

Globalization and the Fashion Industry in Italy

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Summary

- ✓ Part One -The Big Picture – Causes and effects of Globalisation
- ✓ Part Two - Made in Italy and Fashion: *what are they?*
- ✓ Part Three - The effects of Financial crisis
- ✓ Part Four - New perspective

✓ Part One

The Big Picture

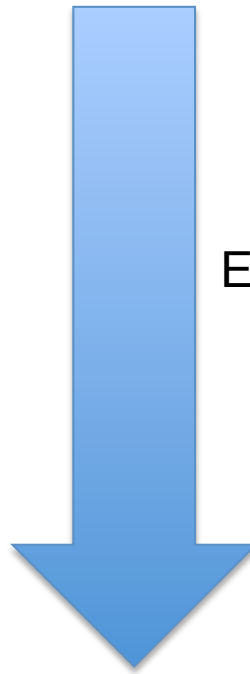
1994 – 2008 The Road to Convenience
From environmental constraints to cost savings

Cheap Energy

End of Protectionism

Technology Push

Competitive Devaluataions

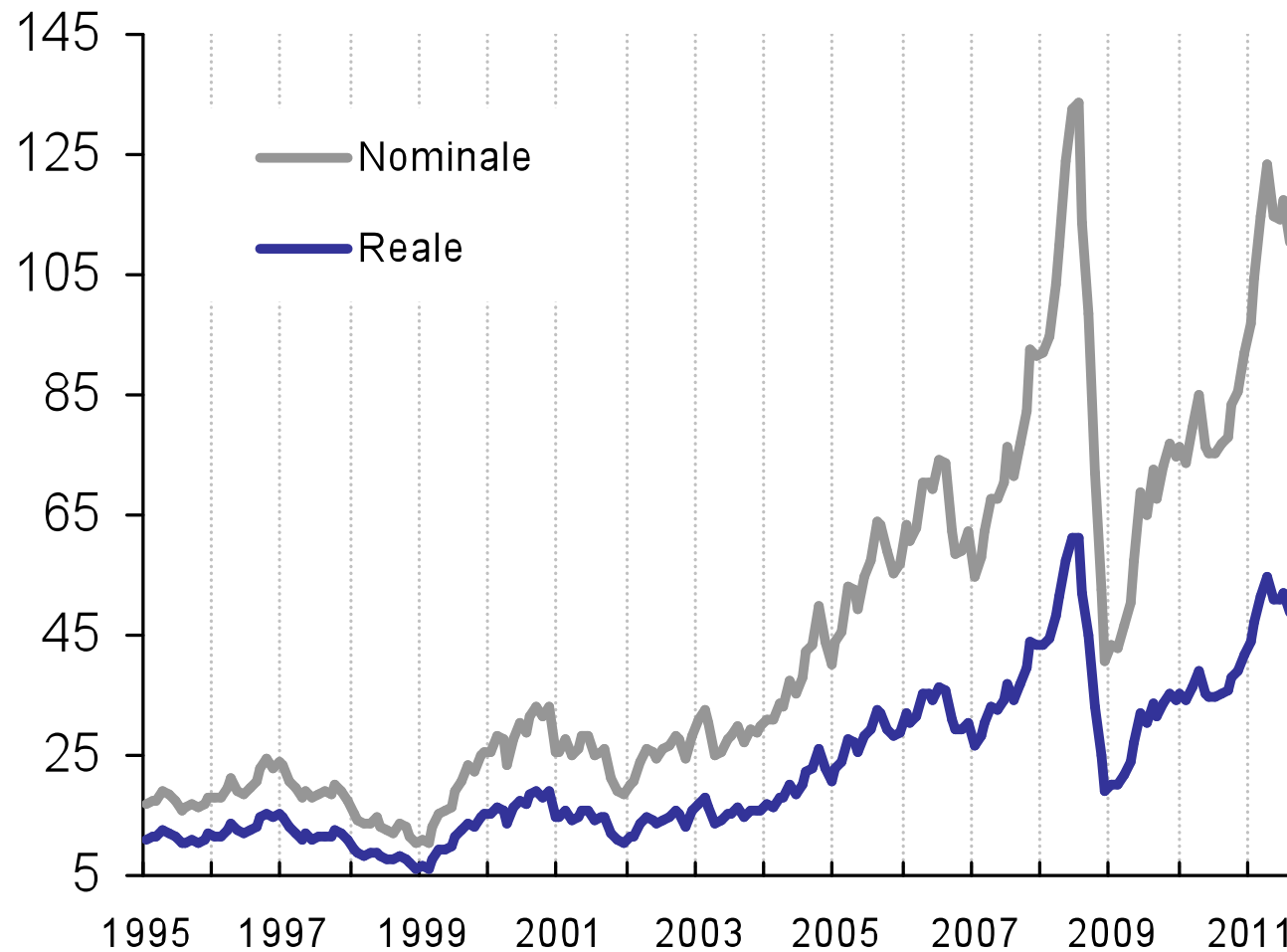


“Producing nowhere, Selling Everywhere”

The Petroleum Nexus (and Transport costs)

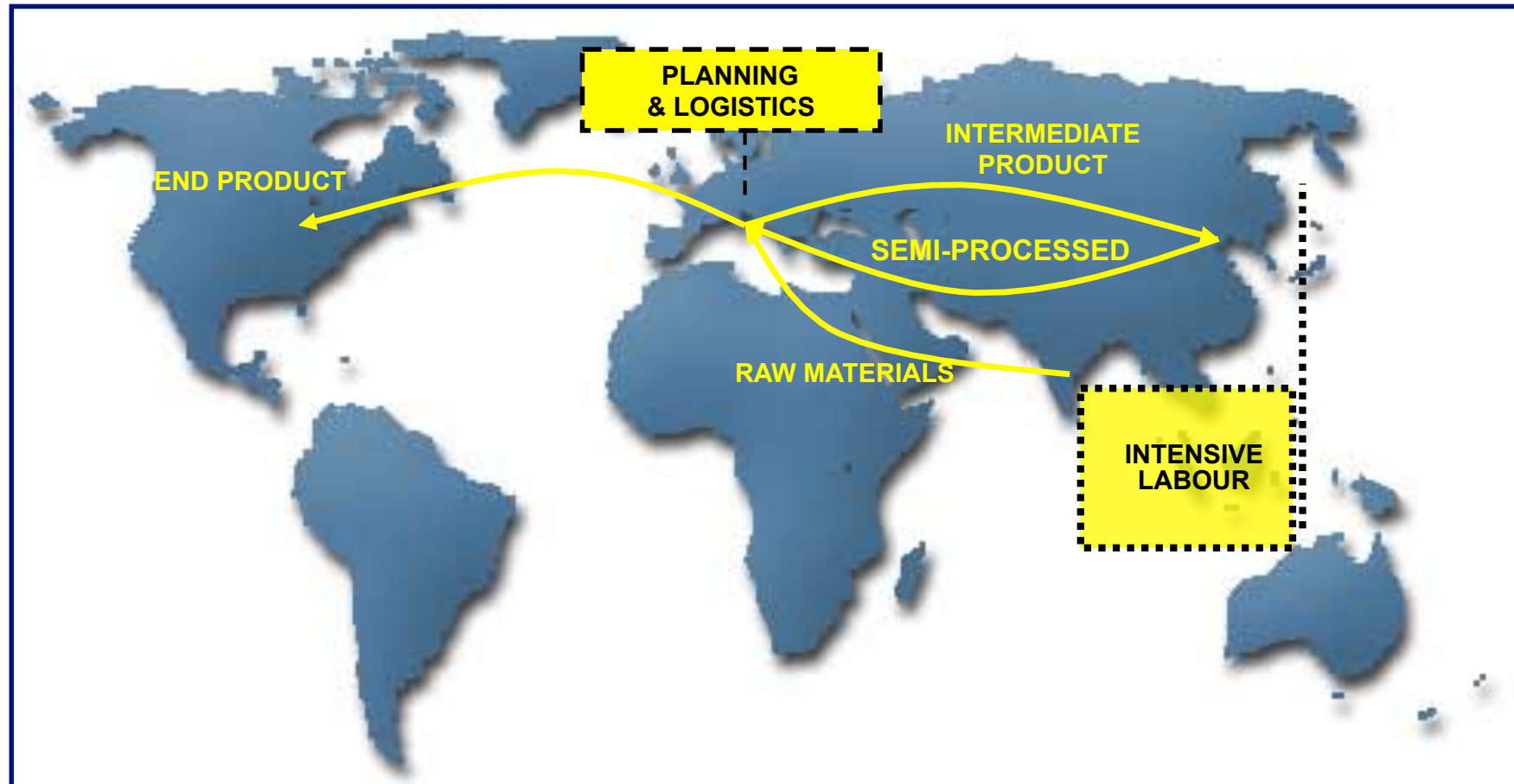
Brent Spot Oil Price (\$ / Barrel)

