



## The Milan Fashion Cluster

Industry Clusters and  
Firm Competitiveness  
(6106)

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# Agenda



After World War II, Italy went through a period of social and economic stabilization, but now faces political and constitutional disruptions

## Italy – Country Overview<sup>1</sup>



### Country overview

- Language: Italian (in South Tyrol, German and Italian are official languages)
- Capital: Rome
- Population: 62 million
- Area: 294.140 square kilometers
- Political system: Republic (since 2<sup>nd</sup> June 1946)
- Currency: Euro (since 1<sup>st</sup> January 1999)
- Member of the European Union since 1957 (founding member)
- Religion: Christianity

### History and legacy

- Became a nation-state in 1861
- Era of parliamentary government abandoned in early 1920s (establishment of fascist dictatorship); alliance with Germany led to defeat in World War II
- Democratic republic replaced monarchy in 1946, followed by economic revival
- Member of NATO and European Economic Community (EEC)
- Frontrunner of European economic and political unification, joining the Economic and Monetary Union in 1999
- Traditional heritage of Italian craftsmanship in fashion and design

### Italy and Milan



- Location in South-Western Europe
- Close Proximity to Europe's economic powerhouses (e.g. Germany & France)
- Favorable access to the Mediterranean Sea

### Latest developments

- Persistent problems include: sluggish economic growth, high youth and female unemployment, North-South differences, organized crime and corruption
- The referendum on 4<sup>th</sup> December 2016 to reform the Italian Constitution resulted in the resignation of the Prime Minister, thus increasing political instability<sup>2</sup>
- Job insecurities and low incomes leading to low birth rates (1.39 children on av.)
- Immigration: Southern Italian island Lampedusa as main point of entry for refugees arriving by sea, leading to large-scale refugee camps in Southern Italy

Italy is characterized by low political effectiveness, a high degree of corruption, and great socio-economic differences between the North and the South

## Italy – Framework Conditions



### Political effectiveness

- Ranked last in Euro Area in 2015 World Bank political effectiveness ranking (index: 0,4)<sup>1</sup>
- Bad perception of public services, civil service independence from politics, & government credibility
- Inefficient legal framework in settling disputes and transparency of government policy making (ranked 143<sup>rd</sup> worldwide by World Economic Forum)<sup>2</sup>
- One of the highest number of major tax evaders in Europe with tax evasion accounting for 7.5% of GDP<sup>3</sup>



### Technological advancement

- Bureaucracy and difficult access to funding for start-ups have caused the small firms' innovation creation to lag far behind other major European countries
- Only 51% of all Italians have a broadband subscription, compared with the European average of 71%<sup>2</sup>
- Italian government not getting involved in procurement of advanced technology, limiting the technological development in the public sector (e.g. data storage and handling)



### Standard of living

- Ranked 27<sup>th</sup> in Human Development Index (0.873)<sup>2</sup>
- Life expectancy of 83,1 years (above EU average)<sup>2</sup>
- Public expenditure on education 4.3% of GDP with average of 16 years of schooling<sup>2</sup>
- Country divided into two parts:<sup>4</sup>
  - Highly industrialized and developed North, dominated by private firms, approx. producing 75% of the nations wealth
  - Underdeveloped and subsidized agricultural South



### Environmental awareness

- One of the largest stores of biodiversity, accounting for half the plant species and a third of the animal species in Europe
- 0,9% of world's Co<sub>2</sub> emissions, 5,5 tons per capita<sup>8</sup>
- Separate collection of different waste streams is recognized as essential for the effective recycling of the different components of municipal waste
- Issues of ineffective and irregular public waste management, especially in Southern Italy



### Social development measures

- Consistently ranked as most corrupted country in Eurozone, estimated to cost 4% of GDP<sup>5</sup>
- Role of women: despite full legal rights under law, women face considerable social discrimination (on average earning 23% less than men)<sup>6</sup>
- Complex unemployment benefits system (differences in eligibility requirements and treatment duration)
- Social protection system fragmented and skewed towards pensioners, burdening younger generations<sup>7</sup>



### Rule of the law

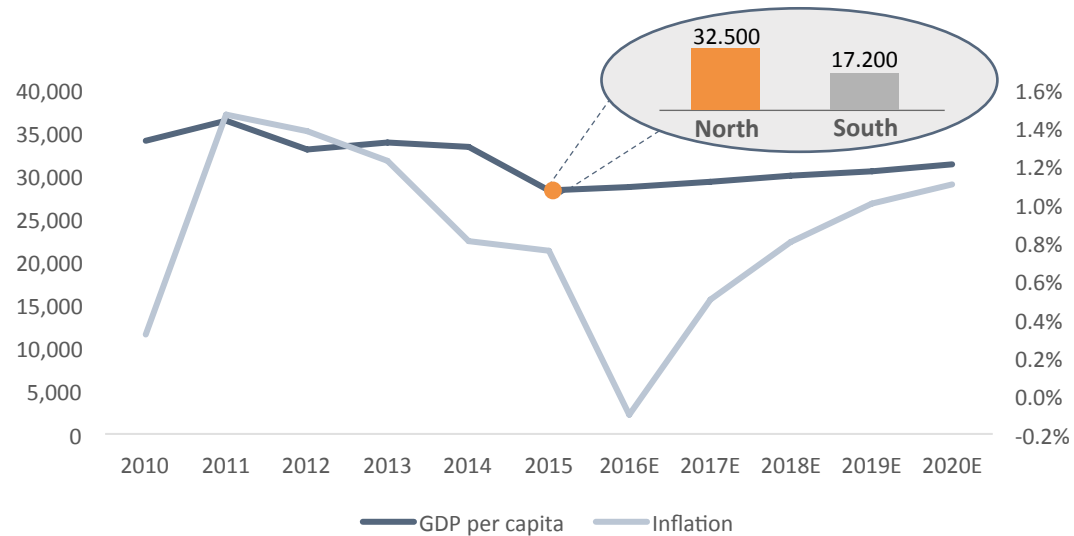
- Ranked 78<sup>th</sup> place in terms of Judicial independence; political effort to ensure judiciary is not independent<sup>2</sup>
- Common practice of irregular payments and bribes
- 135<sup>th</sup> place in terms of favoritism in decisions of government officials<sup>2</sup>
- Ranked 132<sup>nd</sup> in terms of organized crime (especially Southern Italy)<sup>2</sup>

The Italian economy has been severely hit by the financial crisis and high unemployment rates in the South paralyze economic effectiveness

## Italy – Macroeconomic Conditions

### GDP per capita and inflation

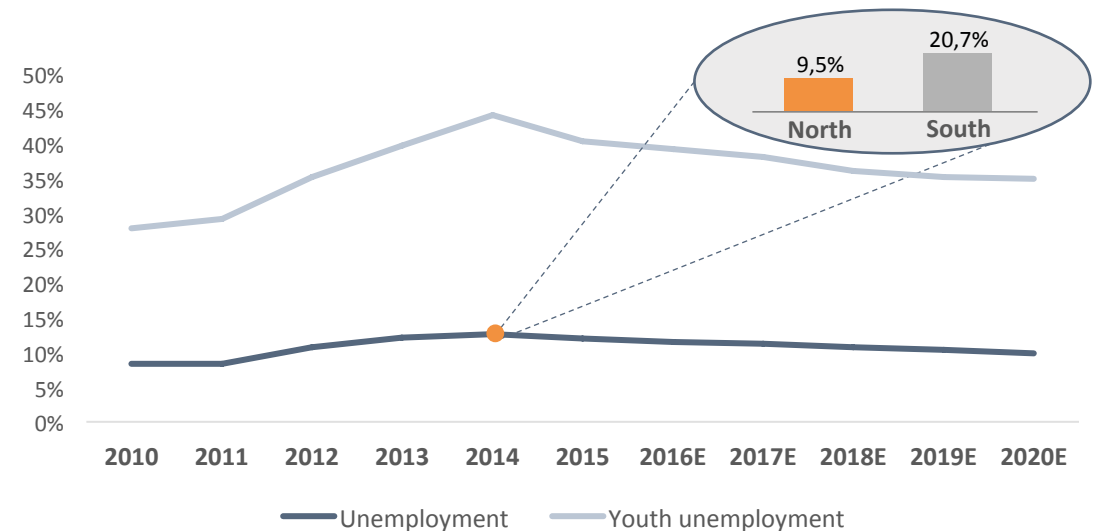
Italian GDP per capita<sup>1</sup> in EUR and Inflation<sup>2</sup> in percent (expected figures from 2016-2020)<sup>3</sup>



- Italian economic performance heavily hit by the financial crisis
- Significant North-South divide in GDP per capita (85% difference)
- Inflation development within European Central Bank targets (0% - 2%)

### Unemployment

Italian unemployment<sup>4</sup> and youth unemployment<sup>5</sup> in percent (expected figures from 2016-2020)<sup>3</sup>










- Average unemployment rate stable at around 10%
- Unemployment rate much higher in South than in North (> 2x)
- Very high youth unemployment (40% in 2015 vs. 18% in EU on average<sup>2</sup>)

With the highest density of luxury firms in the world, a confusing tax system and unavailability of credit cause Italy to have the lowest ease of doing business compared with competing host countries

### Italy – Microeconomic Competitiveness (1/3)

#### Overview of the major host countries for luxury firms

Home countries of worldwide largest 100 luxury companies as per 2013 revenues<sup>1</sup>

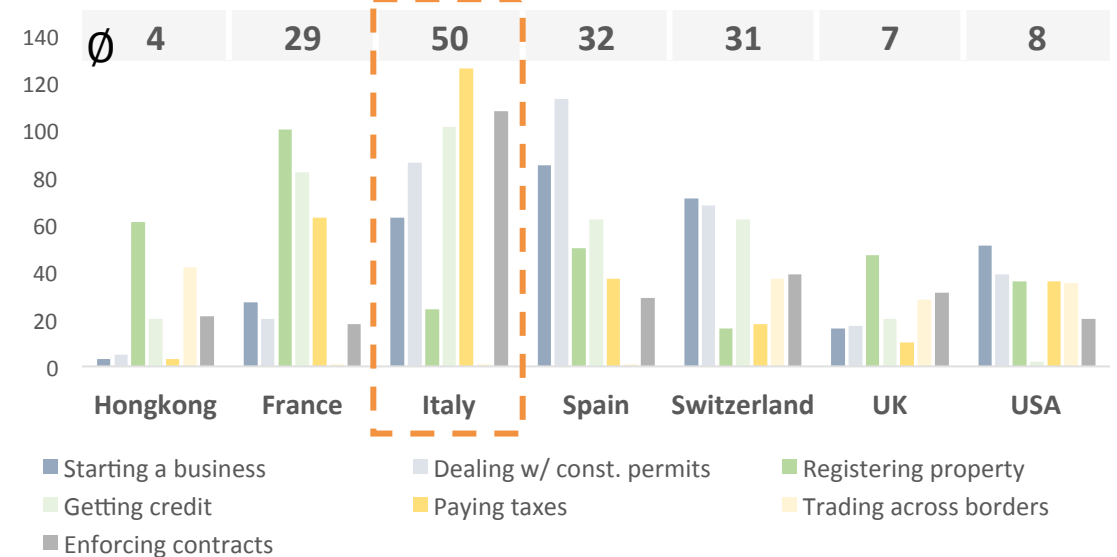
Country	Number of firms
 Hongkong	7
 France	11
 Italy	29
 Spain	5
 Switzerland	11
 UK	6
 USA	15

Luxury firms used as proxy to represent fashion industry

- 84 of largest 100 luxury firms located in 7 countries
- Italy with the largest share of luxury companies
- National competitiveness has to be compared with the 6 biggest competing host nations for luxury firms

#### Ease of doing business for countries hosting fashion firms

Ranking of economies on the ease of starting and operating local firms, from 1 (easy) to 190 (uneasy)<sup>2</sup>



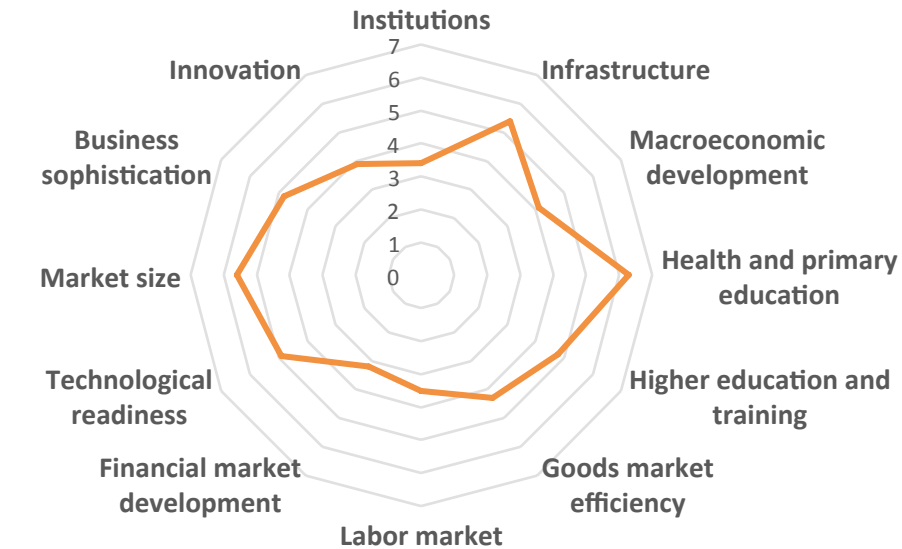
- Italy lacking behind countries with competing fashion firms
- Very high perceived difficulties in contact with public authorities, including paying taxes and enforcing contracts
- Limited availability of funding for firms

