1 Made in Italy: State of the Art and Key Challenges

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1. Introduction

When someone is asked about Made in Italy the first thing that comes to mind are top fashion brands, immediately followed by expensive supercars. Gucci, Versace, Armani, Valentino, Della Valle, Ferrari, Maserati – you name it. Indeed, the current tendency is to think of Made in Italy in terms of a few specific sectors or, even worst, related to anything that is geographically produced in Italy. However there is more to this brand, which is sometimes very hard to grasp. It is, in fact, an intangible infrastructure with great potential still partially unexploited (Fascina, 2014).

Words and phrases that are typically associated with Made in Italy are: excellence of raw materials and manufacturing, craftsmanship, know-how, superb taste, the "dolce vita", beauty, "bello", "ben fatto", etc.

Over the years, Italy has specialized in the processing of raw materials and related mechanical technologies; in developing production clusters; in adding value to high quality products; in advancing innovation in terms of design, comfort, and in giving new purpose to goods that traditionally Italy excels at producing. Made in Italy is an amalgamation of vital sectors in the Italian economy that are relatively strong in the international arena (Fortis, 1998).

Craft guilds emerged in Italy in the 13th century and were a key part of the country's economic development. The first documented guild was shoemakers, followed by luxury goods (especially in the textile industry), precious metals, jewellery and leather. Florence alone accounted for 26 "great" and "lesser" guilds. Concurrently, four maritime republics were established: Amalfi, Genoa, Pisa and Venice. These ports became flourishing international trade centers for raw materials and gems, helping artisans to improve their crafting skills and build a reputation throughout Europe. In the 14th century a new era began, bringing about a renewed wave of creativity in art, architecture, literature and philosophy: the Italian Renaissance. Italian craftsmen became established artists as the demand for luxury goods and artistic commissions grew more and more. This cultural heritage has always been at the center of Italian Identity.

Since the advent of the nation state, nowadays people make a distinctive association between different nations and their products that highlights unique features: creativity and craftsmanship for Made in Italy; strength and reliability for Made in Germany; innovative and avant-garde products for Made in the USA; high technology and functionality for Made in Japan (Aichner, 2013).

The 'Country of Origin Effect' for Italian products has a very high commercial value to the point that foreign consumers are willing to pay an average premium price of up to 20% on Italian products, putting the brand Made in Italy on same level of brand awareness as Coca Cola and Visa (KPMG, 2011). There is also an impact on acquisition multiples, where the acquirer is willing to pay a higher M&A price to benefit from the association with the specific brand (e.g. the Valentino fashion brand acquisition by a Qatari investment group for €700 million).

2. Key features

In the 1980's, the term Made in Italy began to be used to indicate the excellence and uniqueness of Italian products. The traditional industries for Italian excellence are fashion and luxury goods, but Italy is also renowned all over the world for leather goods, textiles, sunglasses, glass, jewellery, sport cars, machinery, as well as food and wines. Made in Italy is in fact associated with the 4As: *Abbigliamento* (clothes/fashion), *Arredamento* (furniture), *Auto* (cars, including mechanics) and *Agroalimentare* (food and beverage, including wine). Beauty products, jewellery and eyewear could be added to the 4As cluster in order to completely refer to "lifestyle" and symbolic products.

From a qualitative perspective, the aspects illustrated in Figure 1 pertain to Made in Italy.

Figure 1 The Made in Italy's flower: key features

Made in Italy firms, independently from their industry, are characterized by key features in terms of ownership, governance and management. The great majority are family-owned businesses and also family controlled. According to the Observatory on Italian Family Businesses launched by AIdAF (Italian Family Firms Association) and Unicredit Group, 83% of Italian fashion companies are family businesses: 91.8% in the furniture industry and 70% in the food and beverage industry. A family or several families invest in a business, develop it, locally or internationally, while sustaining the local economy. In terms of governance, key strategic decisions are often taken by family members which differentiates the Italian system from other European countries where family-owned firms are often managed by non-family professional managers.

A CEO who is not part of the family is rare, as well as non-family board members. Therefore, the family often designs and executes the firm's strategy. This helps the firm to develop long-term strategic thinking in terms of continuity rather than short-term results. Families are patient investors always looking at future generations and eager to create value for all stakeholders. They quite often develop long-term relationships with clients, suppliers and employees. Last, in terms of management, family firms are places where beauty and passion combine creatively with rationality, to conceive and deliver innovative products embedded in unique and unconventional strategies. They have strong focused competences and are able to continuously provide innovative solutions to issues that are not considered or are not economically viable for bigger players. This represents another of their strengths.

