



The Fashion Industry and the Global Market: What strategy for Made in Italy



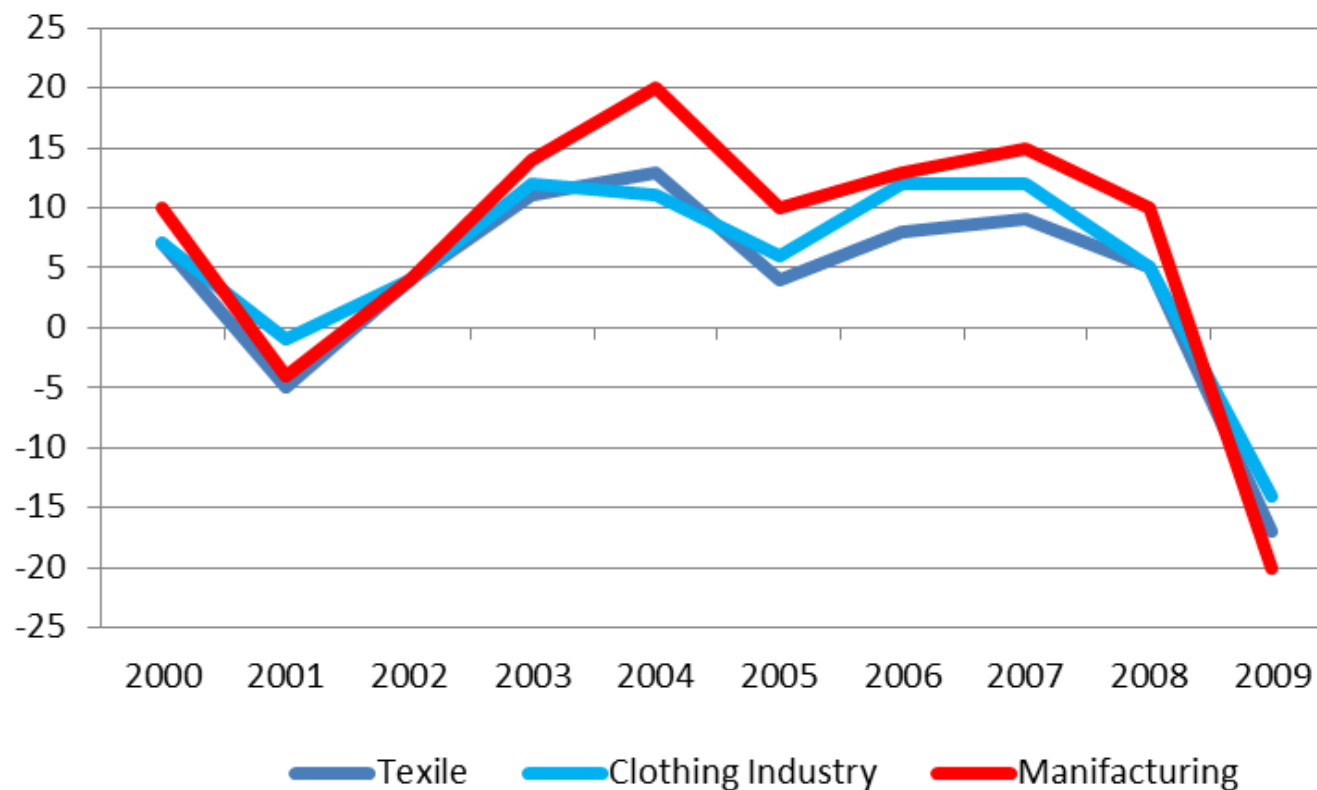
Michele Tronconi

President of Sistema Moda Italia

Castellanza, 09/11/2011

Textile-Fashion: The International Scenario

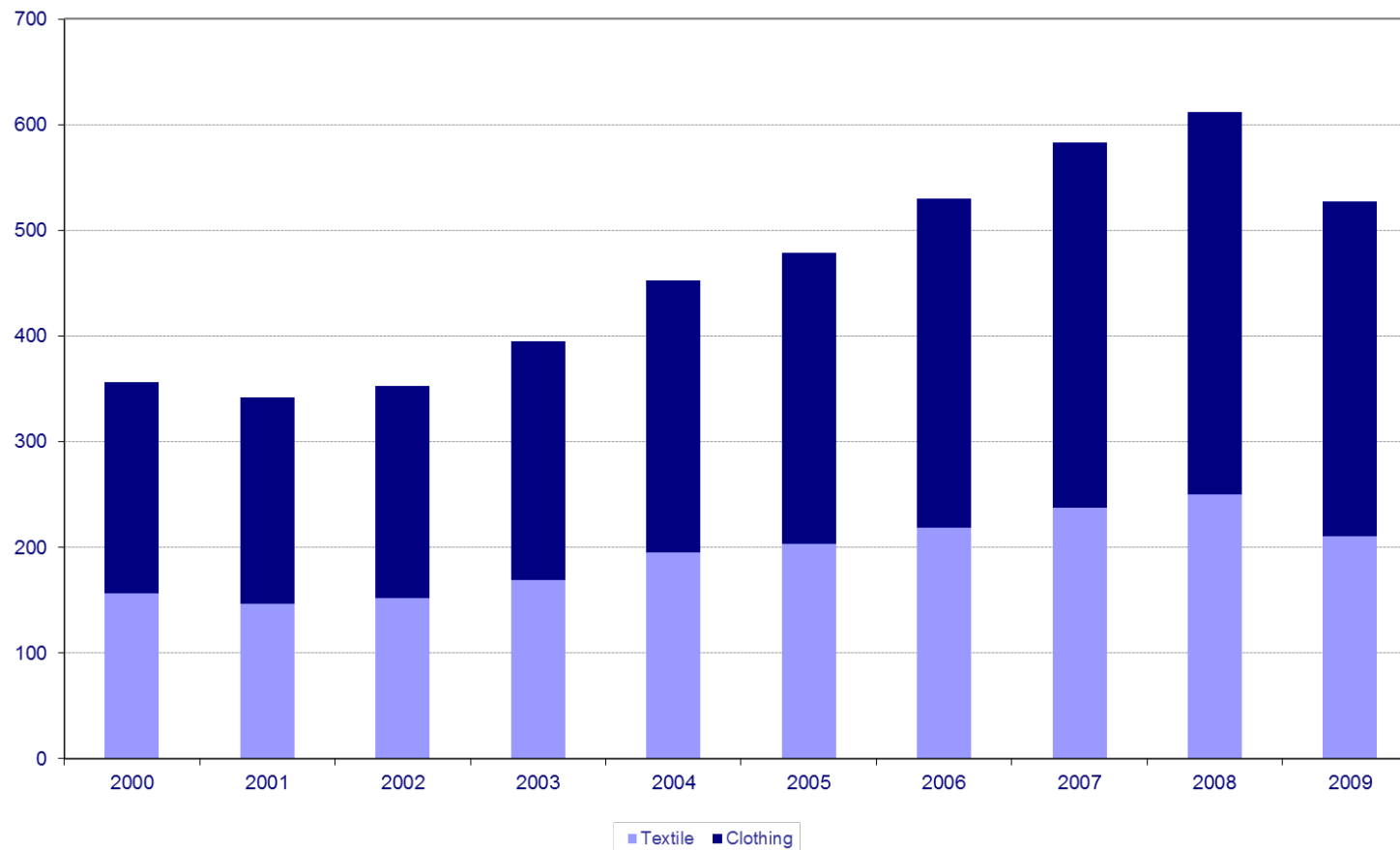
Global Textile-Clothing products and manufacturing exports (% change yoy)



