

Chazen International Study Tour Report For Italian Luxury Goods Companies, Less Is Often More

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Chazen International Study Tours

Designed to enhance the classroom curriculum, Chazen International Study Tours offer students and their faculty adviser an intense, firsthand experience of the business culture of their chosen country or region. Study tours are initiated by students and organized with the help of the Jerome A. Chazen Institute of International Business. During study tours students meet with leading executives and government officials while visiting businesses, factories and cultural sites. Recent destinations include China, France, India, Japan, Russia and Scandinavia.

The richness of Italy—its food, culture, language and commerce—has inspired thousands of much more gifted, eloquent writers over the years. Indeed, Italy has long been regarded as the epitome of luxury. This notion has also had a major impact on Italian businesses and goods. Companies such as Armani, Prada, Gucci, Dolce & Gabbana and Maserati drip of lavishness and point to how the Italian economy has grown around many of these family-owned companies that cater to the whims of the world's elite.

In January 2007, a group of nearly 20 Columbia Business School students set out to experience the many facets of Italian life, business and, yes, wine. The students traveled to Milan, Maranello and Rome, meeting with senior executives at some of the most recognizable brand names and learning about Italian business culture and what it means to live, breathe and sell luxury.

While luxury itself does not require or necessarily equate with scarcity or inaccessibility, many of the companies visited believe that their positioning depends upon their limited availability. Some high-end Italian producers are defining to whom they won't sell before deciding to whom they will.

Armani, for example, has bucked a trend among many high-end fashion houses of targeting the accessories market instead of the clothing market. The accessories market, which has grown substantially and profitably over the past few years, tends to be an entry point for consumers looking to explore higher-end goods.

However, even as Armani has expanded its product line to include home furnishings, hotels and even floral arrangements, it remains true to its roots as a luxury clothier. The company has chosen to distinguish itself with multitiered offerings that coincide with different price points and styles. Armani Jeans and its American counterpart, Armani Exchange, are geared toward a different consumer than the more expensive Emporio Armani, and while all are manufactured with quality, none bears the exclusivity of the Armani Collection.

In this way, Armani has kept its upper-end products exclusive while still managing to build name recognition and reputation in multiple markets. It has chosen not to market Armani Collection wallets and bags to younger consumers, as have competitors like Louis Vuitton. Furthermore, the accessory business has been plagued by the knockoff industry. And while imitation may be the sincerest form of flattery, it is one of the easiest ways to destroy a company's bottom line. Clothing design and craftsmanship have proven harder to copy. As Armani vice president Andre Camerana told visiting students, Armani's adherence to its core as a clothier has made it easier for the company to maintain the level and perception of quality the brand requires.

While luxury can come in the butteriness of leather or from the hand-stitching of a true artisan, it can also be enhanced by scarcity. Ferrari has long been known for its ability to make beautiful cars go fast—very, very fast. Part of what has elevated Ferrari to the upper echelon of car manufacturers has been its ingenious engineering and design, as well as its craftsmanship. But as one always wants what cannot be had, Ferrari has benefited from scarcity. With its plant capable of turning out 32 cars a day, there is very limited supply. Ferrari has sold just 100,000 cars worldwide since its founding. This is the same number of cars sold by Porsche last year. And with sticker prices rising above \$250,000, a Ferrari is not simply a means of moving from one place to another, it is the epitome of the global status symbol.

With a waiting list in excess of 18 months, many might argue that Ferrari would be wise to increase its production capabilities. However, the brand definition would hardly allow for such rapid growth and expansion: Ferrari owners are few, a family of sorts, who customize their cars to reflect their individual tastes and specifications. Owners appreciate that exclusivity. Furthermore, though now owned in part by multinational corporations, Ferrari still maintains the feel of a family operation, with a strict focus on the well-being of its workers.

The Formula One racing circuit still plays an important role in Ferrari's mission. Ferrari's goal is not only to sell cars but also to produce the best sports car in the world. As opposed to the mass-produced Detroit model with which most Americans are familiar, Ferrari operates only one shift of eight hours in its immaculate and environmentally friendly plant. It is a statement of how quality should, and does, prevail over quantity, even if it comes at the expense of higher profits.

For the select few lucky enough to possess a Ferrari, ownership is not simply about the car but about the experience. Ferrari, as well as the many other Italian luxury firms, understands that it is selling customer service as much as it is selling a product. For Bulgari, custom jewelry is about the brilliance of a stone and the uniqueness of a design, but it is also about how the customer feels, both when wearing the piece and when purchasing it. Personalization is a must in the field of luxury goods, with trained salespeople working to build long-term, personal relationships with key clients. The item itself may be luxurious, but so too must be the experience. Stores are themselves works of art, with every effort made to increase the comfort of the buyer, from plush furnishings to private rooms and hidden doorways.

Understanding that selling a lifestyle is one of its core businesses, Bulgari has moved into the resort business. Luxury may be a 20-carat ruby, but it is also sitting on the shores of Bali as a personal waiter brings you another mai tai. To the Bulgari family, such a brand extension flowed

naturally. As CEO Francesco Trapani explained to Columbia students, he views Bulgari as a way of life, not simply jewelry or a fragrance. Customers are accustomed to a particular level of treatment, and Bulgari strives to provide that, whether at airport duty-free gift shops or at the flagship boutique at the foot of Rome's Spanish Steps. No matter how many brand extensions the company makes, they will be only in those directions that are befitting the Bulgari lifestyle.

During the students' visits to Italian luxury goods companies it was clear that the country's luxury brands are not only a source of national pride but also an important driver of the economy. The industry generates revenues and jobs in the private and public sectors. Italy has benefited greatly from its entrance into the European Union, selling goods and services to other European markets and accessing new and larger sources of funds.

However, the Italian luxury industry has remained faithful to its roots as family businesses. Many of the companies students visited are still family owned, but with professional managers and clear strategies. The key to their success has been and still is a relentless focus on client satisfaction, providing a unique buying experience and exclusivity. The students also observed how the family culture generates a trend to promote from within. Italian luxury brands tend to offer many development and professional-growth opportunities to their employees, who in turn are extremely dedicated and passionate about their jobs. Compensation plans aligned with the company's and shareholders' interests also contribute to employees' productivity. At companies such as Ferrari, this dedication is especially evident. All Ferrari employees identify with the company's culture and are profoundly committed to the performance of the cars they produce for commercial and Formula One use.

To American sensibilities, much of the Italian experience is simply indulgence. Multihour lunches, finely crafted wines and the lusciousness of fresh gelato were perhaps more foreign to many of the students than the idea of Ferrari ownership. But after a week spent amid the fountains and ruins of ancient Rome, it became clear why these high-end companies have had such global success. They simply found ways to manufacture the upper-class Italian existence and export by means of a pair of earrings, a beautiful suit or a 12-cylinder engine. And by understanding the value of luxury in all elements of daily life, these companies have created brands that are both enduring and global in their appeal.