While Italian education is advanced, efficiency in leveraging the available labor force is low

## Italy – Microeconomic Competitiveness (2/3)

### Italian competitiveness

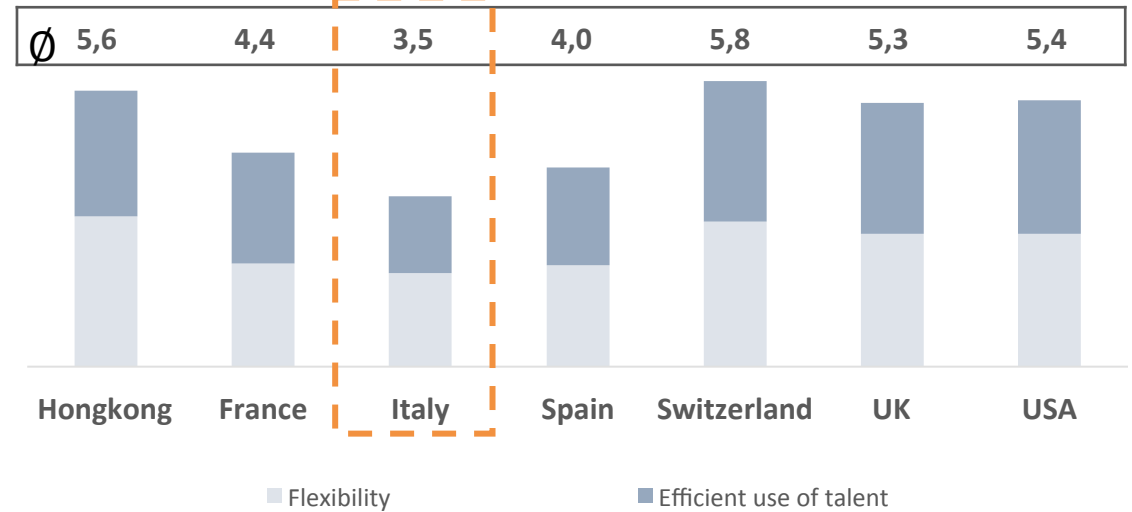
Indication of national competitiveness, from 1 (non-competitive) to 7 (competitive)<sup>1</sup>



- Advanced education system, especially regarding primary education
- Fairly advanced infrastructure
- Underdeveloped financial markets

### Labor market efficiency

Labor market efficiency, from 1 (non-competitive) to 7 (competitive)<sup>1</sup>



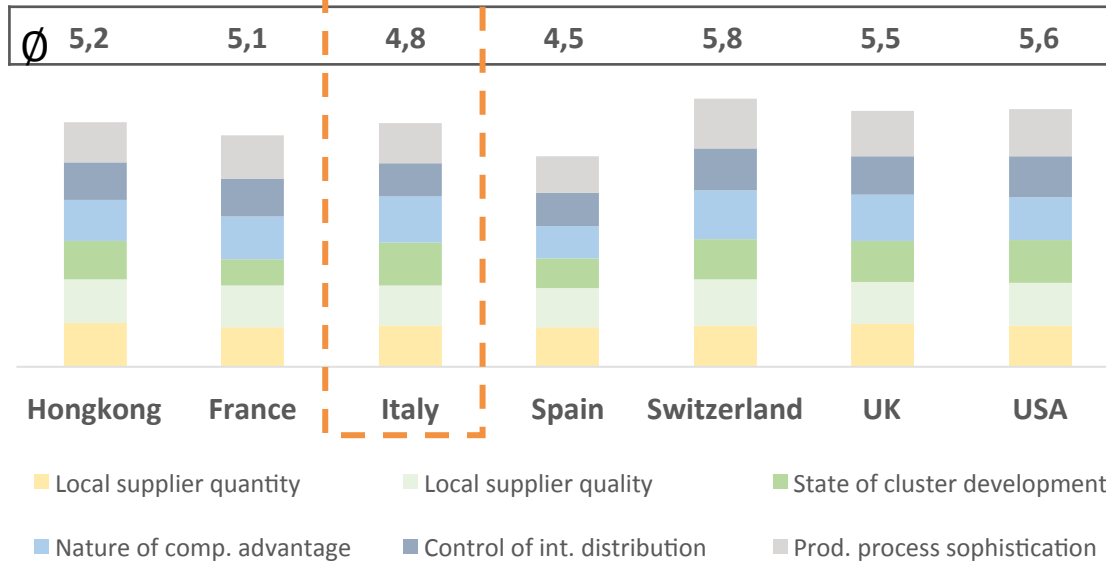
- Difficulties to match labor supply and demand, resulting in low efficiency
- Particularly low rating (3,1) for “Efficient use of talent”
- Labor often available, but unused by firms (due to unawareness of availability)

Italian firms are internationally competitive, but miss innovation opportunities as they lack collaboration with research and fail to apply engineers' expertise

### Italy – Microeconomic Competitiveness (3/3)

#### Business sophistication

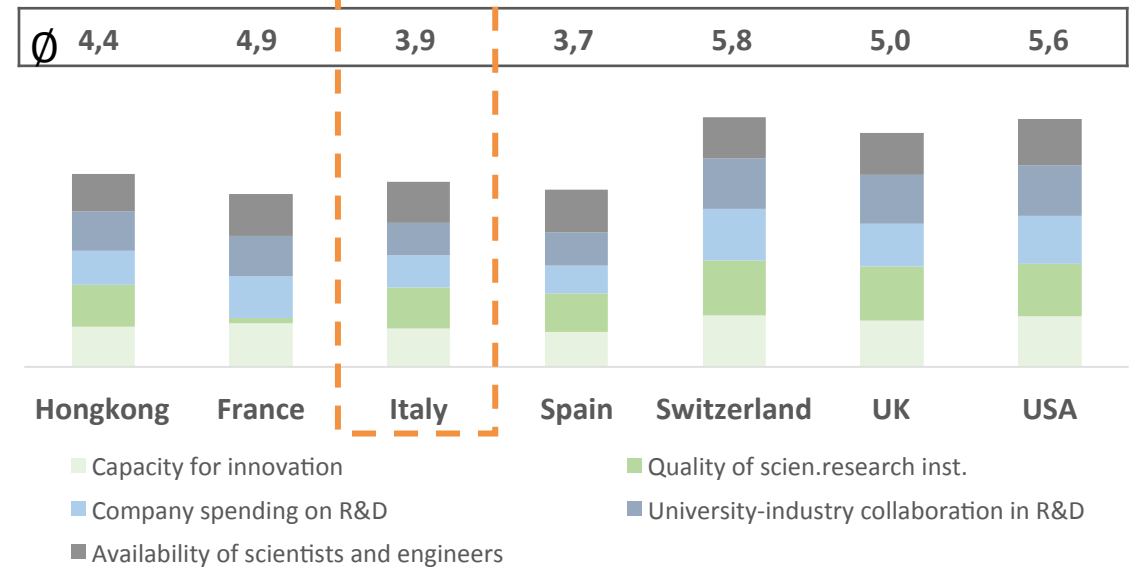
Business sophistication, from 1 (non-competitive) to 7 (competitive)<sup>1</sup>



- Fairly high business sophistication, resulting from the high nature of competitive advantage (6,0)
- Highest state of cluster development (5,5, on par with USA)
- Good quality and quantity of local suppliers (both 5,3)

#### Innovation

Innovation, from 1 (non-competitive) to 7 (competitive)<sup>1</sup>

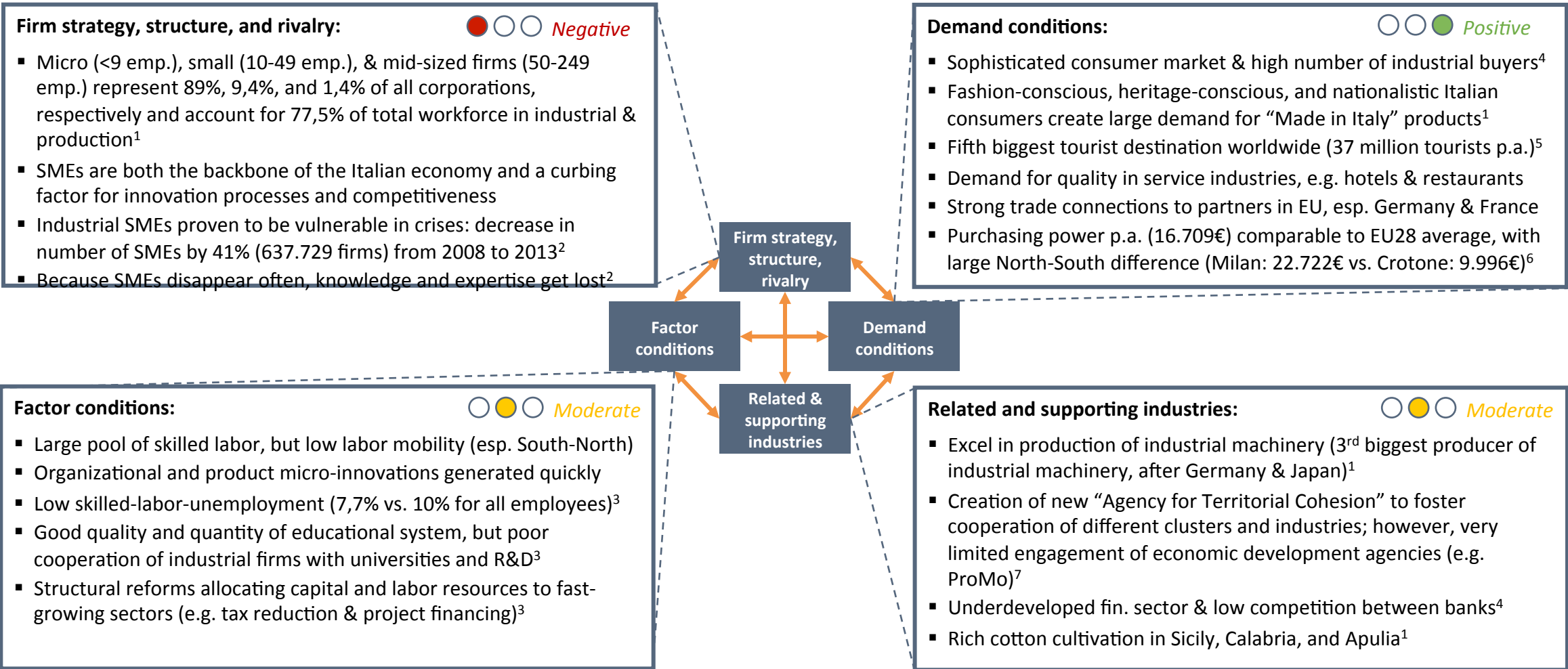


- Italian firms with second lowest score for innovation capabilities (3,9, only Spain was a worse score of 3,7)
- Bad university-industry collaboration in R&D (3,7)
- Fair availability of engineers (4,8), yet low company spending on R&D (3,8)



Italy's competitiveness is moderate due to SME's failure to innovate and low labor mobility, whereas demand conditions are favorable and supporting industries are strong

**Italy – National Diamond Model**



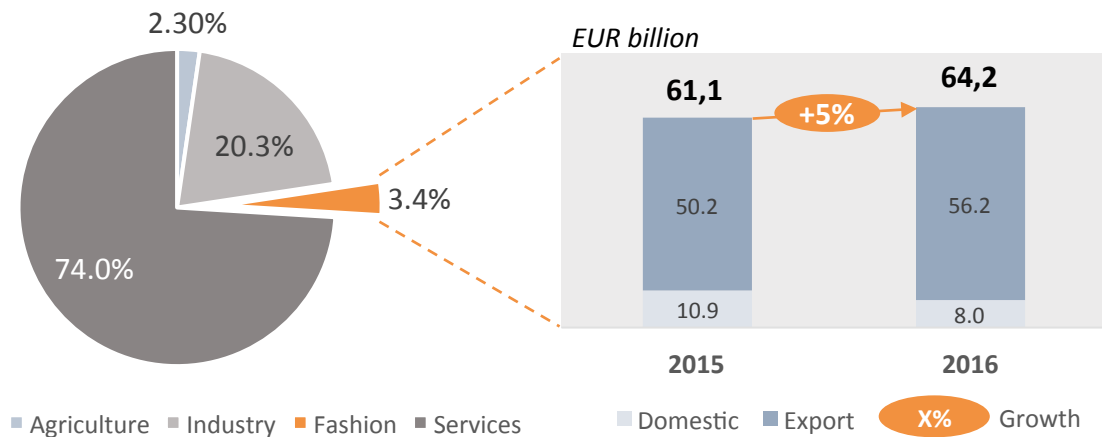
The fashion industry plays an important role in Italy and outperforms the Italian economy, while the Italian fashion is mainly composed of smaller firms

