EXECUTIVE INTERVIEW

Li & Fung: Facing up to Vulnerabilities in the Supply Chain

Joseph Phi
Group Chief Executive, Li & Fung

In its 115 years of doing business, Hong Kong-based supply chain management company Li & Fung has seen off many challenging periods but the latest logistics crisis of container shortages, price hikes, logjams and threats to vital shipping routes is unprecedented. Group chief executive Joseph Phi says fashion brands can nevertheless boost their resiliency if they diversify their post-pandemic sourcing base, adopt new technologies and invest in serious contingency planning.

— by Casey Hall

It's difficult to imagine the challenges that faced Joseph Phi when he was promoted to group chief executive of Li & Fung in October 2020. Not only was a pandemic raging, causing untold complications in global supply chains, but his company had only just delisted from the Hong Kong stock exchange after 28 years of public trading. Now, supply chain stressors, including port shutdowns, a container shortage and the rapid rise in freight costs, are front of mind for both Phi and the fashion executives who rely on him to provide solutions for international sourcing, production and logistics.

In 2022, responsible supply chain management means expecting even more of these unexpected shocks. Future-proofing supply chains requires sustainable diversification, technological innovation and a wholesale reframing of the concept of "value," he says. Instead of trying to wring out every ounce of cost from the chain, value should be captured by decreasing complexity, shrinking lead times and reducing the financial cost of doing business while also reducing the cost that the fashion industry inflicts on people and the planet.

In 2021, there were port closures, shipping container shortages, freight cost surges and more. How long will this last and which challenges do you foresee carrying over into 2022?

Brand owners, retailers, consumers, I think, even suppliers, are starting to adapt to this so-called new normal. The irony is that this [consumption] rebound is adding pressure to a supply chain that's already under a lot of stress. Now the containers and the capacity, they are in the wrong place and this imbalance has resulted in a phenomenal rise in freight rates, which together with a shortage of containers and lack of vessel space, will slow down this global economic recovery, unfortunately. My opinion is that these frustrations will continue until at least the second half of 2022, if Covid is under control, and if the ports and the factories are operating with some sort of normalcy. If things are not under control, then this may even extend to 2023.

To what extent do you think some of these problems would have hit the fashion industry, regardless of the pandemic?

There were some unforeseen external shocks, just like the [March 2021] Suez Canal closure and the driver shortage in the UK following Brexit. During normal times, frankly, we can withstand these shocks, but this time around they had an out of proportion impact because the whole supply chain is running at full capacity. So what this pandemic has done is expose vulnerabilities across the entire supply chain.

Do you think businesses will look back at this period as a point at which they made significant changes in the running of the global supply chain?

I truly believe so. The pandemic has shaken the very core and the very foundation of how the fashion supply chain has been built. It was built on efficiency by squeezing every ounce to make it cost effective. There is a need for a new equilibrium, and this will include diversification of the sourcing base, instead of putting all of your eggs in one basket. In the past, brand owners rarely needed to think about supply routes. Now, you've got to think of the trade lanes that you should be in. Of course, people need to think about the whole digitalisation of the supply chain too and you've got to make it more transparent so that it can facilitate decision-making.

What is the most important takeaway for brands?

I think brand owners and retailers need to rethink the relationship between themselves and the suppliers. You've got to treat them as partners; you've got to treat them as a critical component of the entire ecosystem. In a supply ecosystem, you are only as strong as the weakest partners.

Your parent company the Fung Group was one of 30 global fashion and textile industry companies to first sign on to the G7 Fashion Pact in 2019, committing to key environmental goals. What kind of tangible progress have you made so far?

We need to address the environmental impact of the fashion supply chain. Li & Fung's technology spin-off, LFX, recently launched 3D-as-a-service through a company we call UNIFi3D. In the past, a lot of products were air freighted for approval, back and forth [until they are approved]. Essentially, the whole thing now can be done in a 3D manner, so you eliminate waste during this process. The shortening of the whole product development cycle also means companies can give themselves more time to read the market, and with better intelligence develop products that have the highest probability of success, reducing the number of SKUs. So this reduces inventory, and then reduces inventory waste. It's going to be game-changing, in my opinion, because inventory [waste] is the biggest cost to the brand owners and retailers as well as [one of the] biggest negative impacts on the environment.

What do you think the fashion industry has learned from the Suez Canal blockage?

In the past, brand owners defined value in a way that was always skewed towards the demand, downstream side of the chain. My sense is that the Suez Canal incident is highlighting to everybody that we need to start investing in solutions that manage the upstream supply side, and form greater partnerships with your suppliers and vendors, your freight forwarders and your shipping lines.

What about the potential for conflict in the South China Sea, is that a geopolitical factor the fashion industry needs to consider?

I've lived in this region nearly my entire life [and] my sense is that the probability of a conflict is low [and the] cost of a conflict is very high. Having said this, when we talk about probability, we are playing with chance. So we really need to think about if it happens, how do you then rebalance your supply chain? How would you ensure that the flow of goods is not disrupted? Certainly, as we think about our three-year plan, it will be on my agenda, and I think it should be on the agenda of every chief executive in a company that has exposure in this region.

Are there viable alternatives to these sea routes that are maritime chokepoints?

I may not have said this 20 months ago, but given what's going on, overland freight is definitely a viable alternative. My guess is that the future road and rail costs may be similar to the current ocean rates, but take half the lead time of the ocean route, which means that it's actually faster to ship by land. Earlier this year, our logistics business, LF Logistics, signed an agreement with a local company in Chongqing [to leverage the] growing railway network linking China and Europe along the New Silk Road, which basically connects Chongqing with the port city of Duisburg in Germany. This agreement will definitely accelerate our expansion into Eurasia. For me, and for us as a company, that's the way to go.

Despite recent waves of offshoring from China and international trade disputes involving China, many fashion companies are still reliant on Chinese suppliers. In this new, more diversified era of sourcing, which trade agreements are most important for the industry moving forward?

A very important agreement is the Regional Comprehensive Economic Partnership [RCEP]. It's the largest multilateral trade agreement in the whole world and impacts 30 percent of the world's population. It has the potential to be at the core of the reconstruction of the global supply chain. RCEP is possibly the only trading block that has both the production capacity and the consumer demand, so my sense is that it's going to dramatically facilitate the regional trade and investment within Asia.

What does the conversation about hedging supply chain risk look like as we look ahead to 2022?

Given everything that we have learned from the pandemic, it's very important to diversify our sourcing base, but it should not be blind diversification. In my opinion, the export share of China will gradually reduce by design. The finishing part of production can then move to ASEAN [Association of Southeast Asian Nations markets]. Because of RCEP, the movement of raw materials, the fabric, components, they can enter ASEAN countries largely duty-free, so it softens the cost of movement and transport.

Do you think there's an overall decreased appetite for riskier sourcing locations, such as Ethiopia and Myanmar, even if they are lower cost?

As a company, we have started to look at Africa. In particular, we're talking about Egypt, Ethiopia, Kenya, Madagascar and the like because they're duty-free countries to America. Realistically, I think we possibly need to wait until this whole pandemic stabilises for us to have a really thorough assessment of whether we want to scale up or not, because there is some risk there.

How can brands make themselves more resilient in this new sourcing era?

You've got to be mobile. You cannot be tied to a particular location and geography. Secondly, I think it's about time that we seriously look at our business continuity and contingency plans. The third thing is that shipping costs are sky-high — my goodness — so brands need to find ways of offsetting this increased cost through increasing productivity. I think the exercise of value engineering is therefore very important. By reducing the number of players between myself, as the chief executive, to the lowest rank and by delayering, you reduce your costs. At the same time, you improve your customer service because things get done faster. You remove bureaucracy. I think a lot of companies should pay attention to that.

This interview has been edited and condensed.

