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Prada's Next Chapter

After a lengthy turnaround, CEO Patrizio Bertelli outlines his growth plans for the Milanese fashion giant.

BY ROBERT WILLIAMS

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Luxury

MILAN, Italy — Looking out from the sixth story of Prada's sprawling art foundation in Milan, chief executive Patrizio Bertelli sees a bright future ahead.

While the pandemic delayed results of a multi-year turnaround, sales have recovered rapidly this year. Now Prada is ready to put the lengthy restructuring behind it and welcome a new phase of growth.

Speaking to *Business of Fashion* on the eve of the company's first investor day in seven years, the 75 year-old executive presented ambitious new targets for growth and profitability.

Prada is aiming to grow its sales to €4.5 billion (\$5.1 billion) mid-term, leaning on a renewed focus on young consumers, buzz from a star co-creative director, Raf Simons, and investments in technology to deliver growth of 12 to 15 percent per year. It's also planning for the long-term, with sizeable spending earmarked for acquiring factories to reinforce its supply chain, and a strategic push to expand the company's soft-power through cultural initiatives like the 200,000 square foot Fondazione Prada museum in Milan.

Bertelli also struck a more open-minded tone regarding potential deal-making in the company's future, saying remaining independent was "not the first objective."

Retail sales for the third quarter rose 18 percent over 2019's pre-pandemic levels, the company said, accelerating from an 8 percent two-year growth rate in the first half.

"We will certainly close this year better than in 2019," Bertelli said. The acceleration in the second half of 2021 "sheds light on what we can expect for 2022."

But Prada still lags luxury peers like LVMH and Hermès, who have surged out of the pandemic slump with growth rates up to 40 percent, pointing to fierce competition still ahead. It remains to be seen if the company can buck the trend of big groups taking market share from independent players in the long term.

Prada's sales first began to stagnate in 2013, hurt by an over-reliance on its hit Galleria handbag style as well as a broader move to focus on top-price leather goods instead of the more youthful, sporty styles that had defined it in the early 2000s.

Three years later, a slowdown in China's economy coupled with a state crackdown on corrupt gifting saw sales tumble 10 percent. After that, Prada struggled to rebound even as growth came roaring back at big luxury conglomerates like Gucci and Balenciaga-owner Kering or Louis Vuitton parent LVMH.

Sales started to pick back up in 2018 after the company reintroduced its nylon accessories and Linea Rosa (Prada Sport) line — albeit at much higher price points than before.

Bertelli also raced to catch up with rivals on social media and e-commerce, naming his and Miuccia Prada's son Lorenzo to helm a digital communications push. Meanwhile, merchandising shifted its focus from minimalist workwear staples to more directional, street-savvy pieces.

"Maybe we had been following our mature customers a bit too much," Bertelli said. "We're selling a lot more to younger generations now."

The pandemic cut that turnaround short, as Prada's sales tumbled 24 percent (in line with the broader luxury market) from €3.2 billion to €2.4 billion last year.

But that pressure eased swiftly. By the second half of 2020 retail sales were down just 6 percent from a year earlier, sparking renewed confidence in the company's underlying appeal. Shares have nearly doubled since the company's trading update last July.

Despite the slump, Bertelli forged ahead with plans to eliminate all markdowns in Prada's mainline stores and reduce its exposure to discount-prone wholesalers and e-tailers.

Designer Raf Simons joined the company as co-creative director alongside Mrs. Prada in March last year — just as the coronavirus pandemic was exploding across Italy, which found itself in four months of strict lockdown.

As the human and economic cost of the pandemic spread worldwide, stores shuttered and fashion weeks moved online, where few brands managed to make a memorable impression.

The brand's first shows with Simons in place were an exception: his debut collection, captured by a panopticon of dozens of robotic cameras, captivated fashion audiences who were eagerly waiting to see what the two star designers would come up with, online or off.

In recent months, e-commerce sales have continued to accelerate even as stores reopened after coronavirus shutdowns. In the third quarter of this year they were five times higher than in 2019 (up 400 percent year-on-year). The company expects them to account for 15 percent of sales mid-term.

Continuing to ratchet up digital will be a big part of Prada's growth, Bertelli said. The brand plans to invest another €150 million over the next three years to upgrade its tech infrastructure, including spending to better manage and leverage customer data and more efficiently manage inventory and supply chain.

Alongside "judicious" price increases and recruiting new clients, investments in omnichannel services and clienteling technology for stores and sales associates are hoped to boost retail productivity 30 to 40 percent mid-term, Prada said. That would mean the company can hit its targets for rapid growth without the expensive task of expanding its store footprint.

Prada is also investing heavily in its supply chain, an area where most Italian luxury brands have lagged behind French labels like Chanel and Hermès, as the country's fashion system depends on a web of thousands of external suppliers.

That's made it harder to respond to pressure to accelerate progress on sustainability, as well as to navigate a generational shift as many of the operators of luxury suppliers reach retirement age.

