

STRATEGY

Kering Luxury Memo special report

June 26, 2017



Kering sees sustainability as an opportunity for innovation and not a sacrifice. Image courtesy of Kering

By STAFF REPORTS

French luxury goods conglomerate Kering is managing its large stable of brands and fashion houses with a keen eye toward sustainable practices and social good. The group, however, does not view sustainability as a sacrifice to be made, but rather a chief driver of innovation.

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The marketer's focus on the environment is fitting given its somewhat surprising origins as a timber trading company under the name tablissements Pinault, after founder Francois Pinault. The company was reorganized as Pinault-Printemps-Redoute (PPR) before finally rebranding as Kering in 2013.

"First you have to know that Francois Pinault puts sustainability at the core of our strategy," said Marie-Claire Daveu, chief sustainability officer and head of international institutional affairs at **Kering**, Paris. "In our view, sustainability is not just good for the world, but it also stimulates innovation and creativity and it just makes good business sense to do so.

"If we want to continue to do our business, we have to contribute to change the paradigm and the attitude toward sustainability," she said. "For us it is not an option, it is a necessity.

"We try to convince people that it is a business opportunity. Luxury has an essential role to play in preserving the environment."

Evolution

While the company boasts a large number of luxury brands, Kering did not invest in a single brand that could be considered luxury until 1999, almost 40 years after it was founded.

Up until then, Kering, or PPR as it was known at the time, focused mainly on retail. PPR owned brands and retailers in industries as diverse as pharmaceuticals, music and books.

In 1999, PPR invested in Italian fashion house Gucci. This proved to be the gateway into the luxury world and more acquisitions followed.

Soon, PPR owned stock in French fashion houses Balenciaga and Yves Saint Laurent as well as Italy's Bottega

Venetia and Brioni. The company continued to invest in luxury businesses throughout the 2010s.

Kering currently owns 50 percent or more of shares in 16 different luxury brands spanning across a number of product categories including eyewear, apparel, accessories and jewelry.



Marie-Claire Daveu, chief sustainability officer of Kering. Image courtesy of Kering

Gucci was the company's first luxury brand and remains one of its top performers and the most prestigious brand in its stable.

Led by Gucci's "creative universe," Kering saw its luxury business activities increase by 34 percent for the first quarter of 2017.

Kering saw its first-quarter 2017 revenues total 3.57 billion euros, or \$3.81 million. As a whole the group saw double-digit growth across all its activities in all its geographic regions, but excluding the Japanese market ([see story](#)).

In 2016, Kering saw excellent performance across its brand portfolio, led by exceptional growth by Gucci and Saint Laurent.

Kering recorded sharp acceleration in growth for the second half and posted record-high recurring operating incomes for 2016. By business category, Kering's luxury activities were up 7.7 percent while sports and lifestyle, such as athletic brand Puma, saw a 5.5 percent increase ([see story](#)).

As a whole, Kering's third quarter 2016 revenue saw an acceleration of 10.5 percent, for a revenue total of 3.185 billion, or \$3.469 billion at current exchange rates. When examining only the luxury brands within its portfolio, Kering saw revenues increase by 11.3 percent on a comparable basis, led by Gucci and Saint Laurent, both of which continue to gain market share ([see story](#)).

This level of performance has cemented Kering's commitment to luxury. The majority of its brands are luxury oriented, although it does maintain a few in the sports and lifestyle category, including Puma and Volcom.

In 2013, the company rebranded as Kering, meant to evoke the word "caring" while also paying homage to its home region of Brittany. "Ker" means home in the traditional Breton language.

This is a particularly fitting name, given one of Kering's major priorities in recent years: sustainability.

Sustainable future

Sustainability is perhaps where Kering has done the most to distinguish itself from competitors.

While luxury brands are no stranger to sustainable efforts, Kering has done more than almost any of its peers and has gone much further in terms of making sustainability a core pillar of its business practices.

