

Between big and small: the role of medium-sized enterprise in Italy and Europe

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Make it in Italy. 24 October 2011



MEDIOBANCA
Banca di Credito Finanziario S.p.A.

Why “medium-size” in industry?

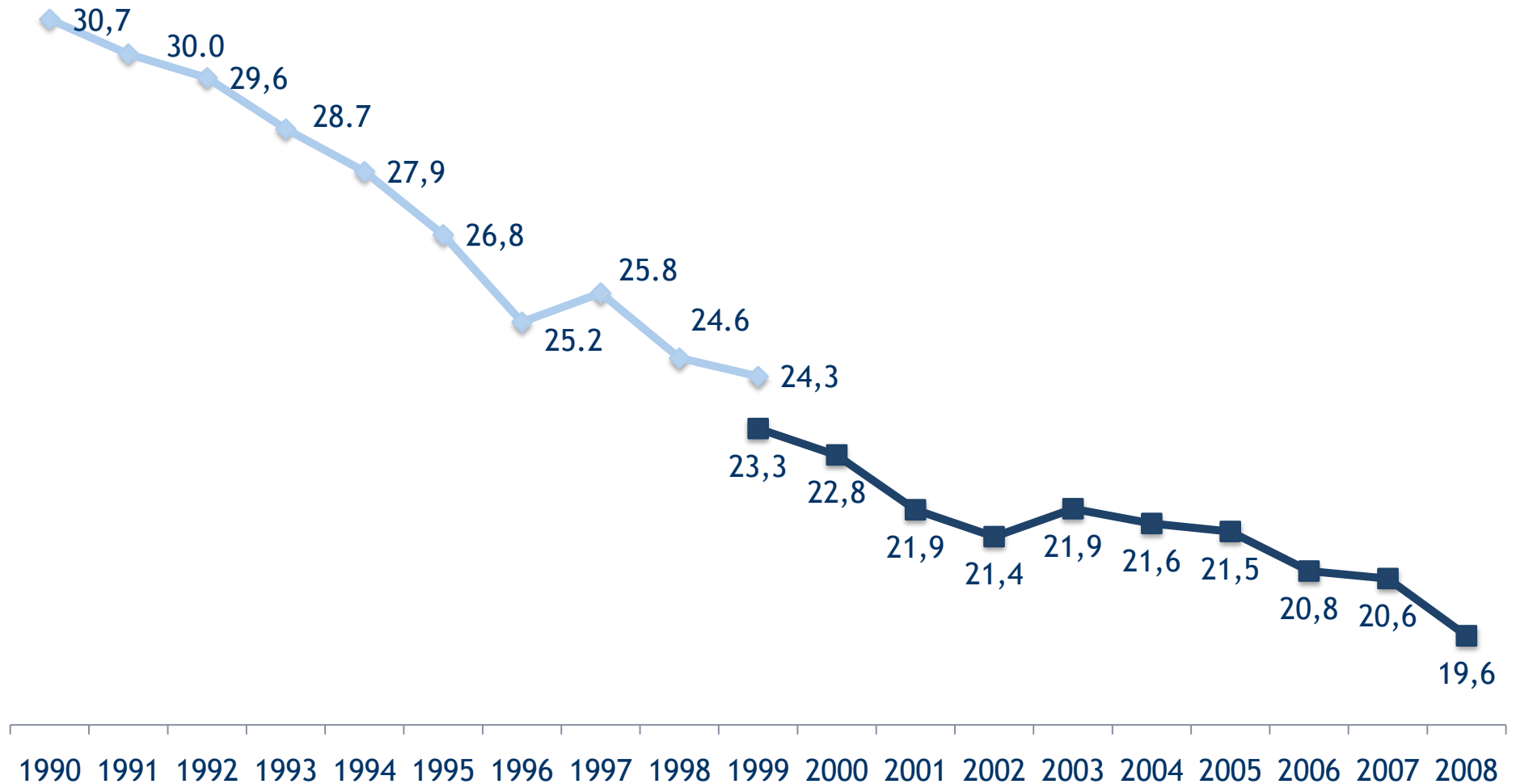


Revolution in manufacturing...

- ◆ Japan. 1950s: Toyota introduces lean production systems; Europe and the U.S. discover them 30 years later
- ◆ Italy. 1970s: industrial districts grow up, as socio-territorial entities in which communities of people are embedded into populations of firms specializing in producing selected goods
- ◆ USA. 1980s: Fordism model starts to decline under the Japanese invasion of US markets, backed by higher productivity levels; downsizing is the new view in the largest manufacturing corporations
- ◆ 2000-: globalization is at full speed; firms destructure by forming international value chains

