**Italian textiles and China**

**Material fitness**
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How Europe's leading home for makers of clothing and shoes is adapting to low-cost competition from China

THINK of an Italian mid-market clothing brand with global presence, and the chances are you might think of Benetton, based near Treviso. Fifteen years ago, almost 90% of Benetton's colourful clothes were produced in its home market. Today Italian makers supply less than 30% and this will fall to 10% over the next few years. Benetton opened an office in Hong Kong early last year, partly in order to keep an eye on the Chinese suppliers upon whom it increasingly relies.

This is the harsh reality of competition in the global textiles and clothing industry. Last year marked the emergence of China as its dominant force. Only tariffs had kept it at bay before then, and threats of trade wars quickly led to some of them being renewed. This week, Peter Mandelson, Europe's trade commissioner, added shoes to his possible list for new tariffs. But no one should be fooled by such measures. It is only a matter of time before China's low labour costs and growing production skills crush competitors in western economies.

Nowhere is that threat more potent than in Italy. For generations its economy has relied on dense networks of firms, most of them small and middling family concerns, that clustered together and created wealth by mid-level manufacturing of goods such as clothing and shoes. They supplied not just the high-end fashion labels and designers, but also used the "Made in Italy" tag as a powerful marketing tool. Their success led to attention from economists such as Michael Porter, who noted the role of clusters and promoted them elsewhere as a way to jump start stalled or fledgling economies.
Today the impact of Chinese competition is becoming clearer. A long-term decline that saw the gradual erosion of jobs has accelerated, harming the economy. Italy has almost 600,000 jobs in textiles and clothing, about one-third of the sector’s total in the old 15-country European Union and one-quarter of it in the enlarged, 25-nation, European club. The sector has been a major exporter and the generator of a large positive contribution to Italy’s trading account. Both employment and that financial contribution are now declining.

More specifically, the textiles, clothing and footwear industries are dividing, as competition brings out the best in some companies and others fail to adapt. The best have ripped up their business models and ruthlessly shifted production to wherever it makes sense—some in eastern Europe, others in China itself—in order to concentrate on strengths such as design and marketing where the Chinese can be matched or beaten. Others are struggling to stay alive. Competition from China has also revealed a stark difference between the interests of Italian brand owners, who see a market opportunity for buying and selling, and many manufacturers, who feel threatened as their mainly domestic customers abandon them.

The process is raising doubts about whether the Italian economic model, once seen as robust and effective, was in fact much more vulnerable than it appeared. Far from being an advantage, it seems that it might actually be risky to be part of a cluster where survival depends in part on others to respond to threats in kind. And family firms, though in theory as flexible as any, are not necessarily nimble in practice. Generational conflicts that once mattered little can prove fatal when speed and decisiveness are needed.

A good place to see the impact of competition from China is around the towns of Busto Arsizio and Gallarate, best known today for Malpensa, a sprawling international airport near Milan through which the fashion industry flocks for regular trade fairs at the recently completed fairground. For decades before the airport arrived cotton was the business around which the towns’ economies turned.

Busto Arsizio and Gallarate were the centre of an industrial cluster in Varese province, so successful that it was known as the Manchester of Italy. But the number of workers in textiles and clothing in Varese province almost halved to 27,300 between the censuses of 1981 and 2001, and the number of firms employing them dropped from 4,900 to 2,900. Another 440 firms have closed since 2001. In the neighbouring province of Como, a once great silk cluster has shrunk by almost half.

Evidence of decline also scars valleys of the Alpine foothills about 50km west, in the wool cluster centred on Biella. Across the Po Valley in north-eastern Italy, the gates of Lanerossi’s huge wool mill in Schio shut for the last time at the end of August 2005, ending almost two centuries of activity; 30 years ago the firm employed 7,000 workers. Times are hard, and getting harder, in every part of Italy where yarn is spun, textiles woven and clothing made.

The reason is that cheap, good quality imports, many from China, are taking market share. A research paper published last September shows that the slice of domestic demand taken by imports of textiles and clothing into Italy has risen from less than 20% in 1991 to almost 50%.

Italy’s textiles and clothing makers are not alone in their troubles, or in causing increasing worry to policy makers. The “Made in Italy” label has been losing ground in footwear too. In 2004 the footwear industry, for long an export-leader, was overtaken; the number of shoes that left Italy for foreign markets was less than the number that Italy imported. Like firms in textiles and clothing, shoemakers have also cut jobs, from 124,200 in 1995 to around 100,000 last year. During 2005 more than 8,000 jobs were lost in firms making leather products. Many businesses have closed. Almost 8,900 firms made footwear ten years ago. Today there are fewer than 7,000.