January 1995 – August 2011



Source: Confindustria on Thomson Financial , 2011

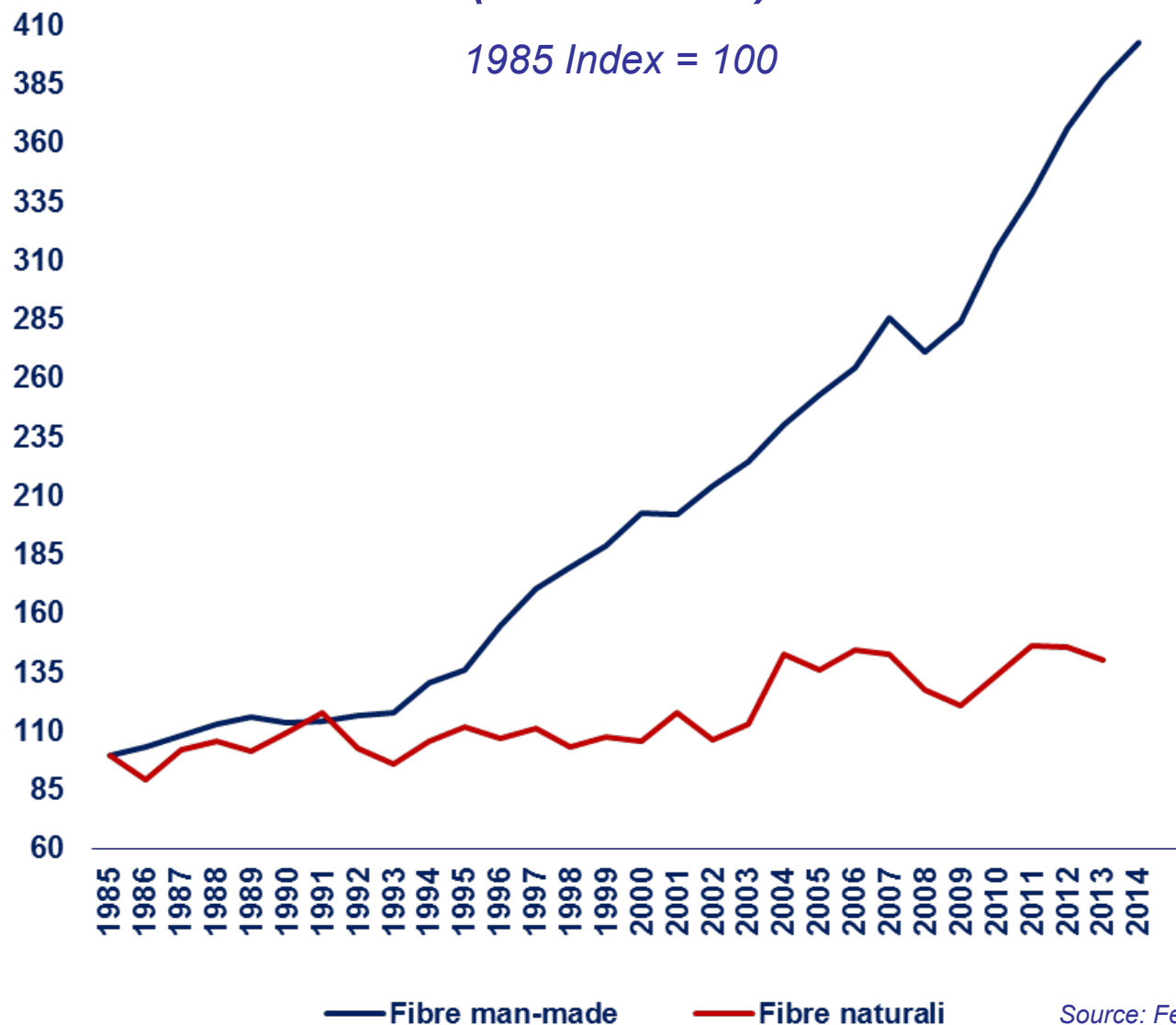
TASK TRADE : What is it?



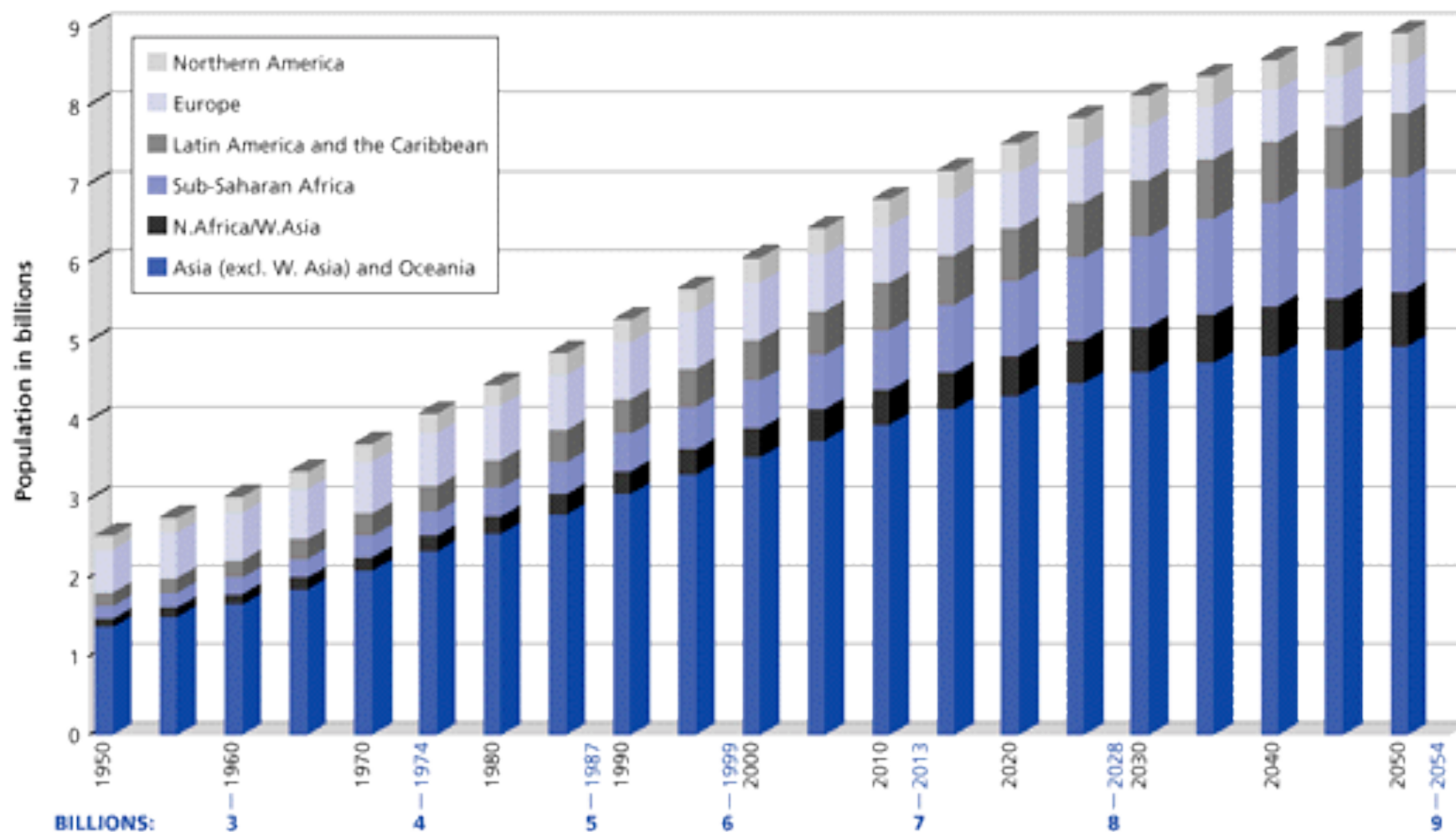
Is there Overproduction?

