

A Textile District in Marche (Italy): strength and weak factors and politics

Marcello Falasco, Riccardo Marinelli*

Abstract

This paper carries the report of a congress which took place this June in Filottrano (Marche, Italy) about "Textile sector: professional training and development strategies".

Crisis of fashion organizational model is at this point an acquired term even in Filottrano district. Filottrano district is made up of small industries for the account of a third parties in textile, footwear, clothing, leather production. "Politecnico delle Marche" Observatory points out there are strength elements on which SME can and must aim to overcome this particular and hard period: culture, organization, creativity, HR, R&D to add to tradition and quality, well known in all over the world.

We ask if is still profitable the product delocalization, main reason of fashion district connective tissue weakening, fashion district made of small family industries able to give flexibility, and to create and maintain empirical knowledge and tradition.

We pay attention to Italy or Europe funds not well used by industries, and we invite industries to overcome this crisis with HR investments and generational change, instead of fighting globalization with trade barriers, trouble and weight elements for whom must be protected.

We ask to entrepreneurs to understand this world transformation not only with comparing the past earnings but, above all, with the need to strengthen the particular elements which give continuity to the network industry model, increase flexibility and adaptability. This industrial system is capable, in a standardizing market, to enhance individuality and uniqueness, competitive advantage for the more profitable elite markets.

Keywords: Textile District

Reference:

- [1] M.Falasco, "E-Supply Chain Management", XXIV Annual Conference of the Italian Operations Research Society, University of the Study of Aquila (Italy), September, 10-13, 2003.
- [2] M.Falasco, M.Cardinali, "Logistic: a new pattern of industrial logistics for management control. From Activity Based Costing to the Activity Based Management.", XXV Annual Conference of the Italian Operations Research Society, University of the Study of Lecce (Italy), September 7-10, 2004.
- [3] M.Falasco, R.Marinelli, "The Textile District in Marche (Italy): points of strengthness and weakness". Meeting on Textile Sector, University of Ancona and municipality of Filottrano (Italy). June 2004.
- [4] R.S.Kaplan, A.A.Atkinson, "Advanced Management Accounting", Prentice Hall International Europe, England

* M.Falasco (falasco@diiga.univpm.it) University of Ancona (Italy) TEL: +39 071 2204483

R.Marinelli (falasco@diiga.univpm.it) University of Ancona (Italy) TEL: +39 071 2204483

Italian textile - clothing macroeconomic frame

Even if Year 2003 didn't go with the rise of world economy, because of the shadow of September, 11, Iraqi war, terrorist attacks and the rise of change rate Euro/U.S. dollar, in 2004, the main eight important Italian luxury company raised their revenues of about 4.6% compared with first 2003 quarter, and profitability 7.6% against 7.0%.

First quarter data can estimate 2004 revenue growth for the main 25 fashion Italian industries quite between 5.0% - 6.0% , and if the first quarter trend is confirmed, luxury sales will be like year 2001.

Textile - clothing economic frame in Marche

Marche Fashion District is made of about 3,318 mainly small/middle enterprises (of which 1,057 in textile) with 24,051 employees (of which 6,557 in textile). Those enterprises mainly work for great brands, and they are facing with the process of production delocalization, which impoverishes industrial web, with economic and social consequences.

Last year wasn't a good year for Marche Fashion District (-43,8% compared to first quarter 2002): only Urbania (Urbis jeans) and luxury knitwear in Ancona province made a positive result. But in 2004 first quarter Marche Fashion District obtained a positive growth (+2.66% clothing, +2.60% footwear, +8.34% leather). This is a probably trend for the 2004 second quarter (EBAM source), with the same results of 2002 (€ 850 millions).

Osimo-Recanati-Filottrano Fashion District.

Global competition arouses some phenomena of crisis for Italian Fashion System. Many Italian brands delocalized their production in low labour cost and low taxation countries, but this trend meant impoverishment for Italian supply chain. Now new competitors come directly in the market, gradually, using low prices in low-middle markets.

Market liberalization brings growth by competition, for Italian industry in a first time earnings thanks to delocalization, now weakness in fashion district and decrease of the technological gap.

Low production cost strategy didn't consider cultural advantage which comes from the micro-entrepreneurs and technical traditions handed down from father to son. Now this production tissue isn't boosted to invest and to hand down.

Filottrano District is made up of 55 enterprises with 2,200 employees.

Strength factor: product quality, supply chain, brand, skilled workers, production organization.

Weak factors: marketing, communication, management (generational crossing)

We consider a sample of 26 enterprises (CNA survey, October 2003), with a main production in women' clothing, fashion sketch (8 enterprises) and prototyping (11 enterprises).