EXECUTIVE INTERVIEW

JHSF: Betting Big on a Permanent Shift to Local Retail

José Auriemo Neto
Chairman, JHSF Participações
President, Cidade Jardim

With tenants like Louis Vuitton and Christian Dior and partners including Celine and Valentino, retail behemoth JHSF Participações has had to strengthen its ties with local luxury clients during the pandemic, and the group's chairman is betting on long-term gains from their new shopping patterns. After leveraging the firm's hospitality assets to boost loyalty, José Auriemo Neto reveals how he plans to persuade well-travelled Brazilians to keep shopping domestically.

— by Zoe Suen

Though some have suggested that the repatriation of luxury spending in Brazil is only temporary, José Auriemo Neto believes otherwise. The increasingly local consumption habits Brazilians developed over the course of the pandemic aren't going away, says the chairman of JHSF Participações (JHSF), who is so confident that he is building a hotel on top of the group's largest luxury mall to make it more convenient and appealing for wealthy Brazilian travellers from across the country to shop domestically in the commercial capital.

One of two major luxury retail players in the country, JHSF has fostered long-term relationships with tenants such as Louis Vuitton, Christian Dior and

Cartier, while establishing exclusive joint ventures with the likes of Celine, Valentino and Balmain. But more than a decade after he introduced the likes of Hermès and Jimmy Choo to Brazil by way of the group's crown jewel Cidade Jardim, the executive is not plotting international, or even regional, expansion. Rather, Neto is doubling down on one state in Brazil, where he plans on strengthening ties with the group's high-end clientele using a diversified, experience-first strategy.

Brazil was hit particularly hard by Covid-19, both in terms of the human tragedy and the economic impact on businesses. But how substantial were JHSF's retail losses over the course of the pandemic and the local luxury sector more broadly?

In the retail division we were negative during the months we had to stay closed, down 15 to 18 percent, but sales recovered as of the last quarter of 2020, where we saw growth exceed 2019 levels. Sales in our malls grew 16 percent in Q2 2021, compared to Q2 2019. Of course, the luxury segment has benefitted as our clients were not able to travel and people were buying more domestically.

In the state of São Paulo, where the majority of our business is, vaccination [is happening quite quickly as of September 2021] so people are more confident about going out. We are seeing the luxury segment grow faster than other segments and the country's GDP which I believe... will be something close to 4.5 percent. Our retail division is expecting to have double-digit growth this year [in 2021], and also next year, due to all the demand that we're seeing.

How much of your retail sales did regional and international tourism respectively account for pre-pandemic? What did the repatriation of luxury spending look like for JHSF?

About 90 percent of our business was driven by locals, but we'd see people coming from the other regions of Brazil to buy in São Paulo — 25 percent out of this [domestic share of] 90 percent. Brazilian clients spent almost a year and a half with travel restrictions to destinations like the United States, Europe and also some of the countries in Asia and Africa. But this helped us provide an experience that they were not having before; I believe that the level of business that we are going to have post-pandemic is going to be higher, because customers adapted to buying in the country.

Brazil's high tax burden has traditionally prompted luxury brands to retail at significantly higher prices than in other markets, which gave affluent Brazilians an added incentive to shop abroad in the brand flagships in Europe and the US where there is usually a larger selection — rather than buying at home. Are things changing?

Some of the brands, they're now selling at 15 percent, 18 percent above US retail but our customers expected much higher price differentials considering prices used to be 50 to 60 percent higher than the US and Europe up until 2019, so we saw a very positive impact when they came to the stores and were saying, "Okay, it's not that bad, so I can be a regular customer in Brazil after all." Brands saw that they'd drive their business volume up, the closer they get to US and Europe retail prices so now they're making a very strong effort not to be much higher than 20 percent.

What strategies are you using now or planning to adopt at your shopping centres next year to continue to benefit from repatriation? And how can you fend off competition from local luxury mall competitors in the process?

It's all about providing these customers with the right experience. Through our brand partners, we can do merchandising and buy with a focus on our customers and their sizes. We are also having lunches and dinners where we are exhibiting some of the new products that we are receiving in advance. Some of the travel restrictions to France were lifted, so we're taking some clients to Paris Fashion Week. We have another advantage in that clients buy in instalments; this is a common practice in Brazil.

We also launched a benefit programme where we provide 2 percent cash back on all their buys in the mall; this is connected with our real estate division, so if you buy a house in one of our countryside projects, you collect 0.5 percent cash back that you can use in our malls, restaurants and hotels. So we're exploring these synergies more and providing more benefits in terms of service, experience and advantages to our clients.

Who is your core shopper? How have their habits

changed over the pandemic and what shifts do you predict for the year ahead?

Around 65 to 70 percent are women, aged 22 to 55. In terms of geography, it's mainly São Paulo, and states like Goiás, Minas Gerais and Rio de Janeiro. We are seeing more people travelling to São Paulo, not only to buy, but also to enjoy the city. We've seen more of our clients buying online, and more of our clients accessing our concierge service, which we started this year [in 2021] with one person but we are expecting to have 50 staff working on it by next January.

JHSF operates five malls — with a total gross lettable area of over 265,000 square metres — and has others under construction. What exactly are your expansion plans?

We have four retail projects that are under development. One, in the area of Faria Lima, the central financial district of the city of São Paulo, is a mall with exactly the same model that we recently inaugurated in the Jardins area of São Paulo. We have a physical retail platform, and we also have a digital platform integrated into some of these stores; some of the merchandise is in the stores, but some orders that clients are receiving at their homes is delivered from a warehouse. We have another three projects: one in the countryside of São Paulo [state], called Boa Vista Village; another one in São Paulo, called Real Parque; and the extension of Cidade Jardim mall that we are opening in H1 2022.

You're really betting big on São Paulo. Why?

Our business is focused on high-end clients, so we have to be where they are. It's the centre, the wealthy part of the country. More and more of these Brazilian clients are travelling to São Paulo from elsewhere, too, so we want to give them as good experience [as possible] when they are here. We're even opening a new hotel on top of the Cidade Jardim mall. It's going to be completed in about one-and-a-half years, so people will be able to stay in the same place they're shopping when they are travelling.

You also have shopping centres outside the state of São Paulo, in cities like Manaus and Salvador. How do they factor into your plans?

When we look at the growth opportunities in the country, they are more connected to the state of São Paulo, and we are not seeing a very relevant growth in the North or Northeast region where we have those two malls that you mentioned. Right now, we're focusing our expansion 100 percent on luxury malls but the ones we run there are not luxury malls, they're more democratic.

Once restaurants and shops re-opened after lockdowns in Brazil, did you see a fall in e-commerce sales versus physical retail sales?

Yes, the level of demand for the online platform stabilised, and then went down about 10 to 15 percent. But of course, that means clients did download our app [CJ Fashion] on their phone and they started to surf this digital world, and once they started to go to digital, they got more used to it.

There are many big global luxury e-commerce platforms out there with wide assortments of merchandise trying to tempt wealthy Brazilians to buy from them. How can your online offering compete?

We have an advantage over international players because the brands that we offer on our digital platform are in our malls. We really believe that for a country where there are a lot of logistical challenges, it's very important to have both; it's different from other markets, where you can deliver merchandise across the country from a big warehouse. This integration is how we're giving our clients the access to the merchandise that they want, and how we can understand our clients in a very deep way.

JHSF also operates the Catarina Fashion Outlet outside São Paulo. What shifts have you seen in your outlet business, and what are your expectations for 2022?

The outlet business is growing a lot. We're seeing this business grow year over year in double-digits.

Everyone is bracing themselves for continued uncertainty in 2022. How is JHSF adapting to a more volatile market when it comes to luxury, travel and retail?

A good part of our strategy is related to mixed-use projects. This is helping us a lot, because we can provide for our clients not only the experience to buy merchandise, but the experience for them to live in our properties. I believe that this is relevant for the next few years, because we're seeing that people want to get together; they want to spend time with their families. So our challenge is to be on that trend even more.

This interview has been edited and condensed.

