



Green

The New Color of Luxury

Moving to a Sustainable Future

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Sustainability in the Luxury Industry

Overview and Objectives



The demand for sustainable products has grown substantially in the last few years. Our **2009 Grail Research Green Revolution Report¹**, found that 85% of consumers purchase sustainable products. Buying green has become mainstream and many manufacturers are now producing green variations of **everyday** products.

Luxury brands, however, have been slower to embrace sustainable practices. A 2007 WWF-UK² report graded the top 10 largest luxury brands on their social and environmental performance from 'A' to 'F'. The highest score was a low 'C+' achieved by L'Oreal, while Tiffany & Co. and Bulgari received grades of 'D+' and 'F', respectively. Although, recently some luxury brands have taken an interest in becoming more eco-friendly.

This report looks at what luxury companies are doing today and presents a framework to help brands approach and think about sustainable and socially responsible activities as strategic initiatives.



Important questions addressed in this report:

What key factors are driving luxury companies to become more sustainable?

How can luxury companies develop successful green strategies?

What are some of the recent examples of sustainability in the luxury industry?

Note: ¹2009 "The Green Revolution" report by Grail Research; ²2007 "Deeper Luxury" report by WWF-UK, Image portrays the green mainstream water bottles introduced by Vivienne Westwood at fashion week

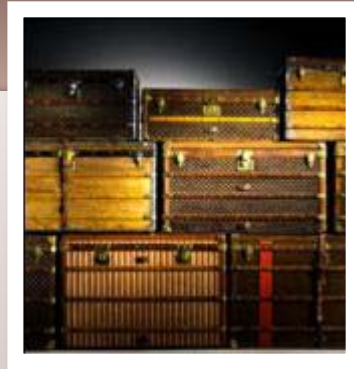
Source: Grail Research Analysis, the findings in this study are based on extensive secondary research covering company documents and reports, press releases, industry reports, published reports from associations, news articles, and blogs

Luxury Brands Are Slowly Becoming More Sustainable and Socially Responsible



THEN

Until a few years ago, 'sustainability' and 'luxury' were considered incompatible, if not entirely opposing philosophies. The common belief was that a 'one-of-a-kind' luxury product did not need to be created in a sustainable manner



"To many people, 'sustainable luxury' is a term that might best be found in the dictionary under the entry for 'oxymoron'...After all, luxury often carries with it connotations of excess and waste, and it is associated with fashion, an industry of fads that change at least as quickly as the seasons." – New York Times, March 2009¹

NOW

A paradigm shift is taking place as luxury brands recognize that some high-end consumers, especially affluent women, are becoming more environmentally conscious. Luxury brands are embracing sustainability and the concept of sustainable luxury has emerged



- **Ethical and Green Luxury:** Leading luxury companies such as LVMH², Gucci and Tiffany are incorporating social and environmental responsibility in their manufacturing practices
- **Slow Fashion:** Companies such as the Internet retailer Adili and Ana Livni focus on the 'slow fashion' concept, where products are 'trans-seasonal'³, made from sustainable materials and use local resources. These products help reduce excess waste that is often associated with single-use/fast fashion products by promoting quality, durability and versatility, and local made-to-order production

Note: ¹New York Times, March 26, 2009 "Luxury-Goods Makers Embrace Sustainability"; ²LVMH (Louis Vuitton Moët Hennessy); ³Products that can be kept and used over multiple seasons

Source: News Articles; Industry Reports; Grail Research Analysis, Images (left to right): Louis Vuitton Pre-Fall (trendhunter.com); The Haus of Blog, Vintage Louis Vuitton; Barneys New York Green holiday program gift card; Anya Hindmarch's I'm Not a Plastic Bag (manamansour.com)

Consumer Demand for Sustainable Products and Practices is Increasing Luxury Brands' Attention to Sustainability



Demand for Sustainable Products

Demand for Ethical Business Practices

Consumers are migrating to brands that embrace green practices and are demanding eco-friendly products

