

Luxury and Sustainability

How to connect with the new generation of luxury shoppers

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Introduction

“Corona hits someone a lot worse if they have a precondition,” said luxury fashion designer Diane von Furstenbergⁱ, as her luxury label hit hard times in 2020.

Von Furstenberg’s precondition, like many in the luxury industry, is that of a heritage brand struggling to connect with a new generation. A younger generation with new buying patterns, seeking transparency, a kinder image and above all sustainabilityⁱⁱ.

Recent studies show that commitment to sustainability has deepened during the COVID-19 crisis among all generations, with European consumers wanting fashion players to act responsibly and consider the social and environmental impacts of their businesses. After the shock of 2020, a new approach is required to engage with the new luxury consumer.

Existing initiatives like the UN Sustainable Development Goal Number 12ⁱⁱⁱ which calls for Responsible Production and Consumption, had already called consumer attention to a need for responsible purchasing. Environmentalists argue that luxury endangers rare species and materials, exploits animals and workers and

promotes social imbalance. It is associated with excess, not sustainability. To this the luxury industry responds that its accent is on craftsmanship, heritage and local production as well as job creation. Above all it is sustainable in the true sense of the word through its durability and timelessness, in fact a pioneer of responsible consumption. With serious budgets for research and initiatives such as the appointment of Stella McCartney^{iv} as Bernard Arnault’s personal sustainability advisor (LVMH), as well as cautiously buying into resale and rental, the luxury industry is exploring new and innovative concepts.

This paper defines luxury as opposed to premium fashion and the motivation behind luxury purchases. It shows how consumer and demographic purchasing patterns are evolving and what the luxury industry is doing to stay relevant and attract Millennials and Gen Z-ers. We will explore how circular economy through resale and repair and authentic communications are crucial for luxury fashion brands to connect with younger shoppers. What the luxury industry does today, the fashion world follows tomorrow.

A definition of luxury

“Luxury is a necessity that begins where necessity ends”

– Coco Chanel

For most consumers, luxury conjures up images of yachts, private jets, exotic destinations. In fact, a way to separate the haves from the have nots. Associated with power, the upper classes and, these days, the ultra-rich, luxury contributes to social stratification. This is especially evident in so-called classless societies like China and the United States. It is worth noting that Gen Z-ers, the soon to be most powerful luxury purchasers, born between 1997 and 2015, are the richest

generation the world has ever known.

Of course, luxury is subjective and culture and age specific. It is not the same as premium, particularly in fashion. Although arguably luxury has been democratized to such an extent, some might say it has lost its luster^v.

The Guru of luxury, Jean-Noel Kapferer, lists six criteria that define luxury and differentiate it from premium fashion^{vi}.

- 01 A very qualitative hedonistic experience or product made to last;
- 02 Offered at a price that far exceeds what its mere functional value would command;
- 03 Tied to a heritage, unique know-how and culture attached to the brand;
- 04 Available in purposefully restricted and controlled distribution;
- 05 Offered with personalized accompanying services;
- 06 Representing a social market, making the owner or beneficiary feel special, with a sense of privilege.

The first criterion sets the tone: Luxury is timeless while fashion has to be in the moment. The industry's very timelessness is its strongest argument in favour of its sustainability. Criterion 3 meanwhile, emphasizes local heritage and culture. Luxury firms provide jobs for locally skilled craftspeople. They do not delocalize, they say, a definite advantage in a year where foreign travel is no longer an option. Criteria

two, three and six differentiate luxury from premium products which are based on objective superiority - the more you pay the more you get. Luxury is non-comparable, we cannot say one luxury bag is better than another. Pricing is based on the object's uniqueness, assured by its culture, heritage, regional origins and exceptional know-how.

The motivation behind luxury buying

Coming out of the pandemic in March 2020, high-fashion retailer, Hermès sold for a record \$2.7 million in one Chinese flagship store in one day. Customers came from across the southern province of Guangdong to snap up shoes, bags, furniture and elegant tableware. This example of revenge buying, a spending spree after deprivation, was extreme enough to catch worldwide public attention. "The store's single-day sales tally is said to be the highest figure for a single boutique in China, a positive sign amid the easing of the coronavirus-related lockdown," according to Business Insider^{vii}.

