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"FACILITY FOR SMEs AND CAPACITY BUILDING"

APULIA REGION

MARKET ANALYSIS

WOOD, METAL, AGRO-FOOD PROCESSING,

TEXTILE AND FOOTWEAR

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AN OVERVIEW

Apulia is a 19,362 sq kms region, surrounded by the Adriatic Sea in the northeast and by the Ionian Sea in the south. The territory is quite low and mountainous only per 1.5%, while it turns out level ground per 54% and hilly per 44%. It develops about 800km of coastline (only slightly less than Calabria) and is divided into six provinces: **Foggia**, **Bari** – the largest as for population with the regional capital – **Brindisi**, **Taranto**, **Lecce** and the **Bat** (Barletta, Andria, Trani), a new institution including seven Municipalities.

With a population of about 4 million residents, the Region's **demographic density** is higher than the national average.
The **value added** structure includes a higher than national average number of service industries and with an incidence of agriculture that is almost double the Italian figure. **Exports** are mainly concentrated in traditional sectors (leathers and hides, and other manufacturing industries), steelmaking and agricultural products. The most clear-cut proof of the Region's entrepreneurial vitality is the Fiera del Levante, a huge international exhibition centre that each September (since 1930) opens its doors to thousands of Italian and foreign visitors.
The Apulian **employment market** continues to be characterized by an employment rate below Southern but higher than national levels. The most significant employment demand share, as usual, is to be noted in the services sector. Despite this, compared to national totals, there is a greater relative concentration in Apulian economy for the agriculture sector.
As far as infrastructures are concerned, Apulia has a slight advantage compared to the rest of the South, but less so if compared to national standards. Economic infrastructures do indicate a better situation than the Italian average for the rail network and for port facilities. Of the social infrastructure, there are excellent health amenities.

Agriculture is still the primary resource and vegetables (salad, capsicum, fennel, artichoke), tobacco, wine and table grapes, olives and almonds are cultivated; also sea, shellfish and crustacean fishing is remarkable. **Underground resources** include several natural gas deposits (Capitanata) and bauxite (Trani, Poggiardo); there is a fair production of electricity, almost exclusively by thermal generation.
In the south of the region, the **industrial sector** is highly developed, with two vast industrial complexes, the Taranto steel works and chemical plant at Brindisi, both planned as the basis for the growth of small and medium-sized allied companies. In reality, this has been only partly successful, and is limited to the Brindisi-Taranto-Bari industrial triangle. The sole branch of industry found in most areas is food, linked to the plentiful agricultural output (especially pasta and oil manufacture); other industries include

papermaking (Foggia), engineering (Taranto, Brindisi, Bari), construction materials (Lecce, Bisceglie, Barletta).

Indicator	UOM	Region	Italy
Surface area	Sq.km	19.362	301.338
Resident population	N°	4.068.167	58.462.376
Value Added (constant prices)*	Million/euro 1995	43.279	942.711
- agriculture	% of Total	6	3
- industry (narrow definition)	% of Total	16	23
- building constructions	% of Total	6	5
- services	% of Total	72	69
Value Added - increase	% avg 5 years	1	1
Employees	Thous.	1.236	22.409
- agriculture	share %	10	4
- industry (narrow definition)	share %	17	22
- building constructions	share %	10	8
- other activities	share %	64	65
Occupation increase	% avg 5 years	1	1
Propensity to export	%	10	22

* Source: ISTAT 160

The service sector suffers from the endemic malaises typical of the sector in the South of Italy: inefficiency, surplus of small businesses, flocks of intermediaries, especially in marketing the prosperous agricultural produce, a state of affairs this last which affects the earning power of the farmers. Of the remaining service industries, tourism particularly to beach resorts is steadily becoming important.

