

SUSTAINABILITY

CEOs spend just 1pc of time interfacing with suppliers: report

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Positive Luxury's experts make clear that a healthy supply chain is crucial existing at the heart of strong sustainability efforts, a product's production and procurement can have major ESG implications. Image credit: Positive Luxury

By AMIRAH KEATON

As climate considerations quickly heat up and legal enforcement looms, Positive Luxury is making the business case for bolstering ESG efforts in a new report.

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Herein, experts make clear that a healthy supply chain is crucial existing at the core of strong sustainability efforts, the production and procurement processes that underwrite luxury products can have major implications on the success of environmental, social and governance strategies. These internal structures also impact public perception now more than ever, as consumers vote with their pockets, desiring greater visibility into how products are affecting the planet.

"In high fashion, it is not unusual for very expensive products to go to landfill rather than discounters to maintain the brand's pricing strategy or to be moved to another market, increasing shipping costs, energy consumption and pollution," said Inna Kuznetsova, CEO of **ToolsGroup**, Boston.

"Let's look at it from the ecological perspective: being able to replenish the product with the right assortment and allocation reduces the amount of unsold stock, returns - as the customer buys a less desirable item and then finds a better replacement elsewhere," she said. "Lately we have seen a growing number of CEOs getting personally involved in supply chain optimization together with CPOs and CTOs as the competition expands from the design and reach to the ability to deliver while placing less demand on working capital."

Ms. Kuznetsova is not affiliated with Positive Luxury, but agreed to comment as an industry expert.

Ways to Win

Under close consideration as part of Positive Luxury's latest is a serious crisis of climate.

In **The Way to Win: 2023 Predictions**, experts sound the alarm on what is at stake for the planet, attempting to counter catastrophic outcomes by providing analysis, recommendations and case studies to contextualize what a responsible future for luxury could very well look like. The organization drives home the point that, without the onset

of collective, transformational change in the next five to eight years from sector leaders, society will face a much greater demise than those to be found amid bottom lines and balance sheets.

This time frame is based on consensus out of the United Nations COP27 Climate Change Conference.

CASE STUDY: Why [@beautybylaperla](#) received our Butterfly Mark certification - and how the process supported them in operationalizing ESG+ <https://t.co/DP891alo2i>

PositiveLuxury (@PositiveLuxury) June 14, 2022

The UN's Intergovernmental Panel on Climate Change has warned that greenhouse gas emissions must decline 45 percent by 2030 to limit global warming to 1.5 C, a rise that is predicted to impart devastating impacts on the planet inclusive of widespread drought, famine and habitable land loss.

Thus, business as usual appears out of the question, as not only will finite natural resources not be available in the near future, but brands will be forced to find new alternatives to old sourcing habits and supply chain structures.

To address the need and above other company verticals, the optimization of supply chains, which dictate the direction and strength of overarching sustainability goals, plays a primary role in lessening luxury's impact on the environment. Positive Luxury's cohort drives home the point that companies must supplement initiatives with org charts that truly support transformation.

"Increasing collaboration with suppliers is not a new concept, but is one that will gain momentum as under the U.S. Securities and Exchange Commission (SEC)'s March 2022 climate-related rule [proposal](#), many companies would be required to disclose their Scope 3 emissions on a mandatory basis for the first time, as early as for fiscal year 2024," said Amy Nelson-Bennett, co-CEO at [Positive Luxury](#), London.

"In a 2030 vision CEOs will need to spend as much time with key suppliers as they do with shareholders & investors."

MANDATORY DISCLOSURE

2023

2024

2025

2026

EU Corporate Sustainability Reporting Directive (CSRD) comes into law, and the first group of public companies disclosure FY2023 for filing in 2024 against the US Securities and Exchange Commission (SEC). The EU Directive #2 doesn't face legal challenges in the US Congress.

EU CSRD for all listed companies with over 500 employees and ESG reporting in SWITZERLAND for all large companies. Impacted companies will have to disclose in 2024 in quarterly reports published in 2025.

US SEC-SRCC (Smaller Reporting Companies) legislation expected to be in place from 2025 and EU CSRD for large non-listed companies.

EU CSRD to include listed SMEs through simplified reporting standard. (reports published in 2027).

Image credit: Positive Luxury

Emergent supplier relationship manager roles could be key to realizing progress. Responsible for providing inputs and recommendations on product costs, market pricing trends, competitive pricing, market forecasts and developing links with suppliers, these figures help to operationalize sustainability from the top down.

Positive Luxury's report cites analysis from Boston Consulting Group, which found that companies' share prices outperformed the market by more than 130 percent when procurement executives were on the leadership team as strategic decision-makers.

"A lot of innovative and progressive companies have created a new role Supplier Relationship Manager," Ms. Nelson-Bannett said.

"This newly created position sits between procurement and leadership to ensure that the company is working with their key suppliers in an effective manner to help them on their overall ESG performance with a focus on emission and water efficiency, modern slavery and social good," she said. "In the luxury sector many progressive companies in the likes of LVMH and Canada Goose are vertically integrated in order to have more visibility and control of their value chain as outsourcing the responsibility of your value chain is an outdated concept."