Global Textile Fibre Consumption (1985 - 2014)

1985 Index = 100

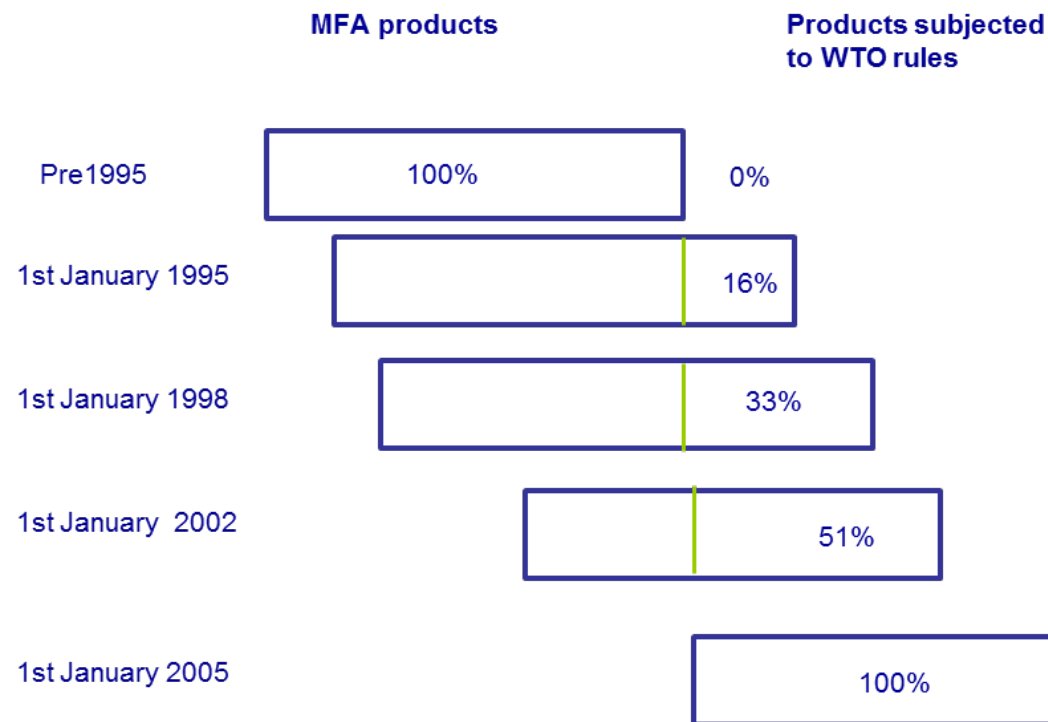


No, if You Consider Population Growth



The Multifibre Agreement and the Uruguay Round

The progressive integration of textile and clothing products in the WTO



Source: SMI on UNCTAD

Before and After the ATC

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%

China: a *winner - takes – all* situation

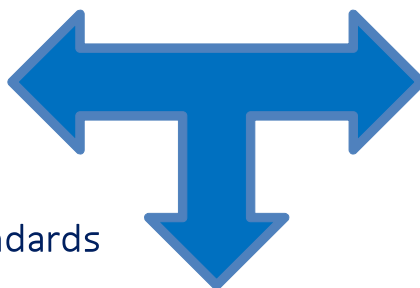
Too much, too soon, too cheap

(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) Counterfeiting

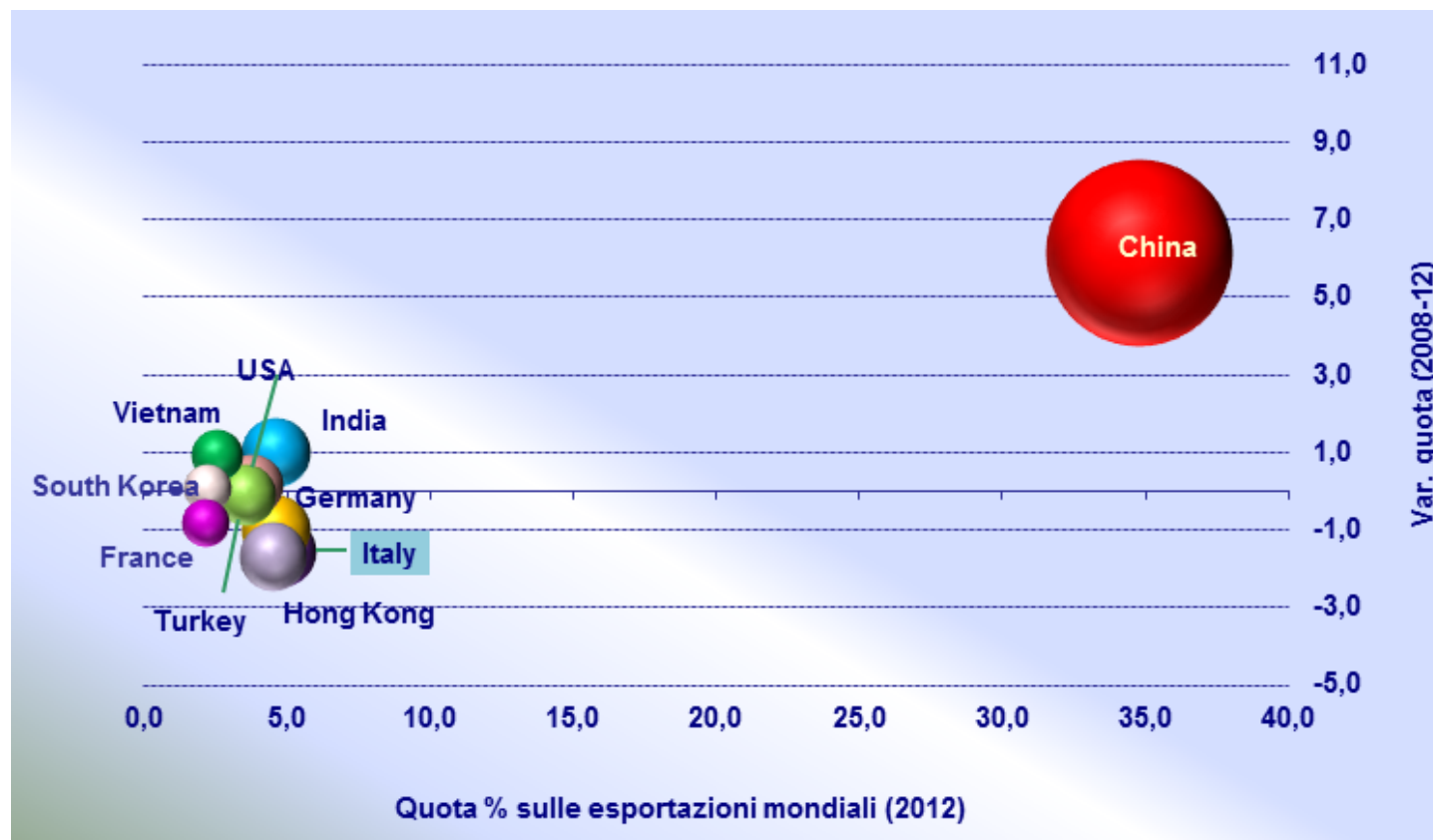
Export - Led Growth

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

All in all, is it fair trade!?