Prada inaugurated a 350,000 square foot manufacturing headquarters in Tuscany in 2019 and spent more than €80 million on supply chain acquisitions and investments over the past two years. It's earmarked another €70 million for 2022.

"Who's going to manufacture our products for the next 20 years' time? We need to equip," Bertelli said.

As for Prada's own succession, while Bertelli has frequently maintained that he and Mrs. Prada have no interest in selling, he did strike a more open-minded tone regarding the potential for deal-making in the company's future.

Remaining independent “is not the first objective we would have in mind,” he said. “Eventually you can own a smaller slice of a bigger cake.”

But opportunities to consolidate are few: he’s more interested in acquiring factories than other brands, he says. Chanel and Cartier-owner Richemont, too, are “focused on organic growth,” he said.

Asked about a reported meeting with Kering’s chairman François-Henri Pinault in late 2019, Bertelli was coy. “It’s normal to meet people working in the same industry as you... It’s not that every time you meet it means you’re going to merge,” he said.

While there is plenty of consolidation taking place in the Italian fashion sector at the moment — Moncler nabbed rival Italian parka-maker Stone Island and Exor, the Agnelli family fund that controls Ferrari, acquired Shang Xia and a stake in Christian Louboutin — Bertelli contends that it’s “too late” for an Italian luxury group to emerge.

Regarding the brand’s design, Bertelli sees strength in continuity. Mrs. Prada, the company’s 72 year old co-CEO and co-creative director, will “continue to work for as long as she wants,” he said. While Simons’ appointment as co-creative director led to speculation the star designer might be preparing to step back, the relationship between the pair “is strengthening day in and day out in a very natural way.”

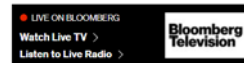
Pursuits

Prada CEO Says He'll Hand Over Top Job to Son Within Three Years

By [Flavia Rotondi](#) and [Tommaso Ebhardt](#)

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- ▶ Succession plan is part of Bertelli's standalone strategy
- ▶ Revenue to rise about 40% in next four to five years, CEO says



Patrizio Bertelli in Milan, on Nov. 17. Photographer: Alessia Pierdomenico/Bloomberg

Prada SpA Chief Executive Officer Patrizio Bertelli plans to put his son Lorenzo in charge of the Italian fashion company within the next three years, a generational shift aimed at keeping the business under family control.

“Lorenzo has the right attitude” for the job, Bertelli said in an interview at the sprawling Prada Foundation compound in Milan. Lorenzo, 33, is the son of Bertelli and Miuccia Prada, who’ve worked together since the 1970s to transform the Milan-based company into one of the world’s most prestigious fashion groups. “It will be up to him to decide” when to take over, Bertelli said.

The succession plan is the clearest sign yet that the family intends to stay in charge. Prada has no intention of linking up with any of the global luxury

conglomerates, Bertelli said in the interview, and the company isn't seeking a financial investor as it doesn't need additional capital. The family's Prada Holding owns about 80% of Hong Kong-listed Prada.

In the hour-long conversation on Nov. 17 at the foundation's sixth-floor restaurant, Bertelli said ceding control of the company would be out of character for him.

"I've always been interested in buying, never selling," said the 75-year-old CEO, surrounded by art treasures including works by Spatialist pioneer Lucio Fontana. "I still have my Vespa Primavera, my Honda motorcycles. They are still with me, all of them, I am not a seller of anything."

Instead, Bertelli thinks Prada, which has 20 of its 23 manufacturing sites in its home country, could become an aggregator of small Italian textile and manufacturing companies. Carrying out that plan will fall to Lorenzo, who joined the company as its digital head in 2017, and was appointed to the board of directors in May of this year. He currently heads up Prada's corporate social responsibility and marketing activities.

Prada is just one of many Italian family-controlled companies that have faced succession questions recently as aging founders look to the future. That list includes Leonardo Del Vecchio, who built the Luxottica eyewear empire, and fashion icon Giorgio Armani.

Going It Alone

While behemoths like France's LVMH Moët Hennessy Louis Vuitton SE have snapped up smaller fashion brands, a number of Italian designers have charted out independent courses. Armani said in September that independence is essential for his group and Dolce & Gabbana Srl CEO Alfonso Dolce told Bloomberg last month that his company also plans to remain independent to preserve its creative freedom.

For Prada, the go-it-alone approach means retaining family control over a fashion house founded by Miuccia's grandfather Mario in 1913 as a Milan-based purveyor of bags, trunks and travel accessories.

While Bertelli and Miuccia Prada oversaw an impressive transformation into a global group, the company has stumbled of late, as earnings fell for four straight years until

2018 as it raised handbag prices and was slow to come up with a follow-up to its best-selling Galleria line.

The brand bounced back in 2019 as it found success with new rollouts, before sales dropped below 3 billion euros (\$3.4 billion) last year amid the pandemic.