The phenomenon has existed since the Romans. They attempted to establish the first sumptuary law to prevent extravagant spending. Although the Roman law was repealed, sumptuary laws remained in place in Europe for hundreds of years. They were particularly prevalent in the Middle Ages when each new outbreak of the plague left many lucky survivors with unexpected wealth inherited from their less fortunate dead relatives. The Covid pandemic stands out from those of the past in that there are fortunately not as many deaths but much more economic devastation.

Revenge buying apart, Professor David Aaker in his classification of luxury and fashion brands, gives three emotional benefits which spur consumers to purchase luxury^{viii}. Firstly, there is the auto-directional benefit which responds to the consumer need for personal gratification. It answers the question "*when I purchase or use this brand, I feel xxx.*"

The second category, or hetero-directed benefits, shows the consumer in a social light and answers the question "*when I purchase or use this brand, I am xxx*". For example, when I am seen with a Cartier watch on my wrist, I am perceived as successful by both those who know me and those who don't but recognize the codes or the logo. This shopper is looking for iconic recognizable brands - timeless and durable such as Hermès, Rolex, Bottega Venetta - as shown in the Figure 1. For him/her it is important that others are aware of that bag on their arm even if they can't purchase it themselves.

Finally, there are the social benefits derived from purchasing luxury. They allow the purchaser to express belonging to a particular social

group. They respond to the human need for self-actualization, feeling part of a community, sharing common attitudes, opinions and interests. The answer to the question, “when I use this brand, the types of people I relate to are xxx.” They reflect the traditional view of luxury

and its class stratification. These shoppers are looking for lifestyle brands which clearly and deeply represent an individual or a group, a way of living, the way he/she wants to look to other people. This is typified by Louis Vuitton.

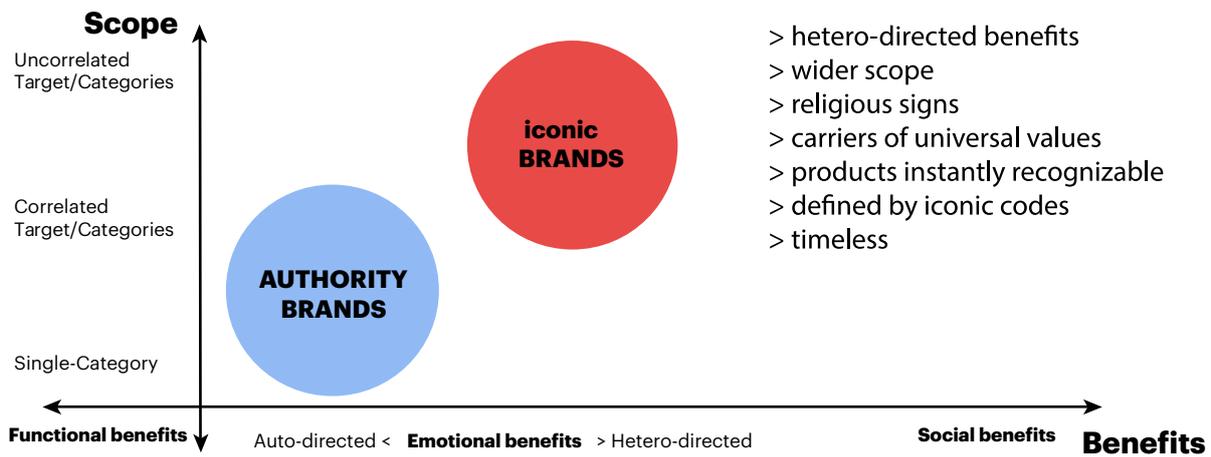


Figure 1. Mapping Fashion and Luxury Brands

Source: Marazza, A. & Saviolo, S. (2013) *Lifestyle Brands: A Guide to Aspirational Marketing*. Palgrave Mcmillan. ISBN-13: 978-1137285928

