

CORPORATE BRAND MANAGEMENT
AND REPUTATION

MASTER CASES



There's a Snake in My Boot!
Kering and the Exotic Skin Dilemma

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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WRITTEN CASE

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There's a Snake in My Boot! **Kering and Exotic Skin Dilemma**

About Kering

Kering is a global luxury group that manages multiple brands within the fashion, leather goods, watches and jewellery industries. Kering owns Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen, Brioni, Boucheron, Pomellato, Dodo, Qeelin, Ulysse Nardin, Girard-Perregaux, and Kering Eyewear. The firm's revenue in 2018 was €13.665 million, growing by 26.3% from the previous year. Leather Goods represented the majority of the company's revenue (55%) while Gucci being their most valuable brand (78%). Currently, they have more than 27,000 employees and over 1,400 stores around the globe.

Current Kering's catalogue is divided into three groups:

- Fashion and Leather Goods Houses: Gucci, Saint Laurent, Bottega Veneta, Balenciaga, Alexander McQueen and Brioni
- Watches and Jewelry brands: Boucheron, Pomellato, Dodo, Qeelin, Ulysse Nardin and Girard-Perregaux
- Eyewear. Whose portfolio include 15 luxury brands: Gucci, Cartier, Saint Laurent, Balenciaga, Bottega Veneta, Alexander McQueen, Stella McCartney, Alaïa, Courrèges, Montblanc, Brioni, Boucheron, Pomellato, McQ, Puma

Created in 1963, Kering has evolved to become a multi-player in the luxury sector. The brand started when François Pinault founded a timber trading company and decided to make multiple acquisitions on the sector. Due to its success, in 1988, they acquired Le Printemps and an equity stake in La Redoute, which led to change the name to Printemps Pinault Redoute. In 1999, Kering made a shift into the luxury industry by purchasing 42% of Gucci's stakes and acquiring Yves Saint Laurent and a jewellery firm called Boucheron. During the following years, several fashion houses were acquired, and partnership agreements were made.

In 2009, Francois-Henri Pinault created the Kering Foundation, with the mission to combat violence against women throughout campaigns, training programs and supporting NGOs. In 2013, the firm changed its name to Kering. Since then, the company has acquired multiple firms in the different sectors that it operates. Recently in 2015, the group published its first Environmental Profit & Loss account (EP&L), a tool that measures Kering's environmental impact on the planet.

The Exotic Skin Dilemma

Within the fashion and leather goods, Kering makes use of skins such as bovine, ovine, crocodile, caiman, alligator, python, ayer, cobra, rat snake, lizard, ostrich, fish, eel, antelope and deerskin. Exotic leathers are considered the ultimate, haute couture type of luxury products. However, they had not been favored by the customers ever since 1990s, due to the fear of endangered species. Nonetheless, exotic skins have recently made a comeback in the high-fashion industry by both conglomerates, LVMH and Kering, and startups such as Yara Bashoor. The battle between luxury and ethics is now resurfacing due to opposing actions taken by many different players in the industry, the media, independent organizations, as well as other equally renown luxury brands, such as Chanel and Hermès (see **Exhibit 1**)

Is exotic skin too cruel?

“Snakes are commonly nailed to trees and their bodies are cut open from one end to the other as they are skinned alive, in the belief that live flaying keeps the skins supple. Their mutilated bodies are then discarded, but because of these animals' slow metabolism, it can take hours for the snakes to die” (PETA, n.d.).

A single bag, like Hermès Birkin, usually take three to four crocodiles or one full-grown ostrich to produce. For smaller animals, such as lizards, it costs 10 lives to make one Hermès Kelly bag. Considering that lives of exotic animals are taken for the sake of luxury, rather than being a source of diet, disturbs the public more than cow leathers in which are viewed as the by-product of the food industry.

Moreover, many exotic skin supply chains are located in countries where animal welfare standards are much less strict than in Europe or North America. It is also mostly impossible to trace and control the supply chain from these origins, despite the guidelines brands have been following through. This condition even intensifies the problematic perception towards the use of exotic skins.

Isn't exotic skin better for the greater good?

Creating an economic use of wild animals can be considered a way to be ecologically sustainable. It is widely known that local communities in the natural landscapes need incentives to actively support and engage in wildlife conservation and protection. The more economic value these wild animals have, the higher the incentives are for the communities to protect the wild habitats. Besides, reptiles also create zero ecological footprint, whereas bovine leather production damages wild plants and animals, create erosion, and emit carbon. Thus, exotic skins are more sustainable than cow hides.

However, ensuring that ethical practices remain consistent throughout their supply chains has always been a tough task for brands to endure. It was said to be the main reason why Chanel decided to ban the use of exotic hides. As Chanel spokesperson put it:

“At Chanel, we are continually reviewing our supply chains to ensure they meet our expectations of integrity and traceability. In this context, it is our experience that it is becoming increasingly difficult to source exotic skins which match our ethical standards” (Nittle, 2018).

Do customers support exotic skin products?