- 'Generation Z'¹ is expected to be more environmentally responsible and play a greater role in household purchase decisions
 - For example, ~61% of Australian teens² are concerned about whether or not their families purchase green products
- *"The global tide of conspicuous consumption is turning away from traditional status symbols of the past and **moving toward products and brands that support sustainability**"* – 2009 Global Edelman goodpurpose® Study

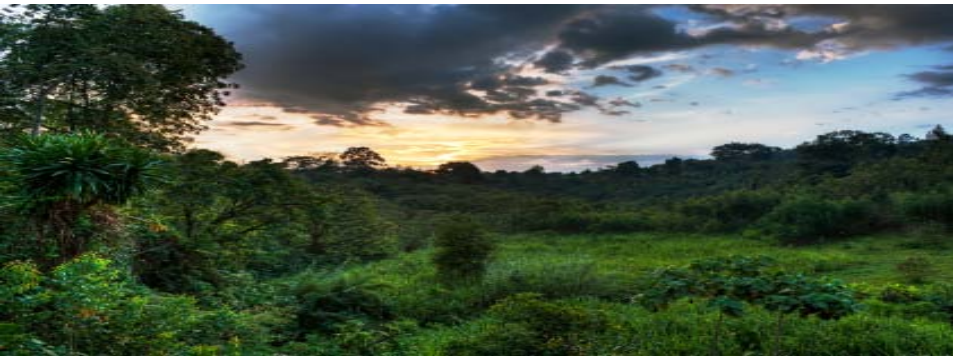
Consumers are searching for luxury brands produced by ethical and socially responsible companies at an increased rate, and are willing to pay more for these brands

- The market for **ethical clothing in the UK has grown 400%** to USD 294 MM³, over the last 5 years
- **57%** of high-income Americans would be **willing to pay a premium for a brand known for its socially responsible practices**⁴
- *"Increasingly, **consumers are demanding that the goods they buy be made in ways that do not harm the workers who make them... and they are often willing to pay more for 'fair trade' goods**"* – New York Times, March 2009⁵

Note: ¹People born between mid 1990s and mid 2000s; ²Online survey conducted by Habbo in 2009; ³Study from Mintel, a market research firm; ⁴ Luxury Institute ⁵ New York Times, March 26, 2009

Source: News Articles; Grail Research Analysis

Environmental Activism and the Recent Recession Have Also Driven Luxury Brands Toward Sustainable Practices



Environmental Activism

Environmental associations have initiated awareness campaigns targeted at Luxury Brands

- **RAN (Rainforest Action Network):** In 2009 RAN discovered that several leading luxury brands were contributing to deforestation by using paper originating in the endangered Indonesian rainforests¹
 - » Gucci now closely follows RAN standards with FSC (Forest Stewardship Council²) certified paper that is 100% recyclable
- **WWF (World Wildlife Fund) for Nature:** WWF-UK's 2007 report revealed the poor environmental and social performance of the world's 10 largest luxury brands
 - » Many companies responded to criticism almost immediately through press conferences or a company spokesperson
 - » PPR, who received a 'D' in the report, vowed to improve its business operations and announced the recent establishment of a department focused on corporate social responsibility.³

Economic Downturn

The recent economic downturn has caused consumers to be more thoughtful about the products they purchase, and it has led luxury brands to find more emotionally appealing points of differentiation

- **61%** of global respondents said they had **purchased a brand that supported a good cause, despite the recession, and 69%** said that they **prefer brands that support local producers and products**⁴
- Luxury companies now see sustainability as a way to differentiate themselves from competition
 - According to a June 2009 article on the SustainableLump blog, *"Recession is an ideal opportunity for luxury brands to forge a new image for themselves based on real, reportable and transparent efforts towards environmental and social sustainability. This will provide an important source of competitive advantage and consolidate market share, even whilst the recession rages"*

Note: ¹As reported in Sep 2009; ²FSC is an independent organization that promotes the responsible management of the world's forests; ³Just-style.com article; 2007