Rossano Soldini, chairman of Associazione Nazionale Calzaturifici Italiani (ANCI, the footwear-makers’
association), complains about the unacceptable disparities of competition and blames China for the sector's difficulties. He believes that the efficiency and productivity of Italian footwear firms are not part of the problem. Neither is the fragmentation that goes with reliance of Italian manufacturing on small and medium-sized family firms.

But these latter points are questionable. The family firm, apparently flexible, committed to investment and loyally carried forward by successive generations, has been widely reckoned a strength of Italian industry. But too many of them lack the scale they need to survive in tougher markets. The census in 2001 showed that textile firms in Varese province employed just 12 workers on average, while clothing firms employed half that number. Micro and mini-firms abound in Prato, 85% of them employing fewer than nine workers and only 1% more than 50. Italian footwear firms employ just 14 workers on average.

Specialisation, in which a firm does only one phase of the manufacturing cycle, partly explains this fragmentation. But the desire for independence and diffidence towards outsiders also work against concentration and consolidation. Whereas in previous decades these traits gave clusters advantages over the big industrial sprawl of competing western economies, these days the processes are too inefficient to be competitive in all but the highest-value segments. Franco Pantaleoni, a consultant with Tangelo, a sourcing company in Hong Kong, is especially critical of clusters. They have, he says, encouraged shortsightedness, the black economy and consumption, while discouraging education and failing to prepare firms for change.

By depending on a single industry, clusters have also left regions vulnerable to shifts in business power. Treviso's economy is diversified, however, and jobs are not yet an issue in Carpi, where neat industrial estates and the city's shops exude well being. As well as its airport, Varese province has a large engineering industry and is within easy reach of Milan. But with its reliance on wool, Biella is less fortunate. "None of my predecessors had to address the question of unemployment," says Vittorio Barazzotto, Biella's mayor.

"Nowadays, small but beautiful really means tired," remarks Giovanni Burani, chief executive of Mariella Burani Fashion Group. He believes that small and medium-sized independent firms need to grow, but have no room for error while they try to do so. His group's listing on Milan's stock exchange in 2000 provided cash for a strategy of growth through acquisitions of clothing and accessories brands and licences, and turnover has since risen almost threefold.

There may be room for some niches to survive. The cluster around Stra, between Venice and Padua, makes luxury shoes that retail at around $400 a pair in America. Some 350 craft workshops there, employing 8,000 people, deliver about 20m pairs of shoes a year to global fashion brands such as Chanel, Christian Dior and Givenchy. They have no complaints about the state of business at the moment. But even these craftsmen may be living on borrowed time.

Some firms have given up manufacturing and turned to adding value through design and research and development. Carlo Rivetti is one example. In the early 1980s he established C.P. Company, a sports and casual-wear design firm, near Carpi. "We are not fashion, but design, closer to Pininfarina (a high-end car-design boutique) or Ferrari than Fiat," he says. Research into materials such as Kevlar, optical fibre and steel is at the heart of the business.
Yet there cannot be a niche for everyone and, niches apart, the survival of Italy's footwear, textiles and clothing companies depends on them getting their strategies right across four main factors: brands; market positioning; exporting; and careful buying for price and quality.

Plenty of firms are clinging on, even prospering, by milking and developing already established brands. For example, Ermenegildo Zegna, based near Biella, shows little fear for its future. Known for its classy men's suits, the firm has a strong brand. It was among the vanguard of global brands entering China, making its first downstream investments in 1991, says Ermenegildo Zegna, grandson of the firm's founder and its joint head. They now have retail outlets in 24 cities there. The group is vertically integrated and manufactures mainly in Italy, which it claims has not been a problem so far.

Others have also clung to local manufacturers by positioning themselves cleverly in the market and by systematically building the trading links that underpin their exports. Mariella Burani, which makes 70% of its sales abroad, outsources all of its production, about 70% to Italian firms. Another Carpi firm, that owns the luxury brands Blumarine and Anna Molinari, uses local manufacturers.

Many mid-market brands have already moved almost all of their production abroad. Only 10% of the sportswear sold by Carpi-based Navigare is made in Italy. Most of the garments are made in the firm's own factory in Bulgaria or elsewhere in eastern Europe. Sauro Mambrini, head of Champion Europe, a global brand in sportswear whose head office is in Carpi, notes that its suppliers migrated from Italy to eastern Europe at the end of the 1980s, to Turkey a few years later and in the second half of the 1990s to the Far East. Champion Europe's supply office in Singapore now buys 30% of the firm's needs. The same trend is true in footwear.

Romania has been a magnet for Italian businessmen, particularly those based in the north-east. Thanks to geography, and monthly unit labour costs of around €250 ($298) against a minimum of €2,000 at home, Italians own about 1,500 textiles and clothing factories and 1,000 footwear factories in Romania and employ around 200,000 people there. As pressure from China increases in the coming years, even these operations are likely to find it an ever harder struggle to survive.