The concept of "*bello e ben fatto*", a sort of well-known claim for Made in Italy, is, in fact, a culturally inspiring driver for many companies, faithfully applied in the products and services they offer. Made in Italy solutions often feature a personal touch thanks to their ability to deliver bespoke products tailored to the different needs of clients at the required volumes.

Made in Italy products are often perceived as being of a higher quality, in comparison to similar goods made in other countries, due to the attention to detail and the high level of craftsmanship in their manufacturing facilities. Sometimes, quality can be a constrain to growth, but often it gives a strong competitive advantage. That is often why Italians are the leading suppliers to many fashion and luxury related foreign companies (e.g. Italian shoemakers are preferred suppliers for brands like Jimmy Choo and Manolo Blanik). This consideration is strictly connected to another peculiarity of Made in Italy: the ability to be successfully present not only in Business to Consumer (B2C) but also in Business to Business (B2B). The Italian system features companies that excel in distribution and store management, such as Dolce & Gabbana, which allow them to provide customers with the best shopping experience. At the same time, suppliers positioned in the upstream part of the value chain, some of which have significant size and market power, preside over manufacturing and logistics. From cosmetics to mechanics, Italian companies have been able to become the best suppliers for their international clientele and have evolved their role proactively to become irreplaceable.

Made in Italy firms are small and mid-size corporations, agile enough to navigate in a complex and uncertain context as the current one. Sometimes, the small size may represent a challenge, especially when the international industry they operate in is concentrated in the hands of big foreign corporations. However, their size tends to be consistent with their niche or focus: high quality products at a premium price. A mass market approach tends not to be in line with the culture of Made in Italy companies. Usually Made in Italy firms are stronger in terms of profitability, as they base their business on high margins rather than volume.

Locations are another key driver of the competitive advantage for Made in Italy players. They offer a rich tradition, based on a consolidated expertise and on competences passed from one generation to another. Tradition helps firms build on heritage to create innovative products while, at the same time, staying close to their roots. Therefore, firms are keen to give back to their local communities with a variety of socially responsible projects, in what becomes a positive circle of contribution. Family shareholders seek not only return on invested financial assets but also maximum return on social, cultural and symbolic assets.

3. The numbers of Made in Italy

With a GDP nominal value of $1.807 trillion, representing 2.32% of world GDP, the International Monetary Fund puts Italy as the 9th largest national economy in the world and the 4th in the Eurozone (IMF, 2017). Manufacturing activities are important to the Italian economy because approximately 16% of the overall Italian GDP relates to them (World Bank, 2017). There are at least six sectors with an undisputed international reputation that accounts for more than 30% of domestic GDP, mainly fashion, tourism, automotive, machinery, food & beverage and boating (Deloitte, 2018).

As reported in a recent study published by Osservatorio GEA-Fondazione Edison, Italy is one of five countries in the world and the second in Europe (China, Germany, Japan, and South Korea) with a trade surplus for manufactured goods exceeding $100 billion.

Italy's exports represent 2.8% of world exports, making it the 10th largest in the world (The World Factbook, Cia, 2017). Analysis of data shows that the United States are the third highest importer, after Germany and France, accounting for 13% of Italian exports in 2016 (Table 1).

Data provided by UN Comtrade and MIT Media Lab reveals that Italy exported $462billion of goods in 2016 and, in the last five years, Italian exports have increased at an annual rate of 0.96%. The leading exporting industries are machines and transportation (37% of Italian exports), chemical products (10%), metals (9%).

Table 1 List of top importers of Italian products in 2016

	Importers from Italy	Trade Value 2016	Share on total Italian export
1	Germany	$58,331,877,588	13%
2	France	$48,606,492,818	11%
3	USA	$40,871,577,040	9%
4	United Kingdom	$24,874,824,685	5%
5	Spain	$23,203,485,429	5%
6	Switzerland	$21,077,028,774	5%
7	Belgium	$14,943,755,855	3%
8	Poland	$12,427,031,971	3%
9	China	$12,258,629,858	3%
10	Netherlands	$10,762,762,960	2%
11	Turkey	$10,622,124,610	2%
12	Austria	$9,769,825,577	2%
13	Russian Federation	$7,437,037,915	2%
14	Romania	$7,313,460,882	2%
15	Japan	$6,676,633,069	1%
16	China, Hong Kong SAR	$6,397,436,357	1%
17	United Arab Emirates	$5,986,722,691	1%
18	Czech Republic	$5,953,721,760	1%
19	Hungary	$4,859,934,441	1%
20	Sweden	$4,658,890,792	1%
	World	$461,529,407,062	100%

