The Luxury Metamorphosis: Shift to Digitalization and Its Impact on Sustainability Strategy

The Luxury Metamorphosis: Shift to Digitalization and its Impact on Sustainability Strategy

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Abstract

The luxury sector is at a crossroads, with e-commerce, sustainability and new market segments seeking to disrupt and even upend it. Though e-commerce is not looked upon favorably by the luxury brands, it is the way of the future and luxury brands will have to find ways to incorporate it into the company DNA. New consumer segments have given rise to the concepts of digital and sustainability strategies in luxury that need to be researched and analyzed in order to have a comprehensive view of the future for the luxury sector. The digital and sustainability integration of “Shared Value” goals may provide a well-defined method by which to pursue both corporate success and the creation of social and environmental value. In order to have such foresight, it is key to have the right leadership is in place, and this will define the next decade for the luxury sector.

My research hypothesis was that the shift to digitalization and e-commerce in the luxury sector would coerce companies to also adopt sustainability as a core business strategy, in order to be innovative. The research methodology utilized a multiple-case study approach, comparing companies in the luxury sector that were either digital or sustainability leaders using the Yin Case Study method. The case study method was used to conduct a comparative analysis of varying types of luxury companies in the personal goods sector, chosen based on whether they fulfilled each case classification. There were four case classifications and one company was chosen per case. They are respectively:
Case 1: Companies that are neither leaders in e-commerce or sustainability

Case 2: Companies that are leaders in e-commerce but not sustainability

Case 3: Companies that are leaders in sustainability but not e-commerce

Case 4: Companies that are leaders in both e-commerce and sustainability

I created a Sustainable Index with multiple metrics addressing different sustainability and social responsibility criteria under which the four case companies were scored from 1 through 3. The sum of these scores was then used to rank the four companies. Subsequently, there was a cross-case analysis of the four multiple case companies, where Case 1 was compared to Case 4, and Case 2 was compared to Case 3. These results refuted my hypothesis, as the digital capacity of a firm does not give it the vision to pursue sustainability as another core innovative strategy and vice versa. With digitalization, companies in the luxury sector are compelled to have a unique relationship where they co-create value with their consumers. Some potential benefits of this research would be helping companies in the luxury sector move closer to the triple bottom line by focusing on economic, social and environmental factors, recognizing the impending business value in sustainable luxury.

Dedication

I would like to dedicate this thesis to some remarkable and wonderful people. G, GHR, GSD, MK, MR, to a heartfelt promise kept; CH, HH, JH, SB, the best svigerforældre; LM and SDM, you are amazing and my champions; OH and MH, you are pure love and brilliance, my everything bears; MH, you are my rock, and one of a kind ‘top quality number one’. Thank you ALL for your limitless encouragement and support, and for being just plain awesome – Infinity star and Skål!

I would also like to extend a special shout out to Dr. B and Dr. R – you are a rare breed.

Acknowledgements

I would like to express my most sincere gratitude to Dr. Ramon Sanchez, my thesis director, and, Dr. Mark Leighton, my research advisor, here at Harvard. Your work has demonstrated so much concern and enthusiasm for sustainability, transcending academia, and supported by “engagement” in the field. This has had a lasting effect and I have learnt, been inspired and grown so much.

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Definition of Terms

Affluent Consumers: consumers earning more than $100,000 a year (BCG, 2014).

Baby Boomers: people born during the demographic post–World War II baby boom approximately between the years 1946 and 1964. This includes people who are between 51 and 70 years old in 2016.

Big Data: extremely large data sets that may be analyzed computationally to reveal patterns, trends, and associations, especially relating to human behavior and interactions.

Brand Strategy: is a long-term plan for the development of a successful brand in order to achieve specific goals. A well-defined and executed brand strategy affects all aspects of a business and is directly connected to consumer needs, emotions, and competitive environments.

Brick and Mortar: refers to businesses that have physical (rather than virtual or online) presences - in other words, stores (built of physical material such as bricks and mortar) that you can drive to and enter physically to see, touch, and purchase merchandise.

Conversion: The conversion rate is the percentage of users who take a desired action. The archetypical example of conversion rate is the percentage of website visitors who buy something on the site.

Corporate Social Responsibility (CSR): is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large.

Creating Shared Value (CSV): first introduced in a Harvard Business Review article, is a business concept that links Competitive Advantage and Corporate Social Responsibility.

Customer Relationship Management (CRM): practices, strategies and technologies that companies use to manage and analyze customer interactions and data throughout the customer lifecycle, with the goal of improving business relationships with customers, assisting in customer retention and driving sales growth.

Digital Quotient (DQ): Digital intelligence quotient or digital maturity needed for businesses to be effective in today's world.

Dow Jones Sustainability Index: The Dow Jones Sustainability World Index was launched in 1999 as the first global sustainability benchmark and tracks the stock performance of the world's leading companies in terms of economic, environmental and social criteria.

E-Commerce: commercial transactions conducted electronically on the Internet.

Ethical trade: is the assumption of responsibility of retailers, brands, and suppliers to improve the working conditions of the disadvantaged people in its supply chains.

Fair Labor Practices: protect workers from unfair labor practices such as unequal pay, excessive work hours, lack of overtime compensation, and unsafe working conditions.

Fair Trade: trade in which fair prices are paid to producers in developing countries.

Gabardine: a tough, tightly woven fabric used to make suits, overcoats, trousers, uniforms, windbreakers, and other garments.

Generation X (Gen X): is the generation born after the Western Post–World War II baby boom, with birth dates ranging from the early 1960s to the early 1980s.

Generation Y (Gen Y): is the generation following Generation X, with birth years ranging from the early 1980s to the early 2000s; also known as Millennials.

Globalization: is a process of interaction and integration among people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology.

Global Reporting Initiative (GRI): is an independent institution whose mission is to develop and disseminate globally applicable sustainability reporting guidelines that help organizations to report on the economic, environmental, and social dimensions of their activities, products, and services.

Haute bourgeoisie: upper middle class.

High-net-worth individual (HNWI): is a person with a high net worth. In the western, and primarily American, private banking business, these individuals typically are defined as having investable finance (financial assets, excluding primary residence) in excess of 1 million USD.

LED: A light-emitting diode is a semiconductor device that emits visible light when an electric current passes through it. The light is not particularly bright, but in most LEDs it is monochromatic, occurring at a single wavelength and is energy efficient.

LEED: Leadership in Energy and Environmental Design is a nationally accepted organization, and third-party certification program for design, operation and construction of high performance green buildings.

Market Segmentation: is the process of dividing an entire market up into different customer segments. Targeting or target marketing then entails deciding which potential customer segments the company will focus on.

Metamorphosis: the process of transformation

Millennials: are the demographic cohort born in years ranging from the early 1980s to the early 2000s; also known as a Generation Y.

Multichannel Marketing: strategy to reach consumer's through various means, which allows for a broader range of potential customers. This makes it easier for companies to identify one's niche and market goods and services directly tuned to their interests and needs.

Personal Luxury Goods: personal luxury items such as perfume, jewelry, clothing and accessories.

Showrooming: where customers visit a store to decide on a product, and then seek out the best price and delivery options online.

Social Networking: the use of dedicated websites and applications to interact with other users, or to find people with similar interests to oneself.

Supply Chains: encompasses the steps it takes to get a good or service from the supplier to the customer.

Triple Bottom Line: is an accounting framework with three parts: social, environmental (or ecological) and financial. These three divisions are also called the three Ps: people, planet and profit, or the "three pillars of sustainability".

User experience: the overall experience of a person using a product such as a website or computer application, especially in terms of how easy or pleasing it is to use.

Yoox: a global e-commerce retailing partner for leading fashion and luxury brands.

Chapter I

Introduction

As the luxury sector is evolving, it is facing a new model of growth. Technology is an area of opportunity for luxury brands, as these companies seem to be lagging behind the rest of the consumer goods market. With the rise of the dotcom era fifteen years ago, understanding the customers and understanding technology have become two parts of the same whole. There are now new products and distribution categories, such as wearable technology and 'showrooming,'-where customers visit a store to decide on a product, and then seek out the best price and delivery options online. All these actions require back-end technology to support them and luxury brands must now face the challenge of adapting to market leading technology solutions (Seymour, 2014).

Concurrently, a parallel movement of sustainability in the luxury sector has become increasingly significant as new luxury markets expand around the world against a backdrop of mounting social and environmental concerns. The importance of provenance, a love of artisanship, the requirement for permanence, an interest in innovation and a meaningful identity are all characteristics relevant to both luxury and sustainability (Palmer, 2013). It is then interesting to investigate these two very important notions, digitalization or e-commerce and sustainability, which are set to intersect and become an integral part of the future, and growth, of the luxury industry.

The digital transformation or metamorphosis in the luxury sector is expected to drive, on average, 40 percent of projected sales growth from 2013 to 2020, as opportunities to open physical retail space diminish and consumers increasingly opt for the convenience of shopping online (Kansara, 2014). However, only 40 percent of luxury retailers currently sell online according to Lucie Greene, worldwide director of JWT Intelligence. According to Greene, "E-commerce has been described as the 'next China' for luxury in terms of opportunity" (Milnes, 2015). A recent survey has found that more than half of e-commerce consumers, 54 percent, are willing to pay at least 5 percent higher prices for products ordered online if they are delivered sustainably, and 76 percent would wait at least one extra day for climate-friendly transport (Bond, 2014).

There is a huge deficit of information on the impact of e-commerce in the luxury sector. The environmental effects of e-commerce focus on three aspects: energy, resources and pollution. However, as of today, neither scientists nor policy makers have any clarity about the relationship between e-commerce and the environment. It is generally perceived that e-commerce represents both an opportunity and a threat to international trade and the environment. Currently, there is no substantial data to support either position. In addition, there are no policies or regulations that are specifically designed for environmental issues in e-commerce (Hossen, Uddin & Hossain, 2014).

Research Significance and Objectives

This research examined a collection of consumer personal luxury goods categories such as watches, apparel, leather goods, and jewelry industries to name a few. A multiple case study approach, based on companies being digital leaders, sustainability leaders, or some combination of both, will be the crux of this paper. The use of annual reports, CSR reports, consumer surveys, market intelligence, industry and academic expertise in the respective fields all aided in drawing conclusions about the impact of e-commerce on sustainability in the luxury sector.

Digitalization is the future of the luxury industry. I hypothesized that the shift to digitalization and e-commerce in the luxury sector will coerce companies to adopt sustainability as a key business strategy for growth. I examined if digitalization in the luxury sector will align with, and/or affect sustainability strategy, and impact growth, which in turn will spur innovation, create business and leadership opportunities, and create new business models. It is my hope that this research will nudge the luxury goods sector a little closer to the triple bottom line by focusing on economic, social and environmental factors. The potential of sustainable luxury has finally moved on from creating feel-good initiatives to recognizing the potential for creating business value (Pinkhasov, 2015).

Background

Luxury is defined as the state of great comfort and extravagant living, and metamorphosis, is defined as a major change in the appearance or character of someone or something. The evolution of the luxury sector has always been something of a metamorphosis, always reinventing itself in new ways, always enticing, and certainly living up to the aforementioned definitions. Historically, luxury has been a symbol of quality, craftsmanship and pure decadence with money knowing no object to its patrons. As demonstrated in Figure 1, consumers spent an annual aggregate amount of more than $1.8 trillion worldwide on items defined as luxuries (Boston Consulting Group [BCG], 2014).