⁴Global Edelman goodpurpose® study, 2009

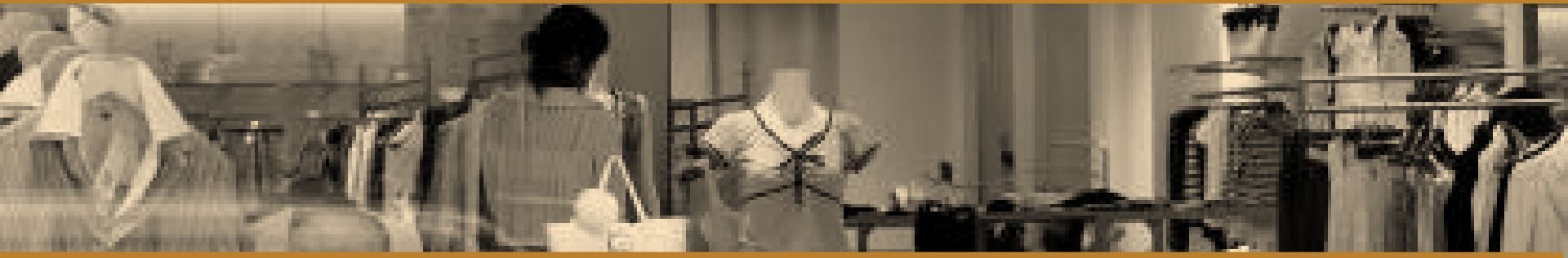
Source: News Articles; Grail Research Analysis

Developing and Implementing Successful Green Strategies

A Three-Pronged Approach



Luxury brands who want to gain a competitive advantage by leveraging sustainability need to evaluate their current and future efforts against three key dimensions: customers, processes and communications



1 CUSTOMERS

2 PROCESSES

3 COMMUNICATIONS

- How do my customer segments map against the different 'shades of green'?
 - Does a brand's commitment to green influence customer purchase decisions for my product category?
- Which aspects of the business should become more sustainable?
 - Should I invest in making the packaging, products, or my business operations more sustainable?
- How can I most effectively inform and inspire consumers about and through my commitment to green?
 - How can I communicate more clearly?
 - How can I increase consumers' awareness of green?
 - Should I contribute to the creation of green industry standards?

