

AHEAD

MANY AROUND THE WORLD FIRST BECAME CONSCIOUS OF ITALIAN tire manufacturer Pirelli in 1994, when they saw an ad featuring Olympic runner Carl Lewis in a pair of red high heels. Captioned “Power is nothing without control,” the popular image became the launch platform for a global ad campaign featuring Mr. Lewis. In addition to associating its high-performance

products, proven in Formula 1 races, with the achievements of a gold medalist, the message is seen now as gracefully embracing a message of lifestyle inclusion, well before such concerns were *di moda*. • Pursuit of innovation in response to real world culture is, in fact, a constant theme in Pirelli’s history and continues to be a part of its outlook. We spoke to Executive Vice

Chairman and CEO Marco Tronchetti Provera about the company’s latest efforts to get ahead of the trends in the auto industry and global business. • Giovanni Battista Pirelli founded G.B. Pirelli & Co. in Milan in 1872 to produce elastic items from natural rubber, or *caoutchouc*, which originated in Latin America. His rubber tires for carriages appeared in 1885 and for velocipedes (early bicycles) in the early 1890s. In 1901, he began making car tires and involved the company in auto racing. As it

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expanded its operations around the world, the company was able to build on the knowledge it gained from racing to refine its products, and add its own designs of radial and low-profile tires. • The pursuit of innovation led to investments in robotics and broadband systems, reshaping manufacturing and opening new doors

for the company’s product development. In 2017, it introduced its first intelligent tire, a chip technology embedded under the tread of a Pirelli tire that can relay critical data to an app about the state of the product, the road and the driver. Side by side with that technology, the company boosted the visual appeal of its tires with different durable colors striped on to the sidewalls. • The company has also reinvented itself, with major reorganizations in the 1990s and again in the 2000s. In recent years, it has expanded in China, Russia, Mexico and Argentina.

CURVE

of

Italian tire maker
Pirelli calls itself
a "145-year-
old startup."
CEO **MARCO
TRONCHETTI
PROVERA** talks
to Brunswick's
**ALESSANDRO
IOZZIA** and **LIDIA
FORNASIERO**
about the
company's flair
for design, and its
ongoing tradition
of innovation
and reinvention.



**"IF YOU'RE
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In 2015, as part of an agreement with ChemChina, Pirelli reorganized to focus on its high-end consumer tire business, separating from its industrial tire business. The restructuring required first de-listing its shares and then re-listing in 2017.

The deal with Chinese investors rocked Italian stakeholders. But management control of the company, and hence the company's culture, remains firmly with the Italians, Mr. Provera says. Instead of a takeover, he sees the China deal as part of a continuing plan to expand by exporting Pirelli style and "know-how" to new markets.

Pirelli let a Chinese investor gain a controlling stake as a part of a partnership that then saw the Chinese reduce their position to under 50 percent. That may be a first for an Italian company.

Yes, that was part of the agreement from the beginning. The Russian investors decreased their stake too. The deal supports the development of the industrial segment (Truck and Agro) on one side, where the Chinese own huge plants but lack adequate technical know-how, and, on the other, it allows us complete autonomy in developing the consumer segment, while setting up very clear governance. We wanted to demonstrate to the market that Pirelli isn't being taken over by the Chinese, as has happened with other companies, but would remain independent and headquartered in Italy. To change that or to transfer technology to third parties would require 90 percent of the shareholders' votes – all of this with the support of the Chinese strategic shareholder.

The Chinese believe in Pirelli's management. They demonstrated that by appointing Filippo Maria Grasso, a Pirelli manager, as the new CEO of China National Tire & Rubber Corporation [CNRC], the holding company for their tire businesses. China recognizes that it needs Pirelli's know-how, its track record of success, to help development into China.

All our agreements were designed to safeguard Pirelli's culture and were written in the original contract. We tried to explain this to the public from the beginning but it took a little time to convince them!

Was it difficult meeting the expectations of Chinese shareholders, given the differences between the two cultures?

