

2016



P R E D I C T I O N S *for the*  
L U X U R Y I N D U S T R Y  
S U S T A I N A B I L I T Y & I N N O V A T I O N



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## ABOUT POSITIVE LUXURY

Positive Luxury was founded in 2011 by Karen Hanton MBE, founder of [toptable.com](http://toptable.com), and Diana Verde Nieto, pioneering sustainability expert and named Luxury Women to Watch in 2016, with the ambition to mobilize 2.5 billion wealthy consumers to buy better from brands that are doing better.

Positive Luxury awards a first of its kind interactive trust mark - the Butterfly Mark - to luxury lifestyle brands that not only take pride in their craftsmanship, service, and design; but also care for their employees, suppliers and work hard to protect our planet.

The Butterfly Mark helps people to instantly recognize which brands they can trust, giving them the purchasing power to choose from those companies that embody luxury whilst not harming our world.

# METHODOLOGY

Positive Luxury's 2016 Predictions for the Luxury Industry: Sustainability & Innovation has been published in partnership with the Luxury Institute, a high performance client relationship consulting company. The methodology used for the report is a combination of desk research, one to one interviews with key opinion leaders in the luxury lifestyle space, NGOs, The World Economic Forum and CMO's, CSO's and CEO's from top luxury brands and groups.

Within the report we revise the key events that affected their industries in 2015 and forecast the key challenges and/or changes that the luxury industry will face, as a whole, in 2016 and beyond within sustainability and innovation.

# INTRODUCTION

*from* DIANA VERDE NIETO

Co-Founder & CEO of Positive Luxury  
Young Global Leader - World Economic Forum

**In this report, we identify the most impactful events of 2015 and look forward to the biggest trends of 2016 in the world of luxury and sustainability.**

2015 propelled the luxury industry forward when it comes to how they think about sustainability. The biggest shift, and one of the most important in order to accelerate change from the top down, is the rise in demand from the investment community for sustainable business models. For years, investors have focused on a company's financial performance and determined whether purchasing stock was worth it based on the company's profitability. Now, sustainable investing strategies are growing, as investors are realising that performance is intertwined with future social and environmental impact.



C-suites are starting to realise that in order to keep creating value and accelerating growth they must invest in and improve their sustainability performance, as well as how they communicate their positive impact.

One group in particular aligns with this concept more than any other, millennials. This group is almost three times as likely to want to work for a company because of its social and environmental practices(1).

The demand from affluent millennials doesn't stop at employment opportunities.

2015 saw millennials using their spending power more and more to buy into companies who positively impact society and the environment – in fact they are twice as likely to buy from brands with strong management of environmental and social issues(2).

2015 was also the year governments and world leaders took action. Events such as the launch of the Sustainable Development Goals, COP 21, and the passing of the Modern Slavery Act, reflect a shift towards a world where creating, maintaining and growing companies with a positive social and environmental impact is increasingly a matter of legal obligation, as well as ethics.

All these changes have left luxury companies with no option but to improve, as the potential for sales and stocks to plummet increases and the hand of the law hangs over them.

With that in mind, we look forward to 2016 and the trends that will help luxury companies continue on their sustainability journey. New innovations, communication techniques and constant evaluations of how consumers view brands will allow companies to stay at the top of their game, in a world that demands socially and environmentally responsible brands and expects sustainability to be an integral part of the brand DNA.

# FOREWORD *from* DR. NEIL STOTT

Executive Director  
Centre for Social Innovation Cambridge Judge  
Business School University of Cambridge

## Centre for **Social Innovation**



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**UNIVERSITY OF  
CAMBRIDGE**  
Judge Business School

The Centre for Social Innovation at the Cambridge Judge Business School acts as a platform for research and engagement with social innovators, academia and policy in the UK and across the world.

We welcome the '2016 Prediction for the Luxury Industry' produced by Positive Luxury because it highlights the importance of leadership for social change which aims to have a positive social impact whilst creating sustainable, social and economic value.

This report provides the luxury industry with an insight into the tools available to them which will enable the industry to be at the forefront of change, whilst highlighting the value of communicating the positive steps that they are taking towards a sustainable future.

# FOREWORD *from* MILTON PEDRAZA

CEO  
Luxury Institute, LLC

LUXURY<sup>®</sup>  
INSTITUTE LLC

*The Knowledge of Luxury*

The Luxury Institute has long been a supporter of the work Positive Luxury does to encourage, enable and evaluate how luxury brands are working towards a more sustainable business model and how they communicate those actions to their consumers. This report, written and distributed by Positive Luxury, looks at the important events of 2015 which have had such an impact on the luxury industry and their relationship with sustainability, and also looks forward to 2016 and beyond, giving luxury brands an insight into the tools and innovations available to them to keep improving their impact on society and the environment.



# FOREWORD *from* PETER LACY

Global Managing Director  
Sustainability Services within Accenture

Through our work together as Young Global Leaders within the World Economic Forum, and through my work as the Global Managing Director for Sustainability Services within Accenture, Diana and I have had many discussions about how businesses are changing their view of sustainability and the role it plays within their operations.

It has been clear to me for a while that until the investment community started to look at the ethics and social and environmental impact of a company, sustainability would always take a back seat to profitability. Now that this time has come, companies that have already invested in sustainable business models are blazing forward, while others have realised that they need to step up their game.

With the events of 2015 comes a huge opportunity for luxury brands to rejuvenate their goals and start changing the world from within their businesses. This report is a great resource for luxury brands looking to do just that.

## 2015: THE YEAR *in* REVIEW

2015 was a turning point for the world of sustainability, with several high-profile events that changed how the global economy views the value of businesses incorporating positive social and environmental impact into their operations.

These pivotal events, including the passing of the Modern Slavery Act, the launch of the UN's Sustainable Development Goals and COP 21, reflect a more general trend whereby integrating sustainability into business models is moving from a 'good thing to do' to a legal obligation, and have increased demand from stakeholders for transparency and action. We look at the main sustainability events of 2015 and what they mean for luxury lifestyle brands.



CHRISTIANA FIGUERES, the United Nations' top climate change official.  
Photograph by INEZ AND VINOODH



**PART I : WHAT  
WE LEARNED *in* 2015**

# 01

## MODERN SLAVERY ACT

**On 26 March 2015, the UK took a momentous step forward in legislation surrounding slavery and human trafficking.**

The law means that, since October 2015, all companies carrying on a business – or part of their business – in the UK (with a turnover above a government-set threshold) have been required to publish an annual slavery and human trafficking statement, which must be approved by their board of directors and posted in a prominent place on their website.

The Act – which builds on existing global and local legislation, such as the 2010 California Transparency in Supply Chains Act and the European Union Directives on Human Trafficking, Human Rights and Non-Financial Reporting – is being introduced at a time of rapid evolution in the expectations of businesses to take responsibility for their supply chains, and it comes not a moment too soon.

According to a 2015 study, a disturbing majority of 71% of UK retailers and suppliers believe that there is a likelihood of modern slavery occurring at some point within their supply chains(3).

But what is modern slavery? Modern slavery is a broad term that encompasses slavery, servitude, forced and compulsory labour, and human trafficking. The International Labour Organization (ILO) estimates that globally there are 21 million victims of forced labour, which it defines as work or service that is extracted from any person under the menace of any penalty and for which said person has not offered him/herself voluntarily(4) . Of these, it estimates that 10.7 million are victims of labour exploitation in private enterprise in the agriculture, manufacturing, construction, mining and utilities sectors(5).

## WHAT DOES THIS MEAN FOR YOUR BUSINESS?

The reporting obligation will apply to financial years starting on or after the 1st April 2016. UK companies across every industry therefore do not have long to gear up for this new obligation, and numerous changes may be required to ensure compliance. Some of these changes may include:

- Engaging with the key areas identified by the Government in the response to the consultation and considering how to address these with a focus on human rights due diligence;
- Developing anti-slavery and human trafficking policies; and/or including these in corporate social responsibility (CSR) policies;
- Developing processes to investigate business and supply chain (contractors, sub-contractors, suppliers, contracts, etc.) to determine the level of risk or exposure to risk;
- Identifying and prioritising high-risk areas in the supply chain and planning and setting out what steps are being taken to address the risks;
- Appointing senior individual(s) within companies with responsibility for investigation, compliance and the production of the statement;
- Identifying training needs within companies to ensure that all responsible staff involved in supply chain management and procurement are aware of the new obligations;
- Putting effective grievance and whistle-blowing mechanisms in place to cover any concerns about slavery or human trafficking within any business or supply chain.

# 02

## SUSTAINABLE DEVELOPMENT GOALS

In September 2015, the United Nations released The Sustainable Development Goals (known officially as 'Transforming our World: The 2030 Agenda for Sustainable Development'). The goals are an intergovernmental set of 17 goals with 169 targets that cover a broad range of sustainable development issues.

The goals are contained in paragraph 51 of the United Nations Resolution A/RES/70/1 of 25 September 2015 (7). The Resolution is a broader intergovernmental agreement that builds on the principles agreed upon under Resolution A/RES/66/288, (also known as 'The Future We Want').

The newly created Sustainable Development Goals (SDGs), which will run from 2016 to 2030, build on the previous Millennium Development Goals (MDGs), which came to an end in 2015. The MDGs' 15-year run showed a reduction in poverty and better disease control, producing a measurable global effort previously unseen. The SDGs are designed, in part, to pick up where the MDGs left off. Beyond poverty reduction and education, the 17 SDGs also cover climate change, energy access, biodiversity and oceans.

### WHAT DOES THIS MEAN FOR YOUR BUSINESS?

Although the SDGs don't immediately affect businesses like the Modern Slavery Act, they will guide policy and funding for the next 15 years in a similar way to the previous MDGs. If your company can tackle these goals in the long term, there are large advantages to be leveraged.

Companies should use the SDGs as a source of inspiration. Companies have their own sustainability goals, but the SDGs may reveal things they haven't thought about, providing a much needed framework to expand their efforts for the future.



## GOALS *are* GOOD

**Andrew Winston**, adviser, writer, and speaker on sustainable business, gave us some recent examples of aggressive and visionary goals set by corporate leaders.

- 1 Dow put forth 2025 targets “to help redefine the role of business in society,” which aim to deliver breakthrough innovations and help build the circular economy.
- 2 More than 50 large companies have joined RE100, a group committing to use 100% renewable power.
- 3 Unilever said it will go even further and generate more energy than it needs by 2030 (and exit coal by 2020).
- 4 Google will buy two gigawatt’s of renewable power (that’s a lot).
- 5 114 big companies signed on to follow science-based targets for reducing emissions.
- 6 The White House has gathered 154 companies (and growing) to make hundreds of specific commitments to reduce carbon and buy renewable power.