The International Scenario

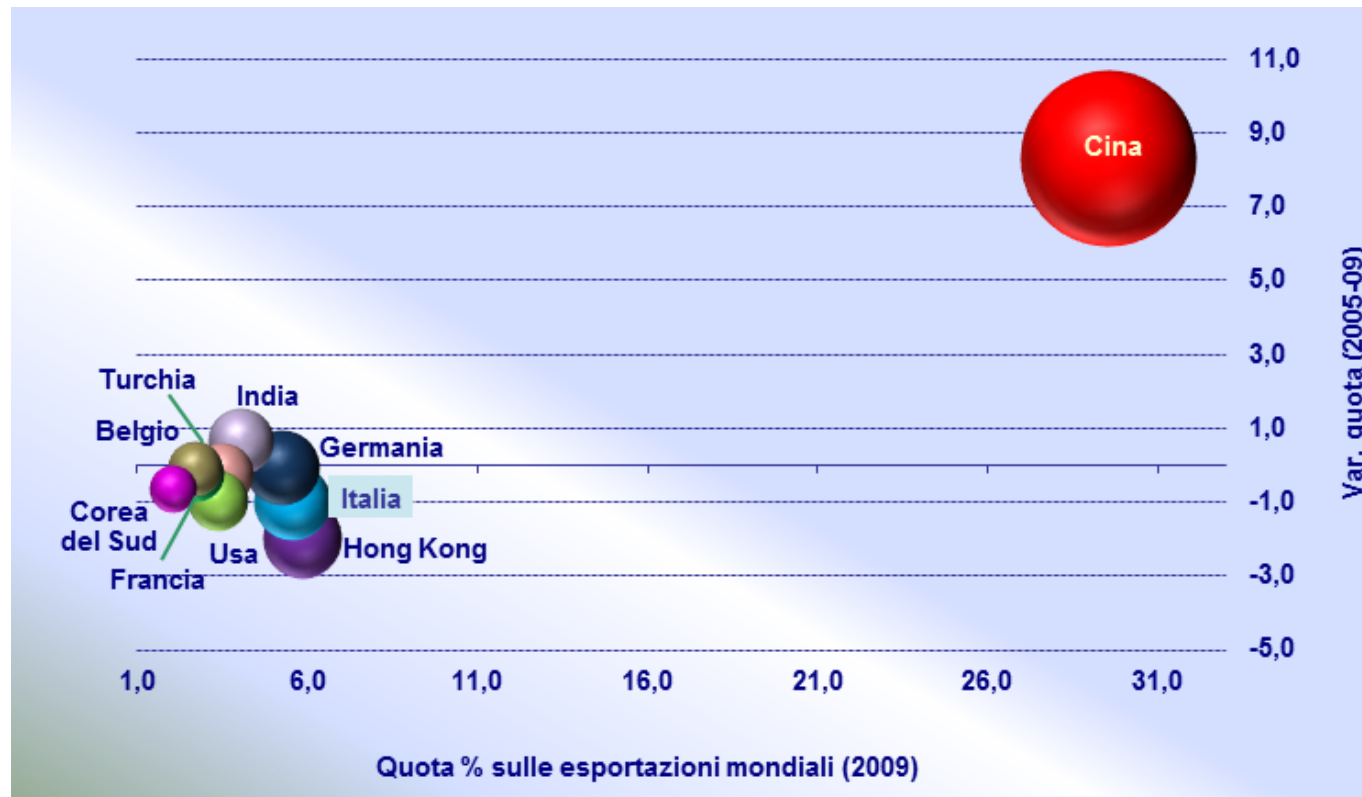
Global Textile-Clothing exports

Billion Dollars



Textile-Fashion: main exporter countries

The international scenario



Italy:

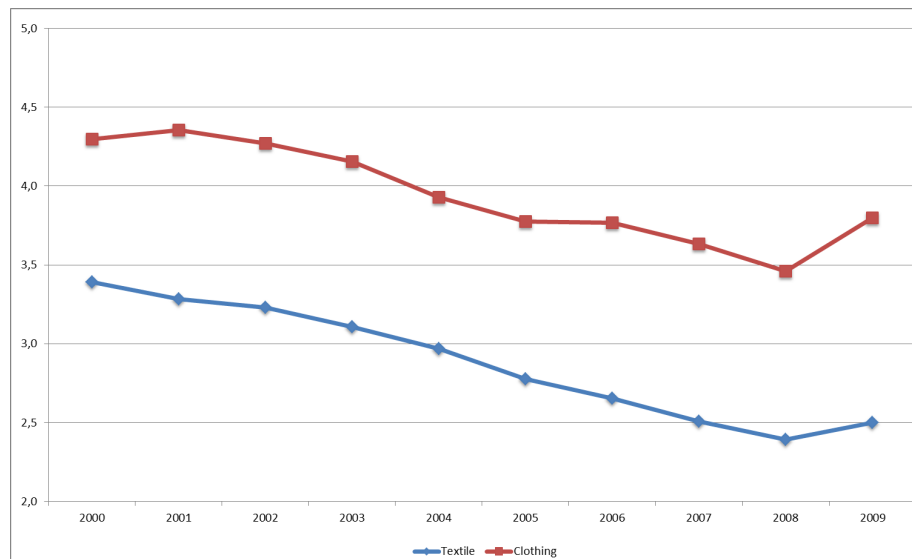
- 2nd exporter after China and Hong Kong
- Italian share on TF global trade: 5,5%

