FUNDAÇÃO GETULIO VARGAS
ESCOLA DE ADMINISTRAÇÃO DA FUNDAÇÃO GETULIO VARGAS

FRANCESCO LOSURDO

A comparative study of internationalization potential for Italian SMEs in the fashion industry in Brazil and Russia

SÃO PAULO
2013

FUNDAÇÃO GETULIO VARGAS
ESCOLA DE ADMINISTRAÇÃO DA FUNDAÇÃO GETULIO VARGAS

FRANCESCO LOSURDO

A comparative study of internationalization potential for Italian SMEs in the fashion industry in Brazil and Russia

Thesis presented to Escola de Administração de Empresas de São Paulo, Fundação Getulio Vargas, for granting the title of Master in International Management

Research Area:
INTERNACIONALIZAÇÃO DE EMPRESAS
Thesis Advisor: Prof. Dr. L.M. Costa

SÃO PAULO
2013

Losurdo, Francesco
A comparative study of internationalization potential for Italian SMEs in the fashion industry in Brazil and Russia / Francesco Losurdo / 2013.
107 f.

Orientador: Ligia Maura Fernandes Garcia da Costa
Dissertação (MPGI) - Escola de Administração de Empresas de São Paulo.

1. Itália - Indústrias. 2. Pequenas e médias empresas - Brasil. 3. Pequenas e médias empresas - Rússia. 4. Vestuário - Indústria. 5. Moda - Mercado. 6. Globalização. 7. Planejamento estratégico. I. Costa, Ligia Maura Fernandes Garcia da. II. Dissertação (MPGI) - Escola de Administração de Empresas de São Paulo. III. Título.

CDU 334.746.3/.4

FUNDAÇÃO GETULIO VARGAS
ESCOLA DE ADMINISTRAÇÃO DA FUNDAÇÃO GETULIO VARGAS

FRANCESCO LOSURDO

A comparative study of internationalization potential for Italian SMEs in the fashion industry in Brazil and Russia

Dissertação apresentada à Escola de Administração de Empresas de São Paulo da Fundação Getúlio Vargas, como requisito para obtenção do título de Mestre Profissional em Gestão Internacional.

Campo do Conhecimento:
INTERNACIONALIZAÇÃO DE EMPRESAS

Data de Aprovação:
30/09/2013
Banca Examinadora:

____
Prof. Dr. LIGIA MAURA COSTA

____
Prof. Dr. TALES ANDREASSI

____
Prof. Dr. MARCOS FERNANDES GONÇALVES DA SILVA

SÃO PAULO
2013

To mother and father,

Abstract

This study aims to develop a comparative analysis of the internationalization potential in Russia and Brazil for Italian SMEs operating in the fashion industry. After introducing the reader to the main areas covered, such as the context, methodology and literature review, a macroeconomic overview of the geographical areas comprised is provided, thus encompassing a specific study on the current status of Italian economy and demand for Italian goods. The study introduces the reader to the Italian fashion industry, its main features and current performance, already evidencing the quest for internationalization. The conclusions arising from the macroeconomic analyses are used as introduction to the overview of the Italian fashion industry, an industry that strongly represents the “Made in Italy” abroad. The analysis of the industry encompassing history, main features and current status will then suggest that internationalization is the most viable way for SMEs to recover from the turbulent years of the crisis. Among the vast set of geographical options that the SMEs may embrace internationalization, this study aims to provide two tangible market analyses: the Russian and the Brazilian fashion industry. The analysis, based on the framework of international responsiveness by Bartlet and Ghoshal (1989), presents the results of a set of researches and interviews conducted in Russia and Brazil, in the form of a comparative analysis of the two target markets. The analysis will evidence market-, cost-, competitive- and legislation drivers that justify the internationalization process in both markets. The results will lead to conclusion and recommendations that the two markets represent two very different opportunities for SMEs of Italian fashion industry.

Keywords: internationalization, strategy, Brazil, Russia, Italian fashion industries, SME

Resumo

Este estudo tem como objetivo desenvolver uma análise comparativa do potencial de internacionalização na Rússia e no Brasil para as PME italianas que operam na indústria da moda. Depois de apresentar ao leitor as principais áreas cobertas, tais como, o contexto, a metodologia e revisão da literatura, é fornecido um panorama macroeconômico das áreas geográficas composto, englobando um estudo específico sobre o estado atual da economia e da demanda para os bens italianos. O estudo, introduzindo o leitor na indústria de moda italiana, suas principais características e o desempenho atual, já evidencia a busca pela internacionalização. As conclusões decorrentes das análises macroeconômicas funcionam como introdução à visão geral da indústria de moda italiana, uma indústria que representa, fortemente, o "Made in Italy" no exterior. A breve análise da história desta indústria, principais características e situação atual irão, então, sugerir que a internacionalização é o caminho mais viável às PME, para se recuperarem dos anos turbulentos da crise. Entre o vasto conjunto de opções geográficas que as PME têm para abraçar internacionalização, este estudo tem como objetivo fornecer duas análises sobre a indústria da moda: o mercado russo e o brasileiro. A análise, com base no quadro de capacidade de 'resposta internacional' proposto por Bartlet e Ghoshal (1989), apresenta os resultados de um conjunto de pesquisas e entrevistas realizadas no Brasil, na Itália e na Rússia, sob a forma de uma análise comparativa dos dois mercados-alvo. A análise evidenciará os *drivers* de mercado, custo, competitividade e legislação que justificam o processo de internacionalização em ambos os mercados. Os resultados levam à conclusão e às recomendações que os dois mercados representam duas oportunidades muito diferentes para as PME da indústria da moda italiana.

Palavras-chave: internacionalização, estratégia, Brasil, Rússia, indústria da moda italiana, PME

List of Abbreviations

BOT	Balance of Trade
BRIC	Brazil, Russia, India, China
CIA	Central Intelligence Agency
CIS	Commonwealth of Independent States
CAGR	Compound Annual Growth Rate
EUR	Euro
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GWP	Gross World Product
HS	Harmonized System
IMF	International Monetary Fund
ICE	Istituto Commercio Estero
OECD	Organization for Economic Co-operation and Development
PPP	Purchase-Power-Parity
ROE	Return on Equity
ROI	Return on Investment
SME	Small and Medium Enterprises
SPA	Societa' per Azioni (Italian equivalent to Limited)
USD	U.S. Dollar
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WSJ	Wall Street Journal
WB	World Bank
WTO	World Trade Organization
Y-O-Y	Year over year

Index of Figures

Index of Tables

Table of contents

1. Introduction

In the aftermath of the economic crisis of 2008, developed economies are still suffering the marked drop of domestic consumer expenditure. In some advanced economies such as EU and Japan, the expenditure was forcedly driven down by the severe drop in annual per-capita disposable income that fell by 1.7 and 0.5 per cent respectively during the 2007-2012 periods (EUROMONITOR, 2013). Developed world's consumers, in general, are suffering the general worsening of the economy of their countries, hit by severe recession. Among them, the EU seems to be particularly stunting growth, recording still poor per-capita disposable income growth rates especially in peripheral Mediterranean countries (WB, 2012).

On the other hand, during the same period of time, the whole world witnessed the emergence of non-advanced economies as key consumer markets in several industries. According to the global consulting firm Deloitte, disposable income in the four BRIC countries (Brazil, Russia, India and China) in 2011 already account to USD 10.200 bn, equaling 87,9 per cent of EU disposable income.

In a global economic scenario characterized by different trends of economic growth, Italian economy floats irremediably in the long wave of recession. The crisis of Italian public debt, followed by the austere effects of government's contractionary fiscal policy, resulted in a severe recession occurred in the order of -2.4% of GDP in 2012. Given the current and expected reduction of both private and pubic spending, many observers of the Italian economy already advocated that internationalization of Italian firms (especially through exports) would gain more and more importance for the national economy (SACE, 2012). In particular, it has been long discussed that the intrinsic quality of merchandises and services of the so-called "Made in Italy" should be further promoted into those non-advanced economies that promise expanding consumer bases and rising income levels (SACE, 2013).

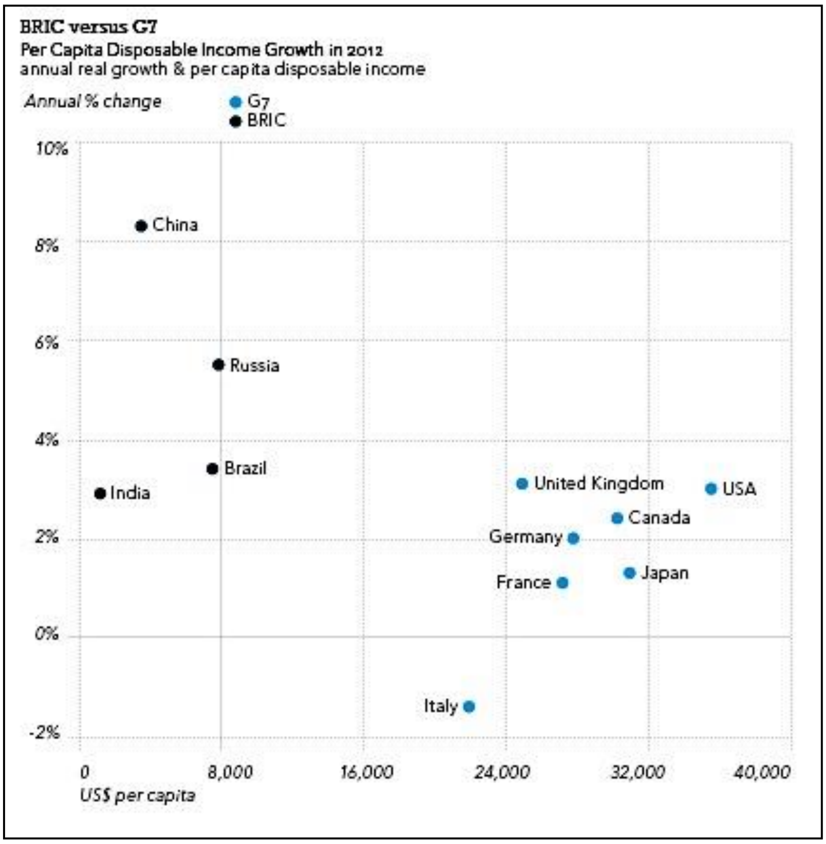


Figure 1 Per capita disposable income growth (2012) - % Source: Euromonitor

The fashion industry, the action field of this study, is notoriously one of the pillars of "Made in Italy" abroad; and, therefore, stands at the forefront of internationalization potential. From one side, the saturation of national market and the opportunity to supply the growing demand for Italian fashion garments abroad, and from the other side, the inviting environment to set up global value chain in countries with favorable procurement conditions, pushed Italian firms to internationalize. Initially this phenomenon was mainly restricted to the circle of big brands, today there are more and more investments involving the distribution of mid-range firms (CIAPPEI; SANI, 2006). Nevertheless, it is clear that the mode of entry in foreign markets and the magnitude of the investments to support these international strategies are highly influenced by the size of the company. In the Italian context, characterized by the abundance of small and medium enterprises (SMEs), the causes that discourage companies to operate in foreign markets are not only related to insufficient financial capacity and corporate aversion to risk, but often are simply related to insufficient knowledge of export techniques and possible target markets.

1.1. Research objective

Given the high potential of research in this field as well as the vastness of the possible achievements, the objective of the study is **to provide SMEs with insightful information about internationalization process in two specific target markets: Russian Federation (Russia) and Brazil**. A part from general interest in exploring information about two of the famed BRIC economies, the choice of the Russian and Brazilian market is dictated by the proved emergence that these two markets are experiencing in fashion. From one hand, Russia has been taken into account because of its already considerable interest for Italian fashion (i.e. according to ICE, around 50% of fashion flagship stores in Russia is of Italian brands) and this is a reasonable base to investigate further on the potential for SMEs. On the other, Brazil is taken into consideration first because of the growing attention (from a business perspective) that the country is gaining thanks to the international exposure derived from hosting major international events such as the World Cup 2014 and the Olympic Games 2016 and, more importantly, for the famed untapped potential of Brazilian fashion manufacturing industry, fourth largest producer in the world in 2011 (ICE, 2012).

Definition of SME and Micro enterprises

Before presenting the four main kinds of literature reviewed it is important to clarify the meaning of Small and Medium enterprise according to European Law, which is the regulatory context of Italian firms. According to the EU recommendation 2003/361, an enterprise is considered to be an SME if it: (1) employs fewer than 250 persons and (2) has an annual turnover not exceeding EUR 50 million and/or an annual balance sheet total not exceeding EUR 43 million. A SME must be autonomous. It is considered autonomous provided that no more than 25 % of its capital or voting rights belong to one or several other enterprises which themselves do not meet the definition of a SME. There are exceptions to this 25% threshold for public investment corporations, venture capital companies, etc. Furthermore any holding by one company in other companies is taken into account for the assessment of staff headcount, turnover and the balance sheet). The European Union EU defines also micro-enterprises as those that meet 2 of the following 3 criteria and have not failed to do so for at least 10 years: (1) fewer than 10 employees; (2) balance sheet total below EUR 2 M; (3) turnover below EUR 2 million.

This study is organized as follow: chapter one brings a brief introduction on the subject matter, the methodology of the conducted research and encompasses the literature review. Chapter two deep-dives into the macroeconomic scenario that has already been briefly mentioned in the introduction, showing the different paths of national economies in the post-crisis period and providing an analysis of the Italian economy presented as compared to the peer economy of Germany. Then, the Italian fashion industry represents the main topic of chapter three, which encompasses a descriptive yet critical introduction of the history of the industry and of its main features. The chapter entirely dedicated to internationalization strategy is chapter four, which runs an overview of the main literature taken into account as framework for the empirical cases that follows. Chapter five encompasses the results of the analysis conducted on both fashion industries in Russia and Brazil. Subsequently, the results of the analysis are re-interpreted to serve as the base for chapter six, that presents conclusions and recommendations as well as limitations of this study and some indications of further research.

1.2. Methodology

In order to fulfill its objective, this study embraces a methodology that encompasses an analysis of former literature as well as a series of interviews. The analysis of reports, institutional data, corporate profiles, news articles and interviews to fashion expert were conducted in Brazil, Italy and Russia, remotely and in person. For what concerns the literature reviewed, it has to be taken into account that, given the purpose of the study, **to provide SMEs with insightful information about internationalization process in two specific target markets: Russian Federation (Russia) and Brazil,** besides academic literature, a considerable amount of the literature reviewed consists in reports and other non-academic publications. For this reason, an extensive description of the approach to the literature is provided in Chapter 3. As for the interviews, the author of this study conducted a total of sixteen open interviews with fashion industry experts and operators, legal advisors and strategic consultants in the three reference market: Italy, Russia and Brazil. The open interviews, that took place in the period of November 2012 – September 2013, often represented the anchor to fully understand the functioning of so diverse and relatively wicked markets. Table 1 lists the total of sixteen full interviews that took place, however several other informal interactions with non-mentioned operators represented a remarkable, yet residual, contribution for the purpose of the research.

Table 6 List of participants (2012-2013)

Number	Initials	Profession	Field of Expertise	Country	Date
1	M.D.P.	Editor	Fashion industry	Brazil	21.08.2013
2	L.G.	Fashion Stylist	Fashion industry	Brazil	02.02.2013
3	A.M.	Lawyer	Legal	Brazil	21.08.2013
4	D.M.	Distributor	International Trade	Brazil	05.09.2013
5	M.M.	Consultant	International Trade	Brazil	01.03.2013
6	L.S.	Principal	Fashion SME	Brazil	14.09.2013
7	E.A.	Professor	Economics and trade	Brazil	02.09.2013
8	U.K.	Editor	Fashion industry	Russia	02.02.2013
9	S.I.	Operator	Fashion industry	Russia	10.02.2013
10	A.A.	Operator	Fashion industry	Russia	12.04.2013
11	N. S.	Editor	Fashion Industry	Russia	13.04.2013
12	M.F	Principal	International Trade	Russia	12.04.2013
13	A.F.	Principal	International Trade	Russia	12.04.2013

14	A.F.	Principal	Fashion SME	Italy	21.11.2012
15	L.L.	Sales Director	Fashion SME	Italy	08.01.2013
16	T.B.	Creative Director	Fashion SME	Italy	08.01.2013

This following chapter will describe both methodology and contents supporting the investigation of the written literature.

1.3. Literature review

In the wake of former work on comparative strategic management (LUO; SUN; LU WANG, 2011) this study aims to put together the most relevant quantitative and qualitative data to support an actual internationalization strategy of SMEs of the Italian fashion industry in the national context of Russia and Brazil. The literature reviewed for the aim of the study has been presented according to the field of research that it has served. Four fields are so identified: macroeconomic, industry-level, fashion industry and internationalization strategy.

- *Macroeconomic*

  In order to provide a current analysis of the macroeconomic scenario of the areas encompassed in the study, the latter accessed a vast range of reports released by national and supranational authorities and organizations. The category of reports does not really perform the traditional task of literature, since they are encompassed in the study with the purpose of showing facts and tangible data, rather than theoretical support. Nevertheless, they assume utmost importance for the aim of the study, since the study itself aims to collect relevant data for the use of SMEs in the industry of fashion.

  Macroeconomics reports are reviewed and collected together in the body of this study in order to draw significant evidences that may support initiatives in the field of internationalization of companies in the specific sector of fashion. The macroeconomic overview provided in Chapter four, largely based on the International Monetary Fund's "World Economic Outlook 2013" serves for the aim of clarifying what is the current differentiation in economic growth rate between and within advanced economies and non-advanced economies (INTERNATIONAL MONETARY FUND, 2013).

The second macroeconomic analysis, also presented in Chapter four, focuses on Italian economy. For this attempt, the literature reviewed consists mainly in two reports: one provided by the European Commission on the current status and forecast for the Italian economy and finance of 2013, and one provided by Prometea and *Istituto per il Commercio Estero* (ICE, Italian Institute for Foreign Trade) on the “Evolution of external trade by area and by industry: opportunities for Italian enterprises in the foreign markets in the period 2012-2013”. The combined contribution of the data provided by the two institutions, coupled with World Trade Organization (WTO) and World Bank (WB) data on Italian and German main economic indicator (GDP, Inflation, Unemployment Rate, Government-debt-to-GDP ratio, Business Confidence, Consumer Confidence), underlines two main concepts that are fundamental to support the thesis of internationalization of SMEs in the fashion industry. The first is the worsening trend of Italian economy during the euro crisis and the post-crisis period (if compared to Germany, Italy presents a much more delicate condition of the economy) and, the second is the weakening demand for Italian goods in the domestic market as compared with the growing external demand (ICE; PROMETEA, 2013).

The third and fourth macroeconomic analyses, presented in Chapter seven, focus on the Russian and Brazilian economies, with the specific aim of evidencing market drivers in the context of the analysis of international responsiveness of Italian products for the local fashion industry. The source of such information is again the ICE, the Italian Institute for Foreign Trade. In former literature review, comparisons between Russia and Brazil has been done mainly in the field of entrepreneurship, where it has been demonstrated that in such economies – characterized by weak institutional environment – , companies need to develop specifically strong networks, in order to stand on the market (AIDIS; ESTRIN; MICKIEWICZ, 2008). Other referenced literature that encompasses comparison between Russian and Brazilian economies is found in the context of the analysis of **BRIC economies** (O’NEIL, 2001), and the increased role the countries under this abbreviation play in the world economy (WILSON; PURUSHOTHAMAN, 2003). Nevertheless, the most relevant achievements in the field of comparative management, in the context of emerging economies, have been recorded in the work of Khanna (2008) about the so-called **Second World**. According to the analysis by Khanna (2008), the forthcoming future will see three main economic and political influencers, EU, US and China (namely the First World) being able to determine global trends, whereas, a group of secondary countries that includes Russia and Brazil (namely the Second World), will be entitled of the role of addressing more local and regional trends (KHANNA, 2008).

- *Industry-level*

  Industry level analyses presented in this study aims to provide those data that may picture the overall conditions of the fashion industry both in the domestic (Italy) and the foreign markets (Russia and Brazil). The literature reviewed for Italian fashion industry consists mainly in association's reports: *Sistema Moda Italia* (SMI), (2013), *Federazione Tessile e Moda per Pitti Immagine* (2013), Italian Fashion Textile (ITF) and *Unioncamere*, (2010), *Camera di Commercio Milano*, IULM University, (2008). The literature provides data as well as unequivocal opinions about the quest for internationalization of Italian enterprises in the emerging markets (ITF; UNIONCAMERE, 2010). As for the industry analysis of the destination markets, the study encompasses two levels of literature review. The first are the report-level submissions from the Italian Institute for Foreign Trade (ICE, 2011). These two reports, respectively about Russian and Brazilian fashion industries, represent a solid base to estimate the attractiveness of the market targeted, following the internationalization model of trans-nationality (BARTLETT; GHOSHAL, 1989). Furthermore the commercial-nature of the institution providing the studies is of greatest importance to discover the technicalities for businesses to enter the aforementioned markets. This, in turn, gives a more consulting-oriented approach to the study, in accordance with the aim of the author.

  Once the economic and commercial conditions of the target markets are defined, the second most important information to choose to develop business abroad are the conditions of the demand (HOSKISSON; EDEN; LAU; WRIGHT, 2000). For this aim, the study employs the second category of industry analysis, provided by the market research companies Euromonitor

International and MarketLine. The reports, both for Russia and Brazil, encompass the industry of apparel (clothing and footwear), located downward at last level of the chain before distribution (CIAPPEI; SANI, 2006), evidencing the orientation toward the demand side in this part of the study.

- *Fashion-Industry*

  In order to give general information about the historical and current status of fashion industry both in Italy and globally, this study encompasses the presentation of the most relevant notions of fashion. For this attempt, it is relevant to remark that a great contribution of literature in the fashion industry can be found in the literature of luxury goods (DUBOIS; DUQUESNE,1993). As for the definition of “Made in Italy”, this study applies the definition presented by Symbola (2013). “Made in Italy” is considered the set of manufacturing products (textiles and clothing, leather and shoes, machineries et al.), tourism, food, innovation, art and creative services (architecture, communication and branding, production of design and style, gastronomy) that are produced in Italy and “enclose the specific content of beauty and quality that characterize this country” (EDISON FOUNDATION, SYMBOLA, UNIONCAMERE, 2013). Furthermore the historical analysis of Italian fashion industry shows that the industry, since the very early stage of its development in the post-war period, born with a distinctive international spirit (GIORGINI, 1951). The definition given to “born global” and “international new venture (INV)” organizations as of “business organizations that from inception seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (RENNIE, 1993, OVIATT, MCDOUGALL, 1994) seems to apply perfectly to the whole industry of fashion in Italy. Since the early stage in fact, nor input factors nor customer base for fashion garments were available in the country. Today, the context of growing balance of trade for the industry (INSTAT, 2013) suggests that this characteristic still endures.

- *Internationalization strategy*

Internationalization is "the process of adapting firms" operations (strategy, structure, resources, etc.) to international environments (CALOF; BEAMISH, 1995, CRICK, 2008). It is a gradual process that leads the companies to access foreign markets on the base of their knowledge acquisition of the market in order to reduce uncertainty (JOHANSON; VAHLNE, 1977). As per Crick (2009), "Under such circumstances, resources would be committed gradually in each market as knowledge increases." In the context of the Italian SMEs in the industry of fashion there are evidences to state that a much less gradual way could be taken as the Italian firms may recognize the shrinking size their domestic market (i), the importance of "buying-in" knowledge by recruiting individuals that possess particular experience in international contexts (ii), the strategic support of undertaking focused research (iii) (COVIELLo;MUNRO, 1997; KEEBLE ET AL., 1998; CHETTY;CAMPBELL-HUNT, 2003; BELL ET AL., 2004).

Another distinguished contribution on the theme of internationalization comes from Ghemawat (2001), who argues that although the world has been made more homogeneous by globalization, the distance is still important when it comes to business. He brought together under the acronym CAGE (Cultural, Administrative, Geographic, Economic) the four constitutive dimensions of distance, each of which exerts a different influence depending on economic activity. In addition, according to Kundu and Katz (2003) and Zahra et al. (2003) "another factor triggering the initial internationalization decision is the knowledge, experience and learning of the key entrepreneur or management team. […] Their various motivations help shape the firm's evolving goals, strategic actions and performance" (CRICK; SPENCE, 2005). In the context of fashion, the importance of distance is considerable especially for the matter of production, where distance matters in order to meet delivery as well as quality standards (MORINI, 2000). As for the figure of key entrepreneur, they assume even a more strategic role for the fashion firm since he/she is usually involved (even indirectly) in the process of design (SIMON, 1986) and his/her business/creativity is an intrinsic component of the products he/she sells. Furthermore, fashion industry entrepreneurs (or sometimes the managerial team) must pay attention to the "delicate balance between innovation and what has succeeded in the past" (Mora, 2005). In other words the quest for innovation at product as well as at company level must always be consistent with the image of the fashion company, expressed in its history and its key managerial figures (entrepreneur or managerial team).

The so-called "eclectic paradigm" of internationalization of companies (DUNNING, 1993, 2000) says that the choice of internationalization is determined by the benefits of three sets of interdependent variables: ownership advantage, localization and internationalization.