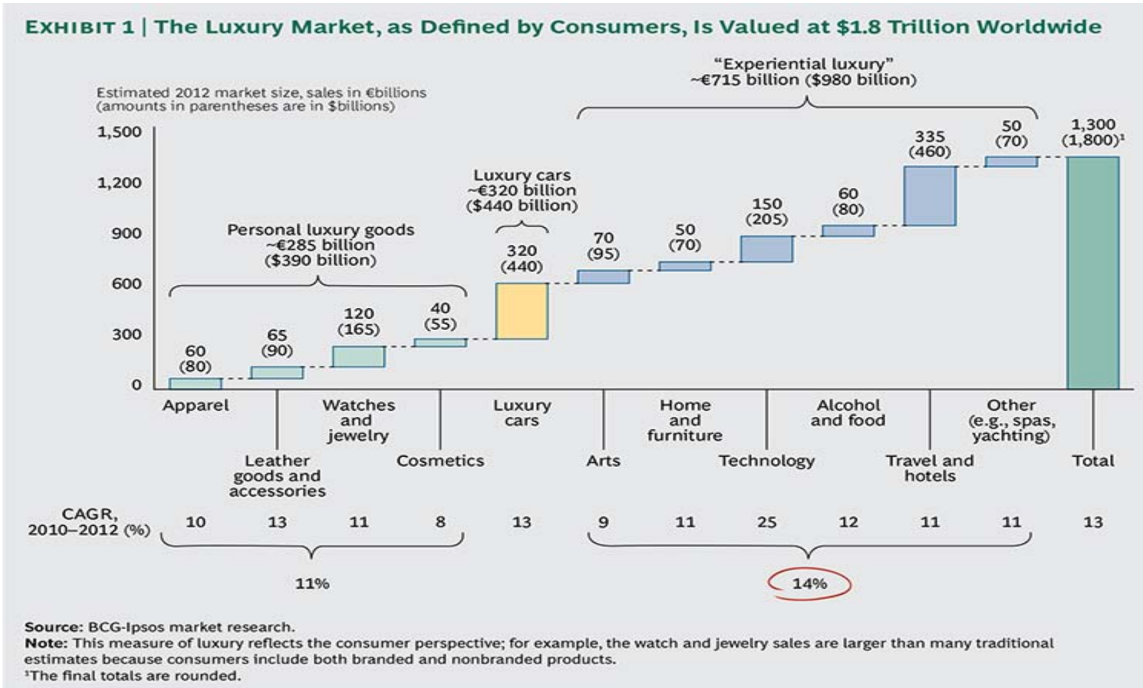

Figure 1. Monetary value of the luxury market worldwide (BCG, 2014).

However, the perception of luxury has slowly been shifting in recent times and become more subjective, aided by technology in a connected, more globalized world. While the luxury sector still hangs on to the grandeur, no amount of exclusivity can stop progress and that progress is coming, not in waves, but ripples in the form of e-commerce.

An overview and assessment of the shift from traditional brick and mortar stores to e-commerce, which leads to embracing sustainability and innovation as key business strategies and thus creating better market segmentation, to gain consumer insight, new business and leadership opportunities and new business models in the luxury sector, is the essence of this research.

Luxury and E-commerce

As recently as 2013 luxury brand Chanel's global director of fashion, Bruno Pavlovsky, said that "fashion is about clothing, and clothing you need to see, to feel, to understand"; this used to be the general sentiment that was echoed across the luxury industry (Milnes, 2015). However, luxury spending does not just include luxury goods such as apparel, cosmetics, watches, and jewelry but also sales of luxury cars that account for more than $400 billion worldwide, and the business of luxury experiences that is worth almost $1 trillion of the total $ 1.8 trillion. Also, emerging-markets such as China, Brazil, Russia and India account for more than 30 percent of luxury consumption worldwide. The affluent consumers, those earning more than $100,000 a year, are leading the digital charge in luxury, and three-quarters of them made purchases online in the past year. About 40 percent of affluent consumers in the United States own a tablet, and 65 percent own a smartphone (BCG, 2014).

The online share of the luxury market is growing briskly, albeit with a slow start, from 3 percent in 2009 to an estimated 5 percent in 2011. However, what is even more important is that half of these consumers browse online before browsing in person. Companies will be faced with the challenge of balancing the transparency and accessibility of the web, while protecting their positioning as exclusive and luxurious (Atsmon, Pinsent, & Sun, 2010). E-commerce or digital is expected to drive, on average, 40 percent of projected sales growth from 2013 to 2020, as opportunities to open physical retail space diminish and consumers increasingly opt for the convenience of shopping online as demonstrated in Figure 2 (Kansara, 2014).

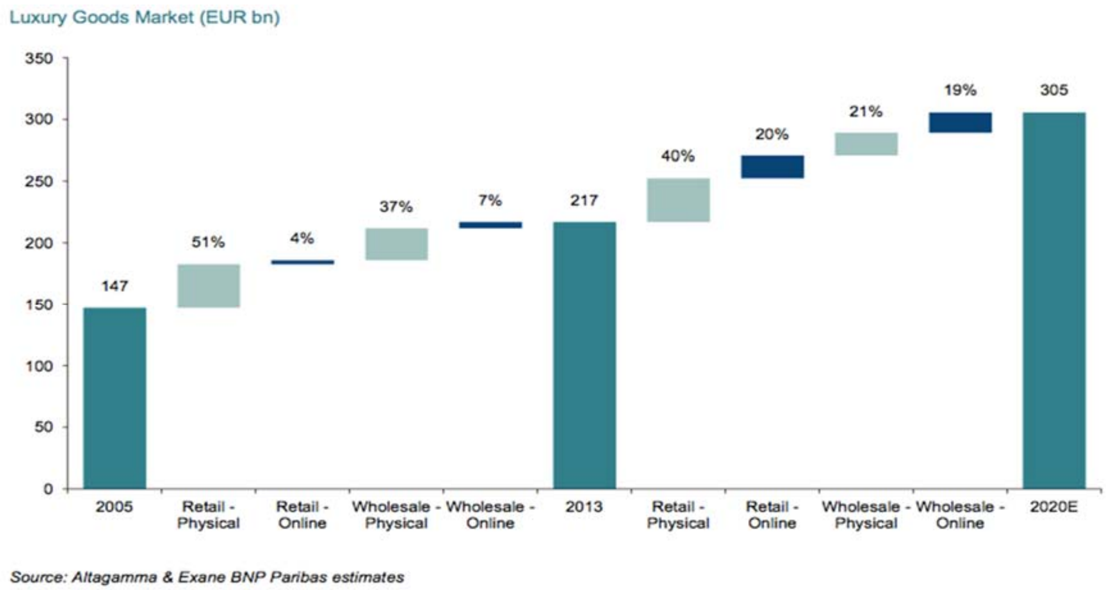

Figure 2. Luxury goods market-online vs. retail (Kansara, 2014).

Luxury and other sector business leaders have made definite distinctions between their conventional sales and communication paths, and digital channels in the past. However those boundaries are quickly disappearing and slowly but surely, luxury brands have been responding to consumers' digital enthusiasm (BCG, 2014). Consumers have extremely high expectations for luxury brand sites, from design layout, functionality and ease of navigation, to brand iconography, and strength of overall brand presence. A brand strategy that encompasses the Internet holistically can be successful at generating interest, brand affiliation, and, ultimately, loyalty (Deloitte, 2014). To be successful in luxury e-commerce, brands must master the 3Cs: commerce, content, and community. First, it is important to have a great site for commerce that allows consumers to see the product and offers easy and intuitive navigation; second, such sites must provide unique, rich content about brands; third, it is critical to build a strong consumer community which is where the value perceived and sustainability come into play (BCG, 2014).

Luxury and Sustainability

According to Carlota Perez, the historian of technological change and economic cycles, "What history teaches us ... is that such changes take place, not by guilt or fear, but by desire and aspiration. For a green style to propagate, it must become the luxury life" (Bendell, 2012). There is growing awareness and desire for responsible consumption. Many consumers purchasing luxury goods think it is distasteful to show them off, or feel guilty about these purchases (over 40% of consumers in US and Europe, and over half of luxury consumers in China). In particular, consumers are increasingly concerned about social issues such as environmental sustainability, limited resources, ethical trade, community involvement and employee welfare. Though fewer than 20 percent say that such concerns actually affect what they buy or how much they are willing to pay, still, this is a trend worth watching as that number will slowly increase (Atsmon, Pinsent, & Sun, 2010).

Luxury can be associated with conservation values, which are highly compatible with Corporate Social Responsibility or CSR. Luxury brand managers and executives need a better understanding of the factors they can leverage, such as socially responsible supply chains, sustainability and fair labor practices to name a few, to accomplish successful CSR and promote responsible luxury (Janssen, Vanhamme, Lindgreen, & Lefebvre, 2014). Sustainability is increasingly becoming a more strategic and integral part of businesses across various sectors. Executives in past surveys have often cited cost cutting or reputation management when asked about their companies' reasons for pursuing sustainability, while 43 percent of them now say their companies seek to align sustainability with their overall business goals, mission, or values - up from 30 percent who said so in 2012 (Figure 3), (Mckinsey & Company, 2014).

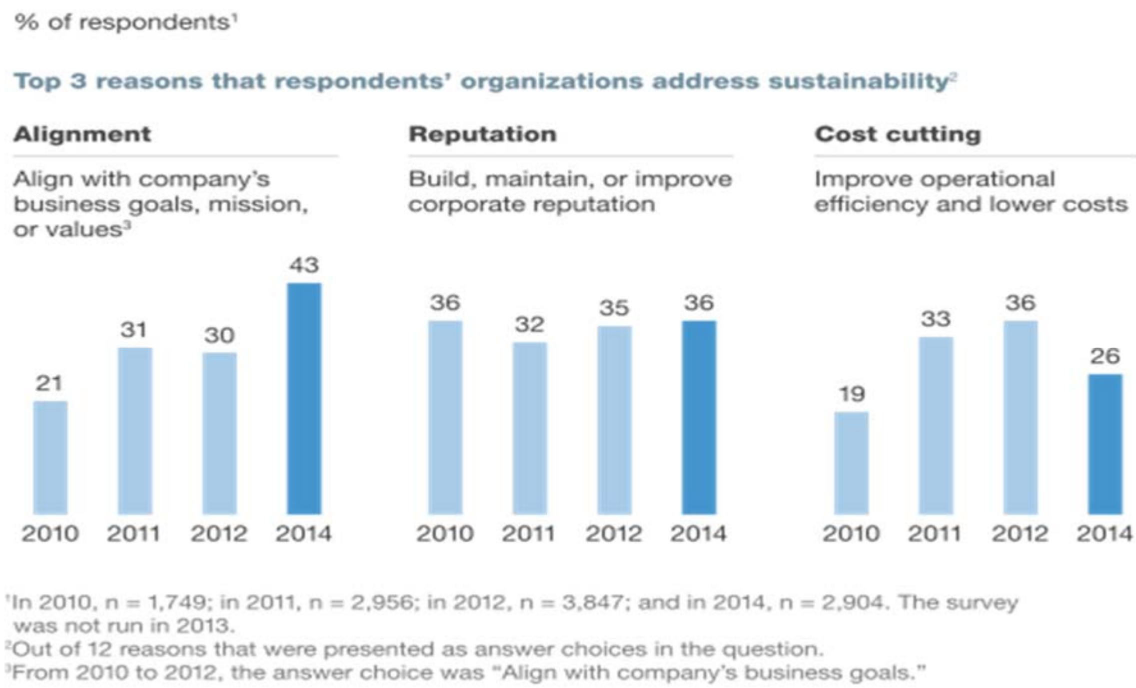

Figure 3. Top 3 reasons companies are interested in sustainability (McKinsey & Company, 2014).

The increase of sustainability as a business strategy and growth opportunity in the luxury sector has also given rise to aspirational expression and innovation. This new spirit of luxury is starting to spread across various categories and geographies, and a new generation of luxury brands is actively redefining the meaning of luxury. Brands across various product lines are connecting on sustainability, such as IWC Schaffhausen-the luxury watch brand committed to sustainability, Stella McCartney-the luxury clothing brand with sustainable convictions, Tesla-electric luxury vehicles, Elvis and Kresse-luxury accessories made from British retired fire hoses, Maiyet-a luxury brand that uses craftsmen and rare artisanal skills from unexpected places, and Frauscher-luxury electric yachts to name a few (Elvis and Kresse; Frauscher, 2015; IWC Schaffhausen; Maiyet, 2015; McCartney, 2015; Tesla, 2015).

