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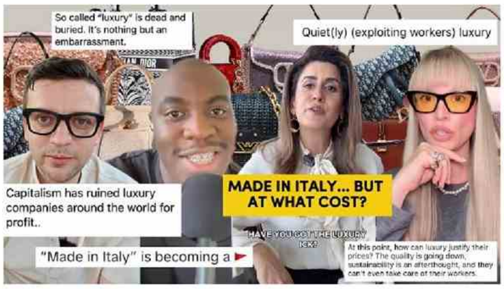
The Great Fashion Reset | How to Fix Luxury's Trust Issues

A series of scandals linking brands including Dior, Armani, Valentino and Loro Piana to sweatshops in Italy have helped fuel doubts about what customers are paying for and whether they can trust luxury brands anymore.

By Sarah Kent



As star designer Jonathan Anderson prepared to make his Dior debut earlier this summer, brand CEO, Delphine Arnault, had a key word on her lips: "quality."

While the buzz around Anderson's first men's collection for the house focused on what it would reveal about Dior's new creative direction, the duo knew it would take more than a refreshed aesthetic to reignite demand for LVMH's second-biggest fashion label following sales declines that analysts estimate have stretched into double digits in recent quarters.

After a decade of explosive growth, Dior has become something of a case study in how management missteps have contributed to the wider luxury sector's deepening sales slump and shaped attempts to turn things around.

Wider economic uncertainty has pushed aspirational luxury shoppers who were once willing, even eager, to shell out thousands on a new Dior handbag to become more circumspect in their spending. But price hikes that far outpaced inflation, without corresponding creative innovation, have also led to questions about whether the brand's products are really worth it anymore.

A sweatshop scandal that's dogged luxury's key "Made in Italy" manufacturing base hasn't helped. Dior is the largest of several major brands whose prized Italian supply chains have been linked to incidents of labour exploitation, amplifying a perception already playing out on social media that a gap between luxury prices and their quality was growing.

Anderson's first womenswear show for Dior on Oct. 1 is one of the most anticipated and high stakes in a blockbuster season, functioning as a critical litmus test for the brand's creative turnaround. But longer term success for Dior, and the wider luxury sector, will also rely on tackling the structural issues that have destabilised the promise of quality and craft in which the luxury industry's value proposition is rooted.

"Quality is something that's extremely important: quality in the manufacturing, in the products," Arnault told BoF in May. "I think that prices can be increased if you have an increase in quality as well, an improvement in the product."

"Me and Delphine want to change the quality — up the game," Anderson added, while speaking backstage before his hit menswear debut in June. "We've both got a big challenge to do."

Luxury's 'Made in Italy' Scandal

Over the last 18 months, a series of Italian court cases have damaged the industry's carefully crafted marketing facade, linking brands including Armani, Dior, Valentino and Loro Piana to sweatshops operating on the outskirts of Milan.

Cashmere jackets and leather handbags that retail for thousands of dollars were being made for a fraction of that price by migrant labourers, who toiled 12-hour days for a handful of euros, prosecutors said, accusing luxury labels of failing to adequately control their supply chains.

The brands have said the sums paid to manufacturers revealed in court cases are inaccurate and don't reflect the other costs that go into making luxury products. They've positioned the cases as isolated incidents, caused by suppliers who subcontracted production without the brands' knowledge or permission. But according to prosecutors, the problem is systemic, reflecting an entrenched business model that ignores risks to workers rights in order to maximise profits.

In past decades, luxury has shrugged off such scandals with little long-term damage to brand reputations or bottom lines. Glitzy ad campaigns, high prices and the cultural cachet associated with "Made in Italy'" — long a short-hand for commitment to craft, quality and ethical operations — effectively armour-plated the sector's image. Labour rights abuses were successfully positioned as primarily a fast-fashion problem; a function of manufacturing in far-flung locations with limited oversight and weak regulations.

But luxury's latest "Made in Italy" scandal couldn't have come at a worse time, when consumers are already questioning big luxury's value proposition and social media has made it harder for major brands to control their image.

"It is kind of a perfect storm that we're looking at between the price hikes, the downturn in middle-class spending and the scandals," said fashion commentator and StyleZeitgeist editor Eugene Rabkin. "It adds to the narrative that the luxury brands have been taking advantage of their consumers and that is a major pain point."

