RESPONSIBLE LUXURY

A report on the new opportunities for business to make a difference

By Jonathan Kendall, CIBJO

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THE WORLD JEWELLERY CONFEDERATION (CIBJO)

ABOUT THE AUTHOR

Jonathan Kendall has been at the forefront of developments in corporate responsibility in luxury, particularly in the jewellery sector. He is President of the Marketing and Education Commission at CIBJO, The World Jewellery Confederation, where he is responsible for providing marketing and evaluation tools to retailers and supply chain members in the areas of environmental, ethical and social responsibility.

As part of this role, Jonathan represents the jewellery industry to the United Nations and has been a key speaker at a number of industry events around the world, including the Hong Kong Jewellery and Watch Fair. He has overseen the development of a number of educational guides at CIBJO, including the *Retailer's Guide to Trust*, *Retailer's Guide to Marketing Diamond Jewellery* and the comprehensive *Retailer's Reference Guide*.

Jonathan is also Global Operations Director for De Beers' Forevermark, the company's new diamond brand. Forevermark diamonds not only give assurances of exceptional quality but also assurances of integrity – every Forevermark diamond has been responsibly sourced and has been nurtured at every step of its journey.

Jonathan was instrumental in the development of De Beers Group's Best Practice Principles, an ethical code of conduct that both the company and its clients (sightholders) must adhere to. It covers required standards of conduct with regards to three main areas: business responsibilities (ethical and legal compliance), social responsibilities (maximum social impact on communities) and environmental responsibilities (minimal impact on the environment).

Prior to 2001, Jonathan worked as an International Marketing Director for Unilever Cosmetics, a $2bn luxury business, including brands such as Lagerfeld, Valentino, Cerruti, Fendi, Chloé, Calvin Klein and Elizabeth Arden.

RESEARCH METHODOLOGY

The findings of this report are based on wide-reaching research conducted late 2009 and 2010 into the luxury sector and beyond. It incorporates the observations of a bespoke roundtable discussion hosted with select members of the Luxury Marketing Council, who are opinion leaders with extensive experience of corporate responsibility. Their insights, and the analysis afforded by such contributions, are supplemented by secondary research and industry anecdotal evidence.

ACKNOWLEDGEMENTS

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RESPONSIBLE LUXURY

FOREWORD

A global economic downturn does many things. It forces us to rethink the way we live. The way we work. And the way we run our businesses.

The search for greater efficiency in businesses can result in non-essential elements getting the axe. This is no bad thing. Except that it can be tempting to regard corporate responsibility initiatives as an expensive indulgence that companies can no longer afford.

This is dangerous. I, like many others, have lived and worked in the decades that saw corporate responsibility transform from a buzzword to a vital, value-added pursuit. Luxury companies, too, have been forced to sparkle under the bright lights of the media and a changing public psyche.

And why not? We are an aspirational industry that heralds new trends in fashion, beauty and retail. Historically, excellence lies at the heart of what we do anyway. Exceptional quality, exquisite craftsmanship, incredible beauty and real passion are the hallmarks of our trade. Our customers have always demanded the best in terms of product quality. As they become more socially-conscious, we have to reflect their values in the way we conduct our affairs too.

We are almost certain now that corporate responsibility is not just an optional extra for successful companies enjoying good times. In a post-downturn society, being good is not an add-on. This report explores how things have changed over the latter half of the "Noughties" and what we can learn from our past in the forthcoming decade.

It reviews the state of affairs at the turn of the decade, the key drivers for change and external and internal challenges concluding with a roadmap for change. We have also included insights from opinion leaders in the world of responsible business and case studies of exemplar businesses.

You may be part of a progressive business that understands the business challenges we are discussing. Or, someone who wants to set the wheels of responsible behaviour in motion. Either way, we hope this report proves interesting, thought-provoking and inspiring.

Jonathan G. Kendall

Jonathan Kendall

London 2010

President, Marketing and Education Commission, CIBJO (The World Jewellery Confederation)

EXECUTIVE SUMMARY

1: A steep economic decline has brought the value of Corporate Responsibility (CR) to luxury businesses into question. Any recovery will be underpinned by an increase in conscientious business practice, but true recovery will not be sustainable without it.

2: Understanding the new motivating factors behind consumer decisionmaking is key to responding correctly and profitably. Leveraging an impeccable heritage is admirable, but inaction now will jeopardise legacy 50 years hence.

3: A robust luxury market of the future won't trade on the cost of products to consumers but their value beyond the price of the transaction. Promiscuous trophy brand purchasing is increasingly outdated.

4: The changing landscape of CR is not just outward facing but at the heart of company growth. New talent will be drawn to companies who embody positive, environmental, humanistic, ethical and moral values. These young talented people are the future guardians of a brand – and luxury customers too.

5: Giving is idle. Doing is not. Increasingly any investment in corporate responsibility cannot be passive. Actions are signs of authenticity and essential for creating a virtuous circle where responsible behaviour enhances sales. A new triple bottom-line is being calculated: *People*, *Planet*, *Profit*.