PVH: Harnessing Creativity to Cut Through the Noise

Stefan Larsson
Chief Executive, PVH Corp

The chief executive of the company that owns Calvin Klein and Tommy Hilfiger believes creativity will be even more of a differentiator in 2022 as fashion players move to better align merchandise planning with demand in the face of escalating supply chain challenges. By further elevating the iconic status of PVH. brands and using persuasive design to drive engagement, Stefan Larsson sees opportunities to gain market share.

— by Chantal Fernandez

Since becoming chief executive of the group that owns Calvin Klein and Tommy Hilfiger in February 2021, Stefan Larsson has been clear and consistent about his mission at PVH Corp. "I keep coming back to the same [idea], which is our ability to stay true to the iconic DNA of our brands and keep connecting them closer and closer to where the consumer is going," he says. In a crowded and disruptive digital market, the seasoned executive considers creativity one of the most important differentiators. One way to accomplish more creatively, he suggests, is for companies to break down the traditional boundaries between internal and external activities, in favour of a "network" approach.

Like most of its peers, PVH is emerging from a period of great challenges, during which the company moved to boost its e-commerce channels and reprioritise domestic consumers, especially in the US where foreign tourists generated more than a third of sales prior to the pandemic. To gain market share in the year ahead and indeed for the long term, "it's never been more important to invite in [voices from the outside], to let [them] be heard," Larsson said, referring not just to design functions but sustainability initiatives and workplace culture. "We have to be leading big companies and big brands in a much more entrepreneurial way than before to win."

Europe is PVH's largest region in terms of revenue, and its brands benefit from a healthier wholesale market there too. Are there lessons that you can take from your stronger markets to apply to the North American market, where discounting and the shift to digital have been disruptive?

The consumer is moving and continuously moving fast — and the barriers have come down, and the noise levels have come up, and the consumer has all this choice — so it's the importance of connecting with the consumer through creativity and design that drives engagement. Equally important is to connect with technology and become more data driven to understand more about where the consumer is going. Having a systematic, repeatable operating model is also going to be more important going forward.

But how does that focus on being intimately connected with the consumer impact your global distribution strategy?

It's about growing with a mix in those channels that reflect where the consumer is going. The consumer also wants to shop at the likes of Zalando, About You, Amazon and Tmall. So increasingly, it's about winning in the digitally led marketplace, and looking at it as an integrated marketplace region-by-region and almost city-by-city. The biggest opportunity to grow, by far, is direct-to-consumer e-commerce and third-party e-commerce, both with pure players like Amazon, and with more traditional wholesale partners.

Most customers around the world have gradually started to return to their pre-pandemic lives or something close to it, but international tourism is still depressed; in the US, most international travel bans were only due to be lifted in November 2021. How has this informed your view on refocusing the business around domestic consumers?

Where we were the strongest with the domestic consumer pre-Covid is where we weathered Covid the best. And where we had the most dependency, or an over-dependence on tourism, we had the most work to do to win more with that domestic consumer. So strength has to be built into every market [in terms of the domestic consumer going forward].

How do you see recent and future supply chain disruptions permanently changing your production strategies and your sourcing footprint?

We still as an industry have too long lead times, and there is a big opportunity to better match planning and buying to demand, and that's something that we learned when Covid hit. The second-biggest learning is to build resilience into the supply chain now, with an awareness that [crises like] pandemics do happen. Also to build in a geographic and partnership approach where we are able to compensate for what happened during [an event like the] pandemic and continue to supply the business with goods.

How are you thinking about cutting down on lead times next year?

For us, it starts with making sure that every single product in the assortment has an intent, and our focus is on the most essential categories and then, within those categories, developing hero products. Once we do that, we create the foundation for planning and buying inventory closer to demand, because we have fewer SKUs and more focused product silhouettes. Then we can work more with flexible and more agile supply chain set-ups, cutting the lead time by getting much more focused and upfront in the categories and the product silhouettes that matter, and then getting closer [to demand] when it comes to deciding fabric, colour and where in the world these products go.

Many companies have benefitted from reducing their inventory and focusing on their hero products, and that's helped them cut down on discounts and raise their

average unit retail (AUR). What will distinguish the companies that are able to keep that momentum going in 2022 from those sliding back into bad old habits?

The winners will be those who keep developing a systematic focus on building assortments of products that [stand] out in a sea of generic products. Next year, I believe we are moving into an era in this sector where creativity will become even more of a differentiator — style, taste, original creativity — and then technology will be an amplifier of that. But I'm surprised that there hasn't been more conversation about the importance of competing with creativity.

Tommy Hilfiger was still staging runway shows before the pandemic, but Calvin Klein no longer does, and both brands have been focused on collaborations. In our fast-moving digital world, do you see collaborations as the best way to create halo moments that attract customers to your brands?

The consumer appreciates the iconic brands with staying power, where they have a certain level of predictability. They also love creative newness like never before, and the mix of those. Staying true to the iconic nature of your brand, and then utilising that iconic nature as a platform to amplify new up-and-coming creativity — it creates newness and relevance for the consumer. The consumer is taking down barriers. They don't look at it like, "Is this Calvin or Heron Preston?" They're saying, "Oh, I love Calvin, and I love what Heron is doing, and I love the mix." So that, I believe, will just continue.

Are there trade-offs when moving towards sustainability goals while also optimising the supply chain, whether that relates to environmental concerns or workers' rights?

Our experience is that most often they go hand-in-hand. We just had our big yearly supplier summit. What I asked them for, and what I committed to them, was to tap into some of their innovation and expertise because a lot of them are moving forward in making more sustainable sourcing and production. One mega trend I see overall in the sector is the importance of breaking down the traditional boundaries of what's in the company and [what is done externally]; what can be accomplished together as a network — whether it's creativity, sustainability and supply chain, or technology. It's looking at how we can follow the consumer and maximise our positive impact by working together in a way that breaks down the boundaries of what traditionally we said we wanted to do [internally] as a big company.

We've seen several textile recycling projects come out of both Tommy and Calvin. What do you feel has the greatest potential to scale in the next year?

Tommy has piloted something called Tommy For Life, where we bring back old pieces and clean and repair and resell them. We're taking a lot of action to try to see what we can do, and what can be scaled. We're moving forward on a number of fronts, and we are increasingly looking at identifying the big needle-movers that we can drive over the next few years to make a real positive impact. So it's a combination of going big — where we see we can go big right away, like sustainable products and VPPAs (virtual power-purchase agreements), and the solar roof on our [distribution centre in Venlo, Netherlands], to testing circular design and circular product initiatives — and testing small, so that we can then learn and scale over time. [But most of all, it's about] being humble enough to realise that we have 90 percent of the work still to do [in this area].

What about opportunities in the metaverse and virtual goods? Do you see that as something that could become a revenue driver for the business?

One thing we learned through Covid, and the disruptions ahead of Covid, is that when you see those exponential growth rates of consumer-shifting behaviour, you need to follow that, including the meta-world, and be open to how the consumer wants to engage — and be open to the possibility that it could, sooner rather than later, be an income stream.

> "[Most of all, it's about] being humble enough to realise that we have 90 percent of the work still to do."

The fashion industry is currently facing a talent crunch. What does it mean to be a competitive employer in 2022, and how might that evolve going forward?

Just like the consumer, team members also have a lot of choices. The traditional way of running a big company — where you told people what to do and the further down you got in the organisation the more you'd just execute — is going to be obsolete. If you're really clear on the vision, you're really clear on the priorities, you can empower team members across all levels of the organisation to make decisions to follow the consumer. It will put pressure on us to become much more inclusive, much more engaging and much more diverse. It's going to be our job to invite team members, independently of where they are in the organisation, to engage and see that they have impact in not only driving to become one of the winners from a shareholder return perspective, but also doing it in a way that maximises our positive impact from a [diversity and inclusion] and sustainability perspective.

This interview has been edited and condensed.

EXECUTIVE INTERVIEW

Gucci: Testing Luxury's Opportunities in the Metaverse

Robert Triefus
Executive Vice President and
Chief Marketing Officer, Gucci

Intangible products such as NFTs and digital fashion used in games and other virtual environments are a fast-growing area of interest for luxury brands, but will their experiments in the metaverse pay off? Gucci's chief marketing officer Robert Triefus believes the immersive world signals a paradigm shift and expects it to drive a 'very significant new revenue stream' for the brand in the years ahead.