## Italy – Role of the Fashion Industry

### The fashion industry as share of the 2015 Italy GDP

2015 Italy GDP divided by sector<sup>1</sup> and development of fashion industry sales<sup>2</sup>

2015 1,815 EUR billion (2% growth)



- Fashion industry sales growth outperforming overall GDP growth (5% vs. 2% from 2015 to 2016)
- Export (82%) dominating over import (18%)
- Domestic fashion sales shrinking by 27% (10,9 EUR billion to 8 EUR billion)

### Global role of Italian fashion firms

Origin of global top 100 fashion companies (per 2013 sales)<sup>3</sup>

Country	Number of companies	Average luxury goods (mEUR)	Share of top 100 companies	Share of top 100 sales
China/HK	7	3.251	7%	11%
France	11	4.247	11%	23%
Italy	29	1.150	29%	17%
Spain	5	599	5%	2%
Switzerland	11	2.712	11%	15%
UK	6	922	6%	3%
USA	15	2.755	15%	21%
Other	16	1.193	16%	10%
<b>Top 100</b>	<b>100</b>	<b>2.017</b>	<b>100%</b>	<b>100%</b>

Thereof 21/29 fashion firms

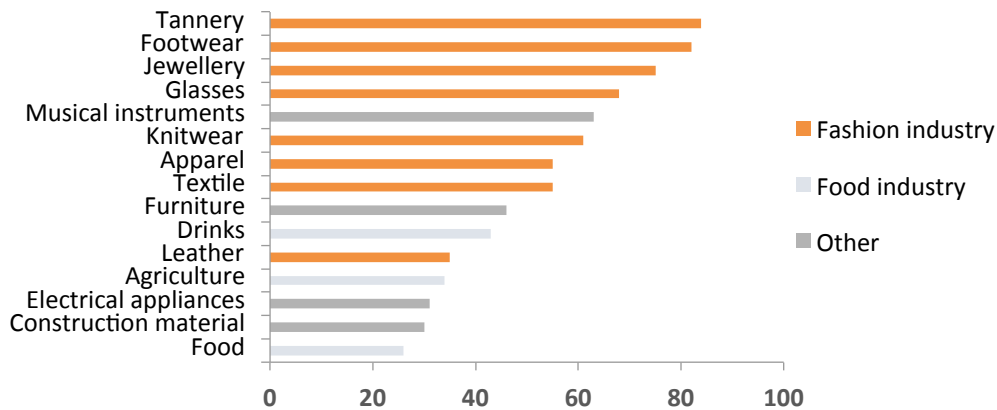
- Italy with the highest number of global fashion companies (29/100)
- Yet, Italian companies only account for 17% of the Top 100's revenues
- Italian SMEs appear in the Top 100 ranking, yet do not count to the largest players measured in sales (only 2 Italian companies in Top 20)

# Italian fashion firms located in clusters outperform non-cluster firms and perform as well as international competitors

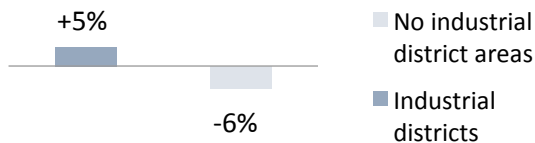
## Italy – Fashion Industry and International Performance

### Italian clusters\*

Percentage of firms grouped in industrial districts in Italy, according to industrial districts<sup>1</sup>



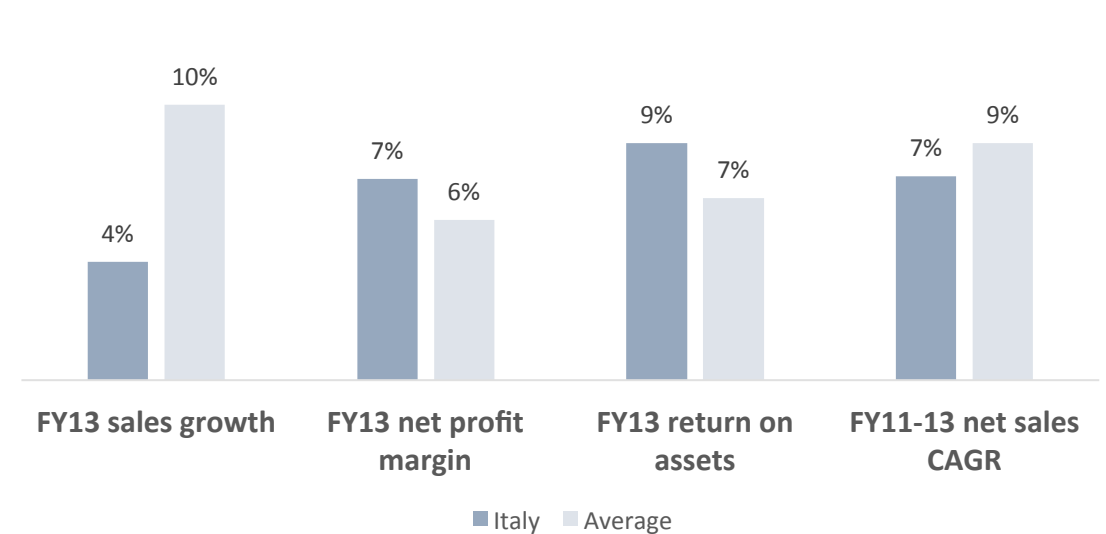
Percentage change in turnover from 2008 to 2014 in the Italian fashion industry<sup>1</sup>



- Firms in fashion industry are more likely to be grouped in clusters
- Firms that are part of a cluster on average perform better than the ones that are not part of a cluster
- Majority of firms located in Milan and Florence clusters

### Performance Italian vs. average fashion firms

Performance of Italian vs. all other firms in Top 100 largest luxury firms ranking<sup>2</sup>

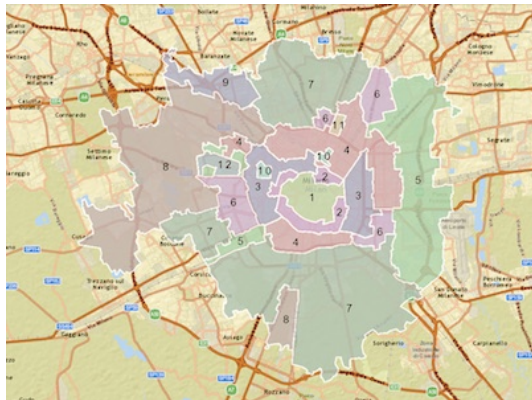


- Italian fashion firms grow at lower rates than their global competitors
- However, Italian firms show very positive development of profit margins (7%) and have a high asset utilization (9% ROA)
- Thus, Italian firms perform on par with international competitors

Milan is the epicenter of the Italian fashion industry and fashion highly contributes to the city's total turnover, with technology and process innovations playing an important role

## Milan Fashion Cluster – Profile

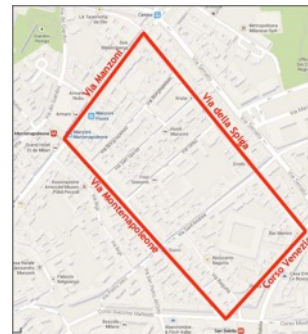
### Milan Fashion Cluster



- 13.000 fashion enterprises in Milan, thereof 6.000 in the metropolitan area<sup>1</sup>
- EUR 13 billion<sup>2</sup> average annual revenues coming from the Milan fashion industry (20% of Milan's GDP)<sup>3</sup>
- 25% of the Italian fashion exports came from Lombardy in 2015 (Milan's region)<sup>4</sup>
- Lombardy exported fashion products for EUR 11,8 billion in 2015, thereof EUR 5,6 billion from Milan<sup>4</sup>

### Milan Fashion District

- The “Quadrilatero della Moda”, or “Via Montenapoleone fashion district”, is located in the center of the city
- District characterized by presence of world's major fashion houses, represented by retail stores & boutiques
- Since 2009: annual edition of Vogue Fashion's Night Out in Milan is organized there<sup>5</sup>



### Products

- Diversified products offered by fashion cluster: apparel, footwear, bags, perfumes, watches, glasses, jewelry, and other accessories
- Main materials involved in production phase: fabric (cotton, wool, linen, silk, chemical fibers), leather, and fur<sup>6</sup>
- Milan historically famous for silk and cotton production<sup>7</sup>
- Italian manufacturers with long history of craftsmanship, with most raw materials being sourced locally<sup>7</sup>
- With globalization (lower labor cost in developing countries), some fashion houses started outsourcing production of some secondary lines<sup>8</sup>

### Technologies

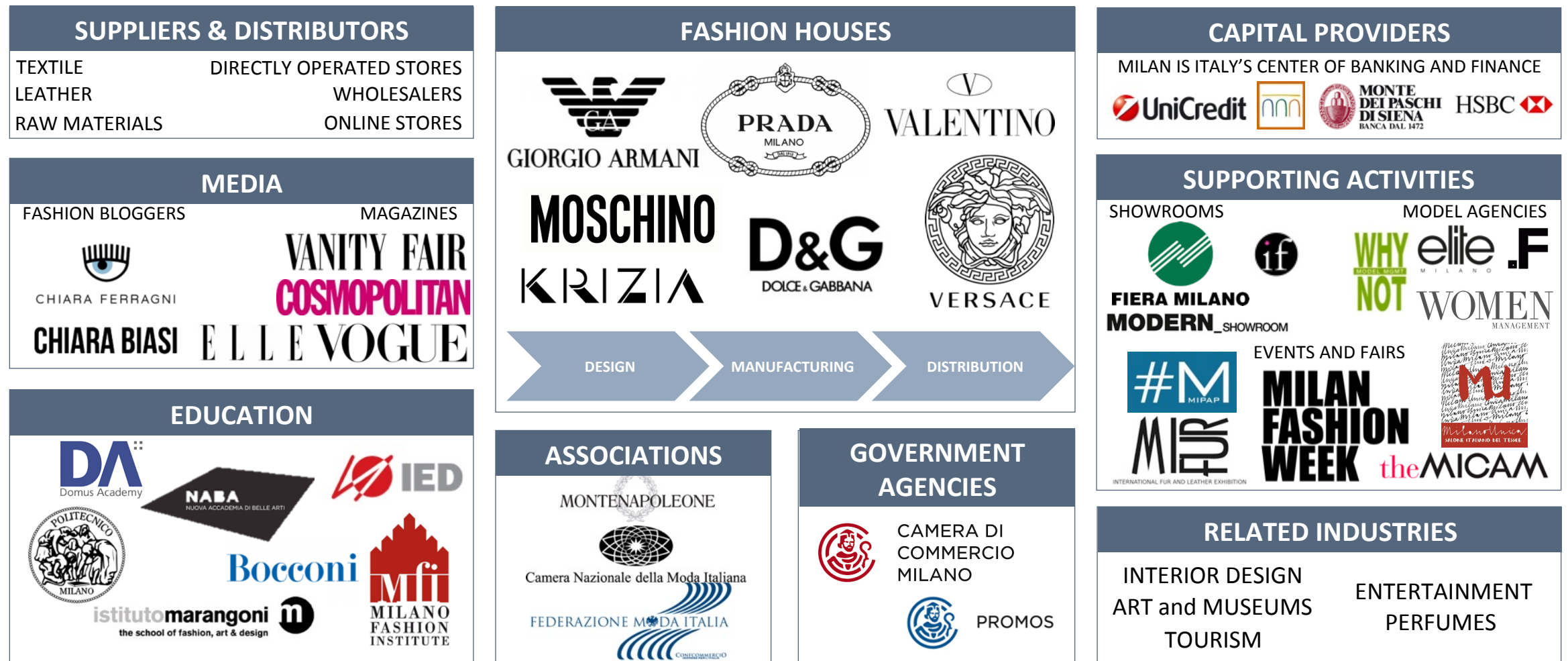
- Innovation: creation of new fabrics by combining different fibers to improve the current properties of materials and create new ones (e.g. microfiber, Gore-Tex)
- Production: advanced technology leads to economies of scale and scope and increased efficiency
- Distribution: e-commerce opened doors to new markets and increased ease of purchase, but Milan lacks behind in e-commerce compared to e.g. Paris
- Marketing: made easier by TV commercials and social networks

### Customers

- Fashion-conscious consumers with taste for luxury and high quality products
- Local and international demand, e.g. from wealthy Chinese tourists<sup>9</sup>