# 03

## COP21

In one of the biggest events in history, on 12 December 2015, 186 countries came together in Paris to form an action plan to reduce their greenhouse gases and keep the global rise in temperature below 2C. Although progress was made, the commitments made by the countries will not keep the world from warming 2 degrees. In fact, despite the unprecedented mobilization shown, global warming is still predicted to be between 2.7C and 3C.

The Paris agreement has therefore asked all countries to review these contributions every five years from 2020. Those countries will not be able to lower their targets and are encouraged, on the contrary, to raise them as technology and public policy allows.

The agreement will be open for signing by the countries on 22 April 2016 in New York. The agreement can only enter into force once it has been ratified by 55 countries, representing at least 55% of emissions.





## WHAT DOES THIS MEAN FOR YOUR BUSINESS?

With the power of collective action to cut carbon emissions, the deal will have a direct effect on all businesses, especially luxury companies that focus on sustainability.

The COP 21 agreement ensures that, when passed, regulations will be shifting on a global scale. The world's governments will be setting new policies over the coming years to cut carbon emissions. Changes can already be seen in the USA with the Clean Power Plan, which forces every state to develop a strategy to reduce their carbon emissions at the same rate promised by the USA as a whole.

The changes that will be brought about by the Paris agreement represent a huge opportunity. We've already seen a rise in companies looking to invest in sustainable companies, and with the new commitments made, companies who can align themselves with the changes will find a rapidly growing market and funding as investment strategies shift to mirror regulations.

“This agreement marks a transformative moment on the journey towards a low-carbon economy, providing the certainty and confidence businesses need to continue to pursue positive climate action.”

**Hannah Jones**

Chief Sustainability Officer  
Nike



# 01

## WHAT WE LEARNED *in* 2015



### CELEBRITY-DRIVEN CAMPAIGNS WORK

Celebrities have always been keen to support sustainability efforts, however 2015 saw a host of influential faces actively attend and champion environmentally and socially responsible campaigns.

The likes of Leonardo DiCaprio and Mark Ruffalo openly discussed the impacts of climate change and addressed these issues during COP21, alongside Jack Black who lent his support to the Earth to Paris campaign. From a social perspective, in her capacity as global ambassador for UN Women Emma Watson took to the stage at Davos to outline her 'Impact 10x10x10' campaign and urged men to participate in the conversation of gender equality.

Influential faces who are genuine about making a difference can be powerful drivers of change, bringing the message to a wider audience and creating a bigger impact. In 2016 we should expect to see a continued rise, with brands and celebrities aligning on causes that are mutually meaningful.

# 02

## SUSTAINABLE INVESTMENTS ARE *on the* RISE

For years, investors have focused on a firm's financial performance and determined whether purchasing stock was worth it based on the company's profitability. Now, sustainable investing strategies are growing, as investors are realising that performance is intertwined with future social and environmental impact. According to the US SIF, there are already \$6.57 trillion of assets under management in the US in sustainable investments(8), and 71% of individual investors are interested in sustainable investing(9).

While the adoption of sustainable investing strategies is growing, many investors still have worries that incorporating sustainability credentials into their expectations means accepting a lower rate of return.

To move past this worry, it's important for brands and investors alike to understand that the definition of sustainable investing has nothing to do with philanthropy, or an approach based solely on social or political beliefs. Sustainable investing is investing in businesses that create and maintain business models that achieve positive social and environmental impact. It is a smart business strategy that delivers tangible results.

Countless analyses have demonstrated that sustainable investments deliver competitive returns. A recent Oxford University report helps to substantiate the intelligent business case for sustainable investing. The report concludes that stocks of well governed firms perform better than stocks of poorly governed firms. On the environmental dimension of sustainability, corporate eco-efficiency and environmentally responsible behaviour are viewed as the most important factors leading to superior stock market performance. On the social dimension, the literature shows that good employee relations and employee satisfaction contribute to better stock market performance(10).

# 03

## TRANSPARENCY *is* EXPECTED *by* CONSUMERS

With a new buying generation comes a new influx of buying behaviour patterns. As millennials (defined as those born between 1982 and sometime in the early 2000s) reach the age where they have growing disposable income, the economy is registering a change in the expectations consumers have of brands.

A 2015 report found that millennials are twice as likely to support brands with strong management of environmental and social issues, and twice as likely to check product packaging for sustainability performance(11).

It seems as though luxury companies are recognizing and responding to these new expectations. 2015 saw Kering make their first Group Environmental Profit and Loss account public and open-source their methodology. Not only does this methodology provide transparency to all stakeholders including consumers, but it can help shape the future business strategies of other firms across all sectors.



It is expected that more leading luxury players will adopt this transparency platform as they seek out new ways to promote their products while having a positive impact on society and the environment.

The luxury group has made huge progress in communicating their environmental impact and actions to mitigate them also. As just one example, in 2014, they announced a new partnership, the 'Python Conservation Partnership' (PCP). The collaboration, between Kering, the International Trade Centre (ITC) and the International Union for Conservation of Nature (IUCN) is contributing to the improved sustainability of the python trade and helping facilitate industry-wide change. The PCP's programme of research focus' on the analysis and recommendations around sustainability, transparency, animal welfare and local livelihoods for the python trade.



## **Erdem**

THE COLLECTION ▶

TRANSPARENCY ▶



Saks Fifth Avenue featured fashion brands who engaged in transparency on their website, including Erdem.

“The major players of the luxury sector spoke louder and in more detail than ever before in 2015 about their commitment to improving sustainable practices within their global supply chains.

Kering in particular continues to fashion itself as a trailblazer of the movement, trumpeting its latest Environmental P&L sheet with which it can “account, measure and monitor the group’s impact on nature”. Concrete benchmark comparisons with the inaugural report in 2013 lay out in clear terms where Kering has gained ground: in energy emissions and the sourcing and production of raw materials, especially leather.”

**Elizabeth Paton**

European Style Correspondent  
New York Times







# 04

## SCIENCE & SUSTAINABILITY *do* GO TOGETHER

Science has always been an integral part of sustainability movements. Yet in recent years it's been on the back burner, waiting for its moment. It seems as though that moment has arrived.

Recently, the number of companies using scientific evidence to set their sustainability targets across a range of environmental issues has increased, and has been accelerated by businesses striving to set carbon targets in line with requirements to keep the global temperature increase below 2C.



**Nigel Salter**, CEO of Salterbaxter, talks about the relationship between science and sustainability in the company's annual Directions report(12).

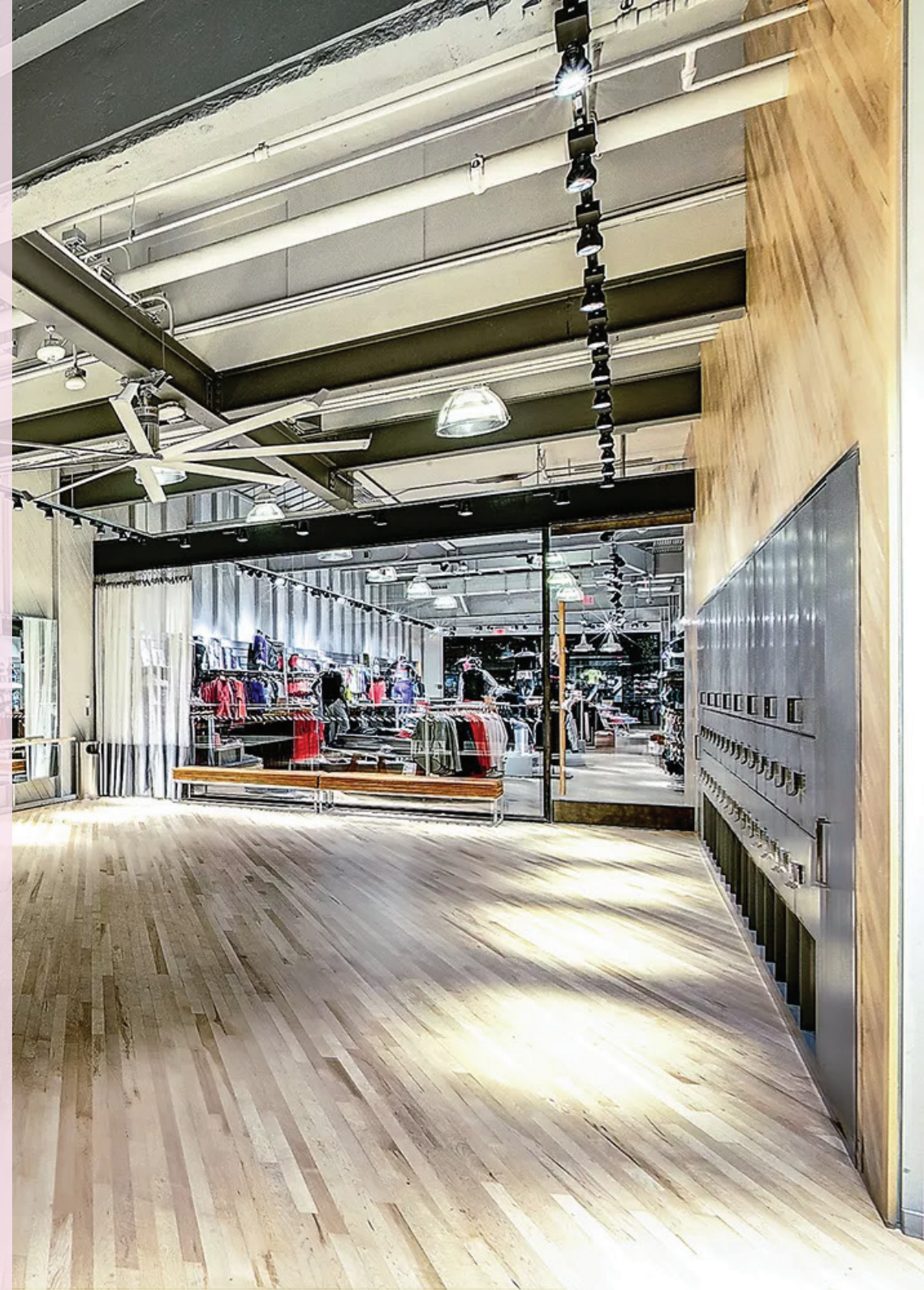
“Science is, of course, not a new aspect of sustainability thinking. It was where it all started – long before the business strategists, the management consultants and the communications agencies got in on the act. But we have seen a significant refocusing on science recently and it now seems to be moving back to centre stage, claiming what many would say is its rightful place at the very heart of sustainability.”

“The interesting challenge will be to see if it can really blend with business strategy, with marketing, with branding and with business performance and start to bring about real change in tackling our pressing environmental, economic and social issues. To play a meaningful and lasting role it is going to have to force change in these areas and bring something useful to an already crowded party.”