Down-sizing in Italy

Mediobanca figures for manufacturing companies: value added as % of turnover

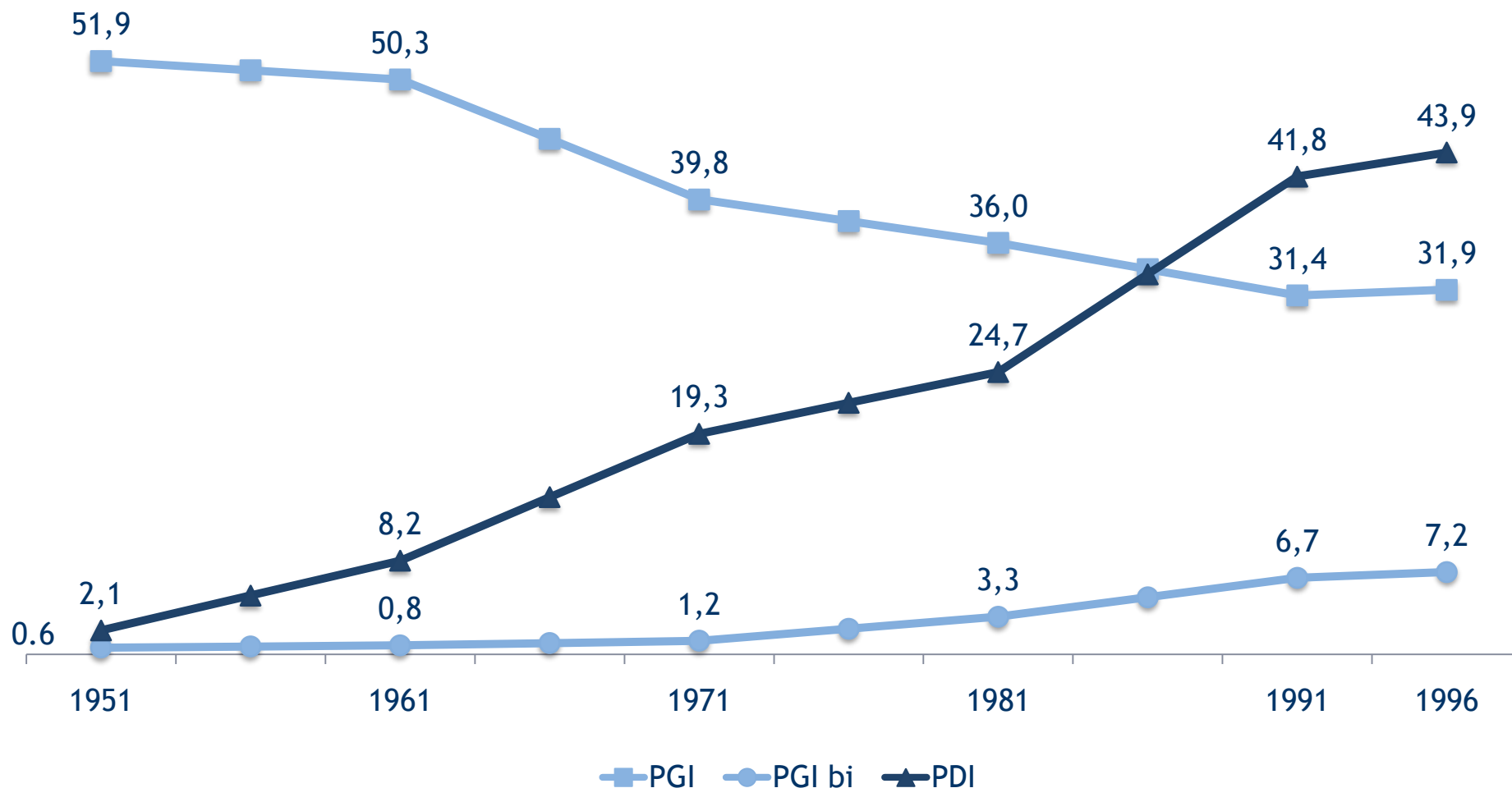


Medium-sized enterprises in Italy



Manufacturing in provinces: % shares of employees

A story which comes from the territories

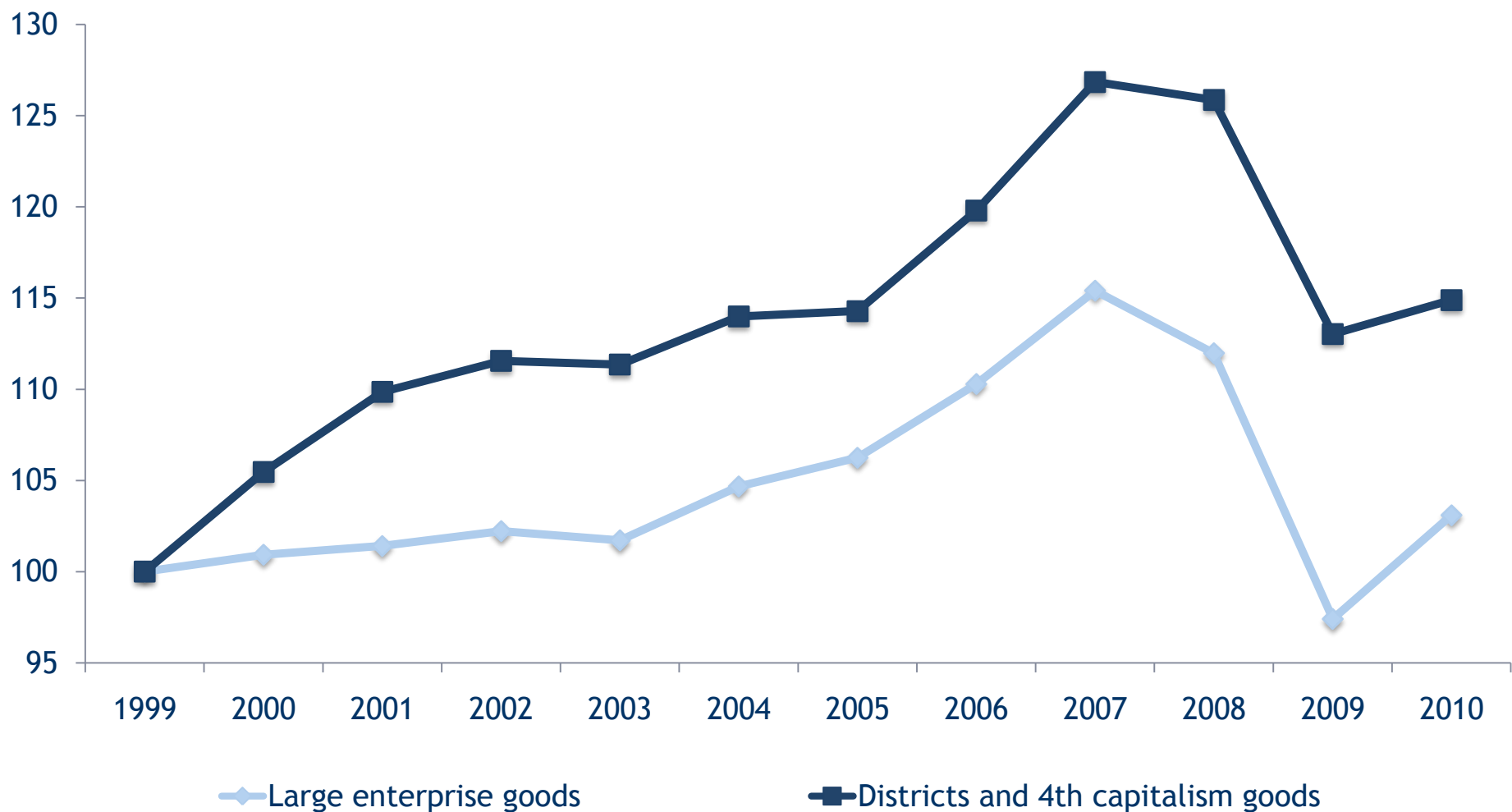


PGI=Large enterprise provinces; bi=low industrialized; DI = District provinces

Source: Becattini-Coltorti 2004

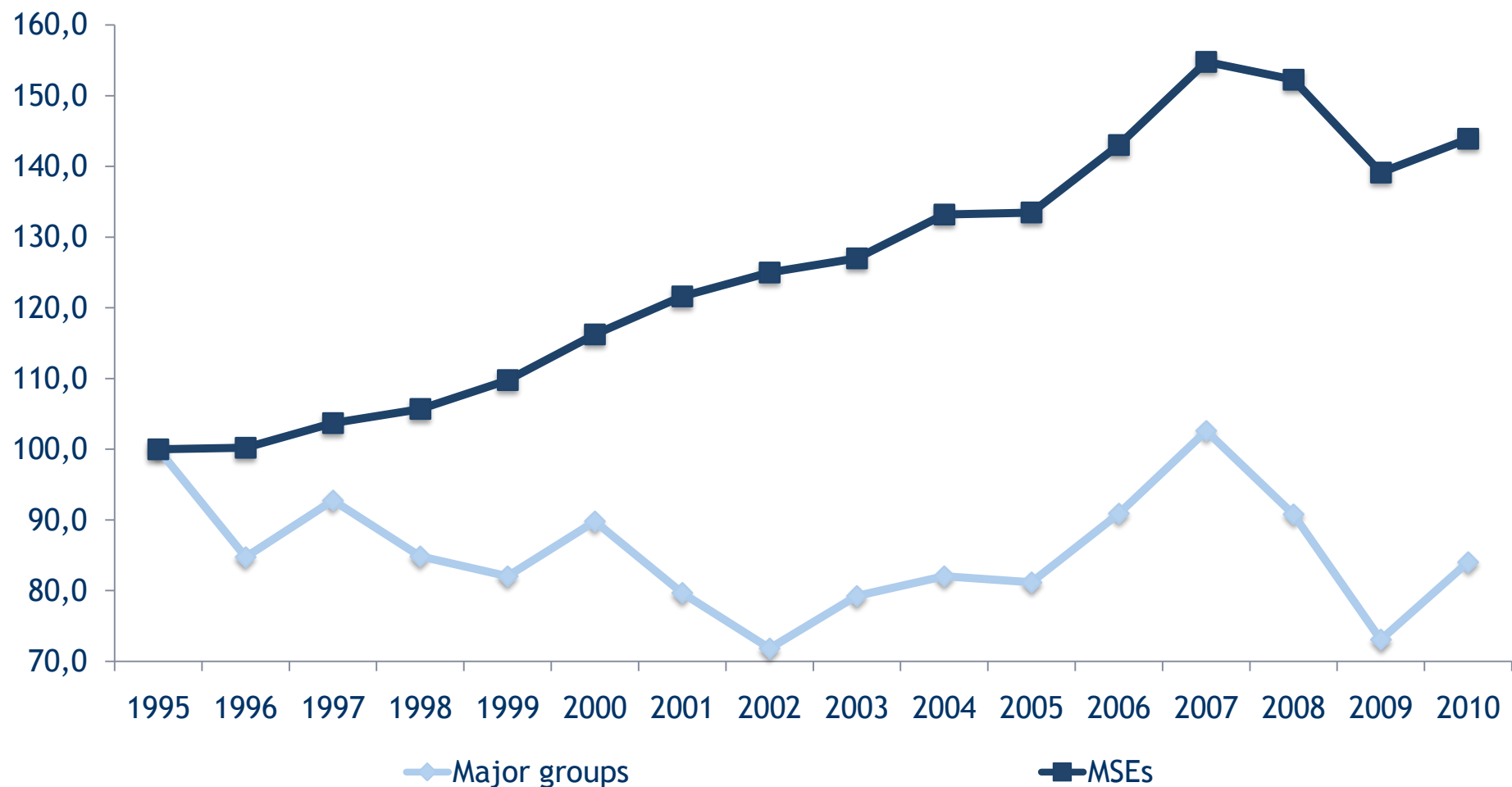
Italian industry value added

Index 1999=100; Istat figures at current prices - in 2010: districts and 4th cap. goods 115. Large enterprise goods 103



