

“Sustainable Luxury 2.0 has just begun!”

Global concerns

Today, we are at a crucial moment of history. A moment which puts a radically new challenge to the human race. For the first time, its prodigious dynamism collides with the limits of the biosphere.

The story is one of growth in population and consumption compounded by inadequate governance and policy responses necessary to manage this growth. The result is simply degradation of the environment and societies.

Today, the collective challenge we are facing is “How to take advantage of increased population and consumption, hence in working collectively to find and drive solutions to manage the negative consequences that growth generates?”¹

By 2050, we will need (or not ?) to feed 9 billion people. Of the 2 extra billion, 40 % will be living in Sub-Saharan region and about 50 % in the Muslim world. Many people will be moving up the economic ladder toward a middle class standard of living, consuming more resources per capita.

In Western Europe, we will need to find solutions to welcome 10 times more legal migrants from Central Europe and the South. Energy and resource shortages will continue to spark regional wars, create famine, and continue to affect the political, social, financial and economic spheres. Healthier, but aging population in the western world will require longer care and impact negatively on existing retirement and social plans. A knowledge dependent society and free access to knowledge will continue to increase competition from low-wage countries, thus forcing companies to prototype new business models or ... risk disappearing.

Then, how can we collectively address these issues?

What is the pro-active role that luxury companies should play to help solve endemic environmental, economic and societal issues?

Should they ?

What is true is the prevalent perception that the luxury industry (at large) has been very very slow (compared to other industries) to engage genuinely towards what is called Sustainable Excellence. Or at least, for luxury brands to be more transparent on their “authentic” engagement?

¹ Vision 2050 - WBCSD

Africa, the new luxury Eldorado

Tomorrow, it won't only be about the BRICS; but also about "Africa, the new luxury Eldorado."

With double-digit growth, oil, gas and resources rich sub-Saharan countries such as Kenya (with Nairobi probably bidding to welcome the 2024 Olympic Games), Ghana, Tanzania, and Nigeria are becoming the magnet of foreign investments.

Sub Saharan Africa has a newfound global confidence, fuelled by its burgeoning economic prowess²; but, tremendous inequalities, wealth disparities, health, infrastructure and corruption issues are down the South road to be solved as well - first or foremost ?

Thus, how luxury executive will balance tremendous (but somehow risky) business opportunities with poverty alienation, regional famine, illiteracy or endemic health issues in an extremely poor, young but populous continent. (15 % of WW population, 50% below 25 years old)

An attention-grabbing quote from Mr. Patrizio Bertelli, Prada CEO, while describing the luxury executive of tomorrow: "...We want younger generation to experience the world. That doesn't mean spending time in places like New York, Paris, and Los Angeles. Prada needs young people who know something about Africa."³ All is in the "something" about Africa.

How fragile is China ?

On the other side of the planet, how fragile is China?

Despite one million Chinese millionaires in \$ dollars, a growing aspirational middle-class, the country set to become the 2nd largest luxury market by 2017...China is still a poor country from its average income, with 150 million people (10 % of the population) living with less than 1 \$ per day⁴. Imagine...one third of the European living with 0.78 €/day...

Even more, for China to become "a modern, harmonious and creative high income society by 2030"⁵, the country will have to deal with growing public concerns on the widening income gap. The government is already implementing new regulations on luxury outdoor advertising, even more on cars bought by government officials, to mitigate the « income gap perception ».

² Euromonitor, September 2012

³ Harvard Business Review, September 2012

⁴ United Nations standard for poverty

⁵ World Bank

Weak signals

As we experience a period of global power and political shifts and growing inequalities and instabilities⁶, there are weak signals that luxury companies might wish to consider.

Western public opinion (the 99 % or the REST as coined by The Economist⁷) is awakening against the growing divide in wealth.

How not to be concerned when a prominent businessman is “attracted by the lights of a neighboring country and ready to change his nationality ... ” while further further South, exploited South African miners have to riot (and die) to get a mere salary increase from their current 500 \$... Imagine the reputational impact following the eventual kidnapping of any luxury executive?

Radical transparency

Radical transparency, or the concept of removing all barriers to free and easy public access to corporate, political and personal information, is clearly on the rise. It forces luxury goods companies (not only them) to REACT and/or ADAPT when inappropriate activities are spotted. They are numerous examples where renowned fashion and luxury brands were caught being engaged unethically.

Browse the ethical consumer⁸ web site to rate famous fashion brands on various factors such as animal testing, environment, human rights, political activities or product sustainability. Extremely damaging for a number of well-know high end fashion brands.

Take the Good Guide app⁹, a consumer tracking and rating system for beauty, fashion and apparel product. The app draws on 200 databases to help anyone find safe, healthy, and sustainable products and this for more than 50'000 products and companies.