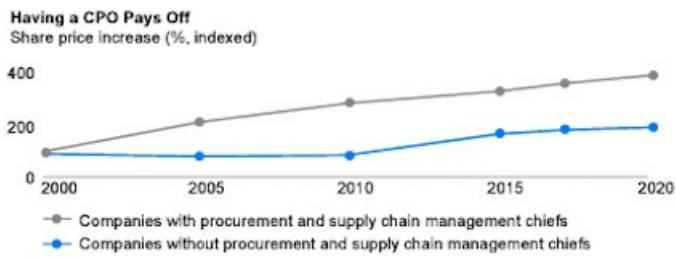


Image credit: Positive Luxury

Technology particularly artificial intelligence (AI) can also help aid in supply chain advancement.

"AI plays a great role in demand prediction," [ToolsGroup's Ms. Kuznetsova](#) said.

"Our recent survey shows that over 20 percent of customers in such categories as apparel, fashion and home goods switch brands if their original choice cannot provide the desired item," Ms. Kuznetsova said. "Supply chains become the source of differentiation and the drivers of keeping customers' trust."

"Luxury brands increasingly look at technology-driven innovation in supply chain planning and execution as an important component of their success in the market."

ToolsGroup, a global expert on supply chain and inventory management and the role of AI in predicting demand, is one such entity working on enablement in this arena.

The company is experienced in providing sound advisory services to luxury leaders, most recently to the likes of Karl Lagerfeld, with whom the company has recently entered into a partnership. The brand is now able to take an AI-driven, high-tech approach to optimizing business elements such as supply chain and inventory, fine-tuning forecasts, determining the most effective placement of stock, streamlining planning processes, and supporting the company's global growth trajectory, proving AI-driven models can offer multitudinous benefits to the luxury sector.

"Another important aspect of it is forecasting of allocations - how many of each item should go to each store," she said.

"Machine learning provides for a much higher level of accuracy, leading to less movement between stores and a necessity to ship to a customer from a faraway store, which would result in extra fuel consumption and pollution."

Ms. Kuznetsova explains that supply chain-centric technology ultimately lends brands better control over inventory and planning, leading to less waste in the long run a win-win for both companies and society at large.

"Let me offer an example: how many sales did you miss on Black Friday?" she said.

"Without AI-driven forecasting predicting demand and factoring in ongoing risks and changes as they come for dozens of thousands of items - millions for some companies - including, models, colors and sizing - you can base your projections on the last year numbers and general feel for the market," she said. "Yet, you do not know how many you would have sold if you had enough in stock: once a popular model runs out, you miss sales on a particular day or sales event."

"One of our clients sold several millions of pairs of footwear more than in the previous year once they implemented our system and decided to trust its forecast in the first year - far exceeding the number provided by previously used methods."

Environmental impact

Seeking to accelerate luxury's adaptation to the new climate economy, the organization posits that innovation and collaboration are the only true paths forward, mirroring this ethos by bringing five sustainability specialists together for crucial corporate reflection.

Those that do not adapt and adjust to the realization of power in numbers risk survival, according to Positive Luxury's latest.

"This year's report is called 'The Way to Win' and the way we win is together," said Diana Verde Nieto, cofounder of Positive Luxury, for the report.

"Innovation on the scale and at the speed that we need requires collaboration and working as a community," Ms.

Verde Nieto said. "That is why we have chosen to make collaboration central to the structure of this year's report by bringing together five of the most exciting thinkers currently working in sustainability to show how practical Environmental, Social, and Governance practices can help organizations achieve sustainable economic growth."

Upcoming mandates and consumer reception aside, luxury is uniquely resourced to enact these changes, with projected growth of two to eight percent in the year ahead. One area in which profits have been put to good use appears to be regenerative agriculture.

For instance, in honor of World Soil Day, French Cognac brand Hennessy participated in an agroforestry viticulture program, documenting progress in a 47-second promotional video for the environmental initiative featured sketches of the specific efforts being made, focusing specifically on tree-planting.

The 2021 program has resulted in the planting of 6,000 native trees of 20 varieties on its La Bataille property in France ([see story](#)).

Burberry's latest, an art installation that covers the South African countryside in its iconic Burberry Check, also embodies this type of restorative effort ([see story](#)).

"[While] it is a little too early to talk about effectiveness, I do think that Burberry ambition to become Climate Positive by 2040 is bold and brilliant," Ms. Nelson-Bennett said.

The initiative at hand falls under Burberry's "Landscapes" series, a corresponding campaign that captures snippets of projects that infuse sustainable elements, all executed on behalf of the brand.

"Burberry is working toward reducing emissions in their own value chain as well as their extended supply chain, aiming to reduce them by 46 percent - from a previous target of 30 percent - by 2030," Ms. Nelson-Bennett said.

"This means Burberry's Science-Based Targets will be aligned to the 1.5 C pathway set out in the Paris Agreement," she said. "The Burberry fund is set up to accelerate the company towards a low-carbon future by investing in nature-based solutions with carbon benefits that restore and protect natural ecosystems and enhance the livelihoods of global communities.

"This can only be a good thing for the industry, the planet and society at large."

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