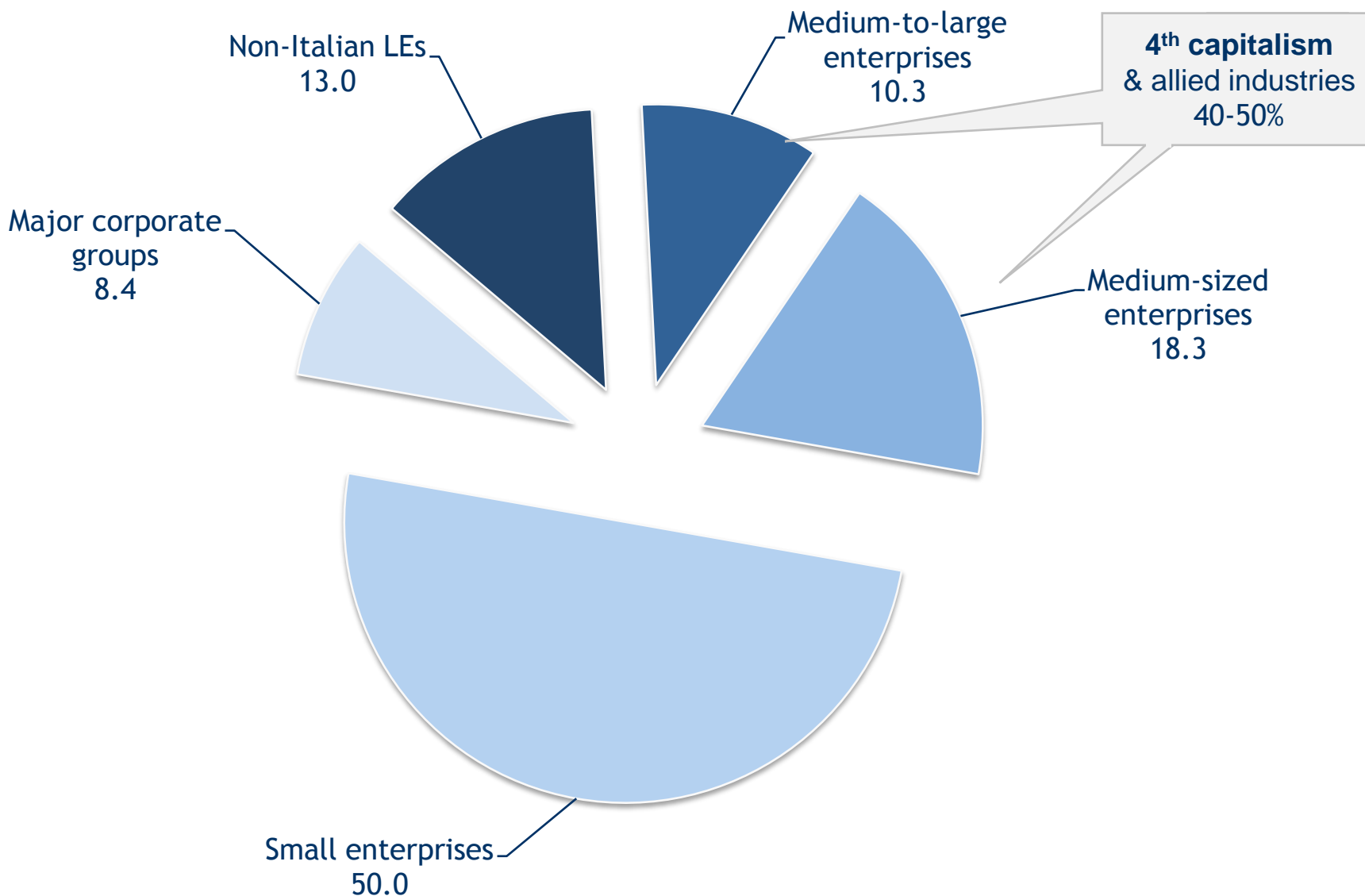
Value added: MSEs and major groups

Index 1995=100; Mediobanca figures at current prices - in 2010: MSEs 144. Major groups 84



Manufacturing value added by companies in 2007

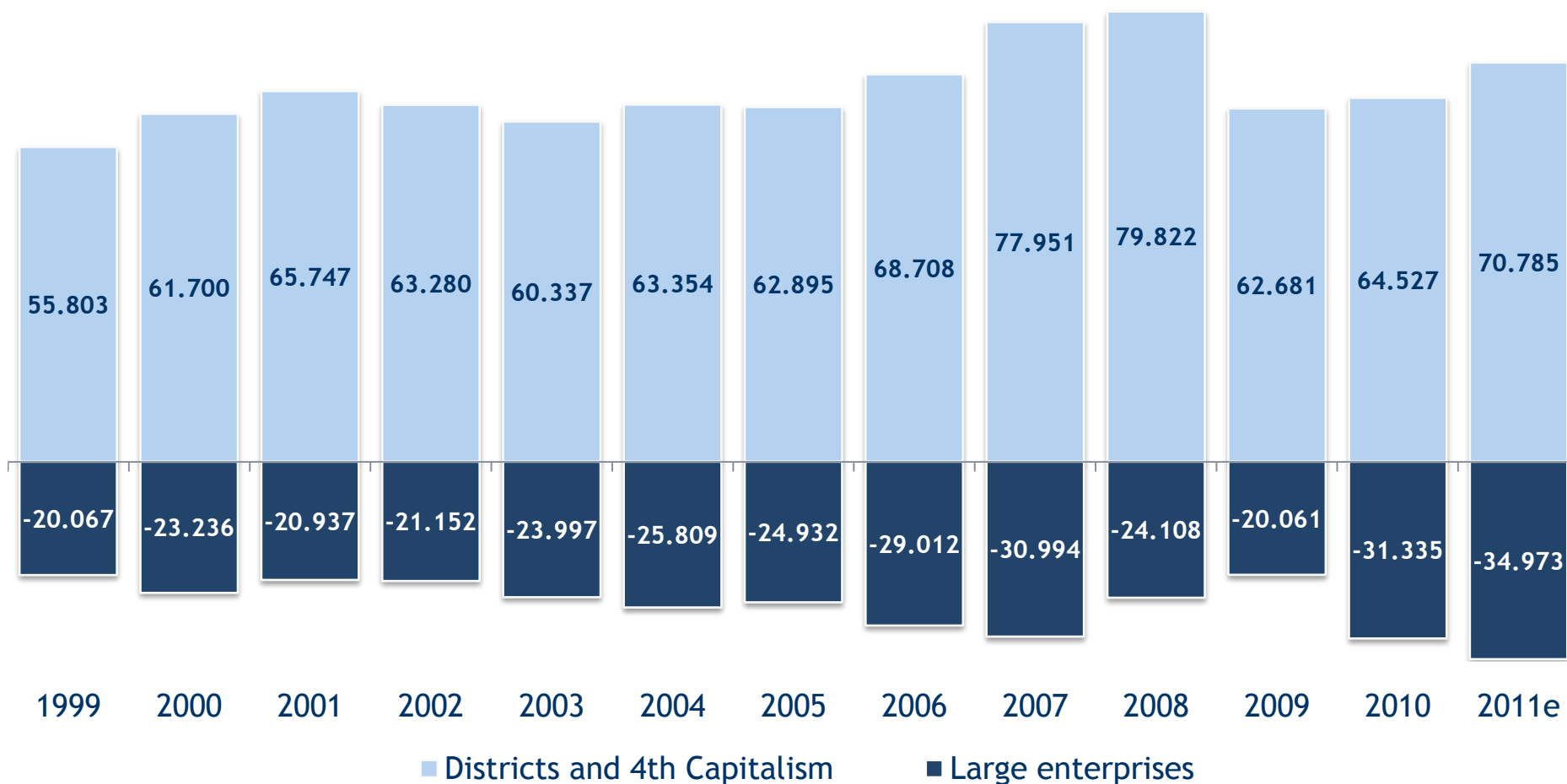
The importance of the fourth capitalism sector