Kering regularly debuts new sustainability initiatives and maintains a transparent list of its various eco-friendly projects across all its brands.

For example, Kering is working to educate future members of the luxury business in methods on meeting their own sustainable goals through an educational partnership and course with New York's Parsons School of Design.



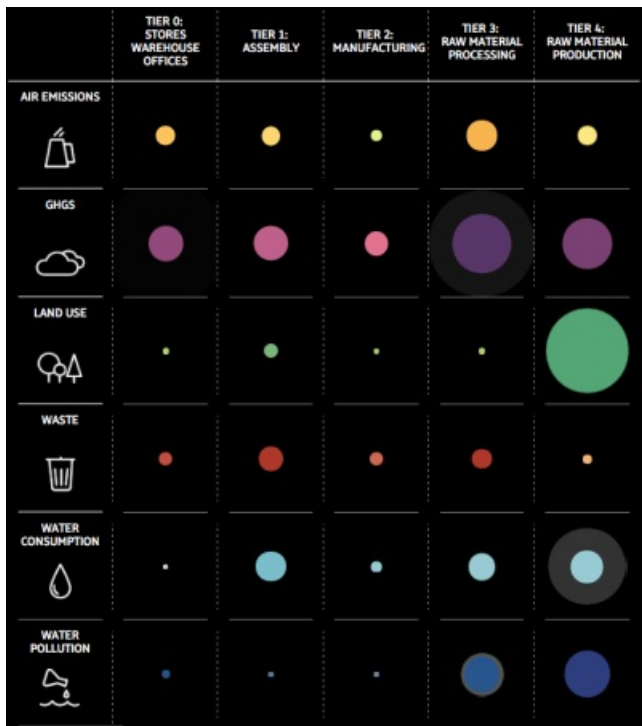
Kering's Innovation Lab is focused on sustainability. Image courtesy of Kering

The course leverages the Kering x Parsons: Environmental Profit & Loss program and use the My EP&L mobile application as a measurement tool for students to better understand the environmental impact of their designs.

The Kering x Parsons: EP&L program includes modules for students to teach practical lessons of sustainability. Modules offered include three senior Systems & Society Thesis sections and two Materiality Thesis sections ([see story](#)).

Sustainability is important not just for the long-term health of the planet, but also the short-term effects on the luxury industry. For example, climate change can affect the supply chain of many luxury companies.

"Many luxury companies such as Kering are now seeing the benefits of practicing sustainable business models from both a profit and sales point of view," said Fflur Roberts, head of luxury goods research at [Euromonitor International](#), London.