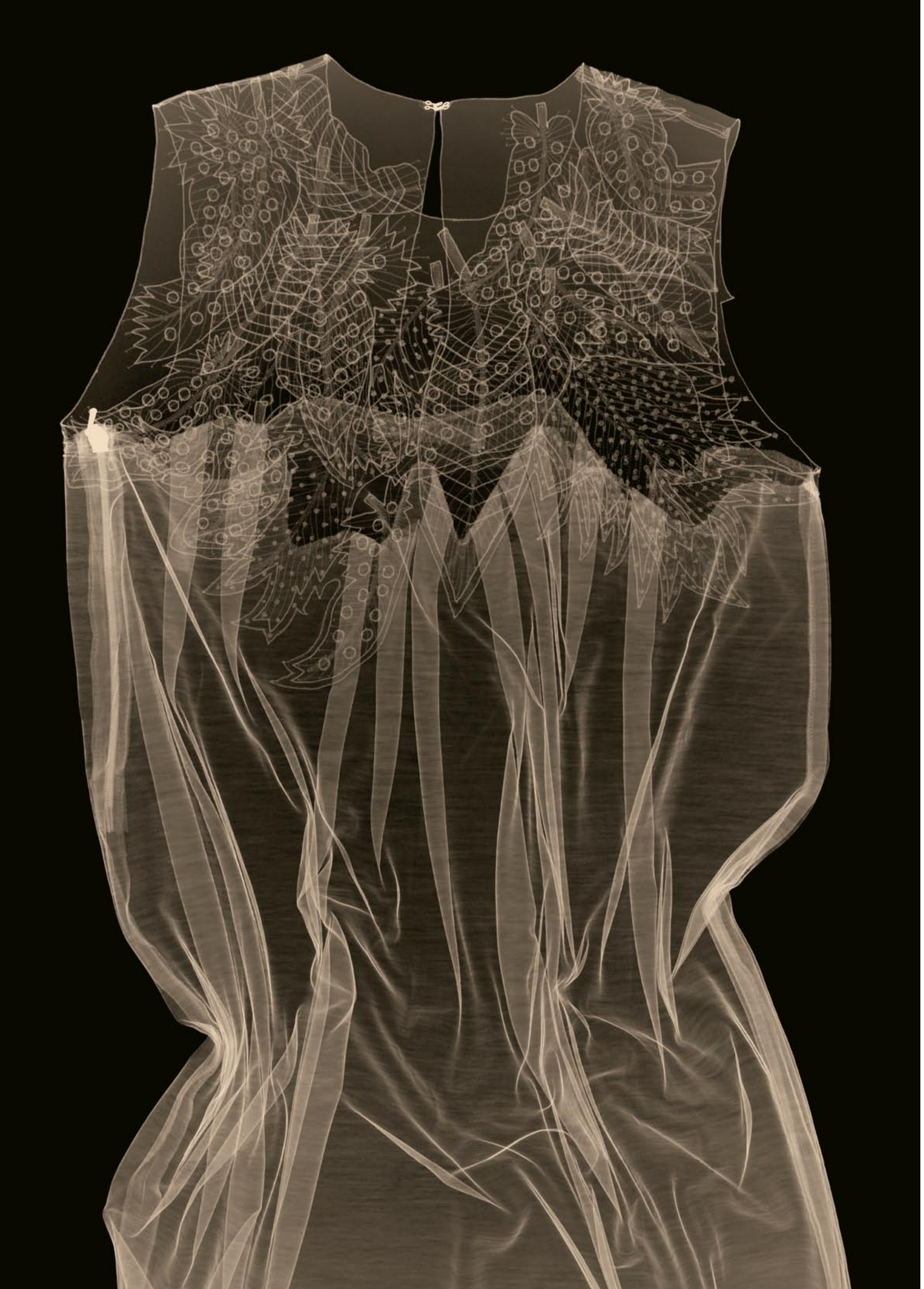
6: The consumer thirst for CR will be noticeable in the changing retail space. Innovative product concepts, luxury recycling *(luxe-cycling)*, accessible supply chain information, and a visible celebration of the craftsmanship will all appeal to tomorrow's customer.

7: Proving shareholder return on CR investment lies at the heart of moving them forward internally. Good and sustainable action must be strategic and not negate the profit motive. Doing good by being good is an admirable aspiration.

8: Committing resources to complementary CR programmes is advisable, but marketing the activity should be measured and subtle. Transparency is one of the most valuable virtues.

9: While there will be internal pressure to deliver CR programmes, sub-contracting out these activities without firm internal commitment is inadvisable. These practices will form the foundations of business practice and can't be boxes ticked by external agencies.

10: In the future CR should become an invisible part of day to day business practice. Ultimately this will lead to the best, most admired, most influential and most profitable businesses being the ones who exploit not the population and planet, but the opportunities to improve them.



CHAPTER 1:

BRAND ATTITUDES, BRAND APPETITES

As times have changed, the luxury industry has a once-in-a-generation opportunity to raise the bar for business.

"Management is efficiency in climbing the ladder of success; leadership determines whether the ladder is leaning against the right wall."

Stephen Covey, author of international bestseller 'The 7 Habits of Highly Effective People'

Throughout the decade leading to 2007, consumer appetite for luxury products escalated, fuelled by easily available credit and a dramatic rise in personal wealth. In a bid to satiate demand, luxury companies evolved too. Some lowered price points to capitalise the broader mass market that sought prestige, luxury goods – the so-called *masstige*[1] social group. Others raised prices to stratospheric levels to give the truly rich – the High Net Worths (HNW) – an opportunity to express themselves and indulge in bespoke, opulent items.

It was a creative and lucrative time. Sectors fused. Brands leveraged. Luxury hybrids were born.

During this growth period, pioneering luxury companies embraced the desires of their high-end clients. They invested energy into communicating the value of craftsmanship in their products, on revitalising and marketing their much vaunted heritages and into trying to achieve the luxury sector's high-wire act; enhancing the perceived exclusivity of a brand, while simultaneously broadening availability.

As luxury goods became increasingly available to a broader market, top-tier luxury consumers – those between masstige and HNW – sought differentiation. These buyers wanted to engage on a deeper level in their purchase decisions and with their preferred brands. The logic went: "By gaining greater knowledge of my favourite brand, its heritage and philosophy and aligning myself with its core values, I am different from those simply buying *in* to the brand as a trophy purchase." But as their knowledge grew, this attachment became a dialogue between astute brands and discerning buyers and began to reflect the growing popular zeitgeist of social consciousness.

THE UPHILL CLIMB

Then, the world spiralled into a period of steep economic decline in 2008. The luxury sector followed. A slew of bellwether brands were reported to display signs of weakness. Chanel announced it would cut 200 jobs.[2] Bulgari's profits dropped by 45%. Prada resorted to sales posters advertising price cuts in their Milan boutique windows. Difficult times, it seemed, were taking the sparkle out of luxury.

Much of this was forecast to continue. Consulting firm Bain & Company forecast an estimated 8% decline in 2009, from 2% the previous year. Viewed optimistically, 2010 sees the sector enter a period of tentative recovery. Bain & Company forecast an overall growth of 1% in 2010 (not withstanding currency fluctuation).[3] In their view at least, consumer reluctance to spend has been slowly replaced by returning financial confidence. However, it predicts full recovery from the downturn is unlikely until 2011 or even 2012.

From crisis comes opportunity. While the squeak of animal skin belts being tightened interrupts the muted luxury market, the industry has a rare chance to re-think its business practices. Historically luxury brands have led the way in many aspects. Their designs transformed the way people look and live; and innovative retail experiences raised the bar for the way they engage with and delight customers. This is a once-in-a-generation moment to once again pioneer the way we conduct our business, and with it usher in a new era.