Estimates based on data from Mediobanca and Unioncamere

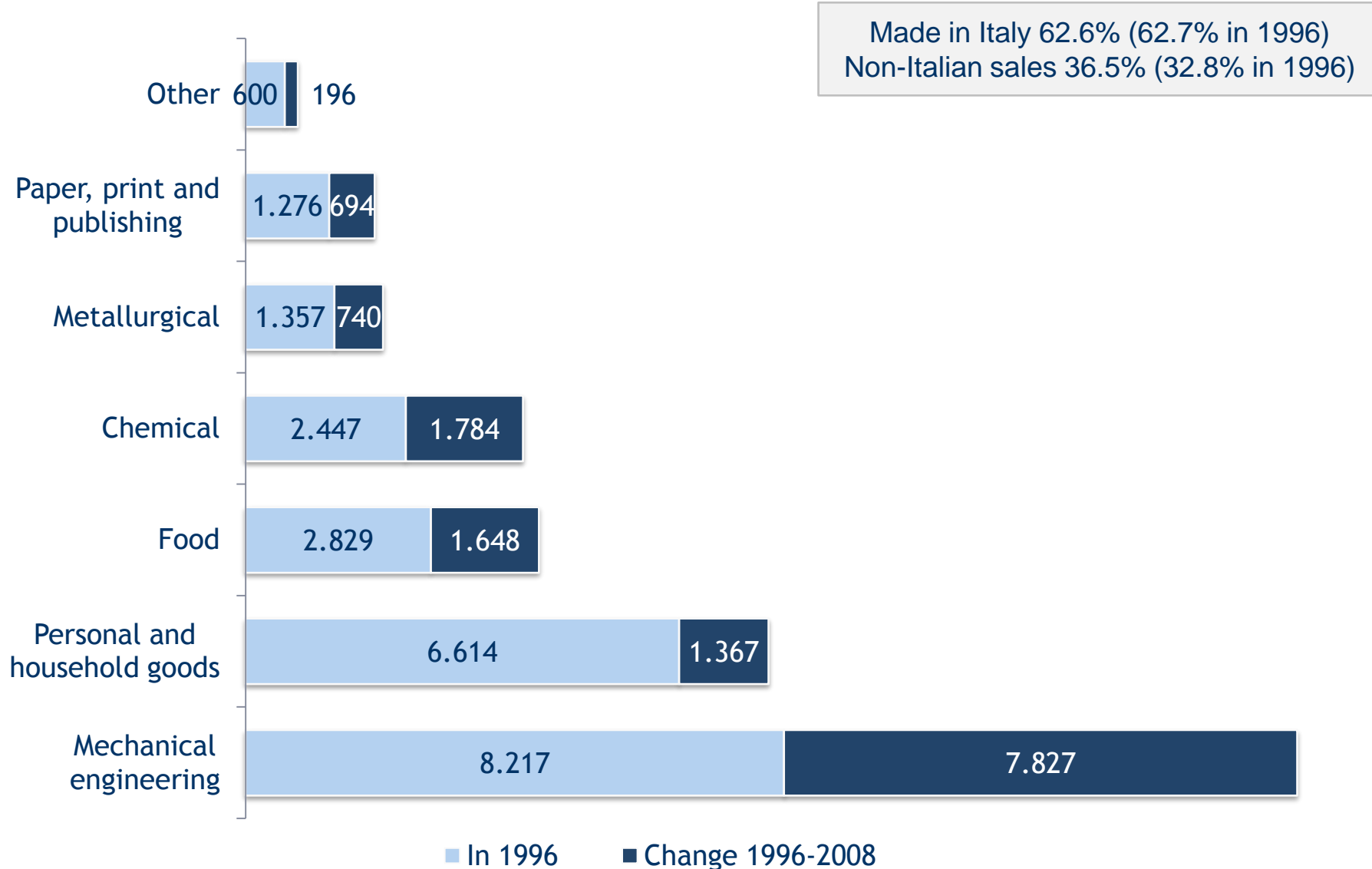
Engine of growth: export-import balances

Manufacturing- €m



Based on Istat figures (coke and refineries products excluded)

Changing product mix



How small is the niche?



- ◆ Ultraflex. 65 employees: world leader in shipping components, 200,000 items per year



- ◆ Grafica Veneta. 180 employees: 100 million books per year



- ◆ Tesmec. 350 employees: electric lines and digging machinery in over 100 countries



- ◆ Albini Group. 1,370 employees: made in Italy. 5,000 new variants of fabric each season



- ◆ Elica. 2,800 employees: 17 million extractor fans and engines per year

MSEs in Europe



Firm size: classifications to be changed

	France	Germany	Italy	Spain	UK
Number of firms	218,500	195,438	459,728	191,972	128,467
Micro (0-9)	188,500	119,418	373,932	155,699	96,912
Small (10-49)	23,000	55,131	74,647	30,468	23,275
Medium-sized I tranche (50-249)	5,600	16,720	9,753	4,937	6,699
Medium-sized II tr. + large (>249)	1,400	4,170	1,396	868	1,531
Employees ('000)	2,976	7,103	4,407	2,094	2,581
Micro (0-9)	850	467	1,055	407	277
Small (10-49)	680	1,094	1,405	623	536
Medium-sized I tranche (50-249)	840	1,773	944	485	671
Medium-sized II tr. + large (>249)	600	3,768	1,003	579	1,096