Kering E P&L grid. Image credit: Kering

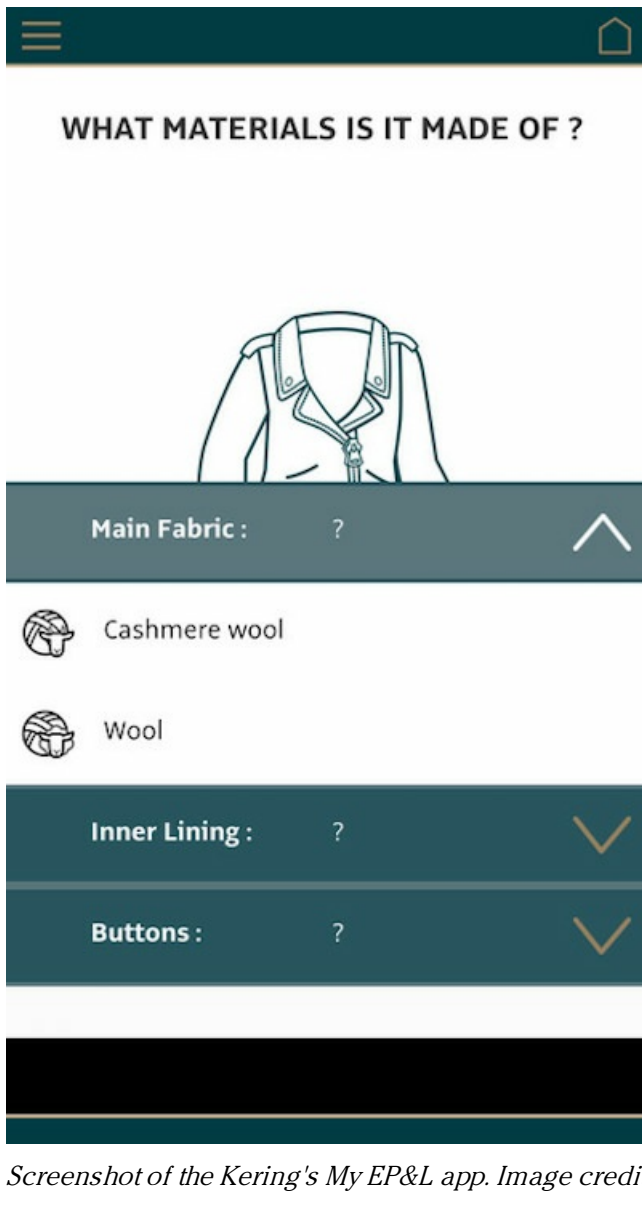
Among the premier findings that Kering is sharing with the industry is that the supply chain is the source of both high costs and negative environmental impact in the fashion industry, and that the two are intrinsically related. As high-quality leather, cotton, gold and other materials diminish in number, costs increase (see story).

Kering also publishes research related to the effects that luxury production can have on wildlife, such as the research it has conducted on python farming meant for snakeskin goods.

The conglomerate and its research collaborator, the Python Conservation Partnership, found that wild harvesting and farming of pythons is ecologically sustainable and economically beneficial to local communities.

Along with the International Trade Center and the Boa and Python Specialist Group of the International Union for Conservation of Nature, Kering released the results of three years of scientific study on python farming in South-East Asia. The reports published mark the end of the PCP's research phase and will be followed by technical guidelines and documents for animal welfare (see story).

Kering has also been very open about its sustainability goals and how well it has been doing in meeting them.



Screenshot of the Kering's My EP&L app. Image credit: Kering

A year ago, Kering released the results of its four-year sustainability targets established in 2012.

Published on its Web site, the final report looks at the achievements and remaining challenges for Kering as it looks to protect the "natural capital" necessary for its businesses. Beyond its own organization, Kering hopes to ignite changes in the entire industry, spurring innovations in raw materials and production of luxury goods by sharing its own findings and solutions ([see story](#)).

"For me, the luxury sector can have a transformative impact in driving demand for sustainable products," Kering's Ms. Daveu said. "This is an opportunity and responsibility that Kering embraces.

"I think every company and sector is concerned by climate change," she said. "People are more and more concerned by sustainability because they are more aware of those issues

"If we look to our millennial customers, they are the most environmentally conscious generation. We can say that 93 percent of millennials believe that businesses should take responsibility for their impact."

Empowering women

One of Kering's mottoes is "doing well by doing good."

In other words, the company consistently pushes the idea that working toward social good is more than just a moral obligation and that it also is a smart business move.

For example, one of Kering's other primary focuses outside of sustainability is women's empowerment.

More than 50 percent of the company's board of directors is women, a ratio that is unfortunately quite uncommon, not just in luxury but in industry, in general.

A major effort of Kering in this area is its "Women in Motion" series that highlights women's issues in the world of

film, both in front of and behind the camera.

Earlier this year, Kering inked a two-year partnership with French film association UniFrance to further the impact of Women in Motion throughout the world.

Kering's Women in Motion Awards

Kering launched Women in Motion three years ago at the Cannes Film Festival with the goal of underscoring the onscreen and behind-the-scenes contributions of women in the film industry.