Source: SMI on UNCTAD

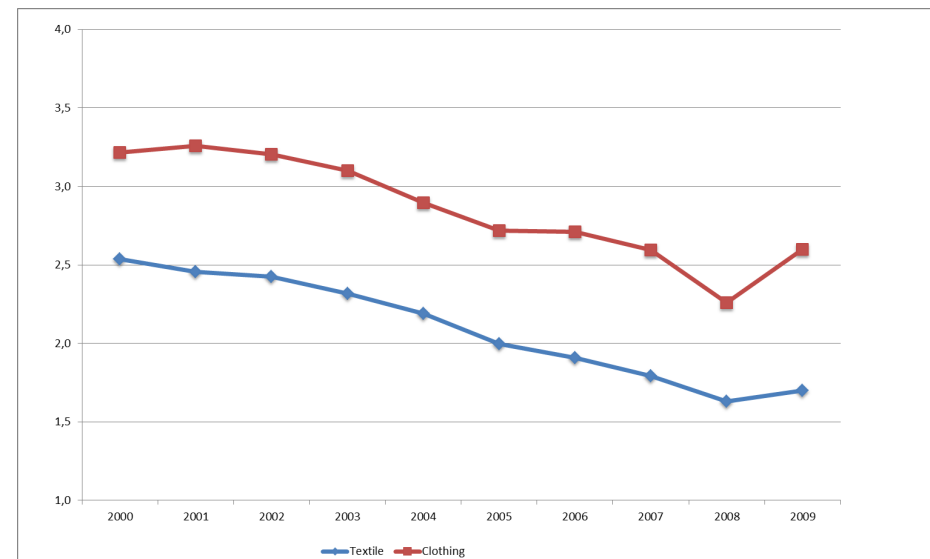
The International Scenario

Global Textile-Clothing exports

Share on Manufacturing Trade



Share on World Trade

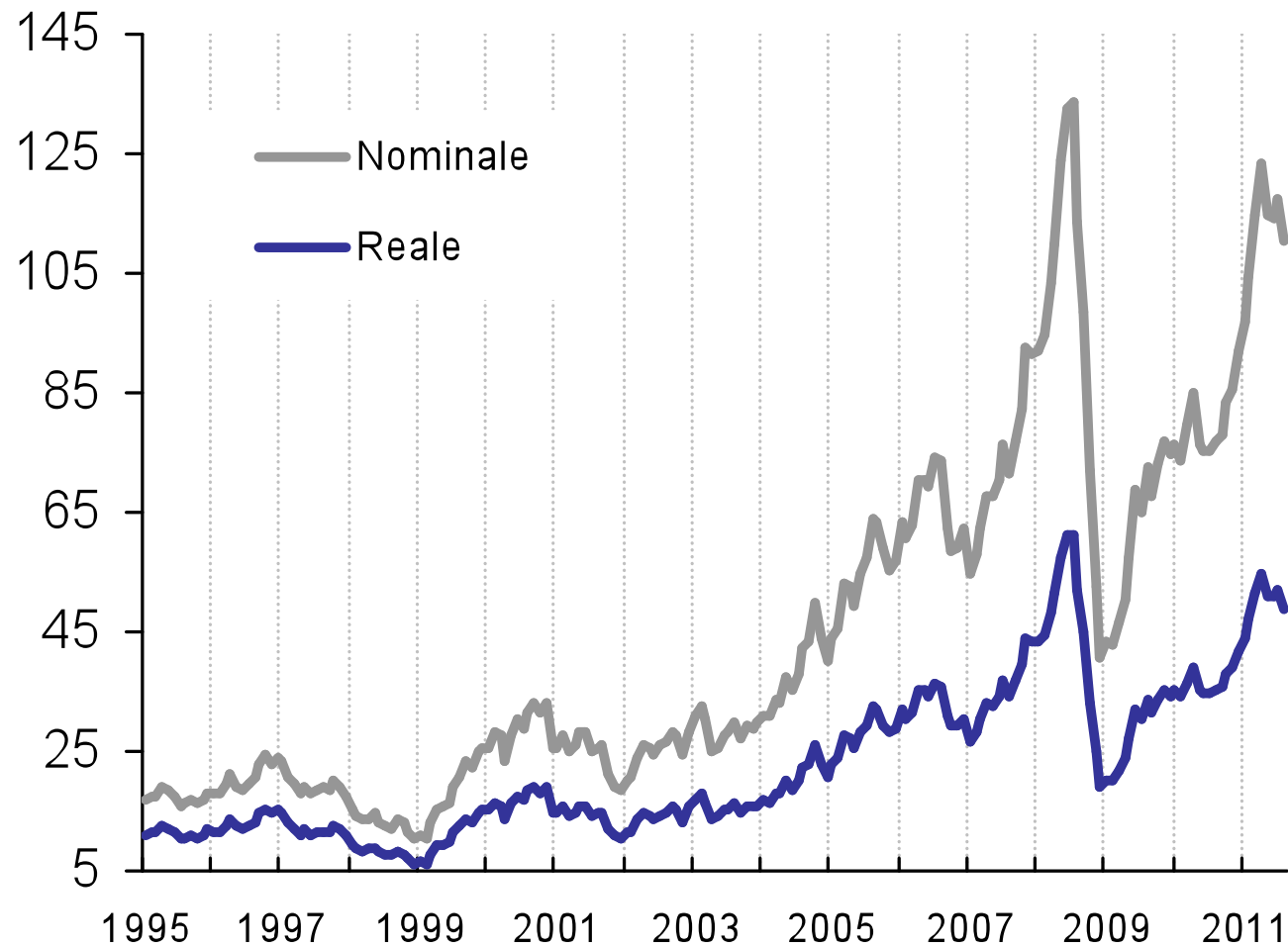


TASK TRADE: what is it?



