Master’s Degree programme – Second Cycle (D.M. 270/2004) in ECONOMIA E GESTIONE DELLE AZIENDE curriculum INTERNATIONAL MANAGEMENT

Final Thesis

Italian mid-sized firms thriving in a mature market
Berto Industria Tessile and the denim business

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Since 2008, date of the pre-crisis peak, sales volume of Italian companies has fallen by 4.2%, growing only small and medium enterprises (+6.9%) and Made in Italy (+1%). This is what emerged on 12th August 2016 from the report “Dati cumulativi di 2,060 imprese italiane” (Cumulative data of 2,060 Italian companies) by Mediobanca office of studies. Small and medium enterprises and Made in Italy therefore are the types of companies that have best stood the shockwave of the crisis.

After all, small and medium entrepreneurial realities, on one side less known by the general public, on the other side embody themselves the concept of Made in Italy fitting perfectly the values that this label should represent. In particular, most of them are manufacturers of high-quality finished or semi-finished products 100% Made in Italy, with a strong connection with the local culture, territory and traditions, and with an eye towards future and innovation.

But how these small and medium enterprises have been able to survive? What strategies did they undertake?

In this paper I will try to find answers to these questions, analysing in particular Italian fashion and textile sector, which on the basis of a Camera Nazionale della Moda Italiana (Cnmi) data processing, in 2016 it will grow by 1.4% to 83,639 billion Euros, almost double the overall Italian economy (+ 0.7% in 2016, estimated by Centro Studi di Confindustria).

Italian fashion industry is, in fact, a “multi-filiera” (multi-chain) industry, it means it is really fragmented: only in Italy, beside worldwide known brands, there are a lot of small medium sized companies that cover all the manufacturing and production phases of the products value chain, from clothes to perfumes, from ties to buttons, from bags to shoes. For this reason, it is necessary to consider that the growth of 1.4% should not obscure the fact that, in the face of double digit growing companies, there are many others that are at risk of disappearing.

So, fashion system as a whole is healthy, but in order to guarantee a long-term growth it is important to protect the whole production chain, and those who are in the value chain downstream or are bigger and more internationalized, must have an eye for who is upstream and have smaller dimensions and smaller margins. Made in Italy wins only if it
continues to be a system, a network, not a group of stand-alone excellences. Collaboration, support and solidarity are necessary not only inside the single value chain, but mostly between value chains themselves and between associations.

So the principal objective of my degree thesis is to understand how mid-sized fashion companies, even though their small businesses, have survived the crisis and have also been able to drive and stimulate Italian economy. I will try to do this also thanks to a case study about an Italian denim textile company, which is part of the above mentioned fashion value chain: Berto Industria Tessile.

This goal necessary requires first of all an overview, in the first chapter, of the situation until 2015 for Italian small and medium enterprises. They seem to be the “engine” of Italian economy, geographically distributed mainly in the North of Italy, they often belong to the traditional Made in Italy sectors and districts, labour intensive and high specialised: food, fashion, textile, furniture, metal products, machines and others. This type of companies takes more into account the quality of the products rather then their volumes, and most of them are also deeply internationalised.

The second chapter aims to describe the Italian fashion and textile sector under two different points of view. In fact, the most successful companies in Italy are managed with two different business models: the styled-in-Italy oriented model, and the made-in-Italy oriented model. These two trends are explained and analysed with their characteristics and differences and also with the example of some small case studies.

Finally in the third and also in the fourth chapter I will analyse a company that perfectly represents what has been elaborated until now: it is a mid-sized enterprise, family run, which belongs to the Made in Italy textile sector. The company name is Berto Industria Tessile and it is located in Bovolenta, a small city near Padua in Veneto (North-Eastern Italy).

More precisely, as a starting point, in the third chapter the principal characteristics of the company are described together with the strategies put in place during the last years to thrive in the mature denim market. The “fight” against Italian consume crisis and against foreign textile companies specialised in mass production is a daily operation, implemented with price strategies, product strategies and sustainability policies.

Instead, in the fourth and last chapter the consumer change that affected the fashion business in the last years will be taken into account. Customers’ purchasing activity is now more careful and accurate: the consumers want to know where their clothes come from and how they have been made. This change is strictly linked with the consequent change in
B2B companies that are dealing with new needs and new stakeholders. As a consequence I will then describe the new and particular marketing and communication strategies put in place by Berto Industria Tessile as a B2B company in order to keep up with these business changes and with the emergence of new marketing technologies.
CHAPTER 1. MID-SIZED COMPANIES: THE “ENGINE” OF ITALIAN ECONOMY

INTRODUCTION

“In medio stat virtus”, Aristotele.

In the last twenty years, the Italian economy has suffered of instability, with phases of growth rate stall. Thanks to the study of the principal macroeconomics indexes, came out how the Italian economy is dealing with a difficult situation.

Going deeper in this question, there are some evident complexities that threaten Italian economy stability: a remarkable weakening of big enterprises, an industrial system specialized in low-technology production, and, as a consequence, a lower innovative capability, and a delay in the development of services economy.

However, in the last years Mediobanca and Unioncamere researches highlighted the existence of a huge, dynamic and solid number of mid-sized companies, also characterized by international prospects.

So it is now important to analyse the characteristics of this industrial context, giving particular importance to this category of enterprises that seems to be the “engine” of Italian economy.

The Italian situation is characterized by a distinctive peculiarity: the small dimension of the majority of the companies, especially in the transformation activities.

Data about the number of small and mid-sized enterprises and their number of workers show the relevant weight that they have on the Italian industrial system.

Nowadays in fact about the 99.9% of the existent enterprises stays under the small-medium size category (SMEs), they also give a job to the 84% of the workers (4 workers of 5 find work in a SME).

The studies implemented by the European Union underline how Italy, compared to the other major industrialized countries, presents a more fragmented production structure, meaning that it is composed by a big number of SMEs.

In Italy, every 1000 inhabitants there are about 70 SMEs, in France 36, in Germany 20, with a European average of about 37.
A first analysis of these data shows a certain entrepreneurial vitality into the Italian industrial system, which, especially thanks to the diffusion of SMEs, is able to obtain a positive trade balance and to maintain a certain level of employment.

Also Banca d’Italia data confirm that the dimensions of the Italian production system are about 40% smaller than the European ones.

The small enterprises, localized in districts, have been the protagonists of the manufacturing industry growth. Now, this phenomenon is declining because of the run out of the incentive by which it was initially characterized, and because of the raise of competition due to globalization; these facts weakened the solidity of a lot of local systems, making necessary reorganization policies.

The crisis that interested before the big companies and that now is threatening the district industrial system let a lot of researchers to say that the Italian specialization model seems to be unsuitable, because it is characterized by “too mature” productions and for this reason far from the frontier because of an evident technological delay. But what came out from the new globalized orientation is a new trend, into the Italian industrial system, that promotes the growth of enterprises toward a medium size. This process is not widespread among all the companies, but it pervades most sectors and it is common both to big enterprises and district systems.
This new entrepreneurship is a phenomenon characterized by a structural differentiation from past, for this reason some researchers define it “fourth capitalism”\(^1\).

The raise of this new phenomenon has an important role in the production system for the competitive relaunch of the Italian economy, also because of the impossibility to count on few big companies.

At the base of this situation, however, there must be the awareness that the qualified but restricted set of about three thousand mid-sized companies\(^2\) is not enough, alone, to relaunch the Italian economy. So the political economy operations must protect that particular type of entrepreneurship characterized by smaller dimensions.

So it becomes indispensable, in order to reduce the gap with the others countries, to adopt industrial politics that let the growth of mid size and small firms. These politics are particularly indispensable in this period, where it is essential to help the firms which are able to reorganise inputs and which are in difficulty because of the global competition.

In order to fully understand this new typology of entrepreneurship it becomes relevant to carry out a preliminary study about the companies’ dimension, because of the growth of the organizations (in terms of turnover, added value and sometimes employment) is fundamental for the growth of the whole economic system. In the last decades, in the most industrialized countries, the increase of the demand for manufactured goods is ascribable for two-thirds to the expansion of the dimensions of the existent companies, and only for one-third to the creation of new companies\(^3\).

The last statement underlines the importance of the medium size, as a non transitory phenomenon, in the Italian industrial system, which has been always characterized by the small size of its companies. These small companies, due to their dynamism, had an important international role, filling the gap left by big companies, especially in the traditional sectors.

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\(^1\) The term “fourth capitalism” was coined/invented by Giuseppe Turani about in ’90s (“I sogni del grande Nord”; 1996, Il Mulino, Bologna); he individuated the mid-sized enterprises as the protagonists of the new capitalism, calling them “pocket multinationals”. In the same period the centres of study Mediobanca and Unioncamere began to examine the universe of mid-sized companies specialized in manufacturing; the first investigation, limited to North-East Italy, was published in 2000; in the following years the research has got involved all the Italian territory. In 2002 Andrea Colli historically analyzed medium and big companies; his research (“Il quarto capitalismo”; 2002, Marsilio, Venezia) was based in part on information deduced from Mediobanca data.


In the ‘90s the mid-sized enterprises registered excellent performance, both in growing and in economic results, also showing a strong financial soundness.

The excellent performance achieved by the mid-sized companies denied the assumption that ascribed to the size and to the traditional production the economic decline of Italy. This category of enterprises allowed the Italian industry to increase its international competitiveness. They didn't use only the dimensional growing as a strength, but different strategies: more care for market, clients and relationships with stakeholders; and a different organizational structure: managerial and industrial changes due to globalization.

Exactly because of globalization in the last years the international market has become more complex and competitive. This change in the context asked the companies to be present in more markets than before, with an increase of fix costs, added to those costs requested for the internationalization of production. Globalization has also increased the critical thresholds, highlighting the competitive bond of our industrial system, which is characterized by specialization of production and by critical issues in the manufacturing sector that could be attributed to the diffusion of small companies.

An important role, in order to mitigate the companies’ difficulties, is played by territorial organizational systems, which, thanks to the synergies between big and small enterprises, allowed the small companies to reduce costs in order to enter international markets.

In the last years has been evident the occurrence of a “Schumpeterian” selection process\(^4\), supported by the decline of big companies that allowed small companies to use resources unavailable until the period before. From this fact the intermediate category came to light: companies that has dimensionally transformed themselves, investing in an organizational and managerial model, more complex than in the others companies, but that permitted them to become leaders into local districts. In fact, the mid-sized company, through the vertical organization of the district, is able to internalize part of the externalities created by the context.

The evolution happened in the Italian industrial system is therefore the result of a dynamic process of transformation that involved the more efficient companies which has been able to grow and to increase their own market share, when the more inefficient companies went out of the market. This “Schumpeterian” process of “disruptive creation” comes out from the vivacity by which the Italian industrial system is characterized. This seems to be

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\(^4\) The doctrine of ‘economic selection’ insists, by means of the analogy to the biological theory of natural selection, that only the most efficient firms will survive the long-run competitive struggle for capacity growth.
fundamental in order to maintain a good level of competitiveness in the international
scenario, also because the Italian manufacturing system is dealing with a phase of
“industrial decline”, accelerated by globalization, which creates commercial and
geographical advantages in the emerging markets. This is going to influence big
companies’ location choices, even if their weight is small in the Italian industrial system,
this process causes a reshaping of the investments in Italy. The growth process that comes
out, leads to an increase of foreign production and employment.
This process is irreversible most of the times, so it is desirable that the policies in support
of competitiveness and growth reinforce the mid sized companies that are well established
in the territory.
After the theoretical analysis of the characteristics of the medium company, the next step is
to define the model. It is important to notice that there is an objective difficulty in order to
individuate the criteria that could delimit with precision the mid sized enterprises
agglomerate. More than this, the use of dimensional limits (like for example the UE
criteria by which enterprises are medium if they have between 50 and 249 workers) lead to
an assimilation of small and medium enterprises.
For this reason, some scientists use a different approach of analysis, focalizing their
attention on others criteria. A new prospective is chosen: they considerate some
companies’ ability to invest in intangible factors like brand, product R&D,
internationalization and distribution networks. In the last years, in fact, these factors had an
important role into this new competitive context, allowing companies to obtain a lot of
diversified advantages.
So, after an initial overview about the different criteria used to individuate the small-
medium size category, their geographic distribution in Italy and their distribution by
workforce and sector will be analysed. Finally their price policies and their internalisation
strategies will be examined in this chapter.

1.1 Definition criteria of the category

Like explained before, this new category of enterprises has not been considered for a long
time neither by statistics, neither by economic sciences. It was without any distinctive
characteristic: it was a simple transition phase between small and big dimension.
But in the last years, when this phenomenon came to light, a lot of industrial economics
researchers focused on it. Consequently, a lot of variability was born about the definition
of mid-sized company. For example Bonomi⁵ said that the companies with intermediate dimensions have sales volume between 100 and 1500 millions of euros. Some researchers, in order to individuate a quantitative profile of the “mid-sized enterprise” definition, use sales volume and number of workers, that are a tangible sign of a certain organizational complexity. Corbetta⁶ defines medium companies “those enterprises which have 250-1000 workers and sales volume between 25 and 500 million euros”; differently the research centre of Mediobanca & Unioncamere - on which data is based this chapter - calls “mid-sized” those companies with 50-499 workers and 16-355 million euros of sales volume per year⁷. For the European Union, small and medium-sized enterprises (SMEs) criteria are defined in the EU recommendation 2003/361. The main factors determining whether an enterprise is a SME are: staff headcount and either turnover or balance sheet total. These ceilings apply to the figures for individual firms only. A firm that is part of a larger group may need to include staff headcount/turnover/balance sheet data from that group too.

<table>
<thead>
<tr>
<th>Company category</th>
<th>Staff headcount</th>
<th>Turnover</th>
<th>Balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medium – sized</td>
<td>&lt; 250</td>
<td>≤ € 50 m</td>
<td>≤ € 43 m</td>
</tr>
<tr>
<td>Small</td>
<td>&lt; 50</td>
<td>≤ € 10 m</td>
<td>≤ € 10 m</td>
</tr>
<tr>
<td>Micro</td>
<td>&lt; 10</td>
<td>≤ € 2 m</td>
<td>≤ € 2 m</td>
</tr>
</tbody>
</table>

Table 1: European Union SMEs criteria. Personal data processing.

Even though these data are objective, it is still difficult to put mid-sized companies in a “independent” theoretical perspective, because a specific literature does not exist.

So it is complicated to individuate an evaluation of the mid-sized company that do not include also the small size company.

Another obstacle is represented by the objective individuation of the limits of the category. It is more difficult to identify the upper limit than the lower limit, especially in Italy, a country characterized by corporations that are smaller than in other countries even if they belong to a capital intensive industry.

Because of these uncertainties, two different study perspectives were born. The first is a quantitative analysis of mid-sized firms’ category (Mediobanca and Unioncamere

⁷ These criteria have been changing through time: in 2003 sales volume had to be under 290 millions, in 2010 under 330 millions.
analysis), the second is more “qualitative” and it studies the leadership of medium firms in their territory achieved thanks to flexible production organization, relationships with stakeholders, innovation and internationalization.

The strong internationalization is a peculiarity of the mid-sized companies. This proves that the size matters, but is not an obstacle since their capacity to conquer market share thanks to export and to do R&D by themselves. Mid-sized firms consider Europe as their domestic market and they fully understand the opportunities in term of delocalization and internationalization.

Finally, the assumption is that mid-sized firms’ competitive advantages derive from dimensional, organisational and behavioural characteristics.

1.2 Italian mid-sized companies according to Mediobanca and Unioncamere analysis

The Mediobanca and Uniocamere survey covering the universe of medium-sized manufacturing industrial companies has now reached its fifteenth edition; the period covered has reached about nineteen years, and comprises phases of growth as well as stagnation. In other words, it constitutes a relatively long series of data, which has highlighted several distinctive features of this category of enterprise, which in the years prior to the crisis represented the most dynamic segment of Italian manufacturing.

Predominantly located in district or quasi-district areas, what drives these companies most is the search for “price advantages”, obtained through product innovation, which allows them to target market niches, rather than (or rather than just) “cost advantages” deriving from process innovation and rationalization. The competitive strengths of these companies resides in the diversification of their products, and their capability to leverage on the local appetite for entrepreneurialism and highly-qualified staff resources.

The survey covers companies with these characteristics: workforce between 50 and 499 units and sales volume between 16 and 355 millions of euros; self-ownership control, often family-run; belonging to manufacturing sector.

In Italy, the companies with these characteristics are 3334, so mid-sized companies represent about the 16% of the value added of the Italian manufacturing industry, with the same percentage over national export.

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8 It has been estimated that big companies represent the 19% of the Italian added value, medium-big the 13%, and small the 52%. The sum of mid-sized and medium-big companies (IV capitalism) reaches the 29%.

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1.2.1 Geographic distribution

How are mid-sized companies located on the Italian territory?

Figure 1: Localization of Italian mid-sized companies in 2014. Source: Mediobanca & Unioncamere survey.

The distribution of mid-sized companies on the Italian territory is shown in Figure 1. It is important to say that the concentration of a certain number of companies in the same town is underlined by a single symbol. The districts zones can easily be identified: they are more concentrated in the area situated to the South of the Alps and in the “Pianura Padana”. Mid-sized companies have a significant presence also in areas mostly characterized by big companies (in particular in Piemonte). The diffusion of mid-sized companies spreads from the North, where we can see a higher concentration, to the South, where the number gradually decreases. Moreover, mid-sized companies are more on the East coast than on West coast. The last relevant agglomerations are situated in Campania. Data per region are summarized in Table 2.
<table>
<thead>
<tr>
<th>Region</th>
<th>MB data</th>
<th>Movimprese data (*)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mid-sized</td>
<td>Companies in total</td>
</tr>
<tr>
<td></td>
<td>companies</td>
<td>n° of companies</td>
</tr>
<tr>
<td>Piemonte and Valle d’Aosta</td>
<td>302</td>
<td>40.309</td>
</tr>
<tr>
<td>Liguria</td>
<td>36</td>
<td>10.594</td>
</tr>
<tr>
<td>Lombardia</td>
<td>1.042</td>
<td>102.268</td>
</tr>
<tr>
<td>North-West total</td>
<td><strong>1.380</strong></td>
<td><strong>153.171</strong></td>
</tr>
<tr>
<td>Veneto</td>
<td>597</td>
<td>54.205</td>
</tr>
<tr>
<td>Trentino - Alto Adige</td>
<td>70</td>
<td>7.729</td>
</tr>
<tr>
<td>Friuli Venezia Giulia</td>
<td>105</td>
<td>9.732</td>
</tr>
<tr>
<td>Emilia - Romagna</td>
<td>489</td>
<td>46.343</td>
</tr>
<tr>
<td>North-East total</td>
<td><strong>1.261</strong></td>
<td><strong>118.009</strong></td>
</tr>
<tr>
<td>NORTH TOTAL (NE + NW)</td>
<td><strong>2.641</strong></td>
<td><strong>271.180</strong></td>
</tr>
<tr>
<td>Toscana</td>
<td>209</td>
<td>47.921</td>
</tr>
<tr>
<td>Marche</td>
<td>123</td>
<td>20.034</td>
</tr>
<tr>
<td>Umbria</td>
<td>47</td>
<td>8.083</td>
</tr>
<tr>
<td>NEC Centre total</td>
<td><strong>379</strong></td>
<td><strong>76.038</strong></td>
</tr>
<tr>
<td>Centre and North-East total</td>
<td><strong>1.640</strong></td>
<td><strong>194.047</strong></td>
</tr>
<tr>
<td>Lazio</td>
<td>51</td>
<td>31.409</td>
</tr>
<tr>
<td>Abruzzo</td>
<td>48</td>
<td>12.389</td>
</tr>
<tr>
<td>Campania</td>
<td>107</td>
<td>40.023</td>
</tr>
<tr>
<td>Puglia</td>
<td>48</td>
<td>27.297</td>
</tr>
<tr>
<td>Others south regions &amp; islands</td>
<td>60</td>
<td>58.108</td>
</tr>
<tr>
<td>Centre-South and islands</td>
<td><strong>314</strong></td>
<td><strong>169.226</strong></td>
</tr>
<tr>
<td>Total</td>
<td><strong>3.334</strong></td>
<td><strong>516.444</strong></td>
</tr>
</tbody>
</table>


The North-West and the North-East host, respectively, the 41,5% and the 37,8% of mid-sized companies of Italy. If we consider the NEC area (Centre except Lazio: Toscana, Marche and Umbria), the percentage goes up at 49,2%, leaving the residual 9,3% of mid-sized enterprises scattered in the wide area of Centre-South and Islands.

The concentration of mid-sized companies in the North-West and the North-East Italy is higher than the concentration in the same areas of manufacturing limited companies.
(33.1% and 24.7%). In the area of Centre-South and of the Islands, where there are 28.8% of national manufacturing companies, the ratio is inverted, because in that area the small dimension is predominant. The more populated region of mid-sized companies is Lombardia, in fact 31.3% of mid-sized is localized there (25.1% of manufacturing limited companies), followed by Veneto with the 17.9% (11.6%), and by Emilia-Romagna with 14.7% (9.8%). The concentration is lower in Piemonte and Valle d’Aosta: 9.1% (6.6%). Except Trentino – Alto Adige and Friuli – Venezia Giulia, all the other regions have lower or similar density between mid-sized and limited manufacturing companies. Moreover, 1000 mid-sized enterprises (30% of the total) are located in districts and 322 (9.7%) in others Local Productive Sectors.