There have been signs of a rising momentum towards responsible consumption. However, the definition of responsible consumption is not clear-cut. Consumption trends labeled as environmental-concerned and animal-concerned seem to be treated as grouped-together under responsible consumption.

Lyst, a fashion search website that tracked more than 100 million searches over 2017, reported a 47% increase in web searches that combine both style and ethics, for example, “organic cotton” and “vegan leather” (Cartner-Morley, 2018). At the same time, Joanne Yulan Jong, the founder of Yulan Creative, a strategic fashion brand consultancy, who advises luxury brands such as Armani and Missoni, said that today's consumers concern more about the ethics of their fashion materials than the fact of them being the most rare or exotic. She added that customers want complete transparency, as the cause and effect of sustainability and environmental damage have reached the public's consciousness, thus, brands will want to appear to be updating themselves with this zeitgeist.

A survey in 2017 from Bain & Co. also shows that consumers are becoming more committed to sustainability. It reported over two-thirds of consumers younger than 35 would be willing to pay more for sustainable products. Particularly, Claudia D'Arpizio, a partner at Bain & Co., who focuses on the luxury industry said, the sustainability trend in the younger consumers am a strong shift in their sentiment

towards animals. She highlighted, "You can care about the planet, care about human rights, but animal welfare stands out as key topic for consumers" (Dalton, 2018). See **Exhibit 2**.

China, a market where consumers have long been favoring luxury handbags made from exotic hides, is starting to show signs that people are reflecting on the environmental cost of making such exquisite goods. On November 27, 2018, a Chinese article, titled "The cost of a 300,000-yuan Hermès Handbag is 100 Million Dead Bodies", was circulated widely on WeChat, China's largest social messaging app. With images, the article showed how luxury brands, including Hermès, crudely raised, killed, and harvested the skins of crocodiles and ostriches while they were still conscious. One of the Chinese viewers responded, "Is a luxury handbag really more important than humanity?" Another commented, "How can we make rich people realize the crime they have committed to this Planet?" A self-declared Hermès fan, who admitted that he or she was previously not aware of this issue, voiced that, "I will start making a change from now on". Jing Daily also warned, "As a segment that is known for fast-learning and sophistication, their embrace of an eco-friendly approach of producing and selling luxury may come earlier than many brands would expect" (Pan, 2018).

In addition, there have been ongoing protests against the use of exotic skins in many forms, for example, a body paint of a snake on a nearly-naked lady in front of Prada shop in Milan, just the day before their annual shareholder meeting. As well, there was a similar campaign against the usage of crocodile skins called "Louis Vuitton: A Look That Kills", in front of Louis Vuitton store at South Coast Plaza in California. However, these protests have been organized by PETA, an American animal rights organization, rather than individual consumers (see **Exhibit 3**).

Nonetheless, Vox, an American news and opinion website, mentioned that, persuading consumers to stop buying exotic-skin products is a toughest challenge for animal rights activists. This is arguably because they see celebrities such as the Kardashians, Beyoncé, and Lady Gaga, who are influencers of style and fashion, wearing these items. Thus, it is considerably difficult for the consumers to prevent their appetite for consuming exotic fashion.

What is the industry doing?

In response to the public pressure towards the use of exotic hides, as well as having the need to guarantee a long-term access to beautiful exotic materials, high-end fashion companies are investing in operating their own farms. "There are bottlenecks of supply and the top tier brands want the most beautiful parts," explained Mario Ortelli, managing partner of luxury advisors Ortelli & Co. LVMH acquired 51% stake in their crocodile skins supplier, Heng Long, in 2011. The company also purchased Johnstone River crocodile farm, located in the north of Queensland. In addition,

Hermès acquired crocodile farms in Australia, Cairns, and Louisiana in 2013, plus, a number of tanneries through its subsidiary, Hermès Cuir Precleux.

However, the banning or the planning to ban fur products since 2016 by multiple luxury brands, such as Burberry, Giorgio Armani and Versace, as well as by the London Fashion Week, who announced no feature of fur on the runway, has caused a spillover effect supporting the movement against the use of exotic hides. Today, high-end brands, such as Chanel, Diane von Furstenberg, Vivienne Westwood, and finally Victoria Beckham, have all pledged to never use exotic skins in their future collections. Besides, Sebastian Manes, Buying Director at Selfridges, also announced that the high-end department store will become the first major UK retailer to ban the sale of exotic-skin luxury products by 2020.

Are exotic skins the best way to make profit?

On the one hand, exotic-skin products can be sold at some of the most premium prices in fashion, assisting luxury brands to cater to their most affluent clientele. For example, Hermès's Birkin crocodile-skin bags can sell for tens of thousands of dollars. In addition, some can even resell for multiples of such amount at luxury auctions.

On the other hand, Stella McCartney, a luxury brand once belonged to Kering, which does not make use of fur and leather, has received strong sales growth in recent years. The overall results were not disclosed. However, the annual revenue at the brand's UK affiliate was said to have doubled between 2011 and 2016, finally hitting \$56 million. Exotic skins are also going out of style at Prada. The brand is now concentrating the marketing efforts on their nylon handbags product line.