Access trumps ownership for Millennials and Gen Z-ers

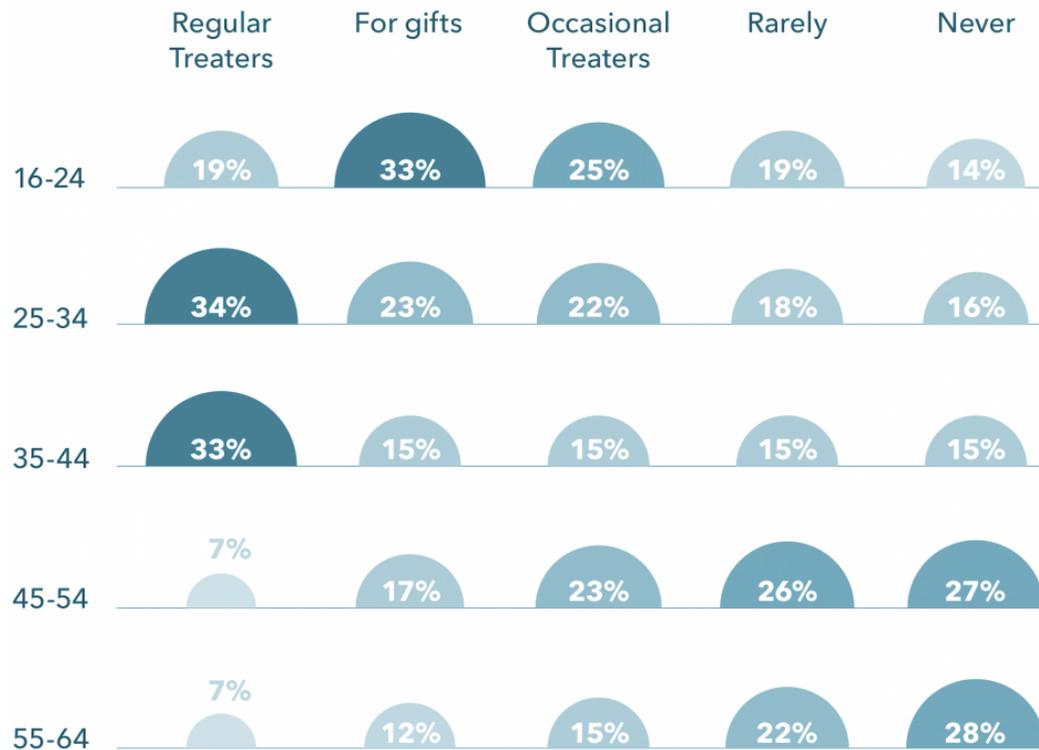
To these three types of motivation we need to add the demands of the new, younger, luxury consumer. Millennials (aged 23-36) are now well into their careers and are reaching their peak spending age. Generation Z (aged 16-22) is also appearing on the radar of the luxury market as the oldest enter the workforce. Together they are set to account for more than 60 percent of total luxury spending by 2025, according to Boston Consulting Group^{ix}.

Both of these generations have only known the digital era. They are connected, trendsetters at

the forefront of fashion. Both are reimagining the value of certain goods and services in light of new forms of consumerism, and both are redefining the brand-consumer relationship. For these young consumers, access trumps ownership. They do not need to own the coveted object just have it for a limited time.

In their age breakdown of luxury buyers in 2019, the Global Index Web^x confirms this tendency (Figure 2). The regular treaters or those who regularly buy themselves a luxury item are 34% of the 25-34 age group and 33% of the 35-44

% who say they mainly purchase luxury items/services



Question: Do you ever purchase high-end or luxury products / services? **Source:** GlobalWebIndex March 2019 **Base:** 928 (U.S.) & 1,049 (UK) luxury buyers and 353 (U.S.) & 426 (UK) non-luxury buyers aged 16-64

Figure 2. Age Breakdown of Luxury Buyer

Source: GWI. <https://blog.globalwebindex.com/chart-of-the-week/luxury-market-2019/>

age group. While the 16-24 year olds are 19% to treat themselves regularly and a whopping 33% buy luxury for gifts. The future of luxury belongs to the new Gen Z who will make up the majority of luxury shoppers by 2030.

Altgamma and Boston Consulting Group^{xi} further identified three areas that inspire younger consumers in their 2018 study, areas that have grown in importance during the lockdown.