World Main Exporters (2008-2012)

Textile-Fashion World Export: 551 billions €



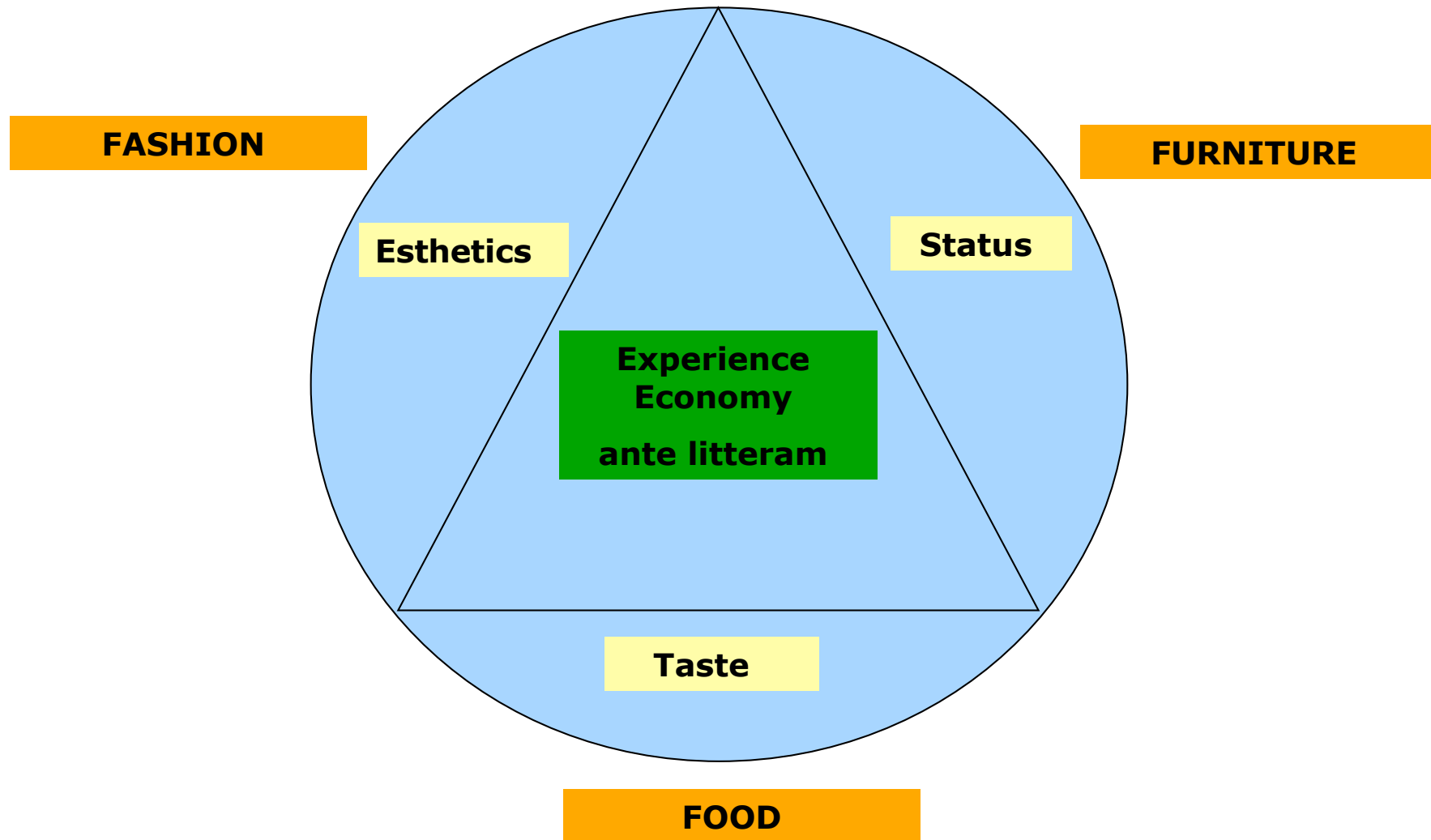
Italy

- 2nd exporter after China
- Share on world trade: 4,8%

Fonte: SMI on UNCTAD data

✓ Part Two

The three “F” Model



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 appears 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 did we continue to stay in the 3F business? Evidently because it has been rewording.

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's 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 characteristics of Fashion in the first period of the modern era were as follows:

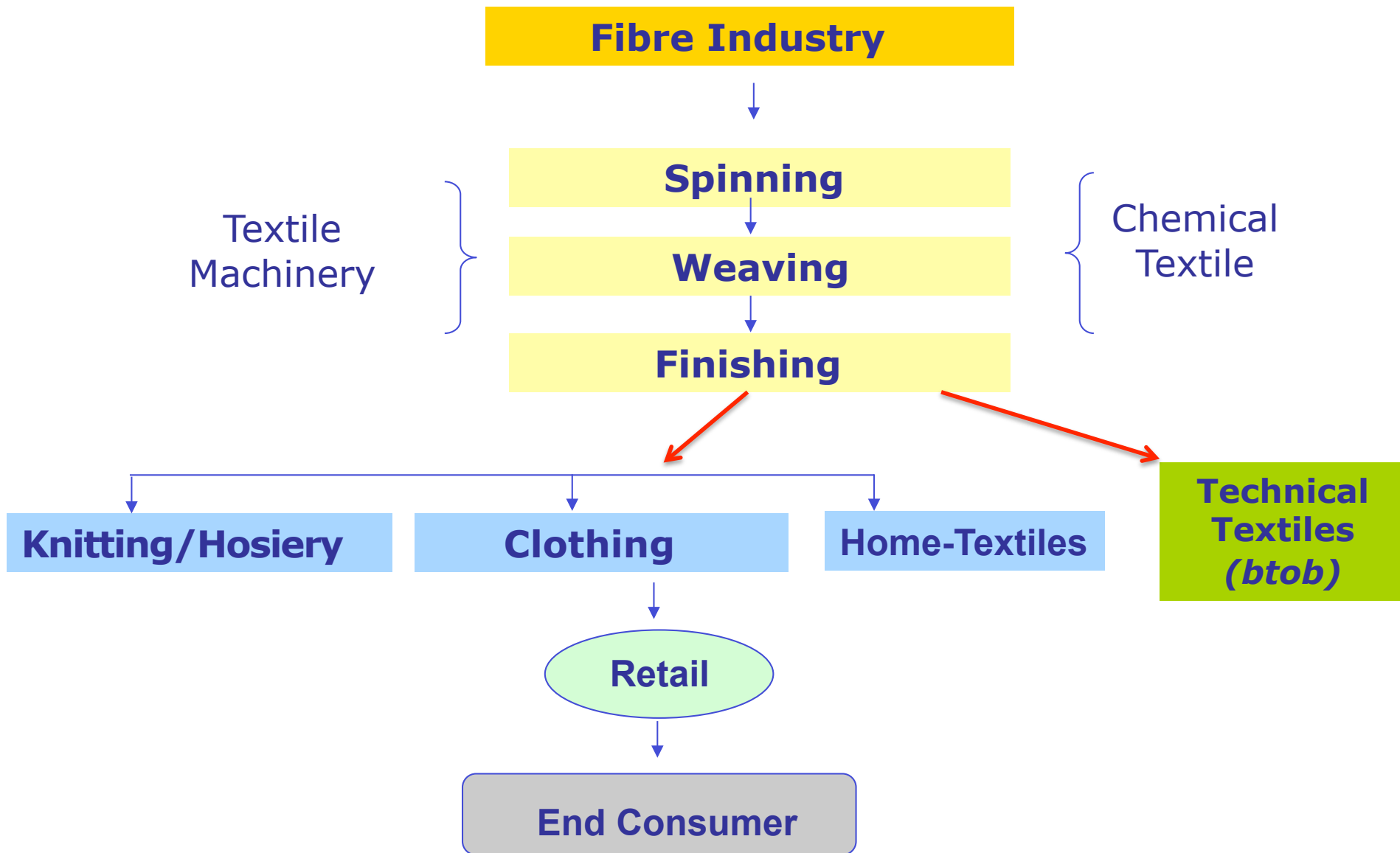
- ✓ Very large diffusion in the population; big market - but geographically segmented;
- ✓ Answering to a need of identification, more than distinction;
- ✓ Absorbing an industrial “push”;
- ✓ Permitting large productions of standardized items;
- ✓ With a product life cycle frequently longer than a single 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 characteristics 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.

