STRATEGIES OF INTERNATIONALIZATION IN CERAMICS SECTOR[1]

CARLO AMENDOLA (*) - FABRIZIO D'ASCENZO (*)
ILDEBRANDO IANNILLI (*) - ROBERTO RUGGIERI (*)

Abstract

This paper examines the Italian ceramics industry and the deep changes which affected the international competitive scenario by pointing out the world production map which was rapidly redrawed with the entry in the market of the emergent competitors. It is particularly studied the ceramic district and its structural and competitive dynamics regarding transformations, dynamism factors, competition, international opening and the product and process innovation also with the change of the relation with the market, with the purpose to face the world competition.

Riassunto

Il lavoro esamina il settore della ceramica italiana e le profonde modifiche che hanno interessato lo scenario competitivo internazionale mettendo in evidenza la mappa della produzione mondiale, che si è rapidamente ridisegnata con l'ingresso nel mercato dei competitori emergenti. Si studia in particolare modo il distretto ceramico e le sue dinamiche strutturali e competitive riguardanti le trasformazioni, i fattori di dinamismo, la concorrenza, l'apertura internazionale, l'innovazione di prodotto e di processo e la necessità dell'integrazione con un'innovazione del rapporto col mercato per affrontare la competizione globale.

Keywords: ceramics, industrial district, internationalization.

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(*) Dipartimento di Management e Tecnologie, Università degli Studi di Roma "La Sapienza", Via del Castro Laurenziano 9, 00161 Roma.
corresponding author: roberto.ruggieri@uniroma1.it

Introduction

The theme of internationalization of Italian economic system is nowadays recognized of main importance in order to point out development policies that may efficiently enforce the competitiveness of our country.

As very well known, today the world internationalization includes a large number of themes and aspects, a universe in which the processes of relocalization and delocalization, the strategies of territorial marketing, the commerce of local products, logistics and distribution flows, increase in value and promotion of territory, use of ICT and many other factors.

Industrial districts are changing their internal structure evidencing a double process of commercial and productive internationalization. On a side, the need to directly control the market suggests to invest in a stable way on commercial nets.

On the other side, the pressure on costs, but the need to acquire new knowledge too, brings district companies to the deve-lopment of international networks of providers, allowing to reconfigure manufacturing processes going beyond the borders of specialized providers network and of local sub providers.

This way it is possible to gather competencies present in other countries and to obtain new low cost production opportunities which direct investments coming from abroad are joined to.

Mainly referring to direct investments coming from abroad, the main result is that those are used not only as production seats under the control of the company of the district but as sale platforms too, in order to control international markets or to increase the presence from abroad of the products of the company.

The industry of ceramics, such as other industrial sectors, is progressively moving increasing shares of its production towards countries with a lower labour cost. The enterprises of ceramics sector started a phase of geographical orientation of the exports and, during the Nineties, a process of internationalization of the companies of the district by means of investments coming from abroad have been started too.

During year 2007 a never happened during last twenty years phenomenon in this sector have been registered: the simultaneous fall, even if with different intensity, of the demand of Italian ceramics tiles in all four most important markets (Italy, France, USA and Germany), absorbing more than 3/5 of sales. A situation which the sector promptly answered to, by means of a better control over new markets, such as Russia and Eastern

Europe, a higher development of business areas less exposed to the negative judgement of the customers, such as the different segments of residential building, the further increase of the average price as remarkable sign of excellence felt by its production compared to the one of world competitors.

Strategies of Growth

The problem of dimensional consolidation and of the empowering of competitive profile of ceramics sector have been achieved, in a fast and effective way, by means of external paths of growth and an always more frequent use of company acquisition.

This allowed the creation of new actors and local leaderships which lead the process of aggregation and empowerment of the Italian ceramics industry: a district based organized industry and supported by a large presence of small and medium enterprises. The screening of the directions which the acquisition process tends, clearly evidences as these remain inside the ceramics industry, appearing, therefore, like horizontal acquisition operations among companies producing similar or highly related products in the fields of technology and of the services offered to customers.

