in particular, at the beginning of the client journey



#### TRANSACTIONS



Physical retail accounts for 60% to 75% of transactions; online, growth is faster for multibrand platforms and social commerce



**more than  
+20%**

Yearly growth rate in **digital ad spending** vs. **no increase** in time spent on social media

**From 9  
to 20+**

**Number of touchpoints** per customer journey from 2014 to 2025

**x2**

Customer acquisition costs

**Until  
65%**

**Share of online beauty sales** that Amazon and Alibaba will capture by 2025

1P - Multi-brand online wholesalers  
Source: BCG analysis

3P - Third party platforms

### 3.3 Customer engagement in the face of content standardization across digital platforms

Historically, in-store customer engagement is highly differentiated. But in the digital age, luxury fashion houses face two major challenges: how to stand out in an online environment where ultra-personalization is commoditized, and how

to break away from the rigid constraints placed on content creation on major engagement platforms.

In the past, luxury fashion houses have consistently surpassed their customers’ expectations, partially thanks to their sales consultants, who built a strong, personalized connection with each customer and subtly gathered a large

amount of personal data (such as daily habits, tastes, and family situation). In the digital age, such differentiation is on the decline, which benefits mass-market players that capture and use more digital customer data for ultra-personalization: Nike and H&M are great examples of this. Because they sometimes lag on these issues, luxury fashion houses must seize opportunities for customer engagement and sales that result from collecting and analyzing online consumer behavior and purchasing data, if they are to succeed in maintaining their competitive advantage. Michael David, LVMH's Chief Omnichannel Officer, affirms this point: *"Digitalization allows brands to collect implicit customer data, which was once one of the competitive advantages of luxury brands."*

Today's major digital platforms (particularly Instagram and Facebook) heavily restrict creativity and the way in which brands can reach and engage customers (through communication format, use of influencers, and so on). As a result, both luxury brands and mass-market brands run the risk that their content will become standardized. Such standardization would endanger luxury brands' fundamentally unique characteristic of standing out through the expression of creative genius and specific sensitivities.

### **3.4 Web3 and NFTs: differentiation opportunities and enhancement of the luxury experience**

Web3, driven by blockchain, NFTs, and the metaverse, has taken center stage for the past year. The metaverse appears to be a new opportunity to move away from brand promotion to online brand building. The emergence of new immersive and completely personalizable brand ecosystems will undoubtedly lead to the invention of new digital experiences and the creation of homogeneous ecosystems that reflect the real world, although they are struggling to exist on the internet today (as the equivalent of a virtual Avenue Montaigne). Bertrand Lévy, Senior Vice President Global Partnerships at The Sandbox, says: *"All luxury brands are interested in the metaverse, and while 90% of the companies we meet simply want to make a nice advert in Web3, luxury brands go beyond this and want to create new experiences. Today, luxury brands make up 10% of the brand experiences that will be available in The Sandbox at the opening in six months' time."*

Moreover, investing in the metaverse is a way for luxury brands to ensure that they communicate with their current and future customers. In our survey, 62% of the 25- to 34-year-old respondents said they believe that the concepts of Web3 and the metaverse could eventually replace today's social networks. This is particularly the case with members of Generation Z and Generation Alpha, who represent the future customers for luxury fashion houses and who spend more and more time online. Web3 could therefore be the cornerstone of the new global strategy for the luxury fashion houses and one of the key consumer contact channels. Gautier Pigasse, Head of Innovation and Blockchain for LVMH, concurs: *"We are only at the beginning with Web3. We have to let the matter evolve, but it has real potential. We see this as an opportunity to create new intersections and new experiences with customers."*

Beyond the metaverse, nonfungible tokens (NFTs), although initially rather far removed from traditional approaches in the luxury industry, represent a fantastic opportunity for luxury brands to reset their digital interactions with their communities.

On the one hand, NFTs can help consolidate the trust built between brands and their customers by reintroducing standards for protecting confidential data—in particular, through identification and authentication certificates based on NFT portfolios or through creation of new business models that do not rely on using data.

On the other hand, the development of NFTs offers new opportunities to enhance the feeling of luxury within the digital sphere. Rinvigorating the concepts of ownership, exclusivity, and rarity, NFTs could boost a sense of community (as with Dolce & Gabbana's #DGFAMILY collection, for example) or recast the customer relationship and loyalty model (as with Louis Vuitton giving access to exclusive assets that tell the group's story via *Louis the Game*). Pierre-Emmanuel Angeloglou, Strategic Missions Director for Fashion and Leather Goods at Louis Vuitton, says, *"Luxury brands and NFTs are based on various common concepts that make them compatible: rarity, innovation, a sense of belonging and, more generally, a link with culture."*

Finally, some NFT projects could also allow brands to create new business models in which the creator or brand and the community would share the value.

To achieve this, Benoît Pagotto, Cofounder of RTFKT Studios, one of the most famous Web3 studios recently acquired by Nike, explains that luxury brands must embrace Web3 codes and move from the customer to the community once and for all: *"To successfully create new worlds and experiences in Web3, brands will have to form strong communities. Therefore, they should no longer think of their audience simply as customers, but as a community that they will have to provide tools for in order to create a brand universe together."* Luxury brands have a definite advantage in this field, thanks to their unparalleled experience and expertise.