Understanding how traditional (not aspirational) luxury consumers have evolved is the first part of the puzzle. As Claudia D'Arpizio, luxury goods expert for Bain & Company, says, "Understanding how the [financial] crisis is changing the minds of consumers is really important to allow companies to react and be stronger after the crisis."

CASE STUDY: INSPIRATION THROUGH ADVERTISING

Messages about ethical, social and environmental responsibility are being communicated loud and clear in luxury advertising:

Vanity Fair has featured an advertising campaign by Louis Vuitton that celebrates successful and iconic space missions with Sally Ride, Buzz Aldrin and Jim Lovell modelling various products. This theme was chosen due to Louis Vuitton's current involvement in "The Climate Project" which is featured in the advert itself – *"Louis Vuitton is proud to support The Climate Project"*.

Harper's Bazaar ran a print advertisement for jewellers Roberto Coin who state on their advert *"Join us to support CARE's work to help empower women worldwide"*. In addition to supporting CARE a humanitarian organisation that works to fight global poverty, the brand uses supermodel Christy Turlington, a well known ambassador for AIDS charity RED, as the face of its products.

Tatler featured a campaign by Jimmy Choo whose "Project PEP" collection donates 25% of net sales from this project to a South Africa Women's Centre and the Elton John Aids Foundation (EJAF). This information plus more is featured in the actual advertisement.

CASE STUDY: AURA QUE – BAGS OF TALENT

Established by award-winning graduate from the London College of Fashion, Laura Queening in 2008, small fashion label Aura Que combines Laura's natural talent for fashion design with her passion for the well being of Third-World manufacturers.

By travelling to, sourcing and then working directly with her suppliers in Nepal, she is able to design and produce collections whose materials and production is complete, using fair-trade and ethically sound methods.

What's more, her £200 handbags and designer knitwear, which use luxurious leather and naturally dyed yarn and fabrics from Nepal, also employs the Nepal Leprosy Trust, which supports people otherwise segregated from their communities.

Such has been her success that Queening is also producing a range of bags for sale by Oxfam Boutiques, constructed from unwanted leather jackets.

In some cases, for example, the awareness of the provenance and production process of a luxury item has become as important to the consumer as the actual product itself. Buying no longer just demonstrates financial or stylistic independence. Knowing its foundation signifies a social conscience, a duty of care and a deeper knowledge of craftsmanship, skill and quality. In response, luxury companies providing greater and more transparent product information during the consumer journey, can elevate a buyer from simple acquirer to informed enquirer, an upward leap of status in our post-recession society.

Anecdotal evidence also suggests the inherent values and beliefs of consumers that are becoming more pronounced in buying patterns. Customer awareness of and concern for social, ethical and environmental issues also underpin a desire for their purchases to provide a lasting, meaningful experience. According to a TIME poll conducted in summer 2009, nearly 40% of Americans purchased a product in 2009 because they liked the social or political values of the company that produced it. Experts believe that the buying patterns of consumers in emerging markets are becoming increasingly discerning too, influenced by their Western counterparts.[4]

As consumer attitudes have developed, so has the way we do business. The ethical movement has gone beyond the realm of a haloed few, to permeate broader consumerism and commerce. *TIME* magazine calls it a "Responsibility Revolution", where: "What we are discovering now, in the most uncertain economy since FDR's [Franklin D. Roosevelt] time, is that enlightened self-interest – call it a shared sense of responsibility – is good economics."[5] The fashion-forward are now inextricably aligned with social conscience.

This gilt-edged future has an esteemed past. Luxury players are no strangers to the value of heritage. Today's actions will be part of tomorrow's heritage. Perception of past values will inevitably be interpreted on the basis of contemporary ones – a company's activities during the 21st century.

So what does this mean for luxury companies as we go from recession to recovery? How can they lead the way as an innovative, creative sector? And what are the challenges to consider as they do?

"Customer awareness of and concern for social, ethical and environmental issues also underpin a desire for their purchases to provide a lasting, meaningful experience."

CHAPTER 2:

THE GOOD GENERATION

People have changed. Their new shared outlook and global consciousness will shape the future values of luxury brands.

"There must be more to life than having everything!"

Maurice Sendak, author and illustrator of children's literature

With the closing of consumer credit accounts has come the opening of people's minds. Luxury spending will never be driven by a single reason to purchase. But the deceleration in consumption may just have given consumers a chance to reflect on the true value of luxury products, services and experiences.

The accepted wisdom that an excess of any commodity decreases its value does not apply to the luxury products themselves. One cannot help but think the very concept of money has itself become devalued in the light of last year's frequently published, astronomical sums attached to government bail-outs, collapsed banks and financial fraud. In this context, how then do consumers aggregate the worth of a handbag, a watch, a bespoke suit, a luxury car or a piece of diamond jewellery?

Consumer reflection places greater emphasis on how they express their individual civic duty or changing feelings of responsibility towards society through their luxury spending. This is not underpinned by any past guilt; instead by a belief driven by younger generations, of how more can be attained in a single purchase than just the value of the item itself. Am I supporting others in my consumer choice? Can I feel good about my purchase, beyond the function or flare of the item itself? In buying this, can I be assured that no one less fortunate than myself is being exploited?

"In this context, how then do consumers aggregate the worth of a handbag, a watch, a bespoke suit, a luxury car or a piece of diamond jewellery?"

In 2010, luxury consumers will shake off their past. They will update their sense of identity and citizenship, expressing their changing views through their most apparent and quantifiable action – their buying patterns. Indeed, "Ethical Fashion" featured along with "Luxury goes East" in marketing communications consultancy JWT's trends league table "100 Things to Watch in 2010"[6]. We will also see a rise in ethical consumerism in luxury as it comes of age; US motor firm Tesla posting profits on its high performing and sexy electric sports cars; John Hardy, an influential and widely distributed jeweller based in Bali, whose organic evangelism and protection of his entirely local workforce is rewriting East/West supply policies.

Of course, the luxury consumer mindset is already intrinsically tied to excellence. The market's previous global consciousness has broadly been in strong opposition to any product that causes misery, environmental damage or unfairly exploits workers during their production, marketing or sales process. Going forward, any product or company that doesn't have, or aspire to have, these credentials cannot be a luxury in the affluent consumer's psyche.

