

BLOCKCHAIN

IN PRACTICE



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# *Blockchain in the world of luxury*



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For several years now, major luxury goods companies have adopted blockchain technology, including LVMH, Richemont, Kering, Dolce & Gabbana, Prada, and De Beers, as well as Christie's, Sotheby's, Porsche, Rolls-Royce, Mercedes-Benz, BMW and even, quite recently, Le Bristol of the Oetker hotel group – just to name a few. And for good reason. Blockchain is a technological innovation of a rare reliability and a multitude of applications. It is able to address a great variety of issues facing this exacting industry.



Against a backdrop of keener competition, in which customers are ever more aware to the quality of products and services provided to them, this cutting-edge technology has something new to offer. It helps preserve, and get greater value out of, luxury companies' long-standing know-how, while accelerating their digital transformation. A bold, but necessary, step forward.

Some use blockchain as a technological brick for enhancing their customer relationships and sometimes even for renewing and enriching the “experience” portion of their overall offering. Others capitalise on blockchain's advantage as a secured infrastructure for structuring digital data. In this case, they use it as the backbone of a system for tracking and managing the quality of their products.

So, whether we like it or not, many of our most luxurious goods now carry this digital fingerprint within them.

## How is the blockchain used in the luxury sector?

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Counterfeiting will be worth €412 billion in 2019, according to the Office of the European Union.

→ Blockchain was first used for its recognised qualities of traceability, which are especially effective in combatting counterfeiting<sup>(1)</sup> and controlling the market for second-hand products. It is also used to manage supply chains and certify the provenance and history of luxury goods.

As far back as 2018, De Beers launched its first trial runs with blockchain. It wanted to address an issue that bedevils the diamond industry – certifying the provenance of its precious stones, from when they are mined to when they are mounted on jewellery – an issue on which customers are increasingly demanding. This is indeed a thorny issue, as complex supply chains and ethical issues are more prominent than ever. In 2022, De Beers announced it had completed its trial runs. Sightholders, its distributor, now provides blockchain-based certificates of provenance covering its entire supply chain. For what purpose? For the transparency provided by this technology and for its capacity to integrate complex, and often heterogenous, data ecosystems in a simple and highly secured manner. With a blockchain, all data are standardised

and structured by default, and for an entire ecosystem. Gains in efficiency and in optimising operations have been huge in production, as well as sourcing, distribution, quality control and financially.

In April 2021, **LVMH and Richemont** set up Aura, a consortium to develop a luxury industry-dedicated blockchain. **OTB group and Mercedes-Benz** later joined them. This alliance gave birth to a traceability platform specialising in luxury, with the ambition of giving companies a tool for product authentication in an ultra-secure digital format that meets industry standards. In March 2023, **Loro Piana**, a fashion house, announced that it would provide certificates of quality and provenance for its finest materials. The certificates are produced through the Aura blockchain and come with all new items in one of its most prestigious lines, “The Gift of Kings”. Buyers of these woollen garments will be able to scan a QR code providing access to each item’s full and unique history, carefully registered at each stage of the blockchain



→ Blockchain is also used by the luxury industry to enrich the digital component of the customer experience and secure its digital transformation.

Adapting the sector to new digital practices is now a must. Blockchain can be used as a driver of digital transformation by promoting the development of bespoke digital experiences and enriching customer relationships. Young shoppers, and “digital natives” in particular, now account for 65% of luxury industry customers. By 2030, they are expected to account for more than 80%<sup>(2)</sup>. Meeting their standards has become essential and, more and more, goes without saying. The new generation of leaders in the luxury industry has understood this well, judging by the recent success of Alexandre Arnault at **Tiffany & Co**. The jeweller generated 12.5 million dollars of sales of unique NFT pendants in just 20 minutes to this new customer segment.

Along these lines, several brands have boldly tweaked their marketing and distribution strategies in part to cater to the new generations. Marketing codes and the relationship to luxury are not the same with them as with their parents. Online sales have gained ground, and

**65 %**

of the luxury sector's customers are young "digital natives", and this figure will rise to over 80% by 2030.

**12,5**

million dollars were generated by the sale of unique NFT pendants in around twenty minutes.

## NFT

An NFT is a computer object (a token) that is tracked, stored and authenticated using a blockchain protocol, to which a digital identifier is attached, making it unique and non-fungible. This token grants rights, ownership or otherwise, over a real or virtual object such as a work of art (often digital), a contract, a diploma, etc. and is associated with an owner account like any blockchain token, but as the token is non-fungible, the owner is guaranteed to be unique, which gives the token its value.