Today, luxury brands still face the question of how best to encourage engagement. Most will go through a preliminary test-and-learn phase, which, depending on their ambition and strategy, will lead them either to create new, integrated, end-to-end ecosystems or to integrate with existing ecosystems through strategic partnerships. Either way, it seems necessary to start investing in these new universes now, because, as Patrice Louvet, President and CEO of Ralph Lauren, reminds us, *"Creating new different and different universes has always been a core element of luxury brands. Web3 is simply a natural digital enhancement."*

## Exhibit 5 - Customer Relations

Moving from Web2 to Web3 provides an opportunity for differentiation and a way to extend the luxury feeling

*luxury examples*



Reinvention of **differentiated digital experiences** and improved control over data and **data privacy**



**NIKE**

**BALENCIAGA**

*Balenciaga revealed its Fall 2021 collection via a game called "Afterworld: The Age of Tomorrow"*



Creation of **homogeneous ecosystems** that reflect the real world



**THE SANDBOX**

**GUCCI**

*Gucci acquired a land on The Sandbox, with plans to build its own virtual world inspired by Gucci Vault*



Enhancement of the sense of **exclusivity** and **community**



**YUGALABS**

**DOLCE & GABBANA**

*Dolce & Gabbana launched #DGFamilia, an exclusive NFT community, in collaboration with UNXD*



Reinvention of **customer relationship** and **loyalty** models



**ADIDAS**

**LOUIS VUITTON**

*Louis Vuitton launched a video game called "Louis The Game"; players had access to NFTs telling the history of the brand*



Creation of new business models: **Value sharing** between creators and the community



**RTFKT  
STEPN**

Note: Key features of Web3 are blockchain, NFTs, and the metaverse.



## BCG Perspective

Luxury and digital: What are the limits? What are the opportunities?

—Joël Hazan, Managing Director and Partner, BCG Paris

### **Why do you think luxury brands and digitization have had such a love/hate relationship throughout the years? What are the limits for luxury brands on Web2?**

Luxury brands' share of online sales, which stood at 10% to 15% until 2019, is expected to reach 30% by 2025. The pandemic acted as a catalyst for this and accelerated the partial digital shift that the sector experienced. However, it cannot be denied that luxury fashion houses have never managed to properly adapt to the digital world as it exists today—known as Web2—which is characterized by usability and interactions between Internet users on controlled platforms (such as social networks). Web2, which is inherently opposed to what luxury brands have always stood for, brings to mind vast sets of information, a lack of differentiation, and the usage of personal data. These are all limitations for luxury brands, which above all are synonymous with rarity and exceptional customer relations. While certain brands (for example, Hermès, Christian Dior, Francis Kurkdjian, Bollinger, and Boucheron) have taken the plunge by selling their products, offering different experiences, and adapting communication via online means, others (such as Bréguet and Chanel) have opted to stick with a single communication channel. But it is clear that none of them have really succeeded in transferring the excellence of the physical customer experience to the online customer experience. First, because the features of Web2 (short, coded formats with sensory barriers) have always made it difficult for luxury brands to offer a unique opportunity to touch and feel the product, as they would in store. Second, because no fashion house has truly differentiated itself in terms of the user experience (UX) and the omnichannel experience, where midrange players such as Zara, H&M, and Alibaba have long since been investing.

### **In addition to luxury brands, doesn't Web2 have its own limitations?**

Growth patterns over the past decade, based on Web2, show several signs of weakness. First, as they fight a relentless battle for attention, brands create more content than their customers have available attention, which is generating an unprecedented rise in customer acquisition costs

(+20% per year from 2015 to 2020). At the same time, the mega-platforms such as Google, Facebook, and Instagram are increasingly controlling the content that consumers are exposed to, and as a result the brand experience is dwindling and becoming more standardized, because it is driven by algorithm-based recommendations. Finally, although purchasing and using data used to be essential for growth, the era of intrusive marketing is coming to an end, as evidenced by the emergence of data protection regulations and measures that Apple and other players in the industry have taken.

### **Given these limitations, how can the luxury and digital worlds coexist?**

The luxury fashion houses, even more than other companies, need a new digital business model. For starters, they need to make trust a valuable asset at a time when customers are increasingly demanding transparency about how companies are using their personal data. Moreover, as is the case with their physical sales points, luxury fashion houses must be able to stand out from the crowd by conveying their unique identity during the customer's online journey. In this context, Web3 appears to be a real opportunity to go beyond the limits of Web2 and to bring luxury brands and the digital experience together. Based on three key distinctive concepts (blockchain, NFTs, and the metaverse), Web3 is a fantastic playing field for the luxury fashion houses to finally showcase their unique character and demonstrate their creative genius online. Promoting the introduction into the digital sphere of the concepts of possession and rarity and the creation of communities through access to exclusive experiences, NFTs offer new forms of customer engagement. In turn, metaverse platforms give luxury fashion houses the opportunity to create ecosystems customized to their own image—and not tied down by the codes of Web2—in order to offer their customers a unique and fun experience. For example, it is possible to imagine a loyalty program that rewards a brand's best customers with NFTs that give them exclusive access to virtual or physical spaces, showcases of certain flagship events (such as parades), or a distinctive digital or nondigital product offering.





Responsibility:  
from competitive  
advantage to  
collective imperative



## Driving environmental, social, and governance change together

**“Luxury brands are harnessing their prestige to support the green movement.”**

*Hélène Valade, Director of Environmental Development at LVMH*

**M**ore often trendsetters than trend followers, luxury fashion houses have not been equally quick to make a deep and lasting commitment to **stronger corporate involvement in the ESG transition**. This is in part because working with rare resources as an integral part of creating their products already forced a kind of frugal mindset upon them, but also because they have historically protected the secrecy of their manufacturing processes, so they are not used to communicating anything beyond the product and the brand.

Thanks to their aura and influence, luxury brands can make **sustainability attractive**, especially if brands come to be expected to highlight their **exemplary** practices in order to preserve this aura.

