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# THE FOOTWEAR AND LEATHER GOODS SECTOR IN ITALY

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\*This document has been prepared without formal editing.



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## Introduction

With a Gross Domestic product of US\$ 1,088 billion in 1995, Italy is the sixth industrialized Country in the world (*Table 1*). Furthermore, among the G7 Countries, Italy is the only Country which was able to keep, and to increase also, its competitiveness within a sector that is traditionally considered “poor”, such as the leather-footwear system. Some figures can further help to understand this phenomenon. The leather-footwear sector in Italy involves more than 22,000 firms, and a total of 217,520 employees. The sales turnover is over US\$ 22 billion, two thirds of whom result from exports. Therefore this is a considerable industrial sector. The success of the “Italy system” is furthermore asserted by the position of absolute prominence of the Italian industry with regard to various segments of the sector: unquestioned leader in the production of footwear leather goods and tanning equipment, also Italy ranks third as to the quantity of footwear production (this deed is even more considerable if we consider the average value of Italian shoes in comparison with the two major producers, namely China and Brazil).

**Table 1 - The Gross Domestic Product of G7 Countries (1995)**

	<i>GDP (billion US\$)</i>	<i>% of the world total</i>
USA	7,100	26
Japan	4,963	18
Germany	2,252	8
France	1,451	5
Great Britain	1,095	4
<b>Italy</b>	<b>1,088</b>	<b>4</b>
Canada	574	2

*Source: G7 Countries*

This contribution aims at explaining the "anomaly" and the success of the leather-footwear sector in Italy, also to see how and if the "Italian recipe" can be successfully exported to other Countries.

To this end, this survey breaks down into three main sections:

- a) the first part will aim at setting the Italian leather-footwear system against the more general national industrial system. In fact, some elements (the prominence of small and medium companies, its “district” nature) in general are the resources of the Italian system;
- b) the second part deals more specifically with the structure of the leather-footwear system in particular, its present situation, its main points of strength and weakness, and anticipating its lines of development;
- c) the third part, finally, includes some considerations about the possibility of exporting the Italian model to other countries.

There are a number of **questions** which were generated during the compilation of this study. To answer them either further investigations are required or discussion among specialists dealing with the leather-based industries would be needed.

1. Is the performance of a strong footwear industry supposable in a socially advanced country?
2. And may be supported that in this country this would occur without a parallel consolidation of an industry having well defined and deeply rooted features?
3. The distinction which is separating at present export manufacturing countries and import countries may be overcome?
4. And, a real system of free trade or, at least, a system on a simple “fair trade” basis, may occur in the footwear sector?
5. May we predict that, in a more or less near future, the success of a country in the footwear sector will depend exclusively on the low cost of labour and on the social charges?
6. Which will be the importance of technological development with regard to the level of competitiveness of the footwear industry?
7. Is the Italian model – which has been successful – exportable?
8. Has this model been thoroughly analyzed in order to identify which countries could adopt it?

*Chapter I*

## THE ITALIAN INDUSTRIAL SYSTEM: SMALL COMPANIES AND DISTRICTS

In comparison with other major industrialized countries, Italy has, in our opinion, two main "anomalies": the preponderance of small and medium industries and the importance of a district structure. The reasons of these characteristics and their consequence should be well understood, as they also are involved in originating the importance of the Italian role as far as the leather-footwear sector is concerned.

**Table 2 - The structure of the manufacturing industries in Italy**

<i>Dimensional class (employees)</i>	<i>Number of employees</i>	<i>Per cent incidence on manufacturing industries (%)</i>
1 - 19	2,163,427	41.5
20 - 49	850,614	16.3
50 - 99	521,258	10.0
100 -199	480,988	9.2
200 - 499	523,637	10.1
500 - 999	266,021	5.1
1000 and over	406,328	7.8
<b>Total</b>	<b>5,212.273</b>	<b>100.0</b>

*Source:* ISTAT

### The Role of Small and Medium Industries

*Table 2* sums up the structure of the Italian industrial system, subdividing the companies into dimensional classes. The importance of small and medium industries is noticeable. In addition, Italian data may be further understood when they are compared with those of other industrial Countries. *Table 3* (see next page), in particular, shows the average dimensions of EU manufacturing industries.