RETAIL THERAPY

The selfish, closed-chrysalis attitude of "What kind of person will people think I am by buying this product?" is changing in to the open butterfly of "What kind of person will I be by buying this product?" And marketing to this consumer, industry experts collectively agree, is not just about ethically-sourced fabrics and preserved rainforests. Kathryn Archibald, Global Head of Business Strategy for Nokia, refers to the positive permission-to-buy luxury players must now give customers as their "functional alibi". *"More conscious of basic human needs, today's consumers know they are making a purchase they don't actually need. You don't need another handbag, two watches or a faster car. But they want to be given permission to buy,"* says Archibald.

The carbon offset private jet. The five-star resort that invests in local schools. The Loro Piana vicuña jacket that funds the population growth of this rare species. The La Prairie moisturiser that funds the replenishment and protection of the natural marine algae in their products, working with the Ocean Future Society. These are premium motivators that leap-frog price and impart extra value and depth in a luxury transaction.

> *"What kind of person will I be by buying this product?"*

Such is the change in consumer attitudes that the *functional alibi* even permeates the advertising pitch of a previously gilt-edged luxury – the sports car. Who'd have thought five years ago a performance sports car would boast of its economic fuel consumption? But in 2008 Audi ran a campaign for their new TT with the strap line "the sports car that drinks responsibly". The intelligence quotient in advertising like this shows, once again, what values and expectations today's luxury consumers have, and what they consider integral to any purchase.

EXECUTIVE DECISIONS

This swelling attitudinal tide of change is also noted internally in many luxury businesses. One of the most positive assets that any luxury company has in reviving its fortunes is its own people. And they are part of the good generation themselves.

As growth returns, your company will increasingly be staffed by a new breed of executives, designers, marketers and financial brains who have grown up with a collective conscience of how to run businesses on sound ethical principles. Not only will these people shape your near future, but they will know from their own experience that the wave of talent behind them is likely to be attracted to join only companies with positive, responsible CR policies.

Cindy Cahill, a partner at Deloitte, and one of a rare breed who has a sole remit to integrate social responsibility in the organisation, highlights this changing attitude: *"It is much more difficult to get people over 35 to start doing things differently, but our younger staff demand we do this [CR]," she says. "We just brought in 1,000 graduates and we have our older division go talk to them. The older guys are so used to getting questions about how successful Deloittes is, how profitable it is and how great my career is going to be. Now, inevitably, the first question fielded is 'What are you doing about sustainability?'."*

Cindy Cahill's sage observations about future staff is noteworthy as some of them incidentally will also be the future luxury customer, *"...younger graduates are so much more prepared to make career choices based on what they believe in and not what will make them wealthy."* There is evidence of this too at Harvard Business School, where MBA students have come up with the voluntary "MBA Oath". The ethical pledges include one that states *"I will safeguard the interests of my shareholders, co-workers, customers and the society in which we operate."*[7]

Sure, a proportion of the market will never change. However, customers will increasingly include younger high spenders who have proactively sought products and brands that align themselves with their philosophy and not just conform to their aesthetic and material ideals.

So how have luxury businesses responded to the challenges of a rapidly changing consumer mindset?

> *"Younger graduates are so much more prepared to make career choices based on what they believe in and not what will make them wealthy."*

CASE STUDY: ON CORPORATE TRANSPARENCY – JAMES NEWALL, LEATHER GOODS, ASPREY LONDON"

"Asprey deals with materials that could be considered contentious. As there is continued demand, the challenge is to balance our social responsibility with providing something our clients want to buy.

The route we take is to inform as much as possible. Ensuring source book materials are correct, they can be traced, so there is never any question that we provide the best materials through the correct channels. A certificate accompanies any exotic skin from manufacture throughout its life.

We give our clients this certificate and information, explaining the necessity when they're carrying these items to have documentation for them.

Although customers may never need the certificate, by involving them they know it is something to be aware of. It also governs the supply of our products too. If countries that used to provide certain materials and certificates aren't recognised as ethical sources any more, we simply go elsewhere."

CHAPTER 3:

PUTTING THE LUXE BACK INTO LUXURY

Recalibrating responsibility is about the setting highest standards. The luxury industry has the edge to make a difference.

"I don't care whether companies change for the love of the environment or because of their financial self-interest. The most sustainable solution is to have companies responding to financial incentives rather than their own feelings."

Geoffrey Heal, Columbia Business School professor and author of When Principles Pay.

Luxury companies have responded to the demands of more socially, environmentally and ethically aware consumers. The wheels of change were set in motion years ago, albeit with varying degrees of success.

But the dark clouds of economic doom have forced businesses to re-evaluate their responsibility. With profits under pressure, luxury brands have been made to swallow a bitter pill, as survival is imperative. In Jack and Suzy Welch's words: *"In this enlightened day and age, whether times are good or bad, companies must be socially responsible. That's a given. But tough economic conditions underscore a blunt reality. A company's foremost responsibility is to do well."*[8] CR spending is at risk of becoming just one of the casualties of bad times.

This, of course, depends to what extent CR is embedded in the core of the business. There are those that view CR as charitable giving or corporate philanthropy. Here, the commitment takes the form of annual donations, for some cynical observers, to whimsically selected causes supported by the Chairman's wife. Viewed as a peripheral add-on, this "cost" could quite easily be slashed. Evidence is the call for continued investment in the arts by Kevin Spacey, Hollywood A-lister and Artistic Director of the Old Vic Theatre in London, following reports of a decline during the recession.[9]

There are some companies who use CR as part of their marketing strategy. This is when a cause is expressly linked to a brand, or the sale of a particular product or service. Here, it is harder to disengage the investment in CR from the business.

CASE STUDY: CAMILLA NORRBACK – CLEAR FASHION CONSCIENCE

Camilla Norrback, Swedish fashion designer, believes the worldwide textile industry consumes natural resources and creates garments that can be harmful to the wearer's skin.

As a result, Camilla chooses to produce garments using ecologically or environmentally-certified natural materials.

The methods that she uses are chosen to affect the environment as little as possible and the environment-certified fabrics are processed and coloured in a way that the pigments are not released into the groundwater. The finished fabric contains no toxins or heavy metals that may be harmful to the future wearer of her garments.

