
Making Tyres for the Cognoscenti



By [Shellie Karabell](#), Editor-in-Chief

Pirelli tyres mean race cars, sports cars and glamour but the man driving the company understands that to be number one on the fast track, you have to watch the landscape as well.

Pirelli makes tyres – round, black and rubbery. Billions of cars, trucks and farm vehicles sport exactly the same indispensable transportation commodity. So what makes the product of this little Italian company different?

In short: sex appeal.

“We are the ONLY supplier of Formula 1 racing cars,” Pirelli CEO **Marco Tronchetti Provera** told INSEAD Knowledge in an exclusive interview in his Milan offices in December.

“It’s one of the best ways to advertise our products,” he continues, “because of the mix between technology, passion and glamour – that’s Formula 1. It’s also good for technology because we test new compounds, and we test them in the worst possible conditions: under stress. So the compounds we develop for Formula 1 can be used partly for the traditional tyre.”

Pirelli's "traditional tyres" don't escape the sex appeal label: you find them on Lamborghinis, Ferraris, Maseratis, Porsches, Bentleys, McLarens... and on 50 percent of the top-end cars on the market today. But the company also makes tyres for the vehicular equivalent of the high street: commercial vehicles such as trucks and tractors globally. Tyres are a product that is virtually recession-proof, but Pirelli still feels the effects of the current downturn.

Recession-Proof?

"The recession affected largely Southern Europe, but even Central Europe is not growing at an acceptable speed, and Europe is the core of the recession. Latin America is doing quite well, and in the U.S. we grew thanks to our new products and technologies," Tronchetti says, referring to the P Zero, Scorpion, Cinturato and winter tyres. "In Russia, we're in "start-up mode" and in China, the Far East and the Middle East we're doing quite well."

Tronchetti on Europe and the Crisis "We talk a lot about sovereignty, but we've already given up sovereignty - the euro is part of the lives of Europeans. We need better integration - keeping the identities of different nations, the cultures of the different countries, but we have to grow together... with the same rules for harmonisation of the budget, having a central bank that will be a real central bank like in any other regions of the world... we cannot have a different financial system to other regions of the world. We have to grow together. No one country can grow alone, not even Germany. The end of the euro debt crisis is an integration of Europe."

EU regulations mandating snow tyres – not just chains – for inclement weather in most of Northern Europe also represent a growth opportunity for Pirelli. Aside from the luxury end of the market, the company recently bought Sweden’s Dackia Holding AB which has a 14 percent market share in this country which accounts for 40 percent of the demand for snow tyres in Europe. But Tronchetti sees pockets of expansion throughout the world, and he is keen to see Pirelli treads leave their mark.

“We see growth in Asia, and Russia is an opportunity. Europe will remain – even in 2013 – not an easy market,” he explains. “We can compensate a bit because we are focused on the premium segment which is doing better than the standard segment... and where there is technology, there is still some growth.”

Tonchetti claims Pirelli will double its output within the next five years, thanks to its above-mentioned products and has built new factories to capitalise on its forecasted growth markets: in Mexico to serve the U.S., thanks to NAFTA, and in Romania to service Europe. “The only way through the recession is through innovation and technology and new markets – that’s the only way to compete.”

But how can a commodity like tyres – even sexy Pirelli tyres – be innovative?

“Innovation is mostly related to structure and materials. In the last decade there has been an improvement – an amazing improvement in new materials,” he believes. “We use carbon fibre, kevlar, and the structure is more and more complex. These new compounds are mostly synthetic rubber, and compounds are evolving fast.”

Sustainability and the environment

There are also safety and sustainability issues for a tyre-maker to consider. Tronchetti points out that tyres are the only part of the car that touches the ground, and that’s a vital contact point. Behind the glamour of the Pirelli tyres there is a solid commitment to sustainability. The company produces filters for car and truck (diesel) engines to reduce pollution, and believes the growing concern for the environment is another road to growth.

“One of the main aspects of our activity is to improve the sustainability of our products, our factories, our suppliers,” he says. “Part of this is our business unit that takes care of the environment. We believe we have to

grow together with the sustainability of our products.”

Pirelli is a pure-play tyre company. Results for the first nine months of 2012, released in November, show net profit increased nearly 23 percent year-on-year (308.3 million euros), while revenues increased more than 7 percent (4.6 billion euros), though the overall net financial position showed a loss of 1.8 billion euros – due in part to unfavourable exchange rates.

With its 4 billion euro market capitalisation, Pirelli hit the number five tyre-maker in the world... the right size for a takeover bid by one of the big guys: Bridgestone, perhaps? Pirelli may have a sexy image but it's not stupid. Tronchetti opened the door to a number of investors to position as potential “white knights” in the case of a takeover bid. “We enlarged our share structure to include a number of institutional investors that are global – from the U.S., from China. They are confident in our company; they support the management, they support the company,” he explains. “I think it would be very costly for another player to buy Pirelli.” That shareholder structure was just confirmed to last through to at least the spring of 2014.

Pirelli has further monetised its sex appeal - creating a fashion line, jerseys for the football clubs it sponsors, and the 40-year-old iconic Pirelli calendar, which started in the U.K. as something dealers could give away to truck-drivers. Today its clients are more widespread and diverse, and the calendar aspires to a kind of popular art form. “After a few years, even the headquarters understood that it could be a good way to advertise the brand, and so the adventure started,” Tronchetti explains. “I’ve been taking care of the calendar since 1992 and so the 20 years of the calendar have been really exciting. The calendar has to change with the changes in behaviour of people around the world: it’s a mirror that shows the evolution of society, and we have to find, through the eyes of photographers, something that is attractive but also represents the society in which we live.”

Power and control

Tronchetti himself represents the society in which he lives. His name appears or has appeared in the board of directors lists of most leading Italian companies – including the famed La Scala opera company and Bocconi University. If you want to apply the mantle of “powerful”, it would drape comfortably on his shoulders. But he acknowledges the company’s motto, “Power is nothing without control”, applies to more than just race car driving.

“I think that doing business means taking risks,” he opines. “But never to take risks that are so high that you endanger the future of the company. We have to be creative, we have to be innovative, we have to look forward and be visionaries, but we have to trust ourselves in any possible challenge. The CEO is responsible for the future of the company, and it is not good to risk the future of the company.”

He learned this tough lesson first-hand when he assumed the helm of Telecom Italia from September 2001 to September 2006, in the early days of its privatisation. It proved too big a risk and he admits he failed spectacularly. “The company performed very well but it was state-owned company and it was very difficult to try to be entrepreneurial. Luckily I left and was back to Pirelli.” - the company he joined originally in 1986 and has led since 1993.

The Telecom Italia experience has made him cognisant of what it takes to be the CEO of a global business today. “The only way our company can survive in the next decades is to have good products, good people, and take care of society and of the environment. You have to see the evolution of the world together with your company. You cannot keep an eye on the company without looking at society,” he says. “Only a harmonious growth can guarantee the growth of the company for the kids and their kids.”

It is unclear at this stage whether Giovanni, Tronchetti’s son with former wife and Pirelli heiress, will move into the executive suite when the mid-60s Tronchetti retires. Pirelli has a relatively young international management team, ten of whom are earmarked to run the company for the foreseeable future. “Out of them, there will be one in the next years who will have the most drive, the most vision. A committee, of which I am a part, will decide who is the one who could succeed me. Our company is under forty years old. I’d love to be part of a story that lasts a number of centuries.”

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