Italian Textile-Fashion Industry: the pipeline



Italian Textile-Fashion Industry: key numbers

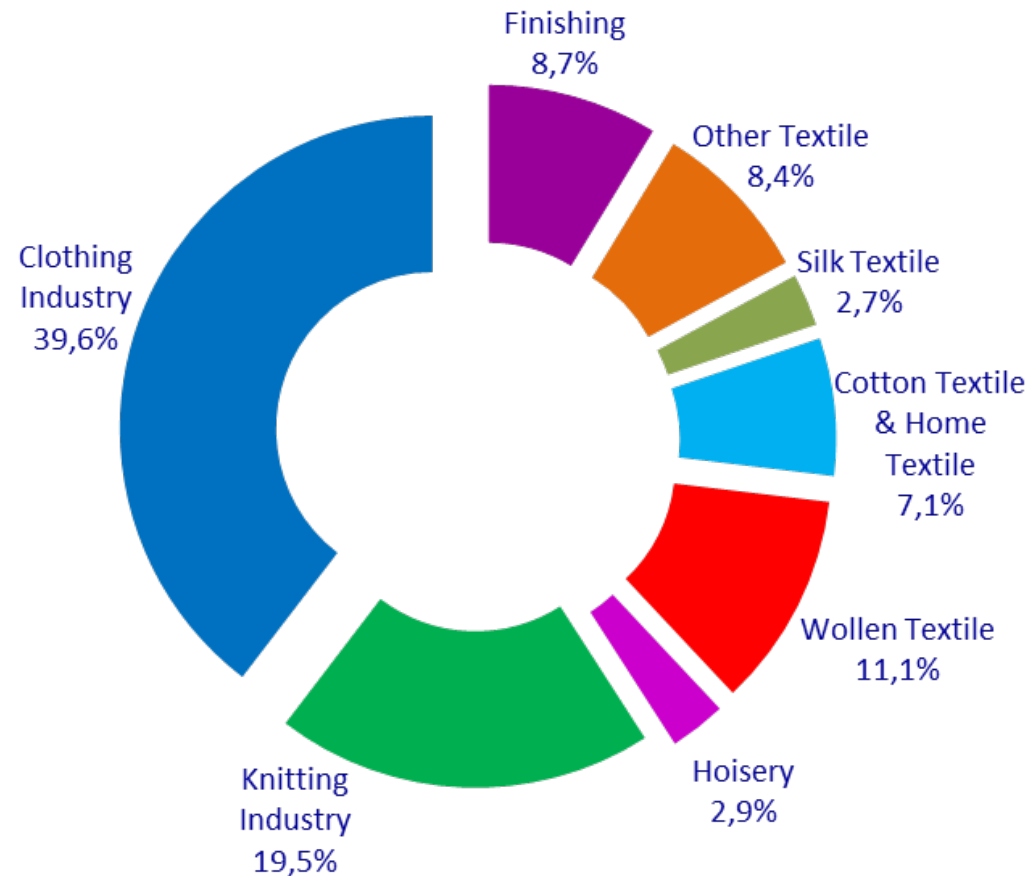
Values in millions of euros		2008	2009	2010	2011	2012	2013	2014*
	Revenues	54 718	46 312	49 660	52 768	51 090	50 720	52 546
	% change		-15,4	7,2	6,3	-3,2	-0,7	3,6
	Export	27 586	22 243	24 604	26 911	26 958	27 414	28 949
	% change		-19,4	10,6	9,4	0,2	1,7	5,6
	Import	17 669	15 856	18 566	20 342	18 126	17 868	18 458
	% change		-10,3	17,1	9,6	-10,9	-1,4	3,3
	Trade balance	9 917	6 387	6 039	6 569	8 832	9 545	10 491
	% change		-35,6	-5,4	8,8	34,5	8,1	9,9
	Apparent Consumption	29 552	26 593	28 807	29 670	26 688	25 888	26 612
	% change		-10,0	8,3	3,0	-10,1	-3,0	2,8
	Companies (no.)	56 610	54 493	53 086	51 873	50 039	48 590	47 910
	% change		-3,7	-2,6	-2,3	-3,5	-2,9	-1,4
	Employees (thousands)	508,2	482,3	458,6	446,9	423,3	412,3	411,49
	% change		-5,1	-4,9	-2,6	-5,3	-2,6	-0,2
	Structural indicators (%)							
	Export/Revenues	50,4	48,0	49,5	51,0	52,8	54,0	55,1
	Propensity to import (overturnover)	39,4	39,7	42,6	44,0	42,9	43,4	43,9

Source: SMI on data from ISTAT, Sita Ricerca and Internal Survey;

