

P E O P L E



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ERMENEGILDO ZEGNA, MEMBER OF IESE'S  
INTERNATIONAL ADVISORY BOARD

# “WE HAVE TO RAISE THE BAR”

The CEO of Grupo Zegna talks to professor **Fabrizio Ferraro** about the challenges of running a family luxury goods business that has pioneered moves into China, India and Africa while never losing sight of its founder's determination to give something back to society.

**E**rmenegildo Zegna is the fourth generation to run the family luxury clothing business that his eponymous grandfather established in 1910. As well as being one of the world's largest producers of luxury goods, the family has a long tradition of philanthropy. In the 1930s his grandfather created a village for the workers with a hospital, restaurants and a swimming pool, believing that the quality of a product is closely connected to the quality of life of those who make it, as well as the beauty that surrounds it. With this in mind, the company planted half a million conifers along a panoramic route, the “Oasis Zegna,” a nature reserve under private ownership, just outside Trivero, where the Merino sheep that produce the famous wool for their owner can graze. This is the spirit in which **Zegna's** grandfather created the company, long before corporate social responsibility became a marketing tool. Even today his successors share this same spirit, in the meticulous sourcing of the raw material and in the care of staff and the environment.

Zegna's wool factory, founded in 1910, has been the backbone of the success of a company known throughout the world for making the finest fabrics, from wool, cashmere, mohair and alpaca. Zegna's tailoring rests on the pillars of modernity, precision and the excellence of its fabric, with a classic style and elegant sophistication. Innovation is also a cornerstone. **Zegna** himself has become interested in silk and produces suits that, while made of silk, have the texture of cashmere. The firm has also invented an invisible mem-

brane that makes suits waterproof, as well as a special fabric that keeps the wearer cool in summer and warm in winter.

In over a century, innovation has been key to the success of this family business and **Ermenegildo Zegna**, CEO and member of IESE's International Advisory Board, is carrying on the tradition. During his visit to IESE's Barcelona campus for the celebration of the Grupo Zegna España's 50th anniversary, he spoke to IESE Professor of Strategic Management **Fabrizio Ferraro**, who is director of the school's Luxury Goods Industry Meeting.

## **What are the challenges that you face as a leader in a global firm operating in 100 markets with different kinds of consumers?**

In fact, these days we operate in more than 100 countries and I think that since 2005 we have changed dramatically. In those days we were more wholesale and less retail, whereas today we are exactly the opposite; we are 70 percent retail and 30 percent wholesale, so the organization has to change and the culture of the organization has changed. I think that today, in a world that is becoming more and more complex, the challenge of a leader, regardless of the field, is having to cope with complexity, and to cope with unknown variables, such as continual devaluations, for example. How do you price your goods? How do you confront a market in a situation like this? Or, if we look at markets, there were five emerging markets, but only three made it. India and Brazil are going through a hard time. How do you meet this challenge?



I realize, as we move forward, there are more and more unknown variables that you have to cope with quickly to avoid the worst. Unless you have an effective organization and you are also capable of making unpopular decisions, it's hard to achieve.

**How did you build this flexible organization? What are its key elements?**

You have to be good at speed, you have to be good at making the decisions, and you have to be good at executing the decisions. I think many executives and entrepreneurs make their decisions, but then apply them badly, and as a consequence don't get the expected results. Also I think that there are certain people in the organization who are very good in boom years, others less. In my view flexibility is like the brake on a car. I mean if it doesn't work, you have to know how to fix it.

Going back to the original question, speed, flexibility and flawless execution are the three most important points that I think that I'm trying to apply. It's never good enough, but I'm trying my best.

**How much do you centralize the decision-making and how much do you let the regions decide?**

It's a good question. I think we do both, in that you cannot delegate the part of the brand that has to be controlled centrally. I think branding, the brand positioning and the intangible aspects of the firm really have to be controlled

at headquarters. Certain rules have to be applied and all the markets have to follow that.

In terms of certain aspects of the service and understanding the desire of the customer, I think that you have to listen to those in the field. It is a mix between the two, and the challenge is how to regulate the organization, and create a strong team by motivating all sides.

Market visits are very important. It's important for people from central office to visit the regions and the heads of regions to come and meet the people in charge of various tasks and products. It's very important to travel.

I usually do four to six major trips (to Asia and the Americas), and I tend to go with different people, because we often make decisions in the territory and often we solve problems in the territory. It's only by getting inspiration or living through the challenges or the problems that you really can create this strong teamwork.

**That's a big investment of your time. It's a very personal touch for a leader.**

Very much so. But I think that the ones that don't do it miss opportunities. In particular I'm talking about our field. We are a luxury consumer market, which is a special market; it's impulse buying. I think it goes very much in cycles, short cycles.

The other aspect, which is fairly new – I'm talking about the past three to five years – is the flow of travelling. Bear in mind that 40 percent of the luxury purchases are



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carried out by people travelling. Unless your brand is positioned in a consistent way, unless you offer a superior service, unless you control your brand meticulously, regardless of whether you are direct, you are franchising or wholesaling, you're in trouble. Because the customer watches you and can notice differences on the spot. I think that controlling the intangible parts of the brand centrally is key.

Another challenge is mobility of staff. For instance, we now have several Chinese sales associates in our retail sectors in Europe and America, and Russian sales associates in Europe. To welcome the customer, to make them feel at home and to understand what they need. Some like it more formal, some like it less. I think that you have to be constantly aware, because as long as the pattern of travel changes, so do you.

**Over the past few years some of your competitors have been acquired by large conglomerates. How has this changed your competitive landscape? Will it also lead you to carry out more acquisitions in the future?**

It's a good point. We're seeing it in different sectors; in airlines, in banking, in the car industry and also in the luxury business. I think there will be a future for independents like ours. You know, compared to them, we are a mid-sized company. We are not public; we are totally private.

I think that provided we know what we are doing, and provided we differentiate and we bring something new to the customer, I think that we can remain independent and keep going. I also think that if you go for growth and if you generate the right resources, and if you have a great team, you can remain attractive. To compete with them, you need resources.

**There are no plans for acquisitions at the moment?**

No. We are always looking for opportunities, and actually we made a few small acquisitions, but nothing major. On the other hand we have formed a great team with other

Italian brands at the Camera Nazionale Della Moda Italiana, to create a new energy, to exchange information, to be more attractive in cities like Milan, which are the center of fashion and to work with the public sector.

**So you're working more with other privately owned firms?**

There is Prada; there is Ferragamo; there is Max Mara, there is Diesel. All these companies are working to create a better system, even though we don't have much in common in terms of capital or marketing.

**Is this a form of network strategy?**

Yes. It's making the system more competitive, more attractive to the outside: the press and, ultimately, the customer. I also think the private sector should work with public entities; with the city of Milan, with the mayor of Milan and with the governor of Lombardy to make our city more welcoming.

It's about competition, because nowadays we are not only competing with Paris, New York and London. These are merely the fashion capitals. We have to raise the bar in the interest of the system, and we can't do it alone. I think this is a form of expression. We have to unite against major luxury groups that have endless resources available, when we don't.

**Is the industry generating more growth in Europe?**

The industry is still very important in Europe, and particularly in Italy, where we are famous for our skill at producing top-end products. Sixty percent of the French luxury products are made in Italy; this is incredible, and tells you a lot about what we can do. Naturally, Italy promotes this ability, while with Zegna, we promote our own internal ability. We produce in Spain, we produce in Switzerland. But since your question is about Europe, yes, the industry is important, but as far as Italy is concerned, it is vital.