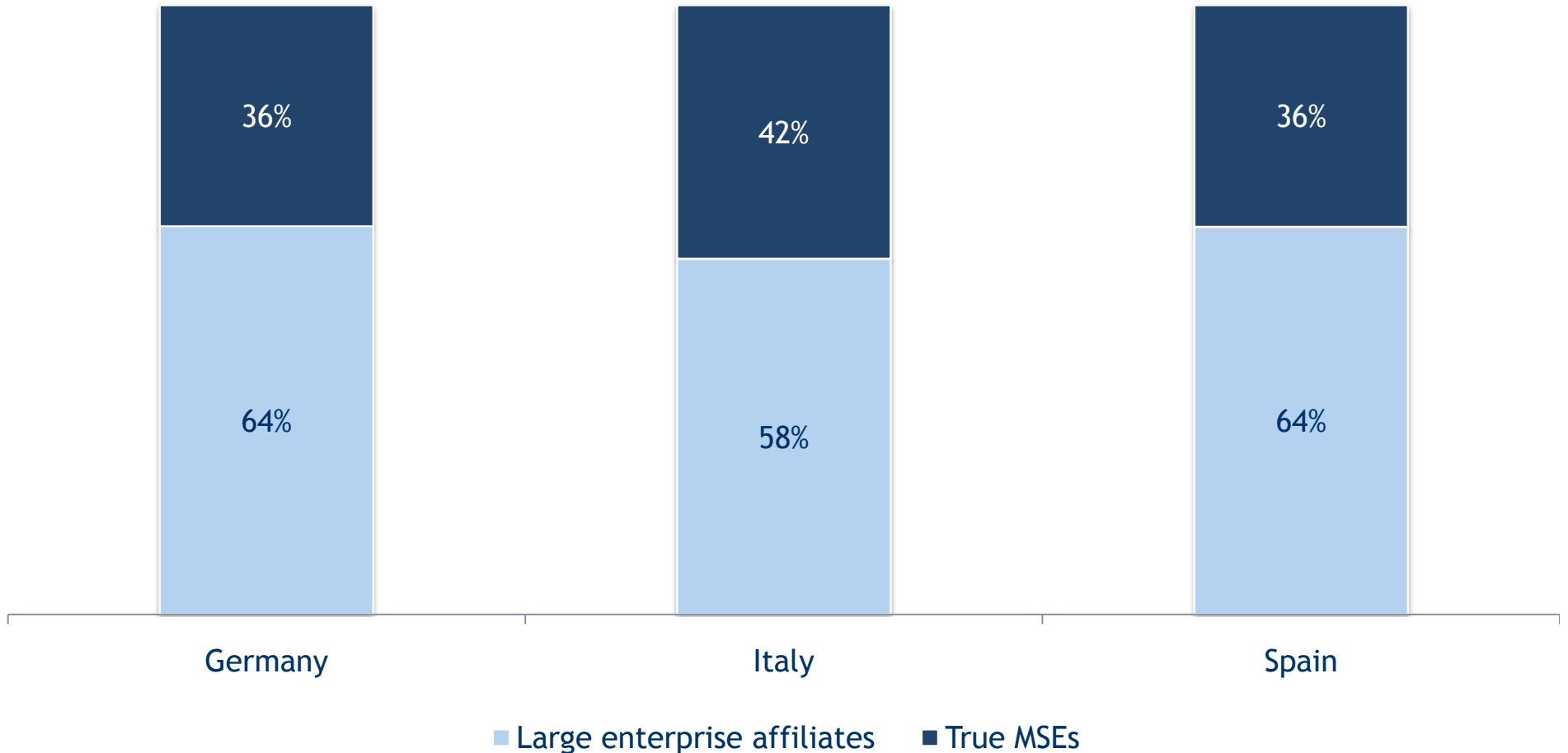
Based on Eurostat figures

Manufacturing- situation at 2008/2009 -French figures for classes of firms are our estimates



How many are true MSEs?

Turnover €10-250m; 50-499 employees - Source: Confindustria-R&S-Unioncamere. *MSEs in Europe* (2010)



Confindustria R&S Unioncamere survey

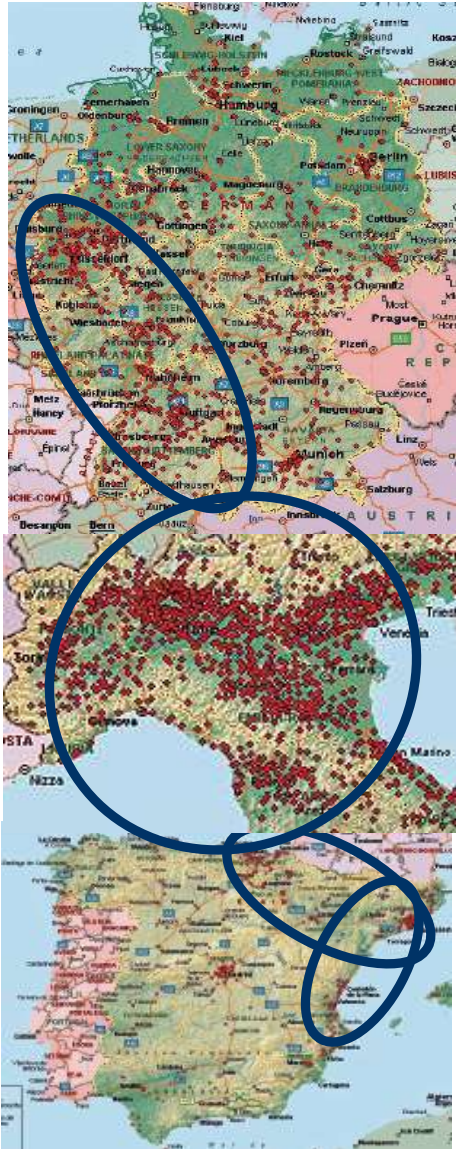
Germany, Italy and Spain

FY 2006



Medium-sized enterprises: a European phenomenon. but concentrated in developed areas - % of country totals; 2006

Medium-sized enterprises: a comparison between Germany, Italy and Spain



	Germany			
	North Rhine-Westphalia	Baden-Württemberg	Bavaria	Total
	West	South	South	
No. of firms	25.7	20.3	17.5	63.5
Employees	26.9	22.9	17.2	67.0
Value-added	28.1	22.9	16.7	67.7

	Italy			
	Lombardy	Veneto	Emilia-Romagna	Total
	Northwest	Northeast	Northeast	
No. of firms	30.4	18.4	13.8	62.6
Employees	30.0	17.8	14.6	62.4
Value-added	32.5	17.3	15.4	65.2

	Spain			
	Catalonia	Valencia	Basque Country	Total
	Northeast	East	North	
No. of firms	28.4	13.8	12.3	54.5
Employees	30.2	13.7	13.1	57.0
Value-added	30.4	13.4	14.5	58.3

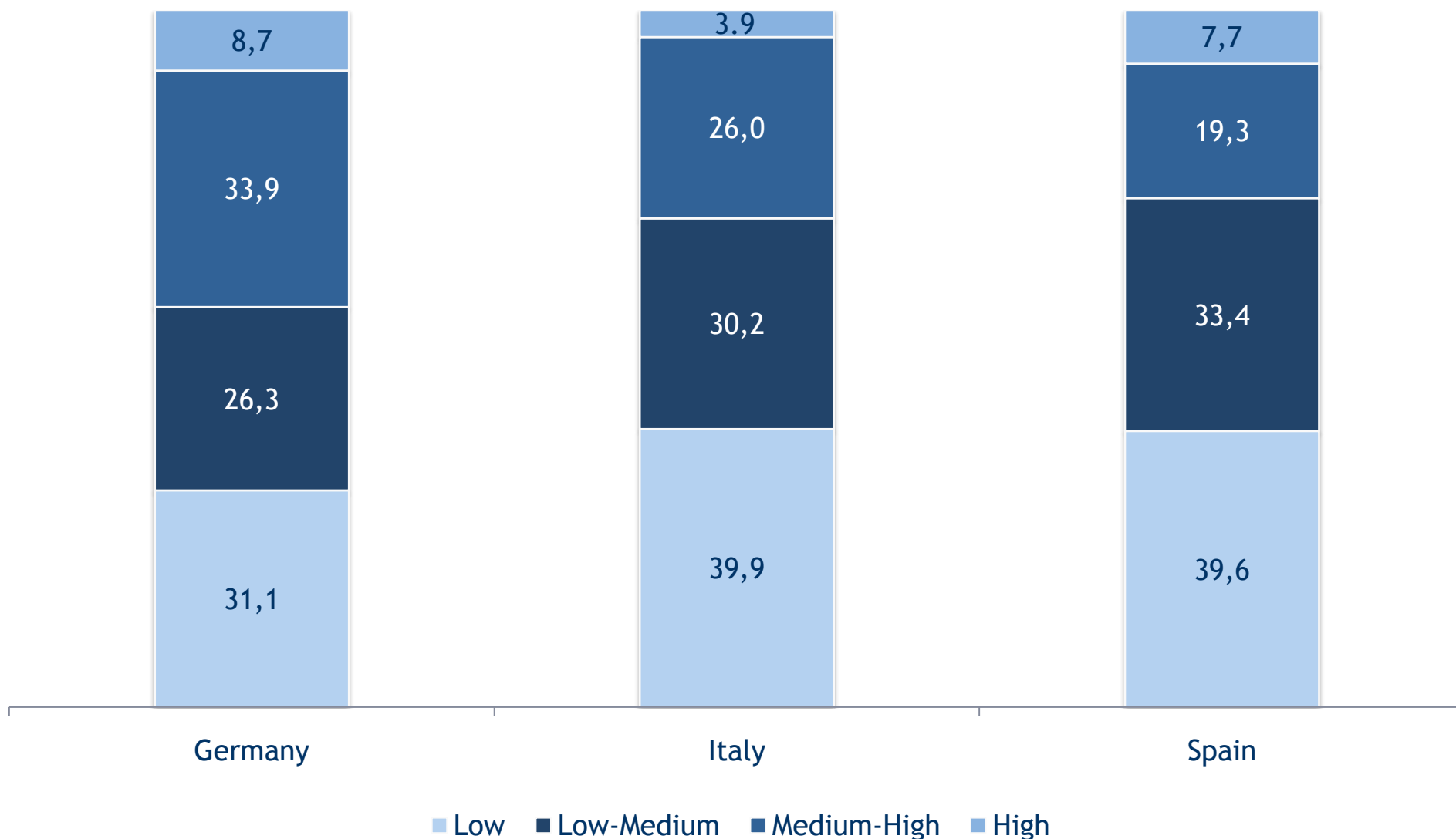
Medium-sized enterprises: the impact of localization