Not at all. We've found that negotiations go well if everything is clear from Day One. We were already coming from an experience with Russian shareholders, where we set up a plan to develop plants in Russia, so we were able to use that model, tailored to China. Pirelli's history makes this easier. Pirelli's

family has always had a minority stake, while maintaining control of management. Pirelli was an early example of venture capitalism at the end of the 19th century – a group of what we would today call "angel investors" trusted Giovanni Battista Pirelli to run the company. Today, with a board of mostly independent directors, management retains responsibility for all strategic choices. The Chinese clearly see the benefit of that.

In the last three years, Pirelli shifted from a wide range of tires to targeting the high-end car market. Can you tell us about that move?

The transformation has actually been going on for a lot longer. Pirelli was the smallest among the big tire producers and already in the '90s had shifted its focus to high-end products and technologies, still a niche market at the time. Beginning in the 2000s, the automotive industry as a whole began a transformation – old ways of doing business had to change.

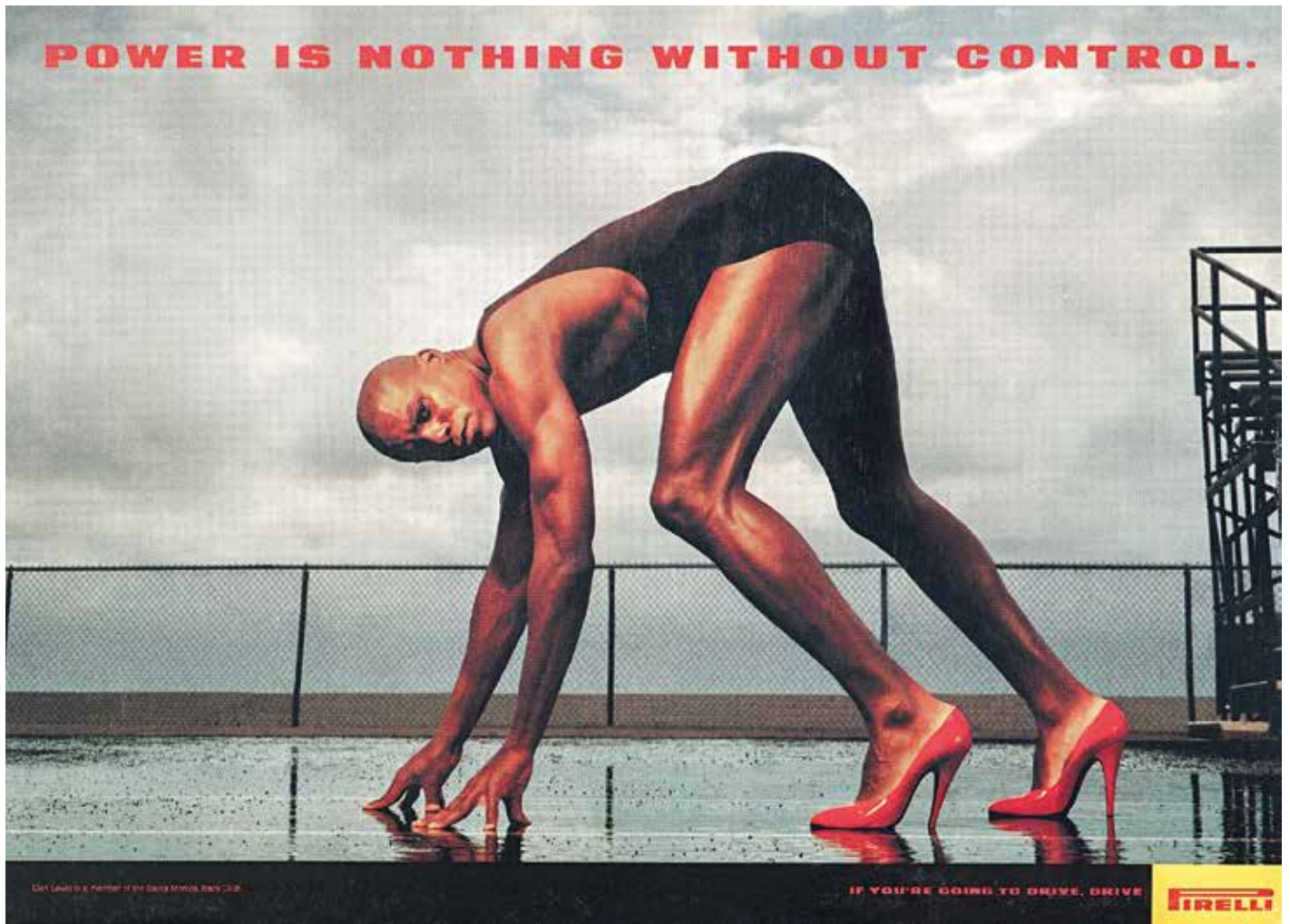
In 2007, Pirelli started closing plants that could not be converted and building new plants dedicated to our Premium and Prestige tire lines. We ramped up investments and hiring to increase our capacity in R&D and opened collaborations with suppliers and universities to accelerate this process. Five new plants have been built, in Italy, Mexico, Russia, Romania and China, all dedicated to the Premium and Prestige segment. These are long-term transformational processes, but very good results are already coming.