Veneto seems to be the best environment for mid-sized companies after the comparison of the number of medium companies to some geographic, demographic and entrepreneurial parameters; Veneto is followed by Lombardia and Emilia-Romagna.

1.2.2 Distribution by workforce (number of workers)

The next step is to learn more about the mid-sized companies considering their workforce.

Mediobanca and Unioncamere survey divides the classes of workers in groups of 50 employers, so 50-99, 100-149, 150-199… and so on, but I decided to combine them in three groups like in the chart below.

The distribution of mid-sized companies by the number of their workers presents a significant concentration in the first group (from 50 to 199 workers) that amounts to 2,602 companies, the 79.3% of the total. It’s also important to say that the class 50-99 workers counts 42.8% of the total.

<table>
<thead>
<tr>
<th>Class of workers</th>
<th>Italy</th>
<th>North-West</th>
<th>North-East</th>
<th>NEC Centre</th>
<th>Centre-South and Islands</th>
</tr>
</thead>
<tbody>
<tr>
<td>number in %</td>
<td>number</td>
<td>number</td>
<td>number</td>
<td>number</td>
<td>number</td>
</tr>
<tr>
<td>50–199</td>
<td>2,602</td>
<td>1,086</td>
<td>962</td>
<td>307</td>
<td>247</td>
</tr>
<tr>
<td>200–349</td>
<td>499</td>
<td>215</td>
<td>194</td>
<td>39</td>
<td>51</td>
</tr>
<tr>
<td>350–499</td>
<td>182</td>
<td>70</td>
<td>75</td>
<td>23</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>3,283</td>
<td>1,371</td>
<td>1,231</td>
<td>369</td>
<td>312</td>
</tr>
</tbody>
</table>

*Table 3: Distribution of mid-sized companies by their number of workers. Source: Mediobanca & Unioncamere survey. Personal data processing.*

The North-West, the North-East of Italy and the NEC Centre are in line with the data about the whole country, the distribution in Centre-South and Islands is a bit more homogeneous.

As a conclusion we can say that in the universe of the Italian mid-sized firms, in 2014, there is a predominance of companies with 50 to 199 employers, in fact the smaller group is predominant.

Almost the same results come out if we analyse the total number of mid-sized firms’ employers by class of workers, like in the table below. In Italy the 56,6% of the employers work in a mid-sized company with 50-199 workers, the 27,6% work in a company with 200-349 workers and the 15,8% in a company with 350-499 workers.

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Finally, if we decide to divide in a different way the classes of workers, dividing them in three classes the first from 50 to 99, the second from 100 to 249 and the third from 250 to 499 the result changes.

<table>
<thead>
<tr>
<th>Class of workers</th>
<th>Number</th>
<th>in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>50–99</td>
<td>269.125</td>
<td>56,6</td>
</tr>
<tr>
<td>100–249</td>
<td>131.058</td>
<td>27,6</td>
</tr>
<tr>
<td>250–499</td>
<td>449</td>
<td>13,6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>475.577</td>
<td>100</td>
</tr>
</tbody>
</table>

*Table 4: Number of SMEs’ employers divided by class of workers. Personal data processing.*

The conclusion therefore is almost the same: the big majority of mid-sized companies in Italy have less than 250 workers.

### 1.2.3 Distribution by sector

The distribution by sector of the mid-sized companies reflects the structure of the Italian production system: it corresponds with those sectors that also characterize the Italian international specialization.

Mid-sized enterprises developed themselves in those divisions that contributed to the Italian competitive advantage: “traditional” sectors called sectors of *Made in Italy*, that are labour-intensive and high-specialized. This category includes: food, fashion, textile, wood, furniture, tiles, metal products, machines, appliances and boats. These made in Italy sectors cover the 62,2% of Italian revenues and the 66,8% of the export. The positioning in these
Sectors is irrelevant for bigger groups in which the same productions affect marginally revenues and export: 25,1% and 26,8%. These data highlight the relation between dimensional growth and the specialization in less traditional sectors, different from “Made in Italy” ones.

The greater deviation between the two dimensional classes (middle and big) can be noticed in the export. There, the mechanical industry covers the 75,5% of the total for the big companies, instead of mid-sized companies, in terms of export, are orientated in mechanical industry but also in chemical industry, metallurgical industry and household and personal goods industry.

<table>
<thead>
<tr>
<th></th>
<th>Revenues</th>
<th></th>
<th></th>
<th>Export</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mid-sized</td>
<td>Medium/</td>
<td>Bigger</td>
<td>Mid-sized</td>
<td>Medium/</td>
<td>Bigger</td>
</tr>
<tr>
<td></td>
<td>firms</td>
<td>bigger firms</td>
<td>groups</td>
<td>firms</td>
<td>bigger firms</td>
<td>groups</td>
</tr>
<tr>
<td></td>
<td>in %</td>
<td>in %</td>
<td>in %</td>
<td>in %</td>
<td>in %</td>
<td>in %</td>
</tr>
<tr>
<td>Mechanical</td>
<td>31,5</td>
<td>27,6</td>
<td>70,0</td>
<td>42,0</td>
<td>38,9</td>
<td>75,5</td>
</tr>
<tr>
<td>Food</td>
<td>21,4</td>
<td>14,3</td>
<td>7,1</td>
<td>12,1</td>
<td>6,2</td>
<td>3,9</td>
</tr>
<tr>
<td>Household</td>
<td>18,6</td>
<td>18,8</td>
<td>7,7</td>
<td>21,1</td>
<td>21,5</td>
<td>8,9</td>
</tr>
<tr>
<td>and personal</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>goods</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chemical</td>
<td>14,4</td>
<td>15,6</td>
<td>6,8</td>
<td>13,4</td>
<td>12,8</td>
<td>5,3</td>
</tr>
<tr>
<td>Metallurgic</td>
<td>6,8</td>
<td>13,6</td>
<td>5,4</td>
<td>6,4</td>
<td>12,8</td>
<td>4,3</td>
</tr>
<tr>
<td>Paper</td>
<td>4,7</td>
<td>6,8</td>
<td>0,8</td>
<td>2,7</td>
<td>4,4</td>
<td>-</td>
</tr>
<tr>
<td>and press</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other sectors</td>
<td>2,6</td>
<td>3,3</td>
<td>2,2</td>
<td>2,3</td>
<td>3,4</td>
<td>2,1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
</tr>
<tr>
<td><strong>Made in Italy</strong></td>
<td>62,2</td>
<td>50,0</td>
<td>25,1</td>
<td>66,8</td>
<td>54,8</td>
<td>26,8</td>
</tr>
</tbody>
</table>

Table 6: SMEs' distribution by sector. Personal data processing.

In the macro-areas of North-West and North-East mechanical is the prevailing production (it contributes respectively for the 42,3 and the 40,8 to the 2014 global added value).

More specifically North-West mid-sized firms are specialized in the typical made in Italy sectors (58,1% of added value), but the share of revenues that comes out is smaller than the national average (56,2% versus 62,2%). So this area shows a higher specialization in mechanical, metallurgic and chemical sectors than the national average, revenues and export levels highlight this trends (chemical and metallurgic contributes with the 25% of revenues and the 26% of exports).
In the other macro-area, the North-East area, the production in the different sectors is aligned with the national production so is specialized in Made in Italy products. The presence of North-East mid size firms in these sectors exceeds the national average: revenues data (68,2% versus 62,2%) and export data (74,8% versus 66,8%) confirm this high specialization.

Surprisingly the NEC area presents a not so high specialization in Made in Italy sectors (56,1% of added value), in this area mid-sized companies have about a high share of added value in the production of household and personal goods (20,3%).

The added value generated by the production in Made in Italy sectors is high also in Centre-South and Islands (63,2%): this area shows an inclination for the food industry with 27,3% of added value. It is important to underline that in this area the 31,2% added value comes from mechanical industry. The other sectors (excluding also household and personal goods) cover 27,5% of the total.

Generally speaking, only one third of the total production is ascribable to the heavy industry, instead of the main part (two-thirds) concerns the so-called light industry. This brings us to say that mid-sized firms’ performances can be traced back to a really efficient business model with an important international aspect in niche market. Even though they are specialized in traditional sectors like Made in Italy ones.

Mediobanca and Unioncamere survey data evidence that this category is not so specialised in high-tech sectors: a very small percentage of revenues refers to science-based productions (only 3,6% of mid-sized companies’ revenues come out from high technology sectors). It is anyway a misconception that mid-sized companies merely utilise technological innovations. In fact, there is a strong innovation capacity also in Made in Italy sectors. This fact is not perceived by classics statistics because it is composed by so-called incremental innovation\textsuperscript{10}, that lead to an improvement of product performances or are connected with customization, testing of new materials, design.

The inclination to invest in innovation is independent from the type of production. In fact, Mediobanca and Unioncamere show that the size of the company is directly related to the percentage of companies engaged in high-technology sectors. This does not mean that they do not innovate, as said before they do incremental innovation.

\textsuperscript{10} Incremental innovations are restricted improvements, like for example the extension or the update of a process/product. These innovations produce considerable improvements, but they need a continuous induction in the company.
<table>
<thead>
<tr>
<th>Sectors</th>
<th>Mid-sized firms</th>
<th>Medium-large firms</th>
<th>Big groups</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Revenues</td>
<td>Export</td>
<td>Added value</td>
</tr>
<tr>
<td></td>
<td>in %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>High-tech</td>
<td>3,6</td>
<td>3,1</td>
<td>5,6</td>
</tr>
<tr>
<td>Medium-high tech</td>
<td>27,2</td>
<td>36,8</td>
<td>31,9</td>
</tr>
<tr>
<td>Medium-low tech</td>
<td>26,7</td>
<td>26,9</td>
<td>27,1</td>
</tr>
<tr>
<td>Low-tech</td>
<td>42,5</td>
<td>33,2</td>
<td>35,4</td>
</tr>
<tr>
<td>Total</td>
<td>100,0</td>
<td>100,0</td>
<td>100,0</td>
</tr>
</tbody>
</table>

Table 7: Italian firms distribution by level of technology of their production.

It is so fundamental for these companies to innovate in order to defend themselves from other firms competition and to maintain the market share gained. The “traditional” nature of specialization and their strong territoriality lead mid-sized firms to invest in innovation mostly developed inside the company, in order to enhance in-house expertise and know-how, paying more attention to intangible factors like design and brand than to high-tech content.

1.3 Price policies: the “Premium Price” of the hero product as a competitive advantage

In order to deeply understand the great performances of mid-sized companies it is important to analyse their price policies. Price policies let the mid dimension to have a predominant role, both in the Italian economy and in the global economy too.

So, analysing mid-sized firms’ price policies it is important to say that the dimensions of these companies do not let them to choose economies of scale as one of their objectives. So the strategic variable is no longer the cost of production, instead the product itself and its multiple differentiations are the strategic factor on which the company must be concentrated. Only the study and the perception of the society’s needs let the company to imagine, design and introduce products that recover the high costs.

The achievement of the “premium price” is the result of the interaction of some factors:

1) a development model that favours specialization economies at the expense of the economies of scale.
In mid-sized companies it is evident that diminishing returns are a function of the business model that favours the revenue advantage, which comes from the product customization, at the expense of cost advantage coming from process innovation to produce large volume (differentiation capacity and flexibility versus economies of scale).

So, in conclusion, the higher price is justified for products that understand and are inspired by the continuous fragmentation of the modern society’s needs. The success is so linked to the ability to understand social phenomena, a competence that is indicative of a virtuous and dynamic capitalism.

2) the “unique” nature of core products and their positioning in niche markets let these products to have generally an inelastic demand.

Mid-sized companies usually operate in monopolistic competition (in some cases also oligopolistic competition). So the market power permits them to remunerate the expensive Italy-localized inputs, in fact Italy is a country characterized by high standards of living. This model is also characterized by continuous innovation and differentiation in order to maintain a high level of competition between companies and also because entry barriers are not so high in some cases.

3) a really high-quality offer and a particular attention to the customer needs with also the production of custom-made products.

Italian industry, with mid-sized companies in the first place, is dealing with a phase of specialization in “custom-made” products. This means that it produces industrial products adapted to particular customer’s requests, these products could be also handcrafted. Fashion and furniture brands represent a glaring example of customized production. The differentiation policies implemented by mid-sized companies are focalized mostly on high quality, personalization (physical differences), brand management (in order to increase the brand awareness) and customer care. From the entrepreneurs’ point of view, the intrinsic quality of the product, its performance and its functionality are the determiners of the premium price of high-end products versus standard products. Then, there are factors like the personalisation of the product and the flexibility in front of customers’ needs. These characteristics are consequences of organisational capacity and production efficiency. As last point there are tertiary components like the network capillarity and customer services.

The increased supply of goods and services to fulfil the more and more diversified demand of emerging countries, is one of the main reasons for which the mid sized companies had great performances; together with the higher competition caused by the use of more sophisticated human resources and of high-tech products.

Talking about product innovation, mid-sized companies often implement a specific policy that considers innovation as a tool to maintain market niches.

So the mid dimension invests in innovation in order to defend itself from competition of other companies and it develops novelties internally, enhancing know-how and competences that are owned by the company itself. This behaviour also comes from their specialization in traditional sectors, which have got a close link with the surrounding territory.

Thanks to these investments in innovation, intangible inputs are more developed: brand awareness, design, etc.

Another feature that mostly identifies mid-sized firms versus other firms in the Italian manufacturing industry is a strong link between the company and its hero product. Regardless from the type of production, the revenues ascribable to the principal product are usually the 93% of the total turnover (the export of the core product covers the 41% of revenues).

So it is also thanks to the analysis of the core product business that comes out the commercial strength of the mid dimension model.

1.4 Mid-sized companies’ internationalization strategies

In the last years, globalization influenced not only the economic and politic system of a lot countries, but also affected cultural, social and behavioural aspects of the economic actors. From the economic point of view this phenomenon brings on a growing level of productive and economic integration, thanks to the avoidance of some spatial-temporal barriers.

From the company point of view, globalization is a critical issue: the firm has to search a new balance, in the competitive framework, between global and local perspective.

The internationalization process is described as a process that allows the company to expand its range of action, through the creation of a network of relations between the company and other stakeholders localized in different countries.

These relations have different characteristics, but they can be clustered in three principal groups:
- commercial: internationalization concerns end markets and supply markets, decentralizing some of the last phases of the value chain (for example sales and marketing activities);
- productive: delocalization of the production in other countries;
- financial: internationalization in capital markets.

The decision of the companies to go international could also has been influenced by a higher competition in the internal market, or to reduce the dependence on a single market. Talking about the important issues companies have to deal with – what kind of markets to enter, how, and to which aims – Italian firms must redirect their international strategies in three directions (Confindustria 2013):

- increase presence in emerging countries, in particular, in their high-end market segments;
- go from soft entry modes (direct and indirect exports) to strongly-based modes like agreements/alliances and foreign direct investments (in production, distribution, R&D; sometimes all together);
- change internationalization orientation, by shifting from mere outsourcing to reduce costs, to localizing for a stronger market position or for the generation of know-how and innovation.

Firms in general, enter new markets by buying companies or by building new industrial plants, subsidiaries and joint ventures to gain the favour of local authorities and learn the needs of the local communities. In addition, market orientation models and entry strategies evolve, and they combine different modes according to different businesses and countries, which upset the traditional theory models that are based on sequential and progressive international strategies.

For mid-sized firms, internationalization has a high “strategic” relevance because they want to reach typical goals such as increased sales volumes or improved production efficiency, or because they want to reach innovative goals such as differentiation from their competitors or know-how from international contexts which have higher capacity for innovation.

Internationalization is the characterizing trait of firm strategies in today’s world and mid-sized firms are no exception, indeed, they offer an example of success. The internationalisation strategies of successful mid-sized firms can be classified into four orientations, which in turns reflect four management strategies:
• *sales volumes* orientation;
• *efficiency* orientation;
• *differentiation* orientation;
• *innovation* orientation.

All these orientations differ because of each one’s objectives, market position, internationalized activities, internalized activities and key competences.

<table>
<thead>
<tr>
<th>Main strategic goals</th>
<th>Volumes orientation</th>
<th>Efficiency orientation</th>
<th>Differentiation orientation</th>
<th>Innovation orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reach economies of scale; Compensate saturation of domestic market; Exploit competences in other markets; Enter in new and growing markets.</td>
<td>Reduce production and supply costs; Exploit local community incentives.</td>
<td>Expand market niche, create new market niches; Find new clients in specific markets</td>
<td>Gain know-how, develop evolved competences; Integrate with clients</td>
</tr>
<tr>
<td>Positioning</td>
<td>Low-, medium-, and high-end market segments.</td>
<td>Medium-low segments based on the price/quality ratio</td>
<td>Highly differentiated medium-high and high-end segments</td>
<td>Hi-tech niches</td>
</tr>
<tr>
<td>Main internationalized activities</td>
<td>Marketing and distribution</td>
<td>Operation procurement</td>
<td>Distribution sales</td>
<td>R&amp;D procurement</td>
</tr>
<tr>
<td>Internalized activities</td>
<td>Product design</td>
<td>Selection and management of suppliers, product design, quality control.</td>
<td>Operations design</td>
<td>Design marketing</td>
</tr>
<tr>
<td>Key competences</td>
<td>Operations</td>
<td>Supply chain management</td>
<td>Marketing</td>
<td>R&amp;D marketing</td>
</tr>
</tbody>
</table>


Sales orientation identifies the internationalization strategies needed to expand the sales volume to achieve economies of scale or to compensate for domestic market saturation. This can be done by direct investments to fully integrate in target countries and meet demand better. Market positioning can be different; the marketing and distribution activities are internationalized and the key competences are production competences. The strategic goals are:

- obtain economies of scale;
- entry into growing new markets: the opening of boundaries in emerging countries, such as China, has given mid-sized firms the commercial opportunity to develop sales in new areas and to start important commercial initiatives.
- compensate for domestic saturation: firms that take action before their competitors, by investing early in countries where the product life cycle has a favourable time shift, have a competitive advantage.
- exploit firm competencies in other markets: this is mainly true for firms that are in the typical “Made in Italy” sectors and that are connected to their region of origin and that have consolidated international reputation.

Efficiency-orientated internationalization is an orientation that concerns the upstream activities of the value chain to reduce operations costs by de-localizing in emerging countries some or all of the operation phases in tolling agreement or with exclusive supply contracts. This is often linked to positioning strategies in market segments, which are based on the value of money. Activities that are carried out within the company are: selection and management of suppliers, R&D, quality control. The key competence is supply chain management. This approach concerns the firms in traditional business sectors: in fact, even if they move from their district origins, they prefer to expand their list of suppliers abroad in order to obtain a competitive cost advantage in the domestic market and then increase exports, often in the countries they have delocalized to.

Differentiation-orientated internationalization aims to expand geographically and strengthen the firm’s market niche, often by looking for new clients in growing economies. It is linked to focus strategies in medium-high market segments with highly differentiated products that can be strengthened by learning processes and by purchasing ad hoc resources (for example, specific know-how and competencies and innovative materials). It is mostly carried out with international distribution channels and brand and communication investments. On the contrary, design activities are carried out internally and so are production activities to guarantee quality and control. The key competences are, depending on the case, marketing and purchasing. In addition, differentiation can expand to new segments adjacent to the original one so the key competences can be exploited to diversify the risks. The strategic goals are:
- ensure privileged and selected resources by exploiting the environmental or cultural differences in foreign manufacturing traditions, and more generally, by obtaining excellent resources on a global scale.
Access to groups of clients who are sensitive to the issues emerging in other markets: some mid-sized firms turn to foreign countries for segments that are sensitive to their market offer. This is strongly motivating for categories of consumer products that find it hard to be successful in their own market because of incompatible social and economic contexts or because they are not so compatible as other categories.

Innovation-oriented internationalization is the most modern model. It aims for more evolved know-how and competence development as well as more design and operation integration with internationally-based clients. It is tied to strategies based on the continuous innovation in hi-tech businesses and sectors. R&D activities are internationalized by buying foreign firms that have specific competences and by setting up anywhere in the world agreements and joint ventures with research institutes and competitors or with firms that have complementary technologies. The key competences required are Research & Development. For some firms, innovation is produced through alliances with clients outside Italy: because of the global nature of their clients, internationalization is at the same time the source of innovation and the tool for enhancing innovation in the market. The principal strategic goals are:

- access to innovation know-how. Mid-sized companies enter international design and production networks and access to knowledge flows in every area of the world. The internationalization of a firm’s value chain also includes acquiring new skills and competencies through international research centres, which is the typical profile of a firm whose business models are open to innovation. Mid-sized firms try to be part of, and coordinate international supply chain, in order to share know-how and to strengthen alliances with suppliers and customers. It is a type of “invisible” internationalization, not measurable by statistics, which is realized in every part of the world. The prevailing idea is to innovate by discovering new skills and competences available globally.