1 Understanding Customers' Green Behavior



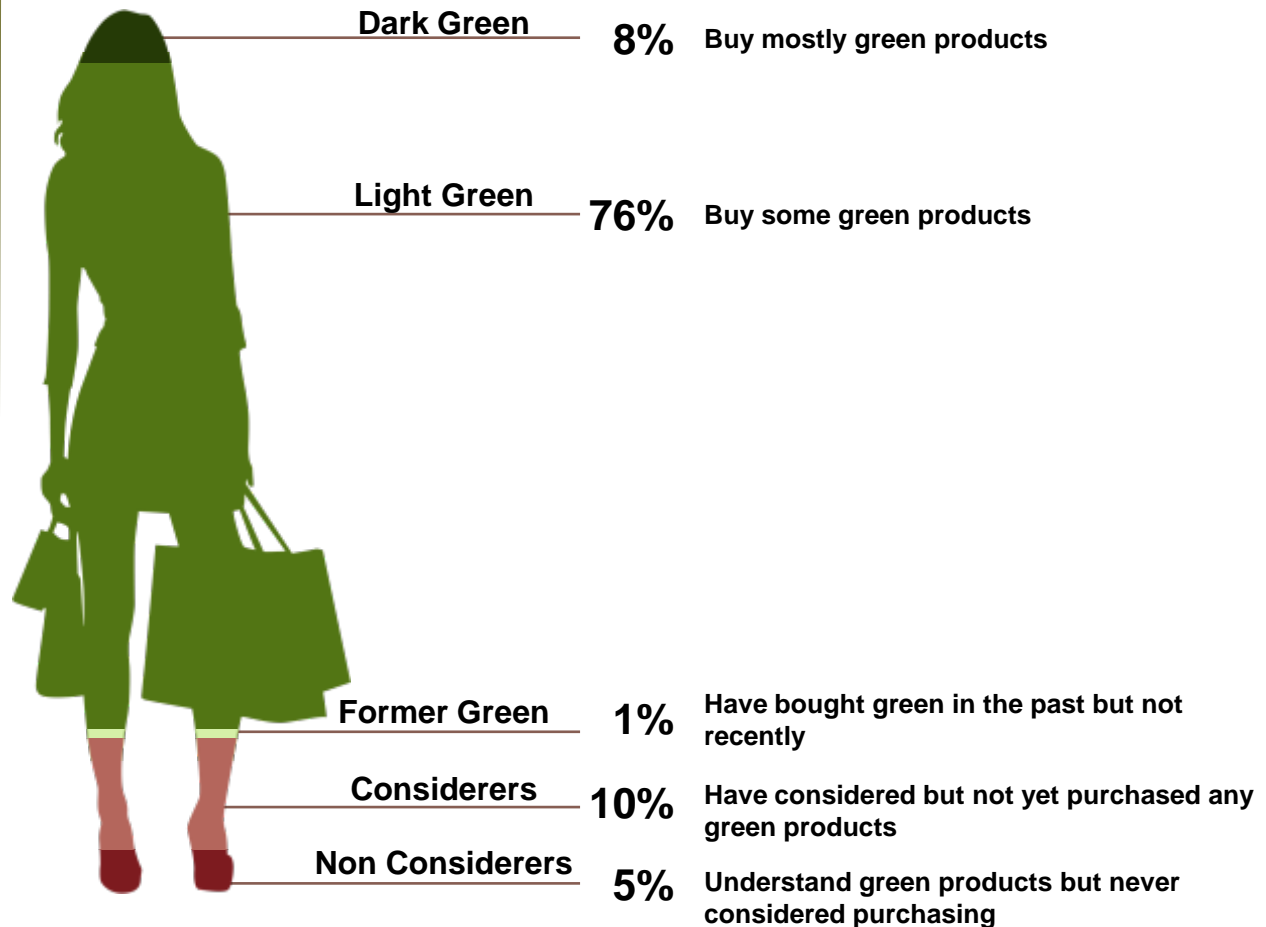
A company in pursuit of green initiatives needs to take into consideration where their customers sit along the spectrum of green purchasing behavior and which green attributes matter most to them

The 2009 Grail Research Green Revolution Report identified **5 broad groups of green consumers**. Each 'shade' of green consumer exhibits different green purchasing habits, and the role green products play in their life.

Companies need to **build a clear profile** of their customer base so that they can **understand the relative proportion of 'Dark Green' vs. 'Light Green' vs. 'Considerers'**, and whether or not investing in sustainable activities will influence their customers' behavior.

Once companies identify the predominant shade of their customers, they need to understand the aspects of green that type of customer cares most about – such as green packaging, processes or raw materials – in order to determine where to focus their investments in sustainability.

Shades of Green Consumers

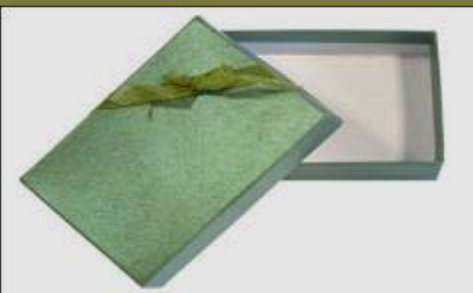


2 Identification of Initiatives to Pursue



Sustainable business practices go well beyond just providing recyclable packaging – firms can consider four primary areas of focus: packaging, products, business operations and socially responsible activities

A Packaging



Various brands are making their packaging 'greener' by optimizing the amount of material used, reducing the use of plastic and metals, and using 'green' paper

B Products



Several luxury companies, especially those manufacturing apparel and accessories, are beginning to use eco-friendly raw materials, such as organic cotton and natural dyes. Many are also reducing the use of leather, fur and endangered natural resources