The prevalence of small and medium industries is both effect and cause of some characteristics that are peculiar to the Italian industrial system. In particular:

- (i) *The widespread businessman's outlook.* Even if this deed may appear immaterial, with regard to the structure, we think that this is a basic feature, if we have to understand the late dynamics of the national system of production. Often, small and medium companies had been set up by "technicians", who have learnt elsewhere how to realize a product and who later decided to start their own business. This explains the predominance of small companies working in traditional departments (even if they are often able to find new modes of competitions) as well as their commitment with regard to their "creature". After all, these are also the reasons why we may find processes of industrial concentration taking place by stages: the businessman considers the possibility of sell his firm only when there is not any possible alternative;

**Table 3 - Average dimension of EU companies in 1990**

<i>Country</i>	<i>Average number of employees</i>
Sweden	13
Finland	12
Austria	12
Holland	10
Luxembourg	10
Germany	9
Denmark	9
Great Britain	8
Ireland	8
France	7
Belgium	6
Portugal	5
Spain	4
<b>Italy</b>	<b>4</b>
Greece	3

*Source:* EU (1996)

- (ii) *Flexibility.* Their dimensions do not generally allow many Italian companies to employ productive solutions which are based on researches about scale economies or efficiency. On the contrary, in order to survive, Italian companies must make use of their flexibility. Therefore, they tend to be more competitive paying attention to the satisfaction of their clients as well as through a noticeable ability in meeting rapidly the needs and the changes of the market;
- (iii) *The predominance of process innovations* in comparison with innovations on the product. By the fact small and medium Italian companies do not have the resources to achieve “radical” changes of their products. Instead, customization of the product (also thanks to the district structure, allowing a strong connection between the various stages of the sector) and process innovations - which may be incorporated effectively even by small and medium sized companies - prevail.

In recent years, these factors contributed to a substantial success of the Italian productive system. As a matter of fact, thanks to the flexibility and the attention towards their customs, Italian companies succeeded in outlasting even during those years (1990-92) when an overestimated Italian lira restrained the exports. Then the boom that followed the devaluation of the currency in 1992 was not surprising.

These factors are also important to understand the significance of the leather-footwear sector in Italy. The main characteristics of the Italian industrial system (the necessity of adjusting to the inconstant requirements of clients, flexibility, the ability in meeting fashion trends changes, the limited need of huge investments in research and development and in radical changes of the output) match in fact with the characteristics of the leather-footwear sector.

## The Role of the Districts

The phenomenon of the industrial districts, that is of ensembles of companies which are situated in the same area, and that are specialized in a determined productive sector strongly integrating each other, is not new and it is not Italian exclusively. The first districts originated in England in the past century and district structures may be found nowadays in France, Germany (Baden-Württemberg) and Japan(Sakaki).

Still, in Italy the phenomenon of industrial districts has taken on some connotations that are more relevant than elsewhere, the more so that today the first 60 industrial districts in Italy represent more than 30% of the whole national export.



As a matter of fact, in the leather-footwear sector, the district structure is the prevailing form of organization of the business activity. By the fact, it is enough to think of:

- the machinery for leather footwear in the area of Vigevano;
- the machinery for synthetic shoes in the area of Veneto;
- the tanning equipment produced in the areas of Veneto and Tuscany;
- the footwear districts in the Marche and in the area of Barletta, and Veneto;
- the tanning districts of Santa Croce sull'Arno, Arzignano and Avellino.

Therefore we think it advisable to analyze, even if briefly and generally, which are the traditional points of strength of the industrial structures and which is their latest line of development:

## The District in the Industrial Economy

With regard to the industrial economy, the phenomenon of the districts began to be an object of interest at the end of the seventies. In particular, Beccattini (1989) terms the industrial district as “a social-territorial entity which is characterized by the active simultaneous presence, in a circumscribed, naturalistically and historically delimited area, of a community of persons with an industrial population”. This definition highlights how the success of the single company can not be possibly analyzed if it is completely separated from that of other companies as well as from the general conditions of the area.

Again, at the beginning of the eighties, some structural qualifications of competition of the “traditional” district in comparison with other forms of industrial organization are acknowledged:

- a) the reduction of the costs of firms' transactions, thanks to their proximity;
- b) some positive external economies, such as in particular:
  - the availability of skilled labour, without the necessity of training interventions from the side of the single companies;
  - the possibility of sharing common infrastructural services;
  - more easiness in finding information about market or technological innovations;
- c) the possibility of joint and synergetic learning processes. In this way trying to close the competitive gap of small and medium firms in comparison with big industries in regard to research and development is possible.

## The New Industrial District

The title of a 1992 text, “Industrial districts: crisis or evolution?” sums up the main critical views concerning the districts. Different authors, in particular, stated that, within an increasingly globalizing market, the district structure represented an element of weakness for the Italian system. Still, the latest data disprove this opinion. In particular, the district system succeeded in adjusting to the development of the context, often changing its internal organization and thus keeping and increasing its competitiveness.