69.23% of this sample works for other enterprises; only 20.00% has an access to market with an own brand.

Filottrano District is suffering this economic world change, and is bearing the consequences of this impoverishment politics, in some cases, unconsciously chosen.

The sample we considered is facing this factors to overcome this difficult period:

- 1) Production delocalization
- 2) Forging/faking
- 3) Unfair competition
- 4) Far East - China
- 5) Quality and service to client
- 6) Technological research
- 7) Public support
- 8) Own brand for autonomous trading

If production delocalization lowers production costs, allowing more earnings and being more competitive in global markets, Filottrano Fashion District is facing an economic crisis: costs are more important instead of quality, research, and made in Italy. The district must reduce its production costs, principally reducing investments (only 23.8% says to invest in the next semester) and labour costs. Some firms went bankrupt, and many don't want to go into debt to survive.

Forging and illegal import are growing more and more (from 5% to 7% of all world trade). Efforts in research and creativity are frustrated by a quickly copy (with a lower price too). This vicious circle (Italian firms must research and develop new products to counterbalance high costs - competitors copy and sell with low prices - and so on), is fed by the no-observing import laws and product naming. Patenting seems not able to protect firms which invest in research and development.

Firms with a foreign citizen proprietor are growing in Emilia Romagna above all (403 firms), but also in Marche. Typical textile firm is made by 9-10 employers, unfortunately not everybody with residence allowed. Some local firms give work orders to this irregular firms, exploiting their below-cost work offerings to take advantage over regular neighbour firms with higher costs. Before for earnings, now for survive.

This systematic high labour costs lead Italian (and not only Italian) firms towards high quality standards markets, mainly luxury markets. For firms in the market it means working with Italian structures and rise prices, instead of leaving Italian structures for low cost firms (probably in East Europe, rather than in Far East, North Africa, South America). For firms only production-oriented, there are some possibility: find a way to market with an own brand, lower its costs (for example giving its not-core activities in outsourcing), be

more competitive with service and quality. It means a strong change in mentality, organization, middle/long term vision.

There is a lively debate about Public support for firms in difficulties. There are many hypothesis: a financing revision taking away funds without security with low interest rates soft loans, or, instead, tax relief by removing IRAP tax for research. Italian public support for basic research is less than 1% of GDP (Gross Domestic Product).

There was a -3.4% for investments in year 2003, above all for SME. In textile, fashion, footwear (ISAE survey, 4,000 firms sample), -9.7% in the 2004 semester.

What is necessary to do to change this trend?

Organization and training

This is the knowledge society, and the competitive advantage is the owning of information. Fashion must change and follow this trend, joining old traditions with new technologies (CAD, CAM, CIM and ICT above all). If traditional knowledge is the inner wealth of Italian Fashion District, the same Fashion District needs a strong boost for process automation, and to improve organization for lower costs.

Networks.

If quality is a must, a wide range of products is also necessary to offer to compete in this actual market. Production networks (a more collaborative way to say District) can accelerate the service response of firms, reducing costs by a more and more specialization. To do this, connected information systems are necessary. A new vision of logistic is necessary (Falasco 1993, AIRO conference 2003), taking care of new competencies and new operative procedures in organization making synergic and mutual advantage relationships.

China and Far East.

Import and export and selling goods without a Chinese partner is allowed, even if time from law to its enforcement isn't brief. Italian firms and brands can create shop (or firm) networks in China. Chinese Trading Companies' power will be reduced to disappear. Foreign company mustn't any more have an obliged joint venture with a Chinese firm. Chinese market is very wide and expanding.

Unfair competition

Trade barriers to oppose illegal product diffusion are very difficult to create and to respect. We need to make to respects trade laws and punish, above all, local actors who make earnings.

We cannot think illegal producers respect our laws in their countries (above all if there aren't those laws), but they must respect our law if they are in our country. If we close firms which not respect our law, in local market only the fair competition will win.

Stopping the District impoverishment

The only way to grow and have an high quality production is maintain the old tradition, the culture, the school in every family, the small and even more small production sizes. To have flexibility, uniqueness, creativity advantage. Even reduce the own higher earnings to invest in human resources (new generations), organization, culture of product, technology.

If necessary, starting with an own brand.

Conclusions

The Italian Fashion District crisis is not ended, but the Italian Fashion District isn't finished.

It is very difficult hoping a new positive trend to heal this sick production organization, so firms must invest to improve their organizations.

Investments, a more network strength, traditions and technology are needed to facing globalization.

There are many elements to hope a new Italian Fashion Renaissance.