C Business Operations



Some luxury brands are pursuing sustainable operational practices including optimized water and energy consumption, using only renewable energy and partnering with ethical companies

D Socially Responsible Activities



In addition to changing their business practices, luxury brands have been organizing, funding, supporting and participating in various social and environmental initiatives like auctions or donations

2A Sustainable Packaging Initiatives - Examples



Green packaging practices include – recycling old packaging, using eco-friendly materials, minimizing packaging and partnering only with eco-friendly suppliers

ESTÉE LAUDER

SHISEIDO

LOUIS VUITTON

GUCCI

PAK 2000



- **Return to Origins:** Consumers can return empty cosmetics tubes, jars and bottles from any manufacturer at any Origins store

- **Back to MAC:** Consumers can exchange six empty MAC containers for a free lipstick

- **Caps Recycling Program:** Threaded caps made of rigid plastics are recycled by Aveda to make new caps for packaging

- **2008:** Partnered with a Brazilian company to develop bottles from eco-friendly sugarcane-derived polyethylene
- **2010:** Introduced 10-sided cardboard boxes for delivery, which minimizes the cardboard used and reduces CO₂ emissions by more than 800 tons annually
- **2010:** Replaced plastic tester trays with paper trays for its Maquillage makeup line

- **2001:** 85% of the corrugated packaging used by LV to transport products, was composed of recycled fibers
- **2004:** Implemented a Carbon Inventory program and began using eco-labeled paper for all packaging
- **2006:** Discontinued the use of intermediate packaging while transporting products from workshops to stores

- **2009:** Severed ties with Asia Pulp and Paper (APP), a paper supplier that sources raw materials from the endangered rainforests in Indonesia
- **2010:** Promised to use only recycled paper or products certified by the Forest Stewardship Council by December

- **2009:** PAK 2000, a luxury packaging company with clients such as Versace, Nuxe and Shiseido, has cut ties with APP
- Initiated the "Leadership" paper policy for the development of more environmentally friendly bags

- Estee Lauder is a founding member of the Sustainable Packaging Coalition, which focuses on maximizing usage of renewable and recycled material, as well as encouraging the use of renewable energy while sourcing, manufacturing and transporting packaging

2B Sustainable Products - Examples



Luxury goods companies are also developing products made from eco-friendly raw materials

YVES SAINT LAURENT

GUCCI

sergio rossi

STELLA MCCARTNEY



DONNA KARAN
NEW YORK



- **2009:** Launched a limited-edition range of organic cotton t-shirts, tanks, and tote bags, to support “Home” (a PPR-sponsored¹ film designed to raise environmental consciousness)
- The collection, named “New Vintage” is entirely made of remnant fabric from past collections

- **2009:** Designed an organic cotton t-shirt using natural dyes in support of “Home”
- Planning to substitute all its mannequins with eco-friendly versions made of 100% recyclable polystyrene and finished with water-based paints

- **2009:** Created a stiletto shoe, ‘Eco Pump’, using eco-friendly raw materials and processes
- The product was launched simultaneously with and in support of the PPR movie “Home”

- **2006:** Launched an eco-friendly accessories line (produced using natural materials) and an organic clothing line (which refrains from using fur and leather in production)
- **2007:** Introduced a certified organic skincare product “Care”, with 100% organic ingredients, approved by eco-regulators in Europe

- **2010:** Launched a collection featuring faux-fur pieces
- The inspiration for the 2010 Fall fashion show was raising awareness of melting polar ice caps

- **2009:** Introduced limited edition t-shirts made from eco-friendly materials (70% bamboo and 30% organic cotton); donated 10% of the sales, each to Urban Zen and Tonic Foundation (charitable institutions that promote well-being)

Note: ¹PPR is the parent company of YSL, Gucci Group and Sergio Rossi, among other leading brands
Source: Company Releases; News Articles; Grail Research Analysis

2C Sustainable Business Operations - Examples



In the past five years, luxury brands have adopted water conservation practices, leveraged renewable energy sources, and partnered with ethical and socially responsible organizations to make their business operations more sustainable

TIFFANY & Co.