Source: Based on UN Comtrade, DESA/UNSD

Interesting findings emerge by looking at the 4As, broadly defined to include all relevant industries or sub-industries. Table 2 shows the size of the 4As as a proportion of Italian exports (indicating their importance for the Italian economy) and worldwide exports in those industries (indicating the competitiveness of Italian companies) (MIT Media Lab).

Table 2 4As' Italian exports in 2016

The Four A's	% of all Italian exports	% of category world exports
Apparel and textiles	4.5%	4.9%
Automotive	7.8%	3.0%
Food and beverages	5.0%	5.6%
Furniture	2.3%	7.3%

Source: Based on UN Comtrade and MIT Media Lab

Italian furniture and food and beverages are particularly significant in global markets. As Table 3 shows, specific product categories have an even higher impact abroad, like pasta, men's ties, wine, or leather goods.

Table 3 Champions of Italian exports in 2016

Some champions	% of all Italian exports	% of category world exports
Chairs	1.5%	9.6%
Coats	0.5%	9.3%
Hosiery	0.2%	6.7%
Leather goods	2.8%	13%
Make-up	0.2%	9.9%
Motorcycles	0.3%	7.8%
Pasta	0.6%	34.6%
Wine	1.4%	19.5%

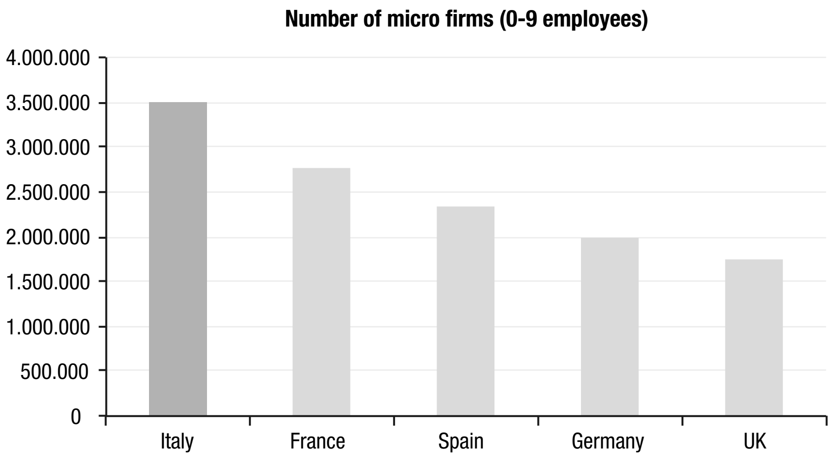
Source: Based on UN Comtrade and MIT Media Lab

4. Localization

It is well known that the Italian industrial system is dominated, unlike other countries, by small and medium enterprises (SMEs, i.e. enterprises with less than 250 employees), often gathered in what have been called industrial districts, or clusters.

SMEs are the backbone of the Italian economy, accounting for 99.9% of its firms, 80% of its employment and 67% of its value added. With nearly 100 enterprises per thousand people, its business density is one of the highest in Europe. Italian "micro-companies" (i.e. companies with up to nine employees) have a special relevance in the European context (Figure 2).

Figure 2 Distribution of companies based on number of employees



Source: Eurostat (2015)

Italian excellence depends on inter-firm collaboration. This is where industrial clusters, with high levels of specialization within a small geographic area – particularly the economically stronger regions in the North and Center of Italy – are especially important. Clusters are specialized production areas with a strong social and cultural identity, and a strong economic connection with the locality. In Italy, the production specialization phenomenon is deeply-rooted in the territory, especially in rural areas away from large urban capitals and from historic industrial centers (Fortis, 1998).

Data from the 2015 ISTAT analysis indicates that industrial clusters employs 65.8% of the national manufacturing workforce, mostly accounted for by Lombardy and Veneto, respectively 33.7% and 26.7%. Together with Tuscany, Emilia-Romagna, and Marche, they amount to 88.3% of the manufacturing industrial clusters' total employment. ISTAT report shows that there are 141 clusters in the country. These districts are mainly concentrated in the North and Center of the country: 45 are in the North East, 37 in the North West, 38 in the Centre, and 17 in the South. Examples include Sassuolo (tiles) in Emilia Romagna, Florence (leather), Carrara and Pietrasanta (ornamental stones) in Tuscany, Castel Goffredo in Lombardy (tights), and Treviso in Veneto (textile and garments).