Prada on Thursday announced a plan to boost revenue by about 10% a year to reach 4.5 billion euros in the next four to five years, and Bertelli said 2021 revenue and profit will be higher than 2019 levels, barring “dramatic events” linked to a pandemic resurgence.

Prada is in a strong position to benefit from a post-pandemic rebound in luxury demand, the CEO said, noting that the company was forced to shore up its appeal in local markets during a period with virtually no tourism.

The company, which before the pandemic benefited from a “flow of tourists that made our job easier,” now sees tourism-based sales as “an added value,” the CEO said.

Bertelli: "Covid has changed us, now even fashion is digital"
by Giovanni Pons

19 NOVEMBER 2021

MILAN - On the first Capital Day since listing on the Hong Kong stock exchange in 2011, Patrizio Bertelli and his son Lorenzo are forced to deal with the delicate issue of succession at the helm of the group. «Lorenzo has the right attitude», Miuccia Prada's husband had stated to Bloomberg, and «it will be up to him to decide», but the timing has yet to be defined. It could be «in three or even four or five years, the important thing is to do things right», replies Lorenzo to journalists and analysts. The only thing that is certain is that the Prada Group will continue to be family-run, 80% controlled by the holdings of Bertelli and Miuccia, with no need to cash in or hand over.

Dr. Bertelli, Prada stock has undergone sharp fluctuations in these ten years and is only worth 20% more than at placement. Are you satisfied with this decision?

"We were the only ones to enter an Asian financial market, in order to stay close to our reference markets, knowing full well that we would lose a slice of the cash flows passing through New York or Europe. In the future, we may consider a dual listing, but it is not a current issue, as we don't need to place more shares".

The big French groups are increasingly hungry for Italian brands. Has the opportunity to create a large Italian aggregate capable of dealing with them been lost?

"Yes, I believe that opportunity is gone for now. The French continue to acquire even small companies to consolidate their positions, which depend to a large extent on Italian manufacturing. But we continue to strengthen our productive supply chain as well, and I believe we may see mergers of Italian brands in the future".

From your standpoint, what phase is the Country going through at the moment?

"We have the possibility for a strong recovery, but the spread of Covid in countries that underestimated it from the start may put a halt to that. Mario Draghi is a non-partisan leader and is using his expertise to manage the country through a programmatic approach and with a broad consensus. This formula is working at the moment, and the only issue of concern is the uncertainty with regard to his future".

You were the first ones to make the Green Pass mandatory in the company and you were also highly criticised for this. How do you explain the No Vax and No Green Pass protests?

"I believe this protest should be examined in more detail, the social categories involved have taken the opportunity offered by the Green Pass and by the vaccine to express unease towards the system that had been brewing for some time. I believe it is a stance by people who don't see clarity in the development of society in terms of consumerism, and they feel tension on issues that already emerged in the past, such as nuclear power, the Tav (high-speed rail), and the environment".

What has Covid taught companies?

"It has made us rethink everything on a digital level: physicality is no longer a necessity, and we have realised that many things can be done without moving, reducing work time and improving our quality of life. We also saved on the collections, discovering that it is not necessary to make all of the physical samples, and we used smaller showrooms and for less time".

Do you think remote working should be maintained in the company?

"I am not completely sold on remote working. I think you can save on a lot of business travel, as well as movement within the branches or between offices of a company, but it is preferable to work from one's own office rather than from home. Contact with work colleagues is essential".

In your plan, you envisage reaching 4.5 billion in revenues over the medium term. What are these forecasts based on?

"During the first part of the year, China drove consumption, later followed by the United States and Europe. There was a huge desire to start up again, and people saved during the lockdown. But it was a recovery of the local markets and domestic consumption, and the rediscovery of a national identity is helping the economy".

But tourists are still missing.

"We saw some American tourists last summer, but no Chinese ones as they still can't leave the country. Before Covid, we were all a bit drunk on the huge tourist flows. Now we have lowered costs and readjusted everything, including the products. So when the tourists come back, we'll be talking about additional revenues".

Future growth will bring lots of cash. How will you use it?

"In industrial development, we also want to intervene with capital along our production chain if there are companies, even small ones, in difficulty or in need of investment. A case in point is the recent acquisition made with Zegna in Filati Biagioli".

In distribution, will you be increasingly focusing on e-commerce and less on physical points of sale?

"Revenues from e-commerce account for 7% of sales, and we aim to reach 15%. But not to the detriment of shops or malls, which continue to be very important. The distribution chain is made up of various channels that complement one another".

"The pandemic forced us to rethink everything, physical presence is no longer necessary, not even for the collections".

"It is difficult for an Italian group to challenge the French giants, but we can grow while remaining independent".

<The succession

Patrizio Bertelli, 75 years old, CEO of Prada, with his son Lorenzo, 33, candidate to lead the company.

But the timing has not yet been defined.