



Ferragamo: New Twist to Classic Design

Over the past two years the classic Italian luxury brand has updated its image, listed on the stock exchange, brought in an outsider as CEO and opened a slew of boutiques in Asia. Is the strategy working?

It wasn't long after Salvatore Ferragamo opened his first store in Italy in the 1950s that he began selling shoes to the Hollywood likes of Marilyn Monroe and Audrey Hepburn. The Vara stacked-heel shoes and Varina ballet flats quickly evolved into fashion icons... ready-to-wear featured top-notch textiles and leathers... and therein lay the rub. The brand became "classic", sought-after more by First Ladies and society matrons than Hollywood stars. Solid, dependable customers but not ones you find in abundance in today's Asian growth markets.

Clearly, something had to be done to re-position the company to attract new, younger customers while not losing Ferragamo's hallmarks of luxury and class.

As a result, the Florence-based company underwent an initial public offering in June 2011 on the Milan Stock Exchange, raising additional funds to return to its more colourful roots. Fast forward to today, and you find fashion trendsetter Lady Gaga's voluminous houndstooth dress by Ferragamo being quickly copied by another celebrity trendsetter, Kim Kardashian. The ballet flats are still around and can be found on the feet of Katherine Heigl and Emma Roberts.

The success story that is Ferragamo in 2013 is in no

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small way due to the company's CEO Michele Norsa, with a 35-year track record as executive manager of Italian family firms in fashion (Benetton) and publishing (Rizzoli) and an IPO for Italian fashion house Valentino under his belt. It was Norsa who orchestrated Ferragamo's IPO, listing about 22 percent of the company to fund an ambitious plan to open 25 stores - ten in China alone - plus a refurbishment of flagship stores in world capitals, such as London and New York.

"Ferragamo is one of the few brands with a long history, heritage, and absolute integrity... really the epitome of what luxury should be in the new century," Norsa said, in an exclusive video interview with INSEAD Knowledge from his offices in Milan recently.

Still Opportunities in Europe

Two years since that initial offering, the company's share price has doubled to 22 euros, but the timing was far from ideal for the IPO: turmoil and uncertainty roiled the global economy, and created unprecedented volatility in stock markets. "A lot of people were thinking that probably a new listing would only have to happen in Asia or outside Europe. We proved there were still opportunities for good companies," Norsa said. The two successful

IPOs, Valentino and Ferragamo, paved the way for other Italian brands to follow suit, with listings on the Italian Stock Exchange, such as Brunello Cucinelli and Moleskin.

At a time when luxury goods conglomerates are on a shopping spree in Italy, intent on hoovering up Italy's luxury goods firms, Norsa said there is still room for independents like Ferragamo, Prada, or Burberry. But he expects these companies will have to grow even larger to be able to compete effectively: "The critical mass size of a company, not only in terms of turnover, but organisational presence, is going to be crucial," he said.

While Ferragamo three years ago saw its sales grow 50 percent in traditional markets such as Japan, the U.S. and Europe, Norsa believes that this hot streak is unlikely to continue. Ferragamo's recent growth spurt in the last five to ten years is largely due to markets on the perimeter, such as Indonesia, and Vietnam, but especially China, where Ferragamo has doubled its number of stores, now totalling about 66.

In only a few years, the Asia-Pacific region has quickly become the largest share of Ferragamo's revenues (36 percent). But Norsa is quick to point out that even in a fast-growing region, Ferragamo is selective about which countries to enter, and China remains a top priority. "Not all Asia, but Asia is very, very important," he clarified.

Is China so big and so important in the global picture? "Definitely yes," he explained. "We see even in the world economy China is playing an incredible role, with all of the 8 percent or 8.5 percent growth. Combined with the growth of Europe and the United States, China has become fundamental. In the next five to ten years, we will still see opportunities on the perimeter in China, because second, third-tier Chinese cities are representing this opportunity," he said, referring to domestic growth within the country.

Other frontier markets have disappointed, such as India, Brazil and Russia, he said, because a lack of infrastructure investment has confined commercial activity to only one or two major cities.

Luxury Consumer Demand

But he concedes that the real growth in the luxury goods industry is coming from pent-up consumer demand among newly-rich emerging market consumers. "The growth of the emerging economy is not only the booster, but really the engine of the luxury industry," Norsa said, "it's the reason the luxury industry has remained more resilient than most other industries, that have potential in the near future."

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At the same time, consumer buying patterns are rapidly shifting: those who can afford Ferragamo shoes are likely to travel to buy them and Ferragamo has been targeting affluent travellers as a rich vein of growth. "The capacity to anticipate the development of some markets and consumer behaviour is probably one of my specialities," Norsa said.

"I have very detailed information on how the Chinese travelled in February to Thailand, to Canada, to Indonesia - the size of the airport, the number of planes sold to Chinese major airlines, the number of seats booked for Europe next year," he added.

The Chinese travel market is a major focus for Ferragamo. "The Chinese as a population, not only the local people (but also those living abroad), are going to represent 80 million, perhaps 100 million, travellers around the world. This is going to be one of, if not *the* most important factors," he went on to say. Ferragamo's travel retail plan comprises four points of sale in the Chengdu, Xian, Guangzhou and Haikou airports in China.

Beyond a careful read of global developments and ferreting out markets with the greatest potential, Norsa also said brands like Ferragamo must be on top of their game not only in stores, but also online. "I believe the growth will come from quality, from like-for-like performance inside the stores, from retail excellence. Also from the experience and the hope and the interest we put into the digital world, mostly in terms of communications, and then eventually in terms of business," Norsa said.

Question of Succession

Aside from Ferragamo, there are still many large family-owned Italian fashion and luxury companies, especially those with sufficient heft in the one-billion-euro range, which have yet to sort out their handover to the next generation - best known brands such as Ermenegildo Zegna, Tod's, Giorgio Armani, and Dolce & Gabbana. Norsa believes companies like these, all of which have different organisational structures, will probably have a bright future.

But where he sees bigger challenges in Italy is for the smaller companies with sales of US\$20 million to US\$40 million, trying to break into the US\$200 million range, which was traditionally done by relying on markets in the U.S., Europe, and Japan through forging close links with department stores and buyers. The reason being, entering markets in countries in the growing regions is more complicated because they often lack the consumer retail infrastructure, Norsa said. Additionally, the demand for Italian goods is shifting away from ready-

to-wear to leather goods, he said. For example, China is a major consumer of accessories.

What advice would Norsa give to those looking for a job at Ferragamo? “We have become much less interested in where you come from in terms of studies, so we are hiring people coming from polytechnique or philosophy or finance, not necessarily business and administration,” he said.

“I think that two main characteristics make a good profile for the luxury industry: first, international experience is very important, as is mastering several languages; second, starting to work at an early age in company with a good reputation. Not necessarily in the fashion industry, but an established brand in whatever commercial category.”

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