**60%** ▶ luxury consumers who think that responsibility for kick-starting the environmental, social, and societal transition lies with luxury brands

### 4.1 Luxury fashion houses are taking action in favor of an environmental, social, and governance transition ...

As described above, luxury brands seem to naturally be a step ahead on societal and, especially, environmental issues such as sustainable products and low volumes). Nevertheless, luxury fashion houses are facing increased pressure from customers. In 2021, roughly 60% of luxury customers said that they look into the corporate responsibility of the brands they purchase from, compared to just 45% in 2013. Moreover, brands need to engage with a growing number and range of issues.

This milieu of heightened transparency, exists in hospitality—“*Nowadays, the walls of our restaurants are transparent*” (Yannick Alléno, three-Michelin-star chef and founder of the Alléno Paris restaurant)—and in other sectors. In response to it, luxury brands must strengthen their exemplary practices—in part to uphold their reputation for excellence in all dimensions, and in part because some customers perceive luxury goods as nonessential.

Luxury fashion houses have been widely involved in these issues in recent times, but public awareness remains limited. It is therefore now the fashion houses’ responsibility to adopt **responsible communication** in order to influence stakeholders and uphold their title as trailblazers.

To fulfill this role as leaders of transformation, we need to **work together** to find solutions that foster a large-scale movement, rather than working adversarially to create small competitive advantages.

**“Collaborating with other industries is key to large-scale transformation. This applies to leather, for example.”**

*Marie-Claire Daveu, Chief Sustainability Officer and Head of Institutional Affairs, Kering*

**65%** ▶ luxury consumers who take into account fashion houses’ commitment to sustainable development when deciding on their purchases

When asked why luxury brands should get involved in the environmental transition, consumers emphasize the sector’s ability to influence, its international reach, and its financial resources. They believe that luxury brands have the responsibility to make the sustainable desirable, just as they make their products desirable: “*Luxury brands are harnessing their prestige to support the green movement*” (Hélène Valade, Director of Environmental Development at LVMH). With this in mind, Hermès has launched “Petit h,” a unique creative process that involves using manufacturing materials left over from the fashion house’s collections to fashion new pieces. Similarly, Christofle wants to repurpose the dies used to mold different items of cutlery, once they are retired from service, and turn them into unique decorative pieces.

Beyond environmental issues, luxury fashion houses are addressing societal topics and are now taking on a key role in society: “*as stakeholders at a local level, it is a natural step for us to take action for society as a whole*” (Yves de Talhouët, Executive Chairman of the Faïencerie de Gien). Particularly in France, luxury fashion houses are committed to tackling crises affecting the country, where such efforts align with

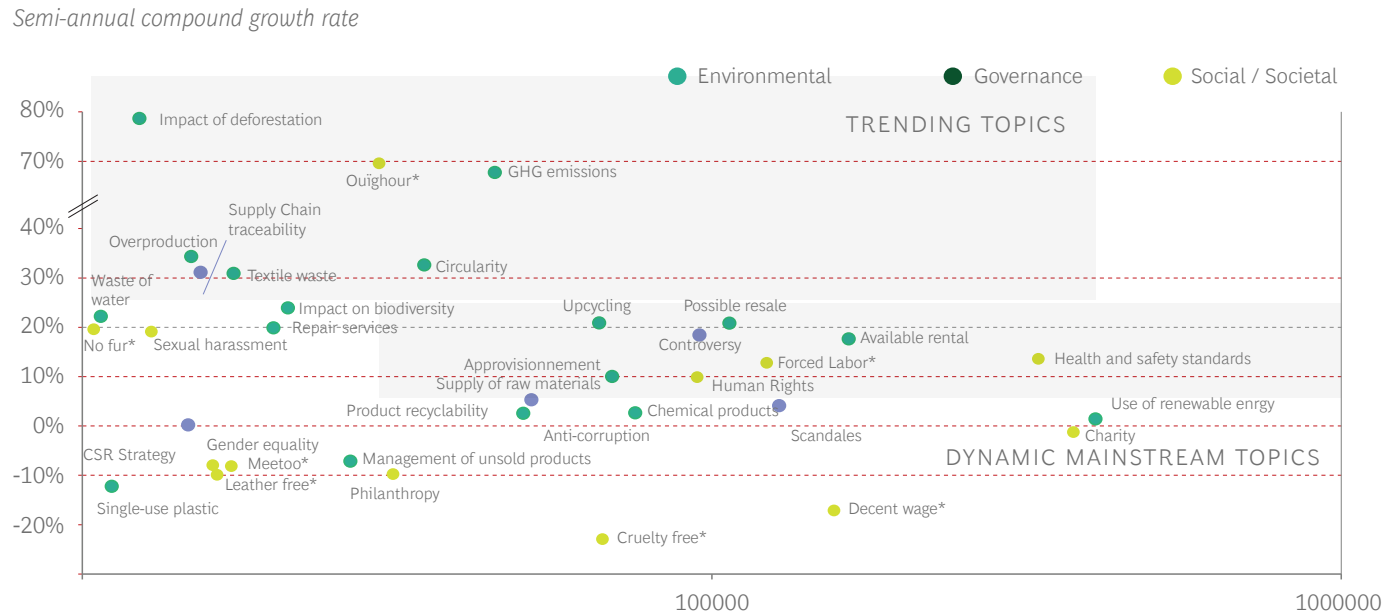
their DNA. This was the case in the aftermath of the Notre Dame Cathedral fire, prompted by the idea that France’s cultural influence underpinned the influence enjoyed by the country’s luxury products. Similarly, during the COVID-19 health crisis, many luxury fashion houses have deployed their production facilities to benefit society (for

example, the Guerlain and Parfums Christian Dior production units manufactured hand sanitizer) or have volunteered their services (for example, Potel et Chabot supported frontline health care workers by providing them with over 50,000 meals).