Furthermore, outlining some elements determining the more recent evolution of the district structure may be useful:

- a) the presence of co-ordination structures (such as the converters in the textile industry, or as the dealers in the case of footwear machines production), fostering the integration process among different companies;
- b) the birth of groups of firms, of whom one becomes the leader, introducing hierarchical elements in the district structure.

In this way, a sort of intermediate element between the classical district and the integrated company emerged:

9. In comparison with the classical district, there is an increased tendency of strategical reconfiguration. The structure of co-ordination rather than the leading company identifies new competitive directions and fosters the rest of the district towards those directions. In this way, flexibility, on a small scale, that is

typical of the traditional district structure, lacking in fact a long-term view, moves towards a real and strategical flexibility.

10. In comparison with an integrated company, the single units keep an independence allowing them having a stronger contact with the market. As a matter of fact, this is one of the most important competitive factors of the district within troubled competitive context such as the present one.

### The Performances of the District System

As we already underlined, the latest data confirm the worth of the district model, properly adjusted. In 1996 the main industrial districts increased by 4.6% on average their exports, despite the Italian lira strengthened considerably as against the previous year. We would like also to underline how the rest of the Italian economy reported a much more limited increase of their exports (+0.2%). Due to this dynamics, the first 60 Italian districts, with a total of 118,186 billion Italian liras of exports, represent 30.5% of the domestic export (29.65% the previous year). The competitiveness augmentation involved, in general, districts working in different sectors.

## Chapter II

### DEFINITION OF THE “ITALIAN LEATHER SYSTEM”

The Italian leather system- apart from the presence of the above mentioned “districts” - is to be considered and analyzed in the whole. As a matter of fact, its typicalness and that of the various related departments results from this “ensemble”.

The single departments characterize in fact for their ability of

- a) developing strong and articulated synergy;
- b) triggering an interdependent rate of subsidiarity surpassing the geographical proximity up to including the way of working at a productive level.

Manufacturing companies - especially those producing shoes - serve as centres of assembling of detached parts that are produced at their turn by factories specialized in the production of single components and in the single stages of production.

The components' department is the drive belt between the raw material and the finished product. In Italy, it is made up by 1,500 firms employing 23,800 employees. Its success originated an “assembling” production system.

We would like to underline the importance of this system that has been concerning every kind of products, from the advanced and expensive item, to the mass product. It is important to consider that this system may be applied to companies of any size.

As we have already mentioned, the capillarity of the spreading of such *modus vivendi* resulted in:

- a) distinguishing the whole system;
- b) having an influence on the structure of the single departments, which have been build up their targets on the philosophy of the reciprocal integration,
- c) shaping the mind set of the operators who exasperated the research on the specialization of the production over the limits imposed by the system.

The generalized expulsion of the cutting and sewing stages of the upper from the assembling centre of the finished product, as they can not be considered as “components” in a strict sense and which found various sizes of independent forms of productions should be considered within this context.

### Origins of the System

In the sixties United States buyers discovered the productive potentials of the Italian footwear sector. In the country there were:

- a) a deep rooted crafts tradition in this sector;
- b) an enterprising spirit;
- c) a labour cost that was quite inferior;
- d) a prospect of politics stability within the western countries alliance.

Therefore this interest produced a spur on the Italian production from a strong consumer of shoes which was bound to leave progressively those sectors with high contents of manpower to turn instead to countries which were reliable under every point of view.

Still, the volume of the United States orders was too high with regard to the sizes of the single Italian units of production.

Then the Italian counterpart tried to find a solution transcending the creation of companies of big dimensions, which would have been foreign to the mind set of the operators of that time, who were all of working and farming class origins and would have failed in matching its inspiring model.

The determination of keeping their limited proportions without losing the opportunities coming from the United States market spurred the process of specialization, beforehand of components and consequently by stages.

The achievement of good results fostered the continuation of this policy. Later on, the fear of the excessive power of trade unions, breaking out more incisively according to the bigger sizes of the company, resulted in the exasperation of this practice.

Therefore the “Italian footwear system” partly originated in a situation of necessity deriving from a determined outlook and, maybe, from a cultural limit, hardly tending to manage big sized structures, and partly, as time went by, from a situation resulting also by some psychological components emerging from the troubled change of the Country under the social and economics point of view.

Undoubtedly, this situation was not the consequence of a clear strategy or of a strict scientific interpretation of the “model” suggested by the development of the sector.

The merit of the sector and of its single operators was that of

- a) understanding that from a state of necessity a successful solution had taken place;
- b) matching and backing a process which led to a definition of the system;
- c) realizing that the same was adequate in meeting the requirements of the market globalization, even when the historical premises which had determined it were over.