In this way, Camilla Norrback produces garments of beautiful quality and design, while being kinder on the skin due to their natural properties. For her and her team this is what "ecoluxury" is. It is modern luxury, which is as much about the inside as it is about the outside.

A case in point is Versace's "Art Unites" initiative where the brand makes one-of-a-kind handbags out of each work of art drawn by a child. The bags sell well. Sold for about $250 through its global boutiques, all proceeds going to either the Starlight Children's Foundation, helping seriously ill American children, or One Foundation, a charity that works on long-term recovery projects like the Versace children's centres in the earthquake-aftermath of China's Sichuan Province.

Then there are the companies for which CR is an integral part of their commercial philosophy. Where the entire supply chain, product range and company ethos support the highest standards of integrity. For such businesses, cost cutting with CR is simply not an option. Make-up brands such as Dr Hauschka and Kiehl's, the US-headquartered but global purveyors of quality and ethical skin and hair care, are good examples of this type of business model.

THE VIRTUOUS CIRCLE

CR and the profit motive are inextricably linked. By doing good and by being good, a company can prosper. The immediate financial value of initiating positive CR programmes linked to environmental awareness, supply chain and ethical trade policy may not initially be apparent. But the deeper the customer relationship with your brand and the more they consider how and which brands they align themselves with will, long term, turn customers into loyal ambassadors.

What was a fickle and transient decision-making process to buy your goods as recently as two years ago can become an ongoing dialogue between your brand and customers. This, in turn, will encourage your company's greater participation in CR and so further cement your position and values, attracting greater commercial success and priceless intellectual equity. Anecdotal evidence also suggests that the many affluent consumers are prepared to pay more for brands known and trusted for their positive image, so providing an additional commercial rationale for a change in corporate behaviour.

Honestly, patiently and transparently executing a virtuous circle model can have a huge impact on your brand and offer a positive financial outlook. John Elkington's 1998 book *Cannibals with Forks* spoke of a triple bottom line: People, Planet and Profit. Dismiss this as "hippy-speak" at your peril. Businessmen and women who still strictly follow free-market purist Milton Friedman, "the most influential economist of the second half of the 20th century" are still living in that century with him. If you're one of them, consider the equation in terms that leave no room for interpretation: No planet + No people = No profit.

Critics might denounce the use of the People-Planet-Profit concept as a cynically motivated ploy to restore their own patch to its formerly glorious margins. But if companies are really improving their carbon footprint, together with the way they treat their workers and suppliers, creating sustainable programmes to improve the planet and cleaning up their image to engender consumer loyalty, isn't that a net good thing?

The luxury industry is better placed than many to make a positive change to the world. The glitz, glamour and appeal of its products and its people give it a profile like no other. By being at the forefront of all things new, it is also in pole position to conceive new ways to inject the feel-good factor into its luxury purchases.

"CR and the profit motive are inextricably linked. By doing good and by being good, a company can prosper."

STAR DUST

The power of celebrity is indisputable. Celebrity endorsement of luxury has also evolved into something more considered and sustainable. Once luxury marketing campaigns were built around pure star appeal, recognition and exposure. Brands are increasingly using celebrities, along with their impossibly airbrushed lifestyles, that are aligned with their values to enhance trust and depth beyond the stars' image only.

Recently, astute brands have gone one step further by enticing stars with the joint allure of exposure and endorsement of charities close to their hearts. Jude Law, the face of the men's fragrance, Dior Homme, is also the ambassador of the charity Peace One Day, which is proclaiming the 21st of September as the Day of Peace. It is supported both financially and practically by Dior – for the Paris concert held in September 2009, a crew of Dior make-up artists did the makeup of the singers and celebrities participating in the event. Not only does the glossy perfume ad campaign appeal to a consumer, but also brings a win-win-win for advertiser, star and charity.

The charity auction, an enduring platform for good, has inadvertently provided a haven for those escaping the conspicuous consumption trap. The singer Ronan Keating's annual Emeralds and Ivy Ball for Cancer Research UK provides one such safe haven for those in the mood for guilt-free enjoyment of hard-earned money. Stephen Massey, Head of Special Events, explains: *"Supporters can buy a luxury watch, an incredible holiday, a private rowing lesson with Sir Steve Redgrave and enjoy buying great luxury while supporting fantastic projects…the net result of it all is guilt-free, socially responsible, celebrity-driven fundraising and luxury brands connecting with great audiences."*

RETAIL CONCEPTS

Luxury is leading the way with avant-garde retail concepts. Former fashion model Clélia Moretton is also championing "ethical luxury" at her bijou concept store *Dalia and Rose* in Paris. Here she showcases glamorous Aquaverde jeans, silver jewellery from Niger and luxurious alpaca and llama wool accessories for both sexes by the Bolivian fair-trade brand Andes Made.[10] Using personally known new designers and industry colleagues, stock control is driven by the clean conscience of her supply chain. If your craft and creation fit with her vision and values, you will find shelf space – if they don't, or are mass produced, this influential store is out of bounds.

Even charity shops, traditionally the bottom of the retail food chain, have undergone a radical overhaul in both perception and practice. Founders of *Bonpoint*, the high-end French children's clothes brand, have created *Merci*, a large retail space in the Marais district of Paris where, after meeting running costs, all profits go to a Madagascan Women's refuge. The stock is not tatty and torn, but thoughtful and elegant vintage clothing, chic second-hand items and antiques combined with specially made new collections by contemporary designers. The founders of *Bonpoint* made their fortune from kids and now they want to give something back. What's more, as everyone has waived profits, the items are much less expensive than they would be in the designer's flagship outlets.

Environmental consciousness has also conceived the latest trend for recycling in luxury *luxe-cycling*. One example of this is OSISU Design from Thailand which designs and creates luxurious, cutting-edge desks, chairs, tables and interior furniture using reclaimed teak wood. As they can't standardise what they reclaim, each item is designed and made to complement the qualities of the wood itself, turning what formerly would have been "wooden waste" into a commercial and practical art.

"The power of celebrity is indisputable. Celebrity endorsement of luxury has also evolved into something more considered and sustainable."

CASE STUDY: PATEK PHILIPPE – FUTURE VALUE

Smart brands like luxury watchmaker Patek Philippe, which have traded on craftsmanship and heritage, are a good example of how to appeal to the changing mindset. Since 2006 it has combined past heritage with the importance of longevity in astute marketing taglined *"You never actually own a Patek Philippe. You merely look after it for the next generation."* The *future* value of their watches as heirlooms makes their current *price* immaterial. This echoes directly one of the values customers increasingly place on their purchases, that not every luxury item is a disposable or replaceable one.