Through the Women in Motion platform, Kering raises awareness, via chats and events, focused on topics such as actresses' wage gap and the need for strong female characters and women directors, among other issues ([see story](#)).

Internally, Kering has been one of the most vocal members of the luxury business in terms of hiring and empowering women in the workplace.

In response to a major women's issue that is rarely addressed, the company introduced a global parental leave policy that works against the common occurrence of women's careers suffering due to having children.

The length of maternity leave, and whether the period away from work is paid, fully or at a lower salary, has become a passionate issue for many women and their partners. With no true workplace standard and a lack of government mandates in many countries, companies with policies that support employees' desires to have children will be better received than those who do not implement leave programs ([see story](#)).

Kering achieved the Arborus Fund's GEEIS label for its efforts to make women and men equal in the workplace.

In addition to acknowledging Kering's existing commitment toward gender parity, the certification is designed to help shape the group-wide efforts to promote equality ([see story](#)).

Elsewhere, Kering has worked to make sure that its employees, especially women, have the ability to rise through the ranks fairly and advance in the company.

To this end, Kering Group has renewed its partnership with Cond Nast-owned Vogue Italia to prolong its Empower Talents internship program.

Now in its fourth consecutive year, the Empower Talents program offers internship opportunities within Kering and its stable of luxury houses. For 2016, nine brands under the Kering umbrella signed on as participants to support the talented interns that apply for the Empower Talents program ([see story](#)).

"Those are Mr. Pinault's values: he wants to do the right thing," said Milton Pedraza, CEO of the [Luxury Institute](#), New York. "He told me his father was a great inspiration and that his father always said that people come first and business comes second.

"It's unique in luxury," he said. "He's focused on doing well by doing good, and he's always looking for that humanistic approach.

"Not only [is Kering] taking care of the environment, but also their clients and their employees. It is a seamless approach to taking care of people."



Stella McCartney eyewear. Image credit: Stella McCartney

Finally, Kering is working to make sure its workplaces remain spaces where women can be treated as equals and

feel safe from the kinds of workplace harassment that often dog female employees in many other industries.

Kering is mobilizing its employees against sexual and domestic violence with the creation of a training program in partnership with the National Alliance to End Sexual Violence and the National Network to End Domestic Violence.

Following the success of a similar program in France, Italy and the United Kingdom, the initiative now comes to the United States, giving Kering's 1,200 employees based in the country education on how to intervene a situation arises. With a large portion of its workforce and customer base female, Kering frequently takes up initiatives focused on bettering the lives of women ([see story](#)).

Branded approach

While Kering does not control as many brands as some of its competitors, it still maintains a healthy stable of popular luxury houses anchored by big names such as the aforementioned Gucci, Brioni, Bottega Veneta, Saint Laurent and Balenciaga along with newer and smaller labels such as Stella McCartney and Christopher Kane.

Among these, Gucci tends to lead the company in terms of driving revenue. The fashion brand is also home to some of the more innovative and striking advertising campaigns such as its recent garden installation at Harrods.

Gucci Garden will debut in late July and extend to the end of the following month, with activations ranging from a Gucci DIY station, window and digital displays as well as an edit of Harrods exclusives. Gucci creative director Alessandro Michele is enamored with British punk attitude, making the brand's collaboration with Harrods just one of many initiatives paying tribute to the United Kingdom's culture ([see story](#)).

Also, Gucci has branched out to work with a number of retailers, including the popular Mr Porter platform for a 43-piece capsule collection accompanied by an experimental short film ([see story](#)).



Gucci's collaboration with Mr Porter. Image credit: Gucci.

Brioni as a brand has been one of Kering's more tumultuous properties, going through several leadership changes

over the last few months.

In February, Brioni CEO Gianluca Flore left the company abruptly. He was replaced a month later with Fabrizio Malverdi.

Mr. Malverdi previously worked at brands including Dior Homme and Givenchy, and joined Brioni from Agent Provocateur, where he was the lingerie label's CEO from 2016 ([see story](#)).

