

SHOPPING WITH A PURPOSE

THE NEW RETAIL REVOLUTION

EXECUTIVE SUMMARY



POSITIVE LUXURY
BRANDS TO TRUST

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ABOUT POSITIVE LUXURY

Positive Luxury connects brands and consumers that care. Our mission is to inspire people to buy better and influence brands to do better. Positive Luxury awards the Butterfly Mark to brands demonstrating positive efforts towards the craftsmanship, service and design of their businesses.

Positive Luxury was founded in 2011 by Karen Hanton, MBE, founder of toptable.com, and Diana Verde Nieto, pioneering sustainability expert and named Luxury Women to Watch 2016.



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FOREWORD



Businesses today face tremendous levels of uncertainty and volatility. Driven by a host of factors, such as rapid technological developments, demographic shifts, sociopolitical instability, and slow economic growth, the business environment seems to be in a state of permanent disruption.

In the face of this, many companies are embracing purpose as an important lever for navigating turbulence, and are rethinking how they create and measure value.

Purpose is a far more familiar concept now than it was even a few years ago when EY Beacon Institute launched. Purposeful business has grown into a movement that has entered the mainstream. The current discourse is less about whether purpose is an important resource for companies – we believe the business case for this has been made - and more about how purpose can be realised, enabling companies to unlock its value.

Retailers offer an excellent lens through which to examine these issues – they are the front line of capitalism. In today’s always-on world, they are in the market every minute of the day. Luxury retailers and brands, in particular, are often viewed as the aspirational vanguard. We are very pleased to work with Positive Luxury to examine the way luxury retailers and brands are facing disruptive change and how these highly focused consumer facing businesses are utilising purpose to drive benefits.

The EY Beacon Institute is a community of executives, entrepreneurs and luminaries advancing a transformation of the working world by redefining what it means to be a successful company in the 21st century.

We develop research and share stories on how leading companies are redefining success to create sustainable value. Most importantly, as a community of practitioners, we advance this movement through our individual actions and the way we lead our organisations.

I hope that you find this report insightful and inspirational, and invite you to connect with us at ey.com/beacon—and to join the movement of those on the leading edge of transforming the working world.

Valerie Keller
Global Leader, EY Beacon Institute



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EXECUTIVE SUMMARY

“The basic drive of the company should be the creation of a better world for future generations.”

- LUC BERTRAND,
CEO of ACKERMANA &
VAN HAAREN (AvH)

The retail environment has rarely been as complicated to navigate. New entrants, new consumers, new markets, new technologies and new pressures have made every investment decision – from point of sale software to store design – a critical business decision. Customers are changing their needs and demands and retailers are being forced to catch up.

The business leaders, opinion formers and experts interviewed by Positive Luxury have identified a number of issues, challenges and opportunities. How luxury retailers and luxury brands choose to deal with these issues may well be an existential decision.

The evidence points to one conclusion – that purpose led companies with a clear philosophy and an eye on the long term, that nurture stakeholder relationships and contribute something to society are best placed to survive and thrive in a world of near perpetual revolution. As everything changes, it's those who know themselves who remain constant.





Step 1

Choose a skin tone



Above: Harrods' The Make-up Studio - shopping with interactive customisation.

“People don’t buy what you do; they buy why you do it.”

- SIMON SINEK,
Author, *Start with Why*

WHAT WILL THE FUTURE OF RETAIL LOOK LIKE IN 2020?

- Global retail sales to reach \$27 trillion by 2020, of which \$4 trillion will take place online. In some countries - such as United States and United Kingdom - online will account for a quarter of total retail sales by 2025
- Everything from the product to the in-store experience can be customised and personalised by the shopper as retailers increasingly offer real-time customisation tools to their customers
- The rise of purpose-led retailers and brands. Manufacturer retailers will open more connected flagship stores designed and created around the product’s philosophy. Retailers will curate selections based on unique purpose and identity
- Shorter time gap between ordering a product and delivery

TRUST



“Consumers do not follow because they have to, but they want to – for themselves.”

- KLAUS RITZENHÖFER,
Founder, Apropos

The strongest consumer trend of 2016 is the increasing desire for trusted brands – with new generations demanding trust based relationships. Research shows that 45% of people say their trust in a business increases if they believe it has contributed to the greater good. The majority of those surveyed (80%) believe companies can take specific actions both to increase profits and improve the social or economic conditions of the community. Younger generations are less trusting of business. 83% of Millennials agreed with the statement “there is too much power concentrated in the hands of a few big companies” — much higher than earlier generations.