Oil Prices

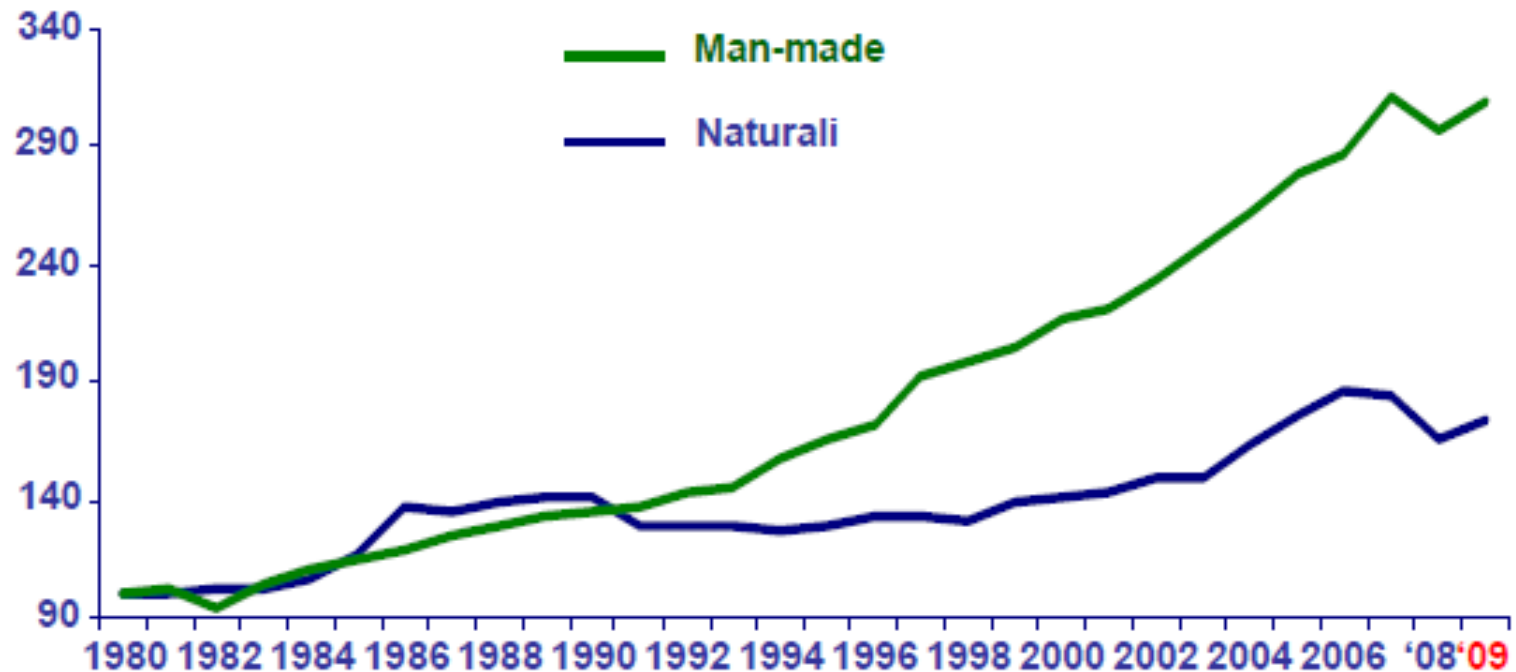
Brent Spot Oil Price (\$ / Barrel) January 1995 – August 2011



The International Scenario

Global Textile Fibre Consumption (from 1980)

1980 Index = 100



Source: SMI on Assofibre / OERLIKON - SAURER

The International Scenario

Global Textile Fibre Consumption

Million Tons

	2008	2009	Var % 09/08	Share %
Synthetics	38,9	40,3	3,7	57,2
Cellulosic	3,5	3,8	7,7	5,4
Man Made	42,4	44,1	4,0	62,6
Natural	25,3	26,4	4,5	37,4
Total	67,7	70,5	4,2	100,0

Source: SMI on Assofibre / OERLIKON - SAURER

The International Scenario

International Textile Machinery Shipments

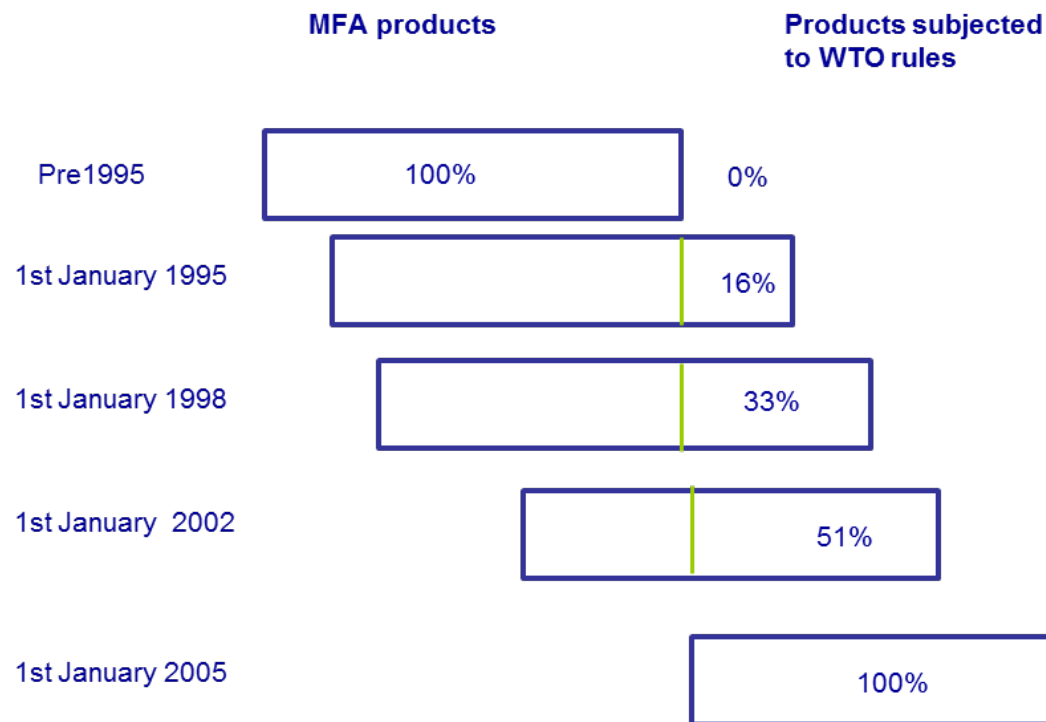
Shares (%) of Cumulated Imports 2005-2009