Tourism has good prospects of developments, both for the artistic-historical localities and for bathing places. The entire Region enjoys an enviable climate if compared to the rest of Europe, with mild winters and long and warm summers. The presence of hilly band in the south-east of the Barium province defend the territory from Sirocco winds, coming from South, and from North-west wind, coming from the Balkans, rendering the climate very pleasant. The summer is quite long and starts from the first days of May until to advanced October.
The conformation of the territory, unlike that of the other regions, is a serious obstacle to communications. The main highway is the last stretch of the Adriatic autostrada, which passes S. Severo, Foggia, Bari and Taranto; railway connections are based principally on the Milan-Bologna-Bari-Lecce line. Port facilities exist at Taranto (mercantile), as well as Brindisi and Bari, which have important links with Yugoslavia and Greece. The two domestic airports: Bari-Palese and Brindisi-Casale.

1. Wood processing industry – focus on furniture

The Sofa Cluster is mainly based in the north west of Bari all around the Municipality of Altamura. The production of this district, already present in the Eu and USA markets, is represented by few large industries and a wide number of small and micro sub-suppliers mostly specialized in one single production phase.

The general health of the sector is strongly depending from the exporting, especially towards the USA market, UK, Germany, France. More than 700M € of furniture were exported in 2002, equal to the 69% of all exportation of the South of Italy ("Mezzogiorno") and to the 8.5% of all Italy.

Many are the industrial delocalization in the sector especially row material oriented and therefore finalized to the production of the wooden frame in Albania, Serbia, Montenegro and Romania. The profitable expansion of this sector is therefore mainly driven by the exporting, where the companies are trying to consolidate their market positions through the contracting of important works.

The expansion of the exporting towards the main markets of USA and CANADA, are strongly tied to:

- The capacity to highlight the "made in Italy" brand, so to face the increasing pressure of the production made in the Asia countries;
- commercial innovative schemes such as: co-design, co-marketing, franchising, own brand stores;
- The consolidation of the "contract" market.

SWOT ANALYSIS - WOOD/FURNITURE INDUSTRY

STRENGTHS

- High specialization of the production districts
- Concentration of the companies in few districts with beneficial effects for the logistics and transportation of the production
- Abundance of specialized labour force
- High production capacity able to support the commercialization of the product to both national and international markets
- Presence of word leader brand names
- Capacity to manage commercial relationships with the operator of the large-scale retail trade
- Well-established local sub-supplier chains
- Strategy localization toward the main South
- East and Mediterranean markets

WEAKNESSES

- Large number of satellite micro-enterprises
- Lack of equity capitalization of the enterprises limiting the research and marketing activities
- "Cannibalization" among the companies in the same production district in terms of marketing strategies
- Low attitude toward industrial and commercial collaboration among enterprises

OPPORTUNITIES

- To increase the high quality productions
- To promote the aggregation of the small enterprises and to create a common platform for the acquisition of the raw materials and services
- To wider the market area of sales also taking advantage from the on-going strengthening of the Ports and transportation infrastructures in Apulia
- To create innovation centre able to support the companies in the identification of new products

THREATS

- The reduction of overall competitiveness could bring to lose market shares
- The growthing pressure operated by the Emerging Economies
- Reduction of EU contribution
- The increase of the EURO/USD exchange rate reducing the competitiveness of the Italian production

2. Metal processing industry

Industrial economy is based on the Iron and the mechanical sector and for a growing part in services. The industrial GDP is equal to 23% and it is engendered by a conspicuous group of heavy industries such as iron and steel, petrochemicals, chemicals, engineering; in particular aviation and automotive industry, energy, cement, transshipment and IT, predominantly controlled by Northern and foreign capitals. Flanked to them there is a net of small, medium-sized and sometimes big industries, belonging to local operators that are active in various sectors of the economy: food processing, textile clothing, shoe, furniture, precision engineering, plastics, plant engineering. To complete the industrial sector of the region there operates a considerable number of qualified medium-sized construction enterprises, led by regional businessmen, who successfully project themselves into the national market and into some international areas.