## Web3

Web3 or Web 3.0 is a term used to designate the idea of a decentralised web exploiting blockchain technology, thus claiming to be the successor to Web 2.0, the term used to designate the "social" web.

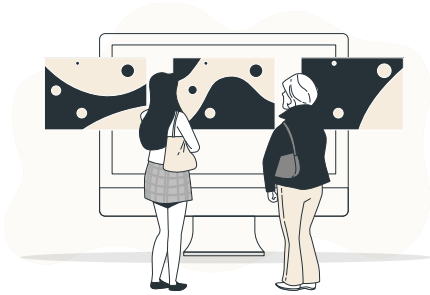
marketing is now done on social media. Digital technology, which we may once have thought to be incompatible with luxury goods, is now the main channel for this new generation, particularly in places like China, whose share of total luxury purchases has more than doubled in the past five years.

**Gucci, Prada and Dolce & Gabbana** are positioned directly in the metaverse. They design digital content in their image for users of these digital worlds. Ownership of virtual goods, embraced by the most enthusiastic members of this digital universe, are now a big opportunity.

**Saint Laurent, Tiffany and Le Bristol** integrate the technology into the heart of their customer experience and purchasing path through dedicated campaigns targeting a customer niche that is especially sensitive to the experience-based innovation allowed by blockchain through what we call the "Web3". This third major evolution of the web allows its users to connect directly with the brand via a dedicated digital communication channel. This connexion, which is often for the purpose of acquiring an NFT – a sort of limited-edition digital card offering special rights and privileges to their holders – gives them access to a sort of exclusive club. For example, holders of the Bristol NFT can access the rooftop swimming pool at the Paris hotel for five years, taste new craft cocktails, take part in Bristol cooking classes, be invited to private events, etc.

**Christie's and Sotheby's**, two auction houses, now both have departments dedicated to NFTs and digital art: Christies 3.0 and Sotheby's Metaverse. They have handled headline-grabbing sales, such as the monumental work of Mike Winkelmann, known professionally as "Beeple", *Everydays: the First 5000 Days*, which sold for 69.3 million dollars. These innovative platforms allow them to promote a new generation of artists while broadening their customer base.

These examples are obviously not exhaustive. The many uses that the luxury industry has been able to make of the blockchain include Lamborghini's management of spare parts, the facilitation of timesharing on private jets, access to artworks such as Picasso's *La Fillette au Béret* by Artemundi and Sygnum or for promotions of collector spirits by houses such as Hennessy, Dom Pérignon, Pernod-Ricard, Diageo and others.



## Why use blockchain? What value does it add to luxury companies?

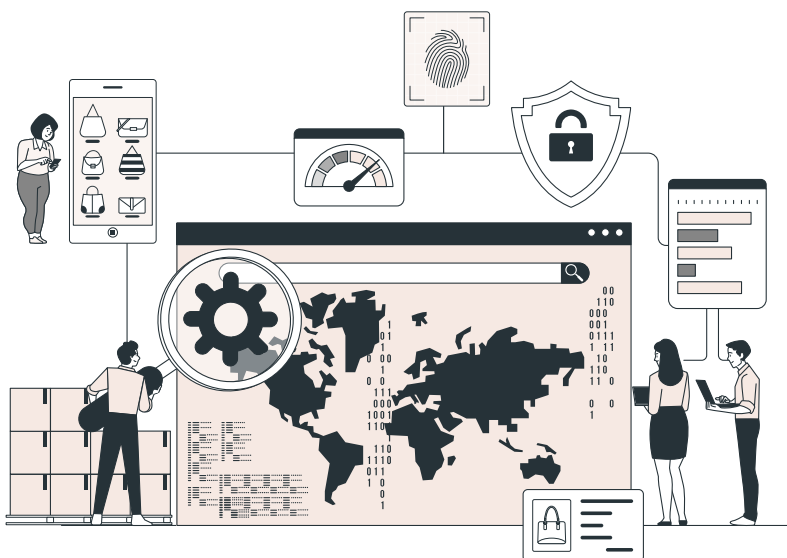
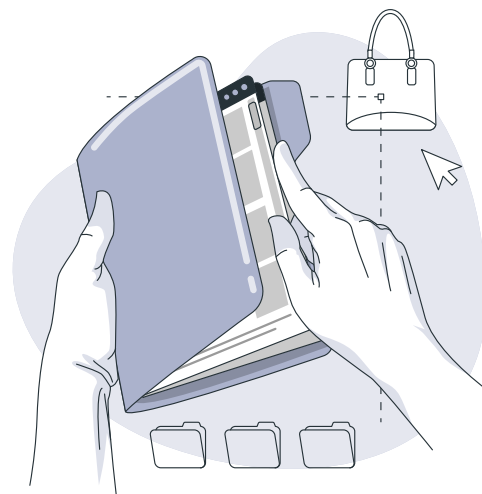
As we have seen, blockchain can be used for a large number of specific applications. For the luxury industry, it is an efficient traceability tool. It helps highlight product quality and distinctiveness. It is also a versatile platform that can be used to develop customer loyalty tools. It can be used to strengthen a brand's direct relationship with its customers, via NFTs, for example. It can also be used to create new revenue streams, by targeting customers keen on digital-anchored experience-based innovations.