Was there one moment when the way you talked about the company to the market changed?

We started in 2008. That was probably the worst year to do that because the market was believing in nothing at all at the time. Let's say we encountered a certain skepticism. But gradually, we demonstrated that we were able to reach the targets we had fixed.

The Premium segment grew at twice the rate of the standard segment. We increased our market share from 10 to 20 percent – even more in the Prestige segment, the highest segment, which supplies original equipment for Ferrari, Maserati, Porsche, McLaren, Aston Martin, Lamborghini, Bentley, etc. Our market share went from 20 to 50 percent globally.

The industry was changing, the high-end market was growing, but we were outperforming the market and were able to reach the positioning we have today. It takes several years for new technology and products to gain access to the market, so these processes take a long time to work out. Knowing that, our narrative started way before the products themselves began to appear.



For the IPO in 2017, your slogan became “Invest in a 145-year-old startup.” How did that come about? How did you share it?

We are continuously under transformation. A company must reinvent itself incessantly. That’s even more true today with digital technologies. So, when Maurizio Abet (Pirelli’s Senior Vice President for Communication) came to me with several proposals for slogans, I immediately opted for that one. We were spinning off the industrial part to allow the consumer business to focus fully on the high-end segment, so it seemed to have immediate resonance. We were also in a moment of digital transformation. That’s still going on and affects all processes, from corporate activity to new product development, to manufacturing. We are becoming a different Pirelli.

How did that tie in with your historic narrative?

Innovation is in our DNA, a curiosity for the future. You see it in the beginning of the 20th century with Giovanni Battista Pirelli exploring what could be done with natural rubber. From there, the first cables

The 1994 ad above uses an Annie Leibovitz photo of Olympic Gold Medalist Carl Lewis. Pirelli’s Annual Report, below, includes the stories of five innovative Italian craftsmen, with 3D animations and illustrations by Italian artist Emiliano Ponzi.



were born, then the tires, with the same extreme attention over time to culture and society.

We believe society grows best when industry and culture drive on a common road. For that kind of harmonic development, you need an integration of entrepreneurship and culture, of business and society. When we build a plant, we build it for the decades to come, so being part of the social fabric is critical. In the last two decades we’ve entered five new countries. Our integration includes everything from supporting local healthcare structures to building cultural links, sponsoring exhibitions or music. If you’re not involved in society and you’re not curious about the future of culture, of information, you will lose leadership. Leadership is a nonstop journey; if you think you’re arrived, it’s the beginning of your fall.

Can you tell us about the latest innovations, the use of color on tires for instance?

I love cars and I’m passionate about our products, but on its own, the tire lacks sex appeal. It’s functional. Black and round. So, the first challenge was to give it

IMAGES: COURTESY OF PIRELLI

ALESSANDRO IOZZIA is a Partner and Head of Brunswick's Milan office. **LIDIA FORNASIERO** is a Director with the firm, also based in Milan.

visual appeal. That's why we launched colored tires. We are now working on a new version for next year.