The study found that both groups are looking for innovation from luxury, often achieved through collaborations. Especially popular are those between streetwear and luxury such as Louis Vuitton and Supreme. This was Bernard Arnault's approach back in the early 1990s when he began hiring young, hip designers to give traditional luxury companies in the LVMH group a new edgy look. Millennials also appreciate limited offers, a way for luxury to stay relevant while holding on to its traditional image.

Collaborations are all about the young, with 60% of Millennials reporting such purchases, compared with 40% Gen-X (1963-1977) and only 20% of Baby Boomers (1946-1962).

Secondly the study found that the second-hand market is very much mainstream for this age group. Overall 44% of consumers surveyed say they consider the resale value of new items they purchase, with 50% of Millennials thinking long term to a much greater extent than Gen-Xers

(35%) or Boomers (24%) according to the survey. Of note is the cultural specificity of this finding with 50% in the US involved in buying or selling, although 57% of the Chinese market would not buy second-hand.

Finally, second-hand purchases are not just less expensive, they are often the only way of purchasing sought-after limited editions or vintage pieces.

Resale or rental?

In March 2021, French luxury conglomerate Kering acquired a 5% stake in Vestiaire Collective as reported by the Business of Fashion (BOF)^{xii}, leading a €178 million (\$215 million) funding round that valued the luxury resale platform at over \$1 billion. Less significant than the size of the investment is the strategy it represents: the owner of Gucci and Saint Laurent clearly sees opportunity in the second-hand luxury market, ahead of competitors like LVMH and Chanel who are keeping their distance.

Also in March 2021, American mega-label Ralph Lauren became the first major luxury brand to offer clothing rentals, launching "The Lauren Look," a \$125 per month subscription service powered by CaaStle that allows consumers to rent items from its lower-priced Lauren Ralph Lauren line^{xiii}.

Both second-hand or rental are spurred on by the growing interest in sustainability, the third motivation of the new consumer compared to their older predecessors and the topic of this Insight.

Luxury houses are starting to see the benefits of being part of these sustainable markets. Although they have weathered the storm of the Covid crisis better than many, they cannot afford to ignore such a valuable source of revenue. Many have long eschewed second-hand for fear of diluting the brand and the image of exclusivity that luxury puts across.

Perhaps they have less to fear and more to gain than they think. Buying second-hand provides a new entry point into the luxury market. In addition, consumers can see their purchase as an asset providing long-term resale possibilities.

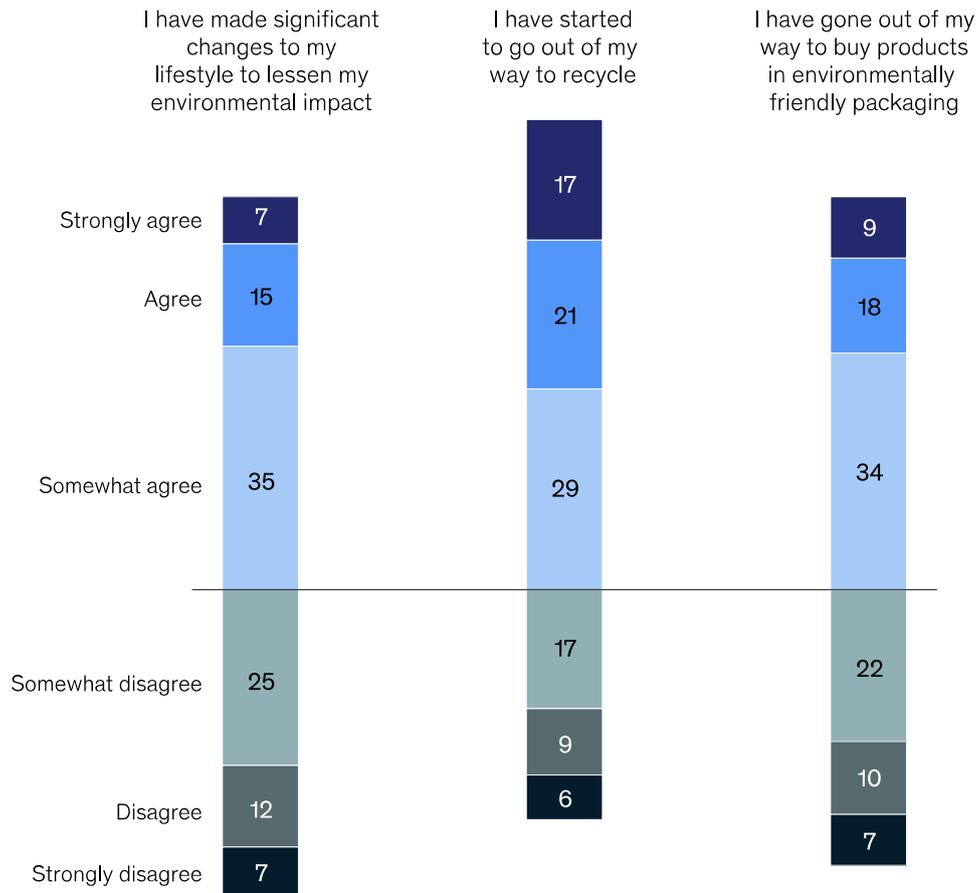
The McKinsey survey^{xiv} on consumer sentiment on sustainability in fashion published on July 17, 2020, further shows how respondents have made changes in their buying patterns during the Covid-19 crisis.