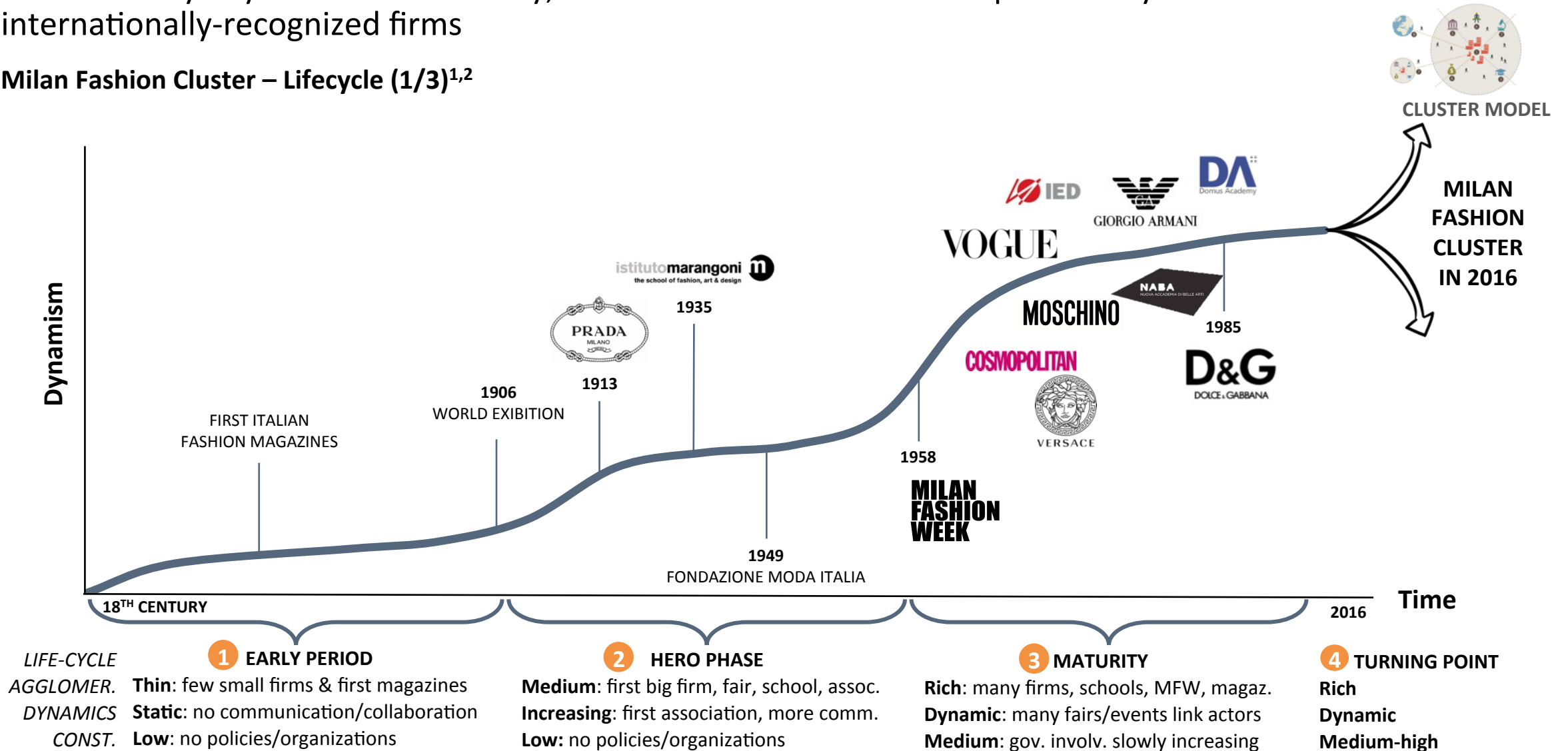
The Milan fashion industry is organized in a highly agglomerated cluster, which is the home of some of the world's largest fashion houses and supported by various other industries

### Milan Fashion Cluster – Map



Since its early days in the 18<sup>th</sup> century, the fashion cluster has developed to a dynamic host of internationally-recognized firms

Milan Fashion Cluster – Lifecycle (1/3)<sup>1,2</sup>



In the 19<sup>th</sup> century, Prada emerged as anchor firm, fashion institutions and organizations for collaboration established, and specialized fashion media set foot in Milan

## Milan Fashion Cluster – Lifecycle (2/3)

### EARLY PERIOD

1

#### Renaissance:

Milan was already among the leading Italian cities in the manufacturing of luxury goods and an European trendsetter, together with Florence and Venice

#### 18<sup>th</sup>-19<sup>th</sup> century:

- Birth of the first Italian fashion magazines:
  - Giornale delle Nuove Mode di Francia e d'Inghilterra (1786-1794, Milan)
  - Corriere delle Dame (1804-1874, Milan)<sup>1</sup>
- First major department store in the country, Alle Città D'Italia, to open in Milan (1865, later renamed to La Rinascente)<sup>2</sup>
- Second Industrial Revolution: Milan becomes one of the biggest industrial centers in Italy and attracts large amounts of capital

### HERO PHASE

2

- 1906: First fair ground opening in Milan, for the World Exhibition (Expo)
  - Later, part of it will be transformed into the Milan Fair (1920)<sup>3</sup>
- 1913: foundation of Prada (first haute couture fashion house opening in Milan)<sup>4</sup>
- After WWII: decline of Paris as haute couture leader, followed by emergence and growth of new clusters in other cities (NY, London, Milan, and Florence)
- 1935: Foundation of Istituto Marangoni, an important fashion academy<sup>5</sup>
- 1949: Federazione Moda Italia, an association representing the fashion industry, founded in Milan<sup>6</sup>
- Despite that, in the '50s and '60s, Florence was the capital of Italian fashion<sup>7</sup>

### MATURITY

3

#### Evolution of prêt-à-porter:

- 1950s: emergence of prêt-à-porter concept (ready-to-wear)
- 1958: National chamber of Italian Fashion founded in Milan, organizing the first edition of the Milan Fashion Week (MFW)<sup>8</sup> → First signs of internationalization
- 1965: Vogue Italia founded in Milan<sup>9</sup>
- 1966: Opening of IED, a new fashion and design institute<sup>10</sup>
- 1970s: Increased popularity of prêt-à-porter:<sup>7</sup>
  - Florence focused on haute couture (mainly formal and expensive designs)
  - Milan remained prêt-à-porter focused, allowing to offer glamour and simple, high quality, and elegant clothes at affordable prices
- Milan becomes new capital of Italian fashion and officially one of the “Big Four” global fashion capitals (together with Paris, London, and NY)

#### Increased agglomeration, dynamism, and internationalization:

- 1973: Cosmopolitan entered Italy and establishing its offices in Milan<sup>11</sup>
- 1975-1985: New fashion houses opened in Milan: Armani (1975)<sup>12</sup>, Versace (1978)<sup>13</sup>, Moschino (1983)<sup>14</sup>, Dolce & Gabbana (1985)<sup>15</sup>
- 1980s: Milan takes over the leading position of Paris in the prêt-à-porter<sup>7</sup>
  - Chamber of commerce started to provide services to SMEs (marketing, international support, finance), without addressing fashion industry in particular
  - New fashion academies open: Naba (1980)<sup>16</sup>, Domus Academy (1982)<sup>17</sup>
- 1990s: rise of fashion conglomerates → big fashion houses move from producing just clothes and accessories to shoes, perfumes, watches, etc.<sup>7</sup>

Having evolved as global fashion capital, the globalization of the 21<sup>st</sup> century started to bring new opportunities and challenges for Milan

## Milan Fashion Cluster – Lifecycle (3/3)

### TURNING POINT

4

#### 21<sup>st</sup> century:

- Early 2000s: Increasing number of projects and events promoted by the municipality and associations to help new firms emerge, increase communication between cluster actors, and improve Milan's international position
- 2005: foundation of Fashion Incubator, a project founded by the National Chamber of Italian Fashion and Milan municipality to develop emerging fashion houses (with an investment of EUR 800 million)<sup>1</sup>
- 2009: Global Language Monitor declares Milan the “world's fashion capital”<sup>2</sup>
- 2016 status quo:<sup>3</sup>
  - 13.000 fashion enterprises
  - 14 fashion fairs
  - More than 900 showrooms
  - 15 fashion institutes

#### New challenges with globalization:

- Rising globalization affects the fashion industry & Milan's role as fashion capital:
  - Cheaper labor available in Asia, with big Italian fashion houses famous for “Made in Italy” (e.g. Armani) outsourcing part of production to outside Italy<sup>4</sup>
  - Local manufacturers face price competition, which might weaken the cluster
  - Fashion scene turns more multipolar and new important centers arise: Rome, Berlin, Barcelona, Hong Kong, São Paulo and Los Angeles
  - In 2015, Milan was ranked 6<sup>th</sup> global fashion capital
  - Fashion weeks all around the globe make Milan lose its exclusivity<sup>5</sup>

### THE HOLLYWOOD MODEL

#### Global markets:

With the globalization of the fashion industry and the development of international trends and relations, some leading clusters around the world start to emerge (Paris, London, New York and Milan)



#### Local clusters:

Importance of Milan as fashion hub started due to factor conditions (e.g. craftsmanship tradition) and grew over time with the agglomeration increasing over the years, helped by the status of Milan as Italian financial center

#### Global reach:

With the cluster's growing importance, it attracted attention and resources:

- At local level. fashion firms moved from Florence to Milan (e.g. Emilio Pucci)<sup>6</sup>
  - At international level, especially thanks to the Milan Fashion Week, since 1958:
    - All major fashion houses and designers in the world participating in the Milan Fashion Week (Jimmy Choo, Vivienne Westwood, CK, Louboutin)<sup>7</sup>
    - Large US fashion magazines opening offices in Milan (Vogue, Vanity Fair)<sup>7</sup>
    - Important fashion houses opening stores in the city and acquiring production sites in nearby industrial districts (e.g. LVMH, Michael Kors)<sup>8</sup>
    - Talented international students enrolling in fashion institutes & universities
  - Products from the Milan fashion cluster are distributed all around the world
    - First Italian city in terms of fashion export (EUR 5,6 bn. in 2015)<sup>8</sup>
- Globalization is not only beneficial to the cluster, but poses challenges previously mentioned, which might lead to its **decline** or **renaissance**



Milan established as leading Italian fashion cluster as it appeals to a large demand base with prêt-à-porter fashion, while Florence lost track by focusing on haute couture

## Milan Fashion Cluster – Domestic Competition

### Milan

#### MAIN FASHION HOUSES



#### MAIN EVENTS



- Famous for **prêt-à-porter** and affordable, yet high-quality fashion
- Tradition in silk and cotton industries<sup>1</sup>
- High degree of industrialization, large companies, and number of employees<sup>1</sup>
- First half of the 20<sup>th</sup> century: Milan as most industrial Italian city, in which large scale-manufacturing was first developed; cluster developing at a slower phase and is to expand internationally later
- 50's and 60's: With the establishment of the Milan Fashion Week, Milan's international importance grows
- 70's- today: With the emergence of prêt-à-porter, Milan cluster becomes Italian Fashion capital and still maintains its leading position<sup>2</sup>
- Today: Milan as "Big 4" global fashion capital



Milan hosts the leading Italian fashion cluster with a high degree of industrialization and ranks as 6<sup>th</sup> strongest fashion city in the world<sup>3</sup>

### Florence

#### MAIN FASHION HOUSES



#### MAIN EVENTS



- Famous for **haute couture** and high fashion
- Tradition in the wool industry (in the Prato district)<sup>1</sup>
- Fragmented: higher number of smaller firms<sup>1</sup>
- 50's & 60's: considered the birth city of Italian fashion; early promoted abroad, with exhibition in 1951, which later became Pitti Immagine; fashion houses Gucci and Salvatore Ferragamo led promotion of the "Made in Italy"<sup>2</sup>
- 70's- today: missed important industrialization station and prêt-à-porter; pioneer of the internationalization of Italian fashion, but Florence was stuck in its "artisanal production tracks"
- Today: lost its leading role in Italy, but is still an important player on international level, driving domestic rivalry and innovation



Addressing an originally more fragmented market, Florence missed the prêt-à-porter track, but is still a viable cluster and ranks as 11<sup>th</sup> strongest fashion city<sup>3</sup>

Internationally, Milan lacks behind Paris, which holds the global number one position, as it has a longer fashion heritage and historically stronger capabilities in innovation

## Milan Fashion Cluster – Global Competition

### Paris

#### PARIS FASHION HOUSES



#### MAIN EVENTS



- Famous for **haute couture** and **prêt-à-porter**
- Tradition: prominent fashion since the 15<sup>th</sup> century
- High degree of fashion house agglomeration
- Early 20<sup>th</sup> century: dominant magazines like Vogue and Elle established, with high agglomer. of fashion houses (e.g. Balenciaga, Vionnet, Coco Chanel)
- 50-60s: Fashion innovations, like mass production of high-end fashion through prêt-à-porter by YSL and new look by Dior, consolidate strong position<sup>1</sup>
- 70s-today: Further agglomeration and innovation of a more hip fashion for younger generations
- Conglomeration under multinationals like LVMH