# 05

## MORE BRANDS *are* OPENING COMMUNITY STORES

2015 saw more global brands operating physical stores that aim not only to drive sales, but also to provide a social benefit to the surrounding community. This trend is connected to the growth of the global post-recession economy, and also to innovations in corporate sustainability models. Although e-commerce has stunted the growth of bricks-and-mortar stores in the previous five years, physical retail spaces still offer a better opportunity to demonstrate a brand's social mission in an authentic way that will resonate with consumers.





## WHAT WILL AFFECT THE LUXURY INDUSTRY *in* 2016?

2016 will be yet another challenging year for the luxury goods industry. In particular, economic instability, social unrest, armed conflict and the threat of further terrorist attacks in key luxury shopping destinations will continue to act as a drag on sales, not to mention the turmoil on the global foreign-exchange markets, which could create further global currency wars that affect the luxury market. The following are major events and trends that have affected the luxury industry in 2015 and will continue to do so in 2016.



# 01

## CHINA'S SLOWDOWN

Currently the No 1 consumers of luxury goods, Chinese consumers make up the largest portion of luxury purchases globally(13). But is this set to continue in 2016?

China's economy has slowed down and both foreign spending and exchange rates continue to show considerable signs of weakness, despite active government efforts to reverse the slowdown. The 6.9% growth rate for the third quarter – the first time the figure has fallen below 7% since 2009 – clouds China's prospects for reaching the official targeted growth rate of 7% for the year(14).

This is, in part, due to export markets becoming dormant, China's wages and currency increasing and therefore reducing competitiveness of Chinese exports. One side effect of the slowdown in economic growth has been the deceleration of retail spending trends. The government's crackdown on corruption has caused a drop in the traditional giving of luxury gifts, and in addition, China has lately seen considerable outflows of capital. Wealthy individuals have been spending out of the country, often into high-end property markets in cities such as Sydney, London, New York, Vancouver, and Los Angeles.



# 02

## TERRORIST ACTIVITY


*Recent* acts of violence, including the Paris terror attacks and the mass shooting in San Bernardino, California, are signalling changes in the travel industry. Recent data shows that around 10% of American travellers have cancelled a trip in response to the terror attacks, eliminating a potential \$8.2 billion in travel spending(15).

Nearly one quarter of those surveyed said they had delayed travel plans and 18% said they had switched their plans to a destination they considered more safe(16). In addition, public discussion about the idea of Australia issuing travel warnings to citizens visiting the USA shows the far-reaching implications of public perceptions on safety.

## BUT WHAT DOES THIS MEAN FOR THE LUXURY TRAVEL INDUSTRY IN 2016?

High-income consumers' willingness to travel, despite being affected by what they see and hear in the news, is influenced in part by a desire to "not let the terrorists win," with 71% of high-income respondents agreeing with the statement that placing restrictions on their travel plans is equivalent to letting terrorists dictate how they live their lives.

That said, 55% generally do not feel safe when travelling overseas given the current environment, and only 45% believe the US government is doing a good job of protecting its citizens. Needless to say, the threat of international terrorism is a significant worry for international travellers, with 66% stating that Islamic State/ISIS is the biggest threat to US national security(17).



# 03

## MILLENNIALS *and* THEIR CHANGING TASTES

Another big trend of 2015, and one that is expected to continue in 2016 as the millennial generation ages, is the drive for live events and more experience-based spending. More than three in four millennials prefer to pay money for an experience rather than a product, and 55% of millennials say they're spending more on events and live experiences than in previous years(18).

Millennials are looking for brands to not only host these experiences, but to create a seamless consumer journey that allows them to purchase tickets, attend the event and share the experience on social media. That means easy online access with mobile-first capabilities, wi-fi at events and follow-up connection points to re-live the experience.

In the past, affluent consumers marked their wealth with luxury products. As we are seeing the shift towards experience-based spending grow among the affluent younger population, that mindset is changing. This trend will continue to transform and evolve as 2016 progresses.

# 04

## MOBILE-FIRST CONSUMERS

It is a recognizable trend that experts repeatedly forecast the upcoming year as the “year of the mobile”, but in 2015 the transition seems to have reached actual traction. For the first time, Google’s mobile search volumes surpassed searches via a desktop(19). There can not be a stronger signal that mobile will continue to steal eye-time from more traditional connection models. Companies such as Net-a-Porter (now Yoox Net-a-Porter) reported new records in mobile e-commerce sales(20), and it has been estimated that mobile commerce now represents 30% of all US e-commerce sales.



*FUTURE TREND:* Luxury brands may wonder what place they have in the world of messaging apps, but by looking at the trend of functionalities being rolled out across the industry, it is clear to see there is a real possibility for a long-lasting commerce platform.



# 05

## A CHANGE *in* SUSTAINABILITY EDUCATION



2015 saw Parsons School of Design – known all over the world as the alma mater of Donna Karan, Marc Jacobs, Anna Sui and Alexander Wang – welcome a new addition to their faculty, Burak Cakmak, who joined as Dean of Fashion.

The arrival of Cakmak marks brave step forward for Parsons, as they put sustainability at the leading edge of their education platform. This signals a perception change within the entire fashion industry.

Cakmak had previous roles at Gap Inc. as senior manager for social responsibility, and as the former Director of CSR for Gucci Group (at the former PPR, now Kering). Most recently, Cakmak was Vice President of Corporate Responsibility at the Swarovski Group, where he implemented best practice standards across the organization.

It seems this move couldn't come soon enough. According to BOF, only 44% of students were satisfied with the standards of education on sustainability offered by fashion institutions (21).


# 06

## A MOVE FROM BRIC *to* MINT

In 2001, a new buzzword was born, BRIC. The term is an acronym for Brazil, Russia, India and China, and was coined by Goldman Sachs economist Jim O'Neill, who correctly saw those four countries as turbo-charged engines driving growth in emerging markets.

2015 has seen a new group of emerging economies providing the engine for future growth- MINT, which stands for Mexico, Indonesia, Nigeria and Turkey. These four countries are expected to show strong growth and provide high returns for investors over the coming decade. The MINTs have been grouped together due to their large populations, favourable demographics and emerging economic policies.

*FUTURE TREND: The BIG 10*  
Economists are seeing global trends in technology empowering a new class of growing economies, further highlighting the trend that countries outside the G7 will continue to find success in joining the global luxury market. The predicted new BIG 10 - in which explosive growth is possible - are Peru, Colombia, Ethiopia, Zambia, Kenya, Tanzania, Bangladesh, the Philippines, Sri Lanka and Indonesia.

The background of the image is a close-up, high-resolution photograph of a wood grain. The lines of the grain are wavy and curved, creating a sense of depth and texture. The colors range from light beige to a soft, muted blue-grey, with some darker spots and variations in tone. The overall effect is organic and natural.

PART II:  
INNOVATION *and*  
TECHNOLOGY

# THE EDIT

VIDEO EXCLUSIVE

## Honest BEAUTY

Watch Thandie Newton go from barefaced to picture perfect

HOW TO WEAR PRINT+ COLOR

TRAVEL  
Over  
rainbow  
The v  
most co  
get

Bright & beautiful

Model Aline Weber wears the season's kaleidoscopic color



## INNOVATION *and* TECHNOLOGY

From the development of Kering's Materials Innovation Lab to Flokser's artificial leather fabric, innovation is having a big effect on how companies are measuring, improving and communicating their social and environmental impact as well as bringing these metrics into the core of their business models.

A contemporary change in 2015 has been the introduction of luxury brands finally taking digital innovation seriously. It has been a slow adaptation, due to luxury brands feeling the need to protect their brand heritage. The idea that brands need to protect their exclusivity and uniqueness is a legitimate worry, especially for luxury houses that have been building customer trust for decades. According to a Deloitte report, executives from that industry identified reputational risk from social media as one of the highest risks in online marketing(22).

“Despite the reluctance of some brands to address this challenge, many are showing great innovation and are embracing the potential for digital technology to reach new audiences, enhance brand awareness, establish a broader geographic reach and solve social and environmental issues.

The challenge luxury has been facing, since technology started affecting business, is to maintain the right balance between the aura of exclusiveness of the brands and the need to increase business through more democratic tools.

At first, e-commerce and social media appeared to be unfit for the luxury world: the absence of touch and feel and dedicated customer care, and the formerly perceived “mass-market” approach of social media and other digital environments, seemed unable to mirror the values of the brands.



Yoox headquarters

Over time though, luxury consumers have shown increasingly stronger appreciation for e-commerce and social media. The success of platforms such as Yoox proves that selling luxury products online is possible without jeopardising brand identity. Today, 6% of personal luxury goods is sold online, and that figure is forecast to reach 18% over the next ten years.”

**Stefania Lazzaroni**

Director  
Altgamma

## INNOVATION *in the* LUXURY LIFESTYLE SECTOR



### AREA: *Consumer* communication

According to recent research, Burberry is the luxury brand to watch when it comes to communicating with its consumers(23). The report shows that the fashion brand excels in its e-commerce Strategic Reach and digital customer experience. By using smart analytics, Burberry is collecting information on its customers' shopping habits and tailors their online experiences. This allows Burberry to not only reach their customers through direct communication, but make every interaction personal and well planned.

## AREA: *Wearables*

When it comes to wearable technology, the smartwatch has been receiving most of the attention, thanks primarily to the launch of the Apple Watch.

And it seems as though the industry agrees with the trend. Findings found that 44% of Swiss watch executives see smartwatches as the “next big thing.”(24) The luxury sector is warming up to the wearables concept more broadly, with a number of high-profile partnerships between leading technology firms and fashion designers showing an innovative blend of functionality and craftsmanship. These collaborations are critical, as the key challenge for luxury companies is incorporating functionality in an aesthetically pleasing design that reflects the user’s taste. Tag Heuer’s partnership with Google and Intel to build an Android Wear-powered smartwatch is a great example of this.



## AREA: *Digital*

Luxury brands that use technology to make consumer interactions more engaging will rapidly build stronger brand value and broaden their horizons. However, given the increasing number of devices used by consumers (Americans now own four digital devices on average(25)) all content must be seamlessly available across multiple platforms. This strategic reach is a new challenge in the luxury space.

Beyond convenience, however, brands must keep the customer engaged before, during, and after the actual purchase, continuing the relationship and enriching it through valuable and entertaining digital content.

The brands to watch? Gucci has been very highly ranked in digital customer experience and Coach has been recognized for its capabilities in both e-commerce reach and digital customer experience.



## AREA: *Packaging*

A lot of work in the packaging industry is being done to replace virgin plastics with more sustainable alternatives. However, innovation in this area has not been exclusive to plastic. A great example of innovative eco-packaging is Veuve Clicquot.

