

Case #3b. An Ethical Crocodile Handbag?

As luxury brands like Chanel ban the use of exotic skins, crocodile farmers are setting ethics standards for production in a bid to counter shopper concerns over animal welfare

by Alexandra Wexler | Wall Street Journal July 30, 2019

The **Le Croc** crocodile farm and tannery in South Africa is a pilot site for a new program that sets standards for the care of crocodiles and provides traceability from the individual animal to a finished handbag.

Under a new supply-chain program, consumers will be able to trace the product not only to the **Le Croc** crocodile farm where it was raised, but also to a particular pen.

It's part of an effort to appeal to **luxury shoppers** increasingly concerned with where their purchases come from and how they are made.

Le Croc is one of five large South African farms—accounting for about 20% of the skins used in the approximately \$300 million Nile crocodile skin luxury-goods market—helping to establish a set of ethics standards for skin production. The group hopes greater transparency and improved practices can counter a backlash over animal welfare, fueled in part by gory undercover footage from **People for the Ethical Treatment of Animals**.







Photos by Charlie Shoemaker for The Wall Street Journal

In December, French fashion house **Chanel** banned the use of exotic skins in its products. Earlier this year, **Selfridges** department stores in the U.K. said they would ban the sale of exotic animal skins next year. After being confronted by **People for the Ethical Treatment of Animals (PETA)** protesters at the company's annual shareholder meeting in April 2018, Italian luxury goods maker **Prada's** Chairman Carlo Mazzi pledged that the company would no longer promote its exotic-skin products.

Finding ways to address consumers' ethical concerns is increasingly important to **major fashion houses**, analysts say. "The brands are looking for ethical suppliers: It's worthwhile investing in, and it's more and more important for this category that's a little bit controversial," says Claudia D'Arpizio, a partner in Bain & Co.'s Milan office. "It's also super important for millennials and the younger generation." Bain forecasts that Generations Y and Z will represent 55% of the global personal luxury goods market in 2025, from 32% in 2017.

Exotic skin products represent a small portion of luxury sales, but they command some of the highest prices and can be an important lure for top-tier customers. Gucci's Zumi crocodile medium top handle bag sells for \$36,000 new. A Nile crocodile version of the pinnacle of the exotic handbag, Hermès's Birkin, generally doesn't display its price at retail stores but pre-owned crocodile bags start selling for around \$35,000 to \$50,000. LVMH Moët Hennessy Louis Vuitton's website lists its Capucines PM bags, available in alligator, for \$30,500.

Other industries have faced similar challenges. Amid concerns over "blood diamonds" fueling conflicts in Africa, the diamond industry adopted a certification program in 2002 to help reassure consumers and keep controversial stones from entering the mainstream market. "It was very important for the industry in order to maintain demand for its product, especially at premium prices and to Western consumers," said Paul Zimmisky, a diamond analyst in New York.

In fashion, most luxury-goods brands have published their own ethical-sourcing guidelines and are watching the development of international standards. In May, luxury group Kering SA, whose brands include Gucci, Balenciaga and Alexander McQueen, published a 44-page document that outlines species-specific animal welfare standards, including those for crocodiles. "Improving the welfare of animals must be an imperative for our industry," Marie-Claire Daveu, chief sustainability officer at Kering, said in a statement on the company's website.

The South African effort is still nascent; no major luxury fashion house has publicly signed on to the framework. The guidelines in the program, which calls itself *Exotic Leather South Africa*, require farmers to limit the number of crocodiles in pens, provide appropriate nutrition, and render animals unconscious before slaughter. (*See elsa.org.za*) At **Le Croc**, each animal is assigned an ID number that can be used to trace the skin from pen to bag.

At Le Croc, crocodiles are kept together in pens in temperature-controlled buildings. The farm monitors density in each pen; if animals are too crowded, they can get aggressive and bite each other, damaging their valuable skins.

At Le Croc's tannery, skins are dyed in different colors for customers, who turn the skins into jackets, handbags, belts, shoes and jewelry.

The group is piloting its program with a South African manufacturer called **Cape Cobra Leathercraft**, which sells Cape Cobra-branded goods through about 15 retailers in South Africa and eight boutiques in the U.S., in cities including Rye, N.Y., and Palm Beach, Fla., as well as in shops in Lagos, Nigeria, and London. The company also manufactures goods for other brands, but declined to disclose which ones are currently clients.

At a bustling factory and colorful showroom in Cape Town, **Cape Cobra** designs, manufactures and sells pieces including dark-brown crocodile-skin computer bags (\$9,500), shiny red evening clutches (\$2,650) and hunter-green wallets (\$750). Its medium-sized crocodile skin bags retail from about \$3,850 to \$6,500.

Starting about eight months ago, **Cape Cobra** began selling bags with QR cards that shoppers can scan to get an identification number linked to the animal that produced the bag. For now, shoppers have to contact **Cape Cobra** with the number and ask the company or Exotic Leather South Africa to provide information about the farm the animal came from. But the plan is that eventually consumers will be able to access all that information themselves via the scan.



Customers of Cape Cobra receive a card with a QR code. Scanning the code gives buyers access to more information about how their bag was produced.

Robert Schafer, the company’s managing director, says customers—especially younger ones—have reacted positively to the new cards. Retail sales have increased about 30% from a year ago, he says.

Justyna Dymerska, 39, a partner at a private-equity firm in Dallas, discovered **Cape Cobra** during a business trip to South Africa five years ago. She’s now awaiting her sixth handbag from the retailer. She says she likes feeling that the bags were produced in a responsible way, and that buying from the brand has made her more aware of supply-chain ethics. “I had always assumed, probably falsely, that if [a bag] came from a great brand, it was ethically sourced,” she says. “I became more cognizant of it in dealing with **Cape Cobra**.”