## Consequences of the Structure of this System

The implications deriving from the composition and the functioning of a system as mentioned above are not limited to the productive and organizing aspects, although they are obvious.

As a matter of fact, there are other implications which can be defined as “environmental”.

The competition within the system - due to the prevailing presence of small and medium companies - is particularly animated and determines

- a) on one hand the strictness of the single employer as to his supplier both in terms of satisfaction of his requirements and of service;
- b) on the other, a similar availability of the supplier in assuming every needs of his customs, sometimes, and more frequently, in anticipating them.

Paradoxically, the concept of partnership to a certain extent did not establish, since supply and demand compete wholly and continuously - leaving aside a misunderstood sense of fidelity - and leads to the assessment, season after season of which kind of partner is the more adequate to fulfil one's needs in the short-term. Nevertheless this over-mobility - which may be considered cynical and impersonal - determined:

- a) a high grade of flexibility;
- b) the ability to interact with different structures and persons;
- c) the ability of choosing among the various options offered by the market.

The mechanical sector - as part of the Italian leather system both concerning the technology for the production of the output and their components, and the process of transformation of the hide into tanned leather - was not excluded from the context that had been determined by the system. It had to be in a position to meet the requirements of its clients as regard to

- a) the very diversified dimensions of the productive sector;
- b) the different kinds of product;

- c) the vital need of flexibility imposed by the market to a country which, due to its high labour costs, had to characterize for its quality of the “product” and for the “service”, as well as the promptness in interpreting fashion and trends and the worth of its "design".

### Fashion and Design as Factors of Success Under Certain Conditions

Even if it is taken for granted, we must underline the worth of Italy in the field of fashion and design. Nevertheless, this report will not deal with historical or social explanations about this national asset. Still, we deem it advisable to declare that the worth of these aspects would not be sufficient, alone, to explain the preservation of such a considerable role within the world context of a “labour intensive” industry in a country having a high labour cost.

This would justify the employment of well circumscribed and determined market segments, but not the situation of a country which, with 60 million inhabitants only, ranks third in the world production of shoes after China and Brazil, and second world exporter after China.

The other distinguishing feature is that, unlike the two above mentioned and other countries following in the classification, such results have been obtained after having opened the internal market to the foreign production (59% of the Italian domestic market was covered by imported products in 1996). Italy ranked seventh in the list of the major importers of shoes.

In a theoretical table reproducing the ten major footwear manufacturers, subdivided into producers, exporters and importers Italy would be the only one country appearing in each list, thus demonstrating that, among the factors of success of a national industry, the protectionism of the internal market must be banned.

As a confirmation of what we said about the ability of the Italian footwear industry in controlling the market with regard to every type of product and any type of price, we are now reporting a table detailing the main figures concerning the Italian footwear products along with their average price.

**Table 4 – Italian footwear production per item (1996)**

<i>Description</i>	<i>Pairs</i>	<i>Value (000.000)</i>	<i>Average price</i>
Shoes with upper in: <b><i>Hide and leather</i></b>	<b>323337.02</b>	<b>12.777.822</b>	<b>39.519</b>
of which:			
- Children’s shoes	33053.685	780962	23627
- Men’s shoes	82342.773	3561.726	43255
- Women’s shoes	183880.046	7388.736	40182
- Sports shoes	15946.562	742828	46582
- Others	8113.954	303570	37413
Synthetic	68796.167	1465.447	21302
Slippers	29719.337	340118	11444
Rubber	4988.596	76013	15237
Other materials	55856.43	1009.61	18075
<b>Total</b>	<b>482697.55</b>	<b>15669.04</b>	<b>32461</b>

Source: ANCI

Considering that the average price of imported shoes in Italy, for every single type of product is:

**Table 5 – Average price of imported shoes in Italy per item (1996)**

<i>Description</i>	<i>Average price</i>
Shoes with upper in:	
Hide and leather	26860
Of whom:	
- Children's shoes	20624
- Men's shoes	28942
- Women's shoes	24642
- Sports shoes	27910
- Others	25750
Synthetic	14028
Slippers	3287
Rubber	9793
Other materials	8701
<b>Total</b>	<b>13747</b>

*Source:* Anci

Then we may infer that, even if they are more expensive, the worth of Italian shoes shows a better quality/price ratio for every type of product.

Italian shoes are exported all over the world.