Paris has a tradition of haute couture and prêt-à-porter, with a high degree of innovation; in 2016 it was ranked as the no. 1 fashion capital<sup>5</sup>

7 March 2017

### New York

#### NY FASHION HOUSES



#### MAIN EVENTS



- Famous for education, and ethical production
- Tradition: fast moving consuming goods for mass markets and high end fashion
- High agglomeration of designers, sample makers, and small lot manufacturers
- Early 20<sup>th</sup> century: advantage in production and distribution (production of 70% of US clothing)<sup>2</sup>
- 50-70s: Fashion boom (production of 95% of clothing for the US)<sup>2</sup> and New York Fashion week to create cluster dynamism
- 70s-today: Outsourcing of production to low-wage countries and decline of the cluster (prod. of 3% US clothing)<sup>2</sup>, with advantage in ethical clothing

The New York fashion cluster is younger and has stronger media and design presence, globally ranking as 2<sup>nd</sup> strongest fashion capital<sup>5</sup>

The fashion cluster in Milan

### London

#### LONDON FASHION HOUSES



#### MAIN EVENTS



- Famous for hip edgy fashion for trendy fashionistas
- High degree of agglomeration of education, designers, and fashion houses
- Early 20<sup>th</sup> century: agglomeration and innovation, e.g. standard sizing, and fashion companies in East End responding to mass demand for fashionable, ready to wear clothing<sup>3</sup>
- 50s-60s: hip fashion innovations for the youth market
- 70s-today: London Fashion Week receives investments from the City to create exhibition spaces, education, commercial studio spaces; accelerators for fashion in East End<sup>4</sup>

London is focused on innovation towards the young & trendy, with many fashion shows & designers enriching the cluster; ranked as 3<sup>rd</sup> strongest fashion capital<sup>5</sup>

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Milan's weakening performance is partly rooted in the gaps of the fashion cluster with other actors, in particular research, education, and capital providers

## Milan Fashion Cluster – Key Competitiveness Issues (7-Gap Model)

### 8 Firm-to-World:

- Underdeveloped e-commerce channels, especially of Milanese SME firms (due to high costs and lacking expertise)<sup>1</sup>
- Italy (and Milan) not perceived as prime tourists destination for Chinese (Paris, London, & NY with better trip organizations)<sup>2</sup>
- Universities not attracting enough exchange/international students<sup>3</sup>

### 7 Firm-to-Clusters:

- No spillover effects between Milan and Florence cluster, caused by high perceived competition (i.e. Prada vs. Gucci)<sup>4</sup>
- No mutual activities to promote "Made in Italy" heritage abroad, which would stimulate reputation and turnover for both clusters
- Little orientation of why other clusters, e.g. Paris, perform better

### 5 Firm-to-Public Authorities:

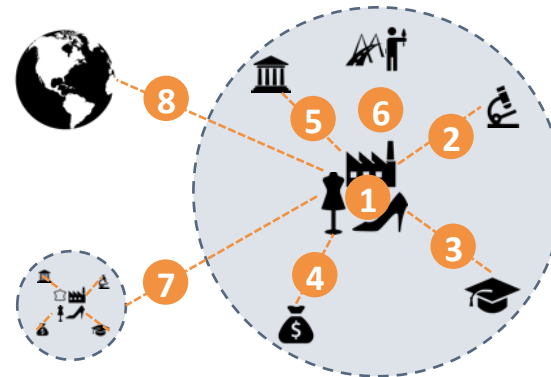
- Confusing, nontransparent, ever changing tax system (federal vs. regional)<sup>5</sup>
- Lack of living space in central Milan<sup>3</sup>
- Underdeveloped public transport connections to Milanese outskirts<sup>3</sup>

### 6 Bridge builders:

- Linking organizations (Polo di Via Soderini, the Chamber of Commerce's Palazzo dell'Innovazione, and tech. centres) not leveraging full bridge building potential<sup>6</sup>

### 2 Firm-to-Research:

- Firms often unaware of what research is conducted<sup>3</sup>
- Research, on the other hand, unaware of what innovations are required by firms<sup>3</sup>
- No joint R&D facilities, which would make research more efficient and foster innovation<sup>3</sup>
- Research institutes often lacking state-of-the-art resources



### 4 Firm-to-Capital:

- Bad framework conditions for matching firms and banks
- Banks often perceive risk of investing in uncertain fashion as too high<sup>3</sup>

### 1 Firm-to-Firm:

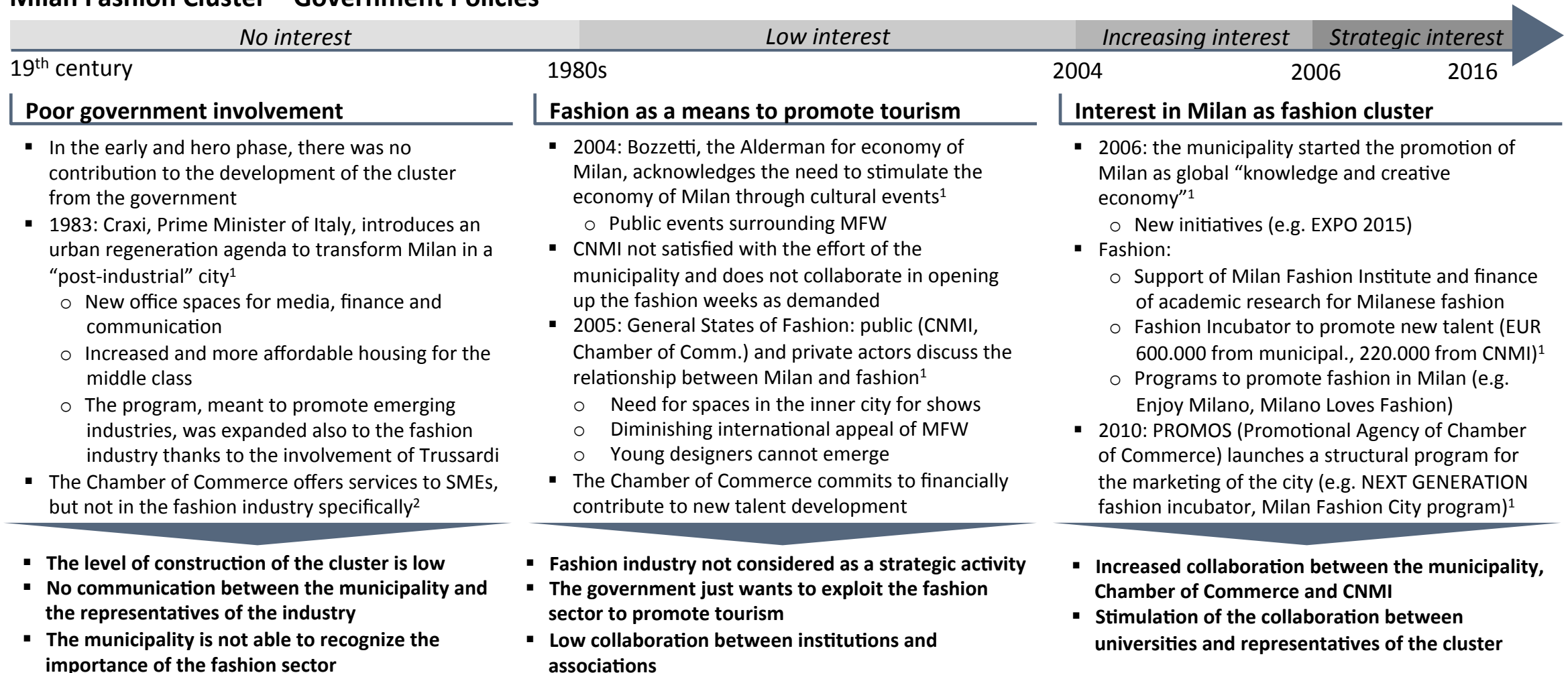
- Flattening synergy effects across fashion supply chain<sup>7</sup>
- Little use of technology to organize supply chain activities in Milan cluster
- Stylists & manuf. SMEs rarely connected

### 3 Firm-to-Education:

- Bad link between firms and universities
- Graduates (and other labor) often unaware of job vacancies<sup>8</sup>
- Trend towards design (applicants usually requiring university degrees) even strengthening mismatch<sup>8</sup>
- Bad career management in Italian compared to other universities (e.g. in US and UK)<sup>9</sup>

With initially low degree of involvement, the municipality and Chamber of Commerce started to implement policies on the fashion cluster development in the 21<sup>th</sup> century to address some gaps

## Milan Fashion Cluster – Government Policies

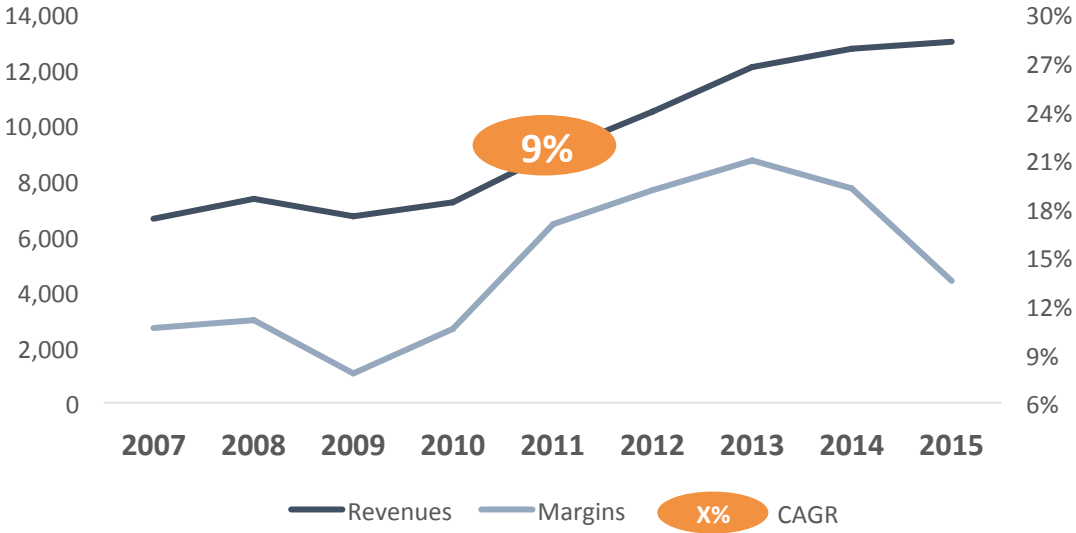


The Milan fashion cluster has experienced a steep climb in revenues since 2007, however margins have recently dropped and work force has only risen at lower rates

**Milan Fashion Cluster – Performance**

**Revenue and profitability development\***

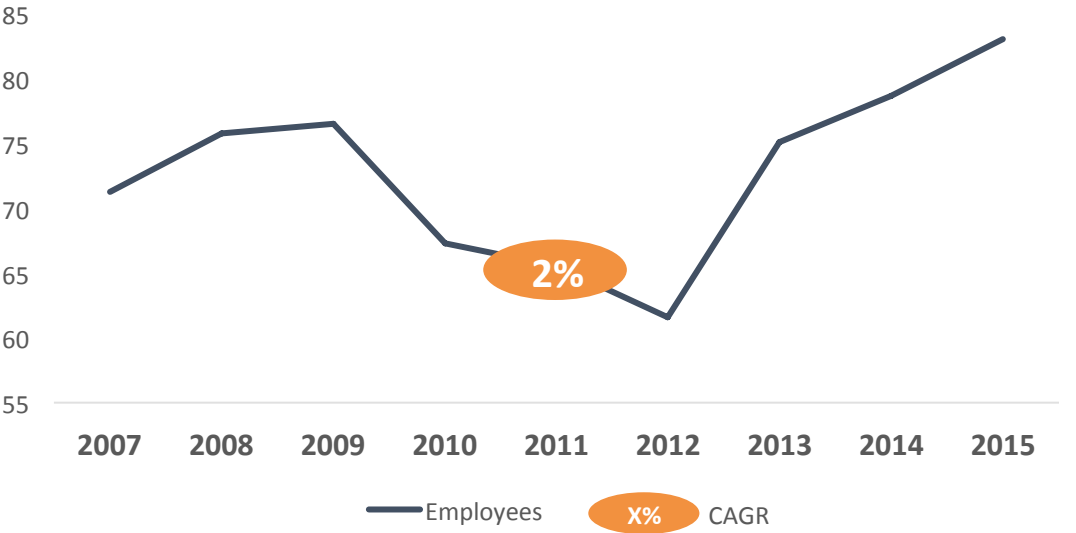
Revenues (in EUR million) and profit margins (in percent) of the Milan fashion cluster<sup>1,2</sup>



- Milan fashion cluster turnover more than doubled from 2007-2015 (9% CAGR)
- Margins dropped from 19% (2014) to 14% (2015)
- Globalization has brought new demand and turnover, but eats margins and incurs high costs for e.g. developing new sales channels