- integrate with the customers and develop learning processes and growth strategies. The firm’s internationalization is also a development factor for production quality and product and process innovation, so the firm can adapt itself to production and market needs. The ability of the firm to follow technological evolution with an entrepreneurial spirit allows it to design and create services based on geo-localization.
In sum, mid-sized firms are trying to exploit globalization opportunities in the knowledge and R&D area. Following the example of multinationals, which they supply. And it is for these reasons that Italian mid-sized companies are usually called “pocket multinationals”.

Pocket multinationals are the protagonists of the Italian fourth capitalism, the economic period of these days characterized by the evolution of industrial districts because of the transformation brought by globalization. Small and medium enterprises in Italian districts developed aggressive strategies to extend their sales networks and supply chains abroad. It is also possible to individuate four main models of firms concerning their different behaviours in internationalization strategies:

1) traditional local firm;
2) traditional local firm with commercial outlets abroad;
3) firm with upstream suppliers;
4) open networks \(^{12}\).

The traditional Italian industrial district firm is characterized by a production process focused on the local context (or at least in Italy) as well as a low reliance on foreign markets. Traditional local firms with overseas commercial outlets abroad are firms with a higher degree of reliance on foreign markets. On the manufacturing side there are some firms that use upstream suppliers located outside Italy in fact they reorganize their supply chain – through foreign suppliers and/or FDI – internationally. Finally, the model of open networks represents the most complete model of internationalization, as it is able to integrate a strong and direct control on final markets worldwide with a remarkable international extension of the supply chain and manufacturing activities. They are leading firms that have been able to extend their value chain beyond the district borders and manage global networks in a completely different way with respect to the traditional model of industrial district firm, organized mainly on local base.

So, thanks to all their specific characteristics and as we saw in the first part of this chapter, mid-sized companies are the pillar of the Italian economic framework and in the last years they had significant performances even though the 2008 crisis. In fact they left the crisis behind thanks also to Italian entrepreneurial spirit and the opportunities offered by innovation technology.

If all these companies through foreign investments extend and reinforce their local value chain internationally, by coupling local competences with skills and knowledge available in the global economy, they will become even stronger and more efficient.
CHAPTER 2. EVOLUTIONARY TRENDS OF ITALIAN FASHION AND TEXTILE SECTOR: TWO DIFFERENT MODELS

INTRODUCTION

“Fashion is not something that exists in dresses only. Fashion is in the sky, in the street, fashion has to do with ideas, the way we live, what is happening”, Coco Chanel.

Nowadays Italy is synonymous of excellence, quality and charm, all over the world. From the catwalk clothes to the leather accessories, with the prestige of Made in Italy, our country makes the rules about fashion and good life, thanks to the unique capability to link the hundreds of years old skills of the artisans with the brilliant insights of modern-days entrepreneurs.

Craftsmanship is one of the pillars of Italian economy and culture, and fashion and textile industry belongs to it.

In fact, going deeper into the composition of Made in Italy we find that the sectors in which Made in Italy makes the difference are four: the so-called 4As. These four crucial sectors are: automazione-mecchanica (=automotive, which includes means of transport net of finished vehicles, non-electronic mechanical, rubber products and plastics); alimentare (=food and beverages, with wine at the first place); abbigliamento-modà (=fashion and textile, which includes shoes, eyewear and jewellery); arredo-casa (=home furnishings, which includes wood products, furniture and tile). Until 2008 the 4As represented the 65% of the total value added of Italian manufacturing (in 2006, 142 billions of euros) and an employment of about 3,3 million of workers.

Nowadays the importance that the 4As have in the Italian economy is almost the same but the relative weight they have between themselves is changed. The automotive sector is grown a lot and this means that we have been able to grow in the medium-tech sectors also exporting automotive and mechanical products abroad. This change is an advantage also for the other sectors, because a lot of sophisticated machines have been developed also to produce shoes, textile, food, food packaging etc. So there is not a contrast between automotive-mechanical sector and the others, there’s a strict and profitable link: in many cases the machines we export, in particular in emerging countries, are the machines we
learnt to build in order to spin fabrics, produce shoes, cut marble and package foodstuffs. They are indeed the upstream part of the supply chain of our Made in Italy. No longer we just sell finished products: we sell the machines and the technologies to manufacture them (Micelli 2011).

In this chapter in fact I am going to analyse Italian fashion and textile Italian sector by some numbers, trying then to identify two different models: the first highly internationalized, with a supply chain spread all over the world, focused on distribution, and “styled-in-Italy-oriented”, rather then “made-in-Italy-oriented”; the second is less international, more focused on the high quality of the product and absolutely “made-in-Italy-oriented”.

2.1 Italian Fashion and Textile sector

Fashion is an excellence sector of Italian manufacturing production. Fashion industry success in Italy is certainly linked to dynamism, continuous innovation, originality and quality of its products, which meet consumers’ tastes and expectations throughout the world.

The entirety of the value chain is another factor that contributed to the achievements of Italian fashion system. In fact, Italy is still a brilliant leader in all the phases of the value chain: from the manufacturing of fibres, yarns and fabrics, to the creation of clothes and the finishing of final products.

Upstream and downstream integration of the fashion-textile value chain has been facilitated by the presence of a strong mechanical industry, which produces machines and systems for this sector.

Also the organization of Italian industry in districts has been very important for the development of this sector. Big fashion and luxury brands coexist with small and medium enterprises diffusely in the whole territory, where they form a network of production relationships, which are typical of the Italian industrial organization. High-tech and advanced organizational forms are linked with specialized and creative craftsmanship, handed down from generation to generation, succeeding in the production of high quality and styled artefacts, famous all over the world. Firms size, in an even more globalized economy, is one of the critical factors for the companies success, and the presence of a sophisticated production network allowed a lot of small and medium enterprises (SMEs) to obtain high performances like the bigger ones, being still competitive at international level.
Finally, also the so-called “Effetto Rinascimento”, which is the contribution of Italian art, monuments and history to the development of a natural sense of beauty and aesthetic, is considered a key factor for Italian fashion industry. It’s not by chance that right in Italy, which has the richest artistic heritage in the world, there is an excellent fashion and furniture industry.

So Italy was able, in spite of some inefficiencies, to link its creative heritage with its technological know how, creating a flourishing and always innovative industry able to be inspired by Italian lifestyle, art and historical and cultural heritage.

The global economic crisis is forcing firms to reconfirm continuously their value and the uniqueness of their products and style, and Italy, in this situation, is still having a central role in the international fashion field.

Figure 2: Principal markets per global market share in manufacturing labour-intensive-tradable products segment. Source: IHS Insights, November 2012; McKinsey Global Institute analysis.

As highlighted in the figure above, in fact, despite China’s domination which holds the 36% of the total value added of the ten biggest economies of the world (into the 7% of the
global value added coming from labour-intensive-tradable segment), Italy maintains a surprisingly high market share in the reference segment with a specialization in high-end clothes and leather accessories\(^{13}\).

Italian fashion and textile sector indeed is composed by firms that not only simply export their products, but they export also the Italian image, which is connected to beauty, quality and creativity. It’s about medium-high end products, in which Made in Italy is linked with values like quality, professionalism and experience. So, it is essential to enhance Made in Italy in the foreign consumers’ perception, especially those which come from emerging countries. It is a difficult period from the economic point of view, domestic consumption decreased, also because of cherry-picking which sacrifices products with a high unit-value. The domestic economic stagnation obligates us to focus on foreign markets, and Made in Italy must be a really important starting point.

2.1.1 Some data and numbers about the sector in 2015-2016

Italian fashion and textile sector leads the world in terms of quality of products, and for this reason Made in Italy is admired and appreciated all over the world, as well as it is “copied” from a lot of countries. Also with reference to foreign competition (especially of China), Italy maintained – with some difficulties – its favourable position in the global market. In this context in fact Italian textile industry had to deal with important modifications, and the adjustment path to the new requirements has been sometimes slow, but anyway satisfying.

The current “photograph” of the Italian textile industry shows us a country characterized by strong expansionist ambitions.

It is also important to highlight that the world stage is variable in the last period: terrorist attacks, Greek and Russian crisis and various currency fluctuations, necessarily modified sector forecasts in negative for 2016.

Moreover, after the important downsizing processes done after the economic crisis, Italian textile companies are dealing with an adjustment period and, at the same time, a structures balance period, all these things lead to a growing sector stability at global level.

Finally, always considering the troubled and instable world stage, it is possible to say that the Italian fashion and textile sector is slowly growing up, thanks also to the malleability

\(^{13}\) According to the Mckinsey Institute report, the labour-intensive-tradable segment includes textile industry, fashion and leather, furniture, jewellery and “other manufacturing products not classified elsewhere. Textile and fashion are the most important both from the point of view of the added value and of employment.
by which its firms are characterized, thanks to their predisposition to meet positively market changes, but overall thanks to products quality and exclusivity and to a continuous move towards innovative solutions.

Data, in this sense, are clear: we are talking about 52,4 billions of production in 2015, 202.700 employers, trade balance of more than 8,5 billion of euros. The textile and fashion industry is a very important sector for our country’s economy and it generates a trade balance surplus second only to mechanical sector. The international competitiveness of the system comes from investments in innovation, product R&D, style of production, know-how and synergic collaboration between the different phases of the value chain.

The Italian supply is collocated in the high-end segment and it turns both to traditional target markets like Europe, Russia, United States and Japan, and to new emerging realities: Asian countries, China and obviously Japan. In these markets a large number of firms, usually medium-big sized, has achieved excellent results thanks to a continuous product qualification process and to a supply positioning in segments with more added value.

In the face of a slow growing process of mature markets, the opportunities in the emerging countries are becoming interesting, provided that firms are able to seize the ample opportunities offered by the growing incomes of that countries’ consumers, bringing them closer to Made in Italy offer. Figures prove that in this field Italy represents an excellence at world level, growing both in production and in exports.

Unfortunately, pre-crisis years’ data are different. And this has meant a reduction of companies and employers.

First of all, 2015, consulting SMI (Sistema Moda Italia) data\textsuperscript{14}, presents a moderately growing turnover (+0,6%), compared to the same figure of 2014. There are about 330 million more, divided between textile industry (+0,4%) and fashion industry (+0,8%), with some sectors of the complex value chain that closed the year with a loss.

In the same year export, grew by +2,1% despite a sharp fall in the third quarter, passes to 29.056 billion euros, thereby ensuring an impact on the total revenues of 55,5%. Italy is the third exporter in the world in the fashion and textile sector after China and Germany. EU trade showed a brighter increase, equal to +2,5%, while the extra EU trade has increased on average by +1,6%.

Import confirms its growing by a significant +5,4%; textile products import grows by +2,7%, while finished products import increased by +6,7%.

The combined effect of trade inflows and outflows of our country determined in 2015 a slight thinning of external surplus; the balance in fact comes down to 8,7 billion (decreasing in the 12 month of about 460 million). The sectorial surplus, anyway, contributes to the 9,2% of the Italian manufacturing industry’s budget balance.

As highlighted in Table 9, in 2015 the domestic market had a variation of 0,6%. Apparent consumption (which is production plus imports minus exports), which intercepts both intermediate demand intra-supply-chain and both the final consumption of Italian families, shows a decrease, equal to -0,7%.

In more detail, the textile-fashion sell-out in Italy (relating to resident families) reveals a new contraction, however smaller than the recent years, corresponding to -2,0% in current terms (Sita Ricerca data). For the textile intermediate demand the decrease is, instead of, estimated at -0,4%.

During 2015 the decreasing of the number of companies and of employers didn’t stop. Nevertheless, it is important to underline that the decrease is restrained, compared to previous years.

On the basis of SMI (Sistema Moda Italia) calculations on the chamber-based data, firms show an annual average downturn equal to -1,1% (corresponding about to 540 units closed) that leads to estimate 47.079 businesses active (industrial and not).
From the point of view of labour market, employers drop to about 402,770, registering a decline of -0,9%, to which corresponds a loss of employment equal about to three thousand and six hundred workers.

The 2016 possible scenario elaborated by SMI\textsuperscript{15}, confirms for the sector, in the light of the international macroeconomic framework\textsuperscript{16}, a continuation of the trend experienced in 2015, so favourable but still moderate.

If we look at the first half of 2016, the econometric analysis present, first of all, an increasing turnover by a maximum of +0,9%, average of a variation equal to +0,6% in textile industry and +1,1% in fashion industry. These data have been revised downwards compared to the forecasts developed in December 2015.

Final figures available at this stage, but limited to the period from January to March, show a slightly rising export (+0,8%), instead of import reverses the trend and marks a setback equal to -0,7% (import grew of about +8,2 in the first quarter of 2015).

With respect to foreign sales, the two sectors of the industry, which are textile and fashion, mark respectively a growth of +3,5% and a slowdown of -0,5%. Instead of the import of semi-finished textile goods increases by +3%, the import of finished clothes decreases by -2,5%.

From the markets point of view, EU export marks a +1,7% (with all the principal markets which are positive), instead of sales beyond Europe do not exceed -0,4%. With reference to supply areas, intra-EU earns +4,4% (also thanks to Belgium), instead of extra-EU decreases by -4,2% (with China at -12,9%).

With reference to the twelve months of the current year, the scenario for the sector remains almost monotonous and flat. In line with what expected for the first part of the year, the forecasting model SMI-LIUC states for the overall turnover a growth of +1% compared to 2015. The upstream part of the value chain should mark a +0,8% increase throughout the twelve months, while the downstream part of the chain should mark an evolution equal to +1,5%. The sectorial turnover in this way is expected to exceed 52,9 billion euros.

Talking about foreign trade, export is estimated to have somewhat lower rates than during 2015, about +1,9%.

\textsuperscript{15} Sistema Moda Italia has elaborated these data thanks to the collaboration of Professor Serati, Associate Professor of economic policy at the Università Carlo Cattaneo – LIUC di Castellanza, who developed an ad hoc econometrics model for the textile-fashion trends analysis.

\textsuperscript{16} Among the inputs of the econometric model, the International Monetary Fund scenario analysis have been considered, they forecast a growth of global GDP of +3,1 in 2016, more or less a stability of energy prices (Eurostat), and, particularly important for the model, an exchange ratio euro/dollar of about 1,12.
In parallel import, after two years of robust growth, would slow down at +1%, with a total value of 20.547 million. So thanks to these estimates about foreign trade, the trade balance will grow again, thereby returning about to 9.1 billion (+5.0% compared to 2015, with an absolute change of about 460 million euros, in this way equalizing the 2015 loss).

In 2016 a slight increase is forecasted in the apparent consumption (a variable that intercepts both the intra-chain demand and the Italian families’ final consumption), by a maximum of +0.5%.

During 2016 active companies and their employer, in line with the past year, would be interested by slight decreases. In particular, companies are estimated in flection of -0.4% (corresponding more or less to 200 units), while employers will decrease by -0.2% (corresponding about to 800 workers).
It is important to say that the 2016 scenario of the Italian fashion-textile sector, moderately positive considering the statistics, could be easily weakened by the complex situation and the fragility of the context.

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fatturato</td>
<td>49,660</td>
<td>52,768</td>
<td>51,090</td>
<td>50,720</td>
<td>50,066</td>
<td>52,399</td>
<td>52,923</td>
</tr>
<tr>
<td>Var. %</td>
<td>6.3</td>
<td>-3.2</td>
<td>-0.7</td>
<td>2.7</td>
<td>0.6</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Valore della Produzione</td>
<td>24,846</td>
<td>36,239</td>
<td>35,520</td>
<td>35,433</td>
<td>35,134</td>
<td>34,502</td>
<td>34,433</td>
</tr>
<tr>
<td>Var. %</td>
<td>4.0</td>
<td>-2.0</td>
<td>-0.2</td>
<td>-0.8</td>
<td>-1.8</td>
<td>-0.2</td>
<td></td>
</tr>
<tr>
<td>Esportazioni</td>
<td>24,694</td>
<td>26,911</td>
<td>26,958</td>
<td>27,414</td>
<td>29,467</td>
<td>29,056</td>
<td>29,608</td>
</tr>
<tr>
<td>Var. %</td>
<td>9.1</td>
<td>-0.2</td>
<td>1.7</td>
<td>3.8</td>
<td>2.1</td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td>Importazioni</td>
<td>18,556</td>
<td>20,342</td>
<td>18,126</td>
<td>17,868</td>
<td>19,299</td>
<td>20,344</td>
<td>20,547</td>
</tr>
<tr>
<td>Var. %</td>
<td>9.6</td>
<td>-10.9</td>
<td>-1.4</td>
<td>8.0</td>
<td>5.4</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Saldo commerciale</td>
<td>6,039</td>
<td>6,569</td>
<td>8,832</td>
<td>9,545</td>
<td>9,168</td>
<td>8,712</td>
<td>9,148</td>
</tr>
<tr>
<td>Var. %</td>
<td>8.8</td>
<td>34.5</td>
<td>8.1</td>
<td>-3.9</td>
<td>-5.0</td>
<td>5.0</td>
<td></td>
</tr>
<tr>
<td>Consumo apparente</td>
<td>28,807</td>
<td>29,670</td>
<td>26,688</td>
<td>25,887</td>
<td>25,955</td>
<td>25,790</td>
<td>25,939</td>
</tr>
<tr>
<td>Var. %</td>
<td>3.0</td>
<td>-1.0</td>
<td>-3.0</td>
<td>0.3</td>
<td>-0.7</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>Aziende (no.)</td>
<td>53,035</td>
<td>51,873</td>
<td>50,039</td>
<td>48,589</td>
<td>47,619</td>
<td>47,079</td>
<td>46,891</td>
</tr>
<tr>
<td>Var. %</td>
<td>2.3</td>
<td>-3.5</td>
<td>-2.9</td>
<td>-2.0</td>
<td>-1.1</td>
<td>-0.4</td>
<td></td>
</tr>
<tr>
<td>Addetti (migliaia)</td>
<td>458,6</td>
<td>446,9</td>
<td>423,3</td>
<td>412,3</td>
<td>406,4</td>
<td>402,8</td>
<td>402,0</td>
</tr>
<tr>
<td>Var. %</td>
<td>-2.6</td>
<td>-5.3</td>
<td>-2.6</td>
<td>-1.4</td>
<td>-0.9</td>
<td>-0.2</td>
<td></td>
</tr>
<tr>
<td>Indicatori strutturali (%)</td>
<td>Export/Fatturato</td>
<td>49.5</td>
<td>51.0</td>
<td>52.8</td>
<td>54.0</td>
<td>54.7</td>
<td>55.5</td>
</tr>
</tbody>
</table>

Table 10: Italian textile and fashion industry (2010-2016*). Million euros. Source: SMI on ISTAT, Sita Ricerca, Movimprese, Indagini Interne. *SMI-LUIC estimates.

2.1.2 Foreign trade in greater detail

As said before, in 2015 Italian textile and fashion export has grown by +2.1%, while import by +5.4%.

In order to go deeper in the foreign trade trends, let’s analyse import and export in terms of product profile and from the geographic point of view.

Under product profile, there is a generalised positive dynamic (even if it is of restrained entity), with the only exception of yarns (-1.9%) and hosiery (-11.4%). Fabrics, taken together, do not go beyond a +1% of growth, while household textiles increase by +4.9%, still remaining under the threshold of 500 million euros. Knitwear has a growing export by +4.7%, while made-up clothing does not go beyond the +1.7%.

Looking at the import, only yarns and hosiery have a decrease (respectively equal to -1.2% and -2.4%). Fabrics’ import grows by +3%, with a rhythm not far from +2.4%, which
interested household textiles. The best dynamism is in the clothes, in increasing by +7,1%, followed by knitwear with +6,8%.

<table>
<thead>
<tr>
<th></th>
<th>Import Min. euro</th>
<th>Var. %</th>
<th>Export Min. euro</th>
<th>Var. %</th>
<th>Saldo Min. euro</th>
</tr>
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<tbody>
<tr>
<td>TESSILE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Tops</td>
<td>336</td>
<td>0,8</td>
<td>151</td>
<td>3,8</td>
<td>-186</td>
</tr>
<tr>
<td>- Filati</td>
<td>1 852</td>
<td>-1,2</td>
<td>1 944</td>
<td>-1,9</td>
<td>-8</td>
</tr>
<tr>
<td>- Tessuti</td>
<td>1 900</td>
<td>3,0</td>
<td>4 352</td>
<td>1,0</td>
<td>2 451</td>
</tr>
<tr>
<td>- Tessile arredo/casa</td>
<td>745</td>
<td>2,4</td>
<td>470</td>
<td>4,9</td>
<td>-275</td>
</tr>
<tr>
<td>- Altri prod. tessii</td>
<td>1 588</td>
<td>8,1</td>
<td>3062</td>
<td>6,4</td>
<td>1 474</td>
</tr>
<tr>
<td>MODA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Maglieria</td>
<td>6 386</td>
<td>6,6</td>
<td>6 679</td>
<td>4,7</td>
<td>293</td>
</tr>
<tr>
<td>- Abbigliamento</td>
<td>7 083</td>
<td>7,1</td>
<td>11 680</td>
<td>1,7</td>
<td>4 597</td>
</tr>
<tr>
<td>- Calzetteria</td>
<td>353</td>
<td>-2,4</td>
<td>719</td>
<td>-11,4</td>
<td>366</td>
</tr>
<tr>
<td>TOTALE TM</td>
<td>20 344</td>
<td>5,4</td>
<td>20 056</td>
<td>2,1</td>
<td>8 712</td>
</tr>
</tbody>
</table>

Table 11: Italian Fashion-textile industry export in 2015 per product category in million euros. Source: SMI on ISTAT

From the geographical point of view, we have already seen that the Community export has grown by +2,5%, and extra-EU export has grown by 1,6%.