Trust Issues

Earlier this year, TikTok was flooded with a new wave of trade-war-related viral content taking aim at big luxury. Across the platform, a cohort of content creators pushed Chinese-made luxury knockoffs alongside the idea that top-tier brands who said their products were manufactured in Italy and France in reality used the very same Chinese factories.

While experts said the assertions were false, that didn't stop the narrative spreading across social platforms, both fuelled by and fuelling disillusionment with luxury brands.

"This is a big damage for fashion and for the image of Italy," said Carlo Capasa, the president and CEO of luxury trade group Camera Nazionale della Moda Italiana.

Social media feeds that used to be filled with breathless luxury unboxing videos are now just as often populated by posts complaining about eye-popping prices and calling out supply-chain scandals. Journalist and author Sujata Assomull described the phenomenon as "luxury ick."

Some shoppers, who still want the trappings of luxury without the price tag, are embracing "superfakes," no longer believing the real thing to be worth the money. Others are simply pivoting their spend to premium labels that promise luxury-level quality at more accessible prices.

According to consultancy Bain & Company, the luxury goods sector lost some 50 million consumers between 2022 and 2024 and is expected to contract by another 2 to 5 percent this year.

To be sure, analysts attribute the slowdown to a dizzying array of factors, primarily related to brand-specific creative issues, global economic challenges and geopolitics. Online outrage doesn't necessarily reflect in real sales and even now, more than a year after prosecutors first drew attention to problems in luxury's Italian supply chains, it is difficult to quantify how much of an impact, if any, this has really had on business.

"Luxury consumption is driven by desire, status, and identity more than by moral calculation," Bryan Yambao, the editor-in-chief of Perfect Magazine who also goes by the social media handle Bryanboy, wrote in a Substack post last week. "Most customers are not checking emissions reports or subcontractor audits at the till. They are responding to a brand's aura."

But auras that take decades to build can quickly unravel if consumers stop believing in them. If shoppers no longer see a difference between the way high-cost and low-cost fashion is produced then "this is killer," said CNMI's Capasa.

Greedflation

Whether or not the scandals have a lasting impact on big brands' desirability, they are a symptom of shifts that have slowly eroded the foundations of the claims to exceptional craft and quality that have long underpinned luxury's value proposition.

"Made in Italy's" importance to the luxury sector isn't just a marketing gambit. The country is home to a unique ecosystem of suppliers, capable of carrying out every step in complex manufacturing chains that simply do not exist elsewhere in the world.

"All this specialist expertise is found in Italy close to each other," said Attila Kiss, CEO of private-equity backed manufacturing group Gruppo Florence. This makes "'Made in Italy' unique and unmatchable."

Roughly half of the world's luxury goods are made in Italy in thousands of largely mom-and-pop businesses across the country. But decades of intensifying competition from cheaper production hubs and low-priced fast fashion have taken their toll on the country's manufacturers, placing the industry's valuable know-how in jeopardy and helping embed a shadow economy of cut-price manufacturers that operate with little regard for Italy's labour laws.

The luxury business has changed, too. Though many of the sector's biggest brands started out as manufacturers themselves, and still trade on that heritage, they've increasingly outsourced production, relinquishing complete control over how and where their goods are made to enable growth in volumes and categories.

These trends were turbocharged by the luxury supercycle of the last decade. As sales boomed at the sector's biggest brands, they pushed suppliers to deliver faster, more flexible production, selling consumers a sense of exclusivity while manufacturing at mass volume. Supply chains expanded, becoming increasingly complex and challenging to police. Tight cost control coupled with steep price hikes padded luxury margins, while heaping pressure on suppliers.

"The industry has grown too much in revenues, profits. That's the truth. And to have huge profits we have really squeezed the supply chain," Italian designer Brunello Cucinelli said during a recent interview at his brand's headquarters in the Umbrian hamlet of Solomeo.

Cucinelli himself famously targets a comparatively modest growth rate of roughly 10 percent a year and a similar net profit margin. He's invested substantially to expand his brand's in-house manufacturing capacity to account for growth and says the company has direct relationships with all of the 400 suppliers it works with to support its production. It's a strategy that has helped the brand retain a reputation for exclusivity, craft and quality, placing it with businesses like Hermès in a top-end luxury segment that has continued to see growth, despite the wider downturn.

Most other companies have far less visibility over where their goods are made these days.

"This is the flipside of the growth frenzy we've seen over the last years," said industry expert and founder of corporate think tank FashionSights, Achim Berg. Brands pursued bigger volumes without adequately stepping up their supply-chain controls. "They either weren't equipping the teams appropriately or they were closing one or two eyes," he said.