The first set concerns the **ownership advantage**. Ownership advantage comes from the fact that the company possesses a competitive advantage that can be enforced against local companies operating in the target market. Usually this is attributable to product innovations, know-how and strategies of product differentiation. However, this kind of advantage can hardly justify foreign investment; the product, in fact, could be simply exported, without requiring a specific investment in the host country;

The second category is represented by the **location advantage** that motivates the attraction of a nation in respect of the activities of the international firm. This set of factors does not refer only to those cost factors, cost of transport etc., but also involves considerations about the adequacy of the host country in relation to the strategies of firms, for instance the cultural proximity and size of the market.

The last component to be considered is the **advantage of internalization**, the one justifying the realization of FDI, as it gives the opportunity to the company to internalize some benefits that would otherwise be lost (market knowledge and adaptability, supply chain proximity etc.).

The three highlighted advantages bring some implications on the type of internationalization strategy that the company may try to implement. If there are proprietary advantages the company will likely use the export strategy; if, on top of proprietary advantages, there are advantages of localization then it will be privileged the form of contractual agreements; in the case of all three factors are in place then it will be justified the application of a FDI (JACQUEMIN, 1988).

2. Briefing on the international macroeconomic scenario

2.1. Macroeconomic status-quo

Five years after the beginning of the 2008 economic recession, the future of the international economic activity remains linked to a certain level of uncertainty. According to the World Bank (WB) the year 2010 inaugurated the recovery of the world economy from the crisis, registering a growth rate in the Gross World Product (GWP) of 4.0% compared to the year before (WB, 2013). Then, 2011 closed with a remarkable slowdown of such recovery reaching 2.8% and 2012 saw an even more discrete growth of 2.2%. The slowdown was more evident in the so-called advanced economies, conditioned by the need of re-equalizing public and private debts occurred during the year of the recession, by the weak conditions of the labor market and by the slow recovery of domestic real estate markets. In detail, the United States and Japan recorded a higher GDP growth in 2012 that in 2011, respectively from 1.8% to 2.2% and from -0.6 to 2.0%. In the United States, the grown domestic demand coupled with the gradual ease of government spending in defense and expansive monetary policy, played a key role in the recovery of the economy and is likely to push the GDP growth to 3% in 2013. In Japan, the catastrophes of Tsunami occurred in the first quarter of 2011, made the GDP fall by 0.7 in 2011. Then the combined action of the expansive monetary policy and the investment in the reconstruction led to growth in the GDP in 2012, despite the weak foreign demand hampered the exports (THE WORLD BANK, 2013). Contrarily, the Euro Area was hit by a strong contraction of the growth in 2012 compared to 2011 recording rates falling from 1.4% to -0.6%. According to the World Bank (2013) such deceleration in the Euro Area was mainly driven by the worsening of the crisis of sovereign debt in the peripheral EU (Greece, Cyprus, Italy, Spain and Portugal). Moreover, the growing uncertainty of families and enterprises, the restrictive interventions of national states in the economy and the more difficult conditions of labor and credit markets have all these factors affected negatively both consumptions and investments.

The so-called emerging markets and developing economies, or simply non-advanced economies[1], continued to drive the growth of world economy after 2008 economic crisis. Different analysis (Bridgewater Associates LP and the WSJ) stated that in 2013, for the first time since mid-2007, the advanced economies, including Japan, the United States and Europe, together are likely to contribute more to growth in the $74 trillion global economy than the non-advanced nations, including China, India and Brazil. This data has to be considered true if the share is calculated at market prices and not at PPP, as it is calculated by other analysis such as The Economist. In fact, at market prices, given the appreciation of the dollar in the last months, the value of non-advanced economies growth is remarkably reduced. Nevertheless, this study will rather prefer the PPP-interpretation of GDP growth applied by The Economist, given the most authentic value that PPP-expressed growth for the world economy taken as a whole (THE ECONOMIST, 2013). According to IMF, the 2013 will be the first year in which non-advanced economies will account for more than half of GWP, based on purchasing power (THE ECONOMIST, 2013). Despite this information, this category of countries is experiencing a slack in economic output growth, due to poor export seasons during the crisis and to restrictive interventions in the monetary and fiscal policies, that took place in several countries to limit overheating in the years previous to the crisis (THE ECONOMIST, 2013).

Among non-advanced economies, the famed acronym BRIC, namely Brazil, Russia, India and China (acronym created by Jim O'Neill of Goldman Sachs, an investment bank, in 2001), after experiencing a disruptive transformation of their economies till 2008, are now facing a remarkable year-by-year reduction of their real GDP growth, gradually shifting from a rapid, resource-intensive, investment-led growth to a more consumption and services oriented economy (THE ECONOMIST, 2013). More interestingly, the year 2010, that saw all BRIC economies recovery strongly from the crisis, is considered the last year before the so-called "post-BRIC" era, featured by falling GDP growth rate and less-disruptive ascendance of the BRIC economies on the global market (THE ECONOMIST, 2013). In particular, China's economy, the largest BRIC economy in terms of GDP, despite continuing to grow at high rates didn't reach the pre-crisis levels and it is expected to perform downward also in 2013.

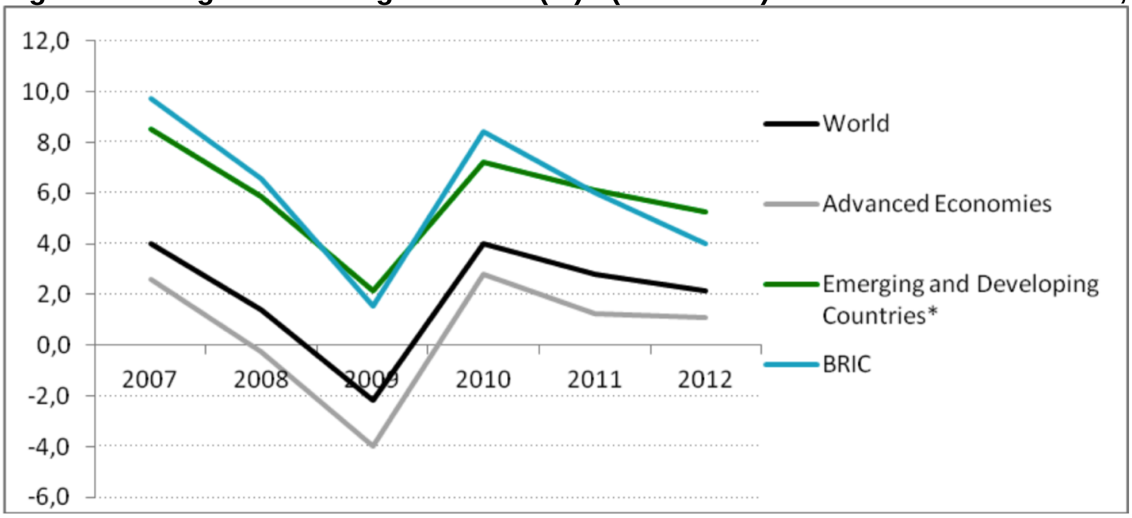
[1] Emerging and developing markets are reasonably identifiable as all the countries except the aforementioned advanced economies. Such residual definition is the most convenient even if not the most accurate one.

The slower growth was affected by the combined effect of fewer investments in infrastructures and a lower level of trade toward advanced economies as well as towards other non-advanced Asian countries (IMF, 2013).

Among the other BRIC, the recovery also experienced a break in India and in Brazil, following a slowdown of the manufacturing activity and of investments. In the latter, the expensive cost of capital during the years 2010 and 2011 and the diminished availability of foreign capital due to the financial crisis, turned into a substantial stagnation of economic activity in 2012, as evidenced by the skinny 0.9% growth of GDP in the same year.

Furthermore, according to IMF data, the year 2009 represented the first year when average GDP growth rate of BRIC economies underperformed the average growth rate of the non-advanced economies group as a whole (IMF, 2013). In other terms, it is starting from 2009 that, non-advanced non-BRIC economies are catching-up in average on BRIC economies, proving the assumption that we live in a post-BRIC era.

Figure 2 GDP growth during the crisis (%) - (2007-2012) Source: The World Bank, *IMF



In conclusion, the current data provides evidences that a differentiation in just two categories of countries, advanced and non-advanced, will not fully explain the heterogeneity of recovery speeds that national economies are experiencing from the economic crisis of 2007-2008. Despite average growth rate are higher in non-advanced economies than in advanced economies, still key differences exist within these categories. In advanced economies, it appears to be a growing divergence between the fast-recovering in the United States and Japan, on one hand, and sluggish and worsening in the Euro Area on the other hand (IMF, 2013). As for the non-advanced economies, data evidence shows that larger emerging economies (namely the BRICs) are gradually slowing down their GDP growth, moving towards a less investment-oriented and more consumption-oriented growth; while several other non-advanced, non-BRICs economies, are experiencing high growth, catching up against BRICs.

Table 7 GDP growth during the crisis (%) - (2007-2012) Source: The World Bank, *IMF

	2007	2008	2009	2010	2011	2012
World	**4.0**	**1.4**	**-2.2**	**4.0**	**2.8**	**2.2**
Advanced Economies	**2.6**	**-0.3**	**-4.0**	**2.8**	**1.3**	**1.1**
Emerging and Developing Countries*	**8.5**	**5.9**	**2.1**	**7.2**	**6.1**	**5.3**
BRIC	**9.7**	**6.6**	**1.5**	**8.4**	**6.0**	**4.0**
Russia	8.5	5.2	-7.8	4.5	4.3	3.4
Brazil	6.1	5.2	-0.3	7.5	2.7	0.9
India	10.1	6.2	5.0	11.2	7.7	4.0
China	14.2	9.6	9.2	10.4	9.3	7.8
Source: WB, 2013 - *IMF						

2.2. The macroeconomic scenario in Italy: A comparative analysis with the German economy

The following is a brief, yet comprehensive, analysis that aims to provide an overview of the *status quo* of Italian economy in the last years. Different issues are taken into account for such analysis, such as: GDP, labor, prices-levels, trade, government spending, business confidence and consumer confidence. In order to contextualize the data, the study will present, along with data for Italy, data for a comparable European country. The economy chosen to run the comparative analysis is the German economy, claimed by many as the most representative benchmark for positive economic performance in the Euro Area during the crisis (KOMÁREK; MOTL; NOVOTNY; PROKOP, 2012). All data provided are sourced at World Bank, EU, WTO, IMF or UNCTAD (2013) and may refer to national statistical data.

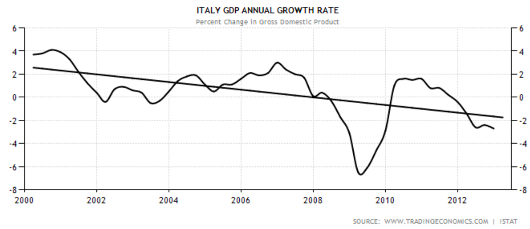
Gdp – Gdp Annual Growth Rate

The annual growth rate in Gross Domestic Product (GDP) measures the increase in value of the goods and services produced by an economy over the period of a year, avoiding any type of seasonal adjustment.

Germany GDP Annual Growth Rate

Germany is the fourth largest economy in the world and the largest within the EU. Since 2000 the GDP in Germany varies rather slightly with the great exception during the crisis. Therefore in June 2009 the growth rate dropped to its historical record low of minus 6.8 %. In Germany services are the biggest sector of the economy and account for 68 % of total GDP, while the manufacturing accounts for 25 % of total GDP. Germany's great power in exports was important to recover from crises and still nowadays exports are crucial for growth.

Italy GDP Annual Growth Rate



Italy has the eighth largest economy in the world and the third largest in the Euro Zone. The GDP in Italy is reported by the World Bank to be EUR 2,013 trillion in 2012. Alike to Germany, Italy had to suffer a record low of -6.50 % growths during the crises in March 2009 and still is expected to fall by 1.4% in 2013. Italian biggest sector of the economy is service, accounting for 73 % of total GDP. Industry instead contributes 25 % to the country's GDP. Differently to the German economy, Italy had negative overall trend since 2000. A first recover in 2009/2010 was not enough as the situation turned back negatively in 2012.

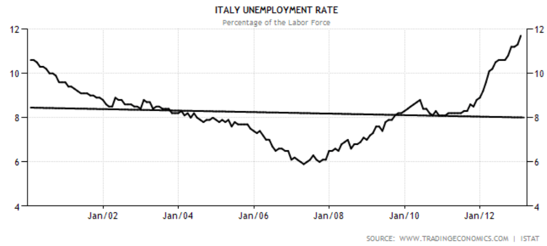
Labor - Unemployment Rate

The unemployment rate indicator shows that the number of people actively looking for a job divided by the labor force. Increases/decrease in unemployment rate depends on inflows made up of (i) non-employed people starting to look for jobs, of (ii) employed people who lose their jobs and look for new ones and of (iii) people who stop looking for employment (numerator), and (iv) on the amount of people entering the labor force (denominator).

Germany Unemployment Rate

In Germany, the unemployment rate measures the number of people actively looking for a job as a percentage of the labor force. We observe for this indicator that the situation in Germany has changed significantly since the crisis compared to other economies within the EU. Since the crisis, Germany decreased its unemployment rate constantly, which explains the reducing trend of this rate.

Italy Unemployment Rate



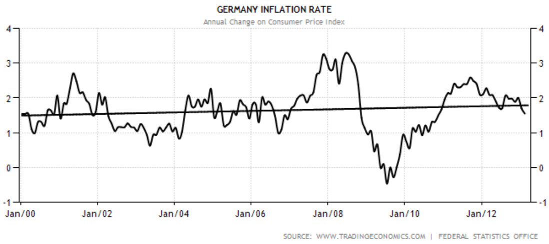
In Italy, the unemployment rate measures the number of people actively looking for a job as a percentage of the labor force. Compared to Germany we observe the opposite effect. We observe a record low of 5.90 % in April of 2007, shortly before the crisis, while the country reached its all time high of 11.70 % in January of 2013. For young people the situation is even worse with unemployment rate reaching almost 30 %.

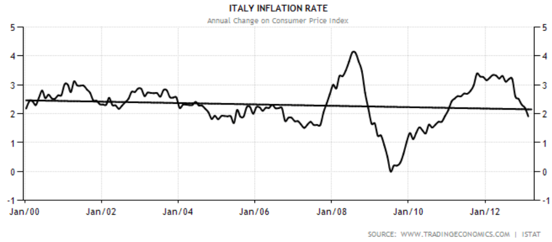
Prices - Inflation Rate

The inflation rate measures the annual change in the prices by taking the average price changes for items in a predetermined basket of goods and services. Prices taken into account are goods like food, energy, housing, clothing, medical care, transportation and household equipment.

Germany Inflation Rate

Italy Inflation Rate





Germany's most important categories are housing, water, electricity, gas and other fuels, transport, recreation and food and non-alcoholic beverages. The increase of the inflation rate after the crisis and therefore a negative correlation to unemployment rate underlines the model of the Philip's curve in the short term. In the long-term this correlation is not observable.

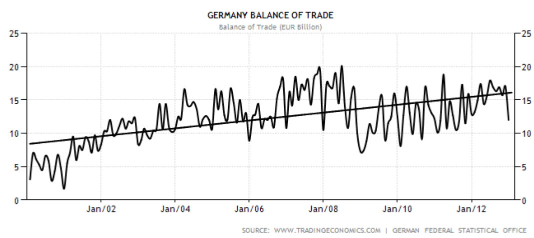
In Italy, the most important categories taken into account are: food and non-alcoholic beverages, transport, restaurants and hotels and housing, water, electricity and other fuels.

The insights about the Philip's curve for the German economy are equally correct for the Italian inflation and unemployment rate.

Trade - Balance Of Trade

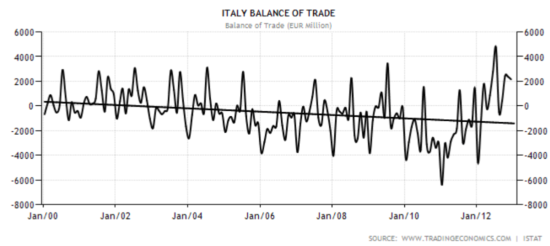
The balance of trade is the difference between the monetary value of exports and imports in an economy over a certain period of time. A positive balance is a trade surplus and occurs when exports value is higher than imports value. A negative balance of trade is called a deficit or a trade gap.

Germany Balance Of Trade



Germany runs regular trade surpluses due to its strong export of cars and machinery. Other exports are pharmaceuticals, metals, chemical

Italy Balance Of Trade



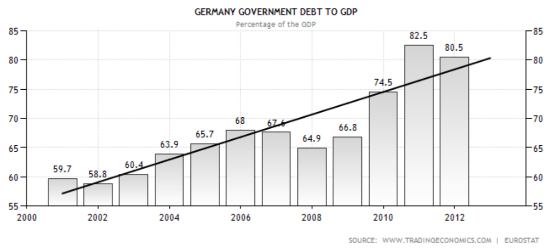
Italy has not such a clear position of its trade balance but tends to have a deficit. Nowadays, as mentioned before, Italy re-balanced its foreign products, hardware and electronic equipment. Main imports are electronic devices, fuel, vehicle parts and metals. Trading partners are France, Netherlands, United States and Italy.

trade flows due to a reduction in imports and inverted its trade deficit into surplus. Main exports are precision machinery, metals, clothing and motor vehicles. Main imports are: fuel, motor vehicles, raw minerals, chemicals and pharmaceuticals. Main-trading partners are Germany and France.

Government - Government Debt To GDP

The government debt to GDP ratio, also known as debt-to-GDP ratio, is an indicator calculated as the amount of national debt in percentage of its GDP. In other words, Government debt is the money owed by the central government to its creditors. The higher the debt-to-GDP ratio, the less likely the country will pay its debt back (default on its debt obligations) therefore this indicator strongly influence the risk thus the cost of debt of a certain country.

Germany Government Debt To GDP



In 2011 Germany's Debt To GDP reached an all-time high of 82.5 %. The sharp increase since 2009 is a result of the financial crisis that led directly into the debt crisis for several EU states. In the last two years Germany was able to reduce its debt to GDP ratio nevertheless the country was not able to reach pre-crisis levels. For the last decade we observe a clear increasing trend with values that are substantially greater than the set limit within the European Union of 60% for this ratio. Since investors use this indicator to measure a country's ability to make future payments on its debt it has an important effect on the country's borrowing costs and government bond yields. Although Germany has nowadays a large debt to GDP ratio, borrowing costs and bond yields show still very small and therefore positive values. The overall confident situation in Germany might be one reason for these positive values with such a large debt.

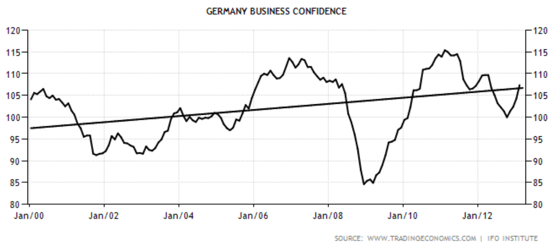
Italy Government Debt To GDP

Historically Italy records remarkable Government Debt to GDP ratio (CASADIO; PARADISO; RAO, 2012). The situation reached a critical point during the European debt crisis with a percentage of 120.70 % in 2011. The negative trend of the GDP growth rate makes the situation even worse and shifts Italy into serious problems about its debt with a 127% ratio in 2012. As mentioned above investors use this indicator to measure a country's ability to pay back its debt. Low borrowing costs and government bond yields indicate a rather good position as we observe it in Germany. In Italy instead the large debt is one reason for the critical situation as borrowing costs and bond yields rose substantially in the last period.

Business Confidence

The Business Confidence Index is an “indicator designed to measure the degree of optimism on the state of the economy that business owners are expressing through their activities of investing and spending” (LAGOS CHAMBER OF COMMERCE, 2012). Decreasing business confidence often implies slowing economic growth because business owners are likely to decrease their investment. The idea is that the more confident business owners and managers feel about the economy, their companies, their jobs and incomes, the more likely they are to make investments and purchases.

Germany Business Confidence



In Germany, the IFO Business Climate Index measures entrepreneurs’ sentiment about current business situation and their expectations for the next 6 months. The survey covers 7,000 firms in manufacturing, construction, wholesaling and retailing industry. The confidence for doing business in Germany recovered very quickly and impressively after the crisis with an all time high of 115.40 in February of 2011. Since then we observe a slightly decrease but still at the level of pre-crisis values, following the overall positive trend in the last years.

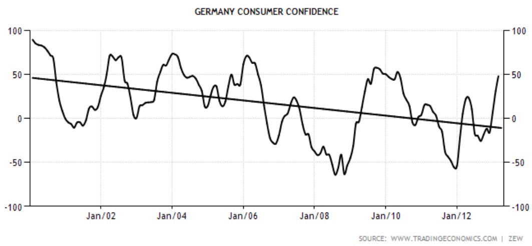
Italy Business Confidence

In Italy the Manufacturing Confidence Index covers 4,000 companies. It focuses on the current as well as short-term forecasts on order books, production, prices and the general economic situation. Similar to Germany Italy experienced a quick recover of business confidence after the financial crisis. Contrarily to Germany the confidence didn’t hold after 2011. We observe an important decrease that is determined for the overall negative trend for this indicator in the last decade.

Consumer - Consumer Confidence

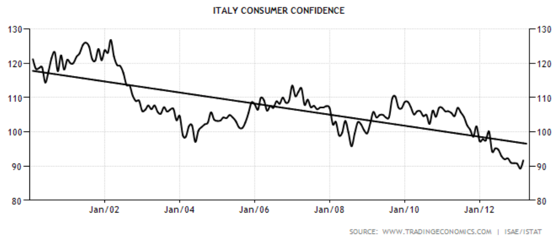
Consumer confidence is an indicator that measures perceived consumer optimism about the state of the economy and their personal financial situation. The assumption of the measurement is that people's perception about stability of their incomes determines their spending activity therefore it forecasts the forthcoming economic situation.

Germany Consumer Confidence



The Economic Sentiment Index measures the level of optimism that analysts have about current economic situation and expected developments for the next 6 months. The volatility indicates the significantly reaction of Germans due to effects reflecting economy and income expectations. Recently the index increased due to the solid job market and the rather low unemployment.

Italy Consumer Confidence



In Italy, the Personal Confidence Index measures households' economic conditions, employment and saving prospects and expected purchases of durable goods. The situation in Italy is less volatile and more critical compared to Germany. A negative trend can be observed since 2002, getting worse after the crisis due to increasing unemployment and overall critical situation of the economy.

Analyzing the indicators of different fundamentals for Germany and Italy allows observing some crucial differences within these two economies, both belonging to EU but facing a different economic *momentum*. In the shade of sovereign debt crisis in the Euro Area, Italian economy keeps standing in a deep recession period (EU, 2013). The GDP of Italy fell by 2.4% in 2012, nullifying the upswing of the previous two years. The increasing unemployment rate, grown by 2% reaching 10.7% of working population in 2012, the growing debt-to-GDP ratio, the drop in business and customer confidence are all underlining the delicate condition of the national economy. As for the domestic demand, it has been negatively affected by all the factors aforementioned, leading to visible bettering off of the BOT, positive for the first time since 2004 (EU, 2013). The drop in domestic demand, in fact, is of utmost importance to understand the switch that took place in Italy toward the current surplus in the BOT. Nevertheless, as it will be discussed more in details further in the study, it is important to mention that, while imports experienced a radical drop in 2012 (-7.5%) due to the aforementioned weak national demand, exports increased, on the back of sustained demand from non-EU trade partners (EU, 2013). Therefore, net exports, the only reassuring trend, limited the real GDP.

As for Germany, the European peer of the comparative analysis, the same indicators seems suggesting that the economy is rather on a good path comparing today's situation with the crisis days. Likewise the overall development for the last decade is for the most indicators favorably. Especially the historically positive trade balance, the decreasing unemployment and the growing customer and business confidence draw the overall positive picture.

For the purpose of this study, these differences underline the bold conclusion that, under the current economic conditions, consumption of Italian goods and services abroad may represent the most viable solution for companies to recover from the crisis.

2.3. The demand of Italian goods

The following subchapter will present a brief yet comprehensive analysis of consumption of Italian goods in the home country (domestic consumption) and through the exports (foreign consumption). The aim of this discussion is to evidence, one more time, that the quest for internationalization for Italian companies, in general, gains even more priority when recent trends of domestic economy are taken into consideration (ORSI, 2013).

2.3.1. Italian domestic consumption

In this paragraph, the study aims to present the status quo of Italian domestic consumption. Notoriously, one of the indicators can more likely represent consumption is the **per-capita annual disposable income**. According to an international market analysis institute – Euromonitor – a, Italy's per capita annual disposable income fell 7.5% over the 2006-2011 period, reaching €18,016 (US$25,050) in 2011.