— by Robert Williams

The metaverse became one of the fashion industry's hottest buzzwords in 2021, as interest in digital products linked to blockchain-powered non-fungible tokens (NFTs) exploded, and activity on virtual reality interfaces surged as the global fanbase of video games made their presence felt. Luxury brands raced to get a foothold in these fast-evolving virtual worlds, with Gucci among those leading the charge.

In 2021, Gucci auctioned off its first NFT and issued its first-ever virtual sneakers, selling the 3D animated kicks for $12 a pair. Staging virtual brand activations on the Roblox platform and life simulation game The Sims, it has also created assets for Pokémon Go and Animal Crossing. The brand even hired a dedicated team to work on developing digital products under creative director Alessandro Michele. Overseeing Gucci's experiments in the metaverse is Robert Triefus, the brand's chief marketing officer who has been a central player in a multi-year push to build a sprawling and highly engaged online community. But establishing Gucci's foothold in the virtual realm isn't just about marketing, Triefus says. In the years to come he expects the metaverse to become a "very significant" driver of revenue growth.

As blockchain technology burst into the digital art world with the emergence of NFTs, Gucci was quick to get involved, auctioning off an NFT for charity in June 2021. Since then, brands including Dolce & Gabbana, Rimowa and Louis Vuitton have also released NFTs. But luxury brands aren't known for being first adopters of new technologies and NFTs remain a niche market, so what is it about this space that has the industry in such a hurry to participate?

The industry has changed. Whereas back in 2000, naysayers were saying e-commerce could never be a luxury experience, today there is a deeper understanding that digital can lead to enhanced [client] experiences. When it comes to NFTs, it's going to require a lot more time to understand what they can represent in terms of customer experience or value-add. But you've seen a significant number of brands within the sector saying, okay, we believe that NFTs have relevance, we're not 100 percent sure yet what that relevance is but we're going to pilot [this], we're going to experiment, and have some learnings and insights as a result.

Why is the audience for NFTs an interesting market to engage with? Is there really significant overlap between luxury consumers and the market for NFTs?

As we think about the Gucci community, we do think about adjacencies, or other communities and cultural groups that potentially intersect. Digital art has been a growing area of cultural intersection with fashion for a few years.

How valuable to you is the intersection that NFTs have with the cryptocurrency community?

Cryptocurrency is linked almost inextricably to NFTs and that's an area with great future potential. I think cryptocurrencies will progressively become better understood, and also some of the issues surrounding [blockchain's] sustainability, which have been of concern for NFTs too, will be resolved. It's an area of test and learn, but I would suggest in probably a year or two these areas will be much more pervasive in terms of how fashion brands are engaged.

The NFT space still feels like it's only relevant to a fairly narrow swathe of fashion consumers. What evolutions could help pave the way for broader adoption?

One is the actual application. There are opportunities around authentication, providing an additional sense of authenticity and security to customers. Or around added value that comes with specific products, where there may be a narrative linked to it. Digital collectibles may inspire physical manifestations. This will take time, as brands are [just] beginning to understand how they can add value through NFTs. Then, as with any new technology, the customer equally needs to understand what's in it for them, how you purchase NFTs, how you potentially resell them. That learning experience is essential as a foundation.

Isn't there also an issue around customers' ability to enjoy them? It's not necessarily intuitive, how you would admire an NFT or show it to somebody.

Yes. The ease with which the end-user can understand, benefit and appreciate what NFTs offer still has a way to go.

NFTs' valuations skyrocketed in early 2021 but fell significantly later in the year. As a luxury brand, whose business is based on selling things that are meant to retain their value over time and be quite durable, do you have concerns about the reputational risk of being a first mover in a space like this?

When you test and learn, you always do that with an understanding that the learnings may move you not to proceed. Is it better to test and learn or sit on the sidelines? If you ask me, it's better to test and learn.

Speaking about the metaverse more broadly — whether it's NFTs or your recent projects on virtual reality interface Roblox, where you staged a Gucci Garden exhibition and sold high-top sneakers —

what are some of the top-line learnings your team gained from these experiences?

There's the dynamism of the gaming world, which has grown significantly, probably because of [pandemic] lockdowns, but also because of the innovation that is going into the experience. Then there are more and more second worlds where you can express yourself. There is probably an underestimation of the value being attached to individuals who want to express themselves in a virtual world with a virtual product, [through] a virtual persona. The idea that everything has to be physical is very quickly being disproven. We had 19 million visitors to the Gucci Garden within the Roblox metaverse.

Could you tell us a bit about how fashion brands' deals are structured with emerging players in the metaverse, like Roblox or The Sims? Are any brands actually seeing revenue from these initiatives so far, or is it more of a marketing investment?

It depends on the objective. It might be about branding, or a revenue share, or a combination of the two. I won't tell you how we structured our different deals [but] what I can tell you is that we have proven to ourselves through these collaborations that the virtual world can create a very significant new revenue stream.

How significant? How lucrative do you think the metaverse could become for brands and how soon can it be monetised?

Roblox has a remarkable market capitalisation... and they've only been around for a very short while. This demonstrates that they have become very successful at understanding how to monetise virtual experiences. We know that people are willing to pay good money for NFTs, for digital collectibles, and to have a second life in the metaverse. So the revenue potential is absolutely there. One has to understand how to curate the experience as in the physical world, and make sure that experience is delivering what the customer would expect from the respective brand.

Still, with some initiatives in the metaverse it's hard not to suspect the brand is doing it for the headlines. How much of the activity we're seeing in this space is just tech-washing?

Of course, to be perceived as a brand that is innovative, that is leading potentially the industry or the sector, those are great perceptions. But I think Gucci has been recognised as a brand that is authentic, that doesn't put marketing ahead of trust with its community. There's too much at stake in these innovations. You've got to go into it with your eyes open and a belief that they can ultimately benefit the business and the brand. We have a dedicated team that is focused on this area. We really want to be able to understand what it is like to exist in the metaverse.

One thing that feels like a sticking point with virtual products is that they're often limited to one specific platform. Consumers are bouncing around between social networks and games, so does it make sense to buy a digital product that is only usable in one of them? Are any solutions emerging for better compatibility?

In terms of collectibles and digital assets, we certainly want to try to create value by allowing assets to be used in multiple universes or metaverses. Where that isn't feasible, we have to look to create something that is appropriate and authentic to a specific metaverse. With The Sims and with Roblox, the way we entered those experiences and those worlds was to co-create with creators from those communities, who can ensure there is authenticity.

Social media platforms remain the "second world" we're most familiar with — and it's one where Gucci is very active. Since the pandemic, you've left the fashion week calendar and have been setting your own pace for releasing designs and content online. What's working and what isn't right now in terms of your social media investments?

Because of Covid, we decided not to put on physical events [until] our first physical fashion show for some time, [which was] on November 2nd in Los Angeles. The way that we have been able to navigate these unusual circumstances has been to exploit all the digital platforms that are available to us. In the West, I'm thinking of Instagram, Snapchat, TikTok, Twitter, YouTube. Then, in China and in the East, there's another whole ecosystem. Each platform's community is based around a certain type of experience, and if you go on to that platform with an experience that isn't relevant, it's not going to be successful.

This interview has been edited and condensed.

Snapchat: Enhancing the Social Shopping Experience

Rajni Jacques
Global Head of Fashion and Beauty Partnerships, Snap Inc.

Prada, Dior and American Eagle are among the fashion brands harnessing Snapchat's augmented reality lenses, which overlay digital images on the real world to create immersive user experiences or allow shoppers to virtually try on products. As Snap Inc. works to make its social platform more shoppable, the company's new global head of fashion and beauty partnerships, Rajni Jacques, is tasked with bringing more top brands into the fold.