CHAPTER 4:

A BALANCING ACT

Opportunity is not without challenges. Corporate responsibility in the luxury world has a fine line to tread.

"Just because this is a time of transformation doesn't mean that it's easy to sell transformational ideas. Economic uncertainty has reduced the audience for bold, grand rhetoric. Besides, even in boom times innovation is risky. Innovators often have to ease anxieties by sounding conservative while doing something radical."

Rosabeth Moss Kanter, Professor at Harvard Business School and author of SuperCorp

On the brink of economic recovery, the luxury industry has an opportunity to lead on social responsibility too. By doing so it will not only improve its own conduct, but also influence the business models of businesses that it works with or that have an interest in it. Part of this is to initiate programmes ahead of the curve, gaining recognition for them (and recognition for the industry's foresight) and steering the conversation on CR rather than following it or, worse still, waiting for oppressive, enforced legislation.

A key obstruction to this in many luxury companies has been a reduced marketing budget. Previously a talented marketing director could easily get sign-off on a pioneering CR initiative if he could demonstrate solid ROI to his finance director. The recent squeeze on bottom lines, and intense scrutiny of company expenditure, means the internal appetite for risk taking is as slim as the catwalk models from which couturier cloth flutters.

This leads to one of the central conundrums in the current luxury market: spend too much on marketing CR and jeopardise profits; don't spend enough and risk losing market share to competitors who do.

"On the brink of economic recovery, the luxury industry has an opportunity to lead on social responsibility too."

FROM BOARDROOM TO SHOWROOM

A long-term strategy to resolve this conundrum is to change the mindset *within* a company. Cast your mind back to the concept of digital strategy – once laughed out of the boardroom as a transient folly it now forms a significant basis of any P&L account. CR must also be adopted by the stewards of the business, the stakeholders, share holders and the holders of the purse strings. Given the difficulty of proven returns of some methods deployed – like cash donations or event sponsorship – this is not as radical or difficult to sell in as it sounds. Small companies are not exempt from either these problems or responsibilities. Even a handful of staff can make a difference if your company's value system is explicitly expressed and encouraged.

Resistance to change is likely to be apparent in some quarters. Any opposition to CR investment internally will usually take the form of either direct budget reference or, however it is garlanded, a reason underpinned by fear. Where these opponents' arguments are flawed, is that businesses rarely make decisions exclusively on hard rational factors. What is more, advocating selfless altruism is unsustainable. So while *feeling good* about a CR initiative is a good thing, any activity must fit with the broader business strategy.

> *"The current sustainable trend is in* do-nating*, not donating. Giving valuable time to a cause and not just money."*

Sustainability, even in generosity, is also a consideration for large or small local companies embarking upon CR today. These days, misplaced philanthropy is increasingly viewed by savvy luxury consumers as cheap; a cut-price means to give the impression of generosity while gaining favour in return. We'll call it *goodwill purchasing*; where the sum of cash invested is inversely proportional to the value received. The current sustainable trend is in *do-nating*, not donating. Giving valuable time to a cause and not just money.

Stephen Massey, Head of Special Events at Cancer Research UK, illustrates how this type of sustainability has worked more recently with their partners. *"Big companies increasingly take part in activities that either reinforce their own messages or reinforce the loyalty of their staff. Tesco sponsors Race for Life and recruits staff and customers to run and raise money, and a well known hotel chain have frozen promotions and pay rises as part of their commitment to us."*

Even as the owner of a small luxury company, you can ask yourself what plays better in terms of reputation and respect: an expensive jaunt with clients to a random, prestigious golf course or the experience of dining at an exclusive star-studded fund raiser.

The next challenge in this complex balancing act is for its internal company champion to convince a reticent board, over whom the spectre of profit hangs like a shareholder's ghost, that there is real future value in positive CR initiatives. This is not easy, as we all know.

"Not only do you have to be able to do good, and you have to be seen to be doing good, but you have to be able to explain why you're doing good," says Mary Jo Jacobi, International Brand and Reputation Advisor. *"Then, they will be open for you to show them shareholder value."* She continues: *"If it is an activity that is in keeping with the brand values and it adds to brand equity, then that is where boardrooms get interested, because that's where you can put it on the balance sheet. Then, potentially, that's your route to sustainability because it's actually contributing back to shareholders."* The point she makes is clear: Good CR doesn't have to negate the profit motive.

Cindy Cahill, who has initiated internal change for Deloitte reinforces this view with her experience: *"Without exception we have taken out a lot of cost through CR"*. And no board will sniff at that. She continues, *"For example, we have 12,000 people in the UK, about 11,000 desks and each has a dustbin underneath lined with a plastic bag."* The solution to saving money? *"We put in recycling stations,"* says Cindy. *"One per 60 people. Sure, the first month I got endless emails telling me it was unacceptable, but now we've cut waste by 50% and we save money."*

Clearly, the ear of the board will immediately open if you can correlate financial success with strategic CR programmes.

ECHO-FRIENDLY

It's one thing to do it. But for luxury companies trying to navigate the choppy waters of responsible behaviour, public perception can become more than a storm in a teacup. Despite the best of intentions, and the work by your communications teams, the broader perception of your activity may take you by surprise.

Keenly marketing CR activity can be cynically viewed as a tool in your company's ongoing struggle for public attention. Any CR commitment made also raises two nagging issues. Firstly, your globally informed, news-hungry customer-base makes it incumbent upon you to back up your boasts. Secondly, isn't it only a question of time before CR loses its impact as too many companies use it as their communication strategy? And if this happens, however trite and ineffective a campaign becomes, will you be forever damned by customers if you back out on your promises?

To complicate things further, perception also varies from territory to territory. In global brands operating across many markets, cultural norms will often dictate how initiatives are discussed in the press.

Nokia's Kathryn Archibald concurs: *"There is a cultural dimension to communicating [CR]. In some cultures there are words with little action underneath, while the culture in Finland is one of few words but much action."* As such, each market may respond positively, but to different culturally-specific communication styles. A potential headache for multi-national brands, but entirely manageable within a strategic, company-wide framework.