Geographic proximity facilitates cooperation and encourages positive competition among firms. On one hand, it generates network economies and processes of learning by doing; on the other it fosters bottom up innovations and a high level of dynamism. This proximity can in fact translate in a double-fold advantage for the economic growth of these areas, strengthening relationships both among companies, and between companies and their territory.

Through composite productive systems, which allow companies to react differently to markets fluctuation and to anticipate market needs/demands, strong relationships among companies are characterized by flexible and dynamic specializations that are effective in facing unstable internal markets and gaining international recognition. Companies alone cannot thrive. They need skilled partners, but also to be embedded in a territory where social and cultural values are easily shared.

Know-how, reputation and brand image are additional intangible assets that ensure high quality outputs able to build that specifically Italian competitive advantage that is difficult for other economies to overcome.

5. Managerial challenges for Made in Italy companies

There are several managerial implications that result from the characteristics of Made in Italy briefly described in this chapter. First, the superior craftsmanship and quality expectations of customers, demand that "Made in Italy" companies stay on top of their competitive game, keeping traditional artisan manufacturing techniques, while staying on the cutting edge of new technologies to ensure that they remain successful in the long-term. They therefore need to succeed in combining the tradition of artisan processes with manufacturing 4.0. In addition, maintaining the sense of passion is also incredibly important and requires extensive marketing and brand management efforts to keep the passion alive as consumers demand to be informed and actively interact with companies. Finally, the heritage and history of Made in Italy demands that companies continue to remain close to their roots, ensuring that strategic decisions and communication are close to their tradition; but at the same time ensuring a proper stream of innovation. Branded products, in fashion, furniture, jewellery, food and beverage, are still dominated by Made in Italy products. For companies, this premium strategy drives up costs of maintaining their position in the market, the product range, and raising the bar for quality. Companies are also challenged by imitation and have to defend their authentic products (one example is the case of Parmigiano Reggiano and Parmesan cheese), especially when exporting outside the EU. Contrasting genuine products with the diffusion of the "Italian sounding" phenomenon (e.g. products that have nothing more than Italian images, marks or other evocative elements capable of inducing the foreign consumer to buy a product with the conviction that it is Italian) will be crucial.

The value entrusted to local production that is rooted in tradition, ties to the local area, relations with employees, social responsibility towards their community, should be organized within a structured corporate social responsible strategy and leveraged using appropriate communications to enhance it.

Of course, the future is not without challenges. The limited size of many Italian companies may constrain their capacity for growth and their ability to profit from new technological trends that require expensive investment. Given the current competitive context in which companies operate, economies of scale are essential to improving efficiency. Made in Italy companies should be able to build networks and share resources and expertise. Bringing together the strengths of different companies requires courage, but the ability to co-operate can help to grow and create value while keeping flexibility within the organization.

Developing and emerging countries are interested in moving up the value ladder and entering the high-end industries or areas in which Made in Italy excels. For example, Chinese companies are increasingly using cross-border acquisitions in US and Europe, including Italy, to buy brands and appropriate skills that are difficult to develop internally. At the same time, Made in Italy know-how has proved difficult to transfer elsewhere (even by Italian companies themselves, when trying to establish external production) and is historically resilient to the changes in the global economy.

Italian companies should also be able to cope with the current technological revolution that also affects the way businesses are made/developed and eases the convergence and interaction between the physical and digital words, making, for example, the so called "*phygital* experience" possible. In many different sectors, the disruptors (Uber and Airbnb being the most famous) are re-writing the rules of the game, and challenging competitors that are following a more traditional business model. The capability to read the context and to understand the market will become even more important, as well as the ability to change quickly in light of emerging trends. Some that will impact on Made in Italy industries include: the hyper-connected society that has changed the company-client relationship; the sharing economy that is centered on exchanging and sharing goods, services and knowledge that connects consumers directly with the producers; the "internet of everything" that is centered on networking and interaction and is changing how companies produce, process and sell goods; and the demographic changes of human society 2.0 relating to longevity and ageing, the shifting nature of households, the multicultural nature of society and its impact on product offerings.

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