Will some executive within the luxury community continue to live in what some call the “Glamorous Bubble”; unconcerned by the societal and environmental challenges facing humanity?

Wealthy resilience

Good news: despite all economic, financial and social turmoil, the luxury industry is in excellent shape and has shown overwhelming resilience over the years. Hermes grew 22 % in the first quarter of 2012, all regions showing double digit growth, LVMH grew 16 % in 2011 and Richemont sales grew 24 % by Dec 31, 2011¹⁰

That's tremendous great news. Hefty profits should allow board members to accelerate the pace of investment in corporate sustainability; but will they?

⁶ [A Study of the World Economy Just Before the Great Crisis](#) by James K. Galbraith

⁷ The Economist

⁸ www.ethicalconsumer.org

⁹ www.goodguide.com

¹⁰ Browse companies financial web site for updated results.

Today

The days of awareness raising are long gone. Farsighted and progressive luxury companies are already taking advantage of ethical sourcing, traceability, product labeling, ethical certification or RFID tracking; thus addressing the greater needs of transparency of stakeholders.

For the last three years, we have monitored a growing number of progressive luxury companies engaging their organization toward Sustainable Excellence. Either starting strategic philanthropy programs (...great, but it is about giving, not really about impacting and driving behavioral and societal change), or engaging their organization in compliance exercises (sometimes “ending up” their responsible journey with an industry driven certification)...

Very often as well, luxury executive still think and manage their organization in terms of “Return on Investment (RoI)”. What about new criteria such as the “Positive Impact on Society (PloS)”¹¹?

60 % in defensive phase

We guesstimate that 60 % of luxury companies are still in the defensive phase¹²; denying practices, outcomes or responsibilities; 30 % in the compliance phase; meaning adopting policy based compliance approach as a cost of doing business; about 6 % in the managerial phase, embedding societal issues in their management process.

Some within the industry object that “it is not an easy task for luxury executive” (normally evaluated on sales, profit or EBIT criteria¹³) “to deal with ethical, human rights, governance, prostitution, biodiversity, environmental damages or corruption issues; while on the same time empowering their team to design, create and market high added value goods and services”.

Well ... but how to compare their “power to influence change” with the power of Basilio Vargas, a 14 years old silver miner working in extreme conditions in the Bolivian mine of Potosi ... just to make a living to sustain his mother and siblings¹⁴?

¹¹ PloS : coined by wholebeauty

¹² From The path to Corporate Responsibility, Simon Zadek

¹³ PPR Group, was one of the first luxury group (back in 2010) to include sustainability criteria in the group's executive yearly performance evaluation.

¹⁴ The story of a child survival <http://www.thedevilsminer.com/Trailer/Trailer.mov>

What's next ?

Three years ago, corporate sustainability was a nice to have option for luxury companies.

Since then it became a reputational imperative to avoid being - directly or indirectly - associated with air/soil/water pollution, genocides, unethical sourcing, wars, child labor and prostitution at mining zone or at tourist destination. But it goes further than mere reputation.

The highly ignitable blend of increasing wealth divide, growing instability and inequalities, reputational and human risks coupled to the irresistible industry resilience, will unequivocally force luxury executive to eventually reassess their own role in society, beef up their corporate sustainability engagement and resources allocation to, ultimately create lasting and greater positive impact around them. Their own sustainability might be at stake as well.

In a recent paper on "Elegant Disruption"¹⁵, the author pointed out the inspiring role that luxury executives could play: *"If luxury executives want to continue influencing what young people dream about, then they had better take that responsibility far more seriously than the way they do now"*.

With today's global economic, environmental, financial and social challenges, corporate Sustainability is about sustainable innovation, creating sustainable competitive advantage and creating positive impacts for the common good, not only for the happy 1%.

Industry best practices, certification, experienced CSR specialists and dedicated training for senior or future luxury executive are widely available¹⁶; thus enabling the required organizational and behavioral transition to materialize.

Ultimately, business is about leadership; about "wise leadership"¹⁷. As the Ying and the Yang of our behaviors, power and responsibility are how we balance our relations with ourselves with the interests of others, which is at the core of what we mean by "our values".

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Christopher H. Cordey

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Strategic Foresight Advisor / CEO / [Wholebeauty – Enabling the Next](#)
Founding Director / [The Sustainable Luxury Forum](#)
Program Director / [MSc in Luxury Management @ Business School Lausanne](#)

¹⁵ "Elegant Disruption : How luxury and society can change each-other for good", Jem Bendell

¹⁶ First MSc in Luxury Management to include a "Sustainable Luxury & Innovation" module @ Business School Lausanne

¹⁷ Dr Bruce Lloyd, London South Bank University.

¹⁸ www.belgianluxurycircle.be