LOUIS VUITTON

ESTÉE LAUDER



(an Estee Lauder Company)

- **2006:** Installed large **solar power systems** at its distribution facilities in the U.S.
- **2007:** Signed on to the U.S. Environmental Protection Agency's Climate Leaders program and aims to **reduce its U.S. greenhouse gas emissions** by 10% per square foot by 2011

- **1992:** The first luxury brand to establish an environmental department to measure and improve the company's environmental impact
- **2006:** Developed tools to provide information and updates about new eco-friendly materials to designers, including an 'Environment Intranet' and the "Environment Trend Book"
- **2009:** Increased the use of renewable energy sources, expanded shipment by inland waterway and reduced carbon footprints of several of its companies

- **2006:** Began transporting 60% of its leather goods from France to Japan via ship, **to avoid pollution** caused by jet fuel
- Reduced energy use by 30% at all new stores, by implementing a new lighting concept
- **2007:** Opened a **green warehouse** built primarily from eco-friendly materials

- **2007:** Installed **solar powered systems** at its fragrance-filling facilities
- **2007:** Partnered with DomeTech, an energy engineering firm, to set up one of the largest non-utility **solar energy systems**
- **2007:** Undertook initiatives to **conserve water** in the cleaning processes and **reduce greenhouse gas emissions** from industrial activities
- **2008:** Reported that the company's '**Energy Conservation Program**' helped reduce the greenhouse gas intensity of its products by 44%

- **2007:** Became the first beauty company to manufacture products using only **wind power**
- Began using 100% **certified wind power** at its primary manufacturing facility, distribution center, and corporate headquarters
- **2009:** Became the first beauty company to achieve the 'Cradle to Cradle' endorsement for product design and manufacturing

2^D Sustainable or Socially Responsible Activities - Examples



Beyond products, packaging and business operations, several luxury brands have been actively supporting various social and environmental initiatives

TIFFANY & CO.

ESTÉE LAUDER

sergio rossi

SHISEIDO

BOUCHERON PARIS

- **2008:** Signed the 'Bristol Bay Protection Pledge' stating the company **opposes the proposed Pebble Mine** due to its impact on Salmon
- **2008:** Participated in the 'No Dirty Gold' campaign which provided standards about gold extraction to retail jewelers so they can make better decisions about selling jewelry from **responsible mining sources**

- Every April, ELC's Aveda brand partners with organizations promoting clean air, clean water and other environmental groups to raise consumer awareness and participation in the initiatives with a month-long global campaign
- Supports Bashat (CBF), a non-government organization (NGO), in an initiative to protect snow leopard cubs in the Tien Shan Mountains, via its 'Origins Natural Resources' cosmetic brand

- **2009:** Committed to donating part of the sales from 'Eco Pump', a stiletto shoe manufactured using sustainable raw materials and processes, to GoodPlanet.org, a social and environmental NGO

- **2008:** Participated in 'Caring for Climate', a **climate change** initiative organized by the United Nations Global Compact¹
- **2009:** Certified as an 'Eco-First Company' by the Ministry of the Environment, Japan. Declared that it will undertake several **environmental protection** initiatives
- **2009:** Participated in Tsubaki Forest Tree-planting Program, a **forest conservation program**

- **2009:** Created a unique jewelry piece (called 'The Magnetic Quatre') to be auctioned off in celebration of the movie "Home"
- Auction proceeds went to the "Initiative for Responsible Mining Assurance," an **organization promoting responsible mining** practices for gold and other metals

Note: ¹The United Nation Global Compact convenes companies together with UN agencies, labor and civil society to support fundamental principles in the areas of human rights, labor, environment and anti-corruption