Sustainability has been a consumer concern since 2013 for more than 10 years, but today it is stronger than ever. Some 62% of survey respondents say they will choose to do business with a brand that supports sustainability over

a brand that does not, up from 50% in 2013. These consumers are primarily concerned with the environment (37%), animal care (27%) and ethical manufacturing (21%). Millennials place

a higher priority on the environment (42%) and animal treatment (26%), than do Boomers whose primary concern is ethical manufacturing (32%).

Change in behavior during COVID-19 crisis, % of respondents (n = 2,004)¹



¹Figures may not sum to 100%, because of rounding. Question: Thinking about your habits and attitudes over the past several weeks compared with prior to the COVID-19 crisis, to what extent do you agree with the following statements?

Figure 3. Change in Behavior during COVID-19 Crisis

Source: <https://www.mckinsey.com/industries/retail/our-insights/survey-consumer-sentiment-on-sustainability-in-fashion>

The Future of Luxury

“The decline of the fashion system as we know it began when the luxury segment adopted the operating methods of fast fashion, mimicking the latter’s endless delivery cycle in the hope of selling more, yet forgetting that luxury takes time, to be achieved and to be appreciated. Luxury cannot and must not be fast. It makes no sense for one of my jackets or suits to live in the shop for three weeks before becoming obsolete, replaced by new goods that are not too different.” said Giorgio Armani in 2020^{xv}. As

we have seen, the luxury of the 21st century lies in engaging conversation with Millennials and Gen Z, humanizing brands and creating change. It clashes with the old luxury mentality that was reserved for the privileged, the wealthy and the establishment. To embark on this journey, sustainability is the key to success.

The industry is producing too many clothes thereby too much waste and consumers have forgotten to appreciate quality and durability.

First Step: Circularity through resale and repair

“More than \$500 billion of value is lost every year due to clothing not being utilized or recycled effectively, with some garments in the U.S. discarded after just seven to 10 wears.”

– Ellen MacArthur Foundation ^{xvii}

Waste and excess inventory is one of the main problems of the fashion industry and to a lesser extent the luxury industry. How to keep fashion from the landfill? Circular economy in the fashion industry is a regenerative approach that is there to replace the traditional linear economy

that promotes the “buy, wear and dispose” of your clothes model. It is about eliminating waste and creating new with old.

The Ellen MacArthur Foundation talks about three principles of circularity:^{xvi}



Design out waste and pollution



Keep products and materials in use



Regenerate natural systems

While all three points are as important as each other, to “Keep products and materials in use” should be the first step luxury brands should take through Resale & Repair. The Kering approach we looked at earlier is spot

on. These two actions can be implemented without creating new products. They use the ones already in the market and make sure to give them the longest lives in their initial state.