Concerned about the precious terroirs that produce its grapes and the Earth that sustains us all, Veuve Clicquot has been actively innovating new and environmentally conscious solutions for its champagne: as is Naturally Clicquot. 100% biodegradable and recyclable, Veuve Clicquot has created the newest Naturally Clicquot offer joining the two previous Best sellers.

For the first time ever, it is constructed from actual Clicquot grapes. Combined with recycled paper, Naturally Clicquot is biodegradable, recyclable and isothermic – able to keep a bottle of chilled Yellow Label cool for up to two hours.





## SUSTAINING *the* HOUSE STYLE

This eco-revelation in packaging has managed to simultaneously uphold the Veuve Clicquot reputation for style: Naturally Clicquot is as elegant as it is earthy. With four fresh designs for each of its four sides, the rectangular packages can be lined up to combine their shapes, grapes, or to display a sketch of the bottle inside. Understated yet revolutionary, the natural-colored package has a sole splash of color with the yellow Veuve Clicquot label.

Naturally Clicquot is heralded for being more than just a bottle carrier, it is a futuristic packaging that is 100% recyclable, isothermic, and biodegradable.

## ENVIRONMENTAL LEADERS

Known as a groundbreaker for innovation, Veuve Clicquot is a frontrunner for conservation. From beginning sustainable viticulture practices in 1990, to achieving its carbon footprint goal in 2002, to continually implementing renewable energies on its sites and in production – there are few companies more serious about a proactive commitment to ecological preservation. As well, Veuve Clicquot has steadily reduced its packaging, emissions and waste with every year to promote sustainability; thus was born the idea of a biodegradable packaging.

In 2013, Veuve Clicquot invented the first-generation Naturally Clicquot, an avant-garde, surprising packaging composed of a potato base. Evolving in 2014 to a new design, the 2015 Naturally Clicquot has been entirely reinvented, and composed of new materials.

The residual grape waste that occurs naturally during the wine production process is gathered and ground into a flour-like powder; malleable yet sturdy when combined with recyclable paper, the powder is able to become the perfect champagne package.





Grace Choi's 3D Printed Makeup

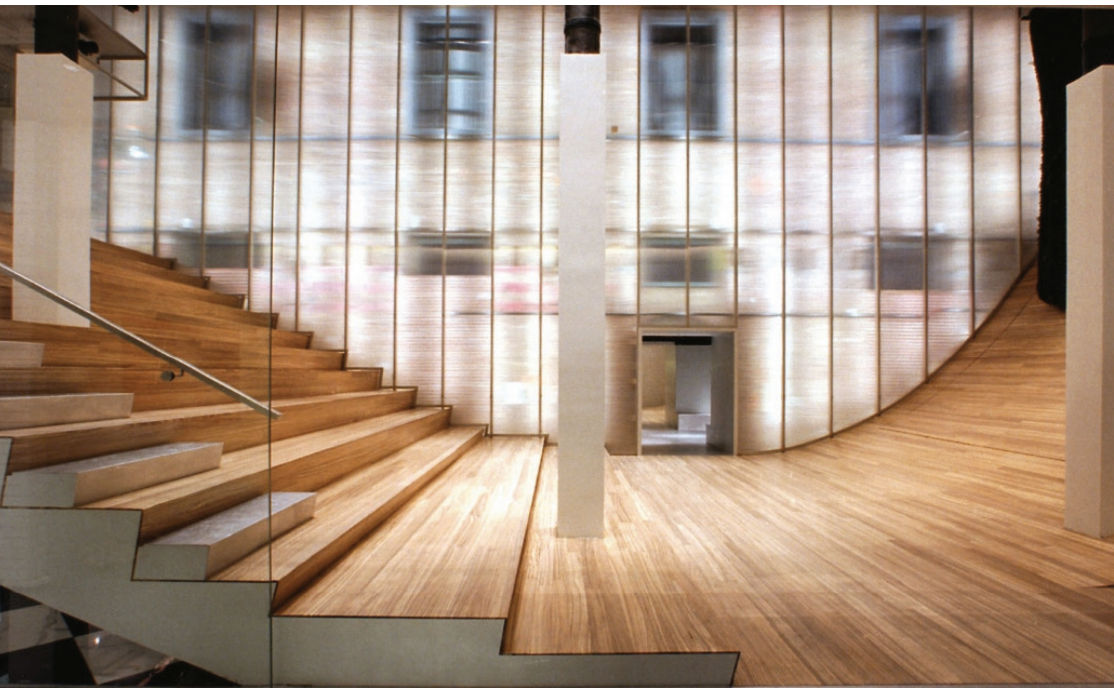
## AREA: *Product Development*

Innovation in product development enhances existing products and is one of the main ways brands are tackling their social and environmental impact. Kering's Materials Innovation Lab and Biocouture are just two examples of firms investing heavily in R&D with regards to raw materials and fabric manufacturing processes. Grace Choi's 3D make-up printer, unveiled last year, and Ralph Lauren's "Polo Tech" shirt are also exciting examples of luxury brands incorporating technology into product development.

## AREA: *Retail Experience*

According to a 2015 Statista Survey, the number of active virtual reality users is forecast to reach 171 million by 2018 – and retailers are keeping up with that VR trend through in-store innovations. For example, Prada's New York store has interactive dressing rooms with smart mirrors through which customers can connect to social media and Nordstrom has been testing smart fitting rooms in which full-length mirrors become interactive screens when a customer taps them.

Customers at Thomas Pink's store at Heathrow Airport can design their own shirts through a large interactive tablet using the Personally Pink service or watch clips on Pink TV, a channel dedicated to showing the latest brand videos.



Prada's New York store

## AREA: *Sustainability*

Just as the Soneva brand has pioneered luxury castaway resorts, and created a demand for back-to-nature holidays, the Soneva Total Impact Assessment (TIA) has trail-blazed a way for luxury travel resorts to be more responsible. The tool measures the impact on society of a holiday, including direct impacts at Soneva's resorts, indirect impacts via its supply chain and guest air travel.

The TIA allows Soneva to take a 'planetary boundaries' view of all social and environmental impacts – both gives and takes. The company then works to make its net impact on society a positive one, by offsetting all its CO2 emissions, including guest air travel, through implementing projects like the Myanmar Stoves Campaign, which not only made Soneva carbon-neutral, but also created socio-economic benefits.



## AREA: *Experiences*

Brands are aware that the new 'must-have' luxury product is experiences, and Selfridges' Fragrance Lab is an excellent example of innovation in this area.

The collaboration between The Future Lab and Design Studio to create the Fragrance Lab engaged customers with the brand and the process of creating a product unique to them. The temporary installation, located in the Concept Store in Selfridges, took customers on a journey through sensory chambers, asked them questions to determine their tastes and habits and then presented them with a 50ml bottle of their signature scent.

POSITIVE LUXURY

## AREA: *Partnerships*

In order for brands to continue to innovate in certain areas, it is sometimes beneficial to create partnerships with companies with similar values. This has certainly been the case for fashion brand Maiyet, which partners with global artisans to incorporate exquisitely hand-crafted details into its collections. It has entered into a strategic partnership with Nest, an independent non-profit organization dedicated to training and developing artisan businesses.

Maiyet and Nest search globally for partner companies that exhibit strong leadership, are scalable, and can positively transform their communities. Nest completes rigorous assessments of existing and potential partners, and develops customized short- and long-term training and development programmes with a goal to alleviate poverty, empower women and promote peace. Maiyet forms deep partnerships with companies and artisans, paying fair wages and advance deposits. Furthermore, Maiyet donates a percentage of profits towards training and development.



# 5 of the MOST INNOVATIVE LUXURY COMPANIES

## 01

### KERING GROUP

The luxury goods conglomerate has been on the innovation train for a while now, but it was the launch of its Materials Innovation Lab that skyrocketed it to the top of our list of most innovative brands.

Knowing that designers do not have a lot of time to experiment with textiles, Kering's Materials Innovation Lab (MIL) provides support to its brands through a comprehensive library of sustainable materials and technical expertise on sustainable approaches to sourcing and manufacturing fabrics and fibres. Along with the Kering sustainability department, the MIL also provides recommendations and expert feedback on the sustainability of products and processes including the way raw materials are produced, the reduction and management of chemicals, energy and water efficiency, and certifications and standards.

# 02

## LOUIS VUITTON

French apparel and accessories house Louis Vuitton slides into spot number two with the launch of their industry-first hackathon.

On 25 September 2015, LV brought together 58 developers, who were asked to work in teams for 48 hours to create an application that would enable the brand to better understand its consumers and where the luxury industry is headed. The outcome? The hackathon gave the developers the opportunity to analyse 1,000 gigabytes of information and use their know-how to solve problems for the organization. The winners were given €8,000 and a trip to San Francisco, while the luxury house acquired a new perspective on its internal challenges and a PR boost to its innovation credentials.





# 03

## STARWOOD HOTELS *and* RESORTS WORLDWIDE

Starwood Hotels & Resorts Worldwide has seamlessly joined the ranks of our top five most innovative brands with the launch of its own high-tech design lab – Starlab – at its headquarters in Stamford, CT.

The company has become the first to offer keyless hotel room entry, allowing guests to check in via their iPhones, and the group began trialling a robotic bellhop, dubbed Botlr, across its Aloft hotels in Cupertino and Silicon Valley in August last year.

Starwood is also in the midst of a roll-out for its smart-mirror concept, which offers guests immediate access to the weather, news and sports scores with a touch of the mirror's surface.

A Blue-tooth connection can also be accessed to link the guest's phone so they can see their Twitter feed and other alerts directly on the mirror, which is powered by Panasonic technology.

# 04

## HERMÈS

2015 was the year we saw many luxury brands trying to be more innovative in the digital space and Hermès was no exception. The luxury brand showcased several successful digital campaigns including their interactive kaleidoscope to promote their Terre d'Hermès cologne for men and is described as 'water somewhere between the earth and the sky', by the brand.

For the campaign, they used consumer generated content and allowed users to upload an image of earth and an image of the sky. Users were then able to view it through a kaleidoscope and share the image on social media. However, that wasn't the only time the brand got innovative in 2015. The leather goods house also launched an interactive video where two characters met in a refined and graphic space, to celebrate the launch of their collection of men's and women's watches, Slim d'Hermès.





