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COMMERCE

Authenticity comes from operations, not stories: Positive Luxury

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Companies must prioritize ESG issues, as they are no longer becoming differentiators, but rather expectations. Image credit: Positive Luxury

By NORA HOWE

There is a massive shift occurring within the luxury space, as governments and conscious consumers call on financial corporations to strengthen commitments to environmental, social and corporate governance (ESG) issues.

According to new data from Positive Luxury, the link between sustainable business operations, commercial performance and company valuation must be acknowledged. Innovation is moving from product lifecycle information toward genuine innovations in environmental practices, such as sustainable production, manufacturing materials and techniques, as well as social practices addressing inequality of opportunity.

"Although this is the year of [environmental governance], we cannot ignore the social aspect," said Diana Verde Nieto, founder/CEO of Positive Luxury, London. "Living wage across the value chain, diversity, equity and inclusion (DEI) and sustainable livelihoods need to be addressed."

Financing sustainability

Sustainability used to be a differentiation point for a business but has now become table stakes.

In the first half of 2021, investors put $54 billion into bond funds specializing in ESG issues, compared with almost $68 billion for all of 2020. In April 2021, more than 160 financial institutions joined the Glasgow Finance Alliance, a global forum for financial institutions to accelerate the transition to a net-zero economy no later than 2050.

Forbes reported that more than 80 percent of mainstream investors now consider ESG policies when making investment decisions, and Positive Luxury suggests that where the money goes, the world will follow.

According to Montse Suare, cofounder of investment firm Vaultier7, there are three main factors driving investors toward sustainable businesses: consumer behavior, government policies and a shift in risk and exposure by moving into ESG with a willingness to focus more on the intangible.

Deloitte's 2020 Fashion & Luxury Private Equity and Investors Survey found roughly 60 percent of investors have a fashion and luxury asset in their portfolio. Image credit: Christian Dior

Investors are also seeing proof that sustainable companies are more profitable.

S&P Global Market Intelligence analyzed 26 ESG funds with more than $250 million in assets under management from March 5, 2020 to March 5, 2021 and found 19 of those funds rose between 27.3 percent and 55 percent compared to the S&P 500, which increased by 27.1 percent.

By the end of 2020 and the beginning of 2021, venture capital funds started strengthening their ESG development.

Balderton Capital announced its Sustainable Future Goals in early December 2020, focused on investment decisions and portfolio support. Meanwhile, a group of 25 venture capitalists formed a community around ESG for VC including GMG Ventures, Houghton Street Venture, a new firm affiliated with the London School of Economics, LocalGlobe, Latitude, Kindred Capital, Balderton, the Westly Group and Blisce.

From a policy standpoint, governments around the world are looking to restructure economies to reduce net greenhouse gas emissions to zero and decouple growth from resource use, with most seeing finance and investment as essential tools.

The new U.S. administration has established a widely acclaimed climate team and is expected to move into standard setting soon. While the E.U. and U.K. have committed to efforts to increase environmental protection while promoting sustainable trade.

Japan signed up to the International Platform on Sustainable Finance, which now has 16 members, including Switzerland and Norway.

As luxury conglomerates make strides to become more inclusive organizations, leaders must be intentional to ensure consumer-facing efforts are effective and reflective of each brand's individual DNA. Image credit: Gucci

While environmental progress is a significant portion of ESG, it is not the only one. Social responsibility is crucial to sustainable business, and lack of diversity and inclusion could significantly hurt business.

According to research by West River Group, companies with diverse executive teams are 48 percent more likely to produce a better rate of investment and derive 45 percent of their revenue from innovation than companies with homogenous teams, which derive just 26 percent of their revenue from new ideas.

A representative workforce and awareness of a company's supply chain's attitude and impacts will help understand consumer values, needs and wants, as well as helping recruit younger, socially conscious generations.

New wave of brands

A wave of new investors such as Naval Ravikant, who founded AngelList and democratized early investments, coupled with increased regulation of ESG funds and a more sophisticated investor base, means investors are rethinking old school conversations for the new era, according to Positive Luxury.

Investors still applying the old rules are not appealing to the new sustainable startups that believe innovation is best achieved without undue pressure.

"We actually refused several investors because they were having other activities that were directly in conflict with our values," said Marie-Ann Wachtmeister, cofounder of Courbet, in the report.

These ESG native startups and small businesses are looking to build a new kind of relationship with investors based on trust as much as strategic ambition. Likewise, investors want to have trust in where they put their money.

At the end of June, French luxury company Kering expressed interest in the circular fashion space with an investment in luxury subscription handbag rental service Cocoon, marking a noteworthy shift in how luxury is approaching the rental/resale market (see story).

This came two months after the French company backed a successful round of funding for resale platform Vestiaire Collective.

Kering was joined by U.S. investment firm Tiger Global Management in the financing round worth 178 million euro, or $216 million at current exchange (see story).

From working with suppliers to packaging and technology that allows for transparency, Positive Luxury suggests that innovation is attractive to investors, and that, while it takes courage to invest in innovation, the rewards outweigh the risk.

"The time has arrived for business to close the gap as accountability and transparency are both stakeholder and consumer expectations," Ms. Verde Nieto said.