Considering the Community framework, Germany and France, also in 2015 confirm themselves the first and the second market for the Italian fashion and textile industry, but
Germany does not go beyond +1,1%, while France decreases by -1,8%. Still looking at European markets, it is important to underline the UK performance +10,5%; and also Spain confirms its positivity increasing by +7,5%.

With respect to extra-European markets, export to the USA, third market for Made in Italy and first not-EU, is favourable, thanks to a growth by +17,3%, equal to more than 2,1 billion euros. The United States of America are expected to maintain a certain double-digit increase also in 2016. Also Hong Kong and China, relatively to fashion-textile productions, are confirmed positive, with a growth respectively of 13,1% and 10%, even if hardly they will reach in 2016 a double-digit growth. Russia, that in 2015 lost more than 30%, should recover the loss, thereby returning to end of 2014 levels.

<table>
<thead>
<tr>
<th></th>
<th>Milioni € Anno 2015</th>
<th>Var. % 15/14</th>
<th>Incid. % su totale</th>
<th>Scenario 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Totale Tessile-Moda</td>
<td>29 056</td>
<td>2,1</td>
<td>100,0</td>
<td>Moderata crescita</td>
</tr>
<tr>
<td>TOTALE INTRA-UE</td>
<td>15 991</td>
<td>2,5</td>
<td>55,0</td>
<td>Moderata crescita</td>
</tr>
<tr>
<td>TOTALE EXTRA-UE</td>
<td>13 065</td>
<td>1,6</td>
<td>45,0</td>
<td>Moderata crescita</td>
</tr>
<tr>
<td>di cui</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stati Uniti</td>
<td>2 128</td>
<td>17,3</td>
<td>7,3</td>
<td>Crescita double-digit</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>1 607</td>
<td>13,1</td>
<td>5,5</td>
<td>Crescita</td>
</tr>
<tr>
<td>Cina</td>
<td>961</td>
<td>10,0</td>
<td>3,3</td>
<td>Crescita</td>
</tr>
<tr>
<td>Giappone</td>
<td>938</td>
<td>2,2</td>
<td>3,2</td>
<td>Crescita</td>
</tr>
<tr>
<td>Russia</td>
<td>872</td>
<td>-31,2</td>
<td>3,0</td>
<td>Recupero</td>
</tr>
</tbody>
</table>

Table 12: Fashion and textile Italian industry: across the border performances of 2015 and prospect for 2016. Source: SMI on ISTAT.

With reference to supply partners, also in 2015, and for several years now, firmly at the top there is China, which, left the 2012-2013 declining trend, is still increasing by +5,6%, covering in this way the 22,6% of the total import for fashion and textile.

Imports from France and Germany, second and third partner, show a double trend: the first is increasing by +10,8%; the second is decreasing by -1,6%. Turkey, the fourth partner, slows to +0,9%. Instead of, import from Spain (+10%) and Bangladesh (+24,2%) are interested by double-digit increases.

In table 13 are shown the most important countries with which Italy exports and imports fashion and textile products.
Table 13: Italian fashion and textile foreign trade in 2015 by country. On the left column: import (principal suppliers); on the right column: exports (principal clients). Source: SMI on ISTAT data.

As a conclusion of this paragraph is important to say that in the world, in the last fifteen years, the economic growth of emerging countries, the so called BRICS (Brazil, Russia, India and China) has been supporting the establishment of a new middle class. This new class has expressed a strong demand for fashion, which exceeded one thousand billion dollars of total turnover in 2012. Italy has greatly benefited from this progress becoming, together with France, the principal exporting country of high-end fashion, with our top brands, which have been continuously reaffirming themselves in the world.

The future is now full of uncertainties, especially due to the deterioration of the economic situation of the emerging countries, which influences undoubtedly Italian exports. At
global level there are also open questions like the use of child labour in production and environmental sustainability.

### 2.1.3 Top brands results

In this paragraph I will analyse top brands results, a panel of 143 companies (Aziende Moda Italia) elaborated by Area Studi Mediobanca\(^\text{17}\). These companies are based in Italy and they are: 127 manufacturing companies and 16 retail companies. Into these 143 companies there are 15 companies analysed by R&S-Mediobanca called Top15Moda Italia, which includes the major players of the sector\(^\text{18}\), they all have a turnover of at least 100 million euros in 2014. Each company belongs to a sector according to its main activity: clothing (59 companies), textile (20), leather goods and footwear (32), jewellery (11), eyewear (5) and retail companies (16). Geographically these companies operate mainly in the North of Italy (56 in the North-West and 55 in the North-East), the remaining 32 in the Centre-South and Islands.

In the period between 2010 and 2014, the aggregate revenues of Aziende Moda Italia have had a progression of 27,7% (+29,3% for manufacturing and +16,3% for retail): from the 45,5 billion of 2010 to 58,1 billion of 2014.

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\(^{18}\) Gucci and Bottega Veneta are out from Top15Moda Italia because they belong to Kering Group. Kering Group was founded by Francois Pinault in 1963 and in 2014 had a turnover of 10.038 million, it is the third in France for revenues in fashion sector after LVMH and L’Oreal. Kering Group is followed by Chanel and Hermès.
The most important increases affected jewellery (+50,8%), saddlery (+40%) and eyewear (+28%); textile and fashion (both at 23,8%) are below the average. The aggregate of Top15Moda Italia has registered a more considerable progression: +30,8% that is from 21,3 billion euros of 2010 to 27,8 billion euros of 2014; the most important increase has been the growth of Prada (+73,5%), followed by Ferragamo (+70,8%), Calzedonia (+63,8%), Moncler (61,9%) e Armani (59,7%). Benetton (-20,6%) and D&G (-5,7%) are in slight decrease. The Luxottica revenues of 2014, far greater than Top15Moda companies, amount to 7.652 million euros, followed by Prada (3.552) and Armani (2.535); the rest of the companies stay under 2 billion euros.
2.2 Two different models

In the next paragraph I am going to analyse the two different trends of Italian fashion and textile industry. Both of them still have success in terms of sales and revenues, but they are organized in two completely different ways.

The first model analysed could be rapidly described as “styled-in-Italy-oriented”, because more or less on that description is founded its strategy. It is focalised on distribution and it is highly internationalised, not only because it has high sales and exports all over the world, but also because it has got a fragmented and internationalised global value chain. A shining example in the Italian economic landscape of this model is Calzedonia S.p.A., which is, as I highlighted in the previous paragraph, at the fourth place for revenues (1.296,253,821 €) of the Top15Moda Italia, which includes the major players of the fashion and textile sector.

After Luxottica, the undisputed leader of Top15Moda list, at the second and third place we found respectively Prada and Armani. These two companies belong to the other business model that I am going to analyse in this paragraph. The second model is describable as
“Made-in-Italy-oriented”, it is less internationalized than the first in terms of value chain, more focused on a high-quality product, almost totally Made in Italy.

2.2.1 "Styled-in-Italy-Oriented" model: Calzedonia Spa case study

As I said before, Calzedonia Spa is a virtuous example of what I call a “Styled-in-Italy-oriented” business model. This model can also be individuated with the expression “fast fashion”, even though nowadays in the common language it has become a quite depreciative expression.

With a turnover of 1.8 billion euros in 2014, the company situated in Verona (North-East of Italy), is one of the major Italian and European fast fashion companies and it uses a production and distribution chain very similar to the one used by one of the principal world fashion retailers, Inditex. Calzedonia is deeply rooted in our territory and well known not only in Italy but also abroad.

“To democratize” is the verb that Sandro Veronesi, founder of Calzedonia loves to use most to express the business philosophy of his group which produces socks, tights, swimwear and underwear. In 1986 he implemented this concept when he had the vision to sell hosiery for men and women in “one-product” shops, in contrast to the habits of that time when hosiery was normally sold in haberdasher’s shops or in the supermarkets. A 27 year-old man, in a short time, has made of hosiery the main goods of his shops making of it a cult product.

In 1997 he created Intimissimi, which sells lingerie both for men and women. Its target of clients spreads from 15 year-old people to 60 and offers quite romantic and sensual products at reasonable prices, with a medium-high quality of materials. Nowadays Intimissimi has got more than 1.200 stores in 31 different countries, Russia, Mexico and the USA included19.

In 2003 Tezenis was added to the group. It is a low cost brand of underwear and pyjamas for men, women and children. The clothes sold in Tezenis are more basic and with a younger target than Intimissimi. Nowadays this brand counts 300 shops in Italy and 100 abroad20.

In 2009 also Falconeri joined the group. It is a knitwear brand (totally acquired in 2013), which has 41 stores in Italy and Russia21.

19 Source of data: www.intimissimi.com
20 Source of data: www.tezenis.com
21 Source of data: www.falconeri.com
At the end of 2012 Calzedonia group had about 3,300 shops all over the world localized in many different countries with about 26,000 employers, 3,300 of them in Italy employed in boutiques and factories. Women are the 92% of the workers and the most of them are less than 30 years old.

Calzedonia has been a successful brand for 25 years thanks to many different reasons: a wide range of items offered, strong brand identity, competitiveness of value for money and relevant investments in communication. This success is demonstrated by the value of net assets equal to 1.242.871 euros in 2014 (relative to consolidated financial statements of Calzedonia holding which leads the group)\(^{22}\).

So, how does Calzedonia business model work?

Until Nineties, underwear was considered a functional product, which was sold at a low cost in big department stores, or sold in luxury shops at a higher price given its high quality (for example LaPerla).

As we have just seen, in 1997 Intimissimi was born and it has deeply changed the concept of lingerie in Italy, proposing coloured underwear (before, only basic colours like white and black were produced) with a certain allure and elegance. Intimissimi underwear is sold in flagship stores with a very glamour and sophisticated concept.

But the key element of Calzedonia Group business model is the ability in understanding the consumers’ preferences and the fashion trends, thanks to its closeness to fashion markets and creators. The articles proposed are very varied and classy, but of medium-low quality.

These products, normally, are available in the shops for about one month; samples are made in a single day and small orders can be ready in just one week in order to be quickly tested on the market.

As I previously said, it is easy to understand how these companies have got a supply chain that allows them to get raw materials, produce samples and send them in a shorter time then in the past. In this way however the quality of the products is sacrificed, with the aim to maintain a lower price and produce them in a very short time.

In fact, in the fast fashion system, the process that goes from collection design to its presentation to the customers lasts only a few weeks (from 4 to 6 usually). For this reason, fast fashion retail companies still gain higher market share. This means that retailers quickly answer to demand changes.

Another characteristic of fast fashion retailers is the ability to offer fashionable products in spite of low prices; these products show an enhanced design and have a higher intrinsic value for the client, who will buy them soon. Short response time and fashion design are key elements for these business organisations. An “agile supply chain” is the essential characteristic in order to put into practice what I have just said. It is a new value chain typical of fast fashion companies; it is fast and shows a leaner structure in order to react quickly to the frequent changes of fashion system.

The agile supply chain is:

- Market sensitive: it is closely connected to end-user trends;
- Virtual: it relies on shared information across all supply chain partners;
- Network-based: it gains flexibility by using the strengths of specialist players;
- Process aligned: it has a high degree of process interconnectivity between the network members\(^\text{23}\).

Analysing in particular the third of these four characteristics, we notice that the presence of a flexible network is fundamental for a “Styled-in-Italy-oriented” company like Calzedonia.

The head office role in this type of network is comparable with a theatre director: during the season in which the show is put on, he or she makes use of a specific group of actors with which he/she collaborates until the beginning of the next theatre program, for which he or she will make use of a different team of actors.

The externalization of a part of the network in fact is beneficial not only for the company, which has a considerable advantage in terms of cost because it delegates to more expert figures tasks which it could not put in practice itself, but also for the supplier that receives from the bigger company a significant financial, logistic and know-how support.

Dealings with suppliers, however, though they may be direct, have the tendency to be temporary, but the fact to have the possibility to change continuously contributes to confer more flexibility to the value chain.

Another characteristic of this business model is outsourcing, as a consequence of globalization. The world fashion and textile companies in fact cannot ignore the globalization phenomenon, because, more than ever, speed and variety are a necessity. Until ‘80s it was widespread the belief that only in the USA and in Italy it was possible to have the clothing industry, because only in those countries there were the competencies

that were necessary to manufacture high quality made-to-measure clothes, which could not be replicated in other countries. At a later time, however, lots of fashion retailers began to change their strategy giving more importance to a system with more variety in order to reach different market segments. This system at the same time offered trend articles, taking inspiration from haute couture collections.

These transformations in the fashion industry favoured the relocation of the manufacturing industry from the more developed Western states to the low-income Eastern states in Asia and North Africa, these states developed, during ‘90s, a lot of significant competencies in textile. In a few times, they started to produce medium-quality products, also with complicated weaves, in a really short time.

All these things led a lot of companies to buy semi-finished products in those countries where labour cost is lower, with the consequent birth of new international business alliances.

Initially, the countries more chosen for the outsourcing of European companies were former Yugoslav countries like Romania and Hungary, then North Africa countries with Morocco and Tunisia.

In the last ten years, indeed, two new protagonists came to light in the global scenario: China and India, which became the most preferred destinations for the delocalization of a lot of production activities, thanks to the extremely low labour cost.

Nowadays it is difficult to find a fashion retailer that does not have any activity in a country different from the belonging one: Italian companies, for example, have created a lot of commercial and production networks with Chinese companies in the last thirty years, so that nowadays it has become more difficult than in the past to buy an article entirely imagined, designed and produced in Italy.

Calzedonia beach-wear collections and Intimissimi under-wear collections and also Tezenis products are imagined, designed and studied in Italy (style, marketing and prototyping departments are in Italy), but produced in other countries of the world. And it is precisely for this reason that I decided to entitle this paragraph “styled-in-Italy oriented” business model.

Calzedonia group, in fact, owns four production plants in Italy, eight plants in Eastern Europe (Croatia, Romania, Bulgaria and Serbia), and six plants in Sri Lanka.

However, the distinctive trait of the Calzedonia group is the vertically integrated structure: the design, the production and the distribution of all the products are all managed directly or through affiliates. This is an original formula compared to the market standards: every
step – from the idea to the finished product – belongs to Calzedonia’s world. In fact, its history of about thirty years is the result of careful choices and of a never accidental success, that affected every aspect of the company and that is recognizable into the DNA of every product.

All these things led Calzedonia to the success of the last years: it is, for all intents and purposes, one of the sector leaders at international level and it comes close to being one of the fewest fashion companies with more than 2 billions euros of revenues. A really surprising result considering the last years economic and geopolitical shocks and the uninterrupted crisis of Italian consumption.24

2.2.2 “Made-in-Italy-oriented” model

Does “Made in …” matter? Labelling specifying the country in which a good was produced has long been a marker of quality. French ateliers, Italian leather workers and Swiss watch makers have built global reputation for their exacting standards. Today “Made in …” labelling is also an indicator of the regulations and health, safety and wage standards under which a good was produced.

But in a world with increasingly complex supply chains that can span several countries, a jacket sold by a European brand can be manufactured in a cheap and relatively unregulated labour market like China, but finished and packaged in France or Italy, thereby earning a “Made in France” or “Made in Italy” label.

Indeed, according to EU regulations, companies need only spend a certain amount manufacturing a good in a certain country in order to qualify for local “made in …” labelling.

At the same time, powerful alternative labelling systems, like Fairtrade and Certified Organic, have emerged, offering companies new tools for communicating manufacturing standards to consumers, who are increasingly concerned with the provenance of their goods. So, does “Made in …” still matter?

In this paragraph I will talk about the culture of Made in Italy, not describing a single company like in the previous paragraph, but I will mention more than one firm or brand that belong to the “Made-in-Italy-oriented” business model. Because, despite of what said previously, “Made in …” still matters and a lot of Italian companies believe in it.

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Made in Italy is a commercial brand that states that a product is exclusively design, manufactured and wrapped in Italy.\textsuperscript{25} From fashion to shoes, from furniture to food, from automation to scientific discoveries Made in Italy has always added something unique to products and to Italy compared to other countries.

According to a KPMG research, “Made in Italy” is one of the most known and appreciated brands in the world, more precisely it stands at the third place in terms of notoriety after Coca-Cola and Visa.\textsuperscript{26}

Three hundred KPMG partners coming from the principal geographic areas of the world participated in the study and they were asked about their perception of the Made in Italy brand.

It was also found (Graph 9) that the values more linked to Made in Italy are: Aesthetic/Beauty (82%), Luxury/Comfort (72%) and Passion (58%). On the contrary the less linked are: Innovation (11%) and Technology (4%).

Moreover (Graph 10), the sectors that represent Made in Italy in the best way are: Fashion and accessories (100%), Food and wine (90%), and Furniture and design (71%). The less

\textsuperscript{25} Legge 135, 25 Settembre 2009
\textsuperscript{26} MASERA F., KPMG, (made in) Italy wins?, pdf available on: https://www.kpmg.com/IT/it/IssuesAndInsights/Events/Documents/KPMGFrancoMasera.pdf
representative are: Robotics and electronics (5%), and Renewable energy technologies (2%).

Graph 10: More representative sectors for Made in Italy. Source: www.kpmg.com

Finally, among the points of strength of Made in Italy we found Aesthetic and Quality (Graph11). Instead the weaknesses are the ratio Quality/Price and Innovation Technology (Graph 12).

Graph 11: Strenghts of Made in Italy compared to other Made in. Source: www.kpmg.com
Made in Italy is therefore the brand of savoir-faire, strong connotative and distinctive factor for our country, and it is, for this reason, source of pride for all Italian entrepreneurs. The basis and the sense of Made in Italy come from the strict link between product and culture, also together with the networks, the artisanal and industrial districts, the research and development. All these things give birth, value and concreteness to Made in Italy. All the Italian products that characterise our days and also the Italian products of the past hide a complex cultural and historic evolution, and extraordinary aspects. In our country in fact there is an unlimited and available reserve of ideas, stories and practices. And now more than ever, cultural contents represent a really qualifying aspect for the offer. But after the culture that lies under every Italian product, another important ingredient that supports the rise of Made in Italy is digital technology. Digital technologies, thanks to their social and sharing dimension and to their instruments, gave to Italian craftsmanship new life with a redefinition of manufacturing to people’s eyes, and permitted to Made in Italy to have a wide distribution of products and services on the global market. The second, but not less important, aim of digital technologies and in particular of Internet and social networks is to communicate what there is behind Made in Italy products.
Marco Bettiol said in his book “Raccontare il Made in Italy”, “Made in Italy must be told, because the customer is changed and he or she wants to know all about the product he or she is buying and about the experience, the craftsmanship and the culture there are behind”. “To be able to narrate their own work became a competitive advantage for Italian fashion companies, because young people belonging to Millennials generation are more careful about the traceability of the supply chain”, said Erica Corbellini, director of Bocconi Mafed Master (Master in Fashion, Experience and Design management). These two elements (culture and digital technologies), a centennial artisanal experience and a constant research and development together with the production in Italian industrial districts, give the Made in Italy product the uniqueness by which it has always been characterized.

Italian “haute couture” companies like Fendi and Dolce & Gabbana, but also B2B textile companies like Bonotto and Berto (the company I will analyse in the next two chapters) still manufacture their products exclusively in Italy. All the goods are produced in line with the companies’ savoir-faire, also innovation products and processes when it is necessary. Moreover these brands and also other Made in Italy brands used the figure of their artisans at work in their advertising or spots in fashion magazines and web sites. The explicit intention of this strategy is to highlight the commitment and the dedication that are necessary in order to realise a luxury, authentic and Made in Italy product.

Also Amazon, the largest Internet based retailer in the world, in October 2015, opened a section totally dedicated to Made in Italy. “Hundreds of products to live the Italian style” is the sentence that appears when you open the Made in Italy Amazon store. There, customers will find products that are manufactured in Italy by artisans and local businesses, which demonstrate Italian excellence. Amazon’s opening of Made in Italy store is an emblematic example of a perfect match of craftsmanship and technological innovation: also the smallest Italian artisans have, thanks to this e-commerce platform, the possibility to sell their hand made products all over the world.

Talking about the brand Fendi, it has been always seen as a synonymous of high quality, modernity and forefront manufacturing. In Fendi’s vision Made in Italy is a recognisable expression of an elegant and harmonious lifestyle, and it boasts a great and profound heritage, deep-rooted in history. All Fendi’s products recall Italian culture and that elegant and harmonious lifestyle typical of Made in Italy.
Fendi also demonstrated great interest for one of the most famous and recognizable Italian monuments: “Fontana di Trevi” in Rome. “In 2013, Fendi and the city of Rome wrote a new chapter in their success story, further consolidating a longstanding relationship. Fendi for Fountains is an ambitious project that will revive the original lustre of Rome's landmark fountains, a tribute to beauty and savoir-faire that celebrates Italian art, history and culture”\(^{27}\). In this way “Fendi for Fountains” project is described in Fendi web site. “It's our duty to pay tribute to the city of Rome, which has given us so much and is part of Fendi’s creative heritage” said Silvia Venturini Fendi artistic director for Fendi accessories. As a beautiful conclusion of “Fendi for Fountains” project for Fontana di Trevi and to celebrate Fendi 90\(^{\text{th}}\) anniversary, when the restoration was finished, a spectacular catwalk was organized in July 2016. Models marched over a glass runway over the water of Trevi Fountain contributing to put on a wonderful show on a breath-taking stage.

