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GANNI's new skin: Towards responsible fashion (A)

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Lauren Bartley, Head of Sustainability & CSR at GANNI, was about to enter a meeting with the rest of the company's executive team. It was a sunny morning in April 2019, and the main item on the agenda was whether to approve one GANNI's most ambitious sustainability projects: To progressively phase out the use of virgin leather in the company's entire line of garments, accessories and footwear, replacing it with recycled leather and bio-based alternatives.

GANNI was a Danish affordable luxury ready-to-wear company based in Copenhagen and owned and run by husband-and-wife team Creative Director Ditte Reffstrup and Founder Nicolaj Reffstrup. GANNI was known for its "Scandi 2.0" sense of style full of personality and contrast. The company was currently going through a period of accelerated growth and internationalization, with plans for entering the US market in 2019, with its own operated stores.

Sustainability had always been part of GANNI's DNA, a mindset that had been fostered by the Reffstrups, the company's co-founders, and by Andrea Baldo, the CEO who had joined the company in 2018. In 2019, GANNI created its first sustainability strategy, known as the Gameplan and comprising 44 goals to reach by 2023.

One of those goals was to phase out virgin leather from GANNI's collections for ready-to-wear (RTW) by 2021 and for footwear and accessories by 2023. The reason? By phasing out virgin leather—the most emissions-intensive material in GANNI's collections—Bartley estimated that GANNI would cut its carbon footprint by 1020%, taking it closer to meeting its ambitious carbon footprint goals.

However, getting the executive committee to approve the project would only be the beginning —and it might not even be the hardest part. Bartley would need to get buy-in from across the business, especially the Design and Product teams, who were fond of this material, which had traditionally been associated with luxury. Even though leather was a relatively small part of

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GANNI's materials offer (9%), items such as accessories and footwear, some of the drivers of GANNI's growth, relied heavily on it. Convincing these teams and allaying their fears might not be easy.

There was also the matter of finding the most suitable materials—Bartley was aware that right at that moment, despite several promising leads, there wasn't a single commercially proven leather bio-based alternative for the fashion industry. GANNI, in fact, might have to lead in that effort. And even once suitable materials were found, there was the matter of ensuring production at scale, and integration with the companies' manufacturers.

All in all, Bartley was aware that the road ahead would be a difficult one. For now, she focused on the upcoming meeting. After greeting Andrea Baldo, the company's CEO, and the rest of the executive committee, she began her presentation.

The luxury fashion industry in the late 2010s

In 2018, the personal luxury market (which, besides apparel, includes accessories, cosmetics, and jewelry) was estimated at €260 billion, and was expected to grow at a compound annual growth rate (CAGR) of 3–5% through to 2025. GANNI, in particular, competed in the personal and affordable luxury (P&AL) market, which was projected to grow at a CAGR of 6%, reaching €129 billion by 2020.

Industry analysts considered that growth in the fashion industry through the mid-2020s would be driven mostly by both luxury and contemporary brands such as GANNI. Some of the most important drivers of that growth would be:

- Growth in the Asia-Pacific region: China, in particular, was projected to accrue 46% of the worldwide sales in personal luxury goods by 2025, followed by Europe (17%), America (14%), and the rest of Asia (11%).
- Growth of online channels and the changing role of brick-and-mortar: By 2025, online channels were projected to account for 25% of total sales, although mono-brand stores (25%) and specialty stores (17%) would still remain a significant part of the industry—even though their role would be redefined towards increasing efficiency for the brands (i.e., off-price retail) or become "points of touch" rather than mere "points of sale." Meanwhile, digital would also not just be a vehicle for sales, but also enrich the customer experience. Hence, developing omnichannel strategies that fused the digital with the physical would become important.
- Younger customers: Millennials and Generation Zs would account for 55% of personal luxury's sales by 2025, driving the vast majority of the growth of the market. Understanding these new customers and being able to attend to their particular needs would be key to success. Millennials, in particular, put a premium value on experience, and were socially conscious in their consumer habits. They were not brand loyal, and thus appreciated quality at a good price over brand recognition.
- Cultures and subcultures: The emergence of social cultures and subcultures were creating new consumption patterns and disrupting existing product strategies at an increasing pace. Brands had to be dynamic and flexible to be able to respond.

- **Brands as excellence and ideas platforms:** To be able to compete in a digital environment that reduced barriers for the consumer and blurred boundaries ("one market"), brands needed to combine their technical expertise and capabilities with the ability to project unique experiences, values, and emotions.

- **Shift in cost structures:** In order to become agile, dynamic, and flexible, and to be able to incorporate—and experiment with—digitally driven business models, brands had to shift their cost structures and investments, reducing their capital expenditure (CAPEX) and operating expenses (OPEX) in physical stores, consolidating networks and improving efficiency, and investing in online and core capabilities.

GANNI

Company history

GANNI originally started as a cashmere knitwear company, founded in 2000 by Frans Truelsen. However, in 2009, when Nicolaj Reffstrup took over the company as CEO, with his wife Ditte Reffstrup joining as Creative Director, GANNI shifted to contemporary RTW fashion, and began to grow and evolve into an internationally recognized brand. This created the modern GANNI, so that the Reffstrup duo are recognized as co-founders.

Since taking over the company, Nicolaj and Ditte Reffstrup built GANNI with a mindset and focus on the "Scandi 2.0" sense of style–with a focus on personality and contrast, making the community who wore their clothes feel even more confident and capable of achieving anything—and creating a company where everyone was welcome (see **Exhibit 1** for some examples). Ditte Reffstrup explained:

> With GANNI we wanted to do something different than the typical stereotypes of Scandinavian fashion, which when we started were either high-concept Scandi-style or girly-boho. Aiming to create a third alternative, we sought after a more playful and effortless approach to design, that represents how I want to dress and look. Without strict dogmas or rules, but with room for personality, contrasts and experimentation.[1]

In 2017, the private equity firm L Catterton—with the participation of Groupe Arnault—acquired a 51% stake in the company. At the time, the company had already garnered global attention, being sold in 400 stores in 20 countries, including Denmark, Norway, Sweden, the UK, Germany and the US. GANNI also operated its own concept stores in the Scandinavian market.

For the year 2019, GANNI had net sales of €70 million, with earnings before interest, taxes, depreciation and amortization (EBITDA) of €15 million. The company was going through a period of fast growth, thanks to the development of direct online sales through GANNI's own webstore, as well as the growth of sales through e-tailers such as Net-a-Porter, Mytheresa and Boozt.com. The company had also expanded its network of branded stores in the UK (London), the US (New York) and Sweden (Stockholm), and had recently acquired a partner in the Norwegian market. Overall, the company had expanded globally, but the Danish domestic market still accounted for 40% of total sales.

[1] "L Catterton to Partner with Ganni to Continue Building the Danish Fashion Brand on a Global Scale." L Catterton. Last modified December 14, 2017. https://www.lcatterton.com/Press.html#!/LC-ganni