**Table 6 – Italian footwear export according to geographical areas (1996)**

<i>Geographical area</i>	<i>Pairs</i>	<i>Value (000.000)</i>	<i>Average price</i>
European Union	253663.407	6999.892	27595
Other Western countries	16178.122	547187	33823
Eastern and CIS countries	39031.593	1040.454	26657
North Africa	2007.453	33182	16530
West Africa	2222.341	20239	9107
Central East and South Africa	2596.004	43439	16733
North America	55095.725	1979.347	35926
Central and South America	2624.525	58234	22189
Near and Middle East	36965.886	439736	11896
Other Countries of Asia	16451.106	1004.727	61074
Australia, Oceania	2730.562	114975	42107
Others	427122	10132	23722
<b>Total</b>	<b>429993.846</b>	<b>12291.544</b>	<b>28585</b>

*Source:* ANCI

## Productive Relocation of Italian Shoe Factories

The skills and the acquaintance of Italian footwear manufacturers with the assembling system made possible the practice of relocating some stages of the whole productive run.

In this way, the plant of assembling continued to be situated within the national territory. This constitutes one of the keynotes of the sector's power of the finished sector in the Country with regard to every kind of production.

The relocated stages - whenever there are premises and conditions - are related to the cutting and the sewing of the upper. These functions are those with the highest contents of manpower.

The restrictions to the possibility of relocating the above mentioned working stages are represented by

- a) the quality standard of reference;
- b) the range of items that are the object of the operation;
- c) the congruity of delivery times.

Therefore the companies dealing low or medium - low quality products have recourse to the relocation of working stages in order to rely on orders involving big series per item, and to obtain orders beforehand. This aspect of the complex problems involved in the practice of relocation is acquiring an increasing importance due to the predisposition of the distribution to order with thriftiness, unless reordering frequently for short-term deliveries.

The character which the market is increasingly assuming concerns every kind of product, and the promptness of deliveries as to the moment of the order is a "service" that is strategically more and more important. It will nothing but foster an "integrated system" such as the Italian system, whose main noticeable characteristic is just the flexibility and the rapidity of the productive run.

## The Labour Cost as a Factor of Competitiveness

Undoubtedly the footwear sector is influenced by the labour cost and by the conditions in which the manpower have to work. According to a survey carried out in 1995 by the GERMAN FOOTWEAR FEDERATION, the conditions of workers, in the ten major footwear manufacturing Countries of the world were as follows:

**Table 7 - Labour Cost of the first 10 Footwear Manufacturing Countries**

<i>Country</i>	<i>Cost per hour (in D.M.)</i>	<i>Tax burden</i>	<i>Workdays in a year</i>
China	0.35	10%	300
Brazil	N.A.	N.A.	N.A.
Italy	8.85	100%	226
India	0.63	15%	300
Thailand	1.30	15%	290
Indonesia	0.58	22%	292
USA	6.00	45%	234
Japan	N.A.	N.A.	N.A.
Spain	7.35	45%	226
South Korea	0.75	15%	290

*Source:* GERMAN FOOTWEAR FEDERATION

If we think that Japan and USA produce almost exclusively for their internal market (in Japan skin and leather shoes are still submitted to a licence regulation), we may make some considerations on the subject.

Italy, despite the high cost and the very contained number of working days, succeeded in keeping a quite satisfactory position within the world production. Also Spain keeps its role. South Korea and Thailand, at the top of the list until ten years ago, decreased their importance as soon as the labour cost became higher than that of other Countries of the same area.

Italy acted in a different way, despite the proximity of very interesting Countries such as:

**Table 8 - Cost of Labour**

<i>Country</i>	<i>Cost per hour (in D.M.)</i>	<i>Tax burden</i>	<i>Workdays in a year</i>
Slovenia	2.57	58%	230
Slovakia	1.10	60%	230
Bulgaria	1.35	50%	235
Egypt	0.72	10%	286
Tunisia and others	1.90	45%	248

*Source:* GERMAN FOOTWEAR FEDERATION

Maybe the reason lies in the importance given by more recent industrialized countries to the cost of labour. As a matter of fact, they:

- a) find it difficult to move from the analysis of the labour cost in brief to that of the labour cost per unit of product;
- b) their footwear industries are scarcely rooted in the social and economic environment of their Country;
- c) they did not do things in time or did not find the proper conditions to fit with an integrated system, so that they do not have any consequent advantages;
- d) they succeed in reproducing easily their productive system in another country: Italy, instead, would not be in a position to do it, in the short and medium terms at least, but probably even in the long-term.