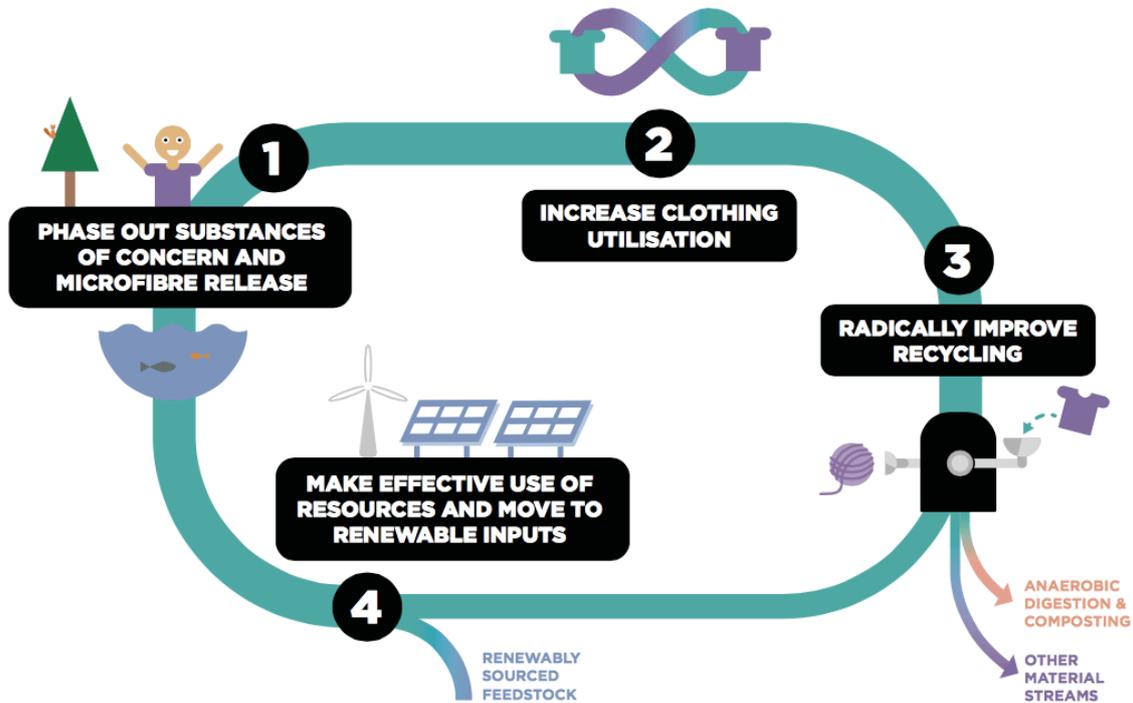


Figure 4. Ambitions for a new textile economy

Source: Ellen McArthur Foundation: *A New Textiles Economy: Redesigning Fashion's Future*

Resale

“Before the pandemic hit, the resale market was on track to double. Now this growth may very well accelerate. Resale sites are coming out big winners as the pandemic plunges the economy.”

– BOF^{xviii}

To create a strong resale economy, the quality and durability of products plays a big part in its success. The luxury industry is one step ahead in this area already offering apparel and accessories that are made to last. Through consignment, in-house resale platform or a mix of both, encouraging consumers to make cash and/or to get discounts by reselling their fashion items is a very attractive option that also has a positive impact on the planet.

One of the challenges is to create a process that is simple and efficient for consumers to feature the products to resell (guideline for visuals) and that has a low carbon footprint (shipping and

packaging). To generate sales, brands need a “window” to sell the goods and to showcase the condition of second-hand products for sale. The question is: do brands keep the sales in-house or do they partner with resale/consignment platforms? Burberry and Stella McCartney have partnered with The Real, a platform that invites the consumer to consign their own products. Less headache for the brands. Also, less profit.

The resale messaging becomes a key tool to sale strategies. Reminding the consumer that buys a new item that they can eventually resell their products through the brand.