Medium-sized enterprises: a comparison between Germany, Italy and Spain

Section 8

(€'000)	Germany	Italy	Spain
Productivity (net value-added per employee)			
Large enterprise areas	63.8	52.6	44.8
Industrial district areas	-	52.8	45.4
Other areas	58.3	53.9	51.0
Labor cost per employee			
Large enterprise areas	50.4 (79%)	38.8 (74%)	33.9 (76%)
Industrial district areas	-	37.9 (72%)	33.3 (73%)
Other areas	46.0 (79%)	39.5 (73%)	34.6 (68%)

MSEs grouped by intensity of technology



Based on OECD method - Turnover

Medium-sized enterprises: productivity by size class

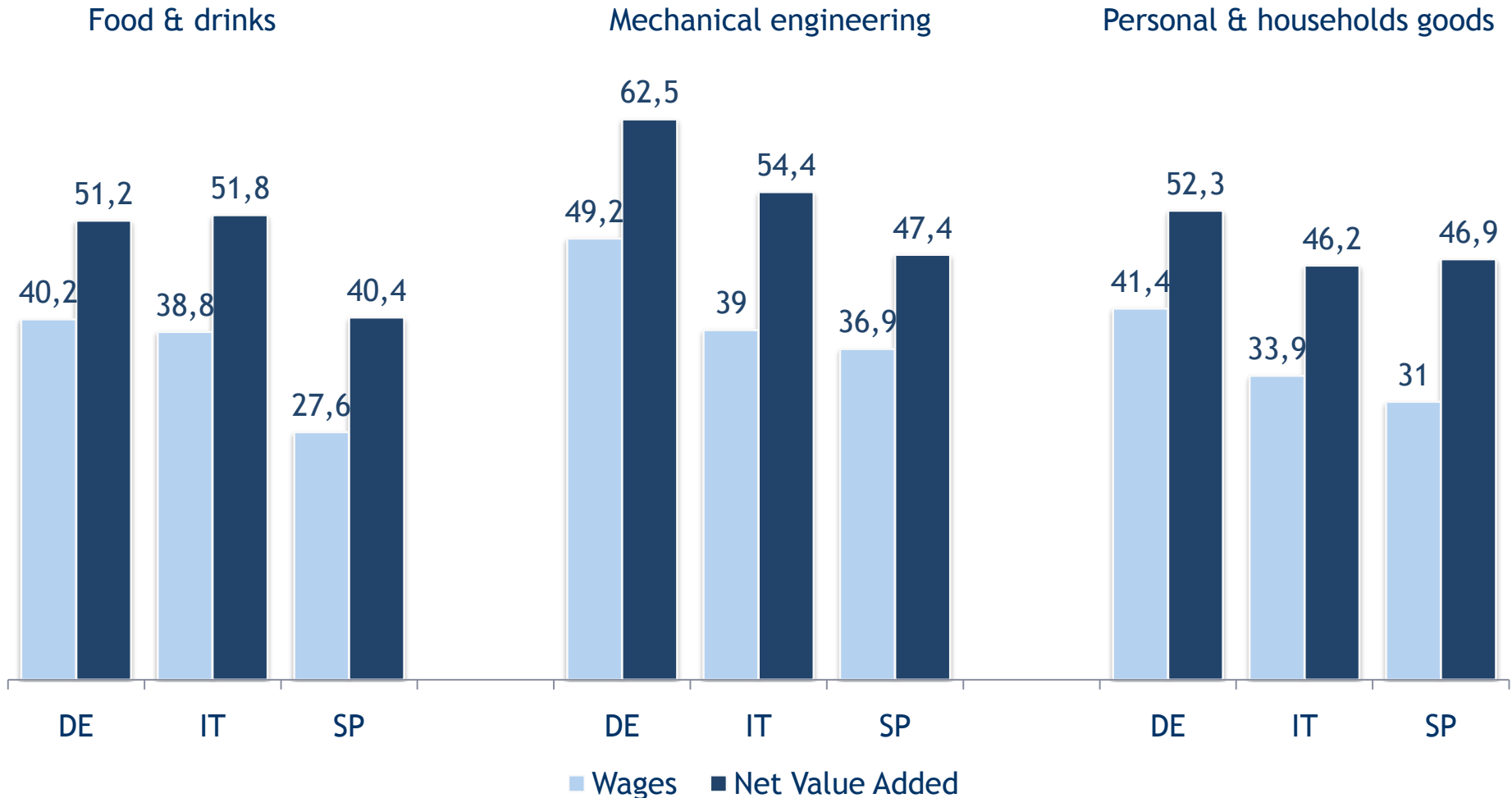
Medium-sized enterprises: a comparison between Germany, Italy and Spain

Section 8

(€'000)	Germany	Italy	Spain
Net value-added per employee	59.6	52.2	47.6
Employeesize classes			
50 - 99	72.6	55.2	54.0
100 - 249	61.6	51.4	47.5
250 - 499	58.2	51.0	44.8
500 - 749	57.5	-	-

Productivity and wages: €'000 per employee

Value added net of depreciation and amortization



Medium-sized enterprises: profitability by size class

Medium-sized enterprises: a comparison between Germany, Italy and Spain

%	Germany	Italy	Spain
Net operating margin as % of value-added	19.6	23.4	24.2
Employee size classes			
50 - 99	29.6	26.3	31.1
100 - 249	21.6	22.2	24.6
250 - 499	18.2	23.0	20.0
500 - 749	17.2	-	-