*Chapter III***STRUCTURE OF THE ITALIAN LEATHER SYSTEM**

Considering the footwear, tanning, leather goods, components and accessories figures altogether, this is the 1996 picture:

**Table 9 - Italian Leather system (1996)**

Companies		22,270
Employees		217,500
Sales	US\$	22,539 million
Exports	US\$	14,729 million
Imports	US\$	2,297 million
Balance	US\$	12,432 million

*Source:* Federpelle

### The Footwear Industry in Italy

In Italy, in 1996, 482,7 million pairs of shoes (1.36% more than 1995) were produced for an aggregate value of US\$ 10,155 million.

**Table 10 - The Italian footwear industry (1996)**

Companies		8,880
Employees		124,600
Production (quantity)		482.7 million pairs
Production (value)	US\$	10,155 million
Exports (quantity)		430.0 million pairs
Exports (value)	US\$	7,966 million
Imports (quantity)		133.3 million pairs
Imports (value)	US\$	1,187 million
Balance (quantity)		296.7 million pairs
Balance (value)	US\$	6,779 million

*Source:* ANCI

The Italian footwear industry is very much inclined to export (see next page).

**Table 11 - Destinations of the Italian footwear export (million pairs)**

Western Europe	269.8
North America	55.1
Eastern Europe	39.0
Near and Middle East	37.0
Far East	16.5
Africa	6.8
Central and Southern America	2.6
Others	3.2
<b>Total</b>	<b>430.0</b>

*Source:* ANCI

## The Italian Leather Goods Industry

**Table 12 - The Italian Leather Goods Industry (1996)**

Companies	6,430
Employees	22,720
Production (value)	US\$ 2,826 million
Exports (value)	US\$ 2,130 million
Imports (value)	US\$ 437 million
Balance (value)	US\$ 1,693 million

*Source:* AIMPES

The main outlets of the Italian leather goods are: Japan (18.3%), USA (17.0%), Germany (10.2%), France (9.2%), Hong Kong (7.7%).

## The Italian Tanning Industry

The Italian tanning sector reached in 1996 a production of 11,000 billion Italian liras, with an increase of 7.84% as against 1995. The aggregate production was 196.5 million m<sup>2</sup> leather including 139 million m<sup>2</sup> bovine leather, 23 million m<sup>2</sup> ovine leather, 16.5 million m<sup>2</sup> calves, 16 million m<sup>2</sup> goat leather, 2 million m<sup>2</sup> pigs leather and 56,000 tonnes of sole leather. Italy tans roughly 15% of bovine and calves leather of the world aggregate, 21% of ovine and goat leather and 13% of sole leather.

**Table 13 - The Italian tanning industry (1996)**

Companies	2,400
Employees	25,000
Production * (value)	US\$ 7,129 million
Exports * (value)	US\$ 3,386 million
Imports * (value)	US\$ 635 million
Balance * (value)	US\$ 2,751 million

\*Including tanned leather with the exception of raw or semi-finished hides, that are the tanning industries' raw materials

*Source:* UNIC

## The Accessories and Components' Industries

**Table 14 - The Italian Components' Industries (1996)**

Companies		1,500
Employees		23,800
Production* (value)	US\$	1,373 million
Exports* (value)	US\$	618 million
Balance* (value)	US\$	618 million

Source: ANAC

### The Machine Industry in Italy

In 1996 this sector had an aggregate sales of 1,630 billion Italian liras, that is 5% more as against last year, of whom 970 billions were destined to exports.

**Table 15 - The Italian tanning, Footwear and Leather Goods Machinery Industry (1996)**

Companies	400	
Employees		7,200
Production* (value)	US\$	1,056 million
Exports* (value)	US\$	629 million
Imports* (value)	US\$	38 million
Balance* (value)	US\$	591 million

\*This figure includes tanning, machines, traditional shoes machinery, machines for synthetic and moulds and leather goods equipment

Source: ASSOMAC

**Table 16 - Destinations of export of machines for the leather area in value\* (1996)**

*US\$ million - except synthetic and moulds' machinery*

Asia	132.7
Western Europe	94.4
Eastern Europe	74.2
South America	64.0
Central and Southern America	38.4
Africa	30.5
Australia and Oceania	6.2
<b>Total</b>	<b>440.4</b>

Source: ASSOMAC

## HISTORICAL ANALYSIS OF THE FOOTWEAR INDUSTRY PROGRESS

At the beginning of the seventies, the presence of developing countries on the global market, with very low labour costs, was almost absent. Then the Italian product had to compete mostly with those of industrial Countries, towards whom Italy exported its shoes. During those years Italy was no longer a low labour costs' Country, as it used to be soon after the war. Still, it was already in a position to manufacture every kind of products at any range of price.

As the time went by, the game of competition began to concern increasingly developing countries, which were very aggressive, but having very low labour costs. It was becoming difficult to keep the position of prominence as regard to some countries, such as the market of USA. However, the strategy was still that of covering every possible market, without taking for granted a lack of competition on the products of volume.