If not exotic skin, then what?

Since younger consumers are spending their money on experiences rather than garments, the fashion industry has been resistant to comply with regulations that would heighten their fabric production costs. As said by Stella McCartney, "There is a reason the fashion industry clings to old-fashioned ways of doing things – it is cheaper and it is easier" (Cartner-Morley, 2018). Anyhow, so far, some initiatives have been observed.

Companies that once saw animal-rights activist groups as disturbance are already consulting them on policies to limit animal cruelty. At the same time, brands are trying to invent alternative resources. For example, Hugo Boss has introduced shoes made from pineapple fibers. Meanwhile, a small number of fashion houses have also begun investing in tech institutions working to grow leathers in laboratories.

At the same time, designer houses like Stella McCartney are thriving to encourage the fashion industry to prioritize sustainability with an upbeat:

"[...] it's about making them excited. [...] Who wants to talk about this season's color or the next It bag? The sustainability conversation is really the only one that I am interested in having. Prospects for lab-grown alternatives to leather are the kind of topics I find sexy now" (Cartner-Morley, 2018).

Kering Corporate Brand Identity

"Sustainability has always been at the heart of Kering's strategy. Far more than an ethical necessity, it is a driver of innovation and value creation for the Group, its Houses, and its stakeholders" (Kering, 2019).

Kering states that their three pillars for driving towards the development of a more sustainable and responsible Luxury are: care, collaborate and create. These are part of Kering's brand core, which also serve as the structure for achieving Kering's 2025 Sustainable Strategy:

- Care: by using innovative tools, practices and methodologies, Kering is taking steps in order to reduce its environmental footprint and help to preserve the planet and its natural resources.
- Collaborate: by collaborating with its stakeholders, Kering ensures high-quality, high economic, environmental, ethical and social performance. This allows Kering to protect its rich heritage, to promote parity and diversity, and to be renowned as an exemplary employer.
- Create: by creating innovative alternatives using an open source approach, Kering can lead to influence the entire industry.

The core elements of Kering's identity are presented in the Corporate Brand Identity Matrix of **Exhibit 4**.

Assuming the role of Kering top management, you are required to take a decision. *Should Kering continue or stop using exotic skins across their fashion and leather brands?*

Exhibits

Exhibit 1: The exotic skin battleground

SLEEK
Fashion & Beauty

Exotic leather is the new battleground for luxury versus ethics

Luxury giants have already shed furs, but python, crocodile and stingray skins are the new frontier

6 December, 2018

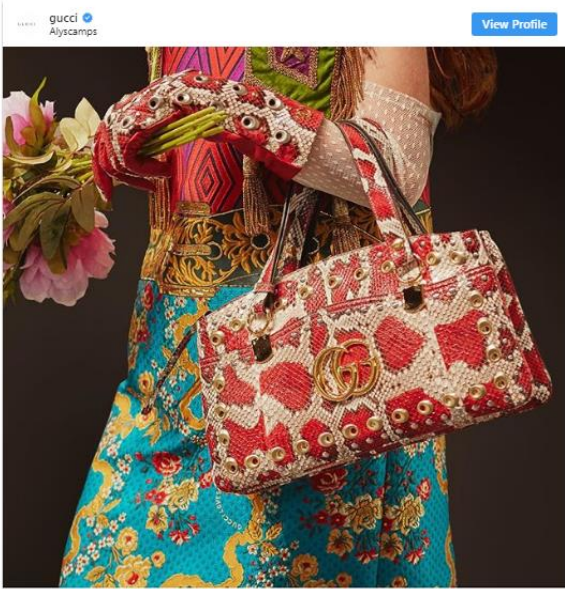
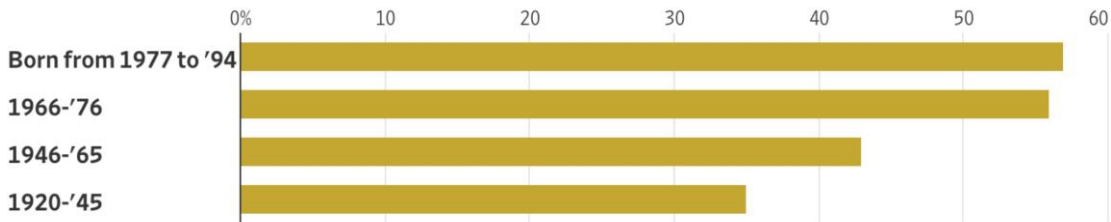


Exhibit 2: Loyalty preferences about sustainability by generation

Percentage of luxury consumers more loyal to brands that take corporate sustainability initiatives, by age range



Source: Bain & Company 2017 survey

Exhibit 3: Demonstrations against exotic skin usage



Exhibit 4: Kering's Corporate Brand Identity and Reputation Matrix