— by Marc Bain

After years as a fashion director at Condé Nast titles *Allure* and *Teen Vogue*, Rajni Jacques switched gears. In June 2021, she moved to Snapchat's parent company, Snap Inc. to serve as its global head of fashion and beauty partnerships. Jacques joined at a time when the platform and its competitors were making big pushes into social commerce, launching more shopping capabilities directly within their apps. For Snap, which considers itself a camera company first, those capabilities have primarily centred on augmented reality (AR) and features such as virtual try-on that have drawn brands and retailers ranging from Prada and Dior to American Eagle and Champs Sports.

The aim thus far, however, has not been to turn shopping into a revenue stream by grabbing a cut of sales. Snap says it neither takes a commission nor charges fees for brands to use its AR products. Instead, the company, which derives effectively all its revenue from advertising, views shopping as a way to bolster its appeal to users and brand partners alike. Jacques's mission is to attract and assist those fashion and beauty brands looking to use Snap's technology to connect with its largely Gen-Z audience.

Snapchat recently launched a number of new products and features to support shopping on the app, such as expanding virtual try-on, improving the look and movement of fabric, and introducing API-enabled lenses that let brands create content based on real-time product inventory. Why is the company investing so much in shopping?

We think of ourselves as [a camera company] first, and when it comes to AR, we have about 200 million Snapchatters engaging in AR every single day. That truly is revolutionising how fashion and beauty brands operate. We're harnessing a different type of power when it comes to shopping [and] when it comes to retail, unlocking a whole new range of experiences for Snapchatters and people on the app to engage with products. Everyone gets to try on a variety of different products from makeup to shoes to sunglasses to jewellery, and there's way more that's coming down the pipeline. We are investing heavily in it because we know that brands are looking to, in a way, future-proof their businesses.

There are different ways shoppers can discover and buy products through Snapchat right now. There's the approach taken by retailers like American Eagle, which has set up a Shop tab on its profile page that users can browse, much like a regular e-commerce site, or there's Dior's approach with AR for its B27 sneakers to "Shop Now," which takes you to the product on Dior's e-commerce site. What else is Snapchat doing to make it easier or more enticing for shoppers to buy products directly in the app?

We are long-term investing in augmented reality and personalisation for everyone. As consumers, we love personalisation. Snap has been laying the groundwork for an improved online shopping experience and creating value for the shopper but also for the fashion brands, to help reimagine what their fashion [point of view] is [and] help reimagine their campaigns. AR is really at the forefront of this. And it is working. For instance, Dior's try-on campaign resulted in over [six times the] return on the ad spend. Gucci, when we did all their sneaker try-ons, and even their beauty stuff, reached about 20 million people.

But there are so many different ways brands can use our technology. We worked with Farfetch and were able to do voice-enabled controls, where shoppers can say what they're looking for, like "I'm looking for a polka dot jacket." We did something with Prada where they tapped into our gesture recognition, where it allows you to stand in front of the camera and with your actual hands swipe so you can change the colour.

If I'm a brand, what's the value of trying to attract shoppers on Snapchat versus other social platforms, particularly since Snapchat's audience may be smaller than some of its bigger rivals?

It's all because of AR. To be able to play with a brand is exactly what Snapchat gives you [and] makes it very different in the marketplace. AR allows you to put [clothes] on. When it comes to beauty, being able to swipe different colours on your eyelids, different colours on your cheeks, or different lipstick colours. There's nothing like having an immersive experience.

Are there certain categories of products that shoppers are more willing to buy in the app?

Beauty is at the forefront of that, but then accessories: bags, shoes, jewellery.

Is Snapchat doing anything specifically to attract beauty brands and help them to engage users on the app?

Oh, yes. I work on that side with the bigger companies, but then I also make sure to work with smaller companies, diverse companies. I partner with a couple of smaller companies [like] Ace Beauté [and] Kaja Beauty. They're niche but they have such an array of product. Allowing them to create lenses — we have something called the Lens Web Builder — where they can go in and create their business profile and create their own lenses themselves, so they don't necessarily have to have a tech arm to be able to do that. That allows them to be in the game with your MACs or [other] big companies.

One of the areas where Snapchat has really expanded its capability is virtual

try-on. You started with Gucci and shoes, and more recently expanded into other categories such as clothing and accessories. Which other fashion brands are using the function and what sort of products are they offering?

Your Pradas, your Diors, your Guccis. One of my favourite activations we did was with American Eagle. We did this thing with Connected Lenses. Imagine it being social shopping, going back to the days where you went with your friend to the mall and shopped. We created Connected Lenses to allow that immersive experience to happen. It helped consumers experience the same lens together, so they're in the same room together, like friends are actually transported to the American Eagle virtual store and can live chat, select outfits and do all those things that you would do in real life. We've done something with Piaget where we have a wrist try-on, so you can actually put your hand in front of the lens and see what a watch looks like on your wrist. With Kay Jewelers we did earring try-on. There are so many different brands that use the AR lens.

Shopping directly on social platforms in the US and Europe still happens on a relatively small scale compared to China. For brands and retailers, the value is still mainly as a place to market to shoppers. How are brands using Snapchat as the top of their marketing funnel?

Brands look at Snap and say, "Wow, there is a lot of innovation there. How can we be a part of that?" I work with them to create top-of-the-funnel business pushes and help them with their marketing plans: What can we do that, one, shakes things up? What can we do that, two, uses our products in the best way possible, so that everyone else can see all the cool things that we can create?

Are there any forms of marketing that seem to work better on Snapchat than others, specifically for fashion retailers?

When it comes to fashion, you have to truly give an experience that someone hasn't seen before, or you have to give an experience where they feel like there is an emotional connection to what you're giving them. Dior did a lens for one of their fragrances, and it changes your environment with all these flowers. You could be on the dingiest street in New York City, and you use this lens, and that dingy street gets transformed into something else. Allowing your customer to be part of something and experience something on their own using the lens is what really seems to work. Gucci did a lens, and it was tied to when they did a collaboration with The North Face. It's a camping experience. You can literally go from day to night through that, and it transports you to being outside, and really understanding what that collaboration is about. Anything that allows someone to feel something is obviously the way to go, as opposed to something that is very like, "Here is my shoe. Buy it." It has to have a narrative, a story, a feeling behind it for people to connect.

Where do fashion and beauty partnerships fit into Snap's larger goals as a company?

Being the head of fashion and beauty, the mission is to bring the best organic opportunities across the Snapchat app, and Snap Inc. as a whole. That's the broad scope of it: to bring the top brand partners, really having them be part of our ecosystem. We define organic as a non-revenue opportunity. Hopefully, that will lead to deeper investment across Snap's products from the partners. We don't want it to be one-and-done.

Are there any lessons you were able to bring from your background in fashion media that have helped in your role at Snapchat?

I came from Condé [Nast] as fashion director of *Teen Vogue* and *Allure*, but my job wasn't necessarily just being the fashion director. As magazines started to get smaller it was about me doing a lot more. Not only did I look over the covers and the centre of book and stuff like that, but I also worked in brand partnerships. I also did branded content. I also worked with the business side to make sure that, alright, if we're going to have any experiential moments that tag back to that editorial title that I was at, what does that look like? Doing all those things, being able to create, and using that head gives me a broad range to use everything that I learned.

This interview has been edited and condensed.

EXECUTIVE INTERVIEW

Novetex: Encouraging Brands to Raise Their Game on Circularity

Ronna Chao
Chairman, Novetex Textiles

As fashion brands look to pursue closed-loop recycling solutions, it is increasingly important to engage with suppliers who can help them move toward sourcing circular materials. Novetex Textiles has developed its own mechanical recycling process — a waterless, mostly automated system that produces no chemical waste — but the company's chairman Ronna Chao says reaching industrial scale and mass adoption of the new technology is a 'chicken-and-egg' conundrum.