As for the disposable income, given Italian current deep recession, high unemployment and public debt, austerity, regional disparities, and negative-to-zero GDP growth, also the **per capita consumer expenditure** tumbled by 4.1% in real terms to stand at €16,113

(US$22,404) from 2006 to 2011 (EUROMONITOR, 2013). On top of that, another important symptom of the crisis in Italy is the fall of country's **saving ratio to disposable income**. The impact of the crisis led Italian people to start heavily consuming those financial resources historically accumulated during the better periods. Italians, in fact, are traditionally keen savers by the standards of comparable countries in Europe (EUROMONITOR, 2013). Before the crisis, the saving ratio to disposable income was 15.3% in 2007, some 1.7% above average for the Euro zone; nowadays it stands at 11.2%, 1.4% lower than Euro zone. (see Table 3).

Table 8 Saving Ratio % of disposable income

Country	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Italy	15.3	14.9	14.1	12.2	11.6	11.2
Euro Zone	13.6	13.9	14.8	13.4	12.8	12.6
Sources: Euromonitor International from national statistics						

As for the destination of the Italian consumer expenditure, it is rather interesting to see how Italians, now significantly poorer than before in terms of saving, still conduct a spending strategy that focus on non-discretionary items such as housing and education, that are a sort of "investment" for the future (EUROMONITOR, 2013). According to Euromonitor, a part from these two categories (and a third, hotel and catering), every other spending category was either effectively stagnant or posted a real decline over the 2006-2011 period.

2.3.2. Foreign demand for Italian goods

As mentioned before, the change in the trend of the balance of trade in Italy in 2012 and the following surplus achieved in the first months of 2013 are the result of drastic reduction of the Italian imports. In particular, in 2012, the trend in trade balance of Italy with almost all the main partners changed in favor of Italy. In fact, despite being still negative, the trade balance started recovering both with the EU (for instance the deficit with Germany fell by a half from roughly negative EU 13 bn to EUR 6 bn) and with East-Asia (the deficit with China fell by EUR 4 bn). While with the net exporters of natural resources (such as Russian Federation and some counties in North-Africa) and with those countries in the EU that were hit the most by the crisis (Greece, Spain and Portugal) the trend continued to be negative.

Nevertheless it has to be underlined that the export of goods and service of Italy grew in volume by 2.3 % in 2012. In value, the growth was of 11.4 % over 2011, with total exports from Italy reaching EUR 389.725 mn (INSTAT, 2013). It resulted that, given the shrinking GDP, their incidence on GDP grew, reaching around 30 % (ICE, 2013).
In terms of destination, Italian exports followed very different trends depending on the area (INSTAT, 2013). Market shares of Italian exports fell in EU, China and India, and stayed constant or grew in the UK, North Africa, United States, Japan and Oceania.
In general, as for the rest of the world, also Italian export seems to be moving towards more emerging market destinations (SACE, 2012). As a matter of fact, the share of the EU in the export destination of Italy fell from 62,4 al 53,7 percent and North America's fell from 9.2 to 7.6 percent in the last decade (despite a remarkable recovery of 1% in the period 2009-2012). According to SACE and INSTAT, in 2013, Italian exports will grow by 10.5 percent in the so-called "advanced" emerging economies (namely: Brazil, China, Korea, Hong Kong, India, Mexico, Poland, Czech Republic, Russia, Singapore, Slovakia, South Africa, Taiwan and Turkey). For this group, the growth rate will then stabilize at around 9.5 % for the period 2014-2016. For the rest of non-advanced economies, growth is expected to be 11.3% in 2013 and then 9.5% in the 2014-2016 periods. Given these growth rate, the "advanced" emerging markets will represent around 20 % of Italian destinations for exports and the non-advanced around 11.7 % by the end of 2016.

Regarding the sectors supporting Italian export this study will illustrate those sectors that were identified as Italian "champions" according to the newly designed *Fortis-Corradini* index (FORTIS, 2012). The *Fortis-Corradini* index, also known as the Index for the competitive excellence in the international trade, measures the number of products that a given country ranks first, second or third worldwide for positive trade balance. The study conducted by the authors in 2011 for Edison Foundation, an Italian think-tank, was based on data from WTO and UN Comtrade with classification following the rules of the Harmonized System (HS) 1996. The Harmonized System is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes. At the international level, the Harmonized System (HS) for classifying goods is a six-digit code system." (UNSTATS, 2013)
According to the study, Italy ranks first, second or third net positive exporter for a total of 946 products (of the total 5.117 products classified by HS 1996). In detail, in 2011, Italy

ranked first net exporter in 235 products, second net exporter in 390 products and third net exporter in 321 products (SYMBOLA, 2013).

Table 4 shows the first ten products for which Italy ranked first for trade balance with foreign countries and their respective value in million dollars.

Table 9 The 10 most important first places in Italy to foreign trade balance: Year 2011

	Main products in which Italy is first for trade balance with foreign countries	**Value (USD mn)**
1	Footwear with outer soles and uppers of leather	2.655
2	Machinery for packing or wrapping	2.509
3	Tiles and paving, hearth or wall tiles, painted or glazed ceramic	2.475
4	Leather Bags	2.183
5	Shades (sunglasses)	1.919
6	Pasta (uncooked, unstuffed or otherwise prepared, not containing eggs)	1.858
7	Leather, whether or not split, cattle or horses and other equine animals, without hair on, prepared after tanning	1.827
8	Boats and yachts for pleasure or sports, with inboard engine	1.616
9	Electric conductors, for a voltage> 80V but <= 1000V (not fitted with connectors)	1.477
10	Parts of machines for packaging and other machines and equipment	1.467
Source: Elaboration Edison Foundation on WTO data, Eurostat and ComTrade		

As for the categories that ranked second, it must be underlined the fact that this category of export represents the one with the largest contribution in nominal value to the balance of trade of Italy, with USD 74 bn in value. This category is leaded by wine and sparkling wine (*spumante*), taps and valves, wooden furniture and parts of, works in iron and steel, parts of gas turbines, ceramics for decoration, agricultural tractors, cruise ships, numerous types of fabrics and garments, metal products, appliances and machines. (SYMBOLA, 2013).

Italy is third in the world in parts for tractors and motor vehicles for the transport of persons, in jewelry, in the gears and gearing for machines, in the products of plastics, in sofas and armchairs, in parts of machinery and equipment, in axles with differential for motor vehicles, in construction in iron and steel, metal furniture (other than office), in sweaters, pullovers and cardigans of wool, the handbags with outer surface of plastics or of textile materials.
Table 5 shows a summary of the main categories of products “champions” in the international comparison and respective value in billion dollars.

Table 10 Index of competitive excellence in international trade: the positioning of Italy - Index Fortis-Corradini, Edison Foundation - Number of products in which Italy is among the world's exporter: year 2011 (out of a total of 5,117 cases identified by HS 1996)

Position of Italy among exporting countries	**Nr of products (based on HS1996 classification)**	**Value of trade balance (USD bn)**
Cases of products in which Italy and the 1st world country for trade balance	235	63
Cases of products in which Italy and the 2nd world country for trade balance	390	74
Cases of products in which Italy and the 3rd world country for trade balance	321	45
Total cases of products in which Italy is in the top 3 places in the world for exporting	**946**	**183**
Source: Elaboration Edison Foundation on WTO data, Eurostat and ComTrade		

According to Ermete Realacci (2013), president of Symbola, part from the traditional manufacturing categories showed so far in the study, one of the most current arguments for the advocates of Italian recovery after the crisis is the so called *Sistema Cultura* (Italian for cultural system).
The *Sistema Cultura,* as defined in the latest report from Symbola (2013), consists in three main categories:

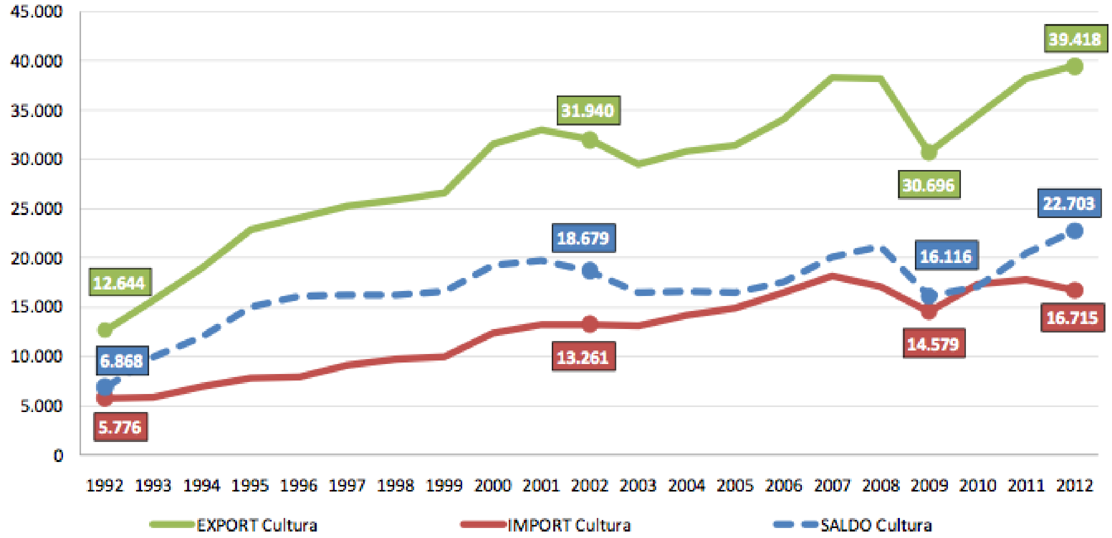
- *Creative industries,* defined as those categories of architecture, communication and branding, design and production of style and handicraft;
- *Cultural industries,* such as movie production, video production, radio-TV, videogames and software, music, books and press;
- *Historical and artistic heritage,* consisting in museums, libraries, archives, and historical monuments

According to the data, *Sistema Cultura* of Italian economy recorded a very strong acceleration in terms of export in the last decades. Nowadays exports of the Italian cultural industry are around EUR 39.4 bn, accounting for 10.11 % of total Italian exports. On the other hand, imports of the same services/goods in the Italian territory from abroad didn't grow at the same pace of the exports over the years, so that now the specific trade balance of the industry is significantly high, recorded at EUR 22.7 bn in 2012 (See Figure 3).

Among the categories, the creative industries have historically the lion share within the industry. Almost the totality of exports of *Sistema Cultura* come from the creative industries, a sector that accounts for 9.3% of the total recorded Italian exports, experiencing a dynamic course in line with what occurred for the culture as a whole. (SYMBOLA, 2013).

This interesting data about Italian modern cultural industry is the *liaison* for the introduction of the main subject of this study, the fashion industry. As recorded by former literature, in the context of high specialization in handicraft and design, Italian fashion industry is indissolubly linked to the creative and cultural industry of Italy (SYMBOLA, 2013).

Figure 3 Export, import and trade balance of Italian Sistema Cultura, (1991-2012) - Values in EUR bn – Source: Symbola (2013)



3. The Italian fashion industry

This chapter is dedicated to a comprehensive presentation of the Italian fashion industry. The aim of the chapter is to provide a description of the industry. First the chapter will present a critical introduction of the history of fashion in Italy; then it will describe two of the most important features of the industry: namely segmentation and creativity; and, finally, the chapter will conclude with the analysis of the status quo of fashion industry today.

3.1. Historical introduction: Italian fashion "born global"

The modern history of fashion in Italy developed in on the same path that saw Italy moving from the second post-war industrialization till today (MORINI, 2000). In the Italian culture, clothing has represented always an actual language of singularity for individuals as well as for the Italian people seen worldwide. In Italy, this deep interpretation of fashion is the reason why, in this country, "stylistic creativity" and "entrepreneurial creativity" influence each other (MORINI, 2000). In other words, according to Morini, the aim of differentiation is what is behind the creativity and the entrepreneurship in the Italian fashion industry; in Italian fashion both the goods and the firms are keen to be different. This quest for differentiating is a rather typical characteristic of Italian manufacturing culture (see the thousands SMEs and micro enterprises as well as the national industrial champions like Ferrari, in car industry, Ferrero and Barilla, in food products, for instance) and it is likely to be driven, at least historically, to the characteristics of local demand, considered for its high level of sophistication and maturity (MORINI, 2000). Furthermore, such heterogeneity of both production and consumption, it is confirmed by the phenomena of SMEs abundance in Italy. As a matter of fact, the relatively small and familiar managerial environment can be reasonably seen as a perfect condition to sustain differentiation, allowing the management team to pursue creativity independently.

Italian fashion industry is set to begin in the Renaissance, with the fashions of Catherine de' Medici, queen of France (MERLO, 2005). Nevertheless, the Italian fashion as we see it today, develops from post-Second World War period. In the '50s the fashion industry was dominated exclusively by the French *couturiers*. In Italy, where the majority of population was rurally employed, only the elite were able to access to the French-interpretation of garments. Beside the Italian upper class either buying from Paris or commissioning tailor-made copies made in Italy, the majority of the Italian consumers were economically and culturally not ready for the introduction of such kind of apparel. By the '50s Italian fashion customer base wasn't in place, let alone a distinguished Italian style (MORA, 2006).
The first initiative that lead to the creation of Italian-designed clothes was made by entrepreneur Giovanni Battista Giorgini, who realized that, while Italian market was still to happen, the American market was mature enough to welcome an alternative to the solely dominant French fashion garments (MERLO, 2005). Giorgini, who was a general exporter before entering the fashion industry, encouraged Italian designers to abandon the French forgery and to pursue an affordable Italian style with the support of industrial machineries imported from the United States. The second great contribution of Giorgini, considered the father of fashion "Made in Italy", was the launch, in 1951, of the first exhibition for Italian fashion designers that took place in Firenze at his house with the participation of buyers from the United States (GIORGINI, 1959). The result was that, thanks to that move, the first manufacturers of the likes of Marzotto, GFT, and Lebole and designers like Brioni, Pucci, Litrico inaugurated the post-war season of Italian fashion industry, the distinctive, colorful and creative fashion as we see it nowadays. The experience of Giorgini allows a primary observation about the intrinsic feature of internationality of Italian fashion. As mentioned, Giorgini's achievement to introduce Italy in the world fashion paradigm, was backed by the great intuition that Italian creativity's main audience would have been the

States and that the States' industrial technology would have been the main source for setting up facilities in Italy.
In this sense, the apparently inconsistent use of the term 'born global", coined by Rennie (1993) in a study by the McKinsey Company, seems to fit perfectly, yet anachronistically, in the early experience of Giorgini and Italian fashion industry. As proposed by Rennie, "born global" firms are "small and medium-sized companies that successfully compete virtually from inception against large established players in the global arena", (RENNIE, 1993) that was the case of Italian fashion against French haute couture right after the Second World War. Further in the literature, it is possible to trace the "born global" attitude of Italian fashion by recon that, since its early stage, Italian fashion had a small domestic market but an extensive knowledge of network partners abroad (i.e. American distributors) and "buying-in knowledge by recruiting individuals that possess particular experience" (i.e. Italian creative tailors), (COVIELLO; MUNRO, 1997; KEEBLE ET AL., 1998; CHETTY; CAMPBELL-HUNT, 2003; BELL ET AL., 2004).

Despite the effective moves of European fashion designers to create an appetite of luxury fashion clothes in the Europe, the reality was that, at the aftermath of post-war period, the main flow of fashion influence happened from the US to the European markets. Actually, European consumers, on the shoulders of their booming economies revitalized by the strong support of the United States, experienced for the first time the incoming influence from the other side of the Atlantic. In the '60s and the '70, popular culture in the US and the UK, first, and than the rest of Europe, shifted to something that have been referred as 'counterculture of the '60'; a mere sub-culture that took inspiration from the literature of the beat movement and the pacifist movements against the war in Vietnam, and brought to life the consumer profile of the hippie. The hippie sub-culture, fostered by the growth of population experienced in the baby boomer era, embraced a new use of fashion as a "means to demonstrate their separation from the values of their parents' generation" (EURBANISTA, 2009). As a matter of fact, this new vision of fashion embodied a milestone change in the history and the functioning of the fashion business. It was for the very first time, in fact, that "trends had begun to be driven by market needs, as opposed to the stylistic direction set in Paris" (EURBANISTA, 2009). This trend of liberalization of style, called "mass fashion" found its natural scene in the city of London and New York, where very successful fashion weeks started to be held by then.

In Europe, this new wave of more democratic fashion had an impact also in the capital of haute couture, Paris. New and old designers (such as Saint Laurent Rive Gauche, Givenchy Nouvelle Boutique, Valentino, Chanel e Philippe Venet) introduced a new way to showcase their creation. With the birth of *prêt-à-porter* (French for: ready-to-wear), collections became more accessible for a greater audience. In other words, *prêt-à-porter*, was a language of fashion much more near to the language of the streets (MODA, BENI CULTURALI, 2013).

By the same time, also Italian fashion, represented by a new generation of designers of the likes of Giorgio Armani, Cerruti, Gianni Versace and Soprani, happened to develop a sophisticated yet more-marketable *couture*: the so-called “boutique”, in Italy (PUCCI, 1983). Yet, the uncertainty of the national economy didn't allow the industry to take off before the ‘80s, the real “Anno zero” of Italian fashion.

The real consecration of Italian fashion happened in the decades of the ‘80s – ‘90s.
In the ’80s, the success of *prêt-à-porter* in different nations in Europe (France, Italy, UK and Germany) and in Japan, and the birth of sportive/casual fashion in the States, launches officially the era of international fashion (MODA, BENI CULTURALI, 2013).
In Italy, the decade of the ‘80s hailed with enthusiasm the groundbreaking innovation of the so-called **total look** (MODA, BENI CULTURALI, 2013). In fashion, total look consists in designing whole collections (from menswear to woman, from accessories to footwear) that are coherent with a specific, univocal image of the firm (MODA, BENI CULTURALI, 2013). The image is then spread throughout the supply chain, resulting in a greater-than-ever integration between suppliers and firm. Then, thanks to the marketing leverages, in the ’80s represented especially by the power of the brand (MODA, BENI CULTURALI, 2013), the products assumes a much greater awareness upon the customers therefore reach a much greater public.
Giorgio Armani represents the greatest example of the success of total-look and of Italian fashion in the ‘80s (WHITE, 2000). Armani was not only an outstanding designer. He happened to be also a very lighten businessman, introducing two great innovations in the industry: intensive integration with the suppliers and the model of royalties and licensing in fashion (WHITE, 2000). Besides Giorgio Armani, Moschino, Dolce&Gabbana are all

identified as the precursors of total look in the ‘80s and contributed with originality to the rise of Italian distinctive fashion abroad.

Following the successful decade of the ‘80s, ‘90s consisted in an extended line of success of Italian designers and Italian fashion houses all around the world (ENGLISH, 2007). The business model of fashion in Europe, nevertheless, started being undermined by the competition coming from cheap-labor countries (MODA, BENI CULTURALI, 2013). Italian fashion brands themselves start de-localize factories in non-EU countries where lower costs of production could be achieved (MODA, BENI CULTURALI, 2013).

The contemporary times of fashion history are characterized by two main facts that brought vast consequences in the industry both in Italy and abroad. First, the globalization of consumptions led the Asian-Pacific region (Australia, Cina, Japan, India, Singapore, South Korea and Taiwan) to grow exponentially in the consumption of fashion, overcoming Europe in 2007 (MODA, BENI CULTURALI, 2013). The second factor is the increase in income inequalities, in developed and developing countries, which is from one side reducing the possible reach of fashion product to a more constrained category of people, and from the other side sees the growing emergence of super-affluent spenders in need of more and more fashion product (MODA, BENI CULTURALI, 2013).

3.2. Features of the fashion industry

Before presenting the current *status quo* of the Italian fashion industry, this study will feature a comprehensive description of the main characteristics of the fashion industry in general terms. Among the many, the study will focus especially on two factors: segmentation and creativity. The first subject to be presented is the segmentation of the fashion consumers, as it results to be the most clarifying introduction to the business of fashion for the purpose of this study. Afterwards the study will encompass the subject of creativity, a fundamental and distinctive pillar to considerate given that the evolution of Italian fashion is based upon it. Creativity is one of the three leverages for firms to influence the so-called fashion consciousness (along with communication and costumer experience), defined as the person’s degree of involvement with the styles or fashion of clothing (SUMMERS, 1970; JONATHAN; MILLS, 1982).

3.2.1. Segmentation

The segmentation of fashion is the process of dividing consumers in different categories based on distinctive characteristics (KO; KIM; TAYLOR; KIM; KANG, 2007). Companies in the fashion industry use segmentation of the market to identify those who are going to be the clients for their products. As for the majority of industries, fashion market can be segmented using different criteria. Nevertheless the criteria most used by companies and retailers in the fashion industry are demographics, personality and lifestyle (FOGLIO, 2007). Given the peculiarities of Italian fashion products, notably sold within the boundaries of the luxury products (BAIN, 2012), and the international reach of this study, this sub-chapter will present two relevant models for segmentation in the fashion industry:

- Consumer behavior based (WIEDMANN; HENNINGS; SIEBELS, 2009)
- Fashion lifestyle based (KO; KIM; TAYLOR; KIM; KANG, 2007)

Segmentation based on consumer behavior

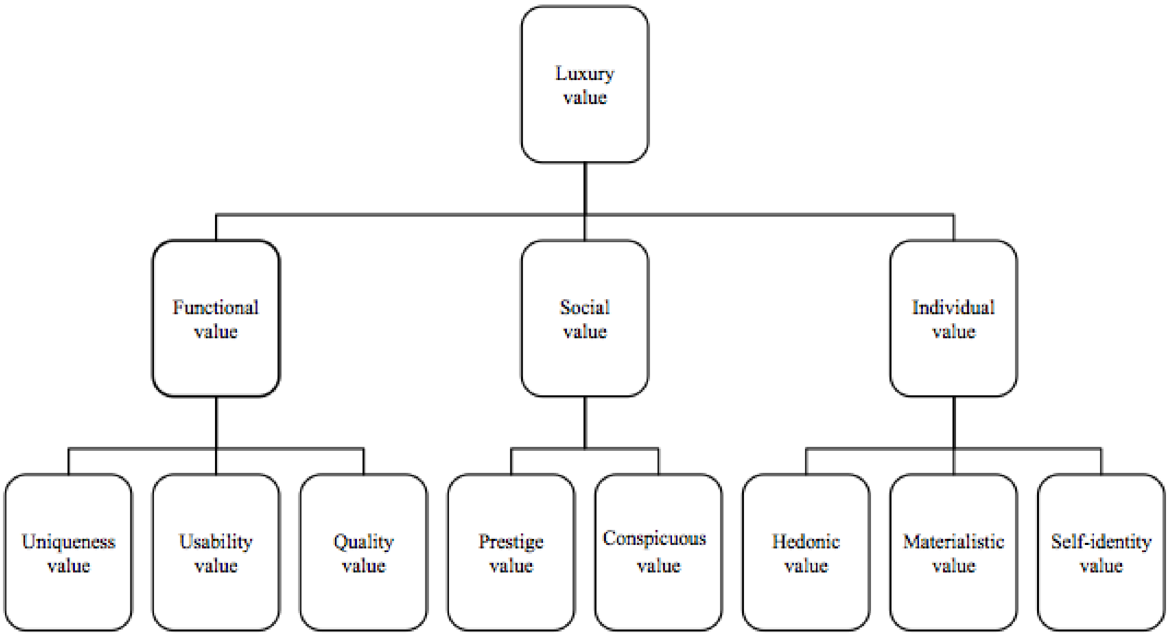
As previously mentioned, the Italian fashion industry is generally identified with the concept of luxury (SOLDANI; ROSSI; LANZETTA, 2013). The concept of luxury is a rather abstract one; it deals with functional, personal and social motives and therefore it builds primarily on personal consumer perception (VIGNERON; JOHNSON, 2004; WIDEMANN ET AL., 2009).

Based on consumer perception of luxury goods, a study conducted by Wiedmann, Hennigs & Siebels, (2009) draws a theoretical model for luxury value dimensions as shown in Figure 4. The luxury value is built upon three main values:

- *Functional value,* representing the value given by consumer to luxury products because they are functionally better (in terms of uniqueness, quality and usability) of non-luxury ones.
- *Social value.* Given the constant social interaction of consumers, the social value represents the reason behind the consumer's act of portraying a status (Lee, 1990). Two value dimensions determine social values: conspicuousness and prestige value.
- *Individual value,* representing the consumer's personal view on luxury consumption as an addressing personal value (DANZIGER, 2005). Self-identity,

materialistic and hedonism values can also be associated with this dimension (WIEDMANN; HENNINGS; SIEBELS, 2009).

Figure 4 The theoretical model for luxury value dimensions (WIEDMANN; HENNINGS; SIEBELS, 2009)



Once the model was designed and the items for interviews were identified and validated by 15 marketing experts, the study applied a questionnaire to 1,097 respondents, aged 18 or more, equally distributed in gender, all coming from the Eastern and developing country of Iran (HANZAEE; TEIMOURPOUR; TEIMOURPOUR, 2012).
The following are the four main segments that the study helped to identify:

- Non-luxury consumers (17%)

“Compared to all the clusters, member of this group showed negative attitude to all luxury value dimensions. These consumer groups believe that luxury items are just swanky and are not necessary for life. There is no enjoyment in consuming luxury and they don’t think that money brings happiness.” This is evidently not a target for fashion luxury and/or for luxury industry as a whole, but it is still of great importance to recon the existence of such attitude (WIEDMANN; HENNINGS; SIEBELS, 2009).