THE TRANSPARENCY CURRENCY

The luxury world is replete with contentious raw materials. Young designers like Stella McCartney may claim their stake to the ground by denouncing the use of leather and fur in their fashions. But contentious raw materials can never be far behind in a world renowned for its uniqueness and exclusivity.

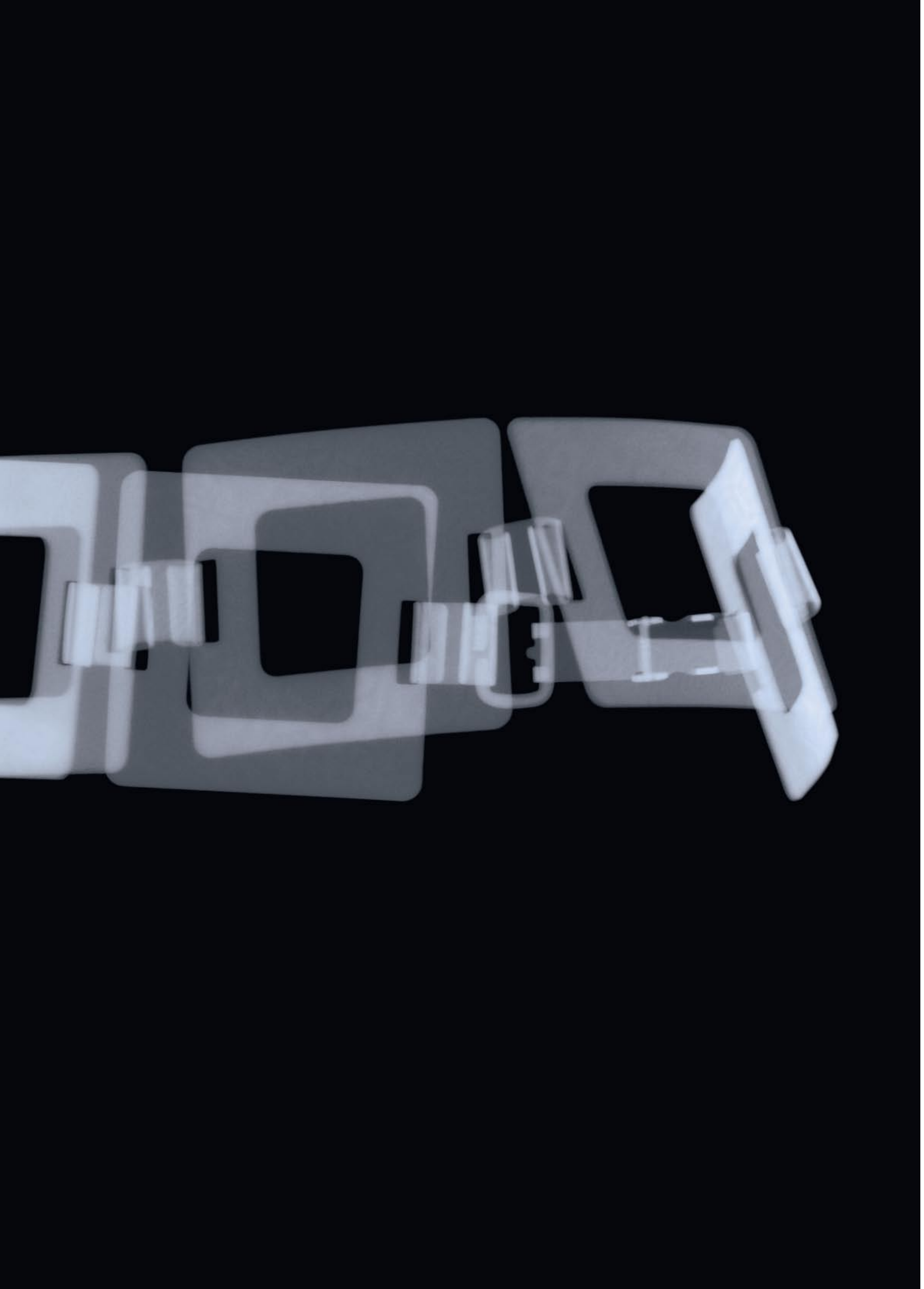
This poses a supply-chain challenge. The luxury sector's disadvantage is that many of the items retailed are products of multi-material collaboration – animal skins, precious stones, metals, fabrics. While no simplistic solution can address the issues of communicating CR completely, forward-thinking companies can embrace transparency as a means to underline their philosophies. While guaranteeing the provenance of one or two components is feasible, sourcing *everything* with the same vigilance may be nigh impossible. Through transparency, customers will be able to understand this process more intimately and adopt their *functional alibi* more readily.

On this concept, Bill Bachle, Chairman of the Luxury Marketing Council Europe, makes a moot point: *"Transparency is a virtue in itself. The content of your actions may not appeal to everyone, they may be slow, localised even misguided, but the attitude of transparency has tremendous value. There is even a corporate platform for a campaign: we are transparent."*

CASE STUDY: GOOD GONG

In 2009, for first time since its inaugural awards ceremony nine years ago, Walpole, an umbrella group representing the British luxury industry devoted a category to and awarded a gong for corporate responsibility. It was for a luxury brand or institution that made CR an inherent part of their business ethic.

Burberry, John Smedley, Tiffany & Co and Stella McCartney were all highly praised, but the eventual winner was Estée Lauder for its Breast Cancer Awareness Campaign, that they took from a "day a year" initiative to an ongoing crusade for good.



CHAPTER 5:

LEARNING LESSONS AND DRIVING CHANGE

Where and how can CR momentum be generated, and by whom? Best practice can inspire but ultimately the onus is on you to embed responsible behaviour in your company DNA.

"Ideas abound about CSR practice becoming 'embedded' in businesses, influencing decisions on everything from sourcing to strategy. The more this happens, ironically, the more the days of CSR may start to seem numbered. In time it will simply be the way business is done in the 21st century. Says one company's head of corporate responsibility: 'My job is to design myself out of a job'."

The Economist[11]

Our contributors unanimously agreed that the days of CR espousing are numbered. There would be no talk about it because it would be in the fabric of every company – the management behaviour, the employee culture – not just a subject to debate endlessly. But we have to take some giant leaps to get there.