According to ISTAT (Italian National Statistical Institute) 4.365 operative enterprises for a total of 31,646 employed were active in Apulia in 2001 in the sector of mechanic, representing the 28% of the whole Apulia manufacturing industry.
The mechanical cluster is concentrated in three provinces: 1) The *Municipality of Bari*, Gioa del Colle and Bisceglie. The cluster is composed by few large industries (mainly foreign) as and a wide number of small enterprises with specialized autonomous productions (independents from the large size companies) and export oriented (especially toward EU countries). 2) In the *province of Foggia*, the production of motor vehicles employs more than 1.800 people, most of them in the ***IVECO*** factory involved in motor production. 3) In the *province of Taranto*, the production of means of transport is mainly referred to the activity of the **shipyards** which at 2001 employs more than 2000 people. The production is variegated: machines for agriculture and zootechny, oil machines, elevator trolleys (*OM Carrelli*), mining machines (*Fiat-CHB*), control and assembly systems, valves (*Nuovo Pignone*) , hydraulic demolisher hammers, ball bearings (*RIV-SKV*), machinery components, industrial plant engineering.
A number of companies specialized in the **avionics** are present in the territory of the Province of Brindisi. This sector is supposed to be quickly increasing thank also to the recent opening in Grottaglie of the new plant of Alenia Aeronautica, (Finmeccanica Group), for the production of the fuselage in carbon fibers of the new Boeing B787.
The production of oil machines, born to serve the local demand, covers today, the 20% of the world production and is strictly oriented to the export market.
It has to be underlined the presence in the province of Bari of **high technological enterprises in the "telecommunication sector"** (Elettronika, ITEL). This sector has enormous growth potential and is characterized by a strong boost towards innovation. **Bari** hosts also a cluster of **car component producers whose main representatives are**: ***Bosch*** (about 2000 employed and a turnover of 350M €) produces injection systems and braking plants, ***Getrag*** (830 employed and a turnover of 230M €), hand transmission for cars, ***Magneti Marelli Powertrain***, robot gears and fuel injectors, ***Graziano Trasmissioni***, transmission movers. It is also significant, in spite of the crisis of *Calabrese*, the sector of coachwork production. Those main companies support the production of a large number of local satellite enterprises. As a matter of fact the production of car components experimented in recent years a strongly positive trend and an increasing exportation.

Apulia hosts today over 40 internationally owned industrial groups and in recent years has been the region that has managed most effectively to combine tradition and innovation. The Biotechnology, ICT, Automotive and Nanotechnology sectors, as well as Logistics, are currently its strongest points.

3. Agriculture and food processing industry

Agriculture is still the most important sector in Apulian economy, both in terms of employment and production. In 2006 (ISTAT assessment) the GDP of the region amounted to 57.421,8 million euro. This data is made up by a quota coming from the primary sector, equal to 5%, that produces considerable quantities of valuable produce as ***wheat, olives, grapes, fruit and vegetable, beets, milk, flowers, tobacco*** and, in some areas of the Salento, ***medicinal herbs*** that give rise to an intense activity of food processing and agro industry one.
Horticulture is common in Apulia, including the production of tomatoes, lettuces, artichokes and fennel, as well as the traditional **olives**, and **table and wine grapes**. There are also high crops of carrots, aubergines, peppers, cabbage, wheat, corn, almonds and cherries. The wine's production, together with that of the oil, it constitutes an important component of the Apulia economy and the elevated production of wines assigns to Apulia the title of "Italy Wine cellar". In fact, with almost the 15% of the whole Italian production, Apulia stays on to the vertexes of the production and also to the maximum levels for quality and merit.