For all this, blockchain is not just any form of technological infrastructure.

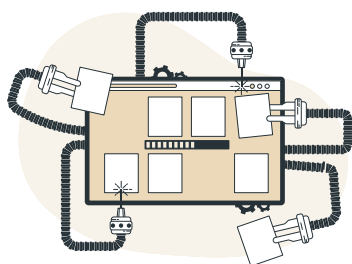


**01** Behind the scenes, the blockchain makes it possible to record and store in a standardised, indelible and permanent way data provided by a large number of players of very diverse natures: manufacturers of luxury goods, suppliers or even end customers. Over and above individual particularities, the indelibility of this data makes it possible to create a common, authoritative reference base.

**02** Blockchain creates an unalterable link between the data supplied and a particular object. This means, for example, that you can link your digital service book to a product. Unforgeable and easily transferable, this maintenance log becomes a digital passport intimately linked to the life of the product, its repairs and its journey through the hands of different distributors, owners, collectors, etc. This passport makes it possible to enhance the value of the object in a more precise way by retracing its own history and therefore highlighting its uniqueness.



**03** Its third advantage lies in its ability to provide extremely reliable and standardised data for an infinite number of products, directly with customers. For luxury goods companies, this is of immense interest in terms of business intelligence and market knowledge. What's more, the quality control of communications, the processing of personal data and the interaction between brands and their customers has been strengthened.



## What is blockchain's impact today and tomorrow?

Economic transformations often require disruptions, such as the use of new technologies. Although marked by a timeless aesthetic and refinement that is able to cross from one age to another, the world of luxury is no exception. As with any merchant activity, the search for profitability forces manufacturers to generate enough income able to cover their costs over the long term and to ensure the investments needed to at least maintaining their competitive position. This is all the more so in a sector with especially demanding customers, where control of quality, image and reputation is vital.

With this in mind, blockchain allows the luxury industry to address the secular issues that it faces, along with new ones emerging from the societal transformations that are affecting the very notion of luxury.

- Previously unlikely alliances between major competitors, such as LVMH and Richemont, are now a part of daily life. They have come about because of blockchain and are driven in part by the shared need for defence against common and increasingly dire threats, such as counterfeiting and the loss of control over a secondary market with the plethora of digital platforms providing direct connection between buyers and sellers. The use of digital passports, which are closely tied to the goods exchanged, give manufacturers greater visibility on their products. Buyers are also winners. The special relationship that they have built up with producers via this new generation of certificates, helps preserve the value and image of their acquisitions.
- From a marketing viewpoint, to continue developing, luxury companies also face this constant dilemma – on the one hand, to reach out to new segments of the population in order to widen their customer basis and hence generate new sources of revenue, and, on the other hand, to safeguard the exclusiveness of their offering and hence maintain a high level of selectivity to go with their products' distinctiveness. Using blockchain-based innovations, such as NFTs, opens up new markets to them, through very specific distribution



channels, but without giving up the more traditional methods that they have maintained with their core customers through their brick-and-mortar boutiques.

Through its various uses, blockchain technology is already well anchored in the luxury industry. For a sector that is constantly seeking a balance between tradition and modernity, the development of new sales outlets in the coming years through the combined use of technologies such as virtual reality and the metaverse, may have some surprises in store for us that will alter the very notion of luxury.

## Blockchain as the basis for the next technological revolution

[Discover our R-co Thematic Blockchain Global Equity fund](#)

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