- Rational consumers (33%)

“Members of this group are closely attached to self-identity value items and show high ratings for statements such as “luxury products should match with my personal ideas” and “I buy luxury goods for my own sake not to impress others”. This indicates that these consumers’ buying behavior of luxury brands is affected by personal factors instead of societal factors such as “gain respect” or “impress others”. Quality value is also important for this group, it indicates that they think luxuries have high quality and one of the reasons that luxury is important for them is the quality of the luxury items” (WIEDMANN; HENNINGS; SIEBELS, 2009).

- Social value seeker consumers (19%)

“ This cluster attaches a high level of importance to nearly all luxury values, especially social value. Members of this cluster are more likely than those of other groups to take the social value aspects of luxury consumption into account, while self-identity values (with negative rating) indicate that personal values or buying luxury items just for own sake become meaningless in this cluster. Social seeker consumers do strongly perceive social aspects as the most important factor for the perception of luxury value. They tend to show off with luxuries, their decision makings are based on other’s opinions rather than their own opinions and they also seem to consider luxuries as a signal of status.” (WIEDMANN; HENNINGS; SIEBELS, 2009).

- Materialistic consumers (31%)

“This cluster comprised 31% of the sample. The most significant issue characterizing this consumer group is the fact that they attach at higher level of importance to materialistic value among all four clusters. This shows that being rich is important for this group, their happiness depends on buying everything that they want and they evaluate people by their financial status. Members of this group perceive luxuries as a way to change their moods and luxury items can be a sign of wealth and social class for them. However, there is somehow a negative attitude towards quality and self- identity values that show how member of this cluster believe that luxuries can make them feel more self-confidence.” (WIEDMANN; HENNINGS; SIEBELS, 2009).

Segmentation based on lifestyle

At the base of the so-called lifestyle segmentation, there is the assumption that, consumers worldwide tends to cluster in different groups according to common

characteristics in their lifestyle that abstract from geographical origin. The so-called “global consumer”, those individuals that show similarities in terms of lifestyle and consumption patterns regardless where they are from (HASSAN ET AL., 2003), are a relatively recent phenomena that came into life with the diffusion of similar contents in local and global media and with the emergence of those nations that, historically, have been importing consumer trends rather than creating new ones (KO; KIM; TAYLOR; KIM; KANG, 2007).
In fashion, lifestyle segmentation has a radical importance. According to the literature, fashion lifestyle is the set of opinion, interests and attitude towards the purchase of fashion products such as clothing, accessories and sportswear (GUTMAN; MILLS, 1982; KO ET AL., 2006). This definition implies that fashion lifestyle is not in place in all consumers’ lifestyles. In fact, as it will be discussed later on, there is a considerable amount of consumer (around 20% in developed country like US, so presumably more in developing world) that show negative attitude to all luxury value dimensions, including fashion, therefore no fashion lifestyle is presumably in place upon them.

According to a study conducted by Ko, Kim, Taylor, Kim, & Kang in 2007 on a group of Korean, European and American females, over 13 fashion lifestyle items, four distinctive groups of fashion lifestyle emerged:

- Information seekers (26.6%)

“The “information seekers” represents the 26.6 percent of the sample. This group showed a strong information orientation with respect to shopping, putting considerable effort into researching fashions, both in terms of consulting books and magazines and shopping at a variety of stores, even with no immediate intention of making a purchase. Notably, the information seekers want information in order to keep up with cutting-edge fashion. They also indicated that they are among the first to try new fashions. On the other hand, they are less concerned about product performance than those in other segments. Thus, they appear to be women who enjoy spending time learning about fashions and trying new things, but have little concern for actual product performance and are not particularly utilitarian.” (KO; KIM; TAYLOR; KIM; KANG, 2007).

- Sensation seekers (29.5%)

“ Segment 2 is labeled “sensation seekers.” This group, which accounted for 29.5 percent of the sample, clearly values aesthetic elements in clothing. Sensation seekers are especially interested in color coordination and believe they have good taste in choosing clothing products. They put a high priority on aesthetic aspects of clothing (e.g. taste, color, design, coordinating) and weigh this heavily in making purchase decisions.” (KO; KIM; TAYLOR; KIM; KANG, 2007).

- Utilitarian consumers (25.2%)

“The third segment accounted for 25.2 percent of the sample and is labeled “utilitarian consumers.” Members of this segment are highly concerned about utilitarian issues such as the comfort and functionality of the clothing. They also indicated that they primarily choose clothing because it is a necessity, and they are not prone to make purchases on a whim. In general, these consumers think in utilitarian terms and weigh value and functionality higher than the other segments.” (KO; KIM; TAYLOR; KIM; KANG, 2007).

- Conspicuous consumers (18.5%)

“The fourth segment consists of “conspicuous consumers,” who comprise 18.5 percent of the sample and who have a strong belief in the value of prestige or high-priced brands and products. They value clothing that is of high quality and is associated with high social status. And they purchase high-priced, high-prestige brands because of the acknowledgement it brings from others.” (KO; KIM; TAYLOR; KIM; KANG, 2007).

The topic of segmentation assumes a great importance for the purpose of the study, given the fact that in approaching new markets, Italian fashion SME should take really seriously the assessment of the real business potential for such particular kind of product they are willing to serve. Furthermore, there is another very important leverage for Italian fashion firms

3.2.2. Creativity

According to Matlin (2002), creativity can be seen as a type of problem solving. When applied to fashion industry, the problem to solve happens to be the design of fashion goods. Such kind of problem is constrained in two ways: internally and externally. On one side, in fact, the internal constrain of the process of designing seen from the point of view of the designer; on the other side the external constrains represented by the demand side of the fashion product, the user and the legislation (SIMON, 1973; LAWSON 1990). As for the design problem itself, it has been hardly found in literature a univocal definition (SINHA, 2002). Nonetheless, given the very enormous set of solutions available for the same set of tasks and the strong interrelation between the problem of design and the solution, given that the consumer is at the same time part of both, different scholars have defined the design problem as a "wicked problem" (CHURCHMAN, 1967; RITTEL, 1974; BAZJANAC, 1974; ROWE, 1991). For this matter, the definition of creativity as a kind of problem solving, even if a "wicked one", helps to align such an abstract concept to the business context, based on efficiency in production and maximization of profits.

Under these assumptions, it is relatively easy to notice that the role of designer changed throughout the history, according to the kind of problem fashion firms were supposed to solve. From the very beginning of French *haute couture* to the ready-to-wear (SANTAGATA, 2002) designer's role moved from merely creative developer, the so-called "creative genius" (SANTAGATA, 2002), to a much more demand-oriented and more entrepreneurial manager of creativity (SIMON, 1986).

In the context of Italian fashion, creativity assumes an even more important role. Given the high awareness of Italian fashion and its history, the role of designer in creating new design within the cognitive and cultural boundaries of his mindset and of the company's mindset, it must achieve the "delicate balance between innovation and what has succeeded in the past" (MORA, 2005).

3.3. Current status of Italian fashion industry

The Italian fashion industry has always been one of the areas of excellence of the "Made in Italy", mainly because of its reputable image, its trade position on world markets (SMI, 2013), and because of the high level of specialization of its textile and clothing manufacturing industry (EUROPEAN COMMISSION, 2012).

The Italian economy is historically characterized by the dominance of SMEs; and the fashion industry confirms such structure. Italian fashion industry (which comprises textile, clothing, footwear and leather goods and hide goods) is composed by 94.831 enterprises, the 82 percent of the workforce being employed in the small and micro enterprise and 61% being considered as craftsmanship business (CCIAA, 2011).

Raw materials—natural and synthetic textile fibers—are the common denominator in the industry that is otherwise quite heterogeneous in terms of processing technologies and outlet markets, either business-to-business or business-to-consumer. Table 6 shows the correlation between the different sectors. One of the peculiarities of the fashion industry, often confused with the clothing segment that includes, is that the different sectors within the industry are often members of the same supply chain (CIAPPEI; SANI, 2006). Among the sectors, textile, leather goods and hide goods are the sectors that deal with the raw materials (such as fabric and animal skin) while footwear and clothing sectors are usually located downward at last level of the chain before distribution (CIAPPEI; SANI, 2006).

Table 6 Relation "Supplier – Customer" among different segments within the Fashion industry

Suppliers / Customers	Textile	Hide Goods	Leather Goods	Clothing	Footwear
Textile	✓	✓	✓	✓	✓
Hide Goods	✓	✓	✓	✓	✓
Leather Goods	✓	✓	✓	✓	✓
Clothing	x	x	x	x	x
Footwear	x	x	x	x	x

Source: Individual analysis

According to data provided by *Infocamere* (2011), clothing enterprises are the most represented sector in the industry with around 52.255 enterprises active in 2011 (55%), then textile (20%), footwear (13%), leather goods (7.5%) and hide goods (3.2%).

It is relevant to mention that overall, all sectors of the Italian fashion industries have been protagonists of a gradual reduction of their numerical presence on the Italian territory starting from 1996. Such reduction in numerical presence is partly due to a long-running process of industry concentration and, more interestingly, it is due to higher competition that occurred after the liberalization of the import quota (imported content of goods) in the

Italian supply chain (Italian Chamber of Commerce of Milano, 2011). Nevertheless, given a lack of data, the study will present only data from the main sector of the industry, namely the “clothing” sector, representing around 55 percent of the revenues of the whole industry (Italian Chamber of Commerce of Milano, 2011). As shown in Table 7, the revenues in this sector decreased steadily during the period 2007-2012, reaching EUR 51.090 mn in the last fiscal year. Likewise, the number of enterprises in the main sector of the industry (clothing) fell to 50.039 units in 2012: 2,729 enterprises lost in the year. Also from the perspective of occupation, the data are not reassuring for the fashion industry, which saw a decrease of 23,600 jobs just in 2012 (SMI, 2013).

In order to assess the trend of the financial and balance sheet performances in the industry during the last years, this study will present some of the most relevant indicators provided by the main industry associations. However, a leak of data has been recorded of the last years, therefore the analysis will be based especially on data on the clothing and textile segment over the years and on the whole market only for data updated to 2010. However, Figure 5 shows that textile and clothing segments represents around 76.4 per cent of the revenues for the whole industry (data 2008 by The European House ‑ Ambrosetti, K Finance on AIDA data, 2008).

Figure 5 Italian Fashion Industry: Revenues by segment - 2008 (EUR bn)

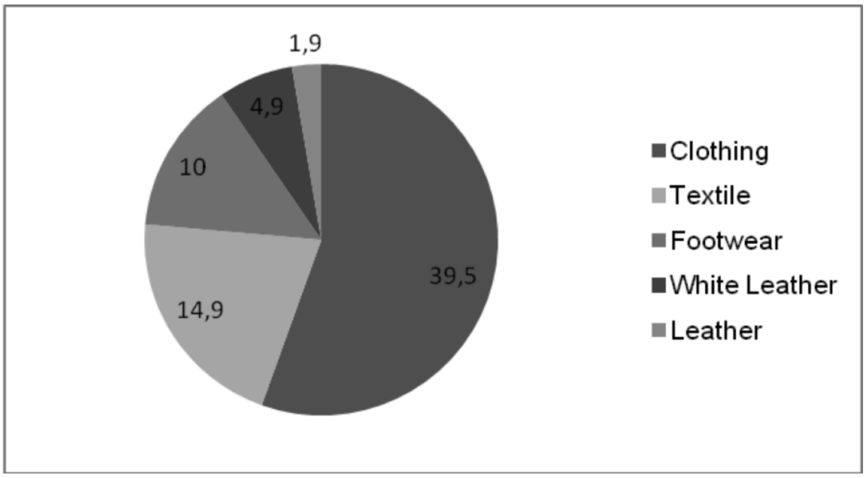


Table 7 Italian Fashion Industry: Clothing and textile sector (2007-2012)

	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Revenues (million Euros)	55.947	54.718	46.312	49.66	52.768	51.090
Var. %	*2.8%*	*-2.2%*	*-15.4%*	*7.2%*	*6.3%*	*-3.2%*
Enterprises (no.)	58.056	56.61	54.493	53.086	51.873	50.039
Var. %	*-2.50%*	*-2.5%*	*-3.7%*	*-2.6%*	*-2.3%*	*-3.5%*
Jobs (thousands)	513,0	508,2	482,3	458,6	446,9	423.3
Var. %	-0,7	-0,9	-5,1	-4,9	-2,6	-3,6
Source: SMI su dati ISTAT, Sita Ricerca, Movimprese e d'Indagini campionarie, Sistema Moda Italia						

Table 8 Italian Fashion Industry: Clothing and Textile sector 2012 (EUR bn, %) - Source: SMI

	2012	**%**
Revenues	51.09	*-3.2%*
Value of production	35.52	*-2.0%*
Exportation	26.685	*-0.8%*
Importation	17.938	*-11.8%*
Trade balance	8.747	*33.2%*
Internal availability	26.773	*-9.8%*
Companies (no.)	50.039	*-3.5%*
Employees (thousands)	423.3	*-5%*
Avg. employees per company (no.)	8,5	
Exports/Revenues	*52,2*	
Propensity to import (to Rev.)	*42,4*	
Propensity to import (to Prod.)	*67,0*	
Fashion industry over manufacture industry (%)		
Value added	*9,6*	
Employment	*14,2*	
Exports	*7,1*	
Trade balance	*9,3*	

The indicators of return on equity (ROE) and return on investment (ROI) are shown in Table 9. In the Italian fashion industry, the 2010, the latest year with relevant data, reported positive trends for profitability on the fashion industry.

Table 9 Financial and Balance Sheet indicators for Fashion Industry (2008-2010)

	2008	**2009**	**2010**
ROE	11%	6%	9%
ROI	6.2 %	4%	4.3%
Source: Pambianco and Intesa San Paolo, on data of 7126 companies			

As for the return on equity, if these data are compared to the ones found by a research conducted by NYU Stern Business School (2013) over 54 American companies in the Apparel and Footwear industries, the Italian fashion industry seems to perform quite poorly.

According to the survey conducted on 54 American firms in the Apparel industry and 17 American firms in the Shoe Industry, ROE are reported to be respectively 15.99% and 18.02% in 2013 (NYU, 2013). Nevertheless, in order to make a reliable comparison with records from Italy, it is important to take into consideration that two country-related and company-related factors can have impact on the growth of the firm (LUNDHOLM; SERAFEIN; YU, 2012). In particular, the small average size of Italian firms in the fashion industry, attested at 8.5 worker per firm (SMI, 2012), and the relatively lower availability of bank credit in Italy compared to the U.S. (the World Bank provides data about the "domestic credit provided by banking sector as percentage of GDP for the year 2012: in Italy the ratio is 167.6% while in the US is 228.6%. WB, 2013) are reasonably a cause of friction for Italian companies to grow. As matter of fact, recent research found that small and medium-size firms face an obstacle to growth in countries with low level of domestic credit, such as Italy (BECK; DEMIRGUC; KUNT; MAKSIMOVIC, 2005). The obstacle is represented by high interest rates, collateral requirements, bank bureaucracy, or lack of available funds for lending (BECK ET AL, 2006). Secondly, the higher usage of trade credit in Italy, attested as the highest in Western Europe (FERRANDO; MULIER, 2012) plays an important role in defining the growth (expressed in ROE) of Italian firms in general. In a recent report from European Central Bank, in fact, it is possible to observe that Italy is the country among Belgium, Netherland, Germany, Spain, Finland, France and Portugal with both the highest trade credit use (also called "trade credit channel") and the longest average maturity of accounts payable and receivable in terms of days (See Table 10). Just to explain the figures illustrated in the table, more than half of the Italian trade is made by opening a credit/debit line; while in Germany just 15% of the transactions are made in this way. On average, such credit/debit lines in Italy have maturation almost four times, for debit lines, and three times, for credit lines, longer than in Germany. Under the assumptions of lower bank credit availability and relatively small size of firms, there are strong logic evidences that such extensive use of trade credit is likely to dry up the entire industry. This conclusion, nevertheless, would require a specific research that this study will not cover.

Table 10 Trade Credit and average duration of Trade Credit in Germany and Italy

	Trade Credit*	TCP (days)**	TCR (days)**
Italy	0.52	83	103
Germany	0.15	21	33

** Trade Credit is the sum of accounts payable and receivable divided by sales.*

*** TCP (days) and TCR (days) is the average maturity of accounts payable and receivable in terms of days.*

Source: Ferrando, A., & Mulier, K. (2012), AMADEUS, Bureau van Dijk Electronic publishing

The negative impact of relatively small size of firms is largely confirmed by data about the Fashion industry ROI in 2010 provided by Intesa San Paolo, a leading Italian financial institution, of a survey conducted in 2011 on 7,126 firms in the fashion industry. The survey indicated that large enterprises (with turnover of above EUR 50 mn) registered in 2010 ROI of 5.25%, while small (EUR 2-9 mn in turnover) and medium enterprises (EUR 10-49 mn in turnover) recorded respectively 4.8% and 5% in ROI.

In conclusion, the current status of Italian fashion industry seems to suggest that, rather than a bright Italian fashion industry as it looks on catwalks, what it observable today is a industry populated by small and micro enterprises that struggle with bank and trade credit, affecting their profitability and therefore, closing down gradually oppressed by foreign competition.

The conditions seem to explicitly suggest that a key change towards more profitable supply chain and more demanding markets is a rather fundamental success factor for SMEs of the Italian fashion industry. However, besides providing the evidences of the struggling conditions of Italian economy and Italian fashion industry that justify internationalization, this chapter aimed to provide a **framework of the relevant use of**

macroeconomic and industry-related data to take into account when analyzing the industry of fashion.

The following chapter will then provide a **theoretical support** of internationalization of enterprises in the fashion industry. By providing basic knowledge and effective outlines for the analysis of internationalization potential, this chapter will serve as complementary structure for the analysis of the foreign markets targeted.

4. Internationalization

In this chapter, the study will present the topic of internationalization for the SMEs in the fashion industry in Italy. The chapter will first encompass a **theoretical overview** on the motivations and the *modus* of internationalization. Afterwards, based on the theory presented, and using the same kind of data used for the analysis of the Italian fashion industry, the study will draw a comparative analysis on two of the internationalization potential for SMEs in **Russia and Brazil,** presented in Chapter 5.

According to Lojacono (2007) in business, the process of internationalization refers to the activity of generating inflows and outflows of goods, services and knowledge across national borders (WELCH; LUOSTARINEN, 1988).

The evolution of global trade has been the main feature of the economic development of the world during the last decades. With the increasing openness of national markets, the creation of international organizations (i.e. WTO, UE, etc,) and international cooperation agreements (ie, Nafta, Mercosul) both interdependence and competition among different countries experienced a sharp increase (COSTA, 2012). Furthermore, beside the substantial increase in trade, the phenomenon of globalization encompassed political, cultural, social aspects of life of people, often leading to considerable level of homologation (CIAPPEI; SANI, 2006). The fashion industry, in particular, has been dramatically changed over the years thanks to the “globalization”. Beside the increased intensity of import-export, both the supply side, with the notorious trend of re-localization of factories, and the demand side, with the notorious trend of globalization of consumption, witnessed the dramatic change of the industry.

In the literature, it is common to refer to internationalization as a process of development for the firm, which starts with serving local demand, continues with national demand and therefore expands towards foreign territories. This process of development outside the national territory, as explained by Welch and Luostarinen (1993), starts with the activity of export, a mere transaction with foreign buying part and eventually ends with the well-known Foreign Direct Investments (FDI), an international investment that “reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise” (OECD, 2008).

Former works have already argued that such gradual process may not apply for the so-called “born global” (RENNIE, 1993). For the aim of this study, it has been already discussed that, given the procurement process, the potential target markets and the overall history of fashion “Made in Italy” and its fragmented nature, the whole industry could be considered as a “born global” in its most authentic definition. In other words, the SMEs have to face the challenges of foreign markets straightforwardly, leveraging their expertise and the awareness of their products upon the global customers.

One of the most used theoretical frameworks for the assessment of internationalization potential is the “international responsiveness” framework (BARTLETT; GHOSHAL, 1989). Based on this framework, four different drivers have to be taken into consideration by the firm aiming to internationalize:

- Market drivers;
- Cost drivers;
- Competition drivers;
- Legislation/government drivers.

4.1. Market drivers

The **market drivers**, namely those factors such as the consumer demand and the distribution structure of a given foreign market, represent the first category. In order to assess consumer demand, firms willing to enter into a new market, have to first consider those data such as population, income distribution, disposable income and other macroeconomic indicators that may influence the final consumer demand of a specific product. In the context of fashion industry, once the macroeconomic data are collected, the most relevant activity required to assess market drivers is segmentation.

The most relevant models for segmentation in fashion have already been discussed in the first chapter of this study. The result of the segmentation, coupled with the analysis of macroeconomic data, is the basis for the choice of a different strategy of internationalization (VALDANI ET AL., 2000):

- *Undifferentiated strategy.* When the foreign markets (two or more), presents similar demands and similar distribution structure, the company may have the right incentives to embrace an undifferentiated strategy, Such strategy, In fact, has the purpose of providing fashion goods approaching the markets substantially as a whole. This kind of strategy is usually promoted countries economically and culturally homogeneous (CIAPPEI; SANI, 2006). Nevertheless, it is important to underline that the results of the two main segmentation methods presented in Chapter 3 (namely Consumer behavior based and Fashion lifestyle based) as well as other segmentation methods not presented in this study, may result as the empirical support for undifferentiated strategies that disregard geography and economical matters.
- *Differentiated strategy.* Contrarily to the scenario aforementioned, there are segmentation processes that lead to the substantial discovery that the company's line of product, (collection, etc) records a completely different response among different international markets. In this case, when the market drivers are so heterogeneous, the company is asked to implement a differentiated strategy, realizing different courses of action for communication, distribution and sales for each market. This adaptive strategy can lead to a less efficient cost structure finally puzzling company image among the consumers.

The traditional dilemma between differentiating or not differentiating (LEVITT, 1983; OHMAE, 1986) is of utmost importance for the fashion industry in general because basically all marketing strategy on Product, Promotion, Placement, Price (KOTLER, 1995) depend on this choice. For the Italian fashion industry, in the context of approaching emerging markets (non-advanced economies) it can be reasonably stated that this choice is less a dilemma since the market drivers of the host countries will more than likely assess the Italian garments in similar way, opening the path for almost full undifferentiated strategy. As a matter of fact, “globalization of fashion demand has created the necessity for incumbent and new brands to commercialize their brand on the global scale” (FELLOWS, 1997). In particular, luxury and fashion brands (the substantial perceived industry for fashion garments “Made in Italy” abroad) benefit from the fact that globalization in this industry happened to be achieved very quickly due to the ontological receptiveness that characterized fashion and luxury customers. The luxury companies, that use usually undifferentiated strategies, offer to their global customers unified collections of their product, using unified brand campaigns (such as advertisement, flagship stores etc.) that foster the global uniqueness of their brands.

The objective of these companies (of the likes of Giorgio Armani, Dior, Chanel, just to mention few) is to serve similar segments of fashion consumers dislocated in different countries around the world and, by promoting such a strong image and by building international distribution channel, these companies aim to increase their customer base both in existing and aspired markets (HERBIG, 2003).

4.2. Cost drivers

The second category of drivers is represented by the so-called **cost drivers**, namely all the factors that affect the cost structure of the business (procurement, labor cost, labor qualifications, real estate, utilities etc.). These drivers can affect the internationalization strategy of the firm since they determine the source-seeking strategy of the firm. In the fashion industry, it has been already discussed in the literature that de-localization intended to achieve productivity and more favorable cost structure can be a very relevant success factor for the internationalization of the companies (MASSON ET AL., 2007).

In the context of SMEs in Italian fashion industry, it is important to underline that, beside productivity and cost structure, the third, and most important cost driver, is the quality of the raw material as well as of the elaboration of the final products, given that the creative component of styling is always conducted in Italy (CIAPPEI; SANI, 2006). For this last argumentation, it has to be taken into account that while the *know how* of Italian tailoring, sewing and making garments in the Italian districts represents the core value of Italian products, to reproduce such favorable environment is possible and, yet, can turn to be a successful strategy under certain circumstances. An example of such approach is the case of Benetton, a leading fashion manufacturer and retailed from Treviso. Benetton has historically developed a global strategy for the sale of its product entirely designed and made in Italy. Nevertheless the increasing pressure from international competition, led the company to choose to re-locate some parts of the production in more cost-efficient countries such as: Spain, Portugal and Tunisia. In these countries the company had developed actual industrial districts that faithfully replicated the successful model of Benetton’s well-know Italian district of *Alle Castrette*, in the province of Treviso. The model consists in an owned factory that stands at the core of the production district, surrounded by several suppliers (ALAIMO, 2011).

As for the procurement of raw material, the Italian fashion industry, without making an exception from the rest of the fashion industry, applies to the rules of the international production of the offshore sourcing. The offshore sourcing is the main strategy of resource procurement and it consists in the purchase of raw material (as textiles and fabrics, leather, rubber, etc.) on a global base, therefore this activity will not represent a change in the current operations of the firms.