— by Rachel Deeley

Material innovations have long been front of mind for Novetex Textiles chairman Ronna Chao, but full circularity is a more recent endeavour at her family business, which spins yarns like Merino wool, cashmere and cotton to be shipped off to textile mills and knitters. In 2019, Chao negotiated a partnership with the Hong Kong Research Institute of Textiles and Apparel (HKRITA) and the H&M Foundation to develop a patented mechanical recycling-process: one that is waterless, chemical waste-free and almost entirely automated.

The six-step Billie System, named after Chao's late grandfather and Novetex's founder, sees unwanted fabric sanitised, separated from hardware like zippers and buttons, chopped to size, sorted by colour, shredded and sanitised again, then shipped as spools of fibre from Novetex's Hong Kong headquarters to be spun into new yarn at its other factories in nearby Zhuhai, mainland China. As fashion brands' interest in circular principles continues to grow, Chao discusses some of the remaining sticking points — from the limitations of recycled fibres to logistical and regulatory roadblocks — and outlines where the industry's biggest players need to step up.

You've previously said that all your clients — both textile mills and consumer-facing brands — are now prioritising sustainability, and that Novetex's work is just one part of the bigger picture. What else needs to change across the value chain to create a truly circular economy for apparel?

I really think brands can do a great deal by sharing their stories, and the biggest barrier that I think we at The Billie [System] see nowadays is that when a lot of these brands come to us, they want to work with us, and they're very enthusiastic, but they do not want us to mention their names, they do not want to tell a story, and so the good work that they're doing in terms of sustainability and circularity is not widely known.

How could brands tell a better story about the closed-loop recycling that's now available from players like Novetex?

It's not just [about] having a label on the garment that says, "I used to be an old sock," it's more advocacy, maybe working with universities, working with research institutes... I think it's also good to tell the story of partnership, so if it's with a certain sorting company, or working with a certain logistics company, the story of different types of partnerships along the way, that could be very meaningful. The more people get involved [and] join this consortium, the better... Maybe storytelling is not the right term, and advocacy sounds too political — but really pushing it out. If somebody is doing something good, why don't they want to tell the world about it? That's what I want to say, because when they tell the world about it, that could really result in multiple layers of influence and a change in mindset and behaviour.

As a yarn producer, Novetex is quite far-removed from the final stage of garment manufacturing. How important is it that brands engage directly with you, rather than relying on the dialogue between yourselves and the next tier of suppliers?

It's very, very important, and I think over the last two decades our role has changed from just dealing with the knitter to very often dealing with the designer and the brands directly... which is wonderful... We also have our role to play in pushing... the movement forward. There are two [practical] ways to work with The Billie [System]. One is only to provide textiles for processing without buying any upcycled products from The Billie; the second is to purchase all the knitted products from the provided materials for a closed-loop cycle.

What are some of the remaining challenges when it comes to integrating recycled materials into existing apparel supply chains?

That is a question that I would love to hear the answer to from the brands. For us, we're on the other side, trying to convince people, that "maybe [sourcing recycled materials] is a little bit pricier than what you'd expect, but this is something you must do." You may not be 100 percent circular or 100 percent sustainable from day one, but that has to be something that we move towards.

Are there issues with scaling and reaching that critical point of maturity in the technology?

Well, [brands] don't discuss scale with us, because they're not asking us for 20,000 pounds of upcycled textiles. In the few conversations that I've had with brands where we've gone a little bit beyond [that and] touched... on the topic of, "let's close the loop," what I've heard would be [questions about] quality and cost. Sometimes they do ask about scale, but it seems like they expect quality to be very, very high [and for] the cost to be much lower. They're giving us a mishmash of things, and they want something that comes out from all of that to be very useable and uniform. Perhaps there's a disconnect between what they're giving us, or what they think can be done with their textile waste, and what they're looking for.

Cost is certainly a factor; recycled fibres are typically more expensive than their virgin counterparts. When do you expect to see economies of scale, so that the cost of recycled fibres will be just as affordable, if not cheaper?

It's a real chicken-and-egg situation, because in order to reach that scale, we would need many, many more people to adopt using recycled fibres and yarns in their design and production. Everything is connected; if consumers demand more of it, then the brands will make more, and then they'll place more such orders with us.

"In order to reach that scale, we would need many, many more people to adopt using recycled fibres and yarns in their design and production."

The Billie System currently secures most of its feedstock from B2B partnerships with fashion companies and hotel groups, which can provide unsold inventory, bedsheets or old uniforms, but is there an opportunity to bring post-consumer fashion waste into textile-to-textile recycling?

Right now, if there can be larger-scale collection and sorting, that would help us tremendously. I have limited space where The Billie is housed, so I can't be the collector and the storer and the sorter all at once. We always talk about partnerships; if we can partner with, for instance, NGOs or other players within the industry [in other countries] where they can do the collection and the sorting, then let's say after six months they collect two tonnes of red sweaters, one tonne of beige sweaters, then we can process that in a more meaningful way.

It's interesting that you mention other key geographies. In Kenya and Ghana, for example, there are entire industries and livelihoods built around buying and selling bundles of used clothing. How do these ecosystems form a part of a closed-loop, circular economy?

I think it's two separate things. I often say, The Billie System is not a garbage processing machine. We didn't create The Billie so that people can continue to make more, and sell more, and throw away more. It's really a tiny, tiny, tiny part of the solution. The greater effort needs to come from how we look at design, how we look at sourcing of materials, how we look at merchandising, production, marketing and sales, consumption and then disposal.

Where do you see the potential for the fashion industry to really adopt circular design in earnest?

I think the larger the brand — and this is a very personal observation based on my experiences talking to these people — the bigger the disconnect between the departments. For instance, I can have a very, very meaningful and enthusiastic conversation with the sustainability division of a brand. They're very helpful, they connect me with the different people in different locations to try to address the issue, but they may not be the ones to have any influence [over] design or merchandising. The design team may also have strong opinions or initiatives about sustainability, but they may not be as connected to the material sourcing part of the company. The smaller brands that we've worked with are more nimble, because the decision process and the range of influence is smaller. They can make decisions quickly, and the course of direction can change very quickly, or they can just decide, "Okay, we're going to make 300 pieces of this using our textile waste." In most cases, they're willing to tell that story.

One challenge with mechanical recycling is that it produces shorter fibres that need to be blended with virgin fibres to bolster the quality. Is there a point where the technology will evolve enough so that it becomes truly self-sustaining?

We're constantly in discussion with HKRITA about how to upgrade the parts in The Billie System... Right now it's only under ideal situations that I can process the [maximum capacity of] three tonnes per day... I don't know when we can achieve that, where someday we will not have to use virgin fibres. Unless consumers don't mind [shorter, rougher fibres, but] I think [they] are very spoilt nowadays; everything has to feel good, be light, with all these performance qualities; it has to be cheap, and it has to be beautiful. I won't say it will never happen, but currently I don't see it happening within a short time.

Your system can recycle textiles made from 100-percent natural fibres, but what about those blended with synthetics?

In order to produce high-quality recycled fibres, The Billie [System] prefers textiles from 100 percent natural fibres.

Can The Billie System process textiles containing natural fibre blends, like a cotton-wool blended sweater or linen-cotton blended T-shirt?

Yes.

How are fibres separated out, if at all?

As a mechanical recycling system, we cannot separate the fibres through the upcycling process, so we prefer to collect items that have no more than two fibre combinations to maintain the purity of the recycled fibres.

Regulators are increasingly turning their attention to environmental policies that will implicate the fashion industry, both directly and indirectly. How do you think the apparel industry can really seize this as an opportunity to become circular?

Well, I'll take ourselves as an example. [We have] difficulty shipping our fibres directly from our Hong Kong factory to our Zhuhai factory because there's a rule against importation of waste. Now, I know that this rule probably came from many, many years ago when China was, like many developing countries, accepting other countries' garbage... [but] the rigidity of that rule affects us because what goes through The Billie is sanitised three times, but it's still labelled as waste. [As one company] it's very difficult for us to go and lobby [regulators] to change that rule, so ideally, if... there are 20 people like us going to lobby them then it probably makes more sense for them to really take a stand, but if it's just me and The Billie it's harder for them to make a case. Those are the kind of things that we face, and it is frustrating.