The Agroalimentary cluster is localized (i) around Bari (Rutigliano, Corato, Altamura, Santeramo) for the production of wheat, pasta, bread and cookies; (ii) in Gioia del Colle, Acquaviva, Sammichele, Putignano, and Andria for the dairy products; (iii) in Barletta, Bisceglie e Bari for the production of olive oil; (iv) in Barletta, Bari, Gioia del Colle, Gravina, Locorotondo for the vine production. The cluster is highly export oriented especially in the sector of extra-virgin olive oil and pasta. Some companies commercialize with their own brand in and out the EU.
Characteristic of Apulia (with the exception of the Salentino peninsula) is the concentration of numerous small farmers in large urban centers, forming `farming towns', frequently at a distance from the land itself. They represent more than 60% of the total number of farms and occupy about 10% of arable lands of the region.
Taking into consideration products and, we could distinguish identify two different areas. The **"extensive**" area includes communes with strong specialization for extensive crops (not irrigated) and, at the same time the lowest values of all the indexes of technological level. It is characterized by the notable presence of "big farms", with large diffusion of cereals that occupy a small percentage of irrigated lands. Farms belonging to this area show the lowest unit income of the region.
Areas called **"intensive"** are marked out by specialization for vegetables, orchards, olives, and grapes and by high values of index of labour input, machinery equipment and use of water. They collect communes where "small farms" outnumber the other ones. If water is availaible, the growing area of vegetables and orchards could increase. Farms of this area reach a higher unit income, but also represent a higher risk of over-exploitation of natural resources because of over-cropping, over-grazing and excessive use of chemical inputs. The area called "**fruit and vegetable-mixed**" is marked out by the presence of both intensive and extensive crops and by small farms. Water availability is low. With regard to unit income these farms are ranked as "intensive". In last area, "**zootechnical-mixed**", all kinds of combinations are present. They include small and large farms, and intensive/extensive crops. Forage crops and grazing herbs are especially present among extensive crops that allow the diffusion of almost exclusively of dairy cows.

Alongside the primary cultivation activity, a reasonably sized satellite industry has developed in the last few decades, particularly in the lower Tavoliere area, of **food-processing SMEs** specialising in the processing of the main local products. The requirements of the system concern particularly the development of specific vocations through the development of large scale processing activity and the **enhancement of typical local production industry**, with particular reference to the logistical problems of supplying raw materials and organising marketing activity, on both the international and domestic markets. Several enterprise initiatives in the food and agriculture segments of frozen food, fresh pasta, and the processing and preservation of prominent agriculture and fishery products.

SWOT ANALYSIS - AGRO-FOOD INDUSTRY

STRENGTHS

- High bio diversity of the production areas
- Increasing know-how in the organic food production
- High quality of the olive oil production chain
- Increasing presence of DOC, IGT and DOP labelled production
- High presence of agro alimentary integrated production chains

WEAKNESSES

- The production is spitted among an elevated number of small and micro enterprises;
- The size of the cultivated land is decreasing;
- The agricultural environment is subject to pollution
- The agricultural system is heavily depending from EU contribution (PAC)
- Few presence of zoo technical enterprises
- Lack of water resources and potential risk of salt pollution of the ground water

OPPORTUNITIES

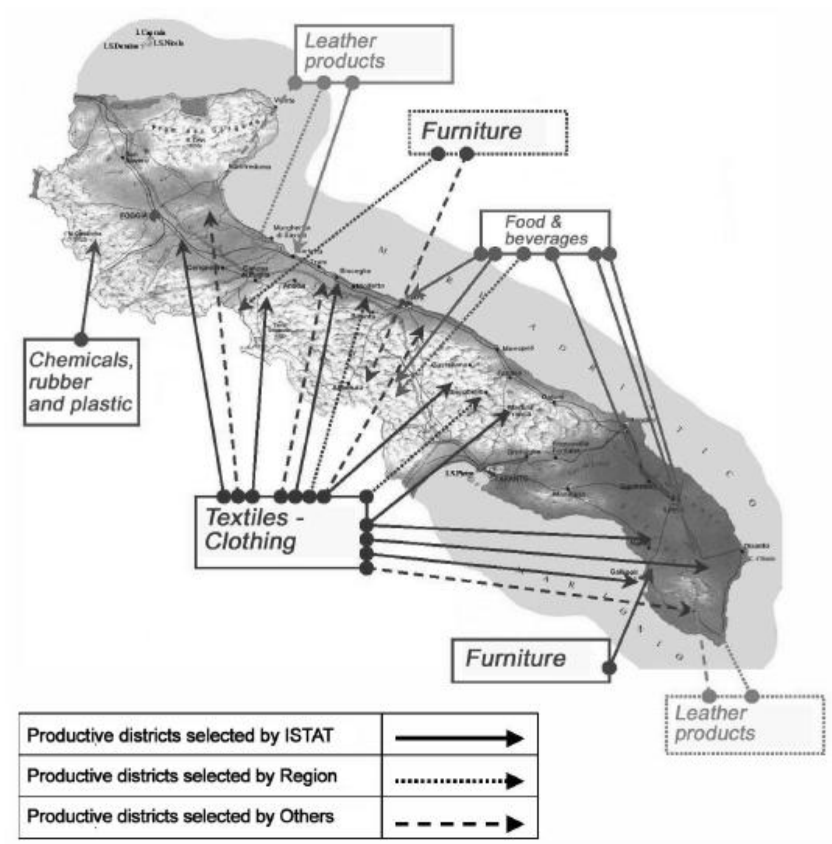
- To increase the high quality productions, especially in the olive oil sector;
- To increase the marketing and awareness actions through the aggregation of the enterprises;
- To quickly react to the increasing demand of high quality productions;
- To wider the market area of sales;
- To take advantage from the increasing request of organic and environmentally friendly productions;

