

Resilience in the face of adversity

Italian leather making, its suppliers and its customers, have taken the blows and the lingering effects of BSE and 9/11, the war in the Middle East, the rapid growth of footwear and leather goods exports from China and most recently SARS, on the chin. Trawling through statistics, leather output from a 1996 high point to the beginning of 2003, after ups and downs has hardly changed in volume terms. Since then in 2003 whilst average turnovers were lower than for the equivalent 2002 period calfskins did better. The reductions are coming from the bovine, sheep and goat leather sectors.

Recently published figures appear to indicate the industry as a whole remains in good shape. Gross margins show a steady increase over the years, from 6.2% in 1998 to 8.0% in 2002. Net earnings show a similar trend from 0.7% to 1.5%. Capital employed is only slightly greater.

Italian footwear production, however, is far less happy; a decline in business since the middle of 2001 of the order of 10-14% has become steeper with a sizeable downturn in the current year, compared with the same period in 2002. Leather goods and garments, surely because of fashion and design impact, in broad terms are holding their own as does upholstery and vehicle leather.

Tannery machinery had a good year in 2002, even if far below the halcyon years 1995 to 1997. And the first two months of 2003 still showed an increase in business of 3% as a result of good orders booked previously although activity at present is depressed. The sector continues to retain its lead in quality and quantity on the world market. Footwear machinery reflects the fortunes of its domestic clients and increasing competition in the export field by a reduction in output in 2002 and prospectively much more so in 2003. The much smaller sector of leather goods machinery retains a level performance. ●





Italian Leather: *looking to the future*

Whilst the ever more rapidly changing world economic scene worries all segments of the Italian leather industries, the macro picture masks their underlying strength and versatility. There are some 400 businesses making leather, either as tanners, finishers or subcontractors, in the country. Quality is high and production methods are the most advanced in the world, using the most up to date and sophisticated plant in existence. Specialisation is widespread and speed of reaction to demand is second to none. The location of the majority of producers in the main three regional centres makes for greater efficiency in logistics and waste handling. In a new move, the industry is taking a significant step: together with the Guangzhou Municipal Government, Lineapelle is involved in the organisation of Lineapelle Asia, scheduled to take place in November this year in Guangzhou promoting leather and leather components. A fashion show and a presentation of European and Italian trends are to be major features of the show.



Cerruti

In the long run, optimism for the future of Italian leather surely is more than mere speculation.

Italian Shoe Making

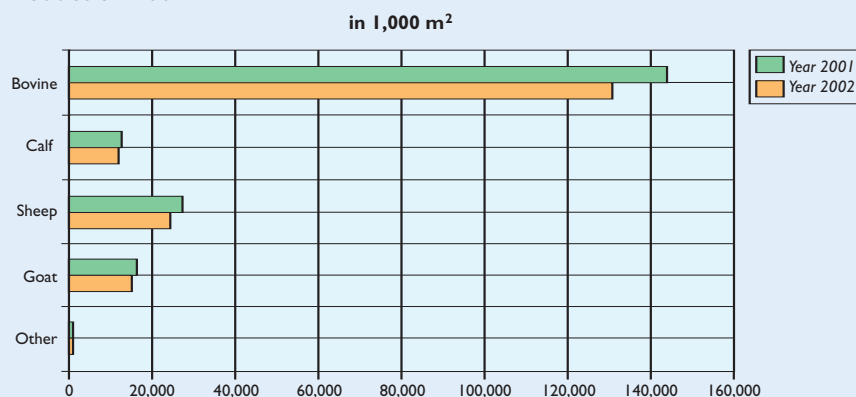
Much of what is said above applies, but the massive storm cloud approaching is the unstoppable growth of Chinese shoe making and that country's export potential. In 2002, China exported 8.6% more pairs of shoes than in 2001. Further substantial increases registered in the early months of the year were only temporarily stalled by the outbreak of SARS and are already moving back onto course, according to latest reports. China is investing heavily in new factories and hi-tech plant and is said to be developing fast reaction to the demands of fashion in footwear as well in the leather goods sector. So, no room for complacency there. Shoe machinery manufacture and export is also expanding in the Far East, but Italy has a long lead in research and development in this area and will no doubt do its utmost to maintain a lead. ●



Thank you, Mr Marshall

The tannery machinery sector may carry less weight than either the leather or footwear parts of the Italian industry, but there is no doubting its significance as the world's largest supplier of equipment used in leather making factories. The fact that it is No.1 in the world is in large measure thanks to the Marshall Plan, the programme which was responsible for much of Europe's recovery post-1945 and was also a driving force behind the development of the country's leather and footwear industry. It is estimated that 70% to 80% of this machinery is purchased from Italian makers with exports of €121 million in the year 2002. (Compare this with the €3792 million worth of leather exported