Ranking	1	2	3	4	5
Spinning Machines	China 26,4	India 13,9	Turkey 9,6	Pakistan 5,6	USA 4,5
Machines for Weaving Fabrics	China 33,5	India 13,6	Turkey 10,6	Pakistan 4,5	Indonesia 3,0
Finishing Machines	USA 14,4	China 13,0	Germania 7,3	Canada 5,0	India 4,2
Knitting Machines	China 31,4	India 10,5	Hong Kong 7,7	Turkey 6,8	USA 4,4
Automatic Sewing Machines	Hong Kong 10,4	Singapore 8,9	China 7,8	India 6,3	USA 5,4

Source: SMI on UNCTAD

The International Scenario

The progressive integration of textile and clothing products in the WTO



Source: SMI on UNCTAD

The International Scenario

Myths (and real face) of Globalization

Analysis of prices 2005 relative to 2000

	Consumer Prices	Import Prices	
	Clothing and Footwear	Textile	Clothing
Italy	9,1%	-1,9%	-19,2%
Germany	-2,0%	-16,6%	-26,5%
United Kingdom	-25,4%	-19,4%	-25,0%
EU - 25	-0,9%	-10,8%	-24,3%

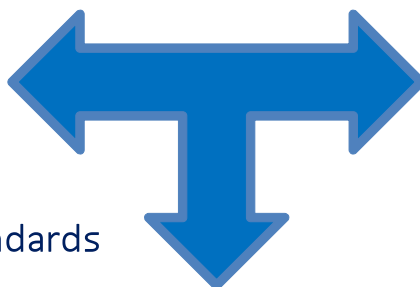
The International Scenario

Too much, too soon, too cheap
(Liuc Papers n. 176 09/05)

Why Chinese Products are dirt cheap?

Structural Aspects:

- 1) Low Labour Cost
- 2) Lower Labour Standards
- 3) Lower Environmental Standards
- 4) Overcapacity



Strategic Aspects:

- 1) Public Subsidies
- 2) Undervaluation
- 3) Soft Budget Constraints
- 4) Counterfeitng

Export - Led Growth

- Buying Dollars, at any rate
(in terms of export prices)

All in all, is it fair trade!?

Textile-Fashion Industry in EU27 (2010)

Textile and Clothing Industry EU - 27

Textile and Clothing Structural Data (2009-2010)

		2009	2010 **
<i>Millions Euros</i>	Turnover *	165.470,6	172.162,9
	<i>% change</i>		4,0
	Investment *	4.476,9	5.042,4
	<i>% change</i>		12,63
<i>Number</i>	Companies *	160.985	149.064
	<i>% change</i>		-7,4
	Employees (thousand) *	2.032,0	1.878,0
	<i>% change</i>		-7,6

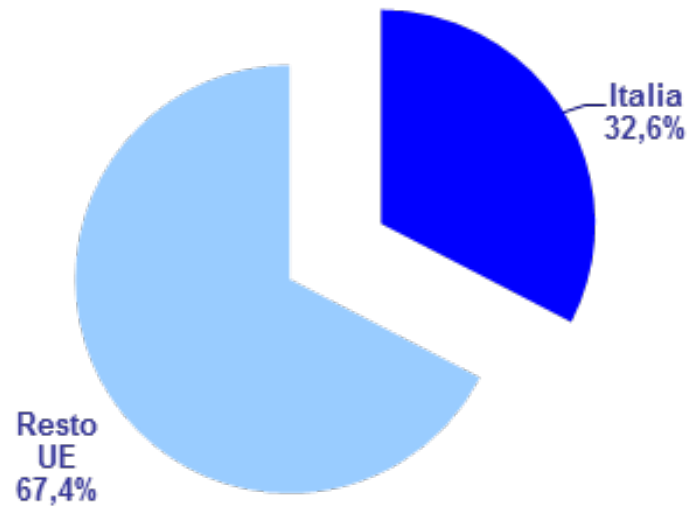
* Including Fibres Industry

** Non official data

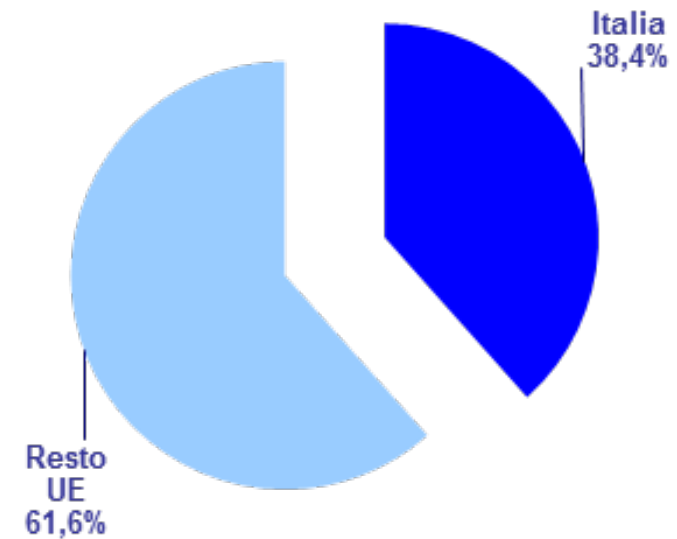
Source: SMI on Euratex

Italian Textile-Fashion Industry in EU27 (2010)

Turnover



Companies



Source: SMI on Euratex – Non official Data

Italian Textile-Fashion Industry: key numbers

	2005	2006	2007	2008	2009	2010	2011*	
<i>Values in millions of euros</i>	Turnover	53.607	54.408	55.947	54.718	46.312	49.660	52.044
	<i>% change</i>		1,5	2,8	-2,2	-15,4	7,2	4,8
	Exports	26.470	27.603	28.199	27.586	22.243	24.550	26.072
	<i>% change</i>		4,3	2,2	-2,2	-19,4	10,4	6,2
	Imports	15.545	17.484	17.949	17.669	15.856	18.205	19.889
	<i>% change</i>		12,5	2,7	-1,6	-10,3	14,8	9,2
	Trade Balance	10.925	10.119	10.249	9.917	6.387	6.345	6.183
	<i>% change</i>		-7,4	1,3	-3,2	-35,6	-0,7	-2,6
	Employees (thousand)	524,9	516,7	513,0	508,2	482,3	458,6	449,6
	<i>% change</i>		-1,6	-0,7	-0,9	-5,1	-4,9	-2,0
	Structural Indicators (%)							
	Export/Turnover	49,4	50,7	50,4	50,4	48,0	49,4	