* Forecast SMI-LIUC

Italian Textile-Fashion Industry (2013): the pipeline

Turnover by T-F sectors



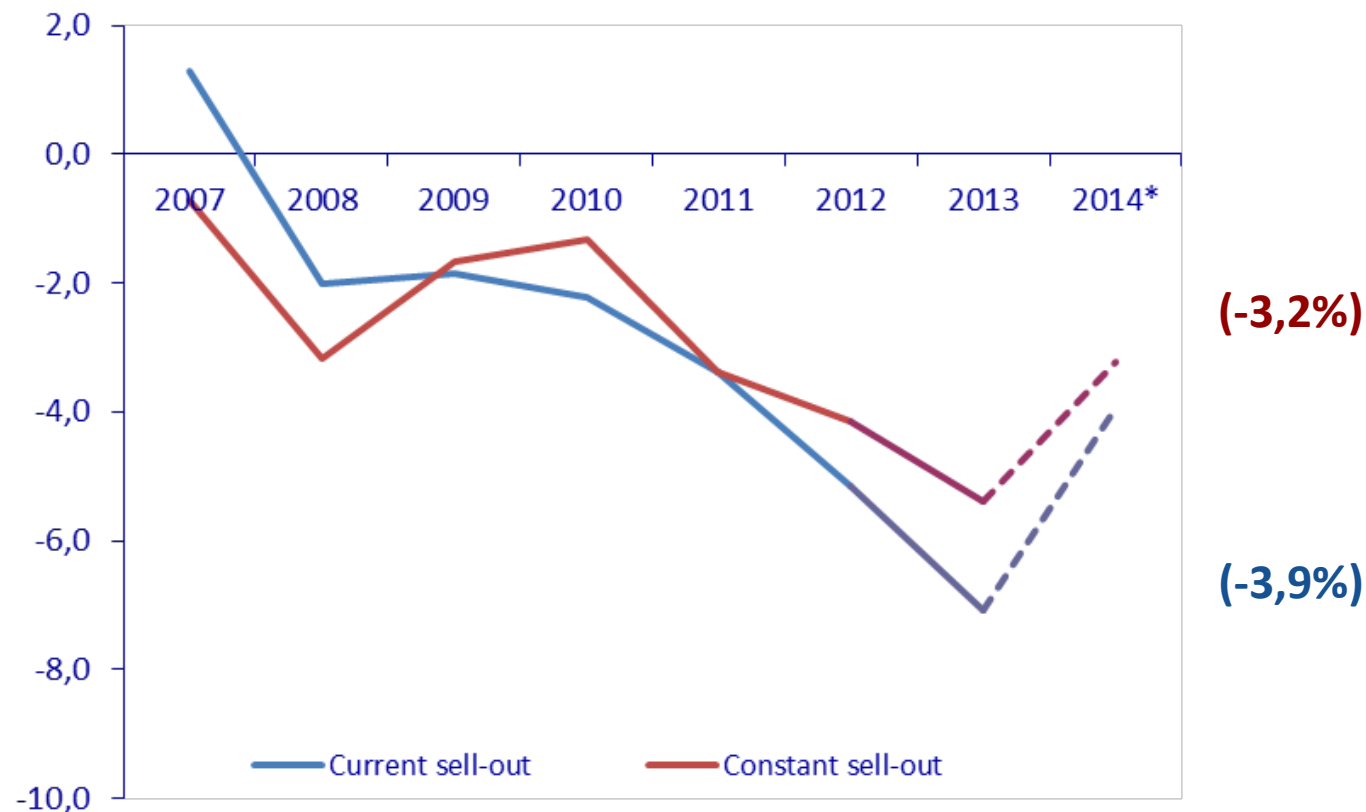
Source: SMI on ISTAT, SITA Ricerca and Internal Survey

✓ Part Three

Textile-Fashion sell-out in Italy (2007-2014*)

Textile-Fashion sell-out in Italy (families consumption)

(% y-o-y change)