Production 2002



Category	Year 2002		Variation % 2002/01	
	m ² 1000	€ million	Quantity	Value
Bovine	130,707	4,079	-8.8	-7.0
Calf	11,607	540	-5.7	-3.5
Sheep	24,707	661	-10.5	-9.6
Goat	14,591	417	-9.6	-6.9
Other	519	69	-5.6	-5.2
Total	182,131	5,765	-8.9	-7.0
Sole Leather (tonnes)	52,219	420	-1.6	-1.8
Total	-	6,186	-	-6.7

Source: UNIC



Meridiana



Country Commentary: Italy

Italian Tannery, Footwear and Leathergoods Machinery Export Destinations - top 20 countries

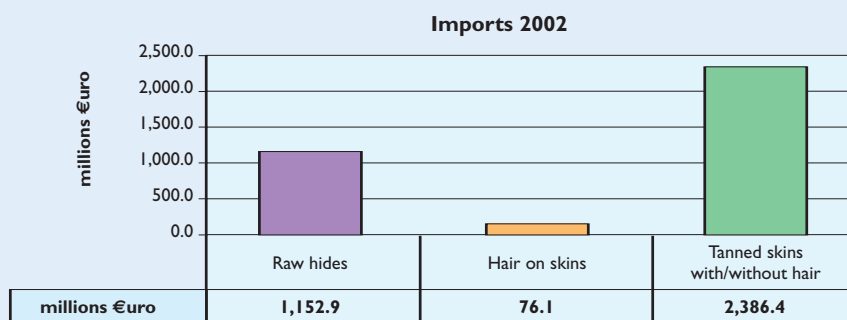
Tannery Machinery			Shoe Machinery			Leathergoods Machinery		
	Value	Variation 2002/2001		Value	Variation 2002/2001		Value	Variation 2002/2001
China	15.02	+45.83	Spain	56.22	+51.48	China	1.42	+152.36
Brazil	13.83	+43.12	Romania	20.89	-10.02	Hong Kong	1.34	+62.54
Türkiye	8.51	+197.42	Hong Kong	11.06	+13.09	Mexico	1.25	-7.61
Spain	6.63	-28.26	Mexico	7.43	-20.31	Spain	1.21	-3.81
Argentina	6.07	+43.51	Tunisia	5.89	-48.79	Türkiye	0.92	+14.01
India	5.28	-8.26	United States	5.72	+4.75	Iran	0.90	+528.68
Hong Kong	5.24	-24.59	India	5.16	+59.44	Romania	0.81	+33.38
Mexico	5.20	-6.35	Portugal	5.11	-36.00	Ethiopia	0.79	+25,224.60
South Korea	4.08	+37.92	Poland	4.71	+1.44	Brazil	0.77	+208.09
Austria	3.97	+49.61	Vietnam	4.28	+667.35	France	0.72	-19.90
Ethiopia	2.91	+704.12	Türkiye	4.21	+58.16	Poland	0.70	-32.85
United Kingdom	2.76	+62.62	France	3.99	-12.15	Ukraine	0.62	+12.09
United States	2.63	+7.92	Russia	3.53	-28.52	United States	0.62	-65.32
Portugal	2.06	-38.83	China	3.52	-57.73	Argentina	0.59	+223.34
Netherlands	2.04	-0.51	Germany	2.83	-49.24	Australia	0.56	+1,593.29
Thailand	1.84	+13.06	Greece	2.44	+8.81	Sudan	0.46	+534.13
Pakistan	1.74	-4.51	Serbia	2.18	+24.16	Venezuela	0.45	+28.73
Singapore	1.63	+208.73	Morocco	2.06	+3.79	India	0.45	-58.50

Source: Assomac



Gucci

Imports 2002



Category	Tonnes	€ million
Raw Hides	481,776	1,152.9
Hair on Skins	951	76.1
Tanned Skins - with/without hair	537,657	2,386.4

Source: UNIC

by the Italian tanning industry in 2002. Even its sister sector, shoemaking machinery, chalked up exports of just over €300 million.)

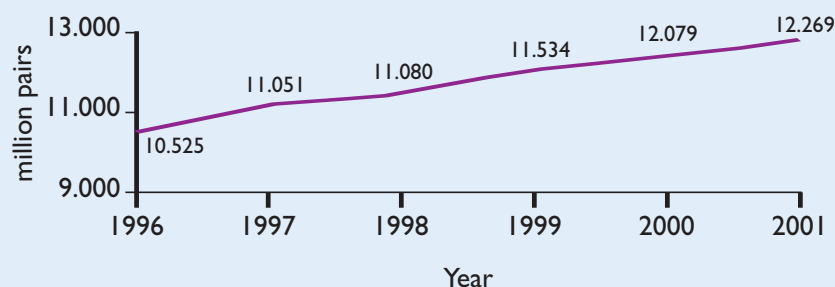
But, in conversation with industry leader Giacomo Vallero, it is quite clear that the ingredients of success are the inventiveness of the ingenious, mostly quite small, owner-managed machine builders, their

close geographical proximity to the tanneries and their entrepreneurial drive.