# 05

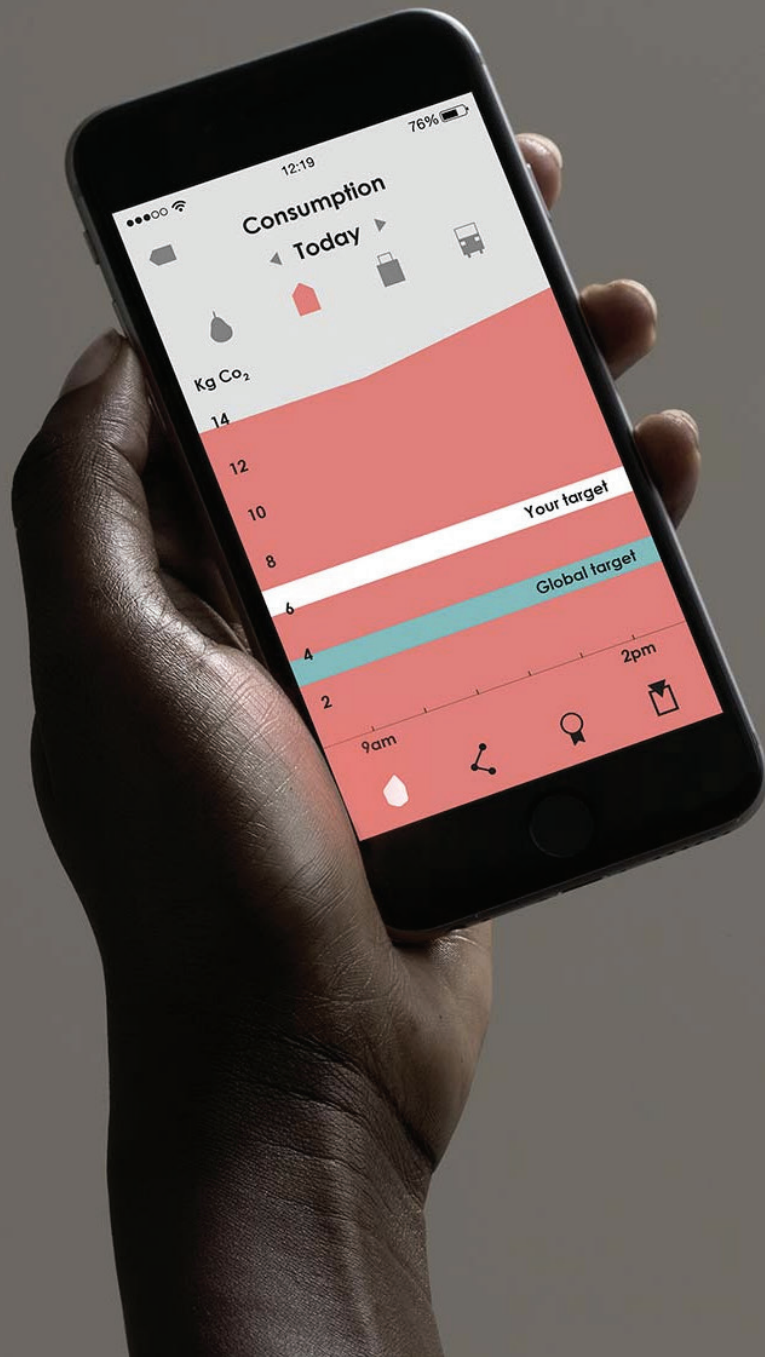
## WARBY PARKER

Thanks to its clever vertically integrated, buy-one-give-one business model, and its founders' focus on brand and execution, Warby Parker takes the last spot in our list of the most innovative brands. Their disruption of more traditional eye-wear business models is being felt throughout the luxury space.

The hottest thing in offline retail, Warby Parker has transformed what was a niche web shop into 10 stores (and counting), with sales-per-square foot figures to rival Tiffany & Co.

## ONE *to* WATCH

The latest wearable tech concept is a band that keeps track of carbon emissions. **Worldbeing** is an app and wearable wristband, made of recycled electrical components, that helps consumers stick to daily carbon footprint targets. Although this particular product might not reach the masses, and may not be suitable for luxury adoption, it points toward a future in which wearable technology will measure not just health, but sustainable behaviours as well.





**PART III :**  
**2016 *and* BEYOND**

## 2016 *and* BEYOND

This luxury trend report has evaluated the events, trends and innovations that have shaped the luxury industry. But what does 2016 and beyond have in store for the industry, and what is the risk to brands who refuse to take action on improving their positive social and environmental impact?



## SUSTAINABILITY *and* 2016: A HAPPY MARRIAGE?

The transition to a low-carbon sustainable economy is steadily progressing. Catalysts such as resource scarcity, volatile commodity prices, extreme weather events, climate change and a rapidly growing global middle class all mean that sustainability and solutions which drive productivity are more urgent than ever.

As the effects of 2015's sustainability events, (COP 21, the passing of the Modern Slavery Act and the UN's Sustainable Development Goals) begin to trickle down, the spotlight will once again be turned on the luxury lifestyle sector to play its part.

As we look forward to 2016 and beyond, it is clear that there is a substantial risk to luxury brands that are reluctant to invest in their social and environmental impact.

## EXPECTATIONS *from* LUXURY CONSUMERS

Global luxury consumers have embraced social and environmental responsibility, not only as an everyday expectation for companies, but as a personal undertaking in their own lives. Consumers – and especially millennials – now see the power they have in their own ability to make a difference, from the products they buy to the places they work and the choices they make.

In fact, data shows that nearly all global consumers expect companies to act responsibly. However, half need to hear or see proof of a company's responsibility before they will believe it(26).

But it's not just the broad strokes of sustainability that millennials are looking for. According to another recent survey, of the 149 millennial survey respondents who cited a most important sustainability practice, only 21% specified social responsibility. This is less than half the number who said that what matters most is the "inherent sustainability" of the product (ie that it directly helps consumers live sustainable lives) (27). Millennials' demand for sustainable products, not just socially responsible companies, represents an important shift in consumer priorities.



“Now more than ever, customers have options.

Brand loyalty is declining in the millennial generation due to the increased visibility of cross-brand information and lots of great options and alternatives. Investing in social good and environmental responsibility is becoming an expectation by customers, and not doing so can be damaging. The modern luxury and mainstream consumer is more socially conscious and aware, and when given the array of brand options, paired with access to information, they are likely to choose the brand with the better, proven reputation.”

**Milton Pedraza**

CEO

Luxury Institute





“Today, the consumer is more and more interested in ethical companies and wants to be reassured that they are not polluting the environment, use only sustainable materials and don’t use exploited labour, and I think more and more they are looking to companies to make it easy to be good.”

**Lucia van der Post**

Associate Editor


FT’s How To Spend It Magazine



## REDUCED AVAILABILITY *of* KEY NATURAL RAW MATERIALS

Today's CEOs are increasingly convinced that resource scarcity is a critical issue, with one global survey saying that 46% of CEOs agreed that climate change and resource scarcity will "transform their business" (rising to between 62% and 76% among those CEOs in extractives, paper and packaging) (28). They're right to be worried. Today, cotton and polyester make up 80% of the fabric used in the garment industry(29), and even transitioning to organic cotton would still put a strain on the planet in terms of resources needed to produce that amount of one fibre. But it's not just fibres – these difficult choices are rapidly approaching many areas of production. At current rates of consumption, we may have just half a century's worth of oil and gas available(30).





“Two key impacts will result from failing to include climate change adaptation into a company’s sourcing strategy. Firstly, reduced availability of key natural raw materials due to water scarcity will require substitution by synthetic materials (for both hard and soft commodities). The touch, feel and look of classic luxury apparel and jewellery will change as a result of use of alternative raw materials.

“Secondly, historic investment in spinners, weavers, smelters, processors, etc., in the value chain will result in stranded assets no longer able to access raw materials. This will require additional investment in new geographies, with a predictable negative impact on quality and supply security as new suppliers attempt to meet the performance levels of long-term partners. Brands should be aware, climate change adaptation expertise must be a key area of competence for procurement directors for the rest of this century.”

**Patrick Laine**

CEO

Better Cotton Initiative



## INVESTMENT COMMUNITIES

Failure to act on social and environmental issues is likely to have a long-term negative effect on the ability of a company to attract investment. Recent research carried out for Morgan Stanley has shown that the investment community is keener to invest in companies that create value by enhancing resource productivity while reducing pollution, waste and emissions, and understanding long-term business productivity while enhancing the welfare of people<sup>(31)</sup>.

Compared to the overall individual investor population, millennial investors are nearly twice as likely to invest in companies or funds that target specific positive social or environmental outcomes<sup>(32)</sup>. This holistic view of organisational value will only continue to spread as the millennial generation ages.

“Investors are now looking to ESG [environmental, social and governance] criteria to evaluate their investments and are beginning to look at companies that perform well under ESG criteria. In fact, there is more and more evidence that a business that integrates sustainability is not only better perceived by investors and consumers, but also provides better returns over the long run.

However, there is definitely room for improvement and it is an area that needs to grow more, and rapidly so. We all need to work together to figure out what the best social and environmental performance indicators are and whether we are really measuring the “real” sustainability of companies.

Essentially, to ensure that ESG criteria are really telling us what we need to know and how one can distinguish green-washing from authentic action so that investors (and other stakeholders) can rate companies against their commitments. This is one of the reasons why our Environmental Profit and Loss accounting we developed is so important and why we are supporting corporate natural capital accounting and the Natural Capital Protocol. It is a way to have transparency in sustainability reporting and to show a company’s true impacts and progress to the investment community and to the public in general.”

**Marie-Claire Daveu**

Chief Sustainability Officer &  
Head of International Institutional Affairs  
Kering

## VOICES *from the* LUXURY INDUSTRY

“There is significant risk in that luxury brands will not be able to access high-quality raw materials in the quantity and on the timeline that they need. More than this, some materials may simply not be available in the future if we do not support the resilient and robust production of them as a sector. One of luxury’s distinctions is ensuring the highest quality of materials and we need to focus our attention on finding ways to continue sourcing these in the long term.”

**Q. What is the risk to luxury lifestyle brands of not investing in making their supply chain climate resilient?**

We also want to ensure that the communities along our supply chain, particularly at the base of the supply chain where raw material production occurs, are not negatively affected by climate change. These are the types of rural communities that will be at the mercy of climate change and we need to support them in building resilience, which is what Kering is trying to do through our smart sourcing programmes and by focusing on our raw material producers such as organic cotton farmers in India, nomadic herders in Mongolia and sheep farmers in South Africa.”

**Marie-Claire Daveu**

Chief Sustainability Officer &  
Head of International Institutional Affairs  
Kering

“Luxury lifestyle brands face similar challenges to other retail and consumer products sectors with large supply chains – potential transport and delivery disruption, resource scarcity etc. On top of this, many rely on raw materials of a high quality that are produced in geographies that are at higher risk from climate change. There will be variations depending on products, but many “strategic raw materials” – silk, calf leather, cashmere etc. This makes the sector especially vulnerable to supply disruption, and potential threats to quality and long-term quantity of supply.

Given that the corporate reputation of a luxury business is the very essence of its brand, and subsequently customer loyalty and success, disruptions to supply could significantly impact business performance. Companies need to invest in understanding existing and emerging risks/hot spots across their supply chains, take a proactive role in supporting existing production systems, look to improve efficiency, and invest in finding new ways to produce raw materials. Vivienne Westwood has recently said “buy less, choose well, make it last”, but more fundamental adaptation will likely be required over the long term.”