Also Italy used to pay very much attention and very promptly, to every phenomenon, even when temporary, imposed by fashion.

### An Emblematic Case

The case of the “Candy Shoes”, which took place in 1978 and 1979 in USA was very significant. The “Candy Shoes” were cheap products, made up by a synthetic monoblock such as a clog with the upper and a leather or fabric lace. The USA buyers were looking for this product spasmodically and massively for a short period of time.

Italy was suddenly ready to grasp the opportunity. In fact, in 1979, despite the fact that the streamlining of its presence on the American market had already started some years ago, it achieved in the USA the best performance ever, by some 97 million pairs of shoes exported (about 40 million Candy Shoes).

Then the USA administration threatened to enforce some protection measures against Italy, and opened a procedure before the “International Trade Commission”. Italy was also accused of dumping, as it appeared incomprehensible why USA buyers turned to Italy - which at that time was the country with the highest labour cost in the world - demanding a product that did not require any particular skill. In addition, Taiwan and South Korea were massively present on the market.

Before the “International Trade Commission” they showed that Taiwan and South Korea would have supplied the same product at a price which would have been about 20% less than the Italian one. But it was also proved that from the moment of the order, Taiwan and South Korea would have required about six months to deliver their products.

Italy started to deliver in three weeks' time, thus enabling USA importers and distributors to seize the phenomenon which, over a short lapse of time -one year- ended completely. Italy, in fact, in 1980 halved the quantity of shoes exported to USA. Despite this was an exasperated situation, we have mentioned this case because it may well represent the picture, the vitality and the philosophy grounding the success of the sector.

Apart from the above mentioned case, reviewing the 1970 -1990 period proves that the internal historical processes, the affirmation of new and very competitive manufacturing countries, have been absorbed by the Italian footwear sector with some troubles. Still Italian manufacturers had always a very positive attitude, and this allowed them to improve, gradually and constantly.

In 1970 Italy produced 345.8 million pairs of shoes, exported 217.6 million pairs and imported some 3.3 million pairs of shoes.

**Table 17 - Italian Footwear Production**

<i>Year</i>	<i>Production (million pairs)</i>	<i>Exports (million pairs)</i>	<i>Imports (million pairs)</i>
1975	366.3	232.1	6.9
1980	451.7	314.6	36.7
1985	524.5	434.7	56.0
1990	424.9	360.0	73.6
1995	476.2	426.7	139.9

*Source:* ANCI

This trend - in some periods - have been affected also by elements which were alien to the worth of the business activity.

In 1985 the Us dollar was very strong against the other currencies and was worth about 1,900 Italian liras. The main competitors of the Italian footwear industry had their price-lists in US\$. Such circumstances were exploited by the Italian industry as reported by the indications relating to the 1985 period.

The same thing occurred following the strong devaluation of the Italian lira in September 1993. However, history says that, whenever lucky circumstances come to an end, after the inevitable and obvious repercussions, the Italian footwear industry regains its dimension and keeps and improve its positions on the global market.

## Some Considerations About the Components of the System

Even if Italy livestock resources are quite scarce, it ranks first in the world tanning industry. As a matter of fact, 15% of the bovine and calves leather of the world, 21% of goat and ovine leather and 13% of sole leather are tanned in Italy.

With regard to the components' industry, not only it was born but also remained in Italy, since in other countries (even in case of important footwear manufacturing countries), with the exception of some single industrial plant, structures that are properly organized do not exist.

Another consideration may be the following. The single components of the Italian leather system, even if originated and developed in relation with the needs of the domestic industry, did not retire into themselves. They profited from the practice of competition and from the "service" model imposed by the "Italian system", to develop business relations outside their country.

On the other hand, their Italian clients, did not consider this situation as negative, because they received also some benefits from the growth of their suppliers.

In 1996 the export represented 47.5% of the Italian tanning industry's turnover, 47.3% of the components' turnover and 59.5% of footwear, leather goods and tanning equipment's turnover.

## The Secret of Success

The reasons of the success of the Italian leather product lie - as we are trying to show - in a range of interconnected factors and thanks to the presence of a “system” deeply integrated acting as a shock-absorber of the possible obstacles which the economic and social order of the country could produce for a labour intensive industry.

Still we maybe say that the complexity of the global market, the sophistication of consumption, and the implications of an exchange that must be interpreted, right the hasty judgements declaring that the subdivision of the labour market corresponds to strict and irreversible rules. We should rethink the idea according to whom a certain country can not maintain a manufacturing industry because of its high labour cost.