Source: SMI on ISTAT, Movimprese, Sita Ricerca and Internal Survey

Italian Textile-Fashion Industry: role in Italian manufacturing economy

T-F on manufacturing

(%)

	2010
Production (*)	7,9
Added value	8,8
Employment	10,5
Exports	7,6

Trade Balance

(Bill. euro)

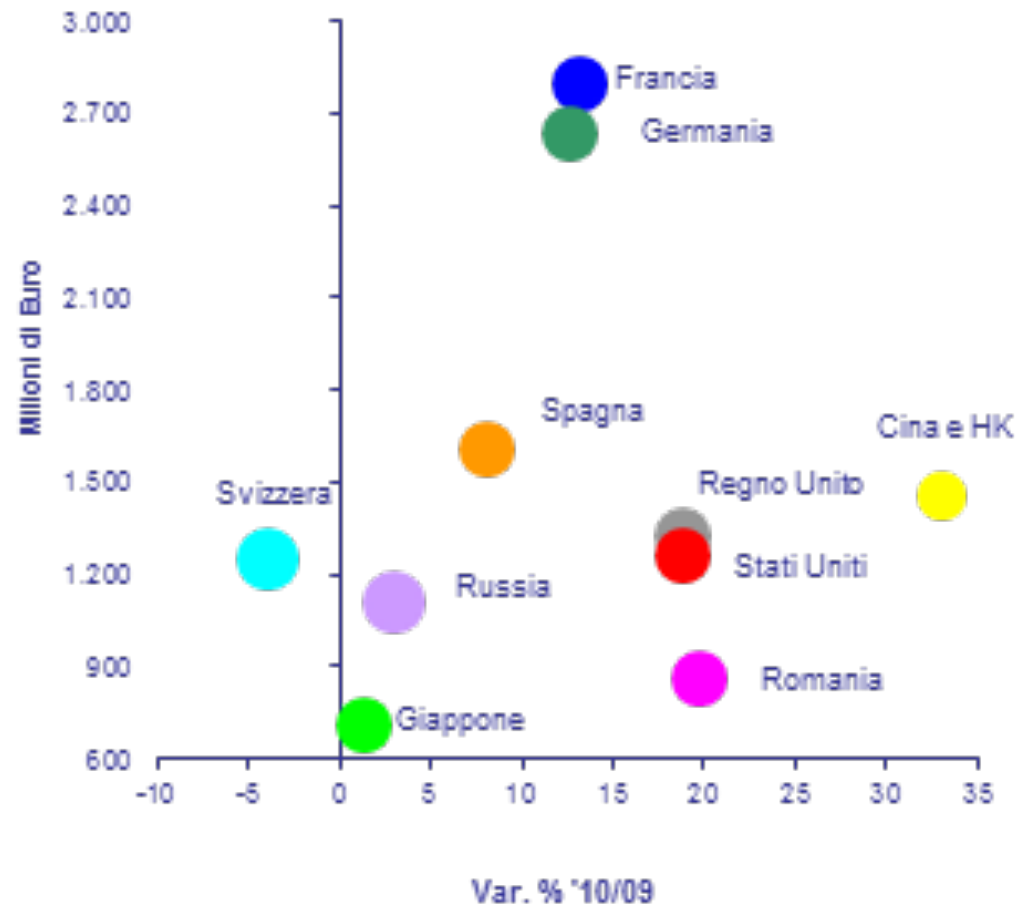
2010

Instrumental Mechanics	37,8
Rubber, plastic, non-metallic mineral products	9,5
Coke and refined oil products	6,4
Textile - Fashion	6,3
Electrical appliances	6,2
Furniture	6,0
Leather goods	5,6
Metallurgy	3,4
Jewelry and costume jewelry	3,0
Other manufacturing activities	-0,5
Wood, paper, printed matter	-2,8
Food beverage and tobacco	-3,1
Pharmaceutical	-3,1
Transport means	-3,3
Chemical substances and products	-9,4
Computer and electronics	-20,5
Manufacturing Industry	41,3

Source: SMI on ISTAT

Italian Textile-Fashion Industry: foreign trade (2010)