**Number of employees and firms development\***

Number of employees in the Milan fashion cluster in thousands<sup>1,2</sup>



- Number of employees in Milan fashion cluster growing from 71.000 (2007) to 83.000 (2015)
- Average annual growth in employment (2%) lower than in revenues (9%)
- Offshoring to rest of Italy and low cost countries likely a reason for this trend

\* Proxy: 2015 actual cluster data on revenue, profits, and no. of employees used to build ratio for 2007-2014 development; actual 2007-2014 financial data from 8 largest Milan fashion houses used to represent 2007-2014 cluster development

To maintain promising growth and regain a position as leading global fashion capitals, Milan has to combine local craftsmanship with technological advancement and innovation

## Milan Fashion Cluster – Trends and Opportunities <sup>1,2,3</sup>

### Big data and digitalization

- Tools that enable sizing increasingly common (e.g. augmented reality enabled, virtual fitting rooms, and 3D body scanners), as well as software tools that compare sizes across brands
- “Those who bought this also bought this” will translate into meta data points to make meaningful recommendations (e.g. in online shopping)
- Artificial Intelligence and deep learning to study unique tastes and predict/ personalize recommendations at individual level

### Technological advancement in design

- Technological trends in design (e.g. kinetic energy, solar power, RFID) require responses from fashion houses
- Wearable technology allows to e.g. use location, body temperature, and body motion to take intelligent decisions based on processed data
- Challenging for luxury companies to board these trends and yet remain their exclusivity

### E-commerce

- Luxury brands have long refused to enter e-commerce, believing it to threaten their exclusivity
- Now, visually appealing online versions of stores, integrated payment gateways, and efficient delivery logistics become the standard
- Important to upgrade online experience with digitalized experience (e.g. shoppers style assistance)
- It gets easier for strong brands to access new markets, but also opens up local market to new competition from foreign and niche players

### Tailoring and customization

- Segmented and customized fashion becoming a more important driver of consumer purchases
- Customer interactions across channels increasingly becoming more tailor-made to offer a more contextual, local, and personalized experience
- Firms’ access to consumer data and tastes will become ever more important
- Emergence of new niche apparel brands that utilize technology to sell directly to consumers

### Innovation in production

- Production getting increasingly vertically integrated, making firms gaining control over the entire value chain from thread to catwalk
- New way of production satisfy new forms of demand and production (recycling, environmentally responsive, 3D-printed)
- New methods have potential to impact fashion, e.g. by reducing costs and reliability on rare and expensive material

### Shorter production cycles

- Retailers have begun to increase the number of fashion cycles throughout the year
- Consumers get engaged in fashion trends
- Pressure on global supply chains with e.g. shorter lead times, rapid delivery, and wasted inventory costs
- High pressure on innovation and design for fashion firms, also increasing the threat of losing exclusivity and consistency in fashion lines

Milan's context for strategy and rivalry is modest with a high agglomeration of company headquarters, but declining production facilities due to offshoring

### Milan Fashion Cluster – Firm Strategy, Structure, and Rivalry

○ ● ○ Moderate

	+ Positive	- Negative
Milan level	<ul style="list-style-type: none"> <li>▪ Milan is Italy's most densely populated city (metropolitan region &gt;7 million inhabitants) with highest per capita GDP (EUR 35.137 in 2015)<sup>1,2</sup></li> <li>▪ Financial epicenter with strong international business partners, concentrating &gt;40% of FDI inflows coming to Italy (2015)<sup>3</sup></li> <li>▪ Collection of company headquarters, allowing for increased direct rivalry and quick dissemination of best practices</li> <li>▪ Yet, productive fabric mostly composed of SMEs (average size of firms has dropped from a 100 index in 1981 to 73.5 in 2004)<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Core of Milan progressively veering towards a service center, contributing to a change in work force competition (risk: loss in labor diversity)<sup>9</sup></li> <li>▪ Large parts of production moved outside Milan to Lombardy region or beyond (mainly for cost and space reasons)</li> <li>▪ Milan as strongest economic center in Italy, yet metropolitan region only 30th strongest region (out of 78 OECD metropolitan regions) on GDP per capita<sup>9</sup></li> <li>▪ SMEs with few incentives to patent their innovations (Milan's region, Lombardy, with much fewer patent registrations than comparable European regions)<sup>9</sup></li> </ul>
Cluster level	<ul style="list-style-type: none"> <li>▪ Long-established localization advantage, historically enjoyed image of international "capital of fashion"<sup>4</sup></li> <li>▪ Turnover of EUR 13 billion<sup>5</sup>, 13.000 firms, 83.000 employees in fashion (2015)<sup>6</sup></li> <li>▪ Specialized in many segments of the fashion supply chain other than clothing:               <ul style="list-style-type: none"> <li>○ 60.000 workers in Province, &gt;6.700 production firms and &gt;6.206 retail firms<sup>7</sup></li> <li>○ Milan's styling and design activities alone produce more than half of national total turnover (EUR 535 million out of EUR 1 billion)<sup>8</sup></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Companies increasingly serving global demand, which is associated with tremendous costs (e.g. establishing partnerships, opening stores, etc.)<sup>10</sup></li> <li>▪ Pressure on margins through international competition, both domestically and abroad: companies look for other cost saving potential</li> <li>▪ Outsourcing of production to the rest of Italy as there is almost no importance of being "Made in Milan" as compared to being "Made in Italy"<sup>4</sup></li> <li>▪ City's link between designers and manufacturers is challenged as a result of outsourcing</li> </ul>

There is a high quantity and quality of educated fashion labor, but a lack of collaboration between firms and research institutions

## Milan Fashion Cluster – Factor Conditions

○ ● ○ Moderate

	+ Positive	- Negative
Milan level	<ul style="list-style-type: none"> <li>▪ Highly entrepreneurial population: &gt;every 10th person in Milan is self-employed<sup>1</sup></li> <li>▪ Significantly lower unemployment rate as rest of Italy (8,4% vs. 10,0%)<sup>1</sup></li> <li>▪ Well-educated and relatively young labor market</li> <li>▪ Prestigious academic system with 183.000 students (13% of national total)<sup>2</sup></li> <li>▪ Milan attracts a higher number of foreign students compared to the national average (3.1%<sup>3</sup> vs 11.6% in Bocconi<sup>4</sup> and 12.2% in Politecnico di Milano<sup>5</sup>)</li> <li>▪ Excellent organizational capacity of firms (high quality of management and co-operation between design and production processes)<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Obstacles in knowledge flow, innovation capability, funding<sup>1</sup></li> <li>▪ Physical space, logistics, bad access to funding, living prices</li> <li>▪ Public goods and services (e.g. transportation) not keeping pace with pressing need for accrued linkages across the enlarged metropolitan region<sup>8</sup></li> <li>▪ Universities with few incentives to collaborate, generating few spin-offs, barely interacting with SMEs, failing mechanisms to trigger knowledge spillovers<sup>1</sup></li> </ul>
Cluster level	<ul style="list-style-type: none"> <li>▪ Long- held reputation as “fashion hub”, attracting world-class designers</li> <li>▪ Networks of SMEs form a flexible production framework, able to produce niche goods and adjust to change</li> <li>▪ Strong connections with local and global suppliers, enabling fast and flexible shipping of small-lot clothing<sup>1</sup></li> <li>▪ Educational institutions offer reputable fashion programs</li> <li>▪ In the fashion sector, the rate of foreign students is even higher (34.16%<sup>6</sup>, 10.000<sup>7</sup> new foreign students per year)</li> <li>▪ Educational efforts are a key asset for the cluster, generating talented workforce that leads the value creation in this industry</li> </ul>	<ul style="list-style-type: none"> <li>▪ Transitions from a heavy manufacturing-focused cluster (where low-skilled, manual labor is demanded) to a heavy design-focused cluster (where high-skilled, design labor is demanded)<sup>9</sup></li> <li>▪ SMEs unaware of available innovation, thus unable to express demand to research institutions and universities</li> </ul>



The sophisticated taste of Milanese and annual fashion events spur domestic and international demand, yet Milanese fashion firms could expand their e-commerce presence

### Milan Fashion Cluster – Demand Conditions

○○● Positive

	+ Positive	- Negative
Milan level	<ul style="list-style-type: none"> <li>▪ Large, wealthy, sophisticated, and prosperous population</li> <li>▪ GDP of EUR 241 billion (EU's 4<sup>th</sup> and world's 26<sup>th</sup> richest city)<sup>1</sup></li> <li>▪ Highly diverse set of tastes and drives for increased expectations from firms</li> <li>▪ International metropolis: people coming to Milan just for shopping (feature of especially Chinese consumers that “have to buy” with high luxury taxes in China)</li> <li>▪ Wholesale and showrooms considerable assets to display latest trends, new large-scale exhibition area in the Rho-Pero municipalities<sup>2</sup> <ul style="list-style-type: none"> <li>○ Showcase “Made in Italy”, help local supply adapt to international demand</li> <li>○ Provide local SMEs with an indispensable networking service</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Organized trips for e.g. Chinese shoppers lack behind in quality and quantity compared to e.g. Paris, NY, and London<sup>4</sup></li> <li>▪ Milan not perceived as major tourist destination for Asian tourists</li> </ul>
Cluster level	<ul style="list-style-type: none"> <li>▪ Reputation of the “Fashion Center” of the world spurs local consumer demand</li> <li>▪ 14 annual fashion events: Milan Fashion week alone attracting 22.500 attendees and generating sales of EUR 50,5 million (2016)<sup>3</sup></li> <li>▪ Cluster’s proximity to fashionable Milanese's allows designers to get instant feedback on new designs, and iterate designs quickly</li> <li>▪ Focus on prêt-à-porter fashion, appealing to a large customers base as compared to e.g. haute-couture (easier to wear and showcase)</li> <li>▪ Milano Collezioni, attracting thousands of visitors and tourists twice a year<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Underdeveloped e-commerce channels in Milanese fashion:<sup>5</sup> <ul style="list-style-type: none"> <li>○ Only 15% of Italians shop online, inhibiting the investment of Italian companies in e-commerce</li> <li>○ Scarce technological culture among citizens and schools lacking behind on modern technology</li> </ul> </li> <li>▪ Small size of fashion companies:           <ul style="list-style-type: none"> <li>○ SMEs facing difficulties and high investment costs to enter online market</li> <li>○ SMEs often not possessing suitable technological expertise / right human resources to leverage online sales<sup>1</sup></li> </ul> </li> </ul>

# The fashion cluster has a dynamic relationship with the local textile, design, and media industry

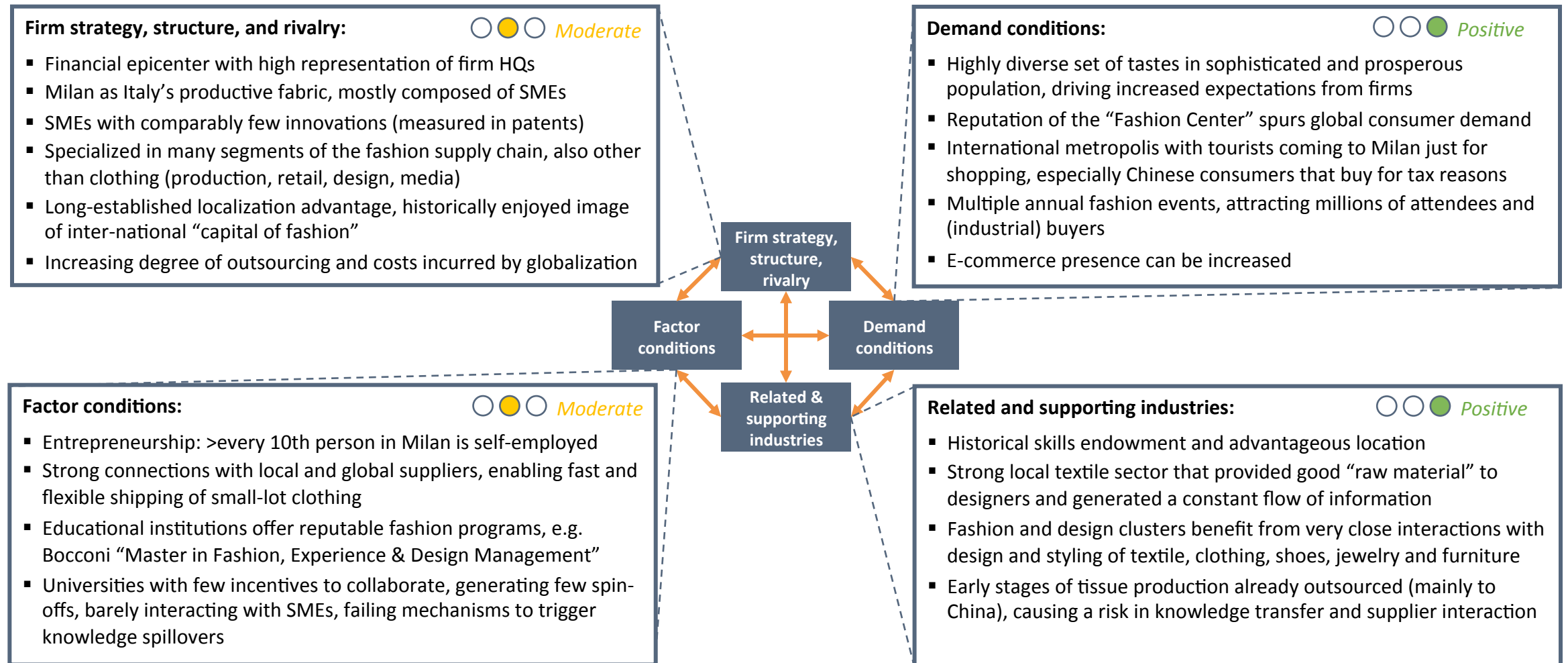
## Milan Fashion Cluster – Related and Supporting Industries