## Exhibit 6 - Responsibility

### Some ESG themes are particularly popular in the media

Number of posts (over 10k) on media and social networks about 36 ESG topics identified as most popular when associated with "luxury", "fashion", over the past two years and their average growth per semester



### Some ESG themes are emerging :



Source : BCG Analysis based on occurrence quantification of 116 ESG themes in information international media (e.g. Bloomberg, Reuters, The New York Times) and social media.

In addition to these strong regional commitments, luxury fashion houses are involved in key societal causes over the long run. For example, LVMH has been active in the fight

against AIDS, and Kering appointed Emma Watson as a group director—in particular, for her work in behalf of women’s rights—to improve the treatment of models.

#### 4.2 ... but they must unite and move from a competitive approach to a collaborative approach to have a significant effect ...

In recent years, some luxury brands may have viewed being green as a source of competitive advantage. However, the luxury fashion houses that were trailblazers on these issues must now encourage the rest of the industry to place sustainable development at the heart of all practices. Based on their DNA of leading by example and having robust and environmentally friendly processes, they must now transition from a duty toward quality to a duty toward legacy. Such efforts are evident in the work of certain groups (such as Kering and Pernod Ricard via Martell Mumm Perrier-Jouët) to publish online standards on topics like regenerative agriculture, which they define in collaboration with their suppliers to help drive the whole industry forward. *“We are taking ownership of our entire value chain and striving to externally promote the regenerative farming techniques that are already being used on our farms”* (Axelle de Buffévent, Style Director at Martell Mumm Perrier-Jouët).

In order to transform the entire value chain, luxury brands have begun to invest in the necessary technological building blocks (traceability, recycling, raw materials processing, and so on) and to work collaboratively to set standards. As Anne Dellière, Group Marketing and Strategic Planning Director at Richemont, points out, *“Global sustainable development goals and the hopes of creating a responsible industry can only be achieved through collaborative initiatives at the sector level.”* In this vein, the Kering group and the Richemont group joined forces and have been working for many years on issues related to traceability in jewelry supply chains. Similarly, the Aura Blockchain Consortium initiative, spearheaded by LVMH, Prada, and Cartier, aims to develop the first international luxury blockchain to communicate information about authenticity (to combat counterfeiting), responsible sourcing, traceability, and sustainability. This technological innovation, based on a secure digital platform, will pair a product ID with a customer ID to make a product’s history accessible and to provide proof of authenticity at every stage of the value chain, from raw material to point of sale. Now, however, there is a pressing need for funding to transition this endeavor from a pilot project to an innovative, commercially viable, and practical solution. Luxury fashion houses could play a key role in providing the needed financial support, which is estimated at between \$20 billion and \$30 billion per year for the fashion industry.

The stakes involved in successfully transforming the luxury industry are very high, and each stakeholder alone does not have sufficient influence to accomplish it. This is particularly true with regard to transforming sectors in which several industries participate. Take the example of leather, which encompasses agri-food, tanneries, livestock, luxury, and other sectors. Unless stakeholders form coalitions, they will find it extremely difficult to achieve a far-reaching and effective transformation of practices. *“Collaborating with other industries is key to large-scale transformation. This applies to*

*leather, for example”* (Marie-Claire Daveu, Chief Sustainability Officer and Head of Institutional Affairs at Kering). Some luxury fashion houses are taking action through Kering’s Fashion Pact initiative, which brings together international brands like Ralph Lauren, or by joining other coalitions of stakeholders, such as OP2B (One Planet Business for Biodiversity).

Nonetheless, significant obstacles remain, especially in developing common definitions and standards. This is another key issue on which the industry must show a united front: in the absence of a strong coalition, the standards of tomorrow will be set without fully taking into account the sector’s specific needs. That is what is happening today with the Product Environmental Footprint regulation, which will assign an environmental rating to clothes without fully integrating the concept of product durability—a factor that luxury brands prize. As a result, high-quality products will undoubtedly have a lower rating than low-quality products, just because the latter are made from recycled polyester fabrics.

Manufacturing standards aside, by joining forces, luxury fashion houses can design a new sustainable economic model, in which protecting nature takes center stage and is fully integrated into companies’ profit and loss statements. The idea is to evaluate projects not only from a financial point of view, but also in terms of the “price of nature.” This is partly what Kering has undertaken with its Environmental Profit and Loss (EP&L) Account.

#### 4.3 ... laying the foundations for responsible communication to uphold their role as trailblazers before regulators enforce constraints on them