The second challenge was to make the tire talk, which we've worked on over the last 20 years. Thanks to our work in racing (we are not only in Formula 1, but in more than 450 car and motorcycle championships), we've learned to perceive nuances that can project the potential winners during a race. They can see the quality of the driver, the quality of the vehicle, the state of the ground, all by looking at the tires. Through connected cars, this information can benefit everyone.

Are you concerned that connected cars can bombard the driver with information?

It's true, but where everything else in the car is already connected, the only thing that wasn't was the tire. And the tire is critical. It's the only junction point between the vehicle and the ground. We have put together tire specialists, vehicle dynamics engineers, and electronic and data engineers to create

algorithms that can provide information that serves both safety and performance.

So one of the next slogans will be "we give voice to the road"?

We give a voice to the tire! It was silent, black and round, now its colorful and talks. And talks very punctually. It's very specific.

Pirelli's flair for design has been a crucial component of its communications style, probably most evident in the famous Pirelli Calendar.

Design is an important way to communicate to the more sophisticated part of the market, to give a product appeal, to differentiate it. For international audiences especially, design gives our brand that Italian touch. Our Pirelli Design team is developing products – like high-performance skis – that reach beyond our market but further the Pirelli name with their beauty and appeal. These involve collaborations with artists, designers and engineers outside the company. The skis, for instance, were a collaboration with the Blossom workshop in the famous Italian skiing area of Val Chiavenna. But that design sensibility is clear even in our Annual Report. That became something different, creative, innovative, using different types of digital communication, using artists to express our values.

We're pursuing a path that started with the greatest graphic designers in the history of arts. That path led directly to Carl Lewis as a symbol of the slogan "Power is nothing without control." That image will remain with Pirelli for a lifetime. It's so strong.

And it brings people closer to a product that might otherwise be anonymous. Everyone has tires, but it's not necessary to know anything about them. I'm pretty sure you don't know the brand of tires you have on your car, but in the future you will.

The Carl Lewis image was controversial at the time. Was it a deliberate step toward inclusion?

Pirelli supports inclusion, of course. Pirelli was the first Italian multinational in the early 20th century, and we're still growing abroad. We embrace different cultures. That's just part of who we are.

Could you say in one word what Pirelli represents? And why?

Pirelli is ... I would say, Pirelli is curiosity for the future, fascination for the future. But also we are the strength of our heritage, made by its tradition and its values. These are, in my mind, the priorities if you want to last over time. ♦

RIDING IN STYLE

BEGUN IN 1964 AS A marketing tool, the Pirelli Calendar has become a cultural institution in its own right. With few breaks, it has been published yearly, for a total of 45 editions, each with artistic photos of models – originally entirely female. Iman, Naomi Campbell, Cindy Crawford, Kate Moss and Gisele Bündchen have all appeared, along with some celebrities: in 1998, Bono, John Malkovich, B.B. King and Sonny Rollins; in 2007, Sophia Loren, Penélope Cruz and Naomi Watts.

Beyond the high-fashion design trends, The Cal, as it is known, has kept pace with the culture in other important ways. In 1968, photographer Harry Peccinotti took inspiration from the poetry of Elizabeth Barrett Browning, Allen Ginsberg and Pierre de Ronsard. In 1972 Sarah Moon became the first woman to shoot the Calendar, paving the way for others including Annie Leibovitz, who was



the artist in 2000. For her second turn in 2016, Ms. Leibovitz broke The Cal's longstanding tradition of overt sexuality, instead taking simple portraits of strong women, reflective of shifting perceptions of women in society.

In 2018, British photographer Tim Walker used Lewis Carroll's *Alice's Adventures in Wonderland* and, for the first time, an all-black cast, including the model Slick Woods, pictured above, alongside celebrities such as Gambian women's rights activist Jaha Dukureh,

Mexican-Kenyan actress Lupita Nyong'o, US rap star Sean "Diddy" Combs and actress/comedian Whoopi Goldberg.

The images for 2019 have been shot by Scottish-born Albert Watson, photographer for 100 Vogue and 40 Rolling Stone covers. The new Calendar will be unveiled December 2018 in Milan.

For all its popularity and influence, the Pirelli Calendar is hard to find. Only a limited number of copies are printed, and then distributed to a select list of fortunate recipients.