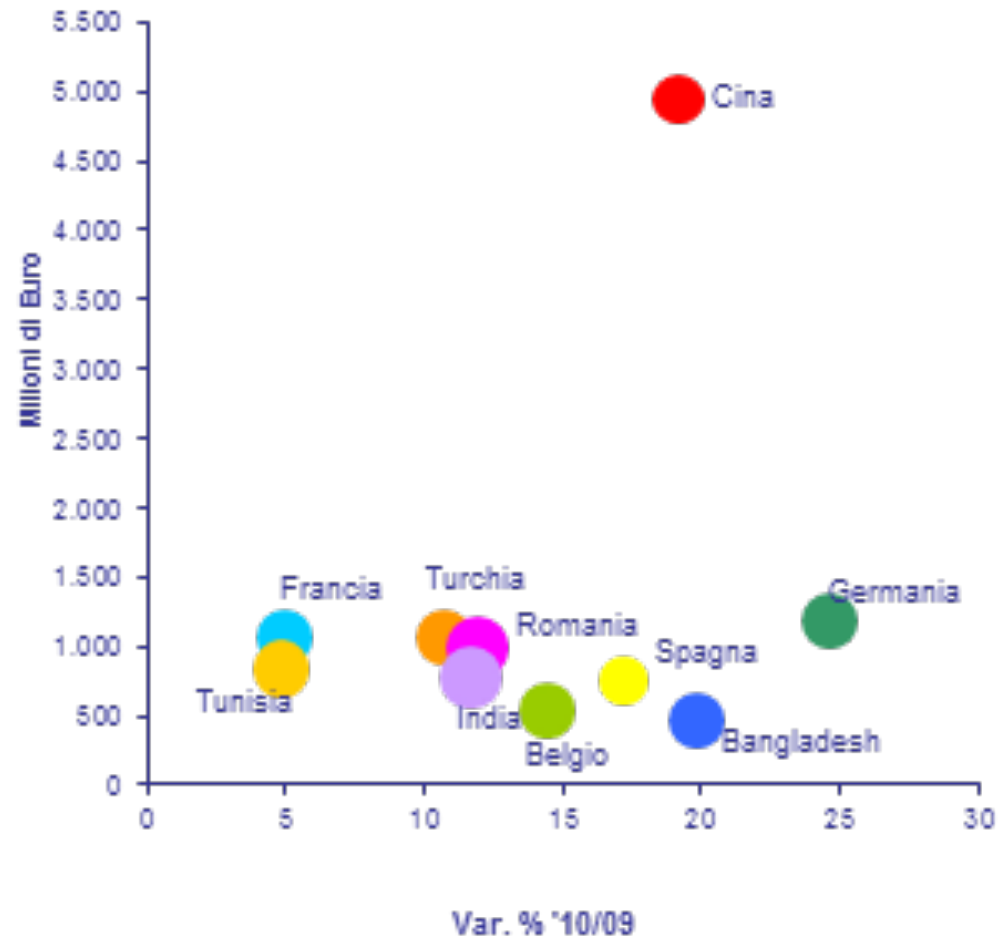
Export – Top Clients



Source: SMI on ISTAT

Italian Textile-Fashion Industry: foreign trade (2010)

Import – Top Suppliers



Source: SMI on ISTAT

Main dimensions to understand Made in Italy

Our trip to a better understanding of the industries that contribute to shape the idea of *Made in Italy*, as is the case of the Textile and Apparel, could be organised in four main dimensions, as follows:

- ◆ Culture
- ◆ Economics
- ◆ Technology
- ◆ Politics

Main dimensions to understand Made in Italy

- Culture and historic heritage help us to understand two things: the “**what**” and the “**how**” of the Made in Italy.
- The “**What**” – I mean what kind of productions – is grouped around three concepts: Aesthetics, Status and Taste, as a common denominator to explain the development of three industrial sectors: Food, Fashion and Furnishing that taken as a whole are consistent with the so called *Italian way of life*.

Main dimensions to understand Made in Italy

- We breath beauty growing up around beautiful monuments and learning from handicrafts; we put our sense of beauty in our products so that it can be shared by our customers. For many respects our economic system is an Experience Economy *ante litteram*.

Main dimensions to understand Made in Italy

- The “How” depends on the many SME’s which populate many Industrial Districts spread around Italy, but interlinked, permitting many Parallel Processes made on small scales, instead of only Sequential ones, but made on large scales. The result, taken as a whole, is a Complex Adaptive System (CAS), characterised by Incremental Innovation, Flexibility and Quick-Response.

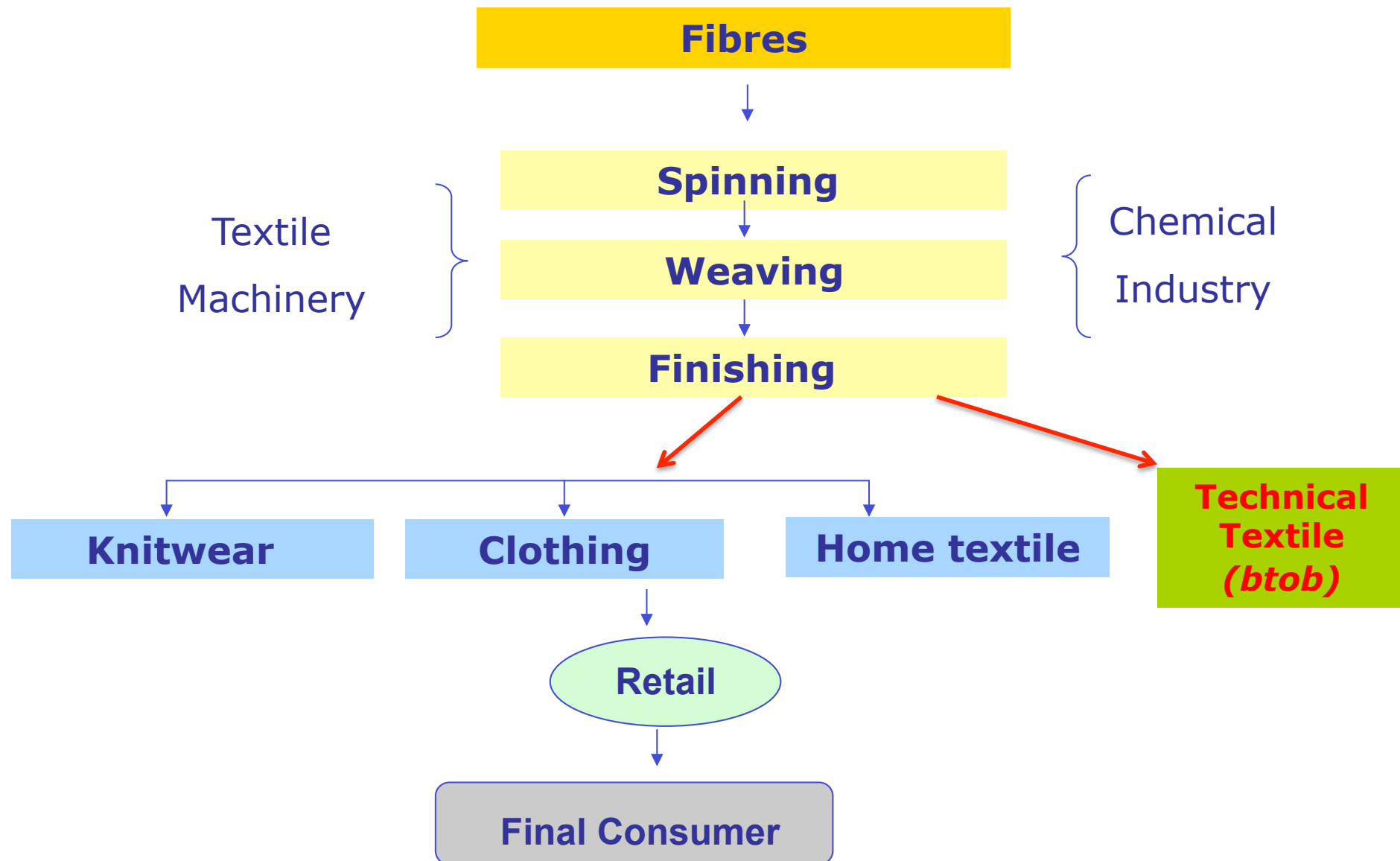
Dynamic Legacy - *by Suzane Berger (MIT)*

“The historical differences in the ways capitalism developed in Japan, the United States, the United Kingdom, Italy and Germany, are perpetuated, because resources these systems generate get used in new combinations for new objectives. ... Any firm’s legacy is a fund of such assets and capabilities, and the business picks and chooses among them as it works out new directions. Through the legacy, past choices influence current strategies. ... But ... legacies are not like DNA that goes on indefinitely reproducing familial traits. While legacies have deep roots in the decisions of the past and in the thicket of institutions and interests that grows up around the pathways from these prior experiences, they need to be nurtured by new choices today. We should think about legacies not as destiny but as an ever-expanding reservoir of choices. Our actions in the present are required to keep it full and deep.”