Top-down change

Many sources both in and outside of Kering attribute the company's commitment to social and environmental good to the influence of founder and chairman Francois Pinault.

"When I talk to executives who worked in some of the big luxury groups, they often tell me two out of the three have brand value and only one have people value," Luxury Institute's Mr. Pedraza said. "That's from an executive who has worked with all of them.

"They care about people and therefore they care about the environment," he said. "That starts with Mr. Pinault.

"He loves people and he loves inspiring people."

Kering is committed to the idea that effective change must come from, or at least have the support of, the top executives of a company. Without their support, luxury companies can lack the direction or momentum to enact the kinds of sweeping policies that Kering is driving.

Kering's 2025 sustainability goals

"The key element is the conviction of the top management and the chairman," Kering's Ms. Daveu said. "If you don't lead from the top, because of difficult management, you won't be able to make changes properly.

"It begins at the top," she said. "At our company, we are lucky that sustainability is a major priority from Mr. Pinault."

Additionally, Kering does not view its efforts toward sustainability as a sacrifice, but rather an opportunity.

In other words, striving toward sustainable goals is something a company can do to further its business goals and not in spite of them.

"In January we announced the new strategy for the next 10 years," Ms. Daveu said.

"We have two strong commitments: to reduce our environmental footprint by 40 percent and to reduce our greenhouse gas emissions by 50 percent," she said. "All of our pilot projects and our initiatives right now will only get us to 20 percent, that is why we need innovation."

Kering brands by category:

Fashion and accessories

Alexander McQueen; Balenciaga; Bottega Veneta; Brioni; Christopher Kane; Gucci; McQ; Stella McCartney; and Yves Saint Laurent

Jewelry and watches

Boucheron; Dodo; Girard Perregaux; Jeanrichard; Pomellato; Qeelin; and Ulysse Nardin

Sports and lifestyle

Cobra; Puma; and Volcom

Best-practice tips from Kering

- Marie-Claire Daveu, Kering
 - "For me the luxury sector can have a transformational impact in driving demand for sustainable products. This is an opportunity and responsibility that Kering embraces. I think every company and every sector is concerned by climate change. All the sectors and companies are ready to take on a major issue that is also a social issue. They don't all have the exact same challenges. Everyone is concerned about it, though. People are more and more concerned by sustainability because they are more aware of those issues. If you look at consumers, it's really becoming important to them. If we look to our customers, millennials, they are the most environmentally conscious generation. We can say that 93 percent of

millennials believe that businesses should take responsibility for their impact."

- Milton Pedraza, Luxury Institute
 - "You have to be a diverse company, put women on the board of directors, hire lots of people from different backgrounds and from minority groups and invest in their development, create an environment, either in stores or in a factory or the environment in general, that is friendly and people-centric. That's something that Kering does because Mr. Pinault is a humanist first."
- Fflur Roberts, Euromonitor
 - "If companies do not follow sustainable business models, it can have a direct impact on the industry, with maybe the most important risk for a luxury brand is the loss of reputation. As we all know, it can take years to build a reputation, but just seconds to destroy it. Greater digital connectivity and awareness of the planet will force luxury brands to show complete transparency in all they do. Sustainable brands that support people and follow ethical values will be the most coveted in the coming years. Whilst technology can be seen as being very disruptive, it is a perfect fit for conscious luxury. Brands will need to be completely transparent about their ethical status and show that they care about the planet and people."
- Diana Verde Nieto, cofounder/CEO, Positive Luxury
 - "One of the biggest challenges about sustainability is scaling. As a company grows, the volume of the resources dependent on the company also expand and increase, and the supply chains become increasingly complex. Yet the idea that big business cannot work toward becoming more sustainable is a myth. Integrating sustainable practices into big companies can be more challenging as business decisions have more stakeholders, requiring significant commitment and innovative thinking."

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