Taking this a step further, although studies have found a significant positive relationship between employee satisfaction and level of perceived environmental performance, no significant relationship was found between employee satisfaction and firm financial value (Doval, Singh, & Batra, 2013). Today, consumers come from all over the world. They are more educated about brands, and therefore more demanding and more sophisticated in general. All of these changes are becoming reflective of the values and behavior of the new luxury consumer.

Luxury and Market Segmentation

In the past, luxury consumers were a more homogenous group. They shop across multiple channels, and they routinely communicate online. Unlike mainstream consumer companies, many luxury firms have kept their distance from formal consumer research and analytics. Fierce brand protection and a defense of creative approaches seem to justify this logic, backed by the considerable success that the companies have achieved in the past. Though it is true that consumer research should not detract from the importance of creative, brand-enhancing product strategies, there is much debate that the formulas for success have become a lot more complicated. Luxury brands can now benefit significantly from consumer research that can yield fresh insights about market segmentation and go-to-market approaches. Such insights can help companies make informed decisions about store assortment, levels of in-store service, allocation of marketing spending and pricing. Understanding the life cycle of consumer values—that is, learning to distinguish the values that are becoming less prominent (ostentatious luxury), today's dominant values (uniqueness, craftsmanship), and the emerging new values (sustainability, experiential luxury) ought to become an integral part of the luxury sector (BCG, 2014). In recent times, consumers are buying luxury goods not only to satisfy a need to impress others but also to satisfy one's self-identity (Agence: Luxury, 2014).

There is tremendous opportunity for luxury brands to explore the areas of individualism and consumer customization in the future. As wider access to the luxury market has somewhat diminished the exclusivity of luxury products, a significant remedy to this situation is the increased use of customization, which will enable consumers to put a personal stamp on the product, providing it with a uniqueness relevant only to them. Cross-cultural luxury is another area set to rise in coming years with an increase in designers from emerging markets in leading roles within established brands, and the emergence of home-grown luxury brands within emerging markets (The Future of Luxury, 2013).

In a survey of national patterns (University of Delaware, 2013), American consumers were found to generally buy goods for self-fulfillment, rather than to please others, with statements such as "pleasure is all that matters". Collectivism is valued in Eastern cultures and countries with developing economies such as such as Brazil and India. France indicated that it valued luxury items because they are expensive, and exclusivity and cultural heritage and pride tied into it. Meanwhile Germans, Italians, Hungarians and Slovakians focused on function, placing emphasis on quality standards over prestige. There are many aspects to the luxury consumer that need to be investigated to fully understand the various market segments, as demand increases and the target consumer base widens.

Luxury Consumer Insight

Luxury is a sophisticated term that has been around for a very long time, and whose definitions are hard to agree on. Additionally, there are new terms emerging in the practitioner literature such as “old luxury,” being about the good itself and defined by the company, and “new luxury,” being experiential and defined by the consumer. There are multiple points of interaction, where the consumer and the brand co-create value through creation of experiences that take place throughout the life of the service and not just at the point of exchange. Such value-creating interactions often tend to involve other members of the consumer’s and the brand's network, such as members of brand communities, shareholders, or partners of the brand. These networks see the brand experience taking place and evolving through personalized experiences in which the consumer is an active partner. When the consumer is a high net worth individual, whose time is valued by the brand, these experiences cater to something that the consumer values as elite and tailored for them (Tynan, McKechnie & Chhuon 2010).

Historically, luxury brands have been very wary about digital and e-commerce as this would cause a perceived loss of control over their brand image and storytelling. The latest research shows that while three out of four luxury purchases still take place in stores, they are very influenced by what consumers see, do and hear online. According to Martijn Bertisen, director of retail at Google, “Consumers are way ahead of us, but it’s foolish to think that digital will take over the world” (Kering, 2014a, p.21). With that said, there is an unprecedented thirst, for information and acquisition of luxury, by increasingly informed wealthy consumers. Also, the continuous growth in standards of living and increasing consumer product knowledge has given access and exposure to luxury goods and services online (Okonkwo, 2009). Over 95 percent of luxury consumers are equipped with mobile devices and are also highly social, in the digital sense, with some 80 percent of these shoppers using social media on a monthly basis. This digital transformation holds true across countries, and generations including Millennials, Generation X and Baby Boomers alike, and shows how luxury consumers are amassing more power relative to luxury brands. Luxury consumers have exceedingly high expectations for what they want in a shopping experience and want a seamless, digitally enabled, multi-channel involvement, one that unfortunately most luxury brands are not yet ready to deliver. Digital, in other words, is now the engine of the luxury shopping experience (Catena, Durand-Servoingt & Remy, 2015).

Also, travel luxury retail has seen a significant increase with luxury brands stepping up the battle for travelling shoppers with more outlets at airports and on cruise ships, tapping into one of the fastest growing sections of the market that looks set to keep booming thanks to the soaring numbers of Asian tourists. Revenues reached 60 billion USD by 2013, and will nearly double in size by 2020 (Denis & Wendlandt, 2013). Many markets now depend on touristic spending for luxury goods, and not just on local consumers (Figure 4).

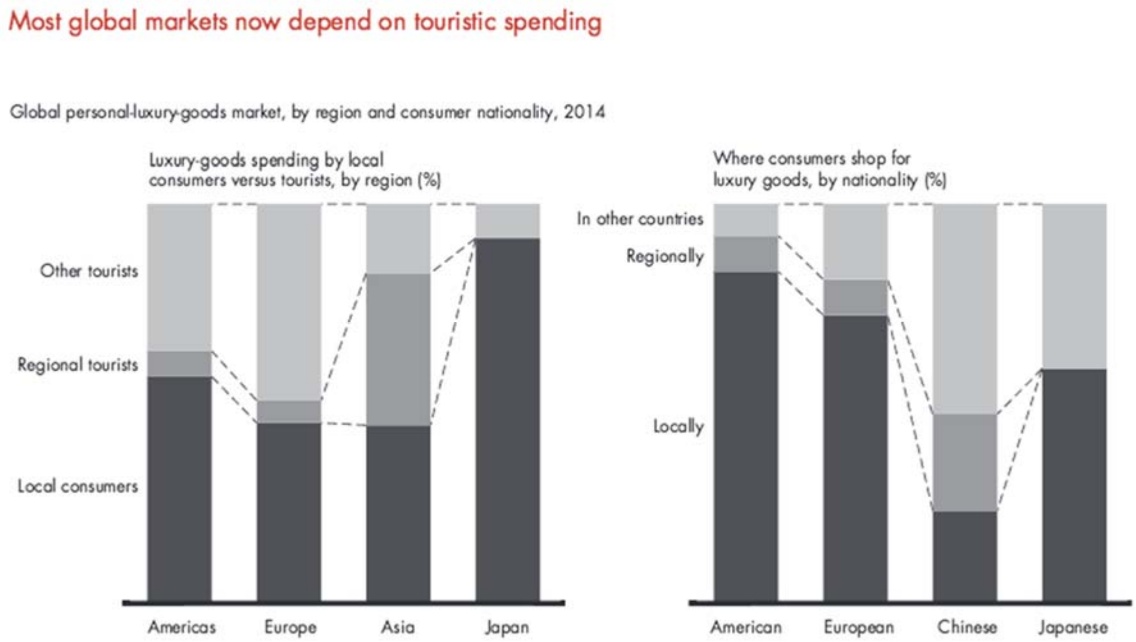

Figure 4. 2014, global tourist spending by region and consumer nationality (D'Arpizio, Levato, Zito, & De Montgolfier, 2014).

This is a great opportunity to leverage digital with travel retail, by bringing the digital brand experience to the consumer on the go – in store, online, or while traveling. The future of luxury will focus on personalizing the consumer experience through the use of social media, apps and pop-up messages on smartphones. There might also be augmented reality innovations such as 'magic mirrors' with high-definition cameras that transport shoppers to catwalks, or advise them on the apparel, accessories and beauty products they should buy. Also, mobile commerce retailing is picking up momentum for its value potential. There will be a sharp rise in luxury m-commerce as the market develops, fuelled by growth of so-called 'shoppable ads' whereby consumers can buy directly from advertisements viewed on their mobile devices (Walker, 2016). To sum up, the consumer is in total control of not just receiving and interpreting messages from luxury companies but also of deciding their legitimacy, endorsing them, spreading this endorsement, and generating discussions about the brand while influencing millions around the world in a matter of hours and in some cases, even minutes (Okonkwo, 2009). It will take visionary leadership to connect with consumers and embark upon a clear path that will define the future of the luxury sector.

Leadership in the Luxury Sector

A few decades ago, luxury goods were all about family businesses and entrepreneurial designers. Now, most of the world's leading luxury companies are complex creative businesses, and need to be managed as such. Companies that are digital, are leading the pack and are truly innovators in the field of luxury. A luxury company that has a well-defined vision for digitalization as a strategy is also on the look out for other growth opportunities. And that, is exactly what sustainability is, an opportunity. In order to have such foresight, it is key to have the right leadership in place. The race to secure top talent will define the next decade for the luxury sector. Many of the industry's leaders realize that there is a lot to be done to attract and hold on to skilled employees, or in other words, improve employer branding (the job of positioning their organizations to prospective hires as favorably as possible), which is not the same thing as a the already existent consumer brand.

Luxury firms are also lagging behind in utilizing the full potential of digital tools, with as many as 62 percent saying that their organizations do not actively use online and social forums to recruit. Especially worrisome, is the lack of emphasis on maintaining a strong talent pipeline and succession pool for the companies' top executives. (Bellaiche, Gaissmaier & Willersdorf, 2014). In the past, many luxury brands have catered to aristocrats and bourgeois but are now faced with their best customers being celebrities or high-tech entrepreneurs. Consequently, there has sometimes been a gap between the way the staff in-store approach the people who walk through the door. Having Customer Relationship Management or CRM tools, the processes as well as the knowledge about performance benchmarks, helps companies change their mindset from being focused on the product to being more customer-oriented. CRM systems improve the company's consumer understanding and reduce its risk of stock buildup, since they provide quick feedback on market reactions to products (Shipilov & Godart, 2015).

It is difficult for luxury firms to find chief executives and general managers who combine analytical and creative skills, retail, product and brand expertise, and international experience. Multiple surveys and studies are indicating that Millennials show an unprecedented concern for creating a positive social impact and working with organizations that fulfill their need to feel a sense of purpose in their lifetimes (Moore, 2014). Examining individuals who worked directly in jobs where they practiced environmental sustainability, corporate social responsibility, or civic participation reinforces the relationship between having job impact and satisfaction. A recent survey (Szeltne & Zukin, 2012) indicated 45 percent of workers whose job entailed working on a product making a social or environmental impact reported being very satisfied with their jobs, as compared to 29 percent who did not do such work (Figure 5).