The scenario today, particularly in more difficult times, is that there are too many builders offering equivalent products and there are always new ones springing up, difficult to digest in what now appears to be a static demand situation. Tanners who tend to encourage newcomers will need to



Table 1 Footwear Production World Trend



Growth comes chiefly from Asia and at a lower rate from Eastern Europe, Africa and South America, partly at the expense of other areas.

Table 2 The Italian Footwear Industry

	2002	2001	Variation 2002/2001
Number of manufacturers	7,380	7,500	-1.60
Number employed	107,008	111,650	-4.16
Production (million pairs)	335.00	375.20	-10.71
Production (€ million)	8,170.69	8,669.99	-5.76
Exports (million pairs)	322.30	353.70	-8.90
Exports (€ million)	6,781.18	7,230.65	-6.22
Imports (million pairs)	224.70	203.10	+10.64
Imports (€ million)	2,242.30	2,085.97	+7.49
Domestic (million pairs)	188.10	185.10	+1.62
Consumption (€ million)	3,290.02	3,175.28	+3.61

Source: Assomac

ask themselves whether the resulting price wars really serve them well; more builders competing in a limited market will be less production-efficient and, in the long run, prices will be higher and customer technical support less satisfactory. Essentially the tannery machine making profile shows growth in the specialist areas, such as finishing and material handling, whilst the traditional machine field, summarised as the multi roller camp, has run out of steam. A few really specialist manufacturers, who pursue what they know best and are constantly improving it, stand out.

Conglomerations of tannery engineering companies historically have failed disastrously. Most recently the all-embracing "Gruppo Poletto" disintegrated into its constituent pieces although the main company has been restructured and is competing vigorously. Other not owner-managed companies have also been ailing. Lately, with increasing competition,

rationalisation is taking place; a very few businesses have ceased operations although their marques survive having been acquired by former competitors.

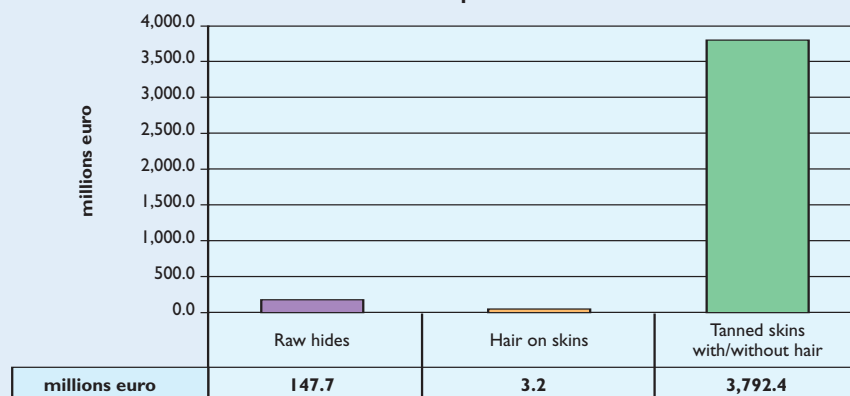
Thank you, Mr Marshall

According to Mr Vallero, the provisions of the Marshall Plan* to help Europe in the late 40s and the early 50s to recover from the ravages of the Second World War, were a major factor in the remarkable rise of the Italian tannery machine industry from a very low base to world leadership in a relatively few years. Bovine raw hides made available as a component of the Plan kick-started the paralysed European tanning and footwear industries and with it came the need to develop a powerful machine sector. Italy in particular, out of dire necessity, and availing itself of the inventiveness and the entrepreneurial drive of its people was ready to grasp the opportunity. Already existing machine



Table 3 Italian Leather Exports (€ million)

Exports 2002



Source: UNIC

World Areas	2002	2001	Variation 2002/2001
Western Europe	218.8	239.0	-8.5
North America	48.1	54.6	-11.9
Eastern Europe	28.1	29.5	-4.8
Middle East	10.2	11.9	-14.3
Asia	8.0	9.1	-12.1
Africa	4.2	4.5	-6.7
Central/South America	2.9	2.8	+3.6
Other	2.0	2.3	-13.0
Total	322.3	353.7	-8.9

Source: Assomac

German, US, Dutch, Belgian and Swiss markets, as well as the Far East in particular, affected export figures adversely. Increased imports from China (21%) and Vietnam (18%) cause concern and have hit the domestic market.