THREATS

- High differences x among companies in terms of quality of the management and of the technological conditions of their production plants;
- The reduction of overall competitiveness could bring to loose market shares;
- Pollution of the Agricultural environment;
- Utilization of the agriculture land for the production of the renewable energies;
- Reduction of EU contribution;
- Price pressure from emerging countries

4. Textile and footwear industry

In the last few years the branches belonging to the “fashion system” have been extensively reorganized, with a winnowing of the least competitive firms. Some of the weaknesses that impeded development in the past are still present, however, such as the small size of most firms and the specialization in branches most vulnerable to competition from the recently industrialized countries. Part of industry has reacted to the pressure of competition by adopting new business strategies. The majority of firms have made changes in their range of products and stepped up investment in their trademark as the main means of tackling competition and gaining some market power, while few have chosen to locate production abroad.



The textile cluster is mainly present: in the *Northern part* of the Region (municipalities of Bari Bitonto, Bisceglie, Corato, Ruvo, Trani, Barletta, Andria) with production of underwear and tricot; in the *central area* (Alberobello, Castellana, Locorotondo, Noci, Putignano, Martina Franca, Taranto and Noci) with focused production of wedding suits, children clothes and suits for man/woman. Other production localitions are Matino, Tuglie, Casarano, Supersano, Ruffano, Racale for socks, Corsano for ties and Maglie for the hats.
Most companies are suppliers of enterprises from other Italian and EU areas. Few companies are directly selling their production on the market and to the large distribution chains in Italy and in EU

The Shoes cluster is mainly localized in Barletta Andria, Molfetta and Trani. The cluster is composed by a wide number of small companies in the sector of sport injected shoes. The production is mainly exported in EU.
An important footwear district is located is the **Province of Lecce**. In the Casarano area, the Filanto group has over 1,800 employees, in 4 plants, selling 9.5 million shoes annually. In Tricase Nuova Adelchi (restructured following a crisis phase) employs about 1,300 workers. These companies dominate a

production fabric comprising mainly small and very small enterprises, strongly connected to the two larger groups (with a satellite industry of about 6,000 workers).
In the area of Salento footwear is proving to be the most important local manufacturing sector. It has improved product quality and has decisively taken the route of production internationalization, with extremely positive results in terms of exporting its products, especially to Germany.

SWOT ANALYSIS - TEXTILE AND **FOOTWEAR INDUSTRY**

STRENGTHS

- Strong production traditions;
- Presence of handcrafts capabilities
- Predisposition to approach the foreign markets
- Skilled labour force
- Good production capacities

WEAKNESSES

- The production is split among an elevated number of small and micro enterprises
- Average medium quality of the relevant production
- Low commercial capacity
- Lack of brand approach
- Low technological innovation approach
- Inadequate infrastructures in the area where most companies are based

OPPORTUNITIES

- To increase the competitiveness through the increasing of the average high quality productions
- Introduction of the brand approach and start up of new commercialization networks
- Concentration and aggregation among enterprises
- Support the innovation of both products and productions
- To diversify the productions
- To widen the market area of sales

THREATS

- Price pressure from emerging countries
- Reduction of the production volumes
- Defensive and not aggressive strategies by most companies
- Lack of aggregation among companies
- High rates of unemployment