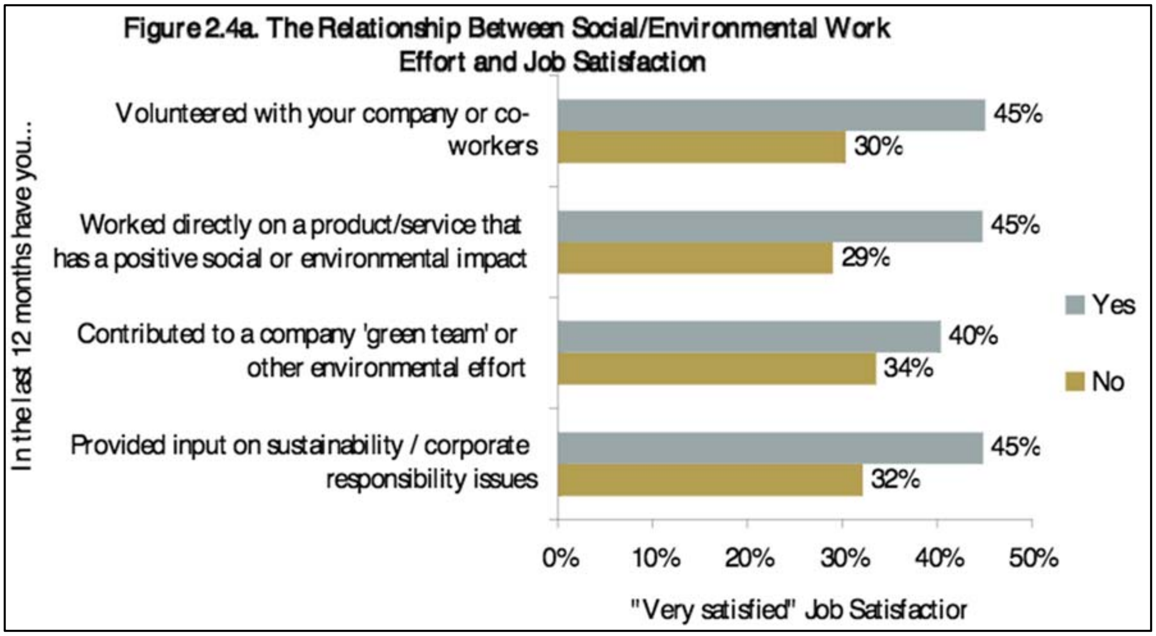

Figure 5. A survey conducted by NetImpact to measure the relationship between job impact and satisfaction (Szeltne & Zukin, 2012).

The concern is not just about creative roles, but also the skills needed to support a wide range of business functions. Research by the Boston Consulting Group (Gaissmaier & Willersdorf, 2014) points to a lack of clear career paths for high-potential mid-level employees that leads to churn, and a loss of institutional knowledge as employees begin to look elsewhere. The most difficult jobs to fill are in design and product areas, followed closely by digital and technology roles (Figure 6). Technical design, and typical technology and digital roles such as e-commerce manager, database managers, web developers and technical managers have been difficult to fill. Previously considered “back office” roles in the luxury business, they now have the potential to make a big difference to a company’s market positioning in a digital era.

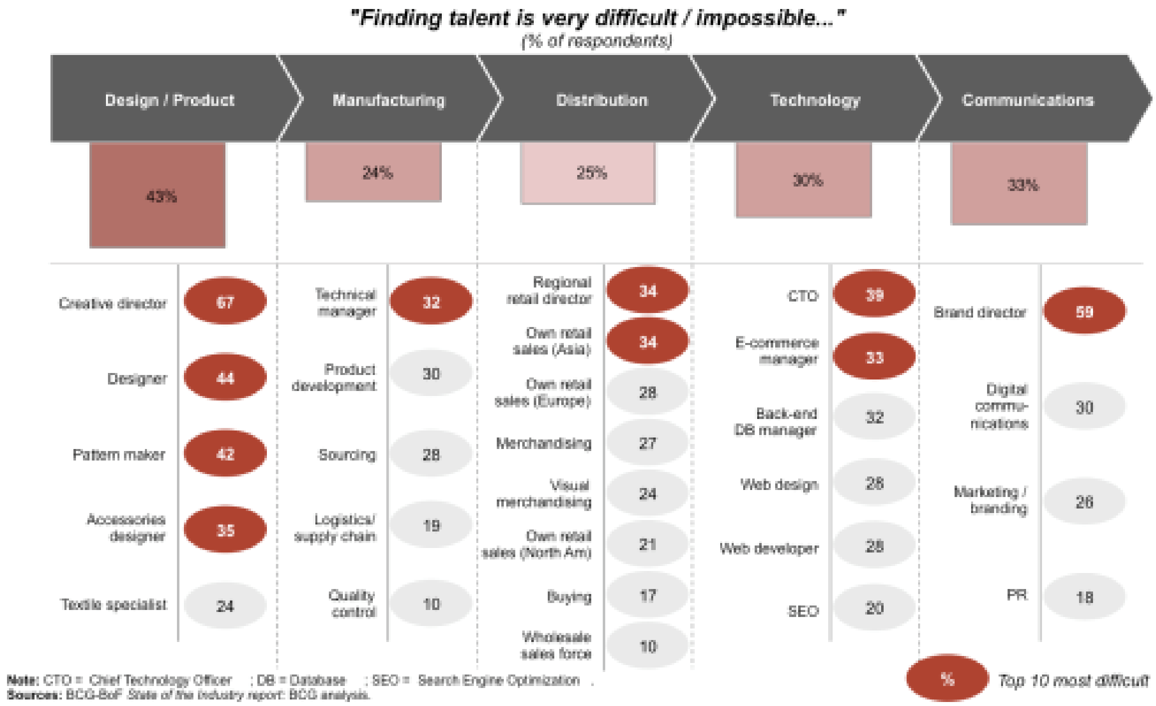

Figure 6. Talent gap in the luxury sector based on business function (Bellaiche, Gaissmaier & Willersdorf, 2014).

The best practitioner companies that excel in a range of key talent development practices see revenue growth that is 3.5 times faster, and demonstrate profit margins that are twice as robust (Bellaiche, Gaissmaier & Willersdorf, 2014). People brought in from outside the luxury sector understand best practices and have also redefined customer service in luxury (Shipilov & Godart, 2015). Luxury firms should also position themselves to partner with researchers and educational institutions to get closer to pools of fresh talent on both the business and creative sides. The companies get exposure to promising young managers and these programs have increasingly become launch pads for the careers of luxury executives (Shipilov & Godart, 2015). Visionary leaders and managers have a new strategic opportunity at their disposal, the creation of shared value, an idea that goes beyond CSR to the core of the business, to better understand their consumer (Moore, 2014).

Creating/Integrated Shared Value

With digital and sustainability strategies coming to a head in the luxury sector, luxury brands have to overhaul their corporate strategies and allocate dedicated personnel to address these tremendous growth opportunities. Big Data needs to be used as a source for innovation, identifying breakthrough ideas and creating new markets. Consumers can see the power they have to make a difference and more than three in four millennials prefer to pay for an experience than a product, and expect similar choices from companies across all the luxury sector. Executive leadership in the luxury sector is concerned that climate change and resource scarcity will transform their business and that their companies' supply chains are at risk from scarcity, which will directly impact consistency in the quality of products. Investors are looking to ESG (environmental, social and governance) criteria to evaluate their investments with 71 percent of individual investors interested in sustainable investing (Nieto, 2016). That is where Creating Shared Value comes into play.

In 2011, Michael Porter and Mark Kramer introduced the concept of Creating Shared Value, or CSV. In layman's terms, it is a way for generating economic value and also produces value for society by addressing its challenges. Firms can essentially do this in three distinct ways:

- By reconceiving products and markets by emphasizing the demand for products and services that meet societal needs

- Redefining productivity in the value chain - current rethinking on logistics, including energy costs, resource utilization, procurement and outsourcing, employee productivity linked to health, training and wages
- Building supportive industry clusters at the company's locations - emphasizes the need for a company to belong to a cluster of supporting companies and infrastructure in its key localities (Porter & Kramer, 2011).

Fundamentally, CSV is an evolution of capitalism, the practice of enhancing the competitiveness of a company while also advancing the economic and social conditions in the communities in which it operates. Adoption of this concept by the luxury sector will allow for a better integration of digital and sustainability practices, and other value creation strategies. It allows for private efficiency and value creation methods for luxury companies while addressing and helping solve society's greatest unmet needs such as financial security, better health and a stable environment etc. Porter & Kramer (2011) argue that by recreating business models to internalize some of the externalities that businesses have traditionally left to the public sector to solve, businesses can create significant economic success (Moore, 2014). In the luxury sector, CSV could also drive the next wave of innovation and productivity growth in the global economy and attaining it will require leadership to develop new skills and knowledge, and in parallel, governments have to learn how to regulate in ways that enable shared value, rather than work against it (Porter & Kramer 2011).

However, CSV is process based and does ignore some aspects of the business such as a culture, a set of values as a brand, which is an influential force on its shareholders, its managers, its employees, its customers and the vast community to which it advertises itself. This is where Integrated Value Creation, or IVC, takes it a step further, and combines ideas such as CSR, sustainability and CSV with value creation in a more holistic manner. This integration is applied across critical practices in the business, such as governance and strategic planning, product/service development and delivery, and supply and customer chain management. IVC ultimately aims to be a tool for innovation and transformation, which is essential if the luxury business is to become part of the solution to our global challenges, rather than a part of the problem (Kymal & Visser, 2015). The common link between the most valuable brands is that they are led by innovators, whose keen powers of social observation and intuition create products that empower individuals and change social dynamics. (Pinkhasov, 2014a). The below diagram is a visual representation of "shared value" (Figure 7).

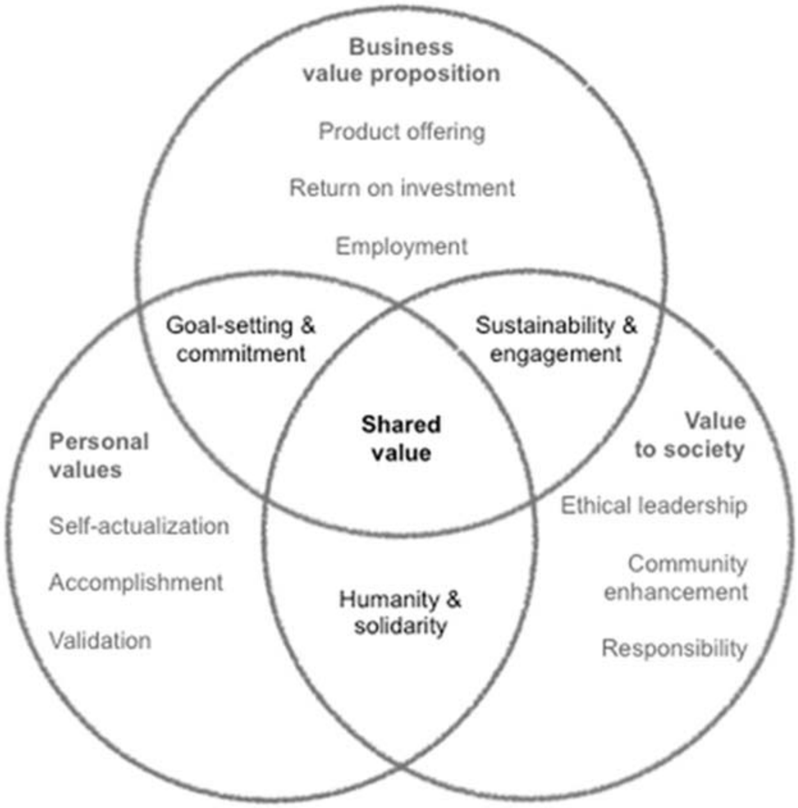

Figure 7. A visual demonstration of “shared value” (Pinkhasov, 2014b).

As the luxury sector seeks to engage in e-commerce, the insight this research provides about its impact on sustainability will hopefully aid in aligning with the triple bottom line of people, planet and profit. As shown in the next chapter, additional research and a preliminary review of documentation from various sources allowed for a greater understanding of key issues and a more concentrated evaluation of literature that applied to digital strategy and its influence in advancing sustainability in the luxury sector.

Research Question and Hypothesis

The research paper defined the essential inquiry by asking the following: how does embracing digital strategy impact/influence sustainable strategy in the personal luxury goods sector? I addressed this question by researching companies that were implementing digital and/or sustainability initiatives, and also measured and published the sustainability results in an accountable way. The research employed a holistic, multiple-case study, and exploratory propositions set specific criteria about companies that are digital and/or sustainability leaders, focus on customer value shift to convenience, social responsibility and increased online presence.

The research hypothesis I examined was that the shift to digitalization and e-commerce in the luxury sector would coerce companies to also adopt sustainability as a core business strategy, in order to be innovative.