SUSTAINABLE INNOVATION & SUSTAINABLE GROWTH

“Good purpose plays a key role in innovation. Noble ambition takes what can’t be done and makes it doable. Rather than using or wasting leather of endangered animal species, for example, the luxury industry can try innovative carbon-free man-made material or new material made out of abundant natural resources.”

- SUNG JOO KIM,
CHAIRPERSON & CVO,
SUNGJOO GROUP



Sustainability and business growth have traditionally been seen as entirely separate. In luxury retail, however, recent trends show an increasing number of businesses seeing sustainability as a key to generating value. In the past year, sales of consumer goods from brands with a demonstrated commitment to sustainability have grown more than 4% globally, while those without grew less than 1%. Sixty-six percent of Nielsen’s global respondents say they are willing to pay more for sustainable goods, up from 55% in 2014 (and 50% in 2013). 68% are prepared to pay more for products and services that come from companies who are committed to positive social and environmental impact.

This demand is being met by a new breed of innovative thinkers in luxury – who see sustainability as a driver of rather than brake on innovation. From avant-garde British designer Christopher Raeburn to luxury giant Kering – which owns Gucci, Stella McCartney, Brioni, Bottega Veneta and Alexander McQueen – there’s been a host of innovations in new materials to replace plastics like PVC and improve leather tanning, cutting costs, boosting profits and benefiting the planet.

Left: Christopher Raeburn x Woolmark at London Fashion Week AW16, ICA Theatre with Patrick Donohue

TECHNOLOGY

“The successful retailers of the future will know how to seamlessly integrate offline & online experiences.”

- HASSAN PIERRE,
Founder, Maison de Mode

The next generation of luxury consumers are younger, digital-savvy and with higher expectations of brands. Not only do they expect brands to be available online, but they expect a seamless experience to go with it. Research suggests a staggering 40% of high-end brands still do not sell via the web. Historically luxury companies have been hesitant to make the online leap, afraid that it signifies the opposite to a luxury retail experience – lacking intimacy, personal touches and above all, exclusivity.

Conversely, high-income households have greater web access than their peers and, this year, the Yoox Net-a-Porter Group reported that revenue grew 31% in 2015, offering more evidence that high-end shoppers are increasingly happy to shop digitally. What's more, nearly 40% of Yoox Net-a-Porter's sales came from mobile – with a 180% surge in sales from native apps such as The Net Set.



Above: John Frieda's 'Shades of Me' Instagram campaign

Stores and luxury brands are beginning to use technology in new, bold, innovative, and luxurious ways to create experiences – mixing and matching real world and tech.

There's World of Niche, an invite-only sneaker store with a strict no-photo policy and no social media on any platforms; Harvey Nichols' hotel-style concierge services that target customers via personalised technology; Sapient Nitro x The Line where customers are taken on a virtual journey into an apartment where they can explore rooms, products and clothes; Burberry's summer debut as the first luxury brand with a personalised experience on Pinterest; and John Frieda's new campaign Shades of Me using an Instagram algorithm to analyse users' hair colour and their Instagram feed to generate customised video stories.

INVESTING NOT DISRUPTING

Hire, not fire



Amidst the rise of all this technology, smart retailers realise one thing: sales staff can make the greatest impact. MIT's Zeynep Ton shows that cost cutting diminishes the potential for sustainable profits – and that retailers who invest in staff see long term reputational and financial benefits. Fisher, Krishnan and Netessine found that every additional dollar spent in payroll produced between four and twenty-eight dollars in new sales. Zebra Technologies's global shopping survey found 64% of customers would buy more at stores with engaged customer service staff.

Companies with a clear sense of purpose and an ambition to have a positive effect on society are better equipped to find, recruit and retain the best talent. Millennials especially seek more from their employer than a paycheque.