Mi Crisis Es Su Crisis

Now, waning trust in luxury is turning a long-brewing manufacturing crisis into a looming liability for the sector's biggest players.

"This is not only a crisis of the supply chain, it's also a crisis of the brands," said Kiss. "Italy has a huge advantage, but on the other side, we will lose it in a generation if we don't invest."

The downturn of the last few years has revealed damage more easily masked when demand was high and workshops were busy; nearly 5,000 factories making clothing textiles and leather goods have closed since the start of 2024, according to Italy's business register.

Companies from LVMH and Kering to Prada and Zegna have bought up strategic suppliers in recent years to secure access to critical skills and know-how, but a wholesale return to the days when most luxury goods were produced in-house seems unlikely. The trade off in terms of risk-free flexibility provided by the current system of outsourcing is too great in an era where luxury is expected to move at the speed of social-media trends.

Still, brands are taking steps to address supply-chain concerns and signal their commitment to artfully crafted products.

In its newly declared pursuit of quality, Dior has made a number of additions to its executive team alongside Anderson's appointment as creative director. It established a new industrial division overseen by former EssilorLuxottica chief operating officer Giorgio Striano to develop more design in-house. Louis Vuitton's Italian leather goods and accessories manufacturing lead, Nicolas Carré, was brought in as industrial director.

Kiss has observed a broader trend in this direction across the industry. Gruppo Florence's network of factories works with many of luxury's biggest brands. They've received more work from companies focused on product development and research this season as a new wave of creative directors and executives seek to counter narratives that the quality and value of luxury goods are in decline, he said.

"In the last years, the increase in price was not aligned with the increase in the value of the product," said Kiss. "We see brands giving a lot of effort on this."

Meanwhile, Milan's public investigators have signalled they have no intention of letting things slide. In this year's cases against Loro Piana and Valentino, they highlighted the companies' failure to implement adequate supply chain controls, despite the warning signals sent out by earlier investigations. The message: the industry needs to clean up its act or there will be more public naming and shaming.

Cleaning House

Late in July, representatives from across the industry made their way to Rome for a roundtable with Italy's Ministry of Enterprise and Made in Italy.

A key point of discussion: how to address illegal labour practices that risk compromising the reputation of the entire sector. Though such incidents are the exception, not the rule, trade groups emphasised, the reputational threat to the industry could be catastrophic.

“Everyone knew there were sweatshops in Italy. The shocker to me is that the part of the industry that portrayed themselves as the ones with heritage European production had to admit in the end that they were not in control of supply,” said Berg. “We’re talking about companies with small volumes and very high margins, so it’s completely inexplicable and unacceptable that this happened.”

Based on this summer’s discussions, the Italian government is expected to put forward plans for new measures to ensure the sustainability and legality of companies operating in the sector later in the year. It’s likely they will be based on efforts already underway in and around Milan to establish a database of trusted and verified suppliers.

If mandated at a national level, such measures could make it simpler for brands to authorise trusted subcontractors when necessary and reduce the burden on suppliers, who are currently subject to an endless array of individualised compliance and audit requirements from their clients, said Luca Sburlati, the president of Confindustria Moda, a trade group representing Italy’s fashion and textiles sector. “Everyone is looking at one protocol for audit,” he said.

Meanwhile brands are making efforts of their own. Earlier this year, Dior and Armani were released from court-appointed administration ahead of schedule in recognition of steps they’d taken to tighten up their supply-chain oversight. LVMH “is investing significant resources and funds,” in this area, the group’s Italy president Toni Belloni said in a July statement.

Manufacturers say brands are increasingly demanding an end to outsourcing in order to ensure their supply chains remain clean. Gruppo Florence expects to complete 15 acquisitions this year, all focused on expanding its in-house production capacity in order to meet such requirements.

What is yet to change, insiders say, is a sourcing system that prioritises speed, flexibility and price above all else, creating the pressures that are undermining luxury’s value proposition to begin with.

In other words, companies need to look at how much they’re willing to pay to make their products and whether those prices are compatible with standard hourly wages and quality requirements. The incentives for sourcing teams need to be examined so their key metrics are not purely focused on finding the lowest possible price. And manufacturers need the security of more stable long-term contracts to enable investment in innovation and growth.

“You have to be willing to invest in each product some few euros or dollars more,” said Sburlati. “In the end, everyone is losing or everyone is winning.”