4.3. Competitive drivers

The third set of elements to be considered by SMEs in their internationalization process is represented by the **competitive drivers**, specifically those characteristics of the competitive landscape of the industry where the company aims to enter. As suggested by the most traditional of the theory on competitive advantage, the analysis of competitive drivers encompasses the study of the industry rivalry, buyer and supplier power, threat of substitution and threat of new entrants (PORTER, 1996). In the context of Italian fashion products, higher or lower levels of competitions may lead to different strategic choice for the firm (PORTER, 2008). For this reason, the empirical study will present the competitive analysis of both Russian and Brazilian markets according to the Porter’s framework of industry competitiveness.

4.4. Legislation/Government drivers

The fourth and last set of factors to be considered is the one of the **Legislation/Government drivers.** These drivers are the practical reflection of the general receptiveness/closeness of the foreign institutions to the international trade, FDIs and capital flow (CIAPPEI; SANI, 2006). Despite the fashion industry has been moving towards a progressive liberalization of the market (especially in EU) (EUROPEAN COMMISSION, 2013), it has to be underlined that the industry liberalization still faces several obstacles in several countries due to the protectionist measures that these countries apply to the whole category of manufacturing products (EUROPEAN COMMISSION, 2013).

Now that the boundaries of the theoretical support for internationalization strategies are settle, all the conditions to re-organize market data, under the light of internationalization are in place. In other words, the study will present a comprehensive analysis of two possible target markets (namely Russia and Brazil), in the light of the theoretical support provided in chapter two. Yet, such analysis will follow the **framework of the relevant use of macroeconomic and industry-related data**, as showed for the Italian fashion industry in chapter one. Therefore the result will be the study's empirical case of the use of relevant data for significant internationalization strategy.

5. Case Study. The use of relevant data for internationalization strategy: a comparative analysis Russia's and Brazil's fashion industries

This chapter represents the case study of this work, therefore will evidence the relevance of the data collected as well as of the theoretical framework used so far in the analysis. Likewise it represents the empirical takeaway for SMEs interested in the process of internationalization in the Russian and Brazilian markets. The comparative analysis of Russian and Brazilian markets is structured according to the framework of "international responsiveness" (BARTLETT; GHOSHAL, 1989) previously described.

Based on this framework, data are collected and allocated into each of the four different drivers: market-, cost-, competitive and legal/government- driver. By using this methodology the data will let emerge the most relevant motives for the entry into a market, which are finally illustrated in Chapter eight, dedicated to conclusions and recommendations.

5.1. Russian Federation

Russian Federation	
Regional	Eastern Europe
Income Level	High income
GDP (USD mn)	2,015
Population (mn)	143.5
Currency	Russian Rouble (RUB)
Surface area (square kilometers)	17,098,240
Population density in 2011 (per square kilometer)	8.4
Main city and population in 2011 (000)	Moscow (11621)
United Nations membership date	1945
WTO membership date	2012
Temperature in the main city, mean °C (minimum and maximum)	2.1 / 9.6
Average precipitation days	177.7

Figure 6 **Russian Federation territory.**

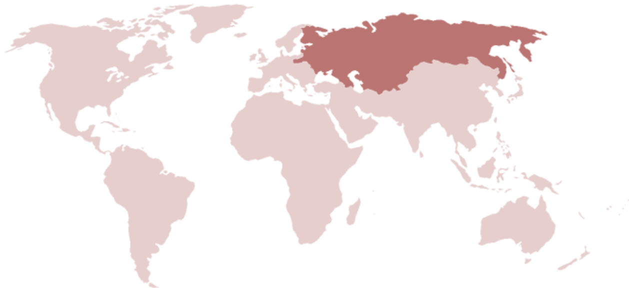


Figure 7 Average monthly Temperature and Rainfall for Russia from 1990-2009. Source: Climatic Research Unit (CRU) of University of East Anglia (UEA), WB

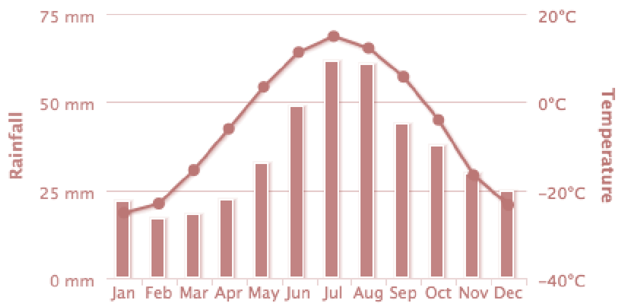
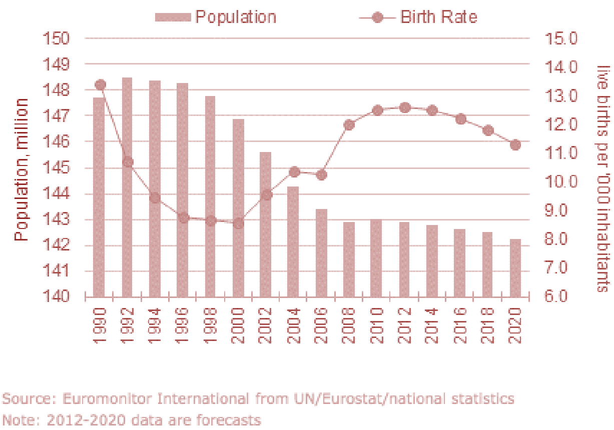


Figure 8 Population and Birth Rate in Russia (1990 – 2020) Source: Euromonitor



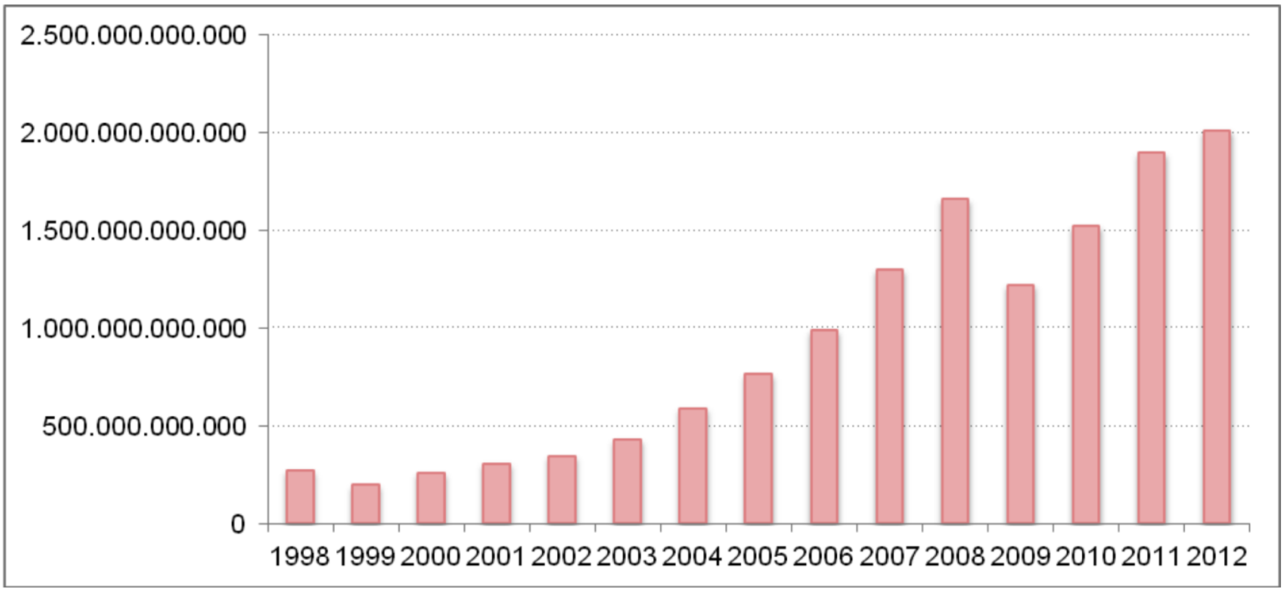
5.1.1. Market drivers

Macro

With its GDP equaling USD 2,555 bn, Russian economy is the major economy in the Commonwealth of Independent Countries (CIS) group, and the seventh largest economy in the world. During the crisis the economy bottomed out in mid-2009 (with a dramatic -8% of the GDP growth) and then began to grow again in the third quarter of 2009. Relying on the export of primary resources (Russia is the world's leading oil producer, the second-largest producer of natural gas; it holds the world's largest natural gas reserves, the second-largest coal reserves, the eighth-largest crude oil reserves and it heavily exports metals such as steel and primary aluminum) Russia's economy is highly vulnerable to boom and bust cycles that follow the volatile swings in global prices (CIA, 2013).

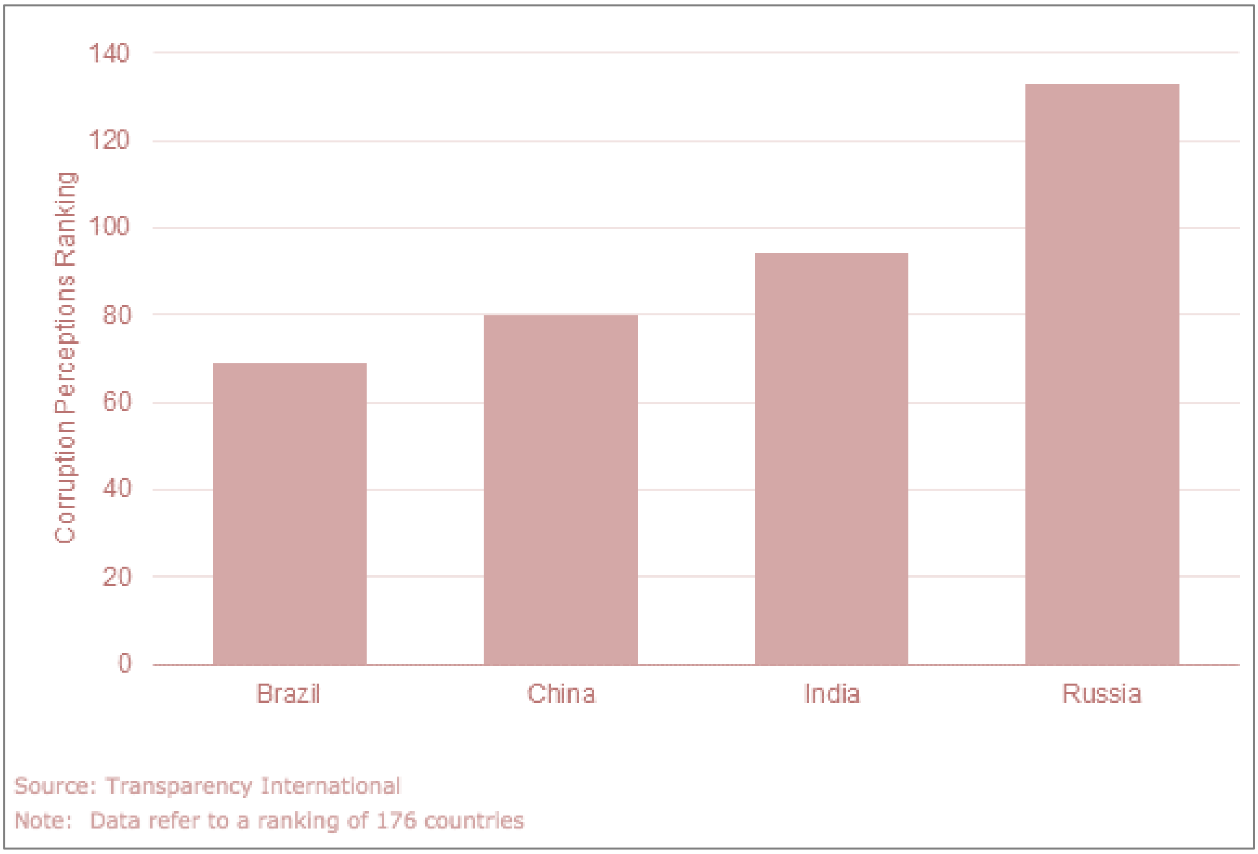
Due to its peculiar political history, Russian economy starts resemble to a more market-based and globally integrated economy starting from 1992, year of the official collapse of the Soviet Union. After almost a decade of high uncertainty, high levels of corruptions and internal war (CIA, 2013), in 1998 the economy was hit by a severe financial crisis that led the government defaulting on the public debt.

Figure 9 GDP Russian Federation (1998 – 2012) – USD – Source: WB, 2013



From the "ruble crisis" of 1998, political stability, market reforms and the increasing prices of natural resources fostered economy at a pace of around 7% y-o-y till 2008. The recent financial crisis, however, hit strongly the Russian economy, especially due to the drop in oil prices as well as by the dried up of the Russian foreign credit (CIA, 2013). The spin of recovery was given by the strong rise of prices of commodity in the period 2011-2012, which helped the government (that still owns energy-related industry and defense-related industry) to sustain the budget and keep the government debt to GDP ratio low at 5.1% (WB, 2012). Unemployment is low and decreasing, as decreasing is expected to be the population in years to 2017 (EUROMONITOR, 2013). Highly relying on natural resource exploitation, Russian manufacturing industries, with exception of heavy industry, never received the substantial investments to improve production and productivity. The lack of investments, coupled with the sky-rocking high corruption perceived, contribute to the substantial negative confidence to do business in the country.

Figure 10 Corruption Perceptions Ranking in BRIC countries: 2012 – Source: Transparency International

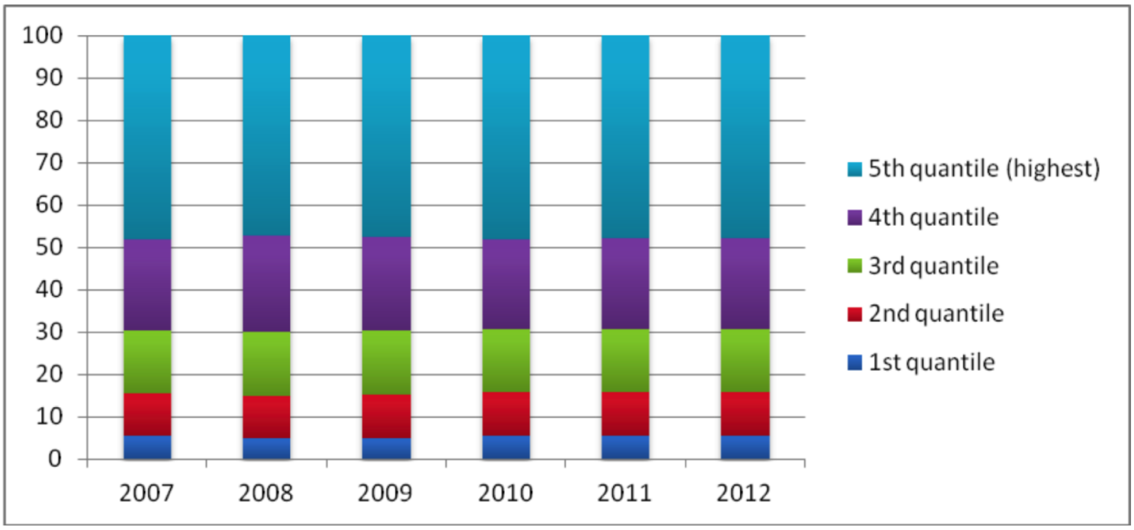


Consumption

Consumption remained on a stable increase during the crisis and post crisis period with a slight flex of growth in the year 2008-2009. Consumer expenditure in 2012 stands at roughly USD 960 bn at fixed exchange rate, representing 47.64% of GDP (WB, 2013).

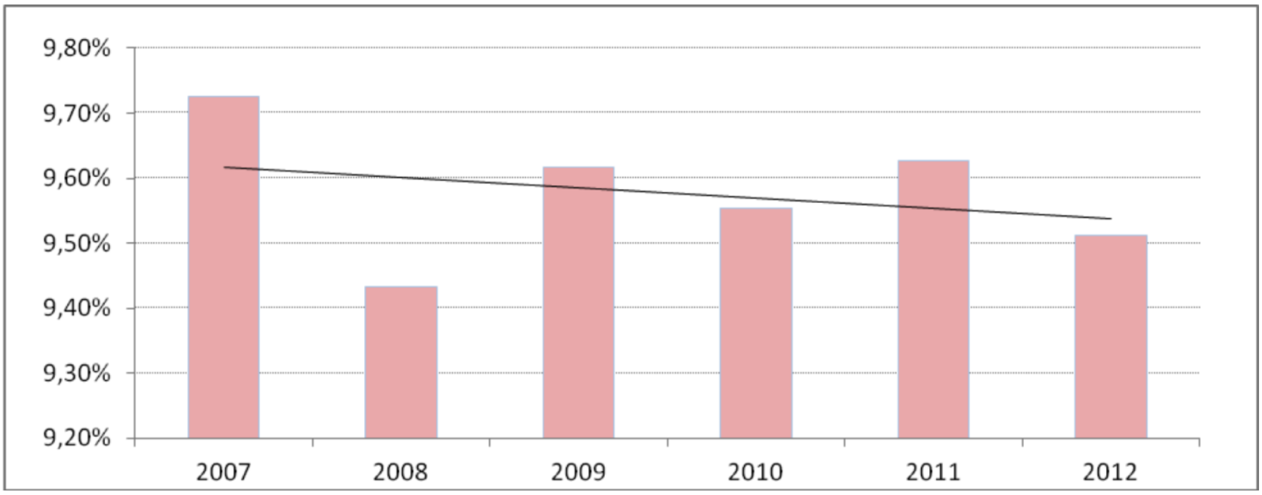
Income distribution remained substantially stable in the last five years (EUROMONITOR, 2013), with little or no change in income concentrated in the central percentiles. This essentially proves the well-known increasing inequality (REUTERS, 2011) in the country due to the impact of global downturn that limited the ability of lower-income groups to join the middle-class.

Figure 11 Russia's Income distribution (2007-2012)- % total income – Source: Euromonitor



As for the fashion consumption, a positive trend is recorded for Consumer Expenditure on Clothing and Footwear during the period 2007 – 2012. The consumption in the industry reached USD 91,2 bn, accounting for 9.5% of total consumption (EUROMONITOR, 2013). The relative weight of clothing and footwear over the whole consumption stayed quite stable around 9.6 % – 9.5% over the recent years, as suggested by Figure 12.

Figure 12 Russia´s % Clothing and Footwear on total consumption (2007-2012) - % - Source: Euromonitor, 2013.



Designer apparel, the ready-to-wear luxury segment of the apparel industry, is as a very promising segment in the Russian fashion industry. In 2012 sales grew by 13% in current value reaching USD 4.11 billion. Russians' traditional aspiration for luxury goods and, at the same time, the increasing price sensitivity confirmed by the growing emergence of discount retailers, may encourages new players to enter the market in a context of growing attention to the uniqueness of a designer piece over and above the fame of the designer (EUROMONITOR, 2013). After growing at 7.4 CAGR during the 2007-2012 period, Designed Apparel is expected to stabilize at 6% CAGR during the period up to 2017, reaching a value of USD 5.48 bn. However, as suggested by media (Russia Beyond the Headline, 2013), the popularity of shopping abroad will persist as long as prices in European capitals are significantly lower.

Table 11 Design Apparel (Ready-to-Wear) – Trends %

Design Apparel (Ready-to-Wear)	2007-12 CAGR	2007/12 Total
Designer Clothing (Ready-to-Wear)	**7.4**	**42.6**
Men's Designer Clothing	*6.3*	*35.7*
Women's Designer Clothing	*7.6*	*44.0*
Designer Childrenswear	*7.8*	*45.7*
Designer Footwear	**7.7**	**44.8**
Children's Designer Footwear	10.8	66.9
Men's Designer Footwear	7.6	44.5
Women's Designer Footwear	7.4	42.6
Designer Apparel (Ready-to-Wear)	**7.4**	**43.1**
Source: Euromonitor International from official statistics, trade associations, trade press, company research, store checks, trade interviews, trade sources		

Beyond the appetite for luxury apparel, another interesting trend about the Russian apparel industry is the growing importance of Italian exporters in the footwear sector in Russia. Russian footwear sector is the largest in Europe. Footwear, moreover, is the fastest growing sector of the apparel industry in Russia with a CAGR in the 2007-2012 periods of 10.9% and a total value at the end of 2012 of USD 18.3 bn (EUROMONITOR, 2013). As for the Italian brands, Russian market result to be a very receptive market for footwear. In 2011, Russian was the destination of around EUR 530 mn of footwear exports, a 20% increase from 2010 (ICE, 2012). Besides the growth in value, the interesting trend is that Italian footwear exports in Russia recorded one of the highest unit values among Italian exports of footwear, with a EUR 76 per pair in 2011 (ICE, 2012).

5.1.2. Cost drivers

Despite remarkable efforts made by some local designers to start production in Russia, the study of domestic reports and the interviews with local industry operators underlined that consumption of apparel goods in Russia is heavily dependent of importations. As illustrated in Table 12, the greatest contribution to domestic production industry is made by government's demand for goods for official garments. One of the experts interviewed furthermore declare:

> *"We would be happy to produce in Russia, it will allow us to have the production under our surveillance. Nowadays our full operations are located in China and sometimes, given the complexity of our product it is not even evident that producing there is less expensive than producing in Russia. Nevertheless we can't do so because of substantial lack of infrastructure."*

According to The Moscow Times (2012), reporting about the successful case of *Kira Plastinina Style*, a Russian fashion house that invested USD 4.8 mn in re-launching a 200 years old plant in Ozyory (Moscow), companies are still facing a great differential in salary levels when moving to Russia. The journal reports that *Kira Plastinina*, which previously had production exclusively in China, was paying Chinese workers USD 100 to USD 150 per month, whereas the salary of a worker in Ozyory is around USD 906 per month.

Table 12 Russia's Apparel Industry shares - %

Production	**Clothing and textile**	**Footwear**
Produced home for the domestic market	10%	15%
State commissioned	20%	15%
Imported	70%	80%
Source: The Moscow Times, ICA (2010 and 2013), interview		

A third factor influencing the low relevance of Russian fashion manufactory industry is the existing possibility for Russian companies to produce under free trade conditions in cheaper CIS countries (CIFTA Commonwealth of Independent Free Trade Agreement, 2011) and/or in the near Eastern Europe (Belarus, Latvia, Estonia and Lithuania *in primis*) achieving better quality.

In conclusion, the overall picture of cost drivers for producing in Russia seems to suggest that at current levels, manufacturing in the country isn't a viable way to pursue internationalization. Yet, residual initiatives by local manufacturers may let companies imply that further development of fashion manufacturing in Russia could have a greater impact in the forthcoming years.

5.1.3. Competition drivers

According to the most recent data (MARKETLINE, EUROMONITOR, 2013) the competitive landscape of fashion industry in Russia seems to be quite moderate. The industry taken into consideration for the application of the Porter's model of Competitive Forces is the industry of apparel (including extraordinarily footwear, besides children wear, menswear and women wear).

Buyer Power: moderate to high

Given the very different nature of purchasing patterns for the different sectors of fashion industry, buyer power is analyzed for each of the entry taken singularly.

Children wear: moderate. Given the moderate birth rate of Russia, children wear is the sector of the industry that lacks behind in terms of volume of sales (MARKETLINE, 2013). Nevertheless, the relatively small size of Russian families (2.8 people) is more comparable to advanced economies than to other non-advanced such Brazil. This impacts the buying power of consumers in the sense that growing attention to the apparel of children is expected to be given. To offset the buying power of consumers there is the nature of necessity of children swear, which follow a regular purchasing pattern that is driven by the growth of the child, influencing the assessment of buying power in the category to moderate

Menswear: moderate. In Russia, given then high proximity to Europe of the main cities (St. Petersburg and Moscow) customers are more likely to create a threat of price sensitivity, by choosing the option of shopping when they are abroad. However, given their fragmentation and the large potential reach of Italian men fashion garments in the country, buyer power is considered rather moderate.

Women wear: moderate to high. As for the menswear, buyer power in the Russian women wear sector is highly affected by price sensitivity. The combined effect of recent entrance of international competitors in the mass market and the increasing trend of opening of outlet stores, underlines that price sensitivity is likely to increase as Russian women wear supply becomes more sophisticated.

Footwear: moderate. Buyers of footwear are defined as end-user consumers and market players as footwear retailers (MARKETLINE, 2013). These two categories produce the greatest majority of sales in the sector which, given the high fragmentation of demand is necessarily characterized by low buyer power. Furthermore, because of the intrinsic value of footwear in the apparel industry, functionality boosts the great level of differentiation within the sector. This, in turns, increases the power of market players offering specific kind of footwear, being the most suitable case for international producers like Italian ones.

Supplier Power: low

The supply power for raw materials in the case of Russia is irrelevant, if the considerations about local manufactory capacity are taken into account.

Threat of New Entrants: high

Given the great attractiveness of Russian consumer markets in the context of stagnating EU and the proximity of the regions with high market share, Russia represents today a very interesting opportunities for international business ready to exploit the untapped potential of the market. Furthermore, despite local production is rather low, the growing interest of national products may lead national and international investors to re-establish manufacture in the country.