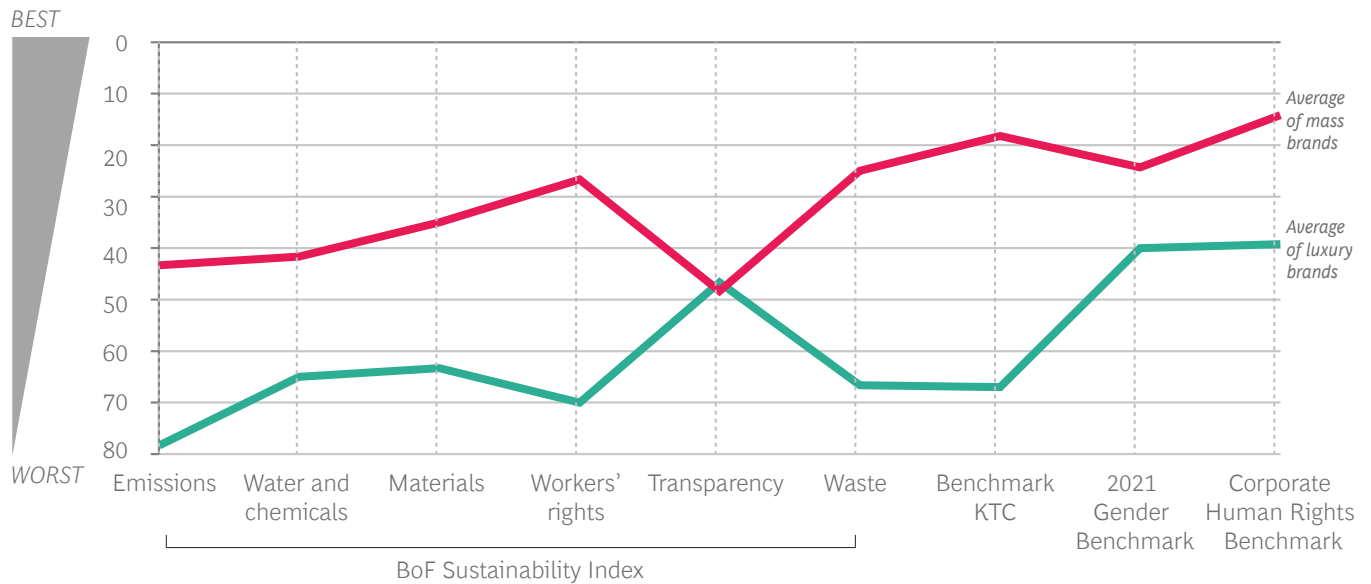
The luxury sector’s new role and new responsibilities pave the way for responsible communication, in which brands strike a balance between the potential for competitive advantage and the risk of falling behind. Moreover, luxury fashion houses must resolve a slight disconnect between their historical penchant for secrecy and the need to draw back the curtains. *“We are now forced to communicate. We can no longer do certain things discreetly”* (Jean Cassegrain, CEO of Longchamp). The risk of falling behind is exemplified by luxury fashion houses’ positioning in the ESG rankings compared with more mainstream brands. On the other hand, opting for communication that bolsters environmental and societal issues could influence other industry stakeholders and thus promote the industry’s collective interest. *“We are an industry built on expertise, truth, and honesty. If we lose our honesty, then we have lost the battle”* — Marc Chaya, Cofounder and CEO of Maison Francis Kurkdjian.

## Exhibit 7 - Responsibility

### Luxury fashion houses ranked in the bottom 40% of most ESG rankings

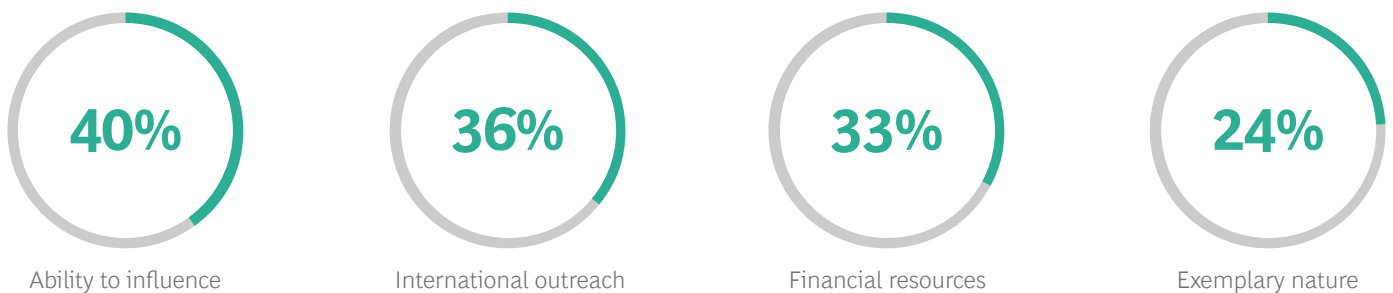
Luxury brands are poorly positioned in ESG rankings compared to mass-market players ...

Relative ranking of french luxury houses on various esg benchmarks



... yet they have the means to move up, mainly thanks to their influence and their international aura

Top four reasons why the luxury industry should commit to the environmental transition (%)



Sources: Corporate Human Rights Benchmark; Gender Benchmark; KTC Benchmark; BoF Sustainability Index, BCG analysis ; BCG survey conducted in April 2022 in France, the US, and Europe.

Note: The selection of companies by BoF was based on the 15 largest fashion and luxury companies by revenue.



## Committee Member Interview

Chloé: First French luxury brand with B Corp certification

—Aude Vergne, Chief Sustainability Officer at Chloé

### Why did Chloé seek B Corp certification?

Many years ago, Chloé committed to an ESG transformation and has launched numerous projects around social, societal, and governance issues. In 2019, the company's leaders expressed their strong resolve to ramp up efforts in these areas and to do so in an objective way that transparently showcases the changes made. To this end, B Corp certification not only allowed the entire organization to be aligned with a clear vision and objectives, but also made it possible to objectively evaluate the changes undertaken by Chloé.