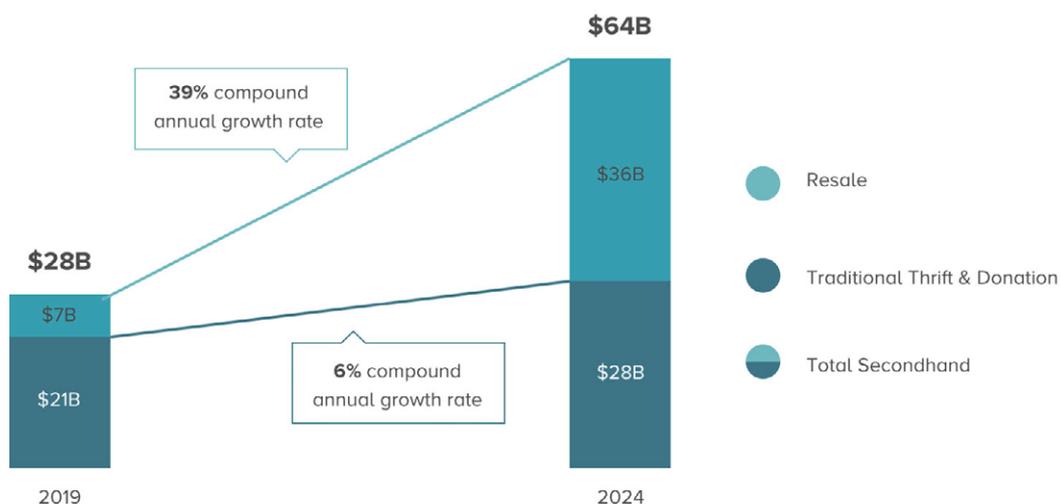


Figure 5. Market Sizing and Growth estimates (2020) Second-hand market set to hit \$64B (USD) in the next 5 years - Resale is expected to overtake the traditional thrift and donation segment by 2024

Source: <https://www.thredup.com/resale/>

Repair

As we saw in the definition of luxury, brands insist on the personalization and customization of their clients. They offer in-house alterations to ensure that a garment will fit perfectly thereby making the customer feel they are purchasing one of a kind. Adding to that professional repair services when the garment gets worn out, is a perfect tool for consumer retention. Knowing that an investment piece will always be repaired, gives the consumer a sense of its value. Luxury products come most of the time with life-long warranty.

As part of the Fashion 7R's^{xix}, repair services are growing in popularity, especially for luxury products. "By extending the life of a garment

by an extra 9 months reduces its environmental impact by 20-30%."^{xx}

Repair services will attract the busy and the ones that cherish quality apparel and understand the importance of giving the longest life to products. It can be done in-house with a skilled team or through smaller specialized businesses like The Restory^{xxi}, an on-demand service providing modern after-care for luxury fashion.

In these days where apparel makers' jobs are not seen as prestigious, workforce problems can occur. The luxury industry has an opportunity to highlight the skills needed and create new jobs by offering unique training from their savoir-faire.

Second Step: Authentic Conversations

"Today, luxury brands must act more like broadcasters and less like producers or risk being left behind."

*- Claudia D'Arpizio,
a partner at Bain & Co. in Milan^{xxii}*

In this century of authenticity and transparency, consumers are craving stories they can relate to, that humanize the product. Luxury has to feel approachable even if the price is at the top end

of the scale. It has been attached to Fashion Magazines and/or TV commercials, "one-way communication" media because it helps keep the fantasy, the mystery.