Acquisition processes may be conducted or by means of an enlargement of the dimensions, intended as increase and rationalization of the offered capacity, better exploitation and control of resources and industrial plants with economies of scale, enforcement of the market share, or with internal diversification of ceramics industry aiming to a market upgrading or to the development of a brand which may allow the differentiation of market offer enforcing the connection with commercial distribution.

Direct acquisition inside ceramics industry have been achieved by a limited number of companies aiming to strategies of upstream vertical integration, in order to have access to raw materials procurement sources, of downstream vertical integration, in order to access the entry channel of distribution on international market and of extra sector diversification, to access activities connected to the core business of the company but different from the traditional ones of floors and coverings.

Concerning the topic of production internationalization of district enterprises, this is frequently intended as potential disintegration of the district system because the companies that decide to follow this strategy are inevitably brought to come out from the local system. Production internationalization corresponds, therefore, to a process of progressive delocalization identified in a new positioning in different areas where more profitable cost conditions may be found. It has to be added that the productive one is not the only dimension that expresses the internationalization of Italian ceramics companies.

Manufacturing presence is added and goes along several aspects in commercial (creation of commercial societies, opening of point of sales and show rooms), service (opening of warehouses and depots) and raw materials procurement fields.

Structure of the sector in Italy

Production companies of ceramic tiles which can be connected to Italian industrial groups, active all over the world, have been 215 during year 2007, 195 of which located in Italy. 68 of these are located in Modena province, 29 in the one of Reggio Emilia, 15 in the remaining provinces of Emilia Romagna region, while the remaining 83 are located in the other Italian regions.

As of the localization of the whole Italian production all over the world, 80.2% is conducted in Italy, 15.6% in the remaining European countries, 4.2% in USA. The leadership on production shares in different important countries is a second, important feature of the Italian industry of ceramics.

As of the last available data, during year 2008 the sector has operated by means of 324 industrial plants, 290 of which operating in Italy (10 less than 2007) with 663 stoves. 578 have been the active stoves during year 2008, 63 units less than the previous year: in two years the equipment of plants of the sector, measured in production lines, decreased of a percentage of 13.86%. This noteworthy contraction is related both to the decrease of productive capacity in order to keep into account the fall of volumes, and to search higher productivity for each single production line and plant in order to rationalize the existing resources.

Industrial plants located abroad are 34 (+2 if compared to 2007) and, among these, 85 stoves are active (+8 if compared to 2007). Globally, the number of employees is 33,340, 26.46% of which depending from companies located outside national borders; direct employees of Italian industry are 26,364, lowering of 846 units if compared to year 2007 (−3.11%).

In companies coming from abroad, the percentage of employed is keeping on growing, +3.72% compared to 2007. These variations are the consequence of the starting of the production in a new plant in Russia and of a process of rationalization of the plants located in North America.

Concerning international outlets, the main destination is represented by European market, the first in the world as of tiles consumption. Inside this, there are Germany, France, Portugal, Spain, Sweden, Finland, Poland, Ukraine and Russia.

The Italian production conducted abroad reached 99.8 millions of square meters on this market (+10.83% on 2007), corresponding to 78.88% of all the production outside the Italian border.

Total sales in the world reached 637.7 millions of square meters during 2008. Sales have been realized for 151.1 millions of square meters in Italy (23,69%); USA absorbed on the whole 69.1 millions (16.44%). The sales towards all European countries (Italy excluded) corresponded to 329.7 millions (51.70% of the total).

Interesting seem to be the shares of consumption on internal market, coming from ceramics tiles industry in the world and which are deeply influenced by the crisis of the American real estate market and by the increase of the costs for raw materials: the decrease have been around −6.40%. Particularly relevant are the situations of Germany (−8.21%), United Kingdom (Great Britain −17.14% and Ireland −34.74%), Baltic area (Sweden −17.79% and Latvia −36.79%) and Spain (−22.91%); these situations are not sufficiently recovered by the positive performances of Poland (+22.88%) and Slovakia (+13.21%). Among great consumption countries in EU, France too registered a decrease (−3.41%).