Main dimensions to understand Made in Italy

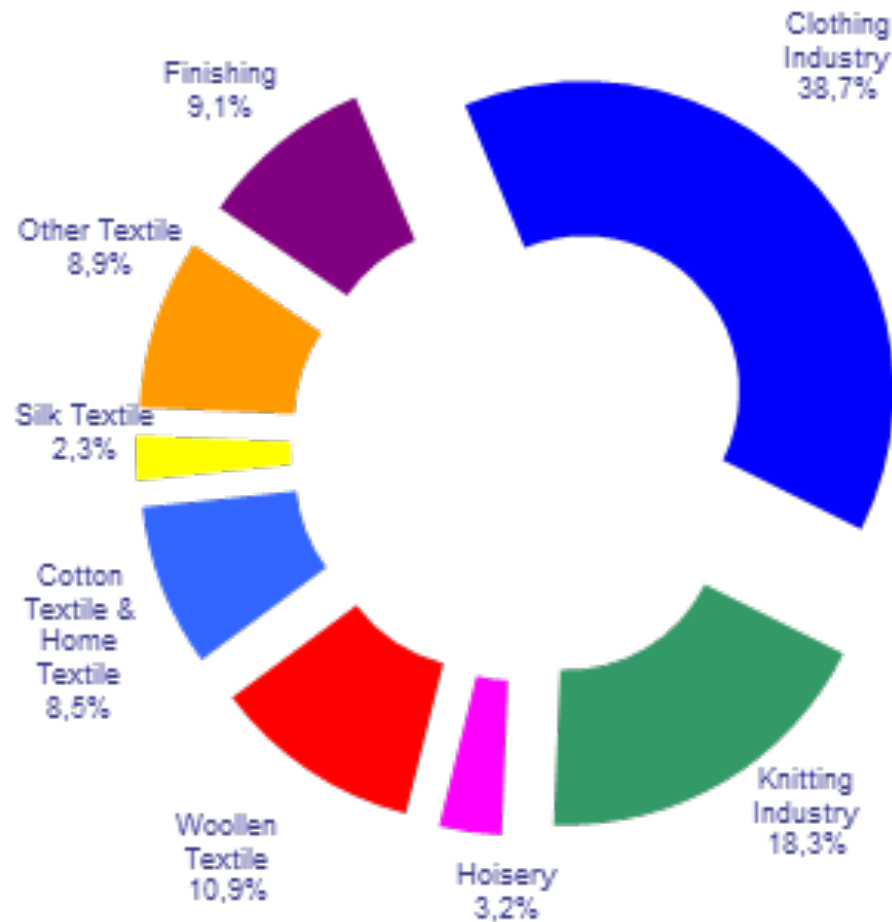
- Coming to the Economic dimension of the *Made in Italy*, we should consider, first of all, the structure of the industry, which appear fragmented in the Fashion business, as well as in the Food or in the Furnishing one. The origin of fragmentation could well be a cultural one, but if the industry developed itself maintaining the fragmentation it means that there were economic incentives to do so, till nowadays. The same could be said about economic specialisations: why we continued to stay in the 3F business? Evidently because it has been rewording.

Italian Textile-Fashion Industry : the pipeline



Italian Textile-Fashion Industry (2010): the pipeline

Turnover by T-F sectors



Source: SMI on ISTAT, SITARicerca e Internal Survey

Main dimensions to understand Made in Italy

- Fragmentation is recomposed within the Industrial Districts with their social sense of belonging, contextual knowledge, specialisation and informal integration. It's what we refer to as external economies of scale which are one of the main keys to really understand differences in economic performance between countries.
- Nonetheless, there is another more specific reason to explain not only the success but also the necessity of fragmentation. It is inherent to the evolution of the Fashion Business.

Focus on Fashion

Fashion, for some respect, has solved the problem of market saturation. But let consider how it works:

- ✓ Is there some one who could control Fashion?
- ✓ Who can say what will be fashionable, and how much will be sold of a certain product?
- ✓ Who invents new Fashion?

Focus on Fashion

The main characteristic of Fashion in the first period of modern era were as follows:

- Very large diffusion in the population; big market - but geographically segmented;
- Answering to a need of identification, more than distinction;
- Absorbing an industrial “push”;
- Permitting large productions of standardized items;
- With a product life cycle frequently longer than a single season and geographically replicable (what was fashion in the USA one year could become fashion in Europe next year).

Focus on Fashion

Because of technical innovation and intense competition, as well as for satisfying the human need for variety and change, today the main characteristic of Fashion, especially for apparel and shoes, are as follows:

- Very segmented diffusion; niche markets – but globally;
- Answering to a need of distinction and identification (i.e. status symbol);
- Reacting to the industrial “push” in a very selective way and mixing with consumers “pull”;
- Asking for customisation;
- With very short life cycle of products, even if in some mixed way.

The new challenge for Made in Italy

A Dynamic Legacy: FCW

- ◆ Fast
- ◆ Close
- ◆ Worth

Fast Fashion

Traditional Model

Fast Fashion

Time to market

18/24 months

Up to 2 weeks

Multiplier of
average value
(from materials to
final product)

~ 6/8

~ 2/2,5

Turnover average growth
(2002-2006)

~ +0,6%

~ +17%

Source: The European House Ambrosetti – Cietta

Sistema Moda Italia

SMI – Sistema Moda Italia is a national federation for the category and it is a member of Confindustria. It is one of the world's largest organizations representing the textile and fashion industry in the Occidental world.



SMI is representative of a sector with over 460.000 employees and nearly 54.000 companies, that is a mainstay of Italy's economy and manufacturing industry.