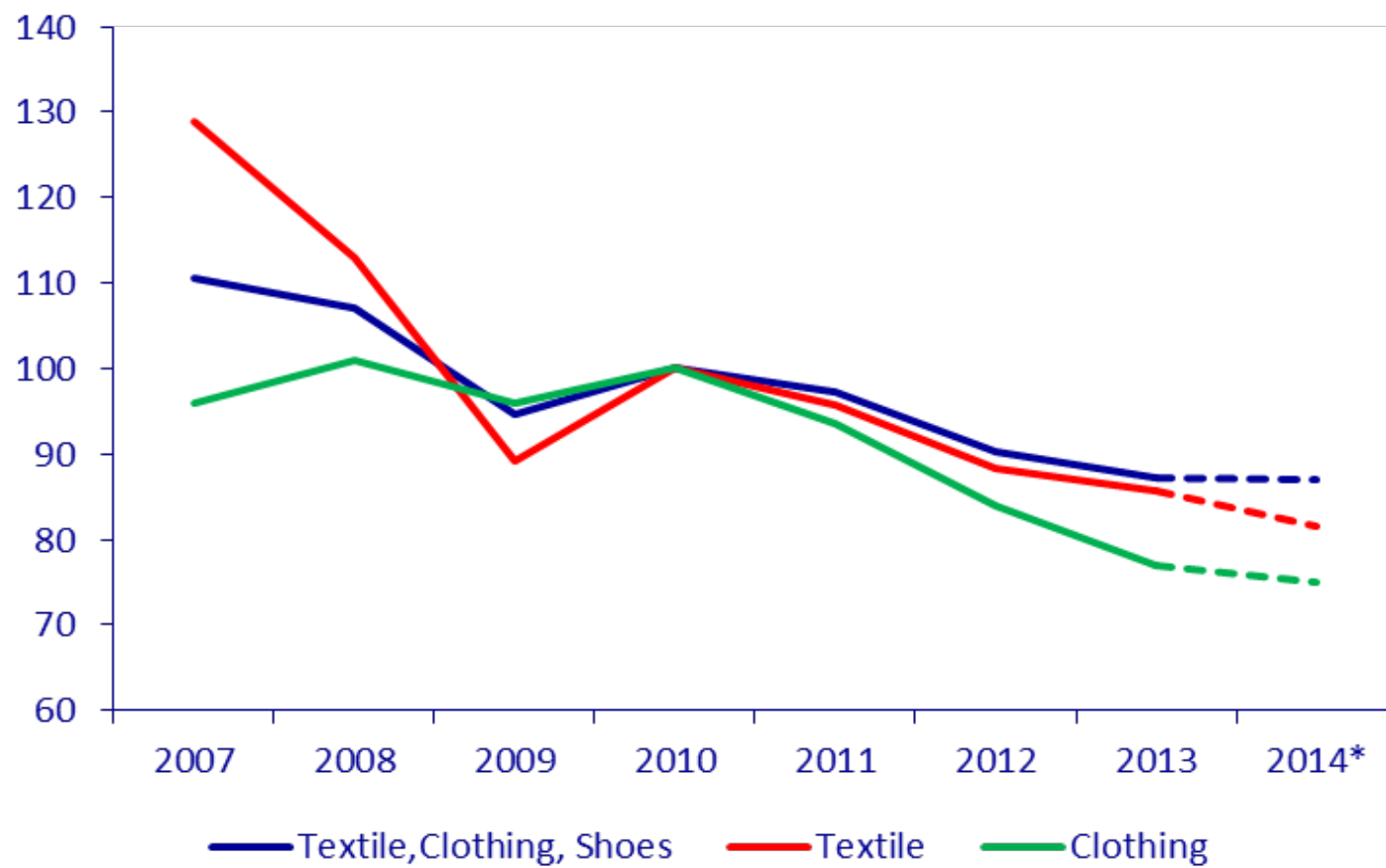


*January-June

Source: SMI on Sita Ricerca data

Industrial Production

ISTAT Index, 2010=100*

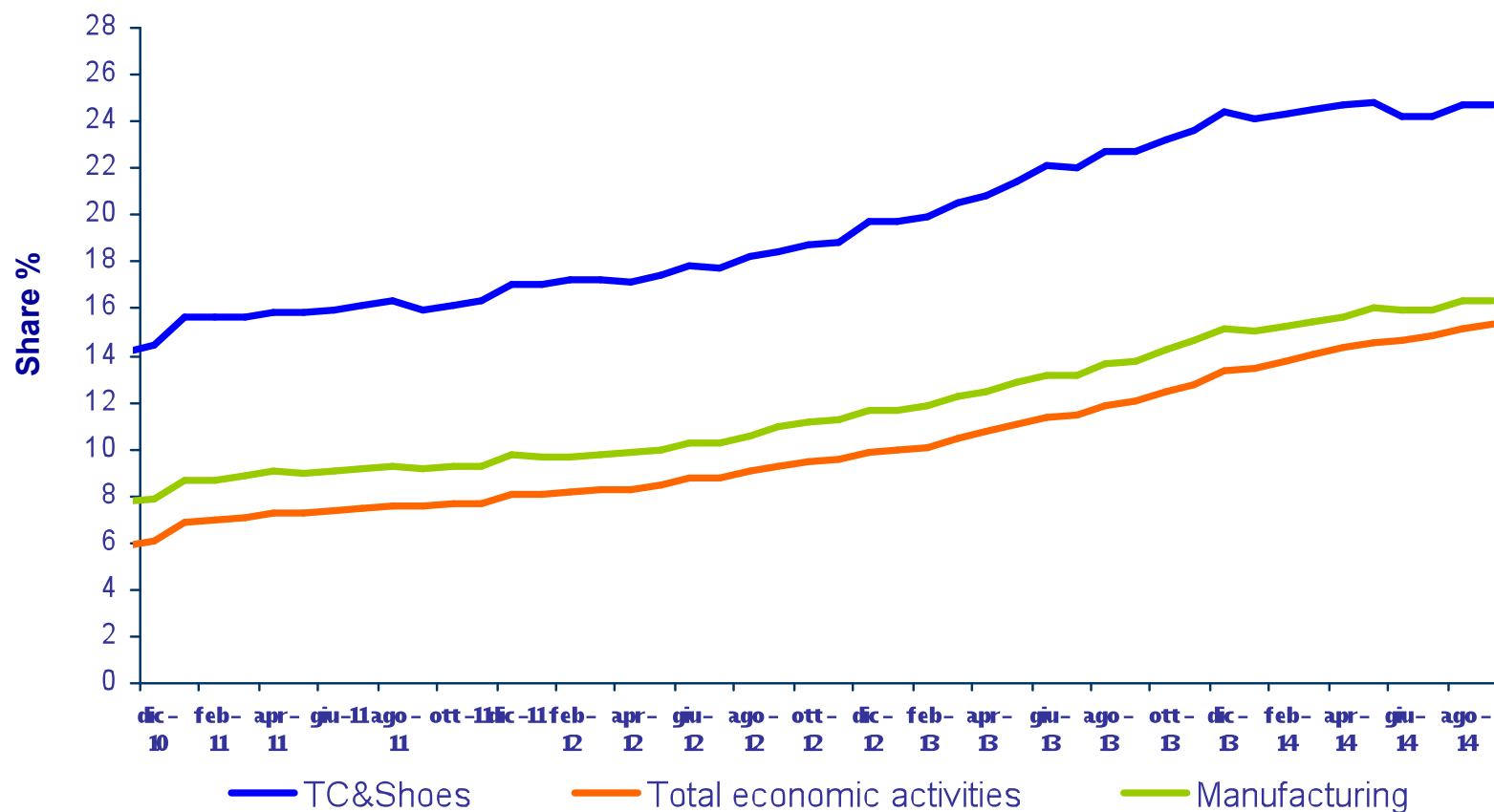


*January-September

Source: ISTAT

Risking credits

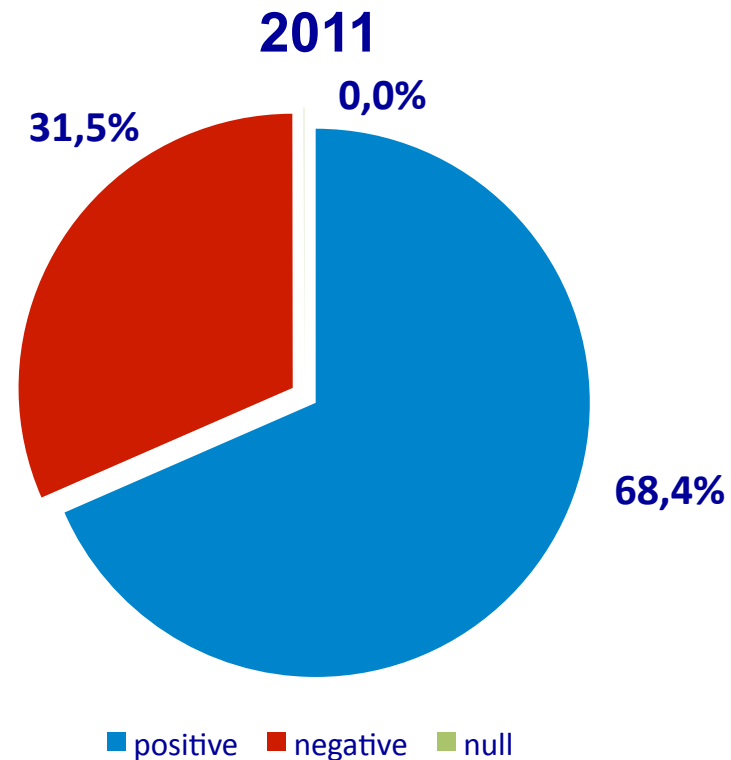
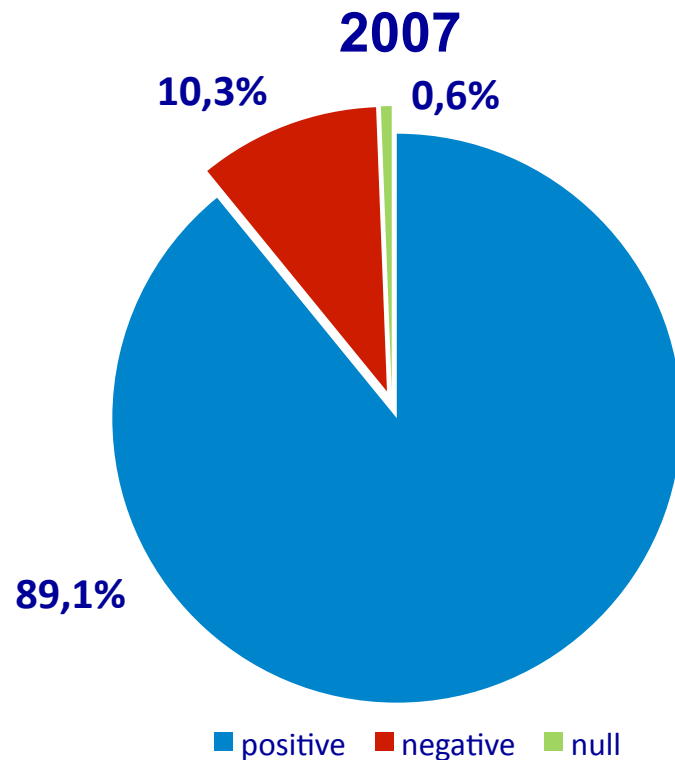
Incidence of risking credits on bank's loans December 2010 - December 2013 (%)



Source: Bank of Italy

EBITDA of Textile and Clothing Industries

% share of companies with positive, negative and null EBITDA*
(% on total companies of the cross-section)



Note: The analyze has been realized on a cross-section made by corporations with a turnover higher than 1 ML euros: 2232 textile companies and 2190 clothing companies, for a total of 4422 companies (on a total population of 51873 companies of the Textile & Fashion sector in 2011). The cross-section created is constant, that is closing and opening are been excluded. * EBITDA= Earnings before interest, taxes, depreciation and amortization

✓ Part Four

The Petroleum Nexus (and Transport costs)