### How exactly has B Corp certification changed things at Chloé?

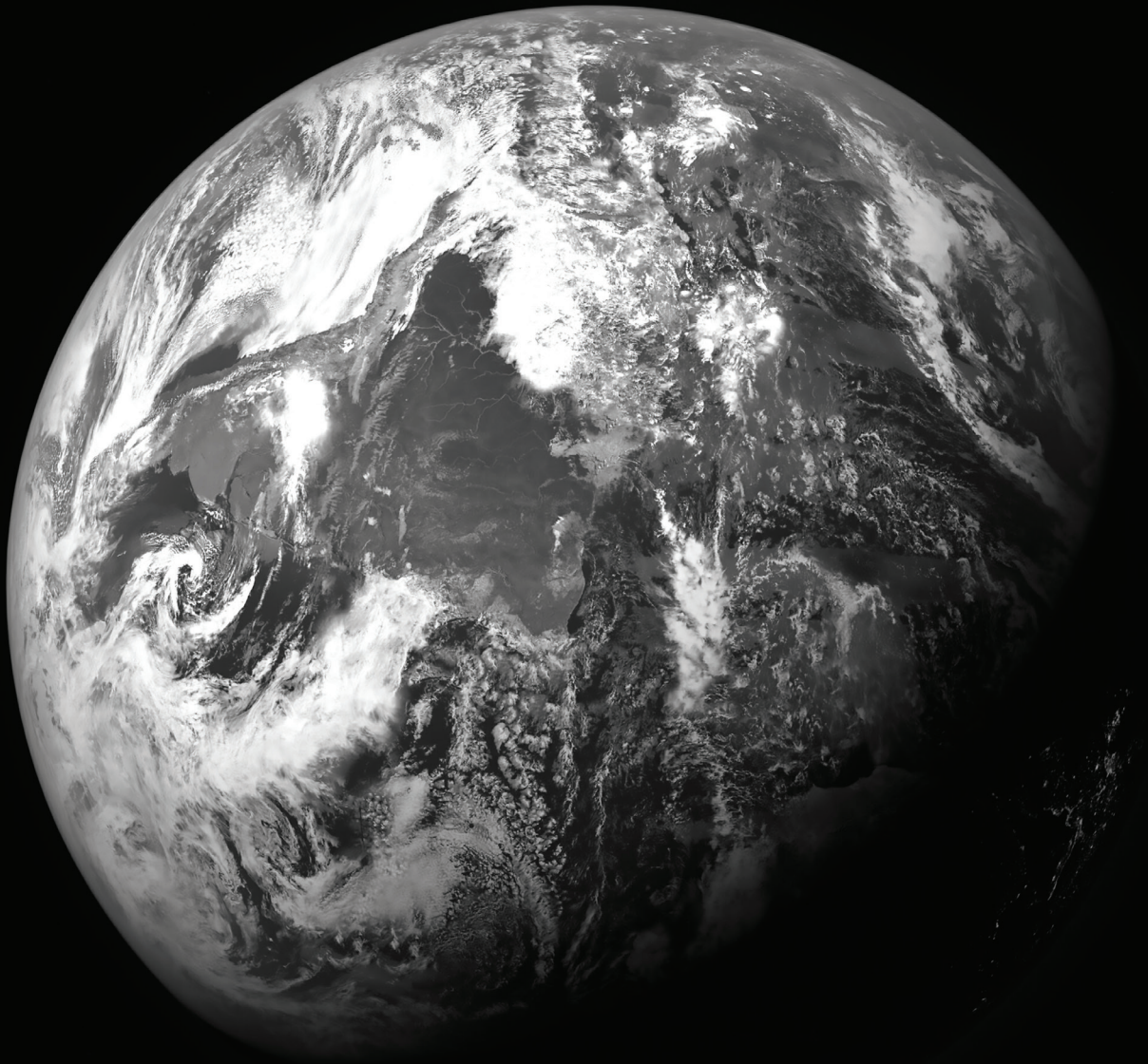
The B Corp certification applies to all of the company's activities. It is difficult to summarize all of these changes, which, again, have been taking place at Chloé for many years. If we were to give a few examples, I would say that B Corp certification has enabled us to implement strong governance on ESG issues. We now have a committee of external experts who analyze and advise us on our transformation. In addition, all Chloé employees now have ESG objectives. Some already did, but B Corp certification accelerated this practice and led us to roll it out across all employees.

Similarly, on the manufacturing side of things, many projects had been started, but the B Corp efforts forced us to take everything a step further, especially regarding our many suppliers. Finally, B Corp certification has undoubtedly changed Chloé's image in the job market, as it has really boosted our attractiveness in recruiting and retaining our talent.

### What are the next ESG challenges for Chloé?

Of course, B Corp certification is not the be-all and end-all, and the company continues to strive to improve on all aspects of ESG. For example, we are currently working on setting up a digital passport for our products to improve traceability and authentication. In terms of managing our upstream resources and downstream inventory, we are also working to improve our planning and forecasting technologies to ensure that we are always manufacturing volumes that are as close to demand levels as possible, thus minimizing our environmental impact.





# Globalization: from unreserved globalization to the reevaluation of geostrategic dependencies



## Exploring new regions and preempting risks

**“As consumer habits in china are changing very rapidly—what was true three years ago is now out of date—fashion houses must constantly respond to new trends.”**

*Frédéric Noyere, Managing Director at Jebsen Beverage*

Some currently underrepresented markets offer significant growth opportunities for luxury fashion houses. This is the case in India and in certain regions of China, where local players have begun to emerge.

Entering overseas markets requires an in-depth understanding of regional consumers’ tastes and preferences, which sometimes differ significantly from the brands’ traditional focus. Luxury fashion houses must find the right balance between **adapting to local market needs** and maintaining **their own values and identities**.