GETTING PHYGITAL

$$\begin{array}{c} \textit{physical} + \textit{digital} \\ = \\ \textit{phygital} \end{array}$$

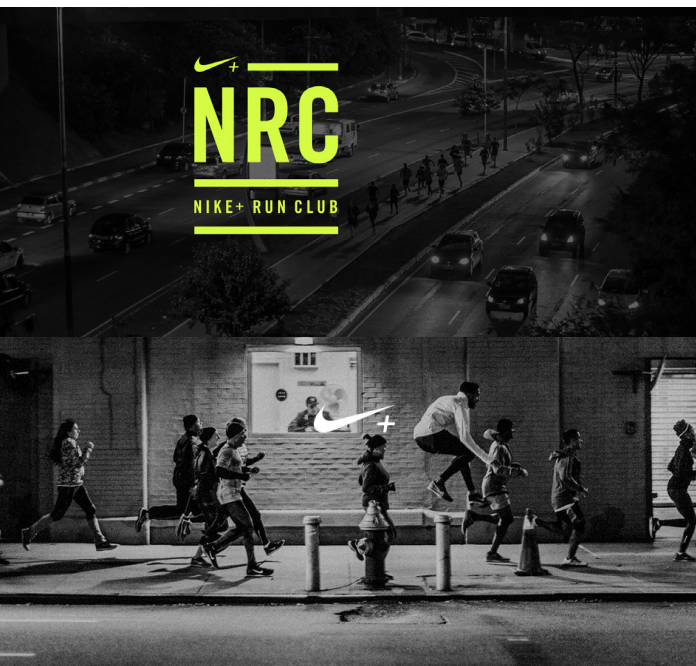
Reaching millennials whether they are researching a purchase or are ready to buy involves more than just having a website or a store – alongside the rise in omnichannel purchases, there's the need for physical experience. These have given rise to 'phygital': physical retail experiences, combined with digital browsing.

Net-a-Porter and Style.com both enable traditional luxury brands to be 'phygital'. Net-a-Porter's online presence captures consumers at home, passing them on to luxury bricks-and-mortar stores to deliver the physical experience. Longchamp's mobile-optimized Paris Premier microsite includes an interactive map offering 360-degree views of the 1st arrondissement – with additional content about the handbag inspired by the district.



Top: Longchamp's Paris Premier microsite; as part of Longchamp's interactive map, customers can digitally experience locales such as Café Verlet.

THE THOUGHTFUL LUXURIAN



Above: Nike Running Clubs tap into well-being for their consumers.

The luxury audience is intelligent and curious and increasingly uninterested in attaining status from a price tag. For experience focussed conscious consumers, brands are helping them achieve their health and wellbeing goals. Nike’s local running clubs and Lululemon’s in store yoga and mindfulness classes are good examples – both arise naturally from the company’s purpose.

The American Well-Being Study shows consumers value their health but 63% don’t know how to reach a state of “emotional well-being, relieving stress and increasing self-esteem.” 65% of respondents say brands “could be doing even more” to facilitate consumers’ in their quest for a stress-free, self-affirming life.

To meet this, brands in the luxury space are enticing luxurians with talks and debates. Armani has curated tweet talks, whilst Chivas hosted a debate on luxury at the V&A to interrogate luxury from aesthetic, conceptual and cultural perspectives.

For these engaged consumers, social selling is poised to alter the current retail model. French atelier Christian Dior recently offered its followers on Chinese messaging and social application WeChat the opportunity to purchase a limited-edition handbag directly through a post and French menswear house Berluti is introducing its Fast Track footwear to Chinese consumers through a contest exclusive to WeChat.

Below: Boll and Branch.

Our supply chain is conflict-free, but many others around the world are not. That's why a portion of every purchase goes towards **NOT FOR SALE** 🙋 to fight human trafficking.

Every single customer has a powerful impact.



1 SHEET SET OR THROW = 1 SAFE NIGHT OF SLEEP

“We all know that retail on a smaller, local level benefits from the prosperity of its local community – conversely it is also the first to feel the pinch. Most small businesses understand that it is in everyone’s interests as a whole to contribute to the social health of the community it serves. However it’s the larger retail businesses that also need to emotionally commit to pursue purpose over profit.”

- SONJA HEALY,
Founder, Supernomad

THE PURPOSE ECONOMY

The phrase was coined by Aaron Hurst - CEO of Imperative and founder of the Taproot. CEOs are predicting this new economic era will reach a tipping point in 2020.

New Jersey-based Boll & Branch, for instance, offers luxury bedding with Fair Trade certification, partners and helps small farmers transition to organic techniques, cutting costs and funneling the savings to schools and clean water supplies. Boll & Branch mill workers earn 220 percent more than average factory workers. The company generated sales of \$1.75 million in their first year, \$13 million in 2015, and estimates in excess of \$30 million in 2016. A percentage of this revenue goes to anti-human-trafficking organizations - for every sheet set purchased, a night’s sleep is provided for a human trafficking victim.

The heart of the new purpose economy is about optimizing the meaning and fulfilment employees, customers and stakeholders feel every day. The companies that can will be leaders in this exciting new era.

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