**Nigel Salter**

Director  
Salterbaxter

“The risk is to lock the brand in a old model where only profits prevail versus a holistic approach that allows profits in a way that is respectful to humans and environment. Wastage and unfair trade labour practice are contradictory to the notion of luxury, which is about best quality, beauty and respect. Investors, clients and employees are increasingly concerned about sustainability but also about trust and consistency. They don’t want to discover that behind beautiful products is hiding a darker reality. What is beautiful outside, should be beautiful inside. No secret, no double standards will be accepted in the future from all stakeholders.”

**Anne Marie Gaultier**

Vice President  
Global Marketing and Communications  
Bally

“Luxury consumers have high expectations in terms of both product and values. A transparent ethical supply chain should be part of the strategy for luxury businesses to deliver on the product and brand value promise.”

**Caroline Rush**

CEO  
British Fashion Council

“In some ways, the risks are the same for any brand - unavailability of critical raw materials and ingredients. But the risks are higher for luxury brands, in that the implicit promise is that the consumer need not worry about anything. Everything is taken care of. Until it isn't - at which point the whole impression of invulnerability and perfection can deflate.”

**John Elkington**

Co-Founder

Volans



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## 5 TRENDS THAT WILL AFFECT LUXURY BRANDS *in* 2016

# 01

### DATA-LED INNOVATION

Big Data is one of the latest in a long series of technology revolutions that help brands unlock new value for their customers. But we have to remember that so much of the opportunity surrounding Big Data lies in analysing that data and using it as a source for innovation, as a way to identify and commercialise breakthrough ideas and create new markets.



# 02

## STATUS *as a* MOTIVATOR

It's the number one motivator for most luxury consumers, and the most powerful tool for luxury brands, but how will the exclusivity of luxury brands change in 2016?

Trend Watching's latest report names status tests as the top consumer trend for this year.

*"In 2016, consumers will embrace a new twist on a traditional form of cachet: exclusivity. That means status tests that force them to actively prove their worth to the brands they want to buy from."*

The idea of brands asking consumers to prove themselves has already seen the light of day with consumers scrambling to get their foot through the gates of that exclusive club of the worthy, but we expect to see more status tests devised by luxury brands in 2016.



# 03

## OMNI-CHANNEL

It has been said a million times, but it is worth repeating - luxury consumers now expect the same experience across multiple shopping channels, including the same products being available both online and in-store. But only 34% of major multi-channel retailers currently utilise cross-channel inventory visibility(33).



CHANEL Website

Research has shown that just 8% of major retailers offer a fully synchronized customer care experience between their online and offline channels (34), an experience that allows both in-store and online inventory information to be accessed by the same customer care agent in real-time to assist consumers. In-store mobile device usage is at a staggering 75% in 2015 (35) for smart-phone users, with consumers are using their smart-phones in-store to view different styles and options available on a retailer's e-commerce site without having to ask a store employee.

Although luxury brands have been slow to roll out e-commerce platforms, instead sticking with more traditional bricks-and-mortar stores, 2015 was the year that Chanel unveiled an e-commerce site to sell their sunglasses in the USA. Although a category-wide launch of e-commerce may be far away, the slower path of offering skincare and beauty products and now sunglasses shows an effort to offer a robust omni-channel experience for their consumers.

“The omni-channel approach is no longer an added benefit; it is a requirement. Brands must adapt an omni-channel strategy to remain at par with their competition. In-store, online, campaigns, and all other customer touch points must be seamlessly integrated into one holistic and positive experience.”

**Milton Pedraza**  
CEO  
Luxury Institute



# 04

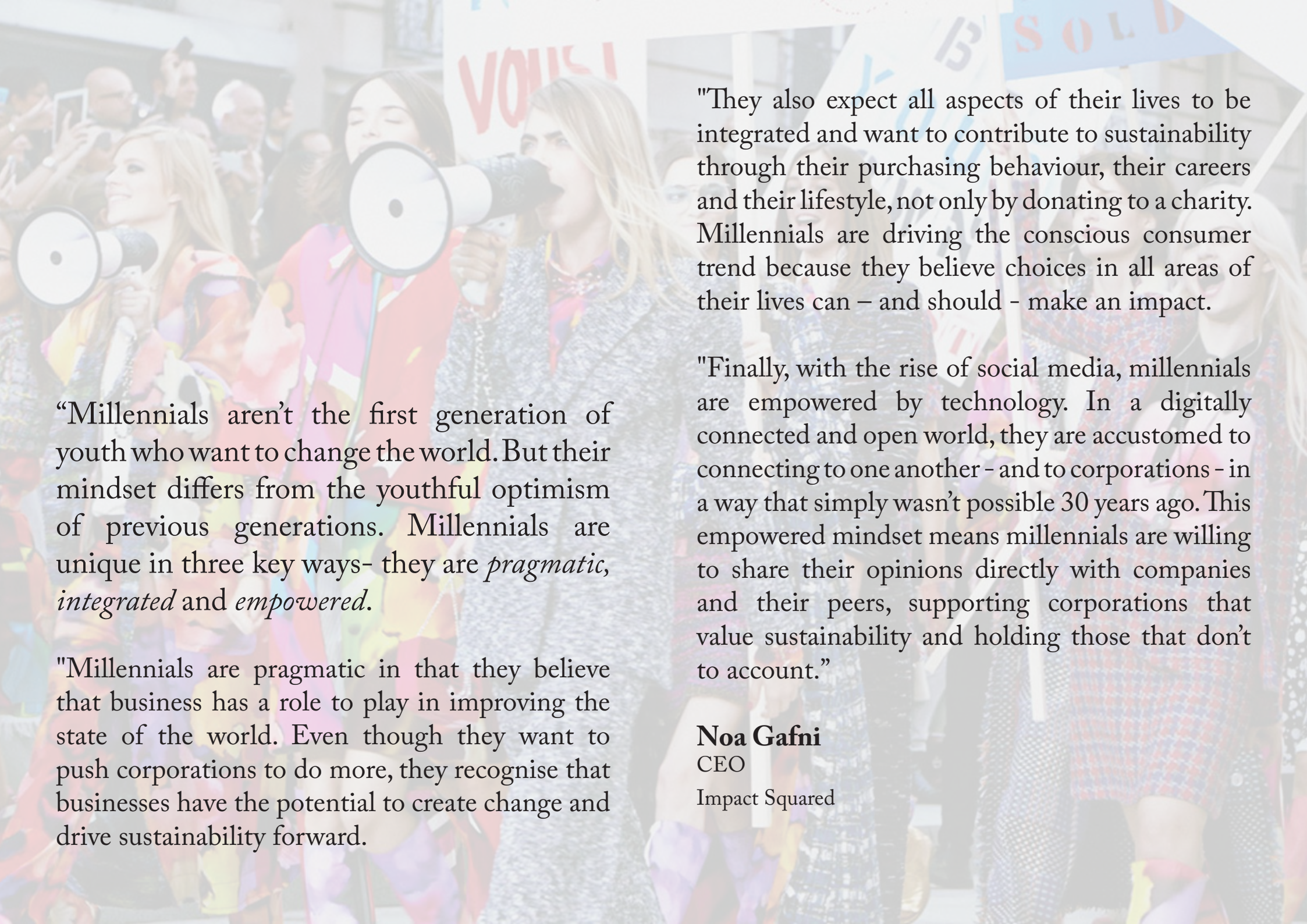
## MILLENNIALS *and* SOCIAL GOOD

A recent survey of consumer attitudes to brands found that 88% of UK and US millennials and Generation Xers believe brands need to do more good, not just “less bad.”(36)

But for millennials, it's not just about the brands they buy from. Six in 10 millennials said a “sense of purpose” is part of the reason they chose to work for their current employers(37). And among millennials who are relatively high users of social networking tools (the “super-connected millennials”), there appears to be even greater focus on business purpose; 77% of this group report that their company's purpose was part of the reason they chose to work there, compared to just 46% of those who are the “least connected.”(38)



CHANEL SS15



“Millennials aren’t the first generation of youth who want to change the world. But their mindset differs from the youthful optimism of previous generations. Millennials are unique in three key ways- they are *pragmatic*, *integrated* and *empowered*.

"Millennials are pragmatic in that they believe that business has a role to play in improving the state of the world. Even though they want to push corporations to do more, they recognise that businesses have the potential to create change and drive sustainability forward.

"They also expect all aspects of their lives to be integrated and want to contribute to sustainability through their purchasing behaviour, their careers and their lifestyle, not only by donating to a charity. Millennials are driving the conscious consumer trend because they believe choices in all areas of their lives can – and should - make an impact.

"Finally, with the rise of social media, millennials are empowered by technology. In a digitally connected and open world, they are accustomed to connecting to one another - and to corporations - in a way that simply wasn't possible 30 years ago. This empowered mindset means millennials are willing to share their opinions directly with companies and their peers, supporting corporations that value sustainability and holding those that don't to account."

**Noa Gafni**  
CEO

Impact Squared

## 3 WAYS TO ENGAGE *with* MILLENNIALS

**Mayuri Ghosh**, project lead on consumer industries at the World Economic Forum, gives companies three recommendations:

### **1. Sustainability messaging requires sustainable products**

The challenge of engaging millennial consumers is not just a matter of communication. Millennials want brands to deliver products which use less material, have innovative designs, and are durable. When brands use messaging that highlights these benefits, millennial consumers are more likely to purchase these products.

### **2. Simplify messaging**

Many millennial consumers still do not understand the meaning of “sustainability”. Instead, they understand simple messages that break down the concept of “sustainability” into elements they make sense of, such as saving energy and water, and reducing waste – which makes it easier to connect to their daily lives and take action.

### **3. Appeal to the social conscience**

Millennials like messages which make them feel socially inclusive and positive about the future. Millennials will choose more sustainable options if brands contextualize their consumption habits in terms of leaving more for the future.

“People seem completely comfortably not owning as much and just 'renting', be it car rides, hotel rooms, or fashion. This will likely accelerate it and seems like it will hit luxury in a big way.”

**Andrew Winston**  
CEO  
Eco Strategies



# 05

## SHARING *is* CARING

Airbnb, Rent the Runway and Lyft are all household names, but what else do they have in common? A business model based on sharing, peer-to-peer lending, borrowing, exchange and collaboration.

We predict that the rise of these companies and their peers will have a major impact on the luxury industry and the way it views sustainability. And because it allows people to get whatever they need from each other, the sharing economy could trigger billions or even trillions of pounds in lost revenue for companies that ignore it. Figures from AirBnB show that over 17 million people booked accommodation through the site in the summer of 2015 alone (39). This trend, although not yet adopted by any luxury brands, shows the potential brands have to create new business models that have a positive impact on society and the environment.