Industry Uncertainty

According to a fashion industry website, the industry remains divided on the issue of exotic skins.

“Chanel said difficulty obtaining responsibly sourced skins was a deciding factor in its decision to stop using exotic skins. The full list includes snakes, crocodilians, lizards and galuchat (stingrays). On its website, Chanel lists dozens of products made from exotic skins. The version of its "Classic" flap handbag made from python skin sells for \$10,300, nearly double similar items made from calfskin or tweed.

“We are continually reviewing our supply chains to ensure they meet our expectations of integrity and traceability,” the company said in a statement. “In this context, it is our experience that it is becoming increasingly difficult to source exotic skins which match our ethical standards.”

The decision was unexpected. The campaign against exotic skins has gained less traction than efforts to ban fur, which have spurred dozens of fashion brands to stop selling products made from fox, mink and other animal pelts. Hermès continues to sell crocodile Birkin bags, despite years in the crosshairs of People for the Ethical Treatment of Animals (PETA), which even bought shares in the house to promote its cause. A handful of brands have stopped using exotic skins, including Diane von Furstenberg in October.

"It definitely took us by surprise," said Christina Sewell, PETA's manager of fashion campaigns. She said the organisation had corresponded with Chanel executives about exotic skins since 2015, but hadn't received an indication a course change was coming. She said PETA will be using Chanel's decision to step up its campaign with other luxury companies.

Instead of moving to ban the use of exotic skins, many luxury brands are emphasising their ability to source them ethically, said John Guy, an analyst at MainFirst. Kering, parent of Gucci, Saint Laurent, Balenciaga and other luxury houses, invested in a python farm in Thailand in January 2017, and Hermes and LVMH also operate reptile production facilities. Guy said Kering is closing in on its goal of sourcing 100 percent of its alligator skin ethically.

Sewell said it's impossible to verify that every skin is produced according to ethical standards. In 2015 and 2016, PETA found grim conditions for reptiles supplied to Hermes and LVMH.

"There is no way to say to your consumers you have 'ethical sourcing' of animal derived materials," she said. "If companies are being honest ... they have to acknowledge this is too convoluted a supply chain."

Luca Solca, head of luxury goods at BNP Exane Paribas, called Chanel's announcement a “bold move,” reflecting a shift in values by the company's younger customers. Many millennial and Gen-Z luxury consumers say they prefer to buy products that are ethically sourced and have minimal environmental impact, even if their purchases don't always reflect that.

Unlike faux-fur, which is sometimes viewed as cheap or environmentally unfriendly because it is typically made of plastic, there is less of a stigma associated with faux-snakeskin and crocodile products because they are often still made of real leather.

Chanel's move is unlikely to have a major impact on its bottom line, analysts said. Exotic skins likely made up a share of total sales in the “high single digits,” Guy said. In its statement, Chanel said it was working to “create a new generation of high-end products” using different materials.

Solca added that other labels will likely follow suit. After Gucci stopped using fur last year, numerous other luxury brands made similar moves.

And with no more python bags on the horizon, their value in the resale market is likely to soar.
“I’m sure Chanel’s 2018 alligator collection will be highly sought after now,” Guy said.”

Source: <https://www.businessoffashion.com/articles/news-analysis/chanel-is-banning-exotic-skins-heres-why>

Actors in the Case

Le Croc crocodile farm

Cape Cobra crocodile skin producers

Major Fashion Houses banning crocodile products (Banners)

Major Fashion Houses still selling crocodile products (Sellers)

Luxury Consumers

QUESTIONS:

Review the elsa.org.za website.

- 1. If you were a crocodile farm manager, what would be your most pressing ethical dilemma?**

In answering Q1, reference the „Resolving Ethical Dilemmas“ checklist in Module 3. (reproduced below)

Resolving Ethical Dilemmas Checklist

An ethics case poses an ethical dilemma for a manager (a) internal to the firm or (b) external to the firm – in which he/she is uncertain how to act. Ethical issues are raised, but ethical guidelines are unclear or contradictory. Often conflicting ethical signals come from one or more of the following:

- a. the manager’s personal ethics (one can think of this as the baseline reference in ethical dilemmas for the individuals, just as profit is the baseline reference for the business enterprise)

- b. formal company policy (which may dictate how ethical dilemmas should be handled, either implicitly or explicitly)
 - c. informal group norms within the company or industry
 - d. societal values (which can be fragmented and contradictory)
 - e. professional standards (which can be formalized in ethical codes)
 - f. the ethics of one's superiors in the organization (which may have to be inferred)
2. If you were offered the opportunity to draft an ethical code for a major fashion house still selling crocodile products, what might you recommend?

In answering this question, segregate your answer into the following three categories:

- (1) general precepts and specific practices , (2) promulgation, and (3) enforcement (to assess whether or not your employees are adhering to your code).

In answering Question 2, reference the excerpt from Module 3 below:

IV. Ethical Codes (from Module 3)

Many companies use ethical codes to guide the behavior of employees. Similarly, many social media websites have *de facto* ethical codes to guide the behavior of users of their websites.

There are three steps in a successful ethical code:

1. Code Design. Ethical codes consist of a combination of general precept and specific practice elements. The general precepts permit broad application of a particular prohibition in a code, while specific practices define specific activities or practices that are NOT acceptable.
2. Code Promulgation, which means specific steps to ensure the code is widely understood by company employees and they “buy in” to the code’s objectives and elements.
3. Code Enforcement, which includes:
 - a. Detection, monitoring employees to determine if an element of the code has been violated, and
 - b. Consequences for violation of the code.

(maximum length: 400 words total for both questions together)