Threat of Substitutes: low to moderate

Given the quality content of Italian fashion garments, the main threat of substitution is represented by home-made and custom-made clothing niches. Nevertheless, the size of these phenomena poses little or no threat to industrial scale production. The second source of threat is counterfeit clothing, especially in the context of foreign fashion brands Overall, the threat of substitutes is assessed as low to medium in the industry.

Degree of Rivalry: moderate

The Russian apparel market is fragmented with the majority of international producers operating already in the market. The growing tendency of vertical integration downward with flagship retail stores is a trend that suggests that there is still room for players in this market. The foreseen strong rate of market growth and a fast pace of change in apparel weakens rivalry, which is evaluated as moderate.

5.1.4. Regulation/governmental drivers

The following is a list of three of the most relevant regulation drivers that can influence Italian SMEs in the fashion industry in the process of approaching Russian market, as emerged by the analysis of data and by personal interviews with industry experts.

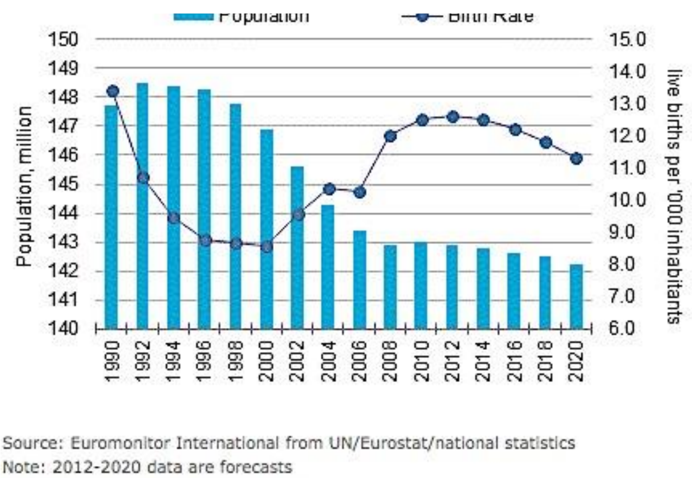
- *For the SMEs.* In October 2012, the World Bank found that Russia has made obtaining a construction permit simpler by eliminating the requirements for several preconstruction approvals (WORLD BANK GROUP, 2012). "The government also eased the administrative tax burden for companies by simplifying procedures for complying with the value added tax (VAT) and by promoting the use of tax accounting software and electronic services. This was part of a broader e-government initiative. Starting a business became faster in Russia, thanks to improved coordination between the federal agencies involved in the business start-up process". (WB, IMF, 2012) According to the most recent release by the World Bank's index "Ease of doing business" (2013), Russia n. 112 up from n. 118 of 2012, thanks especially to the impressive improvements achieved in the fiscal system with the introduction of online payments.

Table 13 Russia's Ease of Doing Business: Ranking of single topic (2013) – Source: WB

TOPIC RANKINGS	DB 2013 Rank	DB 2012 Rank	Change in Rank
Starting a Business	101	105	↑ 4
Dealing with Construction Permits	178	180	↑ 2
Getting Electricity	184	184	No change
Registering Property	46	45	↓ -1
Getting Credit	104	97	↓ -7
Protecting Investors	117	114	↓ -3
Paying Taxes	64	94	↑ 30
Trading Across Borders	162	161	↓ -1
Enforcing Contracts	11	12	↑ 1
Resolving Insolvency	53	61	↑ 8

- *Children wear Benefits From Governmental Regulations*. Despite some may not fully agree, the recent interventions of President Vladimir Putin about the state's commitment to fight the population shrinking phenomena that afflicts Russia (BBC NEWS, 2011) have boosted birth rate.

Figure 13 Population and Birth Rate in Russia (1990 - 2020) Source: Euromonitor



Population recovery in Russia is a tangible business opportunity for several industries. According to Euromonitor, children sector apparel recorded 18% growth in current value terms in 2012, continuing the strong growth of 20% in

2011. The data analysts suggest that increasing number of children, boosted by government reform, coupled with improved consumer disposable incomes, led to this continuing upward trend in the sector.

5.2. Brazil

Brazil	
Regional	Latin America
Income Level	Upper middle income
GDP (USD mn)	2,253
Population (mn)	198.7
Currency	Real (BRL)
Surface area (square kilometers)	8,514,877
Population density in 2011 (per square kilometer)	23.1
Main city and population in 2011 (000)	São Paulo (11,316)
United Nations membership date	1945
WTO membership date	1995
Temperature in the main city, mean °C (minimum and maximum)	14.5 / 24.5
Average precipitation days	134

Figure 14 Brazilian Territory

Figure 15 Brazil: Average monthly Temperature and Rainfall from 1990-2009. Source: Climatic Research Unit (CRU) of University of East Anglia (UEA), WB

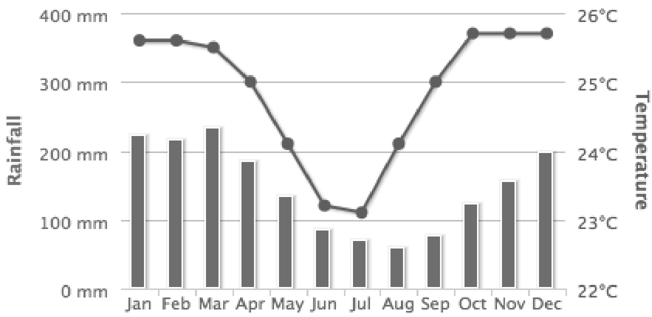
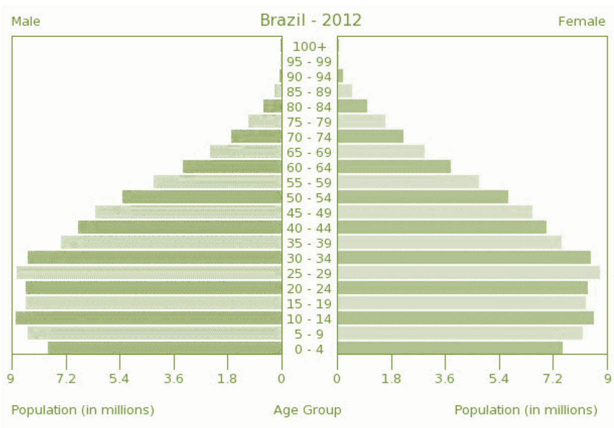


Figure 16 Brazil: Population Pyramid (2013) Source: CIA Factbook

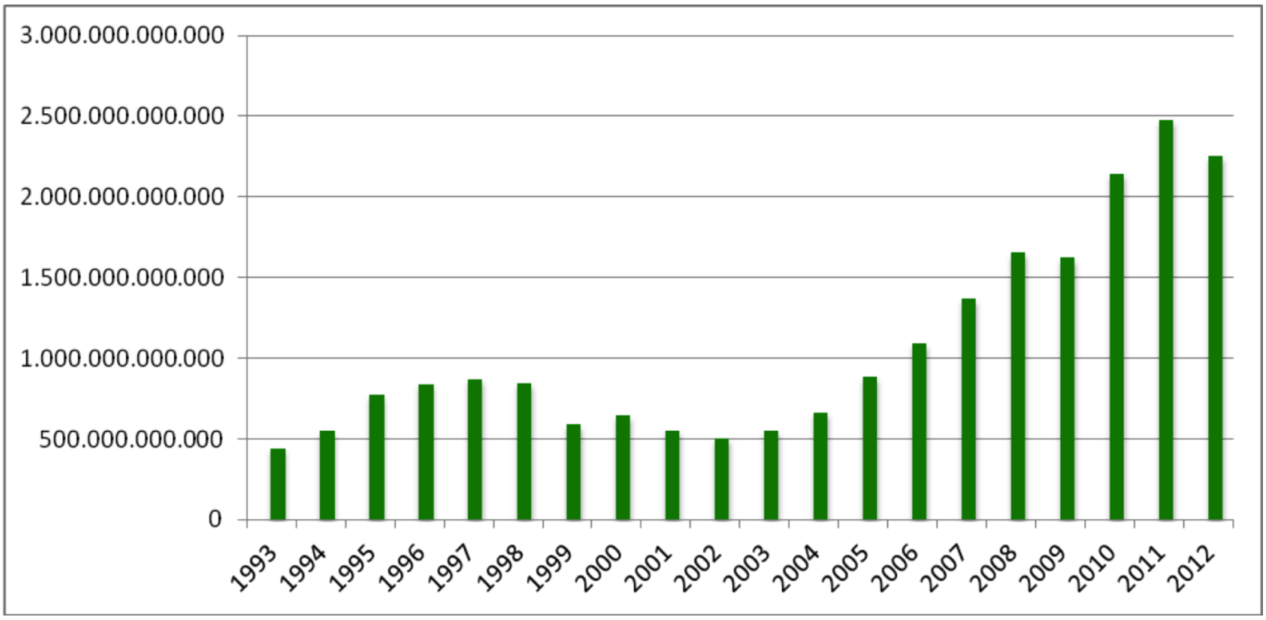


5.2.1. Market drivers

Macro

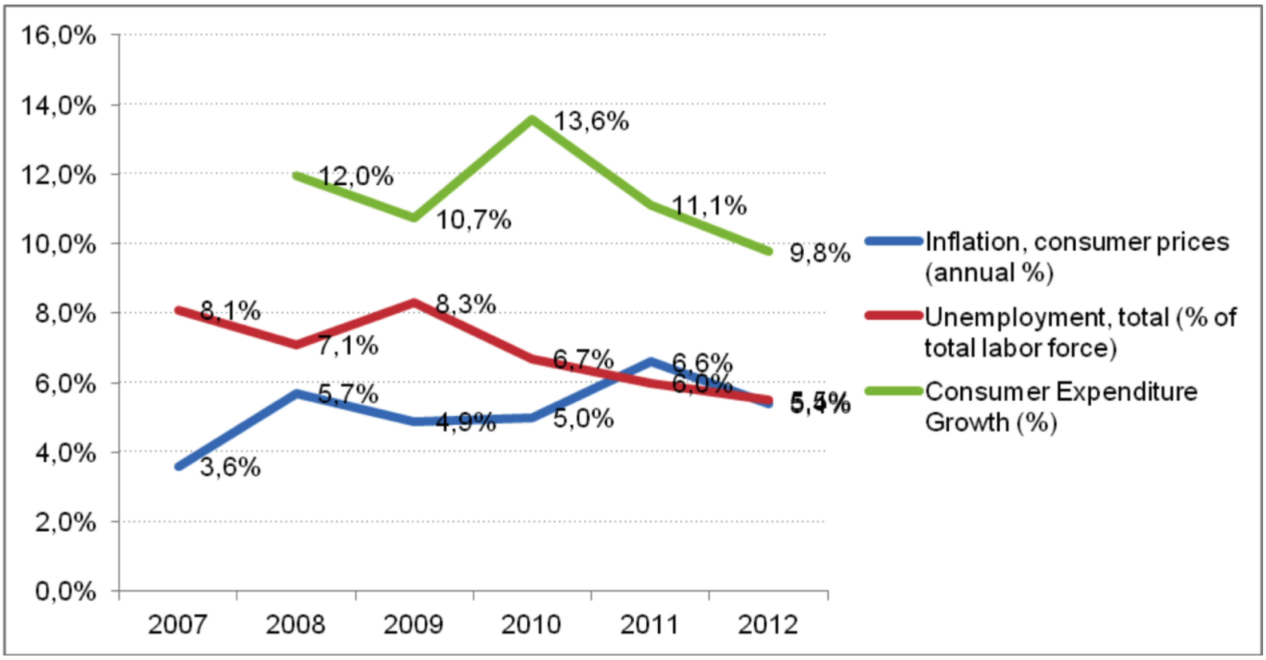
Characterized by the vastest national territory and the largest population of South America, Brazil is not only the biggest economy in the region, with GDP equaling USD 2,235 bn, but also the influential leader of the region (CIA, 2013). Counting on its solid agricultural, mining, manufacturing industry and on its solid and deep financial market, Brazil was one of the first economies to recover after the financial crisis of 2008. Yet, the outlook of Brazilian economy today for the forthcoming years is highly affected by the performances of 2012 and 2013. In fact, after the record high GDP growth of 7.5% in 2010, the country recorded much lower rates (2.7% in 2011 and 0.9 % in 2012) and it is expect to growth not higher than 1.5% for the period up to 2015, somehow justifying the recently earned nickname of BRIC “laggard” (REUTERS, 2012).

Figure 17 Brazil's GDP (1993-2012) – USD – Source: WB



One of the current Brazilian government’s most successful measures has been claimed the radical reduction of unemployment over the 2007-2013 period to below 6%. Brazil unemployment stands today at the record low level of 5.5%, down from 8.1 % recorded in 2007. As suggested by the analysts of Bloomberg, an American news agent, the “low unemployment in the world’s second-largest emerging market had helped sustain consumer demand while stoking inflation through higher labor costs”.

Figure 18 Brazilian Economy: Unemployment, Inflation and Expenditure Growth rates (2007-2013) - % - Source: Euromonitor



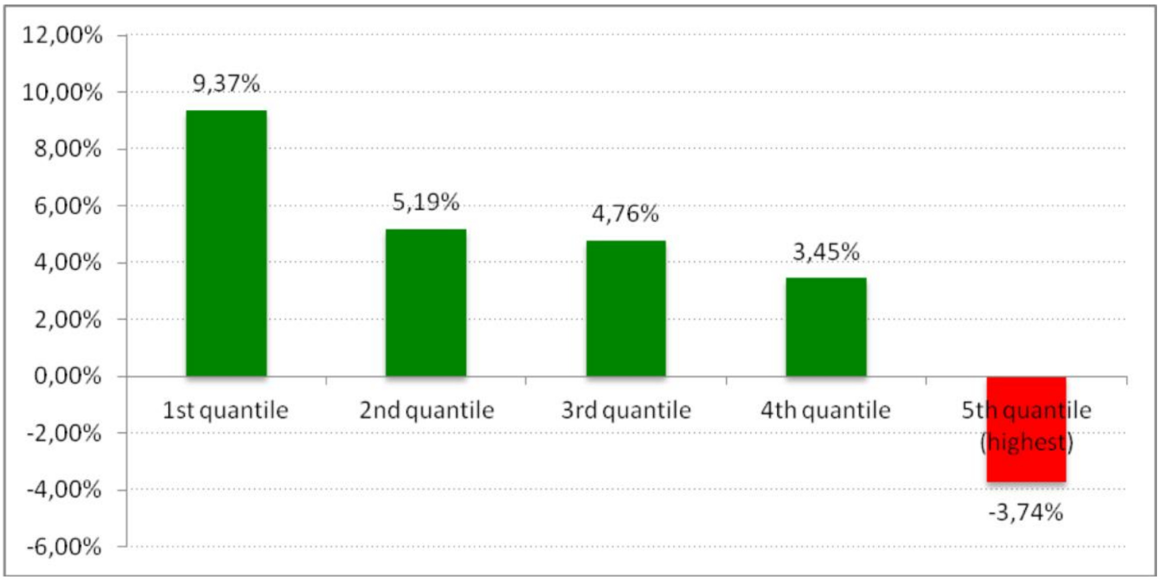
As a matter of fact, with an economy historically characterized by hyperinflation (now under control) and sky-rocking interest rate Brazilians have always been a nation prone to consume. In 2012, consumption expenditure is set at USD 1,368 bn, accounting for 60.7 per cent of GDP.

The other side of the strong presence of consumption in the balance of individuals and of the economy as a whole is that savings in the country are recorded at a very low level of 20% of GDP in 2012, radically stable since the pre-crisis period.

Consumption

Despite the great economic achievements of the last four governments in reducing income inequality (successful inflation targeting, *in primis,* and then redistribution of welfare through social plan) still education and infrastructure represent an obstacle for the development of the "have-nots" (MANFREDINI, 2012). As illustrated by Figure 19, income of the highest 20% of the population dropped by 3.74% in 2005-2012 periods. Now it represents 54.1% of total income of the country. Just five years ago, this number was 56.2%; a nominal change that proves the achievements of the restrictive fiscal policy and the effect of social welfare.

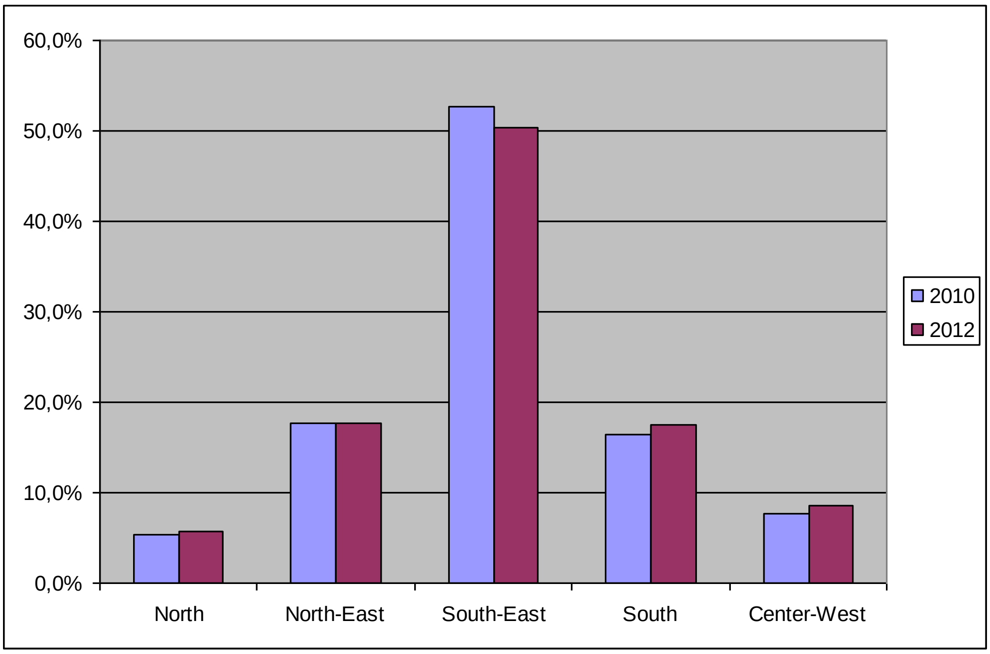
Figure 19 Brazil's income distribution: Change in 2005-2012 period - % - Source: Euromonitor, 2013



As for the consumption of fashion garments in Brazil, it has to be taken into account that Brazil, as it will be further explained in the chapter, has a great culture of fashion, as proved by the increasing role that Brazilian brands, designer and fashion events are taking at global scale (PRATES XAVIER PANSARELLA, 2013). Data from by ABVTEX, the Brazilian association of textile industry, suggest that Brazilian's expenditure on clothing and footwear stands quite constant at around 4.85% of total consumer expenditure in the last 5 years. Nevertheless, contrarily to the case of Russia, Brazil has fashion manufactory capacity and the exports of Brazilian manufactured textiles and clothing, account for USD 1.1 bn, proves that the national industry is able to provide fashion goods also abroad.

In Brazil, the 84% of the population lives in the cities. The 500 cities in Brazil, according to a study by ABVTEX accounts for more than 75 per cent of sales of fashion products in 2012. More specifically, the 50 largest municipalities in Brazil consumed 43 % of the domestic consumption for fashion (ICE, 2012). Not surprisingly, on top of the list stand most populated city in Brazil, Sao Paulo with a share of 8.68% of total consumption, followed by Rio de Janeiro accounting for 4.98%. While Tier-2 cities such as Brasilia and Belo Horizonte keep on increasing their share of domestic consumption, it is interesting to see that the metropolitan areas of São Paulo and Rio de Janeiro concentrates more than 15% of the national consumption of clothing and more than 60% of the consumption of luxury fashion (ICE, 2012).

Figure 20 Brazil's apparel consumption: geographic region distribution (2010 and 2012) - % - Source: ABVTEX

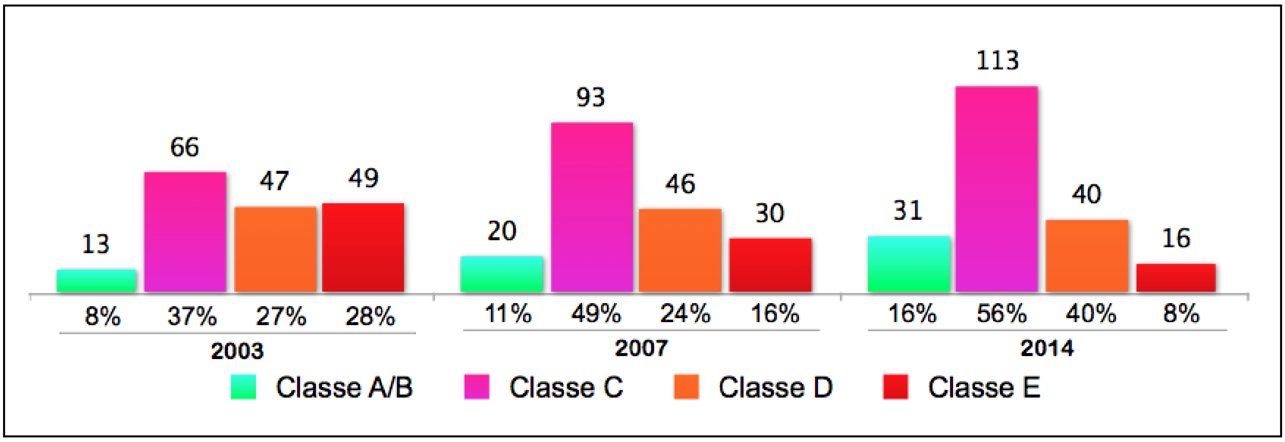


The second feature of Brazilian's clothing market to underline is the consumption per social class. As mentioned earlier in the chapter, Brazilian society is highly characterized by business inequality. Historically, the middle class has been a concept that seldom applied to Brazilian consumers' spectrum, characterized by a strong polarization of social classes. Just in the recent decades, especially after the introduction of Plano Real (1994), that represents a milestone for the eradication of the inflation and the base to fight poverty (Easterly, Fischer, 2001) in Brazil, and thanks to the implementation of the highly integrated and efficient social cash transfer system of "Bolsa Família" (2003), the category of middle class (Class C, with a income between four and ten times the minimum salary) emerged as the core pillar of the economic growth of the country. Figure 21 shows how fast the change in the composition of social classes happened in Brazil.

Table 14 Brazil: Classification of social class. – Sources: ICE

Class	Minimum Salary (MS)	Household income
A	> = 20 MS	> = EUR 4.970
B	between 10 MS and 20 MS	between EUR 2.488 and EUR 4.970
C	between 4 MS and 10 MS	between EUR 995 and EUR 2.488
D	between 2 MS and 4 MS	between EUR 497 and EUR 995
E	< = 2 MS	< = EUR 497

Figure 21 Evolution of social classes (% of the population of the total population / million individuals) - Source: FGV, IBGE e LCA, ICE 2013



As for the consumption of fashion garments, different studies suggest that the total expenditure of apparel will be around USD 46 – 49 bn, up 3.7% from 2011 (ICE, 2013 and Euromonitor). Of the total expenditure, households belonging to the classes B and C will consume the 78 per cent. In particular, as shown in Figure 22, class B (aspirational) will be the largest consuming class with 48.4% of the consumption, while the middle class C will follow with 30%. In order to understand the phenomenon of fashion consumption by the Class B is relevant to underline that, the Class B is nowadays the class with the higher spending power with a total USD 427.7 bn (SEBRAEPR, 2010).