65%

amount of total growth in the luxury sector between 2021 and 2025 that will occur outside Europe and the US

### 5.1 There are new markets still to be explored ...

There are new markets to be explored by luxury fashion houses, as cultures evolve and societies grow wealthier, underscoring the continued international appeal of the luxury sector. In China, for example, certain verticals remain underrepresented. Market penetration for perfume there is estimated at about 5%, compared to about 42% in Europe and 50% in the US. The perfume vertical has recently experienced strong growth in China, driven by younger consumers who see perfume as a way to express their personality. Although the Chinese market ranked tenth in the world in 2021, it is on track to become the second largest by 2025.

Other markets remain untapped or underserved by the industry. For example, we expect the Indian luxury market to grow vigorously, reaching \$3.7 billion by 2026, driven by population growth (70% more households with an annual income of more than €200,000 by 2025) and increasing urbanization (from 35% today to 42% by 2025). The Middle East represents another important reservoir for growth.

### 5.2 ... where luxury fashion houses strike a balance between preserving their own identities and adapting to local needs

Luxury fashion houses must respond to different expectations in these new markets, which means that they must strike a balance between preserving their brand identity and adapting to local aspirations.

International expansion and the pursuit of new markets are heightening the dependence of luxury fashion houses on overseas markets and exposing the companies to new risks. They must therefore be **agile**, especially since their commitment to society, the environment, and the high expectations of their stakeholders may sometimes require them **to take a stand**.

**“There are two main challenges that we’re faced with. The first is to strike a balance between the growth of our fashion house in a buoyant and lucrative market, and a dependency on that very market.”**

*Christophe Caillaud, CEO of Liaigre*

For example, entering the Chinese market requires an in-depth understanding of the tastes, customs, values, and traditions of the Chinese people. Armed with this understanding, luxury fashion houses can adapt their products. For example, Christofle has enriched its iconic MOOD collection with MOOD Asia, replacing specific Western utensils with silver-plated chopsticks and broth spoons. But will the likes of Guerlain, Francis Kurkdjian, or Hermès have to change their signature scent if they want to tap into the potential for growth that the Chinese fragrance market offers? This very real clash involving brand identity, history, and local culture, which confronts European and American brands, potentially offers a competitive advantage to new local entrants that can capitalize on a sense of national pride, especially in light of Xi Jinping’s recent efforts to promote Chinese artisan goods.

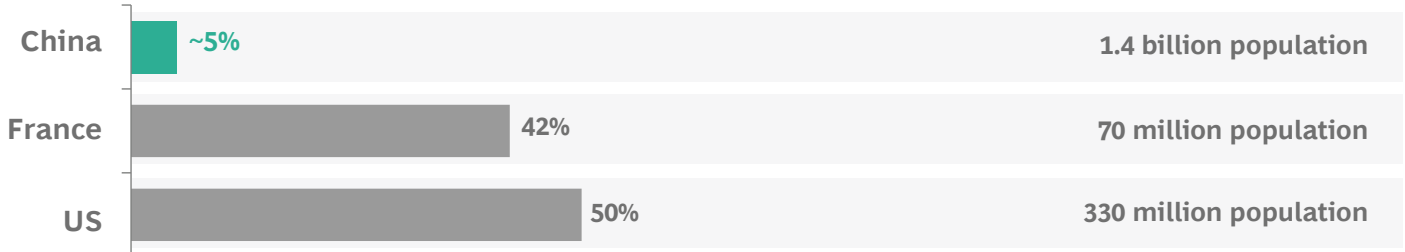
Meanwhile, the health crisis and environmental issues have significantly altered consumption patterns throughout the world, with a fundamental trend toward “relocalization.” If the power of certain markets were to increase, new pressures could arise between European companies’ need to preserve local and traditional expertise and their need to reduce the environmental impact of transporting products from production areas to consumption sites.

## Exhibit 8 - Globalization

### The COVID-19 crisis has greatly accelerated consumer adoption of perfume in China

China is an underpenetrated market representing a strong opportunity

Perfume penetration by country (2021)<sup>1</sup>



COVID-19 revealed a shift in attitude toward perfume ...

Before COVID-19, wearing perfume was strongly related to social activities

The Chinese also use perfume to express themselves and their personality

36%

To feel trendy

WHY DO YOU WEAR PERFUME?<sup>2</sup>

33%

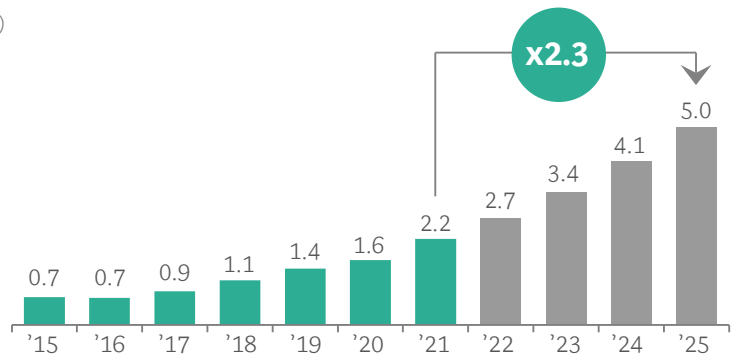
To feel beautiful

... announcing the potential of the Chinese perfume market

Evolution of the Chinese perfume market, 2015–2025 (\$billions)

“China should finally become the world's second-largest market for perfume”

Philippe Bénacín



Sources: Givaudan; expert interviews; BCG analysis.

1 Penetration is defined as "wear perfume" in China, "wear perfume daily" in France, and "buy at least one perfume per year" in the US.