MSEs: profits and taxation

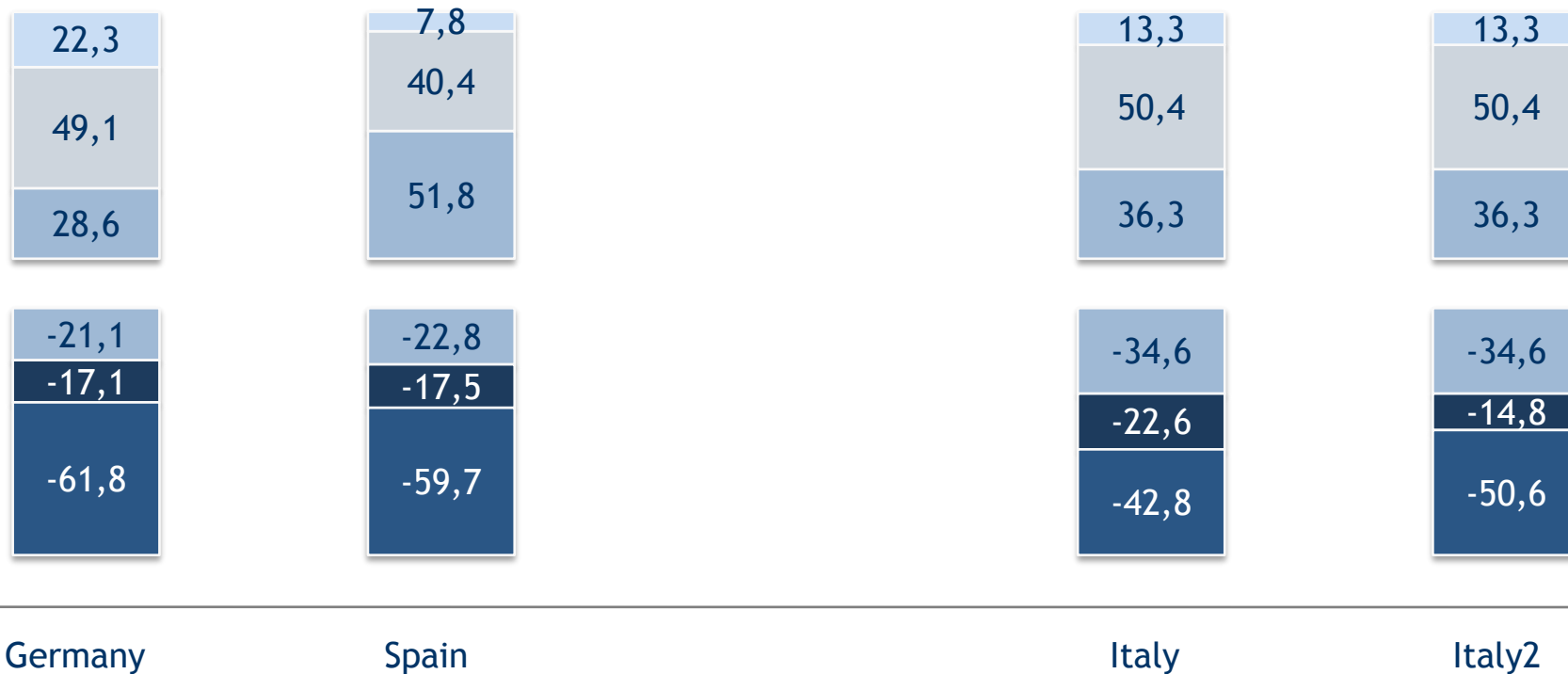
	Germany	Spain	Italy	Italy: major manufacturing groups
NOM as % of value added	19.6%	24.2%	23.4%	9.6%
Germany = 100	100.0	123.5	119.4	
ROE %	21.0	11.2	6.8	
Germany = 100	100.0	53.1	31.8	
<i>Tax rate</i>	25.8%	25.6%	48.3%	21.9%

Italian tax rate in 2010

- MSEs 35%
- Major groups 22%

NOM = net operating margin; ROE = Return on equity

Composition (as %) of tangible capital invested

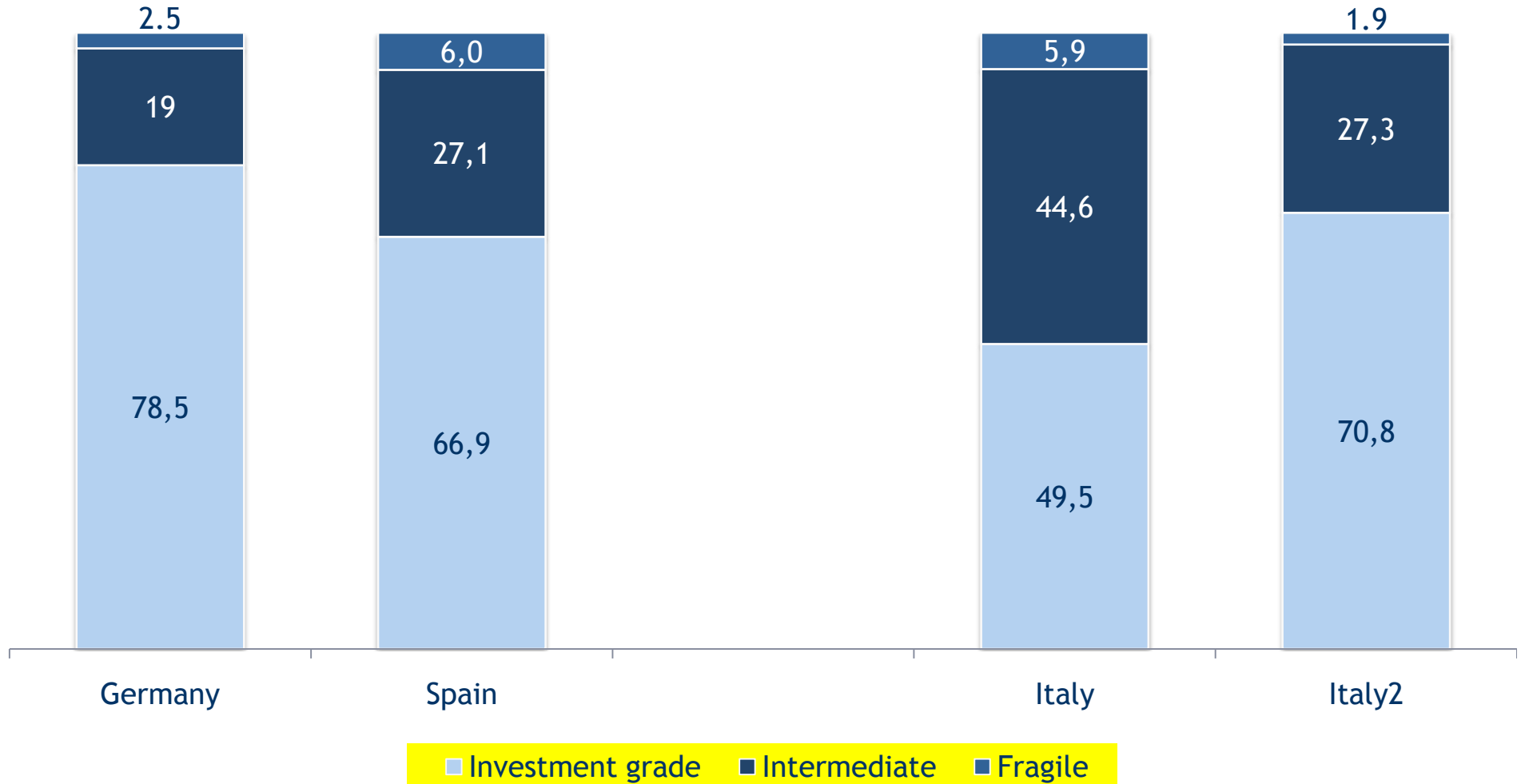


■ Cash ■ Working capital ■ Net fixed assets ■ Tangible net worth ■ MLT borrowings ■ ST borrowings