![Image of Fendi catwalk](image)

**Figure 3: Fendi catwalk on the Fontana di Trevi in July 2016.**

But nobody more than Dolce & Gabbana brand is now recalling, with its collections the Italian style. In the last years Domenico Dolce and Stefano Gabbana have dedicated their products to Italian traditions. The quality of bags, shoes and clothes is really high, and their style remembers lot lifestyles, cities, regions and traditions typical of Italy.

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\(^{27}\) www.fendi.it
In an interview from mffashion.it, the two stylists said that, for them, Made in Italy is something to be proud of, a treasure for Italian people, which must be defended and protected as much as possible. For this reason they made Italy and Made in Italy a fundamental part of their DNA. As said before Dolce & Gabbana brand is strictly linked to Italy, and Italy is founded on values loved by Domenico Dolce e Stefano Gabbana, on which they believe, and which they show in everything they create. All their jewellery, watches, bags, shoes, and clothes have the taste of Italy. With their collections, Domenico Dolce said, they wanted to pay tribute to Italian craftsmanship, to handmade and to everything is produced in our country by Italian people who love the land where they live. Also Dolce & Gabbana, like Fendi did in Rome, organized a special show in Summer 2016: their catwalk was set through the alleys of Naples.

The adventurous and forward-looking choice of these stylists to link brands to Italian iconic places has given to Made in Italy more and more legitimation.

Talking about Italian B2B textile industry, I want to mention Bonotto Spa, an Italian company, more precisely situated in Veneto, in the North East of Italy.

“This is creativity at its purest, in a large industrial plant where art and design have always been cultivated. This is a business that uses lateral and unconventional thinking”. With these words Bonotto Spa is described in the web site. It is a fourth-generation textile manufacturer founded by Luigi Bonotto in 1912 in order to produce, at the beginning, straw hats. Fifty years later this creative and manufacturing expertise was transformed into a jewel of textile productivity that has grown along with the Italian fashion system. The fundamental turning point and key strength of the Bonottos was, and still is, their vision and their atypical mode of operating within it. Denouncing the devaluation of the Italian textile products due to mass production, Giovanni Bonotto, the creative director of the company, has become an ambassador of a new way of thinking and producing: the concept of “Slow Factory”. The Slow Factory represents the manifesto against industrial standardisation and mass production at low cost. At the same time this concept celebrates the luxury of craftsmanship, of hand-made work and of the savoir-faire that best expresses the intrinsic Italian heritage. In Bonotto, work is first a cultural process and then a business.

Another B2B Italian textile company is Berto Industria Tessile. It is part of the denim business and it produces all its meters of textile exclusively in Italy and more precisely in a

small city near Padua, in Veneto. In the next two chapters I will deeply analyse it, a virtuous example of Italian mid-sized company involved in the textile sector and with a “Made-in-Italy-oriented” business model.

In conclusion the second trend of Italian fashion and textile industry is strictly based on Made in Italy and as a consequence on the quality of the product. The production is totally established in Italy where the labour cost is higher than in other countries, but also the quality is really high and the employees are professional and experienced. Made in Italy, as we saw at the beginning of this paragraph, is one of the best known and appreciated brands in the world, it is synonymous of savoir-faire and it distinguishes Italy from other countries. Made in Italy means creativity, quality and Italian lifestyle and it fortunately still represents the backbone of most of the Italian fashion and textile companies. And for all these reasons we have to be proud and we must support and admire this evolutionary trend of one of our most successful businesses.
CHAPTER 3. BERTO INDUSTRIA TESSILE: THE MID-SIZED FIRM OF DENIM

INTRODUCTION

“I have often said that I wish I had invented blue jeans: the most spectacular, the most practical, the most relaxed and nonchalant. They have expression, modesty, sex appeal, simplicity - all I hope for in my clothes”, Yves Saint-Laurant.

In this chapter I am going to introduce Berto E.G. Industria Tessile, a medium sized, family-run company situated in Veneto, in the North-East of Italy.

Berto is a business-to-business enterprise now involved in the denim business, that is trying to rethink its products year after year always in a new way.

Since 1887 Berto Industria Tessile has manufactured fabrics that over the centuries have been able to attract attention and stand out for quality, aesthetic research and stylistic innovation.

Particularly attentive to the traditions and philosophy of the real Made in Italy, over the time the company has managed to preserve and pass on the techniques of craftsmanship thus creating an unparalleled heritage.

After a short introduction about the company and its 130 years history, I will go deeper in the description of the denim business, with its past history and its present opportunities and threats.

As a consequence I will analyse how is Berto’s value chain organized and what are the strategies used by the company in order to take an advantage against competitors (price strategy and product strategy). The “fight” against foreign textile companies specialized in mass production is a daily operation in Berto. The company’s value chain in fact is totally established in Italy: all the operations necessary to manufacture denim textile are implemented in Italy, and more precisely in Bovolenta, a very small city near Padova.
Finally I will talk about sustainability describing how Berto is committed in the protection of the environment and of its employees’ health.

Berto is an example of Italian excellence, increasingly appreciated worldwide. With a long history of more than a century, it dedicates itself not only to fashion companies, but also to furniture and accessories companies. Berto has got a particular interest for young designers so it has dedicated them a project called “Berto for young talents”, but I will talk about it in the next chapter which will concern Berto’s marketing strategies.

3.1 The company and its history

Berto E.G. Industria Tessile was founded in 1887 in Bovolenta, a little town near Padova, by two brilliant brothers: Giuseppe and Egidio Berto.

Since its origins, Berto has been able to reinvent itself constantly.

In 1887 the company started as a little shop of home textiles and haberdashery, then from 1889 to 1920 it started manufacturing sailcloth fabrics for the sailing vessels of the near Venice. Thanks to this business, Berto has experienced the processing of fabrics.

In fact, after 10 years (1930) they moved to the production of workwear more or less until 1960, then they started to produce home textiles like tablecloths (1970). Thanks to the increasingly specialization in manufacturing of fabrics, in 1980 Berto decided to dedicate itself to the production of sophisticated shirting fabrics and finally to denim (1980-today).

The company, historically linked to its surroundings, throughout these years has increased and has strengthened the efforts to maintain the whole production in its historical establishments and today the company is proud to be part of the Italian denim production chain. For Berto Industria Tessile Made in Italy is not a mere style issue, it means Italian production chain, workers’ and territorial respect.

Berto, without any doubt, has got a long history of textile knowledge and a great devotion to work, and it is one of the few companies that have been able to preserve and transmit in different sectors their cultural baggage and their precious know-how.

This long route has now turned Berto into a strong company that offers a wide and costume made range of products, with a flexible manufacturing system.

Tradition is not synonymous with old manufacturing system, tradition is the knowledge source; for Berto tradition and innovation are not antagonists, they cooperate, the first contaminates the second and vice versa.
The company has bravely listened to the market laws and, respecting the ancient tradition, has developed sophisticated technologies in order to develop new products. In Berto the artisanal approach is perfectly linked to the modern industrial system. In fact, it is possible to define Berto as a “contemporary artisan”: technological and manual skills combined together with a modern knowledge give birth to exceptional products. Berto’s knowledge of trends, its workmanship, its craftsmanship, together with the constant research and innovation have made the company a special partner, perfect for those looking for a customized service characterized by the typical artisan care and attention. Berto has a product for all the specific customer's needs.

It is a company close to its customers, the company interacts with them not only to satisfy their business needs, but it accepts advices and it is helpful if they need customized products.

Berto’s projects take shape also in different environment, apparently not correlated with the denim world: from the accessories to the furniture, from technical fabric to haute couture.

After about 130 years of life, Berto is now an Italian mid-sized company with about 170 employees that is trying, with perseverance and optimism, to survive in the (not easy) textile and fashion industry.

Berto’s philosophy can be summed up in a sentence: thinking outside the box, far from plans that limit, that do not make a challenge, that do not innovate. The tool used to do this is the creative energy, which comes from teamwork and disruptive innovation.

Every day in Berto, original and unexpected ideas are transformed in products through passion, culture and willingness.

As leader of the company there is the fourth generation of the Berto’s family, in the person of Flavio Berto. In the last years he was able to add value to his company and to individuate new export markets, letting Berto Industria Tessile to become one of the excellences for what concerns denim made in Italy.

The research and development is a continuum in Berto: it is focused on trends, details and feelings. Thanks to R&D Berto’s creative department makes the fabrics exceptional interpreters of changing times, tastes, perceptions and history.

Finally, from the international point of view, Berto exports about the 40% of its production, in different countries of the world like Germany, Turkey, Spain, Belgium, USA, France, Holland, UK, Greece, Tunisia and Sweden.
Berto also has prestigious clients like Armani, Chanel, Dolce & Gabbana, Valentino, Manufactures de Souliers LV, Twin Set, Bottega Veneta, Prada and also denim specialists like Levis, Diesel and 7 for all mankind.

3.2 The Denim business: 143 years of jeans

Flare, skinny, delavé, high waist or low waist, also ripped, they are fashionable, I am talking about jeans. They have never been out of fashion since 1873; in that year Levi Strauss got the patent for the production of “blue jeans” with copper rivets. They are now 143 years old and their birthday is on the 20th May every year.

Everyone wears jeans, all over the world, even Italians. According to a Global Lifestyle Monitor research (they survey every two years likes, preferences and purchasing behaviours of Italian and non-Italian consumers), done for Cotton USA, every Italian has on average six pairs of jeans in his/her wardrobe.

Originally they were proposed as workwear, but they are now worn in every occasion: 51% of Italians wear jeans to go shopping, 45% during the working day.

![Figure 4: Italian people wear jeans when... Source: http://www.mffashion.com/it/archivio/2016/05/27/italy-loves-denim-il-52-li-indossa-sempre](http://www.mffashion.com/it/archivio/2016/05/27/italy-loves-denim-il-52-li-indossa-sempre)
In Italy in fact the informal style on the workplace is no more dedicated only during “casual Friday”, as opposed for example to United Kingdom, where only 16% of people wear jeans during the working day.

Trousers, shirts and skirts are the favourite garments for Italian people that own more jeans than Germans, English and Chinese. In general, 52% of Italians say that they wear denim garments regularly and almost half of them (45%) wear jeans or shorts in jeans almost 5 times a week (30% in Germany).

### 3.2.1 How the first pair of jeans was born?

Levi Strauss, “Americanisation” of the German Löb Strauß (1829-1902), in 1853 packed, said goodbye to his parents and left Germany to relocate in San Francisco. He was sure that California, in the gold-rush period, would be a good country for his family business, a clothing industry. For this purpose, Levi’s brothers, Jonas and Luis, gave him a lot of trousers, shirts and fabrics to start this new business. But during his voyage, things went differently: he sold almost all that goods to other passengers. So when he unloaded America, in the trunk there were only some fabrics for chariot marquees. This episode of Levi’s life was his fortune: he cut that fabric and manufactured a pair of really strong trousers, that were perfect for a Californian miner, tired to wear clothes that were always broken. That pair of trousers were the first Levi’s jeans of history.

Once established in the new city, Strauss created the branch of his family business, the Levi Strauss & Co. In addition to sales, during free time he made his own trousers, that became so famous for miners, but still really different from today jeans.

The transformation to modern Levi’s in fact happened gradually. The first step was to choose a more comfortable fabric, different from chariot marquees initially used, because it was too rough and uncomfortable on the skin.

Strauss chose a fabric from Nimes, a city in France, from which the word “denim” derived. This fabric has the characteristic indigo aspect deriving from the shade used to colour it.

But Strauss’s idea was not exactly new: a few decades before some sailors from Genova, Italy, have done the same thing with a bluish fabric used for ship sails. But the inventiveness of the Italians was not lost, in fact a trace remained in the name of these Strauss work trousers: blue jeans, where the first word derives from the colour, and the second is for Genes, word that means “people coming from Genova”.

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The second step forward success was thanks to a tailor: Jacob Davis (1831 – 1908), one of Strauss’s clients. In his tailor’s shop in Reno, Nevada, in 1871, Davis found a way to fix the pockets on the trousers avoiding the problem for which the pockets – full of work tools and gold nuggets – broke, leaving all fall on the floor. Devis succeeded in reinforcing workers’ trousers sticking on the more delicate points some copper rivets. Davis, eager to use his invention and to claim its authorship asked Levi Strauss to apply for the patent because Davis did not have enough money. It was a deal: the patent arrived on the 20th May 1873.

Figure 5: Patent n. 139.121 released to Levi Strauss and Jacob Davies. Source: http://union-made.blogspot.it/2012/05/great-day-in-denim-history.html

The first Levis jeans arrived directly from dressmakers’ houses, and when the requests became more and more numerous, Strauss decided to dedicate an entire industry to the production of blue jeans. It was a success and in 1886 also the trademark arrived: the leather label, synthesis of Levis product quality: two horses that pull a pair of jeans without breaking them.
So, conventionally, people usually say that blue jeans were born 20th May 1873. This is not totally correct, because that day was the day in which the American patent office released the patent number 139.121 “For improvement in fastening pocket openings”. The trousers manufactured in that period were really different from the ones we wear today: their name was not jeans but *waist overalls*, they were not blue but light brown, they were provided with a buckle in order to adjust the size (belt loops didn’t exist), a back pocket on which the typical *arcuate* was embroidered (the classic bat-wing double stitching), a *coin pocket*, suspender buttons and a rivet on the crotch. The pants were manufactured with a 9 oz. denim, produced by Amoskeag Manufacturing Company in Manchester, New Hampshire. In those years, New Hampshire was the place of the most important American textile companies and it was called New England. The textile used was a bit light because these pants were worn over the other clothes in order to protect them from damages.

The venture undertaken by Levi Strauss and Jacob Davis was one of the most important ventures of history, a modern joint venture, that allowed the two entrepreneurs to put together the economic resources and a deep sector knowledge in order to manufacture an innovative garment that perfectly answered to workers needs.

### 3.2.2 Jeans versus denim: how denim fabric is made

Denim fabric is a cotton fabric, it is generally blue and it is the textile which jeans are made of. Jeans supply chain is more complex then the supply chains of the other fashion products, because it is composed of a lot of steps that go from the supply of the raw materials like cotton and indigo dye (the organic compound with a distinctive blue colour), to the spinning, the dyeing, the weaving, the finishing operations, cutting and sewing, to
pass then to a lot of treatments that could be done on the finished garment (washings, stone-washings, giving a worn look, brushing and spraying), up to the final distribution. It is evident that there are a lot of players that are taking part to the value chain: cotton suppliers, indigo suppliers, weaving companies, chemical companies (for the indigo dye and the enzymes used with it), garments makers, laundry companies, accessories suppliers (labels, rivets, buttons suppliers), retailers, customers and the brand owner itself. Some marketing factors that characterized the last years contribute to get more complicated the jeans value chain: there is an high demand volatility, mass production is highly diffused due to fast fashion, it is difficult to predict the demand and in the last years the consumer and his/her purchasing behaviour are changing rapidly. So, like we have just seen, the steps to create a pair of jeans are numerous, but we can cluster them in three macro areas: cotton, denim and treatment of the finished garment. I will concentrate my analysis on the denim production because it is the core business of the company I am studying in this chapter, Berto Industria Tessile.

But how denim fabric is made?

Denim is made by a twill weave given by the bind of weft threads not dyed and warps indigo dyed. The process of transformation of the cotton in denim textile goes through 6 phases: the supply of cotton, spinning, dyeing, weaving, finishing operations and rolling and quality control.

*Figure 7: Jeans’ supply chain. Personal elaboration.*

**Supply of cotton.** Because of the traditional denim textile is obtained through the bind of cotton yarns, the first step of the denim production process is the supply of the cotton. As we can see in the table 14, the world’s biggest producers of cotton are India (27% of the
world production), China (22%), United States of America (13%), Pakistan (7%) and Brazil (6%).

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Cotton is controlled again before the introduction in the production process. This step is critical because it comes from different countries so it is important to be sure that there are not particular differences. Characteristics have to be similar in terms of homogeneity and regularity to ensure a constant quality over the time. Usually, the more qualitative cotton is American.

**Spinning.** The second step is the manufacturing process of the yarn: after the control, the cotton fibres are introduced in the production process in order to create the yarn. There are several steps between ginned cotton (cotton after it has been picked from fields and processed) and cotton yarn. First blending: the bales of cotton are blended. The selection is very important because the final result must always ensure the constancy of the values in terms of micronaire, colour leaf and resistance. The inspected cotton undergoes a process known as carding. In this process, the cotton is put through machines that contain brushes with bent wire teeth. These brushes – called cards – clean, disentangle, straighten and

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30 Micronaire (MIC) is a measure of the air permeability of compressed cotton fibers. It is often used as an indication of fiber fineness and maturity. Source: http://www.barnhardtcotton.net/blog/what-is-a-micronaire-in-cotton-and-why-does-it-matter/.
gather together the cotton fibres. At this point, the fibres are called silvers. Other machines join several silvers together, and these silvers are then pulled and twisted, which serves to make the threads stronger. Next, these ropes are put on spinning machines that further twist and stretch the fibres to form the yarn.

The ring yarn is finally wound onto a bobbin, which is put on the high-speed rotating spindle. The yarn is twisted by the rotation of the traveller ring on a circular slide called “ring”.

![Carding and spinning operations](http://www.madehow.com/Volume-1/Blue-Jeans.html)

**Figure B: Carding and spinning operations.** Source: [http://www.madehow.com/Volume-1/Blue-Jeans.html](http://www.madehow.com/Volume-1/Blue-Jeans.html)

**Dyeing.** Some clothes are woven and then dyed, but denim is usually dyed before being woven. Only the warp is dyed, the weft stays white. Chemically synthesized indigo is the typical dye for denim. Indigo is fixed only on the external surface of the yarn, while its inside remains fawn. This is the reason why the denim with wear and treatments, bleaches and presents different aspects. The first step is the so-called direct warping: the yarns of the single cones must be wrapped in a single beam. The beam is called fraction because they require more fractions to get the full chain. The number of fractions depends on the available space in the bobbin creel and on the number of threads necessary to form the warp. In the next step the yarns of each fraction are superimposed and sent to the dyeing process.

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31 A fabric has an average of 4,000-7,000 yarns; a 5,000 yarns fabric will be composed of 10 fractions composed of 500 yarns each one.
process. Only when the fractions are completed, the beams are brought to the dyeing line. The yarn goes through more than one dyeing vats (from 7 to 14)\(^{32}\) containing baths of indigo or of sulphur dye. Impregnation phase is alternated to the oxidation phase, because weathering the dyed yarn the colour is fixed. The process is called continuous dyeing because the machine must never stop during the process, otherwise the yarn could halt inside one of the tanks, influencing the absorption and causing a variation in the colour. Then the yarn goes through the rinsing tanks then there is the drying phase, the sizing phase through which a transparent soluble foil is applied on the threads in order to: reduce the friction; reduce the formation of dust on the warp; increase the yarn tensile strength. Finally there is the de-sizing phase, to remove the sort of “glue” used to cover the yarn.

Figure 9: Indigo dyeing process. Source: Berto Industria Tessile documents.

**Weaving.** The fourth phase is the weaving of the yarn. As we have just said before, denim is not 100% blue as the blue dyed threads forming the warp (long, vertical threads) are combined with white threads forming the weft (shorter, horizontal threads). By examining a piece of denim closely one can detect the steep diagonal pattern that results from this process, which is known as a three-by-one right-hand twill weave. Different types of warp and weft interlacing can be realised to obtain different constructions.

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\(^{32}\) The greater the number of dyeing tanks, the greater the intensity of blue.
**Finishing operations.** At this step, denim is ready for finishing that consists of a variety of treatments applied to the fabric after it is woven. After weaving in fact, the raw cotton has a rough and stiff handle, an “unpleasant” aspect and no dimensional stability. The aim of the finishing operations is to give the fabric a good appearance; the right handle; and prepare it for the manufacturing. With denim, finishing is usually fairly simple. All the fabrics pass through the so-called singeing process: the fabric surface hair is burnt (or signed) using a controlled flame, to obtain a smooth handle and more visible textile weaves. The next steps are chosen according to the image the company wants to give the denim. The denim may then be sanforized, or preshrunk. With sanforizing the fabric is compressed and it is given a good dimensional stability with minimalized shrinkages in warp and weft sides. Preshrunk denim should shrink no more than 3% after three washings. At the end denim is heated, stretched and dried.