Figure 22 Brazil's share of social classes in the consumption of fashion (2012) - % - Source: FGV, IBGE e LCA, ICE 2013

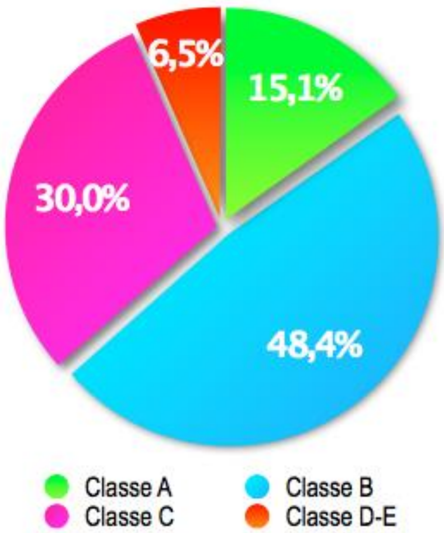


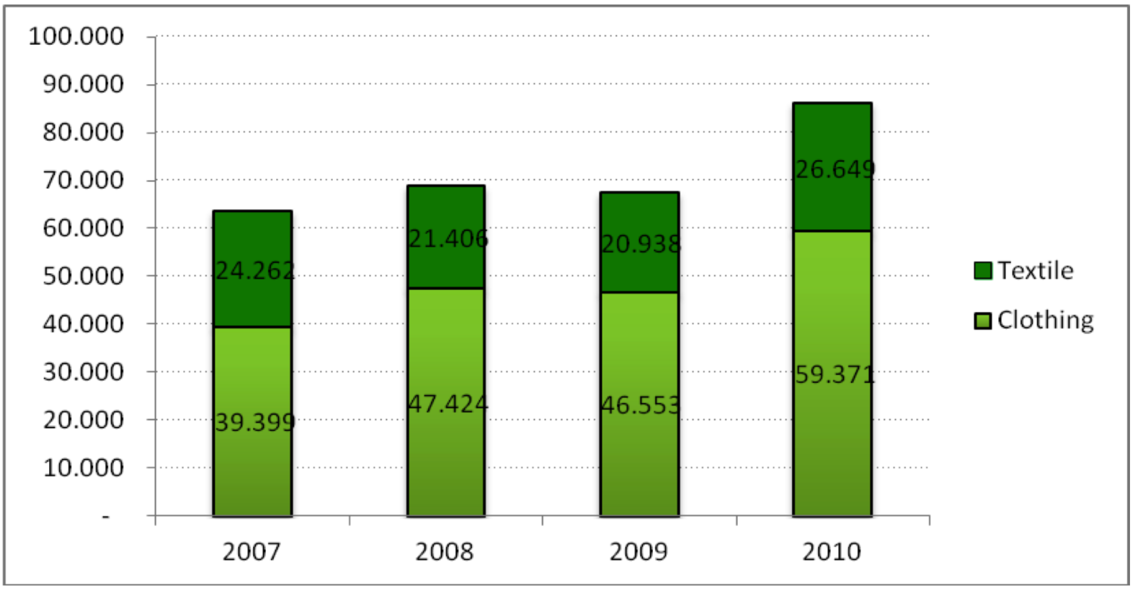
Table 15 Spending Power (2010) - USD bn – Source: Sabraepr

Spending Power (2010) - USD bn	**USD bn**
Class B	427.70
Class C	254.88
Class A	183.99
Class D	49.87
Class E	1.98

5.2.2. Cost Drivers

As mentioned previously in the chapter, contrarily to Russia, Brazil boasts of a very important textile and clothing manufacturing industry. The textile industry, born in colonial times and evolved greatly in the early years of the twentieth century is nowadays, along with the food industry, the oldest of the Brazilian manufacturing industries and generates about 3.5% of GDP (ICE, 2013). In the clothing industry, a much younger industry in Brazil, dating the '80s at the times of Brazilian economic boom, Brazil is the 6th largest world producer, accounting for the 5.5% of world fashion production (ICE, 2013).

Figure 23 Brazil's production of clothing and textile (2007 - 2010) - USD mn - *Source: IEMI, ICE*



In the recent years, however, the industry has recorded a contraction in volume terms as well as in terms of employees of the value chain (ICE, 2013). Such contraction is not reflected in retail sales that kept on growing over the past five years (See Table 16). The growth of retail value, with the contextual decrease of local production in volumes, prove that domestic industry is losing competitiveness against foreign competitors (East-Asian especially, with China representing 60% of total imports of clothing and 40% of imports for textile) (IEMI, 2010).

Table 16 Fashion Retail Value RSP USD mn – Source: Euromonitor

INDUSTRY	2007	2008	2009	2010	2011	2012
Fashion Retail Value RSP USD mn (Fixed 2012 exchange rate)	34,967	39,046	42,889	48,344	52,510	57,679

Before presenting the status of the balance of trade of the fashion industry for Brazil, it is relevant to mention that, in Brazil, the presence of several industrial districts dedicated to the production of textile and clothing garments has absolutely to be considered as a cost driver for Italian companies willing to move their production in Brazil. For the sake of comprehensiveness, the following are the most important industrial parks dedicated to the industry under scope:

1. Sao Paulo state (TecTex, Americana) – All segments, the largest district. In decline. (ICE, 2013)
2. Rio de Janeiro state (Nova Friburgo) – Lingerie, beach wear, fitness, underwear
3. Santa Catarina (Blumenau) – All segments, highly international
4. Ceara' (Fortaleza) - Underwear

The aforementioned districts are the pillars of Brazilian production of textile and clothing and contribute significantly to the exportation of products, mainly textile, to the rest of the world. In fact, the relevance of textile exports (85.7%) is substantial. However, the increasing trend of production of clothing seems to prove the fact that Brazilian manufacturers are moving toward the more value-adding sectors of the industry, fostered mainly by growing national demand. As reported by Ice (2013) in the period from 2006-2010 both in textile and clothing, the segments with higher value added have recorded a growth in production of the size of 9,4%, for textile, and 60% for clothing. As one of the respondents interviewed reported:

> *“There is no more propitious time to convert Brazilian textile industry into clothing and accessories one. The <<brasilidade>> is recognized for the quality of the materials that come almost completely from out land. There is a growing demand for national products, what is missing is the support from the Government to push further quality of Made in Brazil “*

As shown in Table 17, summarizing the trade of the Brazilian textile and clothing industry, it is evident that Brazil is a net importer of fashion products. Furthermore, while textile sector has the lion share of export in the country, clothing exports are declining. As for the imports, the first important data to underline is that the fashion imports account for some 3% of total imports in the country, a much more evident percentage than for exports. Of them, textiles imports are still larger than clothing imports, despite the difference is evidently less than for exports.

Table 17 Brazil’s Trade Textile and Clothing (2007 - 2012) - USD mn – Source: WTO

	2007	**2008**	**2009**	**2010**	**2011**	**2012**
Exports						
Textiles	1436	1361	953	1094	1108	996
Clothing	281	252	173	157	193	167
Total	1717	1613	1126	1251	1301	1163
Total merchandise exports	160,649	197,942	152,995	201,915	256,040	242,580
%	*1.07%*	*0.81%*	*0.74%*	*0.62%*	*0.51%*	*0.48%*
Imports						
Textiles	2183	2947	2584	3773	4303	4300
Clothing	614	883	963	1355	2066	2556
Total	2797	3830	3547	5128	6369	6856
Total merchandise imports	126,645	182,377	133,677	191,537	236,946	233,372
%	*2.21%*	*2.10%*	*2.65%*	*2.68%*	*2.69%*	*2.94%*

In conclusion, according to ICE, the negative balance of Brazilian industry toward the foreign markets is partially justified by the dumping imports from East Asia, and partially by low enthusiasm of private sector in increasing the investments in Brazilian products. Nevertheless, Brazilian manufacturing infrastructures for the production of fashion garments and textiles may result really attractive for those companies as the Italian SMEs that have the know-how to increase investment consistently with the growing national demand.

5.2.3. Competition drivers

The following are the results of the industry analysis made on Brazilian main clothing sectors including childrenswear, menswear, womenswear. In this sub-chapter this study will employ the model of “The Five Competitive Forces that Shape Strategy” by Porter (1996, 2008) based on interview findings and researches conducted on reports by MarketLine (2013).

Buyer Power: moderate to high

Given the very different nature of purchasing patterns for the different sectors of fashion industry, buyer power is analyzed for each of the entry taken singularly.

Children wear: moderate. Despite low switching costs, lower relevance of labels compared to adult apparel and increasing price sensitivity, children wear represent a “necessity” that follows a regular purchasing schedule based on the child growth. In this scenario manufactured products, and retailing, represent the most viable way to access this kind of products therefore the buyer power is assessed as moderate.

Menswear: moderate. Even though brand consciousness in the market is substantial, the loyalty of consumers to specific brands and quality is not always the overriding factor in the choice of menswear (MARKETLINE, 2013). Furthermore, according to Rocha, Hammond, and Hawkins (2005) “male consumers in Brazilian attach less importance to lifestyle variables and physical attribute of products than female consumers” (ROCHA; HAMMOND; HAWKINS, 2005). Nevertheless, while in poorer social classes (C,D,E), consumers may be concerned only with functional value and affordable prices, for the more affluent social classes (A, B), such considerations are less evident therefore Italian brands may influence more power on the buyers. Overall, given the twofold conditions of demand, buyer power is considerate moderate.

Women wear: moderate to high. Buyer power in women wear is enhanced by a high level of choice, accompanied by usual absence of switching costs. Still, brand loyalty within the women wear market is much more evident. Women are generally more connected to the particular brand/designer than to the retailer, although some labels also have their own retail operations in order to increase loyalty upon customers. In other words, brand/design in this sector really matters, therefore for firms willing to enter this sector it is suggested to embrace heavily with communication and brand perception in order to lessen buyer power, which is assessed moderate to high.

Supplier Power: moderate

Clothes manufacturing becomes more fragmented as a growing number of companies enter the global trade. The more trade liberalizes, especially with the entrance of suppliers from East Asian countries as China, the lower is the market power of manufacturers. Still, as for the matter of quality, it is important that increased power is exercised by those suppliers that meet certain quality standards.

Threat of New Entrants: high

Negligible switching costs for consumers and relatively easy access to suppliers and distribution networks, given the already developed industry, encourage new entrants.

Furthermore, from international perspective, lower interest rates and weaker *Brazilian real* are reasonably motives that increase attractiveness to potential new entrants in the apparel sector.

Threat of Substitutes: low to moderate

As for Russia, given the quality content of Italian fashion garments, the main threat of substitution outside the industry is represented by home-made and custom-made clothing niches, which have little or no impact on industrial production. The counterfeit phenomena, nevertheless, assumes a greater importance due to the geographical proximity to major markets. Overall, the threat of substitutes is assessed as low to medium in the industry.

Degree of Rivalry: moderate

Especially driven by strong vertical integration by large retailer companies, the industry of apparel is increasingly concentrating. Furthermore, the increase attractiveness of domestic market is pushing more and more international competitors to enter the market. Another category of incumbent player is represented by the niche local producers, which are increasingly gaining share especially in the cities of Rio de Janeiro and São Paulo, according to interviews. Nevertheless, robust market growth in recent years and expected growth in the forthcoming future eases rivalry creating more opportunities on a consistent base.

5.2.4. Regulation/government drivers

- *Positive Impact From Fifa World Cup in Brazil and Olympic Games in Rio De Janeiro*

The impact of international events on the economy of Brazil is calculated in terms of growth of the markets in the domestic industry (THE ECONOMIST, 2013). In this sense, it represents from the point of view of the firm it could be reasonably seen as a market driver. Nevertheless, for the sake of clarity, it has to be elucidated that international sportive events are nothing else than a form of government intervention with repercussions on the market, therefore their promotion is legitimately registered as a regulation/government driver.

According to official data, FIFA World Cup in Brazil will generate BRL 22 bn (USD 9.67 bn) in direct investments for infrastructure and overall organization but also almost BRL 113 bn (USD 49.68 bn) in indirect investments as various sectors of the economy are set to benefit (Euromonitor). It will create 4 million jobs and R$63 bn (USD 27.7 bn) in income.

According to the analysts, the most positively impacted industries will be those directly linked to the organization: construction, food and drinks and services (EUROMONITOR, 2013). Apparel is also expected to profit from growing consumption. In particular, sportswear is forecasted to increase 2 – 3 % higher than normal CAGR of 13% expected for the 2012-2017 period

- *High import taxation and potential tax exemption (IPI) for intermediate products that will have to be elaborated in Brazil*

Imports in Brazil are subject to a system of cascade taxation (taxes are applied sequentially). This system underlines the fact that, savings in taxes located upstream are than enjoyed throughout the whole chain of taxation. For this reason, the opportunity to overcome the IPI tax, the general production tax of around 10 – 20%, have a greater effects on the total imposition given its repercussion downward. The following is an overview of the taxes charged on imported goods in Brazil.

I. ***Imposto de Importação*** **(II) – Import tax (26 – 35) %**

Since 28/09/2007 the rate of "II" applied to the clothing industry products from countries that are not part of *Mercosul* was brought from 20% to 35% while for textile products it increased from 18% to 26%. Goods coming from free-trade zone (ALC) are exempted from paying II

II. ***Imposto sobre Produtos Industrializados*** **(IPI) – Tax on industrialized goods (10-20)%**

The basis for calculation of the IPI is the value declared by the manufacturer, or, when applied, the customs value of the goods including the amount of import tax (II). Goods coming from free-trade zone (ALC) are exempted from paying IPI.

For imported fabrics to be used in subsequent phases of the production of clothing (or other articles of the packaging industry) as well as for almost all of the production of the packaging the IPI tax rate is 0%.

III. ***Imposto sobre Operações relativas à Circulação de Mercadorias e sobre Prestações de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação*** **(ICMS) –** Tax on Circulation of Goods and Transportation and Communication Services **18% (on average)**

It is a state tax that varies depending on the state and it affects the price at the final consumer. For importation, the basis for calculation of the ICMS is the customs value plus import tax (II), IPI (if applicable), the taxes on transactions in foreign currency and the customs charges.

IV. ***Contribuição para o programa de integração social*** **(PIS) – Contribution to social program 1.65 %**

It is a social contribution that applies on the revenues of the company minus the IPI tax already paid.

V. **Contribuição para o financiamento da seguridade social (COFINS) –**

Contribution to social welfare program 9.10 %

It is a contribution that applies on the revenues of the firm, regardless of the value of the operation traded inside the Brazilian territory.

6. Conclusion

This study aimed to develop a comparative analysis of the internationalization potential for Italian fashion SMEs in the Russian and Brazilian markets. In the introduction, this work encompassed a brief yet comprehensive analysis of the emergence threefold speed of growth of the world economy (Advanced, BRICs and other emerging economies) in the context of the post-BRIC period. From this analysis arouse that among the advanced economies, the European Union is the economy that is lacking behind and Italy, among the European countries is facing a delicate scenario. The study on the Italian economy is presented as an assessment of the macroeconomic situation of Italy compared with the peer economy of Germany. From the analysis arouse that the country's most entangling weaknesses are all reflected in its economic fundamentals (such as GDP growth, inflation rate, government debt to GDP ratio, consumer and business confidence indexes). As for the domestic demand, the analysis deep-dives both into domestic demand external demand of goods and services of the so-called "Made in Italy", reaching the first preliminary conclusions about the high potential of Italian exports of such products, already at the top of international rankings for value in BOT.

Once the overall conditions of Italian economy and trade are described, the study starts with a review of the Italian fashion industry, the focus of this study. Such review embodies an historical background, information about the industry's main features (namely segmentation and creativity) and the status of Italian fashion industry today. From the historical analysis it emerged that the overall industry of Italian fashion has reasons to be considered as a "born global" one. Since its conception in the '50s, the need of foreign machineries to improve the manufacturing capacity of national firms as well as the international rather than local demand that Italian fashion garments caught since the industry early stage proves that "per definition" the industry belong to an international environment. A concept that should be promoted further and takes even more relevance today, with the industry facing decreasing domestic demand and profitability, struggled by low credit availability, as resulted from the analysis.

Considered the status of fashion industry as a premise, this study introduces the reader to a review of the theoretical support to the internationalization strategies and implementation of SMEs. Among the literature reviewed, the framework proposed by Bartlett C. and Ghoshal S (1989) is taken as a theoretical framework of this study due to its endurable validity in the context of SMEs. This framework presents four sets of drivers for internationalization: market drivers, cost drivers, competition drivers and legislation/government drivers. These drivers were used on the research conducted on Russian and Brazilian potential markets for Italian SMEs in the fashion industry. The utility of comparative analysis for internationalization is emphasized, by the extended use, in this phase, of a data-driven approach, typical of consulting industry, which this study best could be best associated to.

As for the overall international responsiveness analysis of the Russian fashion industry for Italian SMEs, the study evidenced the following main points. The economy of Russia is historically characterized by its reliance on exploitation of natural resources. For this reason, the economy’s records are highly affected by the commodity prices, as proved by the acceleration of the economy in 2010-2011 fostered by the increase of oil prices that let Russia recovery from the crisis of 2008. Nevertheless, despite such volatility, no special change in national demand happened in the recent five years, especially because income distribution remained quite stable in the recent years. Consumption of fashion goods are also set stable at around 9.5% of total consumption in the last five years. The most relevant changes are registered in the rapid growth of designer apparel, the ready-to-wear luxury apparel segment, driven by increased price sensitivity fostering moderate luxury consumption and in footwear, the fastest growing sector of the apparel industry recording increasing import from Italy (increased by 20% in 2011). The combination of these two trends, designer apparel and footwear, represents a tangible opportunity to Italian SMEs in the footwear sector to introduce their product in this growing segment. As for the cost drivers, Russia doesn't really show to be a favorable environment to set up fashion manufacturing. With the vast majority of local manufacturing capacity controlled by the government and used for public purposes, the industry lacks of a proper infrastructure to promote production of quality product, therefore cost drivers would always suggest the option of exports rather than local manufacturing.

The competitive drivers for the industry, analyzed through the lens of Porter's Five Forces model, suggest that the industry is characterized by moderate level of rivalry. Growing market demand affects the market in two ways. From one side it lowers substantially buyer powers, from the other it increases the threat of new entrants given the attractiveness for new business. Supplier power is not evident in the context of Russian fashion given the little presence of manufactory on Russian territory.

As for the legislation/government drivers in Russia, the analysis suggested that the greatest opportunity is represented by the indirect effect on sales of children wear due to the introduction of several incentives for birth rate recovery programs that are taking place in the country. Furthermore, the "Ease of Doing Business" index provided by the World Bank suggested that the conditions for doing business are more favorable, making the market more protected for SMEs.

Overall the international responsiveness analysis on Russian fashion industry for Italian SMEs seems to suggest that the country's most receptive mode of entry would be the exports, given that local manufactory infrastructure is insufficient. As for the analysis of the most attractive segments, designed apparel, with specific focus on footwear, and children wear are likely to perform well in the forthcoming future fostered respectively by increased price sensitivity and birth rate stimulation policies.

On the other hand, the overall international responsiveness scenario of Brazil can be summarized as follows. From the analysis of market drivers it has resulted that the country is ready to welcome Italian products that could potentially satisfy the more sophisticated demand driven by improvements of economic conditions of many Brazilians. The study underlined that the change in the income distribution that occurred during the years 2007-2012 have great importance for expressing the potential of such market to welcome Italian fashion products, despite the fact that recent economic trends have evidenced that forthcoming economic growth rates aren't likely to reach pre-crisis level. The consumption of fashion garments, that increased sharply during the last five years – reaching around

USD 46 – 49 bn in 2012 –, is dominated by households belonging to the classes B and C, which consume the 78 per cent of the total expenditure in fashion. In particular, class B (aspirational) is the largest consuming class with 48.4% of the consumption in fashion and USD 427.70 bn of total purchasing power.

As for the cost drivers, it is likewise evident that, in Brazil, beside the presence of great textile manufactory capacity, the increasing trend of production of clothing seems to prove the fact that manufacturers are moving toward the more value-adding sectors of the industry. Such scenario represents a great opportunity for Italian SMEs to export their expertise into the several industrial districts located in the country. Today Brazilian production of fashion goods is already the fourth largest in the world, serving not only the growing local market. For Italian fashion SMEs, this has great importance because it could mean that SMEs could use Brazil also as a hub for reaching other markets in the region.

The competitive drivers for the industry, analyzed through the lens of Porter's Five Forces model, suggest that the industry is characterized by moderate level of rivalry. The growing market demand and the greater availability of inputs are lowering respectively buyer and supplier powers. Given little or no threats for substitution, the great source of concern is the likely threat for new entrance in the industry in the years to come. Such threat, which is partially limited by the obstacles of making business in the country and by high import taxes in case of foreign products, is expected to be offset by the substantial market growth.

The final set of drivers presented, the legislation/government drivers, has shown that the most interesting advantages for SMEs in the fashion industry are represented by the governmental decision of hosting main sportive events in the country in 2014 and 2016 (meaning a 13% growth for the apparel industry, according to Euromonitor). Then, a brief analysis and overview on import taxes suggests that, producing, even partially, in the national territory could have a considerable impact on the tax burden if compared with simple export.

Overall the international responsiveness analysis on Brazilian fashion industry for Italian SMEs seems to suggest that the country's developed and improving fashion manufacturing capacity, coupled with the growing national demand of class C and B, is a reasonable base to consider a re-location, even partial, of production in the country.

6.1. Limitations and further research

This study provides insightful information about internationalization process of SMEs in Russian and Brazilian fashion industry in an approach typical of management consulting project. Given the vastness of the information processed as well as the heterogeneity of the cases recorded in order to reach meaningful conclusions, the study has employed an extensive use of interviews that helped to address the research in the different topics covered. Nevertheless, many topics may have been underestimated for their importance or may have been disregarded due to insufficient data or simply to a natural bias of the author or of the participants of the interviews.

Furthermore, data provided by industry experts as well as by industry report literature often encompass estimates on current outlook and, even more, on future outlooks that are intrinsically linked to a positive level of uncertainty and error. The aim of providing figures about trends, in fact, is to foresee future developments under stable conditions *ceteris paribus.* Nevertheless, in the context of non-advanced economies such as Russia and Brazil, this assumption could be in contrast with the expected greater volatility of these economies.

The final important limitation of this study is that, given lack of sufficient information, the analysis doesn't focus sufficiently on the financial and legal aspects of the internationalization strategy of SMEs. It has been evidenced in extensive literature that the internationalization process, especially for SMEs, requires financial commitment to the enterprises. It is quite frequently that the success of an international venture directly depends on the financing model used (PAMBIANCO, 2012). As for the legal aspect, the limitation is given by the natural specialization of this paper that wouldn't aim to substitute a practice guide to internationalization in the two markets.

Albeit the study presents the main achievements of providing information about the internationalization for Italian SMEs in the fashion industry in Russia and Brazil, the descriptive as well as numerical data provided fulfill a merely informative thus strategic function. Yet, in order to provide a comprehensive analysis of the market covered and of the potential internationalization approach, legal and financial research should be developed further (SACE, 2012). In this sense, the contribution of this study to further literature is to have evidenced, through the final recommendations, those drivers than may deserve further scrutiny from a financial and legal point of view. For instance, the two internationalization strategies suggested for Russian and Brazilian markets (respectively exports and FDI) should be accompanied by legal and financial assessment of such operations in Russia and Brazil.

As evidences in the premises and throughout the analysis of the two markets, potential opportunity to expansion in Russia and Brazil may lead to results that are broader than the size of the mere national markets. In other words, if the conditions of surrounding regional markets evidence similar demand, distribution structure etc. (CIAPPEI; SANI, 2006), Russia and Brazil could represent two hubs for development of internationalization strategies relatively undifferentiated in their respective regions. This consideration, suggests that emergence of regional markets for fashion garments should be another field for further advancement in the topic of internationalization.

Appendix

General information	Russian Federation	Brazil
Regional	Eastern Europe	Latin America
Income Level	High income	Upper middle income
GDP (USD mn)	**2.015**	**2.253**
Population (mn)	143,5	198,7
Currency	Russian Rouble (RUB)	Real (BRL)
Surface area (square kilometres)	17.098.240	8514877
Population density in 2011 (per square kilometre)	8,4	23,1
Main city and population in 2011 (000)	Moscow (11621)	São Paulo (11,316)
United Nations membership date	1945	1945
WTO membership date	2012	1995
Temperature in the main city, mean °C (minimum and maximum)	2.1 / 9.6	14.5 / 24.5
Average precipitation days	177,7	134

MACRO	Russian Federation	Brazil
	2012	2012
GDP growth (annual %)	3	0,9
Government debt / GDP ratio	8,5	
Inflation, consumer prices (annual %)	5,1	0,054
Unemployment rate	5,7	0,055
Business confidence	-5	53
Consumer confidence	-7,5	110

Source: WB, CIA, Ministry of Finance Russian Federation, Rossdata, GKS, Federal State Statistic Service of Russia, *Banco Central do Brasil*, IBGE, *Confederação Nacional da Indústria*

CONSUMPTION	Russian Federation	Brazil
	2012	2012
GNI per capita, Atlas method (current US$)	12.700,00	11.630,00
Consumer Expenditure - USD mn - Current Prices - Fixed 2012 Exchang	959.814,60	1.368.370,00
Gross domestic savings (% of GDP)	44,2	20,0
Consumer Expenditure on Clothing and Footwear - USD mn - Current Pri	**91.298,10**	66.191,90
% Clothing and Footwear on total	9,51%	4,84%

Source: Euromonitor (2013)

TRADE	Russian Federation	Brazil
	2011	2011
Exports	**575.243**	**292.474**
Merchandise exports, f.o.b. - USD mn	522.011	256.039
Commercial services exports - USD mn	53.232	36.435
Import	**411.598**	**309.940**
Merchandise imports, f.o.b. - USD mn	323.831	236.964,00
Commercial services imports - USD mn	87.767	72.976,00
External balance on goods and services	**163.645**	**- 17.466,00**

Source: WTO

Trade Textile and Clothing (2007 - 2012) - USD mn	Russian Federation	Brazil
	2012	**2012**
Exports		
Textiles	657	996
Clothing	356	167
Total	**1013**	1163
Total merchandise exports	**529.255**	242.580
%	**0,19%**	0,48%
Imports		
Textiles	4661	4300
Clothing	9218	2556
Total	**13879**	**6856**
Total merchandise imports	**335446**	**233372**
%	**4,14%**	**2,94%**

Source: Euromonitor (2013)

GDP growth (annual %)	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
Russia	9	5	-8	5	4	3	1,8	2,8	3
Brazil	6,1	5,2	-0,3	7,5	2,7	0,9	1,34	0,96	0,96

Source: Euromonitor (2013)

Fashion Retail Value RSP USD mn (Fixed 2012 exchange rate)	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Russia	45.249,00	50.605,60	46.553,60	53.565,70	60.944,60	68.863,90	77.519,40	86.573,00	96.264,20	106.576,10	117.665,10
growth rate (%)	*17,2*	*11,8*	*-8*	*15,1*	*13,8*	*13*	*12,6*	*11,7*	*11,2*	*10,7*	*10,4*
Brazil	34967,7	39046,2	42889,2	48344,5	52510,6	57679,8	62935,7	69069,5	75407,6	82735,8	90622,5
growth rate (%)	*11,5*	*11,7*	*9,8*	*12,7*	*8,6*	*9,8*	*9,1*	*9,7*	*9,2*	*9,7*	*9,5*

Source: Euromonitor (2013)

References

BOOKS

Bartlett, C., & Ghoshal, S. (1989). *The transnational solution*. Boston: Harvard Business School.