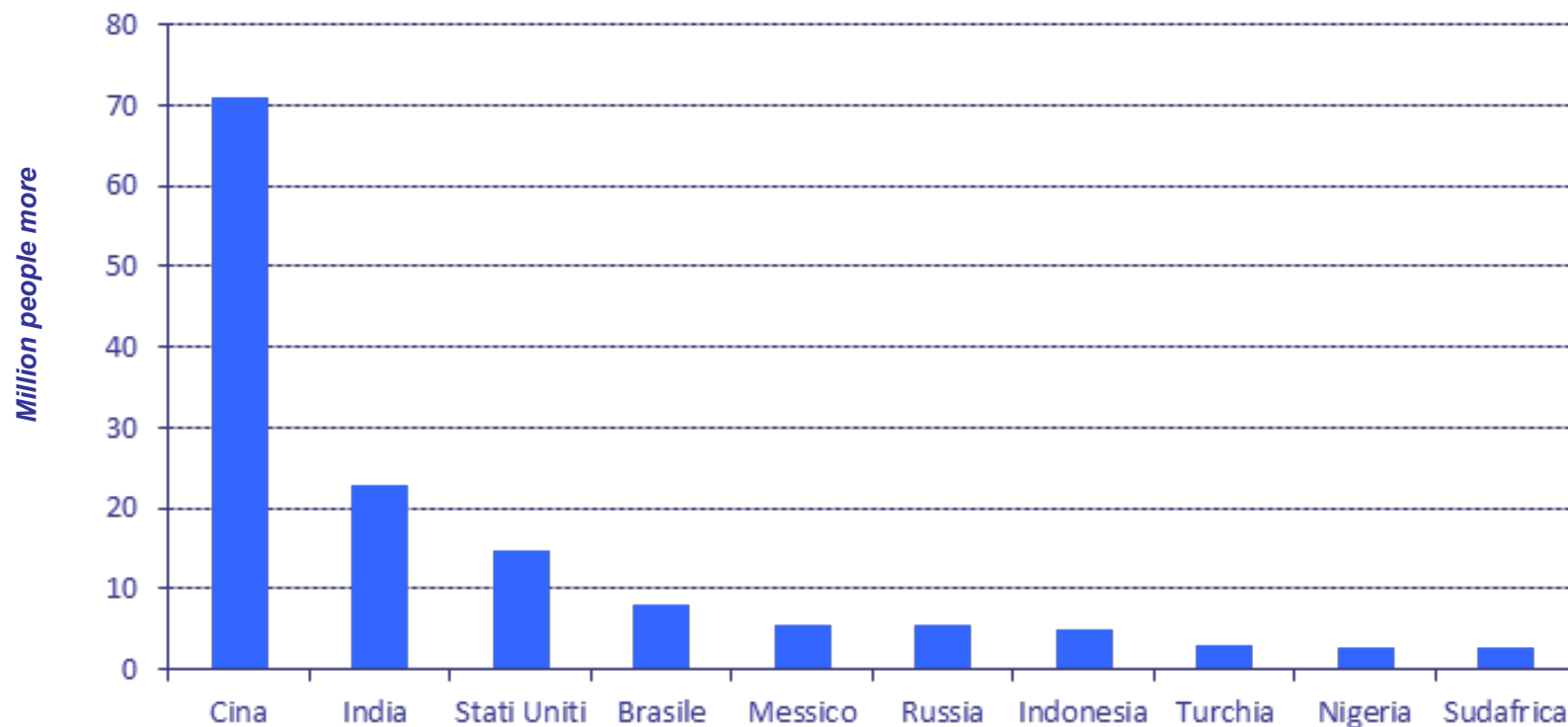
Oil Price Brent (index 1977=100) January 1995 – November 2014



Nov 2014
Index = 566,2

New rich people in the world

New rich people* in the world: top 10 countries (2013-2019)



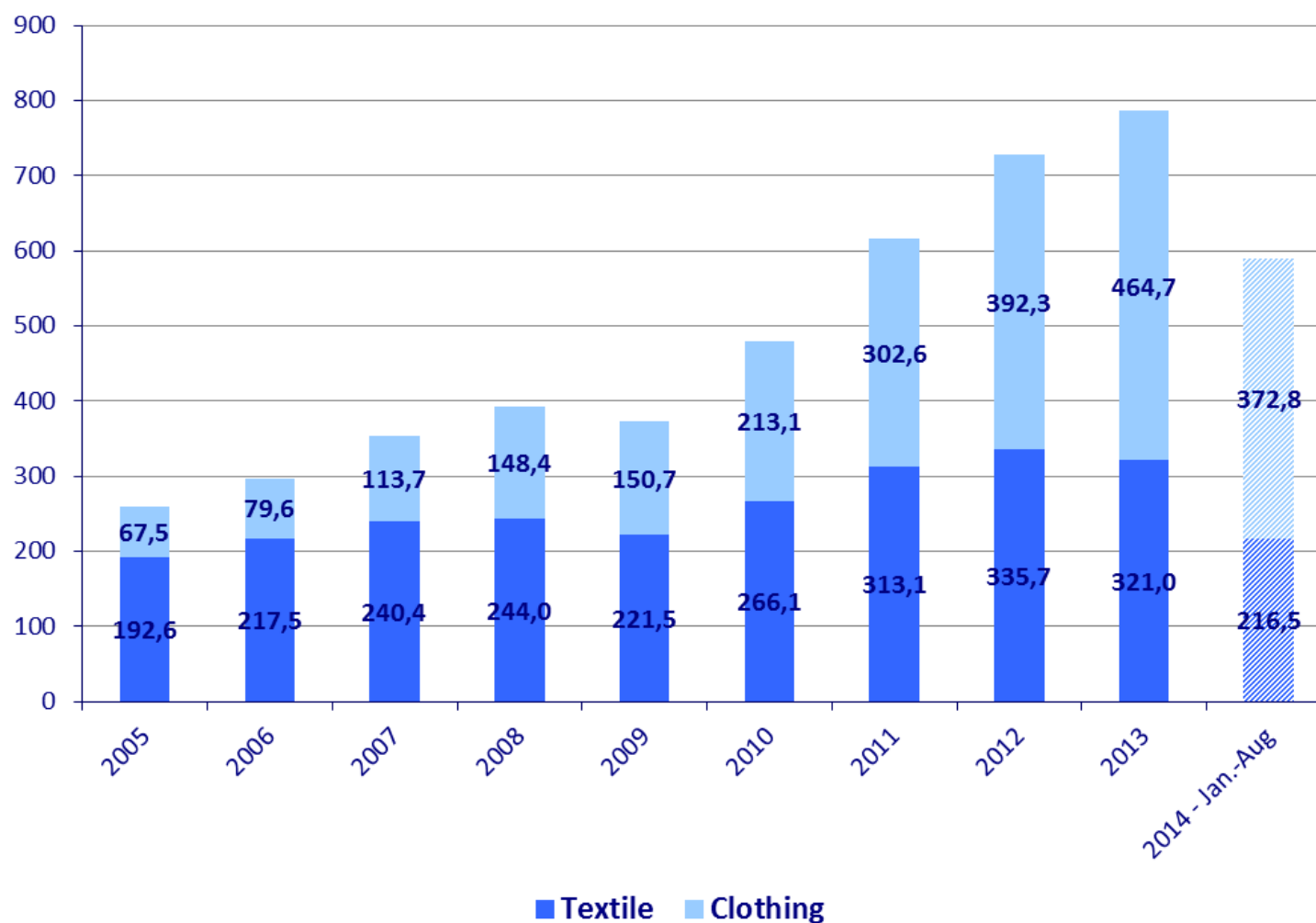
* People with per-capita earnings about 30 thousand US dollar (2005 PPA and prices)

Source: CSC-Prometeia, *Esportare la dolce vita*, 2014

From Italy to China

Italian T&C Export to China

(millions €)



Is It Time for Reshoring?

Under construction



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 413.000 employees and nearly 48.000 companies, that is a mainstay of Italy's economy and manufacturing industry.