**Rolling and quality control.** The fabric is rolled and then is controlled with a visual inspection: the height, the colour and other parameters are checked in order to verify if they match the quality standards stated on the technical sheet. Then the fabric performance is controlled with different tests:

- Fabrics physical parameters control: height, weft shrinkage, twisting, colour tone and the difference between the central colour and the selvedge one;
- Fabrics’ laboratory: check of the consistency between the technical sheet and the product performance. This operation is performed after the fabric creation and every six months to ensure an excellent quality level.
3.2.3 Berto’s Italian value chain

As we have previously said, value chain steps for the production of denim textile are many. Until a few years ago, Berto owned also the spinning department. But after some strategic decisions the company decided to externalize it, so Berto has a partnership agreement with a well-established, historical institution of our territory: Manifattura di Cene. All yarn is tested by Berto labs with the same accuracy that they use to choose the raw material. The goal is only one and very important: to guarantee the highest quality, in every fabric, in time. So the supply of cotton and the spinning phases are externalised.

Berto owns and directly controls all the other phases and they are established really near the headquarters in Bovolenta (near Padova).

The dyeing phase is put in place in a plant situated far less then one kilometre from the headquarters. Berto has 3 continuous, dyeing lines, 2 indigo and 1 sulphur. They allow the company to have several colour casts and therefore produce transverse products that can be customized. Continuous investments and advanced software guarantee precise on-line control of the dyeing process, ensuring uniformity of shades, dye fastness and thus a superior quality product.

Yarns are then woven in the near weaving plant in which 48 high energy-efficient looms work.

Finishing division is in the same street of the dyeing plant, but in front of it. The machines that Berto uses for the finishing process are not the standard ones of the textile sector: they have been researched and designed in collaboration with the suppliers to guarantee the best performance from the fabrics. The stretch fabrics, which have made Berto famous all over the world, are produced with a machine that was designed and built purposely. The best technology intertwines therefore with the best fabrics to guarantee a wide and deep collection.

Rolling and quality control are put in place in the same building of the headquarters, in Mazzini street, where in 1887 the first business was born. Continuous controls during the production process allow Berto to maintain constant, high quality standards in time. Specific tests, based on clients’ specifications, carried out on the production allow the company to get closer to every request and so offer total product customization. The fabric lab verifies the congruence between the fabric specifications and the performance of the product, both when the fabric is created and periodically (every 6 months) so as to guarantee an excellent and continuous level of quality.
In Figure 11 above, is shown a map with the position of the Berto Industria Tessile establishments.

The property of the company through the years has done everything possible and they are still doing everything possible in order to maintain all the production in Italy, even if there have been a lot of occasions to outsource. So the production is totally established in Italy where the labour cost is higher than in other countries, because the quality of the products manufactured is really high and the employees are professional and experienced.

But there is also another important reason that connects Berto Industria Tessile and the Italian territory, in particular the Venetian territory: the tradition. For almost 130 years the company has provided employment to a lot of Italian people and most of them are from Veneto. In Berto the management succeeded from generation to generation, but also a lot of employees, who are now working in Berto, have had their parents or relatives who worked for the company in the past.

The social commitment is therefore a fundamental element, as we will also see in the last paragraph of this chapter talking about environment and welfare sustainability.
3.3 Berto’s competitive advantage

Italy stays at the fifth place in terms of export of denim with about 252 million dollars per year and it is the sixth importing country with 137 million dollars per year. In our country almost all the steps of the value chain are well established. Obviously all the cotton is imported from other countries, but Italy has got a very good tradition in terms of denim manufacturers, of garment finishing companies and also of jeans producers.

In Italy the most important denim companies are Tessitura di Rebecchetto Candiani (Milano), Berto Industria Tessile (Bovolenta, PD), ITV (Teramo) and Italdenim (Milano); the most famous finishing garments companies are in Veneto, Toscana and Marche: Martelli lavorazioni tessili (Veneto), Elleti (Veneto), Gruppo ITAC (Marche) and Lavanderia Candida (Toscana); Diesel, Replay, Roy Roger’s, RIFLE, Miss Sixty, Gas, Dondup, Jacob Cohen, Italservices and Liu Jo are some of the Italian best known jeans producers.

The main competitor countries for Italy, in terms of denim producers, are Turkey and Egypt with companies like Isko, Orta, Bossa, Calik and Gap Pazarlama (Turkey), and Dnm and Sharabati (Egypt).

Berto Industria Tessile in recent years is dealing with a change in the textile market: in the past, the market conditions were such that delivering better goods at a lower price was a guarantee of growth and profit. Now the situation is different: the price of a fabric is no more generated by the match of supply and demand and the number of European and Extra-European competitors is rising.

Because of these changes in the market, it became more difficult to reach the competitive advantage, which let the company to reach better performances compared to its principal competitors in the sector. The competitive advantage in fact is influenced by endogenous elements (internal elements) and by the capacity of the company to react and anticipate exogenous changes (external elements).

So how could we have a competitive advantage today? There are two alternatives (Porter, 1985):

- *cost leadership strategy*: to offer products similar to the competitors’ ones at a lower price, trying to become the lowest cost producer in the industry;
- *differentiation advantage strategy*: to offer different and unique products at a higher price;
- **focalization strategy**: the company chooses to focus on cost or on differentiation in a single segment of the industry with the exclusion of others\(^{33}\).

The solution chosen by Berto Industria Tessile is to focus its strategies on a differentiation advantage. The main reason is that, as we will see later, the whole Berto’s production is set in Italy, where labour cost, insurance, logistic costs, taxes, and all the production costs are higher than in the competitors’ countries. So a cost leadership strategy is impossible.

Berto decided therefore to highlight the uniqueness and the differentiation that characterize not only its products, but all the aspects that concern the interaction of the company with all its stakeholders. This differentiation creates more value for the clients and a competitive advantage for the company.

### 3.3.1 Product differentiation strategy

Berto Industria Tessile manufactures a lot of different types of denim textile.

The weight of denim is measured in ounces, for example the weight of a textile used for the production of shirts weighs 3-4 ounces, the textile used for a standard pair of jeans weighs 10-12 ounces, or the textile for a coat or a bag can weigh also 19-21 ounces. In Berto they produce denim textile from 3 to 21 ounces, so, from the weight point of view, their business proposal is really wide. So a client has the possibility to choose all the possible weights in a single supplier company. But Berto has a large supply not only about weight, but also about many other characteristics of the fabrics.

The common denominator of Berto’s offer is indigo dye. The company, after having expanded its offering, as we will see later, has kept faith to indigo, which gives very specific and beautiful effects to the fabric. These effects are obtained washing the fabric or the finished garment.

Berto company is also famous for “*tinto filo*” (yarn-dyed) products: a kind fabric in which a yarn is indigo dyed and the other is left white in order to obtain white and blue lines or checks.

The company also produces fabrics with both warp and weft indigo dyed, so they are 100% blue, unlike the classic denim in which the weft is left white.

Berto differs from other companies also about the materials used: the warp is always indigo dyed cotton to keep faith to the mission, but a lot of different wefts of different

materials have been added. Cashmere, wool, merinos wool, silk, linen are woven together with cotton in order to obtain particular and unique fabrics, perfect for the manufacturing of high quality and particular clothes, but also accessories like bags and pouches.

Berto produces a lot of 100% cotton textile, that is a typical characteristic of the original jeans (denim lovers buy only jeans made of 100% cotton), but it has highly specialised itself in the production of stretch denim. To the textile is added a certain percentage of elastane in order to make the future garment more comfortable. The product “REPLAY hyperfree” described with the hashtag #JEANSYOUHAVETOMOVEIN, is sewed with Berto fabric Agata done with ultra-light, natural fibres that give to the product a very smooth inner and outer surface.

As we will see in the next chapter, in Berto Industria Tessile the differentiation is amplified also through all the relationships the company has got with its stakeholders. The strength of Berto is that it is always ready and reactive to reinvent itself in order to stay in the market and to satisfy 360-degree clients.

3.3.2 Price differentiation strategy

Within the differentiation strategy, Berto undertakes also a price differentiation strategy with the creation (some years ago) of two lines of products with different average prices:

- Berto;
- Manifattura 1887.

Berto line offers high quality products to a medium-high target of clients, because it is composed by “core” products, like classic denim fabrics used for the production of classic trousers and jackets. But thanks to the continuous research and development particular and new fabrics are produced: “tinto filo” (stripes and checks, obtained dyeing one yarn and the other not), “armaturati” (fabrics with a particular type of weave). The average price of the products of this line is about 7,5 euros per meter.

Manifattura 1887 is the luxury line of Berto Industria Tessile and its collection is divided into three projects with three brands: Blue Selvedge, Mazzini 11 and LeMani. For this line the average price is higher than in the Berto line, in fact it is about 15 euros per meter.

- **Blue Selvedge.** “When the innovation comes from a 1950’s loom”. Blue Selvedge is Berto Brand for the Denim Selvedge: a precious product suitable for those customers that really recognize its value. All the Blue Selvedge fabrics are realized by the old Picanol shuttle looms, original of the 1950’s, specifically restored and renewed by master
craftsmen that brought them back and preserved their ancient processing techniques. These days the automation is spread all over the industries but the real manufacturing of these fabrics is handmade: Berto’s looms, made of iron, cast iron, wood and leather are wisely used by skilled artisans. The artisan has a sort of relationship with his machinery: he knows all its peculiarities, its maintenance techniques and its sounds. Thanks to this handmade process the Blue Selvedge fabrics are special: softness, colour and appearance make them unique, with a soul, fit for unique and originals clothes. Contingent irregularities and longer production methods, typical of a handcrafted production, but opposed to the industrial production, are not flaws: they are a real proof of the product truthfulness. 
The Blue Selvedge fabric is real like the emotion that it evokes.

**Mazzini 11.** This brand goes beyond the only apparent limits of the Denim, or rather, of the Indigo, so as to define new style paths and meet more advanced demands of both the consumers and the most exclusive brands. The name wants, first, to evoke a place, i.e. the address of the old manufacturing plant and Berto’s historic and current headquarters. It represents the deepest roots of the company, the artisan’s ones that always urge Berto towards a strict attention to details, those details that delineate an unsurpassed mark when compared to the “regular” fabrics.
Details that tell, above all, a special way of understanding Berto’s job of "making" fabrics from yarns of the highest quality and with a unique ability to invent new knots and weave together seemingly incompatible materials.
A new conception of the Indigo and an unconventional idea of luxury, a genuine and unique luxury, the will and the capability to have something beautiful that others do not have and cannot give you, have given birth to surprising expressions of pure textile art. The collection includes precious, highly tactile and inimitable fabrics. Perfectly imperfect. Produced with technologies "having a human face", respectful of the fibre and operated by experienced technicians, true masters of weaving, able to experiment and search ad infinitum, taking time just to get an unqualified and uncompromising quality and to mix history with the surprising, unexpected irreverence of the Indigo. With these fabrics, Berto wanted to reinvent itself and engage in important challenges peculiar of the "fashion world": devising unusual and visionary solutions to be inserted in the catalogue, mixing for the first time, for example, wool and cashmere and manufacturing, a part from pants and outerwear, handbags and even bomber jackets, soft furnishings that represent for the company an absolute innovation.
With Mazzini 11, Berto has created a collection designed for a modern, sophisticated and refined gentleman. A true connoisseur who immediately recognizes– and just as instantly wants – the added value of a garment both modern and tailored, seductive to wear and to touch; an unaware influencer that wears, lives, travels, works with nonchalance and with an innate passion for the beauty and the time: the past, the memory, and more importantly, the future and the imagination.

Mazzini 11 is pure stuff, precious for the creativity of top designers. Stuff, to paraphrase Shakespeare, of which “their future dreams are made”.

The average price for Mazzini 11 products is a bit higher due to the more expensive yarns used to weave: more or less it is 20 euros per meter.

**Le Mani.** “A product intended to move across space and time”.

At a time of crucial importance for the fashion industry, where the attention is shifting from the functional aspects of the product to the intangible ones, Berto launched its first collection of fabrics made with handlooms, **Le Mani**.

Culture, creativity and tradition melt together in an unbreakable bond and become protagonists of a new economic project.

Berto has long been looking for a product that could shift the attention toward the unmistakable and unique heritage that is the "know-how". The fabrics of the collection **Le Mani** respond to the desire to accomplish something that can last over time and convey our iconic artisan heritage. The handicraft component of these products, demonstrating a superior quality and a meticulous attention to detail, becomes something to be shown with pride: an element that guarantees the authenticity and value.

All fabrics are made by people, not by machines, who thanks to their repeated movements and their great patience and attention create with their hands a priceless product. Wise movements that only craftsmen know and that it is Berto’s duty to hand down. Every day up to three meters of fabric can be produced: even the reduced production capacity testifies to the unmistakability of these fabrics whose quality and originality can be guaranteed only by the manual work of a single person.

These artefacts are a real mixture between tradition and modernity, which make it possible to create the future remembering the past. Hand, weight, indigo colours and productions designed to satisfy the current style trends.

The fabrics are named after the Goddesses who in Greek mythology were skilled in the art of weaving. Penelope, Athena and Andromache are not only a tool to encode the article, but an unconventional way to preserve the main function of mythology, that is explaining
the origin of the world and of the various situations of reality in a fabric that does not need explanations.

The price of this product is the highest: we are talking of about 100€ per meter.

### 3.4 Sustainability

Berto also means “sustainability beyond standards”.

The evolution of Berto is intertwined with that of the concept of sustainability.

A deep connection with a territory, which identifies itself with the river that runs through it and its community, an ethical and responsible approach to the "way of doing business", an equally natural vision focused on the future and the protection of the younger generation are characteristic traits, inscribed, so to speak, in the genetic code of the company. Berto is certified by ICEA Certification, GLOBAL ORGANIC TEXTILE STANDARD (TX), OEKO-TEX STANDARD 100, BETTER COTTON INITIATIVE, ISO 9001 and GRS Certification.

![Figure 12: The river that runs through Bovolento, the small city near Padova where Berto Industria Tessile "lives" Source: www.berto.it.](image)

Berto Industria Tessile is now making a new, important step in the direction of a wider and articulated sustainability. A qualitative leap which required large investments, reflecting the company's desire to continue to grow in the name of research and technological innovation, to be always trendy, both in term of product and process.

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The choice to change the approach regarding sustainability had been ready for ages: the Berto family had decided, back in the days when nobody could even think about it, to reconsider the entire production with an eco-friendly view not as an obligation but as an incentive towards a higher and higher quality and competitiveness. In hard economic times and in an increasingly crowded and aggressive market, this choice represents a strong signal for Berto, also in terms of image, which is reflected in the brand new plant where 48 looms of the weaving production chain are hosted. Among these, 29 are new energy efficient machines.

The change of plant has brought with it a radical transformation of the production process, from which consistent overall energy savings and the optimization of the levels of the recipe (an obviously strategic factor in the world of textiles) have derived. The new process was awarded the second prize at the 2015 ITMA Sustainable Innovation Award for Industry Excellence.

The renovation has focused primarily on three "structural" aspects. An initial novelty is the installation of a high efficiency air-handling unit that led to a 50% reduction in the consumption of electricity and water. In figures, the annual saving is about 5000 m3 of water and 475,200 kilowatt hour that, together, result in a reduction of 252 tons of CO2.

The replacement of all lighting devices with led lighting systems, a big commitment economically, was also very important in terms of results: the lower energy consumption leads to a reduction of 98 tonnes of CO2 per year.

The third intervention deals with the acquisition of 29 new looms, as mentioned earlier, which though producing equal metres of fabric, provide significant energy savings and a reduction of 81 tons of CO2. In addition, the new suction system continues to minimize dust particles.

Thanks to the new investments, Berto is able to enhance a distinctive know-how gained over the years in different fields, a constant research and a unique production capacity (with fabrics that can range from 3 and a half to 21 ounces).

In fact, the sustainable innovation in Berto is made up of many small, big choices regarding the whole processing cycle: it has been decided, for example, to adopt special chemicals used in the dyeing and sizing, both to contribute to energy saving and to the reduction of carbon dioxide, and to make more efficient the production chain.

Even in the deepest crisis years of the entire industry, Berto Industria Tessile has distinguished itself by choosing to maintain the production in Italy and to ensure the same
employment levels; today Berto chooses to make the technological and process innovation the key to further improving the working environment.

The new process foresees, inter alia, the elimination of those chemicals – for example the red dye – potentially toxic or troublesome for the workers: an expensive option, but significant, because it clearly is a sign of how such sustainability, for Berto, is a shared value involving the company globally: from the purchase of the yarn from the best Italian producers (thus controlled and guaranteed) to the protection and training of all employees. Berto, in this field, decided also to be sustainable in terms of yarn thus choosing as partner one of the leading global players in the production of synthetic fibres and polymers, AQUAFIL.

They produce ECONYL, a kind of Nylon of the latest generation obtained from the regeneration of waste, inevitable consequence of industrial production, but with a strong environmental impact.

The innovative ECONYL® Regeneration System is based on sustainable chemistry. With this process, the Nylon contained in waste, such as carpets, clothing and fishing nets, is transformed back into raw material without any loss of quality. The problem of abandoned fishing nets is serious, they represent the 10% of all the waste found in the sea. In order to try to resolve this problem, Aquafil, together with an NGO and a sock producer, has founded an initiative called “Healthy Seas, a journey from waste to wear”. This initiative is aimed at recovering abandoned fishing nets to transform them into ECONYL® regenerated.35

35 Source: http://www.aquafil.com/sustainability/the-econyl-project/
The yarn has characteristics equivalent to the original product, allowing Berto to produce excellent quality fabrics in line with its standards and especially that can be indefinitely regenerated.

*Figure 13: The Econyl regeneration system. Source: www.aquafil.it*
CHAPTER 4. THE CONSUMER HAS CHANGED: MARKETING AND COMMUNICATION OF A B2B TEXTILE COMPANY

INTRODUCTION

“Denim ages, carrying along the changing of times and enriching the life of one who wears it. Each washing turns a new page, time imprints its memory on a paler background and the washing’s discolorations shows the living experience till its final stage...” – Daniel Friedman

Everything in the world sooner or later is going to change. Everything adapts itself to the continuous transformation of the natural environment, of the world, of traditions, of style and trends, of technologies and science.

Consumers’ behaviour and market dynamics are more unstable than ever because of the discontinuity of economic cycles and the turbulence of the environment. So for this reason also fashion and luxury world has changed: new markets are born and distribution channels have changed thanks to the increase of one brand shops and to the explosion of e-commerce. Moreover, also consumers’ motivation and purchasing behaviour are radically changed.

But fashion and luxury market, in the last two decades, has grown from 70 billion to the actual 250 billion. It’s a very big number also considering that we are talking only about personal luxury goods.

This growth came from two big phenomena: the economic growth of emerging countries, and the transfer from wholesale distribution to retail distribution.

But the main change is the consumer behaviour change. The new consumer is more critic, conscious and careful. He wants to know what he is purchasing, how is it made and if the price is adapt to the value of the product. He cares more to have an expensive qualitative product then have a “big-logo” product with a medium quality.
But why has the consumer become more critical? This change belongs to four macro-trends:

- higher family income;
- new role of the woman in the family;
- higher level of education;
- new purchasing behaviour.

Going deeper, textile and denim industries have changed. The competition of emerging countries is harder, the fashion is faster than ever, fast fashion companies copy haute couture items in a very short time, and very famous stylists are thinking about the real sense of fashion shows and slow fashion.

The world of fashion, textile and luxury is changing, in some way returning to the origins, in other ways it is innovating and searching for new inspirations.

In this chapter I will analyse this change in the more objective way possible linking it with the consequent change in B2B companies that are dealing with new needs and new stakeholders.

Last I will describe how the Marketing and Communication Department in Berto Industria Tessile has changed and it is still changing day by day adapting itself to these changes.

### 4.1 The consumer has changed

Customers are shopping here today, there tomorrow, and the day after not at all. If they were still buying expensive things and remaining loyal to their brand a little while ago, the next moment they are rushing over to the cheapest discount store.

Fashion is under pressure.

Customers – who are they? What motivates them? Where can you find them? To answer these questions we must consider new rules. Consumers have assumed a completely new role in the overall picture. Business has changed: rules that prevailed for decades are no longer valid. The result of this, however, is not that we are in a vacuum, a kind of anarchy that has no rules anymore, in which every costumer at any time and place buys something, returns it, evaluates it and loves or hates it. It is simply that there are new rules.