Chapter II

Methods

For this thesis, a multiple-case study approach utilizing the Yin Case Study method was utilized, as it is an ideal methodology when a holistic, in-depth investigation is needed (Tellis, 1997). The thesis addressed the luxury sector's shift to digitalization and e-commerce, and explored how this impacted sustainability as a core business strategy. The exploratory case study method was chosen for the research design of this thesis, since digitalization of the luxury goods sector, and its impact on sustainability, is a relatively contemporary phenomenon. The case study method was used to conduct a comparative analysis of varying types of companies in the luxury sector that were either digital or sustainable leaders. It is important for a case study research design to be replicated; therefore the information that is collected can be analyzed on a micro level, and then be applied to other companies in any sector and used to draw conclusions on a macro level (Yin, 2014).

It can be briefly stated that a large amount of the background information for this thesis has been derived from market intelligence reports, newspaper and magazine articles about the luxury sector, rather than books or journal articles, as this is a fairly novel topic that is just picking up momentum. Strategy papers and industry/trade reports of the luxury sector, across multiple geographies and demographics including, gender, age group etc., that value online presence and/or sustainability, have also been used. Tertiary sources such as books and articles that synthesize and report on secondary sources for laymen such as textbooks, and publications with mass-circulation like 'Vogue', that capture the essence of the topic from experts in different fields, helped connect the dots for a thorough analysis. All this preliminary research guided the construction of the multiple-case study research design, and helped compile a list of propositions. This coaxed an organized collection and critical analysis of the information/data, which led to a more focused topic.

Instead of using a single case study design to discuss one type of a luxury company, it proved more valuable to expand the research to multiple cases using different companies. Since the multiple-case study design is also known as a comparative case study, the interacting relationships at play were analyzed across cases (Yin, 2014). Figure 8 is a methodology flowchart that visually displays the research process that I followed.

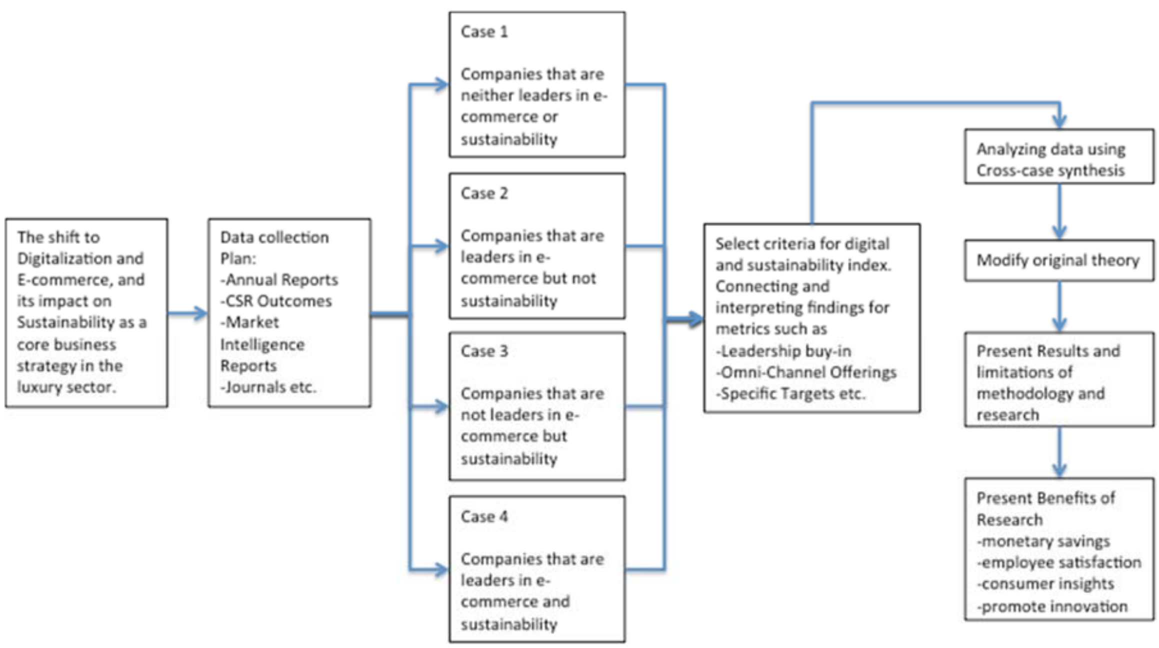

Figure 8. Research methodology flowchart.

Selection of Cases

The units of analysis were the criteria or markers that defined the four varying cases, with combination levels of digitalization and sustainability, from least digital/sustainable to most digital/sustainable, and they were:

Case 1: Companies that are neither leaders in e-commerce or sustainability

Case 2: Companies that are leaders in e-commerce but not sustainability

Case 3: Companies that are leaders in sustainability but not e-commerce

Case 4: Companies that are leaders in both e-commerce and sustainability

The research design for this thesis is demonstrated below in Table 1.

Table 1. Case study research design (Yin, 2014).

1. Case Study Questions	How will digitalization impact sustainability as a core business strategy in the luxury sector?
2. Propositions	Exploratory propositions about companies that are digital and/or sustainability leaders. Focus on customer value shift to convenience, social responsibility and increased online presence. Also, social and environmental accountability coerces luxury companies to adopt more sustainable strategies.
3. Unit of Analysis	***Case 1*: Companies that are neither leaders in e-commerce or sustainability ***Case 2*: Companies that are leaders in e-commerce but not sustainability ***Case 3*: Companies that are leaders in sustainability but not e-commerce ***Case 4*: Companies that are leaders in both e-commerce and sustainability Focus on companies in the personal luxury goods sector that offer apparel, watches, jewelry, leather goods, shoes, handbags etc. Select online vs. sustainability leaders. Also look at market segmentation that value online presence and/or sustainability.
4. Logic Linking Data	Cross case synthesis analytical techniques will be employed to compare and connect the data to the propositions.
5. Criteria for interpreting findings	Identifying, addressing and interpreting findings by creating an index of various metrics and placing the supporting evidence in each one accordingly. Also exploring alternative/rival theories of accumulated findings and eliminating them accordingly or adjusting the original theory.

The paper examined four different luxury companies in the personal goods sector for each case, chosen based on whether it fulfilled each case classification, so ensuing data provided greater confidence in the findings (Yin, 2011). The company for each case was picked based on its digital aptitude in the luxury sector, as indicated in the graph below (Figure 9).

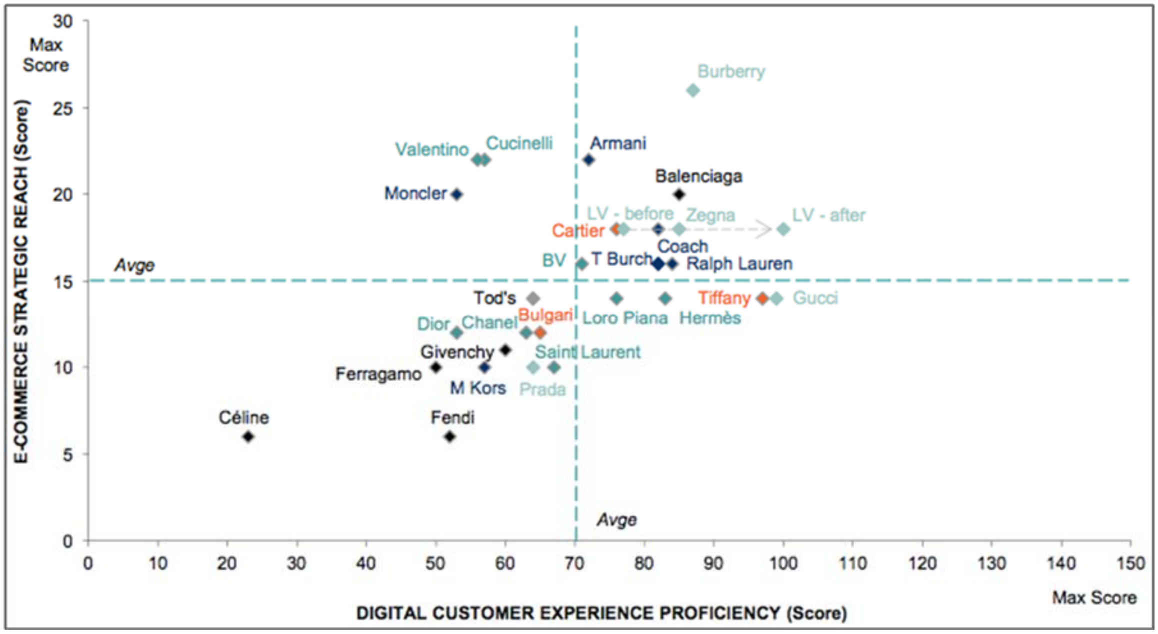

Figure 9. “Digital competitive map” for luxury goods companies, measuring digital engagement and proficiency (Bertasio et al, 2014a).

Once the companies that were digitally competent, or otherwise, were short-listed, the sustainability commitments of the four companies were then crosschecked. Primary sources provided “raw data”, and were used to gather evidence to examine my hypothesis. Documents and reports released by the respective companies in the form of annual reports, press releases, statements/interviews of executive leadership and CSR reports were reviewed. Secondary sources were used extensively to find different viewpoints, accurate details, unexpected findings and results. Some of these were research reports that used primary data, such as surveys, to solve research problems, written for scholarly and professional audiences. To determine the digital competency of the four companies, several variables were derived from each of the four case companies:

- Overall emphasis on digital strategy
- Presence in the number of countries and the number of stores operated
- The expanse of the online presence and availability in how many countries worldwide and offered in how many languages
- Cross-over between online stores and physical stores, i.e., order online and collect-in-store service.
- Percentage of product offerings available through e-commerce
- Digital customer experience rank for each of the four companies

According to a report by Exane BNP Paribas, a financial services firm that graded leading luxury brands on their digital reach and customer experience, the majority of luxury companies remain slow to build their digital capabilities, including the four in this research (Bertasio, 2014b). Some of the data that was gathered on the sustainability commitment of the four respective companies included but was not limited to:

- Whether the company had a sustainable policy in place
- Reporting and setting specific targets that the company is working towards, and for how long
- Supply chain transparency
- Energy usage and reduction efforts
- Water and waste management efforts
- Supported labour rights
- Recycled packaging used

All this information helped narrow down the companies and was helpful in picking one relevant luxury company that fell under each case classification, and they are as follows:

Case 1: Companies that are neither leaders in e-commerce or sustainability – Ferragamo Group. Salvatore Ferragamo S.p.A., henceforth referred to as the Ferragamo Group, was founded in 1927 in Florence, Italy. A third of the company shares are listed on the Milan stock exchange, while the majority of the company remains under the ownership of the Ferragamo family. The group has a retail distribution chain of over 640 stand-alone stores in over 90 countries around the world and a strong emphasis on creating and manufacturing all its products in Italy. The group's product range includes footwear, leather goods, clothing, silk products, eyewear, watches, other accessories and perfumes for both men and women. The Ferragamo Group is operated through a network of directly operated "Salvatore Ferragamo" mono-brand stores, the retail channel. The group also distributes its products through mono-brand third-party operated stores, complemented by a presence in high-level multi-brand department stores and specialty stores, which, as a whole, constitute the wholesale channel. The Italian fashion group reported revenues in 2014 of 1.46 billion USD, up 5.9%, compared to 1.37 billion USD in 2013. Retail, including digital, accounted for 64% of revenue and wholesale 36%. The best-performing markets were Asia and Europe (Ferragamo, 2014).

Case 2: Companies that are leaders in e-commerce but not sustainability – Burberry. Burberry, founded in 1856 is a British global luxury brand with a reputation for design, innovation and craftsmanship. With the invention of gabardine, a tough, tightly woven fabric by Thomas Burberry more than 130 years ago, outerwear has been at the core of the business and remains so today – best expressed through the iconic Burberry trench coat. The company has a diversified product offering, including men's, women's and children's apparel, accessories and beauty. The company designs, makes, sources and sells products under the Burberry brand, and product design and development are conducted at Burberry's London headquarters. Fabrics and other materials, as well as finished products are manufactured at both company owned facilities in the UK, and through an external supplier network, predominantly located in Europe. Burberry products are sold globally through retail, its stores and Burberry.com, as well as through third-party wholesalers, both offline and online. In a few selected instances, Burberry uses the product and distribution expertise of licensing partners to further develop the business. A global team of almost 10,000 employees executes all of these activities (Burberry, 2014). The British company reported that revenues were up 17 percent in 2014 to 3.23 billion USD, compared to 2.77 billion USD, in 2013. Retail, including digital, accounted for 70% of revenue and wholesale 27% (Burberry, 2014).