It is also fair to ask ourselves if another declaration such as “This country has everything to excel in the manufacturing industry, except the labour cost” does not have the same peremptoriness of the first one and does not lead to results that only mental laziness prevent from considering. Why do we ask in amazement the reason of the success of a country having the limit of a high labour cost and we take for granted the success of another country having "only" a low labour cost? Maybe both statements feel the effects of that mental laziness above mentioned.

It is evident that the high labour cost can not exclude the rooting of a manufacturing industry in a country. Furthermore, low labour cost alone is not sufficient to determine conditions which are favorable to the same industry in another country. Certainly, assessment elements are various and will increase as the technological development will contribute in replacing the measure of the added value from sheer transformation to other elements that are already important but, as the “Italy case” shows, are also underestimated.

## *Chapter V*

# THE EXPORTABILITY OF THE ITALIAN MODEL

In the previous pages we tried to describe briefly the main characteristics of the Italian “leather and footwear system”, highlighting some elements which may help to understand its success: a widespread businessman's outlook, the presence of a companies' system operating in all stages of the sector, productive flexibility, the attention towards the final market. Finally, we would like to give some further elements about the exportability of the Italian model to other Countries, through a spontaneous process, as it occurred in Italy, or through "powerful" interventions of industrial policies.

We must start off by saying that we will not refer to factors of “national culture”. “Cultural” elements, in fact, even if they had been carefully examined, starting from the studies of Hofstede (1980) here are not determinant, in our opinion. Nevertheless, literature agrees on the possibility of exporting the main managerial elements to other countries, introducing some possible adjusting interventions (Florida and Kenney, 1991). Therefore we will concentrate on the conditions of economic supportability of the Italian model.

### The Spontaneous Origin

In order to assess the presence of possible conditions that are suitable for the development of a model which is similar to the Italian one, it is advisable to sum up the starting premises existing in Italy in the fifties and in the sixties. These elements determined a spontaneous process, which developed independently in its first stage and which afterwards was backed, then fostered and oriented by manufacturers:

1. A sector made up wholly by small or medium firms.
2. A foreign demand looking for a solution to its problems of supply which, due to political reasons, could not turn to an important area of the world.
3. A constant and, to a certain extent, tumultuous increase of the labour cost.
4. A strong and trenchant presence of trade unions.
5. A regulation offering advantages (in terms of flexibility of the employment of manpower) to small sized companies.

It is evident that at least one of these premises - maybe just the one which triggered off the whole process - is not supposable. We are living a historical period in which the offer is much more than the world demand, in which the offer may increase more rapidly than, supposedly, the demand, at least in the short and medium term. The market does not give the time for gradual processes, but exacts prompt answers, exploits profitable situations and rewards and punishes with the abandonment of the source where it feeds rapidly and sometimes schizophrenically.

This consideration alone may exclude the birth of a “spontaneous” process. Furthermore, the promptness required to meet the needs of the market and the development of the transports determine the fact that the companies - independently from the area where they operate - deciding to adopt, even partially, the “assembling system”, find it more convenient to import the components from Italy, since this sector has a superior productive capacity.

### An Unnatural Development

Then, a strategy going beyond the firm or the sector may be useful in order to trigger off a natural process aiming at the creation of a model similar to the Italian one. This result has never occurred until now, apart from the efforts that have been made, either in Brazil, which is the second world producer and with an

industry that is not so recent, nor in India, which attaches a great strategical importance to the development of the leather area.

Which are the reasons and the ways of intervention? In our opinion, there are two main crucial aspects:

1. *Times of development.* The birth of the Italian system did not occurred suddenly. The competitiveness of the leather-footwear system in Italy is the result of a number of skills and competencies which accumulated over the years and spread in every section of the system. Through centralized interventions in other countries we may try to reduce the times of development, but it is not supposable that, within few years, it would be possible to create a system that is in a position to compete with the Italian one. Those who decide interventions of industrial policy in this sense should then operate with a long-term logic, without expecting immediate rewards.
2. *The necessity of a systematic approach.* Often the role of the link between raw materials and finished products that is represented by the above mentioned components' sector is underestimated. Consequently, many countries which nevertheless support their tanning industry do not foster the birth and the development of the components' industry, that is essential to the growth of the system.

These considerations lead to a final and provoking question: trying to reproduce the Italian model in other countries would be really convenient? Perhaps better results may be obtained by “coexisting” with the Italian system:

- a) focusing the attention on market segments where Italian firms are less competitive ( as the Chinese industry does); and/or
- b) co-operating with those “parts” of the Italian system which may fill the main gaps that are present in the country.