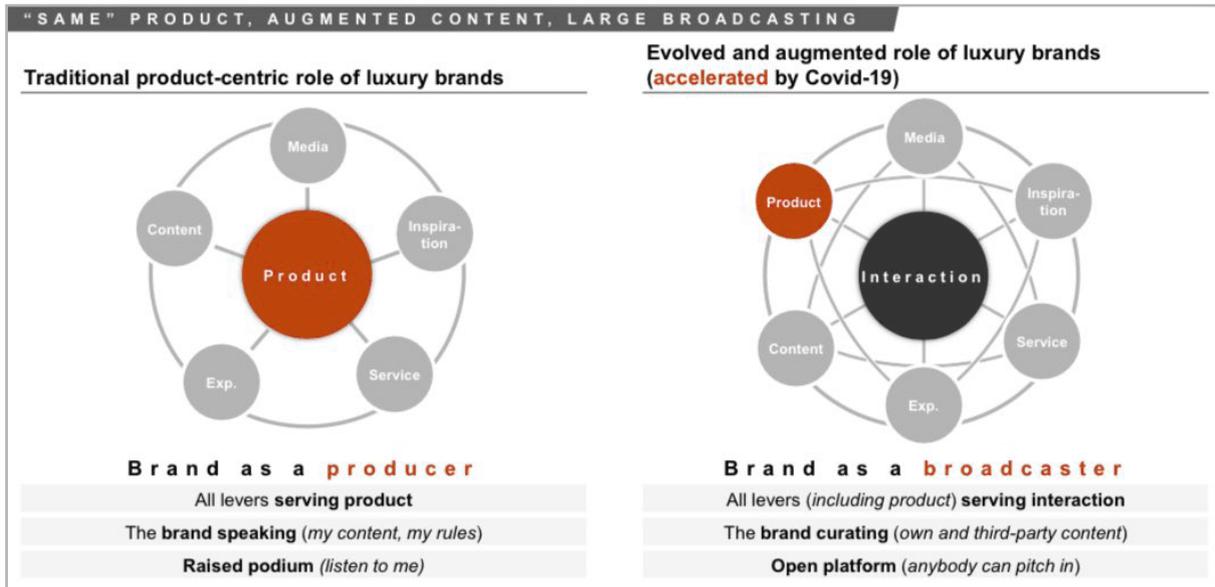


Figure 6. Disruption/acceleration into an ongoing change, transforming the role of luxury brands from producers to broadcasters.

Source: Bain & Company Luxury Study, 19th edition, https://www.bain.com/about/media-center/press-releases/2019/fall-luxury-report/?utm_source=luxe.digital

Gen Z will be leading the second-hand shopping market and is more and more inclined to buy luxury. To reach that younger demographic, conversation is fundamental. And these conversations are happening online. "The average Gen Z-er received their first mobile phone at age 10.3 years. Many of them grew up playing with their parents' mobile phones

or tablets. They have grown up in a hyper-connected world and the smartphone is their preferred method of communication. On average, they spend three hours a day on their mobile device."^{xxiii} It is time for luxury brands to open the doors of communications and to show the humans behind the making of the products.

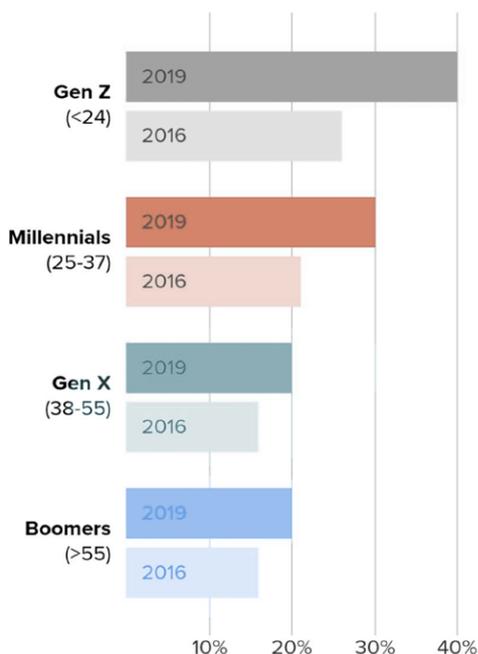


Figure 7. Gen Z is powering the growth of second-hand shopping - Young shoppers are adopting second-hand fashion faster than any other group (percentage of each age group that bought second-hand apparel, footwear, or accessories).

Source: <https://www.thredup.com/resale/>

Summary

Will luxury be able to overcome its precondition as mentioned in the abstract and reach these new, young shoppers? It seems to us that luxury is ready to pick up the gauntlet. As we go to press we learn how Hermès whose vintage bags go for hundreds of thousands of francs at auction, has signed an exclusive partnership with mycelium start-up MycoWords to produce its Victoria bag out of mushroom leather. Stella McCartney also announced the launch of products containing Mylo, a mycelium material^{xxiv} while Alexander McQueen and Balenciaga are now fur free^{xxv}. All goes to show the pro-active nature of the luxury industry.

In addition, luxury is building on the circular economy through resale and repair. This is not

new for an industry which has always prided itself on its service and attention to personalised customer needs.

Furthermore, the brands are coming closer to their clients, removing their inaccessible shield through authentic communication with these highly connected customers. They are retelling their story to take into account new expectations and demands that meet the new needs.

Predictions for 2021 show a 14% growth in luxury spending, particularly fueled by China^{xxvi}. Everything points in this direction, particularly if luxury continues to pay attention to the new generation.

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