Becoming more responsible is about more than just a reaction to slow market conditions. It is a potential catalyst for creating greater momentum during market recovery. Arguing the commercial case for evolving your company's CR programme, and weaving it into the fabric of your organisation, is priceless. Think improved perception of your company, enhanced brand value, greater customer loyalty, stronger supply chain, a more contented workforce and greater world good.

Given its importance and integrity, CR cannot, and should not, be delegated or sub-contracted out to "experts" without the commitment of senior management. Sustainable and cost effective programmes also can't be delivered with a "tick box" mentality, trying to garner quick wins. They should be carefully considered, well-structured, sustainable programmes that directly benefit the business and the benefactor. What's more, luxury companies' CR should not be left in the hands of the marketing department to activate internally, but appear as an agenda topic at every board and management meeting.

With an increased appetite for CR, where do you start? A very good question. The path you take will be as unique and diverse as your company itself, and vary with your size, your sector and your appetite for change. Just like your fiercely individual business proposition, the nature of your CR initiatives need to be particular to your beliefs and values. Other brands can and should inspire, but beware of wholesale replication. If you try and address a project that is too broad in comparison to the size of your organisation, you may risk failure. If the scheme you propose is too small, then your sincerity may be questioned.

So, where to and how to channel energy into being responsible? Do you select a project that reflects, directly, issues close to your customers' hearts, like local charities, causes or concerns? Do you work with a project in the country or region from which your raw materials are sourced, or should you invest directly in awareness of supply chain protection? Or is the best thing to promote, through CR initiatives, the intangibles of your brand or product?

"The path you take will be as unique and diverse as your company itself, and vary with your size, your sector and your appetite for change."

CASE STUDY: FOREVERMARK – A UNIQUE PROMISE

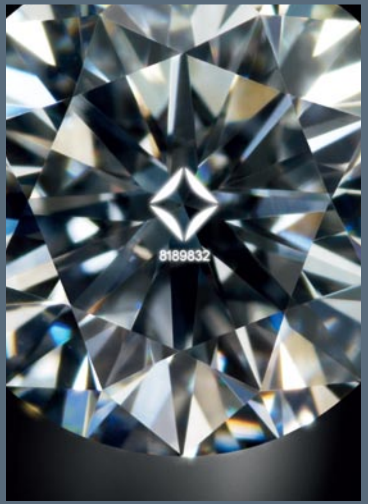
Forevermark – A unique promise

Forevermark is a new diamond brand from the De Beers family of companies that is set to dramatically redefine the diamond industry. It has a promise that not only gives assurances of exceptional quality but also assurances of integrity – every Forevermark diamond has been responsibly sourced and has been nurtured at every step of its journey.

Rarer than rare, Forevermark diamonds are selected for their exceptional qualities; less than 1% of the world's diamonds are eligible to be Forevermark. They only come from sources that are committed to rigorous environmental and ethical standards.

Set apart for their cut, clarity, colour and size, Forevermark diamonds can only be cut and polished by a select few – the finest, handpicked master craftsmen in the world. Similarly, they can only be found in a few exclusive jewellers; each passionate about creating the finest designs inspired by these exceptional diamonds.

Forevermark diamond is inscribed with the Forevermark icon and a unique identification number, using patented technology developed by the De Beers Group. The inscription proves that this diamond has met the Forevermark's standards of assurance, quality and integrity.



Whether you are a modest family enterprise or a public, multinational conglomerate there are some fundamental principles to bear in mind as you engage in responsible behaviour:

- **Make people count:** CR is not something a marketing team or consultant can deliver for you. Every single person in the organisation needs to make a difference, whether it's through becoming more environmentally aware or putting something back into the local community. CR in the new post-downturn society is about people power, with small changes adding up to make a big difference.
- **Use the force:** Don't centrally create initiatives that then get filtered through the organisation. Tap into your company's creative pool to generate workable ideas. These people understand your customers and their day-to-day limitations so well that their ideas should work. By harnessing them for CR programmes, they are likely to develop engaging, relevant, meaningful, profitable – and socially responsible – ideas that appeal to everyone.
- **Invest in relevance:** Use lateral thinking to make CR initiatives resonate with your core values and brand attributes. Very simplistically, if your company produces beautiful luxury items that are known for intricate handiwork, then consider investing in activities that help correct and improve the sight of others. This does not need to be a global programme. Individual crafts-people or single store operators can also embrace this approach by investing in local projects, that benefit local people. They are equally valuable.
- **Don't court publicity:** Many global luxury brands have been burnt by the experience of heightened public and media attention in a 24/7 news and digitally networked world. The key to post-downturn CR is to just do it. Of course information on responsible practices should and indeed must feature on interfaces for external communication, such as a company website. But a softer communication style is paramount in the new era of business.

I recommend a three-step toolkit for change – **Analyse**, **Invest** and **Implement**. The first stage is to devise and apply an internal audit to give an accurate picture of your company's current CR activity and where improvements can be made. The second is to dedicate time, resources and budget to the areas that need emphasis and development. The third and final is to implement the activities rigorously.

In short, being responsible is not a radical overhaul of operations but of thinking. As the economy changes and our belief systems transform, not being responsible will become the same as failing. No matter how wonderful the impact of CR on the environment and society, the truth is brands in the competitive luxury industry can't risk being left behind.

Times have been tough. The outlook is shaky. But the luxury industry can rise from the ashes as a stronger sector that embraces the challenges of an uncertain world.

"Times have been tough. The outlook is shaky. But the luxury industry can rise from the ashes as a stronger sector that embraces the challenges of an uncertain world."

NOTES

1 Michael Silverstein and Neil Fiske popularised the term in their book *Trading Up* and *Harvard Business Review* article "Luxury for the Masses", 1 April 2003

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CIBJO The World Jewellery Confederation
est. 1926

CIBJO – THE WORLD JEWELLERY CONFEDERATION

CIBJO is the international trade organisation of the world jewellery industry. Its members comprise representatives of commercial organisations and over 70 national jewellery associations in more than 34 countries. Established in 1926, CIBJO educates and communicates on matters of business responsibility by raising awareness of consumer confidence issues, distributing information and acting as a forum for the worldwide industry to debate its views.

CIBJO's "Code of Ethics" is designed to give its members overarching principles to help them operate according to strict ethical, business and consumer confidence guidelines. Jewellery retailers can refer to CIBJO's membership to identify whether their suppliers should adhere to the Code.

www.cibjo.org

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