A black and white photograph of three business professionals (two men and one woman) sitting in a boat on the water. They are all wearing sunglasses and business attire. The woman in the middle has her right arm raised. The man on the left is wearing a watch. The background shows the water and some foliage.

PART IV :  
*the* CASE STUDIES



# 01

## *case study: IWC*

**As a premium brand in the international luxury watch segment, IWC has committed itself to the manufacture of top-quality products in haute horlogerie. More than 1,100 employees, including 120 eminently qualified watchmakers, are involved in the development, manufacture and distribution of perfect mechanical masterpieces.**

The renowned watch manufacturer in eastern Switzerland has over 900 sales outlets worldwide, including more than 60 IWC boutiques in cities such as New York, Beijing, Dubai, Hong Kong, Geneva, Paris and Moscow. Since 2000, the company has been part of the Swiss Richemont Group.





“We firmly believe that sustainable action, particularly in the luxury watch segment, not only strengthens our brand’s reputation but also its competitiveness. If we provide our employees with good working conditions, if we care for our partners and the communities in which we live, and if we treat our planet’s limited resources with respect, we will enjoy long-term success as a company.

We do everything in our power to ensure sustainable thinking and action, based on the very latest findings, at all levels – from management and employees all the way through to our suppliers. By demonstrating corporate social responsibility, we seek to acquire customers who share our values, and earn their long-term loyalty.”

**Georges Kern**

CEO

IWC Schaffhausen



## DEEP DIVE:

IWC Schaffhausen has deep roots in the town of Schaffhausen in northeastern Switzerland, where the company was founded and has its headquarters to this day. It promotes numerous social, cultural and sporting activities in the region. As an internationally successful company, IWC Schaffhausen also sponsors social and ecology related projects worldwide. This commitment manifests itself in the partnerships that IWC has cultivated for many years with various institutions.

IWC has been a main sponsor of the Laureus Sport for Good Foundation for several years. It uses the power of sport to coach disadvantaged young people or give them an education that will enable them to surmount the pressing social challenges that confront them. The cooperation is expressed in a yearly limited edition timepiece where the caseback is engraved with a design resulting from a drawing competition for children. Part of the proceeds from sales will go to support the children's project in crisis-hit areas of the world.

The Fondation Antoine de Saint-Exupéry on the other hand upholds the humanist and spiritual legacy of the great French writer and aviation pioneer, by promoting education for children who, for various reasons, grow up in difficult environments. This work includes the provision of reading material in an effort to increase literacy. The foundation has had a cooperation agreement with IWC since 2005. This year, for example, brand ambassador Adriana Lima inaugurated a new recreation area and a modern library at the children's hospital in Curitiba, Brazil, where she joined in a reading session with young patients. The extension was made possible by the proceeds from an auction of a limited timepiece.

# 02

## *case study:* FOREVERMARK

Forevermark is the responsibly sourced diamond brand of The De Beers Group of Companies, which is committed to ensuring that diamonds are transformed into economic wealth and lasting improvements in the quality of life and wellbeing of everyone touched by its businesses.

Responsible sourcing is a pillar of the Forevermark brand, which means that, throughout their journey from rough to polished diamond, particular care has been taken to ensure responsible business practices, support the advancement of women, and protect the natural world.



## DEEP DIVE:

The De Beers Group of Companies' Forevermark work is to support the advancement of women and through this, Forevermark supports many women through their careers as miners, geologists, engineers, trainers, expert craftspeople, managers and support staff.

The brand also supports a series of enterprise development funds, such as the De Beers Zimele fund. In 2014, Zimele benefited over 62 small and medium-sized businesses in South Africa, creating over 1,175 jobs in farming, jewellery, design, food distribution and other sectors. Over a third of the people who benefited directly from that funding were women.

In January 2015, De Beers Consolidated Mines (DBCM) launched Zimele's latest business hub in Cape Town, the fifth so far in South Africa, after the successful launch of similar hubs in the Northern Cape, Limpopo, Gauteng and the Free State.

A similar programme called Tokafala was launched in Botswana in 2014. Of the 60 entrepreneurs that Tokafala has helped so far, 23 are women.

The De Beers Group of Companies also helps provide healthcare and free education for all its employees, their families and surrounding communities. The hospitals at Orapa and Jwangeng mines in Botswana are run in partnership with Botswana's Ministry of Health, and double as district hospitals, open and free to all.

The De Beers Group of Companies has long been committed to protecting employees and diamond communities from HIV, AIDS and associated illnesses, such as tuberculosis, the consequences of which can fall heavily on women. To combat this, The De Beers Group of Companies has a free and highly effective programme for HIV and AIDS prevention, treatment and support, which extends to all employees' family members.

The De Beers Group of Companies uses a similar partnership model for education. Both of these mines also have schools that provide education to students from the surrounding areas, regardless of whether or not their parents work in the mines.

In South Africa, more than 3,000 students have benefited from the Khula Weekend School (KWS) set up by The De Beers Group of Companies to help employees' children as well as children from communities surrounding mining areas in South Africa. The objective of KWS is for learners to achieve good grades that will allow them easy access to university education and prepare them to complete their tertiary studies in the stipulated time.

Previously known as the De Beers Saturday School, KWS was set up in 1997 to help children aged between 15 and 18 in mathematics, science and English. The school has grown and has established centres in Soweto (University of Johannesburg), Vanderbijlpark (Vaal University of Technology), Alldays and Musina in Limpopo.

The pass rate is 100%, with most students achieving a mark well above 60% in each subject, in some cases higher than 90%. In 2015, KWS supported 832 learners, including 548 girls.



“As a leader, you have to believe passionately in the purpose of your business and the things that are most fundamental to its success. I have been travelling extensively to southern African diamond-producing countries for many years and I feel a personal commitment to those countries and communities. Many Forevermark diamonds are mined, sorted, cut and polished in Botswana.

“As a leading corporate citizen of Botswana, we have to support the country’s economy and community well-being beyond diamonds. Through beneficiation, we have established Botswana as a leading international trade centre, supporting economic growth and job creation. We are also dedicated to protect the environment and the exceptional wildlife. As diamonds, they are nature’s treasure. We want Botswana to benefit from a thriving eco-tourism industry long after diamond production has stopped. As CEO of Forevermark, I have an important role to play in supporting that process. More than business goals, social good and environmental responsibility have become a personal mission.”

**Stephen Lussier**

CEO

Forevermark

# 03

## *case study:* LOEWE

One of the world's original luxury houses, LOEWE's story began when leather artisans formed a cooperative in Madrid's Calle Lobo in 1846. Innovation, modernity and high-level craftsmanship have been hallmarks of the house from its beginnings to this day, while an unsurpassed knowledge of leather is at its core.

Today, creative director Jonathan Anderson is bringing this legacy into a new age. The house's latest collections – leather accessories, men's and women's ready-to-wear – are characterized by functionality, extreme tactility and pure, honest form.





## DEEP DIVE:

LOEWE opened its Escuela de Marroquinería [School of Leather Artisans] at the heart of its factory in 2013, with the goal of ensuring the succession of the house's artisans and preserving a culture of superior craftsmanship that has been passed down over generations.

The School's programme targets applicants without prior training or professional experience and in search of employment. LOEWE has committed to recruiting at least 60% of the students after graduation. Since 2012, 74 new craftsmen have joined LOEWE's workforce through this process.

LOEWE has also built partnerships for several years with different foundations providing support and services for people with intellectual disabilities, with the aim of improving the quality of life of these people and their families, including:

- La moda que nos va (Fashion that suits us) – launched in 2013, the foundation focuses on people with intellectual disabilities who are looking for work by helping them with their image, on how to dress and gain self-confidence for job interviews.
- Mujeres con mayúscula (Women with capital W) – programme sponsored by LOEWE and developed with FEAPS foundation that helps women with intellectual disabilities to develop their independence through employment.
- Create is an initiative of the culture department at AFANIAS, and has been sponsored by LOEWE since 2009. It gives artists with disabilities a place where they can develop their vocation, and find recognition for their work.



# 04

## *case study:* SONG SAA

Rory and Melita Hunter's desire to create a sustainable sanctuary of uncompromising luxury has underpinned their entire life. In fact, the concept behind Song Saa Private Island was born the day the couple returned from their honeymoon.

After getting married, they spent some time on the islands of the Koh Rong Archipelago and fell in love with this remarkable tropical environment with its pristine beaches, rainforests and vibrant communities. So when the opportunity to create something spectacular in this part of the world came up, they jumped.

Since then they've broken new ground in Cambodia, becoming the first to develop a private island and setting new standards for sustainability, community development and luxury accommodation in the Koh Rong Archipelago.





“Our strategy is the triple bottom line approach, which is the idea that profit shouldn't be the only measure of a company's success and that the environment and the community are equally important success metrics and stakeholders for a business.

The idea is that a business's profitability is improved by protecting the environment and supporting local communities, so by having a broader multi-stakeholder approach, everybody benefits, rather than the approach of recent history which has been about shareholder returns above all else, often at the expense of the environment and communities.”

**Melita Hunter**

Creative Director

Song Saa

## DEEP DIVE:

Initially through their own efforts and later through the work of the Song Saa conservation and community programme, Rory and Melita Hunter have been able to implement a range of unique and innovative projects to fulfil their aspirations. These include:

- 1 The creation and management of Cambodia's first marine reserve;
- 2 The establishment of a ground-breaking solid waste management facility in the nearby village of Prek Svay;
- 3 The creation of a dedicated sustainability centre and training programme;
- 4 An intern research programme, supporting pioneering research on Cambodia's marine environment.
- 5 Song Saa Private Island was also developed with the environment and people in mind.

All of the water used on the island, for example, is carefully treated and reused, ensuring that no waste is released into the environment. Native vegetation has been re-introduced around the resort. Driftwood and recycled timber from old and discarded Cambodian fishing boats have been incorporated into villa furniture and construction.

On top of this, a dedicated sustainable management plan has been developed by Song Saa to chart the resort's continued efforts to maintain and develop its triple bottom line credentials.

## CONCLUSION

**CEOs are increasingly airing their grievances about the so-called quarterly capitalism, focused by the short-term orientation of investors. They say markets under-appreciate long-term investments and ignore issues like employee and customer welfare, environmental governance, and social risks.**

But CEOs can't expect to attract long-term capital if they never talk about the long-term. The movement towards sustainable capitalism demands enhanced reciprocity between business leaders and the investment community – something that we predict as one of the biggest trends in 2016 and beyond.

As the investment community puts value on innovative brands that are investing in social good and environmental sustainability, it becomes obvious that this type of investing can create a much needed societal and environmental change.