2 Givaudan consumer survey (China, 2021).

#### 5.3 ... and must be increasingly agile in light of geopolitical risks

Although French luxury goods—a symbol of the French way of life—enjoy international renown, they must contend with increased dependence on foreign markets such as China, the US, and the Middle East, which requires them to take new geopolitical risks into account. In the past, luxury goods might be considered a simple matter of producing high-quality products; but today, the sector, because of its size, is accountable not just for specific economic issues but also for societal issues. The recent example of the war between Russia and Ukraine illustrates the need for luxury brands to take a stand, whether by closing stores (as LVMH, Kering, Chanel, and Hermès have done) or by making specific references during fashion shows (as in the case of Louis Vuitton, Balenciaga, and

others). These actions were quick and decisive for a market that represents only a small part of the luxury goods market revenue (estimated at less than 10%). But what would happen if a choice between ethical conduct and financial interest were to arise in a conflict that had adverse implications for broader geographic markets?

**“Although the US and China will continue to disproportionately drive luxury spending, opportunities in the Middle East, Southeast Asia, and India will grow as a result of underpenetration. To succeed, luxury brands must manage geopolitical risks and balance local market adaptation and client engagement with preservation of their own values and identities.”**

*Sarah Willersdorf, Managing Director and Partner, BCG in New York*



## Committee Member Interview

Maison Liaigre opens its first design office in China, a review of local market adaptation

—Christophe Caillaud, CEO of Liaigre

### **You're currently working on opening a design office in China. Could you tell us more about the reasons behind this expansion?**

Historically speaking, Maison Liaigre was operating in Asia exclusively in two cities: Bangkok and Singapore. But since 2015, we've had the goal of expanding further in the region. Since 2019, we've successively opened four other showrooms: in Shanghai, Seoul, Hong Kong, and Beijing. We'd like to open two or three more in China over the next five years. China is currently the largest territory for luxury goods. It's a market that is growing rapidly. Currently, more than 10% of our projects are in China, and this has been increasing steadily over the past three years—with a doubling of our turnover every year. Having said that, we've found over time that the interactions with our Chinese customers and their perspectives on time are changing. While it's not appropriate to make generalizations, the experience we've had so far with Chinese customers indicates a somewhat different way of thinking about architecture and design projects compared to what we are used to, where time is much shorter than with our existing Europe-

an or US customers, and where the focus of interest is different. In order to adapt to this way of working, we decided to open a design office in China with a mixed team comprising both employees from Paris and Chinese colleagues trained by us, in order to be able to communicate and understand the expectations of our customers on site.

### **What issues have you faced or are you facing in light of this expansion?**

There are two main challenges that we're faced with. The first is to strike a balance between the growth of our fashion house in a buoyant and lucrative market, and a dependency on that very market. Recent events between Ukraine and Russia mean that we need to be cautious and not stake everything we have in the region. At the same time, we need to ensure that we preserve the soul of our fashion house when our clients have very specific expectations. We create according to requirements, but we always make sure to retain a consistency with our identity, our previous projects, and our current offerings.



## Expert Interview

External perspective at Jebsen Beverage, a brand owner, importer, and distributor for a range of beverages, including wines and spirits, for over 100 years in China

—Frédéric Noyere, Managing Director at Jebsen Beverage

### What are the characteristics of and changes in luxury purchasing behavior in China?

It's crucial to recognize that China is characterized by its geographical, cultural, demographic and social diversity. Luxury fashion houses must therefore address a multitude of subsegments to meet the very varied expectations of Chinese consumers. In reality, it's very difficult for a fashion house to be a leader across all segments, because positioning can be so varied. As consumer habits in China are changing very rapidly—what was true three years ago is now out of date—fashion houses must constantly respond to new trends. Today, discerning Chinese customers are looking for real identity distinctions rather than buying a specific brand. They rely less and less on logos and are more aware of time and place, as evidenced by the explosion of second-hand and craft brands. At the same time, the emerging middle classes who need clear reference points are still responding to brands and logos. Moreover, environmental issues are taking center stage with members of the young, urban, and affluent generation, who are more focused on core values (such as quality of life and health) than on economic growth and personal enrichment at any cost. One question is whether the sacrifices (for example, long working hours, coal plants, and smog in winter) are too unreasonable. In a country that is learning to modernize (not Westernize) at a rapid pace, the emergence of these issues could have a real impact on the role and positioning of brands.

### How are luxury fashion houses adapting to the Chinese market from a marketing and communications perspective?

It has now been more than 20 years since the Chinese market was identified as a real growth driver, but the cost of entering the market has continued to rise, and second-ti-

er brands have been adversely affected. Digitization has greatly accelerated the concentration of brands. If you're not on the homepage of consumers' smartphones, you have a hard time "existing" and standing out. Additionally, in order to thrive, brands must embrace an increasing degree of China-specific adaptation, which requires large local teams that can fully understand the market and adapt products, marketing, and communication accordingly. Cognac, for example, is not purchased via the same distribution channels, consumed at the same social occasions, or viewed in the same way in China as it is in the US or Europe. Luxury fashion houses cannot afford to maintain a monolithic vision of their brand in China. And while they tend to capitalize on their heritage, their expertise, and the origin of their products to communicate with consumers, Chinese customers expect to be told about their future, to be projected into the future.

### In your opinion, what are the other challenges in this market?

In the future, Western luxury fashion houses will surely have to work more closely with Chinese-origin fashion houses. This is already the case for wines and spirits and for cosmetics: local companies in these segments have existed for decades or even centuries for spirits, and hold more important positions than Western companies in the Chinese market. For example, baiju—Chinese rice alcohol—accounts for more than 95% of the market. At the same time, certain Chinese brands in various categories (such as Chow Tai Fook Jewellery Group in jewelry and Guo Pei in fashion) are beginning to emerge internationally, boosted by a policy that aims to promote local expertise. It is therefore not unlikely that some of them will eventually capture significant market share.