This interview has been edited and condensed.

The Bille System factory. Novetex Textiles.

EXECUTIVE INTERVIEW

Aura Blockchain Consortium: Uniting Rivals to Make Luxury Goods More Traceable

Daniela Ott
General Secretary, The Aura Blockchain Consortium

It can't be easy to get a group of luxury firms that have only just put their rivalries aside for the common good to march to the beat of the same drum, but Daniela Ott is tasked with doing exactly that. As leader of the Aura Blockchain Consortium, the former Kering executive must now use delicate diplomacy to persuade others to join the shared digital platform used by LVMH, Prada and Richemont-owned Cartier which creates 'product passports' for luxury goods.

— by Marc Bain

Three competitors joined hands in 2021 to create an unusual partnership in the form of the Aura Blockchain Consortium. LVMH, Prada and Richemont-owned Cartier united behind Aura, a blockchain originally developed by LVMH and technology partners ConsenSys and Microsoft, to solve critical challenges around the traceability of luxury goods by giving each product a digital identity that provides customers with a secure, verified means to see its entire life, from the raw materials through to second-hand sales.

Aura's general secretary is Daniela Ott, a luxury veteran who spent more than a decade with Kering. Expanding this groundbreaking but tricky alliance is not without challenges. For one, the emergence of competing blockchain technologies could fragment the burgeoning product passport ecosystem. Aura's effectiveness against counterfeiting is also unclear, and it has not yet persuaded some prominent brands to sign up. Ott is nonetheless determined to create a "digital twin" featuring theoretically tamper-proof digital certificates of authenticity for every product sold in the luxury industry — and to use Aura to do so.

Aura has been signing new companies up, but others remain hesitant to join. Two big names that remain absent are Kering and Chanel. Why is that? Are brands concerned about revealing sensitive information, such as their suppliers, to competitors, or do they see creating their own product passports as a competitive advantage if their system is somehow better?

Actually, it's an advantage to use one solution, especially if you have the same issues, you have the same suppliers, you have the same distributors, and you have the same needs. Having one system makes it easier for everybody. I think it's more that we just launched in April [2021], and blockchain in itself is hard. It's not just that you need to have your use case ready. You need to link it up internally in your organisation, to make sure you have the data you actually put on the blockchain. Your marketing teams have to know the message you want to pass [on]. We make it easy but still you must define what you want to do with your passport. [So] I think it's a journey.

Luxury companies are not known for jumping on emerging technologies. What gives the companies leading this charge confidence in blockchain?

I think doing it together as a consortium helps. I would say also I think they learned the lesson of being too late in the e-commerce space. I think it helps that we have a private permission-based blockchain where they can decide which information to give access to or not. In a public blockchain, it's very easy to see that you had a drop in production. But it's the brand who decides whether, "I'm giving access to the consumer this information," or "I don't give access to how many units I put on the blockchain today." I think that also gives some reassurance.

"Actually, it's an advantage to use one solution, especially if you have the same issues, you have the same suppliers, you have the same distributors, and you have the same needs."

Aura's member brands are at different stages in putting their goods on the blockchain. Customers can see the history of products from Bulgari and Hublot, for instance. But if I were to check the information on the products currently available, what sorts of details will I see?

There are brands who are showing basic information: when it was produced, the serial number, the price point, all the fabric which is involved, where the fabric is coming from — I would say classic information about traceability. In terms of a watch brand, they would add a guarantee, a certificate of authenticity, and they would be adding a specific certificate for watches that the watch actually keeps time. We are working right now on a diamond traceability certificate — this is the Aura diamond traceability committee we are putting together with our jewellery brands. Once we go live with that over the next few months, you will be sure where the diamond has actually come from, and also the grading of the diamond.

What share of goods made by Aura's members are already on the blockchain?

What I can say is that we have double-digit millions of products on the blockchain.

Is the ambition to eventually reach 100 percent of products?

That's my end ambition, yes. I think every physical product needs a digital twin. I'm absolutely convinced about that.

Do these digital twins enable a new type of relationship with customers, or is it more about enhancing the methods brands were already using?

It's definitely a new relationship. It's on a different level, that kind of traceability which you can actually have from the beginning of the value chain down to resale. Having an authenticity certificate is new, having all these certificates in one place, being able to directly communicate, this is a whole new level of touchpoint. Especially for young consumers, authenticity and traceability are a must, so if [they're] a must, how do you get that in a cost-effective way to a large number of products? We couldn't do that before.

For the product passport ecosystem to work well for consumers, it's important to maintain a certain degree of compatibility, but what about the actual interface? Will there be any sort of standardised interface for all goods on Aura, or will individual brands each launch their own app or site?

Aura will be a non-profit, so our aim is always to be agnostic. If you want to show the information via an app or a website, this is really up to the brand to decide. I think most brands will integrate it into their own storytelling. It's important that it's the voice of the brand.

Could that storytelling be enhanced through blockchain, particularly around raw materials or production, by adding photos or video for instance?

What's really nice about blockchain is that you can put really high [quality], rich data on it in terms of videos. I have this dream that you can actually see the person who manufactured the watch or the person who manufactured the bag. The nice thing about it is this is not just for the first 10 customers. If I pass it down to my daughter, maybe she will be able to see that as well, or in resale.

What about the transparency aspect? Are luxury brands ready for the level of scrutiny into the environmental and social impact of their products that comes with showing a product's history at a very granular level, going back to the raw materials?

In luxury, I think this is less of a question than in premium or other sectors. One of the limitations is if you don't have a good relationship with your suppliers, or if you don't have the information, it doesn't help you to have a blockchain. It's not a magic wand which just makes it all good. You must know your suppliers down the line and then you can ask them to put the information on the blockchain. If they put false information on the blockchain, it's still going to be false and the blockchain doesn't help you anyway. It's garbage in and garbage out.

A customer of Hublot can see their watch's information and e-warranty simply by taking a photo through an app. Is that going to be the model for most goods, or will some require physical markers like QR codes or NFC chips?

We are agnostic. AI image recognition, which we are a big believer in, I think will work for perfumes. How are you actually going to recognise each perfume bottle? Because that's quite tricky, and it's really about the light when you take this picture of that bottle. This is the same for buying spirits. For watches, it's AI image recognition. For clothing, I think it's more QR code. For accessories like a bag, it's easier to put a chip in. For precious carpets, we are looking at an NFC tag. There are these different tagging solutions, and it depends on the product itself.

One of the main advantages of using blockchain — and indeed one of the main motivations for competitors to unite around this technology in the first place — is that it can give shoppers an easy way to verify authenticity. But some consumers knowingly buy fakes for their lower cost and counterfeiters continue to get more sophisticated in the ways they dupe shoppers, like some who have sold fake bags complete with fake NFC tags. Is the arms race between counterfeiters and luxury companies just going to continue, no matter what Aura does?

I would say especially QR codes, that's probably the easiest, because you literally can cut it out. For a tag in a handbag, you literally would need to destroy the handbag. The beauty of having a consortium is that we have the time to vet these different solutions or actually invest in some of the solutions, advance them further and try them out at separate brands. I think the technology which we are investing in will always be more advanced, but definitely there are things to take account of.

> "The beauty of having a consortium is that we have the time to vet these different solutions."

What new developments are there around the corner?

We are going live very soon with Aura Light. We signed on a few members, which we will also announce over the next few months. We are also working on our NFT platform, which we hope will go live in a few months.

What is Aura Light?

Aura Light is sort of our plug-and-play. The [membership] fee is much lower. Our standard [version] you can actually customise much more, so that is more for larger brands. The APIs and the [software development kits] are pretty much the same, but for Aura Light we have, for instance, landing pages which are available and the whole process is much easier. We actually manage the cloud for you.

How can brands measure their return on the investment for joining Aura?

