

Italian luxury fashion brands need to scale up

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It would be difficult to imagine a world without Italian luxury fashion houses in 2019 as they are synonymous with seemingly

effortless elegance that makes French, Swiss or other luxury groups want to add them to their portfolio of star brands. These Italian luxury companies became leaders in their field by bringing a magical combination of creativity, impeccable craftsmanship, and acute business flair. They were among the first ones to go to China, Russia and the Middle East. They understood that growth brings internal rewards as far as organizational synergies, better ability to control (if not own) their supply chains, which is key to success for a luxury fashion brand.

Yet today, there is no true Italian luxury group with the scale of what the French, Swiss-South African and now American has developed in the last three decades (we'll discuss the Prada Group in a later paragraph). These are the groups that, in the last two decades, took and retained control of the large number of famed independent Italian brands that decided to sell their companies: Emilio Pucci, Fendi, Bulgari and Loro Piana are now part of French LVMH; Gucci, Bottega Veneta, Brioni belong to French Kering group; and soon, US Michael Kors should finalize its agreement to purchase Versace.

Like most of their French counterparts, these Italian brands were still family owned in the early 1990s, when Bernard Arnault, followed by François Pinault, then Johann Rupert each added Italian companies to their respective portfolios. The acquired Italian brands had themselves been at the forefront of expansion and growth, yet preferred to sell than join forces or access the capital markets.

Maybe the question is: does it matter? In 2017, Deloitte identified 'Made in Italy' as the primary reason for Italy's luxury success. Even when owned by foreign groups, a big portion of the luxury brands' production remains in Italy, even though a large number of the smaller factories in Northern Italy did close during the last decade, victims of globalization, in search for lower costs for what is assumed to be equal level of craftsmanship (the similar quality point is still debatable...).

Deloitte also highlighted the top threat to Italian leadership in the field as the size of these companies: only one, the Luxottica Group, made it in the top 10 of the best-performing luxury companies in the world, even though almost a quarter of the top 100 are Italian brands. Linked to their size are revenues, which are on average a

quarter of their French counterparts.

Why is that? Are Italians losing their touch?

We know that Italian business leaders continue to innovate and develop new concepts. It is an Italian, Federico Marchetti, who launched in 2000 the Yoox Group, by recognizing the need for fashion houses to sell their surplus inventory. Two young Italians, Chiara Ferragni and Riccardo Pozzoli, co-founded in 2009 The Blonde Salad, one of the first fashion blogs, and had the foresight to quickly adapt to the rapidly changing forces on social media. They have managed to build a profitable business model mixing media and commerce, at a time when media empires are struggling to reinvent themselves.

Italians are also prominently represented at the leadership level in the luxury sector. For the most part, Italians are still heading Italian brands that are now controlled by foreign groups, which seems natural given their heritage. They are also leading international ones, including icons such Tiffany, with Alessandro Bogliolo at its helm since 2017; or US family-controlled Estée Lauder Group who turned to Neapolitan Fabrizio Freda to take over the reins ten years ago, with tremendous success.

With respect to the future leaders of the industry, many of the talented Italian MBA graduates from Columbia Business School I see in my masterclasses or mentor via the Luxury Education Foundation are keen to work in the field. They often hone their skills at Bain, McKinsey, BCG or other global consultancy firms in their luxury and retail practice. Then, one day, they are hired by a global luxury brand such as Louis Vuitton, Burberry or Cartier, often move to another country to expand their knowledge of global markets, ensuring that the future leadership will also have a large proportion of Italian nationals.

Only Prada attempted to create a portfolio of luxury brands. In the 1990s, after the successful launch of Miu-Miu, Miuccia Prada's nickname, whose goal was to translate her vision for her younger clientele, Patrizio Bertelli launched on an M&A spree: at one point, the group owned 9.5% of Gucci; then, in partnership with LVMH, it took 51% control of Fendi; and continued with taking over control of Helmut Lang, Jill Sander, Church & Company, only to divest most of them in the 2000s to pay down their debts. Today, the Prada

Group's main drivers are their own two brands, Prada and Miu-Miu; the only brands that came from M&A activities are Pasticceria Marchesi, Church's and Car Shoe, which represent less than 3% of their annual revenues.

Other than Prada, Italian luxury companies do not access capital markets. This perceived Italian suspicion vis-à-vis being public is true in all sectors, not only luxury. Italy, with the world's 7th economy, has a stock market which doesn't even make it to the top 20 in terms of total market capitalization. The counter-example is Luxottica, which has gone public and used its access to capital to effect consolidation in its market.

Obviously, Italians continue to have their magical touch that ensures success for luxury high fashion brands. Yet, outside of Prada, they don't want to access capital markets, and there is no Italian group today whose scale matches the French or Swiss groups and brings its individual brands a greater edge to face the unpredictable future ahead. I do not see a better way for Italians to maintain leadership than a group under which a number of Italian luxury brands could maintain their individuality, expertise and heritage, and ensure that the Italian 'Dolce Vita' continues to be at the heart of luxury for generations. If they don't understand the increasingly crucial role that scale will play in the future, then I fear that these Italian companies will not have the financial power to face the challenges lying ahead, especially in competitive markets such as China.