○○● Positive

	+ Positive	- Negative
Milan level	<ul style="list-style-type: none"> <li>▪ Tourism strengthens brands, incr. demand, heighten learning &amp; innovation</li> <li>▪ Historical skills endowment and advantageous location</li> <li>▪ Core area of Milan generating services to improve skills of SMEs:<sup>1</sup> <ul style="list-style-type: none"> <li>○ Financial services with the headquarters of the largest Italian banks</li> <li>○ High concentration of the media industry (advertising &amp; mass communication)</li> </ul> </li> <li>▪ Design as a powerful driver: constant demand from local production framework, including automotive industry, furniture sector, fashion sector (accessory goods such as glasses, watches, etc.)<sup>1</sup></li> <li>▪ Logistics and transport sector growing significantly (+6.8% in 2015)<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Manufacturing industries have moved out to the periphery or are created there, while specialized high-level services have agglomerated in the core</li> <li>▪ Companies specialized in heavy industries have left Milan progressively in 1980s &amp; 1990s, (e.g. Pirelli, Montecatini Edison, Alfa Romeo)<sup>1</sup></li> </ul>
Cluster level	<ul style="list-style-type: none"> <li>▪ Strong local textile sector that provides good “raw material” to designers and generates a constant flow of information<sup>1</sup></li> <li>▪ Fashion and design clusters benefit from very close interactions:                     <ul style="list-style-type: none"> <li>○ Firms involved in design and styling of textile, clothing, shoes, jewelry and furniture is clustered in the area of Navigli in the Ticinese neighborhood</li> <li>○ Small avg. size of these firms (2,44 workers per firm), enabling broad choice<sup>3</sup></li> <li>○ Production of relational capital and increased trust</li> </ul> </li> <li>▪ Interactions encourage creation of other cultural services (restaurants, bars, night-clubs and specialized shops), i.e. local private goods that generate a “buzz” environment and free exchanges of innovative ideas<sup>4</sup></li> </ul>	<ul style="list-style-type: none"> <li>▪ Early stages of tissue production already outsourced (mainly to China), causing a risk in knowledge transfer and supplier interaction<sup>5</sup></li> <li>▪ Movement of production also to the rest of Italy for cost reasons (it is not essential to produce in Milan, Italy is enough)<sup>5</sup></li> <li>▪ Some towns, e.g. Prato, have already experienced a transformation from a traditional stronghold of Italian textile industry into a capital of cheap clothing:<sup>6</sup> <ul style="list-style-type: none"> <li>○ Importing far cheaper fabrics from China, thus discriminating prices</li> <li>○ Chinese suppliers in Prato have proven to interact less with fashion companies, putting the traditional flow of information at risk</li> </ul> </li> </ul>

The context for firm strategy and factor conditions are overall moderate, while demand conditions and supporting industries are positive for the Milan fashion cluster

### Milan Fashion Cluster – Diamond Model Summary



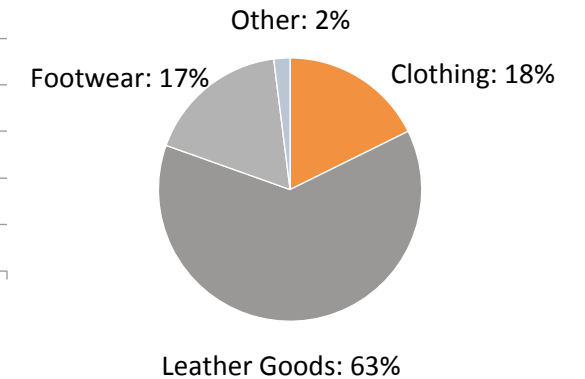
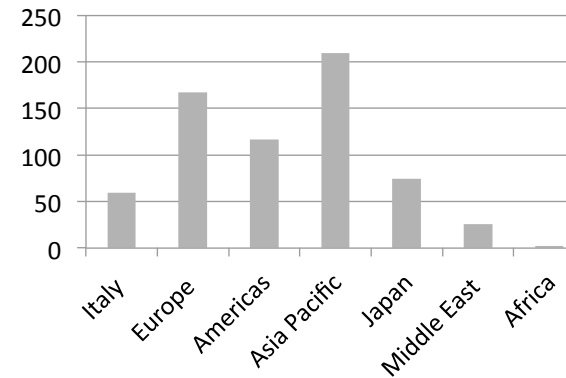
# Prada Group is one of the leading fashion firms from the Milan cluster and operates with an integrated value chain

## Prada – Firm Overview<sup>1,2,3</sup>

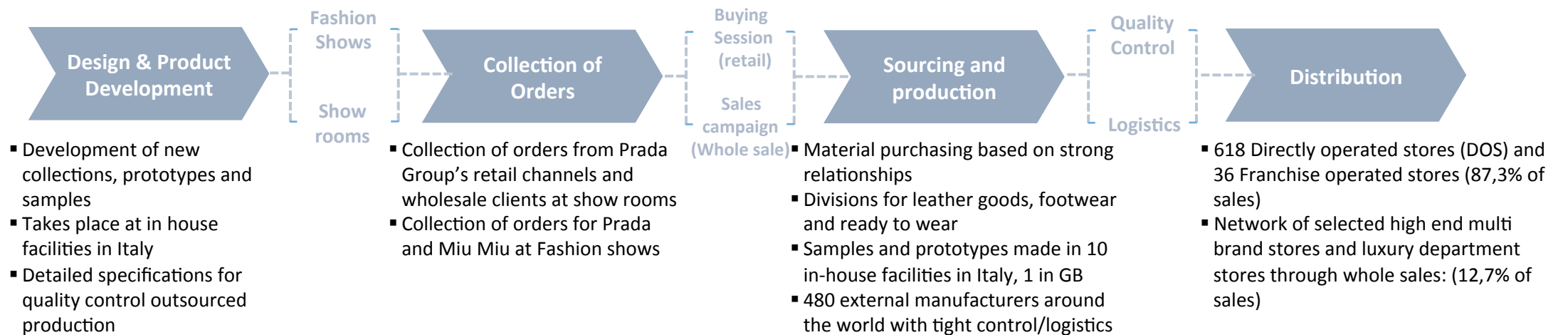
### Facts and Figures

- Fashion company established 1913 in Milan by Maria Prada
- One of the leading luxury goods producers
- Current CEO Miuccia Prada
- Number of Employees: 12,414
- Annual Revenues (2015): € 3,547,771,000
- Revenue Growth 2011-2015: 38.8%

### Numbers of stores per region and product scope

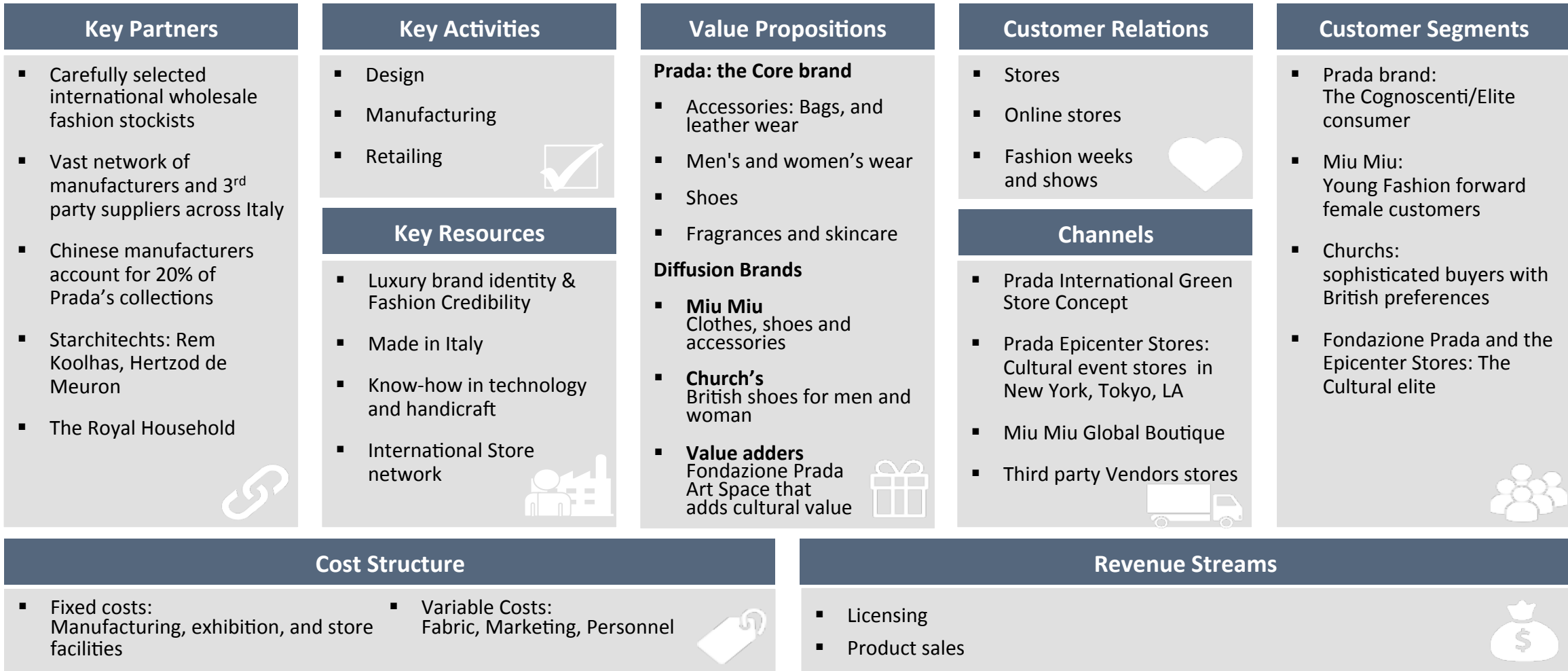


### Value Chain



Prada’s business model leverages its Italian fashion credibility, targeting forward thinking consumers with luxury and diffusion brands; art, architecture, and elaborated store concepts add further value

**Prada – Business Model Canvas**<sup>1,2,3,4</sup>



Prada benefits from the Milan cluster's specialized labor, access to capital, and organizations for collaboration, while dynamism with education and research is low

## Prada – Relation to the Milan Fashion Cluster<sup>1,2</sup>

### Research Organizations

- Weak connection to research organizations
- Historically strong relations to raw material suppliers in the Milan cluster
- Suppliers act as sources for innovation in the development of new materials for Prada

### Capital Providers

- Prada is registered at the Hong Kong Stock Exchange which generated an inflow of capital from global investors
- Milan as a strong financial center creates good premises for capital inflow
- Good relations to local banks through Prada's Chairman

### Government

- Government benefits from made in Italy concept generated by Prada
- Government supports the concept by large investments, EUR 220 million between 2015-2017, which in turn strengthens the Prada brand
- Changing and complex tax laws for global companies have worsened Prada's abilities for international strategy



### Other Clusters

- Entered NY-fashion cluster through acquisition of Helmut Lang, but failed due to cultural differences
- Part of Northampton shoe cluster through acquisition of Church's
- Strong historical connection to Italian production clusters for leather and clothing, increasing product scope and flexibility