Case 3: Companies that are leaders in sustainability but not e-commerce – Prada Group.

The Prada brand dates back to 1913, when Mario Prada opened a luxury store in Milan, Italy. Thanks to exclusively designed goods, and selling leather handbags, travelling trunks, beauty cases, refined luxury accessories, jewels and articles of value, Prada rapidly became a reference point for aristocracy and the most elegant members of the haute-bourgeoisie in Europe. In 1919, Prada became an official supplier to the Italian Royal Family, and has since been able to display the House of Savoy coat of arms and knotted rope design on its trademark logo. At the end of the seventies, Miuccia Prada, Mario Prada's granddaughter, launched a partnership with Tuscan businessman Patrizio

Bertelli, laying the foundations of the international expansion that was to come. In the following years, the activities of the two families were gradually brought together within a single group. The Prada group, a family business, is a major player in the luxury market worldwide with the Prada, Miu Miu, Church's and Car Shoe brands. The group designs, produces and distributes luxury handbags, leather goods, footwear, apparel and accessories. The group operates in 70 countries through 594 directly operated stores, 35 franchise operated stores and a network of selected high-end multi-brand stores and luxury department stores. The revenue for 2014 was 3.88 billion USD, down by 1% from 3.92 billion USD in 2013. The retail channel, inclusive of online, generates 84.8% of the group's sales while the remaining 15.2% comes from the wholesale channel (Prada, 2014a).

Case 4: Companies that are leaders in both e-commerce and sustainability – Kering.

François Pinault founded the Kering group, previously known as Pinault-Printemps-Redoute or PPR, in 1963 as a timber and building materials business. In the mid 1990s, the group repositioned itself on the retail market and soon became one of the leading players in the luxury sector. The acquisition of a controlling stake in Gucci group in 1999 and the establishment of a multi-brand luxury goods group marked a new stage in Kering's development. In 2007, Kering purchased a controlling stake in Puma, a renowned sport and athletic lifestyle brand. Since then, Kering has continued to align the company to become a world leader, aimed at unlocking the potential of its 22 luxury, sport and lifestyle brands.

- Luxury: Gucci, Bottega Veneta, Saint Laurent, Alexander McQueen, Balenciaga, Brioni, Christopher Kane, McQ, Stella McCartney, Tomas Maier, Boucheron, Dodo, Girard-Perregaux, JeanRichard, Pomellato, Qeelin and Ulysse Nardin.
- Sport & Lifestyle: Puma, Volcom, Cobra, and Electric.

Kering's various brand offerings include apparel, accessories, watches and jewelry, perfumes and cosmetics. The revenue for 2014 was 10.97 billion USD, up by 4.5% from 10.55 billion USD in 2013. The retail channel, inclusive of online, generates 69% of the group's sales while the remaining 31% comes from the wholesale channel (Kering, 2014b).

Sustainability Index

Exploratory analysis was employed to connect the data that was collected as evidence, and resulted in the creation of a Sustainability Index for the four multiple-case study companies. The decision to create a Sustainability Index took into account the lack of concrete research in the luxury sector that link both digital and sustainability. A Cross-Case Analysis was done to further assess the data and strengthen the results.

The index was comprised of multiple metrics addressing different sustainability and social responsibility criteria, and subsequently was used to rank the four companies under each of 10 metrics. Established sustainability rating systems and indicators such as the Global Reporting Initiative (GRI), Responsibility in Fashion, and Dow Jones Sustainability Index (DJSI), aided in defining each metric. The Sustainability Index scored each case against the ten metrics with a rating of 1, 2 or 3, with 3 being the highest score. The criteria listed for each metric determined the score for each company as demonstrated below in Table 2.

Table 2. Metrics criteria.

Sustainability Metrics	**Metrics Criteria**		
	1	**2**	**3**
POLICIES IN PLACE	Not mentioned	Mention of sustainability practices on corporate website	Written sustainability policies in annual report
LEADERSHIP BUY-IN	Not mentioned	Referenced in annual report	Outlined sustainability strategy in annual report
SPECIFIC TARGETS	Not mentioned	Mention of sustainability goals but progress not tracked	Established reduction targets and progress tracking
HAZARDOUS MATERIALS	Used	Reduced use	Certified non-use
WATER USE	Used	Goals for reduced use	Reduced use
WASTE MANAGEMENT	Not mentioned	Policies for disposal	Reduced waste, recycle and policies for proper disposal
SUPPLY CHAIN TRANSPARENCY	Not mentioned	Sourced responsibly	Sourced ethically from certified vendors
ENERGY USE	Used	Reduced use	Certified use
PACKAGING	Not mentioned	Goals for recycled packaging	Recycled materials
LABOUR RIGHTS	Not mentioned	Standards for safety, wages, working conditions extended to suppliers and contractors	Certified safety, wages, working conditions extended to suppliers and contractors

The companies were then inserted into the index and rated according to the criteria scale. Adding the total number of criteria points across all 10 individual metrics for each company determined its Sustainability Index score and helped assess how each of the four companies scored against each other. Conventional combinations of primary, secondary and tertiary data sources were used in interpreting the findings and established the link between the results of the index to the exploratory propositions.

Cross-Case Analysis

The multiple-case study design for each of the companies was organized from the combination of least to the most advanced digital and sustainability strategies, in a quadrant form (Figure 10). Quadrant one is the least advanced on both the digital and sustainability front, and four is the most advanced. Quadrants two and three indicate only one of the two strategies is utilized. Since a case study becomes stronger when benchmarking occurs, cases one and four, and two and three, were all benchmarked against each other (Yin, 2014).

Case 3. Companies that are not leaders in e-commerce but sustainability ➢ **Prada Group**	**Case 4.** Companies that are leaders in e-commerce and sustainability ➢ **Kering**
Case 1. Companies that are neither leaders in e-commerce or sustainability ➢ **Ferragamo Group**	**Case 2.** Companies that are leaders in e-commerce but not sustainability ➢ **Burberry**

Figure 10. Multiple case study company quadrant.

This research defined the varied degrees of digital and sustainable scenarios of the multiple-case study design, and therefore allowed for the collection of similar evidence for each of the four companies placed in each of the four quadrants. A cross-case analysis was then conducted in order to find distinctive parallels and disparities across the companies, taking into account the rankings for the various metrics on the Sustainability Index for each of the companies, and is presented in the discussion section.

Also, identifying, addressing and interpreting findings by creating the Sustainability Index, and placing the supporting evidence in each one accordingly and establishing a chain of evidence using multiple sources, ensured construct validity. The same replication logic and analytic generalization was used across all four case studies to figure out how digitalization impacts sustainability in the luxury sector, and this addressed the external validity.

The results and limitations of my research explored alternative/rival theories of accumulated findings and eliminated them accordingly or adjusted the original theory. The research methods and the Sustainability Index were developed so that this research can be replicated, and arrive at the same results. The capacity of the research design to be replicated not only within the specific case, but also with other cases, will ensure reliability (Yin, 2014).

Research Limitations

There were several limitations to the study that manifested during the course of the research. One of the most significant limitations was the lack of reliable, academic sources and their availability when compared to other subjects. This is mainly due to the fact that the fields of digitalization and sustainability, in relation to the luxury sector or otherwise, are still relatively new and evolving. There was an overall lack of structure in sustainability reporting by companies and much of the reporting that does occur in the luxury sector is voluntary. Additionally, there was inadequate access to company data due to privacy concerns, especially when dealing with privately held companies. Therefore, finding sources that were dependable and not biased towards any one company proved to be difficult. Some evidence that was relevant, but not thoroughly reported by the respective multiple-case luxury companies, was included in the thesis and influenced the outcome of the results.

To minimize the effects of these limitations, the research ensured that generalizations from the multiple-case study method were aptly considered. To warrant that there wasn't any selective bias, there were frequent referrals to the original topic throughout the research process, examining possible alternative explanations. The thesis labored to objectively examine the hypothesis, with evidence from various industries, geographies, authors and experts in the field of luxury. Digitalization and sustainability are relatively new strategies in the ever-elusive luxury sector, and an assessment of all available, known and relevant data from different sources was extensive and substantial (Yin, 2014).

Chapter III

Results

To effectively address the research and to acquire a broad understanding of the chosen multiple-case luxury companies, this chapter first examines the digital strategies of the four companies. The results of the Sustainability Matrix and analyses are then presented.

Digital Competency

First, a description of the digital strategies of the four respective companies are described below, followed by a digital competency map compiled by Exane BNP Paribas, that graded leading luxury brands on their digital reach and customer experience, including the four companies in this research (Bertasio, 2014b).

Digital Case Study Comparison

Case 1: Companies that are neither leaders in e-commerce or sustainability – Ferragamo Group. On the digital front, the Ferragamo group has a digital presence on www.ferragamo.com that is directly managed, and is offered in seven languages. The group wants to invest in the development of the e-commerce channel. The brand believes that this approach will be more effective in speaking to a new generation of customers, and will also be revamping its physical stores to make sure that it provides a "special experience" for visitors, according to the company's chief executive Michele Norsa.

Offering several pictures of every item, a zoom and full-screen function, and two delivery options for the majority of markets, it has followed the simple e-commerce route similar to other luxury houses (e.g., Italy-Ferragamo,2013). Ferragamo becomes the latest entry to a long list of luxury houses taking a rather half-hearted approach to digital with at least some presence in e-commerce, but often limited to a handful of core markets. According to the Digital Competitive report by Exane BNP Paribas, Ferragamo was lagging behind in digital engagement. Only 78% of the group's product offerings are available through e-commerce in the limited regions of US, Europe, Japan and South Korea. Out of the 28 luxury companies that were ranked on overall digital customer experience proficiency, Ferragamo came in near the very bottom at 27 (Figure 11). Despite the lack of leadership in digital, the Ferragamo e-store will generate a sales boost from the brand's loyal customers, especially those that do not live in close proximity to its stores. This however, may not help Ferragamo reach its full potential in improving the company's competitive position and boosting its brand credentials (Bertasio et al, 2014a).

Case 2: Companies that are leaders in e-commerce but not sustainability – Burberry. On the digital front, Burberry has a dynamic digital retail mindset across the company and its processes to drive growth in all distribution channels, both online and offline, ranking 4th in the Digital Competitive report by Exane BNP Paribas (Figure 11). Burberry operates 497 physical stores in 32 countries. Burberry.com was the brand's largest store in terms of traffic and sales, servicing 44 countries in 11 languages. In store, Burberry equipped all sales associates with iPads to access burberry.com, allowing customers in physical stores to explore the full brand offering. They continued rollout of the collect-in-store service, allowing customers to purchase online and collect their orders in 120 selected stores, as early as the following day. Online traffic and sales conversions continued to grow, with burberry.com receiving 70 million site visits during the year, reflecting Burberry's digital investment. Burberry has also adopted the innovative use of digital, social and traditional media to connect with audiences globally, with an emphasis on the millennial consumer. The company has ongoing initiatives to integrate online and offline to create a seamless and consistent brand experience, however and wherever the consumer chooses to engage with the Burberry brand (Burberry, 2014).

Case 3: Companies that are leaders in sustainability but not e-commerce – Prada Group. On the digital front, the Prada e-store first went online in 2010 while Miu Miu was launched in 2011. A report by Exane BNP Paribas singled out Prada's low digital competitiveness and "seemingly abandoning an important organic growth opportunity, by trailing all players in its digital engagement." Only 61% of the group's product offerings are available through e-commerce, in the limited regions of US, Europe and Japan. The overall digital customer experience proficiency rank for Prada was 17 out of the 28 luxury companies that were ranked (Bertasio, 2014b) and is shown in detail in Figure 11.