Table 4 The Italian Leathergoods Industry

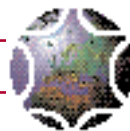
	2002	2001	Variation 2002/2001
Number of Manufacturers	6,000	6,000	—
Number of Employees	27,400	27,400	—
Production (€ million)	2,540	2,536	+0.16
Exports (€ million)	1,825	2,033	-10.23
Imports (€ million)	823	775	+6.19

Source: Assomac

The leather goods sectors regard the future with a degree of apprehension. Exports of handbags, the leading product of the sector, are down by 12% in value terms. The most important client countries, US, Japan, Germany, Switzerland, Korea, Austria and Belgium have reduced their uptake significantly. China accounts for 75% of Italian leather goods imports.

builders such as Mostardini and Gozzini in Tuscany, Vallero in Piemonte and Aletti in Lombardy, all in traditional tannery regions, were able to expand and to modernise their equipment range. Billeri in Tuscany also entered the field with

advanced tannery drums. The machine tool factory, Rizzi in Modena, recognised an opportunity and moved into the field early producing machines initially of the Turner type but quickly modernised taking advantage of machine tool design



Tuscania

knowhow and system of manufacture. As the tanning industry in the Veneto region grew, companies like Mosconi, Poletto and Cartigliano, in the same region, came about and developed equipment with an inventive and ingenious approach. Carlessi began to make its mark with machines in the drying and finishing fields responding to the demand for equipment capable of reliable high throughput.

The explosive growth of the Arzignano leather triangle motivated many machine builders, mostly compact family enterprises, to set up their workshops in the area where close collaboration with the tanneries resulted in new ideas of processing leather efficiently using up to date engineering concepts. A few of these companies have fallen by the wayside but most have prospered and a few like the Bergi Group have developed into substantial organisations, always evolving new systems and machinery. Gemata, almost single handedly, revolutionised leather finishing by adapting the rollcoating technique to this process. Electronic leather measurement, even though not originating in Italy, was brought to a high state of the art by specialist companies, and most recently other companies focusing upon mechanisation of in-factory material movement and machine feeding have quickly come to dominate the world market for this technology.

Commercially, the demise of the Paris

Table 5 Italian Tannery, Footwear and Leathergoods Machinery

	2002	2001	Variation 2002/2001
Number of Manufacturers	395	400	-1.25%
Number of Employees	7,100	7,200	-1.39%
Production (€ million)	830,24	886,60	-6.26%
Exports (€ million)	580,80	592,30	-1.94%
Imports (€ million)	33.37	34.57	-3.47%
Exports Tannery Machines	121,25	112,73	+7,56
Exports Shoe Machinery	194,29	196,12	-0,93
Leathergoods Machinery	20,85	20,66	+0.92

Source: Assomac

Tannery machines were doing well, shoe machinery much less so.

Table 6 Italian Tannery, Footwear and Leathergoods Machinery

Value Constant Euro	Tannery Machines	Footwear Machines	Leathergoods Machines
1992	111,88	86,60	10,99
1993	84,50	91,34	12,83
1994	72,53	99,14	15,64
1996	91,97	106,20	13,20
1997	85,83	119,49	18,40
1998	72,94	104,89	14,26
1999	62,68	97,59	12,40
2000	74,09	102,69	14,33
2001	72,11	125,46	13,22
2002	75,73	121,36	13,02

Source: Assomac

Semaine du Cuir opened the opportunity to establish the now hugely successful Tanning-Tech exhibition in Bologna, also further stimulating the pace of technical development. Seven years ago when the then existing Italian tannery machine association was dissolved, most of the members of the industry joined ASSOMAC (National Association of Italian Manufacturers of Leather and Footwear Machinery and Accessories) in this way becoming part of a well structured organisation already well established in the footwear and leather goods machinery fields. Access to its technical and marketing resources helped to further raise the profile of Italian tannery machinery. Assomac is particularly active in the Chinese area with involvement in exhibitions. An officer of the Association is stationed permanently in China. The professional image of the industry is at present being strengthened with the formulation of terms of contract developed by the association.

The decimation of British, German and French leather making, as well as

competition in price and levels of technology of the Italian tannery machine industry, led to the disappearance of previously dominant companies, such as the Turner Group in England and Germany, Moenus and BMD – also in Germany – and Mercier in France, leaving a clear field to Italy for the next 20 years.

Now, in 2003, history may well repeat itself in the sense that the expansion and increasing dominance of the Chinese leather industry, including that of its machine suppliers, will hit the Italian tannery machine sector soon and hard. However, whilst mainstream production may well go away, the ingenuity and the experience of Italian engineering will ensure continued success, even perhaps at another level. 🌐

**For readers unfamiliar with the Marshall Plan, this was an aid plan initiated in 1947 by George C Marshall, US Secretary of State, to supply financial assistance to certain western European countries to further their recovery after World War II.*