As the importance of sustainability intensifies for businesses, equally the financial markets are increasingly forced to address the challenges posed by the realities of natural resource scarcity, the effects of unabated carbon-emissions, rapid urbanisation and widening wealth inequality to name just a few.

From an investment point of view, the time horizon relevant to sustainability-related risks and opportunities is neither uniformly long term nor short term. Some of these risks and opportunities are upon us right now, powerfully shaping the current business environment, and must be dealt with in the short term.

This is validated by the outcome of COP21, where for the first time in history, the 195 countries attending, agreed to take measures to mitigate climate change, recognising that this is an issue that is affecting everyone.

Indeed, even though several of these trends seem new, they actually have the profound potential to disrupt financial markets in a non-linear progression. And investors who rely principally on historical data in analysing the relevance and time-urgency of these themes are at risk of being misled, even in the short term.

However, the most important implications of other risks and opportunities will emerge over the long term.

Some luxury groups and brands have already started this integration into their corporate strategy, and therefore sustainability is becoming an integral part of the brand's DNA, those holding groups and or brands are more likely to be resilient to the financial markets and reputation management.

The brands that have followed this approach, and are communicating it in a simple and engaging manner are already reaping the benefits as they find themselves in the mind and heart of the consumer, at the

moment of deciding which brands to choose. Additionally, there is more evidence today than ever before that sustainable business practices is good business acumen, as a driver to the bottom line.

Change is the norm in today's world, driven by technology and the speed of information flow – the world is more interconnected, interdependent and transparent than ever before. This is why responsible business practices and innovation - from business models to materials - are key to future-proof businesses and brands.

For this very reason and in order to continue this upward curve, CEOs of brands and groups in the luxury lifestyle sector will have to learn how to innovate, while inspiring their employees, have an uncompromising supply chain and communicate their goals and achievements regardless of their imperfections in order to reach the current luxury consumer as well as the young consumers - the future one.

Consumers don't expect every brand to be perfect, but they do expect honesty and transparency and the opportunity to be taken along the journey in order to co-create.

Let's not forget that purpose, and having an impact in the world is very important for employee retention and recruiting the best talent. The youth of today want not only to work for companies that produce great products, but they want to know that the company has a purpose beyond profits and that they can and will make a difference in the world through their day-to-day operations.

For the first time in history we have four generations working together. Each group has its own distinct characteristic values and attitudes towards work, based on its generation's life experiences. Companies will need to embrace; radical changes in recruitment, benefits and creating a corporate culture that actively demonstrate respect and inclusion, as well as a purpose beyond profit.

The elephant in the room, however, is still the ROI of sustainability and the importance of the topic in the consumer's mind.

Although incrementally important for business and the investment community, the 'S' word – not the concept of sustainability per say– is negative and meaningless for the wider audience.

Undeniably, the language used in communicating the good deeds of companies needs to move from corporate speech to a more inclusive, mission driven, topic by topic language that consumers can really wrap their arms around. In general, people want to align with brands that represent their values and care about the things that they care about. This is especially true with baby boomers and millennials.

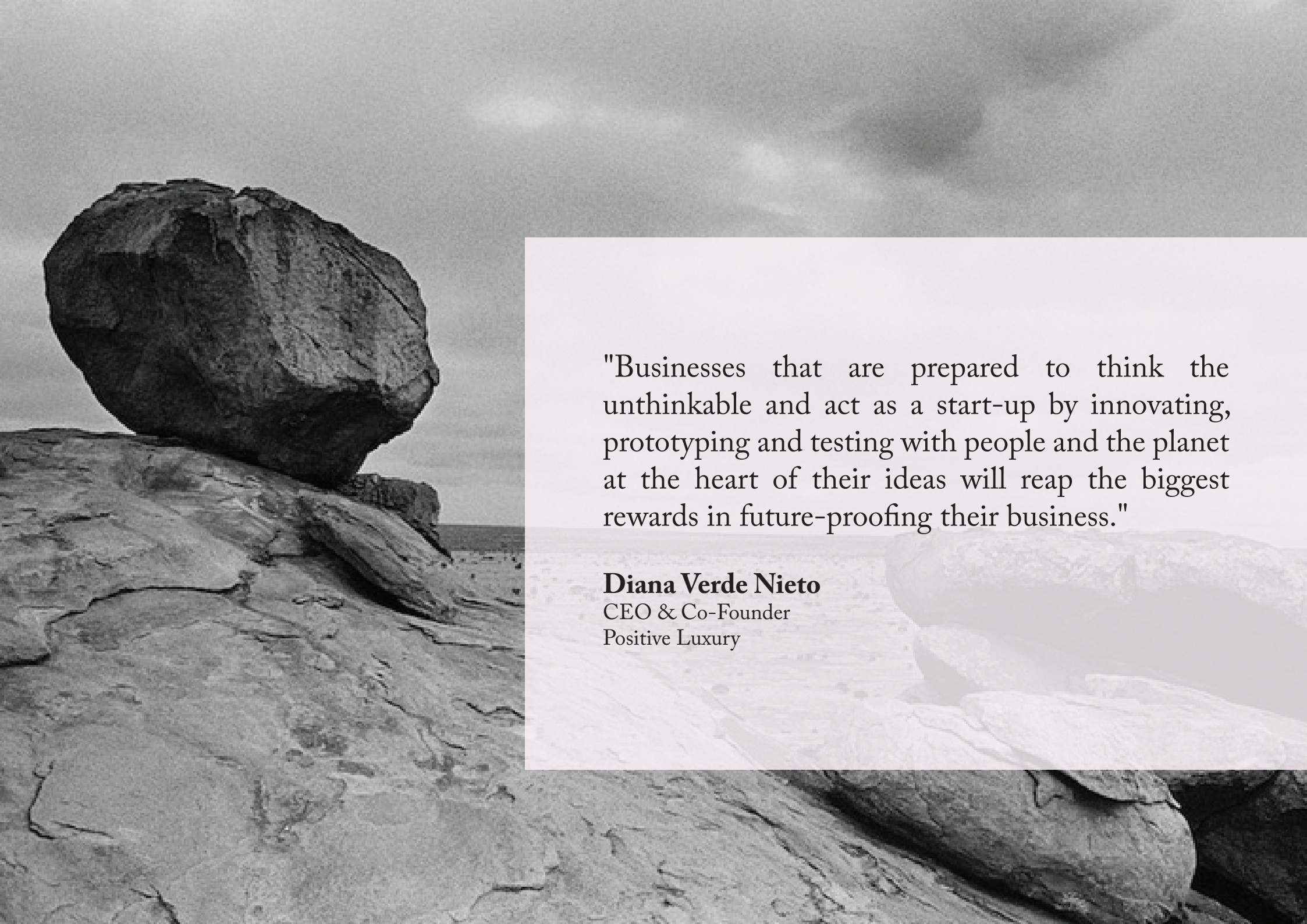
The game-changing shift has been the growth of global e-commerce sales. The web accounted for 7.3% of global sales in 2015. Online purchases will more than double to \$3.551 trillion, or 12.4% of total retail sales of \$28.550 trillion, as more people come online around the world.

The downside of this upward trend is that more and more brands are selling their products or services through intermediaries – ie. Net-a-Porter and e-bookers. As they do this, they are losing touch with who their consumers really are and what they expect from them.

The rise of widgets which allows brands to interact with their consumers on intermediaries' sites, sharing the relationship of the end consumer with them is perhaps the strongest and most innovative trend in the years to come.

2016 is, undoubtedly a year where change will be the norm, perhaps even more so than in previous years and in multiple fronts at the same time. The companies that invest in innovation, sustainability and technology and have strong leadership will come out on top.





"Businesses that are prepared to think the unthinkable and act as a start-up by innovating, prototyping and testing with people and the planet at the heart of their ideas will reap the biggest rewards in future-proofing their business."

**Diana Verde Nieto**  
CEO & Co-Founder  
Positive Luxury

# ACKNOWLEDGEMENTS

**Adam Parr** - Chairman  
Williams Formula One Team

**Andrea Kolb** - CEO  
Abury

**Andrea Pinabell** - Vice President of Sustainability  
Starwood Hotels & Resorts Worldwide

**Andrew Winston** - CEO  
Eco Strategies

**Anne Marie Gaultier** - Vice President of Global  
Marketing and Communications  
Bally

**Antonio Belloni** - Group Managing Director  
LVMH

**Aron Cramer** - CEO  
Business for Social Responsibility

**Caroline Rush** - CEO  
British Fashion Council

**Elizabeth Paton** - European Style Correspondant  
New York Times

**Georges Kern** - CEO  
IWC

**Hanneli Rupert** - CEO  
Okapi

**John Elkington** - Co-Founder  
Volans

**Juliette Mansard** - Sustainable Strategies &  
Transformations  
BearingPoint

**Kresse Wesling** - Co-Founder  
Elvis & Kresse



## ACKNOWLEDGEMENTS (cont'd)

**Kristen Hansen** - PR & Communications  
Karmoe

**Lila Preston** - Partner  
Generation Investment Management

**Lucia van der Post** - Associate Editor  
FT's How To Spend It Magazine

**Milton Pedraza** - CEO  
Luxury Institute

**Marie-Claire Daveu** - Chief Sustainability Officer &  
Head of International Institutional Affairs  
Kering

**Mayuri Ghosh** - Project Lead, Consumer Industries  
World Economic Forum

**Melita Hunter** - Creative Director  
Song Saa Resort

**Michele Petruzzello** - Community Lead, Fashion & Life-  
style  
World Economic Forum

**Natasha Blunt** - Business Development  
Salterbaxter

**Dr. Neil Stott** - Executive Director  
Centre for Social Innovation Cambridge Judge  
Business School University of Cambridge

**Nezha Alaoui** - Founder  
Mayshad Paris

**Dr. Niall Dunne** - Chief Sustainability Officer  
BT Group

**Nigel Salter** - Director & Owner  
Salterbaxter

**Noa Gafni** - CEO  
Impact Squared

## ACKNOWLEDGEMENTS (cont'd)

**Patricia Jurewicz** - CEO  
Responsible Sourcing Network

**Patrick Laine** - CEO  
Better Cotton Initiative

**Peter Lacy** - Global Managing Director  
Sustainability Services  
Accenture

**Sébastien Guechot** - Strategies & Sustainable  
Transformations  
BearingPoint

**Shalini Rao** - Associate  
Generation Investment Management

**Sonu Shivdasani** - CEO and Founder  
Soneva

**Soulaima Gourani** - CEO  
Capital Aid

**Stefania Lazzaroni** - Director  
Altagamma

**Stephen Lussier** - CEO  
Forevermark

**Stuart Mactavish** - CEO  
Seascope

**David Scowsill** - CEO  
World Travel and Tourism Council

**Terese Hoffeldt** - CEO & Founder  
Hevea

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## APPENDIX (cont'd)

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