Case 4: Companies that are leaders in both e-commerce and sustainability – Kering. On the digital front, Kering made digital a strategic, CEO-level priority. The group has over 1,200 directly operated stores in 42 countries, in the luxury division. They have created an e-business unit to drive the omni-channel experience, share best digital practices, speed up the brands' e-business projects and increase their digital presence. As per Kering, the respective websites of the various brands are not only an opportunity to generate additional sales, but also to engage with current and future customers. For a number of its brands, Kering has teamed up with Yoox, a leading online luxury business.

The joint venture, E-lite, is improving existing e-commerce sites, accelerating global e-commerce development and offering an exclusive online shopping experience. All the brands have mobile and tablet optimized sites, performance measurement tools shared by the various brands, and a dedicated user-experience design team that helps them continually improve site performance, conversion and customer satisfaction. The group also has several cross-channel service features, such as online visibility of retail inventory, online buying which has gradually extended to in-store pickup, and online reservation with a host of other features in their pipeline. They also have pilot projects to help them test new technology (such as a new online fitting solution for ready-to-wear and shoes) and share the results among the divisions for a wider rollout; this will eventually offer a seamless omni-channel offering covering both physical stores and online boutiques. Kering is working on a new large-scale project, aimed in particular at establishing a single client base common to the various distribution channels, and is invested in learning and understanding how to get more clicks on their ‘buy’ buttons, engaging with their customers on social media, creating stronger relationships and in turn brand equity. Also, in 2011 Kering launched the Digital Academy to instill a digital culture within the company, to develop innovation, support its e-business and digital goals, strengthen digital awareness and expertise, and create an international digital community (Kering, 2014a).

The overall brand ranking in Figure 11 shows the digital customer experience proficiency of the four chosen case companies, amongst others. The digital experience measured things such as product presentation, basic customer service, cross-channel services, delivery, store finder etc. There were a total of 28 companies and each company was given a rank between 1 and 28 (Bertasio, 2014b). Ferragamo and Prada came in at the bottom, ranking 27 and 17 respectively out of the 28, while Burberry was ranked 4. Kering was represented by four of its 22 luxury brands: Gucci and Balenciaga were ranked 2 and 5, respectively, and Bottega Veneta and Saint Laurent were ranked 14 and 15 respectively. According to this ranking system (Figure 11), it is clear that Kering and Burberry have a solid digital strategy in place in comparison to Ferragamo and Prada.

Figure 8: Louis Vuitton, Gucci and Tiffany lead in offering customers the best digital experience

Digital Customer Experience Proficiency – Overall brand ranking

	OVERALL	DIGITAL CUSTOMER EXPERIENCE PROFICIENCY										
		WEBSITE EXPERIENCE					E-COMMERCE EXPERIENCE		CROSS CHANNEL EXPERIENCE			
Monobrand	POINTS	DISPLAY VISUALIZATION	PRODUCT PRESENTATION	PRODUCT SELECTION	BASIC CUSTOMER SERVICE	PERSONAL SERVICES	ONLINE SHOPPING	DELIVERY	STORE FINDER	CROSS CHANNEL SERVICES	SHARE	APPS
Louis Vuitton	100	5	27	1	1	3	20	9	1	4	1	1
Gucci	99	10	1	17	4	1	8	1	5	4	1	13
Tiffany	97	1	9	6	4	3	8	5	15	3	1	1
Burberry	87	10	1	13	1	5	16	9	7	2	16	18
Balenciaga	85	10	9	6	4	11	2	2	7	14	1	18
Zegna	85	27	9	6	4	5	2	20	3	4	1	18
Ralph Lauren	84	10	9	13	4	5	5	8	6	4	22	13
Hermès	83	10	9	13	4	19	11	5	4	12	1	1
Coach	82	21	4	1	4	14	5	16	24	1	1	18
Tory Burch	82	10	9	1	4	19	5	16	10	12	1	1
Cartier	76	22	9	1	4	10	16	16	25	4	16	6
Loro Piana	76	22	1	1	4	12	26	16	7	4	16	13
Armani	72	10	4	6	4	5	11	24	15	19	16	6
Bottega Veneta	71	5	9	13	4	14	8	2	12	19	1	18
Saint Laurent	67	1	9	6	4	19	1	20	21	19	1	18
Bulgari	65	1	24	21	4	19	23	9	21	4	1	6
Prada	64	10	9	26	24	5	20	2	12	4	26	18
Tod's	64	22	9	23	4	1	11	9	27	16	16	13
Chanel	63	10	24	6	4	19	16	9	21	19	1	13
Givenchy	60	5	4	23	4	19	16	5	10	16	26	6
Cucinelli	57	22	4	6	24	19	11	24	17	19	1	18
Michael Kors	57	27	9	18	1	14	11	20	27	14	16	6
Valentino	56	10	4	21	24	14	20	20	17	19	1	6
Dior	53	10	24	23	4	19	25	9	12	16	22	6
Moncler	53	1	9	18	24	19	2	24	17	19	22	18
Fendi	52	5	9	26	28	12	27	n.a.	1	19	1	1
Ferragamo	50	5	9	18	4	14	23	9	25	19	22	18
Céline	23	22	27	26	4	19	28	n.a.	17	19	26	18

Figure 11. Overall luxury brand ranking showing digital customer experience proficiency (Bertasio et al, 2014b).

Sustainability Commitment

Data complied on each company were used to frame metrics to construct a Sustainability Index, summarized in Table 3. The rankings for the metrics for each company are based on research summarized below, which highlights differences among the four cases. Kering, Prada, and Burberry exceled overall in the Sustainability Index, scoring 30, 26, and 24, respectively (Table 3). Ferragamo had the lowest score (11) of the four companies across all the metrics. This index is applicable to measure performance and work towards continual improvement for all four companies.

Table 3. Sustainability index.

		Brand:	Ferragamo	Burberry	Prada	Kering	Metrics Criteria		
SUSTAINABILITY INDEX	SUSTAINABILITY COMMITMENT	POLICIES IN PLACE	1	3	3	3	Written sustainability policies in annual report	Mention of sustainability practices on corporate website	Not mentioned
		LEADERSHIP BUY-IN	1	2	3	3	Outlined sustainability strategy in annual report	Referenced in annual report	Not mentioned
		SPECIFIC TARGETS	1	3	2	3	Established reduction targets and progress tracking	Mention of sustainability goals but progress not tracked	Not mentioned
		HAZARDOUS MATERIALS	1	3	2	3	Certified non-use	Reduced use	Used
		WATER USE	1	2	2	3	Reduced use	Goals for reduced use	Used
		WASTE MANAGEMENT	1	2	3	3	Reduced waste, recycle and policies for proper disposal	Policies for disposal	Not mentioned
		SUPPLY CHAIN TRANSPARENCY	1	2	3	3	Sourced ethically from certified vendors	Sourced responsibly	Not mentioned
		ENERGY USE	1	2	2	3	Certified use	Reduced use	Used
		PACKAGING	1	3	3	3	Recycled materials	Goals for recycled packaging	Not mentioned
		LABOUR RIGHTS	2	2	3	3	Certified safety, wages, working conditions extended to suppliers and contractors	Standards for safety, wages, working conditions extended to suppliers and contractors	Not mentioned
		TOTAL POINTS	11	24	26	30			

Sustainability Case Study Comparison

Case 1: Companies that are neither leaders in e-commerce or sustainability – Ferragamo Group. On the sustainability front, Ferragamo claims that the group's business gives rise to limited environmental issues, but has nonetheless put environmental sustainability at the core of its development policies by reducing consumption and encouraging energy savings with in-house initiatives and campaigns. Over the years, photovoltaic systems and solar panels, were installed at a plant to produce electricity and hot water for the various buildings, consequently reducing CO_2 emissions and water consumption. There is also a great deal of importance given to waste generation and management. Through new initiatives to expand and renovate, the group continues its commitment to reduced energy consumption, the use of alternative and renewable energy sources, the installation of building automation systems, pursuing the objective of sustainable management of buildings based on the principles of the "20-20-20 Plan" disseminated with the Kyoto Protocol: reduction in consumption, reduction in atmospheric emissions and use of alternative energy sources. With about 4.000 employees, social responsibility initiatives share the same objectives, with safety at the workplace considered of utmost importance. A number of initiatives have been increased to inform and train employees and contractors, both in terms of safety, work-related stress and specific task-related risks. The company is ensuring a progressive improvement in the quality and safety at the workplace by going beyond the minimum requirements of the laws (Sylvatore Ferragamo, 2014).

Case 2: Companies that are leaders in e-commerce but not sustainability – Burberry. On the sustainability front, Burberry is committed to driving positive social, cultural and environmental impacts globally. The brand's social and environmental policies cover ethical trade and sustainability to reduce the company's environmental impact, and promote fair and sustainable employment practices internally and across its supply chain. The company supports labor rights in its supply chain and was the first luxury retailer and manufacturer to achieve accreditation as a UK Living Wage employer (Burberry, "Social Responsibility"). Burberry is addressing the global challenge posed by climate change and is seeking to reduce greenhouse gas emissions throughout its value chain. In 2012 Burberry conducted an independent assessment of its environmental impact, which measured the CO2e impacts arising from materials, energy, water, chemical inputs and waste, across all areas of Burberry's business and its supply chain (Figure 12).

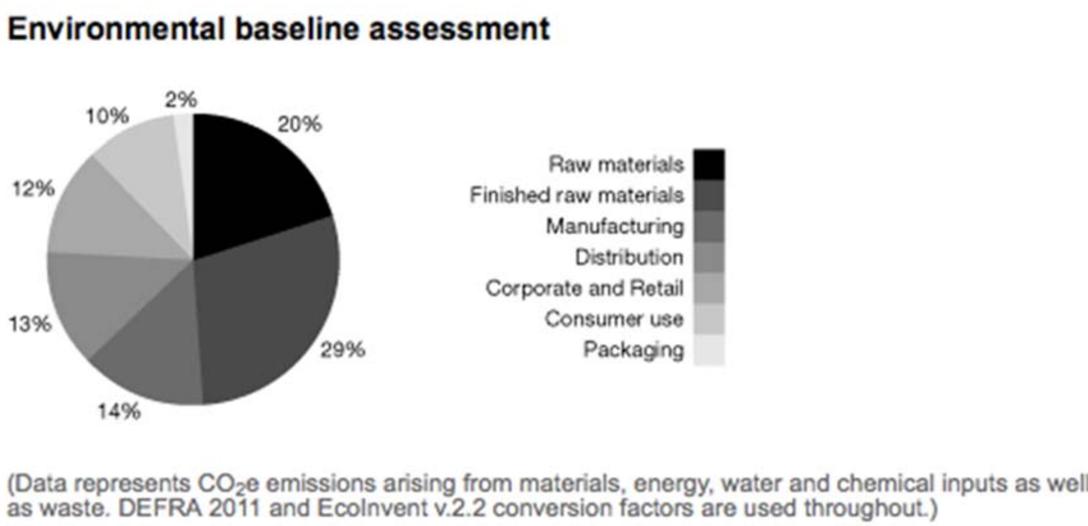

Figure 12. Burberry's CO2e emissions arising from various processes (Burberry, "Environmental Responsibility").

This assessment identified risks and priority areas for the company to focus its reduction efforts, and as a result, a set of five-year targets was developed; progress made against these targets is listed in the Appendix. Additionally, in 2014, Burberry was named one of the top performing companies in "Consumer Durables & Apparel" on the Dow Jones Sustainability Indices (DJSI) (Burberry, 2014).