Of course the fashion market has changed. That is neither good nor bad. It is simply the way it is. But if you look more closely at where exactly the changes in the fashion business are taking place, it becomes clear: design, purchasing, production, sales; “A” has something to sell to “B” – all these things may be more efficient, more stringent, more
global, but in essence they have remained more or less the same. The decisive changes have taken place at the other end of the chain, with the consumer. There really has been a landslide in the fashion business and the consumer is the element in the whole story that has been dealt new cards.
The traditional approach for addressing customers is not working anymore. Today’s customers are more powerful, stronger, better informed, and more independent. But what do they want?
Whoever thinks that things are not going so well in fashion because consumers have everything they need in their wardrobe is wrong. Of course we have enough pants and shoes and do not have to freeze, but clothing does far more than just giving us protection from wind and weather.
And whoever believes it is enough to magically stir emotions at the POS (Point Of Selling) to get consumers to shop has failed to grasp the essence of consumers. Why?
Because customers have needs, they have urgent and numerous needs. It is only that they are different needs today. Our complex, global, complicated, technological, multi-optional and fast-paced lifestyles produce new and different needs that are at least as urgent.
Whether these needs can be satisfied by means of clothing or buying at all is another question entirely. One thing is definite: we believe, or would like to believe, that we can come closer to happiness with a new bag or a new dress. And exactly that is the key to happiness for the fashion business: people who recognize what needs consumers want to satisfy, can respond accordingly and put together a range of goods, plan displays, set up lights, train personnel and make dialogue possible.
People say “my pants” and “my blouse” which is not the case with other consumer’s goods. Thus clothing is a very significant aspect of our life that nobody can do without or wants to. But then, how can one figure out what clothing consumers want and for what purpose?
That is not easy. Consumers differ a great deal in their ability to express their wishes, most preferences remain rather latent and pre-conscious and need to be activated from the outside, for example by watching other people. Preferences are dynamic, which means they can change very rapidly.
We do not buy anymore for quantities, but to communicate and express our own identity. The purchasing is no more a flat choice between options already defined by the market, it became a do-it-yourself activity in which the consumer plays an active role in the satisfaction of his/her needs.
Today new digital technologies make more variable and rapid the sharing of information between consumers and make easier their collaboration. Internet has a crucial role in the connection of different contexts and in the creation of new meeting places online in which consumers have the possibility to express their ideas, values and experiences. This consumers’ proactive capacity is today transversal and visible in different environments. Sports like snowboard, skateboard, mountainbike etc. were born exactly thanks to these consumers communities and they are the result of a new way to spend free time. These consumers, that process new original ways to use already existent products in new contexts, give sense to these new sports and contribute in a decisive way to their diffusion. Internet becomes the space where share this passion with others and evolve it steadily. Online, enthusiast people can exchange coaching tips, information about how to develop their technical gestures, and in general, share significant experiences. Online communities make the learning easier and permit consumers to learn from each other, even if they live in different countries of the world.

The purchasing of a product does not only mean buying an object for a specific function, but it allows the consumer to live an experience and to share it with others. The correlation between production and consumption some times ago was really unbalanced in favour of production, now is rebalanced. On one side the production cannot be separated from consumption any more, on the other side the consumer is willing to recognize an added value for an offer closer to his/her expectations. From the firms’ point of view the ability to listen and the interaction with consumers become fundamental. They are the starting points to satisfy even the most demanding market niches.

To find the right answers, it is important to know your customers very well. Information is essential. And you only get this by going where the (potential) costumers are. Using different social networks, not only Facebook but also Instagram, Pinterest, Twitter allow companies to focus on genuine and sympathetic communication with their costumers, followers and fans. Moving in all these different channels both online and offline, and providing custome rs with services make their buying experience easy and the brand recognizable in each channel.

Thus, it is necessary to make use of every imaginable point where consumers congregate and there are many of those. Of course you learn a great deal about costumers in the conversation leading up to a sale, as well as the online data trail they leave behind.
Through careful scrutiny of e-commerce data companies can understand what customers really want.

So it is evident that very versatile, dynamic, interactive communication is required to reach consumers today. Social media are a tremendous help for communicating with them and identifying their needs. Social networks are also promoting the individualization of fashion, because on these platforms there is strong orientation and networking of individual groups. For example, within a very short period of time certain labels and looks can be given very good or very bad reviews. But not every retailer founds success via social media, because all retailers should ask themselves how good a fit social media really is in the context of the retailer and its costumers. In fact, it is not efficient for every shop to lose itself in the vast space of the web (a private shopping dinner is sometimes more effective than a YouTube channel).

The fact that things are disputed, praised, liked and put down in the social networks, and done so at a speed which no firm in the world can respond to well, has a decisive consequence: the pre-purchase situation – everything that happens before customers put something in the virtual or real shopping basket – is becoming more and more relevant. For this reason, companies ought to become involved there as much as they can.

However, successfully recognizing and reacting to the needs of consumers can also take another form: in the last years some consumers make sure they buy products that have been produced under good working conditions and are made according to sustainable principles. They demand brand transparency as well as long lasting, high quality products. How successful a company is in identifying, implementing and satisfying consumer needs depend on its abilities and resources. Flexibility, speed and customer focus are the decisive factors in this. Equally important is setting yourself apart from the competition – this can be achieved digitally, on the one hand, but also in terms of the goods. In any case, what is important is that companies today cannot be people who want to move product quickly. Consumers notice this and do not like it: the advent of online has changed everything.

Today consumers – especially younger consumers – know exactly what they are looking for and enter a store showing a photo on their smartphone and saying: “I want this”. They are not looking for anything else apart from that. If in the past it was possible to offer something else or show them an alternative in terms of similar model or different colour – and eventually also encourage them to buy some additional product that could match their purchase, now they simply want that and if they don’t find it they leave the store. Now consumers are really more educated before making a purchase. They research fabrics, fits,
price and even other brands. In other words, persuading customers into getting something that the retailer wanted to get rid of does not work anymore. Instead, however, it is possible to make something else even more important possible for consumers: orientation and personalized solutions in a complex and confusing world.

4.1.1 The evolution of denim consumers

A recent study surveying Italy, Germany, the UK, the US and Japan highlights the “consumer relevant” values of denim, outlining a roadmap which is useful for the entire sector. There are also significant differences between the various countries.

The qualitative market research was conducted with focus groups and shopping tours in the five chosen countries, which all feature markets attracted by denim and willing to spend at high levels to obtain the garments they consider “right”.

The survey targets were men and women divided into two age groups: 18-24 years of age and 25-35 years of age. All participants are habitual buyers of premium jeans and wear jeans on various and multiple occasions.

The study was oriented towards qualitative research because they wanted to investigate that special “something” that consumers look for in jeans, that “quid” that engages people and determines their choice, and increasingly lies in the sphere of thought and desire. This goal can only be reached through open, free dialogue between the consumer and the researcher, to fully understand the process in which decisions about purchasing are made.

This study is a useful tool, which helps to understand markets and consumers’ perception of jeans. It identifies signals of modernity, which can help in the quest for product innovation and communicating value.

The five countries in which the market research was carried out are the major consumers of denim. Here the relationship between self and one’s own jeans is very close and emotionally powerful. Jeans are intrinsically part of peoples’ lives; they are the most indispensable garments, the one you can always count on. They are faithful and sincere, always ready to live symbiotically with the person who is wearing them, unique and irreplaceable.

Jeans are a “must have” that is found in every wardrobe and cut across all generations and lifestyles.

That said, before proceeding with an analysis of the cultural dimensions of the phenomenon, the study points out how on a linguistic level, a “cultural” use of the terms jeans and denim can be noticed. While Italians or Germans frequently talk about “jeans” by indicating the fabric as well as the garment, but rarely mention “denim”, the same does not apply to the British, Japanese or Americans.

For them, the term jeans uniquely represents the worn garment, the classic pants linked to the tradition of casual clothing, whereas the term denim means both the fabric and the modern and cool interpretation of the denim garment, detached from the classical experience of the American cowboy. Japanese consumers’ view is very clear “Older people wear jeans, younger people wear denim, it is more fashionable”. Apart from the personal relationship of self with one’s own jeans, consumers’ perception of jeans is heavily influenced by the history of jeans, by their historical identity, deeply rooted in the minds of individuals and the collective memory.

Two fundamental aspects keep turning up: their functional aspect, that of workwear, and their symbolic-emotional aspect, of freedom, authenticity, and leisure time. Jeans as they derive from American heritage are the most prominent in most peoples’ minds and most effectively express the synthesis of these two aspects.

In the collective consciousness of the five countries analysed, the functional values that emerge on the short list are “versatility”, “comfort”, “durability”, “functionality” and “protection”. Versatility is the first value in Italy (here jeans are also accepted in formal context), comfort is first in Germany, whereas in Japan and the United States protection is the most important.

The other side of the coin is that the collective consciousness also associates just as many symbolic-emotional values to jeans. The values “at ease & relaxed”, “attractive”, “fashionable” and “myself” appear in all countries, although with different intensities. More clearly for the Japanese then elsewhere, jeans represent the continuity of one’s personality (myself) and of one’s way to be fashionable.

For Italians jeans improve and enhance one’s appearance (attractive), a quality that is appreciated by both sexes but is particularly emphasized by feminine targets.

German consumers, who mainly appreciate comfort as the most important functional value, are coherent with a worldview that is relaxed and comfortable (at ease & relaxed).

Having a look at the specific values we have:

- **Versatility**: this is a key value across countries and targets. Jeans can adjust to any usage, outfit, mood, lifestyle, as well as different looks. In Italy this attribute is
amplified because jeans are easily accepted even in “formal” contexts. Versatility is the first in Italy, then there are Germany, UK, US and finally Japan.

- **Comfort**: it is about the second skin feel and ease of movement. This is a rapidly evolving dimension: the fabric is becoming increasingly soft, flexible and stretchy. Comfort can be sacrificed by Italian and English women (especially younger ones) for style and appearance. This attribute is the first in Germany, second in the UK, then there are the US, Japan and Italy.

- **Durability**: jeans are reliable, resistant to wear and tear and long-lasting. This value is more dramatic for men (Germany, UK, Japan, Italy and US).

- **Functionality**: jeans have a definite practical side which is more relevant for men. Jeans are easy to care for and have pockets to accommodate wallets, smart phones and keys (Germany, US, Japan, UK and Italy).

- **Protection**: a sturdy, “heavy” fabric that protects the body: in sports and outdoor contexts they protect against cold, air conditioning, insects and bugs (The United States mostly appreciate this value, then there are Japan, Germany, Italy and finally the UK).

- **At ease & relaxed**: jeans are traditionally casual, they are an effortless, uncomplicated choice. Jeans have a “relaxing”, chill-out effect, they make consumers feel free and unconstrained both physically and mentally. They make consumers feel appropriate in any setting. This value is the most important for Germany and Japan, then we find the UK, Italy and finally the US.

- **Attractive**: a key role of jeans is to enhance and improve ones figure; this applies to both genders but is particularly emphasized by the female target. Sensuality is a core value for Italian consumers, while Japanese women care about feeling pretty, cute and young more then sensual and sexy (Italy, the UK and the US, Germany and Japan).

- **Fashionable**: they make consumers feel stylish and trendy without trying too hard, for example with trends like high-waisted jeans, vivid colours, skinny and boyfriend cuts and stretch denim. Japanese are at the first place in this value because they want to be fashionable and unique at the same time, then we find Italy and the US, and finally Germany and the UK.

- **“Myself”**: the last but not least value in terms of jeans is that they give continuity to one’s personality. This dimension is more dramatically expressed by men, they use
their jeans to say who they are to the outside world. For women jeans are often an expression of their mood and are specific to the destination or occasion. (Japan, Italy, the UK, Germany and the US).

Talking generally, this study evidenced also that in the current scenario of denim, the search for new consumption trends has revealed certain macro purchasing behaviours. Men pay a lot of attention to denim fabric, to its sensory qualities, whereas women give priority to fit, style, and design, considering the fabric just one of many aspects.

But what about a pair of jeans shopping experience?

Right now we are witnessing a reconfiguration of the shopping experience related to purchasing jeans. Consumers do not include jeans in the basket of products planned on a classic shopping tour, but keep them separate and make an exclusive, targeted tour for them. The reason for this can be found in the sphere of emotions and expectations to be met, because choosing a pair of jeans takes time; it is an important event, physically tiring, exciting and stressful at the same time. In fact one has to go to many stores and look for inspiration among the shelves, which are often in disarray and lacking of information; one has to interact with sales personnel, try on many pairs of jeans (different sizes of different models) in changing rooms that are often small and poorly lit, and in the end all that effort can be useless. The main cause of a failed shopping experience is the frustrating sense of being at the mercy of a situation totally determined by “chance”: you keep trying on things, without any knowledge of the aspects that differentiate one garment from another, and which help to select and target the garment closest to your own expectations before going in to the changing room. To have a positive purchasing experience, the fruitful contribution of the sales person is fundamental; with their professional manner they should guide the consumer to their goal. The communication on the garment and in the sales point should also satisfy the consumer’s need for information. So what also emerged from the study is the importance of communicating not only the brand, but the uniqueness of the ingredients the jeans are made of, their innovative aspects and the performance that differentiates them. The consumer indicates the direction in which to go to overcome these crucial points, and to have valid points to consider in the decision-making stages, just as occurs in other commodity sectors and in line with an informed purchasing behaviour, which have evolved and exploded with the spread of the Internet (as I highlighted in the previous paragraph). Ingredients can thus help a brand to differentiate and capitalize on the specific value of its collections, by explaining the innovative aspects to the consumer.
This fact by which the ingredients, the innovative aspects and the performances of a pair of jeans are even more important for the consumer than in the past, is a very important aspect for business to business denim companies like Berto Industria Tessile, that, like we will see in the next paragraph, has the possibility to make itself known also by the end consumer.

4.2 Different and new stakeholders for B2B companies

As a consequence of the consumers’ change and of the “evolution” of their purchasing behaviour, also B2B companies have undergone a change. Nowadays it is harder than ever to offer products and services. For years businesses have identified themselves as B2B (business-to-business) or B2C (business-to-consumer) in order to distinguish those companies that offer products or services to other companies, from those who offer products and services to the final consumer.

Therefore recently some people are starting to think that there is no more a clear division between B2B and B2C, we are all part of a market characterised by a continuous exchange between actors, we can talk about “people to people”, or like Bryan Kramer said: “It’s Human to Human #H2H”.

Going over in this question it is also possible to say that B2B is dying and that B2C is willing to learn something form B2B. People want to know what there is behind their

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Figure 14: The shopping experience step by step. Personal elaboration.

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KRAMER B., 2014. There is no B2B or B2C: It’s Human to Human #H2H.
clothes, from where the raw materials come from, where they are produced and in which work conditions.

The world is moving faster than ever and sometimes it is moving in the wrong direction. And for this reason also the businesses do not have only one direction anymore. All businesses and entrepreneurs must collaborate and cooperate, it is useful to create a network thanks to which satisfy maybe in a better way, more easily and more rapidly consumers’ needs.

As I just said the market situation is critical, the price is no more determined by the match of supply and demand, but it is fixed and influenced by foreign competitors (especially Asian and North Africans) that produce under strict cost policies. From this point of view globalization has profoundly changed the businesses strategies of the companies and the way they trade internationally, and it has also brought with it some negative implications. In fact delocalization of production that some years ago was seen as the solution of all problems, is now becoming a threat for a lot of companies.

Indeed in the last years a new phenomenon came to light: back-reshoring. Back-reshoring is a voluntary corporate strategy regarding the home-country’s partial or total relocation of in-sourced or out-sourced production to save the local, regional or global demand.38

The threat that delocalization has brought with it is that now the countries where we offshored or outsourced the production have taken progressively possession of our technical know-how, which is in part lost. As a consequence, even if we decide to re-shore the production (like a lot of Italian companies are doing also right now) those countries are now able to produce more or less in the same way we taught them, with almost the same quality, but at a lower cost.

So, because of the technical know-how is partly lost, it is important to use storytelling, style and Made in Italy as leverages.

Nowadays anyone has something to tell or a story to narrate is stronger than others. Also B2B textile companies have to tell a story and communicate something, because all that is not communicated is lost; and for this reason they decided (like Berto Industria Tessile did) to develop and specialize their marketing strategies and to expand the number and the type of stakeholders to deal with. Stakeholders have a specific interest or concern

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in an organization, they can affect or be affected by the organization’s actions, objectives and policies.

Of course B2B exhibitions are still important, but there is something more to make the company itself known.

Thanks to web and social networks Berto started to communicate also to the final consumer and thanks to a project, which I will talk about in the next paragraph, the company started to offer its fabrics also to small young designers who were not considered by the big companies because they usually need a too small quantitative of meters of fabrics. Young designers are so a new stakeholder, which Berto started to collaborate with, in order to communicate the quality of its products.

Berto is also collaborating with new and not traditional clients like Berto Salotti for example (there is not any relationship, the same surname is a chance) who decided to do a capsule collection of armchairs done with denim textile.

Thanks to this, there is the opportunity for Berto Industria Tessile to make itself known also outside the world of fashion.

![Figure 15: The Vanessa armchair done with denim fabric during New Craft exhibition in Milan. Personal photograph.](image)

The company is also collaborating with “Progetto Quid”, an association that promotes the employment of disadvantaged women championing a new way of doing ethical fashion in
Italy\textsuperscript{39}. Items produced by \emph{Progetto Quid} are unique and are the result of an innovative process where the design of the product is creatively adapted to the supply of raw material donated for charity by textile companies including Berto.

So, after all, we can say that B2B as a mere supplier is dead: B2B companies must work as consultants for their clients and build a network of relations around themselves. B2B companies have to say something more.

4.3 \textbf{What is marketing and communication in Berto?}

Some managers think that in B2B things are different: branding is not meant to be relevant. This is not true, also B2B companies must give importance to brand management. In fact, brands have a power that is not limited to B2C markets of daily consumer goods; indeed, the brand under certain conditions may be even more relevant in a B2B context, where the research of an adequate business partner is more focused and it takes more time. All the stakeholders are very important in B2B, and for what concerns the actions to be taken, the tools are the same of marketing and communication, thanks to which companies pursue – directly and indirectly – the goal of informing and persuading clients about their products. In practice, these tools represent the voice of the brand and create as first a dialogue, and then a solid business relationship.

The principal tools, which are not so different from those used in business-to-consumer contexts are for example: personal selling, direct marketing, public relations, national and international exhibitions, advertisement and sales promotions.

But let’s have a look on what strategies Berto put in practice in order to better communicate its brand.

With a great tradition and the commitment to an “innovation without revolution”, with about 130 years’ heritage, but also more than 1.100 likes on Facebook, Berto Industria Tessile decided to invest on tailor-made marketing strategies.

A history of about 130 years is a really incredible and important heritage, but it is not enough. In Berto they have not pulled back in front of the new challenges brought by the market change due to world crisis.

\textsuperscript{39} www.progettoquid.it
The goal is clear: to give value and to get people appreciate all over the world a textile culture rooted in time, maintaining as fixed points the passion for work, the territory and the human capital.

In particular, the objectives of the marketing strategies of the company are more than one:

1. from the point of view of the institutional marketing the purposes are: to improve the reputation of the company, to replace the company, to increase the perceived value, to influence emotionally interlocutors, to attract the interest of the final customer towards aware consumption;

2. from the point of view of product marketing the objectives are: a segmentation of the demand for the creation of products adapt to targets, realization of new marketing tools in order to create added value ante and post sales, to start a process of ingredient branding in order to reach the final customer.

In the next paragraph I will describe the actions implemented to reach all these objectives.

4.3.1 Storytelling

In order not only to improve the reputation of the company, but also to replace it and to increase the perceived value of Berto products, the Marketing team of the company bets on storytelling. Because a high quality product together with a great history becomes more important and profitable, strengthens the brand, helps to increase sales and finally makes people focus their attention more on the product than on the price. Offer only a good product is not enough. If you are not able to communicate the characteristics that make the product unique and different from the ones offered by competitors it means like to keep it in stock, and sometimes it happens so. Experts are convinced of it: today we do not sell anything that does not have a story behind it, because in order to have success, you have to involve customers and also to convince them.

The new marketing frontier transforms the goods in narration and this new frontier is the storytelling: it could seem to be a literary category, something abstract with an impalpable economic declination, whereas it is something more than a simple description of the product and it is related to the study of the purchasing behaviour, it is something emotional.

The storytelling is the story associated with the product or the service and makes it more interesting and fascinating. It is the element that lets the emotion explode, and for this reason, it works.
“In Italy we use only 20% of our potential in this field, we are late in the techniques of narrating, and when we do it, it is done in the wrong way” said the Italian writer Alessandro Baricco, at the event dedicated to the importance of storytelling organised by Unindustria della Marca. “We are a nation of great narrators, but we have never taken seriously to sell and penetrate the market taking advantage of this strategy. We do not lack of imagination, we lack of will and of the clarity to understand how much the storytelling is important”, Baricco said.

Berto Industria Tessile has both the will and the clarity to implement this strategy taking advantage from the long and extraordinary history of the company.

As said in the third chapter, Berto was founded in 1887, so in 2017 (next year) it will turn 130 years.

Such a history behind a company allows it to earn an incredible know-how in different fields. In fact, Berto started producing sails for ships, then passing to produce home textile and finally is now producing denim textile. Thanks to this hundred-year-old experience Berto is now able to put its know how in its products and it produces them in the best way possible.

All these things are told to clients together with the product and Berto thanks to social networks, the web site and other projects, is trying to reach also the final customer, once not considered a stakeholder by B2B companies.

But the company does not only look back to its history, it looks forward too. In fact, thanks to targeting and segmentation it is able to create always new collections which combine the past experience with the future trends. And behind every new collection there is a story that perfectly matches this meeting. The story is the result of the trends, the ideas and the creativity that inspired the collection.

In fact, first there is the product, in this case the collection of fabrics, second there is the story tailor-made on it, in order to enhance it.

Inventions or tricks are not necessary, you need to choose the characteristics on which to focus and the key points to touch, and tell them to all your stakeholders. This is storytelling.

4.3.2 Web Site and Social Networks

“Consumers are no longer sitting comfortably in an armchair and the traditional communication inevitably is affected by this situation” (Bettiol, 2015).