Source: Company Releases; News Articles; Grail Research Analysis

3 Effective Communication of Your Green Strategy



Messaging matters. In order for sustainability to have a positive and long-lasting impact on consumers' perception of your brand, they need to be educated and made aware of the social and environmental commitments your company chooses to make

Share and Explain Your Commitment to 'Green'

- **Share details on your company's sustainable production processes and standards**
 - *Aveda* highlighted their 100% solar power initiative with a targeted, high profile ad campaign showcasing the windmills that power their Minnesota factory
 - *Tiffany and Co.* advertised their decision to discontinue their coral jewelry in 2002, and their continued support for the initiative, by creating ocean-themed store windows in 2009
- **Highlight product specific environmental aspects on product labels, packaging and in brochures**
 - All *Burt's Bees* products feature a 'natural bar' which discloses the percentage of natural ingredients being used in that product

Educate Consumers and Promote Green Behavior

- **Influence consumers and increase awareness of environmental issues**
 - To increase awareness of plastic bottle waste, *Vivienne Westwood* banned plastic water bottles from her shows and partnered with manufacturer SIGG to create a limited edition of reusable aluminum bottles that were gifted exclusively to invited guests at catwalk shows
 - *LVMH* sponsored the "Summer Streets" and the "Bike In Style Challenge" to promote the use of bicycles in NYC
- **Help consumers actively participate and contribute to sustainable initiatives**
 - *MAC's* website allows consumers to return their empty containers in return for a free lipstick

Help Drive Your Industry to Become More Sustainable

- **Actively participate in exhibitions, events and leading sustainability associations**
 - In 2009, several leaders from the luxury and fashion industry attended and contributed to the International Herald Tribune's Sustainable Luxury Conference
 - *LVMH* contributes to environmental committees of many national and European professional associations (e.g.: Association des Industries de Marques 'AIM')
- **Support the creation of common industry standards for sustainability practices**
 - As a result of the confusion around what defines a 'natural' personal-care product, *Burt's Bees* has established its own standard (i.e.: 95% of the ingredients should come from a sustainable, renewable resource in nature) and is encouraging other players in the industry to endorse its standard as well

Benefits of Implementing Sustainable Initiatives



While it's hard to directly link sustainable initiatives with increased shareholder value, if sustainability is well-integrated into a company's overall strategy it can lead to higher consumer demand, better differentiation, and potentially even cost savings

Satisfy growing consumer demand for sustainable products

- 80% of consumers either **reward or punish** companies based on environmental performance¹
- 34% of consumers are **more likely to buy environmentally responsible products** today, despite the recession²
- 35% of American young adults said they have "**higher expectations of companies** to make environmentally responsible products today and that they are still paying attention to what companies are doing about the environment, even if they cannot buy their products until the future."³

Improve brand perception and differentiation

- "Consumers – particularly those in western markets – now demand **reassurance** from us that the product has done no harm. If you can't demonstrate this, then you are at great risk. We are beginning to see **this emerging as a differentiator.**" – *Stephen Lussier, Executive Director for De Beers*
- Improving brand perception is especially important within the segments that are more likely to purchase luxury products - a survey by the Luxury Institute found that **younger, more affluent consumers** seek information about **corporate social responsibility** more actively than consumers who are older and less affluent

Increase cost savings

- Many green initiatives not only contribute to a sustainable environment but also **create large opportunities for cost savings**
 - "From a business perspective, our sustainability efforts not only help to build our brand equity – but save us money too. For example, **energy conservation efforts at Aveda save over \$540,000 in utility costs annually.** Our business has grown five times over in the past ten years, and we're among the top five performing brands in the Estée Lauder portfolio. We are able to achieve all of this while pursuing a green agenda." – *Chuck Bennet, VP of Earth & Community Care Aveda*

Note: ¹Havas Media Intelligence survey ²Cone Consumer survey January 2009 ³Cone Consumer Survey February 2009 ⁴Brandpackaging.com article, November 2009
Source: News Articles; Grail Research Analysis



For More Information Contact:

→ Grail Research
(info@grailresearch.com)

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