### Education organizations

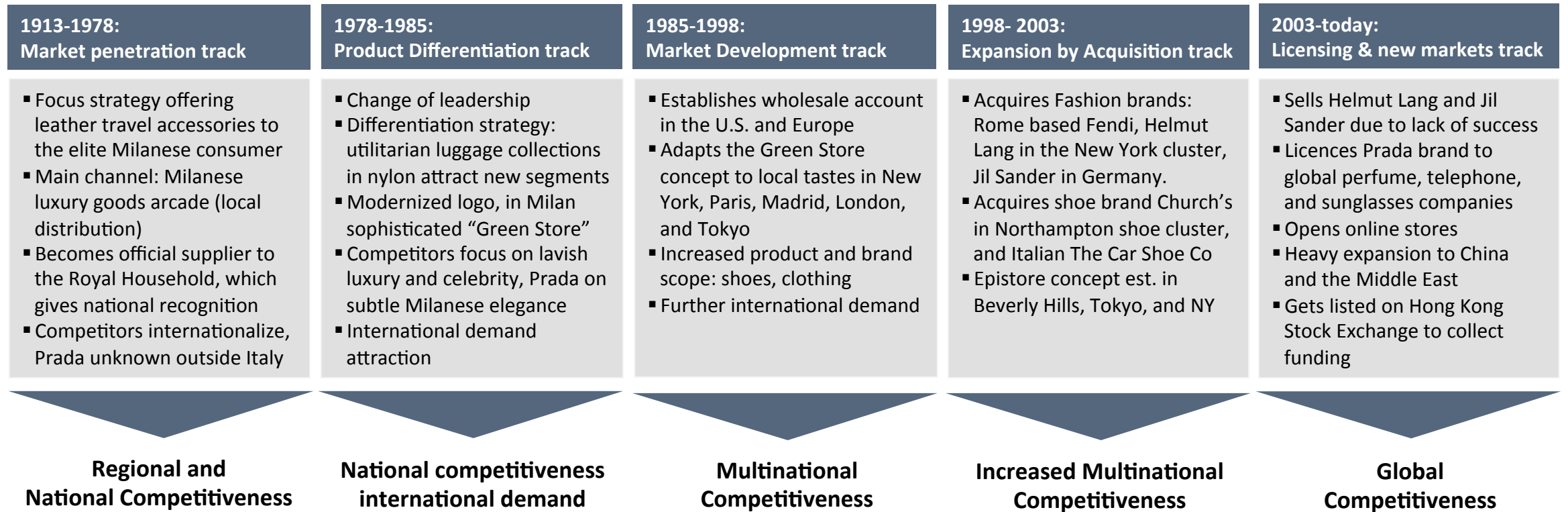
- One of the top recruiters of students from the cluster university programs in Fashion and Business
- In contrast to competitors like Gucci, Prada does not actively support university programs through funding and/or career development
- Weak presence at career days

### Organizations for Collaboration

- Member of the National Chamber for Italian Fashion (an association promoting Italian fashion internationally and organizing the Milan Fashion Week, the natural venue for the latest fashion)
- Founded the Prada Foundation Milan in 2015, for multi-disciplinary knowledge exchange between art, architecture, and fashion

Prada remains in the Milan Cluster and became a global competing brand through product differentiation, market development, acquisitions, and licensing

**Prada – Strategy Tracks and International Competitiveness Between 1913-2016<sup>1,2</sup>**



**Timeline**



There are several gaps in the structure of Italy and the Milan fashion cluster, which can be addressed by policy makers with the implementation of new policies



7-Gap Model

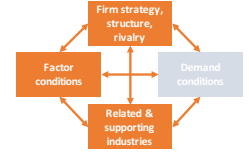
### Policy Recommendations – Assessment of Competitiveness and Gaps<sup>1</sup>

Challenges	Gap dimensions	How to address challenges with regards to the fashion cluster	Diamond level
<b>1 National level:</b>			
Nontransparent, ever-changing tax system	Firm-to-Public Actors	Simplify tax system, run tax promotion campaign, and hire fashion tax consultants for clusters	
Mistrust in government and corruption	Firm-to-Public Actors	Introduce authority contact person within chamber for fashion, educate on taxes (fashion events)	
Bad access to capital	Firm-to-Capital	Act as a broker between banks and fashion SMEs; support SMEs financially	
Low innovation capabilities of SMEs	Firm-to-Firm	Run international campaigns to promote “Made in Italy” and attract skilled foreign labor	
Bad collaboration of research institutes & firms	Firm-to-Research	Create forum where firms, research, and education institutions can exchange knowledge and ideas	
Bad matching of labor supply and demand	Firm-to-Education	Promote the use of job engines that link firms with job searching labor	
<b>2 Milan and fashion cluster level:</b>			
Production outsourcing	Firm-to-Firm	Make local sourcing more convenient in terms of taxes (or increase the taxes on import)	
Underdeveloped infrastruct. & public transports	Firm-to-Public Actors	Improve public transport connection to outskirts	
Expensive housing (distance to cluster)	Firm-to-Public Actors	Supply cheap living space in central Milan, close to fashion cluster	
Low collaboration between firms and R&D	Firm-to-Education	Launch joint R&D labs for firms, universities, and other research institutions	
Shift of labor demand from production to design	Firm-to-Education	Launch a job engine that promotes vacant position and helps bring skilled designers to Milan	
Underdeveloped e-commerce sales channels	Firm-to-Global Market	Help firms develop online stores and educate them on digitalization	
<b>3 Other factors:</b>			
No perception as prime tourist destination	Firm-to-World	Offer tailored fashion trips for wealthy Chinese tourists	
No mutual activities between the clusters	Firm-to-Clusters	Collaborate between Milan and Florence for tourism trips	

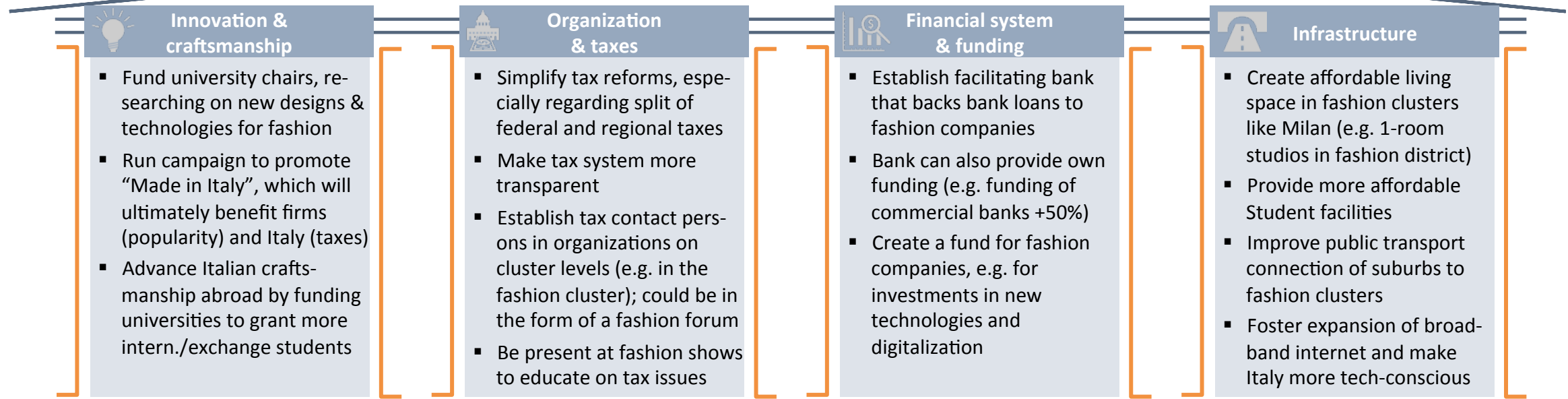


National framework conditions can be improved by promoting the concept of “Made in Italy”, reducing bureaucracy complexity, increasing the ease of getting business loans, and improving infrastructure

## 1 Policy Recommendations – National Level



### Infrastructure & organizational framework



Promote “Made in Italy” concept abroad, bringing talented labor to Italy and stimulating demand

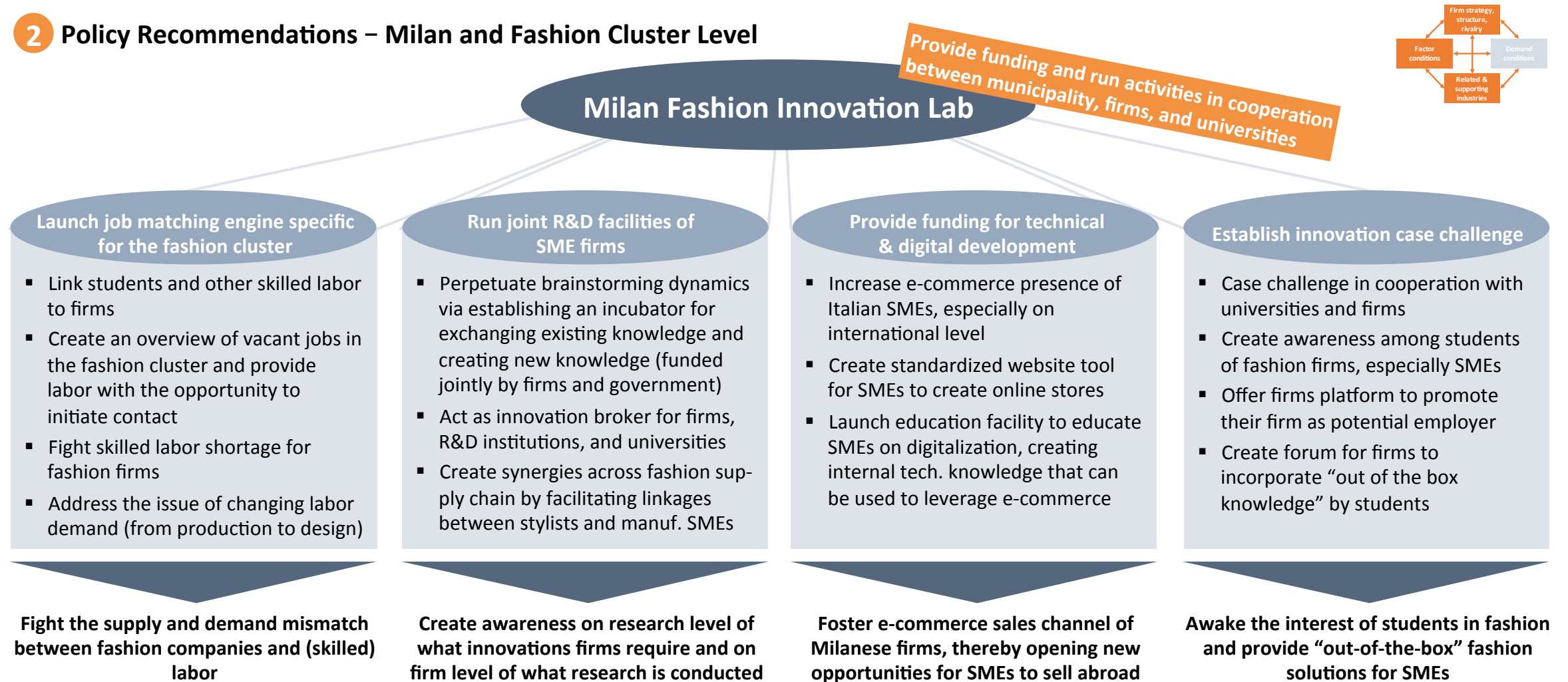
Simplify contact with public (tax) authorities, preventing firms to leave Italy for bureaucracy reasons

Facilitate/initiate granting loans and provide firms with securities for loans to fashion firms

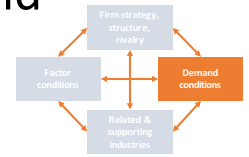
Facilitate designers and other fashion-related labor to move to clusters, thus improving the knowledge exchange

The creation of a Milan Fashion Innovation Lab can reduce the supply and demand mismatch, as well as foster innovation and e-commerce

## 2 Policy Recommendations – Milan and Fashion Cluster Level



# Offering tailored trips for wealthy Chinese tourists in cooperation between authorities, cities, and trip operators can boost international demand for Italian fashion products



## 3 Policy Recommendations – Organized Fashion Trips for Chinese Tourists

### Organized fashion trips to Milan and Florence...<sup>1</sup>



- Organized visits to luxury boutiques and craftsmen in the fashion clusters, introducing e.g. traditional knitting techniques
- Boutiques to offer special opening hours
- Supplemented by:
  - Art and culture heritage of Milan and Florence
  - Custom itineraries ranging from educational tourism to heritage tourism
  - Exhilarating experiences like watching the Ferrari F1 race or the Seria A football league matches live
  - New tourist products such as the Pilgrims' Paths offer a large variety of experiences to places not well known to the general public

**There could be fashion trips offering special visits to boutiques and other places in the fashion clusters, supplemented by other cultural programs**

### ...tailored by authorities, cities, and trip operators...<sup>1</sup>



#### Authorities:

- Ensure easy Visa process, e.g. within 36 hours
- Offer easy tax declaration process at the airport
- Negotiate more direct flights from China to Italy

#### Cities:

- Chinese police to ensure safety (bilateral police cooperation agreement already negotiated)
- Offer infrastructure and coordinated transport (Milan - Florence rail-way, airport transfer, etc.)

#### Trip operators:

- Offer tailored trips for Chinese
- Employ Chinese-speaking staff

**A cooperation between authorities, cities, and trip operators ensures a smooth procedure during the trip, incentivizing the willingness to spend**

### ...specifically for wealthy Chinese tourists.<sup>2,3</sup>



- Chinese tourists were the biggest group of tax-free spenders in Italy in 2014, accounting for 35% of Italian luxury sales
- Chinese tourists spent EUR 468 million in Italy in 2014
- Italy within top 10 destinations for Chinese tourists (more than 477.000 in 2014)
- Average stay of 6,3 days ideal to offer tailored trips of ca. one week
- Imported luxury brands are often as much as 30% more expensive in China than in Italy, ensuring high willingness to pay among Chinese tourists

**Chinese tourists are an ideal target group to boost the sales of Italian luxury fashion products as they are thirsty for luxury products**