Danziger, P. (2005). *Let them eat cake: Marketing luxury to the masses-as well as the classes*. Chicago: Kaplan Publishing.

Dunning J. H. (1993), *Multinational enterprises and the global economy*. Reading, Massachusetts: Addison-Wesley

English, B. (2007). *A cultural history of fashion in the twentieth century: from the catwalk to the sidewalk*. Oxford: Berg.

Foglio, A. (2007). *Il marketing della moda. Politiche e strategie di fashion marketing* (6th edn). Milano: FrancoAngeli.

Fortis, M. (2012). *La competitività italiana nel commercio internazionale*. Bologna: Il Mulino

Gummesson, E. (2000). *Qualitative methods in management research*. Thousands Oaks, California: Sage Publications

Herbig P. (2003). *Marketing interculturale*. Milano: Apogeo.

Jacquemin a. (1988). *Comportamenti strategici internazionali e multinazionali, in Acocella n., Schiattarella R., Teorie della internazionalizzazione e realtà italiana*. Napoli: Liguori edre.

Khanna, P. (2008). *The second world: empires and influence in the new global order.* New York: Random House Digital Inc..

Kotler, P. J., & Armstrong, G. M. (2010). *Principles of marketing*. London: Pearson Education.

Lawson, B. (1990). *How Designers Think* (2nd edn). London: The Architectural Press.

Lojacono G. (2007). *Competitività e crescita internazionale del sistema arredamento*. Milano ed. Etas,

Merlo, E. (2003). *Moda Italiana. Storia di un'Industria*. Venezia: Marsilio Editori,

Morini, E. (2000). *Storia della moda*. Milano: Skira.

Ohmae K. (1990), *The bordless world: power and strategy in the interlinked economy*, London: Fontana

Porter, M. E. (2008). *Competitive advantage: Creating and sustaining superior performance* (1st edn). New York: Free Press

Valdani e., Bertoli G., Guerini C. (2000), *Mercati internazionali e marketing*. Milano: Egea

White, N. (2000). *Giorgio Armani*. London: Carlton Books.

PUBLICATIONS

Aidis, R., Estrin, S., & Mickiewicz, T. (2008). Institutions and entrepreneurship development in Russia: A comparative perspective. *Journal of Business Venturing*, 23(6), 656-672.

Alaimo, A. La forma distretto può essere esportata? Il caso della Tunisia

Allen, Claire (2009) Style Surfing changing parameters of fashion communication – where have they gone? 1st Global conference: Fashion exploring critical issues, 25-27 September 2009, Mansfield College, Oxford. Retrieved: http://eprints.hud.ac.uk/6213/

Basile, R., Girardi, A., & Mantuano, M. (2012). Migration and Regional Unemployment in Italy. *The Open Urban Studies Journal*, 5, 1-13.

Bazjanac, V. (1974). Architectural design theory: Models of the design process. *Basic questions of design theory*, 3, 20.

Beck, T., Demirguc - Kunt, A. and V. Maksimovic (2005). Financial and Legal Constraints to Growth: Does Firm Size Matter? *Journal of Finance* 60(1): pp 137

Beck, T., Demirgüç-Kunt, A., Laeven, L., & Maksimovic, V. (2006). The determinants of financing obstacles. *Journal of International Money and Finance*, 25(6), 932-952.

Bell, J., Crick, D. and Young, S. (2004), Small firm internationalisation and business strategy: an exploratory study of ‘knowledge-intensive’ and ‘traditional’ manufacturing firms in the UK. *International Small Business Journal*, Vol. 22 No. 1, pp. 23-56.

Calof, J. L., & Beamish, P. W. (1995). Adapting to foreign markets: explaining internationalization. *International business review*, 4(2), 115-131.

Casadio, P., Paradiso, A., & Rao, B. B. (2012). The dynamics of Italian public debt: Alternative paths for fiscal consolidation. *Applied Economics Letters*, 19(7), 635-639.

Chetty, S. and Campbell-Hunt, C. (2003), “Explosive international growth and problems of success amongst small and medium sized firms”, *International Small Business Journal*, Vol. 21 No. 1, pp. 5-27.

Churchman, C. W. (1967). Guest editorial: Wicked problems.

Ciappei, C., & Sani, A. (2006). Strategie di internazionalizzazione e grande distribuzione nel settore dell'abbigliamento: focus sulla realtà fiorentina . *Firenze University Press.* (Vol. 1).

Cohen, M., Kupcu, M. F., & Khanna, P. (2008). The new colonialists. *Foreign Policy*, 16.

Costa, L.M. (2012a). BRIC. Doing Business in Bric Countries. Legal Aspects. Sao Paulo: Xime Quartie Latin.

Coviello, N.E. and Munro, H.J. (1997), “Network relationships and the internationalization process of small software firms”, *International Business Review*, Vol. 6 No. 4, pp. 361-86.

Crick, D. (2009). The internationalisation of born global and international new venture SMEs. *International Marketing Review*, 26(4/5), 453-476.

Crick, D., & Spence, M. (2005). The internationalisation of ‘high performing’UK high-tech SMEs: a study of planned and unplanned strategies. *International Business Review,* 14(2), 167-185.

Denisova, I. (2012) Income distribution and Poverty in Russia. *OECD Social Employment and Migration Working Papers* No 132. OECD Publishing.

Dubois, B., & Duquesne, P. (1993). The market for luxury goods: income versus culture. *European Journal of Marketing*, 27(1), 35-44.

Dunning J. H. (2000), The eclectic paradigm as an envelope for economic and business theories of MNE activity, *International Business Review,* n. 9

Easterly, W., & Fischer, S. (2001). Inflation and the Poor. *Journal of Money, Credit and Banking*, 160-178.

Fellows S. (1997), La globalizzazione nel settore moda, *Micro e Macro Marketing*, n. 3

Ferrando, A., & Mulier, K. (2012). Do firms use the trade credit channel to manage growth? (No. 1502). European Central Bank

Ghemawat P., (2001), Distance Still Matters. The Hard Reality of Global Expansion. *Harvard Business Review*, vol. 79, n°8, pp.137-147.

Ghemawat, P. (2001). Distance still matters. *Harvard business review*, 79(8), 137-147.

Ghoshal, S., & Bartlett, C. A. (1990). The multinational corporation as an interorganizational network. *Academy of management review*, 15(4), 603-626.

Gutman, J. and Mills, M.K. (1982), “Fashion life style, self-concept, shopping orientation, andstore patronage: an integrative analysis”, *Journal of Retailing*, Vol. 58 No. 2, pp. 64-86.

Hanzaee, K. H., Teimourpour, B., & Teimourpour, B. (2012). Segmenting Consumers Based on Luxury Value Perceptions. *Middle-East Journal of Scientific Research*, 12(11), 1445-1453.

Hassan, S. S., Craft, S., & Kortam, W. (2003). Understanding the new bases for global market segmentation. *Journal of Consumer Marketing*, 20(5), 446-462.

Hoskisson, R. E., Eden, L., Lau, C. M., & Wright, M. (2000). Strategy in emerging economies. *Academy of management journal*, 43(3), 249-267.

Johanson, J. and Vahlne, J.-E. (1977), “The internationalization process of the firm – a model of knowledge development and increasing foreign market commitment”, *Journal of International Business Studies*, Vol. 8 No. 2, pp. 23-32.

Jonathan, G. & Mills, M.K. (1982) Fashion life cycle, self-concept, shopping orientation, and store patronage: an integrative analysis. *Journal of Retailing*, 58, 64–87.

Keeble, D., Lawson, C., Smith, H.L., Moore, B. and Wilkinson, I.F. (1998), Internationalisation processes, networking and local embeddedness in technology intensive small firms. *Small Business Economics*, Vol. 11 No. 4, pp. 327-42.

Khanna, P. (2008). Waving goodbye to hegemony. *New York Times Magazine*, n. 27.

Ko, E. and Mok, B. (2001), “A study of advertising effects by internet advertising types and fashion lifestyle”, *Journal of the Korean Society of Clothing and Textiles*, Vol. 25 No. 7, pp. 1258-69.

Ko, E., Kim, E., Taylor, C. R., Kim, K. H., & Kang, I. J. (2007). Cross-national market segmentation in the fashion industry: a study of European, Korean, and US consumers. *International Marketing Review*, 24(5), 629-651.

Ko, E., Kim, K.H. and Kwon, J.H. (2006), Impact of fashion online community characteristics on brand loyalty: comparisons among lifestyle groups. *Journal of Korean Academy of Marketing Science*. Vol. 16 No. 3, pp. 87-106

Komárek, L., Motl, M., Novotný, F., & Prokop, L. (2012). German Economic" Locomotive" And The Czech Economy. *Politická ekonomie*, 2012(4), 442-458.

Krasilshchikov, V. (2011) Russia and Brazil: The diverging paths of development. Institute of World Economy and International Relations (IMEMO), Russian Academy of Sciences. Moscow

Kundu, S. K., & Katz, J. A. (2003). Born-international SMEs: BI-level impacts of resources and intentions. *Small Business Economics*, 20(1), 25-47.

Lee, D. H. (1990). Symbolic interactionism: some implications for consumer self-concept and product symbolism research. *Advances in consumer research*, 17(1), 386-393.

Levitt, T. (1993). The globalization of markets. Readings in international business: a decision approach, 249.

Lundholm, R., Serafeim, G., & Yu, G. (2012). FIN around the world: the contribution of financing activity to profitability. *Harvard Business School Working Papers*

Luo, Y., Sun, J., & Wang, S. L. (2011). Comparative strategic management: An emergent field in international management. *Journal of International Management*, 17(3), 190-200.

Masson, R., Iosif, L., MacKerron, G., & Fernie, J. (2007). Managing complexity in agile global fashion industry supply chains. *International Journal of Logistics Management*, 18(2), 238-254.

Matlin, M. W. (2002). Cognitive Psychology and College‐Level Pedagogy: Two Siblings That Rarely Communicate. *New directions for teaching and learning*, 2002(89), 87-103.

Mora, E. (2006). Collective production of creativity in the Italian fashion system. *Poetics*, 34(6), 334-353.

Nanut, V., & Tracogna, A. (2011). Processi di internazionalizzazione delle imprese: vecchi e nuovi paradigmi. *Sinergie rivista di studi e ricerche*, (60).

O'Neill, J. (2001). Building better global economic BRICs. Goldman Sachs.

Oviatt, B. M., & McDougall, P. P. (1994). Toward a theory of international new ventures. *Journal of international business studies*, 45-64.

Phillips, A. W. (1962). Employment, Inflation and Growth1. *Economica*, 29(113), 1-16

Porter, M. E. (1996). From competitive advantage to corporate strategy. Managing the multibusiness company: *Strategic issues for diversified groups*, New York, 285-314.

Porter, M. E. (2008). Competitive advantage: Creating and sustaining superior performance.

Prates Xavier Pansarella, L., C. (2013) *São Paulo fashion week e a transformação da indústria criativa da moda no Brasil*. Master dissertation, FGV-EAESP, São Paulo, Brazil.

Rennie, M.W. (1993). BORN GLOBAL. *McKinsey Quarterly*, (4), 45-52.

Rittel, H. W. J., & Webber, M. M. (1974). Wicked problems. *Man-made Futures*, 272-280.

Rowe, P. G. (1991). Design Thinking. *The MIT Press*

Rocha, M. A. V., Hammond, L., & Hawkins, D. (2005). Age, gender and national factors in fashion consumption. *Journal of Fashion Marketing and Management*, 9(4), 380-390

Santagata W. (2002). Some effects of creativity on fashion market behavior. EBLA Center.

Simon H.A. (1986) How Managers Express their Creativity, “Across The Board”, 23

Simon, H.A. (1973). The structure of ill-structured problems. *Artificial Intelligence* 4:181-201.

Sinha, P. (2002). Creativity in fashion. *Journal of Textile and Apparel, Technology and Management*, 2, 1-16

Soldani, S., Rossi, A., & Lanzetta, M. (2013). Modellazione di un ciclo produttivo nel settore moda. *Automazione Integrata*, 16(2), 37-39.

Summers, J.O. (1970) The identity of women’s clothing fashion opinion leaders. *Journal of Marketing Research*, 7, 178–185.

Vigneron, F., & Johnson, L. W. (2004). Measuring perceptions of brand luxury*. The Journal of Brand Management*, 11(6), 484-506.

Welch, L. S., & Luostarinen, R. K. (1993). Inward-outward connections in internationalization. *Journal of International Marketin*g, 44-56.

Wiedmann, K. P., Hennigs, N., & Siebels, A. (2009). Value ‐ based segmentation of luxury consumption behavior. *Psychology & Marketing*, 26(7), 625-651

Wilson, D., & Purushothaman, R. (2009). Dreaming with BRICs: the path to 2050. *Goldman Sachs Global Economic Paper N. 99*. Available at: http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/brics-dream.pdf

Zahra, S. A., Korri, J. S., & Yu, J. (2005). Cognition and international entrepreneurship: implications for research on international opportunity recognition and exploitation. *International business review*, 14(2), 129-146.

REPORTS AND DATABASE

General

EUROPEAN COMMISSION (2012) Enterprise and Industry - Regulatory and industrial policy dialogues. Retrieved: http://ec.europa.eu/enterprise/sectors/textiles/external-dimension/bilateral-dialogues/index_en.htm

EUROPEAN COMMISSION (2012) Macroeconomic imbalances: Italy – Occasional Paper 107 July 2012. Retrieved: http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp107_en.pdf

EUROPEAN COMMISSION (2013) EU Report: Trade protectionism still on rise across the world, Press Release: 02/09/2013. Brussels

EUROSEARCH (2006) based on the European Law: EU recommendation 2003/361.

INTERNATIONAL MONETARY FUND (2013) World Economic Outlook, April 2013. Washington, DC

INTERNATIONAL MONETARY FUND (IMF) - Statistical appendix 2012 Retrieved http://www.imf.org/external/pubs/ft/weo/2012/01/pdf/statapp.pdf

ISTAT (Istituto Italiano di Statistica) - Statistical Database: http://www.istat.it/en/products/databases

ISTITUTO COMMERCIO ESTERO (ICE), Prometeia (2012) Evoluzione del commercio con l´estero per aree e settori. Le opportunitá per le imprese italiane sui mercati esteri nel periodo 2012-2014. Ed. N.10 - Giungo, 2012

NYU Return (2013) Equity by Sector, 2013 - Value Line database, of 6177 firms. January 2013 – New York

OECD (2008) - Benchmark Definition of Foreign Direct Investment, 4th Edition 2008, p.3

OECD (2013),Household gross adjusted disposable income per capita, in National Accounts at a Glance 2013, OECD Publishing.

OFFICIAL JOURNAL OF THE EU, Recommendation by the European Commission 2003/361/EC dating from 060503

SACE (2012) Rapporto export 2012-2016. Quando l´export diventa necessario. Le prospettive di crescita delle esportazioni italiane. Dicembre 2012

SISTEMA STATISTICO NAZIONALE (2013), L´Italia nell´economia internazionale. Sintesi del rapporto ICE 2012-2013.

THE UNITED NATIONS – UNCTAD Stat: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sRF_ActivePath=P,5,27&sRF_Expanded=,P,5,27

THE UNITED NATIONS – UNSTAT: http://unstats.un.org/unsd/default.htm

THE WORLD BANK – Data bank http://databank.worldbank.org/data/home.aspx

WORLD BANK GROUP. (2012). Doing business 2013: smarter regulations for small and medium-size enterprises. World Bank Publications.

WORLD TRADE ORGANIZATION (2013) Country Porfile: Brazil. Retrieved: http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Country=BR&Language=S . Accessed 16-07-2013

WORLD TRADE ORGANIZATION (2013) Country Porfile: Russian Federation. Retrieved: http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=S&Country=RU . Accessed 16-07-2013

Industry-related

BAIN & CO (2012) Worldwide Luxury Market Monitor, Spring 2013 Update. Milano, 16th May 2012. Accessed 01-06-2013

CAMERA DI COMMERCIO DI MILANO, IULM UNIVERSITY, IULD FOUNDATION (2008), Il settore moda italiano a un anno dallo scoppio della crisi. Rapporto di ricerca"

EUROMONITOR INTERNATIONAL (2013) Apparel in Brazil, Passport

EUROMONITOR INTERNATIONAL (2013) Apparel in Russia, Passport

EUROMONITOR INTERNATIONAL (2013) Designer apparel in Brazil, Passport

EUROMONITOR INTERNATIONAL (2013) Designer apparel in Russia, Passport

EUROMONITOR INTERNATIONAL (2013) Global apparel, Passport

EUROMONITOR INTERNATIONAL (2013) How BRICS consumer behave, Passport

EUROMONITOR INTERNATIONAL (2013) Income inequality and Market segmentation shape Russia´s consumer market, Passport. Article, 06-09-2013

EUROMONITOR INTERNATIONAL (2013) Russia´s middle class has not expanded significantly weighing on consumer spending, Passport. Article, 11-03-2013

FONDAZIONE SYMBOLA, UNIONCAMERE IN COLLABORAZIONE CON FONDAZINE EDISON (2013) I.T.A.L.I.A. Geografie del nuovo made in Italy.

FONDAZIONE SYMBOLA, UNIONCAMERE, REGIONE MARCHE (2012) L´Italia che verrá. Industria culturale, made in Italy e territori.

FONDAZIONE SYMBOLA, UNIONCAMERE, REGIONE MARCHE (2013) Io sono cultura. L´Italia della qualitá e della bellezza sfida la crisi.

ICE (2012) Breve nota sul mercato della moda nella Federazion Russa. August 2012. ICE Moscow

ICE (2012) Studio di Orientamento per L'identificazione delle Opportunità di Inserimento nel Mercato della Moda Brasiliano. ICE São Paulo

ITALIAN TEXTILE FASHION, UNIONCAMERE E THE EUROPEAN HOUSE - AMBROSETTI (2010), "M2 - Meridiano Moda: studio sul Sistema Moda Italiano", Roma.

MARKETLINE (2013) Brazilian men wear – Industry Overview

MARKETLINE (2013) Brazilian women wear – Industry Overview

MARKETLINE (2013) Brazilian children wear wear – Industry Overview

MARKETLINE (2013) Russian men wear – Industry Overview

MARKETLINE (2013) Russian women wear – Industry Overview

MARKETLINE (2013) Russian children wear – Industry Overview

MARKETLINE (2013) Russian foot wear – Industry Overview

PROMETEIA, CONFINDUSTRIA, SACE (2010). Esportare la dolce vita. Le nuove opportunitá per il lusso accessibile italiano.

REPORT MODA, BENI CULTURALI, 2013 LA MODA IERI E OGGI - Moda, Beni Culturali, 2013. Retrieved http://www.moda.san.beniculturali.it/wordpress/?moda=2000-2010-un-decennio-di-crisi

SEBRAEPR (2011) Estudo de Comportamento de Consumo – Segmento de Vestuário, Calçados e Acessórios, Março de 2011 – Retail Industry report. Retrieved at: http://www.sebraepr.com.br/StaticFile/InteligenciaCompetitiva/docs/Comercio_Varejista/Estudo%20de%20Comportamento%20de%20Consumo/Estudo_Comportamento_Consumo.pdf

SISTEMA MODA ITALIANA (SMI), Pitti Immagine (2013). Il settore tessile-moda italiano nel 2012-2013

THE LAGOS CHAMBER OF COMMERCE (2013) BCI SUSTAINS POSITIVE IMPROVEMENT Retreived at: http://www.lagoschamber.com/download/_business_confidence_index/BCI%20Report%20Q3-2013c.pdf

NEWSPAPER ARTICLES

A rickety rebound (August 17th 2013) *The Economist* . Retrieved www.economist.com. Accessed 15-08-2013

Aleksandra Kreknina European luxury goods market thriving on Russian tourists (May 22, 2013) *Russia Beyond The Headline*. Retrieved: www.rbth.ru Accessed: 10-08-2013

Brazil Unemployment Rate Jumps More Than Expected to 6% (Jul 24, 2013) *BLOOMBERG*. Retrieved at: http://www.bloomberg.com. Accessed: 15-08-2013

Fashion Manufacturing Coming on Shore. (October 12, 2012) *The Moscow Times*. Issue 4996. Accessed 20-08-2013

Kely, L., Dyakina, M., (December 20th, 2011). *Reuters* Russia's wealth gap wounds Putin. Accessed 11-09-2013

Kirby, E. J. (September, 11th 2013), Italy factory jobs 'disappearing overnight', *BBC NEWS.* Retrieved: www.bbc.co.uk. Accessed 11-09-2013

La crisi rallenta le importazioni - Bilancia commerciale in attivo (August 9th 2013). *La Repubblica.* Retrieved: www.repubblica.it. Accessed 17-08-2013

Rohde, D., (September 28th, 2012), The BRIC laggard. *Reuters.* Retrieved blogs.reuters.com. Accessed 20-08-2013

Rosenberg, S., (April, 20th 2011) Steve, Vladimir Putin reveals plan to boost Russia birth rate. *BBC NEWS.* Accessed 20-08-2013

Shaken, not stirred (May 11th 2013) *The Economist*. Retrieved www.economist.com. Accessed 15-08-2013

The Great Deceleration (July 27, 2013), *The Economist*. Retrieved www.economist.com Accessed 15-08-2013

The Italian System for Fashion (June 2nd 2009). *EURBANISTA*. Retreived www.eurbanista.com. Accessed 20-08-2013

The submerging economies (August 12th 2013) *The Economist*. Retrieved www.economist.com. Accessed 15-08-2013

When giants slow down (July 27, 2013) *The Economist*. Retrieved www.economist.com Accessed 15-08-2013

WEBSITES

ABIT - www.abit.org.br

CIA WORLD FACTBOOK (2013) Country Profile: Brazil. Accessed 12-07-2013

CIA WORLD FACTBOOK (2013) Country Profile: Russian Federation. Accessed 12-07-2013

ENCYCLOPÆDIA BRITANNICA (2013)

FINANCIAL TIMES www.ft.com

FORBES - http://blogs.forbes.com

MINISTERO DEI BENI E DELLE ATTIVITA' CULTURALI E DEL TURISMO.DIREZIONE GENERALE ARCHIVI-SISTEMA ARCHIVISTICO NAZIONALE - http://www.moda.san.beniculturali.it/wordpress/?page_id=271

SOSTAV – www.sostav.ru

TEXBRASIL - www.texbrasil.com.br/

THE BUSINESS OF FASHION - www.businessoffashion.com/

TRANSPARENCY INTERNATIONAL (2012), Corruption Perceptions Ranking in BRIC countries: 2012

VALOR ECONOMICO – www.valor.com.br

OTHERS

GIORGINI, G.B. (1959) Interviewed at Made in Italy: alta moda - Rai Teche. Rai Teche 02/05/1959

HOOVER, K. D.. (2013) "Phillips Curve." The Concise Encyclopedia of Economics 2008. Library of Economics and Liberty. Retrieved September 13, 2013 from the World Wide Web: http://www.econlib.org/library/Enc/PhillipsCurve.html

Textile industry and national strategies for sustaining global competitiveness, (May 8th 2010) International Conference, Moscow.

KNIGHT, G. (1996). Born Global. Wiley International Encyclopedia of Marketing.

MANFREDINI, A.C. (2012) Lesson of Brazilian Economy, held at FGV-EAESP (São Paulo, Brazil

ORSI, R., (2013), The Quiet Collapse of the Italian Economy, Euro Crisis in the Press. *LSE BLOG* Retrieved at: http://blogs.lse.ac.uk/eurocrisispress/2013/04/23/the-quiet-collapse-of-the-italian-economy/

PAMBIANCO & INTESA SAN PAOLO (2012) A tutta forza verso l'estero: Strategie e strumenti per accelerare lo sviluppo nei mercati internazionali - Convegno sulle strategie delle Aziende della Moda e del Lusso. Milano, November 6th 2012

PUCCI, E. (1983) Interviewed at L'alta moda italiana dal 1940 al 1980. Rai Teche 03/11/1983

REALACCI, E. (2013) Intervention at the presentation of Symbola Report 2013, Milano

SACCOMANNI, F. (2012) Conference: L´internazionalizzazione delle imprese: fattore di crescita e competitivitá – Intervention of the General Director of Banca d´Italia