Italy2 = assuming excess tax for last 7 years vs LE assigned to capital

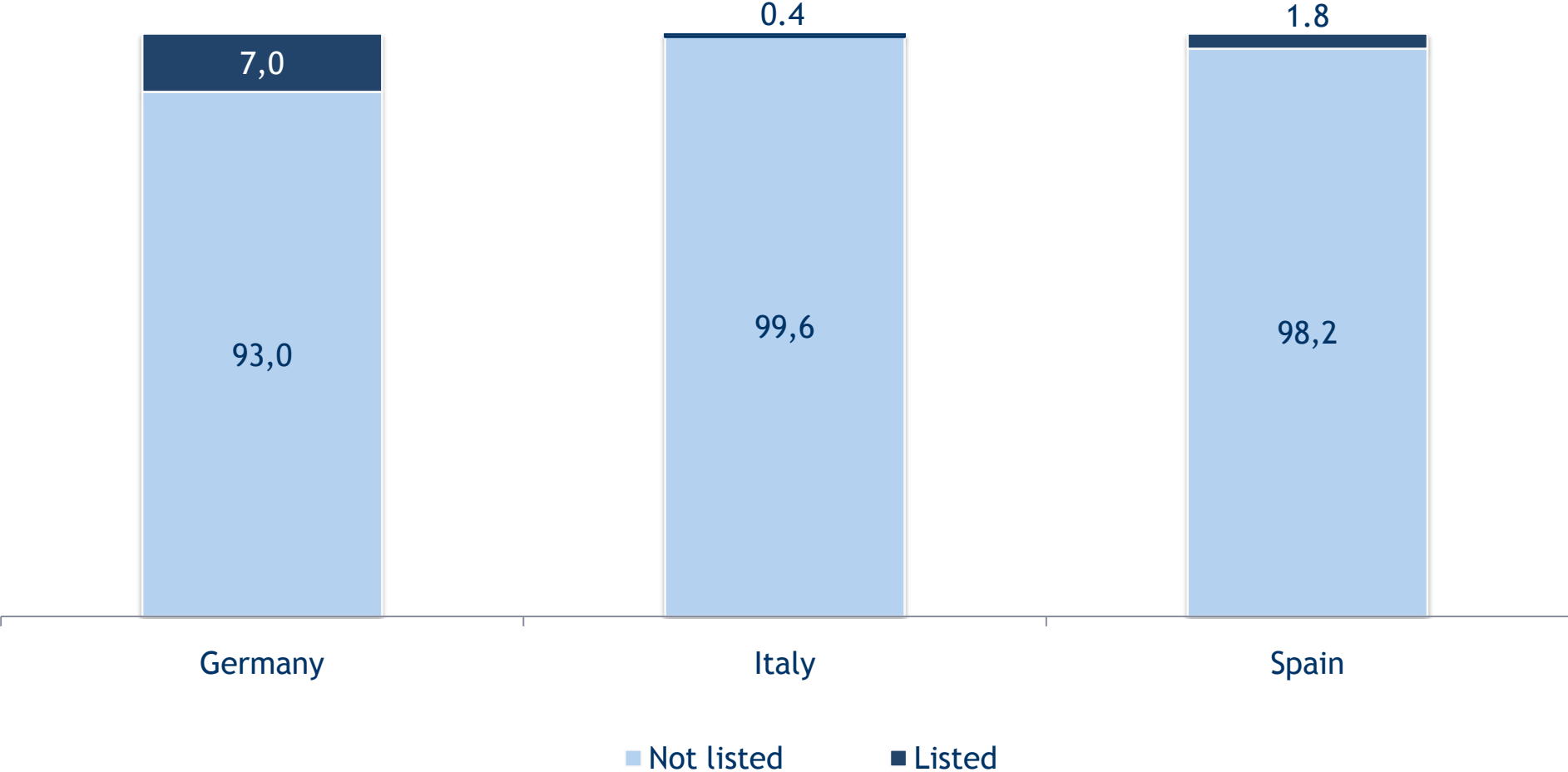
Rating

Based on R&S-Unioncamere scoring model - Italy2 = assuming excess tax for last 7 years vs LE assigned to capital



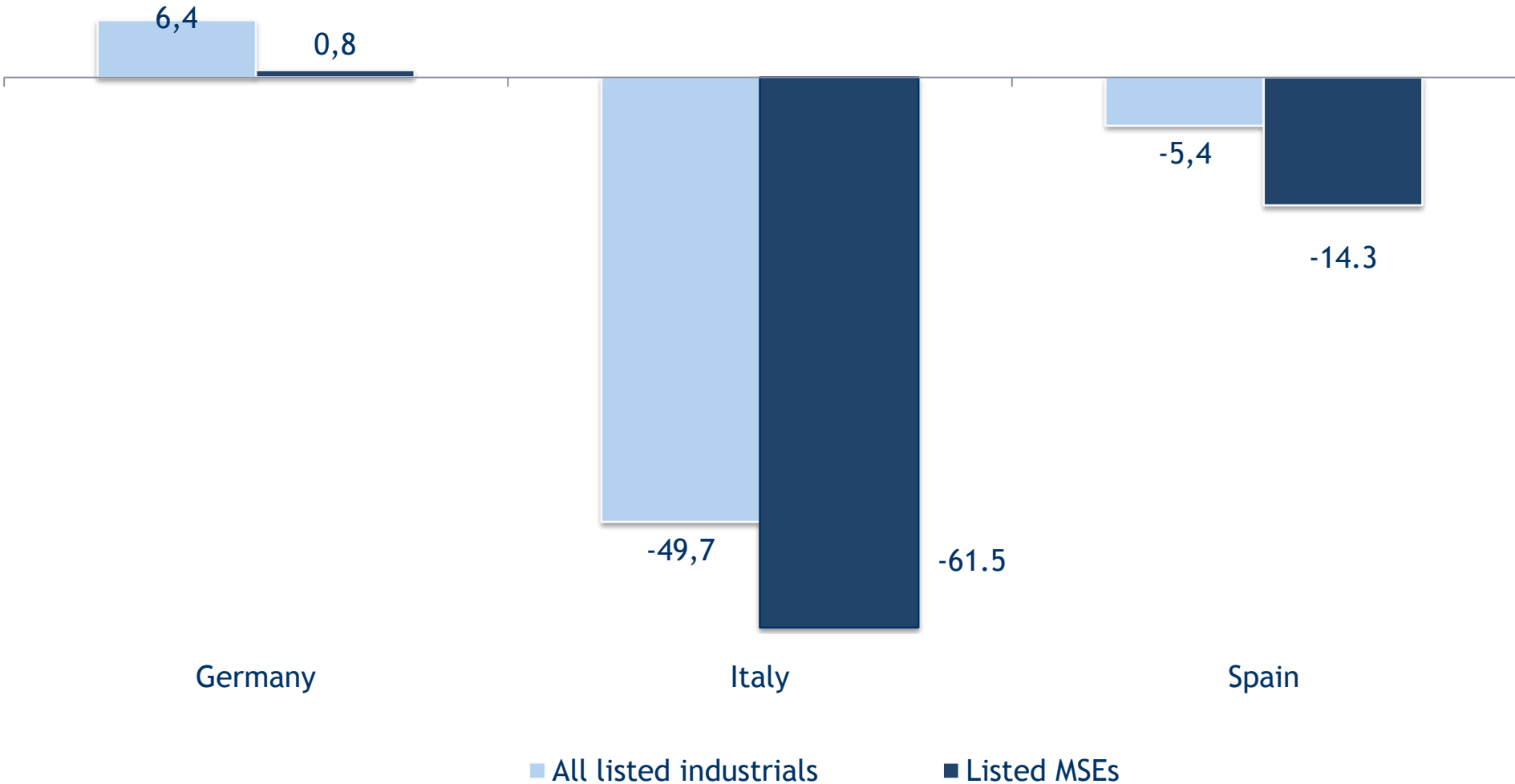
Stock market and MSEs

As % of all MSEs



Listed MSEs: yields

Return between 31/12/04 and 17/10/11



Italian fourth capitalism:

1

Shares “system” organization, financial robustness, market leadership and family-owned structure with German and Spanish firms. Close to large multinationals, mainly non-Italian ones.

2

“Life-long project” for those who undertake it (1:5 Italian families), rooted in local territory and relatively uninterested in financial wizardry. The stock market is the exception not the rule, but can be useful for overcoming discontinuities in the ownership structure or leveraging acquisition opportunities.

3

Has taken over the role of main growth driver from large enterprise. Generates benefits in local communities in which it is rooted, ensures innovation through continuous flow of “new” men (500 manufacturing companies per week), thus effectively supporting the production of new national wealth.

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