Concerning exports towards non European countries, the more relevant decrease (−6.41%) comes from the crisis of the American real estate market (USA −26.07%) and from Oceania (−13.42%) which are opposed the growth of Asia (+7.93%) and Africa (+7.40%). Positive elements come from single countries, such as Russia (+3.95%).

Italian market suffers a decrease in volumes caused by the progressive slowing down of national economics which reduced the reliance of the families as of the decreased available capital and from the fall of real estate market.

Using as an example the Sassuolo ceramics district, a speech apart needs to be made concerning the so called BRIC countries: Brazil, India and China are partners of growing importance for the economics of the district. It may be sufficient thinking about the fact that the exports towards those countries grew up, in the last six years, of a percentage of more than 130%, while total exports, in the same period, registered an increase of 29.7%. Concerning the share of single countries in the trend of exports, the positive contribution of the transfer towards Russia is clearly evident, growing during the last six years of more than 50%, to reach in 2007 the percentage of 51.6% of the exports towards BRIC countries.

The turnover is going down too, reaching at the end of 2008 a decrease of −4.63%. This result comes from a fall both of the exports (−3.34%) and of the domestic sales (−8.02%). The percentage composition of total sales is divided into 73.30% for the ones placed abroad and 26.70% for domestic ones.

The trend of sale prices on international market evidently shows the way taken by Italian ceramics industries aiming to reposition their offer to the top level.

Moreover, since 2003 the total average price showed increases that, time by time, became much more significant and important as of the dimensions: +1% in 2003; +3.73% in 2004; +4.73% in 2005; +5.74% in 2006, +4.28% in 2007; +3.08% in 2008. This dynamic, having touched a maximum point during 2006, now is registering more limited variations.

The reason comes from plenty of factors, among which the partial turn of the increased production costs, the more limited incidence during 2008 (in comparison to 2007 and 2006) of the direct activity that, traditionally shows average levels of price higher than the ones of third party production, the rise of the lists in dollars made to contrast the devaluation of American currency.

It needs to be added the enrichment of the mix of the offer which, for some years, have been modifying its nature.

It is important to point out that to the increase of unitary sale prices do not correspond similar recoveries of incomes and this comes from three reasons: in some cases stable or slightly decreasing values of productivity, determining an increase of the unitary costs of the product, are registered; the increase of the costs, mainly coming from raw materials and energy, seems to be definitely higher than the positive variation of the prices; the swinging of the dollar, with the new record of depreciation on Euro, lead to lower incomes expressed in Euros.

The analysis on average prices may be effectively detailed as regards to the target markets of the product too.

Conclusion

The evolutive framework that appears is the one of a sector that in the future will show itself slightly reduced in volumes of production and substantially the same as of competitive models.

If internationalization means, over all, detouring the investments from the territory of origin towards far away areas, with obvious consequences on occupation and local preservation of knowledge, producing abroad does not necessarily mean choosing a shortcut in order to recover outside that efficiency which is not possible to obtain inside.

Therefore, if, on a side, there is still the intention to consider the district as the best base where one can collect the resources in order to serve the target markets, other companies, instead, generally those ones of large dimensions and more active on international markets, look at the internationalization of production as a tool to better adapt themselves to the different features of the served markets. A useful tool in order to consolidate the presence on target markets and to support the growth on the new ones.

Consolidation strategies concerned, over all, the European market with the goal to enforce the level of penetration and control.

Growth strategies, instead, pointed mainly towards the penetration on new markets or segments. Higher is the distance from the traditional area of Western Europe with the aim of catching consistent shares of mass demand coming from new markets and more the growth will pass through presence models based on production investments. This both to allow a more adequate proximity to local customers and to reduce the costs of production factors in order to recover that price competitiveness necessary to attract intermediate market segments, such as the ones coming from Russia and Eastern Europe.

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