Case 3: Companies that are leaders in sustainability but not e-commerce – Prada Group. On the sustainability and social front, Prada group has several values it abides by and has a very solid strategy in place. They are as follows:

- Compliance with legislative and regulatory provisions in all countries in which the group operates
- Legitimacy, loyalty, correctness and transparency
- Confidentiality
- Respect for the value of the person and our human resources
- Respect for competition, as a crucial instrument in the development of the economic system
- Respect for the environment and raising awareness about its protection

Under their environmental strategy, the Prada group focused on reducing consumption through increased efficiency in the use of energy through LED lighting and LEED certifications, waste reduction, sustainable use of raw materials, including eco-friendly packaging, limiting hazardous materials during the production process and promoting the sustainable use of land around their many facilities. The group has also adopted a travel policy aimed at encouraging employees to use public transportation and video-conferencing as an alternative to business trips, when possible. Some key figures for reducing environmental impacts for Prada (Prada, 2014b) are:

- CO_2 emissions 596 tons/year lower than 2013
- 6% reduction in industrial waste generated

- 90% of waste from manufacturing sites and headquarters recycled or reused
- 9% reduction in product packaging used
- 74% of product packaging is FSC certified or made from recycled materials

Case 4: Companies that are leaders in both e-commerce and sustainability – Kering. On the sustainability front, Kering believes sustainable business is smart business as it creates value while helping to make a better world – economically, socially and environmentally. The company has a dedicated sustainability department, and provides support in the form of 15 in-house experts in sustainable sourcing, alternative materials, biodiversity, energy and supply chain performance, as well as social aspects. The sustainability department facilitates change by providing knowledge and guidance, operational synergies and economies of scale that help the brands develop more sustainable practices. Kering has defined a number of quantifiable sustainability targets such as raw materials sourcing, including alternatives, paper and packaging, water use, waste and carbon emissions, and hazardous chemicals, while offsetting the remaining CO2 emissions and supporting suppliers in their progress. They will publish a Group Environmental Profit & Loss (E P&L) report, which includes all the brands in their portfolio. Social sustainability at Kering encompasses attention to working conditions, including third-party workshops, and the need to preserve artisanal businesses. Kering launched the Materials Innovation Lab or MIL, a team that has created, and curated a library of over 1,400 sustainable fabrics. In 2014, Kering was named industry leader in "Textiles, Apparel & Luxury Goods" on the Dow Jones Sustainability Indices (DJSI) World and Europe (Kering, 2014b).

Chapter IV

Discussion

The goal of this research was to look into how digitalization and e-commerce impacted sustainability as a key business strategy for growth in the luxury sector. The initial kick off point for this research focused on e-commerce, digital, luxury sector, market segmentation, sustainability, brand value, and CSR, to name a few associated features. This review pointed towards a gap in the research connecting digital strategy to sustainability strategy, especially in the luxury sector. I hypothesized that the shift to digitalization and e-commerce in the luxury sector would coerce companies to adopt sustainability. In other words, digital leaders would also be sustainable leaders as they were more in tune with their consumers' shifting needs. This would show that digital leaders are innovators creating opportunities not just in the digital sector, but also in other growth sectors, such as sustainability. A cross-case analysis and an assessment of the index to better interpret the results, benefits of this research, and the conclusion of this thesis will be presented in the following sections.

Cross-Case Analysis

The following is a cross-case analysis of the four companies, where Case 1 is compared to Case 4, and Case 2 is compared to Case 3. This analysis will formulate the impact of digitalization on the luxury sector, and in turn its effects on the adoption of sustainable strategies or lack thereof.

Cases 1 and 4 – Ferragamo and Kering

Case 4 represents a tremendous enhancement from Case 1, which has basic digital foresight, and minimal to no sustainability initiatives or commitments. Case 4 characterizes what the ideal digital- and sustainability-focused company in the luxury sector should encompass. The essential difference between Cases 1 and 4 is the fact that Case 1 is predominantly privately owned and Case 4 is a publicly listed company. This private ownership provides a lack of accountability to people outside of the company, especially when it comes to relatively new concepts such as digitalization and sustainability. Case 1 describes commitments to achieving client excellence and satisfaction, but Case 4 goes further and describes commitments to engaging current and future customers.

Case 1 touched upon sporadic approaches to energy consumption and waste management at the various operating sites such as plants and buildings, and random acts of sustainability, while lacking a sustainability framework. The company loosely cited the Kyoto Protocol principles in its "20-20-20 Plan", reduction in consumption and reduction in atmospheric emissions and use of alternative energy sources, without actually addressing the application in a structured manner.

In contrast, Case 4 has sustainable business strategies and goals in place that are socially and environmentally responsible, and adequately monitored and measured. It represents a combination of best practices in digital and sustainability strategies for companies in the luxury sector, engrained within the company DNA.

Cases 1 and 4 represent divergent philosophies. Case 1 mentions a potential fragmented use of frameworks and strategies with no guidance documents to advance sustainability at the company. For Case 4, sustainability is embraced at higher levels and emphasizes the relationship of sustainability with key business goals. Case 4 probes deeper into transparency of non-financial aspects and reporting on core values related to improving social well being and minimizing environmental and reputational risks. This transparency extends beyond CSR and is hailed by customers and external stakeholders, improving not only communities but industry practices as well.

Cases 2 and 3 – Burberry and Prada

Cases 2 and 3 follow disparate attitudes towards both digitalization and sustainability. Again, as in the previous section, Case 3 is privately owned and Case 2 is a publicly listed company. Case 3 showcases pioneering sustainability strategies and initiatives that were internalized within the company. Even with Case 2 being listed on the Dow Jones Sustainability Index, there was a lack of commitment to waste management, reduction of hazardous materials/chemical usage in operations, labor rights, except within the UK, and other social and environmental related metrics. Case 3 lists several tangible results whereas Case 2 only mentions goals and pursuing the more conscientious "green" policies, which indicates a later start in adopting/implementing a sustainability strategy.

Unlike Case 2, Case 3's alignment of sustainable practices with its mission, vision, and core values has influenced several management decisions over the last few years. An example is investing in purchasing several factories to have better control over their operations, to which they can apply their sustainability framework. This is especially impressive considering they are a private company and are doing so as a personal initiative to create business value, and are accountable to no one but themselves. Case 2 adheres to sustainability more as a brand building initiative to influence customers and/or other external stakeholders, as opposed to being a core business value. Sustainability is not on the scope to the same extant as digitalization, and does not extend beyond the company, though it is encouraged.

Sustainability Index Assessment

In general, there is a lack of commitment in the luxury sector to participation in industry wide policies where knowledge sharing can advance the luxury sector. This forced me to develop the Sustainability Index presented here, used to analyze the main components of sustainability relative to the luxury sector for the four chosen multiple-case companies. The index was used to synthesize a better understanding of the shift to digitalization and its impact on sustainability strategies in the luxury sector. This index can be further developed and a new benchmark of “Best Practices” can be established for the luxury sector, and used to standardize performance. Case 4 was the only company that was open to sharing their CSR methodology readily with any one who wanted it.

Kering, Prada, and Burberry exceled overall in the Sustainability Index, scoring 30, 26, and 24, respectively, while Ferragamo had the lowest score (11). These results did not support my hypothesis. The digital capacity of a firm does not give it the vision to pursue sustainability as another core innovative strategy and vice versa. While Burberry is possibly the savviest digital leader out of all the four companies, it did not lead sustainability wise. Another case refuting the hypothesis was Prada, a surprise second in sustainability index score, while a poor e-commerce innovator. Ferragamo had low scores on all the metrics.

Another notion to consider is the economic performance of each of these companies. Burberry led the pack with the highest increase in revenue from the previous year, with 17%. Ferragamo and Kering followed with 5.9% and 4.5% respectively. Prada's revenue decreased by 1% from the previous year, which I attest to their investing heavily in operations, though lagging behind in digital strategy. Burberry and Kering's economic growth might not be a surprise as they both have solid digital and sustainable strategies in place. Ferragamo, however, who is neither a digital nor a sustainability leader, did almost as well as Kering, who is a leader in both. This demonstrates that although novel strategies have tremendous growth potential, companies in the luxury sector that are not adopting these strategies can still continue to grow. In all, brand focus is driven not only by having a strategy in place, but also having an innovative mindset that connects all the dots.

Conclusion: The Future of Luxury

Luxury companies have a unique relationship with their consumers, portraying themselves as purveyors and curators of a "luxury lifestyle." However, businesses especially in the luxury sector, are suffering from a lack of public trust and credibility. Digitalization and sustainability are fairly novel topics in the luxury sector, although there is little evidence that the two are allied strategies. However, with further research, the right combination of the two strategies can prove monumental for the luxury sector.

The digital and sustainability integration of "Shared Value" goals provides a well-defined method by which to pursue both corporate success and the creation of social and environmental value. The goal of any business is to create a competitive advantage and establish a unique positioning. By capturing economic opportunity combined with sustainability and making an organization attractive to exceptional talent, the luxury sector can thrive in the economy of the future (Moore, 2014).

The luxury sector should seek to engage and invest in digital and sustainability, and gain insight into the affluent consumer while adhering to the triple bottom line of people, planet and profit. To stay on top, established and new companies alike will need to acquire or adopt these opportunities and innovations with the right leadership in place, and in so doing, they will reach and capture new market segments and better understand their consumer. Digital/e-commerce is a great tool with a global reach, no age or geographical boundaries, and aids in fighting climate change by minimizing infrastructure and maximizing transportation efficiency (Gunther, 2010). The role of digital in luxury is not to replace physical stores but to enhance the overall experience. In the age of information overload, the significance of a physical presence to supplement the digital experience so consumers can actively engage with the brand has become even more increasingly important. As the luxury sector goes through this metamorphosis, companies should come up with ways to incorporate these strategies to continue and live up to the virtues of longevity, exclusivity and splendor (Caroline: The Future of Luxury, 2014).

Appendix

Burberry Sustainability Targets

	2017 targets	Progress
Product As a design-led luxury brand, Burberry continues to invest in the design and quality of its products. As part of this investment, Burberry is committed to reducing the impact of its products on the environment. ▸ Go to burberryplc.com for more information on product targets	Raw materials^ Reduce the environmental impact of Burberry's three key raw materials namely, cotton, leather and PVC.	○
	Chemical use in manufacturing Eliminate usage of those chemicals that have a negative impact on the environment beyond legal limits.	◍
	Packaging^ 100% of point-of-sale packaging will be sustainably sourced (where alternatives are available).	○
Process Burberry continues to pursue its aim of being recognised for its operational excellence. An important part of this is Burberry's commitment to integrating sustainability considerations as part of its business operations including in relation to its suppliers. ▸ Go to burberryplc.com for more information on process targets	Internal manufacture^ Reduce the energy use from Burberry's two UK manufacturing sites by 25%*.	◍
	Suppliers Work with key suppliers to assist them in reducing their energy use by up to 20%.	◍
	Mills Work with key mills to assist them to reduce their water consumption by up to 20%.	◍
	Transport Reduce carbon emissions from the transport of Burberry products by 10%.	◍
	Distribution centres^ Reduce energy use in Burberry's five third-party distribution centres by 10%*.	◍
Property Burberry continues to leverage the sustainability expertise of its construction team to adopt more sustainable practices and improve energy efficiency in both existing and new builds. Although Burberry continues to expand its global footprint by opening stores in existing and new markets reflecting the growth of the business, Burberry remains committed to minimising the environmental impact of this expansion. ▸ Go to burberryplc.com for more information on property targets	Energy use reduction^ Reduce Burberry controlled store and office energy usage by up to 15%.	◍
	Sustainable consumables 60% of office products to be sustainably sourced (where available).	●
	Renewable energy All Burberry controlled stores and offices to be powered either by on-site or green tariff renewable energy (where tariffs are available).	◍
	Build certifications^ All new builds being sustainable-build certified.	○
	Sustainable construction materials 30% of wood and steel by spend to be sourced from either recycled materials or from certified supply chains.	●
	Construction waste recycling 30% of construction waste to be recycled for global major projects.	◍
	LED lighting^ 75% of lighting per store which is LED or energy efficient in new concept stores.	○

* When normalised by a relevant productivity factor.

Key
○ Good progress ◍ Just starting ● Not started

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