The communication mechanisms that were really efficient in the past, now are less incisive. Advertising and mass media has been the undisputed protagonists of the past era. They shaped the consumer society, they created needs and presented so far unknown products. It was not given a choice to the consumer: take it or leave it.

This model of communication and of society has been in crisis in recent years. Internet, but not only Internet, changed the rules of the game. The consumer, as I told in one of the previous paragraphs, is less seduced by the commercial messages; he or she is searching more differentiation and personalization.

As a consequence, the investments in mass media have decreased in the last years, and it is not an accident that the only voice that is constantly increasing at international level is about the online investments.

Thanks to internet the communication is no more asymmetric, but it becomes interactive: companies can increase their knowledge of the consumer, and the consumer, in turn, is more independent and he or she can communicate with other consumers, with the company and has the access to specific information before the purchasing activity.

And so, if consumers and Internet are changing, we expect the Italian companies to do the same, especially for what concerns digital technologies. But unfortunately Italy stands at the latest positions for the diffusion of ultra-broadband Internet and for the use of internet. Also the diffusion of the e-commerce is underdeveloped, Italy is third-last with 20% of the population who have shopped online. But there are also positive data. They come from the use of social networks and from the use of mobile communication. For what concerns the diffusion of them we are in line with the European average (42% Italy, 40% Europe), instead we are at the first place in time spent on social networks (especially Facebook).

The evolution of the network and of consumption presents us new challenges to Italian companies. The first is of technological nature: first of all companies have to overcome the traditional difficulty in using new digital tools both from the point of view of communication and social media, and from the point of view of sales and e-commerce.

The second is of cultural nature: they have to learn to dialogue with users, intervening on the quality of their network presence (quality of contents, deepening level of communication), and on the ability to listen customers’ requests. Until a few years ago,
you could think of opening a website and translate it in English as a point of arrival of the internationalization process, instead nowadays to enter markets culturally and linguistically different from Western ones can only be seen as a starting point.

If we are not able to deal with these challenges, we take the risk of not being able to communicate in the appropriate way the quality of Made in Italy.

Berto Industria Tessile accepted the challenge and in summer 2016 decided to renew and improve its website. And it was also one of the first B2B textile Italian companies to open its pages on some of the most popular social networks.

Talking about the web site, thanks to an important investment of the CEO Flavio Berto, the company relied on a communication agency that transformed the old website in a completely new and more functional one. The new web site is more “easy to surf” and it is provided with the beautiful photographs made by the famous photographer from New York, Martin Scott Powell. Through his photos he has been able to express the essence of the near countryside of Veneto and to capture sensations and emotions floating along the value chain.

![Figure 16: One of the photos of the home page slideshow. Source: www.berto.it](image)

For what concerns social networks, Berto was one of the first B2B companies to open them, and then in fact other competitors followed it.

In 2014 Arianna Morimando, Marketing Manager of the company, decided to open and also manage the Facebook, Twitter, Instagram and also Pinterest accounts. Thanks to this
decision the company is nearer and more linked to the final consumer and also with young people like emerging designers, influencers and bloggers.

Facebook page has now more than 1,120 likes and lot of visualizations, the twitter account has a lot of followers, Instagram is the more successful one with 1346 followers. Pinterest is a virtual inspiration board on which you can “pin” looks you like and also DIY objects or food, Berto Industria Tessile Pinterest page of course is full of denim looks and it has more than 200 followers. This social is also helpful to search and find haute couture looks and other brands’ looks tailored with Berto’s textile.

It is important for Italy to ride the weave of digital technologies as Internet, Social Networks and e-commerce, in order also to not have difficulties in the makers society, where consumer participation and personalisation are really important.

Berto Industria Tessile fortunately is riding this weave in the appropriate way.

4.3.3 Traditional Marketing: Exhibitions and PR

For what concerns traditional marketing and communication strategies, let’s take into consideration two elements of the communication mix: PR and personal selling.

Berto Industria Tessile for what concerns press and PR, in order to have a good coverage, decided to collaborate with newspapers like Rivet for the American market, Sportswear International for the European market and Vogue and Fashion Magazine for the Italian market. However, the company does not like to invest in simple advertising pages, it prefers ads with contents about new projects, special products or particular collaborations.

Talking about personal selling, Berto participates to some fairs and exhibitions, the management decided to concentrate its actions and resources on three of the most important and more profitable exhibitions: Kingpins Amsterdam, MOC and M.U. Kingpins takes part in Amsterdam, New York and Hong Kong, but Berto decided to participate to the Dutch one because Amsterdam is becoming the city of denim year after year. This fair takes place two times a year (in October and in April) it is a niche exhibition with selected access, so only the best companies can participate. Berto also designs an AD HOC collection and participates with both the Berto line and the more sophisticated Manifattura 1887 line.

Instead MOC is Munich Fabric Start, it takes place in Munich and it is the most important fair for the German market, a really important market for Berto.
Finally, for the first year in 2016, only with Manifattura 1887 line, the company participated to Milano Unica a textile Italian trade-fair for exhibitors and visitors of medium-high level, from prestigious menswear fabrics to exclusive women’s collections, from avant-garde textiles and accessories to modern and classic shirting fabrics. It is also important to say that Berto in the context of the Kingpins fair of Amsterdam participates to a particular contest: the Global Denim Awards. It is a first-of-its-kind runway show and competition. This truly innovative initiative, pairs the world’s premier denim mills with emerging designers. Its aim is to connect talent and industry to create a directional platform for the future of denim design, innovation, sustainability and craftsmanship. In 2015 Berto participated for the first time with Studiopretzel by Emiliano Laszlo as emerging designer and they won the prize as Best Fabric. The winning of this award has been a great satisfaction for the company, which in competition with other big denim producers has won the prize for the best fabric, the core business of the company on which it dedicates 365 days a year resources, commitment and passion. Also in October 2016 Berto will participate in Kingpins and it will take part in Global Denim Awards with EDITH MARCEL another #berto4youngtalent (a project which I will talk about later) brand.

4.3.4 Special Partnerships

So, as I anticipated in the previous paragraphs, B2B companies need to focus their marketing and communication strategies on something unconventional and special in order to be known by numerous and different stakeholders. Berto puts in practice a lot of different and particular strategies in order to do this. In particular the company in the last years decided to partnership with some key suppliers in order to make its product special and exclusive. The partners chosen by Berto are: Aquafil, DSM Dyneema, The Woolmark Company and Lenzing. For what concerns Aquafil, Berto started producing fabrics with their Econyl yarn, which is, as I already said in the sustainability paragraph, obtained from regenerated waste. The partnership with DSM Dyneema consists in an experimentation with new yarns and the latest technologies in order to create new generation products that offer higher performances bridging the gap between fashion and the technical clothing world. The first result of the collaboration is a patent pending technology that leads to an almost indestructible denim fabric. The denim produced with Dyneema® is strong and resistant to
abrasions, so it could be the ideal fabric for extreme applications or extreme sports. The fact that the colour degrades, but the performances remain intact is the real news. Then, thanks to the partnership with The Woolmark Company, Berto created a Wool Denim. This product is strong and versatile like regular cotton denim, but has the extra-resilience, elasticity and most importantly warmth found in wool. Wool’s inherent temperature regulating properties give Wool Denim an added advantage, making it a fabric for all seasons. And being wool a natural, renewable and biodegradable fibre, it is also a benefit for the whole planet.

On the 8th of April 2016 Berto joined with Lenzing, a worldwide leader in high performance cellulose fibres, to produce Victoria Royal, a fabric made through the union of two yarns: TENCEL® and Lycra® Dual fx®, two fibres characterized by their high strength. TENCEL® is made from certified wood pulp and processed in a sustainable closed-loop system for efficiency and minimal environmental impact. Berto made the perfect TENCEL® blended fabric with comfort and performance. With this fabric the first ever denim armchair made from TENCEL® was produced. This armchair has been handmade by highly skilled upholsterers of Berto Salotti group (there is not any relationship, the same surname is a chance). Berto Salotti is an elite Italian sofa and home furnishings producer that specializes in custom orders and beautiful, robust designs. Their craftsmanship, mastery of traditional methods and technological expertise allowed Berto and Lenzing to obtain something completely new in the Indigo World. Kingdom, the name of this chair, is an English-style Chesterfield armchair completely reinterpreted by Berto Design Studio. This classic, uniquely vintage armchair, maintains some of its heritage such as carved feet and Capitonnè back, but has been re-invented as a classic figure with grand personality and modern flare. It has been handmade with meticulous skill.
In addition to these special partnerships with particular and sometimes unconventional suppliers, Berto has established particular professional relationships with some strategic clients.

One of these relationships was born with Berto Salotti after the production of the abovementioned Kingdom armchair. Berto Salotti in fact decided to produce a denim capsule collection of armchairs and sofas making it with fabrics from Berto Industria Tessile, that in this way discovers and deals with sectors so far unexplored.

Berto Industria Tessile made a deal also with other prestigious clients like Ferrari, Rayban, Replay and Lazzari, for example.

Talking about the partnership with Ferrari, when a client enters the atelier in order to personalise his Ferrari, he can also choose seats upholstered in Berto’s denim.

For what concerns Rayban partnership, Luxottica, which is engaged in production of Rayban eyewear, chose Berto’s denim fabric to make Wayfarer even more iconic. Created with an ultra-strong denim, these Wayfarer were then covered with layers of polypropylene and acetate.
Berto Industria Tessile besides business partnerships, for a couple of years has dealt with an ethical partnership: the collaboration with Progetto Quid already described in 4.2 paragraph.

4.3.5 Special Projects

In order to achieve the objectives of improving the reputation of the company, increasing the perceived value and influencing some strategic figures, the company undertook some special projects.

First of all Berto organised some company visits as an exemplifying tool of Berto’s production activity, because the company hasn’t got anything to hide and wants to get involved in the process the students of the main European fashion schools, maybe future designers for Berto’s customers.
As previously mentioned, a really important special project for the company is “#BERTO4YOUNGTALENTS”. With it the company would like to support, attract and retain the best young talents. The New Generations are an investment in the future, so Berto has decided to devote its know-how, historicity and creativity at their service. “The future belongs to those who give the next generation know-how, creativity, beauty”41 this is the sentence written in Berto website in order to present this project and that perfectly descripts the aim of it. In the strategic multi-annual programming of the company it was included an incentive project dedicated to creativity and to emerging talents. Berto wondered how it could support them to fulfil their dreams and their ambitions, helping their creative and professional journey: the company decided to do it by offering them its best fabrics. Thinking about the future, Berto is looking for a combination of innovation and human capital because Made in Italy is not just a matter of style, it is also (and in particular) the supply chain's continuity, the respect for work and territory. Berto has a long history of textile wisdom and dedication to work: only with a gaze towards new generations it can pass on its cultural knowledge and know-how acquired over the years, reinterpretting it in new sectors. Some of the young talents are: Studiopretzel, Edith Marcel, Ma.Va., Design Around, Papillover, TGSU, Kyore Project and others.

Another really interesting project is about the participation of Berto Industria Tessile to the “NEW CRAFT” exhibition by La XXI Triennale, in Milan. Stefano Micelli, Professor at Ca’ Foscarì University of Venice is the curator of it. At the entrance of the cathedral-like Fabbrica del Vapore, nine large textural installations rise up vertically, showing 9 aspects of crafts excellence, one of these installations is made of Berto’s textiles. A patchwork of indigo fabrics, laser projection and 3D extrusion of the material recall the versatility of artisanal denim weaving and the various ways in which Berto fabrics have been constructed. The exhibition also shows the match between artisan know-how, technological innovation and culture of design, by means of new tools of the digital manufacturing at work, integrated with the work and skills of men. Strengthened producers were placed side by side with young designers selected by a call, which received more than 500 applications from more than 30 countries around the world.

41 http://www.berto.it/site/en/project/id_13_project_berto-for-young-talents.html
The exhibition covers many areas: in addition to the installation, Berto also took part to the event #Vanessa4NewCraft, organized by Berto Salotti. The Crowdcrafting project is dedicated to the new dimension of working combined with a new generation of artisans. Inside the exhibition Berto Salotti has created an armchair with unique design together with the help of visitors, customers, friends, students, academics and political institutions. This armchair is the symbol of the company artisan tradition combined with all technological innovations. The Vanessa armchair was made with a Berto Industria Tessile textile called ROCK-ME AIR 12.5 ONE, one of the coolest textiles of that period.

Another very original and thrilling project has been realised in November 2015 with Le Mani textile by Manifattura 1887 line. Berto decided to bring a loom around the world to tell a story that tastes of authenticity, craftsmanship and high quality. The loom was shipped directly from Italy and brought to the famous 3X1 store in Mercer Street - New York City - a real Denim Temple that has immediately believed in such a pure
craftsmanship experience. The owner, Scott Morrison, said that by using this fabric he wanted to give a very strong signal to the market, i.e. to offer its customers a very valuable product that contains within itself a centuries-old tradition and goes beyond the usual purchase logics.

Finally, the last but not least project was identified by the hashtag #theperfectjeans. The final goal of this project is to attract the interest of B2C consumers to conscious consumption. Two fashion bloggers, Giulia Torelli and Lorenzo Bises, have been involved in this project. Berto is realizing exclusively for them a pair of tailored jeans, that they will show in their posts with the hashtag #theperfectjeans.

4.3.6 Ingredient Branding

As I underlined at the beginning of this chapter, with the rapid changes in the global economy and the sophistication of the customers, industrial businesses are being forced to employ more active marketing and branding strategies, that will provide them with the opportunity to be faster and more flexible in responding to the changing competitive conditions in the supplier industry and to constantly changing customer needs. Companies and organizations embrace branding efforts, which can create value for both the customer and the company. Companies want to attract and keep customers by creating and promoting value, image, lifestyle and other values important for the understanding and use of the product. In today’s global economy, they have to establish and maintain competitive advantage, create commercial success in the market and provide criteria to differentiate them from competition.

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42 www.manifattura1887.it
One of these employed strategies is Ingredient Branding: an accepted marketing concept that only recently started to thrive (Kotler and Pfoertsch, 2006). It is a new phenomenon that consists in the highlighting the brands of the ingredients (or components) of the final product.

Recent research illustrates that ingredient branding offers a potential for successful brand management and increased profits for companies along with product offerings that create added value for the customer. If the customer understands and knows the function, features and benefits of a component (ingredient), he or she will pay more attentions to this offering, and if it creates a unique product offering it can lead to loyal and profitable customer relationships. This type of approach goes beyond the limits and risks of a too narrow and single-sided customer-supplier relationship.

A striking example of ingredient branding is Intel corporation, the microprocessor manufacturer demonstrated the marketing possibilities that ingredient branding could provide to both component manufacturers as well as to the manufacturers of finished goods.

In fact, if well implemented and pursued, the highlighting of the components can create a win-win relationship between the producer of the components and the producer of the final product. Thanks to this type of strategy, the consumer, increasingly aware and informed, will have more motivated and demanding purchasing behaviours, searching for quality, and extending his or her evaluation also considering the components of the products.

An economy in which consumers are satisfied with their purchases is alive, dynamic and proactive for the producers, which in turn are constantly involved in the improvement of products in order to satisfy clients, in a continuous cycle that moves an honest economy (Kotker and Pfoertsch, 2013).

In Berto Industria Tessile, the desire to prove the quality of their products is so much and it overcomes the difficulties. The market is in crisis and the fashion and textile sector encountered a lot of difficulties. But precisely for this reason, more must be done to enhance and appreciate the product in the best way possible, in this case a 100% Made in Italy product and of the highest quality.

And it is with this objective in mind that Arianna Morimando, Marketing Manager of the company and the CEO Flavio Berto, besides all the other special projects and partnerships described in the previous paragraphs, decided to undertake an Ingredient Branding project.
As I said at the beginning of the paragraph, ingredient branding allows both the producer of the ingredient and the consumer that buys the product with that particular ingredient to benefit.

In our case study the particular ingredient is the fabric. The denim fabric with which are sewn our jeans, that item so comfortable and informal that people love so much just because it is extremely versatile and casual but at the same time stylish and fashionable. The company decided to start this project of ingredient branding, so that the final consumer of jeans becomes aware that the fabric used to tailor his or her jeans was produced by Berto. More precisely it was produced in via Mazzini 11, Bovolenta, Italy, and for this very reason it was treated with extreme care and dedication and under Made in Italy and eco-sustainability strict regulations.

Berto Industria Tessile thinks that ingredient branding will be more or less the future of textile industry. To say “Made in Italy” today it is really simple, few steps of the value chain in Italy are enough to obtain this validation.

For this reason Berto decides to offer its clients (fashion brands) the possibility of declaring that their finished products have been realised with Berto’s fabric, as a guarantee of quality, reliability and also sustainability.

Initially the company thought to encounter a bit of scepticism from clients, instead the initiative was well received and appreciated.

But, from the practical point of view, what does Berto do in this ingredient branding project?

It simply gives the client a woven label every meter and a half of fabric bought, leaving him free to place it where he prefers most, and Berto, in parallel offers also a real support in terms of communication.

The ingredient branding project is modulated from time to time depending on the customer and on the market, the company did not created standard works, because it wants to be near to the client and to adapt itself to the client’s needs and because the company wants to collaborate only with that clients that respect the same values of Berto. There must be a sharing of values, style, market positioning and corporate social responsibility. For example Berto does not like to do ingredient branding with brands that buy most of the raw materials or semi-finished products in low-cost countries. Because more should be done to convey product value and justify the premium price: only an experienced eye recognizes the quality of a fabric simply observing it.

So, it is important that B2B and B2C companies collaborate: networking is the future.
With this project Berto does not want high volumes, it wants high quality in the shops. The company is pushing for sustainable and aware consumption, it wants to re-educate the consumer to come back to buy critically. It is important to re-experience the “slow” concept in fashion, because nowadays we are subjected to overproduction, not to fashion. From this point of view, initiatives like Fashion Revolution are welcome. Fashion revolution is a movement born on 24 April 2013 when 1,134 people were killed and over 2,500 were injured due to the Rana Plaza collapse in Dhaka, Bangladesh. They believe in fashion as an industry which values people, the environment, creativity and profits in equal measure, and it’s everyone’s responsibility to ensure that this happens.
CONCLUSION

“There are no secrets to success. It is the result of preparation, hard work and learning from failures”, Colin Powell.

This thesis has had the principal objective to verify if in a mature market like the denim one, there still is the possibility to success.
In particular the strategies implemented by a mid-sized Italian company that produces denim textile has been analysed.
In order to understand in which way the company has been able to thrive and is still thriving, it was necessary first of all to have an overview of Italian small and medium enterprises, observing that this type of companies despite the crisis and the difficult Italian economic situation has been able to have positive results, one way or another.
Then the Italian fashion and textile sector has been examined: this sector has always been identified as one of our country’s excellences. Fashion companies in fact are among the most prosperous companies in Italy also in the last period, but, as highlighted in the second chapter, at the top for sales we found together companies with really different business models. It is clear in the Top 15 companies the presence of Calzedonia spa, with a “styled-in-Italy-oriented” business model, together with Prada, Armani and Dolce and Gabbana that without any doubt follow a “Made-in-Italy-oriented” business model.
From this comparison it is possible to understand that there is not a right or a wrong way to do business: both models have success, but they rely on different objectives and incentives and also towards different types of consumers.
In the third chapter we moved to the description of Berto Industria Tessile and of the strategies implemented by the company in order to thrive in the denim business, which has also been analysed and examined through all its chain. Berto had to deal, and it is still dealing with an even more price driven competition, led by the shift of big brands production to low-cost countries like China, Tunisia, India, Bangladesh and Morocco. The implementation of competitive strategies, in an even more globalized context in which
companies delocalize in the search for low production costs, has become an imperative, it is the only means to create some value and to differentiate themselves from competitors. But one of the principal and most innovative strategies implemented by Berto was the marketing and communication strategy. In order to respond to the above-mentioned market change and to the recent consumer behaviour change, the company decided to focus its efforts on new communication channels, which lie even more on social media. These new channels allow all the companies to establish a relationship with the final consumer, up to now, in no way considered by B2B companies.

These innovative strategies also let firms to know better consumers’ needs and in this way allow them to fully exploit their production capacity, to overcome price driven competition and to have more topics in order to convince clients about their products. This is the final consideration. Italian small and medium enterprises, not only in the fashion and textile sector, must be able to evolve themselves and to respond to all changes and difficulties that they face. They have to put in place independent and original competitive strategies, sometimes really different from the models that characterized the traditional companies. They must constantly re-confirm and communicate their values and the uniqueness of their style in a consistent and coherent manner.

Many steps have been done and the premises for further ones are paved, but there is still a long way to go. Entrepreneurs do not have to limit to the production of quality fabrics or clothes, but need to listen to customers’ requirements, speak the correct language and provide them the instruments to appreciate and to weigh the value of what they are purchasing. In few words, to communicate effectively means also to put yourself in one other shoes, always keeping in mind Marco Bettiol’s words: “We are selling culture, not clothes”.

Brands that betray their mission often fail.

Berto Industria tessile invested a lot to put in place these strategies, imposing its own specificity, with the belief to thrive for a long time in the already mature, but beloved, denim business.
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RINGRAZIAMENTI

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