Given that blockchain is so new, we don't have ROI figures as such yet. If you want to have a quick ROI, it's definitely a digital product, because that gives you additional revenue. When I say digital product, that can go either from digital collectibles like NFTs or virtual products. In terms of how much more you're selling because you can provide a certificate of authenticity, ownership, a diamond traceability certificate, I think that will still take a little bit of time to have an ROI.

This interview has been edited and condensed.

A woman carrying a Prada bag. Prada is one of the founding members of Aura alongside LVMH and Richemont-owned Cartier. Getty Images.

EXECUTIVE INTERVIEW

Farfetch: Adapting to the New Talent War

Sian Keane
Chief People Officer, Farfetch

Farfetch chief people officer Sian Keane is passionate about 'not encouraging microcultures within the business,' especially between creative and tech specialists, as she believes that weakens the luxury e-tailer's common thread of values. But with the fashion industry facing a talent deficit in the year ahead and workers expecting more flexibility, it will be hard for companies to strike the right balance across recruitment and retention strategies as different specialists expect different things from workplace culture.

— by Sheena Butler-Young

E-commerce companies like Farfetch have long prided themselves on an ability to attract a healthy mix of talent from both the tech sector and the fashion industry, but the war for talent has only intensified in recent years. It could get even tougher next year, as fashion companies battle to secure the specialists they need. A tighter labour market, where workers scrutinise everything from a company's sustainability record to its inclination to offer flexible working environments, means it will be just as important for people leaders to have an ironclad recruitment and retention strategy as it is for them to be ready to pivot on a dime.

Sian Keane, the UK-based luxury e-tailer's chief people officer, believes that the talent challenges that have arisen from the pandemic are not necessarily more difficult than those of the past, but simply different in nature. Among her concerns for the future are the number of women leaving the workforce and the challenges associated with building and replenishing pipelines that feed diverse talent into a business whose workers and consumers are increasingly global. But despite the pressures that are likely to mount across the industry in 2022, Keane sees opportunities in the "borderless society" that has emerged since remote and hybrid working took hold. "Now we've got access to people who may not have considered leaving their job before," she says.

A lot has been said about the impact of the Covid-19 pandemic on people's values and their attitude towards work. How has this played out at Farfetch?

The two things we really think about are around meaning. People need to be connected to meaningful work. The second is making sure that we create a very strong sense of belonging. That's something that has always been an important factor at Farfetch and is something that we know our people value, as we've learned through our employment engagement surveys. But creating a sense of belonging in a hybrid world is a new challenge.

How have you done that — created a sense of meaning and belonging — with remote work in play?

Learning is something we had always invested in, but as soon as we went into working-from-home mode, we really fast-tracked a lot of our digital learning tools so that people could learn remotely and still be able to access that level of training. Thinking about how we can make sure that people feel they're continuing to grow their own careers and thrive in a hybrid and remote world is something that we've really leaned into. We just launched a very structured programme around personal development plans for everyone and that started from some of the work that we were doing under diversity and inclusion. Then, we accelerated that for all our [employees], because I think ensuring that everyone feels as though they're connected to their future career is quite important.

In what significant ways have recent social justice movements and protests, especially those in the summer of 2020, changed how you think about recruitment and employee retention?

The first thing we did is host listening sessions with our internal communities to find out what they're really experiencing and feeling in their personal lives as well as their professional lives. Then we built a "positively inclusive" strategy against that, so that we are responding to not just what we're hearing externally, but what our people are really feeling and experiencing internally. We created our Farfetch commitments, which are about creating a values-driven experience for all our [employees]. One of those commitments is around increasing the pipeline of diverse talent and increasing senior representation internally. The second thing is trying to [address] the skills gap. This is really important because the challenge that we have faced, with regards to hiring and recruiting more diverse talent, is how to access talent in the first place. So that may be thinking about partnerships with external businesses and organisations; it might be broadening where you look for talent to access a broader set of demographics and people from socio-economic backgrounds. We will be watching very closely and monitoring the impact of some of those partnerships on the diversification of the way that we recruit. Internally, we're making sure that we're collecting the data — and we're still on a journey with this — to be able to ensure that our promotions, progression, development and the decisions that we make are having a positive effect on the diverse pipelines that we already have.

Broadly speaking, is it harder for you to recruit now than it was a year ago?

I don't think it's harder for us to recruit now than it was a year ago; we just have different challenges than we did a year ago. We've certainly increased and leaned into the hiring, training and development of our talent acquisition team more than ever. We're seeing that shine through in some of the numbers. However, some of the challenges that we are facing are the compensation strategy and the challenges that we see around competitors from a remote working point of view. We want to have a very strong balance between home and office-based work because we think socialisation and collaboration is critically important to our long-term culture, so we're not a remote business. There's also a number of new start-ups and businesses that have been born out of the pandemic that may be attractive to people as they're considering job moves. Then we see things like saturated talent markets. There are geographies where we need to keep shifting and moving to be able to access talent from different sources. Of course [having] avenues for a more diverse pipeline of talent is something that is hard for businesses to do [but] they really have to make an effort. This kind of sentiment — the war for talent — is something that has been around my entire career, [but what's different now is where the] demand is, and where you're seeing it pivot, and being fast enough to make decisions and adapt your processes and hiring policy practices to support that.

As both an e-commerce company and a fashion player, Farfetch must recruit from both tech and fashion circles. How do employees' expectations tend to differ from these groups, and are they evolving in different ways now?

Fashion businesses are starting to look for people who come from a technology background, and technology businesses are looking for people who come from a fashion background. Whereas for Farfetch, that's been front of mind since day one as we've always been a mixture of both. Our ultimate aim is to create one community at Farfetch, although we're not blind to the fact that there might be differences in desires of how those things come to life from an employee experience. For example, some of the initiatives or ways of working that we put in place for our technology community and our engineers would differ greatly from the experience that we might have for the commercial or the fashion side of the business. But one thing that we have done that we felt quite strongly about is not encouraging microcultures within the business. Farfetch values... are Farfetch values [across the entire business]. They're not different in any region and we believe it's a common thread between the broad range of specialists that we have within the business because we really have come together as both fashion and technology specialists. That's very important to us. Another thing is that we actually embrace our difference. We don't try to be Slack, Google, Facebook or anything else like that.

Farfetch has more than a dozen offices and locations across 10 countries, which employ more than 5,000 people. With such a global view, would you say that the talent shortage is palpable right now, especially in terms of digital and technical skills?

When I joined Farfetch, there were 100 people and now there's more than 5,000. There are more vacancies than ever in the world right now, certainly in the UK. It's already quite easy for people to think about leaving a company. Then, when you add on the digital expertise side of the equation, put Brexit on top of that, and the fact that it's much harder to travel now, these are all the sorts of things that are starting to erode access to talent. By the same token, businesses can benefit from movements of talent. We've certainly seen increases in success in hiring, because now we've got access to people who may not have considered leaving their job before.

Is diversifying how you look for tech talent as well as engaging underrepresented groups helping Farfetch avoid the talent shortage?

Absolutely. Then there's the other side of things; our consumers are increasingly becoming more global. In order to engage with your consumers, you need access to more native-language speakers than you had before. We're seeing demand for stylists from Germany, Romania, Bulgaria, Poland and places that we hadn't seen before. It's about being able to access talent from other regions that we may not have been heavily leaning into before the pandemic.

What are the most concerning issues surrounding talent recruitment and retention for the fashion industry, as we head into 2022?

The movement of talent. We put a huge amount of effort into hiring, nurturing and growing our Farfetchers internally, so our talent pool is very precious to us. Being such a values- and culture-driven business, we want to ensure that we have as much as possible in place so people don't feel as though their heads need to be turned to other businesses. That's why we have our internal engagement surveys and things set up around access to our people communities and our people processes. Those things allow us to understand why people may get itchy feet and be able to mitigate that before they're considering leaving the business. The other concern is the rate of females leaving the workforce and what might therefore happen in the long term to the successes that come from business investments in increasing gender balance within the workforce.

This interview has been edited and condensed.